



# PRIMETime

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## Measure Thousand Times, Cut Once

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Having maintained the status quo since March's mega rate cut of 300bps, the Monetary Policy Committee (MPC) of the CBE heads into its seventh meeting of the year today with confluence factors leaving room for all possible options. In deciding on the policy stance, we expect the committee to reckon the impact of (1) the growing risk of the pandemic's second wave, (2) geopolitical uncertainties on financial market sentiment, (3) inflows into government debt market, and (4) and the speed of growth momentum. As for the domestic scene, we expect the committee to strike a positive note on the impact of the CBE's lending initiatives and credit easing measures vis-à-vis the performance of other macroeconomic variables. In light of the absence of real inflationary pressures, the major concern for the committee will be how to mitigate the effect of protracted uncertainties of the pandemic trajectory on the speed and robustness of the economic recovery. The strongest hint we got of what might be in the pipeline was from the language contained in the committee's statements post-COVID-19; it emphasized that it "will not hesitate to utilize all available tools to support the recovery of economic activity, within its price stability mandate, supported by the previous macroeconomic reforms." That replaced the line where it vowed to "resume [the] easing cycle subject to further moderation of inflationary pressures." **The change in the statement underpins our view that the committee's actions to leverage its monetary policy to stem the effect of pandemic risks on the economy is not merely about cutting the benchmark rates, given the growing doubt over its marginal effect on boosting economic activity. Thus, we anticipate a "HOLD" decision in today's MPC meeting.**

**That said, on one hand, the inflation trajectory is still in favor of easing.** July headline inflation eased to its lowest level since November 2019, and core inflation was at historical low record of 0.7%, which is well below the 10-year historical average of 11%. Inflation outlook is still governed by disinflationary forces, driven by (1) weak demand, (2) EGP stable outlook in short term, (3) downward pressures on global commodity prices.

**Inflation aside, on the other hand, we still anticipate a "HOLD" decision in view of (1) the recent rebound in lending activity under the umbrella of the CBE's initiatives in certain sectors, (2) the ongoing geopolitical tension in Libya and the tug of war around the GERD, and (3) the risk of capital reversal on EGP stability.** The CBE's measures to support the private sector lending are still tuning. The committee might consider that it is still too early to assess the effect of the CBE's lending initiatives as the unlocking of the economy is likely to be associated with a substantial

improvement in a variety of near-term growth indicators. This should guide the CBE on the speed and robustness of the recovery to determine the effectiveness of its current measures. Moreover, the headline PMI index rose to 49.6, the closest level to expansion territory since August 2019.

**A strong EGP is essential for the CBE to keep inflation expectations well anchored around its target. The EGP was recently boosted by the rebound in foreign interest in the local debt market; foreign inflows climbed by USD3bn in the first two weeks of July. However, the sell-off mode in high-yield EM assets is still sensitive to idiosyncratic global shocks, including the severity of coronavirus and geopolitical uncertainty. Thus, we believe the CBE will opt to maintain its key rates in today's meeting to get a clearer picture of the market sentiment amid a growing appetite to safe haven assets.**

## 1. Today's Trading Playbook

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### KEY THEMES

Last night, **MSCI EM** announced its quarterly rebalancing to the surprise of many market participants without removing any of Egypt's large-cap stocks in its MSCI EM index. This means Elsewedy Electric [**SWDY**] will remain part of MSCI EM, and EFG Hermes [**HRHO**] will not join in—at least for now. We believe MSCI and other major indices rebalancing is a distraction to the market. While adding and removing stocks of these global indices generate inflows and outflows to and from stocks, they also result in mispricing, rendering some stocks unduly undervalued.

### POSITIVE

**COMI, EAST, SWDY:** Back to [our valuation tables](#), we reiterate our view that all Egypt's large caps that are part of MSCI EM index are undervalued, namely CIB [**COMI**] (1.8x P/BV), Eastern Co. [**EAST**] (7.9x P/E), and **SWDY** (4.5x P/E). This is not to say that **HRHO** is not; it simply means the inflows that were hoped to kick in will not come as expected, but **HRHO** still is one of our stock picks in Egypt.

**ETEL:** Another stock pick that we have long included on our list, despite some company specific events muting the stock performance lately, is Telecom Egypt [**ETEL**] (5.2x). The company just reported its Q2 2020 results overnight, reporting another set of strong results as expected with double-digit revenue growth and higher operating profit, driven by strong internet traffic. ETEL has proved to be one of the beneficiaries from the COVID-19 fallout.

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

## 2. TOP NEWS & ANALYSIS

### MACRO NEWS

**MSCI concluded its QIR for standard indexes, which led to no changes made related to MSCI EM's Egyptian constituents**, maintaining three EGX-listed stocks as is, namely CIB [COMI], Eastern Co. [EAST], and Elsewedy Electric [SWDY]. Also, no changes were made in small-cap index with regards to Egypt constituents. (MSCI: [1](#), [2](#))

**According to CAPMAS, the unemployment rate of university graduates in Egypt reached 36.1% in 2019.** The agency added that 25.1% of this rate was males, while the females formed 53.2%. ([Zawya](#))

**EBRD has approved another USD100mn facility to increase an existing trade finance limit to state-owned Banque Misr to help meet increased demand for import and export transactions.** ([EBRD](#))

**The Sanad Fund and the Green for Growth have USD250mn to commit to Egyptian SMEs and renewable energy projects in 2021.** ([Masrawy](#))

### CORPORATE NEWS

**Telecom Egypt's [ETEL] Q2 2020 net profit after minority (according to EAS) jumped 46% y/y to EGP746mn**, after ETEL's operating profits turned positive in Q2 2020, recording an operating profit of EGP1.5bn vs. an operating loss of EGP33mn in Q2 2019, due to (1) a higher gross profit of EGP3.1bn (+24% y/y, GPM 40% vs. GPM 38% in Q2 2019) and (2) 38% lower SG&A of EGP1.6bn during Q2 2020. Revenues grew to EGP7.9bn in Q2 2020 (+20% y/y). ([Company disclosure](#))

**SODIC's [OCDI] consolidated net profit after tax reached EGP68mn in 1H 2020**, down from EGP336mn in 1H 2019 with NPM falling to 6% from 17%. Revenues retreated to EGP1.1bn from EGP2bn. ([Company Release](#))

**Dice Sport & Casual Wear [DSCW] saw shareholder Khalfan Faraj Mohamed Masoud Al Mehairbi raise his stake in the company from 1.1% to 2.9%.** ([Company disclosure](#))

**GB Auto's [AUTO] Q2 2020 net profit after minority reached EGP116mn vs. net losses of EGP19mn a year earlier, implying NPM of 2.9% vs. NLM of -0.3%.** This comes primarily due to the surge in other operating income to EGP175mn. Revenues fell to EGP4bn (-29% y/y) on 39% y/y drop in auto & auto-related revenues recording EGP2.8bn, driven mainly by lower passenger car revenues (-27% y/y). Meanwhile, GB Capital revenues (after elimination) grew to EGP1.1bn (+14.2% y/y, -0.2% q/q). Gross Profit, however, grew 7% y/y to EGP922mn (-16% q/q), yielding a GPM of 23% vs. GPM of 15% a year earlier. Net debt/LTM EBITDA stood at 6.45x in H1 2020. AUTO currently trades at a TTM P/E of 9.1x. ([Company disclosure](#))

**EFG Hermes Holding's [HRHO] health care fund, Rx Healthcare, managed and partially owned by HRHO's private equity, has injected EGP100mn in United Pharma to finance expansion.** RX Healthcare had acquired a majority stake in United Pharma earlier. ([Al-Mal](#))

**State-owned Banque du Caire's [BQDC] IPO will not happen before next year** once the COVID-19 pandemic has subsided. ([Masrawy](#))

**Banque Misr raised its stake in CI Capital Holding [CICH] from 13.72% to 15.12%.** Back in June 2020, Egypt's second largest state-owned bank had denied media reports of its intention to acquire a 20-25% stake in CICH. ([EGX](#))

**Commercial International Bank – Egypt (CIB) [COMI] co-managed the fourth issue of Al-Tameer Securitization Co.'s bonds for a total value of EGP10bn.** The issue is backed by a financial rights portfolio owned by the New Urban Communities Authority. ([Al-Mal](#))

## GLOBAL NEWS

**The US federal budget deficit fell to USD63bn in July,** half the amount of a year earlier and down from USD864bn in June, as a delayed July 15 tax payment deadline boosted revenues and coronavirus aid outlays shrank sharply, the U.S. Treasury said on Wednesday. ([Reuters](#))

**US consumer prices increased more than expected in July, but high unemployment is likely to keep inflation under control,** allowing the Federal Reserve to continue pumping money into the economy to aid the recovery from the COVID-19 recession. ([Reuters](#))

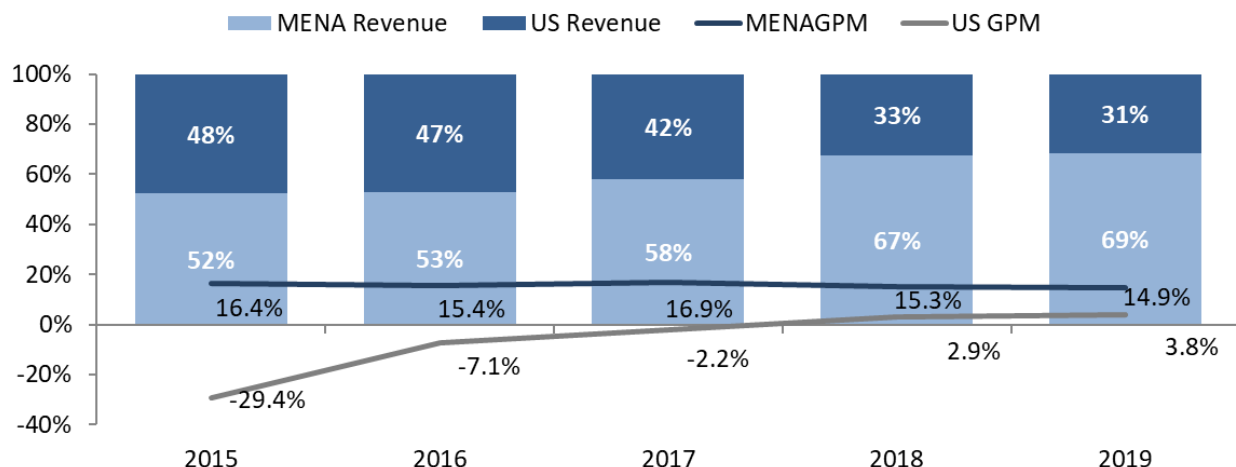
**The US economic recovery will be slow until the coronavirus is under control, and Americans will have to manage life with the virus for at least the next several months,** three Federal Reserve policymakers said on Wednesday. ([Reuters](#))

**German companies expect business to return to normal in an average of 11 months, the Ifo economic institute said on Thursday.** ([Reuters](#))

## 3. CHART OF THE DAY

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Source: Company reports.

**When Revenue Mix Drives Better Profitability:** Orascom Construction [ORAS] operates mainly in the MENA region with the lion's share coming from Egypt (c.92% of MENA revenues in 2019) and the U.S. Recently, the revenue mix has changed in favor of MENA of which contribution increased from 52% in 2015 to 69% in 2019, thanks to a booming construction industry in Egypt. This came with better margins for ORAS due to the relatively higher margins in the MENA region compared to US, in addition to the improvement in the US gross profit margin which turned from -29.4% in 2015 to 3.8% in 2019. As a result, ORAS managed to turn a gross loss margin of 5% in 2015 to gross profit margin of 11.4% in 2019.

#### 4. MARKETS PERFORMANCE

Current equity market cap (EGPbn)				Equity turnover (EGPmn): Last, ytd avg.			
606.4				1,274.3 847.1			
daily chg. ytd chg.				daily chg. ytd chg.			
		EGX 30	10,922.33 0.03% (21.77%)			Gold	1,915.83 0.21% 27.35%
		EGX 30 TR	4,169.73 (0.49%) (19.32%)			Silver	25.51 2.90% 44.67%
		EGX 70 EWI	1,648.80 0.65% 30.13%			Brent Oil	45.43 2.09% (28.19%)
		EGX 100 EWI	2,519.58 0.46% 15.34%			WTI	42.67 2.55% (27.20%)
		DFMGI	2,115.31 0.86% (23.49%)			Natural Gas	2.15 (0.88%) (0.69%)
		ADSMI	4,359.58 (0.20%) (13.80%)			USD/EGP	15.95 (0.17%) (0.42%)
		TASI	7,645.55 0.25% (8.86%)	€		EUR/USD	1.18 0.37% 5.46%
		QE Index	9,553.10 0.31% (8.25%)	£		GBP/USD	1.30 (0.11%) (1.43%)
		S&P 500	3,380.35 1.40% 4.63%	¥		USD/JPY	106.91 0.39% (1.74%)
		Dow 30	27,976.84 1.05% (1.97%)			6M TB yield	13.65 0 (136)
		NASDAQ	11,012.24 2.13% 22.73%			1Y TB yield	13.79 0 (78)
		VIX	22.28 (7.28%) 61.68%			10Y TB yield	14.58 0 88
		STOXX 50	3,363.18 0.93% (10.20%)			2Y TB yield	0.19 3 (138)
		MSCI Emerging	1,093.98 0.25% (1.86%)			10Y TB yield	0.68 4 (124)
		MSCI Frontier	493.75 0.87% (15.74%)			30Y TB yield	1.38 5 (101)

\* As of market close, except for commodities and currencies at 8.54am 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
13-Aug-20		MPC meeting	Deciding on EGP interest rate.
13-Aug-20	ETEL	Earnings Announcement	Announcing Q2-2020 earnings.
13-Aug-20	CICH	Conference Call	Discussing H1 2020 results.
13-Aug-20	OCDI	Conference Call	Discussing Q2 2020 results.
13-Aug-20	ISPH	Conference Call	Discussing Q2 2020 results.
15-Aug-20	ABUK	EGM	Amending articles No. 4, 21 & 50 of the company's bylaws.
16-Aug-20	AJWA	EGM	Amending article No. 4 of the company's bylaws.

17-Aug-20	ROTO	Cash dividend	Distribution date for EGP0.375/share (2nd installment).
17-Aug-20	AUTO	Conference Call	Discussing Q2 2020 results.
18-Aug-20	PHDC	OGM	Approving the board decisions made on 25/6/2020.
18-Aug-20	PHDC	EGM	Considering cancelling the international certificates of deposit program.
19-Aug-20		FOMC	Releasing the minutes of the last meeting.
22-Aug-20	ESRS	OGM	Approving the financial statements ending 31 Dec. 2019.
22-Aug-20	ALRA	OGM	Board election.
24-Aug-20	MFSC	OGM	Discussing 2019/20 financial statements and proposed dividend.
24-Aug-20	NCGC	EGM	Approving increasing the issued capital and amending articles No. 4, 6, & 7 of the company's bylaws.
26-Aug-20	MIPH	EGM	Amending article No. 4 of the company's bylaws.
31-Aug-20	LCSW	OGM	Approving the financial statements ending 31 Dec. 2019.
31-Aug-20	ZMID	Cash dividend	Distribution date for EGP0.25/share (2nd installment).

## 7. LATEST RESEARCH

DATE	PUBLISHED REPORT
10-Aug-20	<a href="#"><u>MACROView – Muted inflation environment still dominates</u></a>
9-Aug-20	<a href="#"><u>MACROView – Recovery of FX revenues is a long-term goal, but the economy is still well armed</u></a>
5-Aug-20	<a href="#"><u>MACROView – Toward gradual recovery</u></a>
29-Jul-20	<a href="#"><u>MACROView – CAD gains eroded by financial account vulnerability</u></a>
14-Jul-20	<a href="#"><u>Commercial International Bank - [COMI] - Q2 2020 results</u></a>
9-Jul-20	<a href="#"><u>MACROView – Inflation driven by non-food baskets and unfavorable base effect</u></a>
8-Jul-20	<a href="#"><u>MACROView – Propped up by FX inflows, CBE amasses more reserves, turns NFA to net asset position</u></a>
7-Jul-20	<a href="#"><u>MACROView – Non-oil private sector keeps perking up in June, but demand stays depressed</u></a>
25-Jun-20	<a href="#"><u>EFG Hermes Holding [HRHO] – Behind the Optics of the Arab Investment Bank Potential Acquisition</u></a>
10-Jun-20	<a href="#"><u>MACROView – Lowest annual reading in five months, but monthly figures show no changes</u></a>
8-Jun-20	<a href="#"><u>Oriental Weavers Carpet [ORWE] – Operating margins improve despite COVID-19, thanks to lower PP and nylon prices</u></a>
8-Jun-20	<a href="#"><u>MACROView – Solid buffers and moderate depreciation: The CBE's recipe to deal with COVID-19</u></a>
3-Jun-20	<a href="#"><u>MACROView – Non-oil private sector took a breather in May, but outlook remains cloudy</u></a>
18-May-20	<a href="#"><u>Abu Dhabi Islamic Bank [ADIB] – Q1 2020 Results</u></a>
18-May-20	<a href="#"><u>Al Baraka Bank Egypt [SAUD] – Q1 2020 Results</u></a>
17-May-20	<a href="#"><u>Credit Agricole Egypt [CIEB] – Q1 2020 Results</u></a>
13-May-20	<a href="#"><u>MACROView – Yesterday's CBE conference call with Deputy Governor</u></a>
11-May-20	<a href="#"><u>MACROView– Acceleration in April driven by food prices – as expected</u></a>
7-May-20	<a href="#"><u>MACROView – Keeping head above water amid pandemic uncertainties</u></a>
5-May-20	<a href="#"><u>Commercial International Bank (CIB) - Egypt [COMI] – Q1 2020 Results</u></a>



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