

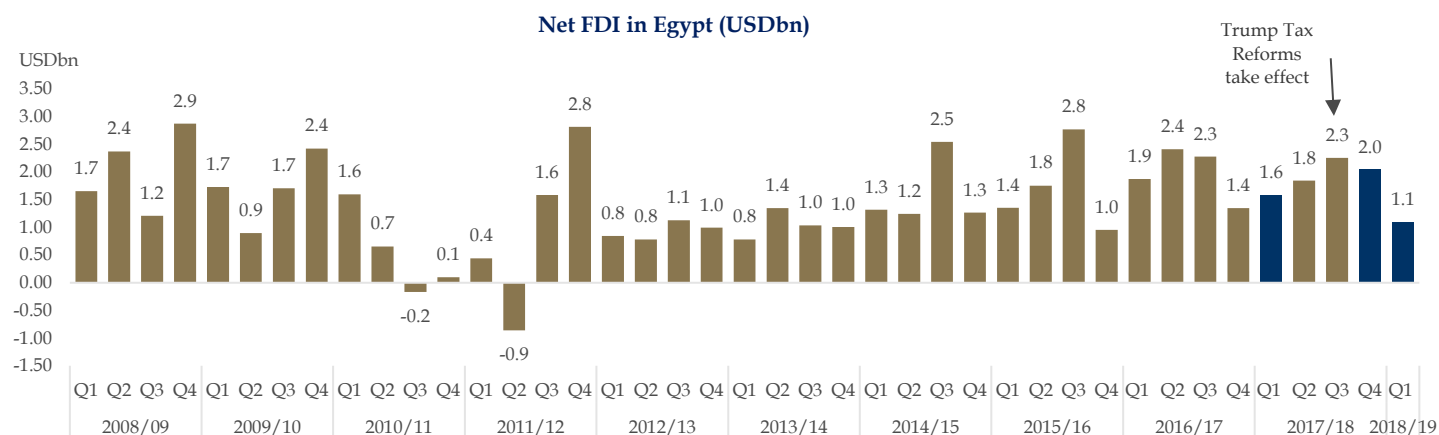
Today's Story

A Foreign Direct Investment Slump? You Are Not Alone.

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The Balance of Payments (BoP) figures released recently by the Central Bank of Egypt (CBE) had no major surprises. The current account behaved just the way we were expecting. The capital account was largely calm as the period of study (July-September 2018) did not witness major external loans' disbursement or international bond issuances, let alone the infamous emerging markets' adverse atmosphere that had triggered portfolio investment flight since April 2018. These are not surprising patterns. However, BoP data revealed a slump in net FDI inflows to Egypt, something we need to shed some light on, to understand the rationale behind the skid.

- **Net Foreign Direct Investments (FDIs)** to Egypt witnessed a significant decline of 30% y/y and 46% QoQ to record USD1.1bn in Q1 FY2018/19. Well, we all know Egypt's inherited structural problems, including bureaucracy, complex legislations, and time-consuming licensing procedures. However, we see those factors hardly explaining the recent slump, as they did not come out of the blue. So, we tried to look a bit further under the hood to find out what could have possibly dragged down FDIs during this period in specific. Below, we list some FDI-related observations, other than the known inherited challenges:
 - **Actually, FDI inflows to Egypt did not decrease!** They were largely stable y/y and QoQ at USD2.9bn. What caused the slump was an increase in FDI outflows, dragging the net figure down. FDI outflows recorded USD1.8bn in July-September 2018, up from USD1.2bn a year before.
 - **Net FDI decline is not a local phenomenon.** In H1 2018, global FDIs slumped by 41% to USD470bn, according to UNCTAD.
 - **This global trend was triggered by key factors**, including trade war fears and—more importantly—the Trump Tax Reforms that encouraged more companies to rebase their businesses and repatriate capital to the **United States**, the largest FDI origin country in the world, causing higher outflows.
 - **Inflows to both developed and developing countries witnessed a similar trend.** Pakistan, for example, had a 35% drop in its FDI inflows during (July-November 2018) from USD1.4bn to USD881mn.
 - **Increased risk perceived by international investors** when considering an investment in developing countries due to negative developments since April 2018.
- In sum, we believe Egypt's usual challenges hindering investments are not the key driver behind the recent slump. We think they do play a role, especially at a time when Egypt is losing key competitive advantages, such as cheap energy, with the subsidy cuts. However, we see the decline in FDIs as a global phenomenon following the recent global developments. **We are afraid this may not be the last reporting period to witness such a trend, but we hope H1 2019 will hold better surprises for emerging markets in general and Egypt in particular.**



Source: CBE

Top Headlines

Corporate

- **Global Telecom Holding's** (GTHE) BoD approved converting outstanding shareholder loans of USD370.59mn from debt into equity. These loans were lent by GTHE to its fully-owned subsidiary **Telecom Ventures Limited (TVL)** which in turn owns *Banglalink* in **Bangladesh**. Being a non-cash transaction, this conversion will not affect GTHE's financial position and cash flows. ([Company disclosure](#))
- The **Financial Regulatory Authority (FRA)** approved the 60-day extension requested by **Sixth of October for Development & Investment (SODIC)** to submit its mandatory tender offer for shares of **Madinet Nasr Housing & Development (MNHD)**. The extension was requested for the completion of due diligence and valuation report by the independent financial advisor. ([EGX](#))
- **Talaat Moustafa Group Holding (TMGH)** expects channeling EGP300bn investment into the *Spine*, a fully-integrated residential complex spreading over 4mn sqm in *Madinaty*, over a 17-year period. Last week, TMGH signed a digital transformation partnership with **Huawei Technologies** to provide the technology to develop *Spine*, in addition to other TMGH projects, into smart cities. The agreement entails implementing AI systems and North Africa's first facial recognition system for increased security. ([EGX](#), [Al-Mal](#))
- **Ibnsina Pharma (ISPH)** agreed with **Novartis** to distribute *Alcon Eye Care* products starting Q1 2019. ISPH expects to generate from this agreement EGP125mn in revenues in 2019. ([Company disclosure](#))
- **EFG Hermes Holding's** (HRHO) transformation towards NBFS is underway to shift earnings into less volatile sources of income, as part of its strategic objectives for the coming period. The firm targets posting ROEs on a blended basis of c.15% by 2021, up from 10.8% in 9M 2018. ([Company disclosure](#))
- Consortium grouping **EFG Hermes Holding (HRHO)** and **Citibank** won the rights to oversee the government's 30% stake sale in **Alexandria Containers & Cargo Handling (ALCN)**, *Al-Mal* reported without citing a source for the information. ([Al-Mal](#))
- **CI Capital Holding (CICH)** said it will be managing four IPOs in the coming period, of which two should take place this year. In addition, CICH has won in alliance with **Renaissance Capital** the management of the long-awaited SPO of **Abu Qir Fertilizers (ABUK)**. On another note, CICH is going to apply for a factoring license from the **FRA**, in preparation to offer the service this year, alongside with mortgage finance. ([Al-Mal](#), [Al-Borsa](#))
- **Giza Spinning & Weaving** said it will float 40% of its shares on the **EGX** this April, after having postponed its IPO last year. ([Al-Borsa](#))

Non-Corporate

- The **Ministry of Finance** is "willing" to revisit the legislative framework that sets out the taxes the government will collect to fund the universal healthcare scheme under the *Universal Healthcare Act*. More specifically, the business community wants to change the definition of taxable revenue, seeking tax on profits not revenues. ([Enterprise](#))
- The **Ministry of Finance** said that the parliament on 13 January started discussions about the proposed tax treatment of interest income from Treasuries, expecting the bill to be ratified by the **President** before end of January. ([Al-Borsa](#))
- **Egypt** intends to issue USD2bn worth of Japanese yen-denominated bonds in the coming week, two government sources said, part of up to USD7bn in planned foreign bond offers. The **Finance Minister** Mohamed Maait said his ministry had received a **Cabinet** approval for USD3-7bn of foreign bond offers. ([Reuters](#))
- Average yields on **91-day** and **273-day T-bills** were down in an auction held on 13 January:
 - Yield on **91-day T-bills** was down to 18.715% from 19.190% (-47.5bps) with EGP8.5bn accepted and required. The submitted amount exceeded EGP25bn.
 - Yield on **357-day T-bills** declined to 19.275% from 19.668% (-39bps) with EGP11.2bn accepted vs. EGP8.5bn required, while the submitted amount stood at above EGP33bn. ([CBE](#))
- The **CBE** finished the *New Banking Law* draft, in process to be reviewed by the **Cabinet**. ([Youm 7](#))
- The **FRA** is studying upping the maximum size of microfinance loans to EGP125,000 from EGP100,000. ([Al-Mal](#))

Markets

↗	EGX 30	13,525.83	1.18%	↗	EGX 70	688.24	0.14%
↘	DFMGI	2,537.68	(0.31%)	↗	ADSMI	4,968.68	0.13%
↗	TASI	8,291.66	0.99%	↘	QE Index	10,653.57	(0.04%)
↘	S&P 500	2,596.26	(0.01%)	↗	MSCI EM	1,001.11	0.24%
↗	Gold	1,292.20	0.15%	↘	Brent Oil	59.87	(1.01%)

*As of market close, except for commodities at spot price as of 8.02am CLT.

- **MENA Markets:** Egypt's benchmark **EGX 30** closed in the green, driven by **COMI**, **EKHO**, **EAST**, and **SWDY**. Meanwhile, **UAE** indices closed mixed, with **real estate** and **transportation** stocks weighing on **DFMGI**, while **banking** and **consumers** stocks lifted **ADSMI**. **Saudi Arabia's TASI** ended firmly higher after the **banking** and the **material** sectors surged.
- **Global Markets:** **Asian shares** alongside with **US indices futures** are trading in the negative territory Monday morning, spooked by unexpected annual drop in both **China's** export and imports during December 2018. Also, **US** investors are in anticipation of the earnings season to kick off with banking stocks this week. **Brent oil** prices fell below USD60/bbl, as fears over weakening demand was encouraged by China's latest economic data.

Number of the Day

9%

EFG Hermes Leasing's market share during H1 2018.

Today's Quiz

How many EGX-listed companies have *ethylene* crackers?

(Answer located at the end of this newsletter)

Corporate Events

Company	Ticker	Event Type	Event Date	Reason
Dice Sport & Casual Wear	DSCW	Stock split	14-Jan	Trading stock after stock split
El Ezz Aldekhela Steel Alexandria	IRAX	Dividends	14-Jan	Record date for cash dividends distribution of EGP40/share
El Ezz Aldekhela Steel Alexandria	IRAX	Dividends	17-Jan	Distribution of cash dividends of EGP40/share
Rowad Tourism	ROTO	EGM	21-Jan	Reviewing Agenda Items
Engineering Industries ICON	ENGC	EGM	27-Jan	Discussing capital increase
Global Telecom Holding	GTHE	AGM	28-Jan	Discussing capital increase
Paints & Chemical Industry	PACH	Dividends	28-Jan	Record date for cash dividends eligibility (EGP3/share)
Porto Group Holding	PORT	Lawsuit	29-Jan	Legal Disputes Relevant to the Company
Paints & Chemical Industry	PACH	Dividends	31-Jan	Distribution of cash dividends of EGP1.5/share
Arabia Investments and Development	AIND	Lawsuit	3-Feb	Legal Disputes Relevant to the Company
Advanced Pharmaceutical Packaging	APPC	AGM	6-Feb	Reviewing Agenda Items
Paints & Chemical Industry	PACH	Dividends	30-Apr	Distribution of cash dividends of EGP1.5/share

Quiz Answer

One: Sidi Kerir Petrochemicals Co. (SKPC).

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