

Commercial International Bank (CIB)

Company Note

17 August 2009



Credit Expansion Remains Challenging

- **CIB reported 2Q09 net income of EGP437 million, down 12% from 2Q08 and 7% from 1Q09. However, it is 11% above our estimates mainly due to non-interest income.**
- **We revise our FY09e earnings estimates upwards by 8.5% to EGP1.9 billion on the back of better than expected non-interest income.**
- **We reiterate our “Hold” recommendation and adjust our Target Price (TP) to EGP59.98 from EGP54.02, yielding a 13% upside potential. The stock is trading at a 16.1% discount to its implied PB multiple.**

CIB's 2Q09 net income of EGP436.5 million is down 12% from 2Q08 but 11% above our estimates. Better than expected earnings were mainly driven by higher non-interest income. Non-interest income was EGP418.5 million in 2Q09, up 5% and 9% from 1Q09 and 2Q08, respectively. It is 34% above our expectation due to a sharp increase in its foreign exchange income. We raised our non-interest income estimates for this year by 6.8% to EGP1.65 billion. We also expect fee income to increase during the rest of the year as the bank seeks to capitalize on new fee products. Since loan growth and trading activities are expected to be soft, the bank is likely to expand its fee income sources through offering new fee products across its business segments.

Net interest income of EGP464 million, however, is 6% below our expectations and down 6% from 1Q09. Loan book grew by only 1.6% from the previous quarter, reflecting the slowdown in economic activities. In 1Q09, loan book expanded by 1.3% quarterly. We would attribute part of the increase in net interest income in 2Q to changes in asset mix. Banks across the sector increased their investments in high yield government securities, given the current economic environment. Meanwhile, deposits slightly fell by 1% in 2Q QoQ, leading to an increase in loan to deposit ratio to 57% from 55% in 1Q09. Administrative expenses increased by 30% YoY to EGP310.2 million and 16% above our estimates due to the opening of a new branch as well as the addition of ATM machines to strengthen its retail base. We expect operating expenses to remain at elevated levels and as such raise our FY09e cost/income ratio assumption to 34.2% from the previous estimate of 33.8%.

CIB's asset quality remained solid during the quarter with non-performing loans to total loans (NPL ratio) at 2.8%, unchanged from 1Q09. We believe the slowdown in credit expansion will help the bank maintain its asset quality. Provisioning charges were EGP19 million, down 55% from the previous quarter. With steady bad loan recovery levels, soft loan growth and strong coverage ratio, we believe provisioning charges should remain at current levels. Coverage ratio (loan loss reserve to NPL) remained strong at 203% during 1H09, thereby allowing NPLs to increase two-fold without impacting bottom line.

We reiterate our “Hold” recommendation and adjust our TP to EGP59.98 from our earlier TP of EGP54.02 due to revision in our earnings estimates. We also reduced our risk free rate to 8.5% from 9.0% to fall in line with the central bank rate cut. Accordingly, our new DCF value is EGP59.39 and relative valuation price is EGP61.36. According to our 70:30 weighting, we arrived at a TP of EGP59.98 - providing an upside potential of 13.2%. CIB is trading at a 6.7% premium compared to Egyptian peers. The stock, however, is trading at a 16.1% discount to its implied PB of 2.09x.

Key Performance Indicators

Fiscal Year	New		Old		Consensus	
	09E	10E	09E	10E	09C	10C
NII (EGPm)	1,964.1	2,331.4	2,018.4	2,354.1	-	-
Total Income (EGPm)	3,622.1	4,205.7	3,569.5	4,116.5	-	-
Net Income (EGPm)	1,891.8	2,132.1	1,742.9	2,086.9	-	-
NIM	3.41%	3.56%	3.51%	3.59%	-	-
Gross Loans (EGPb)	30.8	34.8	30.8	34.8	-	-
Cost/Income	34.2%	32.6%	33.8%	32.4%	-	-
Gross L/D	57.0%	58.0%	56.0%	58.0%	-	-
EPS	6.5	7.3	6.0	7.1	-	-
DPS	1.02	0.91	0.94	0.89	-	-
Dividend Yield	1.92%	1.72%	1.77%	1.68%	-	-
P/E (x)	8.2	7.3	8.9	7.4	-	-
P/B (x)	2.1	1.7	2.1	1.7	-	-
ROAE	28.6%	25.6%	26.6%	25.5%	-	-
ROAA	3.1%	3.1%	2.9%	3.0%	-	-

Hold

Target Price (EGP)	59.98
Market Price (EGP)	53.0
Upside	13.17%

Listed On	EGX
Bloomberg Code	COMI EY
RIC	COMI.CA

Market Cap. (EGPm)	15,491
Market Cap. (USDm)	2,766

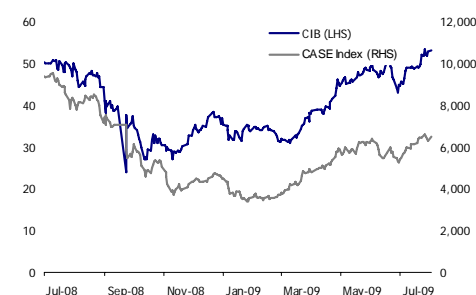
Number of Shares (m)	292.5
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Daily Turnover (EGPm)	3.6
Daily Turnover (USDm)	0.6

Ownership Structure

Ripple Woods Consortium	9.33%
Actis Private Equity	9.33%
Dubai Capital Group	5.3%
Free Float	76.0%

Price Performance Chart



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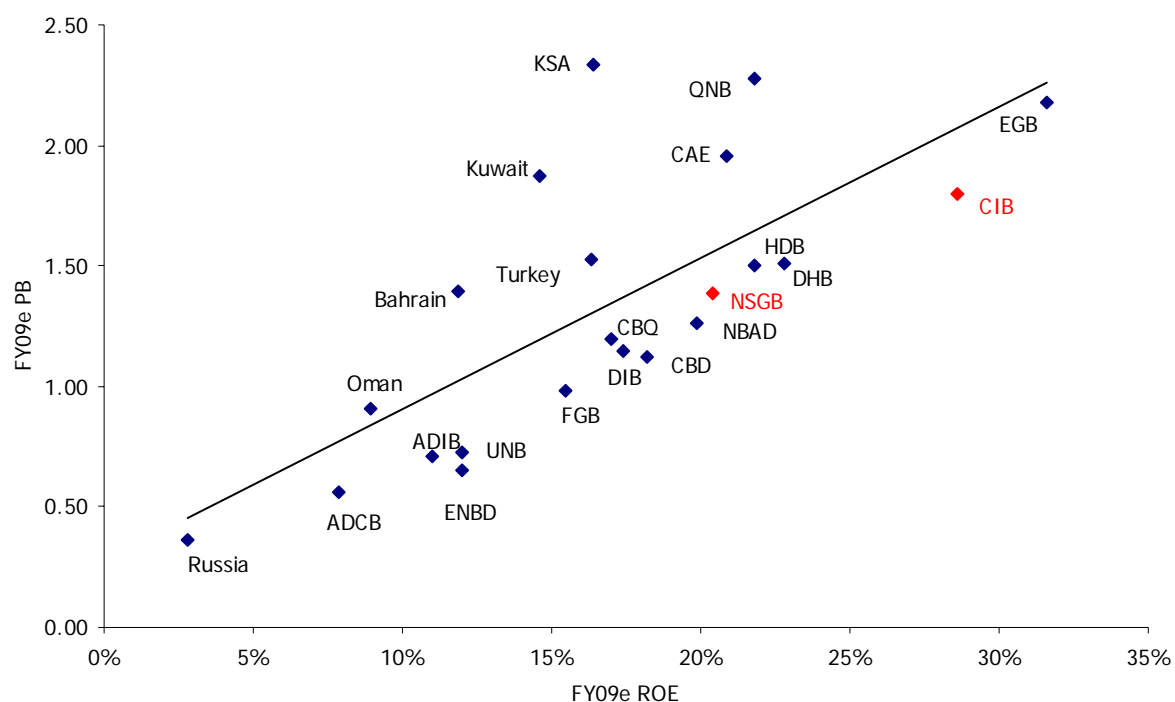
Table 1: CIB– 2Q09 Earnings vs. Our Estimates

EGP'000	2Q09	2Q08	YoY	1Q09	QoQ	2Q09F*	Surprise
Net interest income	463,774	436,418	6.27%	492,125	-5.76%	495,725	-6.45%
Non interest income	418,460	384,169	8.93%	397,858	5.18%	312,460	33.92%
Total income	882,234	820,587	7.51%	889,983	-0.87%	808,185	9.16%
Operating expenses	327,045	295,108	10.82%	298,134	9.70%	276,257	18.38%
Operating Profit	555,189	525,479	5.65%	591,849	-6.19%	531,928	4.37%
Provisions	19,234	7,997	140.50%	42,899	-55.16%	15,404	24.86%
Net income	436,549	497,325	-12.22%	471,102	-7.33%	392,549	11.21%

* HC Forecast

Source: CIB reports and HC Brokerage

Chart 1: Valuation chart: FY09E PB multiple vs. FY09E ROE



Source: Bloomberg and HC Brokerage

Financial Statements and Ratios

EGP Million	08A	09E	10E	11E	12E	13E
Income Statement						
Interest Income	3,765.2	4,257.6	4,865.4	5,578.5	6,412.1	7,359.0
Interest Expense	1,966.5	2,293.5	2,534.0	2,810.0	3,190.7	3,653.7
Net Interest Income	1,798.7	1,964.1	2,331.4	2,768.5	3,221.4	3,705.3
Fees & Commissions	747.7	695.3	799.6	919.6	1,103.5	1,324.2
FX Income	345.4	638.9	702.8	773.1	850.4	935.5
Investment Income	65.0	96.3	116.4	94.2	107.4	122.4
Other Income	326.2	227.5	255.4	225.0	242.3	260.0
Non-Interest Income	1,484.4	1,658.0	1,874.3	2,011.9	2,303.5	2,642.1
Total Income	3,283.0	3,622.1	4,205.7	4,780.4	5,524.9	6,347.3
Total Operating Expenses	1,256.1	1,237.9	1,370.6	1,517.8	1,681.1	1,862.2
Pre-Provisions Income	2,026.9	2,384.1	2,835.1	3,262.5	3,843.8	4,485.1
NPL Provisions	410.5	154.0	261.1	197.6	225.2	257.9
Associate and other income	-	-	-	-	-	-
Pre-Tax Income	1,616.4	2,230.1	2,574.0	3,065.0	3,618.6	4,227.2
Income Taxes	251.0	334.5	437.6	551.7	687.5	803.2
Net Income After Tax	1,365.4	1,895.6	2,136.4	2,513.3	2,931.0	3,424.1
Minority Interest	(5.2)	3.8	4.3	5.0	5.9	6.8
Net Income	1,370.6	1,891.8	2,132.1	2,508.3	2,925.2	3,417.2
Appropriations	292.5	297.0	266.5	253.3	251.6	249.5
Net Income	1,078.1	1,594.8	1,865.6	2,254.9	2,673.6	3,167.8
Balance Sheet						
Assets						
Cash & Due from Central Bank	16,930.0	18,031.0	26,164.9	29,655.9	33,407.5	37,943.2
Due from Banks	6,572.2	4,505.0	5,135.7	6,272.9	7,627.8	8,695.7
Investments	4,097.9	9,653.6	5,869.4	6,691.1	7,627.8	8,695.7
Gross Loans	28,007.9	30,808.7	34,813.9	39,513.7	45,045.7	51,577.3
NPL Provisions	1,677.6	1,858.1	2,157.7	2,401.5	2,680.0	3,000.8
Net Loans and Overdrafts	26,330.3	28,950.6	32,656.2	37,112.2	42,365.6	48,576.5
Other Assets	2,783.1	2,203.3	2,454.0	2,742.5	3,074.4	3,456.0
Net Fixed Assets	748.3	1,013.7	1,087.0	1,164.0	1,244.8	1,329.7
Total Assets	57,461.8	64,357.2	73,367.2	83,638.6	95,348.0	108,696.8
Liabilities						
Total Deposits	48,790.0	54,528.7	60,023.9	66,972.5	76,348.6	87,419.1
Due to Banks	229.0	1,684.3	1,117.2	1,732.0	2,032.1	2,207.2
Borrowings	109.3	106.3	124.8	124.5	166.8	199.1
Other Liabilities						
Total Liabilities	2,467.7	573.1	2,802.0	3,268.6	2,586.8	1,491.6
Shareholders' Equity	51,596.0	56,892.5	64,067.9	72,097.6	81,134.2	91,317.0



Egypt – Banks

Rating Scale

Recommendation

Buy
Hold
Sell

Upside

Greater than 25%
0-25%
Less than 0%

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