

Today's Story

What Does the Recent Interest Rate Cut Mean for the Market?

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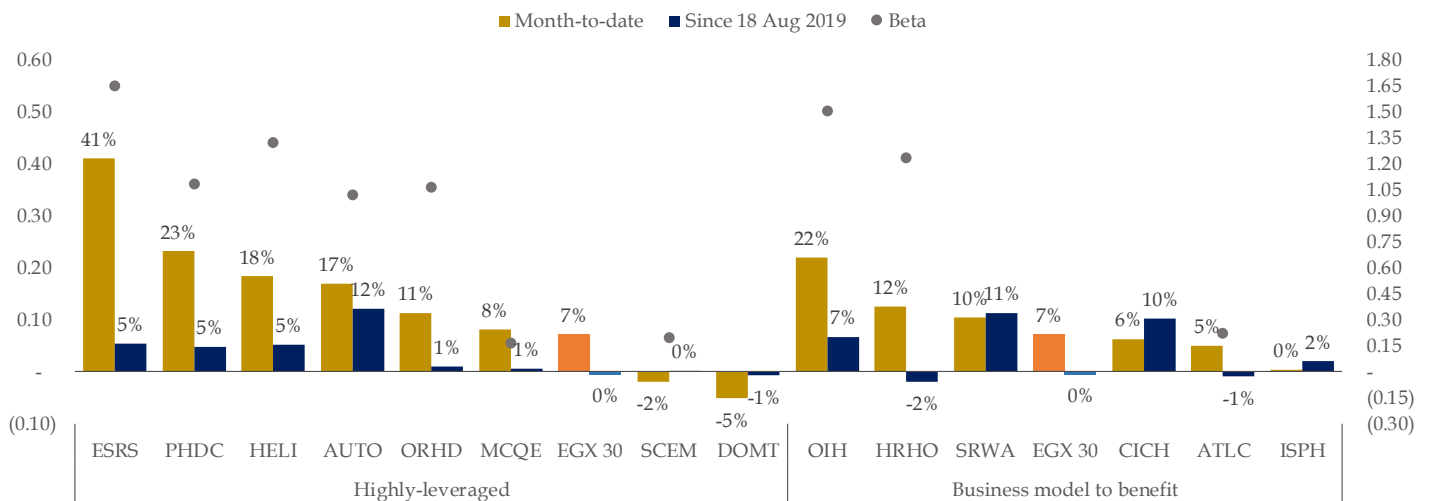
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The Daily Cast
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- A rate cut is now a fact, albeit higher than expected:** It is now confirmed; that the CBE has resumed its easing cycle in line with our expectations. We had expected that the CBE will likely cut interest rates in 2019 by a cumulative 300bps, of which 100bps took place in February 2019 and another 150bps last Thursday. This means we could potentially see another 50-100bps move by end of year, depending on inflation readings and expectations as clearly spelled out in the MPC statement.
- Short term positive but could be muted:** The latest 150bps rate cut was above our expectation of a 100bps cut which also coincided with market consensus. The question now is what this means for the market in general and for the stocks in specific. As for the market, the EGX 30 has recently been pricing in the 100bps rate cut more than in any prior CBE decisions. Thus, the fact that the rate cut was larger than expected may help push the market higher over the coming couple of days. However, with global markets tumbling last Friday, the upward move in the EGX 30 could be muted.
- Long term positive:** While the larger-than-expected rate cut bodes well for the market overall, it is not yet large enough to trigger a full-blown investment/capex cycle. In other words, it is a move in the right direction, but companies will not necessarily press the “invest” or “borrow” buttons immediately. But don't get it wrong; the rate cut is much needed for signaling purposes. The CBE is basically sending the market a message that it is now less concerned with tamed inflation rates and more focused on growth.
- Who's to benefit?** As we mentioned before in *The Daily Beam* published on [19 August 2019](#), we believe highly leveraged companies and those with business models benefitting from a low-interest rate environment will likely outperform the rest of the market. For the former group, we had picked **PHDC, ESRS, HELI, ORHD, AUTO, DOMT, MCQE**, and **SCEM**. For the latter group, we had picked **OIH, HRHO, SRWA, ISPH, CICH**, and **ATLC**. We note that both groups have outperformed the EGX 30 since the beginning of August and since our published note mentioned above.

Stock performance vs. beta for stocks set to benefit off lower interest rates



Average performance	Month-to-date	Since 18 Aug 2019
EGX 30	7.0%	(0.5%)
Highly-leveraged	13.9%	3.5%
Business model to benefit	9.4%	4.5%

Source: Investing.com.

Top Headlines

Corporate

- Consideration of the appeals filed against a rule canceling the tariffs that the **Ministry of Trade & Industry** had imposed on steel billets have been deferred by the **Administrative Judiciary** as a safeguard measure for local integrated steel producers to 8 September. ([Al-Mal](#))
- **Alamein Center** said that the position of **Emaar Misr for Development's** (EMFD) *Marassi* project is “100% legal,” confirming that the licensing and contract completion procedures are valid. Alamein Center added that EMFD is committed to the implementation schedule of the project. ([Al-Mal](#))
- **EFG Hermes's** (HRHO) ValU is looking to add insurance premiums payment services to its product offerings. ([Al-Borsa](#))
- **Egyptian Financial & Industrial Co.** (EFIC) announced its consolidated results for Q2 2019, posting a 93% y/y rise in net profit to EGP57mn. Revenues grew 48% to EGP348mn, and gross margin stabilized at 33%. The growth in revenue and earnings is mainly attributed to higher sales of granulated single superphosphate. ([Company disclosure](#))
- “Mitsubishi– **Orascom Construction** (ORAS)” consortium was awarded the electromechanical, the rail and the workshop cp411 works for the first phase of *Cairo Metro* line four in an auction held by the **National Authority for Tunnels**. The project is worth JPY85.1bn (EGP3.8bn, EUR397.3bn and JPY10.1bn). (Al-Borsa)
- **Misr Beni Suef Cement's** (MBSC) revenues increased slightly 1% y/y to EGP454mn in Q2 2019 vs. EGP447mn in Q2 2018. However, GPM dropped to 4% from 19%. Meanwhile, net profit fell 82% y/y to EGP16mn vs. EGP90mn. ([EGX](#))
- **Misr Cement - Qena's** (MCQE) consolidated revenues for H1 2019 increased to EGP1.60bn, 13% up y/y from EGP1.42bn in H1 2018. GPM dropped to 15% from 24%. Net profit declined 85% y/y to EGP16mn from EGP79mn a year ago. ([EGX](#))
- **FTSE Russell** announced its September semi-annual review results last Friday with some changes were related to Egyptian equities within MENA region indices as follow:
 - **Mid-cap:**
 - Inclusions: no inclusions.
 - Exclusions: **Abu Qir Fertilizers & Chemical Industries** (ABUK), also excluded from FTSE All-World and FTSE All-Cap indices.
 - **Small-cap:**
 - Inclusions: no inclusions.
 - Exclusions: **Juhayna Food Industries Co.** (JUFO), also excluded from FTSE All-Cap index.
 - **Micro-cap:**
 - Inclusions: no inclusions.
 - Exclusions: **Egyptian Iron & Steel** (IRON), **Arabian Food Industries Co.** (DOMT), and **Arabian Cement Co.** (ARCC).

All the above-mentioned names are also excluded from FTSE Total-Cap index. Changes will be effective by Monday, 23 September 2019. ([FTSE Russell](#))

Non-Corporate

- The **CBE** decided to cut overnight lending and deposit rates by 150bps to 15.25% and 14.25%, respectively, citing lower inflation and global easing conditions. ([CBE](#))
- The **Egyptian Exchange** (EGX) has launched **EGX 30 TR**, a new index to gauge the total return of the top 30 most liquid stocks. The new index includes all constituents of the traditional benchmark, **EGX 30**, using its methodology (i.e. stock selection rules, continuity rules, rebalance dates, etc.) EGX 30 TR also factors in the dividends paid by its constituents when calculating the index points and performance. ([EGX](#))
- **President** El Sisi has ratified the new Social Security and Pensions Act, which will see 21% of public and private sector workers' salaries going towards a newly-established pension fund. The percentage taken out of employee salaries will increase 1% every seven years until it hits 26%. The law will also require the fund to provide quarterly and annual financial reports to the presidency, cabinet, and parliament for transparency purposes. ([Enterprise](#))
- Members of a committee working on the **CBE** initiative to subsidize mortgages for middle-income homebuyers have agreed to set preferential interest rates at 10%, said a committee member. The committee is currently awaiting an approval on the rate from the CBE. ([Enterprise](#))

- **Average yields** were noticeably down in an auction ahead of the MPC meeting on **22 August 2019** as follows: ([CBE](#))

Maturity	Yield	Was	Required	Submitted	Accepted	Bid-to-cover ratio
182 days	16.900%	17.959%	EGP9.5bn	EGP21.5bn	EGP11bn	2.3
357 days	16.511%	17.496%	EGP9.5bn	EGP36.4bn	EGP9.5bn	3.8

Markets

↘ EGX 30	14,333.16	(0.17%)	↗ EGX 30 TR	5,315.37	0.08%
↘ EGX 70	553.08	(0.04%)	↘ EGX 100	1,443.25	(0.10%)
↘ DFMGI	2,768.85	(0.79%)	↘ ADSMI	5,038.99	(0.03%)
↘ TASI	8,445.66	(0.74%)	↗ QE Index	9,918.60	0.42%
↘ S&P 500	2,847.11	(2.59%)	↘ MSCI EM	973.66	(0.20%)
↗ Gold	1,526.96	1.93%	↘ Brent Oil	59.34	(0.97%)

*As of market close

- **MENA Markets:** Egypt's benchmark **EGX 30** closed down on Thursday, dragged by **COMI**, **EKHO**, and **EAST**. In the **UAE**, **DFMGI** closed lower, pressured by **banking** and **real estate** stocks, whereas **ADSMI** closed nearly unchanged. Meanwhile, **Saudi Arabia's TASI** ended down, as **banking** and **telecommunication** stocks dipped.
- **Global Markets:** **Asian shares** closed higher on Friday's session, as investors were looking ahead to an important speech from the **US Federal Reserve** Chairman, **Jerome Powell** later Friday. **Gold** closed the week higher, while **oil** closed lower.

Number of the Day

USD1bn

The total value of Egypt's exports to the US during H1 2019.

Today's Quiz

How many times did the CBE cut interest rates during 2019?

(Answer located at the end of this newsletter)

Corporate Events

Company	Ticker	Event Type	Event Date	Reason
Heliopolis Housing & Development	HELI	EGM	26-Aug	Voting on management attribution to private partner
Heliopolis Housing & Development	HELI	Tender	28-Aug	Merryland Children Garden lease auction
Canal Shipping Agencies	CSAG	EGM	29-Aug	Discussing proposed dividends of EGP0.30/share
CI Capital Holding	CICH	AGM	2-Sep	Discuss capital increase
Suez Canal Bank	CANA	Lawsuit	4-Sep	To rule in a lawsuit that invalidated theBank's AGM on April 4, 2018
Global Telecom Holding	GIHE	EGM	9-Sep	Discussing delisting from EGX; approving asset sale.
Ezz Steel	ESRS	Lawsuit	9-Sep	Steel Billets -Law Suit
Dice Sport & Casual Wear	DSCW	EGM	12-Sep	Discuss capital increase
Amer Group Holding & Porto Group Holding	AMER / PORT	Lawsuit	15-Sep	Legal Disputes relevant to <i>Porto Tartous</i> project
Maridive & Oil Services	MOIL	EGM	16-Sep	Discuss capital increase
Egyptian Resorts Co.	EGTS	AGM	25-Sep	Reviewing Agenda Items
Amer Group Holding	AMER	Lawsuit	26-Sep	Legal disputes relevant to the company
Porto Group Holding	PORT	Lawsuit	26-Sep	Legal disputes relevant to the company
Arabia Investments Holding	AIH	Lawsuit	29-Sep	lawsuit against French Peugeot
Sidi Kerir Petrochemicals	SKPC	Dividends	16-Oct	Payment date (EGP0.25/share)
Egyptian Resorts Co.	EGTS	Lawsuit	26-Oct	Appeal against TDA regarding Sahl Hasheesh
Misir Cement (Qena)	MCQE	Dividends	31-Oct	Payment date (EGP0.25/share)

Quiz Answer

Twice, at a total rate cut of 250bps.

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