

Executive Summary

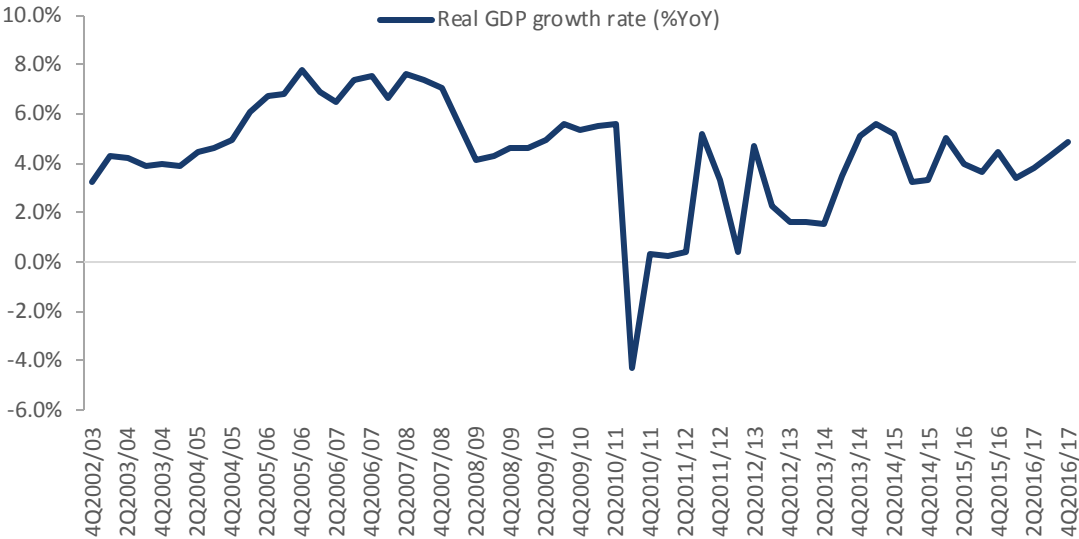
- Preliminary data suggest that the **real GDP growth rate** rose from 4.3% in 3Q FY2016/17 to 4.9% in 4Q FY2016/17. Final consumption is estimated to lead the contribution to the real GDP growth, albeit with a declining on tight monetary and fiscal measures. We note that the external sector contribution to the real GDP growth turned positive in 3Q FY2016/17 on a narrower trade deficit following the exchange rate liberalization. We expect such an improvement to continue in 1Q FY2017/18. On a sectoral level, the improvement of tourist arrivals was reflected in a positive contribution to the real GDP for the first time since 2Q FY2014/15. Meanwhile, the hype in the oil and gas sector was also translated into a positive contribution to the real GDP growth. We expect such a positive contribution to rise in the future as Zohr field becomes fully operational. While we expect the real GDP growth rate to slowdown in 1Q FY2017/18, we maintain our full fiscal year real GDP growth rate at 4.5% in FY2017/18.
- The **unemployment rate** stabilized at 11.98% in 4Q FY2016/17, versus 12.00% in 3Q FY2016/17. The latest figures showed a stable job creation pace across different sectors. On the other hand, the participation rate continued to decline from 46.40% in 2Q FY2016/17 to 45.40% in 4Q FY2016/17 as the labor force growth decelerated from 2.8% YoY in 1Q FY2016/17 to 2.3% YoY in 4QFY2016/17. While the low participation rate in Egypt has more structural origins, we believe that the current downward trend is temporary due to the pessimistic sentiment at the early stage of implementing such a broad economic reform program. As further signs of economic recovery emerges, the disappointed part of the working-age population would gradually turn active again.
- Aggregate **system deposits** expanded by 6.1% in 2Q17 with a CAGR of 2.0%. The growth was mainly fueled by heavyweight household deposits that expanded a CAGR of 2.4% in contrast to corporate deposits that grew at a CAGR of 0.7% quarter-end. **Total system loan** growth lagged behind deposit growth as it expanded by 1.9% in 2Q17 driven by private business sector lending that grew with a monthly CAGR of 0.9%.
 - **Net Interest income** (NIM) jumped from 4.0% as of 4Q17 to record 4.6% as of 1Q17. NPL ratio inched down slightly in 1Q17 but remained high at 5.7% with a stable coverage ratio of 99.1%. Capital Adequacy Ratio strengthened in 2Q17 to stand at 11.9% as banks resorted to raising capital.
 - **EGX30** underperformed EGX70 and EGX100 MTD, and small caps remain to be the biggest winners YTD. Household products and healthcare sectors are the top performers YTD. Foreign investors continue to be net buyers for the sixth month straight.

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Macro Indicators

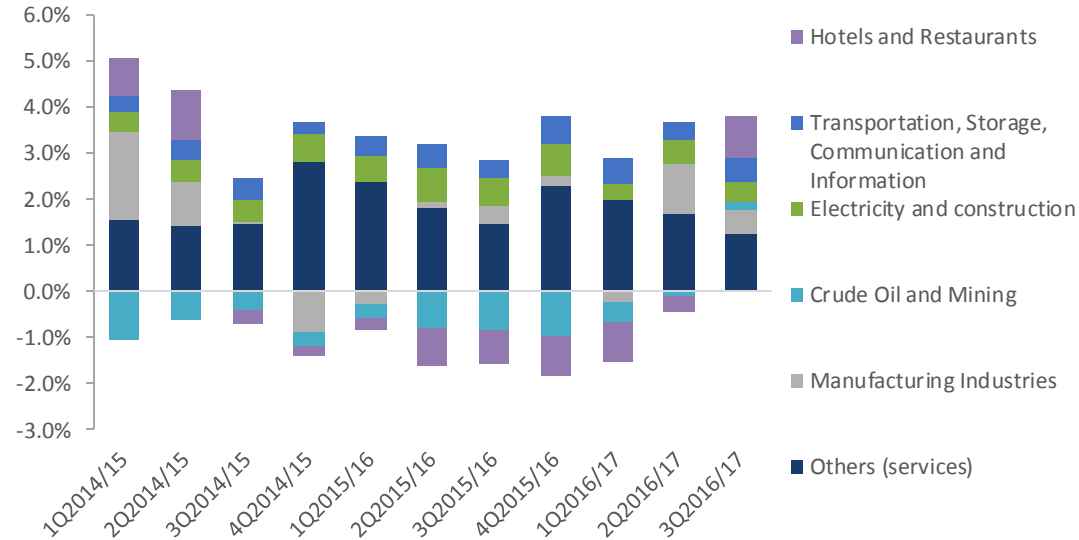
Real GDP accelerated to 4.90% in 4Q FY2016/17

The real GDP growth rate accelerated from 4.3% YoY in 3Q2016/17 to 4.9% YoY in 4Q2016/17



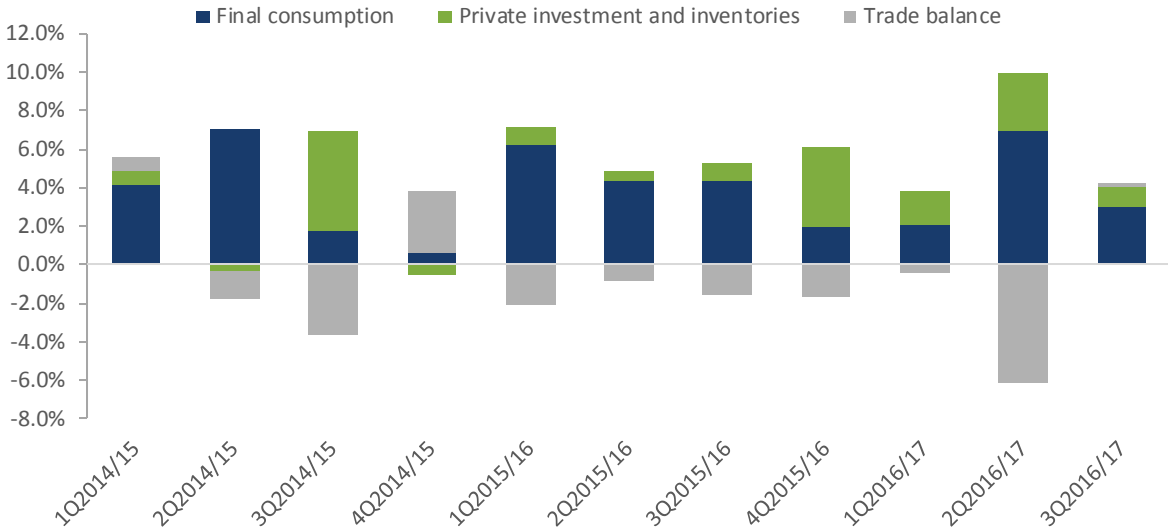
Source: MoF, Pharos research

On the sectoral level, the contribution of both ‘hotels and restaurants’ and extractions turned positive in 3Q2016/17, reflecting the improvement in tourism and the oil & gas production



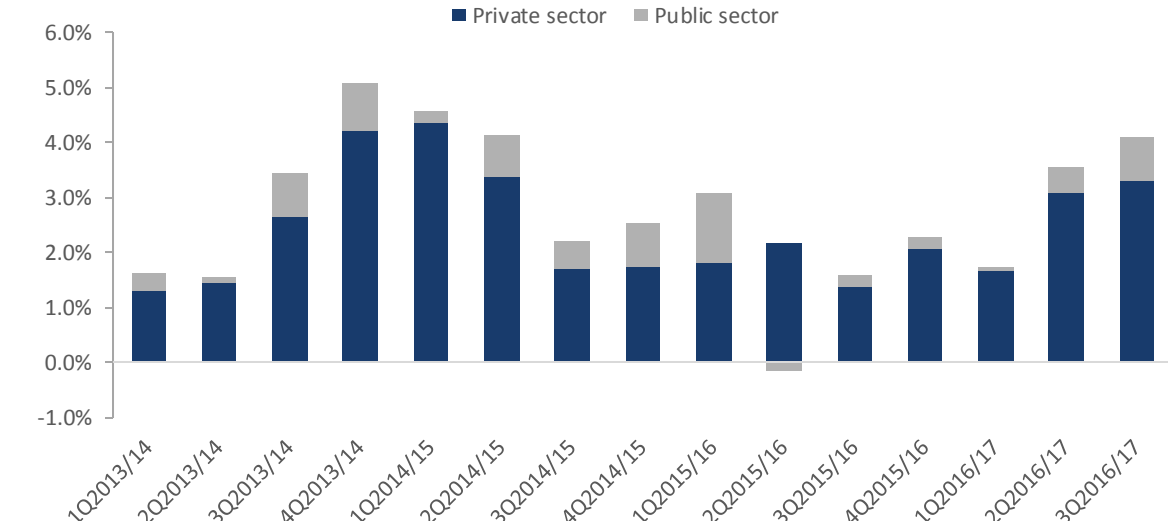
Source: MoP, Pharos research

This has been supported by a positive contribution from the external sector as the trade deficit narrows following the recently implemented reform measures



Source: CBE, Pharos research

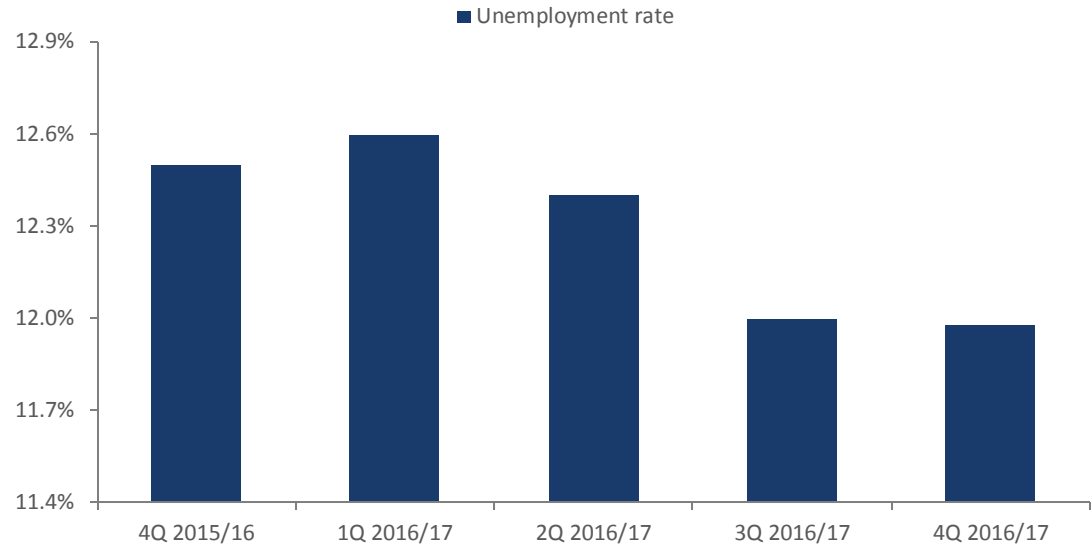
The private sector economic activity contribution to the real GDP growth remain positive, which defies a contracting PMI since 2013



Source: MoP, Pharos research

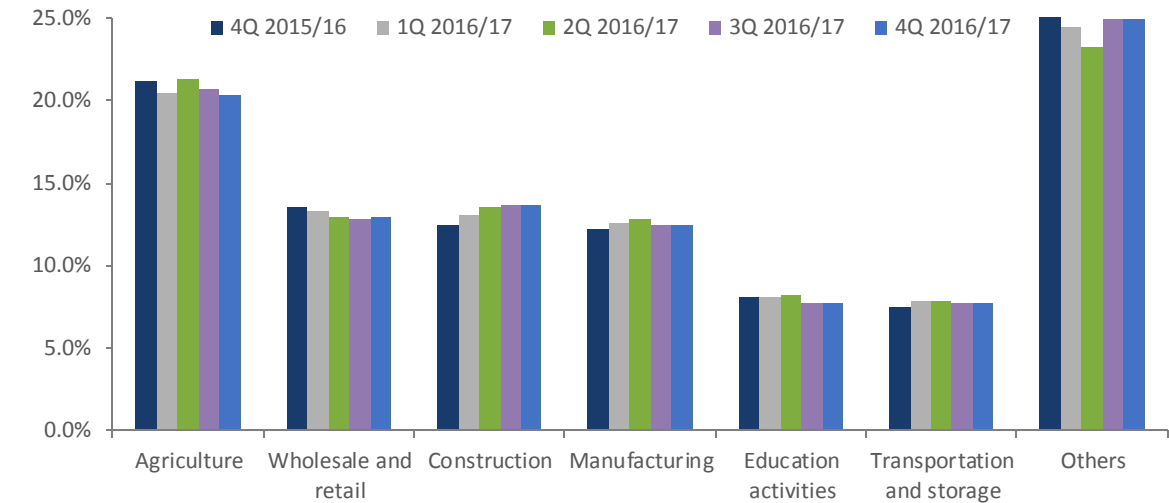
Unemployment rate stabilized at 11.98% in 4Q FY2016/17

The unemployment rate stabilized at 11.98% in 4Q2016/17, versus 12.0% in 3Q2016/17



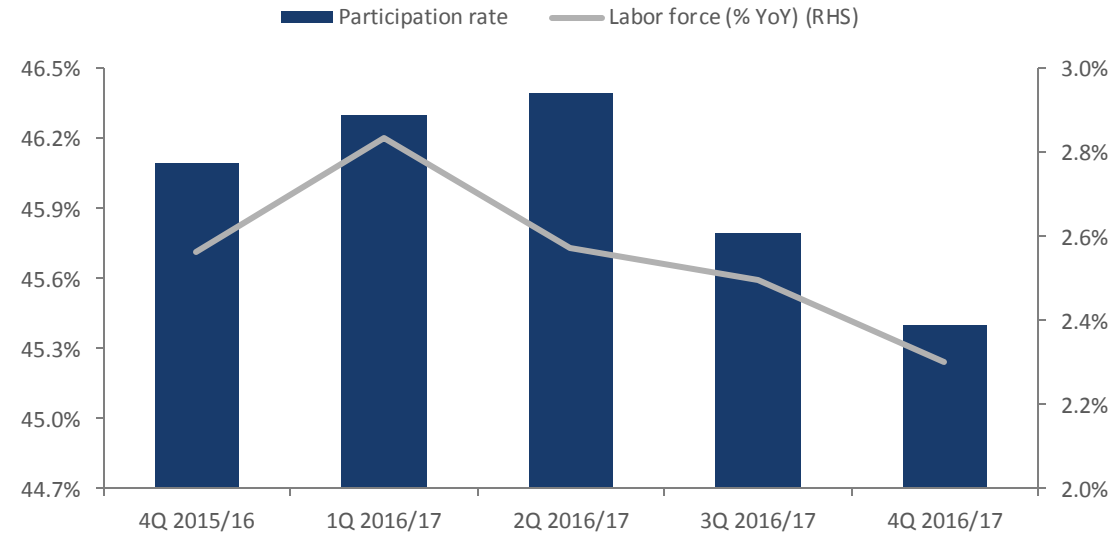
Source: CAPMAS, Pharos research

The sectoral breakdown shows that job creation has been stable across various sectors in 4Q FY2016/17



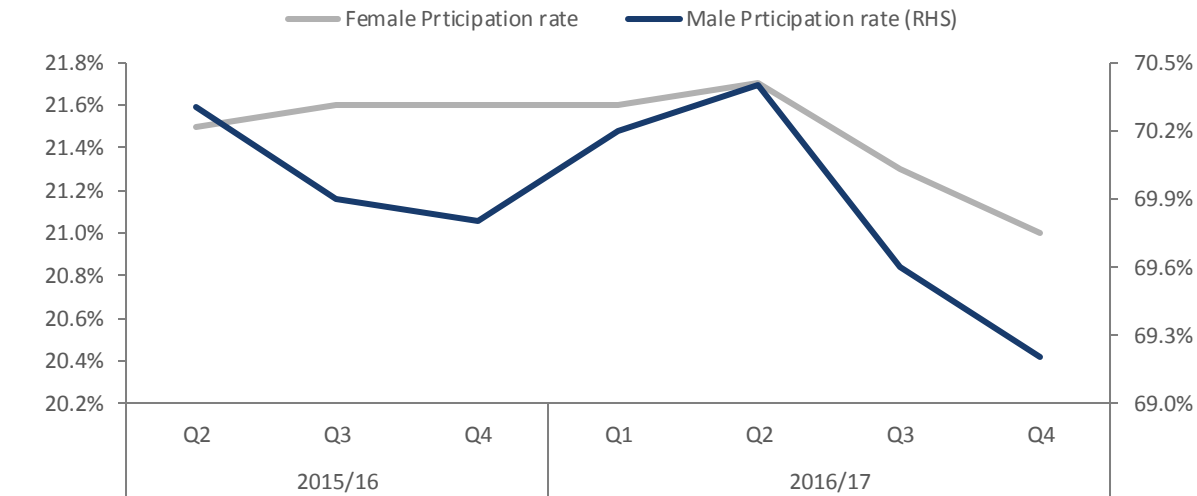
Source: CAPMAS, Pharos research

The main concern remains the participation rate decline as the labor force growth rate slowed down. This suggests that a part of the working-age population have stopped looking for jobs



Source: CAPMAS, Pharos research

Both male and female participation rate dedined marginally to 69.20% and 21.00%, respectively, in 4Q2016/17

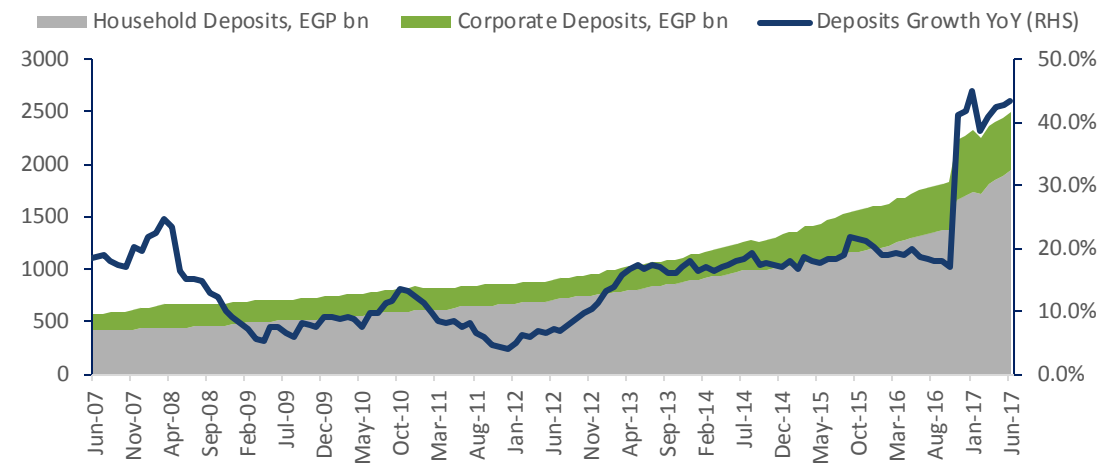


Source: CAPMAS, Pharos research

Banking Indicators

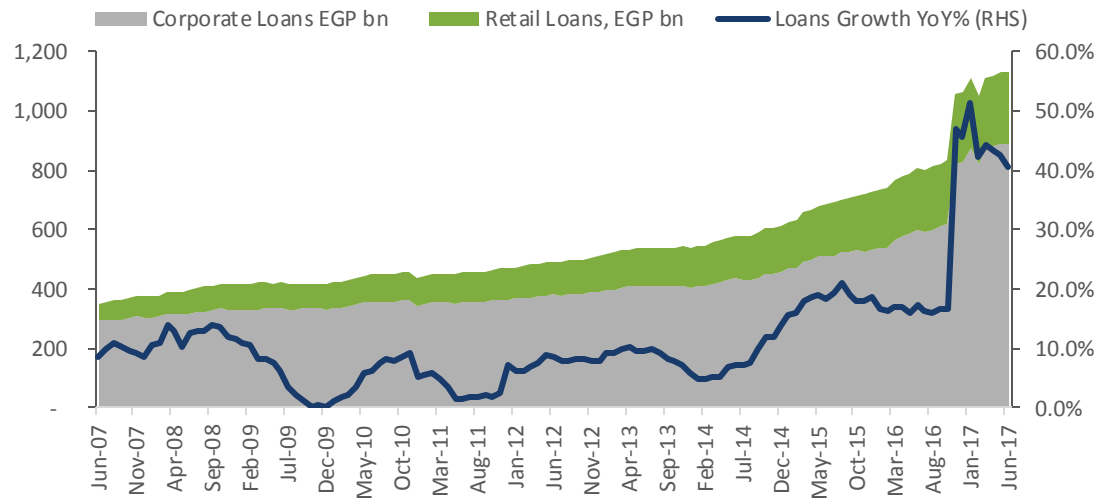
Deposits expand mainly on household savings; System loan growth slows down geared by Private Business sector lending

System deposits had a monthly CAGR of 2.0% over 2Q17 vs. a CAGR of 1.4% a quarter earlier. System deposits growth in June which recorded 2.4% was the highest MoM growth witnessed over 2Q17.



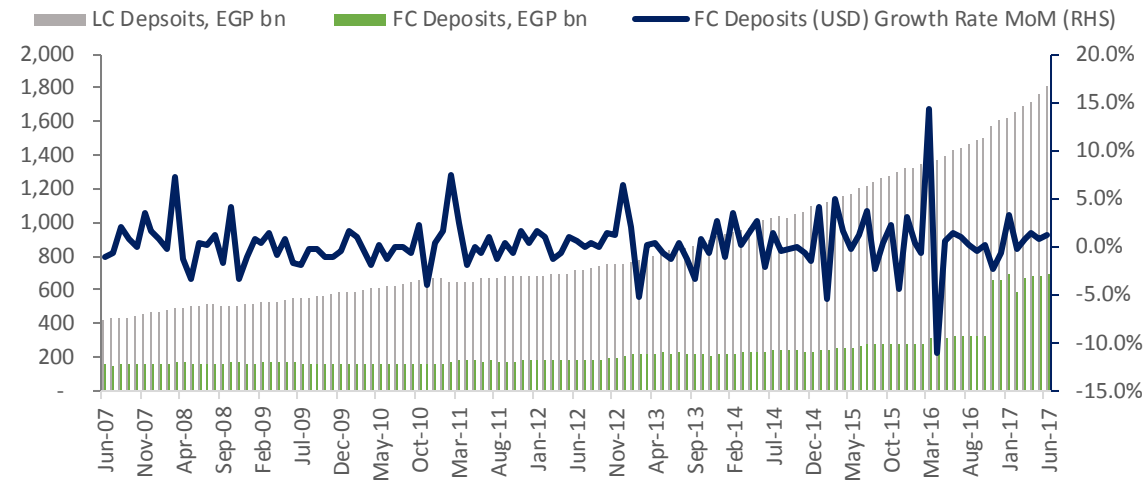
Source: CBE, Pharos research

System loans had a monthly CAGR of 0.6% over the quarter vs. first quarter monthly CAGR of 1.5%, geared by private business sector lending CAGR of 0.9%. Loans also witnessed the slowest MoM growth and slowest YoY growth in June-17 post policy rate hike in May.



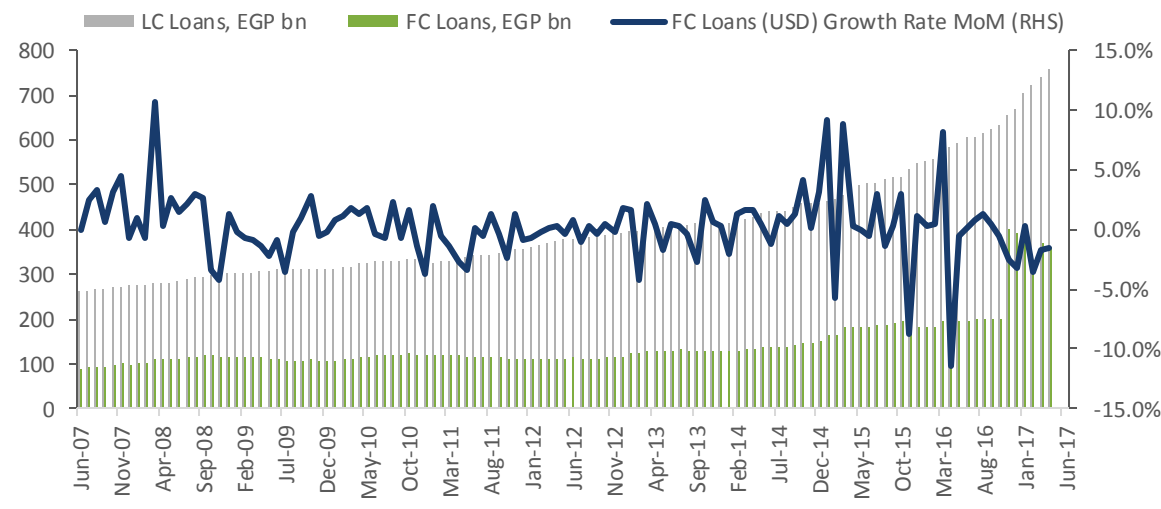
Source: CBE, Pharos research

FCY deposits in USD terms had a CAGR of 1.1%, while LC deposits had a CAGR of 2.4% over 2Q17. FCY deposits stood at USD38.3 billion in Jun-17.



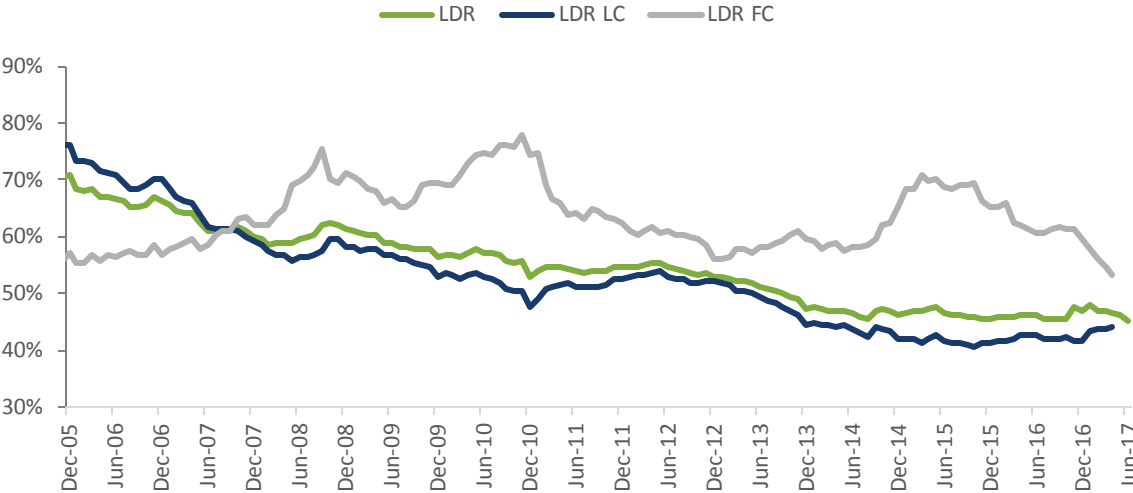
Source: CBE, Pharos research

Foreign currency lending was dedining MoM in real terms during Feb-17 to Apr-17 (latest available), shrinking by a CAGR of 1.5% YTD. While LC loans expanded by a monthly CAGR of 3.1% YTD.



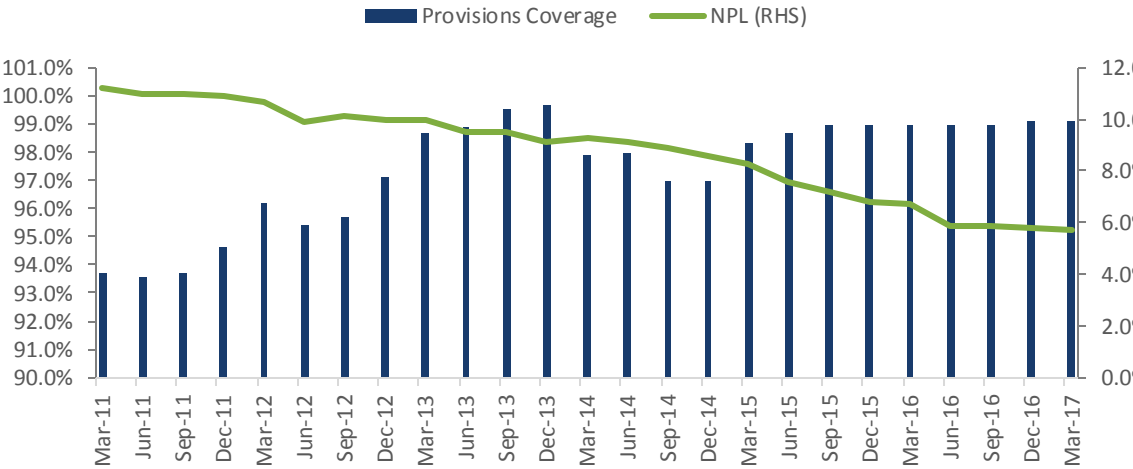
Source: CBE, Pharos research

LDR slipped to 45.1% in Jun-17 vs. 47.0% in Jun-17; LCY-LDR improved to 43.4% while FCY-LDR recorded 44.1% in Jan-17 down from 53.2% in Mar-17



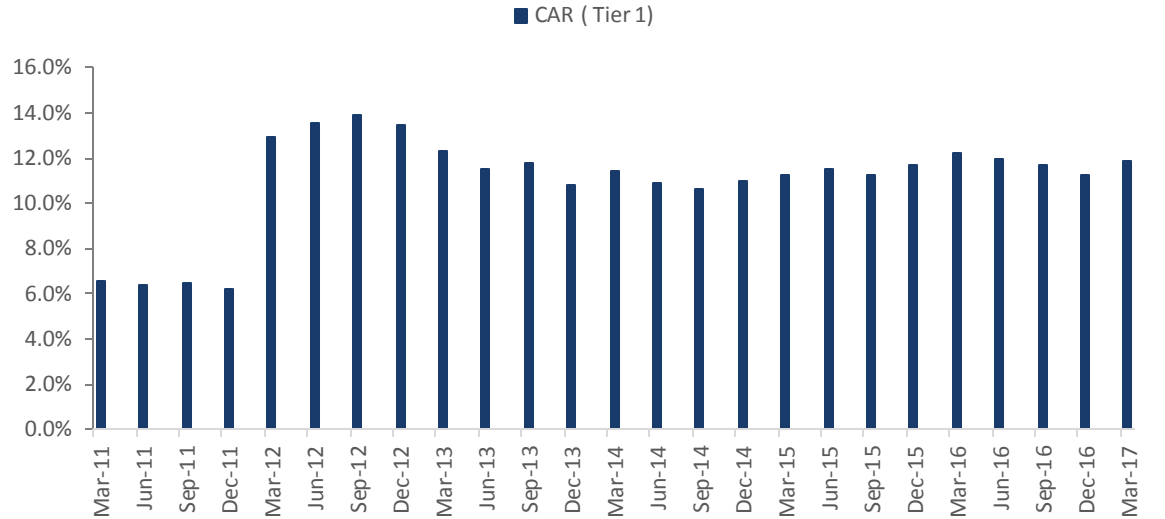
Source: CBE, Pharos research

Sufficient provisions coverage ratio maintained at 99.1% as of 1Q17; providing a solid cushion against the high NPL ratio of 5.7% in 1Q17 down from 5.8% in Dec-16.



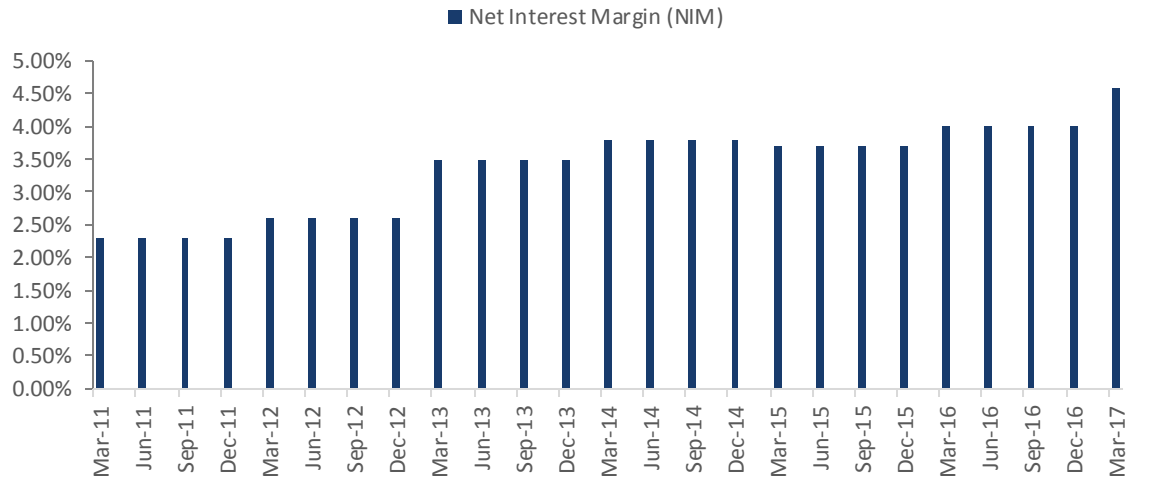
Source: CBE, Pharos research

CAR strengthened and recorded 11.9% in Mar-17 vs. 11.3% in Dec-16 – as more banks resorted to distribute stock dividends and issue new capital to boost capital post EGP flotation.



Source: CBE, Pharos research

NIM strengthens and records 4.6% as of 1Q17. We expect a gradual ease in margins by June-end 2017.



Source: CBE, Pharos research

Stock Market Indicators

Small caps the biggest winners YTD; Foreigners continue to emerge as net buyers

EGX30 slumped in USD terms, but rose in EGP terms post flotation



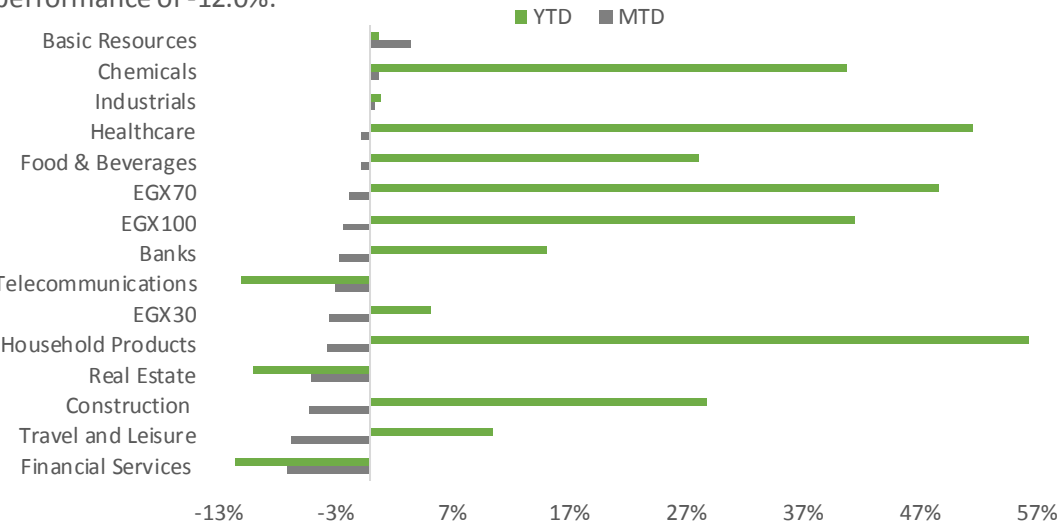
Source: Bloomberg, Pharos research

EGX70 slumped in USD terms, but rose in EGP terms post flotation and continued an upward trend since then



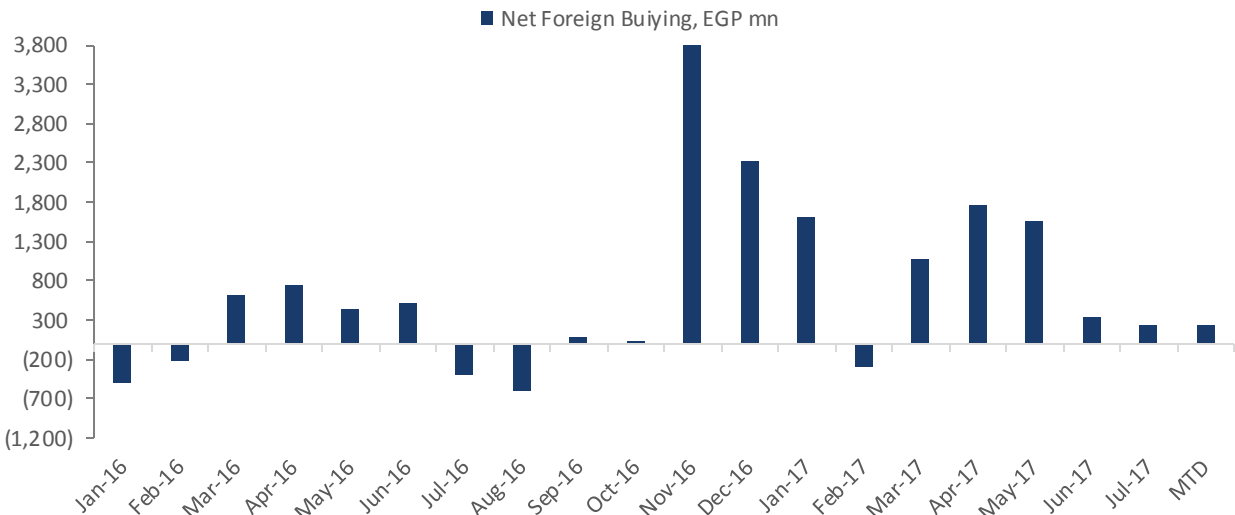
Source: Bloomberg, Pharos research

Basic Resources Sector and Chemicals Sector have a positive MTD performance, while Household Products has the best YTD performance followed by Healthcare. Financial Services, and Travel and Leisure have the worst performance of -7.0% MTD, also Financial services has the worst YTD performance of -12.0%.



Source: Bloomberg, Pharos research

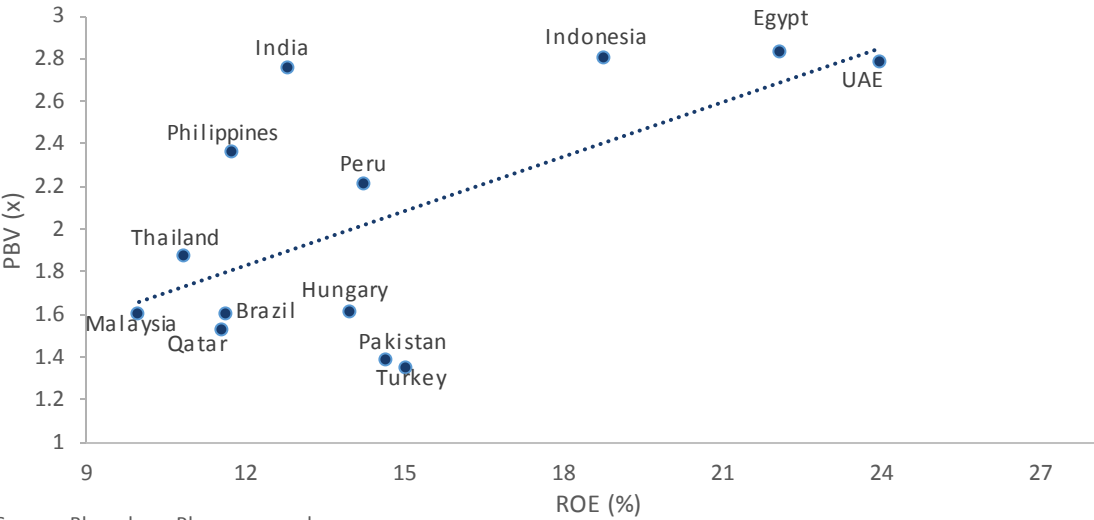
Net foreign purchases into EGX slowed down massively, post the 4% interest rate hike



Source: Bloomberg, Pharos research

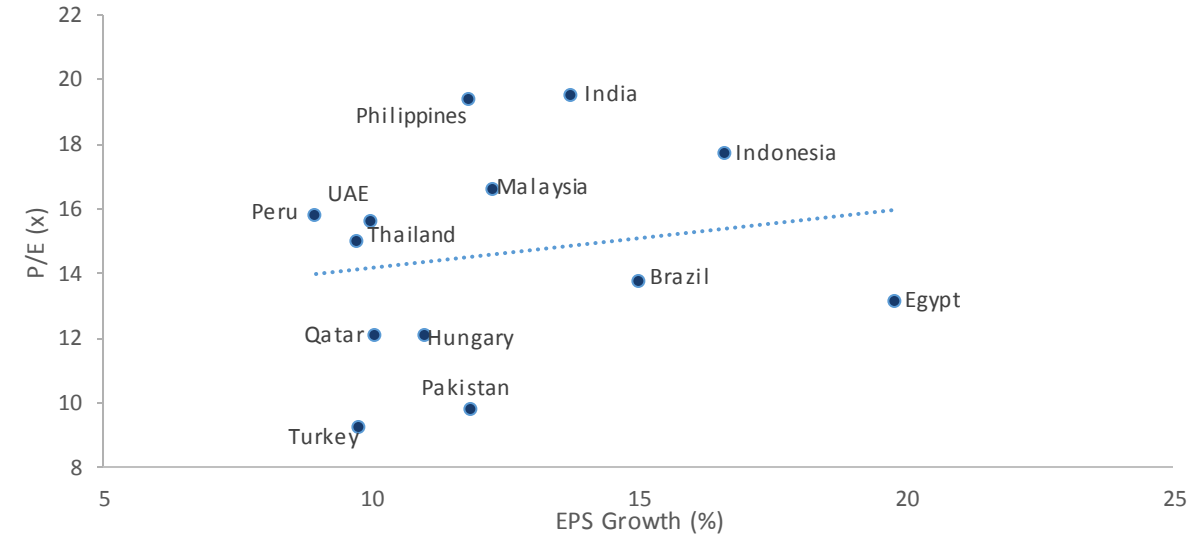
EGX Still Cheaper Than Emerging Market Peers

Relative to potential ROE, Egypt is ahead of peers



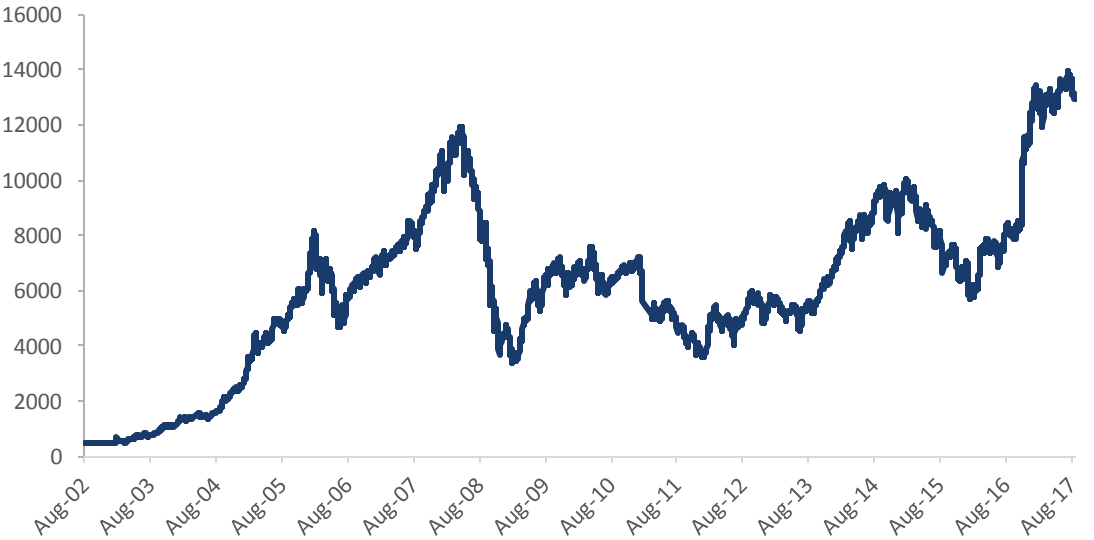
Source: Bloomberg, Pharos research

Egypt cheaper than emerging markets on P/E multiples



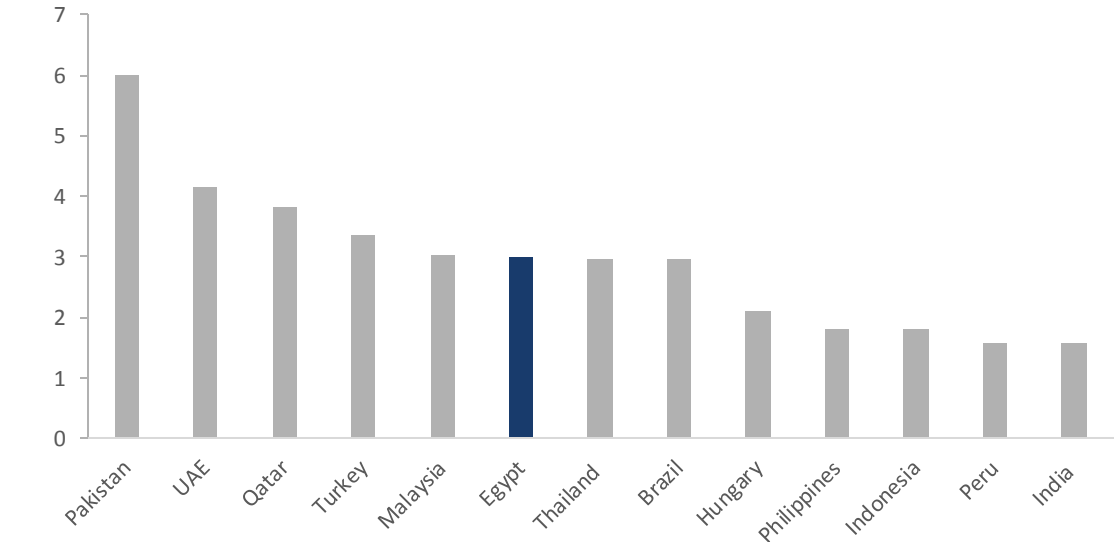
Source: Bloomberg, Pharos research

EGX30 at 11.4x P/E 2017; Should rerate to 14.0x by 2017 end



Source: Bloomberg, Pharos research

DY 2017 improves compared to the previous year



Source: Bloomberg, Pharos research

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