

Flash Note

July 22, 2011

Bank Audi Q2 2011 Results

Sector: Banking

Country: Lebanon

Bank Audi's net profits up 9% yoy at USD 85.6 million in Q2 11

Bank Audi's net profits totaled USD 85.6 million in Q2 11 equivalent to an increase of 9% compared to USD 78.7 million in Q2 10. Basic and diluted EPS was USD 0.24 in Q2 11, 7% and 12% respectively higher than in the corresponding period of previous year. Bottom line growth of 9% was triggered by solid net interest income growth between Q2 10 and Q2 11 (+18%) on the back of improving interest spreads stemming from a margin focused strategy based on controlled interest rates on deposits. While the relative stagnation in non-interest income in Q2 11 over Q1 10 and the higher provisioning levels slowed down the bottom line, the latter was additionally favored by improved efficiencies as highlighted by a decrease in the cost-to-income ratio from 47.3% in Q2 10 to 45.3% in Q2 11 as well as by a lower income tax rate at 18.2% in Q2 11 down from 21.4% in Q2 10.

Summary Income Statement

<i>in USD millions</i>	Q2 11	Q2 10	yoy %	H1 11	H1 10	yoy %
Net interest income	133.6	113.1	18%	265.8	213.6	24%
<i>As a % of total operating income</i>	56.2%	51.4%		55.6%	50.6%	
Fees and commission income	45.9	44.0	5%	90.5	85.5	6%
Trading and investment and other income	58.0	63.0	-8%	121.3	122.7	-1%
Non interest income	104.0	107.0	-3%	211.8	208.2	2%
<i>As a % of total operating income</i>	43.8%	48.6%		44.4%	49.4%	
Total operating income	237.6	220.1	8%	477.6	421.8	13%
Personnel expenses	-62.1	-59.2	5%	-125.9	-110.3	14%
Non-personnel expenses	-45.6	-44.9	2%	-92.7	-86.1	8%
Total operating expenses	-107.7	-104.1	3%	-218.6	-196.4	11%
<i>Cost- to- income</i>	45.3%	47.3%		45.8%	46.6%	
Pre-provision profit before tax	129.9	116.0	12%	259.1	225.4	15%
Provisions	-21.5	-12.4	74%	-36.8	-22.5	64%
<i>As a % of pre-provision profit</i>	16.5%	10.7%		14.2%	10.0%	
Profit before tax	108.4	103.6	5%	222.3	203.0	10%
Income tax	-19.7	-22.2	-11%	-43.1	-41.3	4%
<i>Income tax rate</i>	18.2%	21.4%		19.4%	20.4%	
Net profits	88.7	81.4	9%	179.1	161.7	11%
Minority interest	3.2	2.7	16%	5.4	6.7	-19%
Net profits (group share)	85.6	78.7	9%	173.7	154.9	12%
EPS to common (basic)	0.24	0.22	7%	0.48	0.44	9%
EPS to common (diluted)	0.24	0.21	12%	0.48	0.43	12%
EPS TTM to common (diluted)	0.99					

Source: Bank Audi

Offsetting the decelerating balance sheet growth, net interest income swells on the back of a margin-focused strategy

Net interest income amounted to USD 133.6 million in Q2 11, up 18% from USD 113.1 million in Q2 10, as Bank Audi managed to continuously improve its interest spreads which counterbalanced the decelerating balance sheet growth. The widening spreads are the direct result of a margin-focused strategy revolving around firmly monitoring rates on deposits. In fact, Bank Audi has, in line with the banking sector at large, been decreasing the cost of funds. Figures released by the ABL pinpoint a decrease in the LBP cost of funds from 5.69% at year-end 2010 to 5.64% in May 2011 in parallel to relatively stable USD cost of funds from 2.80% at year-end 2010 to 2.83% in May 2011. Bank Audi's margin-focused strategy was aimed at improving margins at some expense of deposit accumulation, with a 2% ytd growth rate in deposits into May 2011 compared to the Lebanese banking sector's 3% ytd.

Stagnation in non-interest income as trading and investment income declines

Bank Audi witnessed almost flat non-interest income yoy at USD 104 million in Q2 11 compared to USD 107 million in Q1 11, as an increase in fees and commissions income of 5% to USD 45.9 million was offset by lower trading and investment income to USD 58 million

following a decrease of 8%. Consequently, the contribution of non-interest income to total operating income dropped to 44% in Q2 11 from 49% in Q2 10 converging towards the Bank's objective of a 60/40 split between net interest income and non-interest income. Simultaneously, the contribution of fees and commissions to non-interest income gained ground at 44% in Q2 11, up from 41% in Q2 10, which we view as a less volatile and more favorable earnings mix.

Higher bank efficiencies and lower tax rates drive profits up

An improvement in cost-efficiencies in Q2 11 provided momentum for earnings growth. Cost-to-income stood at 45.3% in Q2 11 as compared to 47.3% in Q2 10 as we believe management has been adopting a conservative growth strategy by consolidating its positioning while temporarily refraining from fueling its expansion given the decelerating economic growth domestically and the rising regional turmoil (in Syria and Egypt notably where the Bank conducts operations). A further catalyst for earnings growth was the lower tax rate which stood at 18.2% in Q2 11 compared to 21.4% in Q1 11.

Summary Balance Sheet

<i>in USD millions</i>	Q2 11	Q1 11	Q4 10	qoq%	ytd%
Cash and balances	4,930.7	5,060.7	4,434.2	-3%	11%
Due from banks and other financial institutions	4,482.1	3,917.9	4,204.3	14%	7%
Financial assets	10,117.8	10,334.3	10,583.1	-2%	-4%
Loans & advances	8,566.3	8,662.2	8,547.5	-1%	0%
Intangible assets and goodwill	203.2	200.1	200.8	2%	1%
Other assets	781.7	765.0	718.1	2%	9%
Total assets	29,081.8	28,940.2	28,688.0	0%	1%
Due to Central Banks	88.5	89.5	88.5	-1%	0%
Due to banks and other financial institutions	597.4	736.9	603.4	-19%	-1%
Deposits	25,267.7	24,890.9	24,847.8	2%	2%
<i>Immediate liquidity to deposits</i>	<i>37.3%</i>	<i>36.1%</i>	<i>34.8%</i>		
<i>Loans- to- deposits</i>	<i>33.9%</i>	<i>34.8%</i>	<i>34.4%</i>		
Other liabilities	819.6	826.9	727.9	-1%	13%
Total liabilities	26,773.2	26,544.2	26,267.6	1%	2%
Shareholders' equity	1,942.5	2,029.7	2,052.7	-4%	-5%
Preferred shares	250.0	250.0	250.0	0%	0%
Minority interest	116.1	116.2	117.7	0%	-1%
Total shareholders' equity	2,308.6	2,396.0	2,420.4	-4%	-5%
Total liabilities and shareholders' equity	29,081.8	28,940.2	28,688.0	0%	1%
Book value per share	6.29	6.54	6.61	-4%	-5%
Book value per share to common	5.57	5.82	5.89	-4%	-5%
Tangible book value per share to common	4.99	5.25	5.31	-5%	-6%

Source: Bank Audi

Flat growth in balance sheet aggregates since the beginning of 2011

Deposits growth, the main source of funding, has been lethargic as macroeconomic conditions on the domestic scene weren't as favorable and capital inflows into Lebanon slowed down. In these circumstances, Bank Audi registered a 2% ytd growth in its deposits to USD 25,267.7 million by the end of Q2 11. In parallel, assets grew 1% during the first half of 2011 to USD 29,081.8 million while lending activity stagnated. At these growth levels, the loans-to-deposits ratio remained stable at roughly 34%, highlighting the Bank's ample liquidity cushion and the ability to resume expansion plans in the near future once the visibility in key markets improve.

Credit quality remains intact, while provisioning expands as a preventive measure facing developments in Syria and Egypt

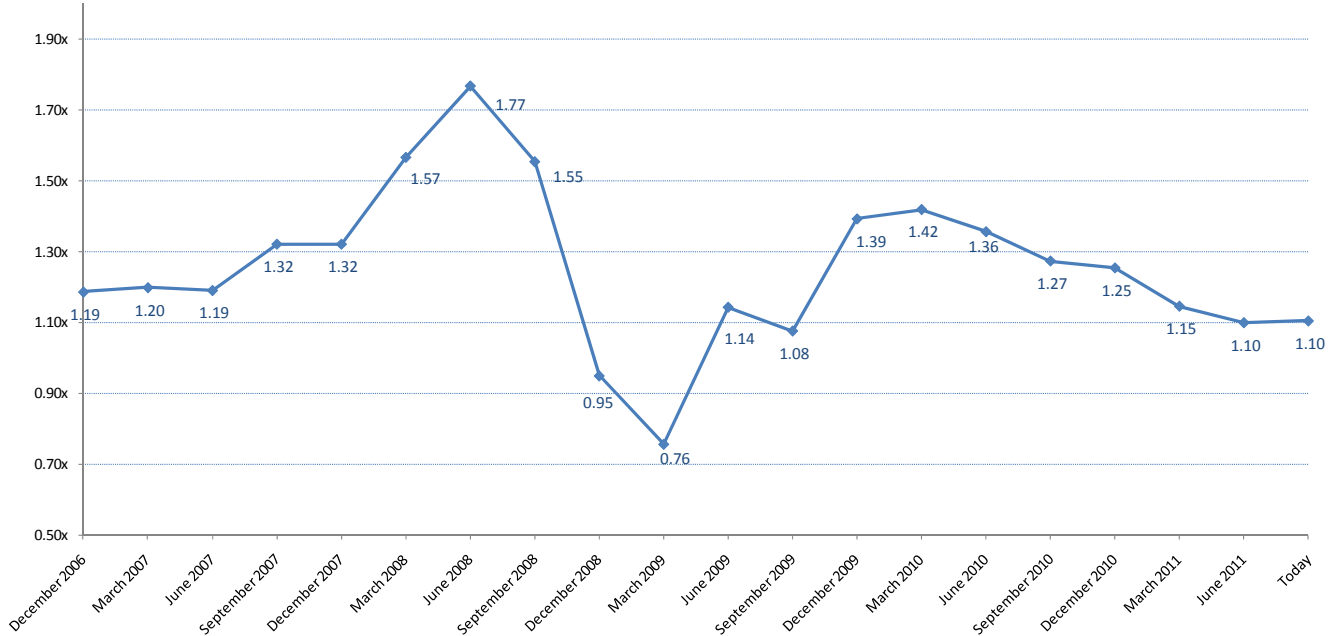
Bank Audi's gross doubtful loans represented 2.5% of gross loans at end Q2 11, slightly up from 2.3% at the end of the previous quarter; while the coverage of those loans by specific provisions reached 80% at end-June 2011 (vs. 73% at year-end 2010). At the same time, collective provisions in the Syrian and Egyptian subsidiaries were increased as preventive measures given the developments in these markets. Consequently, total coverage ratios were lifted with total loan loss reserves at USD 198 million substantially up from USD 175 million in the previous quarter.

CAR II ratio slightly up to 11.3% in Q2 11, while profitability ratios were maintained

Bank Audi's capital adequacy ratio (Basel II) was approximately 11.3%, highlighting comfortable capitalization level. The TTM ROA was unchanged at 1.30% from Q1 11. The TTM EPS was USD 0.99 in Q2 11, while book value per share is estimated at USD 6.29 (USD 5.57 to common).

Expect less robust bottom line growth as Bank Audi safeguards assets on greater uncertainty is having an effect on share prices
 Bank Audi's listed shares are trading at an estimated P/B to common of 1.25x (P/B of 1.10x), while P/E at 7.0x and dividend yield at 5.8%. While estimated book value per share has been coming down to USD 6.29 in Q2 11 from USD 6.54 in Q1 11, the share price has also followed the same declining trend.

Bank Audi Historical P/B



Source: Bank Audi, Zawya, Beirut Stock Exchange

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