



Update for Q3 2015

Sector: Banking  
Country: Egypt  
Date: January 12<sup>th</sup>, 2016

Share Price (EGP): 31.80  
Target Price (EGP): 32.14  
Upside: 1.07%  
Recommendation: HOLD  
Risk: Medium (Market)

Updating Outlook to HOLD with a Target Price of EGP 32.14

We recommend a hold rating on the CIB stock with a target price of EGP 32.14 using a Dividend Discount Model, despite the company's positive financial performance in Q3 2015. The bank's financial results have continued to impress, but the fact that the bank's operations are concentrated in Egypt alone means that the bank is not hedged from local macroeconomic headwinds, including the shaky political setup.

Moreover, we believe that the bank's high exposure to sovereign bonds keeps it at the risk of the economic situation. The high interest rate environment in Egypt now entices banks to hold more government bonds, as 5Y T-Bills yield an average interest-rate of 13.59%, and hinders private investments and, consequently, private loans, noting that the bank's major segment is corporate clients.

The LTD ratio maintained by CIB and other Egyptian banks remains low, even with respect to similar countries in developing economies. This can be traced to the purchasing of government debt by banks, but we do not expect it to decrease much in the coming years, given the persistence of high interest rates in Egypt, and the absence of economic and foreign financial support for the country.

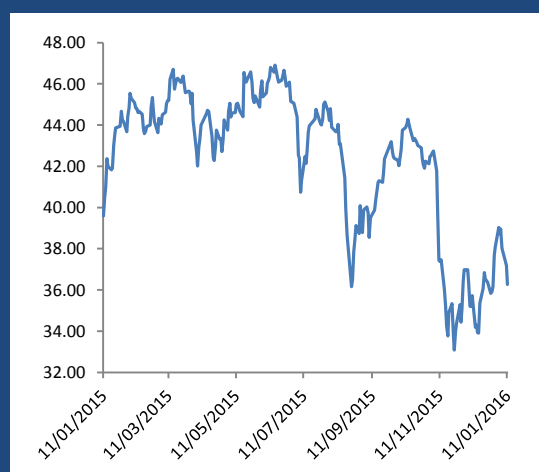
On the positive side, CIB will distribute an additional dividend share during the fourth quarter for each 4 common shares held, resulting in a new paid-up capital of \$1.46B (EGP 11.47B). CIB's payout ratio has generally been high and consistent over the years, with an average ratio of 34.94% since 2012. However, the current dividend yield, which stands at 3.02%, currently lags the regional median yield of 4.05%. Moreover, the bank's current P/B ratio shows an overvalued stock compared to the region.

Over the first 9 months of 2015, CIB registered a Net Income of \$457.64M\* (EGP 3.58B), equivalent to a significant 32.28% upturn in performance compared to the same period in 2014. CIB's balance sheet continued its aggressive growth in Q3 2015, driven by the 26.52% year-to-date expansion of CIB's deposits by customers by September 2015 to \$19.71B (EGP 154.32B). The bank's loan portfolio also demonstrated a marked growth of 17.51% over the same period, ending Q3 at \$7.31B (EGP 57.21B).

Share Data

Bloomberg Symbol	COMI.EY
Reuters Symbol	COMI.CA
Market Cap (EGP)	39,894,800,000
Number of Shares	917,648,237
Free Float	93.24%
Price-to-Earnings	8.60
Price-to-Book	2.31

Share Performance



1 Month Return	6.08%
3 Month Return	-17.34%
6 Month Return	-14.62%
12 Month Return	-8.39%
52 Week Range	33.08-46.91

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Performance and Forecasts

Year	2010	2011	2012	2013	2014	2015e
Net Interest Income (EGPm)	2,258	2,690	3,914	5,054	6,255	8,062
Net Income (EGPm)	2,006	1,615	2,226	3,006	3,741	4,962
EPS (EGP)	3.40	2.72	3.73	3.34	4.12	5.41
ROA (%)	2.66	1.89	2.37	2.64	2.60	2.05
ROE (%)	23.40	18.53	20.57	25.14	25.36	25.49

Source: Company Data and Blominvest Estimates

\*Assumed Exchange rate: EGP/USD 7.83

## CIB Performance Remains Strong in the First 3 Quarters

Over the first 9 months of 2015, CIB registered a Net Income of \$457.64M (EGP 3.58B), equivalent to a significant 32.28% upturn in performance compared to the same period in 2014. CIB succeeded in realizing 30.49% and 13.38% annual growths in interest income and fees and commission income to respective figures of \$1.37B (EGP 10.70B) and \$199.41M (EGP 1.56B). Resultantly, the bank's gross profit recorded a 28.76% annual increase by end-September to \$922.95M (EGP 7.23B). Operating expenses swelled at a slower pace, gaining 3.67% over the course of the year to \$181.11M (EGP 1.42B) as administrative expenses gained 17.38% to \$195.22M (EGP 1.53B), while other operating expenses were contrastingly reduced by 32.96% y-o-y by September to \$41.73M (EGP 326.73M), partly due to the reversal of previous losses from revaluations of non-trading assets and liabilities.

Despite the positive financial results, CIB's performance was hampered by the recognition of \$143.08M (EGP 1.12B) in credit losses on loans and advances to customers. This figure is a 2.4x increase over last year's, and can be interpreted as the result of a combination of CIB's growing loan portfolio and poor economic conditions in general. Considering the expected continued growth of deposits at Egyptian banks in general, in addition to CIB's positive performance over the first three quarters of the year, we expect CIB to realize a Net Income for 2015 of \$633.71M (EGP 4.96B). The bank's net interest income is expected to close at \$1.03B (EGP 8.06B), equivalent to a 28.88% increase from 2014. This increase can be drawn back to not only the increasing interest rates, but also to CIB's capacity to expand its loan portfolio. Recently, the Central bank of Egypt initiated a stimulus package targeting SMEs in order to help boost economic growth.

## CIB Deposits Continue to Outgrow Loans

CIB's balance sheet continued its aggressive growth in Q3 2015, driven by the 26.52% year-to-date expansion of CIB's deposits by customers by September 2015 to \$19.71B (EGP 154.32B). Only 26.89% of these deposits are denominated in foreign currencies, which translate in to little exposure for the bank. On the assets' side, CIB's customer loans portfolio demonstrated a growth of 17.51% over the same period, ending Q3 at \$7.31B (EGP 57.21B). The loan portfolio is also expected to be slightly boosted during the coming quarter by the successful completion of the acquisition of Citibank retail portfolio, worth around \$300M, on October 29th, following Citi's exit of the local market. We expect CIB's deposits and loans to end the year at respective values of \$20.63B (EGP 161.55B) and \$7.50B (EGP 58.69B).

## CIB's Revenues Led by the Corporate Segment

In 2014, CIB's average interest rate on loans equaled 23.66%. In comparison, this rate is expected to stand at 24.93% in 2015. In contrast, the average interest rate on deposits is expected to decrease from 4.30% in 2014 to 4.11% this year.

The bulk of CIB's loans portfolio can be traced back to corporate accounts, whose gross value reached \$6.64B (EGP 51.99B). This accounted for 83.19% of the bank's gross loans by Q3 2015, and grew by 16.92% since the start of the year. The remaining 16.91% of loans to customers of CIB are classified as retail accounts with a value of \$1.35B (EGP 10.58B).

Meanwhile, total deposits augmented by 26.11% since the turn of the year to a total value of \$19.83B (EGP 155.25B). 47.19% of these deposits were made by the bank's retail customers, while the remaining 52.81% were accounted for by corporate clients.

Regarding income derived from the above-mentioned loan and deposit activities, CIB's corporate business remains the largest contributor to the bank's revenues and profits. Corporate Banking contributed to 39.04% of total revenues, while Retail Banking made up 14.09%. In terms of profit, CIB's corporate business generated 64.93% of total profits, with retail banking accounting for a further 19.62%. Therefore, CIB is exposed to risks arising from economic conditions experienced by its corporate clientele. It can also be concluded that CIB has the opportunity to focus more heavily on the retail segment to diversify risk.

It is worth mentioning that CIB's investment banking operations, conducted via CI Capital, accounted for \$27.04M (EGP 211.69M), equivalent to 5.91% of the bank's net profit during the first 9 months of 2015. CI Capital was subject to a non-binding tender offer by Orascom on December 17th for a 100% acquisition and a rough value of EGP 1B. Under condition that a deal does take place, the bank's net income will not be significantly impacted in the long-run, and any potential deal would result in

capital gains for the bank exceeding EGP 500M , to compensate for the loss of this revenue stream in the short-term.

### Loan to Deposit Ratio Pressured by the Sovereign Debt Purchasing

As a result of the higher growth of deposits, CIB's loan to deposit (LTD) ratio continued its recent downtrend, steadily decreasing from 43.09% in 2013 to 37.07% by the end of Q3 2015. The LTD ratio was at 39.91% at end-2014. This decreasing trend is also linked to the Egyptian government's reliance on CIB and other local banks to purchase government debt securities. While the value of CIB's holdings of sovereign bonds has decreased 6.56% y-t-d to \$3.56B (EGP 28.54B), they still equal 48.89% its loan portfolio, which is still considered to be a high number.

### Economic Environment and Sovereign Rating Affecting CIB's Asset Quality

CIB's non-performing loans currently represent 4.45% of loans and advances, compared to 4.71% and 3.93% in 2014 and 2013, respectively. This ratio, while higher than usual for a bank, still represents a slight improvement on 2014's standing. Compared to other companies in the Egyptian banking sector, where the average NPL-to-net loans ratio is 5.72%, CIB currently maintains superior asset quality to the sector. However, the elevated ratios indicate the effect of macro-economic difficulties weighing down on Egyptian population in general, coupled with the fast-paced growth of Egyptian banks' deposits. In comparison, the aggregate NPL-to-net loans ratio of Lebanese alpha banks stood at 1.99% by Q3 2015.

The credit losses incurred by CIB over the first three quarters of 2015, totaling \$143.08M (EGP 1.12B) were equivalent to 1.96% of the bank's loan portfolio by Q3, thereby suggesting a less-than-ideal loan quality that requires revising in light of economic developments in Egypt.

In addition, the credit rating agency S&P downgraded CIB's outlook from positive "B-/B" to stable "B-/B" in November 2015, stating the slower-than-expected economic recovery and the similar downgrading of Egypt's long-term outlook as primary reasons for this decision. It is important to note that CIB's credit rating and that of Egypt as a whole are directly linked because of the large amount of government debt that CIB holds. The main reason for the downgrade of Egypt's long-term outlook was the possible stop of financial help from GCC countries. Egypt has historically received significant external financial support from GCC countries, and the recent collapse of oil prices may play a key role in limiting the Republic's access to such funds.

## Commercial International Bank

### Relative Valuation

#### Banking Industry in Egypt

Ticker	Name	Market Cap (USD M)	YTD Total Return %	P/B	Div Yield (%)
<b>Median</b>		327.47	-10.27	0.79	7.37
<b>Average</b>		1,007.52	-9.10	1.05	6.63
COMI EY	Commercial International Bank	4,600	-16.51	2.31	3.02
QNBA EY	Qatar National Bank	2,390	-3.33	1.32	--
CIEB EY	Credit Agricole Egypt	719.88	-12.63	1.77	7.23
FAIT EY	Faisal Islamic Bank of Egypt	386.09	-10.55	0.58	--
HDBK EY	Housing & Development Bank	327.47	-10.27	0.89	7.50
NBKE EY	National Bank of Kuwait-Egypt	248.78	-2.24	0.79	--
SAIB EY	Soc Arabe Intl de Banque	182.25	0.00	0.65	8.78
ADIB EY	Abu Dhabi Islamic Bank/Egypt	119.49	-17.76	0.74	--
CANA EY	Suez Canal Bank EJSC	93.74	-8.63	0.36	--

As of 15<sup>th</sup> of January, 2016; source: Bloomberg

#### Regional Banking Companies

Ticker	Name	Mkt Cap (USD B)	YTD Total Return %	P/B	Div Yield (%)
<b>Median</b>		5.12	-10.38	1.37	3.97
<b>Average</b>		5.00	-9.77	1.25	4.43
DIB UH	UAE Dubai Islamic Bank	5.84	-12.14	1.71	7.37
ARNB AB	KSA Arab National Bank	5.74	-8.66	0.98	4.65
ARBK JR	Jordan Arab Bank PLC	5.58	-4.19	0.72	1.73
COMI EY	Egypt Commercial International Bank	4.66	-16.51	2.31	3.02
AUB BI	Bahrain Ahli United Bank	4.28	-5.04	1.25	6.49
AAAL AB	KSA Saudi Hollandi Bank	3.87	-12.10	1.25	3.29

As of 15<sup>th</sup> of January, 2016; source: Bloomberg

Relative valuation between CIB and selected regional diversified banks demonstrates that CIB is currently overvalued, considering the elevated Price-to-Book ratio compared to the median of 1.25 in Egypt, and to the median of 1.37 in the region. This also applies when considering the median P/B of the banking industry for around 50 banks in the MENA region. Moreover, the dividend yield on CIB's stock lags behind the regional median of 3.97%.

#### Performance of Regional Stock Markets

	YTD%	Market Cap (\$B)
Abu Dhabi	-6.54	107.11
Amman	-0.88	22.17
Bahrain	-1.62	18.73
Dubai	-7.30	70.30
Egypt	-7.73	34.33
Kuwait	-4.59	82.36
Muscat	-2.10	15.57
Qatar	-9.13	119.01
Saudi Arabia	-12.20	376.35
Tunisia	4.01%	7.44

As of 12<sup>th</sup> of January, 2016; source: Bloomberg



## Historical Balance Sheets – selected items

<i>EGP Millions</i>	2012a	2013a	2014a	Q3 2015a
<b>Assets</b>				
Cash	5,394	4,796	7,502	9,231
Loans to Customers	40,698	41,733	48,686	57,210
Treasury Bills & other govt notes	8,018	23,	21,341	28,544
Available for Sale Securities	21,177	23,378	27,702	43,333
Held to Maturity Securities	2,426	2,618	2,829	4,252
Other Operating Current Assets	1,248	1,221	1,203	4,253
Other Non-Operating Current Assets	1,708	2,651	4,562	7,211
<b>Total Assets</b>	<b>93,885</b>	<b>113,668</b>	<b>143,692</b>	<b>176,418</b>
Due to Banks	1,715	1,373	1,131	930
Due to Customers	78,729	96,846	121,975	154,320
Other Operating Current Liabilities	2,157	1,592	2,747	2,574
Other Non-Operating Current Liabilities	148	167	369	278
<b>Total Liabilities</b>	<b>83,063</b>	<b>101,708</b>	<b>128,937</b>	<b>160,572</b>
<b>Total Equity (att. to shareholders)</b>	<b>7,538</b>	<b>7,621</b>	<b>7,762</b>	<b>8,076</b>
Minority Interest	48	47	49	48
<b>Total Equity</b>	<b>10,822</b>	<b>11,960</b>	<b>14,754</b>	<b>15,845</b>
<b>Total Liabilities &amp; Equity</b>	<b>93,885</b>	<b>113,668</b>	<b>143,692</b>	<b>176,418</b>

Source: CIB, Blominvest



## PROJECTED INCOME STATEMENT

<i>In EGP Millions</i>	2010	2011	2012	2013	2014	2015e
Interest Income	4,525	5,471	7,859	9,521	11,545	14,708
Interest Expense	(2,268)	(2,781)	(3,946)	(4,467)	(5,290)	(6,647)
<b>Net Interest Income</b>	<b>2,258</b>	<b>2,690</b>	<b>3,914</b>	<b>5,054</b>	<b>6,255</b>	<b>8,061</b>
Fees & Commission Income	939	931	1,033	1,436	1,892	2,097
Fees & Commission Expense	(85)	(88)	(107)	(129)	(182)	(281)
<b>Net Fees and Commission Income</b>	<b>854</b>	<b>843</b>	<b>926</b>	<b>1,307</b>	<b>1,710</b>	<b>1,816</b>
Net Trading Income	427	382	575	767	718	622
Profit from Financial Investments	262	39	(27)	(29)	(29)	158
Goodwill Amortization	(237)	(108)	(93)	(33)	0	0
Administrative Expenses	(1,325)	(1,450)	(1,559)	(1,574)	(1,876)	(2,013)
Other Operating Income (Expense)	(36)	(393)	(713)	(1,354)	(1,299)	(539)
Loan Impairment Loss/Provision	(6)	(321)	(610)	(916)	(589)	(1,520)
Profits from Associates	(4)	(8)	26	22	25	69
Dividends Income	166	62	33	17	32	56
<b>Net Profit Before Tax</b>	<b>2,363</b>	<b>2,056</b>	<b>3,081</b>	<b>4,176</b>	<b>5,536</b>	<b>6,712</b>
Income Tax	(436)	(449)	(887)	(1,182)	(1,831)	(1,749)
Deferred Tax	(79)	(6)	(33)	(12)	(38)	0
<b>Net Profit before Minorities</b>	<b>2,007</b>	<b>1,614</b>	<b>2,227</b>	<b>3,007</b>	<b>3,743</b>	<b>4,963</b>
Minorities & Profit Sharing	1.4	-0.5	0.8	(0.1)	1.8	1
<b>Net Income</b>	<b>2,006</b>	<b>1,615</b>	<b>2,226</b>	<b>3,007</b>	<b>3,741</b>	<b>4,962</b>

Source: CIB, Blominvest



## Quarterly Income Statements 2014-2015

<i>EGP Millions</i>	2014 Q1a	2014 Q2a	2014 Q3a	2014 Q4a	2015 Q1a	2015 Q2a	2015 Q3a	2015 Q4e
Interest Income	2,562	2,703	2,937	3,343	3,366	3,530	3,807	4,006
Interest Expense	(1,193)	(1,270)	(1,376)	(1,451)	(1,511)	(1,605)	(1,722)	(1,809)
<b>Net Interest Income</b>	<b>1,369</b>	<b>1,433</b>	<b>1,561</b>	<b>1,892</b>	<b>1,855</b>	<b>1,925</b>	<b>2,085</b>	<b>2,197</b>
Fees & Commission Income	411	499	467	515	526	526	509	536
Fees & Commission Expense	(37)	(45)	(45)	(55)	(54)	(69)	(78)	(81)
<b>Net Fees and Commission Income</b>	<b>374</b>	<b>454</b>	<b>422</b>	<b>460</b>	<b>472</b>	<b>457</b>	<b>431</b>	<b>455</b>
<b>Gross Profit</b>	<b>1,743</b>	<b>1,887</b>	<b>1,983</b>	<b>2,352</b>	<b>2,329</b>	<b>2,382</b>	<b>2,516</b>	<b>2,652</b>
Trading Income	153	249	175	142	67	124	247	185
Administrative Expenses	(422)	(411)	(469)	(573)	(528)	(501)	(500)	(485)
Other Operating Expenses/Profits	(151)	(145)	(191)	(223)	10	(146)	(190)	(212)
<b>Operating Profit</b>	<b>1,323</b>	<b>1,580</b>	<b>1,497</b>	<b>1,698</b>	<b>1,877</b>	<b>1,859</b>	<b>2,072</b>	<b>2,139</b>
Profits from Associates	7	10	6	1	15	15	19	19
Exceptional Gains (Losses)	(185)	(175)	(107)	(122)	(421)	(228)	(472)	(400)
Income (Expense) from investments	4	5	64	(103)	164	(5)	0	0
Dividend Income	0	28	0	4	0	15	21	20
<b>Net Profit Before Tax</b>	<b>1,150</b>	<b>1,449</b>	<b>1,460</b>	<b>1,477</b>	<b>1,636</b>	<b>1,656</b>	<b>1,641</b>	<b>1,779</b>
Income Tax	(326)	(524)	(499)	(444)	(527)	(509)	(313)	(400)
Deferred Tax	(18)	8	11	38	20	82	15	0
<b>Net Profit before Minorities</b>	<b>806</b>	<b>932</b>	<b>972</b>	<b>1,033</b>	<b>1,108</b>	<b>1,148</b>	<b>1,328</b>	<b>1,379</b>
Minorities & Profit Sharing	(1)	0	0	(1)	0	0	0	0
<b>Net Profit for Period</b>	<b>805</b>	<b>932</b>	<b>972</b>	<b>1,032</b>	<b>1,108</b>	<b>1,148</b>	<b>1,328</b>	<b>1,379</b>

Source: CIB, Blominvest

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**Equity Rating Key**

Recommendations are based on the upside (downside) between our 12-month Fair Value estimate and the current Market Price.

**Buy:** Fair Value higher than Market Price by at least 20%

**Accumulate:** Fair Value higher than Market Price by 10% to 20%

**Hold:** Fair Value ranges between -5% to +10% in relation to Market Price

**Reduce:** Fair Value lower than Market Price by 5% to 15%

**Sell:** Fair Value lower than Market Price by at least 15%

Risks are based on share price volatility along with qualitative factors such as the nature of the business, the country risk and sensitivity to a single event, single product or single buyer. We've arranged the risk factor into 5 trenches:

- High Risk
- Medium-to-High Risk
- Medium Risk (similar to Market Risk)
- Medium-to-Low Risk
- Low Risk

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