

Credit Agricole Egypt [CIEB]

Equity Note / Sunday, 17 May 2020 / 1:00 pm CLT

Egypt / Reason for note: Q1 2020 results



Profitability suffers on multidimensional factors

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Market Data

Ticker	CIEB
52w median daily traded value (EGP000)	2,262
52 Weeks High / Low	47.1/ 25.05
Market Cap (EGPmn)	8,037
No. of Shares out. (Mn)	311
Free float (%)	39.1%
YTD Stock Return	-41%
P/B	1.28x
P/E	3.8x

Last price as of 14 May 2020

Stock price performance (last 12 months)



*Last price as of 14 May 2020.

Source: Bloomberg.

- Net profits plummet on higher provisions:** CIEB's stand-alone net profit plummeted 37% to EGP444mn in Q1 2020, given a provision build-up of EGP31mn vs. released provisions of EGP156mn a year ago. This coincided with an upsurge in operating expenses by 18.5%, raising the cost-to-income ratio to 34% in Q1 2020 vs. 28% a year earlier. In addition, core banking income softened by c.8%, mainly due to c.7% lower net interest income (NII), which weighed on profitability measures. Indeed, ROAE fell to 26.5% in Q1 2020, down from 49.4% a year earlier, as cost of risk (CoR) increased and financial leverage decreased. NIM declined to 6.7%, despite 1% lower cost of funding (CoF).
- Balance sheet growth limited by slow lending:** CIEB's financial position slowed in Q1 2020, mainly due to slowing net loans growth of 3.8% ytd to EGP25.3bn. Also, deposits growth slowed to 1.7% ytd to EGP40.3bn despite higher retail deposits (+3.5% ytd) as corporate deposits fell (-0.3% ytd). However, retail deposits are expected to be impacted heavily in Q2 on the back of the state-owned banks' recently-introduced high-interest certificates of deposit (CDs).
- Solid asset quality with a strong capital base:** Evidenced by its low NPL ratio of only 2.7%, CIEB continues to enjoy a very solid asset quality. However, this might be affected in the coming period in view of rising credit risk. So far, the higher exposure to credit risk is comfortably backed by a solid CAR of 18.2%, thanks to a current NPL coverage ratio of 153%.
- Valuation:** CIEB is currently trading at P/B of 1.28x vs. a historical average above 2x which was justified by its above-average ROAE vs. peers.

DuPont analysis

	Mar-20	Mar-19	Δ Mar-20 Vs. Mar-19	Dec-19	Δ Mar-20 Vs. Dec-19
ROAE	26.5%	49.4%	-22.86%	37.6%	-11.1%
Tax Burden	74.4%	80.2%	-5.8%	77.8%	-3.4%
Financial Leverage	7.52	9.18	-1.7	8.20	-0.7
ROAA Du Pont	4.7%	6.7%	-2.0%	5.9%	-1.2%
Net operating Income Index	5.0%	5.5%	-0.5%	5.5%	-0.5%
Core banking Income Index	7.0%	7.3%	-0.4%	7.2%	-0.2%
Non-Core banking Income Index	0.6%	0.3%	0.3%	0.6%	0.0%
Operating Expense Index	-2.6%	-2.1%	-0.5%	-2.3%	-0.3%
Non-Recurring Items Index	0.0%	0.0%	0.0%	0.0%	0.0%
Cost Of Risk	0.5%	-2.9%	3.4%	-1.0%	1.5%
Net Loans/ATA	47.8%	41.3%	6.5%	45.3%	2.5%

Source: Prime Research.

Income statement summary & KPIs(quarterly)

Cumulative Results				P&L Highlights	Quarterly Results						
Mar-20	Mar-19	Δ Mar-20 Vs. Mar-19	% Δ		Mar-20	Dec-19	Δ Mar-20 Vs. Dec-19	% Δ	Mar-19	Δ Mar-20 Vs. Mar-19	% Δ
747	805	(58)	-7.2%	Net interest income	747	764	(17)	-2.2%	805	(58)	-7.2%
132	154	(22)	-14.20%	Net fees & Commissions income	132	140	(8)	-5.5%	154	(22)	-14.2%
879	959	(80)	-8.4%	Core Banking Income	879	904	(24)	-2.7%	959	(80)	-8.4%
77	37	39	106.3%	Other Operating Income	77	147	(70)	-48%	37	39	106%
956	996	(41)	-4.1%	Operating Income	956	1,050	(95)	-9.0%	996	(41)	-4.1%
(328)	(277)	(51)	18.5%	Administrative expenses	(328)	(323)	(5)	1.7%	(277)	(51)	18.5%
(173)	(159)	(14)	8.5%	Personnel Cost	(173)	(168)	(5)	2.8%	(159)	(14)	8.5%
(31)	156	(186)	-120%	Impairment of Credit losses	(31)	(76)	45	-59.6%	156	(186)	-119.7%
597	875	(278)	-31.8%	Net profit before taxes	597	652	(55)	-8.4%	875	(278)	-31.8%
(153)	(174)	21	-11.9%	Income tax	(153)	(159)	6	-3.6%	(174)	21	-11.9%
444	702	(258)	-36.7%	Net Profit	444	493	(49)	-9.9%	702	(258)	-36.7%
26%	20%	5.8%		Tax Margin	26%	24%	1.3%		20%	5.8%	
34.4%	27.8%	6.56%		Cost to Income Ratio	34.4%	30.7%	3.6%		27.8%	6.6%	
51	-289	340		Cost of Risk (bps)	51	129	-78		-289	340	
6.7%	7.3%	-0.6%		NIM	6.7%	6.8%	-0.1%		7.3%	-0.6%	
26.5%	49.4%	-22.9%		ROAE	26.5%	28.3%	-1.8%		49.4%	-49.4%	
3.5%	5.4%	-1.9%		ROAA	3.5%	3.9%	-0.3%		5.4%	-5.4%	

Source: Bank reports.

Balance sheet summary & KPIs (quarterly)

Mar-20	Dec-19	Δ Mar-20 Vs. Dec-19	% Δ	CAGR '12 'Mar-20	BS Highlights	Dec-19	Δ Mar-20 Vs. Dec-19	% Δ	Mar-19	Δ Mar-20 Vs. Mar-19	% Δ
7,028	6,871	157	2.3%	3%	Due from banks	6,871	157	2.3%	9,248	(2,220)	-24.0%
6,851	7,189	(338)	-4.7%	6%	Treasury bills and Central Bank of Egypt notes	7,189	(338)	-4.7%	8,466	(1,614)	-19.1%
13,949	14,131	(182)	-1.3%	64%	Financial Investments	14,131	(182)	-1.3%	3,678	10,271	279.2%
24,233	23,348	885	3.8%	9%	Loans and advances to customers(Net)	23,348	885	3.8%	21,863	2,370	10.8%
25,346	24,420	926	3.8%	9%	Gross Loans	24,420	926	3.8%	22,998	2,349	10.2%
17,468	16,901	567	3.4%	8%	Corp Loans	16,901	567	3.4%	15,999	1,469	9.2%
7,878	7,519	359	4.8%	14%	Retail Loans	7,519	359	4.8%	6,998	880	12.6%
50,921	50,427	494	1.0%	8.6%	Total assets	50,427	494	1.0%	52,358	(1,437)	-2.7%
40,318	39,637	682	1.7%	8.2%	Customers' deposits	39,637	682	1.7%	42,175	(1,856)	-4.4%
18,733	18,783	(49)	-0.3%	9%	Corp Deposits	18,783	(49)	-0.3%	21,784	(3,051)	-14.0%
21,585	20,854	731	3.5%	7%	Retail Deposits	20,854	731	3.5%	20,391	1,194	5.9%
44,657	43,218	1,439	3.3%	8%	Total liabilities	43,218	1,439	3.3%	47,032	(2,375)	-5.1%
6,265	7,210	(945)	-13.1%	15%	Total shareholders' equity	7,210	(945)	-13.1%	5,327	938	17.6%
62.9%	61.6%	1.3%			LDR	61.6%	1.3%		54.5%	8.3%	
2.7%	3.0%	-0.2%			NPL Ratio (Year End)	3.0%	-0.2%		3.0%	-0.3%	
18.3%	18.3%	0.0%			Capital Adequacy Ratio (%)	18.3%	0.0%		17.5%	0.8%	
10.4%	10.2%	0.2%			Leverage Ratio	10.2%	0.2%		8.6%	1.9%	

Source: Bank reports.

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