

BANK AUDI Equity Research	March 11th, 2011	- Current price:	USD 7.17 (Listed) USD 7.61 (GDR)
		- Target price:	USD 9.00
Sector:	Banking	- Recommendation:	MARKETWEIGHT
Country:	Lebanon		

Strategic update 2011

We met with management recently and revisited the Bank's strategic orientations. Following a solid year of growth in 2010, the Bank is now focusing on consolidating its franchise in Lebanon and every market of presence abroad, maintaining the highest quality of assets, and safeguarding profits. The bank is also investing in staff and infrastructure, in order to support its objective of positioning the group in the inner circle of major MENA players. We recognize that 2011 will be a year of consolidation, and not of development, and prudent in our view given the political developments in the region and their potential implications on business operations.

Recent developments in key Levant markets

In Egypt, following mandated bank closures, the Bank has not experienced major withdrawals or conversions into foreign currency after two weeks of operations. The outflows have been a function of foreign investor portfolio changes, when in fact the Bank saw net additions to their deposit base. While Bank Audi has sizeable operations in Egypt with an asset base of USD 2.7 billion, customer loans make up a little over USD 1 billion, and the majority consists of high quality corporate credits. The bank is focusing on safeguarding its asset base and is performing weekly and bi weekly portfolio reviews, while putting expansion of its branch network on hold until visibility of conditions improves.

In Syria, the market is viewed as very stable despite political distortions overheard, and government measures and reforms have been beneficial for the economy. Lending activity however has been tight.

In Jordan, similar to Syria, there has been nothing to report, and measures taken by the Monarchy have been viewed as favorable.

Bank Audi is not present in other MENA countries seeing political developments including Libya and Tunisia. We seek more visibility for the key Levant markets over the next few months.

Consolidated financial performance in 2010

Bank Audi generated solid bottom line growth, with EPS of USD 0.94, up ~20% from USD 0.78 in 2009. Deposits, assets, and loans also grew at a rapid pace, up 8%, 8%, and 27%, respectively over 2009. Remarkably, deposits grew by USD 2 billion, ahead of its publicly listed peers, representing a vote of confidence by customers in our view at a time the Bank was employing a margin protection strategy on deposits. We estimate the average cost of deposits declined to the mid 3% level, in parallel to a decline in yields, resulting in flat yoy interest spreads. The negative carry on its liquidity in FC unfavorably impacted spreads by about 30bps, and equated to a near USD 100 million shortfall on interest income. We expect the negative carry burden to ease over time as international benchmark rates improve and Bank Audi shifts excess FC liquidity into other higher yielding highly rated securities. Asset quality and capitalization levels also improved yoy with gross NPLs at around 2% and capital adequacy ratio at near 12%.

Common shares trading suggests lack of historical premium

Bank Audi shares have traditionally traded at a premium to its peers, whether it is on a P/E, P/B, or dividend yield basis. On a P/B basis, shares are trading at a P/B of 1.08x, and at a discount to the 3 and 5 year historic average of 1.25x and 1.28x, and in line with its closest domestic peer Blom Bank at 1.08x.

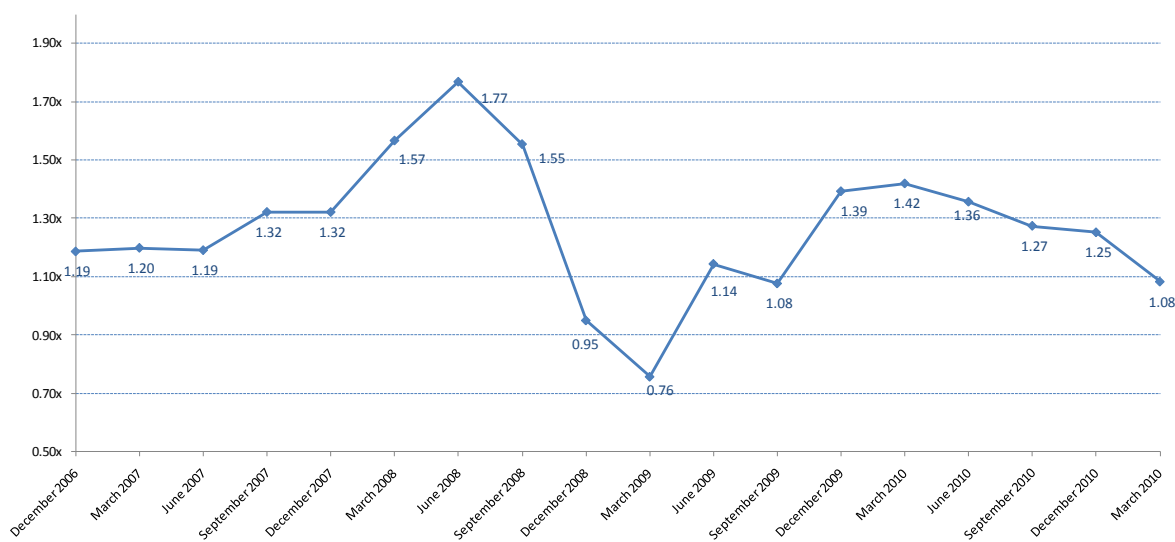
Bank Audi relative valuation

Companies	Symbol	Currency	Last Price	Shares Outstanding	Market Value	Dividend LFY	Dividend Yield	EPS TTM	P/E TTM	3-YR Growth	PEG Ratio	Payout 2010	P/B			CAR %	ROA %	ROE %
													LFQ	Adj. LFQ	Tangible LFQ			
Bank Audi	AUDI	USD	7.17	348.5	2,498.6	0.35	4.9%	0.94	7.6x	23%	0.33	37%	1.08x	1.20x	1.30x	11.7%	1.28%	15.3%
BLOM Bank	BLOM	USD	9.10	215.0	1,956.5	0.40	4.4%	1.46	6.2x	21%	0.29	27%	1.08x	1.17x	1.21x	14.0%	1.54%	18.3%
Byblos Bank	Common	USD	1.90	359.5	683.0	0.13	6.6%											
Byblos Bank	Priority		<u>1.89</u>	<u>206.0</u>	<u>389.4</u>	0.16	8.3%											
Byblos Bank	BYBLOS	USD	1.90	565.5	1,072.4	0.14	7.2%	0.27	7.0x	14%	0.49	51%	0.71x	0.96x	0.96x	15.0%	1.24%	12.2%
Average							5.5%		7.0x	20%	0.37	38%	0.95x	1.11x	1.16x	13.5%	1.35%	15.3%

Note: Share prices represent the listed price; Bank Audi GDR: 7.61, BLOM GDR 10.00

Source: BSE: listed price, Bank Audi, Blom Bank, Byblos Bank, FFA Private Bank estimates

Bank Audi historical P/B valuation



Source: BSE: listed price, Zawya

Additionally, the dividend yield is attractive at 4.9%, which we expect could see a higher payout next month, following the solid results in 2010 and the Bank's history at increasing dividends over time, as seen in the table below. A payout based on the historical 35-40% would imply a DPS of USD 0.35-0.38.

Bank Audi historical earnings and dividend payout

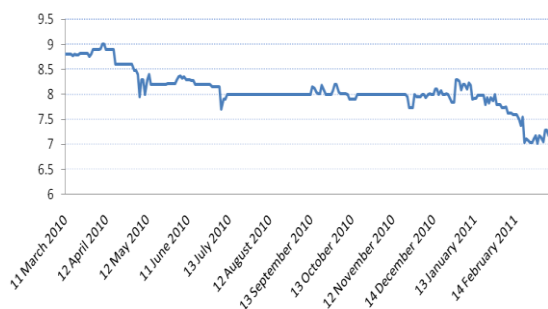
	2004	2005	2006	2007	2008	2009	2010	04-09 CAGR
EPS	0.28	0.38	0.45	0.51	0.62	0.78	0.94	23%
DPS	0.11	0.15	0.18	0.20	0.23	0.35	?	26%
Payout	40%	39%	39%	40%	37%	45%	?	

Source: Bank Audi

We reiterate our recommendation although recognize improving fundamentals and more attractive valuation levels

While we have reflected 2010 results into our model, we have not yet made major changes to our model assumptions given actual results were near our estimates and our lack of visibility to the Group's operations given two months of operations and recent political developments. While our fair value estimate remains unchanged at USD 9.00, we recognize improving fundamentals and find the shares trading at more attractive levels as compared to our previous research update in November 2010. We continue to rate the shares Marketweight.

Bank Audi share performance



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Key performance indicators

USD mn	2009a	2010a	2011e	2012e
Net Interest Income	424	490	565	654
Non-Interest Income	310	392	427	467
Net Profits	289	352	400	463
ROaA	1.23%	1.28%	1.33%	1.40%
ROaE	13.9%	15.3%	15.7%	16.5%
BVPS (USD)	5.98	6.62	7.27	8.03
EPS (USD)	0.78	0.94	1.06	1.23
P/BV	1.20	1.08	0.99	0.89
P/E	9.20	7.63	6.77	5.82

Source: BSE: listed price, Bank Audi, FFA Private Bank estimates

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