

April 14, 2009

Pakistan Market**Banks: HBL, MCB and JSCL queue up for RBS****MORNING BRIEFING**

KSE100 Index Closing 7872.49 ↑ (+254.53)

Habib Bank Limited (HBL), MCB bank and Jahangir Siddiqui Company Ltd (JSCL) in separate notices issued at the KSE have expressed interest in acquiring Royal Bank of Scotland's (RBS) Pakistan operations and would be seeking approval from the State Bank (SBP) to commence due diligence.

Expressions of interest had become inevitable after RBS via notice issued on Feb 26, 2009 announced its intention to divest from Pakistan. The bank was one of the major victims of the global meltdown.

What could be the acquisition price?

Pakistan has witnessed a number of banking sector acquisitions over the last few years when government speeded up its privatization program to divest holdings in public sector commercial banks. Moreover, the economic boom during (FY03-08) also saw a number of private sector acquisitions including Union bank, Prime bank, PICIC & MCB bank etc. These transactions were carried out at an average premium of 4.5 times over book value while banks then traded at an average Price to Book Value of 2.2x.

However, given the current economic downturn (listed bank's profits down 21% in 2008) we believe such premiums over book value may not materialize in case of RBS. The listed banking sector currently trades at PBV of 1.2x (45% discount to last 4 years average of 2.2x), hence if we apply the same discount to previous deals, the transaction price arrives at Rs14.5/share. Since it is difficult to estimate the actual price, we have resorted to the following sensitivity analysis.

Table: Acquisition price sensitivity of RBS

Book value (x)	1	2	3	4	5
Acquisition price (Rs/share)	6	12	18	23	29

*Source: JS Research***What does RBS offer HBL and MCB bank?**

With both HBL and MCB bank already strong and well established local market players, the question beckons what

would RBS with relatively limited operations of 79 branches and assets of Rs108bn offer to these giant players. We believe few areas where RBS could provide value addition include its well established consumer banking business, its valued multinational client base and quality human resource.

MCB and HBL had been late entrants in the consumer banking business and even though consumer business is likely to remain under pressure in the short term its does offer long term opportunity once economy starts picking up again. Moreover, despite a quality corporate loan book both MCB and HBL would gain access to top quality multinational clients of RBS. Further RBS possess a well trained and quality human resource which could provide value to MCB and HBL.

HBL to become No 1 if acquisition goes ahead

HBL, currently the second largest bank in Pakistan in terms of assets and deposits, would become the largest bank in the country if it manages to acquire RBS. According to the Dec 2008 annual accounts, the combined assets and deposits of the two banks arrive at Rs825bn and Rs652bn respectively overtaking NBP as the largest bank in Pakistan. On the contrary, if MCB acquires RBS it would still remain the 4th largest bank with combined assets and deposits of Rs552bn and Rs405bn, respectively.

HBL currently trades a 2009E PE and PBV of 10.5x and 1.6x, respectively, while MCB trades at 2009E PE of 8.2x and PBV of 1.8x. We have a "Sell" stance on both HBL and MCB at current levels.

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Also in focus**Pakistan may receive US\$4–6bn at FOP moot**

Isabel Guerrero, Vice president South Asia World Bank, said that Pakistan is likely to receive commitments of between US \$4-6bn in financial assistance at a donor conference in Tokyo on 17th April part of the Friend of Pakistan (FOP) group. President of Pakistan, Asif Ali Zardari is scheduled to attend the meeting, in which representatives from 27 countries and 16 organizations are expected to participate. According to the official the donor conference co hosted by Japan and World Bank would generate US\$ 4bn. The rest is expected to come from Friends of Pakistan meeting later that day.

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