



Update for Q3 2015

Sector: Banking
Country: Egypt
Date: January 12th, 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.

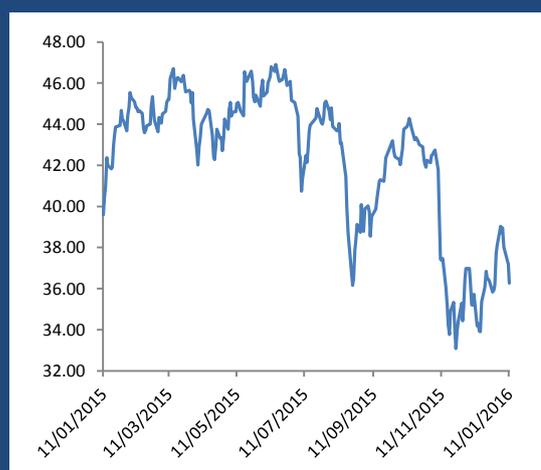
On the positive side, CIB will distribute an additional dividend share during the fourth quarter for each 4 common shares held, resulting in a new paid-up capital of \$1.46B (EGP 11.47B). CIB's payout ratio has generally been high and consistent over the years, with an average ratio of 34.94% since 2012. 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 (%) |
|----------------|-------------------------------|--------------------|--------------------|------|---------------|
| Median | | 327.47 | -10.27 | 0.79 | 7.37 |
| Average | | 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 15th of January, 2016; source: Bloomberg

Regional Banking Companies

| Ticker | Name | Mkt Cap (USD B) | YTD Total Return % | P/B | Div Yield (%) |
|----------------|-------------------------------------|-----------------|--------------------|------|---------------|
| Median | | 5.12 | -10.38 | 1.37 | 3.97 |
| Average | | 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 15th 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 12th of January, 2016; source: Bloomberg



Historical Balance Sheets – selected items

| <i>EGP Millions</i> | 2012a | 2013a | 2014a | Q3 2015a |
|--|---------------|----------------|----------------|----------------|
| Assets | | | | |
| 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 |
| Total Assets | 93,885 | 113,668 | 143,692 | 176,418 |
| 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 |
| Total Liabilities | 83,063 | 101,708 | 128,937 | 160,572 |
| Total Equity (att. to shareholders) | 7,538 | 7,621 | 7,762 | 8,076 |
| Minority Interest | 48 | 47 | 49 | 48 |
| Total Equity | 10,822 | 11,960 | 14,754 | 15,845 |
| Total Liabilities & Equity | 93,885 | 113,668 | 143,692 | 176,418 |

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) |
| Net Interest Income | 2,258 | 2,690 | 3,914 | 5,054 | 6,255 | 8,061 |
| Fees & Commission Income | 939 | 931 | 1,033 | 1,436 | 1,892 | 2,097 |
| Fees & Commission Expense | (85) | (88) | (107) | (129) | (182) | (281) |
| Net Fees and Commission Income | 854 | 843 | 926 | 1,307 | 1,710 | 1,816 |
| 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 |
| Net Profit Before Tax | 2,363 | 2,056 | 3,081 | 4,176 | 5,536 | 6,712 |
| Income Tax | (436) | (449) | (887) | (1,182) | (1,831) | (1,749) |
| Deferred Tax | (79) | (6) | (33) | (12) | (38) | 0 |
| Net Profit before Minorities | 2,007 | 1,614 | 2,227 | 3,007 | 3,743 | 4,963 |
| Minorities & Profit Sharing | 1.4 | -0.5 | 0.8 | (0.1) | 1.8 | 1 |
| Net Income | 2,006 | 1,615 | 2,226 | 3,007 | 3,741 | 4,962 |

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) |
| Net Interest Income | 1,369 | 1,433 | 1,561 | 1,892 | 1,855 | 1,925 | 2,085 | 2,197 |
| Fees & Commission Income | 411 | 499 | 467 | 515 | 526 | 526 | 509 | 536 |
| Fees & Commission Expense | (37) | (45) | (45) | (55) | (54) | (69) | (78) | (81) |
| Net Fees and Commission Income | 374 | 454 | 422 | 460 | 472 | 457 | 431 | 455 |
| Gross Profit | 1,743 | 1,887 | 1,983 | 2,352 | 2,329 | 2,382 | 2,516 | 2,652 |
| 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) |
| Operating Profit | 1,323 | 1,580 | 1,497 | 1,698 | 1,877 | 1,859 | 2,072 | 2,139 |
| 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 |
| Net Profit Before Tax | 1,150 | 1,449 | 1,460 | 1,477 | 1,636 | 1,656 | 1,641 | 1,779 |
| Income Tax | (326) | (524) | (499) | (444) | (527) | (509) | (313) | (400) |
| Deferred Tax | (18) | 8 | 11 | 38 | 20 | 82 | 15 | 0 |
| Net Profit before Minorities | 806 | 932 | 972 | 1,033 | 1,108 | 1,148 | 1,328 | 1,379 |
| Minorities & Profit Sharing | (1) | 0 | 0 | (1) | 0 | 0 | 0 | 0 |
| Net Profit for Period | 805 | 932 | 972 | 1,032 | 1,108 | 1,148 | 1,328 | 1,379 |

Source: CIB, Blominvest



Commercial International Bank

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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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