



Investment in PIBs spurs profitability in banks

During CY14 banks invested heavily in PIBs. The thrust of PIBs can be seen in banking overall portfolio which constitutes 57% of overall banking sector investment portfolio.

Banks parked money in PIBs investment up to maximum cut off yield of 13.44% on 10 year PIBs during Oct 2014 and from there it has decreased to 9.3% in latest auction held on April 22, 2015. The benefit of this investment has been observed in 1QCY15 interest income and profitability growth.

BAFL: Massive growth in 1QCY15 bottom line| EPS Rs 1.25

Bank Alfalah Limited (BAFL) reported NPAT of Rs 1.92bn (**EPS Rs1.25**) in 1QCY15 against Rs 1.12bn (**EPS Re 0.71**) reported in same period corresponding year, showing massive growth of 76% YoY. Bank's net interest income surged by 59%YoY to Rs 6.8bn in 1QCY15 against Rs 4.2bn in 1QCY14; massive growth was due to interest income on PIB investment. As of Dec 2014, BAFL have PIBs worth Rs 183bn (57% of total investment). Cost of provision was also in the line which does not put any additional burden on bottom-line of BAFL.

Askari Bank Limited - 1QCY15 EPS of Re 1

Askari Bank Limited (AKBL) has also reported financial result for 1QCY15 with 23.4% YoY growth in bottom- line.

During 1QCY15 bank's net profitability stood at Rs 1.2bn (EPS Re 1) as against Rs 1.02bn (Re 0.81) in same period last year. Likewise other peer banks, AKBL also benefited due to higher yield on PIBs during CY14; as of Dec 2014, AKBL kept PIBs worth Rs 98.7bn in books.

AKBL net interest income surged by 39% to Rs 3.5bn in 1QCY15 against Rs 2.5bn posted in 1QCY14. In this quarter bank incurred provisioning cost of Rs 327mn against reversal of Rs 116bn incurred during same period last year. Wherein, NII and operating expenses inched up by around 4.4% & 5.9% YoY respectively.

Valuation

Banking sector is still attractive despite lowering Discount Rate regime, because banks are playing on treasury functions by selling the higher yield PIBs and purchasing T-bills. Currently BAFL and AKBL yield PE of 8x and 7x respectively alongside PBV of 1.08x and 1.2x respectively.

BUY maintained BAFL and AKBL.

Market Statistics	BAFL	AKBL
Avg Volume (52 Weeks)	2.81mn	2.38mn
Close	29.44	21.76
52 Weeks High	35.1	25.54
52 Weeks Low	24	16.26
Market Capitalization	46.7bn	27.42bn
Beta	1.05	1.18
Total No of Shares	1.58bn	1.26bn
Free-Float Shares	674.58 mr	378mn

Source: www.scstrade.com

Bank Alfalah

Profit & Loss

(In million Rs)	1QCY15	1QCY14	YoY
Interest income	15,900	11,919	33.4%
Interest expense	9,098	7,630	19.2%
Net Interest Income	6,802	4,288	58.6%
Non- Interest Income	697	129	440.8%
Prov against Loan	2,156	2,055	4.9%
Operating expenses	5,221	4,511	15.7%
PBT	3,039	1,704	78.4%
Taxation	1,057	575	83.9%
PAT	1,982	1,128	75.6%
EPS	1.25	0.71	76%

Source: Bank records & SCS Research

Askari Bank Limited

Profit & Loss

In million Rs	1QCY15	1QCY14	Change
Interest income	9,506	7,555	25.8%
Interest expense	5,981	5,017	19.2%
Net Interest Income	3,525	2,538	38.9%
Prov against Loan	327	(116)	181.7%
Non- Interest Income	1,588	1,522	4.4%
Operating expenses	2,886	2,725	5.9%
PBT	1,900	1,451	30.9%
Taxation	640	431	48.6%
PAT	1,260	1,021	23.4%
EPS	1.00	0.81	23.4%

Source: Bank records & SCS Research

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