

13 February 2008

Recommendation

Add*

Upside/Downside

15.2%

One-Year Fair Value

££34.30

Current Price

££29.78**



Suez Canal Bank (SCB)

Banking sector | Egypt

Cleaning out the closet

Reuters Code

CANA.CA

Bloomberg Code

CANA EY

Market Cap

££3 billion

US\$545 million

Number of Shares Outstanding

100 million

Average Daily Turnover

££3.3 million

52-Week high/ low

££36.71/13.54

YTD Price Change

6.7%

Shareholders' Structure

37.7% | Arab International Bank

23.9% | Arab Libyan External Bank

10.1% | Insurance fund for Suez

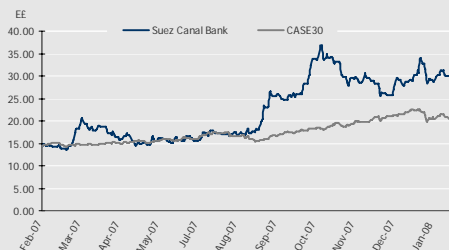
Canal Authority Employees

10.0% | Ahmed Deiaa Eldin

5.0% | Arab World for Investment

1.1% | Other

12.2% | Domestic free float



* Refer to back cover for investment recommendations

** Closing of February 12th, 2008

New Management...New Strategy

The appointment of Mr. Hesham Ramez as chairman of the bank in January 2007 was the turning point for SCB's strategy and the starting point for a major restructuring. Mr. Ramez, a strong advocate for cash management and treasury operations, had successfully restructured Egyptian Gulf Bank (EGB) as the CEO.

Improving asset quality, prudent business development, divestment of non-profitable investments, and introducing new segments are the key elements of SCB's strategy. Starting 2005, the bank shifted its main focus to the NPL clean-up, and this clean-up will continue into 2008. SCB has been building adequate loan loss provisions to fully cover NPLs, selling collaterals to settle bad debts and rescheduling debt repayments for some clients. Furthermore, SCB is focused on extending short to medium-term credit rather than long-term to achieve better asset-liability management. Management is focused on profitable growth through high risk adjusted returns, and intends to sell non-profitable investments. This should generate proceeds to help build adequate provisions faster. SCB will diversify into SME and retail lending, to diversify its income mix and widen its client base. Currently, management's biggest challenge is improving the bank's asset quality and profitability, given the competitive environment in the Egyptian banking sector.

We believe that the bank's performance was negatively affected by the high level of non-performing and non-earning assets on its balance sheet. As the clean-up progresses, the asset profitability and the bank's margins should improve significantly, in our view. Going forward, we believe that the bank's non-interest income will significantly improve as well, because of the bank management's strong track record in cash management and treasury operations. Thus, going forward we estimate an improvement in margins, higher growth in investment income, but lower non-interest income as a percentage of total operating income, accompanies with lower cost-to-income ratio, because the growth in costs is unlikely be as high as the growth in profitability.

Attractive Valuation

We have developed explicit FCFE estimates until the year 2012. After 2012, we have assumed a perpetual growth rate of 6.5%. We used a discount rate of 13.5%, based on a risk-free rate of 7.5%, to reflect the average yield on 1-year t-bills, in addition to a risk premium of 6%.

SCB's DECF valuation yielded a fair value of ££34.30, which is 15.2% above the current market price. The bank is trading at a low P/B FY08E (2.9x), compared to a regional and emerging market average of 3.2x. We believe that SCB is an attractive long-term investment.

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Selected Indicators

FY ends December	2006A	2007F	2008F	2009F	2010F	2011F	2012F
NII (EE million)	80	167	251	307	379	433	495
NIM (%)	0.7	1.3	1.8	2.0	2.3	2.3	2.4
Operating income (EE million)	277	442	658	585	696	790	901
Net Attributable Income (EE million)	0	0	0	195	335	465	536
EPS (EE)	0.00	0.00	0.00	1.95	3.35	4.65	5.36
P/E (x)	N/M	NM	NM	15.3	8.9	6.4	5.6
ROAA (%)	0	0.0	-	1.2	1.9	2.3	2.4
ROAE (%)	0	0.0	0.0	17.5	24.8	27.3	24.9
Avg. BVPS (EE)	10.3	10.3	10.3	11.1	13.5	17.1	21.5
P/BV (x)	2.9	2.9	2.9	2.7	2.2	1.7	1.4
Gross loans/Deposits (%)	74.4	74.5	69.1	64.5	60.5	58.1	57.4
Cost-to-Income (%)	38.8	34.7	33.3	38.4	33.1	31.8	30.9
CAR (%)	16.4	11.9	11.2	12.0	13.5	15.6	17.5
Avg. NPLs/Avg. Gross loans (%)	38.0	37.5	36.0	34.4	32.5	30.4	28.1
Provisions Coverage (%)	69.0	78.6	93.0	97.6	100.3	100.7	101.1
DPS(EE)	0.00	0.00	0.00	0.43	0.75	1.03	1.19
Dividend Yield (%)	0.0	0.0	0.0	1.5	2.5	3.5	4.0

Source: SCB and Beltone Financial

N/M: not meaningful

Suez Canal Bank – An Overview

Brief History

Founded by the Suez Canal Authority employee fund and other financial institutions in 1978, Suez Canal Bank (SCB) provides a comprehensive range of corporate and retail banking services, with emphasis on corporate banking. SCB is particularly strong in industrial project financing. Currently, SCB operates through 26 branches nationwide and has around 1,040 employees.

Suez Canal Bank is focused on traditional corporate banking activities

Business Activities

SCB is still focusing on traditional corporate banking activities. We believe the bank will demonstrate strong performance in treasury operations and cash management, through the expertise of its new management team, which has a previous successful track record in this area.

New Management Strategy and Future Growth

The real catalyst of change for SCB was the appointment of Mr. Hesham Ramez as chairman of the bank in January 2007. Mr. Ramez is a strong advocate for cash management and treasury operations. He and his management team's track record includes the successful restructuring of Egyptian Gulf Bank (EGB).

Moving forward, SCB will focus on three main strategies for future growth:

Improving asset quality. SCB management's current main focus is the NPL clean-up rather than large business development, which was reflected in the bank's results in 2005, 2006, 2007 and into 2008. In 2005, SCB transferred E£674 million to the loan-loss provision account alone, and the bank reported a net loss of E£525 million. In 2006, as well as in 9m FY07, SCB reported zero net profit due to E£169 million and E£254 million charges to the loan loss provision account, respectively. Management's target is to build a loan loss provision of E£3.0 billion, up from E£2.3 billion reported in 9m FY07. Once this target is achieved, SCB should start reporting positive bottom line figures. In addition to building adequate provisions, the bank is seizing collateral for non-performing loans with the possibility of selling them to settle outstanding amounts of non-performing loans. Further, the bank has reached arrangements with some clients to reschedule loan repayments. Growth in lending is currently modest (around 5%) due to the settlement of some of the non-performing sections of the portfolio.

Improving asset quality, prudent business development, divestment of non-profitable investments, and introducing new segments are the key elements of SCB's strategy

Investment management. The divestment from non-profitable investments and the focus on profitable investments should generate proceeds, which should also help to build appropriate provisions faster.

Business development. Management is focused on extending credit with high-risk adjusted return and is committed to extending short and medium-term financing, in order to achieve better asset-liability management. SCB's management intends to tap SME and retail lending, in order to widen its client base and achieve higher profitability. To achieve a higher client reach, SCB intends to open 3-4 new branches per year.

Key Challenges

Management's current biggest challenge is improving the bank's asset quality and profitability. Given SCB's size, the bank faces tough competition, especially from banks with better pricing power. However, the bank has a solid client base with long-term relationships, which can be built on for further growth.

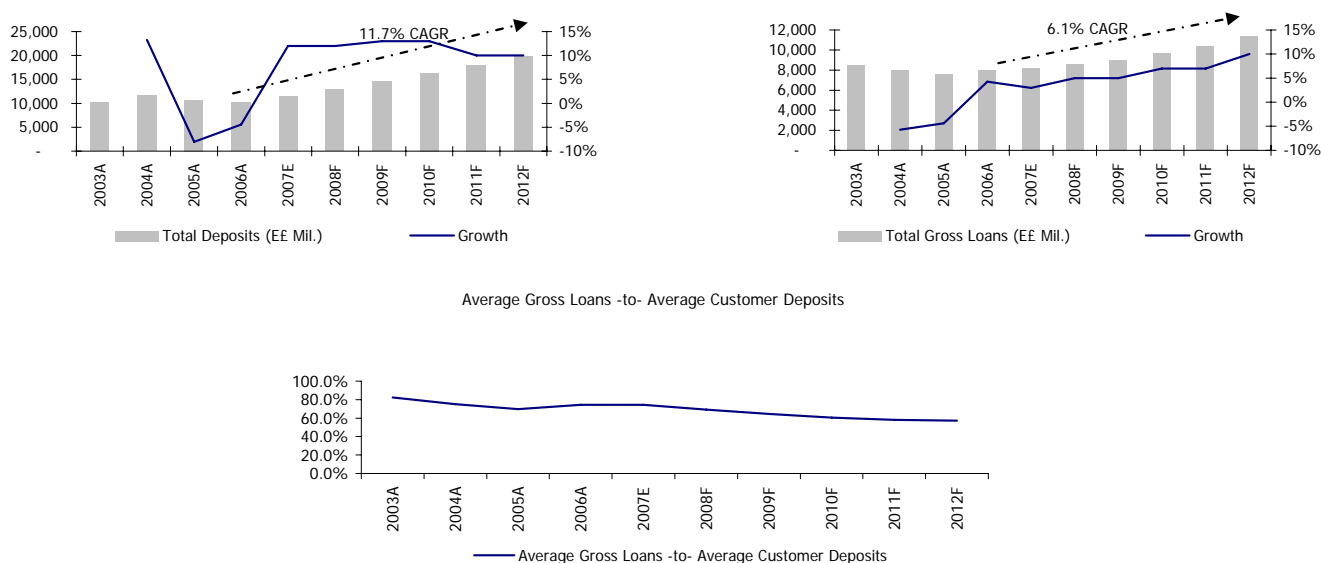
Competition is one of the major challenges facing SCB

Business Performance and Forecasts Summary

Balance Sheet

On the balance sheet, we expect deposits to grow at a 2006-2012 CAGR of 11.7% and loans to grow at a compounded rate of 6.1% over the same period, thus pushing utilisation down. The reason behind the slow loan portfolio growth is the settlement of non-performing debt and extending new loans, with a minimal net annual growth of the total loan portfolio, but with improved asset quality.

Figure 1 | Loan and Deposit Growth and Utilisation



Source: SCB, Beltone Financial estimates

Income Statement

Net Interest Margin. As the quality of the bank's assets improve, margins should become healthier. We estimate NIM to score 1.3% in 2007, and to increase gradually to reach 2.0% in 2009, and 2.4% in 2012.

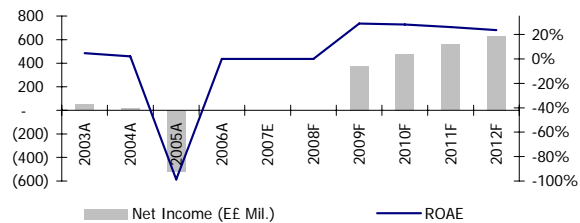
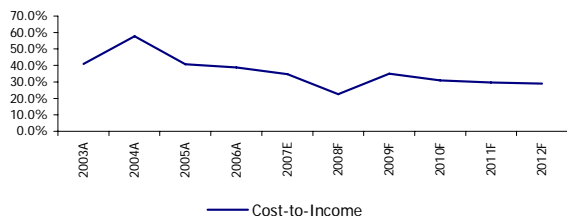
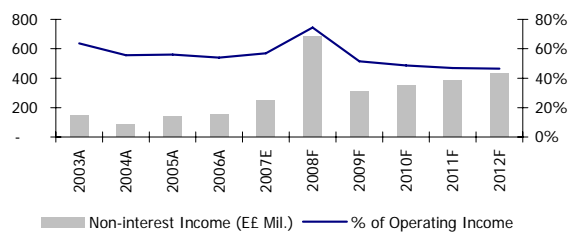
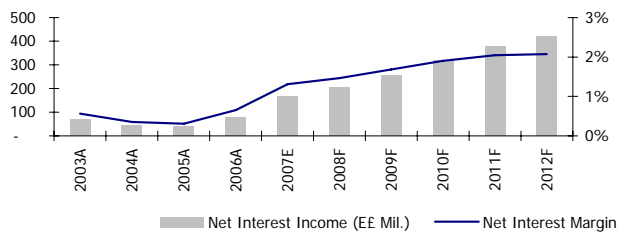
Non-interest Income. We believe that fees and commissions will grow at a 2006-2012 CAGR of 8%. Investment income is set to jump in 2008, due to the expected sale of the bank's 29% stake in Suez Canal Company for Technology Settling for an estimated E£135-150 million. With the close of this deal, Suez Canal Bank will approach the E£3 billion loan loss provision targeted by the end of 2008. Starting 2009, we estimate normal growth for investment income. Non-interest income as a percentage of operating income is set to score 56.9% in 2007, in our estimates. We expect this ratio to be sustained (57.3%) in 2008, and then start going down as the net interest margin picks up and due to the lower non-recurring items from selling investments.

Booked Provisions. We estimate that the bank will almost fully cover the non-performing loans in 2008. Starting 2009, we estimate provisions to cover for growth in lending and contingent liabilities.

Cost-to-Income Ratio. We estimate a 42.6% increase in the total operating expenses in 2007, because of the review in compensation packages that was completed in early 2007. We estimate 35.1% growth in operating expenses in 2008 due to a further review of compensation packages, followed by a more moderate growth rate of 5%-8% thereafter. We estimate that the cost-to-income ratio will go

down gradually, as the bank's income generation significantly improves, and as income grows faster than operating expenses.

Figure 2 | Profitability and Efficiency



Source: SCB, Beltone Financial estimates

Financial Statements

Balance Sheet

Fiscal Year Ends December (£E 000)	2006A	9M 2007	2007F	2008F	2009F	2010F	2011F
Assets							
Cash & Short Term Assets	820,283	339,804	1,410,097	1,638,505	1,750,401	1,977,948	2,180,026
Inter-bank Deposits	1,594,890	5,309,985	4,800,619	5,760,743	6,970,499	8,016,073	8,978,002
Short-Term Investments in Securities	724,634	821,116	869,561	956,517	1,052,169	1,157,385	1,273,124
Gross Loans & Advances	7,956,557	8,124,393	8,195,254	8,605,016	9,035,267	9,667,736	10,344,477
(Loan-Loss Provisions)	-2,085,901	-2,291,364	-2,377,712	-2,818,372	-2,961,598	-3,051,208	-3,069,022
Net Loans & Advances	5,870,656	5,833,029	5,817,542	5,786,644	6,073,669	6,616,528	7,275,456
Investments in Subsidiaries	164,636	164,681	164,636	111,623	55,812	61,393	67,532
Investments in Securities	23,204	14,916	14,851	11,880	13,068	14,375	15,813
Net Fixed Assets	100,981	106,122	108,046	115,766	124,209	133,452	143,580
Other Assets	336,943	459,576	488,567	659,566	824,457	948,126	1,042,939
Total Assets	12,256,785	13,508,117	13,936,279	15,041,579	16,864,652	18,925,687	20,976,918
Liabilities							
Due to Banks	470,482	969,379	1,176,205	882,154	793,938	611,333	550,199
Customer Deposits	10,232,380	11,233,189	11,460,266	12,835,497	14,504,112	16,389,647	18,028,611
Total Liabilities	11,229,202	12,480,534	12,908,696	14,013,996	15,664,031	17,427,054	19,065,215
Common Stock	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Total Net Worth	1,027,583	1,027,583	1,027,583	1,027,583	1,200,621	1,498,633	1,911,703
Contra Accounts	1,043,489	1,450,391	1,565,234	2,034,804	2,441,764	2,930,117	3,223,129

Source: Beltone Financial, SCB

Income Statement

Fiscal Year Ends December (£E 000)	2006A	9M 2007	2007F	2008F	2009F	2010F	2011F
Interest Income	785,765	660,268	849,148	975,629	995,986	1,065,585	1,189,146
Interest Expense	-706,085	-530,259	-682,560	-724,738	-689,123	-686,354	-756,071
Net Interest Income	79,680	130,009	166,589	250,890	306,864	379,231	433,076
Fees & Commissions, Net	55,060	38,301	47,030	52,757	58,073	68,499	77,411
Investment Income, Net	94,402	185,214	204,031	324,242	183,027	201,330	221,463
Other Operating Income	47,741	10,322	23,871	29,838	37,298	46,622	58,278
Net Operating Income	276,883	363,846	441,520	657,727	585,261	695,682	790,227
Total Operating Expenses	-107,456	-112,209	-153,201	-218,960	-224,717	-230,612	-251,213
Loan-Loss Provisions	-168,861	-254,284	-291,811	-440,661	-143,226	-89,610	-17,813
Net Operating Profit	566	-2,647	-3,492	-1,894	217,318	375,460	521,200
Other Income/Expenses	451	1446	1,579	1,894	2,273	2,728	3,000
Income Taxes	-1,017	1,201	1,913	0	-3,294	-5,673	-7,863
Appropriations	0	0	0	0	-21,630	-37,251	-51,634
Net Attributable Income	0	0	0	0	194,668	335,263	464,704

Source: Beltone Financial, SCB

Financial Ratios

Fiscal Year Ends December	2006A	2007F	2008F	2009F	2010F	2011F
Profitability Ratios						
Return on Average Assets	0.0%	0.0%	0.0%	1.2%	1.9%	2.3%
Return on Average Shareholders Equity	0.0%	0.0%	0.0%	17.5%	24.8%	27.3%
Net Spread	1.5%	2.3%	3.2%	3.4%	3.5%	3.5%
Net Interest Margin	0.7%	1.3%	1.8%	2.0%	2.3%	2.3%
Efficiency Ratios						
Cost -to- Income	38.8%	34.7%	33.3%	38.4%	33.1%	31.8%
Liquidity Ratios						
Avg. Gross Loans -to- Avg. Deposits	74.4%	74.5%	69.1%	64.5%	60.5%	58.1%
Avg. Net Loans -to- Avg. Deposits	55.2%	53.9%	47.8%	43.4%	41.1%	40.4%
Avg. Net Loans -to- Avg. Purchased Funds	51.4%	49.7%	44.0%	40.9%	39.3%	39.0%
Asset Quality Ratios						
Avg. Net Loans -to- Average Assets	46.8%	44.6%	40.0%	37.2%	35.5%	34.8%
Avg. NPLs -to- Average Gross Loans	38.0%	37.5%	36.0%	34.4%	32.5%	30.4%
Provisions Coverage	69.0%	78.6%	93.0%	97.6%	100.3%	100.7%
Capitalization Ratios						
Capital Adequacy Ratio	16.4%	11.9%	11.2%	12.0%	13.5%	15.6%
Dividend Payout Ratio	0.0%	0.0%	0.0%	20.0%	20.0%	20.0%

Source: Beltone Financial, SCB

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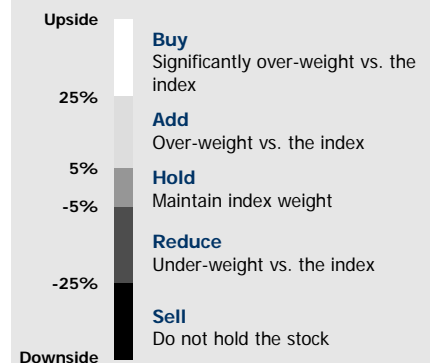
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