Egypt Banking Sector 2020|

Lending Recovers; New Tax Law Hits Some; Capital Hike Hits Others

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EQUALWEIGHT BANKS| LENDING RECOVERS; NEW TAX LAW HITS SOME; CAPITAL HIKE HITS OTHERS

Sector Outlook and Trends

- Corporate capex lending should come into play in 2020, after meaningful policy rate cuts in 2019 and 2020.
- Lending growth should surpass that of funding beefing up utilization ratios.
- Competition should intensify on deposit accumulation, only if lending picked up significantly.
- Allocation to treasury instruments should diminish on 1) lower budget deficit, 2) new tax law, and 3) anticipated pick-up in private investments and lending.
- Asset quality should improve as economic recovery prevails. Provisions coverage to remain comfortably above 100%.
- NIM should gradually decline throughout 2020 with rate cuts, but pressure on margins for some banks could be low or postponed through shorter maturity of liabilities that could be rolled over at lower rates faster than assets, which should support margins at least for the next six months.
- Profit growth will be impacted by the new tax law as its impact becomes more visible in 2020, being applied on a larger portion treasury investments.
- Small banks that are on expansion mode always lag on efficiency, while big banks lead as inflation decelerates.
- New capital requirements (raising the minimum capital for commercial banks to EGP5.0 billion up from EGP500 million) could trigger a wave of profit retention, capital raising and M&As in the sector. CARs meet the CBE minimum requirement of 12.5% for 2020. However, it may subside as lending picks up making capital hikes imminent.
- We account for 1) healthcare tax calculated at the lower of: 0.25% of interest income or EGP10k, 2) new tax law, and 3) 1% industry development fund dues. All three had a direct negative impact on earnings growth in 2020 and valuation. It is worth noting that the impact of the healthcare tax and the industry development fund dues is low.

The Hopes

- CBE lowers Required Reserve Ratio (14% currently) freeing up more deposits to be utilized in lending, improving profitability
- Revival in corporate lending, and capex lending, to fuel non-interest income, compensating for the compression in NIMs
- Better than expected efficiency ratios as inflation stabilizes
- Lower than expected impact of new tax law

Top Picks

- **COMI (FV: EGP95.00)** continues to be the perfect proxy for the macro transformation story in Egypt and a solid banking sector. The bank is well capitalized and delivers ROAE in 2020 of 22% on strong sustainable NIM of 6.5% in 2020. The bank's plans to expand outside the borders of Egypt through acquiring a bank in Kenya along with opening a rep office in Ethiopia could be a potential value driver for the stock. We include it in our top picks, following the recent severe share price drop.
- **CIEB's (FV: EGP57.50)** favorable funding structure makes it amongst the most aggressive players for profitability. CIEB is among our top dividend plays with an expected dividend yield of 9.2% and a ROAE of 29% in 2020. CIEB is trading at 6.3x P/E 2020 and 1.7x P/B 2020.
- **ADIB (FV: EGP12.75*)** *post the conclusion of the awaited rights issue* has huge potential for profitability with ROE of 32% in 2019. However, the potential rights issue that is to settle the amounts paid under capital increase from ADIB UAE has been acting as a key overhang on share price performance. We expect the stock to rally post finalizing the capital increase that is planned to take place in 2020.

The Fears

- Interest rate cuts would bring higher than projected margin compression
- Slower-than-anticipated recovery in purchasing power or capex lending leading to hold back lending recovery
- Higher than expected taxes from the new tax law application
- Delayed recovery in business environment or higher SME lending would push NPLs upwards and lead to higher COR
- More strict CBE regulations on the banking sector that might pressure profitability
- Negative investor sentiment on sector due to bank's potential capital hikes

Stocks Awaiting Catalysts

- **EXPA's (FV: EGP12.50)** focus on exporters as a key client base makes it a beneficiary of improvements in Egypt's trade balance and revival in exports. In addition to its expansion in retail lending, the undergoing revamp/turnaround of its Export Credit Guarantee Company (70% owned) should provide some support for profitability going forward
- **HDBK's (FV: EGP60.40)** real estate segment keeps delivering high earnings growth that sometimes compensates for any relative weakness in commercial banking operations. The potential demerger of the stock into banking and real estate could unlock its upside potential. Also, the bank awaits two rounds of bonus shares (1:10 and 1:5), which could also support share price performance. It enjoys favorable funding structure which supported strong NIM (7.8% in 2019e) and ROE of 22% in 2020, with healthy dividend yield of 6.1% in 2020.
- **QNBA's (FV: EGP60.00)** free float increase can unlock upside potential. The bank's latest free float recorded 5%. The bank's financial soundness and size of operations makes it a direct competitor to COMI. Unlike COMI, QNBA trades at very cheap multiples penalized by very low free float and daily traded volumes.

*ADIB FV takes into account the rights issue and capital increase. *We recommend entry after the conclusion of the capital increase only.*

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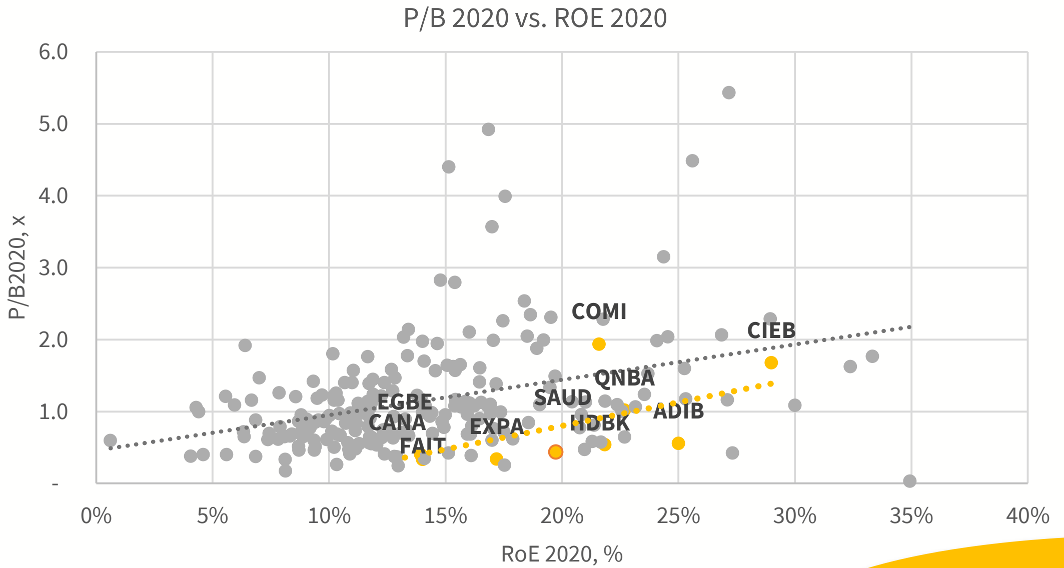
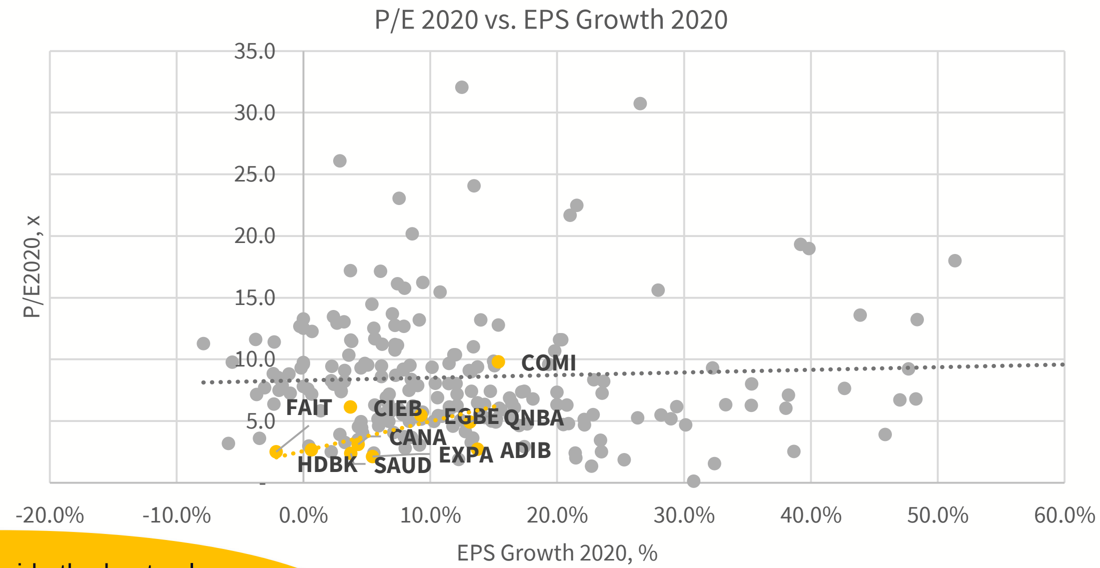
Egypt Banking Sector Valuation and Multiples

Company name	Ticker	Trading currency	Closing price	Pharos fair value	Pharos upside (%)	Pharos Recommendation	Market cap USD mn	PE ratio (x)		PB ratio (x)		Dividend yield (%)		ROE (%)		EPS growth (%)	
								2019	2020	2019	2020	2019	2020	2019	2020	2019	2020
Commercial International Bank	COMI	EGP	77.93	95.00	21.9	Equalweight	7,093.6	11.3	9.8	2.3	1.9	1.3	1.5	24.3	21.6	19.5	15.4
QNB Alahli Bank	QNBA	EGP	45.00	60.00	33.3	Overweight	2,731.0	5.6	4.9	1.2	1.0	2.2	2.7	24.6	22.7	21.8	13.1
Credit Agricole Egypt	CIEB	EGP	42.10	57.50	36.6	Overweight	811.0	6.4	6.1	1.9	1.7	10.1	9.4	31.4	29.0	3.7	3.7
Faisal Islamic Bank of Egypt (EGP)	FAIT	EGP	12.18	13.50	10.8	Equalweight	401.9	2.5	2.5	0.4	0.3	10.5	8.1	16.2	14.0	-3.6	-2.1
Housing & Development Bank	HDBK	EGP	40.98	60.40	47.4	Overweight	321.2	2.7	2.7	0.6	0.5	6.0	6.1	27.3	21.8	8.8	0.6
Egyptian Gulf Bank	EGBE	USD	0.53	0.51	-2.9	Underweight	191.8	5.7	5.4	0.8	0.7	0.0	0.0	14.1	13.2	14.0	9.3
ADIB Egypt	ADIB	EGP	7.13*	12.75*	78.9	Equalweight	215.9*	3.1	2.7	0.9	0.6	0.0	0.0	32.0	25.0	35.1	13.7
Al Baraka Bank Egypt	SAUD	EGP	9.80	14.00	42.9	Overweight	134.1	2.5	2.4	0.5	0.4	7.1	8.1	22.9	19.7	2.9	3.7
Export Development Bank of Egypt	EXPA	EGP	7.74	12.50	61.5	Overweight	130.8	2.2	2.1	0.4	0.3	6.5	7.7	19.0	17.2	41.3	5.5
Suez Canal Bank	CANA	EGP	6.93	6.00	-13.4	Equalweight	85.9	3.2	3.1	0.5	0.4	0.0	0.0	14.8	14.0	13.4	4.3
Sector simple average								**4.2**	**3.9**	**1.0**	**0.8**	**4.3**	**4.8**	**22.7**	**19.8**	**13.1**	**7.8**

*Adjusted to the rights issue and the capital increase that are to take place in 2H20

All prices and Multiples in the presentation are calculated based on Tuesday 10 December closing prices





Egyptian banks provide the best value within emerging markets; trading at very cheap multiples, with reasonable earnings growth and profitability

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Individual Banks| 2020 Fundamental Review

I. Commercial International Bank (COMI) Overweight | Leads in profitability but lags in asset allocation efficiency

Trading Data

Reuters / Bloomberg:	COMI.CA/COMI EY
Market Cap, EGP m:	114,485.57
52W H-L, EGP/Share:	84.16 - 57.27
Last Price, EGP/Share:	77.93
Fair Value, EGP/Share:	95.00
52W ADTV, EGP m:	90.00
Valuation Gap:	21.9%
Shares Outstanding, m:	1,469.1
Free Float	99.86%

Pitch

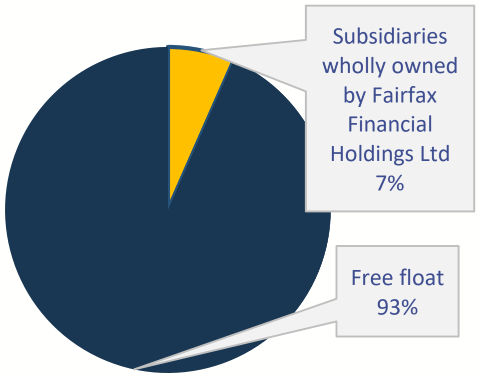
CIB continues to be the perfect proxy for the macro transformation story in Egypt. It constitutes more than 30% of Egypt's key index-EGX30. CIB is the only Egyptian stock that will continue to reserve a spot in the MSCI Emerging Markets Index, as long as Egypt is included. Its one of the big five and the best managed private bank in Egypt. The bank's plans to expand outside the borders of Egypt through acquiring a bank in Kenya along with opening a rep office in Ethiopia could be a potential value driver for the stock.

COMI is trading at P/E20 of 9.8x, and P/B20 of 1.9x, which is below its historical average P/B of 2.8x between 2004-2019, below the historical "good-times" average P/B of 3.0x, and of course much below its historical high P/B of 4.4x P/B. This confirms a good entry point at the current levels.

Over the forecast horizon (2020-2024), we project lending growth at a 5-year CAGR of 25%, deposits at 17%, and treasury investments at 4% so that LDR ratio reaches 60% in 2024 up from 40% as of September 2019. We project that treasury investments would start declining as a % of assets in 2020 on the back of the implementation of the new tax law and to start being substituted by lending after meaningful rate cuts. We estimate high margins to be sustained in 2020 on balance sheet management, then start declining gradually on the back of lower allocation to the high-yield treasury investments, dropping from 6.5% in 2020 to 5.9% in 2024, but remain healthy supported by the accumulation of low cost deposits (interest-free deposits stood at 15% in Sept-19, CASA at 53%).

Non-interest income is expected to grow at a CAGR of 27%, with lending growth revival, to reach 21% of operating income, up from 16% in 3Q19. Risk weighted Assets (RWA) would grow at a CAGR of 15% with Capital Adequacy Ratio (CAR) staying comfortably above the minimum required by the CBE.

Shareholders' structure



Upside Triggers

- Expansion plans in Africa
- Higher than expected cheap deposits accumulation
- Faster than expected pick up in non-interest income
- Faster than expected pick up in lending growth
- Positive impact on margins from retail lending, which would reduce pressure on NIM
- Lower COR, driven by higher asset quality
- Less than expected deduction from bottom line by the new tax law

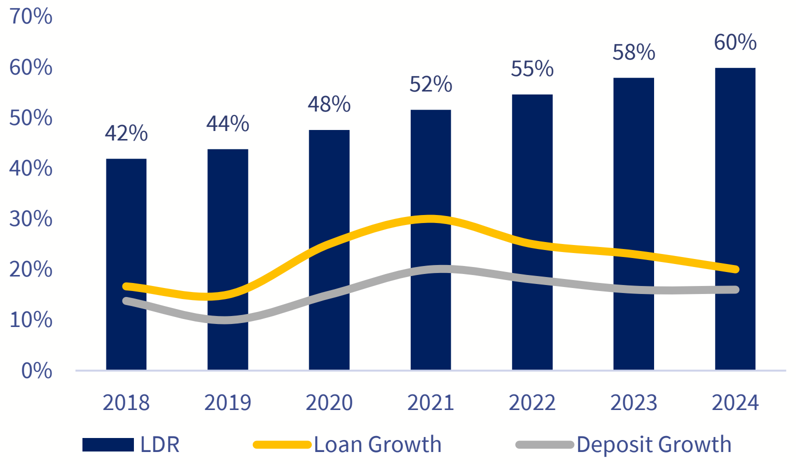
Downside Triggers

- Margin compression that is higher than projections
- Slower than estimated growth in non-interest income
- More than expected deterioration in asset quality resulting from SME financing
- Slower economic recovery which hinders lending growth for both corporate and retail sectors
- More strict CBE regulations on the banking sector that might pressure profitability

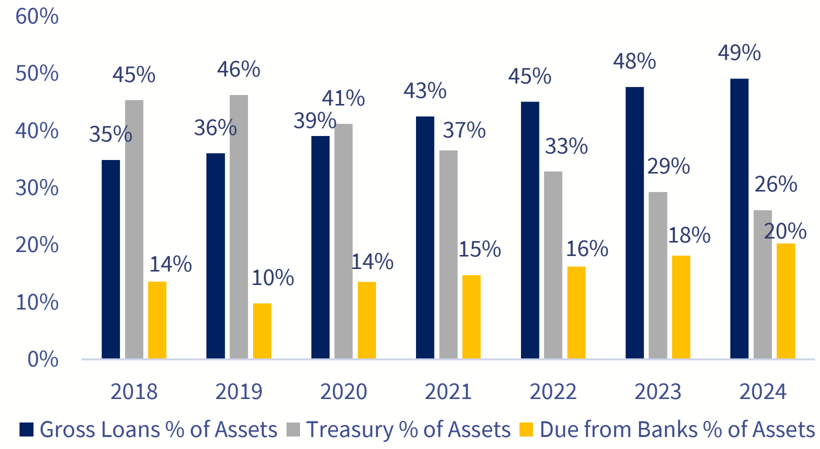
1. COMI Balance Sheet| Turns focus to lending and away from high-yield treasury investments; LDR improves

- We project lending would grow at a CAGR of 25% over our forecast horizon (2020-2024) versus 21% over 2015-2019 to reach EGP412 billion in 2024, out-pacing the rate of treasury investment, which will grow at a CAGR of 4% over the same period versus 20% over 2015-2019 and reach EGP219 billion in 2024.
- On the funding side, we expect customer deposits to increase at a CAGR of 17%, over our forecast horizon, to reach EGP688 billion by 2024. Since customer deposits are growing at a slower pace than loans, we expect that the LDR ratio to rise up from 40% as of Sept-19 to stand at 60% in 2024.
- We project NPLs to grow at a CAGR of 25% over 2020-2024 stabilizing at 5% of gross loans, with adequate provisioning where COR normalizes overtime and records an average of 1.0%. NPL coverage to gradually normalize to 125% in 2024 from above 200% currently.
- CAR strengthens despite an increase in RWA at a CAGR of 15% over 2020-2024.

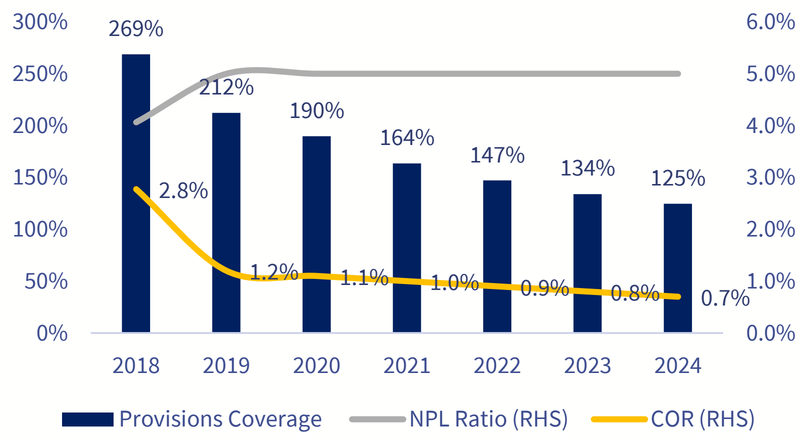
Loans and deposits to grow at CAGR of 25% and 17% over 2020-2024, respectively; LDR reaches 60%



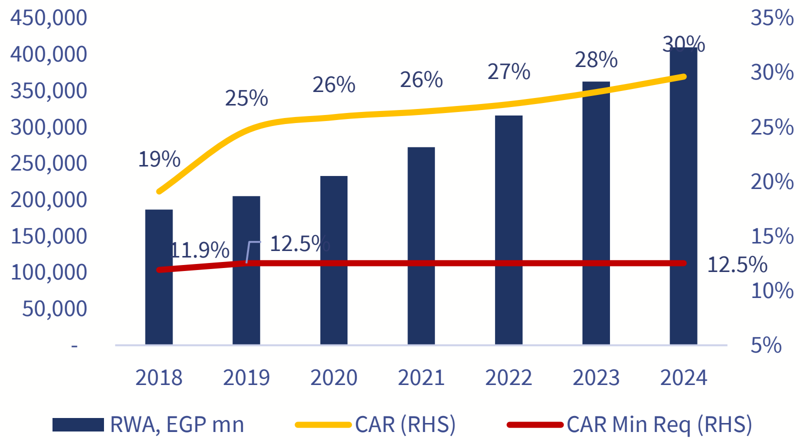
Gross loans to assets to grow while treasury allocation falls, coupled with increased interbank deposits starting 2021



NPL ratio to stabilize at 5%; COR gradually declines to stand at 0.7% in 2024 maintaining coverage north of 100%



RWA grow at a CAGR of 15%; CAR remains above the CBE minimum over our forecast horizon



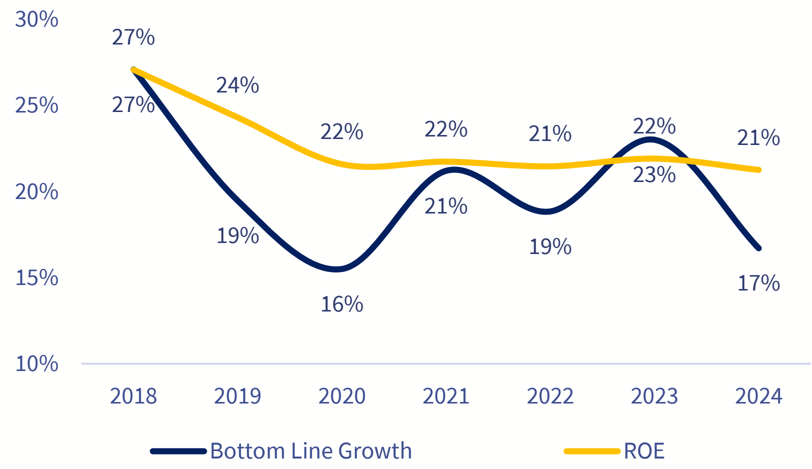
2. COMI income statement| Maintained efficiency; Declining but resilient margins support profitability

- Non-interest income is forecasted to gradually constitute 21% by 2024 from the current 14% in 2019e, and to grow at a CAGR of 20% (2020-2024). Bottom line is to grow, according to our estimates, at a CAGR of 19% over 2020-20234.

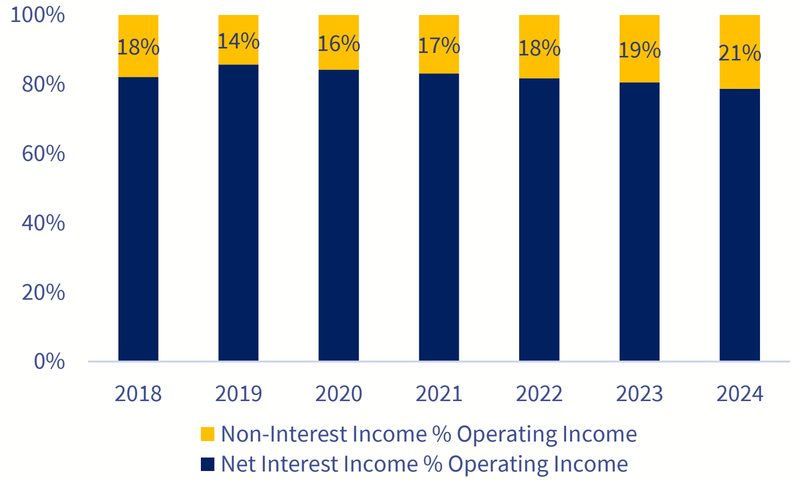
- COMI's cost to income ratio should record 27% in 2019e. We project the bank's opex to grow at the same pace of operating income of 17%. Therefore, cost to income ratio will remain at current levels of 27% until the end of our forecast horizon, conforming with the bank's target of staying below the 30% threshold.

- Due to COMI's increased treasury exposure, the bank recorded a relatively high NIM of 6.5% in 2019e. We expect margins to be relatively sustained in 2020 through shorter maturity of liabilities that could be rolled over at lower rates faster than assets. However, it would gradually decline post 2020, reaching 5.9% in 2024. This is still perceived to be high because as of 2018 year-end unearned interest from non performing loans started to appear in interest income and booked provisions, rather than appearing on separate account called unearned interest that is deducted from gross loans.

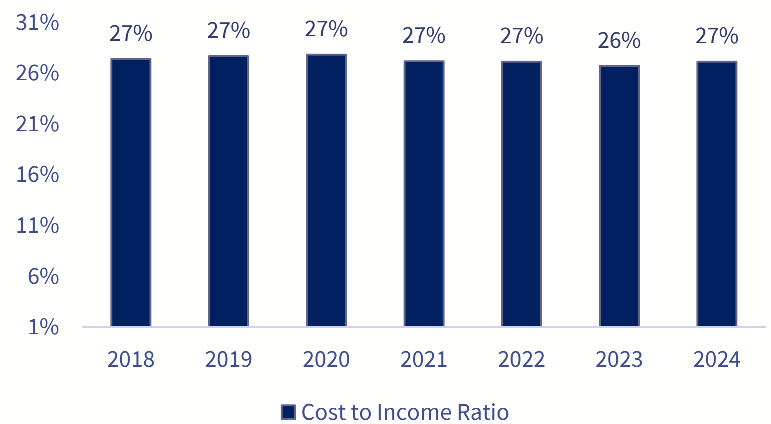
Bottom line growth slows down post new tax law; grows at a CAGR of 19% vs 25% historically; with average ROE of 19%



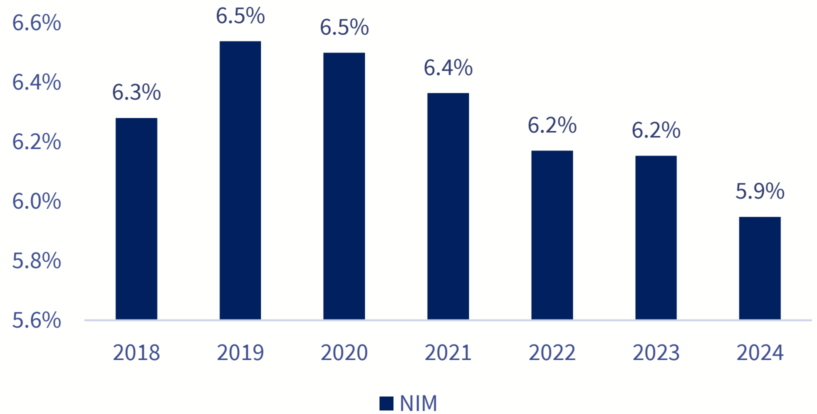
Non-interest income contribution to total operating income to gradually increase to 21% up from 14% in 2019e



Cost to income ratio to hover around current levels of 27%



NIM declines gradually amid rate cuts on lending pick up but remains well above 5%



3. COMI After New Reforms | A shift in investment strategy and a declining cost ratio provide support to bottom line

- Average effective tax rate over our forecast horizon is 28% slightly below 2015-2019 average of 27%.

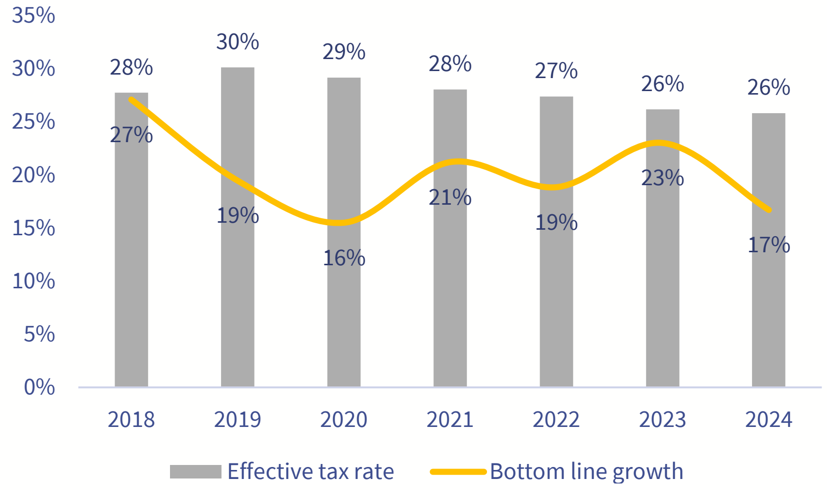
- COMI's cost ratio over 2020-2024, records 54% on average on controlled cost of funds.

	2020	2021
+Interest Exp	(22,548)	(23,031)
+Admin Exp	(6,336)	(7,603)
+Other op Exp	(1,393)	(1,297)
÷		
+Interest Income	46,370	50,751
+Non-interest income	4,460	5,650
Cost Ratio	**60%**	**57%**

- We segmented the bank's income statement into two, based on the MoF executive regulations, which splits expenses based on a given calculation for the cost ratio. We then taxed interest income from treasury operations at 20% and net earnings from corporate banking operations at 22.5%. Net earnings from banking operations are allocated only a portion of the expenses, based on the cost ratio noted before.

- COMI's paid-in capital will is adequately above the new minimum requirement.

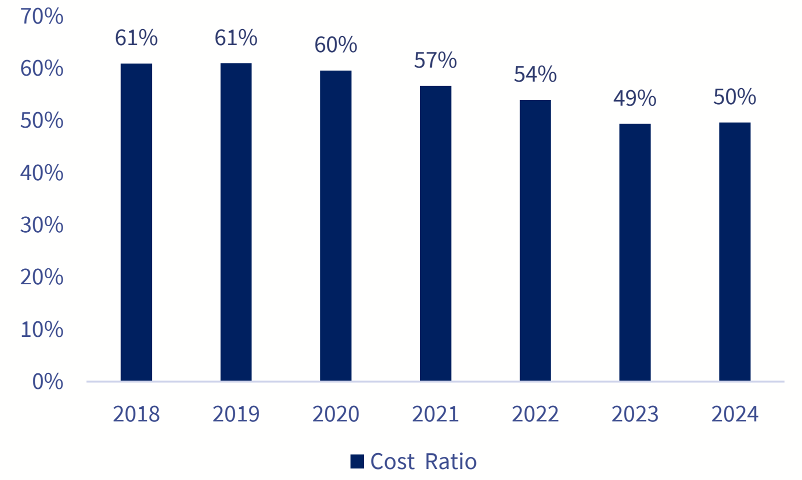
Effective tax rate records an average of 27% over 2020-2024 versus 2015-2019 average of 28%



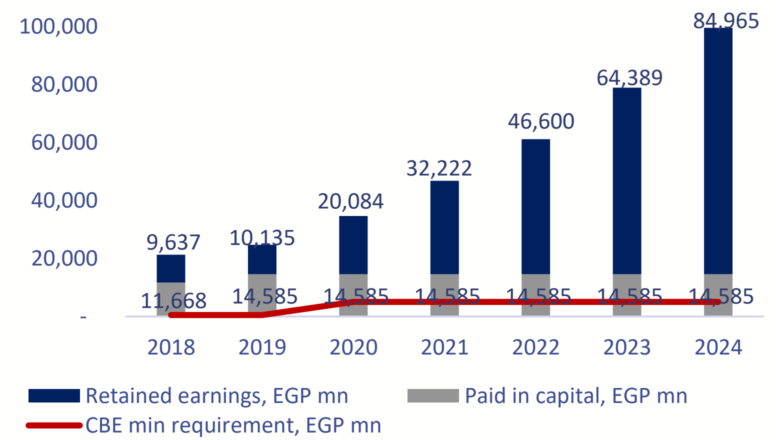
Segregated statements based on new tax treatment

	2019	2020	2021	2022	2023
Interest on new Treasuries	14,715	15,258	16,183	17,855	18,387
Expenses on Treasury	(7,178)	(7,271)	(7,329)	(7,707)	(7,265)
EBT- Treasury	**7,537**	**7,987**	**8,853**	**10,148**	**11,122**
T.bill Tax	(2,943)	(3,052)	(3,237)	(3,571)	(3,677)
Interest Income-Banking	27,683	31,112	34,569	37,412	40,760
Total Expenses -Banking	(22,366)	(24,706)	(26,576)	(28,239)	(28,930)
Non-Interest Income	3,526	4,460	5,650	7,167	9,103
EBT-Banking	**8,844**	**10,866**	**13,642**	**16,340**	**20,932**
Corporate tax	(1,990)	(2,445)	(3,069)	(3,677)	(4,710)
Total EBT	**16,381**	**18,853**	**22,495**	**26,488**	**32,055**
Total Income Tax	(4,933)	(5,496)	(6,306)	(7,248)	(8,387)
Effective Tax Rate	**30%**	**29%**	**28%**	**27%**	**26%**

COMI's cost ratio improves over time; records an average of 54% (2020-2024)



COMI's paid-in capital is already above the CBE's new minimum requirement of EGP5 billion



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4. COMI| Financial Statements and Valuation

	2018	2019	2020	2021	2022	2023	2024
Income Statement EGP million							
Net Interest Income	18,144	21,077	23,822	27,721	32,016	37,712	42,776
Non-Interest Income	3,955	3,526	4,460	5,650	7,167	9,103	11,578
Operating Income	22,099	24,603	28,282	33,370	39,182	46,815	54,353
Loan-Loss Provisions	(3,076)	(1,541)	(1,700)	(1,974)	(2,260)	(2,489)	(2,642)
Operating Expenses	(5,944)	(6,682)	(7,729)	(8,900)	(10,434)	(12,272)	(14,475)
Net Profit Before Taxes	13,079	16,381	18,853	22,495	26,488	32,055	37,236
Net Profit After Taxes	9,582	11,448	13,357	16,189	19,241	23,668	27,623
Net Attributtable Profit	8,483	10,135	11,692	14,171	16,842	20,717	24,179
Balance Sheet EGP million							
Cash & Due from Central Bank	20,059	30,271	28,476	35,351	40,702	41,960	46,041
Due from banks	46,519	37,215	59,544	77,407	100,630	130,819	170,064
Financial investments securities	157,586	178,569	183,292	194,300	205,695	213,538	221,330
Loans & Discounts, gross	119,432	137,347	171,683	223,188	278,985	343,152	411,782
Loans & Discounts, net	106,309	122,765	155,402	204,933	258,470	320,148	386,136
Total Assets	342,461	380,942	439,236	525,047	619,118	720,680	838,412
Due to Banks	7,260	1,452	1,742	2,091	2,509	3,011	3,613
Customer Deposits	285,297	313,827	360,901	433,081	511,035	592,801	687,649
Total Liabilities	308,233	331,778	380,122	453,796	533,489	617,262	714,418
Total Net Worth	34,228	49,164	59,113	71,251	85,629	103,418	123,994
Key Indicators							
NIM	6.3%	6.5%	6.5%	6.4%	6.2%	6.2%	5.9%
Non-interest income/Op income	17.9%	14.3%	15.8%	16.9%	18.3%	19.4%	21.3%
OPEX-to-assets	1.9%	1.8%	1.9%	1.8%	1.8%	1.8%	1.9%
Cost-to-Income	26.9%	27.2%	27.3%	26.7%	26.6%	26.2%	26.6%
Cost of Risk	2.8%	1.2%	1.1%	1.0%	0.9%	0.8%	0.7%
ROAE	27.1%	24.3%	21.6%	21.7%	21.5%	21.9%	21.3%
ROAA	2.7%	2.8%	2.9%	2.9%	2.9%	3.1%	3.1%
CAR	19.1%	24.7%	25.9%	26.4%	27.1%	28.2%	29.6%
Treasury Exposure	45.3%	46.3%	41.2%	36.5%	32.8%	29.3%	26.1%
LDR	41.9%	43.8%	47.6%	51.5%	54.6%	57.9%	59.9%
NPL Ratio	4.1%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Provisions Coverage	268.6%	212.3%	189.7%	163.6%	147.1%	134.1%	124.6%

	2019	2020	2021	2022	2023	2024	
Multiples							
EPS, EGP	6.90	7.96	9.65	11.46	14.10	16.46	
P/E, x	11.3	9.8	8.1	6.8	5.5	4.7	
BVPS, EGP	33.47	40.24	48.50	58.29	70.40	84.40	
P/B, x	2.3	1.9	1.6	1.3	1.1	0.9	
DPS, EGP	0.99	1.19	1.38	1.68	1.99	2.45	
Dividend Yield	1.3%	1.5%	1.8%	2.2%	2.6%	3.1%	
Implied P/E, x	13.8	11.9	9.8	8.3	6.7	5.8	
Implied P/B, x	2.8	2.4	2.0	1.6	1.3	1.1	
Cost of Equity Assumptions							**TV**
Risk Free Rate (After Tax)		12.0%	10.4%	10.4%	10.0%	10.0%	10.0%
Risk Premium		6.0%	6.0%	5.0%	5.0%	5.0%	5.0%
Beta		1.0	1.0	1.0	1.0	1.0	1.0
Cost of Equity		18.0%	16.4%	15.4%	15.0%	15.0%	15.0%
Terminal Growth Rate							5.0%
Valuation							
Net Attributable Income		11,692	14,171	16,842	20,717	24,179	
+Non cash items (Depreciation)		459	505	556	611	673	
-Capital charge		(3,440)	(4,965)	(5,432)	(5,856)	(5,896)	
Cash flow to shareholders		8,711	9,712	11,967	15,472	18,956	
PV of ECF		7,382	7,168	7,787	8,846	9,424	
Sum of PV	40,607						
Terminal value	199,035						
Discounted terminal value	98,955						
Valuation	**139,563**						
Number of shares	**1,469**						
FV/Share, EGP	**95.00**						

II. Qatar National Bank Alahli Overweight | Leads in market share and asset allocation efficiency

Trading Data

Reuters / Bloomberg:	QNBA.CA/QNBA EY
Market Cap, EGP m:	44,075.92
52W H-L, EGP/Share:	46.00 - 38.56
Last Price, EGP/Share:	45.00
Fair Value, EGP/Share:	60.00
52W ADTV, EGP m:	1.31
Valuation Gap:	33.3%
Shares Outstanding, m:	979.5
Free Float	5.0%

Pitch

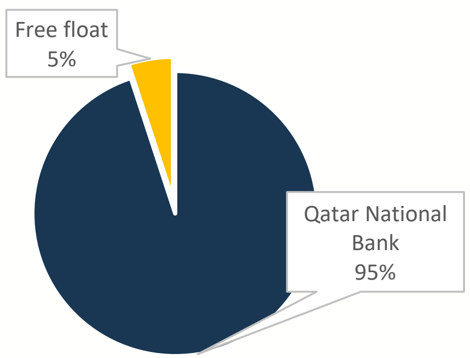
The bank's financial soundness coupled with its high market share make it a direct competitor to COMI. Unlike COMI, QNBA has a one of the highest loan-to deposit (LDR) ratio in the market which makes it a little less profitable than COMI since it deploys a huge portion of its funds in treasury investments and interbank deposits. However, that conveys the bank's lending ability amidst weak business environment, and ensures earnings sustainability when rates go down or when treasury investments decrease. The bank's balance sheet structure enjoys a good percentage of cheap deposits where CASA stands at 35% as of Sept-2019.

QNBA is trading at attractive multiples of P/E20 of 4.9x, and P/B20 of 1.0x, which is below COMI's P/E20 of 9.8x, and P/B20 of 1.9x penalized by its low free float (5%) and low daily traded volumes.

Over the forecast horizon (2020-2024), we project lending growth at a 5-year CAGR of 22%, deposits at 20%, and treasury investments at 4% so that the LDR ratio reaches 81% from 75% as of Sep-19. We assume treasury investments would continue to decline as a percentage of assets in 2020 post new tax law and to start being substituted by loans in 2020 after meaningful rate cuts. We estimate margins to be sustained in 2020 on balance sheet management, then drop from 5.8% in 2020 to 4.9% in 2024, however, stay solid supported by the growth of the high-margin retail lending (which recorded 16% as of Sep-19)

Non-interest income is expected to grow at a CAGR of 21% with lending growth revival, reaching 18% of operating income from 14% currently. Risk weighted Assets (RWA) would grow at a CAGR of 18% with Capital Adequacy Ratio (CAR) slightly getting pressured but staying comfortably above the minimum required by the CBE.

Shareholders' structure



Upside Triggers

- Higher than expected cheap deposits accumulation
- Faster than expected pick up in non-interest income
- Faster than expected pick up in lending growth
- Positive impact on margins from retail lending, which would reduce pressure on NIM
- Lower COR, driven by higher asset quality
- Less than expected deduction from bottom line by the new tax law

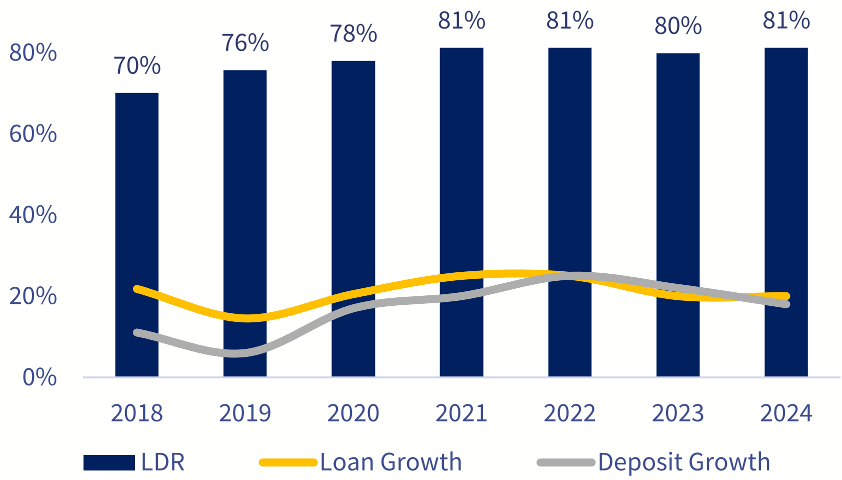
Downside Triggers

- Margin compression that is higher than projections
- Slower than estimated growth in non-interest income
- More than expected deterioration in asset quality resulting from SME financing
- Slower economic recovery which hinders lending growth for both corporate and retail sectors
- More strict CBE regulations on the banking sector that might pressure profitability

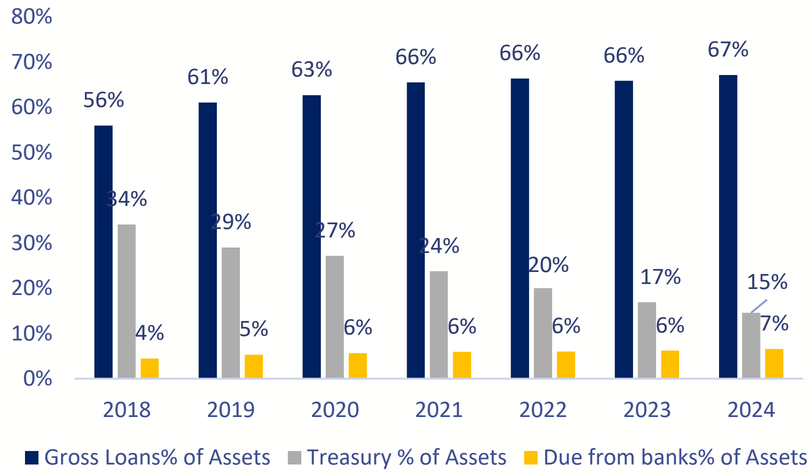
IV. QNBA Balance Sheet| Highest lending efficiency; CAR grows gradually

- We project lending would grow at a CAGR of 22% over our forecast horizon (2020-2024) versus 19% over 2016-2019e to reach EGP447 billion in 2024, out-pacing the rate of treasury investment, which will grow at a CAGR of 4% over the same period versus 28% over 2015-2019e and reach EGP97 billion in 2024.
- On the funding side, we expect customer deposits to expand at a CAGR of 20%, over our forecast horizon, to reach EGP450 billion by 2024. Since customer deposits are growing at a slower pace than loans, LDR ratio will rise up from 75% as of Sep-19 to reach 81% in 2024.
- We project NPLs to grow at a CAGR of 15% over 2020-2024 recording an average of 2.4%, with adequate provisioning north of 100% where COR stabilizes at 0.3% over our forecast horizon.
- CAR is expected to increase conservatively to 21.4%, remaining well above the CBE minimum requirement of 12.5%.

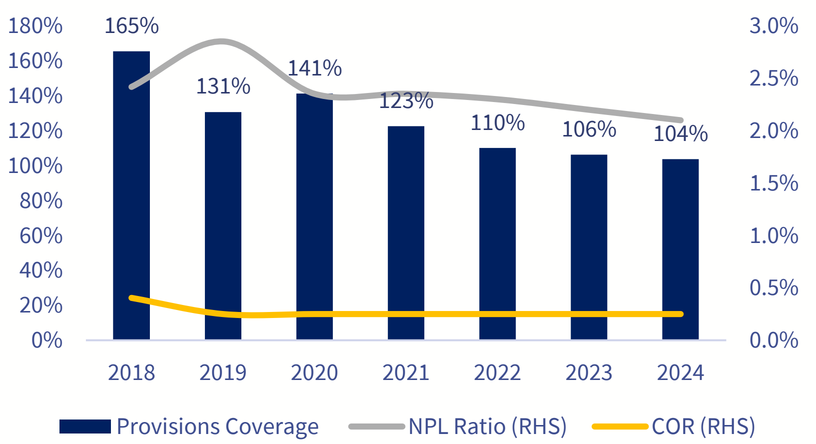
Loans and deposits to grow at 2020-2024 CAGR of 22% and 20%, respectively; LDR reaches 81%



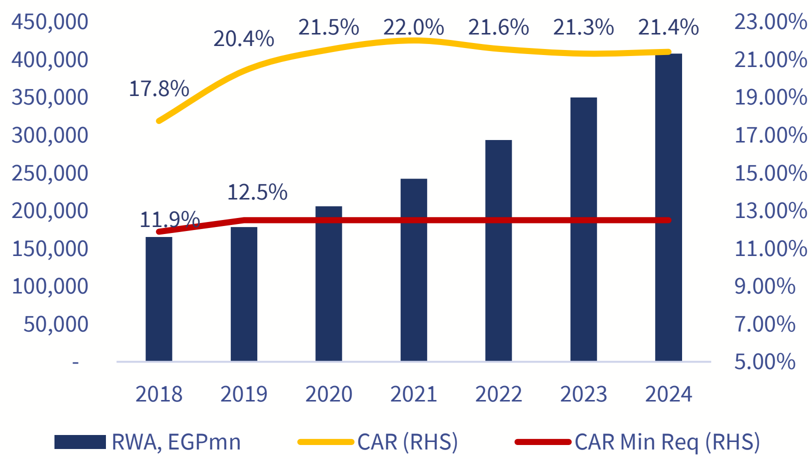
Gross loans to assets grows while treasury allocation to assets drops, with stable share of interbank deposits



NPL improves; COR normalizes at 0.3% maintaining resilient coverage of NPLs north of 100%



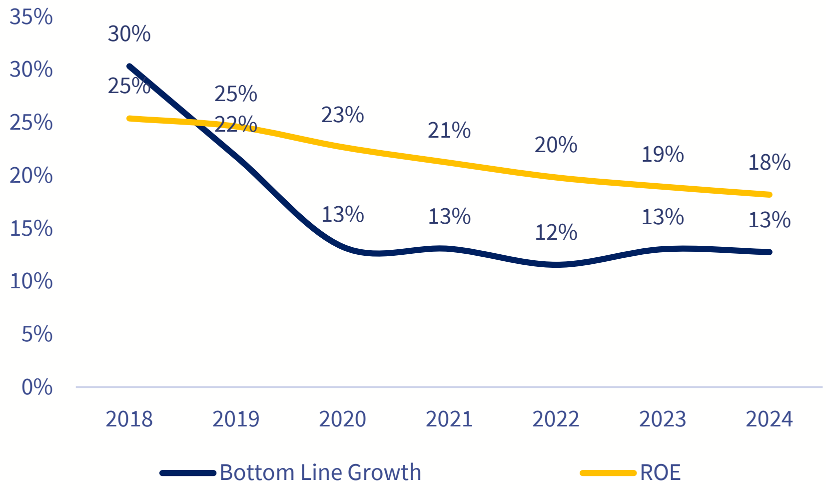
RWA grow at a CAGR of 18%; CAR remains above the CBE minimum over our forecast horizon



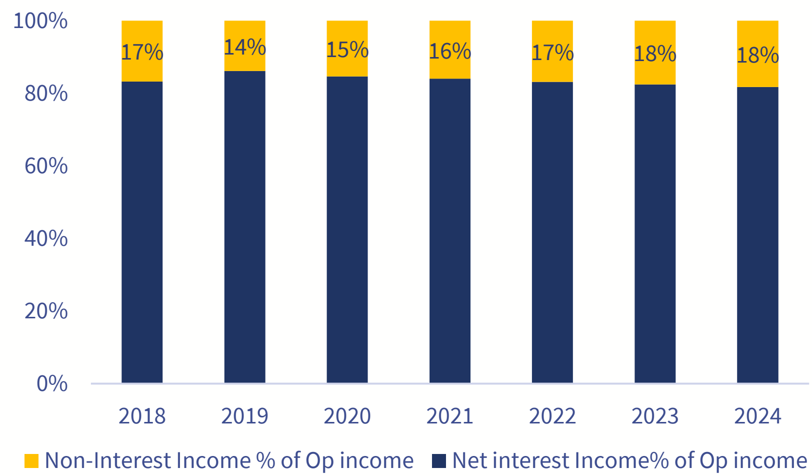
2. QNBA Income statement| Efficiency slows down with declining margins

- Non-interest income is forecasted to gradually increase to 18% in 2024. Bottom line to grow, according to our estimates, at a CAGR of 13% over 2020-2024 versus 29% over 2015-2019e.
- QNBA's cost to income ratio expected to increase and reach a peak of 29% in 2024. We project the bank's opex to grow at a CAGR of 19% while operating income at a CAGR of 14% on lower treasury investments.
- The bank recorded resilient margins north of 5% which are expected to be maintained in 2020 on balance sheet management, then to decline gradually post 2021, to reach 4.9% in 2024.

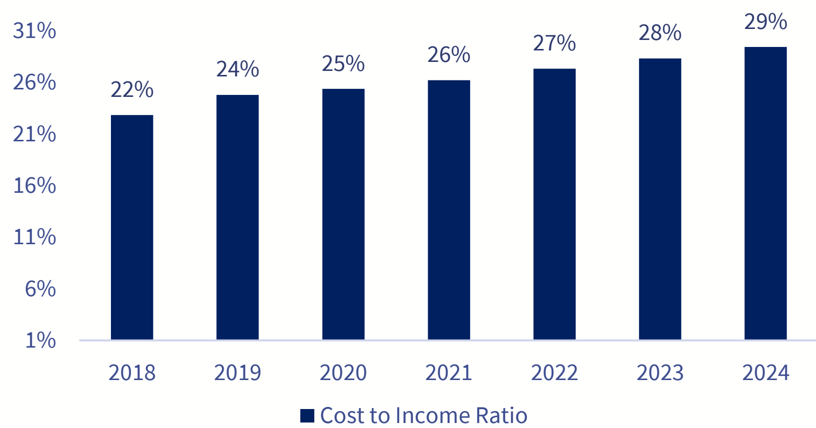
Bottom line growth slows down post new tax law; Grows at a CAGR of 13%; ROE records an average of 20% (2020-2024)



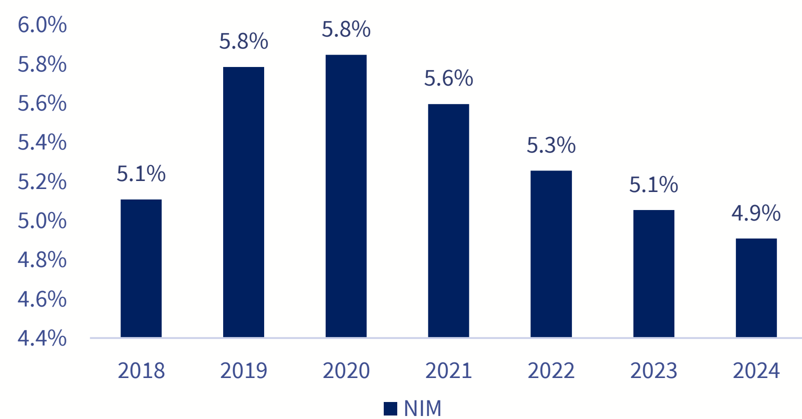
Non-interest income contribution to operating income increases to 18% in 2024 up from 14% om 2019e



Cost-to-income ratio to expand reaching a peak of 29% in 2024



NIM to start declining in 2021 to reach 4.9% in 2024



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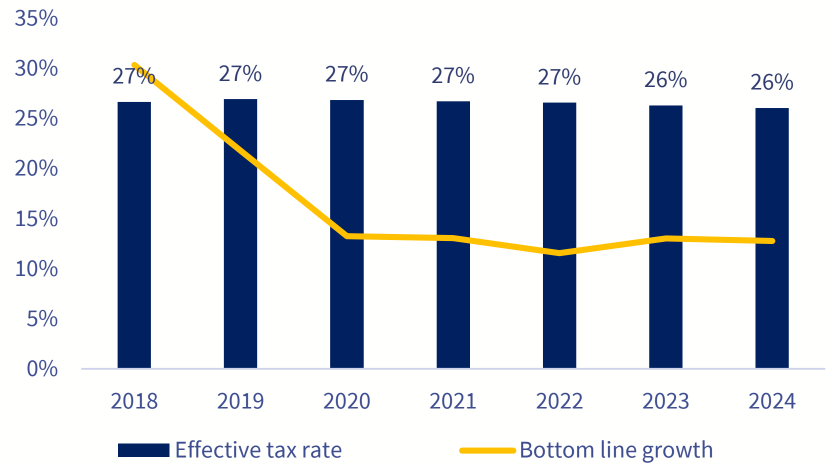
3. QNBA After New Reforms | Effective tax rate remains stable on lower treasury Investment; Capital more than adequate

- Average effective tax rate over our forecast horizon is 26% up, which is equals to the bank's historical average over 2015-2019e.
- QNBA's average cost ratio, over 2020-2024, records 63%.

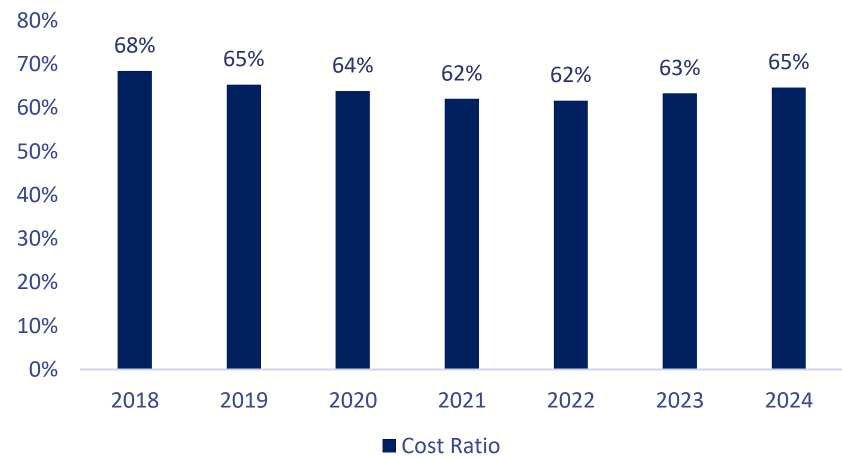
	2020	2021
+Interest Exp	(20,334)	(20,734)
+Admin Exp	(4,284)	(5,141)
+Other op Exp	(400)	(400)
÷		
+Interest Income	36,289	38,855
+Non-interest income	2,898	3,455
Cost Ratio	**64%**	**62%**

- We segmented the bank's income statement into two, based on the MoF executive regulations, which splits expenses based on a given calculation for the cost ratio. We then taxed interest income from treasury operations at 20% and net earnings from corporate banking operations at 22.5%. Net earnings from banking operations are allocated only a portion of the expenses, based on the cost ratio noted before.
- QNBA's paid-in capital will is adequately above the new minimum requirement.

Bottom line growth hovers around 13% with an average effective tax rate of 26%



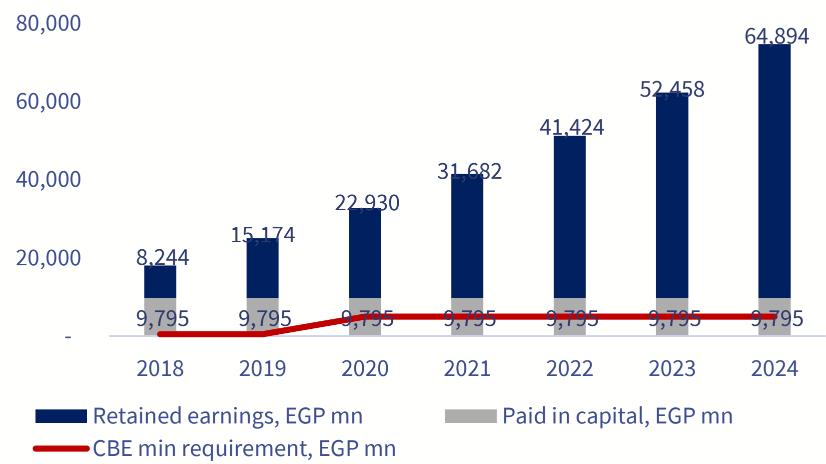
QNBA's cost ratio hovers around 63% over time



Segregated statements based on new tax treatment

	2019	2020	2021	2022	2023
Interest on new Treasuries	5,747	6,645	7,520	8,178	8,274
Expenses on Treasury	(3,005)	(3,394)	(3,736)	(4,034)	(4,194)
EBT- Treasury	**2,742**	**3,251**	**3,784**	**4,144**	**4,080**
T.bill Tax	(1,149)	(1,329)	(1,504)	(1,636)	(1,655)
Interest Income-Banking	27,752	29,644	31,335	34,467	42,090
Total Expenses -Banking	(20,753)	(22,079)	(23,098)	(25,500)	(31,686)
Non-Interest Income	2,261	2,898	3,455	4,121	4,917
EBT-Banking	**9,260**	**10,463**	**11,692**	**13,088**	**15,321**
Corporate tax	(2,084)	(2,354)	(2,631)	(2,945)	(3,447)
Total EBT	**12,002**	**13,715**	**15,476**	**17,232**	**19,401**
Total Income Tax	(3,233)	(3,683)	(4,135)	(4,580)	(5,102)
Effective Tax Rate	**27%**	**27%**	**27%**	**27%**	**26%**

QNBA's paid-in capital is already above the CBE's new minimum requirement of EGP5 billion



PHAROS

4. QNBA| Financial Statements and Valuation

	2018	2019	2020	2021	2022	2023	2024
Income Statement EGP million							
Net Interest Income	11,090	14,097	15,955	18,121	20,378	23,140	26,236
Non-Interest Income	2,232	2,261	2,898	3,455	4,121	4,917	5,870
Operating Income	13,322	16,358	18,853	21,575	24,499	28,057	32,106
Loan-Loss Provisions	(530)	(386)	(454)	(558)	(698)	(853)	(1,024)
Operating Expenses	(2,975)	(3,970)	(4,684)	(5,541)	(6,569)	(7,803)	(9,284)
Net Profit Before Taxes	9,816	12,002	13,715	15,476	17,232	19,401	21,799
Net Profit After Taxes	7,201	8,769	10,031	11,341	12,651	14,299	16,122
Net Attributable Profit	6,495	7,910	8,948	10,117	11,285	12,755	14,381
Growth y/y	30%	22%	13%	13%	12%	13%	13%
Balance Sheet EGP million							
Cash & Due from Central Bank	11,751	8,693	9,779	13,321	30,221	56,990	71,612
Due from banks	11,523	14,403	18,004	22,505	28,131	35,164	43,955
Treasury Bills and Gov't Notes	48,145	35,243	38,767	40,512	42,218	43,062	43,771
Loans & Discounts, gross	143,912	164,779	198,559	248,199	310,249	372,298	446,758
Loans & Discounts, net	137,965	158,446	191,772	240,853	302,205	363,402	436,838
Total Assets	257,260	270,060	316,839	378,814	467,552	565,580	665,274
Due to Banks	11,481	3,444	4,133	4,960	5,952	7,142	8,571
Customer Deposits	205,286	217,603	254,595	305,514	381,893	465,909	549,773
Total Liabilities	228,607	234,475	273,500	326,722	405,718	492,712	579,970
Total Net Worth	28,653	35,584	43,339	52,092	61,834	72,868	85,304
Key Indicators							
NIM	5.1%	5.8%	5.8%	5.6%	5.3%	5.1%	4.9%
Non-interest income to operating income	16.8%	13.8%	15.4%	16.0%	16.8%	17.5%	18.3%
OPEX-to-assets	1.2%	1.5%	1.6%	1.6%	1.6%	1.5%	1.5%
Cost-to-Income	22.3%	24.3%	24.8%	25.7%	26.8%	27.8%	28.9%
Cost of Risk	0.4%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%
ROAE	25.4%	24.6%	22.7%	21.2%	19.8%	18.9%	18.2%
ROAA	2.7%	3.0%	3.0%	2.9%	2.7%	2.5%	2.3%
CAR	17.8%	20.4%	21.5%	22.0%	21.6%	21.3%	21.4%
Treasury Exposure	18.7%	13.1%	12.3%	10.7%	9.1%	0.0%	0.0%
LDR	70.1%	75.7%	78.0%	81.2%	81.2%	79.9%	81.3%
NPL Ratio	2.4%	2.9%	2.4%	2.4%	2.3%	2.2%	2.1%
Provisions Coverage	165.4%	130.7%	141.2%	122.5%	110.0%	106.3%	103.7%

	2019	2020	2021	2022	2023	2024	
Multiples							
EPS, EGP	8.08	9.14	10.33	11.52	13.02	14.68	
P/E, x	5.6	4.9	4.4	3.9	3.5	3.1	
BVPS, EGP	36.33	44.25	53.18	63.13	74.40	87.09	
P/B, x	1.2	1.0	0.8	0.7	0.6	0.5	
DPS, EGP	1.00	1.22	1.39	1.58	1.76	1.99	
Dividend Yield	2.2%	2.7%	3.1%	3.5%	3.9%	4.4%	
Implied P/E, x	7.4	6.6	5.8	5.2	4.6	4.1	
Implied P/B, x	1.7	1.4	1.1	1.0	0.8	0.7	
Cost of Equity Assumptions							**TV**
Risk Free Rate (After Tax)		12.0%	10.4%	10.4%	10.0%	10.0%	10.0%
Risk Premium		6.0%	6.0%	5.0%	5.0%	5.0%	5.0%
Beta		1.0	1.0	1.0	1.0	1.0	1.0
Cost of Equity		18.0%	16.4%	15.4%	15.0%	15.0%	15.0%
Terminal Growth Rate							
Valuation							
Net Attributable Income		8,948	10,117	11,285	12,755	14,381	
+Non cash items (Depreciation)		237	259	284	312	342	
-Capital charge		(3,445)	(4,518)	(6,400)	(7,060)	(7,241)	
Cash flow to shareholders		5,739	5,858	5,170	6,007	7,483	
PV of ECF		4,864	4,324	3,364	3,434	3,720	
Sum of PV	19,706						
Terminal value	78,567						
Discounted terminal value	39,062						
Valuation	**58,768**						
Number of shares	**979**						
FV/Share, EGP	**60.00**						

PHAROS

III. Credit Agricole Egypt (CIEB) Overweight | Profits grow slowly but surely

Trading Data

Reuters / Bloomberg:	CIEB.CA/CIEB EY
Market Cap, EGP m:	13,089.61
52W H-L, EGP/Share:	47.70 - 40.27
Last Price, EGP/Share:	42.10
Fair Value, EGP/Share:	57.50
52W ADTV, EGP m:	5.1
Valuation Gap:	36.6%
Shares Outstanding, m:	310.9
Free Float	39.1%

Pitch

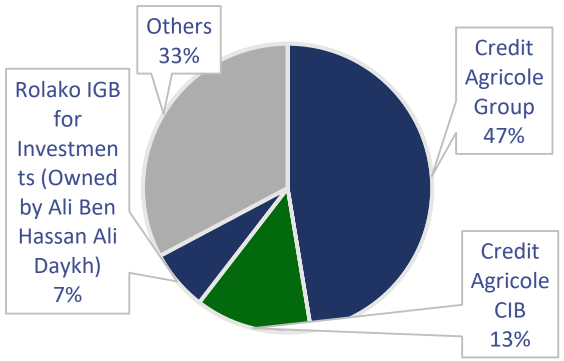
Credit Agricole has cleverly placed itself in an ideal position by maintaining the highest base of cheap funds among peers by not joining the race of offering high rate CD's during the past monetary tightening cycle. This has assisted in generating impressive NIMs among peers but limited its balance sheet growth. Going forward, we expect the bank to continue deliver relatively higher NIMs in the sector on an agile balance sheet that is to benefit from the ongoing monetary easing cycle.

CIEB has always been ahead of Egyptian Banking stocks in terms of cash dividend distribution, with attractive dividend yield, that we estimate at 9.4% in 2020. CIEB is trading at attractive multiples with P/E20 of 6.1x, and P/B20 of 1.7x, which is below COMI's at P/E20 of 9.8x, and P/B20 of 1.9x. The attractiveness of these multiples is even higher when looking at the ROAE of 29% in 2020. CIEB share price performance is penalized by its low liquidity.

Over the forecast horizon (2020-2024), we project lending growth at a 5-year CAGR of 15%, deposits at 13%, and treasury investments at 9% so that LDR ratio reaches 63% from 58% as of Sep-19. We assume that lending would gradually start substituting treasury investments, in 2020 post new tax law and after meaningful rate cuts. We estimate margins to be maintained in 2020, then drop from 7.1% in 2020 to 5.5% in 2024, but would remain healthy supported by the growth of the high-margin retail lending and cheap funding base.

Non-interest income is expected to grow at a CAGR of 19%, with lending growth revival, to reach 34% of operating income up from a latest figure of 27% in 3Q19. Risk weighted Assets (RWA) would grow at a CAGR of 13% with Capital Adequacy Ratio (CAR) getting slightly pressured on the back of lending revival but staying comfortably above the minimum required by the CBE at average of 20.4% over 2020-2024.

Shareholders' structure



Upside Triggers

- Higher than expected cheap deposits accumulation
- Faster than expected pick up in non-interest income
- Faster than expected pick up in lending growth
- Positive impact on margins from retail lending would reduce pressure on NIM
- Lower COR, driven by higher asset quality
- Less than expected deduction from bottom line by the new tax law

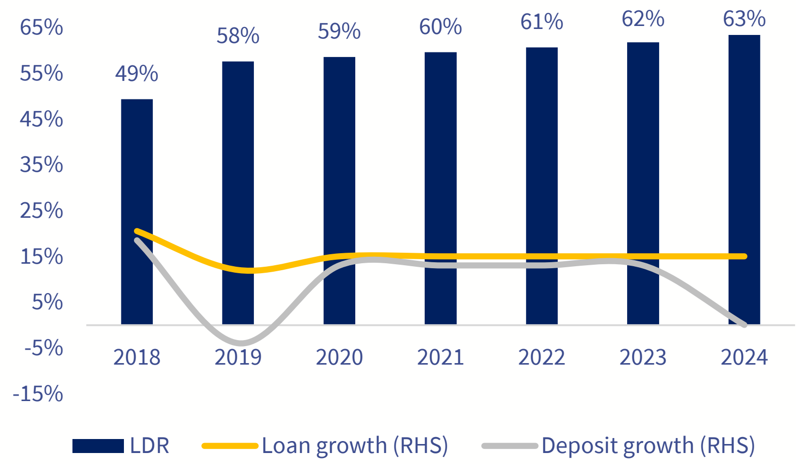
Downside Triggers

- Margin compression that is higher than projections
- Slower than estimated growth in non-interest income
- More than expected deterioration in asset quality resulting from SME financing
- Slower economic recovery which hinders lending growth for both corporate and retail sectors
- More strict CBE regulations on the banking sector that might pressure profitability

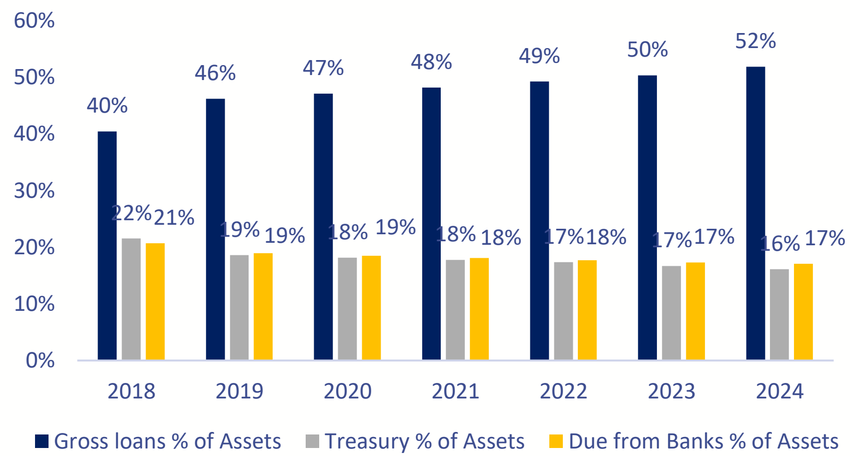
1. CIEB Balance sheet| Quality over Growth; Declining capital adequacy ratio on high payout ratio

- We project lending would grow at a CAGR of 15% over our forecast horizon (2020-2024) versus 13% over 2015-2019e to reach EGP49 billion in 2024, out-pacing the rate of treasury investment, which will grow at a CAGR of 9% over the same period and reach EGP15 billion in 2024.
- On the funding side, we expect customer deposits to increase at a CAGR of 13%, over our forecast horizon, to reach EGP77 billion by 2024. Since customer deposits are growing at a slower pace than loans, LDR ratio will rise up from 58% as of Sept-19 to stand at 63% in 2024.
- We project NPLs to grow at a CAGR of 15% over 2020-2024 stabilizing at 3%, with adequate provisioning north of 100%, where COR reaches 0.5% in 2024, up from a trend of provision reversal in 2018-2019.
- CAR is expected to slightly decline on lending pick up in 2020 coupled with high dividends payout ratio with an average of 57% over 2020-2024. However, it should remain well above the CBE minimum requirement of 12.5%.

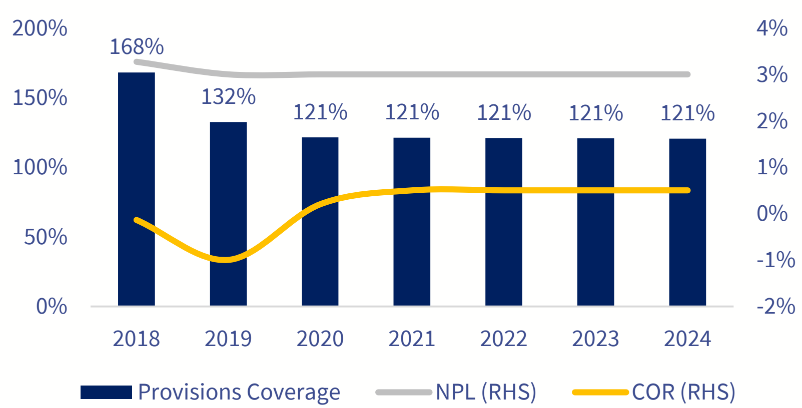
Loans and deposits to grow at 2020-2024 CAGR of 15% and 13%, respectively; LDR reaches 63%



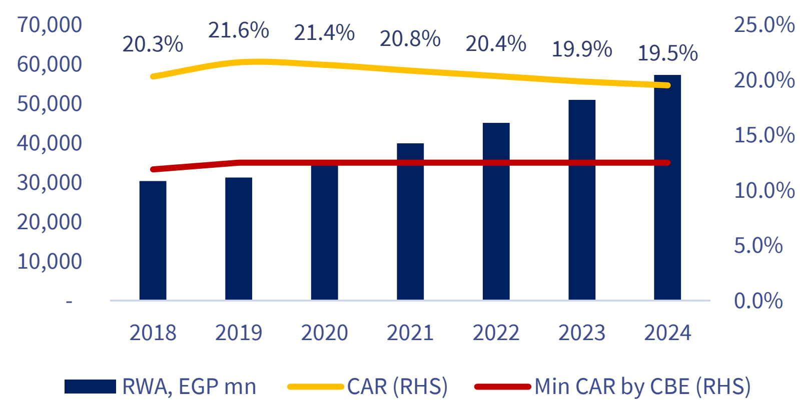
Treasury contribution to assets slightly falls , while gross loans and interbank deposits contribution increase



NPL ratio stabilizes at 3%; COR normalizes post provisions reversal in 2019e and records an average of 0.4%



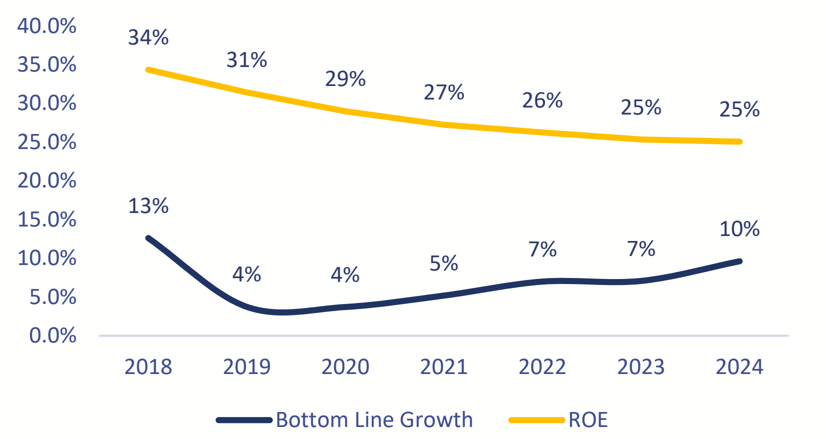
RWA to grow at a CAGR of 13%; CAR remains above the CBE minimum over our forecast horizon



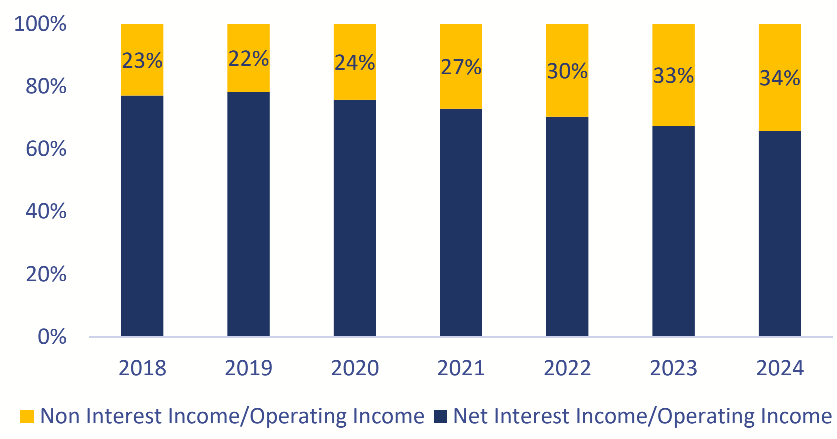
2. CIEB Income statement| Highest profitability in sector on low cost of funds

- Non-interest income is forecasted to gradually constitute 34% of operating income by 2024 from 22% in 2019e, and to grow at a CAGR of 19%. Bottom line to grow, according to our estimates, at a CAGR of 6% over 2020-2024.
- CIEB's cost to income ratio to record 31% in 2019e. We project the bank's opex to grow at a CAGR of 8% while operating income to grow at a CAGR of 9%, resulting in relatively stable cost to income ratio at an average of 29%.
- Given CIEB large low-cost deposit base (44% of total deposits as of Sep-19), the bank succeeded in achieving one of the highest Net Interest Margin (NIM), amongst our coverage, over the past years. However, we estimate margins will start to decline post 2020, reaching 5.5% in 2024 as lending picks up and competition intensifies on deposit accumulation.

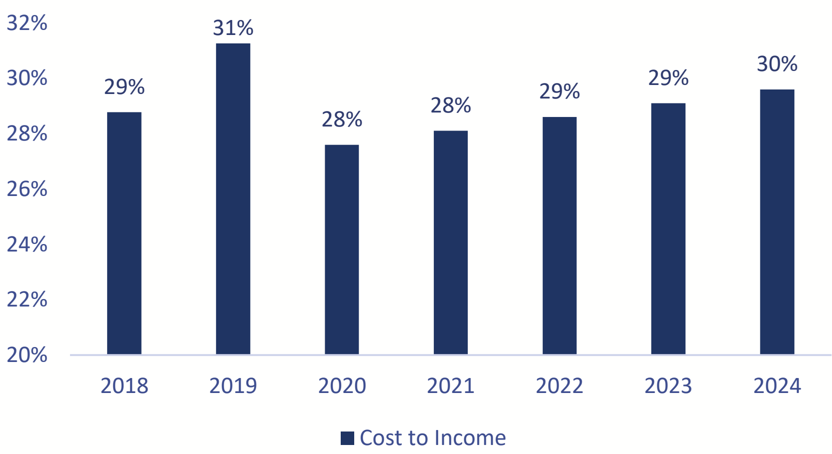
Bottom line growth rises with higher lending volumes; Grows at 2020-2024 CAGR of 6%, ROE records averages of 27%



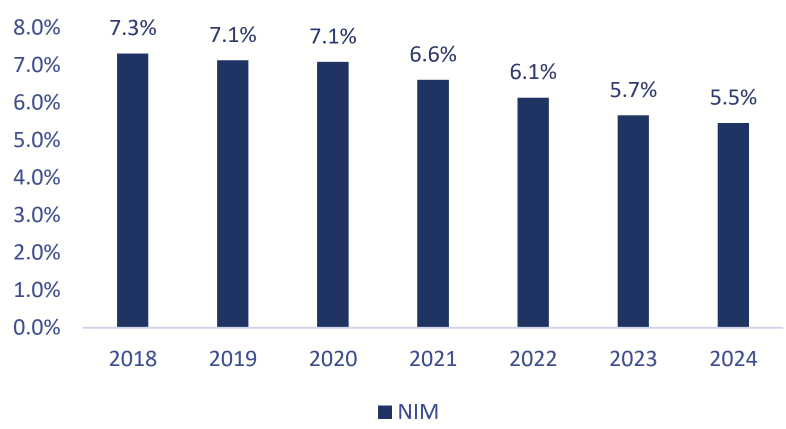
Non-interest income contribution of total operating income expands to 34% in 2024 from 22% in 2019e



Cost to income ratio to hover around 29%



NIM to decline gradually as lending picks up and competition intensifies on deposit accumulation



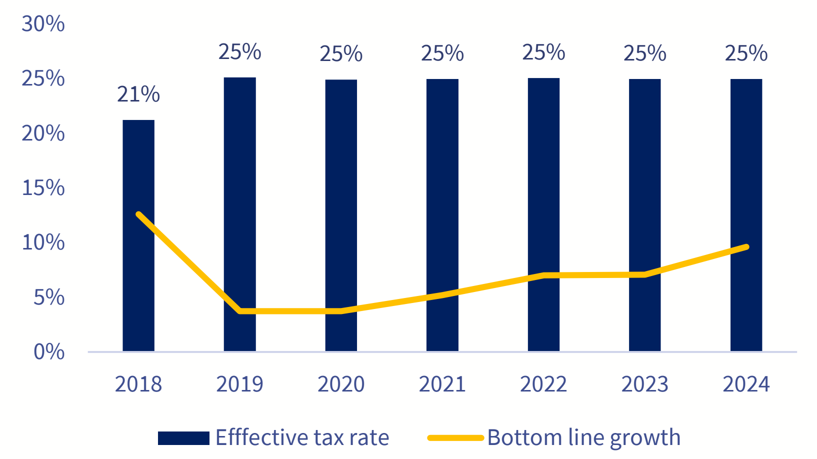
3. CIEB After New Reforms | Well-positioned to withstand the challenge

- Average effective tax rate over our forecast horizon is 25% up from an average of 23% over 2015-2019e.
- CIEB's average cost ratio, over 2020-2024, records 53%

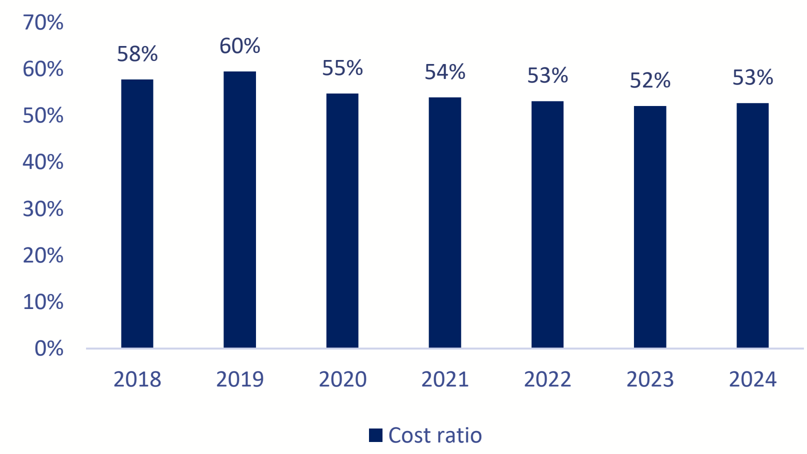
	2020	2021
+Interest Exp	(2,688)	(2,741)
+Admin Exp	(1,235)	(1,371)
÷		
+Interest Income	6,079	6,296
+Non-interest income	1,086	1,322
Cost Ratio	**55%**	**54%**

- We segmented the bank's income statement into two, based on the MoF executive regulations, which splits expenses based on a given calculation for the cost ratio. We then taxed interest income from treasury operations at 20% and net earnings from corporate banking operations at 22.5%. Net earnings from banking operations are allocated only a portion of the expenses, based on the cost ratio noted before.
- CIEB's paid-in capital falls below the new minimum requirement, but retained earnings can adequately cover the gap.

Bottom line growth improves with stable average effective tax rate of 25% (2020-2024)



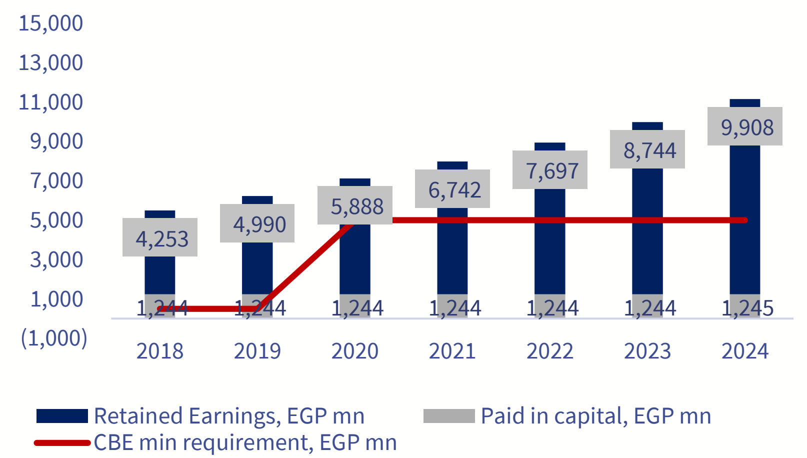
CIEB's cost ratio improves on controlled cost of funds; records an average of 53% (2020-2024)



Segregated statements based on new tax law

	2019	2020	2021	2022	2023
Interest on new Treasuries	966	1,040	1,147	1,299	1,378
Expenses on Treasury	(460)	(456)	(495)	(552)	(575)
EBT- Treasury	**506**	**584**	**652**	**747**	**803**
T.bill Tax	(193)	(208)	(229)	(260)	(276)
Interest Income-Banking	5,109	5,039	5,149	5,175	5,211
Total Expenses -Banking	(3,459)	(3,520)	(3,766)	(3,893)	(4,029)
Non-Interest Income	893	1,086	1,322	1,567	1,860
EBT-Banking	**2,543**	**2,605**	**2,705**	**2,849**	**3,043**
Corporate tax	(572)	(586)	(609)	(641)	(685)
Total EBT	**3,049**	**3,189**	**3,357**	**3,596**	**3,846**
Total Income Tax	(765)	(794)	(838)	(901)	(960)
Effective Tax Rate	**25%**	**25%**	**25%**	**25%**	**25%**

CIEB's paid-in capital is below the new minimum requirement; Retained earnings adequately cover the gap



4. CIEB| Financial Statements and Valuation

	2018	2019	2020	2021	2022	2023	2024
Income Statement EGP million							
Net Interest Income	2,994	3,208	3,390	3,556	3,711	3,843	4,156
Non-Interest Income	890	893	1,086	1,322	1,567	1,860	2,156
Operating Income	3,884	4,101	4,477	4,878	5,278	5,704	6,312
Loan-Loss Provisions	27	230	(52)	(150)	(173)	(198)	(228)
Operating Expenses	(1,117)	(1,282)	(1,235)	(1,371)	(1,509)	(1,660)	(1,868)
Net Profit before Taxes	2,794	3,049	3,189	3,357	3,596	3,846	4,215
Net Profit after Taxes	2,201	2,284	2,395	2,519	2,695	2,886	3,163
Net Attributable Profit	1,981	2,055	2,132	2,242	2,399	2,568	2,815
Balance Sheet EGP million							
Cash & Due from Central Bank	6,346	5,101	5,890	6,695	7,577	8,776	9,401
Due from banks	11,080	9,972	10,969	12,066	13,272	14,600	16,060
Treasury Bills and Gov't Notes	7,668	6,058	6,663	7,330	8,063	8,708	9,404
Loans & Discounts, gross	21,673	24,273	27,914	32,101	36,917	42,454	48,822
Loans & Discounts, net	20,427	23,245	26,825	30,851	35,481	40,806	46,930
Total Assets	53,559	52,528	59,212	66,594	74,914	84,270	94,122
Due to Banks	188	110	112	114	117	119	122
Customer Deposits	43,933	42,175	47,658	53,854	60,855	68,766	77,018
Total Liabilities	47,391	45,623	51,409	57,937	65,301	73,610	82,298
Total Net Worth	6,168	6,905	7,803	8,657	9,612	10,660	11,824
Key Indicators							
NIM	7.3%	7.1%	7.1%	6.6%	6.1%	5.7%	5.5%
Non-interest income to Op Income	22.9%	21.8%	24.3%	27.1%	29.7%	32.6%	34.2%
OPEX-to-assets	2.3%	2.4%	2.2%	2.2%	2.1%	2.1%	2.1%
Cost-to-Income	28.8%	31.3%	27.6%	28.1%	28.6%	29.1%	29.6%
Cost of Risk	-0.1%	-1.0%	0.2%	0.5%	0.5%	0.5%	0.5%
ROAE	34.4%	31.4%	29.0%	27.2%	26.3%	25.3%	25.0%
ROAA	4.0%	3.9%	3.8%	3.6%	3.4%	3.2%	3.2%
CAR	20.3%	21.6%	21.4%	20.8%	20.4%	19.9%	19.5%
Treasury Exposure	21.6%	18.6%	18.2%	17.8%	17.4%	16.7%	16.1%
LDR	49.3%	57.6%	58.6%	59.6%	60.7%	61.7%	63.4%
NPL Ratio	3.3%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Provisions Coverage	168.2%	132.5%	121.4%	121.2%	120.9%	120.7%	120.6%

	2019	2020	2021	2022	2023	2024	
Multiples							
EPS, EGP	6.61	6.86	7.21	7.71	8.26	9.05	
P/E, x	6.4	6.1	5.8	5.5	5.1	4.7	
BVPS, EGP	22.21	25.10	27.84	30.92	34.29	38.03	
P/B, x	1.9	1.7	1.5	1.4	1.2	1.1	
DPS, EGP	4.24	3.97	4.46	4.64	4.88	5.28	
Dividend Yield, %	10.1%	9.4%	10.6%	11.0%	11.6%	12.5%	
Implied P/E	8.7	8.4	8.0	7.5	7.0	6.4	
Implied P/B	2.6	2.3	2.1	1.9	1.7	1.5	
Cost of Equity Assumptions							**TV**
Risk Free Rate (After Tax)		12.0%	10.4%	10.4%	10.0%	10.0%	10.0%
Risk Premium		6.0%	6.0%	5.0%	5.0%	5.0%	5.0%
Beta		1.0	1.0	1.0	1.0	1.0	1.0
Cost of Equity		18.0%	16.4%	15.4%	15.0%	15.0%	15.0%
Terminal Growth Rate							5.0%
Valuation							
Net Attributable Income		2,132	2,242	2,399	2,568	2,815	
+Non cash items (Depreciation)		120	134	151	170	191	
-Capital charge		(514)	(573)	(648)	(733)	(786)	
Cash flow to shareholders		1,738	1,804	1,901	2,005	2,220	
PV of ECF		1,473	1,331	1,237	1,146	1,104	
Sum of PV	6,291						
Terminal value	23,305						
Discounted terminal value	11,587						
Valuation	**17,878**						
Number of shares	**311**						
FV/Share, EGP	**57.50**						

IV. Faisal Islamic Bank (FAIT) Equalweight | Passive Investment Strategy; High yield stock

Trading Data

Reuters / Bloomberg:	FAIT.CA/FAIT EY
Market Cap, EGP m:	5,361.60
52W H-L, EGP/Share:	14.48 - 10.93
Last Price, EGP/Share:	12.18
Fair Value, EGP/Share:	13.50
52W ADTV, EGP m:	1.13
Valuation Gap:	10.8%
Shares Outstanding, m:	440.2
Free Float	59.8%

Pitch

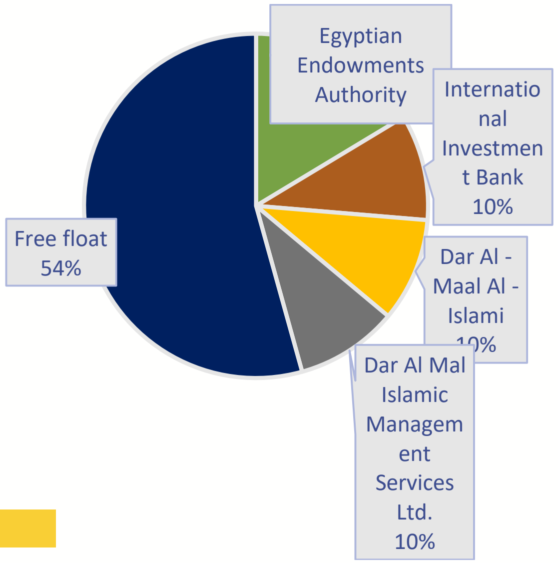
FAIT is one of the few sharia-compliant Islamic banks in Egypt, that has been following a passive strategy of allocating a great portion of its assets to treasury investments and interbank instead of corporate financing. However, the stock is a strong dividend play. Over 2015-2017, its average treasury exposure to total assets was 50%, which is the highest among listed banks. However, the contribution of treasury exposure to total assets started to decline in 2018 recording 28%, getting closer to the sector average. We project the bank started lowering its treasury investments due to the new tax law effect, with soft pickup in financing activity amid rate cuts, mainly extended to government entities.

Over our forecast horizon (2020-2024), we project financing growth at a 5-year CAGR of 16%, deposits at 13%, and treasury investments at 4% so that LDR ratio reaches 17% by 2024. We assume that financing would gradually start substituting treasury investments in 2020 after meaningful rate cuts.

We estimate margins to gradually decline from 5.2% in 2020 to stand at 4.4% in 2024 on the back of the projected reduction in rates and competition against banks for growth. Non-Funded income is expected to grow at a CAGR of 7% with financing growth revival, to reach 13% contribution to operating income. Risk weighted Assets (RWA) would grow at a CAGR of 17% with Capital Adequacy Ratio (CAR) staying comfortably above the minimum required by the CBE.

FAIT is trading at P/E20 of 2.5x, and P/B20 of 0.3x, on ROAE of 14% for 2020. These multiples are below Egypt's sector average of P/E20 of 3.9x, and P/B20 of 0.8x. Faisal is also a strong dividend play with a yield of 8.1% in 2020.

Shareholders' structure



Upside Triggers

- Higher than expected cheap deposits accumulation
- Positive impact on margins from retail financing would reduce pressure on NIM
- Faster than expected pick up in non-funded income
- Faster than expected pick up in financing growth
- Lower COR, driven by higher asset quality
- Less than expected deduction from bottom line by the new tax law

Downside Triggers

- Margin compression that is higher than projections
- Slower than estimated growth in non –funded income
- More than expected deterioration in asset quality resulting from SME financing
- Slower economic recovery which hinders financing growth for both corporate and retail sectors
- Slower than expected growth in financing portfolio

1. FAIT Balance sheet| Passive balance sheet strategy; Weak provision coverage

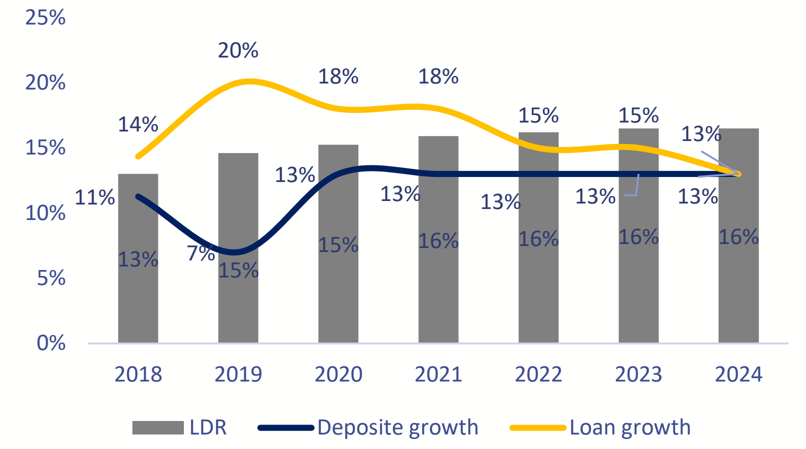
- Unlike the market norm, FAIT relies significantly on interbank and treasury investments with a due from banks to total assets ratio of 39% in 2019e and treasury ratio to total assets at 28% in 2019e, while net financing facilities to customers contributes around 12%. We project financing to grow at a CAGR of 16% over our forecast horizon (2020-2024) to reach EGP26 billion in 2024, out-pacing the rate of treasury investment, which will grow at a CAGR of 4% over the same period and reaches EGP34 billion in 2024.

- On the funding side, we expect customer deposits to increase at a CAGR of 13%, over our forecast horizon, to reach EGP156 billion by 2024. Since customer deposits are growing at a slower pace than financing, we expect that the LDR ratio will rise up from 15% in 2019e to stand at 17% in 2024.

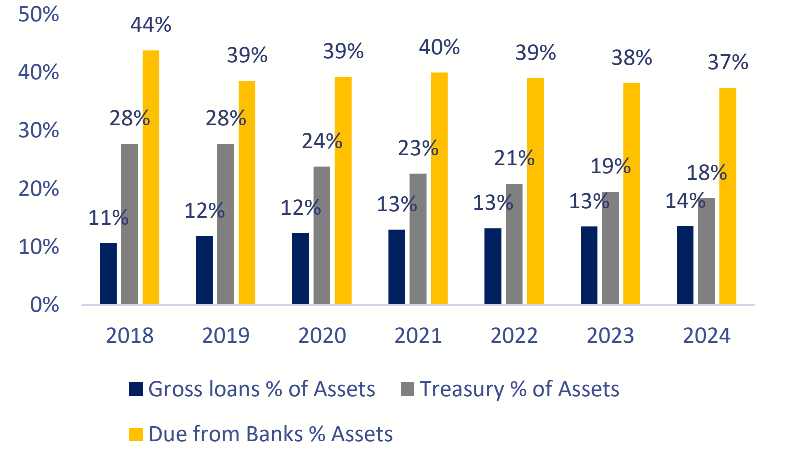
- We project NPLs to grow at a CAGR of 12% over 2020-2024 implying a fluctuating NPL ratio hovering around 11% to 10% by 2024, with a stable NPL coverage standing at 56% by 2024. We estimate a stable Cost of Risk (COR) of 0.5% over the whole anticipated period.

- CAR is expected to record 20.5% in 2019e - well above the CBE minimum requirement of 12.5% - and to stand at 16.1% by 2024.

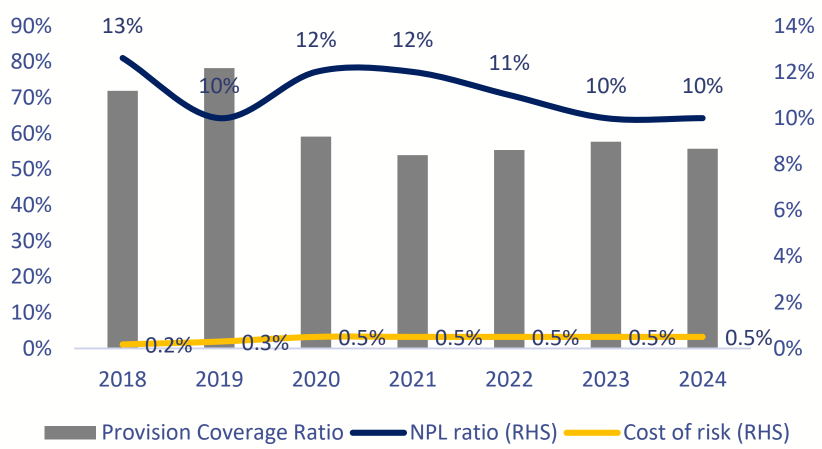
Financing and deposits to grow at 2020-2024 CAGR of 16% and 13%, respectively; LDR reaches 16% by 2024



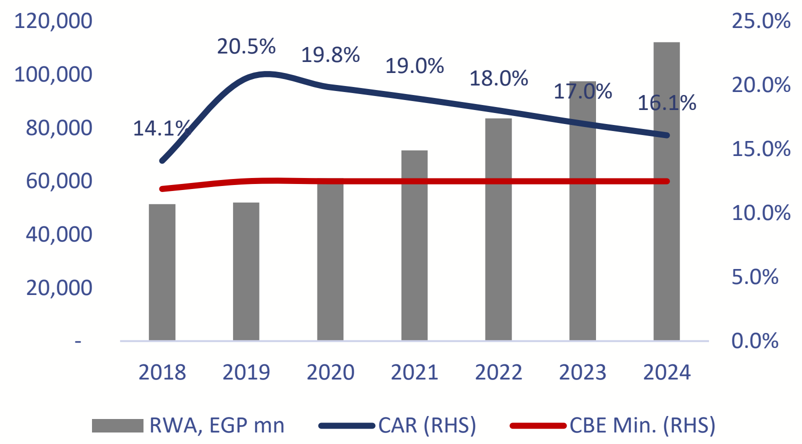
Passive investment strategy results in high interbank and treasury investments with low financing allocation



NPL ratio reaches 10% in 2024; Provision coverage below sector average



CAR's average is 18.0% over our forecast horizon; Well-above the CBE minimum

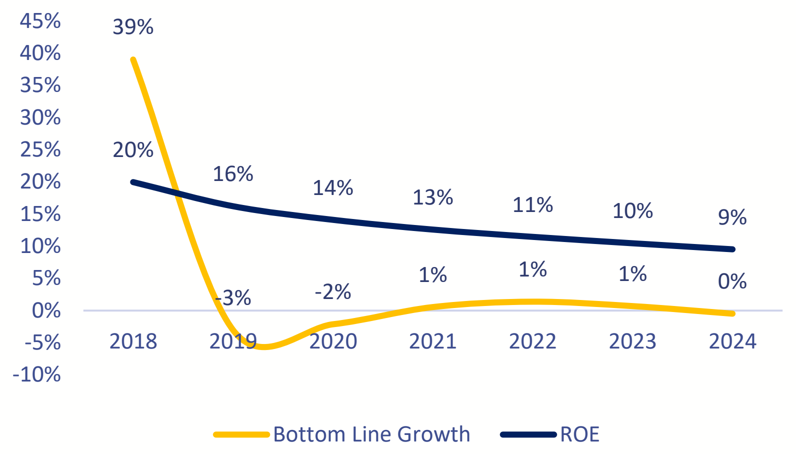


PHAROS

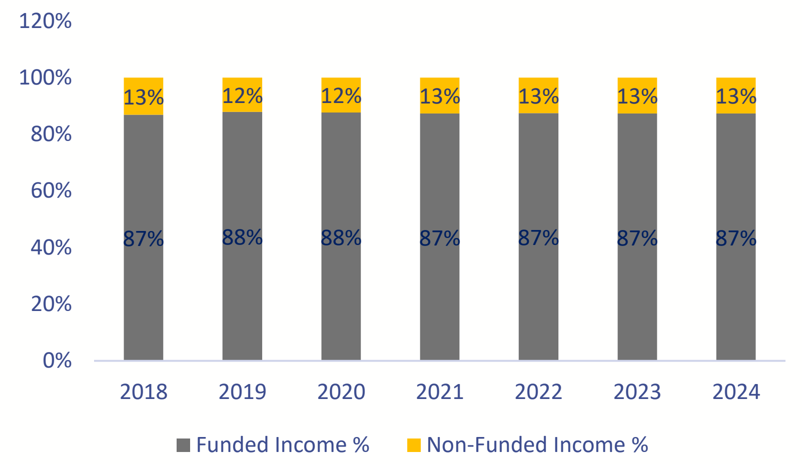
2. FAIT Income statement| Passive investment strategy Deteriorates bottom line growth

- Non-Funded income is forecasted to gradually constitute 13% by 2024 from the current 12% in 2019e, and to grow at a CAGR of 7%. Bottom line to grow, according to our estimates, to stabilize over 2020-2024 due to the passive investment strategy the bank is following.
- Given FAIT's high exposure to treasury investment, the bank recorded a relatively high NFM of 5.3% in 2019e. However, we estimate margins will start to level off amid CAPEX lending pickup to reach 4.4% in 2024.
- FAIT's cost to income ratio records 27% in 2019e. We project the bank's opex to grow at a CAGR of 13% and operating income at a CAGR of 6%; therefore, cost to income ratio will gradually escalate to stand at 37% by the end of our forecast horizon.

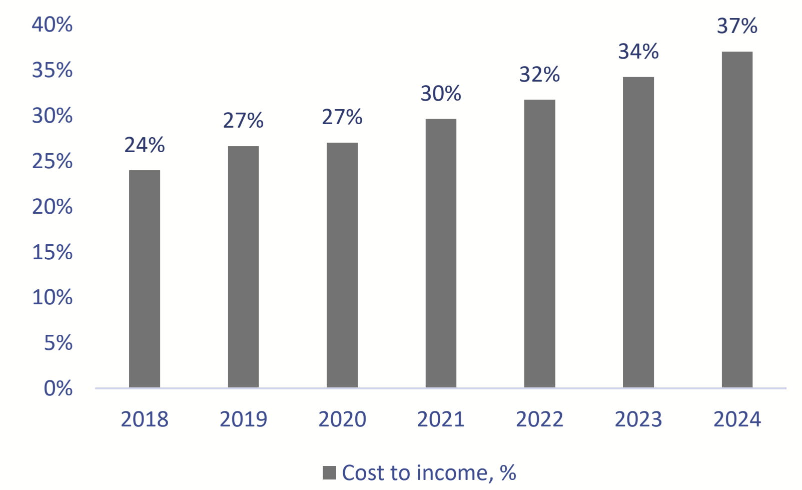
Bottom line stabilizes, growing at 2020-2024 CAGR of 0%; ROE records an average of 9% over 2020-2024



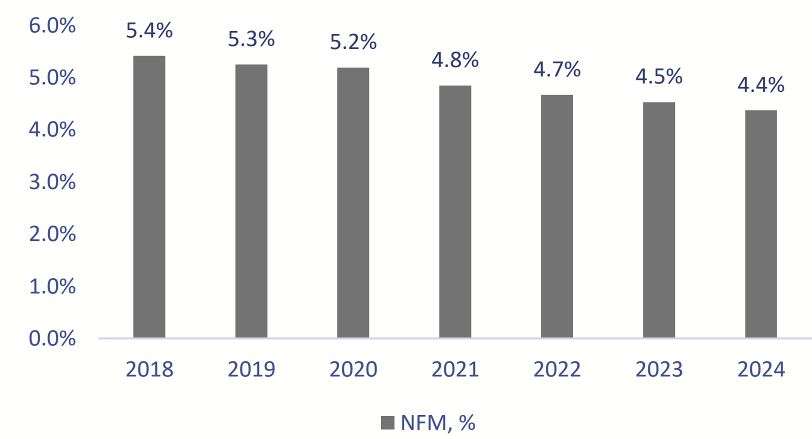
Non-Funded income contribution to total operating income to stabilize at 13% over our forecast horizon



Cost to income is expected to keep deteriorating to reach 37% by 2024



NFM to gradually level off amid financing pickup to stand at 4.4% by 2024



3. FAIT After New Reforms| Comfortably above the CBE's minimum paid-in capital requirement

- Average effective tax rate over our forecast horizon is 33%, up from an average of 26% over 2016-2019.

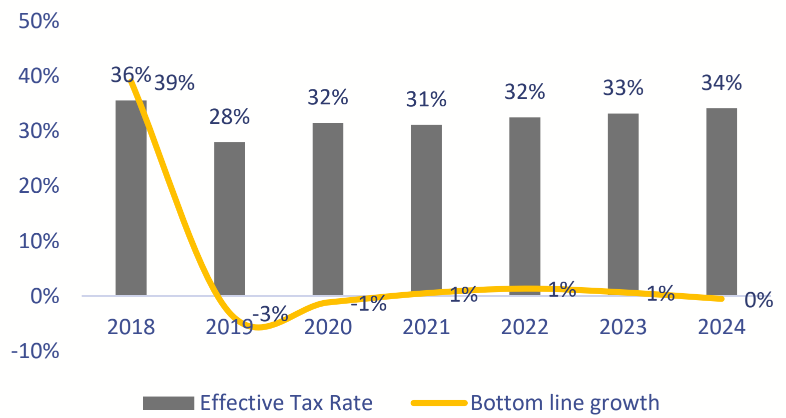
- Cost Ratio is calculated as follows: (Interest Exp +Admin Exp + Other Op Exp) / (Interest Income + Non-interest Income). FAIT's average cost ratio over the forecast horizon is 69%.

	2020	2021
-Interest Exp	(5,204)	(5,776)
+Admin Exp	(1,236)	(1,421)
+Other op Exp	(95)	(100)
÷		
+Interest Income	9,522	10,258
+Non-interest income	607	648
Cost Ratio	**65%**	**67%**

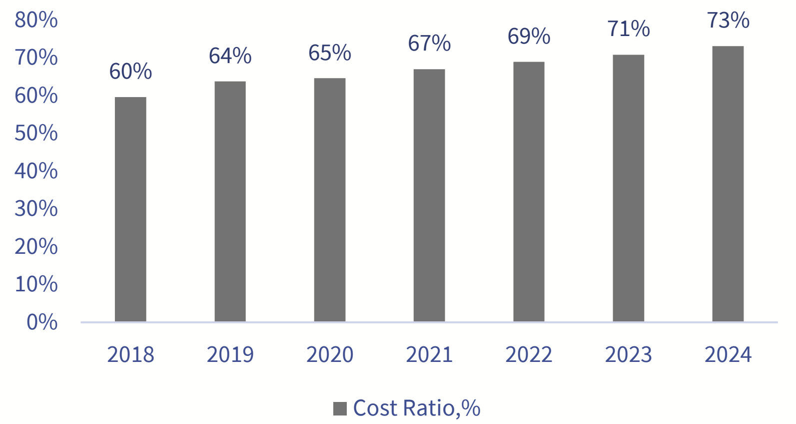
- We segmented the bank's income statement into two, based on the MoF executive regulations, which splits expenses based on a given calculation for the cost ratio. We then taxed funded income from treasury operations at 20% and net earnings from corporate banking operations at 22.5%. Net earnings from banking operations are allocated only a portion of the expenses, based on the cost ratio noted before.

- FAIT's paid-in capital and retained earning lie significantly above the minimum required over the whole period, where we assume the bank will easily convert a portion from retained earnings to paid-in capital to reach the EGP5.0 bn before mid 2022.

Effective tax rate records an average of 33% over 2020-2024, a slight rise from 28% in 2019e



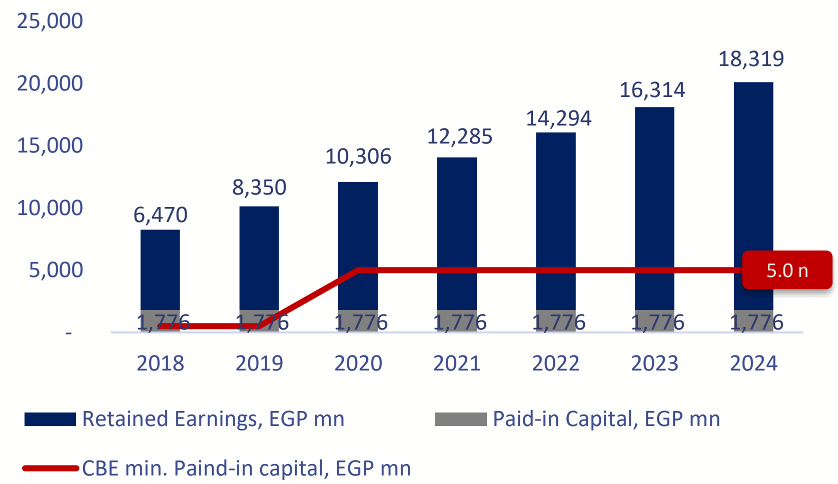
Cost ratio records an average of 69% over 2020-2024



Segregated statements based on new tax law

	2020	2021	2022	2023	2024
Interest on new Treasuries	3,487	3,208	3,677	3,885	4,111
Expenses on Treasury	(1,800)	(1,717)	(2,025)	(2,199)	(2,401)
EBT- Treasury	**1,687**	**1,491**	**1,651**	**1,686**	**1,710**
T.bill Tax	**(697)**	**(642)**	**(735)**	**(777)**	**(822)**
Interest Income-Banking	6,035	7,050	7,640	8,434	9,442
Total Expenses -Banking	(4,802)	(5,660)	(6,335)	(7,142)	(8,186)
Non-Interest Income	607	648	690	734	782
EBT-Banking	**1,840**	**2,038**	**1,995**	**2,026**	**2,038**
Corporate tax	**(414)**	**(459)**	**(449)**	**(456)**	**(459)**
Effective Tax Rate	**32%**	**31%**	**32%**	**33%**	**34%**

FAIT will easily convert a portion from the retained earnings to paid-in capital to reach the EGP5.0 bn



4. FAIT| Financial Statements and Valuation

	2018	2019	2020	2021	2022	2023	2024
Income Statement in EGP million							
Net interest Income	3,698	4,107	4,318	4,482	4,788	5,074	5,364
Non-interest Income	558	567	607	648	690	734	782
Operating Income	4,256	4,674	4,926	5,130	5,478	5,808	6,146
Provisions	(17)	(34)	(67)	(79)	(92)	(106)	(121)
Operating Expenses	(1,021)	(1,245)	(1,331)	(1,521)	(1,739)	(1,990)	(2,277)
Net profit before tax	3,218	3,394	3,527	3,529	3,647	3,712	3,748
Net profit after tax	2,520	2,444	2,392	2,404	2,438	2,454	2,442
Balance Sheet in EGP million							
Cash & Due from Central Bank	7,951	8,454	9,665	10,651	14,576	19,019	24,499
Due from Banks	42,247	40,135	46,155	53,078	58,386	64,225	70,647
Treasury bills	15,069	17,723	17,828	18,691	20,050	21,495	23,029
Loans & Discounts, net	8,083	11,365	13,517	16,056	18,539	21,394	24,224
Total Assets	94,926	94,927	94,928	94,929	94,930	94,931	94,932
Due to Banks	619	773	967	1,160	1,392	1,670	2,004
Customer Deposits	78,967	84,494	95,478	107,891	121,916	137,766	155,675
Total Liabilities	83,826	89,721	101,343	114,439	129,235	145,956	164,851
Total Net Worth	12,568	14,328	16,260	18,214	20,199	22,194	24,174
Key Indicators							
NIM	5.4%	5.3%	5.2%	4.8%	4.7%	4.5%	4.4%
OPEX-to-assets	1.1%	1.2%	1.2%	1.2%	1.2%	1.3%	1.3%
Non-Interest Income/Op Income	13.1%	12.1%	12.3%	12.6%	12.6%	12.6%	12.7%
Cost-to-Income	24.0%	26.6%	27.0%	29.7%	31.8%	34.3%	37.1%
COR	0.2%	0.3%	0.5%	0.5%	0.5%	0.5%	0.5%
Annualized ROAE	19.9%	16.2%	13.9%	12.4%	11.3%	10.3%	9.5%
Annualized ROAA	2.5%	2.2%	1.9%	1.7%	1.5%	1.4%	1.2%
CAR	14.1%	20.7%	19.9%	19.1%	18.1%	17.1%	15.9%
Treasury Exposure	27.7%	27.7%	23.8%	22.6%	20.9%	19.5%	18.4%
Loans-to-Deposits	13.0%	14.6%	15.2%	15.9%	16.2%	16.5%	16.5%
NPL Ratio	12.6%	12.0%	12.0%	12.0%	11.0%	10.0%	10.0%
Provisions Coverage	71.9%	65.2%	59.1%	53.9%	55.4%	57.7%	55.7%

	2019	2020	2021	2022	2023	2024	TV
Trading Multiples							
EPS, EGP	4.95	4.84	4.87	4.93	5.96	5.92	
P/E x	2.5	2.5	2.5	2.5	2.0	2.1	
BVPS, EGP	32.34	36.72	41.16	45.67	60.25	65.47	
P/B, x	0.4	0.3	0.3	0.3	0.2	0.2	
DPS, EGP	1.28	0.99	0.97	0.97	1.18	1.19	
DY	10.5%	8.1%	7.9%	8.0%	9.7%	9.8%	
Implied P/E, x	2.7	2.8	2.8	2.7	2.3	2.3	
Implied P/B, x	0.4	0.4	0.3	0.3	0.2	0.2	
Cost of Equity Assumptions							
Risk Free Rate (After Tax)		12.0%	10.4%	10.4%	10.0%	10.0%	
Risk Premium		6.0%	6.0%	5.0%	5.0%	5.0%	
Beta		1.00	1.00	1.00	1.00	1.00	
Cost of Equity		18.0%	16.4%	15.4%	15.0%	15.0%	15.0%
Terminal Growth Rate							5.0%
Valuation							
Net Attributable Income		2,131	2,142	2,172	2,187	2,176	
+Non cash Items (Depreciation)		189	198	208	219	230	
Minus: Capital Charge		(1,141)	(1,310)	(1,506)	(1,730)	(1,841)	
Cash Flow to Shareholders		1,179	1,031	874	675	565	
PV of FCFF		999	761	569	386	281	
Sum of PV		2,995					
Terminal Value		5,928					
Discounted Terminal Value		2,947					
Valuation		**5,943**					
Number of Shares		**440**					
FV/Share, EGP		**13.50**					

V. HOUSING AND DEVELOPMENT BANK (HDBK) OVERWEIGHT | PENALIZED BY BEING A BLENDED PLAY

Trading Data

Reuters / Bloomberg:	HDBK.CA/HDBK EY
Market Cap, EGP m:	5,184.0
52W H-L, EGP/Share:	55.21 - 40.67
Last Price, EGP/Share:	40.98
Fair Value, EGP/Share:	60.40
52W ADTV, EGP m:	1.5
Valuation Gap:	47.4%
Shares Outstanding, m:	126.5
Free Float	70.2%

Pitch

HDBK has one of the highest margins owing to the bank's ability to accumulate interest-free deposits. Over our forecast horizon (2020-2024), we project lending growth at a 5-year CAGR of 20%, deposits at 18%, and treasury investments at 1% so that LDR ratio reaches 52% up from (47% as of Sep-19). We assume treasury investments contribution to decline on the new tax law, and to be gradually substituted by lending stating 2020 after meaningful rate cuts. We estimate margins to decline in 2020 on the back of lower allocation to the high-yield treasury investments, dropping from a high of 7.8% in 2019 to 6.4% in 2024, but would remain healthy supported by the growth of the high-margin retail lending and low-cost funds. Non-interest income is expected to grow at a CAGR of 14%, driven by lending revival and the slower growth of real estate profits (35% of non-interest income for 9m19), to stand at 26% of operating income up from 23% in 3Q19. Risk weighted Assets (RWA) would grow at a CAGR of 21% with Capital Adequacy Ratio (CAR) staying comfortably above the minimum required by the CBE.

HDBK is currently trading at P/E20 of 2.7x and P/B20 of 0.5x. HDBK has always been among the top Egyptian Banking stocks in terms of cash dividend distribution, with attractive dividend yield, that we estimate at 6.1% in 2020. The developments regarding the stock demerger continue to be unclear, and seem farfetched at this point.

HDBK valuation breakdown is as follows:

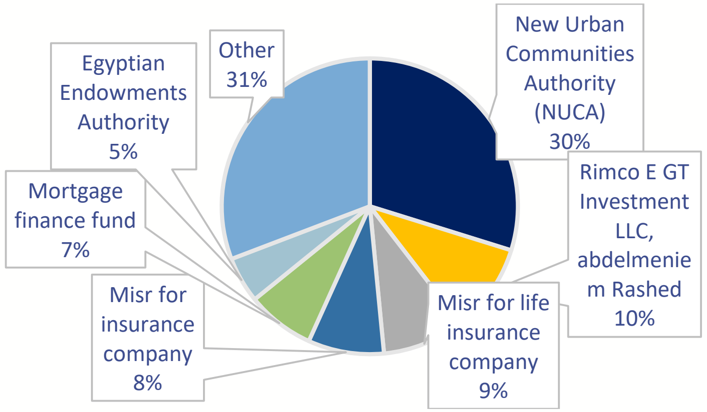
a) Commercial Bank yields a FV of EGP40.25/share using Discounted Equity Cash flow method (DECF) based on the stand alone financial statements of the bank after excluding the effect of profits coming from housing projects and other investments.

b) Real estate yields a FV of EGP23.66/share based on Net Asset Valuation approach. Real estate assets that are 100% owned by the bank have a FV of EGP7.36/share, and other real estate investments result in a FV of EGP16.30/share after deducting associated liabilities.

c) Other Investments: We value other investments of the bank where ownership is less than 50%- except for Hyde park where ownership is 54%, but the bank accounts for it as equity investment- based on book value, arriving at a FV of EGP11.62/share.

We apply a 20% conglomerate discount to the sum of the parts valuation of the bank due to its intertwined business operations.

Shareholders' structure



Upside Triggers

- Demerging of the stock into real estate stock and banking stock
- Improved performance of the bank's equity investments
- Higher real estate prices
- Higher than expected cheap deposits accumulation
- Faster than expected pick up in non-interest income
- Faster than expected pick up in lending growth
- Positive impact on margins from retail lending would reduce pressure on NIM
- Lower COR, driven by higher asset quality
- Less than expected deduction from bottom line by the new tax law

Downside Triggers

- Deterioration of equity investments or real estate prices
- Lower real estate prices
- Margin compression that is higher than projections
- Slower than estimated growth in non-interest income
- More than expected deterioration in asset quality resulting from SME financing
- Slower economic recovery which hinders lending growth for both corporate and retail sectors
- More strict CBE regulations on the banking sector that might pressure profitability

فاروس PHAROS

1. HDBK Balance sheet| Interbank deposits to substitute treasury investments

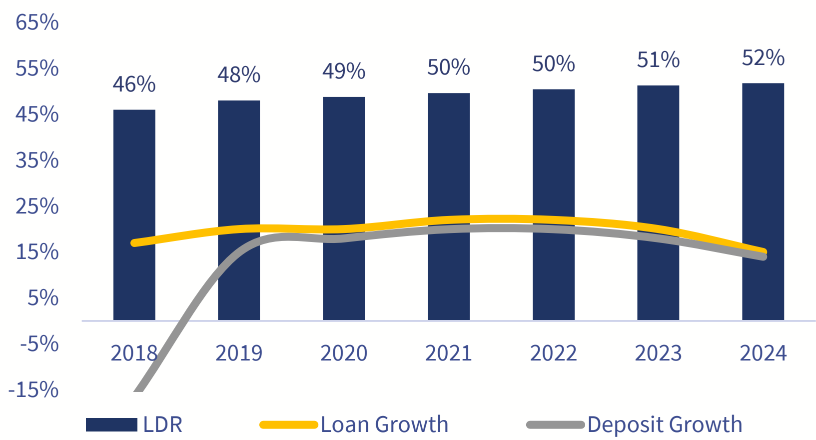
- We project lending would grow at a CAGR of 20% over our forecast horizon (2020-2024) versus 22% over 2015-2019 to reach EGP46 billion in 2024, out-pacing the rate of treasury investment, which will grow at a CAGR of 1% over the same period versus 7% over 2015-2019 and reach EGP12 billion in 2024.

- On the funding side, we expect customer deposits to increase at a CAGR of 18%, over our forecast horizon, to reach EGP90 billion by 2024. Since customer deposits are growing at a slower pace than loans, LDR ratio will rise up from 47% (as of Sept-19) to stand at 52% in 2024.

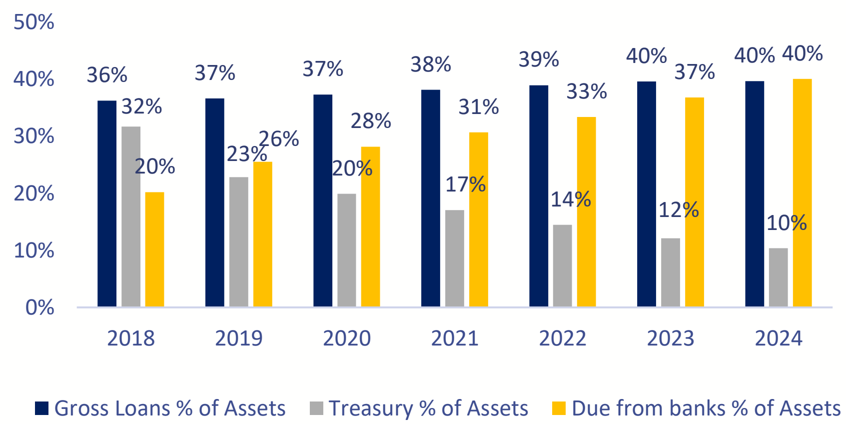
- We project NPLs to grow at a CAGR of 10% over 2020-2024 stabilizing at an average of 6% of gross loans, with an adequate provisioning north of 100% and an average COR of 0.5% over our forecast horizon.

- CAR is expected to remain solid above CBE minimum requirement of 12.5%.

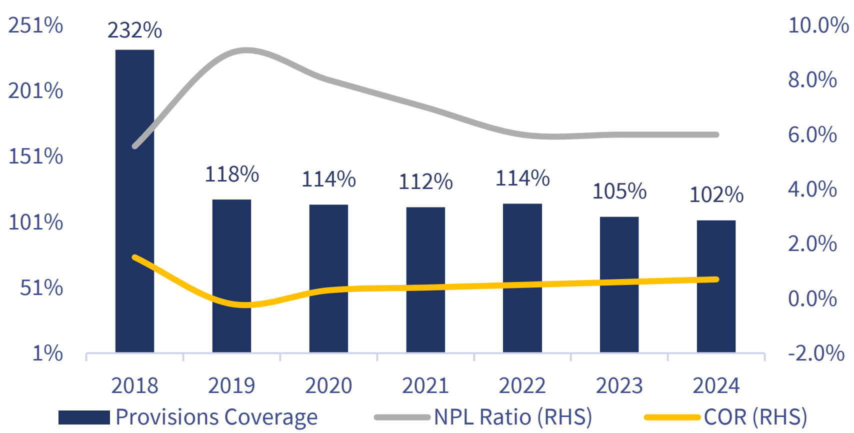
Loans and deposits to grow at 2020-2024 CAGR of 20% and 18%, respectively; LDR to reach 52%



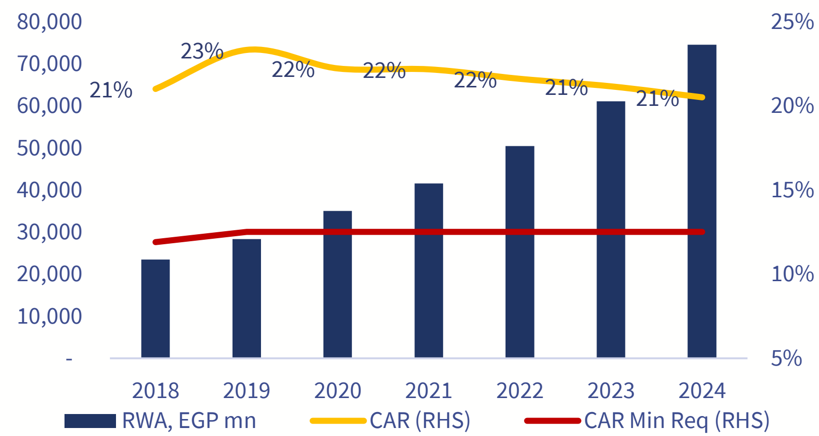
Gross loans along with interbank deposits to dominate asset allocation with very low treasury investments



NPL ratio normalizes to 6%; COR records an average of 0.5%



RWA grow at a CAGR of 21%; CAR slightly declines on higher lending but remains above the CBE minimum



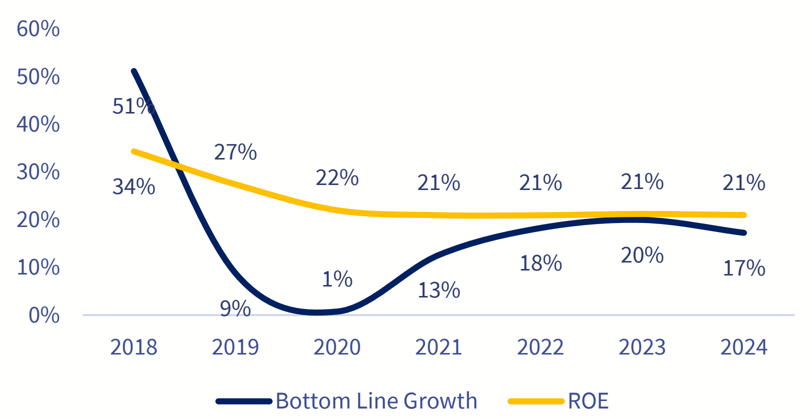
2. HDBK Income statement| Earnings supported by low cost of funds; Low efficiency pressures earnings

- Non-interest income is forecasted to gradually constitute 26% by 2024 from the current high of 27% in 2019e, supported by faster growth of banking income as compared to real estate income. Bottom line to grow, according to our estimates, at a CAGR of 14% over 2020-2024.

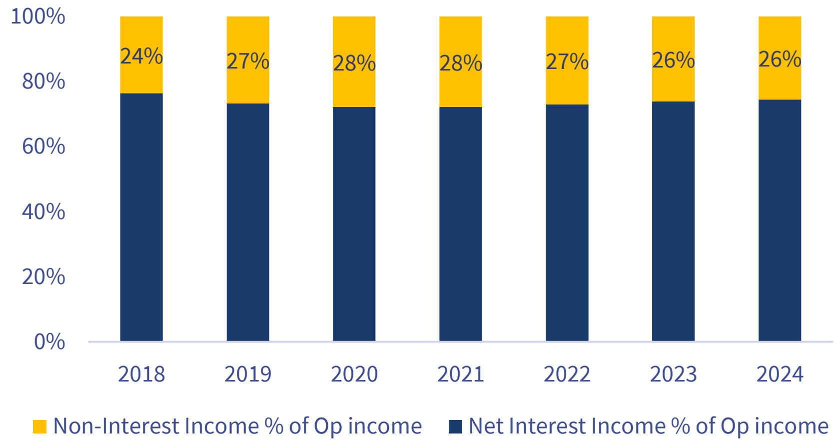
- HDBK's cost to income ratio records 40% in 2019e amid high inflation. We project the bank's opex and operating income to grow at a CAGR of 15%. Therefore, cost to income ratio will gradually increase on branch expansion and continued reforms then stabilizes to reach 40% by the end of our forecast horizon.

- Due to HDBK's wide base of interest free funds, the bank recorded a relatively high NIM of 7.8% in 2019e. However, we estimate margins will start to decline in 2020, to reach 6.4% in 2024. This is still perceived to be high due to the bank's ability of accumulating large base of cheap funds, which recorded 54% as of Sept-19.

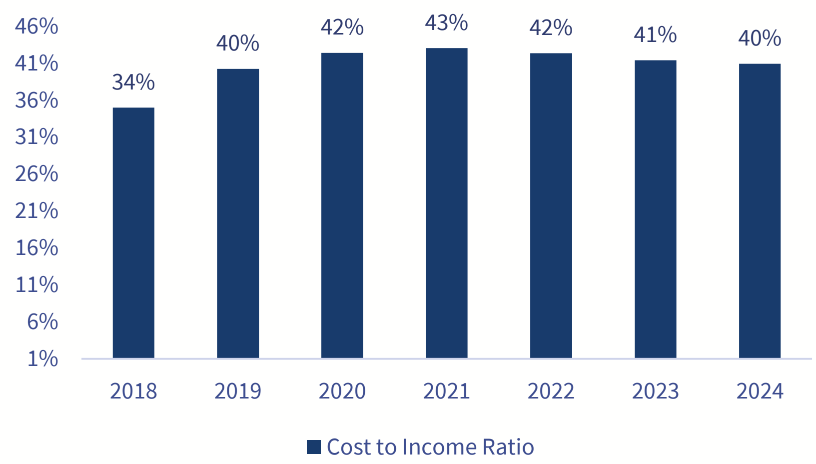
Bottom line to grow at 2020-2024 CAGR of 14%; ROE records an average of 21%



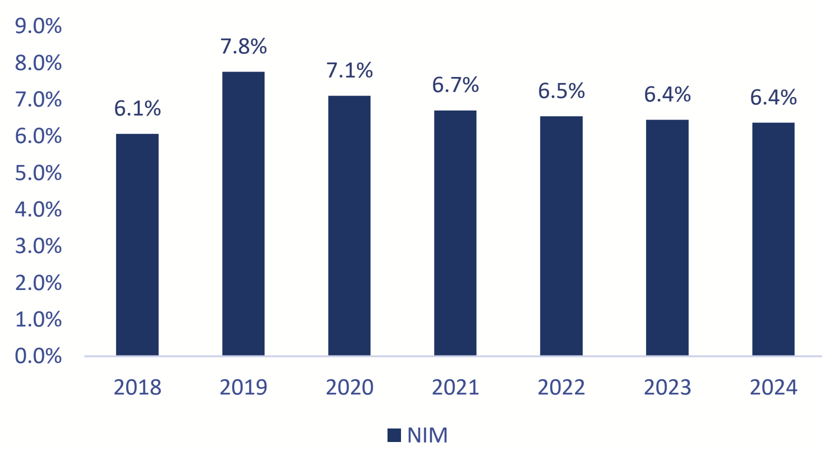
Non-interest income contribution to total operating income normalizes at an average of 27% due to slower growth of housing projects profits



Cost to income ratio to fluctuate between 40-43%



NIM to decline gradually amid lending pick up but remains solid supported by interest free funds (54% as of Sept-19)



فاروس PHAROS

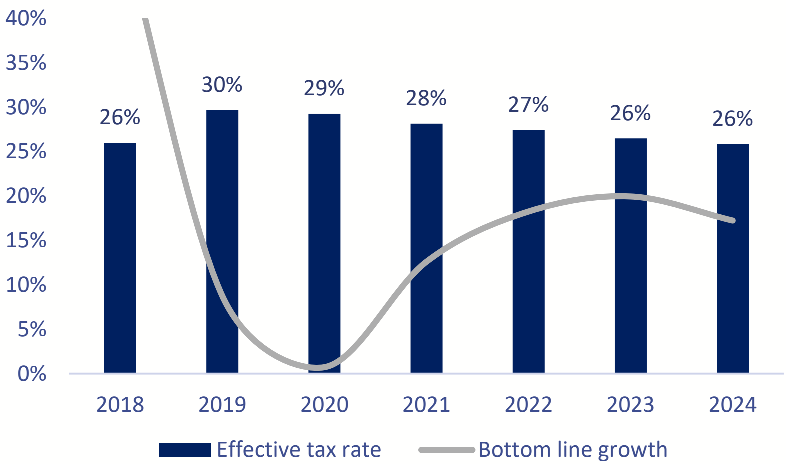
3. HDBK After New Reforms | Tax rate maintained on significantly lower treasury investments due their low maturity

- Average effective tax rate over our forecast horizon is 27% versus an average of 28% over 2015-2019e.
- Cost Ratio is calculated as follows: (Interest Exp +Admin Exp + Other Op Exp) / (Interest Income + Non-interest Income). HDBK's average cost ratio over the forecast horizon is 70%.

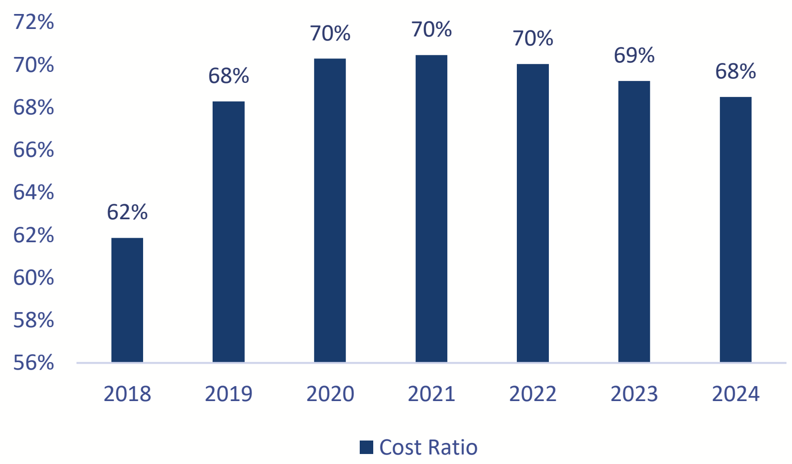
	2020	2021
+Interest Exp	(4,284)	(4,807)
+Admin Exp	(1,877)	(2,158)
÷		
+Interest Income	7,519	8,471
+Non-interest income	1,245	1,412
Cost Ratio	**70%**	**70%**

- We segmented the bank's income statement into two, based on the MoF executive regulations, which splits expenses based on a given calculation for the cost ratio. We then taxed funded income from treasury operations at 20% and net earnings from corporate banking operations at 22.5%. Net earnings from banking operations are allocated only a portion of the expenses, based on the cost ratio noted before.
- HDBK's paid-in capital and retained earnings exceed the EGP5.0 bn minimum requirement next year, and thus will comfortably covert a portion from the retained earnings to paid-in capital before the deadline in 2022.

Bottom line growth wiped out in 2020 on lower treasury investment triggered by new tax law



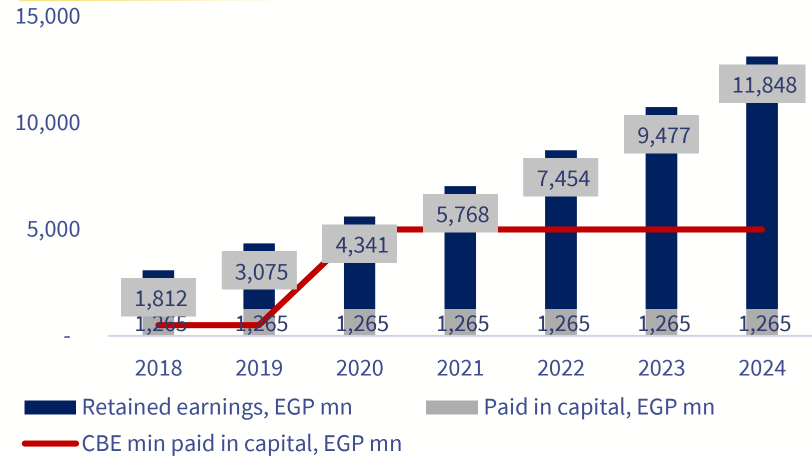
HDBK's cost ratio declines but remains high; records an average of 69% (2020-2024)



Segregated statements based on new tax law

	2019	2020	2021	2022	2023
Interest on new Treasuries	1,839	1,688	1,564	1,607	1,556
Expenses on Treasury	(1,005)	(949)	(881)	(900)	(862)
EBT- Treasury	**834**	**739**	**682**	**706**	**694**
T.bill Tax	(368)	(338)	(313)	(321)	(311)
Interest Income-Banking	4,878	5,831	6,908	8,313	10,043
Total Expenses -Banking	(4,298)	(5,273)	(6,184)	(7,324)	(8,656)
Non-Interest Income	1,099	1,245	1,412	1,604	1,825
EBT-Banking	**1,679**	**1,803**	**2,136**	**2,593**	**3,212**
Corporate tax	(406)	(481)	(583)	(723)	(865)
Total EBT	**2,542**	**2,818**	**3,299**	**3,906**	**4,539**
Total Income Tax	(743)	(793)	(905)	(1,034)	(1,172)
Effective Tax Rate	**29%**	**28%**	**27%**	**26%**	**26%**

HDBK will easily convert a portion from the retained earnings in 2020 to paid-in capital to reach the EGP5.0 bn



4. HDBK| Financial Statements and Valuation

	2018	2019	2020	2021	2022	2023	2024
Income Statement EGP million							
Net Interest Income	3,148	3,011	3,236	3,665	4,330	5,157	6,046
Non-Interest Income	970	1,099	1,245	1,412	1,604	1,825	2,079
Operating Income	4,118	4,111	4,481	5,077	5,934	6,982	8,125
Loan-Loss Provisions	(220)	35	(62)	(100)	(153)	(222)	(304)
Operating Expenses	(1,419)	(1,632)	(1,877)	(2,158)	(2,482)	(2,854)	(3,283)
Net Profit Before Taxes	2,195	2,513	2,542	2,818	3,299	3,906	4,539
Net Profit After Taxes	1,625	1,767	1,798	2,024	2,394	2,871	3,366
Net Attributtable Standalone Profit	1,448	1,574	1,584	1,783	2,109	2,530	2,966
Consolidated Net Profit	1,772	1,927	1,939	2,184	2,582	3,097	3,631
Balance Sheet EGP million							
Cash & Due from Central Bank	2,486	4,479	5,579	6,988	8,191	8,569	8,713
Dur from banks	8,750	13,124	17,062	22,180	28,834	37,484	46,855
Treasury Bills and Gov't Notes	-	-	-	-	-	-	-
Loans & Discounts, gross	15,688	18,825	22,590	27,560	33,623	40,348	46,400
Loans & Discounts, net	13,609	16,781	20,484	25,354	31,264	37,767	43,515
Total Assets	43,274	51,348	60,490	72,238	86,288	101,792	116,931
Due to Banks	457	1,142	1,428	1,785	2,231	2,789	3,486
Customer Deposits	34,122	39,240	46,304	55,564	66,677	78,679	89,694
Total Liabilities	38,399	44,741	52,705	63,027	75,391	88,872	101,639
Total Net Worth	4,875	6,607	7,785	9,211	10,897	12,920	15,292
Key Indicators							
NIM	6.1%	7.8%	7.1%	6.7%	6.5%	6.4%	6.4%
Non-interest income to op income	23.6%	26.7%	27.8%	27.8%	27.0%	26.1%	25.6%
OPEX-to-assets	3.0%	3.4%	3.4%	3.3%	3.1%	3.0%	3.0%
Cost-to-Income	34.5%	39.7%	41.9%	42.5%	41.8%	40.9%	40.4%
Cost of Risk	1.5%	-0.2%	0.3%	0.4%	0.5%	0.6%	0.7%
ROAE CS	34.0%	27.3%	21.8%	20.7%	20.6%	20.7%	20.5%
ROAA CS	3.4%	3.6%	3.2%	3.0%	2.9%	3.0%	3.0%
CAR	21.0%	23.3%	22.2%	22.2%	21.6%	21.2%	20.5%
Treasuries Bills/Total Assets	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
LDR	46.0%	48.0%	48.8%	49.6%	50.4%	51.3%	51.7%
NPL Ratio	5.6%	9.0%	8.0%	7.0%	6.0%	6.0%	6.0%
Provisions Coverage	231.7%	117.6%	113.7%	111.7%	114.4%	104.5%	101.8%

	2019	2020	2021	2022	2023	2024	TV
Multiples (Consolidated)							
EPS, EGP	15.2	15.3	17.3	20.4	24.5	28.7	
P/E, x	2.7	2.7	2.4	2.0	1.7	1.4	
BVPS, EGP	64.1	76.3	90.7	107.8	128.2	152.3	
P/B, x	0.6	0.5	0.5	0.4	0.3	0.3	
DPS, EGP	2.5	2.5	2.8	3.3	4.0	4.7	
Dividend Yield	6.0%	6.1%	6.9%	8.2%	9.8%	11.5%	
Implied P/E, x	4.5	4.5	4.0	3.4	2.8	2.4	
Implied P/B, x	1.1	0.9	0.8	0.6	0.5	0.5	
Cost of Equity Assumptions							
Risk Free Rate (After Tax)		12.0%	10.4%	10.4%	10.0%	10.0%	10.0%
Risk Premium		6.0%	6.0%	5.0%	5.0%	5.0%	5.0%
Beta		1.00	1.00	1.00	1.00	1.00	1.00
Cost of Equity		18.0%	16.4%	15.4%	15.0%	15.0%	15.0%
Terminal Growth Rate							5.0%
Valuation (Commercial banking activity only)							
Net Attributable Income	1,107	1,078	1,220	1,475	1,813	2,159	
+Non cash items (Depreciation)	114	117	121	125	129	133	
-Capital charge	(626)	(613)	(813)	(1,105)	(1,322)	(1,675)	
Cash flow to shareholders	595	582	528	494	619	617	
PV of ECF		493	390	322	354	307	
Sum of PV	1,866						
Terminal value	6,482						
Discounted terminal value	3,223						
Valuation	**5,089**						
Number of shares	**127**						
FV/Share, EGP – Banking Operations	**40.23**						

All numbers are based on standalone financial statements except for the multiples

5. HDBK| Real Estate Segment and HDBK SoTP Valuation

100% owned real estate NAV valuation

100% Owned Real Estate as of Sept 2018			
All in EGP	**Area**	**price/square meter**	**Value**
Residential Units AVS	141,208	5,000	706,040,000
Commercial units and buildings	8,032	10,000	80,320,000
Land	144,089	1,000	144,089,000
Total	**293,329**		**930,449,000**
S/O			**126,500,000**
FV/Share			**7.36**

Other 100% Owned Real Estate Investments		
All in EGP		**Comments**
FV as per SA FS	283,900,000	As of 31 Dec 2018 post 5% annual depreciation
Discounted NAV	170,340,000	40% discount
S/O		**126,500,000**
FV/ Share, EGP		**1.35**

Equity investments valuation

BV of Equity investments (Ownership <50%, Hyde park is an exception with ownership of 54%)			
Company, values in EGP million	**HDBK Total Stake**	**Total equity**	**HDBK Share of Equity**
El-Tameer Co. for Mortgage Finance	25%	841	209
Zayed City Edge	40%	1,560	622
Hyde Park for Real Estate Development	54%	1,146	615
El-Tameer Co. for Housing & Utlilities	35%	70	24
Total Ownership that is below 50%			**1,469**
S/O, mn			**127**
FV/share, EGP			**11.62**

Share of consolidated real estate investments

Bank's share in Real estate of consolidated subsidiaries				
All in EGP	**Area**	**price/square meter**	**Stake**	**Value**
Residential units AVS	141,928	5,000	89%	628,867,198
Commercial units and buildings	17,948	10,000	89%	159,051,188
Land	2,284,911	1,000	89%	2,024,837,352
Liability				921,100,445
FV/Share				**14.95**
Total value of real estate invest				**1,891,655,293**
S/O				**126,500,000**
FV/Share, EGP				**14.95**

HDBK SOTP valuation summary

SOTP, values in EGP			
	FV/share	**Contribution**	**Method**
Commercial Banking Activities	40.25	45%	Residual Income
100% owned real estate	7.36	13%	Net Asset Value
Consolidated real estate (9 companies of average stake of 89%)	14.95	24%	Net Asset Value
Other Real Estate Investments	1.35	2%	Discounted NAV
Equity Investments (4 companies inc Hyde Park)	11.62	16%	Book Value
Total valuation/share	**75.52**	**100%**	
FV after 20% conglomerate discount	**60.40**		

VI. Egyptian Gulf Bank (EGBE) Underweight | New tax law caps profit growth; might need capital increase

Trading Data

Reuters / Bloomberg:	EGBE.CA/EGBE EY
Market Cap, USD m:	193.6
52W H-L, USD/Share:	0.68 - 0.49
Last Price, USD/Share:	0.53
Fair Value, USD/Share:	0.51
52W ADTV, USD m:	0.08
Valuation Gap:	-3.8%
Shares Outstanding, m:	365.4
Free Float	18.2%

Pitch

EGBE has been significantly expanding over the last 6 years where bottom line grew at a CAGR of 41% over 2011-2018 and balance sheet has been doubling in size in 2015 and 2016. However, this momentum has started to slow down in 2018, and we expect it to continue. We project bottom line CAGR of 10% between 2020-2024.

Over the forecast horizon (2020-2024), we project lending growth at a 5-year CAGR of 21%, deposits at 15%, and treasury investments at 7% so that LDR ratio reaches 67% in 2024 from 52% in 2019e. We assume that lending would gradually start substituting treasury investments in 2020 after meaningful rate cuts.

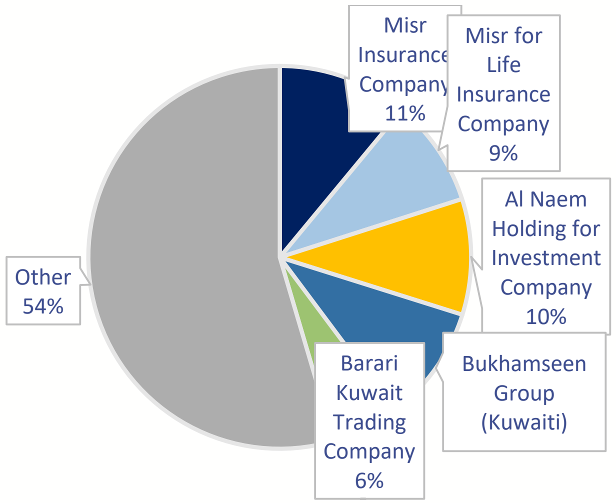
We estimate margins to decline on the back of the projected reduction in rates and competition against banks for growth, to reach 3.0% in 2024.

Non-interest income is expected to grow at a CAGR of 19% with lending growth revival to reach 24% contribution to operating income. Risk weighted Assets (RWA) would grow at a CAGR of 12% with Capital Adequacy Ratio (CAR) comfortably above CBE minimum over our forecast horizon.

EGBE's paid-in capital and retained earnings lie just below the minimum required by the CBE in 2022, where we assume the bank might need a capital increase.

EGBE is trading at P/E20 of 5.4x, and P/B20 of 0.7x, on ROAE of 13%. These multiples are not attractive compared to Egypt's sector average of P/E20 of 3.9x, and P/B20 of 0.8x.

Shareholders' structure



Upside Triggers

- Higher than expected cheap deposits accumulation
- Positive impact on margins from retail lending would reduce pressure on NIM
- Faster than expected pick up in non-interest income
- Faster than expected pick up in lending growth
- Lower COR, driven by higher asset quality
- Less than expected deduction from bottom line by the new tax law

Downside Triggers

- Margin compression that is higher than projections
- Slower than estimated growth in non-interest income
- More than expected deterioration in asset quality resulting from SME financing
- Slower economic recovery which hinders lending growth for both corporate and retail sectors
- Slower than estimated growth in financing portfolio

1. EGBE Balance sheet| High asset quality; CAR is comfortably above CBE minimum

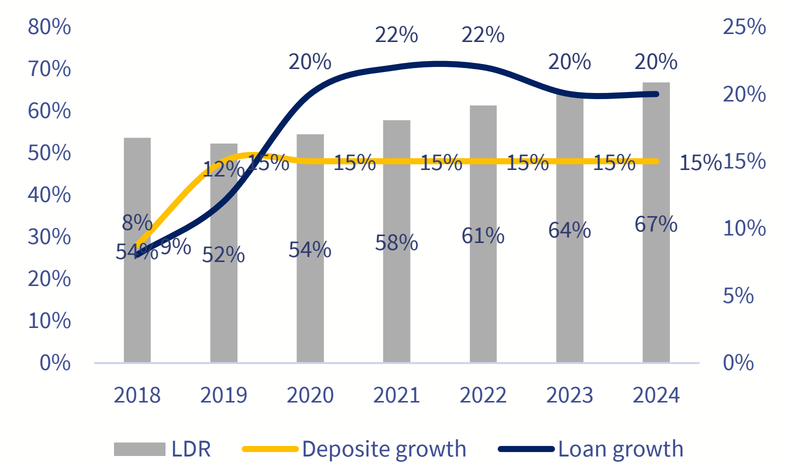
- We project lending to grow at a CAGR of 21% over our forecast horizon (2020-2024) to reach EGP78 billion in 2024, out-pacing the rate of treasury investment, which will grow at a CAGR of 7% over the same period and reaches EGP25 billion in 2024.

- On the funding side, we expect customer deposits to increase at a CAGR of 15%, over our forecast horizon, to reach EGP117 billion by 2024. LDR escalates until it reaches 67% by the end of our forecast period.

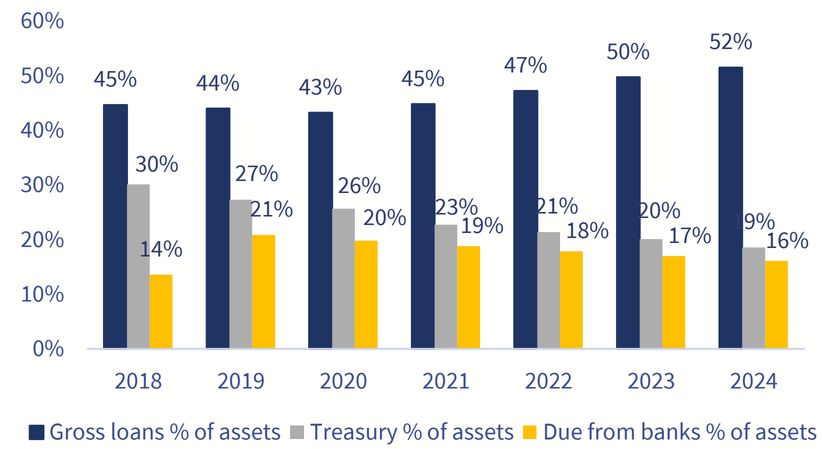
- We project NPLs to grow at a CAGR of 21% over 2020-2024 with a stable NPL ratio of 0.75%, and a declining provision coverage recording 495% in 2024, which is the highest percentage across the sector. We estimate a stable Cost of Risk (COR) at 0.6% over the forecast period, except a peak at 0.7% in 2021.

- CAR is anticipated to record 13.9% in 2019e - above the CBE minimum requirement of 12.5% - and to gradually escalate until it reaches 14.7% by the end of our forecast horizon.

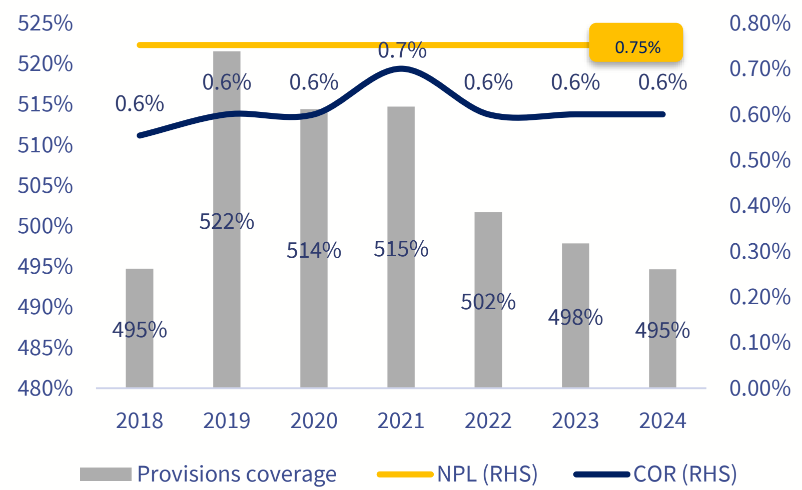
Loans and deposits to grow at 2020-2024 CAGR of 21% and 15%, respectively; LDR reaches 67% in 2023



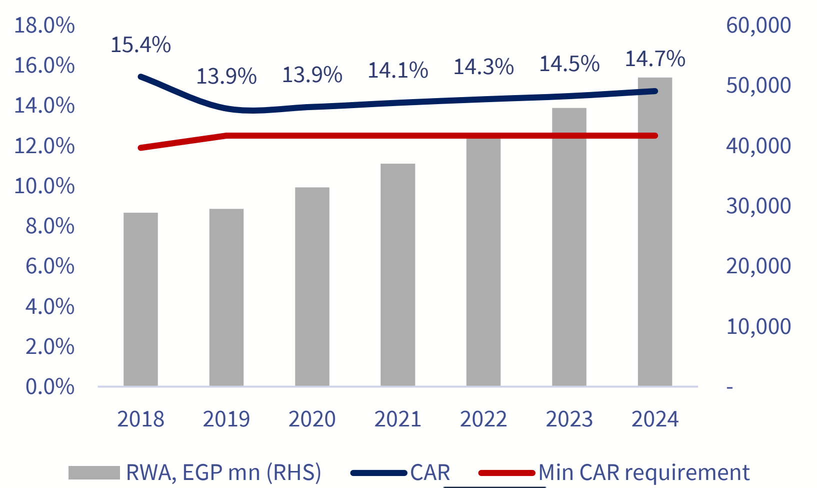
The contribution of treasury investment to total assets will fall gradually until it reaches 19% in 2024, down from 27% in 2019e



NPL ratio stabilizes over our forecast horizon at 0.75% and COR reaches 0.7% in 2021 then stabilizes at 0.6%



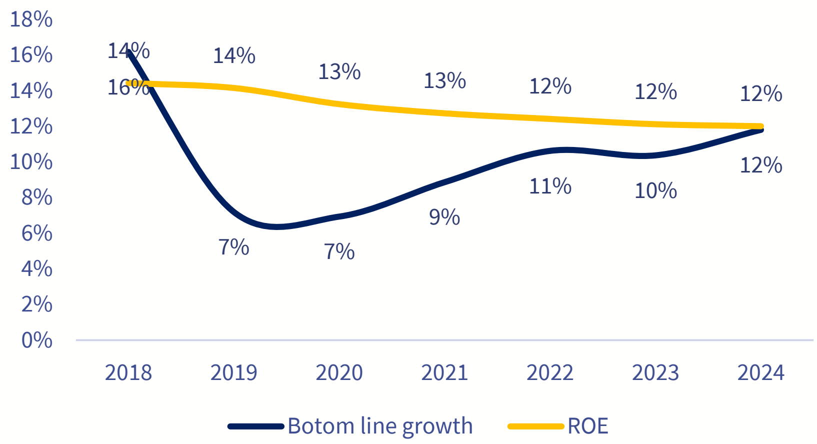
CAR gradually increases over out forecast horizon to stand at 14.7% in 2024



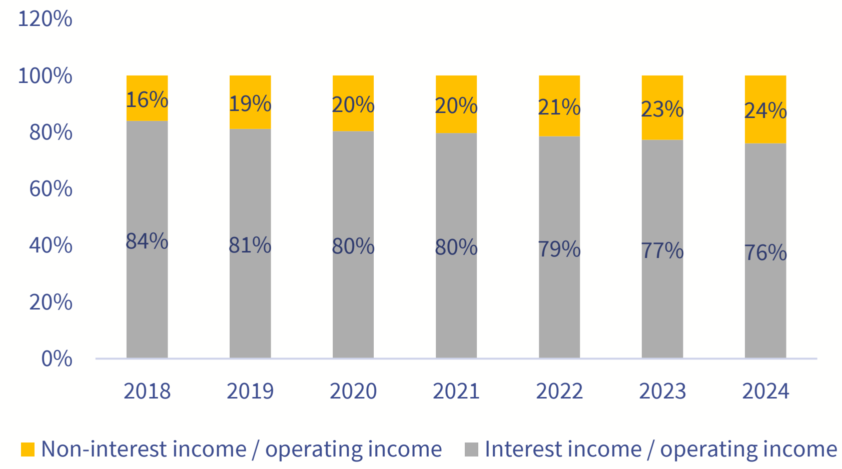
2. EGBE Income statement| Growth normalizes starting 2018; Low efficiency and weak margins

- According to our estimates, bottom line will grow at a CAGR of 10% over 2020-2024, with a declining ROE. Non-interest income is forecasted to rise over our forecast horizon to reach 24% by 2024.
- We anticipate that the bank will record a NIM of 3.4% in 2019e, relatively low compared to the historical average NIM of 4.0% over the previous five years. However, we estimate margins will start gradually weakening over our forecast horizon to record 3.0% in 2024, due to lending pickup amid rate cuts.
- EGBE's cost to income ratio records 46% in 2019e. We project the bank's opex to grow at a CAGR of 16% and operating income at a CAGR of 13%; therefore, cost to income ratio will gradually deteriorate to reach 48% by the end of our forecast horizon.

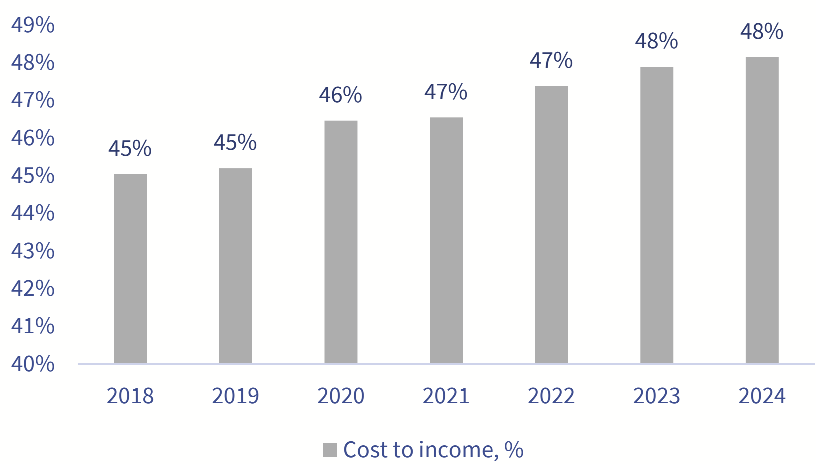
Bottom line to grow at 2020-2024 CAGR of 10% over our forecast horizon; ROE records an average of 13% (2020-2024)



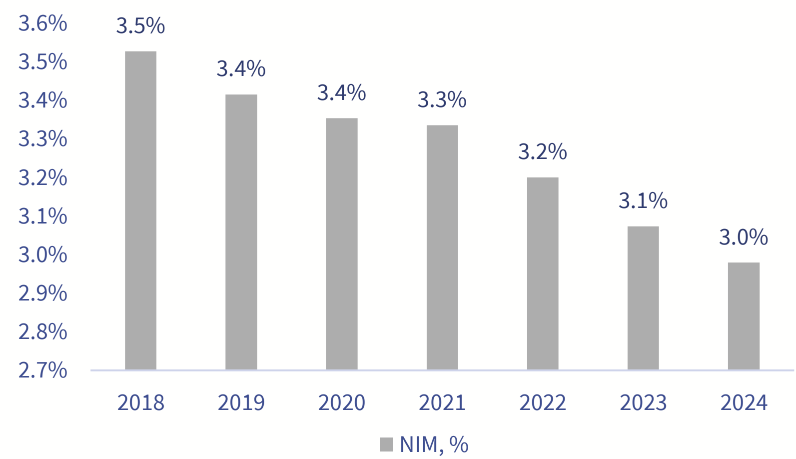
Non-interest income contribution to total operating income to escalate over our forecast horizon and stands at 24% in 2024



Cost to income ratio is expected to deteriorate over our forecast horizon to reach 48% in 2024



NIM to level off on lending pickup from 3.4% in 2019e to stand at 3.0% in 2024



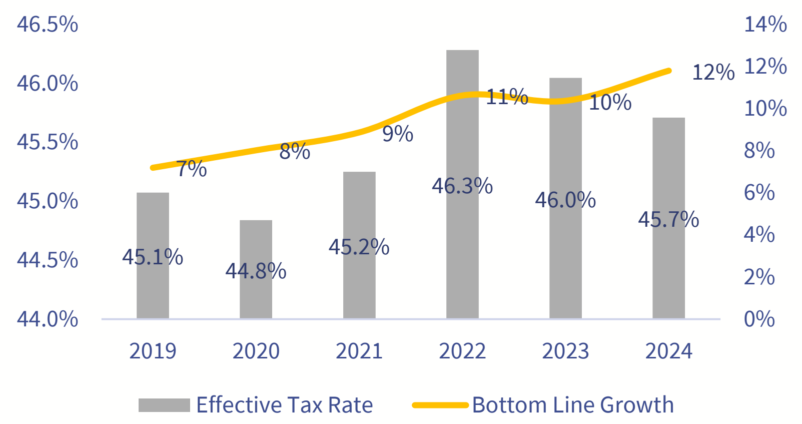
3. EGBE After New Reforms| High effective tax rate burdens bottom line growth; might need a capital increase

- Average effective tax rate over our forecast horizon is 46% up from an average of 43% over 2016-2019.
- EGBE's average cost ratio, as per proposed Ministry of Finance definition, over 2020-2024 records 84%.

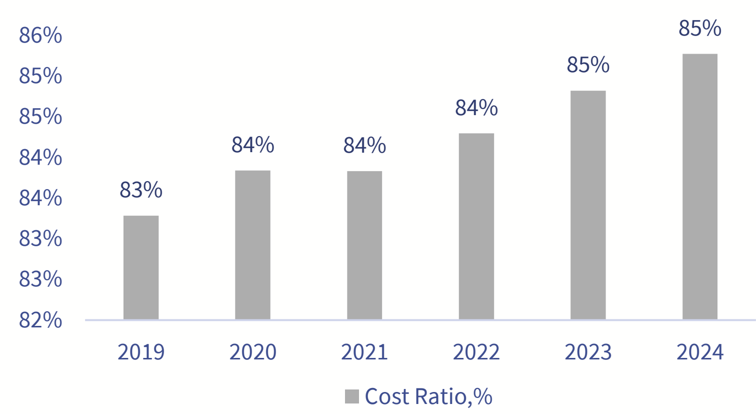
	2020	2021
+Interest Exp	(6,218)	(7,117)
+Admin Exp	(1,249)	(1,436)
÷		
+Interest Income	8,380	9,576
+Non-interest income	526	627
Cost Ratio	**84%**	**84%**

- We segmented the bank's income statement into two, based on the MoF executive regulations, which splits expenses based on a given calculation for the cost ratio. We then taxed interest income from treasury operations at 20% and net earnings from corporate banking operations at 22.5%. Net earnings from banking operations are allocated only a portion of the expenses, based on the cost ratio noted before.
- EGBE's paid-in capital and retained earnings lie just below the minimum required in 2022, where we assume the bank might need a capital increase.

Effective tax rate records an average of 46% over 2020-2024



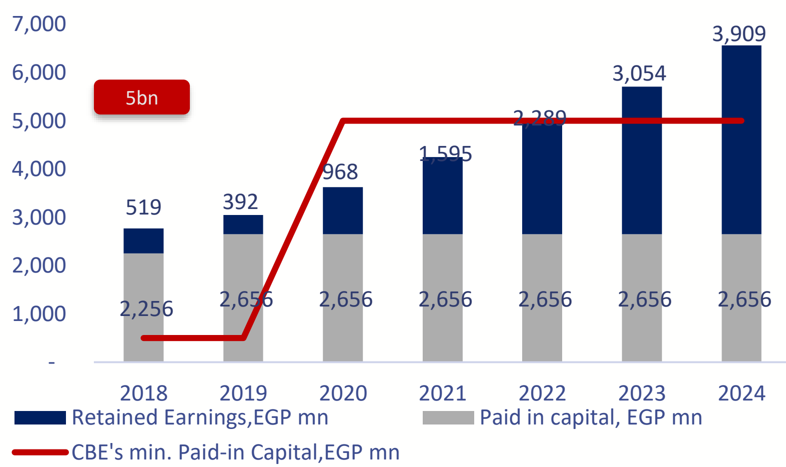
Cost Ratio records an average of 84% over 2020-2024



Segregated statements based on new tax law

	2019	2020	2021	2022	2023
Interest on new Treasuries	1,577	1,666	1,861	2,180	2,355
Expenses on Treasury	(1,314)	(1,397)	(1,560)	(1,838)	(1,998)
EBT- Treasury	**264**	**269**	**301**	**342**	**357**
T.bill Tax	**(315)**	**(333)**	**(372)**	**(436)**	**(471)**
Interest Income-Banking	5,850	6,713	7,714	8,754	10,251
Total Expenses -Banking	(5,430)	(6,288)	(7,303)	(8,335)	(9,842)
Non-Interest Income	451	526	627	748	893
EBT-Banking	**871**	**951**	**1,038**	**1,167**	**1,301**
Corporate tax	**(196)**	**(214)**	**(234)**	**(263)**	**(293)**
Total EBT	**1,135**	**1,221**	**1,339**	**1,510**	**1,659**
Total Income Tax	**511**	**547**	**606**	**699**	**764**
Effective Tax Rate	**45%**	**45%**	**45%**	**46%**	**46%**

Paid-in capital and retained earnings lie just below the CBE's minimum paid-in capital requirement of EGP5.0 bn



4. EGBE| Financial Statements and Valuation

	2018	2019	2020	2021	2022	2023	2024
Income Statement in EGP million							
Net interest Income	1,760	1,951	2,162	2,459	2,739	3,039	3,391
Non-interest Income	337	451	526	627	748	893	1,067
Operating Income	2,097	2,403	2,688	3,086	3,486	3,932	4,458
Provisions	(144)	(182)	(218)	(311)	(325)	(390)	(468)
Operating Expenses	(944)	(1,086)	(1,249)	(1,436)	(1,652)	(1,883)	(2,147)
Net profit before tax	1,008	1,135	1,221	1,339	1,510	1,659	1,843
Net profit after tax	582	623	667	726	803	886	991
Balance Sheet in EGP million							
Cash & Due from Central Bank	6,724	9,587	13,946	17,177	20,454	24,458	28,902
Due from Banks	8,365	14,639	16,103	17,713	19,484	21,433	23,576
Treasury bills	9,479	10,799	11,094	13,087	14,249	15,230	16,277
Loans & Discounts, net	26,081	29,150	34,999	42,699	52,147	62,595	75,135
Total Assets	61,612	70,218	81,299	94,139	109,056	126,288	146,345
Due to Banks	5,200	5,200	6,501	8,126	10,157	12,696	15,871
Customer Deposits	50,540	58,120	66,839	76,864	88,394	101,653	116,901
Total Liabilities	58,000	66,132	76,683	88,889	103,104	119,562	138,753
Total Net Worth	3,538	4,086	4,609	5,236	5,930	6,695	7,551
Key Indicators							
NIM	3.5%	3.4%	3.4%	3.3%	3.2%	3.1%	3.0%
OPEX-to-assets	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%
Non-Interest Income/Op Income	16.0%	18.8%	19.6%	20.3%	21.4%	22.7%	23.9%
Cost-to-Income	45.0%	45.2%	46.5%	46.5%	47.4%	47.9%	48.2%
COR	0.6%	0.6%	0.6%	0.7%	0.6%	0.6%	0.6%
Annualized ROAE	14.4%	14.1%	13.2%	12.7%	12.4%	12.1%	12.0%
Annualized ROAA	0.9%	0.8%	0.8%	0.7%	0.7%	0.7%	0.6%
CAR	15.4%	13.9%	14.0%	14.2%	14.4%	14.5%	14.7%
Treasury Exposure	42.3%	41.5%	43.1%	45.4%	47.8%	49.6%	51.3%
Loans-to-Deposits	53.6%	52.2%	54.5%	57.8%	61.3%	64.0%	66.8%
NPL Ratio	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%
Provisions Coverage	494.8%	521.5%	514.4%	514.7%	501.7%	497.9%	494.7%

	2019	2020	2021	2022	2023	2024	TV
Multiples							
EPS, EGP	1.48	1.58	1.72	1.90	2.09	2.34	
P/E x	5.7	5.4	4.9	4.5	4.0	3.6	
BVPS, EGP	11.18	12.62	14.33	16.23	18.32	20.67	
P/B, x	0.8	0.7	0.6	0.5	0.5	0.4	
DPS, EGP	-	-	-	-	-	-	
DY	-	-	-	-	-	-	
Implied P/E, x	5.5	5.2	4.8	4.3	3.9	3.5	
Implied P/B, x	0.7	0.6	0.6	0.5	0.4	0.4	
Multiples							
Risk Free Rate (After Tax)		12.0%	10.4%	10.4%	10.0%	10.0%	
Risk Premium		6.0%	6.0%	5.0%	5.0%	5.0%	
Beta		1.0	1.0	1.0	1.0	1.0	
Cost of Equity		18.0%	16.4%	15.4%	15.0%	15.0%	15.0%
Terminal Growth Rate							5.0%
Multiples							
Net Attributable Income		576	627	693	765	856	
+Non cash Items (Depreciation)		112	123	135	149	164	
Minus: Capital Charge		(449)	(494)	(549)	(605)	(629)	
Cash Flow to Shareholders		238	256	279	309	390	
PV of FCFF		202	238	182	177	194	
Sum of PV		944					
Terminal Value		4,099					
Discounted Terminal Value		2,038					
Valuation		2,981					
Number of Shares		365					
FV/Share, EGP		**8.16**					
USD/EGP		**16.00**					
FV/Share, USD		**0.51**					

VII. Al Baraka Bank (SAUD) Overweight | Solid Potential; High yield stock

Trading Data

Reuters / Bloomberg:	SAUD.CA/SAUD EY
Market Cap, EGP m:	2,165.03
52W H-L, EGP/Share:	13.05 - 9.50
Last Price, EGP/Share:	9.80
Fair Value, EGP/Share:	14.00
52W ADTV, EGP m:	0.2
Valuation Gap:	42.9%
Shares Outstanding, m:	220.9
Free Float	26.0%

Pitch

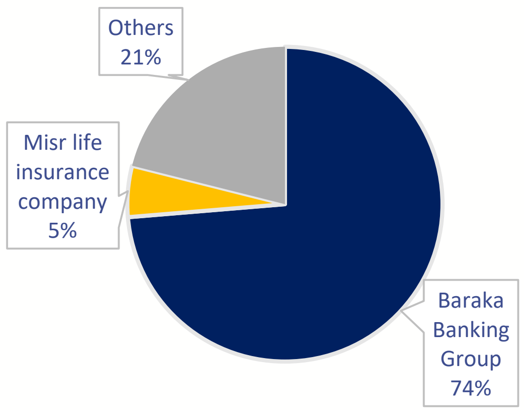
SAUD is one of the few sharia-compliant Islamic banks in Egypt, that has been following a passive strategy of allocating a great portion of its assets to treasury investments along with interbank deposits instead of corporate financing. Over the past five years, its average treasury exposure to total assets was 36%. However, the contribution of treasury exposure to total assets started to decline in 2018, and we assume it will continue levelling-off to reach 16% in 2024 from 23% in 2019e.

Over our forecast horizon (2020-2024), we project financing growth at a 5-year CAGR of 20%, deposits at 18%, and treasury investments at 9% so that LDR ratio reaches 35% in 2024, down from 32% in 2019e. We assume that financing would gradually start substituting treasury investments in 2020 after meaningful rate cuts.

We estimate margins to start declining on the back of the projected reduction in rates and competition against banks for growth, to stand at 3.2% in 2024, down from 3.5% in 2019e. Non-funded income is expected to grow at a CAGR of 14% with financing growth revival to reach a contribution to operating income of 21%. Risk weighted Assets (RWA) would grow at a CAGR of 18% with Capital Adequacy Ratio (CAR) staying comfortably above the minimum required by the CBE.

SAUD is trading at P/E20 of 2.4x, and P/B20 of 0.4x, on ROAE of 20% for 2020. These multiples are below Egypt's sector average of P/E20 of 3.9x, and P/B20 of 0.8x.

Shareholders' structure



Upside Triggers

- Higher than expected cheap deposits accumulation
- Positive impact on margins from retail financing would reduce pressure on NIM
- Faster than expected pick up in non-funded income
- Faster than expected pick up in financing growth
- Lower COR, driven by higher asset quality
- Less than expected deduction from bottom line by the new tax law

Downside Triggers

- Margin compression that is higher than projections
- Slower than estimated growth in non-funded income
- More than expected deterioration in asset quality resulting from SME financing
- Slower economic recovery which hinders financing growth for both corporate and retail sectors
- Slower than estimated growth in financing portfolio

PHAROS

1. Saud Balance sheet| Financing will gradually start substituting treasury investments

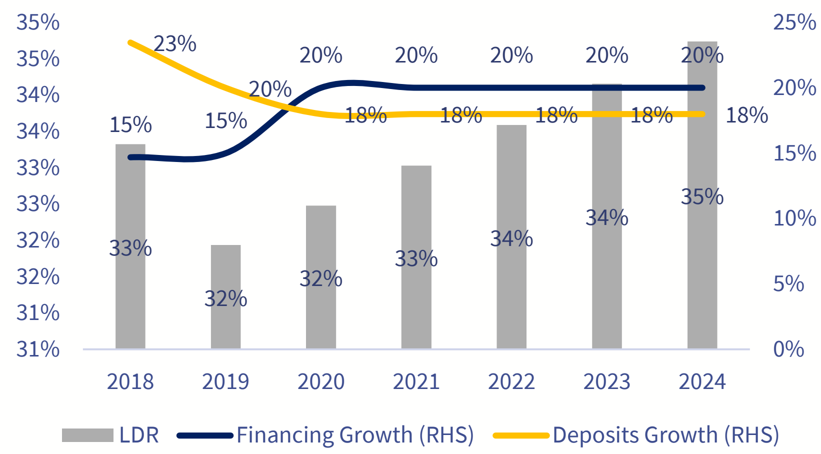
- We project financing would grow at a CAGR of 20% over our forecast horizon (2020-2024) to reach EGP52 billion in 2024, out-pacing the rate of treasury investment, which will grow at a CAGR of 9% over the same period and reaches EGP27 billion in 2024.

- On the funding side, we expect customer deposits to increase at a CAGR of 18%, over our forecast horizon, to reach EGP150 billion by 2024. LDR will rise gradually to stand at 35% in 2024.

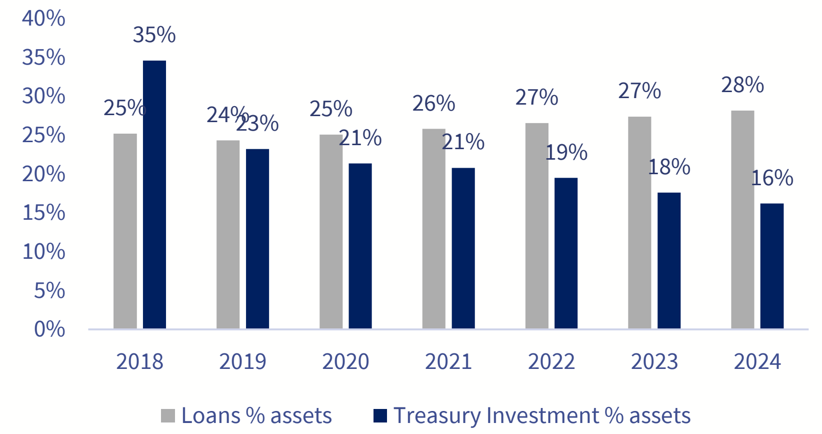
- We project NPLs to grow at a CAGR of 11% over 2020-2024 with a declining NPL ratio to reach 5.0% in 2024, down from 7.3% in 2019e, and a rising provision coverage recording 156% in 2024. We estimate a decreasing Cost of Risk (COR), which should gradually go down from 1.8% in 2019e to 1.3% by the end of our forecast horizon.

- CAR is anticipated to record 15.5% in 2019e - well above the CBE minimum requirement of 12.5% - and hover around 15% until it reaches 14.5% in 2024.

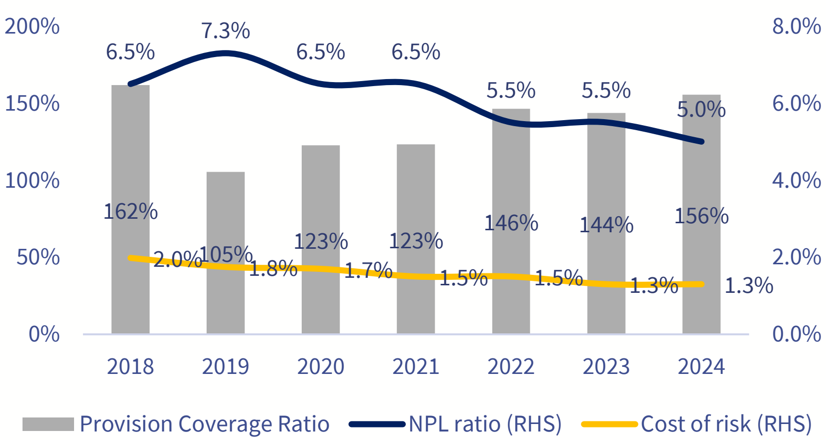
Financing and deposits to grow at 2020-2024 CAGR of 20% and 18%, respectively; LDR reaches 35% by 2024



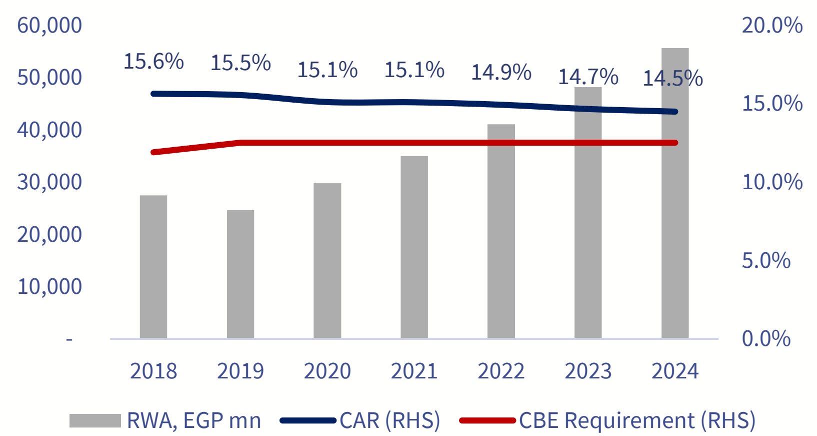
The contribution of treasury investment to total assets will decline throughout our forecast horizon to reach 16% by 2024



NPL ratio reaches 5.0% in 2024; COR declines gradually to stand at 1.3% by the end of our forecast horizon



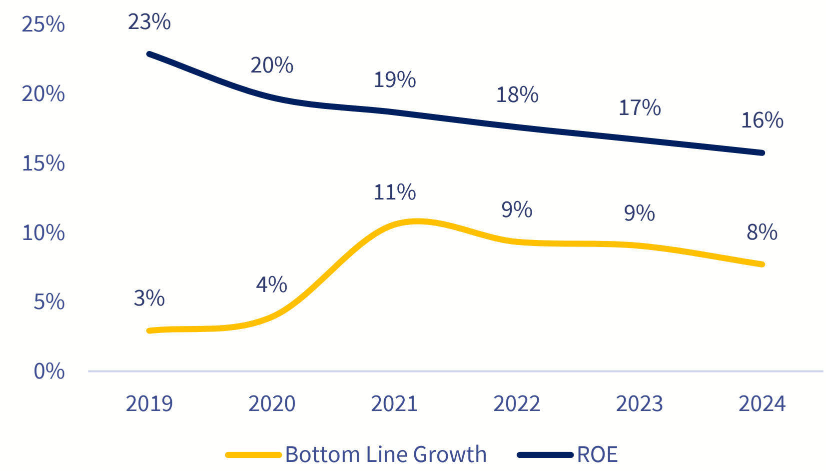
CAR's average is 14.9% over our forecast horizon, well above the CBE minimum



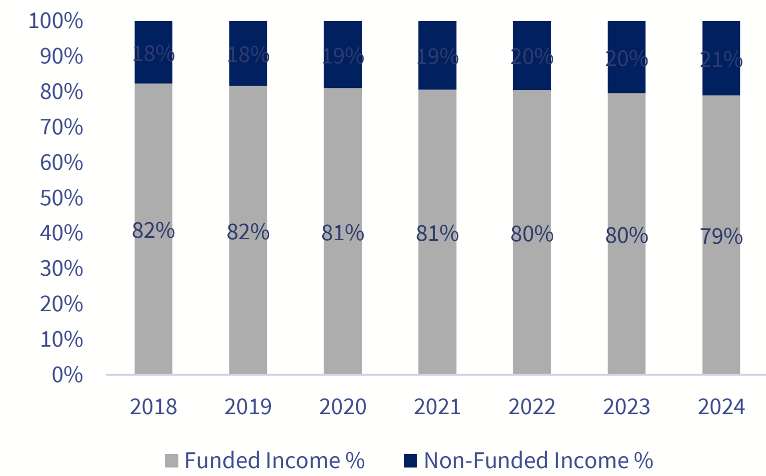
2. SAUD Income statement| Non-funded income rise and margins decline amid financing pickup; Solid efficiency

- Bottom line to grow, according to our estimates, at a CAGR of 8% over 2020-2024, with a declining ROE. Non-funded income is forecasted to increase to stand at 21% of operating income by the end of our forecast horizon.
- Given SAUD's high exposure to treasury investment, the bank recorded a NFM of 3.5% in 2019e. However, we estimate the bank will start to shift from treasury allocation to financing post the new tax law and significant rate cuts, and thus NFM will level off starting 2020 to reach 3.2% in 2024.
- SAUD's cost to income ratio records 23% in 2019e. We project the bank's opex to grow at a CAGR of 10% and operating income at a CAGR of 11%; therefore, cost to income ratio is expected to improve slightly to reach 22.4% by the end of our forecast horizon.

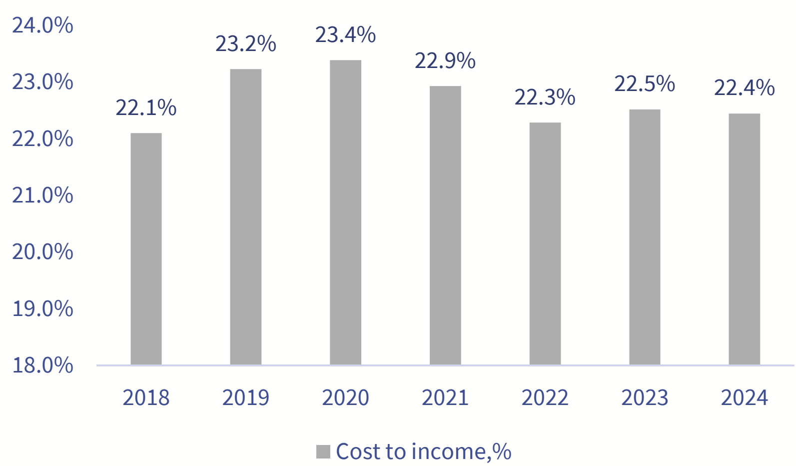
Bottom line to grow at 2020-2024 CAGR of 8%; ROE records an average of 18% (2020-2024)



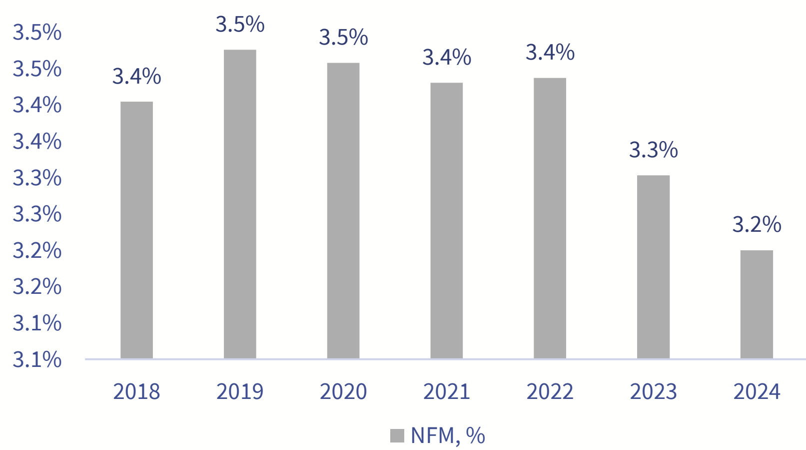
Non-funded income contribution to total operating income to inch up over our forecast horizon to stand at 21% in 2024



Cost to income ratio is expected to hover around 22.5% over our forecast horizon



NFM to level off starting 2020 to record at 3.2% by 2024



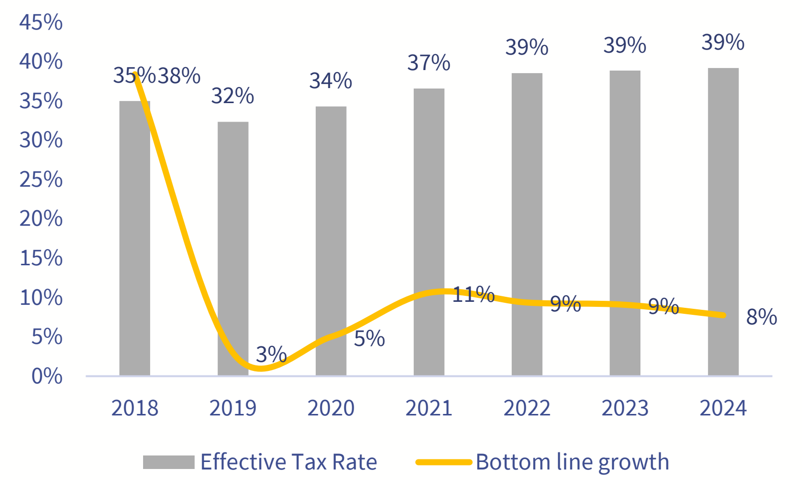
3. SAUD After New Reforms| High cost ratio, high effective tax rates; Paid-in capital is securely above minimum

- Average effective tax rate over our forecast horizon is 37% up from an average of 35% over 2016-2019.
- SAUD's average cost ratio, as per proposed Ministry of Finance definition, over 2020-2024 records 78%.

	2020	2021
+Interest Exp	(6,739)	(7,548)
+Admin Exp	(609)	(670)
+Other op Exp	(14)	(16)
÷		
+Interest Income	8,898	9,958
+Non-interest income	505	580
Cost Ratio	**78%**	**78%**

- We segmented the bank's income statement into two, based on the MoF executive regulations, which splits expenses based on a given calculation for the cost ratio. We then taxed funded income from treasury operations at 20% and net earnings from corporate banking operations at 22.5%. Net earnings from banking operations are allocated only a portion of the expenses, based on the cost ratio noted before.
- SAUD's paid-in capital and retained earnings exceeds the EGP5.0 bn minimum requirement in 2021, and thus will comfortably covert a portion from the retained earnings to paid-in capital before the deadline in 2022.

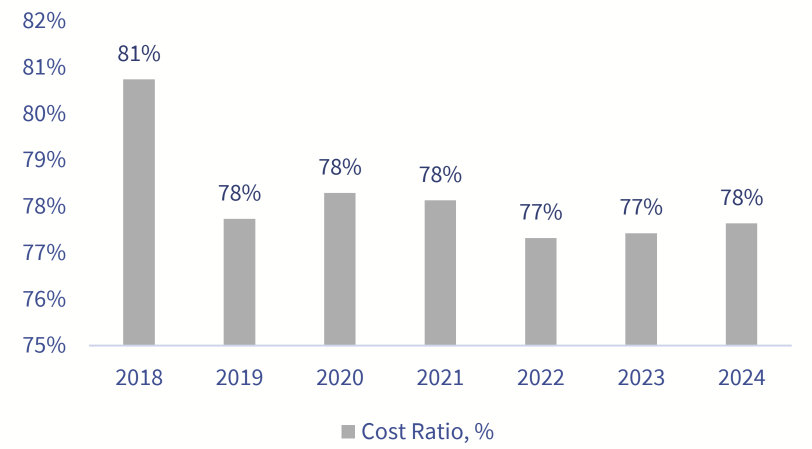
Effective tax rate records an average of 37% over 2020-2024



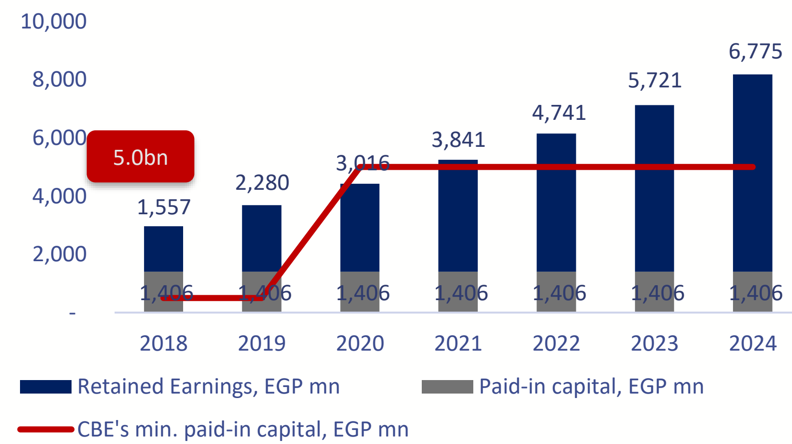
Segregated statements based on new tax law

	2020	2021	2022	2023	2024
Interest on new Treasuries	1,289	1,763	2,296	2,559	2,823
Expenses on Treasury	(1,009)	(1,378)	(1,775)	(1,981)	(2,192)
EBT- Treasury	**280**	**386**	**521**	**578**	**631**
T.bill Tax	**(258)**	**(353)**	**(459)**	**(512)**	**(565)**
Non-Interest Income	505	580	660	753	855
EBT-Banking	**1,371**	**1,505**	**1,612**	**1,760**	**1,901**
Corporate tax	**(308)**	**(339)**	**(363)**	**(396)**	**(428)**
Total EBT	**1,651**	**1,890**	**2,133**	**2,338**	**2,532**
Total Income Tax	**(566)**	**(691)**	**(822)**	**(908)**	**(992)**
Effective Tax Rate	**34%**	**37%**	**39%**	**39%**	**39%**

Cost ratio records an average of 78% over 2020-2024



SAUD will be able to reach a paid-in capital of EGP5.0 bn before 2022; no risk for capital increase



4. SAUD| Financial Statements and Valuation

	2018	2019	2020	2021	2022	2023	2024
Income Statement in EGP million							
Net interest Income	1,885	1,987	2,159	2,409	2,724	2,931	3,210
Non-interest Income	364	447	505	580	660	753	855
Operating Income	2,249	2,434	2,665	2,990	3,383	3,683	4,064
Provisions	(337)	(342)	(391)	(414)	(497)	(516)	(620)
Operating Expenses	(497)	(565)	(623)	(685)	(754)	(829)	(912)
Net profit before tax	1,415	1,527	1,651	1,890	2,133	2,338	2,532
Net profit after tax	1,004	1,033	1,074	1,187	1,298	1,415	1,525
Balance Sheet in EGP million							
Cash & Due from Central Bank	4,816	9,169	13,986	18,841	25,747	35,098	45,768
Due from Banks	14,931	23,890	26,279	28,907	31,798	34,977	38,475
Treasury bills	10,478	5,196	5,603	6,410	7,051	7,469	8,066
Loans & Discounts, net	15,746	18,129	21,919	26,521	32,043	38,750	46,798
Total Assets	62,521	74,626	87,567	102,836	120,737	141,732	166,348
Due to Banks	1,497	1,572	1,650	1,815	1,997	2,197	2,416
Customer Deposits	54,535	65,442	77,222	91,122	107,524	126,878	149,717
Total Liabilities	59,090	70,377	82,572	97,007	113,997	133,999	157,549
Total Net Worth	3,432	4,249	4,984	5,809	6,709	7,690	8,743
Key Indicators							
NIM	3.4%	3.5%	3.5%	3.4%	3.4%	3.3%	3.2%
OPEX-to-assets	0.9%	0.8%	0.8%	0.7%	0.7%	0.6%	0.6%
Non-Interest Income/Op Income	16.2%	18.4%	19.0%	19.4%	19.5%	20.4%	21.0%
Cost-to-Income	22.1%	23.2%	23.4%	22.9%	22.3%	22.5%	22.4%
COR	2.0%	1.8%	1.7%	1.5%	1.5%	1.3%	1.3%
Annualized ROAE	28.1%	22.9%	19.73%	18.67%	17.60%	16.68%	15.74%
Annualized ROAA	1.8%	1.5%	1.34%	1.26%	1.17%	1.09%	1.00%
CAR	15.6%	15.6%	15.2%	15.2%	15.0%	14.8%	14.5%
Treasury Exposure	34.6%	23.2%	21.3%	20.8%	19.5%	17.6%	16.2%
Loans-to-Deposits	33.3%	31.9%	32.5%	33.0%	33.6%	34.2%	34.7%
NPL Ratio	4.3%	7.3%	6.5%	6.5%	5.5%	5.5%	5.0%
Provisions Coverage	161.7%	105.3%	122.5%	123.3%	146.4%	143.7%	155.5%

	2019	2020	2021	2022	2023	2024	TV
Multiples							
EPS, EGP	3.97	4.12	4.56	4.99	5.44	5.86	
P/E x	2.5	2.4	2.1	2.0	1.8	1.7	
BVPS, EGP	19.17	22.50	26.23	30.30	34.74	39.51	
P/B, x	0.5	0.4	0.4	0.3	0.3	0.2	
DPS, EGP	0.70	0.79	0.82	0.91	1.00	1.09	
DY	7.1%	8.1%	8.4%	9.3%	10.2%	11.1%	
Implied P/E, x	3.5	3.4	3.1	2.8	2.6	2.4	
Implied P/B, x	0.7	0.6	0.5	0.5	0.4	0.4	
Multiples							
Risk Free Rate (After Tax)		12.0%	10.4%	10.4%	10.0%	10.0%	
Risk Premium		6.0%	6.0%	5.0%	5.0%	5.0%	
Beta		1.00	1.00	1.00	1.00	1.00	
Cost of Equity		18.0%	16.4%	15.4%	15.0%	15.0%	15.0%
Terminal Growth Rate							5.0%
Multiples							
Net Attributable Income		911	1,007	1,101	1,201	1,294	
+Non cash Items (Depreciation)		49	54	59	65	72	
Minus: Capital Charge		(708)	(688)	(804)	(939)	(983)	
Cash Flow to Shareholders		252	373	357	327	382	
PV of FCFF		213	275	232	187	190	
Sum of PV		1,098					
Terminal Value		4,013					
Discounted Terminal Value		1,995					
Valuation		**3,093**					
Number of Shares		**221**					
FV/Share, EGP		**14.00**					

VIII. Export Development Bank of Egypt (EXPA) Overweight | Sound vision; Solid growth strategy

Trading Data

Reuters / Bloomberg:	EXPA.CA/EXPA EY
Market Cap, EGP m:	2,111.47
52W H-L, EGP/Share:	10.76 - 7.58
Last Price, EGP/Share:	7.74
Fair Value, EGP/Share:	12.50
52W ADTV, EGP m:	1.00
Valuation Gap:	61.5%
Shares Outstanding, m:	272.8
Free Float	24.5%

Pitch

EXPA has witnessed a change of management in 2016, which significantly affected the bank's financial standing and outlook. The new management set a four-year strategy for doubling the size of the balance sheet and growing bottom line significantly. Accordingly, the last three years represented a substantial turnaround for the bank. We anticipate bottom line growth will slow down over the next couple of years. Also, as per management guidance, the bank is planning to grow across boarders after the existing four years strategy is complete.

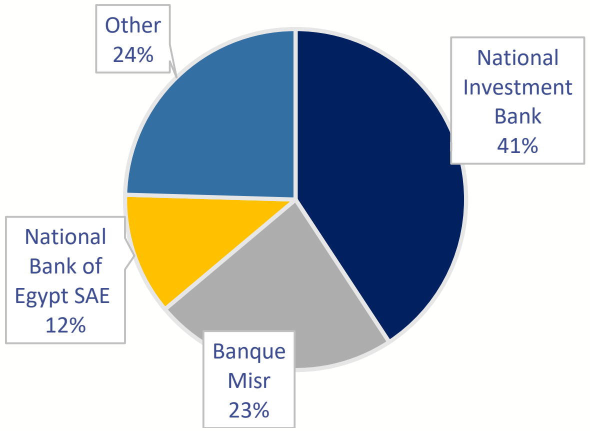
Over the forecast horizon (2020-2024), we project lending growth at a 5-year CAGR of 25%, deposits at 18%, and treasury investments at 3% so that LDR ratio reaches 89% in 2024, down from 66% in 2019e.

We assume that lending would gradually start substituting treasury investments in 2020 after meaningful rate cuts. We estimate margins to keep declining over our forecast horizon on the back of the projected reduction in rates and competition against banks for growth, down from 4.5% in FY18/19 to record 3.6% in FY23/24. Non-interest income is expected to grow at a CAGR of 16% with lending growth revival, to reach a contribution to operating income of 26% in 2024. Risk weighted Assets (RWA) to grow at a CAGR of 16% with Capital Adequacy Ratio (CAR) staying above the minimum required by the CBE.

EXPA's paid-in capital and retained earnings are expected to exceed the EGP5.0 bn CBE minimum requirement in FY19/20.

EXPA is trading at P/E20 of 2.1x, and P/B20 of 0.3x, on ROAE of 17%. These multiples are below Egypt's sector average of P/E20 of 3.9x, and P/B20 of 0.8x.

Shareholders' structure



Upside Triggers

- Higher than expected targets
- Higher than expected cheap deposits accumulation
- Positive impact on margins from retail lending would reduce pressure on NIM
- Faster than expected pick up in non-interest income
- Faster than expected pick up in lending growth
- Lower COR, driven by higher asset quality
- Less than expected deduction from bottom line by the new tax law

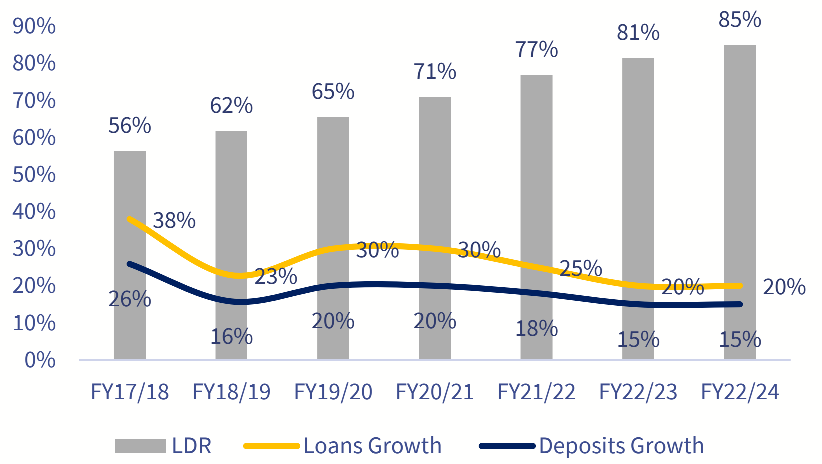
Downside Triggers

- Strategic plan targets are not met
- Capital increase to maintain CAR above CBE min.
- Margin compression that is higher than projections
- Slower than estimated growth in non-interest income
- More than expected deterioration in asset quality resulting from SME financing
- Slower economic recovery which hinders lending growth for both corporate and retail sectors
- Slower than estimated growth in lending portfolio

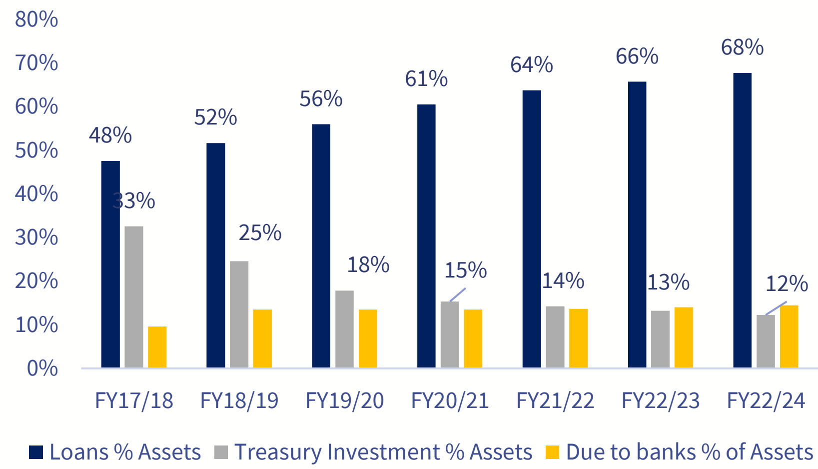
1. EXPA Balance sheet| Healthy balance sheet growth; CAR is comfortably above CBE minimum

- We project lending to grow at a CAGR of 25% over our forecast horizon (2020-2024) to reach EGP80 billion in 2024, out-pacing the rate of treasury investment, which will grow at a CAGR of 5% over the same period and reaches EGP14 billion in 2024.
- On the funding side, we expect customer deposits to increase at a CAGR of 18%, over our forecast horizon, to reach EGP90 billion by 2024. LDR is expected to rise gradually to stand at 89% in FY23/24.
- We project NPLs to grow at a CAGR of 20% over 2020-2024 with a declining NPL ratio to stand at 2.4% in 2024, and a declining provision coverage recording 124% in 2024. We estimate Cost of Risk (COR) to stabilize at 0.5% over the whole forecasted period.
- CAR recorded 14.4% in FY18/19 - above the CBE minimum requirement of 12.5%. CAR is expected to hover around 14.3% over our forecast horizon, comfortably above the CBE minimum, to record 14.0% in FY23/24.

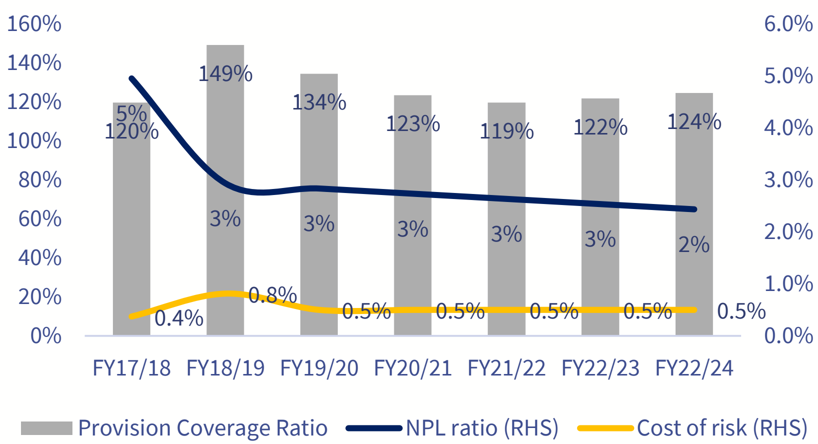
Loans and deposits to grow at 2020-2024 CAGR of 25% and 18% over 2020-2024, respectively; LDR reaches 89% in FY23/24



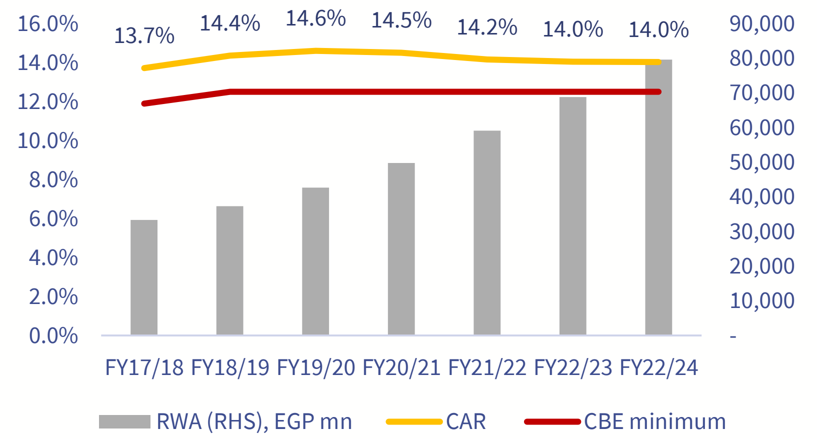
Treasury exposure to total assets is expected to decline over our forecast horizon until it reaches 12% by FY23/24



NPL ratio reaches 2.4% in FY23/24; COR to stabilize at 0.5% over our forecast horizon



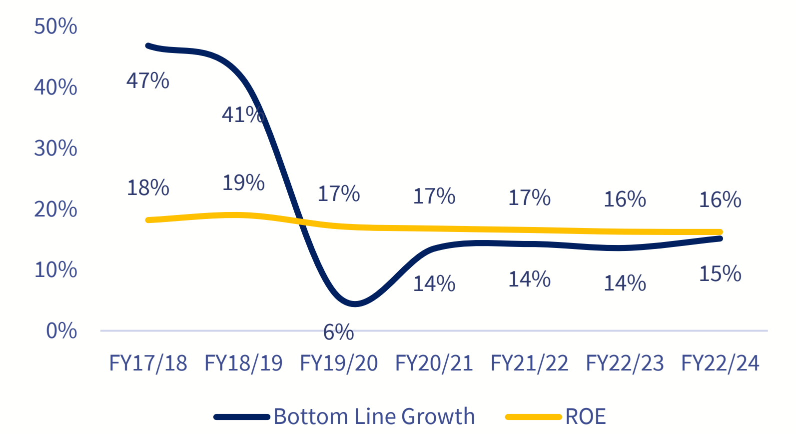
CAR is securely above the CBE minimum; to record 14.1% by the end of our forecast horizon



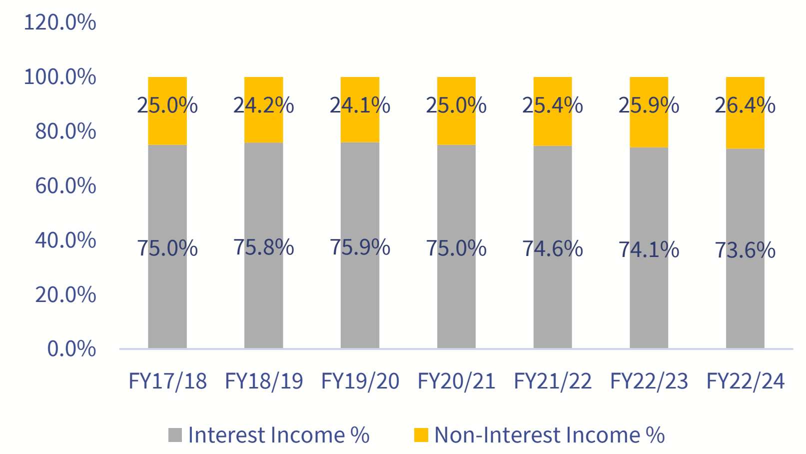
2. EXPA Income statement| Weak margins on the back of rate cuts; High efficiency

- According to our estimates, bottom line will grow at a CAGR of 13% over 2020-2024, with a stable ROE. Non-interest income is forecasted to escalate over our forecasted period to stand at 26.4% in FY23/24 on the back of lending pickup.
- The bank's NIM peaked in FY18/19 and recorded 4.5%, we anticipate margins to decline over the next couple of years on the back of lending pickup post significant rate cuts, to stand at 3.6% in FY23/24.
- EXPA's cost to income ratio recorded 32.9% in FY18/19. We project the bank's opex to grow at a CAGR of 15% and operating income at a CAGR of 15%. Accordingly, cost to income ratio will stabilize, hovering around 33% over the forecasted period, to record 33.2% in FY23/24.

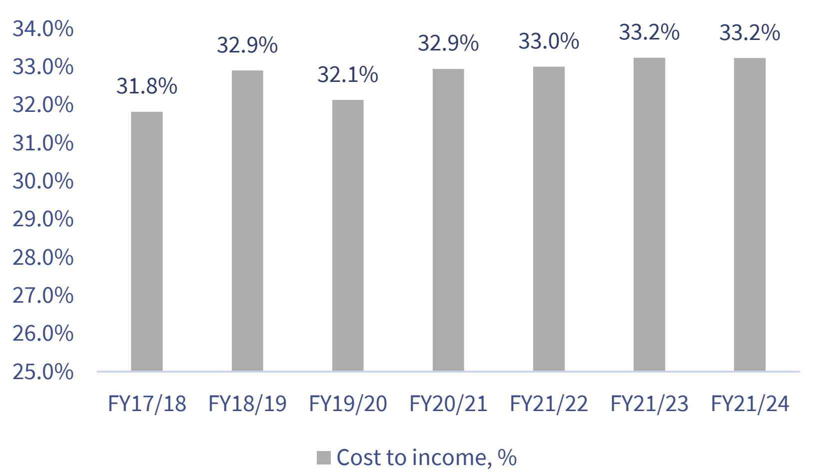
Bottom line growth drops in FY19/20 due to the new tax law, growing at 2020-2024 CAGR of 13%



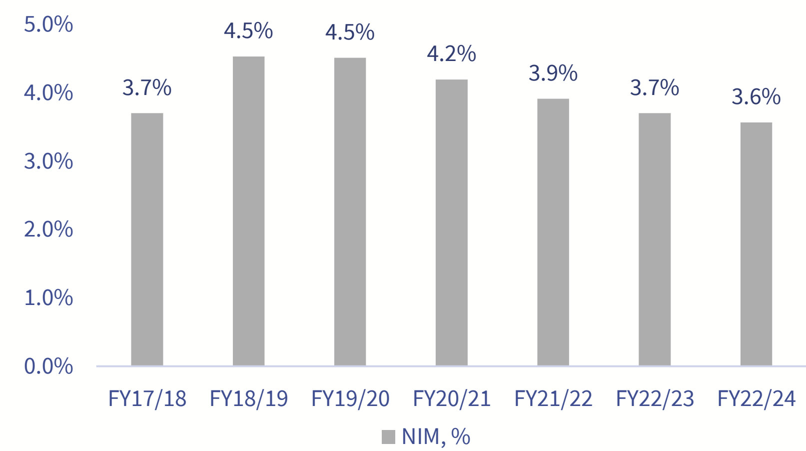
Non-interest income contribution to total operating income to rise on the back of lending pickup to record 26.4% in FY23/24



Cost to income ratio is expected to hover around 33% to stand at 33.2% by FY23/24



NIM is expected to decline gradually until it reaches 3.6% in FY23/24



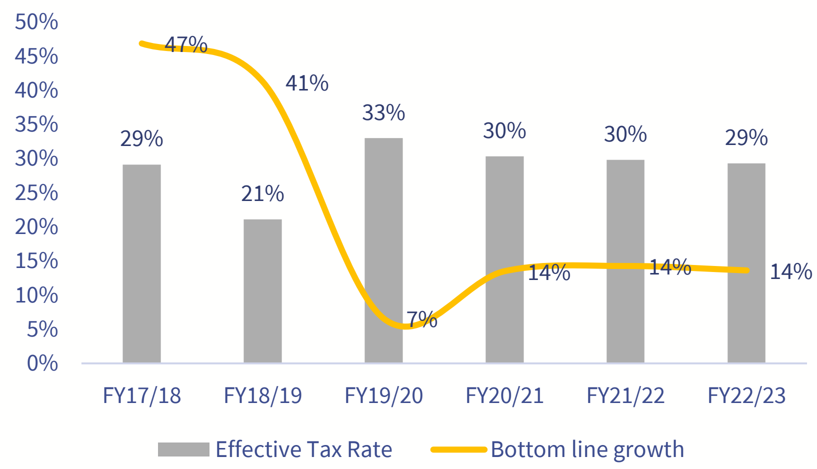
3. EXPA After New Reforms| New tax law dims bottom line growth; paid-in capital is securely above CBE minimum

- Average effective tax rate over our forecast horizon is 30% up from an average of 27% over 2017-2019.
- EXPA's average cost ratio, as per proposed Ministry of Finance definition, over 2020-2024 records 72%.

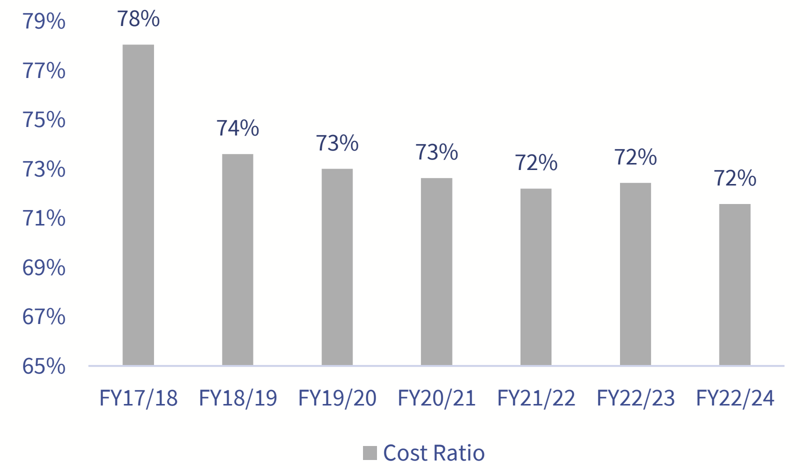
	FY19/20	FY20/21
+Interest Exp	(4,302)	(4,621)
+Admin Exp	(912)	(1,049)
+Other op Exp	-	-
÷		
+Interest Income	6,458	7,010
+Non-interest income	683	795
Cost Ratio	**73%**	**73%**

- We segmented the bank's income statement into two, based on the MoF executive regulations, which splits expenses based on a given calculation for the cost ratio. We then taxed interest income from treasury operations at 20% and net earnings from corporate banking operations at 22.5%. Net earnings from banking operations are allocated only a portion of the expenses, based on the cost ratio noted before.
- EXPA's paid-in capital and retained earnings exceeds the EGP5.0 bn minimum requirement next fiscal year, in FY19/20, and thus will comfortably covert a portion from the retained earnings to paid-in capital before the deadline in 2022.

Bottom line growth is affected negatively by the new tax law; Effective tax rate records an average of 30% over 2020-2024



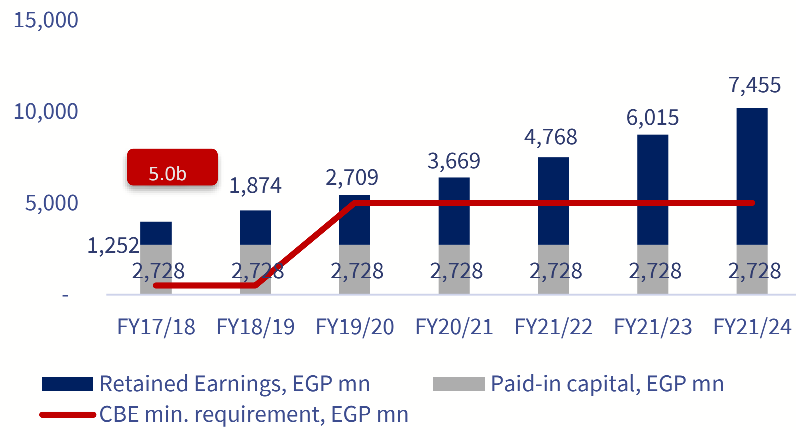
Cost ratio records an average of 72% over 2020-2024



Segregated statements based on new tax law

	FY19/20	FY20/21	FY21/22	FY22/23	FY23/24
Interest on new Treasuries	1,751	1,435	1,530	1,603	1,731
Expenses on Treasury	(1,023)	(834)	(884)	(929)	(991)
EBT- Treasury	**728**	**601**	**646**	**674**	**740**
T.bill Tax	**(350)**	**(287)**	**(306)**	**(321)**	**(346)**
Interest Income-Banking	4,707	5,575	6,356	7,426	8,286
Total Expenses -Banking	(4,342)	(5,032)	(5,729)	(6,700)	(7,452)
Non-Interest Income	683	795	927	1,083	1,266
EBT-Banking	**1,048**	**1,338**	**1,554**	**1,808**	**2,100**
Corporate tax	**(236)**	**(301)**	**(350)**	**(407)**	**(473)**
Total EBT	**1,776**	**1,939**	**2,200**	**2,482**	**2,840**
Total Tax Income	**(586)**	**(588)**	**(655)**	**(727)**	**(819)**
Effective Tax Rate	**33%**	**30%**	**30%**	**29%**	**29%**

EXPA's paid-in capital and retained earnings exceed the EGP5.0 bn minimum requirement next fiscal year



4. EXPA| Financial Statements and Valuation

	FY17/18	FY18/19	FY19/20	FY20/21	FY21/22	FY22/23	FY23/24
Income Statement in EGP million							
Net interest Income	1,302	1,803	2,156	2,389	2,728	3,091	3,535
Non-interest Income	434	607	683	795	927	1,083	1,266
Operating Income	1,736	2,411	2,839	3,184	3,655	4,174	4,801
Provisions	(69)	(193)	(151)	(196)	(249)	(305)	(366)
Operating Expenses	(552)	(793)	(912)	(1,049)	(1,206)	(1,387)	(1,595)
Net profit before tax	1,115	1,424	1,776	1,939	2,200	2,482	2,840
Net profit after tax	790	1,117	1,178	1,338	1,529	1,737	2,001
Balance Sheet in EGP million							
Cash & Due from Central Bank	3,506	3,670	6,497	6,508	6,088	6,010	3,740
Due from Banks	4,317	6,841	8,210	9,852	11,822	14,186	17,024
Treasury bills	11,555	9,556	8,150	8,405	9,245	9,985	11,503
Loans & Discounts, net	19,868	25,100	32,810	42,846	53,681	64,461	77,397
Total Assets	44,950	50,832	60,947	73,270	86,962	101,218	117,949
Due to Banks	2,735	2,334	2,801	3,362	4,034	4,841	5,809
Customer Deposits	34,613	40,073	48,087	57,705	68,091	78,305	90,051
Total Liabilities	40,378	45,466	54,713	66,038	78,588	91,548	106,782
Total Net Worth	4,572	5,366	6,234	7,232	8,374	9,670	11,167
Key Indicators							
NIM	3.7%	4.5%	4.5%	4.2%	3.9%	3.7%	3.6%
OPEX-to-assets	1.4%	1.7%	1.6%	1.6%	1.5%	1.5%	1.5%
Non-Interest Income/Op Income	25.0%	25.2%	24.1%	25.0%	25.4%	25.9%	26.4%
Cost-to-Income	31.8%	32.9%	32.1%	32.9%	33.0%	33.2%	33.2%
COR	0.4%	0.8%	0.5%	0.5%	0.5%	0.5%	0.5%
Annualized ROAE	18.2%	19.0%	17.2%	16.8%	16.6%	16.3%	16.3%
Annualized ROAA	1.7%	2.0%	1.8%	1.7%	1.6%	1.6%	1.5%
CAR	13.7%	14.4%	14.6%	14.5%	14.2%	14.0%	14.0%
Treasury Exposure	32.5%	24.6%	17.8%	15.3%	14.2%	13.2%	12.2%
Loans-to-Deposits	61.7%	65.5%	70.9%	76.8%	81.4%	84.9%	88.6%
NPL Ratio	4.9%	2.9%	2.8%	2.7%	2.6%	2.5%	2.4%
Provisions Coverage	119.6%	149.0%	134.3%	123.3%	119.5%	121.6%	124.4%

	FY18/19	FY19/20	FY20/21	FY21/22	FY22/23	FY23/24	TV
Trading Multiples							
EPS, EGP	3.47	3.66	4.15	4.74	5.39	6.21	
P/E x	2.2	2.1	1.9	1.6	1.4	1.2	
BVPS, EGP	19.67	22.85	26.51	30.70	35.45	40.93	
P/B, x	0.4	0.3	0.3	0.3	0.2	0.2	
DPS, EGP	0.50	0.60	0.63	0.71	0.82	0.93	
DY	6.5%	7.7%	8.1%	9.2%	10.6%	12.0%	
Implied P/E, x	3.6	3.4	3.0	2.6	2.3	2.0	
Implied P/B, x	0.6	0.5	0.5	0.4	0.4	0.3	
Cost of Equity Assumptions							
Risk Free Rate (After Tax)		13.6%	12.0%	10.8%	10.0%	10.0%	
Risk Premium		6.0%	6.0%	5.0%	5.0%	5.0%	
Beta		1.00	1.00	1.00	1.00	1.00	
Cost of Equity		19.6%	18.0%	15.8%	15.0%	15.0%	15.0%
Terminal Growth Rate							5.0%
Valuation							
Net Attributable Income		997	1,132	1,294	1,470	1,693	
+Non cash Items (Depreciation)		48	50	53	55	109	
Minus: Capital Charge		(663)	(895)	(1,164)	(1,212)	(1,350)	
Cash Flow to Shareholders		382	287	182	314	453	
PV of FCFF		319	206	117	179	225	
Sum of PV		1,047					
Terminal Value		4,753					
Discounted Terminal Value		2,363					
Valuation		**3,410**					
Number of Shares		**273**					
FV/Share, EGP		**12.50**					

PHAROS

IX. Abu Dhabi Islamic Bank of Egypt (ADIB) Equalweight | Huge potential post rights issue in 2H2020

Trading Data

Reuters / Bloomberg:	ADIB.CA/ADIB EY
Adjusted Market Cap, EGP m:	3,562.58*
52W H-L, EGP/Share:	5.85* - 4.16*
Last Price, EGP/Share:	7.13*
Fair Value, EGP/Share:	12.75*
52W ADTV, EGP m:	4.5
Valuation Gap:	78.9%
Shares Outstanding, m:	500*
Free Float	40.0%

*Adjusted to the rights issue and the capital increase that are to take place in 2H20

Pitch

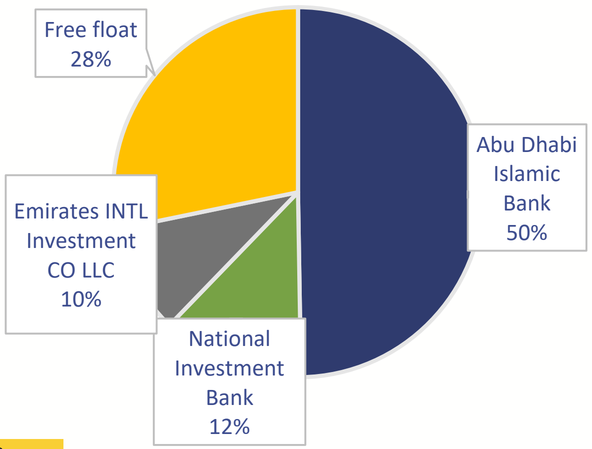
We have updated our FV to reflect the valuation of the bank including the impact of rights issue. New banking law by CBE requires banks to increase their paid in capital to EGP5.0 bn during the next three years, which encourages management to do the pending capital increase via rights issue which will be in the second half of 2020. Management intends to increase capital by EGP3.0 bn while maintaining the same ownership structure (49% for ADIB UAE) without diluting the ownership of minority shareholders. ADIB UAE will use EGP1.5 bn of a total of EGP1.8 billion already injected under capital increase to subscribe to the capital increase and redeem back the excess that is almost EGP300 mn. The remaining shareholders will subscribe to the other EGP1.5 bn. In case there aren't enough subscriptions, ADIB UAE related parties will subside. Technically speaking, the fresh capital injected is only EGP1.2 bn (if ADIB UAE withdraws the remaining EGP300 mn, but EGP1.5 bn if not). At current prices, we recommend not to be exposed to the stock until the rights issue in 2020 since we expect that it will have a negative impact on the price of the stock.

However afterwards we see a huge potential in the bank with a higher upside and would recommend to buy the stock after the slump by the announcement.

Over the forecast horizon (2020-2024), we project financing growth at a 5-year CAGR of 22%, deposits at 18%, and treasury investments at 9% so that LDR ratio reaches 91% by 2024, don from 73% in 2019e. We estimate margins to decline in 2020 on the back of the projected reduction in rates and competition against banks for growth, to drop from 6.5% in 2019e to 6.1% in 2024. Non-funded income is expected to grow at a CAGR of 17% with financing growth revival to reach 20% contribution to operating income. Risk weighted Assets (RWA) would grow at a CAGR of 20% with CAR staying comfortably above the minimum required by the CBE.

ADIB is trading at P/E20 of 2.7x, and P/B20 of 0.6x, on ROAE of 25%. These multiples are considerably below Egypt's sector average of P/E20 of 3.9x, and P/B20 of 0.8x.

Shareholders' structure



Upside Triggers

- Resolving capital increase case
- Higher than expected cheap deposits accumulation
- Faster than expected pick up in non-funded income
- Faster than expected pick up in financing growth
- Positive impact on margins from retail financing would reduce pressure on NIM
- Lower COR, driven by higher asset quality
- Less than expected deduction from bottom line by the new tax law

Downside Triggers

- Dilution of ownership
- Margin compression that is higher than projections
- Slower than estimated growth in non-funded income
- More than expected deterioration in asset quality resulting from SME financing
- Slower economic recovery which hinders financing growth for both corporate and retail sectors
- More strict CBE regulations on the banking sector that might pressure profitability
- Slower than estimated growth in lending portfolio

1. ADIB Balance sheet| Efficient asset allocation; CAR jumps due to capital increase in 2020

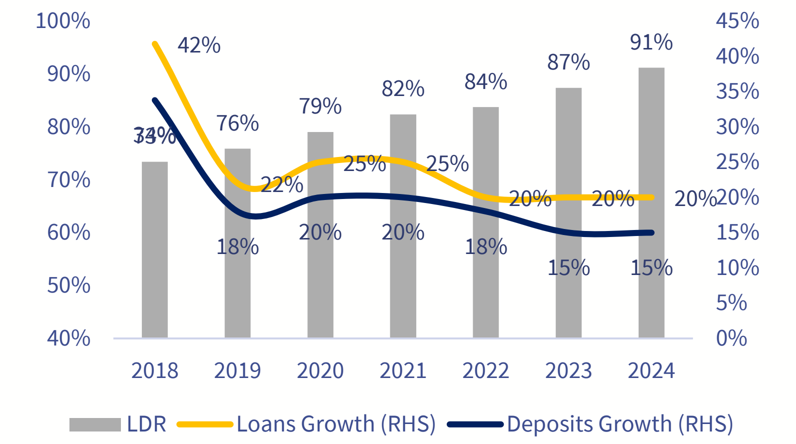
- We project financing to grow at a CAGR of 22% over our forecast horizon (2020-2024) to reach EGP96 billion in 2024, out-pacing the rate of treasury investment, which will grow at a CAGR of 9% over the same period and reaches EGP25 billion in 2024.

- On the funding side, we expect customer deposits to increase at a CAGR of 18%, over our forecast horizon, to reach EGP106 billion by 2024. LDR will keep increasing to stand at 91% in 2024.

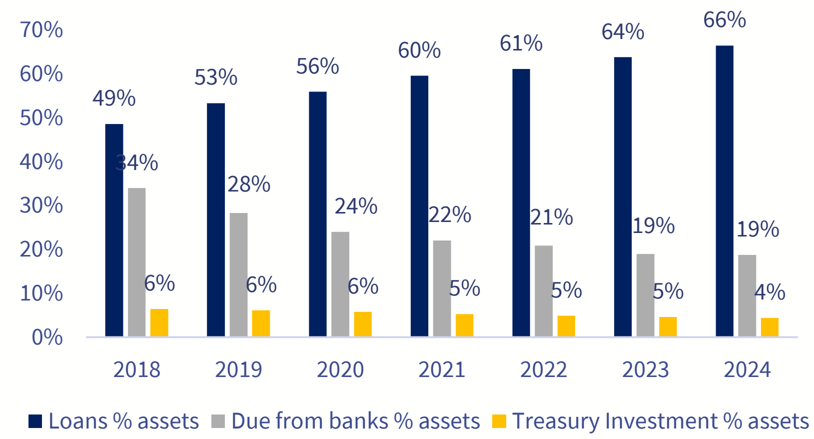
- We project NPLs to grow at a CAGR of 19% over 2020-2024 with a declining NPL ratio reaching 2.4% by the end of our forecast horizon, and a stable provision coverage recording 119% in 2024. We estimate Cost of Risk (COR) will stabilize at 0.5% over the whole forecast period.

- CAR is anticipated to record 13.7% in 2019e - above the CBE minimum requirement of 12.5% - and to jump in 2020 post capital increase to stand at 19.5% in 2024.

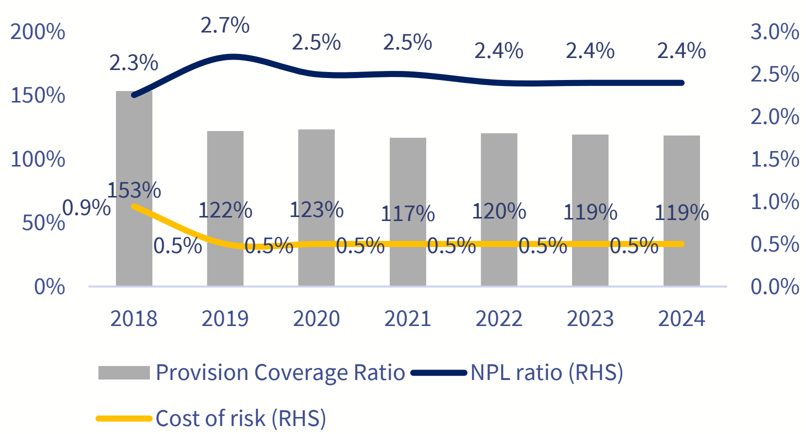
Financing and deposits grow at a CAGR of 22% and 18%, respectively over 2020-2024; LDR reaches 91% in 2024



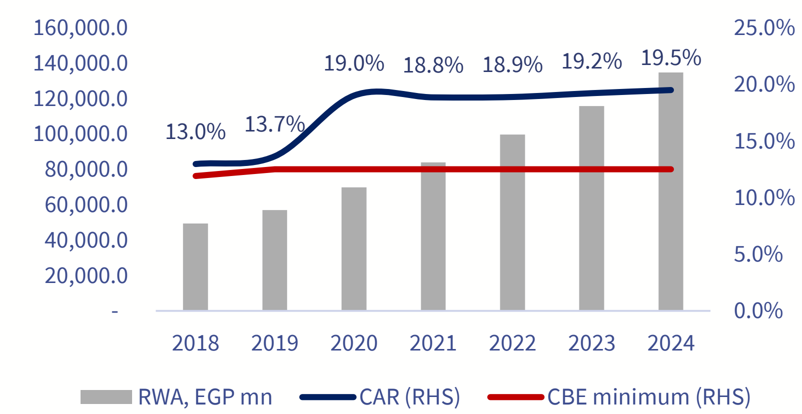
Treasury investment to total assets is expected to fall off and stand at 19% in 2024



NPL ratio reaches 2.4% in 2024; COR stabilizes at 0.5% over our forecast horizon



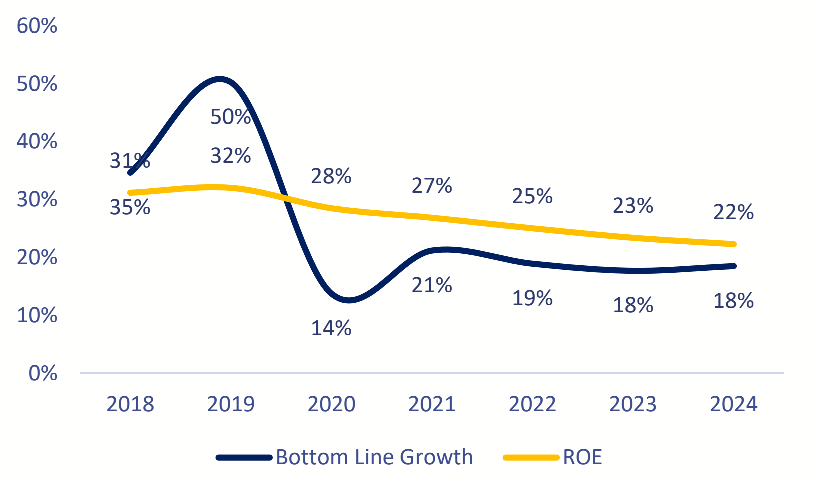
CAR's average is 18.3% over our forecast horizon, significantly above the CBE minimum



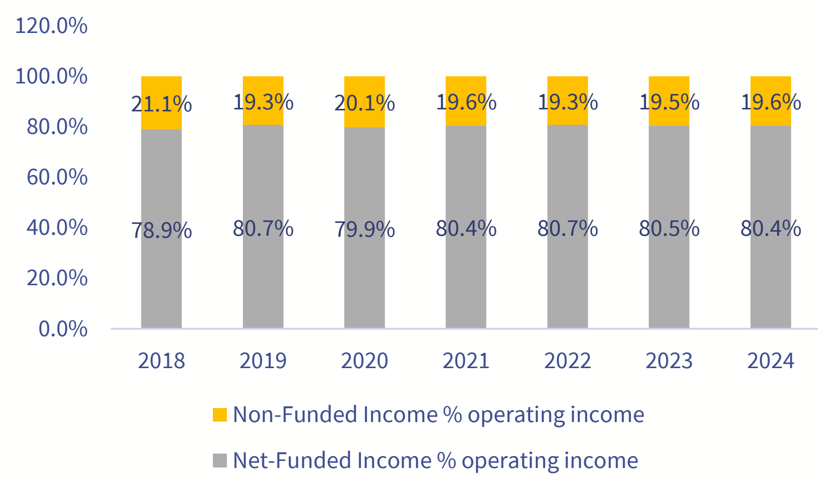
2. ADIB Income statement| Sustainable profitability; margins to normalize amid rate cuts

- Bottom line to grow, according to our estimates, at a strong CAGR of 18% over 2020-2024, with a normalization of ROE. Non-funded income is forecasted to stabilize, hovering around 19.5%, until it reaches 19.6% in 2024.
- ADIB records a relatively high NFM compared to peers of 6.5% in 2019e. However, we estimate the bank will start to shift from treasury allocation to financing post the new tax law and meaningful rate cuts, and thus NFM will level off starting 2020 to reach 6.1% by the end of our forecast period.
- ADIB's cost to income ratio records 45% in 2019e. We project the bank's opex to grow at a CAGR of 16% and operating income at a CAGR of 17%. Cost to income ratio to improve gradually over our forecast horizon to stand at 44% in 2024.

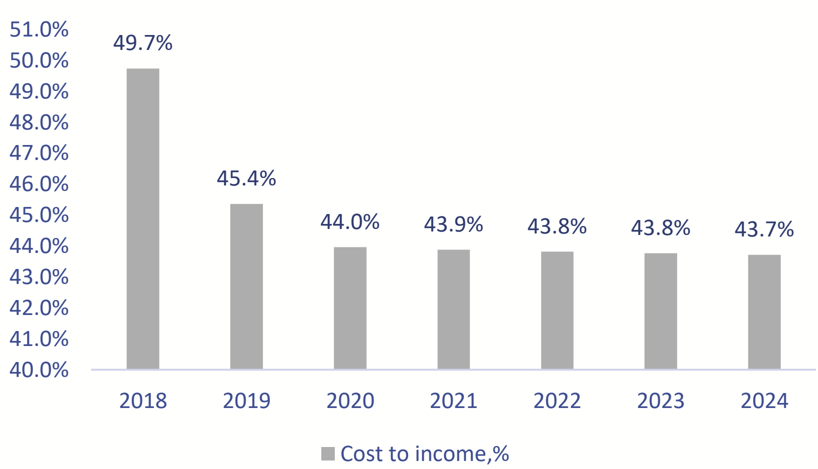
Strong bottom line growth at a CAGR of 18%; ROE records an average of 23% (2020-2024)



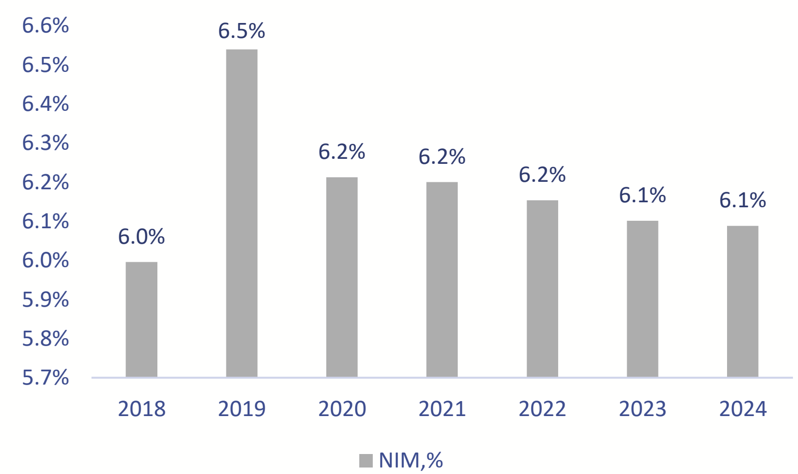
Non-funded income contribution to total operating income to hover around 19% over our forecast horizon



Cost to income ratio is expected to improve to record at 43.7% over the forecast horizon



NIM to level off amid rate cut, to record 6.1% by 2024



3. ADIB After new reforms| effective tax rates shielded from regulatory changes; Paid-in capital is safe post capital increase in 2020

- Average effective tax rate over our forecast horizon is 30.7% up from an average of 30.1% (excluding deferred taxes) over 2016-2019.

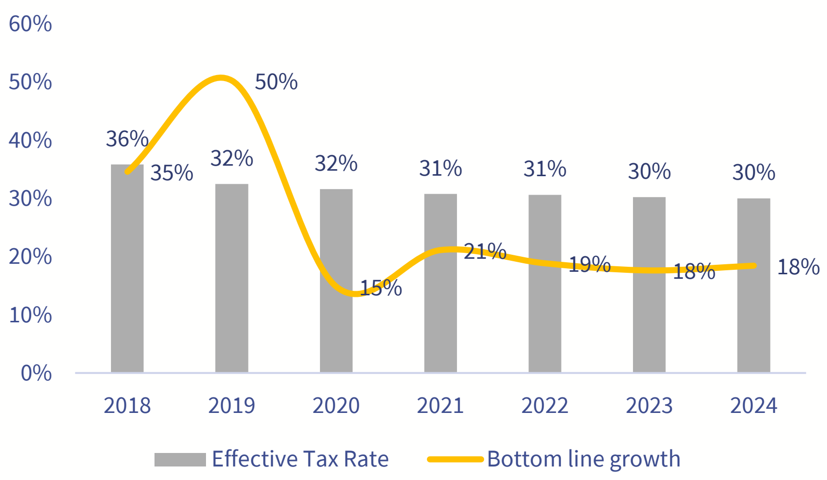
- ADIB's average cost ratio, as per proposed Ministry of Finance definition, over 2020-2024 records 73%.

	2020	2021
+Interest Exp	(4,356)	(5,247)
+Admin Exp	(1,802)	(2,161)
+Other op Exp	(40)	(44)
÷		
+Interest Income	7,702	9,288
+Non-interest income	844	985
Cost Ratio	**73%**	**73%**

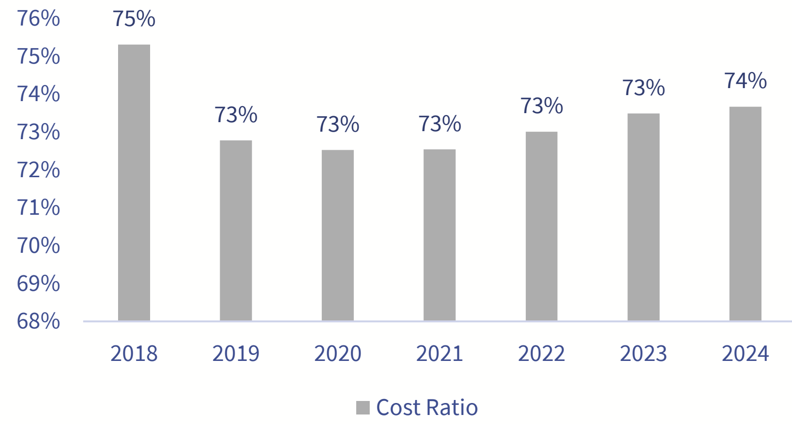
- We segmented the bank's income statement into two, based on the MoF executive regulations, which splits expenses based on a given calculation for the cost ratio. We then taxed funded income from treasury operations at 20% and net earnings from corporate banking operations at 22.5%. Net earnings from banking operations are allocated only a portion of the expenses, based on the cost ratio noted before

- ADIB's paid-in capital will reach the CBE minimum requirement 2020 post planned capital increase.

Average effective tax rate records an average of 31% (2020-2024)



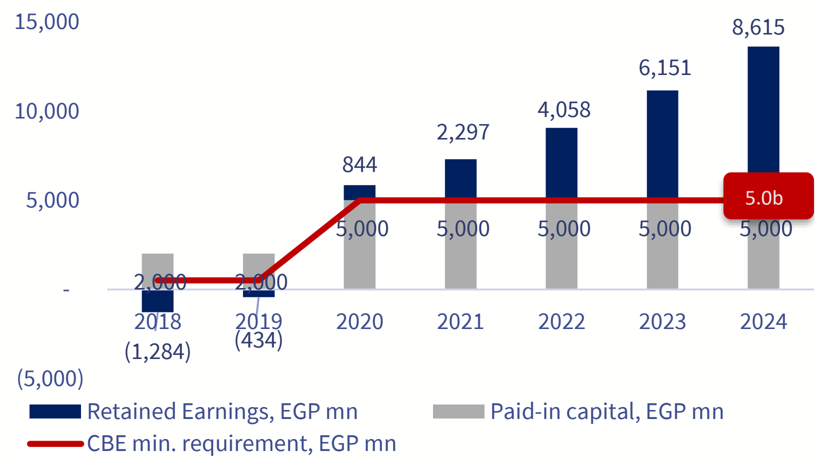
Cost ratio records an average of 73% over 2020-2024



Segregated statements based on new tax law

	2019	2020	2021	2022	2023	2024
Interest on new Treasuries	1,783	1,860	2,017	2,332	2,579	2,953
Expenses on Treasury	(1,038)	(1,079)	(1,171)	(1,362)	(1,517)	(1,740)
EBT- Treasury	**745**	**781**	**847**	**970**	**1,063**	**1,213**
T.bill Tax	**(357)**	**(372)**	**(403)**	**(466)**	**(516)**	**(591)**
Interest Income-Banking	5,041	5,842	7,271	8,950	10,903	13,110
Total Expenses -Banking	(4,618)	(5,319)	(6,533)	(8,022)	(9,763)	(11,727)
Non-Interest Income	725	844	985	1,151	1,365	1,618
EBT-Banking	**1,148**	**1,367**	**1,723**	**2,079**	**2,505**	**3,001**
Corporate tax	**(258)**	**(307)**	**(388)**	**(468)**	**(564)**	**(675)**
Total EBT	**1,893**	**2,147**	**2,570**	**3,049**	**3,568**	**4,214**
Total Income Tax	**615**	**679**	**791**	**934**	**1,079**	**1,266**
Effective Tax Rate	**32%**	**32%**	**31%**	**31%**	**30%**	**30%**

ADIB's paid-in capital will reach the CBE's minimum requirement after capital increase in 2020



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4. ADIB| Financial Statements and Valuation

	2018	2019	2020	2021	2022	2023	2024
Income Statement in EGP million							
Net interest Income	2,496	3,036	3,346	4,041	4,821	5,634	6,653
Non-interest Income	609	725	844	985	1,151	1,365	1,618
Operating Income	3,105	3,761	4,190	5,027	5,973	6,999	8,272
Provisions	(235)	(162)	(201)	(251)	(307)	(368)	(442)
Operating Expenses	(1,544)	(1,706)	(1,842)	(2,206)	(2,617)	(3,063)	(3,616)
Net profit before tax	1,325	1,893	2,147	2,570	3,049	3,568	4,214
Net profit after tax	850	1,278	1,453	1,761	2,093	2,463	2,919
Balance Sheet in EGP million							
Cash & Due from Central Bank	2,656	3,915	6,882	8,916	12,825	14,978	17,131
Due from Banks	3,191	3,510	4,036	4,440	4,884	5,372	5,909
Treasury bills	9,746	9,678	10,086	11,094	13,514	14,278	16,431
Loans & Discounts, net	23,797	30,383	39,109	50,016	60,868	73,890	89,516
Total Assets	49,406	56,953	69,913	83,944	99,617	115,805	134,645
Due to Banks	2,464	493	739	961	1,153	1,384	1,661
Customer Deposits	39,889	47,069	56,483	67,779	79,979	91,976	105,773
Total Liabilities	46,242	52,944	63,473	76,033	89,924	103,994	120,341
Total Net Worth	3,164	4,009	6,440	7,911	9,693	11,811	14,304
Key Indicators							
NIM	6.0%	6.5%	6.2%	6.2%	6.2%	6.1%	6.1%
OPEX-to-assets	3.6%	3.2%	2.9%	2.9%	2.9%	2.8%	2.9%
Non-Interest Income/Op Income	19.6%	19.3%	20.1%	19.6%	19.3%	19.5%	19.6%
Cost-to-Income	49.7%	45.4%	44.0%	43.9%	43.8%	43.8%	43.7%
COR	0.9%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Annualized ROAE	31.2%	32.0%	25.0%	22.1%	21.4%	20.6%	20.1%
Annualized ROAA	2.0%	2.2%	2.1%	2.1%	2.1%	2.1%	2.1%
CAR	13.0%	13.7%	19.0%	18.8%	18.9%	19.2%	19.5%
Treasury Exposure	34.0%	28.3%	24.0%	22.0%	20.9%	19.0%	18.8%
Loans-to-Deposits	73.4%	75.9%	79.0%	82.3%	83.7%	87.3%	91.1%
NPL Ratio	2.3%	2.7%	2.5%	2.5%	2.4%	2.4%	2.4%
Provisions Coverage	153.4%	122.0%	123.4%	116.7%	120.4%	119.4%	118.6%

	2019	2020	2021	2022	2023	2024	TV
Trading Multiples							
EPS, EGP	2.30	2.61	3.17	3.76	4.43	5.25	
P/E x	3.10	2.73	2.25	1.89	1.61	1.36	
BVPS, EGP	7.98	12.82	15.72	19.24	23.43	28.36	
P/B, x	0.89	0.56	0.45	0.37	0.30	0.25	
DPS, EGP	-	-	-	-	-	-	
DY	-	-	-	-	-	-	
Implied P/E, x	5.55	4.88	4.03	3.39	2.88	2.43	
Implied P/B, x	1.60	0.99	0.81	0.66	0.54	0.45	
Cost of Equity Assumptions							
Risk Free Rate (After Tax)		12.0%	10.4%	10.4%	10.0%	10.0%	
Risk Premium		6.0%	6.0%	5.0%	5.0%	5.0%	
Beta		100.0%	100.0%	100.0%	100.0%	100.0%	
Cost of Equity		18.0%	16.4%	15.4%	15.0%	15.0%	15.0%
Terminal Growth Rate							5.0%
Valuation							
Net Attributable Income		1,306	1,583	1,882	2,215	2,624	
+Non cash Items (Depreciation)		127	143	142	131	142	
Minus: Capital Charge		(736)	(1,315)	(1,522)	(1,645)	(1,934)	
Cash Flow to Shareholders		698	411	501	700	831	
PV of FCFF		591	303	326	400	413	
Sum of PV		2,035					
Terminal Value		8,730					
Discounted Terminal Value		4,340					
Valuation		**6,375**					
Number of Shares		**500**					
FV/Share, EGP		**12.75**					

X. Suez Canal Bank (CANA) Underweight | Capital increase needed to reach CBE minimum capital requirement

Trading Data

Reuters / Bloomberg:	CANA.CA/CANA EY
Market Cap, EGP m:	1,386.00
52W H-L, EGP/Share:	9.16 – 6.23
Last Price, EGP/Share:	6.93
Fair Value, EGP/Share:	6.00
52W ADTV, EGP m:	0.28
Valuation Gap:	-13%
Shares Outstanding, m:	200

Pitch

CANA has managed to reverse its fortune after years of zero bottom line to cover the gap between non-performing loans and provisions. The year of positive surprise was 2017, when the bank started to book profits. Bottom line growth is expected to weaken in the next two years, mainly due to the negative effect of the new tax law.

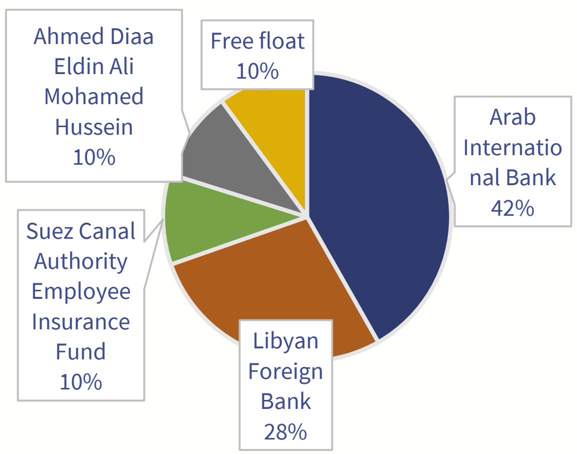
CANA will face difficulties to abide by the new CBE minimum capital requirement, since we expect that paid-in capital and retained earnings lie below EGP5.0 bn in 2022, which will require the bank to increase capital before 2021 end.

Over the forecast horizon (2020-2024), we project lending growth at a 5-year CAGR of 18%, deposits at 15%, and treasury investments at 0% so that LDR ratio reaches 49% in 2024, up from 44% in 2019e.

We assume that lending would gradually start substituting treasury investments in 2020 after meaningful rate cuts. We estimate margins to level off on the back of the projected reduction in rates and competition against banks for growth, to reach 2.5% in 2024, down from 2.8% in 2019e. Non-interest income is expected to grow at a CAGR of 9% to reach 31% contribution to operating income. Risk weighted Assets (RWA) to grow at a CAGR of 13% with Capital Adequacy Ratio (CAR) above CBE min over the our forecast horizon.

CANA is trading at P/E20 of 3.1x, and P/B20 of 0.4x, on ROAE of 14.0%. These multiples are below Egypt's sector average of P/E20 of 3.9x, and P/B20 of 0.8x.

Shareholders' structure



Upside Triggers

- Higher than expected cheap deposits accumulation
- Positive impact on margins from retail lending would reduce pressure on NIM
- Faster than expected pick up in non-interest income
- Faster than expected pick up in lending growth
- Lower COR, driven by higher asset quality
- Less than expected deduction from bottom line by the new tax law

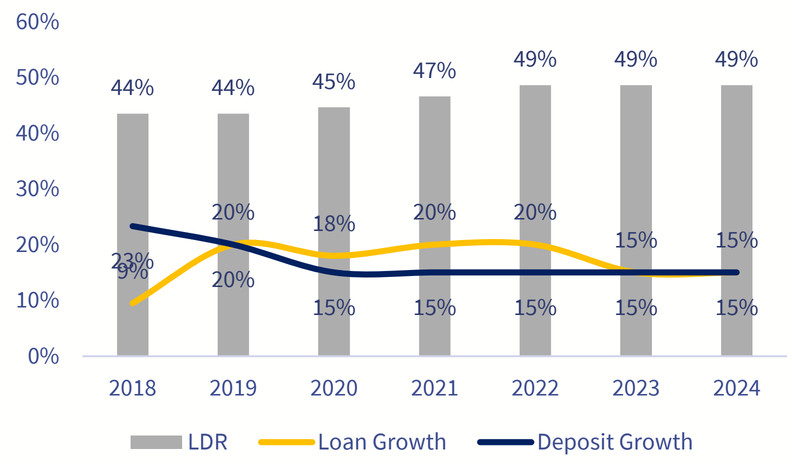
Downside Triggers

- Margin compression that is higher than projections
- Slower than estimated growth in non-interest income
- More than expected deterioration in asset quality resulting from SME financing
- Slower economic recovery which hinders lending growth for both corporate and retail sectors
- Slower than estimated growth in lending portfolio

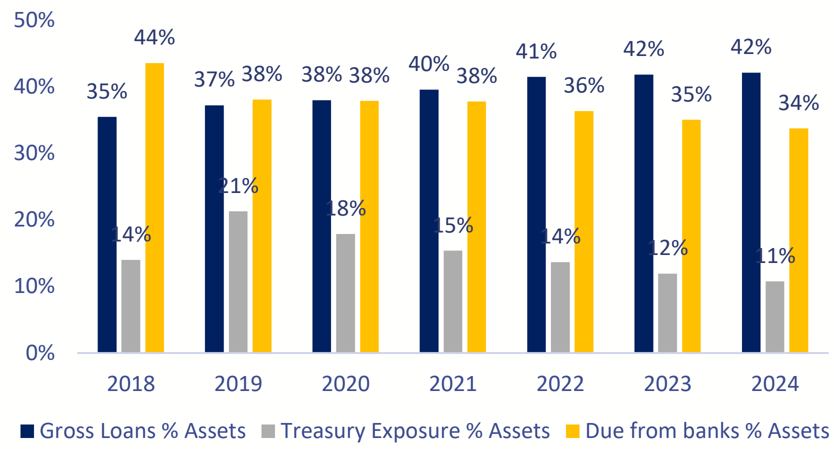
1. CANA Balance sheet| Asset quality below industry average

- We project lending would grow at a CAGR of 18% over our forecast horizon (2020-2024) to reach EGP45 billion in 2024, out-pacing the rate of treasury investment, which will stabilize over the same period and reaches EGP12 billion in 2024.
- On the funding side, we expect customer deposits to increase at a CAGR of 15%, over our forecast horizon, to reach EGP93 billion by 2024. LDR escalates to stand at 49% in 2024.
- We project NPLs to grow at a CAGR of 13% over 2020-2024 with a falling NPL ratio to stand at 12.5% in 2024, and a declining provision coverage recording 73% in 2024. We estimate a stable Cost of Risk (COR) of 0.7% over the forecast period.
- CAR is anticipated to record 14.5% in 2019e - above the CBE minimum requirement of 12.5%. CAR has significantly improved after the EGP300 mn subordinated loans in 2019, and is expected to stay secured above the CBE minimum requirement.

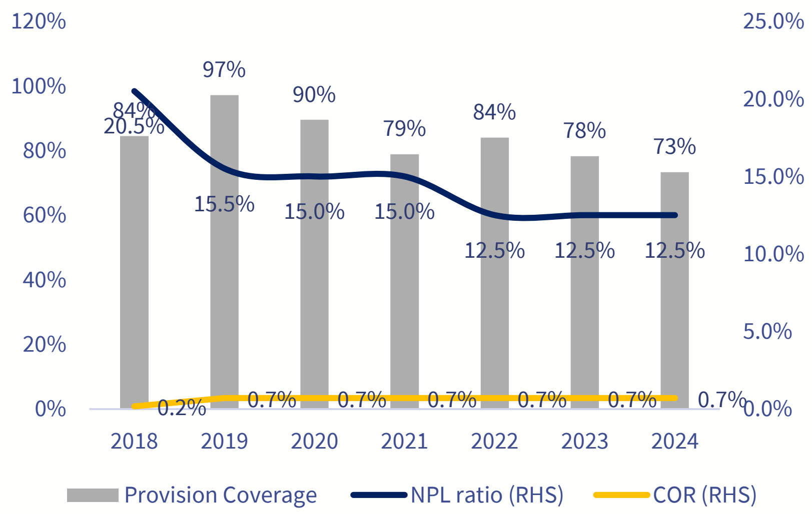
Loans and deposits to grow at 2020-2024 CAGR of 18% and 15%, respectively; LDR reaches 49% in 2024



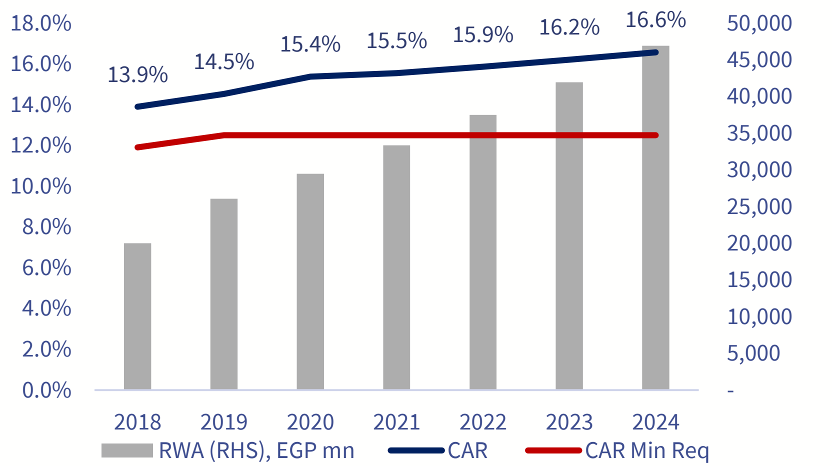
Treasury exposure to total assets is expected to decline over our forecast horizon and lending to pick up



NPL ratio reaches 12.5% in 2024; COR stabilizes at 0.7% over our forecast horizon



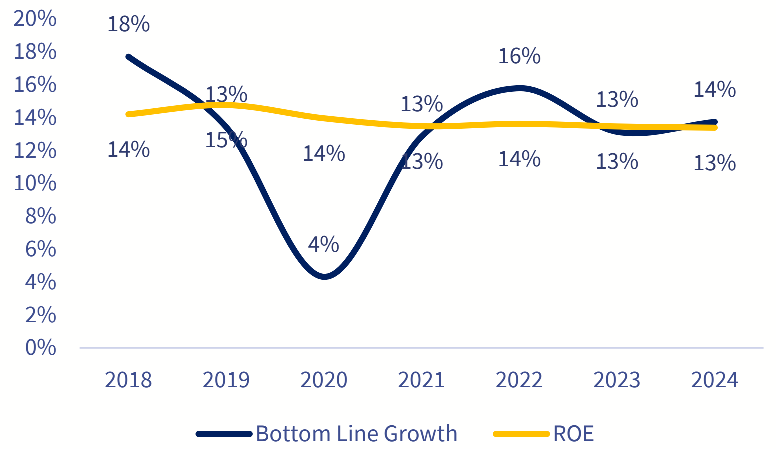
CANA's CAR average over our forecast horizon is 16%, comfortably over CBE minimum requirement



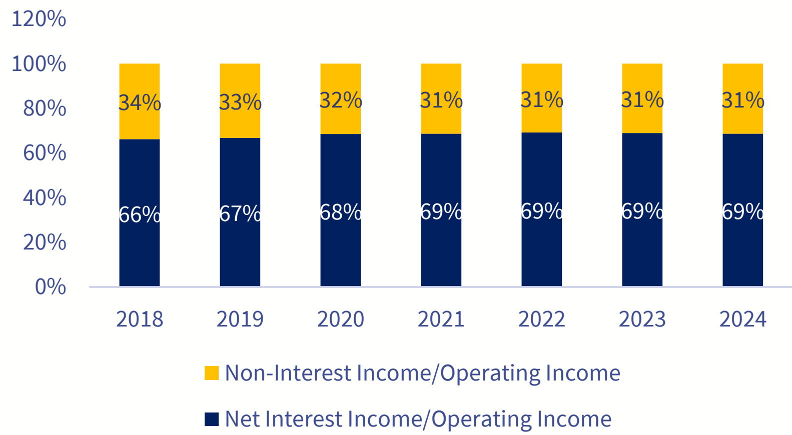
2. CANA Income statement| Weak margins amid rate cuts; Low efficiency

- According to our estimates, bottom line would grow at a CAGR of 12% over 2020-2024, with a stable ROE. Non-interest income is forecasted to stabilize over our forecast horizon at 31%.
- We anticipate that the bank will record a NIM of 2.8% in 2019e. However, we estimate margins will level off starting 2020 to reach 2.5% by then of our forecast period.
- CANA'S cost to income ratio records 47% in 2019e. We project the bank's opex to grow at a CAGR of 10% and operating income at a CAGR of 10%; therefore, cost to income ratio will fluctuate around 47% over our forecast horizon.

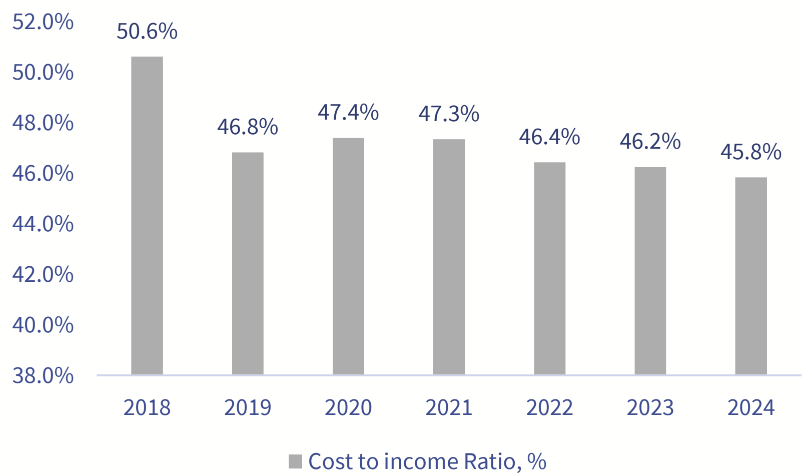
Bottom line to grow at a CAGR of 12%; ROE records an average of 14% (2020-2024)



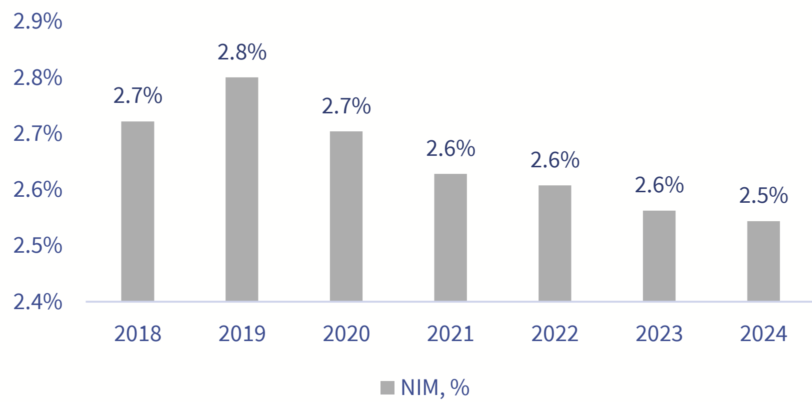
Non-interest income contribution to total operating income to stabilize at 31% over our forecast horizon



Cost to income ratio is expected to minimally improve and reach 46% by 2023, down from 47% in 2019e



NIM is expected to decline amid rate cuts to reach 2.5% in 2024



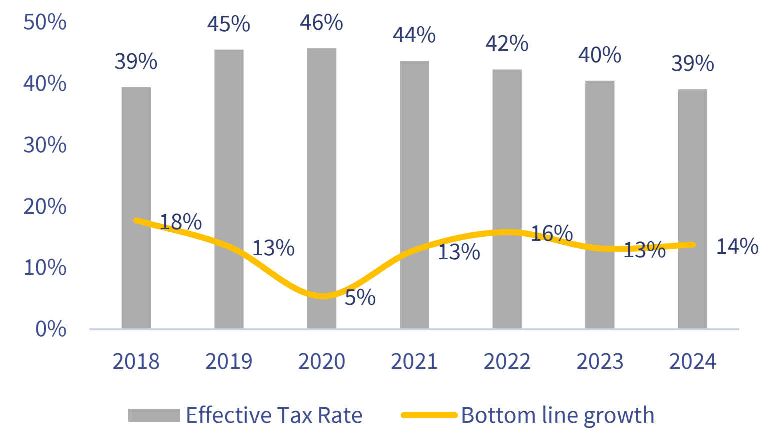
3. CANA New reforms| Capital increase is needed before three years to reach the CBE minimum requirement

- Average effective tax rate over our forecast horizon is 42%. The significant effect will hit bottom line in 2020.
- CANA's average cost ratio, as per proposed Ministry of Finance definition, over 2020-2024 records 83%.

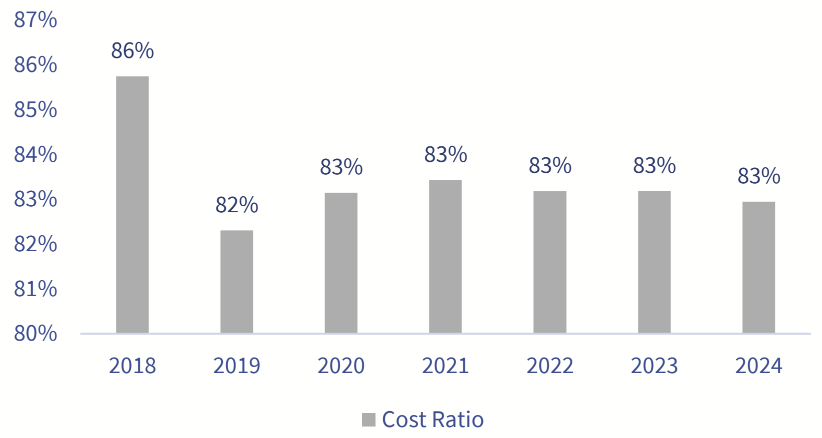
	2020	2021
+Interest Exp	(4,339)	(4,907)
+Admin Exp	(970)	(1,067)
÷		
+Interest Income	5,740	6,454
+Non-interest income	646	706
Cost Ratio	**83%**	**83%**

- We segmented the bank's income statement into two, based on the MoF executive regulations, which splits expenses based on a given calculation for the cost ratio. We then taxed interest income from treasury operations at 20% and net earnings from corporate banking operations at 22.5%. Net earnings from banking operations are allocated only a portion of the expenses, based on the cost ratio noted before.
- CANA will not be able to reach a paid-in capital of EGP5.0 bn in the next three years, and thus we assume that the bank will need a capital increase in order to abide by the new CBE minimum requirement.

Bottom line growth is affected negatively by the new tax law; average effective tax rate of 42% (2020-2024)



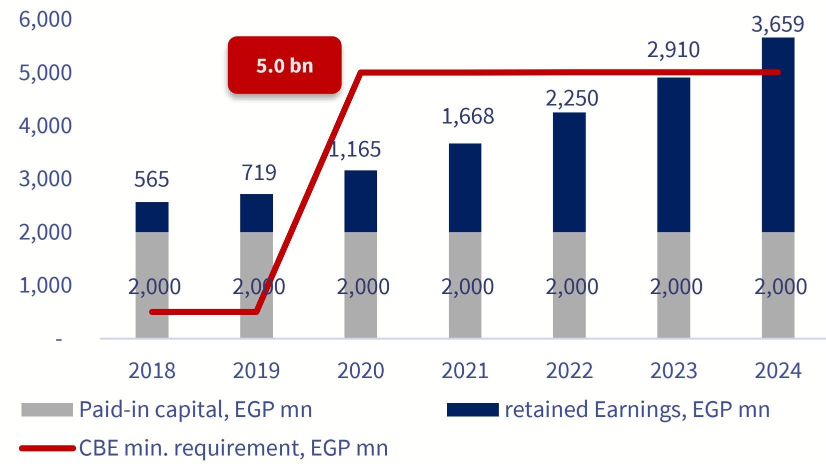
Cost Ratio records an average of 83% (2020-2024)



Segregated statements based on new tax law

	2020	2021	2022	2023	2024
Interest on new Treasuries	1,322	1,307	1,384	1,374	1,415
Expenses on Treasury	(1,099)	(1,090)	(1,151)	(1,143)	(1,174)
EBT- Treasury	**223**	**217**	**233**	**231**	**241**
T.bill Tax	**(264)**	**(261)**	**(277)**	**(275)**	**(283)**
Interest Income-Banking	4,418	5,147	5,886	6,683	7,454
Total Expenses -Banking	(4,364)	(5,067)	(5,764)	(6,537)	(7,284)
Non-Interest Income	646	706	778	865	970
EBT-Banking	**700**	**787**	**901**	**1,011**	**1,140**
Corporate tax	**(157)**	**(177)**	**(203)**	**(228)**	**(256)**
Total EBT	**922**	**1,003**	**1,134**	**1,242**	**1,381**
Total Income Tax	**(422)**	**(438)**	**(480)**	**(502)**	**(539)**
Effective Tax Rate	**46%**	**44%**	**42%**	**40%**	**39%**

CANA needs a capital increase before 2022 to reach the CBE minimum requirement



5. CANA| Financial Statements and Valuation

	2018	2019	2020	2021	2022	2023	2024
Income Statement in EGP million							
Net interest Income	963	1,258	1,400	1,547	1,749	1,926	2,128
Non-interest Income	490	625	646	706	778	865	970
Operating Income	718	1,001	1,076	1,187	1,354	1,500	1,678
Provisions	(27)	(130)	(154)	(183)	(220)	(258)	(297)
Operating Expenses	(735)	(882)	(970)	(1,067)	(1,173)	(1,291)	(1,420)
Net profit before tax	691	872	922	1,003	1,134	1,242	1,381
Net profit after tax	419	475	495	559	647	732	833
Balance Sheet in EGP million							
Cash & Due from Central Bank	3,226	2,864	4,612	5,769	7,546	11,055	14,976
Due from Banks	20,648	20,648	23,745	27,307	30,038	33,042	36,346
Treasury bills	3,842	6,350	6,163	6,102	6,215	6,175	6,379
Loans & Discounts, net	13,498	16,624	20,104	24,684	30,181	35,068	40,689
Total Assets	47,410	54,250	62,706	72,263	82,718	94,376	107,737
Due to Banks	5,067	4,054	4,864	5,837	6,421	6,742	7,079
Customer Deposits	38,636	46,363	53,318	61,315	70,513	81,090	93,253
Total Liabilities	44,526	51,342	59,222	68,276	78,148	89,147	101,759
Total Net Worth	2,884	2,908	3,484	3,987	4,570	5,229	5,979
Key Indicators							
NIM	2.7%	2.8%	2.7%	2.6%	2.6%	2.6%	2.5%
OPEX-to-assets	1.7%	1.7%	1.7%	1.6%	1.5%	1.5%	1.4%
Non-Interest Income/Op Income	33.7%	33.2%	31.6%	31.3%	30.8%	31.0%	31.3%
Cost-to-Income	50.6%	46.8%	47.4%	47.3%	46.4%	46.2%	45.8%
COR	0.2%	0.6%	0.6%	0.6%	0.6%	0.7%	0.7%
Annualized ROAE	14.2%	14.8%	14.0%	13.5%	13.6%	13.5%	13.4%
Annualized ROAA	0.9%	0.8%	0.8%	0.7%	0.8%	0.7%	0.7%
CAR	13.9%	14.5%	15.4%	15.5%	15.9%	16.2%	16.6%
Treasury Exposure	14.0%	21.3%	17.9%	15.4%	13.7%	11.9%	10.8%
Loans-to-Deposits	43.5%	43.5%	44.7%	46.6%	48.6%	48.6%	48.6%
NPL Ratio	20.5%	15.5%	15.0%	15.0%	12.5%	12.5%	12.5%
Provisions Coverage	84.5%	97.2%	89.5%	78.9%	84.0%	78.3%	73.3%

	2019	2020	2021	2022	2023	2024	
Multiples							
EPS, EGP	2.14	2.23	2.52	2.91	3.30	3.75	
P/E x	3.2	3.1	2.8	2.4	2.1	1.8	
BVPS, EGP	14.54	17.42	19.94	22.74	25.89	29.45	
P/B, x	0.5	0.4	0.3	0.3	0.3	0.2	
DPS, EGP	-	-	-	-	-	-	
DY	-	-	-	-	-	-	
Implied P/E, x	2.8	2.7	2.4	2.1	1.8	1.6	
Implied P/B, x	0.4	0.3	0.3	0.3	0.2	0.2	
Cost of Equity Assumptions							**TV**
Risk Free Rate (After Tax)		12.0%	10.4%	10.4%	10.0%	10.0%	
Risk Premium		6.0%	6.0%	5.0%	5.0%	5.0%	
Beta		1.00	1.00	1.00	1.00	1.00	
Cost of Equity		18.0%	16.4%	15.4%	15.0%	15.0%	15.0%
Terminal Growth Rate							5.0%
Valuation							
Net Astttributable Income		446	503	583	659	750	
+Non cash Items (Depreciation)		30	33	37	39	40	
Minus: Capital Charge		(429)	(485)	(515)	(560)	(620)	
Cash Flow to Shareholders		47	52	104	138	170	
PV of FCFF		40	38	68	79	85	-
Sum of PV		310					
Terminal Value		1,790					
Discounted Terminal Value		890					
Valuation		**1,199**					
Number of Shares		**200**					
FV/Share, EGP		**6.00**					

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