

Market Price

EGP12.25

at close of 15 Dec. 2022

Fair Value

EGP17.5 (was EGP12.9)

set on 18 Dec. 2022

12MPT

EGP21.0 (+72%, was EGP14.3)

set on 18 Dec. 2022

Investment Rating

Overweight

★

★

★

Risk Rating

Medium

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!

!

Turning Copper Into Gold

A deeply-undervalued industrial leader; OW/M maintained but at a higher 12MPT

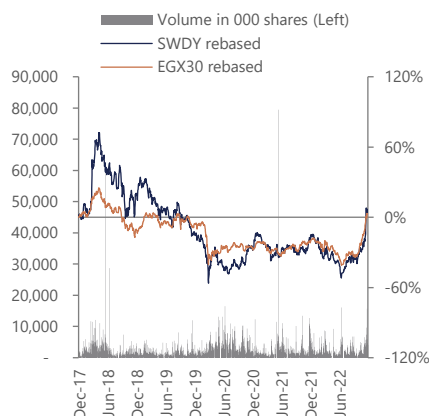
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RELATIVE PERFORMANCE (5Y)



Source: Bloomberg, Prime Research.

In view of higher commodity prices and a weaker EGP, Elsewedy Electric [SWDY] managed to grow its earnings, powered by a robust business model and shrewd management. Sprouting outside Egypt, SWDY was able to expand its business steadily through investments in several countries. This is reflected clearly in its strong results, having generated higher revenues (+53% y/y) and earnings (+35% y/y) in 9M 2022. SWDY currently trades at TTM P/E of 6.1x and EV/EBITDA of 4.6x, which in our view is decoupled from SWDY's fundamentals. We revisit our financial model for SWDY and revise our estimates upward, reiterating our positive view with a 47% higher 12MPT of EGP21.0/share. Thus, we reiterate our Overweight/Medium Risk rating with a 72% upside.

Top-line growth supported by a robust business model: SWDY's top line has seen strong growth with a 5y CAGR (2022-27) of 19.7%, powered mainly by its wires & cables and turnkey projects segments (contributing a combined 90% of total revenues). This growth is attributable to the following:

1. 70-80% of SWDY's business is in foreign currency, which acts as a natural hedge against EGP weakness.
2. SWDY's strong backlog benefits from Egypt's spending on infrastructure projects.
3. SWDY is expanding capacities through a new industrial complex in Tanzania and several acquisitions made in Egypt, Pakistan, and Indonesia.
4. A margin-based pricing model helps SWDY maintain its profitability, despite the upsurge in copper and aluminum prices.

Rising interest rates and soaring commodity prices, a double whammy: Soaring commodity prices during 2021 and 2022 caused SWDY's working capital to swell with inventory DOH increasing to c.101 days in 9M 2022 vs. a 4y average of 84 days. To finance higher working capital and the recent acquisitions in Pakistan and Indonesia, SWDY took on more debt, with its net debt increasing from EGP834mn in 2020 to EGP7.4bn in 2021 and EGP15.7bn in September 2022. More recently, the CBE's decision to cancel its 8% fixed-rate loan initiative for industrial manufacturers could cause annual interest expense to increase by more than 50%, all else the same. Thus, we expect SWDY to deleverage over time due to the higher cost of debt and an expected ease in commodity prices, with its total debt/EBITDA decreasing from 3.9x in 2022 to 1.3x in 2027.

KEY STOCK STATISTICS

Shares outstanding (mn)	2,171
Free float	32%
Market cap (EGPmn)	26,592
Market cap (USDmn)	1,081
52w range (EGP/share)	5.57-12.73
EGP100 invested 5y ago	EGP103
EPS (TTM / 2022e) (EGP)	2.00 / 1.80
P/E (TTM / 2022e)	6.1x / 6.8x
P/BV (TTM / 2022e)	1.1x / 1.1x
Last fiscal year's DPS (EGP)	0.00
Dividend yield	0%
5y historical beta	0.65
5y Proj. EPS CAGR (2022-27)	9.8%

Source: Prime Research.



Strong earnings quality, strong future earnings: We expect SWDY's total revenues and earnings to grow at 6y CAGRs of 8.7% and 9.9% to EGP99.6bn and EGP6.2bn by 2027, respectively. We expect to see revenue growth in the wires & cables segment with a 6y CAGR of 9.5%, reaching EGP51.2bn by 2027, powered by a weaker EGP, recently-added capacities, and higher utilization rates. As for the turnkey projects segment, we expect SWDY's total backlog to ease off after the completion of the Rufiji Dam in Tanzania (expected to be 65% completed by end of year) and for new awards to average EGP25bn p.a. throughout our forecast horizon. As such, we expect revenues for the turnkey segment to grow by a 6y CAGR of 2.1% to EGP29.2bn by 2027. Moreover, we expect other electrical products segment (including meters, transformers, and others) to grow at a 6y CAGR of 24.5% to EGP19.2bn by 2027.

Expected future dividends? In 2022, SWDY's management decided to hold off paying dividends for the year 2021 due to its rising working capital needs on higher commodity prices and a negative free cash flow (FCFF was negative EGP5.4bn in 2021). However, as its working capital needs normalize, we expect SWDY to resume paying dividends in 2023 (based on 2022 earnings) with an average payout ratio of 30% over 2022-2027.

We up our 12MPT to EGP21.0/share and reiterate our OW/M rating: We valued SWDY using the discounted cash flow (DCF) approach, reaching a fair value of EGP17.5/share and a 47% higher 12MPT of EGP21.0/share (was EGP14.3/share). Our higher valuation is attributable to a higher USD/EGP exchange rate, recently-added capacities, higher utilization rates, and higher selling prices. Our 12MPT implies a 2022e P/E of 11.7x and an EV/EBITDA of 7.2x, offering an upside potential of 72%. Hence, we maintain our Overweight/Medium Risk rating for SWDY. The market price implies a PEG ratio of 0.6x and an EV/EBITDA-to-growth ratio of 0.4x based on our forecasts.

Key catalysts: Further EGP weakness driving non-Egypt revenues higher. Continued strong government infrastructure spending. New investments in Saudi Arabia (not included in our model).

Key risks: Backlog normalizing after completion of the Rufiji Dam. Higher commodity prices. Higher interest rates.



KEY ASSUMPTIONS

Wires & Cables	2020a	2021a	2022e	2023e	2024e	2025e	2026e	2027e
Blended Volumes (tons)	305,706	370,258	369,089	371,596	374,103	376,610	379,117	381,624
Net Revenue (EGPmn)	18,533	29,629	40,209	45,039	48,369	49,651	51,403	51,198
Gross Profit (EGPmn)	2,361	3,141	5,270	5,777	5,964	6,174	6,453	6,487
GPM	12.7%	10.6%	13.1%	12.8%	12.3%	12.4%	12.6%	12.7%

Turnkey Projects*	2020a	2021a	2022e	2023e	2024e	2025e	2026e	2027e
Ending Backlog (EGPmn)	49,000	70,000	63,827	49,837	44,336	40,529	38,519	37,765
New Awards (EGPmn)	18,000	44,000	28,632	21,371	23,186	23,767	25,760	27,904
Net Revenues (EGPmn)	23,084	25,764	35,193	35,851	29,192	28,096	28,313	29,202
Gross Profit (EGPmn)	3,359	3,870	4,153	4,317	3,599	3,518	3,591	3,738
GPM	14.5%	15.0%	11.8%	12.0%	12.3%	12.5%	12.7%	12.8%

* Including renewables-IPPs.

Other Electrical Products	2020a	2021a	2022e	2023e	2024e	2025e	2026e	2027e
Meters								
Volumes (mn units)	5.5	3.6	3.8	4.1	4.3	4.6	4.8	5.1
Net Revenue (EGPmn)	2,723	2,395	3,805	5,924	6,794	7,792	8,955	9,877
Gross Profit (EGPmn)	703	717	1,043	1,469	1,685	1,933	2,221	2,450
GPM	25.8%	29.9%	27.4%	24.8%	24.8%	24.8%	24.8%	24.8%

Transformers

Volumes (MVA)	9,203	12,655	12,016	14,318	15,945	16,921	17,897	18,548
Net Revenue (EGPmn)	1,483	2,027	3,379	5,185	6,072	6,798	7,623	8,058
Gross Profit (EGPmn)	459	372	544	834	977	1,094	1,227	1,297
GPM	31.0%	18.3%	16.1%	16.1%	16.1%	16.1%	16.1%	16.1%

Others

Net Revenue (EGPmn)	578	726	1,005	1,126	1,209	1,241	1,285	1,280
Gross Profit (EGPmn)	233	335	452	507	544	559	578	576
GPM	40.3%	46.1%	45.0%	45.0%	45.0%	45.0%	45.0%	45.0%

Source: Bloomberg, Prime Research.



VALUATION MODEL

EGPmn	Q4 2022	2023	2024	2025	2026	2027	Terminal
EBIT	1,526	7,315	7,269	7,660	8,213	8,568	8,825
Taxes on EBIT	(343)	(1,646)	(1,635)	(1,723)	(1,848)	(1,928)	(1,986)
NOPAT	1,183	5,669	5,633	5,936	6,365	6,640	6,839
D&A	363	1,601	1,895	2,211	2,555	2,935	
Change in WC	(81)	3,643	7,996	(351)	(645)	(351)	
Capex	(1,181)	(3,322)	(3,791)	(4,326)	(4,936)	(5,631)	
Net investments	(898)	1,923	6,100	(2,467)	(3,026)	(3,047)	(1,060)
Present value of FCFF	282	6,449	8,779	2,296	1,949	1,851	30,048
Enterprise value	51,654						
Net (debt)/ cash	(15,214)						
Other investments	2,676						
Minorities	(1,440)						
Equity value	37,676						
No. of shares outstanding (NSO)*	2,159						
FV (EGP/share)	17.5						
Market price	12.25						
12MPT (EGP/share)	21.0						
Upside	72%						

Reinvestment rate 15%

ROIC 19%

TGR 3%

* Adjusted for treasury stocks.

SENSITIVITY ANALYSIS

		Terminal Growth					FX rate 2023	Revenues (EGPmn)	Net income (EGPmn)	12MPT
		2.0%	2.5%	3.0%	3.5%	4.0%				
Terminal WACC	10.9%	23.5	24.0	24.6	25.2	26.0	16.7	73,238	2,717	15.6
	11.9%	21.7	22.2	22.6	23.2	23.8	19.1	79,867	3,113	17.4
	12.9%	20.3	20.6	21.0	21.5	22.0	21.5	86,495	3,508	19.2
	13.9%	19.1	19.4	19.7	20.1	20.5	23.9	93,124	3,903	21.0
	14.9%	18.0	18.3	18.6	18.9	19.2	26.3	99,752	4,299	22.9
							28.9	107,044	4,734	24.9
							31.8	115,064	5,212	27.2

PEERS ANALYSIS (AS OF 15-DEC-2022)

Based on TTM figures	Ticker	Country	Mkt cap (USDmn)	Revenues (USDmn)	Net income (USDmn)	ROE	ROA	P/E	EV/EBITDA
Local Peers' Average			183	1,474	40	16%	5%	5.1x	4.7x
	ELEC	Egypt	66	271	20	24.7%	8.6%	4.8x	5.0x
	ORAS	Egypt	462	4,053	95	15.2%	2.5%	4.6x	1.8x
	UEGC	Egypt	22	99	5	8.3%	4.7%	5.9x	7.3x
Regional Peers' Average			314	133	24	5.7%	4.1%	43.5x	25.4x
	CABLE	Kuwait	812	310	71	10.2%	8.4%	16.1x	37.2x
	UCIC	Jordan	15	57	0	0.6%	0.4%	56.3x	12.1x
	ALOMRAN	KSA	114	34	2	6.3%	3.7%	58.2x	26.8x
Peers' Average			90	185	12	9.3%	4.2%	11.0x	9.7x
SWDY	SWDY	Egypt	1,081	3,343	176	18.3%	4.6%	6.1x	4.6x

Source: Bloomberg, Prime Research.



FINANCIAL MODEL

Financials (ends 31 Dec., EGPmn)	2020a	2021a	2022e	2023e	2024e	2025e	2026e	2027e
Income Statement								
Total revenue (Net)	46,402	60,541	83,592	93,124	91,637	93,579	97,578	99,614
Cost of revenues	(39,287)	(52,106)	(72,130)	(80,219)	(78,867)	(80,302)	(83,508)	(85,066)
Gross profit	7,115	8,435	11,462	12,905	12,769	13,277	14,070	14,547
SG&A	(2,813)	(3,410)	(4,609)	(5,134)	(5,052)	(5,160)	(5,380)	(5,492)
Other operating (exp.)/ Inc.	(268)	(73)	(409)	(455)	(448)	(457)	(477)	(487)
EBITDA	4,978	6,067	7,872	8,916	9,164	9,870	10,768	11,503
Depreciation & amortization	(944)	(1,114)	(1,428)	(1,601)	(1,895)	(2,211)	(2,555)	(2,935)
EBIT	4,034	4,952	6,444	7,315	7,269	7,660	8,213	8,568
Finance (expense)/income	232	(119)	(989)	(1,880)	(742)	(195)	(46)	121
Profit before taxes	4,266	4,833	5,455	5,435	6,527	7,465	8,167	8,689
Taxes & minority	(1,239)	(1,299)	(1,538)	(1,532)	(1,840)	(2,104)	(2,302)	(2,449)
Net profit	3,028	3,534	3,918	3,903	4,687	5,361	5,865	6,240
Balance Sheet								
Current assets								
Cash & Cash Equivalents	10,812	11,843	16,534	8,785	11,601	12,884	14,048	15,096
Accounts receivables	23,367	27,326	39,170	42,787	37,521	38,317	39,954	40,788
Inventory	7,491	13,321	19,927	20,857	17,409	17,725	18,433	18,777
Other Current Assets	-	1,277	1,403	1,403	1,403	1,403	1,403	1,403
Total current assets	41,670	53,766	77,034	73,832	67,935	70,329	73,839	76,064
Property, planet, & equipment (net)	7,833	9,005	10,545	12,015	13,607	15,360	17,309	19,496
Other Non-Current Assets	5,432	4,922	5,632	6,006	6,417	7,001	7,665	8,420
Total Non-Current Assets	13,264	13,927	16,177	18,021	20,025	22,361	24,974	27,916
Total Assets	54,934	67,694	93,212	91,852	87,959	92,690	98,813	103,980
Liabilities & Equity								
CPLTD & Credit facilities	8,268	15,046	27,043	16,640	10,456	10,946	11,733	12,433
Debit and Other Debit Accounts	22,859	25,257	34,355	42,545	41,828	42,589	44,289	45,116
Other Current Liabilities	1,497	1,961	1,961	1,961	1,961	1,961	1,961	1,961
Total Current Liabilities	32,624	42,264	63,359	61,146	54,244	55,496	57,983	59,510
LT Loans	1,981	3,030	3,785	2,022	2,012	2,229	2,539	2,919
Other Non-Current Liabilities	2,438	2,193	2,193	2,193	2,193	2,193	2,193	2,193
Total Liabilities	37,043	47,488	69,337	65,361	58,450	59,918	62,716	64,622
Minority Interest	869	1,095	1,405	1,714	2,085	2,509	2,974	3,468
Total Equity	17,891	20,206	23,874	26,491	29,509	32,772	36,098	39,358
Total Liabilities & Equity	54,934	67,694	93,212	91,852	87,959	92,690	98,813	103,980
Cash Flow Statement								
Cash from Operating	2,846	(3,077)	(4,399)	8,962	14,378	7,005	7,544	8,575
Cash from Investing	(1,602)	(2,655)	(4,112)	(2,986)	(3,101)	(4,358)	(4,985)	(5,654)
Cash from Financing	(999)	2,292	12,502	(13,453)	(7,863)	(1,391)	(1,442)	(1,900)
Net Change in Cash	246	(3,440)	3,992	(7,477)	3,415	1,257	1,116	1,021

Source: Company reports, Prime Research.



FINANCIAL MODEL (CONT.'D)

	2020a	2021a	2022e	2023e	2024e	2025e	2026e	2027e
Per-Share Data (EGP)								
Price (EGP)	8.26	8.80	12.25	12.25	12.25	12.25	12.25	12.25
# Shares (WA,in mn)	2,184	2,184	2,171	2,171	2,171	2,171	2,171	2,171
EPS	1.39	1.62	1.80	1.80	2.16	2.47	2.70	2.87
Payout ratio	29%	0%	20%	24%	28%	32%	36%	40%
DPS	0.40	0.00	0.36	0.43	0.60	0.79	0.97	1.15
BVPS	8.19	9.25	11.00	12.20	13.59	15.10	16.63	18.13

Valuation Indicators								
P/E (x), based on end of FY market price	6.0x	5.4x	6.8x	6.8x	5.7x	5.0x	4.5x	4.3x
P/E (x), based on our 12M PT			11.7x	11.7x	9.7x	8.5x	7.8x	7.3x
DY, actual based on BoP price, est. on current		0.0%	4.1%	3.5%	4.9%	6.5%	7.9%	9.4%
P/BV (x)	1.0x	1.0x	1.1x	1.0x	0.9x	0.8x	0.7x	0.7x
EV/IC (x)	1.1x	1.0x	1.1x	1.0x	0.9x	0.8x	0.8x	0.7x
EV/Sales (x)	0.4x	0.4x	0.5x	0.4x	0.3x	0.3x	0.3x	0.3x
EV/EBIT (x)	4.7x	5.3x	6.6x	5.2x	3.9x	3.6x	3.4x	3.3x
EV/EBITDA (x)	3.8x	4.4x	5.4x	4.3x	3.1x	2.8x	2.6x	2.4x

Profitability & Growth Ratios								
Revenue Growth	(0%)	30%	38%	11%	(2%)	2%	4%	2%
EBIT Growth	-23%	23%	30%	14%	-1%	5%	7%	4%
EPS Growth	(25%)	17%	11%	(0%)	20%	14%	9%	6%
GPM	15%	14%	14%	14%	14%	14%	14%	15%
EBITDA Margin	11%	10%	9%	10%	10%	11%	11%	12%
EBIT Margin	9%	8%	8%	8%	8%	8%	8%	9%
Net Margin	7%	6%	5%	4%	5%	6%	6%	6%
ROIC	19%	22%	19%	15%	15%	20%	19%	19%
ROA	6%	5%	4%	4%	5%	6%	6%	6%
ROE	17%	17%	16%	15%	16%	16%	16%	16%

Liquidity & Solvency Multiples								
Net Cash (Debt)	563	(6,234)	(14,294)	(9,877)	(867)	(291)	(224)	(257)
Net Cash (Debt) /Equity	3%	(31%)	(60%)	(37%)	(3%)	(1%)	(1%)	(1%)
Net Cash (Debt) to EBIT	0.1x	-1.3x	-2.2x	-1.4x	-0.1x	0.0x	0.0x	0.0x
Debt to Assets	0.2x	0.3x	0.3x	0.2x	0.1x	0.1x	0.1x	0.1x
Current ratio	1.3x	1.3x	1.2x	1.2x	1.3x	1.3x	1.3x	1.3x

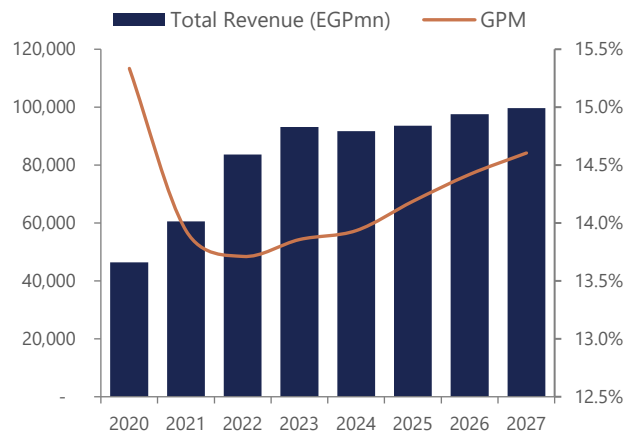
Consensus Estimates								
Revenues			85,790	101,389	109,538	106,015	N/A	N/A
Prime Research vs. Consensus			-3%	-8%	-16%	-12%	N/A	N/A
Net Income			4,331	5,186	5,337	5,577	N/A	N/A
Prime Research vs. Consensus			-10%	-25%	-12%	-4%	N/A	N/A

Source: Company reports, Prime Research.

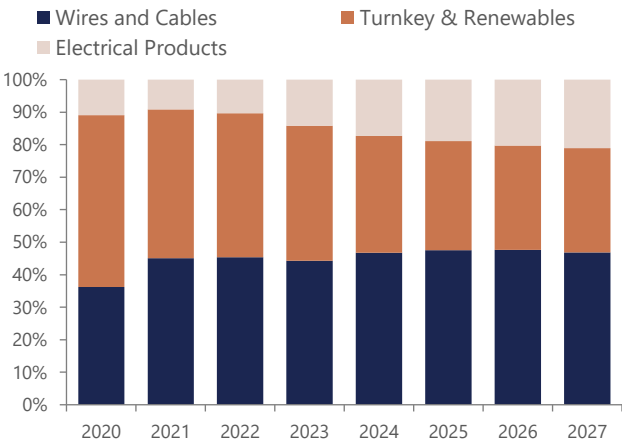


STORY IN CHARTS

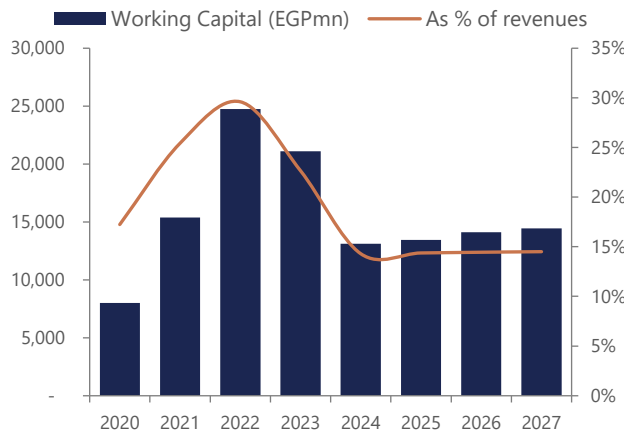
Total Revenues and GPM



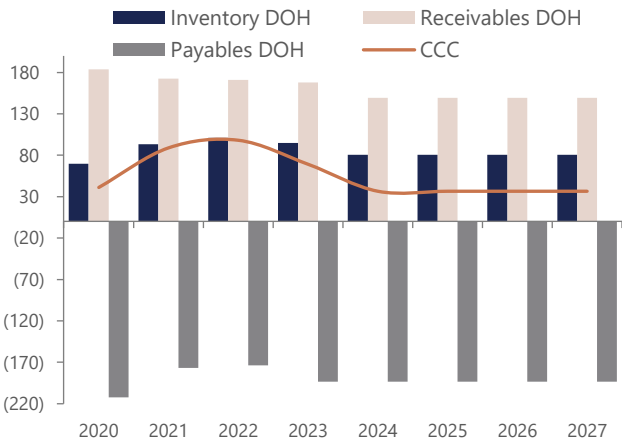
Revenue Breakdown



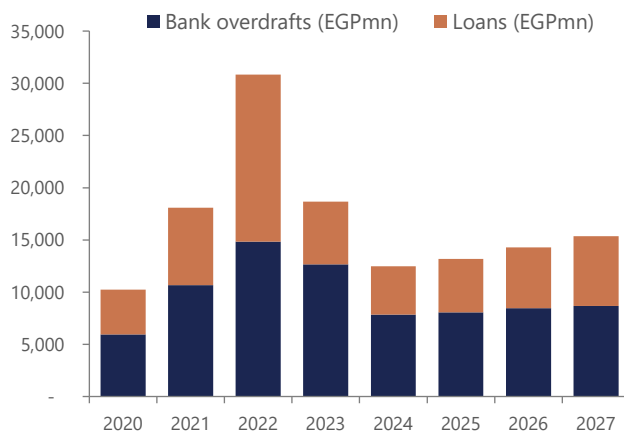
Working Capital & % of Revenues



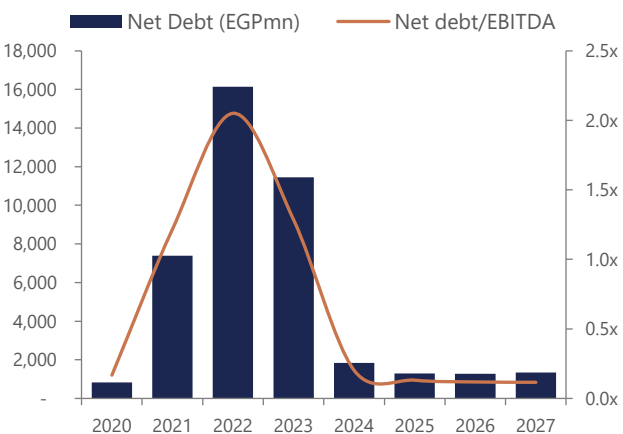
Cash Conversion Cycle



Debt Breakdown



Net Debt & Net Debt / EBITDA



Source: Company reports, Prime Research.

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