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The Writings on the Wall

1. Today's Trading Playbook

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KEY THEMES

Two stories are worth noting today, both related to one of the two themes we think will drive market performance over the coming period: earnings reports. It is Ezz Steel [ESRS] that reported its Q1 2021 results this morning and Palm Hills Developments [PHDC] that held its Q1 2021 earnings conference call yesterday.

For the former, our materials analyst **Mohamed Saad** thinks that ESRS's Q1 2021 are strong. Consolidated net earnings grew to EGP784mn (i.e. EPS of EGP1.47) vs. net losses of EGP860mn a year earlier. The robust improvement in bottom line was guided by a 25% y/y growth in revenues to EGP13.5bn. ESRS was able to utilize the rise in average selling prices to counter increasing iron ore prices, and hence achieve a groundbreaking GPM of 20.6% during the quarter vs. a mere 0.7% a year earlier. We note that the strong bottom line performance was further complemented by 19% y/y lower borrowing costs to EGP869mn.

Breaking down ESRS sales performance during the quarter, we find that the 25% higher revenues were the product of a 65% increase in flat steel volumes, coupled with an increase in both the long and flat average selling prices by 37% and 44%, respectively. Operationally speaking, this has more than offset lower long sales volume as well as higher iron ore prices.

On an annualized basis, ESRS is now trading at a ridiculous 2021 P/E of only 2x. However, the trick is to be able to maintain average selling prices at such levels onward, which we think is not highly probable. Selling prices may remain relatively high during 2021, yet we would pretty much expect a price correction next year. Right now, the stock is enjoying for the first time in a number of years a relatively sound cash spread. However, we believe GPM will eventually normalize to the low 20s domain as both rebars and iron ore prices hit their normalized targets.

On a different note, our real estate analyst **Kareem Farid** noted below key takeaways from PHDC's conference call:

- PHDC expects to deliver Badya by Q3 2021, one year earlier than contracted. Meanwhile, North

Coast project Hacienda West, whose launch was delayed due to licensing issues, will be launched in July 2021. Additionally, PHDC will launch new parcels in its other North Coast projects Hacienda Bay or Hacienda White in the summer. PHDC's management expects the construction work for Badya's university to begin by end of year, linking the launch of a new phase in Badya labelled "The Village" to the university as the new phase will be overlooking it. Hence, any delays in construction of the university will delay the phase as well.

- The execution of 36mn treasury shares which was approved by the shareholders will be written off by end of year.

- Regarding PHDC's project in East Cairo, Palm Hills New Cairo (PHNC), management expects the project to require EGP2.5bn in financing. The project area is split 80% residential and 20% commercial.

- Management is still undecided on its sales strategy (selling raw land or developing the land) for Botanica located in new Sphinx City, for which they have received shareholders' approval to waive off 50% of Botanica to New Urban Communities Authority (NUCA). Botanica stretches over 1,283 feddans (5.39mn sqm), in return of all needed infrastructure and utilities, as well as changing the land utilization purpose from agricultural to residential and an in kind payment to NUCA.

POSITIVE

ESRS: Q1 2021 earnings should drive the stock higher, we think. Please refer to our quick analysis above.

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

2. TOP NEWS & ANALYSIS

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MACRO NEWS

Vivo, the Chinese smartphone maker, is planning to invest USD30mn in Egypt over the next two years. ([Hapi](#))

The Egyptian President ratified the legislation that raises basic salaries for public sector workers on 1 July after it was approved by the House of Representatives last month. ([El-Watan](#))

CORPORATE NEWS

Cairo for Investment & Real Estate Development's [CIRA] signed a management consulting agreement with Saxony International (SIS) to establish the first applied technologies university in Egypt with the first four faculties to be launched in FY23. The university of applied technologies will offer its graduates a bachelor's degree and enhance their technical capabilities in their related sectors. The project will be financed by **Al Ahly Capital Holdings (AHC), National Bank of Egypt's** investment arm, and other potential industry investors. This is not the first time that CIRA has worked with SIS as CIRA expects to launch SIS school in O West in FY22 In partnership with Orascom Development Egypt [**ORHD**]. ([Company disclosure](#))

Orascom Investment Holding [OIH] signed the contract of developing the sound and light show at the Giza Pyramids with investments worth of EGP200mn. ([Arab Finance](#))

Cleopatra Hospitals Group's [CLHO] BoD decided to buy up to 160mn treasury shares or 10% of its total shares, starting from 15 June and for a maximum period of three months. ([Company disclosure](#))

EK Holding [EKHO] has opened the gate for shareholders willing to change their trading currency to EGP from USD in the period between 15 June to 14 September 2021. ([Company disclosure](#))

Housing & Development Bank's [HDBK] consolidated net profit grew to EGP651mn in Q1 2021 (+7.6% y/y), supported by higher net interest income of EGP816mn (+26% y/y) on lower interest paid expense. Gross lending inched up to EGP21bn (+1.7%) ytd, while deposits increased to EGP51bn (+8%). ([Bank release](#)) HDBK is currently trading at a P/BV of 0.51x and an LTM P/E of 2.29x.

Faisal Islamic Bank of Egypt's [FAIT] consolidated net profits grew to EGP579mn in Q1 2021 (+19.6% y/y) as net interest income climbed to EGP1.25bn (+37% y/y). Although provisions tripled y/y to EGP105mn during Q1 2021, net lending increased to EGP10.6bn (+8.2% ytd), while deposits edged up to EGP100bn (+3.3% ytd). ROAE reached 15.7% in Q1 2021 vs. 14.5% in Q1 2020. At the same time, NIM rose to 5.1% from 4.2%, thanks to good Treasury yields. ([Bank release](#)) FAIT is currently trading at a P/BV of 0.32x and an LTM P/E of 2.1x.

Al Ezz for Ceramics & Porcelain [ECAP] Q1 2021 financials showed a 596% y/y increase in net income to EGP38.6mn. Meanwhile, revenues increased by 29% y/y to EGP323.9mn in Q1 2021. We see a significant recovery in gross profit, which increased 85% y/y to EGP100mn, and net profit margin, which widened to 11.9% in Q1 2021 from 2.2% in Q1 2020. ([Company disclosure](#))

Alexandria Container & Cargo Handling's [ALCN] net income fell 3% y/y to EGP1.27bn during 11M 2020/21 (ended 31 May 2021), and revenues decreased to EGP2.16bn (-5% y/y). ([Company disclosure](#))

South Valley Cement's [SVCE] Q1 2021 net losses narrowed to EGP35.7mn from EGP41.4mn in the same quarter a year before. Revenues, in the meantime, fell to EGP62mn (-30% y/y). Despite an increase in gross losses to EGP44.5mn during the quarter (vs. EGP24.8mn in Q1 2020), the gain from selling securities and lower financing costs were enough to limit the losses. ([Company disclosure](#))

General Co. for Ceramic & Porcelain Products' [PRCL] net losses narrowed to EGP5.2mn in 11M 2020/21 from EGP40.9mn a year before. The company's gross profit surged to EGP11.7mn (+199% y/y) during the same period this year. PRCL seeks to maximize its profits through focusing on high-margin products, especially ceramics. ([Company disclosure](#))

Atlas for Investment & Food Industries [AIFI] suffered a net loss of EGP1.3mn in Q1 2021 (vs. a net income of EGP0.85mn a year ago) on the back of lower revenues of EGP2mn (-48% y/y) and a tighter gross profit margin of 21%. ([Company disclosure](#))

Northern Upper Egypt Development & Agricultural Production's [NEDA] net losses widened to EGP4mn in Q1 2021 (vs. a net losses of EGP0.29mn a year ago) on lower revenues of EGP0.59mn (-92% y/y) and a gross loss margin of -397%. ([Company disclosure](#))

Bahrain's Bank ABC secured the Central Bank of Egypt's (CBE) approval to acquire the Egyptian arm of Lebanon's BLOM Bank. ABC is awaiting the approval of COMESA, due to the presence of the Bahraini bank in Africa. (Al-Borsa)

GLOBAL NEWS

Oil prices have reached their highest level since October 2018, with Brent climbing 1.6% yesterday to almost USD74/bbl. Further rally in oil prices is now expected as supply continues to tighten and demand rebounds. ([FT](#))

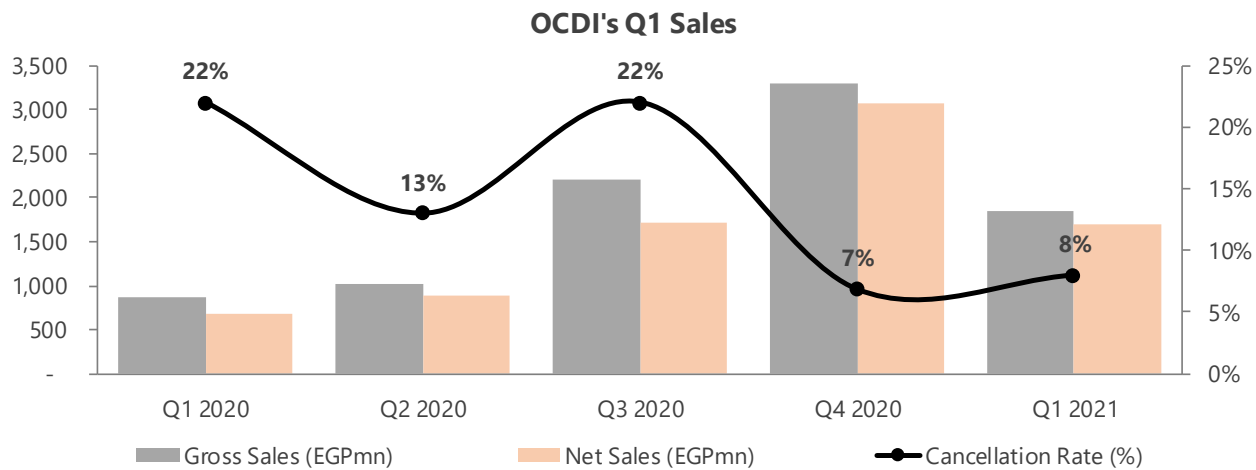
U.S. retail sales dropped more than expected in May, with spending rotating back to services from goods as vaccinations allow Americans to travel and engage in other activities that had been restricted by the COVID-19 pandemic. ([Reuters](#))

3. CHART OF THE DAY

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Kareem Farid | Equity Analyst

kfarid@egy.primegroup.org



Source: Company Reports.

SODIC's [**OCDI**] Q1 2021 sales grew to EGP1.85bn (+114% y/y) which can be attributed to a recovery in demand and an increase in pricing as a result. Meanwhile, cancellation rates—which peaked in Q1 2020 at 22% as result of COVID-19—dropped to 8% (-14pp) in Q1 2021, resulting in net sales of EGP1.7bn (+152% y/y).

4. MARKETS PERFORMANCE

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Current equity market cap (EGPbn)						631.3		Equity turnover (EGPmn): Last, ytd avg.						1,140.1		1,178.6	

26-Jun-21	UASG	OGM	Approving the estimated budget of FY 2021/22.
26-Jun-21	ALCN	OGM	Approving the estimated budget of FY 2021/22.
28-Jun-21	DSCW	OGM	Approving the financial statements ending 31 Dec. 2020 and other agenda items.
29-Jun-21	RACC	EGM	Discussing a capital decrease and amending articles 4, 6 and 7 of the bylaws.
29-Jun-21	CIEB	OGM	Approving a capital increase and other agenda items.
29-Jun-21	CIEB	EGM	Amending articles 6 and 7 of the bylaws.
29-Jun-21	HELI	Cash dividend	Date for a payout of EGP0.16/share (2nd round).
29-Jun-21	HELI		The deadline for buying a copy of the bidding terms for Heliopark.
30-Jun-21	IDHC	OGM	Approving the financial statements and approving distributing dividends.
30-Jun-21	CICH	Cash dividend	Date for a payout of EGP0.05/share (2nd round).
30-Jun-21	EGTS	OGM	Approving the financial statements and other agenda items.

7. LATEST RESEARCH

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DATE	PUBLISHED REPORT
14-June-21	<u>Al-Shams Housing & Development [ELSH] – Earnings Flattened by Factoring Cost</u>
10-June-21	<u>MACROView – Inflation Risk Rising, but Still Within Target</u>
8-June-21	<u>TAKEStock – Telecom Egypt [ETEL] – Show Me the Dividends</u>
6-June-21	<u>MACROView – Further Enhancement</u>
3-June-21	<u>MACROView – Contraction Eased</u>
23-May-21	<u>Orascom Construction [ORAS] – Earnings Short of Our Estimates</u>
23-May-21	<u>CI Capital Holding [CICH] – Earnings Dented by One-off ESOP Expense</u>
22-May-21	<u>Commercial International Bank [COMI] – Earnings Growth Driven by Lower Provisions</u>
20-May-21	<u>CréditAgricole Egypt (CAE) [CIEB] – Slowing Lending Inhibits Earnings Growth</u>
20-May-21	<u>EFG Hermes Holding [HRHO] – Recovery Signs; Back on Track</u>
18-May-21	<u>B Investments Holding [BINV] – Exits Kick Off, Unlocking Value</u>
18-May-21	<u>Elsewedy Electric [SWDY] – Financials promise a buoyant year ahead</u>
17-May-21	<u>Misr Chemical Industries [MICH] – Another Chapter of Strong Annual Growth</u>
11-May-21	<u>MACROView – Inflation Eased but Stage Still Set for a Pick-Up</u>
9-May-21	<u>MACROView – Stability Prevailed</u>
6-May-21	<u>MACROView – The Road to Recovery Gets Longer</u>
18-Apr-21	<u>MACROView – Challenges Remain Daunting</u>
13-Apr-21	<u>CréditAgricole Egypt (CAE) [CIEB] – The Value Algorithm</u>
12-Apr-21	<u>Orascom Construction [ORAS] – Rich in Value</u>
11-Apr-21	<u>MACROView – Monthly Reading Pressured By Seasonality</u>



6-Apr-21	<u>MACROView – FX Assets Well Placed to Mitigate Potential Risks</u>
6-Apr-21	<u>MACROView – Still Downbeat</u>
28-Mar-21	<u>Taaleem Management Services [TALM] – Enriching the Education Sector</u>
18-Mar-21	<u>EFG Hermes Holding [HRHO] – Challenging Year, Yet Growth Continues</u>
10-Mar-21	<u>MACROView – Still Below the Target, but Global Headwinds Cloud the Horizon</u>
8-Mar-21	<u>MACROView – Buffers Grew Despite Signs of Unwelcome Tightening of Financial Conditions</u>
7-Mar-21	<u>Al-Shams Housing & Development [ELSH] – Making Hay While the Sun Shines</u>
3-Mar-21	<u>MACROView – Weak Demand Still Weighing on the Rebound Trajectory</u>
2-Mar-21	<u>MACROView – Commodity Supercycle: Real or Hype?</u>
1-Mar-21	<u>Commercial International Bank [COMI] – Earnings Beat Despite Higher Provisions</u>
25-Feb-21	<u>Elsewedy Electric [SWDY] – Strong Set of Results Driven by Turnkey</u>
22-Feb-21	<u>CI Capital Holding [CICH] – Got the Hit, Yet Better Than Expected</u>
10-Feb-21	<u>MACROView – Disinflation Continues Amid Acceleration in Global Commodity Prices</u>
8-Feb-21	<u>Misr Chemical Industries [MICH]– Annually Wild, Quarterly Tamed</u>
4-Feb-21	<u>MACROView – External Buffers Are Still Restoring Grounds</u>
3-Feb-21	<u>MACROView – A Fragile Improvement but Favorable Sentiment</u>
3-Feb-21	<u>MACROView – External Woes vs. Cautious Optimism</u>
1-Feb-21	<u>STANDPoint – Egypt 2021 Investing Playbook</u>
14-Jan-21	<u>CI Capital Holding [CICH] – New Expansions = Further Growth</u>
10-Jan-21	<u>MACROView – Below End-of-Year Target</u>
6-Jan-21	<u>MACROView – On the Path to Further Recovery</u>
5-Jan-21	<u>MACROView – Rutted Road to Recovery</u>
28-Dec-20	<u>Elsewedy Electric [SWDY] – More Growth to Come</u>
22-Dec-20	<u>EFG Hermes Holding [HRHO] – Blueprinting Its Eminence</u>
16-Dec-20	<u>CIB [COMI] – Earnings beat despite higher provisions</u>
10-Dec-20	<u>MACROView – The Highest Reading in Seven Months</u>
7-Dec-20	<u>MACROView – Restored Ground</u>
6-Dec-20	<u>MACROView – Lost Momentum</u>
3-Dec-20	<u>MACROView – Not as Severe as Expected but All Eyes on the Scars</u>
25-Nov-20	<u>Misr Chemical Industries [MICH] – Pandemic Proof</u>
10-Nov-20	<u>MACROView – An expected rise as the new school year began</u>
4-Nov-20	<u>MACROView – The Stars Seem to Be Aligned for International Reserves</u>

3-Nov-20	<u>MACROView – The Highest Reading in Six Years</u>
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>

**Prime Securities****ShawkatElMaraghy**

Managing Director

T +20233005622

SElmaraghy@egy.primegroup.org**Sales****MohamedEzzat**

Head of Sales & Branches

T +20233005784

MEzzat@egy.primegroup.org**MohamedAshmawy**

Head of Institutional Sales

T +20233005612

MAshmawy@egy.primegroup.org**AmrAlaaCFTe**

Team Head – Institutional Desk

T +20233005609

AAlaa@egy.primegroup.org**MohamedElMetwaly**

Manager

T +20233005610

MElmetwaly@egy.primegroup.org**EmadElSafoury**

Manager

T +20233005624

EElsafoury@egy.primegroup.org**ShawkatRaslan**

Heliopolis Branch Manager

T +20233008130

SRaslan@egy.primegroup.org**NashwaAbuelatta**

Alexandria Branch Manager

T +20233005173

NAbuelatta@egy.primegroup.org**Research****Amr Hussein Elalfy CFA**

Head of Research

T +20233005724

AElalfy@egy.primegroup.org**Head Office**

PrimeSecurities.A.E.

Regulated by FRA License No. 179.
Member of the Egyptian Exchange.2 Wadi El Nil St., Liberty Tower, 7th Fl.
Mohandessin, Giza, Egypt

T +20233005700/770/650/649

F +20237607543

Branches**Heliopolis**7 Elheqaz Square
Heliopolis, Cairo, Egypt

T +20227770600

F +20227770604

Alexandria7 Albert Al Awa St.
Smouha, Alexandria, Egypt

T +20233008170

F +20233054622

Websitewww.primeholdingco.com**Disclaimer**

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