

Day Break

Friday, 16 November 2018

COMPANY UPDATE

Askari Bank Limited

Commercial Banks

Recommendation	BUY
Target Price:	37.4
Last Closing: 15-Nov-18	25.9
Upside:	44.8
Valuation Methodology:	Residual Income / Asset based Valuation / Dividend

Time Horizon: Dec-19

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)	32.6 242.4
Exchange	KSE 100
Price Info.	90D 06M 12M
Abs. Return	4.8 9.3 28.0
Lo	21.1 20.7 17.9
Hi	24.7 24.7 24.7

Key Company Financials

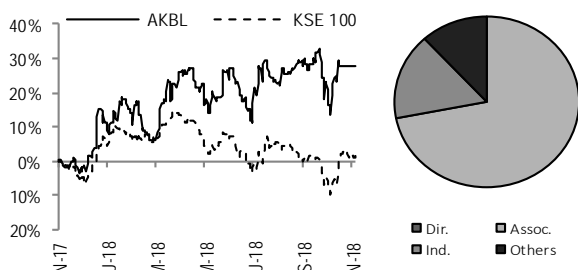
Period End: Dec

PKRbn	CY17A	CY18E	CY19F	CY20F
Total Revenue	22.5	24.3	28.3	30.8
Net Income	5.3	5.1	6.6	6.8
EPS (PKR)	4.2	4.0	5.3	5.4
DPS (PKR)	1.0	1.0	1.5	2.0
Total Assets	619.1	656.7	758.1	851.0
Total Equity	32.4	36.2	41.0	45.2

Key Financial Ratios

ROE (%)	16.2	13.9	16.2	15.0
P/E (x)	6.2	6.5	4.9	4.8
P/B (x)	0.4	1.0	0.9	0.8
DY (%)	3.9	3.9	5.8	7.7

Relative Price Performance



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, PSX & IGI Research

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Commercial Banks

AKBL: Uniquely Positioned for NIM Expansion As Careful Assets Growth Shine Through; Strong Buy Maintained

- We are increasing our 2018e EPS to PKR 4.0/share and raising our 2019-21F earnings estimates by an average ~8%. Our earnings growth for next 3yrs comes at +9%.
- AKBL shares currently trade at P/e 4.8x 2019 EPS and P/b 0.8x. We have rolled our price target from Dec-18 to Dec-19, and raised our target price to now PKR 37/share, which assumes shares trade close to P/e 8.0x with our 2019 EPS of PKR 5.3. At current price of PKR 26/share AKBL offers a +45% upside.

Earnings and target price revision

We have revised our earnings estimates and rolled over our price target for Askari Bank Limited (AKBL) to Dec-19. Our new earnings estimate suggests a +9% CAGR over the next 3yrs compared to +7% in past 3yrs. Our new rolled over price target for AKBL is now PKR 37/share implying a +45% upside from its last closing of PKR 25.5/share.

Key takeaways from 3QCY18 results

The bank reported 3q18 earnings of PKR 0.87/share (down by 7%YoY) taking 9MCY18 cumulative earnings to PKR 2.88/share compared to PKR 3.35/share same period last year, a decline of 14%YoY.

- Bank's interest income increased by +15%YoY during the period compared to 5% for the sector, owing to careful asset mix and contained deposit costs. Bank's asset growth increased by +8.4%YoY (loans: +29%) compared to 7.7% growth in deposits, leading to relatively stable annualized NIMs of 3.2% (+23bpsYoY).
- Other major highlights include an impressive +25%YoY fee income growth only second to BAML at +28%. However, lower capital and FX gains compared to previous period restricted overall non-interest income growth.
- Major beating came from loss provision on investment book whereby bank reported a charge of PKR 768mn or PKR 0.61/share, taking its total provisioning charge to PKR 843mn during the 3q alone.
- Key earnings support came from operating expenses which during the 9m18 remained relatively flat at PKR 11.4bn, leading to one of the best growth periods on pre-provisioning operating profit basis, reporting an impressive +22%YoY growth with HMB and BAFL being the second best at +18-19%.

Exhibit: AKBL quarterly earnings performance

	2015A	2016A	2017A	2018A
1Q	1.00	0.97	0.98	1.10
2Q	1.41	1.38	1.43	0.91
3Q	0.82	0.97	0.94	0.87
4Q	0.77	0.82	0.83	
CY	4.00	4.14	4.18	2.88

Source: Company Accounts, IGI Research

Exhibit: AKBL Result review

PKRmn (Period end=Dec)	3QCY18	9MCY18	9MCY17	YoY	Comments
Interest Earned	11,871	30,992	26,963	15%	High and careful loan sheet growth helped company secure higher investment yield.
Interest Expensed	6,996	17,184	14,944	15%	Higher borrowing amid lack of deposit growth along with slower growth in low cost deposit.
NII	4,875	13,808	12,019	15%	Recent PKR 6.0bn issue for Tier1 along with careful asset growth, NIMs are expected to improve further.
Fee Income	764	2,235	1,789	25%	Growth in remittances and increased commission on newer product launched helped fee income achieved +25% growth
FX Income	281	1,225	582	1.10x	Benefited largely due to volatile currency markets
Capital Gains & Div. Income	85	334	2,192	-85%	Bank took a hit on PIB repricing and equity market underperformance
NFI	1,346	4,274	4,967	-14%	
Operating Expenses	3,565	11,356	11,472	-1%	OPEX remain intact with no major branch expansion
Pre-Provisioning Profits	2,657	6,726	5,514	22%	One of the best growth amongst our coverage banks
Provision (Rev.) / Charge	843	524	(1,361)	n.m.	Coverage ratio remained ~90%. NPLs accretion was limited
Pre-Tax Profits	1,814	6,202	6,875	-10%	
Taxation	712	2,578	2,658	-3%	
Profit After Tax	1,102	3,623	4,217	-14%	
EPS (PKR)	0.87	2.88	3.35		
DPS (PKR)	-	-	1.0		

Exhibit: Interest Income growth in 9MCY18

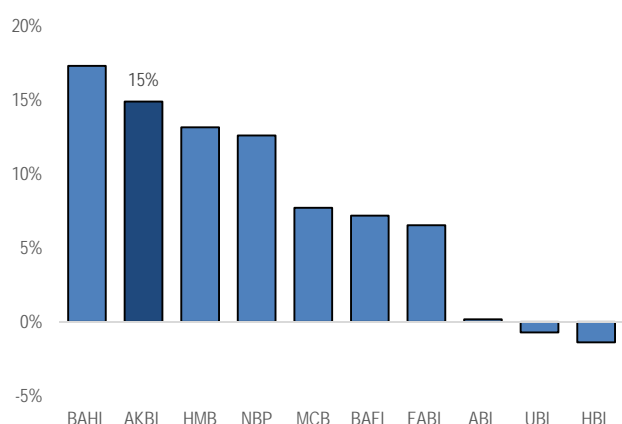
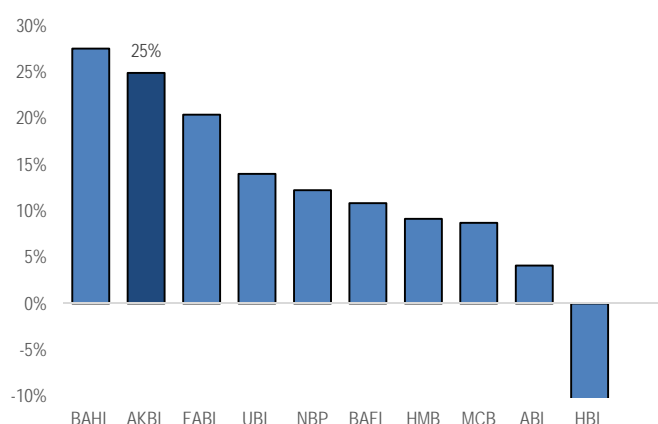
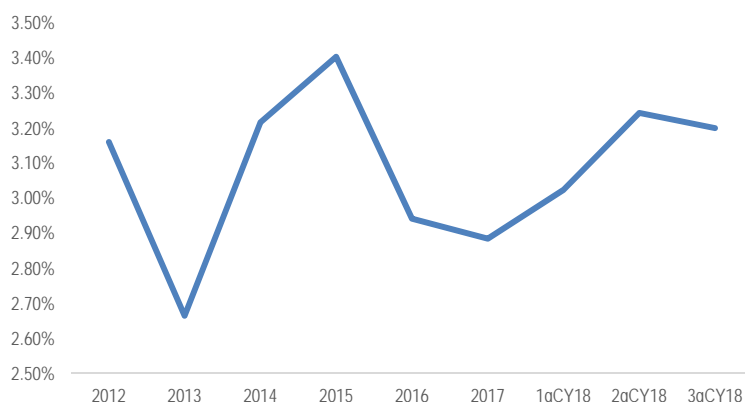


Exhibit: Fee Income growth in 9MCY18



Source: IGI Research, Company Accounts

Exhibit: AKBL NIMs



Source: IGI Research, Company Accounts

Loan growth slowing for the industry, the company continues to buck this trend with double-digit growth

Although the company’s investment and deposit portfolio is nicely positioned to benefit from rising rates, but it’s the bank’s rising loan book is what separate it from the rest. Bank’s interest earning yield reached 7.8% with second best being FABL and BAFL at 7.5% average. Primarily this is down to bank’s aggressive yet careful lending approach. Gross advances during 9MCY18 increased by PKR ~60bn while non-performing loans remained flat during the same period at PKR 26.7bn bringing down bank’s infection ratio to 7.8% from 9.4% in Dec-17. In fact, starting 2013 to 2017, AKBL has been the fastest in terms of shredding bad loan on its book, bringing down NPL/loan ratio from 17% to 9.4% in 2017 and now to 7.8% by Sep-18. In order to keep up with the advances growth the bank recently raised PKR 6.0bn under tier 1 capital, which as per our calculation will raise its tier 1 capital by ~200bps to 11.5% and subsequently taking its CAR close to ~16%. As a result, we expect bank advance growth to average 10% for the next 5yrs compared to 12% achieved in past 5yrs.

Exhibit: Advances growth in past 3yrs and during 9MCY18

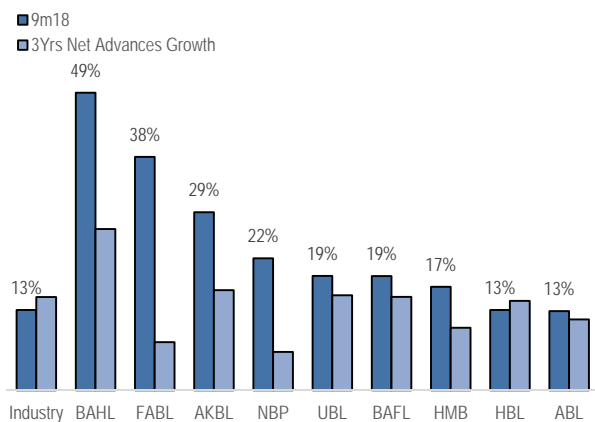
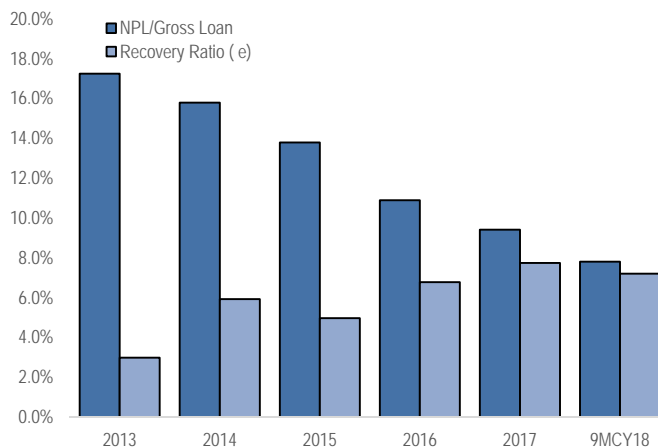


Exhibit: Drop in bank’s infection ratio and recovery efforts at AKBL has been really impressive



Source: IGI Research, Company Accounts, *includes loan book of NIB

Deposit cost on a rising trend

Moreover, with the rising interest rates, deposit environment is worsening for all banks and deposit market is becoming increasingly competitive. While AKBL deposit portfolio is adequately positioned, however there has been less improvement in overall portfolio since Dec-17 onwards as we have hoped for. Bank’s CA deposit by 9MCY18, represented only 27% of total deposit size, compared to CY17a at 28% a 97bps decline (24% back in CY14a). Moreover, in past 3yrs fixed deposit have seen a decline rate of 4% compared to an annualized increase of +8% growth in 9MCY18. With AKBL offering relatively attractive deposit rates compared to larger and competitor banks, our concern is higher cost of deposits for AKBL in coming years. We see a 100-120bps increase in deposit costs, CY19 onwards from current 3.8% expected in CY18, consequently, restricting overall NIMs expansion.

Exhibit: AKBL Deposit Portfolio

PKRbn	2014	2015	2016	2017	Growth Rate	9m18	Growth Rate
Fixed	91	87	87	82	-4%	91	8%
Savings	203	231	249	292	13%	314	6%
CA	92	110	130	149	17%	156	3%
Total Deposits	388	433	473	526	11%	568	6%

Estimate Revisions

We are increasing our 2018 earning expectation to PKR 4.0/share and raising our 2019-21F earnings estimates by an average ~8%. Our earnings growth for next 3yrs comes at +9%.

Per Share Data	CY17A	CY18E	CY19F	CY20F	CY21F
EPS (diluted)	4.2	4.0	5.3	5.4	6.5
EPS Growth%	1%	-4%	31%	3%	20%
DPS	1.0	1.00	1.5	2.0	3.0
BVPS	25.7	28.7	32.5	35.9	39.4

Recommendation

AKBL shares currently trade at P/e 4.8x 2019 EPS and P/b 0.8x. We have rolled our price target from Dec-18 to Dec-19, and raised our target price to now PKR 37/share, which assumes shares trade close to P/e 8.0x with our 2019 EPS of PKR 5.3. At current price of PKR 26/share AKBL offers a +45% upside.

Risks

Deposit Cost: The company's ability to gather low cost deposits (particularly non-interest bearing) is an area of potential earning upgrade. So far in 9MCY18, AKBL had trouble increasing low-cost deposits, which weighed on bank's net interest margin. However, if low-cost deposit growth picks up at the company given rate rising environment, shares could react favorably.

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