



الشركة الشرقية إيسترن كومباني  
EASTERN COMPANY S.A.E

## **Eastern Company**

**A market business in an attractive market**

## **Renaissance Capital**

**2<sup>nd</sup> Annual North Africa investor conference in Marrakech on 22-23 January 2020**

# 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**

MERIS awarded Eastern national investment grade rating AA

## Shareholders

**50.5% government**

**6% Employees**

**43.5% 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) **Manufacturer of all 85 bn cigarettes (including international brands).**
- 4) **Transitioning from legacy SOE to a s 159 company (post government stake sell down).**
- 5) **EC is the most important contributor to government revenue.**
- 6) **EC 1Q FY 19/20 Results.**
- 7) **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 the sole manufacture of 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



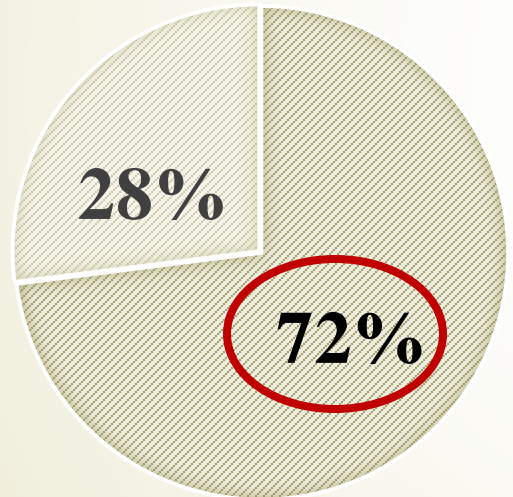
# Eastern: The dominant player in this market

72% own brand market share by cigarette volumes (FY19)

28% under attractive toll manufacturing agreements

## SHARE OF CIGARETTE VOLUMES FY19

Eastern Tobacco    International Tobacco companies



International tobacco companies in Egypt had a combined volumes market share of 28% in FY19. The following 4 companies are present in Egypt:



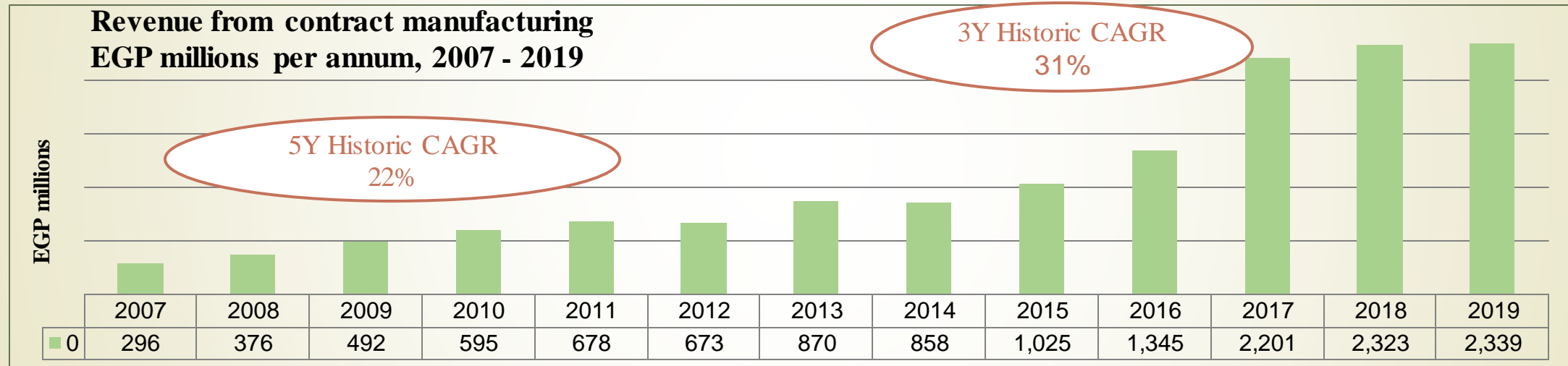
- These companies provide Eastern with tobacco leaf and packaging material
- Eastern manufactures the cigarettes
- The international companies do their own distribution and sales



# 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

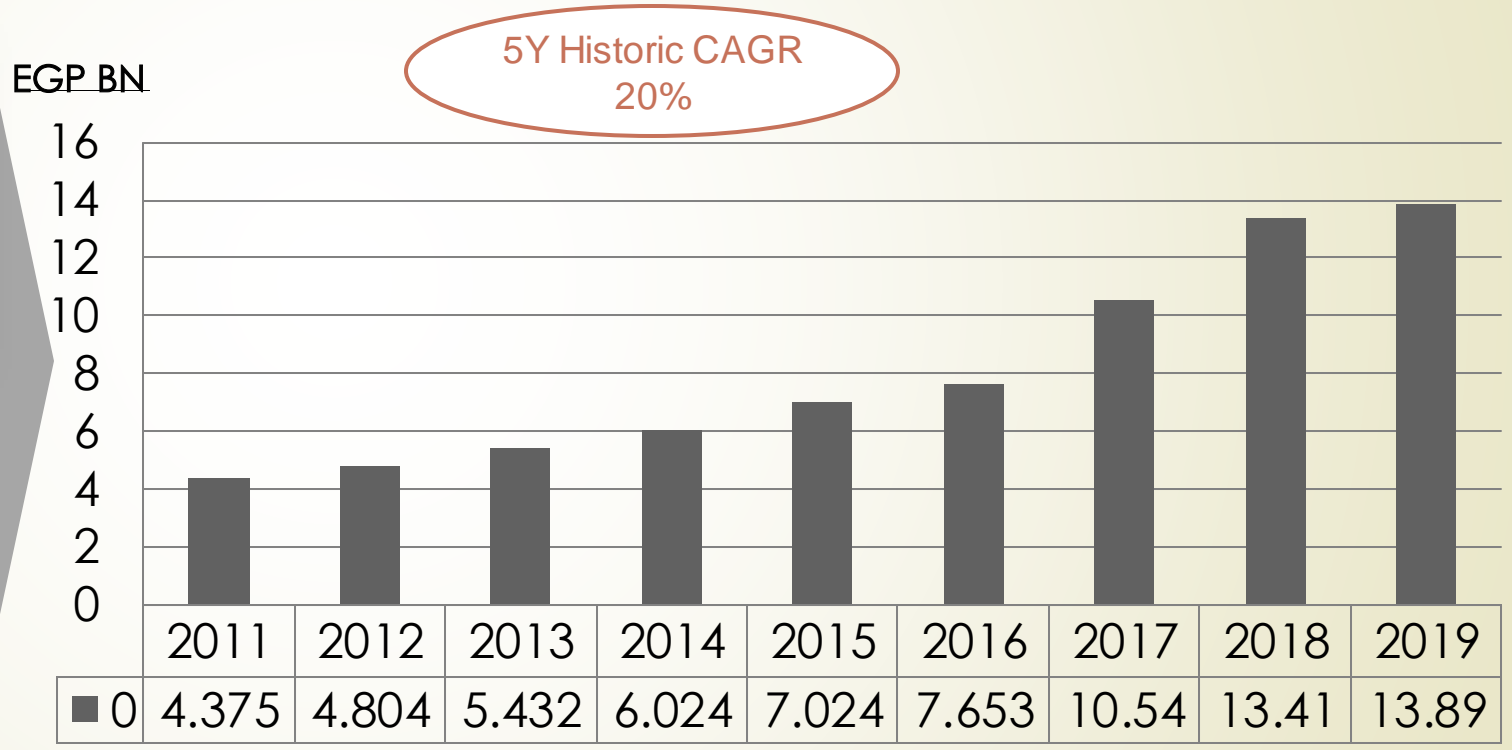
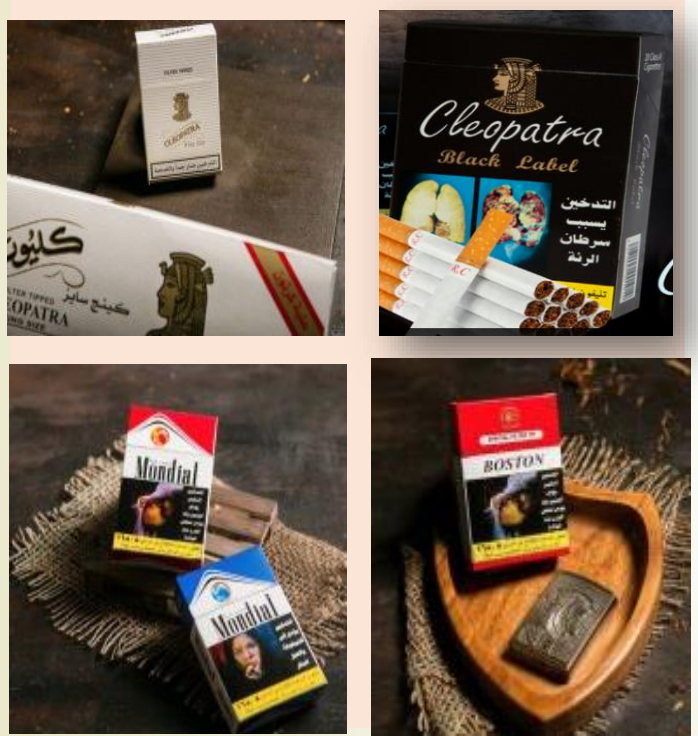


**Eastern earns US\$ for these contracts at a rate of US\$5.80 – US\$6.20 per 1000 cigarettes  
This provides a natural hedge against currency weakness with 60 – 70% of COGS being imported  
17% of Eastern's 2019 revenue was contributed by contract manufacturing**

# Transitioning from legacy SOE

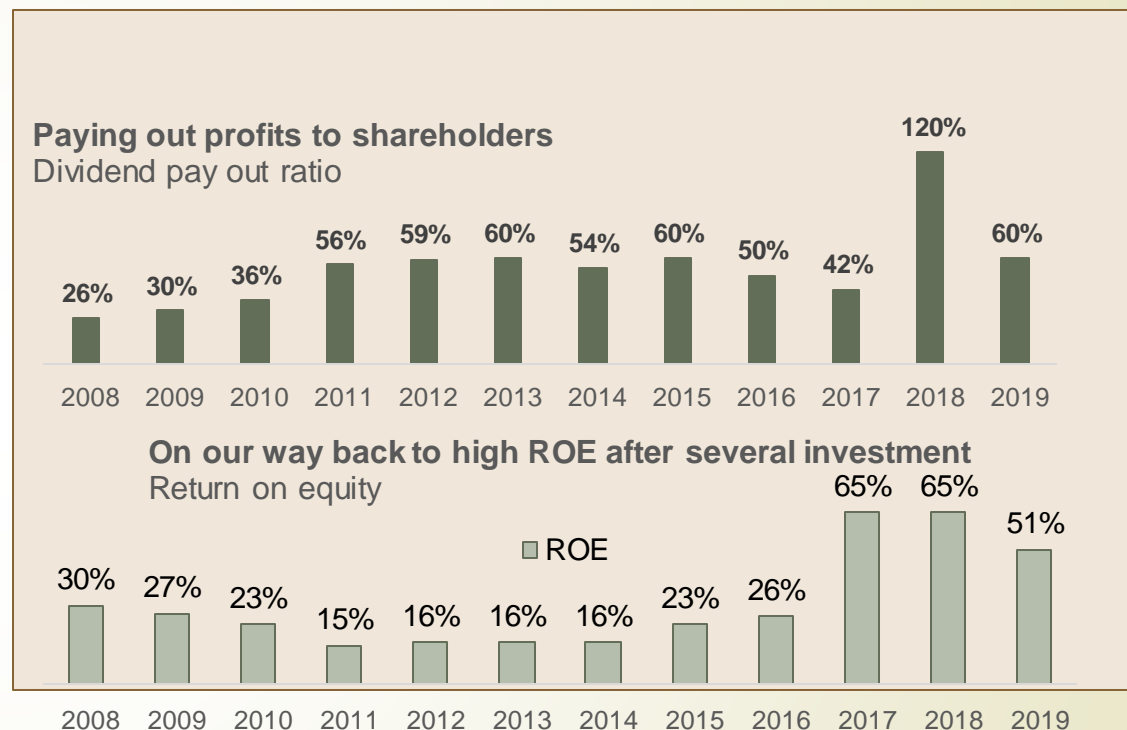
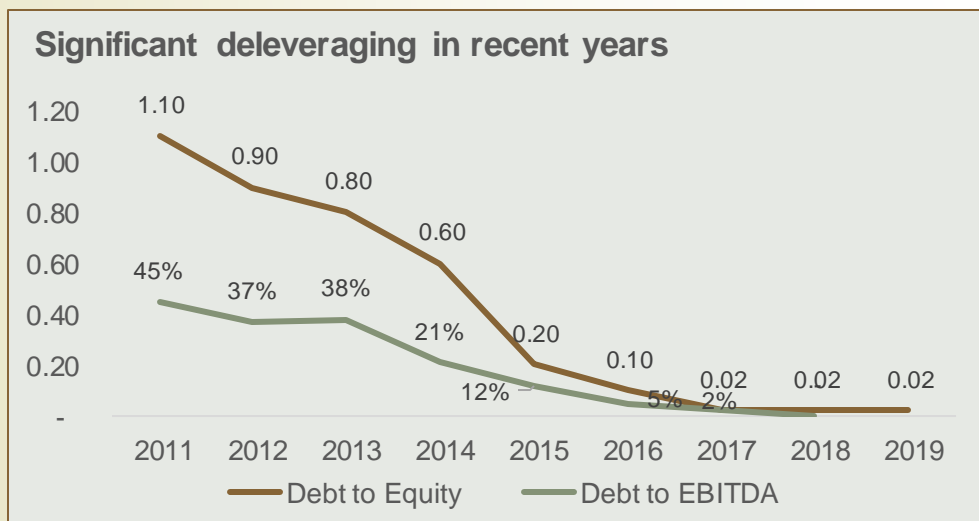
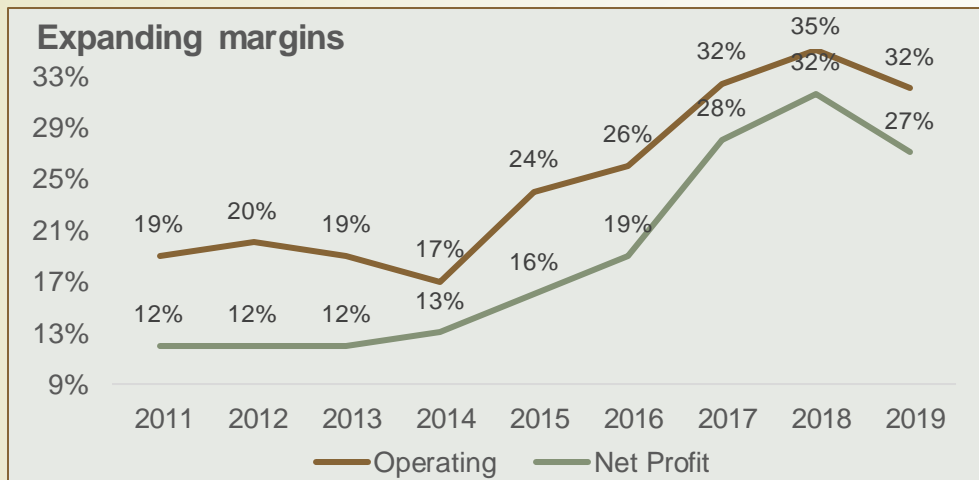
Improved revenue growth despite significant excise tax increases

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.



# Margins / Dividends and returns:

Decrease in Net profit Margin in FY 2018/2019 down 11.9% YOY on the back of lower interest income on a lower cash position post the EGP 3 BN on off cash dividends paid in June 2018 and the losses of currency difference in addition to absence of Price increase



# EC is the most important contributor to government revenues

**Extract from Eastern Budget, available on our website**

Items	Unit	Actual 2017/2018	Actual 2018/2019	Approved plan 2019/2020
<b>Sales tax &amp; student health insurance</b>	EGP Million	33,608	39,707	41,152
Customs fees	EGP Million	362	348	404
Income tax	EGP Million	1,276	1,081	1,162
Real estate tax and others	EGP Million	19	21	31
Payable net profit to state treasury revenue	EGP Million	1,237	1,136	1,420
Sales tax on foreign Cig brands	EGP Million	19,855	22,988	23,631
<b>Total Revenue</b>	EGP Million	<b>56,357</b>	<b>65,281</b>	<b>67,800</b>



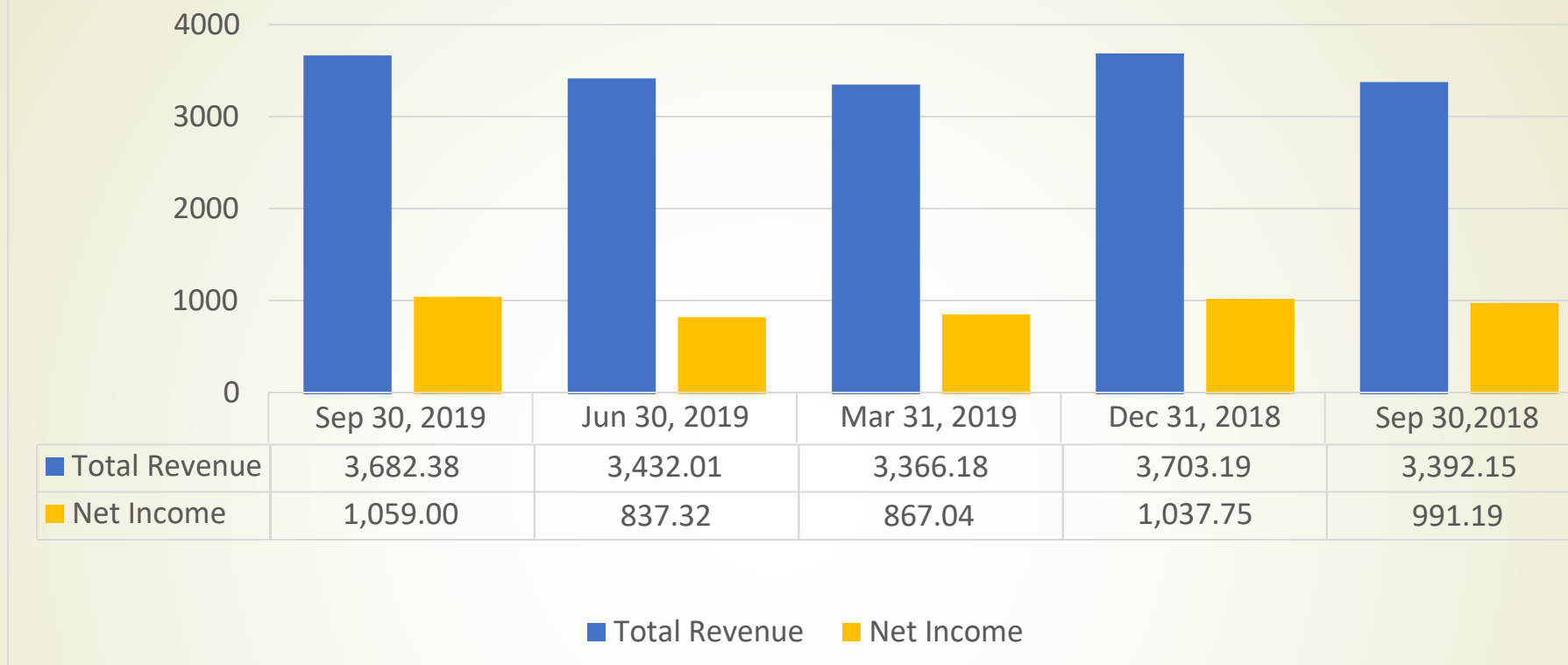
## EASTERN CO'S 1Q FY 19/20 RESULTS: Resilient operational performance thanks to volume recovery and indirect price increases, mitigating FX losses and lower interest income:

- ▶ Eastern Co reported a 1Q 19/20 (ending Sep 19) net profit EGP 1,059 mn, up 7% y-o-y. Revenue was up 9% to EGP 3.68 bn, driven by a pick up in volumes and improvement in ex-factory price. Total volumes were up 8% y-o-y to 21.97 bn Cig sticks with local cigarettes brands up to 16.47 bn cig sticks and foreign brands' volume was up to 5.5 bn cig sticks. Meanwhile, Eastern CO's USD denominated toll manufacturing revenue (16% of total) grew 6% y-o-y.
- ▶ Revenue: EGP 3,682 mn (+9% y-o-y, +7% Q-o-Q)
- ▶ Gross profit: EGP 1,465 mn (+12% y-o-y, +31% Q-o-Q).
- ▶ Net Income: EGP 1,059 mn (+7% y-o-y, 27% Q-o-Q).
- ▶ Higher volumes and better prices support sales growth +9% offset lower interest income and FX loss. Sales arrived at EGP 3.68 bn, up 9% y/y on higher local sales increase in ex-factory price / pack, driven by indirect price increases via cutting retailers' margins (from EGP 0.25 To EGP 0.15) for some of the brands, as of 1 August 2019, along with an improvement in Sales Mix (discontinued production of low-margin Cleopatra King Cig produce in Alexandria Factory, replacing it with the higher margin Cleopatra Queen). Meanwhile toll manufacturing sales also increased by 6% yoy to EGP 579 mn driven by largely by volume.





## EASTERN Co Income Statement

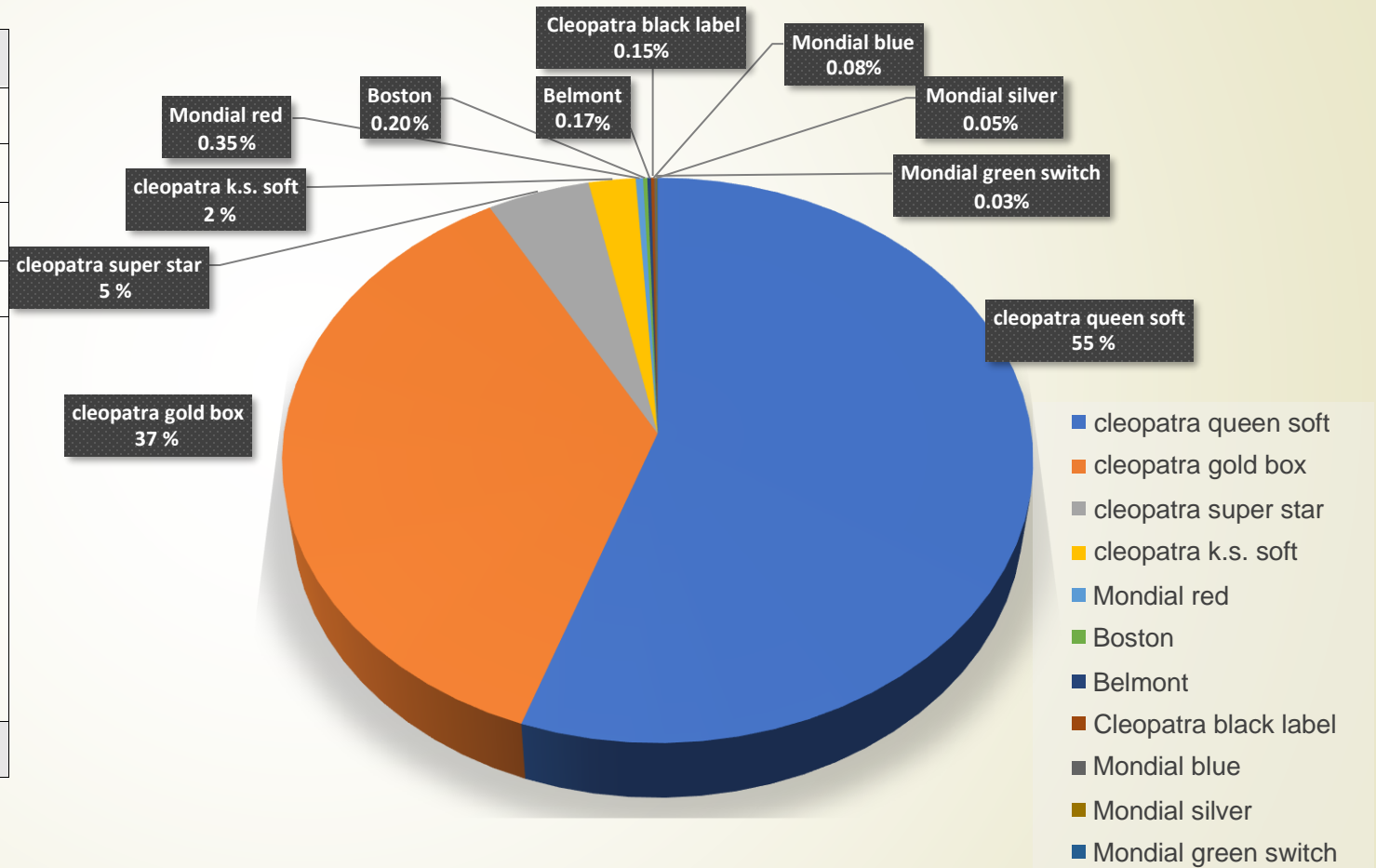


	Period Ending:	Sep 30, 2019	Jun 30, 2019	Mar 31, 2019	Dec 31, 2018	Sep 30, 2018
<b>Total Revenue</b>		3,682.38 EGP mn	3,432.01 EGP mn	3,366.18 EGP mn	3,703.19 EGP mn	3,392.15 EGP mn
<b>Gross Profit</b>		1,455.54 EGP mn	1,175.84 EGP mn	1,218.82 EGP mn	1,421.49 EGP mn	1,287.51 EGP mn
<b>Operating Income</b>		1,263.34 EGP mn	996.38 EGP mn	1,059.09 EGP mn	1,220.97 EGP mn	1,138.33 EGP mn
<b>Net Income</b>		1,059.00 EGP mn	837.32 EGP mn	867.04 EGP mn	1,037.75 EGP mn	991.19 EGP mn

# The Break down of sales Volume of our own cigarettes Brands for local market of the first Quarter 2019 / 2020

(MN CIGARETTES STICK)

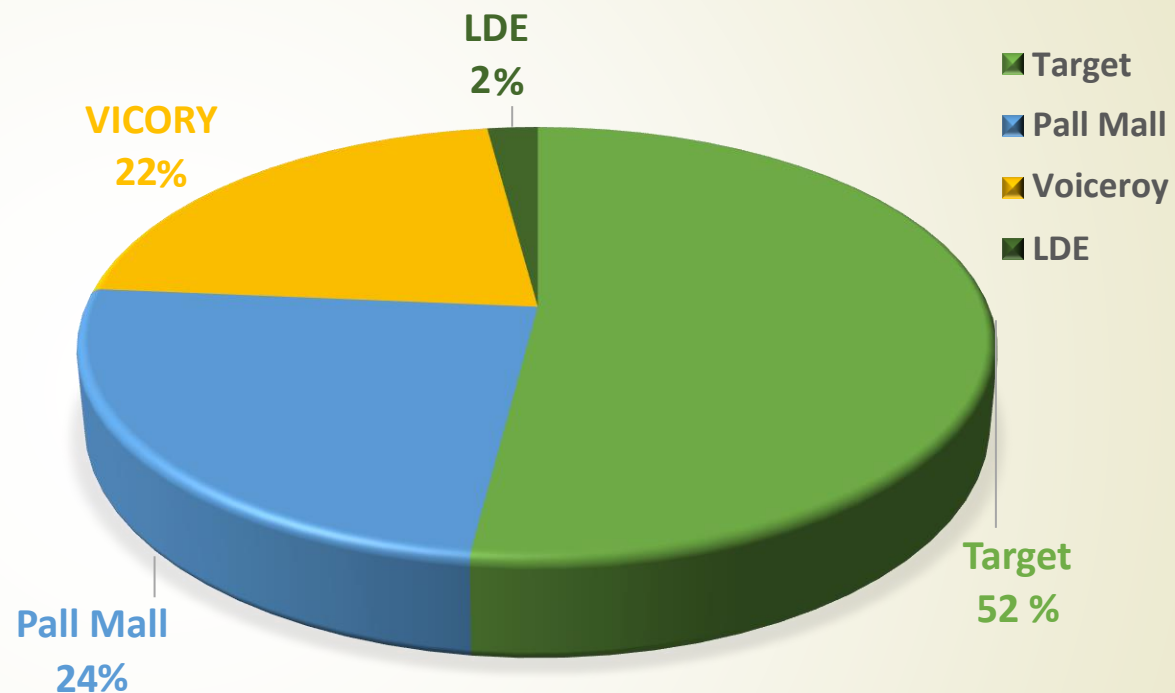
Brand	Sales Volume	%	
Cleopatra queen soft	8,775,000	55%	
Cleopatra gold box	5,787,000	37%	
Cleopatra super star	768,000	5%	
Cleopatra k.s. Soft	351,000	2%	
Mondial red	55,000	1%	
Boston	31,000		
Belmont	27,000		
Cleopatra black label	24,000		
Mondial blue	13,000		
Mondial silver	7,000		
Mondial green switch	5,000		
Total Sales	15,844,000		100%



## The Break down of sales volume of Joint Venture Cigarettes Brands for the first Quarter of the fiscal year 2019/2020

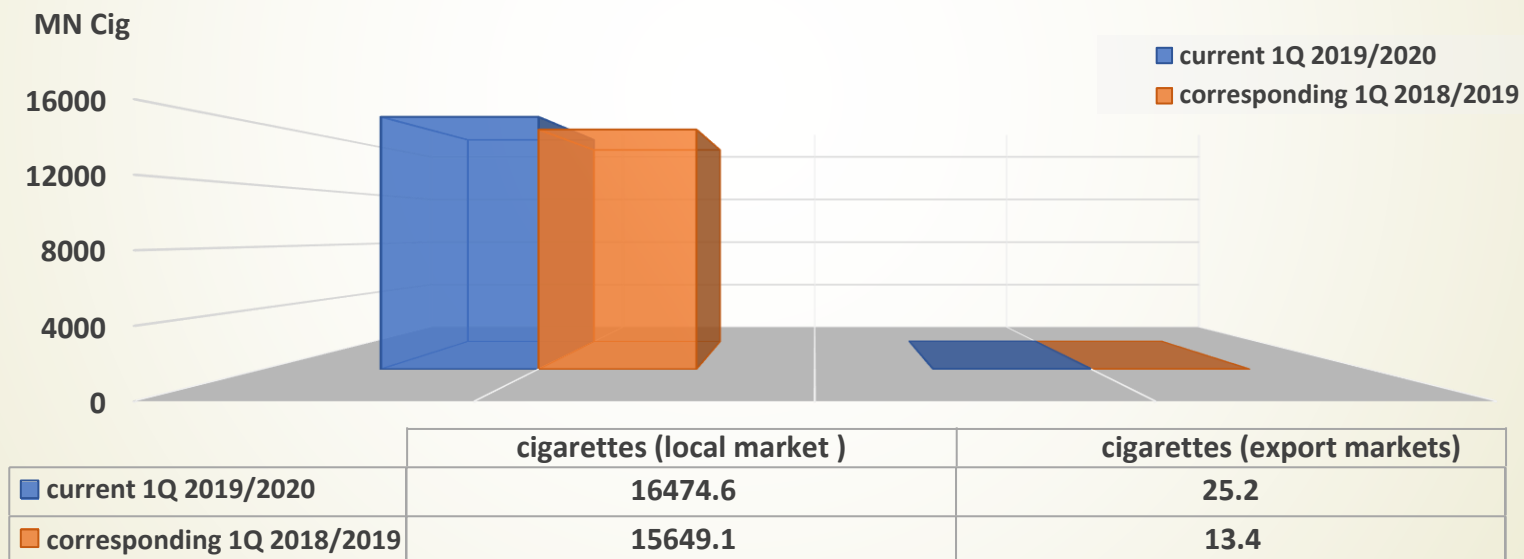
**(MN CIGARETTES STICK)**

Brand	Sales Volume	%
Target	164.00	52%
Pall Mall	76.81	24%
VICORY	67.94	22%
LDE	6.57	2%
<b>Total Sales volume</b>	<b>315.313</b>	<b>100%</b>



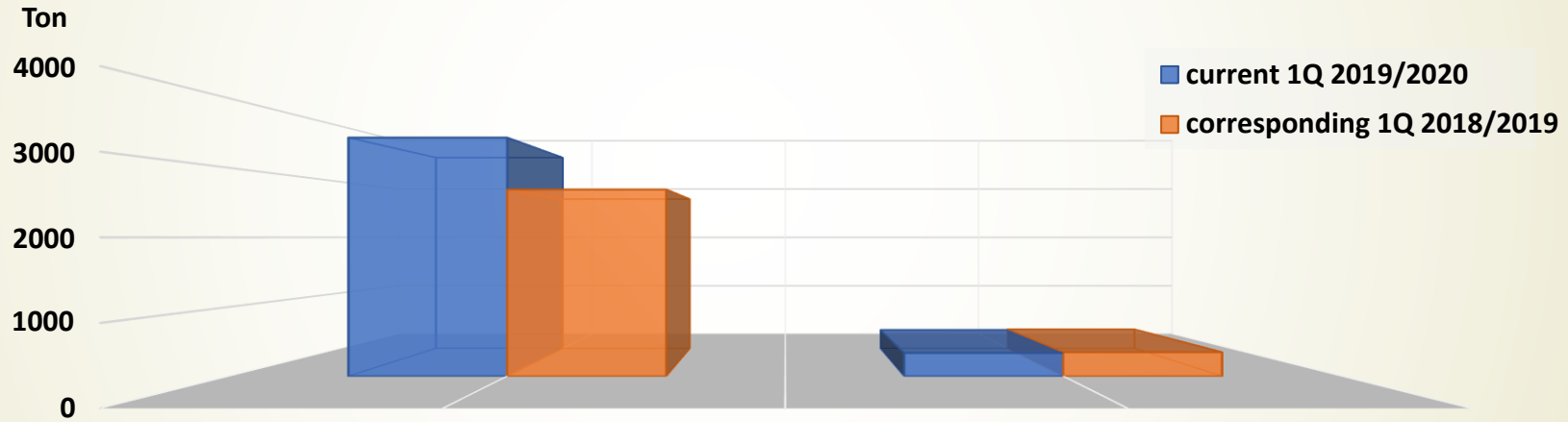
## The Actual sales volume for cigarettes (local market & export markets) for the first Quarter of the fiscal year 2019/2020

Description	Unit	Sales volume	
		From 1/7/2019 to 30/9/2019	From 1/7/2018 to 30/9/2018
Cigarettes (local market)	MN Cig	16474.6	15649.1
Cigarettes (export markets)	MN Cig	25.2	13.4



## The Actual sales volume of Moassel for Local market & Export markets the for the first Quarter 2019/2020

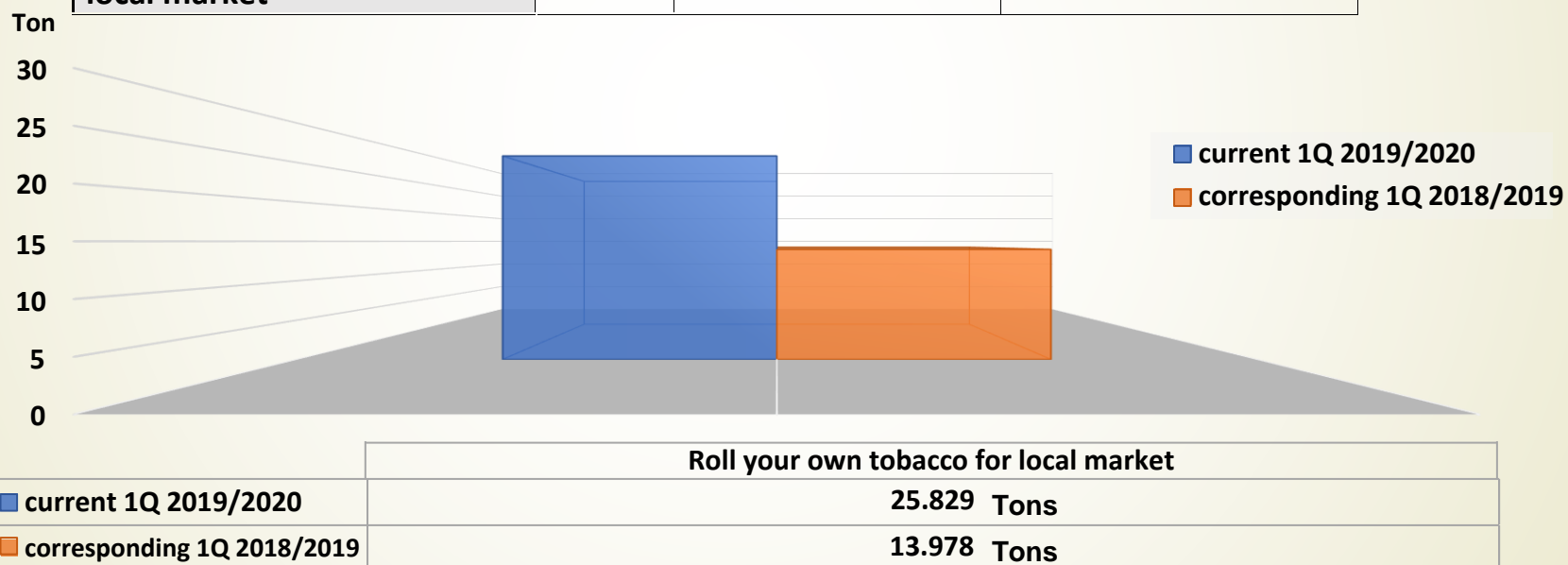
Description	unit	Sales Volume	
		from 1/7/2019 to 30/9/2019	from 1/7/2018 to 30/9/2018
Moassel for local market	Tons	3434.7	2688.4
Moassel for export	Tons	337.3	347.5



	moassel for local market	moassel for export
current 1Q 2019/2020	3434.7 Tons	337.3 Tons
corresponding 1Q 2018/2019	2688.4 Tons	347.5 Tons

## The Actual sales volume for “Roll Your Own Tobacco” for local market for the first Quarter 2019/2020

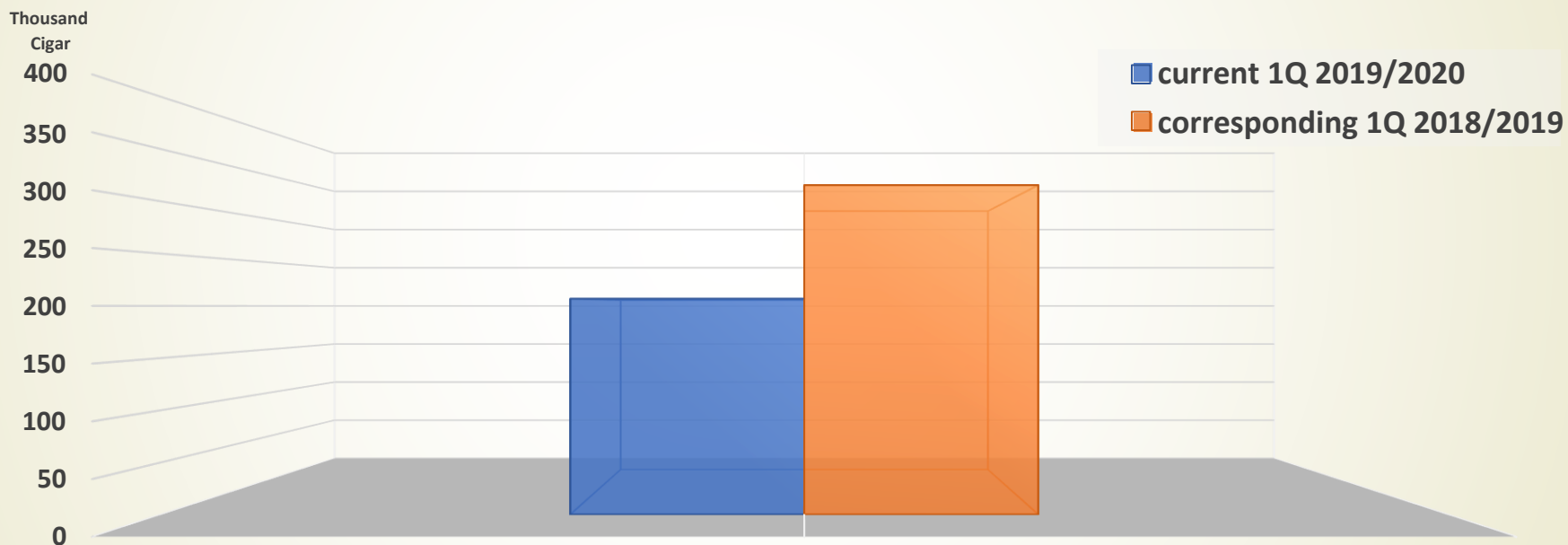
Description	unit	Sales Volume	
		from 1/7/2019 to 30/9/2019	from 1/7/2018 to 30/9/2018
Roll your own tobacco for local market	Tons	25.829	13.978





## The actual sales Volume of Cigar for local market

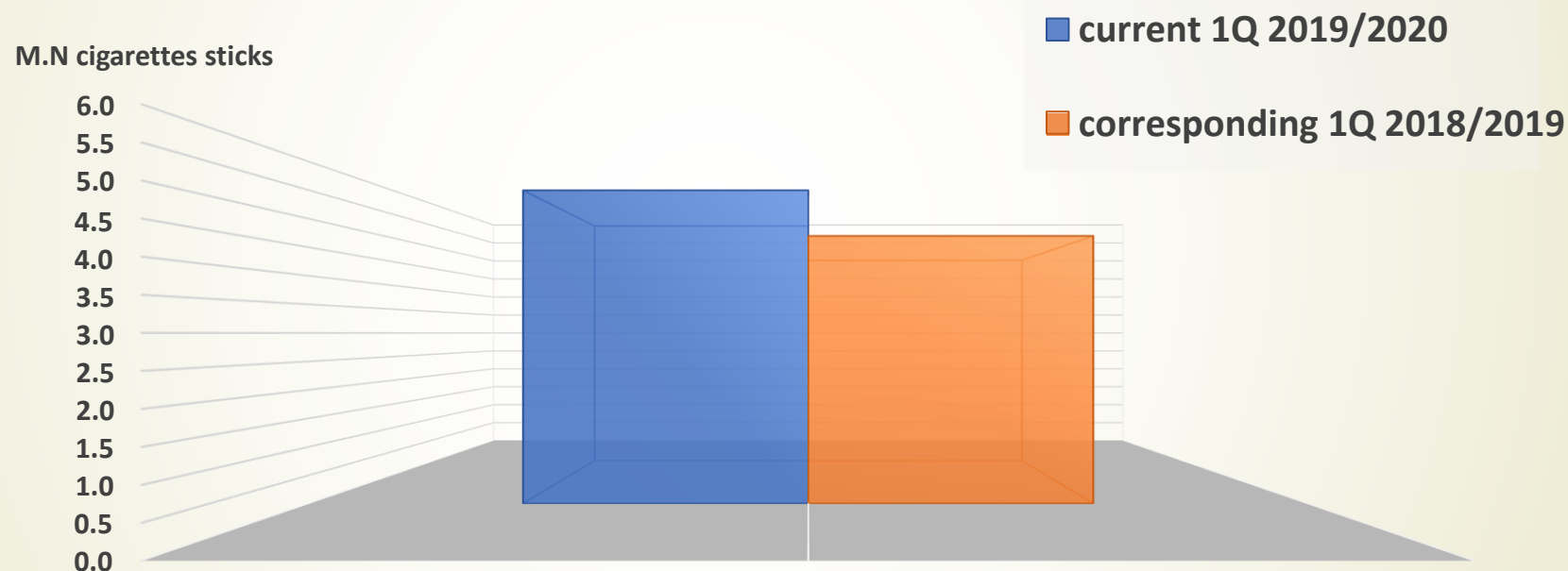
Description	unit	Sales Volume	
		from 1/7/2019 to 30/9/2019	from 1/7/2018 to 30/9/2018
<b>Cigar (local market)</b>	Thousand Cigar	206.9	315.5



	Cigar (local market )
■ current 1Q 2019/2020	206.9
■ corresponding 1Q 2018/2019	315.5

## The Actual sales of foreign Brands Cigarettes Volume (Toll manufacturing agreements)

description	unit	sales volume	
		from 1/7/2019 to 30/9/2019	from 1/7/2018 to 30/9/2018
Foreign Brands cigarettes	M.N cigarettes sticks	5,500,000	4,700,000



Foreign Brands cigarettes	
■ current 1Q 2019/2020	5,500,000
■ corresponding 1Q 2018/2019	4,700,000

# Strategic focus areas

- ▶ **To remain the #1 Tobacco Company in our Area.**
- ▶ **Transition from legacy SOE (post government stake sell down) the Company would come under the law of 159 of the year 1981 , 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**

# Tobacco Moassel SALLOUM



# Tobacco Moassel





# Cigars



**No Matter  
Where You Are  
We Can Deliver  
Your Order to  
Your Place.**





# Our Cigar Is Totally 100% Percent Hand Made



Pipe Tobacco  
The Quality is our main Target

# Thank you!

Investors can find the following information on our website:

[Annual Financial Reports \(2015 – 2019\)](#)

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

[Our Board of Directors](#)

[Social Responsibility initiatives](#)

[Corporate Governance information](#)

[Our 2019/2020 annual budget](#)

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

