

Flash Note

Tuesday, 08 August 2017

Commercial Banks

AKBL: Higher capital gains and NPL reversal counteract Incorporation of super-tax to pull up the quarterly earnings by +46%QoQ

- Askari Bank Limited (AKBL) reported unconsolidated earnings for the 2QCY17 of PKR 1.8bn (or PKR 1.4/share), up by +46%QoQ (or up +3%YoY), bringing 1HCY17 total unconsolidated earnings to PKR 3.0bn (or PKR 2.4/share), up by +2%YoY.
- During the quarter, interest income experienced a +7%QoQ (+1%YoY) rise due to contained growth in interest expense (up by a meagre +1%QoQ or down 5%YoY) and expansion in interest earned (up by +4%QoQ or up +1%YoY).
- Higher capital gains realized (PKR 1.0bn versus PKR 0.5bn realized in 1QCY17) as well as rise in NPL reversal to the tune of PKR 505mn, offset the impact of rise witnessed in operating expenses (up by +10%QoQ or +14%YoY), pulling up the bottom-line.
- However, super-tax incorporation dented the bottom-line wherein, effective tax rate rose to 43% (35% in 1QCY17).

AKBL Result Highlights

| PKRmn (Period end=Dec) | 2QCY17 | 2QCY16 | YoY | 1QCY17 | QoQ | 1HFY17 | 1HFY16 | YoY |
|----------------------------|--------------|--------------|-------------|--------------|------------|--------------|--------------|-------------|
| Interest Earned | 8,978 | 8,891 | 1% | 8,664 | 4% | 17,641 | 17,296 | 2% |
| Interest Expensed | 4,937 | 5,198 | -5% | 4,870 | 1% | 9,806 | 10,037 | -2% |
| Net Interest Income | 4,041 | 3,693 | 9% | 3,794 | 7% | 7,835 | 7,258 | 8% |
| Fee Income | 638 | 813 | -21% | 481 | 33% | 1,119 | 1,236 | -9% |
| Capital Gain & Div. Income | 1,157 | 1,343 | -14% | 535 | 1.16x | 1,693 | 2,218 | -24% |
| Non-Interest Income | 2,169 | 2,430 | -11% | 1,319 | 64% | 3,488 | 4,027 | -13% |
| Total Revenue | 6,210 | 6,123 | 1% | 5,113 | 21% | 11,323 | 11,285 | 0% |
| Operating Expenses | 3,931 | 3,449 | 14% | 3,576 | 10% | 7,507 | 6,722 | 12% |
| Pre-Provisioning Profits | 2,279 | 2,674 | -15% | 1,538 | 48% | 3,816 | 4,563 | -16% |
| NPL (Rev.) / Prov. | (861) | (433) | n.m. | (356) | n.m. | (1,216) | (425) | 186% |
| Pre-Tax Profits | 3,139 | 3,107 | 1% | 1,893 | 66% | 5,033 | 4,988 | 1% |
| Taxation | 1,342 | 1,370 | -2% | 663 | 1.02x | 2,005 | 2,028 | -1% |
| Profit After Tax | 1,797 | 1,737 | 3% | 1,230 | 46% | 3,028 | 2,960 | 2% |
| EPS (PKR) | 1.43 | 1.38 | | 0.98 | | 2.40 | 2.35 | |
| DPS (PKR) | - | - | | - | | - | - | |
| BVPS (PKR) | 27.10 | 25.20 | | 25.67 | | 27.10 | 25.20 | |

KEY RATIOS

| | | | | | | | | |
|-----------------------|-----|-----|--|-----|--|-----|-----|--|
| Cost-To-Income Ratio | 63% | 56% | | 70% | | 66% | 60% | |
| Effective Tax Rate | 43% | 44% | | 35% | | 40% | 41% | |
| Non-Il / Total Income | 35% | 40% | | 26% | | 31% | 36% | |

SOURCE: IGI Research, Company accounts, PSX notifications

Recommendation

With a forward CY17/CY18 P/B of 0.8x/0.7x and dividend yield of 6.5%/5.6%, we recommend "BUY" call with our Dec-17 target price of PKR 27/share, offering +27% upside from its last closing.

Analyst

Syed Daniyal Adil

daniyal.adil@igi.com.pk

Tel: (+92-21) 111-234-234 Ext.: 973

Important Disclaimer and Disclosures

Research Analyst(s) Certification: The Research Analyst(s) hereby certify that the views about the company/companies and the security/securities discussed in this report accurately reflect his or her or their personal views and that he/she has not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report. The analyst(s) is principally responsible for the preparation of this research report and that he/she or his/her close family/relative does not own 1% or more of a class of common equity securities of the following company/companies covered in this report.

Disclaimer: The information and opinions contained herein are prepared by IGI Finex Securities Limited and is for information purposes only. Whilst every effort has been made to ensure that all the information (including any recommendations or opinions expressed) contained in this document (the information) is not misleading or unreliable, IGI Finex Securities Limited makes no representation as to the accuracy or completeness of the information. Neither, IGI Finex Securities Limited nor any director, officer or employee of IGI Finex Securities Limited shall in any manner be liable or responsible for any loss that may be occasioned as consequence of a party relying on the information. This document takes no account of the investment objectives, financial situation and particular needs of investors, who shall seek further professional advice before making any investment decision. This document and the information may not be reproduced, distributed or published by any recipient for any purpose. This report is not directed or intended for distribution to, or use by any person or entity not a client of IGI Finex Securities Limited, else directed for distribution.

Rating system: IGI Finex Securities employs three tier ratings system, depending upon expected total return (return is defined as capital gain exclusive of tax) of the security in stated time period, as follows:

| Recommendation | Rating System |
|----------------|------------------------------------------------------------------------------------------------------------|
| Buy | If target price on aforementioned security(ies) is more than 10%, from its last closing price(s) |
| Hold | If target price on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s) |
| Sell | If target price on aforementioned security(ies) is less than -10%, from its last closing price(s) |

Risk: Investment in securities are subject to economic risk, market risk, interest rate risks, currency risks, credit risks, political and geopolitical risks. The performance of company(ies) covered herein might unfavorably be affected by multiple factors including, business, economic, and political conditions. Hence, there is no assurance or guarantee that estimates, recommendation, opinion, etc. given about the security(ies)/company(ies) in the report will be achieved.

Basic Definitions and Terminologies used: **Target Price:** A price target is the projected price level of a financial security stated by an investment analyst or advisor. It represents a security's price that, if achieved, results in a trader recognizing the best possible outcome for his investment. **Market Cap.:** Market capitalization is calculated by multiplying a company's shares outstanding by current trading price. **ROE:** Return on equity is the amount of net income returned as a percentage of shareholders' equity. **P/E:** Price to Earnings ratio of a company's share price to its per-share earnings. **P/B:** Price to Book ratio used to compare a stock's market value to its book value. **DY:** The dividend yield is dividend per share, divided by the price per share.

IGI Finex Securities Limited

Research Analyst(s)

Research Identity Number: BRP009

© Copyright 2016 IGI Finex Securities Limited

Contact Details

Research Team

| | | | |
|-------------------|----------------------|------------------------------------|----------------------------|
| Saad Khan | Head of Research | Tel: (+92-21) 111-234-234 Ext: 810 | saad.khan@igi.com.pk |
| Abdullah Farhan | Senior Analyst | Tel: (+92-21) 111-234-234 Ext: 912 | abdullah.farhan@igi.com.pk |
| Syed Daniyal Adil | Research Analyst | Tel: (+92-21) 111-234-234 Ext: 973 | daniyal.adil@igi.com.pk |
| Tanweer Kabeer | Research/Fund Select | Tel: (+92-21) 111-234-234 Ext: 966 | tanweer.kabeer@igi.com.pk |
| Umesh Solanki | Database Manager | Tel: (+92-21) 111-234-234 Ext: 974 | umesh.solanki@igi.com.pk |

Equity Sales

| | | | |
|-------------------|--------------------------------------------|---------------------------|----------------------------|
| Faisal Jawed Khan | Head of Equities | Tel: (+92-21) 35301779 | faisal.jawed@igi.com.pk |
| Zaeem Haider Khan | Regional Head (North) | Tel: (+92-42) 35777863-70 | zaeem.haider@igi.com.pk |
| Muhammad Naveed | Regional Manager (Islamabad & Upper North) | Tel: (+92-51) 2604861-62 | muhammad.naveed@igi.com.pk |
| Ejaz Rana | Regional Manager (Faisalabad) | Tel: (+92-41) 2540843-45 | ejaz.rana@igi.com.pk |
| Gul Hussain | Branch Manager (Faisalabad) | Tel: (+92-41) 2540843-45 | gul.hussain@igi.com.pk |
| Asif Saleem | Branch Manager (RY Khan) | Tel: (+92-68) 5871652-56 | asif.saleem@igi.com.pk |
| Mehtab Ali | Branch Manager (Multan) | Tel: (+92-61) 4512003 | mehtab.ali@igi.com.pk |
| Zeeshan Kayani | Branch Manager (Abbottabad) | Tel: (+92-992) 408243-44 | zeeshan.kayani@igi.com.pk |
| Ihsan Mohammad | Branch Manager (Peshawar) | Tel: (92-91) 5253035 | ihsan.mohammad@igi.com.pk |

IGI Finex Securities Limited

Trading Rights Entitlement Certificate (TREC) Holder of
Pakistan Stock Exchange Limited |
Corporate member of Pakistan Mercantile Exchange Limited

Head Office

Suite No 701-713, 7th Floor, The Forum, G-20,
Khayaban-e-Jami Block-09, Clifton, Karachi-75600
UAN: (+92-21) 111-444-001 | (+92-21) 111-234-234
Fax: (+92-21) 35309169, 35301780
Website: www.igisecurities.com.pk

Stock Exchange Office

Room # 719, 7th Floor, PSX Building, Stock Exchange Road, Karachi.
Tel: (+92-21) 32429613-4, 32462651-2, Fax: (+92-21) 32429607

Lahore Office

5-F.C.C. Ground Floor, Syed Maratib Ali Road,
Gulberg II, Lahore
Tel: (+92-42) 35777863-70, 35876075-76
Fax: (+92-42) 35763542

Faisalabad Office

Room #: 515-516, 5th Floor, State Life
Building, 2- Liaqat Road, Faisalabad
Tel: (+92-41) 2540843-45
Fax: (+92-41) 2540815

Multan Office

Mezzanine Floor, Abdali Tower,
Abdali Road, Multan
Phone: (92-992) 408243 - 44

Peshawar Office

2nd Floor, The Mall Tower,
35 The Mall Peshawar Cantt.
Phone: (92-91) 5253035, 5278448

Islamabad Office

Mezzanine Floor, Office 5, 6 & 7, Kashmir Plaza,
Block- B, Jinnah Avenue, Blue Area, Islamabad
Tel: (+92-51) 2604861-2, 2604864, 2273439
Fax: (+92-51) 2273861

Rahim Yar Khan Office

Plot # 12, Basement of Khalid Market,
Model Town, Town Hall Road, Rahim Yar Khan
Tel: (+92-68) 5871653-6, 5871652
Fax: (+92-68) 5871651

Abbottabad Office

Ground Floor, Al Fatah Shopping Center, Opp. Rad
Station, Mansehra Road, Abbottabad
Phone: (+92-99) 2408243 - 44