EQUITY RESEARCH • INITIATION OF COVERAGE

Arabian Cement Company

ARCC.CA | Egyptian Exchange (EGX) | Building Materials — Cement

RATING	PRICE TARGET	CURRENT PRICE	UPSIDE
OVERWEIGHT	**EGP 80.0**	**EGP 56.11**	**+43%**

Trading at a 43% discount to intrinsic value, with a net-cash balance sheet and a post-devaluation earnings step-change not reflected in the share price.

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Valuation date: 19 Jun 2026

We initiate at Overweight, EGP 80 target

Arabian Cement is the lowest-cost large-scale clinker producer on the EGX, with 4.2mt clinker / 5.0mt cement capacity. FY2025 was a step-change year: revenue rose 43% to EGP 12.4bn and net profit tripled to EGP 3.6bn as post-devaluation pricing lifted the gross margin to 40.6%.

Our DCF — built on conservative margin normalisation to 28.6% — values the equity at EGP 80/share versus EGP 56.11 today. We see the market under-pricing both the durability of cash generation and the EGP 2.3bn net-cash position.

1. Intrinsic value EGP 80 vs EGP 56 — 43% upside, two methods converge (perpetuity 80, exit-multiple 78).
2. Net cash of EGP 2.3bn (~11% of market cap); strong free cash flow funds a 60% dividend payout.
3. FY25 earnings step-change; we still assume margins normalise from 40.6% to 28.6%, leaving room for upside.

KEY DATA

Rating	**Overweight**
Price target	**EGP 80.0**
Share price (close)	**EGP 56.11**
Market cap	**EGP 21.3bn**
52-week range	**EGP 30.5 – 60.4**
Net cash	**EGP 2.32bn**
Shares out.	**378.7m**

EGP	FY25A	FY26E	FY27E	FY28E
Revenue (bn)	12.4	14.2	15.8	17.5
EBITDA (bn)	4.9	4.0	4.5	4.9
EPS	9.49	7.47	8.50	9.57
P/E (x)	5.9	7.5	6.6	5.9
EV/EBITDA (x)	3.8	4.7	4.2	3.8

Trading multiples on current EV (market cap less net cash); EPS on 378.7m shares.

Source: ACC FY2025 audited consolidated financial statements (Deloitte) and author's financial model.

Four reasons to own ARCC

1 Discounted to intrinsic value

EGP 80

DCF fair value vs EGP 56 today (+43%). Perpetuity (EGP 80) and exit-multiple (EGP 78) methods converge; the stock trades at 5.9x FY25 P/E and 3.8x EV/EBITDA.

2 Net-cash fortress balance sheet

EGP 2.3bn

Cash of EGP 3.46bn exceeds gross debt of EGP 1.14bn. Net cash is ~11% of market cap and de-risks the equity; debt is only ~5% of the capital structure.

3 Post-devaluation earnings reset

+43%

FY25 revenue grew 43% to EGP 12.4bn and net profit tripled to EGP 3.6bn. We conservatively model the gross margin reverting from 40.6% to 28.6%.

4 Low-cost, capacity-led franchise

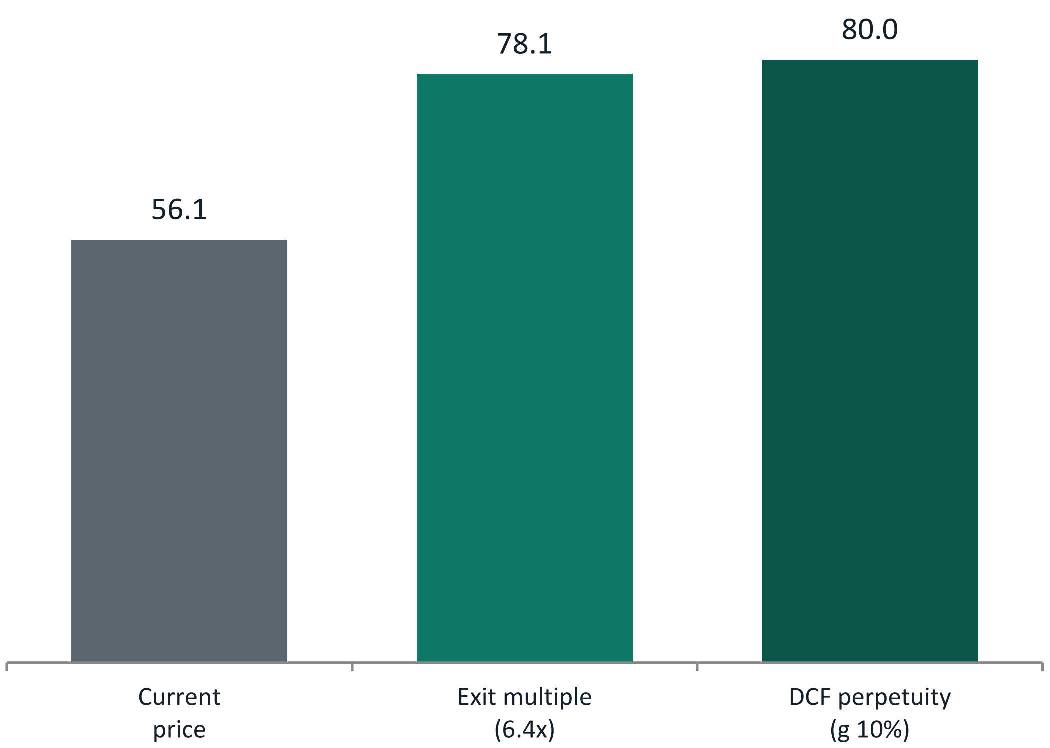
5.0mt

Leading EGX producer (4.2mt clinker, 5.0mt cement). Investment in alternative fuel and a EUR-funded efficiency programme support a structurally lower cost base.

Source: ACC FY2025 audited consolidated financial statements (Deloitte) and author's financial model.

DCF supports EGP 80 — a 43% premium to spot

Value per share (EGP)



METHODOLOGY

Method	Value/sh	Upside
DCF — perpetuity growth (10%)	EGP 80.0	+43%
DCF — exit multiple (6.4x EBITDA)	EGP 78.1	+39%
Price target (base case)	**EGP 80.0**	**+43%**

Why it is cheap

- 5.9x FY25 earnings and 3.8x EV/EBITDA — undemanding for a market-leading producer.
- Net cash means enterprise value (EGP 18.9bn) sits below market cap (EGP 21.3bn).
- Terminal value is 63% of enterprise value — below the 75% comfort threshold.

Source: ACC FY2025 audited consolidated financial statements (Deloitte) and author's financial model.

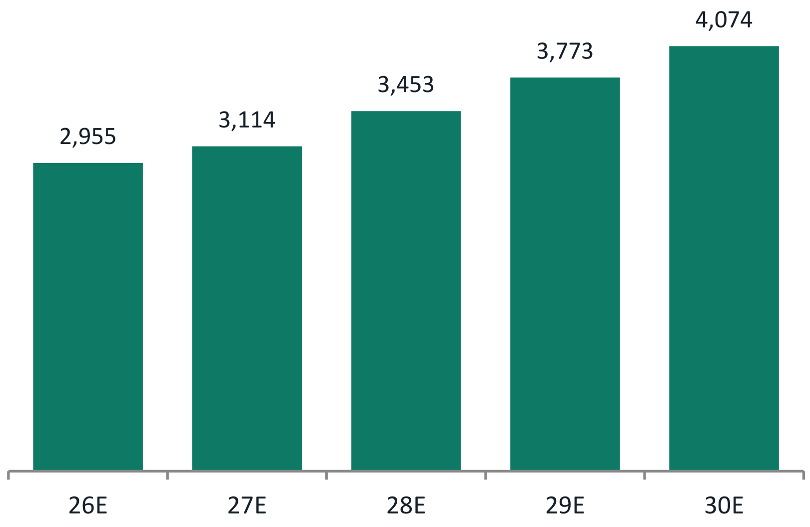
Unlevered free cash flow build, FY26E–FY30E

EGP m	FY26E	FY27E	FY28E	FY29E	FY30E
EBIT	3,586	4,004	4,436	4,843	5,253
Less: tax on EBIT (23.9%)	(858)	(958)	(1,062)	(1,159)	(1,257)
NOPAT	**2,728**	**3,046**	**3,375**	**3,684**	**3,996**
Plus: D&A	415	460	507	545	567
Less: capex	(282)	(314)	(348)	(380)	(412)
+/- change in working capital	93	(77)	(80)	(75)	(76)
Unlevered FCF	**2,955**	**3,114**	**3,453**	**3,773**	**4,074**

UFCF = NOPAT + D&A − capex ± Δ working capital

Unlevered (pre-financing) so the business is valued independently of its capital structure; discounted at the 21.54% WACC.

Unlevered FCF (EGP m)



PV of forecast FCF	**EGP 10.3bn**
PV of terminal value	**EGP 17.7bn**
Enterprise value	**EGP 28.0bn**

Source: ACC FY2025 audited consolidated financial statements (Deloitte) and author's financial model.

WACC of 21.5%, built from CAPM

Cost of equity (CAPM)		
Risk-free rate (EGP 10-yr T-bond)		19.58%
Beta (Blume-adjusted, 0.30 raw)		0.53
Equity risk premium (mature market)		4.23%
Cost of equity		**21.84%**
Cost of debt		
Pre-tax cost of debt (marginal EGP)		20.60%
After-tax (22.5% statutory)		**15.97%**
Capital weights		
Equity (market cap EGP 21.3bn)	94.9%	
Debt (gross EGP 1.14bn)	5.1%	
WACC		**21.54%**

How the build holds together

EGP risk-free, mature ERP

The risk-free rate is the EGP T-bond yield, which already embeds Egyptian country risk. We use a mature-market ERP (4.23%) to avoid double-counting that risk.

Marginal EGP cost of debt

20.6% reflects the CBE lending rate (~20%) plus the company's facility spread (+0.6%, Note 25) — not the EUR coupon, since cash flows are in EGP.

Debt is a small weight

At ~5% of the structure, the financing mix has limited impact; the WACC is driven by the cost of equity.

Source: ACC FY2025 audited consolidated financial statements (Deloitte) and author's financial model.

From enterprise value to EGP 80 per share

TERMINAL VALUE

	Perpetuity	Exit multiple
Assumption	g = 10.0%	6.4x EBITDA
Terminal value (EGP bn)	38.8	37.2
TV as % of EV	63%	62%
Implied exit multiple	6.7x	—
Implied perpetuity g	—	9.6%

The two methods cross-check: the perpetuity TV implies a 6.7x exit multiple (vs 6.4x assumed), and the exit multiple implies 9.6% perpetuity growth (vs 10%). Both sit inside a sensible 0–10%, below-WACC band.

EQUITY BRIDGE

Enterprise value	28.0
Less: gross debt	(1.14)
Less: minority interests	(0.16)
Plus: cash & equivalents	3.46
Equity value (EGP bn)	**30.3**

÷ 378.7m shares = **EGP 80.0**

Source: ACC FY2025 audited consolidated financial statements (Deloitte) and author's financial model.

Value per share across WACC and terminal growth

WACC \ g	9.0%	9.5%	10.0%	10.5%	11.0%
19.5%	88.7	91.7	95.0	98.7	102.8
20.5%	81.9	84.3	86.9	89.8	93.1
21.5%	75.9	77.9	**80.0**	82.3	84.9
22.5%	71.2	72.8	74.6	76.6	78.7
23.5%	67.0	68.4	69.9	71.5	73.2

Range of outcomes

DOWNSIDE

EGP 67

BASE CASE

EGP 80

UPSIDE

EGP 103

Even the bear corner (23.5% WACC, 9% g) implies EGP 67 — 19% above the current EGP 56.11.

Base case: EGP 80.0 at 21.5% WACC and 10% terminal growth (highlighted). Perpetuity-growth method.

Source: ACC FY2025 audited consolidated financial statements (Deloitte) and author's financial model.

Conservative, history-anchored drivers

Driver	Assumption	Basis
Revenue growth (FY26E)	**+13.9%**	Segment build: local +18%, exports +5%
Gross margin	**28.6%**	3-yr average; FY25 was 40.6% (we normalise down)
Capex	**~2.0% of revenue**	In line with historical intensity
Inventory / receivable / payable days	**58 / 9 / 55**	FY23–25 averages
Tax rate	**23.9%**	≈ statutory 22.5% (effective)
Dividend payout	**60%**	Sustained by net-cash position and FCF
Terminal growth	**10%**	≈ Egypt long-run nominal GDP

Key swing factor: the gross-margin assumption. FY2025 printed 40.6% on post-devaluation pricing; we revert to the 28.6% three-year average. Holding margins closer to recent levels would push the value materially higher — the case is conservative, not aggressive.

Source: ACC FY2025 audited consolidated financial statements (Deloitte) and author's financial model.

Income statement, FY23A–FY30E

EGP m	FY23A	FY24A	FY25A	FY26E	FY27E	FY28E	FY29E	FY30E
Revenue	6,043	8,730	12,447	14,182	15,836	17,544	19,151	20,775
Gross profit	1,283	2,087	5,058	4,055	4,528	5,016	5,476	5,940
EBITDA	**1,342**	**2,041**	**4,940**	**4,001**	**4,464**	**4,943**	**5,387**	**5,820**
EBIT	1,092	1,784	4,650	3,586	4,004	4,436	4,843	5,253
Net profit	**698**	**1,160**	**3,600**	**2,830**	**3,220**	**3,624**	**4,018**	**4,423**
EPS (EGP)	1.84	3.02	9.49	7.47	8.50	9.57	10.61	11.68
Gross margin	21.2%	23.9%	40.6%	28.6%	28.6%	28.6%	28.6%	28.6%
Revenue growth	—	44.5%	42.6%	13.9%	11.7%	10.8%	9.2%	8.5%

FY23A–FY25A are audited actuals; FY26E–FY30E are author estimates. EPS on 378.7m shares.

Source: ACC FY2025 audited consolidated financial statements (Deloitte) and author's financial model.

What we are watching

1 Margin normalisation

Our 28.6% gross-margin assumption is the single biggest swing factor. A faster-than-expected fade from FY25's 40.6% would lower the value.

2 FX exposure

EUR-denominated EBRD/NBE debt and imported inputs create currency risk; FY differences are not forecast, so a weaker EGP is a downside.

3 Energy & fuel costs

Cement is energy-intensive; rising fuel prices would compress margins despite the alternative-fuel programme.

4 Construction cyclicality

Cement demand tracks construction activity and the broader economy, which can soften.

5 Interest-rate path

Floating-rate debt; however, the CBE easing cycle is currently a tailwind, not a headwind.

6 Regulatory / development fee

Taxes, the cement development fee and export decisions can affect realised pricing and cost.

Source: ACC FY2025 audited consolidated financial statements (Deloitte) and author's financial model.

RECOMMENDATION

Overweight — EGP 80 target, 43% upside

Arabian Cement combines a market-leading, low-cost franchise with a net-cash balance sheet and strong free cash flow, yet trades at 5.9x earnings and a 43% discount to our DCF. We view risk/reward as skewed firmly to the upside.

TARGET	UPSIDE	FY25 P/E	NET CASH
EGP 80	+43%	5.9x	EGP 2.3bn

Methodology & sources

Valuation by discounted cash flow (perpetuity-growth and exit-multiple), cross-checked against trading multiples. Built on Arabian Cement Company's FY2025 audited consolidated financial statements (auditor: Deloitte) and the author's own three-statement model and WACC build.

Prepared by Ahmed Wael Metwally. Illustrative analysis for discussion; not investment advice.