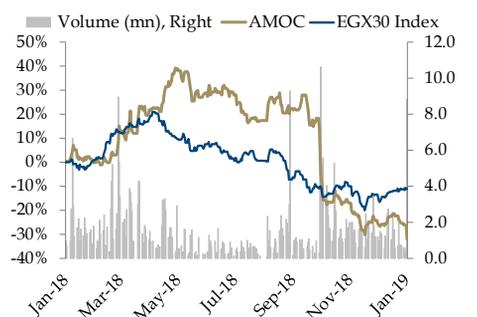


### Worst Quarter in a Decade with a Vague Outlook

#### Stock chart and data



Last Price (EGP)	5.68
52 Week Range (EGP)	5.52 - 12.75
6M-ADVT (EGPmn)	12.50
Market Cap (EGPmn)	7,336
No. of Shares O/S (mn) / Free float	1,291.5 / 19.0%
Last Price as of 23 January 2019	

#### Financial summary

EGPmn, except per-share	FY16/17a	FY17/18a
Revenue	9,590	14,033
EBITDA	1,147	1,915
Net Income	1,101	1,487
Revenue Growth (%)	119%	46%
EBITDA Growth (%)	123%	67%
Net Income Growth (%)	153%	35%
EBITDA Margin (%)	12.0%	13.6%
Net Margin (%)	11.5%	10.6%
Net Debt (Cash)	(1,957)	(1,054)
EPS (adjusted)	0.85	1.15
DPS (adjusted)	0.37	0.57
BVPS (adjusted)	3.51	2.83
PER (x)	8.1x	10.2x
PBV (x)	2.9x	4.1x
Dividend Yield (%)	8.2%	7.3%

Source: Company reports, Bloomberg.

#### Analyst

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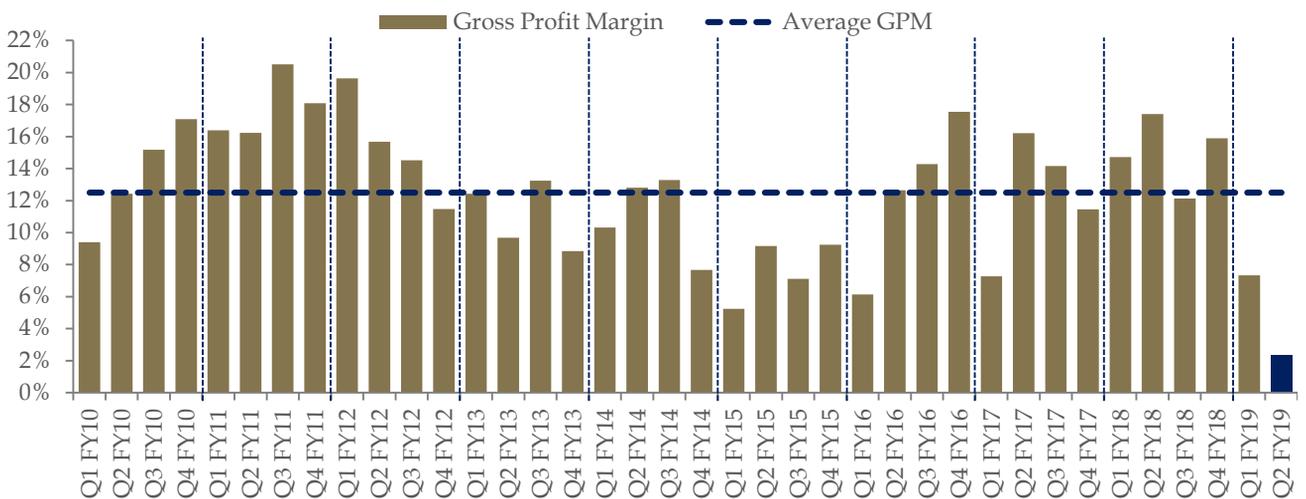
After delivering strong performance over the last couple of years, Alexandria Mineral Oils Co. (AMOC) produced weak figures in Q1 FY2018/19 followed by its worst-ever results in Q2 FY2018/19. The weak performance in Q1 was mainly attributed to lighter sales of gasoil, which was used in the blending process of fuel oil blend. This issue may have extended into Q2 (as we suspect), but it alone cannot justify the sharp drop on a quarterly basis. Management is yet to reveal more details. Until then, we place our rating under review, suspend our 12M PT, and remove AMOC off our SSE Model Portfolio.

- Unprecedented bad performance and poor disclosure by management:** AMOC posted disappointing preliminary results for Q2 FY2018/19 ended 31 December 2018, where earnings slid 93% y/y and 90% q/q to EGP25mn, far away from our estimates (SSEe) of EGP250mn (-90%). The drop is mainly attributed to a lower gross profit margin (GPM) and higher operational cost. GPM was cut by more than 1,600bps to 2.34% vs. 18.34% a year ago and lower than SSEe of 8.98% (-663bps). AMOC's results weakened despite a 35% increase in revenues to EGP3.68bn in Q2 FY2018/19 vs. EGP2.73bn a year ago. Top line growth could be attributed to higher selling prices and higher product yield due to better specifications. Management attributed the lower margins to a 30% increase in feedstock cost as opposed to a 20% higher blended selling price.
- What we think has happened:** We think management's comment is not clear enough and does not cover the real issue for this catastrophic performance. Until more details are revealed, we think AMOC experienced a strong decline in gasoil sales, something that pressures the blended selling price, as it is used in the blending process to improve the fuel oil blend specifications. Also, we think lubricant oil sales may have declined as a result of high competition and the entrance of Chinese suppliers. That said, our biggest concern is over certain changes in the supply contracts, which are annually renewed, between AMOC and the **Egyptian General Petroleum Corporation (EGPC)**. If unfavorable to AMOC, its profitability would be dented going forward.
- Rating and 12M PT suspended for lack of disclosure; changed to Not Rated and AMOC removed off our SSE Model Portfolio:** For the time being, we place our rating for AMOC under review until the full financials are released, where we also will update our model. We also remove AMOC off our SSE Model Portfolio until a clearer picture for the business in the short term is developed. However, we suspect that any management explanation or any positive messages will not be welcome by investors in the absence of confidence, especially that management did neither warn investors in advance about its problems in Q1 nor did it explain what happened in Q2. Therefore, we do not expect a strong recovery in the stock performance until we see a real change in Q3 results with implementation of the new strategy that management revealed before. We note that our previous rating and 12M PT were Overweight (now Not Rated) and EGP9.30/share (now N/A), respectively. We will update our rating and 12M PT after more details about AMOC's operating performance emerge.

**Results summary**

EGP mn	Q2		y/y	Q1		q/q	Q2	Variance	H1		y/y
	FY18/19	FY17/18		FY18/19	FY17/18				FY18/19	FY17/18	
<b>Revenues</b>	<b>3,678</b>	<b>2,726</b>	<b>35%</b>	<b>4,105</b>	<b>-10%</b>		<b>3,947</b>	<b>-7%</b>	<b>7,783</b>	<b>6,255</b>	<b>24%</b>
COGS	3,592	2,226	61%	3,801	-6%		3,592	0%	7,393	5,251	41%
<b>Gross Profit</b>	<b>86</b>	<b>500</b>	<b>-83%</b>	<b>304</b>	<b>-72%</b>		<b>354</b>	<b>-76%</b>	<b>390</b>	<b>1,004</b>	<b>-61%</b>
<b>Net profit</b>	<b>25</b>	<b>343</b>	<b>-93%</b>	<b>253</b>	<b>-90%</b>		<b>265</b>	<b>-90%</b>	<b>278</b>	<b>745</b>	<b>-63%</b>
Gross margin	2.34%	18.34%	-1,600 bps	7.41%	-507 bps		8.98%	-663 bps	5.02%	16.05%	-1,103 bps
Net margin	0.69%	12.58%	-1,189 bps	6.17%	-548 bps		6.70%	-601 bps	3.58%	11.92%	-834 bps

Source: Company reports, SHUAA Securities Egypt.

**Historical gross profit margins**


Source: Company reports.

## Disclosure Appendix

**METHODOLOGY:** When setting an investment and risk ratings, we utilize all publicly-available sources to build an understanding of the issuer's business model and hence its intrinsic value based on one or more valuation methods. To reach a valuation, we assess factors that we deem relevant, including—but not limited to—macro, sector, and company-specific aspects.

**INVESTMENT RATING:** Depending on each issuer's business model, we may use (1) an income approach, (2) a markets-based approach, (3) an asset-based approach, and/or (4) sum-of-the-parts approach. In certain cases where we do not have our own financial and valuation models, we may present the consensus rating/view. For all securities actively covered, we assign one of three investment ratings (Overweight, Neutral, or Underweight) depending on the security's expected total return (price + yield) over a 12-month investment horizon as compared to the security's Required Rate of Return (RRR) as calculated using the Capital Asset Pricing Model (CAPM) and adjusted for the Risk Rating we assign to the security. Please read below for more details about our Risk Rating. Our assigned fair values are subjective and are estimates of the analysts where the security(ies) covered will trade within the next 12 months. The assigned investment rating/fair value is only valid for a maximum of three months from the date it was set.

**RISK RATING:** Based on the overall risk profile of each issuer/security covered, we assign one of three risk ratings (High, Moderate, or Low). The risk rating is a function of a weighted assessment of the issuer's (1) sector, (2) corporate profile, and (3) security and related volatility. The assigned risk rating is only valid for a maximum of three months from the date it was set.

## Analyst Certification

I (we), **AbdelRahman Wahba**, Equity Analyst, employed with SHUAA Securities Egypt, and author(s) to this document, hereby certify that all the views expressed in this research report accurately reflect my (our) views about the subject issuer(s) or security(ies). I (we) also certify that no part of my (our) compensation was, is or will be directly or indirectly related to the specific recommendation(s) or view(s) expressed in this report. Also, I (we) certify that neither myself (ourselves) nor any of my (our) close relatives hold or trade into the subject securities.

## Head of Research Certification

I, **Amr Hussein Elalfy**, Head of Research of SHUAA Securities Egypt, confirm that I have vetted the information and all the views expressed by the Analyst in this document about the subject issuer(s) or security(ies). I also certify that the author of this document, has not received any compensation directly related to the contents of the document.

## Return / Risk Profile

	If Total Return is ...	Investment Rating		
		Overweight	Neutral	Underweight
Risk Rating	Low	Higher than RRR	Between RRR and 20% of RRR	Lower than 20% of RRR
	Moderate	Higher than RRR	Between RRR and 40% of RRR	Lower than 40% of RRR
	High	Higher than RRR	Between RRR and 60% of RRR	Lower than 60% of RRR
	Not Rated (NR)	We have decided not to publish a rating on the stock due to certain circumstances related to the company (i.e. special situations).		
	Not Covered (NC)	We do not currently cover this stock or we are restricted from coverage for regulatory reasons.		

## Investment Rating & Price Target History



### Rating history

From	To	Date	Analyst
NC	Overweight	28-Oct-18	AbdelRahman Wahba
Overweight	Not Rated	27-Jan-19	AbdelRahman Wahba

### 12-month price target history

From	To	Date	Analyst
None	9.30	28-Oct-18	AbdelRahman Wahba
9.30	None	27-Jan-19	AbdelRahman Wahba

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