

16 November 2011

Buy

Target price
E£284.00

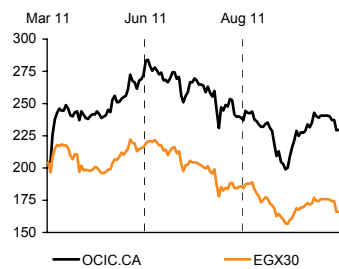
Price
E£229.45

Short term (0-60 days)
n/a

Market view
No Weighting

Price performance

	(1M)	(3M)	(12M)
Price (E£)	221.4	249.0	n/a
Absolute (%)	3.6	-7.9	n/a
Rel market (%)	3.0	2.5	n/a
Rel sector (%)	n/a	n/a	n/a



Market capitalisation
E£47.29bn (€5.81bn)

Average (12M) daily turnover
E£34.29m (€4.08m)

Sector: European-DS Tot Mrkt
RIC: OCIC.CA, OCIC EY
Priced E£229.45 at close 15 Nov 2011.
Source: Bloomberg

Analyst

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Orascom Construction Ind

3Q11 results due 21 November

OCI will report 3Q11 results on Monday, 21 November. We expect another strong quarter, with EBITDA of US\$364m (+37% yoy) and net income of S\$185m (+25% yoy) 2% and 1% above company-compiled consensus, respectively.

Key forecasts

	FY09A	FY10A	FY11F	FY12F	FY13F
Revenue (E£m)	21,313	27,552	31,896	35,324	37,947
EBITDA (E£m)	4,421	6,051	8,666	10,052	10,777
Reported net profit (E£m)	2,417	3,344	4,348	5,527	6,392
Normalised net profit (E£m)	2,417	3,344	4,348	5,527	6,392
Normalised EPS (E£)	11.74	16.23	21.10	26.82	31.02
Dividend per share (E£)	9.90	11.26	11.26	13.41	15.51
Dividend yield (%)	4.31	4.91	4.91	5.84	6.76
Normalised PE (x)	19.55	14.14	10.88	8.56	7.40
EV/EBITDA (x)	12.40	9.77	6.42	5.03	4.17
EV/invested capital (x)	2.18	1.88	1.82	1.75	1.67
ROIC - WACC (%)	4.87	7.46	7.00	12.90	17.00

Accounting standard: Local Egyptian standards
Source: Company data, Rasmala forecasts

year to Dec, fully diluted

OCI due to report 3Q11 results on Monday, 21 November

We expect OCI to report revenues of US\$1.3bn (+4% yoy), EBITDA of US\$364m (+37% yoy) and net income of US\$185m (+25% yoy). We are about 2% above company-compiled consensus for EBITDA and 1% for net income. Our EBITDA forecast implies a group margin of 28%, where we have assumed a 12.5% margin for construction and 45% for fertilisers.

Fertilisers benefiting from healthy agricultural fundamentals

Higher prices during 3Q11 are the main driver of our forecast revenues and EBITDA growth. We forecast an increase in the average realised urea price of US\$422/tonne (+17% versus 2Q11) and a flat ammonia price of US\$484/tonne. For the fertiliser segment, we forecast EBITDA of US\$278m. Recently, Yara stated (see 'Yara - No major surprises', dated 21 October, by Mutlu Gundogan) farm margins remain healthy, despite a drop in crop prices, and with limited stocks in the fertiliser value chain, this indicated a catch-up in deliveries is likely during the remainder of the season. We remain positive on the outlook for fertilisers and expect agricultural fundamentals to remain strong during 2011-13, thanks to tight grain stocks and a relatively tight supply-demand balance for nitrogen fertilisers.

New construction awards have picked up in 2Q11 and 3Q11

For the construction business, we forecast revenues of US\$700m and EBITDA of US\$88m. During 2Q11, OCI reported its first quarter in two years with an increase in backlog, and we expect this trend to have continued into 3Q11. We forecast US\$900m of new orders in 3Q11 and a 4% backlog increase from US\$5.23bn at end-2Q11 to US\$5.43bn at end-3Q11.

We reiterate our Buy recommendation and E£284 target price

OCI should be a major beneficiary of our positive view on agricultural fundamentals, especially considering OCI's major capacity start-ups planned for the next 12 months. We derive our target price of E£284/share, 24% upside potential from current levels, using a sum-of-the-parts DCF valuation. We believe the market is discounting the stock too much for potential downside risks, in particular the possibility of a higher gas price in Egypt. OCI is one of our top picks in the MENA region, and we reiterate our Buy recommendation.

Important disclosures can be found in the Disclosures Appendix.

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Income statement

E£m	FY09A	FY10A	FY11F	FY12F	FY13F
Revenue	21313	27552	31896	35324	37947
Cost of sales	-15564	-19383	-20110	-21728	-23769
Operating costs	-1328	-2118	-3120	-3544	-3401
EBITDA	4421	6051	8666	10052	10777
DDA & Impairment (ex gw)	-1017	-1385	-1641	-1848	-1848
EBITA	3404	4666	7024	8204	8929
Goodwill (amort/impaird)	n/a	n/a	n/a	n/a	n/a
EBIT	3404	4666	7024	8204	8929
Net interest	-497.4	-570.5	-890.0	-525.0	-320.0
Associates (pre-tax)	n/a	n/a	n/a	n/a	n/a
Other pre-tax items	134.7	393.3	421.0	258.3	271.2
Reported PTP	3041	4489	6555	7937	8880
Taxation	-491.3	-840.1	-1679	-1609	-1510
Minority interests	-133.6	-304.7	-527.8	-801.2	-978.3
Other post-tax items	0.00	0.00	0.00	0.00	0.00
Reported net profit	2417	3344	4348	5527	6392
Tot normalised items	0.00	0.00	0.00	0.00	0.00
Normalised EBITDA	4421	6051	8666	10052	10777
Normalised PTP	3041	4489	6555	7937	8880
Normalised net profit	2417	3344	4348	5527	6392

Source: Company data, Rasmala forecasts

year to Dec

Balance sheet

E£m	FY09A	FY10A	FY11F	FY12F	FY13F
Cash & market secs (1)	6136	5746	2638	7770	13333
Other current assets	13214	15909	17267	19080	20467
Tangible fixed assets	10697	12009	15245	17568	15898
Intang assets (incl gw)	9874	11062	8500	7000	7000
Oth non-curr assets	6938	10054	7862	4695	4095
Total assets	46857	54780	51512	56113	60794
Short term debt (2)	2266	3342	1000	1000	1000
Trade & oth current liab	13163	14647	15371	16658	17643
Long term debt (3)	11219	14251	10000	10000	10000
Oth non-current liab	3066	3634	3648	3648	3648
Total liabilities	29715	35875	30019	31306	32291
Total equity (incl min)	17143	18905	21494	24807	28503
Total liab & sh equity	46857	54780	51512	56113	60794
Net debt	7349	11847	8362	3230	-2333

Source: Company data, Rasmala forecasts

year ended Dec

Cash flow statement

E£m	FY09A	FY10A	FY11F	FY12F	FY13F
EBITDA	4421	6051	8666	10052	10777
Change in working capital	n/a	n/a	n/a	n/a	n/a
Net interest (pd) / rec	n/a	n/a	n/a	n/a	n/a
Taxes paid	n/a	n/a	n/a	n/a	n/a
Other oper cash items	n/a	n/a	n/a	n/a	n/a
Cash flow from ops (1)	4421	6051	8666	10052	10777
Capex (2)	0.00	0.00	0.00	0.00	0.00
Disposals/(acquisitions)	0.00	0.00	0.00	0.00	0.00
Other investing cash flow	n/a	n/a	n/a	n/a	n/a
Cash flow from invest (3)	0.00	0.00	0.00	0.00	0.00
Incr / (decr) in equity	n/a	n/a	n/a	n/a	n/a
Incr / (decr) in debt	n/a	n/a	n/a	n/a	n/a
Ordinary dividend paid	n/a	n/a	n/a	n/a	n/a
Preferred dividends (4)	n/a	n/a	n/a	n/a	n/a
Other financing cash flow	n/a	n/a	n/a	n/a	n/a
Cash flow from fin (5)	0.00	0.00	0.00	0.00	0.00
Forex & disc ops (6)	n/a	n/a	n/a	n/a	n/a
Inc/(decr) cash (1+3+5+6)	4421	6051	8666	10052	10777
Equity FCF (1+2+4)	4421	6051	8666	10052	10777

Source: Company data, Rasmala forecasts

year to Dec

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

Valuation and risks to target price

Orascom Construction Ind (RIC: OCIC.CA, Rec: Buy, CP: E£229.45, TP: E£284.00): We value OCI using a sum-of-the-parts DCF valuation, in which we value the construction and each fertiliser plant separately. The main risks to our investment case include commodity price movements, political risk in the Middle East and North Africa, increases in gas prices that affect production costs, and execution risks in planned capacity expansions that could result in delayed start-ups and thus affect our earnings forecasts.

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