

Flash Note

5th of May 2010

Byblos Bank: An insight on the capital increase

Sector: Banking
Country: Lebanon

1- Byblos Invest Holding SA has sold to the International Finance Corporation 47,619,047 common shares at a price of USD 2.1 per share, with a total transaction value of approximately USD 100 mn. The stake represents 11.3% of Byblos Bank SAL but shall decline to 8% following the capital increase.

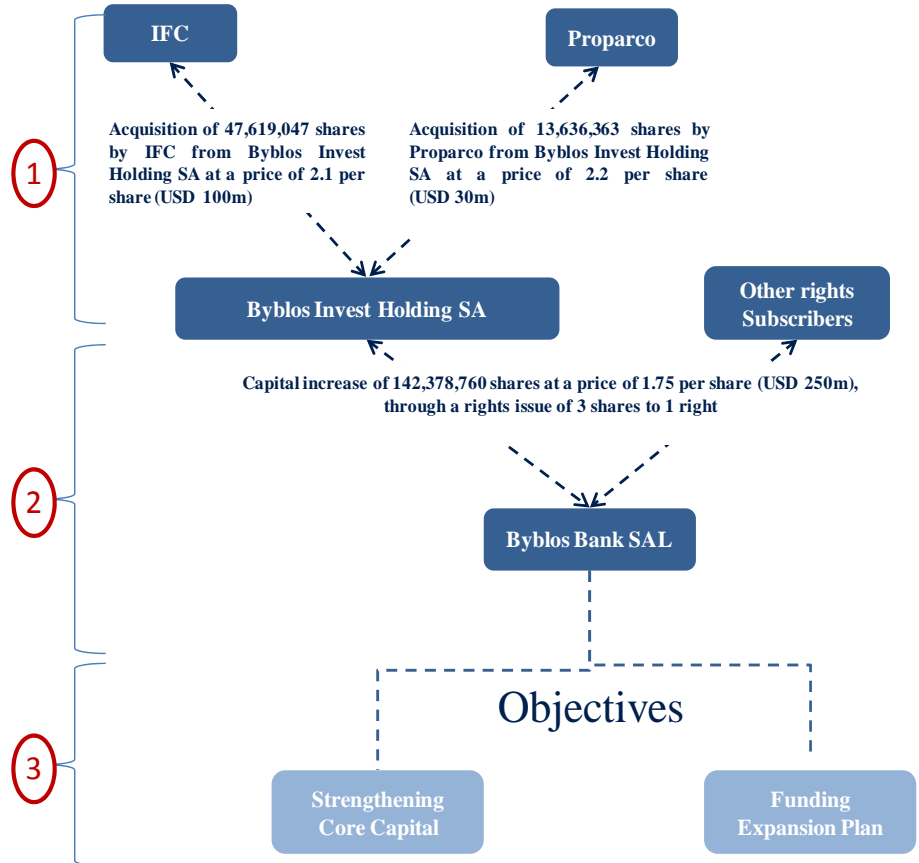
Byblos Invest Holding SA also sold to PROPARGO, the French government development arm, 13,636,363 common shares at a price of 2.2 per share, with a total transaction value of approximately USD 30 mn.

Comments: Given the strong and well-established relationship between Byblos Bank and the two organizations, we believe that both transactions highlight a strong commitment and a common vision of growth revolving around the penetration of underdeveloped new markets such as Congo, Armenia, Sudan and Iraq. Both organizations are long term investors with no exit strategy.

2- Byblos Invest Holding SA has committed to invest the totality of the proceeds from the sale to IFC and PROPARGO into the capital increase of Byblos Bank SAL by way of issue of 142,378,760 new common shares with a value of USD 1.75 per share (total capital increase value of approximately USD 250 mn). Other major shareholders have committed to subscribe as well through their preemptive rights issue (3 old shares vs. 1 right).

Comments: Byblos Invest Holding SA has committed to participate in the capital increase at a price estimation equal to book value of Byblos Bank on a stand alone basis (excluding dividend payments). The capital increase will boost the number of common and priority shares from 423 mn to 565.5 mn

3- According to Mr Alain Wanna, CFO of Byblos Bank, the first reason behind the capital increase is to strengthen the core capital. As a fact, the capital structure of the Bank is dominated by hybrid instruments such as preferred shares (USD 400 mn) while the common and priority shares represent approximately USD 360 mn. Moreover, the Bank is funded by a USD 200 mn subordinated debt maturing in 2012. Management saw the need to strengthen its tangible common equity, given the high growth of the Bank and to meet adequate levels of capitalization in the future.



The second reason is the bold geographical expansion plan set by management requiring important funding and which consists of the following:

- Syria: Byblos Bank holds 41.5% of the Syrian entity while the OPEC Fund for International Development holds 7.5% (totaling 49% of equity). Recent new regulations in Syria have allowed foreign investors to increase participation to 60%, the remainder of which should be acquired by Byblos Bank. Moreover, the capital of Byblos Bank Syria which stands today at USD 40 mn should be increased in stages to ultimately reach USD 200 mn.
- DRC: Byblos Bank has recently acquired two thirds of Congo’s Solidaire Banque Internationale for approximately USD 10 mn to which management is planning a potential capital increase.
- Iraq: Byblos Bank currently operates two branches in Erbil and Baghdad (with a new branch to be opened in Basra). The objective is to establish a stand alone subsidiary for which a minimum capital of USD 80 mn will be required.
- Byblos Bank is also evaluating a number of potential opportunities in other geographical locations.

Conclusion: Byblos Bank has set bold growth targets for 2010, notably, 25% to 30% growth in loans, 15% to 20% growth in deposits and a bottom line growth of 15% to 20%. We believe the current growth, as reflected by Q1 2010 figures and the current capital structure, justifies the necessity for the capital increase.

Moreover, the subscription price per share of USD 1.75 implies an estimated P/E 2010 of 6.1 and a P/B 2010 of 0.85, while distributed dividends in 2009 of USD 0.133 per share is expected to grow by 15% to 20% in line with bottom line growth. This would lead to an 8.7% to 9.1% dividend yield on the subscription price.

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