

July 12, 2010

## Pakistan Market

## MORNING BRIEFING

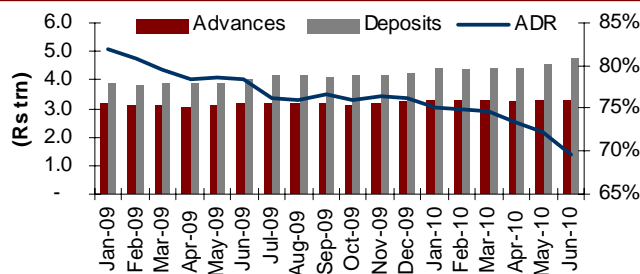

**Banks: 2Q earnings could mirror previous quarter's** KSE100 Index: Closing 9974.40 ↑ (+113.41)

With the earnings season approaching, we review the banking sector's fundamentals to gauge its expected financial performance in 2Q2010. The sector fundamentals in 2Q2010 have remained broadly comparable to the previous quarter's (1Q2010), however, a somewhat encouraging trend in both deposits and credit offtake has been seen in the recent data reported by the SBP. Further, we opine Net Interest Income (NII) growth to be flat on account of lower earning yields, whereas any growth in earnings is expected to come from lower provisions (particularly owing to the FSV benefit).

### Deposits, Advances up 8% & 2% respectively in 2Q

After muted growth in 1Q2010, when deposits grew by 2.3% and advances shrank by 0.5%, an encouraging trend was witnessed in 2Q2010, as momentum picked up in both. Industry deposits grew by a healthy 8% to reach Rs4.8trn in 2Q2010, while credit growth turned positive which although lower compared to the 5 year historical average of 4% stood at 2% (taking industry advances to Rs3.3trn as of 2Q2010).

#### Advances, Deposits & ADR trend



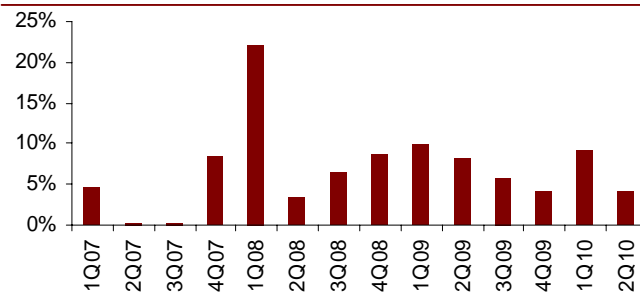
Source: SBP

Moreover, deposit growth has outpaced advances is further visible in investments (up 7% in 2Q) and tapering ADR, which is down from 74.8% in March to 69.6% at June end. Further, investments to deposits ratio increased by 15bps to 38.2% in the same period.

### NII growth to be limited, low provisions may help

Net Interest Income growth averaged a mere 3%YoY in 1Q2010, and we see this being the case in 2Q2010 results as well. On a YoY basis average spreads for Apr-May 2010 registered at 7.31% compared to 7.51% in the same period last year, which would put slight pressure on NIMs. Non Interest Income on the other hand, although is expected to be higher on a YoY basis, could lose momentum QOQ wise as opportunities for capital gains remained lower with the benchmark Index having lost 5.5% in 2Q2010.

#### Banks: QoQ provisions build-up



Source: SBP

Provisions will decline on account of lower NPL accretions and FSV benefit, in our view. Total provisions were recorded at ~Rs11bn in 2Q2010, compared to Rs~27bn in 1Q2010 as per data reported by SBP; however this figure could rise once accounts are finalized. Moreover, recent relaxation of the FSV benefit pertaining to land will further play some role in improving the profitability of mid tier banks.

### Outlook:

With the sector performance still lagging the behind market's (down 9.8% compared to a decline of 5.5% in benchmark Index in 2Q2010), we believe attractive valuations could come into play. We flag UBL, MCB and NBP as preferred picks in the sector.

#### Key valuations for 2010

	PE (x)	PBV (x)	EPS (Rs)
MCB Bank	8.6	1.9	23.1
National Bank	5.3	0.7	12.4
United Bank	6.5	1.0	8.6

Source: JS Research

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### Also in focus

#### Remittances up 14%YoY to US\$8.9bn in FY10

The SBP reported remittances equaling US\$8.91bn having been received during FY10 (14% higher YoY), an all time high and exceeding the expected Annual Plan target by nearly US\$2bn. US\$841mn were remitted during June 2010 alone, a rise of 11%MoM, and the highest amount received during the said fiscal year from overseas Pakistanis.

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