



Egypt's Public Sector Development Strategy

Overview

LYNX Industry Notes
May 2021



Disclaimer

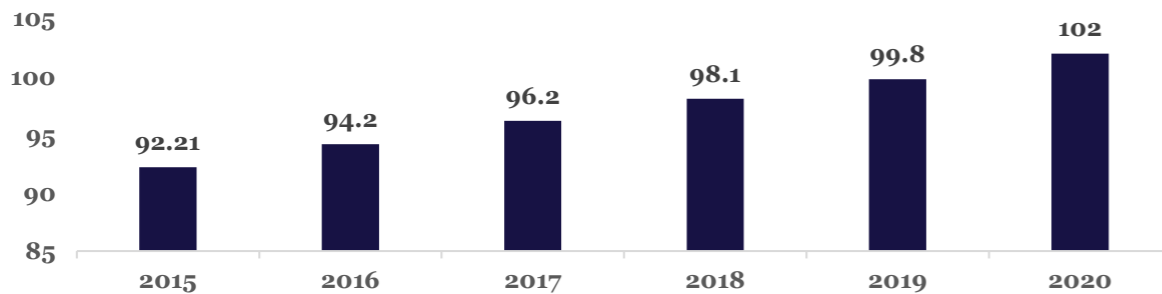
The content of this note was obtained and prepared through open-source channels that include, but not limited to, official websites, press statements, stock exchange releases, and televised governmental material.

www.lynxegypt.com info@lynxegypt.com 4 Latin America Street, Garden City, Cairo +2 02 27944331

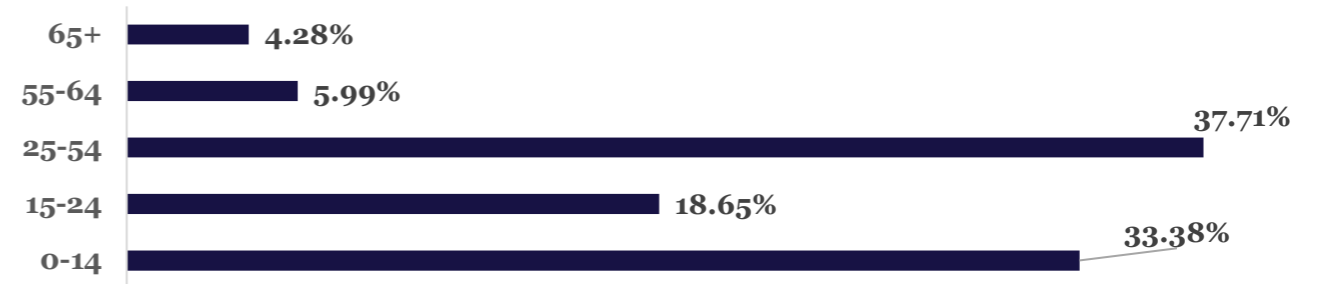
Introduction

- The Government of Egypt (GoE) successfully implemented a crucial first wave of macro-economic and structural reforms as of November 2016, in cooperation with the IMF. This included the adoption of key legislative reforms, gradual lifting of fuel subsidies, enactment of tax reforms, liberalization of the foreign exchange system, implementation of numerous infrastructure projects, and the implementation of a social protection program to mitigate the economic reform measures' negative social impacts. These reforms contributed significantly to the restoration of Egypt's economic stability and the investors' confidence in the Egyptian economy. At the same time, the economy witnessed high inflation rates, increasing poverty (and vulnerability), and increasing debt.
- The COVID-19 crisis pushed the GoE to reconsider its next steps regarding the second wave of planned economic reforms. Since the beginning of the crisis, the GoE moved early and gradually with an integrated approach to address the pandemic's impact on Egypt's health and business sectors.
- The current GoE direction is to introduce policies that aim to support the hardest-hit businesses/sectors and energize Egypt's industrial sector to address the negative economic repercussions of the COVID-19 crisis while attracting further investments. The GoE is also taking measures to reopen the economy and "co-exist" with the pandemic.

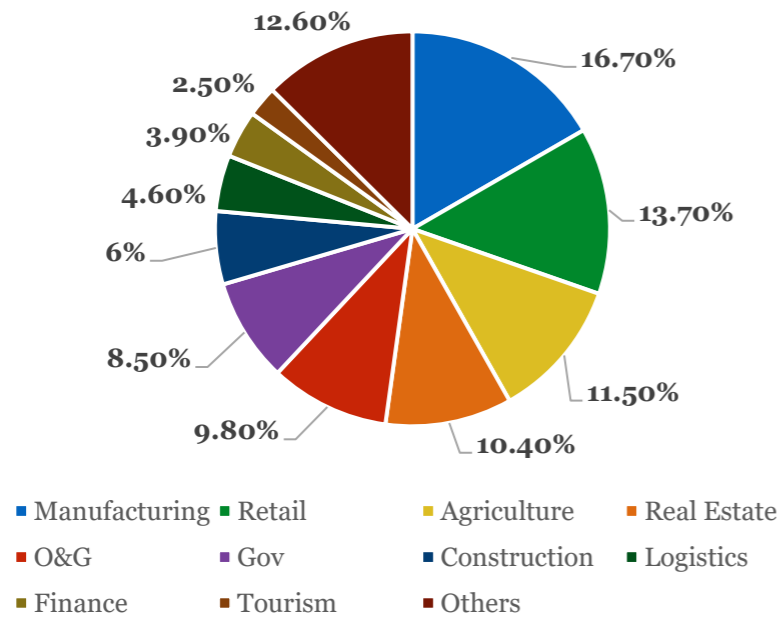
Population – (Mln)



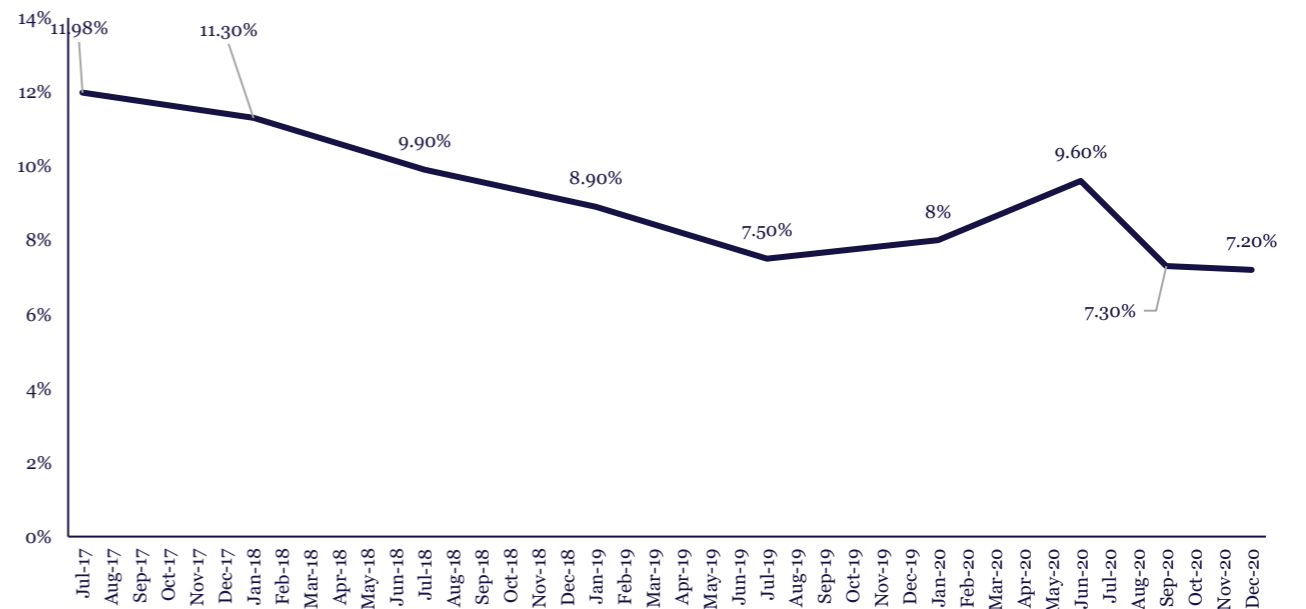
Age Groups



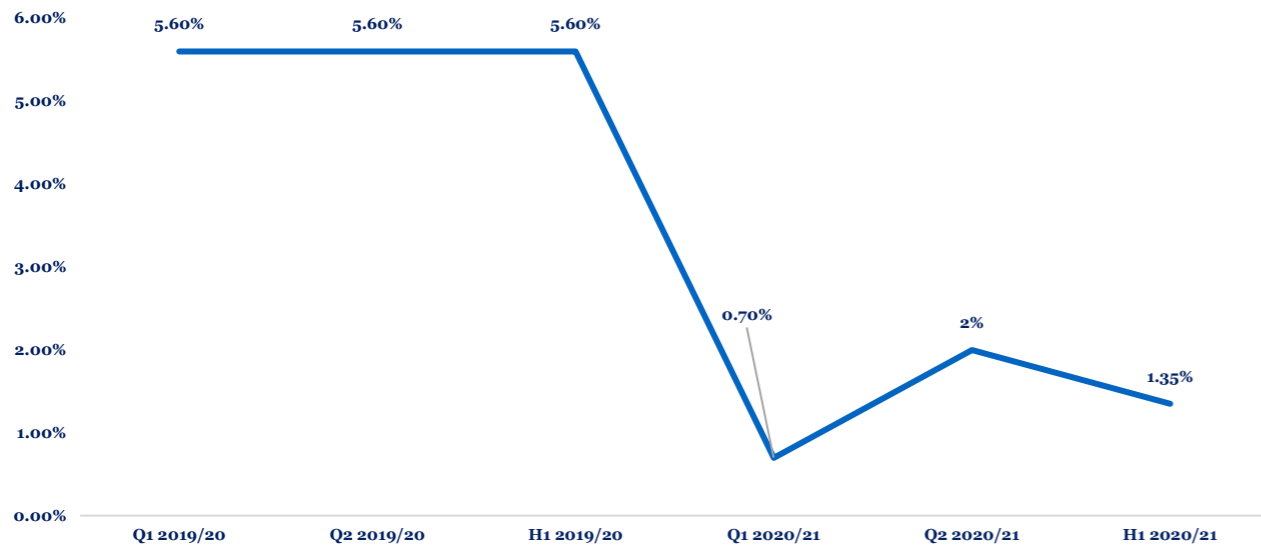
GDP by Sector



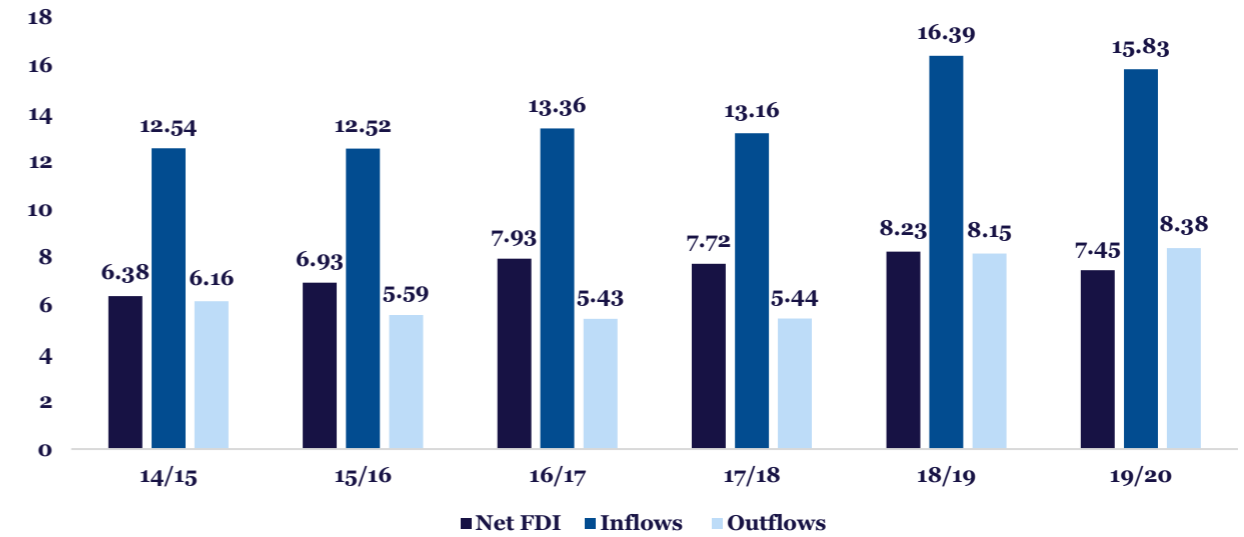
Unemployment - (%)



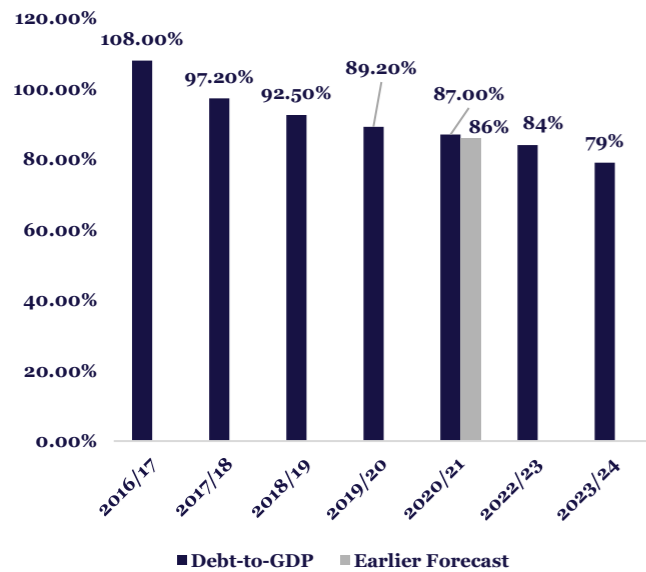
Growth Rate – (%)



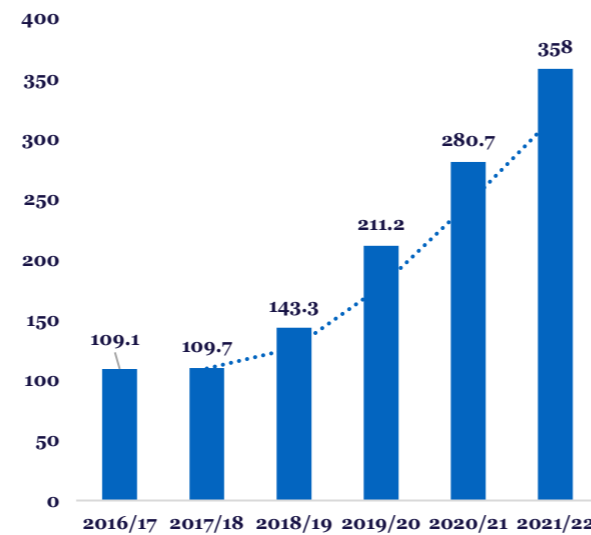
Foreign Direct Investment – (USD Bn)



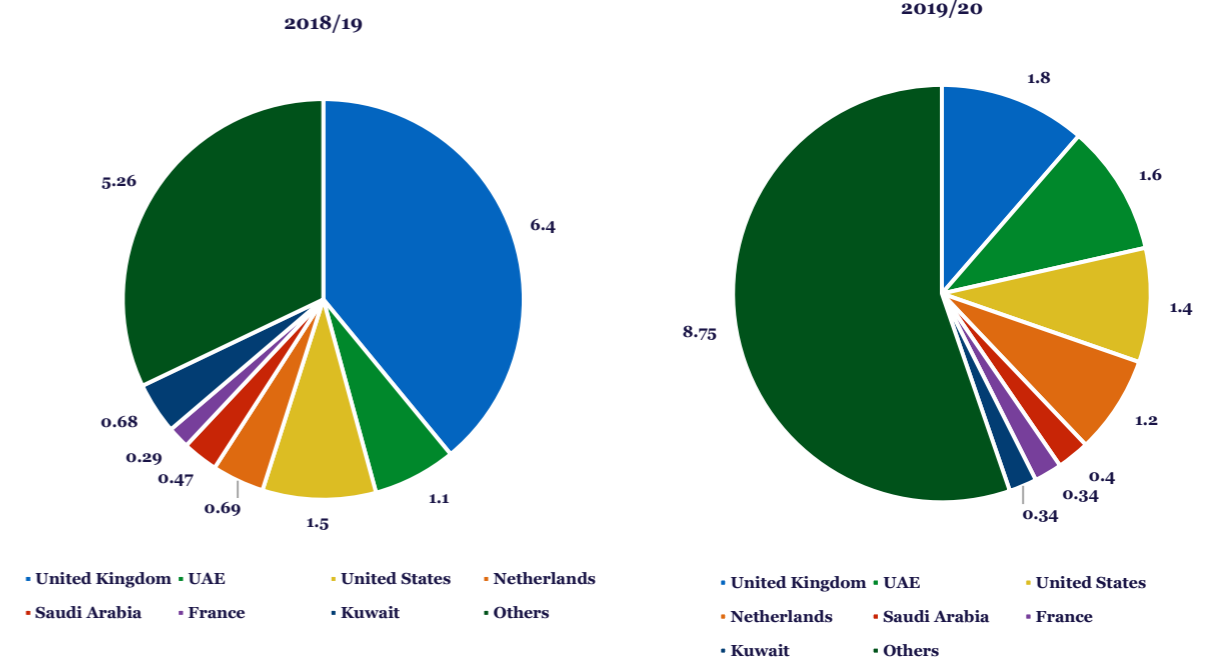
Debt-to-GDP – (%)*



Governmental Investments

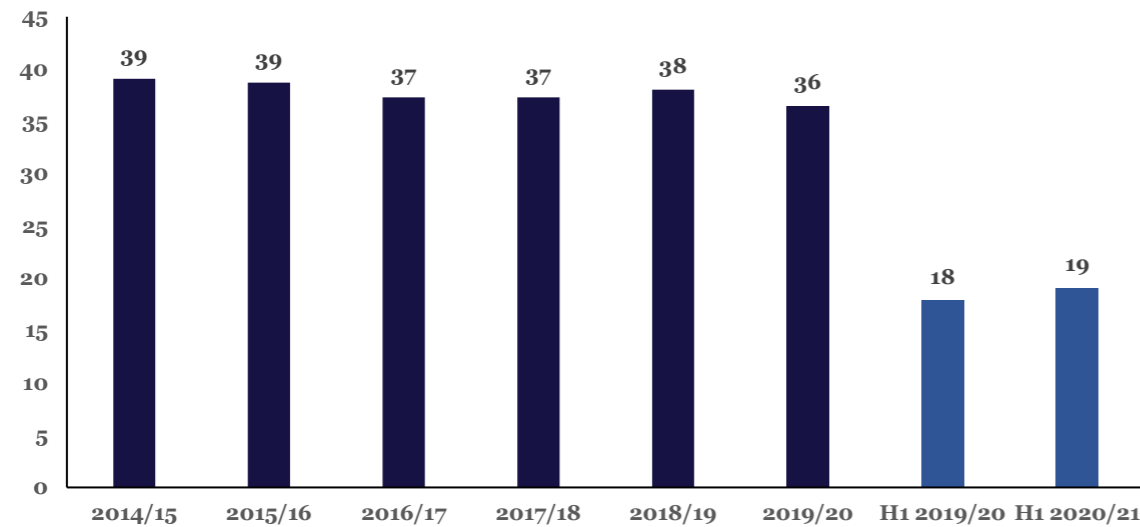


Net FDI by Destination – (USD Bn)

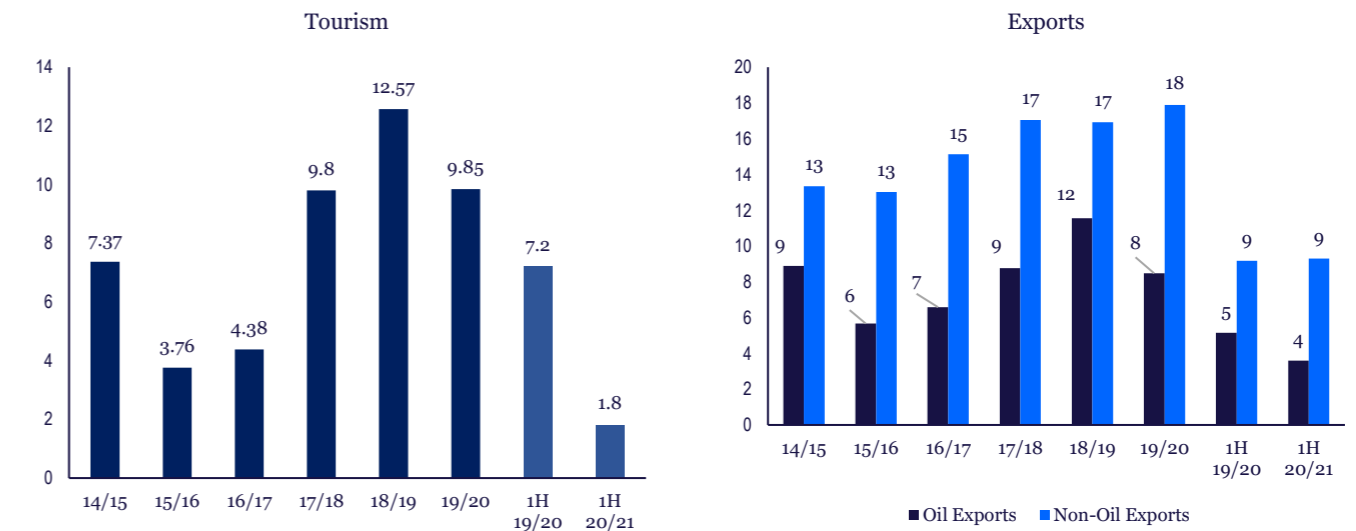


- GoE maintained a growth rate of 1.8% during CY2020 as a result of increased governmental investments in several national infrastructure projects, including the rural canals overhaul project, renovation of irrigation methods project, and national infrastructure projects.
- The GoE's strategy for governmental investments focused on geographically diverse projects to ensure the distribution of growth and maintenance of social welfare in rural governorates, beside aiming for high-emplying projects.
- GoE is planning to proceed with its investments in FY 2021/22 as the pandemic rebound is set to witness a further delay in vaccination programs worldwide.
- GoE's main challenge on the short-term remains to aim for lower levels of Debt-to-GDP while increasing average debt maturity to reach 5 years.

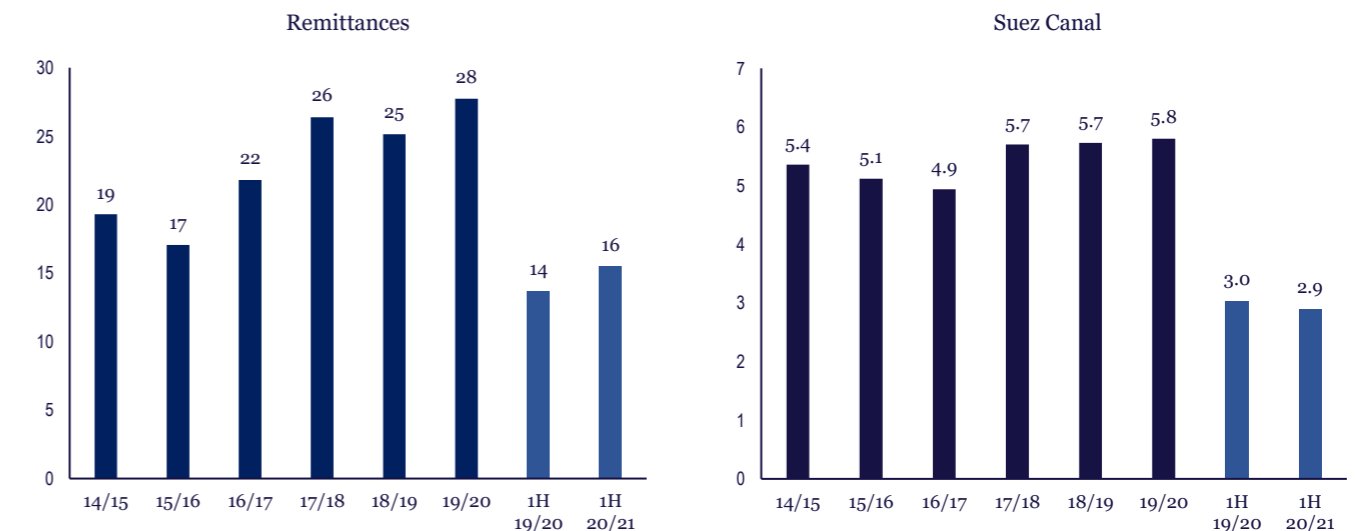
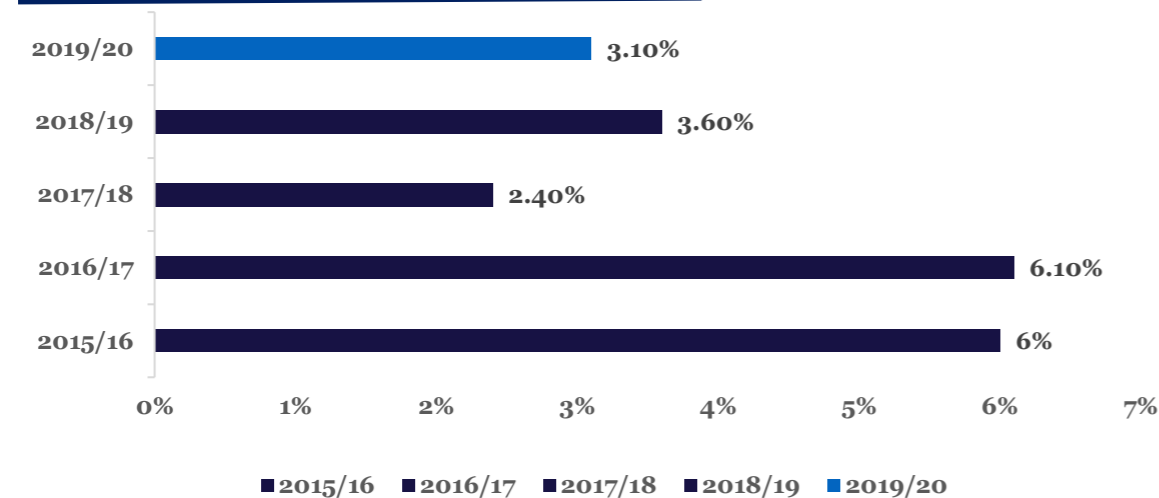
Trade Balance (-VE) – USD Bn



Current Account Receipts – USD Bn



Current Account (-VE) - % of GDP



Updated Figures

- Egypt's trade balance maintained narrowing its deficit with imports going down 12% y-o-y. Yet, exports also slightly decreased by 2-3%. The impact of the narrowing trade balance was another direct result of the foreclosures of several global industrial centers.
- The country's diversification of exported goods helped in maintaining its course towards expanding its exports of both consumer and agricultural goods while taking a hit at the country's construction materials sector.
- The lockdown measures taken by some leading agricultural goods' exporters also fed another opportunity for the Egyptian alternatives as a vial substitute during the pandemic leading to a favorable penetration of new markets to Egyptian exports.
- However, challenges remain for several industrial sectors, including the construction materials sector, as they still lag their regional and international competitors who took advantage of declining global gas and energy prices. The opportunity to pick up exporting capacities will resurface as global gas prices started 2021 with a record-hike.

EGX Performance

Volume of Traded Securities



Number of Listed & Traded Companies



Market Capitalization



EGX30 3Y Movement



7
Number of delisted companies since 2016

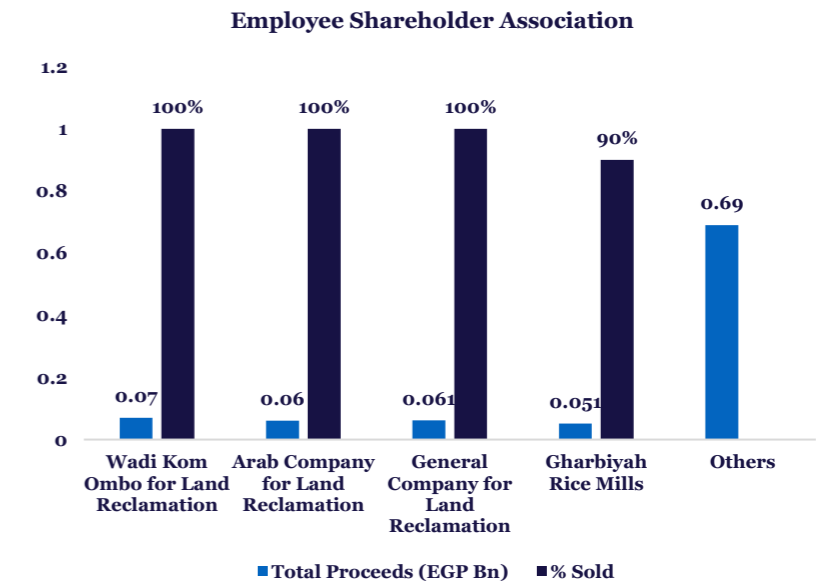
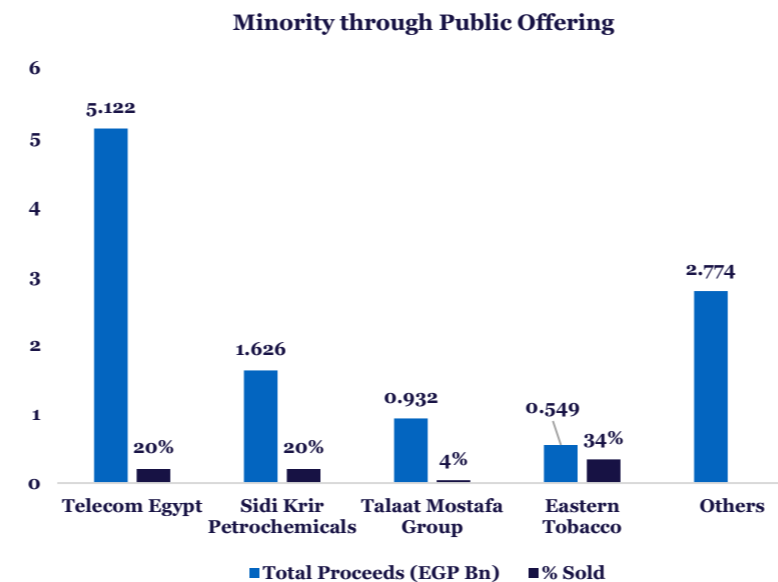
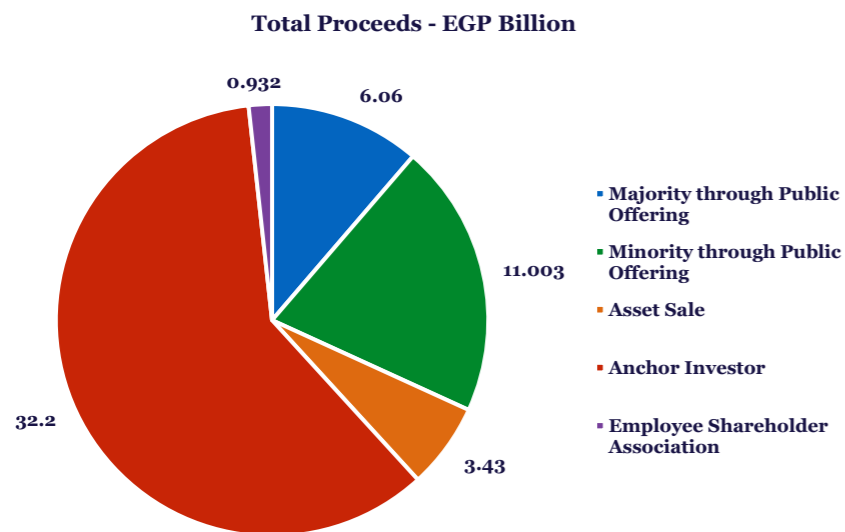
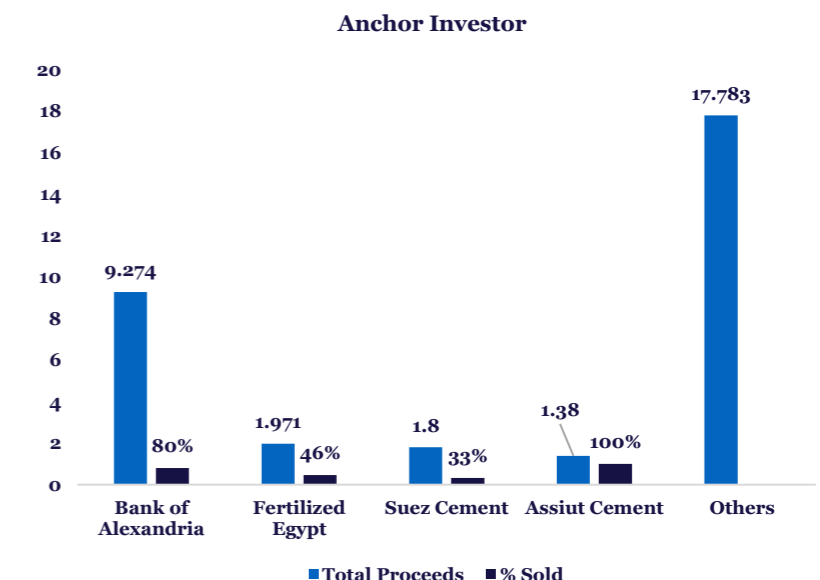
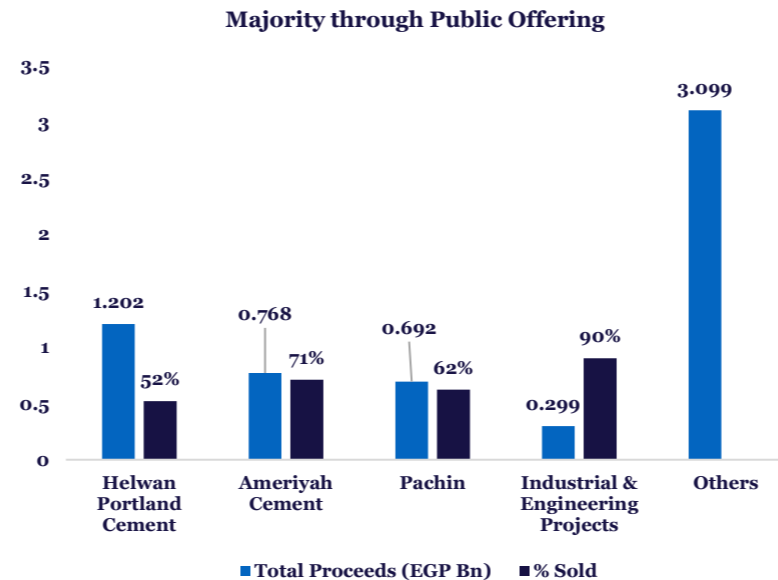
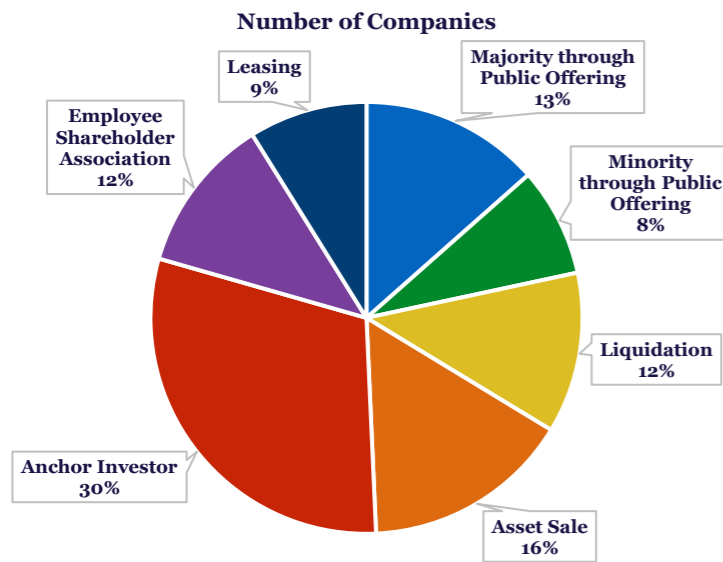
3.41%
Decline scored by EGX30 since the beginning of 2021

- The Egyptian Stock Exchange (EGX) slowly moved towards regaining a considerable amount of its losses witnessed after the COVID-19 crisis outbreak in March 2020.
- The 2nd half of 2020 also witnessed some hikes in trading volumes as local appetite returned slowly towards the stock market regaining their positions as the economy moved towards normal operations, especially by 3Q2020.

Privatization Strategy

- As per Law no. 203/1991, GoE implemented a program to privatize considerable shares of its public business sector companies between 1991 – 2009.
- The strategy was conducted through a series of offerings with several tools including; Sale of majority stake through public offering, Sale of minority stake through public offering, Liquidation, Asset Sale, Anchor Investor, Acquisition by employee shareholder association, and Leasing.

Overview of Privatized Companies



Introduction

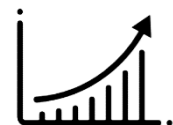
- The Egyptian Cabinet of Ministers established the Ministerial Committee for Public Sector Enterprises Public Offerings in 2018 with a mandate to offer 23 public sector companies through initial public offerings and additional offerings in the Egyptian Stock Exchange (EGX).
- The committee's initial efforts was headed towards launching a pilot phase that witnessed a 4.5% additional offering of the Eastern Company (tobacco) beside two later phases. The two phases were determined to issue additional offerings for 4 EGX-listed companies beside a second announced batch that included E-Finance, a public bank, as well as 8 mining and industrial companies.
- On the other hand, the Sovereign Fund of Egypt (SFE) and the National Services Projects Organization (NSPO) signed an agreement in early 2020 to prepare 10 NSPO-owned companies for public offerings. This agreement paved the way for a historical shift which will witness the private sector acquisition of selected Armed Forces-owned companies.
- Although the public sector enterprises offerings were set to launch in 2018/2019, the program is now set to take off in 2021 beside NSPO-owned companies. The movements are expected to result in major revitalization of economic activity and EGX appetite.

Strategic Objectives



Expanded Integration of Private Sector

The GoE strategy targets incorporating additional private sector players in strategic industries and untapped markets through offering enterprises with varying geographical footprint.



Revitalize EGX performance and foreign capital

The anticipated offerings also seek to revitalize and expand the national EGX through revamping IPOs' activities, beside redirecting foreign capital towards sustainable investments rather than T-bills and bonds.



Enhance State-owned Enterprises Performance

With several State-owned Enterprises facing chronic issues in financial and operational aspects, incorporation of private stakeholders and stock exchange listing will provide a solidified ground for enhanced governance, financial transparency, and operational efficiency.



Liquidate and Utilize Unused State Assets

SFE has been on the receiving end of the transfer of several unused state assets for marketing and repurposing objectives, including prime governmental assets in downtown Cairo.



Level Competition Atmosphere Across Key

Industries

Onboarding private sector players across several governmental enterprises will allow for a more leveled competition atmosphere in various key industries.

Key Stakeholders

NSPO OFFERINGS



- The Sovereign Fund of Egypt and the National Services Projects Services Organization, a subsidiary of the Ministry of Defense, signed an agreement that will see the Sovereign Fund of Egypt act as the Advisor to the NSPO for publicly offering stakes in several strategic enterprises owned by the NSPO.
- The agreement, signed in early 2020, follows a directive by the President in late 2019 to avail projects and enterprises established by the NSPO, aiming to support strategic sectors for private partnership, both at the institutional and individual levels.
- So far, the SFE announced that it is preparing 10 companies, out of 30+ companies owned by the NSPO, for public offerings. The first two companies are: (1) **Wataniya for Petroleum Distribution** which is currently in the final phases for sale to foreign investor(s) and (2) **SAFI**, a mineral water bottling company.
- The SFE announced on several occasions that the 1st phase of offerings will be followed by further steps pending investment appetite towards the offered enterprises.
- Offerings are all expected to include a publicly traded component through EGX.

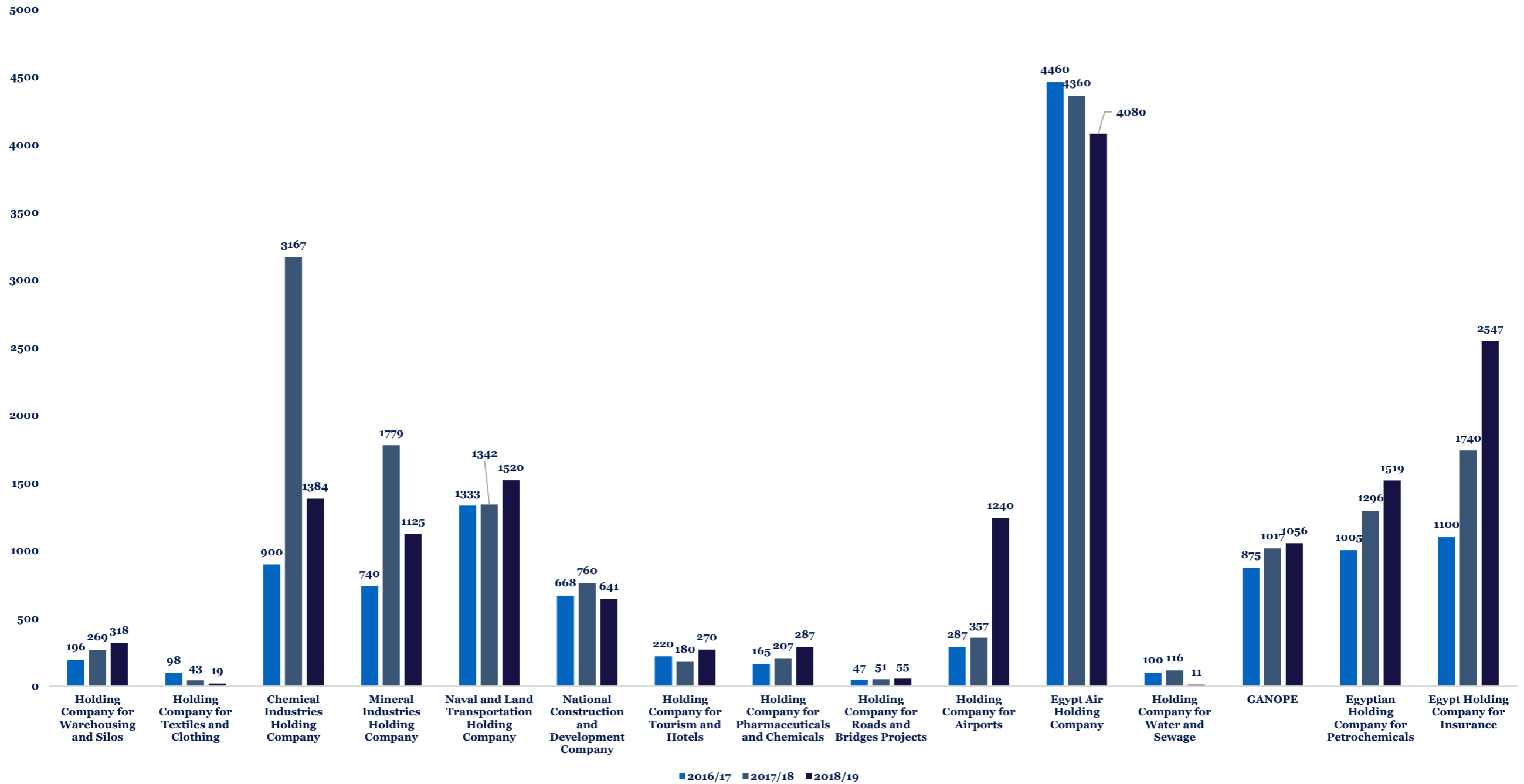
STATE OWNED ENTERPRISES COMMITTEE



- The Prime Minister issued a decree in March 2018 to formulate the SoEs Offerings Supervisory Committee. It includes **the Ministers of Petroleum, Trade and Industry, Finance, Investment (now the General Authority for Free Zones and Investment/GAFI), Planning and Economic Development, and Public Business Sector (PBS)**.
- The committee is set to launch its program through two phases + pilot phase. So far, the program only launched the additional offering of 4.5% stake of the Eastern Company with the remaining two phases delayed due to stock market atmosphere and the repercussions of the COVID-19 pandemic.
- The program is anticipated to see the offering of a 15 – 30% stake for public offering through capital raise or sale of existing shares to support the state-owned enterprises' (SOEs) expansion and renovation strategies.
- The Ministry of Public Business Sector recently announced that it will proceed with the second phase which includes the offerings of E-Finance.

State-Owned Enterprises Performance

SoEs Revenues – EGP million

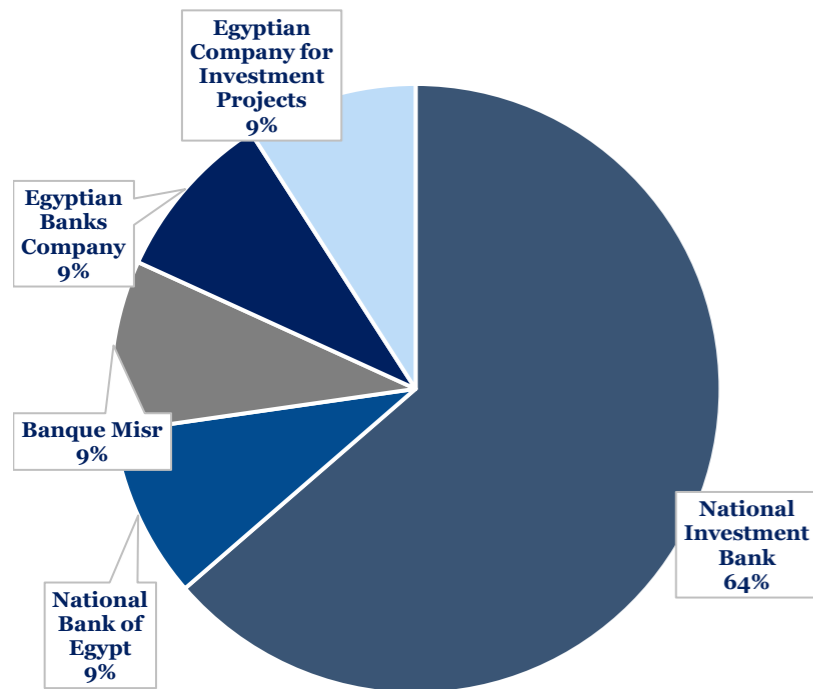


E-Finance

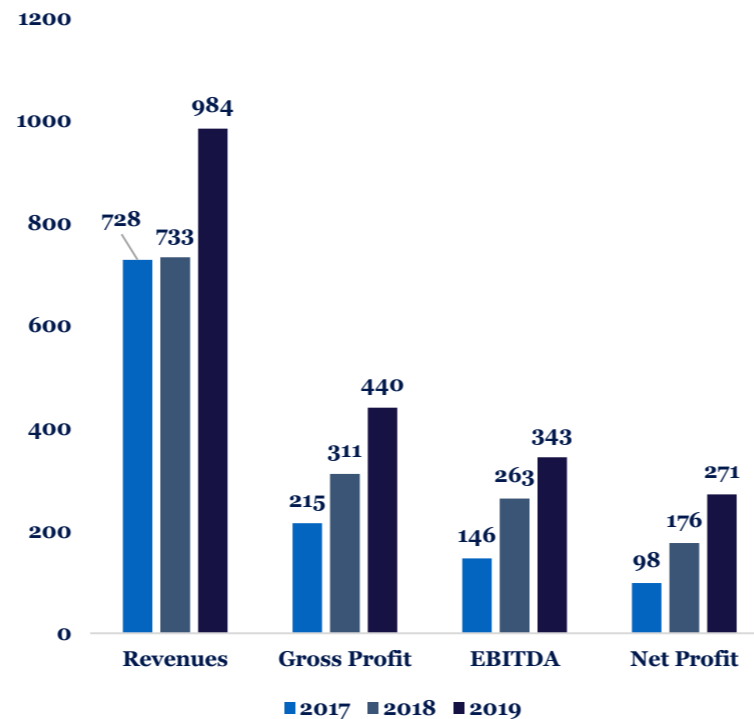


- E-Finance was established in 2005 to become the GoE's financial technology (fintech) arm with a mandate to digitally transform governmental receivables and tax collection systems.
- Since 2007, E-Finance launched the payroll project for governmental employees along with several projects facilitating transactions in B2B and B2C modules through its subsidiary **Khales**.
- By the end of 2019, E-Finance launched a capital raise round of EGP 300 million with targets to reach EGP 800 million, strategic and organizational restructure, and launched its e-commerce agri and industrial business subsidiary **E-Aswaaq**.

Ownership



Financial Performance



EGP 1.1 Trillion

Total e-payments value processed in 2019; up from EGP 900 billion in 2018

40 million

Cards issued for governmental, financial, and financial institutions.

100%

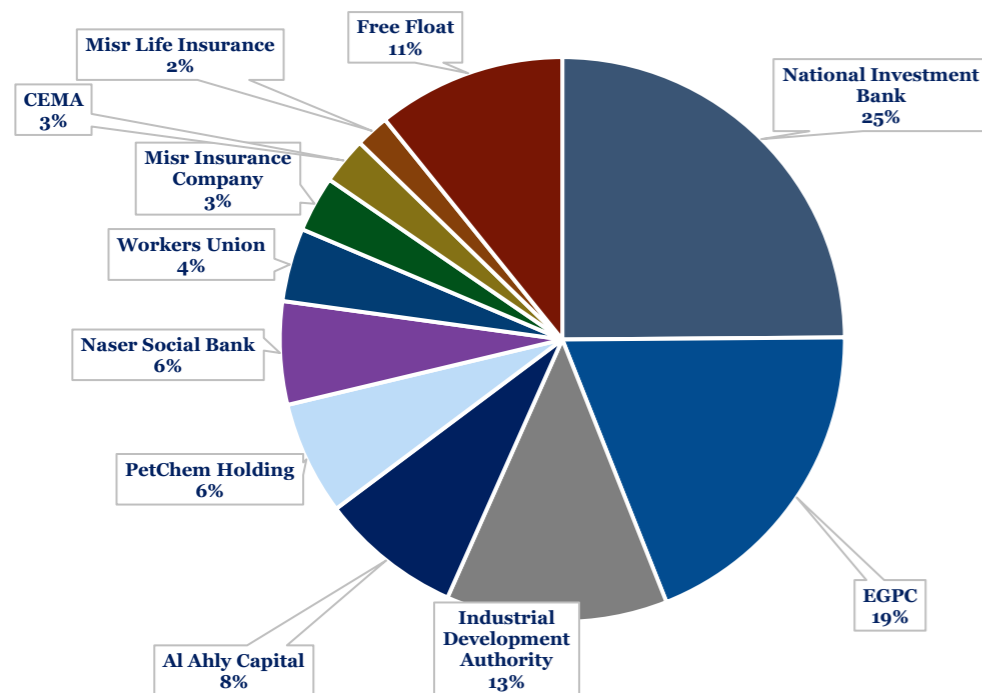
Market share of government cards in 2019

Abu Qir Fertilizers Company

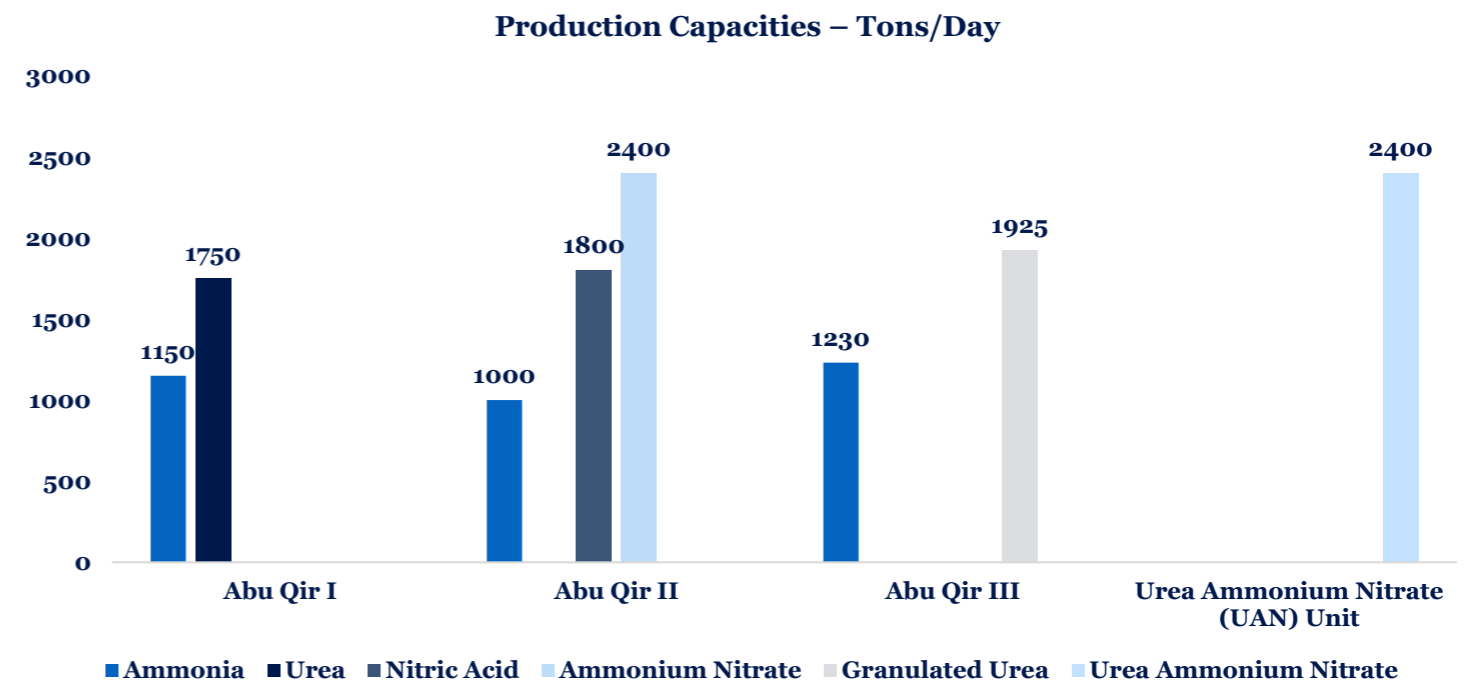


- Abu Qir Fertilizers Company, a subsidiary of the Ministry of Petroleum, was established in 1979 through the inauguration of its complex in Abu Qir area – Alexandria governorate.
- The company's industrial companies has seen several expansions throughout its 40+ years of operations to include 3 production lines for ammonia and urea, beside a plastic bags production line for its products.
- It was earlier announced that the company would be included in the 1st phase of the governmental offerings program.
- 11% of the company's shares are currently traded in the EGX.

Ownership



Production Facilities



Recent Expansions

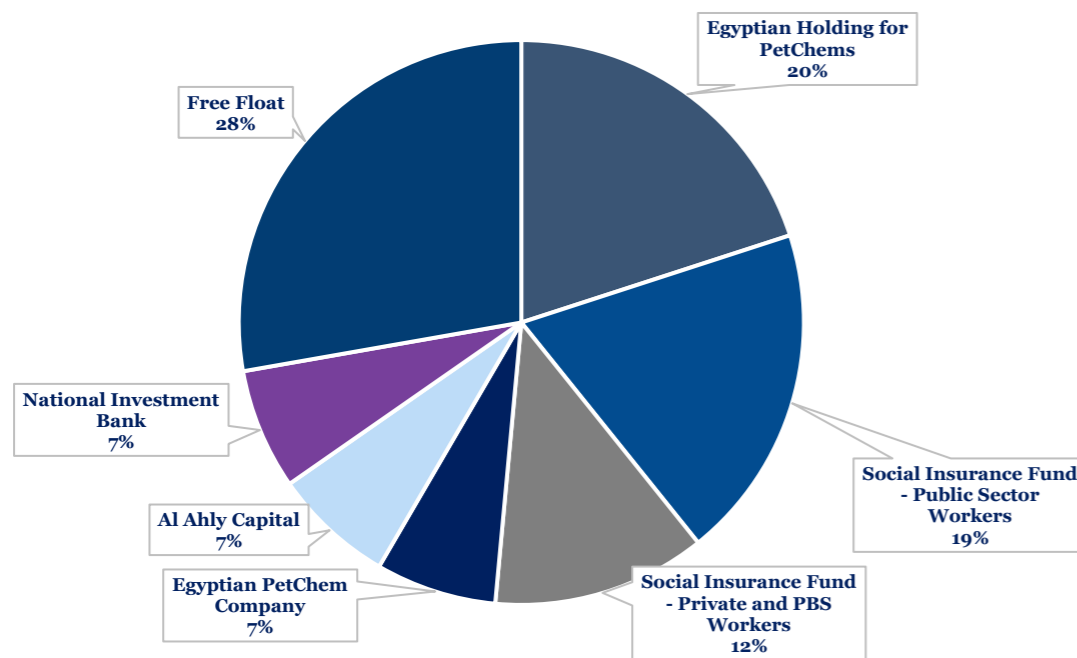
- ABUK recently launched its plastic bags manufacturing plant for its products with an annual capacity of 40 million bags in February 2019.
- The company is also set to launch the expansion of Abu Qir III Urea plant, launch Zero-Liquid Discharge Unit, and is currently studying the establishment of a Methanol and Calcium Ammonium Nitrite Facility.

Sidi Krir Petrochemicals Company

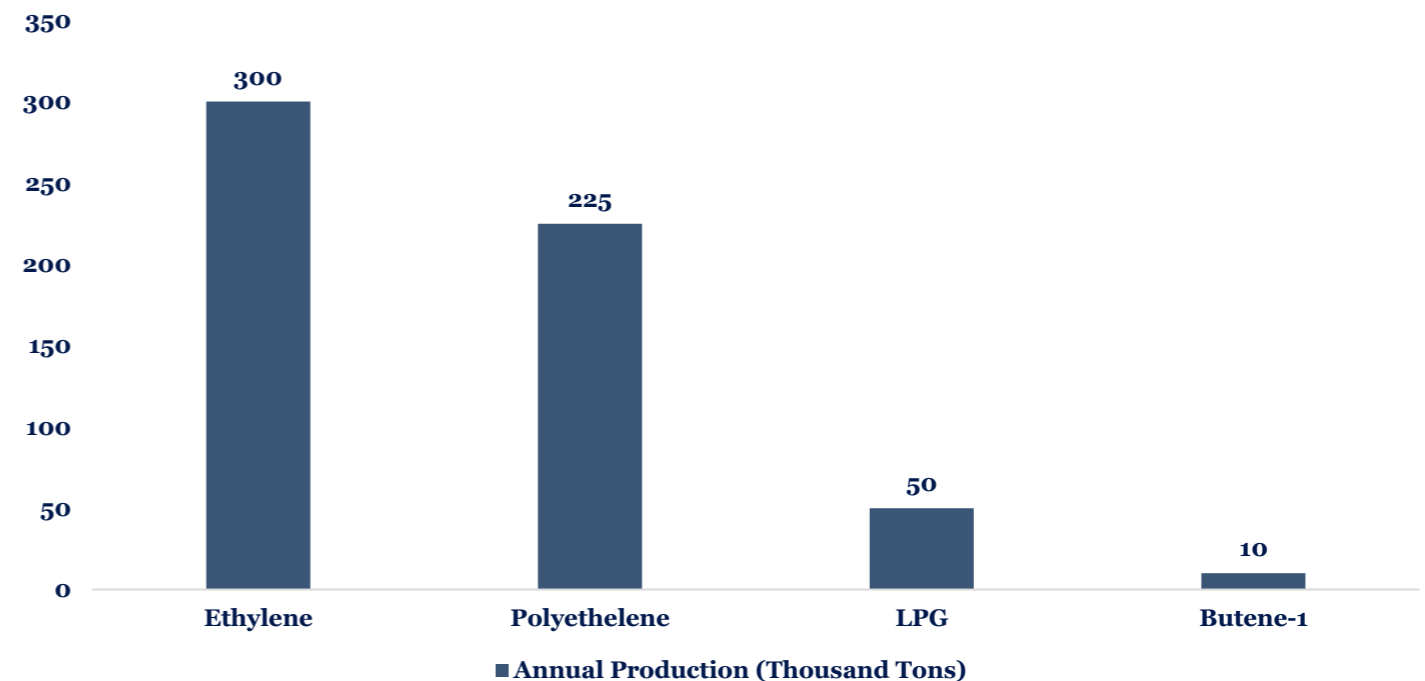


- Sidi Krir Petrochemicals Company (SIDPEC), a subsidiary of the Egyptian Holding Company for Petrochemicals, was established in 1997 through the inauguration of its industrial complex in Alexandria governorate.
- The complex currently produces several petrochemical plastic raw material and intermediate products with contracted local and international distributors of its products.
- SIDPEC is currently trading on the EGX (24.7% of its stake) and is set to be a part of the 1st phase of the governmental offerings program.

Ownership



Production Facilities



Recent Expansions

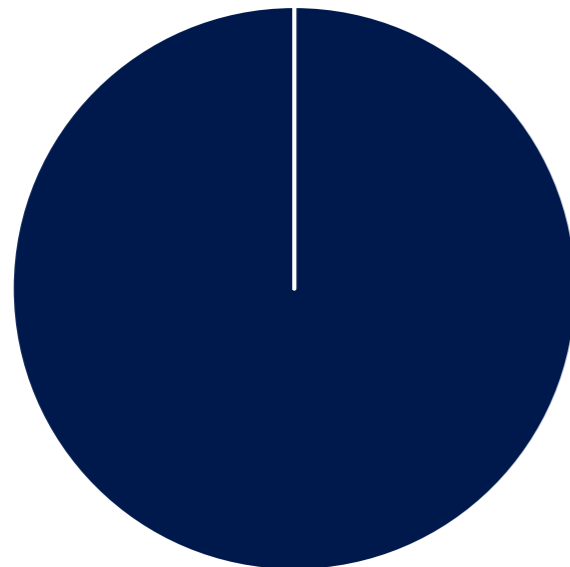
- SIDPEC approved an EGP 88.7 million budget for expansion and renovation of its production lines for FY2021.
- The company concluded its financial provisions for the propylene and polypropylene production facilities and is currently finalizing the feasibility studies of the project.

El Nasr Mining Company



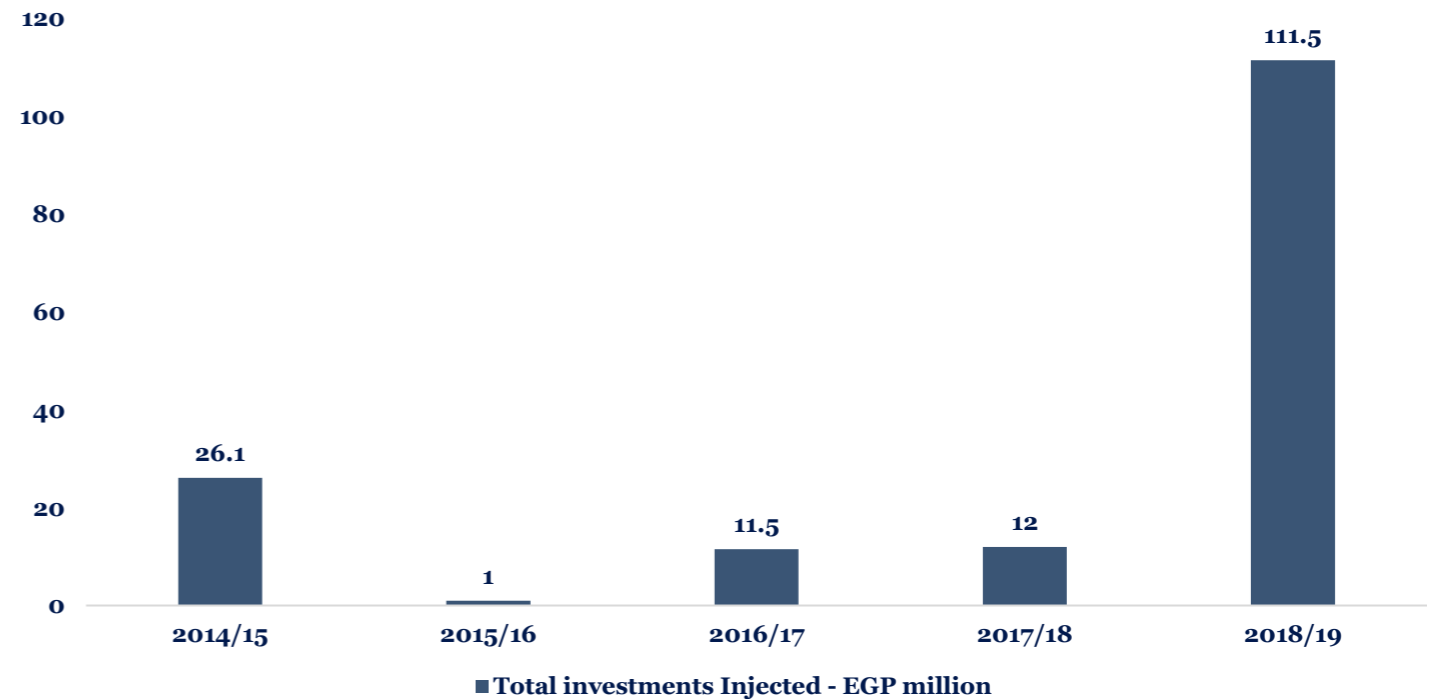
- El Nasr Mining Company, a subsidiary of the Holding Company for Mineral Industries, was established in 1960 under by Presidential decree and is currently affiliated to the Ministry of Public Business Sector.
- The company currently operates 13 mining sites and is specialized in phosphate and phosphate concentrations production through several facilities.
- The company expanded its annual production of phosphate to reach 6 million tons to cover the increasing local demand and export orders.

Ownership



Holding Company for Mineral Industries
100%

Investments Injected



Recent Expansions

- The Holding Company for Mineral Industries' general assembly approved running the preliminary procedures for the offering of a 22.7% stake of El Nasr Mining Company to the EGX in February 2020.
- The Minister of PBS announced that the ministerial committee is currently preparing 4 companies for public offerings including El Nasr Mining Company.

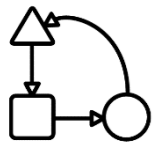
- Several challenges remain in implementing the ambitious offerings of both PBS enterprises and NSPO companies. Overcoming these challenges will depend on the ability of the GoE, on both the institutional and strategic levels, to ensure the preparedness of the enterprises for public and private offerings.
- Preparedness will depend on the companies' corporate governance turnaround, financial transparency, inter-stakeholders relations regarding future shareholders, among other matters. Additional challenges include:

Labor-Related Issues and Development of Human Resources



Due to ages-old stigmas revolving around privatization processes, the GoE will have to focus and invest extensively in reassuring a smooth transition of shareholding that would maintain workers' choice while ensuring a sustainable plan for human resources development

Directing FDI and Local Capital



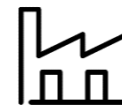
The GoE may take both programs into its advantage by offering several established companies, among its portfolio, with a focus on specific untapped, investment thirsty regions away from its financial centers.

Accessibility to Stock Exchange Tools



The GoE succeeded on several occasions in directing local individual capital towards certain financial tools (i.e. Suez Canal Bonds) by leveraging the extensive network of local banks. However, the GoE would need to ramp up its efforts in integrating and increasing financial awareness among its population to gain the momentum of launching its companies.

Leveraging Companies' Unused Assets



With some of the companies still facing operational difficulties, a considerable number of SoEs must resort to leveraging their unused assets of stakes in subsidiaries, land plots, buildings and other assets, towards their valuation, restructuring and development costs.

Promote Usage of EGX as a Financing Tool



The SoEs offerings program, which is planned to run across 30 months, would direct local investors and enterprises towards EGX sale of share or capital raise offerings as an economically sound tool for financing their expansions.

Resolving Energy Pricing Issues



As a considerable number of the SoEs belong to heavy industrial sectors, the GoE would need to pace up and restructure its pricing of energy for the heavy industrials to regain export competitive advantage. The capacities of both the existing and the newly established facilities, beside an oversupply in several sectors, can both act as catalysts to proceed with additional energy cuts.

Thank you

www.lynxegypt.com info@lynxegypt.com 4 Latin America Street, Garden City, Cairo +2 02 27944331



© LYNX Strategic Business Advisors 2021