



# PRIMETime

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## The Power of Regional Counter-Plays

### 1. Today's Trading Playbook

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#### KEY THEMES

We stated here before—and we still think—that the remainder of the year will witness a recovery in large caps in general, especially as foreign investors come back to the market. However, given the market's recent rally, we still see some interesting movements in some small-cap names: some with questionable momentum, others linked to medium-term catalysts. Please read below for a glimpse of a few of those small-cap names (**PACH**, **AIH**, and **AFDI**).

#### POSITIVE

**PACH – Low price levels, combined with a potential medium-term catalyst:** Paints & Chemical Industries [**PACH**] was a top performer last Thursday, up c.13% (c.18% as of last price). This comes despite PACH's 9M 2019/20 results reflecting weak operating performance. Top line slipped and margins deteriorated on a weaker volume, weaker prices situation. PACH stock price was punished notably since early 2018 due to challenges facing its business model. However, the company possesses a modest net cash position (11% of market cap pre-Thursday's rally) as well as commanding some 53,000sqm land plot related to its old factory. We believe that Thursday's rally was not about PACH's balance sheet; the assets have always been there. Yet, we believe the optimistic views concerning Libya reconstruction pushed the name higher. PACH's 50%-owned subsidiary **PACHIN for Paints & Chemical Industries – Libya** promises a fruitful involvement in the neighboring country's reconstruction story.

#### NEUTRAL

**AIH – Price reflects thriving NBFS, a risky bet on CBM recovery:** Arabia Investments Holding's [**AIH**] (+79% ytd) financial performance in H1 2020 was clouded by a hit to its construction and building materials (CBM) flank. Earnings dropped 28% y/y despite considerable growth coming from its non-banking financial services (NBFS) arm. Yet, we believe AIH could be yet another

beneficiary from the Libya reconstruction story on which both of its CBM operating companies are able to capitalize. AIH's **Toblat** has production lines in New Alamein, while **Kahormika** (an electromechanical contractor) used to have regional presence. AIH expects EGP72mn in net earnings for 2020, supported by a thriving NBFS segment. On one hand, we think the current market cap (EGP703mn) generously prices in the strength of its NBFS segment, leaving the CMB segment to either push it further up or put a lid on AIH stock rally.

## NEGATIVE

**AFDI – Price not justified by fundamentals unless monetization is on the cards:** Al-Ahly for Development and Investment [AFDI] (+101% ytd) is another name that has jumped aggressively (+8% on Thursday, +10% on last price). The stock sold off to very cheap levels last March, given—what we think—its “interesting” stakes. AFDI wholly owns an active leasing player (i.e. **Nile Financial Leasing**), a 17% stake in **Cairo Capital Holding**, as well as some JVs with B Investments [BINV]. AFDI's annualized Q1 2020 ROAE stands at 10%, with a 2020e P/E of 10x. While these are considered good figures when compared historically, it is still not justifying the 0.96x P/BV multiple that AFDI is trading at now. Unless AFDI is up for a potential exit from one of its investments, we do not think the current price level is that attractive anymore.

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

## 2. TOP NEWS & ANALYSIS

### MACRO NEWS

**The Egyptian government disbursed a total of EGP348.4mn as allowance to the employees affected by the COVID-19 outbreak,** the Ministry of Manpower said. ([Zawya](#))

**The Egyptian Cabinet gave preliminary approval on Wednesday for a package of incentives that aims to regulate collecting and tracking the value-added tax (VAT).** The incentives include in-kind and in-cash rewards as well as a lottery system. ([Zawya](#))

**The Egyptian Ministry of International Cooperation secured USD500mn in finance over the past eight months from international financial institutions** in order to support the healthcare sector in fighting COVID-19. ([Ahram Online](#))

**EgyptAir is now operating at 45% of its pre-covid capacity for the first time since the country resumed international flights.** ([Al Shorouk](#))

**The Egyptian Drug Authority has activated a package of incentive measures, represented in the temporary admission system for pharmaceutical products,** which aims to support the process of opening new markets in order to increase the export value of Egyptian pharmaceutical products. ([Egyptian Drug Authority](#))

## CORPORATE NEWS

**Sidi Kerir Petrochemicals' [SKPC] preliminary H1 2020 results showed net losses of EGP28mn against earnings of EGP453mn in H1 2019 as a result of (1) 34% slippage in revenues to EGP1.7bn and (2) a slashed GPM of 3.4% vs. 24.8% a year earlier. Management attributed such performance to weaker selling prices during the period.** Given the magnitude of weakening HDPE and LLDPE prices in H1 2020, it appears that SKPC eking out a GPM is the result of a cut in the feedstock pricing. That said, a recovery in selling prices in H2 2020 alongside any further cuts in feedstock prices would be two major catalysts for SKPC stock performance. ([Company disclosure](#))

**Madinet Nasr Housing & Development [MNHD] signed an agreement for a 7-year syndicated loan worth EGP 1.1bn**, arranged by Commercial International Bank [COMI] which led three other lenders, namely Arab Investment Bank, Egyptian Gulf Bank [EGBE], and United Bank, in providing the funding. ([Company disclosure](#))

**Misr Chemical Industries [MICH] BoD on 27 August announced that July 2020 bottom line came at EGP14.5mn, nearly marching June's 2020. MICH earnings in July 2019 were mere EGP0.465mn.** Such stellar monthly performance promises strong 2020/21 bottom line figure, as the company enjoys a cut in electricity prices, as well as high demand on its product portfolio, that we expect GPM now is north of 40%. It's worthy to note that MICH's bottom line for entire 2019/20 was EGP64mn. ([Company disclosure](#))

**Nile Cotton Ginning's [NCGC] 2019/20 net profit surged 595% y/y to EGP54mn** mainly on booking other income of EGP125mn (vs. EGP2.6mn in 2018/19). Such results came in despite a 56% plunge in gross profit, implying a GPM of 34.4% vs. 43.1% a year earlier. ([Company disclosure](#))

**International Agricultural Products' [IFAP] 2019/20 net profit plunged 79% y/y to EGP25mn** mainly on an 81% y/y plunge in income from sister companies of EGP22mn (vs. EGP119mn in 2018/19). Revenues remained almost flat at EGP506mn (-0.3% y/y). ([Company disclosure](#))

**Ajwa Food Industries' [AJWA] Q2 2020 net loss narrowed to EGP5.7mn** vs. a net loss of EGP17.4mn in Q2 2019 on 42% y/y higher revenues of EGP261mn and 8% y/y higher gross profit. However, GPM slid to 3.9% in Q2 2020 vs. 5.2% in Q2 2019. ([Company disclosure](#))

**Real Estate Egyptian Consortium's [AREH] stockholder Mohamed Abdel-Nasser Hamed Mahmoud sold out his entire 7.05% stake**, or 2.82mn shares, in the company for EGP18.58mn. Meanwhile, **stockholder Ali Mahmoud Abdel-Latif Mahgoub bought EGP31.76mn worth of AREH shares**, raising his ownership from 18.38% to 30.43%. Both transactions were executed at a price of EGP6.59/share. (Company disclosures: [1](#), [2](#))

**Egypt's Auto sales grew 14.4%y/y in July 2020, with sales volume of 18,262 vehicles compared to 15,958 vehicles in the same period last year.** ([Hapi](#))

## GLOBAL NEWS

**Japanese Prime Minister Shinzo Abe decided to resign for health reasons.** ([Reuters](#))

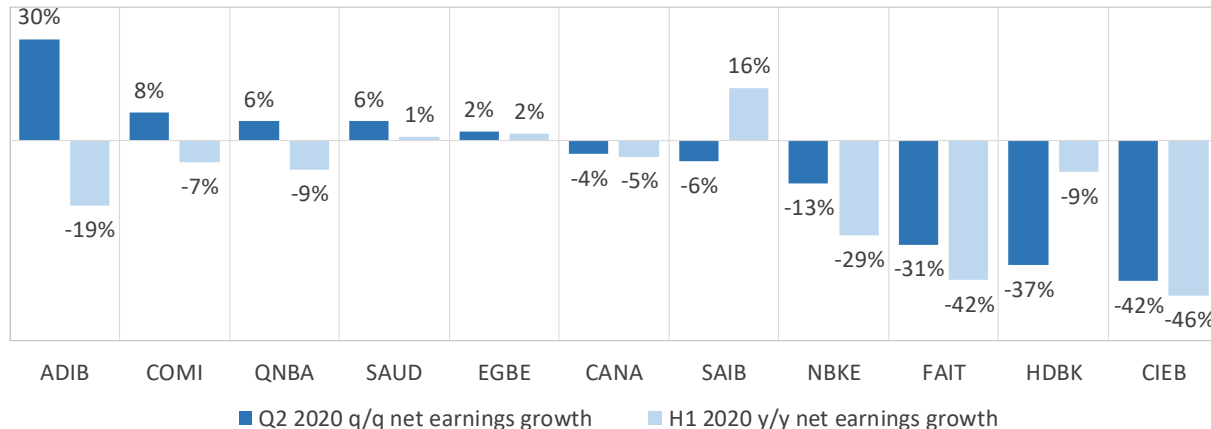
**US consumer spending increased more than expected in July**, boosting expectations for a sharp rebound in economic growth in the third quarter, though momentum is likely to ebb as the COVID-19 pandemic lingers and money from the government runs out. ([Reuters](#))

**The Federal Reserve announced a major policy shift Thursday, saying that it is willing to allow inflation to run hotter than normal** in order to support the labor market and broader economy. ([CNBC](#))

**In the Eastern Neighbors & Central Asia (ENCA) region, the tourism activities of Morocco, Tunisia and Egypt are judged to be at intermediate risks**, according to the EIB COVID-19 Economic Vulnerability Index. Meanwhile, Jordan and Lebanon are in the highest vulnerability group for a contraction in tourism. ([EIB](#))

## 3. CHART OF THE DAY











































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Source: Banks' financials.

**Egypt Banks' H1 Earnings Growth:** EGX-listed banks' earnings growth recovered somewhat in Q2 2020 following negative growth in Q1 2020. Earnings growth in Q2 2020 was boosted by lower provision build-up, in line with an early rebound in lending coupled with less funding costs after corridor rates were cut 300bps. As depicted above, Abu Dhabi Islamic Bank - Egypt [ADIB] achieved the highest q/q earnings growth in Q2 2020, thanks to a 9.3% q/q rise in net lending volume, followed by CIB [COMI] of which earnings growth was supported by high Treasury yields along with a bounce in lending.

## 4. MARKETS PERFORMANCE

Current equity market cap (EGPbn)						Equity turnover (EGPmn): Last, ytd avg.								
630.5						1,533.6 890.5								
			daily chg.	ytd chg.					daily chg.	ytd chg.				
		EGX 30	11,462.45	0.08%	(17.90%)			Gold	1,964.83	1.83%	29.50%			
		EGX 30 TR	4,384.64	0.42%	(15.17%)				Silver	27.50	1.80%	54.06%		
		EGX 70 EWI	1,820.16	2.01%	43.65%					Brent Oil	45.81	0.46%	(27.20%)	
		EGX 100 EWI	2,731.76	1.50%	25.05%					WTI	42.97	(0.16%)	(26.31%)	
		DFMGI	2,269.27	(0.86%)	(17.92%)						Natural Gas	2.66	3.02%	21.38%
		ADSMI	4,535.15	0.12%	(10.45%)		EGP				USD/EGP	15.87	0.10%	(1.07%)
		TASI	7,934.43	(0.26%)	(5.42%)			€			EUR/USD	1.19	0.69%	6.15%
			QE Index	9,882.93	(0.16%)				(5.20%)	£		GBP/USD	1.34	1.15%
			S&P 500	3,508.01	0.67%	8.58%			¥			USD/JPY	105.37	(1.13%)
			Dow 30	28,653.87	0.57%	0.40%						6M TB yield	13.67	(1)
			NASDAQ	11,695.63	0.60%	30.35%					1Y TB yield	13.82	(2)	(75)
		VIX	22.96	(6.17%)	66.62%					10Y TB yield	14.78	0	108	
		STOXX 50	3,315.54	(0.47%)	(11.47%)						2Y TB yield	0.16	2	(141)
	EM		MSCI Emerging	1,121.60	0.39%		0.62%				10Y TB yield	0.72	2	(120)
		FM		MSCI Frontier	508.36		0.25%	(13.24%)				30Y TB yield	1.50	8

\* As of market close, except for commodities and currencies at 8.24am 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
30-Aug-20	UASG	Auction	To rent a yard in Red Sea ports.
31-Aug-20	UASG	BoD meeting	Discussing Q2 2020 Results.
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.
31-Aug-20	BIOC	Cash dividend	Record date for EGP0.500/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.
1-Sep-20	BIOC	Cash dividend	Ex-Dividend date for EGP0.500/share.
3-Sep-20	BIOC	Cash dividend	Distribution date for EGP0.500/share.
9-Sep-20	DAPH	OGM	Discussing netting contracts.
9-Sep-20	CPCI	Stock dividend	Record date for 0.25:1.
10-Sep-20	CPCI	Stock dividend	Distribution date for 0.25:1.
10-Sep-20	SPHT	EGM	Amending article 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.
17-Sep-20	RMDA	EGM	Amending article No. 4 of the company's bylaws.
20-Sep-20	ORWE	EGM	Amending some articles of the company's bylaws.
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	<a href="#">Oriental Weavers Carpet [ORWE] - Q2 2020 Results</a>
13-Aug-20	<a href="#">Credit Agricole Egypt [CIEB] – Q2 2020 Results</a>
10-Aug-20	<a href="#">MACROView – Muted inflation environment still dominates</a>
9-Aug-20	<a href="#">MACROView – Recovery of FX revenues is a long-term goal, but the economy is still well armed</a>
5-Aug-20	<a href="#">MACROView – Toward gradual recovery</a>
29-Jul-20	<a href="#">MACROView – CAD gains eroded by financial account vulnerability</a>
14-Jul-20	<a href="#">Commercial International Bank - [COMI] - Q2 2020 results</a>
9-Jul-20	<a href="#">MACROView – Inflation driven by non-food baskets and unfavorable base effect</a>
8-Jul-20	<a href="#">MACROView – Propped up by FX inflows, CBE amasses more reserves, turns NFA to net asset position</a>
7-Jul-20	<a href="#">MACROView – Non-oil private sector keeps perking up in June, but demand stays depressed</a>
25-Jun-20	<a href="#">EFG Hermes Holding [HRHO] – Behind the Optics of the Arab Investment Bank Potential Acquisition</a>
10-Jun-20	<a href="#">MACROView – Lowest annual reading in five months, but monthly figures show no changes</a>
8-Jun-20	<a href="#">Oriental Weavers Carpet [ORWE] – Operating margins improve despite COVID-19, thanks to lower PP and nylon prices</a>
8-Jun-20	<a href="#">MACROView – Solid buffers and moderate depreciation: The CBE's recipe to deal with COVID-19</a>
3-Jun-20	<a href="#">MACROView – Non-oil private sector took a breather in May, but outlook remains cloudy</a>
18-May-20	<a href="#">Abu Dhabi Islamic Bank [ADIB] – Q1 2020 Results</a>
18-May-20	<a href="#">Al Baraka Bank Egypt [SAUD] – Q1 2020 Results</a>
17-May-20	<a href="#">Credit Agricole Egypt [CIEB] – Q1 2020 Results</a>
13-May-20	<a href="#">MACROView – Yesterday's CBE conference call with Deputy Governor</a>
11-May-20	<a href="#">MACROView– Acceleration in April driven by food prices – as expected</a>
7-May-20	<a href="#">MACROView – Keeping head above water amid pandemic uncertainties</a>
5-May-20	<a href="#">Commercial International Bank (CIB) - Egypt [COMI] – Q1 2020 Results</a>

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