

BAHL Statistics

Last Trade	18-Jul-13
KSE 100 Index	23,114.97(+120.25)
Avg Volume (52 Weeks)	708,753.78
Close	32.02
52 Weeks High	33.45
52 Weeks Low	24.5
Market Capitalization	32.35bn
Beta	0.75
Total No of Shares	1.01bn
Free-Float Shares	402.7mn

Source: www.scstrade.com

Key Ratios as on Q1CY13

Bank	Advances to Deposits	Investment to deposit	Equity to Advances
BAHL	41.0%	73.8%	15.3%
BOP	51.3%	43.0%	8.9%
BAFL	51.7%	41.5%	12.0%
FABL	72.2%	36.0%	12.1%
AKBL	50.0%	53.0%	13.3%

Source: www.scstrade.com

BAHL

Profit & Loss statement

(Rupees in million)	Q1CY12A	Q1CY13A	H1CY13E
Interest earned	10,538	9,685	21,306
Interest expensed	6,790	6,156	13,544
Net interest income	3,748	3,528	7,762
Provision against NPL	269	162	357
Net income after provisions	3,479	3,366	7,405
Non-Interest income	693	801	1,763
Non-Interest expenses	2,155	2,408	5,297
PBT	2,017	1,760	3,871
Taxation	806	604	1,328
PAT	1,211	1,156	2,543
EPS	1.20	1.14	2.52

Source: Company data & SCS research

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Bank Al-Habib: Expected incremental interest rate and non-core business segment to impel earnings; BUY | TP-Rs 39.5

Interest rate to Increase:

Payment to IMF, new IMF loan with a condition to control inflation and depreciating value of PKR against USD has given signal of hike in interest rate in coming monetary policy, which we expect will little early revise in interest rate. During the month Ramzan, prices of grocery items hike very rapidly and we expect a hike in inflation in the month of August, which may touch to a double digit inflation and will lead to an incremental in discount rate to control the inflation; which is basically a foolish attempt.

Incremental interest rate is always favourable for banks as it expend the net interest margin (NIM) and BAHL will also get pie.

Minimum deposit rate on PLS account to revise:

It is also expected that regulation by state bank for commercial to offer a minimum 6% p.a interest on saving account is to be revised soon, and it will go down at same rate of 5%, which will expand the net interest margin for commercial banks, and we see a positive sign for BAHL.

Investment to deposit ratio:

BAHL asset side is very progressive in term of investment as it has investment to deposit ratio of 73.8% which is higher than the peer banks. Investment portfolio consists of huge Government securities and any expected increase in interest rate will impact positive on both balance sheet and profit and loss statement of BAHL. So we expect earnings to spur by the end of CY13.

Growth in Advances:

Business friendly environment, political certainty and increasing foreign direct investment had made Pakistan market attractive to invest. Along with all these favorable circumstances, current lower interest rate is also constructive approach to borrow loans from banks and invest; hence we see a growth in advances of banks in coming days.

Growth in Advances to deposit ratio:

As we have observed that BAHL has lower ADR ratio of 41.03% than the other same type of second /middle tier banks including BOP, BAFL, AKBL and FABL have higher than 50% ADR. So we see open window for BAHL to increase its advances to deposit ratio which will further increase interest income.

BAHL non-core business- edge over other commercial banks

Non core business of any commercial bank is the supportive segment for earnings. BAHL's trade finance segments perform quite well due to strong relationships with exporters. Issuing E forms, export business root and import letter of credit are the key points for taking exposure in foreign currencies.

Government's export target to support non- core business:

As new elected government is highly emphasizing on boosting the exports and had set an export target of USD 26.6bn for FY14. Due to positive economic conditions and depreciating PKR against USD and expected prosperous agricultural outcomes it seems that country will reach some near the exports target especially through cotton products. And we see a growth in non core income including brokerage commission for BAHL based on future exports figures as bank is highly involved in the exchange of cotton products, by receiving pre shipping payments and issuing LCs to importers and exporters.

Meeting Minimum Capital Requirement-Cash dividend play

As per revised requirement of SBP, commercial banks to maintain a minimum paid up capital of Rs.10bn by the end of CY13 which BAHL has already maintained, and bank is not further required to issue new bonus share, so we don't expect any bonus shares in this year wherein a good cash dividend can be forecasted.

1QCY13 financials outlook

BAHL reported NPAT of Rs 1.15bn as against Rs 1.2bn in the same period last year; the NAPT resulted an EPS of Rs 1.14 against Rs 1.2. Currently BAHL yields CY13 annualized PE of 6.3x, based on assumption of upward interest rate, flat NIMs and growth in ADR. Currently BAHL yield a PBV of 1.5x which is higher than other middle tier banks. But an expected incremental interest rate caught our attention as BAHL interest sensitive business model.

Valuation:

In CY12 BAHL announced a cash dividend of Rs 3/sh without any bonus resulted a 9.37% dividend yield. Meeting paid up capital requirement, we expect that BAHL's dividend yield has also enhanced for CY13, and with 10.5% dividend yield we expect a cash dividend of Rs.3.5% in full year CY13. We set our target price as Rs.39.5/sh..... **BUY**