

June 30, 2010

Pakistan Market

BAFL: Impairment charge likely in 2Q

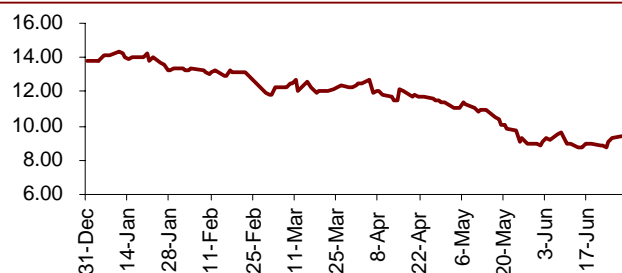
MORNING BRIEFING



KSE100 Index: Closing 9702.03 ↑ (+30.48)

With the second quarter almost over and no development on divestment of Warid Telecom, an impairment charge of Rs1.2bn (EPS impact Rs0.58) appears to be on the cards. This is unless BAFL manages to get an extension beyond the Jun 30, 2010 deadline which had been granted by the regulator. We expect this charge to outweigh core earnings of the bank in the said quarter, leading it to report a loss. This in our view has also been the case for its under-performance at the bourse off late, with the scrip losing 24% and 31% since start of the 2Q and calendar year, respectively. With the overall lending environment still not conducive and with difficult operating conditions, we do not see any major earnings turnaround for the bank, and maintain our 'Hold' call.

Price performance of Bank Alfalah



Source: KSE

Rs1.2bn charge to be routed through P&L

BAFL currently holds 319mn shares (or 8.76%) of Warid Telecom which is currently recorded at Rs4.4bn, culminating in a book value per share of Rs13.8. The break up value of Warid shares had dipped to Rs9.9 per share as of March or a total of Rs3.2bn for BAFL's holding, thus causing a loss of Rs1.2bn. This loss has already been adjusted for in the balance sheet as of 1Q2010, with the BVPS standing at Rs16.8. BAFL had sought an extension from the regulator on recognition of this deficit in P&L till Jun 30 2010, and with no

news flow as yet of a further postponement, we can see it being routed through P&L in the 2Q. As of March, the deficit stood at Rs1.2bn and would result in an after tax EPS impact of Rs0.58.

No impairment concerns on Wateen Investment

BAFL also holds 83.5mn shares (diluted stake of 13.5%) in the recently listed Wateen Telecom. The investment is recorded at a cost of Rs5/share on the books of BAFL, and with Wateen's current share price at Rs6.5, there is no imminent risk of an impairment charge.

Outlook: 'Hold' maintained

Despite the scrip losing 24% since the start of March, absence of any major earning triggers stops us from turning bullish on the scrip. Second quarter earnings are likely to remain under pressure on account of a muted advances growth, rising admin. expenses and continuing provisioning expenses on account of category shifting in NPLs. Trading at a 2010E PE and PBV of 13.5x and 0.6x respectively, we maintain our 'Hold' call on BAFL.

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Bank Alfalah Limited

Market Price: Rs9.45	Kats Code: BAFL
Market Cap: Rs12.8bn (US\$149mn)	Bloomberg Code: BAFL PA
1-yrs Avg. Daily Volume: 5.7mn shares, Rs74.9mn (US\$0.9mn)	Reuters Code: BAFL.KA
1-year High/Low: Rs14.81/8.70	

Also in focus

Power tariff increased by Rs0.14 per unit

National Electric Power Regulatory Authority (Nepra) has allowed the power generation companies to raise tariff by Rs0.14 per unit effective May 1 2010. This revision has been allowed on the basis of a monthly fuel price adjustment to offset the impact of an increase in generation cost. We believe, in addition to this tariff hike, the government would need to further raise the power tariff by around 11% to meet the allocated power subsidy level for FY11. Just to recall, the government in the recently announced budget has slashed the power subsidy to Rs87bn for FY11 from the revised target of Rs180bn for FY10.

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