Alexandria Mineral Oil Company (AMOC.CA)

Initiation of Coverage

February 6, 2018

Contents

- Valuation
- Industry Dynamics
- Egypt Overview & Outlook
- Company Overview
- Business Operation
- Innovative Development Strategy
- Fully liberal petroleum products prices with high correlation with oil prices
- Refining margin narrowing
- New entry to compress AMOC’s market share
- Financial Analysis & Forecast
- Risks and Opportunities

AOLb

Valuation

Recommendation	SELL
Fair Value	EGP 9
Market Price	EGP 9.29
Downside	-3.1%

Market Price as of February 5, 2017

- Our DCF valuation indicates a fair value of EGP9/share, (3.1%) downside from current levels. The valuation is based on five years of explicit forecasts and a terminal value using a 3% long-term growth rate.

- AMOC's debt-to-equity ratio was 0.01x at end-2018, because of minor short-term debt balance. AMOC's cost of debt is fairly low. We used a WACC of 19.5%, where the cost of equity is 18%. AMOC’s 2018 P/E is 9.5x. AMOC trades below the Reuters P/E sector average of 17.85x

Industry dynamics

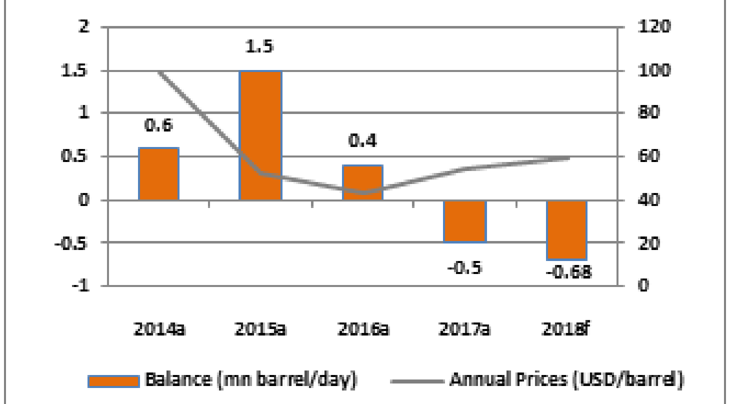
Strong world growth rate entices oil demand

- The world annual real GDP growth forecast is 3.7% in 2018f, same as in 2017, according to the World Bank.

Higher supply growth expectation from the US and Canada

- For 2018e, driven by higher growth expectation for the US and Canada, the global oil supply is anticipated to increase 1.3mb/d to 97.82mb/d in 2018f, with 0.68mb/d undersupplied.

Annual Brent Crude Oil Prices & Oil Balance



Source: EIA & OPEC
Notes: Oil Balance = World Supply – World Demand

An extension of the cuts through 2018 is expected

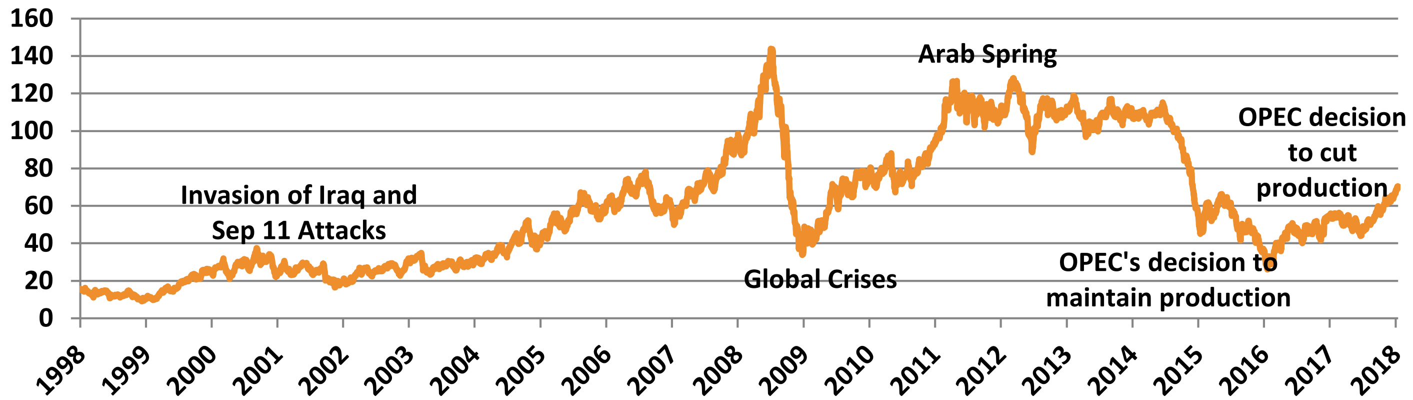
OPEC crude oil production has declined by 0.2mb/d in 2017, resulting from the Declaration of Cooperation (DoC) which reflects an agreement by 12 members to cut output by 1.2 mb/d in the first six months of 2017. The agreement has been extended to March 2018.

Industry dynamics

Oil prices rebound owing to OPEC production cut resolution

- With projected increases in U.S. shale production, the global market is unlikely to tighten significantly in 2018. According to US Energy Information Agency (EIA), Brent Crude Oil stood at USD 54.15/b in 2017 and projected at USD 59.74/b, in 2018. We forecast Brent crude oil at an average of USD69/b in 2018, supported by continued production cuts from the DoC and strong economic and demand growth.

Brent Crude Oil Price Trend (USD/Barrel)



Source: EIA

Egypt overview & outlook

Moderate reserves

- Egypt enjoys 3.5bn barrels of oil reserves at end of 2016 (0.2% of total worldwide oil reserves).

- Egypt Reserves to Production (R/P) ratio is at 13.7x versus 44.3x for Africa.

Market undersupplied

- Egypt's oil production is in short of demand. In 2016, total production was 691k bpd, while consumption recorded 853k bpd, exceeding supply by a 162k bpd deficit.

- Egypt’s main petroleum products exports are fuel oil, and waxes, while gasoil, naphtha and LPG are its main imports.

Net importer of petroleum products

- The domestic market consumes around 75mn tons of petroleum products annually, and Egypt’s oil sector supplies 60% of the local needs and the rest is imported.

Egypt overview & outlook

Government dominance

EGPC is the sole supplier of feedstock to all refineries, and the main customer for end products destined for the local market at international prices.

Sector upgrade

- Egypt's total refinery capacities stood at 810k bpd in 2016, while the actual oil refinery throughput is at 508k bpd in 2016, with 62% utilization rate.
- An USD 8.3bn budget to upgrade eight oil refineries.
- MIDOR, the more advanced one, will be listed on EGX, as well as raising AMOC's free float.

Egyptian Refineries Capacities & Main Shareholder

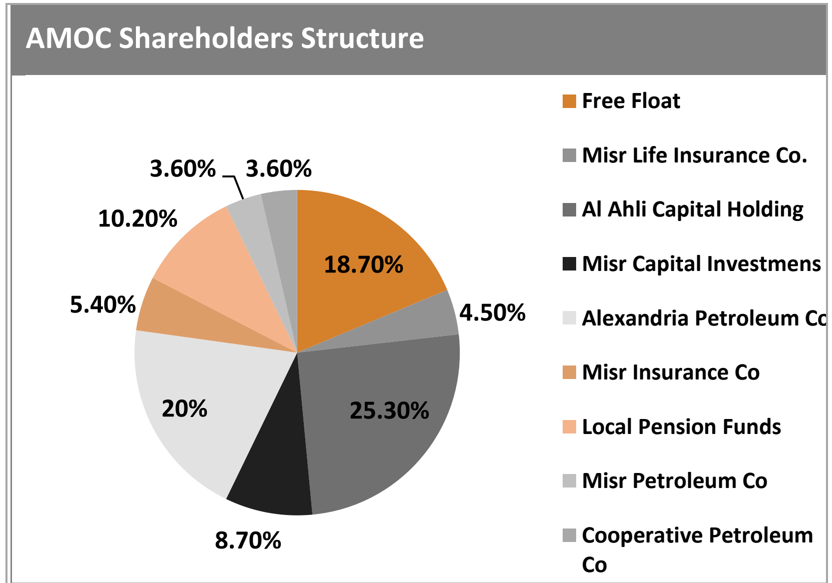
Refinery	Capacity (Million tonnes/p.a.)	Main Shareholder
APC	5.0	EGPC
CORC	10.0	EGPC
NPC	6.0	EGPC
APRC	4.0	EGPC
SOPC	3.0	EGPC
ASORC	4.5	EGPC
MIDOR	5.8	EGPC
AMOC	**1.7**	**Alex Petroleum**
Egypt's Total Capacity	**40.0**	

Source: Ministry of Petroleum and AMOC

The sector is witnessing only one new entrant; Egyptian Refining Company (ERC) new USD 4.2bn processing plant at capacity of 4.2mn tons per year of liquid products, brining Egypt's total refining capacity at 44.2 mtpa.

Company overview

- Alexandria Mineral Oils Company (AMOC) was founded in 1997 and is headquartered in Alexandria, Egypt.
- AMOC was listed on EGX in 2004, the sole refinery publically traded, with 18.7% free float.
- Owning 25.31% of AMOC, Al Ahli Capital decided to transfer 39.5% of its stake in AMOC (10% of total shares) to GDRs for trading in the LSE in early 2018.



Source: AMOC

- Plans increasing its EGX listing by another 10 - 20% of its shares.

Business operation

- AMOC is a second stage refinery, where it refines low Sulphur fuel-oil, at a capacity of 1.7mn tons p.a.
- AMOC engages in the production of oil and paraffin wax.
- Products include Gas Oil, Fuel Oil, Naphtha, LPG, Waxes, and Base Oil.
- Egyptian General Petroleum Corporation (EGPC) is the sole supplier of feedstock, and the main customer for end products destined for the local market at international prices.

AMOC's Designed Capacity

Products	In tonnes p.a.
I Lube Oil Complex	
Transmission Oil (A.T.F.)	5,500
Transformer Oil (T.O.)	16,500
Base Oil	88,000
Total Oils	110,000
Waxes	27,000
Subtotal	**137,000**
II Gas Oil Complex	
Primary Products:	
Gas Oil	460,000
Naphtha	98,000
LPG	43,000
Subtotal	**601,000**
Secondary Products:	
Fuel Oil	560,000
Heavy Residual	431,000
Sulphur	4000
Subtotal	**995,000**
Total Capacity	**1,733,000**

Source: AMOC

Innovative development strategy

Revamp of operations

- AMOC-AXENS revamping contract to develop the second phase of Middle Distillates De-waxing Unit (MDDU) units with a total investment cost of USD 50mn.
- Producing Euro five standards products in addition to production of Diesel.

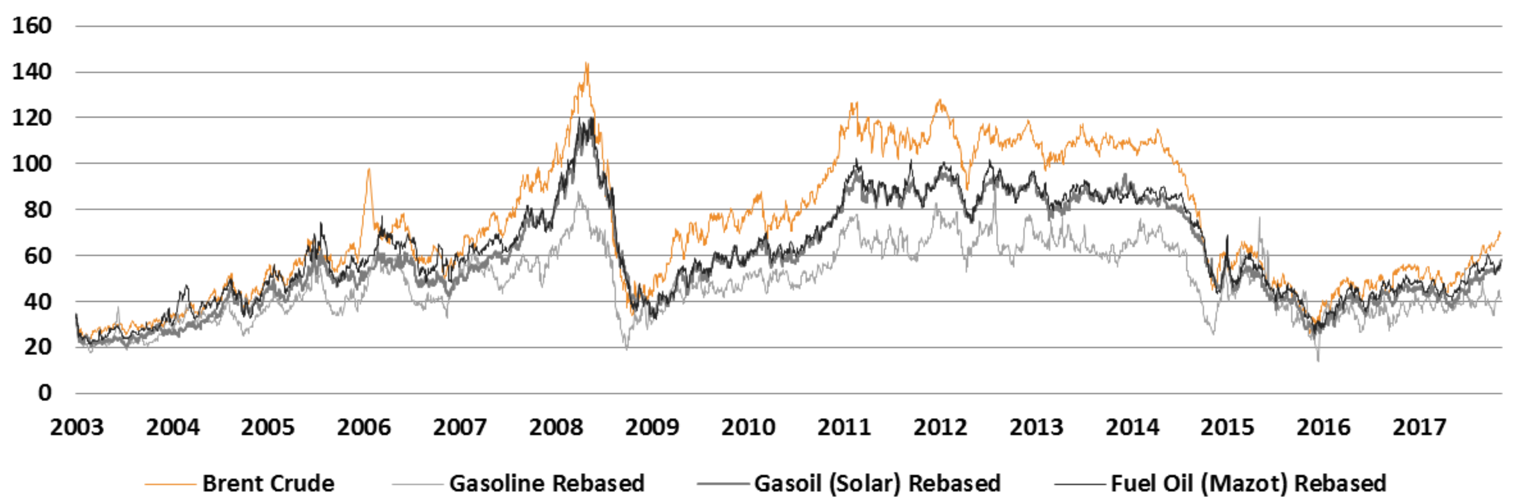
Extended arms of partnership

- Processing 500 barrels/month at MIDOR.
- A deal with Dana Gas to initially refine 1,500 barrels/ day, ultimately increase to 4,000 barrels/day.
- Packaging and Blending about 10k ton/year of Lube Oils for Saudi Petromin.
- Dealing with Arabian Company for Oil and Derivatives to purchase 1,200 tons of main unrefined oils at EGP 1,095/ton.
- Dealing with Iraqi company SOMO on the import and refining of 260k barrels monthly of Basra crude oil.
- Exporting a petroleum products including fuel oil (mazut) to the State Oil Company of Azerbaijan Republic.
- Process ng monthly shipment from 45k to 60k barrels from Tanta Lab.

Fully liberal petroleum products prices with high correlation with oil prices

- AMOC main products Gasoline, Gasoil (Solar) and Fuel Oil (Mazot) are highly correlated at 89%, 99% and 98%, respectively with price movements of benchmark Brent Crude oil.
- With Brent Crude Oil is expected at 59.7/barrel, AOLB projects 2018f Gasoline, Gasoil and Fuel Oil prices at USD 1.88/b, USD1.66/b and USD1.78/b, respectively.

AMOC's Petroleum Products Correlation with Brent Crude Oil Price Trend (USD/Barrel)

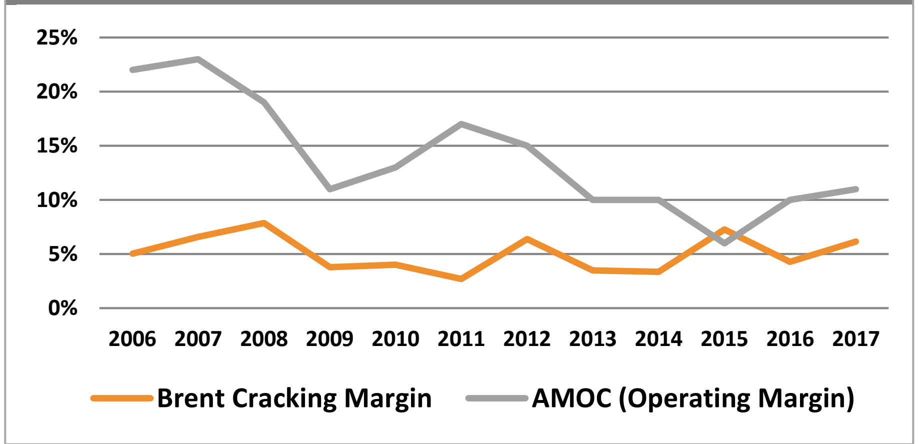


Source: EIA

Refining margin narrowing

- The refining industry works on margins on top of the feedstock cost.
- The 12 - year average refining margin for Brent cracking stands at 5%, while AMOC's 12 – year operating margin records 14%.
- However, the gap between the two curves is narrowing

Refining Margins (%)



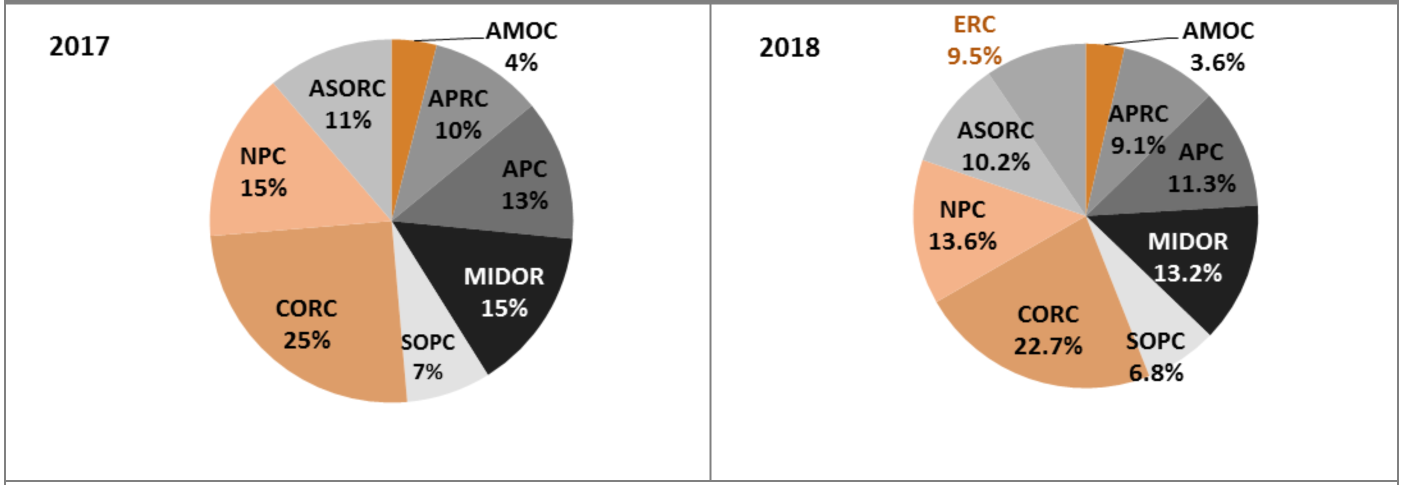
Source: EIA & AOLB Research

New entry to compress AMOC's market share

- The petroleum sector has launched a plan to upgrade Egypt's total oil refinery capacity to 44.2mtpa by end of 2018, compared with the current capacity of 40mtpa (+10.5% growth).

- new entrant of ERC of Citadel Capital, with a capacity of 4.2mtpa and an investment of USD 4.2bn.

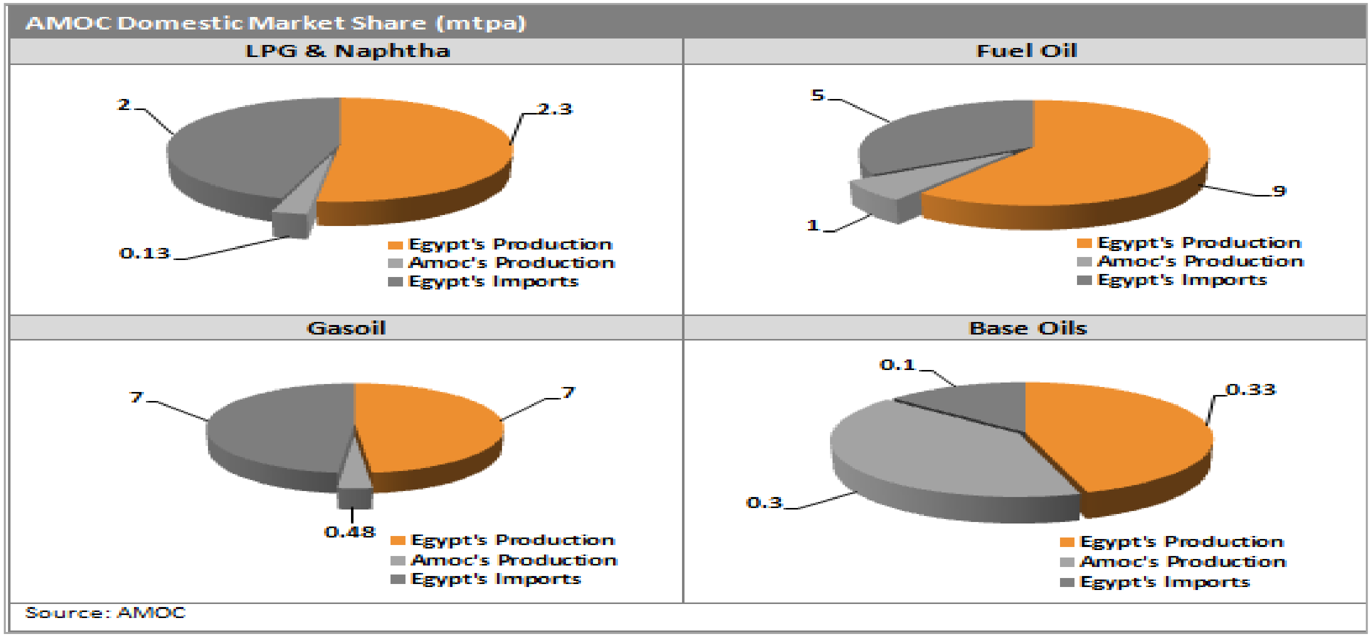
Egypt Refineries Market Share in 2017 vs. 2018e



Source: AMOC & AOLB Research

Backed by strong domestic demand and prices rebound

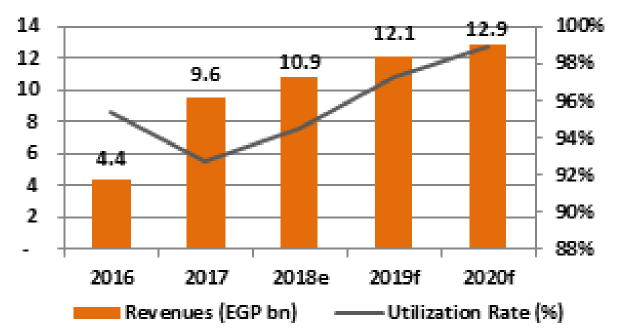
- Egypt is net importer of fuel oil, gasoil, LPG, Naphtha, and lube base oils.
- Thus, AMOC is well backed by strong local demand, it produces around 4% of Egypt’s total production for LPG and Naphtha,7% of Egypt’s total production for Gasoil, 11% of Egypt’s fuel oil and 30% of Egypt’s lube base oils.
- AMOC main exports are waxes. In FY2018e, Wax contribution is USD52.7mn (EGP935.6mn), where total exports comprise 12% to total revenues.



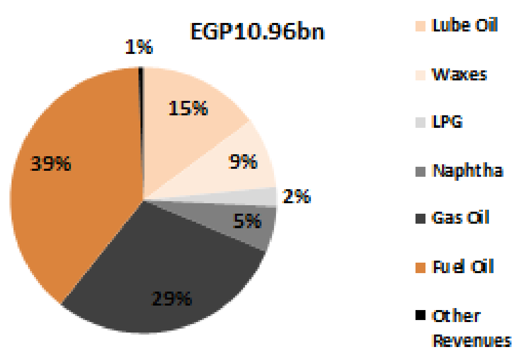
Financial analysis & forecast

- **Low leverage & High Cash:** AMOC has built up a handsome cash balance at EGP 1.47bn, thus the company did not resort to debts to supply its operation upgrades, where the Debt/Equity ratio stood as low as 0.01x in 2017.
- **Double-digit dividend yield:** AMOC is a high divined-paid stock, however due to extensive operation upgrades in MDDU unit, 2018 dividends is expected to declined 83%, to record a 10% dividend yield.
- **Revenues to grow 14%:** We expect AMOC's revenues at EGP10.9bn, out of which exports represents 12% of total sales, while sales to the local market (comprising 88% of sales) are to increase to EGP9.6bn in 2018e, 14% YoY growth. Sales 2018-2022 CAGR is 16%.

Revenues & Utilization Rate



Revenues Breakdown for 2018e



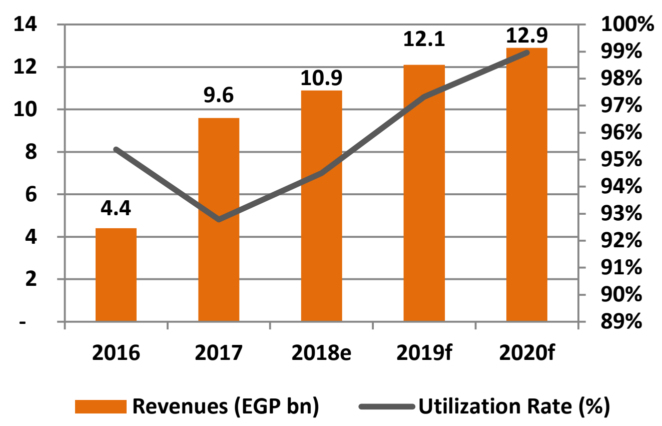
Source: AOLB Estimates

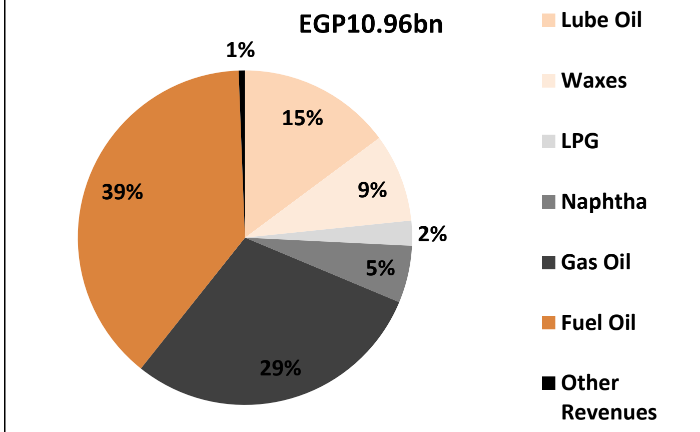
Financial analysis & forecast

Gross Margin to widen

- we expect gross profit margin to widen to 17% in 2018e, up from 13% in 2017.
- We forecast AMOC to maintain an average gross profit margin of 19% throughout our forecast period, up from 11% over 2013-2017.
- Average revenue per ton is expected at EGP 6,323 in 2018e versus EGP 5,534 in 2017, while average cost per ton is projected at EGP 5,277 in 2018e versus EGP 4,822.

Revenues & Utilization Rate	Revenues Breakdown for 2018e





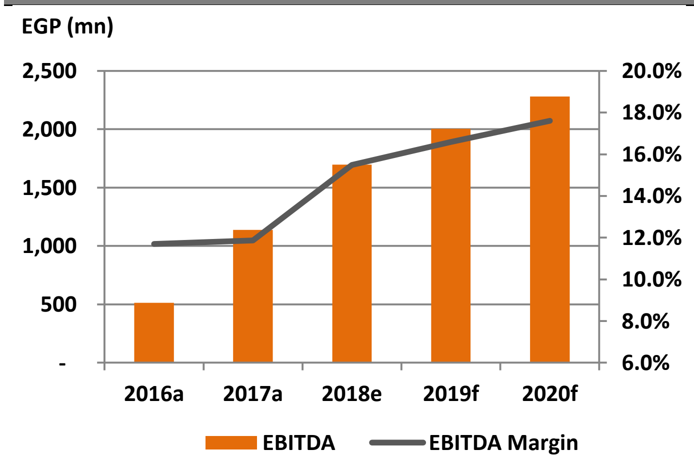
Source: AOLB Estimates

Financial analysis & forecast

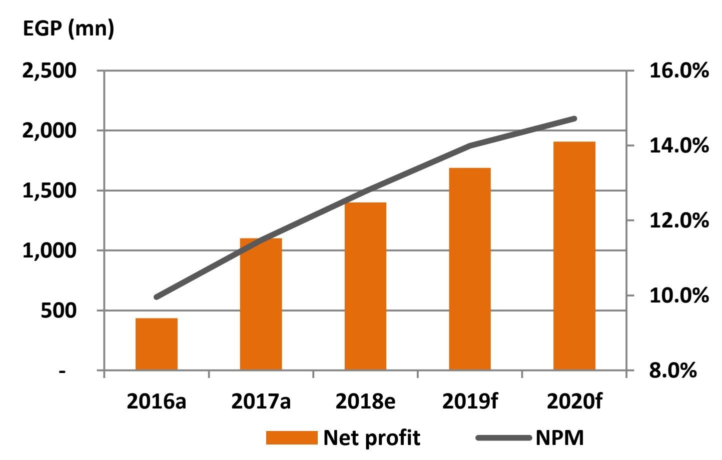
EBITDA and Bottom-line expansion

- AOLB forecast AMOC's EBITDA to increase to EGP1.6bn in FY2018e, 49.5% YoY growth, while the EBITDA margin to expand to 15.5%, up from 11.9% in 2017.
- AOLB forecast AMOC's net profit to grow to EGP1.26bn in FY2018e, 15% YoY growth, while the NP margin to expand to 12%, up from 11% in 2017. Net profit 2018-2022 CAGR is 16%.

EBITDA & EBITDA Margin



Net Profit & NPM



Source: AOLB Estimates

In a Nutshell

Risks

- ERC new refinery entry to compress AMOC's market share.
- Volatile crude oil prices, with high correlation with AMOC's end products.
- EGPC is the sole supplier of feedstock to all refineries, and the main customer for end products.

Opportunities

- Brent crude oil price rebound in 2018e to USD59.7, 10.3% growth YoY.
- Strong domestic demand, where Egypt's is main importer of AMOC's end products.

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