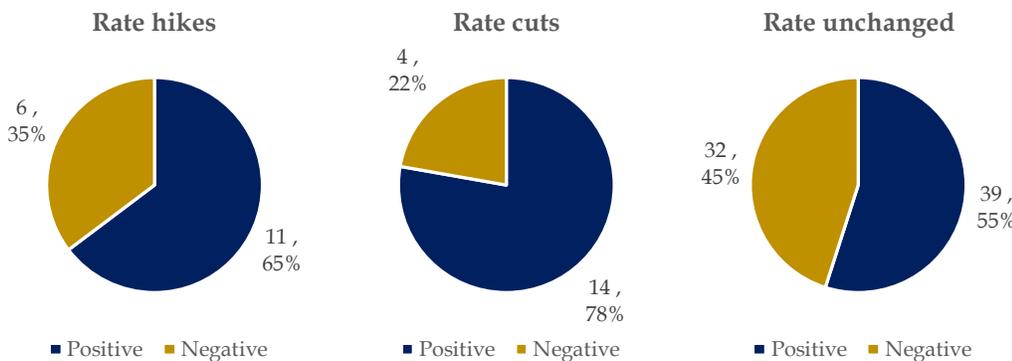


Today's Story

To Hike or Not to Hike: That Is the Decision the Market Awaits.

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- Higher-than-expected inflation ...:** The **Monetary Policy Committee (MPC)** of the **Central Bank of Egypt (CBE)** is scheduled to meet later this Thursday, 15 November 2018 in its second to last meeting before year-end to decide on policy rates. Undoubtedly, the recent inflation readings for October, which were rose on higher food and beverages prices, came in higher than expected. Our economist believes there is a 50-50 chance for the MPC to either hike by 1-2% or maintain rates for the time being. There is a case to be made for either decision. [Please see our Macro note for more details.](#)
- ... but how will the stock market react?** Whenever a central bank “interest rate” decision is around the corner, investors often debate how it will all bode for the stock market. The resulting direction usually depends on the circumstances surrounding the “interest rate” decision. Theoretically, a high interest rate environment is not conducive to growth and hence is negative for stocks, but when the CBE raised rates two years ago by 300bps in one shot following its decision to float the EGP, the stock market reacted positively as investors re-rated Egyptian assets. But if history is any guidance, [we had previously analyzed the EGX 30 performance](#) one month after each interest rate decision, whether it was a hike, a cut, or a no change. Generally, the Egyptian stock market has generated a positive return after each rate decision, regardless of its direction. But there has been a higher chance ending positive one month later when it was a cut (a 78% chance) as opposed a hike (a 65% chance).



Source: SHUAA Securities Egypt.

- Things to keep in mind:** **First**, the interest rate decision comes this week at a time when Treasury yields began to recede, after climbing for some time. **Second**, while the latest inflation reading is outside the boundaries that the CBE had set as guidance, the decision it takes will pretty much set market expectations for future CBE decisions, whether it will strictly follow its inflation guidance or not. **Third**, it is debatable whether a rate hike at this time can drive inflation down, noting that higher inflation has long been driven by cost-push factors as opposed to demand-pull factors. **That said, a more hawkish stance by the CBE, while usually supportive for Egyptian banks' earnings, will not bode well for Egyptian companies with high financial leverage. This will also continue to put a lid on credit growth leaving companies to rely more on working capital financing as opposed to taking on long-term debt to finance their major capex plans. In a nutshell, higher interest rates are not conducive to growth.**

Top Headlines

Corporate

- Orascom Development Egypt (ORHD)** net earnings grew 2.0% y/y to EGP274.2mn in 9M 2018 on 39% higher revenues of EGP2.4bn driven mainly by 59% higher deliveries in the real-estate segment, 38% higher hotels revenues to EGP1.0bn, 34% increase in the town management segment to EGP418.8mn. Excluding FX losses and gains along with other non-operational one-off transactions, adjusted net earnings for 9M 2018 growth would be 230% y/y to EGP306.6mn in 9M 2018. Gross margin expanded slightly to 39.0% in 9M 2018 compared to 37.9% in 9M 2017. Presales recorded a significant y/y growth of 78% to EGP1.7bn in 9M 2018. Meanwhile, ORHD will launch O West, its new 1,000-feddan project in the **Sixth of October City** in Q1 2019. ([Company Disclosure](#))

- **Alexandria Mineral Oils Co.'s (AMOC) Chairman** Amr Mostafa said that his company is negotiating to sell 300,000 tons per annum of its fuel oil blend (*mazut*) to an international refinery. (Al-Borsa)
- **Ezz Dekheila Steel's (IRAX)** standalone Q3 2018 net profit declined 3% y/y to EGP663mn (9M 2018 earnings +62% y/y) on 4% lower revenues of EGP8.28bn (9M 2018 revenues +38%) and a 117bps wider gross margin of 16.4% (9M 2018 GPM +196bps to 15.9%). Lower revenues can be attributed to lower sales volume. ([Company Disclosure](#))
- **GB Auto (AUTO)** reported a net profit of EGP421.9mn in 9M 2018 versus a net loss of EGP444.3mn in 9M 2017. The stellar results came mainly due to (1) a 54% y/y increase in total sales to EGP18.8bn and (2) an overall improvement in margins (GPM of 14.3% versus 12% in 9M 2017, EBIT margin of 8.1% versus 4.4% in 9m 2017). ([Company Disclosure](#), [Earnings Release](#))
- **MM Group for Industry & International Trade's (MTIE)** earnings dropped by 20% y/y in 9M 2018 to EGP233.6mn despite 23.5% higher sales of EGP5.5bn. Such results came on (1) higher operating costs and hence lower margins, (2) a 55% decline in income from investments to EGP28mn, (3) a 136% jump in financing expenses to EGP6.3mn, and (4) FX losses of EGP2.0mn vs. FX gains of EGP17.7mn in 9M 2017. ([Company Disclosure](#))
- **Heliopolis Housing & Development's (HELI)** AGM approved a cash dividend of EGP0.5/share, implying a 2.6% dividend yield. Distribution will be in 2 equal installments; the first will be within one month of AGM date, while the second will be set later by the company's BoD. ([Company Disclosure](#))
- Deadline for receiving orders for **Sarwa Capital's (SRWA)** IPO stabilization fund is set to be 13 November 2018. ([Company Disclosure](#)) Meanwhile, SRWA reported its preliminary 9M 2018 results, where earnings grew to EGP248mn (+63% y/y). Q3 2018 earnings more than doubled to EGP100mn (+104% y/y). Total portfolio grew 19% y/y to EGP5.8bn by end of Q3 2018. ([Press Release](#))
- **Nozha International Hospital's (NINH)** 9M 2018 net profit jumped 22% y/y to EGP30.8mn on an 11% y/y increase in revenues to EGP138.4mn. GPM expanded slightly to 31.0% in 9M 2018 vs. 29% a year ago. ([Company Disclosure](#))

Non-Corporate

- **Annual core inflation** inched up from 8.6% in September to 8.9% in October. Almost a flat change compared to the surge in the headline inflation, this indicates that the main price changes were seasonal of naturally-volatile items. ([CBE](#))
- There is a "direction" within the **Egyptian government** to remove citizens earning more than EGP7,000 a month from the country's subsidy rolls, the **Minister of Supply** Ali El Moselhy said. ([Enterprise](#))

Markets

↘	EGX 30	13,570.89	(1.18%)	↘	EGX 70	702.44	(0.05%)
↘	DFMGI	2,817.72	(0.29%)	↘	ADSMI	5,002.26	(0.53%)
↘	TASI	7,711.11	(0.42%)	↗	QE Index	10,390.01	0.21%
↘	S&P 500	2,781.01	(0.92%)	↘	MSCI EM	976.17	(1.75%)
↘	Gold	1,208.39	(0.10%)	↗	Brent Oil	71.27	1.55%

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

- **MENA Markets:** The EGX30 fell on Sunday, dragged by the negative performance of **COMI, EAST, and TMGH**. Meanwhile, TASI edged lower on losses in the **banking** and the **real-estate** sectors. Meanwhile, **UAE indices** closed down, dragged by the **real-estate** and the **banking** sectors.
- **Global Markets:** After a soft opening, **Asian equities** broadly turned higher early Monday as the market looked to rebound from Friday's weakness, although investors remained wary of the **US-China** trade tensions and volatile oil prices. **Oil** gained more than 1% on Monday following reports that **Saudi Arabia** plans to reduce oil supply for December.

Number of the Day

8.86%

Annual core inflation reading for October 2018.

Today's Quiz

What is the difference between core and headline inflation?

(Answer located at the end of this newsletter)

Corporate Events

Company	Ticker	Event Type	Event Date	Reason
Alexandria Flour Mills	AFMC	Dividends	12-Nov	Record date for cash dividends distribution of EGP 0.65 per share
National Co For Maize Products	NCMP	EGM	12-Nov	Reviewing Agenda Items
Ibnsina Pharma	ISPH	Conference call	12-Nov	Discussing Q3 2018 financial results
MM Group for Industry	MIIE	Conference call	12-Nov	Discussing Q3 2018 financial results
Egyptian Transport and Commercial	ETRS	EGM	13-Nov	Reviewing Agenda Items
Orascom Development Egypt	ORHD	Earnings Release	13-Nov	Announcing Q3 2018 financial results
Orascom Development Egypt	ORHD	Conference call	13-Nov	Discussing Q3 2018 financial results
Sarwa Capital	SRWA	Stabilization Fund	13-Nov	Deadline for receiving orders.
Telecom Egypt	ETEL	Earnings Release	14-Nov	Announcing Q3 2018 financial results
Arabia Investments and Development	AIND	EGM/AGM	14-Nov	Discussing capital reduction
GB Auto	AUTO	Earnings Release	14-Nov	Announcing Q3 2018 financial results
Alexandria Flour Mills	AFMC	Dividends	15-Nov	Distribution of cash dividends of EGP 0.65 per share
Global Telecom Holding	GTHE	EGM/AGM	15-Nov	Discussing extending of maturity of revolving credit facility of USD 100 million
Dice Sport & Casual Wear	DSCW	EGM	15-Nov	Discussing stock split
Ibnsina Pharma	ISPH	Lawsuit	19-Nov	Legal Disputes Relevant to the Company
Modern Shorouk Printing & Packaging	SMPP	EGM	21-Nov	Discussing capital increase
Edita Food Industries	EFID	EGM	25-Nov	Reviewing Agenda Items
Ezz Steel	ESRS	EGM	26-Nov	Reviewing Agenda Items
Porto Group Holding	PORT	Lawsuit	29-Nov	Legal Disputes Relevant to the Company
Arabian Cement	ARCC	AGM	1-Dec	Distribution of profits for the period from 1 Jan-31 Dec 2017
Cleopatra Hospital	CLHO	EGM/AGM	3-Dec	Reviewing the IFA report regarding the fifth hospital acquisition
Rubex Plastics	RUBX	EGM	3-Dec	Reviewing Agenda Items
Al Ahram Co for Printing	EPPK	GM	11-Dec	Discussing recomposition of board of directors

Quiz Answer

Core inflation excludes items which are highly volatile or have administratively-set prices.

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