

May 10, 2010

Pakistan Market**BAFL: Company update / 'Hold' maintained****MORNING BRIEFING**

KSE100 Index: Closing 10271.47 ↓ (-281.65)

We review Bank Alfalah, post its better than expected 1Q earnings of Rs586mn (EPS Rs0.43), up 31%YoY. The earnings growth was primarily driven by higher NII and lower provisions during the current period. However, the effect was somewhat negated by lower non interest income and higher admin expenses. Going forward, we expect earnings to remain under pressure in the current year as the bank is likely to book an impairment charge on its associate holding, Warid telecom, in the current calendar year. We currently maintain our 'Hold' call on the stock, which trades at a 2010E PBV of 0.7x.

Higher NII drives earnings growth

The bank registered Net Interest Income at Rs3.0bn, which was up 26%YoY. Although interest earned remained relatively flat at Rs9.2bn, a 170bps dip in the cost of funds led interest expense to decline by 9% to Rs6.2bn. NIM's were as a result, up 41bps on a YoY basis to 3.7%.

In contrast to NII, Non interest income remained pressured as the bank saw its fee income and income from dealing in foreign currencies decline by 18% and 26%, respectively. Even, gains from trading in securities dropped by 76% to Rs41mn.

Provisions for NPLs drop in 1Q

Provisions for NPLs dropped by 44% to Rs310mn in 1Q2010 on account of lower quantum of new NPLs and FSV benefit availed in the period. BAFL has recorded FSV benefit to the tune of Rs137mn in 1Q2010.

Administration expenses of the bank rose by 16% to Rs2.8bn on account of network expansion and inflationary pressure. We expect these to continue rising going forward, as the bank looks to add more branches to its network.

Impairment charge likely in 2Q

BAFL is likely to record an impairment charge of Rs1.2bn in 2010 on its associate company, Warid Telecom. The 8.67% (319mn shares) stake in Warid telecom is recorded at

Rs4.37bn (BVPS of Rs13.7), which as of March had fallen to Rs3.2bn (BVPS of Rs9.9). This is expected to be routed through the P&L in the coming quarters, and is likely to have a negative EPS impact of Rs0.88. According to the annual accounts, this charge has been allowed as deferrable till Jun 30, 2010 by the regulator.

Outlook

Despite decent 1Q results, we do not see the earnings growth momentum to sustain in the coming quarters, particularly due to the possible impairment charge. Our full year earnings estimate for the bank stands at Rs0.7 and Rs1.58 for 2010 & 2011, respectively. We maintain our 'Hold' recommendation on the scrip, trading at a 2010E PBV of 0.7x.

BAFL - Financial Highlights

(Rs mn)	1Q2010	1Q2009	Δ%
Mark- up interest earned	9,225	9,250	0%
Mark-up interest paid	(6,247)	(6,879)	-9%
Net interest income	2,977	2,370	26%
Provisions/write offs	(312)	(578)	-46%
	2,665	1,792	49%
Non interest income	1,034	1,344	-23%
Operating expenditures	(2,852)	(2,471)	15%
Profit before tax	848	665	27%
Taxation	(261)	(217)	20%
Profit after taxation	586	448	31%
Diluted earning per share	0.43	0.33	31%

Source: Company accounts

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Also in focus**GCC to scrap cement import duty for members**

The Gulf Cooperation Council's (GCC) finance ministers have agreed to abolish a 5% duty on steel and cement imports between member countries. We believe, since the news flow relates to the GCC member countries' solely, it is not likely to have any effect on the potential of cement exports from Pakistan to the region. Additionally, the share of exports to the gulf region has already reduced to 15% from 43% earlier, given commissioning of new capacities in the said region.

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