

Invest In Egypt

Retail

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Sector Overview

Total retail sales are expected to grow from USD 76.40 bn in 2009 to USD 141.66 bn by 2014; the key factors behind the retail sales boom are a large and youthful population, the emergence of a more affluent middle class, an active tourism industry, and the entry of more women to the workforce.

Egypt's substantial population makes it the largest market in the Arab world, with the population increasing from 78mn in 2009 to an estimate of 84mn by 2014, and GDP per capita predicted to rise by 72% reaching USD 4,201 by 2014.

Of the total Egyptian population, 65.1% is estimated to be active, while the proportion of those in the 15-39 age bands is 38.1%, a figure that is far larger than the entire population of UAE, one of the world's top shopping destinations. Moreover, Egypt receives an average of 10 million tourists a year who incorporate luxury, ethnic and business shopping in their itineraries.

Retail sale as a percentage of the nominal GDP in USD recorded 40.3% in 2009, employing 11.4% of the country's labor force. Consisting mainly of small enterprises, the sector is beginning to consolidate, reflected in a wave of vertical integration and expansion of supermarkets and department stores. At the same time, the size of retail shops of all descriptions is growing, driving higher inventory turnover and creating new jobs. And as companies consolidate multiple small shops into one larger outlet, they are creating an effective decrease in the density of retail outlets. In some cases, small enterprises are re-emerging as part of larger chains or are cooperating in franchise agreements, often oriented towards more specialized segments of the market.

With retail demand growing, there is also greater consumer interest (at all rungs on the income ladder) in value-added services, quality products and international brands. These factors are merging in an environment of economic deregulation to create a sector ripe with opportunities for foreign investment. International brands Carrefour and Spinneys have already taken advantage of Egypt's investor friendly, low-cost environment, establishing themselves as the number two and three players in the sector respectively, while every other day sees the introduction of a new consumer-goods brand, restaurant or clothing label to Egypt's retail scene.

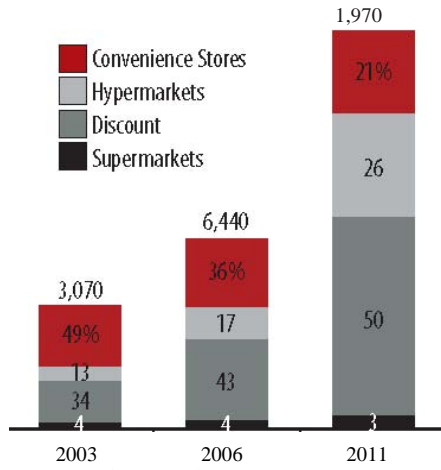
Recognizing the key role of foreign investment in expanding and modernizing the sector, the Egyptian government is encouraging real estate developments in large shopping centers and prioritizing the introduction of modern grocery distribution, including hyper and supermarkets, as well as taking steps to ensure that local suppliers implement international quality standards to meet the needs of market entrants.

The retail subsectors that are expected to grow include: pharmaceuticals with sale projection of USD 0.84 bn in 2014; a double increase since 2009, while consumer electronics' sales are expected to increase by 80% to reach USD 5.18 bn in 2014 and finally, the automotive sales are forecasted to increase by 148% and record USD 23.5 bn in 2014.

Competitive Strengths and Capabilities

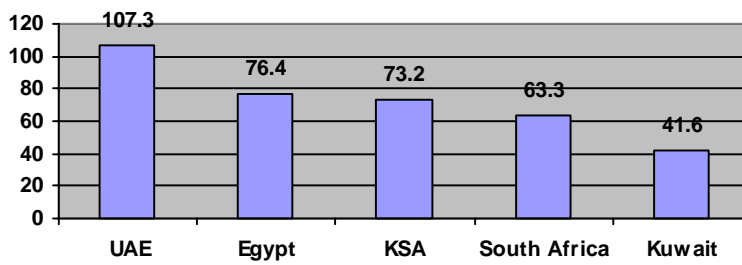
Core Areas for Investment: Large shopping centers, modern grocery distribution, hypermarkets, supermarkets, retail and mixed-use real estate development.

Growth Trend of Sales by Format (US\$ Million)



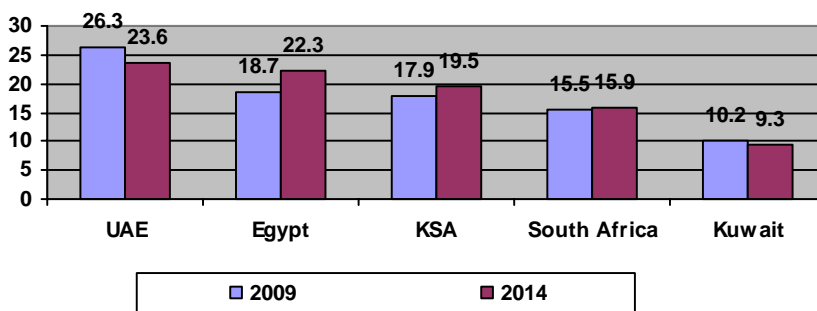
Source: Business Monitor

Regional retail sales (USD nm) 2009

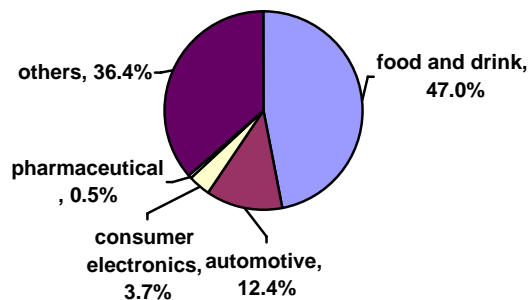


Source: Business monitor – 2010

Regional retail sales by % share 2009 compared to 2014



Source: Business monitor – 2010

Retail sales Break down by Key segment, 2009

Source: Business Monitor 2010

Several factors make investing in Egypt's retail sector an attractive and promising opportunity:

Growing Domestic Market. In 2008/2009 GDP grew at 4.7% even though the world witnessed a severe financial crisis and most of the European and American countries exercised a negative GDP, a population of 78 mn and retail sales projected to be USD141.66 bn by 2014 - — all are signs of a market with significant retail opportunities.

Retail Greenfield. Still populated by micro enterprises, the Egyptian retail sector is a Greenfield for investors. 70% of the grocery retail sales were from non organized and independent enterprises in 2007; this number is expected to fall by 7% in 2017. The top five retail players hold only 1.8% of total market share, leaving plenty of space for new market entrants, while regional centers outside of Cairo and Alexandria are virtually untouched markets with millions of under-served consumers.

Growth Potential. The global retail development index ranks Egypt 15th in the world in terms of growth potential and second in terms of low market saturation. And with the retail market increasingly saturated in previous key growth countries such as China and Russia, retailers are turning to the Middle East for new opportunities.

Low Cost Base. The Egyptian labor force is internationally recognized for its high-skills and low-cost. Wages in the wholesale and retail sector average US\$ 32.20 weekly. Every year, more than 324,000 university graduates enter the workforce, manual labor is in abundant supply, and high school graduates speak European languages. Businesses in Egypt also enjoy some of the lowest energy costs in the world, while the domestic building materials industry — including cement and steel producers — are amongst the world's cheapest suppliers, making retail space affordable.

Policy Support for the Retail Sector

The Egyptian government has proven its commitment to improving the ease of doing business in the country, which was reflected in recent tax reforms and the cutting of red-tape for foreign investors.

The government is looking to develop an efficient retail environment supporting various sectors of the growing economy. To this end, it sees itself as a key strategic partner in the coordinated development of Egypt's retail sector and is keen to attract foreign investment to enhance competition and modernize the retail environment.

Sector Snapshots

Retail Shops

There are over 11 000 companies established under trade services between 1970-2009, with a total flow of over USD 6.7 bn; with 4.7% of total retail sales, food a beverage is the largest component of the sector. But remain largely fragmented, dominated by small family-run independent stores in highly populated urban areas

Retail outlets account for 59% of total business establishments in Egypt. Within the sector, 99.7% of all establishments are microenterprises, employing between one and four workers. The approximately US\$ 31 billion food, beverage and tobacco retail market is the largest component of the sector, but remains largely fragmented, with mass retailers accounting for only 8.6% of the total market (by value), while traditional convenience grocery stores dominate the retail scene.

In total, there are just over 1 million private enterprises active in retail. Food and beverage retailers account for 50.9% of total establishments and 43.5% of employment in micro enterprises. This is followed by textiles, garments and footwear enterprises, which make up 8.6% of total establishments and 9.6% of employment in the sub-sector.

Supermarkets and Hypermarkets

The late 1970s saw a small number of supermarkets emerging in Cairo's large neighborhoods, followed by the introduction of hypermarkets in the 1980s through foreign licenses. The hypermarket concept was popularized by local companies including Ragab Sons, Abu Zikri and El-Hawary, which operate at the middle and lower end of the market, specializing in retail sales at highly discounted prices. Carrefour began its operations in 2003, and opened a second branch in 2005. It now has operations in both Cairo and Alexandria. One of the most recent comers to Egypt's retail sector is the Middle Eastern chain Spinneys, which opened its first 13,500-square-meter, US\$ 10 million hypermarket outlet in 2006.

The development of the supermarket/hypermarket sector in Egypt is exerting significant pressure on traditional neighborhood grocery stores. In affluent neighborhoods in particular, they are being increasingly transformed into convenience stores catering on an ad-hoc basis to consumers, rather than their previous role of making consistent larger-value household sales. In the less affluent and more densely populated districts of Cairo and in regional towns, traditional grocery stores have survived due to the fact that modern supermarkets have been almost exclusively catering to middle and higher income levels.

While still lacking the level of sophistication of western-type stores, the scope for further growth of supermarket/hypermarket enterprises in Egypt remains large, with studies indicating that the Egyptian market is far from saturation: The 20 million people who live in the Greater Cairo area are served by only 700 supermarkets and fewer than 10 hypermarkets.

Department Stores and Clothing

Department stores have long been present in Egypt. In the early part of the 20th century, Cairo and Alexandria boasted a large number of department stores, at that time on par with those in Europe. The decline of such department stores was matched by the expansion of small-scale clothing retail shops.

In 1986, the first shopping mall was opened as an annex to the Cairo Ramses Hilton, following which, malls spread across Cairo. Today, international brands including Nike, Mango, Esprit, Levi's, Benetton, Sisley, Tommy Hilfiger and H&M have launched their own-brand stores here.

Despite the increased competition, the market is far from saturated. Department stores currently target a small percentage of the market, consisting of wealthy consumers constituting around 4.9% of the total population (approximately 3.55 million people). This small percentage, however, still remains significant in relative terms, since it is larger than the entire population of Dubai and almost as large as the population of Lebanon - the region's traditional retail hubs.

Wholesale

The public sector plays a large role in the sub-sector, making up 25% of total establishments and 44% of total employment, the majority in the food and beverages area. As with retail, food and beverages activities dominate the sub-sector, making up 47% of establishments in the private sector and 34% of employment.

Metro Cash & Carry, the Germany-based international leader in self-service wholesale, is to set up 10 stores in Egypt, with an estimated US\$ 23 million investment per shop.

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 US\$ 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.

Top 5 Grocery Retailers (2007)

Metro Supermarkets:

- USD 110 million in sales across 40 stores with an average sales area of 863 square meters.
- Domestic chain owned by Mansour Group.
- Mainly mini-markets in middle-income residential areas.
- The company has introduced discount format at three stores under the name Kheir Zaman.

Carrefour:

- USD 54 million in sales across five stores with an average sales area of 9,000 square meters.
- International company operating with regional partner Maijd Al-Futtaim Group.
- Market leader, driving trend towards hypermarket shopping in Egypt.
- Plans further developments targeting affluent segments of society.

Spinneys:

- USD 25 million in sales at one store of 9,000 square meters.
- Gulf retailer is present in Cairo's CityStars modern shopping facility.
- Plans further expansion in the country.

Alfa:

- USD 17.6 million in sales across five stores with an average sales area of 2,500 m².
- Established Egyptian chain of department stores with an aging profile.

HyperOne:

- USD 17.6 million in sales at two stores with an average sales area of 10,000 m²
- Owned by Egyptian retailer El-Hawary.
- More discount oriented than Carrefour, targeting average and lower income.
- Located outside central Cairo.

Source: Planet Retail

Sector Drivers	Egypt's Value Proposition	Investor Benefits
Growing Domestic Market	Egypt's per-capita income has doubled over the last five years resulting in increased consumer spending power. The per-capita spend on food and other retail products is among the highest in the region.	Growing demand for modern shopping facilities and high-quality products, needs not currently fulfilled by the domestic market.
Support and Feeder Industries	Egypt has a sophisticated infrastructure to support retail activities, from local farms and food producers to IT and store-design firms that cater to regional retailers.	Reduced need to source expensive inputs or services from outside Egypt, helping control costs.
Retail Greenfield	Microenterprises and fragmented Market share characterize the retail sector. Modern grocery distribution is a nominal percentage of the market, with the top five retail players holding only 1.8% market share.	Major investment opportunities abound as the Egyptian retail sector shifts along the retail cycle from an opening market to a developing one.
Low Cost Base	Wages in Egypt are among the most competitive in the region. The average weekly wage in the wholesale and retail sector is USD 32.20. Wages are also quite stable, growing at 5% per year as opposed to 10% in China and 15% in India. In addition, land, energy and building material prices are among the lowest in the region.	Consistent and competitive labor costs improve profitability year after year, while low input prices keep initial establishment costs down.

Labor Force	Total labor force of 25 million, 324.3 thousand university graduate. and an industrial training program that is aiming to turn out 500,000 workers, along with broad language skills.	Large potential talent supply with the skill sets necessary for a range of business activities.
Government Support	The Egyptian government is aiming to provide a red-tape free investor friendly business environment to modernize Egypt's retail sector.	Improved ease of doing business and government Facilitated investment opportunities.

Success Stories

CityStars

The 2004 opening of CityStars 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 square meters and established with an investment cost of more than US\$ 800 million, CityStars 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.

Metro Supermarkets

From its first store opened in Heliopolis in 1998, the Metro chain — owned by local giant Mansour Group, which also has franchise rights to global brands including McDonalds — has expanded to 40 stores with sales around US\$ 110 million. While these are mainly mini-markets in middle-income residential zones, the chain also owns distribution and processing centers, and discount stores under the brand name Kheir Zaman.

Metro's strategy centers on quality, ensuring staff loyalty through incentives tied to profitability, and a cutting-edge approach to data management. Today, the retailer is number one on Egypt's grocery scene.

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 US\$ 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.

Leading Retail Companies in Egypt

Americana Group

www.americana-group.net

Carrefour

www.carrefour.com.eg

CityStars

www.citystars.com.eg/citystars

Hertz

www.hertzegypt.com

HyperOne

www.hyperone.com.eg

Metro Cash & Carry

www.metro-cc.com

Metro Supermarkets

www.mansourgroup.com/docs/metro_markets.htm

M.H. Al-Shaya

www.alshaya.com

Radio Shack

www.radioshackegypt.com

Spinneys

www.spinneys.com