

# RESEARCH REPORT

EQUITY

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## CFG BANK IPO : ANALYSIS POINT

- 03 | Review of the latest IPO operations in Morocco
- 04 | A stock that would benefit from investors' interest towards the "Bank" thematic
- 06 | A growth stock..., recapitalization issue emerges
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Global Research

## CFG BANK IPO - RECOMMENDATION - SUBSCRIBE

SECTOR | BANKING |

## EXECUTIVE SUMMARY

CFG Bank is the first bank to list on the stock market since BCP Group in 2004. This operation will be carried out through a capital increase of MAD 600 Mn equivalent to a floating rate of 15.6%. This involves the issuance of 5,454,545 new shares at a unit price of MAD 110.

Attijari Global Research  
Research Team

At the end of our own analysis, **we recommend subscribing to this operation since we have a positive opinion on the stock.** Our Recommendation is based on the following arguments:

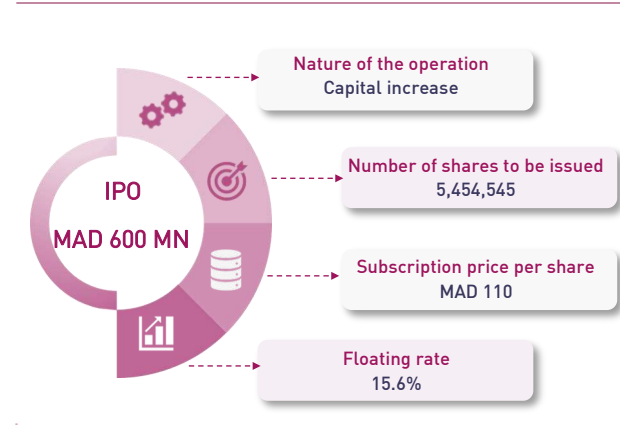
- (1) We believe that the dynamics of CFG Bank post-IPO would be largely driven by the strong interest of investors in Morocco towards the "Banking" thematic. This is a sector that has outperformed the equity market since 2020 thanks in particular to the resilience of its profit growth and its dividend.  
At the international level, banks' IPOs since 2021 have generally posted positive stock market performances after the first six months of their IPO. An observation which would further support foreign investors' sentiment;
- (2) CFG Bank will be listed at its full development stage through an AAGR of its NBI and Profits of +17% and +22% respectively according to the Management during the forecast period 2023E-2027E. With a market share of around 1.0% in terms of loans in Morocco, CFG Bank would have an interesting room for growth. However, the bank's recapitalization taking into account this high growth is an important issue to be monitored very closely;
- (3) Taking into account its small "size" and its positioning in "low-risk" customer segments, CFG Bank displays a relatively better *risk-return* ratio compared to the listed banking sector in Morocco. Nevertheless, we believe that over time the bank's ratios should gradually converge towards sector averages, i.e. a target ROE of around 13.0% compared to 16.0% currently. At a certain point in its development, CFG Bank could not generate growth without additional risk-taking, pressure on its tariffs and a more sustained recapitalization effort;
- (4) The positive growth prospects of CFG Bank over the MT combined with its risk profile are reflected positively on its valuation multiples on the MT. This is an average P/E of 13.0x over the period 2024E-2027E compared to a normative level for the listed banking sector in Morocco of 15.0x according to our estimates.

## CFG BANK, THE FIRST BANK TO BE LISTED IN MOROCCO SINCE 2004

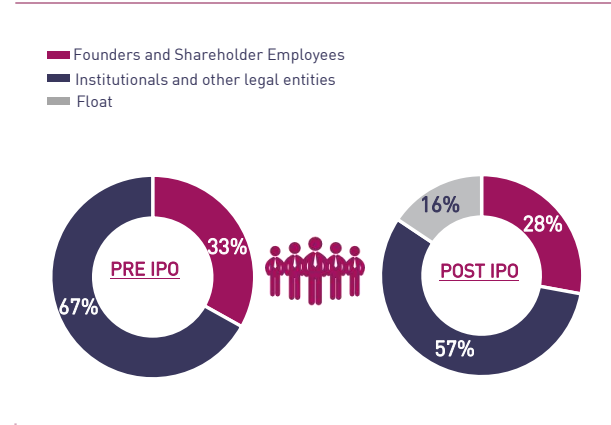
CFG Bank is the first bank to list on the Casablanca Stock Exchange since BCP Group in 2004. It is also the first IPO of the year 2023. This new operation will be carried out through a capital increase for a total amount of MAD 600 Mn. In more detail, this involves the issue of 5,454,545 new shares at a subscription price of MAD 110 per Share. Based on this issue price, the market capitalization of CFG Bank stands at MAD 3.9 Bn, i.e. the lowest capitalization within the banking sector (behind BMCI at MAD 6.8 Bn).

CFG Bank's floating rate on the stock market would be 15.6%, consistent with that of the listed banking sector. Nevertheless, we believe that the actual float in the market would be higher due to the bank's shareholding structure.

### CFG BANK : IPO TECHNICAL CHARACTERISTICS



### CFG BANK : SHAREHOLDING PRE VS. POST IPO

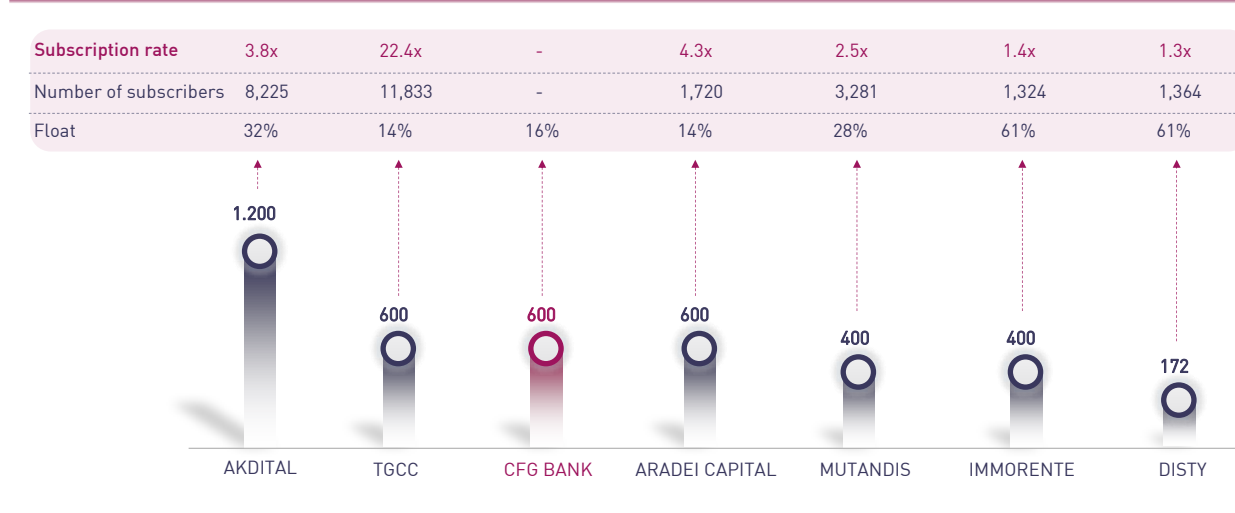


## REVIEW OF THE LATEST IPO OPERATIONS IN MOROCCO

Analyzing the technical indicators relating to the latest IPOs during the 2018-2023 period, we note the following observations:

- (1) With the exception of AKDITAL, the amounts raised on the Moroccan stock market remain modest, ranging from MAD 172 to 600 Mn. A situation which does not satisfy the appetite of large investors, such as institutional investors and foreign investment funds;
- (2) Over the last six years, the cumulative amounts raised during IPOs in Morocco reached MAD 3.9 Bn<sup>(1)</sup>. A level which is not sufficient to boost the liquidity of the Equity market and attract new investor profiles;
- (3) Concerning the two important IPOs, namely TGCC and AKDITAL, the subscribers number ranged between 8,000 and 12,000. Nevertheless, we believe that CFG Bank IPO should attract a larger number of subscribers due to the interest shown by investors in Morocco for the "Banking" thematic.

### TECHNICAL RESULTS OF THE LATEST IPOs OVER THE 2018-2023 PERIOD



(1) Including CFG Bank IPO of MAD 600 Mn

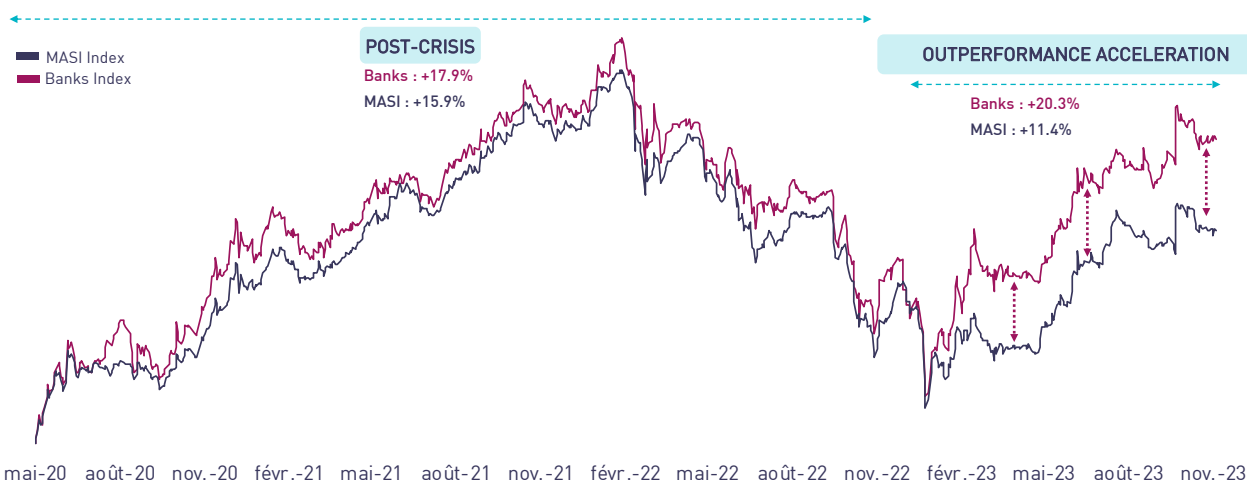
Sources : CFG Bank Information Prospectus, Casablanca Stock Exchange, AGR Computa-

## A STOCK THAT WOULD BENEFIT FROM INVESTORS' INTEREST TOWARDS THE "BANKING" THEMATIC

Historically, the evolution of the listed banking sector almost duplicated the MASI index, due to its preponderant weight in the capitalization of the Moroccan stock market, i.e. 36%. Since the Covid-19 crisis, it is clear that there has been a visible spread in terms of performance in favor of banks.

The continued outperformance of the banking sector compared to the Moroccan stock market for more than three years has reinforced its attractiveness. To this end, we have recommended that investors overweight the sector in portfolios since January 2023. [\[Cf. AGR House View January 2023\]](#), [\[Cf. AGR House View April 2023\]](#), [\[Cf. AGR House View August 2023\]](#).

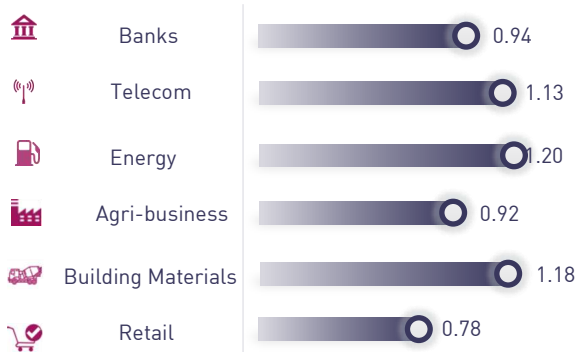
### MOROCCO: LISTED BANKS INDEX VS. MASI INDEX OVER THE PERIOD 2020-2023 (BASIS 100)



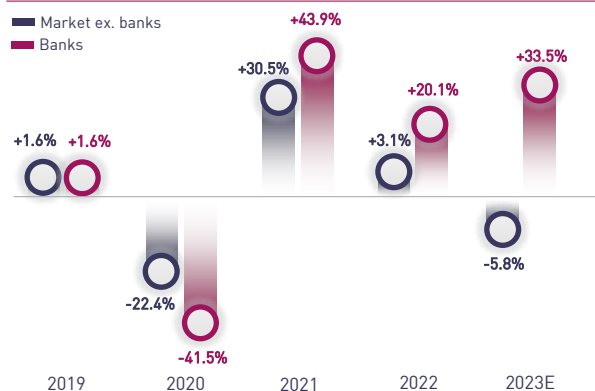
From a fundamental point of view, the banking sector largely justifies its outperformance compared to the Moroccan Equity market. Initially, two main observations:

- A proven ability to outperform the market's profit growth since 2020. On the one hand, the provisioning effort made during the outbreak of the Covid crisis allowed banks to benefit from a significant leeway to normalize their cost of risk. On the other hand, the sector has demonstrated solid resilience in the face of inflationary pressures, compared to other listed sectors;
- A beta level below 1.0 justified by the growth resilience of both its profits and its dividend. This supports the valuation levels of banking stocks through lower discount rates.

### BENCHMARK : BETA POSITIONING



### MOROCCO : PROFITS GROWTH OVER THE PERIOD 2019-2023E



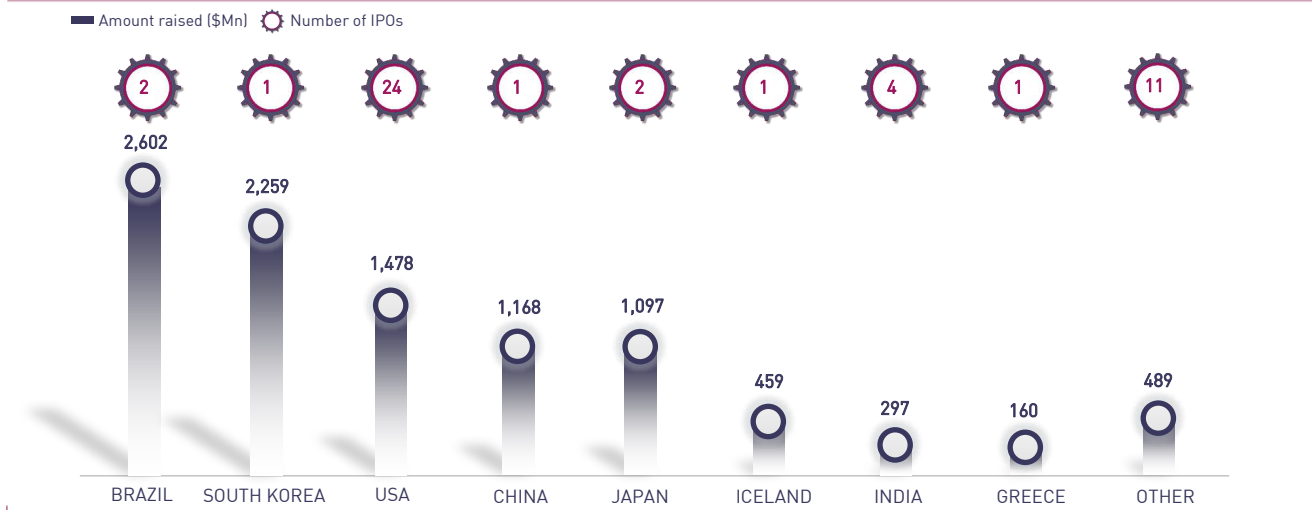
Sources : Casablanca Stock Exchange, AGR Computations & Estimates

## A GLOBALLY FAVORABLE POST-IPO BEHAVIOR OF BANKS INTERNATIONALLY

During the period 2021-2023, we witnessed the IPO of 47 banks internationally having raised a total amount of \$ 10 Bn. These operate in 14 different countries:

- In terms of amount raised, Brazil comes first followed by South Korea and the United States with respective issues of \$ 2.6 Bn, \$ 2.3 Bn and \$ 1.5 Bn;
- In terms of IPOs number, the United States stands out with the IPO of 24 banks over the period studied compared to 4 for India and 2 for Japan and Brazil.

### INTERNATIONAL BANKS: AMOUNT RAISED (\$ MN) VS. NUMBER OF IPOs OVER THE PERIOD 2021-2023

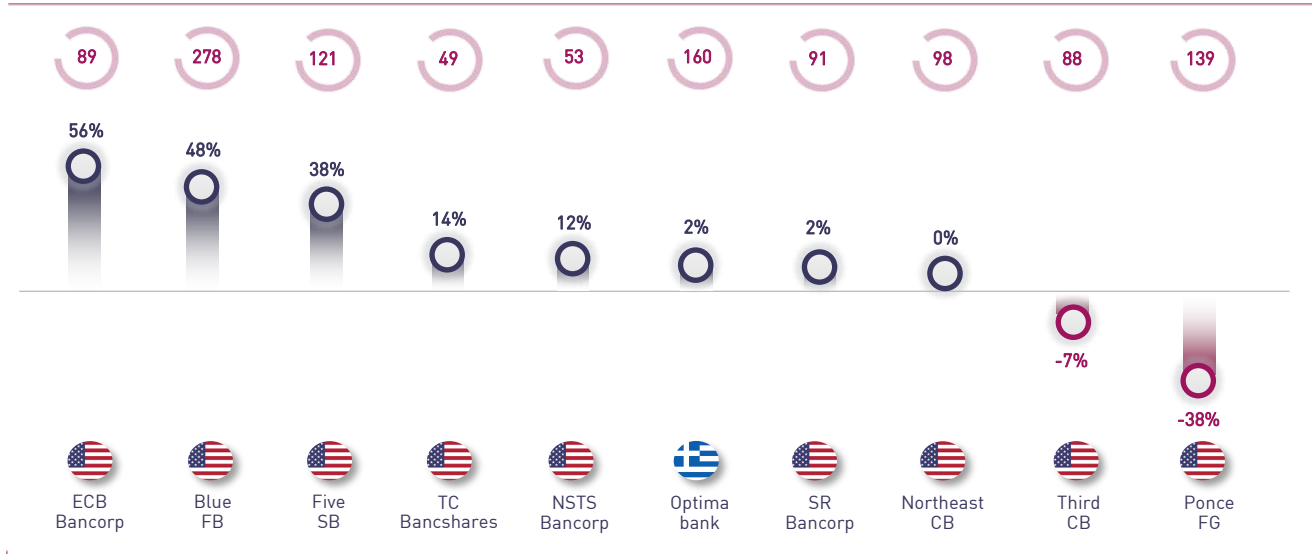


In order to evaluate the behavior of newly introduced banking stocks on international markets, we selected a Benchmark composed of 10 banks. These raised amounts ranging between \$ 49 Mn and \$ 278 Mn.

When analyzing their stock market performance within the first 6 months following their IPO, we can see positive performances overall. In more detail:

- ⇒ 5 banks out of 10 show an average appreciation of their price of 34.0%;
- ⇒ 3 banks show an almost stagnation compared to their IPO price;
- ⇒ 2 banks recorded a significant decline in their stock market price, averaging -23.0%.

### BENCHMARK AGR: STOCK MARKET PERFORMANCE OVER 6 MONTHS POST-IPO VS. AMOUNT RAISED (\$ MN)



Sources : Bloomberg, AGR Computations & Adjustments

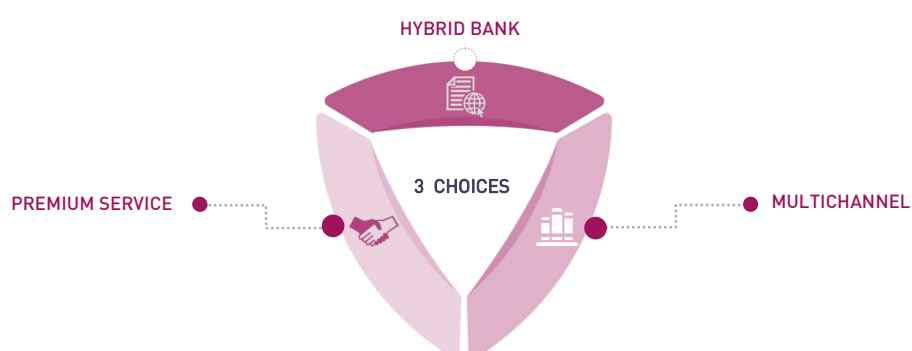
## A SECTORAL POSITIONING BASED ON THREE STRATEGIC CHOICES

Historically known as an investment bank, CFG evolved into a universal bank from 2012 following the approval of Bank Al-Maghrib for the launch of the commercial banking. These are the classic activities of loans, deposits, means of payment and e-banking. The year 2015 was marked by the effective start of the retail banking activity under the CFG Bank brand.

The positioning of CFG Bank within the Moroccan banking sector is based on three strategic orientations:

- (1) **Hybrid banking model:** Taking into account international experiences and the vision of Reference Shareholders, CFG Bank has opted for a model halfway between "100% digital" and "conventional banking". The objective would be to maintain contact with customers in Morocco while improving the quality service via digital;
- (2) **Development of multichannel:** This is a general orientation within the banking sector which aims is to strengthen "customer centricity" in a market increasingly exposed to new competitors;
- (3) **Premium service:** The bank's commercial strategy focuses on two segments with a relatively low risk profile. These are Large Companies and individuals who are heavy consumers of financial products.

### CFG BANK : STRATEGIC POSITIONING

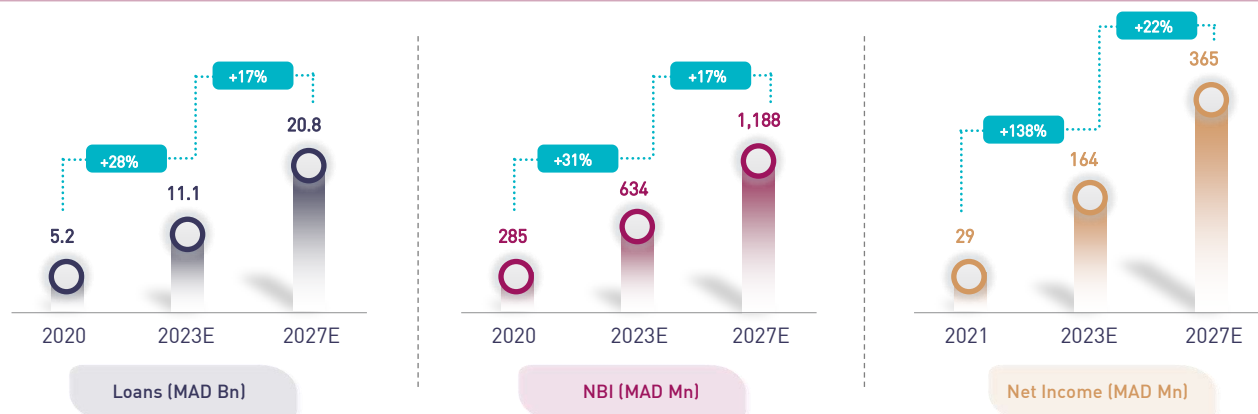


## A GROWTH SOTCK..., RECAPITALIZATION ISSUE EMERGES

CFG Bank presents an atypical growth profile compared to the listed banking sector in Morocco. It is a relatively "small" bank having only started its commercial banking activities in 2015. Under these conditions, we expect continued high growth rates over the period 2023E-2027E:

- (1) **Customer loans:** With a market share of around 1.0% in Morocco, CFG Bank has an interesting room for growth through a target AAGR of +17% for its loan activity over the period studied, rising from MAD 11.1 to 20.8 Bn;
- (2) **Net Banking Income (NBI):** After an AAGR of +31% over the period 2020-2023, NBI should maintain a sustained growth rate of +17% on an annual average by 2027, to exceed MAD 1.1 Bn;
- (3) **Profits:** After several years of loss due to the start of commercial banking, CFG Bank renewed with profits from 2021. With a target AAGR of +22%, the bank should reach a NIGS of MAD 365 Mn by 2027.

### CFG BANK: MAIN INDICATORS OF GROWTH PROFILE



Sources : CFG Bank Information Prospectus, AGR Computations & Estimates

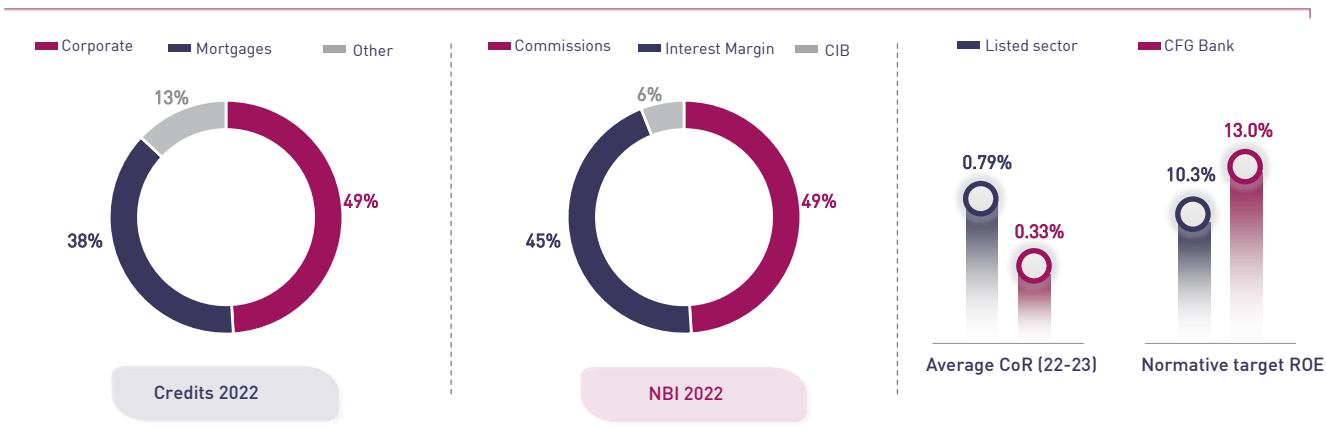


## FINANCIAL RETURN LEVELS IN LINE WITH THE BANK'S DIMENSION

Most of CFG Bank's future growth would come from Mortgage Loans (including real estate) and Business Loans. These two segments would represent more than 80% of outstanding loans during the period 2023E-2027E. A development which has a positive impact on the Bank's *risk-return* ratio through a CoR of 0.33%<sup>(1)</sup> and a target ROE estimated at 13.0% compared to 0.79% and 10.3% respectively for the listed banking sector. Under these conditions, the NBI would benefit from a low volatility growth profile driven mainly by recurring revenues. A situation which would justify a beta of the stock below 1.0.

Due to its size and its positioning in low-risk segments, CFG Bank is able to display a relatively better risk-return ratio over the MT than that of the listed sector. Nevertheless, we believe that the bank's ratios (CoR and ROE) should ultimately converge towards the sector average. At a certain point in its development, CFG Bank could not generate growth without additional risk-taking, pressure on its tariffs and a sustained commercial effort.

### CFG BANK : MAIN INDICATORS OF THE « RISK-RETURN » COUPLE

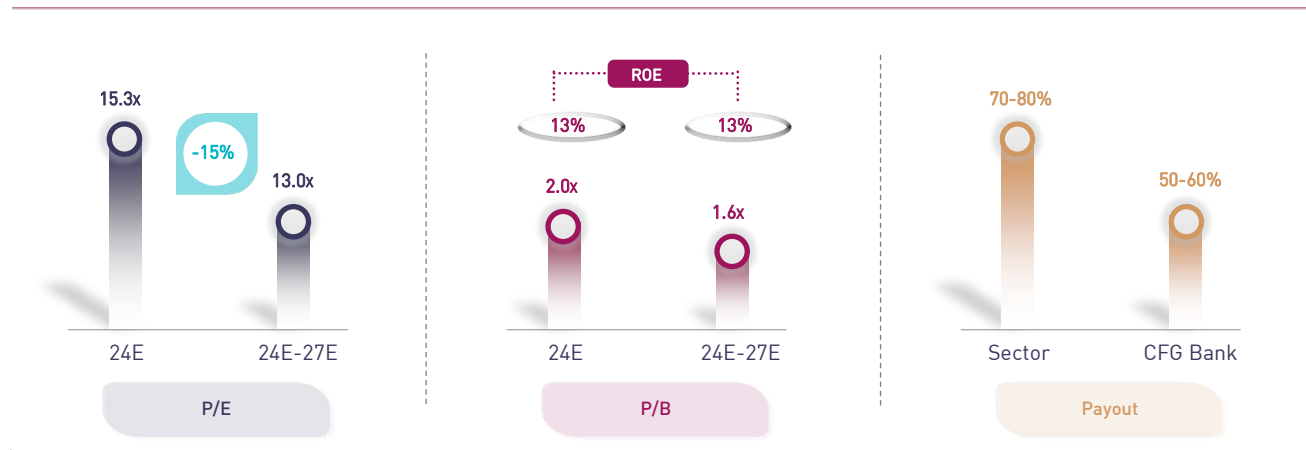


## POSITIVE GROWTH OUTLOOK, IMPROVING THE STOCK'S MULTIPLES

Thanks to its growth profile, CFG Bank stock would be able to improve its valuation levels during the period 2024E-2027E:

- Earnings multiple (P/E):** An improvement of 15.0% from 15.3x to a MT average of 13.0x against a normative P/E of 15.0x for the banking listed sector in Morocco;
- Equity multiple (P/B):** The average level over the forecast period stands at 1.6x compared to 1.4x for the listed banking sector, representing a premium of 14.0%. Note that the stock should maintain a ROE higher than that of the sector due to the relatively "small" size of the Bank;
- Payout ratio:** CFG Bank plans to payout a dividend between 50 and 60% of the parent company's NI, i.e. an average D/Y around 4.0% over the period 2024E-2027E. Nevertheless, we believe that the priority subject for the bank remains the achievement of its BP while ensuring the quality of its Balance Sheet.

### CFG BANK: MAIN VALUATION INDICATORS OF THE STOCK



(1) Average CoR (22-23)

Sources : CFG Bank Information Prospectus, AGR Computations & Estimates

## AGR MATRIX: ASSURANCE FACTORS VS. VIGILANCE FACTORS



AGR MATRIX

## Assurance factors

➤ ***A growth stock par "excellence"***

Being in the midst of a growth stage, CFG Bank would be able to post high operational performances over the next three years, above the market average.

➤ ***A strong interest in the "Banking" thematic***

The behavior of CFG Bank stock on the Equity market would, in our opinion, be supported in part by the interest shown by investors in Morocco for the "Banking" thematic. This is a resilient sector whose weighting in portfolios is becoming increasingly important.

➤ ***An attractiveness of forecast multiples***

The sustained profit growth over the period 2023E-2027E, through an AAGR of +22.0%, would have a positive impact on the multiples of CFG Bank stock.

The P/E of the stock would settle at 13.0x on average over the period 2024E-2027E compared to a normative level for the banking sector in Morocco estimated at 15.0x.

## Vigilance factors

➤ ***A relatively "small" size***

The relatively small size of the bank with a total Equity of MAD 2.0 Bn in 2024E compared to an average of MAD 22.8 Bn for the listed banking sector, would, in our opinion, reflect its vulnerability to economic shocks.

An observation which could initiate a recapitalization process of the bank in the upcoming years

➤ ***Rapid normalization of the "risk-return" couple***

Due to its size and its positioning in low-risk segments, CFG Bank presents lagged CoR and ROE levels compared to its sector.

A situation that is difficult to sustain as the customer base and the size of outstanding loans expand.

At a certain point in its evolution, the bank should face issues of "recapitalization".

➤ ***Emergence of tax risk***

Reading the results press releases of listed companies, we note a visible increase in tax risk in several listed sectors.

However, this risk remains general and not particularly linked to CFG Bank.



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