

# Pakistan Banking Sector

Monthly Banking deposits: Aug'21 growth trends strong at 17.6% YoY

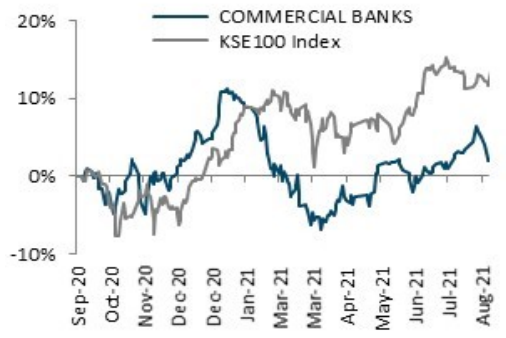
Thursday, September 9, 2021

Deposit growth maintained its upward momentum having shot up by 17.6% YoY in Aug'21 to settle at PKR 19.2Trn. On a sequential basis, there was an increase of 2.0% in Aug'21, amounting to PKR 368Bn in absolute terms. Advances underwent an 11.0% YoY increase to settle at PKR 8.9Trn as economy continued its growth trajectory. However, deposits growth surpassed advances growth resulting into a lower Aug'21 ADR of 46.5% compared to 47.1% recorded last month, and 49.3% in Aug'20. Due to weaker lending growth, excess liquidity was parked primarily in federal government securities with investments soaring to PKR 13.9Trn in Aug-21, that increased by 27.9% YoY to pull ADR to 72.4%.

**Advances growth on the way up, but still weaker than deposit growth:** Increased economic activity aided advances in registering an 11.0% YoY surge in the past month. It has been over two years since the last double digit increase which was seen in Jun'19. The turnaround can be attributed to SBP initiatives like TERF (Temporary Economic Refinance Facility) and government backed schemes likes housing loans. That said, we have improvement since the start of CY21 as fresh lending has increased by ~PKR 500Bn during 8MCY21. At the end of Aug'21, overall advances settled at PKR 8.9Trn with ADR closing at 46.5% compared to 49.3% recorded in Aug'20. Moving forward, we expect lending growth to improve and remain in the double digits as overall economic growth remains upbeat. We highlight that additional tax charge of 2.5% (if ADR falls below 50%) and 5.0% (if ADR falls below 40%) approved in the Finance Amendments Bill 2021 will also increase banks' inclination towards lending. Sector wise, we expect greater chunk of fresh lending to be in consumer, housing and agriculture sectors.

**IDR continues to remain over 70%:** Taking cue from surging deposits growth and limited lending focus, investments continued to be the sector's resort to park excess liquidity. As a result, IDR of the sector clocked-in at 72.4% in Aug-21 as total investments reached PKR 13.9Trn. Moving on, we expect IDR to gradually ease off as lending expedites.

Banking Sector vs. KSE-100 Index



%	3M	6M	12M
Absolute	1	2	2
Relative	4	0	-8

Source: PSX

### Pakistan Banking Sector—Key statistics for the month of August 2021

PKR Bn	Aug'21	Aug'20	% YoY	Jul-21	% MoM
Advances	8,936	8,053	11.0%	8,878	0.7%
Deposits	19,208	16,327	17.6%	18,839	2.0%
Investments	13,902	10,869	27.9%	14,102	-1.4%
ADR	46.5%	49.3%		47.1%	
IDR	72.4%	66.6%		74.9%	

Source: SBP, BMA Research

**Spreads contract 75/23bps YoY/MoM in Jul-21:** Banking spreads clocked-in at an average of 4.24% in Jul-21, down 75/23bps YoY/MoM respectively. Rates on outstanding deposits stood at 3.58%, down/up 36/8bps YoY/MoM respectively, while lending rates clocked in at 7.82% (down 112/15bps YoY/MoM respectively). Fresh spreads for Jul-21 stood at 4.90% (up 82/13bps YoY/MoM respectively). On a sequential basis, fresh disbursement rate contracted by 6bps MoM to 8.13% while return on fresh deposits dipped by 19bps to 3.23%.

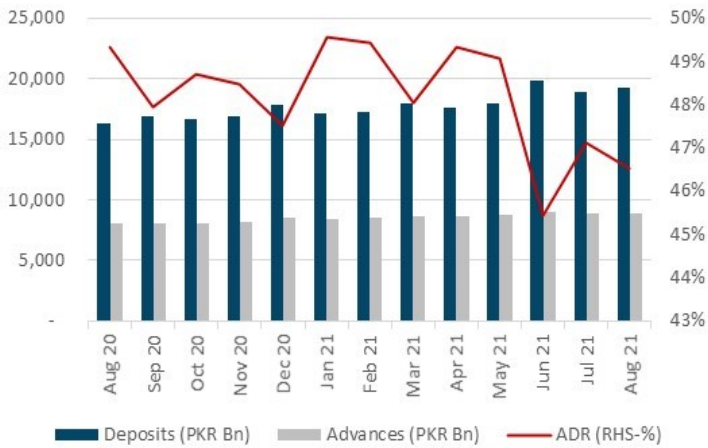
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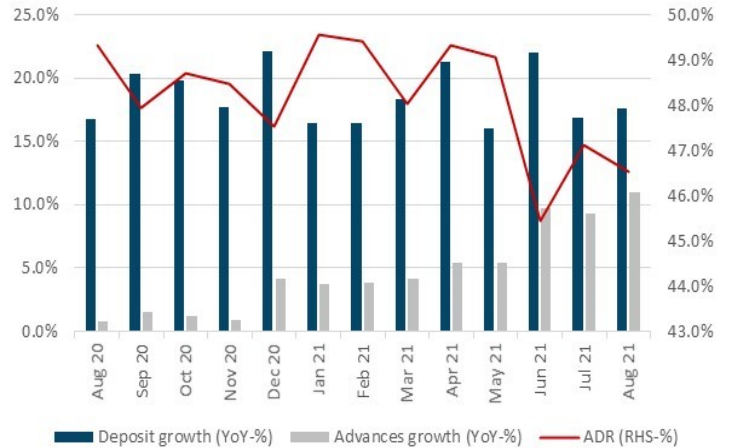
# Banking Sector in Aug'21

Chart 1: Deposits continue to trend strong



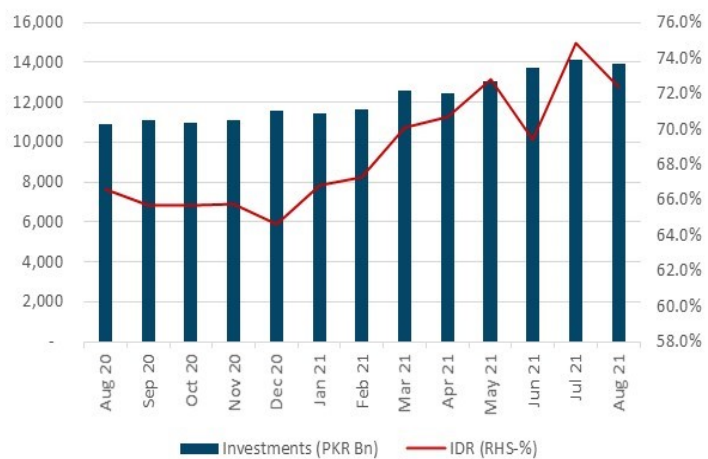
Source: SBP, PBS, BMA Research

Chart 2: Advances growth is picking up pace



Source: SBP, PBS, BMA Research

Chart 3: Investments build-up continues; IDR over 70%



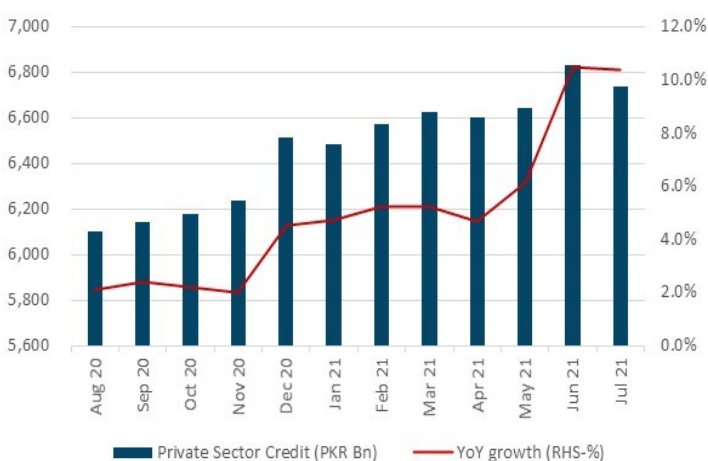
Source: SBP, PBS, BMA Research

Chart 4: M2 growth consistently in double digits



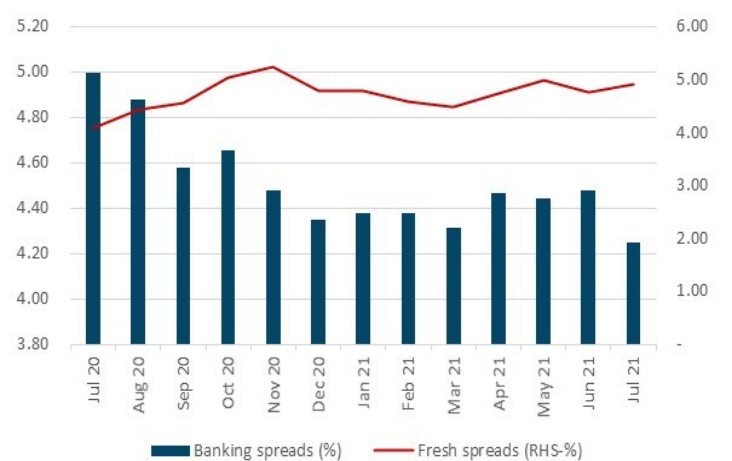
Source: SBP, PBS, BMA Research

Chart 5: Private sector credit is gaining momentum



Source: SBP, PBS, BMA Research

Chart 6: YoY growth in Advances and Investments



Source: SBP, PBS, 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.)