

Commercial Bank International (COMI)

Strong non-core income and increased lending supported profitability

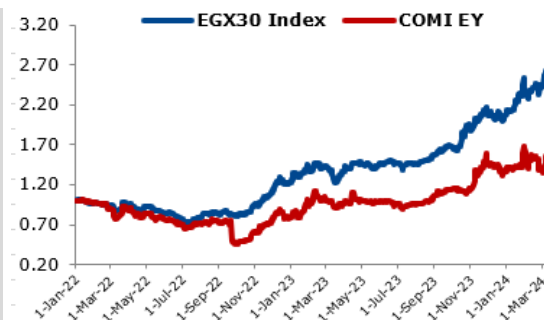
Current Price
EGP 85.30

Target Price
EGP 96.00

Upside/Downside (%)
+13%

Rating
ACCUMULATE

- Gross loan portfolio reached EGP 266 Bn in 4Q23 owing to an increase in Institutional, Business, and Retail Banking segments.
- Intuitional Banking accounted for 74% and Retail Banking accounted for 26% of the Bank's total loan book in 4Q23.
- NIM of the Bank grew 96 bps YOY to 7.6% in 4Q23. While the cost-to-income ratio improved 144 bps YOY to 21.3% in 4Q23.
- Customer deposits grew 27.4% to EGP 677 Bn with CASA deposits accounting for 55% of total customer deposits as of 4Q23.
- Asset quality improved as the NPL ratio declined from 5.1% in 3Q23 to 3.6% in 4Q23. Provision coverage also strengthened from 233% in 3Q23 to 309% in 4Q23.



4Q23 Net Profit lower than our estimate

Commercial International Bank (COMI/ the Bank) net profit grew substantially from EGP 3,951 Mn in 4Q22 to EGP 7,229 Mn in 4Q23, lower than our estimates of EGP 7,998 Mn. The growth in net profit is primarily attributable to an increase in total operating income driven by higher net funded and non-funded income partially offset by an increase in operating expenses and higher impairments.

P&L Highlights

Funded income grew substantially from EGP 16,786 Mn in 4Q22 to EGP 31,022 Mn in 4Q23 mainly due to an increase in net advances and expansion in asset yield. Net advances grew 20.0% YOY to EGP 236 Bn in 4Q23. Asset yield grew 338 bps YOY and 122 bps QOQ to 15.5% in 4Q23. Funded expenses also grew significantly from EGP 7,598 Mn in 4Q22 to EGP 15,823 Mn in 4Q23 primarily due to an increased cost of funds. The Bank's cost of funds grew 340 bps YOY and 94 bps QOQ to 9.0% in 4Q23. Resultantly, net funded income grew from EGP 9,187 Mn in 4Q22 to EGP 15,199 Mn in 4Q23. Thus, NIMs grew 96 bps YOY and 51 bps QOQ to 7.6% in 4Q23. Furthermore, fees and commission income grew strongly 64.9% YOY to EGP 1,484 Mn in 4Q23. Trading income declined significantly from EGP 1,315 Mn in 4Q22 to EGP 778 Mn in 4Q23. Other non-funded income stood negative at EGP 705 Mn in 4Q23 compared to negative EGP 1,613 Mn in 4Q22. Resultantly, the Bank's total operating income grew from EGP 9,790 Mn in 4Q22 to EGP 16,756 Mn in 4Q23. Operating expenses grew 60.3% YOY to EGP 3,574 Mn in 4Q23. However, the cost-to-income ratio improved 144 bps YOY to 21.3% in 4Q23. Impairment charges grew substantially from EGP 1,287 Mn in 4Q22 to EGP 3,053 Mn in 4Q23. While, the share of profit from associates stood negative at EGP 16 Mn in 2Q23, compared to a negative EGP 1 Mn in 4Q22.

Stock Information

Market Cap (EGP, mm)	257,563.44
Paid Up Capital (mm)	30,195.01
52 Week High	97.50
52 Week Low	47.26
3M Avg. daily value (EGP)	652,450,100

4Q23 Result Review (EGP, mm)

Total Assets	834,866
Total Liabilities	744,225
Total Equity	90,481
Total Deposits	677,237
Net Profit	7,229

Financial Ratios

Dividend Yield (12m)	0.63
Dividend Pay-out (%)	0.00
Price-Earnings Ratio(x)	6.49
Price-to-Book Ratio (x)	2.85
Book Value (EGP)	29.97
Return-on Equity (%)	49.78

Stock Performance

5 Days	-9.26%
1 Months	5.31%
3 Months	15.27%
6 Months	44.55%
1 Year	75.88%
Month to Date (MTD%)	16.69%
Quarter to Date (QTD%)	17.41%
Year to Date (YTD%)	17.41%

Tax expenses grew 22.3% YOY to EGP 2,795 Mn in 4Q23. Profit from discontinued operations recorded stood at EGP 8 Mn in 4Q23, compared to no profit/loss in 4Q22. Share to NCI grew from EGP 23 Mn in 4Q22 to EGP 31 Mn in 4Q23.

Balance Sheet Highlight

COMI's total assets grew 31.3% to EGP 835 Bn in 2023 driven by growth in cash and balances with Central Bank, loans, and advances and investments. Net advances grew 20.0% to EGP 235 Bn in 2023 driven by increased lending to the Institutional and Retail sectors. COMI's loan market share stood at 4.97% as of August 2023. Customer deposits grew 27.4% to EGP 677 Bn in 2023. The Bank's deposit market share stood at 6.81% as of August 2023. The loan-to-deposit ratio grew from 38.2% in 3Q23 to 39.5% in 4Q23. The Bank's total equity grew 32.6% to EGP 91 Bn in 2023.

Target Price and Rating

We assign an ACCUMULATE rating on COMI with a revised target price of EGP 96.00. The Bank reported strong growth in profitability driven by growth in net advances and an increase in non-core income. COMI's gross loan portfolio grew 21.2% to EGP 266 Bn in 2023 due to increased Institutional, Business, and Retail Banking segments. Institutional banking accounted for 74% and Retail banking accounted for 26% of the Bank's total loan book in 4Q23. The Bank further focuses on enhancing its lending within its Institutional lending to both large and medium-sized corporations, as well as expanding its involvement in project financing, treasury operations, and capital markets. Whereas for the Retail lending sector, it focuses on providing business banking to SMEs. Furthermore, the NIMs of the Bank grew by 96 bps YOY and 51 bps QOQ to 7.6% in 4Q23. Customer deposits grew 27.4% to EGP 677 Bn with CASA deposit accounting for 55% of total customer deposits as of 4Q23. COMI maintained a high quality of funding as its total customer deposits accounted for 91.0% of total liabilities as of 2023. The Bank's cost-to-income improved 144 bps YOY to 21.3% in 4Q23. Furthermore, the Bank's asset quality improved as the NPL ratio declined from 5.1% in 3Q23 to 3.6% in 4Q23. Provision coverage also rose from 233% in 3Q23 to 309% in 4Q23 which will help the Bank to keep a buffer against bad loans going forward. COMI also maintained a healthy capitalization with a total CAR ratio of 26.2% in 4Q23. Despite all the positives, the current macroeconomic challenges prevailing in Egypt may hamper the Bank's operation going forward. Thus, based on our analysis we assign an ACCUMULATE rating on the stock.

COMI - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PB	3.36	2.93	2.53	4.27	3.24	2.13
PE	14.78	17.03	13.14	17.95	9.88	6.65
Dividend yield	1.1%	NA	1.5%	0.6%	1.3%	2.0%

FABS Estimates & Co Data

COMI – P&L

EGP mm	4Q22	3Q23	4Q23	4Q23F	VAR	YOY Ch	QOQ Ch	2022	2023	Change
Funded income	16,786	27,891	31,022	31,875	-2.7%	84.8%	11.2%	55,724	104,028	86.7%
Funded expense	-7,598	-14,054	-15,823	-15,425	2.6%	108.2%	12.6%	-24,719	-51,099	106.7%
Net funded income	9,187	13,838	15,199	16,450	-7.6%	65.4%	9.8%	31,005	52,930	70.7%
Fees and commissions	900	1,400	1,484	1,492	-0.5%	64.9%	6.0%	3,078	5,438	76.7%
Trading gain/(loss)	1,315	830	778	726	7.1%	-40.9%	-6.3%	2,750	3,943	43.4%
Other non-funded inc	-1,613	-2,177	-705	-893	-21.1%	-56.3%	-67.6%	-3,866	-6,135	58.7%
Non-funded income	603	53	1,558	1,325	17.5%	158.4%	2819.4%	1,962	3,246	65.4%
Operating income	9,790	13,891	16,756	17,775	-5.7%	71.2%	20.6%	32,967	56,176	70.4%
Operating expenses	-2,230	-2,205	-3,574	-3,479	2.7%	60.3%	62.1%	-7,372	-10,076	36.7%
Pre-provision profit	7,560	11,686	13,182	14,296	-7.8%	74.4%	12.8%	25,596	46,100	80.1%
Impairment (charge)	-1,287	-34	-3,053	-2,879	6.1%	137.3%	NM	-1,585	-4,270	169.4%
Share of profits assoc	-1	-13	-16	-17	-3.0%	NM	28.3%	-18	-56	216.6%
PBT	6,259	11,610	10,047	11,400	-11.9%	60.5%	-13.5%	23,941	41,653	74.0%
Tax	-2,286	-3,257	-2,795	-3,374	-17.2%	22.3%	-14.2%	-7,769	-11,942	53.7%
Profit before NCI	3,973	8,353	7,252	8,026	-9.6%	82.5%	-13.2%	16,172	29,711	83.7%
Discont operation	0	0	8	0	NM	NM	NM	0	-42	NM
Profit for the year	3,973	8,353	7,260	8,026	-9.5%	82.7%	-13.1%	16,172	29,669	83.5%
Minority interest	23	0	31	28	10.7%	36.5%	NM	58	34	-40.6%
Net Profit after NCI	3,951	8,353	7,229	7,998	-9.6%	83.0%	-13.5%	16,114	29,635	83.9%

FABS estimate & Co Data

COMI - KPI

	4Q22	3Q23	4Q23	YOY Ch	QOQ Ch	2022	2023	Change
Net FI/OI	93.8%	99.6%	90.7%	-314	-891	94.0%	94.2%	17
Fees & comms/OI	9.2%	10.1%	8.9%	-33	-122	9.3%	9.7%	34
NIM	6.6%	7.1%	7.6%	96	51	5.6%	7.4%	178
NIS	6.6%	6.3%	6.6%	-3	28	5.6%	7.3%	174
Trading/OI	13.4%	6.0%	4.6%	-880	-133	8.3%	7.0%	-132
Cost to income	22.8%	15.9%	21.3%	-144	546	22.4%	17.9%	-442
Impairment/PPP	17.0%	0.3%	23.2%	614	2287	6.2%	9.3%	307
Tax/PBT	36.5%	28.1%	27.8%	-870	-23	32.5%	28.7%	-378
NP/OI	40.4%	60.1%	43.1%	279	-1699	48.9%	52.8%	387
Cost of risk	2.3%	0.1%	4.6%	224	453	0.7%	1.6%	88
Loan-to-deposit	41.9%	38.2%	39.5%	-240	130	41.9%	39.5%	-240
NPL	4.9%	5.1%	3.6%	-127	-149	4.9%	3.6%	-127
NPL Coverage ¹	229.0%	233.0%	309.0%	8,000	7600	229.0%	309.0%	8000
Tier 1	19.2%	NM	22.0%	280	NM	19.2%	22.0%	280
Capital adequacy	22.7%	21.4%	26.2%	358	484	22.7%	26.2%	358
ROAE	27.1%	39.1%	44.2%	1,713	513	23.6%	37.5%	1386
ROAA	3.7%	5.3%	5.8%	211	48	2.8%	4.0%	119

FABS estimate & Co Data

¹NPL coverage ratio is on a standalone basis

COMI – Key BS Items

EGP mm	4Q22	1Q23	2Q23	3Q23	4Q23	YOY Ch
Net advances	196,578	213,663	220,912	223,086	235,808	20.0%
QOQ Change	9.4%	8.7%	3.4%	1.0%	5.7%	
Total assets	635,832	686,287	796,291	811,069	834,866	31.3%
QOQ Change	7.3%	7.9%	16.0%	1.9%	2.9%	
Customer deposits	531,617	576,829	658,531	667,669	677,237	27.4%
QOQ Change	6.5%	8.5%	14.2%	1.4%	1.4%	
Total equity	68,338	61,671	68,636	77,436	90,641	32.6%
QOQ Change	5.1%	-9.8%	11.3%	12.8%	17.1%	

FABS estimate & Co Data

Valuation:

We use the Residual Income and Relative Valuation (RV) method to value Commercial International Bank. We have assigned 70% weight to Residual Income, and 30% to RV method.

Valuation Method	Target	Weight	Weighted Value
Residual Income	100.4	70.0%	70.29
Relative Valuation (RV)	85.7	30.0%	25.71
Weighted Average Valuation (EGP)			96.00
Current market price (EGP)			85.30
Upside/Downside (%)			+13%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 17.8%. Cost of equity is calculated by using Egypt's 10-year government bond yield of 21.5%, beta of 1.0, and negative equity risk premium of 3.7%. We arrive at a negative risk premium due to a higher risk-free rate as compared to the expected equity market return. Also, assumed a terminal growth rate of 3.0%.

Sum of PV (EGP, Mn)	197,012
Terminal value (EGP, Mn)	15,708
FV to Common shareholders (EGP, Mn)	303,202
No. of share (Mn)	3,020
Current Market Price (EGP)	85.30
Fair Value per share (EGP)	100.41

Residual Income Method

(All Figures in EGP Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Profit	40,196	43,758	49,069	54,931	62,635
(-) Equity Charge	14,422	20,395	25,064	30,471	35,437
Excess Equity	25,774	23,363	24,004	24,460	27,197
Discounting Factor	0.8	1.8	2.8	3.8	4.8
Present Value of Excess Equity	22,951	31,280	37,854	45,431	59,496

Source: FAB Securities

2) Relative Valuation:

We have used international peers to value Commercial International Bank and it is valued using the PB multiple. We applied a premium to peer valuation since it generates a superior return on equity as compared to its peers and also, expect this premium to be maintained. It is valued at a 2024 PB multiple of 2.1x compared to a peer multiple of 1.3x.

Company	Market (USD Mn)	P/B (x)		P/E (x)	
		2024F	2025F	2024F	2025F
Alinma Bank	22,730	2.6	2.4	16.0	14.9
Abu Dhabi Islamic Bank PJSC	10,107	1.7	1.6	8.9	8.3
Doha Bank Q.P.S.C.	1,320	0.5	0.4	7.6	6.9
Commercial Bank of Dubai	4,064	1.1	NA	NA	NA
Gulf Bank K.S.C.P.	2,802	1.2	1.2	13.3	12.0
Banque Saudi Fransi	13,190	1.3	1.2	10.4	9.8
RAKBANK	2,875	1.0	0.9	7.4	5.5
Bank Al Bilad	12,450	2.7	2.4	17.3	15.8
Qatar Islamic Bank	12,720	1.8	1.6	10.5	10.3
Average		1.5x	1.5x	11.4x	10.4x
Median		1.3x	1.4x	10.5x	10.1x
Max		2.7x	2.4x	17.3x	15.8x
Min		0.5x	0.4x	7.4x	5.5x

Source: FAB Securities

