

Grapevine Banks

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RBS acquisition goes through; deeper prospects for FABL

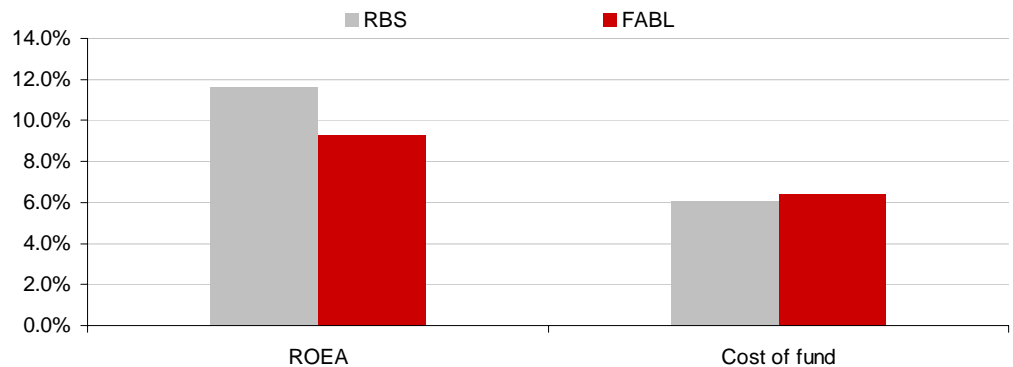
- Principal agreement has been reached for RBS acquisition of 99.37% holding by FABL against a consideration of PKR4,298mn (~USD50.4mn)
- The price per share for the acquisition comes at PKR2.5 compared to the current book value of PKR4.4/sh for RBS, reflecting acquisition PBV multiple of 0.57x.
- FABL is expected to benefit thorough improved margins based on relatively higher ROEA and low cost of RBS compared to FABL
- Further, FABL seeks synergy through access to premium clientage of RBS i.e MNCs and wealth management, while higher operational cost of RBS would remain a challenge
- As per our understating, CAR issues, emanating form addition of higher asset value compared to capital is likely to be a short term challenge for the consolidated entity. However, better reserve position of FABL would help mitigate any regulatory risk on this front
- Current share price of PKR15.4 for FABL reflects Mar10 PBV of 0.72x while holding everything constant, post-acquisition PBV translates into 0.58x.
- Moreover, we understand that FABL is likely to either announce public offer or conversion ratio for the remaining 10.8mn shares of RBS; albeit subject to regulatory approvals

As per KSE notice, Faysal Bank (FABL) and Royal Bank of Scotland (RBS) have reached an agreement for the sale of 99.37% holding in RBS Pakistan to FABL at a consideration of PKR4,298mn (~USD50.4mn). The price per share for the acquisition comes at PKR2.5/sh compared to the current book value of PKR4.4/sh for RBS, reflecting acquisition PBV multiple of 0.57x.

Breather for FABL's NIMs

As per our understanding, RBS acquisition will add synergies through addition of earning assets of PKR70bn along with higher yield on them, compared to the existing return generated by FABL on its earning assets. In addition, cost saving is also likely to be considerable, with RBS's PKR65bn deposit portfolio expected to ease off FABL's higher cost of funds.

Comparative Analysis for Margins as per CY09



Source: BMA Research

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Synergies there; At the expense of higher Admin costs though

RBS's existing product lines i.e. higher net worth clients and MNCs will also be a major operational benefit to FABL through this acquisition. However, short term operational challenges in terms of streamlining the IT infrastructure and rebranding RBS outlets can result in higher administration expenses. Moreover, backed by high salary expenses, RBS currently reflects cost to income ratio of 74% compared to 55% for FABL.

CAR to be a contention point

As per our understating, CAR issues, emanating from addition of higher asset value compare to capital, is likely to be a short term challenge for the consolidated entity. This factor is expected to result in capital enhancement announcements via bonus issues in order to comply with the SBP's CAR and capital requirement for Dec10. The existing equity reserve position of PKR4bn (for FABL) posts a comfortable position for the bank to cater for the said requirement by Dec10.

Deal price translating into attractive valuations for FABL

The deal price is considered to be lower than earlier negotiated price of USD80+ (with MCB) and thus bodes well for FABL's shareholders. Current share price of PKR15.4 for FABL reflects Mar10 PBV of 0.72x while holding everything constant, post-acquisition PBV translates into 0.58x.

Moreover, we understand that FABL is likely to either announce public offer or conversion ratio for the remaining 10.8mn shares of RBS. However since the deal is still pending regulatory approvals, it may take some time before a final announcement is made with regards to the fate of these shares.