

Today's Story

Key Themes Dominating Banks' Financials in H1 2019

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(in Arabic)

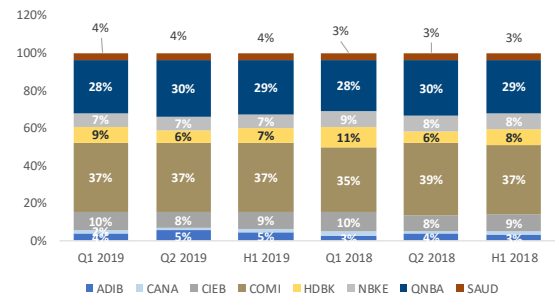
The Daily Cast
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With Q2 2019 earnings season approaching its end, many EGX-listed banks have already reported their H1 2019 results. In *Today's Story*, we highlight the dominant themes that ran through the income statements of eight EGX-listed banks, namely ADIB, CANA, CIEB, COMI, HDBK, NBKE, QNBA, and SAUD. Combined, these eight banks generated EGP14.43bn in earnings in H1 2019 (+21% y/y), with net interest income (NII) hitting EGP24.31bn (+24% y/y) and revenues totaling EGP29.07bn (+18% y/y).

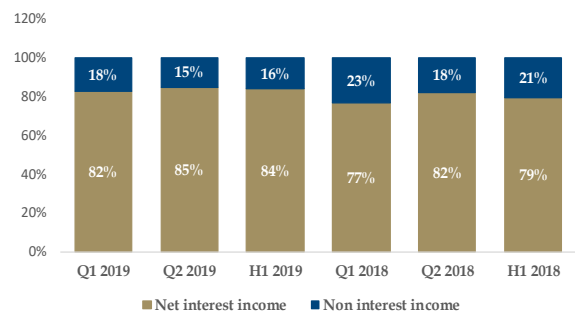
- Solid annual growth in net interest income:** The eight EGX-listed banks grew their combined NII to EGP24.31bn in H1 2019 (+24% y/y). Higher income was fostered by a set of factors, including some price leaps and volume-induced growth on a ytd basis. Although H1 2018 has counted 200bps in rate cuts vs. 100bps in H1 2019, we have seen funding costs for the respective banks growing by some 13% y/y, whereas interest income growth hit 18%—on average. This is primarily a product of the retroactive application of the new tax treatment, which pushed banks to rack up Treasury investments within H2 2018 at high yields. The effect of such Treasury acquisitions on interest income reflected on H1 2019 interest income. On the other hand, the rate cut last February helped contain growth of funding costs.
- Non-interest income lagged:** Contrary to interest income, the non-interest portion of revenues lagged notably for the eight banks, with fees and commissions income retreating 4.5% y/y to EGP3.28bn in H1 2019. Meanwhile, total non-interest income fell 7% y/y to EGP4.76bn, representing only 16% of revenues. Weaker demand, coupled with thinner margins on credit fees products, caused the revenue drag.
- Poor sequential growth with deterioration in efficiency:** Despite strong annual growth in profitability, quarterly growth was rather flattish. H1 2019 earnings hit EGP14.43bn (+21% y/y), whereas Q2 2019 earnings stood at EGP7.28bn (+18% y/y, +2% q/q). Sequential growth was weakened by (1) slow growth in interest income, (2) smaller non-interest income, and (3) higher opex which led to a higher cost-to-income ratio. In H1 2019, the eight banks' cost-to-income ratios rose to 29.8% from 26.8% a year ago. Efficiency was impaired by weaker non-interest income as well, coupled with higher G&A expenses. The increase in opex is to a larger extent the work of COMI, as the bank accrued expenses in some accounts as was the case in Q1 2019.
- Lower credit losses on IFRS9 application and a lower effective tax rate:** Provision for credit losses in H1 2019 declined by as much as 49% y/y to EGP997mn, coinciding with the application of IFRS9, due to massive provisions reversal by some banks. It seems like the readiness efforts for IFRS9 have kicked off early (before and through 2018), creating a high base for 2019. On a different note, while 2019 was projected to see a hike in banks' effective tax rate on the back of the new tax regime application, the effective tax rate actually decreased by 21bps in H1 2019. However, it was not really a surprise since the application took place retroactively, with banks slowing down their Treasury purchases notably during H1 2019, amid relatively higher lending activities.
- What's next after the recent rate cut?** With last Thursday's 150bps cut, rates have so far been cut by 250bps ytd. This is surely to affect banks' NIMs in H2 2019. The above chart to the right summarizes the short-term repricing gaps (up to one year) for the eight EGX-listed banks as of Q2 2019, representing them in percentages of the banks' total assets. A higher positive repricing gap coinciding with rate cuts indicates higher vulnerability to NIM shocks, led by ADIB, HDBK, and CIEB.

Net Earnings Between the 8 Banks



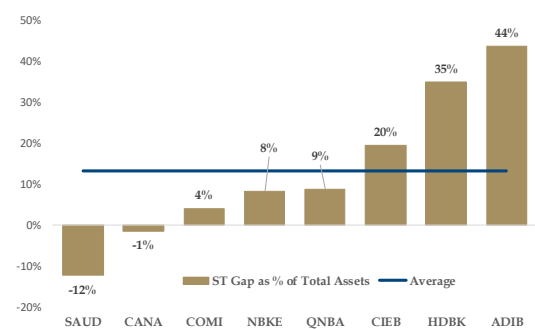
Source: Company reports.

Total Revenues Composition



Source: Company reports.

ST Gaps as % of Total Assets



Source: Company reports.

Top Headlines

Corporate

- **Heliopolis Housing & Development** (HELI) preliminary results for FY2018/19 ended 30 June 2019 showed profit increased c.42% y/y to EGP376mn on 13% y/y higher revenues of c.EGP1.08bn. Revenues were lifted by land sales, explaining the growing margins. ([EGX](#), [EGX](#))
- **Emaar Misr for Development** (EMFD) signed a contract worth EGP1.8bn with **Arabtec Construction**, a subsidiary of **Arabtec Holding** (DFM: ARTC), to build two new communities consisting of 449 residential units in the *Uptown Cairo* project. ([Company disclosure](#))
- **Cleopatra Hospital** (CLHO) inked a joint venture agreement with **Taleem for Educational Services & Consultations** and **Al-Nahda for Education & Management Services** to invest EGP360mn into developing **Al-Nahda Hospital** which will have 198 beds in addition to five operation rooms after the expansion. CLHO said that the first phase of operations in the project is expected to commence by Q4 2020. ([Company disclosure](#))
- **Suez Cement** (SUCE) said it generated proceeds of EGP7.6mn from selling **Tourah Cement's** (TORA) scrap to affiliates in an auction held on 24 August 2019. Meanwhile, the prices offered for TORA's old kilns, which were put up for the same auction, were rejected and the kilns will be re-auctioned, SUCE said, setting no date for the event. ([EGX](#))
- **Electro Cable Egypt** (ELEC) saw its consolidated revenues increase by 15% y/y to EGP480mn in Q2 2019, up from EGP417mn in Q2 2018. Gross profit declined slightly to 17% from 19%. Meanwhile, net profit fell to EGP2mn from EGP30mn, shaving ELEC's NPM to 0.5% from 7%, mainly due to a higher SG&A expenses-to-revenues of 2.3% and an increase in income tax to EGP21mn in Q2 2019. ([EGX](#))
- **Egytrans'** (ETRS) consolidated financial indicators showed 26% y/y higher revenues of EGP156mn in H1 2019, up from EGP124mn in H1 2018. Meanwhile, GPM dropped to 29% from 40%, and net profit slid to EGP24mn from EGP25mn. ([EGX](#))
- **Canal Shipping Agencies** (CSAG) has put up a two-story building with a total area of 5,900 sqm for rent in an auction to be held on 15 September 2019. The results will be announced once the auction is concluded. ([EGX](#))

Non-Corporate

- The **Egyptian government** targets to bring **Egypt's** poverty rate down to 28% during the current fiscal year, from 32.5% in FY2017/18. ([Al-Borsa](#))
- The **Egyptian government** is looking to impose a 5-10% schedule tax on social media and internet search ads on top of the 14% VAT as part of anticipated amendments to the VAT law. ([Enterprise](#))
- **Average yields** were down in an auction held on **25 August 2019**, after the **CBE's** decision to cut policy rates last Thursday: ([CBE](#))

Maturity	Yield	Was	Required	Submitted	Accepted	Bid-to-cover ratio
182 days	16.900%	17.959%	EGP9.5bn	EGP21.5bn	EGP11bn	2.3
357 days	16.511%	17.496%	EGP9.5bn	EGP36.4bn	EGP9.5bn	3.8

Markets

↗	EGX 30	14,340.51	0.05%	↘	EGX 30 TR	5,285.33	(0.69%)
↘	EGX 70	548.61	(0.81%)	↘	EGX 100	1,435.02	(0.57%)
↘	DFMGI	2,715.68	(1.92%)	↘	ADSMI	4,968.17	(1.41%)
↘	TASI	8,241.67	(2.42%)	↘	QE Index	9,817.67	(1.02%)
↘	S&P 500	2,847.11	(2.59%)	↘	MSCI EM	973.66	(0.20%)
↗	Gold	1,529.63	0.17%	↘	Brent Oil	58.83	(0.86%)

*As of market close, except for commodities at spot price as of 9am CLT.

- **MENA Markets:** Egypt's benchmark **EGX 30** closed slightly higher on Sunday, fueled by **COMI**, **EGTS**, and **ORAS**. In the **UAE**, **DFMGI** ended lower, pressured by **real estate** and **banking** stocks, and **ADSMI** headed south, hit by its **banking** and **telecom** sectors. Also, **Saudi Arabia's TASI** fell, as **banking** and **materials** stocks slid.
- **Global Markets:** **US stock** futures saw a partial recovery Monday morning but still pointed to opening declines following the latest escalation in the **US-China** trade war by **US President** Donald Trump. **Oil** prices fell, pushing **US crude** to its lowest level in more than two weeks, while **gold** prices took the opposite direction, recording a fresh six-year high.

Number of the Day

90%

Cleopatra Hospital's (CLHO) stake in the new joint venture company that will run **Al-Nahda Hospital** in **Beni Suef**.

Today's Quiz

How many beds will **Cleopatra Hospital** (CLHO) operate after running **Al-Nahda Hospital** and implementing all other hospital expansions?

(Answer located at the end of this newsletter)

Corporate Events

Company	Ticker	Event Type	Event Date	Reason
Heliopolis Housing & Development	HELI	EGM	26-Aug	Voting on management attribution to private partner
Heliopolis Housing & Development	HELI	Tender	28-Aug	Merryland Children Garden lease auction
Canal Shipping Agencies	CSAG	EGM	29-Aug	Discussing proposed dividends of EGP0.30/share
CI Capital Holding	CICH	AGM	2-Sep	Discuss capital increase
Suez Canal Bank	CANA	Lawsuit	4-Sep	To rule in a lawsuit that invalidated the Bank's AGM on April 4, 2018
Global Telecom Holding	GIHE	EGM	9-Sep	Discussing delisting from EGX; approving asset sale.
Ezz Steel	ESRS	Lawsuit	9-Sep	Steel Billets -Law Suit
Dice Sport & Casual Wear	DSCW	EGM	12-Sep	Discuss capital increase
Amer Group Holding & Porto Group Holding	AMER / PORT	Lawsuit	15-Sep	Legal Disputes relevant to <i>Porto Tartous</i> project
Maridive & Oil Services	MOIL	EGM	16-Sep	Discuss capital increase
Egyptian Resorts Co.	EGTS	AGM	25-Sep	Reviewing Agenda Items
Amer Group Holding	AMER	Lawsuit	26-Sep	Legal disputes relevant to the company
Porto Group Holding	PORT	Lawsuit	26-Sep	Legal disputes relevant to the company
Arabia Investments Holding	AIH	Lawsuit	29-Sep	lawsuit against French Peugeot
Sidi Kerir Petrochemicals	SKPC	Dividends	16-Oct	Payment date (EGP0.25/share)
Egyptian Resorts Co.	EGTS	Lawsuit	26-Oct	Appeal against TDA regarding Sahl Hasheesh
Misr Cement (Qena)	MCQE	Dividends	31-Oct	Payment date (EGP0.25/share)

Correction & Clarification

In *The Daily Beam* published Sunday, 25 August 2019, the value of the works awarded to Mitsubishi-Orascom Construction (ORAS) in phase one of Cairo Metro Line IV should read JPY85.1bn (EGP3.8bn, **EUR397.3mn**, and JPY10.1bn). The Euro component mistakenly read **EUR397.3bn**.

Quiz Answer

A total of **1,039 beds** (643 total beds across its four existing hospitals, added to 108 in **El-Katib Hospital**, 50 in **Queens Hospital**, 40 in beds **Al-Shorouk Hospital** expansion, 198 in **Al-Nahda Hospital** in **Beni Suef**).

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