

Today's Story

COMI's Q1 Results – IFRS9 Did Not Keep a Lid on Profitability

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- Interest income led annual boost to profitability:** Commercial International Bank – Egypt's (COMI) Q1 2019 earnings climbed to EGP2.64bn (+31% y/y, +3% q/q), in line with the management guidance for bottom-line growth for the full year. Sequential earnings growth, however, was somewhat flattened, for the most part, by a mere 2% rise in net interest income with gross interest income being unchanged, while the cost of funding retreated in light of the 100bps rate cut by mid-quarter. Income from Treasuries accounted for 55% of total interest income, after the 44% recorded a quarter earlier, remaining the principal contributor in Q1 2019. Unsurprisingly so, as Treasury buying was a recurring theme for the bank since Q3 2018. Meanwhile, income from net fees and commissions stood at EGP578mn (-11% y/y, +1% q/q). We note that the effective tax rate retreated in Q1 2019 to 29.7% (-51bps q/q).
- Rate cut and new taxation affected the balance sheet:** We believe the earlier interest rate cut played a role in deciding on the Q1 2019 balance sheet, which showed contained growth on the funding side with deposits expanding by only 3% ytd and gross loans rising by 4% ytd. Hence, utilization rates improved with GLDR hitting 42.5% (+65bps q/q). As part of gearing up for the new tax regime, the bank embarked on trimming excess exposure to Treasuries, which have shrunk, relative to deposits, to 50% (-425bps). Meanwhile, inter-bank assets grew notably by 11%, representing c.18% of deposits (+126bps q/q). Also, COMI's balance sheet maturity structure was altered a tiny bit; the portion of the loan book set for re-pricing within the first year contracted to 87% of gross loans versus 88% by end of 2018. On the other hand, deposits set to be repriced within the first year amounted to 70% of total deposits versus 68% in Q4 2018. Separately, lending grew, supported by better local currency.
- CAR crosses over 20% despite IFRS9:** COMI's capital adequacy ratio (CAR) strengthened in Q1 2019, unfazed by the application of IFRS9, to 21.49% versus 19.09% in Q4 2018. The bank's capital base saw a 17% sequential growth, fully derived from strong Tier I capital despite a weakening Tier II, as IFRS9 allows only Stage 1 loan impairment provision. The application of IFRS9 drove the NPL ratio to 5% in Q1 2019, 1% higher from Q4 2018, reducing NPL coverage ratio to 210% from 269% in Q4 2018. As of Q1 2019, Stage 3 loans represented a mere 5% of the total loan book, while Stage 2 constituted 29%. We note that individuals make up only 2% of Stage 3 loans versus the corporate clients' 98%.
- COMI still trading at a considerable premium:** Kicking off the first quarter of 2019, COMI held on to an important angle of its story: growth, though only on an annual basis, with a soothing impression from the IFRS9 application. ROAE hit 29%, while P/B and P/E for Q1 2019 stand at 2.8x and 10.6x, respectively. However, in view of the management guidance for 2019 performance, COMI's forward P/B is 2.4x, whilst forward P/E is 8.7x. Compared to sector norms, COMI continues to trade at a considerable premium, thanks to the market assigning more weight to size, market share, and convenience of investing in the bank, especially in view of the relative illiquidity characterizing other peers' trading activity.

Top Headlines

Corporate

- Raya Contact Center's (RACC) earnings fell 24% y/y to EGP36mn in Q1 2019.** Earnings were dented by a 71% y/y jump in rental expenses to EGP28mn, lower net interest income of EGP6.4mn (vs. EGP9.4mn in Q1 2018), and FX losses of EGP2mn (vs. only EGP0.05mn in Q1 2018). Meanwhile, revenues grew 7% y/y to EGP228mn on higher revenues from professional and back-office services. ([Company disclosure](#)) RACC's OGM has agreed to distribute cash dividends of EGP0.85/share for 2018, implying a 6.3% in dividend yield. The dividends will be distributed within 30 days. ([Company disclosure](#))
- Orascom Investment Holding's (OIH) BoD notified shareholders during the company's OGM held on 5 May 2019 of the recent updates regarding Nile Sugar attempted acquisition for which an updated IFA fair value study is currently awaited.** ([Company disclosure](#))
- Zahraa Maadi Investment & Development (ZMID) posted its preliminary results for Q1 2019, where gross sales grew 25.5% y/y to EGP92.9mn and gross revenues rose 5% y/y to EGP51.9mn.** Meanwhile, earnings increased 8.5% y/y to EGP34.3mn, implying an EPS of EGP0.35. ([Company disclosure](#))

Non-Corporate

- **Regulators** are considering lowering **fees on stock market transactions** in an ongoing effort to mitigate the effect of a rising stamp tax, which is set to increase to 0.175% from 0.15% on 17 May 2019. (Al-Mal, Enterprise)
- **Egypt** sold USD1bn worth of one-year USD-denominated T-bills at an average yield of 3.897%. ([Reuters](#))
- The **Ministry of Finance** is studying a proposal that would set a limit on the health care tax paid by businesses, with the contribution still set at 0.25% of revenues but would be capped at an amount equivalent to 1.5% of total net profits. Besides, any company making a loss on its books will have to pay a basic contribution of EGP1,000 for the year. ([Enterprise](#))

Markets

↘	EGX 30	14,204.59	(2.12%)	↘	EGX 70	640.91	(0.61%)
↘	DFMGI	2,733.45	(0.70%)	↘	ADSMI	5,146.13	(1.54%)
↘	TASI	9,043.22	(1.48%)	↘	QE Index	10,296.59	(1.58%)
↗	S&P 500	2,932.47	(0.45%)	↗	MSCI EM	1,062.64	(1.86%)
↗	Gold	1,283.03	0.15%	↘	Brent Oil	71.15	(0.13%)

*As of market close, except for commodities at spot price as of 8.13am CLT.

- **MENA Markets:** Egypt's benchmark **EGX 30** extended its losing run, held down by weaker **SWDY, EAST, COMI, and TMGH**. UAE's **ADSMI** ended lower after its **banks** and **telecom** sectors incurred losses. Also, **DFMGI** slid as **real-estate** and **financials** stocks trended lower for the second consecutive day. **Saudi Arabia's TASI** fell over its **banking** and **materials** sectors.
- **Global Markets:** **Asian shares** (ex-Japan) improved Tuesday morning after a five-week low; however, it remained in the red dragged by **US President** Donald Trump threats to raise tariffs of Chinese goods. **Brent Oil** prices fell on the back of fears of more tensions from the **US-China** trade war, which may slow down the world economy. **Gold** prices were up as investors used it to hedge against the political and economic instability.

Number of the Day

120

Egypt's rank in terms of "Ease of Doing Business", as per The World Bank Group.

Today's Quiz

What was the value of Alexandria Port's throughput in 2017?

(Answer located at the end of this newsletter)

Corporate Events

Company	Ticker	Event Type	Event Date	Reason
Nozha International Hospital	NINH	Dividends	7-May	Ex-date (EGP0.60/share); Last eligible date (6 May)
Suez Canal Bank	CANA	Lawsuit	7-May	To rule in a lawsuit that invalidated the Bank's AGM on April 4, 2018
El Ezz Aldekhela Steel Alexandria	IRAX	Dividends	7-May	Ex-date (EGP20/share); Last eligible date (6 May)
Egyptian International Pharmaceuticals (EIPICO)	PHAR	Dividends	8-May	Payment date (EGP4/share)
Six of October Development and Investment	OCDI	Dividends	8-May	Payment date (EGP0.50/share)
Elsewedy Electric	SWDY	Dividends	8-May	Payment date (EGP0.80/share)
Canal Shipping Agencies	CSAG	Dividends	8-May	Payment date (EGP0.58/share)
El Ezz Aldekhela Steel Alexandria	IRAX	Dividends	9-May	Payment date (EGP20/share)
Nozha International Hospital	NINH	Dividends	9-May	Payment date (EGP0.60/share)
Arab Cotton Ginning	ACGC	EGM	12-May	Reviewing Agenda Items
United Co for Housing & Developments	UNIT	EGM / AGM	12-May	Reviewing Agenda Items
TMG Holding	TMGH	Dividends	13-May	Ex-date (EGP0.176/share); Last eligible date (12 May)
Egyptian Resorts Co.	EGTS	EGM	13-May	Amending some of the company's articles of incorporation
Egyptian Resorts Co.	EGTS	AGM	13-May	Reviewing Agenda Items
Suez Bags	SBAG	BoD	15-May	Reviewing Agenda Items
Medinet Nasr for Housing & Development	MNHD	EGM	15-May	Amending some of the company's articles of incorporation
Medinet Nasr for Housing & Development	MNHD	AGM	15-May	Authorizing the BoD to enter into netting contracts
Global Telecom Holding	GTHE	EGM	15-May	Amending some of the company's articles of association
Amer Group Holding	AMER	Lawsuit	15-May	Legal disputes relevant to Porto Tartous project
TMG Holding	TMGH	Dividends	15-May	Payment date (EGP0.088/share)
Ibnsina Pharma	ISPH	Dividends	15-May	Ex-date (EGP0.07/share); Last eligible date (14 May)
Ibnsina Pharma	ISPH	Dividends	19-May	Payment date (EGP0.07/share)
General Silos & Storage	GSSC	AGM	20-May	Reviewing Agenda Items
Orascom Construction	ORAS	AGM	21-May	Discuss dividends of USD0.30/share
Middle Egypt Flour Mills	CEFM	EGM / AGM	22-May	Reviewing Agenda Items
Porto Group Holding	PORT	Lawsuit	23-May	Legal disputes relevant to Porto Tartous project
South Cairo & Giza Mills	SCFM	EGM / AGM	26-May	Reviewing Agenda Items
Arabia Investments Holding	AIH	Lawsuit	9-Jun	Legal disputes against French Peugeot
Amer Group Holding & Porto Group Holding	AMER / PORT	Lawsuit	23-Jun	Legal Disputes relevant to Porto Tartous project
Global Telecom Holding	GTHE	AGM	26-Jun	Discussing capital increase
Egyptian Transport and Commercial	ETRS	Dividends	27-Jun	Payment date (EGP0.50/share)
TMG Holding	TMGH	Dividends	15-Jul	Payment date (EGP0.088/share)
Ismailia Misr Poultry	ISMA	Dividends	8-Aug	Payment date (EGP0.10/share)

Quiz Answer

USD30bn, according to official statistics agency CAPMAS.

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