

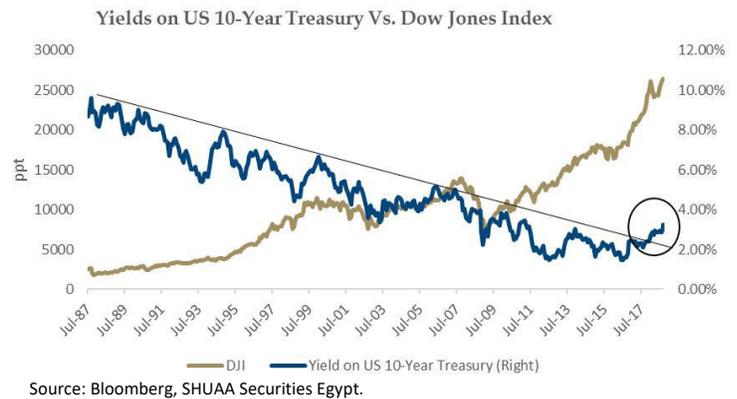
Today's Story

Reasons to Be Careful ...

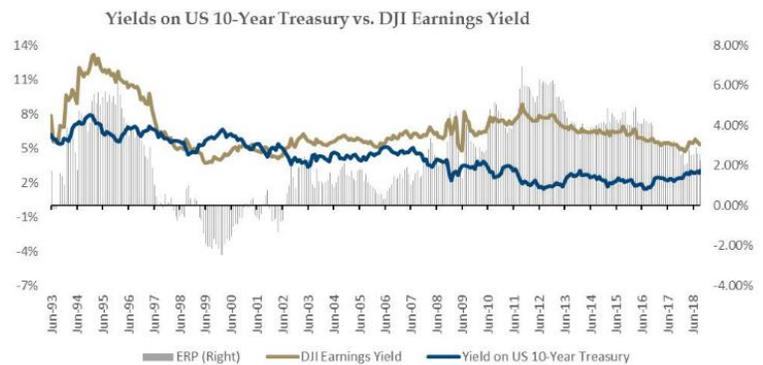
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- **The rise of US Treasury yields:** Over the course of last week, global markets were stunned by the aggressive movements in the yields on **US Treasuries**, especially the **10-year Treasury yield**. It has soared to its highest levels since May 2011, hitting the 3.248% mark. The surge in yields came in view of:
 - Higher growth prospects for the US economy, increasing the likelihood of more aggressive Fed rate hikes in the future.
 - High fiscal stimulus placed by the current US administration, resulting in a higher fiscal deficit and hence borrowings.

Higher Treasury yields are historically synonymous with a number of events. As the first chart on the right shows, the relation between the **Dow Jones Industrial Average** (DJIA) and the US 10-year Treasury yield has been clearly negative throughout history. We note that the US 10-year Treasury yield has recently seen its long-term downtrend line broken, which could potentially be a bad omen for the US stock market participants. Let's not forget that the big fallout of US equity indices which took place last February came primarily at the hands of surging bond yields. However, the second chart below depicts the relation between **DJIA earnings yield** (i.e. earnings divided by price), alongside the US 10-year Treasury yield, and the implied equity risk premium (ERP). As we can see, at times following major calamities (e.g. in 2003 and in 2008), ERP tends to shoot higher in response to higher risk factored in the market's perception of stocks' attractiveness. Although ERP was elevated to historical levels in 2011, the unprecedented aggressive monetary easing managed to repress ERP levels, bringing it back to normal territories. However, as the Fed is willing to normalize, ERP may soon rise again.



- **Tightening DM-EM spread:** Trade tensions and tighter monetary measures in developed markets (DMs), both were among the primary reasons behind money flowing out of emerging markets (EMs). Higher US Treasury yields will likely inflict higher yields on other DM bonds, which in return will help narrowing the spread between DMs and EMs. If we were to throw in higher oil prices, which is a cause of concern for many EMs' budget deficits, we could expect to see further depreciation of net oil importers' currencies, followed by multiple hikes to their already ultra-high interest rates.



- **Conclusion:** Back home, as tighter monetary conditions on the global front are about to reshape global liquidity, we believe the Egyptian market could be further be impacted by:
 - Longer-than-usual high interest rate levels, regardless of inflation readings.
 - Higher borrowing costs in both national and foreign currency terms, just ahead of a USD5bn Eurobond sale.
 - Tougher-to-achieve FY2018/19 fiscal consolidation objectives, in terms of both primary surplus and overall budget deficit.

On the positive side, higher yields on US Treasuries could eventually pull the plug on the 10-year-old bull market for US equities. Thus, over the medium term we could eventually see money moving out of US equities into EMs once again, looking for cheap valuation and fundamentally-sound stories. The triggers for such scenario will be (1) softer yields on DMs Treasuries, (2) weaker oil prices, and (3) less EM drama.

Top Headlines

Corporate

- **Hassan Allam Holding (HAH)** revealed its intention to seek dual listing on both the **Egyptian Exchange (EGX)** and **London Stock Exchange (LSE)**, the listing is expected to be on November. The company said it would float 44.3% of its existing shares on EGX and list its global depository receipts (GDRs) on LSE. HAH is planning to use the capital increase proceeds in (1) developing its solar assets portfolio in collaboration with **Lightsource BP** powered by **Hassan Allam Utilities**, (2) financing its water platform by developing new assets, (3) acquiring a specialty engineering company, and (4) supporting its continued growth in the construction and building materials businesses. HAH has a current backlog of EGP55.8bn, and its last full financial year generated EGP339.7mn in net profits on revenues of EGP11.5bn. In H1 2018, both HAH's revenues and net profits more than doubled y/y to EGP8.99bn and EGP427.4mn, respectively. Meanwhile, **Grant Thornton** valued HAH at EGP9bn. ([Zawya](#), [Al-Mal](#), [Al-Borsa](#))
- The **Minister of Public Enterprises** Hisham Tawfik said that the sale of an additional 4.5% stake in **Eastern Company (EAST)** is expected to take place during 21-25 October 2018. The minister stressed on the government's commitment to the time plan of the public offerings program (POP), even though the market may not be in the best shape. He later said that POP maybe stretched out to include up to 33 public companies rather than 23 companies, without further elaborating names of the 10 additional companies. ([Enterprise](#))
- **Eastern Company (EAST)** has declared cash dividends of EGP1/share to be paid in two installments, implying a dividend yield of 6%. The first installment of EGP0.60/share will be paid on 18 October 2018, while the second installment of EGP0.40/share will be paid on 2 January 2019. Dividends will be paid to share buyers up until 15 October 2018. ([Company Disclosure](#))
- **SODIC's (OCDI)** BoD will invite the company's EGM to convene and approve the waiver of some plots of land acquired in the past years. OCDI will complete the waiver process with **El-Sheikh Zayed City Authority** after the EGM approval. ([Company Disclosure](#))
- **Cairo for Investment & Real Estate Development (CIRA)** announced that the number of students currently enrolled in its K-12 and higher education segments for the 2018/19 academic year reached 31,747 students (23,965 and 7,782, respectively). This exceeds the IFA estimates of 29,742 students by 2,005 students or 6.7%: 23,023 (+4%) and 6,719 (+16%), respectively. ([Company Disclosure](#))
- **Alexandria Containers & Cargo Handling (ALCN)** said it signed on 1 October 2018 a contract for four reach stackers with a value of EGP32mn. ([Al-Mal](#))

Non-Corporate

- **Egypt's foreign reserves** rose by nearly USD40mn m/m by the end of September 2018. Net foreign reserves recorded USD44.459bn in September, compared to USD44.419bn in August. ([CBE](#))
- The **Central Bank of Egypt (CBE)** accepted Treasury bills and bonds worth a combined EGP19.25bn on Sunday on behalf of the **Ministry of Finance**. **T-bills** worth EGP18bn were accepted, split between EGP9.5bn in **91-day T-bills** (avg. yield of 19.747% vs. 19.711% a week ago) and EGP8.5bn in **266-day T-bills** (avg. yield of 19.928% vs. 19.938% a week ago). **T-bonds** worth EGP1.25bn were accepted, split between EGP750mn in **5-year T-bonds** (avg. yield of 18.418% vs. 18.261% in August 2018) and EGP500mn in **10-year T-bonds** (avg. yield of 18.374% vs. 16.378% in June 2018). ([CBE](#), [CBE](#))
- The number of **mobile subscribers** in **Egypt** declined by 4.6% y/y to 95.73mn subs at the end of June 2018. Meanwhile, the number of fixed-line subscribers increased by 17.6% y/y to 7.40mn subs in June 2018. ([Al-Masry Al-Youm](#))

Markets

↘	EGX 30	13,604.01	(3.55%)	↘	EGX 70	690.67	(1.24%)
↘	DFMGI	2,774.62	(0.56%)	↗	ADSMI	5,003.38	0.26%
↗	TASI	7,939.17	0.58%	↘	QE Index	9,819.74	(0.28%)
↘	S&P 500	2,884.43	(0.04%)	↘	MSCI EM	995.50	(0.53%)
↗	Gold	1,190.34	0.19%	↗	Brent Oil	84.39	0.57%

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

- **MENA Markets:** The **EGX 30** ended down on Monday, dragged by losses in **COMI, SWDY, HRHO** and **EAST**. Meanwhile, **TASI** closed in green, driven by gains in the **banking, retail**, and **real estate** sectors. **UAE indices** ended mixed; **DFMGI** ended down, dragged by losses in the **banking** and the **real estate** sectors, while **ADSMI** ended in green, driven by the **banking** and the **consumer service** sectors.
- **Global Markets:** **US equities** closed yesterday lower as fears over rapidly rising interest rates continued to weigh on sentiment. **Asian equities** hit 17-month lows on Tuesday on the back of a multitude of concerns ranging from **China's** economy to political turmoil in **Europe**. **Oil** prices rose on Tuesday as more evidence emerged that crude exports from **Iran**, **OPEC's** third-largest producer, are declining in the run-up to the re-imposition of **US** sanctions and as a hurricane moved across the **Gulf of Mexico**. **Gold** prices edged higher on Tuesday, drawing some safe-haven bids from risk-averse investors.

Number of the Day

USD40mn

The m/m increase in Egypt's net foreign reserves in September 2018.

Today's Quiz

When was the last time Electro Cables (ELEC) distributed dividends?

(Answer located at the end of this newsletter)

Corporate Events

Company	Ticker	Event Type	Event Date	Reason
Golden Coast	GOCO	Dividends	09-Oct	Distribution of 2nd installment of cash dividends of EGP 0.1 per share
Suez Canal Bank	CANA	Lawsuit	09-Oct	Legal Disputes Relevant to the Company
Extracted Oils	ZEOT	GM	10-Oct	Reviewing Agenda Items
Egyptian Iron & Steel	IRON	GM	10-Oct	Reviewing Agenda Items
Naeem Holding	NAHO	Dividends	10-Oct	Record date for bonus shares eligibility of 1:10
Union National Bank Egypt	UNBE	EGM	13-Oct	Reviewing Agenda Items
MM Group for Industry	MTIE	EGM	13-Oct	Reviewing Agenda Items
Palm Hills Developments	PHDC	Right issue	14-Oct	Record date for right issue eligibility
Nozha International Hospital	NINH	GM	15-Oct	Reviewing Agenda Items (Bonus Shares)
General Silos & Storage	GSSC	Lawsuit	15-Oct	Legal Disputes Relevant to the Company
Eastern Company	EAST	Dividends	15-Oct	Record date for cash dividends eligibility of EGP 1 per share
El Nasr Clothes & Textiles	KABO	GM	17-Oct	Reviewing Agenda Items
Alexandria Flour Mills	AFMC	GM	17-Oct	Reviewing Agenda Items
Eastern Company	EAST	Dividends	17-Oct	Distribution of 1st installment of cash dividends of EGP 0.60 per share
Real Estate Egyptian Consortium	AREH	EGM	18-Oct	Reviewing Agenda Items
Extracted Oils	ZEOT	GM	19-Oct	Reviewing Agenda Items
Alexandria Containers Handling	ALCN	Dividends	21-Oct	Record date for cash dividends eligibility of EGP 0.9545445705 per share
Mohandes Insurance	MOIN	GM	21-Oct	Reviewing Agenda Items
Misr Oils & Soap	MOSC	EGM	24-Oct	Reviewing Agenda Items
Ezz Steel	ESRS	EGM	24-Oct	Reviewing Agenda Items
Atlas for Land Reclamation	ALRA	GM	25-Oct	Reviewing Agenda Items
Al Ahram Co for Printing	EPPK	GM	25-Oct	Reviewing Agenda Items
Egyptian Resorts Co.	EGTS	Lawsuit	27-Oct	Legal Disputes Relevant to the Company
Alexandria Flour Mills	AFMC	Lawsuit	29-Oct	Legal Disputes Relevant to the Company
Arabia Investments and Development	AIND	Lawsuit	11-Nov	Legal Disputes Relevant to the Company
Raya Holding	RAYA	EGM	30-Oct	Reviewing Agenda Items
El Nasr Co for Transformers	NASR	Dividends	31-Oct	Distribution of 3rd installment of cash dividends of EGP 0.1 per share
Porto Group Holding	PORT	Lawsuit	29-Nov	Legal Disputes Relevant to the Company

Quiz Answer

2014.

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