

## Today's Story

### Can Banks' CARs Accommodate a Shift to Lending?

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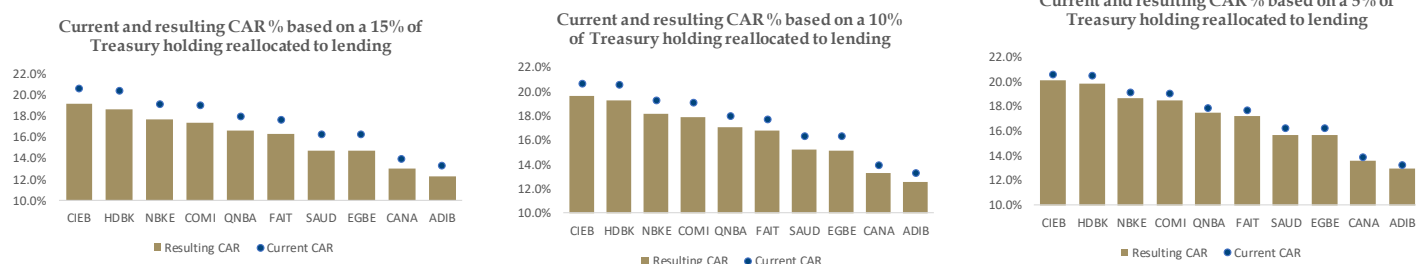
- Background:** Fitch Ratings issued on 19 December a briefing on the new draft for tax treatment of income from governmental debt securities, addressing the consequences as being negative to banks. Measuring the effect on profitability, Fitch found it to reach 20% in some cases if banks maintained their balance sheet structure “as is” currently. The impact on the capital adequacy ratio (CAR) of banks is seen possible, as they are expected to respond to the new taxation by swimming further towards lending as a leeway that reduces their exposure to Treasuries. Fitch applied this exercise on three Egyptian banks, namely **Commercial International Bank (COMI)**, **Credit Agricole - Egypt (CIEB)**, and **National Bank of Egypt (NBE)**, using figures from FY2017. Fitch assumed that those banks will divert 25% of Treasuries holdings into lending.
- Extending this to EGX-listed banks:** We extended this exercise to 10 EGX-listed banks, measuring possible new CARs, depending on how much Treasuries these banks are looking to give up in favor of lending activities. In calculating new risk-weighted assets (RWAs), we assumed that government debt securities are zero risk weighted assets, while loans are 100% risk weighted. We also added, in our calculation of the new eligible capital, an amount of 1.25% derived from the increase in RWAs. In our exercise, we used figures from Q3 2018 balance sheet—the most recent.
- Results summary:** In our exercise, we assumed that banks may turn on average 10% of their Treasuries holdings into loans, which would push their collective CARs to potentially drop by 100bps to 17.1%, down from 18.1%. We note that some banks (namely **ADIB**, **EGBE**, **CANA**, and **SAUD**) may be at risk of nearing **Central Bank of Egypt's (CBE)** minimum CAR threshold for 2019. On the other hand, banks (e.g. **CIEB**, **COMI**, **HDBK**, and **NBKE**) with comfortable buffer would be more capable to adjust their balance sheets without CAR dropping to serious levels. The optimistic scenario will take place in case of a gradual shift to lending, coupled with strong bottom line growth to support banks whose CARs are vulnerable. Finally, it would not be a surprise to start hearing about banks taking on subordinated loans or even raising capital to secure above minimum capital adequacy comfortably.

#### Potential effect on banks' CAR assuming 10% of Treasuries is reallocated to lending

EGPmn as of Q3 2018	Risk Weighted Assets (RWA)	Total Eligible Capital	Current CAR	Treasuries	Increase in RWA	Increase in Eligible Capital	New RWA	New Eligible Capital	Resulting CAR	Change in CARs
HDBK	22,388	4,588	20.5%	15,508	1,551	19	23,939	4,608	19.2%	-125 bps
COMI	180,235	34,396	19.1%	126,959	12,696	159	192,931	34,555	17.9%	-117 bps
EGBE	26,979	4,384	16.3%	20,861	2,086	26	29,065	4,410	15.2%	-108 bps
SAUD	26,427	4,302	16.3%	20,314	2,031	25	28,459	4,328	15.2%	-107 bps
NBKE	35,591	6,840	19.2%	21,222	2,122	27	37,713	6,867	18.2%	-101 bps
CIEB	29,641	6,119	20.6%	15,461	1,546	19	31,187	6,139	19.7%	-96 bps
FAIT	46,309	8,190	17.7%	27,200	2,720	34	49,029	8,224	16.8%	-91 bps
QNBA	152,281	27,333	17.9%	83,398	8,340	104	160,621	27,437	17.1%	-87 bps
ADIB	29,006	3,851	13.3%	17,247	1,725	22	30,731	3,873	12.6%	-67 bps
CANA	19,392	2,704	13.9%	9,551	955	12	20,347	2,716	13.3%	-60 bps
<b>Totals</b>	<b>568,249</b>	<b>102,708</b>	<b>18.1%</b>	<b>35,772</b>	<b>447</b>	<b>604,021</b>	<b>103,155</b>	<b>357,722</b>	<b>17.1%</b>	<b>-100 bps</b>

Source: Company data, SHUAA Securities Egypt

## Measuring the effect, assuming different percentages of Treasuries reallocated to lending



Source: Company data, SHUAA Securities Egypt.

## Top Headlines

### Corporate

- **Orascom Development Egypt (ORHD)** concluded the sale of **Royal Azur** and **Club Azur Hotels** as well as a land plot in the **Makadi** destination on the **Red Sea**. The sale was concluded at a higher enterprise value of c. EGP856mn than the EGP823mn that was previously announced. This will result in total cash proceeds of c. EGP408mn compared to the c. EGP387.1mn that was previously announced. The sale will also result in the deconsolidation of EGP260.1mn of debt held on **Royal for Touristic and Development Co.**; the former owning company of the hotels. Also, ORHD is in the course of finalizing the documents for the completion of the sale of the **Makadi Gardens Hotel** which was sold for EGP114.7mn. (Company Disclosure)
- **Raya Holding for Financial Investments' (RAYA) CEO Medhat Khalil** is reportedly going to submit a mandatory tender offer for 100% of RAYA's shares during today's session. Khalil and the related parties will self-fund the tender offer. ([Arab Finance](#))
- **Nile Cotton Ginning Company's (NCGC) shareholders** will have to pay 35% of the company's land market value in return for retaining their shareholdings. **Cabinet** grants the shareholders a 3-year grace period for paying their percentage of the land value through, supposedly, selling 12 plots of lands owned by the company nationwide. ([Arab Finance](#))

### Non-Corporate

- The **Ministry of Finance** announced its plans to issue Treasuries worth EGP473.75bn during Q3 FY2018/19 (January-March 2019). ([MoF](#))
- The **Ministry of Finance** is looking to outfit major retailers, shopping malls, and auto showrooms with devices that would automate the relay of sales data to the Tax Authority. The move is designed to clamp down on tax evasion and the exceptionally common practice of keeping two sets of books and refusing to provide tax receipts. ([Enterprise](#))

## Markets

↗	EGX 30	12,840.16	1.34%	↗	EGX 70	672.40	0.39%
↗	DFMGI	2,468.85	0.06%	↗	ADSMI	4,817.11	0.34%
↘	TASI	7,710.93	(0.09%)	↘	QE Index	10,222.98	(0.11%)
↗	S&P 500	2,467.70	4.96%	↘	MSCI EM	950.15	(0.01%)
↗	Gold	1,268.74	0.13%	↘	Brent Oil	54.40	(0.13%)

\*As of market close, except for commodities at spot price as of 8.01am CLT.

- **MENA Markets: Egypt's benchmark EGX 30** ended Wednesday's session higher, supported by gains in **COMI, EAST, and SWDY**. Meanwhile, **Saudi Arabia's TASI** closed marginally lower, as **materials** and **telecommunication** stocks weighed. **UAE indices** ended in the green, with **ADSMI** receiving a boost from **real estate** and **banking** stocks.

- **Global Markets:** The **S&P500** gained notably on Wednesday's session. It went up by 4.96% after major losses in the preceding sessions. **Asian shares** followed **US Stocks** and ended the session higher. **Oil** was trading lower on today's morning session while **Gold** was trading higher.

## Number of the Day

### EGP1.01/KW

The cost of electricity borne by metal producers in **Egypt** during FY2018/19.

## Today's Quiz

What's the average Capital Adequacy Ratio (CAR) for Egypt's banks?

(Answer located at the end of this newsletter)

## Corporate Events

Company	Ticker	Event Type	Event Date	Reason
El Ezz Aldekhela Steel Alexandria	IRAX	AGM	27-Jan	Discussing distribution of dividends
Industrial & Engineering Projects	IEEC	EGM	29-Dec	Reviewing Agenda Items
Cairo Investment & Real Estate	CIRA	EGM	30-Dec	Reviewing Agenda Items
Nozha International Hospital	NINH	Dividends	2-Jan	Record date for bonus shares distribution of 25%
Modern Shorouk Printing & Packaging	SMPP	Dividends	2-Jan	Record date for bonus shares distribution of 10%
Nozha International Hospital	NINH	Dividends	3-Jan	Distribution of bonus shares of 25%
Modern Shorouk Printing & Packaging	SMPP	Dividends	3-Jan	Distribution of bonus shares of 10%
Egyptian Media Production City	MPRC	EGM	3-Jan	Reviewing Agenda Items
Golden Pyramids Plaza	GPPL	EGM	5-Jan	Reviewing Agenda Items
Beltone Financial Holding	BTFH	Lawsuit	5-Jan	Legal Disputes Relevant to the Company
Raya Holding	RAYA	EGM/AGM	9-Jan	Discussing capital increase & distribution of dividends
Suez Canal Co for Technology Settlement	SCTS	EGM/AGM	10-Jan	Reviewing Agenda Items
Rowad Tourism	ROTO	EGM	21-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
Arabia Investments and Development	AIND	Lawsuit	3-Feb	Legal Disputes Relevant to the Company

## Quiz Answer

15.6% as of June 2018 according to CBE.

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