AKD Securities Limited

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AKD Daily

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Today's Daily

Banks: Spreads up 5bpsMoM in Dec'11

According to the latest data released by SBP, weighted average banking spreads for Dec'11 have registered at 7.58%, down 3bpsYoY but surprisingly up by 5bpsMoM. In this regard, the rate on deposits has fallen quicker than lending yields. As a result, full-year CY11 weighted average spreads have registered at 7.63%, up from 7.46% in CY10. At the same time, spread on fresh lending and deposit taking was at 6.17% in Dec'11, down 62bpsYoY but up 7bpsMoM. This data affirms our view that banks have likely closed out the previous quarter on a strong note, leading to robust CY11 result expectations. Furthermore, while margin compression risks remain particularly if the SBP cuts the DR in the next MPS, latest spreads data indicates banks have the ability to limit the impact on NIMs through deposit cost rationalization. While the AKD Banking Universe has already gained 14%CYTD, we believe banking stocks can continue to perform in the run up to CY11 result announcements. At current levels, we prefer UBL, ABL and BAFL while we remove MCB from our top picks list as the scrip has gained 25% since its recent low.

News and Views

- The US FOMC has indicated that US interest rates will be kept at their present levels until late 2014 vs. previous guidance of mid-2013. At the same time, the Fed remains open to QE3 (asset purchases) going forward, provided inflation is under control and unemployment stays above target. World equities and commodities, particularly gold, have rallied in the aftermath of the announcement.
- Weighted average yields fell by 16bps-20bps in yesterday's T-bill auction with more than 70% of amount (realized value: PkR100bn vs. target of PkR75bn) picked up in the 6m and 12m tenors. In our view, this indicates increasing expectations of a discount rate cut on Feb 11'12.
- FBR will reportedly issue an SRO next week in connection with recently announced changes in the CGT regime. In other news, the National Price Monitoring Committee has taken notice of high urea and DAP prices in Pakistan and has asked the Ministry of Industries to investigate and take steps to lower prices.
- The President of Mobilink has reportedly confirmed the company will participate in the upcoming 3G auction.

KSE 100 - Index

Current	11,949.75
Previous	11,991.38
Chg.	-0.35%

Mkt Cap. (PkRbn/US$bn)

Current	3,103 / 34.43
Previous	3,114 / 34.54
Chg.	-0.32%

Daily Turnover (mn)

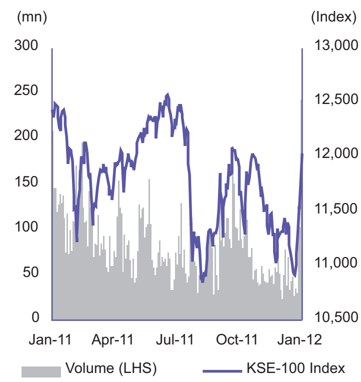
Current	124.85
Previous	200.06
Chg.	-37.6%

Value Traded (PkRmn/US$mn)

Current	4,487 / 49.78
Previous	6,890 / 76.43
Chg.	-34.9%

SCRA Flow FYTD (US$mn)

21-Jan-12	(225.11)
20-Jan-12	(224.39)
Val. Chg	(0.72)



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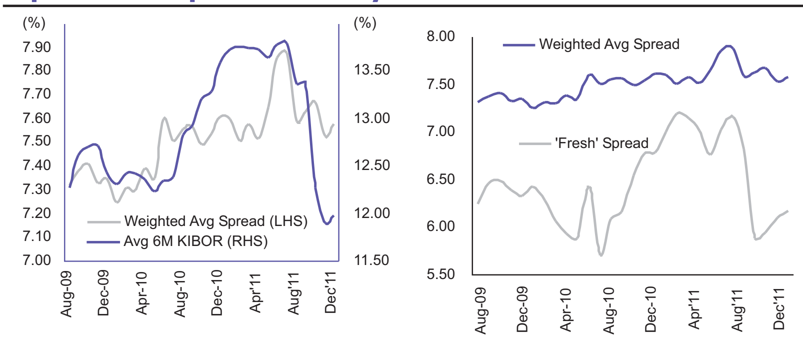
Spreads Compression Delayed



Source: SBP & AKD Research

Strong end to CY11: Dec'11 weighted average spreads at 7.58% (down 3bpsYoY but up 5bpsMoM) reaffirm our view that CY11 results will likely be robust. Besides sustained spreads, further impetus to earnings growth should come from 1) lower provisions (enhanced FSV benefit), 2) recognition of suspended markup following conversion of circular debt exposure into GoP securities, 3) capital gains on potential portfolio churning and 4) easing price pressures. Furthermore, while margin compression concerns remain for CY12F, particularly if the monetary easing process continues, latest spreads data indicates banks have the ability to limit the impact on NIMs through deposit cost rationalization.

Investment Perspective: Banks have gained 14%CYTD, outperforming the KSE-100 Index by 8.8% in the process. We believe outperformance can continue in the run up to CY11 results announcement, as has generally been the case in the past few years. Our top picks are UBL, ABL and BAFL while MCB could potentially come in for a breather post share price gain of 25% since its recent low.

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AKD Universe Banking Sector

Stock	Price	TP	P/B (x)	Stance
ABL	61.1	75.5	1.1	Buy
AKBL	10.6	11.5	0.4	Accumulate
BAFL	12.3	13.8	0.6	Accumulate
HBL	115.9	130.0	1.0	Accumulate
HMB	18.0	20.0	0.7	Accumulate
MCB	168.1	180.0	1.4	Accumulate
MEBL	22.3	24.0	1.1	Accumulate
NBP	45.0	48.0	0.5	Accumulate
UBL	57.7	69.9	0.7	Buy

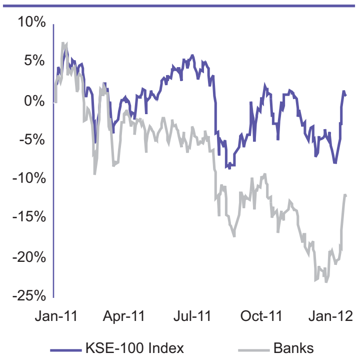
Source: AKD Research

Banks Sector Performance

	1M	3M	6M	12M
Absolute (%)	11.9	2.0	-7.5	-15.7
Rel. Index (%)	6.1	-1.8	-3.9	-11.6

Source: AKD Research

Banking Universe vs. KSE-100



Source: AKD Research

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Rating Definitions

Buy	≥ 20% upside potential
Accumulate	> 5% to < 20% upside potential
Neutral	≤ 5% to ≥ -5% potential
Reduce	≤ -5% to > -20% downside potential
Sell	< -20% downside potential