

## Faysal Bank Limited

## Banks

### 1) CY14 Result Preview - EPS PKR 2.26, up 27% YoY; BUY!

### Buy

Target Price	23.5
Last Closing	17.8
Upside / Downside	31.8%
KSE Code	FABL
Bloomberg Code	FABL PA

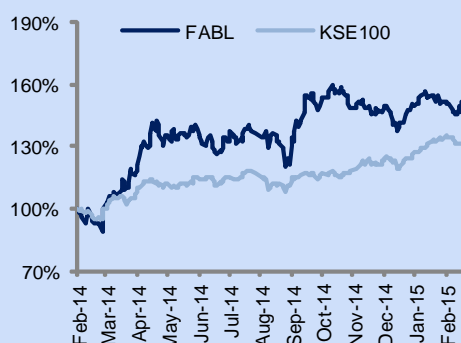
#### Shares

Market Cap (US\$ m)	184.2
Outstanding Shares (m)	1,043.3
Free Float	35%
12M Avg. Daily Turnover (m)	3.66
12M High   Low (PKR)	19.25   11.70
Major Shareholders	Itihaar Banks B.S.C Faisal Finance

#### Financials

	FY13A	FY14E	FY15F
Total Equity (PKRbn)	22.2	24.9	27.7
Total Assets (PKRbn)	355.3	357.3	392.2
Net Profit (PKRbn)	1.8	2.4	2.7
ROE (%)	8.56	10.01	10.27
EPS (PKR)	1.77	2.26	2.59
P/E (x)	10.06	7.89	6.88
P/B (x)	0.84	0.75	0.67
DPS (PKR)	-	-	-
Div Yield (%)	-	-	-

#### Stock Performance



#### Analyst

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#### CY14 full year EPS estimated at PKR 2.26!

On quarterly basis, we estimate bank's profitability to jump by a massive 39%QoQ in 4QCY14 to PKR 0.94bn or PKR 0.90/share (PKR 1.36/share 9MCY14). Our estimate is based upon; a) normalized operating expenses in 4QCY14, and b) investment in PIBs. This should bring CY14E EPS to PKR 2.26 against PKR 1.77 (+27%YoY) last year.

#### Bonus or cash pay-out?

We understand the bank has a history of paying bonus – in the past 3 years the bank has paid a 12.5% bonus each year and that in 3Q. However, in CY14 we see limited room for the bank to announce bonus and/or also cash dividend – given low capital base (CAR: CY13 11.29%).

#### Exhibit: Financial Highlights'

PKRmn	4QCY14E	QoQ	CY14E	CY13A	YoY
Mark-up Income	3,352	2%	13,307	10,845	23%
Non Mark-up Income	1,112	14%	4,289	4,526	-5%
Total Income	4,464	5%	17,596	15,371	14%
OPEX	2,663	-5%	12,009	11,101	8%
PPOP	1,801	25%	5,587	4,271	31%
Provisions	352	-20%	2,263	2,116	7%
Pre-tax Profits	1,447	44%	3,320	2,161	54%
Taxation	506	54%	964	311	210%
Post-tax Profits	940	39%	2,356	1,850	27%
EPS (PKR) @ 1,043mn shares	0.90		2.26	1.77	
DPS (PKR) @ 1,043mn shares	-		-	-	

Source: AHL Research, Company Financials

#### Normalising admin cost ahead...

Bank's 9MCY14 earnings were negatively affected due to a one-off admin expense in lieu of outgoing CEO severance pay during 1QCY14 (amount PKR ~400mn) and Voluntary Separation Scheme (VSS) given to employees in 2QCY14 (amount PKR ~450mn). Thankfully, much of this is over now, and we may expect normalized admin expenses for the bank starting 4QCY14. As a result, cost-to-income should rest within a close bracket of ~67% in CY14E and CY15F.

#### Asset quality: accreting NPLs a concern

Hefty investments in PIB (PKR 54bn by Sep-14 vs. PKR 19bn in Dec-13) should start to produce results in terms of BV expansion, once realized, since yield curve has shifted downward post policy rate cut in Nov-14. But, that also means earnings yields would now be at the helm of bank's loan sheet profile, which at the moment stands below par. So far, the bank has reduced its loan sheet by ~PKR 7bn (a 3% decline since Dec-13). Much of this can be ascribed to accreting NPLs worth ~PKR 1.9bn during 9MCY14, pushing its infection ratio to 14.9% by Sep-14, from 13.5% in Dec-13.

#### Attractive Valuation amongst Our Mid-Tier Coverage Banks

The Bank is currently trading at forward CY15 P/BV of 0.67x and average sustainable ROE of >14%, and a PER of 6.9x, compared to average mid-tier banks P/B 1.0x and ROE delivery of ~17%. Currently, we have 'BUY' stance on the stock with a Dec-15 Tp of 23.5/share, offering a substantial 32% upside from its last closing of PKR 17.8/share.

## Bank Al-Falah Limited

## Banks

### 2) CY14 Result Preview - EPS PKR 3.49, up 18% YoY; BUY!

### Buy

Target Price	41.4
Last Closing	32.3
Upside / Down side	28.2%
KSE Code	BAFL
Bloomberg Code	BAFL PA

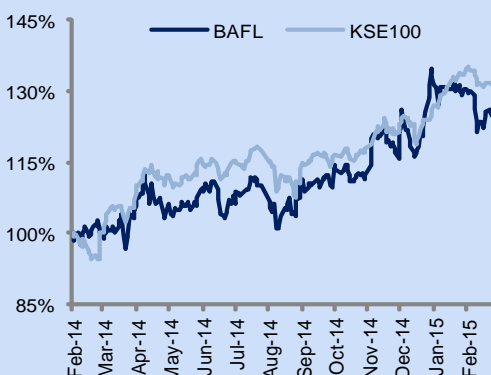
#### Shares

Market Cap (US\$ m)	507.0
Outstanding Shares (m)	1,587.2
Free Float	45%
12M Avg. Daily Turnover (m)	3.30
12M High   Low (PKR)	34.88   25.30
Major Shareholders	Int'l Finance Corp. (IFC)

#### Financials

	FY13A	FY14E	FY15F
Total Equity (PKRbn)	31.9	41.2	44.0
Total Assets (PKRbn)	610.6	677.8	767.3
Net Profit (PKRbn)	4.7	5.5	5.9
ROE (%)	15.1	15.1	13.7
EPS (PKR)	2.9	3.5	3.7
P/E (x)	11.0	9.2	8.7
P/B (x)	1.6	1.2	1.2
DPS (PKR)	2.00	2.00	2.00
Div Yield (%)	6.20	6.20	6.20

#### Stock Performance



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#### CY14 full year diluted EPS estimated at PKR 3.49 (+18%YoY)

For the 4QCY14, we estimate BAFL earnings to top PKR 0.96/share (+8%QoQ), bringing CY14E earnings to PKR 3.49/share versus PKR 2.95/share (+18%YoY). We base this on: a) Bank's stable share of CASA deposits - ~71% average in 9MY14, b) growth in bank's loan sheet - 15%YoY growth in 9MCY14, gross ADR averaged 51%, c) hefty investments in PIBs - PKR 142.9bn by 3QCY14, which should protect any sharp deterioration in earning yields despite policy rate cuts, and d) marginal increase in bank's provisioning - infection ratio at 6.5% by Sep-14, versus 8.5% in Sep-13 despite adequate coverage ratio at ~70%. As a result, bank's NIMs are estimated to stay intact at 3.9% versus 3.3% in CY13.

#### Dividend yield at 6%!

Along with the result we expect the bank to pay cash dividend of PKR 2.0/share offering ~ 6% dividend yields.

#### Exhibit: Financial Highlights

PKRmn	4QCY14E	QoQ	CY14E	CY13	YoY
Mark-up Income	6,079.0	3%	21,551.3	16,894.8	28%
Non Mark-up Income	2,077.1	0%	8,520.6	8,278.7	3%
Total Income	8,156.1	2%	30,071.9	25,173.5	19%
OPEX	5,403.4	2%	20,458.9	17,312.7	18%
PPOP	2,752.7	4%	9,613.0	7,860.8	22%
Provisions	451.0	-11%	1,182.0	1,053.6	12%
Pre-tax Profits	2,301.7	7%	8,431.0	6,807.1	24%
Taxation	778.1	4%	2,891.9	2,131.3	36%
Post-tax Profits	1,523.6	8%	5,539.1	4,675.9	18%
EPS (PKR) @ 1,587mn shares	0.96		3.49	2.95	
DPS (PKR) @ 1,587mn shares	2.0		2.0	2.0	

Source: AHL Research, Company Financials

#### Incremental capital from IFC accreting EPS

The incremental capital injection by IFC will forth mostly help the bank position itself for stricter CAR limits ahead. Secondly, higher paid-up capital will dilute EPS. However, the additional capital is albeit EPS accretive, considering the bank places larger portion of the additional capital in PIB and the remaining in extending loans. This means, BAFL can easily sustain an average forward earnings growth of 16% over FY15-19F period. Although the capital would put a drag on bank's ROE (ROE is estimated to drop to 14% from 17% in CY15), accreting EPS will allow the bank to converge its post-dilution ROE to its pre-dilution ROE by no longer than CY19F, we estimate. In addition the positive qualitative merits of IFC being now a part of BAFL equity should support premium valuations metrics for the bank.

#### Recommendation: Dec-15 Target at 41.4/share, a healthy 28% upside; BUY!

We re-iterate our 'BUY' call on the bank, offering 28% upside with our Dec-15 based target price of PKR 41/share for the stock. The scrip is currently trading at forward P/E and P/B multiples of 9.2x and 1.2x with 5-yr forward sustainable ROE of >15%.