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Focusing on reform

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The Egyptian economy continued its growth in the first half of 2008 on the back of very good results at the end of 2007, which resulted in Egypt moving from 127th rank in 2007 to 85th rank in 2008 in the International Index of Economic Freedom. The real-estate sector was at its strongest with a number of public offerings drawing millions of pounds from local and foreign investors. The real-estate market was the worst hit sector in Egypt, though prices of real estate have not dropped sharply. Banks stepped in to extend credit to struggling real-estate companies and, in one deal, the Housing Bank is considering acquisition of a 60% stake in Damac, Egypt, one of the major regional real-estate developers.

These results were the fruit of the country's economic reform policies. However, the strong growth was not sustained in the second half of 2008, as a result of the financial crisis having direct and indirect impact on many Egyptian sectors. Though Egypt was not hit as badly as other countries by the worldwide crisis, the government promised a E£30 billion plan to support the economy, amid debate over whether Egypt is going through an economic downturn or an economic crisis. The main features of the plan were to cancel a number of fees imposed on businesses, postpone the implementation of a real-estate tax law till January 2010 and facilitate credit for industrial projects.

Indicators pointed both ways. The banking industry was not badly hit, continuing with its reform plans and schemes to boost lending to SMEs (small-and-medium enterprises). EGX (the Egyptian Exchange) experienced a sharp downturn only to start to pick up again at the beginning of 2009, and the CMA (Capital Market Authority) continued with its reform programme - particularly in

relation to insider trading. This year also witnessed the establishment of commercial courts as an attempt to expedite lawsuits in business matters, and a new regulatory body for the non-banking financial sector.

Capital market

CMA reported that 10.9 billion stocks were traded at E£78.3 billion (\$14 billion) since the beginning of 2009, mostly due to local and Arab investors engaging in heavy purchasing of textile and real-estate stocks to capitalise on the decrease in prices. In March 2009, EGX changed its name from CASE (Cairo and Alexandria Stock Exchange) to the Egyptian Exchange and launched a broader stock price index, the EGX70 Index, including a larger segment of traded companies. EGX70 measures the performance of the top 70 traded companies after excluding the top 30 of the EGX30 (formerly CASE30) Index.

Amendments to the Capital Market Law (95/1992) were passed in June 2008 with the object of boosting new issue market and money market funds, and deterring insider trading. The amendments comprised the following.

(i) Reducing the minimum nominal value of shares to ten piasters instead of one Egyptian pound, to widen the investor base.

(ii) Requiring money market funds to limit the funds' investments to 13 months and to diversify held securities so that investment in one issue does not exceed 10% of the net assets of the fund. In addition, funds should limit their investments to entities with at least a minimum rating of BBB.

(iii) Adding to the definition of insider trading, a person using insider information to achieve a profit or misrepresented information.

(iv) Increasing penalties and fines for insider trading to a minimum imprisonment of two years and a fine ranging from 20 thousand to 20 million Egyptian pounds.

(v) Providing that only the president of the CMA may prosecute offenders as well as

accept payment of at least the minimum fines in lieu of prosecution.

Banking sector

The financial crisis did not affect the Egyptian banking sector as badly as other countries due to limited mortgages and real-estate loans. Still, net foreign direct investment fell 53.4% to \$5.2 billion in March 2009 from the same period last year. In addition, net foreign assets of banks fell by E£43.3 billion or 14.3% in the period from July to October 2008. This also affected the US dollar liquidity of many Egyptian banks due to volatility in the global markets.

Amid this situation, the central bank decided to focus on effecting reform plans and supporting SMEs to boost and sustain growth. In November 2008, the Central Bank of Egypt and European Central Bank signed a memorandum of understanding entering into the second phase of the banking sector reform plan to comply with Basel II international standards within three years.

The first phase of the plan was successful, resulting in the full coverage of 86% of non-performing loans. In addition, the World Bank agreed to provide \$500 million for the restructuring of Banque Misr and National Bank of Egypt. The central bank also issued regulations in December 2008 exempting Egyptian banks that provide loans to SMEs from the 14% reserve requirement, which reduces the cost of credit by 1.5%. The regulations also covered identifying SMEs and calculating their liquidity ratio. The Industrial Modernisation Centre and CI Capital signed an agreement establishing the first fund to finance SMEs with annual revenue of E£15 to E£120 million, and to provide financial and technical support.

Non-banking financial market

A new law was passed creating a new authority to regulate and oversee the non-banking financial market, called the General Authority for Financial Supervision. According to the

law, this market includes the capital market, forward exchange transactions, insurance, real-estate financing, financial leasing, factoring and securitisation. The authority replaces the CMA, the Real Estate Financing Authority and the Insurance Control Authority. This represents an attempt by the legislature to introduce consistency in the financial market and streamline rules regulating similar industries.

Banking and capital markets

Recommended firms	
Tier 1	Helmy Hamza & Partners/Baker & McKenzie Shalakany Law Office
Tier 2	Al Kamel Law Office Denton Wilde Sapte Ibrachy & Dermarkar Sharkawy & Associates Zaki Hashem & Partners
Tier 3	DLA Matouk & Bassiouny Ibrachy Law Firm Trowers & Hamblins
Tier 4	Hassouna & Abou Ali Kosheri Rashed & Riad Sarwat A Shahid Law Firm

Mergers and acquisitions

Recommended firms	
Tier 1	Helmy Hamza & Partners/Baker & McKenzie Shalakany Law Office Zaki Hashem & Partners
Tier 2	Al Kamel Law Office Denton Wilde Sapte DLA Matouk & Bassiouny Ibrachy & Dermarkar Ibrachy Law Firm Trowers & Hamblins
Tier 3	Hassouna & Abou Ali Kosheri Rashed & Riad Sarwat A Shahid Law Firm Sharkawy & Associates

Project finance

Recommended firms	
Tier 1	Helmy Hamza & Partners/Baker & McKenzie Shalakany Law Office
Tier 2	Al Kamel Law Office Denton Wilde Sapte DLA Matouk & Bassiouny Ibrachy & Dermarkar Sharkawy & Associates Trowers & Hamblins Zaki Hashem & Partners

The Egyptian market has held a rather unique position during the past year of financial turmoil with a number of trends not being seen elsewhere. The economy has not suffered as badly thanks to reduced exposure to the worst hit sectors, as one partner explains: "Egypt is a cash economy so the problems that happened in Europe and the US did not occur here." Another adds: "We do not have a big mortgage business so that didn't cause a disturbance in the market."

However this is not to say that no impact was felt. "There was a tendency to say that Egypt was insulated from the global crisis but we're being affected," says one lawyer. "Things are not as insular as we thought."

One of the most interesting features of the market has been the problems of financing deals. Unlike other jurisdictions where liquidity is the main stumbling block, Egyptian banks have been described as too liquid. This situation creates a different set of problems. "Due to central bank restrictions Egyptian banks were over-liquid," explains one partner. "The banks have the money to lend but do not want to take on risky ventures." However another lawyer has a different view: "The market was moving towards the future, but over the last two months we're seeing the start of the recession. It is not the banks but the clients dragging their legs over the transactions."

A potential source of new work may be from investors in the gulf. "When Dubai went bust all the investors looked at Egypt," says one lawyer. This trend could also lead to a rise in *shariah*-compliant transactions, "What we see coming in is Islamic finance because a number of Middle East companies from the gulf area are doing business," says a partner.

In the M&A sector the Egyptian market has experienced a downturn. "M&A is not something that's really coming," says one partner, adding: "Acquisitions are really slowing down, there's a complete standstill." One reason for this is an absence of distressed transactions. "The market is on the level so

there has not been the desire for acquisitions," says one partner.

There is also little work on the restructuring side again due to the relative health of most Egyptian companies. "We haven't seen much of the restructuring because the global crisis hasn't impacted much, so you haven't seen general restructurings," says one partner.

In the project finance market, the launch of the Egyptian public-private partnership (PPP) programme in 2008 has sparked off interest and investment. "PPP is going to be promoted," says one partner. "Older financing schemes required the government to use foreign currency which wasn't popular. The new project financing is based on local currency." The sector has in some ways been boosted by the downturn, with the government keen to maintain projects and jobs but not willing to invest large amounts of money.

Helmy Hamza & Partners/Baker & McKenzie

Led by senior partner Taher Helmy, Helmy Hamza & Partners/Baker & McKenzie has a distinguished history in the Egyptian market and remains one of the leading firms in the country. "In terms of size and institutional depth they are the largest and leading firm in town," says one rival partner.

In terms of banking work one of the firm's biggest deals saw it advising Banque Misr on a \$235 million syndicated term loan for the Egyptian Styretics Production Company. The team was led by partner Mohamed Ghannam who also led on a deal advising Actis Capital on a \$48.5 million convertible loan transaction to the Mo'men Group. This was the first convertible loan to be done in Egypt and was closed in July 2008.

On the M&A front it was Ghannam again who led the team acting for the Abu Dhabi Investment Company in the acquisition of telecom support company OrasInvest for \$180 million, which closed in January 2009. The firm also advised the International Finance Corporation on the \$197 million acquisition of a 9.75% stake in Bank of Alexandria.

The firm's biggest project financing deal last year saw it acting for the Toyota Tsucho, the Egyptian Natural Gas Holding Company and the Ganope El Wadi Holding Company on the financing for two gas drilling rigs operated by the Egyptian Offshore Drilling Company. The deal was valued at \$500 million and closed in October 2008.

Leading lawyers

Mohamed Ghannam
Taher Helmy
Hazim Rizkana

Shalakany Law Office

Shalakany is one of only two firms in Egypt which hold tier one positions in all three rankings tables. The firm suffered a blow in June 2009 however with the defection of seven partners, including former senior partner Mona Zulficar, to form a new firm Zulficar & Partners.

The firm's largest transaction in the banking sector was advising Banque Misr in a \$737 million loan and revolving facility agreement for Orascom Construction. The firm also advised the bank as lead arranger, senior underwriter and facility agent over a E£1.1 billion (\$196 million) syndicated loan agreement for Wadi El Nil Cement.

Another notable deal saw the team advise HSBC in a revolving facility agreement worth E£700 million, which closed in June 2008.

In the M&A market, senior partner Emad El Shalakany acted for Solvay in the E£760 million acquisition of the Alexandria Sodium Carbonate Company as part of Egypt's privatisation programme. Another notable transaction saw the firm acting for the Dalla Group in the E£400 million purchase of 98% of the outstanding capital in Ismailia Misr Poultry. In the advertising sector the firm advised the Omnicom Group in its \$70 million acquisition of 49% of the Tarek Nour Group.

Al Kamel Law Office

The practice at Al Kamel is led by partners Mohammed and Rasheed Kamel. Clients have particular praise for Rasheed: "I have a good relationship with Rasheed Kamel, he's readily available and very pro-active," says one client. Peers were also positive: "A very good focused young lawyer," was one rival partner's opinion.

One of the largest projects for the banking team saw it advise Standard Bank in relation to a \$100 million loan facility issued to an Egyptian food company. The firm also advised real-estate developer Palm Hills Development in the Islamic finance elements of an extension to a E£1 billion (\$179 million) loan facility.

Another highlight saw a team led by Mahmoud Wahba and Rasheed Kamle advise South Asian Petrochemical in a \$1 billion financing facility to the Egyptian Polyester Company by the International Finance Corporation and a syndicate of banks.

The firm also acted for Palm Hills in the M&A sector, advising over several acquisitions with a combined value of \$200 million. Another key deal saw the firm acting for Minapharm Pharmaceuticals in relation to the sale of certain assets of Bristol Myers Squibb's Egyptian operation. The firm also advised EFG Private Equity in the acquisition of

numerous assets in the oil and gas, food, agriculture and chemical industries.

In the project finance area the firm acted for Toepfer in the financing and expansion of the unloading facilities at the port of Dekhela.

Leading lawyers

Mohamed Kamel
Rasheed Kamel

Ibrachy & Dermarkar

Led by Bahieldin Elibrachy, Ibrachy & Dermarkar have a particular strength in the corporate area especially in M&A transactions.

One of the firm's biggest clients is General Mediterranean Holding (GMH) for whom the firm advised over three deals last year. Closing in August 2008, the firm advised GMH on the acquisition of a 33% stake in Sonesta Hotels in Sharm B Sheikh. The M&A team also advised the company in the acquisition of 65% of the shares of joint stock company Ten Tours which closed in April 2009. In 2008 the firm acted in another transaction as the GMH acquired 99% of the shares in Kubis1.

In project finance the firm is advising the Egyptian satellite company Nilesat on a credit facility arranged by Coface for the financing of a next generation satellite which will be the largest owned by the company.

Leading lawyers

Bahieldin Elibrachy
Mohamed el Roubi

Ibrachy Law Firm

Ibrachy added to its ranks this year with the hire of Tarke Gadallah in January 2009. The practice is led by Ashraf Elibrachy who is well respected by clients. "He's an excellent lawyer, all rounded sharp minded, more of a business person," says one. "He doesn't get himself stuck in legal issues; he sees a bigger picture."

Last year Elibrachy advised Orascom Telcom Holding (OTH) on a \$2.5 billion senior secured syndicated facility for the refinancing of outstanding amounts under the borrowers existing facilities.

The firm also acted for Arab International Bank over a syndicated facility worth \$225 million granted to Al Ezz Group Holding to finance a capital injection in AL Ezz Steel Rebars. The firm advised the same client over a receivable purchase agreement with OTH and Orascom Telecom Iraq. The receivables amounted to \$1.1 billion.

In the M&A sector the firm acted for the Dubai Financial Group in its indirect acquisition of 25% of the shares in EFG Hermes

Holding. The firm also advised on a \$1.1 billion security package granted to Nexgen Capital.

Other M&A work of note included advising Altea packaging in the \$23 million joint acquisition of Porta Egypt and its subsidiary Rotopack Misr, while the team also acted for Shuaa Capital on the acquisition of Nile One Brokers.

The team also advised on two significant joint-venture deals, including acting for Brazilian company Marcopolo on its joint venture with GB Auto, and representing Atlantic SFDT on a joint venture with Fresh Electric for Home Appliances, which included the acquisition of 50% of the shares of subsidiary Fresh for Engineering Industries.

Sharkawy & Associates

Sharkawy & Associates is a firm who the market believed to be on the rise. "They're very in-tune," says one client. "Their turnaround time is phenomenal, and it's effective as well."

Lead partner Jim Wright is also highly thought-of by both his peers and his clients. "Jim Wright stands out as being client focused and he delivers the goods," says one client of the firm.

Among the highlights of the firm's banking practice was advising BNP Paribas in its £168 million loan to Nile Sat which closed in September 2008. Led by Wright, another considerable deal saw the firm advising a syndication of Egyptian and international banks in the refinancing of a \$2.5 billion tranche of Orascom's Telecom's debt.

In the M&A market the firm advised on the sale of shares in a transport company in a deal which closed in December 2008. Another deal saw the firm advising an investment bank over the potential purchase of a group of schools, institutions and a university.

Jim Wright was again involved as the firm's project finance team advised an international bank and an Indian bank syndicate over the financing of TCI Sanmar Chemicals for \$868 million. The team also advised Australian bank Macquarie in a \$25 million loan facility to Centamin Egypt for a proposed gold mine development.

Leading lawyers

Jim Wright

Trowers & Hamlin

Sara Hinton heads the banking and M&A teams in Trowers' Egyptian office, and was the lead partner when the firm advised EHPE, the private-equity section of EFG-Hermes, in the establishment of an Egyptian private ownership fund in co-operation with InfraMed Infrastructure.

Another highlight saw the banking team acting for Petroleum Geo-Services in respect of the joinder of a subsidiary as guarantor under a \$950 million loan and revolving credit facility.

The firm did further work for EHPE in the M&A market, advising on the take over of the Balba Group (which consists of five tourist investment companies) for E£900 million (\$161 million). The firm also advised the company in the acquisition of a majority interest in the Oberio Hurhada hotel property holding company. Both deals are currently suspended.

Other M&A highlights include acting for Rolls Royce in a \$20 million joint venture with Egypt Air in the establishment of an SPV and engine workshop in Cairo.

A team led by Ayman Nour advised an education group in its restructuring in preparation for sale. The deal involved ownership transfer and contractual agreements.

The firm's project finance department is led by Tim Armsby, who acted for Brechtal Power in Egypt's first nuclear power plant project with an estimated value of \$3.5 billion. The deal is a landmark, as the region has traditionally relied on oil and gas for its energy needs.

The team has also been advising the Ministry of Finance as legal advisors to the International Finance Corporation in the Alexandria Hospitals public-private partnership, which would see two hospitals owned and operated by Alexandria University.

Other ranked firms

A firm who is beginning to make waves in the market is **DLA Matouk & Bassiouny**. "DLA Matouk grew quite rapidly and do have access to plenty of work; they're useful," is one rival partner's opinion. The market also had praise for lead partners John Matouk and Omar Bassiouny: "Both bi-cultural, understand the needs of international clients but also understand the needs of the Egyptian market," says one rival partner.

Kosheri Rashed & Riad's corporate department is led by Tarek Riad and last year advised Magdy El Taher on its E£400 million (\$72 million) acquisition of Al Rowad.