

Day Break

Wednesday, 16 August 2017

COMPANY UPDATE

ALLIED BANK LIMITED

COMMERCIAL BANKS

Recommendation	BUY
Target Price:	125.8
Last Closing: 15-Aug-17	87.0
Upside:	44.6
Valuation Methodology:	Asset based Valuation / Dividend Discount Model (DDM)
Time Horizon:	Dec-17

Market Data

Bloomberg Tkr.	ABL PA
Shares (mn)	1,145.1
Free Float Shares (mn)	171.8
Free Float Shares (%)	15.0%
Market Cap (PKRbn USDmn)	99.6 945.3
Exchange	KSE 100
Price Info.	90D 180D 365D
Abs. Return	(11.2) (17.9) (8.2)
Lo	85.1 85.1 85.1
Hi	103.4 106.1 122.0

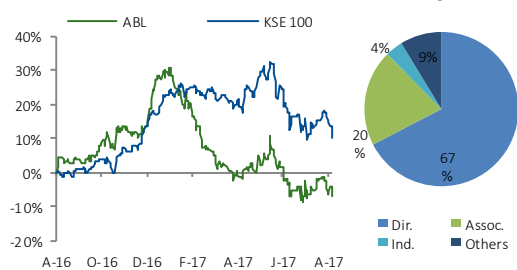
Key Company Financials

Period End: Dec				
PKRbn	CY16A	CY17E	CY18F	CY19F
Total Revenue	44.5	44.5	52.0	57.7
Net Income	14.43	13.5	16.8	18.9
EPS (PKR)	12.6	11.8	14.7	16.5
DPS (PKR)	6.0	6.0	7.0	8.0
Total Assets	1,069.6	1,219.1	1,344.4	1,476.6
Total Equity	100.7	107.4	116.1	125.9

Key Financial Ratios

ROE (%)	14.3	12.6	14.5	15.0
P/E (x)	6.9	7.4	5.9	5.3
P/B (x)	1.0	0.9	0.9	0.8
DY (%)	6.9	6.9	8.0	9.2

Relative Price Performance & Shareholding



About the Company

Allied Bank Limited was incorporated in Pakistan, is a scheduled bank, engaged in commercial banking and related services. The Bank is the holding company of ABL Asset Management Company Limited.

Source: Bloomberg, KSE 100 & IGI Research

Syed Daniyal Adil

Research Analyst
 daniyal.adil@igi.com.pk
 Tel: (+92-21) 111-234-234 Ext.: 973

Commercial Banks

ABL: Profitability to take a hit from super-tax despite uptick in non-interest income

- We foresee the bank to post unconsolidated profit after tax (PAT) of PKR 2.6bn (EPS: 2.29 PKR), down by 15%QoQ (or down 31%YoY).
- Over the quarter, we see flattish net interest income (down by 1%QoQ), with rise in interest earned counteracted by rise in interest expensed.
- ~+43%QoQ higher dividend income due to deferred payments from previous quarter and 5x higher capital gain on a quarterly basis to lend support to falling bottom-line.
- Taxation is expected to rise by +54%QoQ due to one-time provision of super-tax.
- We recommend "BUY" call with our Dec-17 target price of PKR 126/share, offering +45% upside from its last closing.

Profitability expected to fall with stable payout

We preview, Allied Bank Limited (ABL) financial results for 2QFY17. We foresee the bank to post unconsolidated profit after tax (PAT) of PKR 2.6bn (EPS: 2.29 PKR), down by 15%QoQ (or down 31%YoY). This will bring cumulative income for 1HFY17 to PKR 5.7bn (EPS: 4.98 PKR), down by 34%YoY. We also forecast the bank to announce cash dividend of PKR 1.75/share, bringing 1HFY17 payout to PKR 3.5/share. The primary cause of decline in profitability is expected to be one-time provision of super-tax leading to +74%QoQ rise in taxation. Barring taxation, pre-tax profit is expected to rise by +16%QoQ to PKR 4.7bn. On a yearly basis, fall in net interest income (down 13%YoY) and fall in capital gains (down ~33%YoY) are expected to result in a fall of 31%YoY in profit after tax.

Exhibit:

ABL Result Highlights

PKRmn (Period end=Dec)	2QCY17	2QCY16	YoY	1QCY17	QoQ	1HFY17	YoY
Net Interest Income	8,002	9,207	-13%	8,049	-1%	16,051	-9%
Fee Income	905	1,006	-10%	920	-2%	1,825	-15%
Capital Gain & Div. Income	1,800	2,033	-11%	760	1.36x	2,560	-42%
Non-Interest Income	2,900	3,181	-9%	1,874	55%	4,774	-32%
Total Revenue	10,902	12,388	-12%	9,923	10%	20,826	-16%
Operating Expenses	5,321	5,091	5%	5,267	1%	10,588	9%
Pre-Provisioning Profits	5,581	7,297	-24%	4,656	20%	10,238	-32%
NPL (Rev.) / Prov.	75	(33)	n.m	(75)	n.m	-	-100%
Pre-Tax Profits	5,506	7,330	-25%	4,731	16%	10,238	-30%
Taxation	2,880	3,517	-18%	1,656	74%	4,536	-26%
Profit After Tax	2,626	3,814	-31%	3,075	-15%	5,701	-34%
EPS (PKR)	2.29	3.33		2.69		4.98	
DPS (PKR)	1.75	1.75		1.75		3.50	
BVPS (PKR)	89.19	85.65		88.65		89.19	

KEY RATIOS

Cost-To-Income Ratio	49%	41%	53%	51%
Effective Tax Rate	52%	48%	35%	44%
Non-IL / Total Income	27%	26%	19%	23%

SOURCE: IGI Research, Company accounts, PSX notifications

Rise in interest expense to outpace rise in interest earned

Over the quarter, we see flattish net interest income (down by 1%QoQ), with rise in interest earned counteracted by rise in interest expensed. Anticipated uptick in interest earned is attributed to the expected quantum growth in both advances and investments in line with expected growth in total deposits (industry total deposits up by +7.26%QoQ), while fall in average WALR (by 7bps over the last quarter average) will dent the aforementioned growth in interest earned. On the other hand, interest expense is anticipated to rise on the back of higher deposit growth specifically with WADR averaging 4.80%, up by 14bps over the last quarter's average. Consequently, NIMs will remain under pressure as spreads continue to be squeezed from both fronts (NIMs down by 18bps over the quarter).

Capital gains and dividend income to support non-interest income

On non-interest income (up +55%QoQ), we expect falling fee income to dent revenues. Yet, contrarily, we expect ~+43%QoQ higher dividend income due to deferred payments from previous quarter and 5x higher capital gain on a quarterly basis to lend support to falling bottom-line.

Profitability to take a hit from super-tax provision

Operating expenses are expected to edge up by just +1% due to effective management (cost to income ratio at 54%). Consequently, the major dent to profitability is expected to come from taxation primarily due to one-time provision of super-tax. Hence, taxation is expected to rise by +54%QoQ with effective tax rate moving up to 56% from 35% in 1QCY17.

Recommendation

ABL showed growth in pre-tax quarterly profitability despite the competitive environment in the banking space. Hence, based on sound fundamentals and attractive valuation, with a forward CY17/CY18 P/B of 0.9x/0.9x and dividend yield of 6.9%/8.0%, we recommend **"BUY"** call with our Dec-17 target price of PKR 126/share, offering +45% upside from its last closing.

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IGI Finex Securities Limited

Research Analyst(s)

Research Identity Number: BRP009

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 سروسامانہ نگاری مسجد ہداری کے ساتھ
<http://www.jamapunji.pk>

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
Suleman Ashraf	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 957	suleman.ashraf@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