

# Day Break

Wednesday, 23 August 2017

## COMPANY UPDATE

### FAYSAL BANK LIMITED

#### COMMERCIAL BANKS

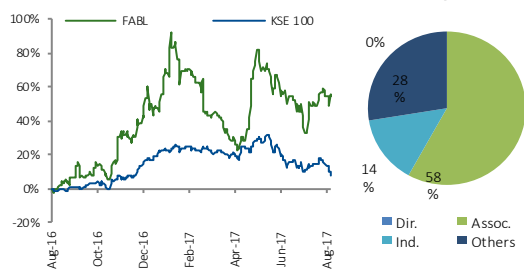
<b>Recommendation</b>	<b>NEUTRAL</b>		
Target Price:	23.8		
Last Closing: 21-Aug-17	23.8		
Upside:	0.2		
Valuation Methodology:	Asset based Valuation / Dividend Discount Model (DDM)		
Time Horizon:	Dec-17		
<b>Market Data</b>			
Bloomberg Tkr.	FABL PA		
Shares (mn)	1,199.8		
Free Float Shares (mn)	419.9		
Free Float Shares (%)	35.0%		
Market Cap (PKRbn   USDmn)	28.5	270.4	
Exchange	KSE 100		
<b>Price Info.</b>			
	90D	180D	365D
Abs. Return	(9.9)	(6.7)	58.5
Lo	19.6	18.1	14.4
Hi	25.7	26.9	28.5

#### Key Company Financials

Period End: Dec

PKRbn	CY16A	CY17E	CY18F	CY19F
Total Revenue	18.8	17.7	19.7	22.6
Net Income	4.31	3.9	4.4	5.5
EPS (PKR)	3.6	3.3	3.7	4.6
DPS (PKR)	-	1.0	1.0	1.0
Total Assets	444.5	513.6	569.6	630.4
Total Equity	35.0	37.7	41.0	45.2
<b>Key Financial Ratios</b>				
ROE (%)	12.3	10.4	10.9	12.1
P/E (x)	6.6	7.3	6.4	5.2
P/B (x)	0.8	0.8	0.7	0.6
DY (%)	-	4.2	4.2	4.2

#### Relative Price Performance & Shareholding



#### About the Company

The Bank was incorporated in Pakistan on October 03, 1994 as a public limited company. The Bank is engaged in corporate, commercial and consumer banking. Ithmaar Bank B.S.C. a Bahrain based retail bank, is the parent company, holding 66.78% of the shareholding of the Bank.

Source: Bloomberg, PSX & IGI Research

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## Commercial Banks

### FABL: Profitability to decline due falling capital gains

- We foresee the bank to register unconsolidated profit after tax (PAT) of PKR 1bn (EPS: 0.83 PKR), down by 47%QoQ (or down 32%YoY).
- We expect the simultaneous rise in advances outpacing uptick in deposits to offset the increase in interest expensed with higher interest earned through quantum growth in advances despite fall in yield.
- Non-interest income is expected to fall by 33%QoQ predominantly due to fall in capital gains by 90%QoQ.
- We also expect a provision charge (PKR 90mn) in 2QCY17 as against a provision reversal (PKR -270) in the same period last year to dent the bottom-line.
- With a forward CY17/CY18 P/B of 0.8x/0.7x and dividend yield of 4.2%/4.2%, we recommend "HOLD" call with our Dec-17 target price of PKR 23.8/share.

#### Capital gains to be the primary cause of fall in profitability

We preview Faysal Bank Limited (FABL) financial results for 2QCY17. We foresee the bank to register unconsolidated profit after tax (PAT) of PKR 1.1bn (EPS: 0.91 PKR), down by 42%QoQ (or down 25%YoY). This will bring cumulative income for 1HFY17 to PKR 3.0bn (EPS: 2.47 PKR), up by +2%YoY. In a stark contrast to its peers, we expect the decline in quarterly profits of FABL to primarily be due to fall in capital gains. On a yearly basis, 82%YoY decline in capital gains is expected to drag down profit after tax by 25%YoY.

Exhibit:

#### FABL Result Highlights

PKRmn (Period end=Dec)	2QCY17	2QCY16	YoY	1QCY17	QoQ	1HFY17	YoY
Interest Earned	7,465	6,513	15%	6,909	8%	14,373	8%
Interest Expensed	3,731	3,597	4%	3,396	10%	7,127	-1%
<b>Net Interest Income</b>	<b>3,734</b>	<b>2,916</b>	<b>28%</b>	<b>3,513</b>	<b>6%</b>	<b>7,247</b>	<b>20%</b>
Fee Income	845	768	10%	663	27%	1,508	12%
Capital Gain & Div. Income	270	1,524	-82%	977	-72%	1,247	-46%
<b>Non-Interest Income</b>	<b>1,495</b>	<b>2,636</b>	<b>-43%</b>	<b>1,996</b>	<b>-25%</b>	<b>3,490</b>	<b>-19%</b>
Total Revenue	5,229	5,552	-6%	5,509	-5%	10,737	3%
Operating Expenses	3,049	2,928	4%	2,847	7%	5,896	6%
Pre-Provisioning Profits	2,180	2,624	-17%	2,662	-18%	4,842	1%
NPL (Rev.) / Prov.	90	347	-74%	(277)	n.m	(187)	-143%
Pre-Tax Profits	2,090	2,277	-8%	2,930	-29%	5,020	15%
Taxation	998	816	22%	1,063	-6%	2,061	33%
<b>Profit After Tax</b>	<b>1,092</b>	<b>1,461</b>	<b>-25%</b>	<b>1,868</b>	<b>-42%</b>	<b>2,960</b>	<b>5%</b>
EPS (PKR)	0.91	1.22	-	1.56	-	2.47	-
DPS (PKR)	-	-	-	-	-	-	-
BVPS (PKR)	31.20	26.89	-	30.29	-	31.20	-

#### KEY RATIOS

Cost-To-Income Ratio	58%	53%	52%	55%
Effective Tax Rate	48%	36%	36%	41%
Non-II / Total Income	29%	47%	36%	33%

SOURCE: IGI Research, Company accounts, PSX notifications

#### **Growth in advances to be the primary cause of higher interest income**

During the quarter, we expect robust deposit growth to push cost of deposit higher with rising non remunerative current accounts compensating for the higher costs. Yet we foresee the simultaneous rise in advances outpacing uptick in deposits to offset the increase in interest expensed with higher interest earned through quantum growth in advances despite fall in yield (average WALR down by 7 bps vs last quarters average). On investments, FABL has limited exposure to PIBs resulting in lower yield, a trend we expect to continue. (proportion of gross investments as of 1QCY17: 64% T-bills and 23% PIBs)

#### **Non-interest income to fall despite expected uptick in fee income**

Fee income is expected to rise by +27%QoQ due to volumetric growth in trade and consumer products. However, non-interest income is expected to fall by 25%QoQ predominantly due to fall in capital gains by 74%QoQ.

#### **Provision charge to push down the bottom-line further**

We foresee +7%QoQ rise in operating expenses due to ensuing branch expansion. Simultaneously, we also expect a provision charge (PKR 90mn) in 2QCY17 as against a provision reversal (PKR -270) in the same period last year to dent the bottom-line. Moreover, as with the bank's peers, we also see one-time provision of super-tax to be one of the prime causes of falling profits.

#### **Recommendation**

Compared to 18% decline CY17TD in IGI banking universe, FABL has gone up by +5% CY17TD, and has little room for upside given our target price of 23.8/share. Hence, with a forward CY17/CY18 P/B of 0.8x/0.7x and dividend yield of 4.2%/4.2%, we recommend "HOLD" call with our Dec-17 target price of PKR 23.8/share.

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