

November 06, 2009
Pakistan Market

MORNING BRIEFING



FABL: Earnings revised downwards/'Hold'

KSE100 Index: Closing 9112.10 ↓ (-42.89)

Faysal Bank recently announced its 9M2009 results, posting a PAT of Rs918mn (EPS Rs1.51) as against earnings of Rs1,792mn (EPS Rs2.94) in the corresponding period last year, a decline of 49%YoY. Profitability was down as a result of 26%YoY increase in provisions and 39%YoY higher admin & other expenses. However, higher non interest income in the current period helped to lend some degree of support to the bottom line.

Alone in 3Q2009, the company posted earnings of Rs451mn (EPS Rs0.74), down 57%YoY. Lower dividend income from NIT was the major reason behind the earnings decline. Due to lower than expected earnings in 3Q2009, we revise downwards our full year 2009 earnings estimates for FABL and expect the bank to post an EPS of Rs2.1 as against Rs2.7 earlier.

NII flat despite 58% growth in investments

Net Interest Income (NII) of the company grew by a mere 0.4% to Rs3,711mn in 9M2009. This was despite the fact that gross advances of the company grew by 6% and investments were up 58% on a YoY basis. We believe this slow growth in NII is due to a lower NIM in the current period - down to 3.8% from 4% in 2008. Weighted average interest earned arrived at 13.3% while cost of deposits stood in excess of 9%.

Prov. up 26%, partial recognition of FSV benefit

Provisions continued to hurt the bottom line as they grew by 26%YoY to Rs1,135mn. On a QoQ basis however, provision were down 17% - as reversal on diminution in value of investments of Rs183mn was taken in the current period. Interestingly, the bank has also recorded partial FSV benefit in the current period, estimated at Rs130mn- rest of the benefit is expected to be accounted for in the fourth quarter. Administration expenses increased by 39%YoY as the bank added branches to its network, while inflationary pressures continued to exert additional cost pressures.

Non Int. Income up 10% despite lower NIT dividend

Interestingly, despite a sharp fall in NIT dividend (dividend per share of 3.05 as against Rs6.5 in 2008), non interest income of FABL was up by 10%, to Rs2,175mn. Improved equity market conditions helped FABL to book capital gains of Rs665mn as against a loss of Rs49mn in 9M2008. In the 3Q2009, the bank recognized capital gains of Rs173mn as against capital loss of Rs63mn in 3Q2008. Going forward, a positive outlook for equity market is likely to provide opportunity to book further capital gains.

Table: 9M2009 Financial highlights (YoY)

(Rs mn)	9M2009	Δ%	3Q2009	Δ%
Markup interest earned	12,487	30%	4,215	24%
Markup interest paid	8,775	48%	2,919	40%
Net Interest Income	3,711	0%	1,296	0%
Provisions & write off	(1,136)	26%	(406)	-17%
Net mark up income after prov	2,576	-8%	891	11%
Fee income & brokerage income	660	15%	185	-12%
Other non interest income	1,515	9%	823	-27%
Net mark up + Non mark up income	4,750	0%	1,898	-11%
Admin expenses & other charges	(3,245)	39%	(1,168)	37%
Profit before tax	1,505	-38%	731	-43%
Taxation	(587)	-7%	(279)	17%
Profit after tax	918	-49%	451	-57%
EPS	1.51	-49%	0.74	-57%

Source: Company Accounts

Recommendation: 'Hold' at current levels

Nine month results of FABL remained significantly below our expectations, most notably the earnings from core operations remained largely subdued. Though the bank would recognize the remainder of the FSV benefit after a thorough review of the industrial collateral, we do not foresee any major improvement in the interest income scenario. As a result, we have lowered our full year 2009 EPS estimates for the bank to Rs2.1 as against Rs2.7 earlier. Trading at 2009E PE and PBV of 7.2x and 0.7x respectively, we maintain our 'Hold' stance

on the scrip at current levels.

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Also in focus

CPI expected to arrive at 9.5% in Oct09

We expect CPI for the month of October to arrive at 9.5%. This will be the first time since December 2007 that the inflation figure would reach single digits.

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