

January 2, 2017

RECOMMENDATION	Overweight
Fair Value	EGP35.13
Reuters/Bloomberg	HRHO.CA/HRHO EY
Last Price, EGP/Share	25.53
Shares Outstanding, mn	614.9
Market Cap, EGP m	15,698
52W H-L, EGP/Share	26.1-6.37
52W ADTV, EGP mn	55.7

Reiterate positive turnaround going forward; Maintain "Overweight"

EFG-Hermes' operational performance should witness a gradual turnaround over the next 2-4 quarters, to mirror Egypt's investment climate

With higher foreign participation and improved EGX market turnover post floatation of the local currency, EFG-Hermes stands as the primary beneficiary of such turnaround, with a brokerage market share north of 35%, and a solid pipeline of potential IPOs over 2017. In addition, the commercial banking arm sale proceeds and remaining stake continue to be USD-denominated and should be channeled to: 1) Recapitalizing all existing business lines underneath the investment bank, whether brokerage, asset management or private equity; 2) Capitalizing and growing EFG Hermes Leasing; 3) Establishing a new consumer finance business underneath EFG Hermes Finance, while focusing on further expanding the potential of Tanmeyah; 4) Expanding investment banking activities to include a merchant banking model; and 5) Acquiring frontier market operations within Africa or Asia, with the objective to transform EFG from a regional into a frontier house.

Upgrade FV to EGP35.13 from EGP25.00 on positive market turnover outlook in 2017

While we realize that the stock has rallied 190% YTD, the real growth potential for EFG Hermes in our view is within the turnaround in investment banking operations in 2017, the new ventures, and the planned expansion within frontier markets, that justifies higher upside potential within the investment bank.

EFG Hermes Share price performance has been mirroring the EGX30 market turnover since 2000 to date (Figure 1), and on a P/B basis, at current market price the stock is trading at a P/B of 1.7x (Figure 2), versus a historical high of 2.1x-2.7x in 2006 and 2007, respectively. Our implied P/B is 2.4x on the latest consolidated book value of EGP8.85 billion.

Figure 1 | HRHO share price tracks EGX turnover

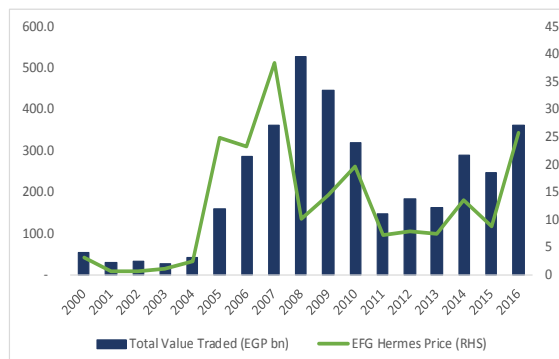
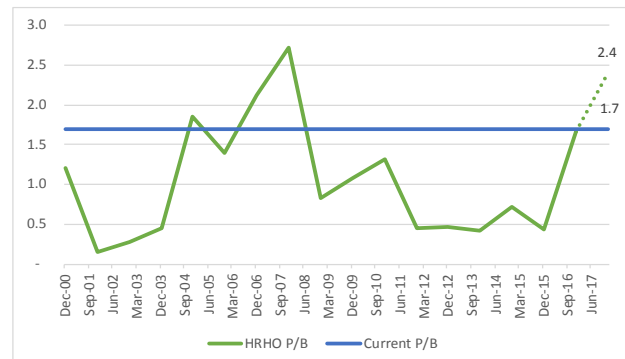


Figure 2 | HRHO current P/B to reach 2.4x from 1.7x



EFG Hermes Valuation Table	Valuation (EGPmn)	EGP/Share	Valuation Methodology
Excess Cash	500	0.81	@book
Commercial Bank (Proceeds+ Rem. Stake)	8,491	13.81	@recent transaction value, USD472 mn or USD33/share
Investment Bank	11,250	18.30	@ Avg of acquisition value, 1.5x P/B and 20.0x P/E
Tanmeyah	846	1.38	@2.0x BV, assuming sustainable ROE of 20%
EFG Leasing	200	0.33	@2.0x BV, assuming sustainable ROE of 20%
SODIC	316	0.51	4.75% @Consensus FV of EGP19.70 per share
Total	21,603	35.13	

*EGP at 18.00/USD

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