

March 19, 2009

Pakistan Market**Banks: 2008 earnings down by 21%****MORNING BRIEFING**

KSE100 Index Closing 6266.00 ↑ (+127.47)

Major listed commercial banks have announced their full year 2008 results, according to which, commercial banks' earnings fell by a substantial 21%, to Rs50bn. The key reasons behind fall in earnings were higher provisions for non performing loans (NPLs) and impairment loss recognized in 2008. In today's note, we briefly discuss listed banks 2008 earnings and our current stance on the sector

Sample selection for our analysis

Amongst 25 listed banks at the Karachi Stock Exchange, we have taken 22 banks for our analysis. BOP, BAFL and KASB bank were excluded as they are yet to announce their 2008 results. As of Sep 2008, our sample banks represent more than 87% of the total listed sector's deposits and assets.

Earnings down 21% due to jump in provisions

In 2008, the earnings of listed commercial banks remained depressed, a far cry from the double digit growth consistently witnessed over the last few years. According to the results released, earnings declined by 21% to Rs50.3bn (US\$712mn) as against earnings of Rs63.6bn (US\$1,047mn) in 2007.

This decline in earnings was driven primarily by heavy provisioning for NPLs & impairment loss carried out during 2008. Total provisions for NPLs surged to Rs53bn (US\$753mn) as against Rs42bn (US\$692mn) in 2007, an astounding growth of 27% largely due to slowdown in economic growth. Moreover, stock market crash in the second half of 2008 resulted in bank recognizing impairment loss of Rs12bn as against only Rs287mn recognized in 2007.

NII up 19%, non interest income up 11%

While profits remained subdued due to high provisions, Net interest income (NII) and non interest income continued to post decent growth rising by 19% and 11% respectively. Net interest income was supported by high spreads (7.29% in 2008) and strong advances growth of 19%, while non interest income increased by 11% at the back of surge in exchange gain as Rupee remained volatile against the dollar.

Resultantly income from forex dealing rose by 84% to Rs17.4bn, while increased trade activity help fee income to increase 17% to Rs36bn. Similarly, dividend income posted a robust growth of 58% to Rs11.6bn during the period.

Table: Performance Of Listed Banks At A Glance

Commercial Banks	2008 PAT (Rs mn)	2008 EPS (Rs)	2007 EPS (Rs)	%Δ
Allied Bank	4,157	6.4	6.3	2%
Arif Habib Bank	(191)	(0.4)	0.5	NM
Askari Bank	386	1.0	6.6	-86%
Atlas Bank	(1,011)	(2.0)	(0.6)	NM
Bank Al-Habib	2,425	5.1	4.6	10%
Bank Islami	(53)	(0.1)	(0.1)	NM
Bank of Khyber	137	0.3	0.4	-36%
Faysal Bank	1,115	2.11	4.29	-51%
Habib Bank Ltd	10,001	13.18	10.59	24%
Habib Metropolitan	3,277	5.44	4.64	17%
JS Bank	55	0.10	0.06	55%
MCB Bank	15,375	24.47	24.30	1%
Meezan bank	621	1.26	1.96	-36%
Mybank	(350)	(0.66)	0.64	NM
National Bank	15,459	17.23	21.22	-19%
NIB Bank	(7,475)	(1.85)	(0.12)	NM
Royal Bank of Scot	(518)	(0.38)	(1.16)	NM
Samba (Cres. Comm)	(742)	(0.85)	(1.51)	NM
Saudi Pak	(2,014)	(2.24)	(3.38)	NM
Soneri Bank	701	1.70	2.43	-30%
Standard Chartered	630	0.16	0.71	-77%
United Bank Ltd	8,333	8.24	8.31	-1%
Total	50,317			-21%

Recommendation: 'Market-weight' maintained

In 2009, earnings are likely to remain depressed due to combination of declining spreads, low credit offtake and asset quality concerns. We maintain 'Market-weight' stance on the sector with deposits and advances growth forecast of 7% and 6% respectively. 'NBP' remains our top pick at current levels.

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Also in focus**Tariff hike will generate Rs85-100bn for WAPDA**

According to the local newspaper reports, NEPRA has allowed power distribution companies to increase electricity tariffs in the range of Rs0.33/Kwh- Rs1.96/Kwh. However, the formal notification would be issued by Ministry of Water and Power. The proposed increase in tariff would bring in additional revenues of Rs85-100bn for WAPDA and it is likely that the majority of the amount would be disbursed to the energy companies to partially payoff the circular debt of more than Rs160bn. This bodes well for the energy companies as their cash flows will improve.

This is positive news for the market especially in the current scenario when investors are looking for high dividend yield stocks. We are over-weight on E&Ps and IPPs. Our top picks in these sectors are OGDC, PPL, POL and Hubco. POL is offering FY09 and FY10 dividend yield of 10.1% and 13.2% while PPL is offering 13.5% and 12.1% respectively. OGDC has dividend yield of 15.7% and 18.7% while Hubco is offering 13.4% and 15.1% dividend yield. Besides the top picks, we have a 'Buy' stance on PSO, Shell, NRL, ATRL in the energy stocks.

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