



EGYPTBanks

Takeoff Time

A beneficiary regardless the direction; Overweight Egypt Banks

Unprecedented challenges overcome ...: Faced with unprecedented challenges to address long-term macroeconomic imbalances, the Central Bank of Egypt's (CBE) policies under the economic reform of 2016 were crucial to control inflation and stabilize the FX market. The CBE successfully managed to build its credibility during those past five years despite challenges triggered by the EGP floatation and capital outflow bouts in 2018 and later in 2020. By 2021, the inflation environment stabilized, and inflation was contained within the CBE's target of $7\% \pm 2\%$ by Q4 2022. Hence, the CBE's policy rates have been left unchanged since the latest two 50bps cuts in September and November 2020, just before the COVID-19 crisis interrupted the easing cycle that started early 2018.

... but global woes hit home: However, the agitated global inflation environment in 2021 has started to fuel the domestic inflation outlook and – in our opinion – has put an end to this easing cycle, which is expected to be reversed in 2022. The CBE's monetary policy outlook will focus on keeping high real interest rates to help support the economic recovery and alleviate the pressures on the current account deficit (CAD). This fits well within the context of the CBE's inflation-targeting policy that should keep inflation expectations well anchored around its target.

Averting headwinds by going long Egypt banks: In view of the above, we think one way to avert the current and potential headwinds facing the Egyptian economy is by going long Egypt banks. For this, we initiate our core coverage on five more bank stocks listed on the EGX. In addition to CIB [COMI] and Credit Agricole Egypt [CIEB], this brings our Egypt banks coverage to seven stocks. The five new banks stocks that we cover in this note are as follows, sorted alphabetically:

1. Abu Dhabi Islamic Bank – Egypt [ADIB]

Overweight / Medium Risk / 12M PT EGP21.7/share (+45%)
A Formula for Growth

- Earnings growth driven by lending growth, lower CoR, and better cost optimization; solid asset quality ensures steadying lending growth; long-awaited rights issue likely next year.

2. Al Baraka Bank – Egypt [SAUD]

Overweight / Medium Risk / 12M PT EGP25.6/share (+80%)
Comfortably Rewarding

- Earnings to flourish on lower CoF and heavy Treasury investments; favorable deposit terms to aid NIM; profound asset quality with a wide capital base.

3. Export Development Bank of Egypt [EXPA]

Overweight / Medium Risk / 12M PT EGP11.1/share (+21%)
Aglow Despite Dim Clouds

- Ebbing profitability is transitory; a coherent NIM despite marginal earnings growth, which should reverse course gradually; high asset quality with a barely sufficient capital base.

4. Housing & Development Bank [HDBK]

Neutral / Medium Risk / 12M PT EGP49.0/share (+13%)
A One-Stop Lender

- High retail lending aids profitability; asset quality is seen to stay poor before improving; real estate is fifth total fair value.

5. QNB Alahli [QNBA]

Overweight / Medium Risk / 12M PT EGP19.5/share (+24%)
Captive Growth

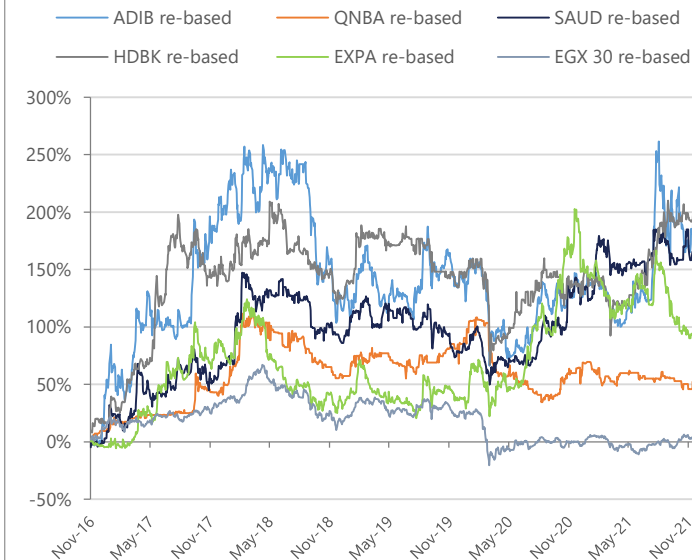
- High lending utilization and a wide capital base to help boost growth; cheapest deposits fend off NIM pressure; solid asset quality despite headwinds.

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STOCKS' RELATIVE PERFORMANCE (5 YEARS)



SUMMARY VIEW

Ticker	Mkt Price	12M PT	Upside	Rating	2021e	
					P/E	P/BV
ADIB*	15.01	21.7	45%	OW / MR	4.2x	0.9x
EXPA*	9.15	11.1	21%	OW / MR	3.2x	0.4x
HDBK*	43.25	49.0	13%	N / MR	4.5x	0.9x
SAUD*	14.21	25.6	80%	OW / MR	2.3x	0.5x
QNBA*	15.76	19.5	24%	OW / MR	4.3x	0.7x

Source: Bloomberg, Prime Research.



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Abu Dhabi Islamic Bank – Egypt [**ADIB**]

Al Baraka Bank – Egypt [**SAUD**]

Export Development Bank of Egypt [**EXPA**]

Housing & Development Bank [**HDBK**]

QNB Alahli [**QNBA**]

An aerial, grayscale photograph of a city skyline. A tall, modern skyscraper with a distinctive top section is the central focus. The surrounding area is filled with dense urban development, including various residential and commercial buildings. The foreground shows some greenery and a body of water. The overall atmosphere is hazy or misty.

SECTORView

SECTORView

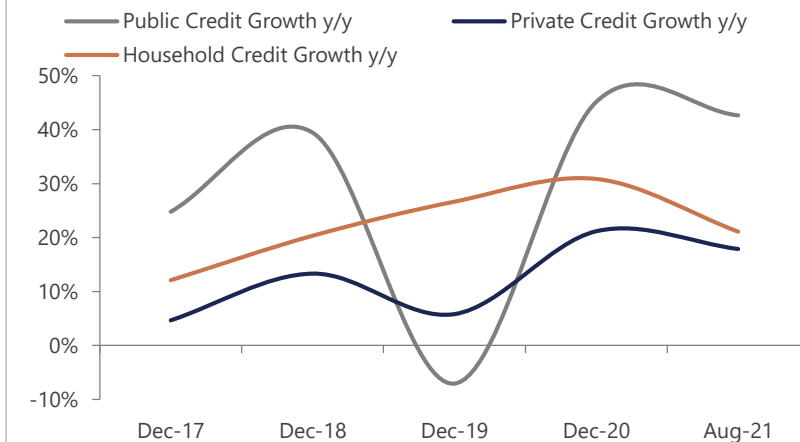
A Path to Corporate Credit Health in Sight

- Corporate credit growth led by the public sector during the past five years:** During 2015-2020, the public sector grew its credit at a 5-year CAGR of 50%, capitalizing on the government's mega projects which generated the twin benefits of well-anchored economic growth on one hand and the prospect of widening banks' lending volumes on the other hand. The public sector's credit is expected to regain its growth momentum over the next 2-3 years. Such expectations are in view of the government's plans **(1)** to achieve self-sufficiency of refined fuel products by 2023 and **(2)** to raise its water desalination/treatment capacity by constructing 47 water desalination plants over the next five years to scale up water supply.
- The private sector is still suffering despite glitzy performance in 2020:** In light of ebbing economic activity in the pre-pandemic period, the private sector's credit growth was limited to working capital credit, whereas capex lending has notably lagged. The private sector's credit responded positively to the 400bps rate cut during 2020 by leaping 21% y/y. Indeed, the cheap lending initiatives by the CBE provided the sector with a good credit momentum, yet some sectors still performed poorly during the outbreak of COVID-19 (e.g. tourism and real estate). Hence, we expect the manufacturing sector to lead the private sector's growth, supported by strong demand for working capital credit, as most companies delay their capex plans at times of unusual uncertainties.
- M&A activities to spur credit competition between Egyptian banks:** Since the CBE suspended licensing new entrants to the country's banking sector, acquisitions have been accelerating. For instance, **Arab Banking Corporation (ABC)** acquired 100% of **BLOM Bank – Egypt**. Also, **First**

Abu Dhabi Bank's (FAB) Egyptian unit fully acquired **Bank Audi – Egypt**. More recently, EFG Hermes Holding [HRHO] acquired a 51% stake in state-owned **aiBank**. We believe the ongoing M&A trend will gain momentum as competition stiffens and as banks comply with the CBE's new minimum capital requirement of EGP5bn.

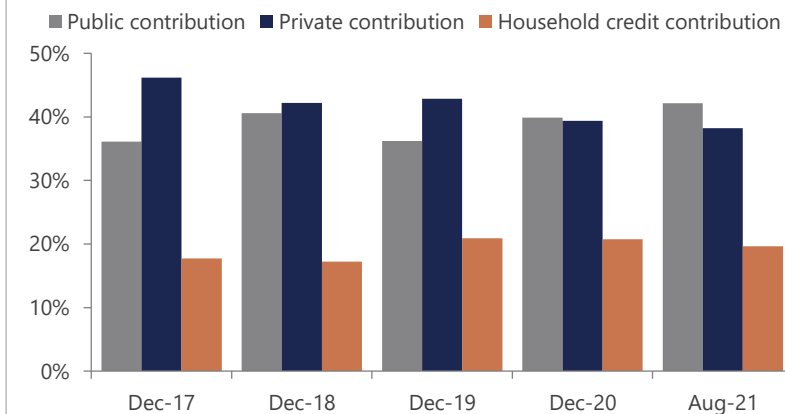
- NBFS stretches lending volumes:** Many might consider non-banking financial service (NBFS) firms as a main competitor to banks. However, banks have been benefiting off this new trend, extending credit to many NBFS firms which managed to grow their balance sheet immensely. For instance, the value of lease contracts at NBFS firms grew at a 5-year CAGR (2015-2020) of 25%, with y/y growth touching 55% in 8M 2021. On the other hand, microfinance lending portfolios hit a 3-year CAGR (2017-2020) of 40% and were up 42% y/y in 8M 2021. While NBFS firms directly competed with banks, providing more diversified solutions with less guarantees, we see them as primary clients to the banking sector, given that NBFS firms' main funding source is banks' credit.
- How do we see the future of credit growth?** We expect corporate credit to grow at a 5-year CAGR (2020-2025) of 16%, shored up by: **(1)** Public credit in light of the government's mega projects. **(2)** Growth in SME credit as banks will be required to allocate 25% of their total loan book to SMEs (vs. 20% previously). **(3)** A flourishing venture capital scene in Egypt with y/y growth of 29% in FY20, where we believe COVID-19 has contributed handsomely to its boom. **(4)** The private sector's working capital-driven credit growth. However, corporate credit growth is predicted to be burdened by delayed capex plans, which is expected to further intensify competition over corporate credit opportunities among banks.

Public credit leading growth in corporate credit



Source: CBE, Prime Research.

Public credit contributed 42% to total credit in August 2021, up from 36% in December 2017



Source: CBE, Prime Research.

SECTORView (cont.'d)

New Era Unfolding New Retail Credit Dimensions

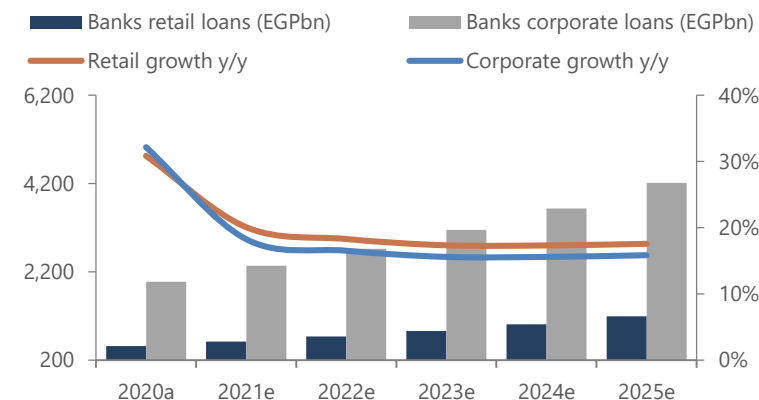
- The borrowing mindset is slowly changing, thanks to COVID-19:** The banking sector still exhibits a low penetration rate, with more than two-thirds of the population having minimal interaction with banks. However, the appetite of retail borrowers is slowly building up as prices of many necessary goods are soaring, in addition to the removal of subsidies across the board. Indeed, the general societal fear of debt appears to wane over time, particularly with the government's campaigns to promote electronic payments and banks incentivizing their clients via offers, discounts, and reward programs for using their credit cards. Such catalysts helped demand for retail credit grow 14% y/y in 2020 and 10% y/y in 8M 2021.
- Retail credit growth to drive private consumption further:** This is in view of: (1) durable goods, real estate, and passenger cars contributing a modest 10% to total consumer expenditures, and (2) retail credit growth being positively correlated with the price movements of borrowed goods. For this, households usually borrow more in a high-price environment to fill their consumption gap, creating room for retail credit to grow.
- Household income dampened by the current inflationary environment to support retail credit growth:** Household income grew by 9% y/y in FY20, led by income of public-sector employees which grew 24% y/y. Meanwhile, income of private-sector employees fell 13% y/y in FY20, hit by more layoffs and salary cuts. The fallout of COVID-19 forced households, even those that survived through the pandemic, to find additional sources of funding. Going forward, we expect household income to be boosted in the medium term, further supporting retail credit growth.

- The new real estate initiative to contribute further to household credit:** The EGP100bn mortgage finance initiative launched by the CBE will continue to be one of the main catalysts for retail lending in the future. This initiative offers low- and middle-income earners a diminishing interest rate of 3% over a 30-year repayment period.
- Retail credit to surpass corporate credit in the next five years:** In addition to the aforementioned catalysts, the e-commerce boom has also provided new shopping payment platforms. This will further drive retail credit growth to grow at a 5-year CAGR (2020-2025) of 18%, outstripping corporate credit growth of 16% over the same period.

Bold Strides to Bulk Up Clientele

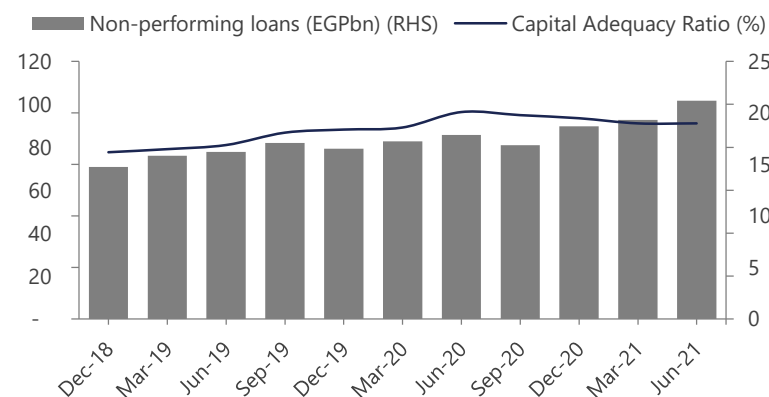
- State-owned banks' CDs led growth during the pandemic:** With a growth of 23% y/y in 2020, deposits were fueled by state-owned banks' certificates of deposit (CDs) which were offered at a lucrative annual rate of 15% until late September 2020. We note that 60% of bank deposits are captured by the state's largest two banks (i.e. National Bank of Egypt 40% and Banque Misr 20%). This underlines the key role they play in the CBE's management of money supply while competing with private banks for market share. That said, we expect competition to stiffen further over the next couple of years, which would favor larger players in the market.

Retail credit growth exceeding corporate credit growth



Source: CBE, Prime Research.

New waves of COVID-19 are a threat on asset quality, yet healthy capital adequacy ratios are a cushion



Source: CBE, Prime Research.

SECTORView (cont.'d)

State-owned and private banks' CD yields converged:

After state-owned banks ceased to issue high-yield CDs, the yields on their local currency CDs ranged between 8.5-13% with different tenors. Meanwhile, private banks offered fixed rates between 7.5-11% on their CDs. This convergence helped private banks gain some market share, particularly with strong competition over offering better services to attract new clients. For instance, private banks exempted new clients from administrative fees on opening accounts and offered a variety of account types to better cater to their needs. This environment is ought to ignite competition between banks over obtaining high net-worth clients.

Financial inclusion initiative will stimulate deposit growth over the next two years: To help boost cashless transactions, the CBE during the pandemic took bold steps, namely:

- 1) Exempting local transfers in EGP from all commissions and related expenses since the onset of COVID-19 through the end of 2021.
- 2) Setting a maximum limit on daily withdrawals and deposits for individuals at EGP50,000 and on withdrawal and deposit transactions at ATMs at EGP20,000.
- 3) Cancelling all commissions and fees on transfers from mobile phone accounts and any local digital platform.

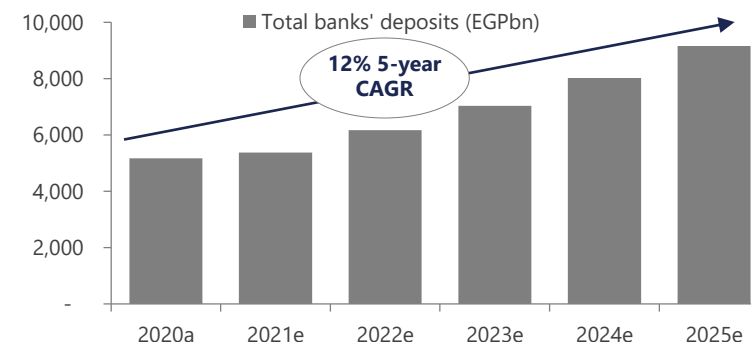
Hence, We expect total bank deposits to grow at a 5-year CAGR (2020-2025) of 12%, with deposits growth mainly derived by the retail sector.

Tapering Provisions and High Credit Volume to Drive Earnings Higher
Banks' 2020 earnings growth was dented by provisions build-up, higher opex, and higher cost of funds:

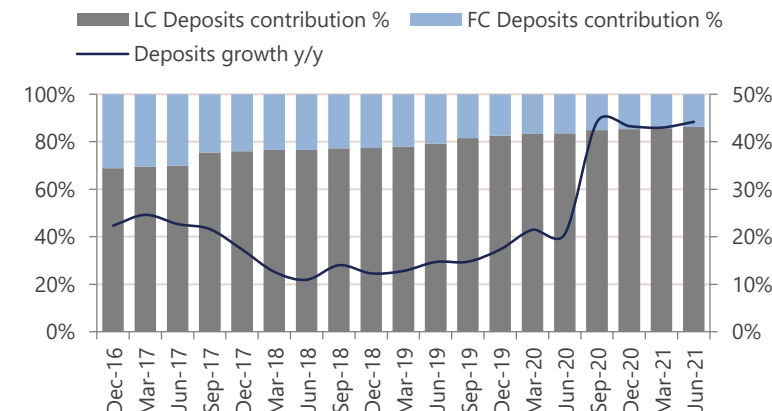
Dominated by state-owned banks, earnings generated by the banking sector slowed 29% y/y in 2020, on the back of: **(1)** higher credit provisions and considerable operating expenses, **(2)** 400bps lower interest rates, **(3)** low fees and commission income on ATM fee exemption, and **(4)** higher cost of funds as a result of the 15% p.a. CDs offered by state-owned banks between March 2020 through late September 2020. We note that earnings in the banking sector slowed marginally by 1.9% y/y in H1 2021.

NIM and ROAE fell in H1 2021 on lower core banking income and higher CoR: After falling from 23.4% in 2020, the banking sector's ROAE reached 14.9% in H1 2021 as Cost of Risk (CoR) increased. Meanwhile, net interest margin (NIM) retreated by 40bps y/y to 3.7% on weaker interest income. On the other hand, lower net fees and commission income slowed as well due to troubles facing trade activities.

Credit volume growth, high treasury yields, tapering CoR, and fees recovery to reinforce profitability in 2022: At times of uncertainty, banks bulk up their provisions even more as was the case in 2020. Moreover, with the economy showing signs of recovery as evidenced by improving credit growth, banks are expected to taper their provisions by end of 2021 and in 2022. Also, we expect banks' interest income growth to be driven by higher credit volume in attempt to absorb the negative impact of currently low interest rates. Alternatively, this will be helped by high T-bill yields and a recovery in fees and commission income by 2022.

Banks' total deposit growth to be driven by financial inclusion initiative and softening competition over pricing CDs


Source: CBE, Prime Research.

FCY deposit contribution squeezed by declining interest rates but should recover as market conditions improve


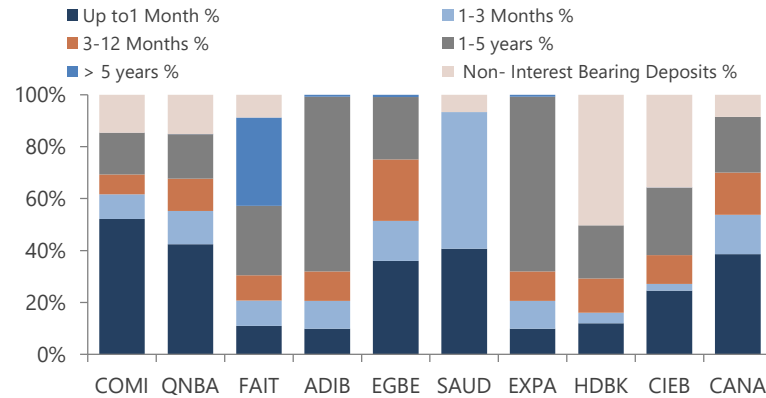
Source: CBE, Prime Research.



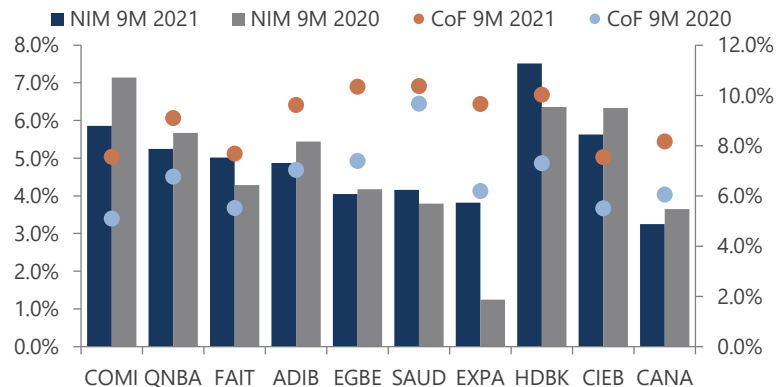
BANKSComparison

BANKSComparison

Given an expected rate hike, SAUD's short-duration deposits would be a negative, while ADIB's long-duration deposit would be a positive.



Pressures on NIM are expected to soften given an expected rate hike.

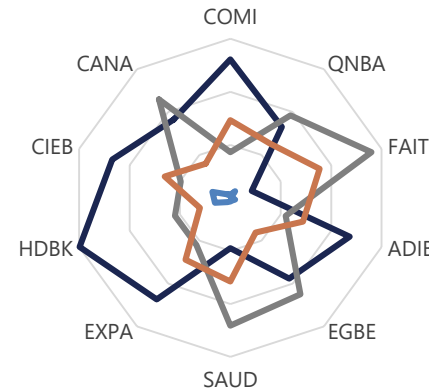


Data for 9M 2021.

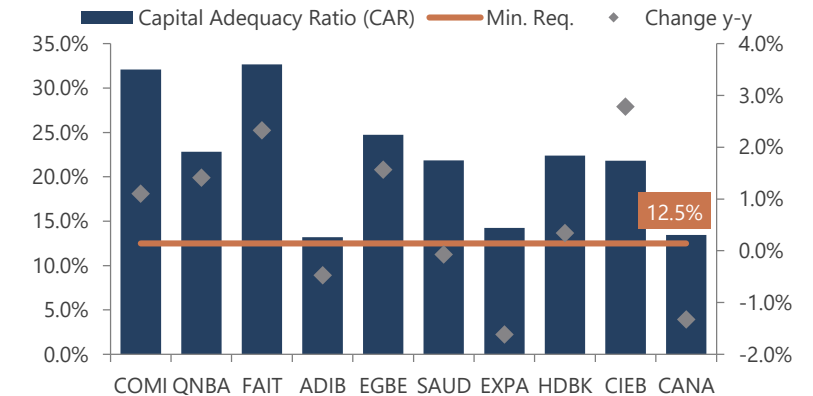
Source: Banks Financials, Prime Research.

HDBK, COMI, and EXPA have the highest CASA deposit contribution.

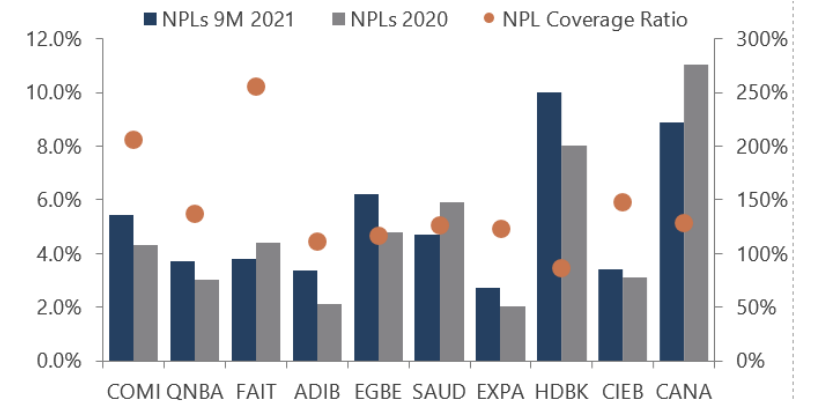
Legend: CASA accounts, Time Deposits, CDs, Other Deposits



CARs to be pressured by heightened lending activity in 2022.

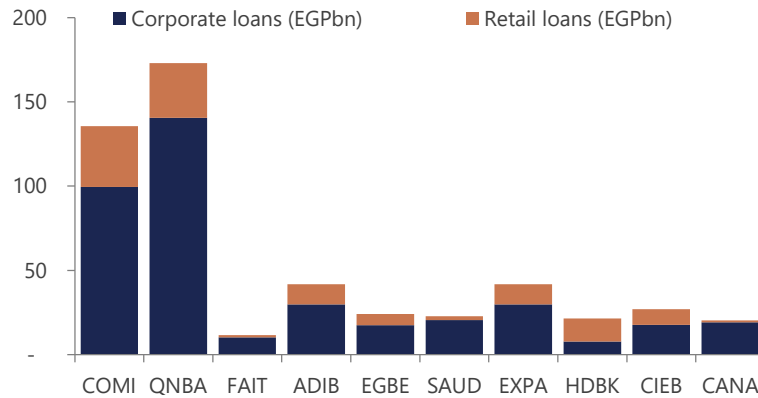


HDBK's highest NPLs and lowest coverage ratio is a concern.

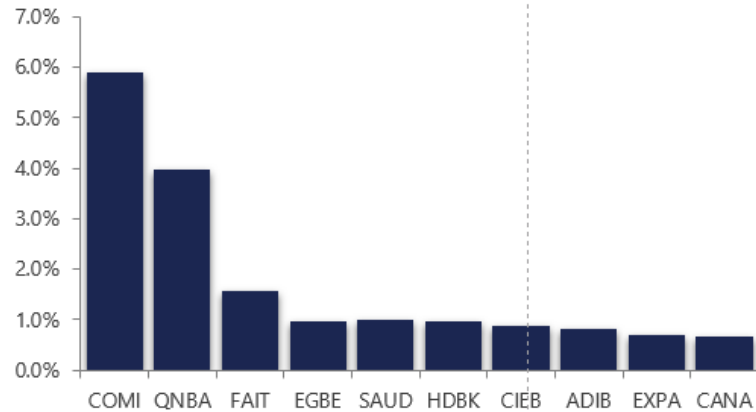


BANKSComparison (cont'd)

COMI commands the largest retail lending market share, while FAIT, SAUD, and EXPA hold the smallest.

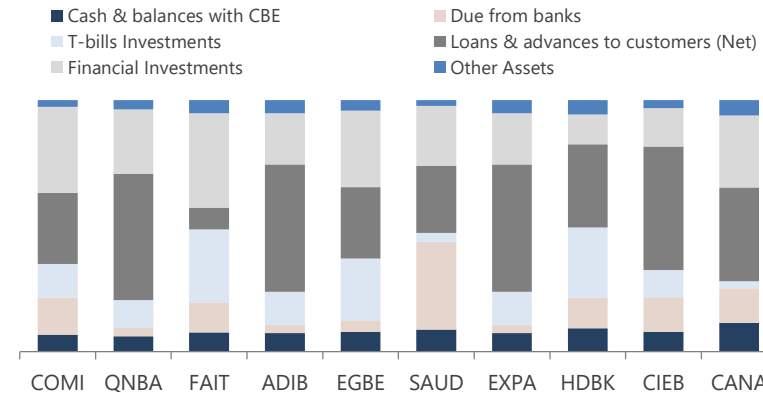


All EGX-listed banks capture 17.5% of total assets market share, led by COMI's 5.9%.



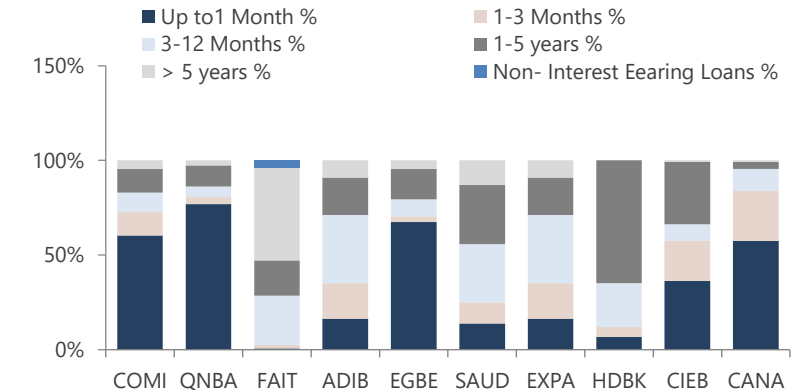
Data for 2020.
Source: Banks Financials, Prime Research.

QNBA and ADIB have the highest loan-to-assets utilization in 9M 2021.

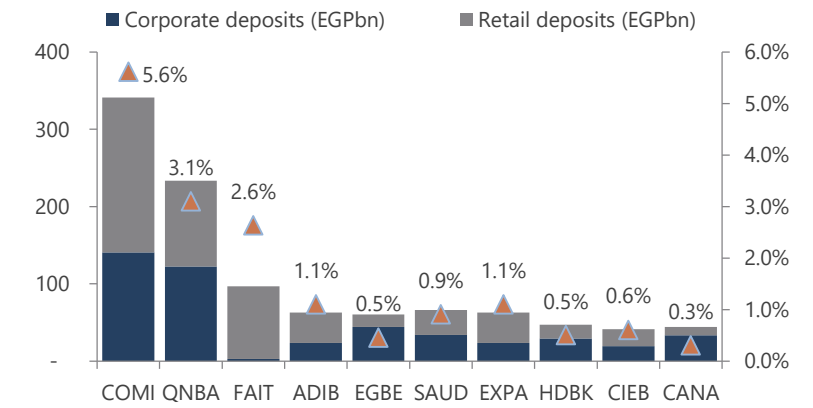


As of H1 2021

Short-duration loans would be a positive in case of interest rate hike in 2022.



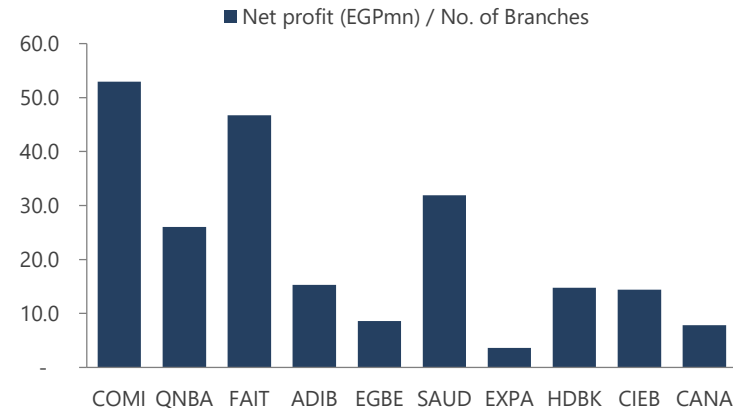
COMI retains the highest retail deposit market share, giving it more funding sustainability.



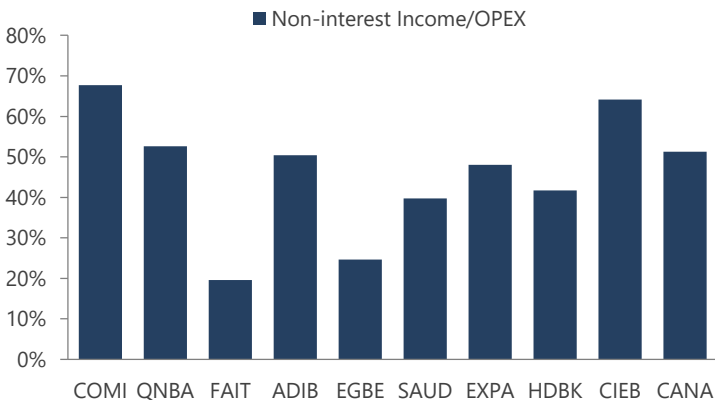
As of 9M 2021

BANKSComparison (cont.'d)

COMI has the most profitable branches among peers, followed by FAIT and SAUD.

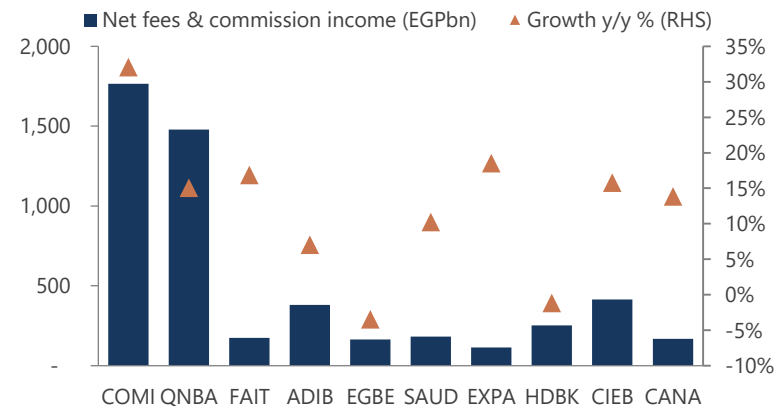


COMI and CIEB are the most efficient with 60-70% of opex covered by non-interest income.

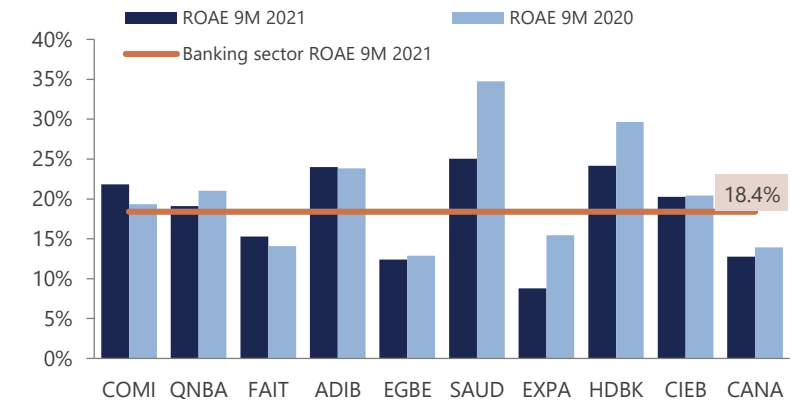


Data for 9M 2021.
Source: Banks Financials, Prime Research.

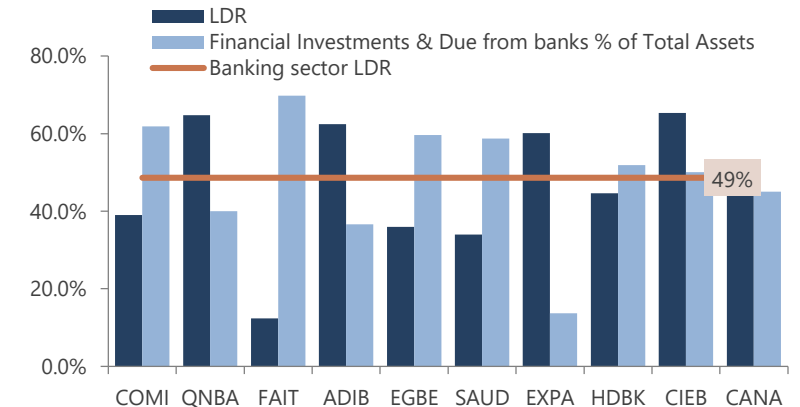
Net fees & commission income recovers as global trade finance rebounds.



EGX-listed banks still maintain a higher average ROAE of 18.4% vs. the sector's 14.9%.



FAIT has the highest liquidity ratios on low lending focus, while EXPA has the lowest liquidity ratio.





BANKSComparison (cont.'d)

Financial Position (EGPbn)	COMI		QNBA		FAIT		ADIB		EGBE		SAUD		EXPA		HDBK		CIEB		CANA		Total	
	9M	Growth	9M	Growth	9M	Growth	9M	Growth	9M	Growth	9M	Growth	9M	Growth	9M	Growth	9M	Growth	9M	Growth	9M	Growth
	2021	ytd	2021	ytd	2021	ytd	2021	ytd	2021	ytd	2021	ytd	2021	ytd	2021	ytd	2021	h ytd	2021	h ytd	2021	ytd
Due from banks	72	-17%	11	57%	15	-1%	3	-24%	4	38%	28	105%	4	463%	8	122%	8	13%	8	-26%	161	8%
Treasury bills & CBE notes	66	66%	37	-11%	37	5%	11	6%	20	21%	3	-80%	9	24%	19	4%	6	25%	2	-75%	211	10%
Financial Investments	166	25%	86	71%	37	-9%	17	59%	44	19%	16	-12%	6	-25%	8	12%	8	12%	16	10%	406	23%
Fixed Income Investment	232	34%	123	34%	70	-3%	29	33%	64	20%	19	-41%	6	-21%	25	6%	20	67%	17	-17%	604	18%
Loans and advances to customers(Net)	139	17%	169	3%	11	12%	44	9%	23	1%	21	8%	37	4%	23	18%	28	10%	21	20%	516	8%
Gross Loans	157	16%	178	3%	13	14%	46	9%	25	2%	23	2%	38	5%	25	19%	30	10%	24	18%	558	7%
Corp Loans	118	19%	143	2%	12	15%	33	10%	17	-4%	21	2%	35	2%	9	23%	20	13%	22	18%	430	7%
Retail Loans	39	7%	35	9%	2	13%	13	7%	8	18%	2	9%	3	49%	16	14%	10	4%	2	30%	129	9%
Total assets	491	15%	336	16%	128	10%	86	17%	80	12%	79	5%	75	18%	69	19%	57	10%	57	5%	1,461	13%
Total Deposit	403	18%	275	18%	106	10%	73	16%	69	14%	68	3%	63	25%	56	19%	45	10%	49	10%	1,208	15%
Corp Deposits	184	31%	152	24%	3	5%	28	18%	50	14%	34	1%	51	27%	35	22%	22	15%	38	13%	598	20%
Retail Deposits	219	9%	123	11%	104	10%	45	15%	18	12%	34	5%	12	18%	21	16%	23	5%	11	0%	610	10%
Total shareholders' equity	66	11%	45	13%	16	10%	7	18%	6	3%	6	17%	7	3%	9	16%	8	13%	4	7%	173	11%
Net Loans / Total assets	28%		50%		9%		51%		28%		27%		49%		33%		49%		37%		35%	
Retail Loans / Gross loans	25%		20%		12%		28%		32%		10%		8%		62%		33%		7%		23%	
Corporate Loans / Gross loans	75%		80%		88%		72%		68%		90%		92%		38%		67%		93%		77%	
Local currency (LC) Loans (%)	70%		80%		76%		83%		78%		61%		81%		100%		81%		66%		77%	
Foreign currency (FC) Loans (%)	30%		20%		24%		17%		22%		39%		19%		0%		19%		34%		23%	
Due From Banks / Total assets	15%		3%		12%		3%		5%		35%		6%		12%		14%		14%		11%	
Treasury Bills / Total assets	13%		11%		29%		13%		24%		3%		12%		28%		11%		3%		14%	
Financial Investments / Total assets	34%		26%		29%		20%		55%		20%		8%		12%		14%		28%		28%	
Deposits / Total assets	82%		82%		83%		84%		85%		86%		84%		81%		79%		85%		83%	
Retail deposits / Total deposits	54%		45%		97%		62%		27%		50%		20%		37%		50%		23%		51%	
Corporate deposits / Total deposits	46%		55%		3%		38%		73%		50%		80%		63%		50%		77%		49%	
Local currency (LC) Deposits (%)	77%		87%		73%		88%		83%		85%		77%		100%		77%		75%		81%	
Foreign currency (FC) Deposits (%)	23%		13%		27%		12%		17%		15%		23%		0%		23%		25%		19%	
Shareholders' equity / Total assets	13%		13%		13%		8%		7%		7%		9%		12%		14%		7%		12%	
Current & Saving Accounts / Deposits	55%		40%		8%		47%		32%		28%		48%		60%		48%		37%		40%	

Source: Bank financials, Prime Research.

BANKSCoverage

Abu Dhabi Islamic Bank – Egypt [**ADIB**]

Al Baraka Bank – Egypt [**SAUD**]

Export Development Bank of Egypt [**EXPA**]

Housing & Development Bank [**HDBK**]

QNB Alahli [**QNBA**]

Price

EGP15.01

at close of 6 Dec 2021

Fair Value

EGP18.4

set on 7 Dec 2021

12M PT

EGP21.7 (+45%)

set on 7 Dec 2021

Investment Rating

Overweight

★ ★ ★

Risk Rating

Medium

! ! !

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A Formula for Growth

Drag boxes into correct gaps

KEY INSIGHTS

Earnings growth driven by lending growth, lower CoR, and better cost optimization: We expect Abu Dhabi Islamic Bank – Egypt’s [ADIB] performance will hinge upon: (1) high lending growth (a 5-year CAGR of 17.6%), fueled by economic recovery, (2) a lower CoR as uncertainty improves, and (3) a lower cost-to-income ratio, thanks to higher operating income. We believe lending rates will be 100bps higher in 2022, and pressure on asset quality will ease in view of expected economic recovery. Lending growth will be supported by demand related to the government’s mega projects and SME lending.

Solid asset quality ensures steady lending growth: Since 2017, ADIB has made headway in terms of NPL and NPL coverage ratio which improved from 5% and 89% in 2017 to 2.1% and 186% in 2020, respectively. This improvement in asset quality came in despite NPL inching higher to 3.4% in Q3 2021, which we see as transitory. We expect NPLs to retreat back to 2% with a 155% coverage ratio by 2025.

Long-awaited rights issue likely next year: ADIB is yet to comply with the CBE’s minimum capital requirement of EGP5bn under the new banking law. That said, it would be easily met once ADIB’s long planned rights issue is implemented, which will be set at par (i.e. EGP10/share). With the stock currently

trading above par, minorities will likely participate in the rights issue. Once launched, the previous capital injection by ADIB-UAE (the parent bank) will be part of paid-in capital, thus doubling the number of shares to 400mn.

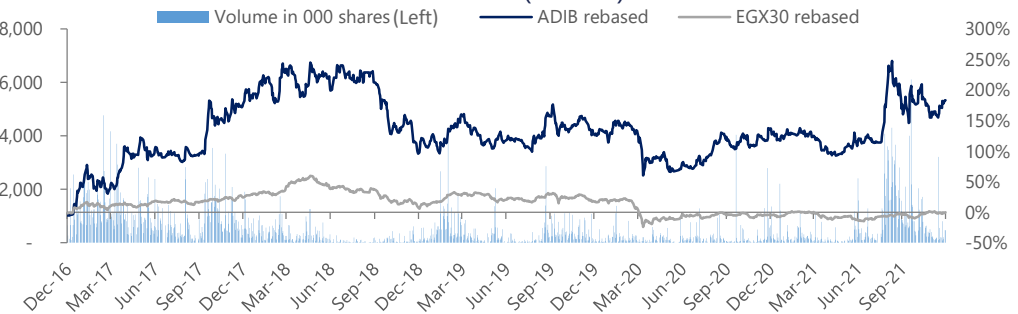
VALUATION, INVESTMENT THESIS, & RISKS

Overweight / Medium Risk, 12M PT EGP21.7/share (+45%): Using the residual income model, we reached a fair value of EGP18.4/share. However, we set our 12-month price target (12M PT) at EGP21.7/share, based on a terminal justified P/BV of 1.25x. Offering an upside of 45%, we rate ADIB as Overweight.

Investment thesis: Strong growth in lending capability; prime asset quality; the long-anticipated rights issue is about to take place, removing a major overhang on the stock.

Risks: Indefinite suspension of the rights issue; sudden deterioration in asset quality due to new waves of COVID-19; the possibility of fresh whales diving into the market feeding off recent M&A activity, which would lead to fierce competition over lending opportunities; systematic and geopolitical risk.

STOCK RELATIVE PERFORMANCE CHART (5 YEARS)



KEY STOCK STATISTICS

Shares outstanding (mn)	200
Free float	26.5%
Market cap (mn)	EGP3,002
Market cap (mn)	USD191
52w range (EGP)	19.00–10.00
EGP100 invested 5y ago	EGP284
TTM EPS	EGP6.96
TTM P/E	2.2x
2021e EPS	EGP3.55
2021e P/E	4.2x
2021e P/B	0.9x
Last fiscal year's DPS	EGP0.00
Dividend yield	0.0%
5Yr beta	0.95
5Yr Proj. EPS CAGR ('20-'25)	20.4%

REVENUES / EARNINGS DATA

	Q1	Q2	Q3	Q4	Year
Net Interest Income (EGPmn)					
2022	—	—	—	—	e4,378
2021	804	843	893	e1,165	e3,704
2020	815	765	755	771	3,107
2019	707	797	816	757	3,078
2018	567	595	643	691	2,496
2017	457	479	545	543	2,023
Net Profit (EGPmn)					
2022	—	—	—	—	e1,902
2021	334	346	389	e349	e1,418
2020	230	300	314	323	1,167
2019	279	365	308	258	1,210
2018	157	221	254	218	850
2017	74	265	162	131	632



KEY ASSUMPTIONS

Balance Sheet KPIs	2016a	2017a	2018a	2019a	2020a	2021e	2022e	2023e	2024e	2025e	Comments
Total assets market share	0.8%	0.8%	0.9%	1.0%	1.1%	1.3%	1.4%	1.5%	1.5%	1.6%	
Retail loans market share	1.7%	2.0%	2.2%	2.3%	2.3%	2.3%	2.3%	2.3%	2.4%	2.4%	
Corp loans market share	1.1%	1.0%	1.2%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.6%	
Retail deposits market share	1.0%	0.9%	1.1%	1.1%	1.1%	1.4%	1.5%	1.4%	1.4%	1.3%	• Its Islamic nature promotes its retail deposit growth.
Corporate deposits market share	0.8%	0.8%	1.0%	1.4%	1.5%	1.8%	1.9%	1.9%	2.0%	2.1%	
Cash/TA	4.0%	5.7%	5.4%	8.4%	6.3%	5.8%	5.3%	3.0%	3.0%	3.0%	
Due from banks / TA	10.2%	3.5%	6.5%	2.1%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	
Financial investments / TA	17.6%	18.6%	14.4%	12.7%	14.8%	16.8%	18.3%	19.8%	17.8%	14.8%	
T-bills / TA	14.3%	21.0%	19.8%	21.1%	14.6%	18.3%	18.6%	18.6%	20.1%	21.6%	
Income Statement KPIs	2016a	2017a	2018a	2019a	2020a	2021e	2022e	2023e	2024e	2025e	
Return on average equity (ROAE)	29.0%	32.6%	31.2%	32.8%	23.7%	23.2%	25.5%	22.7%	23.4%	22.4%	• ROAE is seen to improve given an expected rate hike in 2022.
Effective tax rate	53.0%	52.6%	35.9%	28.1%	32.3%	35.3%	37.0%	40.1%	38.8%	38.4%	
Cost of Funds (CoF)	5.3%	6.8%	8.2%	7.9%	6.9%	6.6%	5.8%	6.2%	6.0%	5.9%	• Despite its unfavorable deposit terms, CoF is expected to retreat over our forecast horizon.
Cost of Risk (CoR)	1.7%	0.8%	0.9%	1.3%	1.1%	0.7%	0.3%	0.4%	0.3%	0.2%	• CoR is expected to normalize in view of an expected economic recovery.
Cost-to-Income Ratio (CIR)	46.3%	44.4%	44.2%	39.4%	38.3%	35.3%	34.3%	33.3%	32.3%	31.3%	• Despite elevated admin costs, a higher operating income will pull the ratio lower.

Source: Bank financials, Prime Research estimates.

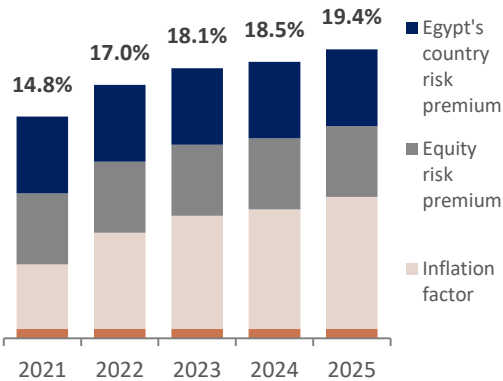


KEY VALUATION INPUT

Terminal COE
19.4%.

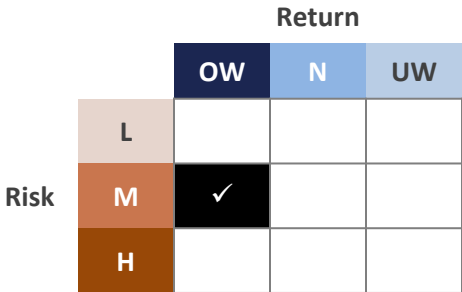
Terminal growth rate
7.0%.

Cost of equity structure (next 5 years)



Source: Prime Research.

RETURN/RISK MATRIX



Source: Prime Research.

VALUATION MODEL

Residual Income	2021	2022	2023	2024	2025
Reported net profit (post 1% earnings sliced to Banking Development Fund)	1,418	1,902	2,057	2,556	2,948
Other adjustments (staff profit share)	127	171	185	229	264
Adjusted Net profit	1,291	1,731	1,872	2,327	2,684
Total shareholders' equity	6,671	8,232	9,867	11,966	14,367
Good Will and Intangibles	26	26	26	26	26
Tangible equity	6,645	8,207	9,842	11,940	14,341
Capital Charge	817	1,128	1,485	1,823	2,311
Economic profit	474	604	388	504	373
Discount factor	0.99	0.84	0.71	0.59	0.49
PV of Economic Profit - During Fcst period	469	510	274	298	181
Sum of PVs					1,732
Terminal value					247
PV of TV					120
Beginning book value					5,504
Equity Value					7,356
Number of Shares					400.0
FV per share (EGP)					18.4

FV SENSITIVITY ANALYSIS

Terminal total assets market share vs. corridor interest rate

Terminal Corridor Interest Rate	Terminal Total Assets Market Share					
		1.4%	1.5%	1.6%	1.7%	1.8%
7.8%	15.9	16.4	17.0	17.6	18.2	
8.8%	16.5	17.1	17.7	18.3	18.9	
9.8%	17.2	17.8	18.4	19.0	19.6	
10.8%	17.9	18.5	19.1	19.7	20.3	
11.8%	18.6	19.2	19.8	20.4	21.0	

Terminal COE vs. growth rate

Terminal Growth Rate	Terminal Cost of Equity					
		17.4%	18.4%	19.4%	20.4%	21.4%
5.0%	18.8	18.5	18.3	18.1	17.8	
6.0%	18.9	18.6	18.3	18.1	17.9	
7.0%	19.1	18.7	18.4	18.1	17.9	
8.0%	19.2	18.8	18.5	18.2	17.9	
9.0%	19.5	19.0	18.6	18.2	17.9	



FINANCIAL MODEL

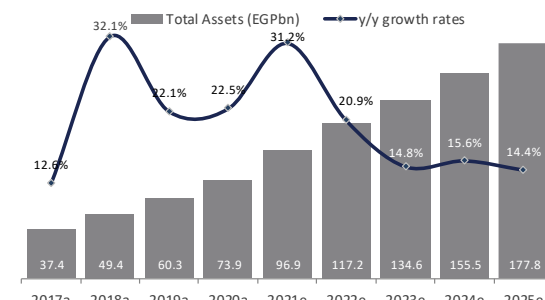
Balance Sheet (EGPbn)										
FY End: 31 Dec.	2016a	2017a	2018a	2019a	2020a	2021e	2022e	2023e	2024e	2025e
Cash and balances with CBE	1.3	2.1	2.7	5.1	4.6	5.6	6.2	4.0	4.7	5.3
Due from banks	3.4	1.3	3.2	1.3	3.7	4.9	5.9	6.8	7.8	9.0
Treasury bills and Central Bank of Egypt notes	4.7	7.9	9.8	12.7	10.8	17.7	21.8	25.0	31.2	38.4
Financial Investments	5.8	7.0	7.1	7.7	10.9	16.3	21.5	26.7	27.7	26.3
Debt Fin. Invest.	5.8	6.9	7.1	7.5	10.8	15.5	20.4	25.3	26.3	25.0
Loans and advances to banks	-	0.3	0.3	0.2	0.1	0.4	0.5	0.5	0.6	0.7
Loans and advances to customers(Net)	15.2	16.3	24.0	30.7	40.1	47.7	56.3	66.0	77.1	90.8
Gross Loans	15.9	17.1	25.1	32.3	41.8	49.9	58.8	68.7	80.2	93.9
Corp Loans	11.8	11.8	18.2	23.1	29.8	35.5	41.6	48.4	56.3	65.7
Retail Loans	4.0	5.3	7.0	9.1	12.0	14.5	17.2	20.2	23.9	28.2
Financial Derivatives	-	-	-	-	-	-	-	-	-	-
Investments in Subsidiaries & associates	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.3	0.3
Intangible assets	0.0	0.0	0.0	-	0.0	0.0	0.0	0.0	0.0	0.0
DR Bal. & Other assets	1.6	1.8	1.5	1.8	2.7	3.6	4.3	5.0	5.7	6.6
Fixed assets (net)	0.6	0.7	0.8	0.8	0.7	0.6	0.4	0.2	0.3	0.3
Deferred tax asset	0.4	-	-	-	0.0	-	-	-	-	-
Total assets	33.2	37.4	49.4	60.3	73.9	96.9	117.2	134.6	155.5	177.8
Due to banks	2.2	0.9	2.5	0.3	0.7	0.9	1.5	3.9	6.1	6.8
Total Deposit	25.5	29.8	39.9	51.2	62.7	82.9	99.1	110.6	125.8	143.3
Corp Deposits	8.7	9.4	14.2	18.5	23.3	31.8	37.3	42.4	50.4	60.0
Retail Deposits	16.8	20.5	25.7	32.7	39.3	51.1	61.8	68.3	75.4	83.3
Financial Derivatives	-	-	0.0	-	-	-	-	-	-	-
Other Loans	0.8	0.8	0.8	1.3	1.6	2.0	2.6	3.1	3.6	4.1
CR Bal. & Other liabilities	1.3	1.8	1.2	1.6	1.5	2.2	2.9	3.5	4.0	4.6
Provisions	1.7	1.7	1.7	1.5	1.5	1.9	2.5	3.0	3.4	3.9
Pension benefits Liability	0.1	0.1	0.1	0.1	0.2	0.2	0.3	0.3	0.4	0.4
Current Income Tax / Deferred Tax	-	-	-	-	0.1	0.1	0.2	0.2	0.2	0.3
Total liabilities	31.6	35.1	46.2	55.9	68.3	90.2	109.0	124.7	143.6	163.5
Total shareholders' equity	1.6	2.3	3.2	4.3	5.5	6.7	8.2	9.9	12.0	14.4
Total liabilities & shareholders' equity	33.2	37.4	49.4	60.2	73.9	96.9	117.2	134.6	155.5	177.8
Income Statement (EGPbn)										
FY End: 31 Dec.	2016a	2017a	2018a	2019a	2020a	2021e	2022e	2023e	2024e	2025e
Interest earned and similar income	2.7	4.1	5.7	6.9	7.1	8.7	10.0	12.2	13.8	15.5
Interest expense and similar Costs	(1.3)	(2.1)	(3.2)	(3.8)	(4.0)	(5.0)	(5.6)	(7.2)	(8.1)	(9.2)
Net interest income	1.4	2.0	2.5	3.1	3.1	3.7	4.4	5.0	5.7	6.4
Net fees & Commissions income	0.3	0.5	0.4	0.4	0.5	0.5	0.5	0.5	0.7	0.9
Core Banking Income	1.8	2.5	2.9	3.5	3.6	4.2	4.8	5.5	6.4	7.3
Dividends income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net trading Income	0.2	0.1	0.2	0.2	0.2	0.1	0.1	0.2	0.2	0.2
Gain (Loss) on sale of investment	0.0	0.0	0.0	0.0	0.0	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Non-interest income	0.6	0.7	0.6	0.6	0.7	0.5	0.6	0.7	0.9	1.1
Total Banking Income	2.0	2.7	3.1	3.7	3.8	4.2	5.0	5.7	6.6	7.5
Administrative expenses	(1.0)	(1.2)	(1.2)	(1.4)	(1.3)	(1.4)	(1.7)	(1.8)	(2.1)	(2.3)
Other operating income/Expenses	0.1	(0.0)	(0.3)	(0.2)	(0.2)	(0.3)	(0.1)	(0.1)	(0.1)	(0.2)
Operating Income	2.1	2.6	2.8	3.5	3.5	3.9	4.9	5.6	6.5	7.3
Impairment Liab. Of Credit losses	(0.3)	(0.1)	(0.2)	(0.4)	(0.4)	(0.4)	(0.2)	(0.3)	(0.2)	(0.2)
Oper. inc. after impairment of cr. losses	1.8	2.5	2.6	3.1	3.1	3.6	4.7	5.3	6.3	7.1
Net Profit before Income Tax	0.8	1.3	1.3	1.7	1.7	2.2	3.0	3.4	4.2	4.8
Income tax	(0.4)	(0.7)	(0.5)	(0.5)	(0.6)	(0.8)	(1.1)	(1.4)	(1.6)	(1.8)
Deffered tax	-	-	-	-	-	-	-	-	-	-
Net Profit	0.4	0.6	0.9	1.2	1.2	1.4	1.9	2.1	2.6	2.9

Stock data, valuation & yield ratios										
FY End: 31 Dec.	2016a	2017a	2018a	2019a	2020a	2021e	2022e	2023e	2024e	2025e
EOP number of shares	200.0	200.0	200.0	200.0	200.0	200.0	200.0	200.0	200.0	200.0
EOP stock price	7.02	15.70	11.45	12.32	11.95	14.61	14.61	14.61	14.61	14.61
BVPS	3.97	5.72	7.91	10.82	13.76	16.61	20.52	24.60	29.85	35.85
EPS	0.99	1.58	2.13	3.03	2.92	3.55	4.75	5.14	6.39	7.37
DPS	-	-	-	-	-	1.00	1.25	1.50	1.75	2.00
P/B	1.8x	2.7x	1.4x	1.1x	0.9x	0.9x	0.7x	0.6x	0.5x	0.4x
P/E	7.1x	9.9x	5.4x	4.1x	4.1x	4.1x	3.1x	2.8x	2.3x	2.0x
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	6.8%	8.6%	10.3%	12.0%	13.7%
Payout ratio	0.0%	0.0%	0.0%	0.0%	0.0%	14.1%	13.1%	14.6%	13.7%	13.6%
Profitability										
FY End: 31 Dec.	2016a	2017a	2018a	2019a	2020a	2021e	2022e	2023e	2024e	2025e
NIM	6.1%	6.6%	6.3%	6.4%	5.3%	4.9%	4.5%	4.3%	4.2%	4.1%
Int. Margin on loan	11.1%	14.9%	16.0%	15.0%	12.3%	10.2%	8.2%	8.6%	8.5%	8.4%
Int. Exp on Deposits	5.1%	6.9%	8.3%	8.0%	6.5%	6.3%	5.7%	6.4%	6.4%	6.4%
Spread	6.1%	8.0%	7.7%	7.0%	5.8%	3.9%	2.5%	2.2%	2.1%	2.1%
NII / Total banking income	71.5%	75.5%	80.9%	82.9%	82.7%	88.5%	87.9%	88.1%	86.3%	85.1%
Non-interest inc. / Total banking inc.	28.5%	24.5%	19.1%	17.1%	17.3%	11.5%	12.1%	11.9%	13.7%	14.9%
Cost to Income	46.3%	44.4%	44.2%	39.4%	38.3%	35.3%	34.3%	33.3%	32.3%	31.3%
Effective tax rate	53.0%	52.6%	35.9%	28.1%	32.3%	35.3%	37.0%	40.1%	38.8%	38.4%
ROAE	29.0%	32.6%	31.2%	32.3%	23.7%	25.5%	22.7%	23.4%	22.4%	22.4%
Tax Benefit	47.0%	47.4%	64.1%	70.8%	67.7%	64.7%	63.0%	59.9%	61.2%	61.6%
Financial Leverage	20.74	18.21	15.92	14.65	13.62	14.00	14.37	13.91	13.29	12.66
ROAA	1.4%	1.8%	2.0%	2.2%	1.7%	1.7%	1.8%	1.6%	1.8%	1.8%
Cost of Risk (CoR)	1.7%	0.8%	0.9%	1.3%	1.1%	0.7%	0.3%	0.4%	0.3%	0.2%
Net Loans/ATA	53.6%	46.1%	55.3%	56.0%	59.7%	55.8%	52.6%	52.5%	53.2%	54.5%
Cost of Funds	5.3%	6.8%	8.2%	7.9%	6.9%	6.6%	5.8%	6.2%	6.0%	5.9%
Capital Adequacy										
FY End: 31 Dec.	2016a	2017a	2018a	2019a	2020a	2021e	2022e	2023e	2024e	2025e
Capital Adequacy Ratio	12.7%	14.1%	13.0%	14.1%	13.9%	15.2%	15.2%	14.9%	14.6%	14.4%
T1 Ratio	7.6%	8.9%	8.8%	10.0%	10.6%	12.2%	12.8%	12.8%	12.9%	13.0%
Risk-weighted assets / Total assets	56.8%	59.8%	62.7%	66.2%	65.1%	56.4%	56.2%	58.3%	60.4%	63.1%
Asset Quality										
FY End: 31 Dec.	2016a	2017a	2018a	2019a	2020a	2021e	2022e	2023e	2024e	2025e
Stage 1	78.0%	78.0%	84.0%	93.4%	94.7%	93.8%	92.7%	93.0%	93.0%	93.0%
Stage 2	1.0%	2.0%	0.0%	3.5%	3.2%	3.2%	5.0%	5.0%	5.0%	5.0%
Stage 3 (NPL)	5.0%	5.0%	4.0%	3.1%	2.1%	3.0%	2.3%	2.0%	2.0%	2.0%
Total Provision NPL Coverage	75.0%	89.2%	118.1%	148.1%	185.9%	145.2%	177.0%	184.2%	184.8%	155.4%
Efficiency										
FY End: 31 Dec.	2016a	2017a	2018a	2019a	2020a	2021e	2022e	2023e	2024e	2025e
Net Profit / No. of Employees	0.2	0.3	0.4	0.5	0.5	0.7	0.9	0.9	1.1	1.3
Net Profit / No. of Branches	5.7	9.3	12.1	17.3	16.7	20.3	27.2	29.4	36.5	42.1
Liquidity										
FY End: 31 Dec.	2016a	2017a	2018a	2019a	2020a	2021e	2022e	2023e	2024e	2025e
LDR	62%	57%	63%	63%	67%	60%	59%	62%	64%	65%
Invest. Securities & Due From Banks / TA	42%	43%	41%	36%	34%	40%	42%	43%	43%	41%
Earning assets / Total assets	88%	87%	90%	87%	89%	90%	90%	93%	93%	93%
Leverage	4%	5%	5%	6%	6%	6%	6%	6%	7%	7%
Equity multiplier	20.9	16.3	15.6	13.9	13.4	14.5	14.2	13.6	13.0	12.4

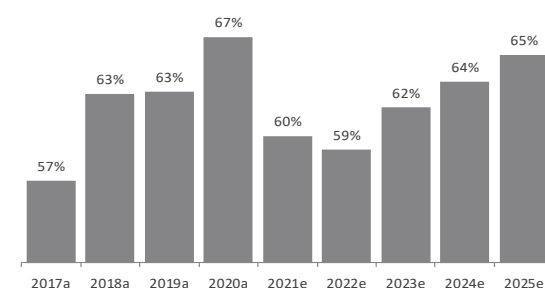
Source: Bank financials, Prime Research estimates.



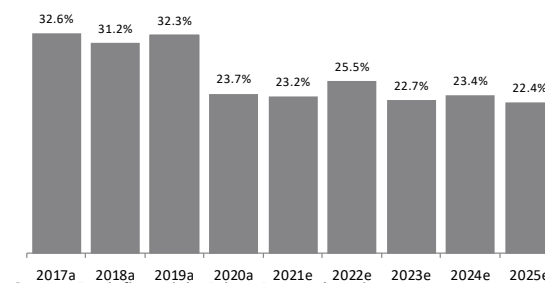
Asset growth will be motivated by lending growth before normalizing.



Loans-to-deposits (LTD) ratio is expected to regain its pre-pandemic utilization rate.

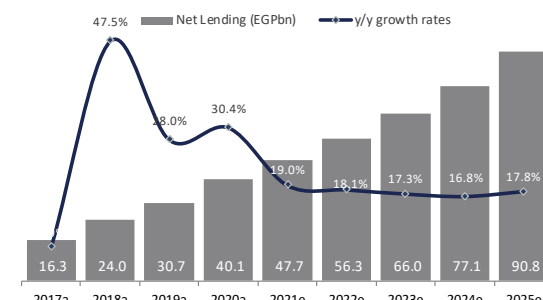


ROAE is expected to be maintained at its high level given increasing rates and despite a higher effective tax rate.

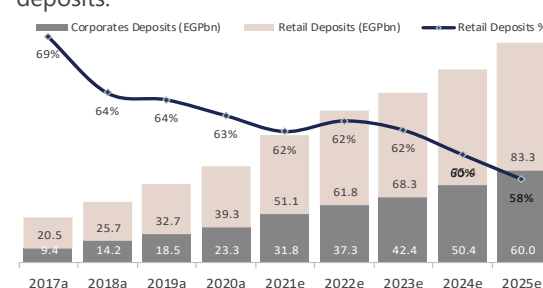


Source: Bank financials, Prime Research estimates.

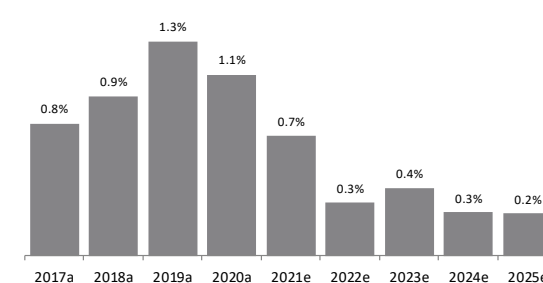
Net lending is expected to achieve a 5-CAGR of 18%, fueled by public-sector lending.



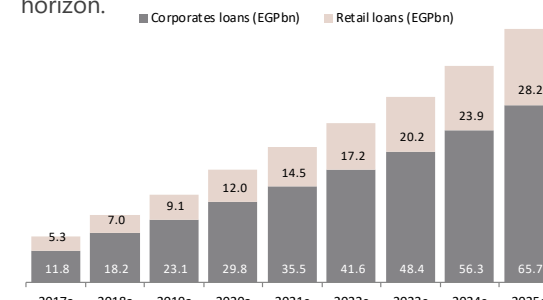
Retail deposits' Islamic nature will support retail portfolio despite a lower contribution to total deposits.



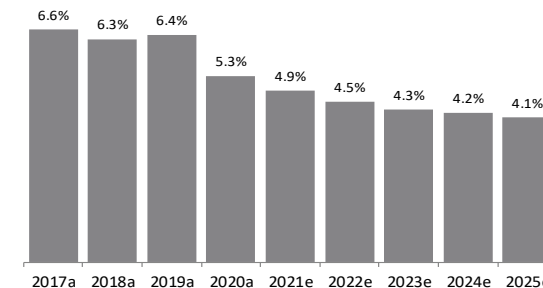
Cost of risk is expected to recede through 2025 as uncertainty fades away.



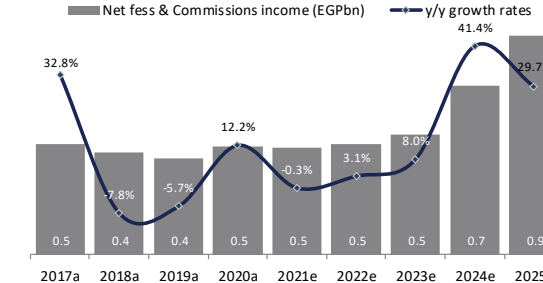
Retail credit showed a quick recovery in 9M 2021, which will most likely carry on over our forecast horizon.



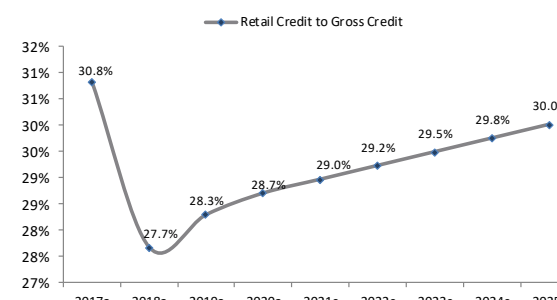
NIM is expected to retreat given a high asset growth.



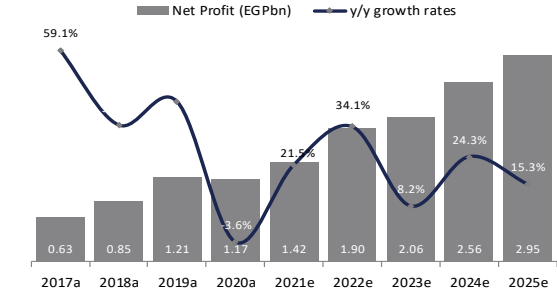
Net fees & commissions are expected to recover given an expected improvement in trade finance.



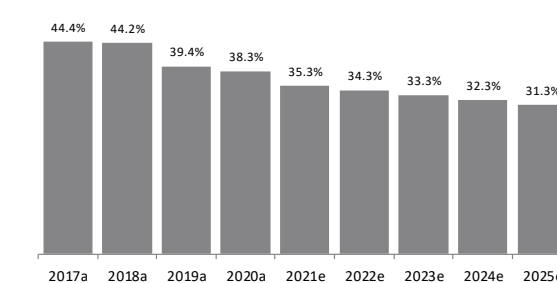
Retail credit-to-total loans is expected to flourish given CBE's stimuli.



Net profit should grow in 2021 and 2022, backed by higher lending rates then normalize afterwards.



Cost-to-income ratio is expected to normalize, given ADIB's efficient management.





CORPORATE PROFILE

Abu Dhabi Islamic Bank – Egypt [ADIB] commenced its operations in 2007, when the former National Bank for Development was acquired by Abu Dhabi Islamic Bank and Emirates International Investment Company to offer a full range of banking solutions that address the needs of individuals and businesses while complying with the Islamic Sharia.

Office

9A Rostom Street, Garden City, Cairo
Governance, Egypt.

Telephone

+202 2798 3845.

Website

www.adib.eg

Branches

70.

Chairman

Mr. Khalifa Almheiri.

CEO & MD

Mr. Mohamed Aly.

COO

Mr. Zuhair Idris.

EVP & CFO

Mr. Jamal Eldine Hussein Ourabi Abu Sennah.

Board Members

- 1. Mr. Khalifa Almheiri.
- 2. Mr. Mohamed Aly.
- 3. Mr. Bassam El Hage.
- 4. Mr. Fareed Bilbeisi.
- 5. Mr. Joseph Iskander.
- 6. Mr. Mohamed El-Dahan.
- 7. Mrs. Haidy Ahmed Kamal.

Auditors

MAZARS Mostafa Shawki.
PricewaterhouseCoopers.

Domicile

Cairo, Egypt.

Founded

2007.

Employees

2,087.

Stockholders

7,042.

Listing

EGX: ADIB.

SHAREHOLDER STRUCTURE

Shareholder	Stake
Abu Dhabi Islamic Bank PJSC	49.6%
Emirates International Investment Company LLC	11.9%
National Investment Bank	10.0%
Others	28.5%

PRIME RESEARCH’S COVERAGE

Date	Rating	12M PT
7-Dec-21	Overweight Medium Risk	EGP21.7

Price
EGP14.21
at close of 6 Dec 2021

Fair Value
EGP27.5
set on 7 Dec 2021

12M PT
EGP25.6 (+80%)
set on 7 Dec 2021

Investment Rating
Overweight
Risk Rating
Medium

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Comfortably Rewarding
Baby steps to giant strides

KEY INSIGHTS

Earnings to flourish on lower CoF and heavy treasury investments: We expect Al Baraka Bank – Egypt [SAUD] to exhibit: (1) earnings 5-year CAGR of 9%, (2) a resilient NIM hovering around 4% on a low cost of funds (CoF), and (3) T-bill 5-year CAGR of 28%. With a 100bps hike in lending rates expected in 2022, we think SAUD will rely heavily on high T-bill yields throughout our forecast horizon.

Short term deposits could aid NIM only at loose monetary condition: SAUD's deposits are more in short-term deposits, where 93% of deposits are less than 1 month. However, this could threaten higher CoF, if interest rate to be hiked next year.

Profound asset quality with a wide capital base: Unlike most peers, SAUD was able to enhance its asset quality with NPLs retreating from 5.9% in 2020 to 4.7% in 9M 2021. We expect NPLs to head further south to 5% by 2023 onwards. Meanwhile, SAUD is expected to maintain its wide capital base with a CAR of 20% in the absence of risk-weighted assets (RWA) pressures given the bank's narrow lending focus, which should give it more room for growth.

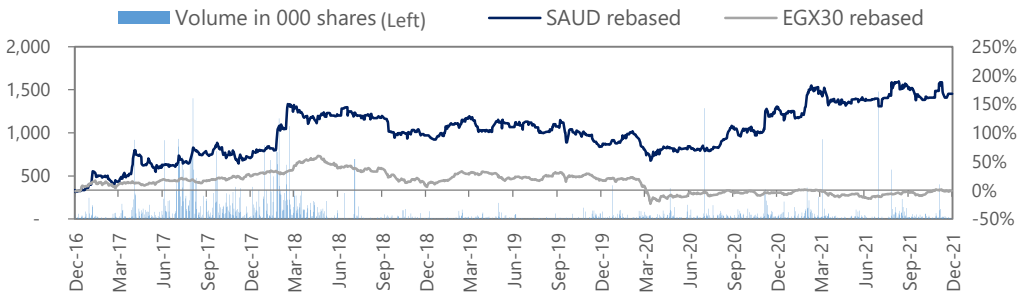
Overweight / Medium Risk, 12M PT of EGP25.6/share (+80%): Using the residual income model, we reached a fair value of EGP27.5/share. However, we set our 12-month price target (12M PT) at EGP25.6/share, based on a terminal justified P/BV of 0.98x. Offering an upside of 80%, we rate SAUD as Overweight.

Investment thesis: Low CoF; good asset quality; high deposit growth since the Sharia-compliant bank operates in a Muslim-majority country.

Risks: Low lending focus will deprive the bank from imminently profitable opportunities; sudden deterioration in asset quality due to another COVID-19 wave; the possibility of fresh whales diving into the market feeding off recent M&A activity, which would lead to fierce competition over lending opportunities; systematic and geopolitical risk.

VALUATION, INVESTMENT THESIS, & RISKS

STOCK RELATIVE PERFORMANCE CHART (5 YEARS)



KEY STOCK STATISTICS

Shares outstanding (mn)	221
Free float	22.2%
Market cap (mn)	EGP3,139
Market cap (mn)	USD200
52w range (EGP)	14.95–10.90
EGP100 invested 5y ago	EGP268
TTM EPS	EGP5.20
TTM P/E	2.7x
2021e EPS	EGP6.11
2021e P/E	2.3x
2021e P/B	0.5x
Last fiscal year's DPS	EGP0.00
Dividend yield	0.0%
5Yr beta	0.95
5Yr Proj. EPS CAGR ('20-'25)	11.0%

REVENUES / EARNINGS DATA

	Q1	Q2	Q3	Q4	Year
Net Interest Income (EGPmn)					
2022	—	—	—	—	e3,294
2021	636	720	785	e836	e2,978
2020	562	627	669	608	2,466
2019	494	492	480	430	1,896
2018	427	444	476	538	1,885
2017	348	348	396	425	1,517
Net Profit (EGPmn)					
2022	—	—	—	—	e1,524
2021	269	343	409	e327	e1,349
2020	264	279	583	127	1,254
2019	266	271	326	208	1,071
2018	197	213	221	371	1,004
2017	156	160	219	191	725



KEY ASSUMPTIONS

Balance Sheet KPIs	2016a	2017a	2018a	2019a	2020a	2021e	2022e	2023e	2024e	2025e	Comments
Total assets market share	1.1%	1.0%	1.2%	1.2%	1.1%	1.1%	1.2%	1.2%	1.2%	1.2%	
Retail loans market share	0.6%	0.6%	0.5%	0.5%	0.4%	0.4%	0.4%	0.3%	0.3%	0.2%	
Corp loans market share	1.3%	1.2%	1.1%	1.2%	1.0%	1.0%	1.0%	0.9%	0.9%	0.8%	
Retail deposits market share	0.8%	0.8%	1.0%	1.1%	0.9%	1.0%	1.0%	1.0%	1.0%	1.0%	• The Islamic nature of the bank promotes retail deposit growth.
Corporate deposits market share	2.2%	2.4%	2.3%	2.6%	2.1%	2.1%	2.1%	2.1%	2.2%	2.1%	
Cash/TA	6.8%	8.6%	7.7%	8.9%	8.5%	8.0%	7.5%	3.0%	3.0%	3.0%	
Due from banks / TA	11.4%	20.9%	23.9%	32.5%	17.9%	35.0%	30.0%	30.0%	20.0%	20.0%	• SAUD's high interbank investments are seen cooling down throughout our forecast horizon.
Financial investments / TA	25.8%	21.8%	18.0%	19.6%	24.4%	20.0%	21.5%	23.0%	21.0%	18.0%	
T-bills / TA	17.7%	12.0%	16.8%	9.8%	18.1%	6.2%	11.0%	15.5%	28.7%	33.5%	• In time of softening interbank investments, SAUD is seen to increase its T-bill investments.
Income Statement KPIs	2016a	2017a	2018a	2019a	2020a	2021e	2022e	2023e	2024e	2025e	
Return on average equity (ROAE)	29.6%	31.5%	33.1%	28.5%	27.4%	24.2%	22.9%	22.6%	21.3%	19.1%	• ROAE is seen to be hit on lower financial leverage over our forecast horizon.
Effective tax rate	38.9%	35.4%	29.0%	29.6%	37.5%	30.2%	30.6%	32.1%	35.9%	40.3%	
Cost of Funds (CoF)	7.3%	8.7%	10.0%	10.4%	7.8%	6.7%	6.9%	6.5%	6.3%	6.6%	• CoF is seen to fall over our forecast horizon, with the bank's deposit terms being the most desirable.
Cost of Risk (CoR)	0.6%	1.6%	1.9%	1.3%	1.6%	2.3%	1.8%	1.4%	0.7%	0.8%	• CoR is seen to soften by 2022.
Cost-to-Income Ratio (CIR)	27.5%	23.7%	21.7%	24.4%	21.8%	24.0%	26.0%	28.0%	28.0%	28.0%	

Source: Bank financials, Prime Research estimates.

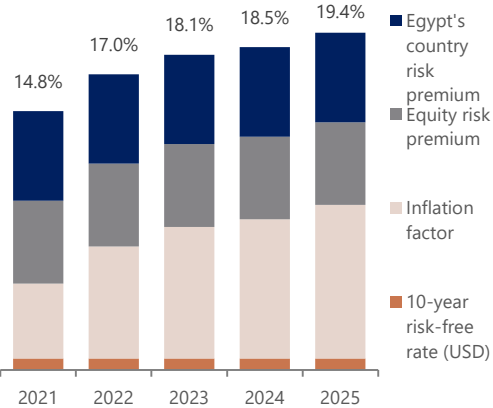


Key Valuation Input

Terminal COE
19.4%.

Terminal growth rate
5.0%.

Cost of equity structure (next 5 years)



Source: Prime Research.

Return/Risk Matrix



Source: Prime Research.

Valuation Model

Residual Income	2021	2022	2023	2024	2025
Reported net profit (post 1% earnings sliced to Banking Development Fund)	1,349	1,524	1,800	2,011	2,114
Other adjustments (staff profit share)	135	152	180	201	211
Adjusted Net profit	1,214	1,372	1,620	1,810	1,903
Total shareholders' equity	6,076	7,255	8,673	10,252	11,889
Good Will and Intangibles	23	23	23	23	23
Tangible equity	6,054	7,232	8,650	10,229	11,867
Capital Charge	746	1,027	1,308	1,602	1,979
Economic profit	468	344	312	208	(77)
Discount factor	0.99	0.85	0.71	0.59	0.49
PV of Economic Profit - During Fcst period	463	291	221	123	(37)
Sum of PVs					1,061
Terminal value					(11)
PV of TV					(5)
Beginning book value					5,027
Equity Value					6,082
Number of Shares					220.9
FV per share (EGP)					27.5

FV Sensitivity Analysis

Terminal total assets market share vs. corridor interest rate

Terminal Corridor Interest Rate	Terminal Total Assets Market Share					
		0.7%	1.0%	1.2%	1.5%	1.7%
	7.3%	23.8	24.0	26.0	27.8	29.7
	7.5%	22.9	24.2	26.2	28.0	29.9
	9.8%	23.7	25.7	27.5	29.4	31.3
	8.0%	22.8	24.5	26.5	28.3	30.2
	8.3%	22.9	24.7	26.6	28.5	30.3

Terminal COE vs. growth rate

Terminal Growth Rate	Terminal Cost of Equity					
		21.4%	20.4%	19.4%	18.4%	17.4%
	3.0%	27.1	27.3	27.5	27.8	28.1
	4.0%	27.0	27.3	27.5	27.8	28.2
	5.0%	27.0	27.2	27.5	27.9	28.2
	6.0%	26.9	27.2	27.5	27.9	28.3
	7.0%	26.9	27.2	27.5	27.9	28.4



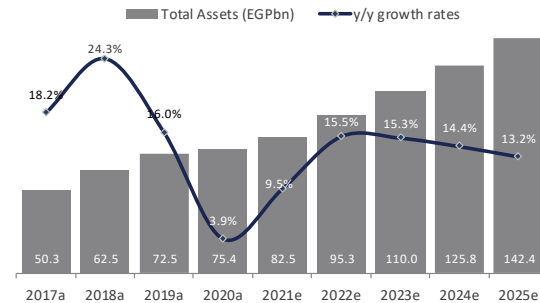
FINANCIAL MODEL

Balance Sheet (EGPbn)										
FY End: 31 Dec.	2016a	2017a	2018a	2019a	2020a	2021e	2022e	2023e	2024e	2025e
Cash and balances with CBE	2.9	4.3	4.8	6.4	6.4	6.6	7.2	3.3	3.8	4.3
Due from banks	4.9	10.5	14.9	23.6	13.5	28.9	28.6	33.0	25.2	28.5
Treasury bills and Central Bank of Egypt notes	7.5	6.0	10.5	7.1	13.6	5.1	10.5	17.1	36.1	47.7
Financial Investments	11.0	11.0	11.3	14.2	18.4	16.5	20.5	25.3	26.4	25.6
Debt Fin. Invest.	10.9	10.9	11.1	14.0	17.8	15.7	19.5	24.0	25.1	24.4
Loans and advances to banks	1.2	3.2	3.5	2.3	2.0	2.2	2.5	2.9	3.3	3.8
Loans and advances to customers(Net)	13.7	13.7	15.7	16.8	19.6	21.1	23.6	25.6	27.9	29.0
Gross Loans	15.5	15.8	18.2	19.5	22.7	23.2	26.0	28.3	30.7	31.8
Corp Loans	14.1	14.3	16.5	17.7	20.6	20.8	23.4	25.7	28.1	29.3
Retail Loans	1.4	1.5	1.7	1.8	2.2	2.4	2.5	2.6	2.6	2.4
Financial Derivatives	-	-	-	-	-	-	-	-	-	-
Investments in Subsidiaries & associates	0.0	-	0.0	-	-	-	-	-	-	-
Intangible assets	-	-	-	0.0	0.0	0.0	0.0	0.0	0.0	0.0
DR Bal. & Other assets	1.0	1.2	1.4	1.4	1.3	1.5	1.7	2.0	2.2	2.5
Fixed assets (net)	0.3	0.4	0.4	0.5	0.6	0.6	0.7	0.8	0.9	1.1
Deferred tax asset	-	-	-	-	-	-	-	-	-	-
Total assets	42.5	50.3	62.6	72.4	75.4	82.5	95.3	110.0	125.8	142.4
Due to banks	0.9	0.6	1.5	1.3	1.1	2.3	2.3	4.9	4.1	6.9
Total Deposit	37.7	44.2	54.5	64.2	66.3	71.5	82.9	93.0	107.5	119.2
Corp Deposits	23.3	26.7	31.0	33.4	33.7	37.0	40.9	47.3	54.8	57.8
Retail Deposits	14.3	17.4	23.6	30.8	32.6	34.5	42.0	45.6	52.8	61.4
Financial Derivatives	-	-	-	-	-	-	-	-	-	-
Other Loans	0.4	1.2	1.2	1.1	1.0	0.7	0.8	0.9	1.0	1.2
CR Bal. & Other liabilities	1.3	1.5	1.6	1.7	1.5	1.6	1.7	2.0	2.2	2.6
Provisions	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2
Pension benefits Liability	-	-	-	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current Income Tax / Deferred Tax	0.1	0.1	0.2	0.1	0.3	0.3	0.4	0.4	0.5	0.5
Total liabilities	40.6	47.6	59.1	68.4	70.3	76.5	88.1	101.3	115.5	130.5
Total shareholders' equity	2.0	2.6	3.4	4.1	5.0	6.1	7.3	8.7	10.3	11.9
Total liabilities & shareholders' equity	42.5	50.3	62.5	72.5	75.4	82.5	95.3	110.0	125.8	142.4
Income Statement (EGPbn)										
FY End: 31 Dec.	2016a	2017a	2018a	2019a	2020a	2021e	2022e	2023e	2024e	2025e
Interest earned and similar income	3.4	5.1	7.0	8.1	7.6	7.7	8.8	10.1	11.3	13.2
Interest expense and similar Costs	(2.2)	(3.6)	(5.1)	(6.2)	(5.1)	(4.7)	(5.5)	(6.2)	(7.0)	(8.3)
Net interest income	1.2	1.5	1.9	1.9	2.5	3.0	3.3	3.9	4.3	4.9
Net fees & Commissions income	0.1	0.2	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2
Core Banking Income	1.3	1.7	2.2	2.2	2.7	3.2	3.5	4.1	4.5	5.1
Dividends income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net trading Income	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Gain (Loss) on sale of investment	-	0.0	0.0	0.0	-	0.0	0.0	0.0	0.0	0.0
Non-interest income	0.2	0.3	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3
Total Banking Income	1.4	1.8	2.2	2.3	2.7	3.2	3.6	4.2	4.6	5.3
Administrative expenses	(0.4)	(0.4)	(0.5)	(0.6)	(0.7)	(0.8)	(0.9)	(1.2)	(1.3)	(1.5)
Other operating income/Expenses	(0.1)	(0.0)	(0.0)	0.1	0.3	0.0	0.0	0.0	0.0	0.0
Operating Income	1.3	1.8	2.2	2.3	3.0	3.3	3.6	4.2	4.6	5.3
Impairment Of Credit losses	(0.1)	(0.2)	(0.3)	(0.2)	(0.4)	(0.5)	(0.5)	(0.4)	(0.2)	(0.3)
Oper. inc. after impairment of cr. losses	1.2	1.5	1.9	2.1	2.7	2.7	3.1	3.8	4.4	5.0
Net Profit before Income Tax	0.8	1.1	1.4	1.5	2.0	1.9	2.2	2.7	3.1	3.5
Income tax	(0.3)	(0.4)	(0.4)	(0.4)	(0.8)	(0.6)	(0.7)	(0.9)	(1.1)	(1.4)
Deffered tax	-	-	-	-	-	-	-	-	-	-
Net Profit	0.5	0.7	1.0	1.1	1.3	1.3	1.5	1.8	2.0	2.1
Stock data, valuation & yield ratios										
FY End: 31 Dec.	2016a	2017a	2018a	2019a	2020a	2021e	2022e	2023e	2024e	2025e
EOP number of shares	136.8	180.9	180.9	220.9	220.9	220.9	220.9	220.9	220.9	220.9
EOP stock price	7.02	15.70	11.45	12.32	11.95	11.95	11.95	11.95	11.95	11.95
BVPS	8.92	11.92	15.53	18.46	22.75	27.40	32.73	39.15	46.30	53.71
EPS	2.32	3.28	4.54	4.85	5.68	6.11	6.90	8.15	9.10	9.57
DPS	-	0.63	0.70	0.70	-	1.00	1.10	1.20	1.30	1.40
P/B	0.8x	1.3x	0.7x	0.7x	0.5x	0.4x	0.4x	0.3x	0.3x	0.2x
P/E	3.0x	4.8x	2.5x	2.5x	2.1x	2.0x	1.7x	1.5x	1.3x	1.2x
Dividend yield	0.0%	4.0%	6.1%	5.7%	0.0%	8.4%	9.2%	10.0%	10.9%	11.7%
Payout ratio	0.0%	15.7%	12.6%	14.4%	12.3%	16.4%	15.9%	14.7%	14.3%	14.6%
Profitability										
FY End: 31 Dec.	2016a	2017a	2018a	2019a	2020a	2021e	2022e	2023e	2024e	2025e
NIM	3.8%	3.7%	3.7%	3.2%	3.8%	4.2%	4.1%	4.1%	3.9%	3.9%
Int. Margin on loan	9.6%	12.3%	14.1%	13.4%	10.3%	7.6%	8.6%	8.8%	8.8%	9.7%
Int. Exp on Deposits	6.8%	8.5%	10.0%	10.3%	7.7%	6.8%	7.1%	7.0%	7.0%	7.3%
Spread	2.7%	3.8%	4.1%	3.2%	2.6%	0.8%	1.4%	1.8%	1.8%	2.4%
NII / Total banking income	83.8%	82.9%	83.8%	83.5%	90.0%	91.9%	92.4%	92.2%	92.7%	94.1%
Non-interest inc. / Total banking inc.	16.2%	17.1%	16.2%	16.5%	10.0%	8.1%	7.6%	7.8%	7.3%	5.9%
Cost to Income	27.5%	23.7%	21.7%	24.4%	21.8%	24.0%	26.0%	28.0%	28.0%	28.0%
Effective tax rate	38.9%	35.4%	29.0%	29.6%	37.5%	30.2%	30.6%	32.1%	35.9%	40.3%
ROAE	29.6%	31.5%	33.1%	28.5%	27.4%	24.2%	22.9%	22.6%	21.3%	19.1%
Tax Benefit	61.1%	64.6%	71.0%	70.4%	62.5%	69.8%	69.4%	67.9%	64.1%	59.7%
Financial Leverage	20.65	20.16	18.60	17.96	16.18	14.19	13.34	12.89	12.46	12.11
ROAA	1.4%	1.6%	1.8%	1.6%	1.7%	1.7%	1.7%	1.8%	1.7%	1.6%
Cost of Risk (CoR)	0.6%	1.6%	1.9%	1.3%	1.6%	2.3%	1.8%	1.4%	0.7%	0.8%
Net Loans/ATA	38.4%	29.5%	27.9%	24.9%	26.5%	26.8%	26.6%	24.9%	23.6%	21.6%
Cost of Funds	7.3%	8.7%	10.0%	10.4%	7.8%	6.7%	6.9%	6.5%	6.3%	6.6%
Capital Adequacy										
FY End: 31 Dec.	2016a	2017a	2018a	2019a	2020a	2021e	2022e	2023e	2024e	2025e
Capital Adequacy Ratio	11.9%	15.4%	15.4%	18.0%	20.4%	21.6%	20.9%	20.8%	21.0%	21.1%
T1 Ratio	8.7%	9.3%	10.0%	13.7%	16.2%	17.8%	17.7%	18.0%	18.6%	19.0%
Risk-weighted assets / Total assets	46.1%	47.2%	43.8%	36.7%	38.7%	39.3%	40.9%	41.5%	41.5%	41.7%
Asset Quality										
FY End: 31 Dec.	2016a	2017a	2018a	2019a	2020a	2021e	2022e	2023e	2024e	2025e
Stage 1	81.0%	79.8%	81.5%	76.9%	74.5%	94.9%	89.8%	90.0%	90.0%	90.0%
Stage 2	12.6%	2.0%	4.4%	0.5%	0.2%	0.2%	5.0%	5.0%	5.0%	5.0%
Stage 3 (NPL)	6.5%	6.5%	4.3%	7.3%	5.9%	4.9%	5.2%	5.0%	5.0%	5.0%
Stage 3 provision coverage	176.1%	109.4%	161.9%	103.9%	127.4%	183.7%	173.1%	190.0%	184.0%	174.0%
Efficiency										
FY End: 31 Dec.	2016a	2017a	2018a	2019a	2020a	2021e	2022e	2023e	2024e	2025e
Net Profit / No. of Employees	0.5	0.8	1.1	1.1	1.3	1.3	1.5	1.7	1.9	1.9
Net Profit / No. of Branches	16.5	22.7	31.4	33.5	39.2	42.2	47.6	56.3	62.9	66.1
Liquidity										
FY End: 31 Dec.	2016a	2017a	2018a	2019a	2020a	2021e	2022e	2023e	2024e	2025e
LDR	41%	36%	33%	30%	34%	32%	31%	30%	29%	27%
Invest. Securities & Due From Banks / TA	55%	55%	59%	62%	60%	61%	63%	69%	70%	71%
Earning assets / Total assets	90%	88%	89%	88%	89%	89%	90%	94%	94%	94%
Leverage	4%	4%	4%	5%	5%	6%	6%	6%	7%	7%
Equity multiplier	21.6	19.1	18.2	17.7	14.9	13.6	13.1	12.7	12.3	12.0

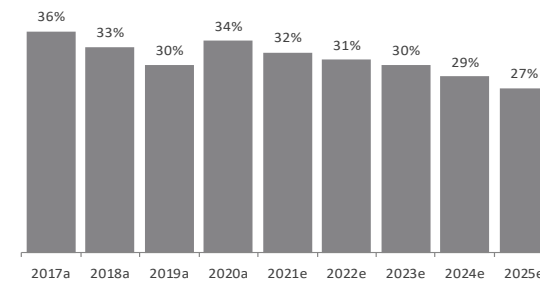
Source: Bank financials, Prime Research estimates.



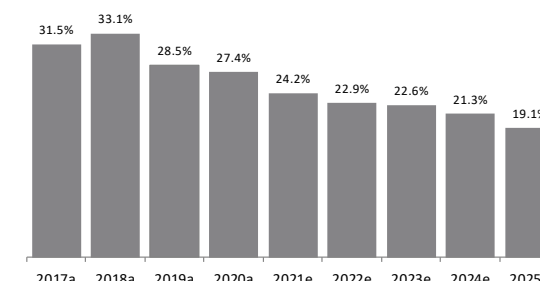
Asset growth will be stimulated by lending growth, before normalizing.



Loans-to-deposits (LTD) ratio is seen to receive more focus.

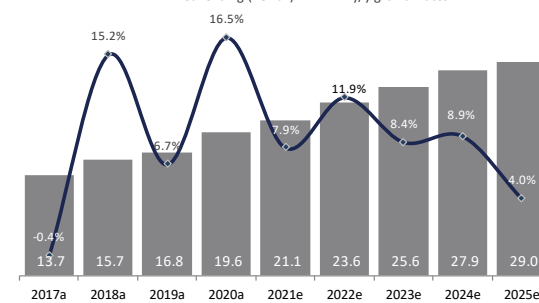


ROAE will slide given declining rates and higher effective tax rate.

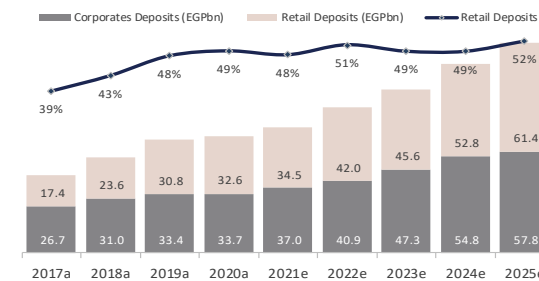


Source: Bank financials, Prime Research estimates.

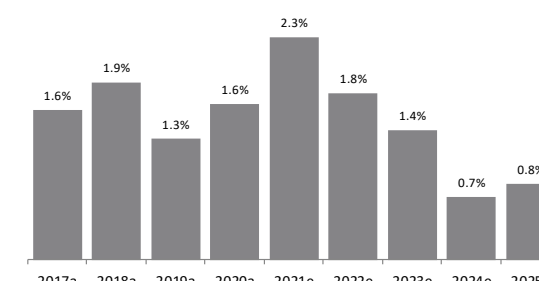
Net lending is seen to hit a 5-CAGR of 17%, fueled by capex lending starting 2022.



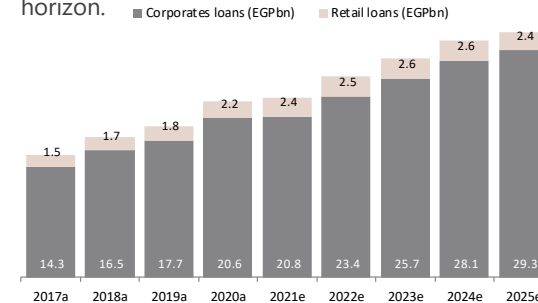
Retail deposit contribution to total is seen to peak by 2025.



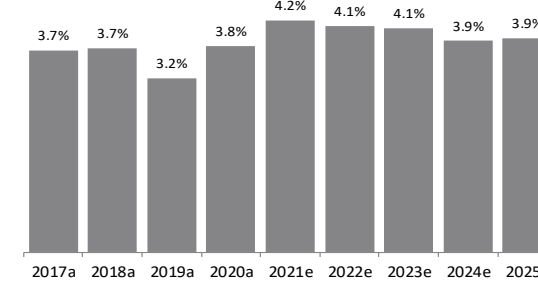
Cost of risk is seen to dwindle until 2025 as uncertainty wanes.



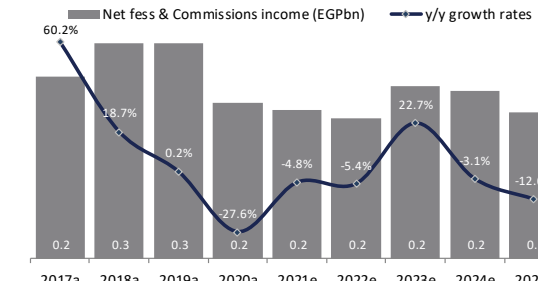
Retail credit showed a quick recovery in 2020, which will most likely carry on over our forecast horizon.



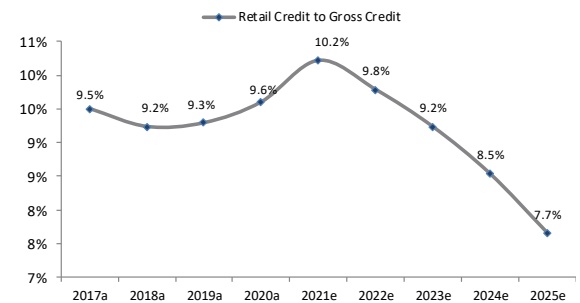
NIM is seen to gradually soften, given SAUD's maturity adulations.



Net fees & commissions are seen to go up and down as lending and trade finance activity fluctuates based on market conditions.



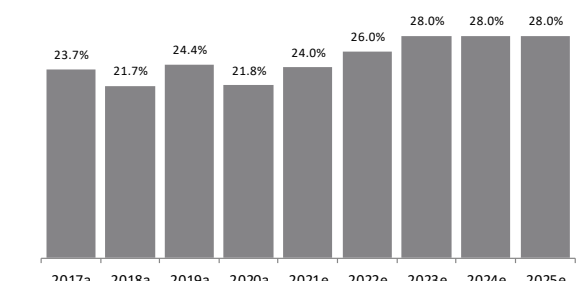
Retail credit-to-total loans is seen to flourish given the CBE's stimuli.



Net profit should trend upward yet growth rate will normalize to single digit post 2023.



Cost-to-income ratio is seen to increase smoothly, supported partially by operating income.





CORPORATE PROFILE

Al Baraka Bank – Egypt [SAUD] is an Egypt-based commercial bank and part of Al Baraka Banking Group, a Bahraini joint-stock company. It was established on March 19, 1980 as a commercial bank under the name of Al-Ahram Bank under the 1974 law, which was later replaced by the Investment Law. Thereafter, the bank was renamed to Egyptian Saudi Finance Bank and on April 30, 2009 was finally renamed to Al Baraka Bank - Egypt. The Bank provides retail, corporate and investment banking solutions, in accordance with the Islamic sharia principles.

Office

Plot 29, Road 90, City Center, 1st Sector, 5th Settlement, New Cairo, Egypt.

Telephone

+202 2810 3500.

Website

www.albaraka-bank.com.eg

Branches

32.

Chairman

Eng. Abdel-Aziz Yamani.

Vice Chairman & CEO

Mr. Hazem Hegazy.

Board Members

1. Eng. Abdel-Aziz Yamani – Non-executive.
2. Mr. Hazem Hegazy – Executive.
3. Mr. Mazin Khairy – Non-executive.
4. Mr. Houssam bin Al-Habib – Non-executive.
5. Mrs. Nevine Gamea – Non-executive.
6. Mr. Ismail Abd-Elfatah – Non-executive.
7. Mrs. Omnia Ibrahim – Non-executive.
8. Mr. Ahmed Abd-Elhamid – Non-executive.
9. Mr. Mohamed Abdel-Salam – Non-executive.
10. Mr. Mohamed Gaafar – Non-executive.

Auditors

KPMG Hazem Hassan.
BDO.

Domicile

Cairo, Egypt.

Founded

2009.

Employees

964.

Stockholders

2,623.

Listings

EGX: SAUD.

SHAREHOLDER STRUCTURE

Shareholder	Stake
Al Baraka Banking Group	73.68%
Misr Life Insurance	5.25%
Others	21.07%

PRIME RESEARCH'S COVERAGE

Date	Rating	12M PT
7-Dec-21	Overweight Medium Risk	EGP25.6

Price
EGP9.15
at close of 6 Dec 2021

Fair Value
EGP16.2
set on 7 Dec 2021

12M PT
EGP11.1 (+21%)
set on 7 Dec 2021

Investment Rating
Risk Rating

Overweight

★ ★ ★

Medium

! ! !

Shihab M. Helmy | Senior Equity Analyst
T +202 3300 5723
smohammed@egy.primegroup.org

Aglow Despite Dim Clouds

Hard-hit heavy lender still in the game

KEY INSIGHTS

Ebbing profitability is transitory: Export Development Bank of Egypt [EXPA] reported a 36% y/y decline in its bottom line in 9M 2021 on the back of a 25% higher tax bill. However, we think EXPA is likely to upend this downward trajectory by booking more loans during 2022. We are confident in the bank's lending capabilities, particularly as its newly-born retail lending took flying leaps over the last five years. We see EXPA's net profits registering a 5-year CAGR (2020-2025) of 9%, mainly supported by solid core banking income.

A coherent NIM despite marginal earnings growth, which should reverse course gradually: EXPA's short term deposit (more than 51% of deposits mature within 3 months) allow for a quick repricing. In part, this currently supports NIM, yet any rate hike in the future will cause CoF to rise, denting EXPA's NIM.

High asset quality with a barely sufficient capital base: EXPA outshined itself in terms of asset quality with Stage III loans representing only 2.7% of gross loans by Q3 2021, down from 7.1% in 2016. This reflects its selective strategy that is focused on growing public lending and syndicated loans. However, EXPA's low capital base hindered lending growth in Q3 2021 with CAR hitting 14.2%. EXPA was strict in its strategy to hoard no unused capital while

relying on earnings and external sources, which in turn is expected to results in higher interest expense.

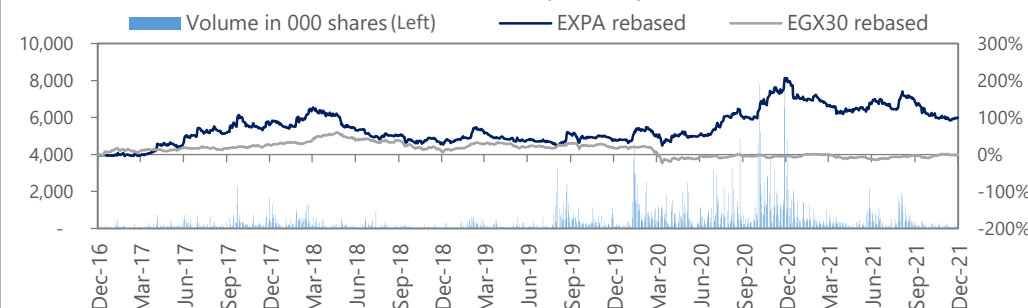
VALUATION, INVESTMENT THESIS, & RISKS

Overweight / Medium Risk, 12M PT EGP11.1/share (+21%): Using the residual income model, we reached a fair value of EGP16.2/share. However, we set our 12-month price target (12M PT) at EGP11.1/share, based on a terminal justified P/BV of 0.72x. Offering an upside of 21%, we rate EXPA as Overweight.

Investment thesis: High lending utilization; favorable deposit terms; prime asset quality.

Risks: Asset quality deteriorating again on new waves of COVID-19; the possibility of fresh whales diving into the market feeding off recent M&A activity, which would lead to fierce competition over lending opportunities.

STOCK RELATIVE PERFORMANCE CHART (5 YEARS)



KEY STOCK STATISTICS

			Q1	Q2	Q3	Q4	Year
Shares outstanding (mn)	327.4						
Free float	24.5%						
Market cap (mn)	EGP2,995	2022	—	—	—	—	e2,002
Market cap (mn)	USD190	2021	465	483	518	e575	e2,041
52w range (EGP)	14.33–8.60	2020	555	395	442	468	1,860
EGP100 invested 5y ago	EGP199	2019	435	472	530	485	1,922
TTM EPS	EGP1.23	2018	317	393	422	474	1,606
TTM P/E	7.4x	2017	238	274	302	290	1,103
2021e EPS	EGP2.83						
2021e P/E	3.2x	2022	—	—	—	—	e1,012
2021e P/B	0.4x	2021	126	150	155	e495	e926
Last fiscal year's DPS	EGP0.00	2020	375	110	187	223	895
Dividend yield	0.0%	2019	295	236	272	331	1,134
5Yr beta	0.95	2018	164	229	303	283	979
5Yr Proj. EPS CAGR ('20-'25)	11.0%	2017	135	159	200	196	690

REVENUES / EARNINGS DATA

	Q1	Q2	Q3	Q4	Year
Net Interest Income (EGPmn)					
2022	—	—	—	—	e2,002
2021	465	483	518	e575	e2,041
2020	555	395	442	468	1,860
2019	435	472	530	485	1,922
2018	317	393	422	474	1,606
2017	238	274	302	290	1,103
Net Profit (EGPmn)					
2022	—	—	—	—	e1,012
2021	126	150	155	e495	e926
2020	375	110	187	223	895
2019	295	236	272	331	1,134
2018	164	229	303	283	979
2017	135	159	200	196	690



KEY ASSUMPTIONS

Balance Sheet KPIs	2016a	2017a	2018a	2019a	2020a	2021e	2022e	2023e	2024e	2025e	Comments
Total assets market share	0.8%	0.8%	0.9%	0.9%	0.9%	1.1%	1.2%	1.2%	1.2%	1.2%	<ul style="list-style-type: none"> EXPA is seen to regain its pre-COVID-19 corporate lending market share.
Retail loans market share	0.1%	0.1%	0.1%	0.2%	0.4%	0.4%	0.4%	0.5%	0.5%	0.5%	
Corp loans market share	1.3%	1.4%	1.5%	1.9%	1.7%	1.8%	1.8%	1.9%	1.9%	1.9%	
Retail deposits market share	0.3%	0.4%	0.3%	0.3%	0.3%	0.4%	0.4%	0.5%	0.5%	0.5%	
Corporate deposits market share	1.8%	2.3%	2.0%	2.5%	2.4%	3.0%	3.1%	3.2%	3.2%	3.1%	
Cash/TA	2.3%	1.9%	3.4%	7.2%	9.4%	9.4%	8.4%	7.4%	6.4%	5.4%	
Due from banks / TA	14.5%	13.8%	15.6%	9.0%	1.2%	7.0%	7.0%	7.0%	7.0%	7.0%	
Financial investments / TA	18.2%	11.8%	7.7%	6.8%	12.7%	12.7%	14.2%	15.7%	13.7%	10.7%	
T-bills / TA	20.4%	29.5%	21.8%	18.9%	11.5%	8.1%	6.8%	5.8%	6.0%	6.2%	
Income Statement KPIs	2016a	2017a	2018a	2019a	2020a	2021e	2022e	2023e	2024e	2025e	
Return on average equity (ROAE)	14.5%	24.6%	24.5%	22.2%	15.3%	13.9%	14.0%	14.5%	14.9%	15.4%	<ul style="list-style-type: none"> ROAE is seen to recover gradually, supported by solid core banking income.
Effective tax rate	35.2%	27.1%	24.9%	24.9%	28.1%	20.2%	20.1%	18.0%	17.0%	16.4%	
Cost of Funds (CoF)	3.4%	4.9%	4.5%	4.5%	3.2%	4.8%	5.5%	5.1%	5.0%	4.8%	<ul style="list-style-type: none"> CoF is seen to continue retreating given favorable deposit durations.
Cost of Risk (CoR)	1.2%	0.1%	0.5%	0.2%	0.0%	0.5%	0.3%	0.2%	0.2%	0.2%	<ul style="list-style-type: none"> CoR is seen to soften in better market conditions.
Cost-to-Income Ratio (CIR)	33.1%	33.3%	32.6%	37.2%	46.1%	47.0%	47.5%	48.0%	48.5%	48.0%	

Source: Bank financials, Prime Research estimates.

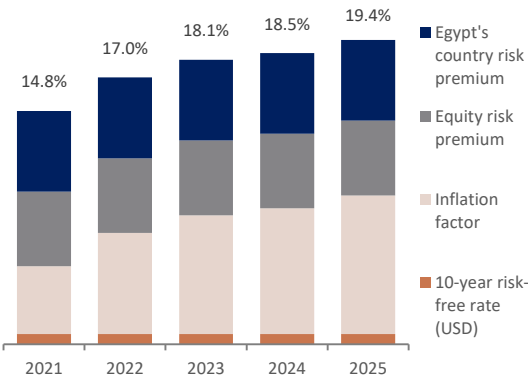


KEY VALUATION INPUT

Terminal COE
19.4%.

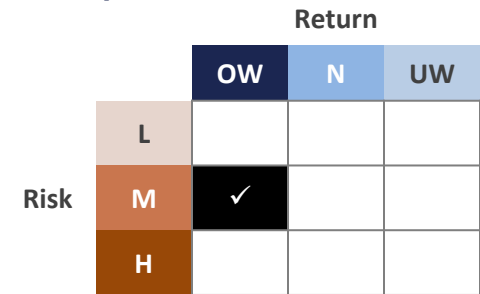
Terminal growth rate
5.0%.

Cost of equity structure (next 5 years)



Source: Prime Research.

RETURN/RISK MATRIX



Source: Prime Research.

VALUATION MODEL

Residual Income	2021	2022	2023	2024	2025
Reported net profit (post 1% earnings sliced to Banking Development Fund)	926	1,012	1,157	1,314	1,511
Other adjustments (staff profit share)	93	101	116	131	151
Adjusted Net profit	833	910	1,042	1,183	1,360
Total shareholders' equity	6,924	7,564	8,349	9,272	10,376
Good Will and Intangibles	36	36	36	36	36
Tangible equity	6,888	7,528	8,313	9,236	10,340
Capital Charge	940	1,169	1,362	1,540	1,787
Economic profit	(107)	(258)	(320)	(357)	(427)
Discount factor	0.99	0.85	0.71	0.59	0.49
PV of Economic Profit - During Fcst period	(106)	(218)	(227)	(212)	(208)
Sum of PVs					(971)
Terminal value					(143)
PV of TV					(70)
Beginning book value					6,334
Equity Value					5,294
Number of Shares					327.4
FV per share (EGP)					16.2

FV SENSITIVITY ANALYSIS

Terminal total assets market share vs. corridor interest rate

Terminal Corridor Interest Rate	Terminal Total Assets Market Share					
		1.0%	1.1%	1.2%	1.3%	1.4%
7.8%	14.4	14.7	15.0	15.4	15.7	
8.8%	14.9	15.2	15.6	16.0	16.3	
9.8%	15.5	15.8	16.2	16.5	16.8	
10.8%	16.0	16.4	16.7	17.0	17.3	
11.8%	16.5	16.8	17.1	17.4	17.7	

Terminal COE vs. growth rate

Terminal Growth Rate	Terminal Cost of Equity					
		21.4%	20.4%	19.4%	18.4%	17.4%
3.0%	16.0	16.1	16.3	16.4	16.6	
4.0%	16.0	16.1	16.2	16.4	16.5	
5.0%	15.9	16.0	16.2	16.3	16.5	
6.0%	15.8	16.0	16.1	16.3	16.5	
7.0%	15.7	15.9	16.0	16.2	16.4	



FINANCIAL MODEL

Balance Sheet (EGPbn)										
FY End: 31 Dec.	2016a	2017a	2018a	2019a	2020a	2021e	2022e	2023e	2024e	2025e
Cash and balances with CBE	0.7	0.8	1.6	3.9	6.0	7.6	8.0	8.2	8.0	7.5
Due from banks	4.7	5.6	7.2	4.9	0.8	5.7	6.7	7.8	8.8	9.8
Treasury bills and Central Bank of Egypt notes	6.7	12.0	10.1	10.2	7.4	6.6	6.5	6.5	7.6	8.7
Financial Investments	5.9	4.8	3.6	3.7	8.1	10.3	13.5	17.6	17.2	15.0
Debt Fin. Invest.	3.5	3.1	1.9	1.7	1.0	9.8	12.9	16.7	16.4	14.3
Loans and advances to banks	-	-	0.1	0.1	0.0	-	-	-	-	-
Loans and advances to customers(Net)	13.1	16.0	21.8	28.1	35.2	42.7	51.0	60.4	71.5	85.1
Gross Loans	14.3	17.1	23.2	29.2	36.3	44.0	52.6	62.3	73.7	87.4
Corp Loans	14.1	16.8	22.8	28.4	34.3	41.5	49.4	58.4	69.0	81.6
Retail Loans	0.2	0.3	0.4	0.9	2.0	2.6	3.2	3.9	4.8	5.9
Financial Derivatives	-	0.0	-	-	-	-	-	-	-	-
Investments in Subsidiaries & associates	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Intangible assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
DR Bal. & Other assets	0.8	0.7	1.0	1.4	5.6	7.0	8.3	9.7	10.9	12.2
Fixed assets (net)	0.4	0.4	0.6	0.7	0.8	1.0	1.1	1.3	1.5	1.7
Deferred tax asset	0.0	0.0	0.0	0.0	-	-	-	-	-	-
Total assets	32.3	40.4	45.9	53.1	64.1	81.1	95.4	111.8	125.8	140.2
Due to banks	2.9	0.7	3.5	2.9	4.0	4.4	4.3	4.7	4.1	3.5
Total Deposit	24.7	34.0	34.7	42.7	50.4	67.4	80.4	95.2	108.2	121.6
Corp Deposits	18.8	25.9	26.4	32.9	39.9	53.0	61.7	71.4	81.0	90.3
Retail Deposits	5.9	8.1	8.3	9.8	10.6	14.4	18.7	23.8	27.2	31.2
Financial Derivatives	-	-	-	0.0	-	-	-	-	-	-
Other Loans	1.5	1.8	1.8	1.6	1.8	0.6	0.7	0.9	1.0	1.2
CR Bal. & Other liabilities	0.8	0.9	1.0	1.3	1.3	1.5	2.0	2.3	2.7	3.1
Provisions	0.1	0.1	0.1	0.3	0.2	0.2	0.3	0.3	0.4	0.4
Pension benefits Liability	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Current Income Tax / Deferred Tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total liabilities	30.1	37.5	41.3	48.8	57.7	74.2	87.8	103.5	116.6	129.8
Total shareholders' equity	2.5	3.1	4.9	5.3	6.4	6.9	7.6	8.3	9.3	10.4
Total liabilities & shareholders' equity	32.6	40.6	46.2	54.1	64.1	81.1	95.4	111.8	125.8	140.2

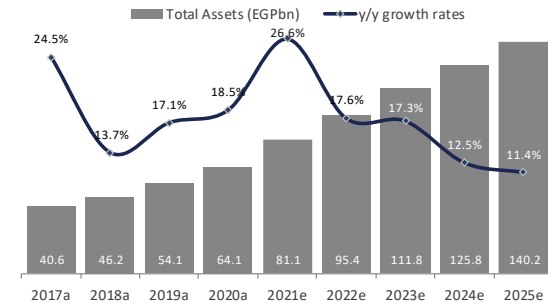
Income Statement (EGPbn)										
FY End: 31 Dec.	2016a	2017a	2018a	2019a	2020a	2021e	2022e	2023e	2024e	2025e
Interest earned and similar income	2.4	3.8	5.1	5.9	5.0	4.8	5.9	6.6	7.4	8.2
Interest expense and similar Costs	(1.5)	(2.7)	(3.5)	(3.9)	(3.1)	(2.8)	(3.9)	(4.4)	(4.9)	(5.4)
Net interest income	0.9	1.1	1.6	1.9	1.9	2.0	2.0	2.2	2.4	2.8
Net fees & Commissions income	0.2	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.5
Core Banking Income	1.1	1.4	2.0	2.3	2.2	2.4	2.4	2.6	2.8	3.3
Dividends income	(0.0)	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1
Net trading Income	0.0	0.1	0.1	0.1	0.2	0.2	0.2	0.3	0.3	0.3
Non-interest income	0.2	0.4	0.4	0.5	0.5	0.5	0.6	0.7	0.8	0.8
Total Banking Income	1.1	1.5	2.0	2.4	2.4	2.6	2.6	2.9	3.2	3.7
Administrative expenses	(0.3)	(0.5)	(0.7)	(0.9)	(1.1)	(1.2)	(1.3)	(1.4)	(1.6)	(1.8)
Other operating Income/Expenses	(0.1)	0.1	0.2	0.1	0.0	0.0	0.0	0.0	0.1	0.1
Operating Income	1.0	1.4	2.1	2.5	2.4	2.6	2.7	3.0	3.3	3.7
Impairment charge for credit losses	(0.2)	(0.0)	(0.1)	(0.1)	(0.0)	(0.2)	(0.1)	(0.1)	(0.1)	(0.1)
Oper. inc. after impairment of cr. losses	0.9	1.4	2.0	2.5	2.4	2.4	2.5	2.8	3.2	3.6
Goodwill Amortization	-	-	-	-	-	-	-	-	-	-
Net Profit before Income Tax	0.5	0.9	1.3	1.5	1.3	1.2	1.3	1.4	1.6	1.8
Income tax	(0.2)	(0.3)	(0.3)	(0.4)	(0.4)	(0.2)	(0.3)	(0.3)	(0.3)	(0.3)
Deffered tax	-	-	(0.0)	(0.0)	(0.0)	-	-	-	-	-
Net Profit	0.3	0.7	1.0	1.1	0.9	0.9	1.0	1.2	1.3	1.5

Source: Bank financials, Prime Research estimates.

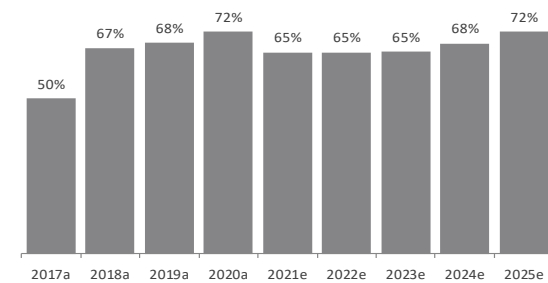
Stock data, valuation & yield ratios										
FY End: 31 Dec.	2016a	2017a	2018a	2019a	2020a	2021e	2022e	2023e	2024e	2025e
EOP number of shares	143.8	172.8	272.8	272.8	272.8	327.4	327.4	327.4	327.4	327.4
EOP stock price	4.45	8.25	6.19	6.37	11.93	11.93	11.93	11.93	11.93	11.93
BVPS	7.63	9.48	14.92	16.16	19.35	21.04	23.00	25.39	28.21	31.58
EPS	1.06	2.11	2.99	3.46	2.73	2.83	3.09	3.54	4.01	4.62
DPS	-	-	0.50	1.00	-	1.00	1.00	1.00	1.00	1.00
P/B	1.1x	1.2x	0.6x	0.5x	0.7x	0.7x	0.6x	0.6x	0.5x	0.5x
P/E	7.8x	5.6x	2.8x	2.2x	5.2x	5.1x	4.6x	4.0x	3.6x	3.1x
Dividend yield	0.0%	0.0%	6.0%	13.1%	0.0%	7.0%	7.0%	7.0%	7.0%	7.0%
Payout ratio	0.0%	0.0%	13.9%	24.1%	0.0%	35.4%	32.4%	28.3%	24.9%	21.7%
Profitability										
FY End: 31 Dec.	2016a	2017a	2018a	2019a	2020a	2021e	2022e	2023e	2024e	2025e
NIM	2.2%	1.8%	2.3%	2.3%	1.9%	3.5%	2.8%	2.6%	2.5%	2.5%
Int. Margin on loan	4.7%	6.9%	7.4%	6.2%	5.1%	9.0%	9.5%	9.1%	8.8%	8.3%
Int. Exp on Deposits	3.2%	5.0%	4.5%	4.5%	2.9%	4.4%	4.9%	4.6%	4.5%	4.4%
Spread	1.5%	1.9%	2.9%	1.7%	2.2%	4.7%	4.6%	4.5%	4.3%	4.0%
NII / Total banking income	81.3%	74.9%	79.1%	79.7%	78.1%	78.9%	76.2%	75.0%	74.8%	77.1%
Non-interest inc. / Total banking inc.	18.7%	25.1%	20.9%	20.3%	21.9%	21.1%	23.8%	25.0%	25.2%	22.9%
Cost to Income	33.1%	33.3%	32.6%	37.2%	46.1%	47.0%	47.5%	48.0%	48.5%	48.0%
Effective tax rate	35.2%	27.1%	24.9%	24.9%	28.1%	20.2%	20.1%	18.0%	17.0%	16.4%
ROAE	14.5%	24.6%	24.5%	22.2%	15.3%	13.9%	14.0%	14.5%	14.9%	15.4%
Tax Benefit	65.9%	72.9%	75.0%	74.3%	69.6%	79.8%	79.9%	82.0%	83.0%	83.6%
Financial Leverage	12.02	13.07	10.85	9.82	10.11	10.92	12.18	13.02	13.49	13.54
ROAA	1.2%	1.9%	2.3%	2.3%	1.5%	1.3%	1.1%	1.1%	1.1%	1.1%
Cost of Risk (CoR)	1.2%	0.1%	0.5%	0.2%	0.0%	0.5%	0.3%	0.2%	0.2%	0.2%
Net Loans/ATA	45.9%	43.7%	50.1%	56.0%	59.6%	58.8%	57.8%	58.3%	60.2%	64.0%
Cost of Funds	3.4%	4.9%	4.5%	4.5%	3.2%	4.8%	5.5%	5.1%	5.0%	4.8%
Capital Adequacy										
FY End: 31 Dec.	2016a	2017a	2018a	2019a	2020a	2021e	2022e	2023e	2024e	2025e
Capital Adequacy Ratio	12.2%	10.9%	14.2%	14.8%	14.1%	13.0%	12.6%	13.1%	13.6%	13.0%
T1 Ratio	10.8%	9.8%	13.1%	13.6%	13.1%	12.1%	11.2%	11.8%	12.3%	11.8%
Risk-weighted assets / Total assets	67.8%	71.1%	72.7%	69.1%	70.8%	69.1%	69.2%	66.4%	68.7%	72.1%
Asset Quality										
FY End: 31 Dec.	2016a	2017a	2018a	2019a	2020a	2021e	2022e	2023e	2024e	2025e
Stage 1	75.2%	78.8%	84.2%	86.1%	0.0%	97.3%	92.0%	92.2%	92.5%	92.8%
Stage 2	3.5%	3.6%	2.2%	2.2%	0.0%	0.0%	5.0%	5.0%	5.0%	5.0%
Stage 3 (NPL)	7.1%	6.2%	4.6%	3.3%	2.0%	2.7%	3.0%	2.8%	2.5%	2.2%
Stage 3 provision coverage	0.0%	117.6%	121.0%	121.4%	144.7%	111.1%	100.0%	107.1%	120.0%	122.7%
Efficiency										
FY End: 31 Dec.	2016a	2017a	2018a	2019a	2020a	2021e	2022e	2023e	2024e	2025e
Net Profit / No. of Employees	NA	NA	NA	0.9	0.6	0.6	0.6	0.7	0.8	0.9
Net Profit / No. of Branches	11.9	22.2	31.6	29.8	20.8	21.5	23.5	26.9	30.6	35.1
Liquidity										
FY End: 31 Dec.	2016a	2017a	2018a	2019a	2020a	2021e	2022e	2023e	2024e	2025e
LDR	58%	50%	67%	68%	72%	65%	65%	65%	68%	72%
Invest. Securities & Due From Banks / TA	53%	55%	45%	35%	25%	28%	28%	29%	27%	24%
Earning assets / Total assets	90%	93%	91%	86%	80%	80%	81%	83%	84%	85%
Leverage	7%	6%	6%	9%	8%	7%	7%	7%	7%	7%
Equity multiplier	13.1	13.1	9.4	10.2	10.1	11.7	12.6	13.4	13.6	13.5



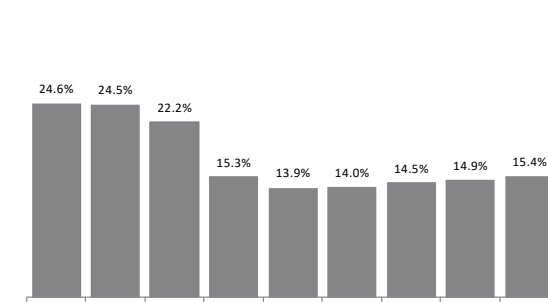
Asset growth is fostered by corporate lending growth and interbank investments.



Loans-to-deposits (LTD) ratio is seen to regain its pre-COVID levels as lending recovers.

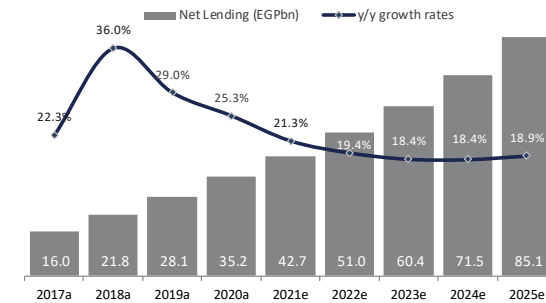


ROAE to recover partially due to declining CoR.

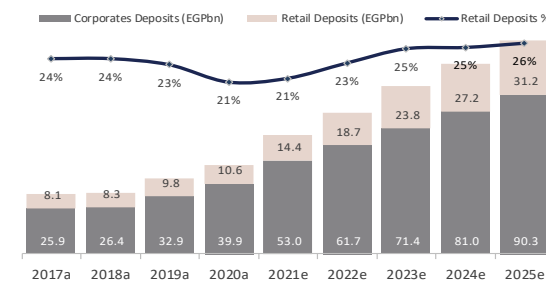


Source: Bank financials, Prime Research estimates.

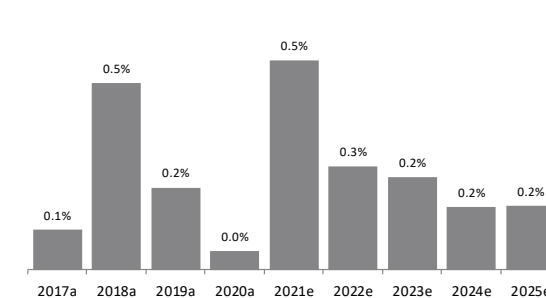
Net lending to hit a 5-CAGR of 19.3%, fueled by public lending.



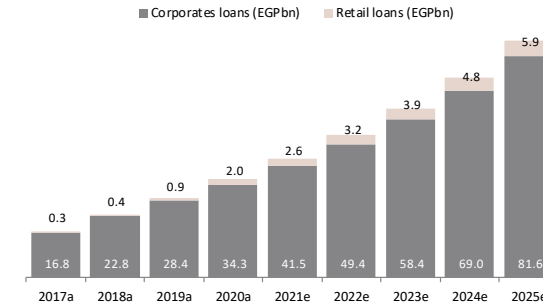
Retail deposits are still contributing poorly to total, implying little funding sustainability.



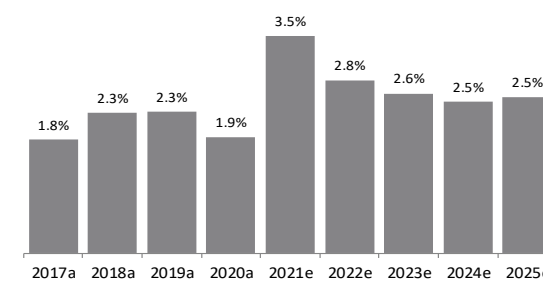
Cost of risk is seen to shoot up in 2021 before cooling down till 2025.



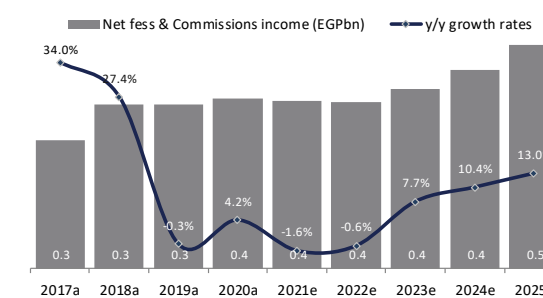
Retail credit to continue growing in line with the bank's expansion resumption.



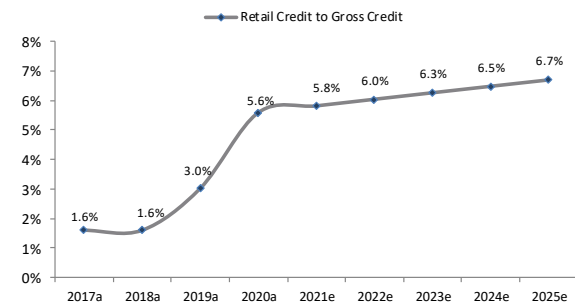
NIM is seen to decline supported partially by lower CoF.



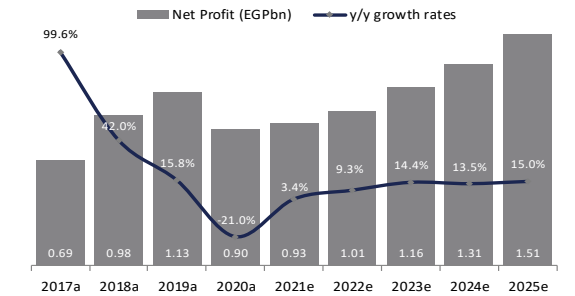
Net fees & commission to recover in line with a trade finance rebound.



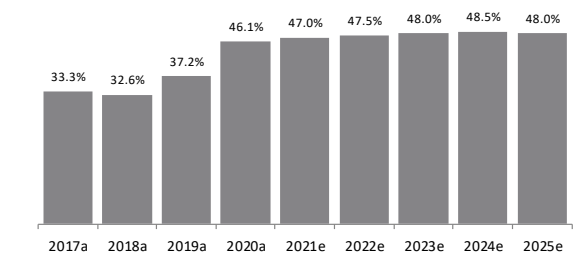
Retail credit-to-total loans is seen to rise in line with EXPA's management ambitious plan.



Net profit should recover gradually starting 2021.



Cost-to-income ratio is expected to stay high partially on support from growing operating income.





CORPORATE PROFILE

Export Development Bank of Egypt (EBE) [EXPA] was established to boost and facilitate the Egyptian exports in all sectors, agricultural, industrial and commercial. The bank resorted to opening of new branches and gathering deposits in order to meet its main goal of establishing and boosting a solid export sector. Consequently, the bank persisted on gathering deposits of companies and corporations to be a wholesale bank.

Office

78 El-Tasseen St., 5th Settlement, New Cairo, Egypt.

Telephone

+202 3338 5940.

Website

www.ebebank.com

Branches

43.

Chairman

Mrs. Mervat Soltan.

Vice Chairman

Dr. Ahmed Mohamed Galal

Board Members

1. Mrs. Mervat Soltan.
2. Dr. Ahmed Mohamed Galal
3. Mr. Ahmed Abdel-Ghany Ismaeel.
4. Mr. Mohamed Abd-Elaal El Sayed.
5. Dr. Aliaa Abdel-Aziz Fathallah Soliman.
6. Mrs. Hania Sadek.
7. Mr. Hamed Hasouna Hasan Haseeb.
8. Mr. Abdel-Aziz Al-Sayed Hassan Hassouba.
9. Dr. Ahmed Taher.
10. Mr. Mohamed Mohamed Abul-Soud.
11. Dr. Ahmed Samir El-Sayyad.

Auditors

MAZARS Mostafa Shawki.
Accountability State Authority.

Domicile

Cairo, Egypt.

Founded

1983.

Employees

1,508.

Stockholders

9,229.

Listings

EGX: EXPA.

SHAREHOLDER STRUCTURE

Shareholder	Stake
National Investment Bank	40.75%
Banque Misr	23.13%
National Bank of Egypt	11.57%
Sherif Adly Kyrollus Paulus	9.39%
Others	15.16%

PRIME RESEARCH'S COVERAGE

Date	Rating	12M PT
7-Dec-21	Overweight Medium Risk	EGP11.1

Price
EGP43.25
at close of 6 Dec 2021

Fair Value
EGP40.9
set on 7 Dec 2021

12M PT
EGP49.0 (+13%)
set on 7 Dec 2021

Investment Rating
Risk Rating

Neutral
Medium
★ ★ ★
! ! !

Shihab M. Helmy | Senior Equity Analyst
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smohammed@egy.primegroup.org

A One-Stop Lender

Real estate to unleash value

KEY INSIGHTS

High retail lending aids profitability: The substantial retail lending contribution of 62% to gross loans further sustains the bank's profits. HDBK lends its retail clients at fixed rates. Thus, the lender is expected to maintain its wide NIM until 2023 before it falls to 5.2% in 2025 from 6.6% in 2021.

Asset quality is seen to stay poor before improving: As cost of high retail lending exposure, HDBK is burdened with thick volume of stage III loans, which we nonetheless expect to fall from 10% currently to 7% by 2025. Our expectation rests on the bank's adoption of a conservative provision policy, which we think will last through our forecast horizon. This leads us to believe the bank will continue to rely on retail lending as part of its mortgage finance program.

Real estate is fifth total fair value: Housing & Development Bank [HDBK] delivers value by investing in real estate directly and indirectly. Indeed, HDBK is known for selling finished units; hence, it is not in a rush to monetize its land bank. In our valuation, we divided HDBK's real estate investments into two: (1) lands that are fully owned by the bank based on market price (EGP2.6/share) and (2) real estate income generated from sale of finished units (EGP6.8/share).

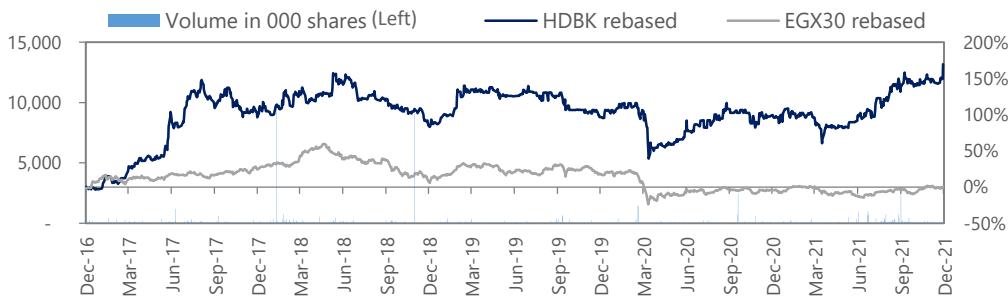
VALUATION, INVESTMENT THESIS, & RISKS

Neutral / Medium Risk, 12M PT EGP49.0/share (+13%): We valued HDBK using the sum-of-the-parts methodology, consisting of (1) a residual income model for HDBK's commercial operations resulting in a fair value of EGP33.0/share and (2) a DCF model for its real estate investments and land bank based on market prices resulting in a fair value of EGP7.9/share. Thus, we reached a fair value of EGP40.9/share. However, we set our 12-month price target (12M PT) at EGP49.0/share, including EGP41.1/share for the bank's operations (based on a terminal justified P/BV of 0.79x) and EGP7.9/share for HDBK's real estate investments and land bank. Offering an upside of 13%, we rate HDBK as Neutral.

Investment thesis: Excellent income diversification through direct and indirect real estate investments; sustainable profitability justified by a wide exposure to retail lending; a generous dividend policy to resume by 2022.

Risks: Asset quality deteriorating again on new waves of COVID-19; the possibility of fresh whales diving into the market feeding off recent M&A activity, which would lead to fierce competition over lending opportunities.

STOCK RELATIVE PERFORMANCE CHART (5 YEARS)



KEY STOCK STATISTICS

Shares outstanding (mn)	151.8
Free float	70.2%
Market cap (mn)	EGP6,565
Market cap (mn)	USD418
52w range (EGP)	47.97–25.00
EGP100 invested 5y ago	EGP270
TTM EPS	EGP11.92
TTM P/E	3.7x
2021e EPS	EGP9.76
2021e P/E	4.5x
2021e P/B	0.9x
Last fiscal year's DPS	EGP0.00
Dividend yield	0.0%
5Yr beta	0.95
5Yr Proj. EPS CAGR ('20-'25)	7.2%

REVENUES / EARNINGS DATA

	Q1	Q2	Q3	Q4	Year
Net Interest Income (EGPmn)					
2022	—	—	—	—	e3,526
2021	818	799	833	e744	e3,194
2020	635	645	692	825	2,797
2019	720	660	746	816	2,942
2018	973	672	791	716	3,152
2017	538	367	539	1,133	2,625
Net Profit (EGPmn)					
2022	—	—	—	—	e2,056
2021	620	380	433	e472	e1,905
2020	615	386	425	376	1,801
2019	595	477	448	431	1,951
2018	631	445	506	44	1,626
2017	349	250	288	424	1,312



KEY ASSUMPTIONS

Balance Sheet KPIs	2016a	2017a	2018a	2019a	2020a	2021e	2022e	2023e	2024e	2025e	Comments
Total assets market share	0.8%	1.1%	0.7%	0.8%	0.8%	1.0%	1.0%	1.1%	1.1%	1.1%	<ul style="list-style-type: none"> Financial investments are seen to fuel asset growth given lucrative treasury yields.
Retail loans market share	2.8%	2.9%	2.7%	2.5%	2.7%	2.7%	2.7%	2.7%	2.7%	2.8%	
Corp loans market share	0.4%	0.5%	0.5%	0.7%	0.4%	0.5%	0.4%	0.4%	0.5%	0.5%	
Retail deposits market share	0.5%	1.1%	0.7%	0.6%	0.5%	0.6%	0.6%	0.6%	0.7%	0.7%	
Corporate deposits market share	0.4%	1.5%	1.3%	1.8%	1.8%	2.1%	2.0%	2.0%	2.0%	2.0%	
Cash/TA	6.5%	9.1%	6.1%	8.8%	10.4%	10.4%	9.4%	8.4%	7.4%	6.4%	
Due from banks / TA	9.6%	23.8%	20.2%	16.1%	6.5%	7.0%	7.0%	7.0%	7.0%	7.0%	
Financial investments / TA	16.6%	8.1%	33.6%	32.1%	12.5%	15.0%	16.5%	18.0%	16.0%	13.0%	
T-bills / TA	24.9%	26.4%	2.9%	3.5%	31.8%	26.0%	26.2%	24.9%	26.8%	29.3%	
Income Statement KPIs	2016a	2017a	2018a	2019a	2020a	2021e	2022e	2023e	2024e	2025e	
Return on average equity (ROAE)	22.6%	32.7%	34.8%	35.7%	26.8%	23.6%	21.6%	20.7%	19.1%	19.2%	<ul style="list-style-type: none"> ROAE is seen to stay under pressure given the bank's declining financial leverage and ascending CoR.
Effective tax rate	29.9%	26.2%	26.0%	23.4%	28.4%	29.1%	28.5%	29.3%	30.0%	29.6%	
Cost of Funds (CoF)	4.5%	6.2%	7.4%	9.4%	7.6%	7.3%	6.4%	6.4%	6.3%	6.3%	<ul style="list-style-type: none"> CoF is seen to continue retreating over our forecast horizon.
Cost of Risk (CoR)	5.7%	6.6%	1.3%	2.1%	-0.8%	0.9%	0.3%	0.2%	0.4%	0.2%	
Cost-to-Income Ratio (CIR)	33.2%	27.8%	38.6%	45.7%	43.5%	39.0%	43.0%	42.5%	42.0%	41.5%	<ul style="list-style-type: none"> CoR is seen to grow in 2021 before starting to normalize.

Source: Bank financials, Prime Research estimates.



KEY VALUATION INPUT

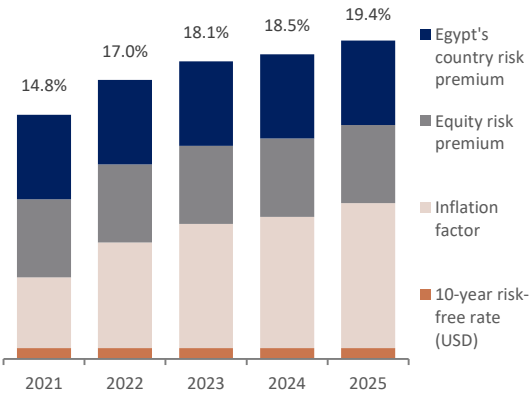
Terminal COE

19.4%.

Terminal growth rate

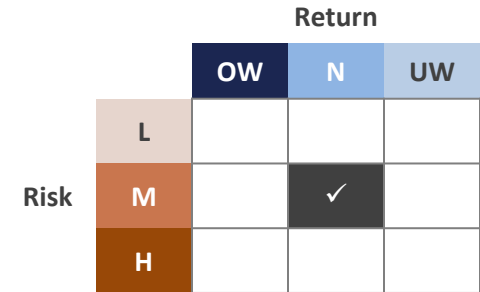
5.0%.

Cost of equity structure (next 5 years)



Source: Prime Research.

RETURN/RISK MATRIX



Source: Prime Research.

VALUATION MODEL

Residual Income	2021	2022	2023	2024	2025
Reported net profit (post 1% earnings sliced to Banking Development Fund)	1,235	1,339	1,550	1,672	2,037
Other adjustments (staff profit share)	123	134	155	167	204
Adjusted Net profit	1,111	1,205	1,395	1,505	1,833
Total shareholders' equity	6,201	7,478	8,965	10,558	12,527
Good Will and Intangibles	104	104	104	104	104
Tangible equity	6,096	7,374	8,861	10,454	12,423
Capital Charge	670	905	1,334	1,642	2,023
Economic profit	441	300	61	(137)	(190)
Discount factor	0.99	0.86	0.71	0.59	0.49
PV of Economic Profit - During Fcst period	437	259	43	(81)	(92)
Sum of PVs					566
Terminal value					(131)
PV of TV					(64)
Beginning book value					4,510
Equity Value					5,012
Number of Shares					151.8
FV per share (EGP) (Commercial bank)					33.0
Real estate FV per share (DCF valuation method)					7.9
FV per share (EGP) (SOTP)					40.9

FV SENSITIVITY ANALYSIS

Terminal total assets market share vs. corridor interest rate

Terminal Corridor Interest Rate	Terminal Total Assets Market Share					
		0.1%	0.6%	1.1%	1.6%	2.1%
7.8%	28.3	34.5	38.9	43.9	48.4	
8.8%	29.3	34.9	39.9	44.7	49.3	
9.8%	30.2	35.8	40.9	45.6	50.2	
10.8%	31.1	36.8	41.9	46.4	51.0	
11.8%	31.7	37.8	42.8	47.3	51.9	

Terminal COE vs. growth rate

Terminal Growth Rate	Terminal Cost of Equity					
		21.4%	20.4%	19.4%	18.4%	17.4%
3.0%	40.1	40.6	41.1	41.6	42.2	
4.0%	40.0	40.5	41.0	41.6	42.2	
5.0%	39.9	40.3	40.9	41.5	42.1	
6.0%	39.7	40.2	40.8	41.4	42.1	
7.0%	39.5	40.0	40.6	41.3	42.0	



FINANCIAL MODEL

Balance Sheet (EGPbn)										
FY End: 31 Dec.	2016a	2017a	2018a	2019a	2020a	2021e	2022e	2023e	2024e	2025e
Cash and balances with CBE	2.2	4.9	2.5	4.3	5.8	7.7	7.9	8.1	8.2	8.2
Due from banks	3.5	13.7	8.7	8.3	3.8	5.2	5.9	6.7	7.7	8.9
Treasury bills and Central Bank of Egypt notes	9.0	15.3	1.3	1.8	18.6	19.3	22.1	24.0	29.6	37.1
Financial Investments	6.0	4.7	14.5	16.5	7.3	11.1	13.9	17.4	17.7	16.5
Debt Fin. Invest.	2.4	2.4	12.5	14.3	5.0	10.5	13.2	16.5	16.8	15.6
Loans and advances to banks	-	-	-	-	-	-	-	-	-	-
Loans and advances to customers(Net)	11.6	15.4	13.6	17.5	19.3	25.2	28.1	33.1	39.4	47.1
Gross Loans	10.5	13.4	15.7	19.7	21.1	28.1	31.8	37.6	44.4	52.6
Corp Loans	4.1	5.9	7.1	9.8	7.7	11.4	11.9	14.1	16.7	19.7
Retail Loans	6.4	7.5	8.6	9.9	13.8	16.7	19.9	23.5	27.7	32.8
Financial Derivatives	-	-	-	-	-	-	-	-	-	-
Investments in Subsidiaries & associates	1.1	1.4	1.7	1.7	1.7	1.5	1.7	1.9	2.2	2.5
Intangible assets	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
DR Bal. & Other assets	1.5	1.2	0.9	1.0	1.3	1.6	1.8	2.1	2.4	2.8
Fixed assets (net)	0.3	0.5	0.7	0.9	1.0	1.3	1.5	1.7	1.9	2.2
Deferred tax asset	-	0.0	-	-	0.0	-	-	-	-	-
Total assets	35.4	57.2	44.0	52.1	58.3	74.0	84.1	96.4	110.5	126.6
Due to banks	0.7	0.2	0.5	1.0	0.8	6.7	6.7	7.1	7.6	7.5
Total Deposit	13.4	40.6	34.1	41.3	47.1	57.8	65.6	75.4	86.8	100.1
Corp Deposits	4.6	16.2	17.8	23.4	29.1	35.8	39.4	44.5	50.3	57.0
Retail Deposits	9.1	24.4	16.3	17.9	18.0	22.0	26.2	30.9	36.5	43.1
Financial Derivatives	-	-	-	-	-	-	-	-	-	-
Other Loans	2.8	4.2	0.7	0.6	0.6	0.5	0.7	0.8	0.9	1.0
CR Bal. & Other liabilities	13.2	3.8	2.3	2.1	1.9	2.1	2.8	3.2	3.6	4.1
Provisions	0.2	0.4	0.6	0.4	0.3	0.3	0.5	0.5	0.6	0.7
Pension benefits Liability	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Current Income Tax / Deferred Tax	0.1	0.2	0.1	0.0	0.2	0.2	0.3	0.3	0.4	0.4
Total liabilities	30.5	49.3	38.4	45.4	50.9	67.8	76.6	87.4	99.9	114.0
Total shareholders' equity	3.5	4.5	4.9	6.1	7.4	8.8	10.3	12.1	14.0	16.3
Total liabilities & shareholders' equity	34.0	53.8	43.3	51.5	58.3	76.5	86.9	99.5	113.9	130.4

Income Statement (EGPbn)										
FY End: 31 Dec.	2016a	2017a	2018a	2019a	2020a	2021e	2022e	2023e	2024e	2025e
Interest earned and similar income	2.8	4.7	6.1	6.6	6.0	7.1	7.7	8.9	10.0	11.5
Interest expense and similar Costs	(1.0)	(2.1)	(3.0)	(3.7)	(3.2)	(3.9)	(4.2)	(4.8)	(5.5)	(6.4)
Net interest income	1.7	2.6	3.2	2.9	2.8	3.2	3.5	4.1	4.5	5.1
Net fees & Commissions income	0.2	0.3	0.3	0.3	0.4	0.6	0.5	0.4	0.5	0.6
Core Banking Income	2.0	2.9	3.5	3.3	3.2	3.8	4.0	4.5	5.0	5.7
Dividends income	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Net trading Income	0.3	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.1
Non-interest income	0.5	0.6	0.4	0.5	0.5	0.7	0.7	0.7	0.8	0.9
Total Banking Income	2.3	3.2	3.6	3.5	3.3	3.9	4.2	4.8	5.3	6.0
Administrative expenses	(0.9)	(1.1)	(1.4)	(1.6)	(1.5)	(1.6)	(1.9)	(2.1)	(2.3)	(2.6)
Other operating income/Expenses	0.4	0.5	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.3
Operating Income	2.7	3.8	3.7	3.6	3.5	4.1	4.4	5.0	5.6	6.3
Impairment of Credit losses	(0.6)	(0.9)	(0.2)	(0.4)	0.2	(0.3)	(0.1)	(0.1)	(0.2)	(0.1)
Operating income after impairment of credit losses	2.1	2.9	3.5	3.2	3.6	3.9	4.3	4.9	5.4	6.2
Real estate income	-	-	0.4	0.4	0.4	0.3	0.4	0.4	0.4	0.4
Net Profit before Income Tax	1.1	1.8	2.2	2.5	2.5	2.7	2.9	3.3	3.6	4.1
Income tax	(0.3)	(0.5)	(0.6)	(0.6)	(0.7)	(0.8)	(0.8)	(1.0)	(1.1)	(1.2)
Deferred tax	-	-	-	-	-	-	-	-	-	-
Net Profit	0.8	1.3	1.6	2.0	1.8	1.9	2.1	2.3	2.5	2.9

Stock data, valuation & yield ratios										
FY End: 31 Dec.	2016a	2017a	2018a	2019a	2020a	2021e	2022e	2023e	2024e	2025e
EOP number of shares	126.5	126.5	126.5	126.5	126.5	151.8	151.8	151.8	151.8	151.8
EOP stock price	24.28	48.01	43.78	42.78	39.09	39.09	39.09	39.09	39.09	39.09
BVPS	(0.35)	6.88	14.32	21.35	29.71	40.16	48.58	58.37	68.86	81.84
EPS	4.98	8.64	10.71	12.85	9.49	8.13	8.82	10.21	11.01	13.42
DPS	2.00	1.50	5.00	2.50	-	1.67	1.67	1.67	1.67	1.67
P/B	-68.7x	7.0x	3.1x	2.0x	1.3x	1.0x	0.8x	0.7x	0.6x	0.5x
P/E	4.9x	5.6x	4.1x	3.3x	4.1x	4.8x	4.4x	3.8x	3.5x	2.9x
Dividend yield	8.2%	3.1%	11.4%	5.8%	0.0%	4.3%	4.3%	4.3%	4.3%	4.3%
Payout ratio	33.5%	14.5%	53.5%	20.4%	0.0%	20.5%	18.9%	16.3%	15.1%	12.4%

Profitability										
FY End: 31 Dec.	2016a	2017a	2018a	2019a	2020a	2021e	2022e	2023e	2024e	2025e
NIM	7.4%	7.7%	7.8%	7.6%	6.6%	5.9%	5.4%	5.4%	5.1%	5.0%
Int. Margin on loan	11.3%	12.1%	12.9%	13.6%	11.3%	10.7%	9.6%	9.6%	9.5%	9.4%
Int. Exp on Deposits	6.8%	6.6%	7.2%	9.1%	6.8%	7.3%	6.8%	6.8%	6.8%	6.8%
Spread	4.5%	5.4%	5.7%	4.6%	4.4%	3.4%	2.9%	2.8%	2.8%	2.7%
NII / Total banking income	76.1%	82.3%	87.6%	85.1%	84.2%	81.0%	84.1%	85.8%	84.6%	85.1%
Non-interest inc. / Total banking inc.	23.9%	17.7%	12.4%	14.9%	15.8%	19.0%	15.9%	14.2%	15.4%	14.9%
Cost to income	33.2%	27.8%	38.6%	45.7%	43.5%	39.0%	43.0%	42.5%	42.0%	41.5%
Effective tax rate	29.9%	26.2%	26.0%	23.4%	28.4%	29.1%	28.5%	29.3%	30.0%	29.6%
ROAE	22.6%	32.7%	34.8%	35.7%	26.8%	23.6%	21.6%	20.7%	19.1%	19.2%
Tax Benefit	70.1%	73.8%	74.0%	76.6%	71.6%	70.9%	71.5%	70.7%	70.0%	70.4%
Financial Leverage	9.72	11.73	10.80	8.67	8.17	8.20	8.30	8.08	7.94	7.82
ROAA	2.3%	2.8%	3.2%	4.1%	3.3%	2.9%	2.6%	2.6%	2.4%	2.5%
Cost of Risk (CoR)	5.7%	6.6%	1.3%	2.1%	-0.8%	0.9%	0.3%	0.2%	0.4%	0.2%
Net Loans/ATA	35.7%	32.7%	26.9%	36.9%	35.3%	38.1%	35.6%	36.7%	38.1%	39.7%
Cost of Funds	4.5%	6.2%	7.4%	9.4%	7.6%	7.3%	6.4%	6.4%	6.3%	6.3%

Capital Adequacy										
FY End: 31 Dec.	2016a	2017a	2018a	2019a	2020a	2021e	2022e	2023e	2024e	2025e
Capital Adequacy Ratio	13.8%	17.2%	19.4%	20.8%	22.3%	28.4%	27.3%	26.1%	24.8%	23.8%
T1 Ratio	12.8%	16.3%	18.5%	19.9%	21.4%	27.3%	26.4%	25.4%	24.2%	23.3%
Risk-weighted assets / Total assets	45.9%	35.9%	54.2%	52.1%	56.9%	41.1%	43.9%	46.8%	49.6%	52.7%

Asset Quality										
FY End: 31 Dec.	2016a	2017a	2018a	2019a	2020a	2021e	2022e	2023e	2024e	2025e
Stage 1	0.0%	92.3%	94.4%	84.0%	85.0%	90.0%	84.0%	86.0%	88.0%	88.0%
Stage 2	0.0%	0.0%	0.1%	0.0%	0.0%	0.0%	5.0%	5.0%	5.0%	5.0%
Stage 3 (NPL)	0.0%	6.9%	5.6%	9.0%	8.0%	10.0%	11.0%	9.0%	7.0%	7.0%
Stage 3 provision coverage	0.0%	0.0%	232.4%	128.5%	122.9%	103.0%	105.0%	131.1%	161.4%	148.6%

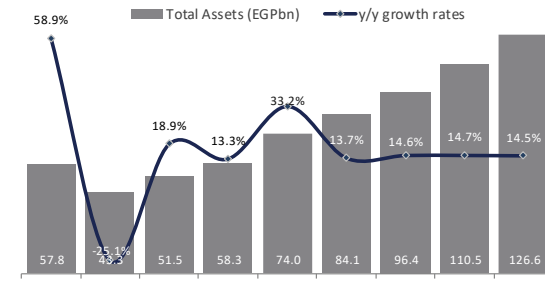
Efficiency										
FY End: 31 Dec.	2016a	2017a	2018a	2019a	2020a	2021e	2022e	2023e	2024e	2025e
Net Profit / No. of Employees	0.3	0.5	0.6	0.7	0.7	0.7	0.7	0.8	0.9	1.0
Net Profit / No. of Branches	10.8	16.4	19.4	21.2	18.6	19.6	21.2	23.9	25.7	30.1

Liquidity										
FY End: 31 Dec.	2016a	2017a	2018a	2019a	2020a	2021e	2022e	2023e	2024e	2025e
LDR	78%	33%	46%	48%	45%	49%	48%	50%	51%	53%
Invest. Securities & Due From Banks / TA	51%	58%	57%	52%	51%	48%	50%	50%	50%	49%
Earning assets / Total assets	73%	81%	83%	81%	80%	82%	83%	84%	85%	87%
Leverage	0%	0%	0%	0%	10%	10%	10%	10%	10%	10%
Equity multiplier	10.3	12.9	8.9	8.5	7.9	8.5	8.2	8.0	7.9	7.7

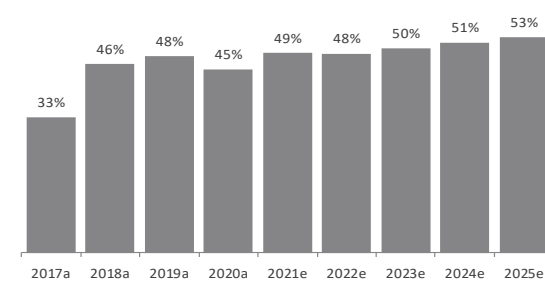
Source: Bank financials, Prime Research estimates.



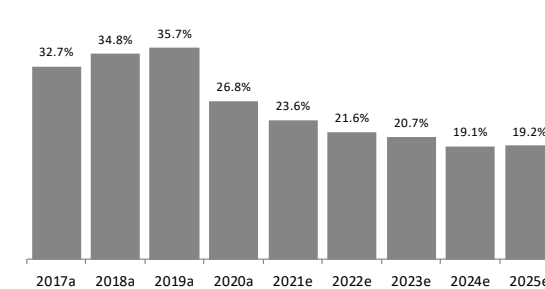
Asset growth will be stimulated by financial investments and lending growth.



Loans-to-deposits (LTD) ratio is seen to regain its pre-COVID levels as lending recovers.

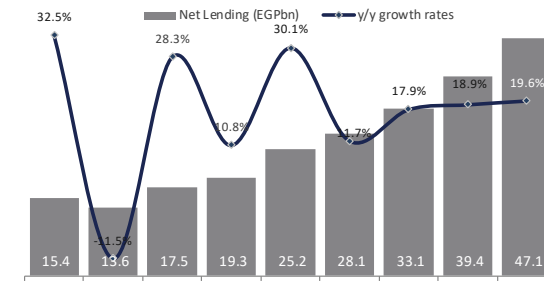


ROAE will fall in line with growing CoR and a retreat in financial leverage.

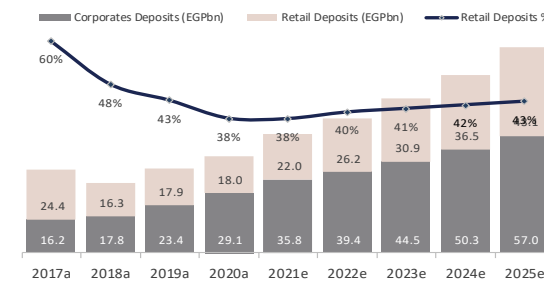


Source: Bank financials, Prime Research estimates.

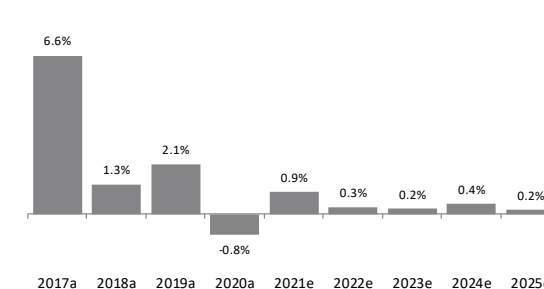
Net lending is seen to hit at a 5-CAGR of 19.5%, aided by private lending.



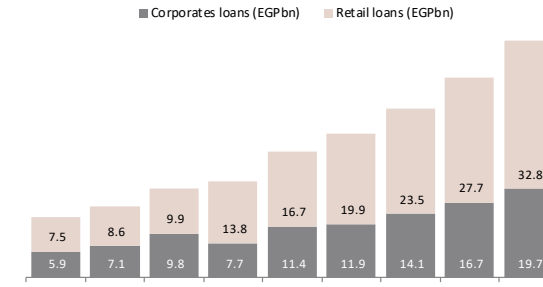
Retail deposits is seen to stabilize at pre-COVID levels.



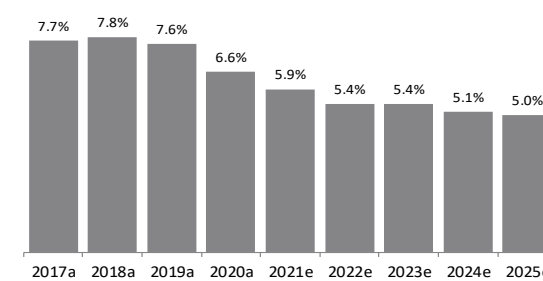
Cost of risk is seen to leap till 2025 as more precautionary policies get adopted.



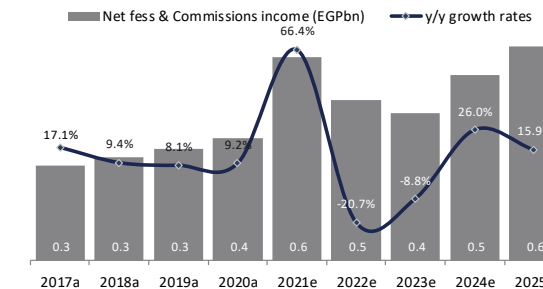
Retail credit is fueled by mortgage finance which is seen continuing through our forecast horizon.



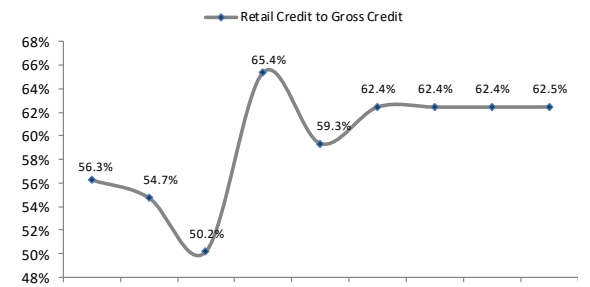
NIM is seen to fall in 2022 on high asset growth.



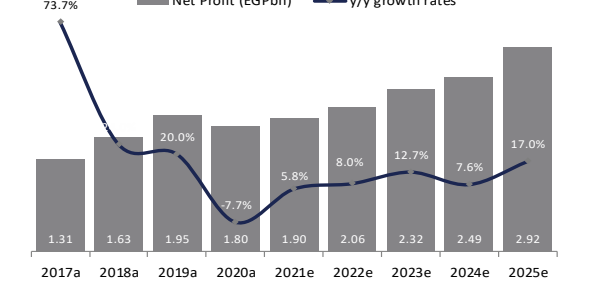
Net fees & commissions are seen to fluctuate given the bank's modest focus on corporate lending.



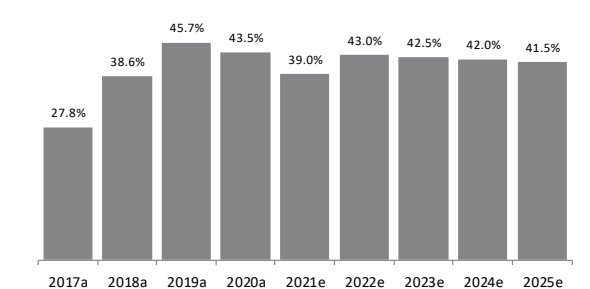
Retail credit-to-total loans is seen to stay high.



Net profit should recover gradually starting 2021 supported by low provisions booking.



Cost-to-income ratio is seen to stay high partially on support from growing operating income.





CORPORATE PROFILE

Housing & Development Bank [HDBK] was established in 1979 (an Egyptian joint stock company), and is now one of the pioneering specialized banks in the housing and urban development space. During the past few years, the bank took a quantum leap in developing and modernizing its banking services provided to individuals and companies.

Office

El Korum street Land Number 24 - Office Building.

Telephone

+202 3760 2833.

Website

<https://www.hdb-egy.com/>

Branches

97.

Chairman & MD

Mr. Hassan Ismail Ghanem.

Auditors

Accounting Auditing & Financial Consulting. Accountability State Authority.

Domicile

Giza, Egypt.

Founded

1979.

Employees

2,718.

Stockholders

4,302.

Listings

EGX: HDBK.

SHAREHOLDER STRUCTURE

Shareholder	Stake
New Urban Communities Authority	29.81%
Rolaco (Ali Hassan Ali Dayekh)	10.00%
RIMCO EGT Investment LLC	9.75%
Misr Life Insurance Company	8.92%
Misr Insurance Company	8.29%
Housing Projects Finance Fund	7.41%
Egyptian Endowment Authority	5.03%
Others	20.79%

PRIME RESEARCH'S COVERAGE

Date	Rating	12M PT
7-Dec-21	Neutral Medium Risk	EGP49.0

Price
EGP15.76
at close of 6 Dec 2021**Fair Value**
EGP19.9
set on 7 Dec 2021**12M PT**
EGP19.5 (+24%)
set on 7 Dec 2021Investment Rating
Risk Rating**Overweight**

★ ★ ★

Medium

! ! !

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Captive Growth

Dragging the correct answer into the box

KEY INSIGHTS

High lending utilization and a wide capital base to help boost growth: QNB Alahli [QNBA] is likely to maintain its market share of corporate loans, currently the largest among our coverage banks. Even if competition toughens, we expect its corporate lending market share to increase to 7.4% by 2025, reflecting high lending utilization (i.e. LDR) of 72%. Moreover, QNBA was successful in retaining a strong capital base which enabled it to tap growth opportunities on the asset side.

Cheapest deposits fend off NIM pressure: CASA deposits represent a dominant 40% of the bank's total deposits. This partially helps NIM which is seen to stabilize at 4.7% by 2025, thanks to an expected 100bps hike in lending rates in 2022.

Solid asset quality despite headwinds: Not only does QNBA enjoy solid asset quality with thin volume of Stage III loans, it is a quite capable lender at the same time, which brightens our outlook for the bank's ability to maintain asset quality. We also see our bullish outlook still standing in face of expected lending growth, particularly on the SME front, which will extend into 2022 before sliding by 2023.

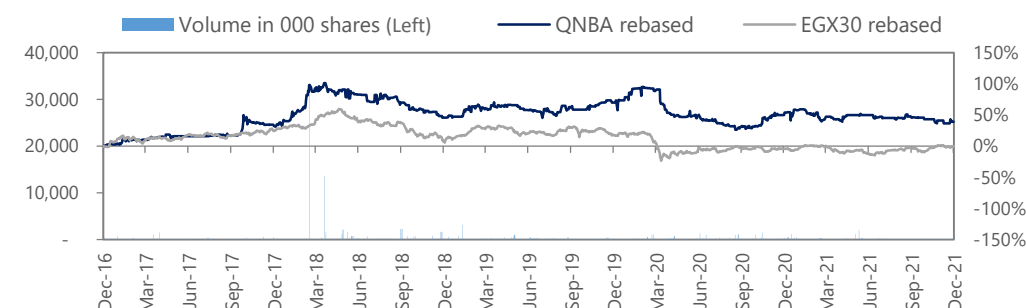
VALUATION, INVESTMENT THESIS, & RISKS

Overweight / Medium Risk, 12M PT EGP19.5/share (+24%): Using the residual income model, we reached a fair value of EGP19.9/share. However, we set our 12-month price target (12M PT) at EGP19.4/share, based on a terminal justified P/BV of 1.04x. Offering an upside of 24%, we rate QNBA as Overweight.

Investment thesis: Strong growth in lending capability; prime asset quality; well-proven ALM practices enabling the bank to grasp profitable opportunities.

Risks: Stagnant share trading liquidity; sudden deterioration in asset quality due to new waves of COVID-19; the possibility of fresh whales diving into the market feeding off recent M&A activity, which would lead to fierce competition over lending opportunities; systematic and geopolitical risk.

STOCK RELATIVE PERFORMANCE CHART (5 YEARS)



KEY STOCK STATISTICS

			Q1	Q2	Q3	Q4	Year
Shares outstanding (mn)	2,155						
Free float	5.0%						
Market cap (mn)	EGP33,960	2022	—	—	—	—	e16,306
Market cap (mn)	USD2,163	2021	3,571	3,799	3,863	e2,434	e13,667
52w range (EGP)	18.99–13.00	2020	3,848	3,613	3,627	3,549	14,637
EGP100 invested 5y ago	EGP139	2019	3,214	3,498	3,457	3,584	13,753
TTM EPS	EGP3.65	2018	2,288	2,663	2,977	3,162	11,090
TTM P/E	4.3x	2017	1,950	2,069	2,387	2,289	8,694
2021e EPS	EGP3.64						
2021e P/E	4.3x	2022	—	—	—	—	e9,513
2021e P/B	0.7x	2021	1,967	2,132	1,908	e1,831	e7,838
Last fiscal year's DPS	EGP0.00	2020	1,869	1,976	1,798	1,849	7,491
Dividend yield	0.0%	2019	2,022	2,195	2,239	2,066	8,522
5Yr beta	0.95	2018	1,605	1,854	1,924	1,817	7,200
5Yr Proj. EPS CAGR ('20-'25)	15.4%	2017	1,260	1,470	1,520	1,275	5,525

REVENUES / EARNINGS DATA

	Q1	Q2	Q3	Q4	Year
Net Interest Income (EGPmn)					
2022	—	—	—	—	e16,306
2021	3,571	3,799	3,863	e2,434	e13,667
2020	3,848	3,613	3,627	3,549	14,637
2019	3,214	3,498	3,457	3,584	13,753
2018	2,288	2,663	2,977	3,162	11,090
2017	1,950	2,069	2,387	2,289	8,694
Net Profit (EGPmn)					
2022	—	—	—	—	e9,513
2021	1,967	2,132	1,908	e1,831	e7,838
2020	1,869	1,976	1,798	1,849	7,491
2019	2,022	2,195	2,239	2,066	8,522
2018	1,605	1,854	1,924	1,817	7,200
2017	1,260	1,470	1,520	1,275	5,525



KEY ASSUMPTIONS

Balance Sheet KPIs	2016a	2017a	2018a	2019a	2020a	2021e	2022e	2023e	2024e	2025e	Comments
Total assets market share	4.8%	4.6%	4.8%	4.7%	4.1%	4.8%	5.0%	5.1%	5.2%	5.4%	• Financial investments are seen to fuel asset growth in presence of lucrative yields.
Retail loans market share	6.7%	6.9%	6.9%	6.7%	6.3%	6.3%	6.3%	6.3%	6.3%	6.3%	
Corp loans market share	7.7%	8.3%	8.1%	9.0%	7.1%	7.2%	7.3%	7.4%	7.5%	7.6%	• QNBA is seen to retain corporate lending leadership.
Retail deposits market share	4.0%	3.7%	3.8%	3.5%	3.1%	4.6%	4.7%	4.7%	4.8%	4.9%	
Corporate deposits market share	8.5%	9.4%	8.5%	8.0%	7.5%	7.0%	6.9%	6.6%	6.6%	6.5%	• Long-term financial investments are seen to foster asset growth in presence of lucrative yields.
Cash/TA	6.2%	6.9%	4.5%	4.4%	5.9%	5.4%	4.9%	3.0%	3.0%	3.0%	
Due from banks / TA	5.0%	7.1%	4.5%	3.1%	2.4%	3.9%	3.4%	2.9%	2.4%	1.9%	
Financial investments / TA	15.5%	15.7%	15.4%	16.0%	17.3%	25.3%	26.8%	28.3%	26.3%	23.3%	
T-bills / TA	20.5%	15.7%	19.1%	16.9%	14.5%	12.0%	10.1%	9.2%	10.9%	15.0%	
Income Statement KPIs	2016a	2017a	2018a	2019a	2020a	2021e	2022e	2023e	2024e	2025e	
Return on average equity (ROAE)	26.2%	27.9%	28.1%	26.6%	20.0%	18.6%	19.7%	21.2%	20.0%	19.9%	• ROAE is seen to remain under pressure given its declining financial leverage and lower lending yields.
Effective tax rate	24.9%	25.0%	26.6%	25.5%	29.1%	30.1%	30.0%	30.1%	30.8%	31.2%	
Cost of Funds (CoF)	6.5%	9.0%	9.4%	8.5%	6.7%	6.8%	6.1%	6.4%	6.3%	6.2%	• Despite unfavorable deposit terms, CoF is seen to retreat over our forecast horizon.
Cost of Risk (CoR)	1.92%	0.62%	0.37%	0.43%	1.24%	0.63%	0.60%	0.27%	0.30%	0.11%	
Cost-to-Income Ratio (CIR)	20.8%	23.3%	22.3%	22.4%	22.6%	18.0%	17.5%	17.7%	17.9%	18.1%	• CoR is seen to normalize starting 2022, reverting to pre-2020 levels.

Source: Bank financials, Prime Research estimates.



KEY VALUATION INPUT

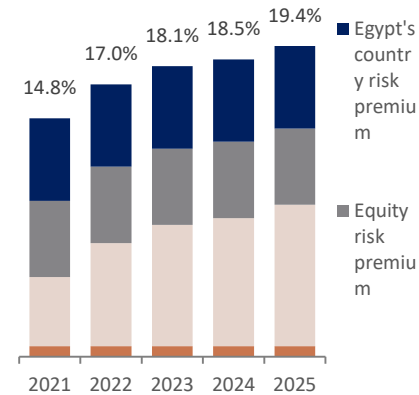
Terminal COE

19.4%.

Terminal growth rate

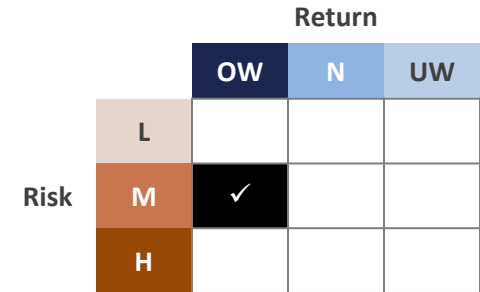
5.0%.

Cost of equity structure (next 5 years)



Source: Prime Research.

RETURN/RISK MATRIX



Source: Prime Research.

VALUATION MODEL

Residual Income	2021	2022	2023	2024	2025
Reported net profit (post 1% earnings sliced to Banking Development Fund)	7,838	9,513	11,954	13,184	15,344
Other adjustments (staff profit share)	784	951	1,195	1,318	1,534
Adjusted Net profit	7,055	8,562	10,758	11,866	13,809
Total shareholders' equity	44,817	51,781	60,995	71,103	83,246
Good Will and Intangibles	195	195	195	195	195
Tangible equity	44,621	51,585	60,800	70,908	83,050
Capital Charge	5,856	7,571	9,333	11,264	13,721
Economic profit	1,198	991	1,425	602	88
Discount factor	0.99	0.85	0.71	0.59	0.49
PV of Economic Profit - During Fcst period	1,186	837	1,009	357	43
Sum of PVs					3,433
Terminal value					154
PV of TV					75
Beginning book value					39,441
Equity Value					42,949
Number of Shares					2,154.8
FV per share (EGP)					19.93

FV SENSITIVITY ANALYSIS

Terminal total assets market share vs. corridor interest rate

Terminal Corridor Interest Rate	Terminal Total Assets Market Share					
		4.4%	4.9%	5.4%	5.9%	6.4%
	9.3%	18.3	19.0	19.7	20.4	21.1
	9.5%	18.4	19.1	19.8	20.5	21.3
	9.8%	18.5	19.2	19.9	20.7	21.4
	10.0%	18.7	19.4	20.1	20.8	21.5
	10.3%	18.8	19.5	20.2	20.9	21.6

Terminal COE vs. growth rate

Terminal Growth Rate	Terminal Cost of Equity					
		21.4%	20.4%	19.4%	18.4%	17.4%
	3.0%	19.6	19.8	19.9	20.1	20.3
	4.0%	19.6	19.8	19.9	20.1	20.3
	5.0%	19.6	19.8	19.9	20.1	20.3
	6.0%	19.6	19.8	19.9	20.1	20.3
	7.0%	19.6	19.8	20.0	20.1	20.3



FINANCIAL MODEL

Balance Sheet (EGPbn)										
FY End: 31 Dec.	2016a	2017a	2018a	2019a	2020a	2021e	2022e	2023e	2024e	2025e
Cash and balances with CBE	11.9	15.4	11.8	12.0	17.2	18.9	20.1	13.9	16.1	18.5
Due from banks	9.6	15.8	11.5	8.5	7.1	13.7	14.1	13.6	13.1	11.9
Treasury bills and Central Bank of Egypt notes	39.1	35.0	49.4	46.2	42.0	41.7	41.3	42.8	58.7	92.4
Financial Investments	29.6	35.1	39.9	43.5	50.2	88.3	109.6	131.5	141.6	143.7
Debt Fin. Invest.	26.8	32.3	37.5	40.9	47.6	87.9	109.1	130.8	140.8	143.0
Loans and advances to customers(Net)	92.6	112.6	138.0	153.5	163.6	174.6	210.7	248.2	292.3	331.9
Gross Loans	97.5	118.2	143.9	161.0	172.9	183.4	219.1	256.7	300.7	340.8
Corp Loans	82.0	99.9	122.2	134.4	140.5	144.4	172.8	202.3	236.8	265.6
Retail Loans	15.5	18.0	21.7	26.6	32.5	39.0	46.3	54.4	63.9	75.2
Financial Derivatives	0.1	-	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Investments in Subsidiaries & associates	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Intangible assets	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
DR Bal. & Other assets	3.3	4.3	3.0	3.4	4.2	5.1	6.0	6.8	7.8	9.0
Fixed assets (net)	1.8	2.1	2.2	2.5	2.6	3.1	3.7	4.2	4.8	5.5
Deferred tax asset	0.2	0.2	0.2	0.1	0.1	0.3	0.4	0.4	0.5	0.6
Total assets	190.9	223.0	258.5	273.0	290.2	348.9	409.0	464.5	538.1	616.7
Due to banks	2.3	3.7	12.7	16.0	4.1	7.4	16.7	20.2	29.6	41.3
Total Deposit	158.1	184.9	205.3	208.1	233.3	287.8	329.8	370.7	423.2	475.7
Corp Deposits	89.8	103.6	110.7	104.3	122.4	121.2	134.8	145.8	163.7	179.5
Retail Deposits	68.4	81.3	94.6	103.9	110.9	166.7	195.0	224.9	259.5	296.2
Financial Derivatives	-	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Other Loans	6.8	4.3	5.2	5.6	3.8	2.5	3.0	3.6	4.0	4.7
CR Bal. & Other liabilities	2.6	2.8	2.7	3.0	3.5	3.7	4.5	5.3	5.9	6.9
Provisions	0.9	1.0	0.7	0.7	0.6	0.6	0.8	0.9	1.0	1.2
Pension benefits Liability	0.3	0.4	0.4	0.5	0.5	0.5	0.7	0.8	0.9	1.0
Current Income Tax / Deferred Tax	1.4	1.7	0.7	1.1	1.3	1.4	1.7	2.0	2.3	2.6
Total liabilities	172.5	198.8	227.8	235.1	247.3	304.1	357.2	403.5	467.0	533.4
Total shareholders' equity	17.1	22.5	28.7	35.3	39.6	44.8	51.8	61.0	71.1	83.2
Total liabilities & shareholders' equity	189.6	221.3	256.4	270.4	286.9	348.9	409.0	464.5	538.1	616.7

Income Statement (EGPbn)										
FY End: 31 Dec.	2016a	2017a	2018a	2019a	2020a	2021e	2022e	2023e	2024e	2025e
Interest earned and similar income	15.6	24.6	30.6	32.4	30.7	32.1	36.1	43.2	48.9	55.8
Interest expense and similar Costs	(8.5)	(15.9)	(19.5)	(18.6)	(16.1)	(18.4)	(19.8)	(23.7)	(26.8)	(30.4)
Net interest income	7.1	8.7	11.1	13.8	14.6	13.7	16.3	19.5	22.1	25.5
Net fees & Commissions income	1.4	1.8	2.0	2.0	1.8	1.5	1.8	2.1	2.3	2.3
Core Banking Income	8.4	10.5	13.0	15.7	16.4	15.1	18.1	21.7	24.3	27.8
Dividends income	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1
Net trading Income	(1.2)	0.1	0.0	0.1	0.1	0.1	0.2	0.3	0.3	0.3
Gain (Loss) on sale of investment	(0.0)	0.0	0.1	0.0	0.0	(0.0)	(0.1)	(0.1)	(0.1)	(0.1)
Non-interest income	0.2	1.9	2.1	2.1	2.0	1.6	2.0	2.4	2.5	2.6
Total Banking Income	7.2	10.6	13.2	15.9	16.6	15.3	18.3	21.9	24.6	28.1
Administrative expenses	(2.0)	(2.5)	(3.0)	(3.5)	(3.7)	(2.7)	(3.2)	(3.8)	(4.3)	(5.0)
Other operating Income/Expenses	2.2	(0.1)	0.1	(0.3)	(0.2)	(0.2)	(0.2)	(0.3)	(0.3)	(0.4)
Operating Income	9.4	10.6	13.3	15.6	16.4	15.1	18.1	21.6	24.3	27.7
Impairment credit losses	(1.9)	(0.7)	(0.5)	(0.7)	(2.1)	(1.2)	(1.3)	(0.7)	(0.9)	(0.4)
Oper. inc. after impairment of cr. losses	7.6	9.8	12.8	14.9	14.3	13.9	16.7	20.9	23.4	27.3
Goodwill Amortization	-	-	-	-	-	-	-	-	-	-
Net Profit before Income Tax	5.6	7.4	9.8	11.4	10.6	11.2	13.6	17.1	19.0	22.3
Income tax	(1.4)	(1.8)	(2.6)	(2.9)	(3.1)	(3.4)	(4.1)	(5.1)	(5.9)	(7.0)
Deffered tax	-	-	-	-	-	-	-	-	-	-
Net Profit	4.2	5.5	7.2	8.5	7.5	7.8	9.5	12.0	13.2	15.3

Source: Bank financials, Prime Research estimates.

Stock data, valuation & yield ratios										
FY End: 31 Dec.	2016a	2017a	2018a	2019a	2020a	2021e	2022e	2023e	2024e	2025e
EOP number of shares	742.0	890.4	979.5	979.5	2,154.8	2,154.8	2,154.8	2,154.8	2,154.8	2,154.8
EOP stock price	37.26	42.41	40.00	47.35	17.98	17.98	17.98	17.98	17.98	17.98
BVPS	7.89	10.39	13.22	16.29	18.30	20.71	23.94	28.22	32.91	38.54
EPS	1.95	2.56	3.34	3.95	3.48	3.64	4.41	5.55	6.12	7.12
DPS	1.00	0.33	0.45	1.00	-	1.00	1.00	1.00	1.00	1.00
P/B	4.7x	4.1x	3.0x	2.9x	1.0x	0.9x	0.8x	0.6x	0.5x	0.5x
P/E	19.1x	16.5x	12.0x	12.0x	5.2x	4.9x	4.1x	3.2x	2.9x	2.5x
Dividend yield	2.7%	0.8%	1.1%	2.1%	0.0%	5.6%	5.6%	5.6%	5.6%	5.6%
Payout ratio	0.0%	10.6%	12.2%	23.0%	0.0%	27.5%	22.7%	18.0%	16.3%	14.0%

Profitability										
FY End: 31 Dec.	2016a	2017a	2018a	2019a	2020a	2021e	2022e	2023e	2024e	2025e
NIM	5.2%	4.8%	5.1%	5.8%	5.6%	4.7%	4.7%	4.8%	4.7%	4.7%
Int. Margin on loan	9.7%	12.9%	13.1%	12.8%	10.4%	8.1%	8.1%	8.5%	8.5%	8.4%
Int. Exp on Deposits	6.2%	8.8%	9.5%	8.7%	6.8%	6.7%	6.1%	6.5%	6.5%	6.5%
Spread	3.5%	4.0%	3.6%	4.1%	3.5%	1.4%	2.0%	2.1%	2.0%	2.0%
NII / Total banking income	97.8%	81.9%	84.1%	86.5%	88.2%	89.4%	89.1%	89.0%	89.6%	90.7%
Non-interest inc. / Total banking inc.	2.2%	18.1%	15.9%	13.5%	11.8%	10.6%	10.9%	11.0%	10.4%	9.3%
Cost to Income	20.8%	23.3%	22.3%	22.4%	22.6%	18.0%	17.5%	17.7%	17.9%	18.1%
Effective tax rate	24.9%	25.0%	26.6%	25.5%	29.1%	30.1%	30.0%	30.1%	30.8%	31.2%
ROAE	26.2%	27.9%	28.1%	26.6%	20.0%	18.6%	19.7%	21.2%	20.0%	19.9%
Tax Benefit	75.1%	75.0%	73.4%	74.5%	70.9%	69.9%	70.0%	69.9%	69.2%	68.8%
Financial Leverage	10.09	10.45	9.41	8.31	7.52	7.57	7.85	7.75	7.59	7.48
ROAA	2.6%	2.7%	3.0%	3.2%	2.7%	2.5%	2.5%	2.7%	2.6%	2.7%
Cost of Risk (CoR)	1.9%	0.6%	0.4%	0.4%	1.2%	0.6%	0.6%	0.3%	0.3%	0.1%
Net Loans/ATA	57.2%	54.4%	57.3%	57.8%	58.1%	54.6%	55.6%	56.8%	58.3%	57.5%
Cost of Funds	6.5%	9.0%	9.4%	8.5%	6.7%	6.8%	6.1%	6.4%	6.3%	6.2%

Capital Adequacy										
FY End: 31 Dec.	2016a	2017a	2018a	2019a	2020a	2021e	2022e	2023e	2024e	2025e
Capital Adequacy Ratio (%)	10.9%	15.8%	17.8%	18.9%	21.9%	21.1%	19.8%	19.6%	19.0%	19.1%
T1 Ratio	9.7%	14.4%	16.6%	18.0%	21.1%	20.5%	19.3%	19.1%	18.6%	18.8%
Risk-weighted assets / Total assets	66.4%	63.1%	63.9%	63.3%	62.6%	64.2%	67.2%	70.1%	71.9%	72.9%

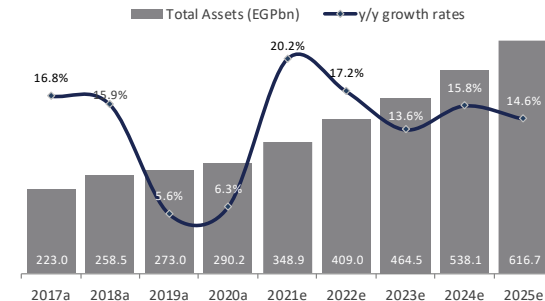
Asset Quality										
FY End: 31 Dec.	2016a	2017a	2018a	2019a	2020a	2021e	2022e	2023e	2024e	2025e
Stage 1	95.7%	95.6%	95.4%	95.5%	94.0%	93.3%	91.2%	91.7%	92.2%	92.6%
Stage 2	1.8%	2.2%	2.2%	1.7%	3.0%	3.0%	5.0%	5.0%	5.0%	5.0%
Stage 3 (NPL)	2.5%	2.2%	2.4%	2.8%	3.0%	3.7%	3.8%	3.3%	2.8%	2.4%
Stage 3 provision coverage	188.1%	203.1%	165.3%	163.0%	177.1%	129.7%	100.0%	100.0%	100.0%	108.3%

Efficiency										
FY End: 31 Dec.	2016a	2017a	2018a	2019a	2020a	2021e	2022e	2023e	2024e	2025e
Net Profit / No. of Employees	0.7	0.9	1.1	1.3	1.1	1.1	1.4	1.7	1.8	2.1
Net Profit / No. of Branches	20.3	25.7	32.7	37.5	32.4	33.9	41.2	51.7	57.1	66.4

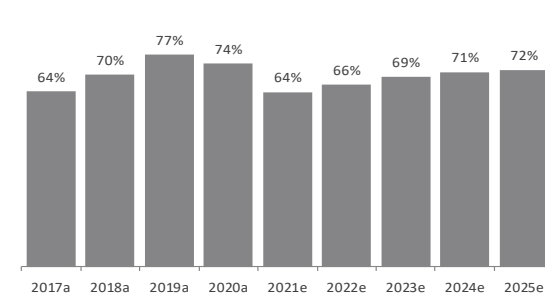
Liquidity										
FY End: 31 Dec.	2016a	2017a	2018a	2019a	2020a	2021e	2022e	2023e	2024e	2025e
LDR	62%	64%	70%	77%	74%	64%	66%	69%	71%	72%
Invest. Securities & Due From Banks / TA	41%	39%	39%	36%	34%	41%	40%	40%	40%	40%
Earning assets / Total assets	89%	89%	92%	92%	90%	91%	92%	94%	94%	94%
Leverage	6%	8%	10%	10%	11%	11%	11%	11%	11%	12%
Equity multiplier	11.2	9.9	9.0	7.7	7.3	7.8	7.9	7.6	7.6	7.4



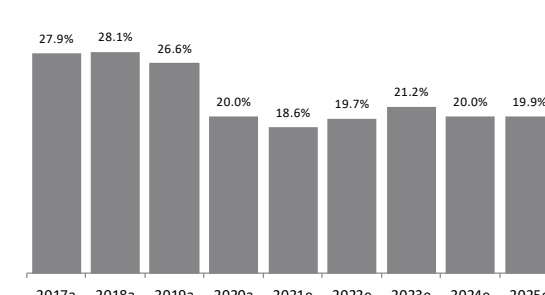
Asset growth will be encouraged by lending growth and financial investments.



Loans-to-deposits (LTD) ratio is seen to receive more focus.

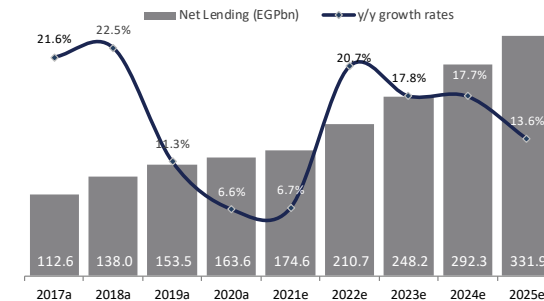


ROAE is expected to recover partially despite lower financial leverage.

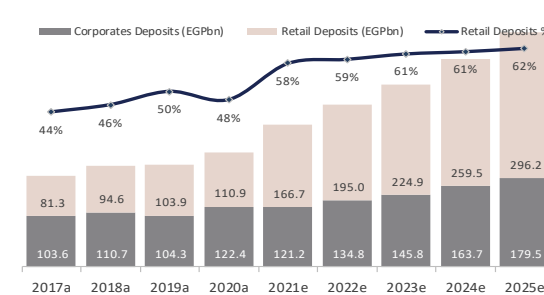


Source: Bank financials, Prime Research estimates.

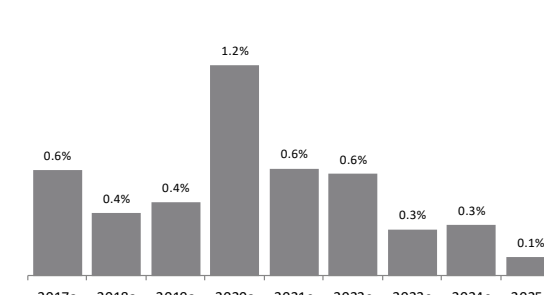
Net lending is seen to hit a 5-CAGR of 15.2%, fueled by public lending.



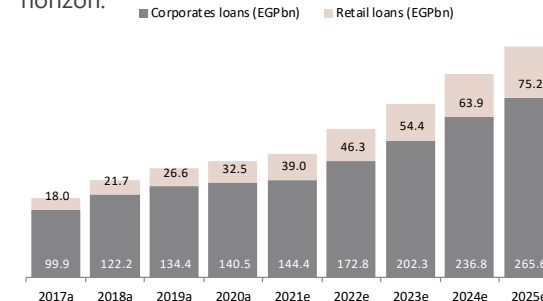
Retail deposits are seen to flourish given the bank's current strategy to build more low-cost deposits.



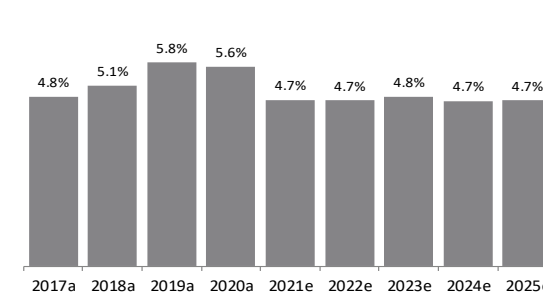
Cost of risk is seen dwindling until 2025 as uncertainty fades.



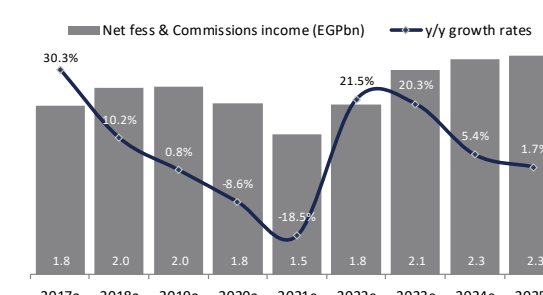
Retail credit showed a quick recovery in 2020, which will most likely carry on over our forecast horizon.



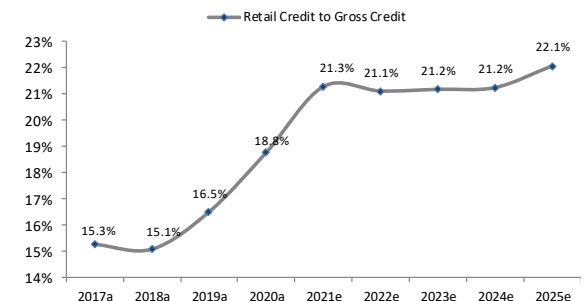
NIM is seen to stabilize given high treasury yields and higher lending yields in 2022.



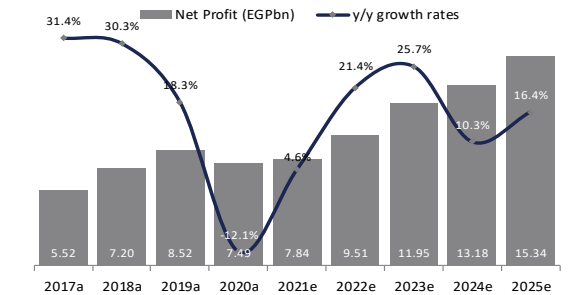
Net fees & commissions are seen to recover with trade finance on better market conditions.



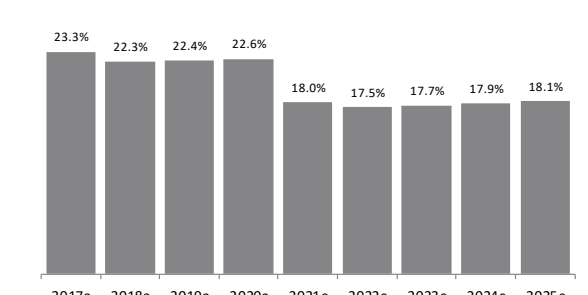
Retail credit-to-total loans is seen to flourish given CBE's stimulations.



Net profit should recover in 2021 given lower booking provisions and high lending volumes.



Cost-to-income ratio is seen to normalize, supported by operating income.



**CORPORATE PROFILE**

QNB ALAHLI [QNBA] is one of the leading financial institutions in Egypt ranked second largest private bank in Egypt. In 2013, QNB Group acquired the majority stake of NSGB Bank which was founded in Egypt in 1978 and renamed to QNB ALAHLI. Since then, it has been expanding to provide impeccable banking services to individuals and corporate clients.

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Website

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Branches

231.

Chairman

Mr. Mohamed El-Dib.

Vice Chairman

Mr. Ali Rashid.

CEO

Mr. Mohamed Mahmoud Bedair.

COO

Mr. Ihab Rafaat.

EVP & CFO

Mr. Sameh Badry.

Board Members

1. Mr. Mohamed El-Dib – Non-Executive.
2. Mr. Ali Rashid – Non-Executive.
3. Mr. Mohamed Mahmoud Bedair – Executive.
4. Mrs. Heba Al-Tamimi – Non-Executive.
5. Mr. Tarek Abdel-Raouf Fayed - Executive.
6. Mr. Adel Al-Malki – Non-Executive.
7. Mr. Abdulla Nasser Al Khalifa – Non-Executive.
8. Mrs. Shaikha Salem El-Dossry – Non-Executive.
9. Mr. Khaled Khalifa El-Sada – Non-Executive.
10. Mr. Nedhal Al-Nuaimi – Non-Executive.

Auditors

KPMG – Hazem Hassan.
BDO.

Domicile

Cairo, Egypt.

Founded

2013.

Employees

6,791.

Stockholders

4,796.

Listings

EGX: QNBA.

SHAREHOLDER STRUCTURE

Shareholder	Stake
QNB Group	94.97%
Others	5.03%

PRIME RESEARCH'S COVERAGE

Date	Rating	12M PT
7-Dec-21	Overweight Medium Risk	EGP19.5

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