

April 05, 2010

Pakistan Market**Banks: 1Q2010 credit offtake unimpressive****MORNING BRIEFING**

KSE100 Index: Closing 10416.52 ↑ (+169.75)

According to the figures recently released by the State Bank of Pakistan (SBP), credit offtake in the 1Q2010 remained unimpressive, dropping by 0.5%, hinting that overall economic recovery still remains at an early stage. However, an encouraging pickup in offtake to the private sector (Rs29bn in 1Q) as visible in the production growth number of Large Scale Manufacturing (LSM) shows activity uptick in this segment. Deposits jumped by 2.3% in line with improving Net Domestic Assets (NDA), while provisions rose by 13.5%. Further, excess liquidity continues to be parked into investments.

Deposits up 2.3%, as NDA rises by 2.5%

As of March 27, 2010 deposits of the industry have reached Rs4.4trn (US\$52.6bn), reflecting growth of 2.3% in the first quarter of the calendar year. The growth is higher than that registered in the same period in 2009 and 2008, when the deposit base grew by 1.9% and 1.8% respectively. The jump is attributable to Net Domestic Assets (NDA), which increased by Rs28.7bn in the first quarter.

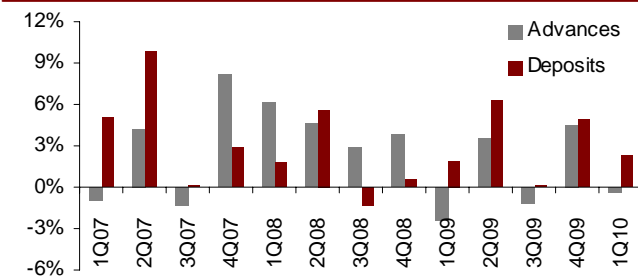
Investments up 3.7% to Rs1.7trn

Focus continues to remain on investments, as banks continue to direct excess liquidity from the growing deposits towards these. Investments rose 3.7% to Rs1.7trn (US\$20.2bn) in 1Q2010. A cautious lending strategy coupled with stricter requirements has led the banks' managements continue to adapt such an approach.

Gross advances dip 0.5%, provisions up 9%

In contrary to deposit performance, advances dipped by 0.5% to Rs3.2trn (US\$38.7bn). This was better when compared to a drop of 2.5% in the 1Q of 2009, however it was not commendable when put up against the jump of 6.1% seen in 1Q2008. High interest rates and stringent lending procedures have contributed to the dismal advances performance in the first quarter of the calendar year. Provisions on the other hand rose by Rs25bn in the period, which could hurt earnings in 1Q2010.

However, an encouraging pick up is being witnessed in offtake to the private sector which increased by Rs29bn in 1Q2010. As of Mar 27, 2010, total flow of credit to private sector in FY10 stands at Rs138bn.

Quarterwise advances and deposit growth trend

Source: SBP

Earnings to remain resilient in 1Q2010

After the listed sector earnings growth of 24% in 2009, we expect the earnings to remain resilient in 1Q2010. While NPL accretion is expected to continue to slow down, category shifting of NPLs will continue to affect earnings in first half of the calendar year. We anticipate earnings growth to remain skewed towards larger banks in the 1Q2010; with medium/small banks continue to face difficult times. We maintain our 'Market-weight' stance on the sector, while we reiterate our 'Buy' on NBP.

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Also in focus**Cumulative cotton arrivals up by 12%YoY**

In line with our expectations, the cumulative cotton arrivals as of April 1, 2010 came in at 12.68mn bales (up by 12%YoY) versus 11.33mn bales in the same period last year. The fortnightly cotton flow during the period stood at 5,941 bales.

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