

November 10, 2009
Pakistan Market

MORNING BRIEFING



AKBL: Company Update/Earnings revised upwards

KSE100 Index: Closing 8936.48 ↑ (-175.62)

Askari Bank Limited (AKBL) recently announced its nine months (Jan-Sep) 2009 results, posting a PAT of Rs1.2bn (EPS Rs2.32) versus earnings of Rs427mn (EPS Rs0.84) in the 9M2008 - a massive increase of 175%YoY. Earnings rose on the back of higher net interest income and significant decline in the quantum of provisions for non performing loans (NPLs). However, lower revaluation gains led to 15% decline in non interest income.

In 3Q2009, the bank posted earnings of Rs592mn (EPS Rs1.17) as against profits of Rs19mn (EPS Rs0.04) in 3Q2008. Sharp fall in provisions on account of recent relaxation in FSV regime contributed to phenomenal growth in earnings. Due to higher than expected earnings in 3Q2009, we have revised upwards our full year 2009 earnings estimates for AKBL and expect the bank to post an EPS of Rs3.2 as against Rs2.0 previously.

NII up 25% amid higher NIMs

Net Interest Income (NII) of the bank grew by a handsome 25% to Rs6.7bn in 9M2009 led by improvement in Net Interest margins (NIMs) and higher quantum of investments in T-bills. NIMs stood at 5.01% in 9M2009 versus 4.66% in 9M2008, up 35bps as average 6M KIBOR stood at 13.24% in 9M2009 as against 11.98% in 9M2008. Weighted average interest earned arrived at 12.33% (11.13% in 9M2008) while cost of funds stood at 6.44% (5.74% in 9M2008).

The growth in NII, however, remained subdued in 3Q2009 with a meager growth of 0.8%YoY. A sharp fall in KIBOR (6MKIBOR down 160bps to 12.30%) was the major reason for the flat NII. Resultantly, NIMs fell to 4.3% in 3Q2009, down 76bpsYoY.

Prov. down 39% on the back of FSV relaxation

Apart from higher NII, falling provisions for NPLs also contributed immensely to the turnaround in earnings during 9M2009. Following the FSV relaxation, provisions for NPLs fell to Rs1.3bn, down 49%YoY. The impact of FSV was even

more evident in 3Q2009 as recent relaxation with regards to industrial properties helped AKBL write back Rs867mn of specific provisions in quarter alone. As a result, provisions for NPLs stood at a paltry Rs70mn versus Rs1.2bn in 3Q2008.

Non Int. Income down 15%, admin cost up 20%

In contrast to higher NII, non interest income fell 15% to Rs1.9bn in 9M2009. Lower quantum of revaluation gains on held for trading investments was the major contributor towards the decline. Unrealized gain on revaluations stood at Rs425mn, down 48% versus Rs815mn in 9M2008.

In addition to lower non interest income, rising administration expenses (up 20%YoY) on account of expansion in branch network partially negated the impact of higher NII and lower provisions on the bottomline. Admin expenses stood at Rs5.2bn in 9M2009 versus Rs4.3bn in the corresponding period last year.

Table: 9M2009 Financial highlights (YoY)

(Rs mn)	9M2009	Δ%	3Q2009	Δ%
Markup interest earned	16,463	28%	5,483	10%
Markup interest paid	9,719	30%	3,479	16%
Net Interest Income	6,744	25%	2,004	1%
Provisions & write off	(1,721)	-39%	(70)	-94%
Net mark up income after prov	5,023	94%	1,934	132%
Fee income & brokerage income	993	2%	285	-25%
Other non interest income	926	-27%	484	20%
Net mark up + Non mark up income	6,941	43%	2,703	67%
Admin expenses & other charges	(5,167)	20%	(1,809)	13%
Profit before tax	1,774	238%	894	6146%
Taxation	(597)	509%	(302)	NM
Profit after tax	1,177	175%	592	3093%
EPS	2.32		1.17	

Source: Company Accounts

Recommendation: 'Hold'

Nine month results of AKBL remained well above our expectations particularly in relation to NII growth and quantum of FSV relaxation. Though the quantum of provision reversal

is expected to be significantly lower in 4Q2009, AKBL is still expected to post reasonably strong earnings in last quarter. As a result, we have revised our full year 2009 EPS estimates for the bank to Rs3.2 as against Rs2.0 earlier. Trading at 2009E PE and PBV of 7.6x and 0.9x respectively, we maintain our 'Hold' stance on the scrip at current levels.

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Also in focus

Saudi Arabia to lend US\$380mn to Pakistan

According to news reports, Saudi Arabia has agreed to a US\$380mn loan for Pakistan. As per the break up, US\$200mn would be used to facilitate the budget deficit, US\$100mn will be spent to buy urea and the remaining US\$80mn is earmarked for the Neelum Jhelum Hydro Power project. The agreement between the two parties is expected to be signed today.

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