

## Today's Story

### Riding the Export Wave at a Discount

The June earnings season represents a special occasion for some state-owned companies, as it marks the release of their annual results. With that in mind, we shed light today on Export Development Bank of Egypt (EXPA). So far, we have seen strong results from some banks, potentially foreshadowing strong performance from other banks within the same space. Any estimates beat will be the cherry on top of the cake. For EXPA, we believe the stock is at very attractive levels for the following:

- **Reaping the benefits of flotation:** The road post the EGP flotation may have been bumpy for certain banks with increasing clients' vulnerability to FX risks. However, this was not the case for EXPA which has a natural hedge. In fact, the bank's bottom line turnaround began throughout FY2016/17 ending 30 June 2017 (only eight months of flotation impact). This was logical as EXPA's main purpose is to support Egyptian exporters who benefited the most from the EGP flotation. We think the current pro-export climate will be conducive to credit growth and improved credit quality. We note that EXPA's non-performing loans ratio (NPL %) cooled down from 6.75% by end of FY2016/17 to 5.49% in Q3 FY2017/18 (ending 31 March 2018). In addition to, EXPA enjoys a healthy coverage ratio of 118.5%.
- **The call for diversification:** EXPA's loan mix is currently heavily skewed towards institutional lending, thanks to the bank's business model. Its gross loan portfolio currently stands at EGP18.8bn, 99% of which is extended to institutional clients, limiting any potential benefit from retail lending opportunities. Meanwhile, the industrials sector makes up 52% of total lending, further reflecting the bank's loan concentration. Optimizing the bank's portfolio should help mitigate this concentration risk in the case of any future downturn, noting that EXPA has room to grow its loan portfolio with a gross loans-to-deposits ratio of only 57.4%. Furthermore, on the assets side, we notice the gradual increase in EXPA's exposure to Treasury bills (now 30% of total assets), which should help increase net interest margin (NIM) resilience with the easing cycle expected to be interrupted for a longer time than expected.
- **Forecasts and valuation:** With annual results on the horizon, we note that EXPA's current consensus earnings stand at EGP712.0mn for FY2017/18. This is in line with annualized 9M FY2017/18 results which we calculate as EGP747.2mn. Both figures are higher than the bank's own budget for the year (+9% and +14%, respectively) as well as FY2016/17 earnings (+32% and +38%, respectively). Valuation-wise, EXPA currently trades at attractive multiples relative to peers, with a TTM P/E of 2.65x and P/BV of 0.64x. Average consensus target price, according to *Bloomberg*, is EGP18.63/share (+90% above market price). We note that EXPA is said to be one of five banks that **National Investment Bank (NIB)** – EXPA's main shareholder with a 40.75% stake – is looking to sell, which could be another positive for the stock re-rating in the coming months.

## Top Headlines

### Corporate

- **Telecom Egypt (ETEL)** signed an agreement with **India's** telecom company **Airtel**, through which the latter will get IRUs (Indefeasible Rights of Use) on **MENA Cable** as well as **TE North Cable Systems**. In addition, Airtel will also take large capacities on a long-term basis on two new state-of-the-art cable systems (**SMW5** and **AAE1**). ([Company Disclosure](#))
- **Giza General Contracting (GGCC)** said it signed in July 2018 three contracts with **NUCA** worth EGP355.5mn to construct 42 apartment buildings in **El-Sadat City** and **New El-Mansoura** as well as the irrigation network for green areas in **New El-Minya**. ([Company Disclosure](#))

- **CI Capital's** (CICH) Managing Director, Tarek Tantawy, said CICH will manage potential IPO for a pharmaceutical company in EGX by Q3 2018, in addition to the participation of an IPO in Europe's market. He also hinted plans to increase Croplease's capital by EGP100mn. (Al-Borsa)
- **Metallurgical Industries Holding Company** started negotiations with **Egyptian Natural Gas Holding Company** and the **Ministry of Electricity** to settle **Egyptian Iron and Steel (IRON)** debts worth EGP3.8bn. (Al-Borsa)
- **Sidi Kerir Petrochemicals Co.** (SKPC) announced preliminary results for Q2 2018, posting a net profit of EGP397mn in Q2 2018 (+1% y/y). Revenues came in at EGP1.49bn vs. EGP1.48bn in Q2 2017 (+1.4% y/y). The company reported a GPM of 29% vs. 30% in Q2 2017. The results came below expectation despite polyethylene and ethylene prices growing c.20% y/y. We think lower-than-expected revenues could be attributed to lower sales volumes or more concentration of exports during the quarter (SKPC usually sells polyethylene in the local market at a premium). We await the detailed financials for more insights about SKPC's performance. ([Company Disclosure](#))

EGP mn	Q2 2018	Q2 2017	y/y	Q1 2018	q/q	H1 2018	H1 2017	y/y
Sales	1,499	1,478	1.4%	1,244	20.5%	2,743	2,606	5.3%
COGS	1,069	1,040	2.8%	867	23.3%	1,936	1,887	2.6%
Gross Profit	430	438	-1.8%	377	14.1%	807	719	12.2%
Net profit	397	393	1.0%	284	39.8%	681	607	12.2%
Gross margin	29%	30%	-95 bps	30%	-162 bps	29%	28%	183 bps
Net margin	26%	27%	-11 bps	23%	365 bps	25%	23%	153 bps

Source: Company reports

## Non-Corporate

- **Fitch Ratings** has affirmed **Egypt's** Long-Term Foreign-Currency Issuer Default Rating (IDR) at '**B**' with a **Positive Outlook**, supported by progress in implementing an economic and fiscal reform program, greater macroeconomic stability, and improving external finances. Meanwhile, the ratings are constrained by large fiscal deficits, high general government debt/GDP, and weak governance scores (as measured by the **World Bank** governance indicators). ([Fitch](#))
- **Chairman of Suez Canal Authority** Mohab Memish said that revenues from Suez Canal reached USD493mn in July 2018, an increase of USD46.2mn or 10% y/y. ([Hapi Journal](#))
- The **Central Bank of Egypt (CBE)** said that the country's foreign debt has reached USD88.2bn at the end of March 2018, a USD9.1bn or an 11.6% increase since the end of June 2017. ([Ahram Online](#))
- The **Ministry of Investment** is reportedly drafting amendments to existing regulations (Decree No. 122), redefining the jurisdiction over the affairs of some private sector holding companies, between the **General Authority for Free Zones & Investments (GAFI)** and the **Financial Regulatory Authority (FRA)**. Under new guidelines, the FRA's jurisdiction will only extend to holding companies with half or more of their assets invested in the non-banking financial sector, with GAFI assuming regulatory responsibility over the rest. ([Al-Mal](#), [Enterprise](#))
- **Egypt** and **Cyprus** have reached an agreement to connect the **Aphrodite** gas field liquefaction plants in Egypt. The agreement will be inked in the fall, Cyprus state television said, citing diplomatic sources. The pipeline, which is expected to cost between USD0.8-1bn, is a crucial stepping stone towards Egypt's strategy to become the natural gas export hub for the Eastern Mediterranean as it plans to re-export a portion of the LNG to Europe after satisfying local demand. ([Enterprise](#))
- The **Public Enterprises Ministry** has finished drafting amendments to the Public Enterprises Law that would allow private-sector companies to own stakes of just under 50% in the ministry's holding companies. Under the current law, all ministry holding companies must be fully owned by the government. The draft amendments have been sent to the Cabinet for review. ([Enterprise](#))

Markets

↘	EGX 30	15,645.56	(0.58%)	↘	EGX 70	746.76	(0.25%)
↘	DFMGI	2,977.78	(0.00%)	↗	ADSMI	4,883.54	1.61%
↘	TASI	8,230.13	(0.15%)	↗	QE Index	9,933.22	0.37%
↗	S&P 500	2,850.40	0.35%	↘	MSCI EM	1,071.00	(0.22%)
↘	Gold	1,207.64	(0.60%)	↗	Brent Oil	73.75	0.74%

\*As of market close, except for commodities at spot price as of 8:29am CLT.

- **MENA Markets:** The **EGX30** ended Monday's session in the red, driven by losses in **COMI**, **SWDY**, and **OCDI**. **TASI** ended slightly lower on weaker performance in the industrial and petrochemicals sectors. **UAE indices** ended on a mixed note, with **ADSMI** showing a strong performance.
- **Global Markets:** **US indices** rose on Monday, supported by strong earnings. Meanwhile, **Asian shares** enjoyed some recovery time this morning, shrugging off trade war worries. **Oil prices** were up, as talks were renewed concerning tighter sanctions over **Iran** output.

Number of the Day

EGP18.8bn

Size of the gross loan portfolio of Export Development Bank of Egypt (EXPA).

Today's Quiz

When was the last time Fitch Ratings changed its view on Egypt?

(Answer located at the end of this newsletter)

## Corporate Events

Company	Ticker	Event Type	Event Date	Reason
Extracted Oils	ZEOT	Right issue	8-Aug	Record date for right issue
Golden Coast	GOCO	Dividends	9-Aug	Distribution of cash dividends of EGP0.1 per share (1st installment)
Sidi Kerir Petrochemicals	SKPC	Dividends	9-Aug	Distribution of cash dividends of EGP0.4 per share
Alexandria Spinning & Weaving	SPIN	Capital Increase	9-Aug	Raising capital by EGP45m over 22.5m shares
Extracted Oils	ZEOT	Capital Increase	9-Aug	Raising capital by EGP157.2m over 42.8m shares
Misr Duty Free Shops	MF5C	EGM	9-Aug	Reviewing Agenda Items
Sharkia National Food	SNFC	EGM	11-Aug	Reviewing Agenda Items
General Silos & Storage	GSSC	Lawsuit	12-Aug	Legal Disputes Relevant to the Company
Alexandria Containers Handling	ALCN	EGM	13-Aug	Reviewing Agenda Items
Telecom Egypt	ETEL	Earnings release	14-Aug	Announcing Q2 2018 financial results
Arab Cotton Ginning	ACGC	EGM	15-Aug	Reviewing Agenda Items
Middle East Glass Manufacturing Co	MEGM	GM	15-Aug	Reviewing Agenda Items
Univert Food Industries	UNFO	Buying Offer	15-Aug	Final date of the offer to buy shares of the company
Misr National Steel Ataqa	ATQA	Dividends	15-Aug	Record date for bonus shares eligibility (100%)
Misr National Steel Ataqa	ATQA	Dividends	16-Aug	Distribution of bonus shares (100%)
Egyptian Iron & Steel	IRON	Lawsuit	16-Aug	Legal Disputes Relevant to the Company
Egyptian Iron & Steel	IRON	GM	16-Aug	Reviewing Agenda Items
Orange Egypt for Telecommunications	OREG	BOD	27-Aug	Discuss delisting company's shares
El Nasr Co for Transformers	NASR	Dividends	29-Aug	Distribution of cash dividends of EGP0.0375 per share
Egyptian Transport and Commercial	ETRS	Dividends	30-Aug	Distribution of cash dividends of EGP0.5 per share
Arab Polvara Spinning & Weaving	APSW	Lawsuit	8-Sep	Legal Disputes Relevant to the Company
Ibnsina Pharma	ISPH	Lawsuit	18-Sep	Legal Disputes Relevant to the Company
October Pharma	OPPH	Dividends	27-Sep	Distribution of cash dividends of EGP2.0 per share

## Quiz Answer

**Fitch Ratings has revised its outlook for Egypt's credit rating in January 2018 from Stable to Positive Outlook.**



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