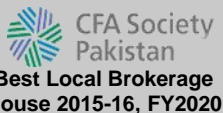


Pakistan Equity | Banks | Sector Research

January 10, 2022

REP-057

Advances grow at a 3-year high of 19% in 2021
Deposits grow at 17%; ADR improves to 48%



Umair Naseer

umair.naseer@topline.com.pk

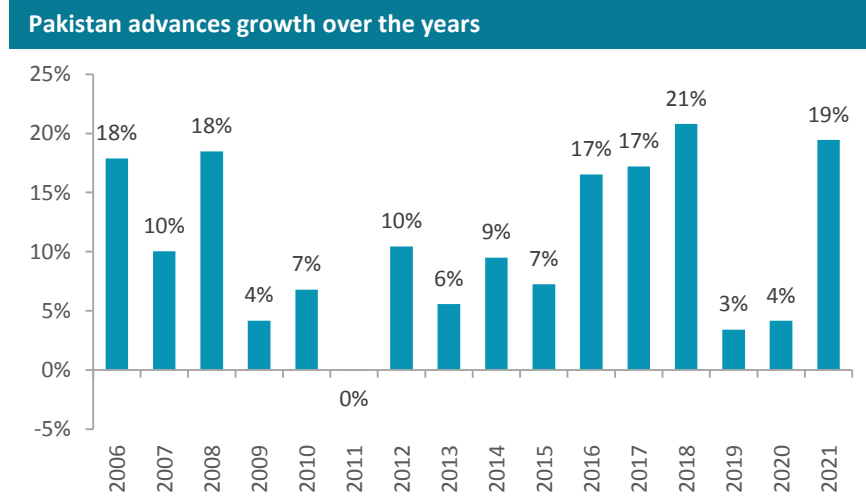
Tel: +9221-35303330 Ext:133

Topline Securities, Pakistan

Macro recovery & policy incentives drove advances growth in 2021

Pakistan Banking Statistics					
Rsbn	2021	2020	YoY	Nov-21	MoM
Deposits	20,972	17,876	17%	19,668	7%
Advances	10,149	8,497	19%	9,646	5%
Investments	14,124	11,552	22%	13,556	4%
ADR	48%	48%		49%	
IDR	67%	65%		69%	

Source: SBP, Topline Research

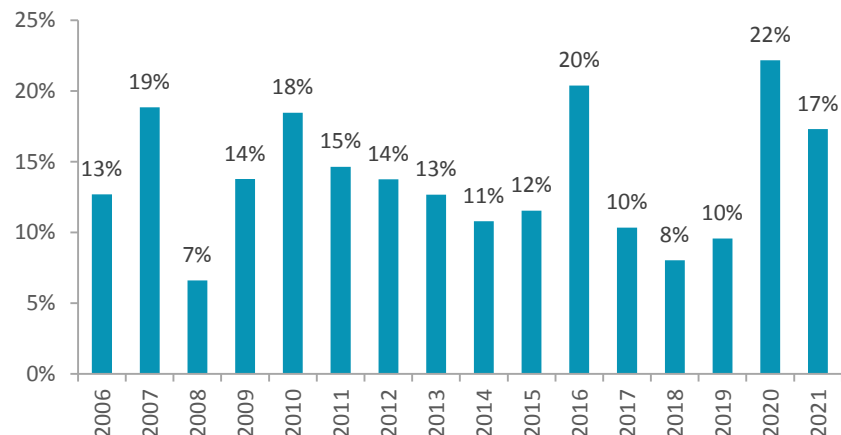


Source: SBP, Topline Research

- Pakistan Banking advances in 2021 clocked in at Rs10trn, up 19% YoY which was the highest growth in 3-years. This was driven by macro recovery, strong uptick in consumer loans, and initiation of new financing schemes by central bank (SBP).
- Disbursement under TERF (Temporary Economic Relief), housing finance, and auto finance have all led to up tick in advances.
- As per SBP, a total of Rs435bn or 4% of total advances have been approved under the Temporary Economic Relief (TERF) from April 2020 to March 2021 under which disbursements are still undergoing. SBP expects TERF disbursements at Rs273bn in FY22 vs. Rs163bn in FY21.
- In July, 2020, SBP also mandated banks to increase their housing and construction finance portfolio to at least 5% of their private sector advances by December 2021 otherwise they will be subject to penalties. This coupled with increased disbursements under Mera Pakistan Mera Ghar scheme also boosted overall construction and housing finance. Consequently, total housing finance (including finance to bank employees) has increased to Rs286bn (3.9% of private sector credit) in Nov 2021 vs. Rs216bn (3.3% of private sector credit).
- Auto financing surged by 34% to Rs385bn in 11M2021 driven by strong auto sales and single digit interest rates.
- In 2H2021, government also imposed increased tax of 2.5-5% on banks falling below 50% ADR (advance to deposit ratio) threshold forcing them to increased lending.
- ADR ratio of banks in 2021 clocked in at 48.4% vs. 47.5% in 2020, which is still lower than last 10-year average ADR of 53% and peak of 83% in 2008. We expect advances growth to remain in range of 10-15% in 2022 to be driven by TERF disbursement, housing financing etc.

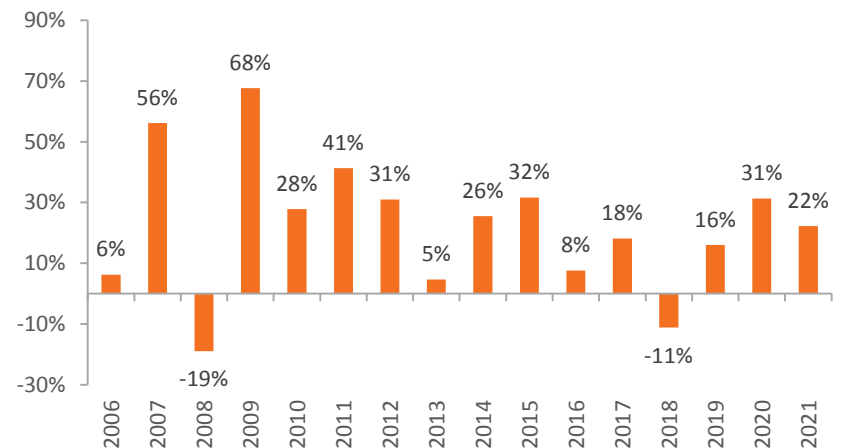
Deposits up 17%, Investments up 22% in 2021

Pakistan Deposit growth rate over the years



Source: SBP, Topline Research

Pakistan Investments growth rate over the years



Source: SBP, Topline Research

- Pakistan banking sector deposits were up 17% YoY to Rs20.9trn in 2021 which was higher than the last 10-year average deposit growth rate of 13%. Strong M2 (broad money) growth and higher remittances has have led to increased deposit growth.
- Currency in circulation as a percentage of broad money stood at 29% in 2021 vs. 28% in 2020 and last 5-year average of 27% which could be due to low single digit interest rates and an effort to stay out of sight of tax authorities.
- Investments on other hand increased by 22% YoY in 2021 vs. a growth of 31% in 2020 as banks continue to prefer investment in risk free government securities.
- As a result, Investment to Deposit (IDR) ratio of the sector improved to 67% in 2021 vs. 65% in 2020.
- **Outlook:** With rising interest rates, banks are expected to witness margin improvement in 2022 which bodes well for sector profitability. SBP since Sep 2021 raised the policy rate by 275bps to 9.75% and we expect a further 50-100bps increase in policy rate in 2022, which is likely to improve sector margins going forward.
- We also expect deposit growth rate momentum to continue in 2022 which will drive asset growth and thus higher profitability. We expect deposit growth of 15% in 2022.
- We have an 'Overweight' stance on Pakistan banking sector as Topline Banking Universe sector trades at 2022 PE of 4x and PBV of 0.7x. Our top picks in the sector includes Meezan Bank (MEBL), MCB Bank (MCB), and United Bank (UBL).

Analyst Certification and Disclosures

The research analyst(s), denoted by an “AC” on the cover of this report, primarily involved in the preparation of this report, certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject companies/securities/sectors and (2) no part of his/her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

Furthermore, it is stated that the research analyst or its close relative have neither served as a director/officer in the past 3 years nor received any compensation from the subject company in the past 12 months.

Additionally, as per regulation 8(2)(i) of the Research Analyst Regulations, 2015, we currently do not have a financial interest in the securities of the subject company aggregating more than 1% of the value of the company.

Rating System

Topline Securities employs three tier ratings system to rate a stock, as mentioned below, which is based upon the level of expected return for a specific stock. The rating is based on the following with time horizon of 12-months.

Rating	Expected Total Return
Buy	Stock will outperform the average total return of stocks in universe
Neutral	Stock will perform in line with the average total return of stocks in universe
Sell	Stock will underperform the average total return of stocks in universe

For sector rating, Topline Securities employs three tier ratings system, depending upon the sector’s proposed weight in the portfolio as compared to sector’s weight in KSE-100 Index:

Rating	Sector’s Proposed Weight in Portfolio
Over Weight	> Weight in KSE-100 Index
Market Weight	= Weight in KSE-100 Index
Under Weight	< Weight in KSE-100 Index

Ratings are updated daily to account for the latest developments in the economy/sector/company, changes in stock prices and changes in analyst’s assumptions or a combination of any of these factors.

Valuation Methodology

To arrive at our 12-months Target Price, Topline Securities uses different valuation methods which include: 1). Present value methodology, 2). Multiplier methodology, and 3). Asset-based methodology.

Research Dissemination Policy

Topline Securities endeavors to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as email, fax mail etc. Nevertheless, all clients may not receive the material at the same time.

Disclaimer

This report has been prepared by Topline Securities and is provided for information purposes only. Under no circumstances this is to be used or considered as an offer to sell or solicitation of any offer to buy. While reasonable care has been taken to ensure that the information contained therein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. From time to time, Topline Securities and/or any of its officers or directors may, as permitted by applicable laws, have a position, or otherwise be interested in any transaction, in any securities directly or indirectly subject of this report. This report is provided only for the information of professional advisers who are expected to make their own investment decisions without undue reliance on this report. Investments in capital markets are subject to market risk and Topline Securities accepts no responsibility whatsoever for any direct or indirect consequential loss arising from any use of this report or its contents. In particular, the report takes no account of the investment objectives, financial situation and particular needs of investors, who should seek further professional advice or rely upon their own judgment and acumen before making any investment. The views expressed in this report are those of Topline Research Department and do not necessarily reflect those of Topline or its directors. Topline as a firm may have business relationships, including investment-banking relationships, with the companies referred to in this report.

All rights reserved by Topline Securities. This report or any portion hereof may not be reproduced, distributed or published by any person for any purpose whatsoever. Nor can it be sent to a third party without prior consent of Topline Securities. Action could be taken for unauthorized reproduction, distribution or publication.