

## Faysal Bank-Target price of RS: 22

In 2014 the Bank was able to post Profit after Tax of PKR 2.477 billion against PKR 1.850 billion for 2013 thereby registering 33.9% increase. Resultantly, EPS of the Bank in 2014 stood at PKR 2.37 which is higher by 60 paisas compared to EPS of PKR 1.77 in 2013. Bank posted operating profit of PKR 5,911 Million which is 38.2% higher than previous year figure of PKR 4,277 Million. This growth in profitability is due to increase in net margin on account of acquisition of fresh low cost deposit and placement of funds at better yield. Bank has also made provisions against its exposures on weak customers and as a result increased NPL coverage from 71.5% to 78.6%. This healthy coverage ratio reflects the strength of the Balance Sheet. Investments were increased to PKR 155.2 billion which are higher by 36.9% from 2013 level of PKR 113.3 billion. Total assets of bank have increased from PKR 355 billion to PKR 388 billion.

PKR	FY14	FY13	(F)FY15
Mark-up/return/interest earned	32,313	27,790	33,284
Mark-up/return/interest expensed	(18,480)	(16,945)	18,942
Net mark-up/interest income	13,833	10,845	14,342
Net interest income after provisions	11,474	8,728	17,92
Total non mark-up / interest income	4,372	4,526	4,788
Total noninterest expenses	12,295	11,101	11,800
Profit before taxation	3,551	2,160	5,538
Profit after taxation	2,477	1,849	1,994
EPS	2.37	1.77	2.95

Source: Actual data from FY-14 & FY 13 is from Financial reports published by the bank.

## Financial Review

- FABL NIMs (Net Interest Margin) have witnessed a brisk improvement over the past few years. FABL now enjoying the highest NIMs in mid-tier banks. NIMs growth has been led by increase in income from PIB's investments and replacement of fixed-term deposits by zero cost deposits.
- During the year, FABL increased its PIB investments by almost 2.0x YoY contributing 37% to the total investments against 17% as of Dec-13. Bulks of investments are under available for sale investments (AFS). These investments are expected to result in substantial unrealized capital gains amid falling interest rates.
- Subdued growth of 3% in Advances, led to ADR declining to 64% from 68% in 2013. FABL's increased focus on asset quality and declining risky government loans has allowed the bank to bring the gross NPL (Non-Performing Loans) ratio down to 14.3% at year-end.
- Bank's CASA % in FY-14 is 65.66 comparing to last year 64.90. Improving CASA% will again help bank to improve NIMs for the future.
- Improvement in CAR shall enable payouts moving ahead: In Dec-14 annual report, FABL has posted improvement in its capital adequacy ratio (CAR) whereby CAR of the bank clocked in at 12.22% adjacent to 11.29% in CY13. Improvement in CAR and stable earnings growth potential would enhance FABL's ability to start paying cash dividends in future.
- FABL expressed its intentions to switch its conventional banking operations to Islamic operations over the next two to three years. FABL has shown outstanding performance within its Islamic operations. Islamic operations can potentially unlock value of this bank.
- Bank has also decreased the No. of employees to 3,036 in FY14 from 3,610 in FY13, which will eventually low the operational cost in term of salaries, bonuses and other benefits.
- Bank total investment break-up is 2% Equity, 4% TFC's/Bonds and 94% Govt. Securities.
- We expect FABL to continue to earnings growth of 25% against the same period last year and post an EPS of PKR 2.9 in CY15.
- At current price level we recommend our customers to "BUY" FABL with target price of RS: 22.

April 10, 2015

**FABL: BUY**

**Current Price: 15.10**

**Target Price: 22**

## Key Data

Ticker	FABL
52Week High(PKR/sh) Adj	20.30
52Week Low(PKR/sh)Adj	13.37
Market Cap.(PKR Bn)	18.12 B
P/E Ratios 2014	7.68

	EPS	B.Value	T.Assets
2011	1.23	23.33	292,583
2012	1.36	22.68	313,123
2013	1.77	21.25	355,280
2014	2.37	25.21	388,126

	P/E	PAT	CASA%
2011	6.63	1,280	54.50
2012	7.83	1,420	60.93
2013	6.42	1,850	64.90
2014	7.68	2,477	65.66

	Employee/Branch Ratio
2011	13.3
2012	13
2013	13.4
2014	11

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