



PRIMETime

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Orascom Investment / Financial Holding – “Demerger” Take 2

1. Today’s Trading Playbook

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KEY THEMES

Egypt’s lower current account deficit in Q3 FY20 is good news for the Egyptian pound (EGP) which has already been strengthening lately (+1.7% since its high in June) with foreign inflows back in Egypt local debt market. Also yesterday, Fitch affirmed Egypt’s rating at B+ with a stable outlook. All these factors should alleviate any short-term pressures on the EGP and should put a lid on Treasury yields—another positive for the government budget. Against this backdrop, we prefer to reduce exposure to export-driven stocks and USD-linked earners.

POSITIVE

OIH: Yesterday, **Orascom Investment Holding** [OIH] revealed its plans to spin off its financial services business (namely its 29.15% stake in **Sarwa Capital Holding** [SRWA] and 74.55% stake in **Belton Financial Holding** [BTFH]) into **Orascom Financial Holding (OFH)**, leaving OIH to house nine companies operating in diversified sectors. Stocks of **OIH** (+8.1%), **SRWA** (+9.5%), and **BTFH** (+4.5%) were all up yesterday on the news. Two takeaways from this

(1) We calculate that OIH’s current market cap of EGP2.16bn implies a negative value close to EGP50mn for those nine companies that will continue to be owned by OIH post-demerger. In other words, OIH is currently cheaper than the sum of its investments in SRWA (EGP1.29bn) and BTFH (EGP0.85bn) at current market caps, if we assume the market is right.

(2) The proposed split is 74% for OFH and 26% for the new OIH, so at OIH’s current market cap, OFH’s market cap would be 28% below the market value of its investments. Thus, we see this market mispricing between the sum and its parts as the key catalyst for a post-demerger OFH.

By way of background, 8.5 years ago **Orascom Telecom Holding (OTH)** split into two entities: **Global Telecom Holding (GTH)** and **OIH**—then **Orascom Telecom, Media, & Technology (OTMT)**.

OTH's EGMs approving the demerger had taken place on 14 April and 23 October 2011, but the spin-off only took place on 22 January 2012, i.e. three months later. Media reports suggest that this demerger will be finalized by November (three months as well).

CANA, EXPA, COMI: Three stocks in the banking sector that we picked lately were up yesterday, namely **CIB** [COMI], **Canal Suez Bank** [CANA], and **Export Development Bank of Egypt** [EXPA]. EXPA hit a 52-week high of EGP11.56 intraday yesterday. Keeping tabs of our bank stock picks, **EXPA** is up 28% since we picked it [on 5 July](#), while **CANA** is down 2% over the same period. Meanwhile, **COMI** is down 4% since we picked it [on 14 July](#). All three stocks continue to be our top picks in the sector.

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

2. TOP NEWS & ANALYSIS

MACRO NEWS

Egypt's current account deficit shrank by 39% y/y to USD2.8bn in Q3 FY20, down from USD4.5bn a year earlier, despite COVID-19 shock. Thus, the CAD in 9M FY20 narrowed by 25.2% to USD7.3bn compared to about USD9.8bn a year earlier. ([CBE](#)) A full analysis on the subject will be published shortly.

Fitch affirmed Egypt at 'B+' with an outlook 'Stable'. However, the agency constrained its rating by still large fiscal deficits, high general government debt/GDP, and weak governance scores. ([Fitch Ratings](#))

Egypt ranked first in terms of FDI into the Middle East and Africa by capital investment in 2019, according to the *fDi Report 2020* published by FDI Intelligence division of the Financial Times. **Egypt also replaced South Africa as the second-ranked destination by projects in the region**, thanks to a 60% increase from 85 to 136 projects. ([FDI Intelligence](#))

Egypt's index of manufacturing and extractive industries, excluding crude oil and petroleum products, declined by 7.5% m/m to 86.86 in May from 93.86 April. ([Mubasher](#))

The Minister of Public Enterprise announced that the cost of the electric car production project at El-Nasr Automotive Manufacturing Co. is estimated at about EGP500mn, indicating the ease of managing these costs through government resources. (Al-Mal)

Real estate developers have pushed back on proposed legislative amendments that would impose a 14% value-added tax (VAT) on the sale and rental of non-residential properties. ([Al-Borsa](#))

Benya Capital, a communications, IT and infrastructure company operating in Egypt and regionally, launched a digital infrastructure platform, funded by Banque Misr, to enable companies in all sectors to cope with the digital transformation. The platform was launched in partnership with several companies, including Vodafone Egypt, Orange Egypt, Etisalat Misr, and the Arab Organization for Industrialization. ([Follow ICT](#))

Egypt's Sumed pipeline was designed to pump 2.5mn barrels of Arabian Gulf crude from the Red Sea to the Mediterranean every day. Since May, a slump in oil demand and OPEC+ oil production cuts seem to have combined to slash flows to about a quarter of that. ([Bloomberg](#))

Egypt aims to reach the proceeds of agricultural exports during FY20 to USD2.7bn, a growth ranges between 5-10%, compared to USD2.4bn last fiscal year. (Al-Borsa)

CORPORATE NEWS

Orascom Investment Holding's [OIH] board of directors proposed holding an extraordinary general meeting to discuss demerging the company horizontally into two separate entities. One of the two entities would serve as a financial services company (under the suggested name of Orascom Financial Holding) and another for holding all the other current activities. ([Company disclosure](#))

Cleopatra Hospital Group [CLHO] is in late-stage negotiations to buy a 60% stake in Bedaya Hospital. ([Al-Borsa](#))

Saudi Egyptian Industrial Investment Co. sold its entire stake of 2.5% in Arab Cotton Ginning Co. [ACGC] at a total value of EGP13mn. ([Company disclosure](#))

Zahraa Maadi Investment & Development's [ZMID] net profit inched up 18% y/y to EGP69mn in H1 2020, as revenues grew 8.6% to EGP94.8mn. ([Company release](#))

Banque du Caire [BQDC] may apply for a license to accept POS payments as part of its strategy to expand its digital services, the bank's Chairman said. ([Hapi](#))

Upper Egypt Flour Mills [UEFM] showed standalone net profits of EGP133mn during 2019/20 down from EGP159mn during 2018/19 (-16.8% y/y). ([Company disclosure](#))

GLOBAL NEWS

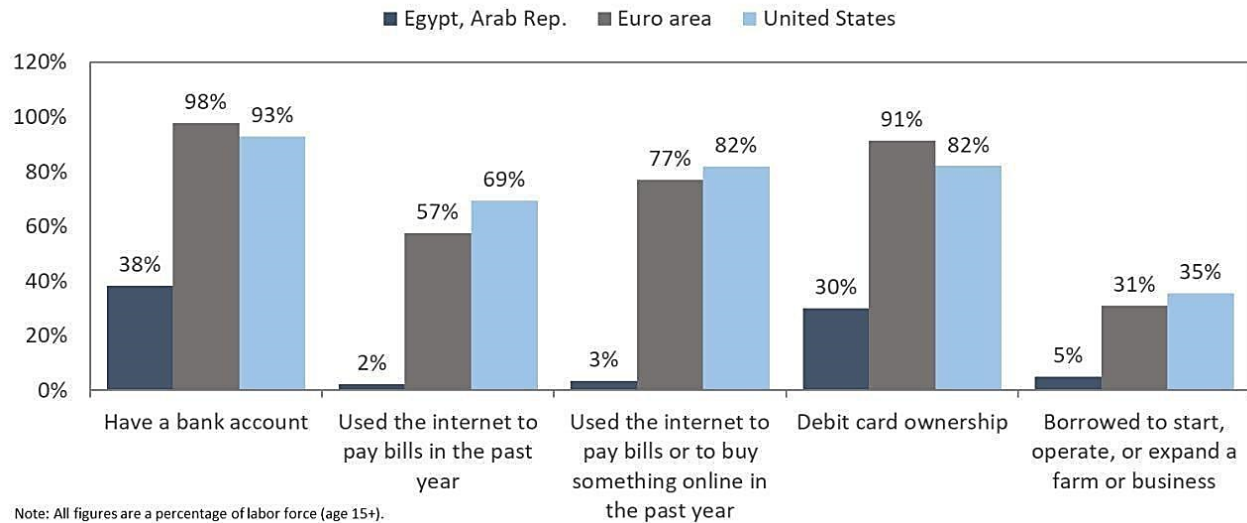
New orders for key U.S.-made capital goods increased by the most in nearly two years in June and shipments accelerated, but the gains were likely insufficient to avert the deepest plunge in business investment and economic activity since the Great Depression in the second quarter because of the COVID-19 crisis. ([Reuters](#))

As July 31 approaches, there are growing concerns that the U.S. Congress will only pass a watered-down fiscal stimulus package – one that does not include an extension of the USD600 in unemployment benefits that many Americans have come to rely on during the COVID-19 outbreak. ([CNN](#))

The U.S. dollar weakened to a two-year low on Monday as sharp increases in U.S. coronavirus cases and flare-ups around the world weighed on investor confidence. ([Financial Times](#))

3. CHART OF THE DAY

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The above chart uses data from Global Findex, a World Bank database and the world's most comprehensive data set on fintech indicators launched with funding from the Bill & Melinda Gates Foundation. This database has been published every three years since 2011, hence we used the latest published 2017 data. To address yesterday's problem ([please see yesterday's chart](#)), we examined the main fintech KPIs that reveal the gap between Egypt and developed economies with regards to utilization of capital and technology. The chart highlights Egypt's potential for fintech investors:

- 38% of labor force has a bank account.
- 30% of labor force has a debit card.
- Only 5% of labor force borrowed to start, operate, or expand a farm or business (which explains the extremely low level of Egypt's household debt as a percentage of GDP — [check yesterday's chart](#)).
- Only 3% of labor force used the internet to pay bills or buy something online in the past year.
- Only 2% of labor force used the internet to pay bills in the past year.

We note that these data are as of 2017, and the fintech industry in Egypt has been getting a push lately as more companies expand into NBFIs activities. Still, we believe there is much room and space to fill.

4. MARKETS PERFORMANCE

Current equity market cap (EGPbn)					Equity turnover (EGPmn): Last, ytd avg.						
582.7					1,065.1 823.0						
				daily chg.	ytd chg.					daily chg.	ytd chg.
		EGX 30	10,575.47	0.48%	(24.25%)			Gold	1,942.24	2.11%	27.99%
		EGX 30 TR	4,033.11	(0.27%)	(21.97%)			Silver	24.59	8.00%	37.84%
		EGX 70 EWI	1,519.29	0.26%	19.91%			Brent Oil	43.41	0.16%	(30.99%)
		EGX 100 EWI	2,325.36	0.27%	6.45%			WTI	41.60	0.75%	(28.85%)
		DFMGI	2,061.32	0.11%	(25.45%)			Natural Gas	1.73	(4.09%)	(20.92%)
		ADSMI	4,330.75	1.06%	(14.65%)	EGP		USD/EGP	16.01	0.15%	(0.19%)
		TASI	7,455.74	0.29%	(11.13%)	€		EUR/USD	1.18	0.82%	4.66%
		QE Index	9,351.36	(0.26%)	(10.30%)	£		GBP/USD	1.29	0.69%	(2.94%)
		S&P 500	3,239.41	0.74%	0.27%	¥		USD/JPY	105.37	(0.73%)	(2.84%)
		Dow 30	26,584.77	0.43%	(6.85%)			6M TB yield	13.45	7	(156)
		NASDAQ	10,536.27	1.67%	17.43%			1Y TB yield	13.59	10	(98)
		VIX	24.74	(4.26%)	79.54%			10Y TB yield	14.48	5	78
		STOXX 50	3,302.84	(0.24%)	(11.81%)			2Y TB yield	0.16	1	(141)
EM		MSCI Emerging	1,073.14	1.19%	(3.72%)			10Y TB yield	0.61	2	(131)
FM		MSCI Frontier	470.65	0.33%	(19.68%)			30Y TB yield	1.26	3	(113)

* As of market close, except for commodities and currencies at 8.21am 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
28-Jul-20	EITP	OGM	Board election.
28-Jul-20	ESGI	OGM	Discussing netting contracts.
28-Jul-20	CICH	OGM	Discussing Taaleem's (a CICH subsidiary) potential establishment of a joint stock company along with a subsidiary of Palm Hills.
28-Jul-20	MTIE	BoD meeting	Discussing 2019/20 financial statements.
28-Jul-20	ALCN	BoD meeting	Discussing 2019/20 financial statements.
28/29-Jul-20		FOMC	Deciding on USD interest rate.
29-Jul-20	OCPH	Cash dividend	Distribution date for EGP1.50/share.
29-Jul-20	ORWE	Cash dividend	Distribution date for EGP0.650/share.
29-Jul-20	NCGC	EGM	Approving increasing issued capital and amending articles No. 4, 6 & 7 of the company's bylaws.
29-Jul-20	SMCS	OGM	Approving the financial statements ending 31 Dec. 2019.
29-Jul-20	SMCS	EGM	Discussing relinquishing a plot of land in New Cairo.
29-Jul-20	EFID	Conference Call	Discussing Q2 2020 results.
2-Aug-20	GOCO	OGM	Approving the financial statements ending 31 Dec. 2019.
2-Aug-20	GOCO	EGM	Approving splitting the par value per share and amending Articles No. 4, 6 & 7 of the company's bylaws.
5-Aug-20	ORAS	Cash dividend	Record date for EGP3.36/share.

7. LATEST RESEARCH

DATE	PUBLISHED REPORT
14-Jul-20	Commercial International Bank - [COMI] - Q2 2020 results
9-Jul-20	MACROView – Inflation driven by non-food baskets and unfavorable base effect
8-Jul-20	MACROView – Propped up by FX inflows, CBE amasses more reserves, turns NFA to net asset position
7-Jul-20	MACROView – Non-oil private sector keeps perking up in June, but demand stays depressed
25-Jun-20	EFG Hermes Holding [HRHO] – Behind the Optics of the Arab Investment Bank Potential Acquisition
10-Jun-20	MACROView – 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 – Solid buffers and moderate depreciation: The CBE’s recipe to deal with COVID-19
3-Jun-20	MACROView – 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	MACROView– Acceleration in April driven by food prices – as expected
7-May-20	MACROView – Keeping head above water amid pandemic uncertainties
5-May-20	Commercial International Bank (CIB) - Egypt [COMI] – Q1 2020 Results

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