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**Pakistan Market****Banks: Listed sector profits up 24% in 2009****MORNING BRIEFING**

KSE100 Index: Closing 9511.53 ↑ (+92.10)

According to the full year 2009 results of the major listed commercial banks, earnings rose by 24%, to Rs66bn (US\$808mn). The key reasons behind the rise in profits were better interest spreads amid a higher KIBOR and a lower quantum of impairment losses. Provisions for NPLs however, continued to impact earnings in 2009.

NPLs rose to Rs63bn in 2009, up 11% versus Rs56bn in 2008. Massive NPL accretion in the last quarter of 2008 and first quarter of 2009 was a major propellant of the overall rise in provisions, though on a positive note NPL accretion in 4Q2009 was almost 3 times lower than levels in the first quarter.

that the worst is behind us and the banks are likely to continue to witness a rising profitability trend going forward. That said, a weak private sector credit appetite amid high interest rates remain a point of concern. Resultantly, we maintain a 'Market-Weight' stance on the sector, with NBP and BAFL our preferred picks at current levels.

**Sample selection for our analysis**

Amongst 25 listed banks at the Karachi Stock Exchange, we have chosen 19 banks for our analysis, all of which have announced their full year results. As of the Sep 2009 accounts, our sample banks represent approximately 90% of the total listed sector's deposits and assets and 94% of its current market capitalization.

**Earnings up 24%; higher NII – a major driver**

In 2009, the earnings of listed commercial banks recovered sharply from the lows witnessed in 2008. According to the results released, earnings rose 24% to Rs66bn (US\$808mn) as against profits of Rs53.2bn (US\$753mn) in 2008.

This increase in earnings was driven primarily by a sharp rise in Net Interest Income (NII) amid higher spreads and a reduced amount of impairment losses, given the reversal in equity prices. Though advances growth remained subdued at 4.2%, a 19bps increment in interest spreads caused a 15% growth in NII. Moreover, impairment losses fell by a massive 34% to Rs7.8bn (2008: Rs11.9bn) as the stock market posted a 60% return during the year. Majority of the said losses recognized during the year were brought from the prior year, after the SBP granted relaxation; allowing deferment in the recognition of losses to 2009. Interestingly though, earnings growth was largely skewed towards NIB and top tier banks, as most second and third tier banks posted heavy losses in 2009.

**NPLs prov. up 11%, Non interest income subdued**

While profits recovered owing to higher NII, its impact was diluted because of higher provisions for NPLs. Provisions for

**Performance Of Listed Banks At A Glance**

Commercial Banks	2009 PAT (Rs mn)	2009 EPS (Rs)	2008 PAT (Rs mn)	%Δ
Allied Bank	7,122	10.02	4,157	71%
Arif Habib Bank	(2,067)	(4.13)	(191)	NM
Askari Bank	1,108	2.18	386	187%
Bank Al-Habib	2,856	4.68	2,425	18%
Bank Islami	(479)	(0.91)	(53)	NM
Faysal Bank	1,200	1.97	1,115	8%
Habib Bank Ltd	12,299	13.50	10,001	23%
Habib Metropolitan	2,739	3.64	3,293	-17%
JS Bank	(595)	(0.97)	55	NM
MCB Bank	15,495	22.42	15,375	1%
Meezan bank	1,025	1.54	621	65%
Mybank	(1,640)	(3.09)	(350)	NM
National Bank	18,212	16.92	15,459	18%
NIB Bank	691	0.17	(7,475)	NM
Royal Bank of Scotland	(1,338)	(0.78)	(518)	NM
Samba Bank	(593)	(0.68)	(742)	NM
Soneri Bank	145	0.29	701	-79%
Standard Chartered	669	0.17	630	6%
United Bank Ltd	9,193	8.26	8,333	10%
<b>Total</b>	<b>66,044</b>		<b>53,220</b>	<b>24%</b>

Source: Company announcements

Apart from higher provisions for NPLs, a sluggish 5% growth in NII restricted overall earnings growth during the year. In particular, Fee income, the largest component of Non Interest Income rose by 5% to Rs37.2bn in 2009.

**Outlook: 4Q results confirm the worst is behind us**

The impressive fourth quarter 2009 results seconded our view

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