First: Introduction

Since the emergence of the Covid-19 pandemic at the end of the previous year 2019 in the People's Republic of China and its spread across the world and the tendency of most countries of the world to take severe precautionary measures, which include closing factories, stopping air traffic and maritime transport, and then stopping global trade movement, which prevented the growth of global gross product and affected the economies of countries Both developed and emerging nations negatively. And considering Egypt as a part of the world, specifically a promising emerging market, has been negatively affected economically by the pandemic, which began to appear in the beginning of the March 2020, where the government began to impose partial closure steps, which negatively affected the activity of companies with the exception of some sectors that It was positively affected by the pandemic.

Second: Economic facts before the global pandemic

The economic indicators of Egypt were very promising before the emergence of the pandemic, especially after the positive development that occurred in the economic and financial indicators after the Egyptian government began implementing the economic reform plan since 2016, the results of which appeared strongly on the rate of GDP, the total deficit, the primary surplus, and then the public debt relative to GDP and some other indicators, here are some actual results for the FY2019/2018:

- The GDP growth rate increased by 5.6% at the end of the FY19/18, compared to 5.3% at the end of the FY18/17, buoyed by the growth of a number of key sectors, most notably the telecommunications sector, which witnessed a growth of 16.7%, and the extractive sector by 9.8%, The construction sector by 8.8%, the education and health services sector by 3.8%, the agricultural sector by 3.3%, and the industrial sector by 2.8%. An increase in the proportion of public and private investments by 27.9% also contributed to this growth, to reach EGP 922.5B in 19/18, compared to EGP 721.1B in 18/17.
- The unemployment rate decreased to 7.8% during the 4Q2019, compared to 10% during the same period in 2018.
- The annual urban inflation rate decreased to 9.2% in 2019, compared to 14.4% in 2018.
- Net international reserves achieved remarkable levels, as increased by 6.7%, to reach USD 45.42B at the end of December 2019, compared to USD 42.55B at the end of December 2018.
- Egypt achieved a primary surplus of 2% of GDP in 19/18, compared to 0.1% in 18/17.
- The total deficit decreased to 8.4% in 19/18, compared to 9.7% in 18/17.
- Total public debt to GDP decreased to 90.5% in 19/18, compared to 97.3% in 18/17.
- Egypt's credit rating improved in the most prominent international rating agencies, as Egypt's credit rating rose from B to B + with a stable outlook, according to Fitch, as well as Egypt's

credit rating rose from B3 to B2, according to Moody's, in When the agency "Standard & Poor's" maintained the credit rating of Egypt at B with a stable outlook.

Third: The Pre-Pandemic Economic Outlook for the FY20/19 and Its Change Due To the Pandemic

Future expectations for the FY20/19 were also positive, as an extension of the series of positive developments that had been achieved previously, both with regard to the GDP growth rate, which expectations were between 5.7 - 6%, as well as inflation rates, which revolved around 5.8% and the decrease in the ratio of total public debt to GDP to reach 83% with the soaring of revenues mainly buoyed by taxes and the shrinkage in expenditures, and consequently increase in the primary surplus to reach 2% and also the decrease of the overall budget deficit to reach 7.2% compared to 8.4% for the year 19/18. However, the pandemic has changed these expectations radically and completely, Example:

- The GDP growth rate reached 3.5%.
- The primary surplus decreased to 1.4%, and the total deficit increased to more than 7.5%.
- FDI during the FY20/19 fallen by 50%, to record about USD 5.4B, compared to USD 10.8B in the previous FY.
- The BOP for the FY20/19 has recorded a deficit of USD 8.6B, and the deficit came completely in the 2H, and that was affected by the global pandemic.
- Unemployment rates increased to nearly 10% of the total workforce, compared to 7.7% in the 1Q of this year, up 1.9%, and 2.1% higher than the same Q of last year.
- The international reserves decreased by approximately 21% to reach USD 36B out of USD 45.4B, and that was mainly affected by the exodus of indirect foreign investments, which are represented in local debt instruments (treasury bills and bonds). However, the cash reserve began to recover relatively, as it reached within November is approximately USD 39.5B.

From the above it is clear to what extent the Egyptian economy is negatively affected by the repercussions of the Covid-19, which affected the economies of the entire world, and AOLb research shows that these repercussions will continue to cast a negative shadow on the Egyptian economy also during the FY20/21, provided that this shock gradually diminishes during FY22/21, especially after the discovery of the new vaccine treating this epidemic.

Fourth: What Is The Expectations During The FY21/20 And Beyond?

The economic reform plan initiated and pursued by Egypt along with the IMF since 2016 has proven its success during this period, which strongly affected the economies of all countries of the world. However, by looking at the economic indicators in Egypt, we see that it is at least better off compared to emerging market countries. As it achieved one of the highest rates of economic growth during the year 2020, and this is not only our opinion, but the opinion of prestigious international financial institutions such as the IMF, Fitch Foundation and the EBRD.

What are our Expectations?

- AOLb Research shows that the FY21/20 will remain a year surrounded by a state of global economic stagnation, despite the return to normal employment rates in most countries of the world, but with strong expectations of a decline in the growth rate of global gross product and the rate of global trade growth to about 3.2% compared to the previous year, which amounted to 3.5%, in addition to the negative impact of some vital sectors, such as the tourism sector, which contributes significantly to the GDP, the extractive sector (oil and natural gas), the real estate sector and the commodity sector, which would achieve a state of slowdown. In the rate of GDP growth, which is expected to achieve between 2-3% by the end of this FY, provided that the growth rates begin to take an upward curve again during the FY22/21, to reach 5.8% by the FY25/24?
- Also, we expect the primary surplus to decrease by the end of the FY21/20 to reach 0.5%, provided that it will return and continue during the coming years at its previous rate, which is estimated at 2%. It will be supported and driven mainly by the growth of tax revenues, which represent more than 75% of total revenues, in addition to shrinking expenditures. Moreover, data for the 1Q21/20 indicate a growth of 18.4% Y-o-Y to reach EGP 204.7B, supported by an increase in tax revenues by 14.1% to EGP 150B. On the other hand, expenditures increased by 11% to reach EGP 336.8B during the 1Q of the current FY, compared to EGP 303.3B during the same period a year ago.
- We also expect an increase in the total deficit rate by the end of the FY21/20, to break the 8.5% barrier, provided that it takes a gradually descending curve to retreat to its previous rate of 7.2% and then reach less than 4% by the FY25/24.
- AOLb research also shows that the rate of public debt as a percentage of GDP is expected to exceed 90%, mainly driven by foreign financing packages obtained by Egypt, which varied between loans and issuance of dollar and green bonds, which amounted to nearly from USD 10B, thus raising the volume of foreign debt to nearly USD 112B, and we see that this aforementioned rate will take a descending path to retreat to the previous rate, which is 87%

during the FY22/21, and then reach the Ministry of Finance targets, which are 83%, but by FY25/24.

- We also expect an increase in the international reserve by 20% to reach nearly USD 47B during the FY21/20 compared to USD 39.5B by the end of 2020, and this will be achieved by:
  - The strategy of the Ministry of Finance towards managing public debt has changed, as it began to diversify sources of financing between the local and the external, especially if they are on easy terms and the continuation of extending the average terms of issuance of treasury bills and bonds to gradually reach in 2021 to 4.5 years after it was 1.9 years in 17/16.
  - Egypt signed with Euro clear Bank, which paves the way for linking the Egyptian government debt instruments issuances in the local currency, in a move aimed at enabling dealing with them among a larger segment of foreign investors, who can now enter the market through a few local banks.
- It is also expected that the average rate of inflation will decline in the coming years, to 5.9% by the end of 2020, compared to 9.2% in 2019, and we also expect the CBE to cut interest rates on deposits and lending by no more than 2%, which will positively affect the domestic debt service bill. Moreover, financial estimates indicate that with a 1% reduction in interest, the domestic debt interest will be reduced by about EGP 10B.
- We also expect that indirect foreign investments (treasury bills and bonds) will continue to grow steadily, as the total foreign investment in domestic debt instruments rose to about USD 23B by the end of last November, compared to about USD 21.1B in mid-October, which was mainly supported by the Security and political stability inside the country, in addition to the real return on Egyptian debt instruments, is one of the best and highest returns, reaching approximately 6-6.5%, compared to 0.5-1.5% in most emerging market countries.
- We also expect that the Egyptian pound will remain relatively stable against the USD by the end of the FY21/20, not exceeding the barrier of EGP 16, despite the sharp decline in the performance of emerging market currencies.
- We also expect a decrease in the current account deficit as a percentage of GDP to record 3% in 21/20, compared to 3.2% in 20/19. This will be mainly supported by the growth of non-oil merchandise exports, specifically to a degree that exceeds non-oil merchandise imports, as well as remittances from Egyptians living abroad, especially since the rate of increase in remittances amounted to 19.6% to reach USD 8B in the period from July to September 2020 compared to USD 6.7B in The same period as the previous year.
- The unemployment rates, we expects to record about 9.9% during the FY2020, 10.9% in 2021, and 10.5% in 2022, until it decreases and reaches 9.6% in 2025.
- We expect the price level of a barrel of oil to be between USD 50-55/barrel, despite the fact that the estimated price in the Egypt general budget for the FY21/20 amounted to USD

61/barrel, and financial estimates indicate that it is in the event of a increase (decrease) in the global oil price relative to the price estimated in the budget by USD 1/barrel, this will lead to a deterioration (improvement) of the general budget by about EGP 1.5B.

- We expect that the government will keep the natural gas prices for the industrial sector, which amount to USD 4.5/MTU thermal units, and also keep the electricity price for super and high voltages at EGP 1.1 kWh, and financial estimates indicate that the state's general budget has borne in the step of reducing natural gas and electricity approximately EGP 10B, which caused pressure on expenditures.

Fifthly: Our Vision of the Desired Sectors in the FY21/20 and the Conservative Sectors

AOLb Research also predicted in its annual report on the economic vision for the previous FY20/19, in which a large part of which is actually achieved in relation to macroeconomic indicators or at the level of promising and targeted activities and sectors, in addition to the companies that have value and which are advised to invest in.

AOLb Research Vision for the next FY21/20.

Based on a previous study and coverage prepared by AOLb Research on some companies in various sectors in order to explore the extent to which the results of these companies' work are presented, whether negatively or positively, as a result of this pandemic and the events and procedures that resulted from it, which had a great negative impact on the economies of the entire world countries, and we have reached after this study, important results indicate that the best, solid and least elastic sectors are:

- Food & beverage sector.
- Diversified company's activities (Private Equity).
- The non-banking financial services sector.
- Education sector.
- Medical services and medicines sector.
- The telecommunications sector.
- The banking sector.

The Targeted companies in the coming year 21/20

Code	FV	Market price	Upside Potential%
AXPH.CA	310	134.95	130%
ADCI.CA	141	76.57	84%
OIH.CA	0.9	0.5	80%
EKHO.CA	1.6	1	60%
ETEL.CA	16.8	11.6	45%
OLFI.CA	8	5.69	41%
COMI.CA	75	59.88	25%
DOMT.CA	6.2	4.96	25%
JUFO.CA	7.05	5.91	19%
BINV.CA	12.7	10.76	18%
HRHO.CA	16.5	14.1	17%
CIRA.CA	15.9	13.95	14%
SPMD.CA	1.8	1.66	8%

As for the sectors that have been negatively affected, and which we recommend to be wary of:

- **Iron and Steel sector**
  A sector suffering from a glut in production costs due to the rise in the prices of raw materials in addition to the prices of energy, specifically natural gas, in addition to the strong increase in financial leverage due to the trend to borrow in order to continue, which consequently reduces its revenues and net profits.
- **Aluminum sector**
  A sector suffers from glut in production costs due to the high prices of raw materials, especially as they are linked to the prices of the LME, in addition to the high cost of electricity, which alone accounts for nearly 45% of the total production costs, which causes financial losses.
- **Fertilizers and Petrochemicals sector**
  A sector that is also very affected by the prices of raw materials globally and also negatively affected by the rise in energy prices, specifically natural gas, which consequently reduces its revenues and net profits.
- **Paints and Ceramics sector**
- **The Cement sector**
  Due to the large number of players in this sector, it suffers strongly from an imbalance between supply and demand, especially the demand percentage has almost reached less than 50% of the supply, and then there is a large surplus that cannot be disposed, which pushed most of the factories to work below their maximum capacity at rates exceeding 30%, It is worth noting that the imports of this sector are almost negligible due to the inability of the Egyptian product to compete with the foreign producer. This is in addition to the high costs of production, specifically energy, which represents more than 66% of its maximum capacity.

- **Real estate sector**
  In view of the current economic conditions and the stagnation and high unemployment the country is going through, and then the tendency of citizens to save cash in the form of banking instruments of all kinds, which led to a state of slowdown in the demand for this sector, which confirms what we say two things:
  - The first: the trend of real estate investment companies to provide easy sales offers that reach the stage of non-payment of any advances and installments over periods of up to 10-14 years without interest also in addition to the entry of some companies in the real estate financing initiatives submitted by the CBE in order to facilitate the sale of units.
  - Second: A large part of real estate investment companies resorted to entering into securitization or factoring operations in order to provide the necessary liquidity to continue their real estate activity in addition to resorting to introducing new debt instruments such as the sukuk that were issued in the recent period by Talaat Mustafa Group (TMGH.CA), Porto Group (PORT.CA), and others.
- **The Tourism sector** (we believe that the tourism sector may start to recover by the end of the 3Q of the current FY, provided that it will return strongly at the beginning of the FY21/22).
- **The Mining and Petroleum sector**
  In view of the strong changes that have occurred in global crude oil prices, in which the price of a barrel of it has fallen by nearly 80%, reaching nearly USD 15/barrel instead of USD 70/barrel, as a result of the imbalance that occurred between supply and demand affected by the decrease in global trade growth rates due to The global pandemic, which negatively affected the companies operating in this sector, whether at the global or local level, it is worth noting that crude oil prices have now increased by 233%, as the price of a barrel is now close to USD 50/barrel, after the intervention of OPEC and OPEC + and the decree to reduce the volume of production In their attempt to return to the previous price level, however, we expect the price of crude oil to remain between USD 50-55/barrel during the FY21/20, and in light of this price level, we expect companies operating in this sector to suffer from a sharp decline in revenues accompanied by severe losses.

Sixth: Our Recommendations Regarding the Heavy Industries

- The aluminum sector needs to move from loss to profit to reduce the price of the electricity segment to 55 piasters kWh at a rate of 50% reduction compared to the current price.
- The sectors that depend on natural gas in their industry, which were previously mentioned, need to move from loss to profit to reduce the price of MTU to USD 2.5, a decrease of 44% compared to the current price.
- We believe, from our point of view, that the cement sector will end its main problem, which is the surplus in supply, to two points:
  - First: the exit of some players in this sector in order to adjust the volume of supply again with the required in order to reach a fair price.
  - Second: Reducing natural gas prices to the aforementioned price to reduce production costs.

Seventh: Do you know?

- Egypt Kuwait Holding (EKHO.CA) is currently considered one of the best dollar stocks in the Egyptian market due to its financial support and the multiplicity of its activities, which makes it able to bear the various market risks.
- Alexandria Containers Company (ALCN.CA) and Eastern Tobacco (EAST.CA) are considered one of the companies most exposed to the risk of fluctuation of the Egyptian pound's exchange rate against the USD, due to the fact that the fees and services of ALCN are in USD, and in contrast, the costs are calculated in the local currency. As for EAST, most of its revenues come from local sales, while it imports more than 90% of its raw materials from abroad.

Eighth: What about the Beneficiary Companies if the CBE Cuts Interest Rates during the FY21/20?

We wanted for information only to indicate the companies listed in the thirtieth index, which will be positively affected if the Central Bank reduces interest rates on deposits and lending.

Name	Weight
EKHO	5.84%
HRHO	4.40%
TMGH	3.98%
SWDY	2.98%
ETEL	2.81%
ISPH	2.40%
CIRA	2.36%
JUFO	2.32%
OCDI	1.89%
MNHD	1.72%
EFID	1.49%
HELI	1.40%
PHDC	1.26%
CCAP	1.12%
PIOH	0.85%
AUTO	0.84%
ORHD	0.67%
ESRS	0.66%
OIH	0.63%

Research Department

Mostafa Shafie

Senior Equity Analyst
MShafie@arabeyaonline.com

Omar Hussein

Head of Retail Trading

OHussein@arabeyaonline.com

Reham Aboul Atta

Head of Institutions desk

RYasser@arabeyaonline.com

Moataz Ashmawy

Managing Director

MHassan@arabeyaonline.com

Laila Tarek El Ghawass

Managing Director - Branches

LTarek@arabeyaonline.com

Commercial Website: www.arabeyaonline.com

Trading Website: www.aolbeg.com

For more info, kindly contact us on our hotline 16225