

# Al Ezz Ceramics & Porcelain [ECAP]

Thursday, 16 March 2023 / 12:30 pm CLT  
Egypt / Ceramics / Core Coverage Update

**PRIME**

**Market Price**  
**EGP11.81**

at close of 15 Mar. 2023

**Fair Value**  
**EGP27.0** (was EGP12.7)  
set on 16 Mar. 2023

**12MPT**  
**EGP35.3** (was EGP14.8)  
set on 16 Mar. 2023

Investment Rating

**Overweight**

★

★

★

Risk Rating

**Medium**

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## A Hidden "GEMMA"

Strong price-driven margins; 12MPT raised, OW/M maintained

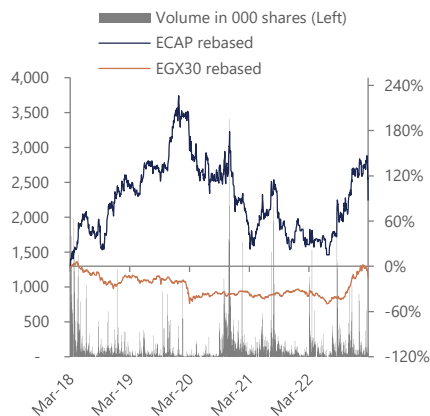
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### RELATIVE PERFORMANCE (5Y)



Source: Bloomberg, Prime Research.

### KEY STOCK STATISTICS

Shares outstanding (mn)	<b>53.3</b>
Free float	<b>36%</b>
Market cap (EGPmn)	<b>630</b>
Market cap (USDmn)	<b>20</b>
52w range (EGP/share)	<b>7.08-15.88</b>
EGP100 invested 5y ago	<b>EGP188</b>
EPS (2022a / 2023e) (EGP)	<b>3.2 / 4.5</b>
P/E (2022a / 2023e)	<b>3.7x / 2.6x</b>
P/BV (2022a / 2023e)	<b>1.0x / 0.8x</b>
Last fiscal year's DPS (EGP)	<b>0.55</b>
Dividend yield	<b>4.7%</b>
5y historical beta	<b>0.88</b>
5y Proj. EPS CAGR (2022-27)	<b>11.5%</b>

Source: Prime Research.

Our bullish view on Al Ezz Ceramics & Porcelain (GEMMA) [ECAP] published in [our Core Coverage report dated 30 December 2021](#) was due to its growth potential and relatively low multiples. Today, we affirm our positive view on ECAP, adding to the mix its higher utilization rates and selling prices, despite the lower purchasing power and higher imported costs. Although pressured in 2022 on a strong USD, ECAP's margins stood strong as it managed to pass on the higher costs to its end customers. We updated our financial model, which resulted in a 12MPT of EGP35.3/share (138% higher than our previous 12MPT of EGP14.8/share). Thus, we reiterate our Overweight / Medium Risk rating for ECAP.

**Competing on another level:** The Russia-Ukraine war pressured all ceramics producers locally and globally, due to the higher costs of imported raw materials and fuel. In addition, a stronger USD pressured Egyptian ceramics producers' margins during 2021 and 2022, especially for those with a low pricing power, in view of a weaker purchasing power in the local market. ECAP, however, produces mainly high-end ceramics and porcelain products that are priced higher and enjoy a lower elasticity of demand compared to its local peers (e.g. Lecico Egypt [LCSW], Remas [CERA], and General Co. for Ceramic & Porcelain Products [PRCL]). This allows ECAP more pricing power over its products, hence it was impacted by FX fluctuations to a lesser extent. We note that ECAP's products are better positioned with a market share of 70-80% in Egypt's high-end ceramics market, according to management, with the remainder fulfilled by imports. Moreover, ECAP's GPM is higher than its local peers' and more stable against changes in the macro environment (averaging 25.2% over the last five years).

**A niche segment:** ECAP currently has a capacity of 15mn sqm (adjusted from 18mn sqm, based on a bigger tile size compared to the standard 30x30 tile). With the utilization rate reaching c.92% at the end of 2022, ECAP is currently looking to increase its capacity by 833,000 sqm (+5.6%) by the end of Q3 2023 to cater to the growing demand for high-end ceramics in the market, driving total capacity to 15.8mn sqm per annum. ECAP focuses c.85% of its production on the local market, due to the strong demand for high-end tiles and the lack of local competition in this niche segment. Despite the production disruptions in Turkey and Europe due to the earthquake and natural gas crises, respectively, we expect ECAP to continue focusing mainly on its higher-margin local market, while exporting only 15% of its production to secure its foreign currency needs.



**What has changed in our forecasts:** Accounting for the added capacity, we conservatively expect production to reach 14.1mn sqm per annum in 2023 (vs. 14.5mn sqm p.a. in 2022) then average 14.7mn sqm per annum through 2027. We think customers' slightly lower purchasing power will limit future volume growth in the latter years of our forecast period. Our forecasted volumes can be broken down into:

- **Local volumes** to average 12.0mn sqm per annum, contributing 83% to total sales volume at an average price of EGP221.3/sqm (USD6.9/sqm) over our forecast period (a 31% premium to export prices).
- **Exports volumes** to average 2.6mn sqm per annum, contributing 17% to total sales volume at an average price of EGP169.0/sqm (USD5.2/sqm) over our forecast period.
- **Blended average prices** to grow by a 5yr CAGR of 13% to EGP249.3/sqm by 2027, with **an average gross profit** of EGP52.5/sqm over our forecast period.

As for ECAP's working capital, we expect its cash conversion cycle (CCC) to increase from 66 days in 2022 to 110 days by 2027 as inventory normalizes back to 115 days by 2027 (vs. 101 days in 2022). We expect capex to amount to EGP214mn in 2023, including the remaining investment cost of the new production line, then to normalize at EGP83mn on average between 2024-2027, which is considerably higher than peers. In terms of financial leverage, we expect ECAP to maintain its current leverage levels (Total debt/EBITDA of 2.3x on average over the forecasted period) as it relies mostly on bank overdrafts in financing its higher working capital needs. However, overall we expect ECAP to reduce its long-term loans after paying off its foreign currency loan used to finance its new production line.

**We raise our 12MPT to EGP35.3/share, maintain our OW/M rating:** Our bullish view on ECAP is intact in view of its strong and stable margins, high pricing power, and better efficiency. Also, an expected generous payout ratio averaging 39% over our forecast period makes ECAP suitable for value and income investors. We updated our discounted cash flow (DCF) model, which resulted in a fair value of EGP27.0/share and a 12MPT of EGP35.3/share (a potential upside of +198%). Still, this implies 2022a/2023e P/E and EV/EBITDA multiples of 11.0x/7.8x and 7.3x/5.3x, respectively. The stock currently trades at significantly cheap 2022 P/E and EV/EBITDA of 3.7x and 3.0x, respectively.

**Key Catalysts:** Better pricing power than competitors. High natural gas prices in Europe, paving the way for ECAP's market share to increase in the high-end local market.

**Key Risks:** A higher natural gas price for local ceramics producers. A stronger USD. A lower customers' purchasing power.



KEY ASSUMPTIONS

Summary	2021a	2022a	2023e	2024e	2025e	2026e	2027e
Capacity*	15,000	15,000	15,208	15,833	15,833	15,833	15,833
Total volumes (000sqm)	12,111	14,462	14,144	14,725	14,725	14,725	14,725
Utilization rate	81%	96%	93%	93%	93%	93%	93%
Total sales (EGPmn)	1,402	1,899	2,610	2,767	3,080	3,374	3,670
Growth	36%	35%	37%	6%	11%	10%	9%
Average price (blended, in EGP)	115.8	131.3	184.5	187.9	209.1	229.1	249.3
Growth	7%	13%	41%	2%	11%	10%	9%
Average price (blended, in USD)	7.4	6.8	6.2	6.4	6.6	6.7	6.9
Growth	9%	-7%	-9%	3%	3%	3%	3%
Cost / sqm (EGP)	(81.2)	(96.7)	(136.0)	(142.3)	(158.2)	(173.1)	(187.5)
Growth	-2%	19%	41%	5%	11%	9%	8%
GP / sqm (EGP)	34.6	34.6	48.6	45.5	50.9	56.0	61.7
GPM	30%	26%	26%	24%	24%	24%	25%
Local Sales							
Local sales (EGPmn)	1,218	1,711	2,297	2,407	2,649	2,870	3,089
Growth	39%	40%	34%	5%	10%	8%	8%
Local price (EGP/sqm)	126.3	137.6	191.1	195.2	218.1	239.9	262.2
Growth	8%	9%	39%	2%	12%	10%	9%
Local volumes (000sqm)	9,645	12,434	12,022	12,332	12,148	11,964	11,780
Growth	29%	29%	-3%	3%	-1%	-2%	-2%
Export Sales							
Export sales (EGPmn)	184	188	313	360	431	504	582
Growth	19%	2%	66%	15%	20%	17%	15%
Export price (EGP/sqm)	74.6	92.8	147.5	150.3	167.1	182.5	197.5
Growth	-1%	24%	59%	2%	11%	9%	8%
Export price (USD/sqm)	4.8	4.8	5.0	5.1	5.2	5.4	5.5
Growth	0%	2%	3%	3%	3%	2%	2%
Export volumes (000sqm)	2,466	2,028	2,122	2,393	2,577	2,761	2,945
Growth	20%	-18%	5%	13%	8%	7%	7%

\*Capacity adjusted based on a non-standard manufacturing size

## VALUATION MODEL

EGPmn	2023e	2024e	2025e	2026e	2027e	Terminal
EBIT	328	290	326	360	404	416
Taxes on EBIT	(74)	(65)	(73)	(81)	(91)	(94)
NOPAT	254	225	253	279	313	322
D&A	52	62	63	65	66	
Change in WC	(189)	(88)	(130)	(137)	(149)	
Capex	(196)	(72)	(80)	(87)	(94)	
Net investments	(334)	(98)	(146)	(159)	(176)	(71)
Health care tax & remunerations	(16)	(15)	(17)	(19)	(21)	(22)
FCFF	(96)	112	89	101	116	2,765
Present Value of FCFF	(82)	82	58	59	61	1,454
Enterprise Value	1,632					
Net (Debt)/ Cash	(191)					
Other investments	-					
Minorities	-					
DCF Equity Value (EGP)	1,441			Reinvestment rate		22%
NOS (mn)	53					
FV (EGP/share)	27.0			ROIC		14%
Market price	11.8					
12MPT (EGP/share)	35.3			TGR		3%
Upside/downside	198%					

## SENSITIVITY ANALYSIS

Terminal growth rate	Terminal WACC					
		9.3%	10.3%	11.3%	12.3%	13.3%
	1.0%	41.0	37.0	33.6	30.8	28.5
	2.0%	42.1	37.9	34.4	31.5	29.0
	3.0%	43.4	38.9	35.3	32.2	29.7
	4.0%	45.1	40.2	36.3	33.1	30.4
	5.0%	47.4	41.8	37.5	34.1	31.2

Electricity price/KWh (EGP)	Natural gas price/MMBtu (USD)					
		4.25	4.50	4.75	5.00	5.25
	0.81	42.8	39.8	36.9	33.9	31.0
	0.91	42.0	39.0	36.1	33.1	30.2
	1.01	41.1	38.2	35.3	32.3	29.4
	1.11	40.3	37.4	34.4	31.5	28.5
	1.21	39.5	36.6	33.6	30.7	27.7

## PEERS ANALYSIS (AS OF 15-MAR-2023)

Peer Group Comparable (TTM)	Ticker	Country	Mkt Cap (USDmn)	Revenues (USDmn)	Net Income (USDmn)	ROE	ROA	P/E	EV/ EBITDA
Local Peers' Average			13	111	0	%3	%1	24.2x	15.1x
Lecico Egypt	LCSW	Egypt	13	173	(0)	-0.2%	-0.1%	n/a	16.7x
Ceramica Remas	CERA	Egypt	14	49	1	5.5%	2.2%	24.2x	13.5x
Regional Peers' Average			708	677	64	%12.0	%5.8	11.5x	8.6x
Saudi Ceramics	2040	KSA	639	395	46	10.2%	5.9%	13.8x	9.4x
RAK Ceramics	RAKCEC	UAE	777	958	82.44	13.8%	6%	9.2x	7.7x
Peers' Average			360	394	32	%7.3	%3.4	15.7	11.8
Al-Ezz Ceramics & Porcelain	ECAP	Egypt	20	61	6	26.2%	8.2%	3.7x	3.0x

Source: Bloomberg, Prime Research.



FINANCIAL MODEL

Financials (ends 31 Dec., EGPmn)	2021a	2022a	2023e	2024e	2025e	2026e	2027e
Income Statement							
Total revenue (Net)	1,402	1,899	2,610	2,767	3,080	3,374	3,670
Cost of revenues	(983)	(1,398)	(1,923)	(2,096)	(2,330)	(2,549)	(2,762)
Gross profit	419	501	687	671	749	824	909
SG&A	(223)	(244)	(335)	(355)	(395)	(433)	(471)
Other operating (exp.)/ Inc.	(26)	(20)	(24)	(25)	(28)	(31)	(34)
EBITDA	215	276	380	352	389	425	470
Depreciation & amortization	(46)	(40)	(52)	(62)	(63)	(65)	(66)
EBIT	169	236	328	290	326	360	404
Finance (expense)/income	(23)	(12)	(16)	(24)	(17)	(16)	(20)
Profit before taxes	146	225	312	266	309	345	384
Taxes & minority	(39)	(54)	(72)	(62)	(71)	(80)	(88)
Net profit	107	171	240	205	237	265	295
Balance Sheet							
Current Assets							
Cash & Cash Equivalents	203	365	444	497	558	612	659
Accounts receivables	483	564	801	877	1,007	1,137	1,273
Inventory	383	478	677	756	866	975	1,085
Other Current Assets	22	32	48	50	53	56	59
Total Current Assets	1,091	1,438	1,970	2,180	2,484	2,779	3,075
Property, planet, & equipment (net)	582	643	787	797	814	836	864
Other Non-Current Assets	0	9	9	9	9	9	9
Total Non-Current Assets	582	651	796	806	823	845	872
Total Assets	1,673	2,090	2,766	2,986	3,306	3,624	3,947
Liabilities & Equity							
CPLTD & Credit facilities	455	516	726	769	848	921	993
Debit and Other Debit Accounts	285	412	561	604	666	722	775
Other Current Liabilities	290	376	499	527	582	634	685
Total Current Liabilities	1,030	1,305	1,786	1,900	2,096	2,277	2,454
LT Loans	2	38	81	65	54	47	42
Other Non-Current Liabilities	99	95	95	95	95	95	95
Total Liabilities	1,131	1,438	1,963	2,060	2,245	2,419	2,592
Minority Interest	-	-	-	-	-	-	-
Total Equity	542	652	803	926	1,062	1,205	1,356
Total Liabilities & Equity	1,673	2,090	2,766	2,986	3,306	3,624	3,947
Cash Flow Statement							
Cash from Operating	136	198	112	181	175	196	217
Cash from Investing	(36)	(211)	(202)	(85)	(99)	(106)	(114)
Cash from Financing	(64)	56	169	(56)	(34)	(55)	(77)
Net Change in Cash	35	43	79	41	41	35	26

Source: Company reports, Prime Research.



## FINANCIAL MODEL (CONT.'D)

Key Performance Indicators	2021a	2022a	2023e	2024e	2025e	2026e	2027e
<b>Per-Share Data</b>							
Price (EGP)	8.5	14.3	11.8	11.8	11.8	11.8	11.8
# shares (WA, in mn)	53	53	53	53	53	53	53
EPS (EGP)	2.01	3.21	4.51	3.84	4.45	4.97	5.53
Payout ratio	27%	30%	33%	36%	39%	42%	45%
DPS (EGP)	0.55	0.96	1.49	1.38	1.74	2.09	2.49
BVPS (EGP)	10.16	12.22	15.06	17.37	19.91	22.59	25.41

<b>Valuation Indicators</b>							
P/E (x), on end of FY market price	4.2x	4.5x	2.6x	3.1x	2.7x	2.4x	2.1x
P/E (x), based on our 12MPT		11.0x	7.8x	9.2x	7.9x	7.1x	6.4x
DY, actual on BoP price, est. on current	5.4%	11.3%	10.4%	11.7%	14.7%	17.7%	21.1%
P/BV (x)	0.8x	1.2x	0.8x	0.7x	0.6x	0.5x	0.5x
EV/IC (x)	0.9x	1.1x	0.9x	0.8x	0.7x	0.6x	0.6x
EV/Sales (x)	0.5x	0.5x	0.4x	0.3x	0.3x	0.3x	0.3x
EV/EBIT (x)	4.2x	4.0x	3.0x	3.3x	3.0x	2.7x	2.5x
EV/EBITDA (x)	3.3x	3.5x	2.6x	2.7x	2.5x	2.3x	2.1x

<b>Profitability &amp; Growth Ratios</b>							
Revenue Growth	36%	35%	37%	6%	11%	10%	9%
EBIT Growth	261%	40%	39%	-11%	12%	11%	12%
EPS Growth	NM	60%	40%	(15%)	16%	12%	11%
GPM	30%	26%	26%	24%	24%	24%	25%
EBITDA Margin	15%	15%	15%	13%	13%	13%	13%
EBIT Margin	12%	12%	13%	10%	11%	11%	11%
Net Margin	8%	9%	9%	7%	8%	8%	8%
ROIC	23%	30%	19%	20%	20%	20%	11%
ROA	6%	8%	9%	7%	7%	7%	7%
ROE	20%	26%	30%	22%	22%	22%	22%

<b>Liquidity &amp; Solvency Multiples</b>							
Net Cash (Debt)	(257)	(191)	(365)	(337)	(344)	(357)	(379)
Net Cash (Debt) /Equity	(47%)	(29%)	(45%)	(36%)	(32%)	(30%)	(28%)
Net Cash (Debt) to EBIT	-1.5x	-0.8x	-1.1x	-1.2x	-1.1x	-1.0x	-0.9x
Debt to Assets	0.3x	0.3x	0.3x	0.3x	0.3x	0.3x	0.3x
Current ratio	1.1x	1.1x	1.1x	1.1x	1.2x	1.2x	1.3x

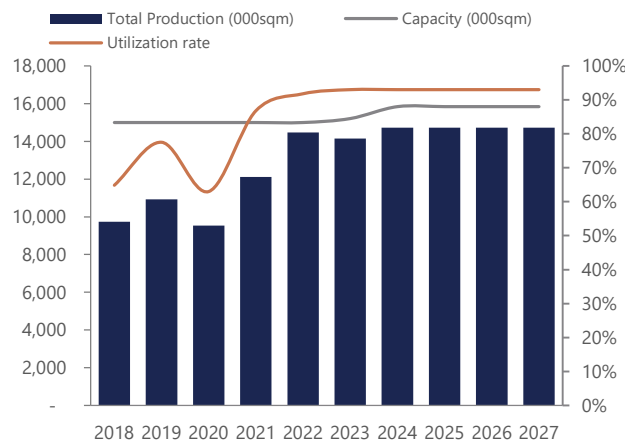
<b>Consensus Estimates (EGPmn)</b>							
<b>Revenues</b>		<b>2,382</b>	<b>2,599</b>	<b>2,799</b>	<b>n/a</b>	<b>n/a</b>	
Prime Research vs. Consensus		10%	6%	10%	n/a	n/a	
<b>Net Income</b>		<b>151</b>	<b>175</b>	<b>213</b>	<b>n/a</b>	<b>n/a</b>	
Prime Research vs. Consensus		59%	17%	12%	n/a	n/a	

Source: Company reports, Prime Research.

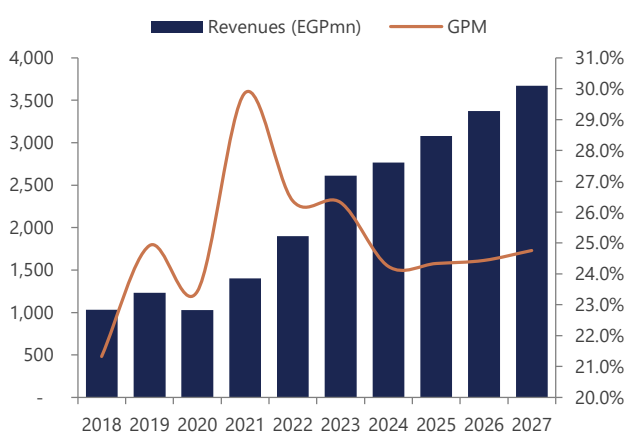


STORY IN CHARTS

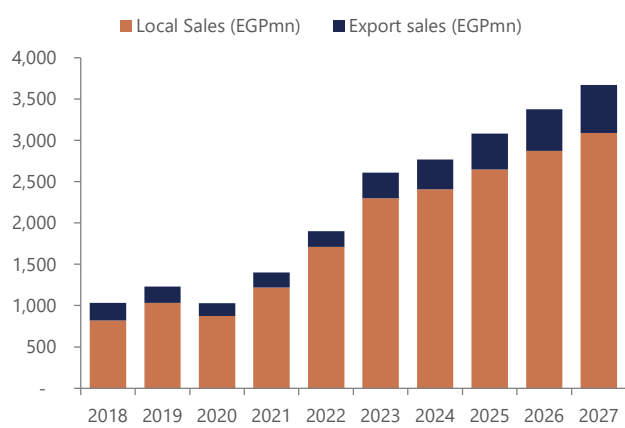
Production & Utilization rates



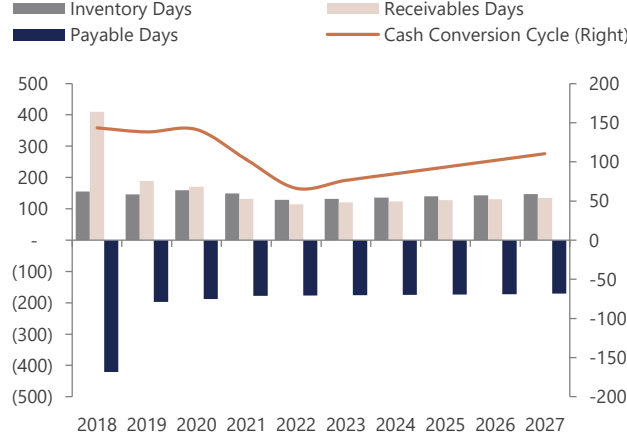
Total Revenues and GPM



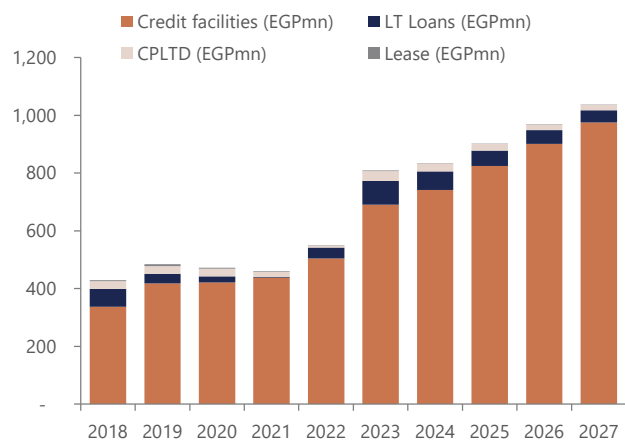
Revenue Breakdown



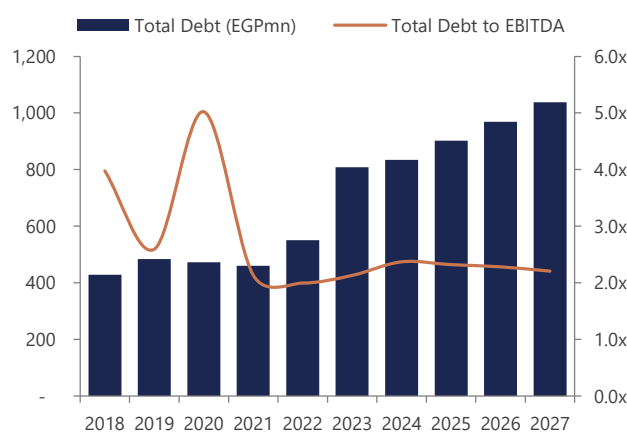
Cash Conversion Cycle



Debt Breakdown



Total Debt & Total Debt/EBITDA



Source: Company reports, Prime Research.

Prime Securities

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