



SHUAACAPITAL<sub>PSC</sub>

## EFG-Hermes (HRHO.CA)

### Equity Research

### Q3 2007 Results Note

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- **Modest growth in net profit:** EFG-Hermes reported EGP 315 mn in net income in Q3 07, up 0.27% from EGP 314 mn in Q2 07. Total 9M 07 net income amounted to EGP 879 mn with the overall results indicating that the company may slightly beat our estimate for the full year net of EGP 1.16 bn.
- **Brokerage... main revenue dynamo:** Although market share in Egypt decreased from 18% in Q2 07 to 13% in Q3 07 in the face of higher local competition, EFG-Hermes maintained its number one position among Egyptian brokerage houses. Outside of Egypt, the company gained significant market share in the UAE reporting 8.23% in Q3 07, up from 5.9% in Q2 07. Also, the Saudi Arabia brokerage activity began contributing revenues, with EGP 1 mn recorded in the third quarter. Total brokerage revenues amounted to EGP 391 mn in 9M 07, which means that the company is highly likely to exceed our full year estimates of EGP 411 mn in revenues from the division.
- **Asset Management...strong growth in AUMs:** AUMs grew by 32.5% from EGP 21.6 bn in Q2 07 to EGP 28.6 bn in Q3 07. EFG-Hermes has already exceeded our projection for end of year AUMs of EGP 15.6 bn. In spite of most of the growth coming from money market funds which typically carry lower management fees, asset management fees in 9M 07 amounted to EGP 119 mn, excluding unrealized incentive fees of EGP 132 mn. This is set to significantly beat our asset management fee income estimate for 2007 of EGP 129 mn.
- **Private Equity...significant exits in the quarter:** Q3 07 was an eventful quarter for the private equity division witnessing the closing of Horus III coupled with several exits from Horus II and CIIC portfolio. Revenues grew by 182% to reach EGP 107 mn in Q3 07 for a 9M 07 total of EGP 145 mn. The strong results have already beaten our full year estimate of EGP 100 mn. An additional inflow of EGP 13.8 mn (USD 2.5 mn) is expected by year end.
- **Investment Banking...dominated by M&A activity:** Two M&A's were executed in Egypt and the UAE during Q3 07 amounting to USD 1.9 bn in transaction value. Total transactions in 9M 07 were around USD 5.4 bn. IB revenues amounted to EGP 272 mn indicating that the company may come in slightly above our full-year estimate of EGP 352 mn for 2007.
- **Bank Audi...results in line with estimates:** EFG-Hermes's stake in Bank Audi is unchanged at 28.6% representing an income stream of EGP 70 mn in Q3 07 up from EGP 65 mn in Q2 of the same year. Income from Audi is in line with our estimate of EGP 275 mn for the full year.
- **Excess cash...being invested in T-Bills and mutual funds:** The company reported EGP 206 mn in interest income for 9M 07. Total cash on hand fell from EGP 6.5 bn in Q2 07 to EGP 1.3 bn as the company invested a large portion of its excess cash into treasury bills and mutual fund certificates. Remarkably, the interest generated on the cash balance for the period is close to the share of income generated from the company's stake in Bank Audi.

- G&A Expenses:** These amounted to EGP 372 mn for 9M 07 with the Q3 07 recording a decrease of 15.4% vs. Q2 07. It is important to note that Q1 07 G&A expenses were inflated with bonus payments related to last year's bonus as the company had to pay extra bonuses under pressure to retain key employees. We believe that this trend is going to continue as increasing competition makes it more difficult to retain human capital, indicating that expenses will exceed our estimate of EGP 394 mn.
- EFG-Hermes to slightly beat 2007 estimates:** The overall results indicate that EFG-Hermes is likely to slightly beat our estimate for the full year of EGP 1.16 bn on the back of strong trading activity in Egypt; higher brokerage market share in the UAE; a significant rise in AUMs; significant exits from the PE portfolio, and healthy IB activity - somewhat tempered by higher than anticipated operating expenses. In all, we are revising upwards our forecasts marginally in light of achieved results.

Current stock price (EGP)	61.55
52-week range (EGP)	32.4-63.12
Number of shares (000)	387,864
Free Float	49%
Market Cap (EGP '000)	23,873,029
Market Cap (USD '000)	4,336,608
Div. Yld 2006	1.22%

EGP (millions)	Q3 2006	Q2 2007	Q3 2007	9M 2006	9M 2007
Fees and commission income	169	320	386	657	929
Total interest income	9	79	45	36	207
Dividend income	-	3	3	2	6
Income from associates	58	65	70	161	209
Other income	14	62	44	12	176
Total expenses	(74)	(162)	(163)	(271)	(466)
Minority interest	5	3	30	15	45
Net profit	151	314	315	510	879

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