

Pakistan Banks

4QCY23 Preview - Earnings to remain firm

We expect ISL's banking sector profitability to remain firm on sequential basis, led by meager rise in net interest income coupled with strong fee income. However, higher operating expenses led by persistent inflationary trend will partially offset the impact of asset re-pricing and balance sheet growth. We expect HBL/UBL/MCB/MEBL/BAFL to post EPS of PKR11.0/11.4/14.2/15.0/5.4, respectively in 4QCY23. Similarly, we expect HBL/UBL/MCB/MEBL/BAFL to continue their historical trend of quarterly payouts where we expect them to announce DPS of PKR2.0/11.0/8.5/5.0/3.0, respectively.

During 4QCY23, net interest income of the sector is expected to inch up slightly due to lagged impact of asset repricing and healthy deposit growth. During the quarter, benchmark interest rate remained flat following an increase of 100bps in Jun'23 MPC meeting. Improvement in trade activity and marginal recovery in economic activity is likely to aid non-funded income. Operating expenses are expected to remain elevated due to inflationary pressures and expansion in branch network. Effective tax rate for the sector is expected to remain sequentially flat at ~49%. Furthermore, we expect sector's payout momentum to continue on the back of strong profitability and improvement in CAR levels.

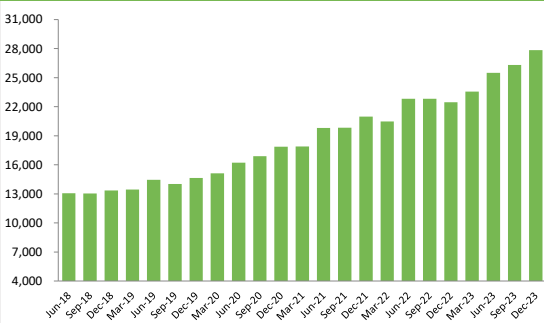
On balance sheet front, banking sector's deposits recorded an increase of 23.9%/5.8% on YoY/QoQ basis, to clock in at PKR27.8tr. However, advances growth remain muted due to economic landscape and high financing rate. To highlight, advances grew by ~3.7%/4.2% on YoY/QoQ basis, to clock in at PKR12.3tr. Consequently, investments recorded an increase of 41.2%/11.8% on YoY/QoQ basis to clock in at ~PKR25.2tr. Similarly, borrowings also witnessed significant jump to clock in at ~PKR11.5tr, up by 50.1%/13.1% YoY/QoQ. At the end of CY23, Industry's gross ADR stood at ~44% vs. 53% in SPLY. On the flip side, IDR of the sector inched up to ~91% vs. 80% in SPLY & ~86% in preceding quarter.

ISL Banking Sector 4QCY23 Earning Preview

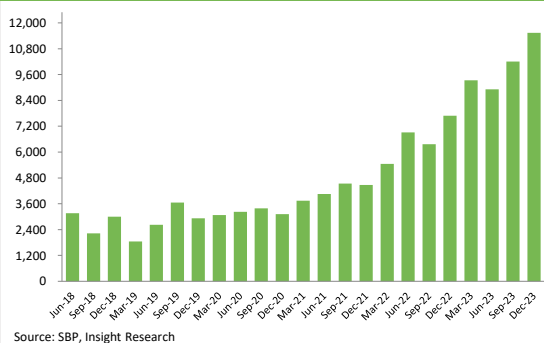
PKR/sh	4QCY23F	4QCY22	3QCY23	YoY	QoQ	CY23	CY22	YoY	DPS
HBL	11.0	7.2	11.3	53%	-3%	40.2	23.2	73%	2.0
UBL	11.4	10.7	12.0	7%	-5%	45.5	25.8	76%	11.0
MCB	14.2	10.9	14.7	30%	-3%	51.5	27.6	87%	8.5
MEBL	15.0	9.2	14.2	63%	6%	47.4	25.1	89%	5.0
BAFL	5.4	2.6	5.5	108%	-2%	22.7	11.5	97%	3.0

Source: Company accounts, Insight Research

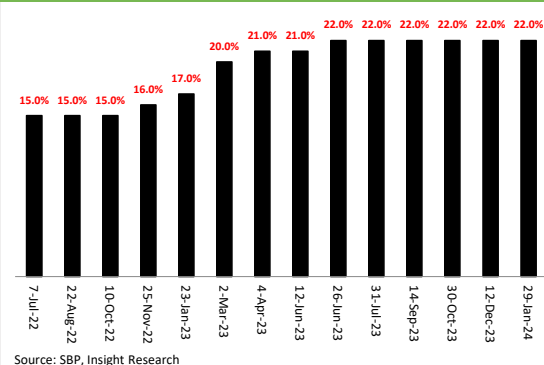
Scheduled Banks Deposits (PKRbn)



Scheduled Banks Borrowings (PKRbn)



Recent MPC decisions



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Valuation Methodology: To arrive at our period end target prices, ISL uses different valuation methodologies including

- 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

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

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