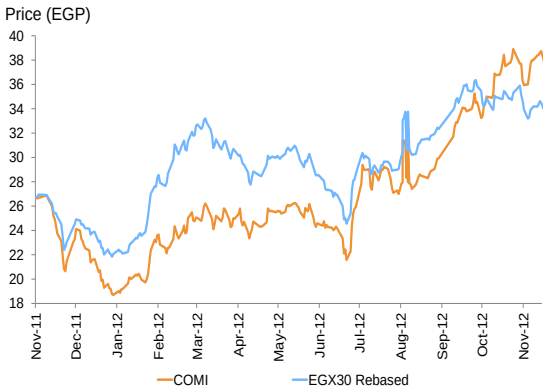
CIB: Trading gains lifting 3Q12 profit – BUY

- **Commercial International Bank (CIB) posted a 3Q12 net profit of EGP610m (up 16.7% QoQ and 94.2% YoY), 23.5% above our estimate on higher than expected trading gains (+163% QoQ)**
- **Total assets were almost in line with estimate, growing 4.4% QoQ to EGP93.5bn on increased investments in government bonds**
- **Loan growth remained subdued over 3Q12 (+1.1% QoQ), with contribution from retail surpassing that from corporate**
- **CIB booked high provisions in 3Q12 after downgrading two accounts, which raised the NPL ratio to 3.4%; however, we are still comfortable with the coverage ratio of 116%**
- **We have raised our TP to EGP39.8 after factoring 3Q12 results into our model and raising our net earnings assumptions for 2012 and 2013. We upgrade our call to BUY from HOLD as the share now offers c. 22% upside to TP**

NII up on high income from T-Bills. Net interest income (NII) reached EGP1.03bn in 3Q12, up 10.6% QoQ and 49.3% YoY (10.0% above our estimate). The QoQ increase was primarily the result of strong income from T-bills and bonds (up 15.1% QoQ). 9M12 NII rose to EGP2.83bn (up 45.0% YoY) on the back of a 74.6% increase in income from T-bills and bonds.

CIB's annualised net interest margin (NIM) came in 39bps above our estimate, at 4.50% in 3Q12 vs. 4.23% in 2Q12 and 3.46% in 3Q11. Meanwhile, the interest spread also widened to 4.76% vs. 4.14% in 2Q12 and 3.78% in 3Q11. The spread increased due to an 82bps improvement in interest yields (10.2% in 3Q12), particularly on fixed income investments, whose average yield reached 14.7% in 3Q12 vs. 12.9% in 2Q12. CIB has shifted its investments in T-Bills to longer-maturity government bonds in order to lock-in the high yields; this should keep its NIM high over the medium term. CIB has also raised loan pricing to its corporate clients by 100 bps, the effect of which should start to be felt in 4Q12. In addition, we believe that CIB's growing exposure to retail should provide additional support to keep NIMs elevated over the medium term. We expect NII to total EGP3.88bn in 2012 (+44.0% YoY) and EGP4.31bn in 2013, with the NIM at 4.2% at the end of 2012 and at 4.3% at the end of 2013.

COMI. vs. EGX 30 Rebased



Source: Bloomberg, NAEEM Research

Market Price (EGP)	32.6
Target Price (EGP)	39.8
Upside Potential (%)	22%
Free Float (%)	90.7%
Market Cap. (EGPm)	19,488
Market Cap. (USDm)	3,187
Reuters Code	COMI.CA
Bloomberg Code	COMI EY

Year to 31 Dec.	2010a	2011a	2012e	2013f	2014f
Net Profit (EGP)	2,006	1,615	2,285	2,719	3,189
Net Profit (% Δ)	15%	-19%	42%	19%	17%
Total Op. Inc. (EGP)	3,876	3,959	5,318	5,862	6,698
Total Op. Inc. (% Δ)	13%	2%	34%	10%	14%
EPS (EGP)	3.4	2.7	3.8	4.6	5.3
EPS (% Δ)	15%	-19%	42%	19%	17%
P/E	9.7x	12.1x	8.5x	7.2x	6.1x
P/B	2.5x	2.5x	2.0x	2.0x	1.9x
Yield	3.1%	3.1%	3.8%	3.8%	4.6%
ROAE	27.2%	20.6%	26.0%	27.8%	31.4%
NIM	3.2%	3.3%	4.2%	4.3%	3.9%
Non-interest Margin	1.2%	0.6%	0.7%	0.6%	0.9%

Source: Company data, NAEEM estimates
Closing price as of 3 December 2012

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Trading gains boost non-interest income. Non-interest income reached EGP446m, +38.5% QoQ and +98.8% YoY, coming in 67.0% above our estimate due to a EGP160m gain on trading debt instruments vs. EGP7m in 3Q11. We believe that this was exceptional and gains should be smaller over the coming quarters, with an estimated trading gain of EGP50m in 4Q12. Fee and commission (F&C) income rose 6.8% QoQ and 19.0% YoY to EGP231m (13.1% above our estimate of EGP205m) on strong growth in trade finance fees, according to management. We expect F&C income to close the year at EGP903m (+7.2% YoY), in the wake of some recovery, especially in trade finance activity.

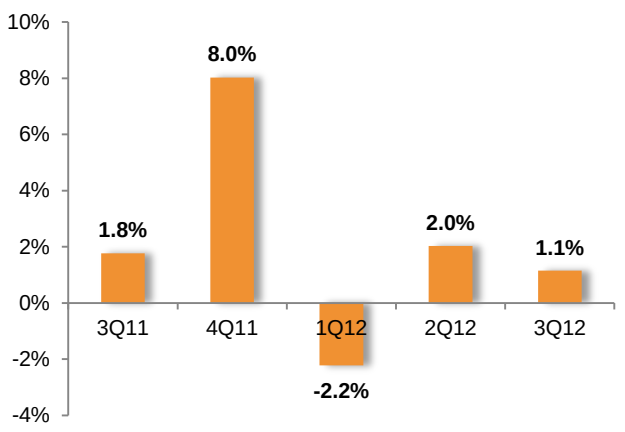
Operating costs better than expected. Operating costs were up 3.3% QoQ and 12.0% YoY to EGP395m, coming in ahead of our estimate of EGP424m, improving the cost-to-income ratio to 26.8% vs. 30.5% in 2Q12 and 38.6% in 3Q11. We believe that CIB will continue with its strict cost-control measures through 4Q12 and 2013, and have therefore lowered our cost-to-income ratio forecast for 2012 and 2013 to 30.1% and 31.1%, respectively.

3Q12 net profit above forecast. The 3Q12 net profit of EGP610m (+16.7% QoQ and +94.2% YoY) came in 23.5% above our estimate of EGP494m and 12.4% above market consensus. The variance mainly stemmed from the much higher-than-expected trading gains. Excluding this gain, 3Q12 net profit would have been 9% below our estimate. Despite this, CIB posted better-than-expected NII and F&C in 3Q12. Accordingly, we have raised our net profit forecast for 2012 by c. 12% to EGP2.29bn (+41.7% YoY), which we believe will be supported by stronger NII growth and higher non-interest income.

Balance sheet growth almost in line. Total assets rose 4.4% QoQ and 14.7% YoY in 3Q12 to EGP93.5bn (slightly above our estimate of EGP92.7bn). The quarterly increase came mainly from a 32.5% increase in non-trading investments (specifically debt instruments) to EGP25.3bn in 3Q12, as CIB shifted its investments from T-Bills to longer-maturity government bonds.

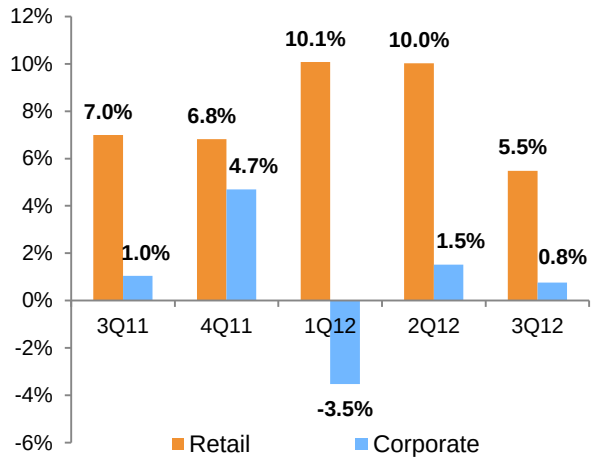
Gross loans increased 1.1% QoQ and 9.0% YoY, reaching EGP43.3bn in September 2012, a tad below our estimate of EGP43.6bn. The growth was mainly the result of a 5.5% QoQ increase in retail loans, as opposed to a 0.8% QoQ increase in corporate loans. Corporate loan growth is still driven by demand for short-term facilities, with minimum contribution from long-term facilities. Given a more stable political and economic environment, we believe demand for long-term facilities is likely to rebound somewhat in 2013. We forecast loans to close the year at EGP44.8bn (+4% YoY) and increase a further 13% YoY in 2013.

Figure 1: Quarterly loan growth



Source: Company data, NAEEM Research

Figure 2: Retail vs. Corporate growth (QoQ)



Source: Company data, NAEEM Research

Deposits increased 2.2% QoQ and 12.4% YoY in 3Q12 to EGP78.2bn (1.1% above our estimate) following a 6.5% QoQ and 35% YoY increase in Certificates of Deposit (CDs). CIB was successful in attracting local currency funds, as targeted at the beginning of the year, with local currency deposits now making up for 62% of the total deposit base vs. 58% in December 2011. CIB management affirmed that it will continue focusing on collecting local currency funds in the coming period. Although this move can further raise the bank's cost of funding (+79% YTD), spreads on local currency are still higher than that on foreign currency, making the former more profitable. We forecast CIB's deposits to reach EGP79.9bn by end-2012, with market share increasing to 7.7% from 7.3% in 2011.

High provisions in 3Q12, albeit not sustainable. CIB's non-performing loans (NPL) ratio rose to 3.4% in 3Q12 vs. 2.8% in 2Q12 and 2.9% in 3Q11, following the downgrading of two accounts from the watch list to non-performing during the quarter. This pushed up provisions for 3Q12 to levels much higher than in previous quarters as well as our expectation to EGP247m vs. EGP143 in 2Q12 and EGP111m in 3Q11, with coverage ratio reaching 116%. CIB management explained that the provisions were sizeable owing to strong revenue growth over the quarter.

Although we do not expect CIB to make any further significant downgrades in its loan book in the near future, we expect the NPL ratio to remain at the elevated 3Q12 level of 3.4% through 4Q12 and most likely 2013, as under the IFRS, CIB has to keep the downgraded accounts as non-performing for 12 months; in addition, the customer has to pay back 20% of debt outstanding before they can once again be upgraded. Nevertheless, we see provisioning levels coming off their peaks for the rest of 2012 and into 2013, and therefore project that CIB's provisions would be 33% lower in 2013 vs. 2012, with provision cover staying above 100%.

Raising TP and recommendation to BUY. We have raised our TP to EGP39.8/share (from EGP34.1), after adjusting our model for 3Q12 results, and raising our earnings assumptions for 2012 and 2013 on stronger NII and non-interest income growth. We also upgraded our recommendation to BUY (from HOLD), as the shares now offer potential upside of 22% from current levels.

Disclosure Appendix

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HOLD	+10% to -10%	35%
REDUCE	<-10% to -20%	0%
SELL	< -20%	3%

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