

August 16, 2010

Pakistan Market

HBL: Earnings revised upwards/'Hold' maintained

MORNING BRIEFING



KSE100 Index: Closing 9823.37 ↑ (+30.56)

We review Habib Bank Limited (HBL), post its better than anticipated 1H2010 earnings, where the bank registered an earning growth of 13%YoY and 6%QoQ to post profits of Rs7.4bn (EPS Rs7.41). The growth was partly led by strong NIMs, rising by 38bps QoQ to 6.8% in the 2Q, and partly by higher Non Interest Income – primarily driven by 9%QoQ

Fee Income growth. More importantly, NPLs accretion remained lower than our expectation, and we have thus revised up our earning estimates by 3% with the 2010E and 2011F EPS now standing at Rs14.5 and Rs16.9, respectively. However, we remain conservative in our adjustment given the possibility of NPL accretion due to the prevalent flood situation in the country. The scrip currently trades at a 2010E PBV and PE of 1.1x and 7.0x, respectively. With a target price of Rs113 we maintain our 'Hold' call on the scrip.

Strong 2Q NIMs push up interest income

Net Interest Income (NII) rose by 8%QoQ, as earnings yields increased by 20bps QoQ to 11.5%. Moreover, average earning assets (particularly investments) also witnessed an increment in the period. It was further aided by a 10bps (QoQ) decrease in cost of funds, all of which led to NIMs rising to 6.82% in 2Q2010, compared to 6.58% in the first quarter.

Non Interest Income continued picking up on a QoQ basis as well, rising 9% to Rs2.9bn. This was primarily driven by a strong growth in Fee income; jumping an impressive 9%QoQ to Rs1.3bn. Moreover, income from foreign currency dealing which was up 47%QoQ, further aided this growth.

NPL build up slows down in 2Q2010

Provisions for NPLs declined by 38%YoY to Rs3.2bn in 1H2010; but increased 3%QoQ to reach Rs1.8bn in the second quarter. Interestingly, NPLs remained flat QoQ, implying the provisioning in second quarter to be down to category shifting in NPLs, which is also evident from the increase in coverage to 75.6% in 2Q2010 from 71.7% in 1Q2010. This could help release some provisioning pressure in the second half of the year, in our view; and has led us to

revise our NPL estimates down and earning estimates upwards.

HBL: EPS estimates revision

(Rs)	Old	New	Δ%
2010E	14.10	14.47	2.6%
2011F	16.46	16.92	2.8%

Source: JS Research

Administrative expenses, however, rose considerably, up 10% on both YoY and QoQ basis, to Rs11.8bn in 1H2010, denting the otherwise impressive performance.

Result review - HBL

(Rs mn)	2Q2010	1Q2010	Δ%
Mark- up interest earned	19,879	19,157	4%
Mark-up interest paid	(8,466)	(8,551)	-1%
Net interest income	11,413	10,606	8%
Provisions/write offs	(1,726)	(1,376)	25%
	9,688	9,230	5%
Non interest income	2,890	2,654	9%
Operating expenditures	(6,429)	(5,919)	9%
Profit before tax	6,148	5,964	3%
Taxation	(2,328)	(2,362)	-1%
Profit after taxation	3,821	3,603	6%
Diluted earning per share	3.81	3.60	6%

Source: JS Research & Company accounts

Outlook: 'Hold' maintained

With the economic recovery set to take a hit from the devastating flood situation in the country, we could see the banks performance following suit in the form of new NPLs. However, we believe some cushion will be provided from rising spreads – which are likely to improve further in 2H2010 after jumping 25bps on a MoM basis in June. Although, we have slightly revised our earning estimate up, we remain cautious given the prevalent situation in the country; and maintain our 'Market-Weight' stance on the sector, with a 'Hold' call on HBL.

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Habib Bank Limited	
Market Price: Rs100.76	Kats Code: HBL
Market Cap: Rs100.9bn (US\$1.2bn)	Bloomberg Code: HBL PA
1-yr Avg. Daily Volume: 0.5mn shares, Rs56.4mn (US\$0.7mn)	Reuters Code: HBL.KA
1-year High/Low: Rs138.26/91.96	

Also in focus

Pakistan to meet IMF on 23rd Aug

Pakistan is scheduled to meet IMF officials in Washington on 23rd Aug, 2010 in its scheduled review, hoping to persuade them of the need for some relaxation in economic targets - as it is expected to experience slippages owing to the devastating countrywide floods. The GoP will also try to convince the IMF to release the remaining US\$3.3bn of the US\$11.3bn SBA in a lump sum, instead of two installments agreed earlier. Another point on the agenda is expected to be the discussion of another IMF programme post completion of the current arrangement in Dec 2010.

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