Company note

# Ezz Steel

Steel | Egypt

MENA research

## Solid buy on limited risk and sizable upside

- **After official settlement on DRI license, focus now shifts to EZDK case with verdict expected on 6 March**
- **On our valuation, the market is pricing in only a c17% stake in EZDK, which we believe is not justified, looking back at the acquisition history**
- **We raise our TP to EGP14.2/share from EGP10.6/share and reiterate our Overweight rating as we move away from our floor valuation**

**Direct-reduced iron (DRI) license officially settled, ending concerns of project not materializing:** In November, Ezz Steel announced that it agreed with the Industrial Development Authority to pay EGP330m for the DRI/billet license of Ezz Rolling Mills (ERM), officially settling the dispute. We see this as being quite positive for the company, given the strategic importance of the investment and as we believe the payment schedule bodes well as the module is at an advanced stage of construction (80% complete).

**New DRI module would still be lucrative at a gas price of USD5.5/mmbtu:** On our estimates, Egypt might need to import 4%–6% of its gas needs in the short term, which should not have a major impact on the government's procurement price (USD2.9/mmbtu in FY12/13), in our view. Nevertheless, we also believe that incremental local production could come at a higher cost, which would imply increased natural gas prices in the long term. We expect the new DRI module to provide significant cost savings even with gas prices as high as USD5.5/mmbtu. We project a normalized cost advantage over buying scrap of USD110/ton, which should add cEGP1.1bn (USD176m) to the company's EBITDA, apart from freight savings.

**Market pricing in a stake of only c17% in Al Ezz Dekheila Steel (EZDK) is not justified:** Looking back at EZDK's acquisition history, we see no sale of government shares to Ezz Steel, which makes an annulment of the deal (similar to what has occurred in a number of cases since the revolution) a rather unlikely outcome. The worst-case scenario, in our view, could involve the shares acquired through EZDK's capital increase, which diluted the government's stake in the company. In that case, we might see Ezz Steel's stake in EZDK drop to c42% and its holding in EFS fall to c57%, given its indirect stake through EZDK.

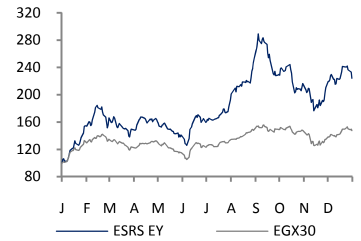
**We raise our TP to EGP14.2/share and reiterate our Overweight rating:** We assign Ezz Steel a TP of EGP14.2/share (up from EGP10.6/share) as we move away from our previous floor valuation and account for a c42% stake in EZDK at fair value (instead of its full c55% stake at book value). Our new TP puts the company at a 2012e P/B of 1.6x, a c44% discount to its average 2004–11 trading multiple of 2.9x, and implies a potential return of 42%. We find the current valuation attractive, with the company trading at a 2014e EV/ton of USD415, a 33% discount to peers' implied multiple.

## Overweight

| | |
|---|---|
| **Target price (EGP)** | **14.2** |
| Current price (EGP) | 10.0 |
| Potential return | 42% |
| Bloomberg | ESRS EY |
| Reuters | ESRS.CA |
| Mcap (EGPm) | 5,433 |
| Mcap (USDm) | 832 |
| Free float | 34% |
| Daily volume (USDm) | 2.920 |
| Foreign own. limit | N/A |
| Foreign ownership | N/A |

Note: All prices as of 15 January 2013

**Price performance**

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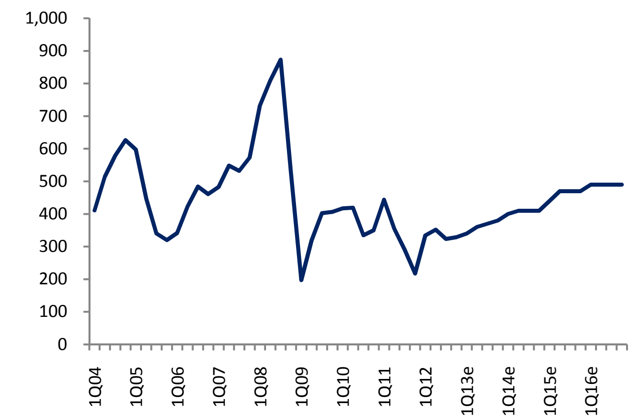
# DRI license officially settled, ending concerns that the project would not materialize

In November, Ezz Steel announced that it agreed with the Industrial Development Authority to pay EGP330m for ERM's DRI/billet license, officially settling the dispute. The company has already paid EGP50m and will pay the rest in equal annual installments over 5 years after an 18-month grace period. Ezz Steel said the plant is 80% complete and added that it is currently concluding negotiations regarding the DRI/billet license of Al Ezz Flat Steel (EFS). In our view, this is quite positive for the company, given the strategic importance of the investment and as we believe the payment schedule bodes well as the first DRI module is at an advanced stage of construction.

The company is installing the module at EFS, in which it holds a c64% stake, at a total investment cost of cUSD460m, of which USD330m has already been paid. The new module is wholly owned by Ezz Steel (through ERM) to ensure maximum return to its shareholders and will sell DRI to both EFS and Ezz Steel Rebars (ESR) to replace scrap procurement. We expect commercial production to start by 1Q14. The cost advantage of using DRI versus buying scrap was USD86/ton in 2Q12, on our estimates, which mostly explains the margin differential between EZDK and ESR/ERM. Assuming the same cost savings, we expect the new DRI plant to add cEGP980m to the group's EBITDA.

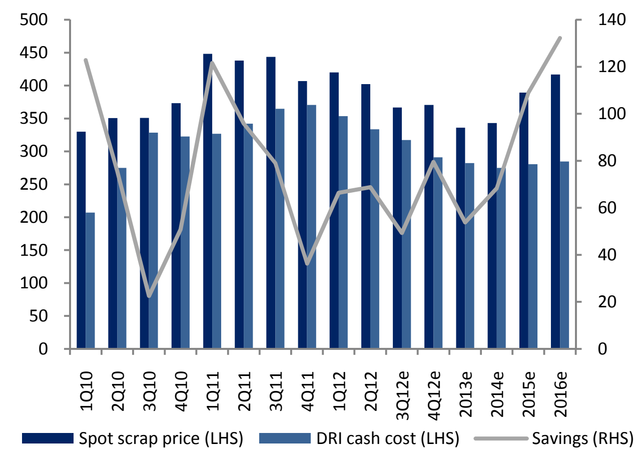
In our previous note, *Risk receding; upgrade to OW*, published 8 March 2012, we argued that DRI economics are a function of (1) the current point in the steel cycle, which we measure by looking at the spread between hot-rolled coil (HRC) and basic steel-making costs and (2) the price of rebar compared with the price of HRC. Although the industry's profitability has recovered from its lows in 4Q11, we believe returns remain largely depressed, given a spread of only USD330 between HRC and basic steel-making costs versus the 2004–07 average spread of USD480, on our estimates. According to Bloomberg's analysis, European integrated steel producers are currently generating a profit of USD7/ton, which we do not believe is sustainable.

**Spread between HRC and basic steel-making costs (USD/ton)**




Source: Bloomberg, HC

**EZDK's DRI cash cost versus cost of buying scrap (USD/ton)**




Source: Bloomberg, HC

The consensus investment cost/ton for new integrated steel capacity is USD800–USD1,200, which implies a USD90–USD130 NOPLAT given a 10% ROIC, which we believe could be the threshold for new investments. If we assume a 20% tax rate, this translates to an EBIT/ton of USD140 and means that industry returns should normalize at a spread of USD460, which is in line with our estimates.

With global capacity utilization currently standing at c76%, and taking into account a slow recovery in steel demand in the developed world, we estimate a gradual recovery in the industry, with the peak of the cycle falling in 2016. Nevertheless, the recent news flow on natural gas shortages in Egypt and the imminence of gas importation raises the question as to what impact this could have on gas prices in the local market and hence on the economics of the new DRI module, which we try to answer below.

**Gas imports should have limited impact on market dynamics, but incremental local production could come at a higher cost**

According to BP's 2012 statistical review of world energy, natural gas consumption in Egypt grew at a CAGR of c6% while production grew at only c2% in 2006–11. As demand is expected to continue to grow at roughly the same pace, we believe Egypt needs to increase its investments in the gas industry if it is to meet local demand and continue to fulfill its export obligations. Early signs are promising, in our view, with investments implemented in FY11/12 totaling EGP51.5bn, up from an average of EGP32.1bn in the previous 3 years. Nevertheless, it could be another couple of years before we see a major breakthrough in production, which would imply a shortage of 2.5 bcm, or c4% of consumption, in 2013, if export levels remain constant.

**Summary of Egyptian natural gas market (bcm)**

| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012e | 2013e |
|---|---|---|---|---|---|---|---|---|
| Proven reserves | 2,047 | 2,070 | 2,150 | 2,190 | 2,210 | 2,190 | 2,128 | 2,063 |
| Natural gas production | 54.7 | 55.7 | 59.0 | 62.7 | 61.3 | 61.3 | 62.4 | 64.3 |
| %Δ y-o-y | 29% | 2% | 6% | 6% | -2% | 0% | 2% | 3% |
| Natural gas consumption | 36.5 | 38.4 | 40.8 | 42.5 | 45.1 | 49.6 | 52.6 | 56.8 |
| %Δ y-o-y | 16% | 5% | 6% | 4% | 6% | 10% | 6% | 8% |
| Natural gas exports | 16.9 | 16.0 | 16.9 | 18.3 | 15.2 | 10.4 | 9.8 | 10.0 |
| %Δ y-o-y | 110% | -6% | 6% | 8% | -17% | -32% | -5% | 2% |
| Natural gas imports | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 2.5 |
| % of consumption | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 4% |

Source: BP, HC

In December, the Egyptian Natural Gas Holding Company changed its mandate to include importing natural gas either directly or indirectly through other companies. This coincided with the government's announcement of its plan to auction 5 gas import licenses to the private sector, clearly indicating the government's intention to import natural gas. What the LNG import price would be remains unclear at this point as there happens to be no benchmark price for gas imports in the region and there is significant price variation globally. According to the US Energy Information Administration, the US pays USD5.82/mmbtu for LNG imports from Qatar, while, according to Bloomberg, Japan's average LNG import price, including freight, currently stands at USD13.13/mmbtu. However, if our estimates hold, the amount of natural gas Egypt needs to import should be minimal and would not have a major impact on the government's procurement price (USD2.9/mmbtu in FY12/13). Furthermore, we understand that the DRI license includes gas supplies from the government, which means Ezz Steel will not be forced to buy from private importers. That said, we could still see an increased gas price for energy-intensive users in Egypt.

**New DRI module would still add EGP1.1bn to group EBITDA at gas price of USD5.5/mmbtu**

After years of standstill, the Egyptian government reached a groundbreaking deal with BP in 2010, giving the company full production rights in its North Alexandria block and guaranteeing an oil-linked natural gas offtake price of USD3/mmbtu–USD4.1/mmbtu. In our view, the deal could set a precedent for new offshore gas developments in Egypt and is perceived as being necessary to unlock further investments in the sector. Up to that point, the government had paid a flat rate of USD2.65/mmbtu for conventionally produced gas and had agreed in 2008 on a price of USD4.5/mmbtu for gas from deepwater sites.

BP only recently started working on the USD10bn project, which is expected to increase Egypt's natural gas production by c20%. All other things being equal, this could imply a c8% increase in the government's procurement price in 5 years' time and should translate to a gas price of USD4.33/mmbtu for energy-intensive users, as long as the government continues to apply a c38% premium. We therefore expect incremental gas production in general to come at a higher cost, which should be reflected in prices in the local market. We also believe continued fiscal consolidation efforts might contribute to an increased price of natural gas for industrial use in the medium term, though to a limited extent.

Until we have better visibility on the natural gas market in Egypt, we opt to take a more conservative stance, assuming a gas price of USD4.5/mmbtu in 2014e, USD5/mmbtu in 2015e, USD5.25/mmbtu in 2016e, and USD5.5/mmbtu in 2017e, up from the current USD4/mmbtu. This is a cumulative c38% increase, which could turn out to be excessive. However, even given these new estimates, we believe the new DRI module would provide significant cost savings. Assuming 90% capacity utilization for the new module, we expect a cost advantage over buying scrap of USD115/ton in 2015e, which should add cEGP1.1bn (USD178m) to Ezz Steel's EBITDA in 2015e, apart from freight savings for EFS and ESR. This accounts for c38% of our 2012–15e EBITDA growth estimates on the group level.

**Estimate revisions (EGPm)**

| | 2013e | | | 2014e | | | 2015e | | | 2016e | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Old** | **New** | **%Δ** | **Old** | **New** | **%Δ** | **Old** | **New** | **%Δ** | **Old** | **New** | **%Δ** |
| Sales ('000 tons) | 5,432 | 5,232 | -4% | 5,492 | 5,372 | -2% | 5,492 | 5,492 | 0% | 5,492 | 5,492 | 0% |
| Revenue | 24,497 | 20,835 | -15% | 25,133 | 21,827 | -13% | 25,604 | 23,990 | -6% | 24,038 | 24,931 | 4% |
| EBITDA | 4,739 | 2,429 | -49% | 5,423 | 3,792 | -30% | 6,105 | 5,038 | -17% | 5,317 | 5,598 | 5% |
| EBITDA/ton (USD) | 145 | 72 | -50% | 165 | 109 | -34% | 185 | 142 | -23% | 161 | 158 | -2% |
| Net profit | 1,699 | 418 | -75% | 2,243 | 1,095 | -51% | 2,785 | 1,922 | -31% | 2,506 | 2,355 | -6% |

Source: HC

**2013–16e EPS cut an average of c41%, mainly on the back of delay in DRI capacity coming onstream**

We cut our 2013–16e EBITDA estimates c23% and EPS forecasts c41%, on average, as we account for (1) the delay in the new DRI capacity coming onstream, (2) a flatter and more gradual recovery in the global steel industry, and (3) increased natural gas prices. Nevertheless, we expect Ezz Steel's EBITDA to nearly double over 2012–14e.

# SOTP analysis yields a value of EGP17.1/share…

Our DCF-based SOTP valuation for Ezz Steel yields a total value of EGP9.3bn, or EGP17.1/share, down from EGP18.2/share on our previous forecasts. On the group level, we now assume a long-term EBITDA/ton of USD138 versus USD160 previously. Our valuation of EGP17.1/share puts the company at a 2012e P/B of 2.0x, which represents a c32% discount to its 2004–11 average trading multiple of 2.9x. Our valuation also implies an EV/ton of USD613, which is broadly in line with peers' implied 2014e EV/ton of USD622.

We have tracked the multiples at which a number of steel companies around the world are trading versus how much they are earning per ton of steel. Plotting 2011 EBITDA/ton against current EV/ton for 26 listed steel companies, we found that the 2 sets of data had a relatively strong correlation with a coefficient of 0.83.

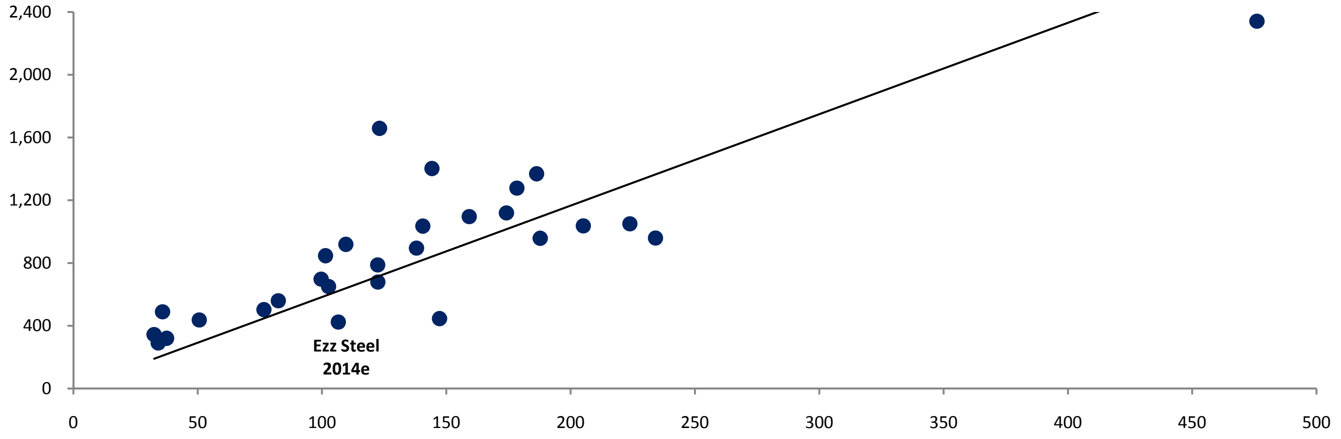
**Ezz Steel SOTP DCF valuation summary (EGPm)**

| Company | Cost of equity | Cost of debt | WACC | Enterprise value | Implied EV/ton | Net debt | Market value | Stake | Value to Ezz Steel | % of total |
|---|---|---|---|---|---|---|---|---|---|---|
| ESR/ERM | 19.0% | 14.5% | 12.7% | 2,614 | USD268 | (2,001) | 613 | 100% | 613 | 7% |
| DRI | 19.0% | 12.0% | 16.0% | 3,367 | USD280 | (990) | 2,377 | 100% | 2,377 | 26% |
| EFS | 19.0% | 6.4% | 13.6% | 3,587 | USD460 | (1,536) | 2,051 | 64% | 1,310 | 14% |
| EZDK | 19.0% | 8.5% | 15.1% | 12,739 | USD676 | (3,613) | 9,125 | 55% | 4,982 | 54% |
| **Ezz Steel** | | | | **22,307** | **USD613** | **(8,141)** | **14,166** | **66%** | **9,280** | **100%** |
| Number of shares (m) | 543.3 | | | | | | | | | |
| **Valuation/share (EGP)** | **17.1** | | | | | | | | | |
| **Potential return** | **71%** | | | | | | | | | |

Source: HC

On our estimates, Ezz Steel should have a proportionate EBITDA/ton of USD107 in 2014e, which implies an EV/ton of cUSD622. This would yield a valuation of EGP10.4bn, or EGP19.2/share, which is c13% higher than our DCF-based SOTP valuation. However, in 2013e the stock looks expensive, with an implied valuation of EGP2.8bn, or EGP5.2/share, which we attribute largely to the fact that the new DRI module will not start commercial operations before 2014e.

**EV/ton versus 2011 EBITDA/ton for steel companies around the world (USD)**




Source: Bloomberg, World Steel Association, HC

# …but how much should be discounted in the market?

Since the revolution, Ezz Steel's founder, majority shareholder, and former chairman Ahmed Ezz has been facing a number of allegations, some of which have been taken to court. The allegations include nonpayment of a fee for licensing new projects in energy-intensive industries (a retrial is yet to be scheduled), money laundering involving the embezzlement of EGP6.4bn worth of public funds (preliminarily sentenced to 7 years in prison and fined EGP19.3bn), and irregularities concerning the acquisition of EZDK, his management of the company, its treasury shares, and its intergroup transactions (a verdict is expected on 6 March). More recently, Mr Ezz was referred to economic court on charges of engaging in monopolistic practices in the Egyptian steel market.

In our last note, *Risk receding; upgrade to OW*, published 8 March 2012, we argued that while the outcome of the EZDK case remains uncertain, how much the market is willing to pay for Ezz Steel's EZDK assets is largely a function of risk appetite. While we believe that is still the case, on our valuation, the market is currently pricing in only a c17% stake in EZDK, which is not justified, in our view.

**Ezz Steel's EZDK acquisition history**

| Date | Buyer | Selling shareholder | Number of shares ('000) | Stake |
|---|---|---|---|---|
| October 1999 | Ezz Steel | EZDK's employee shareholders union | 544 | 4.1% |
| November 1999 | Ezz Steel | EZDK's employee shareholders union | 645 | 4.8% |
| January 2000 | Ezz Steel | Capital increase | 1,668 | 12.5% |
| October 2003 | Ezz Industries | EZDK's employee shareholders union | 1,611 | 12.1% |
| April 2004 | Ezz Industries' subsidiary | International Finance Corporation | 600 | 4.5% |
| June 2004 | Ezz Industries' subsidiary | JFE Holdings | 602 | 4.5% |
| June 2004 | Ezz Industries' subsidiary | Kobe Steel | 361 | 2.7% |
| September 2004 | Ezz Industries' subsidiary | African Development Bank | 600 | 4.5% |
| July 2005 | Ezz Industries | Tomen Corporation | 241 | 1.8% |
| June 2008 | Ezz Steel | Free float | 244 | 1.8% |
| April 2010 | Ezz Steel | Free float | 180 | 1.3% |
| **Aggregate** | | | **7,295** | **54.6%** |

Source: Company data

## We assign a TP of EGP14.2/share and reiterate our Overweight rating

Based on the acquisition history above, Ezz Steel did not acquire any EZDK shares from the government, which makes an annulment of the sale (similar to what has happened in a number of cases since the revolution) quite unlikely. That said, the worst-case scenario, in our view, could involve the shares Ezz Steel acquired through the capital increase, which diluted the government's stake in EZDK. In that case, we might see Ezz Steel's holding in EZDK decline to c42% from the current c55% and its stake in EFS drop to c57% from the current c64%, given its indirect stake through EZDK.

As for the allegations that Ahmed Ezz engaged in monopolistic practices in the Egyptian steel market, this comes much to our surprise as the Competition Authority on 28 August cleared Ezz Steel of any violations of the country's competition laws, adding that it reached its decision after investigating the company at the public prosecutor's request for allegedly engaging in monopolistic practices in 2007–10. It remains unclear whether or not this development will have any legal implications for Ezz Steel. The company also stated that it did not receive any official details concerning the referral of Mr Ezz to court.

We raise our TP for Ezz Steel to EGP14.2/share from EGP10.6/share as we move away from our previous floor valuation on improved risk appetite. We now account for a c42% stake in EZDK at fair value (instead of its full c55% stake at book value) and also incorporate EGP300m in potential fines related to the allegations of monopolistic practices. According to law number 190 for 2008, a fine of EGP0.1m–EGP300m can be imposed for violations of articles 6–8 of Egypt's competition law. Our new TP puts the company at a 2012e P/B of 1.6x, a c44% discount to its average 2004–11 trading multiple of 2.9x, and implies a potential return of 42% over 15 January's closing price of EGP10.0/share. We therefore maintain our Overweight rating on the stock.

**Ezz Steel valuation summary (EGPm)**

| | Enterprise value | Net debt | Market value | Stake | Value to Ezz Steel | % of total |
|---|---|---|---|---|---|---|
| ESR/ERM | 2,614 | (2,001) | 613 | 100% | 613 | 8% |
| DRI | 3,367 | (990) | 2,377 | 100% | 2,377 | 31% |
| EFS | 3,587 | (1,536) | 2,051 | 57% | 1,169 | 15% |
| EZDK | 12,739 | (3,613) | 9,125 | 42% | 3,843 | 50% |
| Potential fine | | | (300) | 100% | (300) | -4% |
| **Ezz Steel** | | | **13,866** | **56%** | **7,701** | **100%** |
| Number of shares (m) | 543.3 | | | | | |
| **Target price (EGP)** | **14.2** | | | | | |
| **Potential return** | **42%** | | | | | |

Source: HC

## Risks

The outcome of the legal cases filed against the company's former chairman constitutes both an upside and a downside risk to our forecasts and valuation. Also, our DCF-based SOTP valuation is sensitive to steel price trends and longer-term steel margins. Other key downside risks include delays in the new DRI capacity coming onstream, lower than forecast steel prices in the local market, a slowdown in the Egyptian construction sector, higher than expected competition in the local market, either from imports or other local producers, greater than anticipated energy prices, and a higher than expected pelletizing premium.

Although EGP depreciation is likely to benefit the company operationally as steel prices in the local market track international prices, we believe it could also imply a one-off expense on balance sheet exposure. We do not include this in our numbers as we are not sure if it will be recorded as translation differences or as a forex loss (cash or noncash). As of June 2012, Ezz Steel had a net foreign currency liability of cEGP2.5bn (USD381m).

## Ezz Steel summary financials (EGPm)

| | 2012e | 2013e | 2014e | 2015e | 2016e | 2017e |
|---|---|---|---|---|---|---|
| **Key assumptions** | | | | | | |
| Iron ore pellet price (USD/ton) | 156 | 135 | 126 | 126 | 126 | 126 |
| Steel scrap price (USD/ton) | 390 | 336 | 343 | 389 | 417 | 387 |
| European HRC price (USD/ton) | 662 | 645 | 674 | 729 | 757 | 727 |
| European rebar price (USD/ton) | 682 | 636 | 643 | 689 | 717 | 687 |
| Utilization rate | 89% | 93% | 96% | 98% | 98% | 98% |
| EBIT (USD/ton) | 47 | 52 | 86 | 119 | 134 | 115 |
| **Income statement** | | | | | | |
| Revenue | 19,993 | 20,835 | 21,827 | 23,990 | 24,931 | 23,905 |
| Revenue growth | 7% | 4% | 5% | 10% | 4% | -4% |
| EBITDA | 2,031 | 2,429 | 3,792 | 5,038 | 5,598 | 4,905 |
| EBITDA growth | -17% | 20% | 56% | 33% | 11% | -12% |
| EBIT | 1,392 | 1,751 | 2,978 | 4,215 | 4,766 | 4,064 |
| EBIT growth | -23% | 26% | 70% | 42% | 13% | -15% |
| Net income | 115 | 418 | 1,095 | 1,922 | 2,355 | 2,112 |
| EPS (EGP) | 0.21 | 0.77 | 2.02 | 3.54 | 4.34 | 3.89 |
| EPS growth | -43% | 263% | 162% | 76% | 23% | -10% |
| P/E | 47.2x | 13.0x | 5.0x | 2.8x | 2.3x | 2.6x |
| **Margins** | | | | | | |
| EBITDA margin | 10% | 12% | 17% | 21% | 22% | 21% |
| EBIT margin | 7% | 8% | 14% | 18% | 19% | 17% |
| Net income margin | 1% | 2% | 5% | 8% | 9% | 9% |
| **Balance sheet** | | | | | | |
| Cash and cash equivalents | 460 | 562 | 853 | 2,299 | 4,919 | 7,016 |
| Current assets | 4,763 | 5,005 | 5,342 | 7,155 | 9,939 | 11,874 |
| Net property, plant, and equipment | 13,280 | 13,719 | 13,268 | 12,743 | 12,209 | 11,666 |
| Intangible assets | 315 | 315 | 315 | 315 | 315 | 315 |
| Total assets | 18,976 | 19,624 | 19,478 | 20,732 | 22,949 | 24,308 |
| Total debt | 8,601 | 8,434 | 6,637 | 4,998 | 4,437 | 3,774 |
| Total liabilities and shareholder equity | 18,976 | 19,624 | 19,478 | 20,732 | 22,949 | 24,307 |
| Net debt (cash) | 8,141 | 7,872 | 5,785 | 2,699 | (482) | (3,242) |
| Net debt/equity | 1.4x | 1.2x | 0.8x | 0.5x | N/A | N/A |
| Net debt/EBITDA | 4.0x | 3.2x | 1.5x | 0.5x | N/A | N/A |
| ROIC | 9% | 11% | 19% | 28% | 33% | 29% |
| P/B | 1.15x | 1.06x | 0.88x | 0.7x | 0.5x | 0.4x |
| **Cash flow statement** | | | | | | |
| Operating cash flow | 1,040 | 1,485 | 2,815 | 3,887 | 4,174 | 3,856 |
| CAPEX | (393) | (1,083) | (330) | (265) | (265) | (265) |
| Investing cash flow | (450) | (1,083) | (386) | (321) | (321) | (321) |
| Dividends | (172) | (6) | (21) | (55) | (96) | (118) |
| Financing cash flow | (1,301) | (300) | (2,139) | (2,119) | (1,233) | (1,437) |
| Change in cash | (711) | 102 | 290 | 1,447 | 2,620 | 2,097 |

Source: HC

## EZDK acquisition history

**Phase 1, 1999–2000: Ezz Steel acquires c2.9m EZDK shares**

In 1999, Ezz Steel bought c1.2m EZDK shares at a price of EGP152/share from EZDK's employee shareholders union under a tripartite agreement with the union and lending banks. Later that year, EZDK's board approved increasing the company's capital to EGP1.5bn from EGP1.2bn through a rights issue in favor of Ezz Steel; all other shareholders decided to decline their preemptive rights to the capital increase. The capital increase was completed in January 2000 after an additional c1.7m shares were issued to Ezz Steel at a price of EGP152/share, which brought its stake in EZDK to c20.9%, or c2.9m shares, and the remainder of the increase was cancelled.

**Phase 2, 2001–03: Ezz Industries acquires c1.6m EZDK shares**

In October 2003, Ezz Industries, a holding company wholly owned by Ahmed Ezz, acquired c1.6m shares from EZDK's employee shareholders union at a price of cEGP221/share for a total consideration of EGP356m. The purchase was made in 2 parts. In the first, cEGP289m was paid directly to the lending banks to settle the union's liabilities, while in the second, cEGP67.1m was paid to the union, which it used to refund charges to employees. This acquisition was paid for in installments and was completed in February 2006. Ezz Industries thereby acquired 11.79% of EZDK. Along with Ezz Steel's c20.9% stake, a total of c32.7% (c4.5m shares) of EZDK's capital had been acquired.

**Phase 3, 2004–05: Ezz Industries acquires 2.4m EZDK shares**

In 2004–05, Ezz Industries and its subsidiaries acquired an additional 2.4m EZDK shares (a 17.59% stake) from a number of foreign institutions, namely the International Finance Corporation, JFE Holdings, Kobe Steel, the African Development Bank, and Tomen Corporation. Upon completion of these transactions, Ezz Industries had increased its direct and indirect stake in EZDK to c29.4% (4m shares), while Ezz Steel held c20.9% (c2.9m shares), which represented a combined total of c50.3% (c7.9m shares) of EZDK's capital.

**Phase 4, 2006–10: Ezz Industries' holdings are transferred to Ezz Steel, which acquires an additional c0.4m EZDK shares from the market**

In 2006, in order to consolidate the group's entire steel business onto a single balance sheet, Ezz Industries transferred its ownership in EZDK to Ezz Steel through a share swap agreement. The swap ratio was fixed based on the historical value at which the shares of both Ezz Steel and EZDK had traded on the Egyptian Exchange in the preceding 24 months, and the transaction was approved by the Capital Market Authority on 8 May 2006. In the following years, Ezz Steel bought an additional c0.4m EZDK shares directly from the market, raising its ownership in the company to c54.6% (7.3m shares), accounting for a write-off of treasury shares.

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|---|---|

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**Neutral (N):** Estimated total potential return greater than or equal to 0% and less than 20%
**Underweight (UW):** Estimated total potential return less than 0%
**NR:** Not Rated
**SP:** Suspended

Stocks rated Overweight are required to have a published 12-month target price, while it is not required on stocks rated Neutral and Underweight.

**Distribution of HC ratings**

| Rating | Count | Percent | Percent provided investment banking services in past 12 months |
|---|---|---|---|
| Overweight (OW) | 10 | 66.67 | 0.00 |
| Neutral (N) | 5 | 33.33 | 0.00 |
| Underweight (UW) | 0 | 0.00 | 0.00 |

**Ezz Steel as of 15 January 2013**


| Date | Recommendation | Target price |
|---|---|---|
| 17 Nov 2009 | Neutral | EGP17.0 |
| 22 Mar 2010 | Overweight | EGP23.4 |
| 6 Apr 2010 | Overweight | EGP30.1 |
| 9 Jun 2010 | Overweight | EGP26.3 |
| 16 Sep 2010 | Overweight | EGP23.5 |
| 28 Feb 2011 | Underweight | EGP14.8 |
| 10 Apr 2011 | Overweight | EGP14.8 |
| 21 Sep 2011 | Neutral | EGP8.1 |
| 8 Mar 2012[1] | Overweight | EGP10.6 |
| 16 Jan 2013 | Overweight | EGP14.2 |

Note: (1) Change of analyst

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