

Chapter 7

The Alexandria Mineral Oils Company (AMOC): A Strategic Assessment of AMOC'S IPO

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EXECUTIVE SUMMARY

This case deals with a critical question about the underlying motives for Initial Public Offerings (IPOs), using the events surrounding the IPO of the Alexandria Mineral and Oils Company (AMOC) in Egypt. AMOC, a government-owned company that was seeking partial privatization, was offered to the public at LE 45 per share, and in no more than one week of trading, the share price skyrocketed to LE 85, almost doubling the company's price/earnings (P/E) ratio. This was a matter of major concern to the company's management, since the high P/E ratio detracted from AMOC's attractiveness to a strategic investor. The case gives an overview of AMOC's main business activities and of the local and international petroleum industry and highlights the process of an initial public offering as well as the parties involved.

INDUSTRY AND ORGANIZATIONAL BACKGROUND

Introduction

Those who acquired a stake, those who missed out on their piece of the cake, even those who have no real idea what is going on, are all talking about the rising star of the Cairo and Alexandria Stock Exchange (CASE). Among the flock, one person should be the happiest, for it is his star that rises

up in the sky. Standing on the 21st floor of the elegant AMOC tower in Alexandria, Mohamed Magdy, AMOC Chief Financial Officer (CFO), stares through his office window at the big cloud swimming directly towards him across the dilated blue sky. Then he turns his back to the window and sits at his desk, reaching for the drawer, gently pulling out one of his fine Cuban cigars. As he lights it, he slowly leans back and stares at the door, thinking...

September 2005 witnessed the Initial Public Offering (IPO) of Alexandria Mineral Oil Company (AMOC), considered by many one of

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the most rewarding ventures for investors in the history of CASE. After only a mere one week of trading following the IPO, the price of AMOC stock rose from LE 45 to close at LE 85 later that week. This fact amused the traders and encouraged the uneducated public to look up to the stock exchange market as a strong prospect for making easy money by venturing into IPOs.

AMOC, the mineral-oil producing company, was partially offered to the public as part of the privatization process being applied to government-owned enterprises. Key players involved in the process were the National Bank of Egypt (NBE) and the Commercial International Brokerage Company (CIBC), as underwriter and book runner, respectively. After extensive research and valuation, AMOC was offered to the public at LE 45 with a P/E ratio of 7.5. Within one week this ratio reached 14.

“What could possibly have gone wrong?” thought Magdy. “We contracted an expert underwriter and conducted the planned road shows. But we offered our stock before acquiring a strategic investor. Now that our stock is soaring, the P/E is no longer attractive. Will we be able to complete the privatization process and acquire a strategic stakeholder?”

Struggling with his thoughts, Magdy pulled out the big blue file labeled “AMOC IPO”, flipped to the company’s accounting reports and started reading.

AMOC Profile

AMOC is an Egyptian company specialized in refining a wide range of mineral oils. It was established in May 1997 as a joint stock company operating under investment law number 8/1997, with an authorized capital of LE 2 billion, issued capital of LE 420 million and investment cost of LE 1,900 million. AMOC’s purpose of establishment is to satisfy local needs for petroleum products and to export excess production to international markets.

Located in the Salina area, AMOC has a total production facility area of 500,000 m². The post capital increase in the company’s current paid-in capital stands at LE 861 million. Operating under the investment law of 1997, AMOC enjoys a five-year tax holiday that expires in June 2007, after which the company will be subject to a 20 percent tax. The company is a major shareholder of Alexandria for Waxy Products (AWPC), with a 40 percent ownership share, equivalent to LE 0.4 million. AWPC is mainly involved in the marketing and selling of AMOC’s different wax products.

AMOC houses two processing complexes in its production facility, the “*Lube and Special Oils Complex*” and the “*Gas Oil Complex*”, which together have a total production capacity of 257k tons per annum. The company’s products include base oils, transformer oils, automatic transmission fluids, and paraffin waxes, in addition to two by-products, namely soft /slack waxes and aromatic extracts.

AMOC is currently undergoing some minor expansions whereby a new treatment unit will be added to the Gas Oil complex to enhance sulfur production, at a total investment cost of LE 71 million. The company is also increasing its storage capacity for its heavy residue and fuel oil blend, at a total cost of LE 15 million, to relieve current storage bottlenecks.

AMOC’s issued capital is LE 861 million, distributed over 86.1 million shares with a par value of LE 10 per share. This is a result of the board of directors’ approval of a LE 41 million capital increase in 2005 via the issuance of 410,000 shares, and a 10:1 stock split that was approved in an executive general meeting dated June 20 of the same year.

AMOC’s managers and employees are carefully selected. The company’s senior managers are veterans from the Egyptian petroleum sector. The chairman, Eng. Abdel Razek El Kalabshawy, has been seconded from the Egyptian General Petroleum Corporation (EGPC) and has 30 years of experience in the petroleum sector. AMOC’s

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