Commercial International Bank – Egypt (CIB) [COMI]

Tuesday, 6 October 2020 / 2:00 pm CLT
Egypt / Banking / Reason for note: Valuation

Price	Fair Value	12M PT
EGP66.42	EGP94	EGP85 (+28%)
(as of 5 Oct 2020)	(as of 6 Oct 2020)	(as of 6 Oct 2020)

Investment Rating: **Overweight** ★ ★ ★
Risk Rating: **Medium** ! ! !

PRIME HOLDING

A Good Bet for the "Risk On" Mode

Potential lending recovery with healthy NPL coverage

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Key Insights

Profitability to recover starting 2021: We expect Commercial International Bank – Egypt's (CIB) [**COMI**] earnings to be weaker y/y in 2020 due to COVID-19. While a potential spillover to its balance sheet is not entirely off the table, H1 2020 figures proved the impact will likely be subdued with net lending growing 0.6% ytd in H1 2020, up from -3% ytd in Q1 2020. Indeed, we expect earnings to slip c.5% y/y to EGP11.2bn in 2020 before growing at a 6-year CAGR of 14.5% to EGP26.5bn by 2025. Weaker profitability in H1 2020 was driven by: (1) lower corridor rates by 300bps, (2) lost deposit growth pulled by state-owned banks' high-yield CDs in H1, and (3) somewhat lower productivity due to shorter working hours and tentative closure of some branches due to COVID-19. We expect this to be partially offset by the credit recovery which started in Q2 2020 and should continue in H2 2020, supported partially by lower corridor rates by another 50bps.

NIM resilience in 2020 is not expected to persist in 2021 and beyond: We expect net interest margin (NIM) compression to accelerate due to an expansion in credit volumes, dropping from 6.6% in 2019 to 5.1% by 2025. This comes as growth normalizes with interest rates falling below 10%.

Recovery in H2 2020 to be driven by lending growth and provisions reversals: Q2 2020 has exhibited early signs of lending growth with gradual normalization. Retail credit growth, in particular, has recovered with COMI reassessing the credit risk when building new provisions in H2 2020. This may lead to booking less provisions down the road.

Valuation, Investment Thesis, & Risks

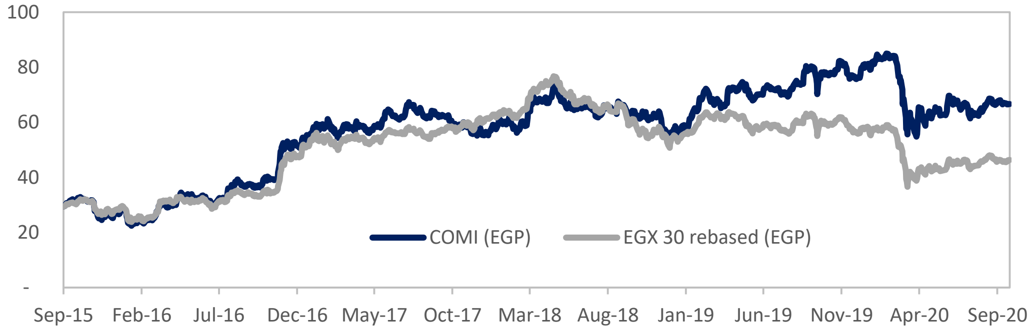
Overweight, 12M PT EGP85/share (+28%): We valued COMI using a residual income model, reaching a fair value of EGP94/share. But we set our 12-month price target at EGP85/share (2.15x 2020e book equity, in line with its historical average), hence our Overweight rating. Over the last five years, COMI's stock has returned in excess of 18% a year (including dividends). In 2020 so far, COMI has underperformed, falling c.20% ytd, leaving room for recovery, save for any short-term systematic risks. We expect COMI's balance sheet and net income to more than double by 2025.

Trading at a deep discount; lucrative valuation: We view the recent dip instigated by a foreign investors sell-off as a buying opportunity. At the current price, COMI is trading at a 2020e P/E of 8.9x and P/B of 1.7x which is c.20% below its 14-year average of 2.1x.

Investment thesis: Capex lending recovery in tandem with shrewd ALM management, ensuring low cost of funds (CoF) and high profitability metrics.

Risks: Despite its solid fundamentals, COMI is still exposed to systematic and geopolitical risks, including fierce competition from foreign banks' entering the market in view of recent and potential M&As, slower-than-expected credit growth recovery, and another wave of pandemic that entails severe preventative measures.

Stock Relative Performance Chart (5 years)



Key Stock Statistics

Shares outstanding (mn)	**1,477.7**
Free float	**74%**
Market cap (mn)	**EGP98,148**
Market cap (mn)	**USD6,218**
52w range	**EGP87.10 – 51.20**
EGP100 invested 5y ago	**EGP229**
TTM EPS	**EGP7.74**
TTM P/E	**8.6x**
2020e EPS	**EGP7.50**
2020e P/E	**8.9x**
2020e P/B	**1.7x**
Last fiscal year's DPS	**EGP1.00**
Dividend yield	**1.2%**
5Y beta	**0.95**
5Y Proj. EPS CAGR	**15%**

Revenues / Earnings Data

	Q1	Q2	Q3	Q4	Year
Net Interest Income (EGPmn)					
2020	6,195	6,282	**e6,031**	**e5,874**	**e24,382**
2019	4,939	5,066	5,442	6,130	21,579
2018	3,260	4,593	5,455	4,529	17,837
2017	2,783	2,959	3,567	3,194	12,504
2016	2,268	2,266	2,532	2,952	10,018
2015	1,870	1,939	2,099	2,208	8,115
Net Profit (EGPmn)					
2020	2,399	2,599	**e2,931**	**e3,261**	**e11,190**
2019	2,644	2,711	3,187	3,259	11,800
2018	2,018	2,399	2,586	2,247	9,249
2017	1,785	1,821	2,082	1,861	7,550
2016	1,329	1,401	1,703	1,518	5,951
2015	1,080	1,119	1,312	1,130	4,641

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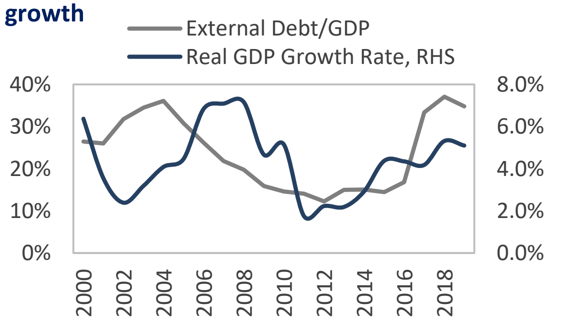
BUSINESS SUMMARY

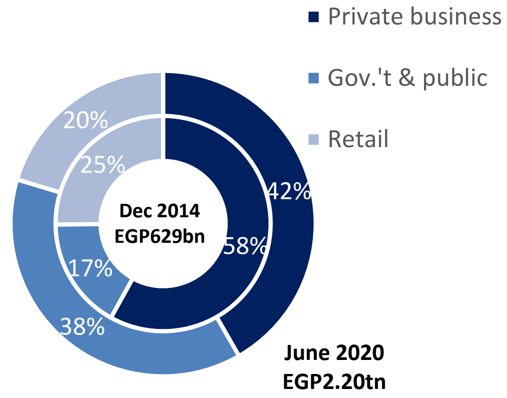
GDP growth fueled by external debt: Egypt is midway through a 10-year business cycle, and the first leg of that cycle (from 2012 to 2019) has so far been funded by external debt. Over the past 40 years, a typical business cycle lasted for around a decade from bottom to bottom. The trigger of almost each cycle was EGP devaluation/floatation, and the current cycle is no exception. Since EGP was floated on 3 November 2016, annual real GDP growth rate has accelerated to 5.3% in 2018, which is close to Egypt's long-term potential (Egypt's real GDP grew 6.4% in 2000). Yet, growth has been predominantly funded by external debt, aided by a mild recovery in local currency corporate credit that has been mostly channeled to firms contracted to operate in mega industrial and real estate projects, such as power generation stations, upstream oil and gas, and the New Administrative Capital. This uptick in private sector investments drove the private sector capex/GDP ratio to rebound from 7% in FY18 to 9% in FY19.

External debt played a key role in supporting GDP growth



Source: CBE, Prime Research.

Public credit leads the growth in lending

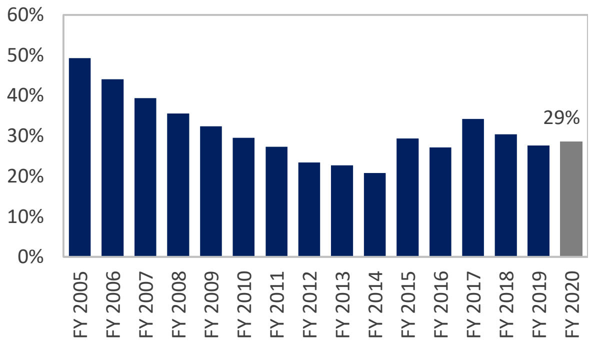


Source: Bank reports, Prime Research.

Public sector possesses a large share of total banking credit: The share of credit extended to public and state-owned enterprises in total outstanding credit more than doubled from 17% at end-2014 to 38% by June 2020.

Corporate credit contribution to GDP has been falling: The tectonic shifts in the drivers of growth (and growth financing) are further reflected in plunging corporate credit-to-GDP ratio since FY05. Compared to the last capex cycle (2005-2008), when the ratio hovered above the 40% mark, the ratio has been steadily declining, down to a notch below 30% at end of 9MFY20 (ended 31 March 2020).

Corporate credit-to-GDP has been plunging since 2005



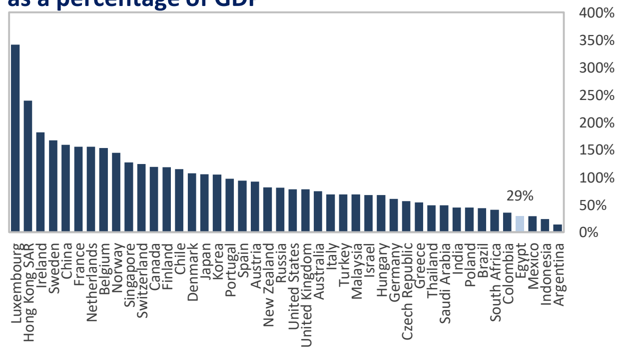
Source: Bank reports, Prime Research.

Are there signs of recovery in long-term corporate credit? Yes. As of March 2020, the ratio of corporate credit (EGP1,594bn) to nominal GDP (9MFY2020: EGP5,571bn) stood at 29%. The ratio is at the very low end of that of advanced and emerging markets (EM) peers. No wonder, weak private sector activity, due to very tight monetary conditions as well as edgy business environment, put a cap on how fast long-term corporate credit can grow. In the case of CIB, approximately three quarters of outstanding corporate credit is concentrated in maturities shorter than one year.

Retail credit is usually shining in murkier days: Growth in retail credit, in contrast, has been gaining momentum post EGP floatation, as consumers faced financial constraints to purchase durable goods due to real income contraction. This is evidenced by the fact that household local currency (LC) credit 3-year CAGR (2016-2019) stood at c.20%. We note that such growth is accelerating from a low base, as gauged by the still-low household/GDP ratio of 8%, the ratio of retail credit as of March 2020 (EGP427bn) to nominal GDP (9MFY2020: EGP5,571bn) compared to EM average of 42%.

Public-sector capex to rebound, fueled by initiatives: Delving more into the drivers of investment expenditure, it is obvious that private investments (as a percentage of GDP) have plunged over the past decade and only showed tentative signs of recovery in FY19. In contrast, public sector investments (primarily in infra- and super-structure projects, such as electricity generation, roads, bridges, and ports) gathered momentum. Interestingly, in order to shore up private-sector investment expenditure, the CBE launched a series of initiatives in late FY20 to slash the cost of funding to selected sectors, particularly real estate, manufacturing, and tourism.

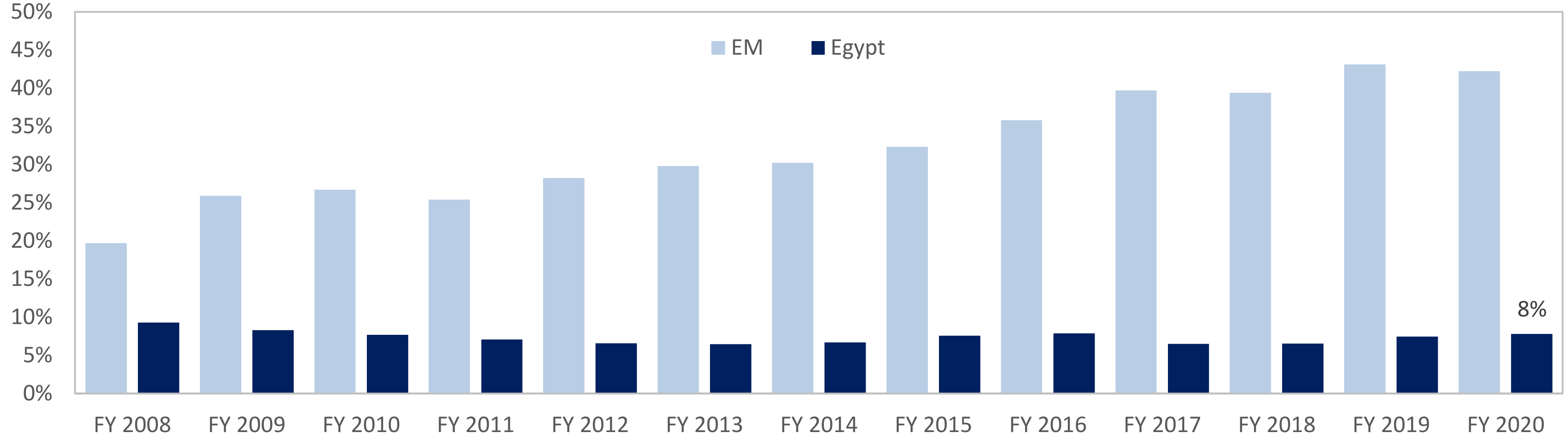
EM corporate credit to non-financial corporations as a percentage of GDP



Source: BIS.

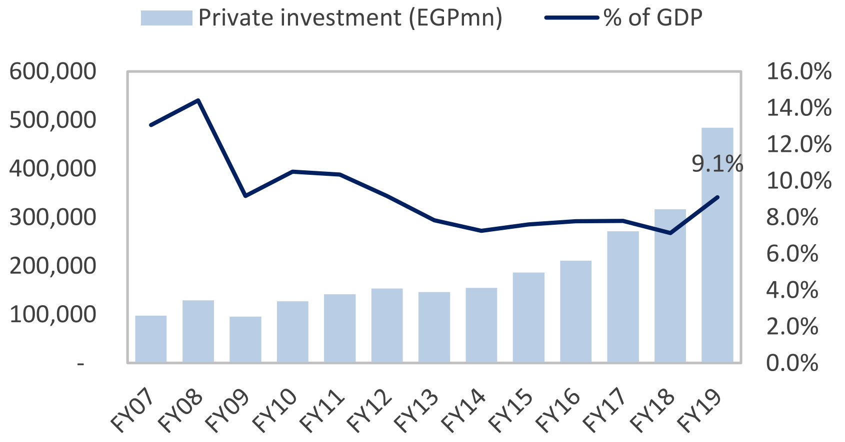
Business Summary (cont'.d)

Retail credit contribution to Egypt's GDP is very low compared to emerging markets

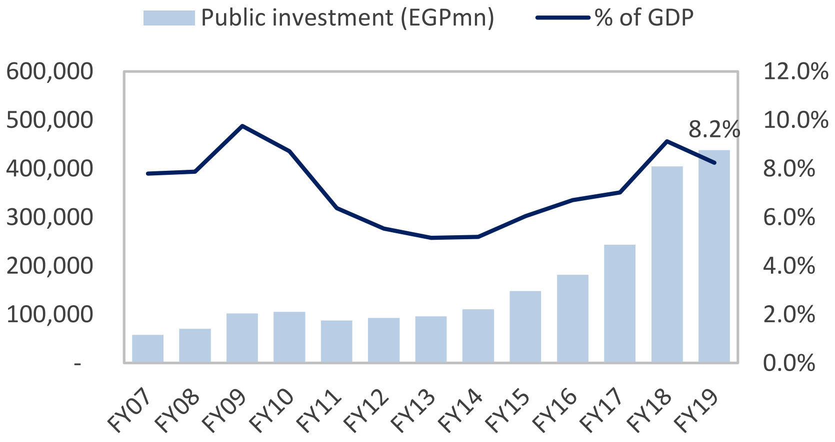


Source: BIS.

Private-sector capex should recover by 2021 with improvement in its contribution to GDP, while public-sector capex tapers off



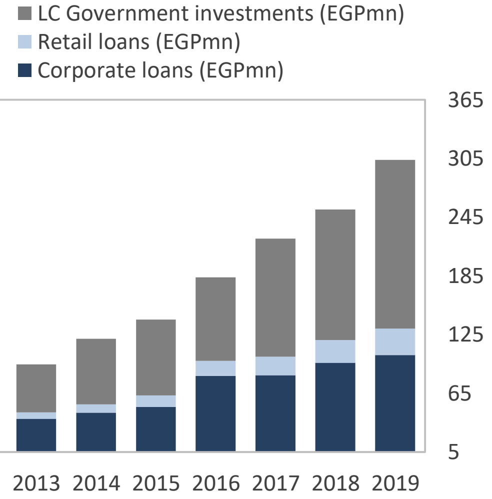
Source: Bank reports, Prime Research.



Source: Bank reports, Prime Research.

Tapping lucrative opportunities: CIB will continue to be a beneficiary of the business cycle throughout our forecast horizon. The bank expanded its balance sheet by concentrating its exposure to LC sovereign debt from 2012 to 2019, a period during which corporate credit has been relatively subdued due to jittery sociopolitical atmosphere. As such, the ratio of LC Treasuries-to-total assets rose from 50% by end-2012 to 63% by end-March 2020. Going forward, the swift shift from government to private credit will continue to underpin stability in the bank's operating and net profit. Meanwhile, provisions build-up will keep asset quality intact with NPL ratio expected to improve from 4% in H1 2020 to 3% by 2025. That said, we expect provision coverage to normalize from 268% in H1 2020 to 132% by 2025.

Resorting to Treasuries when lending is weak



Source: Bank reports, Prime Research.

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KEY ASSUMPTIONS

CIB's net income to hit the EGP10bn mark in 2020: We expect CIB to report a net income of EGP10bn in 2020, down 15% y/y from EGP11.8bn in 2019. This earnings decline will be the result of (1) prudent provisions build-up in H1 2020 (NPL coverage of 257%), (2) higher cost/income ratio, (3) soft credit growth in H1 2020, and (4) lower corridor rates by 350bps.

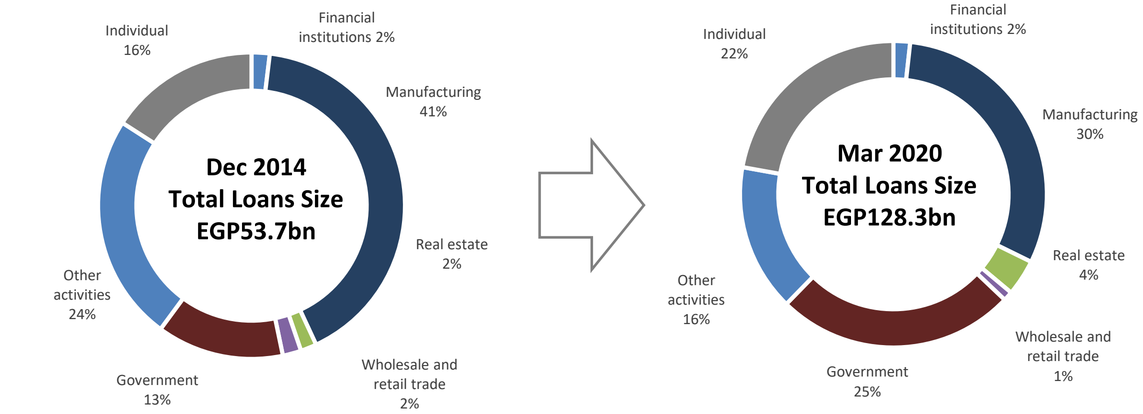
ROE to slip in 2020: We expect ROE (adjusted for employee and board profit share) to slip to 16% in 2020. This is despite NIM remaining high at the 7.1% mark in 2020 due to the tilt to longer term Treasury maturities since late 2018.

No sign of recovery yet in capex funding in H2 2020: In Q1 2020 (the latest available data), gross loans with maturities of up to three months accounted for 72% of total gross loans. Based on CIB's management guidance and our macro analysis, corporate Egypt is unlikely to embark on meaningful capacity expansion projects in the remainder of 2020. This comes amid excess capacity across a wide range of sectors and uncertain global and regional outlook on the back of COVID-19 pandemic spread.

Household credit to grow: We expect household credit to approach a quarter of the credit portfolio by end 2020. In 2019, household credit leapt to represent 20.8% of the gross loan portfolio. In December 2019, the CBE adjusted household credit limits by raising installment-to-monthly income ratio from 35% to 50%. Such a decision will likely sustain the rapid expansion in system-wide retail credit. Indeed, CIB's retail credit grew by 17.4% y/y in 2019 and 15% ytd in H1 2020.

Capex funding to kick in beyond 2021: We expect capex-funding and sustained growth in retail credit to push the loan-to-deposit to c.63% by end-2025. Private corporates capex/GDP has already risen in FY19 to 9%, primarily due to extensive private investments in the hydrocarbons (particularly natural gas), electricity, telecommunications and super-structure sectors. The next leg of the capex cycle will likely be driven by the petrochemicals, renewable energy, water desalination, and diversified manufacturing sectors.

CIB's client profile tilted more to the public sector at the expense of the private sector in view of the challenging environment



Source: Bank reports, Prime Research.

Selected KPI assumptions

Financial Position KPIs	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Comment
Total Assets Market Share	6.7%	6.1%	6.3%	6.6%	7.2%	7.7%	8.2%	8.7%	9.2%	9.4%	- Capex loans will support assets growth.
Loans to Deposits Ratio	42.3%	40.8%	41.9%	43.1%	41.5%	49.4%	52.7%	55.7%	58.8%	63.3%	
Ret. Loans Market Share	6.6%	7.3%	7.4%	6.9%	7.4%	7.6%	8.2%	8.8%	9.4%	10.0%	- Given CIB's current strategy to increase focus on retail credit.
T-Bills / Total Assets	14.8%	18.5%	12.3%	7.1%	7.1%	7.1%	7.1%	7.1%	7.1%	7.1%	- CIB will depend on T-bonds to support its asset growth.
Fin. Invest. / Total Assets	23.4%	28.1%	33.8%	43.9%	42.9%	41.9%	40.9%	39.9%	38.9%	37.9%	
Corp. Dep. Market Share	10.5%	9.7%	8.6%	9.3%	9.5%	9.7%	9.9%	10.1%	10.3%	10.7%	- Will be enhanced with corporate credit growth.
Ret. Dep. Market Share	7.2%	6.5%	6.9%	6.3%	6.9%	7.1%	7.5%	7.9%	8.3%	8.9%	- Backed by maturity of public banks' CDs.
Corp. Loans Market Share	7.7%	6.9%	6.4%	7.0%	7.3%	7.7%	8.1%	8.5%	8.9%	9.3%	
Income Statement KPIs	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	
ROAE	31.5%	30.4%	29.5%	27.4%	20.3%	22.4%	22.7%	22.9%	24.0%	23.3%	
Effective Tax Rate	25.1%	26.9%	28.4%	28.1%	32.8%	28.4%	28.2%	29.4%	28.7%	28.6%	
Cost of Funds (CoF)	4.5%	6.3%	6.7%	6.4%	3.8%	4.4%	3.6%	3.7%	3.3%	2.9%	
Cost of Risk (CoR)	1.0%	2.0%	2.9%	1.2%	2.0%	0.9%	0.6%	0.5%	0.4%	0.4%	
Cost to Income (CIR)	26.2%	25.5%	26.5%	27.7%	25.0%	23.2%	22.7%	22.2%	21.7%	21.2%	

Source: Bank reports, Prime Research.

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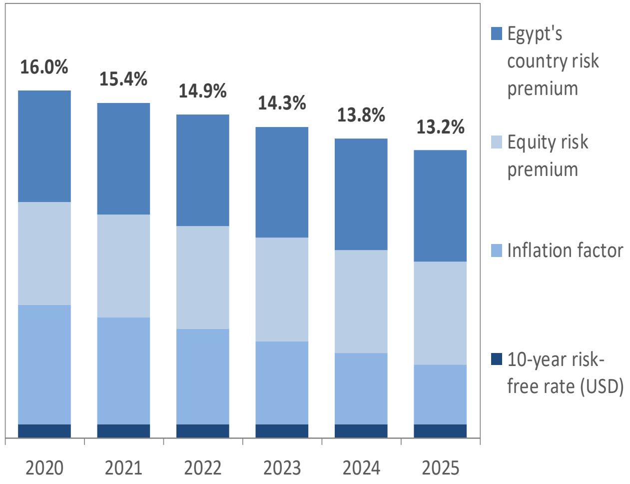
Key Valuation Input

Terminal COE
13.2%

Terminal growth rate
6.0%

Cost of equity structure (next 6 years)



Source: Prime Research.

Return/Risk Matrix

Risk \ Return	OW	N	UW
L			
M	✓		
H			

Source: Prime Research.

Valuation Model

Residual Income Approach	2020 F	2021 F	2022 F	2023 F	2024 F	2025 F
Reported net profit (post 1% Dev. Fund)	11,079	13,960	16,413	19,102	23,255	26,255
Other adjustments (staff profit share)	1,274	1,605	1,888	2,197	2,674	3,019
Adjusted Net profit	**9,805**	**12,354**	**14,526**	**16,905**	**20,580**	**23,236**
Total shareholders' equity	58,410	67,608	78,145	90,360	105,490	122,073
Good Will and Intangibles	-	-	-	-	-	-
Tangible equity	58,410	67,608	78,145	90,360	105,490	122,073
Capital Charge	**8,298**	**9,020**	**10,067**	**11,207**	**12,464**	**13,975**
Economic profit	**1,506**	**3,335**	**4,458**	**5,698**	**8,117**	**9,261**
Discount factor	0.97	0.84	0.73	0.64	0.56	0.49
PV of Economic Profit - During Fcst period	**1,454**	**2,789**	**3,245**	**3,627**	**4,540**	**4,575**
Sum of PVs						20,230
Terminal value						**135,456**
PV of TV						66,909
Beginning Capital						51,880
Value						**139,019**
Fully Diluted Number of Shares						1,478
FV per share (EGP)						**94**

Source: Prime Research.

FV Sensitivity Analysis

Terminal COE vs. growth rate

Terminal Growth Rate \ Terminal Cost of Equity	12.2%	12.7%	13.2%	13.7%	14.2%
4.0%	93	88	84	80	76
5.0%	100	93	88	83	79
6.0%	108	101	94	88	83
7.0%	120	110	102	95	88
8.0%	138	124	112	103	95

Source: Prime Research.

Terminal discount rate vs. total assets mkt. share

Terminal Corridor Discount Rate \ Terminal Total Assets Market Share (94.00)	11.4%	10.4%	9.4%	8.4%	7.4%
6.5%	84	80	76	71	67
7.5%	93	89	85	80	76
8.5%	103	98	94	90	85
9.5%	112	108	103	99	95
10.5%	121	117	112	108	104

Source: Prime Research.

Peer Group (as of 5 October 2020)

Ticker	Mkt cap (USDmn)	ytd %	ADTV 6M (USD000)	Free float (%)	ROAE	P/BV	P/E	Yield (%)
COMI	6,218	(20.0)	9,865	74	21.5%	1.9x	9.4x	1.9
QNBA	2,042	(30.9)	90	5	21.7%	0.9x	4.4x	6.7
CIEB	535	(38.1)	595	32	28.3%	1.3x	4.8x	12.7
HDBK	320	(7.2)	93	70	30.0%	0.6x	2.3x	6.3
EXPA	190	43.2	410	25	19.5%	0.5x	3.0x	9.1
Local avg.	**1,861**	**(10.6)**	**2,210**	**41**	**24.2%**	**1.0x**	**4.8x**	**7.3**

Ticker	Mkt cap (USDmn)	ytd %	ADTV 6M (USD000)	Free float (%)	ROAE	P/BV	P/E	Yield (%)
QNBK	42,166	(13.0)	12,463	48	17.2%	2.3x	14.2x	3.3
FAB	33,060	(26.6)	12,378	63	11.6%	1.4x	11.5x	6.7
NCB	29,952	(24.0)	24,715	45	17.0%	1.8x	10.8x	3.2
NBK	22,845	(12.4)	13,845	94	9.0%	2.0x	21.9x	3.7
EMIRATES	14,290	(17.4)	11,135	44	16.0%	1.2x	12.4x	2.6
Regional avg.	**28,463**	**(18.7)**	**14,907**	**59**	**14.1%**	**1.7x**	**14.2x**	**3.9**

*For peer groups with more than five stocks, selection was based on market capitalization.

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Financial Model

Balance Sheet (EGPbn)	2016A	2017A	2018A	2019A	2020F	2021F	2022F	2023F	2024F	2025F
Cash and balances with CBE	10.5	14.7	20.1	28.3	23.1	22.2	20.0	23.9	28.4	32.3
Due from banks	58.0	45.3	46.5	28.4	36.9	38.9	40.0	43.7	52.0	59.2
Treasury bills and other gov.'t notes	39.2	54.5	42.0	27.6	51.6	46.3	58.9	64.4	64.7	28.3
Financial Investments	61.8	82.9	115.6	169.9	198.2	233.2	272.9	317.6	368.5	408.6
Debt Fin. Invest.	60.9	82.8	115.5	169.9	198.2	233.1	272.8	317.6	368.4	408.6
Loans and advances to banks	0.2	0.0	0.1	0.6	0.7	0.9	1.1	1.3	1.5	1.7
Loans and advances to customers(Net)	**86.0**	**88.4**	**106.3**	**119.3**	**135.3**	**195.3**	**250.4**	**316.4**	**397.4**	**507.2**
Gross Loans	**98.1**	**102.4**	**119.4**	**131.2**	**148.5**	**209.4**	**265.4**	**332.8**	**415.5**	**528.6**
Corp Loans	82.7	83.4	96.2	104.0	115.1	166.7	209.3	261.3	324.8	418.8
Retail Loans	15.4	19.0	23.2	27.3	33.4	42.7	56.1	71.5	90.7	109.8
Financial Derivatives	0.3	0.0	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Investments in Subsidaries & associates	0.4	0.1	0.1	0.1	0.8	0.9	0.9	1.0	0.9	1.1
Intangible assets	0.5	0.4	0.2	-	-	-	-	-	-	-
DR Bal. & Other assets	5.4	6.9	9.6	9.7	11.6	14.0	16.8	20.0	23.8	27.1
Fixed assets (net)	1.3	1.4	1.7	2.2	2.8	3.7	4.8	6.2	8.0	10.4
Deferred tax asset	0.2	0.2	0.3	0.4	0.4	0.5	0.6	0.7	0.9	1.0
Total assets	**263.9**	**294.8**	**342.5**	**386.8**	**461.6**	**556.0**	**666.4**	**795.2**	**946.2**	**1,077.0**
Due to banks	3.0	1.9	7.3	11.8	29.9	45.9	62.8	82.2	103.9	85.4
Total Deposit	**232.0**	**250.8**	**285.3**	**304.4**	**357.5**	**424.2**	**504.0**	**597.4**	**707.2**	**834.9**
Corp Deposits	110.4	107.8	116.9	120.6	142.7	167.3	193.3	223.0	257.2	295.3
Retail Deposits	121.6	143.0	168.5	183.9	214.9	256.9	310.7	374.3	450.0	539.5
Financial Derivatives	0.3	0.2	0.1	0.3	0.3	0.4	0.4	0.5	0.6	0.8
Other Loans	0.2	3.7	3.7	3.3	3.2	3.2	3.2	3.2	3.2	3.2
CR Bal. & Other liabilities	3.6	5.5	6.5	8.4	6.7	8.1	9.8	11.8	14.1	16.8
Provisions	1.5	1.6	1.7	2.0	2.2	2.6	3.2	3.8	4.6	5.5
Current Income Tax / Deferred Tax	2.0	2.8	3.6	4.6	3.3	4.0	4.9	5.9	7.0	8.4
Total liabilities	**242.6**	**266.4**	**308.3**	**334.9**	**403.1**	**488.4**	**588.3**	**704.8**	**840.7**	**954.9**
Total shareholders' equity	**21.3**	**28.4**	**34.2**	**51.9**	**58.4**	**67.6**	**78.1**	**90.4**	**105.5**	**122.1**
Total liabilities & shareholders' equity	**263.9**	**294.8**	**342.5**	**386.7**	**461.6**	**556.0**	**666.4**	**795.2**	**946.2**	**1,077.0**

Income Statement (EGPbn)	2016A	2017A	2018A	2019A	2020F	2021F	2022F	2023F	2024F	2025F
Interest earned and similar income	19.1	28.7	37.4	42.6	40.1	45.5	49.6	60.5	69.2	75.5
Interest expense and similar Costs	(9.1)	(16.2)	(19.6)	(21.0)	(15.7)	(20.4)	(20.5)	(25.5)	(27.0)	(27.2)
Net interest income	**10.0**	**12.5**	**17.8**	**21.6**	**24.4**	**25.1**	**29.1**	**35.0**	**42.2**	**48.3**
Net fees & Commissions income	1.5	2.1	2.4	2.3	2.3	2.7	3.1	3.1	3.3	3.7
Core Banking Income	**11.6**	**14.6**	**20.2**	**23.9**	**26.6**	**27.8**	**32.1**	**38.1**	**45.5**	**52.0**
Dividends income	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Net trading Income	1.3	1.3	1.1	0.7	0.5	0.1	0.1	0.1	0.1	0.1
Gain (loss) on sale of investment	0.0	0.5	0.4	0.5	1.2	0.6	0.5	0.2	(0.1)	(0.4)
Non-interest income	**2.9**	**3.9**	**3.9**	**3.5**	**4.1**	**3.4**	**3.6**	**3.4**	**3.3**	**3.4**
Total Banking Income	**12.9**	**16.4**	**21.8**	**25.1**	**28.4**	**28.5**	**32.7**	**38.4**	**45.5**	**51.7**
Administrative expenses	(2.4)	(3.1)	(4.2)	(5.0)	(6.7)	(5.0)	(5.6)	(6.5)	(7.5)	(8.3)
Other operating income/Expenses	(1.2)	(1.1)	(1.6)	(1.8)	(2.6)	(2.0)	(2.4)	(2.9)	(3.5)	(4.0)
Operating Income	**9.3**	**12.2**	**16.0**	**18.2**	**19.2**	**21.5**	**24.6**	**29.1**	**34.5**	**39.3**
Impairment of credit losses	(0.9)	(1.7)	(3.1)	(1.4)	(2.7)	(1.8)	(1.6)	(1.7)	(1.6)	(2.2)
Oper. inc. after impairment of cr. losses	**8.4**	**10.5**	**12.9**	**16.8**	**16.5**	**19.7**	**23.1**	**27.3**	**32.9**	**37.1**
Goodwill Amortization	(0.3)	(0.1)	(0.1)	(0.2)	(0.0)	-	-	-	-	-
Net Profit before Income Tax	**8.0**	**10.3**	**12.7**	**16.5**	**16.5**	**19.7**	**23.1**	**27.3**	**32.9**	**37.1**
Income tax	(2.0)	(2.8)	(3.6)	(4.6)	(5.4)	(5.6)	(6.5)	(8.0)	(9.5)	(10.6)
Deffered tax	(0.1)	(0.0)	0.1	(0.1)	0.1	-	-	-	-	-
Net Profit	**6.0**	**7.6**	**9.2**	**11.8**	**11.2**	**14.1**	**16.6**	**19.3**	**23.5**	**26.5**

Source: Prime Research

Stock data, valuation & yield ratios	2016A	2017A	2018A	2019A	2020F	2021F	2022F	2023F	2024F	2025F
EOP number of shares	1,442.3	1,452.3	1,458.5	1,469.1	1,477.7	1,477.7	1,477.7	1,477.7	1,477.7	1,477.7
EOP stock price	58.46	61.88	59.26	83.02	66.47	66.47	66.47	66.47	66.47	66.47
BVPS	14.06	18.96	23.00	35.11	39.53	45.75	52.88	61.15	71.39	82.61
EPS	4.03	5.11	6.26	7.99	7.50	9.45	11.11	12.93	15.74	17.77
DPS	0.75	0.50	1.00	1.00	0.80	1.00	1.25	1.50	1.75	2.00
P/B	**4.2x**	**3.3x**	**2.6x**	**2.4x**	**1.7x**	**1.5x**	**1.3x**	**1.1x**	**0.9x**	**0.8x**
P/E	**14.5x**	**12.1x**	**9.5x**	**10.4x**	**8.9x**	**7.0x**	**6.0x**	**5.1x**	**4.2x**	**3.7x**
Dividend yield	1.3%	0.8%	1.7%	1.2%	1.2%	1.5%	1.9%	2.3%	2.6%	3.0%
Payout ratio	**18.6%**	**9.8%**	**16.0%**	**12.5%**	**10.7%**	**10.6%**	**11.3%**	**11.6%**	**11.1%**	**11.3%**

Profitability	2016A	2017A	2018A	2019A	2020F	2021F	2022F	2023F	2024F	2025F
NIM	4.9%	4.9%	6.1%	6.6%	7.1%	5.4%	5.1%	5.1%	5.2%	5.1%
Int. Margin on loan	8.3%	10.9%	13.8%	11.7%	10.1%	10.0%	9.3%	9.3%	9.3%	8.4%
Int. Exp on Deposits	5.0%	6.5%	6.7%	7.2%	4.2%	4.3%	3.4%	3.5%	3.0%	2.8%
Spread	3.3%	4.4%	7.1%	4.5%	5.9%	5.7%	5.9%	5.7%	6.3%	5.6%
NII / Total banking income	77.4%	76.3%	82.0%	86.1%	85.7%	88.1%	88.9%	91.2%	92.7%	93.4%
Non-interest inc. / Total banking inc.	22.6%	23.7%	18.0%	13.9%	14.3%	11.9%	11.1%	8.8%	7.3%	6.6%
Cost to Income	**20.8%**	**20.3%**	**20.9%**	**21.7%**	**25.0%**	**23.2%**	**22.7%**	**22.2%**	**21.7%**	**21.2%**
Effective Tax Rate	25.1%	26.9%	28.4%	28.1%	32.8%	28.4%	28.2%	29.4%	28.7%	28.6%
ROAE	**31.5%**	**30.4%**	**29.5%**	**27.4%**	**20.3%**	**22.4%**	**22.7%**	**22.9%**	**24.0%**	**23.3%**
Tax Benefit	74.0%	73.1%	72.6%	71.4%	67.9%	71.6%	71.8%	70.6%	71.3%	71.4%
Financial Leverage	11.72	11.25	10.18	8.47	7.69	8.07	8.39	8.67	8.89	8.89
ROAA	2.7%	2.7%	2.9%	3.2%	2.6%	2.8%	2.7%	2.6%	2.7%	2.6%
Cost of Risk (CoR)	**1.0%**	**2.0%**	**2.9%**	**1.2%**	**2.0%**	**0.9%**	**0.6%**	**0.5%**	**0.4%**	**0.4%**
Net Loans/ATA	38.8%	31.7%	33.4%	32.7%	31.9%	38.4%	41.0%	43.3%	45.6%	50.1%
Cost of Funds	**4.5%**	**6.3%**	**6.7%**	**6.4%**	**3.8%**	**4.4%**	**3.6%**	**3.7%**	**3.3%**	**2.9%**

Capital Adequacy	2016A	2017A	2018A	2019A	2020F	2021F	2022F	2023F	2024F	2025F
Capital Adequacy Ratio	**14.0%**	**18.0%**	**19.1%**	**26.1%**	**23.5%**	**20.8%**	**19.6%**	**18.6%**	**20.9%**	**18.7%**
T1 Ratio	12.9%	14.9%	16.2%	23.6%	20.4%	18.4%	17.5%	16.8%	19.3%	17.5%
Risk-weighted assets / Total assets	56.9%	57.2%	54.4%	51.6%	46.5%	50.4%	51.6%	52.9%	54.8%	61.7%

Asset Quality	2016A	2017A	2018A	2019A	2020F	2021F	2022F	2023F	2024F	2025F
Performing loans %	68.3%	69.5%	78.6%	85.6%	85.0%	85.0%	85.0%	80.0%	50.0%	50.0%
Regular watching %	18.4%	15.5%	11.7%	6.9%	8.0%	10.0%	10.0%	16.0%	44.5%	45.5%
Watch list %	6.5%	8.0%	5.7%	3.5%	3.0%	1.0%	1.0%	0.5%	2.0%	1.5%
Non-Performing Loans %	**6.8%**	**7.0%**	**4.1%**	**4.0%**	**4.0%**	**4.0%**	**4.0%**	**3.5%**	**3.5%**	**3.0%**
Total Provision NPL Coverage	**148.1%**	**154.5%**	**268.9%**	**225.8%**	**220.4%**	**166.3%**	**138.8%**	**138.3%**	**122.9%**	**132.0%**
		1000								

Efficiency	2016A	2017A	2018A	2019A	2020F	2021F	2022F	2023F	2024F	2025F
No. of employees (000)	6.4	6.6	6.8	6.9	7.0	7.1	7.2	7.2	7.2	7.3
No. of branches	168	174	181	180	180	180	180	180	180	180
Net Profit / No. of Employees	0.9	1.2	1.4	1.7	1.6	2.0	2.3	2.7	3.2	3.6
Net Profit / No. of Branches	35.4	43.4	51.1	65.6	62.2	78.3	92.1	107.2	130.5	147.3
Average Employee / Branch	38	38	37	38	39	39	40	40	40	40

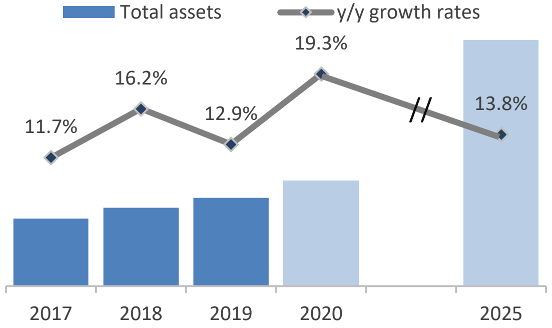
Liquidity	2016A	2017A	2018A	2019A	2020F	2021F	2022F	2023F	2024F	2025F
LDR	42%	41%	42%	43%	42%	49%	53%	56%	59%	63%
Invest. Securities & Due From Banks / TA	60%	62%	60%	58%	62%	57%	56%	54%	51%	46%
Earning assets / Total assets	93%	92%	91%	89%	92%	93%	94%	93%	93%	93%
Leverage	6%	7%	8%	10%	8%	8%	8%	8%	9%	9%
Equity multiplier	12.4	10.4	10.0	7.5	7.9	8.2	8.5	8.8	9.0	8.8

Commercial International Bank – Egypt (CIB) [COMI]

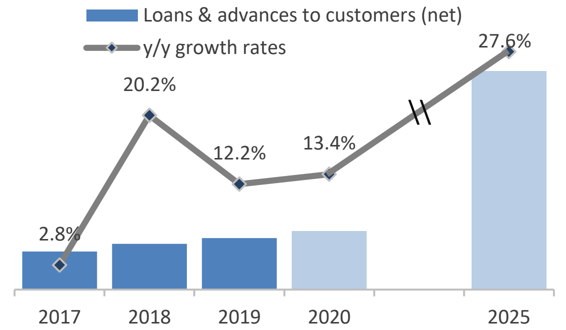
Tuesday, 6 October 2020 / 2:00 pm CLT
Egypt / Banking / Reason for note: Valuation

PRIME HOLDING

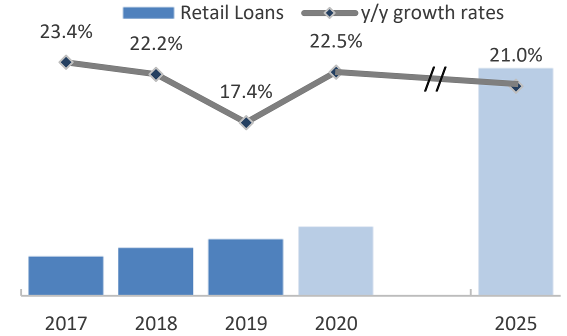
Total assets: Expected to recover on a gradual recovery in corporate credit.



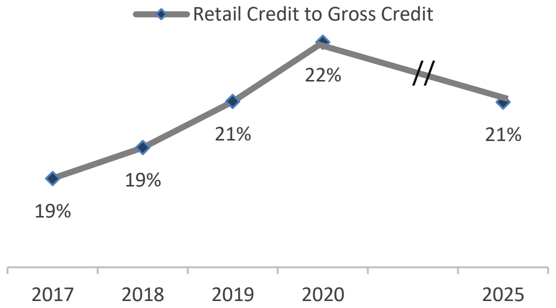
Net lending: Recovery in capex lending is most likely to begin in 2022.



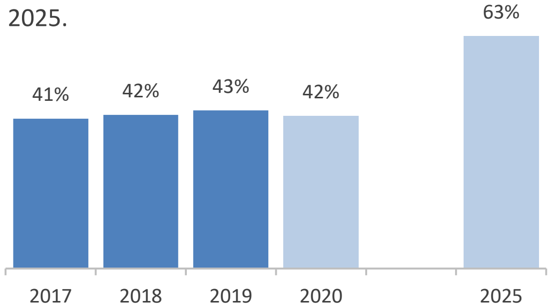
Retail credit: Showed a quick recovery in Q2 2020, which will most likely continue in H2 2020.



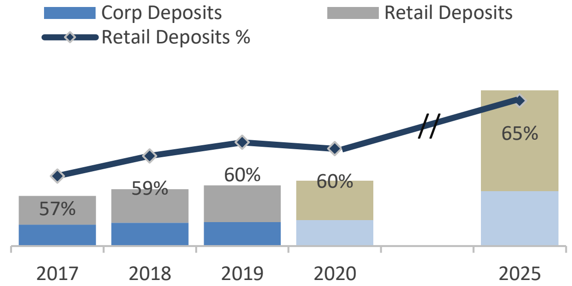
Retail credit-to-total loans: To boom in 2020 before easing by end of our forecast horizon as corporate credit picks up.



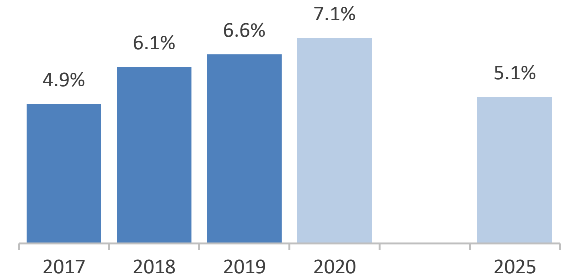
Loans-to-deposits (LTD): A rebound in corporate and retail credit to push LTD ratio above 60% by 2025.



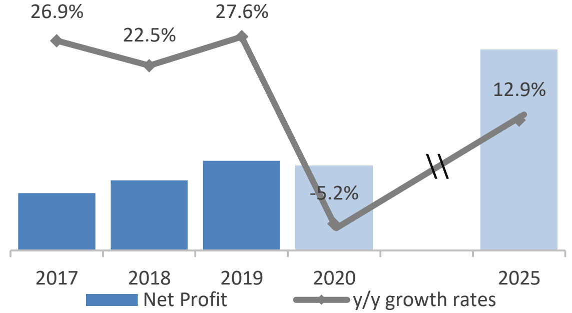
Deposits: Expected to bounce back up starting 2021, fueled by retail, as state-owned banks' CDs mature.



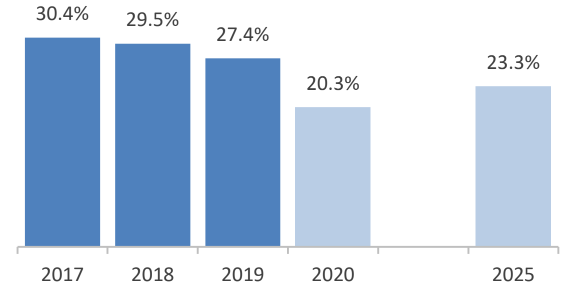
NIM: To rise in 2020 due to a net long position in long-duration assets then normalize afterwards.



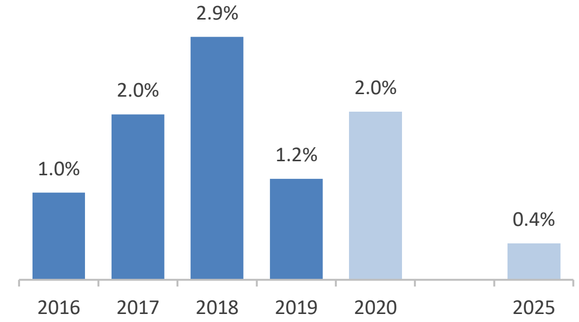
Net profit: Will nearly double by 2025 after slowing down in 2020.



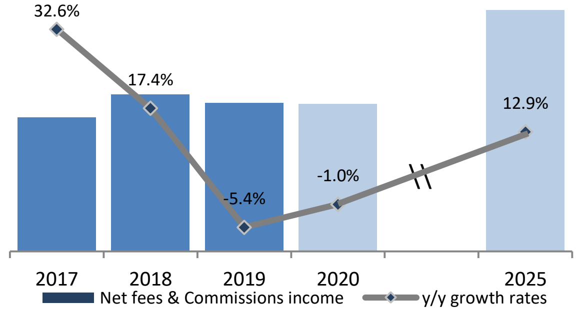
ROAE: Expected to be squeezed in 2020 due to higher CoR then recover over our forecast horizon.



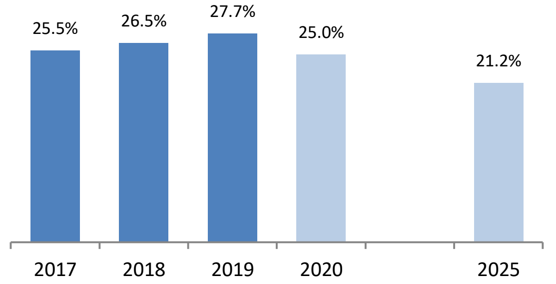
Cost-of-risk: Application of IFRS9 to lift CoR in 2020.



Net fees & commission: Subdued on intracompany sourcing agreements before capex starts to recover.



Cost-to-income: Jumped in 2020 on donations and WFH; expected to soften by 2021 on efficiencies.



Source: Bank reports, Prime Research.

Commercial International Bank – Egypt (CIB) [COMI]

Tuesday, 6 October 2020 / 2:00 pm CLT
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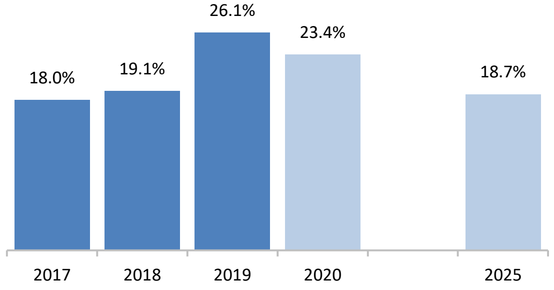
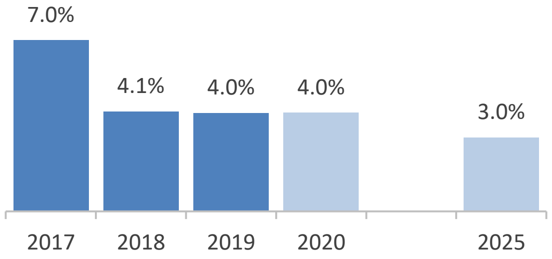
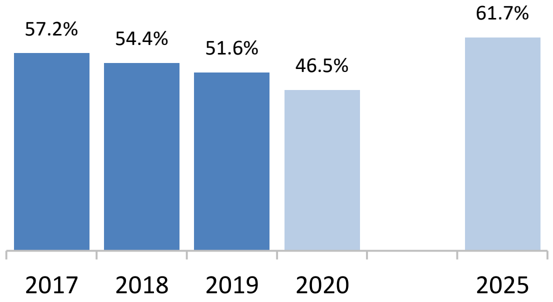
Capital adequacy ratio (CAR): Is way higher than 14% (D-SIBs buffer), expected to remain above 20% in 2020, thanks to the recent Tier II loan from CDC.



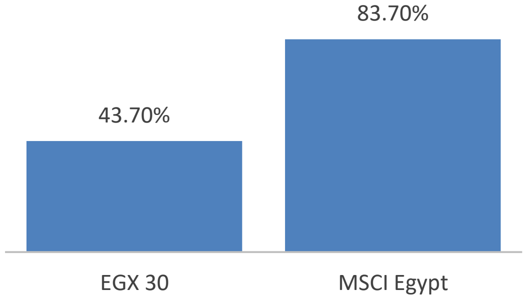
Non-performing loans (NPLs): To remain controlled given focus on multinationals and top-tier Egyptian firms; leaning on already-high coverage ratio.



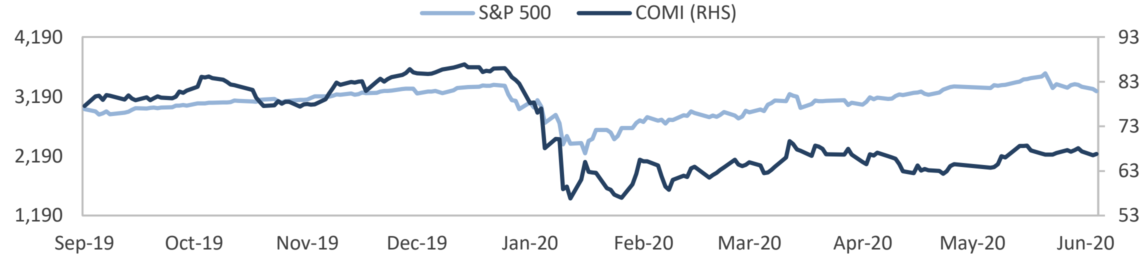
RWAs-to-total assets: Expected to surge by 2025 with lending recovery.



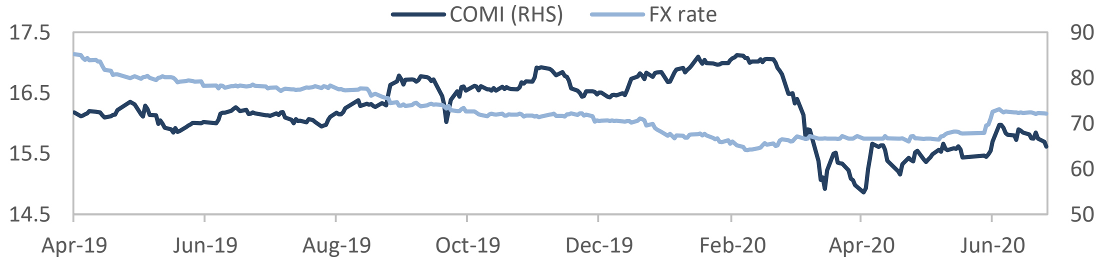
The lion's share of key market indices: EGX 30 and MSCI Egypt.

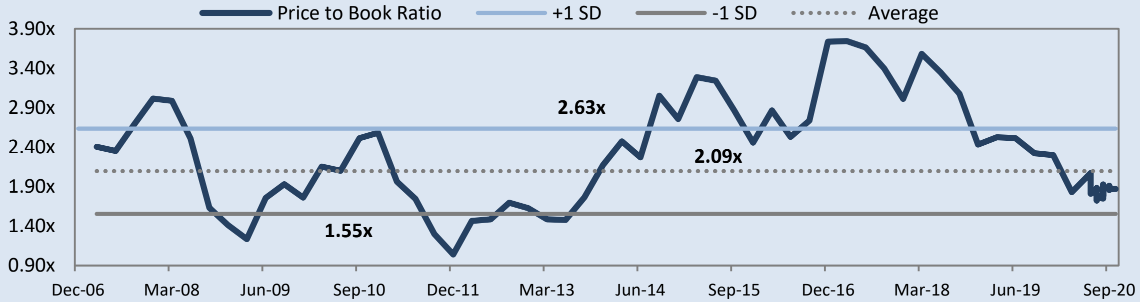


COMI vs. S&P 500: COMI exhibits a positive correlation with the S&P 500 index. Hence, we believe a bottoming of the S&P 500 will coincide with a bottoming in COMI, possibly by the beginning of 2021.



COMI vs. EGP/USD: Since CIB enjoys a net long foreign-currency position, its stock price has been inversely correlated with EGP performance. With 40% of CIB's loan portfolio denominated in foreign currency, COMI is highly sensitive to FX movements (i.e. positive gains in case the EGP weakens).





Historical P/BV:

- COMI is currently trading at its lowest P/B multiple (1.9x), well below its 14-year average P/B of 2.1x. Since March 2017, the highest recorded P/B multiple was 3.74x (December 2016 and March 2017) and the lowest was 1.04x (December 2011).
- For the last 14 years, COMI's P/B fluctuated between ±1 standard deviation (or between 1.55x and 2.63x) around 78% of the time. We note that the surge above +1 standard deviation was post EGP floatation.

Source: Bank reports, Prime Research, Bloomberg.

Commercial International Bank – Egypt (CIB) [COMI]

Tuesday, 6 October 2020 / 2:00 pm CLT
Egypt / Banking / Reason for note: Valuation

PRIME HOLDING

Corporate Profile

Commercial International Bank was established in 1975 as a joint venture between the National Bank of Egypt (51%) and the Chase Manhattan Bank (49%) under the name Chase National Bank of Egypt. Following Chase's decision to divest its equity stake in 1987, National Bank of Egypt (NBE) increased its shareholding to 99.9%, and the Bank changed its name to Commercial International Bank – Egypt. CIB has been the most profitable commercial bank operating in Egypt for more than 40 years.

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CEO
Mr. Hussein Abaza

COO & EVP
Mr. Mohamed Sultan

EVP & CFO
Mr. Loay Amin

Board Members

1. Mr. Hisham Ezz Al-Arab, Chairman & MD
2. Mr. Hussein Abaza, CEO
3. Dr. Amani Abou-Zeid, Lead Director
4. Mr. Bijan Khosrowshahi, FairFax Representative
5. Mrs. Magda Habib, Non-Executive Independent Director
6. Mr. Paresh Sukthankar, Non-Executive Independent Director
7. Mr. Rajeev Kakar, Non-Executive Independent Director
8. Mr. Sherif S. Samy, Non-Executive Independent Director

Auditor
PricewaterhouseCoopers (PwC)

Domicile
Giza, Egypt

Founded
1975

Number of Employees
6,964

Number of Stockholders
13,133

Listings
EGX: COMI (75.6% of shares)
LSE: CBKD (1 GDR = 1 local share, 24.4% of shares)

Shareholder Structure

Shareholder	Stake
National Bank of Egypt (NBE)	7.6%
FairFax Holding	6.6%
Others	11.7%
Free float	74.1%

Prime Research's Research Coverage

Date	Rating	12M PT
6 Oct 2020	Overweight Medium Risk	EGP85

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