

Today's Story

The FX Question: Where Will the EGP Be?

■ Esraa Ahmed | Senior Economist | ealmajeed@shuaasecurities.com

- Late January, the **Central Bank of Egypt's (CBE) Governor** said that the FX market is expected to witness more volatility compared to the relatively stagnant rates that prevailed since mid-2017. This raises the ever-burning question: Where is the Egyptian pound (EGP) heading?
- Answering this question has never been an easy task. We believe the EGP/USD rate is one of the most uncertain variables to forecast currently, especially that the purchasing power parity (PPP) hypothesis —we find—cannot solely lead the FX pattern. Rather, FX rates respond to interrelated factors, including fundamental long-term elements, market psychology, and even tactical measures. Besides, the EGP flotation does not have a long history that could provide a sufficient historical evidence or make the currency's pattern predictable. That is, trying to predict the behavior of the EGP could be as uncertain as playing or reading Tarot cards to foresee the future. Yet, we try to read different cards; to wit, we use different tools to assess what the currency will most probably look like in the short and medium terms.
- Based on our analysis, we believe the EGP is slightly undervalued as we speak, but not very far from its so-called “fair value”. We also believe there is no fundamental pressure that should cause sharp EGP depreciation in the near future, suggesting a favorable short-term outlook for the EGP.
- In the longer term, we believe economic fundamentals, including a persistent trade deficit, overall current account dynamics, gradual monetary easing on the domestic front, and potentially less favorable global conditions in the future should all have a downward pressure on the EGP. Yet, we do not rule out any CBE intervention in case of sharp EGP depreciation at any point of time.

For more details, please read [the full report](#).

Top Headlines

Corporate

- **Commercial International Bank's (COMI)** Q1 2019 earnings surged to EGP2.64bn (+31% y/y, +3% q/q), in line with management's guidance for bottom-line growth for the entire 2019. Meanwhile, sequential earnings growth was somewhat marginal, mostly derived from a 2% growth in net interest income besides booking higher loan loss provisions due to the application of IFRS9. Total interest income was unchanged, whereas cost of funding retreated in view of the **Central Bank of Egypt's (CBE)** decision to cut rate mid-Q1 2019. Interest income remained mostly dominated by income from Treasuries, making up 55% of total interest income in Q1 2019 versus 54% in Q4 2018. Also, the effective tax rate retreated in Q1 2019 to 29.7% (-51bps q/q). Deposits expanded by only 3% ytd, whereas gross loans rose by 4% ytd, leading to a higher utilization rate with GLDR registering 42.5% (+65bps q/q). ([Company disclosure](#))
- **Sidi Kerir Petrochemicals (SKPC)** is in the process of receiving and studying offers from contractors for its propylene plant project which is planned to go into production at a capacity of 500,000 tons/year. Meanwhile, the company invited six global companies for signing a non-disclosure agreement in a step to select a contractor for another turnkey project, a plant that is planned to produce polypropylene at a capacity of 450,000 tons/year. ([EGX](#))
- **Heliopolis Housing & Development (HELI)** said that 12 of 44 land plots have been sold for EGP136.8mn in a public auction held on 2 May 2019. It added that on 4 May 2019, another land plot has been auctioned and sold for EGP99.4mn. ([EGX](#), [EGX](#))
- **Maridive & Oil Services (MOIL)** said that one of its subsidiaries has been awarded a new contract by a Mexican client to provide marine and oil services worth USD27mn. The project will begin in May and is expected to last for five years. ([Company disclosure](#)). We view this as a good indicator that MOIL's strategic decision to relocate one of its key multipurpose support vessels (MPSV) to the **Gulf of Mexico** in H2 2018 is paying off, which will be reflected in its results. Hence, the negative impact of the relocation of the vessel (partially as being out of service) should be offset. On a separate note, the company's AGM held on 2 May 2019 retained all profits. ([Company disclosure](#))

- **Emaar Misr for Development's** (EMFD) earnings for Q1 2019 declined 17% y/y (-75% q/q) to EGP418.6mn versus EGP503.3mn in Q1 2018. Revenues for Q1 2019 fell 32% y/y to EGP566.6mn from EGP830.7mn, as *Uptown Cairo's* revenues took a hard hit. ([Company disclosure](#))
- **Cigarettes companies in Egypt** are currently studying to increase their prices in the coming period. This comes in line with the FY2019/20 state budget where the **Ministry of Finance** expects to collect higher taxes from cigarettes of EGP67.1bn (+11.6% y/y). ([Al-Borsa](#))
- **Alexandria Pharmaceutical & Chemical Industries'** (AXPH) net profit decreased 1.3% y/y to EGP104.7mn in 9M FY2018/19 despite 13.3% y/y growth in revenues to EGP669.7mn. Meanwhile, GPM shrank to 28.3% in 9M FY2018/19 compared to 31.5% a year ago due to a 18.7% y/y increase in COGS of EGP480.4mn. ([Company disclosure](#))
- **Kahira Pharmaceutical & Chemical Industries** (CPCI) showed a 9.8% y/y decline in net profit to EGP72.2mn in 9M FY2018/19 despite 19% higher revenues of EGP735.8mn. GPM deteriorated to 22.7% in 9M FY2018/19 compared to 26.9% in the same period a year ago. ([Company disclosure](#))

Non-Corporate

- **Egypt's net foreign reserves** stood at USD44.2bn at the end of April 2019, up from USD44.11bn at the end of March 2019. ([Ahram Online](#))
- **Egypt** expects the USD2bn 1.6-gigawatt solar park it is building in the south of the country to be operating at full capacity in 2019, the **Ministry of Investment** said. ([Reuters](#))
- **Average yields on 91-day and 266-day T-bills** were up in an auction held on **5 May 2019** as follows: ([CBE](#))
 - **91 days:** 17.497% (+12bps vs. 17.375%).

Required	Submitted	Accepted	Bid-to-cover ratio
EGP8.75bn	EGP11.3bn	EGP8.75bn	1.3

- **266 days:** 17.366% (+17bps vs. 17.196%).

Required	Submitted	Accepted	Bid-to-cover ratio
EGP8.75bn	EGP11.4bn	EGP8.75bn	1.3

Markets

↘	EGX 30	14,511.54	(2.48%)	↘	EGX 70	644.87	(0.64%)
↘	DFMGI	2,752.76	(0.21%)	↘	ADSMI	5,226.46	(0.31%)
↘	TASI	9,178.96	(1.69%)	↘	QE Index	10,461.49	(0.18%)
↗	S&P 500	2,945.64	0.96%	↗	MSCI EM	1,082.77	0.35%
↗	Gold	1,281.83	0.21%	↘	Brent Oil	69.33	(2.15%)

*As of market close, except for commodities at spot price as of 8.21am CLT.

- **MENA Markets:** **Egypt's** benchmark **EGX 30** closed in the red yesterday, dragged by **COMI**, **EAST**, and **SWDY**. **UAE's ADSMI** ended lower after its **telecom** and **banking** sectors experienced losses. Also, **DFMGI** delivered a negative performance as **real-estate** and **financials** stocks took a dive following the prior day's gains. **Saudi Arabia's TASI** headed south, pulled down by its **banking** and **materials** sectors.
- **Global Markets:** US futures were notably down on Monday morning, coupled with losses covering **Asian markets**, in light of recent statements made by **US president** regarding a tariff hike over **China**. The statements which renewed worries over threatening trade war shadowed number of commodities' performance, as **Brent** oil prices were below USD70/bbl. **Gold** rose, as uncertainties regarding global markets has directed investors to buy into safe havens.

Number of the Day

11.7mn

International tourist arrivals in Egypt for 2019 as expected by the World Travel & Tourism Council (WTTC).

Today's Quiz

What is the size of Ismailia Development & Real Estate's (IDRE) land bank?

(Answer located at the end of this newsletter)

Corporate Events

Company	Ticker	Event Type	Event Date	Reason
Egyptian International Pharmaceuticals (EIPICO)	PHAR	Dividends	6-May	Ex-date (EGP4/share); Last eligible date (5 May)
Six of October Development and Investment	OCDI	Dividends	6-May	Ex-date (EGP0.50/share); Last eligible date (5 May)
Raya Holding	RAYA	AGM	6-May	Reviewing Agenda Items
Nozha International Hospital	NINH	Dividends	7-May	Ex-date (EGP0.60/share); Last eligible date (6 May)
Suez Canal Bank	CANA	Lawsuit	7-May	To rule in a lawsuit that invalidated theBank's AGM on April 4, 2018
El Ezz Aldekhela Steel Alexandria	IRAX	Dividends	7-May	Ex-date (EGP20/share); Last eligible date (6 May)
Egyptian International Pharmaceuticals (EIPICO)	PHAR	Dividends	8-May	Payment date (EGP4/share)
Six of October Development and Investment	OCDI	Dividends	8-May	Payment date (EGP0.50/share)
Elsewedy Electric	SWDY	Dividends	8-May	Payment date (EGP0.80/share)
Canal Shipping Agencies	CSAG	Dividends	8-May	Payment date (EGP0.58/share)
El Ezz Aldekhela Steel Alexandria	IRAX	Dividends	9-May	Payment date (EGP20/share)
Nozha International Hospital	NINH	Dividends	9-May	Payment date (EGP0.60/share)
Arab Cotton Ginning	ACGC	EGM	12-May	Reviewing Agenda Items
United Co for Housing & Developments	UNIT	EGM / AGM	12-May	Reviewing Agenda Items
TMG Holding	TMGH	Dividends	13-May	Ex-date (EGP0.176/share); Last eligible date (12 May)
Egyptian Resorts Co.	EGTS	EGM	13-May	Amending some of the company's articles of incorporation
Egyptian Resorts Co.	EGTS	AGM	13-May	Reviewing Agenda Items
Suez Bags	SBAG	BoD	15-May	Reviewing Agenda Items
Medinet Nasr for Housing & Development	MNHD	EGM	15-May	Amending some of the company's articles of incorporation
Medinet Nasr for Housing & Development	MNHD	AGM	15-May	Authorizing the BoD to enter into netting contracts
Global Telecom Holding	GTHE	EGM	15-May	Amending some of the company's articles of association
Amer Group Holding	AMER	Lawsuit	15-May	Legal diputes relevant to to Porto Tartous project
TMG Holding	TMGH	Dividends	15-May	Payment date (EGP0.088/share)
Ibsina Pharma	ISPH	Dividends	15-May	Ex-date (EGP0.07/share); Last eligible date (14 May)
Ibsina Pharma	ISPH	Dividends	19-May	Payment date (EGP0.07/share)
General Silos & Storage	GSSC	AGM	20-May	Reviewing Agenda Items
Orascom Construction	ORAS	AGM	21-May	Discuss dividends of USD0.30/share
Middle Egypt Flour Mills	CEFM	EGM / AGM	22-May	Reviewing Agenda Items
Porto Group Holding	PORT	Lawsuit	23-May	Legal diputes relevant to to Porto Tartous project
South Cairo & Giza Mills	SCFM	EGM / AGM	26-May	Reviewing Agenda Items
Arabia Investments Holding	AIH	Lawsuit	9-Jun	Legal diputes against French Peugeot
Amer Group Holding & Porto Group Holding	AMER / PORT	Lawsuit	23-Jun	Legal Disputes relevant to <i>Porto Tartous</i> project
Global Telecom Holding	GTHE	AGM	26-Jun	Discussing capital increase
Egyptian Transport and Commercial	ETRS	Dividends	30-Jun	Payment date (EGP0.50/share)
TMG Holding	TMGH	Dividends	15-Jul	Payment date (EGP0.088/share)
Ismailia Misr Poultry	ISMA	Dividends	8-Aug	Payment date (EGP0.10/share)

Quiz Answer

1,411 feddans.

Contact Details

☎ +(202) 16331

📍 143, Bank Zone, 5th Settlement,
New Cairo, First Abu Dhabi Bank Building (6th Floor)
Cairo, Egypt

Analyst Certification

We, **analysts mentioned in this document**, employed with SHUAA Securities Egypt, and authors to this document, hereby certify that all the views expressed in this research report accurately reflect our views about the subject issuer(s) or security(ies). We also certify that no part of our compensation was, is or will be directly or indirectly related to the specific recommendation(s) or view(s) expressed in this report. Also, we certify that neither ourselves nor any of our close relatives hold or trade into the subject securities.

Head of Research Certification

I, **Amr Hussein Elalfy**, Head of Research of SHUAA Securities Egypt, confirm that I have vetted the information and all the views expressed by the analysts in this document about the subject issuer(s) or security(ies). I also certify that the authors of this document, has not received any compensation directly related to the contents of the document.

Disclaimer

This document has been issued by SHUAA Securities Egypt for informational purposes only. This document is not and should not be construed as an offer or the solicitation of an offer to purchase or subscribe or sell any investment or subscribe to any investment management or advisory service. SHUAA Securities Egypt has based this document on information obtained from sources it believes to be reliable. It makes no guarantee, representation or warranty as to its accuracy or completeness and accepts no responsibility or liability in respect thereof or for any reliance placed by any person on such information. Accordingly, no representation or warranty, express or implied, is or will be made and no responsibility or liability is or will be accepted by SHUAA Securities Egypt or by any of its respective officers, employees, agents or affiliates in relation to the accuracy, completeness or fairness of the information or opinions contained herein or any other written or oral information made available to any interested party or its advisers and any such liability is expressly disclaimed. All opinions expressed herein are subject to change without notice. This document may not be reproduced or circulated without the prior written consent of SHUAA Securities Egypt. SHUAA Securities Egypt is regulated by the Financial Regulatory Authority under license number 91.

Issuer of Report

SHUAA Securities Egypt

Website: www.shuaasecurities.com