

OUT OF AFRICA

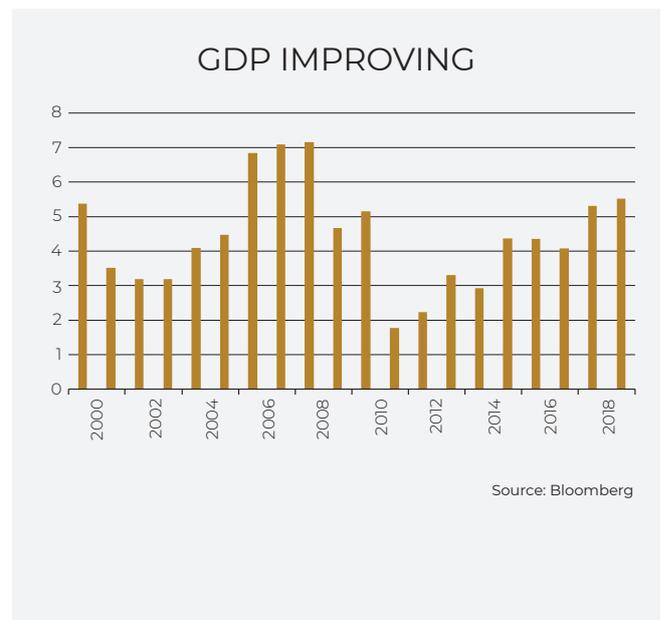
EGYPT | FEBRUARY 2020

EGYPT – AN INVESTMENT CASE FOR GLOBAL COMPANIES

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Egypt now has 100m people! Growing at 2% per year may not sound like much. But it means that since my first visit in 2012, Egypt's population has grown by 14 million people. That's more people than there are in Tunisia, it's three or four times more people than there are in Namibia and Botswana combined, and more people than there are in Greece or Sweden. It highlights, though, why emerging markets like Egypt are on the radar of global companies. Egypt is Africa's third most populous country after Nigeria (around 200m) and Ethiopia (112m).

We sneaked in an investment update trip to Egypt in December, moments before most of the listed businesses entered 'blackout', the period from financial year-end until the results are published somewhere between late January and March. It really is a great time to visit Egypt as it's the middle of winter, so the weather is great. I took advantage of the cooler weather and went to see the pyramids one



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afternoon. The pyramids are always an impressive sight, but you need to be mentally prepared to deal with the harassment from all the people trying to sell camel rides, photos, sphinx replicas, papyrus paintings and secret passages. So, it's been a few years since I last visited the Giza plateau.

It has now been nine years since Egypt joined the Arab Spring that saw Hosni Mubarak lose his 30-year rule in the country. After the revolution, Egypt went through a difficult period, which culminated in a major currency devaluation in late 2016. But the macroeconomic charts are now looking healthier, except for consumer spending. The current account deficit has narrowed, the fiscal deficit reduced, while economic growth is clocking in above 5%. Tourist arrivals are growing (a very important foreign currency generator) and, very importantly, the political situation seems stable. Egypt is a net energy exporter once again, after a number of years when it was forced to import. One reason behind weak consumer spending is that real wage growth has been negative following the high inflation that followed the devaluation. Wage growth has been well behind the increase in the cost of living. Exacerbating this inflation was the withdrawal of subsidies on food and energy, which saw power and food prices shoot up dramatically. The positive side of the reduced subsidies is that the fiscal budget has improved.

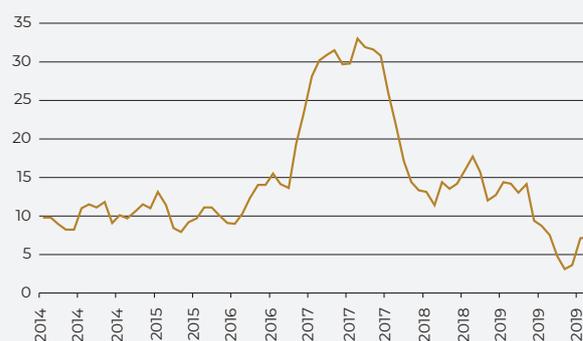
The situation for consumers is looking far better going into 2020.

The subsidy cut programme of the last few years ended in the middle of 2019, so energy costs should be stable. In addition:

- Inflation is falling, as the stable currency of the last three years is finally impacting – in fact, over the course of 2019, the Egyptian pound actually strengthened around 10%, which should make imported goods cheaper.
- Interest rates are down, and expected to drop further. Egypt is not a big mortgage market – most people buy houses cash – but the lower interest rates could lead to business investment, which results in more employment and a strong economy.

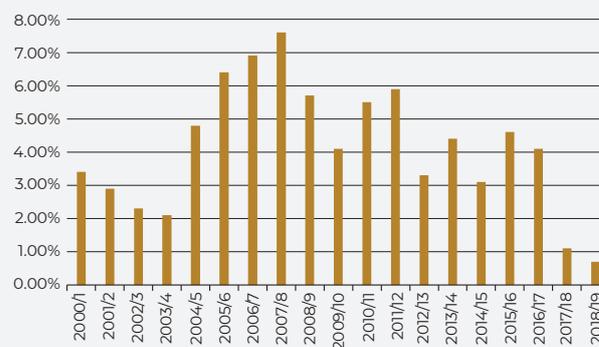
So, with our expectation that consumer spending will pick up, we expect Egyptian consumer shares to be one of the best performing sectors this year, particularly since many are coming off reasonable ratings (some trading below 10x price/earnings). The listed consumer companies in Egypt are generally illiquid, where our approach has been to accumulate a number of small positions rather than a few concentrated options. The companies include milk, cheese and juice producers, tobacco, a variety of healthcare businesses and snack manufacturers. Competition is strong, so margins tend to be thin for most of these companies. Egypt is the largest country exposure in the fund.

INFLATION EASING



Source: Bloomberg

CONSUMPTION GROWTH REMAINS DEPRESSED



Source: EFG

CEMENT DEMAND SHOWS THAT HOME BUILDING HAS TAKEN STRAIN SINCE 2017



Source: Bloomberg



Typical mom-and-pop kiosk



Typical informal housing in the city



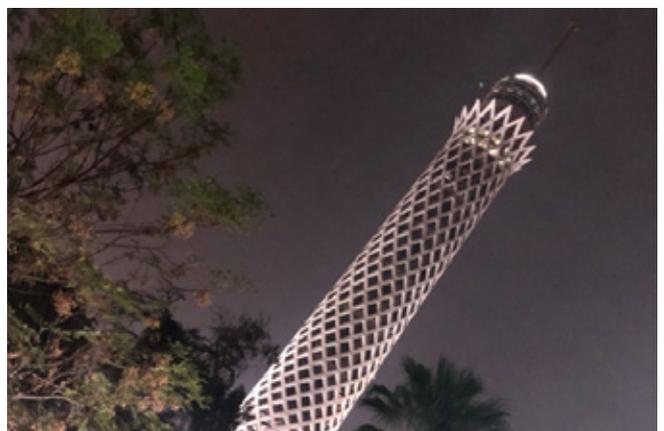
A Nile house boat



New rail system



Perfect winter day in Africa



Gezira Tower known by locals as the pineapple



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