

## AFRICA RISK CONSULTING

### Egypt Monthly Briefing March 2019

---

#### Egypt Summary 20 March 2019

*Egypt begins its state Initial Public Offering programme with sales of shares in publicly owned Eastern Tobacco, amid controversy that the offering should have been more transparent. A train crash at Egypt's largest railway station again raises doubts over the government's commitment to improving crucial infrastructure. United Kingdom-based Capital Economics cautiously praises Egypt's economic progress as government announces implantation of comprehensive debt reduction strategy.*

---

#### Egypt begins long awaited State IPO programme

The **Egyptian Exchange (EGX)** saw the sale on 3 March of 4.5%, the equivalent of just over one million shares, of **Eastern Tobacco**, a publicly owned tobacco company, in the first sale of any public-sector company shares for many years. The sale marks the delayed kick-off of a plan to partially privatise five state companies, which was expected to be completed by the end of 2018, but which was derailed by international market volatility.<sup>1</sup> The government sold 95% of the shares in a private placement and 5% through an initial public offering (IPO).<sup>2</sup> The offering was 1.8% oversubscribed.<sup>3</sup> Foreign investors bought 94% of the shares offered in the private placement and the stake sale is expected to raise EGP 1.8 billion (\$104.1m).<sup>4</sup>

The sale marks the long awaited beginning of an ambitious state privatisation programme which should see the listing of 18 further sales in coming years. The selloffs come as **Egypt** urgently attempts to raise funds for the state budget in the wake of a series of austerity measures backed by the **International Monetary Fund (IMF)**, intended to curb debt and inflation.<sup>5</sup> The government has said it is planning for at least four to five more companies to go public in the second phase of its share-sale programme during the second quarter of 2019.<sup>6</sup> Companies tipped to see selloffs before the Muslim holiday of Ramadan, due to start at the beginning of May, are the **Alexandria Container Handling Company**, **Abu Bakir Fertilizers**, and **New Egypt for Housing and Construction**.<sup>7</sup> Sources also confirmed that an IPO of **Banque du Caire** will go ahead soon and is in the final approval phase.<sup>8</sup> The government has sidelined the sale of **Alexandria Mineral Oils** because of falling revenues.<sup>9</sup> The privatisation programme is expected to raise EGP 80 billion (\$463.2m).<sup>10</sup>

Several sources were critical of the handling of the sale, saying that the company's private placement and other details were not clear. Some also suggested that the recent troubles

---

<sup>1</sup> Reuters, 1 Mar 2019.

<sup>2</sup> Al Ahram, 4 Mar 2019.

<sup>3</sup> Press statement, 5 Mar 2019.

<sup>4</sup> Masrawy, 1 Mar 2019.

<sup>5</sup> Reuters, 1 Mar 2019.

<sup>6</sup> Al Borsa 2 Mar 2019.

<sup>7</sup> Al Borsa, 2 Mar 2019.

<sup>8</sup> Source, Arabic journalist, Cairo

<sup>9</sup> Al Bosra, 2 Mar 2019.

<sup>10</sup> Enterprise, 3 Mar 2019.

associated with the **Sarwa Capital** offering (see *ARC Briefing Egypt November 2018*) may have also reduced buyers' interest.

However, investors were ultimately undeterred. **United Arab Emirates (UAE)**-based businessman **Mohamed El Abbar**, along with several other prominent **Saudi** investors, bought options totaling more than 25%.<sup>11</sup> The government was quick to respond to criticisms posted on social media, saying in a statement that the highest demand, 94%, had been recorded from foreign and Arab institutions, despite the fact that the shares were also offered to Egyptian investment funds and establishments. They added that it was customary among investment banks not to announce a private placement before taking shares to the market to avoid fluctuations in prices.<sup>12</sup>

Despite some initial glitches, sources in the business community believe the sale is another positive indicator for Egypt's ongoing economic reform programme, signalling the government's commitment to overhauling and maximising its vast collection of assets, many of which have been previously poorly managed and underutilised. They reiterated that the IPO programme is another crucial step to the greater empowerment of the private sector.

### **Train crash kills 49 at Ramses station, Egypt's main railway hub**

A train crash in **Cairo's Ramses Station** on 27 February killed 49 Egyptians after a passenger train plunged into a side barrier, causing an inferno to break out in the train's carriages. More than 40 others were injured.<sup>12</sup> The crash represents another serious failure of public infrastructure in less than two years, despite government promises to improve railway safety, following a crash less than two years ago that saw 41 dead and almost 200 injured.<sup>13</sup>

Transport minister **Hisham Arafat** resigned shortly after the incident.<sup>14</sup> **Egyptian National Railways (ENR)** and the transport ministry have formed committees to investigate the accident, but initial comments from Egyptian authorities have indicated that the crash was caused after the train conductor jumped off the train to fight with another railway worker. During this time the train began to move with its own power, then crashed into the platform while unmanned.<sup>15</sup>

The government has asserted that it is working to upgrade the railway system, including installing electronic signalling crucial to avoiding the frequent large-scale fatalities Egypt has come to be familiar with in recent years.<sup>16</sup> Anger erupted at the scene of the accident, and fearful of incurring criticism at a time when they are pushing through grueling austerity reforms, authorities launched a pre-emptive series of arrests and raids on human rights activists and members of other minority communities.<sup>17</sup> The accident also came as press reports stated that the railway authority has experienced the largest proportion of accidents over the past year than in the previous 15 years.<sup>18</sup>

Following the incident, President **Abdel Fattah El Sisi** (2014-present) appointed the head of the **Armed Forces Engineering Authority, Kamal El Wazir**, as transport minister.<sup>19</sup> This

<sup>11</sup> Source, lawyer, Cairo

<sup>12</sup> Press statement, 28 Feb 2019.

<sup>13</sup> Egyptian Streets, 12 Aug 2017.

<sup>14</sup> Al Gommorhia, 28 Feb 2019

<sup>15</sup> Al Bawaba, 28 Feb 2019.

<sup>16</sup> DMC TV, 28 Feb 2019.

<sup>17</sup> Mada Masr, 7 Mar, 2019.

<sup>18</sup> New York Times 27 Feb 2019.

<sup>19</sup> Al Ahram, 12 Mar 2019.

body, technically part of the military, has overseen the construction of major public infrastructure projects since Sisi came into office, including the extension of the **Suez Canal** and the building of the new administrative capital. Several sources have complained that the incident is further evidence that crucial services like transport would be better managed by the private sector, after years of mismanagement by the government and a lack of oversight over the armed forces activities.

*“The view is that until the government removes itself from the management of infrastructure, as well as a number of key services, we are going to see the same kinds of accidents, mismanagement and gross negligence. It is also one of the crucial factors holding back Egypt: that the army continues to get precedence over the private sector when it comes to all major construction and infrastructure projects. Investors continue to be frustrated with the lack of progress.”<sup>20</sup>*

At the same time, investment minister **Sahar Nasr** met with representatives of key foreign companies who vented their concerns about the current challenges of doing business in Egypt. Alongside bureaucratic issues and regulatory hurdles, failing infrastructure was cited as one of their key concerns.<sup>21</sup> In response, the investment ministry announced that it was in talks with unnamed foreign lenders for a \$2 billion loan to fund new transport projects, including upgrades to the railway network.<sup>22</sup>

### **Egypt’s economic growth expected to outdo expectations**

Egypt’s economic growth will beat projections, according to a report by **United Kingdom (UK)**-based economic research consultancy **Capital Economics** that praises the government’s efforts to stabilise the economy. The report came as the government announced the implementation of its strategy to begin further reducing public debt.<sup>23</sup> The report predicts that the debt ratio will fall to around 75% by 2024, thanks to the cuts made to the public wage bill as well as large-scale cuts to food subsidies.<sup>24</sup>

However, the report also emphasises the need to maintain momentum in ongoing reform efforts by the government.

*“In the coming years, the focus will shift to the bolder efforts that are needed to lift Egypt’s potential growth rate.”<sup>25</sup>*

The report cited Egypt’s large foreign currency debt as exposing the government to volatile fluctuations in the exchange rate. It also noted that increases in commodity prices would be problematic to the already large subsidy bill, with the report estimating that a 10% rise in oil prices would increase spending on fuel subsidies by around 0.4% of GDP.<sup>26</sup>

Despite agreeing with positive signs in Egypt’s progress, a report on 20 February from the **Institute of International Finance (IIF)** added that there was a need for the military and government to reduce their stake in key economic sectors, stating that there existed “deep-

<sup>20</sup> Source, fund manager, Cairo

<sup>21</sup> Source, company CEO, Cairo

<sup>22</sup> Press statement, 17 Mar 2019.

<sup>23</sup> Al Mal, 10 Mar 2019

<sup>24</sup> Capital Economics, Mar 2019.

<sup>25</sup> Capital Economics, Mar 2019.

<sup>26</sup> Capital Economics, Mar 2019.

rooted structural distortions” in the economy that hold it back from competing with more successful emerging markets.<sup>27</sup>

There is growing confidence in Egypt’s economic reforms. Egypt moved up eight places to rank 120<sup>th</sup> out of 190 countries in the **World Bank’s 2019 Ease of Doing Business** report. The country made it to the top performers in the 2017-18 list following a series of regulatory reforms that have been instituted since Egypt took a bailout loan from the IMF in 2016. Ongoing reports on the progress of the economy confirm that efforts over the last two years to enact reforms are beginning to have an impact on day-to-day business operations, further strengthening confidence in Egypt’s business climate.

### Planner

28 Mar 2019 **Cairo (Egypt)** *Al Borsa*. Central Bank of Egypt’s monetary policy committee will meet to review interest rates

2019 **Cairo (Egypt)** *Al Mal*. Government-led initial public offering programme;

### Chronology

20 Mar 2019 **Cairo (Egypt)** *Reuters*. Government targets 6.1% economic growth in its next fiscal year;

18 Mar 2019 **Cairo (Egypt)** *Mubasher*. The Egyptian pound hits a two-year high against the **United States** dollar;

18 Mar 2019 **Cairo (Egypt)** *Al Mal*. Egypt is in talks for a \$2 billion loan to revamp the country’s railways;

14 Mar 2019 **Cairo (Egypt)** *Enterprise*. The government is set to embark on an **Asia, Gulf** bond roadshow next week;

10 Mar 2019 **Cairo (Egypt)** *Press statement*. The finance ministry has begun implementing its comprehensive debt reduction strategy, which aims to reduce debt to 80% of GDP by 2022;

7 Mar 2019 **Cairo (Egypt)** *Zawya*. The **Egyptian Exchange (EGX)** topped all the **Middle East and North Africa (MENA)** markets in February;

3 Mar 2019 **Cairo (Egypt)** *Press statement*. **Eastern Tobacco** signals beginning of state privatisation programme;

3 Mar 2019 **Cairo (Egypt)** *Press statement*. Foreign holdings of Egyptian treasuries rise by 20%;

3 Mar 2019 **Cairo (Egypt)** *Egypt Today*. Egypt unveils regulatory framework for EGP 200 billion (\$115.7m) sovereign wealth fund;

3 Mar 2019 **Cairo (Egypt)** *Bloomberg*. **United States (US)**-based transportation network company **Uber** moves closer to **Careem** buyout agreement;

<sup>27</sup> Institute of International Finance, Feb 2019.

- 28 Feb 2019 **Cairo (Egypt)** *Reuters*. Train collision at **Ramses Station** kills at least 20, injures more than 40;
- 27 Feb 2019 **Cairo (Egypt)** *Al Ahram*. National campaign in support of constitutional amendments kicks off;
- 26 Feb 2019 **Cairo (Egypt)** *Press statement*. **Beltone Financial's** suspension is lifted after it pays settlement;
- 26 Feb 2019 **Cairo (Egypt)** *Enterprise*. **Australian**-based mining company **Centamin's** shares fall in the **London Stock Exchange (LSE)** by 28% after production at Egypt gold mine dips;
- 26 Feb 2019 **Cairo (Egypt)** *Al Masry Al Youm*. House committee gives nod to widening the jurisdiction of economic courts;
- 25 Feb 2019 **Cairo (Egypt)** *Al Borsa*. **Australia**-based **Atoun Energy** is looking to invest EGP 15 billion (\$868.6m) in solar power projects in Egypt;
- 24 Feb 2019 **Sharm El Sheikh (Egypt)** *The New York Times*. **European Union (EU)-Arab League** summit brings global leaders to Sharm El Sheikh;
- 24 Feb 2019 **Cairo (Egypt)** *Al Alkhbar*. Top court strikes down challenge to legality of **United States (US)**-based transportation network company **Uber** buyout of **Careem**;
- 24 Feb 2019 **Cairo (Egypt)** Trucking startup **Trella** raises \$600,000 in pre-seed round led by Cairo-based **Algebra Ventures**;
- 24 Feb 2019 **Cairo (Egypt)** *Al Mal*. President **Abdel Fattah El Sisi** ratifies new tax treatment for banks;
- 19 Feb 2019 **Cairo (Egypt)** *Al Borsa*. Egypt is to take \$5 billion eurobond issuance to market this week;
- 19 Feb 2019 **Cairo (Egypt)** *Ahram Gate*. Two police officers are killed arresting terrorist bomber near **Al Azhar**;
- 19 Feb 2019 **Cairo (Egypt)** *Enterprise*. **Syrian** reconstruction could prove big business for Egypt;
- 19 Feb 2019 **Cairo (Egypt)** *Daily News Egypt*. **United States (US)**-based security firm **Honeywell** is to sign new administrative capital security systems agreement;
- 19 Feb 2019 **Cairo (Egypt)** *Press statement*. Cabinet says Egypt won't need more **IMF** funding after it draws down on \$12 bn;
- 14 Feb 2019 **Cairo (Egypt)** *Enterprise*. **United States (US)**-based ratings agency **Moody's** says Egyptian insurance market has "untapped potential";
- 14 Feb 2019 **Cairo (Egypt)** *Enterprise*. Food manufacturer and distributor **Cairo 3A** is planning to make its **Egyptian Exchange (EGX)** debut by no later than 2020.

### About Africa Risk Consulting:

**Africa Risk Consulting (ARC)** is a pan-African consulting company that provides timely, relevant information and advice that enables its clients to take informed investment decisions and to safeguard their reputations.

**ARC's** core consulting services include integrity due diligence and corporate investigations, political advisory and country assessments, opportunity monitoring and reputation risk management. Most relevant to private equity firms is ARC's integrity due diligence and corporate investigations capability. Specifically, ARC offers pre-deal integrity checks to highlight red flags before negotiations start; full detailed multi-jurisdictional reputation due diligence; and supplier and senior hire vetting and repeat due diligence for compliance programmes. ARC is unique in that it offers a 10-day delivery for a routine integrity due diligence. ARC also offers a suite of corporate investigations services from immediate investigation, evidence gathering, e-discovery, forensic accounting and whistleblower support on one end to crisis media management and regular monitoring on the other.

[www.africariskconsulting.com](http://www.africariskconsulting.com)

### About ARC Briefing:

**ARC Briefing** is ARC's essential business information service.

Companies at any stage in their Africa expansion, whether building or communicating an Africa strategy, investing directly, expanding current operations, financing other investors, doing the legal leg-work or researching the Africa growth trend, need ARC Briefing.

**ARC Briefing** is an information service keeping you:

- Up to date with Country Chronologies of business-critical events
- In the know via Country Briefings on political, economic, business and operating trends. Written in-country, ARC experts analyse and comment
- Ahead with Country Planner which details future elections, budgets, regulatory changes etc.

[www.africariskconsulting.com](http://www.africariskconsulting.com)

### Getting in touch

Please contact us by email [info@africariskconsulting.com](mailto:info@africariskconsulting.com) or call + 44 (0) 20 7078 4080

Follow us on Twitter: [@ARCBriefing](https://twitter.com/ARCBriefing)