

Buy (+)

...When the State privatizes management!

BH bank deserves special attention following the announcement of its capital increase operation. Following the audit operation that the bank just undertook, it has been decided that a 200mTnd recapitalization plan was needed (a subordinated loan of 90mTnd issued in April 2015, and a soon to come 110mTnd capital increase). As a result a 5 year strategic plan was put in place, initiating a turning point for the state bank...A definite potential for new private investors!

The bank is today valued in the stock exchange at 362mTnd. Its 2015 consolidated equity is estimated at 472mTnd, bringing its P/B 2015e post capital increase to 1.0x, a very attractive valuation level compared to the average of the banking sector (P/B 2015e of 1.6x). Considering the bank's solid fundamentals, good management and attractive valuation, we recommend to « BUY » BH stock.

Price

20.12 Tnd

Market Cap

362.2mTnd

BH / banking sector

PER ₂₀₁₄	6.5x	12.6x
PER _{2015e}	6.7x	10.8x
P/B ₂₀₁₄	1.6x	1.8x
P/B _{2015e}	1.0x	1.6x
Yield _{2015e}	2.3%	3.2%
ROE ₂₀₁₄	23%	14%
Performance YTD	+96.3%	+14.7%

■ Presentation of BH bank :

BH bank was established in 1989 following the transformation of the government fund for housing (CNEL) into a commercial bank. BH Bank became Tunisia's biggest mortgage lender, hence playing a major role in helping Tunisians own housing properties over the past 20 years.

The economic situation that followed the revolution highlighted numerous capitalistic, strategic as well as prudential weaknesses, which have a direct impact on the sustainability of the state bank. It has then been decided to carry an audit mission, for all three state banks, that lasted two years. Under the recommendation of the international institutions, all aspects have been addressed (institutional aspects, financial, performance, and social), resulting in an overall restructuring plan which revolves around the following: **(1)** a recapitalization * plan totaling 200MmTnd **(2)** development of a commercial recovery strategy, **(3)** a remediation plan and more adequate risk management, **(4)** improving the governance system **(5)** redesigning the information system, and **(6)** the establishment of a human resources development plan.

Today, the bank is preparing to start its capital increase, revealing a business plan that combines performance and prudential rigor.

■ Financial analysis of the bank

1- Deposits

With an average deposit collection of 236mTnd over the past 4 years and a network of 105 branches, BH ranks in mid-table with a market share of 10% at end-March 2015.

Because of its status of a « real estate » bank, the deposit structure is mainly composed of long and expensive resources (68%). For example, the home savings plan (PEL), flagship of the bank, offers investors an investment with a guaranteed rate over a period of up to six years, which allows to get at the end of the savings plan a mortgage at a rate known in advance. Such product weighs heavily on the cost of resources* as the bank paid 4.3% interest on this plan in 2014. It is among the highest rates in the banking industry.

Shareholders as of 26/05/2015 :

Gov :	49.19%
Horchani Finance* :	10%
Blakeney Investors Fund :	6.89%
Mohamed Habib Guerrida :	4.56%
Others :	29.36%

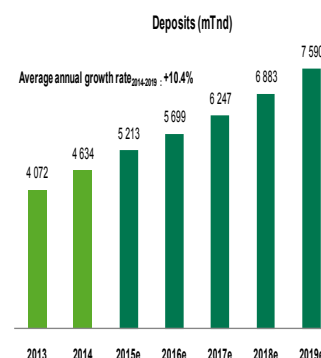
*amongst which 0.08% owned by M. Rached Horchani

*The recapitalization of BH bank is carried out in two phases:

- A 90mTnd subordinated bond issue (done in April 2015).

- A 110mTnd capital increase at 11Tnd per share (5Tnd nominal + 6Tnd issue premium). The subscription period will last from 27/07/2015 until 09/11/2015.

The restructuring program should allow the bank to comply with the prudential requirements of the Tunisian Central Bank, a minimum 10% Cooke ratio and Tier 1 capital ratio of 7%.

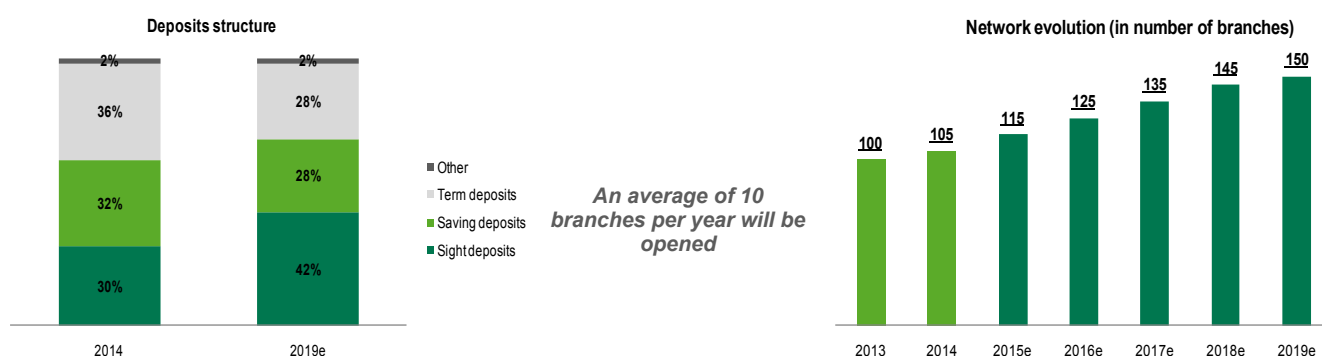


* The cost of resources of the year N is calculated taking into account the average between the year (N-1) and the year N

To overcome the high cost of its resources, BH bank wants to break with its "real estate" image and diversify by focusing more on sight deposits. The 7% annual increase in sight deposits intended by management, should reduce the cost of its resources from 4.3% in 2014 to 3.6% in 2019 or an average decrease of 13 basis points per year.

Nonetheless the bank will not completely abandon its real estate image, but will focus on developing less expensive, shorter maturity products. Such strategy will go hand in hand with a dynamic expansion of its network. The BH branch network is relatively small compared to the rest of the sector (a network of 105 branches against an average of 140 branches per bank). The bank is planning on opening an average of 10 branches a year to reach a total of 150 branches in 2019.

The bank forecasts an increase of 10.4% per annum of its deposits reaching 7 590mTnd in 2019.

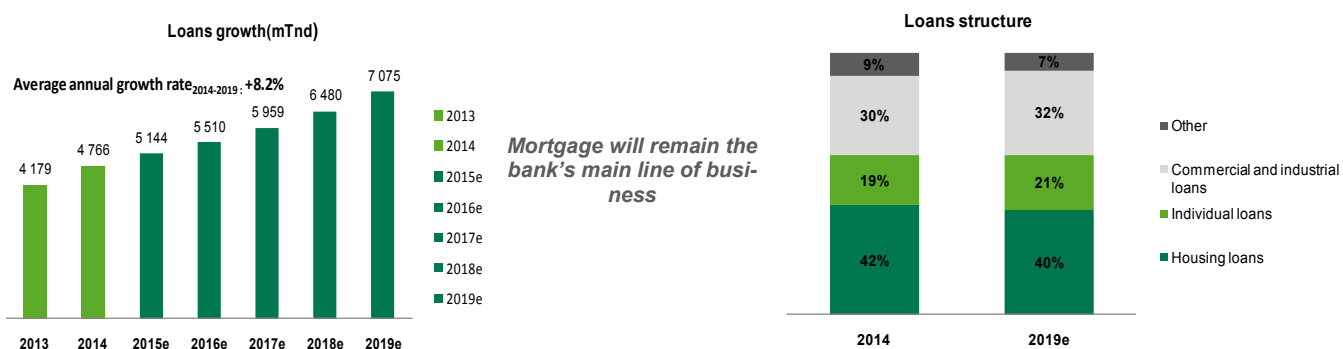


2- Loans

In a gloomy economic climate, the bank's outstanding loans recorded over the last three years a 5% growth, with a recovery that seems, however, to begin in 2014 (+ 14%).

Pioneer in mortgage lending, 42% of the bank's commitments are in the real estate sector (individual buyers + real estate developers). A proportion that is nevertheless declining since 2009 when it represented 51% of the bank's total loan book.

As part of its diversification plan and in order to reduce its concentration risk, the bank plans to strengthen its position in other sectors of the economy and preserve its positioning on individual loans. That said, BH will maintain its leadership in mortgage loans, which will continue to make the bulk of the book.



Over the next five years BH forecasts an average increase of 8.2% of its outstanding loans reaching 7 075mTnd in 2019. A performance that will remain dependent on a good economic situation and a more favorable business climate.

With loans increasing at a lower pace than deposits, it should mechanically improve the coverage ratio of loans by deposits (deposits / loans) and achieve, by 2015, the standard Central Bank requirement (100%).

3 - Net Banking Income

The NBI structure being mainly dominated by interests which make up on average 70% over the 2012-2014 period. Such high rate is well above the sector average (58%), creating a strong link between the bank's revenues and interest rates.

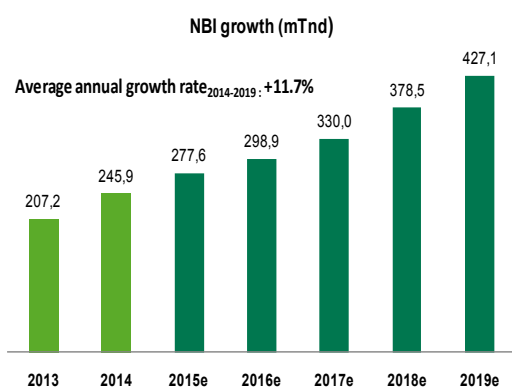
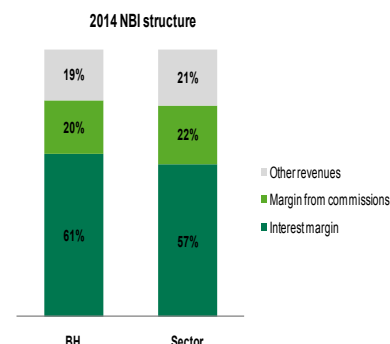
The situation has somewhat changed in 2014. Given the unfavorable investment environment, the drying up of liquidity and a more and more aggressive competition among banks, interest margin has shrunk and the increase in NBI (Net Banking Income) mainly emanated from the bank's investment activity. BH has doubled its revenue portfolio, enabling it to compensate for the stagnation of its interest income and to grow its NBI by 19%. The interest margin has lost 10 percentage points from 71% to 61% in 2014.

Considered to be the main factor of its NBI, the improvement in profitability over the coming years will go through an optimization of the interest margin, which will continue to weigh substantially on the bank's NBI.

By positioning itself on more profitable sectors and by mastering the competition, the spread of interest is expected to improve on average by 11bps a year, going from 2.98% in 2014 to 3.15% in 2019.

Alongside interest income, the bank also relies on its investment activity, primarily in treasury notes (+ 15% per year) and the increase in commissions through the promotion of new banking services and raising rates (+ 17% per year).

As a result, the growth in NBI should be at a rate well above the historical average (+6% per year), with the bank's management expecting its NBI to grow by 12% on average per year to reach 427mTnd by 2019.



As for H1 2015, BH bank recorded the second highest NBI growth of the sector

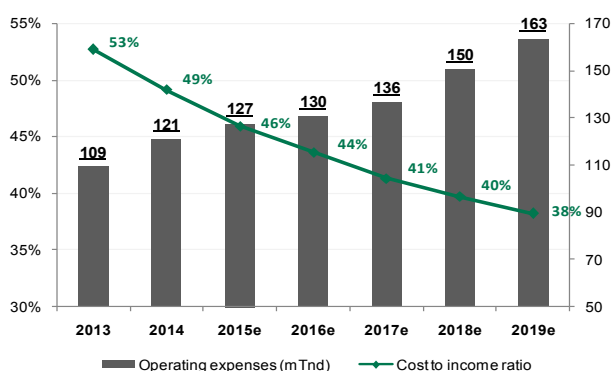
Bank	NBI (mTnd)		
	31/03/14	31/03/15	Variation
BIAT	108,4	117,9	8,7%
BNA	90,4	87,7	-3,0%
Amen Bank	61,8	68,1	10,2%
Attijari Bank	61,8	66,0	6,9%
STB	62,6	62,7	0,2%
BH	49,8	61,6	23,7%
UIB	45,3	49,1	8,5%
ATB	39,8	47,4	19,0%
BT	43,8	46,4	6,0%
UBCI	35,6	37,6	5,6%
BTE	6,7	9,1	36,4%
Sector	606	654	7,9%

4 – Productivity

The bank's productivity has continued to deteriorate since 2008. Operating expenses have grown 4x faster than NBI, the bank's cost to income ratio rose from 39% in 2008 to 53% in 2013.

In 2014, NBI growth has led to improve the bank's productivity with an operating ratio of 48%, lower than the 50% estimated industry average.

The bank's efforts are expected to continue over the coming years. Among its priorities, the bank should introduce a cost killing policy aimed at reducing staff. This strategy will result in a 5 years plan: targeted recruitment, retirements, reducing its workforce and a more suitable pay policy. With an average growth of 6% per year in operating costs, the bank's cost to income ratio is to decrease from 49% in 2014 to 38% in 2019, returning to its rigorous management levels of 2008.

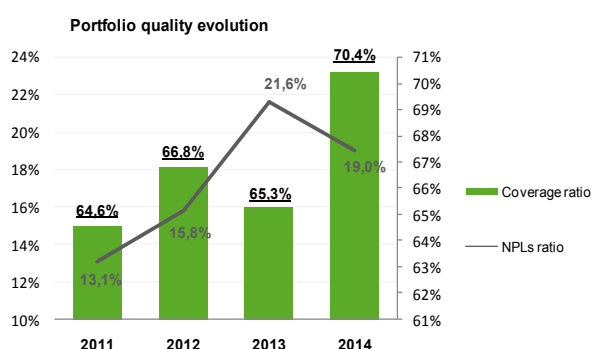


5 – Portfolio quality and profitability

Just like the rest of the sector, BH was not spared the degradation of the quality of its portfolio since the revolution. Non Performing Loans (NPLs) doubled, bringing the NPL ratio to 21.6% in 2013.

It was when the Central Bank published its 2013 circular that the bank's lax in risk management was uncovered. 311mTnd were provisioned in 2013, directly impacting the bank's results: a record deficit of 220mTnd while the bank's equity was reduced to 227mTnd. Despite of this massive provision being allocated to fiscal year 2013, the coverage rate remained below the standards required by the Central Bank at 65% (against a minimum requirement of 70%).

In 2014 the bank was making a new start, taking everyone by surprise when it posted an unexpected profit of 50mTnd and a much improved coverage ratio of 70.4%.



*The Tunisian Central Bank has issued a circular in December 2013 in regards to banks' provisioning policy. Credit institutions will be obliged to have additional provisions to cover mortgage collaterals that are older than 3 years (class 4), besides the 100% mandatory coverage rate.

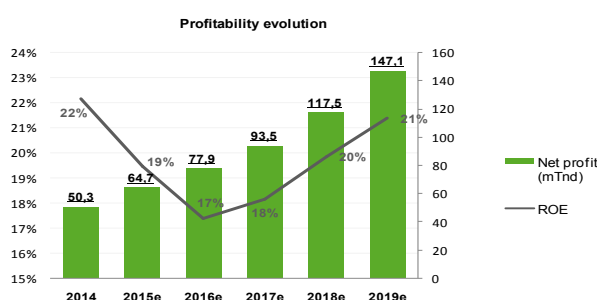
in kTnd	2011	2012	2013	2014
Earnings before provisions	100 844	104 541	110 840	140 593
Provisions	81 983	85 934	270 205	90 295
Net profit	18 862	18 606	- 220 139	50 298
Equity	441 334	453 314	226 544	277 411
Cooke ratio*	10,23%	10,70%	4,49%	4,70%

* a minimum of 9% is required from 2011 to 2013, and a minimum of 10% required starting from 2014

BH started in 2015 a new risk management policy that focuses on three areas: (1) Improved collection efforts (2) A part of its bad loans were given to a collection company (3) a new more targeted credit management policy, taking into account a sectoral approach, strengthening bank guarantees and development of a more reliable rating system.

The impact of such policies will be reflected in the bank's ratios (NPLs ratio down to 12.6% and a coverage ratio of 90% in 2019). The capital injection will allow the bank to comply with the Central Bank's prudential ratios: Cooke ratio above 10% in 2015 versus 4.70% in 2014.

New levels of profitability should be achieved with an average earnings growth of 24% per year and an average ROE of 19% over this same period ... Besides a dividend yield of 4% starting from 2016..enough arguments to regain private investors' interest!



A 24% annual average growth in net profit over the 2014-2019 period

The bank's improved profitability should allow the group to have a net growth rate slightly below 23% per year, to reach, according to our estimates, 154mTnd by 2019.

■ Market argument and Tunisie Valeurs' opinion

The bank's recapitalization plan enters its second stage with the opening of subscriptions to the 110mTnd capital increase on July 27th. In the meantime the bank has engaged in a commercial/organizational/managerial/social reshuffle ... To further adapt to an ever competing world.

If the bank is to keep its capital « state-owned » its future lays in a « private » kind business model, which should enhance the credibility of the bank towards private investors, potential future technical and strategic partners and the financial market as a whole.

Since the beginning of the year, BH stock attracted much interest in the market, posting a record performance of +96%, hence valuing the bank at 362mTnd. Today, and despite the significant share price performance, the bank has still a very attractive valuation, P / E 2015e (post increase) 6.7x and a P / B2015e (post increase) 1.0x making it one of the cheapest listed private banks.

Considering the bank' solid fundamentals, its quality management and attractive valuation, **we recommend to buy BH stock.**

BH Business Plan

in KDT	2013	2014	2015e	2016e	2017e	2018e	2019e
Loans	4 178 551	4 766 184	5 144 471	5 509 898	5 958 571	6 480 263	7 074 965
<i>Progression</i>		14,1%	7,9%	7,1%	8,1%	8,8%	9,2%
Deposits	4 071 526	4 634 049	5 213 219	5 698 515	6 246 651	6 882 690	7 590 360
<i>Progression</i>		13,8%	12,5%	9,3%	9,6%	10,2%	10,3%
NBI	207 244	245 921	277 552	298 850	329 970	378 536	427 136
<i>Progression</i>		18,7%	12,9%	7,7%	10,4%	14,7%	12,8%
Allowances to provisions	270 205	90 295	73 233	67 869	70 454	71 099	64 555
Other	109 140	120 851	127 467	130 421	136 247	150 286	163 207
<i>Operating coefficient</i>	53%	49%	46%	44%	41%	40%	38%
Net profit	- 220 139	50 298	64 690	77 904	93 516	117 477	147 146
<i>Progression</i>			28,6%	20,4%	20,0%	25,6%	25,3%
Group net profit*	- 211 000	55 301	69 993	83 525	99 474	123 793	153 840
<i>Progression</i>			26,6%	19,3%	19,1%	24,4%	24,3%

* Estimated by Tunisie Valeurs

Equity Research Department

Rym GARGOURI BEN HAMADOU
Lilia KAMOUN TURKI
Aicha MOKADDEM
Hamza BEN TAARIT

Tel : 71 189 600

www.tunisievaleurs.com