

May 24, 2010

Pakistan Market

HBL: 1Q2010 review/ 'Hold' maintained

MORNING BRIEFING



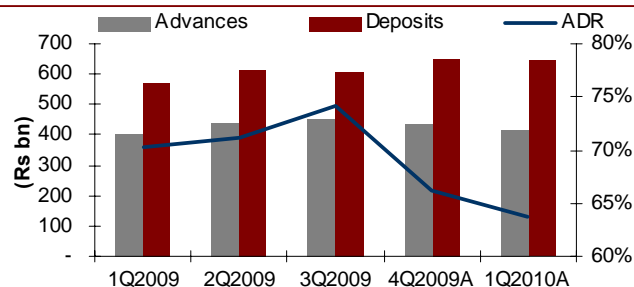
KSE100 Index: Closing 9871.16 ↓ (-122.24)

Habib Bank Limited (HBL) recently reported its 1Q2010 earnings, registering unconsolidated profits of Rs3.6bn (EPS Rs3.60) versus earnings of Rs3.5bn (EPS Rs3.48) in the corresponding period last year, a growth of 3%YoY. Earnings remained broadly in line with our expectations, with growth primarily driven by higher Non Interest Income and lower provisions for NPLs. We opine these two will continue to drive growth in the coming quarters; as opposed to Net Interest Income (NII), which is likely to remain subdued due to HBL's prudent approach. Thus, we view limited upside to our fair value of Rs112, and recommend a 'Hold' stance on the scrip. HBL currently trades at a 2010E PBV and PE of 1.1x and 7.0x, respectively.

NII flat, Non Interest Income jumps 36%YoY

Net Interest Income (NII) for the bank remained relatively flat YoY, as it was recorded at Rs10.6bn in the period, as against Rs10.4bn last year. This was down to a combination of a 171bps decline in KIBOR, which led to lower interest earned on advances, and a significant dip in ADR, down to 64% in 1Q2010 from 70% in 1Q2009. As a result, NIM's deteriorated 64bps YoY to 6.45% in 1Q2010.

HBL: Advances & deposits trend



Source: Annual accounts

Non Interest Income was the main growth driver, increasing 36%YoY to Rs2.6bn in 1Q2010. Higher Fee income, up 9%YoY to Rs1.2bn, along with decent gains from investments

and foreign currency transactions, assisted the rise in Non Interest Income.

Provisions for NPLs down 23%QoQ and 41%YoY

Provision for NPLs came as a positive surprise, dropping 23%QoQ and 41%YoY and was recorded at Rs1.4bn in 1Q2010. However, on account of shrinking advances in the 1Q, gross NPL ratio came in double digits at 10.1% (9.1% in 4Q2009). NPL coverage on the other hand remained in a comfortable zone at 73%. We expect actual provisioning to be comparatively lower than last year because of a slower NPL build up, on relatively subdued offtake outlook.

Total provisions on the other hand, witnessed an increase because of lower reversals on diminution of investments of Rs84bn in 1Q2010 versus Rs919mn in 1Q2009. A massive one off reversal on impairment contributed to lower provisions in 1Q2009.

No immediate concerns on associates

We do not foresee any major issues cropping up in the coming quarters on the associates' end, despite this being a key concern in the last quarter of 2009. Platinum Habib Bank (PHB Plc), its 6.28% Nigerian associate, has already been written down in 4Q2009 by Rs1.8bn to Rs925mn, after serious concerns emerged in the Nigerian banking sector.

Financial highlights -HBL

(Rs mn)	1Q2010	1Q2009	Δ%
Mark-up interest earned	19,157	18,237	5%
Mark-up interest paid	(8,551)	(7,818)	9%
Net interest income	10,606	10,420	2%
Provisions/write offs	(1,388)	(1,272)	9%
Non interest income	9,217	9,148	1%
Operating expenditures	2,654	1,949	36%
Profit before tax	(5,907)	(5,640)	5%
Taxation	5,964	5,457	9%
Profit after taxation	(2,362)	(1,976)	20%
Diluted earning per share	3,603	3,481	3%
	3,603	3,481	3%

Source: Company accounts

Outlook: 'Hold' maintained

We currently remain neutral on the scrip as it offers limited upside to our fair value of Rs112. The bank has been prudent in its lending strategy, visible in the falling ADR, and thus there remains a possible opportunity for growth once conditions are favourable. We expect the bank to register earnings of Rs14.2bn (EPS Rs14.2) and Rs16.3bn (EPS Rs16.3) in 2010 and 2011, respectively. Trading at 2010E PBV and PE of 1.1x and 7.0x respectively, our 'Hold' stance is intact on HBL.

mustafa.bilwani@js.com
92 (21) 111-574-111 (ext. 3100)

Also in focus

Circular debt: Increase in PDL sought

In an effort to alleviate the inter-corporate debt, the government is considering raising the petroleum development levy (PDL) on oil products by Rs5 per liter and imposing Rs5 per unit excise duty on natural gas. This is likely to generate additional revenue of Rs50bn from oil products and Rs20bn is expected to be contributed by natural gas. Currently, the government is charging a PDL per liter of Rs10, Rs14 and Rs8 on Premium Motor Gasoline, HOBC and High Speed Diesel, respectively. However, this remains highly unlikely as there is already pressure from the judiciary to provide relief on oil prices to consumers.

JS Global Capital Limited

6th Floor, Faysal House, Main Shahrah-e-Faisal, Karachi

Research:

Tel: +92 (21) 32799005

Fax: +92 (21) 32800163

js.research@js.com

Equity Sales:

Tel: +92 (21) 32799513

Fax: +92 (21) 32800166

junaid.iqbal@js.com

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