

Price

EGP6.61

at close of 21 Aug 2022

Fair Value

EGP11.0 (was EGP9.0)

set on 22 Aug 2022

12MPT

EGP8.3 (+26%, was EGP9.9)

set on 22 Aug 2022

Investment Rating

Overweight



Risk Rating

Medium



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Growth by Inertia

A story of systematic growth; 12MPT downgraded, OW/M maintained

Since the pandemic breakout in 2020 and subsequent global disruptions, some Egyptian banks focused more on protecting their business against any possible negative externalities than on aggressive growth strategies. Similarly, we believe Credit Agricole Egypt [CIEB] chose to protect its market share until more favorable conditions return, while slightly improving its financial position with a combination of cost control and revenue growth approaches. As safe as it was, this strategy led to volatility in CIEB's profits. Here, we anatomize CIEB's past positions then draw a trajectory for the next five years.

Err on the side of caution: CIEB has always adopted and maintained a conservative strategy, drifting away from aggressive growth or market share expansion. Indeed, over the 6y period through 2021, CIEB's growth rates were almost half the market's. On the deposits side, CIEB's deposit growth was a 6y CAGR of 10% versus the market's 22%. Also on the lending side, CIEB's loan portfolio growth was a 6y CAGR of 13% versus the market's 25%. This selective, yet slow growth, has allowed CIEB to shield against market fluctuations while producing satisfactory margins. CIEB's ROAE has been one of the highest among its peers, reaching 24% in H1 2022, while its NIM hit 6.2%. The resilience created by this systematic growth

strategy makes CIEB a very promising investment. Looking forward, in a normalized monetary policy environment, CIEB is set to maintain a sustainable and adequate earnings growth with its steady market share and selective portfolio.

Current tactics: In H1 2022, CIEB still picked the safe side, by choosing not to widely expand its pool of deposits. Unlike other private-sector banks, CIEB did not follow suit with issuing high-yield 3y CDs to lock in funds. Hence, CIEB's deposits grew only 1.8% ytd and remained flat q/q by end of Q2 2022. Having followed the same strategy back in 2016, CIEB seems to be betting on its positive short-term asset-repricing gap of 13% to push its profitability higher with any upcoming interest rate hike in this tightening cycle. Meanwhile, CIEB's net long foreign currency position should boost its growth with any EGP weakness since foreign currency represented 11% of loan book and 27% of deposits by end of H1 2022. CIEB also has an evident tendency to keep the weight of Treasuries light. By the end of 2021, CIEB had one the lowest Treasuries-to-total assets ratios among its peers: 13.5%. This helped the bank lower its effective tax rate to 26% and maintain its loan market share at 1%. However, this means that CIEB also forwent very high-yielding, yet relatively safe investment opportunities.

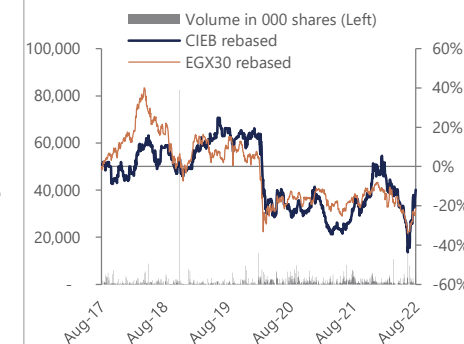
A rosy outlook: We expect CIEB's net income to grow at a 5y CAGR (2021-26) of 16% against the

backdrop of net interest income's (NII) 13%. Moreover, we see CIEB's loan market share stabilizing at 1% through 2026, with its loan book growing at a 5y CAGR (2021-26) of 15%. Meanwhile, we anticipate gross loans-to-deposits ratio to average 70% over our forecast horizon. Given our assessment of the bank's clientele profiles, we expect the cost of risk (CoR) to average -60bps, with non-performing loans (NPL) ratio rising from 3.3% in 2021 to 4.4% by 2026. hence, we expect NPL coverage to drop from 149% in 2021 to 103% in 2026. For 2022, we expect net income to grow to EGP2.1bn (+32% y/y) in light of (1) higher NII of EGP3.5bn (+21% y/y), (2) lower booked provisions of EGP167mn (-48% y/y), and (3) higher other operating income of EGP91mn (+10% y/y).

OW/M, 12MPT EGP8.3/share: Our residual income-based FV is EGP11.0/share. We set our 12MPT at EGP8.3/share or 1.21x BV based, assuming LT ROE of 20% and a terminal COE of 18%. Our 12MPT implies 2022e P/E of 4.9x and P/BV of 1.1x. **Key catalysts:** Persisting inflationary pressures furtherly growing total market lending, thus amplifying CIEB's loan book size. A higher-than-anticipated growth pace. **Key risks:** Current M&A trend could lead to intensified competition. Any deterioration in asset quality would result in higher-than-expected CoR.

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RELATIVE PERFORMANCE (5y)



KEY STOCK STATISTICS

Shares outstanding (mn)	1,250
Free float	39.5%
Market cap (EGPmn)	8,263
Market cap (USDmn)	431
52w range (EGP/share)	4.10–9.00
EGP100 invested 5y ago	EGP88
EPS (TTM / 2022e) (EGP)	1.48 / 1.68
BVPS (TTM / 2022e) (EGP)	7.77 / 7.75
P/E (TTM / 2022e)	4.5x / 3.9x
P/BV (TTM / 2022e)	1.0x / 0.9x
Last fiscal year's DPS (EGP)	0.74
Dividend yield	11.2%
5y historical beta	0.87
5y Proj. EPS CAGR (2021-26)	16%

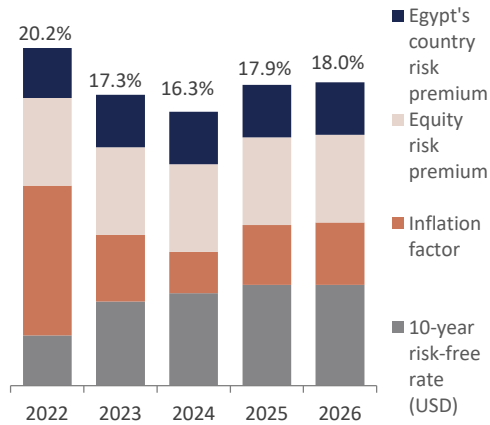


KEY VALUATION INPUT

Terminal COE
18.0%.

Terminal growth rate
8.5%.

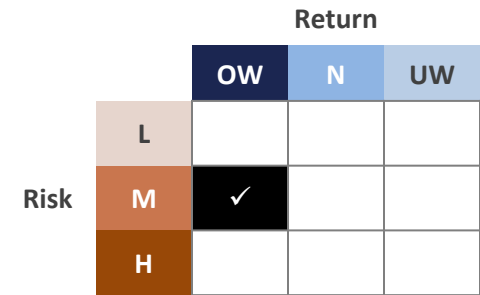
Cost of equity structure (next 5y)



VALUATION MODEL

Excess Return Model	2021a	2022e	2023e	2024e	2025e	2026e	Terminal
Figures in EGPmn							
Net income	1,592	2,097	2,487	2,704	2,948	3,301	2,791
Ending book value	8,669	9,681	10,701	11,664	12,719	13,956	
Less: Equity cost		(1,747)	(1,668)	(1,737)	(2,078)	(2,286)	(2,508)
Excess equity return		350	819	967	870	1,015	283
Terminal value							2,993
ROE (beginning)		24.2%	25.7%	25.3%	25.3%	26.0%	20.0%
Discount factor		1.00	0.85	0.73	0.62	0.53	
PV of excess return (5y)		350	698	710	542	536	
PV of terminal value							1,581
Current BV		8,669	66%				
PV of equity excess return (next 5y)		2,836	22%				
PV of terminal value		1,581	12%				
Target equity value		13,085	100%				
Number of shares		1,250					
FV/share (end of 2021)		10.47					
Market price (21 Aug 2022)		6.61					
FV/share (today, adjusted for DPS)		11.0					
Upside/(downside)		67%					
12MPT (based on justified P/BV)		8.3					
Upside/(downside)		26%					

RETURN/RISK MATRIX



Source: Bloomberg, Prime Research.

12MPT SENSITIVITY ANALYSIS

		Terminal COE				
		16.0%	17.0%	18.0%	19.0%	20.0%
Terminal GR	10.5%	11.9	10.0	8.7	7.7	6.9
	9.5%	11.1	9.6	8.5	7.6	6.9
	8.5%	10.5	9.3	8.3	7.5	6.9
	7.5%	10.1	9.0	8.2	7.5	6.9
	6.5%	9.7	8.8	8.0	7.4	6.9

PEERS ANALYSIS (AS OF 21-AUG-2022)

Name	Ticker	Market cap (EGPmn)	ROE	ROA	FLM	P/E	P/BV	NIM
Commercial International Bank	COMI	80,827	20.9%	3.0%	6.9x	6.0x	1.2x	5.8%
Qatar National Bank Alahly	QNBA	34,477	15.7%	2.3%	6.8x	4.8x	0.7x	5.1%
Faisal Islamic Bank of Egypt (EGP)	FAIT	10,577	20.9%	2.8%	7.4x	2.9x	0.5x	5.0%
Credit Agricole Egypt	CIEB	8,263	22.7%	3.2%	7.2x	4.5x	1.0x	5.9%
Housing & Development Bank	HDBK	5,469	19.7%	2.6%	7.6x	2.6x	0.4x	5.7%
Egyptian Gulf Bank	EGBE	3,208	12.0%	0.9%	13.2x	4.9x	0.6x	4.1%
Abu Dhabi Islamic Bank Egypt	ADIB	3,019	24.4%	1.8%	13.4x	1.9x	0.5x	4.9%
Suez Canal Bank	CANA	2,262	12.6%	1.0%	12.8x	4.3x	0.5x	3.2%



FINANCIAL MODEL

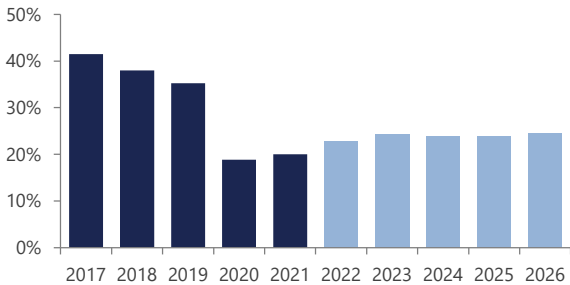
Financials (ended 31 Dec, EGPmn)	2020a	2021a	2022e	2023e	2024e	2025e	Ratio & Multiples	2020a	2021a	2022e	2023e	2024e	2025e
Balance Sheet							Per-Share Data						
Cash & other at CBE	5,085	5,148	5,464	4,326	3,227	5,762	Price (EGP)	6.50	7.58	6.61	6.61	6.61	6.61
Interbank assets	6,928	10,247	8,348	10,381	13,675	13,294	EPS (EGP)	1.09	1.27	1.68	1.99	2.16	2.36
Net customer loans	25,442	28,894	34,342	40,168	46,033	52,448	BVPS (EGP)	5.81	6.94	7.75	8.56	9.33	10.18
Securities holdings (assets)	7,225	8,095	9,269	10,320	11,598	12,960	DPS (EGP)	-	0.74	1.01	1.19	1.30	1.42
T-bills	4,988	5,343	7,310	8,028	8,892	9,781	Dividend yield	0%	10%	15%	18%	20%	21%
Fixed assets	630	560	542	549	575	607	P/E (x)	5.95x	5.95x	3.94x	3.32x	3.06x	2.80x
Intangibles	127	138	138	138	138	138	P/BV (x)	1.1x	1.1x	0.9x	0.8x	0.7x	0.6x
Non-earning and other assets	1,312	1,811	1,383	1,383	1,383	1,383	Profitability & Efficiency						
Total assets	51,736	60,235	66,796	75,291	85,519	96,372	RoAA	2.7%	2.8%	3.3%	3.5%	3.4%	3.2%
Interbank liabilities	44	6	597	926	1,420	1,616	RoAE	19%	20%	23%	24%	24%	24%
Customer deposits	41,254	48,216	53,088	60,235	69,006	78,607	Payout ratio	0%	58%	60%	60%	60%	60%
Other liabilities	3,181	3,345	3,429	3,429	3,429	3,429	Nil/total banking income	78%	76%	78%	78%	77%	76%
Total liabilities	44,478	51,566	57,114	64,590	73,856	83,652	NIM	6.4%	5.9%	6.2%	6.6%	6.0%	5.7%
Shareholders' equity	7,258	8,669	9,681	10,701	11,664	12,719	Spread	5.9%	5.5%	5.8%	6.1%	5.5%	5.3%
Total liabilities & equity	51,736	60,235	66,796	75,291	85,519	96,372	Cost-to-income ratio	37%	36%	34%	31%	31%	30%
Income Statement							Capital						
Interest income	5,138	5,157	6,068	7,248	7,508	8,105	Tier 1 capital	18%	19%	18%	18%	18%	17%
Interest expense	(2,287)	(2,239)	(2,537)	(3,001)	(3,035)	(3,287)	CAR	20%	21%	21%	21%	20%	19%
Net interest income	2,851	2,918	3,531	4,248	4,473	4,818	RWA as % of total assets	71%	67%	70%	70%	70%	70%
Net fees & commissions	495	571	646	750	871	960	Asset Quality						
Net trading income	252	294	328	381	442	487	NPLs/gross loans	3.1%	3.3%	3.5%	3.6%	3.9%	4.1%
Other net income	42	42	51	54	59	64	NPL coverage ratio	164%	149%	135%	125%	117%	109%
Non-interest income	789	907	1,024	1,185	1,373	1,511	Liquidity & Leverage						
Total revenue	3,640	3,825	4,556	5,432	5,846	6,329	Gross loans-to-deposita ratio (GLDR)	65%	63%	68%	70%	70%	70%
G&A	(1,333)	(1,376)	(1,570)	(1,694)	(1,803)	(1,919)	Earning assets/Total assets	76%	78%	79%	80%	80%	81%
Operating profit	2,306	2,449	2,986	3,738	4,043	4,410	Leverage	10.9%	11.0%	11.2%	11.1%	10.5%	10.5%
Loan loss charge	(364)	(320)	(167)	(235)	(271)	(310)	Equity multiplier	7.1x	6.9x	6.9x	7.0x	7.3x	7.6x
Non-operating Inc./ (exp.)	(4)	83	91	(44)	(48)	(52)	Growth Rates						
Pre-tax profit	1,938	2,211	2,910	3,459	3,723	4,048	Assets	3%	16%	11%	13%	14%	13%
Taxes	(573)	(619)	(814)	(972)	(1,020)	(1,100)	Equity	1%	19%	12%	11%	9%	9%
Net profit	1,365	1,592	2,097	2,487	2,704	2,948	Net loans	9%	14%	19%	17%	15%	14%
							Deposit	4%	17%	10%	13%	15%	14%
							Net income	-42%	17%	32%	19%	9%	9%

Source: Bank financials, Prime Research.

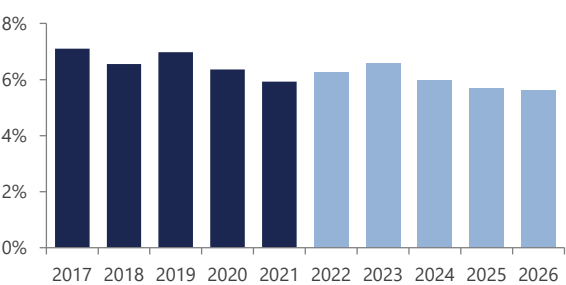


STORY IN CHARTS

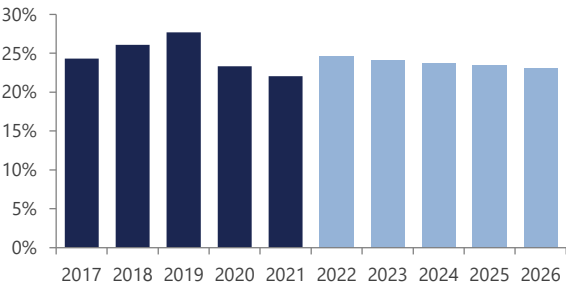
Return on Average Equity



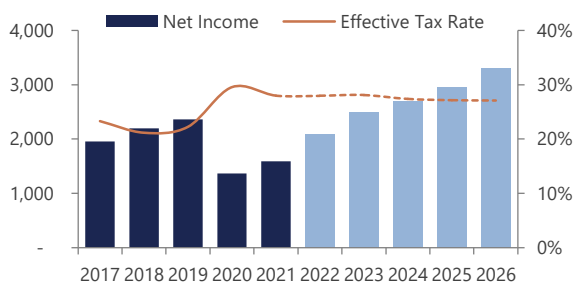
Net Interest Margin (NIM)



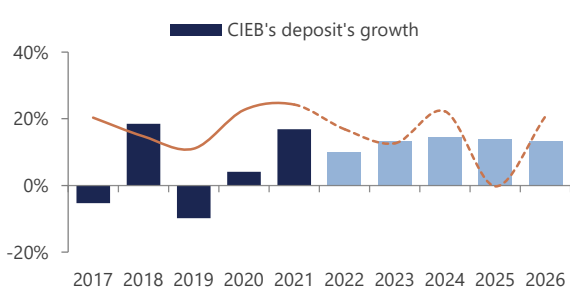
Total Treasuries as % of Total Assets



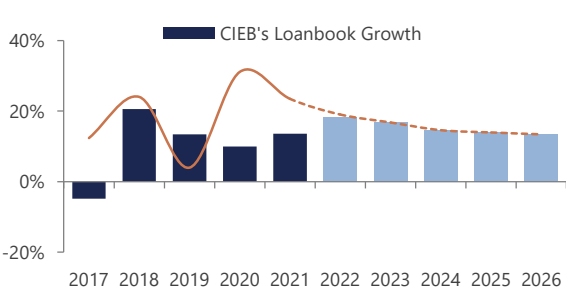
Net Income



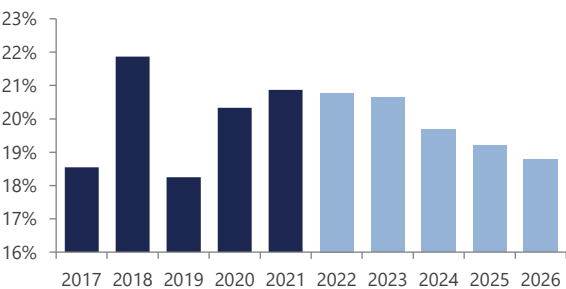
Deposits Growth vs. Market



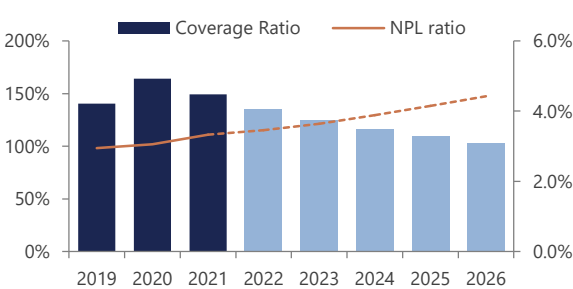
Loan Book Growth vs. Market



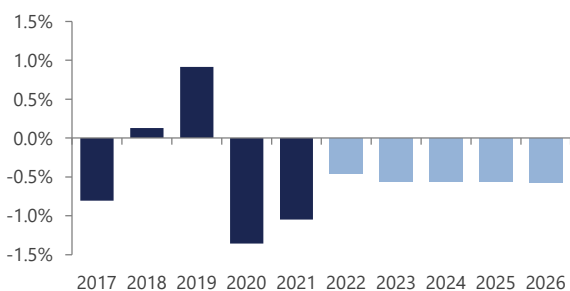
Capital Adequacy Ratio (CAR)



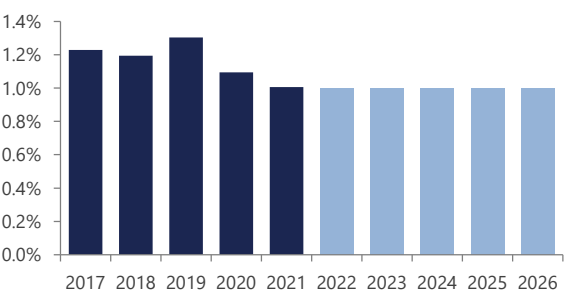
Credit Quality



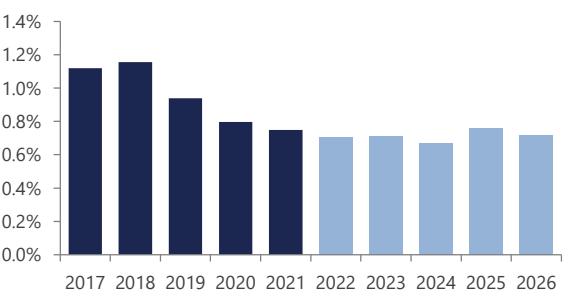
Cost of Risk



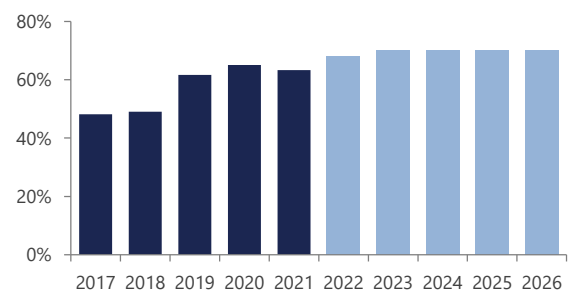
Loans Market Share



Deposits Market Share



Gross Loans-to-Deposits Ratio (GLDR)



Source: Bank financials, Prime Research.



CORPORATE PROFILE

Crédit Agricole Egypt [CIEB] was established in 2006, positioning itself as a reference European bank in Egypt. CIEB serves the entire spectrum of customers: individuals, SMEs, enterprises, corporate and public sector.

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Mr. Franck Senebier.

CFO & EVP

Mr. Walie Lotfy.

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1. Mr. Osama Saleh, Chairman – Non-Executive.
2. Mr. Jean-Pierre Trinelle, MD – Executive.
3. Mr. Michel Le Masson, EVP – Non-Executive.

4. Mr. Jean-Paul Kerrien – Non-Executive.
5. Mr. Paul Carite – Non-Executive.
6. Mr. Didier Reboul – Non-Executive.
7. Mr. Thierry Simon – Non-Executive.
8. Dr. Ali Ben Dayekh – Non-Executive.
9. Dr. Adel Danish – Non-Executive.
10. Ms. Rania Gaafar – Non-Executive.

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MAZARS Mostafa Shawki.
EY – Allied for Accounting & Auditing.

Domicile

Cairo, Egypt.

Founded

2006.

Stockholders

5,985.

Listings

EGX: CIEB.

SHAREHOLDER STRUCTURE

Shareholder	Stake
Crédit Agricole SA	47.4%
Crédit Agricole CIB – Corporate & Investment Banking	13.1%
RolaCo IGB Investment (owned by Ali Hassan Ali Dayekh)	10.0%
Others	29.6%

PRIME RESEARCH COVERAGE HISTORY

Date	Rating	12MPT
13-Apr-2021	Overweight Medium Risk	EGP8.2
21-Feb-2022	Overweight Medium Risk	EGP9.9
22-Aug-2022	Overweight Medium Risk	EGP8.4

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