PRIME

Market Price	Fair Value	12MPT	Investment Rating	Risk Rating
EGP14.30 at close of 27 Nov 2022	**EGP28.5** (was EGP18.4) set on 28 Nov 2022	**EGP22.6** (+58%, was EGP21.7) set on 28 Nov 2022	Overweight ★ ★ ★	Medium ! ! !

Unmitigated Temerity

Growth, Profitability, or Both? Reiterated at OW/M

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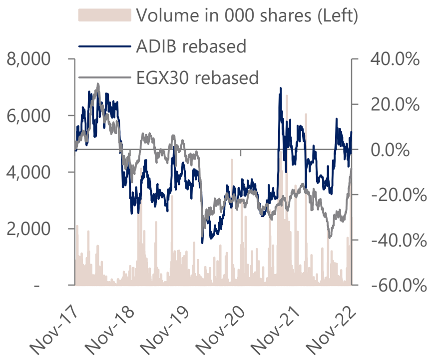
In a fast-moving, rapidly changing, and increasingly competitive banking landscape, Abu Dhabi Islamic Bank - Egypt [ADIB] has been following a strategy of aggressive growth to pave its way to profitability. ADIB managed to solve a radical equation; not only did it restructure its business model with an emphasis on size growth, but it also did not let profitability fall by the wayside in the process. This eventually allows the bank to offer its investors above-average returns. The two questions we try to answer here are: (1) "How risky is this high return?" and (2) "Is this wave of fast-paced profitable growth sustainable?"

Attack is the best defense: ADIB managed to generate a 4y earnings CAGR of 33% to EGP1.4bn in 2021, alongside an extensive loan book CAGR of 25% to EGP51bn (vs. the market's 20%). This was derived from a just-as-strong growth in ADIB's deposits with a 4y CAGR of 26% to EGP76bn (vs. the market's 18%). All of this came with a solid credit quality (i.e. a 3y average NPL ratio of 3.8% and an average coverage ratio of 127%). Even when faced with competition from big state-owned banks that offered more products at often hard-to-beat rates, ADIB continued to show this strong performance in 9M 2022, with loans and deposits increasing by 21% and 13% ytd, respectively. Worth to mention that ADIB is the only Islamic bank that has a relatively high GLDR of 67% reflecting its focus on lending. The bank also managed to report EGP1.5bn in earnings in 9M 2022, reflecting its high-interest rate-sensitive asset-liability mix, which is mostly EGP-denominated and short-term. This focused, high-conviction approach pushed ADIB's ROE to be the highest in the market at 26% in 9M 2022. The bank undertook a risk with its low CAR, reaching 14% in 9M 2022. However, this is about to be hedged against with its recent EGP2bn capital increase followed by an EGP1bn capital increase due to kick off mid-December. We note that faster growth aspirations require sourcing cheaper external funds instead of relying on equity. This explains why ADIB had an increasing balance of USD-denominated subordinated debt that represented a relatively sizable part of its liabilities (1.7% in 9M 2022 reaching EGP1.6bn).

Lower risk, lower return? Given the aforementioned capital increases, we expect ADIB's ROE to contract going forward. However, we also expect it to remain at a satisfactory level relative to the market and above our expected COE. On the other hand, the bank's CAR should become more resilient, even with the EGP depreciation that generally has a negative effect on banks' CARs. That said, ADIB's CAR will be reinforced with three main factors:

RELATIVE PERFORMANCE (5Y)



Source: Bloomberg, Prime Research.

KEY STOCK STATISTICS

Shares outstanding (mn)	**400**
Free float	**27%**
Market cap (EGPmn)	**5,720**
Market cap (USDmn)	**233**
52w range (EGP/share)	**15.0–10.30**
EGP100 invested 5y ago	**EGP107.8**
EPS (TTM / 2022e) (EGP)	**4.37 / 5.03**
BVPS (TTM / 2022e) (EGP)	**20.1 / 21.45**
P/E (TTM / 2022e)	**3.1x / 2.8x**
P/BV (TTM / 2022e)	**0.7x / 0.7x**
Last fiscal year's DPS (EGP)	**0**
Dividend yield	**0.00%**
5y historical beta	**0.87**
5y Proj. EPS CAGR (2021-26)	**18%**

Source: Prime Research.

1. The capital increase.
2. The surge in USD-denominated subordinated debt.
3. Foreign currency-denominated assets that are not higher than 17% of total assets, which will not inflate the denominator by a substantial amount.

All of this illustrates the negative correlation between ROE and CAR. What matters the most, however, is that CAR enhancement will allow for further growth in risk-weighted assets (RWA), for the low capital base sets a cap on the maximum size of RWA. Thus, a higher CAR simply means a higher cap for credit volumes, which means more room for growth.

The best is yet to come: We expect ADIB's net income to grow at a 5y CAGR (2021-2026) of 18% against the backdrop of a 14% CAGR in net interest income (NII). Another income booster to point out, is that ADIB will no longer book contingent provisions against the FX portion of the amount paid under capital increase which amounted to USD143mn given that the EGP2bn capital increase is already in the books. Moreover, we see ADIB's loan market share increasing steadily from 1.6% in 2022 to 2.0% by 2026, with its loan book growing at a 5y CAGR (2021-2026) of 17%—the same as its deposits' 5y CAGR. Consequently, we anticipate ADIB's gross loans-to-deposits ratio to average 70% over our forecast horizon. We also expect the cost of risk (CoR) to average -70bps, leading its NPL ratio higher, from 2.1% in 9M 2022 to 2.8% by 2026. Accordingly, we expect the NPL coverage ratio to drop from 203% in 2022 to 162% in 2026. For 2022, we expect net income to grow to EGP2bn (+46% y/y) in light of:

1. Higher NII of EGP4.7bn (+33% y/y).
2. Higher net fees and commissions of EGP634mn (+23% y/y).
3. Lower other operating expenses of EGP356mn (-26% y/y).

Overweight/Medium Risk; 12MPT of EGP22.6/share: Our residual income-based fair value (FV) is EGP28.5/share, assuming a long-term ROE of 17.5% and a terminal COE of 17%. However, we set our 12MPT at EGP22.6/share based on a P/BV of 0.8x, a c.20% discount to 2023e P/BV implied by our FV. Our 12MPT implies a 2022e P/E of 4.5x. As for the announced EGP1bn capital increase, our post-money valuation implies an FV of EGP24.8/share and a 12MPT of EGP20/share.

Key catalysts: Strong loan book growth with improving economic conditions. Higher-than-expected earnings growth.

Key risks: Deterioration in asset quality. High sensitivity to interest rate unfavorable fluctuations. Slower-than-anticipated earnings growth.

VALUATION MODEL

Residual Income Model							
Figures in EGPmn	**2021a**	**2022e**	**2023e**	**2024e**	**2025e**	**2026e**	**Terminal**
Net income	**1,380**	**2,013**	**2,762**	**2,801**	**2,947**	**3,198**	**3,532**
Ending book value	6,463	8,580	11,322	14,096	17,016	20,185	
Less: Equity cost		**(1,161)**	**(1,749)**	**(1,823)**	**(2,311)**	**(2,917)**	**(3,460)**
Excess equity return		**852**	**1,012**	**978**	**636**	**281**	**73**
Terminal value							793
ROE		26.8%	27.8%	22.0%	18.9%	17.2%	17.5%
Growth rate							8.0%
PV of excess return - 5 years		**852**	**841**	**700**	**391**	**148**	
PV of terminal value							**416**

Summary	
2021 book value	6,463
PV of equity excess return - next 5 years	2,932
PV of Terminal value	416
Equity value	**9,812**
FV/share (end of 2021)	**24.5**

Capital increase?	**Before**	**After**
Given number of shares outstanding (mn)	**400**	**500**
Market price (recent, adjusted for capital increase)	14.30	13.44
FV/share (today)	**28.5**	**24.8**
Upside	99%	85%
12MPT	**22.6**	**20.1**
Upside	58%	49%

Source: Prime Research.

FV SENSITIVITY ANALYSIS

	Terminal COE				
TGR	15.1%	16.1%	**17.1%**	18.1%	19.1%
10.0%	41.4	34.1	28.9	24.9	21.8
9.0%	39.1	33.2	28.7	25.1	22.3
8.0%	37.5	32.4	**28.5**	25.4	22.8
7.0%	36.2	31.9	28.4	25.5	23.1
6.0%	35.2	31.4	28.3	25.7	23.5

Source: Prime Research.

PEERS ANALYSIS (AS OF 27-NOV-2022)

Ticker	Market cap (EGPmn)	ROE	ROA	FLM	P/E	P/BV	NIM
COMI	115,125	21.3%	2.9%	7.4x	8.2x	1.2x	5.85%
QNBA	36,804	31.7%	2.3%	13.9x	2.4x	0.7x	5.08%
FAIT	13,446	21.3%	2.9%	7.3x	3.3x	0.6x	5.03%
CIEB	9,888	23.76%	3.3%	7.3x	4.9x	1.1x	5.87%
HDBK	6,854	22.1%	2.8%	7.8x	2.9x	0.5x	5.70%
ADIB	5,720	26.6%	2.0%	13.0x	1.5x	0.4x	4.85%
EGBE	5,283	12.5%	1.0%	12.9x	7.8x	1.0x	4.08%
CANA	2,849	12.8%	1.1%	12.0x	5.2x	0.6x	3.19%

Source: Bloomberg, Prime Research.

Financial Model

Financials (ended Dec., EGPmn)	2020a	2021a	2022e	2023e	2024e	2025e
Balance Sheet						
Cash & other at CBE	4,630	6,068	9,191	12,630	13,462	22,398
Interbank assets	3,714	4,675	6,537	5,787	6,607	7,624
Net customer loans	40,235	45,367	59,520	70,341	83,638	98,627
Securities holdings (assets)	10,966	18,711	22,663	25,999	27,510	30,954
T-bills	10,580	11,529	10,387	11,916	12,504	13,266
Fixed assets	532	506	456	545	630	716
Intangibles	26	45	45	45	45	45
Non-earning and other assets	2,088	2,549	2,488	2,488	2,488	2,488
Total assets	**72,769**	**89,450**	**111,286**	**129,751**	**146,883**	**176,117**
Interbank liabilities	687	2,352	4,012	5,802	3,912	7,835
Customer deposits	62,825	75,803	94,429	108,329	125,043	147,399
Other liabilities	4,099	4,831	4,266	4,299	3,832	3,867
Total liabilities	**67,611**	**82,987**	**102,707**	**118,429**	**132,787**	**159,101**
Shareholders' equity	**5,159**	**6,463**	**8,580**	**11,322**	**14,096**	**17,016**
Total liabilities & equity	**72,769**	**89,450**	**111,286**	**129,751**	**146,883**	**176,117**

Income Statement						
Interest income	7,168	8,094	10,585	13,216	13,633	14,742
Interest expense	(4,029)	(4,540)	(5,852)	(7,327)	(7,633)	(8,438)
Net interest income	**3,138**	**3,554**	**4,733**	**5,889**	**6,001**	**6,304**
Net fees & commissions	458	514	634	729	833	961
Net trading income	180	80	106	116	132	152
Other net income	25	63	10	11	11	12
Non-interest income	**663**	**658**	**749**	**856**	**976**	**1,126**
Total revenue	**3,802**	**4,211**	**5,482**	**6,745**	**6,977**	**7,429**
G&A	(1,259)	(1,387)	(1,505)	(1,706)	(1,904)	(2,035)
Operating profit	**2,542**	**2,824**	**3,977**	**5,039**	**5,073**	**5,394**
Loan loss charge	(434)	(166)	(482)	(510)	(564)	(667)
Non-operating Inc./(exp.)	(410)	(484)	(356)	(337)	(279)	(297)
Pre-tax profit	**1,699**	**2,174**	**3,139**	**4,192**	**4,229**	**4,429**
Taxes	(547)	(794)	(1,126)	(1,431)	(1,428)	(1,482)
Net profit	**1,151**	**1,380**	**2,013**	**2,762**	**2,801**	**2,947**

Source: Bank financials, Prime Research.

Financial Model (cont.'d)

Ratio & Multiples	2020a	2021a	2022e	2023e	2024e	2025e
Per-Share Data						
Price	10.90	14.32	14.30	14.30	14.30	14.30
EPS	2.88	3.45	5.03	6.90	7.00	7.37
BVPS	12.90	16.16	21.45	28.30	35.24	42.54
DPS	-	-	-	-	-	-
Dividend yield	0%	0%	0%	0%	0%	0%
P/E (x)	3.8x	4.2x	2.8x	2.1x	2.0x	1.9x
P/BV (x)	0.8x	0.9x	0.7x	0.5x	0.4x	0.3x
Profitability & Efficiency						
RoAA	1.7%	1.7%	2.0%	2.3%	2.0%	1.8%
RoAE	25%	24%	27%	28%	22%	19%
Payout ratio	0%	0%	0%	0%	0%	0%
NII/total banking income	83%	84%	86%	87%	86%	85%
NIM	4.8%	4.4%	4.8%	5.2%	4.6%	4.2%
Spread	4.4%	4.2%	4.9%	5.4%	4.8%	4.5%
Cost-to-income ratio	33%	33%	27%	25%	27%	27%
Capital						
Tier 1 capital	11%	10%	13%	14%	15%	15%
CAR	14%	13%	14%	14%	14%	14%
RWA as % of Total Assets	66%	65%	69%	68%	71%	69%
Asset Quality						
NPLs/gross loans	3.1%	3.8%	2.1%	2.2%	2.3%	2.5%
NPLs Coverage Ratio	146%	115%	203%	199%	189%	176%
Liquidity & Leverage						
Gross L/D	74%	68%	66%	68%	70%	70%
Earning Assets/Total Assets	97%	94%	90%	89%	90%	87%
Leverage	6.2%	5.9%	8.7%	9.5%	10.1%	10.4%
Equity Multiplier	14.1x	13.8x	13.0x	11.5x	10.4x	10.4x
Growth Rates						
Assets	22%	23%	24%	17%	13%	20%
Equity	29%	25%	33%	32%	25%	21%
Net loans	30%	13%	31%	18%	19%	18%
Deposit	23%	21%	25%	15%	15%	18%
Net Income	4%	20%	46%	37%	1%	5%

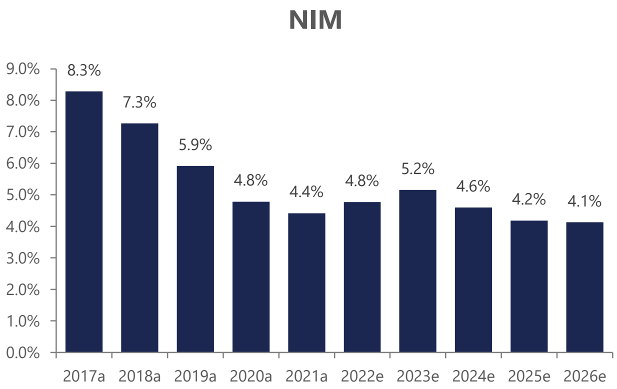
Source: Bank financials, Prime Research.

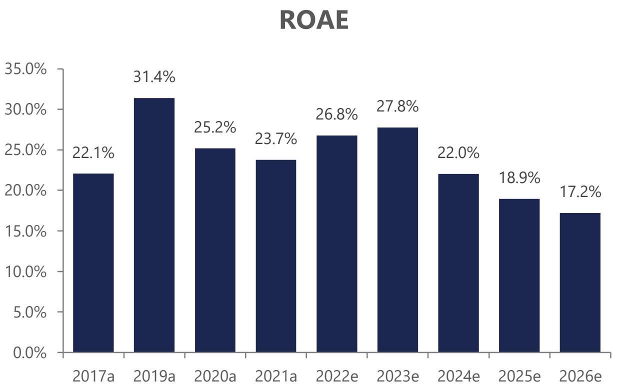
Abu Dhabi Islamic Bank - Egypt [ADIB]

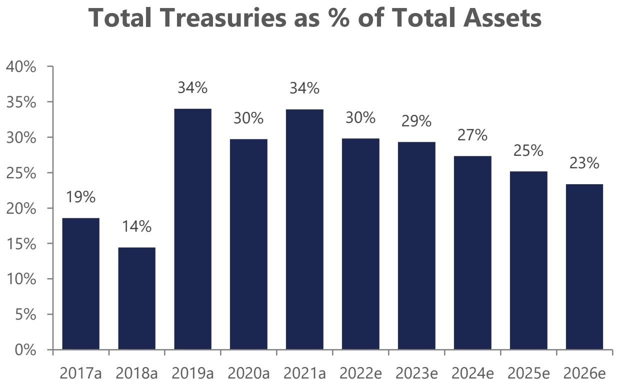
Monday, 28 November 2022 / 2:00 pm CLT

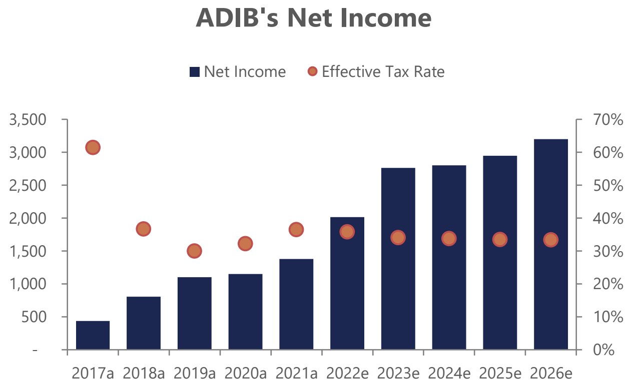
Egypt / Banks / Core Coverage Update

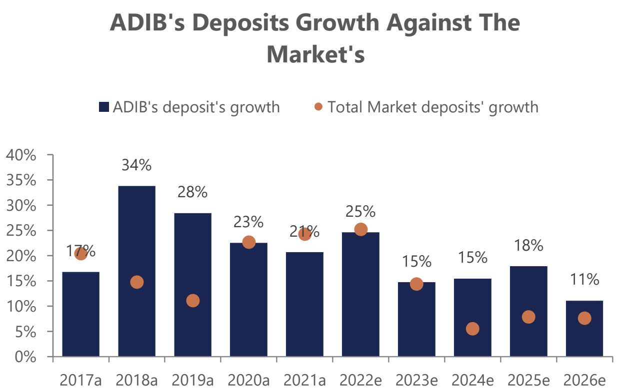
Story in Charts

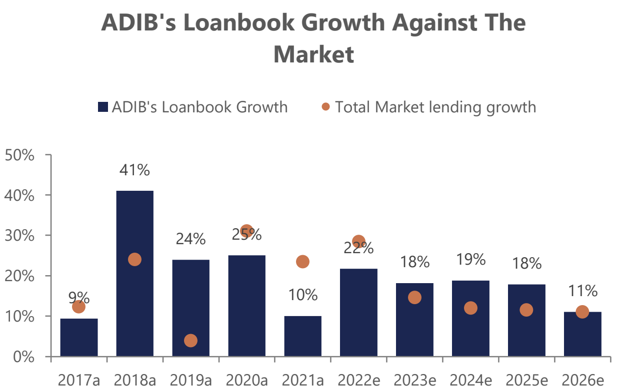




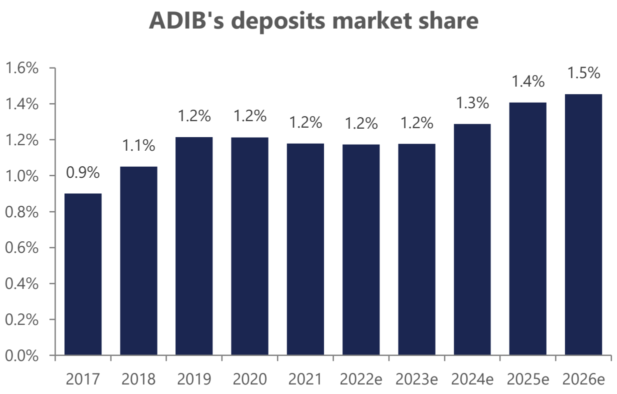


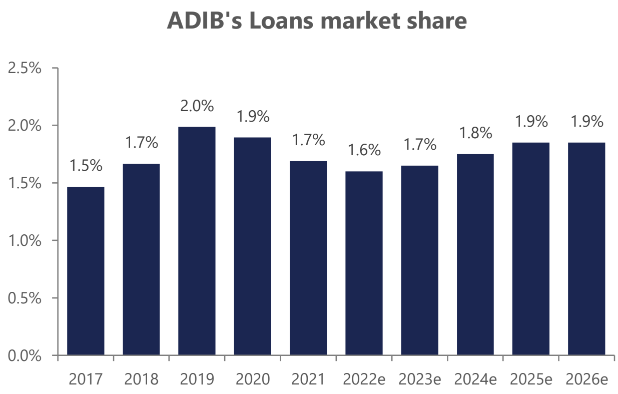


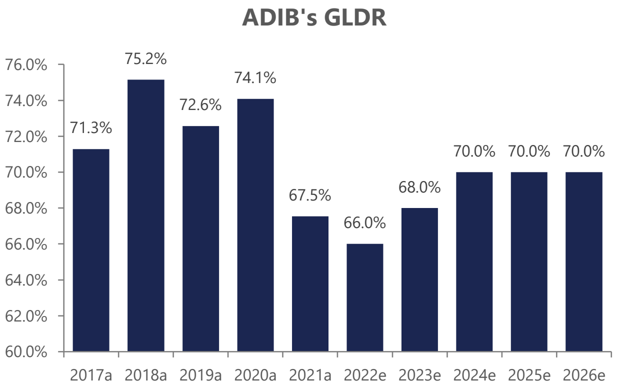


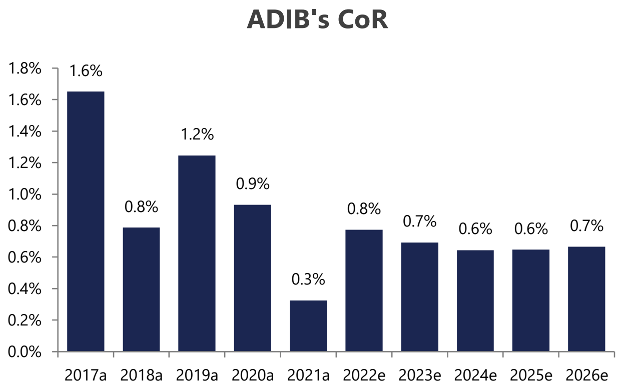


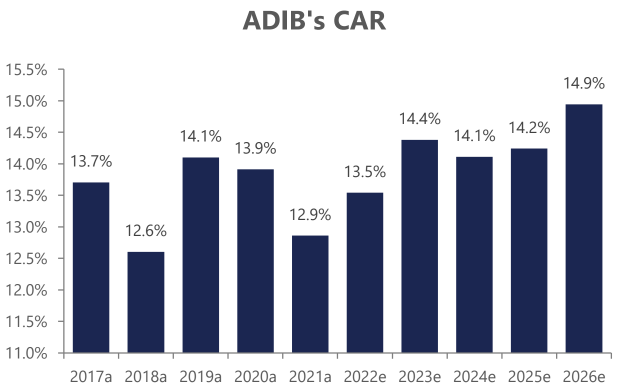
STORY IN CHARTS (CONT.'D)

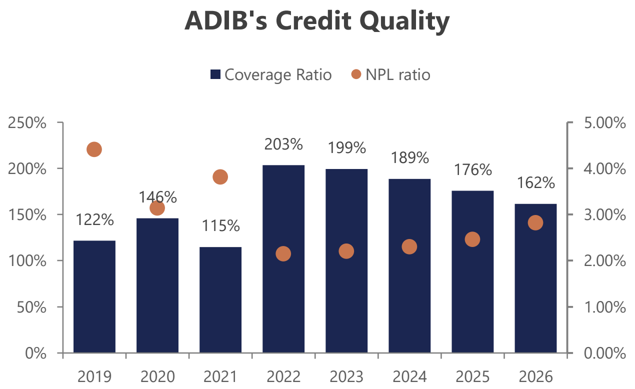












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