PAKISTAN INVESTMENT RESEARCH

In Focus

BMA CAPITAL

Pakistan Banking Sector

Monthly Banking deposits: Trending strong at 16.1% YoY

Thursday, November 25, 2021

Deposits of the banking sector increased by 16.1% YoY in Oct-21 to settle at PKR 19.3Trn. On a MoM basis, there was a mild decline of 2.4% (PKR 486Bn) compared to an accretion of 3.2% (PKR 622Bn) in Sept'21. Advances growth continued its upward momentum having shot up by 15.8% YoY to close at PKR 9.4Trn, largely in line with surge in deposits compared to only 1.2% YoY in the SMLY. ADR, however was largely flat at 48.6% in Oct-21 (46.9% in Sept-21) as against 48.7% in Oct-20. Despite strong advances growth, investments remained very much relevant as they clocked-in at PKR 13.8Trn (up 26.1% YoY) with IDR closing at 71.3%. It is pertinent to note that high IDR is also due to liquidity consistently being absorbed by OMO's which have averaged PKR 1.83Trn CYTD (PKR 1.80Trn at Oct-21).

Robust recovery in advances growth but it might be short-lived: Advances continued to trend strong with growth clocking-in at 15.8% YoY in Oct-21, almost in line with deposit growth of 16.1%. As a result, ADR of the sector improved to 48.6% in Oct-21 from 46.9% in the previous month (48.7% in Oct-20). This is the third month running where we have seen double digit growth in lending numbers. Apart from improving business sentiment and rapid increase in consumption as COVID-19 subsided, the surge is also attributable to additional tax charge imposed by the Central Bank. Note that, banks are now penalized with an additional 2.5/5.0% tax charge on return from fixed income portfolio if ADR ratio declines below 50/40% respectively. The said tax measures have resultantly increased banks' focus towards lending and with a change in broader strategy, new products are being launched, processes being simplified and new avenues being looked up for. With lending focus now high on the agenda, we have seen banks become proactive in segments like agriculture, consumer and SME's, loans to which had declined considerably in the recent past. However, going forward we expect a slowdown in the growth as roll-back of the fiscal stimulus previously provided by the State Bank has started and interest rates are reverting. With question marks still remaining on domestic inflation and hence CAD, we might see growth tapering off over the next few months however, TERF related disbursements will likely provide respite to a certain extent, in our view.

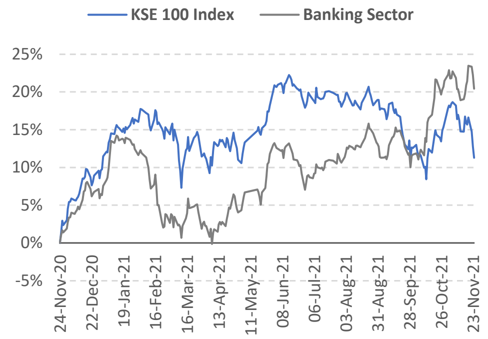
Pakistan Banking Sector—Key variables

PKR Bn	Oct-21	Oct-20	% YoY	Sept-21	% MoM
Advances	9,394	8,116	15.8%	9,290	1.1%
Deposits	19,344	16,664	16.1%	19,829	-2.4%
Investments	13,796	10,942	26.1%	14,096	-2.1%
ADR	48.6%	48.7%		46.9%	
IDR	71.3%	65.7%		71.1%	

Source: SBP, BMA Research

IDR settles at 71.3% in Oct-21; expected to remain at elevated levels: Despite surging advances, investments remained very much relevant for the sector having clocked -in at PKR 13.8Trn while IDR was maintained at over 70%. It is pertinent to note that investment book growth has been financed to a certain extent by increased borrowings which has increased by PKR 1.45Trn/52.0% YoY in Oct-21. Moving forward, we expect IDR to remain at elevated levels given the State Bank's stance has shifted away from growth and more towards slowing down the economy as there were ominous signs of over-heating.

Banking Sector vs. KSE-100 Index



%	3M	6M	12M
Absolute	5	12	20
Relative	-3	16	9

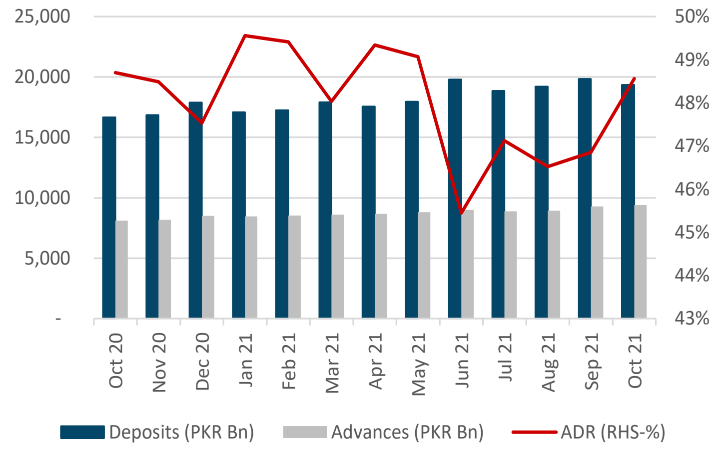
Source: PSX

Abdul Rehman Siddiqui
Senior Research Analyst
Tel: 111-262-111 Ext. 2056
E-mail: abdul.rehman@bmacapital.com

BMA Capital Management Ltd.

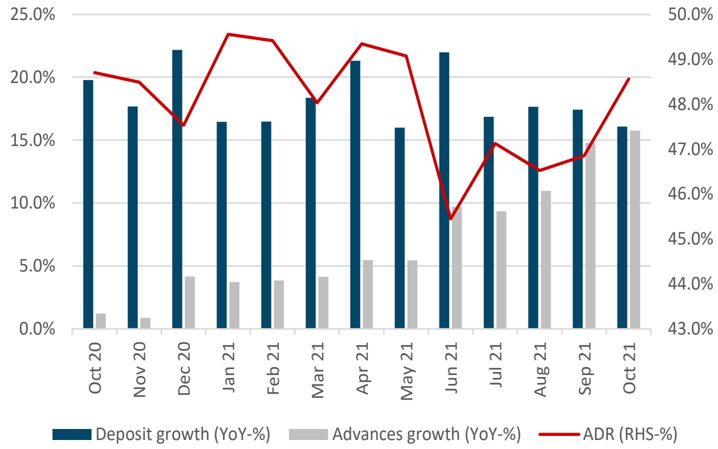
Banking Sector in Sept'21

Chart 1: Deposits undergo a mild 2.4% decline MoM



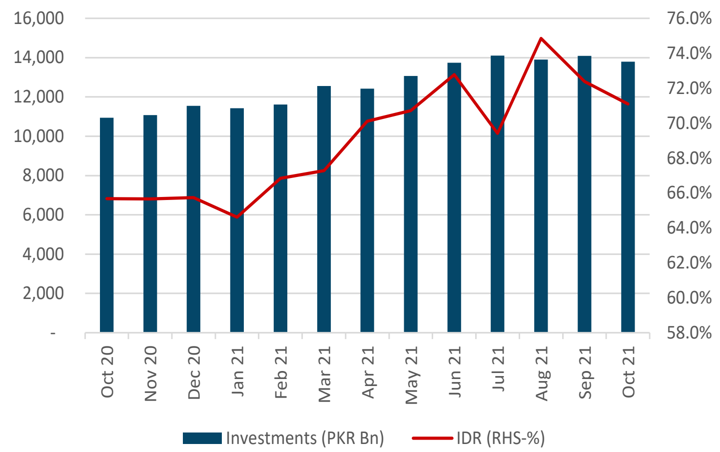
Source: SBP, BMA Research

Chart 2: Advances growth moving from strength to strength



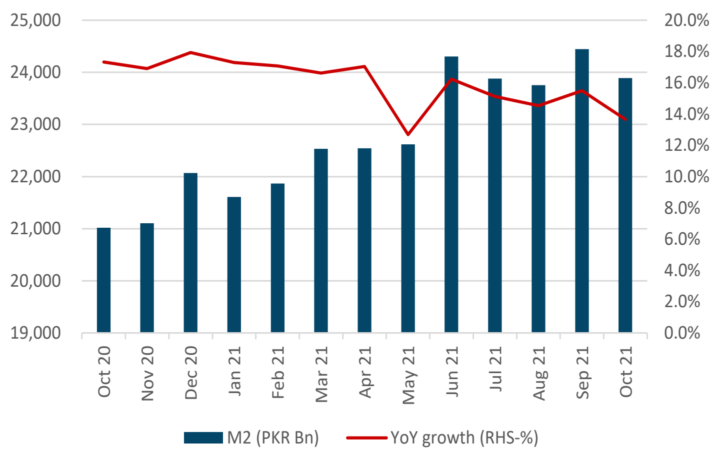
Source: SBP, BMA Research

Chart 3: IDR remains at elevated levels



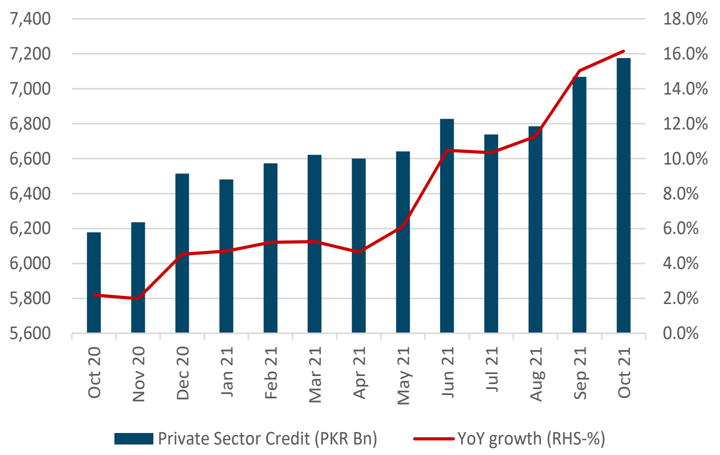
Source: SBP, BMA Research

Chart 4: Moving largely in line with deposit growth



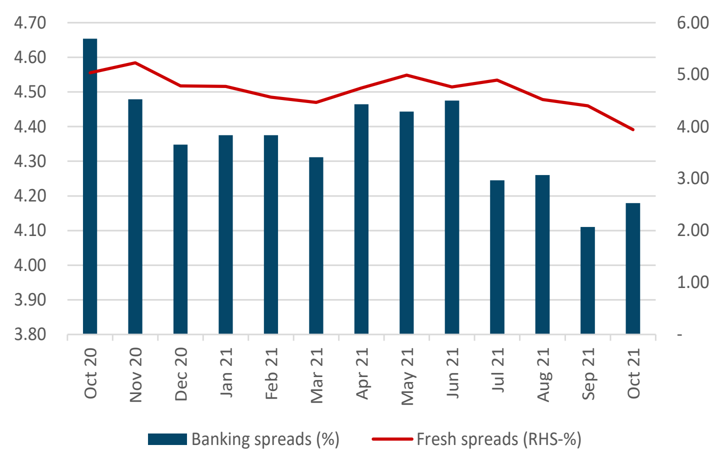
Source: SBP, BMA Research

Chart 5: Private sector lending heading north



Source: SBP, BMA Research

Chart 6: Banking sector spreads



Source: SBP, 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.)