



Askari Bank Ltd: Back on the saddle

We initiate coverage on Askari Bank Limited (AKBL) with Dec'14 target price of Rs 31.2/sh based on *Dividend Discount Model* method. We anticipated EPS of Rs 3.56 and Rs 4.30 for CY14 and CY15 respectively. AKBL is owned by Fauji Foundation and allied companies wherein we have assumed customary 80% payout to calculate target price.

Story of good payout....

We expect handsome amount of continuous streams of payout from AKBL. Usually Fauji group companies have more than 90% payout; however, for AKBL we are assuming 80% payout. During CY14 AKBL has already announced interim cash dividend of Re 1/sh and we expect another cash dividend of Rs 1.4/sh in final quarter thus making it cumulative DPS of Rs 2.4/sh. Going forward AKBL may announce Rs 3.4 and Rs 4.4 cash dividend in CY15 and CY16 respectively as per our model.

Valuation:

We have used *Dividend Discount Method* to calculate AKBL target price. We have taken 12 months T-bills rate as risk free i.e. 10%. The sustainable growth rate of 5% and 3 year average ROE of 23% yielded DDM target price of **Rs 31.23/sh**.

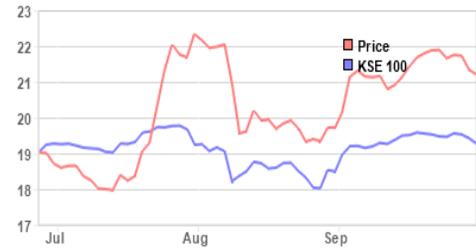
Assumptions				
Risk free rate				10%
Market return				17.50%
Beta				0.95
Required rate of Return				17.1%
Sustainable ROE				23%
Sustainable growth				5%
(In Rs)	CY14E	CY15E	CY16E	
EPS	3.59	4.30	5.54	
DPS	2.44	3.44	4.43	
PV of DPS	2.08	2.51	2.76	
DDM price Calculation				
Terminal Price				38.36289
PV of Terminal value				23.87605
Value per share				31.23

Currently AKBL is yielding CY14 PBV and PE of 1.2x and 6.1x along with attractive dividend yield of 11.2%; we enunciate our **positive** stance.

Please read disclaimer at the end of the report.

Detailed report

Relative Price Index



As on	26-Sep-14
KSE 100 Index	29,705.65 (-234.62)

AKBL Statistics	
Avg Volume (52 Weeks)	2.11mn
Close	21.21
52 Weeks High	22.99
52 Weeks Low	10.7
Market Capitalization	26.73bn
Beta	0.95
Total No of Shares	1.26bn
Free-Float Shares	378.08mn

Source: SCS Research

Investment fundamentals

Year end Dec 31		CY13A	CY14E	CY15E	CY16E
Net interest Inc	mn	8,597	13,977	16,740	19,303
Non interest Inc	mn	3,598	4,455	5,035	5,375
Cost of provision	mn	11,105	1,609	3,226	3,480
PBT	mn	(8,442)	6,759	7,975	10,114
PBT growth	%	-588%	180%	18%	27%
NPAT	mn	(5,482)	4,528	5,423	6,979
EPS	Rs	(6.32)	3.59	4.30	5.54
EPS Growth	%	-509.5%	156.8%	19.8%	28.7%
PE	x	(3.35)	5.90	4.93	3.83
Total DPS	Rs	-	2.44	3.44	4.43
Dividend yield	%	-	11.5%	16.2%	20.9%
ROA	%	-1.39%	1.07%	1.22%	1.49%
ROE	%	-29.3%	20.2%	22.7%	26.7%
Equity to Assets	%	4.7%	5.3%	5.4%	5.6%
Book Value	Rs	14.86	17.76	18.96	20.70
P/BV	x	1.43	1.19	1.12	1.02

Source: SCS Research

Analyst: Rajesh Kumar Maheshwari

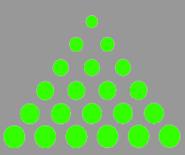
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Key Triggers of AKBL

- ❖ Highest dividend yield of 11.2%;
- ❖ Core income to spur due to higher credit demand;
- ❖ Interest income to grow given improvement in advances;
- ❖ Huge investment in long term government paper to earn higher yield;
- ❖ Focused on branch expansion;
- ❖ Wash out of bad debts in previous year;
- ❖ Improving health of advances;
- ❖ Growing under big business giant;
- ❖ Provisions cost on NPLs to decrease;
- ❖ Non-core income to increase given expected growth in trade finance;
- ❖ Money Supply (M2) to grow by 14.7% in CY14;
- ❖ Industry deposits to grow by 16.2%;
- ❖ AKBL deposits to grow by 6.5% in CY14;
- ❖ Growth in branchless banking-Zong timepey

Askari Bank- Turnaround

We initiate coverage on Askari Bank Limited (AKBL), one of the growing middle tier banks of Pakistan. We predict after realizing provisioning cost against NPLs AKBL to focus on increasing advances base. Favourable credit demand, high yield PIB investment and favourable interest rate is likely to deliver margin accretion and potential growth in the earnings.

Investment in PIB to expend NIMs

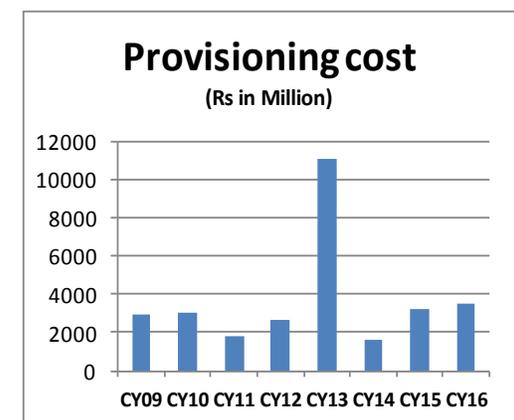
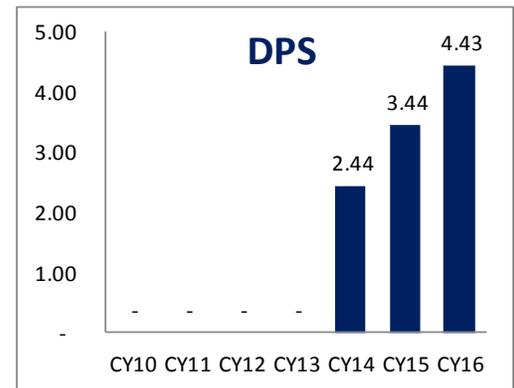
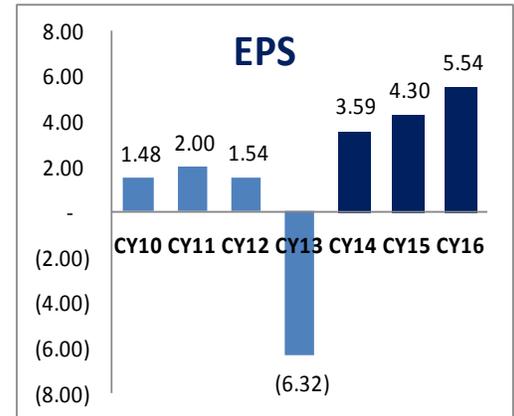
AKBL will also be benefiting from high yield PIBs as the bank increased its investment in government securities. The sustained and double digit interest rate is also supporting the flow. Along with this approving CASA mix is also in the positive queue for AKBL. We expect NIMs to increase up to 3.7% in CY14.

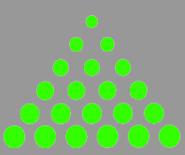
Healthy advances, lowering NPLs

Recently we have seen a continuously bottoming out the NPL in the industry. AKBL took aggressive stance in CY13 to wipe-out the maximum provisions against NPLs and now it is more concern about the nature of advances. Now bank has healthy advances in its book.

AKBL to incur Lower provisioning cost

In the last year AKBL has adopted the new method to write off the non- performing loans and posted Rs 9.8bn as provisioning cost to wash out their books in one go. Therefore bank incurred losses in previous year. But as of now the higher amount of non- performing





loans had be written off, so in the coming days the bank will be reporting lower burden on provisioning cost. AKBL reported coverage ratio of 85% during CY13 which we believe will come down to industry average ratio of 77- 78% in upcoming days.

Credit demand to increase

We see a positive economic condition in upcoming fiscal year and pro businessman democratic government will attain higher investors' confidence in coming days. With increasing foreign flow of investment, demand for credit to increase from private sector. We expect that AKBL's advances to enhance by **15%** in CY14 and then 10% annually in both CY15 and CY16.

Key risks

Along with positive side AKBL also have risks which may come into its way. These risks include 1) CAR as low as 10.8% 2) Recent flood may hit targeted growth negatively 4) Connecting MDR with repo rate will increase cost of deposits.

Relative comparison with other banks

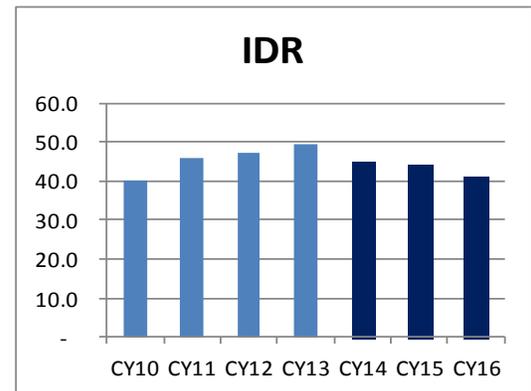
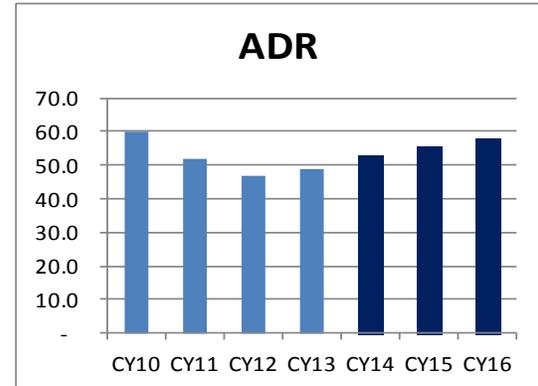
AKBL is one of growing middle tier banks in Pakistani banking industry. It is catching attention due to ongoing development and future growing in term of branch expansion and deposit base. As per the latest financial for 1HCY14, AKBL has 50% ADR ratio which is much higher than other peer banks i.e BAFL 49.7%, 38.5% and HMB with 42.8% ADR ratio. After posting fabulous net profit of Rs 1.11bn AKBL had left behind MCB and UBL in term of ROE has ROE of 10.5%.

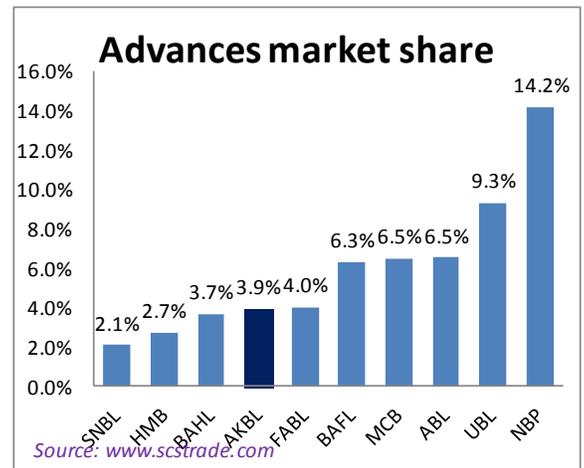
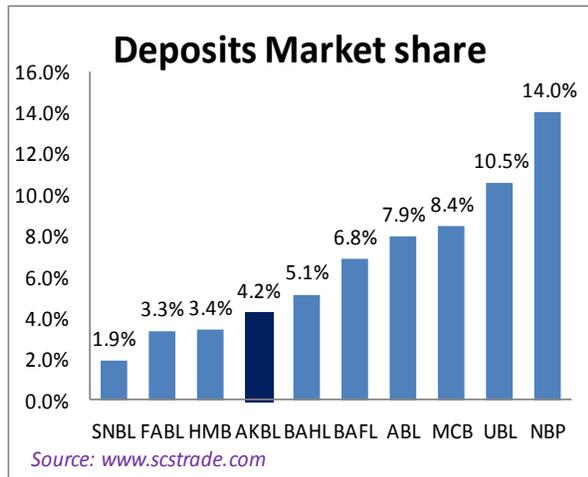
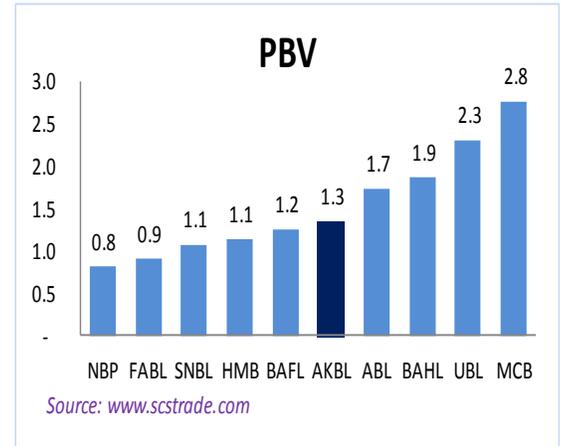
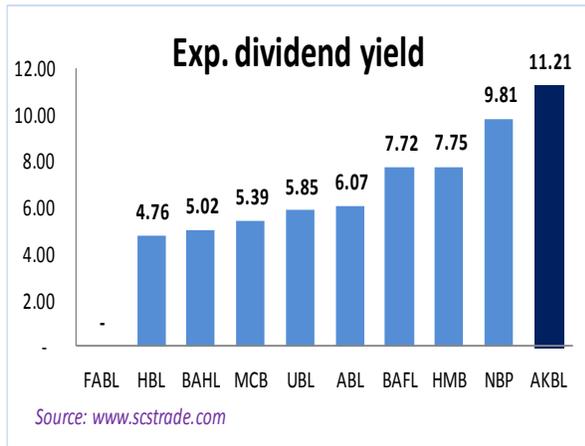
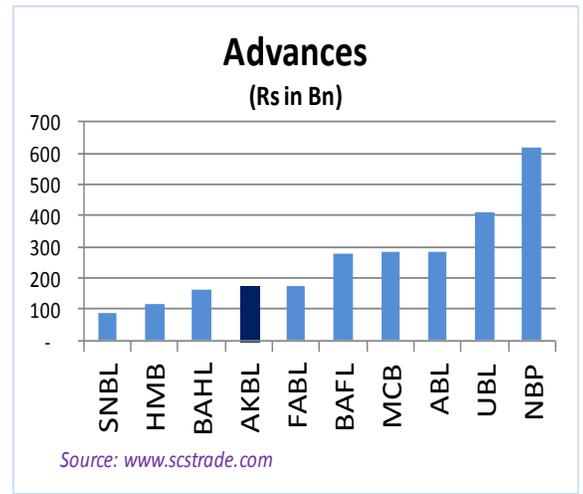
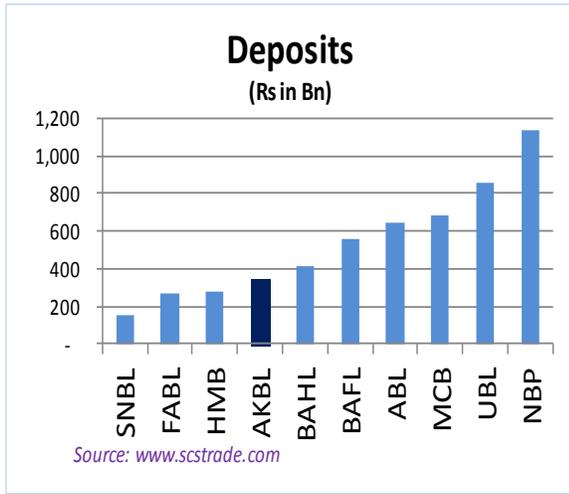
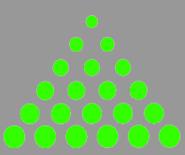
We expect that due to strong management side and holding group bank to present healthy balance sheet in coming years.

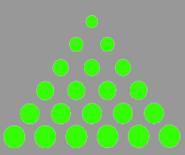
Key Ratios - as of 1HCY14

BANKS	EPS	DPS	BV	PBV	PE	ADR	IDR	ROE
AKBL	1.70	1.00	16.16	1.34	5.95	50.0%	43.9%	10.5%
BAFL	1.93	-	23.50	1.24	7.07	49.7%	47.5%	8.2%
BAHL	2.65	-	24.75	1.85	8.09	38.5%	63.8%	10.7%
HMB	2.01	-	26.71	1.13	7.04	42.8%	74.4%	7.5%
FABL	2.50	-	20.83	0.90	3.50	64.6%	40.9%	12.0%
UBL	8.60	5.00	82.66	2.30	10.32	47.6%	50.2%	10.4%
MCB	10.54	6.50	102.86	2.75	12.55	41.4%	64.7%	10.2%
NBP	3.82	-	75.18	0.81	7.44	54.4%	41.8%	5.1%
SNBL	0.60	-	11.93	1.07	9.93	58.1%	43.5%	5.0%
ABL	6.20	2.75	61.99	1.73	8.08	44.2%	61.3%	10.0%

Source: www.scstrade.com

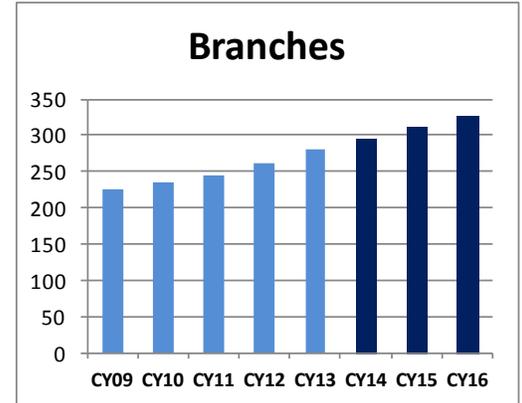






AKBL relying on branch expansion

Branch expansion is the best option available for AKBL to boost the deposit base. As our economy is growing and with improved transaction methods larger population is making transaction through banks. AKBL is currently operating with 281 branches and will increase its branch network by 25 branches each year for next three years. AKBL is over staffed bank with average 20 employees per branch as of December 2013, so with increasing branches this ratio will decrease and will have positive impact of overall administrative expenses of AKBL.



Branchless banking~ Zong TimePey

Nowadays branchless banking is major concern for the bank. Our basic GDP growth starts from our rural areas where people are engaged in agriculture and other stuff. Opening new branches at remote areas is not possible for the banks as it is costly. So branchless banking through mobile phone was the best option available. Recently Askari bank and China Mobile Pakistan (Zong) have jointly launched their branchless banking program under the brand name of Timepey. We see good potential into this segment in coming days due to increasing awareness of people regarding this.



Unchanged discount rate scenario

Since last ten months State Bank of Pakistan (SBP) has kept status quo stance on discount rate at 10%. This is mainly due to unstable economic and political situation and some conditions set by IMF in recent tranche. Recent flood in Punjab will slightly hamper our targeted GDP growth of 5.1% which will drag our currency further into pressure (analyst predicting much lower number than the government target); therefore we see changed discount rate in next couple of months.



AKBL-Key ratios (%)

	2010	2011	2012	2013	2014E	2015E	2016E
GROWTH							
Growth in Net Interest Income	10.9	0.5	(6.3)	(8.8)	62.6	19.8	15.3
Growth in Non Funded Income	(14.4)	33.3	41.8	(12.6)	23.8	13.0	6.7
Growth in Net Profit	(14.1)	72.6	(22.9)	(536.7)	182.6	19.8	28.7
Growth in Assets	23.8	9.2	2.7	11.8	7.4	4.9	4.9
Growth in SHE	6.7	11.4	10.8	(4.9)	19.5	6.8	9.2
ASSET ANALYSIS							
Net interest income / average assets	3.5	3.1	2.7	2.3	3.4	3.9	4.2
Earning assets to total assets	92.3	92.6	93.1	93.0	93.5	93.4	93.1
Return on average earning assets	0.4	0.5	0.4	(1.6)	1.2	1.3	1.6
Advances to earning assets	52.6	47.3	43.7	44.6	47.5	49.8	52.2
ADVANCES ANALYSIS							
Growth in Advances	13.1	(1.4)	(4.6)	13.8	15.1	10.0	9.5
Short term advances (% of advances)	44.0	77.0	65.4	76.4	75.0	75.0	75.0
Long term advances (% of advances)	56.0	23.0	34.6	23.6	25.0	25.0	25.0
DEPOSITS ANALYSIS							
Growth in Deposits	24.3	13.9	5.3	9.2	6.0	5.1	4.8
CASA to total total deposit	72.3	67.8	71.1	72.5	71.0	71.0	71.0
Time deposit to total deposit	26.2	30.7	24.6	24.6	21.0	21.0	21.0
Deposits to interest bearing liabilities	86.6	90.2	93.1	90.5	91.1	91.1	91.7
LIQUIDITY							
ADR	59.7	51.7	46.8	48.8	53.0	55.5	58.0
IDR	40.0	45.9	47.4	49.5	45.0	44.0	41.0
advances to Assets	48.5	43.8	40.7	41.4	44.4	46.5	48.6
Customer deposit to Earning assets	87.9	91.1	90.3	89.3	83.5	83.6	83.8
SPREAD ANALYSIS							
Int. rate received on advances	11.8	11.8	12.2	8.8	11.0	11.0	11.0
Int. rate paid on deposits	7.4	8.0	7.9	6.4	6.9	6.6	6.3
Interest rate spread	4.4	3.8	4.3	2.4	4.1	4.4	4.8
Net Interest Margin	3.8	3.3	2.9	2.5	3.7	4.1	4.5
Other INCOME							
Non interest income to Total income	7.2	8.1	11.3	11.4	11.2	11.5	11.6
Fees to Non interest income	58.4	41.1	28.0	32.5	31.5	30.4	32.9
Fees to total income	4.2	3.3	3.2	3.7	3.5	3.5	3.8
OPERATING EFFICIENCY							
Cost to income ratio	64.4	67.3	67.4	78.2	54.6	48.6	44.9
Cost to asset ratio	5.7	5.5	5.3	4.6	5.7	6.1	6.5
Int. bearing liabilities to Total Liab.	98.9	99.1	98.9	98.5	97.1	97.1	96.8
PROFITABILITY							
ROA	0.4	0.7	0.5	(2.1)	1.6	1.8	2.2
ROE	5.9	9.2	6.4	(29.3)	20.2	22.7	26.7
Pre Provision ROE	25.1	19.5	20.0	30.0	27.4	36.2	40.1
EPS	1.5	2.0	1.5	(6.3)	3.6	4.3	5.5
DPS	-	-	-	-	2.4	3.4	4.4
VALUATION							
EPS (Rs)	1.48	2.00	1.54	(6.32)	3.59	4.30	5.54
DPS (Rs)	-	-	-	-	2.44	3.44	4.43
PE (x)	14.3	10.6	13.7	(3.4)	5.9	4.9	3.8
Book Value (Rs)	24.81	25.14	24.21	14.86	17.76	18.96	20.70
PBV(x)	0.85	0.84	0.88	1.43	1.19	1.12	1.02
Dividend Yield (%)	-	-	-	-	11.49	16.23	20.89

Source: Company data, SCS research



Askari Bank Limited

P&L statement Highlights

In million Rs	CY10	CY11	CY12	CY13	CY14E	CY15E	CY16E
Interest earned	27,952	32,766	32,402	27,961	35,492	38,596	40,896
Interest expensed	17,937	22,700	22,974	19,363	21,515	21,856	21,593
Net interest income	10,016	10,067	9,428	8,597	13,977	16,740	19,303
Provisions	3,064	1,831	2,688	11,105	1,609	3,226	3,480
Non mark-up incom	2,177	2,903	4,117	3,598	4,455	5,035	5,375
Non mark-up expen	7,855	8,726	9,128	9,533	10,064	10,574	11,084
PBT	1,273	2,413	1,730	(8,442)	6,759	7,975	10,114
PAT	943	1,628	1,255	(5,482)	4,528	5,423	6,979
EPS	1.48	2.00	1.54	(6.32)	3.59	4.30	5.54
DPS	-	-	-	-	2.44	3.44	4.43

Source: Bank's Books & SCS research

Askari Bank Limited

Balance sheet highlights

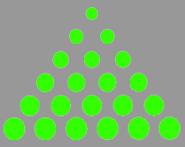
In million Rs	CY10	CY11	CY12	CY13	CY14E	CY15E	CY16E
Cash	22,565	26,168	24,435	26,105	30,192	29,856	33,252
Investments	102,260	133,757	145,378	165,863	159,840	164,208	160,392
Advances	152,784	150,711	143,727	163,557	188,256	207,126	226,896
Total assets	314,745	343,756	353,025	394,827	424,126	445,093	467,019
Borrowings	25,555	17,274	8,373	24,546	22,446	24,297	23,244
Deposits	255,937	291,503	306,937	335,241	355,200	373,200	391,200
Total liabilities	298,740	325,980	333,455	376,099	401,776	422,076	440,877
Total Equity	15,949	17,774	19,685	18,724	22,380	23,892	26,090

Source: Bank's Books & SCS research

Investment by Segments

In million Rs	CY10	CY11	CY12	CY13	CY14E	CY15E	CY16E
Government Securities	84,454	123,251	132,979	155,836	150,314	154,422	150,833
Ordinary shares/units	1,371	1,991	2,896	3,126	2,494	2,562	2,502
Units of mutual funds	75.0	67.0	233.3	333.3	374.0	384.2	375.3
TFCs	13,519	5,420	5,438	4,460	4,171	4,285	4,186
Foreign Securities	627.4	583.3	49.3	37.8	62.3	64.0	62.6
Other Investments	1,860	1,951	2,105	1,338	1,745	1,793	1,751
Total investment at cost	101,907	133,264	143,700	165,132	159,161	163,510	159,710

Source: Bank's Books & SCS research



About Askri Bank Limited

Askari Bank was incorporated in Pakistan on October 9, 1991, as a public limited company. It commenced operation on April 1, 1992, and is principally engaged in the business of banking, as defined in the Banking Companies Ordinance, 1962. The Bank is listed on Karachi, Lahore and Islamabad Stock Exchanges. As on December 31, 2013 Askari Bank has branch network of 281 full services/ sub branches. Recently in last year Pakistani big group Fauji Group had collectively acquired 71.91% shares of AKBL sheltering it into safe heaven. The group acquired AKBL through their other sister companies where Fauji Foundation holds 7.19%, Fauji Fertilizer Co. holds 43.15% and Fauji Fertilizer Bin Qasim holds 21.57% stake in AKBL.

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