

## Today's Story



## CIEB – Spotting the Next Stop

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Yesterday, we initiated coverage on Credit Agricole – Egypt (CIEB) with an **Overweight / Moderate Risk** rating. We note that for several years now, Egyptian banks have been relatively unfazed by the country's tough economic variables. Notably, the sector's operating performance was among the least disrupted by local and global negative spells. This was coupled by a number of policy gifts on the macro level (e.g. high interest rates), benefiting private-sector banks' profitability. However, with performance normalization gradually filling the horizon, banks are now gearing up for a new sense of reality. We believe Egyptian banks will respond differently to such a transition, depending on each bank's internal and external positions. We think the resulting disruption will generate value for some names, one of which is CIEB.

- **The gift of crowding out:** Egypt's banking sector has been a prime beneficiary of many positive backdrops, thanks to the economic reform program starting November 2016. Ever since, banks have enjoyed a stable business model which was not as disrupted by local and global factors as other sectors were. Aggressive monetary tightening, fiscal consolidation, higher oil prices, and weakening consumer purchasing power have all enabled banks to funnel ample liquidity into high-yielding, yet low-risk, government debt securities.
- **Ready to kick off normalization:** We see CIEB numbers shaping up within two scenes: (1) unusually high profitability measures in view of the dual effect of flotation and monetary tightening and (2) a drift towards normalization which will effect a change to the bank's margins, all within a framework of continuous, wise growth. In that sense, we expect EPS to grow at a 5-year CAGR (2018-2023) of 6% or 10% (excluding credit loss impairment).
- **12M PT of EGP52.3/share, initiate with an Overweight / Moderate Risk (ETR +23%):** We valued CIEB using two equally-weighted valuation techniques, namely Justified P/BV and Excess Return Model. This resulted in a 12M PT of EGP52.3/share (an expected total return of 23%). Thus, we initiate our coverage on CIEB with an **Overweight / Moderate Risk** rating.

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

## Top Headlines

## Corporate

- **Ibnsina Pharma** (ISPH) reported a strong earnings growth of 47% y/y in Q1 2019, reaching EGP41mn, on the back of (1) a 29% y/y increase in net sales to EGP3.8bn and (2) GPM expansion by 37bps y/y to 7.86% in addition to an EBITDA margin expansion by 51bps y/y to 3.71%. Earnings growth came despite provisions booked during the quarter of EGP11mn versus only EGP3.5mn in Q1 2018, and a surge in interest expense by 37% y/y to EGP52mn. ([Company disclosure](#))
- **Sidi Kerir Petrochemicals Co.'s** (SKPC) preliminary net profit slid 32% y/y to EGP193mn in Q1 2019 on 1.4% lower revenues of EGP1.23bn and a gross margin of 25% (vs. 30% in Q1 2018). Revenues were partly hit by lower selling prices during the quarter—as expected. On another note, the BoD agreed to appoint **NI Capital** as advisor for its capital increase. ([Company disclosure](#))
- **GB Auto's** (AUTO) earnings after minority declined 52% y/y to EGP16mn in Q1 2019. The main reason for the lower earnings was margins contraction due to higher operational costs as GPM lost 50bps y/y to 14.36% and EBIT margin lost 112bps y/y to 6.44%. Meanwhile, revenues grew 23.5% y/y to EGP5.88bn, supported by a strong growth of 88% y/y in regional revenues and 24% y/y growth in **GB Capital** revenues. Meanwhile, **Egypt** passenger cars revenues were flattish during Q1 2019. ([Company disclosure](#))
- **Amer Group Holding** (AMER) achieved revenues of EGP384mn in Q1 2019 (+27% y/y, -38% q/q). Gross profit margin stood at 37% versus 46% in Q1 2018. Meanwhile, the company suffered a net loss of c. EGP1.9mn as finance cost spiraled to EGP34mn from EGP15mn in Q1 2018. Meanwhile, sales grew 15% y/y to EGP408mn, and backlog reached EGP3.7bn. Separately, the launch of **Porto Saeed Hotel**, the company's latest project, has been put forward to Q2 2019. ([Company disclosure](#))

- **Egytrans's** (ETRS) stand-alone net profits increased 25% y/y from EGP19mn in Q1 2018 to EGP23.7mn in Q1 2019. Revenues hit EGP79.5mn (+58% y/y) from EGP50.2mn in the same period a year earlier. Meanwhile, gross profit jumped 77.5% y/y from EGP11.8mn to EGP20.9mn, while GPM improved from 23% to 26%. ([Company disclosure](#))
- **Nozha International Hospital's** (NINH) net profit rose 34% y/y to EGP13.6mn in Q1 2019 on an 8% y/y increase in revenues to EGP50.9mn. Meanwhile, GPM expanded to 34% from 30.0%. ([Company disclosure](#))

## Non-Corporate

- **Belgium-based clearinghouse Euroclear** is to select a number of local banks from among primary dealers to assist in the settlement of government debt. Selected banks will be among those with the highest holdings of government debt and whose systems align best with Euroclear. ([Enterprise](#))
- The **Cabinet** is expected to sign off on the new residential electricity rates by the end of May. Households with the highest monthly consumption levels are expected to face the sharpest price increases. ([Enterprise](#))
- **Average yields on 91-day and 273-day T-bills** were up in an auction held on **12 May 2019**, as follows: ([CBE](#))

- **91 days:** 17.528% (+3.1bps vs. 17.497%).

| Required | Submitted | Accepted | Bid-to-cover ratio |
|----------|-----------|----------|--------------------|
| EGP8.5bn | EGP14.6bn | EGP8.5bn | 1.7                |

- **273 days:** 17.503% (+13.7bps vs. 17.366%).

| Required | Submitted | Accepted | Bid-to-cover ratio |
|----------|-----------|----------|--------------------|
| EGP8.5bn | EGP11.1bn | EGP8.5bn | 1.3                |

## Markets

|                      |           |         |                    |          |         |
|----------------------|-----------|---------|--------------------|----------|---------|
| ↗ <b>EGX 30</b>      | 14,122.10 | 0.44%   | ↗ <b>EGX 70</b>    | 622.16   | 0.22%   |
| ↘ <b>DFMGI</b>       | 2,629.90  | (1.60%) | ↗ <b>ADSMI</b>     | 5,098.30 | 0.90%   |
| ↘ <b>TASI</b>        | 8,674.66  | (2.06%) | ↘ <b>QE Index</b>  | 9,928.22 | (0.99%) |
| ↗ <b>S&amp;P 500</b> | 2,881.40  | 0.37%   | ↗ <b>MSCI EM</b>   | 1,033.44 | 0.49%   |
| ↘ <b>Gold</b>        | 1,283.12  | (0.23%) | ↗ <b>Brent Oil</b> | 70.96    | 0.48%   |

\*As of market close

- **MENA Markets:** Egypt's benchmark **EGX 30** ended higher on Sunday, driven by gains in **ACGC**, **IRON**, and **CCAP**. UAE's **DFMGI** ticked down on its **consumers** and **insurance** sectors, while **DFMGI** tacked on, powered by stronger **consumers** and **telecom** players. Meanwhile, **Saudi Arabia's TASI** was sent to the red zone by weaker **health-care** and **real-estate** stocks.
- **Global Markets:** **US stock futures** and **Asian shares** fell on Monday on growing anxiety over whether the **United States** and **China** will be able to salvage a trade deal, after **Washington** sharply hiked tariffs and **Beijing** vowed to retaliate. **Oil** futures were mixed on Monday, with **US crude** edging lower, as investors and traders fretted over global economic growth prospects amid a standoff in US-China trade talks.

## Number of the Day

### 3.2mn tons

Ezz Al-Dekheila's (EZDK) production capacity of direct-reduced iron (DRI) per annum.

## Today's Quiz

How many clients does Crédit Agricole Group serve globally?

(Answer located at the end of this newsletter)

## Corporate Events

| Company                                  | Ticker      | Event Type      | Event Date | Reason   |
|--|-------------|-----------------|------------|--|
| Ibsina Pharma                            | ISPH        | Conference Call | 13-May     | Discussing Q1 2019 results                               |
| 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                                   |
| Orascom Development Egypt                | ORHD        | Conference Call | 13-May     | Discussing Q1 2019 results                               |
| Telecom Egypt                            | ETEL        | Results         | 14-May     | Q1 2019 results  |
| Telecom Egypt                            | ETEL        | Conference Call | 14-May     | Discussing Q1 2019 results                               |
| GB Auto                                  | AUTO        | Conference Call | 15-May     | Discussing Q1 2019 results                               |
| 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 disputes 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)     |
| MM Group for Industry                    | MTIE        | Conference Call | 16-May     | Discussing Q1 2019 results                               |
| Ibsina Pharma                            | ISPH        | Dividends       | 19-May     | Payment date (EGP0.07/share)                             |
| Egyptian for Developing Building         | EDBM        | EGM             | 19-May     | Discussing capital increase                              |
| Misr Fertilizers Production Co.          | MFPC        | Dividends       | 20-May     | Ex-date (EGP2.25/share); Last eligible date (19 May)     |
| General Silos & Storage                  | GSSC        | AGM             | 20-May     | Reviewing Agenda Items                                   |
| Orascom Construction                     | ORAS        | AGM             | 21-May     | Discuss dividends of USD0.30/share                       |
| Misr Fertilizers Production Co.          | MFPC        | Dividends       | 22-May     | Payment date (EGP2.25/share)                             |
| Middle Egypt Flour Mills                 | CEFM        | EGM / AGM       | 22-May     | Reviewing Agenda Items                                   |
| Porto Group Holding                      | PORT        | Lawsuit         | 23-May     | Legal disputes relevant to to Porto Tartous project      |
| South Cairo & Giza Mills                 | SCFM        | EGM / AGM       | 26-May     | Reviewing Agenda Items                                   |
| Egypt Aluminum                           | EGAL        | EGM             | 2-Jun      | Reviewing Agenda Items                                   |
| Arabia Investments Holding               | AIH         | Lawsuit         | 9-Jun      | Legal disputes against French Peugeot                    |
| Amer Group Holding & Porto Group Holding | AMER / PORT | Lawsuit         | 23-Jun     | Legal Disputes relevant to Porto Tartous project         |
| Global Telecom Holding                   | GTHE        | AGM             | 26-Jun     | Discussing capital increase                              |
| Egyptian Transport and Commercial        | ETRS        | Dividends       | 27-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

52mn clients.

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