



The Last Mile

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On Wednesday, the Egyptian Exchange (EGX) organized an online workshop with Abu Qir Fertilizers' [ABUK] management presided by the CEO who recapped the company's highlights in 2019/20 and pointed to future expansions. Here are our key takeaways:

COVID-19 posed a sizable threat to ABUK's selling capabilities, mostly due to subdued trade mobility on the global front. Management indicated that substantial volumes were exported to African destinations, which relatively pressured selling prices.

Management is targeting lower employee count, after halving the current number of employees to 2,000. There is room to downsize even more, it added, to spur efficiency.

Abuqir 3 expansions could yield a double-digit IRR. The 2-year project aims to lower carbon dioxide emissions and increase Abuqir 3's granulated urea capacity to 2,370 tons/day (tpd) from 1,900 tpd currently. The estimated investment cost is USD100mn, which management argued would mean the project's IRR is around 19% at depressed urea prices.

Gas prices are yet to be set for the new methanol venture. ABUK, alongside other potential shareholders Helwan Fertilizers and Al-Ahly Capital, is negotiating better natural gas prices for its prospective methanol factory with the Ministry of Petroleum. Investment cost is estimated at EGP1.6bn for the first stage of the project and EGP1bn for the second. In the first stage, the factory will target producing 1mtpa of methanol, in addition to 0.4mtpa of ammonia. Management mentioned that the second stage will see higher methanol capacity as well as potential addition of some downstream methanol activities.

Finally, management said there are no updates on gas prices for ABUK for the moment, citing the importance of gas prices to ABUK's profitability. Management mentioned that a price cut of USD0.5/mmbtu could add EGP400-450mn to ABUK's bottom line. According to our calculation, this excludes a corresponding cut to the selling prices of the local sales quota.

Valuation-wise, ABUK is currently trading at 2019/20 EV/EBITDA of 6.1x. A cut in natural gas prices, a liberalization of local selling prices, or a weaker EGP will drive faster re-rating.



1. Today's Trading Playbook

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KEY THEMES

We are approaching the last mile of a turbulent year. Global markets are reeling because of two major events, namely the close U.S. presidential and recent coronavirus-induced lockdown measures. S&P 500 ended October in the red for the second month in a row (down 2.8%), while EGX 30 followed in its footsteps (down 4.3%). Meanwhile, MSCI EM index advanced 2.0%. The U.S. presidential elections are scheduled for Tuesday, 3 November, the results of which could be highly contested. Further lockdown measures taken by major European countries, like Germany, France, and the United Kingdom, are casting doubts on the overall global economic performance. On one hand, we started seeing U.S. 10-year Treasury bond yields rise on higher-than-expected U.S. borrowings in the case of a Biden win, coinciding with the U.S. dollar index hovering above 90s.

Meanwhile, news of cooperation between Egypt and Iraq on the reconstruction of the latter might open the door for EGX-listed contractors and infrastructure plays, including **Orascom Construction** [ORAS] and **Elsewedy Electric** [SWDY]. Elsewhere, we continue to monitor potential acquisitions in Egypt's banking sector, with revived interest from UAE-based First Abu Dhabi Bank (FAB) in Bank Audi's Egypt unit. We note that Lebanon-based BLOM Bank's Egypt unit is also the subject of a potential acquisition by Emirates NBD and Bank ABC.

POSITIVE

ORAS, SWDY, Banks: In view of the above, we reiterate our preference for ORAS and SWDY as well as banks in general, supported by their cheap valuation multiples.

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

2. TOP NEWS & ANALYSIS

MACRO NEWS

The Egyptian government is about to sign a partnership agreement with the United Nations Industrial Development Organization (UNIDO) to improve the economic, social, and environmental performance of the industrial sector in the country. ([Zawya](#))



The Minister of Manpower's Emergency Benefits Fund is currently working on disbursing the second and third batches of the emergency aid, estimated at EGP317.3mn, to 146,610 tourism workers who were affected by COVID-19 crisis. ([Zawya](#))

The Egyptian Ministry of Finance, starting November, will begin receiving applications from exporters who are looking to collect their export rebates immediately, rather than over five years, as part of the ministry's initiative which, in return, deducts 15% on the total. ([Mubasher](#))

Car sales continued to tick upwards in September as the sector continued its recovery from the drop in sales during the second-quarter COVID-19 lockdown. They rose 11% y/y to 22,900 in September, up from 20,600 sold in the same period last year. The sales come on the heels of a 13% rise to 20,800 in August. ([Hapi](#))

Remittances from Egyptians living abroad increased by 10.4% to a record high of USD27.8bn in FY20, compared to USD25.2bn a year earlier. However, we still believe that remittances are going to eventually fall given the current pandemic-induced recession in GCC countries. ([Mubasher](#))

Egypt has submitted its ratification of an international agreement to crack down on tax avoidance to the OECD. The agreement, which comes into effect in Egypt in January, will help prevent companies from using loopholes in double-taxation agreements to avoid tax. ([MoF](#))

CORPORATE NEWS

Telecom Egypt [ETEL] hired Ericsson to migrate its international gateway using the latest technologies to enhance the quality of its fixed and mobile services. Ericsson will also provide ETEL, which is tapping the internet of things (IoT) space, with narrowband IoT-enabled software licenses in a project that should be rolled out by year-end. ([Youm 7](#))

First Abu Dhabi Bank (FAB) resumed talks with Bank Audi to acquire the Audi's Egypt unit. ([FAB release](#))

The European Bank for Reconstruction & Development (EBRD) could provide Banque du Caire [BDQC] with a loan of up to USD50mn to lend private sector SMEs. ([EBRD](#))

EFG Hermes Holding's [HRHO] micro finance arm Tanmeyah will issue its second securitized bond by H1 2021. ([Al-Mal](#))

Porto Group [PORT] is planning to rebrand to Porto Developments and restructure its operations. ([Hapi](#))



GLOBAL NEWS

The U.S. economy grew at a historic pace in the third quarter as the government injected more than USD3tn worth of pandemic relief which fueled consumer spending, but the deep scars from the COVID-19 recession could take a year or more to heal. ([Reuters](#))

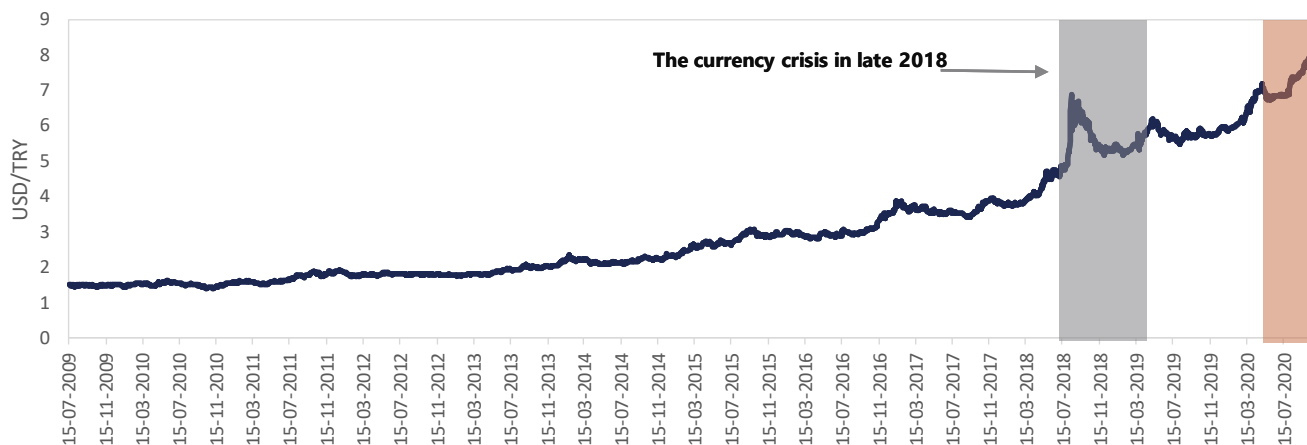
China's factory activity expanded at a slightly slower pace in October but was slightly above analysts' expectations, suggesting a continuing economic recovery as the country rebounds from the coronavirus shock. ([Reuters](#))

European governments must be selective in shutting down economic activity to combat the coronavirus pandemic and need to keep spending up to support businesses and families, European Central Bank policymakers said. ([Reuters](#))

The euro zone economy rebounded more than expected in the third quarter from its coronavirus-induced slump, but the rally is likely to be cut short as countries re-introduce restrictions to stem the second wave of the pandemic. ([Reuters](#))

3. CHART OF THE DAY

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Source: Bloomberg.

The Turkish lira has facing the worst month since the EM sell-off bout in 2018. The currency has been dipping to historical lows recorded every day last week as the central bank surprisingly held lending rates, despite the surge in inflation levels. The Turkish central bank had raised its one-week repo rate by 200bps on 22 September, for the first time since late 2018, in an effort to combat inflation and support price stability.



CORRECTION

In the Chart of the Day published on 15 October, we had incorrectly mentioned world trade illustrated in the chart as denominated in USDbn when it should in fact be considered as part of a volume index with 2010 as the base year (i.e. 2010 = 100). The chart has now been updated in [the report](#).

4. MARKETS PERFORMANCE

Current equity market cap (EGPbn)						Equity turnover (EGPmn): Last, ytd avg.			
605.4						1,236.2 954.4			
				daily chg.	ytd chg.			daily chg.	ytd chg.
	📉	EGX 30	10,515.25	(0.42%)	(24.68%)		📈	Gold	1,878.81 0.60% 23.83%
	📉	EGX 30 TR	4,028.57	(0.47%)	(22.06%)		📈	Silver	23.66 1.71% 32.51%
	📈	EGX 70 EWI	1,870.70	0.31%	47.64%		📉	Brent Oil	37.94 (0.84%) (39.71%)
	📈	EGX 100 EWI	2,743.47	0.04%	25.58%		📉	WTI	35.79 (1.05%) (38.62%)
	📉	DFMGI	2,187.86	(0.15%)	(20.87%)		📈	Natural Gas	3.35 1.61% 53.22%
	📉	ADSMI	4,660.04	(0.49%)	(8.69%)	EGP	📈	USD/EGP	15.70 0.01% (2.12%)
	📉	TASI	7,907.72	(2.65%)	(5.74%)	€	📉	EUR/USD	1.16 (0.23%) 3.87%
	📉	QE Index	9,691.02	(1.35%)	(7.05%)	£	📈	GBP/USD	1.29 0.13% (2.34%)
	📉	S&P 500	3,269.96	(1.21%)	1.21%	¥	📈	USD/JPY	104.66 0.05% (3.64%)
	📉	Dow 30	26,501.60	(0.59%)	(7.14%)		📈	6M TB yield	13.45 8 (156)
	📉	NASDAQ	10,911.59	(2.45%)	21.61%		📈	1Y TB yield	13.59 8 (98)
	📈	VIX	38.02	1.14%	175.91%		📈	10Y TB yield	14.73 7 103
	📉	STOXX 50	2,958.21	(0.06%)	(21.01%)		📈	2Y TB yield	0.18 3 (139)
EM	📉	MSCI Emerging	1,103.46	(1.49%)	(1.00%)		📈	10Y TB yield	0.88 10 (104)
FM	📈	MSCI Frontier	520.31	0.45%	(11.21%)		📈	30Y TB yield	1.66 11 (73)

* As of market close, except for commodities and currencies at 8.43am 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
1-Nov-20	EGAL	OGM	Approving the financial statements ending 30 Jun. 2020.
1-Nov-20	EGAL	EGM	Amending articles of the company's bylaws.
1-Nov-20	MHOT	OGM	Approving the financial statements ending 30 Jun. 2020.
1-Nov-20	MHOT	EGM	Amending articles of the company's bylaws.
1-Nov-20	AFMC	OGM	Approving the financial statements ending 30 Jun. 2020.



1-Nov-20	OCDI	OGM	Approving increasing issued capital by 2% and amending articles No. 6 & 7 of the company's bylaws.
1-Nov-20	CPCI	Cash dividend	Record date for EGP3.20/share.
1-Nov-20	AXPH	Cash dividend	Record date for EGP15.50/share.
1-Nov-20	NIPH	Cash dividend	Record date for EGP1.00/share.
2-Nov-20	AXPH	Cash dividend	Ex-Dividend date for EGP15.50/share.
2-Nov-20	CPCI	Cash dividend	Ex-Dividend date for EGP3.20/share.
2-Nov-20	NIPH	Cash dividend	Ex-Dividend date for EGP1.00/share.
2-Nov-20	IRON	OGM	Approving the financial statements ending 30 Jun. 2020.
2-Nov-20	IRON	EGM	Discussing the continuation of the company.
4-Nov-20	EDFM	OGM	Approving the financial statements ending 30 Jun. 2020.
4-Nov-20	SPIN	OGM	Approving the financial statements ending 30 Jun. 2020.
4-Nov-20	AXPH	Cash dividend	Distribution date for EGP15.50/share.
4-Nov-20	CPCI	Cash dividend	Distribution date for EGP3.20/share.
4-Nov-20	NIPH	Cash dividend	Distribution date for EGP1.00/share.

7. LATEST RESEARCH

DATE	PUBLISHED REPORT
25-Oct-20	<u>CIB [COMI] – Short-term pain for longer-term gain</u>
11-Oct-20	<u>MACROView – Disinflationary trend interrupted</u>
11-Oct-20	<u>MACROView – External strains are slacking and reserves are growing</u>
6-Oct-20	<u>CIB [COMI] – A Good Bet for the “Risk On” Mode</u>
5-Oct-20	<u>MACROView – Egypt’s recovery is broadening</u>
10-Sep-20	<u>MACROView – A Stunning Chapter Towards Targets</u>
8-Sep-20	<u>MACROView – Crawling Out of the Troughs</u>
3-Sep-20	<u>MACROView – Job losses and the bumpy road to recovery</u>
18-Aug-20	<u>Oriental Weavers Carpet [ORWE] – Q2 2020 Results</u>
13-Aug-20	<u>Credit Agricole Egypt [CIEB] – Q2 2020 Results</u>
10-Aug-20	<u>MACROView – Muted inflation environment still dominates</u>
9-Aug-20	<u>MACROView – Recovery of FX revenues is a long-term goal, but the economy is still well armed</u>
5-Aug-20	<u>MACROView – Toward gradual recovery</u>
29-Jul-20	<u>MACROView – CAD gains eroded by financial account vulnerability</u>
14-Jul-20	<u>Commercial International Bank - [COMI] - Q2 2020 results</u>
9-Jul-20	<u>MACROView – Inflation driven by non-food baskets and unfavorable base effect</u>
8-Jul-20	<u>MACROView – Propped up by FX inflows, CBE amasses more reserves, turns NFA to net asset position</u>
7-Jul-20	<u>MACROView – Non-oil private sector keeps perking up in June, but demand stays depressed</u>



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



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