

PAKISTAN



Pakistan Banks

Marginal uptick in NII to support earnings in 3QCY21

Event

FSL banking universe is estimated to witness a sequential uptick in profitability (↑3%QoQ), however, it is expected to remain flattish on YoY basis. This sequential uptick in profitability is expected to be driven by marginal increase in Net Interest Income (NII) and lower provision expense whereas this moderate rise is expected to be restricted by drop in NFI. Constituents of FSL Banking Universe HBL, UBL, MCB, MEBL, BAFL, AKBL and FABL are expected to post EPS of Rs6.17, Rs6.10, Rs6.28, Rs4.14, Rs1.99, Rs2.29 and Rs1.37 respectively. Aforementioned 3QCY21 results are likely to be accompanied by a DPS of Rs1.75, Rs4.00, Rs5.00 and Rs1.30 for HBL, UBL, MCB and MEBL.

Impact

Improvement in NII to partially compensate for lower capital gains: We estimate FSL banking universe to record a 3% uptick in profitability on sequential basis, however it is expected to remain flattish on YoY basis. On a sequential basis, moderate increase (↑3% QoQ) in NII is expected to drive the profitability, however, this surge in profitability is expected to get restricted by lower capital gains. On YoY basis, NII is estimated to decline by 3% YoY however, this drop is likely to get diluted by growth in fee income due to low base observed in 3QCY20 as COVID affected banking operations. In addition to this, YoY profitability was also supported by lower provision expense recorded in 3QCY21 compared to COVID induced provisions in 3QCY20. Going forward, profitability of FSL Banking Universe is expected to improve post asset re-pricing.

Deposits mix to get preference over growth: We expect deposit growth to decelerate going forward as banks are likely to shift their focus from deposit growth to improving deposit mix. This shift in preference is primarily expected to be driven by recently imposed condition of ADR which would result in higher tax rates for banks with lower ADRs. This has also translated into deposits of scheduled banks which remained flattish QoQ restricting deposit growth during 9MCY20 to 11%. Furthermore, pattern of the funds deployment largely remained the same with strong preference towards investments as it increased by 3% QoQ translating into IDR of 71% (↑2/5%, QoQ/YoY). On the other hand, advances grew by 3% QoQ as ADR increased by 1ppts to clock in at 47%.

Upward shift in yield curve: Yield curve during the quarter witnessed an upward movement as participants built up their expectations of interest rate hike as CAD has increased to US\$1.8bn in Aug'21 compared to US\$0.8mn in Jul'21. This has been exerting pressure on the Pak Rupee which has depreciated against the greenback by 8% from Jun'21. As a result, Secondary market yields for 3/6/12-M has inclined by 31/46/92bps as of Sep'21 from Mar'21. Whereas T-Bills cut-off yields during 3QCY21 has also increased with major participation in 3/6-M as participation in 12M remained lackluster during the quarter.

Outlook

Going forward, we expect improvement in banking spreads along with the recovery in NFI to support bottom-line of the banking sector. In addition to this, we believe that FSL Banking Universe is well equipped for the implementation of IFRS9. We expect policy rate to increase to 9% by Jun'22 due to external account and inflationary pressures. On the balance sheet front, we expect growth in deposit base to fizzle out as banks would focus more on deposit mix to balance ADRs to lower effective tax rates.

FSL's Banking universe earnings preview 3QCY21

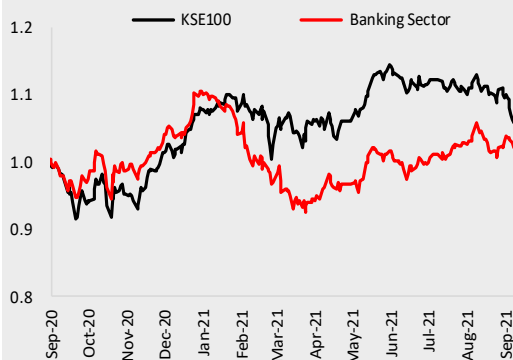
	3QCY21	3QCY20	YoY	QoQ
HBL	6.17	6.85	-10%	-3%
UBL	6.10	3.86	58%	1%
MCB	6.28	8.42	-25%	-5%
MEBL	4.14	3.93	5%	3%
BAFL	1.99	1.62	23%	-1%
AKBL	2.29	2.56	-11%	111%
FABL	1.37	1.14	20%	-66%

DPS

HBL	1.75
UBL	4.00
MCB	5.00
MEBL	1.30
BAFL	-
AKBL	-
FABL	-

Source: Company Accounts, Foundation Research, October 2021

Performance of Banking Sector vs. KSE 100



Source: Bloomberg, Foundation Research, October 2021

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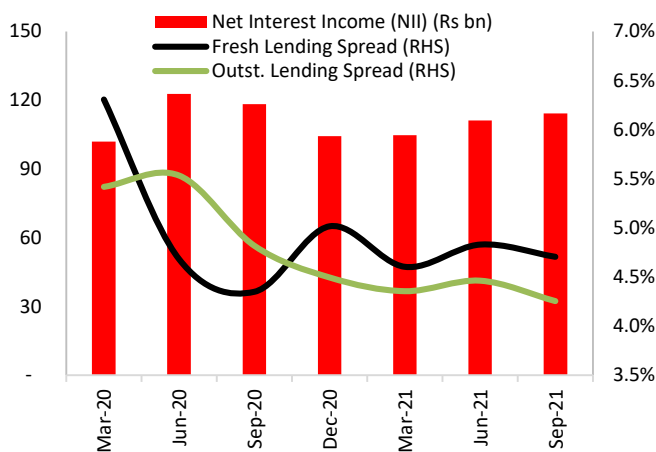
Foundation Securities (Pvt) Ltd
Wednesday, October 13, 2021

Table 1: FSL Banking Universe 3QCY21 Earnings Preview (Rs mn)

	3QCY21	3QCY20	YoY	QoQ	9MCY21	9MCY20	YoY
Net interest income	114,216	118,298	-3%	3%	330,042	343,041	-4%
Non-interest income	30,549	28,210	8%	0%	92,614	81,252	14%
Fee income	20,287	16,194	25%	6%	58,743	45,403	29%
Total Income	145,587	148,247	-2%	2%	425,692	383,163	11%
Non-interest expense	73,764	69,567	6%	1%	219,449	209,207	5%
Admin expense	72,320	68,121	6%	2%	214,969	204,515	5%
Provisions	3,635	13,536	-73%	-10%	9,566	43,027	-78%
PBT	68,189	65,144	5%	3%	196,677	106,678	84%
Tax	28,609	26,116	10%	2%	81,332	71,196	14%
PAT	39,198	38,987	1%	3%	114,534	104,718	9%

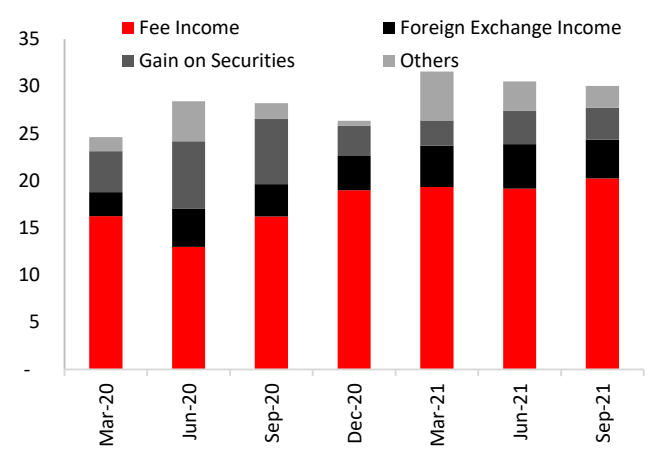
Source: Company Accounts, Foundation Research, October 2021

Fig 1: Net Interest Income to post marginal increase



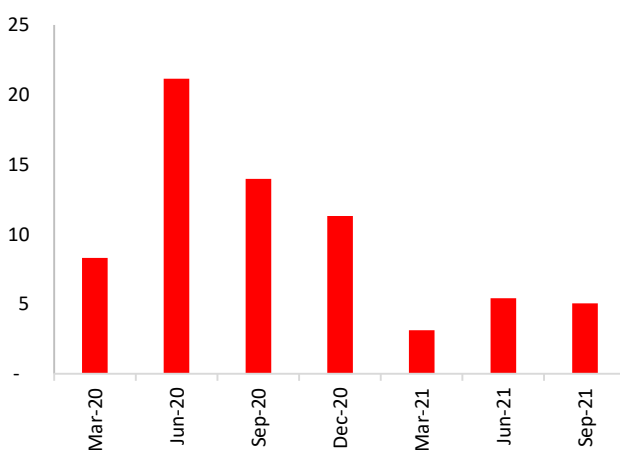
Source: SBP, FSL Research, October 2021

Fig 2: Non-markup income to stay robust



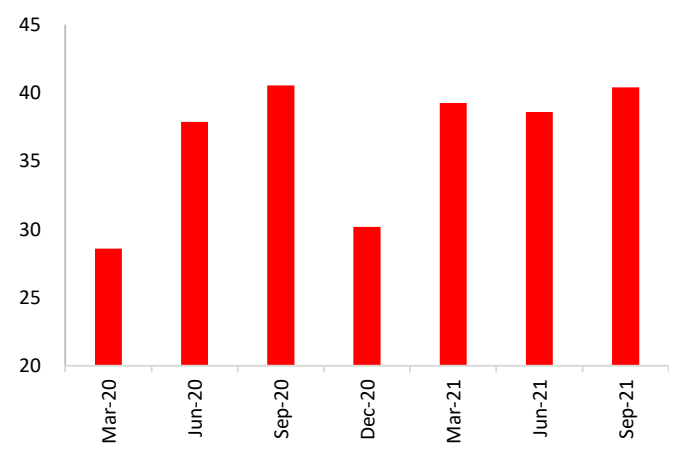
Source: Company Accounts, FSL Research, October 2021

Fig 3: Provision expense to largely remain stagnant



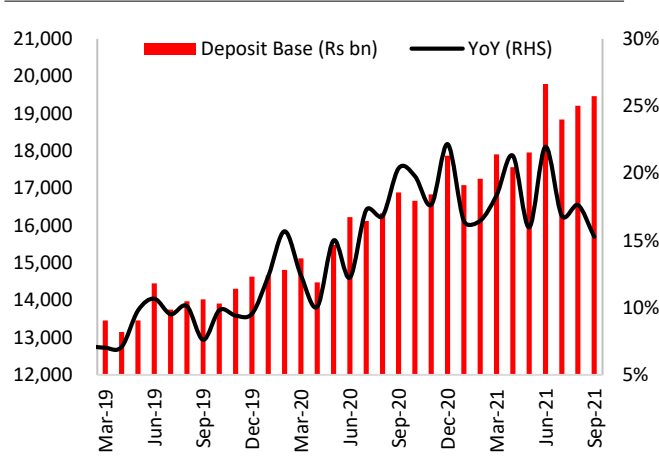
Source: Company Accounts, FSL Research, October 2021

Fig 4: Profitability to improve QoQ



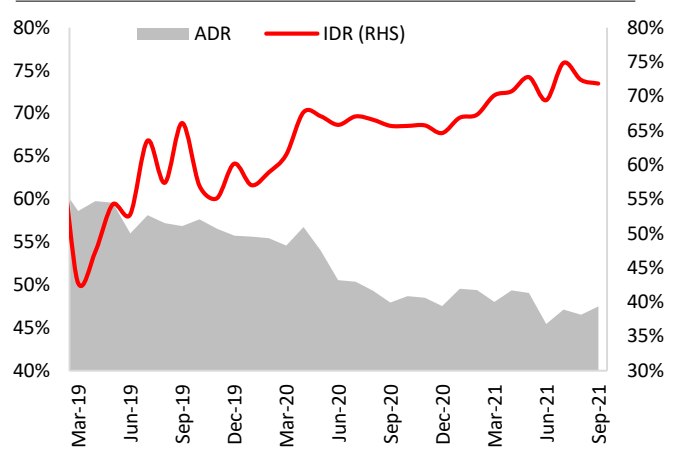
Source: Company Accounts, FSL Research, October 2021

Fig 5: Deposit growth remained robust, ↑22% YoY



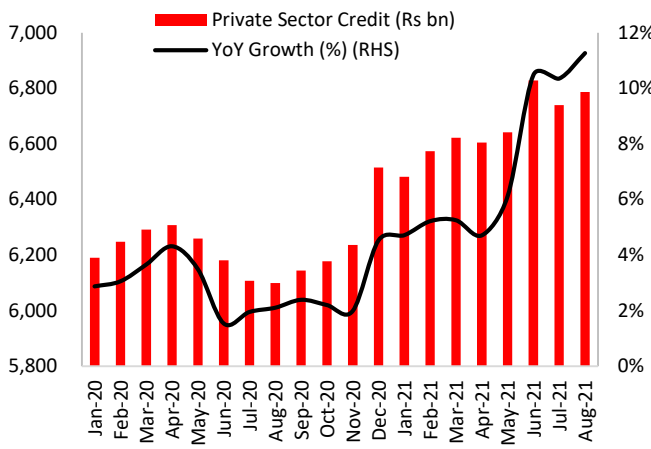
Source: SBP, FSL Research, October 2021

Fig 6: Preference towards investment fueled IDRs



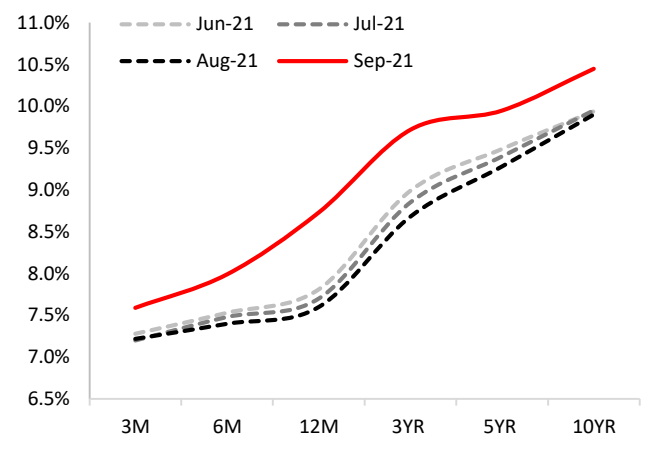
Source: Company Accounts, FSL Research, October 2021

Fig 7: Private sector credit offtake also recovered



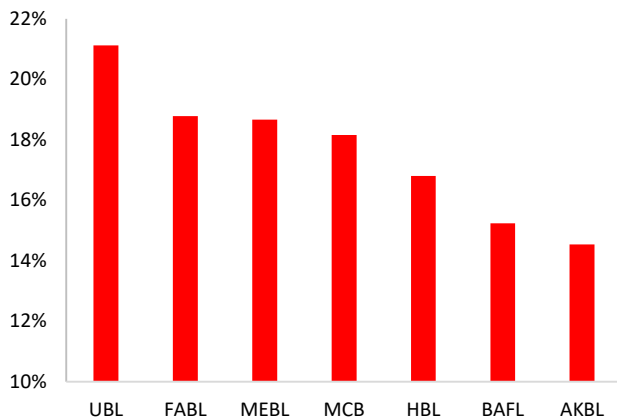
Source: SBP, FSL Research, October 2021

Fig 8: Yields declined across the board



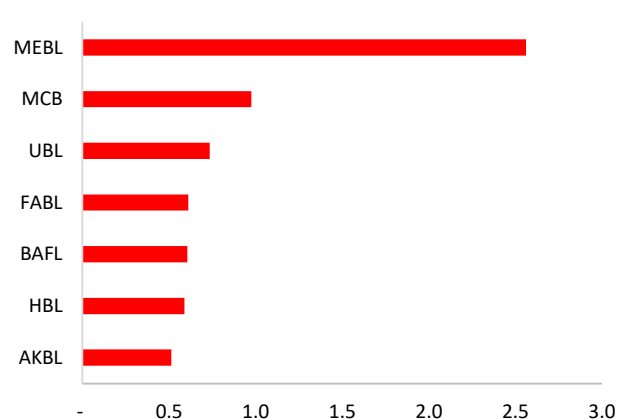
Source: Company Accounts, FSL Research, October 2021

Fig 9: FSL banking universe stands well capitalized



Source: Company Accounts, FSL Research, October 2021

Fig 10: Trading at attractive P/BV



Source: Company Accounts, FSL Research, October 2021

Abbreviations

NIMs	Net Interest Margins
PR	Policy Rate
NPL	Non-Performing Loans
MoM	Month on Month
YoY	Year on Year
Bps	Basis Points
Bn	Billion
IDR	Investment Deposit Ratio
ADR	Advances Deposit Ratio
M	Month
CY	Calendar year

Important disclosures:

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Recommendations definitions

If	
Expected return >+10%	Outperform.
Expected return from -10% to +10%	Neutral.
Expected return <-10%	Underperform.