

February 18, 2009

**Pakistan Market****HBL: 2008 EPS expected at Rs14.3****MORNING BRIEFING**

KSE100 Index Closing 5839.63 ↑ (+62.90)

The earnings announcement season is now in full swing and the second major banking sector announcement after MCB is HBL. The board of directors of HBL will meet on Feb 20, 2009 to announce its full year 2008 results. In today's report we discuss our earnings expectations for HBL along with stance on the scrip at current levels.

**2008E EPS of Rs14.3, dividend Rs4 per share likely**

We expect HBL to post earnings of Rs10.9bn (EPS of Rs14.3) in 2008 versus earnings of Rs8.0bn (diluted EPS of Rs10.6) last year – a substantial growth of 35%YoY. The sharp increase in earnings is mainly led by a sharp reduction in provisions for non performing loans (NPLs). HBL has been one of the most affected banks from removal of State Bank's forced sale value (FSV) regime as it booked massive provisions of Rs8.2bn in 2007, Rs5.7bn of which were the direct consequences of change in FSV regulation. During 2008 we expect HBL to recognize provisions for NPLs of Rs5.8bn, which is 29% lower than that recognized in 2007.

In addition to sharp fall in provisions, growth in HBL's bottom would also be supported by strong growth in net interest income. On the back of higher spreads and strong growth in advances, we expect HBL's net interest income to rise to Rs34.7bn up 14% YoY. Moreover, increase levels of trade and forex activity would help non interest to rise to Rs9.5bn up 19%YoY. Along with its full year results the bank is expected to announce a final cash dividend of Rs4 per share and a bonus payout of 15-20%.

**Impairment (IAS 39) impact of Rs0.7-0.9/share**

HBL like many other companies has also been affected by recent crash in stock market. It has equity investment portfolio classified as Available for Sale (AFS) and accounted for under IAS 39 which has been affected by the stock market crash. With relaxation by SECP on recognition of impairment losses for AFS investments, HBL could defer recognition of impairment loss. According to calculations, total impairment

loss based on Dec 31, 2008 prices would have ranged between Rs900mn-Rs1bn, the recognition of which would reduce reported earnings by Rs0.7-0.9 per share.

**Outlook: Downgrade to 'Hold'**

Due to the recent rally in stock market post relaxation of impairment on IAS 39, HBL has seen a sharp increase in its share price up 39% since beginning of Feb 2009. As a result, we have downgraded our stance on HBL from 'Buy' to 'Hold' at current levels. The bank trades at 2008E PE and PBV of 6.1x and 1.1x, respectively. Moreover it offers 2008E ROE of 17%.

farhan.rizvi@js.com  
92 (21) 111-574-111(Ext. 3096)

Habib Bank Limited	
<b>Market Price:</b> Rs86.71	<b>Kats Code:</b> HBL
<b>Market Cap:</b> Rs65.8bn (US\$823.3mn)	<b>Bloomberg Code:</b> HBL PA
<b>1-yrs Avg. Daily Volume:</b> 0.7mn shares, Rs147.6mn (US\$1.9mn)	<b>Reuters Code:</b> HBL.KA
<b>1-year High/Low:</b> Rs319.00/51.17	

**Also in focus****Additional gas from Manzalai expected in Jun09**

While giving an interview to Bloomberg, CEO of PPL Mr. Khalid Rahman said that the additional gas of 200mmcf from Manzalai would come online by June 2009 instead of initial target of April 2009 (our estimate was May 2009). He also mentioned that the company is in a process of negotiation to acquire a small reserve to improve supplies. However, he raised concerns over the security issues which could affect exploration activities.

Trading at FY09 and FY10 P/BV of 2.0x and 1.8x and dividend yield of 14.2% and 12.4%, we maintain our 'Buy' stance on PPL at current levels.

**JS Global Capital Limited**

6th Floor, Faysal House, Main Shahrah-e-Faisal, Karachi

**Research:**

Tel: +92 (21) 2799005

Fax: +92 (21) 2800163

js.research@js.com

**Fixed Income Sales:**

Tel: +92 (21) 2799541-44

Fax: +92 (21) 2800165

tariq.usman@js.com

**Equity Sales:**

Tel: +92 (21) 2799513

Fax: +92 (21) 2800166

junaid.iqbal@js.com

**Corporate Finance:**

Tel: +92 (21) 2799005

Fax: +92 (21) 2800166

azhar.iqbal@js.com

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