POWERING EGYPT'S GROWTH:

STRATEGIC INSIGHTS ON GOVERNMENT'S OFFERINGS IN THE ENERGY SECTOR

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“EOG team would like to express their sincere gratitude to Mr. Mohamed Radwan Chairman, AF Securities, for sharing his valuable opinion.”

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Overview

BY MARIAM AHMED & MAHMOUD YASSER

The Egyptian government prioritizes implementing a series of economic reforms designed to foster economic growth, bolster the competitiveness of the Egyptian economy, and enhance its resilience. After the launch of the Economic Reform and Structural Transformation Program (ERSAP) in 1991, the government started to focus on privatization. In the same context, the state launched the "State Ownership Policy Document" in 2022 to outline its plan to exit several economic sectors, reduce its role in some, and increase its role in others.

The state's assets ownership policy targets raising economic growth rates and boosting investments. It also empowers the private sector to achieve governance of state presence in economic activities and achieve financial savings that support the general budget situation.

State's Targets*

Economic Growth	Investment Rate
7-9%	25-30%

*Announced in August 2024

According to the document, the state will exit from 62 economic activities, fix or reduce directed investments in 56 activities, and fix or increase directed investments in 76 activities, including the energy.

In the same context, the state has unveiled an ambitious Initial Public Offering (IPO) Program for 2025, presenting a unique opportunity for strategic investors to participate in the privatization of 10 state-owned enterprises (SOEs), spanning key sectors such as petroleum, food industries, pharmaceuticals, plastics, renewable energy, and banking. The shares in these entities will be allocated across two avenues: strategic investors and the Egyptian Stock Exchange (EGX), according to the State Ownership Policy Document.

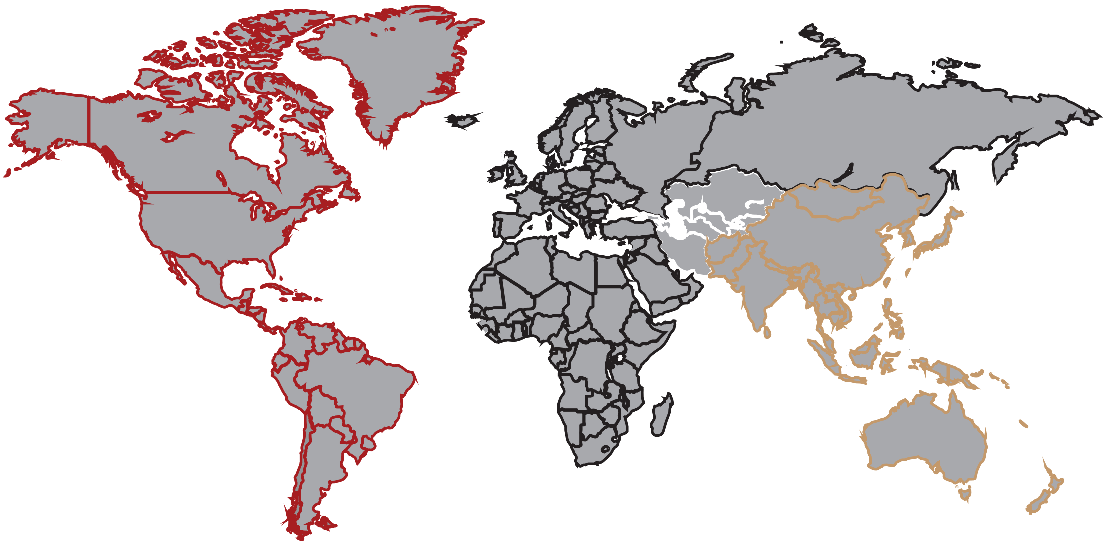
Key Trends

Global IPOs in 2024

Overall Performance

Global

Number		Proceeds	
2024	YoY Change	2024	YoY Change
1,215	↓10%	$121.2 billion	↓4%



Americas

Number		Proceeds	
2024	YoY Change	2024	YoY Change
205	↑37%	$33.1 billion	↑45%

Asia-Pacific

Number		Proceeds	
2024	YoY Change	2024	YoY Change
488	↓35%	$34.9 billion	↓51%

EMEIA

Number		Proceeds	
2024	YoY Change	2024	YoY Change
522	↑17%	$53.2 billion	↑64%

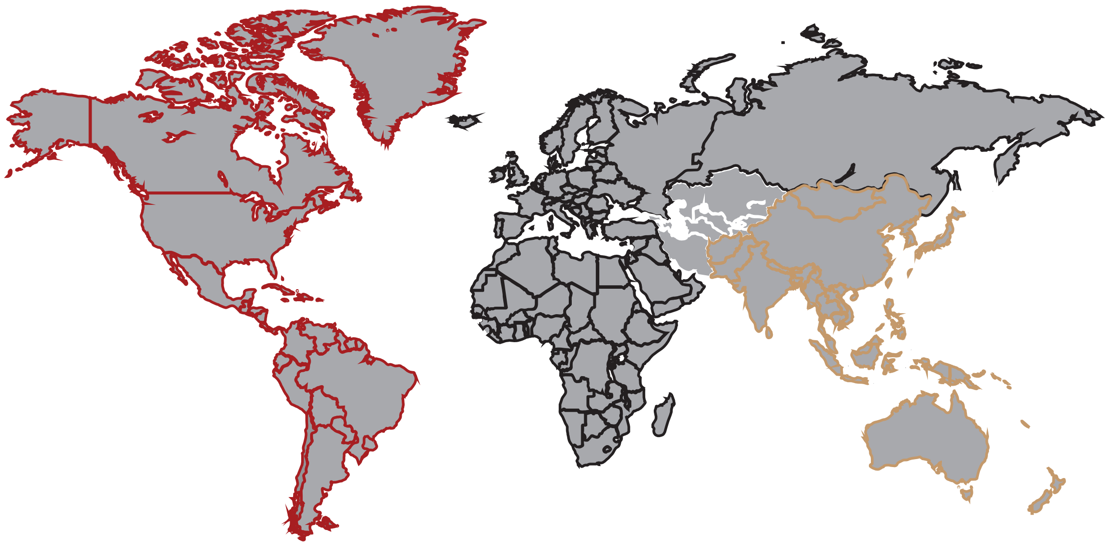
The global IPO market in 2024 experienced mixed performance, with a 10% decline in deal volume and a 4% drop in proceeds year-over-year. The second half of the year outperformed the first, with Q4 being particularly strong. India emerged as the leader in IPO volume, outpacing the United States (US) and Europe, while the US led in proceeds.

The Asia-Pacific faced significant challenges in 2024, with IPO activity falling to its lowest levels in a decade. In contrast, Europe, the Middle East, and Africa (EMEIA) led the global IPO market, topping both deal volume and proceeds. EMEIA included six of the top 10 largest IPOs of the year, reflecting its strong performance and investor confidence. The Americas experienced a robust recovery, recording its highest level of IPO activity since 2021. This recovery highlights the renewed market momentum and strong investor appetite, according to EY Global IPO Trends report.

IPOs Within the Energy Sector Worldwide

Global

Number	Proceeds
120	$8.3 billion



Americas

Number	Proceeds
25	$0.7 billion

Asia-Pacific

Number	Proceeds
42	$1.5 billion

EMEIA

Number	Proceeds
53	$6.1 billion

In 2024, the energy IPO sector experienced a sharp decline, with the number of IPOs dropping by 10% to 120 deals and proceeds falling by 52% to $8.3 billion due to geopolitical tensions, economic instability, and high interest rates.

The Asia-Pacific region saw the largest decline, except for Indonesia, which performed well in metals and mining IPOs. Meanwhile, the EMEIA region led in proceeds, driven by major IPOs in India and Oman, with Oman securing $2.03 billion from a significant oil and gas IPO, according to the EY Global IPO Trends report.

In October 2024, OQ Exploration and Production (OQEP), Oman's state oil group's exploration and production division, raised $2.03 billion in an IPO on the Muscat Stock Exchange. This marked the largest listing in Oman and the Gulf region's biggest IPO of the year. OQEP offered approximately 2 billion shares, representing a 25% stake, priced at the top of the indicative range, according to Bloomberg.

The renewable energy segment also garnered significant attention. NTPC Green Energy, a subsidiary of India's NTPC, attracted bids worth $1.83 billion in its November 2024 IPO, making it India's third-largest listing of the year, according to Bloomberg.

Egypt's Governmental Offerings

Program Results (March 2022-June 2024)

The Egyptian offerings program's three phases, extending from March 2022 to June 2024, were implemented by about 288.5%, with a total of nearly $30 billion. The offering mechanisms varied between full and partial sales to a local or foreign investor through sales on the EGX or increasing the capital of some state-owned companies. This is in addition to enhanced investments in tourism development in Egypt. It is worth mentioning that the Ras El Hekma deal was the main factor in achieving high implementation rates that exceeded targets, according to the second follow-up report of the State Ownership Policy Document.

Egyptian Offerings Program Receipts

$30 billion

In 2024, Egypt demonstrated exceptional performance in the region, ranking second as the premier market in the Middle East and North Africa (MENA) for anticipated USD performance, which garnered 25% of the votes. Saudi Arabia led with 44%, followed by Dubai in third place with 12%, and Abu Dhabi in fourth with 8%, as reported by the Egyptian Financial Group (EFG) Hermes Research's annual One-on-One Live Poll.

Energy Potential

The Egyptian state pays great attention to introducing several energy companies to the IPO program, in which the government's role revolves around maintaining or decreasing its presence in power generation companies. This also includes maintaining or increasing its presence in oil refining and oil extraction companies by offering investment opportunities for the private sector.

The Egyptian program's first phase resulted in acquiring Abu Dhabi stakes in Abu Qir Fertilizers by about 21.5%, and 20% in Misr Fertilizers Production Company (MOPCO) in 2022.

The program's second phase resulted in the acquisition of the Abu Dhabi Developmental Holding Company (ADQ) to a 25% stake in the Egyptian Drilling Company (EDC), a 30% stake in the Egyptian Ethylene and Derivatives Company (ETHYDCO), and 35% of the Egyptian Linear Alkyl Benzene Company (ELAB), with a value of $800 million in November 2023, according to the second follow up report of the State Ownership Policy Document.

Energy Companies Deals in the Program's 2nd Phase

Involved Companies
EDC, ETHYDCO & ELAB

Value
$800 million

The program also offers Wataniya by mid-2025, which manages a network of 255 active fuel and service stations, with plans to expand to 300 stations. This is in addition to offering ChillOut, which specializes in distributing premium petroleum products via over 100 stations by 2025 end. Moreover, In the renewable energy sector, Gabal El-Zeit Wind Farm is the largest wind energy complex in the MENA region, with an installed capacity of 580 megawatts (MW), as stated by the Egyptian Cabinet.

Unlocking Growth Avenue

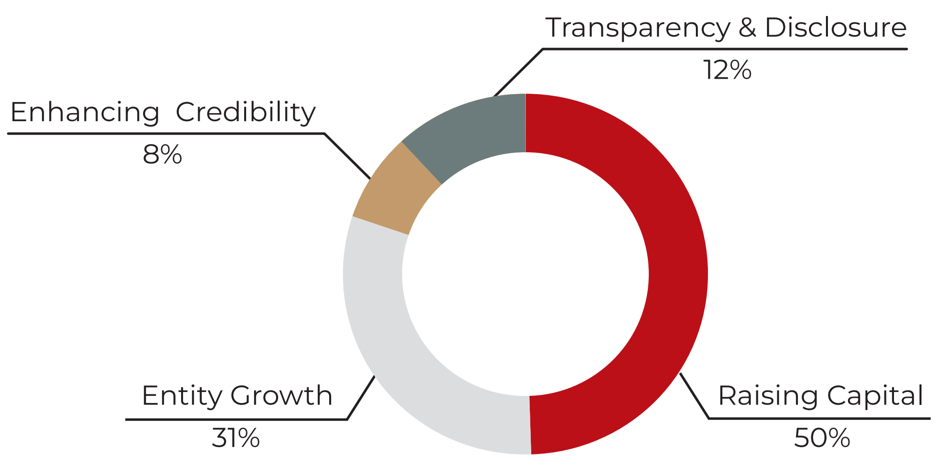
If IPOs are done in the right way with sufficient investigation, they can offer several significant opportunities to energy investors. It provides them with access to capital, which can be used for expansion, and research and development. This is particularly important in the energy sector, where capital requirements for projects can be high.

IPOs offer new opportunities for investors to diversify their portfolios by investing in new energy companies, helping in entity growth. IPOs can also contribute to increasing transparency and regulatory oversight, regarding financial health and operational practices.

Moreover, IPOs can enhance market positioning and offer competitive advantages and visibility, attracting more business and leading to lucrative contracts and partnerships, as clarified in the PwC report entitled "On the Road to IPO: Stop, Look and Leap".

The below pie chart shows respondents' opinions regarding the opportunities offered by the IPO program. Notably, half of the respondents' answers assume that Raising Capital is the most important motive behind entering IPO programs.

What is the most significant opportunity the IPO program offers to energy investors?



The year 2023 marked listing only TAQA Arabia as the first private energy company to be listed in Egypt and MENA with an issued 1.35 billion shares. It was a technical listing, not an IPO. Technical listing is a direct listing that occurs when the listed company is a subsidiary of a company that's already listed on the EGX. In this case, TAQA Arabia is a subsidiary of Qalaa Holdings. It came in line with the company's plans to scale up its investments, and project portfolio in Egypt and the region, according to the EGX news.

Nowadays, there exists a certain level of optimism regarding the potential listing of further energy companies on the EGX. This is probably supported by the improvements and reforms to trading rules and mechanisms outlined in the EGX strategy, which aims to list additional companies and enhance liquidity. Furthermore, the newly announced incentives and facilities.

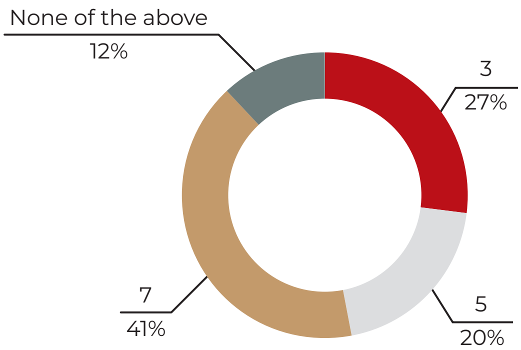
- **In February 2024,** the EGX re-divided markets and unified listing criteria within it into four main market categories according to trading volume, while specifying the trading mechanisms permitted for each market. The new market categories are the active market, medium-cap market, inactive market, and small and medium enterprises (SME) market, according to the EGX.

- **In June 2024,** the EGX launched the first Sharia-compliant index under the supervision of Al-Azhar with the cooperation of Standard & Poor's. The new index will meet the needs of a wide range of investors locally, regionally, and internationally. The index includes a number of energy companies like Natural Gas & Mining Project (Egypt Gas), Alexandria Mineral Oils Company (AMOC), Sidi Kerir Petrochemicals (SIDPEC), according to the EGX.

- **In September 2024,** the Financial Regulatory Authority (FRA) set new controls for voluntary delisting from the EGX. It allows the company wishing to voluntarily delist its shares to determine the value of the selling party's shares based on the fair value of the delisted shares, according to three determinants, according to the Egyptian Cabinet.

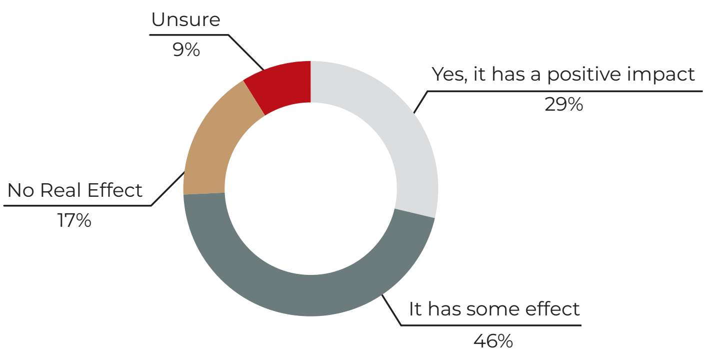
The below pie chart shows respondents' optimistic expectations of listed energy companies in the EGX.

How many energy companies do you think will be listed on the Egyptian Exchange within the next three years?



From May 2022 to June 2024, the government supported the implementation of the State Ownership Policy Document through 21 measures, representing 7% of the total reform measures implemented. Moreover, the Cabinet approved a draft law regulating state ownership in companies owned by it or in which it has a stake, in May 2024, the Cabinet also approved a draft law establishing a central unit to inventory, monitor, and regulate state-owned companies, according to the Egyptian Information and Decision Support Centre (IDSC).

Do you believe Egypt's State Ownership Policy significantly empowers private energy companies?



Considerations for Improvements

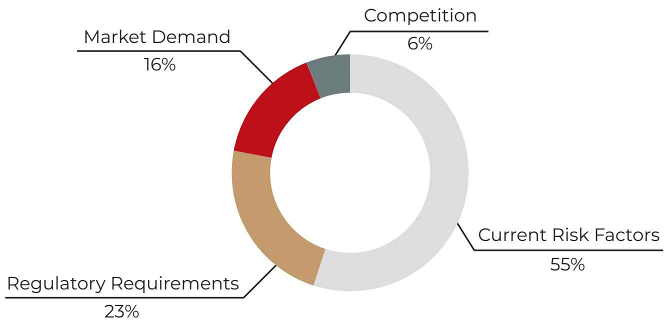
Investors exploring energy investments in Egypt must navigate a range of critical risk factors that can influence the feasibility and profitability of their ventures. Key challenges include trade barriers and investment restrictions, which can create obstacles to market entry and operational efficiency.

The complexities within the legal and bureaucratic systems further complicate the investment process, potentially leading to delays and increased costs as fluctuations in these areas can affect energy policies and currency value, impacting returns. For instance, recent currency devaluations in Egypt have heightened risks for foreign investors.

Additionally, government intervention, taxation policies, and fluctuations in foreign direct investment (FDI) significantly impact the stability and predictability of returns. A thorough understanding of these risks is essential for formulating effective strategies and seizing opportunities in Egypt, according to Fitch Solutions.

The below pie chart highlights respondents' views on the most critical factors investors consider when evaluating energy investment opportunities.

What factors do investors consider most critical when evaluating investing in energy offerings?

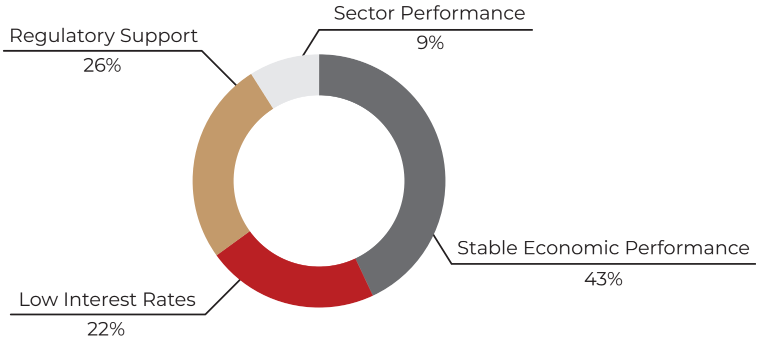


The success of an IPO program in Egypt relies on creating a favorable economic and regulatory environment. Stable market conditions, supportive policies, and strategic reforms are essential to fostering investor confidence and encouraging participation.

Additionally, efforts to enhance sector performance and reduce financial barriers can significantly contribute to achieving successful public offerings, aligning with Egypt's broader economic development goals.

The pie chart highlights key factors that respondents believe are essential for a successful IPO program.

Under what conditions will there be a successful IPO program in Egypt?

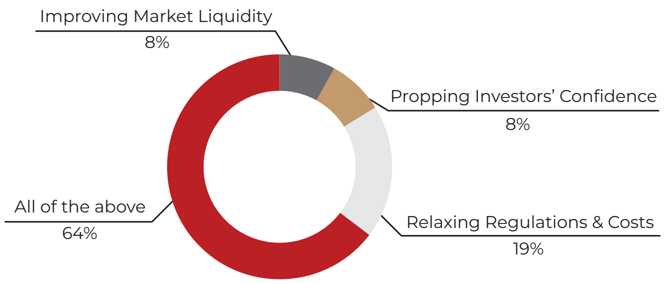


Egypt has been taking significant steps to retain companies on the EGX and prevent withdrawals, drawing lessons from challenges faced by other markets. One of the key issues under consideration is the capital gains tax, which the government may finalize in the new year. This tax was initially designed to deduct around 10% from the profits of stock market transactions for investors residing in Egypt.

According to the Egyptian cabinet, the government had planned to start collecting the tax on profits from trading securities listed on the EGX between March and April 2025, following several delays.

However, this move has raised concerns among many stakeholders who believe it could negatively impact the liquidity and attractiveness of the Egyptian market. To address these concerns, the government is exploring alternative options for taxing stock market transactions. Among these proposals is the introduction of stamp duty at a rate of 0.15% to replace the capital gains tax, which could potentially offer a more balanced solution, according to Enterprise.

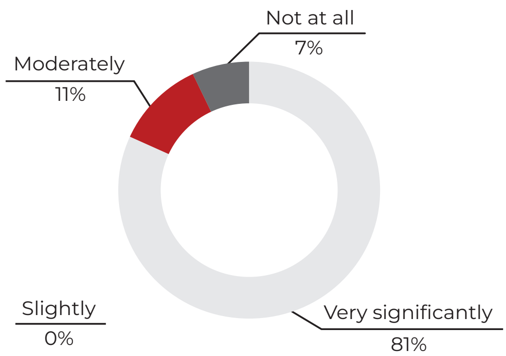
How do you think Egypt can avoid companies' withdrawal from the EGX, like in the case of the London Stock Exchange?



Based on the data provided, the overwhelming majority (81%) believe that the lack of a fair exchange rate impacts the government's offering program very significantly. This indicates a strong consensus that exchange rate fairness plays a critical role in the success or failure of such programs.

A fair exchange rate is essential for attracting foreign investment, as it ensures transparency and reduces risks associated with currency fluctuations. If the exchange rate is perceived as unfair or unstable, it can deter investors, reduce confidence in the market, and negatively affect the government's ability to execute its offering program effectively.

To what extent do you think that the lack of a fair exchange rate impacts the government's offering program?



The Egyptian government's offerings program still has a significant untapped potential within the energy sector that can drive economic growth and sustainability. With a strategic focus on renewable energy projects, innovative technologies, and public-private partnerships, Egypt is positioned to harness its abundant natural energy resources. By fostering a conducive environment for investment and development, the government can attract both local and international stakeholders to explore and exploit these opportunities.

As the global demand for clean energy continues to rise, Egypt stands at the forefront of this transition, not only enhancing its energy security but also contributing to regional and global sustainability goals. Unlocking this potential will not only benefit the economy but also pave the way for a greener future for generations to come.

Expert Opinion

Mohamed Radwan

Chairman, AF Securities

The issue of the IPO program of the Egyptian government is not related to certain sectors or companies; it is more related to the macro-outlook of the country. Hence, it is hindering the listing of newcomers.

Local investors would like to receive a wide variety of companies from different sectors, such as insurance, energy, consumer, and other sectors, but the problem is that there are major issues that these listings face like the stability of the currency; if the government is pro-investment or not, the interference of the government in private sectors & consistency of laws and regulations as well. This also puts pressure on the valuation of the current companies. Hence, no IPOs are coming to the market because of the low valuation of the stock market. That's why the reason for the de-listing.

We saw Ezz Steel de-listing, and we're witnessing the return of international buyers in companies like SODIC, Domty & CIRA.

Unlike in other countries like the UAE and Saudi Arabia, where they are seeing a massive inflow of IPOs with a huge appetite for foreign investors, we saw two of the biggest IPOs in the region, the Talabat and the Lulu market in the UAE, which are attracting billions of dollars.

Coming back to the energy sector, the local market is open and has the appetite to have companies like Midor and Wataniya, but the problem is the currency as the current economic situation is affecting the evaluation negatively. And I think this is the main obstacle why companies from the private sector or the public sector are not getting listed.

Once these problems get fixed, like lower interest rates and the stability of the currency, there will be a comeback of foreign investors and the pipeline of IPOs start to kick in. I think the market will accept these kinds of companies.

Also, let's not disregard companies involved in solar energy. We have very successful stories about local companies that penetrated the solar energy sector.

When they wanted to raise capital, they raised it not through the stock market but through private equity, venture capital, and international investors because they knew that going into the market would affect them negatively.

So, I think the macro picture has to stabilize for the IPO to get the program to be reactivated again. Definitely, we lack a lot of companies in the energy sector. I think Lack of interference would create transparency because most of the energy companies are more likely linked to the Egyptian General Petroleum Corporation (EGPC). So having companies like this on the market would create in-depth transparency and an outlook for other foreign players to come into the market, seeing such companies listed and assessing the valuation accordingly.

The main obstacle facing the energy companies is arrears that would negatively affect the IPO program. If a company has outstanding dues from the government and is presented on the stock exchange, potential investors are unlikely to purchase its shares. It is essential for these companies to first receive their full dues ahead of any listing.

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