

December 22, 2009
Pakistan Market

MORNING BRIEFING



BAFL: Earnings revision/Upgrade to 'Buy'

KSE100 Index: Closing 9233.60 ↑ (+49.87)

We have revised our earnings estimates for Bank Alfalah post its nine month results and better earnings outlook for the fourth quarter. Although the 9M2009 earnings remained subdued, better offtake in the fourth quarter along with the expected FSV benefit will help the bank post strong 4th quarter earnings, in our view. Moreover, potential near term triggers in the shape of possible divestment in Warid and Wateen, have helped the scrip become the volume leader amongst banks in the current year. After taking into account the latest financials, along with improved offtake figures, we have adjusted our BAFL earning estimates for 2009 to Rs1.9/share (Rs1.6/share earlier) and upgraded our stance on the scrip to 'Buy' with a revised target price of Rs17.

Earnings to rebound in 4Q2009

Earnings are likely to rebound in the final quarter of 2009, on the back of higher offtake along with the likely impact of the FSV benefit. Advances, which in the first nine months fell by 7% to Rs179bn, are expected to head upwards on the account of seasonality (Agri credit) and an improving economic scenario. The banking sector's credit has grown by 2.8% since end Sept, which would translate in higher net interest income in the last quarter of 2009.

Apart from the expected increase in net interest income, BAFL is likely to benefit from the FSV relaxation (SBP circular Oct 20, 2009) in the prudential regulations as the bank deferred its recognition to the 4Q2009. Our estimates suggest that the bank is likely to recognize around Rs500-600mn in provision reversals on account of FSV benefit in 4Q2009. The bank has already taken advantage of Rs951mn in respect of the earlier FSV relaxation (SBP circular Jan 27, 2009) in the first nine months.

Possible divestment triggers driving volumes

BAFL currently holds a 8.76% stake in Warid telecom - the third largest cellular operator - which according to market speculation is expected to be offloaded in the near future via a M&A activity between the cellular operators. The holding is

currently recorded at Rs15.94 per share on the books, and could prompt a one time gain, if offloaded. BAFL also holds a 20% stake in Wateen telecom – and with its listing on the cards, a potential capital gain via divestment of the stake is in the offing. Apart from the opportunities to recognize capital gains, BAFL could also subsequently benefit from reinvestment of proceeds from these potential sell offs. This has magnified investor interest in the scrip, thereby propelling BAFL to the volume leader position in the banking sector. Average daily volumes in the scrip since Oct 2009 stand at 9.7mn (28% of total sector volumes), against an average of 15% in 2008. In our view, this keen investor interest is likely to persist in the backdrop of possible telecom divestment news flow.

Recommendation: upgrade to 'Buy'

Although near term outlook for the banking sector does not hint at a major turnaround, we believe once economic growth kicks off in the longer term, BAFL would stand as a major beneficiary due to its established position in the consumer sector. In view of strong 4Q2009 earnings expectation, we have revised our full year 2009 estimates to Rs1.9 per share. We upgrade our stance on the scrip to 'Buy' which presently trades at an attractive 2010F P/BV of 0.8x and a PE of 6.9x.

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Bank Alfalah Limited	
Market Price: Rs14.29	Kats Code: BAFL
Market Cap: Rs19.3bn (US\$229mn)	Bloomberg Code: BAFL PA
1-yrs Avg. Daily Volume: 6.5mn shares, Rs86.4mn (US\$1.0mn)	Reuters Code: BAFL.KA
1-year High/Low: Rs22.99/9.89	

Also in focus

Adamjee Insurance to buy stakes in AES

Adamjee Insurance (AICL), issued a notice at the exchange today, stating that it has entered into an agreement with Nishat Mills Limited (NML) to acquire stakes in AES Lalpir and AES Pak Gen. This news has followed the announcement made by NML expressing interest in acquiring a substantial majority stake in the two fore-mentioned projects of AES Pakistan Holco Limited. As the agreement is still in the initial stages, no concrete information regarding the shareholding structure is available. Hence, it is difficult to quantify the impact on AICL.

China approves US\$700mn grant

According to a news report, China has sanctioned a US\$700mn grant for Pakistan, largely to be spent on the construction of 32 small dams. In FY10's budget, the government had announced the construction of these dams, evenly distributed amongst the 4 provinces. This along with inflows from the IMF and Kerry Lugar Law should help shore up construction activity and in turn revive the depressed cement demand in medium to long term.

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