

Press Release: Hermes Securities Brokerage Company

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

MERIS (Middle East Rating & Investors Service) has assigned National Scale Credit Ratings to Hermes Securities Brokerage Company's long-term and short-term obligations. The assigned long-term rating grade is "**BBB+**" with a "Stable Outlook" and the National Scale short-term rating grade is "**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 first senior unsecured short term note in the amount of EGP 400 million. The short term note is the first 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 12.8% (2018) 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 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 networth 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. The company's credit strengths are also offset by some challenges in its funding profile, underscored by its dependence on wholesale sources of funding. Going forward, however, we expect the funding to be better diversified in view of the company's plan to tap the capital markets via a short term note issuance program. **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 2018 its paid-in capital stood at EGP 225 million. As of December 2018, the company reported net revenues from brokerage fees and margin trade interest income in the size of EGP 434.5 million, and pre-tax income of EGP 100 million.

CREDIT RATINGS AND PUBLICATIONS ISSUED BY MERIS ARE OR CONTAIN MERIS' CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MERIS DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MERIS' OPINIONS INCLUDED IN MERIS' PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MERIS' PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MERIS' PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MERIS' PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MERIS ISSUES ITS CREDIT RATINGS AND PUBLISHES MERIS' PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MERIS' CREDIT RATINGS AND MERIS' PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND RETAIL INVESTORS SHOULD NOT CONSIDER MERIS' CREDIT RATINGS OR MERIS' PUBLICATIONS IN MAKING ANY INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MERIS' PRIOR WRITTEN CONSENT .

All information contained herein is obtained by MERIS from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, such information is provided "as is" without warranty of any kind. MERIS adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MERIS considers to be reliable including, when appropriate, independent third-party sources. However, MERIS is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the MERIS' publications .

To the extent permitted by law, MERIS and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MERIS or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MERIS.

To the extent permitted by law, MERIS and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MERIS or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MERIS IN ANY FORM OR MANNER WHATSOEVER.