

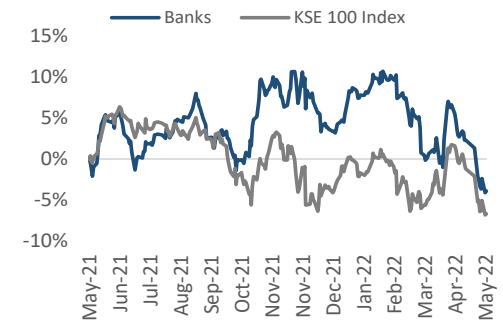
## Pakistan Banking Sector

Banking sector deposits: Growth slows down to 14.2% YoY on the back of 2.1% sequential decline

Wednesday, May 18, 2022

Banking sector deposit growth slowed down to 14.2% YoY primarily on account of the 2.1% sequential decline recorded in Apr-22. Total deposits clocked-in at PKR 20.1Trn while advances surged to PKR 10.6Trn (↑22.8/3.0% YoY/MoM). Resultantly ADR for the banking sector shot up to 53.0% with impetus coming from export financing, LTFF/TERF & construction financing. Investments, on the other hand surged past PKR 15.2Trn in Apr-22 given the attractive yields on offer to pull IDR for the sector to 75.9%. Going forward, we expect advances growth to taper off as interest rates are further jacked up and domestic demand slows down while inflow in debt securities will continue in the near term given the government is looking to raise over PKR 4.0Trn in the form of short/long term paper in the ongoing quarter. As for deposits, we expect growth to sustain at around the 15% mark.

### Banking Sector vs. KSE-100 Index



%	3M	6M	12M
Absolute	-12	-11	-4
Relative	-6	-4	3

Source: PSX

### Pakistan Banking Sector- Key variables

PKR Bn	Apr-22	Apr-21	% YoY	Mar-22	% MoM
Advances	10,638	8,665	22.8%	10,328	3.0%
Deposits	20,052	17,561	14.2%	20,476	-2.1%
Investments	15,210	12,418	22.5%	15,012	1.3%
ADR	53.0%	49.3%		50.4%	
IDR	75.9%	70.7%		73.3%	

Source: SBP, BMA Research

**Advances growth pulls ADR to multi-year highs:** Banking sector advances growth surged to 22.8% YoY in Apr-22 pulling ADR to 53.0% primarily on the back of concessional finance schemes introduced by the previous government. Growth in total lending was fueled by 1) export finance schemes (↑21.9%/PKR 124Bn YoY), 2) LTFF/TERF (↑77.5%/PKR 259Bn YoY) and 3) construction financing (↑71.9%/PKR 97Bn). It is pertinent to note that overall lending has also been scaled up ever since the government imposed higher tax on income from debt securities if gross lending declined below certain defined thresholds. Resultantly, there is greater focus seen in Consumer, SME, Agri and retail segments however, we opine this to be short-lived as interest rates are back in double digits and are only expected to rise further in the light of high CPI readings and weakening PKR/USD parity.

**Investments surpass PKR 15.2Trn as multi-year high yields on offer attract hefty flows:** Total investments of the banking sector surpassed PKR 15.2Trn in Apr-22 to pull IDR to ~76%. It is pertinent to note that investments flow into the banking system has surpassed overall deposits growth as investments shot up by ~PKR 2.8Trn over the past year compared to PKR 2.5Trn increase observed in deposits. To a large extent, these investments have been funded by borrowings that have surged by PKR 2.7Trn over the same period. Going forward, we expect this momentum to continue at least in the near term as the government will resort to private sector borrowings to bridge the yawning fiscal deficit.

**Banking/fresh spreads increase 36/103bps YoY in Mar-22:** Banking spreads were recorded at 4.67% in Mar-22, ↑36bps YoY as rates on outstanding deposits rose to 9.61%, ↑176bps YoY, while lending rates climbed to 4.94%, ↑141bps YoY. On the other hand, fresh spreads settled at 5.49%, ↑103bps YoY as disbursement rate increased 290bps YoY to 10.59% whereas return on fresh deposits rose 187bps to 5.1%.

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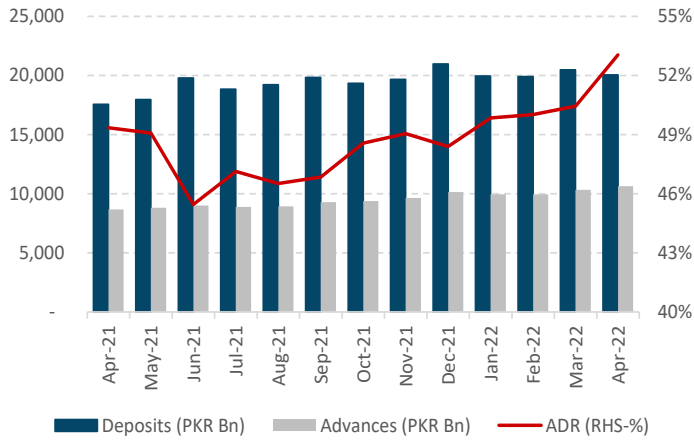
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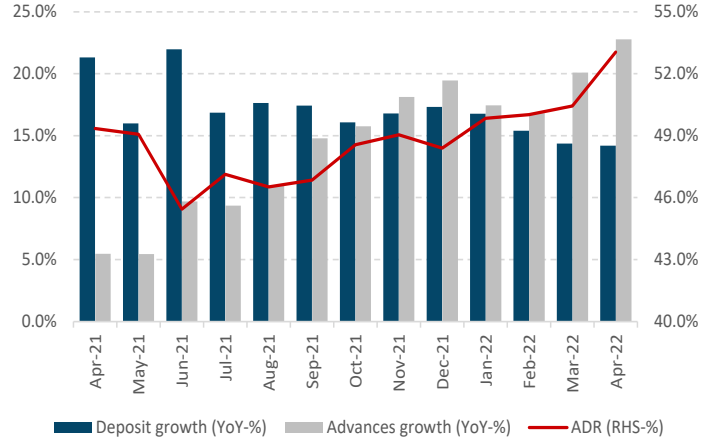
# Banking Sector statistics

Chart 1: Deposit growth slightly tapers off



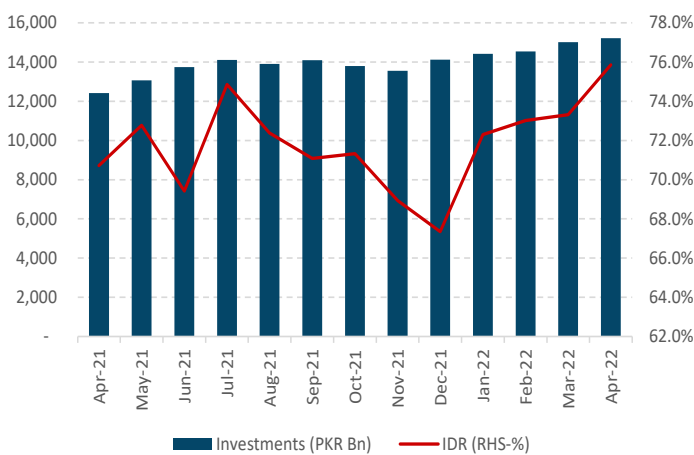
Source: SBP, BMA Research

Chart 2: ADR at multi-year highs



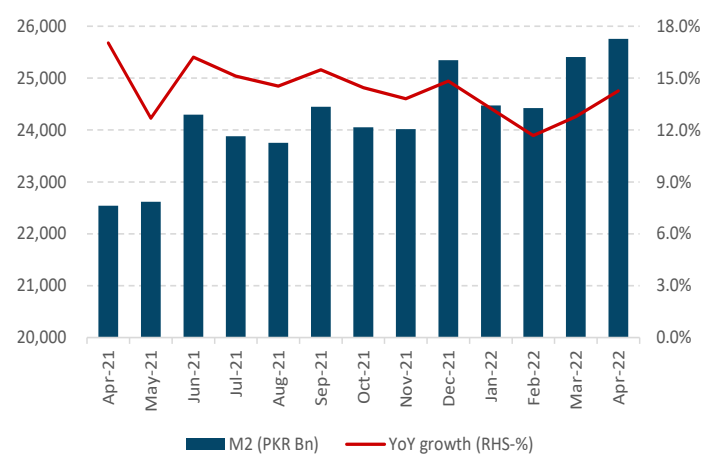
Source: SBP, BMA Research

Chart 3: IDR up to ~76%



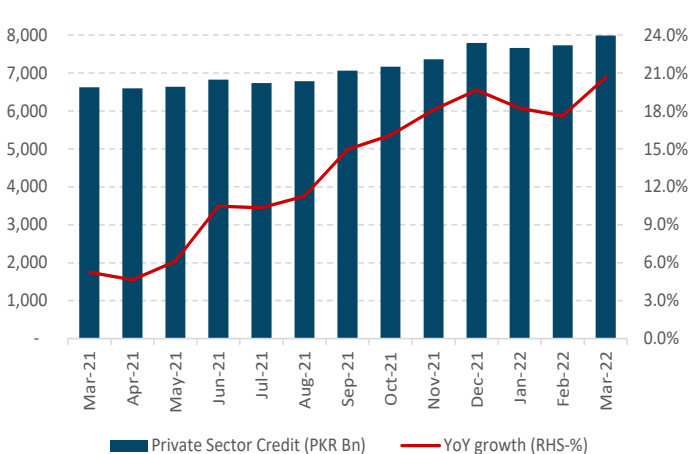
Source: SBP, BMA Research

Chart 4: M2 growth largely in line with long-term average



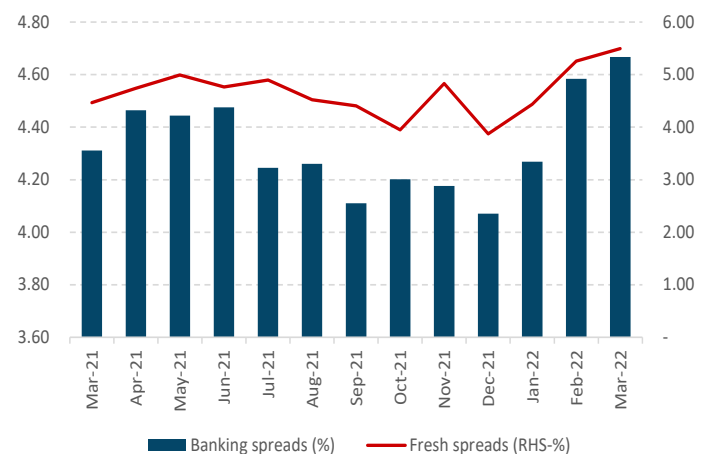
Source: SBP, BMA Research

Chart 5: Concessionary lending pulling the strings



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.)