

morning shout

Pakistan Daily Notes

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UBL: PO raised on Asset-Liability mgmt.

- We are raising our PO for United Bank to PRs70/sh post 2009 detailed results where expedition on balance sheet management underpins our calibration on the stock valuation.
- We however maintain our Neutral rating as low visibility from Middle East operations keeps our conviction bounded on any material re-rating in multiple.
- 2009 results came in above street expectations, PRs8.56/sh, due to lower than expected Opex. & expeditious asset-liability mgmt. (ALM) progressed in the right direction with CAR, CASA and gearing showing improvement.
- We raise our earning estimate by 10% and 8% for 2010E-11E by tweaking assumption on margins and opex growth. Meanwhile we keep credit cost estimates unaltered at 1.3% and 0.8%.
- UBL is trading at 2010E P/B of 0.95x on prospective ROE of 16.7% with asset gearing of 9.5x. Key upside trigger to our stance remains improving visibility on Middle East market.

Raising PO by 13% to PRs70/sh

Bottom line: We are raising our PO for United Bank to PRs70/sh post 2009 detailed results where expedition on balance sheet management underpins our calibration on the stock valuation. However we maintain our Neutral rating - trading at 2010E P/B of 0.95x with prospective ROE of 16.5% - as potential asset risk and low visibility from Middle East (ME) operations over the next 6 months keeps our conviction bounded on any material re-rating in stock multiple. Key upside trigger to our stance is improving visibility on Middle East operations.

2009 result: C's taking the lead

2009 results came in above street expectations, PRs8.56/sh, due to lower than expected operating expenditure and non-recurring gain from derivatives. Even so, expedition on asset-liability management (ALM) progressed in the right direction with (i) Capital Adequacy Ratio (CAR) up to 14% in Dec-09, from 10.5% in Dec-08, on a decline in revaluation deficit and improvement in gearing to 10x in 2009 from 13x in 2008 (ii) CASA increasing to 67%, +680bp YoY & +170bp QoQ and (iii) Credit risk on domestic front moderating, +PRs1bn in 4Q09 vs +PRs3.4bn in 3Q09.

Revising earnings estimates by +8% to +10%

We are revising our 2010E-11E earnings by +10% & +8% due to change in operating costs and margin assumption. We have decreased opex by 11% and 10% respectively over 2010E and 2011E as compared to our previous estimates as the bank has expedited tight controls on miscellaneous costs. We have also tweaked our margins assumption upwards by 22bp and 43bp respectively over 2010E and 2011E but have also lowered asset growth estimates thus taking net interest income growth slightly lower than our previous estimates. Meanwhile we have kept our credit cost estimate unchanged at 1.3% and 0.8% of loans in 2010E and 2011E.

Asset risk: Domestic + International interplay

With 24% of loan book (~PRs90bn) exposed to the ME, UBL's asset risk matrix is prone to a potential contagion in UAE real estate which in our view would prevent the stock from a sizable re-rating in the near term. While retail segment in ME and Dubai has relatively stabilized, second round impact of credit risk on commercial and contracting business could unfold in the next 6 to 9 months. In 2009, overseas NPLs increased by only PRs1.8bn while domestic NPLs rose by PR9.3bn. Total NPLs as of Dec-09 stand at PRs40bn, 10.3% of loans with net NPL ratio of 3.2%.

Investment perspective

We maintain our Neutral rating on the stock trading at 2010E P/B of 0.95x and ROE of 16.7%. Our PO for UBL offers an upside of 10% from current levels, where we believe with risk to book value erosion dim, the stock should converge to 1.0x P/B. UBL is currently trading at 1.1x standard deviation below its historical mean P/B multiple of 2.3x.

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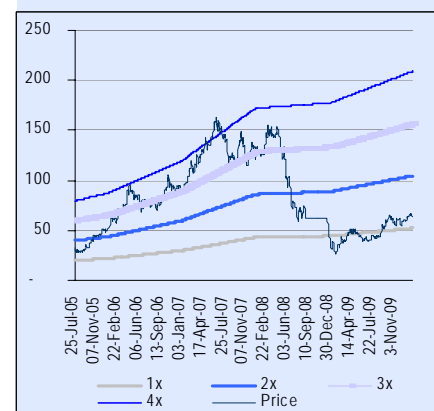
Current Price PRs63.00
Price Objective PRs70.00

KATS UBL
Bloomberg UBL PA
Reuters UBL.KA

3m average daily volume
1,410,756 shares

12-month High/Low
66.11 / 38.29

UBL P/B chart



Source: UBL, KSE

UBL financial highlights

PRs' mn	2009A	2010E	2011E
Net Int. inc.	33,172	33,207	34,570
Other Op. Inc.	12,320	10,830	11,842
Total Op. Inc.	45,493	44,036	46,412
Op. Expenses	(20,894)	(20,798)	(22,607)
Pre-Pro. Profit	24,598	23,238	23,805
Provisions	(10,206)	(5,340)	(3,871)
PBT	14,393	17,898	19,934
PAT	9,522	11,504	12,813
EPS (PRs)	8.56	10.34	11.51
BVPS	60.49	67.59	74.64
PBV	1.05	0.94	0.85

Source: UBL, KASB estimates

Morning News

► **Provisional revenue collection data released (BR)**
 As per newspaper reports, Federal Board of Revenue (FBR) has provisionally collected PRs89.3bn during Feb-10 as compared to PRs77.2bn in Feb-09, resulting in an increase of PRs12.1bn YoY. According to provisional figures compiled by FBR, overall revenue collection stood at nearly PRs783bn in Jul 09-Feb 10 as compared to PRs707bn in Jul 08-Feb 09. We believe that the tax collection target of PRs1.38tr may prove challenging for the government, and FBR may need to take serious enforcement and administrative measures to improve overall revenue collection.

Technical View

Aiyaz M. Hassan

First support 9,362 points, second support 9,258 points; first resistance 9,484 points, second resistance 9,559 points

The index opened on a positive note and after initially touching its day's high, it took to a steady downtrend to close well into the red. Volumes showed an increase of 6.02% and stood at 115.87 mln. The index has created an Engulfing Bearish formation while closing below the 100-DMA. This is bearish and suggests further downside. Even if there is a pullback it should be capitalized upon to sell.

The Stochastic Oscillator is in a failure swing despite the fact that it is oversold, while the 14-day RSI continues to decline. Moreover, the MACD has confirmed its downtrend, generating a sell signal in the process. Additionally, the Bollinger Band has now conformed to a downtrend, which is bearish.

The first support is at 9,362 points and the second support is at 9,258 points. The first resistance is at 9,484 points and the second resistance is at 9,559 points.

Gold Spot

Strategy: Buy

Gold registered a decent gain on 2nd March and was seen trading in the positive, while maintaining itself above resistance of \$ 1,134.44. The Stochastic Oscillator maintains its steady uptrend as well as its buy signal, while the 14-D too continues to rise. It is suggested to buy between \$ 1,130.96 and \$ 1,134.73 with stops below \$ 1,127.19. The first resistance is at \$ 1,142.27 and the second resistance is at \$ 1,145.49.

West Texas Intermediate (WTI) Spot (Crude Oil)

Strategy: Buy

WTI is consolidating around its critical level of \$ 79.82, while the formation created by it is suggestive of the end of the consolidation phase and the resumption of the uptrend. The Stochastic Oscillator has once again generated a buy signal and is supported by the 14-D RSI, thus augmenting the above view. It is suggested to buy between \$ 78.23 and \$ 78.98 with stops below \$ 77.56. The first resistance is at \$ 80.40 and the second resistance is at \$ 81.24.

KSE-100 Intra-day Movement



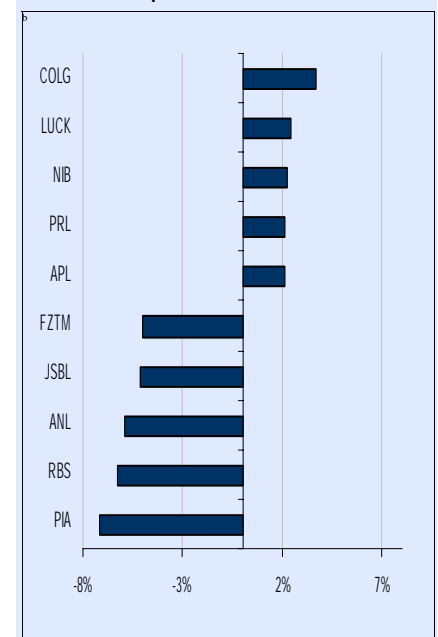
Source: KSE

Index Data & Volume Leaders

	Close	% Chg	Vol. US\$mn
KSE30	9,849.71	-1.25%	40.95
KSE100	9,419.43	-1.33%	43.56
KSE All Share	6,661.08	-1.40%	46.63
OGDC	116.55	-0.66%	6.57
AHSL	41.40	-4.61%	4.96
NBP	88.35	-0.06%	4.71
FFBL	30.50	-4.60%	2.45
J_SCL	21.05	-4.97%	2.45

Source: KSE

KSE-100: Top Gainers & Losers



Source: KSE

World Markets and Commodity Prices

International Equity Markets

Asian Markets (Closing Rates)

	Price	Abs. Chg.	% Chg.
All Ordinaries	4,743.80	33.90	0.72
Shanghai Composite	3,097.01	23.90	0.78
Hang Seng	20,876.79	-29.32	-0.14
BSE 30	17,000.01	227.45	1.36
Jakarta Composite	2,567.09	-9.50	-0.37
KLSE Composite	1,286.10	-1.97	-0.15
Nikkei 225	10,253.14	31.30	0.31
NZSE 50	3,198.52	15.28	0.48
Straits Times	2,782.79	10.59	0.38
Seoul Composite	1,622.44	7.32	0.45
Taiwan Weighted	7,629.52	31.90	0.42
KSE-100 Index	9,419.43	-126.96	-1.33

Source: Bloomberg

European Markets (Last Trading Session's Rates)

	Price	Abs. Chg.	% Chg.
ATX	2,456.98	-13.93	-0.56
BEL-20	2,592.56	33.79	1.32
CAC 40	3,842.52	30.60	0.80
DAX	5,817.88	41.32	0.72
AEX General	331.86	3.62	1.10
Swiss Market	6,813.16	-6.88	-0.10
FTSE 100	5,533.21	49.15	0.90
American Markets			
Dow Jones Ind. Average	10,396.76	-9.22	-0.09
NASDAQ Composite	2,280.68	-0.11	0.00
NASDAQ -100	1,851.57	0.36	0.02
S&P 500 Index, RTH	1,118.79	0.48	0.04

Foreign Portfolio Investment in Equities

Country	Day (US\$m)	WTD (US\$m)	MTD (US\$m)	YTD (US\$m)	YTD Net (US\$m)	Date
Pakistan	3.3	13.6	13.6	45.6	NA	03-03
India	333.5	333.5	333.5	567.2	134.9%	03-03
Indonesia	41.9	103.8	103.8	-59.7	66.7%	03-03
Japan	Na	405.1	2,323.9	20,463.6	190.3%	02-19
Philippines	-9.2	-4.6	-4.6	117.1	426.8%	03-03
South Korea	89.5	458.3	458.3	1,022.6	240.9%	03-03
Taiwan	89.3	437.1	437.1	-2,436.8	7.7%	03-03
Thailand	76.2	210.5	210.5	148.0	156.5%	03-03
Vietnam	2.3	4.0	4.0	23.5	477.4%	03-03

Source: Bloomberg, NCCPL

Forex and Money Market snapshot

	Current	Previous	Chg.
6-Month KIBOR (Offer)	12.40	12.42	-0.02
12-M T-Bill (Average)	12.26	12.27	-0.01
10- year PIB (Average)	12.64	12.65	-0.01
PkR/ US\$	85.05	85.11	-0.06

Source: KASB Money Market

Commodity Prices

	Price	Abs. Chg.	% Chg.
WTI (Crude Oil)	80.87	1.19	1.49
Gold	1136.23	3.43	0.30
CRB Index (Mar 2 nd)	428.27	0.34	0.08

Source: Bloomberg

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