Equity Research - Lebanese Banks - Q3/15 Preview

Domestic banking sector deposits grew +5% YoY in July 2015 supported by non-residents deposits (+7% YoY). Loans grew at +5% YoY in June 2015 helped by CB initiatives: Lebanese banks have shown resilience against the regional and domestic economic/political backdrop despite real GDP growth slowing down to 2% between 2011 and 2014e (IMF) from an annual rate of ~8% pre-Syrian crisis. Regional economic uncertainty translated into slowdown of assets and deposits in Lebanon, as inflows decreased in light of continued political standstill including the failure to elect a new President, anti-government protests stemming from the trash crisis among others. Figures for July 2015 show that banks are still coping with the difficult backdrop, with assets and deposits growing by +6% and +5% reaching USD 180 billion and USD 148 billion respectively. Deposits continue to fund most of the sector's assets (82% in July 2015) which in turn largely exceed the size of the economy given an estimated assets/GDP ratio at ~370%. Lending growth was at +5% reaching USD 52 billion in June 2015, partially driven by previous BDL stimulus programs, expected to be followed by another USD 1 billion in 2016, which should continue to support macro and banking system growth (despite tighter BDL measures on retail and housing loans). Non-resident deposits represented a stable 21% share in deposits at the end of July 2015, continuing to help fuel the sector's liquidity (LDR at 35% in July 2015), which in turn go to finance public/external needs and international reserves.

Despite the persistently sluggish domestic backdrop, balance sheet of banks under coverage likely to remain resilient: In Q2/15, Byblos Bank loans growth was muted sequentially, while Bank Audi and Blom Bank saw loans grow by +4% and +2% respectively. The three banks under coverage saw their deposits grow sequentially in Q2/15 in the range of 2%-3%. LDR ratio for Blom Bank and Byblos Bank at ~29% and ~30% respectively, while LDR ratio for Bank Audi higher at ~47%, well above the sector's average of ~35%, mostly due to faster lending growth and LDRs in Turkey. We expect sequential growth in assets, deposits and loans in Q3/15e for Blom Bank and Byblos Bank in the 1%-2% range while we expect to witness softer sequential growth in assets, deposits and loans for Bank Audi in Q3/15e in the –1%-0% range mainly from Turkish Lira and Egyptian Pound pressures. For 2015e, we expect banks under coverage to remain resilient against the persistent domestic sluggishness due to economic/political uncertainty and subdued inflow of remittances from expatriates, mainly from Gulf countries, a likely consequence of lower oil prices. Despite regional turmoil and domestic sociopolitical conditions, we expect banks to see balance sheet growth in 2015e in terms of assets, deposits and loans: +3%, +4% and +1% respectively for Bank Audi, +5%, +6% and +5% respectively for Blom Bank, +4%, +5% and +4% respectively for Byblos Bank.

Although constraints continue to add pressures on profitability, banks under coverage expected to witness some growth in net profits: Despite an improvement in asset yields, we expect banks under coverage to continue witnessing some limitations in reducing cost of funds particularly in USD amid slower deposit accumulation (July 2015 figures show cost of funds in LBP up 4 bps YoY and cost of funds in USD up 16bps YoY), resulting in flat NIMs. While fee income is expected to grow (representing 18%-20% of total income), we expect lower gains on financial assets to cap non-interest income and ultimately revenue growth. Despite subdued growth in deposits, banks under coverage will likely see some balance sheet growth and flat to lower provisioning which should support net revenue growth. Operating expenses are expected to grow YoY (although flat on a cost-to-income basis, except for Byblos Bank) while tax rate is estimated to be flat to up. Our estimates for YoY net profits growth for Bank Audi in Q3/15e is at +10% (EPS at USD 0.23, +3% YoY due to capital increase), +3% for Blom Bank (EPS at USD 0.40, +4% YoY) and –2% for Byblos Bank (EPS at USD 0.05, -9% YoY). For 2015, we expect net profits to reach USD 398 million (+14% YoY) for Bank Audi, USD 384 million (+5% YoY) for Blom Bank and USD 182 million (+4% YoY) for Byblos Bank and EPS to reach USD 0.91, USD 1.71 and USD 0.25 respectively.

Despite high dividend yield, we expect no rerating given weaker earnings growth and unfavorable risk sentiment: Trading volumes on the BSE registered at 61 million shares as of 9M/15 (-20% YoY) while shares of banks in our coverage universe are roughly flat to positive (Bank Audi: -0.8% YTD, Blom Bank: +7.4% YTD, Byblos Bank: +0.6% YTD). We remind that the BSE remains illiquid with a low stock market capitalization and small numbers of issuers. Investors are placing a higher premium on Lebanese equities (as represented by 5 Year Republic of Lebanon CDS hovering near 400 bps) as the economic, political and security conditions continue to weigh on risk sentiment. While we highlight the resiliency of banks despite the difficult operating environment, we expect no rerating in bank shares in sight, given unfavorable risk sentiment, unless EPS/BVPS grow materially and/or investor sentiment improves on easing sociopolitical and security conditions. As a result, bank shares will likely trade on dividend yield, which while very attractive (at 6.7%-8.2% range) will likely not attract seasonal interest until closer to payment dates.

Table 1: FFA Private Bank Lebanese Banks Coverage

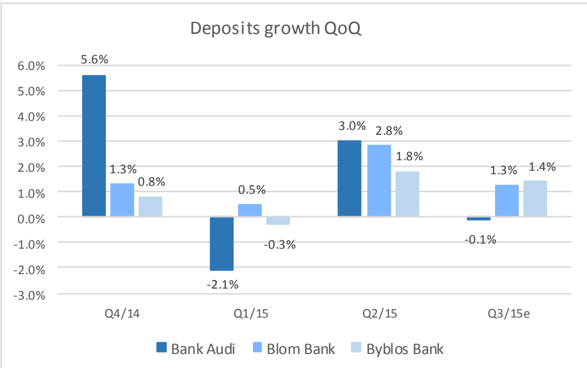
Company	Symbol	Recommendation	Target Price	Share Price *	YTD Change	P/E **	P/B to common	Dividend Yield
Bank Audi	(AUDI LB)	MARKETWEIGHT	↓ USD 7.00	USD 5.95	-0.8%	7.2x	0.84x	6.7%
Blom Bank	(BLOM LB)	OVERWEIGHT	USD 11.00	USD 9.45	+7.4%	5.7x	0.88x	7.0%
Byblos Bank	(BYB LB)	MARKETWEIGHT	↓ USD 1.60	USD 1.61	+0.6%	7.3x	0.77x	8.2%

Source: Company reports, BSE, FFA Private Bank estimates Note:* Listed shares as of October 13, 2015 market close, **Based on TTM EPS

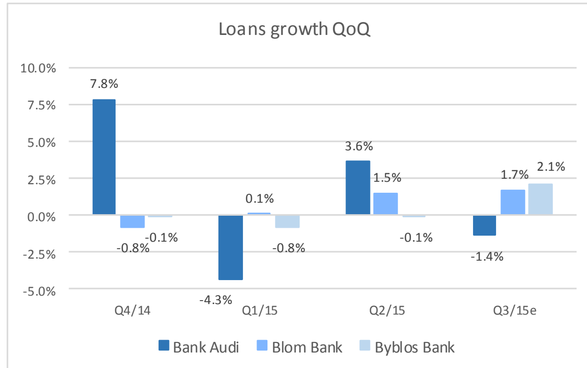
We update our target price on Bank Audi and Byblos Bank while keeping it unchanged for Blom Bank and note that Blom Bank is the sole Overweight in our coverage universe: In light of current difficult operating conditions and FX devaluation in key international markets we update our target price for Bank Audi to USD 7.00 from USD 7.50 and Byblos Bank to USD 1.60 from USD 1.65, while keeping our target price for Blom Bank unchanged. We note that Blom Bank is the sole Overweight in our coverage universe given its higher quality core income, above average margins, efficiencies and ROE, stable growth in earnings, solid capitalization, sizeable liquidity and conservative approach to growth.

Banks Under Coverage - Comparative Snapshots

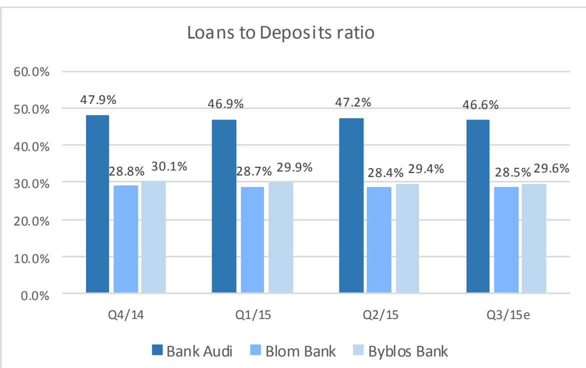
We expect deposits to grow QoQ for Blom Bank and Byblos Bank, while we forecast Bank Audi's deposit growth to remain flat QoQ on FX pressures



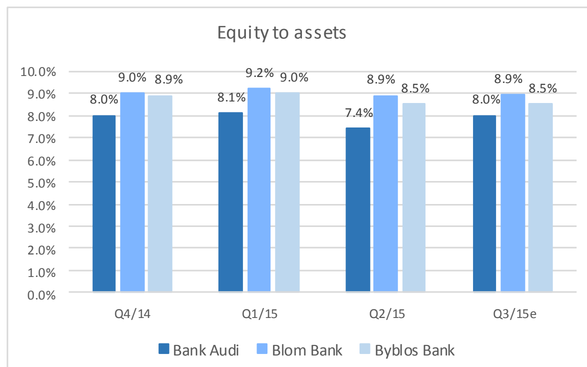
Bank Audi is expected to have weak loan growth while we forecast growth of ~+2% for Blom Bank and Byblos Bank respectively



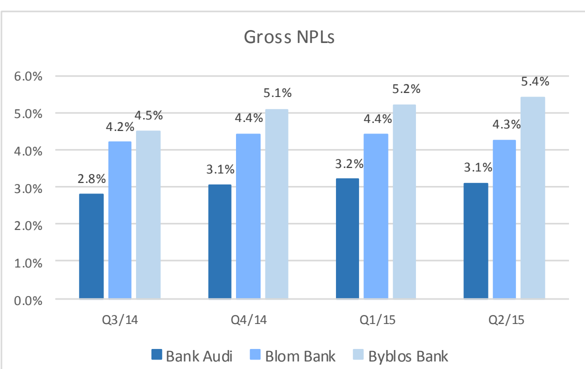
Bank Audi's LDR (~47%) expected to stay well above sector's average (~35) while Blom Bank and Byblos Bank's LDRs expected to stay at ~29% and ~30% respectively



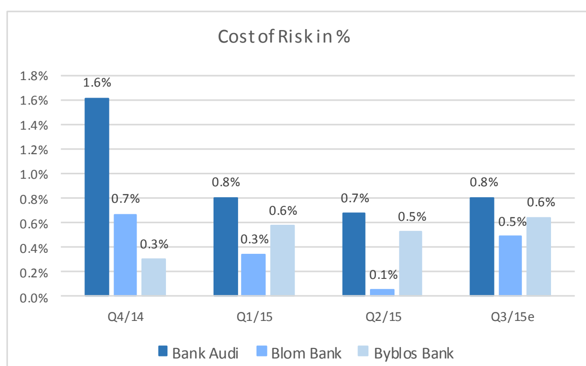
Bank Audi equity to assets ratio expected at 8.0% in Q3/15e, still screening lower compared to other banking peers under coverage



We note flat to slightly higher NPL formation QoQ across banks under coverage and Bank Audi's higher asset quality versus peers

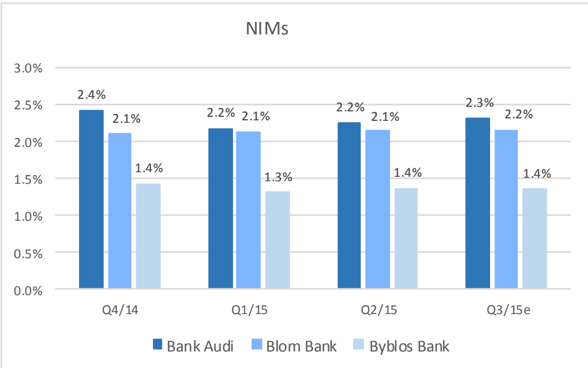


Cost of risk for the three banks under coverage expected to increase QoQ in Q3/15e following lower provisioning in Q2/15

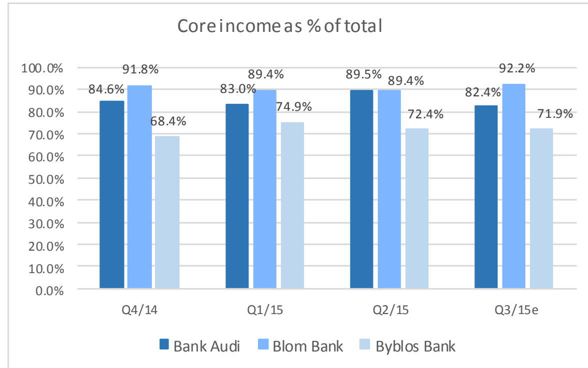


Source: Company reports and FFA Private Bank estimates

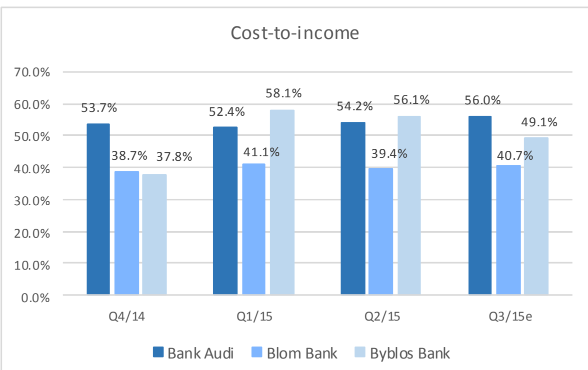
Banks under coverage expected to maintain stable NIMs in Q3/15e. We note that Byblos Bank has the lowest NIMs among its peers, holding significant room for improvement



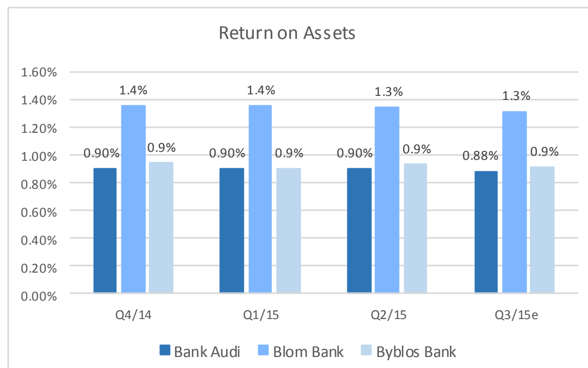
We expect an improvement in Blom Bank's core income contribution to total operating income, a stable revenue stream



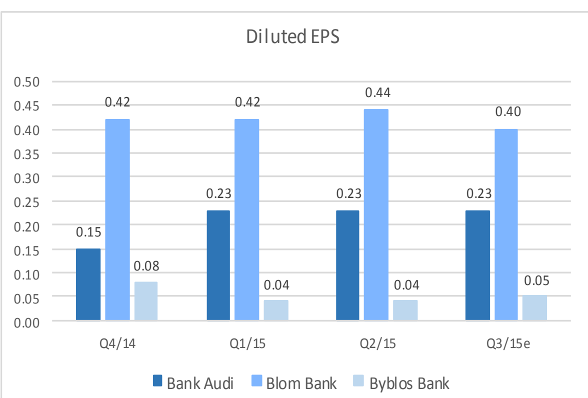
Blom Bank expected to continue seeing lower cost-to-income compared to peers under coverage, while we expect a decrease of cost-to-income for Byblos Bank



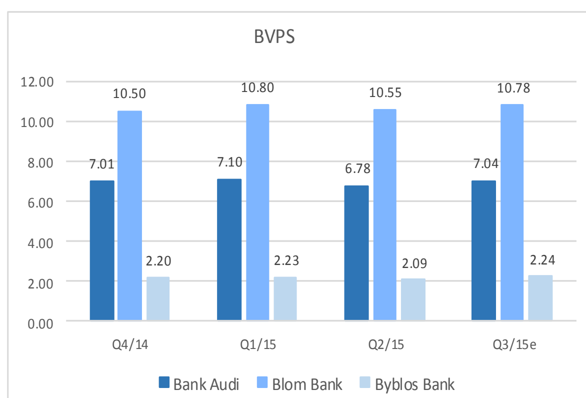
We value Blom Bank's higher expected profitability compared to peers at 1.3% ROA, while Bank Audi and Byblos Bank expected to stay under the 1% threshold



Blom Bank expected to continue demonstrating higher EPS earnings while Bank Audi and Byblos Bank's EPS expected to remain flat to lower in Q3/15e



Banks under coverage expected to witness a higher BVPS in Q3/15e, closer to previous quarters levels



Source: Company reports and FFA Private Bank estimates

BANK AUDI

Company Description

Bank Audi is the largest bank in Lebanon in terms of assets with an asset base in 2014 and H1/15 respectively at USD 41.9 billion and USD 42.3 billion as well as earnings in 2014 and H1/15 respectively at USD 350.3 million and USD 202.1 million. The Bank had a total of 212 branches and 6,720 employees as of the end of H1/15 with operations in its domestic market Lebanon as well as across Europe, MENA and Turkey. The Bank's diversification across markets translates into a breakdown of assets and earnings between domestic and international at a respective 53%/47% and 52%/48% in H1/15. In terms of assets, Turkey is currently the biggest international market for Bank Audi with 25% of total assets. The current strategy is geared towards three key markets: Lebanon, Turkey and Egypt. We highlight the Bank's relatively sound asset quality (Gross NPL ratio at 3.1% in Q2/15) amidst a difficult backdrop, solid balance sheet growth on a YoY basis and consolidated margins to remain favorably impacted by higher margins driven largely by Turkey as they converge towards Turkish sector average.

Q2/15 Key Financial Highlights

Net profits at USD 102 million in Q2/15 (+2% QoQ, -2% YoY)

- Net interest income increased to USD 234 million in Q2/15 (+5% QoQ, +15% YoY) on higher balance sheet volumes and improved margins (from higher asset yields and lower cost of funds to a lesser extent).
- Fees and commissions came in higher at 67 million in Q2/15 (+13% QoQ, +6% YoY) but were offset by significantly lower financial gains that came at USD 35 million in Q2/15 (-39% QoQ, -48% YoY), driving non-interest income lower at USD 102 million in Q2/15 (-13% QoQ, -22% YoY).
- Cost-to-income above the 50% range, still higher than pre-Turkey expansion levels.
- Gross NPL ratio improved to 3.1% in Q2/15 from 3.2% in Q1/15 with lower cost of risk at 67 bps.
- Key balance sheet indicators grew in Q2/15 with assets, deposits and loans increasing QoQ/YoY in Q2/15 by +2%/+8%, +3%/+6%, +4%/+6% to reach USD 42 billion, USD 36 billion and USD 17 billion respectively.

Latest Key Regional Highlights

- Bank Audi's breakdown of assets and earnings between domestic and international operations stands at 53%/47% and 52%/48% in H1/15.
- Odea Bank accumulated USD 11 billion in total assets representing 25% of the group assets and is seeking to benefit from operating leverage as branch network expands (53 branches including kiosks) and gains maturity. Odea Bank started reporting its first set of profits in Q2/14 at USD 3.3 million, which further accelerated to USD 17.0 million in H1/15. Odea Bank's net profits for the full year 2014 amounted to USD 16.2 million equivalent to ~5% of consolidated net profits. We expect Odea Bank's profitability to continue to improve as margins, efficiencies and LDRs move higher and closer to peers, driving its share of consolidated net profits considerably higher.
- In H1/15, the Group had USD 4.8 billion in assets in Egypt and generated USD 37.0 million in earnings accounting for 11% of consolidated assets and 18% of total profits.
- The Bank's current key pillar markets are: Lebanon, Turkey and Egypt.

FFA Model Assumptions

- We forecast net profits of USD 99 million in Q3/15e (-3% QoQ, +10% YoY).
- Expect net interest income at USD 237 million in Q3/15e (+1% QoQ, +22% YoY) with the YoY improvement being driven by higher margins and earning assets momentum from Turkish expansion. Going forward, Odea Bank should help Bank Audi's margins as Turkish banks typically boast higher margins and as branches gain maturity.
- Net fees and commissions to reach USD 67 million in Q3/15e (flat QoQ, +2% YoY).
- We expect assets and loans to shrink by –1% QoQ and deposits to remain unchanged QoQ. On a YoY basis we expect assets, deposits and loans to grow in the 5%-6% range.
- The LDR is expected at 46.6% in Q3/15e.
- We forecast provisions of USD 34 million in Q3/15e with an estimated annualized cost of risk of 80 bps.
- Our estimate for cost-to-income in Q3/15e at 56.0%, still high compared to pre-Turkey expansion levels.
- Looking at 2015e, net profits should reach USD 398 million (+14% YoY) with EPS at USD 0.91 (+6% YoY), driven by stronger operating income, slightly lower cost of risk and gradually improving efficiencies.

Table 2: FFA Model Forecasts

USD Million	FFA Q3/15e	Q2/15a	Q3/14a	QoQ%	YoY%	2014a	FFA 2015e
Net Interest Income	237	234	194	1%	22%	830	950
Operating Income	369	336	335	10%	10%	1,322	1,414
Net Profits	99	102	90	-3%	10%	350	398
Diluted EPS	0.23	0.23	0.22	0%	3%	0.86	0.91
Assets	41,925	42,310	39,889	-1%	5%	41,961	43,136
Deposits	36,073	36,106	33,918	0%	6%	35,821	37,155
Loans	16,801	17,035	15,926	-1%	5%	17,171	17,305
BVPS to common	7.04	6.47	6.32	9%	11%	7.02	7.16
FFA Cost-to income ratio	56.0%	54.2%	55.3%			55.3%	54.4%
Loans-to-deposits ratio	46.6%	47.2%	47.0%			47.9%	46.6%

Source: Company reports and FFA Private Bank estimates

Investment Opinion

We value Bank Audi's domestic leadership, asset quality and improving margins, and expect investors to gain confidence in its growth plan as earnings accelerate and risk diversifies away from domestic market
Bank Audi is the largest bank in Lebanon with a demonstrated franchise and the confidence of its clients in Lebanon and abroad. In light of difficult operating conditions, we value its fundamentals mainly from the preservation of its asset quality and interest margins as well as an ambitious expansion strategy in Turkey that is materializing into assets diversifying away from Lebanon's risk and towards gradually higher margins, comfortable cost of risk and improved CAR levels. We continue to rate Bank Audi shares at Marketweight although see upside on account of: i) Turkey expansion with balance sheet expected to increase from one-quarter to one-third of total balance sheet by M-T ii) Egypt balance sheet expansion potentially reaching USD 10 billion by M-T iii) international expansion coupled with continued growth in domestic market should drive assets to target USD 60 billion by M-T, which on improved profitability should accelerate earnings and diversify risk. Bank Audi shares should see pressures from FX currency devaluation and share dilution YoY which could create interesting trade given relative share underperformance year to date.

Target Price Revision and Recommendation

We reiterate our Marketweight rating on Bank Audi shares and revise our fair value to USD 7.00 per share
Based on our revised forecasts and discount rate assumptions to our Dividend Discount Model, we revise lower our fair value estimate for Bank Audi to USD 7.00 from USD 7.50 per share on account of softer balance sheet, Turkish operations and FX devaluation in key markets. Our DDM assumes a 13.5% discount rate and a 3.0% terminal growth rate. We corroborate our DDM valuation by means of the residual income method as well as historical and comparable P/E and P/B multiples.

BLOM BANK

Company Description

Blom Bank is the second largest bank in Lebanon in terms of assets with an asset base in 2014 and H1/15 respectively at USD 27.9 billion and USD 28.6 billion as well as earnings in 2014 and H1/15 respectively at USD 365.4 million and USD 190.4 million. The Bank had a total of 257 branches and 4,776 employees as of the end of H1/15 with operations in its domestic market Lebanon as well as across Europe and the MENA region. The Bank's diversification across markets translated into a breakdown of assets and earnings between domestic and international at 78%/22% and 67%/33% respectively in H1/15. The Bank's current strategy is geared towards two key markets: Lebanon and Egypt which is currently the biggest international market for Blom Bank. The Bank has so far adopted a conservative approach to growth translating into ample liquidity buffers and solid capitalization. We also note that Blom Bank has surpassed its peers in terms of earnings stability, interest margins and cost-efficiencies.

Q2/15 Key Financial Highlights

Net profits at USD 99 million in Q2/15 (+9% QoQ, +8% YoY)

- Net interest income was higher at USD 149 million from USD 145 million (+3% QoQ, +9% YoY) on improved balance sheet growth and margins, with NIMs at 2.14% in Q2/15 vs. 2.12% in Q1/15.
- Fees and commissions income came in higher at USD 40 million (+17% QoQ, +14% YoY) with a higher core income contribution at ~92% out of total revenues.
- Annualized cost of risk declined exceptionally to 5 bps in Q2/15 (vs. 34 bps in Q1/15) as net provisions came in less than USD 1 million in Q2/15 (-85% QoQ, -93% YoY).
- Despite subdued growth in domestic banking sector, balance sheet grew with assets, deposits and loans up QoQ/YoY respectively by +2%/+5%, +3%/+5% and +2%/+4%.
- Comfortable capital position with CAR III at 17.8% and profitability ratios at the high end of our coverage universe, TTM ROA at 1.3% and TTM ROE at 15.2%.

Latest Key Regional Highlights

- Blom Bank breakdown of assets and earnings between domestic and international operations stands at 78%/22% and 67%/33% respectively in H1/15.
- At the end of H1/15, the Group had around USD 2.2 billion in assets in Egypt and generated USD 23.9 million in net earnings accounting for around ~8% of consolidated assets and ~13% of consolidated profits.
- The Bank's key pillar markets are: Lebanon and Egypt.

FFA Model Assumptions

- We expect net profits of USD 93 million in Q3/15e (-7% QoQ, +3% YoY).
- We expect net interest income at USD 155 million in Q3/15e (+4% QoQ, +7% YoY).
- Net fees and commissions to reach USD 37 million in Q3/15e (-8% QoQ; +9% YoY).
- We expect provisions of USD 8 million equivalent to an estimated annualized cost of risk at 48 bps. Our cost-to-income estimate stands at 40.7% in Q3/15e (within the Bank's usual range).
- Key balance sheet indicators including assets, deposits and loans are expected to grow at a low single digit QoQ in Q3/15e, ranging between 1%-2%, and between 3%-6% YoY.
- At these growth levels, LDR should be at 28.5% in Q3/15e, which reflects ample liquidity and significant room to expand lending from current levels.
- For the year 2015e, net profits should reach USD 384 million (+5% YoY) with EPS expected at USD 1.71 (+6% YoY).

Table 3: FFA Model Forecasts

USD Million	FFA Q3/15e	Q2/15a	Q3/14a	QoQ%	YoY%	2014a	FFA 2015e
Net Interest Income	155	149	145	4%	7%	565	605
Operating Income	208	205	204	2%	2%	816	831
Net Profits	93	99	90	-7%	3%	365	384
Diluted EPS	0.40	0.44	0.39	-8%	4%	1.61	1.71
Assets	28,960	28,617	27,500	1%	5%	27,975	29,449
Deposits	25,065	24,754	23,706	1%	6%	24,006	25,379
Loans	7,142	7,021	6,965	2%	3%	6,910	7,257
BVPS to common	10.78	10.55	10.44	2%	3%	10.50	11.05
FFA Cost-to income ratio	40.7%	39.4%	40.4%			39.7%	39.8%
Loans-to-deposits ratio	28.5%	28.4%	29.4%			28.8%	28.6%

Source: Company reports and FFA Private Bank estimates

Investment Opinion

We view Blom Bank's higher returns and solid liquidity levels as a reflection of a prudent management team and see scope for dividends to grow over time on account of lower than average payouts

We recognize Blom Bank's solid positioning in its domestic market. We like the firm's conservative strategy translating into superior profitability and return ratios relative to its domestic peers from relatively higher margins and operating efficiencies, despite sizeable liquidity buffers. We also value Blom Bank's higher quality core income. In the short term, we look to the prudent management team to continue to focus on asset quality in light of difficult operations in key regional markets. We value the Bank's ability to steadily grow earnings while dividends should continue to benefit from lower than average payouts.

Target Price Revision and Recommendation

We reiterate our Overweight rating on Blom Bank shares and keep our fair value at USD 11.00 per share

Based on our revised forecasts and discount rate assumptions to our Dividend Discount Model, we reiterate our fair value estimate for Blom Bank at USD 11.00 per share. Our DDM assumes a 14.0% discount rate and a 3.0% terminal growth rate. We corroborate our DDM valuation by means of the residual income method as well as historical and comparable P/E and P/B multiples.

BYBLOS BANK

Company Description

Byblos Bank is the third largest bank in Lebanon in terms of assets with an asset base in 2014 and H1/15 respectively at USD 19.0 billion and USD 19.2 billion as well as earnings in 2014 and H1/15 respectively at USD 175.7 million and USD 70.1 million. The Bank had a total of 102 branches and 2,531 employees as of end of December 2014 with operations in Lebanon as well as across Europe, Africa and the MENA region. The Bank's diversification across markets is lagging behind its peers with a breakdown of assets and earnings between domestic and international at ~93%/7% and ~81%/19% for 2014. The Bank's balance sheet is mainly focused on Lebanon. The Bank has so far adopted a conservative growth strategy translating into ample liquidity levels and solid capitalization at the expense of weaker margins and profitability.

Q2/15 Key Financial Highlights

Net profits at USD 37 million in Q2/15 (+14% QoQ, -3% YoY)

- Net interest income was at USD 65 million in Q2/15 (+3% QoQ, +5% YoY) on muted balance sheet growth and slightly improved margins. We estimate margins to have improved to 1.36% in Q2/15 from 1.33% in Q1/15.
- Non-interest income at USD 59 million in Q2/15 (+20% QoQ, +21% YoY) driven by higher trading and investment income at USD 39 million (+39% QoQ, +43% YoY), despite weaker fees and commissions income at 20 million (-5% QoQ, -7% YoY).
- Cost of risk came in at an annualized 52 bps in Q2/15 vs. 57 bps in Q1/15.
- Balance sheet growth was rather muted in Q2/15, likely on persistent softness in Lebanese banking sector with assets, deposits and loans edging up slightly QoQ/YoY respectively by +1%/+3%, +2%/4% and 0%/+1%.
- Liquidity metrics reflect ample buffers and a conservative stance to liquidity likely at the detriment of margins and profitability ratios. LDR was at ~29%, the immediate liquidity to deposits ratio (including cash and balances with Central Banks and interbank placements) increased to nearly ~45%.
- Profitability ratios roughly edged up sequentially with TTM ROA at an estimated 0.93% vs. 0.95% in previous quarter, while the TTM ROE was estimated at 10.9% vs. 10.5% in Q1/15.

Latest Key Regional Highlights

- Byblos Bank breakdown of assets and earnings between domestic and international operations stands at ~93%/7% and ~81%/19% respectively for 2014.
- The Bank operations in Syria have been downsized to just ~1.4% of total assets as of December 2014.

FFA Model Assumptions

- We expect net profits of USD 43 million in Q3/15e, (+14% QoQ, -2% YoY).
- We forecast net interest income of USD 65 million in Q3/15e, (+0% QoQ, +4% YoY).
- Net fees and commissions' income expected at USD 24 million in Q3/15e (+23% QoQ, +4% YoY).
- Key balance sheet indicators namely assets, deposits and loans are expected to witness moderate growth at a low single digit in Q3/15e (1%-2% range QoQ, 1%-4% range YoY), with an LDR at 29.6%.
- We forecast provisions of USD 8 million in Q3/15e equivalent to an estimated annualized cost of risk at 64 bps. Our cost-to-income estimate stands at 49.1% for Q3/15e and 48.8% for the full year 2015e.
- Looking at 2015e, net profits should reach USD 182 million (+4% YoY) with EPS at USD 0.25 (+9% YoY).

Table 4: FFA Model Forecasts

USD Million	FFA Q3/15e	Q2/15a	Q3/14a	QoQ%	YoY%	2014a	FFA 2015e
Net Interest Income	65	65	62	0%	4%	247	272
Operating Income	122	124	118	-1%	3%	466	505
Net Profits	43	37	43	14%	-2%	176	182
Diluted EPS	0.05	0.04	0.06	12%	-9%	0.23	0.25
Assets	19,489	19,171	18,972	2%	3%	19,035	19,823
Deposits	16,167	15,948	15,588	1%	4%	15,715	16,463
Loans	4,780	4,684	4,735	2%	1%	4,728	4,925
BVPS to common	2.24	2.10	2.11	7%	6%	2.21	2.31
FFA Cost-to income ratio	49.1%	56.1%	47.5%			46.7%	48.8%
Loans-to-deposits ratio	29.6%	29.4%	30.4%			30.1%	29.9%

Source: Company reports and FFA Private Bank estimates

Investment Opinion

While we like Byblos Bank's solid domestic retail franchise with strong risk management practices, we believe additional value could be generated for investors as visibility and cost-efficiencies improve

We recognize Byblos Bank's position in its domestic retail market and solid fundamentals benefiting from sizeable liquidity buffers, strong capitalization and superior asset/liability management practices, a validation of management's risk practices although at the detriment to profitability ratios. We also recognize the firm's leadership at better managing its asset liability mismatch with the issuance of costlier longer term liabilities. We believe Byblos Bank's shares could generate more value once the firm gains visibility on its outlook and redeploys capital to create additional shareholder value by way of expansion, acquisition, or return of capital.

Target Price Revision and Recommendation

We reiterate our Marketweight rating on Byblos Bank shares and update our fair value to USD 1.60 per share

Based on our revised forecasts and discount rate assumptions to our Dividend Discount Model, we revise lower our fair value estimate for Byblos Bank to USD 1.60 per share from USD 1.65 per share on account of lower expected operating efficiencies. Our DDM assumes a 14.5% discount rate and a 3.0% terminal growth rate. We corroborate our DDM valuation by means of the residual income method as well as historical and comparable P/E and P/B multiples.

Contacts

Head of Research: Nadim Kabbara, CFA
n.kabbara@ffaprivatebank.com +961 1 985195

Analyst: Racha Saadeh Chehab
r.chehab@ffaprivatebank.com +961 1 985195

FFA Private Bank s.a.l.
One FFA Gate - Marfaa 128 - Foch Street
Beirut Central District
PO Box 90-1283 Beirut - Lebanon
Tel: +961 1 985195
Fax: +961 1 985193
http://www.ffaprivatebank.com

FFA Dubai Ltd
Building No 7 - Level 1
Gate Village
Dubai International Financial Center (DIFC)
PO Box 506567 - Dubai - UAE
Tel: +971 4 363 7470
Fax: +971 4 363 7471
http://www.ffadubai.com

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. 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.