Day Break

Wednesday, 14 June 2017

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COMPANY UPDATE

ASKARI BANK LIMITED
COMMERCIAL BANKS

Recommendation		BUY
Target Price:		26.1
Last Closing:	13-Jun-17	20.1
Upside:		30.3
Valuation Methodology:		Asset based Valuation / Dividend Discount Model (DDM)
Time Horizon:		Dec-17

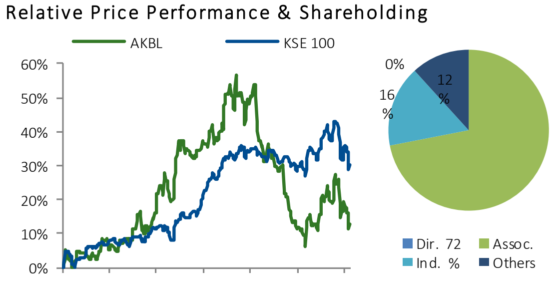
Market Data		
Bloomberg Tkr.		AKBL PA
Shares (mn)		1,260.3
Free Float Shares (mn)		378.1
Free Float Shares (%)		30.0%
Market Cap (PKRbn | USDmn)	25.3	241.0
Exchange		KSE 100

Price Info.	90D	180D	365D
Abs. Return	(12.3)	(18.6)	11.6
Lo	18.9	18.9	17.8
Hi	23.2	27.9	27.9

Key Company Financials
Period End: Dec

PKRbn	CY16A	CY17E	CY18F	CY19F
Total Revenue	15.0	17.2	19.6	22.2
Net Income	5.2	4.9	4.2	4.8
EPS (PKR)	4.1	3.9	3.3	3.8
DPS (PKR)	1.5	1.4	1.2	1.4
Total Assets	619.1	703.6	779.1	865.7
Total Equity	32.6	35.7	38.4	41.5
Key Financial Ratios				
ROE (%)	16.0	13.8	11.0	11.6
P/E (x)	4.8	5.1	6.0	5.2
P/B (x)	0.8	0.7	0.7	0.6
DY (%)	7.5	7.0	6.0	7.0

Relative Price Performance & Shareholding



About the Company

AKBL is a commercial and retail bank in Pakistan It was founded in 1991, as a Public Limited Company. On June 21, 2013 the bank was acquired by Fauji Group. The Asian Banker awarded AKBL twice as "Best Retail Bank in Pakistan" in 2004 and 2005.

Source: Bloomberg, KSE 100 & IGI Research

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Commercial Banks

AKBL; Improved fundamentals; Inexpensive valuations; Buy

- With improving fundamentals and inexpensive valuation we highlight AKBL offers a decent **"Buy"** opportunity at current price.
- During the 1QCY17, bank reported profit of PKR 1.2bn (or PKR 0.98/share) compared to previous 4QCY16 profit of PKR 1.0bn (or PKR 0.82/share) up by a staggering +19%QoQ.
- On the back of lower cost of deposit, bank managed to post a growth of +6%YoY in total interest income which brought about minimal damage to bank's NIMs – currently at 2.8%.
- Bank's non-interest income declined by 11%QoQ (or down by 40%YoY) during the period under review, mainly in absence of higher capital gain realization and lower dividend income.
- Support from provision reversal continue to come in as the bank, in the latest reported result, booked provision reversals of PKR 354mn (PKR 0.3/share) against loans.
- Based on our Dec-17 target price of PKR 26/share, AKBL offers 30.3% upside from last closing price and given expected dividend yield of 7.5%, we see a total potential return of 37.8%.

After making a high of PKR 28/share in Feb-17, Askari Bank Limited (AKBL) is back to PKR 20/share, close to its year low price. With a decent profitability growth display in 1QCY17, up by +19%QoQ (or +1%YoY); with improving fundamentals and inexpensive valuation we highlight AKBL offers a decent "Buy" opportunity at current price.

Inexpensive Valuation, trading at FY17F P/E 5.1x

In terms of price multiples, AKBL is trading at a P/B of 0.74x (forward ROE 13x; Trailing ROE 18.2x) compared to FABL P/B of 0.77x (forward ROE 12x; Trailing ROE 13.5x) and HMB P/B of 0.88x (forward ROE 12x; Trailing ROE 18.4x), hence highlighting its undervalued status. Similarly, on a P/E basis, AKBL is trading at 5.1x compared to FABL 7.1x and HMB 8.1x.

With a Dec-17 based target price of 26/share, AKBL offers ~+38% (incl. 7.5% DY) upside from its last closing

Based on our Dec-17 target price of PKR 26/share, AKBL offers 30.3% upside from last closing price and given expected dividend yield of 7.5%, we see a total potential return of 37.8%.

Profit surges by +19% on a quarterly basis

During the 1QCY17, bank reported profit of PKR 1.2bn (or PKR 0.98/share) compared to previous 4QCY16 profit of PKR 1.0bn (or PKR 0.82/share) up by a staggering +19%QoQ. Similar to other banks, AKBL interest income also declined on a quarterly basis (down by 4%). However, on a yearly basis, on the back of

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Exhibit: High CASA Deposit growth keeping cost of deposit low (3YR CAG: CY13-16)

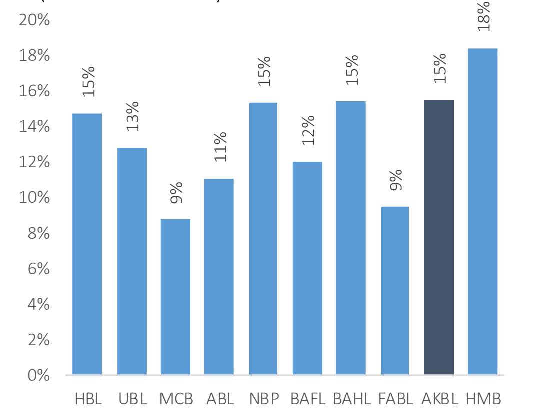


Exhibit: High Advances growth (3YR CAG: CY13-16); while keeping NPL ratio in check

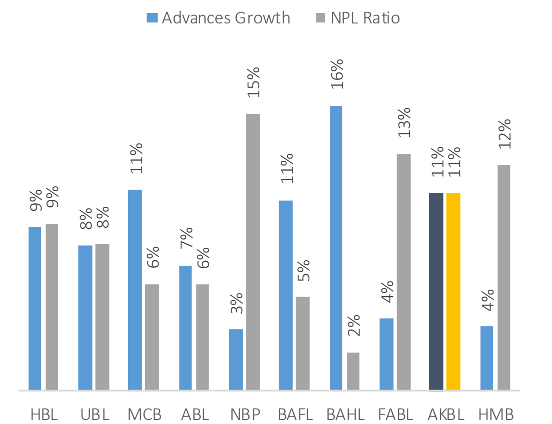
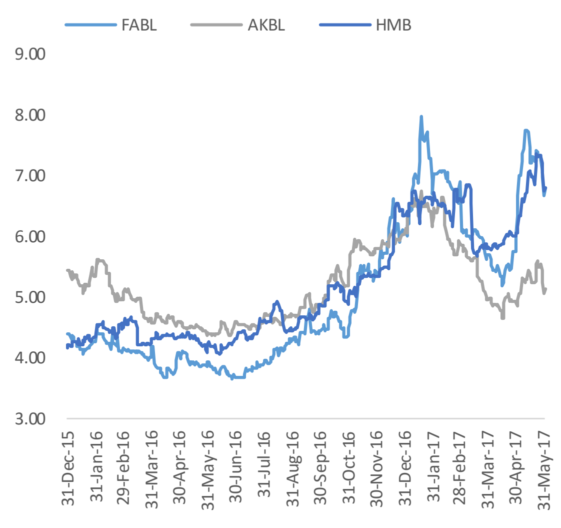


Exhibit: Trading cheap to its peers on P/Ex



Source: Company accounts, Bloomberg

lower cost of deposit, bank managed to post a growth of +6%YoY in total interest income which brought about minimal damage to bank's NIMs – currently at 2.8%.

Lack of capital gains realization dragged non-interest income during the 1QCY17

Bank's non-interest income declined by 11%QoQ (or down by 40%YoY) during the period under review, mainly in absence of higher capital gain realization and lower dividend income. However, on the plus factor, bank's fee income continue to trend up – rising by +13%YoY as loan growth picks up pace – which during the period supported bank's total revenue.

Expansion costs led to higher operating expenses

On cost side, bank's operating expenses fell by -8.5%QoQ (up by +9.3%YoY), mainly as the bank's branching presence reached 501 by CY16 (424 in CY15) and technological advancement with earlier introduction of Alternative Delivery Channel (ADC). As a result, AKBL's cost to income ratio now stands at 70%, slightly improving from 4QCY16 (average cost/income of 49% for IGI coverage banks during 1QCY17). Nevertheless, we believe the bank has yet to capitalize on increase capital expenditure it incurred during the period.

Improving asset quality pushed profits higher

Support from provision reversal continue to come in as the bank, in the latest reported result, booked provision reversals of PKR 354mn (PKR 0.3/share) against loans. AKBL's infection ratio has come down quite substantially since the Fauji Foundation took charge of the bank back in CY13, whereby bank's infection ratio stood at 17.3% to now 10.5% in 1QCY17. The number is more impressive considering bank's loan sheet has shown a +14% CAGR (3-Yr) while maintaining a high coverage ratio of ~91% over the course of said period (92% in 1CY17).

Recommendation

Based on our outlook, we highlight that the recent sell off in banking stocks has made AKBL valuation rather attractive. AKBL is trading at a P/B of 0.74x and a P/E of 5.0x inexpensive to its peers FABL and HMB. Based on our Dec-17 target price of PKR 26/share, AKBL offers 30.3% upside from last closing price and given expected dividend yield of 7.5%, we see a total potential return of 37.8%.

Financial Summary

Askari Bank Limited (AKBL)

Current Price (PKR):	20.05	Target Price (PKR):	26.12	Upside:	30.28	Recommendation:	BUY

Period end (DEC) - PKRBn	CY14A	CY15A	CY16A	CY17E	CY18F	CY19F	CY20F
Income Items							
Net Interest Income	11.9	14.9	15.0	17.2	19.6	22.2	25.2
Fee Income	1.4	1.7	2.2	2.5	3.0	3.6	4.2
Non Interest Income	5.4	6.7	7.1	5.6	5.4	6.0	6.8
Total Op. Revenues	17.3	21.6	22.1	22.8	24.9	28.2	32.0
Operating Exp.	11.2	12.3	14.3	15.4	17.3	19.4	21.6
Pre-Prov. Profits	6.1	9.3	7.8	7.3	7.6	8.8	10.4
Provisions	0.3	0.9	(0.7)	(0.8)	1.1	1.4	1.7
Pre-tax Profits	5.8	8.4	8.5	8.1	6.5	7.4	8.6
Tax	1.8	3.4	3.3	3.2	2.3	2.6	3.0
Post-tax Profits	4.0	5.0	5.2	4.9	4.2	4.8	5.6
Per Share Data							
EPS (diluted)	3.2	4.0	4.1	3.9	3.3	3.8	4.5
DPS	2.0	2.3	1.5	1.4	1.2	1.4	1.6
BVPS	18.8	21.3	25.8	28.3	30.5	32.9	35.8
Payout	62.8	56.2	36.2	36.2	36.2	36.2	36.2
Bonus (%)	-	-	-	-	-	-	-
Valuation							
P/E (X)	6.3	5.0	4.8	5.1	6.0	5.2	4.5
P/B (X)	1.1	0.9	0.8	0.7	0.7	0.6	0.6
Div. Yld (%)	10.0	11.2	7.5	7.0	6.0	7.0	8.0
ROE	18.9	20.0	17.6	14.4	11.4	12.1	13.0
ROE (tier 1)	22.4	24.5	22.1	18.2	14.1	14.7	15.6
Growth Rates							
Advances	3.5	14.9	14.8	10.0	8.0	8.0	8.0
NPL Growth	(5.3)	0.3	(9.4)	(2.9)	3.8	4.8	5.8
IEA	16.8	19.7	14.0	13.0	10.9	11.2	10.7
Deposits	15.6	11.8	9.2	15.6	12.8	13.5	12.5
NII	38.3	25.3	0.8	14.7	13.5	13.4	13.6
Non Interest Income	51.0	23.1	6.2	(21.9)	(3.1)	12.1	12.7
Operating Exp.	17.7	9.4	16.5	8.0	12.2	11.8	11.5
Profits	(173.3)	25.6	3.5	(5.9)	(14.1)	14.2	16.6
Equity	26.6	13.3	21.3	9.7	7.6	8.0	8.7
Capital							
CAR %	13.0	12.5	13.9	13.7	13.6	13.6	13.6

Period end (DEC) - PKRBn	CY14A	CY15A	CY16A	CY17E	CY18F	CY19F	CY20F
Balance Sheet Items							
NPLs	31.4	31.5	28.5	27.7	28.8	30.1	31.9
Net Advances	170.7	199.9	235.2	262.2	284.2	307.8	333.1
Invetments	217.2	268.0	295.8	337.6	380.4	431.0	484.6
Total Assets	447.1	535.9	619.1	703.6	779.1	865.7	957.5
Deposits	387.6	433.2	472.8	546.7	616.9	699.9	787.7
CASA	292.0	336.6	374.8	438.2	499.7	572.5	650.3
Total Liabilities	423.4	509.0	586.6	667.9	740.7	824.2	912.4
Share Capital	12.6	12.6	12.6	12.6	12.6	12.6	12.6
Total Equity	23.7	26.9	32.6	35.7	38.4	41.5	45.1
Cashflow Items							
Operating Cashflow	36.6	67.5	42.5	4.3	3.7	4.1	4.9
Investing Cashflow	(47.9)	(51.6)	(30.5)	4.2	4.4	7.8	7.9
Financing Cashflow	2.8	(5.5)	(1.6)	3.6	(1.0)	(3.6)	(4.1)
Closing Cash	19.1	29.7	42.6	54.7	61.7	70.0	78.8
Non-Financial							
Branches	321	424	501	536	571	606	641
Asset Quality							
NIMs	3.2	3.4	2.9	3.0	3.0	3.1	3.2
IEA / Total Assets	89.1	89.0	87.8	87.3	87.4	87.5	87.6
Cost of Deposit	5.6	4.6	3.7	3.4	3.3	3.3	3.2
IDR	56.0	61.9	62.6	61.8	61.7	61.6	61.5
ADR	44.0	46.2	49.7	48.0	46.1	44.0	42.3
Infection Ratio	15.8	13.8	10.9	9.6	9.2	9.0	8.8
Coverage Ratio	88.6	89.1	92.4	92.4	92.4	92.4	92.4
Du-Pont Analysis							
NIMs	3.2	3.4	2.9	3.0	3.0	3.1	3.2
Cost / Income	64.8	56.9	64.7	67.8	69.5	68.7	67.6
Cost / Asset.	2.5	2.3	2.3	2.2	2.2	2.2	2.3
Pre-prov/ ROA	1.4	1.9	1.4	1.1	1.0	1.1	1.1
Prov. / ROA	0.1	0.2	(0.1)	(0.1)	0.1	0.2	0.2
Tax Rate	30.6	40.2	38.4	39.2	35.0	35.0	35.0
ROA	1.0	1.0	0.9	0.7	0.6	0.6	0.6
Asset / Equity	19.8	19.4	19.4	19.4	20.0	20.6	21.1
ROE	18.9	20.0	17.6	14.4	11.4	12.1	13.0

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Askari Bank Limited (AKBL) Quarterly Financials

Period end (DEC) - PKRBn	3Q'15	4Q'15	1Q'16	2Q'16	3Q'16	4Q'16	1Q'17
Income Items							
Net Interest Income	3.8	3.8	3.6	3.7	3.8	4.0	3.8
Fee Income	0.4	0.5	0.4	0.8	0.4	0.5	0.5
Non Interest Income	1.1	1.0	1.6	2.4	1.7	1.4	1.3
Total Op. Revenues	4.9	4.8	5.2	6.1	5.5	5.4	5.1
Operating Exp.	3.1	3.1	3.3	3.4	3.7	3.9	3.6
Pre-Prov. Profits	1.8	1.7	1.9	2.7	1.8	1.4	1.5
Provisions	0.2	0.2	0.0	(0.4)	(0.1)	(0.1)	(0.4)
Pre-tax Profits	1.6	1.5	1.9	3.1	1.9	1.6	1.9
Tax	0.6	0.5	0.7	1.4	0.7	0.6	0.7
Post-tax Profits	1.0	1.0	1.2	1.7	1.2	1.0	1.2
Per Share Data							
EPS (diluted)	0.82	0.77	0.97	1.38	0.97	0.82	0.98
DPS	-	1.25	-	-	-	1.50	-
BVPS	20.6	21.3	24.3	25.2	25.4	25.8	25.7
Cash Dividend (%)	-	12.50	-	-	-	15.00	-
Bonus (%)	-	-	-	-	-	-	-

Period end (DEC) - PKRBn	3Q'15	4Q'15	1Q'16	2Q'16	3Q'16	4Q'16	1Q'17
Balance Sheet Items							
Investments	271.6	268.0	273.4	305.1	306.6	295.8	283.2
Advances	190.2	199.9	208.8	222.3	207.7	235.2	241.6
Total Assets	516.0	535.9	548.0	597.1	581.6	619.1	598.1
Deposits	427.3	433.2	448.8	465.9	462.6	472.8	473.5
Share Capital	12.6	12.6	12.6	12.6	12.6	12.6	12.6
Total Equity	26.0	26.9	30.6	31.8	32.0	32.6	32.4
Key Ratios							
NIMs	3.3	3.2	2.9	2.9	2.9	3.0	2.8
NII / Gross Revenue	77.1	78.8	69.1	60.3	69.2	74.1	74.2
Cost / Income	63.1	64.9	63.4	56.3	67.1	72.9	69.9
Tax rate	36.0	34.2	35.0	44.1	35.1	35.4	35.0
IDR	63.6	61.9	60.9	65.5	66.3	62.6	59.8
ADR	44.5	46.2	46.5	47.7	44.9	49.7	51.0
ROA	0.8	0.7	0.9	1.2	0.8	0.7	0.8
Asset / Equity	19.7	19.9	18.9	18.4	18.5	18.6	18.7
ROE	16.1	14.8	17.0	22.3	15.4	12.8	15.2

Source: Company accounts & IGI Research

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