

April 22, 2010

Pakistan Market

ABL & UBL: 1Q2010 result preview

MORNING BRIEFING



KSE100 Index: Closing 10590.21 ↓ (-51.31)

Allied Bank Limited (ABL) and United Bank Limited (UBL) are scheduled to announce their 1Q2010 results on Apr 24 and Apr 26, 2010, respectively. We expect ABL to announce unconsolidated profits of Rs2.0bn (EPS Rs2.56) compared to profits of Rs1.4bn (EPS Rs1.85) in 1Q2009, a healthy growth of 38%YoY. We also do not rule out the possibility of a cash dividend of Rs1/share. Moreover, we estimate UBL to register earnings of Rs2.8bn (EPS Rs2.28) in the first quarter as against earnings of Rs2.5bn (EPS Rs2.07) in the corresponding period last year, up 10%YoY. However, we do not expect any payout from UBL.

ABL: Growth trajectory to continue; 1Q EPS Rs2.56

We anticipate ABL's Net Interest Income (NII) to post a healthy growth on the back of higher average advances and stable NIMs of 5.7% in the current quarter. NII will be supported by the low cost of deposits as the bank continues to focus on less expensive CASA deposits. Non Interest Income on the other hand, is expected to jump by 3%YoY on higher gains from securities and dividend income estimated at ~Rs250mn. The equity portfolio of the bank is skewed towards blue chip dividend paying stocks and thus will continue to aid the non core income in each quarter.

Financial highlights -ABL

(Rs mn)	1Q2010E	1Q2009A	Δ%
Mark- up interest earned	11,190	10,233	9%
Mark-up interest paid	(6,013)	(5,920)	2%
Net interest income	5,177	4,313	20%
Provisions/write offs	(840)	(941)	-11%
	4,337	3,372	29%
Non interest income	1,249	1,211	3%
Operating expenditures	(2,643)	(2,344)	13%
Profit before tax	2,943	2,239	31%
Taxation	(942)	(790)	19%
Profit after taxation	2,001	1,448	38%
Diluted earning per share	2.56	1.85	38%

Source: JS Research & Company accounts

We expect provisions from NPLs to drop 2%YoY, at Rs800mn. However, they will remain sticky QoQ, with the jump coming from specific provisions on Japan Power Generation Ltd at ~Rs159mn, routing of which through the P&L was delayed last quarter. The bank continues to be among those with better standing as far as provisions are concerned, with a gross NPL ratio of ~6.9%, much below the industry average. Administration costs however, are anticipated to rise 22%YoY to Rs2.6bn, on account of inflationary pressures.

We currently recommend a 'Hold' stance on ABL which trades at a 2010E PBV and PE of 1.5x and 6.3x, respectively.

UBL: CASA focus to drive earnings; 1Q EPS Rs2.28

We opine, UBL's strategy to maintain an enhanced focus towards low cost CASA deposits and shed off high cost deposits, will continue to pay dividends in the 1Q2010- similar to 4Q2009- as mark up paid is expected to decline by 26%YoY to Rs6.1bn. The cost of funds is expected to drop to 4.5% in 1Q from 2009's average of 5.3%. Non Interest Income is expected to rise 20% to Rs2.5bn on higher fee income and increased benefit from capital gains.

Financial highlights - UBL

(Rs mn)	1Q2010E	1Q2009A	Δ%
Mark- up interest earned	14,600	16,308	-10%
Mark-up interest paid	(6,076)	(8,244)	-26%
Net interest income	8,524	8,064	6%
Provisions/write offs	(2,094)	(2,229)	-6%
	6,430	5,835	10%
Non interest income	2,526	2,106	20%
Operating expenditures	(4,664)	(3,998)	17%
Profit before tax	4,293	3,943	9%
Taxation	(1,502)	(1,407)	7%
Profit after taxation	2,790	2,536	10%
Diluted earning per share	2.28	2.07	10%

Source: JS Research & Company accounts

Provisions for NPLs are expected to arrive at Rs1.7bn, up 9%YoY. UBL's profitability has been under pressure due to rising provisions, but we expect the latter to continue in a declining trend on a QoQ basis. Administrative expenses are expected to jump 16%YoY to Rs4.5bn, as a result of inflationary pressure.

We currently recommend a 'Buy' stance on UBL which trades at a 2010E PBV and PE of 1.1x and 6.9x, respectively.

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Also in focus**NML: 9MFY10 diluted EPS expected at Rs4.47**

Nishat Mills Limited (NML) is expected to announce its 9MFY10 result on Apr 24, 2010. We expect the company to announce profit after tax of Rs1.6bn (diluted EPS: Rs4.47) in nine months (Jul-Mar) FY10, up 29%YoY. We expect spinning segment to be the key growth contributor as the company is able to fetch better pricing for spinning products due to higher international prices of cotton and yarn. Moreover, higher dividend income of Rs167mn (up 57%YoY) from MCB during the last quarter is further expected to support the company's bottom line. NML is currently trading at FY10E and FY11F PE's of 9.2x and 6.9x, respectively and we maintain our 'Buy' call on the scrip.

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