JS Research

August 11, 2010

Pakistan Market

MORNING BRIEFING

ABL: 1H2010 EPS expected at Rs4.81, up 23%YoY

KSE100 Index: Closing 9892.32 ↓ (-133.88)

Allied Bank Limited's (ABL) board meeting is scheduled for Aug 12, to announce its 1H2010 financial results. We expect ABL to register earnings of Rs3.8bn (EPS Rs4.81) versus earnings of Rs3.06bn (EPS Rs3.91) in the same period last year, an increase of 23%YoY. The growth is expected to come from increased Net Interest Income (NII), rising on higher average advances and improved NIM's in the period. Moreover, provisions for NPLs are expected to dip 12%YoY in 1H2010, aiding profit growth. In 2Q2010 alone, we estimate the bank to register profits of Rs2.0bn (EPS Rs2.54) – an increase of 12%QoQ. Along with the result, we could see the bank announcing a cash payout of Rs2/share. The stock currently trades at a 2010E PBV and PE of 1.2x and 5.0x respectively and we currently recommend a 'Buy' scrip on the scrip.

Higher NIMs to increase interest income

We expect, NII to rise by 24%YoY to Rs10.8bn, on the back of higher average advances and improved NIMs. Although earning yields have faced pressure on lower KIBOR, an increased focus on CASA deposits coupled with the shedding of expensive ones has brought the average cost of funds down by 80bps to 6% in 1H2010. We expect NIMs to witness a 40bps increase on a YoY basis to 5.98% in this period.

Non Interest Income on the other hand would see a slight dip of 4%YoY to Rs3.2bn, mainly due to absence of higher investment banking fee & capital gains in the current period.

Provisions to continue downward momentum

We will see provision for NPLs to continue in their downward trajectory, and expect them to decline by 12%YoY to Rs1.6bn in the concerned period. ABL continues to be among the impressive performers when it comes to controlling its NPLs, and access to top tier clients has played its part. As of Mar 2010, gross NPL ratio of ABL stood at 7% compared to the top 5 and industry averages of ~10% & 13.1%, respectively; while NPL coverage too stood at a healthy 78% in 1Q2010.

Earnings however, will face pressure from administrative expenditures which are anticipated to rise by 25%YoY to Rs5.7bn.

Result preview - ABL

(Rs mn)	1H2010	1H2009	Δ%
Mark- up interest earned	21,803	20,000	9%
Mark-up interest paid	(11,003)	(11,313)	-3%
Net interest income	10,801	8,687	24%
Provisions/write offs	(2,414)	(2,457)	-2%
	8,386	6,230	35%
Non interest income	3,237	3,363	-4%
Operating expenditures	(5,937)	(4,967)	20%
Profit before tax	5,685	4,627	23%
Taxation	(1,920)	(1,566)	23%
Profit after taxation	3,765	3,061	23%
Diluted earning per share	4.81	3.91	23%

Source: JS Research & Company accounts

Outlook: 'Buy' recommended

ABL continues to be among the better players in the local market, and we believe its strategy of focusing on top tier clients will continue to pay off dividends, improving cost of funds being one such benefit. Currently our EPS estimates for 2010E and 2011F stand at Rs10.51 and Rs11.62, respectively. The bank trades at a 2010E PBV and PE of 1.2x and 5.0x and we have a 'Buy' on the stock with a target price of Rs65.

mustufa.bilwani@js.com
92 (21) 111-574-111 (ext. 3100)

Also in focus

Tax authorities collect Rs84bn in July 2010

According to reports, tax authorities have managed to collect Rs84bn (up 12%YoY) in taxes during the month of July against a target of Rs90bn. Going forward, concerns are raised over whether Federal Board of Revenue (FBR) will be able to meet its August monthly target of Rs103bn given the prevalent situation in the country. To recall, FY11 collection target currently stands at Rs1,667bn.

JS Global Capital Limited
6th Floor, Faysal House, Main Shahrah-e-Faisal, Karachi

Research:
Tel: +92 (21) 32799005
Fax: +92 (21) 32800163
js.research@js.com

Equity Sales:
Tel: +92 (21) 32799513
Fax: +92 (21) 32800166
junaid.iqbal@js.com

Fixed Income Sales:
Tel: +92 (21) 32799541-44
Fax: +92 (21) 32800165
tariq.usman@js.com

Corporate Finance:
Tel: +92 (21) 32799571
Fax: +92 (21) 32800164
sajid.farooqi@js.com