

## «The Egyptian government’s determination to achieve investment-led economic growth makes us positive»



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We visited Cairo in January to attend the CI Capital 3rd Annual MENA Investor conference. The event gave us the opportunity to meet President Abdel Fattah al-Sisi and attend various discussion panels involving government ministers. The main message from the government is its strong commitment to deliver on economic reforms and create an enabling investment environment for the private sector. We also attended meetings with corporate management teams from various sectors.

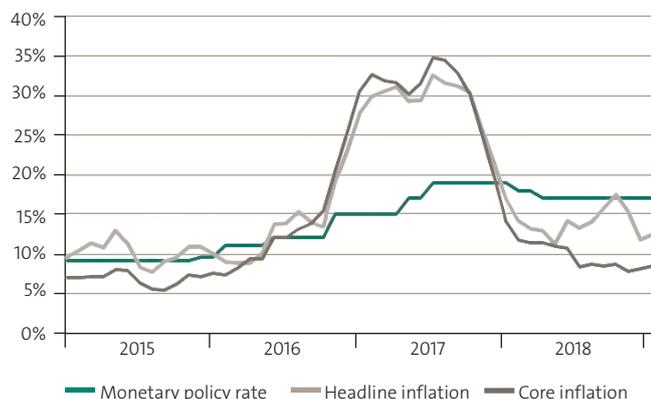
While the high interest rates continue to be a drag on activity, in particular on capex spend, the picture arising is that of brightening growth prospects and recovering entrepreneurial spirit. After a 14% correction in USD terms in 2018, the equity market offers attractive value. Returns delivery will depend on the global liquidity backdrop for EMs and the pace of interest rates normalization by the Central Bank of Egypt (CBE).

### Meeting the government at highest level

The highlight of the trip was to be part of a group of 14 foreign investors to attend a meeting with President Abdel Fattah Al-Sisi. The President insisted on having an interactive session and appeared at ease, addressing investors’ questions without prior communication.

We met a President Sisi well versed in economic matters, sharp and candid in his analysis of the challenges and pragmatic in his approach to address them. Economic reforms were in his view a necessity and he insisted they would continue even after the IMF program ends in 2019. In a country where 60% of the population is below 40 years old and with soon over 800 000 young people per year joining the labor market, he believes the private sector inevitably has an important role to play and an opportunity to seize.

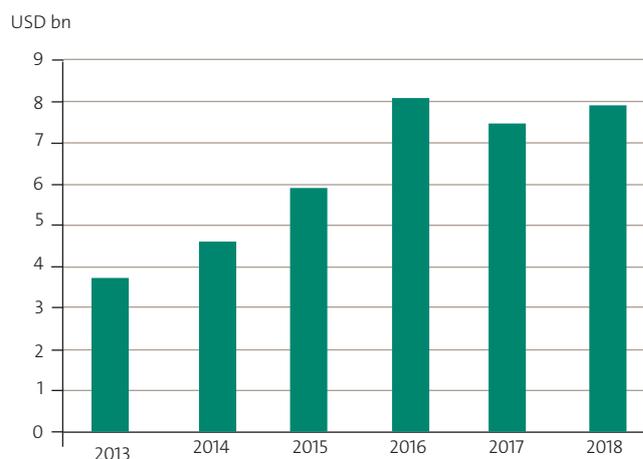
### Monetary policy and inflation rates



Source: Bellevue Asset Management as at January 31, 2019.

He highlighted the efforts of his administration to create an enabling investment environment: restoring security, fixing infrastructure, improving availability of FX flows and pushing through legislative reforms to create equal opportunity and protection for investors.

### Net foreign direct investments



Source: Bellevue Asset Management as at December 31, 2018.

He acknowledged resistance to change within state-owned enterprises and bureaucracy but was adamant change will come with time. Interestingly, when asked about the current high level of interest rates, he mentioned that monetary policy is the remit of the central bank and its decisions have to be accepted.

The government at large promoted the wave of positive change in Egypt. Prime Minister Mostafa Madbouly affirmed the government’s determination to achieve its objective of inclusive and investment-led economic growth with the private sector as a main development partner despite the global economic uncertainties. Finance minister Mohamed Mait reassured there are no intentions to increase the tax rate to address the fiscal shortage but the strategy is to improve tax collection, highlighting a study completed by Ernst & Young to simplify and automate tax procedures. Ms. Sahar Nasr, the investment minister, acknowledged the challenge of attracting FDIs in the current global economic environment but highlighted the growth trend and that Egypt is again the largest recipient of FDIs in Africa.

The deputy governor of the CBE outlined the positive macro-economic evolution since the 2016 devaluation, in particular the fact that investments and net exports are also driving GDP growth and not exclusively consumption. Part of the CBE policy objective will be to maintain a competitive currency to encourage export growth and import substitution in a clear break with the past. While past government always offered some good talk, the al-Sisi administration proved its credentials by walking the talk and delivering some of the trickiest reforms in Egypt such as progressively liberalizing the currency and cutting the expensive and inefficient subsidies. Even the New Administrative Capital that we were skeptical of is now a reality on the ground. The message from the government carries therefore, in our view, a substantially higher weight than in the past.

### A return of entrepreneurial spirit

Banks reassured on the continuation of the positive business trend. They see strong pent-up demand for credit, particularly for corporate capex, but do not expect the demand to materialize before rates fall by 300 to 400 bps points. On the potential for higher taxes following the new tax calculation method for income from treasury bills the finance ministry wants to implement, the negative market reaction to the announcement appears exaggerated in their view as the law is still in discussion and they can mitigate its effects by adjusting their balance sheets. Growth is certainly on all minds with the Housing and Development Bank expecting a “take-off” and accordingly drafting a strategy plan for the next 5 years. Corplease the CI Capital leasing franchise is seeing high levels of growth while maintaining a book of solid credit despite high rates and expects the growth trend to accelerate given the still low level of penetration.

Consumer names are slowly recovering from a difficult patch after the currency devaluation and the removal of subsidies hit purchasing power. While competition is undeniably increasing, innovation is making a comeback with Obour Land working with Tetra Pak on a new packaging concept to distribute its processed cheese after it established that glass jars were too expensive for the market. Dice the textile manufacturer is making inroads in import substitutions as it aggressively rolls out its stores offering locally produced Men’s underwear at very competitive prices.

On the theme of privatization, the port operator Alexandria Container & Cargo Handling Company made a poor impression, with investors and management talking past each as the latter were visibly poorly prepared. On the other hand, Eastern Tobacco seemed more advanced in the process after a board and management reshuffling. The company will fall under private company law after the government sells a 4.5% stake. As explained by a freshly elected board member, this will have far ranging consequences. The company can dispose of assets at will and optimize its balance sheet and finally set up the missing marketing department, as salary level restrictions do not apply anymore, making the hiring of high caliber marketing executives possible.

### The Egyptian investment opportunity

The performance of the Egyptian equity market in 2018 appears to us as collateral damage of the correction that gripped EMs. Apart the higher for longer interest rates, fundamentals on either the macro or corporate side remain on a solid recovery and growth track with the market correction leading to a hefty compression of multiples. Interesting investment opportunities are clearly available but the delivery of returns will depend on the pace of interest normalization and global EM liquidity.

### Fund facts

Investment advisor	Bellevue Asset Management
Custodian bank	RBC Investor Services, Luxembourg
Launch date	June 30, 2009
Legal form	Luxembourg UCITS IV SICAV
Approved for distribution	Luxembourg, Germany, Switzerland, Austria, Spain, UK
Volume as at 02/28/2019	EUR 67.6 mn
Benchmark	DJ African Titans 50
NAV calculation	Daily «Forward Pricing»
Management fee	1.6%
ISIN number	LU0433847240 (B EUR)
Security number	10264484
Bloomberg	BBAFOBE:LX

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