



KSE100 Closing 9,521.15 (+81.18 points)

May 31, 2010

Pakistan Research

Banks | No coverage

Bank Alfalah: Sensitivity on impairment agst. Warid

Expected impairment against Warid

Bank Alfalah is likely to charge impairment loss against its holding in Warid Telecom (WT). In CY09 and 1Q-CY10, the book value of WT is eroded. In 2Q-CY10, bank is expected to charge over Rs1.0bn impairment charge in the P&L, which will have negative impact of Rs0.70 - 0.75 in CY10 EPS.

Sensitivity Analysis	OLD	Impairment Charge		
		Rs1.0bn	Rs.1.1bn	Rs1.2bn
PAT	2,200	1,200	1,100	1,000
EPS	1.63	0.89	0.82	0.74
Equity	24,815	24,015	23,935	23,855
BVPS	18.39	17.80	17.74	17.68
PER (x)	5.53	10.13	11.05	12.16
P/BV (x)	0.49	0.51	0.51	0.51

Source: Standard Capital Research

Bank Alfalah Limited valuation revisited

BAFL is yielding CY10 P/BV and PER of 0.49x and 5.5x respectively which is exclusive of any material change on WT holding. If impairment charge comes in P&L then their may be revised valuation i.e. P/BV of 0.5x & PER of 10x.

Taking P/BV- ROE valuation as a proxy, BAFL's intrinsic value hovers between Rs12 - 14/share taking into account sensitivity of WT. BAFL is also judged based on cheap *market cap. to deposit ratio*. However, factors such as probable hit on consumer financing is a dampener on valuations even in CY10.

Synopsis

- The bank has no issue regarding the MCR of Rs8.0bn set by the SBP. The paid up capital of the bank is way above the target and is currently at Rs13.5bn.
- Asset base of the bank has shown 5 year CAGR of 20% and stood at the level of Rs389bn in Dec'09 from Rs155bn in Dec'04.
- Net advances of the bank has declined during CY09 due to massive increase of 70% in the specific provision against NPLs. Net advances now reached at Rs188bn in Dec'09 from Rs192bn in Dec'08.
- Red alert for the bank is the enormous increase of 81% in the NPLs during CY09. Total bad loans amounted to Rs16bn from Rs9bn in CY08. Resultantly, bank made incremental provisioning of Rs3.7bn. Bank has maintained a diversified loan book which is good but the amount of NPLs arising from individuals and others are concerning factor. Out of Rs16bn NPLs, individuals and other segment constituted Rs12bn of total bad loans.
- CAR of the bank is on the high side and it reached quite above the targeted 10% set by the SBP and at the moment it is at 12.46%.

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Closing price Rs	9.01
Change Rs	-0.04
Volume mn	5.22
52 Weeks High	15.10
52 Weeks Low	8.80
Market Cap US \$ mn	1,160
No of shares mn	134.5
Face Value	10

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