



## The B&M Weekly Africa Markets Report on the Dow Jones Africa Titans 50 Index Week Ending Friday, December 4, 2009

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### Development

Dubai Debt Crisis Threatens Egypt; Central Bank of Egypt (CBE) Announcement Calms Markets

**Countries Affected:** Egypt

**Companies Affected:** Orascom Construction Industries (OCI), Orascom Telecom Holding (OT), Commercial International Bank, Egyptian Financial Group-Hermes Holding Company, Egyptian Company for Mobil Services (MobiNil), Egyptian Kuwait Holding, Telecom Egypt and Talaat Moustafa Group Holding (TMG Holding)

**Sector:** Telecoms, Banking/Financial Services, Construction/Infrastructure & Real Estate

### Description

**News that Dubai World is in talks to restructure \$59 billion of debts sent the benchmark Egyptian Stock Exchange (EGX) 30 Index crashing 7.8% on Monday, the biggest daily drop in 13 months.** On Tuesday, a report in newspaper *Al Alam Al Youm* quoted the Central Bank of Egypt (CBE) as stating the total exposure of Egyptian banks to Dubai World is no more than \$20 million, precipitating a much-needed recovery. The report also noted that Egyptian banks had fully covered their Dubai World loans with crisis-proof provisions and reserves. Another contributing factor to the recovery was Egypt's top-listed OCI announcing its exposure to the Dubai debt crisis is limited due to its cancellation of \$200 million in Dubai projects in early 2009. However, Arab African International Bank (AAIB) announced Tuesday that 2% of its lending portfolio (\$98.8 million) was through the Dubai World Group, suggesting that the effect of the crisis on Egyptian markets might be worse than the CBE is conceding.

### Implications for the Dow Jones Africa Titans 50 Index

**There are eight Egyptian companies in the Dow Jones Africa Titans 50 Index, constituting 16.09% of its net assets.** Only South Africa and Nigeria have more companies represented in the Index. Five of these companies are either in the telecommunications or financial services/banking sectors (see list above under "Companies Affected"). The overall health of Egyptian markets is partly contingent upon the performance of these eight companies as they also happen to be the largest publicly-traded Egyptian companies in terms of market capitalization, assets and profits.

As at August 2, 2009, the Egyptian Stock Exchange (EGX) lists the eight DJ Index-listed Egyptian companies (Orascom Construction Industries, Orascom Telecom Holding, Commercial International Bank, Egyptian Financial Group-Hermes Holding Company, Egyptian Company for Mobil Services, Egyptian Kuwait Holding, Telecom Egypt and Talaat Moustafa Group Holding, in descending order) as the top eight companies in the EGX 30 Index, which includes the top 30 companies in Egypt. The eight companies hold a whopping 77.61% of the EGX 30 Index.

**On Monday, the benchmark EGX 30 Index sank 7.8%, the biggest daily drop in 13 months in response to news about the Dubai debt crisis.** The real estate and construction sector was particularly affected, with DJ Africa Index-listed Orascom Construction Industries (OCI) sliding 7.8% and Talaat Moustafa taking a 10.5% plunge. EFG-Hermes sank 13.5% and Orascom Telecom (OT) slipped 8.1%.

**However, on Wednesday, the EGX 30 Index closed up 2.8% for a second day of gains with strategic foreign investors returning to Egyptian markets.** OCI was up 5.1%; OT added 3.2%; Commercial International Bank jumped 5.1%; and Egypt Kuwait Holding improved 6.2%. The strong rebound came on the heels of a newspaper report Tuesday quoting the Central Bank of Egypt (CBE) as stating the total exposure of Egyptian banks to Dubai World is no more than \$20 million, adding that Egyptian banks had fully covered their Dubai World loans with crisis-proof provisions and reserves. Another contributing factor to the rapid recovery was Egypt's top-listed OCI announcing its exposure to the Dubai debt crisis is limited due to its cancellation of \$200 million in Dubai projects in early 2009. On Thursday, the EGX

30 Index closed down 5.24%, with investors cashing in their profits for the week.

#### **Short Term Outlook (Negative/C-)**

**We expect the news of debt restructuring in Dubai to affect Egyptian financial services companies that operate in the U.A.E. and the Gulf area, particularly Commercial International Bank and the Egyptian Financial Group-Hermes Holding Company.** The psychological effect will continue to take its toll on investors' sentiments with regards to the overall economic health of the region. Other companies may be affected too due to the possible loss of expatriate income from Dubai where a large Egyptian expatriate community works. Expatriate money transfers back to Egypt could be reduced if the debt crisis leads to companies affiliated with Dubai World to lay off workers. Under this scenario, the Egyptian real estate/construction sector and Talaat Moustafa Group Holding, one of Egypt's largest real estate construction companies, may suffer considerably as the news will discourage Gulf residents from buying residences in Egypt.

#### **Long Term Outlook (Neutral)**

**Traditionally, Egyptian markets react nervously to developments in the oil-rich Gulf area, sometimes perhaps unreasonably so. This trend continued Monday, with the EGX 30 Index sinking 7.8%, more than the Dubai Stock Exchange (DIFX) itself, which fell by only 7%.** Investors, however, regained confidence by the end of the week, with the EGX 30 Index recouping most of its losses at the close on Thursday, December 4. Egyptian markets were closed Friday.

**With the expected transfer of support from the neighboring Abu Dhabi to Dubai, Emirati and Egyptian markets will continue to regain their footing.** Egyptian real estate companies may, however, suffer as many in the luxurious real estate niche sector rely upon rich clients from the Gulf or locals returning from work in the oil-rich Gulf awash with cash. Real estate prices in the region will remain stagnant and keen buyers will likely find bargains across the region, making the competition even tougher for Egyptian real estate/housing construction companies like Talaat Moustafa.

**Overall, the effects on the Egyptian economy will not be major particularly because the U.A.E. government announced it is taking measures to back companies affected, with the Central Bank of the U.A.E. committing to provide needed liquidity.** The Egyptian government issued a statement on its website this week stating U.A.E. investments in Egypt haven't been affected, and that there are no plans to stop any current projects. The critical Egyptian Ministry of Investments confirmed its projects were "complete and continuing naturally, and are not expected to be affected by the recent developments." Magid Shawqi, Head of the Egyptian Exchange (EGX), declared "the negative impacts that matter are expected to be temporary." The Commercial International Bank, the largest publically-traded bank, said it had no major exposure to Dubai.

**Most importantly, the Central Bank of Egypt (CBE) reported Tuesday that loans granted to Dubai World by Egyptian banks do not exceed US\$20 million, according to a report in *Al Alam Al Youm* newspaper.** In addition, the loans are fully covered for, either through provisions or through reserves, the CBE stated. Beltone Financial, a Cairo-based investment bank, issued a note stating the effect on the Egyptian economy will be "limited." The bank accurately noted that FDI and expatriate remittances flows are the likely channels for any impact from the Dubai debt crisis but that the crisis will not have much of "a negative impact" on the total level of FDI or remittances being generated in FY2009/2010.

#### **Trends to Watch Next Week**

**Will Egyptian investors, companies and the government seek out alternative investment destination to Dubai? Egyptian officials have been recently quoted stating Egypt offers value in "real assets," such as land, housing, ports, agriculture and factories, as an alternative to investments in securities that many in the Gulf were heavily invested in.**

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<p><b>Development</b> IMF Finds Moroccan Economy “Sound” and “Resilient”; Moroccan Government Launches Stimulus Measures</p>
<p><b>Countries Impacted:</b> Morocco  <b>Companies Affected:</b> Maroc Telecom, ONA SA, Banque Marocaine du Commerce Extérieur, Douja Promotion Groupe Addoha SA and Attijariwafa Bank.  <b>Sector:</b> Telecoms, Banking &amp; Financial Services, Construction/Infrastructure, Real Estate, Agribusiness and Mining.</p>
<p><b>Description</b></p> <p><b>The International Monetary Fund (IMF) issued its preliminary conclusions of its 2009 consultations with Morocco Friday, while the Moroccan government issued statements about its budget and forecasts for 2010.</b> The IMF noted the Moroccan banking sector has been widely spared from the global financial crisis. The IMF forecasted that Morocco’s economic prospects may improve slightly in 2010, based on expected growth in the Eurozone, a major economic partner of the North African country. The Moroccan government put the forecast at only 3.5%.</p> <p><b>The IMF concluded Moroccan financial system remains “sound” and “resilient” to the direct impact of the global slowdown.</b> A culmination of an IMF mission to Rabat from November 2-13, 2009, the IMF report came a few days after Morocco joined the 30 OECD countries and 11 others in signing the OECD Declaration on International Investment and Multinational Enterprises. This is a policy commitment by governments to support an open environment for international investors and encourage responsible investment by multinational companies “as a means to promote prosperity and growth.” <b>The Moroccan government unveiled measures aimed at stimulating the economy, including a better execution of public investment and support for the export sector and more public spending in its 2010 budget.</b></p>
<p><b>Implications for the Dow Jones Africa Titans 50 Index</b></p> <p><b>There are five Moroccan companies in the Dow Jones Africa Titans 50 Index, constituting 14.26% of its net assets.</b> The weightiest companies are in the agriculture &amp; mining business (ONA SA at 3.84%) and telecommunications (Maroc Telecom at 3.35%). The least-weighted of the five Moroccan companies are Banque Marocaine du Commerce Extérieur (at 2.14%) and the real estate firm Douja Promotion Groupe Addoha SA (at 2%). See list above under “Companies Affected.” The Casablanca Stock Exchange (CSE) was closed Friday when the IMF released its preliminary conclusions.</p>
<p><b>Short-Term Outlook (Neutral)</b></p> <p><b>The Moroccan financial sector will continue to be protected from the effects of the global financial crisis because of its limited exposure to international markets.</b> The state-run media and the government are already trumpeting the IMF report as good news for business in the North African kingdom. The country maintained growth as it also saw positive effects from a record cereal harvest contributing to growth in 2009. Despite the declines in the manufacturing, tourism, and export sectors, the country still grew by 5.6% in 2008. The IMF forecasts Morocco’s economy will grow by 5% this year, while the Moroccan government forecasts growth of 5.3%, according to the Federation of Arab News Agencies (FANA).</p>
<p><b>Long Term Outlook (Neutral-Negative)</b></p> <p><b>The Federation of Arab News Agencies (FANA) quoted Economy and Finance Minister Salaheddine Mezouar as saying that growth in 2010 will not exceed 3.5% and that the government targets a 4% deficit and an inflation rate of 2%.</b> It is clear Morocco will continue to struggle with the effects of the global financial crisis on its main trading partner, the EU. Morocco relies on its agricultural and phosphate exports, especially to European countries, for its economic growth. The country, with a population of 32 million, remains dependent on external developments, especially in the European Union, which is widely forecasted to have “weak” growth.</p> <p><b>Agricultural expansion, however, is expected to resume its modest growth trend possibly benefiting the agribusiness interests of ONA SA, a holding company comprising six business units that include agribusiness and mining.</b> The real estate sector will continue to see a slow-down and could in turn impinge upon the financial sector by increasing the number of non-performing loans. The sector is already concerned about government officials developing a real estate price index and implementing periodic surveys to gain a better understanding of the financial position of households and businesses, according to the IMF. The vulnerability of Morocco to outside developments is heightened by the possible deterioration of phosphate prices and/or increased oil prices above \$75 a barrel, the rate Mezouar said the government used for its 2010 budget and forecast. Worse still for Morocco, if the EU doesn’t grow steadily enough, the country could see weaker receipts from tourism.</p>
<p><b>Trends to Watch Next Week</b></p> <p>How will Moroccan markets respond to the IMF’s preliminary conclusions, if at all?</p>

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