

Commercial Bank International - Egypt

Strong core and non-core income growth coupled with healthy balance sheet growth drove profitability

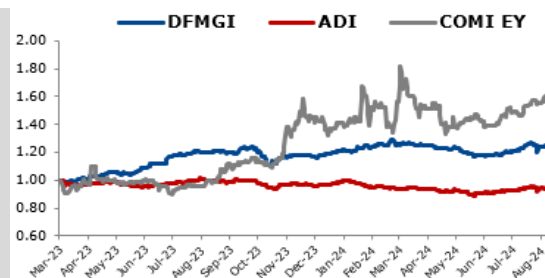
Current Price
EGP 87.00

Target Price
EGP 110.00

Upside/Downside (%)
+26%

Rating
BUY

- Gross loan portfolio reached EGP 331 Bn in 2Q24 owing to an increase in local currency loans.
- COMI's cost of risk improved 104 bps QOQ to 0.8% in 2Q24, while the asset yield grew 170 bps QOQ to 18.4%.
- NIM of the Bank grew 206 bps YOY to 9.3% in 2Q24, while the cost-to-income ratio improved by 478 bps YOY to 11.7% in 2Q24.
- Customer deposits grew 30.9% YOY to EGP 861.7 Bn with CASA deposits accounting for 54% of total customer deposits as of 2Q24.
- The Bank reported a strong tier 1 capital ratio of 21.6% in 2Q24, whilst expanding its CAR to 26.2% in 2Q24.



Stock Information

Market Cap (EGP, Mn)	264,754.75
Paid Up Capital (Mn)	30,431.58
52 Week High	97.50
52 Week Low	52.00
3M Avg. daily value (EGP)	264,770,000

2Q24 Result Review (EGP, Mn)

Total Assets	1,057,168
Total Liabilities	937,789
Total Equity	119,378
Total Deposits	861,720
Net Profit	15,623

Financial Ratios

Dividend Yield (12m)	0.63
Dividend Pay-out (%)	0.00
Price-Earnings Ratio(x)	5.11
Price-to-Book Ratio (x)	2.22
Book Value (EGP)	39.19
Return-on Equity (%)	54.67

Stock Performance

5 Days	3.57%
1 Months	7.94%
3 Months	13.74%
6 Months	7.47%
1 Year	65.40%
Month to Date (MTD%)	4.45%
Quarter to Date (QTD%)	12.40%
Year to Date (YTD%)	19.75%

2Q24 Net Profit Higher than our estimate

Commercial International Bank (COMI/ the Bank) net profit almost doubled from EGP 8.0 Bn in 2Q23 to EGP 15.6 Bn in 2Q24, higher than our estimates of EGP 12.5 Bn. The growth in net profit is primarily attributable to an increase in total operating income driven by a significant rise in net funded and non-funded income partially offset by an increase in operating expenses and impairment charges.

P&L Highlights

Funded income grew substantially from EGP 25.3 Bn in 2Q23 to EGP 45.0 Bn in 2Q24 mainly due to an increase in net advances and expansion in asset yield. Net advances grew 30.2% YOY and 5.9% QOQ to EGP 287.6 Bn in 2Q24 primarily driven by Egyptian currency devaluation and an increase in local currency loans. Asset yield grew 434 bps YOY and 170 bps QOQ to 18.4% in 2Q24. Funded expenses also grew significantly from EGP 12.3 Bn in 2Q23 to EGP 22.3 Bn in 2Q24 primarily due to higher cost of funds. The Bank's cost of funds grew 297 bps YOY and 142 bps QOQ to 10.0% in 2Q24. As a result, net funded income grew from EGP 13.0 Bn in 2Q23 to EGP 22.7 Bn in 2Q24. Thus, NIMs grew 206 bps YOY and 72 bps QOQ to 9.3% in 2Q24. Furthermore, fees and commission income grew 37.4% YOY to EGP 1,842 Mn in 2Q24. Trading income rose 146.0% YOY to EGP 1,188 Mn in 2Q24, compared to EGP 483 Mn in 2Q23. Other non-funded expense remained flat at EGP 1,330 in 2Q24 compared to EGP 1,316 Mn in 2Q23. Resultantly, the Bank's total operating income increased from EGP 13.5 Bn in 2Q23 to EGP 24.4 Bn in 2Q24. Operating expenses grew 28.5% YOY to EGP 2.9 Bn in 2Q24. This improved the cost-to-income ratio from 478 bps YOY and 168 bps QOQ to 11.7% in 2Q24. Impairment charges grew strongly 165.5% to EGP 631 Mn in 2Q24, while the share of profit from associates stood at negative EGP 8 Mn in 2Q24, compared to negative EGP 12 Mn in 2Q23. Tax Expense rose significantly from EGP 3.0 Bn in 2Q23 to

EGP 5.3 Bn in 2Q24 owing to a growth in profitability.

Balance Sheet Highlight

COMI's total assets grew 32.8% YOY and 8.2% QOQ to EGP 1,057 Bn in 2Q24 driven by growth in due from banks, loans & advances and investments. Net advances grew 30.2% YOY and 5.9% QOQ to EGP 288 Bn in 2Q24 owing to an increase in local currency loans and the devaluation impact of Egyptian currency (adding EGP 41.1 Bn to the EGP equivalent balance in 1H24). Excluding the effect of devaluation, net advances increased 8% YOY in 1H24. COMI's loan market share stood at 4.68% as of February 2024. Furthermore, the company expects the loan book to grow 25-30% in FY2024. Customer deposits grew 30.9% YOY and 8.2% QOQ to EGP 861.7 Bn in 2Q24 due to the devaluation of Egyptian Currency (added EGP 112 Bn to EGP equivalent balance in 1H24). Excluding the effect of devaluation, deposits rose 8.0% YOY in 1H24. The Bank's deposit market share stood at 6.47% as of February 2024. The loan-to-deposit ratio declined 100bps QOQ to 38.7% in 2Q24. The Bank's total equity grew 73.9% YOY and 18.2% QOQ to EGP 119 Bn in 2Q24. The capital adequacy ratio expanded from 25.2% in 1Q24 to 26.2% in 2Q24. Moreover, COMI expects its CAR to expand up to 30% going ahead.

Target Price and Rating

We revise our rating on COMI from ACCUMULATE to BUY with a revised target price of EGP 110.0. The bank expects to maintain healthy growth in loan books in FY2024 despite macroeconomic headwinds. The healthy growth is owing to the growth in working capital and retail loans. COMI's gross loan portfolio grew 5.3% QOQ to EGP 331 Bn in 2Q24 owing to an increase in personal loans, credit card loans, corporate overdrafts and direct loans. Institutional banking accounted for 76%, Retail banking 21%, and Business banking accounted for 3% of the Bank's total loan book in 2Q24. It also expects NIMs to expand owing to the incremental yield the Bank is expected to earn on sovereign investments. Investment in sovereign instruments amounted to EGP 342.3 Bn, equivalent to 91.3% of total investments in 2Q24. Furthermore, the NIMs of the Bank grew by 206 bps YOY and 72 bps QOQ to 9.3% in 2Q24. CASA accounted for 54% of the total deposits in 2Q24 supporting NIM expansion. The Bank also expects the fee income growth to remain healthy as the volume of transactions rose significantly. COMI maintained a high quality of funding as the total customer deposits accounted for 92.0% of total liabilities in 2Q24. The Bank's cost-to-income improved 478 bps YOY and 168 bps QOQ to 11.7% in 2Q24. The Bank's asset quality strengthened as the NPL ratio contracted from 4.35% in 1Q24 to 4.13% in 2Q24. Provision coverage also improved from 307% in 1Q24 to 314% in 2Q24. COMI also maintained a healthy capitalization with a total CAR ratio of 26.2% in 2Q24. Thus, based on our analysis we assign a BUY rating on the stock.

COMI - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PB	3.4	2.9	2.5	4.3	3.2	1.9
PE	14.8	17.0	22.2	20.5	11.4	5.3
Dividend yield	1.1%	NA	1.0%	0.6%	0.6%	2.3%

FABS Estimates & Co Data

COMI – P&L

EGP Mn	2Q23	1Q24	2Q24	2Q24F	VAR	YOY Ch	QOQ Ch	2023	2024F	Change
Funded income	25,292	36,653	45,040	40,753	10.5%	78.1%	22.9%	104,028	165,142	58.7%
Funded expense	-12,282	-17,853	-22,303	-20,953	6.4%	81.6%	24.9%	-51,099	-79,334	55.3%
Net funded income	13,009	18,800	22,737	19,800	14.8%	74.8%	20.9%	52,930	85,808	62.1%
Fees and commissions	1,341	1,567	1,842	1,645	12.0%	37.4%	17.5%	5,438	7,159	31.6%
Trading gain/(loss)	483	16,202	1,188	928	28.1%	146.0%	-92.7%	3,943	21,667	449.5%
Other non-funded inc	-1,316	-14,750	-1,330	-832	59.8%	1.1%	-91.0%	-6,135	-18,351	199.1%
Non-funded income	508	3,019	1,701	1,741	-2.3%	234.8%	-43.7%	3,246	10,475	222.7%
Operating income	13,517	21,819	24,438	21,542	13.4%	80.8%	12.0%	56,176	96,283	71.4%
Operating expenses	-2,233	-2,929	-2,870	-2,903	-1.1%	28.5%	-2.0%	-10,076	-13,480	33.8%
Pre-provision profit	11,284	18,890	21,567	18,639	15.7%	91.1%	14.2%	46,100	82,803	79.6%
Impairment (charge)	-238	-1,421	-631	-1,354	-53.4%	165.5%	-55.6%	-4,270	-5,724	34.1%
Share of profits assoc	-12	5	-8	5	NM	-28.6%	NM	-56	13	NM
PBT	11,022	17,474	20,928	17,290	21.0%	89.9%	19.8%	41,653	77,092	85.1%
Tax	-2,984	-5,549	-5,305	-4,755	11.6%	77.8%	-4.4%	-11,942	-21,046	76.2%
Profit before NCI	8,038	11,925	15,622	12,535	24.6%	94.4%	31.0%	29,711	56,046	88.6%
Discont operation	-50	0	0	0	NM	NM	NM	-42	0	NM
Profit for the year	7,987	11,925	15,622	12,535	24.6%	95.6%	31.0%	29,669	56,046	88.9%
Minority interest	0	0	0	0	NM	-66.8%	-127.2%	34	108	214.4%
Net Profit after NCI	7,988	11,924	15,623	12,535	24.6%	95.6%	31.0%	29,635	55,938	88.8%

FABS estimate & Co Data

COMI - KPI

	2Q23	1Q24	2Q24	YOY Ch	QOQ Ch	2023	2024	Change
Net FI/OI	96.2%	86.2%	93.0%	-320	688	94.2%	89.1%	-510
Fees & comms/OI	9.9%	7.2%	7.5%	-238	36	9.7%	7.4%	-225
NIM	7.2%	8.6%	9.3%	206	72	7.4%	8.8%	141
NIS	7.0%	8.1%	8.4%	137	28	7.3%	7.5%	16
Trading/OI	3.6%	74.3%	4.9%	129	-6939	7.0%	22.5%	1548
Cost to income	16.5%	13.4%	11.7%	-478	-168	17.9%	14.0%	-394
Impairment/PPP	2.1%	7.5%	2.9%	82	-460	9.3%	6.9%	-235
Tax/PBT	27.1%	31.8%	25.4%	-172	-641	28.7%	27.3%	-137
NP/OI	59.1%	54.7%	63.9%	484	928	52.8%	58.1%	534
Cost of risk	0.4%	1.8%	0.8%	38	-104	1.6%	1.5%	-10
Loan-to-deposit	39.5%	39.7%	38.7%	-80	-100	39.5%	40.8%	133
NPL	5.1%	4.4%	4.1%	-94	-22	3.6%	3.4%	-19
NPL Coverage ¹	236.0%	307.0%	314.0%	7,800	700	309.0%	323.5%	1453
Tier 1	15.5%	20.3%	21.6%	605	132	22.0%	23.6%	164
Capital adequacy	19.0%	25.2%	26.2%	720	100	26.2%	26.6%	33
ROAE	34.5%	37.1%	39.2%	473	209	37.5%	48.4%	1097
ROAA	3.0%	3.9%	4.2%	122	32	4.0%	5.6%	161

FABS estimate & Co Data

¹NPL coverage ratio is on a standalone basis

COMI – Key BS Items

EGP Mn	2Q23	3Q23	4Q23	1Q24	2Q24	YOY Ch
Net advances	220,912	223,086	235,808	271,637	287,648	30.2%
QOQ Change	3.4%	1.0%	5.7%	15.2%	5.9%	
Total assets	796,291	811,069	834,866	977,148	1,057,168	32.8%
QOQ Change	16.0%	1.9%	2.9%	17.0%	8.2%	
Customer deposits	658,531	667,669	677,237	796,081	861,720	30.9%
QOQ Change	14.2%	1.4%	1.4%	17.5%	8.2%	
Total equity	68,636	77,436	90,641	100,992	119,378	73.9%
QOQ Change	11.3%	12.8%	17.1%	11.4%	18.2%	

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	113.3	70.0%	79.28
Relative Valuation (RV)	102.4	30.0%	30.72
Weighted Average Valuation (EGP)			110.00
Current market price (EGP)			87.00
Upside/Downside (%)			+26%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 18.4%. Cost of equity is calculated by using Egypt's 10-year government bond yield of 23.4%, beta of 1.0, and negative equity risk premium of 5.0%. We arrive at a negative risk premium due to a higher risk-free rate compared to the expected equity market return. Also, assumed a terminal growth rate of 3.0%.

Sum of PV (EGP, Mn)	100,577
Terminal value (EGP, Mn)	122,148
Book Value of Equity (as of June 2024)	119,255
FV to Common shareholders (EGP, Mn)	341,981
No. of share (Mn)	3,020
Current Market Price (EGP)	87.00
Fair Value per share (EGP)	113.3

Residual Income Method

(All Figures in EGP Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Profit	55,938	64,203	67,165	69,137	73,104
(-) Equity Charge	15,327	23,402	32,347	42,116	51,278
Excess Equity	40,611	40,801	34,818	27,022	21,826
Discounting Factor	0.94	0.79	0.67	0.57	0.48
Present Value of Excess Equity	19,094	32,399	23,347	15,301	10,437

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 2.2x compared to a peer multiple of 1.6x.

Company	Market (USD Mn)	P/B (x)		P/E (x)	
		2024F	2025F	2024F	2025F
Alinma Bank	21,610	2.5	2.2	15.2	13.5
Abu Dhabi Islamic Bank PJSC	11,970	2.0	1.8	8.9	9.1
Doha Bank Q.P.S.C.	1,363	0.5	0.5	8.4	7.4
Commercial Bank of Dubai	5,040	1.2	1.2	NA	NA
Gulf Bank K.S.C.P.	3,797	1.4	1.4	16.1	15.7
Banque Saudi Fransi	11,640	1.2	1.1	9.8	9.0
RAKBANK	11,500	2.4	2.2	15.9	14.2
Bank Al Bilad	12,540	1.7	1.6	10.8	10.8
Qatar Islamic Bank	21,610	2.5	2.2	15.2	13.5
Average		1.6x	1.5x	12.1x	11.4x
Median		1.6x	1.5x	10.8x	10.8x
Max		2.5x	2.2x	16.1x	15.7x
Min		0.5x	0.5x	8.4x	7.4x

Source: FAB Securities

Research Rating Methodology:

Rating	Upside/Downside potential
BUY	Higher than +15%
ACCUMULATE	Between +10% to +15%
HOLD	Lower than +10% to -5%
REDUCE	Between -5% to -15%
SELL	Lower than -15%

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