

Today's Story

With Bets on the Future, What Did Moody's Say About Egypt?

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On 17 April 2019, Moody's Investors Service upgraded Egypt's credit rating from B3 to B2 with Stable Outlook, a little than a month after a similar action by Fitch. Again, the upgrade cited commitment to reform and better growth outlook. On the other hand, Moody's highlighted still-weak fiscal balances and a high interest bill as the main negative points. Below, we highlight our main observations on Moody's comment on their rating action.

- **Expectations of steady improvement in fiscal balances:** Moody's bets on sustaining primary surpluses and strong GDP growth – especially in nominal terms – to bring debt-to-GDP ratio down. Moody's expects this ratio to fall below 80% in FY2020/21 from the 97% recorded in FY2017/18.
- **Budget targets generally on track:** The agency expects the budget to be in line with the government target of an overall deficit of 8.4% to GDP in FY2018/19. They also expect further improvement in budget deficit to 7.5% and 6.8% in the next two years. However, Moody's expects a primary surplus of 0.8% of GDP in the current year versus the 2% targeted by the government, which – they say – might be achieved in the medium term.
- **Interest payments and sensitivity to foreign investors' appetite:** According to Moody's vision, Egypt's interest bill will continue to absorb nearly 45% of revenues. Another point here is the high sensitivity of debt cost to foreign investors' demand for debt instruments.
- **Large domestic financial system is supportive despite everything:** At the end of the day, the large banking sector, which constitutes a strong domestic funding base, could provide needed liquidity for public finance purposes. This could help keep rollover risks contained until the government extends the domestic debt average maturity and mitigates the debt trajectory's high sensitivity to interest rate shocks.
- **What could trigger another rating action?** Moody's said it would likely upgrade the rating in case of a sustained improvement in non-oil exports or the labor market and, more importantly, credible and effective debt management and prolonged history of fiscal reform commitment. On the other hand, there could be negative pressure on the rating in case of lower credibility of a policy that hurts growth rates or cause higher inflation and cost of government debt.

In general, credit rating agencies focus heavily on fiscal sector's performance as it is the milestone for debt affordability. While different agencies highlight that Egypt's fiscal balances have improved, they also stress these balances are still at weak levels. For Egypt, the positive themes are topped by higher growth outlook, better budget figures, and overall improvement in external balances. On the other side, the main negatives include high interest payments, strong borrowing needs, and challenges facing private investment. But we highlight here that all agencies bet on the future. Indeed, it is not about what the economy has accomplished, but they focus on the need to sustain reform measures and stick to credible policies in the future.

Top Headlines

Corporate

- **Ibnsina Pharma (ISPH)** has filed a request to the Court of Cassation to appeal on the Appellate Court's verdict, which had decreased the fines from EGP2bn to EGP160mn in the anti-trust case that ISPH was involved in. ([Company disclosure](#)) On a separate note, ISPH's GAM approved the distribution of an EGP0.07 dividend per share, in addition to a stock dividend of 13.5%. ([Company disclosure](#))
- The **Nuclear Power Plants Authority (NPPA)** has shortlisted a number of companies that are to work on *El-Dabaa Nuclear Power Plant*. The list includes **Elsewedy Electric (SWDY)**, **Orascom Construction (ORAS)**, **Ezz Steel (ESRS)**, **Arab Contractors**, **Hassan Allam**, **Petrojet**, **Egyptian Steel**, **El-Garhy Steel**, **El-Ola Steel**, **Ashry Steel**, **Concord Contracting**, and a number of **General Authority for Roads, Bridges and Land Transport** companies. The Egyptian side will contribute 20-25% in the first and second phases of the project to be increased gradually to 35% by the fourth phase. We note that participating companies from the Egyptian side will be exempted from VAT as the project is to be executed over seven years. (Al-Mal)

- **Orascom Development Egypt (ORHD)** has amended the common terms and inter-creditor agreement (CTIA), which include repaying a loan balance of EGP650mn, reducing the repayment schedule to 5-5.5 years instead of 7.5 years, and reducing the interest on the USD denominated loans. ([Al-Mal](#))
- **Heliopolis Housing & Development (HELI)** said that an amendment to a previous presidential decree granted the company a plot spanning 0.71mn sqm in *New Heliopolis City* in exchange for the land on which the *Cairo International Airport* was established. According to this decree, the company will pay the value of mentioned land, which is yet to be estimated by the **New Urban Communities Authority (NUCA)**. ([Company disclosure](#))
- **Samcrete Misr's (SMCS) EGM** approved to increase the issued and paid-in capital by EGP85mn to EGP234.73mn. The capital increase will be conducted through issuing 1.009bn preferred stocks and 11.36mn common shares at a price of EGP0.23 each. ([Company disclosure](#))
- State-owned financial technology company **e-Finance's** IPO is expected to take place within the second wave of the *Public Offerings Program (POP)* which is anticipated to kick off in September 2019, according to the **Minister of Public Enterprise**. ([Enterprise](#))

Non-Corporate

- The **Ministry of Finance (MoF)** is reportedly planning to place the cap fixed at 70% on the cost-to-income ratio under which banks will allocate their expenses to income from Treasuries within the context of the new tax amendment. This comes as apposed to a previous proposal where the cap was increasing each year up to 100% in 2022. MoF is currently working on the executive regulations of the new amendment, which will take place in retroactive to 10 February 2019, where banks' first payments under the tax treatment on 10 May 2019. ([Enterprise](#))
- The **Ministry of Finance** said it targets an 11.6% y/y increase in tax on cigarettes to EGP67.128bn in FY2019/20 budget, up from the EGP60.151bn expected to be realized in the current fiscal year. ([Al-Borsa](#))
- The **Ministry of Social Solidarity** is expecting the proposed **Social Security & Pensions Act** to become law by no later than July. The act would peg increases in pension payouts to inflation, calculate social insurance payments on real (rather than nominal) wages, and set up a healthcare fund for pensioners. ([Enterprise](#))
- Listed companies in which the **Egyptian government** owns up to 75% stakes would no longer fall under the **Public Enterprises Act** if draft legislation now being prepared is passed, the **Minister of Public Enterprise** Hisham Tawfik reportedly said. Instead, any listed company in which the state owns less than 75% would automatically have to comply with the same companies act (Law No. 159 of 1981) with which any non-oil-and-gas, non-free zone company in the private sector must comply. ([Enterprise](#))
- Average yields on **91-day** and **266-day T-bills** were down in an auction held on **21 April**:
 - Yield on **91-day T-bills** dipped from 17.528% to 17.235% (-29.3bps) with EGP8.5bn accepted and required. The submitted amount was about EGP13bn, implying a bid-to-cover ratio of almost 1.5.
 - Yield on **266-day T-bills** slid from 17.524% to 17.029% (-49.5bps) with EGP8.75bn accepted and required. The submitted amount exceeded EGP23bn, implying a bid-to-cover ratio of about 2.7. ([CBE](#))

Markets

↘	EGX 30	14,838.63	(0.25%)	↘	EGX 70	654.51	(0.64%)
↗	DFMGI	2,820.78	0.24%	↗	ADSMI	5,346.30	1.03%
↗	TASI	9,239.67	0.47%	↗	QE Index	10,355.45	0.07%
↗	S&P 500	2,905.03	0.16%	↔	MSCI EM	1,092.52	0.00%
↗	Gold	1,278.57	0.24%	↗	Brent Oil	73.72	2.43%

*As of market close, except for commodities at spot price as of 8.11am CLT.

- **MENA Markets:** Egypt's benchmark **EGX 30** closed in the red territory on Sunday, pushed down by **SWDY**, **GTHE**, and **AMOC**. **UAE indices** are still winners, with **banking** and **real estate** sectors extending the boost for **ADSMI** and the **financial** sector supporting **DFMGI**. **Saudi Arabia's TASI** delivered a positive performance powered by **telecommunication** and **banking** stocks.
- **Global Markets:** **Asian shares** slipped this morning, weighed down by underperforming **Chinese stocks**. **Brent oil** and **US crude** futures surged to nearly six-month highs on the market's expectations of sanctions waivers removals on **Iranian** output.

Number of the Day

16.2%

The Capital Adequacy Ratio (CAR) of **Egypt's** banks as of December 2018.

Today's Quiz

What is Orascom Development Egypt's (ORHD) new sales target for 2019?

(Answer located at the end of this newsletter)

Corporate Events

Company	Ticker	Event Type	Event Date	Reason
El Obour Real Estate Investments	OBRI	EGM / AGM	22-Apr	Reviewing Agenda Items
Egypt Kuwait Holding	EKHO	Dividends	22-Apr	Last date of cash dividends eligibility of USD0.05 /share
Delta For Printing & Packaging	DTPP	Dividends	22-Apr	Distribution of cash dividends of EGP0.50 share
National Co For Maize Products	NCMP	AGM	22-Apr	Reviewing Agenda Items
El-Shams Housing & Urbanization	ELSH	AGM	23-Apr	Reviewing Agenda Items
Suez Cement	SUCE	AGM	23-Apr	Reviewing Agenda Items
Industrial & Engineering Projects	IEEC	EGM / AGM	23-Apr	Reviewing Agenda Items
Misr Fertilizers Production Co.	MFPC	AGM	23-Apr	Reviewing Agenda Items
Tourah Portland Cement	TORA	AGM	23-Apr	Reviewing Agenda Items
Assiut Islamic Trading	AITG	Dividends	24-Apr	Distribution of cash dividends of EGP0.45 share
Al Tawfeek for Financial Lease	ATLC	Dividends	24-Apr	Distribution of cash dividends of EGP0.25 share
Egyptian Financial & Industrials	EFIC	Dividends	24-Apr	Distribution of cash dividends of EGP0.25 share
Telecom Egypt	ETEL	Dividends	24-Apr	Distribution of cash dividends of EGP0.25 share
Oriental Weavers Carpet	ORWE	Dividends	24-Apr	Distribution of cash dividends of EGP1.5/share
Arab Co for Asset Management & Development	ACAMD	EGM	24-Apr	Amending some of the company's articles of incorporation
Orascom Development Egypt	ORHD	AGM	24-Apr	Reviewing Agenda Items
Pioneers Holding	PIOH	EGM	25-Apr	Amending some of the company's articles of incorporation
Sabaa International Co	SIPC	EGM / AGM	27-Apr	Reviewing Agenda Items
Atlas For Investment and Food Industries	AIFI	EGM / AGM	27-Apr	Reviewing Agenda Items
National Cement	NCEM	Lawsuit	27-Apr	To rule in canceling the decision to dissolve the company
Egypt Kuwait Holding	EKHO	Dividends	30-Apr	Distribution of cash dividends of USD0.05/share
Paints & Chemical Industry	PACH	Dividends	30-Apr	Distribution of cash dividends of EGP1.5/share
Minapharm Pharmaceuticals	MIPH	AGM	30-Apr	Reviewing Agenda Items
Egyptian Transport and Commercial	ETRS	Dividends	30-Apr	Distribution of cash dividends of EGP0.5/share
Suez Bags	SBAG	AGM	30-Apr	Reviewing Agenda Items
Global Telecom Holding	GTHE	BoD	1-May	Discussing Q1 2019 results
Heliopolis Housing & Development	HELI	Tender	2-May	Public Auction of Land in Sheraton
Global Telecom Holding	GTHE	Conference call	2-May	Discussing Q1 2019 results
Arabian Food Industries Co Domty	DOMT	AGM	2-May	Reviewing Agenda Items
Maridive & Oil Services	MOIL	EGM / AGM	2-May	Reviewing Agenda Items
Acrow Misr	ACRO	AGM	4-May	Reviewing Agenda Items
Engineering Industries ICON	ENGC	EGM / AGM	4-May	Reviewing Agenda Items
Arabia Investments Holding	AIND	GM	4-May	Discussion of planning a Murabaha contract with the major
Arab Polvara Spinning & Weaving	APSW	AGM	4-May	Reviewing Agenda Items
Egyptian International Tourism	EIIP	EGM / AGM	5-May	Reviewing Agenda Items
Remco for Touristic Villages	RTVC	AGM	5-May	Reviewing Agenda Items
Raya Contact Center	RACC	EGM / AGM	5-May	Reviewing Agenda Items
Orascom Investment Holding	OIH	AGM	5-May	Discussing Nile Sugar Acquisition
Raya Holding	RAYA	AGM	6-May	Reviewing Agenda Items
Suez Canal Bank	CANA	Lawsuit	7-May	To rule in a lawsuit that invalidated theBank's AGM on April 4, 2018
Canal Shipping Agencies	CSAG	Dividends	8-May	Distribution of cash dividends of EGP0.58/share
Arab Cotton Ginning	ACGC	EGM	12-May	Reviewing Agenda Items
United Co for Housing & Developments	UNIT	EGM / AGM	12-May	Reviewing Agenda Items
Egyptian Resorts Co.	EGTS	EGM	13-May	Amending some of the company's articles of incorporation
Egyptian Resorts Co.	EGTS	AGM	13-May	Reviewing Agenda Items
Global Telecom Holding	GTHE	EGM	15-May	Amending some of the company's articles of association
Amer Group Holding & Porto Group Holding	AMER / PORT	Lawsuit	23-Jun	Legal Disputes relevant to Porto Tartous project
Global Telecom Holding	GTHE	AGM	27-Jun	Discussing capital increase
Egyptian Transport and Commercial	ETRS	Dividends	30-Jun	Distribution of cash dividends of EGP0.5/share
Ismailia Misr Poultry	ISMA	Dividends	8-Aug	Distribution of cash dividends of EGP0.10/share

Quiz Answer

Between EGP6.5-7.obn.

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