

# Obour Land for Food Industries

Egypt  
Equities | Food & Beverage | Initiation of Coverage  
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## A Strong Brand Name Expands into New Products – Initiate with Buy/Low Risk

A Leading White Cheese Producer with 42% Market Share

Penetrating New Segments

Proceeding toward Backward Integration

Strong Management Performance

Low Financial & Operating Leverage Business Model

Initiate with Buy/Low Risk; 12M Price Target of EGP 11.65/share (ETR: +49%)

A Leading White Cheese Producer with 42% Market Share: Obour Land for Food Industries (OLFI.CA) has grown to become the leading white cheese brand in the local market commanding 42% market share in 2017 by value based on Nielsen Retail Audit. Obour Land boasts the largest market share by brand in Egypt in the Delta and Upper Egypt, Egypt's most populous regions.

**Penetrating New Segments:** The company has expanded its business segments to include the production of juice, milk (started in December 2017), processed cheese (started in March 2018) and mozzarella (expected during 2019).

**Proceeding toward Backward Integration:** Obour Land is in the process of establishing a dairy farm with 50 tons of raw milk per day with 2,500 heads of cattle which will compensate for the shortage and high costs of milk that represents a major feed component in the production cycle.

**Strong Management Performance :** Obour Land benefits from a strong, owner-led management team. The company's senior management team has over 190 years of combined experience in the sector. It is worth mentioning that OLFI purchased sufficient raw materials to secure its future needs before the floatation of the Egyptian Pound and during the foreign currency liquidity squeeze. Obour Land also elevated its selling prices even

before the floatation. The aforementioned actions proved the insight of the management and its expertise in the local market. The management decided to diversify its business lines as it sees the cheese market is close to saturation. Also, it is seeking the vertical integration through establishing its dairy farm in a step to secure its need from the raw milk and minimize its exposure to raw milk supply interruption and any price fluctuations risk in the future.

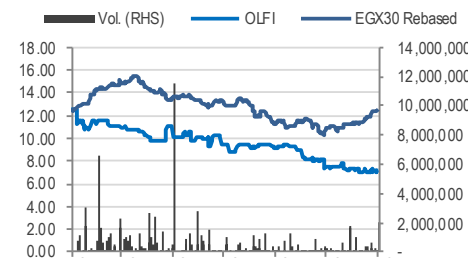
**Low Financial & Operating Leverage Business Model:** Obour Land has a low debt exposure comparing to its peers. The company mainly relies on equity and Tetra Pak (its main machinery supplier) for new investments. It is important to note that the company has recently borrowed a EUR 7mn from EBRD for its dairy farm investments. The fixed costs represent low costs of the total firm's costs.

**Initiate coverage with a Buy/Low Risk:** to value OLFI, we built a DCF valuation model and discounted FCFF at a WACC of 18%, resulting in a 12M price target of EGP 11.65/share (+49%). Thus, we initiate coverage on OLFI with a Buy/Low Risk rating.

Buy  
Low Risk

12M Price Target: EGP 11.65  
Expected Total Return: +49%

### OLFI (EGP) vs. EGX30 Rebased



Source: Bloomberg

### Stock Details

|                  |          |
|------------------|----------|
| Last price (EGP) | 7.81     |
| 52-W High (EGP)  | 12.75    |
| 52-W Low (EGP)   | 6.71     |
| 6M -ADVT (EGPmn) | 1.78     |
| % Chg: MoM       | 6.99     |
| % Chg: YoY       | -37.52   |
| % Chg: YTD       | 1.17     |
| Mubasher Ticker  | OLFI.EGX |
| Bloomberg Ticker | OLFI.EQ  |

### Capital Details

|                    |         |
|--------------------|---------|
| No. of Shares (mn) | 400.0   |
| Mkt Cap (EGPmn)    | 3,124.0 |
| Mkt. Cap (USDmn)   | 177.4   |
| Free Float (%)     | 53.05%  |

| EGP mn                    | 2015A | 2016A | 2017A | 2018E | 2019F | 2020F |
|---------------------------|-------|-------|-------|-------|-------|-------|
| Revenues                  | 1,170 | 1,450 | 2,066 | 2,404 | 2,856 | 3,297 |
| Gross Profit              | 185   | 363   | 486   | 495   | 603   | 737   |
| EBITDA                    | 133   | 234   | 344   | 334   | 411   | 516   |
| Net Income                | 92    | 162   | 243   | 224   | 281   | 360   |
| Revenue Growth (%)        |       | 24%   | 42%   | 16%   | 19%   | 15%   |
| Gross Profit Growth (%)   |       | 96%   | 34%   | 2%    | 22%   | 22%   |
| EBITDA Growth (%)         |       | 75%   | 47%   | (3%)  | 23%   | 25%   |
| Net Income Growth (%)     |       | 76%   | 50%   | (8%)  | 26%   | 28%   |
| GPM                       | 16%   | 25%   | 24%   | 21%   | 21%   | 22%   |
| EBITDA Margin             | 11%   | 16%   | 17%   | 14%   | 14%   | 16%   |
| Net profit Margin         | 8%    | 11%   | 12%   | 9%    | 10%   | 11%   |
| EPS (EGP)                 |       | 0.81  | 1.22  | 0.56  | 0.70  | 0.90  |
| BVPS (EGP)                |       | 1.90  | 2.67  | 1.67  | 2.15  | 2.70  |
| DPS (EGP)                 |       | -     | 0.5   | 0.2   | 0.4   | 0.4   |
| P/E (x)                   |       | 9.6x  | 6.4x  | 14.0x | 11.1x | 8.7x  |
| P/BV (x)                  |       | 4.1x  | 2.9x  | 4.7x  | 3.6x  | 2.9x  |
| Dividend Yield            |       | -     | 2.9%  | 2.8%  | 4.5%  | 5.8%  |
| Net Debt (Cash)-to-Equity |       | 0.5x  | 0.2x  | 0.0x  | -0.1x | -0.2x |
| Net Debt (Cash)-to-EBITDA |       | 0.9x  | 0.3x  | 0.1x  | -0.2x | -0.5x |

Price as of February 12th 2019 at EGP 7.81/share  
Source: MubasherTrade Research estimates

## Corporate Profile

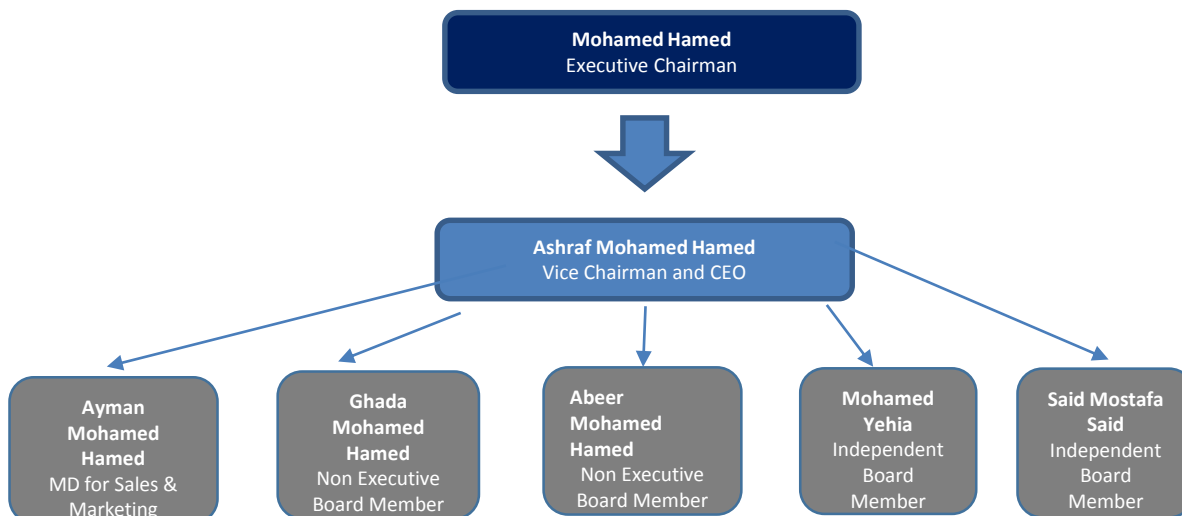
**Obour Land For Food Industries (OLFI.CA)** is a joint stock company established in 1997 by Eng. Mohamed Hamed and Mr. Ashraf Mohamed. The company's commercial operations commenced in 1999 with one production line with the capacity to produce 400kg of loose white cheese in plastic tubs, with 4 plastic tub stock keeping units (SKUs). The company's rapid growth began in 2007 when it entered into a strategic agreement with Tetra Pak and introduced its carton pack cheese products. The company initially offered carton pack cheese in 250gm and 500gm sizes and in 2011, it introduced the 125gm size carton pack. Obour Land introduced 80gm and 1kg carton pack sizes in 2015 and 2017 respectively. OLFI started penetrating the milk and juice markets in late 2017 and started the commercial production of processed cheese in March 2018. Thus, Obour Land has 3 main lines of business (cheese, juice & milk) and a product range of 80 SKUs. The company has 21 production lines including 15 production lines for cheese (194.1k tons per annum), 3 production lines for juice (99mn liters per annum) "interchangeable between juice and milk", one production line for milk (27mn liters per annum) and another one for processed cheese (3.6k tpa) and the last production line for Mozzarella (3.6k tpa) which is expected to commence production during the current year. Obour Land has a market share of 42% in 2017 in terms of value according to Nielsen Retail Audit. Adding the production of raw milk to its operations comes as a vertical integration step to compensate the shortage and high costs of local raw milk to precede its peer company. The company was listed in the Egyptian Stock Exchange (EGX) in 2016. The company has achieved consistently sales growth since its inception in 1999. In particular, from 2007 since its strategic agreement with Tetra Pak, the company recorded a high growth rate of sales with the latest 4-year CAGR of 40.6% from 2013 to 2017.

### Relationship with Tetra Pak:

Tetra Pak is the company's primary supplier of packaging and equipment for its carton pack cheese products. Since the introduction of the company's carton pack cheese products in 2007, the company has repeatedly added and integrated new Tetra Pak lines to its product offering. In 2016, Tetra Pak awarded OLFI with a certificate naming it the fastest growing customer in Egypt from 2010 – 2015. OLFI enjoys special technical and financial benefits from Tetra Pak, including preferential pricing and credit terms on packaging material supplies, including volume discounts. The company also receives annual marketing support from Tetra Pak based on a percentage of the company's marketing budget.

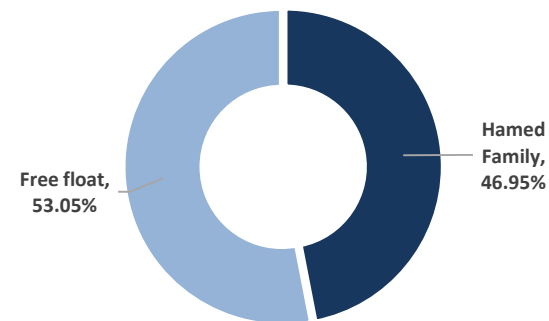


Board of Directors Structure



Source: Obour Land

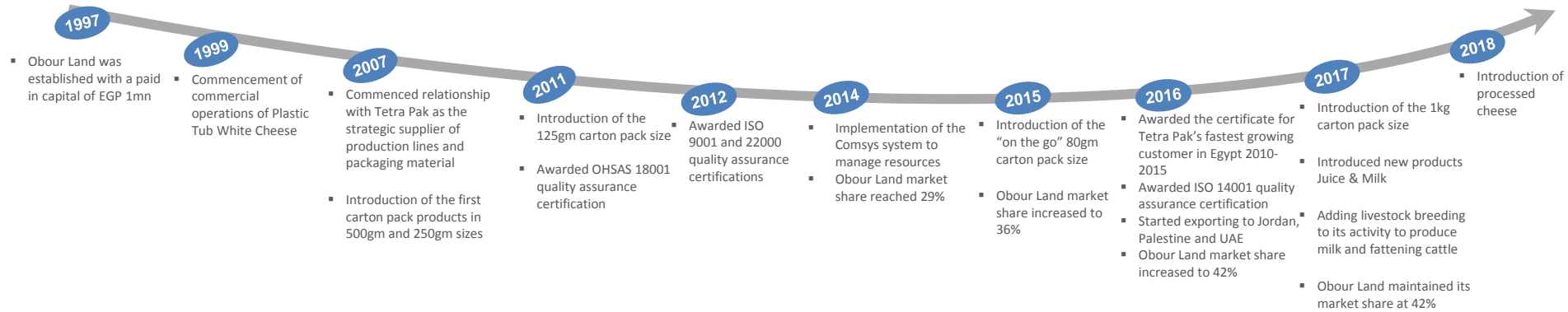
Shareholder Structure



Source: Obour Land

## Corporate Profile (Cont. 'd)

### Milestones



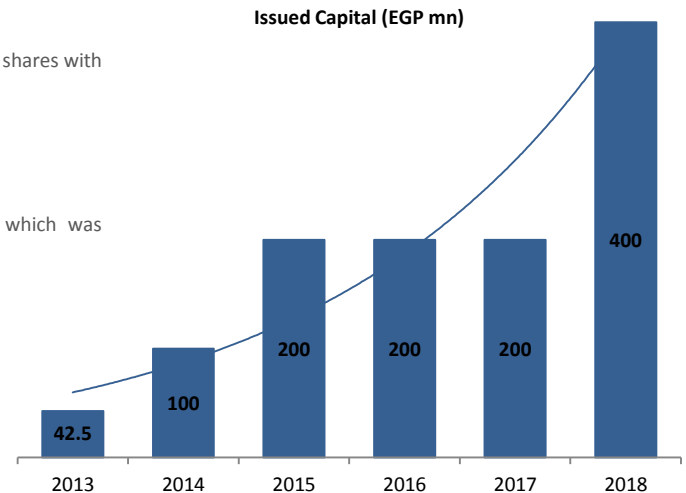
Source: Obour land

### Capital

Obour Land has an authorized capital of EGP 1bn and an issued & paid in capital of EGP 400mn distributed over 400mn shares with a par value of EGP 1/share.

### Subsidiaries

Obour Land has a 98% owned subsidiary named Obour Farm Agricultural and Livestock Investment Company which was established in December 2017 for adding livestock breeding to produce milk and fattening cattle.



Source: Obour Land

## Industry Overview

**Food** is the most basic need for survival, rendering the food and beverages industry a necessity and thus defensive by nature. Egypt has the largest and most growing population in the MENA region with more than 98mn people and an annual population growth rate of 2.2%. Egypt is among the world's heaviest spending populations on food in terms of percentage of income.

Demand for food products is high and expected to rise in the coming years. The economic policy reforms of late 2016 are having a positive impact on macroeconomic stability; however, at the micro-level consumers are struggling with increases in the cost of living and high inflation rates. The Egyptian F&B industry is highly resilient with the changing lifestyle trends and consumer preferences driving increased consumption of packaged on-the-go food products.

### Dairy Market

#### Cheese Segment

Cheese segment is a traditional and highly consumed staple food product in Egypt, widely purchased by customers across the socioeconomic spectrum. The cheese industry is the largest component of the large and rapidly growing Egyptian dairy market, constituting over 50% of the total dairy market.

Cheese is an important part of the modern Egyptian diet and is regularly offered and consumed at all meals and throughout the day. The Egyptian cheese market consists of two major product categories: unprocessed cheese and processed cheese.

#### Unprocessed Cheese

Unprocessed cheese (also known as natural cheese) is the dominant type of cheese in the Egyptian market and appeals to a broad spectrum of consumers due to its affordability and the variety of flavors. It is a multipurpose product as it can be used as a hunger filler, a snack, an appetizer or a meal. Unprocessed cheese can be further subcategorized into: *unprocessed hard cheese* and *unprocessed soft cheese*.

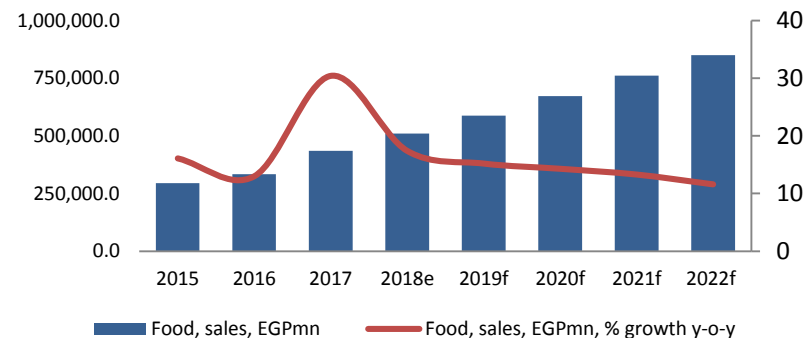
#### Unprocessed Hard Cheese

Unprocessed hard cheese is the largest segment in the Egyptian cheese market. This type of cheese has a distinctive smell and different degrees of saltiness depending on its age. Unprocessed hard cheese includes unbranded roumy cheese (the most common type of Egyptian hard cheese) which is manufactured locally and constitutes approximately 80% of the Egyptian hard cheese market with the remainder consisting of more expensive imported hard cheese brands that are typically outside the price range of mass market customers.

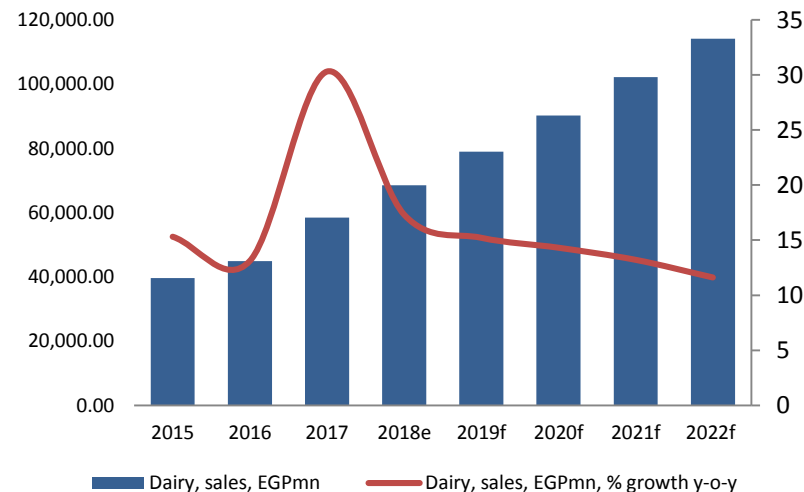
#### Unprocessed Soft Cheese

Unprocessed soft cheese is packaged in both traditional plastic packaging such as plastic tubs as well as in carton packs. Plastic pack cheese is typically sold fresh and thus needs special handling and storage requirements including refrigeration and hence used in homes or restaurants with sufficient refrigeration capacity. By contrast, carton pack cheese has a relatively longer shelf life and does not require refrigeration and thus can be easily carried and consumed anywhere at any time which makes it in line with the changing lifestyles. It remains the fastest growing subcategory in the Egyptian cheese market.

Food Sales (EGYPT 2015-2022)



Dairy Sales (EGYPT 2015-2022)



Source: Fitch Solutions

## Industry Overview (Cont.'d)

### Processed Cheese

Processed cheese is a more expensive niche product as it is targeting consumers with westernized eating habits and is characterized as being less fatty and less salty than unprocessed cheese. This type of cheese contains more artificial ingredients, with 51% natural cheese, emulsified and held together with preservatives, and the addition of artificial ingredients and salt. It includes spreadable cheese and mozzarella and comes in a variety of packages, including triangles, jars, slices, squares, spread and usually requires chilled storage. Unlike most cheese markets around the world that are dominated by processed products, the Egyptian cheese market is primarily dominated by unprocessed cheese as it is perceived by consumers as a more natural and healthier cheese and immersed in local traditional meals.

### Milk Segment

Billions of people around the world consume milk and dairy products every day. Not only are milk and dairy products a vital source of nutrition for them. Milk is very rich in nutrients and provides an ideal growth environment for many microorganisms. Milk can supply components that are particularly important for supporting child growth, including: protein, minerals and lactose.

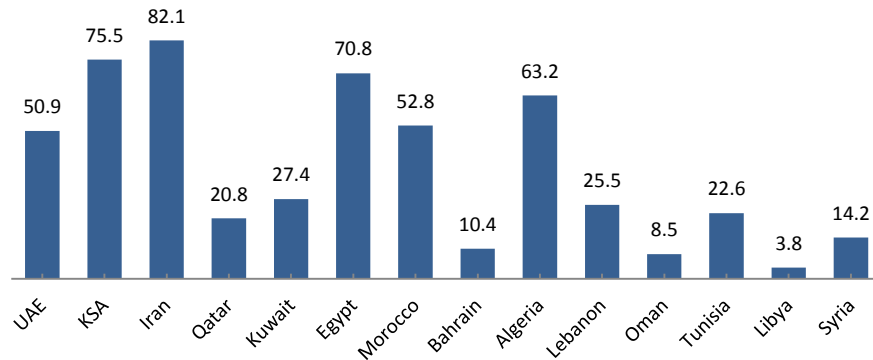
World milk output in 2018 is estimated by the Food and Agriculture Organization (FAO) to reach 827mn tons, up 2% from 2017, driven by output increases in all major regions, with the largest gains in Asia, Europe, North America and South America, and recoveries in Africa, Oceania and Central America.

The milk market in Egypt is relatively differentiated and fragmented, and include many local players. It has grown considerably in the past years. The Egyptian milk market is characterized by the non packaged unprocessed milk produced by small scale farmer. There is lack of veterinary care to the herd. The raw milk in different regions in Egypt is still transported via milk peddler. Small-scale farmers continue to dominate the Egyptian milk market of non-packaged and unprocessed milk. Milk market is characterized by low capita consumption, consumers have been gradually shifting away from loose milk to packaged milk. Egypt's annual consumption per capita recorded 23kg compared to 100kg for global peers and 180kg for USA.

Juhayna is the leader at the milk segment with a market share of 65% and 58% for plain and flavored milk markets respectively in 2017.

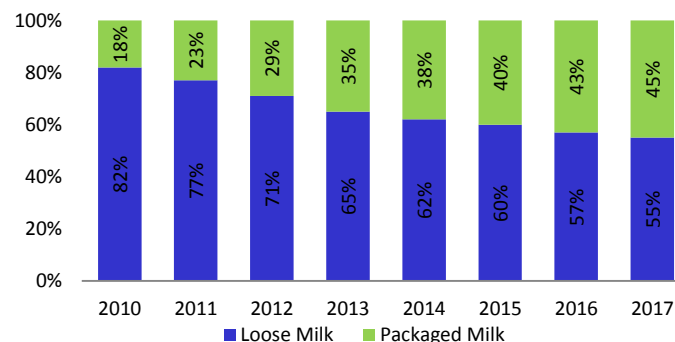
Strong consumption growth is expected across several markets in the Middle East and Asia, including Saudi Arabia, **Egypt**, Iran and Indonesia, with the per capita consumption of dairy products in developing countries growing between 0.8% and 1.7% p.a., the lowest growth being for cheese and the highest for fresh dairy products.

Total F&B Expenditure by Country in MENA Region (in USD bn)



Source: Fitch Solutions

Egyptian Milk Consumption by Category



Source: Tetra Pak

## Industry Overview (Cont.'d)

### Juice Market

Juice is a differentiated product, in which taste and quality are key drivers of consumption and customer loyalty. The juice market in Egypt is highly fragmented and competitive and has over 300 players, with low barriers to entry. The Egyptian juice market can be categorized into three categories according to the fruit concentration level:

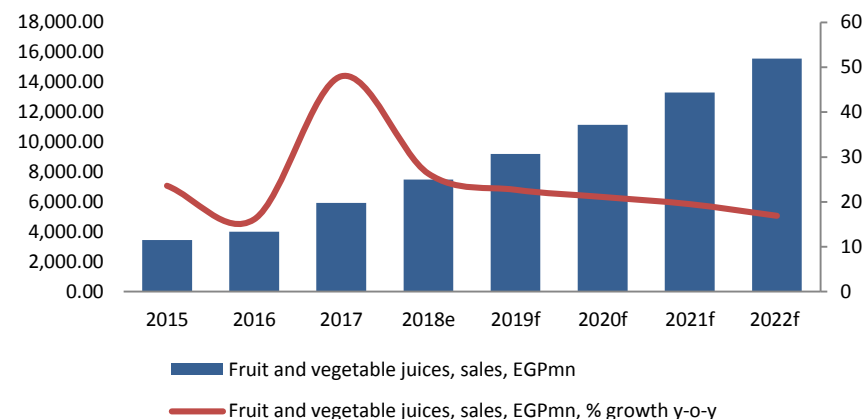
- **100% juice:** This product contains 100% fruit content and is a niche product that focuses on quality and taste and is targeted at higher income consumers.
- **Nectar juice:** Nectar products contain at least 25% fruit content and represent the most popular juice product in the Egyptian market as a cheaper alternative to pure juice.
- **Juice drink:** Drink products contain at least 10% but less than 25% fruit content and target lower income consumers that are seeking flavor rather than the level of fruit content.

There is high growth potential in the Egyptian juice market due to several factors including:

- **Favorable demographics:** due to the large and young population with people under the age of 25 (who are the main consumers of juice) representing 50% of the population.
- **Increased health awareness:** driving a shift from carbonated soft drinks (CSD) towards juice as a healthier option.
- **Innovative product offerings:** the introduction of new flavors and sizes as well as several innovative products such as juice with fruit particles.

Juhayna is also the market leader at the juice segment with a 22% market share of the total juice market in 2017.

Fruit & Vegetable Juices Sales (EGYPT 2015-2022)



Source: Fitch Solutions

### Characteristics of F&B Industry:

**Cost structure:** Low operating leverage

**Maturity Stage:** Mature

**Cyclicality:** Non cyclical

**Dependence:** SMP, Milk Concentrate, Butter, Raw Milk

**Substitutes:** Cheese as a protein has other substitutes but it is considered the cheapest source of protein. Milk has dried milk as a substitute and juice has carbonated beverages as substitute

**Regulations:** Export subsidies & price labeling decree issued by the Minister of Supply in late of 2017  
**Collaborative programs aimed at converting consumers from loose to packaged food products** provide high growth opportunities for dairy companies

**Egyptians are among the highest spenders on food in the world in terms of percentage of income**, which guarantees heavy demand on food and beverages

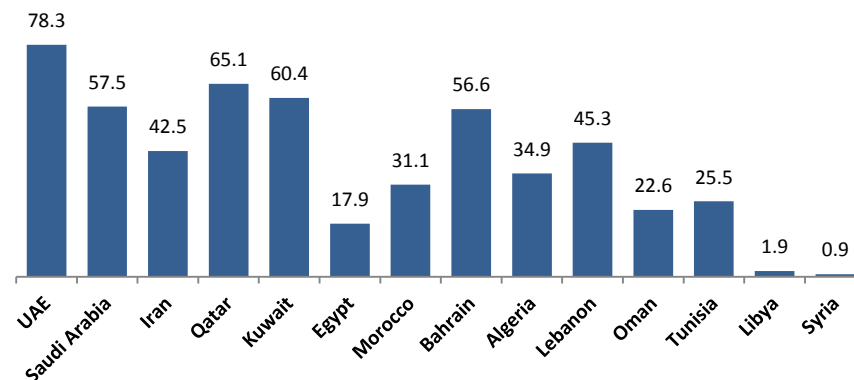
**Changing lifestyle trends and consumer preferences** are driving increased consumption of packaged on-the-go food products

Egypt is a participant in **several trade agreements** including COMESA and ACM, which supports export activities.

The floatation of the Egyptian Pound increased the price competitiveness of locally manufactured products abroad, which will help Obour Land increase exporting activities and penetrate new markets particularly in the juice market

**Fierce competition** between the market players, in addition to low barriers to entry may lead to price wars, lower margins and loss of market share

F&B Spending Per Capita by Country in MENA Region ( in USD)



Source: Fitch Solutions

## Industry Overview (Cont. 'd)

### Raw Materials

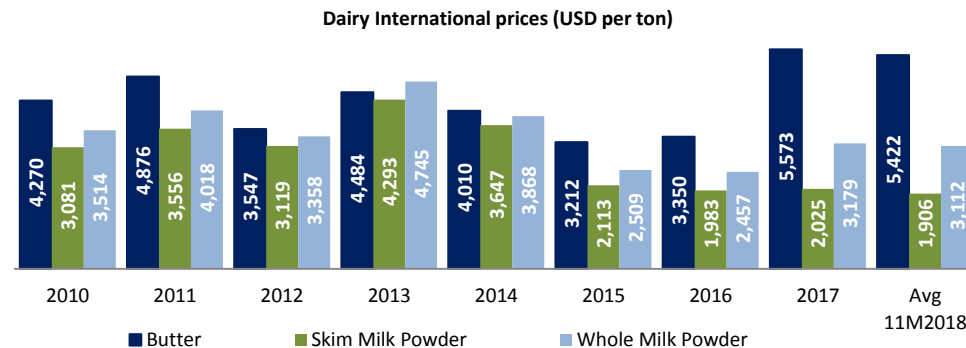
Skimmed Milk Powder (SMP), Milk Protein Concentrate & Butter are the major raw materials that represent the significant portion of the company's costs.

The global SMP prices in 2018 were relatively stable with an average level of USD 1,906 which hovered below the other dairy products (butter at USD 5,422 and WMP at USD 3,112). The current price weakness is seen as a result of excessive global supplies, including stocks available in the EU, India and the United States. Much of global trade in SMP in 2018 has been fuelled by higher imports by Mexico, Algeria and the Philippines. High demand for SMP imports partly reflects the growing use of SMP by the food processing industry, including re-constituted milk products and dry mixes. Meanwhile, current low international prices appear to have induced some countries to purchase more SMP.

Much of the expansion in global trade in SMP is anticipated to be fuelled by higher imports to Mexico, Algeria, Yemen and Viet Nam, while they may fall in the Russian Federation, China, Indonesia and Nigeria.

**World SMP Trade** is estimated to expand for a second consecutive year and reach 2.5mn tons in 2018, an increase of 6% from 2017. Ample production and high stocks are assisting the United States to lift its exports (+17.2%), but partially restrained by strong dollar and ongoing trade disputes. Mexico's unusual expansion of exports (+294.8%) is a result of a one-off export consignment to Venezuela. Competitive prices and strong demand, in particular from Algeria and **Egypt**, among others, are lifting EU's exports by 2%. In Canada, implementation of the new ingredient class-7 as part of the National Ingredient Strategy and improvements to new processing capacities continue to boost SMP exports by an estimated 3.2%, but only a fraction of the 204% growth registered last year.

**World Butter Trade** is forecasted to recover partially in 2018, rising to 910k tons, up 6.3% from 2017, but still below the volume of 963k tons traded in 2016. Despite high butter prices, processors seem reluctant to step up output, limiting themselves to produce enough to fulfil long-term obligations. This is a result of the low relative profitability of butter when considered together with SMP which is fetching low prices. Recently, however, markets have switched focus on SMP manufacturing. This has contributed to a 16.2% increase in SMP prices since the beginning of 2018 (USD 1,740/ton in Jan. up to USD 1,960/ton in Nov. 2018). Accordingly, the price strength of SMP is anticipated to nudge butter production to some higher level. However, this might not immediately result in larger butter export availabilities, as domestic consumer demand remains strong in the main producing regions, especially Europe and North America. Demand for butter in importing countries is also growing, especially in China. In **Egypt** and Saudi Arabia, butter import demand is rising due to a gap between domestic demand and production. In the Russian Federation, increased production and stocks are behind an expected sharp contraction in imports.



| SMP Exports (000 tons) |              |              |            |
|------------------------|--------------|--------------|------------|
|                        | 2017         | 2018e        | Change (%) |
| <b>World</b>           | <b>2,386</b> | <b>2,529</b> | <b>6.0</b> |
| EU 28                  | 779          | 794          | 2.0        |
| United States          | 608          | 713          | 17.2       |
| New Zealand            | 403          | 391          | (3.0)      |
| Australia              | 158          | 152          | (3.3)      |
| Mexico                 | 29           | 114          | 294.8      |

| SMP Imports (000 tons) |              |              |            |
|------------------------|--------------|--------------|------------|
|                        | 2017         | 2018e        | Change (%) |
| <b>World</b>           | <b>2,341</b> | <b>2,481</b> | <b>6.0</b> |
| Mexico                 | 331          | 384          | 16.0       |
| China                  | 278          | 249          | (10.6)     |
| Algeria                | 161          | 179          | 11.2       |
| Philippines            | 140          | 142          | 1.6        |
| Indonesia              | 147          | 140          | (4.9)      |
| Malaysia               | 120          | 117          | (2.9)      |

| Butter Exports (000 tons) |            |            |            |
|---------------------------|------------|------------|------------|
|                           | 2017       | 2018e      | Change (%) |
| <b>World</b>              | <b>856</b> | <b>910</b> | <b>6.3</b> |
| New Zealand               | 436        | 477        | 9.3        |
| EU 28                     | 172        | 163        | (5.0)      |
| Belarus                   | 79         | 80         | 0.6        |
| USA                       | 34         | 51         | 48.0       |
| Ukraine                   | 30         | 37         | 21.5       |

| Butter imports (000 tons) |            |            |            |
|---------------------------|------------|------------|------------|
|                           | 2017       | 2018e      | Change (%) |
| <b>World</b>              | <b>834</b> | <b>886</b> | <b>6.3</b> |
| China                     | 126        | 155        | 23.0       |
| Russia                    | 94         | 73         | (21.9)     |
| Saudi Arabia              | 48         | 53         | 11.4       |
| United States             | 44         | 52         | 17.3       |
| Iran                      | 36         | 39         | 7.0        |
| Australia                 | 34         | 37         | 9.2        |

Source: FAO

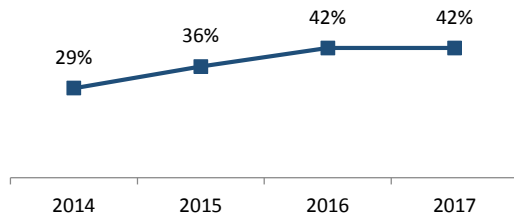
## Business Model

Obour Land is a leading manufacturer specialized in the production, processing and packaging of white cheese. OLFi diversified its investments and entered the processed cheese, mozzarella, milk and juice markets. Obour Land also make a strategic move for a backward integration through adding dairy farming activity to its operations that will compensate the shortage and high costs of milk that represents a major feed component in the production.

### White Cheese

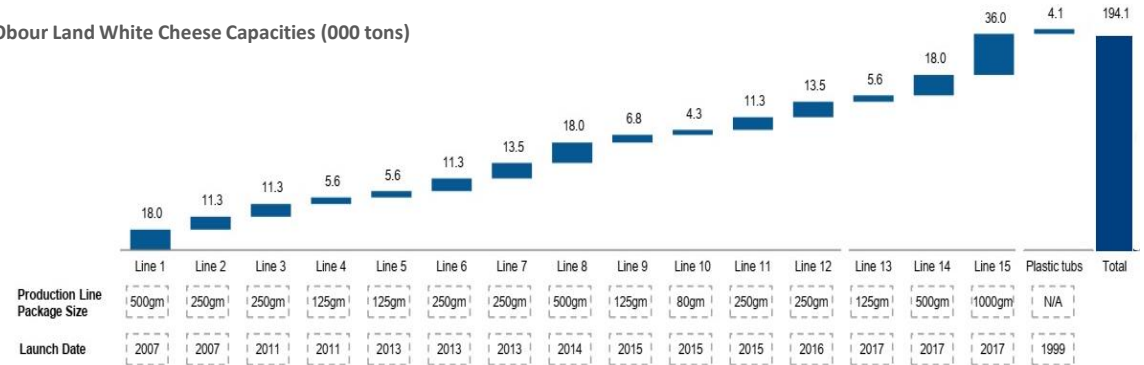
Cheese is the main product of Obour Land. It gained its brand name through the production of white cheese. The production of white cheese has passed through different stages including the production of plastic tubs in 1999 and the introduction of carton pack since 2007 after its partnership agreement with Tetra Pak. The company has a diversified product portfolio including different sizes and flavors to meet customers' taste. Obour Land also produced small sizes of cheese "on-the-go" with the increasing in number of working women, spending longer time outdoors and changing lifestyle trends and consumer preferences which drives increasing consumption of packaged on-the-go food products. The company's market share increased from 29% in 2014 to 42% in 2017.

Obour Land Market Share (%)



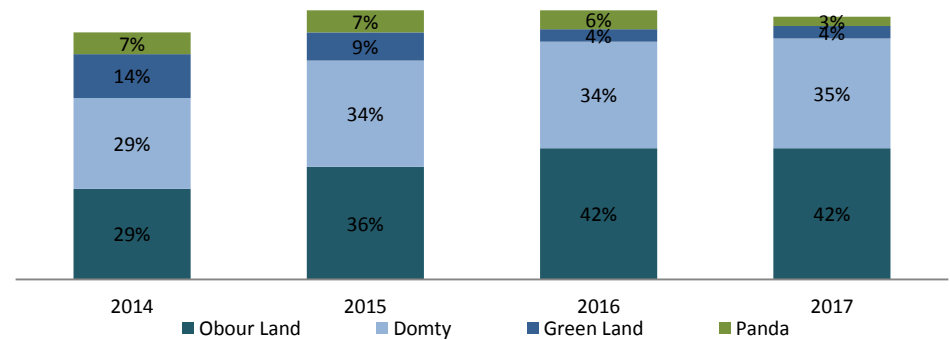
Source: Obour Land

Obour Land White Cheese Capacities (000 tons)



Source: Obour Land

Carton Pack Value Market Share by Brand (%)



Source: Nielsen Retail Audit

## Business Model (Cont. 'd)

### Sales

The carton pack sales represent the major portion of the company's sales which increased from 93% that recorded EGP 863mn in 2014 to 96% that reached EGP 2bn in 2017 (3-year CAGR of 32%) compared to sales of plastic tub that declined from 7% that recorded EGP 70mn in 2014 to 4% that reached EGP 75mn in 2017 (3-year CAGR of 2%). The total sales increased by a 3-year CAGR of 30% that recorded EGP 2.1bn in 2017 up from EGP 932mn in 2014. The 250gm carton pack sales recorded EGP 1.1bn representing the major portion of the carton pack sales in 2017 with a contribution of 56% from 52% in 2014.

### Volumes

The volume of the carton pack increased by a 3-year CAGR of 15% that recorded 94.2k tons in 2017 up from 62.2k tons in 2014, while the volume of plastic tub declined by a CAGR of 6% that recorded 3k tons in 2017 down from 3.6k tons in 2014. The contribution of the volume of the carton pack to the total volume slightly increased from 95% in 2014 to 97% in 2017 while the volume of the plastic tub inched down from 5% in 2014 to 3% in 2017. **Seasonality:** OLF has a seasonality in its sales as the consumption on the white cheese hits its peak during the summer, the academic year and the holy month of Ramadan.

### Average Prices

The average prices of the carton pack increased by a 3-year CAGR of 12% that recorded EGP 21.2k/ton in 2017 up from EGP 13.9k/ton in 2014, while the average prices of plastic tub increased by a CAGR of 5% that recorded EGP 24.5k/ton in 2017 from EGP 19.4k/ton in 2014.

### Sales Breakdown by Channel:

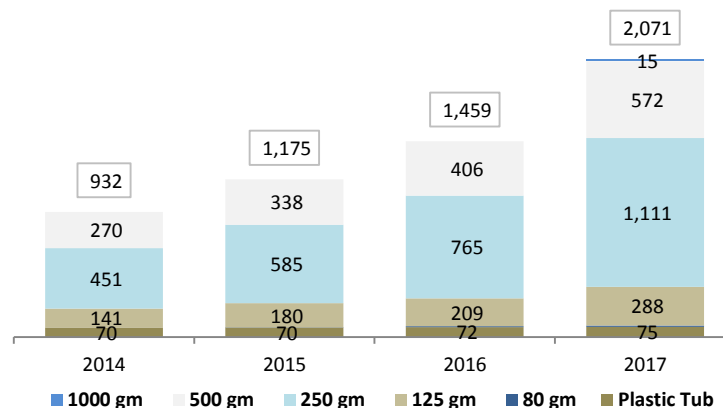
OLFI has an extensive sales and distribution network in Egypt, which as of June 2018 records 387 vehicles surged from 191 vehicles in 2014. The company sells to wholesalers, directly to retail shops and other business customers and to key accounts. The majority of the company's sales are direct sales to wholesalers, which account for the largest percentage of the market. The management controls the pricing of its products by controlling quantities supplied through sales representatives, minimizing sales to key accounts which typically command high discounts and lengthy credit terms.

### Export Sales

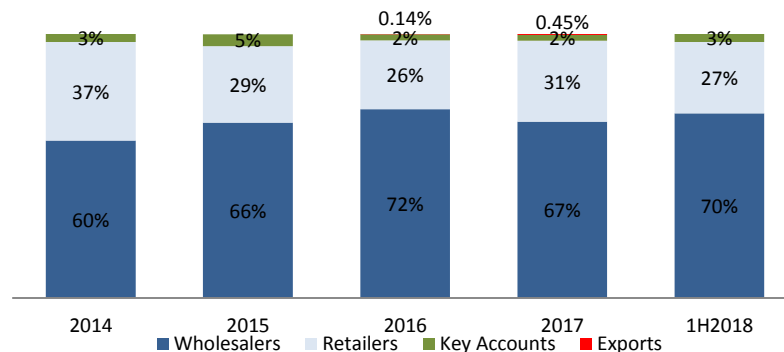
OLFI has minimal export rates in different markets including Kuwait, Qatar, Saudi Arabia, Jordan, Palestine, UAE and the USA. The export sales recorded EGP 2mn and EGP 10.8mn representing 0.14% and 0.52% of total sales in 2016 and 2017 respectively.

The company is planning during the coming period to increase its existence abroad particularly in the African markets with its new launched juice products and to penetrate Libyan market with the packaged milk products.

Sales Breakdown by Product (in EGP mn)

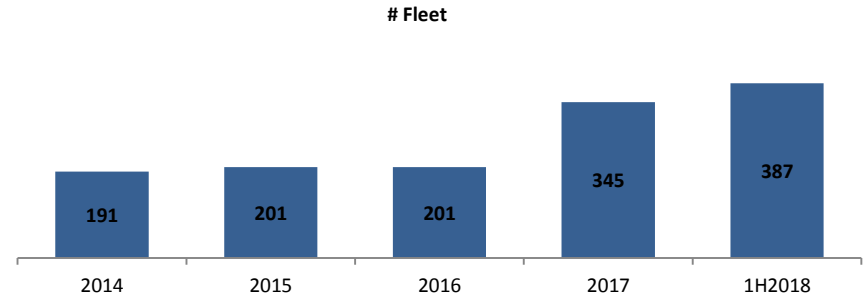
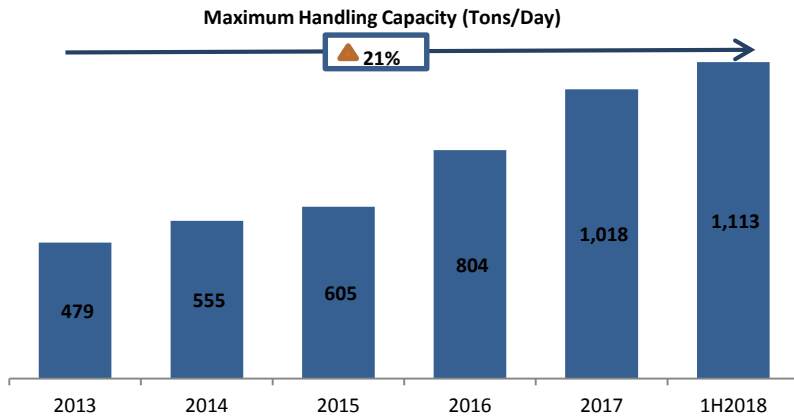


Sales Breakdown by Channel



Source: Obour Land

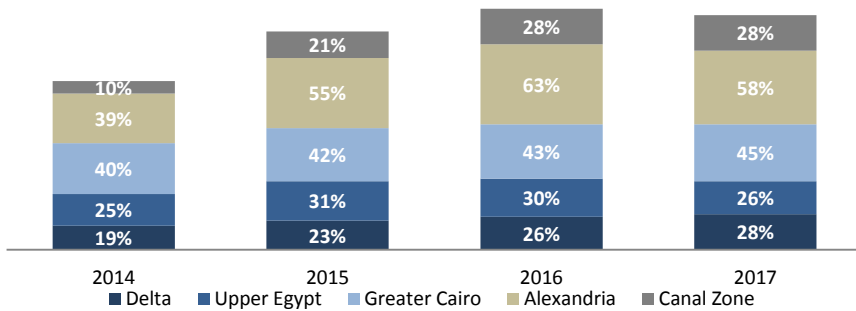
## Business Model (Cont. 'd)



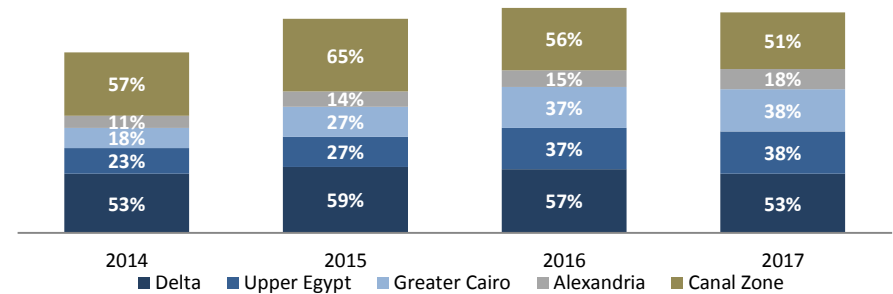
### Sales Breakdown by Region:

Obour Land has the largest market share in the most populous regions (Delta, Upper Egypt) and despite being the second largest brand in Greater Cairo, it achieved growth in market share in that region throughout the years.

### Domty Carton Pack Value Market Share By Region, %



### Obour Land Carton Pack Value Market Share By Region, %



Source: Obour Land

Source: Obour Land

## Business Model (Cont. 'd)

### New Products

#### Processed & Mozzarella Cheese

OLFI decided to diversify its cheese product offering through the production of the processed cheese in March 2018 and it also has a plan to introduce mozzarella cheese in 2019. The production line for processed cheese was provided by Trepko A/S and Karl Schnell GmbH & Co. at a cost of approximately EUR 1mn and it also has the capability of packaging spreadable cheese in glass containers. While the production line for mozzarella was supplied by the Italian company Unimac-Gherri SRL at a cost of approximately EUR 0.3mn. The new production lines are fully paid.

The two new cheese products are high end products with a premium price level, but the company decided to enter these markets to meet its brand loyal clients and to earn a market share in addition to competing with its peers through the introduction of its high quality products. Management expects that this will expose the company and its products to a new and larger audience, including customers who previously may not have regularly purchased Obour Land brand cheese. It is planning to achieve an expansion of its customer base, a strengthening of its customer loyalty and an increase in its overall brand awareness, not only for the new mozzarella and spreadable cheese products but also for its existing product offering.

#### Juice & Milk

Obour Land started penetrating the juice and milk markets in December 2017. The production lines for milk and juice were provided by Tetra Pak and these products are expected to include a variety of fruit juices and a variety of milk that can be packaged via Tetra Pak machinery & materials and distributed via the company's existing distribution platform.

Three of the new production lines may be interchanged between carton pack juice and milk in 200ml, 250ml and 1 litre sizes with a combined capacity of 99 million litres. The distribution of the new products is facilitated through the existing distribution platform (including warehouse, distribution network and fleet) to store, transport and handle the new products with minimal adaptation.

### Dairy Farming

In mid 2017, Obour Land has decided to venture into dairy farming on the back of the multiple synergies to be gained from vertical integration that will compensate for the shortage and high costs of milk that represents a major feed component in the production. The company will also sell the surplus of the production in the local market. The project's investment cost recorded EGP 240-250mn.

In September 2017, the company has acquired a land plot that extends over 34 feddans that is planned to inhabit 2,500 head of cattle of Holstein breed that will be imported from Germany and expected to produce 50 tons/day of milk. The project is expected to be operational within 3 years with annual production of milk to reach 18,250 tpa.

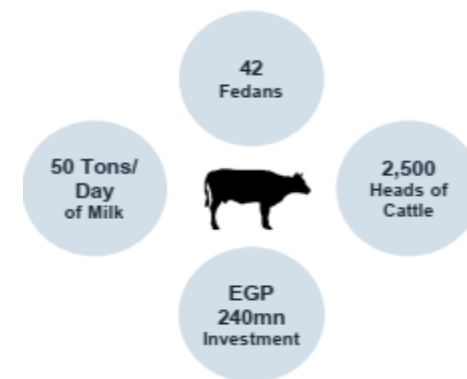
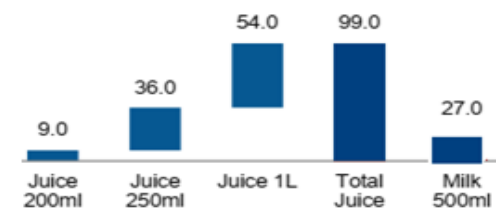
In November 2018, the company announced signing a loan agreement with the European Bank for Reconstruction and Development (EBRD) worth USD 7mn (representing 50% of the project's investment cost) to finance its expansion, including the establishment of a dairy farm and the funds will also be used to train staff to use the latest dairy-milking operational technologies and processes. The remaining investment cost of the project will be financed through internal sources.

After implementing the company's exiting plans, OLFI will still have an additional land bank of 14,172 sqm in Obour City for its future expansionary plans. We expect the new dairy farm to enhance the company's profitability during the coming period **but since the dairy farm is still under construction, it has not been considered in our valuation.**

Processed & Mozzarella Cheese Capacities "in ktpa"



Juice & Milk Capacities "in ktpa"



Source: Obour Land

## Future Outlook & Historical Financial Analysis

### Future Outlook

The F&B industry in Egypt is expected to witness a recovery over the coming period, as inflation subsides and consumer purchasing power rises on the back of rebounding economic growth. The worst is now over and the effects of the floatation of the Egyptian Pound have largely passed through. The consumer spending will be the primary growth driver, with lower inflation set to boost purchasing power. Surging prices hurt the F&B sector during the past period as consumers choose to downgrade to cheaper alternatives or go without discretionary products. The majority of consumers will remain price-conscious, with affordable, locally produced goods expected to continue to outperform premium, imported brands. The F&B spending will still take time to return to its rate before the floatation. Dairy sector in specific is expected to grow during the coming period supported by the milk segment, which will experience strong growth as a result of consumers increasingly switching to packaged milk from loose milk. This switching out is fueled by consumers' perceptions of packaged milk as being safer than loose milk. Also Egypt's strategic geographic location as an export hub and free-trade access to the Gulf region and a number of Sub-Saharan African countries will be the key driver of growth in the domestic dairy and juice sectors.

### Historical Financial Analysis

| Income Statement (EGP mn)      | 2016     | 2017     | Change |
|--------------------------------|----------|----------|--------|
| Revenues                       | 1,450.1  | 2,066.1  | 42%    |
| Cost of Goods Sold             | -1,087.5 | -1,579.6 | 45%    |
| Gross Profit                   | 362.6    | 486.4    | 34%    |
| GPM                            | 25%      | 24%      |        |
| SG&A Expenses                  | -128.8   | -142.1   | 10%    |
| EBITDA                         | 233.8    | 344.3    | 47%    |
| EBITDA Margin                  | 16%      | 17%      |        |
| Other revenues                 | 1.83     | 1.04     | -43%   |
| Depreciation expenses          | -13.3    | -18.4    | 39%    |
| EBIT                           | 222.4    | 326.9    | 47%    |
| Provisions                     | -2.4     | 0.0      | -100%  |
| Fx gain/loss                   | -4.9     | 5.1      | -204%  |
| Net Interest                   | -6.0     | -17.7    | 197%   |
| Impairment & G/L on Sale of FA | 0.6      | -0.5     | -182%  |
| Net Profit Before Tax          | 209.7    | 313.8    | 50%    |
| Income Tax                     | -47.7    | -70.6    | 48%    |
| Minority Interest              | 0.0      | 0.0      |        |
| Net Profit                     | 162      | 243.2    | 50%    |
| Net Profit Margin              | 11%      | 12%      |        |

Source: Company Financials & MubasherTrade Research

Obour Land posted a consolidate net profit attributable to shareholders of EGP 243.2mn for 2017 marking a 50% increase compared to EGP 162mn in 2016. The increase in the bottom line was mainly due to a 34% increase in gross profit that recorded EGP 486.4mn in 2017 compared to EGP 362.6mn in 2016 backed by a 42% surge in the consolidated revenues that reached EGP 2,066.1mn in 2017 compared to EGP 1,450.1mn in 2016. The increase in the revenues came as a result of price increase as the volume sold remained flat at 97k tons for 2016 and 2017 (despite the decline in the purchasing power in the market after the floatation), while average prices increased by a 42% recording EGP 15k/ton in 2017 up from EGP 21.3k/ton in 2016. The company recorded export sales of EGP 10.8mn in 2017 marking a more than 5-fold hike compared to EGP 2mn in 2016 as OLFi penetrated new markets including Jordan, Palestine and UAE.

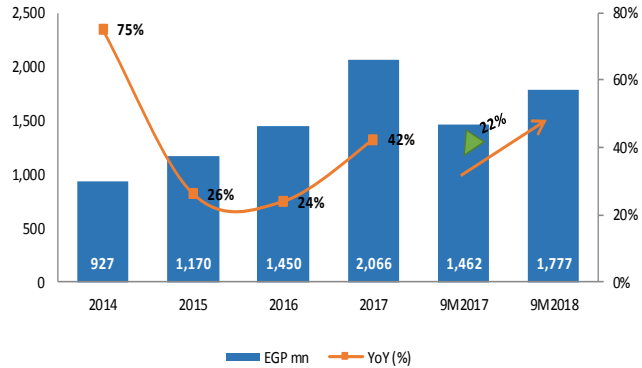
| Income Statement (EGP mn) | 9M2017   | 9M2018   | Change |
|---------------------------|----------|----------|--------|
| Revenues                  | 1,461.9  | 1,777.5  | 22%    |
| Cost of Goods Sold        | -1,096.9 | -1,358.3 | 24%    |
| Gross Profit              | 364.9    | 419.2    | 15%    |
| GPM                       | 0.2      | 0.2      |        |
| SG&A Expenses             | -110.7   | -141.0   | 27%    |
| EBITDA                    | 254.2    | 278.2    | 9%     |
| EBITDA Margin             | 0.2      | 0.2      |        |
| Other revenues            | 1.3      | 2.2      | 70%    |
| Depreciation expenses     | -14.7    | -27.6    | 88%    |
| EBIT                      | 240.7    | 252.8    | 5%     |
| Provisions                | 0.0      | 0.0      |        |
| Fx gain/loss              | 6.3      | -0.5     | -108%  |
| Net Interest              | -19.1    | -21.5    | 12%    |
| Impairment of receivables | -0.3     | 0.5      | -268%  |
| Net Profit Before Tax     | 227.7    | 231.3    | 2%     |
| Income Tax                | -51.2    | -52.0    | 1%     |
| Minority Interest         | 0.0      | 0.0      |        |
| Net Profit                | 176.5    | 179.3    | 2%     |
| Net Profit Margin         | 12%      | 10%      |        |

Source: Company Financials & MubasherTrade Research

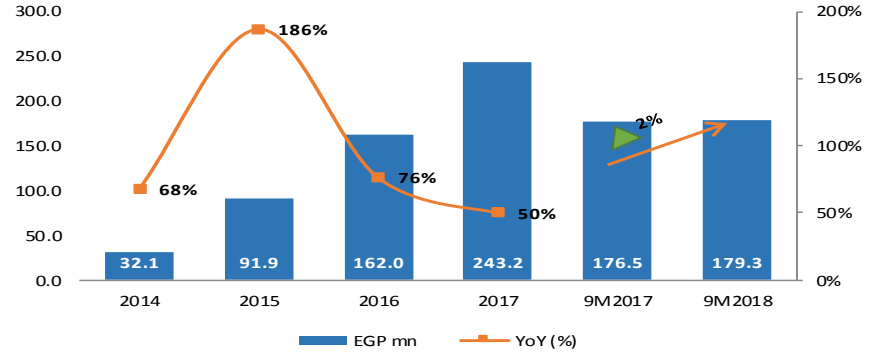
OLFI posted a consolidated net profit attributable to shareholders of EGP 179.3mn for 9M2018 marking a slight increase of 2% compared to EGP 176.5mn in 9M2017. The increase in the bottom line was mainly due to a 15% hike in gross profit that recorded EGP 419.2mn in 9M2018 compared to EGP 364.9mn in 9M2017 as a result of a 22% increase in revenues that reached EGP 1,777.5mn in 9M2018 compared to EGP 1,461.9mn in 9M2017. The company started commercial operations of milk and juice in December 2017 and the new segments contributed by a 4% to the consolidated revenues recording EGP 72.9mn in 9M2018. The slight increase in the net profit in 9M2018 came due to the exceptional performance in 2017 which was a result of securing cheaper inputs before the floatation.

## Historical Financial Analysis (Cont. 'd)

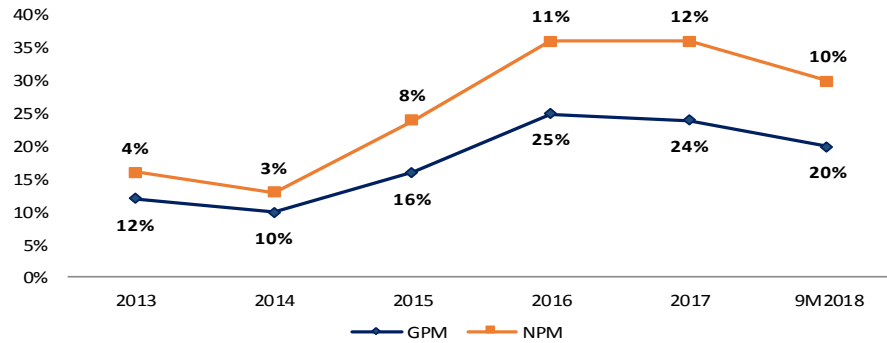
Revenues



Net Income



Margins



Source: Company Financials & MubasherTrade Research

## Financial Forecasts

We expect Obour Land's consolidated revenues to grow at a 5-year CAGR of 14.5% during the forecasted period 2019-2023. The company's consolidated top line is expected to increase by 16.3% to record EGP 2.4bn in 2018 and increasing a 18.8% to reach EGP 2.9bn in 2019 mainly due to the cheese segment revenues that reached EGP 2.3bn and EGP 2.7bn, with a contribution of 95% and 93% in 2018 and 2019 respectively from 11% in 2017. The consolidated top line is then expected to witness a weaker growth to reach 10.7% in the end of the forecasted period in 2023.

### Segment Reporting:

#### 1. White Cheese Segment

White Cheese segment (carton pack & plastic tub) revenues are expected to increase at a 5-year CAGR of 13.5% during the period 2019-2023 to reach EGP 4.3bn by 2023. Cheese contribution to the company's consolidated top line is expected to decline from 100% in 2017 (95% in 2018 according to our estimates) to 91% by 2023.

##### A) Carton Pack Cheese

Carton pack cheese revenues are expected to increase at a 5-year CAGR of 13.6% during the period 2019-2023 to reach EGP 4.2bn by 2023. OLFI is planning to add a new 250gm carton pack production line with a production capacity of 13.5k tons per annum and investments worth EUR 600k in 2019. Carton pack cheese is the main driver of the whole company's revenues which its contribution is expected to decline from 97% in 2017 (93% in 2018 according to our estimates) to 89% by the end of the forecasted period.

##### B) Plastic Tub Cheese

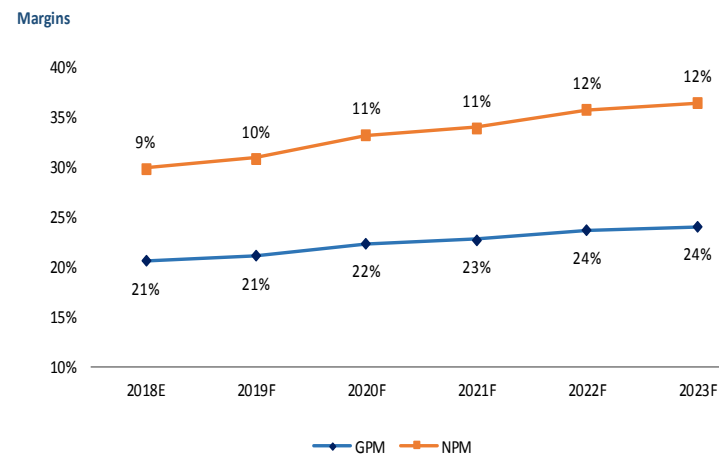
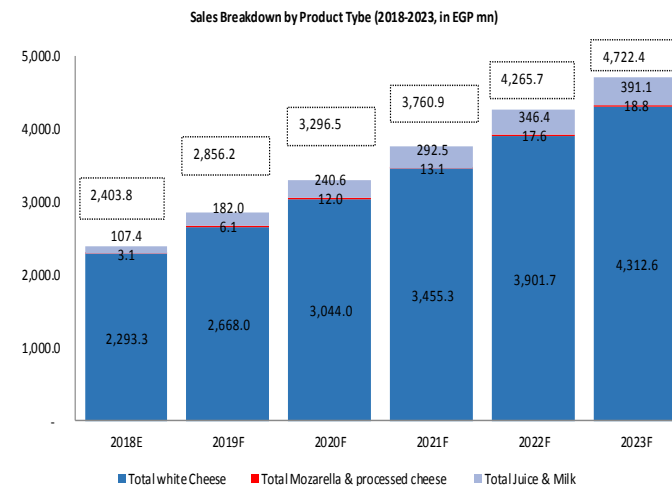
Plastic tub cheese revenues are expected to grow at a 5-year CAGR of 9.3% during the period 2019-2023 to reach EGP 121mn by 2023. Plastic tub cheese contribution to the company's total revenues is expected to slightly decline from 4% in 2017 (3% in 2018 according to our estimates) to 3% by 2023.

#### 2. Mozzarella & Processed Cheese

Mozzarella and processed cheese revenues are expected to grow at a 5-year CAGR of 43.5% during the period 2019-2023 to reach EGP 18.8mn by 2023 ( EGP 3.1mn in 2018 according to our estimates) with a minimal contribution of less than 1% to the company's total revenues during the years. Processed Cheese commenced its operations in 1Q2018 while mozzarella is expected to commence production during 2019.

#### 3. Milk & Juice Segments

Milk and juice revenues are forecasted to generate revenues of EGP 391.1mn in 2023 ( EGP 107.4mn in 2018 according to our estimates) with a 5-year CAGR of 29.5% during the forecasted period. Milk & juice revenues are expected to contribute to the company's consolidated top line with a 6.4% in 2019 (4.5% in 2018 according to our estimates) to 8.3% in 2023. With the introduction of the new dairy farm, the company is expected to record higher figures during the coming period.



Source: MubasherTrade Research estimates

## Financial Forecasts (Cont.'d)

| In EGP mn   | 2014A | 2015A | 2016A   | 2017A   | 2018E         | 2019F         | 2020F         | 2021F         | 2022F         | 2023F         | 5-yr CAGR |
|---|-------|-------|---------|---------|---------------|---------------|---------------|---------------|---------------|---------------|-----------|
| <b>Segment Reporting</b>                            |       |       |         |         |               |               |               |               |               |               |           |
| <b>Revenue of White Cheese</b>                      | 926   | 1,170 | 1,450   | 2,066   | 2,293         | 2,668         | 3,044         | 3,455         | 3,902         | 4,313         | 13.5%     |
| Cost of cheese                                      | (858) | (985) | (1,088) | (1,580) | (1,817)       | (2,097)       | (2,355)       | (2,662)       | (2,969)       | (3,265)       |           |
| Gross Profit  | 68    | 185   | 362     | 487     | 476           | 571           | 689           | 793           | 933           | 1,048         |           |
| GPM   | 7%    | 16%   | 25%     | 24%     | 21%           | 21%           | 23%           | 23%           | 24%           | 24%           |           |
| % of total revenues                                 |       |       |         | 100%    | 95%           | 93%           | 92%           | 92%           | 91%           | 91%           |           |
| <b>Revenue of Processed Cheese &amp; Mozzarella</b> | -     | -     | -       | -       | 3.1           | 6.1           | 12.0          | 13.1          | 17.6          | 18.8          | 43.5%     |
| Cost  | -     | -     | -       | -       | (2)           | (4)           | (8)           | (9)           | (12)          | (13)          |           |
| Gross Profit  | -     | -     | -       | -       | 0.7           | 2             | 4             | 4             | 6             | 6             |           |
| GPM   |       |       |         |         | 23%           | 29%           | 30%           | 31%           | 33%           | 33%           |           |
| % of total revenues                                 |       |       |         |         | 0.1%          | 0.2%          | 0.4%          | 0.3%          | 0.4%          | 0.4%          |           |
| <b>Revenue of Milk &amp; Juice</b>                  | -     | -     | -       | -       | 107.4         | 182.0         | 240.6         | 292.5         | 346.4         | 391.1         | 29.5%     |
| Cost of Juice                                       | -     | -     | -       | -       | (89)          | (151)         | (196)         | (234)         | (274)         | (310)         |           |
| Gross Profit  | -     | -     | -       | -       | 18            | 31            | 44            | 58            | 72            | 81            |           |
| GPM   |       |       |         |         | 17%           | 17%           | 18%           | 20%           | 21%           | 21%           |           |
| % of total revenues                                 |       |       |         |         | 4.5%          | 6.4%          | 7.3%          | 7.8%          | 8.1%          | 8.3%          |           |
|   |       |       |         |         | <b>100.0%</b> | <b>100.0%</b> | <b>100.0%</b> | <b>100.0%</b> | <b>100.0%</b> | <b>100.0%</b> |           |

Source: MubasherTrade Research estimates

## Financial Summary

### Balance Sheet

| EGP mn                                | 2015A        | 2016A        | 2017A        | 2018E          | 2019F          | 2020F          |
|---------------------------------------|--------------|--------------|--------------|----------------|----------------|----------------|
| <b>Assets</b>                         |              |              |              |                |                |                |
| Cash & Cash equivalent                | 125.6        | 121.3        | 95.8         | 216.2          | 362.0          | 537.3          |
| Net Accounts Receivable               | 13.1         | 10.3         | 68.2         | 27.8           | 33.2           | 38.4           |
| Inventory                             | 131.3        | 276.0        | 292.5        | 350.4          | 413.6          | 469.9          |
| Other Current Assets                  | 29.7         | 63.8         | 42.4         | 52.7           | 55.1           | 57.3           |
| <b>Total Current Assets</b>           | <b>299.7</b> | <b>471.3</b> | <b>498.9</b> | <b>647.2</b>   | <b>864.0</b>   | <b>1,102.9</b> |
| Net Fixed Assets                      | 182.5        | 190.4        | 418.2        | 463.0          | 477.3          | 481.1          |
| Other Non Current Assets              | 34.9         | 202.8        | 68.3         | -              | -              | -              |
| Net Intangibles                       | -            | -            | -            | -              | -              | -              |
| <b>Total Non Current Assets</b>       | <b>217.4</b> | <b>393.1</b> | <b>486.4</b> | <b>463.0</b>   | <b>477.3</b>   | <b>481.1</b>   |
| <b>Total Assets</b>                   | <b>517.1</b> | <b>864.5</b> | <b>985.3</b> | <b>1,110.2</b> | <b>1,341.4</b> | <b>1,584.1</b> |
| <b>Liabilities &amp; Equity</b>       |              |              |              |                |                |                |
| Short term facilities                 | 31.4         | 174.8        | 102.1        | 157.7          | 187.3          | 216.2          |
| CPLD                                  | 18.5         | 32.8         | 22.7         | 22.6           | 22.6           | 25.6           |
| Accounts Payable                      | 18.0         | 65.2         | 128.0        | 83.1           | 98.0           | 111.4          |
| Other Current Liabilities             | 145.3        | 97.2         | 91.2         | 95.3           | 99.4           | 103.1          |
| <b>Total Current Liabilities</b>      | <b>213.1</b> | <b>369.9</b> | <b>344.1</b> | <b>358.7</b>   | <b>407.4</b>   | <b>456.3</b>   |
| Long Term Liabilities                 | 10.5         | 113.1        | 90.4         | 67.8           | 57.2           | 31.6           |
| Other Non Current Liabilities         | 10.3         | 0.6          | 17.6         | 17.6           | 17.6           | 17.6           |
| <b>Total Non Current Liabilities</b>  | <b>20.8</b>  | <b>113.7</b> | <b>108.0</b> | <b>85.4</b>    | <b>74.8</b>    | <b>49.2</b>    |
| <b>Total Liabilities</b>              | <b>233.9</b> | <b>483.7</b> | <b>452.1</b> | <b>444.1</b>   | <b>482.2</b>   | <b>505.5</b>   |
| Paid-in-Capital                       | 200          | 200          | 200          | 400            | 400            | 400            |
| Reserves & Others                     | 3.1          | 7.7          | 15.8         | 15.8           | 15.8           | 15.8           |
| Retained earnings                     | 80.1         | 173.1        | 317.3        | 250.3          | 443.3          | 662.7          |
| <b>Total Equity</b>                   | <b>283.2</b> | <b>380.8</b> | <b>533.2</b> | <b>666.1</b>   | <b>859.2</b>   | <b>1,078.6</b> |
| <b>Total Liabilities &amp; Equity</b> | <b>517.1</b> | <b>864.5</b> | <b>985.3</b> | <b>1,110.2</b> | <b>1,341.4</b> | <b>1,584.1</b> |

Source: MubasherTrade Research estimates

## Financial Summary (Cont.'d)

### Income Statement

| EGP mn                | 2015A       | 2016A        | 2017A        | 2018E        | 2019F        | 2020F        |
|-----------------------|-------------|--------------|--------------|--------------|--------------|--------------|
| Revenues              | 1,169.8     | 1,450.1      | 2,066.1      | 2,403.8      | 2,856.2      | 3,296.5      |
| COGS                  | (985.1)     | (1,087.5)    | (1,579.6)    | (1,908.8)    | (2,252.9)    | (2,559.3)    |
| Gross Profit          | 184.8       | 362.6        | 486.4        | 495.0        | 603.2        | 737.2        |
| SG&A                  | (51.3)      | (128.8)      | (142.1)      | (161.4)      | (191.8)      | (221.4)      |
| EBITDA                | 133.5       | 233.8        | 344.3        | 333.6        | 411.4        | 515.9        |
| Depreciation          | (10.0)      | (13.3)       | (18.4)       | (25.7)       | (27.7)       | (29.2)       |
| EBIT                  | 125.7       | 222.4        | 326.9        | 307.9        | 383.7        | 486.7        |
| Provisions            | (5.7)       | (2.4)        | -            | -            | -            | -            |
| Net Interest Expense  | (1.0)       | (6.0)        | (17.7)       | (19.1)       | (21.2)       | (22.2)       |
| Net Income Before Tax | 120.1       | 209.7        | 313.8        | 288.8        | 362.5        | 464.4        |
| Income Tax            | (28.2)      | (47.7)       | (70.6)       | (65.0)       | (81.6)       | (104.5)      |
| <b>Net Income</b>     | <b>91.9</b> | <b>162.0</b> | <b>243.2</b> | <b>223.8</b> | <b>281.0</b> | <b>359.9</b> |

### Cash flow Statement

| EGP mn                    | 2018E        | 2019F        | 2020F        |
|---------------------------|--------------|--------------|--------------|
| Cash flow from operations | 180.8        | 256.7        | 342.5        |
| Cash flow from investing  | (2.3)        | (42.0)       | (33.0)       |
| Cash flow from financing  | (58.1)       | (68.9)       | (134.2)      |
| <b>Net Change in Cash</b> | <b>120.4</b> | <b>145.8</b> | <b>175.3</b> |

Source: MubasherTrade Research estimates

### Consensus Estimates

|                                     | 2018E   | 2019F   | 2020F   |
|-------------------------------------|---------|---------|---------|
| Revenues                            | 2,450.3 | 2,899.8 | 3,408.5 |
| MubasherTrade Research vs Consensus | (1.9%)  | (1.5%)  | (3.3%)  |
| Net Income                          | 250.8   | 294.8   | 349.6   |
| MubasherTrade Research vs Consensus | (10.8%) | (4.7%)  | 3.0%    |

Source: Bloomberg, MubasherTrade Research estimates

## Valuation & Recommendation

**DCF – 12M Price Target of EGP 11.65/share:** Our DCF valuation was based on the company's projected free cash flow to firm (FCFF) during the period from 2019 to 2023. FCFF during that period was discounted at multiple WACCs that range between 18% and 13%, using a  $\beta$  of 0.50 and a terminal growth rate of 4%. The DCF method led to a 12M price target of EGP 11.65/share. Based on the share's upside potential of 49%, we issue a Buy recommendation.

|                         | 2019F          | 2020F        | 2021F        | 2022F        | 2023F          |
|-------------------------|----------------|--------------|--------------|--------------|----------------|
| Year                    | 1              | 2            | 3            | 4            | 5              |
| EBIT(1-Tax rate)        | 297.39         | 377.15       | 443.38       | 536.48       | 607.52         |
| Depreciation            | 27.68          | 29.21        | 30.78        | 32.38        | 34.01          |
| Change in WC            | (51.98)        | (46.63)      | (52.35)      | (53.23)      | (50.42)        |
| <b>CFO</b>              | <b>273.1</b>   | <b>359.7</b> | <b>421.8</b> | <b>515.6</b> | <b>591.1</b>   |
| Capex                   | (42.00)        | (33.00)      | (33.99)      | (34.67)      | (35.36)        |
| <b>FCFF</b>             | <b>231.1</b>   | <b>326.7</b> | <b>387.8</b> | <b>481.0</b> | <b>555.7</b>   |
| Terminal value          |                |              |              |              | 6,459.40       |
| <b>Total</b>            | <b>231.1</b>   | <b>326.7</b> | <b>387.8</b> | <b>481.0</b> | <b>7,015.1</b> |
| Discount factor         | 0.85           | 0.76         | 0.68         | 0.61         | 0.54           |
| <b>PV</b>               | <b>196.5</b>   | <b>247.7</b> | <b>262.4</b> | <b>295.1</b> | <b>3,816.3</b> |
| <b>Enterprise value</b> | <b>4,818.1</b> |              |              |              |                |
| Debt                    | 253.7          |              |              |              |                |
| Cash                    | 97.5           |              |              |              |                |
| Equity value            | 4,661.9        |              |              |              |                |
| no. of shares (mn)      | 400            |              |              |              |                |
| Fair value              | 11.65          |              |              |              |                |
| Current price           | 7.81           |              |              |              |                |
| %                       | 49.23%         |              |              |              |                |

|                     | 2019F | 2020F | 2021F | 2022F | 2023F |
|---------------------|-------|-------|-------|-------|-------|
| Risk Free           | 14%   | 12%   | 11%   | 10%   | 10%   |
| Market Risk Premium | 9%    | 7%    | 7%    | 7%    | 7%    |
| Beta                | 0.5   | 0.5   | 0.5   | 0.5   | 0.5   |
| Cost of Equity      | 18%   | 15%   | 14%   | 13%   | 13%   |
| Cost of Debt        | 8%    | 8%    | 8%    | 8%    | 8%    |
| Weight of Equity    | 92%   | 92%   | 92%   | 92%   | 91%   |
| Weight of Debt      | 8%    | 8%    | 8%    | 8%    | 9%    |
| WACC                | 18%   | 15%   | 14%   | 13%   | 13%   |
| Growth              | 4%    |       |       |       |       |

### Upside Catalysts

- Egypt's sizable and growing population represents a large market for food and beverage products.
  - Egyptians are among the highest spenders on food in the world in terms of percentage of income, which guarantees heavy demand on food and beverages.
  - Collaborative programs aimed at converting consumers from loose to packaged food products provide high growth opportunities for dairy companies.
  - Increased health awareness is resulting in the average consumer's shift from carbonated soft drinks to the more healthy juices and to shift from loose milk to packaged milk with a low consumption per capita for both.
- Changing lifestyle trends and consumer preferences are driving increased consumption of packaged on-the-go food products.
  - Increase export opportunities after the introduction of juice particularly to African markets.
  - Obour Land Management Team Expertise.
  - Expanding its business lines to include juice and milk.
  - Adding dairy farm in a backward integration step.
  - Obour Land is a market leader with a well established brand name.
  - Expected lower inflation will boost the customers' purchasing power.

### Key Risks

- A significant portion of the company's costs derive from purchases of imported raw materials, in particular SMP and milk protein concentrate. Accordingly, the company's profitability margins are closely linked to the prices of key raw materials, and any increase in raw material prices could have a negative impact on its financial results. SMP represents 35%-45% of COGS in historical years.
- Any increase in the USD/EGP exchange rate will increase the company's costs (inputs & packaging materials), particularly due to low foreign currency proceeds as a result of most of the company's sales are in EGP.
- The inflationary pressures and if OLFI will continue to be able to pass any cost increases to the consumers or not.
- Fierce competition between the market players, in addition to low barriers to entry may lead to price wars, lower margins and loss of market share.
- The relatively low investment costs of the industry particularly to foreign investors as a result of the local currency floatation may lure in international players through greenfield projects or acquisitions, further increasing the level of competition.
- The cheese market in Egypt, the main driver of revenues is close to saturation.

## Valuation & Recommendation (Cont.'d)

### Peer Group Analysis

| Company Name                                 | Country     | Mkt Cap (USD mn) | P/E   | P/B  | EV/EBITDA |
|--|-------------|------------------|-------|------|-----------|
| Obour Land For Food Industries               | Egypt       | 177.31           | 11.1x | 5.0x | 7.1x      |
| Arabian Food Industries (Domty)              | Egypt       | 167.13           | 12.5x | 4.2x | 8.4x      |
| Juhayna Food Industries                      | Egypt       | 667.88           | 18.5x | 4.5x | 9.4x      |
| Edita Food Industries SAE                    | Egypt       | 596.95           | 19.5x | 8.1x | 12.5x     |
| National Agriculture Development Co. (NADEC) | KSA         | 624.47           | --    | 1.6x | --        |
| Saudia Dairy & Foodstuff Co (SADAFCO)        | KSA         | 878.73           | 14.6x | 2.5x | 9.5x      |
| Almarai Co JSC                               | KSA         | 14,665.49        | 24.7x | 3.9x | 15.3x     |
| Halwani Brothers Co                          | KSA         | 342.83           | 21.0x | 2.8x | 14.0x     |
| Centrale Danone                              | Morocco     | 811.63           | --    | 8.1x | --        |
| Dean Foods Co                                | USA         | 418.61           | 44.0x | 0.7x | 5.7x      |
| Zydus Wellness Ltd                           | India       | 698.54           | 30.3x | 6.9x | 20.8x     |
| Binggrae Co Ltd                              | South Korea | 616.37           | 15.5x | 1.1x | 5.1x      |
| China Shengmu Organic Milk Ltd               | China       | 250.99           | --    | 0.5x | --        |
| Natural Dairy NZ Holdings Ltd                | China       | 759.31           | --    | 7.9x | --        |
| <b>Peers' Median</b>                         |             | 620.42           | 19.0x | 4.1x | 9.5x      |
| <b>Peers' Average</b>                        |             | 1,548.30         | 21.2x | 4.1x | 10.8x     |

Price as of February 12th 2019 at EGP 7.81/share  
Source: Bloomberg & MubasherTrade Research estimates

## Disclosure Appendix

### Important Disclosures

**METHODOLOGY:** We strive to search for the best businesses that trade at the lowest valuation levels as measured by an issuer's intrinsic value on a per-share basis. In doing so, we follow both top-down and bottom-up approaches. Under the top-down approach, we attempt to study the most important quantitative and qualitative factors that we believe can affect a security's value, including macroeconomic, sector-specific, and company-specific factors. Under the bottom-up approach, we focus on the analysis of individual stocks by running our proprietary scoring model, including valuation, financial performance, sentiment, trading, risk, and value creation.

**COUNTRY MACRO RATINGS:** We analyze the four main sectors of a country's macroeconomics, then we assign ★★★, ★★, and ★ star for low risk, moderate risk, and high risk, respectively. We use different weights for each economic sector: (a) Real Sector (30% weight), (b) Monetary Sector (10% weight), (c) Fiscal Sector (25% weight), (d) External Sector (15% weight), and (e) Credit Rating and Outlook (20%).

**STOCK MARKET RATINGS:** We compare our year-end price targets for the subject market index on a total-return basis versus our calculated required rate of return (RRR). Taking into account our Country Macro Rating, we set the "Neutral" borderline (below which is "Underweight") as 20% of RRR for ★★★ Country Macro Rating, 40% of RRR for ★★ Country Macro Rating, and 60% of RRR for ★ Country Macro Rating. That said, our index price targets are based on the average of two models. **Model (1):** Estimated index levels based on consensus price targets of all index constituents. Stocks with no price targets are valued at market price. **Model (2):** Estimated index levels based on our expected re-pricing (whether re-rating, de-rating, or unchanged rating) of the forward price-earnings ratio (PER) of each index in addition to consensus earnings growth for the forward year.

**SECTOR RATINGS:** On the sectors level, we focus on six major sectors, namely (1) Consumer and Health Care, (2) Financials, (3) Industrials, Energy, & Utilities, (4) Materials, (5) Real Estate, and (6) Telecom Services & IT. To assess each sector, we use the SWOT analysis to list the strengths, weaknesses, opportunities, and threats in each country. We then translate our qualitative SWOT analysis into a quantitative model to evaluate all six sectors across countries. Each of the measures we used, although mostly subjective, is assigned a score as either +1 (high impact), 0 (medium impact), or -1 (low impact). At a later stage, when assigning the final rating – Overweight, Neutral, or Underweight – for each sector in each country, we realize that sometimes it is unfair to assign equal weights for the sub-sectors in each major sector assessed. Hence, some of the sub-sectors are given different weights for their significant profile in each country. Additionally, the final rating for each sector in each specific country is assigned based on a relative calculation comparing this sector to all other sectors in this country.

**SECURITY INVESTMENT RATINGS:** We combine intrinsic value, relative valuation, and market sentiment into a single rating. Our three-pronged methodology involves (1) discounted cash flows "DCF" valuation model(s), (2) relative valuation metrics, and (3) overall sentiment. Whenever possible we attempt to apply all three aspects on the issuers or securities under review. In certain cases where we do not have our own financial and valuation models, we attempt to scan the market for other analysts' value estimates and ratings (i.e. consensus view) on average. We compliment this with relative valuation and sentiment drivers, such as positive/neutral/negative news flows. For all issuers/securities covered, we have three investment ratings (Buy, Hold, or Sell), comparing the security's expected total return (including both price performance and expected cash dividend) over a 12-month period versus its Required Rate of Return "RRR" as calculated using the Capital Asset Pricing Model "CAPM" and adjusted for the Risk Rating we attach to each security. Our price targets are subjective and are estimates of the analysts where the securities covered will trade within the next 12 months. Price targets can be derived from earnings-based valuation models (e.g. Discounted Cash Flow "DCF"), asset-based valuation models (e.g. Net Asset Value "NAV"), relative valuation multiples (e.g. PER, PBV, EV/EBITDA, etc.), or a combination of them. In case we do not have our own valuation model, we use a weighted average of market consensus price targets and ratings. We review the investment ratings periodically or as the situation necessitates.

**SECURITY RISK RATINGS:** We assess the risk profile of each issuer/security covered and assign one of three risk ratings (High, Moderate, or Low). The risk rating is weighted to reflect different aspects specific to (1) the sector, (2) the issuer, (3) the security under review, and (4) volatility versus the market (as measure by beta) and versus the security's average annualized standard deviation. We review the risk ratings at least annually or as the situation necessitates.

### Other Disclosures

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|                   | If Total Return is ... | Risk Rating   |                            |                            |
|-------------------|------------------------|---|----------------------------|----------------------------|
|                   |                        | Low (1)   | Moderate (2)               | High (3)                   |
| Investment Rating | Buy (B)                | Higher than RRR   | Higher than RRR            | Higher than RRR            |
|                   | Hold (H)               | Between RRR and 20% of RRR  | Between RRR and 40% of RRR | Between RRR and 60% of RRR |
|                   | Sell (S)               | Lower than 20% of RRR   | Lower than 40% 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.                                     |                            |                            |

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