

Eastern Company

***A market leading business in an attractive market***

Investor Presentation

March 2019



# Company overview

- Eastern Company was incorporated in Egypt by a decree issued by Sultan Ahmed Fouad in 1920 and is today the leading manufacturer and distributor of cigarettes in Egypt
- Almost 100 years later, Eastern is committed to maintain its leading role in the sector through ensuring customer satisfaction and taking responsibility to introduce advanced technologies to tobacco products putting in mind healthy, social and economic aspects
- **MERIS** awarded Eastern national investment grade rating AA
- Shareholders
  - 55% government
  - 6% employees
  - 39% free float with leading foreign institutional investors including:



# Executive Summary

- 1 **Egypt: A growing attractive tobacco market**
- 2 **Eastern: The dominant player with 72% own brand market share**
- 3 **Monopoly: Manufacturer of all 85 bn cigarettes (including international brands)**
- 4 **Transitioning from legacy SOE**
- 5 **We are an important contributor to government revenues**
- 6 **Strategic focus**



# Egypt: A growing attractive tobacco market

Large, growing, small illicit and excise already high

- ✓ Egypt is the 16<sup>th</sup> largest tobacco consuming country in the world
  - Prevalence amongst men: c.50%
  - Growing prevalence, growing volumes (1% pa 10 year average)
- ✓ Eastern Tobacco is, by law, the only company allowed to manufacture cigarettes in Egypt
  - All 85 billion cigarette sticks smoked annually in Egypt are manufactured by Eastern
- ✓ Tobacco cultivation is illegal in Egypt due to concerns around water and food safety (illegal since 1800's)
  - Eastern and international companies all import tobacco leaf
- ✓ In the aftermath of the 2011 revolution, the illicit market spiked to 30% share but this has come down significantly since to around 3-4%
- ✓ Excise makes up 70% – 80% of the retail sales price of cigarettes, but cigarettes remain affordable to the average smoker when compared to other markets in the region

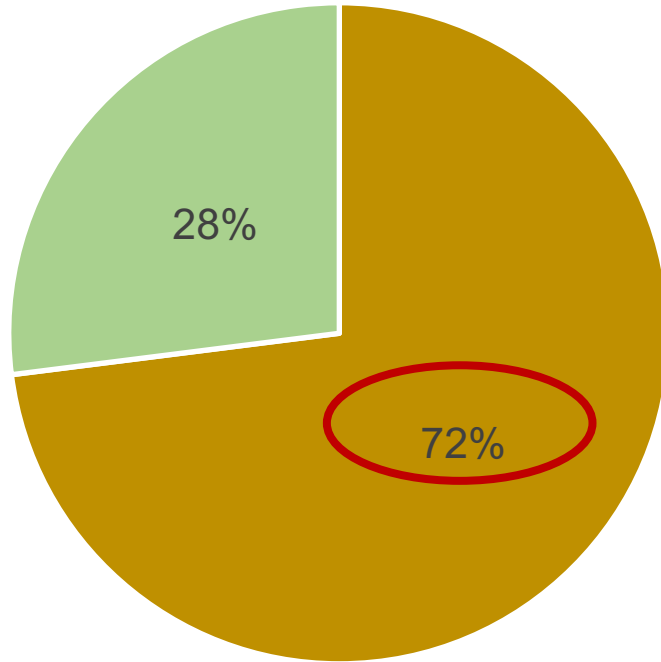


# Eastern: The dominant player in this market

72% own brand market share by cigarette volumes (FY18)

28% under attractive toll manufacturing agreements

Share of Cigarette Volumes FY18



■ Eastern Tobacco ■ International Tobacco companies

International tobacco companies in Egypt had a combined volumes market share of 28% in FY18. The following 4 companies are present in Egypt:



PHILIP MORRIS



BRITISH AMERICAN  
TOBACCO

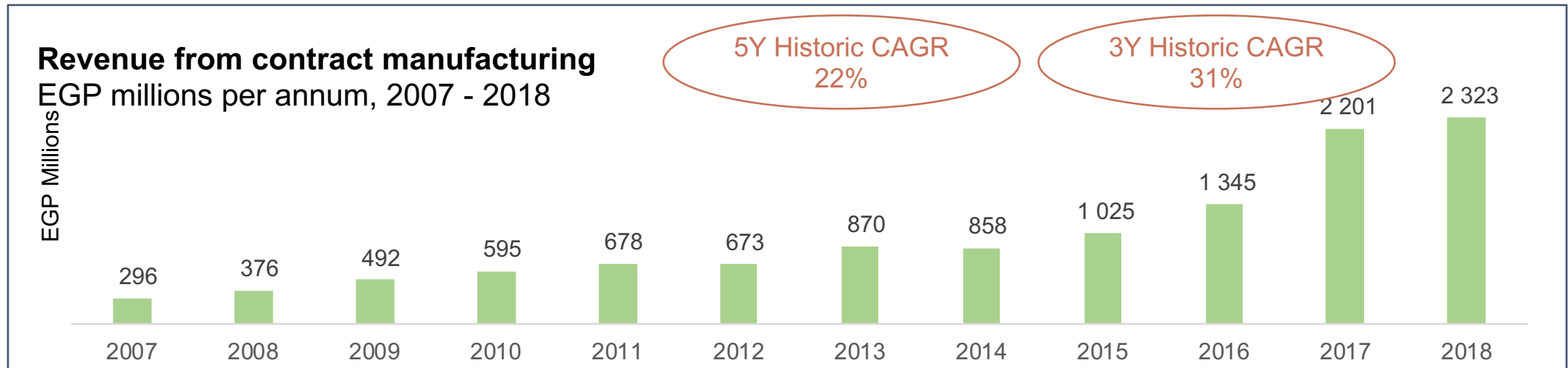


- These companies provide Eastern with tobacco leaf and packaging material
- Eastern manufactures the cigarettes
- The international companies do their own distribution and sales

# Monopoly: Manufacturer of all 85 bn cigarettes smoked

Contract manufacturing with international players growing at 22% CAGR

- Phillip Morris has been in Egypt since 1975 and Eastern has been their manufacturing partner since 1985
- Eastern's relationship with British American Tobacco started in 2001
- Japan Tobacco and Imperial Tobacco both entered the market in 2014



Eastern earns US\$ for these contracts at a rate of US\$5.80 – US\$6.20 per 1000 cigarettes  
This provides a natural hedge against currency weakness with 60 – 70% of COGS being imported  
17% of Eastern's 2018 revenue was contributed by contract manufacturing



# Transitioning from legacy SOE

Improved revenue growth despite significant excise tax increases

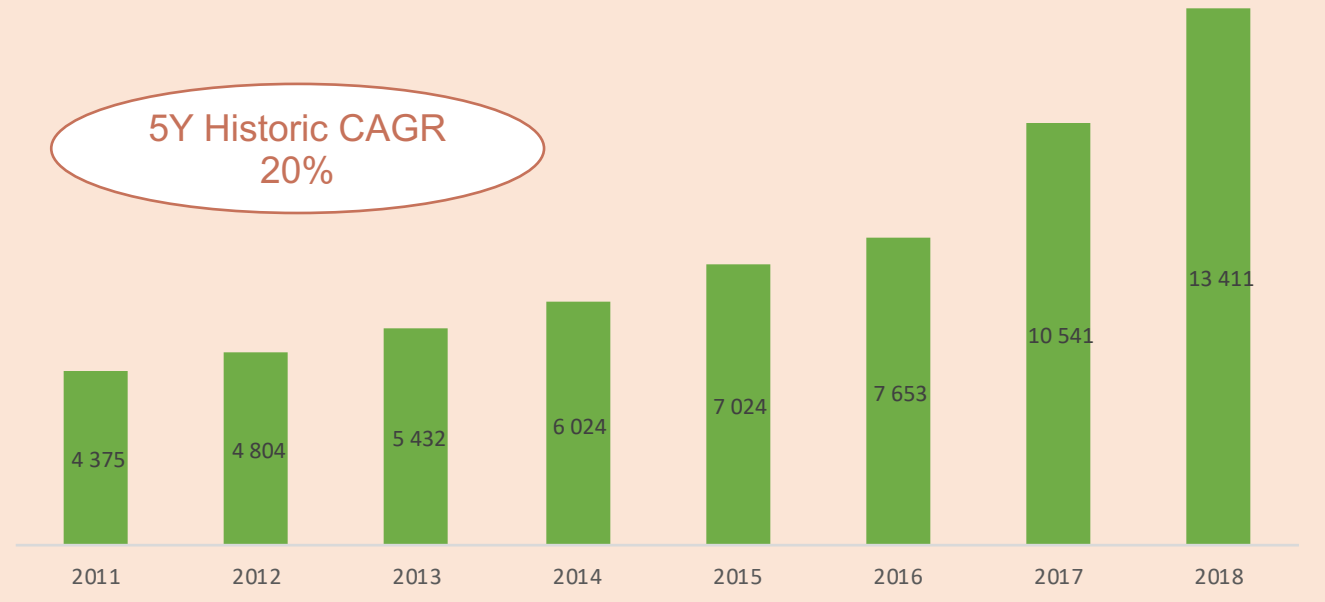
Through existing quality policy, EC strives to make its products unique, competitive and highly profitable, and to gain customer satisfaction in all domestic and foreign markets.



## Resilient revenue growth, despite excise increases

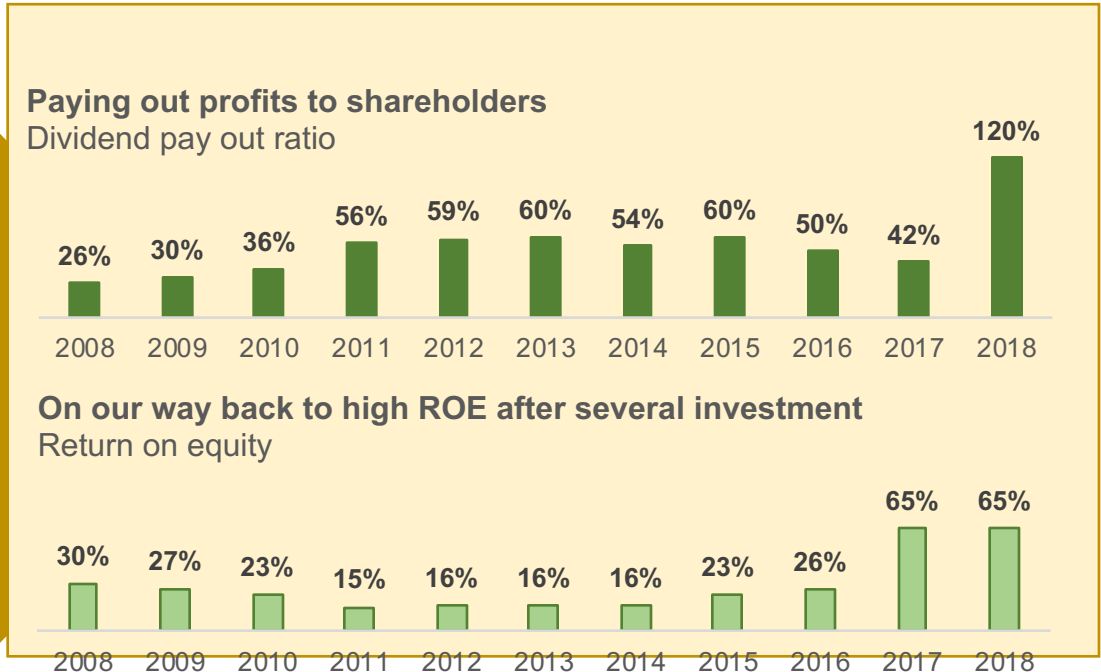
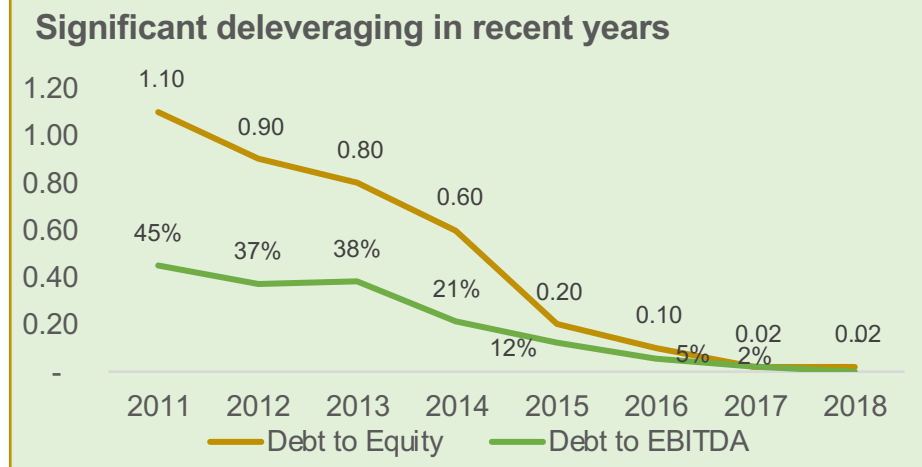
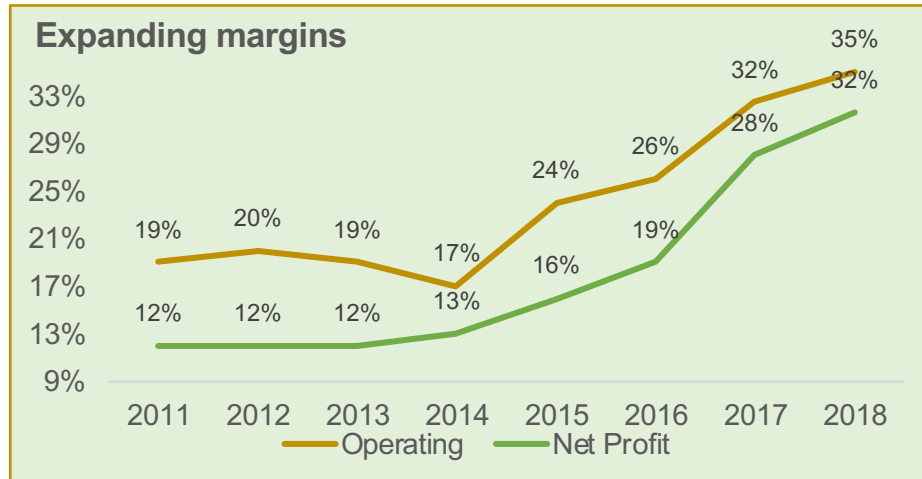
EGP millions, 2011 - 2018

5Y Historic CAGR  
20%



# Transitioning from legacy SOE

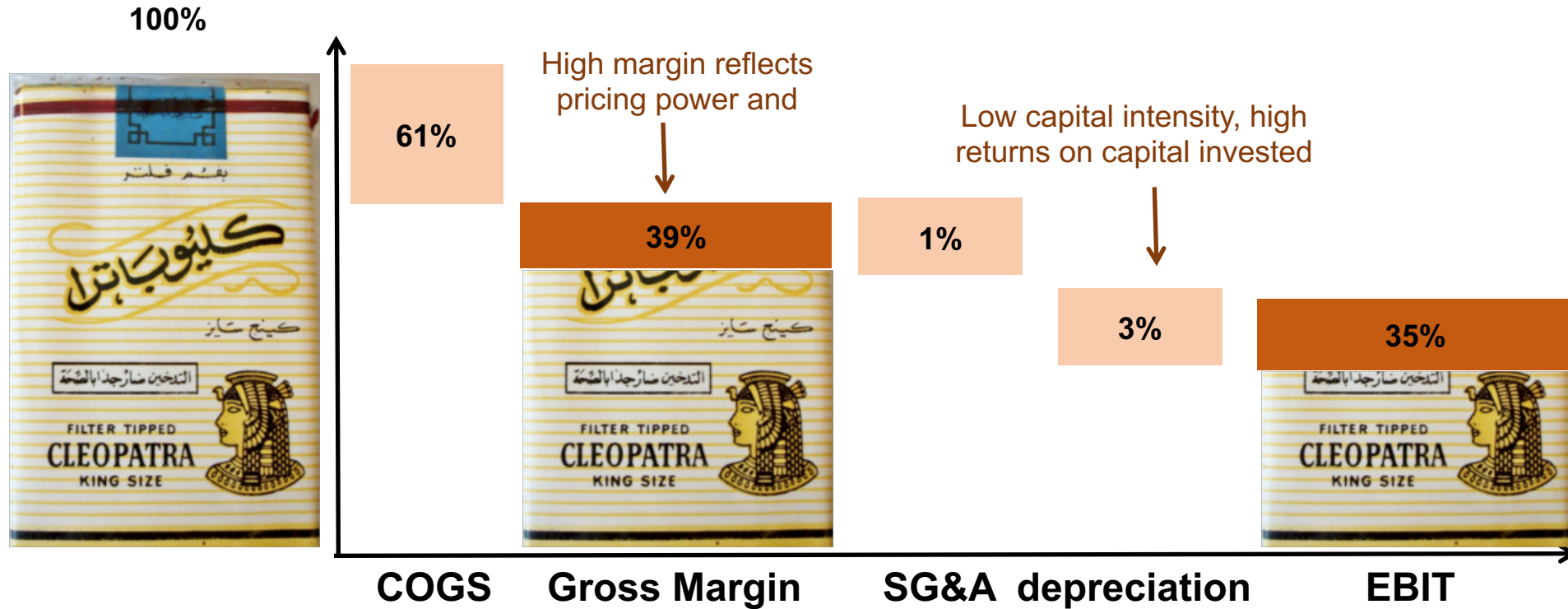
Expanding margins/dividends and returns





# A compelling investment opportunity

High ROE. High Margins. Low Capital Intensity



*"It costs a penny to make. Sell it for a dollar... And there's fantastic brand loyalty"*  
 – Warren Buffett

# We are an important contributor to government revenues

Extract from Eastern Budget, available on our website

| Item  | Unit        | Actual<br>2016/2017 | Actual<br>2017/2018 | Approved<br>Plan<br>2018/2019 |
|---|-------------|---------------------|---------------------|-------------------------------|
| <b>Sales tax (including Foreign brands)</b>         | Million EGP | 40879               | 53144               | 54891                         |
| <b>Students Health Insurance Fees</b>               | Million EGP | 309                 | 319                 | 317                           |
| <b>Customs , Real Estate &amp; Indirect Tax</b>     | Million EGP | 398                 | 382                 | 475                           |
| <b>Taxes Related to Stock Corporation</b>           | Million EGP | 980                 | 1275                | 944                           |
| <b>Payable Net profit to state treasury revenue</b> | Million EGP | 2288                | 1237                | 825                           |
| <b>Total revenue</b>                                | Million EGP | 44848               | 56357               | 57452                         |

## Strategic focus areas

- To remain the #1 tobacco company in Egypt
- Transition from legacy SOE to a s159 company (post government stake sell down)
  - Stronger board of directors
  - Increased operating flexibility
  - Optimise utilisation of asset base
- Improve productivity and efficiency
- No capex dedicated to non-core, non-tobacco projects



# Guidance

Extract from Eastern Budget, available on our website

| Item                              | Unit         | Actual<br>2016/2017 | Approved plan<br>2017/2018 | Target<br>2018/2019 |
|-----------------------------------|--------------|---------------------|----------------------------|---------------------|
| <b><u>Second: Total Sales</u></b> |              |                     |                            |                     |
| <b><u>a) Volume</u></b>           |              |                     |                            |                     |
| Cigs Volume                       | Mio Cigs     | 82983               | 85351                      | 87561               |
| Water Pipe Volume                 | MT           | 17023               | 16125                      | 17836               |
| <b><u>b) Value</u></b>            |              |                     |                            |                     |
| Sales Value (411/h)               | EGP thousand | 8338891             | 11087443                   | 11808853            |
| Entire Sales Value                | EGP thousand | 10539717            | 12232828                   | 14467330            |

1.2% growth YoY

18.3% growth YoY



# Thank you!

Investors can find the following information on our website:

[Annual Financial Reports \(2015 – 2018\)](#)

[Quarterly Financial Results \(2013 – 2019\)](#)

[Our Board of Directors](#)

[Social Responsibility initiatives](#)

[Corporate Governance information](#)

[Our 2018/19 annual budget](#)

Furthermore, our company is covered by the following brokerage firms:



CI  
CAPITAL

Renaissance  
Capital



HC Securities & Investment



بالتون المالية  
BELTONE FINANCIAL

