SIGMA CAPITAL

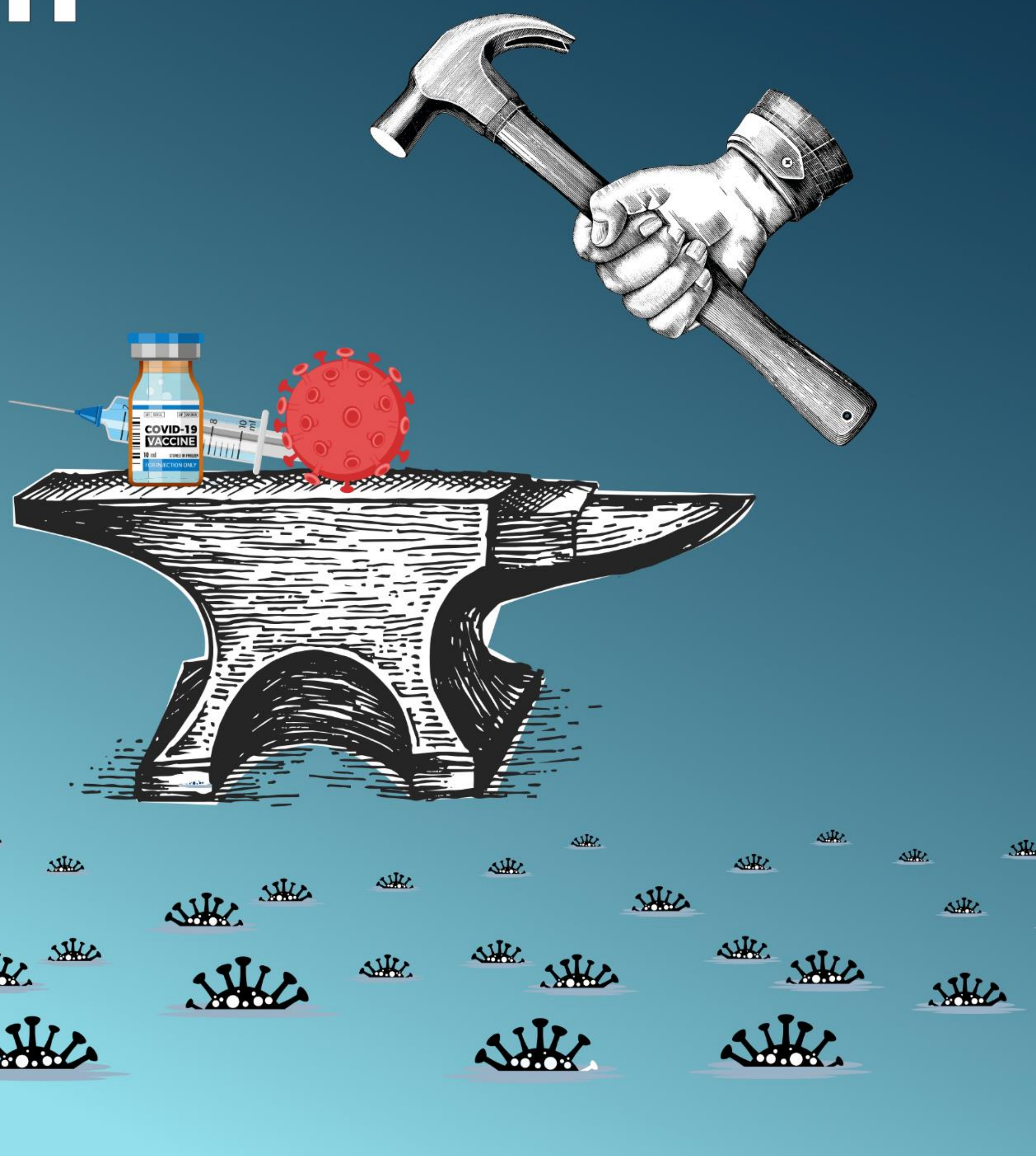
2021 Play Book

EGYPT EQUITY STRATEGY

Vol.2

2020 Randomness Year

The Market Smith



Bottom-Up for 2021

2020: The Apocalyptic Year

As we FINALLY come to the end of 2020, we find ourselves ruminating over the various events of this shambolic year. So, let's recap, shall we? Not long after the globe screamed Happy New Year! we were greeted with an escalating clash between the United States and China in their infamous trade war. Two months later, countries all over the world quarantined for their lives as the still prevailing COVID-19 pandemic reared its ugly head in February; making terms like social distancing, face masks, and Zoom meetings commonplace. Let's not forget those pesky wildfires burning up America's West coast, followed by protests and riots in parts of the country, and of course, the long awaited U.S elections. We therefore appropriately dubbed 2020: "The Apocalyptic Year".

It therefore came as no surprise that global stock markets crashed in 1Q20, demolishing the year's expectations and equity investment strategies. Thankfully, we were already bearish on the Egyptian stock market during that quarter.

The world was given a bit of a breather in April 2020, as stimulus packages offered by governments, both globally and in Egypt, led to markets recovering and caused a number of listed stocks to be able to offset a significant portion of the losses incurred during the peak of the pandemic. However, since this was an apocalyptic year, the breather did not last long. In October, the local market was hit with the CBE's release stating that it has taken action against Chairman of Commercial International Bank (COMI.CA)'s BoD. Naturally, this proceeded to hinder the performance of COMI, and the majority of the bourse's blue-chips, causing the EGX30 to take a 22% dive in the period spanning between January and November 2020; with COMI alone contributing 50% to the free fall. The downward trend was also fueled by the disappointing financial performance of the so-called defensive stocks, coupled with investors' shattered hopes of seeing any recovery in other companies' financials.

In the midst of these momentous events, it was almost as if retail investors were alienated from the EGX30-specific hits, as they managed to drive the EGX70WI up by around 61%, over the same period, and capture 58% of the market's total EGP477bn turnover. The index's daily average turnover also rallied, jumping from EGP 137mn in 1Q20 to EGP 238mn in 2Q20, EGP 361mn in 3Q20, and reaching EGP 497mn in 4Q20.

Now, we tackle the fundamental question, which is: **"What do we expect in 2021?"**
While the Egyptian market continues to be exposed to some of the aforementioned factors, the local front has somewhat stabilized; seeing several challenges resolved, such as tax and liquidity issues. However, investors, especially foreign ones, are still seeking evidence that the government is in fact paving the way for a higher private sector contribution. Furthermore, the market is thirsty for new blood and is constantly on the lookout for IPOs and investment-worthy stories. The global front is not altogether soothing either, as the pandemic continues to prevail, the U.S's policy toward the Middle East under Biden's rule remains ambiguous, and geopolitical tensions within our neighboring countries fail to subside.

Therefore, although the results of our Tactical Asset Allocation Model (SRY) favored equities over treasuries, we find it difficult to adopt either a bullish or bearish outlook for the EGX30 during FY21; especially given the uncertainties caused by the pandemic, and the lack of new and exciting stories in the Egyptian market. It's not all bad news though, as we believe that liquidity will sustain the improved pattern during the next quarter, a large number of listed companies will continue witnessing a recovery in performance (especially since COMI announced its 3Q20 results, showing the effect of the corrective actions in response to the CBE's inspections), and that Egypt and the majority of the world will not resort to the aggressive lockdown that was implemented in the first two quarters of FY20.

The fact that numerous stocks are currently trading below their FVs, and at low price multiples, indicates that cheapness is no longer a selling point. We therefore believe that a Bottom-Up strategy is the best fit for FY21 and, through this paper, we will provide the tools that will aid our readers in the selection process; specifying timings and points of entry. Therefore, instead of merely focusing on companies' valuations, we opted to combine 3 types of analyses: fundamental, technical and quantitative, in order to arm the investor with actionable and timely investment tools. We will also offer the traditional investment strategies; highlighting the defensive, dividend, and recovery based players, to present a cutting edge and comprehensive strategy that will encompass investment ideas, as well as various methods of implementation.

The Coronavirus Pandemic

- While many anticipated the creation and distribution of a vaccine for the COVID-19 virus by mid-2020, the process was delayed; perhaps due to political reasons, namely, the U.S. presidential elections. However, several companies have emerged with their versions of a vaccine including Pfizer and BioNTech, who asked U.S. regulators for emergency approvals for their vaccine, which they claim to be 95% effective.
- The United Kingdom became the first major country to begin the public rollout of a vaccine for COVID-19, marking it as a decisive turning point in the battle against the pandemic. The U.K began by vaccinating the elderly and front-line workers; and will move on to 18-50-year-olds from January through to Aril 2021. The U.S. started vaccinations in the second half of December, according to the head of the government's Operation Warp Speed program.
- Egypt will start a nationwide roll-out of China's Sinopharm vaccine next month, providing it free of charge, as the number of cases reached their highest level since late July.
- While the presence of a vaccine is a huge relief to the entire globe, its delay means that Egypt will have to battle, for at least another 6 months into 2021, with the uncertainties of the pandemic. This entails a heavy toll on Egypt's tourism sector, which is one of the main sources of hard currency that the country depends on. Currently, due to the pandemic, flights are operating at sub-par capacities and hotels are only allowed to reach an occupancy rate of 50%. Similarly, restaurants, cafes, and shops are ordered to close earlier and entertain less people to maintain safety regulations.

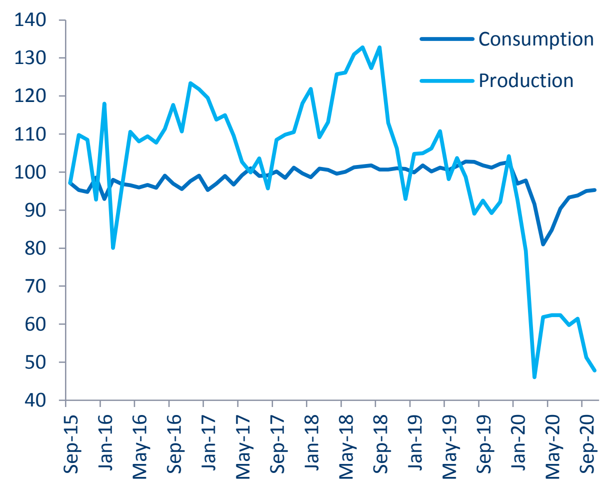
COVID-19 and Global Commodity Prices

- The Coronavirus pandemic has had a significant impact on global commodity prices, causing them to steeply plummet earlier this year. Almost all commodity prices have since recovered in 3Q20, but some remain below pre-pandemic levels. Different commodities fared better than others with metal prices showing a healthy comeback due to a faster than expected pick up of China's industrial activity. Energy prices, on the other hand, were the most severely impacted, showing only a partial recovery after plunging in March and April. We believe that 2021 should see commodity prices gradually increase from current levels, however, the duration of the pandemic still poses an imminent threat to said recovery, especially regarding oil.

Oil

- The collapse in oil consumption in March and April 2020, triggered a sharp decline in oil prices. As a result, many oil producers cut production, including the Organization of Petroleum Exporting Countries (OPEC), and its allies who cut global output by almost 10%. 3Q20, however, saw a partial recovery in oil prices as a result of production cuts and a pickup in consumption. That being said, we believe that demand for oil will remain under pressure in 2021, not only due to the continuance of the pandemic, but also as a result of changing consumer and employment behavior. Next year will probably witness a permanent reduction in business travel, as companies are now favoring remote meetings, thereby reducing demand for jet fuel.

Global Oil Production and Consumption



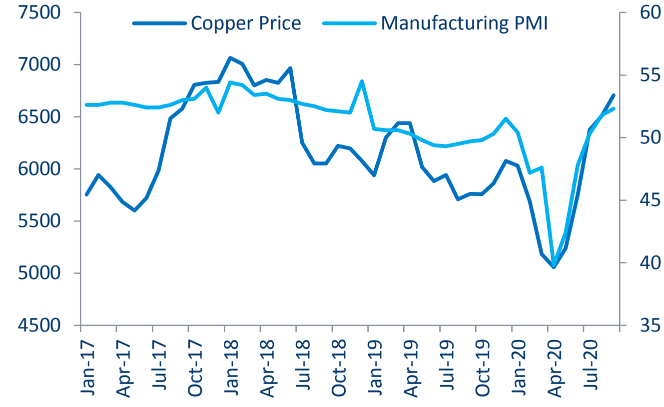
Source: Bloomberg

COVID-19 and Global Commodity Prices

Metals

- Spurred by a rebound in Chinese demand, the easing of lockdown restrictions globally, and the reactivation of major economies, metal prices have rallied starting 2H20. Some metal prices have rebounded to the extent of exceeding pre-pandemic levels; with copper seeing a particularly large increase. These factors are expected to continue lifting industrial metal demand in 2021, especially given the recent 6.1tn Yuan Chinese stimulus targeting infrastructure investment.

Copper Price and Manufacturing PMI

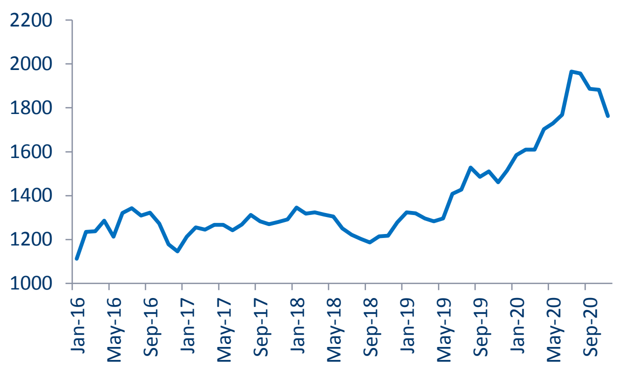


Source: Bloomberg

Gold

- As a safe-haven asset, gold prices increased as the pandemic triggered a flight to safety among investors. Gold prices were further supported by the depreciation of the U.S. dollar, the decline in interest rates, and mine production disruptions in Mexico, Peru and South Africa.

Gold Price

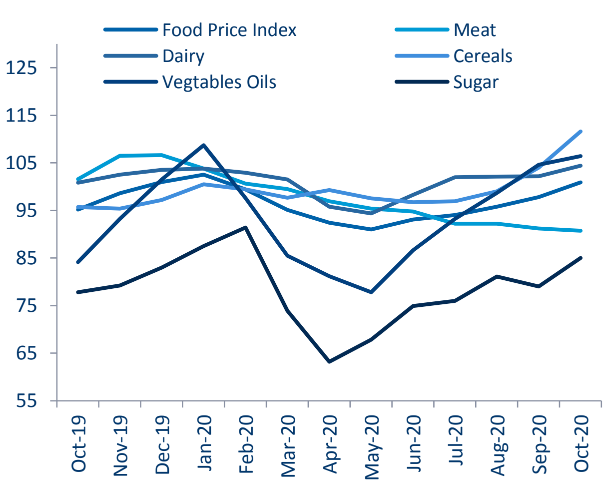


Source: Bloomberg

Food

- Despite policy restrictions, food prices remained largely unaffected by the pandemic over the course of the year. Recently, some increases in food prices were seen on the back of lower edible oil production and the weakening of the U.S. dollar.

Food Price Index



Source: Bloomberg

The U.S Presidential Elections

- After an extended period of controversy and suspense, Joseph Biden Jr. has been elected the 46th president of the United States, beating current president Donald Trump, and pending inauguration on the 20th of January 2021. The Biden campaign had stated that the president-to-be plans to primarily focus on rebuilding the domestic economy, as part of his “Build Back Better” campaign, with the main pillar hinging upon a stimulus package to tackle the current economic crises caused by the outbreak of the COVID-19 pandemic. Biden has called for an additional spending of USD 7.3tn over the span of the next 10 years, which will be partially financed by higher taxes; specifically, an increase of corporate tax from 21% to 28%, and rolling back tax deductions for taxpayers with incomes over USD 400K, which will create additional tax revenues of approximately USD 4tn. Furthermore, Biden’s economic plan includes a public investment of USD 400bn, which is attached to a ‘Buy American’ provision to revive US manufacturing.

Biden and the Trade War

- Although the Trump era is coming to an end, the U.S.-China trade war, that has been the Trump presidency’s trademark, is likely to continue albeit with a slightly calmer approach. Biden claims that, unlike his predecessor, he has a “strategy to use those tariffs to win”. This implies that Biden means to mitigate the effects of China’s hefty subsidies for domestic manufacturers, which enable Chinese companies to compete on price, and trade theft. It is worth noting that the main conflict between both countries lies in the manufacturing of high-value and critical supplies, such as medical equipment, 5G telecom hardware, and electric vehicles; with the U.S.’s main goal being to refrain from becoming dependent on China.
- While it was in full swing during the Trump era, the trade war only indirectly affected Egypt through: negatively impacting global trade, causing havoc in the commodities market, and shrinking world trade in terms of both price and volume. While we expect the trade war to continue under Biden’s rule, we believe its effect on Egypt will be further diluted since Biden plans to soften tensions with China, mainly focusing on the real issues driving the war.

Biden and the U.S Dollar

- A Biden era implies a weakening of the U.S. Dollar, as the former vice-president is expected to: 1) increase stimulus package spending to combat the COVID-19 pandemic, 2) take a freer approach to trade, boosting other currencies at the dollar’s expense, and 3) implement an economically stifling regulatory agenda. On the other hand, the possibility of continued Republican control over the Senate risks limiting the extent to which the Democratic Party can implement its policy agenda, thereby limiting the fall of the U.S. Dollar.
- However, assuming the more probable scenario of a U.S. Dollar depreciation against the Egyptian Pound (EGP), implies positive connotations to Egypt, as it will alleviate the pressure on the latter’s budget, maintaining the EGP’s strength.

Biden and Foreign Policy

Egypt

- While Trump, and the Republican party as a whole, opted for a more isolationist approach when it came to foreign policy, Biden and his Democratic party will definitely take the opposite stance. This means that we can expect the U.S. to once again begin meddling in the affairs of Egypt and the Middle East as a whole. While this was a major threat to Egypt’s advancement in the previous democratic era, under former president Barack Obama’s rule, Egypt is currently in a much stronger economic position than it was back then.
- Currently, Egypt has direct dealings and agreements with international entities such as the World Bank and the International Monetary Fund (IMF). Therefore, while a Biden rule could imply more interference with Egypt’s affairs, the country’s direct involvement with said entities gives it a sturdier stance.

▷ The U.S Presidential Elections

Iran

- Biden has promised to rejoin the Iran nuclear agreement if Iran abides by the deal, however, both sides will have to act fast as Iran is due to hold elections in June. Iran's current president, Hassan Rouhani, stood behind the 2015 agreement, known as the Joint Comprehensive Plan of Action (JCPOA), and there is no guarantee that the next Iranian president will be as intent on cutting a deal. The 2015 agreement between Iran and world powers exempted economic sanctions on Tehran, in return for strict limits on Iran's nuclear activities. However, in 2018, President Trump withdrew the U.S. from the deal, and Iran breached some of the stated limits, inching closer to building an atomic bomb. Now, Iran has sent clear messages that it is ready to talk to the Biden administration about reviving the deal, as long as Washington abides by the terms of the agreement, in order to lift the pressure of the sanctions from the Iranian nation. **A renewed cooperation between the U.S. and Iran could mean an oversupply in oil, implying that oil prices will remain under pressure during Biden's rule.**

Energy Market Regulation

- Regarding energy policy, Biden made it clear that he would transition away from the oil industry and towards renewable energy. He plans on rejoining the Paris Climate Agreement on his first day in office, clarifying the intent of his administration to pursue clean energy solutions. The president-to-be will also likely increase regulations and environmental protections leading to less oil and gas production at home, thereby altering the global energy supply equation, and applying further pressure on global oil prices.

▷ The Situation in Libya

- Ever since the Arab spring movement and the NATO bombing campaign that toppled Muammar al-Gaddafi in 2011, Libya has been in chaos. Several forces now lead the country, with the Western half controlled by a UN backed government in Tripoli, known as the Government of National Accord (GNA), while the Eastern half by Khalifa Haftar, who is leading the Libyan National Army (LNA).
- The situation took a dramatic turn when Turkey decided to throw its weight behind the UN-brokered government, by sending technical and military support to stop the advance of General Haftar's troops to capture Tripoli. In June 2020, Egyptian President Abdel Fattah El Sisi announced that he is drawing a line between Sirte and the area around Jufra in central Libya, calling it "Egypt's red line". He warned that any attempt to cross said line by the militias loyal to Tripoli would be considered a direct threat to national security, at which point Egypt will intervene, at Libya's request, and withdraw upon their order. El Sisi then announced a unilateral initiative to end the civil war in neighboring Libya, which includes a cease-fire, the formation of a presidential council in which Libya's 3 regions would be represented, the unification of all Libyan financial and oil institutions, and the disbanding of militias. On the 23rd of October 2020, rival forces in Libya have agreed to a permanent nationwide ceasefire.
- As Egypt's neighboring country, Libya represents an imminent threat. If the ceasefire continues, it will hold positive connotations to Egypt's economy in 2021 as it will provide significant employment opportunities to those truly affected by the pandemic, both in Egypt and the GCC region as a whole. It will also result in several sectors seeing strong demand, specifically: building materials, contracting and food and beverage.

Egypt's Agreements with Iraq

- Egypt and Iraq have reached a preliminary consensus to establish an oil for reconstruction mechanism. Both countries have signed 15 agreements, protocols and programs in the fields of health, transport, water resources, justice, the environment, housing, construction, finance, industry and trade. The agreements entail Egyptian companies carrying out development projects in Iraq in return for oil. This would boost bilateral cooperation and enhance the pace of development in Iraq, whilst giving both nations great production and export potential.
- There were also talks of revitalizing the role of Arab Bridge Maritime, which is a commercial company founded by Egypt, Iraq and Jordan in 1985, to bolster trade ties between the founding countries. Egyptian Prime Minister Mostafa Madbouly added that Cairo was seeking to increase cooperation in the fields of oil, gas, chemicals, and minerals and that Egyptian contracting companies are eager to explore the Iraqi market by contributing to its reconstruction efforts.

▷ The Effect of COVID-19 on Egypt's Macro-economic Indicators

On the precipice of witnessing a period of relatively high growth, the COVID-19 pandemic hit Egypt in March 2020. The outbreak not only halted Egypt's promising growth period, it also exacerbated the country's challenges. Several indicators proved how swift the impact of the pandemic was on the country's economy as detailed below.

Purchasing Managers Index

- Egypt's Purchasing Managers Index (PMI), declined to 38.3 during the period between April and June 2020, its lowest level on record; indicating a large contraction in non-oil private sector activity. However, it has since recovered to reach 50.9 in November.

Unemployment

- Unemployment increased from 7.7% in 1Q20 to 9.6% in 2Q20, as a result of increased job losses among informal workers, mainly in the manufacturing, construction, tourism and transport sectors.

Net International Reserves

- Egypt's Net International Reserves recorded EGP 39.2bn in November, remaining broadly stable M-o-M. While the country's foreign reserves have been showing a healthy rebound since June, after declining by USD 10bn between March and May 2020, it remains below the USD 45.5bn peak hit in February. This is due to the slow recovery of tourism, as well as other FX sources remaining under pressure due to the pandemic.

Portfolio Investments

- Egypt's current account deficit stood at USD 11.2bn as of FY19/20, slightly widening Y-o-Y from the USD 10.9bn recorded in FY18/19. Portfolio investments in Egypt shifted to net outflows of USD 7.3bn in FY19/20, from net inflows of USD 4.2bn in FY18/19; due to lower investments from non-residents, as a result of the pandemic's shock on international financial markets. The decline was pronounced in the period that followed the outbreak of the pandemic (January/March 2020), resulting in net outflows of USD 8.2bn, versus net inflows of USD 6.9bn.

- However, by the end of November, foreign portfolio investments in EGP-denominated bonds rose to USD 23bn, up from EGP 21.1bn six weeks earlier; as hot money once again started flowing back into the country on the back of central banks globally increasing their stimulus packages to stabilize financial markets.

Remittances

- Egypt's budget deficit shrank to EGP 134.9bn, translating to 2.1% of GDP in 1Q20/21, compared to 2.3% during the same period last year. The narrowing deficit was attributed to an 18.4% Y-o-Y increase in state revenues to EGP 204.7bn, which was partially driven by a 14.1% hike in tax revenues.

- Remittances from Egyptians living abroad surged by a significant 19.6% Y-o-Y in 3Q20 to USD 8bn over the same period a year prior. It increased by 11.6% Y-o-Y in 9M20 hitting USD 22.1bn. We believe this could be justified by increased compensation packages offered to terminated workers, which increased their propensity to save by transferring capital to their home country.

Interest Rates

- As of November 12th 2020, the Monetary Policy Committee (MPC) decided to cut the Central Bank of Egypt's (CBE) overnight deposit rate, overnight lending rate and the rate of the main operation by 50bps to reach 8.25%, 9.25%, and 8.75%, respectively. The discount rate was also cut by 50bps to 8.75%. It is worth noting that this is the second time the MPC decided to cut rates this year, as the overnight deposit rate, overnight lending rate, the rate of the main operation, and the discount rate were reduced by 50bps on the 24th of September 2020, to reach 8.75%, 9.75%, 9.25%, and 9.25%, respectively.

The Effect of COVID-19 on Egypt's Macro-economic Indicators

Inflation

- As of November 2020, annual headline inflation rose to 5.7%, compared to 4.5% in October, and 3.7% in September 2020. The increase was mainly driven by higher prices of vegetables and other food products. Annual core inflation increased from 3.9% in October to 4% in November 2020.

Gross Domestic Product (GDP)

- Preliminary figures revealed that real GDP growth for FY19/20 recorded 3.6%, compared to 5.6% a year earlier. GDP growth was negatively impacted in 2Q20, due to the lockdown measures implemented to combat the spread of the pandemic, showing a 1.7% decline from the 5.0% recorded in 1Q20. While consumption recovered, the pickup was not substantial enough to offset the contraction in investments and net exports.

IMF Projections

- In its latest World Economic Outlook, the International Monetary Fund (IMF) projected that the Egyptian economy will grow 2.8% in FY20/21, compared to an estimated growth of 3.6% in FY19/20. Furthermore, the fund expects GDP growth to rise over the next 5 years before stabilizing at 5.6% by FY24/25.
- The IMF expects Egypt's average inflation rate to reach 6.2% in FY20/21, compared to 5.7% in FY19/20.
- It also added its unemployment rate forecast, stating that it will hit 9.7% in FY20/21, compared to 8.3% the same period a year prior.
- The fund expects Egypt's current account deficit to increase to 4.2% of GDP in FY20/21, compared to estimates of around 3.2% in FY19/20.

Government Projections

- According to Finance Minister Mohamed Maait, Egypt's economy is expected to grow between 2.8-4% in FY21/22, expecting GDP growth to recover significantly at the beginning of the fiscal year. Maait added that Egypt's economy is expected to close out the current fiscal year with a 2.8-3.5% growth, providing a more conservative estimate than the 3.5-3.8% projected by Deputy Planning Minister Ahmed Kamaly in early November.
- It is worth noting that Egypt is the only MENA economy expected to grow this year, compared to regional peers.

Egypt’s Government measures against the Pandemic

2020 March

- Egyptian president designated LE100 billion plan against COVID-19.
- CBE cut the interest rate by 300 basis points.
- CBE announced settling with some delinquent borrowers.
- CBE deferred bank loan payments for consumer goods and property.
- CBE raised daily withdrawal limits.
- Provide EGP 187.6 million to the Ministry of Health.
- Government announced 2% of GDP shall be directed to the health sector.
- Double the contribution percentage to public expenditure on health in the national budget.
- Allocate EGP 20 billion to support the capital market.
- Subsidize electricity and natural gas tariffs for the industrial sector.
- Reduce lending interest rate from 10% to 8% for industrial and tourism sectors.
- Allow cash subsidies for daily earning workers amounting to EGP 500 per person.
- Payment of EGP 1 billion of export subsidy arrears.
- Provide 3 month tax relief for Real Estate taxes for tourism and industrial sectors.
- Allow 3 months installments to settle income tax for all affected sectors.
- Increase the exemption tax limit for employees from EGP 8,000 to EGP 15,000.
- Increase the annual raise of public sector and state employees by 7% and 12%, respectively and for pensions by 14%.
- Tax reduction for the capital market.
- Postponing capital gains to January 2022.
- Delay of settling credit dues for individual banking loans for 6 months.
- Removal ATM withdrawal limits for credit cards for 6 months.
- Allow grace period for mortgage lenders, factoring and leasing companies for 6 months.
- Reducing the price of natural gas and electricity for industrial use.
- Reducing electricity for heavy industry to be priced at 0.10 EGP (USD 0.0064) per kilowatt hour, down from 1.10 EGP.
- The National Bank of Egypt and Bank Misr announced a one-year deposit program with a 15% interest rate.
- Allocating EGP 50 billion for real estate financing for middle-income groups.
- Three months extension for the payment of property taxes for industrial and tourism sector.

2020 APRIL

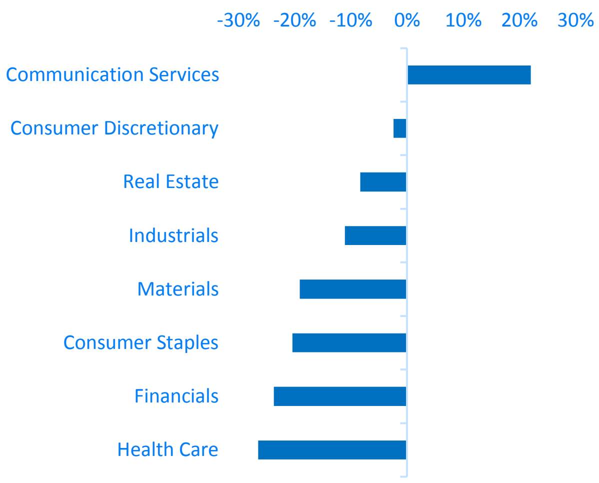
- Allocate EGP 50 billion loan to the tourism sector at subsidized interest rate.
- Provide credit facility to pay employees’ salaries in the tourism sector.

2020 MAY

- USD 2.7 billion loan was requested and granted by the IMF, as an emergency support.
- The Cabinet’s approval to allocate an additional LE 100 million to EgyptAir for air freight.
- Egypt's parliament approves suspending tax on agricultural land for two years.

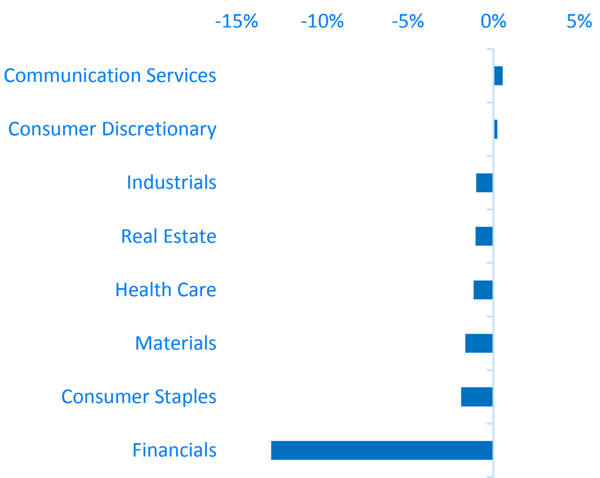
- Our analysis period spans between January – November 2020, during which the EGX30 underwent a sharp drop of 21.6%. This followed a 31.3% decline at the end of 1Q20, when the index suffered the pandemic's wrath, hitting its lowest level in FY20 at 8,756. Surprisingly, the healthcare sector, was the worst performer in terms of Absolute Total Return; while the financial sector, led by COMI, contributed the most to the index's drop due to its significant weight.
- Some sectors conformed to expectations, in light of the pandemic, while others presented surprises. The 27% decline in the healthcare sector was a negative surprise; witnessing its most significant players, namely: ISPH and CLHO, decline by 32% and 21%, respectively. While the healthcare sector used to be the ambassador of defensive stocks in investment portfolios, the pandemic caused people to focus on Covid-19 drugs and avoid visiting hospitals, which negatively affected the sector's profitability. Furthermore, the global lockdown made it challenging to secure raw materials, which adversely weighed on producers; while negative news surrounding ISPH exacerbated the situation further. In conclusion, the COVID-19 pandemic called the defensiveness of the healthcare sector into question.
- Being one of the few beneficiaries of the pandemic, ETEL conformed to expectations and managed to drive the strong performance of the telecom sector. The banking sector was expected to suffer during the same period; and it too conformed to expectations, as the pandemic triggered CBE initiatives, one of which was granting a 6-month break on all credit installments. Although the sector was expected to witness an enhancement in profitability by 4Q20, with the resumption of installment collections, the CBE's decision regarding COMI reversed the recovery trend in stocks' prices. To clarify, by the end of September 2020 COMI's stock price narrowed its losses to 20% from the 29% recorded in 1Q20. However, the CBE's decision against COMI, caused losses to once again widen, reaching 25% by the end of November 2020, leaving investors anticipating the quantified results of said decisions on the bank's financial performance. On the other hand, small-cap banks benefited from positive news during that period, leading to a notable rally led by EXPA and CANA. However, this was not reflected on the EGX30's overall performance due to EXPA's small weight, and the absence of CANA from the index constituents.

ETEL led the communication sector to be the EGX30 best performing sector in FY20 in terms of Total Return



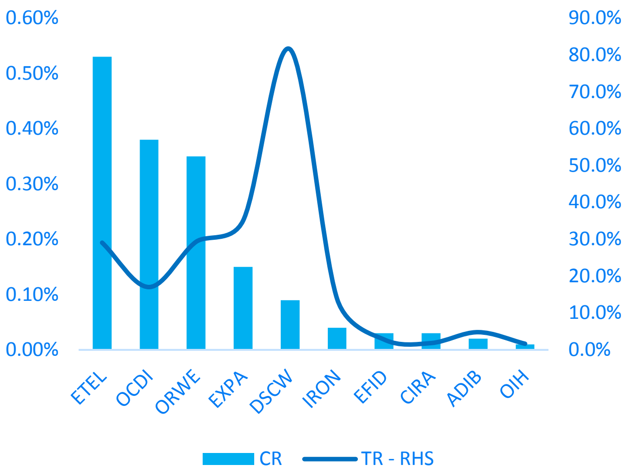
Source: Bloomberg

While COMI led the financial sector to be the worst contributor to the index



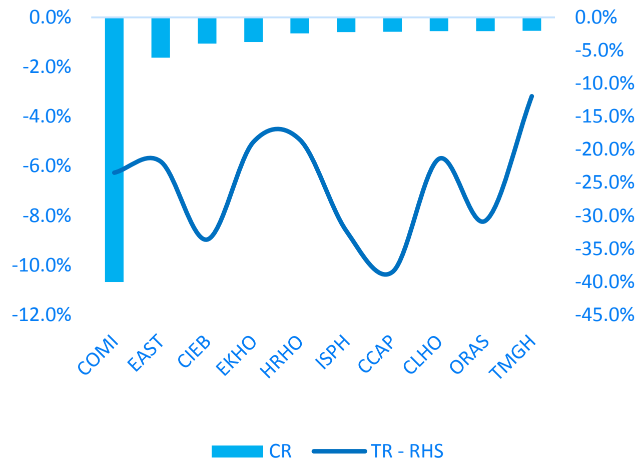
Source: Bloomberg

ETEL led the BEST 10 contributors to the index



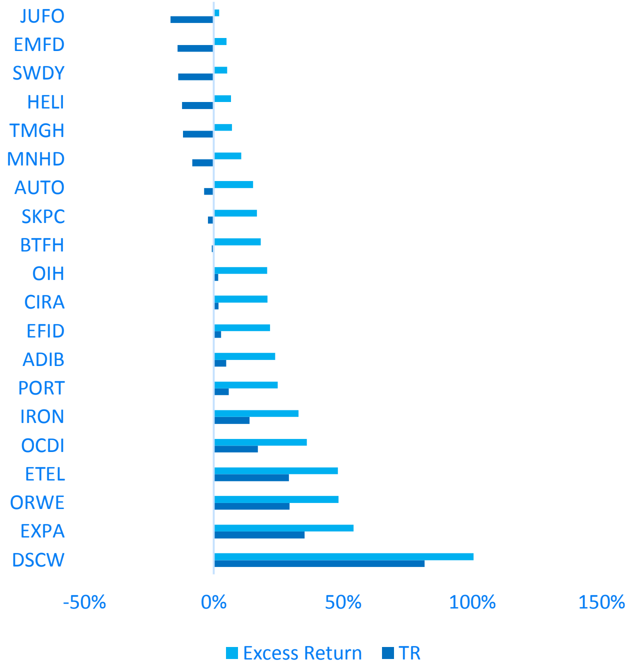
Source: Bloomberg

COMI topped the WORST 10 contributors to the index



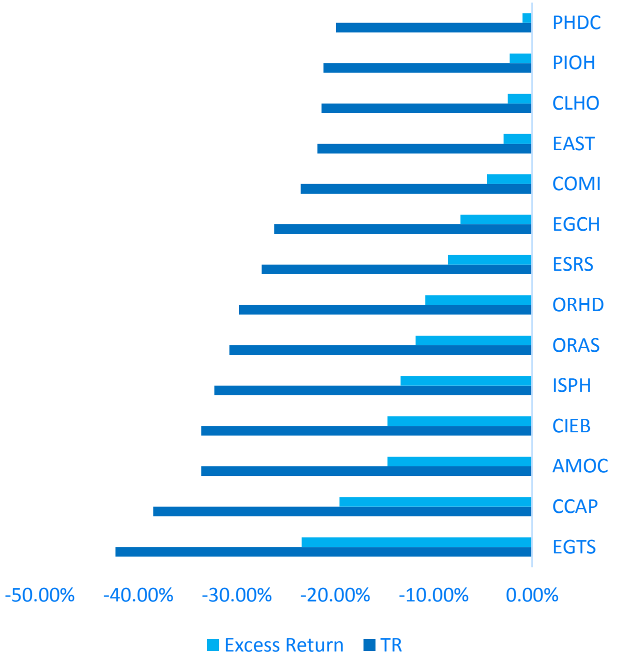
Source: Bloomberg

DSCW at the top of EGX30 Outperformers with highest Excess Return



Source: Bloomberg

On the other hand, EGTS headed the list of Underperformers



Source: Bloomberg

Egyptian retail investors have a different perspective

- During our analysis period, the EGX70WI witnessed a rally of 61%, outperforming the EGX30, and realizing one of the strongest performances among emerging markets. The EGX70WI began its upward trajectory at the end of March 2020, with a rising trend in its daily average turnover, jumping from EGP 137mn in 1Q20, to EGP 238mn in 2Q20, EGP 361mn in 3Q20, and EGP 497mn in 4Q20.

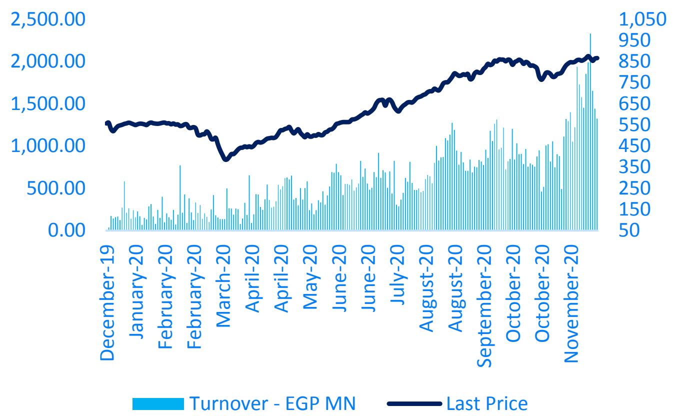
  Total market turnover from January – November 2020, amounted to EGP 477bn, of which the Egyptian retail segment represented 58.4%, with a turnover of EGP 278.5bn.

  Despite the randomness that usually results from crowd behavior, the hyper activity of the Egyptian retail segment succeeded in overcoming the liquidity crisis that the market has been experiencing since 2019. In March 2020, the pandemic pressured the market to reach historical lows, creating excellent entry points for new investors, and accumulation opportunities for existing ones. These flows were reinforced by the government's decision to stimulate the stock market.

  Consequently, small-cap index, EGX70WI, was the best vehicle to capture retail inflows. It also granted 2 additional advantages: 1) the EGX70WI index was completely alienated from COMI related news, which severely impacted the EGX30's performance, and 2) it offered protection against foreign institutions' net selling, which amounted to EGP 18bn over our analysis period; triggered by the state of fear that the pandemic induced on investors globally. As a result, foreign institutions recorded net outflows of EGP 3bn in March 2020, followed by an additional EGP 7.8bn in 2Q20.

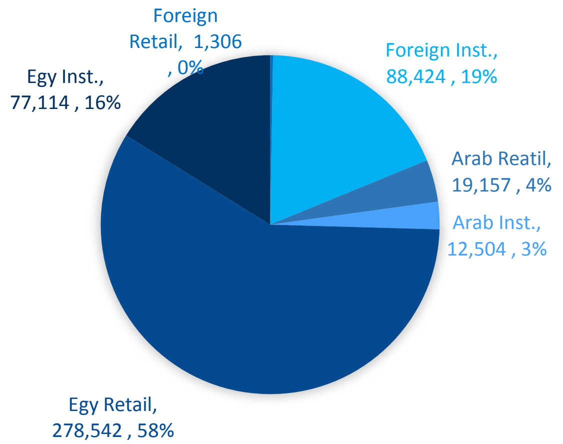
- As we mentioned in our 2019 and 2020 strategies, cheapness can no longer be depended on as the sole factor attracting foreign inflows. We therefore reiterate that investors need to be presented with new and innovative options; and we believe that the Egyptian stock market as a whole thirsts for these cutting edge tools, besides increased IPOs.

EGX70 witnessed a solid performance



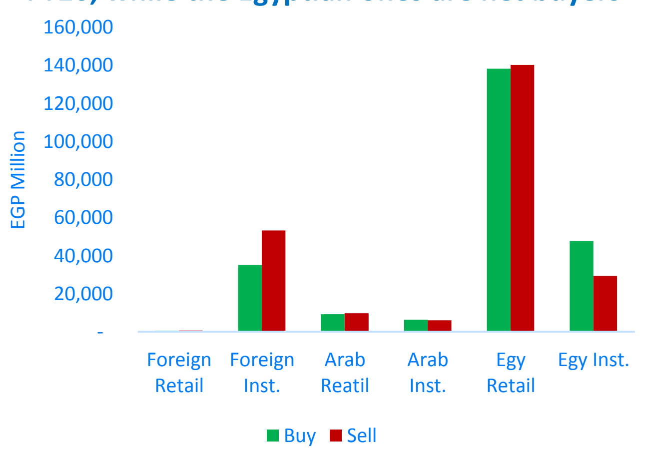
Source: EGX, Bloomberg

The Retail dominated the total market turnover



Source: Sigma, Bloomberg

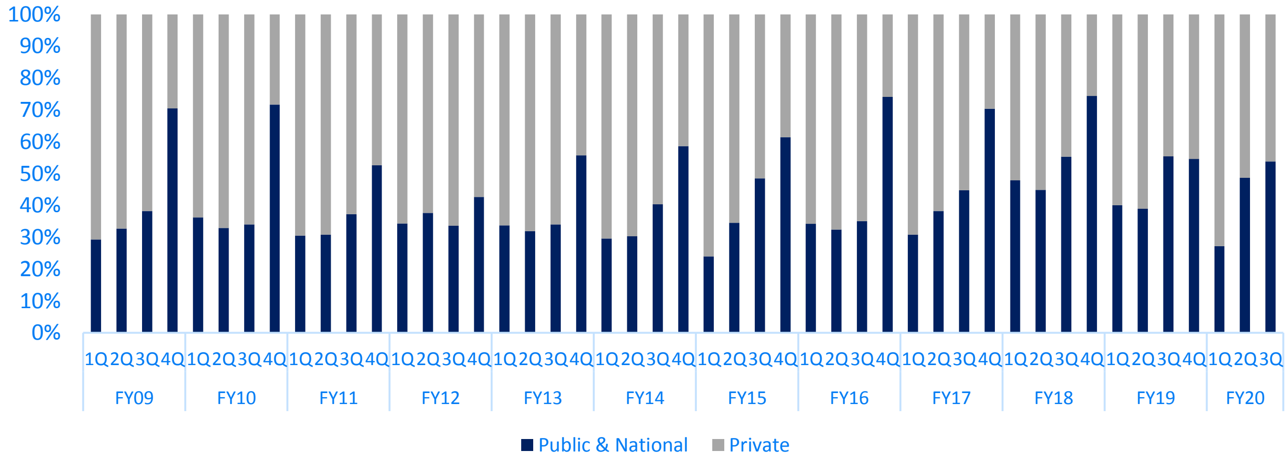
Foreign Institutions are net sellers during FY20, while the Egyptian ones are net buyers



Source: Sigma, Bloomberg

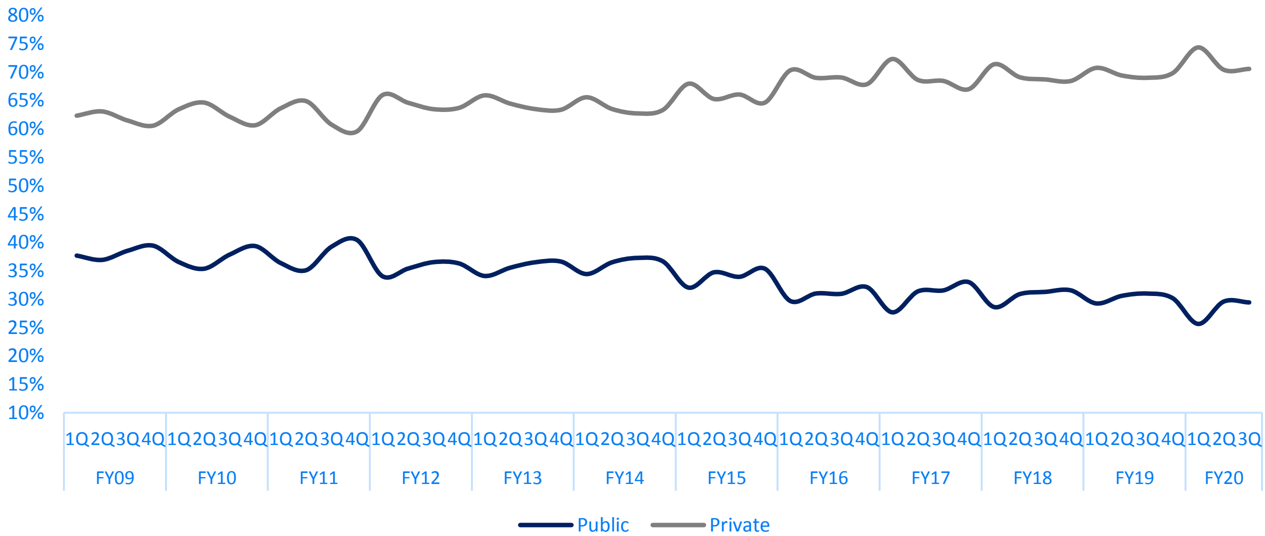
- In order to attract more foreign investments, either in the form of portfolio or direct Investments, the government is still required to pave the way for increased private sector representation. Within economic reform programs, it is common to witness higher governmental contribution in economic activities, and this was in fact very necessary during the pandemic. However, it is high time the government switched gears, choosing instead to maximize the contribution of the private sector; especially since the pandemic created the perfect opportunity for the government to accelerate its financial inclusion initiative. In this vein, the recent news regarding stake offerings of army-owned companies to the private sector was music to the market's ears.

Public and National Projects seized a higher presentation in the Implemented Investments



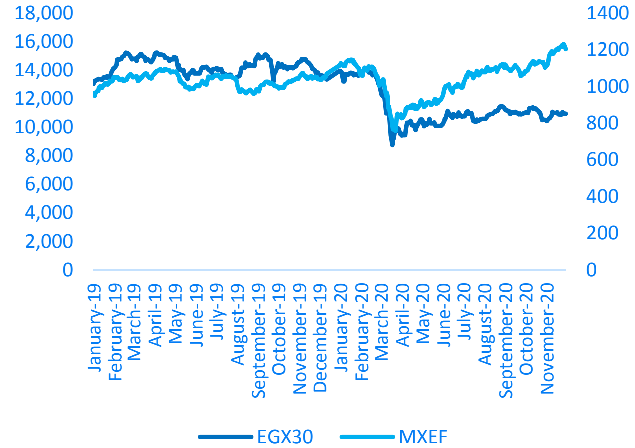
Source: CBE, Sigma Research

Meanwhile, the Private sector is struggling to maintain its contribution to GDP at the lower band of the historical average



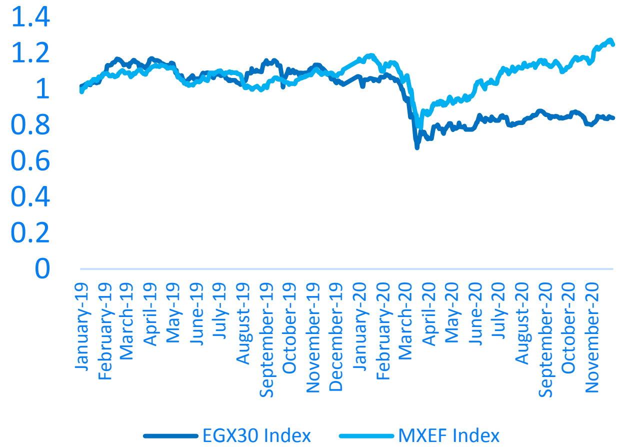
Source: CBE, Sigma Research

EGX30 Vs. MXEF – Absolute Performance



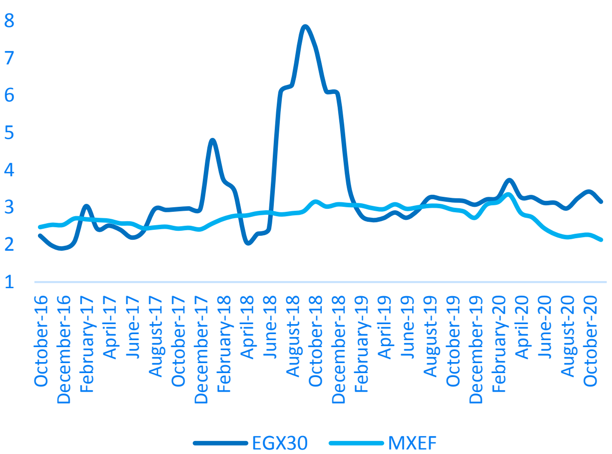
Source: Bloomberg

Over the last 2Yrs, EGX30 is underperforming– Relative Performance



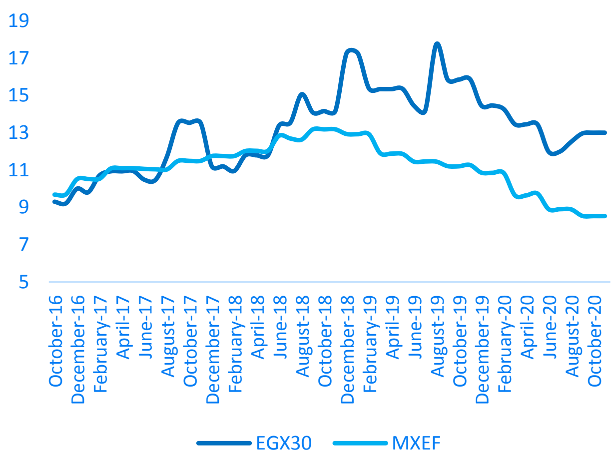
Source: Bloomberg

DY (%)



Source: Bloomberg

ROE (%)



Source: Bloomberg

PE (x)

Source: Bloomberg

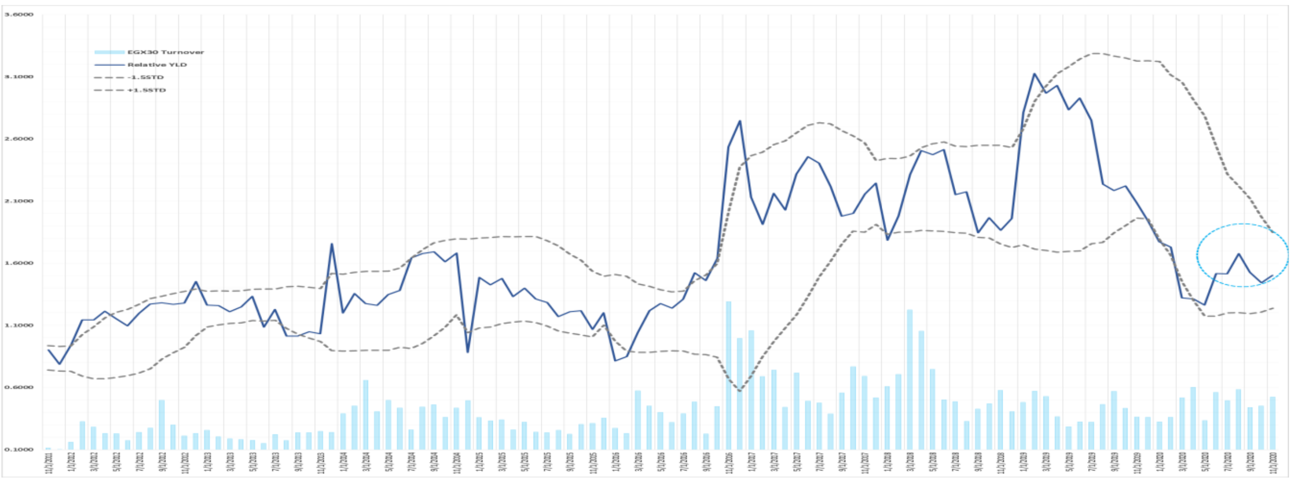
PBV (x)

Source: Bloomberg

SRY Model

- In our 2020 Equity Strategy, we introduced the Significant Relative Yield (SRY) model; a tactical asset allocation strategy that seeks to actively trade between equities and T-bills. The SRY model signals the appropriate timing at which a reallocation from equity to debt, and vice versa, would be optimal. A data point within 1.5 STD units, signals a switch from equity to debt.
- Any spike in market action (represented by turnover levels) signals a significant relative yield. Therefore, the current declining trend of interest rates is further pushing the signal line towards a favorable equity accumulation level.

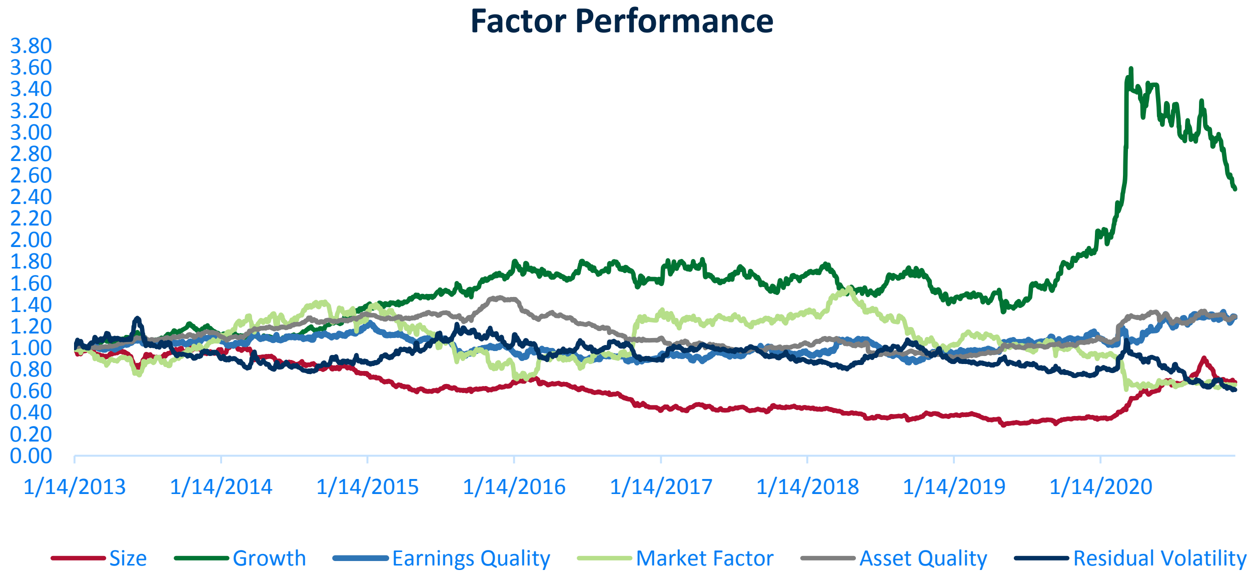
Tactical Asset Allocation



Source: Bloomberg, Reuters, Sigma Research

Factor Performance

- According to Sigma K-Factors (Sigma's dynamic smart-beta allocation platform), the growth stocks (Low B/P ratio) portfolio continued to offer the most rewarding excess return.



Source: Sigma K-Factor Model

Stressing the Market

- 2020 has shaken the ground underneath the market, emphasizing the need for a proper risk management setup. Our Monte Carlo simulation is a forward-looking measure used to immunize portfolios from potential crushing losses, through identifying ruin probability, and signaling market bottom levels for re-positioning.

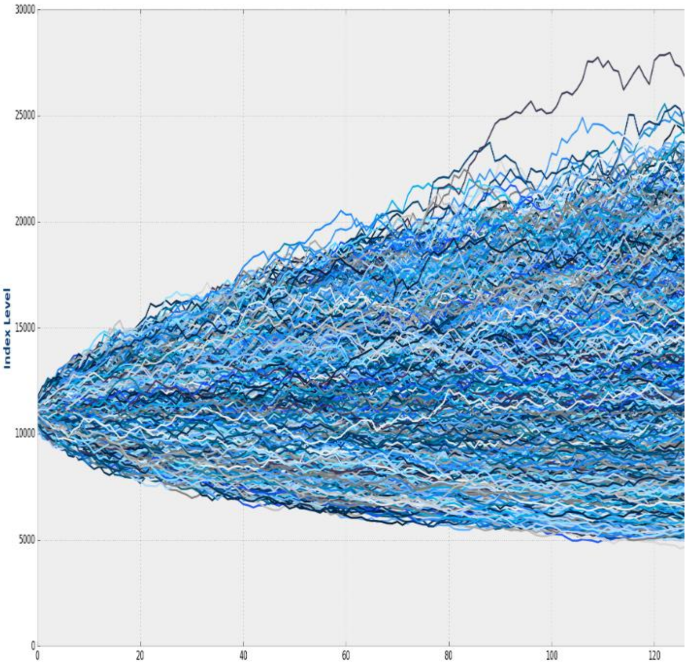
- Running a half-million path MC simulation for EGX30 signals stop-loss (re-positioning) levels at:

Condition(126-day Forward)	Level	Probability	Action Trigger
Index level below	9,000	16%	Stop loss – re-entry
Index level above	13,000	11.9%	Rebalancing

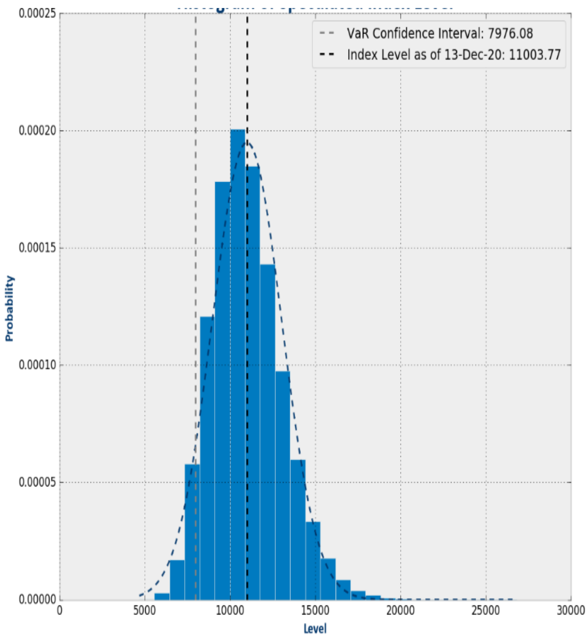
Finding the bottom

The MC simulation is a superior forward-looking test that helps capture the market's bottom. The aforementioned levels signal market swing extremes, which should prompt asset mangers to trim or accumulate portfolio positions.

Monte Carlo Simulation 126 Days

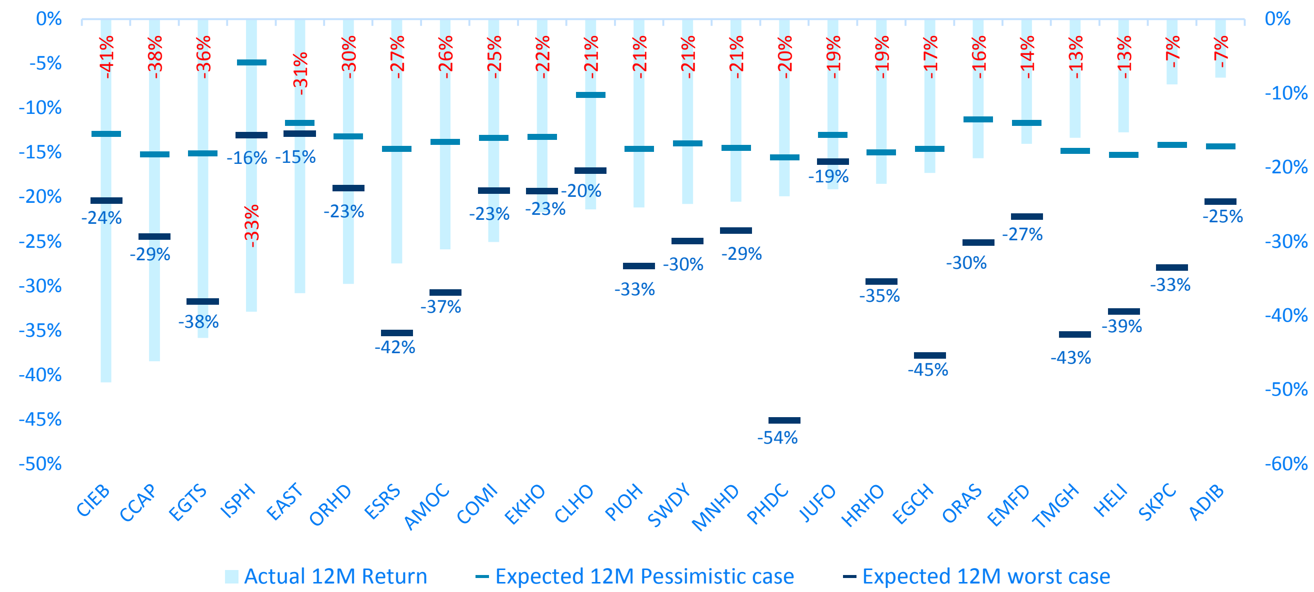


Histogram Speculation Index Level



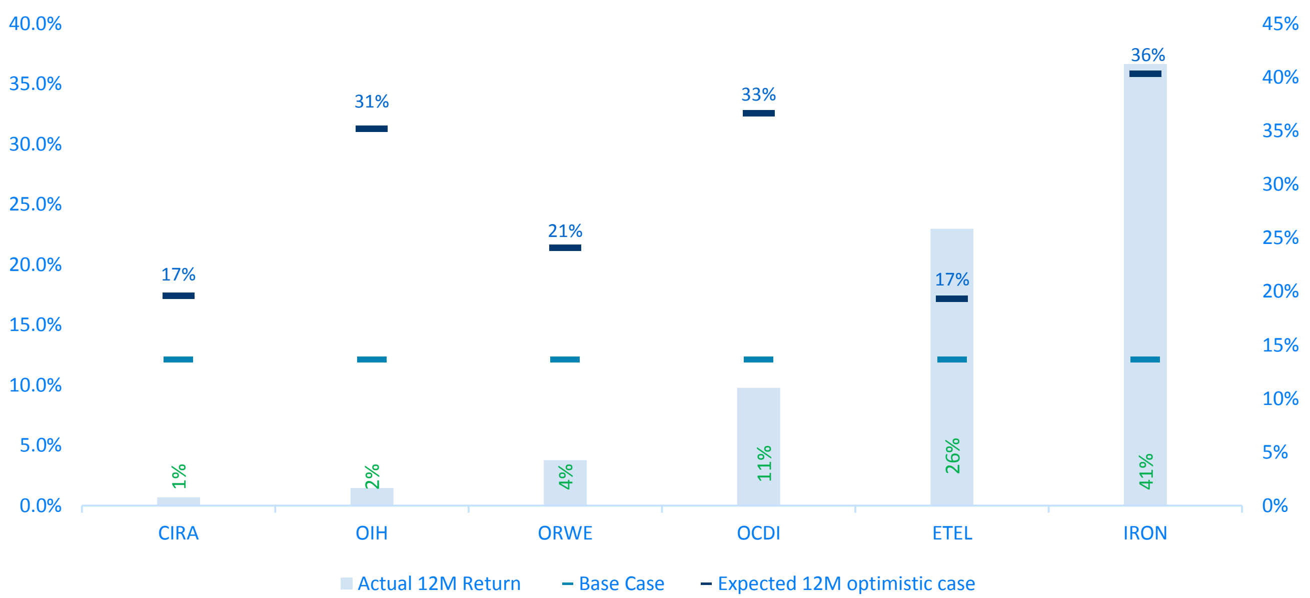
Expected Return

- Our 2020 strategy also introduced the James Stein Estimator, which predicts stock returns over a 12-month period. We relied on this model, and applied different scenarios, to try to quantify the magnitude of different movements. Last year, we ran 4 scenarios for each stock on the EGX30 index, namely: Optimistic and The Best, for those showing a positive performance, and Pessimistic and The Worst, for the opposite. “The Worst” scenario predicted stock performance over 12 months, under an aggressive crisis. Since the pandemic is considered such an event, the expected range on the negative side worked as a good indicator to forecast the drop in stock prices. For instance, the 12M expected worst result for COMI was 23.1%, and the actual loss came in at 25%. EKHO was expected to see a 12M loss of 23%, and the actual stood at 22%. Few stocks managed to exceed the worst case prediction, while others did not reach the pessimistic scenario.



Source: Reuters, Sigma Research

- On the other hand, the performance of rising stocks, relative to the expected range, is depicted in the following table (highlighting the base and best cases)



Source: Reuters, Sigma Research

Expected Return

- The following tables depict expected results against actual performance.

Stock	Expected 12M Pessimistic case	Actual 12M Return	Expected 12M worst case
CIEB	-15.5%	-40.86%	-24.5%
CCAP	-18.2%	-38.48%	-29.4%
EGTS	-18.1%	-36.00%	-38.1%
ISPH	-5.8%	-32.89%	-15.6%
EAST	-14.0%	-30.81%	-15.5%
ORHD	-15.8%	-29.77%	-22.8%
ESRS	-17.5%	-27.47%	-42.3%
AMOC	-16.6%	-26.00%	-36.8%
COMI	-16.0%	-25.05%	-23.1%
EKHO	-15.9%	-21.73%	-23.2%
CLHO	-10.2%	-21.39%	-20.4%
PIOH	-17.5%	-21.18%	-33.3%
SWDY	-16.8%	-20.78%	-30.0%
MNHD	-17.4%	-20.54%	-28.5%
PHDC	-18.6%	-19.91%	-54.1%
JUFO	-15.6%	-19.12%	-19.3%
HRHO	-17.9%	-18.50%	-35.4%
EGCH	-17.5%	-17.00%	-45.3%
ORAS	-13.5%	-16.00%	-30.2%
EMFD	-14.0%	-14.04%	-26.7%
TMGH	-17.7%	-13.34%	-42.6%
HELI	-18.3%	-12.74%	-39.4%
SKPC	-17.0%	-7.35%	-33.5%
ADIB	-17.1%	-7.00%	-24.6%

Stock	Base Case	Actual 12M Return	Expected 12M optimistic case
CIRA	12.1%	0.79%	17.4%
OIH	12.1%	1.65%	31.3%
ORWE	12.1%	4.26%	21.4%
OCDI	12.1%	11.02%	32.5%
ETEL	12.1%	25.84%	17.2%
IRON	12.1%	41.23%	35.8%

Expected Return

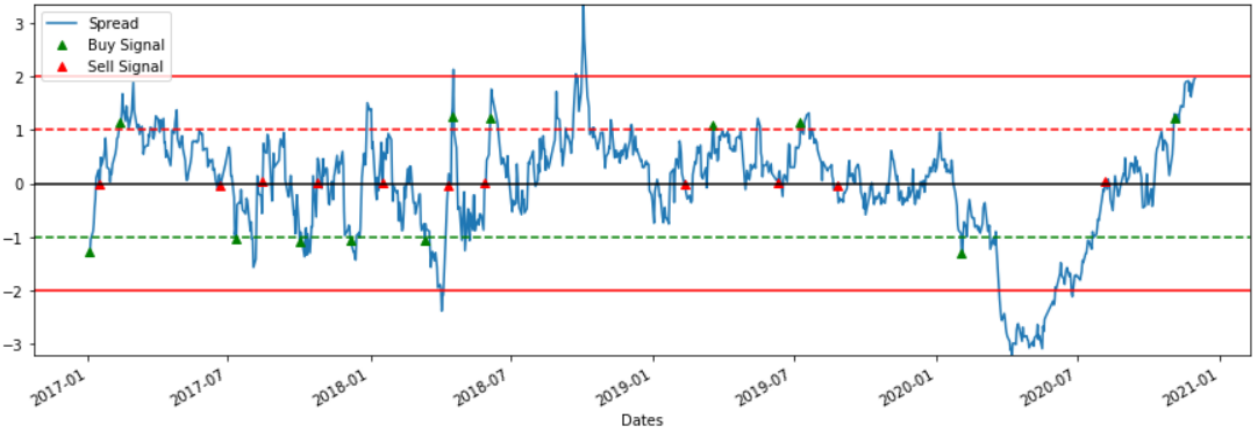
- The following table shows our updated expectations for the next 12 months. Since the ranges proved to be solid indictors for stock performances, we believe the declining range (Pessimistic to Worst) can be used as a **Buy Zone** for each stock; assuming no specific material events impact the company.

12M Expected Return - James Model					
Stock	Base	Optimistic	Best	Pessimistic	Worst
COMI	10.8%	19.8%	33.3%	-17.5%	-29.1%
EAST	10.8%	23.3%	43.2%	-14.5%	-15.5%
EKHO	10.8%	18.8%	40.6%	-16.9%	-23.3%
TMGH	10.8%	24.5%	53.1%	-19.3%	-42.8%
SWDY	10.8%	23.0%	40.3%	-17.9%	-30.1%
HRHO	10.8%	26.8%	43.6%	-19.7%	-42.2%
MNHD	10.8%	25.0%	55.7%	-18.8%	-28.7%
JUFO	10.8%	24.1%	50.6%	-17.0%	-25.5%
CIEB	10.8%	22.6%	62.4%	-17.1%	-30.0%
ETEL	10.8%	18.6%	30.5%	-15.0%	-17.0%
OCDI	10.8%	34.3%	75.1%	-19.6%	-35.8%
CCAP	10.8%	31.4%	75.0%	-19.6%	-45.3%
CIRA	10.8%	18.6%	49.4%	-19.0%	-65.9%
PHDC	10.8%	30.2%	61.9%	-20.3%	-54.6%
HELI	10.8%	29.2%	46.9%	-19.8%	-38.7%
ISPH	4.8%	11.4%	22.0%	-8.8%	-15.7%
CLHO	11.3%	21.7%	38.9%	-11.3%	-20.5%
EFID	10.8%	19.9%	51.9%	-16.1%	-38.1%
ORWE	10.8%	21.7%	54.2%	-17.9%	-24.7%
SKPC	10.8%	20.2%	29.4%	-19.9%	-33.6%
PIOH	10.8%	38.1%	71.0%	-18.9%	-33.9%
ORHD	10.8%	30.7%	59.4%	-18.9%	-46.0%
ESRS	10.8%	36.4%	65.9%	-18.9%	-42.8%
EMFD	8.7%	17.7%	41.4%	-14.6%	-26.7%
OIH	10.8%	33.4%	62.8%	-20.1%	-57.6%
IRON	10.8%	43.4%	112.0%	-18.9%	-42.6%
AUTO	10.8%	26.0%	44.6%	-19.8%	-37.0%
DSCW	10.8%	21.5%	109.7%	-16.9%	-28.8%
BTFH	10.8%	42.9%	178.7%	-18.9%	-37.7%
EXPA	10.8%	22.4%	29.5%	-17.2%	-27.9%
EGX30	**10.9%**	**22.5%**	**43.1%**	**-17.6%**	**-31.5%**

▷ Sigma Stock-Commodity Gauge

- The Sigma Stock Commodity Gauge (SSCG) is a tracker that provides insight to the optimized time points at which investors are recommended to accumulate or reduce stock allocations. SSCG works by first seeking the best matching commodity index to each respective stock, then translating that relationship to a recommendation. SSCG is built on the basics of co-integration; with a high R-squared and significance level taken into account. It is worth noting that this model solely focuses on matching commodities; neglecting all other factors.
- A data point above the +1 standard deviation unit indicates a **Buy** signal; where investors are recommended to accumulate allocation, while that below the -1 standard deviation unit signals a **Sell** recommendation.
- The results are shown in the following charts:

EGAL & Aluminum Price Index

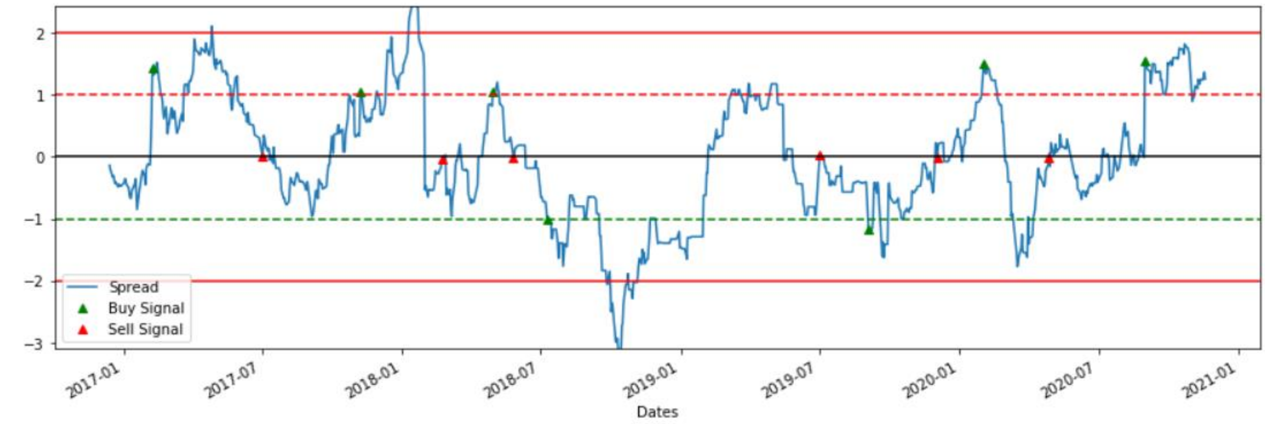


Source: Bloomberg, Sigma Research

SKPC & Polyethylene Price Index

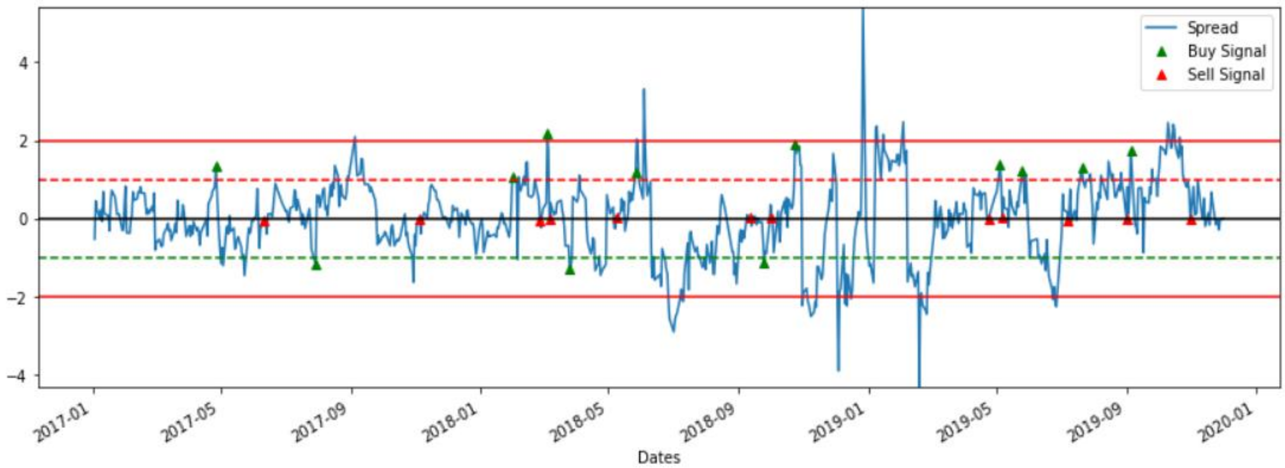
Source: : Bloomberg, Sigma Research

JUFO & Milk Price Index



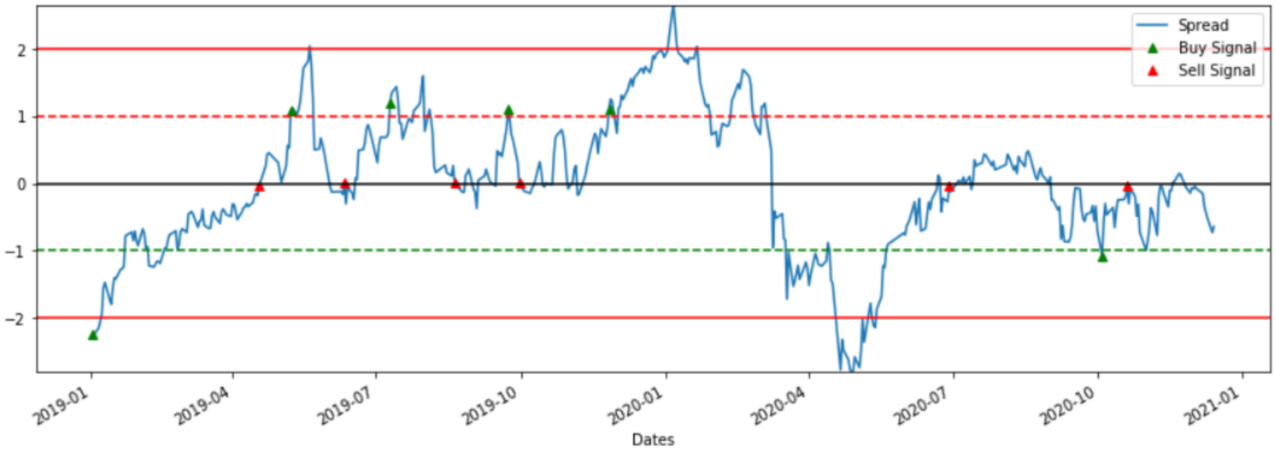
Source: Bloomberg, Sigma Research

ORWE & Oil Price Index



Source: Bloomberg, Sigma Research

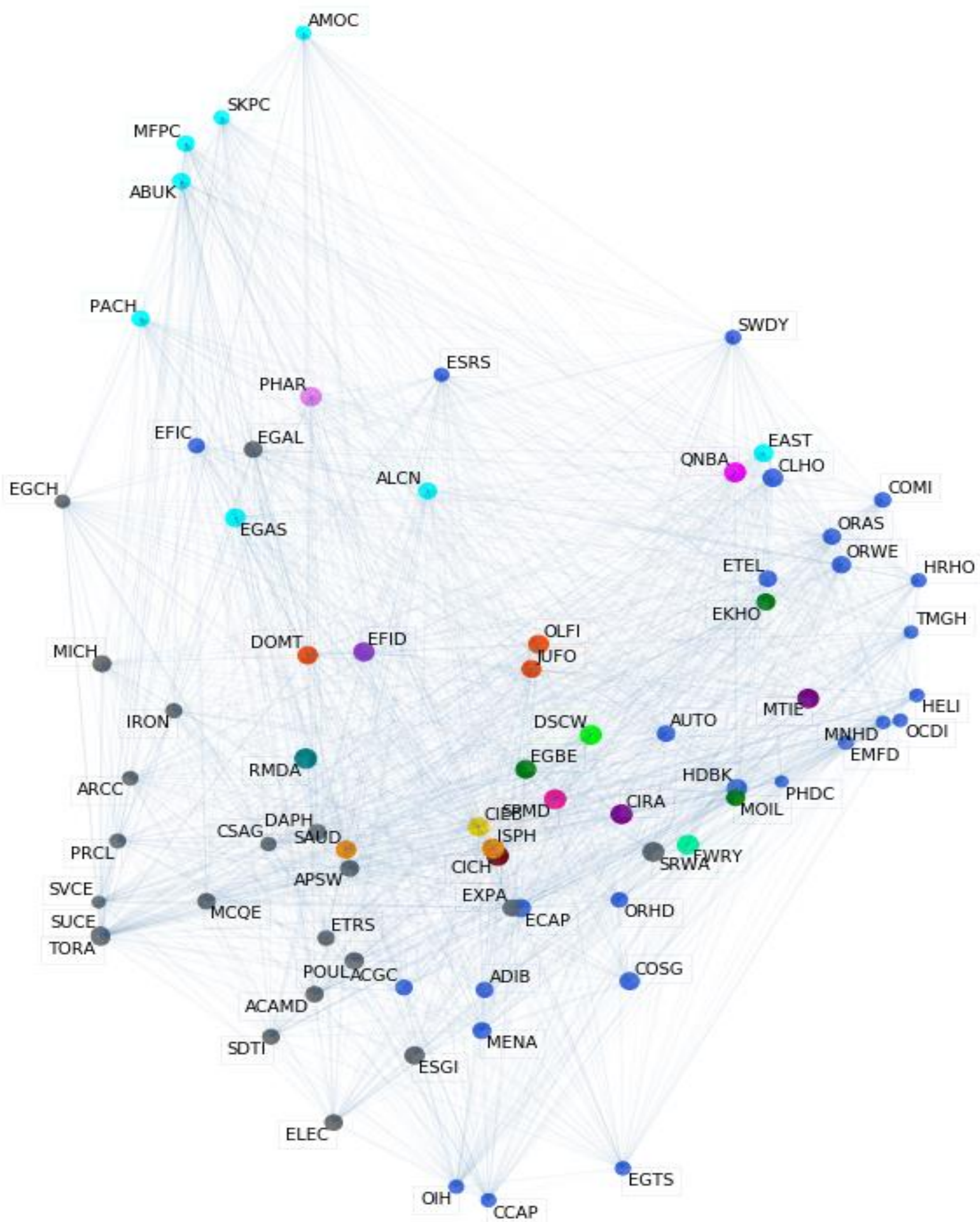
AMOC & Oil Price Index



Source: : Bloomberg, Sigma Research

▷ Market Structure

- Our cutting-edge market clustering scanner is the fastest tool to swiftly X-ray the current market structure. Understanding correlations and price behaviors of homogenous stocks, allows portfolio managers to make quick and informed asset allocation decisions. Matching-colored stocks represent those that share a common dimensionality (i.e. currency-tied, interest tied, or industry and investor-type).

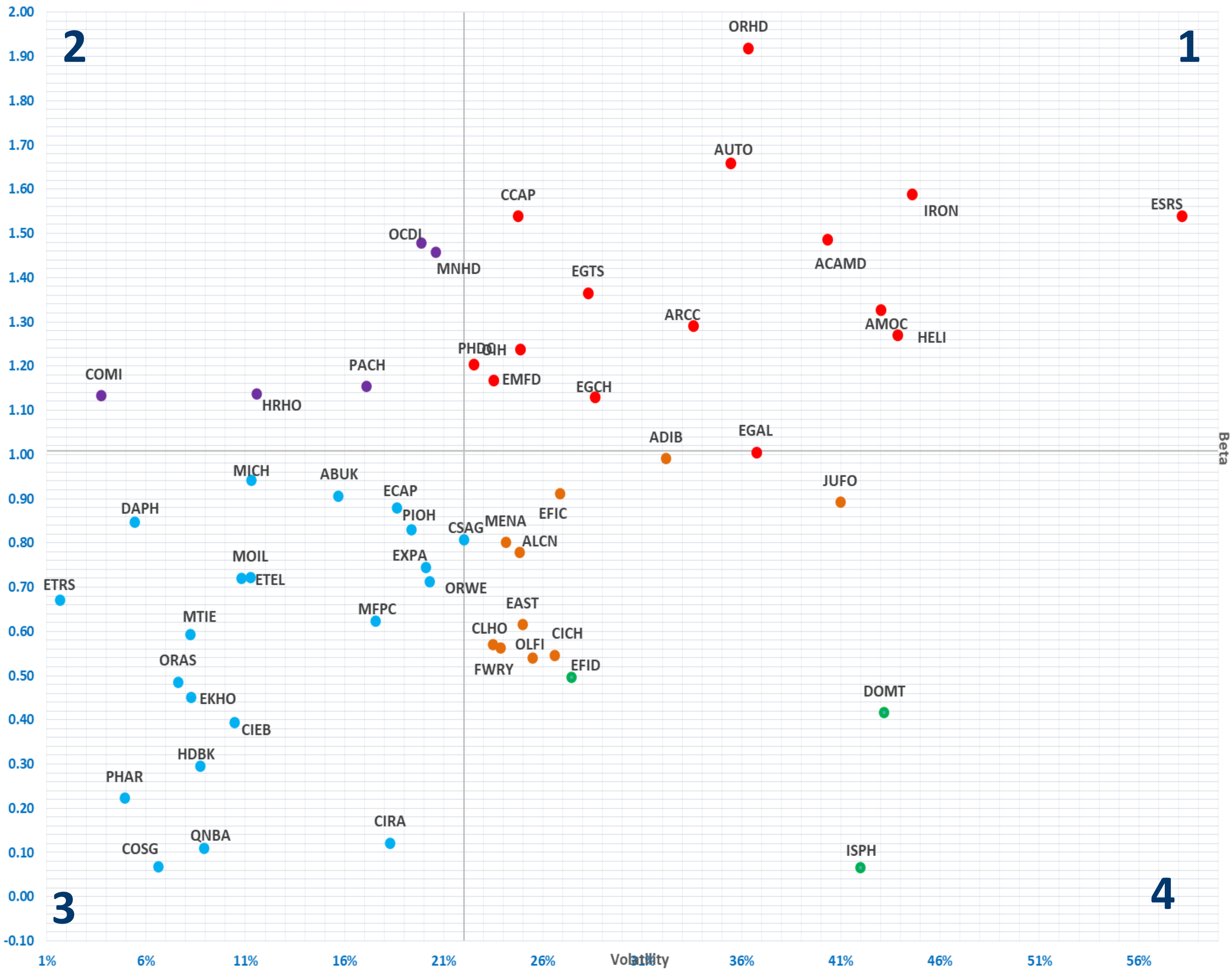


Volatility Map - Stocks

- The Total-to-Market risk allocation grid (exhibited below), further fortifies asset allocation ability, by combining assets that fit market expectations, while maintaining portfolio volatility in check.

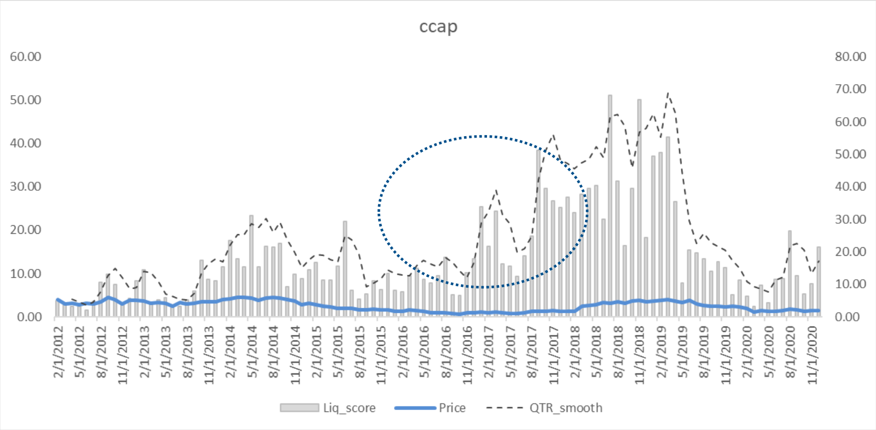
- **The allocation grid works as follows:**

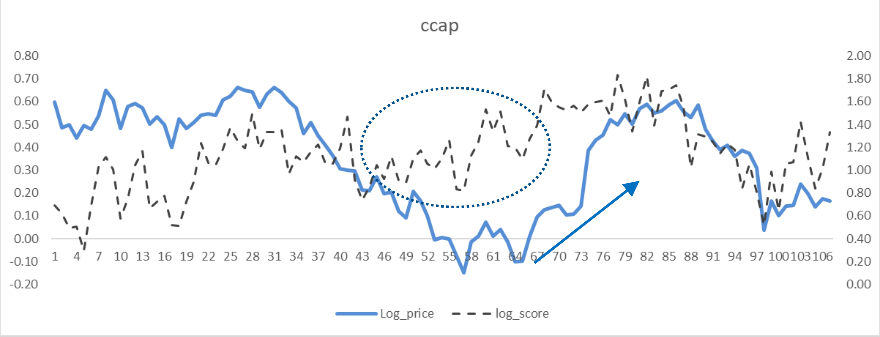
  Asset manager A expects an upward market trajectory ➔ 75%-25% allocation between quadrant 1 & 2, respectively.

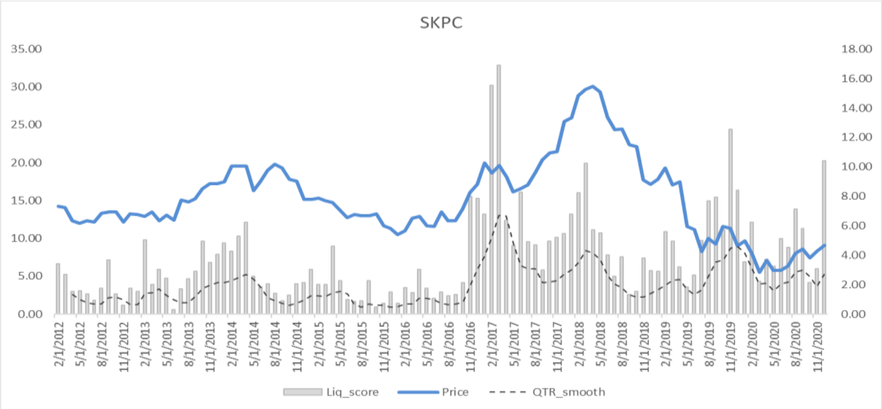


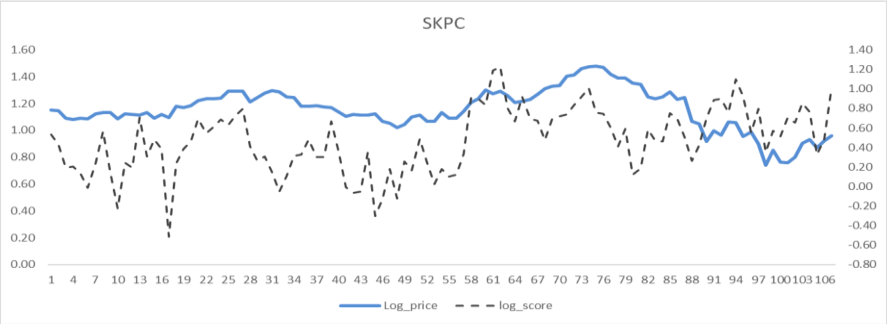
SIGMA's Liquidity Hacker

Now, we would like to introduce portfolio managers and traders to our newest, poet-free trading and investment strategy, which we dubbed: The Live Liquidity Hacker. This tool detects unusual and gradual accumulation volume trading; be it insider or institutional. Our home-made Hacker offers superior leading signals over the traditional, and usually belated, technical volume indicator. The hacker detects accumulation zones, as rendered in the charts below, usually signaling a preceding quantum move up or down.









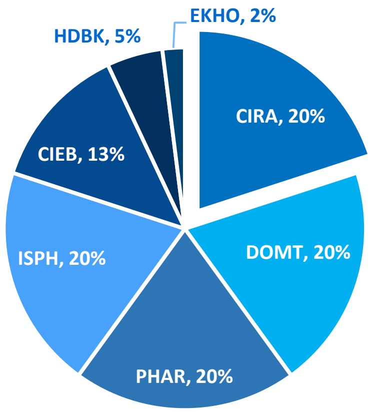
RIC	Sizzle index
QNBA	24.11
ETEL	22.21
CCAP	21.44
SWDY	20.06
CIRA	18.38
OIH	17.72
ACGC	16.96
ESRS	14.95
ACAMD	14.82
EMFD	13.01
AUTO	12.39
MNHD	12.31
IRON	12.30
PIOH	12.11
FWRY	11.99
ISPH	11.94
EAST	11.29
TMGH	11.05
EXPA	10.78
SKPC	10.41

Source: Sigma K-Factor Model

Proposed Portfolios

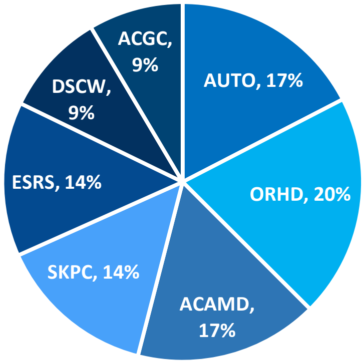
- In this section, we propose several risk-adjusted portfolios, built using our in-house models, that encompass various investment styles.

ARGUS
Risk Averse Portfolio, with MKT Factor 0.25



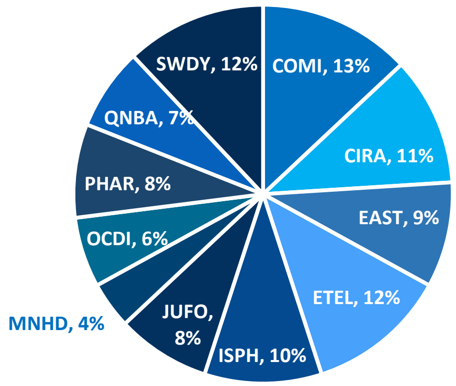
Source: Sigma Research

ATHOS
Gambling in Up-trending Market, with MKT Factor 1.56



Source: Sigma Research

HELIOS
Value-dividend Portfolio



Source: Sigma Research

Sector Analysis & Top Picks

Throw Caution to the Wind

Solely depending on Fair Values to make investment decisions will deem the market, in its entirety, deeply undervalued. Given the state of randomness that the market is currently experiencing, on top of global and local events, we believe fair values should no longer be the only gauge determining investors' plays. Instead, an active management style, that dares to expose portfolios to high levels of risk, is a vital technique that should be adopted in 2021. Our previous section provided our readers with strong tools and analysis to mold their active management plays; our next section presents our picks, based on a Bottom-Up approach, which we believe will be the best fit for 2021.

Banking

Sector Update

- This sector is pressured by:
  - The 6-month break that the CBE offered on all credit installments
  - COMI's related news
  - The application of the new Banking Act
  - Interest rate cuts taking a toll on banks' margins
  - High provisions maintained to combat the pandemic
  - Any unexpected increases in NPL ratios, also as a result of the pandemic

Action

Focus on highly-utilized, small-cap banks that are primed for the new capital requirements

When to Buy

- Upon clearer signs of recovery from the COVID-19 pandemic, resulting in an increased appetite for lending and lowering provisions
- When interest spreads increase; as a result of adopting successful policies for managing assets and liabilities in response to interest rate cuts

What to Buy

- **ADIB**
- **CIEB**

Where to Buy

- **ADIB**
  - FV: EGP 19/share
  - Technical Analysis: The decisive bullish breakout above EGP 12.30 completed a continuation price pattern, assigning an upside target near the EGP 14.00-15.00 level. Additionally, it confirms the completion of a larger price pattern, which assigned another long-term upside target near the EGP18.00-19.00 zone. On the other hand, a decisive breakout below EGP 11.50 indicates the weakness of the buyer and, accordingly, signals the failure of the bullish scenario.
- **CIEB**
  - FV: EGP 39/share
  - Technical Analysis: The stock is highly expected to be experiencing an accumulation process, which will push prices near the EGP 30.00 mark, however, a decisive breakout below EGP 24.00 will sabotage that bullish scenario. On the other hand, a weekly close above the EGP 30.00 level will assign another upside target near EGP 34.50.

Food & Beverage

Sector Update

- During 2020, consumer staple players have either witnessed slow or negative growth in sales; with some recording higher margins than others.
- 2Q20 volumes varied across the industry, with non-essential food producer Edita (EFID.CA) posting a drop in volumes YTD, while cheese maker Obour Land (OLFI.CA) reported a YTD increase in volumes.
- Margin improvements occurred either as a result of: lower raw material prices, as is the case with OLFI, or better deals and discounts with suppliers, as is the case with Juhayna Food Industries (JUFO.CA).
- Balance sheet performance varied during the pandemic, with OLFI and JUFO managing to decrease total debts; unlike EFID and DOMT. However, we believe interest rate cuts have benefited the sector as a whole, and is especially good news for players who are highly leveraged.
- The pandemic did not interfere with new product launchings as, during the year, OLFI introduced its new spreadable cheese product, DOMT its new plain bread, JUFO launched its new “Greek Yogurt”, EFID introduced 2 new upsized HOHOs SKUs, and penetrated the biscuits market with its new brand "Oniro”.

Action: Buy

When to Buy

- At current prices, we believe OLFI and DOMT present good investment opportunities.
- OLFI is expected to benefit from the installation of its new packaging machines, as well as the launch of its new high margin spreadable cheese product. It also currently trades at a low TTM P/E multiple of 8x, and is a consistent dividend payer.
- DOMT's bakery segment should benefit from the reopening of schools and universities, which will lead to an improvement in its GPM. Although reduced businesses transactions with the government will result in a drop in its sales volumes, it could improve the company’s cash conversion cycle. The company is currently looking for ways to offset said drop, and expects its cheese volumes to normalize in 2021.

What to Buy

- **OLFI**
- **DOMT**

Where to Buy

- **OLFI**
  - FV: EGP 7.99/share
  - Technical Analysis: The stock continues to have a valid upside target near the EGP 8.00 level. Traders are advised to buy dips, otherwise employing a stop loss below EGP 4.25.
- **DOMT**
  - FV: EGP 8.49/share
  - Technical Analysis: Although the stock showed a long-term downward trend, it is approaching a significant support level near EGP 4.70, at which point a bullish rebound towards EGP 6.50 is expected. Traders are advised to accumulate near the aforementioned support level, while maintaining a stop loss near the EGP 4.20 mark.

Consumer

Sector Update

- The pandemic affected several companies in this sector including:
  - Oriental Weavers (ORWE.CA), which, despite the decline in oil prices, was hit hard in 2Q20. The company witnessed a 75% Y-o-Y drop in net profit to reach EGP 53mn, on the back of lower production capacities and shorter operating hours for the showrooms. ORWE, however, surprised us with impressive 3Q20 results, as sales surged 10% Y-o-Y, and GPM recorded 18.1%.
  - While Eastern Tobacco (EAST.CA) was not as significantly affected by the pandemic as other companies in the sector, imposed curfews and reduced capacities caused EAST's revenues to decline by 11% Y-o-Y, resulting in a 21% drop in net profit in 4Q19/20. Recovery, however, started to take place in 1Q20/21, seeing sales and profits rebound to normal levels.

Action: Buy

When to Buy

- Both EAST and ORWE are classified as defensive stocks, offering investors a dividend payout, and expected to continue recovering in the coming quarters.
- Although ORWE has reached its FV, we still recommend buying the stock, as the company collected c.EGP 235mn worth of export rebates which, according to management, should be reflected in its FY20 dividend payout at a minimum of EGP 0.75/share (+15% over FY19 dividends). ORWE's management also expects to collect an additional amount for its post June 2019 backlog in 1Q21, on top of confirmed exports orders till 1Q21.
- EAST's management announced reaching its pre-COVID-19 operating levels, managing to produce and sell an unprecedented 6bn cigarettes in November, which should be reflected in its 2Q20/21 financial results.
- EAST will also undergo an indirect price increase, through cutting retailers' margins to EGP 0.025/pack in Dec 20, compared to EGP 0.1/pack.

What to Buy

- **ORWE**
- **EAST**

Where to Buy

- **ORWE**
  - FV: EGP 7.40/share
  - Technical Analysis: Switching to an uptrend, from the previous medium-term trend, the stock is expected to continue upwards to EGP 9.25. Look for one of the EGP 7.25, 6.50, or 5.95 price points to halt any downside correction before resuming its way up.
- **EAST**
  - FV: EGP 18.57/share
  - Technical Analysis: The stock is still fluctuating in a medium-term sideways trend between EGP 10.00 -13.90, where traders are advised to trade the range. However, a decisive breakout above EGP 14.00 will indicate that a new uptrend is underway.

Contracting

Sector Update

- The pandemic affected several companies in the contracting sector including:
  - El Sewedy Electric (SWDY.CA), which reported disappointing financial results in 1Q20; witnessing its net profit slashed by half, and margins retreating to c13%, from 17.7% in 1Q19.
  - Orascom Construction was also affected in 2Q20, reporting a Y-o-Y reduction in EBITDA by c50%.
- However, both companies started to show faster-than-expected signs of recovery in 3Q20, and we expect even more promising results in the coming quarters.

When to Buy

- The sector still awaits several catalysts to materialize such as:
  - New water projects in Egypt
  - African infrastructure spending
  - The restructuring of Arab countries
- The Egyptian government is expected to almost double investments (+70% Y-o-Y), with a special focus on the infrastructure and telecom industries, as well as revitalize the interconnection electricity transmission lines project with Saudi Arabia and Iraq.
- On the short run , we believe ORAS makes a better investment opportunity, due to: (1) its significant upside potential, and (2) the anticipated interim dividend distribution that should take place in Jan21.
- We believe investors should hold SWDY for the time being, as it will continue to gain further momentum when its margins revert back to its 5-year historical average of 17% (excluding FY16/17), returning its FV to the EGP 14-15/share level.

What to Buy

- **Buy ORAS**
- **Hold SWDY**

Where to Buy

- **ORAS**
  - FV: USD 9/share (EGP 141.30)
  - Technical Analysis: The stock has cleared the upper band of a major declining price channel, dictating upside targets near the EGP 93.00 level, then upwards to the EGP 110.00-115.00 zone. Additionally, the range between EGP 80.00-76.50 is expected to halt any downside correction before resuming its way up. Otherwise, a stop loss below EGP 73.00 should be employed.
- **SWDY**
  - FV: EGP 14.20/share
  - To be bought when the aforementioned catalysts begin materializing, or the stock price declines to the buy zones indicated by our Expected Return Model.

Fertilizers

Sector Update

- This sector is pressured by:
  - The FY19 oversupply of urea, which strained global prices, causing them to plummet to USD 263/ton
  - The outbreak of the COVID-19 pandemic, causing urea prices to drop further, reaching USD 250/ton in 11M20
  - Declining global demand, as a result of the pandemic, causing a reduction in local producers' export volumes
- Global fertilizer prices, however, witnessed a moderate recovery in 3Q20 that is either fueled by increased demand from China, or supported by the seasonality effect

- **Action: Hold**

When to Buy

- While the ambiguity regarding global demand recovery (and accordingly global prices) makes forecasting a challenging task, global urea prices recording an average of USD 280/ton in FY21 would be considered a turning point for this sector.
- A cut in the price of natural gas in FY21 will give Abu Qir (ABUK.CA) an advantage over Misr Fertilizers - Mopco (MFPC.CA); as Mopco's feedstock cost is determined according to a pricing formula that is correlated with global urea prices. On the other hand, a USD 1/mmBtu decline in the price of natural gas will increase ABUK's FV by 17%.
- Increased export sales through penetrating new international export markets (such as Brazil), represents a catalyst for Egyptian Financial & Industrial (EFIC.CA) in FY21.

What to Buy

- **ABUK**
- **EFIC**

Where to Buy

- **ABUK**
  - FV: EGP 17.76/share
  - Technical Analysis: The stock is showing a long-term upward trend, heading toward an upside target near the EGP 25.00-27.00 range. Price points between EGP 18.75 - 17.50 are expected to halt any downside correction, before resuming its way up. Otherwise, a stop loss below EGP 17.50 should be employed.

- **EFIC**
  - FV: EGP 12.95/share
  - Technical Analysis: The stock completed a long-term bullish reversal price pattern, dictating upside targets near EGP16.50, then EGP 19.50. On the other hand, a decisive breakout below EGP 12.50 will indicate an impediment in the bullish scenario.

Healthcare

Sector Update

- Healthcare sector players exhibited mixed performances throughout 2020. During the pandemic, many patients with non-critical conditions postponed their hospital visits, causing EGX-listed private hospitals to report declines in volumes and contractions in margins. Cleopatra Hospitals Group (CLHO.CA) posted a 13% Y-o-Y drop in its 9M20 volumes, with its GPM dropping c2% Y-o-Y. Over the same period, Nozha International Hospital (NINH.CA) showed a 13% decline in revenues, likely due to lower volumes, with a 4% Y-o-Y contraction in its GPM.
- EGX-listed drug-makers and distributors also suffered from the weak performance in the retail pharma market, induced by the effects of the pandemic, and delayed purchases of non-essential medicines. Furthermore, the Unified Medical Procurement Authority's (UPMA)'s transition to a digital platform, which temporarily cancelled the tendering process, further exacerbated the rate of purchases and negatively impacted business's tenders. Rameda (RMDA) posted an insignificant sales growth of 9% Y-o-Y in 9M20, with a mere c4% increase in its GPM, but recorded a whopping 40% Y-o-Y drop in net profit (excluding the effect of interest income). EIPICO (PHAR) reported a drop in sales of 16% Y-o-Y in 9M20, with a c3% increase in its GPM, and a drop in earnings of 35%. Margin improvements, for both players, were supported by lower raw material costs (i.e. API prices). While Ibnsina Pharma (ISPH) posted a sales growth of 15% Y-o-Y in 9M20, it reported a c0.5% Y-o-Y drop in its GPM, and a significant 18% Y-o-Y decline in net profit.
- Even though the UPMA's transition to a digital tender platform impeded this segment in 2020, we believe that, once finished, it should boost the performance of the tender segment, benefiting both drug-makers and distributors. Another long-term catalyst for the healthcare sector is the Universal Health Insurance system, which was launched back in 2018, and expected to be fully implemented by 2032.
- **Action**

  Buy EIPICO now, and wait until catalysts materialize for the rest of the sector

When to Buy

- We favor EIPICO in the healthcare sector universe, as we believe the company is well positioned to benefit the most from the sector's recovery; especially given its low products prices, as well as its current plan to renovate and develop its factories.

What to Buy

- **PHAR**

Where to Buy

- FV: EGP 68.22/share, representing our worst case scenario
- Technical Analysis: Following a major downtrend, the stock started to reveal signs of strength, suggesting an upward move toward the EGP 60.00 mark. Traders are advised to buy dips; otherwise a stop loss below EGP 44.75 should be utilized.

Real Estate

Sector Update

- Among the many sectors affected by the outbreak of the pandemic, the real estate sector proved no different. Several factors are currently straining Egypt's real estate market including:
  - Decreased sales
  - Minimal price increases
  - The oversupply problem stemming from NUCA's continuous issuances of land plots
  - Weakened consumer purchasing power
  - Competition from the government; offering social housing projects that directly compete with those offered by real estate developers
- The aforementioned factors have forced private real estate developers to offer extended payment plans, some of which going as far as 0% down-payment over a 12-year period.

Action: Hold

When to Buy

- We advise investors to revisit the Real Estate Sector when some of the following triggers begin materializing:
  - Private developers reduce payment plan periods
  - Government refrainment from competing with the private sector
  - Discounted prices on newly offered land plots
  - Delayed land installments
  - Private developers regain the ability to pass on price increases
  - Continued interest rate cuts

What to Buy

- **OCDI**
- **TMGH**

Where to Buy

- **OCDI**
  - FV: EGP 22.77/share
  - Technical Analysis: The stock is moving in a medium-term uptrend targeting the EGP 15.80 level, then the EGP 18.00 mark. Traders are advised to buy dips, while maintaining a stop loss below EGP 13.50.
- **TMGH**
  - FV: EGP 10.09/share
  - Technical Analysis: The stock started to reveal bullish signals, where an upside target near EGP 8.20 is expected. Traders are advised to buy dips, and maintain a stop loss below EGP 6.50.

Tourism

Sector Update

- The tourism industry bore the brunt of the COVID-19 pandemic. The global halt of flights caused an unprecedented surge in cancellations across the board; be it flights, hotels, entertainment or transportation bookings.

Action

Wait until catalysts materialize

When to Buy

- The ambiguity regarding the end of the pandemic negatively impacts Egypt's tourism industry, as it continues to enforce restrictions on the country's hotels, transportation bookings and commercial venues.
- We advise investors to avoid this sector until the global situation stabilizes.

What to Buy

- **ORHD**

Where to Buy

- FV: EGP 9.20/share
- Technical Analysis: The stock started to clear a significant resistance level near EGP 4.85, confirming its bullishness in the medium-term and paving the way to an upside target near the EGP 6.00 level. Traders are advised to buy dips, while maintaining a stop loss below the EGP 4.50 level.

Financial Services

Sector Update

- The sector is pressured by:
  - Interest rate cuts, from the expansionary monetary policy, driving down the size of interest income from: micro-financing, leasing, and other financing activities
  - The fact that companies operating in this sector will need time to readjust their liabilities and assets to improve their performance
  - The pandemic's negative impact on demand for lending, specifically leasing

Action

Hold until catalysts are triggered

When to Buy

- We advise investing when a strong recovery in lending demand becomes evident; resulting in a growth in asset size that is significant enough to compensate for the lower interest income
- Confirmation of Taleem's IPO in 1Q20, would be considered a strong catalyst for CICH

What to Buy

- **CICH**
- **HRHO**

Where to Buy

- **CICH**
  - FV: EGP 6.15/share
  - Technical Analysis: On the medium/long-term, the stock is expected to fluctuate between the EGP 3.50-3.35 and EGP 4.30-4.50 zones. However, a decisive breakout above the EGP 4.50 mark will open the way towards the EGP 5.15 level.
- **HRHO**
  - FV: EGP 20.0/share
  - Technical Analysis: Although the medium-term trend is sideways, it is expected to end in an upside surge toward the EGP 17.75 mark. On the other hand, a decisive breakout below EGP 12.25 will indicate an impediment in the bullish scenario.

Telecom

Sector Update

- This sector maintained its reputation of being one of the best defensive sectors during the COVID-19 pandemic.
- The pandemic largely benefited ETEL in FY20, however, we expect the company's growth rates to normalize over the coming year.

Action

ETEL is a good call for risk averse investors; offering a considerable dividend yield

When to Buy

- Even though the stock is defensive by nature, here are some catalysts to watch out for:
  - A reduction in CAPEX
  - Higher than expected dividends from Vodafone
  - Positive news regarding the company's early retirement program

What to Buy

- **ETEL**

Where to Buy

- FV: EGP 20.01/share
- Technical Analysis: In the last 3 years, the stock showed a dominant characteristic of wide medium-term price swings that resulted in a series of lower highs and lower lows. On one hand, a decisive breakout below EGP 11.90 will open the way for a further decline towards EGP 11.00 then EGP 10.00. On the other hand, a decisive breakout above EGP 14.00 will clear the upper band of the long-term declining channel, at which point upside targets near EGP 17.50 then EGP 20.00 will be assigned.

Risky Allocation

For the risk-seeking investors out there, with Alphas on their mind, the following section might just be your cup of tea.

Ezz Steel

Situation Update

- Over the past 2 years the stock price was severely pressurized; incurring losses as a result of poor operating performance and high leverage.
- Said losses came on the back of the slowdown in local demand, high production costs, and the company's inability to increase selling prices due to the entry of cheaper imported products.
- However, since then, the government has imposed anti-dumping fees on imported products, cut natural gas prices to USD 4.5mmBtu, and fixed electricity prices for the next 5 years, giving ESRS room to breath.

When to Buy

- Government support for the industrial sector aside, the aggressive cut in interest rates resulted in selling prices becoming the main variable in the equation .
- Recently, scrap and iron ore global prices have rallied significantly. If their prices average at USD 370/ton and 135/ton, respectively in FY21, then ESRS would have to increase its ex-factory selling price form the current EGP 10,200/ton to EGP 11,000/ton, with NG costs declining to USD 4mmBtu, in order to breakeven at the operating level. If the NG cost was not changed, ESRS's selling price should exceed EGP 11,100/ton.

Where to Buy

- Technical Analysis: The stock is trending up inside a long-term rising channel, of which it was currently lying near the lower band. However, it is expected to witness an upside thrust toward the upper band, near the EGP 10.00 mark, then EGP 13.00. Otherwise, a stop loss below EGP 7.00 should be utilized.

GB Auto

Situation Update

- Although GB Capital is a solid call, especially since it is inline with the financial inclusion initiative, it is not the only story driving our recommendation for this stock. Over the past 2 quarters, the company's auto & auto related arm posted a significant improvement to, once again, turn its bottom-line positive.
- This was attributed to sustainable factors such as: selling passenger cars at better margins, interest rate-cuts and lower leveraged inventory, as well as non-sustainable factors, such as land sales.
- Surprisingly, the whole automotive sector witnessed an impressive recovery in 10M20, with PC sales surging 26%.
- Interest rate cuts also bode well for AUTO, boosting the company's profitability, as well as automotive car sales as a whole.

When to Buy

- When PCs and 2&3-wheelers exhibit a consistent performance in terms of both: sales volumes and margins.
- Once the Iraqi-market's response to the introduction of MG vehicles (following the Hyundai contract termination) is fully assessed.
- Once the lag-effect of the recent interest rate cuts is fully reflected on AUTO's NBFS and NIMs.

Where to Buy

- FV: EGP 5.24/share
- Technical Analysis: The stock has cleared a major downtrend line indicating a change in the price trend. The range between EGP 2.95-2.70 represents a significant support level in the medium-term. Traders are advised to buy dips and maintain a stop loss below EGP 2.70.

Sidi Kerir

Situation Update

- The FY19 oversupply issue pressured global polyethylene prices to record USD 973/ton; before plummeting further to reach USD 736/ton in April and May 2020, due to the pandemic.
- As a result, Sidi Kerir Petrochemicals (SKPC.CA) recorded a net loss in 9M20, despite the recent cut in the company's feedstock cost by USD 0.5/ton.
- SKPC further suffered as a result of the poor quality and quantity of feedstock received from GASCO.

When to Buy

- Increased domestic demand in China triggered a surge in polyethylene prices to record USD 925/ton in 3Q20. However, the recovery in global prices need to combine with the following catalysts before SKPC is able to revert back to profit-making:
  - Global polyethylene prices should hover around USD 1,000/ton, averaging USD 1,026/ton in FY21. This condition will be the driver of achieving our valuation scenarios that yielded FVs above EGP 11.00 per share.
  - The government allowing SKPC to import the required feedstock (ethane and propane), rather than depend on GASCO, in order to combat both cost and quality issues
  - The government imposing anti-dumping fees on cheaper imported products from the GCC

Where to Buy

- FV: EGP 9.67/share
- Technical Analysis: The stock is trending up inside a long-term rising channel, heading to the upper band near the EGP 10.00 mark, then EGP 11.00. However, a decisive breakout below EGP 7.90 will throw prices to the lower band of the channel, near EGP 7.00, before resuming its way up.

Research Team

Aboubakr Emam, CFA
Head of Research
aboubakr.emam@sigma-capital.com

Karim Nour, MSc
Strategist and Quantitative Analyst
Karim.nour@sigma-capital.com

Christine Hanna, MSc
Senior Financial Analyst
christine.hanna@sigma-capital.com

Dareen El Arousy
Senior Financial Analyst
dareen.elarousy@sigma-capital.com

Hany Nabil
Financial Analyst
hany.nabil@sigma-capital.com

Manal Tayel
Financial Analyst
manal.tayel@sigma-capital.com

Mohamed Sobol
Financial Analyst
Mohamed.sobol@sigma-capital.com

Noha Makram
Editor & Translator
noha.makram@sigma-capital.com

Sales and Trading

Yasmine Zeidan
Head of Institutional Sales
yasmine.zeidan@sigma-capital.com
Tel: +(202) 3336 5845

Business Development

Karim M.Riad
Manager
karim.riad@sigma-capital.com

Sigma Capital

37 Gameat El Dowal El Arabeya Street
Mohandseen, Giza, 12411, Egypt
Tel: +(202) 3335 7575
Fax: +(202) 3335 0666

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S**igma Securities S.A.E**, Level 1, Al-Foad Administrative Building, 37 Gameat El Dowal El Arabeya Street, Mohandessin, Giza 12411– Egypt
Tel: +202 3335 7575 - Fax: +202 3335 0066