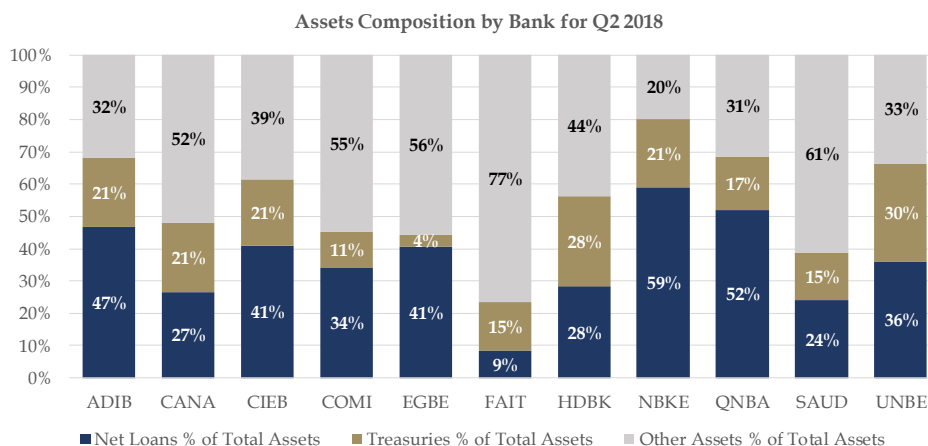


Today's Story

Key Takeaways from Banks' H1 2018 Results

With Q2 2018 earnings season approaching its end, we focus today on banks' H1 2018 results. Around 85% or 11 out of the 13 listed banks have reported their H1 2018 results so far, and they seem to reflect various shifts in certain asset-liability management trends when compared to H1 2017. We note that such shifts are taking place in a pro-growth climate for the entire sector. As the below tables show, total banking income registered EGP27.2bn (+25% y/y), while earnings surged to EGP13.7bn (+30% y/y) in H1 2018. With banks half way through the 2018 calendar year, we note below some major takeaways from H1 2018 results:

- NPLs cooled down in both absolute and relative terms:** Non-performing loans (NPLs) retreated in absolute (EGP) and relative terms compared to banks' gross loan portfolios. NPLs registered EGP19.8bn in H1 2018 (-15% ytd), with a median NPL ratio of 4.5% (-199bps ytd). The contraction in the size of NPLs reflects improvement with regards to bad debt collection as well as growth in gross loan portfolios, further diluting NPL ratio in the process. Such a behavior refers to a genuine improvement in the asset quality of the banking sector. With the recent dive in NPLs, their corresponding coverage ratio has also improved to 151% (an increase of 22.19 percentage points ytd).
- Impairment for credit losses marred earnings trends:** Earnings growth reached 30% y/y, with 10 of the 11 banks posting y/y growth rates, except for **UNBE** which saw its earnings drop 13% y/y. To get a better understanding of banks' performance, we prefer to look at earnings before impairment for credit losses (EBICLs), which showed some divergence from earnings. For instance, **CANA**, **CIEB**, and **EGBE** posted y/y higher earnings in H1 2018 but lower EBICLs, having booked lower provisions in H1 2018. On the other hand, **ADIB**, **SAUD**, and **COMI** could have posted higher earnings growth if it wasn't for the higher provisions built during H1 2018.
- Getting ready for the easing cycle to resume?** H1 2018 has so far shown stupendous balance sheet expansion for most banks. Deposits recorded EGP855bn (+7% ytd), while lending grew more aggressively with gross loans reaching EGP430.8bn (+12% ytd). Thus, gross loans-to-deposits ratio edged higher to 50% (+255bps ytd). The period showed 10 out of 11 banks witnessing deposits expansion; only **HDBK** deposits fell 24% ytd. Interestingly, banks' exposure to Treasuries was reduced notably to EGP161.7bn (-6% ytd), retreating to 16% (-218bps ytd) as a percentage of total assets. Lower exposure to Treasuries, coupled with more lending activities, hints that banks' management teams may be looking forward to the resumption of the CBE easing cycle.



Source: Banks reports

EGPmn	Net Interest Income			Non-Interest Income			Total Banking Income		
	H1 2018	H1 2017	y/y	H1 2018	H1 2017	y/y	H1 2018	H1 2017	y/y
ADIB	1,162	936	24%	269	225	20%	1,431	1,161	23%
CANA	416	526	(21%)	111	73	51%	527	600	(12%)
CIEB	1,418	1,327	7%	437	432	1%	1,855	1,759	5%
COMI	7,853	5,743	37%	1,632	1,317	24%	9,485	7,060	34%
EGBE	861	830	4%	140	166	(16%)	1,001	996	1%
FAIT	1,768	1,293	37%	106	93	14%	1,874	1,386	35%
HDBK	1,600	905	77%	168	112	49%	1,768	1,017	74%
NBKE	1,297	1,197	8%	345	241	43%	1,642	1,438	14%
QNBA	4,951	4,018	23%	1,128	972	16%	6,079	4,990	22%
SAUD	871	696	25%	132	115	15%	1,003	811	24%
UNBE	435	401	8%	94	83	14%	530	484	9%
Total	22,632	17,872	27%	4,562	3,830	19%	27,194	21,702	25%

EGPmn	Earnings			Impairment for Credit Losses			EBICLs		
	H1 2018	H1 2017	y/y	H1 2018	H1 2017	y/y	H1 2018	H1 2017	y/y
ADIB	387	339	14%	205	12	1609%	592	351	69%
CANA	210	207	2%	19	52	(63%)	229	258	(11%)
CIEB	1,091	942	16%	(68)	86	(178%)	1,023	1,028	(0%)
COMI	4,424	3,561	24%	1,291	809	60%	5,716	4,371	31%
EGBE	275	258	7%	73	220	(67%)	349	478	(27%)
FAIT	1,340	715	88%	(26)	41	(165%)	1,314	755	74%
HDBK	993	599	66%	132	147	(10%)	1,124	746	51%
NBKE	989	727	36%	52	192	(73%)	1,041	919	13%
QNBA	3,459	2,730	27%	118	275	(57%)	3,577	3,005	19%
SAUD	411	316	30%	222	102	119%	633	418	52%
UNBE	136	156	(13%)	69	58	20%	205	214	(4%)
Total	13,716	10,549	30%	2,087	1,993	5%	15,803	12,542	26%

EGPmn	Deposits			Provisions			Book Value of Equity		
	H1 2018	2017	ytd	H1 2018	2017	ytd	H1 2018	2017	ytd
ADIB	35,811	29,833	20%	963	763	26%	2,681	2,290	17%
CANA	34,029	31,328	9%	4,134	4,614	(10%)	2,681	2,426	11%
CIEB	39,547	37,079	7%	1,167	1,262	(8%)	5,055	5,360	(6%)
COMI	266,826	250,723	6%	11,627	10,994	6%	28,525	28,439	0%
EGBE	56,034	46,466	21%	942	908	4%	3,501	3,483	1%
FAIT	75,762	71,128	7%	908	1,175	(23%)	9,828	9,247	6%
HDBK	31,191	40,885	(24%)	1,957	1,922	2%	4,243	3,563	19%
NBKE	47,535	40,857	16%	889	1,266	(30%)	5,332	4,677	14%
QNBA	191,849	184,877	4%	5,466	5,328	3%	24,791	22,506	10%
SAUD	50,942	44,170	15%	1,210	1,127	7%	2,839	2,633	8%
UNBE	25,602	24,546	4%	673	614	10%	2,287	2,216	3%
Total	855,127	801,891	7%	29,936	29,974	(0%)	91,764	86,840	6%

EGPmn	NPLs			NPLs %			Coverage %		
	H1 2018	2017	ytd	H1 2018	2017	ytd	H1 2018	2017	ytd
ADIB	793	1,032	(23%)	3.0%	5.0%	(200) bps	121%	74%	4751 bps
CANA	5,260	5,854	(10%)	32.1%	38.1%	(598) bps	79%	79%	(21) bps
CIEB	462	521	(11%)	2.2%	2.9%	(70) bps	253%	242%	1053 bps
COMI	5,403	7,117	(24%)	4.5%	7.0%	(244) bps	215%	154%	6071 bps
EGBE	273	261	5%	1.0%	1.0%	(2) bps	345%	349%	(381) bps
FAIT	1,306	1,562	(16%)	13.6%	16.7%	(310) bps	69%	75%	(574) bps
HDBK	797	919	(13%)	5.5%	6.9%	(136) bps	245%	209%	3623 bps
NBKE	1,139	1,618	(30%)	2.9%	4.6%	(170) bps	78%	78%	(23) bps
QNBA	2,699	2,623	3%	2.1%	2.2%	(13) bps	203%	203%	(58) bps
SAUD	876	1,030	(15%)	5.4%	6.5%	(110) bps	138%	109%	2876 bps
UNBE	830	753	10%	7.1%	7.4%	(30) bps	81%	82%	(58) bps
Total/ Median	19,839	23,290	(15%)	4.5%	6.5%	(199) bps	150.9%	128.7%	2219 bps

Source: Banks reports

Top Headlines

Corporate

- **Egyptian Iron & Steel (IRON)** net earnings shrank 3.2% y/y to EGP726.3mn in 2017/18 on slightly higher revenues of EGP1.52bn (+1.2% y/y). Meanwhile the Public Business Minister Hisham Tawfik, revealed the cancellation of the production lines development tender as the study was conducted since 2014. ([Company Financials](#), [Dostor](#))
- **Egypt Aluminum (EGAL)** canceled the public auction for selling gas station as the offers came below the estimated value set by the company. ([Company Disclosure](#))
- **Cleopatra Hospitals (CLHO)**'s CEO, Ahmed Ezz, said that his company is currently mulling to acquire a project in the health care sector without giving details about the nature of the project. He added it could be worth EGP billions. He also hinted that negotiations to acquire **Nozha International Hospital (NINH)** could be back again under the spot after six months. (Al-Mal)

Non-Corporate

- **Egypt** sold EUR610mn **Euro-denominated one-year T-bills** with a yield 1.598%, down from 1.797% in the latest comparable auction a year ago. ([CBE](#))
- **Average yields on Egypt's T-bills** picked up marginally. Yields on **six-month T-bills** increased to 19.168% compared to 18.895% in the latest comparable auction. Meanwhile, yields on **one-year T-bills** were almost flat, recording 18.967% compared to 18.814%. ([CBE](#))
- The **Central Bank of Egypt** left its main interest rates unchanged on its 16 August meeting, with overnight lending rate at 17.75% and overnight deposit rate at 16.75%. ([CBE](#))
- **President El-Sisi** has ratified Law No. 174/2018, offering taxpayers an exemption equal to 90% of the delay fines in case the overdue taxes are paid in 90 days once the law becomes effective and an exemption equal to 70% in case they pay within the following 45 days and 50% if within the following 45 days. (Al-Ahram)

Markets

🔴	EGX 30	15,295.97	(0.40%)	🔴	EGX 70	740.28	(0.02%)
🔴	DFMGI	2,803.32	(0.52%)	🟢	ADSMI	4,906.87	0.42%
🟢	TASI	7,867.16	0.02%	🔴	QE Index	9,447.88	(1.50%)
🟢	S&P 500	2,850.13	0.33%	🟢	MSCI EM	1,022.94	0.13%
🟢	Gold	1,184.25	0.86%	🟢	Brent Oil	71.83	0.56%

*As of market close

- **MENA Markets:** The **EGX 30** ended Thursday's session in the red, driven by losses in **COMI**, **EAST**, and **SWDY**. Elsewhere, **TASI** closed slightly up, but **UAE Indices** closed on a mixed note. **DFMGI** ended lower, while **ADSMI** closed in the green, supported by gains in the **energy** and the **consumer staples** sectors.
- **Global Markets:** **US equities** rose on Friday as investors cheered renewal of trade negotiations between the **US** and its trade partners. **MSCI EM** rebounded lightly as emerging markets held on. **Oil** prices ended higher despite enduring weekly losses. **Gold** prices were traded higher on a slightly weaker **US dollar**.

Number of the Day

32.12%

The NPL ratio of **Suez Canal Bank (CANA)** as of 30 June 2018, the highest of all 13 EGX-listed banks.

Today's Quiz

What's the best performing stock within the EGX 70 ytd?

(Answer located at the end of this newsletter)

Corporate Events

Company	Ticker	Event Type	Event Date	Reason
Middle Egypt Flour Mills	CEFM	Lawsuit	26-Aug	Legal Disputes Relevant to the Company
Orange Egypt for Telecommunications	OREG	BOD	27-Aug	Discuss delisting company's shares
Atlas for Land Reclamation	ALRA	Dividends	27-Aug	Record date for bonus shares eligibility (0.10000:1)
Medinet Nasr for Housing & Development	MNHD	Dividends	29-Aug	Record date for bonus shares eligibility (0.2035:1)
El Nasr Co for Transformers	NASR	Dividends	29-Aug	Distribution of cash dividends of EGP0.1 per share (2st installment)
Egyptian Transport and Commercial	ETRS	Dividends	30-Aug	Distribution of cash dividends of EGP0.5 per share
Sharm Dreams Co for Tourism	SDII	EGM	3-Sep	Reviewing Agenda Items
Rowad Misr Tourism Investment	RMTV	EGM	4-Sep	Reviewing Agenda Items
Palm Hills Developments	PHDC	EGM	6-Sep	Discuss the capital increase
Alexandria Mineral Oils	AMOC	AGM	8-Sep	Discuss the distribution of cash dividends of EGP0.75 per share
Arab Polvara Spinning & Weaving	APSW	Lawsuit	8-Sep	Legal Disputes Relevant to the Company
Amer Group Holding	AMER	EGM	9-Sep	Discuss the reverse stock split
Ibnsina Pharma	ISPH	Lawsuit	18-Sep	Legal Disputes Relevant to the Company
October Pharma	OCPH	Dividends	27-Sep	Distribution of cash dividends of EGP 2.0 per share
International Company for Leasing	ICLE	Dividends	28-Sep	Distribution of cash dividends of EGP 1.125 per share

Quiz Answer

Al-Ezz for Ceramics & Porcelain (ECAP) with a ytd total return of 70%.



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