

Market Price
EGP18.09
at close of 7 Feb. 2023

Fair Value
EGP21.7 (was EGP14.4)
set on 8 Feb. 2023

12MPT
EGP27.5 (was EGP16.9)
set on 8 Feb. 2023

Investment Rating
Risk Rating

Overweight

★

★

★

Medium

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Breaking Higher Waves

Raising our 12MPT on a higher USD/EGP; OW/M maintained

Abdelkhalek Mohammed

Equity Analyst

T +202 3300 5717

aabdelkhalek@egy.primegroup.org

On 20 November 2022, we published a Core Coverage report on Alexandria Containers & Cargo Handling Co. [ALCN] with an Overweight rating and a 12MPT of EGP16.9/share. The stock price has exceeded that 12MPT, having rallied 39% since then from EGP13.05/share. The USD has also strengthened against the EGP, which in consequence led to a higher revenue per container in H1 2022/23 (+73% y/y). Hence, we updated our model for ALCN, which resulted in a higher 12MPT of EGP27.5/share, thanks to the stronger USD, offering a 52% upside. Thus, we maintain our Overweight/Medium Risk rating.

A quick recap: ALCN is a high-margin logistics operator and a key beneficiary of a stronger USD vis-à-vis EGP. Besides, a stable dividend policy should bode well for investors looking for income stocks. This is despite the new competition in the terminals industry, especially in Alexandria with the inauguration of the **Egyptian Multi-Purpose Terminal (EGMPT)**. Moreover, UAE-based **Alpha Oryx Limited**, a subsidiary of **ADQ Holding**, and the **Saudi Egyptian Investment Co.**, a subsidiary of KSA's **Public Investment Fund (PIF)**, acquired 32% and 20% stakes in ALCN at EGP6.15/share (implying a P/E of 5.5x) and at EGP10.14/share (implying a P/E of 7.5x), respectively.

Upcoming IPOs in the logistics sector: The board of directors of both Port Said Container Handling Co. [**POCO**] and Damietta Container Handling Co. [**DCCC**] agreed to float a portion of their companies on the EGX. With a paid-in capital of EGP164.1mn, POCO is the closest peer to ALCN with more than 50% of its business focused on trade containers. Alternatively, DCCC (having a paid-in capital of EGP200mn) is more focused on transit containers, a low-margin business. While ALCN's margins and earnings are relatively better than those of POCO and DCCC, such upcoming IPOs are likely to take the attention away from ALCN. Recently, **Qatar Investment Authority (QIA)** was reportedly rumored to be interested in grabbing a majority stake in both POCO and DCCC. This underlines the huge potential interest in the sector from GCC investors in general and sovereign wealth funds in particular.

12MPT upgraded to EGP27.5/share, rating maintained at OW/M: We updated our 5y DCF model, which produced a fair value of EGP21.7/share and a 12MPT of EGP27.5/share, thanks to a stronger USD. This implies a 2023e P/E of 9.8x and, with a potential upside of 52%. Thus, we maintain our rating of Overweight/Medium Risk. **Key Catalysts:** Further EGP devaluation. Expected growth in trade volumes and values. **Key Risks:** Lower interest rates. A stronger EGP. As investors focus on the logistics sector in light of the government's IPO program, they may reduce exposure to ALCN.

RELATIVE PERFORMANCE (5Y)



Source: Bloomberg, Prime Research.

KEY STOCK STATISTICS

Shares outstanding (mn)	1,490
Free float	5%
Market cap (EGPmn)	26,950
Market cap (USDmn)	898
52w range (EGP/share)	5.85-24.49
EGP100 invested 5y ago	167
EPS (TTM / 2023e) (EGP)	2.09 / 2.81
P/E (TTM / 2023e)	8.6x / 6.4x
P/BV (TTM / 2023e)	3.8x / 3.7x
Last fiscal year's DPS (EGP)	1.11
Dividend yield	6.1%
5y historical beta	0.64
5y Proj. EPS CAGR (2022-27)	17.2%

Source: Prime Research.



KEY ASSUMPTIONS

(FY ends 30 Jun., EGPmn)	2021a	2022a	2023e	2024e	2025e	2026e	2027e
USD/EGP FX Rate (average)	15.70	20.20	24.96	27.98	28.03	29.05	30.17
Total Revenues (EGPmn)	2,397	3,482	4,754	5,354	5,389	5,500	5,623
Total Capacity (TEUs)	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000
Total Volumes (TEUs)	839,059	839,952	766,905	755,554	744,204	732,853	721,502
Utilization rate	55.94%	56.00%	51.13%	50.37%	49.61%	48.86%	48.10%
Trade Volumes (TEUs)	837,463	830,107	765,403	754,052	742,702	731,351	720,000
Trade Revenues(EGPmn)	2,397	3,476	4,753	5,353	5,388	5,499	5,622
% of total	99.97%	99.83%	99.99%	99.99%	99.99%	99.98%	99.98%
Transit Volumes (TEUs)	1,596	9,845	1,502	1,502	1,502	1,502	1,502
Transit Revenues (EGPmn)	0.73	5.97	0.68	0.78	0.80	0.86	0.92
% of total	0.03%	0.17%	0.01%	0.01%	0.01%	0.02%	0.02%
Total Costs * (EGPmn)	1,092	1,118	1,233	1,326	1,390	1,469	1,560
Wages	488	516	559	606	657	713	773
Fuels and replacement parts	92	111	131	139	140	143	146
Depreciation	139	150	135	137	124	117	111
Rent	198	196	208	228	251	276	304
Other costs	177	145	201	215	217	221	225

* Cost of revenues + SG&A.
Source: Company reports, Prime Research.

VALUATION MODEL

EGPmn	H2 2023e	2024e	2025e	2026e	2027e	Terminal
EBIT	2,072	3,971	3,942	3,972	4,003	4,123
Taxes on EBIT	(1)	(1)	(1)	(1)	(1)	(1)
NOPAT	2,071	3,970	3,941	3,971	4,002	4,122
D&A	74	137	124	117	111	
Capex	(106)	(111)	(61)	(56)	(57)	
Change in WC	(116)	(85)	(1)	(14)	(15)	
Net investments	(147)	(59)	62	47	39	(918)
FCFF	1,924	3,911	4,003	4,018	4,042	30,600
Present Value of FCFF	1,773	2,958	2,659	2,356	2,089	15,814
DCF Enterprise Value	27,649					
Net (Debt)/ Cash	4,380					
Other investments	298					
Minorities	-					
DCF Equity Value	32,327					
NOS	1,490					
FV (EGP/share)	21.7					
Market price	18.09					
12MPT (EGP/share)	27.5					

SENSITIVITY ANALYSIS

		Terminal growth rate							Terminal utilization rate					Terminal USD/EGP	12MPT
		1.0%	2.0%	3.0%	4.0%	5.0%			44.0%	46.0%	48.0%	50.0%	52.0%		
Terminal WACC	11.5%	29.6	29.7	29.9	30.0	30.2	Terminal price/TEU (USD)	234	23.8	24.7	25.6	26.5	27.4	20.0	21.0
	12.5%	28.3	28.5	28.6	28.7	28.9		246	24.7	25.6	26.5	27.5	28.4	25.0	24.2
	13.5%	27.3	27.4	27.5	27.6	27.8		259	25.6	26.5	27.5	28.5	29.4	30.2	27.5
	14.5%	26.3	26.5	26.6	26.7	26.8		272	26.5	27.5	28.5	29.5	30.5	35.0	30.6
	15.5%	25.5	25.7	25.8	25.9	26.0		285	27.4	28.4	29.5	30.5	31.6	40.0	33.8

PEERS ANALYSIS (AS OF 7-FEB-2023)

Peer Group Comparable (TTM)	Ticker	Country	Mkt Cap (USDmn)	Revenues (USDmn)	Net Income (USDmn)	ROE	ROA	P/E	EV/EBITDA
Local Peers' Average			80	14	6	18.0%	14.4%	18.0x	18.7x
Canal Shipping Agencies	CSAG	Egypt	146	5	11	27.4%	21.8%	21.1x	27.7x
Egytrans	ETRS	Egypt	14	22	1	8.5%	7.1%	14.8x	9.6x
Regional Peers' Average			1,180	390	90	6.7%	5.0%	15.1x	8.1x
Salalah Port Services Co.	SPSI	Oman	231	182	7	5.5%	3.1%	20.1x	4.7x
Qatar Navigation	QNNS	Qatar	3,108	903	251	6.0%	5.2%	11.4x	14.1x
Jassim Transport & Stevedoring	JTC	Kuwait	158	84	12	8.6%	6.7%	13.7x	5.5x
Peers' Average			164	84	11	8.5%	6.7%	14.8x	9.6x
Alexandria Containers Handling	ALCN	Egypt	898	95	68	38.5%	36.3%	8.6x	5.1x

Source: Bloomberg, Prime Research.



FINANCIAL MODEL

Financials (ends 30 Jun., EGPmn)	2021a	2022a	2023e	2024e	2025e	2026e	2027e
Income Statement							
Total revenue (Net)	2,397	2,842	4,754	5,354	5,389	5,500	5,623
Cost of revenues	(855)	(870)	(986)	(1,064)	(1,112)	(1,174)	(1,245)
Gross profit	1,543	1,972	3,768	4,291	4,277	4,326	4,378
SG&A	(238)	(249)	(247)	(263)	(277)	(295)	(314)
Other operating (exp.)/ Inc.	(33)	134	282	139	140	142	146
EBITDA	1,396	1,763	3,605	4,108	4,066	4,089	4,115
Depreciation & amortization	158	70	135	137	124	117	111
EBIT	1,272	1,857	3,803	4,167	4,139	4,173	4,209
Finance (expense)/income	139	172	384	301	270	276	282
Profit before taxes	1,411	2,029	4,187	4,468	4,409	4,449	4,491
Taxes	(0)	(0)	(1)	(1)	(1)	(1)	(1)
Net profit	1,410	2,028	4,186	4,467	4,408	4,448	4,489

Balance Sheet

Current Assets

Cash & cash equivalents	2,407	2,474	4,542	4,772	4,784	4,879	4,969
Accounts receivables	389	919	861	970	977	997	1,019
Inventory	105	109	117	126	132	139	148
Other current assets	13	13	7	7	8	8	9

Total Current Assets	2,914	3,515	5,527	5,876	5,900	6,023	6,144
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Property, planet, & equipment (net)	1,426	1,465	1,467	1,441	1,378	1,318	1,263
Other non-current assets	620	609	609	609	609	609	609

Total Non-Current Assets	2,047	2,074	2,076	2,050	1,987	1,927	1,873
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Total Assets	4,960	5,589	7,603	7,926	7,887	7,950	8,017
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Liabilities & Equity

Other provisions	16	15	15	15	15	15	15
Debit and other debit accounts	302	247	211	227	238	251	266
Other current liabilities	12	29	0	17	18	19	20

Total Current Liabilities	331	291	226	260	271	285	301
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Other non-current liabilities	60	26	30	30	30	30	30
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Total Liabilities	391	317	256	289	300	315	331
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Minority interest	-	-	-	-	-	-	-
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Total Equity	4,569	5,272	7,348	7,637	7,587	7,635	7,686
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Total Liabilities & Equity	4,960	5,589	7,603	7,926	7,887	7,950	8,017
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Cash Flow Statement

Cash from operating activities	1,466	1,342	6,331	4,656	4,330	4,447	4,484
Cash from investing activities	(324)	(47)	(137)	(111)	(61)	(56)	(57)
Cash from financing activities	(1,286)	(1,339)	(4,130)	(4,315)	(4,258)	(4,296)	(4,337)

Net Change in Cash	(144)	(44)	2,064	230	11	95	90
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FINANCIAL MODEL (CONT.'D)

KPIs (ends 30 Jun.)	2021a	2022a	2023e	2024e	2025e	2026e	2027e
Per-Share Data							
Price (EGP)	7.90	18.09	18.09	18.09	18.09	18.09	18.09
# Shares (WA,in mn)	1,490	1,490	1,490	1,490	1,490	1,490	1,490
EPS (EGP)	0.95	1.36	2.81	3.00	2.96	2.99	3.01
Payout ratio	83%	82%	86%	84%	84%	84%	84%
DPS (EGP)	0.79	1.11	2.41	2.52	2.49	2.51	2.53
BVPS (EGP)	3.07	3.54	4.93	5.13	5.09	5.12	5.16

Valuation Indicators							
P/E (x), based on EOP market price	8.3x	13.3x	6.4x	6.0x	6.1x	6.1x	6.0x
P/E (x), based on our 12MPT			9.1x	8.6x	8.7x	8.6x	8.5x
DY, "a" based on BOP, "e" on current	9.8%	14.1%	13.3%	13.9%	13.7%	13.9%	14.0%
P/BV (x)	2.6x	5.1x	3.7x	3.5x	3.6x	3.5x	3.5x
EV/IC (x)	4.2x	8.4x	7.6x	8.1x	8.4x	8.5x	8.7x
EV/Sales (x)	3.9x	8.7x	4.7x	4.1x	4.1x	4.0x	3.9x
EV/EBIT (x)	7.4x	13.3x	5.9x	5.3x	5.3x	5.2x	5.2x
EV/EBITDA (x)	6.8x	14.0x	6.3x	5.4x	5.4x	5.4x	5.3x

Profitability & Growth Ratios							
Revenue Growth	(7%)	19%	67%	13%	1%	2%	2%
EBIT Growth	-2%	37%	105%	14%	-1%	1%	1%
EPS Growth	(6%)	44%	106%	7%	(1%)	1%	1%
GPM	64%	69%	79%	80%	79%	79%	78%
EBIT Margin	53%	65%	80%	78%	77%	76%	75%
Net Margin	59%	71%	88%	83%	82%	81%	80%
ROIC	55%	58%	117%	146%	150%	154%	159%
ROAE	31%	41%	66%	60%	58%	58%	59%
ROAA	29%	38%	63%	58%	56%	56%	56%

Liquidity & Solvency Ratios							
Net Cash (Debt)	2,407	2,474	4,542	4,772	4,784	4,879	4,969
Net Cash (Debt) / Equity	53%	47%	62%	62%	63%	64%	65%
Net Cash (Debt) to EBIT	1.9x	1.3x	1.2x	1.1x	1.2x	1.2x	1.2x
Debt to Assets	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x
Current ratio	8.8x	12.1x	24.5x	22.6x	21.8x	21.1x	20.4x

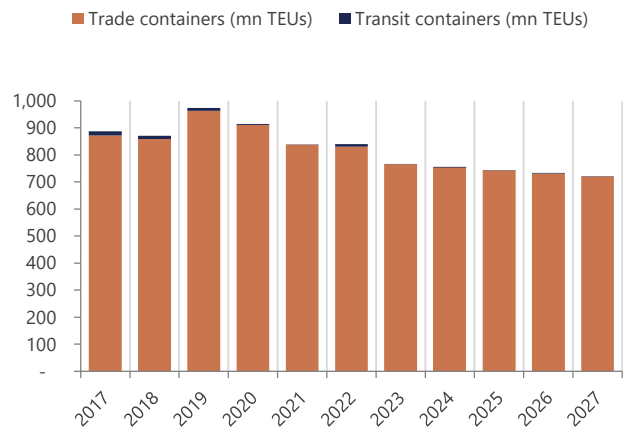
Consensus Estimates (EGPmn)							
Revenues			4,198	4,480	4,590	n/a	n/a
Prime Research vs. Consensus			13%	20%	17%	n/a	n/a
Net Income			3,032	3,264	3,224	n/a	n/a
Prime Research vs. Consensus			38%	37%	37%	n/a	n/a

Source: Company reports, Prime Research.

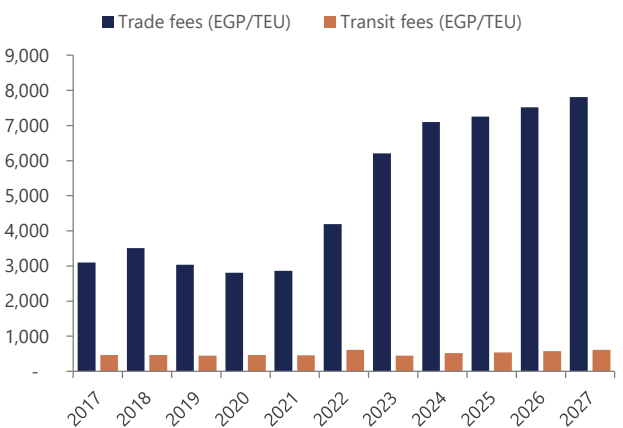


STORY IN CHARTS

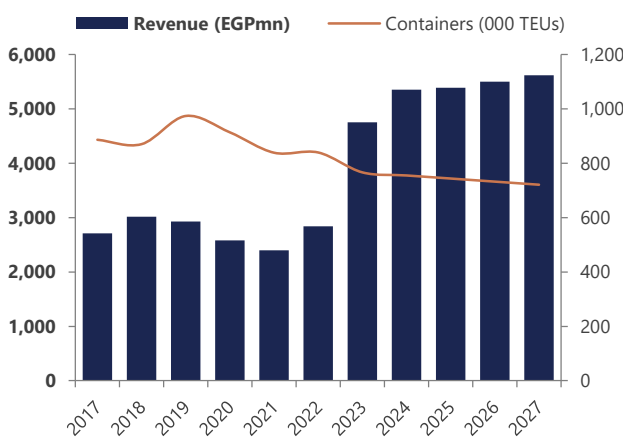
Containers handled



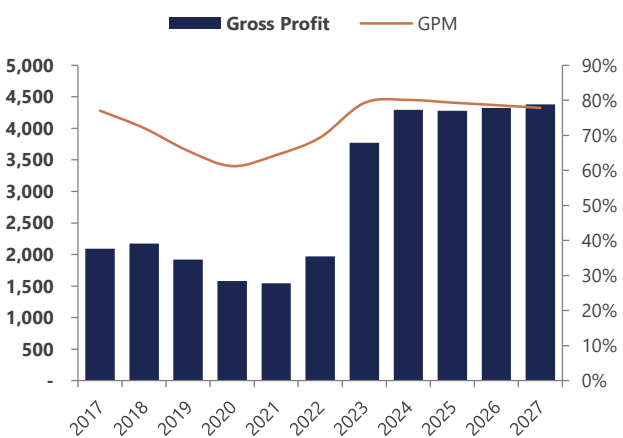
Average container fees



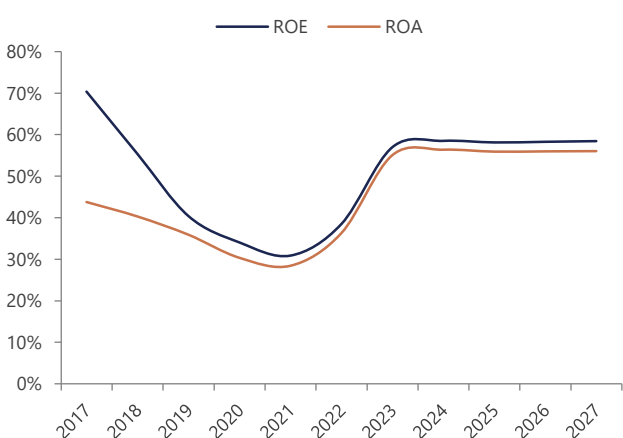
Revenues & total container volume



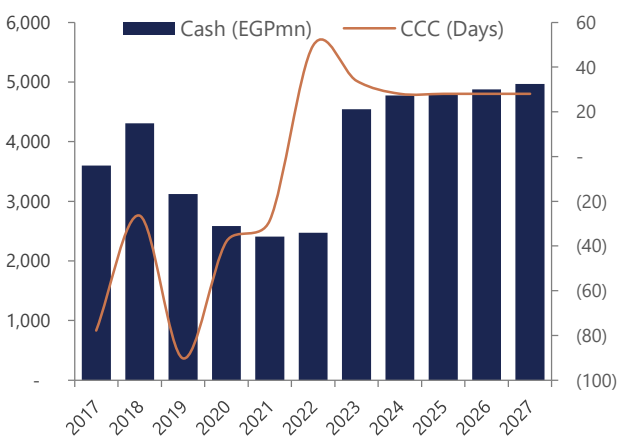
Gross profit & gross profit margin



Profitability ratios



Cash conversion cycle & cash



Source: Company reports, Prime Research.

Prime Securities

Shawkat El Maraghy

Managing Director

T +202 3300 5622

SElmaraghy@egy.primegroup.org

Sales

Mohamed Ezzat

Head of Sales & Branches

T +202 3300 5784

MEzzat@egy.primegroup.org

Mohamed Ashmawy

Head of Institutional Sales

T +202 3300 5612

MAshmawy@egy.primegroup.org

Amr Alaa CFTe

Team Head –Institutional Desk

T +202 3300 5609

AAAlaa@egy.primegroup.org

Mohamed El Metwaly

Manager

T +202 3300 5610

MElmetwaly@egy.primegroup.org

Emad El Safoury

Manager

T +202 3300 5624

EElsafoury@egy.primegroup.org

Shawkat Raslan

Heliopolis Branch Manager

T +202 3300 8130

SRaslan@egy.primegroup.org

Nashwa Abuelatta

Alexandria Branch Manager

T +202 3300 5173

NAbuelatta@egy.primegroup.org

Research

Amr Hussein Elalfy MBA, CFA

Head of Research

T +202 3300 5724

AElalfy@egy.primegroup.org

Head Office

Prime Securities S.A.E.

Regulated by FRA License No. 179.
Member of the Egyptian Exchange.

2 Wadi Elnil St., Liberty Tower, 7th Fl.
Mohandessin, Giza, Egypt

T +202 3300 5700 / 770 / 650 / 649

F +202 3760 7543

Branches

Heliopolis

7 Elhegazi Square

Heliopolis, Cairo, Egypt

T +202 2777 0600

F +202 2777 0604

Alexandria

7 Albert Al Awal St.

Smouha, Alexandria, Egypt

T +202 3300 8170

F +202 3305 4622

Website

www.primeholdingco.com

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