

Commercial Bank International (COMI) - Egypt

Higher funded and non-funded income drove profitability

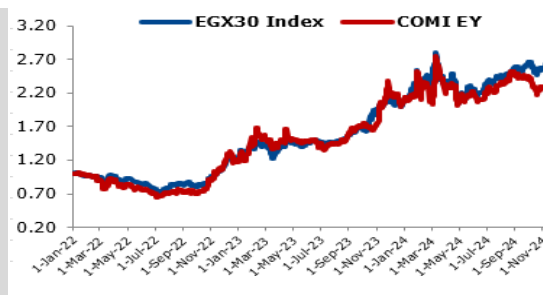
Current Price
EGP 80.20

Target Price
EGP 110.00

Upside/Downside (%)
+37%

Rating
BUY

- Net advances grew 37.8% YOY and 6.9% QOQ to EGP 307.4 Bn in 3Q24 owing to an increase in local currency loans and a rise in demand for financing from businesses and individuals.
- NIMs grew 214 bps YOY but fell 5 bps QOQ to 9.2% in 3Q24.
- The asset quality of the Bank strengthened as the NPL ratio contracted from 5.1% in 3Q23 to 4.4% in 3Q24 reflecting its ability to effectively manage risk.
- Provision coverage also improved from 233% in 3Q23 to 289% in 3Q24 providing sufficient cushion for potential bad loans.



3Q24 Net Profit lower than our estimate

Commercial International Bank's (COMI/ the Bank) net profit grew significantly from EGP 8,353 Mn in 3Q23 to EGP 14,801 Mn in 3Q24, lower than our estimates of EGP 16,423 Mn. The growth in net profit is primarily attributable to a rise in net funded and non-funded income partially offset by an increase in operating expenses, impairment expenses, and tax charges.

P&L Highlights

Funded income grew substantially from EGP 27.9 Bn in 3Q23 to EGP 49.3 Bn in 3Q24 mainly due to an increase in net advances and expansion in asset yield. Asset yield grew 456 bps YOY and 46 bps QOQ to 18.9% in 3Q24. Funded expenses also grew significantly from EGP 14.1 Bn in 3Q23 to EGP 25.2 Bn in 3Q24 primarily due to higher cost of funds and an increase in interest-bearing liabilities. The Bank's cost of funds grew 279 bps YOY 80 bps QOQ to 10.8% in 3Q24. Resultantly, net funded income grew from EGP 13.8 Bn in 3Q23 to EGP 24.1 Bn in 3Q24. Thus, NIMs also grew 214 bps YOY but fell 5 bps QOQ to 9.2% in 3Q24. Furthermore, fees and commission income grew 29.7% YOY to EGP 1,816 Mn in 3Q24. However, Trading gain fell 3.1% YOY to EGP 804 Mn in 3Q24. Other non-funded expenses also declined 32.6% YOY to EGP 1,467 Mn in 3Q24. Resultantly, the Bank's total operating income almost doubled from EGP 13,891 Mn in 3Q23 to EGP 25,299 Mn in 3Q24. Operating expenses grew 53.4% YOY to EGP 3,382 Mn in 3Q24. The cost-to-income ratio improved by 251 bps YOY but increased by 162 bps QOQ to 13.4% in 3Q24. Impairment charges grew strongly from EGP 34 Mn in 3Q23 to EGP 1,693 Mn in 3Q24 owing to increased lending. While the share of profit from associates improved from negative EGP 13 Mn in 3Q23 to negative EGP 5 Mn in 3Q24. Tax Expenses rose significantly from EGP 3,257 Mn in 3Q23 to EGP 5,419 Mn in 3Q24 owing to a growth in profitability.

Stock Information

Market Cap (EGP, Mn)	244,061.27
Paid Up Capital (Mn)	30,431.58
52 Week High	97.50
52 Week Low	69.83
3M Avg. daily value (EGP)	263,136,600

3Q24 Result Review (EGP, Mn)

Total Assets	1,119,958
Total Liabilities	981,552
Total Equity	138,284
Total Deposits	900,967
Net Profit	14,801

Financial Ratios

Dividend Yield (12m)	0.69
Dividend Pay-out (%)	6.22
Price-Earnings Ratio(x)	3.80
Price-to-Book Ratio (x)	1.76
Book Value (EGP)	45.44
Return-on Equity (%)	59.15

Stock Performance

5 Days	-2.93%
1 Months	0.88%
3 Months	-7.82%
6 Months	4.96%
1 Year	7.67%
Month to Date (MTD%)	0.25%
Quarter to Date (QTD%)	-5.09%
Year to Date (YTD%)	10.39%

Balance Sheet Highlight

COMI's total assets grew 38.1% YOY and 5.9% QOQ to EGP 1,120 Bn in 3Q24 driven by growth in due from banks, loans & advances, and investments. Net advances grew 37.8% YOY and 6.9% QOQ to EGP 307.4 Bn in 3Q24 owing to an increase in local currency loans and a rise in demand for financing from businesses and individuals. COMI's loan market share stood at 4.62% as of September 2024. Customer deposits grew 34.9% YOY and 4.6% QOQ to EGP 901 Bn in 3Q24 driven by local and foreign currency deposits. The Bank also maintained a healthy CASA ratio of 55%. The Bank's deposit market share stood at 6.94% as of September 2024. As per our calculation, the loan-to-deposit ratio rose 130 bps YOY and 80 bps QOQ to 39.5% in 3Q24. The Bank's total equity grew 78.7% YOY and 15.9% QOQ to EGP 138.4 Bn in 3Q24. The reported capital adequacy ratio expanded from 21.4% in 3Q23 to 29.1% in 3Q24.

Target Price and Rating

We maintain our BUY rating on COMI with an unchanged target price of EGP 110.0. COMI expanded its network to 194 branches and 15 units in Egypt. Its ATM network stood at 1,381. Moreover, COMI reported a robust financial performance in 3Q24 attributable to the Bank's commitment to control the cost of funds as well as adapt to the changing interest rate environment by maintaining a robust balance sheet. The Bank also recorded a solid growth in the non-funded income reflecting its ability to generate income from different revenue streams. The total transaction value of its Smart wallet reached EGP 38 Bn in September 2024. COMI further aims to increase its reach by expanding and forming partnerships in alternative markets. Furthermore, it focuses on enhancing the customer experience through digitization as well as the utilization of data analytics. The Bank aims to digitize through automation, and process re-engineering will also enhance operational efficiency. COMI's bottom line is poised to benefit from these initiatives. The Bank's asset quality strengthened as the NPL ratio contracted from 5.1% in 3Q23 to 4.4% in 3Q24, reflecting its ability to effectively manage risk. Provision coverage also improved from 233% in 3Q23 to 289% in 3Q24 providing sufficient cushion for potential bad loans. COMI maintained a healthy capitalization with a total reported CAR ratio of 29.1% in 3Q24. The reported CET-1 ratio stood at 24.6% indicating a robust liquidity position. 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	3.1	2.7	2.3	3.6	2.7	1.7
PE	13.6	15.7	20.4	23.2	13.0	4.9
Dividend yield	1.3%	NA	1.3%	0.7%	0.7%	2.7%

FABS Estimates & Co Data

COMI – P&L

EGP Mn	3Q23	2Q24	3Q24	3Q24F	VAR	YOY Ch	QOQ Ch	2023	2024F	Change
Funded income	27,891	45,040	49,307	50,293	-2.0%	76.8%	9.5%	104,028	180,887	73.9%
Funded expense	-14,054	-22,303	-25,161	-24,155	4.2%	79.0%	12.8%	-51,099	-91,161	78.4%
Net funded income	13,838	22,737	24,146	26,138	-7.6%	74.5%	6.2%	52,930	89,726	69.5%
Fees and commissions	1,400	1,842	1,816	1,834	-1.0%	29.7%	-1.4%	5,438	7,159	31.6%
Trading gain/(loss)	830	1,188	804	844	-4.8%	-3.1%	-32.4%	3,943	19,364	NM
Other non-funded inc	-2,177	-1,330	-1,467	-1,452	1.0%	-32.6%	10.3%	-6,135	-19,066	210.8%
Non-funded income	53	1,701	1,153	1,226	-6.0%	NM	-32.2%	3,246	7,457	129.7%
Operating income	13,891	24,438	25,299	27,364	-7.5%	82.1%	3.5%	56,176	97,183	73.0%
Operating expenses	-2,205	-2,870	-3,382	-3,720	-9.1%	53.4%	17.8%	-10,076	-12,634	25.4%
Pre-provision profit	11,686	21,567	21,917	23,645	-7.3%	87.5%	1.6%	46,100	84,549	83.4%
Impairment (charge)	-34	-631	-1,693	-1,744	-2.9%	NM	NM	-4,270	-6,824	59.8%
Share of profits assoc	-13	-8	-5	-5	1.0%	-60.6%	-39.6%	-56	-11	NM
PBT	11,610	20,928	20,219	21,896	-7.7%	74.2%	-3.4%	41,653	77,714	86.6%
Tax	-3,257	-5,305	-5,419	-5,473	-1.0%	66.4%	2.1%	-11,942	-21,060	76.4%
Profit before NCI	8,353	15,622	14,801	16,423	-9.9%	77.2%	-5.3%	29,711	56,653	90.7%
Discont operation	0	0	0	0	NM	NM	NM	-42	0	NM
Profit for the year	8,353	15,622	14,801	16,423	-9.9%	77.2%	-5.3%	29,669	56,653	91.0%
Minority interest	0	0	0	0	NM	NM	NM	34	109	217.9%
Net Profit after NCI	8,353	15,623	14,801	16,423	-9.9%	77.2%	-5.3%	29,635	56,544	90.8%

FABS estimate & Co Data

COMI - KPI

	3Q23	2Q24	3Q24	YOY Ch	QOQ Ch	2023	2024	Change
Net FI/OI	99.6%	93.0%	95.4%	-417	240	94.2%	92.3%	-189
Fees & comms/OI	10.1%	7.5%	7.2%	-290	-36	9.7%	7.4%	-231
NIM	7.1%	9.3%	9.2%	214	-5	7.4%	9.4%	200
NIS	6.3%	8.4%	8.0%	177	-34	7.3%	7.9%	56
Trading/OI	6.0%	4.9%	3.2%	-280	-169	7.0%	19.9%	1291
Cost to income	15.9%	11.7%	13.4%	-251	162	17.9%	13.0%	-494
Impairment/PPP	0.3%	2.9%	7.7%	743	480	9.3%	8.1%	-119
Tax/PBT	28.1%	25.4%	26.8%	-125	145	28.7%	27.1%	-157
NP/OI	60.1%	63.9%	58.5%	-163	-542	52.8%	58.2%	543
Cost of risk	0.1%	0.8%	1.9%	187	116	1.6%	1.9%	30
Loan-to-deposit	38.2%	38.7%	39.5%	130	80	39.5%	39.6%	8
NPL	5.1%	4.1%	4.4%	-65	30	3.6%	3.4%	-19
NPL Coverage ¹	233.0%	314.0%	289.0%	5600	-2500	309.0%	352.9%	4394
Tier 1	17.9%	21.6%	24.6%	670	301	22.0%	24.0%	203
Capital adequacy	21.4%	26.2%	29.1%	770	290	26.2%	27.0%	75
ROAE	36.2%	39.2%	38.5%	235	-69	37.5%	48.8%	1131
ROAA	3.3%	4.2%	4.6%	127	31	4.0%	5.7%	171

FABS estimate & Co Data

¹NPL coverage ratio is on a standalone basis

COMI – Key BS Items

EGP Mn	3Q23	4Q23	1Q24	2Q24	3Q24	YOY Ch
Net advances	223,086	235,808	271,637	287,648	307,367	37.8%
QOQ Change	1.0%	5.7%	15.2%	5.9%	6.9%	
Total assets	811,069	834,866	977,148	1,057,168	1,119,958	38.1%
QOQ Change	1.9%	2.9%	17.0%	8.2%	5.9%	
Customer deposits	667,669	677,237	796,081	861,720	900,967	34.9%
QOQ Change	1.4%	1.4%	17.5%	8.2%	4.6%	
Total equity	77,436	90,641	100,992	119,378	138,406	78.7%
QOQ Change	12.8%	17.1%	11.4%	18.2%	15.9%	

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	104.6	70.0%	73.22
Relative Valuation (RV)	122.6	30.0%	36.78
Weighted Average Valuation (EGP)			110.00
Current market price (EGP)			80.20
Upside/Downside (%)			+37%

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 24.3%, beta of 1.1, and negative equity risk premium of 5.4%. 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)	100,383
Terminal value (EGP, Mn)	77,182
Book Value of Equity (as of June 2024)	138,284
FV to Common shareholders (EGP, Mn)	341,981
No. of share (Mn)	3,020
Current Market Price (EGP)	80.20
Fair Value per share (EGP)	104.6

Residual Income Method

(All Figures in EGP Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Profit	56,544	66,582	69,265	72,171	76,616
(-) Equity Charge	15,270	23,216	32,971	43,160	52,972
Excess Equity	41,274	43,366	36,295	29,011	23,644
Discounting Factor	0.98	0.83	0.70	0.59	0.50
Present Value of Excess Equity	10,113¹	35,912	25,395	17,152	11,811

Source: FAB Securities, ¹Adjusted For Partial Year

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 2.62x compared to a peer multiple of 1.9x.

Company	Market (USD Mn)	P/B (x)		P/E (x)	
		2024F	2025F	2024F	2025F
Alinma Bank	18,790	2.1	1.9	12.9	11.8
Abu Dhabi Islamic Bank	12,103	2.0	1.8	8.7	9.0
Commercial Bank of Dubai	5,543	1.4	1.3	7.5	7.9
Gulf Bank K.S.C.P.	3,972	1.3	1.4	17.9	16.7
Banque Saudi Fransi	9,860	1.0	0.9	8.6	7.9
Bank Al Bilad	11,990	2.6	2.3	16.7	15.1
Qatar Islamic Bank	13,700	1.9	1.7	11.6	11.7
Average		1.7x	1.6x	12.0x	11.4x
Median		1.9x	1.7x	11.6x	11.7x
Max		2.6x	2.3x	17.9x	16.7x
Min		1.0x	0.9x	7.5x	7.9x

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%

FAB Securities Contacts:

Research Analyst

Ahmad Banihani +971-2-6161629 ahmad.banihani@Bankfab.com

Sales & Execution

Abu Dhabi Head Office

Trading Desk +971-2-6161700/1 Online Trading Link
 +971-2-6161777

Institutional Desk +971-4-4245765

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