

Invest In Egypt

Retail

SOCIOECONOMIC IMPORTANCE

- Egypt's large, young and relatively urbanized population has created an increasingly lucrative retail environment for domestic and international retailers alike.
- This demographic advantage is increasing footfall in the country's large shopping malls where a number of international, well-known brands are housed. City Stars, which opened in Cairo in 2005, is the largest shopping mall in the Middle East and North Africa, with tenants including the UK's Marks & Spencer (M&S). Meanwhile, Dubai-based mall developer Majid Al Futtaim Properties (MAF) began construction of its USD800mn Mall of Egypt project in September 2013, with completion expected in January 2016. It also plans a major expansion of City Centre, Maadi, and the development of two new shopping malls in the Almaza and Nasr districts, with the aim of adding more than 300,000 square meters (sq m) of retail space to its portfolio in Egypt over the coming five years.

GROWTH DRIVERS

Global retail groups are attracted to Egypt because of its enormous and growing population, its youthful demographic and the increasing number of households falling into the middle-income bracket. For regional and international retailers, Egypt offers the chance to gain a foothold in an under saturated retail market with strong growth potential.

- ***With a population***, more than 88 million, Egypt is the largest market in the Arab world.
- ***Competitive wages***, in global terms are advantages for foreign investors, including retail companies.
- ***Household spending***, on the retail sector is expected to increase from USD 101.34 billion in 2014 to USD 173.92 billion by 2018.
- ***As one of the emerging markets of the Middle East region***, Egypt offers retail groups a potentially better return than the more saturated markets of the UAE and Saudi Arabia.
- ***Rising car ownership***, will make modern retail outlets more accessible to a wider range of Egypt's consumers.
- ***Busy life style***, An increasing number of women entering the workforce and increasingly busy lifestyles will create more opportunities for retailers.
- ***Geographical location***, The country's geographical location is good for trade as Egypt has access to both the Mediterranean and the Red Sea, not to mention the key Suez Canal route, which connects Europe and Asia.

MARKET STRUCTURE

- There are 343 companies working in Retail sector in Egypt with total capital reaching EGP 38.7 Million.
- Egypt's retail market is undergoing a gradual modernization process.
- While traditional formats prevail in both urban and rural areas, the proliferation of modern shopping malls is broadcasting the lifestyle-element of the retail sector to a young and open consumer base.
- The country has a young population with almost a third of the total aged 20-39 years old, the key age bracket for retail spending.
- Another important contributor to the modernization of the country's retail market is the increasing number of women entering the workforce. This is driving demand for convenience products as households become busier. The growing number of employed women is also contributing to the expanding middle income bracket as the number of households with two channels of income is rising. This is leading to increased spending on non-essential goods and cultivating a new demand for branded products.

2020 OUTLOOK

- The economic recovery is supporting growth in the number of households reaching the USD10,000-plus income bracket, which is set to double between 2015 and 2019.
- Increased stability will support a rise in consumer confidence and inbound tourism, which will help boost overall spending in the retail sector.
- The economic improvements are helping to increase disposable income levels throughout the country and it is expected to see the middle income bracket of USD10,000-plus growing strongly throughout the review period to 2019.
- The growth in middle income households, combined with the youthful and relatively urbanized population will help support growth in household spending over the coming few years.

KEY PERFORMANCE INDICATORS

- According to BMI report, household numbers will reach more than 24 million in 2014, up 4 % from the year before and it is expected growth to average 3.3% throughout forecast period to 2018.
- The Egyptian economy has been gradually recovering following instability in recent years. Nonetheless, are forecasting real GDP growth to reach a respectable 2.95% during 2015. This figure may be further revised upwards due to above-expectation growth of 2.9% during 2014.
- It is expected to see economic growth to return to higher yet maintainable levels of 4% and above by 2017. These economic improvements are helping to increase disposable income levels throughout the country and we expect to see the middle income bracket of USD10,000-plus growing strongly throughout our review period to 2019.

SECTOR ASSESSMENT AND SUCCESS STORIES

The Egyptian retail sector is set to continue to grow over the next few years, with its vast and continuously expanding population and increasing levels of disposable income resulting in a strong rise in household spending across all retail subsectors.

In a country in which almost a third of the population is in the 20-39 years age range, important for household spending on the retail sector, large shopping malls are attracting young consumers who aspire to the international brands that are increasingly becoming available. City Stars, which opened in Cairo in 2005, is the largest shopping mall in the Middle East and North Africa.

The new Egyptian retail report provides an extensive and comprehensive forecast of various retail indicators including household spending and headline total spending across each retail subsector.

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Although the Egyptian retail market remains fragmented, dominated by small, family-run shops in highly populated urban areas, the organized retail market has been developing slowly but steadily in recent years as more consumers are converting to modern retail methods. The market share of small neighborhood outlets is undoubtedly beginning to decline as the modern retail sector grows. With the arrival of mass grocery retail (MGR) in particular, Egyptian consumers have been exposed to a new shopping experience.

Long-term potential in the Egyptian consumer market, particularly for non-essential items and aspirational purchasing by younger consumers whose incomes are rising.

The average net household income will be USD 10,250 in 2014, with almost 83% households falling into the bottom wage bracket of USD 5,000 +, and only just over 30% of households earning USD10,000 or more. However, by 2018, more than 72% of households are expected to be in this middle-income bracket, which represents the key demographic for increased household spending on luxury items beyond necessities such as food, utilities and transport, it is expected a corresponding increase in household spending on furnishing and home; communications; personal care; and, to a lesser extent, on clothing and footwear.

The improvement in political stability as well as the impact of low base effects will accelerate Egyptian real GDP growth over the coming quarters, it is expected seeing the economy expand 2.7% in FY2014 and 4.2% in FY2015 (fiscal year running from July-June), up from 1.9% in FY2013.

The retail market in Egypt is proving attractive to potential investors because of its large and expanding population and the opportunity to capitalize on the growing number of households falling into the middle-income bracket of USD 10,000 +.

Household spending on the retail sector in Egypt will be in the region of USD 101.34 billion in 2014. With this in mind, international retailers are flocking to sign up to the increasingly large shopping centers being developed in the country, such as Cairo Festival City and Mall of Egypt.

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▪ Sector Snapshots

Department Store Groups

Traditional Egyptian department stores have declined over the years, with Omar Effendi, the longest-established chain in Egypt, the subject of protracted legal proceedings following its privatization in 2006. Now, all 82 branches are to be restored to public ownership following a Supreme Administrative Court ruling. With other domestic chains, such as Cicurel, Shemla, Benzion, all now gone, international department store groups increasingly dominate the sector, pulling in younger, more affluent customers with well-known brands. Global names active in the Egyptian department store sector include the UK's Marks and Spencer (M&S) and Debenhams.

Retail Group Egypt

Retail Group Egypt was established in 2007 to provide the Egyptian market with major international fashion labels. Operating 21 brands across 88 stores, the company covers the women's, men's and children's wear segments, as well as footwear and accessories. Fashion brands represented by Retail Group Egypt include Gap, Mango, Inditex, Arcadia and Marks and Spencer (M&S).

Consumer Electronics

Hypermarkets and department stores in Egypt offer streamlined electronics assortments, but the biggest consumer electronics retail chain in Egypt is RadioShack, selling everything from cameras and camcorders to computers, TVs and video games. Household appliances chain B.TECH operates 57 branches throughout Egypt; while electronic components distributor Future Electronics Egypt has a store in Abbassia. Consumer electronics retailers are attracted by an underpenetrated market, with growing demand for PCs, smart phones and tablets from a youthful consumer base.

Supermarkets and Hypermarkets

However, sales via supermarkets and hypermarkets remain relatively small, hindered by the fact that the majority of Egyptians do not have the transport to travel to the often out-of-town malls housing these modern outlets. Sales are also hindered by the fact that the majority of Egyptians cannot afford to buy supermarket produce or to take advantage of bulk offers such as three-for-two promotions, as they cannot afford the initial prices. The

rise in the number of discount stores and the possible arrival of a Warehouse/cash & carry-style format in the country may offset this pricing problem to some degree.

However, small independent stores will retain significant market influence for the time being, since they cater for both higher- and lower-income consumers.

Chains and Franchising

Franchising has developed extensively in Egypt over a short period, particularly in the fast-food sector. The current food franchise market is valued at an estimated more than USD 300 million. Popular chains include Chili's, TGI Fridays, Hard Rock Café, KFC, Little Caesars Pizza, McDonald's, Pizza Hut and Baskin Robins. The nation also has popular home-grown chains, though few of them have adopted the franchise concept.

Mo'men, a popular Egyptian fast-food brand, recently attracted significant investment from emerging-market private equity specialists, Actis. From seven chains in 1993, Egypt currently boasts 45 franchises either operational or with imminent plans to open. Market sources project the franchising business to continue growing at an annual rate of 10-20% over the coming years.

The presence of franchise business in Egypt has been extensively beneficial to both the fast food and garment sectors. In the fast food-sector, where the bulk of ingredients are sourced locally, franchising has created strong backward links with the agricultural and industrial sectors. The quality standards imposed by the franchisee has also upgraded the standards adhered to in the agricultural field as well as in the industrial sector.

Automotive

Activity across production, sales and trade in Egypt's automotive market was severely impacted by the anti-government unrest triggered in late January 2011. Car sales were significantly stymied as local banks restricted car loans, which generate over two-thirds of sales in the country. The political turbulence had a devastating effect on sales of new vehicles in 2011. The general uncertainty that was created by such widespread social unrest, in addition to rising inflation and a struggling economy has resulted in a decline in discretionary consumer spending. 2012's production and sales will both rise from 2011's low base, but will fall far short of 2010 levels.

Egypt's population, estimated at over 84 million in 2012, is the largest in the Arab world, and its GDP is second only to that of Saudi Arabia. Exactly 85% of domestic freight and 60% of passenger traffic involves movement on the country's road network, creating a significant potential market for vehicles and related equipment. Egypt is North Africa's largest producer of cars.

In 2010, there was a 13.5% annual increase in the number of vehicles in Egypt to 5.85 million, according to data from the Central Agency for Public Mobilization and Statistics (CAPMAS) in August 2011. The majority of cars were to be found in Cairo, representing 31.6% of the total. According to the report, there were 7.4 privately-owned vehicles per 100 people in Egypt during 2010, up from 6.7 per 100 in 2009.

El Nasr Automotive Manufacturing (Nasco), the state-owned conglomerate, had a monopoly on production in Egypt until the late 1980s, when the decision was made to gradually open the industry to private sector involvement. In 1985, General Motors Company (GM) obtained a production licence for the assembly of trucks and minibuses. The market became fully liberalised in 1992, when the ban on imports was lifted, a defining moment in the

development of the Egyptian auto industry. Foreign companies entered the market and now operate local production units through licensing agreements and joint ventures (JVs) at 18 vehicle assembly plants, employing 12,000-15,000 people.

The largest Egyptian automotive supplier by sales revenue, market share and production capacity is Cairo-based GB Auto, which has regional reach in the Middle East and North Africa. It is a holding company for a diversified group of subsidiaries which are involved in the assembly import and distribution of Hyundai passenger cars, and the distribution of imported and locally assembled Volvo Cars, Mitsubishi Motors, Hyundai Motor and Ghabbour commercial vehicles, as well as retail sales of Bajaj two- and three-wheelers.

Top Retailers (2014)

Metro Supermarkets

Metro, owned by the Mansour Group, is the largest domestic retailer by turnover, and has stores in Cairo, Alexandria, Giza, Dakahlia and Ismailia. Most of its outlets are open 24 hours a day in order to meet the growing demand for convenience, since there are more Egyptian women working than ever before who are increasingly unable to shop during office hours. Metro's strategy has also been to diversify its store formats.

Carrefour:

- Carrefour Egypt started fully functioning at the end of 2002 and the other stores opened thereafter, it operates a network of hypermarkets, supermarkets and express stores in Egypt.
- International company operating with regional partner Majid Al-Futtaim Group.
- Market leader, driving trend towards hypermarket shopping in Egypt.
- Carrefour planned to be operating 17 hypermarkets and 70 supermarkets in Egypt at the end of a five-year development plan to 2014.

B.TECH:

B.TECH was established in 1997 with three retail branches, and today operates 57 branches from Marina on the north coast and Hurghada on the Red Sea to Suhag and Aswan in the south. It is the exclusive agent for global brands including Miele, Sony, Ariston, Indesit, Philips, Electrolux, Daewoo, Haier, Babylliss, Playstation and Crafft, and has a large network of dealers and service centers.

RadioShack:

US franchise RadioShack is the biggest consumer electronics retail chain in Egypt, with product categories including cameras & camcorders, computers & tablets, home & office, music & audio, phones & radio communications, TV & video and video games & toys. It has branches in Cairo, Alexandria, Giza, Hurghada, Port Said, Sharm El Sheikh and various other locations throughout Egypt.

Success Stories

City Stars

The 2004 opening of City Stars coincided with the lifting of the import ban on clothing; it is one of the largest malls in the Middle East and has added a new dimension to the standards and quality of retail shopping in Cairo.

Covering 750,000 m² and established with an investment cost of more than USD 800 million, City Stars is the first integrated urban development project of its kind in the Middle East. The complex, which consists of three international hotels, an integrated shopping and entertainment center, a medical center and office and residential towers, is continuing to attract major international brands ranging from hoteliers such as Holiday Inn and InterContinental to a wealth of North American and European retail brands

Americana

An example of franchising success is the Kuwait Food Company, the food-processing arm of the Al Kharafi Group, better known under the brand name 'Americana.' The Group owns the largest food company in the Middle East and has invested USD 700 million in Egypt's food processing industry, the tourism sector (which includes the franchise business segment) and infrastructure projects. Americana is the market leader for franchise business in the Middle East and is the franchisee for KFC, Pizza Hut, Subway, Hardees, and TGI Fridays in Egypt.

GB Motors

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Debenhams

Fellow British operator Debenhams opened its first store in Egypt (and also in Africa) in the Alexandria City Centre mall in 2010, offering a full assortment ranging from women's, men's and children's wear to beauty, furniture, electrical and gifts. The store is run by franchise operator Alshaya Retail.

Al-Sawani Group

Al-Sawani Group was established in Saudi Arabia in 1977, and entered the Egyptian market in 2004. One of the foremost fashion retailers in the Middle East, it offers more than 30 international brands. It is the franchise company for Sfera, and operates stores for the Spanish company in Cairo.