

September 09, 2009

## Pakistan Market

## FABL: Company Update/'Buy' maintained

MORNING BRIEFING



KSE100 Index: Closing 8821.56 ↓ (-114.30)

Faysal Bank Limited (FABL) recently announced its first half (Jan-Jun) 2009 results with earnings of Rs467mn (EPS Rs0.77), a decline of 37%YoY. This decline was led by a combination of higher provisions for Non Performing Loans (NPLs) and surge in administrative expenses. However, strong showing of non interest income tempered the impact of NPLs and admin expenses on the bottom-line.

In today's report, we discuss FABL's financial performance in 1H2009 along with our updated outlook on the stock after incorporating the detailed financial results.

### 66% prov. growth drags earning down 38%

FABL's earnings dipped 38% to Rs467mn (EPS Rs0.77) mainly driven by 66% rise in provisions for NPLs to Rs683mn. Lacklustre economic growth, particularly contraction in industrial output has been a major reason for rising NPLs in the sector, which has severely dented profitability in 1H2009. According to our analysis listed sector profits dipped 31% in 1H2009, mainly on account of rising provisions for NPLs. In addition to rising NPLs, 38% jump in administrative expenses to Rs2.0bn further dented the bottom line of the company. Admin expense rose on account of both inflationary pressures and investment in customer franchise as FABL went about a rebranding exercise.

### Non interest income up 83%, amid capital gains

The impact of rising provisions and higher admin expenses were mitigated to an extent by 83% rise in non interest income to Rs1.2bn on account of handsome gain on sale of investments. The bank recorded gain on sale of Rs492mn as improved equity market conditions created opportunity for capital gains. Moreover, double digit growth in both fee income & income from forex transactions also ably supported the bottom-line. Fee income and income from forex dealing both rose 31% to Rs475mn and Rs164mn, respectively.

In contrast to surge in non interest income, Net Interest Income (NII) remained stagnant at Rs2.4bn as decline in

interest spreads diluted the impact of 6% growth in advances. The bank's advances rose by 6% to Rs94bn with an ADR of 90% while investments were up 37% to Rs41bn. Going forward, given low credit offtake & crowding out of deposits by the government, both NIM and spreads are likely to contract, which would in turn affect NII growth.

### Cheapest multiples "Buy reiterated"

FABL has lagged the recent rally in banking stocks at the back of rumours of easing forced sale value regulations and renewed foreign interest. The bank has already posted earnings of Rs0.77/share in 1H2009, while NIT dividend impact of Rs0.9/share would be recognised in 3Q2009 accounts (2009 EPS expected at Rs2.3). Trading at lowest 2009E PE and PBV of 5.0x and 0.5x respectively, amongst JS Banking Universe, we recommend investors to take exposure in the scrip as it offers good value at current levels.

Table: 1H2009 Financial highlights

Rs mn	1H2009	1H2008	%Δ
Markup interest earned	8,271	6,247	32%
Marup interest paid	5,856	3,848	52%
<b>Net Interest Income</b>	<b>2,415</b>	<b>2,399</b>	1%
Provisions & write off	(730)	(412)	77%
<b>Net mark up income after prov</b>	<b>1,685</b>	<b>1,987</b>	-15%
Fee income	475	363	31%
Other non interest income	692	275	151%
<b>Net mark up + Non mark up income</b>	<b>2,852</b>	<b>2,625</b>	9%
Admin expenses & other charges	(2,077)	(1,487)	40%
<b>Profit before tax</b>	<b>775</b>	<b>1,138</b>	-32%
Taxation	(308)	(392)	-21%
<b>Profit after tax</b>	<b>467</b>	<b>746</b>	-37%
<b>EPS</b>	<b>0.77</b>	<b>1.23</b>	

Source: Company accounts

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Faysal Bank	
<b>Market Price:</b> Rs11.23	<b>Kats Code:</b> FABL
<b>Market Cap:</b> Rs6.8bn (US\$82mn)	<b>Bloomberg Code:</b> FABL PA
<b>1-yrs Avg. Daily Volume:</b> 0.8mn shares, Rs10mn (US\$0.1mn)	<b>Reuters Code:</b> FYBL.KA
<b>1-year High/Low:</b> Rs23.93/8.40	

### Also in focus

#### Pact signed for 1000MW Thar coal project

The government of Sindh and Engro Power Generation Ltd on Tuesday officially inked an agreement for generating 600-1000MW of electricity from Thar coal project. Under the agreement, provincial government will make 40% investment while Engro will invest 60%. A feasibility study of the project is now likely to start with an expected completion period of 18 months. Engro Power Generation Ltd is a 100% subsidiary of Engro Chemicals Ltd.

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