

November 27, 2016

- **Market realized its potential in 2016**
- **2017 potential is healthy, but will kick-in within 6-8 weeks**
- **Lock in some profits; Maintain positive medium-term stance**

“Short-term” upside is limited; Further potential is down the line in 2017

The market has started to cool off, after four weeks of strong steam. As of Thursday's close, most of the EGX30 constituents were trading close to our target prices, within 5-10% above or below.

The market knocked all doors: Sector and size rotations

Since floatation, market participants have tapped all sectors, with DCF potentials being confirmed for one sector after the other, starting with financial institutions, real estate players and ending with industrials. In addition, mid and small cap stocks have finally started to move with local investors looking for out of the box ideas, that are away from the blue chips.

Some thoughts on valuations at this point

1. Market prices have reached close to full potential for FY2016, on DCF and multiples' bases.

2. Shifting models one-year down the line has created an additional upside potential of 15-25% from the current DCF valuations, with the absence of the 2016 floatation pains for some industrial producers and with potential positive developments that might materialize in 2017, improving the financial performance for the different sectors, including:

- a- Potential lending and non-funded income growth pick-up by mid-2017
- b- Potential upgrade in asset based valuation for real estate companies in specific, due to floatation and the re-pricing of real assets
- c- Higher replacement cost for heavy-capex industrial producers (whether consumer staples, durables or construction and building material players)
- d- Higher pricing of products across the board to save margins and to what extent will volumes get affected

These developments will be further confirmed by 1Q2017, where more solid and visible developments will have become more obvious.

3. EGX30 constituents are still trading at attractive FY2017 multiples, despite the DCF valuations being stretched.

Lock-in 'some' profits short-term; Maintain positive medium-term stance

This leads us to the conclusion, that “short-term” potential is definitely limited, but several development down the line in 2017 (probably by early 1Q2017), the rerating will start to materialize to eventually reach higher potential from where we are now. According to our calculations on EGX30, the index might hit 14,500 by the end of 2017. The market is currently trading at a market cap weighted average of 9.5x P/E FY2017 and 1.6x P/B FY2017.

EGX30 At a Glance

STOCK	Bloomberg	Closing	FV	Upside	FV	Upside	P/E (x)		P/B (x)		Div. Yld (%)		EV/EBITDA (x)		
			FY16 end	FY16 end	FY17 end	FY17 end	2016	2017	2016	2017	2016	2017	2016	2017	
EXG30 Constituents	Code	Price													
CIB	COMI EY	38.20%	67.44	69.58	3.2%	85.79	27.2%	13.9	11.3	3.9	3.2	1.6%	2.0%	---	---
EFG-Hermes Holding	HRHO EY	6.34%	20.18	20.25	0.3%	25.00	23.9%	30.4	33.8	1.3	1.3	5.0%	0.0%	---	---
Talaat Moustafa Group Holding	TMGH EY	5.93%	8.83	10.00	13.3%	14.70	66.5%	16.5	14.5	0.7	0.6	2.2%	2.5%	11.3	10.4
Global Telecom Holding	GTHE EY	5.82%	6.11	6.25	2.3%	6.37	4.3%	12.7	12.5	3.2	2.3	0.0%	0.6%	2.9	3.0
Medinet Nasr Housing	MNHD EY	4.32%	19.25	20.39	5.9%	27.33	42.0%	22.8	17.0	6.4	4.5	0.3%	0.2%	16.6	12.2
Eastern Tobacco	EAST EY	3.82%	288.00	300.00	4.2%	330.00	14.6%	10.4	8.6	2.5	2.2	4.2%	5.3%	5.5	4.7
El Sewedy Electric	SWDY EY	3.63%	76.97	89.95	16.9%	97.98	27.3%	6.8	7.1	2.2	1.9	4.9%	5.5%	6.1	5.2
SODIC	OCDI EY	3.58%	16.28	19.74	21.3%	24.84	52.6%	13.2	10.5	1.5	1.3	---	16.2%	10.8	10.8
Palm Hills Developments	PHDC EY	3.46%	3.19	3.47	8.8%	4.22	32.2%	13.9	11.1	1.1	1.0	1.6%	2.3%	13.5	11.1
Telecom Egypt	ETEL EY	3.25%	9.90	10.25	3.5%	11.02	11.3%	5.2	5.6	0.6	0.6	8.7%	8.8%	4.9	4.9
Pioneers Holding	PIOH EY	2.51%	11.35	12.10	6.6%	14.70	29.5%	---	---	---	---	---	---	---	---
Ezz Steel	ESRS EY	2.25%	11.77	11.92	1.3%	14.35	21.9%	---	21.4	2.2	2.1	0.0%	0.7%	10.5	7.1
Egypt Kuwait Holding	EKHO EY	1.86%	8.85	10.50	18.6%	11.58	30.9%	9.6	7.9	1.1	1.0	4.8%	5.9%	7.4	6.7
Heliopolis Housing	HELI EY	1.69%	83.12	89.17	7.3%	97.85	17.7%	24.8	55.4	12.5	12.4	2.6%	1.2%	21.5	41.7
Edita Food Industries	EFID EY	1.54%	14.00	14.60	4.3%	16.50	17.9%	46.8	28.4	8.1	6.9	1.0%	1.5%	21.6	16.8
Ghabbour Auto	AUTO EY	1.38%	2.69	3.50	30.1%	3.94	46.6%	13.3	8.0	0.8	0.7	4.8%	4.5%	7.5	6.7
Emaar Misr for Development	EMFD EY	1.33%	3.08	3.39	10.1%	4.73	53.5%	13.6	10.1	1.9	1.6	3.6%	5.4%	12.5	9.0
Citadel Capital	CCAP EY	1.29%	0.97	1.00	3.1%	1.00	3.1%	---	---	1.9	4.8	---	---	58.0	45.9
OTMT	OTMT EY	1.26%	0.87	0.98	12.6%	1.22	40.5%	9.3	9.5	1.1	1.0	---	---	217.2	174.1
Orascom Construction (Egypt)	ORAS EY	1.12%	100.87	114.00	13.0%	129.20	28.1%	7.5	5.3	1.2	1.0	0.0%	1.4%	2.7	2.2
Arabian Food Industries (DOMTY)	DOMT EY	1.04%	7.22	8.20	13.6%	10.91	51.1%	22.2	17.4	4.0	3.5	1.3%	1.7%	12.7	9.5
Arab Cotton Ginning	ACGC EY	0.75%	3.74	4.10	9.6%	4.95	32.4%	---	---	---	---	---	---	---	---
Egyptian Resorts Company	EGTS EY	0.65%	0.95	1.04	9.5%	1.86	96.0%	20.4	11.0	1.1	1.0	---	---	14.8	8.3
Arabian Cement	ARCC EY	0.62%	7.84	8.58	9.4%	9.23	17.7%	9.8	7.4	2.0	1.8	6.8%	7.3%	4.5	4.2
Amer Group Holding	AMER EY	0.55%	0.33	0.35	6.1%	0.40	21.2%	6.0	4.5	0.9	0.9	5.2%	5.8%	2.6	1.9
Porto Holding	PORT EY	0.48%	0.31	0.35	12.9%	0.40	29.0%	16.3	7.2	2.5	2.2	5.5%	6.4%	---	---
Arabia Investments & Development	AIND EY	0.39%	0.95	1.00	5.3%	1.00	5.3%	---	---	---	---	---	---	---	---
Elsaeed Contracting & Real Estate	UEGC EY	0.34%	0.95	1.00	5.3%	1.00	5.3%	---	---	---	---	---	---	---	---
Cairo Oils and Soap	COSG EY	0.29%	25.32	26.95	6.4%	29.95	18.3%	---	---	---	---	---	---	---	---
Egyptian Iron & Steel	IRON EY	0.27%	6.74	7.50	11.3%	7.90	17.2%	---	---	---	---	---	---	---	---
WEIGHTED EGX30 VALUATION			11,353	11,923	5.0%	14,154	24.7%	12.4	10.9	2.2	1.6	2.9%	3.5%	8.3	7.2



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