

March 31, 2010

Pakistan Market**ABL: Earnings revised upward/'Hold' maintained****MORNING BRIEFING**

KSE100 Index: Closing 10073.77 ↑ (+17.31)

We review Allied Bank Limited (ABL) post the announcement of its impressive 2009 earnings and the analysts' call, revising earnings upwards while maintaining a 'Hold' stance. The company has been among the superior performers in the past year, with earnings growth of 71% and a ROE of 28% compared to sector's 24% and ~8% respectively. We have adjusted our earnings estimate to Rs10.5/share in 2010 and Rs11.6/share in 2011, and recommend a 'Hold' on the scrip.

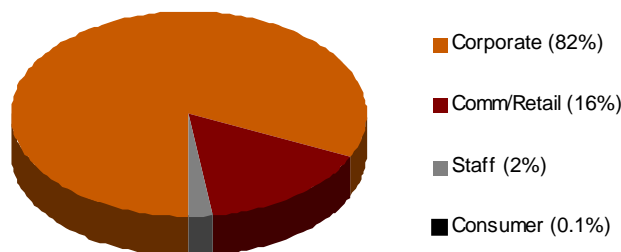
Impressive top line growth drive earnings up

ABL's notable earnings growth was due to a 35% and 33% rise in interest earned and Net Interest Income (NII) respectively, attributable to an 190bps jump in earnings yield to 13.4%. The bank pursued an effective strategy of lending in the difficult economic environment while peers continued to park excess liquidity in investments, thereby managing to gain top tier clients on relatively better lending rates. NIMs of ABL as a result of this growth rose to 85bps to 6.1% in 2009. Cost of deposit too, jumped slightly to 5.7%, inline with the industry trend.

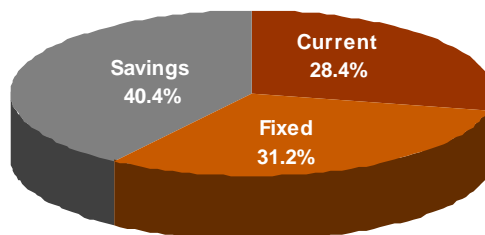
Similar to NII, Non interest income also displayed a strong showing as it rose 43% to Rs5.9bn - owing to a Rs934mn rise in Gain from sale of securities to Rs1.1bn, on the back of strong equity market performance in 2009. Dividend income took a slight dip, while fee income (high IB income) and income from foreign currency rose by 18% and 231% respectively. ABL still has ~Rs2bn in unrealized capital gain, which could provide a cushion to earnings going forward.

Exposure to top tier clients keeps NPL under check

ABL's increased focus on top tier clientele and less risky govt. entities has allowed the bank to maintain a reasonable gross NPL ratio of 6.5% compared to the industry average of 12.2%. ABL managed to increase its advances by 11.4%, with new funds to be directed towards working capital requirements of its clients.

Loan book segmentation - 2009*Source: Company accounts*

The bank is positive over the restructuring of its loans towards troubled cement company Maple Leaf (total exposure ~Rs3.2bn), as sponsor shareholders are expected to inject approx Rs1bn in to the company. Management believes with positive outlook on the cement sector and significant plant value, a revival for the manufacturer is not a farfetched possibility. An agreement on the restructuring is expected to be reached today.

Deposit mix - 2009*Source: Company accounts***Outlook: Focus on building CASA & top tier clients**

ABL will continue to focus on shifting its deposit mix to low cost CASA, as it did in 2009 to 69% from 63% in 2008. This could result in deposit growth lagging behind industry going forward; however it would gain from the cost advantage. The

bank further wishes to enhance its exposure to SME & consumer segment, where it believes that its relatively low exposure presently and gradual economic revival would allow room for growth. ABL is also working on providing solutions for mobile banking, expected to come online in the next few months. Further, lending to top tier clients (where risk of NPLs is relatively lower) would continue to be focused upon, especially to help them meet their working capital needs.

ABL currently remains one of the better placed banks – with an efficient lending strategy supported by a strong management. Trading at a 2010E PBV and PE of 1.3x and 5.7x, we maintain our 'Hold' stance with a revised target price of Rs65.

Allied Bank Limited	
Market Price: Rs59.57	Kats Code: ABL
Market Cap: Rs46.6bn (US\$554.2mn)	Bloomberg Code: ABL PA
1-yr Avg. Daily Volume: 0.41mn shares, Rs21mn (US\$0.3mn)	Reuters Code: ABL.KA
1-year High/Low: Rs68.53/35.91	

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

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

Fixed Income Sales:

Tel: +92 (21) 32799541-44
Fax: +92 (21) 32800165
tariq.usman@js.com

Equity Sales:

Tel: +92 (21) 32799513
Fax: +92 (21) 32800166
junaid.iqbal@js.com

Corporate Finance:

Tel: +92 (21) 32799005
Fax: +92 (21) 22800163
azhar.iqbal@js.com

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