

October 08, 2009

Pakistan Market**MORNING BRIEFING**
Banks: Advances & Deposits growth trend 9M2009

KSE100 Index: Closing 9836.50 ↑ (+193.39)

State Bank of Pakistan (SBP) recently released statistics of the scheduled banks' assets & liabilities as of Sep 26, 2009. According to the data released, deposits in the first nine months (Jan-Sep) of the calendar year rose by a healthy 9.5% amid improving Net Foreign Assets (NFA) while advances grew by a mere 0.44%. Tough economic conditions, concerns over asset quality and higher interest rates remained the key highlights during this period.

Moreover, as deposits growth outpaced credit off take during the current period banks continued to park excess liquidity in investments portfolio as reflected growth in investments, up 54% in the current calendar year.

Deposits up 9.5% as NFA rises by 77%

As of Sept 26, 2009, deposits of the banking industry have reached Rs4.2trn (US\$50.1bn), depicting a growth of 9.5% in the first 9 months 2009. On a QoQ basis, deposit base grew by 3% in the quarter ending Sept, compared to a 3.7% rise in the previous quarter. Improved money supply situation, particularly Net Foreign Assets (NFA) in the last two consecutive quarters have driven the recent upsurge in deposits. M2 expanded by 9.6% during the period while NFA grew by 41%. The 9.5% growth for (Jan-Sep) 2009 is inline with past trends however it is significantly higher than 6% growth witnessed in the corresponding period last year.

Gross advances up 0.4%, provisions up 26%

In sharp contrast to the deposit performance, gross advances continued their sluggish run growing only by 0.4% to Rs3.2trn (US\$37.9bn) as of Sept 26, 2009. On a QoQ basis, offtake dipped by 0.6% in the three months to Sept compared to growth of 2.4% in the previous quarter. High interest rates, sharp contraction in LSM and more stringent lending procedures have contributed to the dismal advances performance. LSM in particular continued to post dismal numbers with an average contraction of 11%YoY during (Jan-Jun) 2009.

Moreover, provisions for Non Performing Loans (NPLs) remained a key earnings dampener, rising by 26% or Rs55bn in 9M2009. There has been however some respite in the pace of new provisions with incremental provisions of Rs15bn recorded in 3Q2009 as against Rs21bn in 1Q2009. Slowdown in NPL accretion in the 2Q2009 and dismal credit offtake numbers in 2009 have resulted in improved provisioning figures in the last quarter.

Investments up 54% in 9M2009

Given the declining interest rate scenario and higher risk of NPLs, banks preferred investing in government securities as investment surged by 54% to Rs1.5tn (US\$18.1bn) as of Sep 26, 2009. This is supported by M2 data which shows government borrowing from the banks stood at Rs318bn (US\$3.8bn) in 2009 to date. Going forward, given relative stability in deposits and no major appetite for credit we could see investments consolidating at current levels in 4Q2009.

Outlook: Earnings growth to remain flat in 2009

Despite improvement in key economic indicators during the last 6 months, banking sector performance remains weak with sector posting an earning decline of 31% in 1H2009. Higher provisions for NPLs, weak credit appetite and recognition of impairment losses have been a scar on the sector's performance during the period. Though NPL accretion has slowed down in 2Q2009 to Rs19bn (Rs34bn in 1Q2009), no major earnings turnaround is expected in the 2H2009 as contraction in spreads and NIMs are expected to keep Net interest income subdued.

As a result, we expect earnings to remain stagnant in 2009, reiterating our 'Market Weight' stance on the sector. Amongst the major scrips, we flag FABL as a likely outperformer, given its cheap multiples and strong equity market exposure, post the recent bull run at the KSE.

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Also in focus
MCB, Maybank plan to acquire foreign banks

Mr. Mian Muhammad Mansha, Chairman of Nishat group yesterday announced that MCB bank in collaboration with Maybank were eyeing potential acquisition targets in UAE and Indonesia in a bid to put the local financial industry on the global map. Moreover, he stated that MCB Bank's deal with RBS Pakistan was still under process as some regulatory issues need to be resolved with an updated expected next week. To recall, Maybank acquired a 20% stake in MCB Bank in 2008.

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