FFA Private Bank s.a.l

Lebanese Banks	Bank Audi (AUDI LB)	MARKETWEIGHT	USD 7.00
Q1/15 Preview	Blom Bank (BLOM LB)	OVERWEIGHT	USD 10.50
March 30th, 2015	Byblos Bank (BYB LB)	MARKETWEIGHT	USD 1.60

As investor enthusiasm around 5%+ dividends winds down starting April, we believe shares will remain driven by book value expansion which should continue to grow at more moderate levels on account of macro sluggishness and profitability constraints

At the sector level deposits grew 6.0% in 2014, while loans grew 7.4% helped by the CB initiatives: Lebanese banks have been navigating through unfavorable economic and political backdrops, with real GDP growth declining to just 2% between 2011 and 2014e as per IMF from an annual rate of 8%+ pre-Syrian crisis levels. Figures for 2014 show that banks are still coping with the difficult backdrop as highlighted by moderating assets and deposits growth at 6.6% and 6.0% reaching USD 176 billion and USD 144 billion respectively. Lending growth was more energetic at 7.4% reaching USD 51 billion, partially driven by BDL stimulus, which should continue to support economic and banking system growth. We note that BDL renewed its liquidity injection for 2015 for an amount of USD 1 billion. Deposits continue to fund most of the sector's assets (82% at end-2014) which in turn largely exceed the size of the economy given an estimated assets/GDP ratio at 370%+. Non-resident deposits represented a stable 21% share in deposits at the end of Dec-14, which along with resilient remittances continue to fuel the sector's liquidity (LDR at 35% at end-2014).

Balance sheet of banks under coverage should sustain a low single digit growth in Q1/15e still weathering economic sluggishness: In Q4/14, Blom Bank and Byblos Bank loans growth was muted, while deposits grew 1% QoQ for both banks and LDRs were maintained in the 29%-30% range. Bank Audi's balance sheet regained momentum QoQ (deposits +6%, loans +8%) mostly driven by Odea Bank (now representing 26% of total assets). Bank Audi's LDR neared 48% at the end of Q4/14 above the 35% sector average as the LDR of Odea Bank (currently stable at 85%) moved closer to the 100%+ sector average in Turkey. We expect soft growth in assets, deposits and loans in Q1/15e across our universe in the 1%-2% range for Blom Bank and Byblos Bank while Bank Audi keeps an edge at 3%. For 2015e, we expect banks under coverage to continue growing despite persistent sluggishness in domestic economic conditions (IMF expects real GDP growth at 2.5% in 2015e). We expect the following growth rates in 2015e for assets, deposits and loans: 10%, 11% and 11% respectively for Bank Audi, 5%, 5% and 7% respectively for Blom Bank, 6%, 6% and 6% respectively for Byblos Bank.

Banks under coverage are still coping with profitability constraints, while should see some relief including normalizing cost of risk: Lebanese banks are still dealing with narrowing asset yields from maturing higher coupon gov't securities and low global benchmark policy rates (Lebanese banks' spreads in USD and LBP down 3 bps and 31 bps respectively YoY in Jan-15 as per the ABL). Still positive balance sheet growth along with normalizing cost of risk and cost control measures should help alleviate pressures, along with ABL recommendation to gradually lower the cost of funds facing squeezed assets yields. Our estimates for YoY net profits growth in Q1/15e is 22% for Bank Audi benefiting from Turkey (EPS at USD 0.22, -1% YoY due to capital increase), 8% for Blom Bank (EPS at USD 0.42, +7% YoY), and 38% growth for Byblos Bank from an unusually low Q1/14 (EPS at USD 0.06, +55% YoY). We expect EPS for 2015e to grow mid-single digits, to reach USD 0.91, USD 1.70 and USD 0.24 for Bank Audi, Blom Bank and Byblos Bank respectively.

As investor enthusiasm around 5%+ dividends winds down starting April, we believe shares will remain driven by book value expansion: Listed share prices of banks under coverage saw positive growth so far in 2015 (Bank Audi: +13%, Blom Bank: +10%, Byblos Bank: +8%), highlighting investors' increased interest ahead of dividend season which typically starts in April. Going forward, we expect shares to give back recent appreciation following their respective ex-dividend dates. At current market prices and based on most recent dividend distribution (Byblos Bank for FY 2013) and proposed (Bank Audi and Blom Bank for FY 2014), we note that Byblos Bank offers the highest dividend yield at the expense of higher payout versus peers pointing to limited room to grow dividends over time. Bank Audi: DPS $0.40 (unchanged from last year), 5.9% yield, payout 46%; Blom Bank: DPS $0.66 (up strongly from $0.50 last year), 6.8% yield, payout 41%; Byblos Bank: DPS $0.13, 7.7% yield, payout 65%. Going forward, share price momentum should remain limited to book value expansion as we do not expect any significant multiple expansion due to lack of visibility from difficult operating conditions, heightened country risk and underdeveloped/illiquid equity market. We estimate BVPS (to common) expansion for the three banks at 4%, 11% and 5% respectively for Bank Audi, Blom Bank and Byblos Bank in 2015e.

FFA Private Bank Lebanese Banks Coverage

Company	Symbol	Recommendation	Target Price	Share Price *	Ytd change	P/E **	P/B to common	Dividend Yield
Bank Audi	AUDI.LB	Marketweight	USD 7.00	USD 6.76	+12.7%	7.9x	0.96x	5.9% ***
Blom Bank	BLOM.LB	Overweight	USD 10.50	USD 9.70	+10.2%	6.0x	0.92x	6.8% ***
Byblos Bank	BYB.LB	Marketweight	USD 1.60	USD 1.73	+8.1%	7.5x	0.79x	7.7%

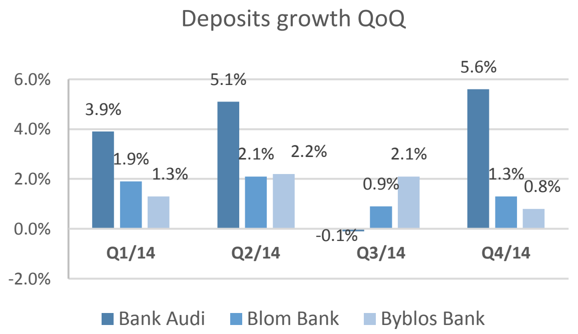
Source: Company reports, BSE, FFA Private Bank estimates Note:* Listed shares as of March 30, 2015 market close, **Based on TTM EPS, *** Subject to the approval of the general assembly

We maintain our recommendation unchanged on the three banks, remind that Blom Bank is the sole Overweight although see value in Bank Audi shares on any short term pullback: We keep our recommendations unchanged and remind that Blom Bank is Overweight in our universe given higher quality core income, above average margins, efficiencies and ROE, stable growth in earnings, solid capitalization, sizeable liquidity and conservative approach to growth. We also remind that recently proposed payment of a USD 0.66 DPS was substantially higher than the USD 0.50 paid last year highlighting the Bank's ability to increase dividends given a lower than average payout. We highlight potential short term pressure on Bank Audi shares could create an interesting entry point for investors given: i) enthusiasm wind down after dividends get paid particularly given the biggest Ytd appreciation among banks under coverage, ii) weaker H1/15 estimated YoY EPS growth due to higher share count from capital increase, and iii) realization of more muted balance sheet growth in Turkey given sizeable Turkish Lira devaluation. We see value in Bank Audi shares on any potential short term pullback for investors wishing to participate in its above average growth and geographic risk diversification relative to peers.

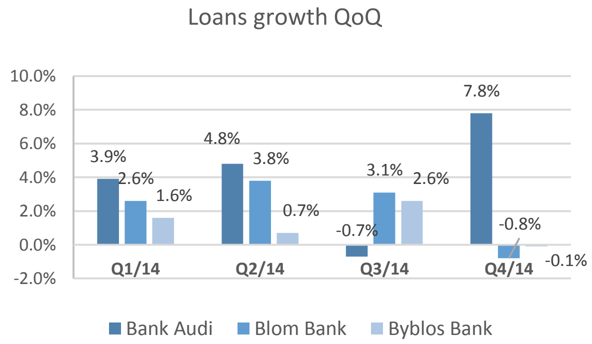
Contacts:
Head of Research: Nadim Kabbara, CFA
n.kabbara@ffaprivatebank.com +961 1 985 195
Analyst: Raya Freyha
r.freyha@ffaprivatebank.com +961 1 985 195
Sales and Trading, FFA Private Bank (Beirut)
+961 1 985 225
Sales and Trading, FFA Dubai ltd (DIFC)
+971 4 3230300

Banks Under Coverage - Comparative Snapshots

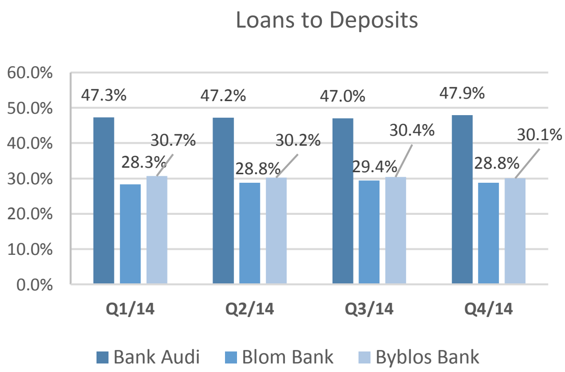
Deposits growth regained momentum for Bank Audi in Q4/14 finding support from Turkey, yet still soft for Blom Bank and Byblos Bank



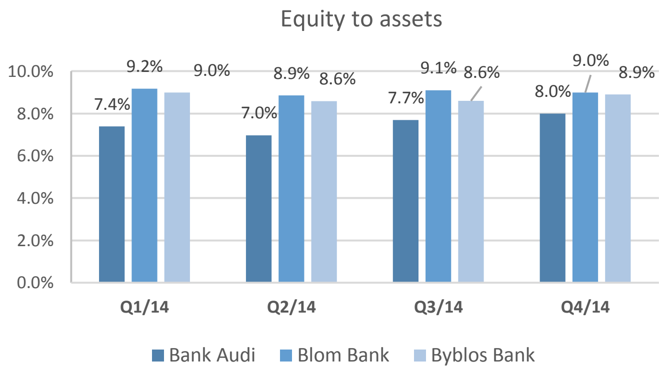
Loans growth surged for Bank Audi in Q4/14 mostly driven by Turkey, while Blom Bank and Byblos Bank loans growth was muted



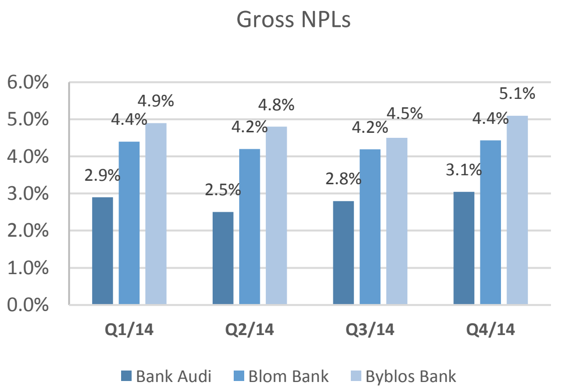
While Blom Bank and Byblos Bank's LDR remain below sector's average at 35%, Bank Audi LDR almost reached 48%



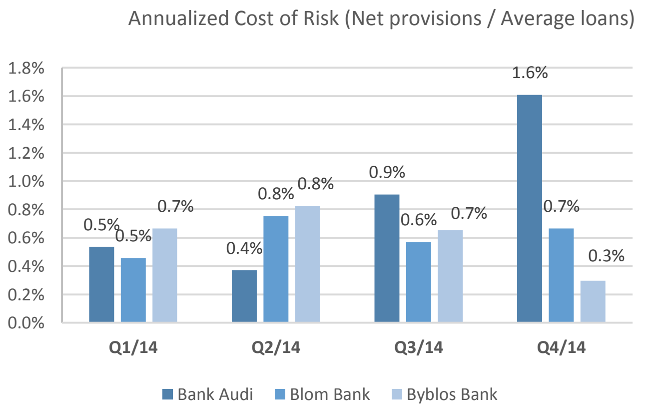
Bank Audi equity to assets ratio at 8% in Q4/14, still screening lower compared to other banking peers under coverage



We note increased NPL formation QoQ across the three banks, as well as Bank Audi's higher asset quality versus peers

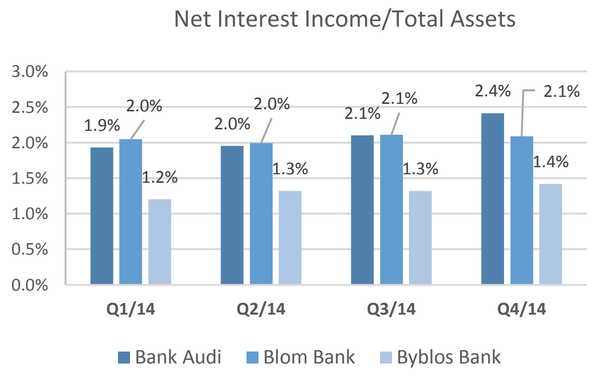


Cost of risk rose for Bank Audi in Q4/14 well above previous quarters' levels on prudent provisioning measures across various entities

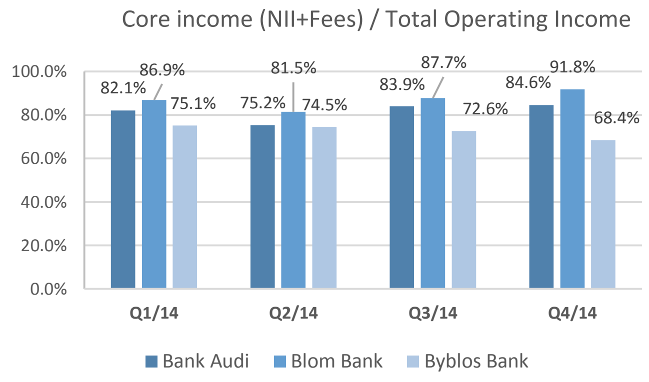


Source: Company reports and FFA Private Bank estimates

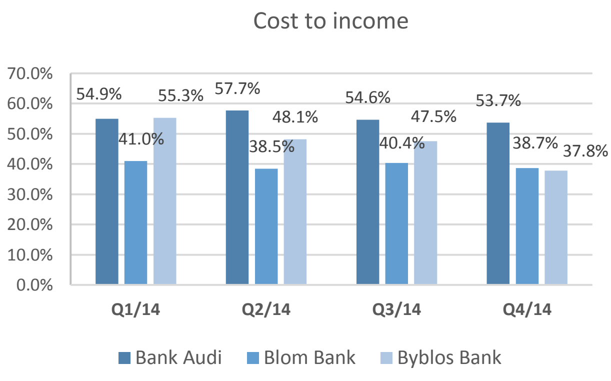
Blom Bank maintained roughly stable NIMs, while Byblos Bank witnessed slight improvement and Bank Audi's margins still moving upwards as Odea Bank converges towards Turkish average



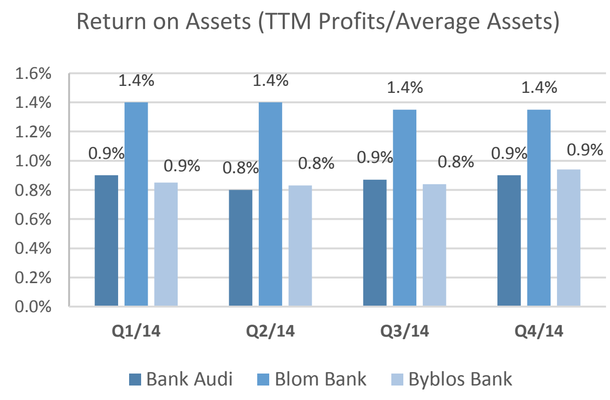
We still highlight Blom Bank's higher core income's contribution to total operating income, lending support to earnings stability, in contrast to deterioration at Byblos Bank recently



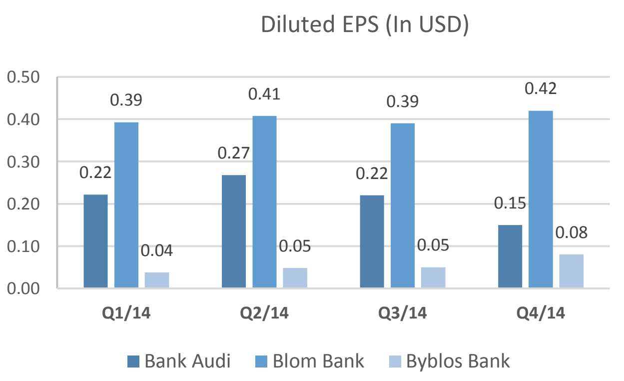
Blom Bank still displays higher efficiencies while Byblos Bank's cost-to-income was unusually low in Q4/14 and Bank Audi cost-to-income still above pre Turkey expansion levels



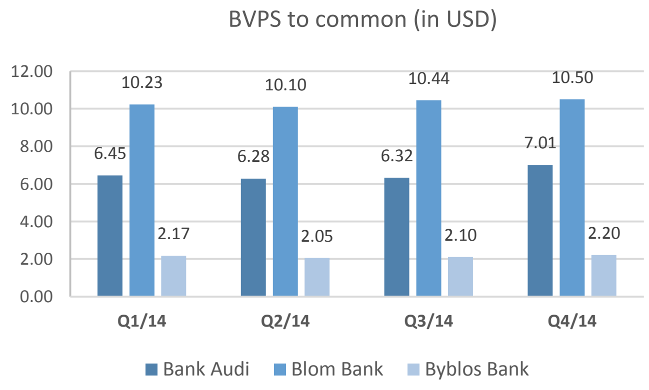
We value Blom Bank's higher profitability compared to peers at a stable 1.4% ROA over the past four quarters, while both other banks remain just under the 1% threshold



EPS volatility has been higher for Bank Audi, while Blom Bank has been demonstrating relatively stable earnings and Byblos Bank EPS improved in Q4/14



We remind that higher book value per share has helped share price appreciation as multiple expansion remained capped



Source: Company reports and FFA Private Bank estimates

BANK AUDI

Company Description

Bank Audi is the largest bank in Lebanon in terms of assets with an asset base at USD 42.0 billion and earnings at USD 350 million in 2014. The Bank had a total of 207 branches and 6,408 employees as of the end of December 2014 with operations in its domestic market Lebanon as well as across Europe, MENA and Turkey. The Bank's diversification across markets translates into a breakdown of assets and earnings between domestic and international at a respective 53%/47% and 58%/42% in 2014. In terms of assets Turkey is currently the biggest international market for Bank Audi. The current strategy is geared towards three key markets: Lebanon, Turkey and Egypt. We highlight the Bank's relatively sound asset quality (Gross NPL ratio at 3.1% at the end of 2014) amidst a difficult backdrop, the solid balance sheet growth and potential to pick up margins and profitability from current levels driven largely by Turkey.

Insights on dividends

We value Bank Audi's 2014 financial results given solid balance sheet and earnings growth. We also highlight that the Board of Directors recently proposed the payment of a dividend of USD 0.40 per common share (before a 5% tax) for 2014 (unchanged from last year) still subject to the General Assembly approval on April 15, 2015. This represents a 5.9% dividend yield on today's listed share price and a dividend payout at 46% down from 50% last year. Agenda for common shares dividend distribution will be as follows: Record Date, April 14, 2015, Payment Date April 15, 2015.

We note that Bank Audi dividend per common share has remained unchanged at USD 0.40 for the past couple of years while dividend payout has been maintained in the 40%-50% range.

Q4/14 Key Financial Highlights

Net profits at USD 70 million in Q4/14, totaling USD 350 million in 2014 (+15% YoY)

- Net interest income rises sharply in Q4/14 (+15% QoQ, +45% YoY) and for the full year 2014 (+30% YoY) on balance sheet growth and margin improvement.
- Stronger fees and commissions YoY (+24% in Q4/14, +32% in 2014) helped drive core income contribution to 81% in 2014 vs. 77% in 2013.
- Cost-to-income stabilizes in the mid 50% range yet still above pre-Turkey expansion levels. Odea's net profits turn positive at USD 16 million for 2014 (5% of consolidated net profits).
- Gross NPL ratio breaches 3% in Q4/14 with higher cost of risk (est. 1.6%).
- Expansion in key balance sheet indicators resumed in Q4/14, driving annual growth in the 15%-17% range.
- CAR III increased to 13.7% at the end of 2014 vs. 12.1% last year, while profitability ratios trended slightly upwards sequentially.

Latest Key Regional Highlights

- Bank Audi's breakdown of assets and earnings between domestic and international operations stands at 53%/47% and 58%/42% respectively in 2014.
- In two years of activity, Odea Bank accumulated USD 11.1 billion in total assets representing 26% of group assets and is seeking to benefit from operating leverage as branch network expands and gains maturity. Odea Bank started reporting its first set of profits in Q2/14 at USD 3.3 million, which further accelerated to USD 11.2 million in Q3/14 and USD 10.2 million in Q4/14. Odea Bank's net profits for the full year 2014 amounted to USD 16.2 million equivalent to ~5% of consolidated net profits. We expect Odea Bank's profitability to continue improving as margins, efficiencies and LDRs move higher and closer to peers.
- Operations in Syria were downsized to less than 1% of consolidated assets and 4% of consolidated profits in 2014, limiting the exposure of Bank Audi to Syria's heightened risks.

- At the end of 2014, the Group had USD 4.3 billion in assets in Egypt and generated USD 57.6 million in earnings for the year accounting for 10% of consolidated assets and 16% of total profits.
- The Bank's current key pillar markets are: Lebanon, Turkey and Egypt.

FFA Model Assumptions

- We forecast net profits of USD 105 million in Q1/15e (+48% QoQ, +22% YoY).
- Expect net interest income at USD 238 million in Q1/15e, up 31% YoY although 2% down QoQ, with the YoY improvement being driven by higher margins and solid earning assets momentum from Turkish expansion. Going forward, Odea Bank should help Bank Audi's margins as Turkish banks typically boast higher margins and as branches gain maturity.
- Net fees and commissions to reach USD 67 million (+1% QoQ, +29% YoY).
- We expect QoQ growth between 2% and 3% in Q1/15e for assets, deposits and loans.
- The LDR is expected at 48% by the end of Q1/15e.
- We forecast provisions of USD 33 million in Q1/15e with an estimated annualized cost of risk of 0.76%.
- Our estimate for cost to income in Q1/15e at 55%, still high compared to pre-Turkey expansion levels.
- Looking at 2015e, net profits should total USD 417 million (+19% YoY) with EPS at USD 0.91 (+ 6% YoY), driven by stronger operating income, slightly lower cost of risk and gradually improving efficiencies.

Table 1: FFA Model Forecasts

USD million	FFA Q1/15e	Q4/14a	Q1/14a	QoQ %	YoY %	2014a	FFA 2015e
Net interest income	238.2	243.9	182.4	-2%	31%	829.9	974.0
Operating income	372.0	366.5	285.7	1%	30%	1,322.0	1,519.8
Net profits	104.5	70.5	85.7	48%	22%	350.3	417.0
Diluted EPS	0.22	0.15	0.22	48%	-1%	0.86	0.91
Assets	42,703	41,958	37,813	2%	13%	41,958	45,998
Deposits	36,778	35,823	32,320	3%	14%	35,823	39,758
Loans	17,661	17,168	15,293	3%	15%	17,168	19,096
BVPS to common	7.09	7.01	6.45	1%	10%	7.01	7.32
FFA Cost-to-income ratio	55.0%	53.7%	54.9%			55.3%	54.9%
Loans-to-deposits ratio	48.0%	47.9%	47.3%			50.0%	52.9%

Source: Company reports and FFA Private Bank estimates

Investment Opinion

We value Bank Audi's domestic leadership, asset quality and improving margins, however investors likely to remain on the sidelines waiting for more visibility in terms of generating returns from its growth strategy

Bank Audi is the largest bank in Lebanon with a demonstrated franchise and the confidence of its clients in Lebanon and abroad. In light of difficult operating conditions we value its fundamentals mainly from the preservation of its asset quality and interest margins as well as an ambitious expansion strategy in Turkey that is materializing into assets diversifying away from Lebanon's risk and towards gradually higher margins. We continue to rate Bank Audi shares at Marketweight, although see value on any short term pullback on account of: i) enthusiasm wind down post dividend payment ii) weaker estimated EPS growth in H1/15 on higher share count, iii) Turkish Lira devaluation adversely impacting balance sheet growth.

Target Price Revision and Recommendation

We reiterate our Marketweight rating on Bank Audi shares with a fair value at USD 7.00 per share
Based on our revised forecasts and discount rate assumptions to our Dividend Discount Model, our fair value estimate for Bank Audi is at USD 7.00 per share. Our DDM assumes a 14% cost of equity and a 3% terminal growth rate. We corroborate our DDM valuation by means of the residual income method as well as historical and comparable P/E and P/B multiples.

BLOM BANK

Company Description

Blom Bank is the second largest Bank in Lebanon in terms of assets with an asset base at USD 28.0 billion and earnings at USD 365 million in 2014. The Bank had a total of 256 branches and 4,705 employees as of the end of December 2014 with operations in its domestic market Lebanon as well across Europe and the MENA region. The Bank's diversification across markets translated into a breakdown of assets and earnings between domestic and international at 77%/23% and 78%/22% in 2014. The Bank's current strategy is geared towards two key markets: Lebanon and Egypt which is currently the biggest international market for Blom Bank. The Bank has so far adopted a conservative approach to growth translating into ample liquidity buffers and solid capitalization. We also note that Blom Bank has surpassed its peers in terms of earnings stability, interest margins and cost-efficiencies.

Insights on dividends

We value Blom Bank's healthy balance sheet growth and stable earnings generation in 2014. We also highlight that the Board of Directors recently proposed the payment of a dividend of USD 0.66 (before a 5% tax) per common share for 2014 (substantially up from USD 0.50 in 2013) still subject to the General Assembly approval on April 15, 2015. This represents a 6.8% dividend yield on today's listed share price and a dividend payout at 41% up from 32% in 2013. Agenda for common shares dividend distribution will be as follows: Record Date, April 22, 2015, Payment Date April 23, 2015.

We previously highlighted that Blom Bank has the highest potential to increase dividends from current levels given a lower than average payout ratio, having seen frequent increases in DPS over the past decade.

Q4/14 Key Financial Highlights

Net profits at USD 96 million in Q4/14, totaling USD 365 million for 2014 (+4% YoY)

- Net interest income increased nicely YoY (+12% in Q4/14 to USD 147 million, +7% in 2014 to USD 565 million) mostly from higher earning assets as margins were likely stable within the targeted 2%-2.2% range. Sequentially, net interest income edged up 1% in Q4/14.
- Fees and commissions income soars in Q4/14 to reach USD 43 million, while financial gains weaken pointing to a higher quality revenue mix. Same trend can be seen for the full year 2014.
- Cost of risk still well-contained supporting profits while cost-to-income ratio holds below 40%. Lower tax rate helps profits in Q4/14.
- On the balance sheet side we note healthy performance Ytd and note that loans growth kept an edge over deposits and assets growth despite declining in the last quarter.
- Comfortable capital position with CAR III stable at 17.5% and profitability ratios at the high end of our coverage universe.

Latest Key Regional Highlights

- Blom Bank breakdown of assets and earnings between domestic and international operations stands at 77%/23% and 78%/22% respectively in 2014.
- The Bank operations in Syria have been downsized to just 1% of total assets and 4% of total profits in 2014, thus limiting the exposure of Blom Bank to Syria's heightened risks.
- At the end of 2014, the Group had around USD 2.1 billion in assets in Egypt and generated USD 33.7 million in net earnings for the year accounting for around 7% of consolidated assets and 9% of consolidated profits.
- The Bank's key pillar markets are: Lebanon and Egypt.

FFA Model Assumptions

- We expect net profits of USD 95 million in Q1/15e, down 1% QoQ and up 8% YoY.
- We forecast operating income at USD 214 million in Q1/15e (+4% QoQ, +9% YoY).
- We expect net interest income at USD 148 million in Q1/15e (+1% QoQ, +8% YoY) as slightly higher margins YoY are matched with moderate earning assets growth.
- We forecast higher fees and commissions YoY at USD 36 million in Q1/15e (+10% YoY), although below the USD 40+ million level reached in previous quarter.
- We expect provisions of USD 11 million equivalent to an estimated annualized cost of risk at 0.64%. Our cost-to-income estimate stands at 39.9% in Q1/15e (within the Bank's usual range).
- Key balance sheet indicators including assets, deposits and loans are expected to grow at a low single digit in Q1/15e, ranging between 1% and 2% with loans growth exceeding that of deposits.
- At these growth levels, the LDR should remain relatively unchanged at 28.9% in Q1/15e, which reflects ample liquidity and significant room to expand lending from current levels.
- For the year 2015e, net profits should total USD 386 million (+6% YoY) with EPS expected at USD 1.70 (+ 6% YoY).

Table 2: FFA Model Forecasts

USD million	FFA Q1/15e	Q4/14a	Q1/14a	QoQ %	YoY %	FFA 2014e	FFA 2015e
Net interest income	148.2	146.5	136.8	1%	8%	564.9	608.2
Operating income	213.7	206.4	195.3	4%	9%	816.0	871.6
Net profits	94.8	96.1	87.5	-1%	8%	365.4	386.2
Diluted EPS	0.42	0.42	0.39	-1%	7%	1.61	1.70
Assets	28,270	27,979	26,720	1%	6%	27,979	29,646
Deposits	24,295	24,005	23,010	1%	6%	24,005	25,321
Loans	7,016	6,908	6,511	2%	8%	6,908	7,389
BVPS to common	10.79	10.50	10.23	3%	6%	10.50	11.70
FFA Cost-to-income ratio	*39.9%*	*38.7%*	*41.0%*			*39.7%*	*39.9%*
Loans-to-deposits ratio	*28.9%*	*28.8%*	*28.3%*			*28.8%*	*29.2%*

Source: Company reports and FFA Private Bank estimates

Investment Opinion

We view Blom Bank's higher returns and solid liquidity levels as a reflection of a prudent management team and see scope for dividends to grow over time on account of lower than average payouts

We recognize Blom Bank's solid positioning in its domestic market. We like the firm's conservative strategy translating into superior profitability and return ratios relative to its domestic peers from relatively higher margins and operating efficiencies, despite sizeable liquidity buffers. We also value Blom Bank's higher quality core income. In the short term, we look to the prudent management team to continue to focus on asset quality in light of difficult operations in key regional markets. We value the Bank's ability to steadily grow earnings while dividends should continue to benefit from lower than average payouts.

Recommendation

We reiterate our Overweight rating on Blom Bank shares with a fair value at USD 10.50 per share

Based on our revised forecasts and discount rate assumptions to our Dividend Discount Model, our fair value estimate for Blom Bank is at USD 10.50 per share. Our DDM assumes a 14.5% cost of equity and a 3% terminal growth rate. We corroborate our DDM valuation by means of the residual income method as well as historical and comparable P/E and P/B multiples.

BYBLOS BANK

Company Description

Byblos Bank is the third largest Bank in Lebanon in terms of assets with an asset base at USD 19.0 billion and earnings at USD 176 million in 2014. The Bank had a total of 102 branches and 2,531 employees as of the end of December 2014 with operations in Lebanon as well across Europe, Africa and the MENA region. The Bank's diversification across markets is lagging behind its peers with a breakdown of assets and earnings between domestic and international at 91%/9% and 87%/13% for 2014. The Bank's balance sheet is mainly focused on Lebanon. The Bank has so far adopted a conservative growth strategy translating into ample liquidity levels and solid capitalization at the expense of weaker margins and profitability.

Insights on dividends

In light of the upcoming dividend season, we remind that Byblos Bank offers the highest dividend yield among banks under coverage at 7.7% based on today's market price and on the last dividend payment of USD 0.13 per common share.

The Board of Directors has not yet met to propose to the General Assembly a dividend payment for the financial year 2014.

We believe dividends payment for 2014 is likely defended given higher profits YoY. However Byblos Bank has a more stretched dividend payout (65%) than peers under coverage pointing to limited room to increase dividends from current levels.

Unlike other banks under coverage dividend payment is likely to happen during the month of May.

Q4/14 Key Financial Highlights

Net profits at USD 63 million in Q4/14 totaling USD 176 million in 2014 (+13% YoY)

- Net interest income at USD 67 million in Q4/14 (+8% QoQ, +21% YoY), on likely improved margins as balance sheet growth was muted in Q4/14. Net interest income at USD 247 million in 2014, 6% up YoY.
- Non-interest income at USD 64 million in Q4/14 (+14% QoQ, +40% YoY) on stronger financial gains as fees and commissions were slightly weaker.
- Contained cost of risk and improved efficiencies help profits in Q4/14. Asset quality worsen sequentially as gross NPLs increase to 5.1%. For 2014, cost-efficiencies were unchanged YoY while cost of risk significantly declines driving profits.
- Balance sheet growth was rather muted in Q4/14, yet still manages to end the year in the mid-single digits. Liquidity and capitalization metrics at the higher end of our coverage universe with an LDR at just ~30% and a CAR III at a comfortable 16.5%.
- Profitability ratios edged up sequentially although still at the lower end of our coverage.

Latest Key Regional Highlights

- Byblos Bank breakdown of assets and earnings between domestic and international operations stands at 91%/9% and 87%/13% respectively for 2014.
- The Bank operations in Syria have been downsized to just 1.4% of total assets as of December 2014.

FFA Model Assumptions

- We expect net profits of USD 42 million in Q1/15e, up 38% YoY although down 33% QoQ.
- We forecast net interest income of USD 65 million in Q1/15e, up 16% YoY although down 4% QoQ.
- Fees and commissions income expected at USD 25 million in Q1/15e (+11% QoQ, +4% YoY).
- Key balance sheet indicators namely assets, deposits and loans are expected to witness moderate growth at a low single digit in Q1/15e (+2% QoQ), with an LDR maintained at 30%.
- We forecast provisions of USD 8 million in Q1/15e equivalent to an estimated annualized cost of risk at 0.68%. Our cost-to-income estimate stands at 48% for Q1/15e and 46% for the full year 2015e.
- Looking at 2015e, net profits should reach USD 188 million (+7% YoY) with EPS at USD 0.24 (+6% YoY).

Table 3: FFA Model Forecasts

USD million	FFA Q1/15e	Q4/14a	Q1/14a	QoQ %	YoY %	FFA 2014e	FFA 2015e
Net interest income	64.7	67.4	55.8	-4%	16%	247.2	265.8
Operating income	117.1	131.2	106.1	-11%	10%	465.8	494.5
Net profits	42.4	62.8	30.7	-33%	38%	175.6	188.2
Diluted EPS	0.06	0.09	0.04	-38%	55%	0.23	0.24
Assets	19,446	19,037	18,581	2%	5%	19,037	20,159
Deposits	15,957	15,715	14,940	2%	7%	15,715	16,658
Loans	4,801	4,730	4,583	2%	5%	4,730	5,015
BVPS to common	2.21	2.21	2.18	0%	2%	2.21	2.32
FFA Cost-to-income ratio	*47.8%*	*37.8%*	*55.3%*			*46.7%*	*45.8%*
Loans-to-deposits ratio	*30.1%*	*30.1%*	*30.7%*			*30.1%*	*30.1%*

Source: Company reports and FFA Private Bank estimates

Investment Opinion

While we like Byblos Bank's solid domestic retail franchise with strong risk management practices, we believe additional value could be generated for investors as visibility and cost-efficiencies improve

We recognize Byblos Bank's position in its domestic retail market and solid fundamentals benefiting from sizeable liquidity buffers, strong capitalization and superior asset/liability management practices, a validation of management's risk practices although at the detriment to profitability ratios. We also recognize the firm's leadership at better managing its asset liability mismatch with the issuance of costlier longer term liabilities. We believe Byblos Bank's shares could generate more value once the firm gains visibility on its outlook and redeploys capital to create additional shareholder value by way of expansion, acquisition, or return of capital.

Recommendation

We reiterate our Marketweight rating on Byblos Bank shares with a fair value of USD 1.60 per share

Based on our revised forecasts and discount rate assumptions to our Dividend Discount Model, our fair value estimate has been maintained at USD 1.60 per share. Our DDM assumes a 15% cost of equity and a 3% terminal growth rate. We corroborate our DDM valuation by means of the residual income method as well as historical and comparable P/E and P/B multiples.