



PRIMETime

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Old vs. New Economies

1. TODAY'S TRADING PLAYBOOK

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KEY THEMES

MSCI has been in the center of the rumor mill for at least a month now. Word on the street is that MSCI may replace **SWDY** with **HRHO** in its upcoming *Quarterly Index Review (QIR)*. A divergence between the two stocks' performance is vivid since 12 May—interestingly the same day the last QIR was announced with SWDY kept as one of Egypt's three stocks in MSCI EM index (the other two being **COMI** and **EAST**). Since 12 May, SWDY is down 22%, whereas HRHO is up 23% (an almost one-for-one move, albeit in the opposite direction). However, we note that SWDY's underperformance was triggered in the first place by its weak Q1 2020 results. Now, let's play the devil's advocate. Assuming SWDY's EGP400mn in net income reported in Q1 2020 will be the norm throughout 2020, the company would be generating EGP1.6bn in net income this year (a level not seen since 2015). At current market price with a market cap of EGP14.8bn, SWDY would be trading at just above 9x (not too demanding when compared to the potential recovery in the business in the medium term).

On the other hand, **FWRY**—the high-flying electronic payment platform—is now worth EGP12.1bn, implying a forward P/E of 95x based on Bloomberg consensus and 98x based on Q1 2020 annualized net earnings, and yes, we are not missing any decimals here. Such valuation is almost double that 53x that the global e-payment platform **PayPal Holdings** (NASDAQ: **PYPL**) is trading at on a forward earnings basis. That said, we are not debating here whether FWRY is worth that much; this depends on the type of growth you are conceiving when you envisage each company's future. What we are doing here is comparing SWDY with a market cap of EGP14.8bn vs. FWRY with a market cap of EGP12.1bn. While it could be argued that we are comparing “old” vs. “new” economies in action, we believe SWDY is worth picking at current levels even after taking into consideration its weak Q1 2020 results and swallowing a potential removal off MSCI EM index – or at least that's what some market participants tout to play the “sell SWDY, buy HRHO” trade. [MSCI will not make its decision public until late 12 August.](#) Meanwhile, SWDY's board decision to open the window for its share buyback for three more months might boost the stock somewhat (please see news below).

POSITIVE

SWDY: Please see above.

NEGATIVE

SVCE: Reporting its 2019 results over six months after the end of its financial year, SVCE is echoing the negative performance almost all cement producers have shown in 2019, with the exception of **MBSC** and **MCQE**—the only two cement names we would ever consider to buy if we had to buy into the sector. At least both are eking out profits! That said, we are still negative on the cement sector.

Now, on to the top news and analysis for the day.

2. TOP NEWS & ANALYSIS**MACRO NEWS**

Egypt's PMI improved further in June but remained well below the expansion threshold. The headline PMI rose to 44.6 in June from 40.7 in May as the non-oil private sector activity fell at the weakest pace in four months, supported by reopening process and gradual improvement in business sentiment. For further analysis, we will publish our monthly PMI note shortly. ([IHS Markit](#))

The Egyptian Parliament approved a bill to add EGP80bn to the FY21 budget. We expect revenue mobilization to continue to underperform the budgeted estimates. If so, the government would have to embark on several adjustments down the road. The House of Representatives has also given a preliminary nod to a law that will require companies to deduct 1% off all employees' monthly salaries and 0.5% from all pensions during FY21. ([Mubasher](#), [Al-Masry Al-Youm](#))

Egypt connected 1.07mn residential units to natural gas during FY20, 107% higher than planned. The total number of residential units connected to natural gas systems amounted to 11.1mn by the end of FY20. The expansion in natural gas delivery is important to reduce the fiscal burden of subsidizing butane cylinders. ([Mubasher](#))

Banks' NFA restored its net asset position in May, thanks to a USD6.3bn surge in their foreign assets. Banks' net foreign assets position reached USD560mn, up from a net liability position of USD5bn by the end of April. The country received USD5bn Eurobond issuance and USD2.8bn in May, and we believe that the CBE channeled most of these inflows to the banking sector to support the banks' foreign assets position that deteriorated significantly following the bonds sell-off wave triggered by the COVID-19 turmoil. ([CBE](#))

CORPORATE NEWS

Elsewedy Electric [SWDY] decided to extend the deadline within which it will buy Treasury shares, still capped at 2.5% of its outstanding shares, to 1 October. This means SWDY has up to 44.1mn shares (or 2.0% of outstanding shares) to buy in the next three months. (Company disclosures: [1](#), [2](#))

Orascom Construction's [ORAS] CEO said that COVID-19 impact on the company's operation was softer than expected. He noted that the company's projects were slowed down to a limited extent by Egypt's precautionary measures, adding that ORAS's projects with the government will be completed on time. ([Al-Mal](#))

Ethydco, 20% owned by Sidi Kerir Petrochemicals [SKPC], is reportedly resuming talks to obtain an EGP3bn loan to pursue its polybutadiene factory project alongside with a logistical services area. ([Al-Mal](#))

Sarwa Capital Holding [SRWA] intends to establish a mutual fund for movable financial values with a capital of EGP2.5bn. ([Al-Borsa](#))

South Valley Cement [SVCE] turned to a net loss of EGP316.3mn in 2019 from a net profit of EGP10.2mn a year earlier. Revenues decreased sharply to EGP439.3mn (-45% y/y) due to: (1) higher production costs as energy and electricity prices rose, (2) higher FX rates, which made importing spare parts for production pricier, and (3) demand-supply gap widened to more than 70% on a rise in the number of market entrants, which stiffened competition. (Company disclosures: [1](#), [2](#))

Egyptian Media Production City [MPRC] bought back 263,000 Treasury shares on 30 June 2020 (0.14% of its current outstanding shares). The transaction follows a board decision on 14 June, capping buybacks at the 10% legally permissible to stabilize the stock price. ([Company disclosure](#))

Banque du Caire [BQDC] generated 31% y/y lower net profits in Q1 2020 of EGP838mn. A move by the bank to book higher provisions of EGP739mn, as a precautionary measure for COVID-19, squeezed its net profits. ([Arab Finance](#), [Company disclosure](#))

Nile Cotton Ginning's [NCGC] BoD approved a capital increase from EGP265mn to EGP530mn through a 100% rights issue (at a par value of EGP5/share + issuance fees of EGP0.125/share) to pay government dues amounting to EGP231mn, in a major step by the company to see its shares resume trading again on the Egyptian Exchange after a nine-year hiatus. ([Company disclosure](#), [Youm 7](#))

Edita Food Industries [EFID] announced the launch of two new upsized Ho Hos stock-keeping units (SKUs), both retailing at EGP2/pack. ([Company disclosure](#))

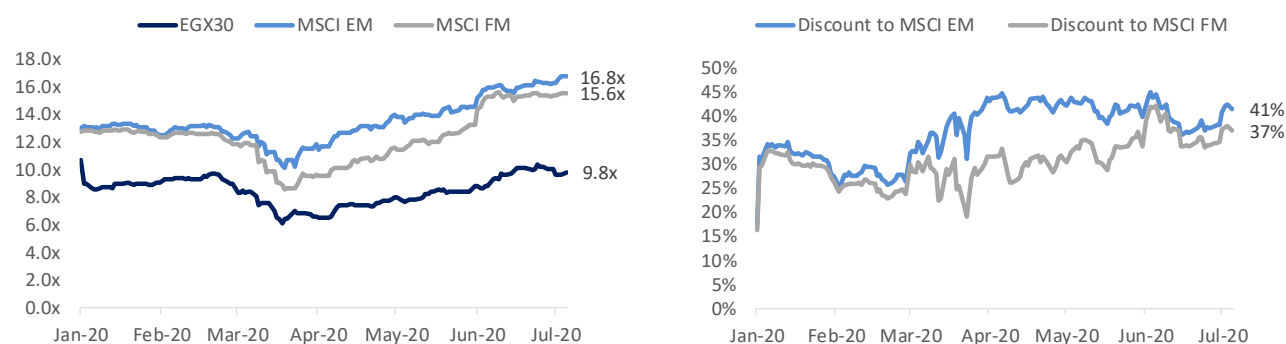
GLOBAL NEWS

The governor of the Bank of England has warned lenders of the challenges negative interest rates would bring. He said in a letter that adapting to a move into negative territory would be a "significant operational undertaking for firms." ([Bloomberg](#))

Fitch Ratings has downgraded a record 33 sovereign ratings in the first half of this year — and the agency is not done yet as the coronavirus pandemic pummels government finances. ([CNBC](#))

Non-oil private sector activity in the UAE improved in June for the first time in six months, reaching the strongest since October 2019, according to *IHS Markit*. By contrast, its **Purchasing Managers' Index for Saudi Arabia remained below the threshold of 50** that separates growth from contraction. This could be a sign of an uneven recovery in the Gulf as the Arab world's biggest economies reopen after shutdowns to contain the coronavirus pandemic. ([Bloomberg](#))

3. CHART OF THE DAY



The above two charts show the EGX 30's forward P/E discount vs. MSCI EM and MSCI FM has risen on a year-to-date basis, most notably after the COVID-19 fallout. The EGX 30 index currently trades at a forward P/E discount of 41% and 37% relative to MSCI EM and MSCI FM (vs. 18% and 16% at the beginning of the year), respectively.

4. MARKETS PERFORMANCE

Current equity market cap (EGPbn)						Equity turnover (EGPmn): Last, ytd avg.		
600.2						1,079.7 775.2		

* As of market close, except for commodities and currencies at 8.34am CLT. Change in Treasuries is in basis points.

Source: Bloomberg, CBE.

5. LATEST EGX VALUATION MULTIPLES

[Find out](#) how your favorite stocks compare to the rest of the market.

6. KEY DATES

DATE	TICKER	TYPE	EVENT
6-Jul-20	CCAP	OGM	Approving the financial statements ending 31 Dec. 2019.
6-Jul-20	QNBA	Cash dividend	Ex-dividend date for EGP1.00/share.
6-Jul-20	CICH	Stock dividend	Distribution date for 0.25:1.
6-Jul-20	REAC	Stock dividend	Distribution date for 0.050:1.
7-Jul-20	EXPA	OGM	Approving the 2020/21 budget.
7-Jul-20	GMCI	OGM	Approving the financial statements ending 31 Dec. 2019.
7-Jul-20	BTFH	OGM	Approving the financial statements ending 31 Dec. 2019.
8-Jul-20	ACAMD	OGM	Approving the sale of a land plot.
8-Jul-20	QNBA	Cash dividend	Distribution date for EGP1.00/share.
9-Jul-20	RTVC	EGM	Amending article No. 5 of the company's bylaws.
11-Jul-20	ECAP	OGM	Approving the financial statements ending 31 Dec. 2019 and proposed dividend.
11-Jul-20	ECAP	EGM	Amending articles No. 4 & 5 of the company's bylaws.
12-Jul-20	EGTS	Lawsuit	A court session discussing legal disputes relevant to the company.

7. LATEST RESEARCH

DATE	PUBLISHED REPORT
25-Jun-20	EFG Hermes Holding [HRHO] – Behind the Optics of the Arab Investment Bank Potential Acquisition
10-Jun-20	MacroView on Inflation May reading – Lowest annual reading in five months, but monthly figures show no changes
8-Jun-20	Oriental Weavers Carpet [ORWE] – Operating margins improve despite COVID-19, thanks to lower PP and nylon prices
8-Jun-20	MacroView on Reserves May figures – Solid buffers and moderate depreciation: The CBE's recipe to deal with COVID-19
3-Jun-20	MacroNote on PMI May reading – Non-oil private sector took a breather in May, but outlook remains cloudy
18-May-20	Abu Dhabi Islamic Bank [ADIB] – Q1 2020 Results
18-May-20	Al Baraka Bank Egypt [SAUD] – Q1 2020 Results
17-May-20	Credit Agricole Egypt [CIEB] – Q1 2020 Results
13-May-20	MacroView – Yesterday's CBE conference call with Deputy Governor
11-May-20	Inflation – Acceleration in April driven by food prices – as expected
7-May-20	MacroNote – Keeping head above water amid pandemic uncertainties
5-May-20	Commercial International Bank (CIB) - Egypt [COMI] – Q1 2020 Results

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