

## Pakistan Banks

### 2QCY23 Preview - Earnings to fall sequentially amid higher ETR

We expect banking sector's profitability to decline sequentially due to higher effective tax rate on the back of imposition of 10% super tax. However, on YoY basis, earnings are expected to witness sizeable increase amid steep rise in interest rate, balance sheet growth and higher taxation charge in SPLY. Core income is expected to remain firm in 2QCY23, thanks to decent growth in deposit base (up by 8.3% QoQ) coupled with favorable deposit mix. Provisional expenses are expected to remain flat despite economic headwinds due to prudent lending. Possibility of reversal related to investment in Pakistan Euro Bond cannot be ruled out. We expect HBL/UBL/MCB/MEBL/BAFL to post EPS of PKR8.3/8.9/9.5/8.1/4.6, respectively in 2QCY23. Similarly, we expect banks to continue their historical trend of quarterly payouts where we expect them to announce DPS of PKR1.5/7.0/6.5/2.8/3.0, respectively.

During the quarter, Interest Income is expected to record an uptick on the back of growth in deposit base coupled with an increase in policy rate. However, we expect the sector's Net Interest Margins (NIMs) to remain relatively unchanged. This is due to higher cost of deposits is expected to offset the impact of asset re-pricing, resulting in a minimal QoQ improvement in NIMs. In the recent quarter, the State Bank of Pakistan (SBP) implemented two policy rate increases. The first increase of 100 basis points occurred in April, followed by another 100 basis points in an emergency meeting towards the end of June. The effects of last rate hikes is expected to reflect in the subsequent quarter. Provisioning expenses are expected to remain flattish, while administrative expenses are expected to remain elevated amid inflationary pressure. Industry's ETR is expected to clock in at ~54%-55% due to imposition of 10% super tax in FY24 budget.

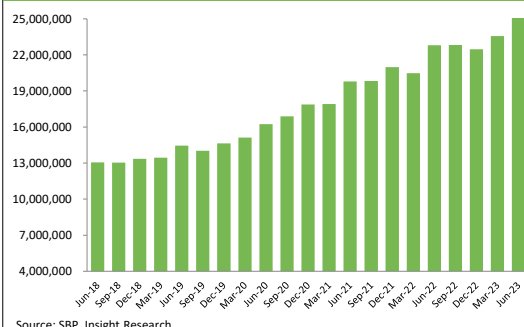
On the balance sheet front, industry's deposits have increased by ~11.8%/8.3% on YoY/QoQ basis, to clock in at PKR25.5tr. Similarly, advances grew by ~12.1%/3.1% on YoY/QoQ basis to clock in at PKR12.2tr. Industry's gross ADR clocked in at ~50%, recording an uptick of ~240bps QoQ. Industry's IDR remained flatish on QoQ basis, while the ratio recorded an increase of ~530bps on YoY basis. Sector's borrowing fell by ~4.5% QoQ, to clock in at PKR8.9tr.

#### ISL Banking Sector 2QCY23 Earning Preview

PKR/sh	2QCY23F	2QCY22	1QCY23	YoY	QoQ	DPS
HBL	<b>8.3</b>	2.3	9.0	258%	-8%	1.5
UBL	<b>8.9</b>	2.2	11.6	310%	-23%	7.0
MCB	<b>9.5</b>	1.9	11.0	400%	-14%	6.5
MEBL	<b>8.1</b>	4.4	8.6	83%	-6%	2.8
BAFL	<b>4.6</b>	2.3	6.8	98%	-32%	3.0

Source: Company accounts, Insight Research

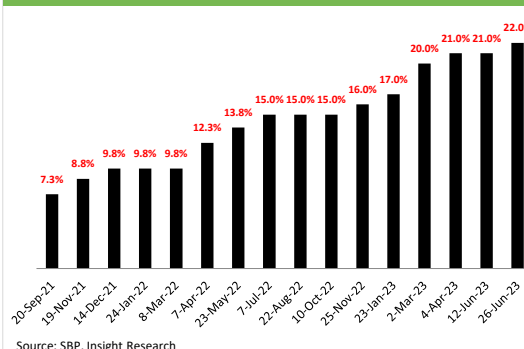
Scheduled Banks Deposits (PKRmn)



Scheduled Banks Borrowings (PKRmn)



Recent MPC decisions



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- Discounted cash flow (DCF)
- Relative Valuation (P/E, P/Bv, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)

### Frequently Used Acronyms

<b>TP</b>	Target Price	<b>DCF</b>	Discounted Cash Flows	<b>FCF</b>	Free Cash Flows
<b>FCFE</b>	Free Cash Flows to Equity	<b>FCFF</b>	Free Cash Flows to Firm	<b>DDM</b>	Dividend Discount Model
<b>SOTP</b>	Sum of the Parts	<b>P/E</b>	Price to Earnings ratio	<b>P/Bv</b>	Price to Book ratio
<b>P/S</b>	Price to Sales	<b>EVA</b>	Economic Valued Added	<b>BVPS</b>	Book Value per Share
<b>EPS</b>	Earnings per Share	<b>DPS</b>	Dividend per Share	<b>DY</b>	Dividend Yield
<b>ROE</b>	Return on Equity	<b>ROA</b>	Return on Assets	<b>CAGR</b>	Compounded Annual Growth Rate

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