

PAKISTAN BANKING SECTOR

Settling non-funded income to weigh-in on profitability in 3Q

Friday, October 22, 2021

We preview 3QCY21 results of 4 mid-sized banks (ABL, BAH, BAFL & BOP) in our BMA Banking Universe where we forecast earnings to cumulate to PKR 13.6Bn (↓7.9/16.5% YoY/QoQ). Earnings attrition on a YoY basis, despite improvement in Net Interest Income (up 4.9% YoY) and lower provisioning charge (↓ 57.9% YoY) is primarily on the back of lower non-funded income (↓ 20.8% YoY) and higher effective tax charge. Moreover, on a sequential basis, we forecast NII to increase by 6.5% QoQ aided by stronger asset base, however, streamlined non-core income (primarily capital gains) and higher credit charges will weigh in on profitability, in our view. Going forward, we expect NIMs accretion to remain limited in the near term due to interest rate reversals and lagged asset re-pricing however, strong balance sheet expansion will continue to support the bottom-line. That said, we maintain our overweight stance on the banking sector with our preferred plays being HBL, MEBL & BAH.

Table 1: BMA Banking Universe

	3QCY21E	3QCY20	2QCY21	YoY	QoQ
NII	48,148	45,885	45,228	5%	6%
NFI	10,341	13,049	13,019	-21%	-21%
Provisions	2,243	5,324	762	-58%	194%
PAT	13,638	14,804	16,342	-8%	-17%

Source: BMA Research

ABL: We expect ABL to report an EPS of PKR 3.79 in 3QCY21 (↑9/↓8% YoY/QoQ respectively). We expect the YoY improvement in earnings on the back of improved income from the assets book and resurging fee income. Remaining prudent, we have assumed a mild charge of PKR 126Mn for the quarter against a charge/reversal of PKR 199/171Mn in the SQLY/previous quarter respectively. On a sequential basis, the decline mainly emanates from milder capital gains expectation of PKR 286Mn against PKR 1.2Bn booked in QEJun21. We expect the bank to maintain its cash pay-out of PKR2.0/sh.

Table 2: Allied Bank Limited - (PSX: ABL, Bloomberg: ABL.PA) Earnings Snapshot

	3QCY21E	3QCY20	2QCY21	YoY	QoQ
NII	13,403	12,178	12,224	10%	10%
NFI	2,798	2,448	4,103	14%	-32%
Provisions	126	199	-171	-37%	N/A
PAT	4,338	3,996	4,733	9%	-8%
EPS	3.79	3.49	4.13	9%	-8%
DPS	2.00	-	2.00	N/A	0%

Source: BMA Research

BAHL: We forecast BAH to report earnings of PKR 3.81/sh in 3QCY21 (↓28/5% YoY/QoQ respectively). We see NII crossing the PKR 15.0Bn mark owing to strong investment income (>PKR 20.0Bn) and improving CA ratio that has almost touched ~40% in 2Q. On the NFI front, we expect flattish non-core income as impact of improving fee income will likely be offset by settling forex income. As for provisioning, we have assumed a PKR 0.6Bn charge for the bank however, admin expenses are expected to close at around PKR 10.0Bn. We do not expect an interim pay-out from the bank.

Banks Performance vs. KSE-100 Index



Source: BMA Research

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Table 3: Bank Al Habib Limited -(PSX: BAHL, Bloomberg: BAHL.PA) Earnings Snapshot

	3QCY21E	3QCY20	2QCY21	YoY	QoQ
NII	15,077	17,011	14,293	-11%	5%
NFI	2,797	2,782	2,908	1%	-4%
Provisions	601	1,259	217	-52%	177%
PAT	4,233	5,910	4,438	-28%	-5%
EPS	3.81	5.32	3.99	-28%	-5%
DPS	-	-	-	0%	0%

Source: BMA Research

BAFL: We expect the bank to post earnings of PKR1.79 in QESep21 ($\uparrow 16/\downarrow 8\%$ YoY/QoQ respectively). We expect NII accretion (up 11/6% YoY/QoQ) to continue in 3Q given the sizable scale up in risk weighted assets over the past year however, a slowdown is expected in non-core income ($\downarrow 22\%$ QoQ) due to settling forex income and streamlined capital gains. We have assumed a PKR 1.0Bn provisioning charge for the bank while we do not expect an additional tax charge given ADR stands at comfortable levels. We do not expect an interim pay-out.

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

	3QCY21E	3QCY20	2QCY21	YoY	QoQ
NII	12,369	11,106	11,658	11%	6%
NFI	3,230	3,142	4,142	3%	-22%
Provisions	1,015	1,490	934	-32%	9%
PAT	3,188	2,747	3,463	16%	-8%
EPS	1.79	1.55	1.95	16%	-8%
DPS	-	2.00	2.00	0%	0%

Source: BMA Research

BOP: We expect the bank to report earnings of PKR 0.72/sh in 3QCY21 ($\downarrow 13/49\%$ YoY/QoQ). Sizable build-up in the advances portfolio and investments book is expected to spur the topline to PKR 7.3Bn ($\uparrow 31/3\%$ YoY/QoQ). On the non-funded income side, we expect a decline of 68/19% YoY/QoQ primarily due to absence of hefty capital gains (PKR 3.8/0.4Bn booked in 3QCY20/2QCY21 respectively). The sequential decline in earnings is a resultant of normalized tax charge which clocked-in at only 12.7% in 2QCY21. We have assumed a PKR 0.5Bn provisioning charge in 3Q. We do not expect an interim pay-out.

Table 5: Bank of Punjab -(PSX: BOP, Bloomberg: BOP.PA) Earnings Snapshot

BOP	3QCY21E	3QCY20	2QCY21	YoY	QoQ
NII	7,299	5,590	7,053	31%	3%
NFI	1,515	4,677	1,865	-68%	-19%
Provisions	501	2,375	-218	-79%	N/A
PAT	1,879	2,151	3,708	-13%	-49%
EPS	0.72	0.82	1.42	-13%	-49%
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.)