

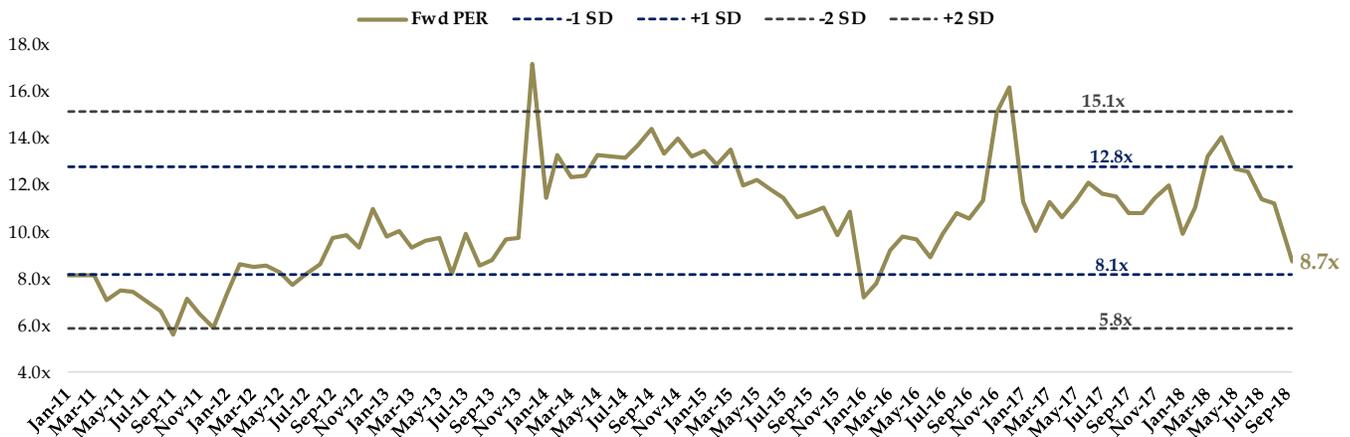
Today's Story

The Bottom-Rebound Mean Reversion Relationship

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- The bottom:** Egyptian equities are nowadays suffering from severe sell-off waves, many of which do not seem to be backed by fundamentals. These sell-off waves led the benchmark **EGX 30** to trade at 8.7x 2018 earnings estimates. This is clearly below normal levels as the below chart illustrates, close to 1 standard deviation when analyzed over the past 7.5 years or so. Also, EGX 30 is now traded at a 16.7% discount to its average monthly forward P/E since 2011 of 10.5x. We note that Egyptian equities prices passed through two major events from 2011 through today:
  - The first event was the 2011 Revolution, after which the EGX 30 hit a low of 5.6x forward earnings.
  - The second event was the EGP floatation in November 2016, after which the EGX 30 was traded at a low of 7.2x forward earnings.

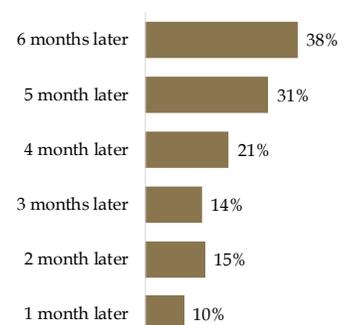
To have a better understanding of where the EGX 30 trades nowadays, we depict in the below chart  $\pm 1$  and  $\pm 2$  standard deviations (SDs) for forward P/E readings over the past 7.5 years. The EGX 30 is currently trading very close (7.0% above) to the levels seen after the EGP floatation (i.e. 1 SD below its historical average or P/E of 8.1x) but further away from (+49.6% above) the levels seen post the 2011 Revolution (i.e. 2 SDs below its historical average or 5.8x).



Source: Bloomberg, SHUAA Securities Egypt

- The rebound:** The above suggests that the market may be close to its bottom, but what would be the rebound levels? The EGX 30 will eventually revert back to its historical average, thus re-rating to a forward P/E of 10.5x (i.e. a +21% rebound off yesterday's prices), assuming that earnings estimates are unchanged. Once this bear market runs its course, we could eventually see a further rebound in the EGX 30 towards its 1SD and 2SD above its historical average: 12.8x (+47%) and 15.1x (+74%), respectively, again assuming that earnings estimates are unchanged.
- But what sort of potential returns can a bear market bring?** To answer this question, we looked at the EGX 30 **total return** in different time frames when the its forward P/E reached its low monthly readings (excluding 2011 and 2012—the years of the revolution and political unrest). We considered the lowest 10 forward P/E readings (two of which were reached lately) then calculated the total return for the index 1, 2, 3, 4, 5, and 6 months after. Based on the average total return of each holding period, we realize that the EGX 30 has rewarded medium- and long-term investors by an average total return ranging from 10% (1 month after hitting a low monthly forward P/E reading) to 38% (6 months after hitting a low monthly forward P/E reading). The chart on the right depicts the average total return in the six different holding periods mentioned above.
- In conclusion, we believe that investors who get in at such low valuation levels until the bear market runs its course should reap the benefit off the market rebound over the medium and long term.**

EGX 30 average total return post low fwd. P/E levels reached



Source: Bloomberg, SHUAA Securities Egypt.

## Top Headlines

## Corporate

- **Raya Holding for Financial Investment** (RAYA) signed an initial agreement with **Commercial International Bank** (COMI) for the securitization of a portion of the receivables portfolio for three of its subsidiaries. ([Company Disclosure](#))
- **Egypt Aluminum's** (EGAL) AGM approved a cash dividend of EGP3.00 per share and a 50% stock dividend, thus raising its paid-in capital to EGP1.65bn. ([Company Disclosure](#))
- **Heliopolis Housing & Development** (HELI) announced the sale of a number of units in September 2018 in **New Heliopolis** and **Sheraton**. Sold units amounted to EGP51mn. ([Company Discourse](#))
- **Gulf Canadian Real Estate Investment** (CCRS) reported that **NUCA** has agreed to allocate 20 land plots (12,400 sqm) to CCRS in the **Sixth of October City**. ([Company Discourse](#))
- **Export Development Bank of Egypt's** (EXPA) GM has ratified the bank's financial statements for FY2017/18 and approved the BoD proposed dividend distribution of EGP136.4mn (EGP0.5/share, implying a 6% dividend yield). The GM also approved the relocation of the EXPA's headquarters and the sale of some of its fixed assets amounting to EGP140mn. ([Company Disclosure](#))
- **FRA** is currently studying the mandatory buy offer placed by **Polyserve for Fertilizers & Chemicals** to buy the total shares of **Ferchem Misr for Fertilizers & Chemicals** (FERC) at EGP6.31/share which is 12% above the current market price of EGP5.61/share. ([FRA](#))
- The **Egyptian Co. for Pipes & Cement Products**, a subsidiary of the **Holding Company for Chemical Industries**, is looking to utilize its unused assets through a number of scenarios. One of these scenarios includes the sale of the firm's land portfolio (0.5mn sqm) which, according to management, is estimated at c. EGP5bn. ([Al-Mal](#))

## Non-Corporate

- The **Minister of Investment and International Corporation** Dr. Sahar Nasr issued a decision to form a committee specialized in the settlement of disputes and complaints resulting from the administrative actions taken by **General Authority for Investment & Free Zones** (GAFI). ([Mubasher](#))
- A new draft by the **FRA** regarding **Egyptian Investor Protection Fund** (EIPF) which is expected to extend its coverage over all listed companies. The new legislation will require listed companies to pay annual subscription fees to EIPF. ([Enterprise](#))

## Markets

↘	EGX 30	13,588.74	(0.11%)	↘	EGX 70	689.73	(0.14%)
↗	DFMGI	2,777.82	0.12%	↗	ADSMI	5,020.52	0.34%
↘	TASI	7,904.74	(0.43%)	↗	QE Index	9,840.18	0.21%
↘	S&P 500	2,880.34	(0.14%)	↘	MSCI EM	993.99	(0.15%)
↗	Gold	1,189.91	0.01%	↘	Brent Oil	84.87	(0.15%)

\*As of market close, except for commodities at spot price as of 8.04am CLT.

- **MENA Markets:** The **EGX 30** failed to hold on to its early gains, closing down at the hands of declines led by **GTHE**, **EFID**, **AMOC**, and **SWDY**. **TASI** closed lower, with losses noticed in **banking** stocks. **DFMGI** closed higher on the positive performance by the **real estate** and **services** sectors. Meanwhile, **ADSMI** ended up too, supported by gains over its **banking** sector.
- **Global Markets:** **US equities** ended lower as sentiment towards global equities was shaky at the hands of higher yields on government bonds as well as expectations of lower growth prospects in 2019. **Oil** prices were a bit softer as the **IMF** lowered its GDP growth forecasts for the year ahead.

## Number of the Day

7

The daily losing streak of the EGX 30, where it failed to close in the green since 27 September 2018.

## Today's Quiz

**What was the only net buying nationality during yesterday's trading (9 October 2018)?**

(Answer located at the end of this newsletter)

## Corporate Events

Company	Ticker	Event Type	Event Date	Reason
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	MTHI	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 EG
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 dividend
Porto Group Holding	PORT	Reverse stock split	17-Oct	Record date for the reverse stock split
Porto Group Holding	PORT	Reverse stock split	18-Oct	Trading the stock after the reverse stock split
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 EG
Mohandes Insurance	MOIN	GM	21-Oct	Reviewing Agenda Items
Medical Packaging	MEPA	Right issue	23-Oct	Record date for right issue eligibility
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
Mansoura Poultry	MPCO	Capital Increase	25-Oct	Record date for bonus shares eligibility of 0.121

## Quiz Answer

Foreigners, with a net buying position of EGP41.6mn.

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