

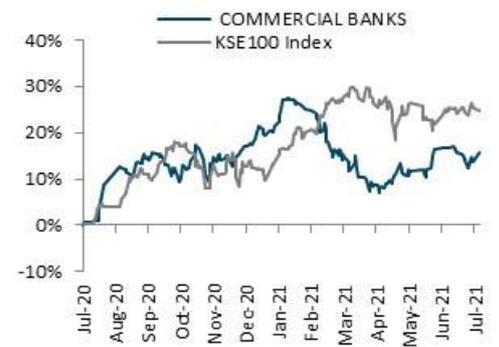
PAKISTAN BANKING SECTOR

Lower capital gains and higher provisioning to dent profitability in 2QCY21

Monday, July 19, 2021

The results of the banking sector are due soon where we expect the profitability of the BMA Banking sector to decline by 17%/15% YoY/QoQ to PKR 36.7Bn. Though deposit growth continues to remain healthy, up 15.2% YoY (based on provisional figures), on a YoY basis, we expect a slowdown in profitability of the sector on the back of lower interest income (↓12% YoY) and non-funded income (↓19% YoY) as a result of interest rate cuts and rationalized capital gains respectively. On a sequential basis, we expect NII of the sector to expand (↑4% QoQ) due to swelling investment income (investments up 27.2% YoY to PKR 13.5Trn) however, lower NFI (↓20% YoY) as a result of lower capital gains and greater provisioning charge will likely weigh down on profitability. That said, we summarize below the expected performance of the BMA Banking Universe in the QeJun21 results season and reiterate our Overweight stance on the sector with our top picks being HBL, MCB & Bahl.

Banks Performance vs. KSE-100 Index



%	3M	6M	12M
Absolute	7%	-9%	16%
Relative to KSE	1%	-13%	-16%

Source: BMA Research

Table 1: BMA Banking Universe

	2QCY21E	2QCY20	1QCY21	YoY	QoQ
NII	126,537	143,236	121,521	-12%	4%
NFI	28,793	35,700	36,156	-19%	-20%
Provisions	9,805	24,755	3,028	-60%	224%
PAT	36,741	44,309	43,135	-17%	-15%

Source: BMA Research

HBL: We project HBL to report an EPS of PKR 4.75 in 2QCY21 (↓ 37/16% YoY/QoQ respectively). The decline in earnings is owed to lower non-funded income as a result of decline in capital gains and streamlined fee and forex income. Greater provisioning charge and higher operating expenses are also expected to dent earnings however, lower tax charge (ETR of 41% in 1Q) will likely provide some respite. Furthermore, weakening PKR in the outgoing quarter (↓ 3.19% QoQ) is expected to put pressure on forex income as a result of the open USD position. We expect a mild 3.8% increase in admin expenses to PKR 25.1Bn. Total provisions for the 2QCY21 are expected to clock -in at PKR 2.0 Bn. Along with the result, we expect a dividend of PKR 1.75/sh.

Table 2: Habib Bank Limited - (PSX: HBL, Bloomberg: HBL.PA) Earnings Snapshot

	2QCY21E	2QCY20	1QCY21	YoY	QoQ
NII	32,195	35,062	32,469	-8%	-1%
NFI	6,643	10,866	8,222	-39%	-19%
Provisions	2,048	4,843	1,920	-58%	7%
PAT	7,150	11,081	8,560	-35%	-16%
EPS	4.75	7.53	5.68	-37%	-16%
DPS	1.75	-	1.75	N/A	0%

Source: BMA Research

UBL: We expect UBL to post an EPS of PKR 4.48 in 2QCY21 (↓ 14/26% YoY/QoQ respectively). The decline in earnings despite incline in NII (owed to greater investment income) is expected on the back of lower NFI, higher admin expenses and greater provisioning charge. Despite considerable decline in provisioning in 1Q (PKR 354Mn charge) due to deferrals/restructuring schemes in the Middle East, we have remained cautious and have assumed a PKR 2.3Bn charge. We expect NFI to decline due to milder capital gains (PKR 265Mn expected vs. PKR 1.9Bn in 1Q) and slight decline in fee income. We have assumed a pay-out of PKR 3.0/sh.

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BMA Capital Management Ltd.

Table 3: United Bank Limited - (PSX: UBL, Bloomberg: UBL.PA) Earnings Snapshot

	2QCY21E	2QCY20	1QCY21	YoY	QoQ
NII	17,917	21,778	16,858	-18%	6%
NFI	4,052	4,261	5,783	-5%	-30%
Provisions	2,335	5,729	354	-59%	560%
PAT	5,484	6,341	7,405	-14%	-26%
EPS	4.48	5.18	6.05	-14%	-26%
DPS	3.00	-	4.00	N/A	-25%

Source: BMA Research

MCB: We forecast MCB to post an EPS of PKR 5.68 in 2QCY21 (↓1/4% YoY/QoQ respectively). Though we expect a 7% QoQ increase in NII, the mild decline in earnings is expected due to higher provisioning charge (reversals of PKR 213Mn in the previous quarter) and slight decline in NFI as a result of lower fee income and capital gains. Admin expenses are forecasted to inch up slightly to PKR 10.3Bn from PKR 10.1Bn in 1Q. As for provisioning, we have assumed a charge of PKR 1.0Bn. We expect the bank to maintain its dividend pay-out of PKR 5.0/sh this quarter.

Table 4: MCB Bank Limited - (PSX: MCB, Bloomberg: MCB.PA) Earnings Snapshot

	2QCY21E	2QCY20	1QCY21	YoY	QoQ
NII	17,476	20,967	16,298	-17%	7%
NFI	4,789	3,459	4,975	38%	-4%
Provisions	1,000	3,296	- 213	-70%	-569%
PAT	6,777	6,864	7,050	-1%	-4%
EPS	5.68	5.74	5.92	-1%	-4%
DPS	5.00	-	5.00	N/A	0%

Source: BMA Research

MEBL: We project the bank to report an EPS of PKR 3.79 in 2QCY21 (↓13/12% YoY/QoQ respectively). We expect a 4.1% QoQ accretion in net spreads however, softer NFI, higher provisioning charge and greater admin expenses are forecasted to weigh down on the bottom-line. Decline in NFI is expected to emanate from lower fee income and streamlined forex income while we have not assumed a material change in capital gains. With regards to provisioning, we have assumed a charge of PKR 1.3Bn for the quarter while we expect a cash pay-out of PKR 1.5/sh.

Table 5: Meezan Bank Limited - (PSX: MEBL, Bloomberg: MEBL.PA) Earnings Snapshot

MEBL	2QCY21E	2QCY20	1QCY21	YoY	QoQ
NII	15,675	17,637	15,055	-11%	4%
NFI	2,732	1,835	3,563	49%	-23%
Provisions	1,304	1,460	285	-11%	358%
PAT	5,359	6,171	6,101	-13%	-12%
EPS	3.79	4.36	4.31	-13%	-12%
DPS	1.50	1.00	1.50	25%	0%

Source: BMA Research

ABL: We anticipate ABL to report an EPS of PKR 3.45 in 2QCY20 (↓14/4% YoY/QoQ respectively). We expect the slight decline in earnings to emanate from milder capital gains and higher admin expenses due to higher compensation expense. On the provisioning side, we expect a PKR 0.5Bn for the bank compared to a reversal of PKR 139Mn in the previous quarter. We have assumed a cash pay-out of PKR2.0/sh.

Table 6: Allied Bank Limited - (PSX: ABL, Bloomberg: ABL.PA) Earnings Snapshot

ABL	2QCY21E	2QCY20	1QCY21	YoY	QoQ
NII	12,334	13,390	10,793	-8%	14%
NFI	3,397	4,201	4,068	-19%	-17%
Provisions	500	1,528	- 139	-67%	-460%
PAT	3,947	4,587	4,112	-14%	-4%
EPS	3.45	4.01	3.59	-14%	-4%
DPS	2.00	-	2.00	N/A	0%

Source: BMA Research

BAHL: We forecast BAML to report an EPS of PKR 3.62 in 2QCY21 (\downarrow 8/12% YoY/QoQ respectively). We expect NII to surpass PKR 14.0Bn on the back of healthy investment income and improving CA ratio. However, NFI is expected to slow down to PKR 2.9Bn due to streamlined fee income. On the provisioning front, we have assumed a charge of PKR 640Mn while admin expenses are expected to inch up to PKR 9.7Bn. We do not expect an interim pay-out from the bank.

Table 7: Bank Al Habib Limited -(PSX: BAML, Bloomberg: BAML.PA) Earnings Snapshot

	2QCY21E	2QCY20	1QCY21	YoY	QoQ
NII	14,243	15,823	13,110	-10%	9%
NFI	2,865	2,008	3,170	43%	-10%
Provisions	640	1,836	- 245	-65%	-361%
PAT	4,027	4,375	4,601	-8%	-12%
EPS	3.62	3.94	4.14	-8%	-12%
DPS	-	-	-	0%	0%

Source: BMA Research

BAFL: We expect BAFL to report an EPS of PKR1.29 in 2QCY21 (\downarrow 17/34% QoQ/YoY respectively). The sequential decline in earnings is owed to streamlined capital gains (PKR 1.1Bn in the last quarter), normalized tax charge (only 35.4% in 1Q) and higher provisioning charge. However, surge in NII to PKR 11.0Bn is forecasted to provide some respite to the bottom-line. We have assumed a provisioning charge of PKR 1.0Bn for the bank while there is no interim pay-out expectation.

Table 8: Bank Alfalah Limited -(PSX: BAFL, Bloomberg: BAFL.PA) Earnings Snapshot

	2QCY21E	2QCY20	1QCY21	YoY	QoQ
NII	10,959	11,580	10,327	-5%	6%
NFI	2,663	4,173	3,833	-36%	-31%
Provisions	978	3,261	216	-70%	353%
PAT	2,285	2,763	3,471	-17%	-34%
EPS	1.29	1.55	1.95	-17%	-34%
DPS	-	-	-	0%	0%

Source: BMA Research

BOP: We anticipate BOP to post an EPS of PKR0.65 in 2QCY21 (\downarrow 20/7% YoY/QoQ respectively). NII growth is expected to continue its upward trend and surpass PKR 7.0Bn in Jun-21 however, it is the sizable decline in NFI that will weigh heavily on the bank's bottom line, in our opinion. Note that, the bank booked capital gains of PKR 1.3Bn in QEMar21 which we expect to normalize in the outgoing quarter. Furthermore, we expect admin expenses to normalize to PKR 5.0Bn having surpassed PKR 5.5Bn in Mar-21. Being prudent, we have assumed a PKR1.0bn provision charge for the bank. We do not expect an interim pay-out from the bank.

Table 9: Bank of Punjab -(PSX: BOP, Bloomberg: BOP.PA) Earnings Snapshot

BOP	2QCY21E	2QCY20	1QCY21	YoY	QoQ
NII	7,156	5,635	6,890	27%	4%
NFI	1,652	4,898	2,542	-66%	-35%
Provisions	1,000	2,801	851	-64%	18%
PAT	1,713	2,128	1,836	-20%	-7%
EPS	0.65	0.81	0.70	-20%	-7%
DPS	-	-	-	0%	0%

Source: BMA Research

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Buy	>15% expected total return
Hold	10%-15% expected total return
Underperform	<10% expected total return
*Total stock return = capital gain + dividend yield	

Old rating system

Overweight	Total sector return > expected market return
Marketweight	Expected market return
Underweight	Total stock return < expected market return

Valuation Methodology

To arrive at our period end target prices, BMA Capital uses different valuation methodologies including

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