



Lloyds Chambers  
1 Portsoken Street  
London E1 8HZ  
Tel: 020 7702 0888 Fax: 020 7702 9452  
www.hermes.co.uk

## INVESTMENT NOTE

20 AUGUST 2014

### **Hermes: Egyptian bank delivers**

*Hermes Global Emerging Markets Portfolio Manager, Elena Tedesco, looks at how an increase in corporate lending in Egypt is boosting the fund's position in the Commercial International Bank.*

On 12 February 2014, we took a position in Egypt's Commercial International Bank (CIB) and our initial enthusiasm has since been rewarded with the stock up 28% in USD terms since end of March (+37% since initiation). We took this decision after a January visit to the country which highlighted the significant changes taking place. Egypt's political and social situation remains of concern, but the investment environment is showing more encouraging signs of stability.

### **Benefiting from credit growth**

CIB is the Hermes Gems fund's largest active position in EMEA. CIB's high weighting is being rewarded in a market that, as recent industry data shows, is gradually returning to growth. Confidence is coming back to Egypt as the domestic political situation stabilises and corporate clients are investing and demanding credit. Corporate credit has risen by 6% quarter-on-quarter – good news for Egypt's largest publicly traded lender – and there are signs of a recovery in the capex cycle as the likes of Coca-Cola, Mars and Procter & Gamble have resumed spending. Jotun, a paint company, recently announced that it is doubling the capacity of its Egyptian operations.

### **Investment boost**

Meanwhile Egypt's neighbours are finalising work on \$20bn in investments, adding to aid already disbursed. A donors' conference is expected to be held in the fourth quarter, right after Parliamentary elections, to discuss investment opportunities, including infrastructure, natural resource development and tourism. If this significant investment materialises, growth could exceed expectations, and ample liquidity will distinguish Egypt from other emerging markets which are vulnerable to Fed tightening. The Egyptian banking sector will be pivotal in the investment phase, and CIB could get a good piece of the pie given its leading position as a private bank, its extensive franchise, and its strong corporate focus.

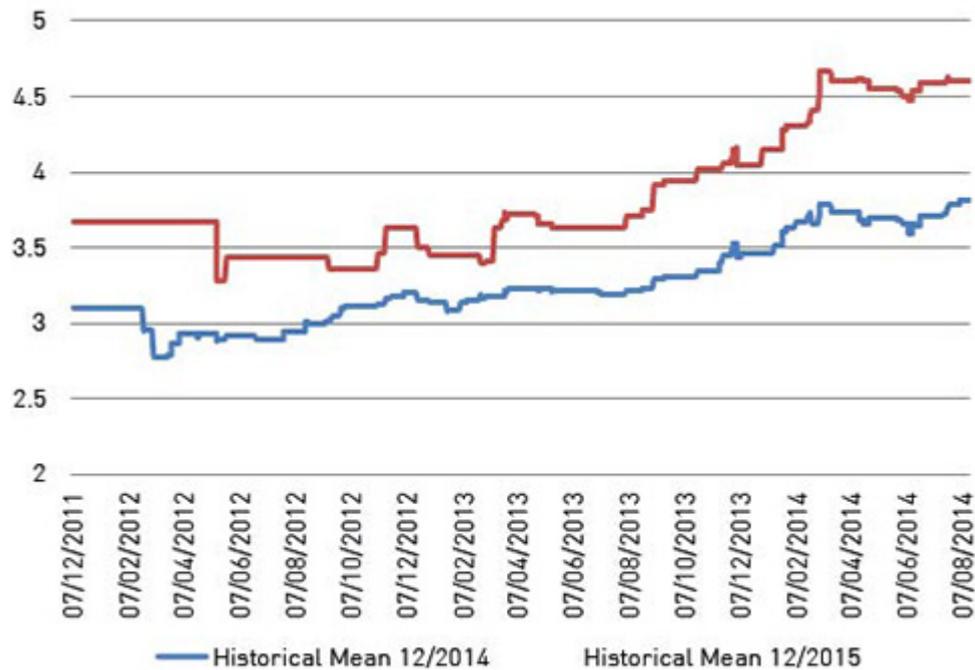
### **Virtuous reform circle**

Recently elected President Sisi is committed to improving fiscal coffers by removing subsidies and the Central Bank has pledged to help manage temporary inflationary spikes in the process. Structural reforms, including raising taxes on capital gains and reduction of the petroleum subsidy, are important first steps towards repairing the government's balance sheet. By themselves, they are not sufficient to right the economic ship, but if bolstered by foreign direct investment and further reforms, point to a responsible policy stance and a potential virtuous circle of increasing investments, lower deficits, lower inflation, and improving growth.

## Investment thesis

The original thesis on CIB remains intact: increasing lending coupled with a declining cost of funding sparking earnings growth. CIB's share price has started to reflect some optimism and the stock is overbought at present, suggesting that there might be slightly better entry points in the near future. We have reduced the position slightly as a result, but it still has a relative weighting of 2.48% within the portfolio. The street is catching up, revising CIB's earnings estimates upwards (see chart). Valuation is no longer cheap but stocks in the early stage of a long term recovery cycle rarely are.

## Market estimates of CIB earnings per share



Source: Bloomberg

## For further information, please contact:

### Hermes Fund Managers

Jeannie Dumas  
+44 (0)20 7680 2152  
[j.dumas@hermes.co.uk](mailto:j.dumas@hermes.co.uk)

Melanie Bradley  
+44(0) 20 7680 2218  
[m.bradley@hermes.co.uk](mailto:m.bradley@hermes.co.uk)

## Notes to Editors:

### Hermes Fund Managers

Hermes is focused on delivering superior, sustainable, risk adjusted returns for our clients – responsibly.

### We believe in **Excellence**, **Responsibility** and **Innovation**

- **Excellence:** We aspire to excellence in everything we do. This manifests itself most visibly in our investment performance. We will only offer products to our clients where we believe there is a strong investment thesis and where we can deliver sustainable alpha.
- **Responsibility:** We believe it is our responsibility to lead discussion and debate about the fiduciary responsibilities of fund managers to our clients, their stakeholders and,

ultimately, society at large. We have always sought positive engagement with the firms in which we invest.

- **Innovation:** We have the entrepreneurial culture to identify forward-looking products that meet those needs, along with the resources and speed-to-market mentality to develop them rapidly.

Our structure provides wholesale, institutional and pension fund clients globally the benefit of access to a broad range of specialist, high conviction investment teams operating within an established and robust operating platform.

Hermes' investment solutions include:

- **Fixed Income:** Inflation-Linked, Government Bonds, Investment Grade, High Yield
- **Alternatives:** Commodities, Hedge Fund Solutions, Infrastructure, Private Equity
- **Equities:** Global, Emerging Markets, Small & Mid Cap, Europe, Asia Ex Japan
- **Real Estate:** Segregated, Unitised, Debt, UK, US Residential, European

Hermes manages assets on behalf of more than 200 clients\* across these investment areas with £27.4 billion\* assets under management. In Hermes Equity Ownership Services, we have one of the largest engagement resources in the industry, advising on more than £108.6 billion\* of assets.

\*Please note the total AuM figure includes £3.6bn of assets managed or under an advisory agreement by Hermes GPE LLP ("HGPE"), a joint venture between Hermes Fund Managers ("HFM") and GPE Partner Limited. HGPE is an independent entity and not part of the Hermes group. £0.4bn of total group AuM figure represents HFM mandates under advice. Source: Hermes as at 30 June 2014.