TAURUS
SECURITIES LIMITED
A Subsidiary of National Bank of Pakistan

QUARTERLY REVIEW & OUTLOOK

The Market

The market during the third quarter of 2011 (3QCY11) was mainly bearish for the first 2 months of the quarter due to foreign portfolio outflow, the security situation in Karachi and negative spillover impact from selling pressure in global equity markets. However, the local bourses displayed some bounce back in the final third of the quarter. The market can be segmented into 3 distinct phases: 1) sharp descent; 2) modest recovery and 3) short correction and bounce back. Overall, the KSE-100 Index during 3QCY11 dropped 734 points or 5.9% to close the quarter at 11,761 on average daily turnover of 59.33m shares while the KSE-30 Index shed 365 points or 3.15% to 11,220. The 9mCY11 return for the KSE-100 Index was -260 points or -2.17%; likewise the KSE-30 Index return was -367 points or -3.17%. The net outflow of foreign funds in the market during the quarter according to the NCCPL figures comes to US$46.09m while the calendar year to date net outflow stands at US$15.90.

Pakistan's Banking Sector

The year 2010 and half of 2011 have been salubrious periods for the Pakistani banking industry. Interest rates were high, liquidity was plenty so banks could get rid of expensive deposits, and NPL accretion slowed down. The resulting commendable performance of the banks, especially the top tier banks, might, however, have peaked.

This is because we expect spreads to get squeezed in the face of expected policy rate cut of 50 bps in the immediate future and 50bps later. On the other hand, slashing of interest rates will result in one time capital gains for banks when they mark-to-market their PIBs, T-Bills and TFCs, and also ease the NPL accretion scenario as borrowers will then find it easier to service their debt .

Another positive outlook for the sector is expected continued strong growth of deposits and consequently investments. However, there are no signs in the macroeconomic environment that will propel banks to change their stance on private sector credit off take.

Out of our seven coverage banks, we recommend to ACCUMULATE MCB and ABL. This report also covers these two banks, along with HBL, UBL, BAHL, BAFL and FABL.

QUARTERLY REPORT
July to September, 2011

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PAKISTAN MARKET REVIEW & STRATEGY

Analyst:
Salman Rasheed
salman@taurus.com.pk

July to September 2011 Market Review

The market during the third quarter of 2011 (3QCY11) was mainly bearish for the first 2 months of the quarter due to foreign portfolio outflow, the security situation in Karachi and negative spillover impact from selling pressure in global equity markets. However, the local bourses displayed some bounce back in the final third of the quarter. The market can be segmented into 3 distinct phases: 1) sharp descent; 2) modest recovery and 3) short correction and bounce back. Overall, the KSE-100 index during 3QCY11 dropped 734 points or 5.9% to close the quarter at 11,761 on average daily turnover of 59.33m shares while the KSE-30 Index shed 365 points or 3.15% to 11,220. The 9mCY11 return for the KSE-100 Index was -260 points or -2.17%; likewise the KSE-30 Index return was -367 points or -3.17%. The net outflow of foreign funds in the market during the quarter according to the NCCPL figures comes to US$46.09m while the calendar year to date net outflow stands at US$15.90.

Sharp descent

The market was bearish during most of July and August on the back of foreign portfolio outflow, unstable security situation in Karachi and spillover impact from a slump in global equity markets. From the beginning of July to August 23, the KSE-100 Index plunged by 1,653 points or 13.2% to close at 10,842. The average daily turnover during this period was 54.45m shares and the net outflow of foreign funds according to NCCPL figures was US$39.85m.

The market was depressed for most of the first week of July. The market sentiments were bearish mainly due to the law and order situation in Karachi on the back of more target killings and other violent incidents. The KSE-100 Index shed 94 points to close at 12,390 on July 8. Some of the major developments during this period were:

⇒ MQM protest on July 8.

⇒ The fiscal deficit for FY11 came at 5.3% of GDP higher than earlier estimate.

⇒ FY11 average CPI stood at 13.92%.

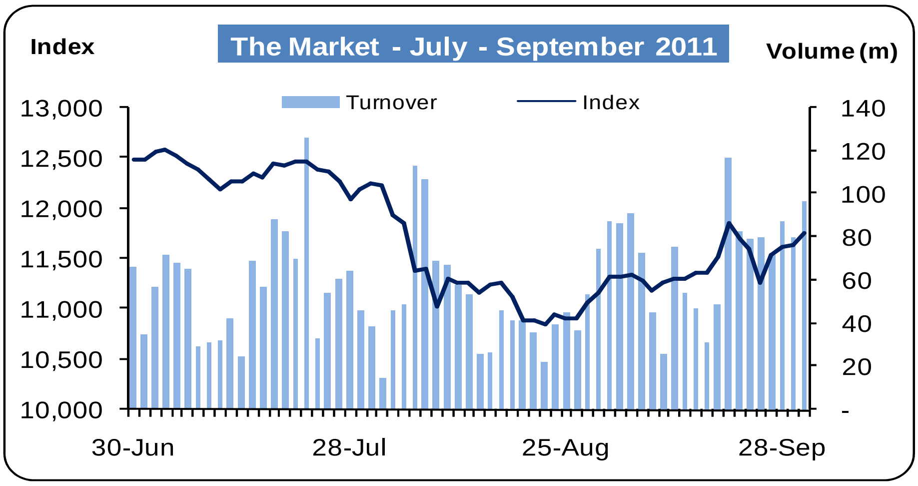
The market was lackluster during the second week of July. The continuing deterioration in the security situation in Karachi and the resignation of the SBP Governor had an adverse impact on the bourses during the week. The market began the week on a negative note as the KSE-100 Index shed 198 points within the first 2 days. The main reason for this slide was the news of the suspension of US$ 800m in military aid by the U.S. Government to Pakistan that led to nervousness among investors that the US-Pak relationship would undergo further strain. The KSE-100 Index dropped 46 points during the week to close at 12,346 on July 15. Other significant developments during the week were:

⇒ MQM protest on July 14.

⇒ Resignation of SBP Governor on July 13.

⇒ Foreign remittances cross the US$11bn mark during FY11.

The market was slightly bullish with improved turnover during the third week (85m shares/day) as compared with the previous week (40m shares/day) and notwithstanding US$22.3m net foreign outflow. The improvement in the security and political situation in Karachi was a key driver in the early part of the week. There was buying interest in selective stocks from the fertilizer, cement, banking, oil and energy sectors ahead of expected quarterly/annual announcements during the next 6 to 8 weeks. The KSE-100 Index gained 130 points to end the week at 12,476 on July 22. Some good news was reported on the macroeconomic front as the FY11 current account balance posted a US$542 million surplus.



The market was depressed throughout the final week of July because of foreign net outflow of nearly US$12m on the back of uncertainty regarding the debt ceiling crisis in the U.S. and the Monetary Policy Statement expected on July 30. Despite corporate results of major companies such as MCB, FFBL and UBL being in-line with market expectations, investors were still net sellers. The volumes were mainly concentrated in second and lower tier stocks during the week under review. Another factor for the bearishness was the ongoing conflict between the judiciary and the government. The KSE-100 Index plummeted by 286 points to end the week and month at 12,190 on July 29.

The market continued its slump from July into the first week of August on the back of precarious security situation in Karachi and to some extent a spillover depression in equity markets around the world. The market opened on a positive note on August 1 because of the surprise move by the SBP on the weekend to cut the policy rate by 50 bps to 13.5%. The global decline in equity markets can be attributed to investors' fears of the growing debt crisis weighing down global economic growth. The KSE-100 Index shed 815 points to end the week at 11,375 on August 5.

The market was mixed with improved turnover (71m shares/day as compared to 52m shares/day in the previous week) during the second week of August as uncertainty continued in global equity markets having a spillover impact on local bourses. On the economic front, July 2011 remittances were reported at over US$1bn for the fifth consecutive month and in the recent T-bill auction on August 10, the cut-off yields posted small declines in all three tenors. The KSE-100 Index dropped further during the week by 113 points to close at 11,262 on August 12.

The market was flat and slightly erratic with lower turnover (49% WoW fall to 36.m shares/day) during the third week compared to the previous week on the back of the uncertain security situation in Karachi and global selling in equity markets on the back of weak U.S. economic data. There was some buying interest in OMCs as the government decided to increase the OMC margin on regulated products. The KSE-100 Index shed 382 points to end the week at 10,879 on August 19. Major news during the week was:

⇒ The government has increased dealers' commission and the rate of margins of oil marketing companies (OMCs) on petroleum products by PKR0.41 to PKR0.70 per litre.

⇒ The MSCI Barra, a leading provider of worldwide stock indices, announced the results of its August 2011 review on August 17, maintaining a status quo on Pakistan's stock weight in the Frontier Markets at 3.98 per cent.

⇒ The State Bank of Pakistan on August 17 said that current account posted a deficit of US$75m in July 2011 compared with US$631m in corresponding period of last fiscal year 2010-11, depicting a decreased of US$556m.

⇒ The State Bank of Pakistan on August 17 conducted auction of Pakistan Investment Bonds (PIBs) and accepted bids worth PKR 41.2 bn with a realized amount of PKR 38.31 bn.

The market began the week on August 22 staging a minor recovery as the KSE-100 Index gained 14 points due to buying activity in fertilizer and energy stocks. However, the Index shed 51 points the next day as the MQM's mourning day paralyzed activity in the Karachi forcing the KSE to close 90 minutes earlier than usual.

Modest recovery

Near the end of August, the market began to stage a modest recovery that continued after the Eid ul-Fitr holiday break till the middle of September. The KSE-100 Index gained 1,009 points or 9.31% from August 24 to September 21 to close at 11,851. Foreign portfolio inflow (net inflow of US$3.26m during this period) and improving security situation in Karachi on the back of Supreme Court's suo moto action and Rangers-led crackdown was the impetus for the recovery in the market during this period. In addition, the low inflation figure of 11.56% reported for August 2011 led to bullish sentiments among investors that a deeper rate cut by the SBP was possible in its upcoming policy statement in October. However, during this period, the market turnover was erratic. Some of the key developments during this stage were:

⇒ The U.S. and the ADB may provide financing for Diamer-Bhasha dam.

⇒ The recent flood in Sindh is estimated to have caused damage to 2-2.5m bales of cotton.

⇒ Gas supply to fertilizer plants, including Engro Corporation has been restored 12 days ahead of schedule as annual maintenance time period of Qadirpur Field was cut short.

⇒ Trade deficit for 2MFY12 widens by 19.5% YoY to US$3.33bn.

⇒ Record US$1.31bn remittances received in August 2011.

⇒ Pakistan is expected to end IMF programme.

⇒ Monetary Policy Statement rescheduled for October 8.

⇒ The current account deficit for August stood at US$89 million.

⇒ On September 21, the cutoff yield for six-, and 12-month bills declined to 13.2331% and 13.3124% from the previous rates of 13.3015% and 13.4026%, respectively. However, the cutoff yield for three-month papers remained unchanged at 13.0697%.

Short correction and bounce back

From September 22 to 26, the equity bourses experienced a correction because of profit taking by both local and foreign investors, negative spillover impact from global equity selling pressure and nervousness over the war-of-words going on between high level government officials of both the U.S. and Pakistan regarding the Haqqani network. The KSE-100 Index shed 586 points or 4.95% to 11,265 during these 4 sessions.

There was a modest bounce back in the dying days of the month due to reports of back channel diplomacy in play trying to diffuse the tension between the U.S. and Pakistan and news of a rate cut for new NSS investments. In addition, the rebound in the Index was being led by buying activity in fertilizer and oil stocks on the back of higher earnings expectations for the upcoming quarterly result season. In the last 4 sessions of the quarter, the KSE-100 gained 496 points or 4.28% to end the quarter at 11,761 on September 30. The significant news reports during the last 10 days of September were:

⇒ Pakistan will have to fight the Haqqani network and other militant groups if it wants to continue to receive economic and security assistance from the United States, says the US Senate Appropriations Committee.

- ⇒ Cement sales fell 18% MoM in August 2011.
- ⇒ The government may have to revise downward 2011-12 GDP growth projection from 4.2% to 3.5% following an estimated loss of 2.5 million cotton bales in Sindh by recent floods.
- ⇒ A team of experts from the International Monetary Fund will visit Islamabad in November for talks with Pakistani officials, says Finance Minister Abdul Hafiz Shaikh.
- ⇒ The SBP on September 26 decided to intervene in the open currency market to arrest the continuing depreciation of rupee against US dollar.
- ⇒ India supports Pakistan's EU waiver package.
- ⇒ ADB links lending to macroeconomic stability. ADB is willing to lend money to settle circular debt issue but GoP must take steps to prevent its reappearance.
- ⇒ FY11 fiscal deficit jumps to PKR 1.194trn (6.6% of GDP including electricity subsidies).

Comparative Performance

During 3QCY11, most equity markets around the world were depressed. The debt crisis in both the Eurozone and the U.S. had a contagion effect for the rest of the world leading to selling pressure in equity investments. Even the Asian markets were not immune despite stronger fiscal positions vis-à-vis U.S. and Europe. However, global economic slowdown would have an adverse impact on most Asian economies due to their export orientation. The best of the worst equity markets were Sri Lanka, Pakistan, the Philippines and Indonesia during 3QCY11.

Performance of Selected Markets during 3QCY11 and 9MCY11

Index	Country	Period			3QCY10	YTD
		31-Dec-10	30-Jun-11	30-Sep-11	Change	Change
Sri Lanka All Share	Sri Lanka	6,635.87	6,825.94	6,783.55	-0.62%	2.23%
KSE-100	**Pakistan**	**12,022.46**	**12,496.03**	**11,761.97**	**-5.87%**	**-2.17%**
PSEi	Philippines	4,201.14	4,291.21	3,999.65	-6.79%	-4.80%
Jakarta Composite	Indonesia	3,703.51	3,888.57	3,549.03	-8.73%	-4.17%
Nikkei 225	Japan	10,228.90	9,816.09	8,700.29	-11.37%	-14.94%
DJIA	USA	11,577.50	12,414.30	10,913.40	-12.09%	-5.74%
FTSE Bursa Malaysia KLCI	Malaysia	1,518.91	1,579.07	1,387.13	-12.16%	-8.68%
Sensex	India	20,509.10	18,845.90	16,453.80	-12.69%	-19.77%
THAI SET 50	Thailand	720.19	729.78	636.18	-12.83%	-11.66%
Nasdaq Composite	USA	2,652.87	2,773.52	2,415.40	-12.91%	-8.95%
FTSE 100	UK	5,899.94	5,945.71	5,128.48	-13.74%	-13.08%
Strait Times	Singapore	3,190.04	3,120.44	2,675.16	-14.27%	-16.14%
S&P 500	USA	1,257.64	1,320.64	1,131.42	-14.33%	-10.04%
SSE Composite	China	2,808.08	2,762.08	2,359.22	-14.59%	-15.98%
KRX 100	South Korea	4,386.97	4,460.47	3,759.01	-15.73%	-14.31%
Taiwan Taiex	Taiwan	8,972.50	8,652.59	7,225.38	-16.49%	-19.47%
Hang Seng	Hong Kong	23,035.40	22,398.10	17,592.40	-21.46%	-23.63%
CAC-40	France	3,804.78	3,982.21	2,981.96	-25.12%	-21.63%
DAX	Germany	6,914.19	7,376.24	5,502.02	-25.41%	-20.42%

Source: Business Recorder, Bloomberg

Regional Valuation

The Pakistan market PE at 5.92x is trading at a 48% discount to the regional average of 11.38x. Based on dividend yield, Pakistan is the most attractive at 7.06% followed by Taiwan at 4.68% and Thailand at 3.75%while the regional average is 2.88%.

Regional Valuation Comparison

Country	12m F PEx	12m F Div. Yield (%)
China	11.49	1.88
Hong Kong	10.30	3.05
India	11.27	1.44
Indonesia	13.29	2.39
Malaysia	12.81	3.49
Pakistan	**5.92**	**7.06**
Philippines	12.47	2.71
Singapore	11.28	3.69
South Korea	8.34	1.68
Taiwan	11.96	4.68
Thailand	10.55	3.75

Source: Thomson One Analytics
Date: September 15, 2011

Looking ahead

In the recently published Asian Development Outlook 2011 Update by the Asian Development Bank (ADB) states that Pakistan can expect modest economic growth during FY12 mainly on the back of agriculture (dependent on weather conditions) and services sectors. The growth of large-scale manufacturing is likely to be subdued given the energy crisis in the country not likely to be resolved any time soon. The ADB is projecting real GDP growth to clock in at 3.7% during FY12.

The ADB has expressed concerns over the low economic growth rate of the last 4 years given the population growth rate, particularly of young people under 30 years of age that comprise more than 65% of the total population. The ADB states that Pakistan must achieve an average 7% annual growth to absorb the 3% per annum rise in its labor force.

Sluggish growth in agriculture in the recent past reflects the overall decline of the sector since the high growth era during the 1980s. The ADB believes that the sector requires structural reforms to achieve higher productivity. However, such reforms according to the Bank would reduce labor requirements, as the sector accounts for 44% of total employment and hence, other sectors would need to create employment to take in unemployed agriculture workers.

According to ADB forecast, the average annual CPI inflation is expected to ease slightly to 13.0% because of planned hikes in electricity tariffs, return of automatic pass-through of fuel price increase to consumers and strong inflation potential built into the economy.

The current account scenario is anticipated to weaken during FY12 on the back of slower export growth of 8% due to lower export prices and import growth of 14% reflecting current high commodity prices and some economic growth. The ADB expects workers' remittances to remain robust, acting as a cushion for a larger trade deficit and restraining pressure on forex reserves as external debt service payments rise sharply. The current account deficit is estimated at 1.3% of GDP.

Selected economic indicators (%)

	2011		2012	
	ADO 2011	Update	ADO 2011	Update
GDP growth	2.5	2.4	3.7	3.7
Inflation	16.0	13.9	13.0	13.0
Current acct bal. (share of GDP)	-1.7	0.2	-2.3	-1.3

Source:ADB estimates

The SBP will release its Monetary Policy Statement on October 8. Given the August 2011 figures showing a deceleration in the CPI of 11.56% YoY as compared to 12.79% reported in August 2010, there are expectations of a policy rate cut. However, the non-food non-energy core inflation remains sticky at 10.1% during August 2011 as against 10.3% for the same month last year. We feel that a cut of 50-75 bps is likely and anything deeper than this would be a boon for the equity markets.

The decision of the GoP to abandon the IMF program might be considered a political one, as the country will be entering into an election year soon. The shackles of fiscal restraint that were placed due to IMF conditions will be off and will allow the government to introduce populist measures to entice voters to re-elect it. This will likely increase the risk of higher fiscal deficit leading to an increase in borrowing from both the commercial banks and SBP. Albeit, the forex reserves and current account situation are strong, the external position could be under threat if commodity prices rise, particularly crude oil and slower growth in exports could result in depleting reserves and devaluation of the Pak Rupee. In addition, there is uncertainty regarding the impact of the recent floods in Sindh on exports. There are news reports stating that the GoP may have to revise the GDP growth target for FY12 downwards to 3.5% from 4.2% due to flood damage to the cotton crop. The outcome of talks between Pakistan and the IMF scheduled for November and the future outcome of the SBA will impact the direction of local equity bourses.

On the political front, the security situation has improved in Karachi, which may lead to a rapprochement between the PPP and the MQM. It appears that the MQM has been cornered, as the previous deterioration in the security situation has placed the blame mainly on all the political stakeholders in Karachi, but the MQM is perceived to shoulder most of the responsibility by the rest of the country. It is likely that the MQM will return to the governing coalition at both the centre and Sindh. Hopefully, this will re-establish some political stability in the immediate term. However, in Pakistan, the political situation is always fluid, it is a just a matter of time when the next political crisis will arise.

On the geopolitical front, the U.S. is building pressure on Pakistan to launch an operation on the Haqqani network; however, the Pakistani security establishment is reluctant to act at this time. The U.S. Secretary of Defence Leon Panetta and outgoing Chairman of the Joint Chiefs of Staff Admiral Mike Mullen have recently applied pressure both publicly and privately on General Kayani to move on the Haqqani network. The already strained relations between the U.S. and Pakistan will likely see more acrimony ahead, which could have an adverse economic impact on Pakistan in terms of the external account if the U.S. decides not to grant more financial assistance.

Another round of quarterly results is expected to begin next month and so investor attention would also be focused on the results of the major sectors, as there are expectations of good results for sectors such as E&P and OMC.

Investment Strategy

The market is facing risks on various fronts such as economic, political and geopolitical. Any significant development on these fronts will impact the market direction in the immediate term. We recommend investors to exercise caution.

Given the risks, we advise investors to take a defensive stance and invest in income and value stocks such as PTCL, PPL, OGDC, KAPCO, HUBC, LUCK and FFC.

RATINGS GUIDE

September 30, 2011

Stock	Target Price	Closing price on 30-Sep-11	Rating	EPS			DPS			BVPS			P/E x	Dividend Yield	P/BV x	Beta	Shares Outstanding	Year end
				FY10A	FY11F	FY12F	FY10A	FY11F	FY12F	FY10A	FY11F	FY12F						
ABL	69.00	60.50	Accumulate	9.60	11.60	11.90	3.60	4.00	5.00	41.80	50.50	57.30	5.20	7%	1.20	1.06	860	Dec
BAHL	30.30	29.87	Hold	4.10	4.60	5.00	2.00	2.50	2.50	18.30	21.90	24.50	6.40	8%	1.40	1.22	879	Dec
FABL	10.70	10.22	Hold	1.60	1.80	2.10	NIL	NIL	1.00	22.50	26.50	28.60	5.60	NIL	0.40	1.15	733	Dec
BAFL	11.20	11.28	Reduce	0.70	2.20	2.30	NIL	1.00	1.00	16.50	17.90	19.10	5.20	9%	0.60	1.26	1,349	Dec
HBL	112.80	119.36	Reduce	14.20	18.10	20.30	6.50	7.00	7.00	81.20	93.90	107.80	6.60	6%	1.30	1.10	1,102	Dec
MCB	195.10	173.27	Accumulate	20.20	24.40	26.30	10.50	11.50	12.00	94.70	101.30	116.20	7.10	7%	1.70	1.20	836	Dec
UBL	65.90	60.14	Hold	9.10	10.40	11.90	5.00	5.00	6.00	55.90	61.70	70.20	5.80	8%	1.00	1.22	1,224	Dec
ACPL*	74.00	54.02	Buy	11.70	7.90	9.80	5.00	4.50	4.00	62.30	67.00	72.00	5.50	7%	0.80	0.99	87	Jun
CHCC	9.30	8.25	Accumulate	(0.10)	0.40	1.20	NIL	NIL	NIL	23.50	23.40	26.60	22.30	NIL	0.40	0.89	96	Jun
DGKC	27.70	20.57	Buy	0.50	0.90	2.20	NIL	NIL	NIL	60.50	64.60	71.70	23.10	NIL	0.30	1.40	438	Jun
FCCL *	6.50	4.00	Strong Buy	0.20	0.30	0.80	NIL	NIL	NIL	7.20	8.30	11.30	4.90	NIL	0.40	1.50	1,331	Jun
LPCL	3.40	2.37	Strong Buy	0.70	(0.20)	0.10	NIL	NIL	NIL	6.70	6.50	6.60	N/A	NIL	0.40	1.07	1,313	Dec
LUCK *	89.00	75.52	Accumulate	9.70	12.30	13.90	4.00	4.00	4.00	77.60	85.90	95.50	5.40	5%	0.80	1.26	323	Jun
MTL *	581.90	401.00	Strong Buy	62.40	73.00	79.10	65.00	47.50	60.00	114.50	127.10	218.30	5.10	15%	1.80	1.02	37	Jun
INDU*	235.00	193.01	Buy	43.80	34.90	47.80	15.00	15.00	14.00	160.10	179.60	244.30	4.00	7%	0.80	1.10	79	Jun
PSMC	87.40	68.55	Buy	3.10	5.40	11.00	0.50	1.00	1.00	176.20	177.30	184.80	12.80	1%	0.40	0.90	82	Dec
HUBC	57.40	41.50	Buy	4.80	5.00	5.80	5.00	4.90	5.70	25.80	25.80	26.90	8.30	12%	1.60	0.80	1,157	Jun
KAPCO *	52.00	45.10	Accumulate	5.80	7.40	8.20	5.00	6.50	7.90	25.60	27.20	26.30	5.50	18%	1.70	0.59	880	Jun
NPL	17.30	15.11	Accumulate	0.10	5.30	7.20	NIL	NIL	1.60	10.20	24.30	24.30	2.80	NIL	0.60	1.00	354	Jun
APL *	408.40	397.85	Hold	52.00	61.60	62.40	25.00	41.50	40.00	133.60	167.00	137.80	6.40	10%	2.90	1.03	69	Jun
P.S.O *	342.00	254.58	Buy	52.80	86.20	67.20	8.00	10.00	15.00	171.00	244.30	317.40	3.80	6%	0.80	1.05	172	Jun
OGDC *	143.30	132.14	Hold	13.80	14.80	16.10	5.50	5.50	6.00	36.60	46.90	56.80	8.20	5%	2.30	1.13	4,301	Jun
POL *	302.90	368.36	Sell	31.40	45.70	45.60	25.50	35.00	32.00	123.10	141.30	150.30	8.10	9%	2.50	1.20	237	Jun
PPL *	238.00	189.57	Buy	17.70	23.90	29.00	6.80	10.90	13.00	60.80	71.80	87.80	6.50	7%	2.20	1.04	1,314	Jun
PICT *	88.30	72.13	Buy	8.30	11.50	10.10	4.00	5.00	5.00	34.10	42.90	40.10	7.10	7%	1.80	0.80	109	Jun
PTC *	17.34	11.62	Strong Buy	2.30	1.70	1.81	1.75	1.75	1.75	21.19	21.10	21.49	6.40	15%	0.50	1.11	5,100	Jun
FFBL	61.00	58.68	Hold	7.00	7.10	6.80	6.60	7.00	6.70	13.10	18.80	18.00	8.20	12%	3.10	0.97	934	Dec
FFC	187.60	161.90	Accumulate	13.00	22.80	24.30	10.40	20.00	21.00	18.20	27.80	28.10	7.10	12%	5.80	1.02	848	Dec
ICI	168.20	145.22	Accumulate	17.50	14.50	18.80	17.50	10.00	10.00	97.10	119.50	128.10	10.00	7%	1.20	1.03	139	Dec
LOTPTA	12.70	11.86	Hold	3.00	2.90	1.80	NIL	0.50	0.50	6.40	8.70	10.00	4.20	4%	1.40	1.30	1,514	Dec
EPCL	10.40	8.59	Buy	(1.20)	0.60	1.70	NIL	NIL	NIL	10.40	9.70	10.60	13.90	NIL	0.90	1.09	663	Dec

*** updated for FY11 results**

KSE 100 INDICATORS

Sector	Company	Mkt. Cap (mln)	Equity (mln)	Sh. O/S (mln)	PAT (mln)	EPS (Rs)	P/E (x)	Price 30-Aug	Div. Yield (%)	Weightage (%)
Oil And Gas	Attock Petroleum Ltd	27,499	9,236.6	69.1	3,594.3	52.0	7.7	397.85	7.54	1.02%
	Attock Refinery	9,476	12,196.9	85.3	126.4	1.5	75.0	111.10	0.00	0.35%
	Mari Gas Company Limited	8,084	9,190.8	73.5	1,186.0	16.1	6.8	109.98	2.82	0.30%
	National Refinery	29,358	19,638.0	80.0	3,284.8	41.1	8.9	367.13	5.45	1.08%
	O G D C	568,325	201,565.6	4,300.9	63,527.3	14.8	8.9	132.14	4.16	20.99%
	Pakistan Oilfields	87,134	29,124.7	236.5	7,437.0	31.4	11.7	368.36	6.92	3.22%
	Pakistan Petroleum Ltd	226,532	94,423.0	1,195.0	31,445.7	26.3	7.2	189.57	4.75	8.37%
	Pakistan Refinery	2,396	2,348.8	35.0	(2,974.5)	(85.0)	N.M	68.45	0.00	0.09%
	Pakistan State Oil	43,665	41,903.0	171.5	14,779.3	86.2	3.0	254.58	3.14	1.61%
	Byco Petroleum	2,800	(8,068.9)	392.1	(1,616.4)	(4.1)	N.M	7.14	0.00	0.10%
Sec. P/E: 7.99	Shell Pakistan	15,017	7,900.0	68.5	1,615.6	23.6	9.3	219.27	5.47	0.55%
Chemicals	Clariant Pakistan	4,576	2,658.4	34.1	762.7	22.4	6.0	134.11	10.07	0.17%
	Dawood Hercules	23,766	22,671.8	481.3	3,248.0	6.7	7.3	49.38	10.13	0.88%
	Engro Corporation	56,393	30,599.0	393.3	6,441.0	16.4	8.8	143.39	4.18	2.08%
	Engro Polymer & Chemicals Ltd	5,699	6,906.3	663.5	(813.8)	(1.2)	N.M	8.59	0.00	0.21%
	Fauji Fertiliser Bin Qasim	54,814	12,210.0	934.1	6,514.4	7.0	8.4	58.68	11.16	2.02%
	Arif Habib Corporation	10,969	16,135.3	375.0	(2,768.9)	(7.4)	N.M	29.25	0.00	0.41%
	Fauji Fertilizer	137,317	15,447.5	848.2	11,028.8	13.0	12.5	161.90	8.03	5.07%
Sec. P/E: 9	ICI Pakistan	20,157	15,455.4	138.8	2,428.8	17.5	8.3	145.22	12.05	0.74%
	Agritech Limited	7,617	10,799.5	392.4	885.7	2.3	8.6	19.41	0.00	0.28%
	Lotte Pakistan PTA Ltd.	17,958	9,688.4	1,514.2	4,527.8	3.0	4.0	11.86	4.22	0.66%
Forestry And Paper	Fatima Fertilzer Company	37,700	24,258.8	2,000.0	(163.6)	(0.1)	N.M	18.85	0.00	1.39%
Industrial Metals And Mining	Security Papers	1,383	3,220.0	41.1	315.1	7.7	4.4	33.61	14.88	0.05%
Construction And Materials	International Industries	4,800	4,690.5	119.9	1,026.3	8.6	4.7	40.04	9.99	0.18%
	Attock Cement	4,678	5,395.4	86.6	1,003.6	11.6	4.7	54.02	9.26	0.17%
	Bestway Cement	3,033	7,006.1	325.7	(1,209.4)	(3.7)	N.M	9.31	0.00	0.11%
	D.G. Khan Cement	9,012	26,519.2	438.1	233.0	0.5	38.7	20.57	0.00	0.33%
	Javedan Cement	3,723	12,435.8	58.1	(128.9)	(2.2)	N.M	64.05	0.00	0.14%
	Lafarge Pakistan Cement	3,111	8,815.4	1,312.6	(948.5)	(0.7)	N.M	2.37	0.00	0.11%
Sec. P/E: 7.32	Lucky Cement	24,421	27,772.8	323.4	3,970.4	12.3	6.2	75.52	5.30	0.90%
	Gharibwal Cement	2,133	4,000.4	400.3	(1,027.5)	(2.6)	N.M	5.33	0.00	0.08%
General Industries	Ghani Glass	5,441	4,143.6	106.7	947.2	8.9	5.7	51.00	4.90	0.20%
	Packages Limited	8,607	26,929.9	84.4	(332.4)	(3.9)	N.M	102.00	3.19	0.32%
	Siemens Engineering	8,824	7,168.4	8.2	999.5	121.2	8.8	1070.00	8.41	0.33%
Sec. P/E: 5.15	Thal Limited	2,790	5,664.0	30.7	1,366.3	44.5	2.0	90.89	4.40	0.10%
Electronics And Electrical Equipments	Pakistan Cables Limited	1,165	1,399.7	28.5	45.5	1.6	25.6	40.92	3.67	0.04%
Industrial Engineering	Al-Ghazi Tractors	4,396	6,362.7	21.5	1,908.9	88.9	2.3	204.78	9.77	0.16%
Sec. P/E: 4.17	Millat Tractors	14,679	4,652.2	36.6	2,670.7	73.0	5.5	401.00	16.21	0.54%
Industrial Transportation	P.I.C.T	7,873	4,681.0	109.2	1,253.9	11.5	6.3	72.13	5.55	0.29%
Sec. P/E: 5.33	P.N.S.C.	2,611	7,133.5	132.1	711.5	5.4	3.7	19.77	7.59	0.10%
Support Services	TRG Pakistan Limited	721	1,015.7	385.4	(1,616.8)	(4.2)	N.M	1.87	0.00	0.03%
Automobile And Parts	Atlas Honda	7,443	4,622.4	62.6	1,002.6	16.0	7.4	119.00	2.10	0.27%
	Indus Motors	15,171	12,587.6	78.6	3,443.4	43.8	4.4	193.01	7.77	0.56%
Sec. P/E: 6.07	Pak Suzuki Motors	5,642	14,497.9	82.3	211.1	2.6	26.7	68.55	0.73	0.21%
Beverages	Muree Brewery Co Ltd	1,627	3,785.5	17.3	315.3	18.2	5.2	93.95	5.32	0.06%
Food Producers	Nestle Pakistan	169,970	5,581.9	45.3	4,112.8	90.7	41.3	3747.99	2.00	6.28%
	Rafhan Maize	25,215	4,953.9	9.2	1,837.9	199.0	13.7	2730.00	4.21	0.93%
	Unilever Pakistan Ltd.	74,193	3,560.3	13.3	3,273.2	246.2	22.7	5581.02	4.41	2.74%
Sec. P/E: 28.9	Unilever Foods Ltd	9,852	404.4	6.2	437.5	71.0	22.5	1600.00	4.44	0.36%
Household Goods	Pak Electron Limited	656	6,795.7	121.9	260.5	2.1	2.5	5.38	0.00	0.02%
Leisure Goods	Grays of Cambridge Pak	259	201.2	7.3	(18.3)	(2.5)	N.M	35.18	7.11	0.01%
Personal Goods	Azgard Nine Limited	2,238	18,469.7	449.3	60.5	0.1	37.0	4.98	0.00	0.08%
	Bata Pakistan Ltd.	5,295	1,960.7	7.6	585.5	77.4	9.0	700.35	4.00	0.20%

Sector	Company	Mkt. Cap (mln)	Equity (mln)	Sh. O/S (mln)	PAT (mln)	EPS (Rs)	P/E (x)	Price 30-Aug	Div. Yield (%)	Weightage (%)
	Colgate Palmolive	18,375	3577.1	31.6	1151.6	36.5	16.0	581.67	2.32	0.68%
	Ibrahim Fibers	9,887	15238.1	310.5	3360.1	10.8	2.9	31.84	6.28	0.37%
	Indus Dyeing & Mfg. Company	7,699	4310.4	18.1	1858.5	102.8	4.1	425.96	0.00	0.28%
Sec. P/E: 6.08	Nishat Mills	16,908	31376.3	351.6	2915.5	8.3	5.8	48.09	9.36	0.62%
Tobacco	Phillip Morris	8,621	6819.9	61.6	958.4	15.6	9.0	140	1.79	0.32%
Sec. P/E: 14.41	Pakistan Tobacco Company	18,526	3602.1	255.5	925.1	3.6	20.0	72.51	4.62	0.68%
Health Care Equipment And Services	Shifa International Hospitals	1,717	1095.1	50.5	258.6	5.1	6.6	34	7.35	0.06%
Pharma And Bio Tech	Abbot Laboratories	9,810	3912.5	97.9	1176.9	12.0	8.3	100.2	4.99	0.36%
Sec. P/E: 10.85	GlaxoSmith-Kline Pak Ltd.	14,428	10799.8	201.9	1057.4	5.2	13.6	71.47	5.60	0.53%
Travel And Leisure	Dreamworld Ltd	18,400	347.1	32.0	1.9	0.1	9668.9	575	0.00	0.68%
	P.I.A.C. (A)	5,593	-56416.9	2577.5	-20785.1	-8.1	N.M	2.17	0.00	0.21%
Sec. P/E: 53.59	Pak Services	4,635	22792.0	32.5	427.9	13.2	10.8	142.5	0.00	0.17%
Fixed Line Telecommunication	PTCL	59,262	99389.6	5100.0	9151.2	1.8	6.5	11.62	15.06	2.19%
Electricity	Hub Power Company	48,022	29881.3	1157.2	5556.1	4.8	8.6	41.5	12.05	1.77%
	K.E.S.C.	13,413	31300.9	7451.6	-14641.2	-2.0	N.M	1.8	0.00	0.50%
	Kohinoor Energy	2,754	7051.7	169.5	687.3	4.1	4.0	16.25	15.38	0.10%
Sec. P/E: 7.98	Kot Addu Power Co. Ltd	39,699	22494.7	880.3	5089.1	5.8	7.8	45.1	11.09	1.47%
Gas Water And Multiutilities	Sui Northern Gas Ltd	10,982	18702.1	549.1	2554.6	4.7	4.3	20	10.00	0.41%
Sec. P/E: 4.55	Sui Southern Gas	20,655	14072.3	839.0	4399.1	5.2	4.7	24.62	6.09	0.76%
Banks	Allied Bank Limited	52,049	35974.9	860.3	8225.3	9.6	6.3	60.5	6.61	1.92%
	Askari Bank Limited	6,568	16004.0	707.0	943.2	1.3	7.0	9.29	0.00	0.24%
	Bank Al-Habib	26,244	16066.1	878.6	3602.2	4.1	7.3	29.87	6.70	0.97%
	Bank Al-Falah	15,218	22305.5	1349.2	968.5	0.7	15.7	11.28	0.00	0.56%
	Bank Of Punjab	3,310	3743.1	528.8	-10059.5	-19.0	N.M	6.26	0.00	0.12%
	Faysal Bank	7,488	16517.8	732.7	1190.3	1.6	6.3	10.22	0.00	0.28%
	Habib Bank	131,543	89524.7	1102.1	15613.1	14.2	8.4	119.36	5.45	4.86%
	Habib Metropolitan Bank	19,175	20308.1	1047.8	2818.0	2.7	6.8	18.3	0.00	0.71%
	MCB Bank Ltd.	144,895	79204.2	836.2	16873.2	20.2	8.6	173.27	6.64	5.35%
	Meezan Bank	16,140	11080.0	803.0	1649.6	2.1	9.8	20.1	0.00	0.60%
	National Bank	77,028	128495.8	1681.8	17563.2	10.4	4.4	45.8	16.38	2.85%
	NIB Bank	6,146	13662.8	4043.7	-10112.1	-2.5	N.M	1.52	0.00	0.23%
	Soneri Bank	2,897	8917.7	602.3	125.4	0.2	23.1	4.81	0.00	0.11%
	Standard Chartered Bank	30,779	51073.1	3871.6	3605.6	0.9	8.5	7.95	7.55	1.14%
Sec. P/E: 7.16	United Bank Limited	73,622	68415.1	1224.2	11159.9	9.1	6.6	60.14	8.31	2.72%
Non Life Insurance	Adamjee Insurance	6,621	11035.0	123.7	2434.5	4.2	12.8	53.52	4.67	0.24%
	East West Insurance Co.Ltd.	7,441	338.2	25.1	8.4	0.3	881.3	296	0.00	0.27%
	E.F.U. General Insurance	4,510	10464.5	125.0	732.3	5.9	6.2	36.08	0.00	0.17%
	IGI Insurance	5,821	11575.9	97.0	836.6	8.6	7.0	60.02	5.00	0.22%
	New Jubilee Insurance	5,685	2873.4	98.9	450.2	4.6	12.6	57.5	3.48	0.21%
Sec. P/E: 7.41	Pakistan Reinsurance	4,977	6785.7	300.0	269.9	0.9	18.4	16.59	18.08	0.18%
Life Insurance	E.F.U. Life Assurance	5,919	1579.3	85.0	363.2	4.3	16.3	69.64	7.18	0.22%
Real Estate Investment And Services	Pace Pakistan Limited	449	5194.4	278.9	436.8	1.6	1.0	1.61	0.00	0.02%
	Jahangir Siddiqui & Co	4,381	10127.7	763.3	-8983.8	-11.8	N.M	5.74	17.42	0.16%
Equity Investment Instruments	PICIC Growth Fund	3,453	6937.2	283.5	551.7	1.9	6.3	12.18	16.42	0.13%
Software And Computer Services	Netsol Technologies Limited	1,101	3337.2	77.9	951.9	12.2	1.2	14.13	8.85	0.04%
Technology Hardware And Equipment	Pakistan Telephone Cables	57	155.6	21.0	-107.4	-5.1	N.M	2.7	0.00	0.00%
Media	Media Times Ltd.	1,341	1365.1	134.1	-73.6	-0.5	N.M	10	0.00	0.05%

N.A = Not Available, N.M = Not Meaningful

(**) Companies have equity, dividend yield and PAT of 2009

KSE-100 INDEX	11,761.97
Market Cap. (Rs m)	2,707,068
P/E (x)	8.26
Dividend Yield (%)	5.56
ROE (%)	19.86

KSE-100 STATISTICS

September 30, 2011

20 Lowest P/E x Stocks	
Pace Pakistan Limited	1.03
Netsol Technologies Limited	1.16
Thal Limited	2.04
Al-Ghazi Tractors	2.30
Pak Electron Limited	2.52
Ibrahim Fibers	2.94
Pakistan State Oil	2.95
P.N.S.C.	3.67
Lotte Pakistan PTA Ltd.	3.97
Kohinoor Energy	4.01
Indus Dyeing & Mfg. Company	4.14
Sui Northern Gas Ltd	4.30
National Bank	4.39
Security Papers	4.39
Indus Motors	4.41
Attock Cement	4.66
International Industries	4.68
Sui Southern Gas	4.70
Muree Brewery Co Ltd	5.16
Millat Tractors	5.50

20 Lowest P/BV x Stocks	
Pace Pakistan Limited	0.09
Pak Electron Limited	0.10
Azgard Nine Limited	0.12
Pak Services	0.20
Javedan Cement	0.30
Packages Limited	0.32
Soneri Bank	0.32
Netsol Technologies Limited	0.33
D.G. Khan Cement	0.34
Lafarge Pakistan Cement	0.35
Pakistan Telephone Cables	0.36
P.N.S.C.	0.37
Pak Suzuki Motors	0.39
Kohinoor Energy	0.39
Askari Bank Limited	0.41
K.E.S.C.	0.43
Security Papers	0.43
Muree Brewery Co Ltd	0.43
E.F.U. General Insurance	0.43
Jahangir Siddiqui & Co	0.43

Top 20 EPS Stocks (Rs)	
Unilever Pakistan Ltd.	246.22
Rafhan Maize	198.99
Siemens Engineering	121.19
Indus Dyeing & Mfg. Company	102.83
Nestle Pakistan	90.69
Al-Ghazi Tractors	88.92
Pakistan State Oil	86.17
Bata Pakistan Ltd.	77.45
Millat Tractors	72.96
Unilever Foods Ltd	71.04
Attock Petroleum Ltd	52.00
Thal Limited	44.51
Indus Motors	43.81
National Refinery	41.08
Colgate Palmolive	36.45
Pakistan Oilfields	31.44
Pakistan Petroleum Ltd	26.31
Shell Pakistan	23.59
Clariant Pakistan	22.35
MCB Bank Ltd.	20.18

Top 20 ROE Stocks (%)	
Unilever Foods Ltd	108.18
Unilever Pakistan Ltd.	91.94
Nestle Pakistan	73.68
Fauji Fertilizer	71.40
Millat Tractors	57.41
Fauji Fertiliser Bin Qasim	53.35
Lotte Pakistan PTA Ltd.	46.73
Indus Dyeing & Mfg. Company	43.12
Attock Petroleum Ltd	38.91
Rafhan Maize	37.10
Pakistan State Oil	35.27
Pakistan Petroleum Ltd	33.30
Colgate Palmolive	32.19
O G D C	31.52
Sui Southern Gas	31.26
Abbot Laboratories	30.08
Al-Ghazi Tractors	30.00
Bata Pakistan Ltd.	29.86
Clariant Pakistan	28.69
Netsol Technologies Limited	28.52

Top 20 Market Cap Stocks (Rsm)	
O G D C	568,325
Pakistan Petroleum Ltd	226,532
Nestle Pakistan	169,970
MCB Bank Ltd.	144,895
Fauji Fertilizer	137,317
Habib Bank	131,543
Pakistan Oilfields	87,134
National Bank	77,028
Unilever Pakistan Ltd.	74,193
United Bank Limited	73,622
PTCL	59,262
Engro Corporation	56,393
Fauji Fertiliser Bin Qasim	54,814
Allied Bank Limited	52,049
Hub Power Company	48,022
Pakistan State Oil	43,665
Kot Addu Power Co. Ltd	39,699
Fatima Fertilzer Company	37,700
Standard Chartered Bank	30,779
National Refinery	29,358

Top 20 Div. Yld Stocks (%)	
Pakistan Reinsurance	18.08
Jahangir Siddiqui & Co	17.42
PICIC Growth Fund	16.42
National Bank	16.38
Millat Tractors	16.21
Kohinoor Energy	15.38
PTCL	15.06
Security Papers	14.88
ICI Pakistan	12.05
Hub Power Company	12.05
Fauji Fertiliser Bin Qasim	11.16
Kot Addu Power Co. Ltd	11.09
Dawood Hercules	10.13
Clariant Pakistan	10.07
Sui Northern Gas Ltd	10.00
International Industries	9.99
Al-Ghazi Tractors	9.77
Nishat Mills	9.36
Attock Cement	9.26
Netsol Technologies Limited	8.85

KSE-100 Sector Statistics

	P/Ex	ROE(%)		P/Ex	ROE(%)
Oil And Gas	7.99	29.70	Tobacco	14.41	18.07
Chemicals	9.00	21.48	Health Care Equipment And Services	6.64	23.61
Forestry And Paper	4.34	9.78	Pharma And Bio Tech	10.85	15.19
Industrial Metals And Mining	4.68	21.88	Media	n.m.	0.00
Construction And Materials	7.32	5.66	Travel And Leisure	53.59	1.86
General Industries	5.15	7.55	Fixed Line Telecommunication	6.48	9.21
Electronics And Electrical Equipments	25.59	3.25	Electricity	7.98	12.49
Industrial Engineering	4.17	41.58	Gas Water And Multiutilities	4.55	21.22
Industrial Transportation	5.33	16.64	Banks	7.16	14.51
Support Services	n.m.	0.00	Non Life Insurance	7.41	10.99
Automobile And Parts	6.07	14.69	Life Insurance	16.30	23.00
Beverages	5.16	8.33	Real Estate Investment And Services	1.03	8.41
Food Producers	28.90	66.63	Financial Services	n.m.	0.00
Household Goods	2.52	3.83	Equity Investment Instruments	6.26	7.95
Leisure Goods	n.m.	0.00	Software And Computer Services	1.16	28.52
Personal Goods	6.08	13.25	Technology Hardware And Equipment	n.m.	0.00
			KSE-100 Index	8.26	19.86

Top 20 Liquid Shares (m)		20 Lowest PEG Stocks*		10 Highest/Lowest Rel. Perf.*	
Lotte Pakistan PTA Ltd.	5.84	Lotte Pakistan PTA Ltd.	0.06	Indus Dyeing & Mfg. Company	31.7%
Fauji Fertiliser Bin Qasim	5.35	P.I.C.T	0.07	Siemens Engineering	28.9%
National Bank	5.29	TRG Pakistan Limited	0.10	Mari Gas Company Limited	26.0%
Fatima Fertilzer Company	4.25	Ghani Glass	0.16	Dawood Hercules	23.7%
Jahangir Siddiqui & Co	3.28	Al-Ghazi Tractors	0.18	Pakistan Refinery	21.5%
Arif Habib Corporation	3.18	Rafhan Maize	0.23	Pakistan Reinsurance	21.1%
PTCL	2.63	Meezan Bank	0.24	Attock Cement	20.0%
Engro Corporation	2.28	Allied Bank Limited	0.25	Arif Habib Corporation	19.4%
Fauji Fertilizer	2.11	Fauji Fertiliser Bin Qasim	0.30	Sui Southern Gas	18.7%
Azgard Nine Limited	2.08	Bank Al-Habib	0.32	National Bank	18.2%
D.G. Khan Cement	2.04	Indus Dyeing & Mfg. Company	0.35	Bestway Cement	-17.5%
Bank Al-Falah	2.01	Muree Brewery Co Ltd	0.35	Netsol Technologies Limited	-16.0%
Bank Of Punjab	1.96	Ibrahim Fibers	0.40	IGI Insurance	-13.0%
Nishat Mills	1.76	Lafarge Pakistan Cement	0.42	Pace Pakistan Limited	-12.5%
Hub Power Company	1.47	Pakistan Petroleum Ltd	0.49	P.I.A.C. (A)	-11.8%
Lucky Cement	1.38	Fauji Fertilizer	0.51	TRG Pakistan Limited	-11.0%
Pakistan Oilfields	1.37	Unilever Foods Ltd	0.58	Indus Motors	-10.6%
Attock Refinery	1.32	Pakistan State Oil	0.63	Millat Tractors	-9.8%
Sui Southern Gas	0.69	Habib Metropolitan Bank	0.82	Media Times Ltd.	-9.1%
NIB Bank	0.64	Nestle Pakistan	0.84	PICIC Growth Fund	-8.8%

*growth taken over last 5 years

*Rel. Perfomance taken over MoM

ECONOMIC INDICATORS

	FY04	FY05	FY06	FY07	FY08	FY09	FY10A/P
Nominal GDP (Rs billions)	5533	6548	7195	8235	9922	12082	13844
Real GDP Growth (%)	6.4	8.4	5.8	6.8	3.7	1.2	4.1
Large Scale Manufacturing Growth(%)	18.2	15.4	8.3	8.7	4.0	(8.2)	4.4
Agriculture Growth (%)	2.2	7.5	6.3	4.1	1.0	4.0	2.0
Major Crops: Wheat (m tons)	19.5	21.6	21.6	23.3	21.0	24.0	23.9
Cotton (m bales)	10.0	14.3	14.3	12.9	11.7	11.8	12.9
Sugarcane (m tons)	53.4	47.2	47.2	54.7	63.9	50.0	49.4
Rice (m tons)	4.8	5.0	5.0	5.4	5.6	7.0	6.9
Services Sector Growth (%)	6.0	7.9	6.5	7.0	6.0	1.6	4.6
Exports (US$ millions)	12313	14391	16451	16976	19052	17688	19346
Growth (%)	10.3	16.9	14.3	3.2	12.2	(7.2)	9.4
Imports (US$ millions)	15592	20598	28581	30540	39966	34822	34710
Growth (%)	27.6	32.1	38.8	6.9	30.9	(12.9)	(0.3)
Trade Balance (US$ millions)	(3279)	(6207)	(12130)	(13564)	(20914)	(17134)	(15364)
Current Account Balance (US$ millions)	280	(1070)	(4990)	(6878)	(13874)	(9261)	(3495)
SBP Foreign Exchange Reserves (US$ millior	10326	9578	10836	14333	8745	9527	13112
Exchange Rate (Rs per US$)	57.6	59.4	59.9	60.6	62.5	78.5	83.8
% change	(1.6)	3.1	0.8	1.3	3.2	25.5	6.8
Total External Liabilities (US$ billions)	35.3	35.8	36.4	39.5	44.9	51.1	54.5
Domestic Debt (Rs billions)	1979	2129	2337	2610	3275	3861	4653
of which:							
Permanent (Rs billions)	537	501	500	553	608	678	794
Floating (Rs billions)	543	778	941	1108	1637	1904	2399
Unfunded (Rs billions)	899	850	882	940	1020	1271	1456
Tax Revenue (Rs billions)	510	590	704	840	1010	1252	1483
Budgetary Expenditures (Rs billions)	899	1001	1196	1365	1921	2101	2577
Budgetary Deficit (% of GDP)	2.3	3.3	4.3	4.4	7.6	5.3	6.3
Borrowing for Budgetary Support (Rs billions)	63.7	60.2	70.9	102.0	519.9	305.6	304.6
Credit Expansion (%)	23.7	22.2	16.1	14.2	29.3	15.4	12.7
M2 Growth (%)	19.6	19.1	15.1	19.3	15.4	9.6	12.5
Consumer Price Index (FY91=100)	4.6	9.3	7.9	7.8	12.0	20.8	11.7
Sensitive Price Index (FY91=100)	6.0	11.1	7.8	9.4	14.2	22.7	13.2

Source : SBP Annual Reports

SECTOR REVIEW

Analyst:
Shumaila Badar
shumaila.badar@taurus.com.pk

PAKISTAN'S BANKING SECTOR

The year 2010 and half of 2011 have been salubrious periods for the Pakistani banking industry. Interest rates were high, liquidity was plenty so banks could get rid of expensive deposits, and NPL accretion slowed down. The resulting commendable performance of the banks, especially the top tier banks, might, however, have peaked.

Rates cut: more bad than good

We expect interest rates to come down, which, when coupled with expected higher cost of funds, will consequently squeeze margins and spreads. Slashing of interest rates will result in one time capital gains for banks when they mark-to-market their PIBs, T-Bills and TFCs. UBL and HBL, which have large holdings of PIBs and TFCs, will especially stand to gain from these. Moreover, interest rate slashing will ease the NPL accretion scenario as borrowers will find it easier to service their debt.

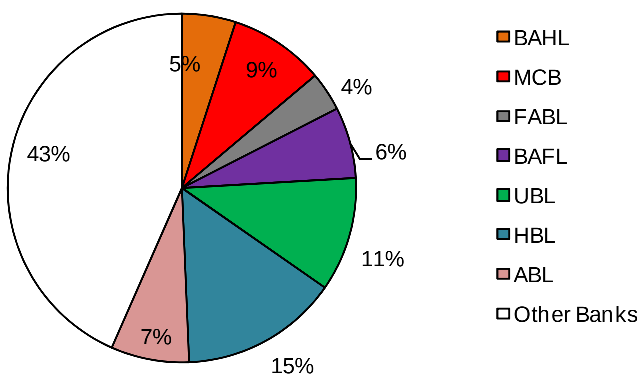
Balance Sheet growth to remain strong

We expect the balance sheets of banks to continue growing strongly because of: (i) expected monetary growth, (ii) conversion of power sector TFCs and loans into PIBs, which will give banks room to lend even more to the power sector, (iii) government's increased appetite for borrowing as a result of expected fiscal slippages which appear all the more eminent as a result of conversion of power sector and commodity financing borrowings into PIBs, and (iv) most of our coverage banks are going for aggressive branch network expansion which will increase the banked population.

Accumulate ABL and MCB

Within our universe of seven banks, MCB, BAHL and ABL stand out on fundamentals due to their impressive performance history and solid earnings outlook. The market, however appears to have priced in these earnings outlook for our universe, and so we recommend an **Accumulate** stance on ABL and MCB only.

Market share in terms of deposits as of Jun'11



Source: SBP, Company Reports, TSL Research

Balance Sheets to remain robust

Deposits, and as a result, the earning assets of Banks, have grown substantially over the years, with the growth in deposits averaging 12.96% YoY over the past three years. We expect deposits to continue growing strongly at approximately 12% for the next five years due to: (i) broad money growth on the back of hefty government borrowing and possibly monetization, and (ii) a large population of Pakistan still being unbanked.

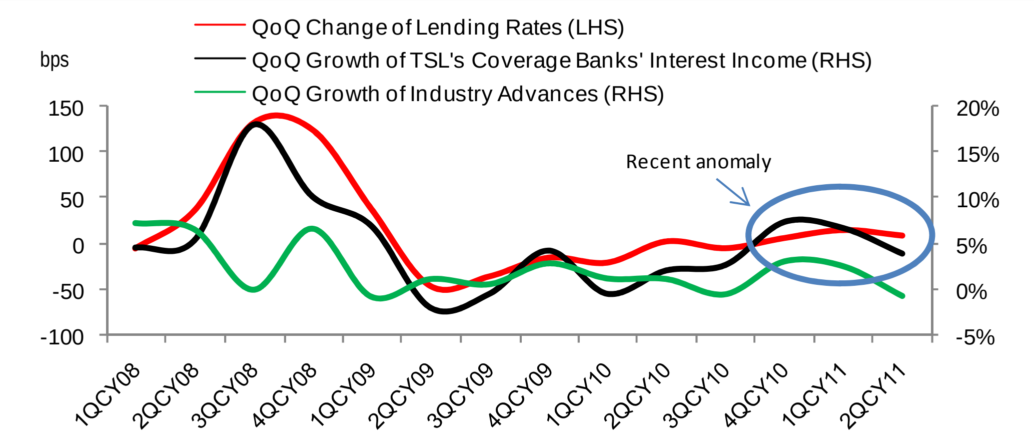
Within assets, we expect the current trend of deleveraging (investments in safe government securities taking preference over credit) to continue for at least the next two years. This is because we do not expect much improvement in the real economy and the government's fiscal indiscipline before that. In the immediate future, banks will likely see further improvement in IDR (investments to deposits ratio) at the expense of ADR (Advances to deposits ratio) due to conversion of power sector debt (both loans, which fall in advances category, and TFCs, which fall in investments category) and GoP's commodity financing borrowing into PIBs.

Earnings Outlook: slight downward dip

Lending Rates to determine earnings trend

Ever since 2008 when banks became extra risk averse (due to NPL accretion scare) and limited their lendings, interest income has been chiefly driven by interest rates, as shown in graph below. The only exception has come of late, from the second half of CY10 to the second quarter of CY11, when rates were fairly stable and interest income followed the trend of advances. The former trend leads to the conclusion (by holding banks' risk handling stance constant) that interest income for banks will rely heavily on movement in interest rates, instead of advances.

Graph 1: Banks' Interest Income has historically closely followed trend of lending rates

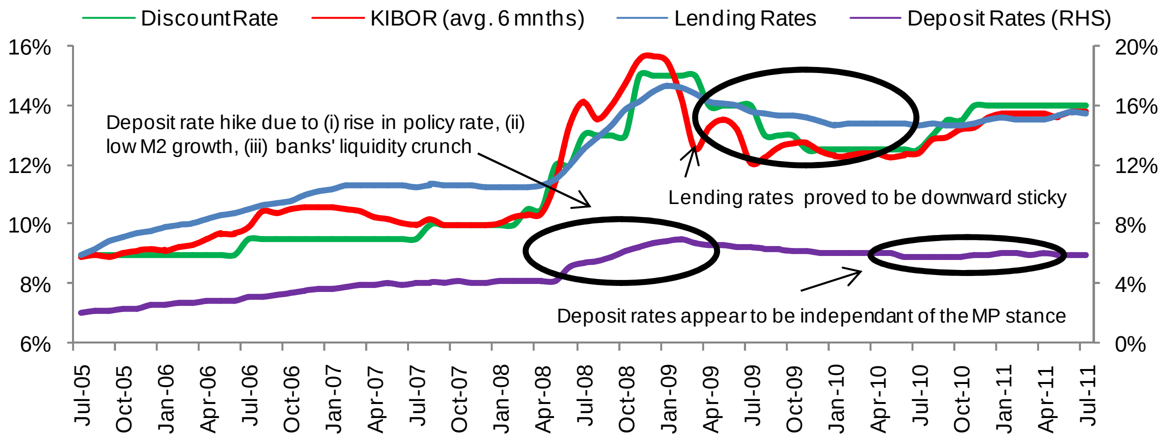


Source: Company Reports, SBP

Dip in rates to move interest income southward

SBP has recently cut the discount rate by 50bps in July which doesn't bode well for interest based income of the banking industry. Historically, lending rates have (for obvious reasons) followed the monetary policy stance; however, their trend has not been as extreme as that of the policy rate and the KIBOR. They didn't rise by as much as the latter two during 2008, and they remained downward sticky during the interest rate slashing of 2009 (see graph2).

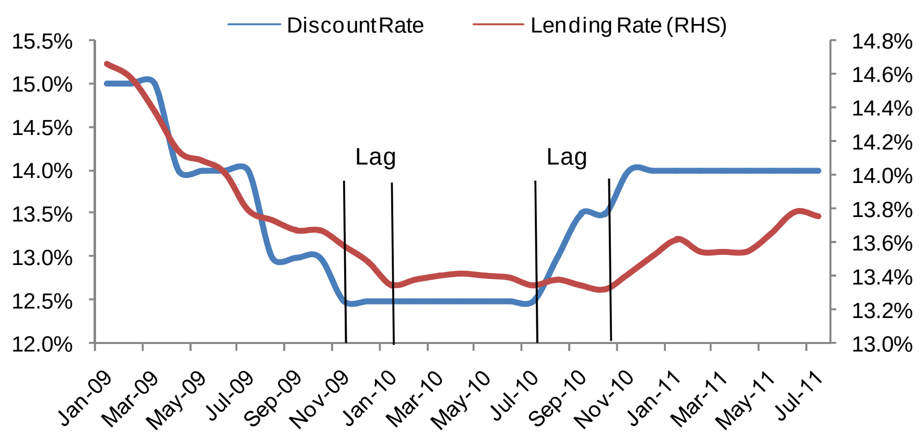
Graph 2: Lending and deposit rates have historically losely followed the MPS



Source: SBP

As lending rates loosely follow the policy rate, we expect the former to have continued to fall down to 12.90% by the end of September (Aug 2011: 13.65%). This is more volatile than the period of Mar'09-Dec'09 when lending rates went down only by 89bps in response to a policy rate cut of 250bps. Due to the lagged effect (see graph 3 which shows a blow up of graph 2), we expect the full effect of the first rate cut to reflect in September figures and that of the second rate cut (October 8, 2011) to become visible towards the end of 2011. The Box on MPS gives our expectations for the range of lending rates.

Graph 3: Blow up of Graph 1: Lag in trend of lending rates



Source: SBP

Year	M2 Growth
FY06	15.07%
FY07	19.32%
FY08	15.35%
FY09	9.56%
FY10	12.46%
FY11	15.89%

Source: SBP

Deposit rates have historically remained sticky

Deposit rates have historically been more stubborn than lending rates due to banks facing little competition for deposits in the face of under developed financial markets and also continuous money supply growth. The one time that the deposit rates closely followed the KIBOR trend (late 2008), growth in M2 remained relatively low (see table on left). In addition, banks were going through a liquidity crunch at that time, which propelled them to go for costlier deposits. At other times, especially since the second quarter of CY10, rates on deposits appear to be entirely independent of the monetary policy stance (graph 2).

One contributing factor for low cost of deposits is the high level of cheap demand deposits (current account and some savings accounts) available to banks. Due to a large Muslim

Box 1: Monetary Policy Rate Determinants

SBP will be looking at the inflation, exchange rate and economic growth outlook when it decides on its monetary policy stance. We expect a further cut of 50bps in this MPD announcement, as a result of the following factors:

⇒ **Cool aggregate demand:** Surplus in the current account at a time when economic growth has been lackluster implies that the aggregate demand has cooled down considerably. However, so far this FY, C/A has been in deficit, which will deter SBP from going for a bigger cut like 100bps.

⇒ **Curtailment of monetization:** GoP has kept true to its word and not only shifted its borrowing away from the central bank (and towards commercial banks) but it has also started paying off some of this debt. As of Sep 17, 2011, outstanding debt of the government from SBP stood at Rs. 48.29bn as opposed to Rs. 195.06bn around the same time last year. However, threats remain due to expected fiscal slippages. As a result, SBP would not want to be too aggressive (100 bps) in its policy rate cut.

⇒ **Subdued inflation figures:** Given low demand and monetization riddance (mentioned above), we expect inflationary concerns to ease. In addition, crude oil prices will likely remain low in the year as a result of low demand in the face of another international economic dip, which will take care of threats of imported inflation. SBP, therefore, does not need to keep a tight monetary stance in the coming year.

⇒ **Rise in core inflation:** While general inflation has gone down, core inflation (non-food, non-energy) has actually risen this year, after remaining range bound for much of last year. As a result, SBP would not want to be too aggressive (100bps) in cutting down the policy rate.

⇒ **Slow economic growth:** With the finance ministry expecting economic growth to hover around 2.4% in FY11, much lower than the target of 4.5%, and little chances of a quick revival this year, we expect SBP to further loosen its policy stance in order to boost growth.

⇒ **Elimination of IMF pressure:** The current IMF SBA ended on September 30, 2011 (repayment from next year) and GoP is reluctant to go for a new program, which means that the pressure to tighten the policy will now end.

As a result of the above we expect a 50bps policy rate cut in the coming MPD announcement. The table below gives our expectations for the trend of interest rates.

Projected Rates

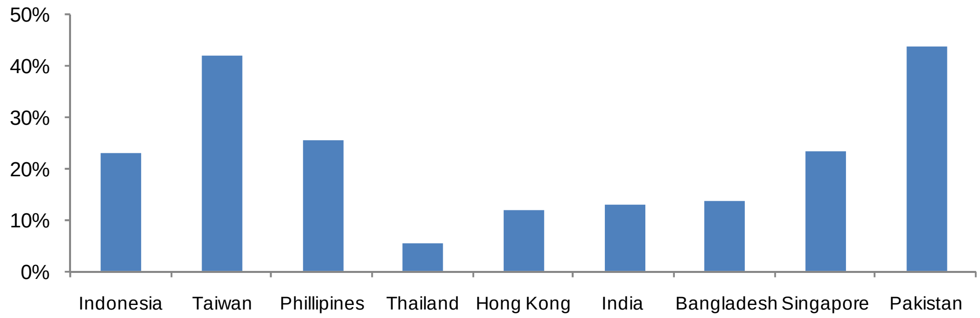
Month	Policy Rate	6M KIBOR	Lending Rate
Sep '11	13.50%	13.38%	12.90% - 13.00%
Oct '11	13.00%	12.85% - 12.95%	12.65% - 12.75%
Nov '11	13.00%	12.85% - 12.95%	12.60% - 12.70%
Dec '11	13.00%	12.85% - 12.95%	12.55% - 12.65%
Jan '12	13.00%	12.85% - 12.95%	12.55% - 12.65%
Feb '12	12.50%	12.35% - 12.45%	12.05% - 12.15%
Mar '12	12.50%	12.35% - 12.45%	12.15% - 12.25%
Apr '12	12.50%	12.35% - 12.45%	12.10% - 12.20%
May '12	12.50%	12.35% - 12.45%	12.05% - 12.15%
Jun '12	12.50%	12.35% - 12.45%	12.05% - 12.15%

Source: SBP, TSL Research

population, many account holders prefer current and PLS accounts, however this is not the only reason for large availability of cheap deposits as Indonesia and Bangladesh, two other Muslim majority countries, have much lesser demand deposits in their deposits composition (see graph 4). Availability of cheap deposits has also improved due to: (i) expansion in money supply and (ii) little competition for bank's deposits.

This access to cheap deposits is unlikely to go down any time soon, not only because of the Islamic and money supply expansion factors, but also because a large portion of Pakistan's population is still unbanked.

Graph 4: Pakistan had one of the highest demand deposits/total deposits in the region (Dec' 10)



Source: SBP, Bank Indonesia, Central Bank of the Republic of China, Bangko Sentral ng Pilipinas, Bank of Thailand, Hong Kong Monetary Authority, Reserve Bank of India, Bangladesh Bank, Monetary Authority of Singapore

Deposit rates to remain range bound going forward

The above factors make deposit rates upward sticky, and therefore, we do not expect them to surge upwards even if the SBP goes for a surprise monetary tightening. However, these rates are already too low for there to be room to move downwards, especially since SBP has imposed a floor of 5% on savings accounts.

We, therefore expect rates on deposits to remain range bound between 5%-6% in FY12, and to rise subsequently.

Conversion of power sector debt into govt. papers to have little impact

In the immediate future another factor to look at while determining banks' earnings is the GoP's decision to convert power sector debt and the government's commodity financing into government papers. We expect bank's ADR to fall further as a result of this step. However, their earnings are expected to be little impacted as shown in the example below, which takes our expected KIBOR for next year (see box 1). If the rate falls more than expected then the amount that banks will lose out on will even nullify.

Affect of TFCs-to-PIB conversion on banks interest income in CY12

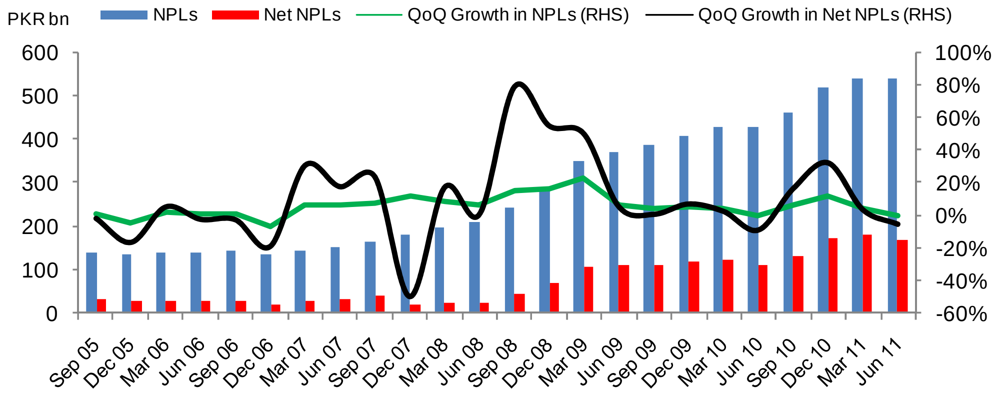
	Rate	Amt. (PKR bn)
TFCs Amount		165.00
Interest income in case of no conversion	Kibor + (1.75% to 2.00%)	23.15
Interest income in case of conversion	0.5(avg. 5-yr PIB rates for past two auctions)+0.5(1-yr T-Bill rate as of Oct 5)	21.56
Amount lost out by Banks		-1.59

Source: TSL Research, News Reports

Asset Quality: further improvement ahead

Ever since the non-performing loans (NPL) accretion scare in 2008 and early 2009, Banks started shifting their asset base from private sector loans to investments in government securities (discussed previously). As a result, growth in NPLs slowed which in turn led to earnings improvement. Earnings were further helped by easing of prudential regulations on provisions for banks.

Graph 5: Banking Sector's improving NPLs situation



Source: SBP, TSL Research

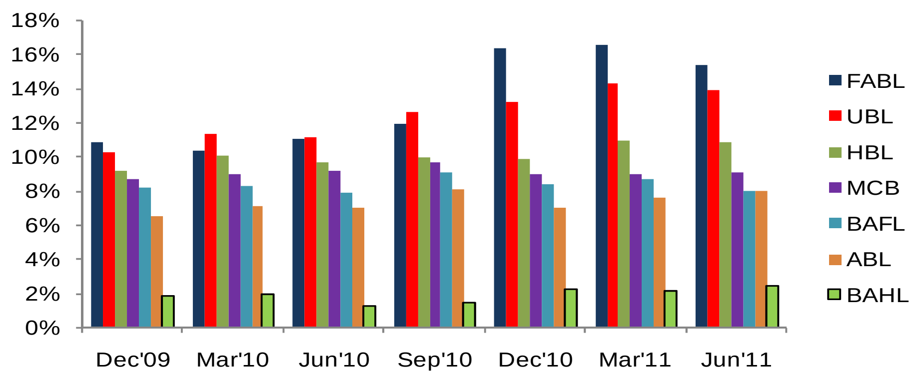
After a spike in NPLs in the second half of 2010 (growth in NPLs in 3QCY10: 7.10% and 4QCY10: 12.47% QoQ), asset quality appears to have steadied slightly. The former spike came on the back of interest rates hike as well as slow growth in the real sector. It had been expected that post floods the agricultural sector would see a significant rise in NPLs, however though there was an increase in the 3rd quarter of 2010, by the end of 2010 agribusiness infection ratio actually declined to 6.6% (from 8.36% in Sep'10 and 7.54% in Jun'10).

It should be kept in mind that though *asset* quality has slightly improved (leading to earnings improvement); the quality of Banks' loan books has not. NPLs as a percentage of total loans have jumped to 14.8% in June 2011, as opposed to 9.9% towards the end of 2008. On a QoQ basis, it appears that the second quarter of CY11 was better than 1QCY11 (see graph 6), however, this is mostly due to base effect. Banks' credit off take increases in the second and fourth quarters on seasonal factors, which raises the base for the infection ratio (calculated as classified advances divided by gross advances), and subsequently gives a lower infection figure.

Outlook: positive

Going forward, the cut in discount rate will likely further ease the asset quality concerns. In addition, banks will move further away from loans to the private sector due to GoP's increased appetite for borrowing from scheduled banks in the face of: (i) its commitment

Graph 6 : Infection Ratio has gotten higher on YoY basis



Source: Company Reports, TSL Research

to limit borrowing from SBP, (ii) little promising outlook on tax revenues and (iii) the energy sector inter-corporate debt.

The year so far: performance peaked

Banks operated in a very conducive environment during the first half of CY11, with high spreads and improved asset quality. As a result, the average earnings of the conventional, KSE listed banks rose by a hefty 23.10%. For almost all banks, the major driver for this growth was substantial net interest income gains; while, for some of them this driver was augmented by reversals in provisions (SILK, BOK, JSBL and SBL) and lower provisions charge recorded this period compared to the corresponding period last year (ABL, FABL, SNBL and AKBL).

Banks- Half Year Highlights **In PKR m**

Banks	Net Markup Income			Provisions			PAT/(LAT)		
	HY11	HY10	Growth	HY11	HY10	Growth	HY11	HY10	Growth
Allied Bank Ltd.	12,376	10,579	16.99%	992	2,128	-53.36%	5,033	3,620	39.02%
Askari Bank Ltd.	5,045	4,834	4.36%	1,219	1,290	-5.47%	704	712	-1.16%
Bank Alfalah Ltd.	8,837	6,322	39.78%	1,664	963	72.69%	1,908	1,079	76.93%
Bank ALHabib Ltd.	6,588	4,955	32.94%	770	253	204.42%	2,075	1,695	22.43%
Bank of Khyber	1,108	506	119.18%	-26	2	N.M	460	252	82.64%
Faysal Bank Ltd.	4,443	2,668	66.55%	128	603	-78.70%	794	1,734	-54.22%
Habib Bank Ltd.	13,576	11,725	15.79%	2,382	1,724	38.22%	5,010	4,050	23.69%
Habib Metropolitan Bank Ltd.	3,619	3,436	5.33%	1,691	1,443	17.15%	1,433	1,472	-2.66%
JS Bank Ltd.	771	509	51.39%	-224	100	N.M	100	-337	-129.79%
KASB Bank Ltd.	-299	-108	178.19%	805	-63	N.M	-2,177	-673	223.67%
MCB Bank Ltd.	22,227	17,697	25.60%	2,439	2,050	18.97%	10,571	7,942	33.10%
Meezan Bank Ltd.	4,321	2,977	45.16%	553	474	16.55%	1,382	719	92.25%
National Bank of Pakistan	22,862	20,877	9.51%	6,136	4,459	37.62%	8,133	7,879	3.23%
NIB Bank Ltd	894	2,025	-55.84%	3,086	1,989	55.17%	-1,369	-1,944	-29.61%
Samba Bank Ltd.	688	475	44.92%	-23	11	N.M	40	-97	-141.87%
Standard Chartered Bank Ltd.	9,704	8,492	14.28%	2,822	2,544	10.92%	1,715	1,358	26.31%
Silkbank Ltd.	1,025	280	265.97%	-640	43	N.M	163	208	-21.89%
Soneri Bank Ltd.	1,807	1,399	29.15%	476	1,100	-56.76%	474	186	154.51%
United Bank Ltd	19,312	16,604	16.31%	4,923	4,094	20.25%	6,705	5,201	28.92%
Average	**7,311**	**6,118**	**19.49%**	**1,535**	**1,327**	**15.74%**	**2,271**	**1,845**	**23.10%**

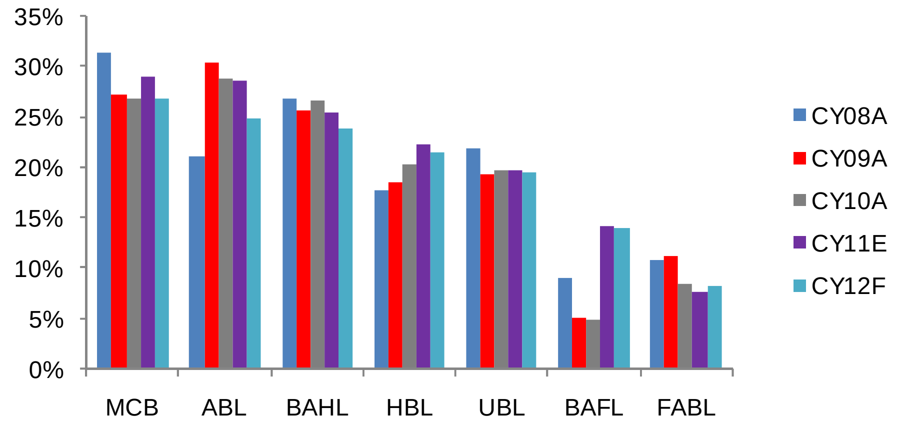
Source: Company Reports

This is better performance than the past few years; unfortunately, we do not expect this golden period to last. As discussed in the section on earnings outlook, we expect spreads to decline which will subdue the major earnings driver. One factor that still looks good for banks is administrative expenses, which we expect to remain subdued due to lower expected inflation than last year.

MCB, ABL and BAHL: Strongest among the strong

Within our coverage universe consisting of seven banks, MCB, ABL and BAHL lead the pack. They have the strongest earnings prospects going forward given their strong performance history, good asset quality and low funding costs.

Graph 7: MCB, ABL and BAHL to lead in terms of Returns on Equity



Source: Company Reports, TSL Research

According to asset quality, two banks stand out from the rest: ABL and BAHL. These two have not only had lower infection ratios over the years than the other banks in our universe, they also adopted the practice of earmarking more than required general provisions. Apart from these two, UBL too has historically kept general provisions over and above SBP's requirements.

The table below gives how prudent banks in our coverage cluster are. We like those towards the top as they are less likely to have a negative surprise in earnings going forward given their prudent policies.

Banks' Prudent policies in CY09 and CY10

	Availed FSV Benefit	Kept above required gen. provisions
BAHL	No	Yes
MCB	Partly, both years	Yes
ABL	No	No
UBL	Yes	In 2010
HBL	Yes	In 2010, for floods
BAFL	Yes	No
FABL	Yes	No

Source: Company Reports

The market appears to have undervalued almost all the banks within our coverage cluster, with ABL having the most upside potential according to our valuations. On dividend yield basis, BAFL is the most attractive scrip.

Stock	Closing Price at 30-Sep-11	Target Price	Potential Upside/ (Downside)	EPS		PEx		PBx		Stance
				CY11E	CY12F	CY10E	CY11F	CY11E	CY12F	
ABL	60.50	**68.96**	14.0%	11.59	11.93	5.22	5.07	1.20	1.06	Accumulate
MCB	173.27	**195.08**	12.6%	24.36	26.31	7.11	6.58	1.71	1.49	Accumulate
UBL	60.14	**65.89**	9.6%	10.42	11.90	5.77	5.05	0.97	0.86	Hold
FABL	10.22	**10.68**	4.5%	1.81	2.12	5.66	4.82	0.39	0.36	Hold
BAHL	29.87	**30.29**	1.4%	4.64	5.01	6.43	5.96	1.36	1.22	Hold
BAFL	11.28	**11.23**	-0.4%	2.15	2.26	5.24	4.99	0.63	0.59	Reduce
HBL	119.36	**112.83**	-5.5%	18.05	20.27	6.61	5.89	1.27	1.11	Reduce

Source: TSL Research

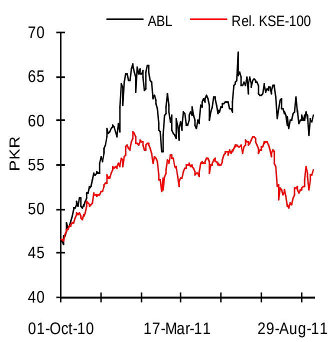
TSL Banks

ACCUMULATE

Allied Bank Ltd. (ABL)

Target Price	68.96
12-month Trading data	
Price of September 30' 11 (PKR)	60.50
High (PKR)	72.99
Low (PKR)	50.42
Avg daily volume ('000)	165.31
Avg value traded (PKR m)	9.76
Shares outstanding (m)	860.31
Free float	10.0%
Market Capitalisation (PKR m)	52,049
Market Capitalisation (US$m)	605
52-week gain	30.4%
52 week gain (index)	17.1%
Beta	1.06
KATS Code	ABL

Price Performance (12 months)



Performance history: 'middling' is the word

As one of the five largest banks in the industry (by asset size), ABL benefits from its size and has managed, not unlike its peers, to translate this into the bottom line. Its yields on earning assets and funding costs, and subsequently its spreads are in line with its peers; however its asset quality is somewhat better than them.

ABL's performance shot up in 2009 when its earnings grew by 71.3%. As a result of this recent growth spurt, ABL's 3-year historical CAGR comes out at 26.4%, from PKR 4,076m (EPS: PKR 4.74) in 2007 to PKR 8,225m (EPS: PKR 9.56) in 2010. Its deposits and advances have grown impressively too at 12.0% and 14.6% respectively, from PKR 264bn and PKR 168bn in 2007 to PKR 371bn and PKR 253bn in 2010 respectively. Out of all the seven banks we cover, ABL is the one bank whose advances have grown at a faster pace than deposits in recent years.

Outlook: neutral to positive

For CY11, we expect ABL to post profit after tax of PKR 9,970m (EPS: PKR 11.59), and to give out dividends of PKR 4.0/share. The bank has already made PKR 5,033m in the first half, and we expect it to earn less in the second half due chiefly to policy rate cut.

We are projecting ABL's earnings to grow by a 4-year CAGR of 10.4%; from PKR 8,225m (EPS: PKR 9.56) in 2010 to PKR 12,220m (EPS: PKR 14.20) in 2014.

Recommendation: Accumulate

We have utilized a variation of the Gordon growth model, the justified price-to-book value approach, to arrive at a value for ABL. Our end 2011 target price for the bank, using a justified P/BV multiple of 1.23x and forecasted average book value per share of PKR 56.21 comes to **PKR 68.96/share**. This gives a 14% upside to the September 30, 2011 closing price of PKR 60.50. We, therefore, recommend an Accumulate stance on it.

Analyst:
Shumaila Badar
shumaila.badar@taurus.com.pk

Financial Highlights

In PKR m unless mentioned

	CY08A	CY09A	CY10A	CY11E	CY12F	CY13F	CY14 F
Net Interest Income	14,011	18,700	22,565	26,122	27,907	30,205	35,029
Provisions Charge	3,156	4,498	4,083	3,731	4,563	5,484	6,719
Non-Interest Income	4,152	5,958	5,672	6,173	6,825	7,508	7,884
Non-Interest Expense	8,886	9,624	11,810	13,458	14,616	16,058	17,678
Profit After Tax	4,157	7,122	8,225	9,970	10,265	10,673	12,220
Advances	212,972	237,344	253,100	278,177	307,479	340,207	377,247
Total Assets	366,680	418,374	449,932	508,636	562,842	623,261	688,667
Deposits	297,475	328,875	371,284	410,208	455,331	505,417	561,013
Equity	20,805	25,891	31,166	38,271	43,899	50,225	53,159
Earnings Per Share (PKR)	4.83	8.28	9.56	11.59	11.93	12.41	14.20
Dividends Per Share (PKR)	2.50	4.00	4.00	4.00	5.00	5.00	5.00
Book Value Per Share (PKR)	24.18	30.10	36.23	44.48	51.03	58.38	61.79
Price to Earnings (x)	12.52	7.31	6.33	5.22	5.07	4.88	4.26
Dividend Yield (%)	4.13%	6.61%	6.61%	6.61%	8.26%	8.26%	8.26%
Price to Book Value (x)	2.50	2.01	1.67	1.36	1.19	1.04	0.98
Net Interest Margin (%)	4.74%	5.43%	5.85%	6.22%	6.03%	5.88%	6.15%
Return on Assets (%)	1.21%	1.81%	1.89%	2.08%	1.92%	1.80%	1.86%
Return on Equity (%)	21.20%	30.50%	28.83%	28.72%	24.98%	22.68%	23.64%

Source: Company Reports, TSL Research

ACCUMULATE

MCB Bank Ltd. (MCB)

Performance history: From strength to strength

Target Price	195.08
12-month Trading data	
Price of September 30' 11 (PKR)	173.27
High (PKR)	248.46
Low (PKR)	164.83
Avg daily volume ('000)	758.01
Avg value traded (PKR m)	148.06
Shares outstanding (m)	836.24
Free float	40.0%
Market Capitalisation (PKR m)	144,895
Market Capitalisation (US$m)	1,685
52-week gain	1.2%
52 week gain (index)	17.1%
Beta	1.20
KATS Code	MCB

Historically MCB's earnings performance has been head and shoulders above that of its peers. Banks in the Pakistani banking industry generally earn similar yields, it's the cost of funds and asset size that gives banks the competitive edge. However, in MCB's case, it leads not only through its funding costs but also by earning the highest yields amongst the seven banks we cover. For the past three years, MCB has managed to attract the highest yields on its assets and the lowest cost of deposits and its borrowings.

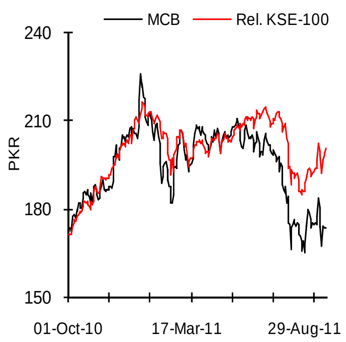
Through the greatest CASA ratio in our coverage cluster, MCB is able to minimize its funding costs. As it already has too high composition of current and savings account (CASA) in its deposits, we expect it to reach a plateau, and its peers to catch up.

MCB is not only a star performer in its core interest based business; it has also managed to keep its operating costs subdued, with its costs being only 36% as large as NII in 2010, vis-à-vis an average of 66% for our coverage banks. In addition, it is the only bank under our coverage that has been successful in actually lowering its infection ratio in 2QCY11, compared to the same period last year.

The one area that MCB lags behind is in credit costs (calculated as provisions charge divided by gross advances) in which BAHL takes the lead. For the year 2010, BAHL's credit cost was only 73bps and BAFL's was 103bps, as opposed to MCB's 113bps.

MCB's growth over the recent past has been slow (compared to other banks in our universe) but steady. From 2007 to 2010, its PAT grew at a CAGR of 3.4%, from PKR 15,266m (EPS: PKR 18.26) in 2007 to PKR 16,873m (EPS: PKR 20.18). Given its already large size (and thus large base) its deposits grew at an impressive 3-year CAGR of 13.9%; from PKR 292bn in 2007 to PKR 431bn in 2010. As a result of its prudence and aversion towards risky credit, its advances grew at a much slower 3-year CAGR of 5.1% in the same period; from PKR 219bn in 2007 to PKR 255bn in 2010.

Price Performance (12 months)



Outlook: neutral to positive

In the light of our expectations for the entire banking sector, the coming years will offer less of a conducive environment for MCB to operate in. Nevertheless, we expect MCB's bottom line to grow at a 4-year CAGR of 15.0%; from PKR 16,873m (EPS: PKR 20.18) in 2010 to PKR 29,504m (EPS: PKR 35.28) in 2014. For CY11, we expect MCB to post a PAT of PKR 20,374m (EPS: PKR 24.36) and to give out a cash dividend of PKR 11.5/share.

MCB will enjoy one time gain in the short run (post conversion of power sector TFCs into government papers) as it had not recognized interest income accrued on Power Holding Company's TFC since 2009.

Analyst:
Shumaila Badar
shumaila.badar@taurus.com.pk

Recommendation: Accumulate

We are valuing MCB at **PKR 195.08** using a justified P/BV multiple of 1.52x and forecasted average book value per share of PKR 128.33. The market appears to have undervalued MCB which was trading at 173.27 as of September 30, 2011, as against a 12.6% upside to our target price. We therefore recommend an Accumulate stance on it.

Financial Highlights

In PKR m unless mentioned

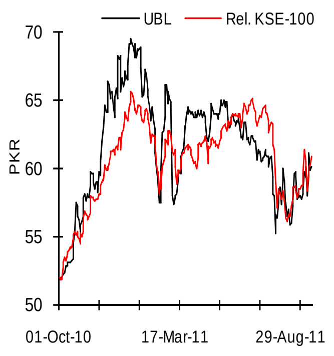
	CY08A	CY09A	CY10A	CY11E	CY12F	CY13F	CY14F
Net Interest Income	28,483	35,775	36,834	43,781	48,925	53,945	59,481
Provisions Charge	4,019	7,322	3,597	4,045	3,836	3,720	3,510
Non-Interest Income	5,791	5,643	6,265	7,040	8,510	10,488	13,240
Non-Interest Expense	8,388	10,944	13,249	15,906	20,259	22,227	24,507
Profit After Tax	15,375	15,491	16,873	20,374	22,005	25,401	29,504
Advances	262,135	253,249	254,552	330,409	387,176	449,958	527,651
Total Assets	443,616	509,224	567,553	646,162	718,368	799,827	893,057
Deposits	330,274	367,605	431,372	481,942	539,775	604,548	677,094
Equity	52,245	61,071	63,996	75,775	88,306	103,843	123,520
Earnings Per Share (PKR)	18.39	18.52	20.18	24.36	26.31	30.38	35.28
Dividends Per Share (PKR)	11.50	11.00	11.50	11.50	12.00	12.00	12.50
Book Value Per Share (PKR)	62.48	73.03	76.53	90.61	105.60	124.18	147.71
Price to Earnings (x)	9.42	9.35	8.59	7.11	6.58	5.70	4.91
Dividend Yield (%)	6.64%	6.35%	6.64%	6.64%	6.93%	6.93%	7.21%
Price to Book Value (x)	2.77	2.37	2.26	1.91	1.64	1.40	1.17
Net Interest Margin (%)	8.82%	9.76%	8.81%	8.79%	8.25%	7.94%	7.82%
Return on Assets (%)	3.60%	3.25%	3.13%	3.36%	3.23%	3.35%	3.49%
Return on Equity (%)	31.49%	27.34%	26.98%	29.15%	26.82%	26.44%	25.95%

Source: Company Reports, TSL Research

HOLD

Target Price	65.89
12-month Trading data	
Price of September 30' 11 (PKR)	60.14
High (PKR)	69.52
Low (PKR)	51.83
Avg daily volume ('000)	731.75
Avg value traded (PKR m)	45.73
Shares outstanding (m)	1,224.18
Free float	25.0%
Market Capitalisation (PKR m)	73,622
Market Capitalisation (US$m)	856
52-week gain	15.8%
52 week gain (index)	17.1%
Beta	1.22
KATS Code	UBL

Price Performance (12 months)



Analyst:
Shumaila Badar
shumaila.badar@taurus.com.pk

United Bank Limited (UBL)

Performance history: poorer recent performance overshadows past brilliance

For CY06 and CY07, UBL was the top yield earner within our coverage banks, but since then it has lost this position to MCB. Despite the fact that UBL's cost of funds have risen in the first half of this year (by 36bps YoY, according to their conference call), we are not concerned about it as its cost of funds were already a low 4.49% compared to our coverage bank average of 5.63% last year.

The one cause of concern in UBL's case is its high credit costs, which, at 185bps for 2010, is the highest within our coverage banks. UBL's loan book infection too is one of the highest within our universe of banks, and as of June 30, 2011, its infection ratio stood at 13.87%, up 275bps from the same point in time last year.

In CY06, UBL's bottom line surged by a massive 59.2% YoY; however, since then and up till 2009 it struggled. In 2010, its performance was somewhat better. For the past three years, PAT grew at a CAGR of 9.9%; from PKR 8,403m (EPS: PKR 6.81) in 2007 to PKR 11,160m (EPS: PKR 9.12) in 2010. Given UBL's size, it also grew impressively by 11.2% in terms of deposits; from PKR 401bn in 2007 to PKR 551bn in 2010. Growth of its advances, however, was at a dismal rate of 3.7%; from PKR 299bn in 2007 to PKR 334bn in 2010.

Outlook: neutral to positive

For CY11, we expect UBL to post a profit after tax of PKR 12,760m (EPS: PKR 10.2) and give a cash dividend of PKR 5.0/share. According to our projections, the bank's PAT will grow at a 4-year CAGR of 14.8%; from PKR 11,160m (EPS: PKR 9.12) in 2010 to PKR 19,375m (EPS: PKR 15.83) in 2014.

UBL will suffer a double hit from GoP's decision to convert debt into PIBs, because not only will it earn less interest income on the said debt (discussed previously in section on earnings outlook) it will also suffer because it had already recognized the accrued interest on the same borrowings since 2009, and now it won't receive that high interest post conversion. UBL will have to reverse the interest it had already recognized.

Recommendation: Hold

We are using the justified price-to-book value approach, a variation of the Gordon growth model to value UBL. Our end 2011 target price for the bank, using a justified P/BV multiple of 0.85x and forecasted average book value per share of PKR 77.85 comes to **PKR 65.89/share.** This gives a 9.6% upside to the September 30, 2011 closing price of PKR 60.14. We, therefore, recommend an Hold stance on it.

Financial Highlights

In PKR m unless mentioned

	CY08A	CY09A	CY10A	CY11E	CY12F	CY13F	CY14 F
Net Interest Income	27,857	32,943	34,109	37,633	41,461	45,350	51,116
Provisions Charge	8,097	12,615	8,005	9,412	10,545	11,590	12,981
Non-Interest Income	10,680	11,420	10,121	12,238	13,634	15,210	16,771
Non-Interest Expense	16,565	17,713	18,482	20,172	21,395	22,698	24,103
Profit After Tax	8,333	9,193	11,160	12,760	14,565	16,525	19,375
Advances	371,140	354,092	333,732	351,660	394,492	455,426	510,895
Total Assets	605,538	619,716	698,785	764,580	856,734	960,697	1,076,225
Deposits	483,560	492,036	550,646	598,175	671,226	753,907	844,376
Equity	42,222	52,276	60,181	69,040	80,030	92,324	108,183
Earnings Per Share (PKR)	6.81	7.51	9.12	10.42	11.90	13.50	15.83
Dividends Per Share (PKR)	1.00	2.50	5.00	5.00	6.00	6.00	7.00
Book Value Per Share (PKR)	34.49	42.70	49.16	56.40	65.37	75.42	88.37
Price to Earnings (x)	8.83	8.01	6.60	5.77	5.05	4.46	3.80
Dividend Yield (%)	1.66%	4.16%	8.31%	8.31%	9.98%	9.98%	11.64%
Price to Book Value (x)	1.74	1.41	1.22	1.07	0.92	0.80	0.68
Net Interest Margin (%)	6.60%	6.24%	6.69%	7.00%	6.79%	6.49%	6.48%
Return on Assets (%)	1.47%	1.50%	1.69%	1.74%	1.80%	1.82%	1.90%
Return on Equity (%)	21.86%	19.46%	19.85%	19.75%	19.54%	19.18%	19.33%

Source: Company Reports, TSL Research

HOLD

Faysal Bank Ltd. (FABL)

Target Price	10.68
12-month Trading data	
Price of September 30' 11 (PKR)	10.22
High (PKR)	16.97
Low (PKR)	8.94
Avg daily volume ('000)	177.21
Avg value traded (PKR m)	2.29
Shares outstanding (m)	732.72
Free float	35.0%
Market Capitalisation (PKR m)	7,488
Market Capitalisation (US$m)	87
52-w eek gain	-8.3%
52 w eek gain (index)	17.1%
Beta	1.15
KATS Code	FABL

Performance history: merger with RBS proved to be a hiccup

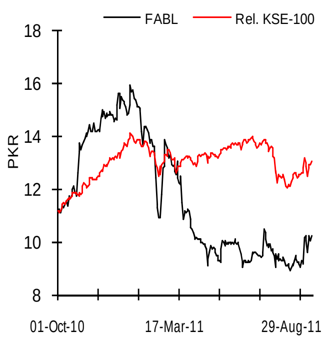
Amongst the banks we cover, FABL had the lowest NIM last year and the lowest spreads for the past three years. While its yields are not much lower than those of the other banks within our coverage, its funding costs far outstrip its peers. We had feared that post RBS's merger into it, FABL's funding costs would shoot up as RBS had kept relatively expensive deposits; however, this did not happen. So far this year, FABL has managed to keep its funding costs under control. For the first half of this year, FABL's cost of funds declined by 4bps to 4.57%, compared to the same period last year (1HCY10: 4.61%).

Our second fear at the time of FABL and RBS's merger had been of loan book infection. While this materialized immediately after the merger (end CY10 infection stood at 16.34%, up 549bps from CY09 level of 10.22%), since then, FABL has been somewhat successful in reigning it in (Jun 30 2011: 15.34%, up 430bps from 11.12% in June of last year). Despite this, FABL still has the poorest quality of advances within our banking universe.

The past few years have been tough for FABL. In 2008, its earnings dropped by 50.9%, and since then it has struggled to match its past performance. As a result, in the past three years, its bottom line has actually declined 19.4% compounded annually, from PKR 2,272m (EPS: PKR 3.10) in 2007 to PKR 1,190m (EPS: PKR 1.62) in 2010. From 2007 to 2009, its deposits grew by a 2-year CAGR of 10.1% and a meager 2.3% respectively; however, thanks to RBS's merger, its 3-year CAGR for deposits and advances is 24.2% and 15.2% respectively.

Outlook: neutral to positive

Price Performance (12 months)



As far as merger of RBS into FABL is concerned, we expect FABL to take some time to come around; however our outlook on it is mostly positive. We expect FABL's bottom line to grow at a 4-year CAGR of 16.9%; from PKR 1,190m (EPS: PKR 1.62) in 2010 to PKR 2,223m (EPS: PKR 3.03) in 2014. For CY11, we expect it to post a profit after tax of PKR 1,323m (EPS: PKR 1.81) with earnings in the second half of CY11 remaining lower than those already reported in the first half.

Recommendation: HOLD

We are using the justified price-to-book value approach, a variation of the Gordon growth model, to value FABL. Our end 2011 target price for the bank, using a justified P/BV multiple of 0.38x and forecasted average book value per share of PKR 28.35 comes to **PKR 10.68/share.** This gives a 4.5% upside to the September 30, 2011 closing price of PKR 10.22. We, therefore, recommend a Hold stance on it.

Analyst:
Shumaila Badar
shumaila.badar@taurus.com.pk

Financial Highlights In PKR m unless mentioned

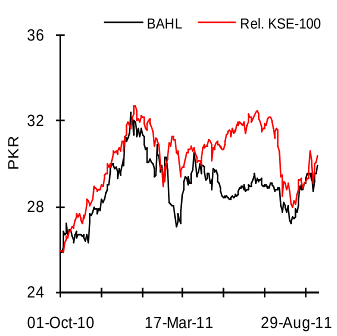
	CY08A	CY09A	CY10A	CY11E	CY12F	CY13F	CY14 F
Net Interest Income	4,949	4,990	5,791	5,442	6,044	6,516	7,248
Provisions Charge	2,047	2,192	2,202	1,366	1,970	2,193	2,871
Non-Interest Income	2,311	2,813	4,012	5,002	5,723	6,471	7,296
Non-Interest Expense	3,416	4,311	6,775	7,044	7,404	7,781	8,253
Profit After Tax	1,115	1,200	1,190	1,323	1,555	1,958	2,223
Advances	83,512	91,346	133,707	139,897	163,022	184,435	206,818
Total Assets	138,241	180,865	267,321	303,340	345,410	385,740	428,562
Deposits	102,777	123,655	195,315	221,126	254,012	284,493	318,632
Equity	10,136	11,336	16,643	17,984	19,539	20,764	22,254
Earnings Per Share (PKR)	1.52	1.64	1.62	1.81	2.12	2.67	3.03
Dividends Per Share (PKR)	-	-	-	-	1.00	1.00	2.50
Book Value Per Share (PKR)	13.83	15.47	22.71	24.54	26.67	28.34	30.37
Price to Earnings (x)	6.72	6.24	6.29	5.66	4.82	3.82	3.37
Dividend Yield (%)	0.00%	0.00%	0.00%	0.00%	9.78%	9.78%	24.46%
Price to Book Value (x)	0.74	0.66	0.45	0.42	0.38	0.36	0.34
Net Interest Margin (%)	4.13%	3.71%	3.15%	2.55%	2.64%	2.48%	2.44%
Return on Assets (%)	0.80%	0.75%	5.91%	11.75%	12.75%	14.95%	15.90%
Return on Equity (%)	10.89%	11.18%	8.51%	7.64%	8.29%	9.72%	10.33%

Source: Company Reports, TSL Research

HOLD

Target Price	30.29
12-month Trading data	
Price of September 30' 11 (PKR)	29.87
High (PKR)	38.83
Low (PKR)	27.03
Avg daily volume ('000)	338.80
Avg value traded (PKR m)	9.94
Shares outstanding (m)	878.60
Free float	55.0%
Market Capitalisation (PKR m)	26,244
Market Capitalisation (US$m)	305
52-week gain	15.3%
52 week gain (index)	17.1%
Beta	1.22
KATS Code	BAHL

Price Performance (12 months)



Bank AL Habib Ltd.(BAHL)

Performance history: prudent all around

The first thing that differentiates BAHL from all other banks under our coverage is its extra prudent credit policy. Towards the end of 2010, when the average infection ratio of the industry was 14.7%, BAHL's was only 2.28%.

Due to this very policy, BAHL's yields are one of the two lowest in our universe; however, since all banks earn somewhat similar yields, its yields are not that below our coverage banks' average (BAHL: 11.36%, coverage banks' average: 11.44%). It is a higher than average funding cost that is more responsible for BAHL having second to lowest spreads within our universe.

Despite this, BAHL has been one of the most consistent performers within our universe. Its bottom line grew by a 3-year CAGR of 17.7% from PKR 2,211m (EPS: PKR 2.52) in 2007 to PKR 3,602m (EPS: PKR 4.10) in 2010. Its deposits and advances too have grown impressively by 3-year CAGRs of 29.6% and 16.7%, respectively, from PKR 115bn and PKR 79bn in 2007 to PKR 250bn and PKR 126bn in 2010. These balance sheet growth rates make BAHL the fastest growing bank within our universe.

Outlook: neutral to positive

Due to policy rate cut, we expect BAHL to not fare as well in the second half of CY11 as the first half, and its CY11 profit after tax to end up at PKR 4,081m (EPS: 4.64). We are projecting BAHL's earnings to grow at a CAGR of 14.6%; from PKR 3,602m (EPS: Rs 4.10) in 2010 to Rs. 6,208m (EPS: Rs. 7.07) in 2014.

Recommendation: Hold

We have utilized a variation of the Gordon growth model, the justified price-to-book value approach, to arrive at a value for BAHL. Our end 2011 target price for the bank, using a justified P/BV multiple of 1.14x and forecasted average book value per share of PKR 26.62 comes to **PKR 30.29/share**. This gives a 1.4% upside to the September 30, 2011 closing price of PKR 29.87. We, therefore, recommend a HOLD stance on it.

Analyst:
Shumaila Badar
shumaila.badar@taurus.com.pk

Financial Highlights

In PKR m unless mentioned

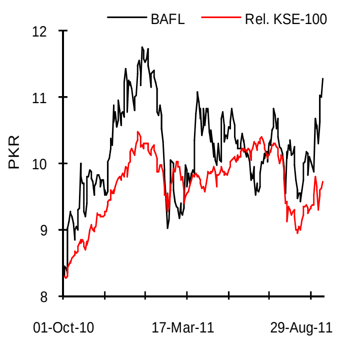
	CY08A	CY09A	CY10A	CY11E	CY12F	CY13F	CY14 F
Net Interest Income	6,583	9,067	10,797	11,326	12,091	13,657	15,282
Provisions Charge	1,149	1,183	946	1,126	1,164	1,124	1,161
Non-Interest Income	2,454	1,836	2,130	2,808	3,131	3,467	3,828
Non-Interest Expense	4,309	5,208	6,324	6,731	7,283	7,839	8,398
Profit After Tax	2,425	2,856	3,602	4,081	4,404	5,305	6,208
Advances	100,197	105,985	125,773	136,149	152,322	172,221	192,832
Total Assets	177,324	249,807	301,552	338,458	377,903	424,065	470,529
Deposits	144,390	189,280	249,774	280,964	314,989	353,099	391,940
Equity	9,967	12,287	14,706	17,354	19,592	22,731	26,334
Earnings Per Share (PKR)	2.76	3.25	4.10	4.64	5.01	6.04	7.07
Dividends Per Share (PKR)	1.25	2.00	2.00	2.50	2.50	3.00	3.00
Book Value Per Share (PKR)	11.34	13.98	16.74	19.75	22.30	25.87	29.97
Price to Earnings (x)	10.82	9.19	7.29	6.43	5.96	4.95	4.23
Dividend Yield (%)	4.18%	6.70%	6.70%	8.37%	8.37%	10.04%	10.04%
Price to Book Value (x)	2.63	2.14	1.78	1.51	1.34	1.15	1.00
Net Interest Margin (%)	4.90%	4.90%	4.46%	4.05%	3.88%	3.91%	3.93%
Return on Assets (%)	1.52%	1.34%	1.31%	1.28%	1.23%	1.32%	1.39%
Return on Equity (%)	26.97%	25.67%	26.69%	25.46%	23.84%	25.07%	25.30%

Source: Company Reports, TSL Research

REDUCE

Target Price	11.23
12-month Trading data	
Price of September 30' 11 (PKR)	11.28
High (PKR)	11.74
Low (PKR)	8.29
Avg daily volume ('000)	2,143.74
Avg value traded (PKR m)	22.19
Shares outstanding (m)	1,349.16
Free float	50.0%
Market Capitalisation (PKR m)	15,218
Market Capitalisation (US$m)	177
52-week gain	36.1%
52 week gain (index)	17.1%
Beta	1.26
KATS Code	BAFL

Price Performance (12 months)



Analyst:
Shumaila Badar
shumaila.badar@taurus.com.pk

Bank AlFalah Ltd. (BAFL)

Performance history: held captive by its investments

BAFL had the second highest yields on earning assets amongst our coverage banks in CY10; however, its competitive edge got eroded by high funding costs. High cost of funds have remained a source of concern for BAFL in the last few years, and given our expectation of rising cost of funds for banks in general (discussed previously) this concern is not expected to be alleviated any time soon. It will, however, be helped by BAFL's aggressive branch network expansion which will likely bring it in reach of cheap deposits.

One area in which BAFL stands out is in its loan book quality. Since 2009, the infection of its loan book has remained below not only the industry average but also below that of the star performers MCB, HBL and UBL (CY10; BAFL: 8.39%, industry average: 14.7%, coverage banks average: 9.42%).

While BAFL has gained a competitive edge through its higher quality loan book, it has lost out on its investments. Impairment in the value of its associated companies (Warid and Wateen) resulted in a PKR 1,819m loss on the profit and loss statement in 2010, and this year the value has gone up to PKR 478m in the first half alone.

BAFL has had a roller coaster ride in the past four years with the downs stronger than the ups. As a result, its bottom line has declined at a 3-year CAGR of -32.4%, from PKR 3,130m (EPS: PKR 2.32) in 2007 to PKR 968m (EPS: 0.72) in 2010. The biggest factor responsible for this decline has been provisions charge (especially that related to investments) which almost doubled during this period. Deposits and advances grew by a 3-year CAGR of 9.0% and 6.6% respectively, from PKR 273bn and PKR 171bn in 2007 to PKR 354bn and PKR 207bn respectively.

Outlook: neutral to positive

We expect the past poor performance streak of BAFL to reverse from 2011 onwards, as has already been witnessed in the first half of the year. According to our projections, BAFL's earnings will grow at a 4-year CAGR of 41.3%, from PKR 968m (EPS: 0.72) in 2010 to PKR 3,859m (EPS: PKR 2.86) in 2014.

We expect BAFL to finally outpace MCB by 2014, as far as yields on earning assets are concerned, to become the highest yield earner within our coverage banks. We expect BAFL to accomplish this feat as a result of MCB's higher predilection towards investments in government securities.

Recommendation: Reduce

We have utilized a variation of the Gordon growth model, the justified price-to-book value approach, to arrive at a value for BAFL. Our end 2011 target price for the bank, using a justified P/BV multiple of 0.65x and forecasted average book value per share of PKR 17.39 comes to **PKR 11.23/share.** This gives a -0.4% downside to the September 30, 2011 closing price of PKR 11.28. We, therefore, recommend a Reduce stance on it.

Financial Highlights

In PKR m unless mentioned

	CY08A	CY09A	CY10A	CY11E	CY12F	CY13F	CY14F
Net Interest Income	10,472	10,907	13,675	17,239	18,739	20,221	22,286
Provisions Charge	3,543	4,072	4,260	4,090	4,524	4,693	4,886
Non-Interest Income	4,823	5,182	4,708	5,193	5,741	6,307	6,998
Non-Interest Expense	9,957	11,002	12,754	13,938	15,333	16,864	18,552
Profit After Tax	1,301	897	968	2,906	3,052	3,281	3,859
Advances	191,791	188,042	207,153	232,978	264,670	301,491	341,467
Total Assets	348,991	389,070	411,484	446,455	496,416	552,276	615,260
Deposits	300,733	324,760	354,015	382,719	428,645	480,082	537,692
Equity	14,608	19,770	19,726	21,059	22,708	23,269	24,394
Earnings Per Share (PKR)	0.96	0.66	0.72	2.15	2.26	2.43	2.86
Dividends Per Share (PKR)	-	0.80	-	1.00	1.00	2.00	2.00
Book Value Per Share (PKR)	10.83	14.65	14.62	15.61	16.83	17.25	18.08
Price to Earnings (x)	11.69	16.97	15.71	5.24	4.99	4.64	3.94
Dividend Yield (%)	0.00%	7.09%	0.00%	8.87%	8.87%	17.73%	17.73%
Price to Book Value (x)	1.04	0.77	0.77	0.72	0.67	0.65	0.62
Net Interest Margin (%)	3.77%	3.69%	4.28%	4.93%	4.78%	4.64%	4.65%
Return on Assets (%)	0.38%	0.24%	0.24%	0.68%	0.65%	0.63%	0.66%
Return on Equity (%)	9.17%	5.22%	4.90%	14.25%	13.95%	14.27%	16.19%

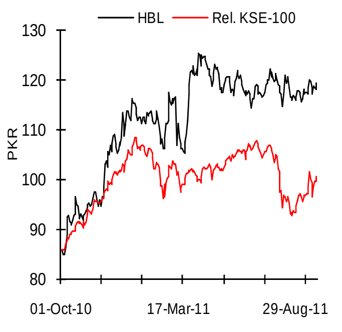
Source: Company Reports, TSL Research

REDUCE

Habib Bank Ltd. (HBL)

Target Price	112.83
12-month Trading data	
Price of September 30' 11 (PKR)	119.36
High (PKR)	129.14
Low (PKR)	93.51
Avg daily volume ('000)	183.11
Avg value traded (PKR m)	20.16
Shares outstanding (m)	1,102.07
Free float	8.1%
Market Capitalisation (PKR m)	131,543
Market Capitalisation (US$m)	1,530
52-w eek gain	38.9%
52 w eek gain (index)	17.1%
Beta	1.10
KATS Code	HBL

Price Performance (12 months)



Analyst:
Shumaila Badar
shumaila.badar@taurus.com.pk

Performance history: a little on the riskier side

As the largest private bank (by asset size) in Pakistan, HBL has made full use of its position to take its performance from strength to strength over the years. Its net interest margin and spread were second only to MCB in 2010.

Given our expectations of easing inflationary pressures for the rest of the year, banks in general will have the opportunity to tame their administrative expenses. We believe HBL is the one bank which will be the most successful in this area thanks to its retrenching policy in previous years and its commitment towards bringing operational costs down. HBL's operating expenses as a percentage of NII was 52% in 2010, compared to the average of 66% for our coverage banks, and we expect this to further improve.

From our analysis, however, we gather that HBL is the least risk averse within our coverage universe, which has led to high provisions charges. HBL's credit costs were amongst the highest in 2010 at 160bps compared to an average of 125bps average for the seven banks within our coverage and 143bps average for the top four private banks. Also, recall from the section on banks' comparison that HBL is not very prudent in its provisioning policies. Its coverage of classified advances (in all the four categories), however, has gone up from 79.4% towards the end of 2010, to 80% towards June end, 2011.

Ever since being publicly listed in 2007, HBL's earning performance has gone from strength to strength. From 2007, when it reported PAT of PKR 8,041m (EPS: PKR 7.30), HBL's earnings have grown at a CAGR of 24.8%, to reach PKR 15,613m (EPS: PKR 14.17) in 2010. Its balance sheet growth has been strong too, with deposits and advances growing at 3-year CAGRs of 12.3% and 6.3% respectively; from PKR 509bn and PKR 362bn in 2007 to PKR 721bn and PKR 435bn in 2010, respectively.

Outlook: neutral to positive

Given a cut in policy rate, and expectations of further rate cut, HBL's performance in 2HCY11 will not likely match that of the first half. As a result, we expect it to post a profit after tax of PKR 19,891m (EPS: PKR 18.05) in CY11, and to give a cash dividend of PKR 7.0/share. Further into the future, we expect HBL to maintain its good performance. We expect HBL's PAT to grow at a 4-year CAGR of 15.7%; from PKR 15,613m (EPS: PKR 14.17) in 2010 to PKR 27,978m (EPS: PKR 25.39) in 2014.

Recommendation: Reduce

We are using the justified price-to-book value approach, a variation of the Gordon growth model to value HBL. Our end 2011 target price for the bank, using a justified P/BV multiple of 0.94x and forecasted average book value per share of PKR 119.89 comes to **PKR 112.83/share**. This gives a 5.5% downside to the September 30, 2011 closing price of PKR 119.36. We, therefore, recommend a Reduce stance on it.

Financial Highlights

In PKR m unless mentioned

	CY08A	CY09A	CY10A	CY11E	CY12F	CY13F	CY14 F
Net Interest Income	35,634	41,663	45,909	53,903	59,156	63,756	71,712
Provisions Charge	9,295	9,612	7,980	8,561	9,122	9,705	11,015
Non-Interest Income	10,337	9,943	11,050	12,141	13,439	14,827	16,433
Non-Interest Expense	20,820	22,508	23,922	25,909	28,006	30,247	32,720
Profit After Tax	10,001	12,299	15,613	19,891	22,344	24,337	27,978
Advances	435,709	432,284	434,999	468,911	531,051	604,399	686,956
Total Assets	717,282	821,128	887,052	992,970	1,121,418	1,254,086	1,412,530
Deposits	572,399	653,452	721,069	797,843	901,742	1,009,951	1,139,111
Equity	61,291	71,235	81,812	96,089	111,692	129,371	150,233
Earnings Per Share (PKR)	9.07	11.16	14.17	18.05	20.27	22.08	25.39
Dividends Per Share (PKR)	5.50	6.00	6.50	7.00	7.00	7.50	7.50
Book Value Per Share (PKR)	55.61	64.64	74.23	87.19	101.35	117.39	136.32
Price to Earnings (x)	13.15	10.70	8.43	6.61	5.89	5.41	4.70
Dividend Yield (%)	4.61%	5.03%	5.45%	5.86%	5.86%	6.28%	6.28%
Price to Book Value (x)	2.15	1.85	1.61	1.37	1.18	1.02	0.88
Net Interest Margin (%)	5.97%	6.61%	6.69%	7.00%	6.79%	6.49%	6.48%
Return on Assets (%)	1.46%	1.60%	1.83%	2.12%	2.11%	2.05%	2.10%
Return on Equity (%)	17.85%	18.56%	20.40%	22.36%	21.51%	20.19%	20.01%

Source: Company Reports, TSL Research

CONTACT US

CORPORATE OFFICE

Suite # 604, 6th Floor, Progressive Plaza, Beaumont Road, Karachi, Pakistan. UAN : (021) 111 82 87 87 Fax : (92) 021-3568-6279

Syed Zain Hussain	Chief Executive Officer		zain@taurus.com.pk
Aftab Afroz Mahmoodi	Chief Financial Officer & Company Secretary	Ext: 217	aftab@taurus.com.pk

CORPORATE SALES

Muhammad Asif	Resident Vice President (Group Chief)	35682690	asifjan@taurus.com.pk
M. Aftab Alam	Senior Manager	35212946	aftab.alam@taurus.com.pk
M. Irfan Surya	Senior Manager	35673390	mirfan@taurus.com.pk
Feroz Ahmed	Senior Manager	35662817	feroz@taurus.com.pk
Tauseef Ladak	Senior Manager	35662731	tauseefladak@taurus.com.pk
Muhammad Usman Ansari	Senior Manager	35215952	usman.ansari@taurus.com.pk
Khurram Rasheed	Manager	35681420	khurram@taurus.com.pk
Syed Qulb-e-Abbas	Manager	35684228	qulb.abbas@taurus.com.pk
Fahed Fazal	Manager	35651128	fahed@taurus.com.pk
Anwar Ahmed	Manager	35638268	anwar.ahmed@taurus.com.pk

RESEARCH

Salman Rasheed	Head of Research & Investment Advisory	Ext: 202	salman@taurus.com.pk
Saad Najaf Ali Sayed	Senior Equity Analyst	Ext: 203	saad@taurus.com.pk
MohammadAli Ghanghro	Equity Analyst	Ext: 202	m.ali@taurus.com.pk
Nabil Saleh	Equity Analyst	Ext: 203	nabil@taurus.com.pk
Shumaila Badar	Equity Analyst	Ext: 203	shumaila.badar@taurus.com.pk

Peshawar Branch

State Life Building, 2nd Floor, 24 The Mall, Peshawar Cantt. UAN (091)111 82 87 87 Fax: (091) 270063

M. Adeel	Resident Representative		adeelahmed@taurus.com.pk
Muhammad Usman	Assistant Manager Equity Sales		
Saifullah	Equity Sales Officer		safiullah@taurus.com.pk

URL: http://www.taurus.com.pk
E-mail: research@taurus.com.pk

Analyst Certification

We, **Salman Rasheed** and **Shumaila Badar**, the authors of this report, hereby certify that all of the views expressed in this research report accurately reflect our personal views about any and all of the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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