

Cairo, December 2020

**Press Release: Hermes Securities Brokerage Company**

**MERIS (Middle East Rating & Investors Service) affirms the national scale long-term senior unsecured entity rating of "BBB+" with a Stable Outlook and the short-term senior unsecured issuer rating of "P2" to Hermes Securities Brokerage Company**

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**MERIS** (Middle East Rating & Investors Service) has reviewed and affirmed the National Scale Credit Ratings to Hermes Securities Brokerage Company's long-term and short-term obligations. The long-term rating grade is affirmed at "**BBB+**" with a "Stable Outlook" and the National Scale short-term rating grade is maintained at "**P2**."

A "**BBB**" long term National Scale Rating denotes that the issuer or issue is considered an investment grade. This grade represents **Average Creditworthiness** relative to other domestic issuers. The (+/-) signs denote relative status within each rating category.

The short term rating grade of **P2** denotes an **Above Average** ability to repay short-term senior unsecured debt obligations relative to other domestic issuers.

Hermes Securities Brokerage Company is in the process of issuing its f second senior unsecured short term note in the amount of EGP 500 million. The short term note is the second issuance in a two-year program in the total size of EGP 2 billion. The 12-month bullet note will carry a fixed rate coupon to be paid at the end of the bond. The note proceeds will diversify Hermes Securities Brokerage Company's funding sources and will be used to finance operations and settle the company's financial liabilities. **MERIS** would like to note that since the short-term note is unsecured, it is structurally subordinated to the company's existing senior secured debt.

The assigned rating incorporates HSB's sustained financial fundamentals and its solid position in the retail brokerage market in Egypt. Established in 1994, the company is a pioneer in providing retail brokerage services in Egypt. It has a long standing first ranking position in the retail segment of the market and commands a market share of 13.4% (2019) of the total market executions on the Egyptian stock exchange. HSB enjoys a solid reputation in the market based on its proven track record, strong and safe execution capabilities, supported by a relatively high degree of automation and technologically advanced operations. The company's credit strengths are further supported by its diversified funding profile. HSB is fully owned by EFG Hermes Holding, and benefits from a well-recognized brand, group synergies, strategic guidance and close risk monitoring and financial oversight by the parent company. It derives its primary credit strength from the solid cash flow generation of its retail brokerage franchise which serves more than 100,000 retail clients and high net worth individuals. HSB maintains healthy profitability indicators and solid liquidity metrics.

At the same time, the rating takes into consideration the main challenges facing the company. In view of the still evolving local capital market and lack of a variety of products, the company's revenues continue to be driven mainly by brokerage commissions and margin trade net interest income. Furthermore, its earnings exhibit a high level of volatility given its high degree of correlation to the trade volume on the Egyptian stock exchange. The company's profitability can be further enhanced by a tighter control over its operating expenses, as its cost to income ratio is currently on the high side for this rating category. **MERIS** also notes that despite some barriers to entry, mostly regulatory and technological, which provide protection to the incumbent market players, competition among the top companies in the sector is intensifying, which might exert some downward pressure on profit margins.

Headquartered in Cairo, Egypt, Hermes Securities Brokerage is considered among the first securities brokerage companies in the country. In September 2020 its paid-in capital stood at EGP 225 million. As of September 2020, the company reported net revenues from brokerage fees and margin trade interest income in the size of EGP 298 million, and pre-tax income of EGP 29 million compared to 357 million and 76 million during the same period in 2019 respectively .

The drop is justified by the COVID-19 pandemic that caused lower traded volume where investors opted for more risk-averse options. However, HSB was able to maintain its top market share in the market and proved its resilience and solid standing despite the challenging market conditions.

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