

Precautionary provision build-up negatively impact profitability despite high NII growth

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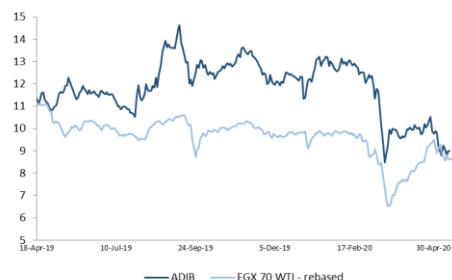
Market Data

Ticker	ADIB
52w median daily traded value (EGP000)	1,696
52 Weeks High / Low	14.63/ 8.47
Market Cap (EGPmn)	2,218
No. of Shares out. (Mn)	200
Free float (%)	40.0%
YTD Stock Return	-26.8%
P/B	0.39x
P/E	1.49x

Last price as of 17 May 2020

Source: Bloomberg

Stock price performance (last 12 months)



*Last price as of 17 May 2020.

Source: Bloomberg.

- Net profits decreased on the back of provision build-up:** ADIB's consolidated net profit before minority interest decreased by 17.4% to EGP230mn in Q1 2020, given a significant increase in impairment of credit losses by EGP81mn, implying a higher cost of risk (CoR) ratio of 1.4% in Q1 2020 vs. 0.6% a year earlier. NII rose 15.3% y/y, but NIM softened to 5.2% in Q1 2020 down from 6.4% a year earlier despite 1.7% lower cost of funding (CoF). Meanwhile, ROAE fell to 22.2% in Q1 2020, down from 37.2% a year earlier, due to a higher effective tax rate and lower financial leverage in tandem with higher CoR magnified by higher net lending exposure.
- Healthy balance sheet growth supported by significant lending growth:** ADIB's financial position showed a growth of 4.4% ytd in Q1 2020, with lending activities grew by a significant 10.7% ytd to EGP34bn, lifting LDR ratio to 69% in Q1 2020, up from 63% by end of 2019. On the liability side, deposits growth slowed to 1.3% ytd to EGP51.8bn despite higher retail deposits (+5.5% ytd) as corporate deposits fell (-6.3% 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).
- High asset quality lacking sufficient capital base:** Evidenced by its low NPL ratio of 2.8%, ADIB's asset quality is solid with a high NPL coverage ratio of 157% in Q1 2020, albeit lower from 177% by end of 2019. This makes the bank ready to absorb any credit shock in the coming period in view of rising credit risk resulting from the COVID-19 fallout. However, the higher exposure to credit risk is uncomfortably leaning on a weak CAR of 13%, which we expect could be somehow pressured too.
- Valuation:** ADIB is currently trading at a P/B of 0.39x, despite ADIB enjoyed high ROAE levels. This suggests that ADIB is trading below its justified P/B, which we estimate at 1.3x, conservatively assuming zero growth. However, the overhang from a capital increase issue continues to put a lid on the stock's upside potential.

DuPont analysis

	Mar-20	Mar-19	Δ Mar-20 Vs. Mar-19	Dec-19	Δ Mar-20 Vs. Dec-19
ROAE	22.2%	37.2%	-15.0%	32.8%	-10.7%
Tax Burden	62.7%	70.8%	-8.1%	71.9%	-9.2%
Financial Leverage	14.01	16.13	-2.1	14.61	-0.6
ROAA Du Pont	2.5%	3.3%	-0.7%	3.1%	-0.6%
Net operating Income Index	3.4%	3.6%	-0.2%	3.9%	-0.5%
Core banking Income Index	6.5%	6.8%	-0.4%	6.4%	0.1%
Non-Core banking Income Index	-0.8%	-0.5%	-0.2%	0.0%	-0.8%
Operating Expense Index	-2.3%	-2.7%	0.4%	-2.5%	0.2%
Non-Recurring Items Index	0.0%	0.0%	0.0%	0.0%	0.0%
Cost Of Risk	1.4%	0.6%	0.8%	1.3%	0.1%
Net Loans/ATA	58.1%	53.6%	4.5%	56.2%	1.8%

Source: Prime Research.

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Egypt / Banks

Equity Note / Reason for note: Q1 2020 results

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
815	707	108	15.3%	Net interest income	815	757	58	7.6%	707	108	15.3%
127	120	7	6.0%	Net fees & Commissions income	127	89	38	43.0%	120	7	6.0%
942	827	115	14.0%	Core Banking Income	942	846	96	11.3%	827	115	14.0%
(114)	(65)	(49)	76%	Other Operating Income	(114)	21	(136)	637%	(65)	(49)	76%
828	761	66	8.7%	Operating Income	828	867	(40)	-4.6%	761	66	8.7%
(339)	(327)	(12)	3.7%	Administrative expenses	(339)	(322)	(17)	5.2%	(327)	(12)	3.7%
(121)	(40)	(81)	199%	Impairment Liab. Of Credit losses	(121)	(150)	29	-19%	(40)	(81)	199%
368	394	(27)	-6.8%	Net Profit before Income Tax	368	395	(27)	-6.9%	394	(27)	-6.8%
(137)	(115)	(22)	19.1%	Income tax	(137)	(134)	(4)	2.6%	(115)	(22)	19.1%
230	279	(49)	-17.4%	Net Profit	230	261	(31)	-11.8%	279	(49)	-17.4%
37%	29%	8.1%		Tax Margin	37%	34%	3.5%		29%	8.1%	
41.0%	42.9%	-2.0%		Cost to Income Ratio	41.0%	37.2%	3.8%		42.9%	-2.0%	
143	62	81		Cost of Risk (bps)	143	194	-51		62	81	
5.2%	6.4%	-1.2%		NIM	5.2%	5.4%	-0.3%		6.4%	-1.2%	
22.2%	37.2%	-15.0%		ROAE	20.8%	24.7%	-3.8%		34.6%	-34.6%	
1.6%	2.3%	-0.7%		ROAA	1.5%	1.8%	-0.3%		2.2%	-2.2%	

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
1,662	1,252	410	32.7%	-1%	Due from banks	1,252	410	32.7%	3,260	(1,597)	-49.0%
9,259	9,876	(616)	-6.2%	15%	Treasury bills and Central Bank of Egypt notes	9,876	(616)	-6.2%	5,380	3,880	72.1%
20,398	19,701	696	3.5%	49%	Financial Investments	19,701	696	3.5%	10,683	9,714	90.9%
34,022	30,734	3,287	10.7%	30%	Loans and advances to customers(Net)	30,734	3,287	10.7%	26,297	7,725	29.4%
35,648	32,261	3,388	10.5%	20%	Gross Loans	32,261	3,388	10.5%	27,465	8,183	29.8%
25,836	23,133	2,703	11.7%	19%	Corp Loans	23,133	2,703	11.7%	19,966	5,871	29.4%
9,812	9,127	685	7.5%	21%	Retail Loans	9,127	685	7.5%	7,500	2,312	30.8%
62,952	60,325	2,627	4.4%	24%	Total assets	60,325	2,627	4.4%	52,374	10,578	20.2%
67%	64%										
51,820	51,161	659	1.3%	21%	Customers' deposits	51,161	659	1.3%	44,399	7,422	16.7%
17,297	18,452	(1,154)	-6.3%	23%	Corp Deposits	18,452	(1,154)	-6.3%	16,640	657	4.0%
34,523	32,709	1,814	5.5%	20%	Retail Deposits	32,709	1,814	5.5%	27,759	6,764	24.4%
58,361	55,979	2,382	4.3%	22%	Total liabilities	55,979	2,382	4.3%	48,990	9,371	19.1%
4,573	4,327	245	5.7%	48%	Total shareholders' equity	4,327	245	5.7%	3,384	1,189	35.1%
68.8%	63.1%	5.7%	275%		LDR	63.1%	5.7%		61.9%	6.9%	
2.8%	2.6%	0.2%			NPL Ratio	2.6%	0.2%		2.1%	0.7%	
13.1%	14.1%	-1.0%			Capital Adequacy Ratio	14.1%	-1.0%		13.0%	0.1%	
6.0%	5.9%	0.2%			Leverage Ratio	5.9%	0.2%		5.0%	1.0%	

Source: Bank reports.

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