

Today's Story

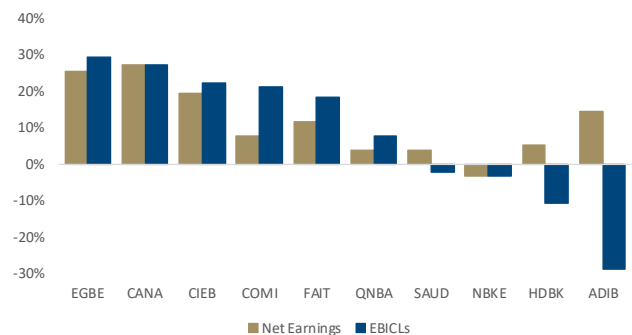
Glimpses from Banks' Q3 2018 Results

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Banks have spent yet another quarter of 2018 utilizing what has been the gift of lucky coincidences to the sector when looking at the macro picture of Egypt. Today, we shed light on Q3 2018 results of 10 EGX-listed banks. Overall, growth was lush, both in top and bottom line terms. Aggregate net interest income for the 10 banks climbed to EGP13.4bn (+31% y/y, +13% q/q), while aggregate net earnings hit EGP7.3bn (+29% y/y, +7% q/q). Growth in Q3 2018 was driven by much more resilient margins, especially sequentially. Strong margins in Q3 2018 were the result of increasing reshuffles towards the attractive investment in better-yielding government debt securities. This came as no surprise, as the fiscal consolidation, coupled with an inflationary pressure, made Treasury yields a “never miss” opportunity before an easing cycle kicks off sometime in the future. Below, we summarize our key takeaways from Q3 2018:

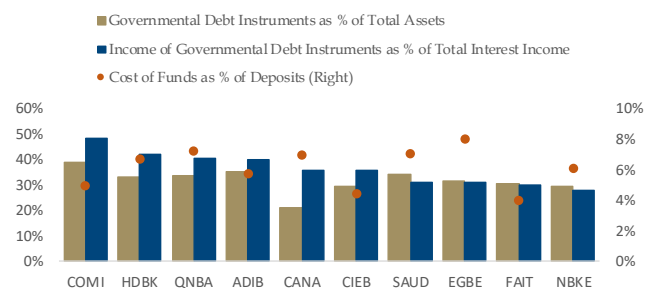
- Thinner lending activities:** Unlike Q2 2018, lending was weaker in Q3 2018. Aggregate net loans of the 10 banks reached EGP388.6bn (+16% ytd, +2% q/q), with most of the loan book growth coming in H1 2018. This gives us an idea of how banks interpreted the 200bps cut in Q1 2018 as a signal to boost lending. Meanwhile, the fact that they needed this U-turn in Q3 2018 back to Treasuries only reflects banks' perception of a postponed easing cycle. As of Q3 2018, net loans retreated to represent 36.8% of total assets versus 37.9% in Q2 2018. Accordingly, short-term Treasuries accounted for 18% of total assets in Q3 2018 versus 16% in Q2 2018.
- Asset quality remained stable:** The asset quality in Q3 2018 did not change much sequentially, albeit showed a sound recovery on a ytd basis. For the entire sample, the median NPLs ratio stood at 3.8% in Q3 2018 as opposed to 3.7% in Q2 2018. Again, most of the progress achieved since the start of the year mainly took place within H1 2018. We attribute this to the weak loan book growth in Q3 2018 compared to a quarter earlier when lending growth helped dilute NPLs ratio.
- EBICLs beat net earnings quarterly:** We prefer looking at earnings before impairments on credit losses (EBICLs) as they sometimes diverge noticeably from banks' actual net earnings. This was the case for these 10 banks, where EBICLs grew 13% q/q, while net earnings growth was only 7%, which suggests that banks have booked higher provisions in Q3 2018. Some of the banks have some wider divergence between the two figures quarterly, such as **ADIB** (earnings +15% q/q, EBICLs -29% q/q).
- Notably lower fees and commissions income:** Income from fees and commissions was weaker, netting EGP1.7bn (+3% y/y, -5% q/q). Non-interest income always helps deliver healthy cost-to-income ratio and in many cases is positively correlated to interest income. We could blame the weak progress of fees and commission income, despite solid growth in interest income, on the extent to which interest income is dominated by income from Treasuries. This leaves little income to be generated from lending, which we consider a main driver for fees and commissions income.
- What to expect?** Q4 2018's kick-off has so far been quiet, where a new tax amendment is feared to potentially inflate the industry's effective tax rates. [Please, read more about it here.](#) While the new amendment has not been pondered by the **House of Representatives** yet, there were certain conditions that seem to be agreed upon (e.g. no retrospective application of the amendment). Hence, the effect should be less severe than previously thought. However, we do think that banks will have enough time to adjust their holdings, which will eventually result in many deviations from current balance sheet norms next year, such as:

Net Earnings vs EBICLs Growth q/q



Source: Company reports

Banks' Exposure to Treasuries Based on 9M 2018 Annualized Figures



Source: Company reports

- **Weaker exposure to Treasuries;** since banks will be looking to cut the dominance of Treasury income on their interest income, thus mitigating the effect of the new tax system.
- **Higher utilization rates;** as a direct outcome of banks looking to reshape their portfolio by reallocating funds which were previously directed to Treasuries. We think banks will slow down their deposits growth, just to avoid excess liquidity. Thus, resulting in higher utilization rates.
- **Stronger fees and commissions income;** as the moving towards lending will help non-interest income to flourish.
- **An even better NPLs ratio;** as gross loans growth will help reduce NPLs percentages initially in the short term; however, if the reshuffles to lending was greatly rushed, NPLs could adjust higher once again in later periods.

Assets Breakdown

	ADIB		CANA		CIEB		COMI		EGBE	
	Q3 2018	Q2 2018	Q3 2018	Q2 2018	Q3 2018	Q2 2018	Q3 2018	Q2 2018	Q3 2018	Q2 2018
Cash	7%	7%	9%	9%	9%	11%	10%	8%	5%	14%
Inter-Bank Assets	5%	3%	35%	28%	21%	17%	14%	16%	20%	13%
TBs	21%	21%	14%	21%	22%	21%	15%	11%	18%	17%
Held for Trading	0%	0%	0%	0%	0%	0%	1%	2%	0%	0%
Loans	47%	47%	27%	27%	38%	41%	32%	34%	39%	40%
Available for Sale Investments	0%	0%	3%	6%	7%	8%	11%	12%	7%	6%
Held to Maturity Investments	15%	15%	7%	5%	0%	0%	13%	13%	6%	6%
Other Assets	5%	5%	4%	4%	2%	3%	4%	3%	4%	4%
Total Assets	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Source: Company reports

Assets Breakdown (Cont.'d)

	FAIT		HDBK		NBKE		QNBA		SAUD	
	Q3 2018	Q2 2018	Q3 2018	Q2 2018	Q3 2018	Q2 2018	Q3 2018	Q2 2018	Q3 2018	Q2 2018
Cash	9%	9%	10%	11%	8%	8%	5%	6%	10%	6%
Inter-Bank Assets	44%	44%	18%	16%	6%	5%	5%	7%	28%	34%
TBs	15%	15%	25%	28%	25%	21%	19%	17%	17%	15%
Held for Trading	0%	0%	1%	1%	0%	0%	0%	0%	0%	0%
Loans	9%	9%	29%	28%	54%	59%	52%	52%	25%	24%
Available for Sale Investments	5%	5%	0%	0%	1%	1%	1%	1%	0%	0%
Held to Maturity Investments	14%	14%	8%	6%	3%	4%	15%	14%	17%	19%
Other Assets	4%	4%	9%	9%	2%	2%	3%	3%	3%	3%
Total Assets	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Source: Company reports

Aggregate Financials for 10 EGX-Listed Banks

Aggregate Balance Sheet					
EGPmn	Q3 2018	FY 2017	Q2 2018	ytd	q/q
Assets					
Cash	85,411	69,245	80,610	23%	6%
Inter-Bank Assets	169,162	154,950	167,382	9%	1%
TBs	190,298	164,260	161,051	16%	18%
Held for Trading	4,872	8,481	7,776	-43%	-37%
Loans	388,680	334,591	381,713	16%	2%
Available for Sale Investments	54,429	47,862	56,813	14%	-4%
Held to Maturity Investments	122,717	126,060	116,112	-3%	6%
Other Assets	39,872	35,270	36,268	13%	10%
Total Assets	1,055,441	940,717	1,007,726	12%	5%
Liabilities & Equity					
Inter-Bank Liabilities	32,797	26,020	37,776	26%	-13%
Deposits	870,798	777,343	829,525	12%	5%
Long-Term Loans	20,895	19,237	21,058	9%	-1%
Other Liabilities	35,230	33,546	29,896	5%	18%
Total Liabilities	959,720	856,147	918,254	12%	5%
Equity	95,720	84,570	89,472	13%	7%

Aggregate Income Statement					
EGPmn	Q3 2018	Q3 2017	Q2 2018	y/y	q/q
Interest Income	31,075	25,076	28,406	24%	9%
Interest Expense	(17,628)	(14,833)	(16,548)	19%	7%
Net Interest Income	13,447	10,243	11,859	31%	13%
Net Fees and Commission Income	1,701	1,653	1,787	3%	-5%
Other Operating Income	843	758	753	11%	12%
G&A	(4,430)	(3,303)	(4,048)	34%	9%
Impairments for Credit Losses	(1,655)	(1,425)	(1,154)	16%	43%
EBT	9,906	7,926	9,198	25%	8%
Income Tax Expense	(2,569)	(2,242)	(2,366)	15%	9%
Net Earnings	7,344	5,684	6,832	29%	7%
EBICLs	8,998	7,109	7,985	27%	13%

Source: Company reports

Top Headlines

Corporate

- **Tourah Cement** (TORA) announced that the best bid on its 392,800 sqm land plot, auctioned on 11 December 2018, was EGP2,700/sqm. This purchase offer is still pending review by the BoD and, if approved, will be put forward to the EGM. ([Company disclosure](#))
- **Elsewedy Electric** (SWDY) and **Arab Contractors** signed an engineering, procurement, and construction (EPC) contract worth a record USD2.9bn for Rufiji Dam & Hydropower Plant in **Tanzania**, entering into a joint venture where SWDY holds a 45% share. The project is financed through direct funding by the Tanzanian government and will start producing energy by April 2022. The project is expected to complete within 36 months after a 6-month mobilization period. ([Company disclosure](#))
- **Heliopolis Housing & Development** (HELI) proposed a plan to develop up to 50% of its unutilized land. The plan has been sent to **Minister of Public Enterprises** for approval. Furthermore, HELI planned to offer new plot of land in **New Heliopolis City** in addition to 484 acres in **Helio Park** for developing through revenue sharing agreements in Q1 2019. (Al-Borsa)
- **Egytrans** (ETRS) reported a net profit of EGP35.4mn in 9M 2018 (-57% y/y), driven by: (1) lower revenues of EGP187.5mn (-35.7% y/y) as **ETAL**'s business slowed down after completing the majority of its mega projects, (2) lower GPM of 37.7% versus 44% in 9M 2017, and (3) lower forex gains (-97.5% y/y). ([Company earnings release](#))

Non-Corporate

- The **Central Bank of Egypt** wants the **World Bank** and **International Monetary Fund** to include the country's informal sector in their GDP figures and other macro-indicators for Egypt, the bank's deputy governor Gamal Negm said. ([Arab Finance](#))
- **Egypt** signed agreements worth USD1.9bn on the side lines of the Africa 2018 Forum in **Sharm El-Sheikh**. The agreements include strategic partnerships to invest in Egypt's infrastructure, information technology, renewable energy, and to foster entrepreneurship and private sector development in the country. ([Arab Finance](#))

Markets

↗	EGX 30	12,856.83	1.52%	↗	EGX 70	673.05	0.65%
↗	DFMGI	2,573.45	1.50%	↗	ADSMI	4,837.57	0.45%
↗	TASI	7,890.09	0.65%	↘	QE Index	10,433.56	(0.46%)
↗	S&P 500	2,651.07	0.54%	↗	MSCI EM	978.90	1.46%
↗	Gold	1,245.68	0.00%	↗	Brent Oil	60.45	0.50%

*As of market close, except for commodities at spot price as of 8.31am CLT.

- **MENA Markets:** Egypt's **EGX 30** extended its rebound to the third consecutive session, led by recovering **COMI**, **SWDY**, **GTHE**, and **HRHO**. In the **UAE**, **ADSMI** rose on a stronger **banking** sector, whereas **DFMGI** managed to end notably higher, boosted by **real estate** and **banking** stocks.
- **Global Markets:** **US equities** ended in green, but still not closing at their best intra-day levels on Wednesday, **US futures** are up in morning trading though. **Oil** are up this morning, as US stockpiles dropped, and traders are perceiving positive updates on trade war. **Gold** prices are nearly flat this morning, coupled with also a flat trading for **US dollar index (DXY)**.

Number of the Day

2,115 megawatts

The energy generated from Rufiji Dam & Hydropower Plant in **Tanzania**.

Today's Quiz

What is the **EGX 30's** dividend yield for 2018?

(Answer located at the end of this newsletter)

Corporate Events

Company	Ticker	Event Type	Event Date	Reason
Arabia Investments and Development	AIND	EGM	13-Dec	Discussing capital reduction
Beltone Financial Holding	BTFH	Lawsuit	15-Dec	Legal Disputes Relevant to the Company
Arabian Cement	ARCC	Dividends	16-Dec	Record date for cash dividends distribution of EGP 0.53 per share
Arabian Cement	ARCC	Dividends	19-Dec	Distribution of cash dividends of EGP 0.53 per share
Ibnsina Pharma	ISPH	Lawsuit	19-Dec	Legal Disputes Relevant to the Company
Cairo Investment & Real Estate	CIRA	AGM	20-Dec	Discussion of earnings results
Paints & Chemical Industry	PACH	EGM/AGM	20-Dec	Reviewing Agenda Items
Industrial & Engineering Projects	IEEC	EGM/AGM	21-Dec	Reviewing Agenda Items
Egypt Aluminum	EGAL	Capital Increase	23-Dec	Record date for bonus shares distribution of 50%
Cairo for Educational Affairs	CAED	AGM	26-Dec	Reviewing Agenda Items
El Ezz Aldekhela Steel Alexandria	IRAX	AGM	29-Dec	Discussing distribution of dividends
Industrial & Engineering Projects	IEEC	EGM	29-Dec	Reviewing Agenda Items
Egyptian Media Production City	MPRC	EGM	3-Jan	Reviewing Agenda Items
Golden Pyramids Plaza	GPPL	EGM	5-Jan	Reviewing Agenda Items
Global Telecom Holding	GTHE	AGM	28-Jan	Discussing capital increase
Porto Group Holding	PORT	Lawsuit	29-Jan	Legal Disputes Relevant to the Company

Quiz Answer

6.22%.

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