

December 25, 2016

The USD: Jingle Bells; Jingle Bells; Jingle All the Way

The US Dollar has been the unicorn of 2016, strengthening against major currencies, the most of which is against the EGP. Now, the million Dollar question is:

When and Where will the EGP Settle?

Well, the EGP will settle and potentially strengthen when demand and supply fundamentals return to "the norm."

Demand is currently overstated due to: 1) the backlog of demand that has been piling up since the currency crisis in early 2016; 2) repatriation of profit by "some" foreign investors in Egypt, where some have refused to transfer profits at an exaggerated exchange rate; 3) excess demand from raw material importers, in an attempt to build up inventory of raw materials to lock up costs and price the products accordingly. Most industrial producers import 70-90% of their raw materials, which represent around 60-70% of their total cost. Egypt's importation bill is almost three times exports.

Supply is also currently understated due to: 1) the weakness in the sustainable sources of foreign currency in Egypt, namely: FDIs, FPIs, Tourism, net exports and remittances; 2) Some hoarders are still holding on to the Dollar, because the scarcity is obviously not over yet, and the high interest rates on the EGP certificates of deposit have not been the most efficient tool to induce the exchange of USD into EGP, since banking penetration in Egypt is still around 10%.

Will the EGP settle? We would not be surprised if the EGP continues with its gradual weakness, up until 1H2017, after which we expect the trend to start reversing and the EGP would strengthen, if and only if, the sustainable sources of foreign currency in Egypt get back in the game around that time, significantly enough to meet the demand stated above and in due course normalize supply and demand fundamentals.

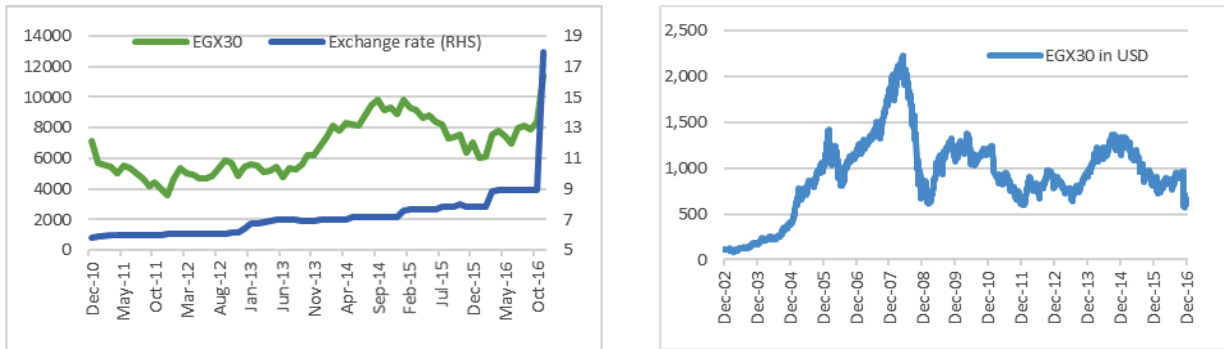
If it settles, where will that be? The EGP will settle potentially at EGP14-15/USD, if and when Egypt's sustainable sources of foreign currency start flowing in, which in our view again cannot happen sooner than 2H2017.

EGX: Dashing Through the Snow on a One Horse Open Sleigh

The Santa Claus Rally

Since floatation in early November, EGX30 has been witnessing a strong uptrend that has been awaited and expected with increased foreign participation. The initial momentum has been driven by the decision to move to a managed float and then continuously driven by the gradual edging of the EGP into weaker territories that the market has not been expecting.

Figure 1 | EGX30 in USD: Despite the rally, asset revaluation/replacement cost depicts potential



The market has been exhausting all sector/stock rotation options starting with devaluation and macro transformation beneficiaries (which have been on our “Cream of the Crop” list flagged for the first time in August 2016, in tandem with the announcement of an IMF deal), followed by devaluation losers and laggards (which we have flagged as a tactical call for 2017 reverse trend plays, See our October 25th note titled “Devaluation in the Driver Seat; Beyond Tunnel Vision”), and there comes an OPEC and non-OPEC supply cut deals which revived oil plays. Last week was another strong market rerating with the EGP/USD edging closer to 20.00.

Figure 2 | “Cream of the Crop” Picks Performance (Calls initiated on August 1, 2016)

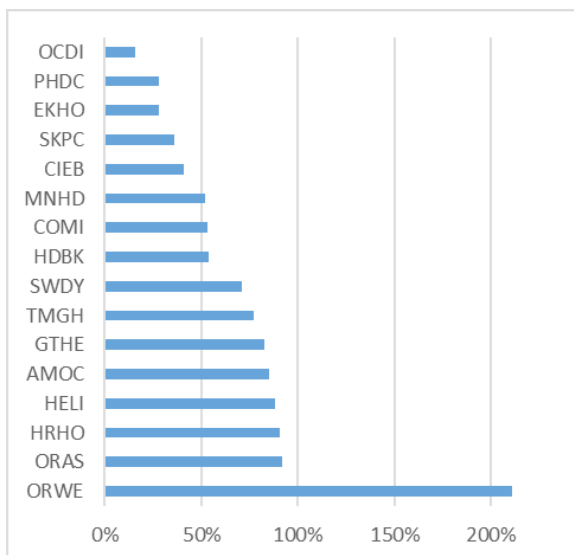
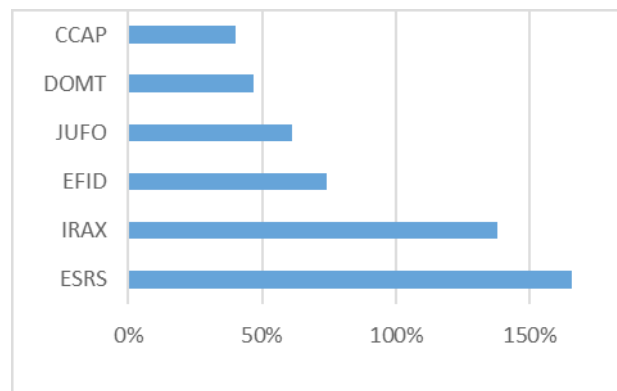


Figure 3 | “Tactical Trading Call on Oversold Stocks” Performance (Calls initiated on October 25, 2016)



The January Effect

We believe that even if the market witnessed some profit taking the last week of December 2016 and first week of January 2017 because of the holiday season, second week of January will witness a significant pickup with asset managers taking positions early into the new year and with Egypt being well positioned for improved portfolio inflows in 2017. The EGX performance key is still in the hands of investments and the exchange rate. Despite pressure on private consumption, we are putting more weight on public and private investments to drive the wheel of the economy and fuel growth.

Upgrade EGX30 2017-target to 15,000 by year-end

We have revisited the target DCF valuations for EGX30 constituents, and we present below our 2016 valuations and 2017 upgrades. Our 2016 targets have mostly been achieved. We upgrade our 2017 target for EGX 30 to 15,000+, with performance mostly driven by the real estate and financial services sectors.

Egypt Valuation Table

Stock	Bloomberg Code	EGX Weight	Closing Price	Target FV 2016	Realized?	Target Price 2017 end	Upside 2017	YTD change	P/E,x		P/B, x		Div Yield		EV/EBITDA	
									2016	2017	2016	2017	2016	2017	2016	2017
EGX30 Constituents																
CIB	COMI EY	38.20%	71.85	69.58	Yes	85.79	19%	88.6%	14.6	11.3	4.2	3.4	1.5%	1.9%	---	---
EFG-Hermes	HRHO EY	6.34%	24.35	25.00	Yes	29.50	21%	176.4%	109.3	40.0	1.5	1.5	4.1%	4.1%	---	---
Talaat Moustafa	TMGH EY	5.93%	9.52	10.00	Yes	18.75	97%	47.1%	17.8	15.7	0.7	0.7	2.0%	2.3%	12.1	11.2
Global Telecom	GTHE EY	5.82%	7.54	6.25	Yes	8.10	7%	262.5%	21.9	16.9	3.6	2.6	0.0%	0.8%	3.4	3.2
Medinet Nasr Housing	MNHD EY	4.32%	21.08	20.39	Yes	39.75	89%	54.1%	25.0	18.6	7.0	4.9	0.2%	0.2%	18.2	13.4
Eastern Tobacco	EAST EY	3.82%	280.00	280.00	Yes	337.71	21%	60.0%	10.0	8.3	2.4	2.1	4.3%	5.3%	5.3	4.5
El Sewedy Electric	SWDY EY	3.63%	76.94	89.95	Almost	94.85	23%	109.7%	6.5	6.3	2.1	1.8	5.2%	6.6%	5.6	4.7
SODIC	OCDI EY	3.58%	15.83	19.74	Not yet	19.74	25%	67.2%	12.3	10.3	1.4	1.3	0.0%	0.0%	10.5	8.6
Palm Hills Developments	PHDC EY	3.46%	3.28	3.47	Yes	4.22	29%	37.2%	14.3	11.5	1.1	1.0	1.6%	2.0%	13.7	11.4
Telecom Egypt	ETEL EY	3.25%	12.75	10.25	Yes	11.00	-14%	98.6%	6.6	7.1	0.7	0.7	6.6%	7.1%	6.2	6.2
Pioneers Holding	PIOH EY	2.51%	12.25	12.10	Yes	14.70	20%	104.1%	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Ezz Steel	ESRS EY	2.25%	17.28	11.92	Yes	19.95	15%	93.3%	n/m	25.3	3.7	3.1	0.0%	1.1%	12.1	7.3
Egypt Kuwait Holding (\$)	EKHO EY	1.86%	0.59	0.70	Yes	0.85	44%	13.5%	9.6	7.9	1.1	1.0	4.7%	5.9%	6.8	6.2
Heliopolis Housing	HELI EY	1.69%	25.15	22.30	Yes	49.95	99%	101.7%	29.3	42.9	15.2	15.1	2.1%	1.0%	25.2	34.8
Edita Food Industries	EFID EY	1.54%	14.32	14.60	Yes	16.50	15%	-12.4%	52.1	34.3	8.3	7.1	0.9%	1.3%	23.1	19.2
Ghabbour Auto	AUTO EY	1.38%	3.29	3.50	Yes	5.43	65%	-7.3%	16.9	10.9	1.0	0.9	3.0%	3.0%	7.8	6.9
Emaar Misr	EMFD EY	1.33%	3.13	3.39	Not yet	3.95	26%	14.2%	13.9	10.3	2.0	1.6	3.5%	5.3%	12.8	9.2
Citadel Capital	CCAP EY	1.29%	0.91	0.95	Yes	1.05	15%	-43.1%	n/m	n/m	1.8	4.6	0.0%	0.0%	62.7	49.6
OTMT	OTMT EY	1.26%	0.88	0.98	Yes	1.20	36%	23.9%	9.4	9.6	1.1	1.0	0.0%	0.0%	217.7	178.1
Orascom Construction	ORAS EY	1.12%	106.70	114.00	Almost	153.44	44%	56.5%	6.9	5.1	1.1	0.9	1.2%	1.3%	2.6	2.3

Stock	Bloomberg	EGX	Closing	Target FV	Realized?	Target Price	Upside	YTD	P/E,x		P/B, x		Div Yield		EV/EBITDA	
	Code	Weight	Price	2016		end 2017	2017	change	2016	2017	2016	2017	2016	2017	2016	2017
Arabian Food (Domty)	DOMT EY	1.04%	6.60	8.20	Yes	9.62	46%	-28.0%	21.8	18.6	3.6	3.2	1.3%	1.7%	10.8	9.6
Arab Cotton Ginning	ACGC EY	0.75%	4.57	4.10	Yes	4.95	8%	56.5%	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Egyptian Resorts Co.	EGTS EY	0.65%	1.04	1.04	Yes	1.86	79%	23.8%	---	13.4	1.3	1.2	---	---	---	10.1
Arabian Cement	ARCC EY	0.62%	7.57	8.58	Yes	10.00	32%	-23.9%	26.7	7.3	2.2	1.9	5.8%	7.7%	4.3	4.2
Amer Group Holding	AMER EY	0.55%	0.31	0.35	Yes	0.40	29%	-31.1%	6.4	4.4	1.0	0.8	5.4%	6.1%	2.4	1.8
Porto Holding	PORT EY	0.48%	0.30	0.35	Yes	0.40	33%	-26.8%	13.6	6.7	2.3	2.1	5.6%	6.6%	9.2	4.6
Arabia Investments	AIND EY	0.39%	1.00	1.00	Yes	1.15	15%	1.0%	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Elsaeed Contracting	UEGC EY	0.34%	0.90	1.00	Yes	1.00	11%	22.1%	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Cairo Oils and Soap	COSG EY	0.29%	27.81	26.95	Yes	29.95	8%	14.9%	13.4	n/a	8.5	n/a	0.0%	0.0%	n/a	n/a
Egyptian Iron & Steel	IRON EY	0.27%	6.92	7.00	Almost	7.00	1%	60.2%	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
INDEX LEVEL			12,420		15,315											
Other Stocks in Focus																
Credit Agricole Egypt	CIEB EY		34.01	36.74	Yes	43.14	26%	64.0%	8.7	7.4	2.7	2.3	6.2%	7.2%	---	---
Housing & Dev. Bank	HDBK EY		24.72	25.95	Yes	31.31	25%	10.9%	4.9	4.1	1.1	0.9	7.0%	8.2%	---	---
QNB Alahli Bank	QNBA EY		37.83	38.00	Yes	47.97	24%	45.0%	7.5	6.0	1.5	1.2	4.8%	5.7%	---	---
Juhayna Food Industries	JUFO EY		6.28	6.40	Yes	7.98	27%	-21.3%	28.0	22.0	2.4	2.2	1.8%	2.4%	10.3	8.9
ObourLand	OLFI EY		9.50	10.60	Not Yet	11.20	18%	n/m	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Oriental Weavers	ORWE EY		15.96	13.00	Yes	19.80	24%	102.0%	14.0	12.0	1.7	1.6	4.0%	4.9%	7.6	6.8
EL Ezz Aldekhela Steel	IRAX EY		460.01	495.00	Yes	542.50	18%	54.2%	---	12.1	4.7	3.7	4.3%	3.7%	11.7	7.3
AMOC	AMOC EY		67.45	55.00	Yes	86.29	28%	168.5%	13.3	10.4	2.4	2.2	5.9%	8.2%	7.8	6.2
Sidi Kerir Petrochemicals	SKPC EY		17.88	16.50	Yes	24.08	35%	57.4%	11.6	8.6	3.6	3.3	7.6%	10.4%	8.6	6.0
Cleopatra Hospital	CLHO EY		18.35	12.60	Yes	23.43	28%	93.2%	5.8	4.6	5.8	4.7	0.0%	0.0%	15.3	12.7
EIPICO	PHAR EY		82.76	83.00	Yes	92.90	12%	15.8%	14.5	12.9	3.6	3.4	5.1%	6.3%	7.9	7.2



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