Credit Agricole – Egypt (CIEB)

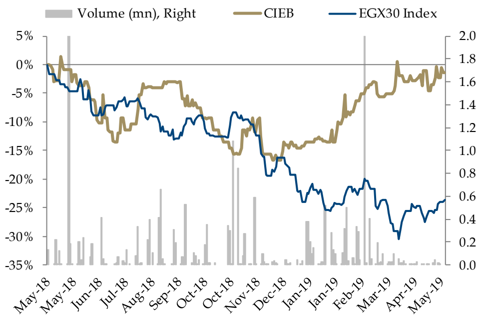
Overweight / Moderate Risk

12-Month Price Target: **EGP52.3** (+23%)
(Set on 12 May 2019)

Sunday, 12 May 2019 / 1:00 pm CLT
Egypt / Banks / Initiation of Coverage

Contents

Stock chart & data



Last Price (EGP)		42.39
52 Week Range (EGP)		39 - 48.9
6M-ADVT (EGPmn)		11.74
Market Cap (EGPmn)		13,180
No. of Shares O/S (mn) / Free float	310.9	/ 39.1%

*Last price as of 9 May 2019.

Spotting the Next Stop

For several years now, Egyptian banks have been relatively unfazed by the country's tough economic variables. Notably, the sector's operating performance was among the least disrupted by local and global negative spells. This was coupled by a number of policy gifts on the macro level (e.g. high interest rates), benefiting private-sector banks' profitability. However, with performance normalization gradually filling the horizon, banks are now gearing up for a new sense of reality. We believe Egyptian banks will respond differently to such a transition, depending on each bank's internal and external positions. We think the resulting disruption will generate value for some names, one of which is Credit Agricole – Egypt (CIEB).

- **The gift of crowding out:** Egypt's banking sector has been a prime beneficiary of many positive backdrops, thanks to the economic reform program starting November 2016. Ever since, banks have enjoyed a stable business model which was not as disrupted by local and global factors as other sectors were. Aggressive monetary tightening, fiscal consolidation, higher oil prices, and weakening consumer purchasing power have all enabled banks to funnel ample liquidity into high-yielding, yet low-risk, government debt securities.
- **Ready to kick off normalization:** We see CIEB numbers shaping up within two scenes: (1) unusually high profitability measures in view of the dual effect of flotation and monetary tightening and (2) a drift towards normalization which will effect a change to the bank's margins, all within a framework of continuous, wise growth. In that sense, we expect EPS to grow at a 5-year CAGR (2018-2023) of 6% or 10% (excluding credit loss impairment).
- **12M PT of EGP52.3/share, initiate with an Overweight / Moderate Risk (ETR +23%):** We valued CIEB using two equally-weighted valuation techniques, namely Justified P/BV and Excess Return Model. This resulted in a 12M PT of EGP52.3/share (an expected total return of 23%). Thus, we initiate our coverage on CIEB with an Overweight / Moderate Risk rating.

Financial summary

FY ended Dec. EGPmn	2017a	2018a	2019e	2020e	2021e
Net interest income	2,797	2,994	3,282	3,523	3,623
Non interest income	987	897	1,121	1,334	1,556
Total revenue	3,783	3,892	4,403	4,857	5,179
Net profit	1,955	2,201	2,194	2,317	2,415
Net customer loans	16,672	20,427	25,785	31,648	38,306
Customer deposits	37,080	43,933	51,903	59,977	68,648
Total revenue growth	-7%	3%	13%	10%	7%
Net profit growth	44%	13%	0%	6%	4%
Net customer loans growth	-4%	23%	26%	23%	21%
Customer deposits growth	-5%	18%	18%	16%	14%
P/E	6.1x	5.8x	6.0x	5.7x	5.5x
P/B	2.2x	2.1x	1.9x	1.7x	1.6x
Dividend yield	9.8%	10.3%	10.0%	10.5%	11.0%
CAR	18.5%	20.3%	18.2%	17.5%	17.0%
NPLs Coverage	240.2%	168.2%	150.1%	138.6%	131.0%
ROAA	4.3%	4.4%	3.8%	3.5%	3.2%
ROAE	41.8%	38.2%	33.8%	32.1%	30.1%
Gross L/D	48.5%	49.3%	52.5%	55.6%	58.7%

Source: Company reports and SHUAA Securities Egypt estimates.

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The Story

Egypt's banking sector has been a prime beneficiary of many positive backdrops, thanks to the economic reform program since November 2016. Ever since, banks have enjoyed a stable business model, which was not as disrupted by global and local factors as other sectors were. Aggressive monetary tightening, fiscal consolidation, higher oil prices, and weakening consumer purchasing power have all enabled banks to funnel ample liquidity into high-yielding, yet low-risk government debt securities.

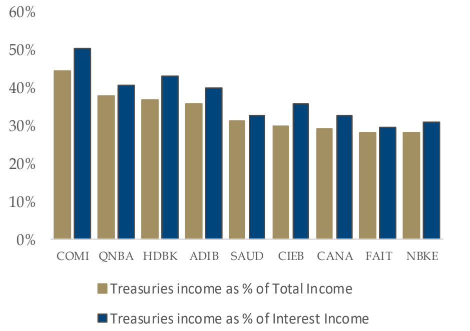
What the future may look like?

- Through Q4 2018, and particularly in November, banks had to deal with a game-changing twist, namely the tax amendment which was poised to inflate banks' effective tax rates. In summary, the new tax method requires accountability for income from Treasuries as part of taxable income, which would result in banks having to reallocate costs to match revenues. The reallocation would shrink other operating costs related to banking operations (theoretically), further amplifying banks' income from operations (non-Treasury) and resulting in a higher effective tax rate for banks.
- Initially, banks were paying either 20% withholding tax on income derived from Treasuries or 22.5% on other corporate taxable income, whichever is higher. In essence, banks were already paying quite a high effective tax rate due to their heavy exposure to Treasuries. This comes as no surprise, since the amount being paid in withholding taxes have always surpassed that being paid in corporate taxes, considering the fact that banks were paying 20% on a top-line item versus 22.5% on a near bottom line item (i.e. pre-tax income).
- Under the new tax regime, banks will keep making their payments at the same tax rate of 20% and the same amount of withholding taxes on income from Treasuries. Yet, their allocation of total expenses will be split between Treasury and other incomes, which would increase the banks' taxable income. This process involves no deduction for any amount that was paid on income from Treasuries.
- Going forward, banks—as represented by **Federation of Egyptian Banks (FEB)**—have reached an agreement with the **Ministry of Finance** to not apply the new amendment retroactively. This means that banks will continue to be taxed the old way on their current holdings of Treasuries.

To learn more about the new income tax amendment, please read our sector note on the latest arrangement between FEB and the MoF.

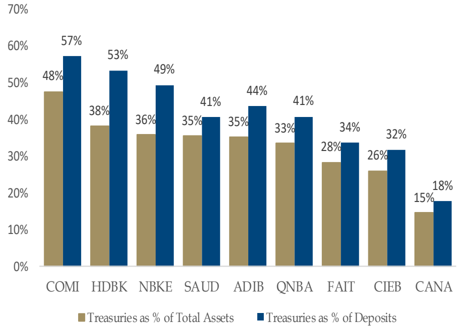
The Story *(Cont.'d)*

Banks' exposure to Treasuries in income statement terms



Source: Company reports.

Banks' exposure to Treasuries in balance sheet terms



Source: Company reports.

We see banks shifting their balance sheet management over the coming years, in an effort to minimize damages that could arise from the new taxation. Their shifting behavior could echo in the following:

1. **Weaker exposure to Treasuries:** Banks will be looking to cut the dominance of Treasury income over their total revenues, thus mitigating the effect of the new tax system. Treasuries have always served as a net interest margin (NIM) supporter; hence, reducing dependency on Treasuries will expedite the pace of NIM softening. However, even if the new tax amendment were off the scene, NIM would have still been normalizing in response to the currently ongoing easing cycle which resumed this year.
2. **A surge in utilization rates:** Hence, spontaneously, banks will be looking to optimize their portfolios, reallocating funds which were supposedly directed towards Treasuries, to be invested into other financing vehicles. Major investment destinations would be inter-banking assets and lending portfolios. In return, banks will be much more careful in controlling their funding costs, let alone any excess liquidity, and hence possibly putting a lid on deposits growth. The resulting balance sheets will be featuring quite high loans-to-deposits ratios, weaker exposure to Treasuries, and a stronger drift towards inter-bank assets.
3. **Larger contribution from non-interest income:** The pick-up in lending activities will assist non-interest income to contribute more to banks' total turnover. Lending helps underpin non-interest income, unlike Treasury investments.

Source: Company reports

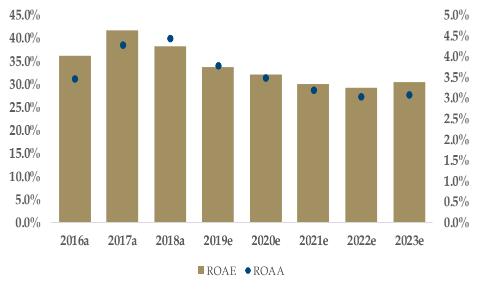
The Story *(Cont.'d)*

CIEB: A Story of "Wise" Growth

The above-described sectorial scene will definitely influence CIEB's performance when it comes to both growth prospects and profitability measures. However, we think the bank's management will remain capable to shield against potential fluctuations. CIEB's past performances have been characterized by the following:

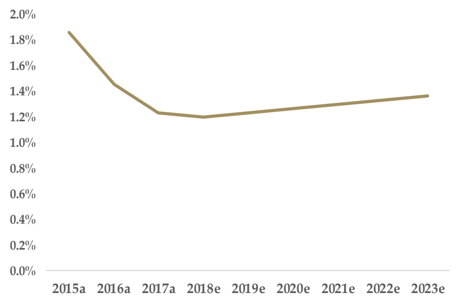
- **Phenomenal profitability metrics:** CIEB's management had initially embraced a strategy that aims for strong profitability, rather than aggressive growth or market share expansion. From 2015 through 2018, CIEB's gross loan portfolio has been growing at a 3-year CAGR of c.14%, at a time when the market for loans was on the rise at a CAGR of 32%. Meanwhile, when it comes to funding, CIEB's deposits have been growing at a CAGR of c.18%, whereas the market was accelerating at a CAGR of 26%. This slow growth has been, however, characterized by high selectivity, which greatly affected CIEB's loan mix. As a result, the bank's ROAE has been off the charts in recent years, reaching a whopping 42% by the end of 2017, way above its peers, with NIM—in turn—reaching stellar levels. We believe that margins have hit their peak (6.9% in 2018), and a hand-off from extraordinary margins to normalized ones is due.
- **Margins have entered their normalization stage:** CIEB has not been heavily exposed to government Treasuries, which currently represent only 26% of its total assets versus a 33% average for its listed peers. In return, CIEB's interest income is currently 36%-dominated by Treasuries, just below the 37% average of listed peers. Despite its lower average exposure to Treasuries, the bank's NIM remained resilient and rich compared to other lenders, thanks to CIEB's strict selective strategy. As of December 2018, 67% of CIEB's loan portfolio was dominated by corporate lending versus 33% by retail loans. Despite the bank's loan mix being tilted towards institutional lending, CIEB managed to secure a strong position in retail personal loans, which represented over 27% of the gross loan portfolio. On the other hand, CIEB has positioned itself well when it comes to working capital and short-term financing which contribute c.48% to the gross loan portfolio. We expect margins to start softening gradually beyond 2018 to later normalize near 5.1% levels in 2023. Normalization of NIMs should be mitigated by management who will then have the option to adjust the balance sheet as needed.

ROAA vs. ROAE



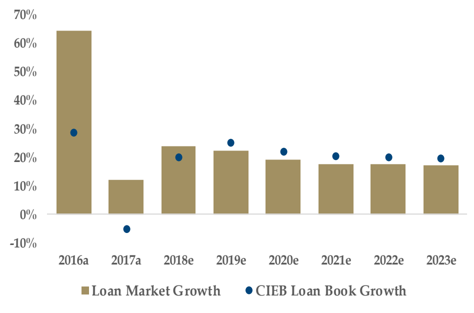
Source: SHUAA Securities Egypt estimates.

Loan market share



Source: SHUAA Securities Egypt estimates.

Loan growth



Source: SHUAA Securities Egypt estimates.

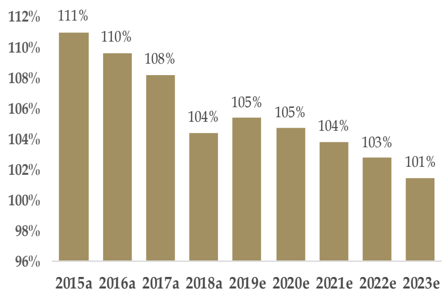
ROAE Breakdown (Dupont analysis)

	2016a	2017a	2018a	2019e	2020e	2021e	2022e	2023e
ROAA	**3.5%**	**4.3%**	**4.4%**	**3.8%**	**3.5%**	**3.2%**	**3.0%**	**3.1%**
Tax Burden	76.3%	76.6%	78.8%	74.7%	72.6%	73.1%	73.6%	74.1%
Operating Margin	62.3%	67.4%	71.8%	66.7%	65.7%	63.8%	62.4%	62.3%
Assets Turnover	0.07x	0.08x	0.08x	0.08x	0.07x	0.07x	0.07x	0.07x
FLM	**10.4x**	**9.8x**	**8.6x**	**8.9x**	**9.3x**	**9.5x**	**9.7x**	**10.0x**
ROAE	**36.2%**	**41.8%**	**38.2%**	**33.8%**	**32.1%**	**30.1%**	**29.3%**	**30.5%**

Source: Company reports, SHUAA Securities Egypt estimates.

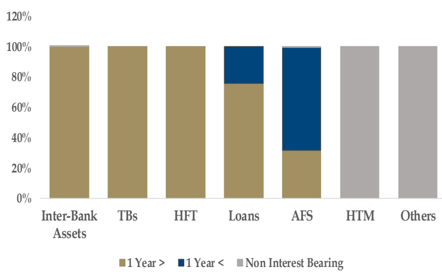
The Story *(Cont.'d)*

IEA to IBL



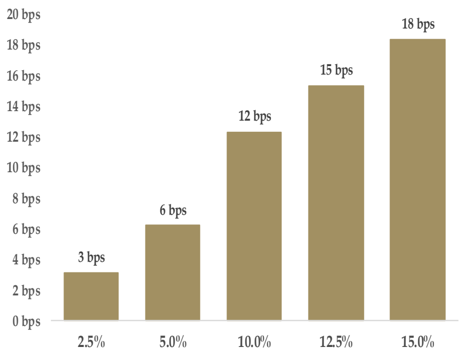
Source: SHUAA Securities Egypt estimates.

Financial assets in local currency maturities structure



Source: SHUAA Securities Egypt estimates.

US dollar appreciation dent on CAR



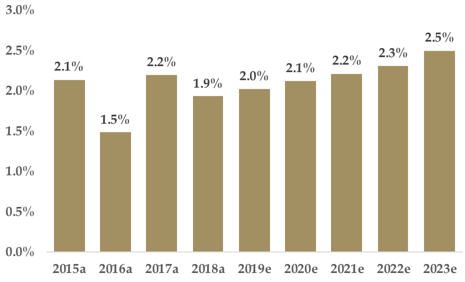
Source: SHUAA Securities Egypt estimates.

Adjustments will include tuning the loan mix for the bank to start embracing capex lending, gearing up for the easing cycle. Moreover, we think CIEB's deposits mix will continue to provide the bank with low funding costs. Meanwhile, we think continued allocation of above 25 % of the loan book to retail personal lending will help slow down CIEB's NIM normalization.

- **Comforting NPLs:** The EGP floatation was followed with some measures, including severe monetary tightening, where interest rates were raised by a cumulative 700bps between 2016 and 2017, while the bank's assets were re-rated higher without serious deterioration in their quality. CIEB's NPL ratio surged notably in Q4 2016 to 4.1%, digesting the instantaneous effect of flotation, yet the bank was able to cool the NPL ratio down quickly in 2018 to 3.3%, which was in line with its pre-flotation levels.
- **Short-term positive gaps could foreshadow a headwind:** A positive re-pricing gap (i.e. more assets responding to rate decision than liabilities) signals higher financial assets subject to re-pricing or maturity when compared to financial liabilities. Looking at CIEB's re-pricing gap within 1-3 months' maturity periods, we notice that CIEB has always been showing a positive gap since 2015, except in Q4 2017 when it cleverly adjusted its gap to negative, bracing for the 200bps cumulative rate cuts that took place in February and March 2018. Currently, the bank still exhibits positive short-term gaps which CIEB might need to eliminate as possibilities of rate cuts are becoming more frequent than before. CIEB currently reprices more than 75% of its EGP-denominated loan book in less than one year.
- **CIEB cannot complain about further EGP devaluation:** CIEB's net monetary position in foreign currencies currently reflects a net long position. In Q4 2018, the bank trimmed what has been a strong USD net position vis-à-vis other foreign currencies. CIEB enjoys USD-subordinated finance, which helps soften any negative impact of EGP depreciation on risk-weighted assets. We forecast that with each 10% drop in EGP, CAR should drop by only 12bps, which implies strong resilience stemming from a capital base that is c.10% USD-denominated through a shareholder loan.

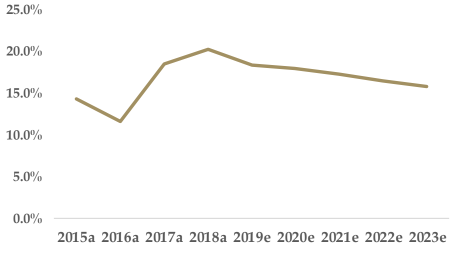
The Story *(Cont.'d)*

Fees & commission income vs. financing portfolio



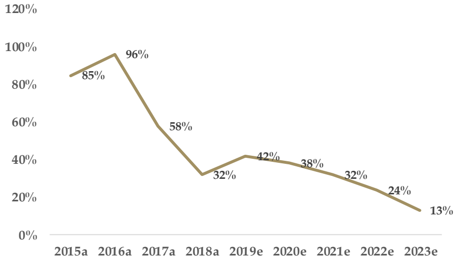
Source: SHUAA Securities Egypt estimates.

CAR



Source: SHUAA Securities Egypt estimates.

IEA-IBL spread as % BVoE



Source: SHUAA Securities Egypt estimates.

- **Solid contribution from fees and commissions income:** The bank's income from net fees and commissions averaged c.18% of CIEB's total banking turnover over the last three years. This is due to CIEB's dependence more on lending than investment in Treasuries. As alluded to earlier, interest income from Treasuries, as opposed to income generated from lending, is a weak booster for fees and commissions income. Going forward, we think CIEB's fees and commissions income will pick up on the back of potential expansion in lending in response to the tax treatment amendment on income from the Treasuries side. We expect income from fees and commissions to average 22% of total banking turnover.
- **Strong capital base:** CIEB enjoys such a strong capital base. As of Q4 2018, the bank's CAR hit 20.3% versus 18.5% a year earlier. The bank's capital adequacy has shown robust improvement between 2016 and 2017, especially in Q2 2017, as CIEB received a USD shareholder loan of USD30mn to further support its capital base. CIEB's CAR went from 11.57% by the end of 2016 to 18.85% in Q2 2017. This high CAR empowers CIEB to maintain high payout ratio—currently at 60%. Going forward, we expect CIEB's CAR to remain above 15%.

The Numbers

We see CIEB's numbers shaping up within two scenes: (1) unusual profitability measures in view of the dual effect of EGP flotation and monetary tightening and (2) a drift towards normalization which we expect should lead to softer margins—all within a framework of cautious, wise growth. In that sense, we expect EPS to grow at a 5-year CAGR (2018-2023) of 6%.

Interest income

- CIEB's interest income has been on the receiving end of many boosts, one of which was definitely a high interest rate environment. It is important to notice that CIEB's interest income was mainly price-driven, rather than volume-driven. To wit, the bank's stellar performance, profitability-wise, has not been the product of solid expansion but rather exceptionally high-yielding assets for the reasons stated earlier. As we think the bank will continue to pursue the same strategy of cautious growth, and with no surprises on the asset yields side during our forecast horizon, we see CIEB's interest income growing at a 5-year CAGR (2018-2023) of 7%.

Funding costs

- CIEB's cost of funding represents one of the lowest amongst its listed peers, which did support its spreads over last years. These costs were kept low by successful accumulation of cheap deposits, which resulted in comfortable levels of CASA (current accounts / savings accounts) averaging 42% over the last four years. Also, we note that USD deposits contributed 28% to total deposits as of Q4 2018. Going forward, we think the cost of funding will continue to soften. Meanwhile, we expect that the bank's funding cost will grow at a 5-year CAGR (2018-2023) of 6%.

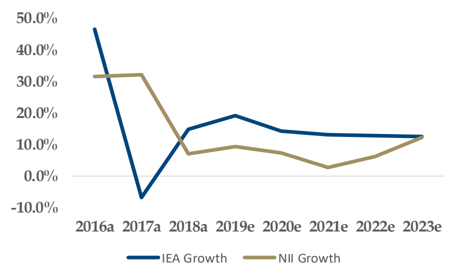
Fees and commissions

- Fees and commissions have been one of the contributors to the bank's strong earnings in the past years, constituting c.2% average of its total financing portfolio. We expect fees and commissions income to start picking up across the entire sector, with no exception for CIEB. We project that income from net fees and commissions will start growing at a 5-year CAGR (2018-2023) of 20% as the bank swims further towards lending.

Cost vs. income

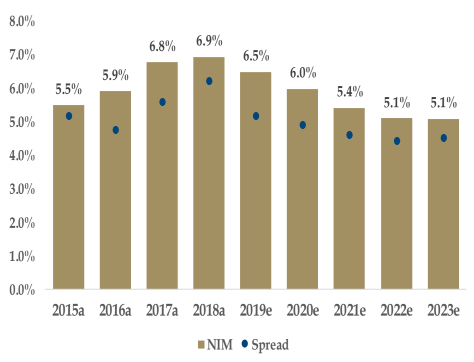
- CIEB's cost-to-income ratio stood at 28% in 2018, with room to enhance on an expected marginal increase in efficiency, which should lead general and administrative (G&A) expenses to start shrinking relative to the bank's total turnover. However, we think the prospects for improvement in the cost-to-income ratio later on are doubtful. Hence, we forecast the cost-to-income ratio to stick to near current levels.

NII growth vs. IEA growth



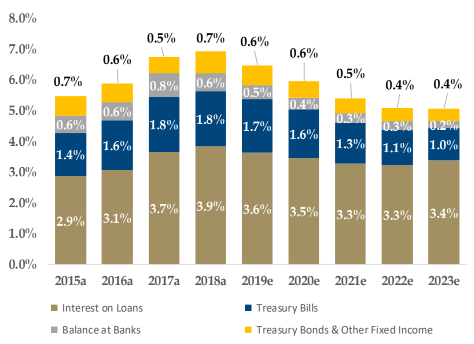
Source: SHUAA Securities Egypt estimates.

NIM vs. spread



Source: SHUAA Securities Egypt estimates.

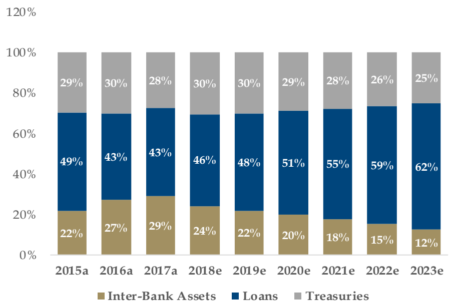
NIM breakdown



Source: SHUAA Securities Egypt estimates

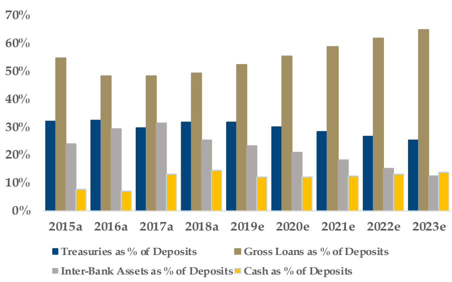
The Numbers *(Cont.'d)*

Financing portfolio structure



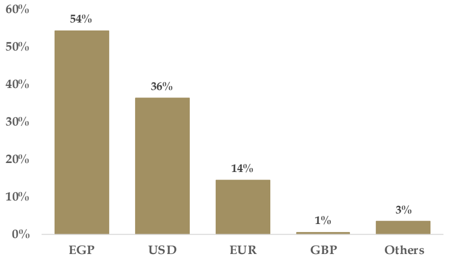
Source: SHUAA Securities Egypt estimates.

Utilization ratios



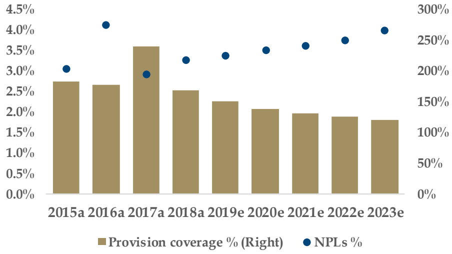
Source: SHUAA Securities Egypt estimates.

GLDR across currencies as of 2018



Source: SHUAA Securities Egypt estimates.

NPLs & coverage



Source: SHUAA Securities Egypt estimates.

Financing portfolio structure

- The yet-to-be-released executive regulations of the tax amendment concerning income from Treasuries, coupled with this year's resumption of the easing cycle, should lead the bank's management to begin reshaping its financing portfolio. Restructuring the portfolio, the bank should avoid excessive exposure to government debt securities in order to avert high effective tax rates. In turn, this direction will help minimize contribution of Treasuries to the bank's financing portfolio. While lending is the best nominee to fill the gap, inter-bank assets are likely to have a sizable appearance, until credit demand intensifies. We expect the weight of Treasuries in CIEB's financing portfolio to decline by as much as 510bps between 2018 and 2023. In return, we foresee the weight of loans to increase by c.17 percentage points over the same period.

Loans/deposits mix

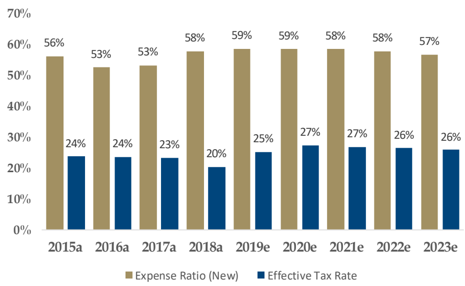
- CIEB's gross loans-to-deposits ratio stood at c.49% as of Q4 2018. We think the upward drift towards lending will be coupled with weaker growth in deposits, which will extend the uptrend in utilization rates. Hence, we expect the bank's gross loan-to-deposit ratio to start edging up then stabilize at c.65%.
- Also, we think that the bank's current loan mix will change to adapt with the new monetary climate. In this respect, CIEB may begin optimizing its loan portfolio, whereby long-term institutional lending (capex financing) and syndicated lending become heavier, poised for falling interest rates. On the other hand, we think the bank will be sure to maintain its presence in personal finance, betting on a rebound in consumer behavior in the years to follow.

NPLs and coverage

- CIEB exhibits decent credit management, considering that its NPL ratio is below average compared to other EGX-listed peers, with 3.3% versus the sectorial figure of 3.9% as of December 2019 according to CBE. We do not expect a surprise in the bank's NPLs over our forecast horizon, but the expected drift towards lending may cause a marginal increase in the NPL ratio beyond the forecast horizon.
- CIEB's coverage ratio is more than enough, with loan-loss provisions covering up to 168% of the bank's NPLs. Given the positive outlook for asset quality, we think the coverage ratio will remain above 100%.

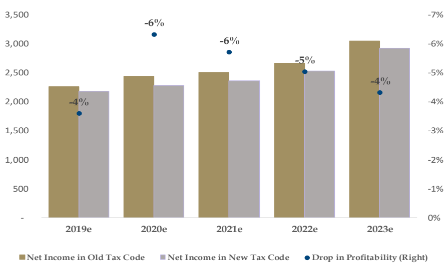
The Numbers *(Cont.'d)*

CIEB's effective tax rate/expense ratio



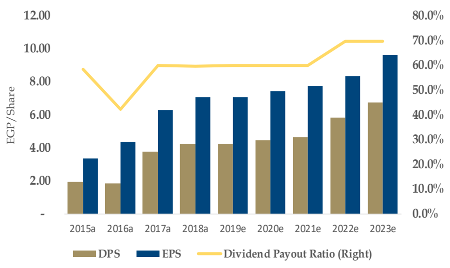
Source: SHUAA Securities Egypt estimates.

Tax impact on CIEB's bottom line



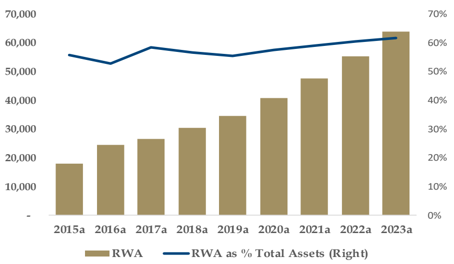
Source: SHUAA Securities Egypt estimates.

Dividends



Source: SHUAA Securities Egypt estimates.

Risk-weighted assets (RWAs)



Source: SHUAA Securities Egypt estimates.

Taxes

- We trickled down the effect of the new tax amendment regarding income from Treasuries on CIEB's earnings for the years beyond 2018. Our simulation assumed imposing the new tax regime starting from 2019, with no retroactive application, meaning the effect will impact income from new holdings of Treasuries only. We calculate CIEB's expense ratio by dividing its total costs (excluding depreciation and provisions) by total revenues. The expense allocation process will then be applied through multiplying only 80% of Treasury income by the aforementioned expense ratio.
- Between 2019 and 2023, income from Treasuries should start contributing less to total income, retreating form current levels of 30% to represent mere 21% by 2023. With an average forward expense ratio of c.58%, the bank's EPS should be affected by an average of c.5% between 2019 and 2023. Meanwhile, the bank's effective tax rate should rise to average 26% versus 23% previously. The effect, according to the above simulation, seems a bit mitigated compared to the initial proposal from the Ministry of Finance back in November 2018.

Capital

- CIEB holds such a strong capital base, with a CAR ratio of 20.3% at end of Q4 2018. With a lush buffer above the CBE's minimum CAR ratio (12.5% for 2019), CIEB will have greater optionality, as opposed to other banks with lower CARs, if the race towards lending is heightened to the next level. We think CIEB's CAR ratio will remain above 15%, provided that Treasuries (a nearly 0% risk weight) are replaced with more lending (a high risk weight).

Dividends

- CIEB is be a decent dividend play, judging from its consistent dividend policy. The latest dividend proposal implied a c.10% dividend yield. We expect the payout ratio to remain at the current levels of c.60%, with a room for a further hike in payout ratio at later stages to hover around 70%.

The Valuation

We valued CIEB using two equally weighted valuation techniques, namely Justified P/BV and Excess Return Model. This resulted in a weighted-12M PT of EGP52.3/share (an expected total return of +23%). Thus, we initiate our coverage on CIEB with an Overweight / Moderate Risk rating.

- Our CIEB's cost of equity (COE) assumptions are as follows:
    1. 10-year US Treasury yield of 2.46%.
    2. Egypt's risk premium of 3.73%.
    3. CIEB's adjusted beta of 0.96.
- We expect CIEB's COE to start decreasing over the forecast horizon, reflecting inflation differential between Egypt and the US that—in our opinion—will narrow, echoing more tamed inflation in Egypt over the next five years. Hence, the bank's COE should retreat from currently high levels of c.23% in 2019 to settle at c.17% by 2023 and at c.16% thereafter.
- We assumed CIEB's payout ratio would stabilize at the current levels of 60% for the next three years. We see a normalized long-term ROE of 29.2% and CIEB's nominal long-term growth rate of 5.8%.

Recommendation, catalysts, & risk

- **Recommendation:** Based on the weighted average of our two valuation models, our 12M PT is EGP52.3/share. Thus, we initiate coverage with an Overweight / Moderate Risk (ETR: +23%).
- **Catalysts:** A smooth hand-off between short-term financing and capex lending. Higher yields on Treasuries to offset the negative impact from the new tax regime. Stronger-than-expected recovery in non-interest income. Embracing more aggressive growth strategy.
- **Risks:** Deterioration in credit quality in view of the portion of SMEs lending and retail personal loans in CIEB's portfolio. NIM compression in case of failure to reshuffle assets from Treasuries into other vehicles. Accumulation of deposits at higher-than-expected funding costs. Competition from other non-banking financial institutions (NBFIs), which could appear as CIEB expands in SMEs financing. Slower growth for longer if pursued by the bank.

Valuation summary

Method	Output
ER	42.23
JP/B	42.70
FV / share	42.46
12M PT	52.34
Upside	23%

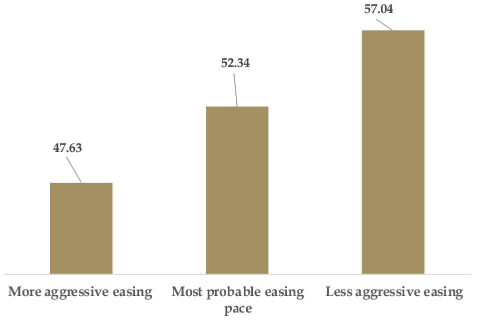
Source: SHUAA Securities Egypt estimates.

12M PT sensitivity to Terminal COE & TGR

	Terminal COE				
TGR	13.7%	14.7%	15.7%	16.7%	17.7%
7.8%	78.2	67.4	59.4	53.2	48.2
6.8%	70.4	62.0	55.5	50.3	46.0
5.8%	64.6	57.8	52.3	47.9	44.2
4.8%	60.1	54.4	49.8	45.9	42.7
3.8%	56.5	51.7	47.7	44.3	41.4

Source: SHUAA Securities Egypt estimates.

12M PT sensitivity to easing cycle pace



Source: SHUAA Securities Egypt estimates.

The Valuation *(Cont.'d)*

Valuation models

Excess Return Model							
Figures in EGPmn	2018a	2019e	2020e	2021e	2022e	2023e	Terminal
Net Income	**2,201**	**2,194**	**2,317**	**2,415**	**2,598**	**2,994**	**2,994**
Ending Book Value	6,168	6,814	7,608	8,415	9,336	10,267	
Less: Equity cost		**(1,434)**	**(1,481)**	**(1,538)**	**(1,574)**	**(1,606)**	**(1,611)**
Excess equity return		**760**	**836**	**877**	**1,024**	**1,389**	**1,383**
Terminal Value							**14,024**
Dividend payout ratio		60%	60%	60%	70%	70%	80%
Growth Rates		12.9%	12.2%	11.5%	8.3%	8.7%	5.8%
PV of excess return - 5 years		**616**	**557**	**486**	**478**	**553**	
PV of Terminal Value							**5,589**

Current BV (adjusted for latest DPS)	4,850
PV of equity excess return - next 5 years	2,691
PV of Terminal value	5,589
Target Equity Value	**13,129**
NOS	311
FV / share	**42.2**

Justified Price/Book Value	
Sustainable ROE	29.2%
COE	15.7%
ROE - COE spread	13.5%
Excess return (ER) / share	2.67
Capitalized ER / share	**27.10**
Current BVPS (adjusted for 2018's DPS)	**15.60**
Implied JP/BVx	2.4x
FV / share	**42.7**

Source: SHUAA Securities Egypt estimates.

The Financial Model

Balance Sheet (ended Dec., EGPmn)	2016a	2017a	2018a	2019e	2020e	2021e
Cash & other at CBE	2,730	4,840	6,346	6,296	7,264	8,547
Interbank assets	11,547	11,651	11,141	12,034	12,464	12,467
Net customer loans	17,448	16,672	20,427	25,785	31,648	38,306
Securities holdings (assets)	2,882	3,246	4,058	4,325	4,863	5,414
T-bills	10,424	7,968	10,066	12,371	13,420	14,359
Fixed assets	575	563	588	597	613	632
Intangibles	66	75	95	120	145	168
Non-earning and other assets	494	501	838	838	838	838
Total assets	**46,164**	**45,517**	**53,559**	**62,366**	**71,255**	**80,732**
Interbank liabilities	516	91	408	598	619	618
Customer deposits	39,130	37,080	43,933	51,903	59,977	68,648
Other liabilities	2,516	2,987	3,050	3,050	3,050	3,050
Total liabilities	**42,163**	**40,158**	**47,391**	**55,551**	**63,647**	**72,317**
Shareholders' equity	**4,001**	**5,360**	**6,168**	**6,814**	**7,608**	**8,415**
Total liabilities & equity	**46,164**	**45,517**	**53,559**	**62,366**	**71,255**	**80,732**

Income Statement (ended Dec., EGPmn)	2016a	2017a	2018a	2019e	2020e	2021e
Interest income	3,349	4,798	5,668	6,313	6,734	6,863
Interest expense	(1,233)	(2,001)	(2,674)	(3,031)	(3,210)	(3,240)
Net interest income	**2,115**	**2,797**	**2,994**	**3,282**	**3,523**	**3,623**
Net fees & commissions	449	664	660	819	980	1,157
Net trading income	242	265	206	259	307	348
Other net income	42	57	31	44	47	51
Non-interest income	**733**	**987**	**897**	**1,121**	**1,334**	**1,556**
Total revenue	**2,848**	**3,783**	**3,892**	**4,403**	**4,857**	**5,179**
G&A	(881)	(1,043)	(1,096)	(1,272)	(1,431)	(1,579)
Operating profit	**1,967**	**2,741**	**2,796**	**3,131**	**3,426**	**3,600**
Loan loss charge	(236)	(148)	27	(195)	(237)	(296)
Non-operating Inc./(exp.)	42	(41)	(29)	-	-	-
Pre-tax profit	**1,773**	**2,552**	**2,794**	**2,936**	**3,190**	**3,303**
Taxes	(420)	(597)	(592)	(742)	(873)	(889)
Net profit	**1,354**	**1,955**	**2,201**	**2,194**	**2,317**	**2,415**

Per Share Data	2016a	2017a	2018a	2019e	2020e	2021e
Price	31.8	38.6	41.0	42.4	42.4	42.4
EPS	4.4	6.3	7.1	7.1	7.5	7.8
BVPS	12.9	17.2	19.8	21.9	24.5	27.1
DPS	1.8	3.8	4.2	4.2	4.5	4.7
PER (x)	7.3x	6.1x	5.8x	6.0x	5.7x	5.5x
P/B (x)	2.5x	2.2x	2.1x	1.9x	1.7x	1.6x
Profitability & Efficiency						
	2016a	**2017a**	**2018a**	**2019e**	**2020e**	**2021e**
RoAA	3%	4%	4%	4%	3%	3%
RoAE	36%	42%	38%	34%	32%	30%
Payout ratio	42%	60%	60%	60%	60%	60%
NII/total banking income	74%	74%	77%	75%	73%	70%
NIM	5.9%	6.8%	6.9%	6.5%	6.0%	5.4%
Spread	4.8%	5.6%	6.2%	5.2%	4.9%	4.6%
Cost to income %	31%	28%	28%	29%	29%	30%
Capital						
	2016a	**2017a**	**2018a**	**2019e**	**2020e**	**2021e**
Tier 1 capital	10%	15%	17%	15%	15%	15%
CAR	12%	19%	20%	18%	17%	17%
RWA as % of Total Assets	66%	78%	79%	79%	81%	83%
Asset Quality						
	2016a	**2017a**	**2018a**	**2019e**	**2020e**	**2021e**
NPLs/gross loans	4.1%	2.9%	3.3%	3.4%	3.5%	3.6%
NPLs Coverage Ratio	177%	240%	168%	150%	139%	131%
Liquidity & Leverage						
	2016a	**2017a**	**2018a**	**2019e**	**2020e**	**2021e**
Gross L/D	48%	48%	49%	52%	56%	59%
Earning Assets/Total Assets	95%	90%	88%	90%	90%	90%
Leverage	4.9%	8.0%	8.9%	7.8%	8.0%	8.0%
Equity Multiplier	11.5x	8.5x	8.7x	9.2x	9.4x	9.6x
Growth Ratios						
	2016a	**2017a**	**2018a**	**2019e**	**2020e**	**2021e**
Assets	45%	-1%	18%	16%	14%	13%
Liabilities	48%	-5%	18%	17%	15%	14%
Equity	15%	34%	15%	10%	12%	11%
Net loans	27%	-4%	23%	26%	23%	21%
Deposit	47%	-5%	18%	18%	16%	14%
Net Income	30%	44%	13%	0%	6%	4%

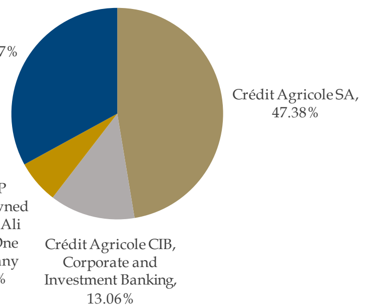
Source: Company reports, SHUAA Securities Egypt estimates.

The Background

Formally established in 2006, CIEB is a 47.4%-owned subsidiary of France-based Crédit Agricole Group, which boasts 52mn customer globally and 140,000 employees. CIEB has drastically grown in its early years. It now holds EGP52.9bn worth of assets, with 79 branches and over 130 ATMs across Egypt.

- **Credit Agricole – Egypt** had operated under different names before 2006. It all started when **Credit Agricole Indosuez** took over **Credit International Egypt (CIE)** in 2001, giving birth to **Credit Agricole Indosuez Egypt (CAI)**.
- In 2005, CAI merged with **Credit Lyonnais**, which started out in business in the Egyptian market back in 1979. The merger marked the business forming into **Calyon Egypt**.
- The bank, under its current name, is the fruit of a merger between **Calyon Egypt** and **Egyptian American Bank (EAB)** in 2006.
- CIEB's current shareholder structure is as follows:
  - **Crédit Agricole SA:** 47.38%.
  - **Crédit Agricole CIB**, Corporate & Investment Banking: 13.06%.
  - **Rolaco EGP Investments** owned by Ali Hassan Ali Ben Dayekh One Person Company LLC: 6.59%.
  - **Others:** 32.97%.

Shareholder structure



Source: Company reports.

CIEB's branch network

Source: Company reports

The Leadership

The management team behind CIEB consists of the following key members:

- **Mr. Pierre Finas**, Managing Director.
- **Mr. Ashraf Abdel-Wahab**, Head of Capital Market & Institutional Banking.
- **Mr. Franck Flament**, Chief Risk Officer.
- **Mr. Thierry Hebraud**, Head of Corporate Banking.
- **Mr. Walie Lotfy**, Head of Proximity Banking Distribution.

Disclosure Appendix

METHODOLOGY: When setting an investment and risk ratings, we utilize all publicly-available sources to build an understanding of the issuer's business model and hence its intrinsic value based on one or more valuation methods. To reach a valuation, we assess factors that we deem relevant, including—but not limited to—macro, sector, and company-specific aspects.

INVESTMENT RATING: Depending on each issuer's business model, we may use (1) an income approach, (2) a markets-based approach, (3) an asset-based approach, and/or (4) sum-of-the-parts approach. In certain cases where we do not have our own financial and valuation models, we may present the consensus rating/view. For all securities actively covered, we assign one of three investment ratings (Overweight, Neutral, or Underweight) depending on the security's expected total return (price + yield) over a 12-month investment horizon as compared to the security's Required Rate of Return (RRR) as calculated using the Capital Asset Pricing Model (CAPM) and adjusted for the Risk Rating we assign to the security. Please read below for more details about our Risk Rating. Our assigned fair values are subjective and are estimates of the analysts where the security(ies) covered will trade within the next 12 months. The assigned investment rating/fair value is only valid for a maximum of three months from the date it was set.

RISK RATING: Based on the overall risk profile of each issuer/security covered, we assign one of three risk ratings (High, Moderate, or Low). The risk rating is a function of a weighted assessment of the issuer's (1) sector, (2) corporate profile, and (3) security and related volatility. The assigned risk rating is only valid for a maximum of three months from the date it was set.

Analyst Certification

I (we), **Mohamed Saad**, Equity Analyst, employed with SHUAA Securities Egypt, and author(s) to this document, hereby certify that all the views expressed in this research report accurately reflect my (our) views about the subject issuer(s) or security(ies). I (we) also certify that no part of my (our) compensation was, is or will be directly or indirectly related to the specific recommendation(s) or view(s) expressed in this report. Also, I (we) certify that neither myself (ourselves) nor any of my (our) close relatives hold or trade into the subject securities.

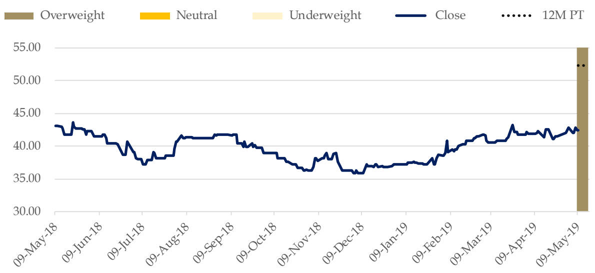
Head of Research Certification

I, **Amr Hussein Elalfy**, Head of Research of SHUAA Securities Egypt, confirm that I have vetted the information and all the views expressed by the Analyst in this document about the subject issuer(s) or security(ies). I also certify that the author of this document, has not received any compensation directly related to the contents of the document.

Return / Risk Profile

	If Total Return is …	Investment Rating		
		Overweight	Neutral	Underweight
Risk Rating	Low	Higher than RRR	Between RRR and 20% of RRR	Lower than 20% of RRR
	Moderate	Higher than RRR	Between RRR and 40% of RRR	Lower than 40% of RRR
	High	Higher than RRR	Between RRR and 60% of RRR	Lower than 60% of RRR
	Not Rated (NR)	We have decided not to publish a rating on the stock due to certain circumstances related to the company (i.e. special situations).		
	Not Covered (NC)	We do not currently cover this stock or we are restricted from coverage for regulatory reasons.		

Rating & Price Target History



Rating history

From	To	Date	Analyst
NC	Overweight / Moderate Risk	12-May-19	Mohamed Saad

12-month price target history

From	To	Date	Analyst
None	52.3	12-May-19	Mohamed Saad

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