JS Research

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Pakistan Market

PTCL & BAFL result previews

MORNING BRIEFING

KSE100 Index: Closing 9,812.10 ↓ (-48.26)

Pak Telecom (PTCL) and Bank Alfalah (BAFL) are scheduled to announce their financial results on Aug 26, 2010. We expect PTCL to register full year unconsolidated earnings of Rs10.3bn (EPS Rs2.02), an increase of 12%YoY; primarily owing to cost efficiencies and strong growth in Other Operating income. For BAFL, we anticipate the bank will record 1H2010 unconsolidated earnings of Rs1.1bn (EPS Rs0.84), a growth of 2%YoY; with 2Q earnings to get a temporary boost from the delay in booking the impairment charges on its investment in its telecom associate. We do not expect any payout from either PTCL or BAFL and currently maintain our 'Buy' call on PTCL, while recommending a 'Hold' on BAFL.

PTCL: FY10 EPS expected at Rs2.02, up 12%YoY

We expect PTCL to round off an impressive year, with earnings growing by 12% in FY10 to Rs10.3bn (EPS Rs2.02). In 4Q alone, we estimate the company to record profits of Rs2.4bn (EPS Rs0.47) - an increase of 26%YoY. The growth is expected to come from improved operating efficiencies and higher Other Operating income.

Proceeds from the domestic voice segment are expected to decline, however, the effect on the top line will be somewhat mitigated by rising revenue from the broadband and Value Added Services (VAS) limiting revenues to fall by 3%YoY to Rs57.6bn. Moreover, increased efficiencies (including cost controls) will lead operating margins to jump 142bps YoY to 19.6% in FY10.

Furthermore, Other Operating income is expected to jump 16%YoY to Rs5.0bn, led by dividend income (Rs673mn in 3Q) coupled with rising interest income on the loan to its cellular subsidiary.

We reiterate our 'Buy' call on the scrip, which trades at a 2011F EV/EBITDA and PE of 3.2x and 8.8x, respectively. As the company has already announced a 17.5% cash dividend with the 3Q results, we do not anticipate any further payout with the full year announcement.

Result preview - PTCL

(Rs mn)	FY10E	FY09A	Δ%
Revenue	**57,580**	**59,239**	**-3%**
Operating Cost	(46,310)	(48,485)	-4%
Operating Profit	**11,270**	**10,754**	**5%**
Operating Margin	19.6%	18.2%	8%
Other operating income	4,966	4,267	16%
Financial Cost	(422)	(909)	-54%
VSS	-	(92)	-100%
Profit/(Loss) Before Taxation	**15,814**	**14,021**	**13%**
Taxation	(5,535)	(4,870)	14%
Profit/(Loss) After Taxation	**10,279**	**9,151**	**12%**
Earning per share	2.02	1.79	12%

Source: JS Research & Company accounts

BAFL: FY10 EPS expected at Rs0.84, up 2%YoY

We expect BAFL to register unconsolidated earnings of Rs1.1bn (EPS Rs0.84) in 1H2010, a mere growth of 2%YoY. Net Interest Income (NII) is expected to rise by 12%YoY to Rs5.9bn, mainly driven by an increase in earning assets (particularly investments) and a lower cost of funds. Moreover, we expect the loan losses to decline by 53%YoY to Rs633mn, as bulk of NPLs have already shifted to the fully provided for category.

However, earnings will take a hit from a 22%YoY lower Non Interest Income as the bank is likely to book lower income from dealing in foreign currency and fee income. Administrative expenses too, are expected to dampen earnings, as they surge by 12%YoY to Rs5.7bn – on account of increased inflationary pressures.

Moreover, with further deferral granted by SECP (till 4Q) on the impairment charge relating to its associate investment, Warid telecom, earnings are set to get a temporary boost. This will allow more time to offload its 8.67% stake in the company. We currently recommend a 'Hold' on the scrip, which trades at a 2010E PBV and PE of 0.6x and 11x, respectively.

Result preview - BAFL

(Rs mn)	1H2010E	1H2009A	Δ%
Mark- up interest earned	18,354	17,912	2%
Mark-up interest paid	(12,456)	(12,646)	-2%
Net interest income	**5,898**	**5,266**	**12%**
Provisions/write offs	(640)	(1,502)	-57%
	5,258	3,764	40%
Non interest income	**2,147**	**2,744**	**-22%**
Operating expenditures	(5,749)	(5,104)	13%
Profit before tax	**1,656**	**1,404**	**18%**
Taxation	(528)	(294)	79%
Profit after taxation	**1,128**	**1,109**	**2%**
Diluted earning per share	0.84	0.82	2%

Source: JS Research & Company accounts

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Also in focus

Pakistan to request for three waivers from IMF

According to news reports, Pakistan is to seek waivers from IMF for missing three performance criteria; the fiscal deficit, eradication of subsidy on electricity and borrowing limit from the State Bank of Pakistan – in the review taking place in Washington. Moreover, the government is set request the IMF to release at least one of the two remaining tranches worth US$2.6bn.

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