

Price
EGP42.0

at close of 1 March 2022

Fair Value
EGP40.9

set on 7 Dec 2021

12M PT
EGP49.0 (+17%)
set on 7 Dec 2021

Investment Rating

Neutral

★

★

★

Risk Rating

High

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Credit Provisions Flattened Earnings Growth

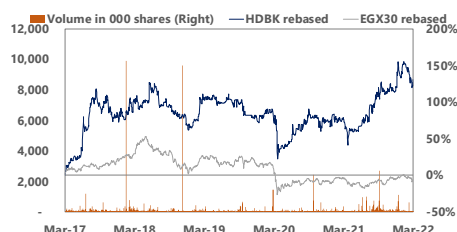
Neutral and 12MPT maintained; risk raised to High

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Source: Bloomberg.

Earnings hindered by higher CoR: Housing & Development Bank [HDBK] reported its separate financials for 2021. The figures showed flat net earnings of EGP1.83bn (+1.6% y/y). Earnings grew in a sluggish way despite the high 17% y/y growth in net interest income (NII) to EGP3.27bn. On the other hand, growth in total banking revenues did not filter through the bottom line due to higher credit provisions. In 2021, credit provisions grew significantly as HDBK had reversed provisions in 2020 amounting to EGP179mn. However, the bank booked credit provisions of EGP162mn in 2021. Accordingly, cost of risk (CoR) inched up to 0.67% (+154bps y/y). We note that c.32% of total credit provisions was booked in Q4 2021. HDBK witnessed a slight improvement in its cost-to-income ratio at 36% vs. 37% a year earlier, while the effective tax rate upped to 30% (+152bps y/y).

ROAE deteriorated despite a higher equity multiplier: ROAE slipped to 22.0% in 2021 from 26.8% in 2020 (-4.8pp y/y). Despite a slightly higher equity multiplier of 8.3x (+2% y/y), the drop in ROAA was more severe; ROAA dropped to 2.7% (-56bps y/y) on higher CoR. We note that despite the higher equity multiplier, CAR strengthened to 23.6% (+136bps y/y).

Balance sheet grew significantly, thanks to interbank assets:

Total assets grew 31% y/y to EGP76bn in 2021, driven by a 33% y/y growth in total deposits of EGP63bn. On the other hand, gross lending grew to EGP26.5bn (+26% y/y). Meanwhile, Treasury exposure fell notably to 33% of total assets vs. 43% a year earlier. Accordingly, gross loans-to-deposits ratio (GLDR) edged lower slightly to 42% vs. 45% a year earlier. We note that the bank opted to utilize most of its deposit growth in interbank assets which contributed c.58% to total asset growth. While CoR upped y/y, asset quality weakened notably on an annual basis, with non-performing loans (NPLs) surging to 10.0% (+2pp y/y). Hence, NPL coverage declined below 100%, recording 83% vs. 121% a year earlier.

Neutral and 12M PT maintained; risk raised to High: In view of 2021 results, we raise our risk rating from Medium to High on concerning above-average NPL ratio. We note that HDBK's BoD has proposed a DPS of EGP2.5/share, implying a 6% yield. That said, we maintain our 12MPT at EGP49.0/share (ETR +17%); hence, we maintain our Neutral rating. HDBK is currently traded at 2022e P/E and P/B of 3.0x and 0.6x, respectively.

Key Stock Statistics

Shares outstanding (mn)	151.8
Free float	70.2%
Market cap (mn)	EGP6,374
Market cap (mn)	USD405
52w range (EGP/share)	25.00-47.97
EGP100 invested 5y ago	EGP230
TTM EPS	EGP12.0
TTM P/E	3.5x
P/BV	0.7x
2022e EPS	EGP13.8
2022e P/E	3.0x
2022e P/B	0.6x
Last fiscal year's DPS	EGP0.0
Dividend yield	0.0%
5Yr beta	0.95
3Y Proj. EPS CAGR	11%

Source: Bank reports, Prime Research.


Financial KPIs (figures in EGPmn, unless otherwise noted)

Balance Sheet EGPmn			
	2020	2021	y/y
Cash	5,800	6,773	16.8%
Due from banks	3,790	14,138	273.1%
Loans and advances to customers	19,350	24,672	27.5%
Financial Investments	24,177	24,390	0.9%
Other	5,199	6,305	21.3%
Total assets	58,316	76,278	30.8%
Due to banks	787	737	-6.4%
Deposits	47,122	62,896	33.5%
Other liabilities	3,028	3,417	12.8%
Total liabilities	50,938	67,049	31.6%
Shareholders equity	7,378	9,229	25.1%
Total liabilities & owners equity	58,316	76,278	30.8%

Income Statement EGPmn			
	2020	2021	y/y
Interest income	6,026	6,965	15.6%
Interest expenses	(3,229)	(3,697)	14.5%
Net Interest Income	2,797	3,269	16.9%
Net fee and commission income	359	411	14.6%
Other non interest income	526	687	30.6%
Total revenues	3,682	4,367	18.6%
G&A and other operating income	(1,345)	(1,593)	18.4%
Operating profit	2,337	2,774	18.7%
Impairment for credit losses	179	(162)	nm
Profit before income tax	2,516	2,613	3.8%
Income tax expense	(715)	(782)	9.4%
Net profit	1,801	1,830	1.6%

Source: Bank reports, Prime Research.

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