

Flash Note - Bank Audi Q4/15 Results

Sector: Banking
Country: Lebanon

MARKETWEIGHT

Target Price	USD 7.00
Closing Price	USD 6.08
52 Week Range	USD 5.50 - 6.99
Year to Date %	+0.5%
Market Cap.	USD 2,430.5 million
Dividend Yield	6.6%
P/E (TTM)	6.7x
P/B to Common	0.85x

Note: the share data represents Bank Audi listed shares (Bloomberg ticker: AUDI LB). Bank Audi GDR shares at USD 6.10 (Bloomberg ticker: BQAD LI) Source: Bloomberg, FFA Private Bank Market close on January 29, 2016

Net profits were at USD 99 million in Q4/15 (-3% QoQ, +40% YoY) in line with FFA estimates

Bank Audi posted net profits for Q4/15 at USD 99 million (-3% QoQ, +40% YoY), in line with our estimates. Diluted EPS was at USD 0.22 (-5% QoQ, +49% YoY), slightly below FFA est. USD 0.23. Despite net interest income at USD 254 million, below FFA est. USD 269 million, total operating income came in line with FFA est. at USD 381 million, offset by trading & investment income at USD 54 million, above FFA est. USD 42 million and fees & commissions income at USD 73 million, vs. FFA est. USD 72 million. Provisions came in lighter than expected at USD 35 million vs. FFA est. USD 58 million, equivalent to an estimated 77 bps annualized cost of risk, lower than Q3/15 cost of risk of 86 bps. The positive variance to the bottom line from lower provisions was offset by higher than expected opex at USD 215 million vs. FFA est. USD 200 million (cost-to-income at 56.4% vs. FFA est. 52.2%, 53.2% in Q3/15 and 53.7% in Q4/14) and heavier income tax at USD 33 million vs. FFA est. USD 26 million, impacted by transfer of taxable dividends from other entities. NPL ratio was at 2.9% below 3.2% in Q3/15 and 3.1% in Q4/14, still lower than peers under coverage. Assets and deposits sequential growth was flat to negative at USD 42 billion and USD 36 billion, with YoY growth at +1% and -1% respectively. Loans outperformed at USD 18 billion, +5% QoQ, +4% YoY. Assets, deposits and loans at +5%, +3% +11% respectively in 2015 when excluding Egyptian Pound and Turkish Lira devaluation. LDR higher at 50.4% in Q4/15 vs. FFA est. 47.0%, 47.5% in Q3/15 and 47.9% in Q4/14. Net profits for 2015 rose +15% to USD 403 million vs. USD 350 million in 2014 with EPS at USD 0.91 vs. USD 0.86 in 2014.

Bank Audi Q4/15 results summary vs. FFA Private Bank estimates

USD million except per share data	Q4/15a	FFA Q4/15e	Q3/15a	Q4/14a	QoQ %	YoY %	2015a	2014a	YoY %
Net interest income	254	269	260	243	-2%	5%	971	829	17%
Fees & commissions income	73	72	71	67	2%	9%	270	248	9%
Trading & investment income	54	42	21	57	156%	-5%	168	245	-32%
Operating income	381	382	353	367	8%	4%	1,409	1,322	7%
Provisions	(35)	(58)	(37)	(68)	-6%	-49%	(133)	(139)	-5%
Operating expenses	(215)	(200)	(188)	(195)	15%	10%	(762)	(728)	5%
Income tax	(33)	(26)	(26)	(33)	24%	-2%	(111)	(105)	5%
Net profits	99	99	102	70	-3%	40%	403	350	15%
Diluted EPS to common	0.22	0.23	0.23	0.15	-5%	49%	0.91	0.86	6%
Assets	42,272	43,284	42,358	41,961	0%	1%	42,272	41,961	1%
Deposits	35,609	37,213	35,829	35,821	-1%	-1%	35,609	35,821	-1%
Loans	17,943	17,490	17,015	17,171	5%	4%	17,943	17,171	4%
FFA BVPS to common	7.19	7.49	6.90	7.02	4%	2%	7.19	7.02	2%
FFA Net interest margins	2.4%	2.5%	2.5%	2.4%			2.3%	2.0%	
Core income to total operating income	85.9%	89.1%	94.0%	84.5%			88.1%	81.5%	
FFA Cost-to-income ratio	56.4%	52.2%	53.2%	53.7%			54.2%	55.1%	
Immediate liquidity-to-deposits ratio	35.5%	36.0%	36.4%	36.6%			35.5%	36.6%	
Loan-to-deposit ratio	50.4%	47.0%	47.5%	47.9%			50.4%	47.9%	
Equity-to-asset ratio	7.8%	8.1%	7.5%	8.0%			7.8%	8.0%	

Source: Company reports and FFA Private Bank estimates

Net interest income at USD 254 million in Q4/15 (-2% QoQ, +5% YoY) with YoY improvement on higher NIMs and balance sheet growth

Net interest income came in at USD 254 million in Q4/15 (-2% QoQ, +5% YoY) with YoY improvement on higher NIMs and balance sheet growth. We estimate net interest margins at 2.44% in Q4/15 vs. 2.49% in Q3/15 and 2.35% in Q4/14, with YoY improvement likely driven by Turkish operations as Odea Bank saw margins improve YoY to 2.34% in Q4/15 from 2.0% in Q4/14. We continue to expect Bank Audi consolidated net interest margins to benefit favorably from higher margins from international operations including Egypt and Turkey.

Latest banking sector's statistics from the ABL for the month of November 2015 reveal, in a continued low interest environment, an improvement in USD spreads compared to LBP, with challenges due to limited capacity to decrease the cost of funds

Spreads in USD were higher in November 2015 while spreads in LBP were lower compared to one year earlier. Latest statistics from the ABL for the month of November 2015 reveal that Lebanese banks are still operating in a low interest environment, with persistent challenges due to the limited capacity to decrease cost of funds given market share concerns amidst slower deposit accumulation.

Spreads in USD increased to 1.39% in November 2015 from 1.27% in November 2014 which has a positive impact on banks' profitability given that the bulk of their liquidity is in USD. This difference was driven by an increase in weighted average on uses of funds (+20 bps to 4.56%), partially offset by higher cost of funds at (+8 bps to 3.17%).

Spreads in LBP tightened to 0.84% in November 2015 from 0.85% in November 2014 on higher cost of funds (+5 bps to 5.60%), despite increased return on uses of funds (+4 bps to 6.44%). Weighted return on uses of funds were weighed by lower lending rate (-6 bps to 7.05%) despite higher yields on T-bills (+4 bps to 6.97%) and higher rate on CDs issued by the BDL (+4 bps to 8.16%).

Non-interest income for 2015 weighed by lower trading & investment income. Bank Audi income mix quality lower QoQ, although improves YoY

Despite net fees & commissions displaying YoY growth for 2015 at USD 270 million (+9% YoY), non-interest income came in at USD 438 million (-11% YoY) weighed by softer trading & investment income at USD 168 million (-32% YoY). Revenue breakdown for Q4/15 reflects lower income mix quality QoQ with core income (net interest income + fees & commissions income) contribution to total operating income at 86% down from 94% in Q3/15, although higher from 85% in Q4/14. For 2015, core income contribution to total operating income came in at 88% vs. 81% in 2014, which we view favorably given the stable nature of this income stream. Total revenues for 2015 grew to USD 1,409 million (+7% YoY). We believe Bank Audi should continue to benefit from geographic expansion on i) improved interest margins as branch network roll out gains maturity in Odea Bank, and increased fees and commissions benefitting from lending growth and trade finance in growing franchises Turkey and Egypt, and ii) business line diversification including increased focus on private banking and asset management operations.

Lower efficiencies in Q4/15 with higher opex (+15% QoQ, +10% YoY). Gross NPL and cost of risk lower at 2.9% and an estimated 77 bps respectively in Q4/15

Bank Audi saw lower efficiencies in Q4/15 as cost-to-income came in at 56.4% (still above pre-Turkey expansion levels) from 53.2% in Q3/15 and 53.7% in Q4/14, on higher opex, despite improved operating income. We witness a deterioration in overall cost control on personnel expenses at USD 114 million in Q4/15 (+11% QoQ, +3% YoY) and non-personnel expenses at USD 101 million (+20% QoQ, +20% YoY). For the full year 2015, we note higher efficiencies with cost-to-income at 54.2% vs. 55.1% for 2014 as total revenues for 2015 outpaced opex. Bank Audi's consolidated gross NPLs were lower at 2.9% vs. 3.2% in Q3/15 and 3.1% in Q4/14, still well contained and below peers under coverage. Cost of risk lower at an estimated 77 bps in Q4/15, from an estimated 86 bps in Q3/15 and 161 bps in Q4/14 on lower provisioning levels at USD 35 million (-6% QoQ, -49% YoY).

Net profits came in at USD 99 million in Q4/15 (-3% QoQ, +40% YoY) with YoY improvement mainly on lower provisions and higher operating income despite higher opex

Net profits came in at USD 99 million in Q4/15 (-3% QoQ, +40% YoY) with YoY improvement mainly driven by lower provisions at USD 35 million (vs. USD 68 million in Q4/14, -49% YoY), higher operating income at USD 381 million (vs. USD 367 million in Q4/14, +4% YoY) despite higher opex at USD 215 million (vs. USD 195 million in Q4/14, +10% YoY). For 2015, net profits registered at USD 403 million (with EPS at USD 0.91, +6% YoY), a +15% YoY improvement from USD 350 million in 2014 mainly on higher operating income at USD 1,409 million (vs. USD 1,322 million in 2014, +7% YoY), lower provisions at USD 133 million (vs. USD 139 million, -5% YoY) and despite higher opex and income tax respectively at USD 762 million and USD 111 million vs. USD 728 million and USD 105 million, both up by +5% YoY. Bank Audi Egypt net profits amounted to ~USD 70 million in 2015, equivalent share of ~17% of total profits, while Odea net profits amounted to ~USD 23 million in 2015, equivalent share of ~6% of total profits.

Bank Audi saw balance sheet growth muted on FX pressures in key international markets in 2015 and challenging domestic operating conditions

With FX pressures in key international markets and challenging domestic operating conditions, Bank Audi saw muted growth in consolidated balance sheet constituents with assets at USD 42 billion, flat QoQ and +1% YoY, while deposits were lower at USD 36 billion, -1% QoQ and YoY. Loans outperformed at USD 18 billion, +5% QoQ and +4% YoY. Assets, deposits and loans growth at +5%, +3% +11% respectively in 2015 when excluding Egyptian Pound and Turkish Lira devaluation. Bank Audi's deposits to assets ratio was at ~84% in Q4/15 vs. ~85% in Q3/15, and LDR higher at ~50%, well above the Lebanese banking sector average (~32% in October 2015), on its fast lending growth driven by Turkey and Egypt, vs. 47.5% in Q3/15 and 47.9% in Q4/14. Bank Audi continues to diversify its geographic presence with 49% of total assets coming from international operations.

Bank Audi saw CAR III level higher sequentially to 13.4% from 13.0% in Q3/15 and improvement in profitability

Bank Audi's capital adequacy ratio (Basel III) improved sequentially to 13.4% in Q4/15 from 13.0% in Q3/15 although lower YoY from 13.7% in Q4/14, but still above BDL's requirement of 12.0% for 2015. Profitability ratios improving with TTM ROA at an estimated ~0.96% higher than Q3/15 level of ~0.91% and ~0.90% in Q4/14, with TTM ROE also higher at an estimated ~12.1% vs. 12.0% in Q3/15 and ~11.2% in Q4/14. TTM EPS improved to USD 0.91 in Q4/15 from USD 0.84 in Q3/15 and USD 0.86 in Q4/14. Equity-to-asset higher QoQ at 7.8% vs. 7.5% in Q3/15 although lower YoY from 8.0% in Q4/14 while our estimated book value per share (to common) came in at USD 7.19 in Q4/15 vs. USD 6.90 in Q3/15, driven by impact from unfavorable FX translation reserves.

Bank Audi shares provide more attractive entry point ahead of upcoming distribution season

With Bank Audi share performance relatively trading water (+0.8% in 2015 and +0.5% YTD in 2016), we believe it provides an attractive entry point on improving profitability and risk diversification as visibility on its expansion plan improves, and dividend yield of 6.6% paid in upcoming distribution season in April 2016, despite largely difficult domestic operating environment and FX devaluation in key markets.



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