

Al Ezz Dekheila Steel Company - Alexandria S.A.E.

Valuation executive summary

June 2019

Our reference: AF/AH

Four Seasons Nile Plaza (Corporate Building)
1089 Cornich El-Nil, Garden City
Cairo, Egypt

27 June 2019

Dear Sirs

Al Ezz Dekheila Steel Company - Alexandria S.A.E. – company valuation

In accordance with your instructions, we have pleasure in enclosing a copy of our executive summary prepared in connection with the valuation Al Ezz Dekheila Steel Company - Alexandria S.A.E. as at 31 December 2018.

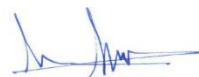
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Yours faithfully



Grant Thornton Egypt

If you have any questions in respect of this report or its contents, please contact:

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In accordance with your instructions and terms of the Letter of engagement, for the purpose of a share swap among shareholders of Al Ezz Dekheila Steel Company - Alexandria S.A.E and Al Ezz Flat Steel Co. and Al Ezz Rolling Mills Co. , the fair value of the company was estimated on the basis of the assumptions, data and information provided by Management of Al Ezz Dekheila Steel Company - Alexandria S.A.E.

The valuation was prepared using the following principles:

We have determined the fair value of the Al Ezz Dekheila Steel Company - Alexandria S.A.E using the income approach, Discounted Cash Flow (DCF) analysis and market approach

We have taken into account the financial valuation standards issued by the Board of Directors of the Financial Regulatory Authority No. 1 For the year 2017.

Information submitted to us by Management are under the responsibility of the Company, we do not accept responsibility for such information which remains the responsibility of Management. We have satisfied ourselves, so far as possible, that the information presented in our report is consistent with other information which was made available to us in the course of our work in accordance with the terms of the Letter of engagement, however we take into account any amendments that we considered necessary to formulate our valuation opinion

The income approach used in the valuation of Al Ezz Dekheila Steel Company - Alexandria S.A.E represents the most widely used method to determine the fair value of the shares. It is based on measuring the true performance of the company through its projected cash flows (not just profitability) as well as assessing the underlying business to continue as a going concern

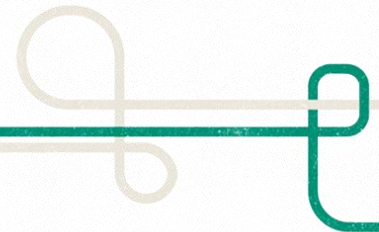
Income approach method is based on the following steps:

- The estimation of free cash flows over the forecast period assessing the economic benefit stream of the asset or business interest under analysis, usually based on historical or forecasted cash flow often a derivative of profits
- Estimating the terminal value following the forecast period
- These cash flows is then discounted to present value with an appropriate risk-adjusted discount rate capturing the debt to capital ratio as well as the nature of the business, industry risk and risk free rate
- Determining the fair value of the equity after deducting debt (if any) and the addition of the cash and cash equivalents. The total present value of future cash flows over the discrete forecast period plus the terminal value indicates the equity value and therefore the price per share.
- In light of the above, the fair value of Al Ezz Dekheila Steel Company - Alexandria S.A.E as at 31 December 2018 amounted to EGP 15,727,865,440 (Fifteen billion, seven hundred and twenty seven million, eight hundred and sixty-five thousand and four hundred and forty Egyptian pounds distributed over 13,364 thousand shares. This indicates a share price of EGP 1,176.85 (One thousand, one hundred and seventy six Egyptian pounds and eighty five piasters)

Section 1: Introduction and scope

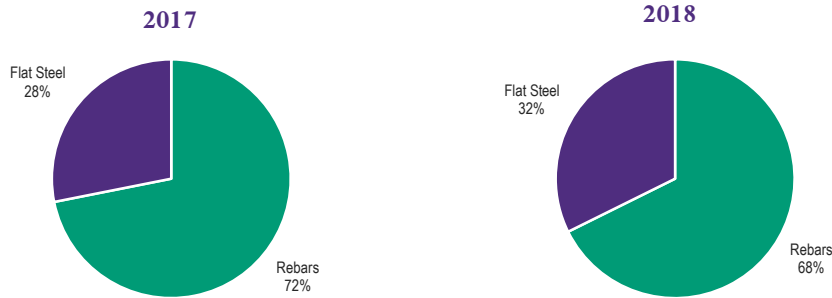
01. Introduction and scope

02. Executive summary



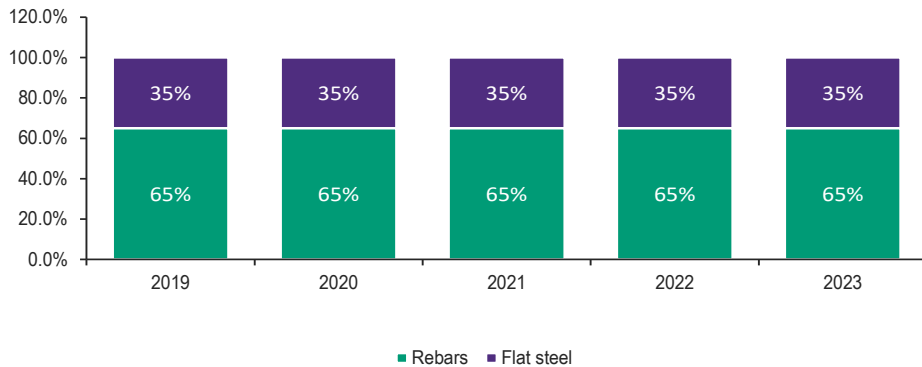
Al Ezz Dekheila Steel Company – Alexandria (EZDK) is a leading company in the production and manufacturing of steel in all its forms

Production lines revenue as a percentage of total revenue for 2017 and 2018



Sources: 1. Grant Thornton analysis 2. Management information

Forecast Production lines revenue as a percentage of total revenue



Sources: 1. Grant Thornton analysis 2. Management information

Business Overview

- Al Ezz Dekheila Steel Company – Alexandria was established in 1982, headquartered in El Agamy, El Bitash, Alexandria. It is a public company listed on the Egyptian Stock Exchange since 1995 and is a leading company in the production and manufacturing of steel in all its forms and types.
- The company has produced Rebar since 1986 and started producing flat steel in 2000. The actual production capacity of EZDK’s plant is 3.0 million tons of steel.
- Rebars revenue as a percentage of total revenue decreased from 72% in 2017 to 68% in 2018, while flat steel revenue increased from 28% to 32% over the same period. This is in accordance to Management’s plan to reach these levels going forward as shown in the graph opposite.
- It is expected that Rebar revenue will decrease to 65% as a percentage of total revenue while flat steel revenue is expected to increase to 35% as percentage of total revenue over the forecast period.
- EZDK direct and indirect investments are as follows:
 - Al Ezz Flat Steel Co. – direct investment (44%)
 - Hadid Co. for Industry, Trade and Contracting "Contrasteel" (SAE) - direct investment (90%)
 - Misr Company for the manufacture of pipes and castings (SAE) (a subsidiary of "Contrasteel") - indirect investment (87%)

EZDK revenue growth over the historical period was 50% (CAGR) from 2015 to 2018

Al Ezz Dekheila Steel – Alexandria – historical P&L

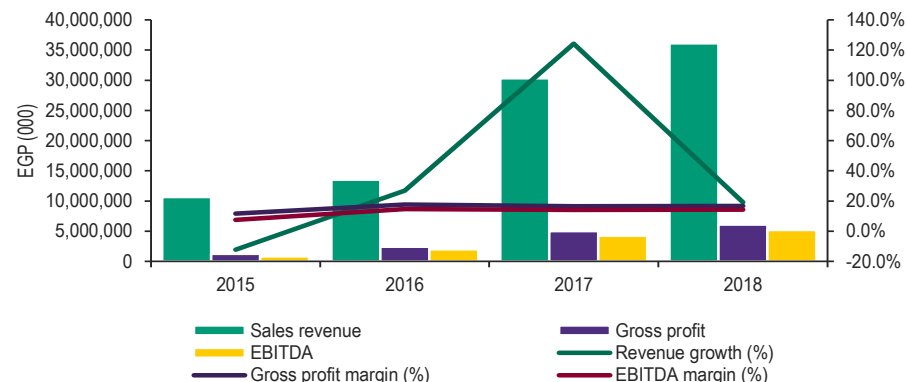
EGP(000)	2015	2016	2017	2018
Sales revenue	10,643,525	13,511,423	30,300,408	36,099,112
Cost of sales	(9,398,007)	(11,115,250)	(25,292,789)	(30,029,683)
Gross profit	1,245,518	2,396,173	5,007,619	6,069,428
General and administrative expenses	(407,058)	(445,081)	(745,907)	(789,715)
Other operating expenses	(32,089)	33,493	(10,062)	(102,552)
EBITDA	806,371	1,984,585	4,251,651	5,177,161
Depreciation and ammortization	(440,602)	(343,635)	(549,937)	(619,962)
EBIT	365,769	1,640,950	3,701,714	4,557,199
Revenue growth (%)	-12.3%	26.9%	124.3%	19.1%
Gross profit margin (%)	11.7%	17.7%	16.5%	16.8%
EBITDA margin (%)	7.6%	14.7%	14.0%	14.3%
EBIT margin (%)	3.4%	12.1%	12.2%	12.6%

Sources: 1. Management information

Overview

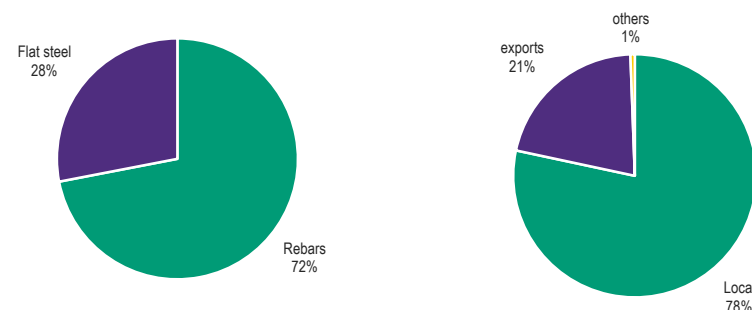
- Revenue increased over the historical period by 50% (CAGR) from 2015 to 2018. The remarkable growth in 2017 revenue is due to the central bank's decision to float the Egyptian pound at the end of 2016, prompting companies to increase prices of steel products.
- Rebars revenue account for the largest share of total revenue at an average of 72% while flat steel revenue account for 28% of total revenue over the historical period
- Local revenue account for the largest share of total revenue at 78%, while export and other revenue account for 21% and 1% respectively

Al Ezz Dekheila steel - Alexandria – historical results (2015 to 2018)



Sources: 1. Management information

Average revenue over the historical period (components and contribution)



Sources: 1. Management information

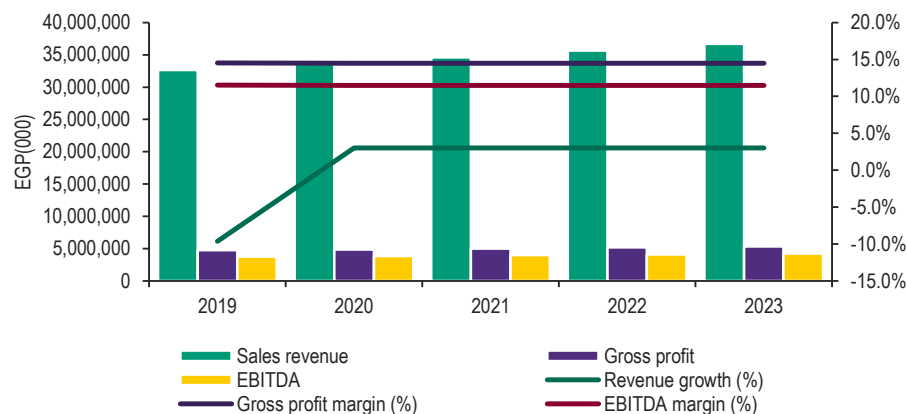
Revenue is expected to grow by 3% (CAGR) from 2019 to 2023 maintaining EBITDA margins at 11.5% over the forecast period

Al Ezz Dekheila steel - Alexandria– forecast P&L

EGP (000)	2019	2020	2021	2022	2023
Sales revenue	32,624,508	33,603,243	34,611,341	35,649,681	36,719,171
Cost of sales	(27,881,358)	(28,729,841)	(29,591,736)	(30,479,488)	(31,393,873)
Gross profit	4,743,150	4,873,403	5,019,605	5,170,193	5,325,299
General and administrative expenses	(932,097)	(960,060)	(988,862)	(1,018,527)	(1,049,083)
Other operating expenses	(50,018)	(51,518)	(53,064)	(54,656)	(56,296)
EBITDA	3,761,035	3,861,825	3,977,679	4,097,010	4,219,920
Depreciation and amortization	(292,563)	(298,395)	(304,517)	(310,955)	(317,735)
EBIT	3,468,472	3,563,430	3,673,162	3,786,055	3,902,185
Revenue growth (%)	-9.6%	3.0%	3.0%	3.0%	3.0%
Gross profit margin (%)	14.5%	14.5%	14.5%	14.5%	14.5%
EBITDA margin (%)	11.5%	11.5%	11.5%	11.5%	11.5%
EBIT margin (%)	10.6%	10.6%	10.6%	10.6%	10.6%

Sources: Management Information

Al Ezz Dekheila Steel– forecast results (2019 to 2023)



Sources: Management Information

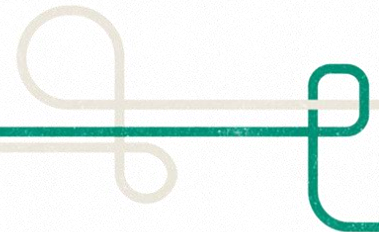
Overview

- Revenue is expected to grow by 3% (CAGR) over the forecast period as per Management's expectations from 2019 to 2023, which is mainly driven by the increase in prices of both Rebar and flat steel by 3% while keeping production volumes stable
- The gross profit margins are expected to stabilize at 14.5% over the forecast period
- EBITDA margin is expected to stabilize at 11.5% over the forecast period.

Section 2: Executive Summary

01. Introduction and Scope

02. Executive summary



The value of 100% of EZDK's equity is EGP 15.7 billion indicating a share price of EGP 1,176.8 based on the income and market approach

Valuation summary

EGP (million)	CY	FY+1
Income Approach - DCF		
Enterprise Value	22,454	22,454
Add: cash and cash equivalents	1,327	1,327
Add: Investment in EFS	5,658	5,658
Add: assets held for sale	96	96
Less: debt	(13,544)	(13,544)
Equity value	15,992	15,992
Market Approach - EV/EBITDA		
Forecast EBITDA Multiple	5.5x	5.3x
Size and liquidity discount	5%	10%
Forecast EBITDA Multiple range	5.2x	4.8x
FY19 and FY20 EBITDA	3,761	3,862
Enterprise value	19,639	18,539
Add: cash and cash equivalents	1,327	1,327
Add: Investment in EFS	5,658	5,658
Add: assets held for sale	96	96
Less: debt	(13,544)	(13,544)
Equity value	13,177	12,076
Market Approach - EV/EBIT		
Forecast EBIT Multiple	6.9x	7.3x
Size and liquidity discount	5%	10%
Forecast EBIT Multiple range	6.6x	6.6x
FY19 and FY20 EBIT	3,468	3,563
Enterprise value	22,893	23,465
Add: cash and cash equivalents	1,327	1,327
Add: Investment in EFS	5,658	5,658
Add: assets held for sale	96	96
Less: debt	(13,544)	(13,544)
Equity value	16,431	17,003
Income Approach - DCF	80%	12,793.5
Market Approach - EV/EBITDA	10%	1,262.7
Market Approach - Transactions	10%	1,671.7
Equity value		15,727.9
No. of shares		13,364.4
Price per share		1,176.8

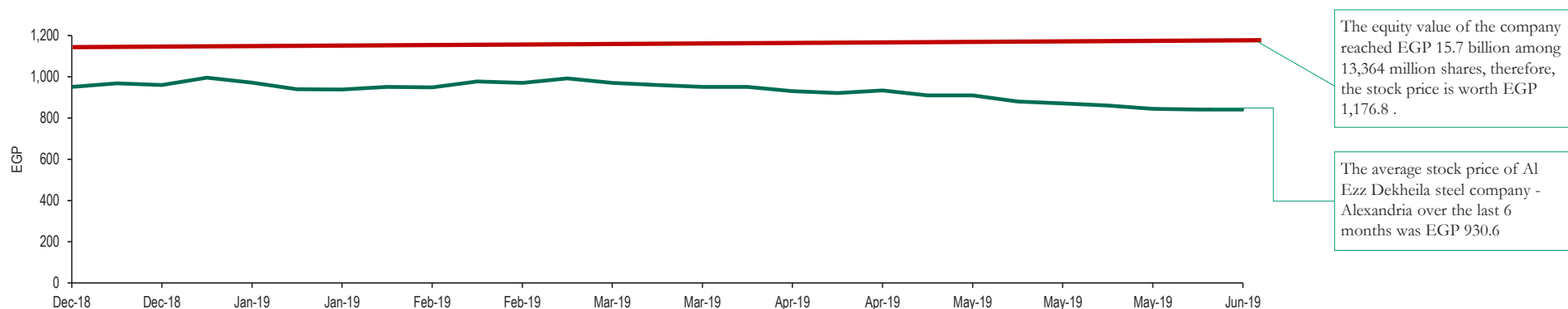
Sources: 1. Grant Thornton analysis

Valuation Summary

- We have used the Discounted Cash Flow (DCF) analysis to derive the value of 100% of EZDK. Our analysis is based on Management's most recent forecasts from 2019 to 2023
- Using Management's forecasts, we have applied a discount rate of 15.11% and a terminal growth rate of c.4% in our DCF analysis deriving an enterprise value of EGP 22.5 billion
- It is worth mentioning that when calculating the weighted average cost of capital (WACC), we have considered a 1% company specific premium in our estimation of the WACC to account for the sector risks and the economic environment and its potential impact on the company.
- After deducting the Company's current net debt as at 31 December 2018, we have derived an equity value of EGP 15.9 billion
- Using the market approach, we assessed EZDK's enterprise value based on market evidence using EBITDA and EBIT multiples derived from comparable guideline public companies (GPCs) operating in the steel sector
- Our GPC analysis indicates a current year and forecast EBITDA multiples of 5.5x and 5.3x. We have applied a discount of 5% and 10% to the GPCs multiples deriving an EV/EBITDA multiple range of 5.2x and 4.8x
- Applying EZDK's EBITDA for FY19 and FY20, our market approach valuation derives an average enterprise value of EGP 19.1 billion. After deducting net debt, we conclude that EZDK's average equity value is EGP 12.6 billion
- We have also used current and forecast EBIT multiples after applying a discount of 5% and 10% to the median multiples deriving an average enterprise value of EGP 23.2 billion. After deducting EZDK's net debt, we conclude that EZDK's equity value using EV/EBIT multiples is EGP 16.7 billion
- We have allocated a weight of 80% to our income approach and 10% to each of the market approach EV/EBITDA and EV/EBIT multiples
- The value of 100% of EZDK's equity share capital is EGP 15.7 billion indicating a share price of EGP 1,176.8

The value of 100% of EZDK's equity is EGP 15.7 billion indicating a share price of EGP 1,176.8 based on the income and market approach

Valuation summary – the stock price of Al Ezz Dekheila steel - Alexandria in the last 6 months in the Egyptian Stock Market



Sources: 1. Grant Thornton analysis 2. S&P Capital IQ

Valuation Summary (Cont'd)

- As mentioned before, EZDK's equity value is EGP 15.7 billion divided over 13,364 million shares indicating a share price of EGP 1,176.8
- We observed the share price of Al Ezz Dekheila steel company - Alexandria for the last 6 months based on the average weekly stock price from the period starting December 2018 to June 2019 according to S&P Capital IQ as shown in the graph above.
- The average stock price of Al Ezz Dekheila steel company - Alexandria during the last 6 months was EGP 930.6

Appendices

- A. Discounted Cash Flow (DCF) analysis
- B. Discount rate
- C. Guideline Public Companies – beta analysis

A. Discounted Cash Flow

Assumptions						
Weighted average cost of capital (WACC)	(1)	15.11%				
Target Company Tax Rate	(2)	22.5%				
Terminal growth rate	(3)	4.0%				

EGP (million)	2019	2020	2021	2022	2023	Terminal Value
Net Revenue	32,625	33,603	34,611	35,650	36,719	38,188
Annual Growth (%)	(9.6)%	3.0%	3.0%	3.0%	3.0%	4.0%
Cost of Sales	(27,881)	(28,730)	(29,592)	(30,479)	(31,394)	(32,650)
Gross Profit	4,743	4,873	5,020	5,170	5,325	5,538
Operating expenses	(982)	(1,012)	(1,042)	(1,073)	(1,105)	(1,150)
EBITDA	3,761	3,862	3,978	4,097	4,220	4,389
Depreciation	(293)	(298)	(305)	(311)	(318)	(573)
EBIT	3,468	3,563	3,673	3,786	3,902	3,816
Estimated Income Taxes	(780)	(802)	(826)	(852)	(878)	(859)
Profit After Tax	2,688	2,762	2,847	2,934	3,024	2,957
Plus: Depreciation	293	298	305	311	318	573
Working Capital movement	(387)	(233)	(238)	(245)	(252)	(220)
Capital Expenditure	(241)	(191)	(197)	(293)	(301)	(573)
Cash Flow to the Enterprise	2,353	2,636	2,716	2,707	2,789	2,737
Discount Periods (Mid-Period)	0.50	1.50	2.50	3.50	4.50	4.50
Present Value Factor	0.932	0.810	0.703	0.611	0.531	0.531
Present Value of Cash Flow	2,193	2,135	1,911	1,654	1,481	13,081
Sum of Present Values	9,373		42%			
Plus: Present Value of Terminal Value	13,081		58%			
Enterprise Value	22,454					
Add: cash and cash equivalents	1,327					
Add: Investment in EFS	5,658					
Add: assets held for sale	96					
Less: debt	(13,544)					
Equity value of EZDK	15,992					

Sources: 1. Grant Thornton analysis

Notes to the discounted cash flow

1. Based on WACC of 15.11%
2. Based on the statutory tax rates in Egypt
3. Terminal growth rate based on expected long term level of Egypt's inflation
4. Capex is forecast based information provided by Management
5. Working is forecast based information provided by Management

B. Discount rate

Weighted Average Cost of Capital

Cost of capital		
Risk-free rate	(1)	12.9%
Equity risk premium	(2)	6.0%
Beta	(3)	1.07
Industry adjusted premium		6.4%
Company specific risk	(4)	1.0%
Cost of equity (rounded)		20.4%
Subject's estimated pre-tax cost of debt capital	(5)	13.5%
Estimated tax rate	(6)	22.5%
After-tax cost of debt (rounded)		10.5%
Capital structure		
Equity weight	(7)	46.8%
Debt weight		53.2%
Weighted Average Cost of Capital		15.11%

Sources: 1. Grant Thornton analysis

We have assessed a weighted average cost of capital for Al Ezz Dekheila steel company - Alexandria based on the capital asset pricing model (CAPM), where:

$$R_e = R_f + b(R_m - R_f) + SP$$

- 1) R_f = Risk-free rate of return (based on the nominal return on ten year Egyptian government treasury bills)
- 2) $(R_m - R_f)$ = The estimated Market Risk Premium (MRP) of 6.0%, which equals $R_m - R_f$, incorporates perspective provided by recent long-term market return studies (Damodaran)
- 3) b = Beta, a measure of the relationship between industry risk and aggregate market risk, derived from the comparable company analysis set out in Appendix C
- 4) Company specific premium = Additional risk premium reflects the perceived uncertainties associated with the operating forecast for the subject company and the speculative nature of the returns associated therein
- 5) Cost of debt based on cost of debt in Egypt as of the valuation date
- 6) Based on statutory tax rates in Egypt
- 7) Debt-to-total capital ratio based on market participant optimal capital structure per the GPCs. Refer Appendix C

We assess that an appropriate discount rate based on the Company's WACC is 15.11%

C. Guideline public companies – beta analysis

Beta analysis

(USD)		MONTHLY		MARKET	MARKET	MARKET	EFFECTIVE	MONTHLY
SELECTED PUBLIC	EQUITY	TOTAL	MARKET	MARKET	VALUE OF	EFFECTIVE	INCOME	ASSET
GUIDELINE COMPANIES	BETA	DEBT	VALUE OF	VALUE OF	DEBT TO	TAX	RATE	BETA
			COMMON	DEBT TO	TOTAL			
			EQUITY	EQUITY	CAPITAL			
Al Ezz Dekheila Steel Company - Alexandria S.A.E.	1.26	843,417	742,201	113.6%	53.2%	23.0%		0.67
Ezz Steel Company	1.47	1,515,050	542,795	279.1%	73.6%	23.0%		0.47
Lingyuan Iron & Steel Co., Ltd.	0.89	392,848	1,075,784	36.5%	26.7%	29.6%		0.71
Xinxing Ductile Iron Pipes Co., Ltd.	0.80	2,292,377	2,500,981	91.7%	47.8%	27.5%		0.48
Usinas Siderúrgicas de Minas Gerais S.A.	3.01	1,598,096	2,929,923	54.5%	35.3%	12.9%		2.04
Dongkuk Steel Mill Company Limited	1.65	2,612,138	618,714	422.2%	80.8%	21.0%		0.38
Welspun Corp Limited	0.79	183,831	529,771	34.7%	25.8%	35.0%		0.65
Tung Ho Steel Enterprise Corporation	0.82	555,105	623,251	89.1%	47.1%	20.7%		0.48
Nippon Steel Corporation	1.21	20,538,304	15,216,624	135.0%	57.4%	16.7%		0.57
Tata Steel Limited	0.87	15,851,000	8,593,273	184.5%	64.8%	19.2%		0.35
JFE Holdings, Inc.	1.59	11,987,106	9,217,774	130.0%	56.5%	26.6%		0.81
POSCO	1.02	19,945,242	17,495,928	114.0%	53.3%	30.3%		0.57
			Median	113.8%	53.2%			0.57
Re-levering of Beta:								
Selected asset beta	0.57							
Debt to equity market value	113.8%							
Estimated income tax rate	22.5%							
RELEVERED BETA	1.07							

Sources: S&P Capital IQ



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