



PRIMETime

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Laggards with Catalysts

1. Today's Trading Playbook

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KEY THEMES

We started this week with a call on large caps which have been lagging so far in 2020. Indeed, EGX 30 rose 2.6% over the last four trading sessions. We believe the remainder of the year will witness a recovery in large caps in general, especially as foreign investors come back to the market. While we call for taking a closer look at the laggards so far in EGX 30 constituents, we continue to monitor catalysts from company-specific events. Please see below for a sample. Also, please check our *Chart of the Day*, for a run of how all EGX 30 current constituents performed since the flotation of the Egyptian pound through 26 August 2020 (almost three years and 10 months), to know which stocks have been lagging behind.

POSITIVE

MTIE: MM Group [MTIE] (18.7x LTM P/E), although up 24% in the last six trading sessions, is still down 9% for the year. **We pencil in a 30% upside from current levels.** We believe MTIE's non-banking financial services (NBFS) platform has room to re-rate further, offsetting its consumer business which has been negatively impacted so far in 2020 from COVID-19. The value of MTIE's NBFS platform is yet to be unlocked, be it through growth in its underlying operating companies or through listing subsidiaries on the EGX.

HRHO, AUTO: Both EFG Hermes Holding [HRHO] (-16% ytd, 9.8x LTM P/E, 0.8x P/BV) and GB Auto [AUTO] (-23% ytd, 18.9x LTM P/E, 0.8x P/BV) have exposure to the industry indirectly through different arms. The finalization of their acquisition of the life insurer **Tokio Marine Egypt Family Takaful** (please read the news below) marks a new era for both companies, tapping into this underpenetrated sector in Egypt. Meanwhile, HRHO is still undergoing its due diligence of **Arab Investment Bank (aiBank)**, which would add yet another line of business to its enterprise, offering full-fledged financial services ranging from capital markets to NBFS and insurance to commercial banking.

ORAS: Yesterday morning, Orascom Construction [**ORAS**] (-27% ytd) reported its Q2 2020 financials which were hurt, as expected, by COVID-19 and recent lockdowns. Net earnings fell 69% y/y and 61% q/q to USD9.8mn, pressured by losses (vs. profits a year ago) incurred by BESIX, albeit narrower when compared to Q1 2020. Although revenues were almost flat at USD791mn, gross profit margin decreased to 9% vs. 12%, weighed down by weaker MENA figures and despite stable U.S. margins, nearly halving EBITDA margin of 6.8% vs. 12.1%. ORAS's consolidated backlog stood at USD5.4bn (+18% y/y) as new awards hit USD725mn in Q2 2020 (-22% y/y, +21% q/q). While ORAS jumped 6% yesterday, the stock is still cheap based on multiples. ORAS is now traded at an LTM P/E of 5.7x (7.7x annualized earnings) and an LTM EV/EBITDA of 1.2x (1.3x annualized EBITDA). Net cash rose to USD309mn in Q2 2020, representing 58% of market cap. We continue to have ORAS as one of our stock picks in the industrials sector. The stock is now up more than 11% since we first included it in our top picks on 16 July 2020. ***At 2x EV/EBITDA, ORAS could be worth EGP91/share, still offering at least a 25% upside.***

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

2. TOP NEWS & ANALYSIS

MACRO NEWS

The House of Representatives approved two international agreements worth USD743.3mn between the Ministry of International Cooperation, the International Bank for Reconstruction & Development (IBRD) and the Arab Fund for Economic and Social Development (AFESD) for financing housing projects. ([Mubasher](#))

The Ministry of Communication & Information Technology launched the second phase of the internet development services' project in Egypt in H2 2020. The ministry plans to complete a project linking about 32,000 government buildings with optical fiber cables at a cost of EGP6bn. ([Al-Mal](#))

Egypt's Tourism Promotion Authority has concluded a joint cooperation with the World Tourism Organization (WTO), and implementation plans have been prepared to promote various activities related to the tourism sector. ([Hapi](#))

CORPORATE NEWS

EFG Hermes Holding [HRHO] and GB Auto [AUTO] completed the acquisition of 75% of Tokio Marine Egypt Family Takaful (each 37.5%). The EGP84.75mn deal adds to HRHO's and AUTO's NBFI platforms a missing segment (insurance) which they believe to be of high potential as it "remains significantly underpenetrated" as per their statement. (Company disclosure)

Orascom Construction's [ORAS] Q2 2020 net income fell 69% y/y to USD9.8mn, hit by USD7.1mn losses incurred by BESIX against a net profit of USD8.5mn in Q2 2019. Revenues were almost flat at USD791mn, while gross profit margin narrowed to 9% vs. 12%. The BoD put forward a proposal naming Nada Shousha as an independent non-executive independent director to shareholders for approval in their upcoming EGM on 17 September 2020. (Company disclosures: [1](#), [2](#))

Cairo for Investment & Real Estate Development [CIRA] clarified that the impact of the Consumer Protection Authority (CPA), obligating schools and higher education institutions to reimburse 25% of their school bus fees paid for the 2019/20 academic year, will be minimal on its 2019/20 year-end financials. The decision will only result in waiving a further EGP2mn (only 0.15% of 2019/20 annualized revenues) for the next academic year 2020/2021. (Company disclosure)

IMEX International submitted to the FRA an offer to acquire the Nile Cotton Ginning [NCGC] at a price of EGP50/share, provided it acquires a minimum of 50% of the shares. This implies a 41% premium to the latest fair value study conducted by an IFA at EGP35.53/share. IMEX International has committed to subscribe to the company's planned EGP265mn capital raise. ([EGX](#), [FRA](#))

Vitas Egypt for Microfinance resumed its negotiations with German fund Sanad for a finance of USD2-3mn after negotiations were impeded due to COVID-19. ([Al-Mal](#)) We note that Vitas Egypt is 100% owned by Ebtikar which is in turn owned by B Investments [[BINV](#)] and BPE Partners (50.1%) and MM Group [[MTIE](#)] (49.9%).

Bareeq Advanced Industries, a wholly-owned subsidiary of Raya Holding [RAYA], mulls issuing green bonds worth a maximum of EUR40mn by end of year, with Misr Capital appointed as its advisor. Proceeds from the offering will finance Bareeq's expansion and working capital. ([Al-Mal](#))

Misr Cement - Qena's [MCQE] OGM approved distributing a cash dividend of EGP0.25/share, implying a yield of 2.7%. ([Company disclosure](#))

Banque du Caire is unlikely to sell a stake in an IPO in 2020 due to COVID-19, the bank's chairman told *Reuters* on Wednesday. ([Mubasher](#))

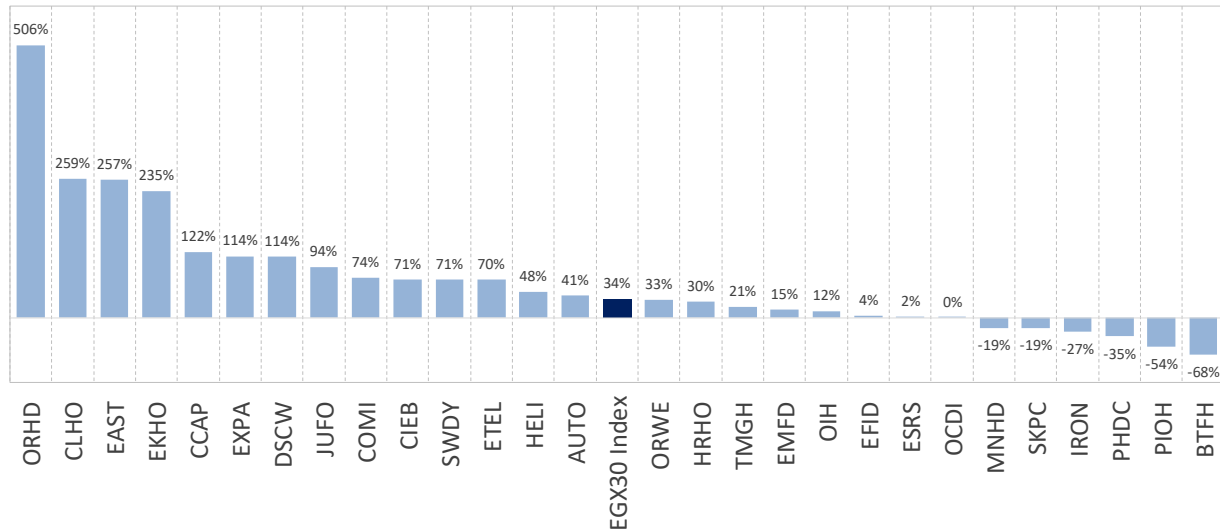
GLOBAL NEWS

Chairman Jerome Powell, in a much-anticipated speech today, is expected to discuss the Fed's policy framework and specifically how it will alter its posture on inflation. The Fed has had a 2% inflation target, but in the decade since the Global Financial Crisis it has more often than not seen inflation fall below its target. ([CNBC](#))

New orders for key U.S.-made capital goods slowed in July, suggesting the rebound in business investment could become more gradual amid uncertainty about the course of the COVID-19 pandemic, even as the recovery in manufacturing appears to be gaining traction. ([Reuters](#))

3. CHART OF THE DAY

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

















Source: Bloomberg.

EGX 30 Constituents Pre and Post EGP Flotation: The above bar chart exhibits the performance of the EGX 30's current constituents from 2 November 2016 (the day before the EGP flotation decision) until yesterday, 26 August 2020. Three years and 10 months after the EGP flotation, below are our key takeaways from the chart:

- 1) There are 14 stocks that underperformed the EGX 30 which is up 34% since 2 November 2016 when it stood at 8,524.
- 2) Six of those 14 names are down since then, namely Madinet Nasr Housing & Development [MNHD], Sidi Kerir Petrochemicals [SKPC], Egyptian Iron & Steel [IRON], Palm Hills Developments [PHDC], Pioneers Holding [PIOH], and Beltone Financial [BTFH].
- 3) SODIC [OCDI] is basically unchanged, while Edita Food Industries [EFID] and Ezz Steel [ESRS] are up 4% and 2%, respectively.
- 4) There is extreme contrast between index constituents; Orascom Hotels & Development [ORHD] rose by more than 500% on one hand, while PIOH and BTFH fell by more than 50% on the other hand.
- 5) Up 74% since then, CIB [COMI]— EGX 30's heavyweight (accounting for more than a third of its value) – has contributed more than 70% to the index's performance, which would suggest that COMI leads the index wherever it goes. But we believe this view is misleading, preferring to pick stocks for their own merit.

4. MARKETS PERFORMANCE

Current equity market cap (EGPbn)						Equity turnover (EGPmn): Last, ytd avg.					
628.8						1,647.7 886.3					
				daily chg.	ytd chg.					daily chg.	ytd chg.
		EGX 30	11,453.78	(0.07%)	(17.96%)			Gold	1,954.46	1.36%	27.97%
		EGX 30 TR	4,366.49	(0.78%)	(15.52%)			Silver	27.50	3.64%	52.75%
		EGX 70 EWI	1,784.35	1.65%	40.82%			Brent Oil	45.64	(0.48%)	(27.49%)
		EGX 100 EWI	2,691.29	1.32%	23.20%			WTI	43.39	0.09%	(25.72%)
		DFMGI	2,288.93	(0.68%)	(17.21%)			Natural Gas	2.46	(1.12%)	10.46%
		ADSMI	4,529.79	(0.63%)	(10.69%)	EGP		USD/EGP	15.88	(0.17%)	(0.95%)
		TASI	7,955.04	0.21%	(5.18%)	€		EUR/USD	1.18	(0.04%)	5.53%
		QE Index	9,898.93	(0.10%)	(5.05%)	£		GBP/USD	1.32	0.44%	(0.39%)
		S&P 500	3,478.73	1.02%	7.67%	¥		USD/JPY	105.99	(0.38%)	(2.38%)
		Dow 30	28,331.92	0.30%	(0.72%)		⇌	6M TB yield	13.68	0	(133)
		NASDAQ	11,665.06	1.73%	30.01%		⇌	1Y TB yield	13.84	0	(73)
		VIX	23.27	5.63%	68.87%		⇌	10Y TB yield	14.78	0	108
		STOXX 50	3,356.76	0.81%	(10.37%)			2Y TB yield	0.14	(3)	(143)
EM		MSCI Emerging	1,119.34	0.41%	0.42%			10Y TB yield	0.70	1	(122)
FM		MSCI Frontier	505.56	0.35%	(13.72%)			30Y TB yield	1.42	2	(97)

* As of market close, except for commodities and currencies at 9.12am 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
27-Aug-20	OBRI	Cash dividend	Ex-Dividend date for EGP0.300/share.
29-Aug-20	AALR	OGM	Board election.
29-Aug-20	WKOL	OGM	Board election.
29-Aug-20	MOIL	OGM	Board election.
30-Aug-20	UASG	Auction	To rent a yard in Red Sea ports.
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).
31-Aug-20	OBRI	Cash dividend	Distribution date for EGP0.300/share.
1-Sep-20	MENA	OGM	Approving the financial statements ending 31 Dec. 2019.
1-Sep-20	PHDC	Conference Call	Discussing Q2 2020 results.
1-Sep-20	ARCC	Conference Call	Discussing Q2 2020 results.
9-Sep-20	DAPH	OGM	Discussing netting contracts.
10-Sep-20	SPHT	EGM	Amending articles No. 4, 6, 7 & 60 of the company's bylaws.
12-Sep-20	EGTS	Lawsuit	A court session discussing legal disputes relevant to the company.
15/16-Sep-20		FOMC	Deciding on USD interest rate.
17-Sep-20	ORAS	EGM	Voting on hiring Nada Shousha as an independent non-executive independent director.

21-Sep-20	EHDR	EGM	Approving splitting the par value per share and amending articles No. 6 & 7 of the company's bylaws.
21-Sep-20	CICH	OGM	Discussing adding two seats to the BoD

7. LATEST RESEARCH

DATE	PUBLISHED REPORT
18-Aug-20	Oriental Weavers Carpet [ORWE] - Q2 2020 Results
13-Aug-20	Credit Agricole Egypt [CIEB] – Q2 2020 Results
10-Aug-20	MACROView – Muted inflation environment still dominates
9-Aug-20	MACROView – Recovery of FX revenues is a long-term goal, but the economy is still well armed
5-Aug-20	MACROView – Toward gradual recovery
29-Jul-20	MACROView – CAD gains eroded by financial account vulnerability
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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