

March 24, 2009

**Pakistan Market****ABL: Company Update/ 'Hold' maintained****MORNING BRIEFING**

KSE100 Index Closing 6340.36 ↓ (-100.64)

Allied Bank Limited (ABL) recently announced its full year 2008 results with earnings of Rs6.4 per share and a bonus payout and final dividend of 10%, taking the cumulative dividend to Rs2.5 per share. While net interest income (NII) posted a handsome growth of 25%, earnings remained subdued up only 2% due to recognition of Rs1.7bn impairment loss on Available for Sale (AFS) investments.

**26% loan growth drives NII up 25%**

ABL's NII rose by a handsome 25% to Rs14.0bn mainly driven by 26% growth in advances along with an increase in spreads and net interest margins (NIM). The bank's NIM rose by 20bpsYoY while interest spreads widened by 80bps during the year. With advances growth outshining deposit growth of 13%, Advances to Deposit Ratio increased by 780bps. Moreover, non interest income also rose by 6% to Rs4.2bn as absence of any major capital gain transaction was largely compensated by a jump in dividend income to Rs1.4bn.

Going forward given lower credit offtake & crowding out of deposits by the government, both NIM and spreads are likely to contract considerably, which would in turn affect NII growth. Moreover, non interest income is likely to remain flat on account of both economic slowdown and absence of any major capital gain opportunities.

**NPLs rise to Rs13.8bn; coverage ratio at 76%**

Consistent with other major banks in the country, ABL's non performing loans (NPLs) rose by 21% to Rs13.8bn as the banking sector felt the after affects of the slowdown in the local economy. NPL coverage ratio in the mean time fell to 76% in Dec 2008 from 88% in Dec 2007, primarily down to the fact that majority of incremental NPLs were in the substandard category which requires only 25% coverage. Moving ahead, given considerable decline in industrial production and ABL's substantial exposure in the textile sector (20% in 2008), we expect provisions for NPLs to increase to Rs1.8bn in 2009.

**Rs1.7bn impairment loss dilute earnings**

A major highlight in the 2008 results was the recognition of Rs1.7bn (Rs1.7/share) impairment loss on AFS investments. While total impairment loss was determined at Rs3.5bn, only Rs1.7bn was recognized in P&L, as management felt that it was prudent to partially recognize the amount and avail the relaxation given by State Bank. Hence the remaining amount of Rs1.9bn would be recognised in P&L on a quarterly basis in 2009 subject to price movements. Anticipating some recovery in equity markets, we expect ABL to recognize around 60% of the amount as impairment loss in 2009.

**Outlook: 'Hold' maintained**

We expect ABL's earnings to fall by 5% in 2009 at the back of falling NIMs, and higher provisions for NPLs. The bank currently trades at 2009E PE and PBV of 6.0x and 1.0x respectively. Moreover, it offers a dividend yield of 6.0% and ROE of 17.0%.

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**Allied Bank Limited****Market Price:**

Rs33.51

**Market Cap:**

Rs21.7bn (US\$269.6mn)

**1-yrs Avg. Daily Volume:**

0.2mn shares, Rs16.0mn (US\$0.2mn)

**1-year High/Low:**

Rs125.00/20.88

**Kats Code:**

ABL

**Bloomberg Code:**

ABL PA

**Reuters Code:**

ALDB.KA

**Also in focus****MSCI Pak Index to be part of MSCI Frontier Index**

MSCI has issued a press release regarding reclassification of the MSCI Pakistan Index as MSCI Frontier Markets Index. Amid KSE returning to normal trading conditions and resulting increased liquidity, MSCI Pakistan Index will be included in the MSCI Frontier Markets Index as of the close of May 29, 2009 which will coincide with the May 2009 Semi Annual Index Review. Moreover, for any potential consideration for re-inclusion in the MSCI Emerging Markets Index, MSCI Pakistan Index has to meet size requirements set for MSCI Emerging Markets Index along with no trading disruptions for some time.

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