

Banks' 1QCY21 earnings preview

Commercial Banks

Overweight

April 19, 2021

Key Points

- Our banking sector coverage universe is expected to post earnings growth of 10%YoY/7%QoQ during 1QCY21.
- Banking sector deposits as on March 31, 2021 have reported a growth of 18%YoY while advances managed to grow by only 4%YoY, resulting in 35%YoY growth in investments.
- Final leg of asset re-pricing to lower interest rates is likely to keep NII performance in check (+4%YoY/-1%QoQ) despite healthy expansion of balance sheets.
- HBL is likely to lead the growth table with an expected growth of 62%YoY emanating from 10%YoY higher NII, 13%YoY higher non-interest income, and 8%YoY lower operating expenses.
- We believe that the sector fundamentals are intact and the continued underperformance of the sector provides an opportunity for accumulation of big banks that offer attractive valuations and higher payouts. UBL, HBL and MCB are our top picks at current levels.

Combined earnings to climb by 10%YoY

We present 1QCY21 earnings estimates for our banking universe, wherein we expect the combined earnings of our coverage universe to report a growth of 10%YoY/7%QoQ, led by HBL with expected growth of 62%YoY. Despite the expected subdued performance of NII (+3%YoY/-1%QoQ) as asset re-pricing to lower interest rates continues, the key factor for earnings growth during the quarter is expectations of significantly lower provisions.

Healthy growth in deposits leading to higher investments

Deposits during the quarter reported an increase of 18%YoY to PKR17.9tn whereas advances managed to grow by only 4%YoY to PKR8.6tn. The higher liquidity continued to be parked in investments in government papers that registered a growth of 35%YoY to PKR12.6tn.

HBL leading the sector growth

HBL with an expected earnings growth of 62%YoY is expected to lead the sector. The growth is expected on the back of 10%YoY growth in NII, 13%YoY growth in non-interest income led by higher fee income and income from FX dealing as compared to a loss from FX dealing in 1QCY20, and 8%YoY decline in operating expenses as they normalize.

Next Bank Universe

	1QCY21E	1QCY20	YoY	4QCY20	QoQ
Interest/Profit Earned	218,569	271,002	-19%	217,120	1%
Interest/Profit Expensed	109,142	164,259	-34%	106,361	3%
Net Interest/Profit Income	109,427	106,744	3%	110,759	-1%
Fee, Commission, etc.	18,758	16,744	12%	18,998	-1%
Dividend Income	956	788	21%	1,535	-38%
Income from FX	4,050	2,877	41%	3,635	11%
Capital Gains/(Losses)	55	4,370	-99%	26	108%
Others	1,914	551	247%	2,402	-20%
Non-Interest Income	25,733	25,331	2%	26,596	-3%
Total Income	135,160	132,074	2%	137,355	-2%
Operating Expenses	76,880	72,712	6%	73,815	4%
Provisions & Write-offs	5,554	9,300	-40%	15,092	-63%
Others	1,332	2,131	-37%	1,210	10%
Profit Before Tax	51,394	47,931	7%	47,237	9%
Tax	20,254	19,620	3%	18,111	12%
Profit After Tax	31,139	28,317	10%	29,121	7%
Profit for Equityholders	31,007	28,285	10%	28,998	7%

* Consolidated accounts for HBL, UBL, MCB
Source: Company Accounts, Next Research

Outlook

We maintain our overweight stance on the sector while it has been a major underperforming sector. We believe that sector fundamentals are intact considering double-digit growth in deposits, expected resumption in advances growth, expected hike in interest rates, and expected slowdown in provisions. While we have buy recommendations on all of our coverage banks, we prefer big banks that offer attractive valuations and higher payouts. HBL, UBL and MCB are our top picks at current levels.

Pakistan Equities Commercial Banks

Key Data

Mkt. Cap. (USDmn)	1,250
Mkt. Cap. (PKRbn)	8,177
Index Weightage (KSE-100)	20.4%
Number of Listed Companies	20

Source: PSX, Next Research

EPS estimates

	1QCY21E	YoY	QoQ
BAFL	1.53	-3%	27%
BAHL	2.70	5%	-36%
BOP	0.59	4%	40%
HBL	4.51	62%	16%
MCB	5.85	5%	15%
MEBL	3.15	-3%	9%
UBL	4.68	17%	9%

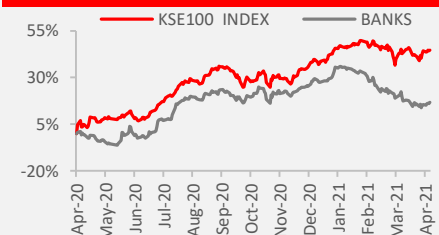
Source: Company Accounts, Next Research

DPS estimates

	1QCY21E
BAFL	-
BAHL	-
BOP	-
HBL	1.50
MCB	5.00
MEBL	2.00
UBL	2.50

Source: Company Accounts, Next Research

1 Year Relative Performance



Source: PSX, Next Research

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Rating	Sector's proposed weight in the portfolio
Over Weight	> Weight in KSE 100 index
Market Weight	= Weight in KSE 100 Index
Under Weight	< Weight in KSE 100 Index

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Rating	Expected Total Return
Buy	$R \geq 15\%$
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Where;

$R = \text{Expected Dividend Yield} + \text{Expected Capital Gain}$

R' is before tax

Investment horizon is between six months to twelve months

Ratings are updated regularly based on the latest developments in the economy/sector/company, changes in stock prices, and changes in analyst's assumptions.

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