

Flash Note

January 21, 2013

Bank Audi Q4/12 Results

Sector: Banking

Country: Lebanon

MARKETWEIGHT

Target Price	USD 7.00
Closing Price	USD 6.24
Year to Date %	2.5%
52 Week Range	5.15-6.50
Market Cap.	USD 2,182 million
Dividend Yield	6.4%
P/E (TTM)	6.2x
P/B to Common (TTM)	0.99x

Note: the share data represents Bank Audi listed shares (Bloomberg ticker: AUDI LB)

Source: Bloomberg, FFA Private Bank

Net profits at USD 74.2 million in Q4/12, 21% down yoy; yet 5% up to USD 383.6 for the full year

Bank Audi's net profits amounted to USD 74.2 million in Q4/12, down from USD 94.0 million in Q4/11. This year on year decrease in the bottom line in Q4/12 can be attributed to a 4% growth rate in operating income to USD 285.1 million offset by a surge in operating expenses from the launch of Turkish operations and a write down on goodwill. For the full year 2012, Bank Audi's net profits grew by 5% as a solid increase in operating income (+11.9%) and gains from LIA's sale in Q2/12 offset pressures on earnings from higher operating expenses (+16.8%), provisions (+32.7%) taxes (+12.2%) and impairment on goodwill. We note that the growth in operating income in 2012 was mainly driven by net interest income (+9.9%) and trading and investment income (+20.5%). Diluted EPS was USD 1.01 in 2012 compared to USD 1.00 in 2011. On a recurring basis, we estimate that Bank Audi's diluted EPS for 2012 was closer to USD 0.95-0.96 range.

Table 1: Summary Income Statement

USD millions	Q4 12	Q3 12	Q4 11	QoQ	YoY %	2012	2011	YoY %
Net interest income	142.7	146.6	135.1	-2.6%	5.7%	574.4	522.9	9.9%
As a % of total operating income	50.1%	53.0%	49.3%	-	-	52.2%	53.2%	-
Fees and commissions income	48.8	39.8	45.9	22.7%	6.3%	183.5	176.4	4.1%
Trading and investment income	93.5	90.2	93.2	3.7%	0.4%	342.5	284.3	20.5%
Non-interest income	142.4	130.0	139.1	9.5%	2.3%	526.0	460.7	14.2%
As a % of total operating income	49.9%	47.0%	50.7%	-	-	47.8%	46.8%	-
Total operating income	285.1	276.6	274.2	3.1%	4.0%	1100.4	983.5	11.9%
Personnel expenses	(82.8)	(68.7)	(65.2)	20.5%	27.0%	(276.4)	(252.6)	9.4%
Non-personnel expenses	(72.0)	(60.7)	(51.5)	18.7%	39.9%	(238.0)	(187.7)	26.8%
Total operating expenses	(154.8)	(129.4)	(116.7)	19.6%	32.7%	(514.4)	(440.4)	16.8%
Cost-to-income ratio	54.3%	46.8%	42.5%	-	-	46.7%	44.8%	-
Pre-provision profit before tax	130.3	147.1	157.5	-11.5%	-17.3%	586.0	543.2	7.9%
Provisions	(27.3)	(26.0)	(39.4)	5.0%	-30.8%	(121.2)	(91.3)	32.7%
Provisions as a % of pre-provision profit	20.9%	17.7%	25.0%	-	-	20.7%	16.8%	-
Profit before tax	103.0	121.2	118.1	-15.0%	-12.8%	464.8	451.8	2.9%
Income tax	(18.6)	(30.1)	(27.2)	-38.2%	-31.6%	(103.9)	(92.5)	12.2%
Income tax rate	18.1%	24.9%	23.0%	-	-	22.3%	20.5%	-
Profit after tax from continuing operations	84.4	91.0	90.9	-7.4%	-7.2%	360.9	359.3	0.5%
Result of discontinued operations	(10.2)	(11.7)	3.1	-	-	22.7	5.9	-
Net profits	74.2	79.3	94.0	-6.5%	-21.1%	383.6	365.2	5.0%
Minority interest	6.1	0.4	(2.1)	-	-	9.0	4.2	-
Net profits (group share)	68.1	78.9	96.1	-13.8%	-29.2%	374.6	361.0	3.8%
EPS to common (basic)	0.18	0.21	0.27	-15.3%	-33.1%	1.01	1.00	1.2%
EPS to common (diluted)	0.18	0.21	0.27	-15.3%	-33.0%	1.01	1.00	1.3%
EPS TTM to common (diluted)	1.01							

Source: Bank Audi

Net interest income up 5.7% YoY in Q4/12 given moderate balance sheet growth and roughly stable margins

Bank Audi's net interest income totaled USD 142.7 million in Q4/12, up 5.7% from USD 135.1 million in Q4/11 stemming from roughly stable interest spreads at 2% and balance sheet expansion of 9% in 2012. For 2012, we note a 9.9% growth rate in net interest income to USD 574.4 million as spreads widened by few basis points in 2012 totaling 1.99% for 2012 higher than 1.91% in 2011. Despite a low interest environment Bank Audi is closely monitoring its cost of funds and likely benefiting for repricing of loans, and some attractive placements. Statistics from the Association of Banks in Lebanon reveal that spreads in USD have decreased to 1.68% in November 2012 down from 1.73% at year-end 2011 driven by lower rates on LIBOR, Eurobonds and deposits at the BDL. Similarly spreads in LBP have declined to 0.93% in November 2012 from 1.13% at year-end 2011 on account of lower rates on T-bills and lending.

Non-interest income up 2.3% YoY in Q4/12 driven by an acceleration in fees and commissions income

In Q4/12 Bank Audi saw a 2.3% increase in non-interest income YoY at USD 142.4 million compared to USD 139.1 million in Q4/11, as fees and commissions income picked up 6.3% to USD 48.8 million amidst flat trading and investment income. Looking at the earnings mix for Q4/12, we note: i) the contribution of non-interest income to total operating income at 49.9% in Q4/12 roughly stable from 50.7% in Q4/11 and ii) the contribution of fees and commissions to total operating income at 17% in Q4/12 unchanged from Q4/11 although up from 14% in the previous quarter. For the full year 2012, we note a 14.2% YoY growth in non-interest income mostly driven by a 20.5% jump in trading and investment income along with a moderate 4.1% increase in revenues from fees and commissions.

Higher operating expenses weighed on earnings in Q4/12, while lower provisions and taxes alleviated pressures

Cost-efficiencies deteriorated in Q4/12 as the cost-to-income increased to 54.3% in Q4/12 up from 42.5% in Q4/11, from a 32.7% increase in operating expenses surpassing a 4% growth in operating income. Operating expenses were driven by an increase in non-personnel expenses (+40% YoY in Q4/12) and higher personnel expenses which increased by 27% over the same period. The significant growth in operating expenses to reach USD 154.8 million is attributed to launch of operations in Turkey encompassing a network of 6 branches and 398 employees and impairment of goodwill on foreign operations. In parallel, lower provisions as well as a lower tax rate alleviated some pressures on bottom line. Allocated provisions amounted to USD 27.3 million in Q4/12 compared to USD 39.4 million in Q4/11 likely from improving visibility in foreign operations including Egypt. Income tax rate stood at 18.1% in Q4/12, down from 23.0% in Q4/11. For the full year 2012, the cost-to-income ratio reached 46.7% up from 44.8% 2011 while provisions and taxes increased.

Table 2: Summary Balance Sheet

USD millions	Q4 12a	Q3 12a	Q4 11a	QoQ%	YTD%
Cash and balances	6,265.2	6,057.8	5,773.4	3.4%	8.5%
Due from banks and other financial institutions	3,553.6	2,767.6	3,171.9	28.4%	12.0%
Financial assets	10,209.4	10,216.9	10,280.6	-0.1%	-0.7%
Loans and advances	10,436.6	9,247.3	8,594.3	12.9%	21.4%
Intangible assets and goodwill	180.7	187.4	182.4	-3.6%	-0.9%
Other assets	660.7	704.8	734.3	-6.3%	-10.0%
Total assets	31,306.1	29,181.8	28,736.8	7.3%	8.9%
Due to Central Banks	248.4	566.9	88.5	-56.2%	180.7%
Due to banks and other financial institutions	1,067.1	622.1	668.4	71.5%	59.7%
Deposits	26,813.8	24,876.6	24,797.7	7.8%	8.1%
<i>Immediate liquidity to deposits</i>	<i>36.6%</i>	<i>35.5%</i>	<i>36.1%</i>	-	-
<i>Loans- to- deposits</i>	<i>38.9%</i>	<i>37.2%</i>	<i>34.7%</i>	-	-
Other liabilities	499.3	488.6	825.3	2.2%	-39.5%
Total liabilities	28,628.5	26,554.1	26,379.8	7.8%	8.5%
Shareholders' equity	2,213.3	2,161.2	2,013.3	2.4%	9.9%
Preferred shares	400.0	400.0	250.0	0.0%	60.0%
Minority interest	64.3	66.6	93.6	-3.4%	-31.3%
Total shareholders' equity	2,677.6	2,627.7	2,357.0	1.9%	13.6%
Total liabilities and shareholders' equity	31,306.1	29,181.8	28,736.8	7.3%	8.9%
Book value per share	7.48	7.33	6.48	2.0%	15.5%
Book value per share to common	6.33	6.18	5.76	2.4%	9.9%
Tangible book value per share to common	5.82	5.65	5.24	3.0%	11.0%

Source: Bank Audi

Solid growth in key balance sheet indicators mostly driven by recently launched Turkish operations

Bank Audi's consolidated assets and deposits grew by a solid 8.9% and 8.1% respectively in 2012 to a respective USD 31,306 million and USD 26,814 million at the end of the year. The bulk of this increase was realized during the last quarter when Bank Audi launched its banking activities in Turkey on November 1, 2012 raising USD 2 billion in assets and USD 1.4 billion in deposits (accounting for 77% and 70% respectively of the growth in consolidated assets and deposits for 2012). This increase fully offset further deposit outflows in Syrian operations. At end-December 2012, the assets of Bank Audi Syria had contracted to by roughly 45% third in 2012 while assets in Egypt grew by 15% according to Management.

The loan portfolio grew by a strong 21.4% in 2012 to USD 10,437 million of which USD 966 million can be attributed to banking activities in Turkey. The loans-to-deposits ratio increased to 38.9% at the end of Q4/12 from 37.2% at the end of Q3/12 (although significantly up from 34.7% at year-end 2011), while the immediate liquidity to deposits ratio remained roughly stable at 36.6%.

Lower NPLs and satisfactory provisioning levels result in lower provisions in Q4/12

Bank Audi's consolidated NPLs (doubtful to gross loans) stood at 2.7% by the end of Q4/12 down from 3.1% in Q3/12. The coverage of gross doubtful loans by specific loan loss provisions was 76% in Q4/12 roughly unchanged from Q3/12 and highlighting satisfactory provisioning levels. Net provisions totaled USD 27.3 million in Q4/12 down from USD 39.4 million in Q4/11. Total provisions reached USD 293 million at end-December 2012 up from USD 245 million at end-December 2011.

Capital adequacy ratio at around 11.6% as per Basel III

Bank Audi's capital adequacy ratio (Basel III) was 11.6%, highlighting a comfortable capitalization level and the firm's equity to assets ratio was down to 8.6% from 9% in previous quarter yet up from 8.2% in Q4/11. The TTM ROA (including the impact from discontinued operations) stood at 1.3% compared to 1.4% in the previous quarter. The TTM EPS was USD 1.01 in 2012 compared to USD 1.00 in 2011 when including the results from discontinued operations, while book value per share is estimated at USD 7.48 (USD 6.33 to common). The current P/E is now 6.2x, while estimated P/B is 0.83x (P/B 0.99x to common). The dividend yield is now 6.4%.

Launch of operations in Turkey to support Bank Audi's growth and market diversification strategy

In November 2012, Bank Audi launched its operations covering retail, commercial and private banking in Turkey with a network of 6 branches and 398 employees. The Bank is targeting Turkey as a key driver of growth for the Group in the coming years. Bank Audi looks to grow the branch network to 100 branches as it targets an asset base ranking second to Lebanon, supporting its strategy of reaching a balanced breakdown of assets and earnings between Lebanon and abroad.

Contacts:

Head of Research: Nadim Kabbara, CFA

n.kabbara@ffapivatebank.com

+961 1 985 195

Analyst: Raya Freyha

r.freyha@ffapivatebank.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

Disclaimer:

This document has been issued by FFA Private Bank for informational purposes only. This document is not an offer or a solicitation to buy or sell the securities mentioned. This document was prepared by FFA Private Bank from sources it believes to be reliable. Past performance is not necessarily indicative of future results. Therefore, FFA Private Bank makes no guarantee or warranty to the accuracy and thoroughness of the information mentioned, and accepts no responsibility or liability for damages incurred as a result of opinions formed and decisions made based on information presented in this document. All opinions expressed herein are subject to change without prior notice.