

Banks: Profits to grow by 15% YoY in CY21

February 01, 2021

Saqib Hussain
saqib.hussain@akseerresearch.com

Prices as of 31st January, 2022

Profits to grow by 15% YoY in CY21

- As the year end result season commences, we present CY21 result previews of Akseer's banking universe. We expect profitability of the sector to rise 15% YoY to PKR 151.4bn in CY21 despite witnessing pressure on NIMs on the back of abrupt rise in interest rates. For 4QCY21, banking universe profitability will likely reach PKR 35.4bn, up 29% YoY, but lower by 11% on QoQ basis.
- We expect Net Interest Income (NII) of our banking universe to grow 9% YoY and 2% QoQ to PKR 112.1bn during 4Q despite significant rise in deposit cost amid sharp increase in policy rates. This is attributable to a quick upward adjustment in investment yields as market had already incorporated higher interest rates. During CY21, NII is likely to decline 2% YoY.
- Non-interest income will likely grow by 23% YoY to PKR 29.5bn during 4Q on the back of higher fee & commission income. During CY21, non-interest income is expected to grow by 20% YoY to PKR 118.4bn as business activities normalized during the year.
- Provisioning expense is estimated to have shrunk by 74% YoY to PKR 3.6bn given the banks are not expecting any major NPL charge during the quarter. For CY21, cumulative provisioning expense is likely to stand at PKR 7.1bn, down 88% YoY as most banks made hefty provisions last year.
- With the ongoing network expansion coupled with increased digitalization activities, the operating expenses are likely to remain on the higher side during 4Q, and rise 7% YoY to PKR 73.7bn.
- Effective tax rate is expected to clock in at 45% in 4QCY21 versus 38%, last year due to lower ADR for some of the banks.

Akseer Banking Universe (PKR bn)					
	4QCY21E	YoY	QoQ	CY21E	YoY
Net Interest income	112.1	9%	2%	434.5	-2%
Non-interest income	29.5	23%	0%	118.4	20%
Provisions	3.6	-74%	NM	7.1	-88%
Operating Expenses	73.7	8%	2%	285.6	7%
Profit before tax	64.2	44%	-5%	260.2	19%
Profit after tax	35.4	29%	-11%	151.4	15%

EPS Estimates (PKR)					
	4QCY21E	YoY	QoQ	CY21E	YoY
BAFL	2.0	66%	0%	7.9	34%
BAHL	4.1	-3%	-7%	16.6	4%
HBL	5.4	39%	-13%	23.6	12%
MCB	5.5	7%	-16%	24.5	0%
UBL	4.9	24%	-23%	23.5	38%
MEBL	4.2	69%	-1%	16.3	19%

Source: Company accounts, Akseer Research

Profits to grow by 15% YoY in CY21

- On the balance sheet front, banking industry deposits have grown by 17% YoY to PKR 20.9tn whereas advances also posted double digit growth of 19% to settle at PKR 10.1tn at the close of Dec-21.
- The ADR has resultantly increased to 48% as of Dec-21 compared to 47% in Sep-21. On the other hand, IDR declined by 4ppts to 67% in Dec-21 versus 71% at the end of Sep-21.
- We have an 'overweight' stance on the banking sector as we expect 39% YoY growth in profitability in CY22 driven by strong balance sheet growth along with NIMs expansion. The sector is currently trading at CY22E P/BV of 0.76x (Ex-Meezan), which is at a significant discount of 24% to its 5-year average P/B of 1.0x. The sector is also offering a dividend yield of 13% vs 5-year PIB at 10.9%.

DPS Estimates (PKR)			
	4QCY21E	CY20	CY21E
BAFL	2.25	4.00	4.25
BAHL	5.00	4.50	5.00
HBL	1.75	4.25	7.00
MCB	5.00	20.00	19.00
UBL	3.00	9.50	15.00
MEBL	1.50	6.00	6.00

	Price Target (PKR)	Upside
BAFL	55	59%
BAHL	102	46%
HBL	155	39%
MCB	205	43%
UBL	196	55%
MEBL	196	50%

Source: Company Accounts & Akseer Research

Disclosures and Disclaimer

This report has been prepared and marketed jointly by Akseer Research (Pvt) Limited and Alfa Adhi Securities (Pvt) Limited, hereinafter referred jointly as “JV” 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, the JV and/or any of their 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 professionals 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 the JV 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 the JV’s Research Department and do not necessarily reflect those of the JV or its directors. Akseer Research and Alfa Adhi Securities as firms may have business relationships, including investment--banking relationships, with the companies referred to in this report. The JV or any of their officers, directors, principals, employees, associates, close relatives may act as a market maker in the securities of the companies mentioned in this report, may have a financial interest in the securities of these companies to an amount exceeding 1% of the value of the securities of these companies, may serve or may have served in the past as a director or officer of these companies, may have received compensation from these companies for corporate advisory services, brokerage services or underwriting services or may expect to receive or intend to seek compensation from these companies for the aforesaid services, may have managed or co-managed a public offering, take-over, buyback, delisting offer of securities or various other functions for the companies mentioned in this report.

All rights reserved by the JV. 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 the JV. Action could be taken for unauthorized reproduction, distribution or publication.

Valuation Methodology

To arrive at our 12-months Price Target, the JV uses different valuation methods which include: 1). DCF methodology, 2). Relative valuation methodology, and 3). Asset-based valuation methodology.

Ratings Criteria

JV employs a 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	Greater than or equal to +15%
Hold	Between -5% and +15%
Sell	Less than or equal to -5%

Ratings are updated to account for any development impacting the economy/sector/company, changes in analysts’ assumptions or a combination of these factors.

Research Dissemination Policy

The JV endeavours 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.

Analyst Certification

The research analyst, denoted by ‘AC’ on the cover of this report, has also been involved in the preparation of this report, and is a member of the JV’s Equity Research Team. The analyst certifies that (1) the views expressed in this report accurately reflect his/her personal views 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.

Contact Details

Akseer Research (Pvt) Limited

1st Floor, Shaheen Chambers, KCHS block 7 & 8, off. Shahrah-e-Faisal

T: +92-21-34320359-60

E: info@akseerresearch.com

Alfa Adhi Securities (Pvt) Limited

3rd Floor, Shaheen Chambers, A-4 Central Commercial Area, KCH Society, Block 7 & 8, Near Virtual

University, Karachi

T: +92-21-38694242

E: info@alfaadhi.net