United Bank Ltd: Jewel in the dust... Target Rs 70 | BUY

June 17, 2010
Pakistan Research
Banks | Detailed report

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UBL is the third largest bank in terms of asset base with advances portfolio of Rs354bn thus enjoying market share of 11% vis-à-vis industry advances (market share increased from 8.1% prevailed in CY01 at the time of major capital write down). Likewise, deposit base of the bank is stood at Rs492bn in CY09 with the market share of 11% vis-à-vis total industry deposits.

- We are forecasting a significant earnings growth of 35% for CY10. Our forecasted EPS for CY10 is Rs11.17 (after tax profit of Rs13.67bn) as against EPS of Rs8.26 (after tax profit of Rs9.1bn) posted in CY09.

- At the fag end of high interest rate scenario, the core interest earning of the bank is expected to grow by 6% during CY10 to Rs64.5bn. We expect major growth in interest bearing securities i.e. 14% during the year. Wherein we expect net mark-up income after provisions to grow handsomely i.e. 34% during the year to Rs27bn over Rs20bn reported in CY09. We estimate non mark-up income to grow by 11% during CY10 to Rs13bn wherein our contention is that UBL is geared to earn through its trade finance arm.

- Despite financial turmoil unleashed during CY08-09, UBL's asset base remained flat i.e. meagre increase of 2%. However, in CY10, we expect improved growth of 5% in the asset base of UBL.

- We believe advances portfolio is in the consolidation phase since start of CY09 and witnessed just 5% growth during the year. In CY10, we expect slight decline of 2% in the loan book of the bank to Rs347bn given peculiar situation in the country where private sector credit is out-manoeuvred by reckless budgetary borrowing by the federal government. The deposit base of UBL grew flatly in CY09 i.e. 2% to Rs492b and we expect it to grow by 5% in CY10 to Rs516bn. Advances to deposit ratio (ADR) of the bank was impressive i.e. 72% last year but may decline to 67% in CY10.

- Total exposure in Dubai amounts to Rs.40.6bn in 2009 with infection ratio for international operations increased from 2.6% in 2008 to 4.9% in 2009. Whereas, infection ratio for Dubai could range between 6%-8%. As of Dec 2009, UBL had not provided for US$20mn exposure with Dubai World. Dubai government announced in a statement that it will support Dubai World's debt restructuring with as much as US$9.5bn in new funds.

- United Bank is currently yielding *Justified P/BV* multiple of 1.2x (CY10 P/BV: 0.87x) wherein our target price ranges between Rs70.0 – Rs72.49 per share. UBL's upside potential is 34.6%. We give Buy ratings! UBL spells earnings growth of 35% & PEG of 0.14.

UBL Forecast	CY08	CY09	CY10F	CY11F	CY12F
EPS (Rs)	8.26	8.26	11.17	12.79	14.24
DPS Rs / sh	2.50	2.50	2.50	2.50	2.50
P/E * (x)	13.60	6.40	4.66	4.07	3.65
P/BV * (x)	2.60	0.99	0.87	0.79	0.72
ROE	19%	15%	19%	19%	20%
ROA	1%	2%	2%	2%	2%

Source: Standard Capital Research & www.scstrade.com

**CY08, CY09 & CY10 multiples based on avg. prices, see www.scstrade.com*

UBL Price Data	
Closing Price (Rs.)	52.00
12m price range (Rs.)	38.29-69.05
Market Cap (Rs bn)	66.15
Market Cap (USD bn)	0.77
Outstanding Shares (mn)	1,224
52-weeks high	64.24
52-weeks low	34.55
Avg. Daily volume (mn)	0.706
Face Value (Rs.)	10

Based on 14th June,2010 closing

UBL target price range Rs 70 – 72.5

Upside potential	34.6%
CY10 PE multiple	4.67x
CY10 P/BV multiple	0.87x
3-year exp. ROE range	20%
3-year avg. historical PE	11.1x
3-year avg. historical P/BV	2.1x
CY10 NIM	6.7%

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Risk to our valuation…

- Exposure in overseas countries is a risk given global upheavals. Content of exposure has increased over the years, especially in UAE. A downgrading of UAE by credit rating agencies would hit UBL's CAR as being the case in CY09 - 10.

- Incremental rates of *National Savings Scheme* (NSS) are a threat to commercial banks and UBL is no exception. Attractive NSS rates may hamper the industry deposits growth and ultimately hinder the bank's deposits.

- Deteriorating assets quality of the banking system is still a big fear due to increasing numbers of non performing loans (NPLs). UBL may marginally hit by spate of NPLs.

Countering risk

- Asset quality of UBL is expected to improve after taking adequate provisioning especially against consumer financing. UBL is again hedging against slow growth in economy especially despite having trouble in the industry. UBL is rationalizing its consumer business to overcome bad loans.

- Risk in Dubai operations is overplayed as most of the exposure is taken against sovereign agencies. We consider this to be a big distinction which UBL has as against any other Pakistani financial entity.

- Exposure against Export Processing Zone (EPZ) is placed in overseas business - again a distinctive factor for the bank.

UBL – valuation eye-catching among peers…

Significant increase in our estimated book value in CY10

Amongst five big peers, our UBL model is yielding attractive P/BV and P/E of 0.9x & 4.7x respectively. We see a glaring up tick in book value of Rs60/share in CY10 as against Rs54.9/share given UBL's propensity of earnings ploughed back to equity. Our model exposition is explained in the report.

Banks coverage	CY10 (F)		CY10 (F)	
	BVS	EPS	P/BV (x)	P/E (x)
Allied Bank	43.00	9.10	1.36	6.41
Habib Bank	89.00	15.84	1.07	6.02
MCB Bank	106.00	21.80	1.86	9.02
National Bank	90.00	15.70	0.72	4.15
United Bank	60.06	11.17	0.87	4.66

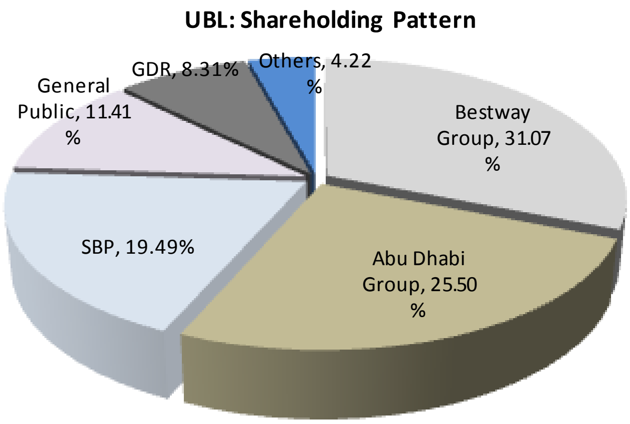
National Bank of Pakistan (NBP) does provide lower expected P/BV odd multiple of 0.72x but that too is based on gains on legacy equity portfolio of state run mutual fund. UBL, on the other hand, portrays an outlook based on core performance.

UBL seeking strength from business model + sponsor backing

In a high interest rate regime, a big bank like UBL would plausibly reap higher yield on earning assets based on chunk of good longer and shorter maturity loans. However, once interest rate cycle shall recede in coming years, we see UBL would gear up to increase its loan book focussing on longer term loans. Its international exposure especially fund based sovereign loans in UAE is a unique selling proposition. We brushed aside concerns regarding debt crisis pertaining to Dubai ruler's various entities since economy again is slowly picking up given backing from fellow Abu Dhabi rulers. UBL too is jointly owned by Abu Dhabi Group, ostensibly Abu Dhabi government rulers.

International exposure is a unique proposition…

UBL is the third largest bank in terms of asset base with advances portfolio of Rs354bn enjoying market share of 11% in total industry advances. Deposit base of the bank stood at the level of Rs492bn with the market share of 13% among industry deposits. The bank has been operating through 928 online branches throughout the country with the credit rating assigned of AA+/ A1+ by local credit rating agency. The bank has been under the management of *Abu Dhabi Group* and *Bestway Group* of UK which jointly hold 56% stakes and management control.



Despite economic downturn throughout the world, the international operations of the bank, gives an edge to UBL. United Bank's total exposure in Dubai amounts to Rs.40.6bn in 2009. According to bank's financial statements, the international operations contributed 18% to the bank's profitability and 22% of the total assets. The infection ratio for international operations also increased from 2.6% in 2008 to 4.9% in 2009. As of Dec 2009, UBL had not provided for US$20mn exposures with Dubai World (DW). Dubai government announced in a statement that it will support DW debt restructuring with as much as US$9.5bn in new funds.

UBL valuation: target price ranges b/w Rs70 – 72.5

Justified PBV target price is Rs70/sh …

We have used *Justified Price to Book* based valuation methodology which enunciates target price of Rs70/share (justified P/BV comes at 1.2x given our forecasted ROE of 19%) wherein our CY10 forecasted book value is Rs 60/share.

UBL is yielding CY10 P/BV and PER of 0.87x & 4.7x respectively. UBL also spells a dividend yield of 7% as against Pakistan market dividend yield of 9%. We expect a significant jump in UBL's ROE i.e. 19% which is a major determinant of our target price of Rs70/share.

Some of the justification for CAPM assumptions include calculated beta of UBL which is 1.18 wherein 10 year PIB yield has been assumed as a risk free rate.

CAPM assumptions	
Beta	1.18
Risk free rate	12.7%
Risk Premium	7.0%
Terminal growth	5.0%
ROA	18.6%
ROE	19.0%
BVS Rs/sh	60.06
P/BV (x)	1.20
P/E (x)	4.66
RRR	21.0%

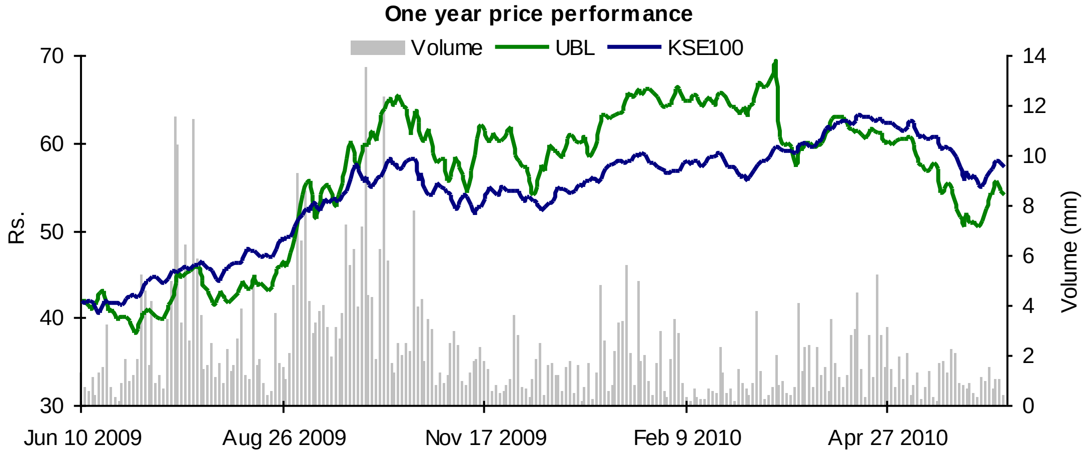
Standard Capital Research

PBV- ROE valuation target price is Rs72.49/sh …

Similarly our PBV – ROE target price comes at Rs72.49/share based on 3 – year average forecasted ROE of 20%.

UBL to outperform in comparison with relative index

Given our anticipation of CY10 earnings growth of 35% and resultant PEG of 0.14, we give outperform ratings of UBL.



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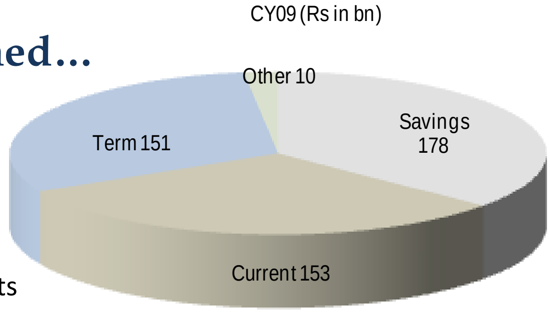
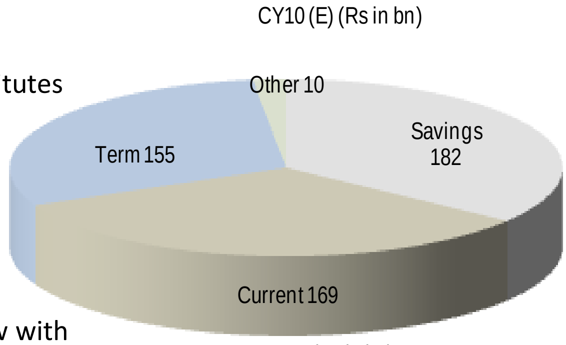
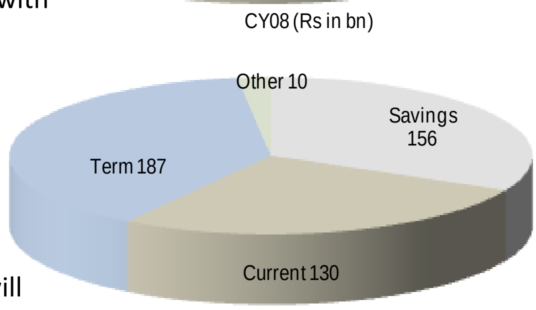
CASA improved: expensive deposits slashed…



Deposit base of the bank grew with a CAGR of 14% (2005-2009) to reach Rs492bn. On y-o-y basis, total deposit showed 2% growth from CY08. In CY10, we expect deposits to grow by 5% to Rs516b. The average cost of deposits was increased 50 basis points to 4.8% in CY09, but encouraging step was taken by the bank to improve its CASA from 59% in CY08 to 67% in CY09.



Out of the total deposits of Rs492b in CY09, current deposits constitutes 31% share i.e. Rs153bn and saving deposits constitutes 36% i.e. 178bn. 1Q-CY10 depicts reduction of high cost deposit from the balance sheet which is also inline with what MCB Bank did in last 3 – 4 years. As discussed above, bank is aiming to build up its low cost deposit base and introduced branchless banking recently under the umbrella of *UBL Omni**. We expect deposit base to grow with a CAGR of 7% from 2010-2012.



Low cost deposit base (Domestic) has shown improvement and its share in total deposits improved to 66% in CY09 from 60% in CY08. Bank has shed its high cost deposits by 12% in CY09, that's why their share in overall industry deposits declined to 11% from 13% calculated in CY08. Bank's strategy to reduce its high cost deposits will definitely help in cutting down mark up expense on its deposits.

Entering in to branchless banking; Launch of UBL Omni…

UBL launched its branchless banking in the name of UBL Omni to challenge Norway origin Telenor Easypaisa as almost all mobile networks have a support for UBL omni. UBL omni offers all of its services on the mobile phone which include money withdrawing, deposit, transfer, mobile cards and bill payments, electricity gas telephone bill payments, Web-portal access, SMS services, Wap services, UBL branch support etc. In order to get a UBL omni account one needs a CNIC, a mobile Phone number and Rs500 only as a cash deposit.

The services offered through UBL Omni;

1. Account Opening

2. Cash Deposit

3. Cash Withdrawal

4. Utility Bill Payments: Customers can visit UBL Omni Dukaans to pay their utility bills.

5. Prepaid mobile Airtime purchase & post paid mobile bill payment

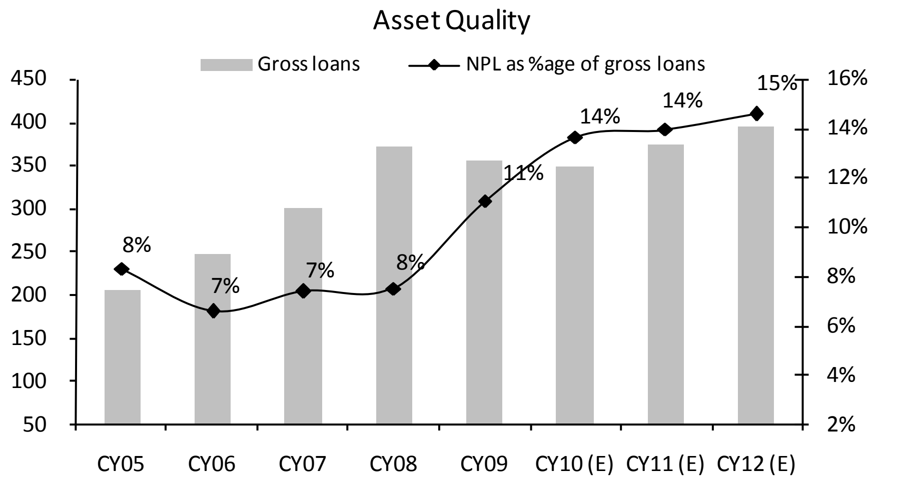
6. Domestic Remittance

The launch of branchless banking is an aim to grow the deposit base of the bank, which is, currently in the phase of consolidation. The bank has adopted the strategy to cut down its high cost deposit base. UBL attained CASA of around 68% at the end of Mar'10 but still lagging behind MCB Bank which is above 75%.Both UBL and MCB thrived due to chunk of low cost deposits.

UBL rationalizing loan book…

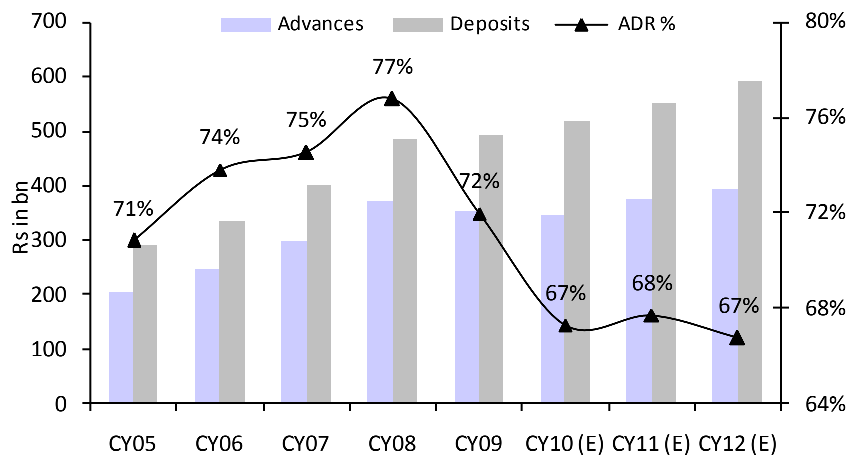
Despite global financial turmoil and its after shocks on country's economy, UBL's asset base remained flat i.e. slight increase of 2% in CY09. For CY10 alone we expect a better growth pattern i.e. of 5% in the asset base of the bank.

Advances portfolio has been in the consolidation phase since the start of CY09. In CY10, we expect a slight decline of 2% in the loan book of the bank to Rs347bn.



Couple of years back, SBP took strict measures regarding NPL provisioning, which deteriorated bottom line of the bank considerably. Bank had to make incremental provisioning against their NPLs. Since then, bank has adopted prudent disbursement policy, in order to protect further losses.

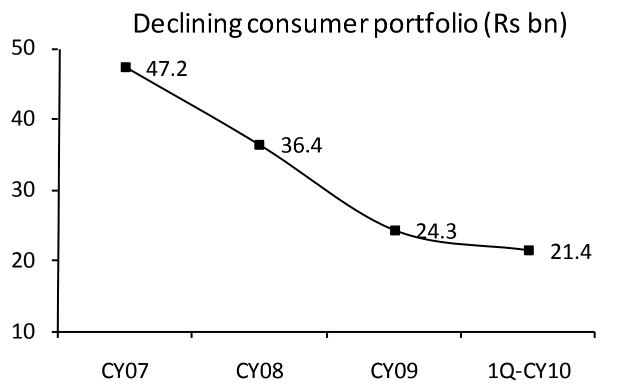
UBL overseas exposure also witnessed bad loans especially from UAE region. United Bank's total exposure in Dubai amounts to Rs.40.6bn in 2009 with infection ratio for international operations increased from 2.6% in 2008 to 4.9% in 2009.



As of Dec 2009, UBL had not provided for US$20mn exposures with Dubai World which is, according to bank's sources, is 50% infected. But the exposure in Dubai World is not huge, that's why, infected portfolio from Dubai will not be significant on bank's proposed provisioning. Recently, Dubai government announced in a statement that it will support Dubai World's debt restructuring with as much as US$9.5bn putting in new funds.

Slashing consumer business to reduce NPLs…

The total consumer exposure in the recent years is showing a declining trend in the sector. UBL's balance sheet showing a huge decline of 49% in the consumer portfolio since CY07, and reached at Rs24.3bn from Rs47.2bn and it further declined to Rs21.4bn at the end of 1Q-CY10.



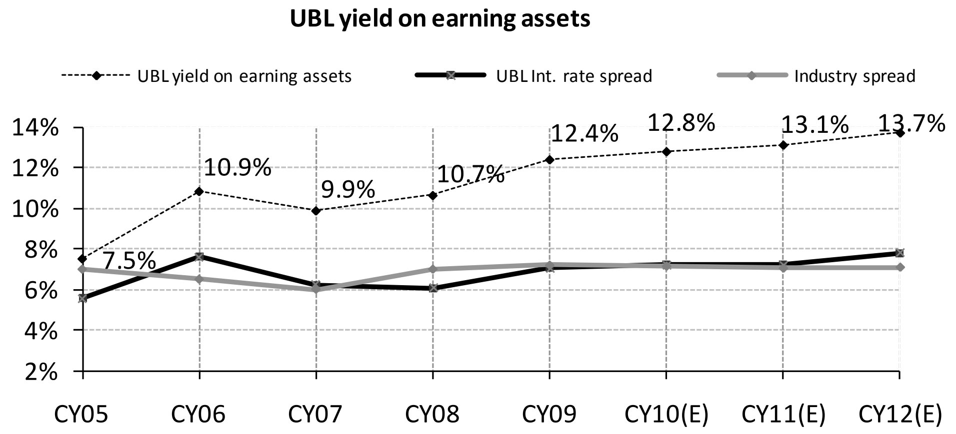
Core income growing…

Promising yield on earning assets…

We expect UBL to thrive on high yield on its earning assets just like MCB Bank. Interest rate spreads in the industry are still on the higher side especially for big banks. As per our estimation, the interest rate spread of UBL alone to hover at 7% in the following years.

The spread is mainly driven from high yielding earning assets given hike in lending rates (at present hovering between 14% - 14.5%). We have assumed yield of 12.4% in CY10 since interest rates not likely to taper off due to uncontrollable CPI (FY10 CPI is staying at 13%).

If any increase in return on deposits, however, happens along with the increase in the remunerative deposits by let say SBP then it may lower high spread curve in the future. We have taken conservative growth in next three years given any likelihood of deposit check impose by SBP (SBP imposed a floor of 5% on PLS deposits in July 2009 so that banks could mobilize deposits).



High NIM insinuates pumped up ROE…

As mentioned earlier, UBL's high spreads bodes well for the bank along with the consistent net interest margins (NIM) which is expected to hover at 6.7% - 6.8% in CY10 and CY11 respectively. Resultantly, ROE of the bank is expected significant surge in CY10 to 19% from 15% reported in CY09.

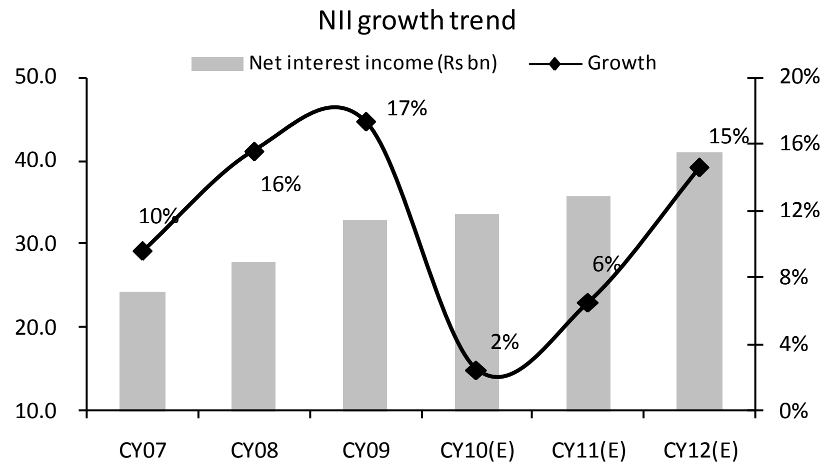
Earning snapshot…

	CY06	CY07	CY08	CY09	CY10E	CY11E	CY12E
NIM	7.6%	6.6%	6.2%	6.7%	6.7%	6.8%	7.4%
Yield on Earning Asset	10.9%	9.9%	10.7%	12.4%	12.8%	13.1%	13.7%
ROE	36%	20%	19%	15%	19%	19%	20%
EPS (Rs/share)	16.39	10.40	8.24	8.26	11.17	12.79	14.24

High spreads: growth factor in UBL…

UBL's core income shows a significant growth in the last few years. The reason was the high interest rates spreads together with the low cost of deposits. But, the economic slowdown has resulted in decline of credit disbursement of the industry.

UBL has maintained high interest rates spread in comparison with the industry trend despite the credit crunch, the NIM of the bank settles between 6.0% -6.8% since CY08.



Reliance on core operations…

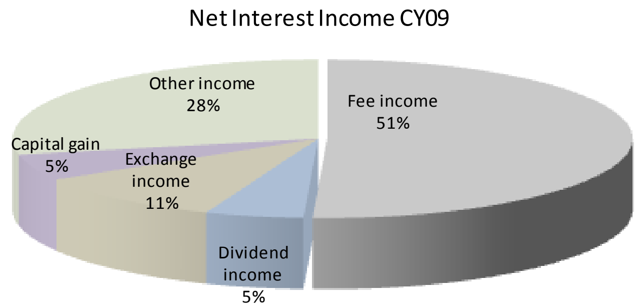
UBL is a bank that relies heavily on core operations (corporate loans + investment banking + investments). Hence, core banking operations contribute 60% - 70% of total income (for CY10, we have estimated 67% contribution from core operations). It has grown by 5-year CAGR of 35%.

We expect net interest income of the bank to post a flat growth of 2.5% in CY10 given our hunch of 'consolidation coming in the advances portfolio' of the bank. However, we expect growth in the core income to improve by 6.0% and 15.0% in CY11 & CY12 respectively.

Non interest income…

UBL's non interest income which contributes 32.0% of the bank's total income on average grew by 5-year CAGR of 21.5%. In CY09, bank posted a decent growth of 9.3% during CY08. The major growth was witnessed in the other income of the bank which grew by 77% during the year.

Derivative income contributed mainly Rs1.7bn in the other income of the bank. Fee, commission and brokerage income declined by 7.0% and capital gain increased to Rs697mn in the wake of some good performance coming in equities.



Non interest income, according to our expectation is likely to grow steadily with 11.0% and 9.0% in CY10 and CY11 respectively.

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Banking sector overview: earnings grew during 1Q-CY10…

Banking sector posted earnings of Rs20.16bn during 1Q-CY10 which was previously reported Rs16.08bn in 1Q-CY09, illustrating y-o-y 25% growth. Big five banks of our banking industry are the major players behind growth in the profitability and constituted 83% share of the total earnings.

Total net operating profit after tax (NOPAT) posted by the big five banks in 1Q-CY10 is Rs16.52b, increased by 4% against corresponding period's profit of Rs15.81bn.

Big 5 Banks Profitability 1Q-CY10 *Rs in bn*

Banks	PAT		EPS		
	1Q-CY10	1Q-CY09	1Q-CY10	1Q-CY09	Chg %
Allied Bank	1.78	1.45	2.27	1.85	23%
Habib Bank	3.60	3.48	3.60	3.47	3%
MCB Bank	4.14	4.13	5.45	5.44	0%
National Bank	4.22	4.21	3.13	3.13	0%
United Bank	2.78	2.54	2.27	2.07	10%
Total PAT	16.52	15.81			4%

UBL 1Q-CY10 net earnings review…

UBL reported net earnings of Rs2.78bn (EPS: Rs2.50) in 1QCY10 as compared to preceding year numbers of Rs2.53bn (EPS: Rs2.28). Net interest income registered a flat growth of 3% due to decline in the advances of the bank during the quarter. Key highlights include;

•Net mark-up income rose to Rs8.13bn, y-o-y change of 3% over the corresponding period's income of Rs7.90bn, despite witnessing decline in the interest earned on advances of the bank.

•Non mark-up income showed a decent growth of 7% y-o-y basis due to healthy growth in the dividend income of over Rs100mn and from trading services.

•Net interest margin (NIM) of the bank is still on the higher side i.e. 7.1% in this quarter which is the positive sign for the bank. NIM in the corresponding quarter was 6.8%.

•Provisions for NPLs rose to Rs1.7bn from Rs1.6bn due to 5% increase in the NPLs of the bank.

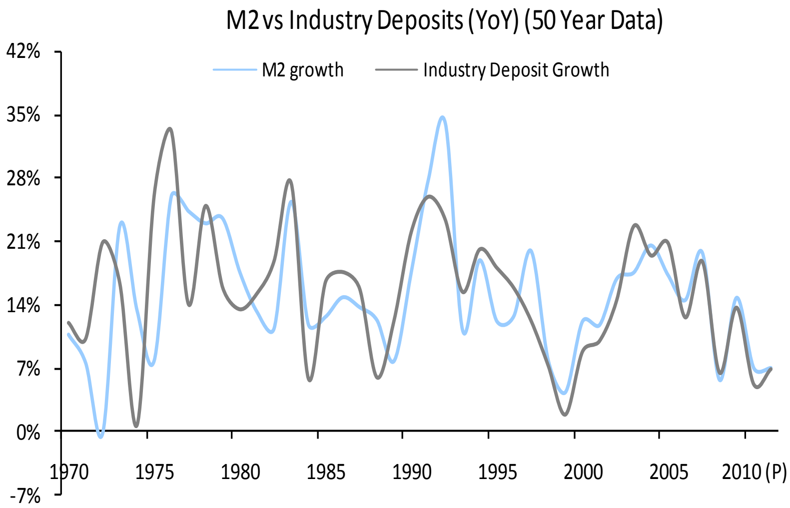
Rs in bn

United Bank	1Q-CY10	1Q-CY09	Chg %
Net Interest income	8.13	7.90	3%
Provisions	(2.12)	(2.23)	-5%
NII after provisions	6.02	5.67	6%
Non Interest income	2.43	2.27	7%
Non Interest expense	(4.18)	(4.00)	4%
PBT	4.26	3.94	8%
PAT	2.78	2.53	10%
EPS	2.50	2.28	10%

Synopsis of the banking sector…

Slashing high cost deposit base…

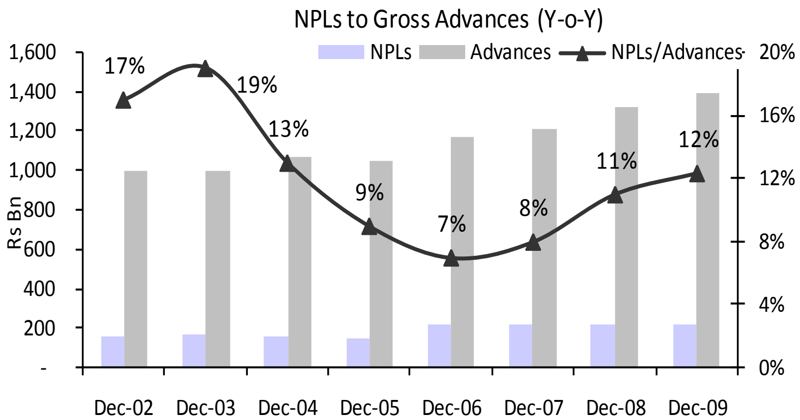
The asset base of the banking system posted a strong growth during CY09. However; in the current CY10, banks are in the phase of consolidating major balance sheet items. Interest rates in the economy are on the higher side, banks are focusing on increasing short term to medium term deposits in order to minimize their costs as much as possible.



Deposits growth is highly correlated with money supply (M2) in the economy. In line with the M2 growth, the historical data shows positive correlation between M2 and Industry deposits growth of the banking sector. We are foreseeing a 5.0% growth in the industry deposits in CY10 and 7.0% growth in CY11 despite the liquidity crunch in the market. Total industry deposits at the end of CY09 were reported Rs4, 325b by the central bank, and an upsurge of 14% on y-o-y basis.

Bad debts scenario of the banking system...

The Non Performing Loans (NPLs) of the system had been showing consistent and fast increase for the last couple of year or so and almost doubled since CY07. Growth in NPLs during CY08 and CY07 was 60% and 25% respectively. However, the growth in NPLs substantially decelerated during the last quarter of CY10 i.e. 2.5% q-o-q growth to Rs432bn. Central bank changed the its regulations in the mid of CY07, related to charging provisions and elimination of Forced Sales Value (FSV) benefit on collaterals. The increase mainly occurred in Loss category that requires full provisioning coverage, and banks set aside relatively higher amount of provisions. NPLs to gross advances ratio also showed a mix trend in the last eight years so. The upsurge in the NPLs of the sectors lead to increase in the ratio to 12% at the end of CY09, which was 7% and 8% recorded in CY06 and CY07 respectively while net NPLs to Loans reported 3.9%.

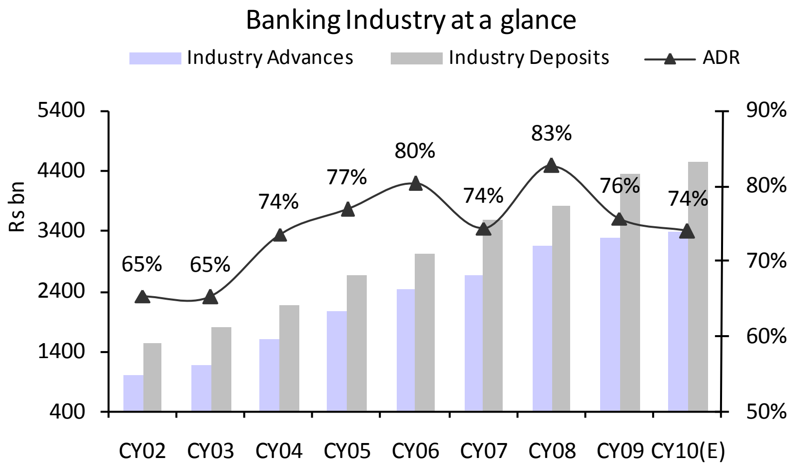


Increasing bad loans continued to pose challenge for the banking system. However, upsurge in NPLs in the last quarter of CY09 was 4% due to decrease in NPLs of some banks. Major increase was reported in Private Banks; among them substantial increase took place in middle tier and small sized banks. Banks made high provisions which improved the NPL coverage ratio to 71% in Dec-09 from 67.8% in Dec-08. In Sep- 09 the benefit of Forced Sale value (FSV) was increased from 30% to 40% which was completely taken away in CY07.

Gloomy Balance sheet in CY10…

We have witnessed a strong correlation between industry advance growth and M2 growth in the last few fiscal years. In CY-10, we are expecting industry advances to grow by 3% which grew by 4% in CY-09.

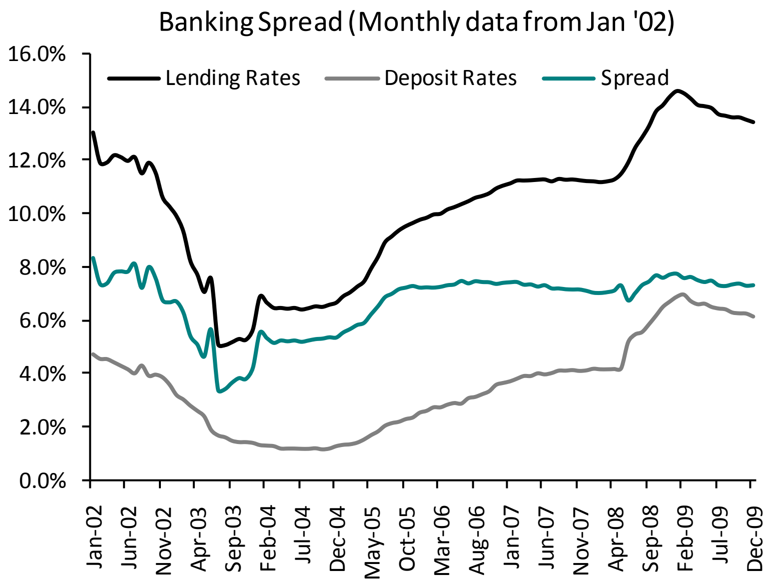
However; a meagre growth of 3% is expected in CY-10. As a result loan to deposit ratio of the industry is expected to decline 200bps to 74% at the end of CY-10. In the last five years, loan to deposit ratio of the industry has been on the roller coaster ride and touched the peak level of 83% in CY-08.



Stabilizing banking spread…

We have seen considerable gap between lending and deposit rates (as high as 8.37%) touched in Jan 2002. The last one and half year or so, banking spreads have shown some kind of consolidation and now the latest data provided by the central bank, in Mar-2010, the spreads stood at 7.30%.

The upsurge in the banking spread was one of the core reasons behind the exponential growth in the core income of the banks. Still this level i.e. above 7.0% of banking spreads is on the higher side. SBP has made it compulsory to provide a minimum rate of 5.0% on deposits. Big five banks' cost of deposits went up due to this step taken by the central banks but still they are enjoying high interest rates spreads.



Financial Projections of UBL

Income Statement Rs mn	CY08	CY09	CY10F	CY11F	CY12F
Interest earned	51,919	60,857	64,507	70,826	78,490
Interest expensed	24,062	28,164	31,021	35,175	37,637
Net interest income	27,857	32,693	33,486	35,650	40,853
Provisions	8,097	12,615	7,438	4,273	5,785
Net income after provisions	19,760	20,078	26,048	31,377	35,068
Non interest income					
Fee, commission	6,249	5,925	6,562	7,433	7,955
Div income/gain on sale of investment	789	1,196	1,423	1,506	1,612
Income from dealing in FCY	1,795	1,258	1,718	1,992	2,181
Other income	1,866	3,298	3,227	3,207	3,310
Total non interest income	10,699	11,678	12,929	14,138	15,059
Total income	30,459	31,755	38,977	45,515	50,126
Non-interest expenses	16,565	17,713	19,858	23,622	25,749
Profit before tax	13,894	14,043	19,119	21,893	24,377
Profit after tax	8,353	9,192	13,674	15,657	17,432
EPS (Rs)	8.26	8.26	11.17	12.79	14.24

Balance Sheet Rs mn	CY08	CY09	CY10F	CY11F	CY12F
Assets					
Cash and balances with treasury banks	50,070	61,161	77,392	82,765	88,559
Balances with other banks	7,497	5,406	5,159	6,621	5,904
Lendings to financial Institutions	22,805	23,162	25,797	27,588	29,520
Investments	116,328	136,145	156,331	165,530	177,117
Advances					
Performing	361,864	342,663	337,014	364,480	382,704
Non performing	9,276	11,428	10,110	9,112	11,481
Other assets	17,622	17,242	15,478	16,553	23,616
Operating Fixed assets	18,021	21,926	23,217	25,933	27,748
	605,539	619,745	652,259	698,584	746,649
Liabilities					
Bills payable	5,194	5,147	5,159	5,518	5,904
Borrowings from financial institutions	44,196	35,145	36,880	40,341	41,527
Deposits and other accounts	483,560	492,036	515,944	551,768	590,392
Sub-ordinated loans	11,994	11,995	11,995	11,995	11,995
Other liabilities	16732	14489	15,440	15,941	16,443
	561,677	558,813	585,420	625,563	666,262
Net assets	**43,863**	**60,932**	**66,839**	**73,020**	**80,388**
Capital					
Share Capital	10,117	11,129	12,242	12,242	12,242
Reserves	15,502	18,960	21,377	26,806	32,171
Unappropriated profit/losses	16,604	22,604	28,581	29,728	32,209
	42,223	52,692	62,200	68,776	76,622
Surplus on revaluation of assets	1,640	8,240	5,752	5,357	4,879
	43,863	**60,932**	**66,839**	**73,020**	**80,388**

Ratio Analysis

UBL in the guise of valuation ratios	CY05	CY06	CY07	CY08	CY09	CY10F
EPS diluted (Rs.)	11.5	16.4	10.4	8.2	8.3	11.2
BVS (Rs.)	39.0	45.0	52.7	43.4	54.8	60.1
DPS (Rs.)	1.50	2.00	3.00	2.50	2.50	2.50
P/BV* (x)	1.00	1.80	2.70	2.60	0.99	0.87
P/E* (x)	3.60	5.80	13.40	13.60	6.40	4.66
Profitability						
ROA	2%	2%	2%	1%	1%	2%
ROE	28%	34%	23%	19%	15%	19%
NIM	5.4%	7.6%	6.6%	6.2%	6.7%	6.7%
Efficiency						
ADR	70.8%	73.8%	74.5%	76.8%	72.0%	67.3%
Coverage Ratio	84.8%	82.6%	77.9%	68.5%	50.5%	75.0%
CAR	10.7%	12.2%	10.2%	9.9%	13.2%	13.0%

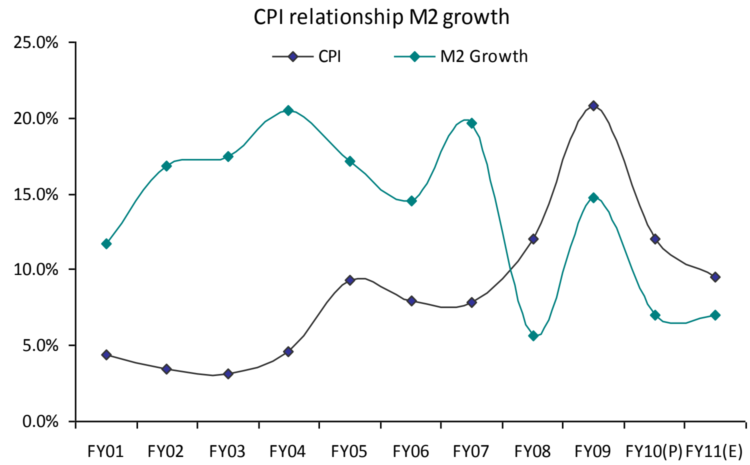
Source: Standard Capital Research & www.scstrade.com
**Average prices taken as per envisaged by www.scstrade.com*

Abbreviations

ADR	Advance to Deposit ratio
ROA	Return on Assets
ROE	Return on Equity
NPLs	Non Performing Loans
SBP	State Bank of Pakistan
M2	Broad Money Supply
GoP	Government of Pakistan
PAT	Profit after Tax
EPS	Earnings per Share
BVS	Book Value per Share
CAR	Capital Adequacy Ratio
RRR	Required Rate of Return
CPI	Consumer Price Index
NIM	Net Interest Margin
IMF	International Monetary Fund
CAPM	Capital Asset Pricing Model

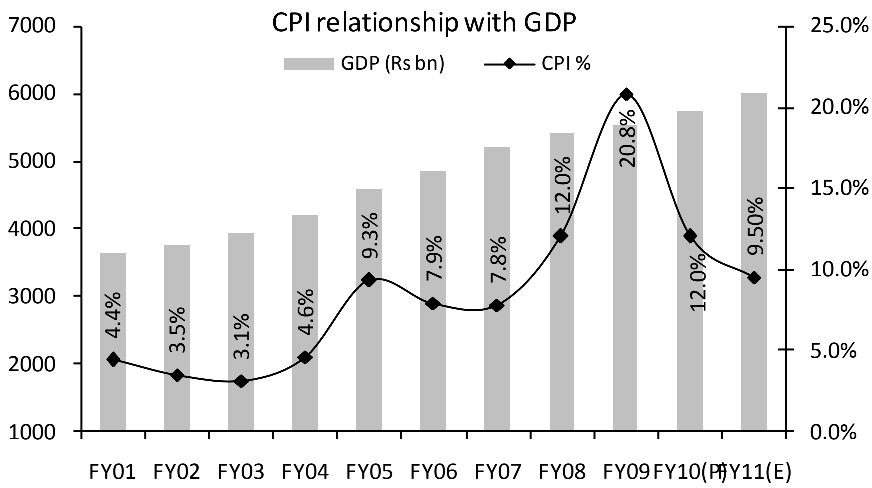
Annexure

Economic outlook…



We believe that some key factors in CY10 would determine whether or not there is going to be an economic recovery in the world or not. They include liquidity, interest rates, corporate, earnings, currency valuations etc. Here, Pakistan is also not oblivious of these global upheavals. However, when we look at various research reports released by financial institutions, we are troubled to see that while global emerging economies in general are continuing to meet market expectations, Pakistan seems to be an exception. Liquidity continues to be scarce, interest rates are still on the higher side due to demand pressures (lending rates above 14%) and lackadaisical style of governance is leading the economy towards peril.

Pakistan's economy is likely to perform modestly better in CY10 (second half) as compared to the previous year, but poor security conditions and grave electricity crisis is hampering growth. The country's GDP growth during the current fiscal year is expected to improve slightly to 4.09% against target of 3.3%, mainly on the back of recovery in the large scale manufacturing (LSM) sector, as compared to reported 2.0% in FY08.



The government has set the inflation target at 9.5% for FY11 which is very difficult to achieve and will likely to remain high at 12%. 1.0% increase in the GST rate and the reduction of energy subsidies via power tariff hikes of another 12% would lead to higher inflation. Country's economy has witnessed sharp slowdown in investment spending, which declined to 16.6% of GDP in FY10 from 19.7% in FY09. The economy is facing the worst-ever power crisis, with the government estimating the power generation shortfall to be as large as 5,000 megawatts which has cost the economy close to 2.5% of GDP in FY10

Pakistan's economic prospects are predicated on successful completion of the current International Monetary Fund (IMF) program by the end of the current year, which is in jeopardy due to delay in the imposition of Value Added Tax (VAT) for till October. Further more; a gradual improvement in the security situation, a phased reduction in power shortages as tariffs meet cost of supply and new power plants are commissioned, sustained implementation of fiscal reforms, particularly for tax administration, a gradual economic recovery in the main trading partners, and political stability.

Highlights of the economic survey published in FY10;

1. The economy grew by 4.1% during 2009-10 after a modest growth of 1.2 % in 2008-09.
2. The industrial output expanded by 4.9 %, with Large Scale Manufacturing posting a

   4.4 % rate of growth.
3. The services sector grew by 4.6 % as compared to 1.6 % in 2008-09.
4. For 2009-10, the fiscal deficit is aimed to be kept in check at 5.1 % of GDP,
5. The current deficit is expected to decline to under 3 % of GDP in the current year.
6. Inflation declined from 25 % in October 2008 to a recent low of 8.9 % in October 2009, though it has accelerated sharply of recent and is showing persistence.
7. The total installed electricity generation capacity has increased to 20,190 MW during July-March 2009-10 from 19,780 MW during the same period of last year
8. Overall exports recorded a positive growth of 8% during the first ten months (July-April) of the current year against a decline of 3% in the same period last year.
9. Trade deficit improved by 13.9% from $14,218 million in July-April 2008-09 to US $12,238 mn during July-April 2009-10.
10. CY10 started with a recovery in the Capital Markets following the global financial crisis. The KSE-100 Index crossed 10,000 points barrier on 12th March, 2010, however it could not sustain said levels given higher valuations and political risk.

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