

EGYPT CONSUMER DISCRETIONARY | ON THE GROUND UPDATE

Automotive sales squeezed by covid-19 lockdown and car licensing suspension

- Passenger car (PC) prices have witnessed price discounts since the beginning of the year, largely owing to the appreciation of the EGP and the full elimination of customs on Turkish and EU-sourced vehicles. Subsequently, AMIC recorded that Egyptian PC sales saw a 10% YoY increase in volumes in January 2020. While February 2020 sales figures are yet to come out, local sources noted that the month saw a higher rate of demand, in line with January.
- This trend, however, was reversed in March as an increasing number of countries have implemented drastic measures to contain covid-19 spread, especially in China which is the world's biggest auto manufacturing hub and where the epidemic originated. A number of automotive distributors noted that the local market will see monthly sales contract significantly following the Ministry of Interior's suspension of vehicle licensing in traffic authorities for a month.
- Car dealers can provide temporary commercial plates for up to 15 days to consumers who wish to buy new vehicles. However, this solution may be ineffective due to the limited number of them available at dealerships and the short time they can be used for. Additionally, this will put more pressure on car dealerships' cash flow cycle since cars purchased on instalment are first fully paid for by dealers and then funds are recovered from banks once the car is licensed.
- Local demand will also be hampered by the precautionary measures taken by the government to reduce working hours in commercial outlets, including exhibitions and maintenance centers.
- Additionally, the House Industry Committee has decided to postpone its talks into introducing new automotive incentives for local car assemblers and feeder industries until the next legislative session in October, due to the Coronavirus outbreak.
- On a better note, the CBE's decision to slash interest rates by 300bps and to suspend instalment repayments for 6 months should slightly soften the blow to the auto market, given its favorable effect on car purchase instalment plans.
- All these factors will likely delay upgrades or repurchases of vehicles over the coming period. In the case of prolonged lockdowns, It is likely for auto dealers to announce price cuts and/or promotional offers on their models to both stimulate sales and to liquidate old inventory.

EGYPT CONSUMER DISCRETIONARY | ON THE GROUND UPDATE

Textile exporters under pressure on global economic slowdown; Local curfew and lockdowns are not helping either

- Across the world, the corona virus has brought shopping for anything but necessities to a halt and among the industries at risk is the textile and fashion industry. In the US, Europe and Asia retail giants like Ikea, Inditex and H&M have closed their operations due to the global drop in demand, while the stores that did not close doors saw sales plummet as shoppers gravitated away from non-essential goods.
- Accordingly, global importers of textiles are halting new orders and/or evaluating potential changes on recently placed orders from global textile hubs like China, Bangladesh, Turkey and Egypt.
- Companies who rely heavily on raw materials from China are likely the most to struggle in coping with newly-found supply chain issues. Therefore companies are moving towards securing at least 1 month of inventory, which is supported by the low current prices of oil-based raw materials.
- Also given that the textile industry is more labor-intensive, the recent health measures imposed by the state (including the imposition of a nightly curfew) could drive factories to reduce shifts, probably two instead of three, and in turn stress production flows.
- On a slightly positive note, the companies who have China as a major competitor (e.g: in the printed and non-woven carpets export market), may have an opportunity to create new export markets by replacing lost orders.
- The local demand for textiles is expected to be further dampened by the curfew imposed on all retail outlets on weekdays and all throughout the weekend. Demand is expected to remain low throughout the Ramadan season in 2Q20.

EGYPT CONSUMER DISCRETIONARY | ON THE GROUND UPDATE

Consumer Behavior Altered; Demand Relatively Slower; Future Electronics Shipments at Risk

- The global coronavirus outbreak has affected consumer trends and behavior.
- Shuttered plants globally could reduce production of electronics parts such as memory chips and displays. The launch of new smartphone models could be delayed as well.
- Capital expenditures for expanding production will also be at risk.
- Curfew and social distancing efforts, aimed at slowing the spread of the virus, have altered consumers' and potential buyers' daily routine.
- In-store mobile phones and home appliances sales is witnessing a relative slowdown.
- Distributors usually have 1-1.5 months of inventory for imported products, which will cover market demand until the supply chain hurdles are solved.

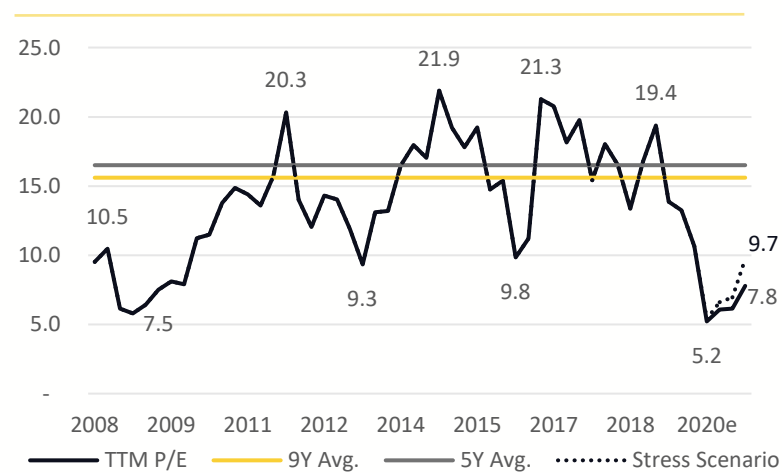
CONSUMER DISCRETIONARY | LIKELY TO FAIR THE HEAVIEST BLOW

Oriental Weavers (ORWE)

FV: EGP7.83, OW

ORWE is currently trading below both its 9-year and 5-year historic averages, at a multiple similar to that witnessed during global downturn of 2008. If earnings continue to be pressured in FY20, then we estimate that ORWE would be trading at a P/E of 9.7x.

ORWE TTM PE



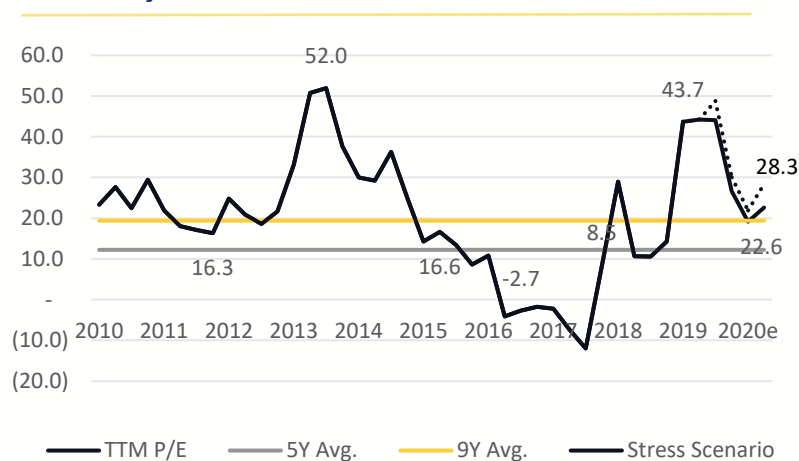
Source: Bloomberg and Pharos Research

Ghabbour Auto (AUTO)

FV: EGP5.53, OW

The global auto industry is expected to witness an unprecedented and almost instant stalling of demand in 2020. Accordingly AUTO's share price has reacted severely to the current outlook and is trading at a relatively high 2020e P/E multiple of 22.6x.

AUTO Adjusted¹ TTM PE



Source: Bloomberg and Pharos Research

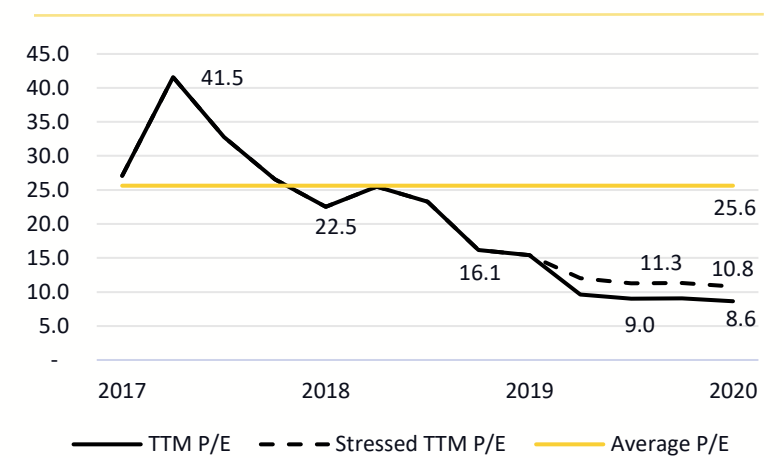
MM Group for Industry and International Trade (MTIE)

FV: EGP12.14, OW

MTIE currently trades at 2020f P/E of 8.6x, stressed TTM P/E of 10.8x which is below the 2yr P/E average of 25.6x.

We believe the stock multiples continue to improve on growth in earnings. A key catalyst going forward will be Ebtikar financial services and support to earnings.

MTIE TTM PE



Source: Bloomberg and Pharos Research

¹ Adjusted TTM P/E excludes any outliers resulting from a dramatic drop in F&B stock earnings following the EGP devaluation.

DISCLAIMER

This is third party research. It was prepared by Pharos Holding, with headquarters in Cairo, Egypt. Pharos Holding is authorized to engage in securities activities according to its domestic legislation. This research is not a product of Tellimer Markets, Inc., a U.S. registered broker-dealer. Pharos Holding has sole control over the contents of this research report. Tellimer Markets, Inc. does not exercise any control over the contents of, or the views expressed in, research reports prepared by Pharos Holding.

Pharos Holding is not registered as a broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution to “major U.S. institutional investors” and other “U.S. institutional investors” in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”).

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through Tellimer Markets, Inc., located at 575 Fifth Avenue, 27th Floor, New York, NY 10017. A representative of Tellimer Markets, Inc. is contactable on +1 (212) 551 3480. Under no circumstances should any U.S. recipient of this research report effect any transaction to buy or sell securities or related financial instruments through Pharos Holding. Tellimer Markets, Inc. accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to a U.S. person other than a major U.S. institutional investor.

None of the materials provided in this report may be used, reproduced, or transmitted, in any form or by any means, electronic or mechanical, including recording or the use of any information storage and retrieval system, without written permission from.

Pharos Holding is the employer of the research analyst(s) responsible for the content of this report and research analysts preparing this report are resident outside the U.S. and are not associated persons of any U.S. regulated broker-dealer. The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority (“FINRA”) and may not be an associated person of Tellimer Markets, Inc. and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Tellimer Markets, Inc. or its affiliates has not managed or co-managed a public offering of securities for the subject company in the past 12 months, has not received compensation for investment banking services from the subject company in the past 12 months, and does not expect to receive or intend to seek compensation for investment banking services from the subject company in the next three months. Tellimer Markets, Inc. has never owned any class of equity securities of the subject company. There are no other actual, or potential, material conflicts of interest of Tellimer Markets, Inc. at the time of the publication of this report. As of the publication of this report, Tellimer Markets, Inc. does not make a market in the subject securities.

About Tellimer

Tellimer is a registered trade mark of Exotix Partners LLP. Exotix Partners LLP and its subsidiaries (“Tellimer”) provide specialist investment banking services to trading professionals in the wholesale markets. Tellimer draws together liquidity and matches buyers and sellers so that deals can be executed by its customers. Tellimer may at any time, hold a trading position in the securities and financial instruments discussed in this report. Tellimer has procedures in place to identify and manage any potential conflicts of interests that arise in connection with its research. A copy of Tellimer’s conflict of interest policy is available at www.tellimer.com/regulatory-information.

Distribution

This report is not intended for distribution to the public and may not be reproduced, redistributed or published, in whole or in part, for any purpose without the written permission of Tellimer. Tellimer shall accept no liability whatsoever for the actions of third parties in this respect. This report is for distribution only under such circumstances as may be permitted by applicable law.

This report may not be used to create any financial instruments or products or any indices. Neither Tellimer, nor its members, directors, representatives, or employees accept any liability for any direct or consequential loss or damage arising out of the use of all or any part of the information herein.

United Kingdom: Distributed by Exotix Partners LLP only to Eligible Counterparties or Professional Clients (as defined in the FCA Handbook). The information herein does not apply to, and should not be relied upon by, Retail Clients (as defined in the FCA Handbook); neither the FCA’s protection rules nor compensation scheme may be applied.

UAE: Distributed in the Dubai International Financial Centre by Exotix Partners LLP (Dubai) which is regulated by the Dubai Financial Services Authority (“DFSA”). Material is intended only for persons who meet the criteria for Professional Clients under the Rules of the DFSA and no other person should act upon it.

Other distribution: The distribution of this report in other jurisdictions may be restricted by law and persons into whose possession this document comes should inform themselves about, and observe, any such restriction.

Disclaimers

Tellimer and/or its members, directors or employees may have interests, or long or short positions, and may at any time make purchases or sales as a principal or agent of the securities referred to herein. Tellimer may rely on information barriers, such as “Chinese Walls” to control the flow of information within the areas, units, divisions, groups of Tellimer.

Investing in any non-U.S. securities or related financial instruments (including ADRs) discussed in this report may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the U.S. Securities and Exchange Commission. Information on such non-U.S. securities or related financial instruments may be limited. Foreign companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect within the United States. The value of any investment or income from any securities or related financial instruments discussed in this report denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related financial instruments.

Frontier and Emerging Market laws and regulations governing investments in securities markets may not be sufficiently developed or may be subject to inconsistent or arbitrary interpretation or application. Frontier and Emerging Market securities are often not issued in physical form and registration of ownership may not be subject to a centralised system. Registration of ownership of certain types of securities may not be subject to standardised procedures and may even be effected on an ad hoc basis. The value of investments in Frontier and Emerging Market securities may also be affected by fluctuations in available currency rates and exchange control regulations. Not all of these or other risks associated with the relevant company, market or instrument which are the subject matter of the report are necessarily considered.

7 Abu El Feda St., Zamalek, Cairo 11211, Egypt
Tel: +202 2 739 36 70



www.pharosholding.com