

Banks' 3QCY20 earnings preview

Commercial Banks

Overweight

October 13, 2020

Key Points

- Earnings of our banking sector coverage universe is estimated to report an improvement of 10%YoY in earnings for 3QCY20. On QoQ basis however, the earnings are estimated to drop by 24% as NIMs normalize.
- HBL is expected to lead the earnings growth table in both 3Q and 9M YoY comparisons, primarily due to normalization of operating expenditure post winding-up of New York operations while BAFL is the only bank that is estimated to report a positive growth number in QoQ comparison during 3QCY20.
- 9M CY20 earnings are estimated to grow by 35%YoY on the back of higher NIMs and huge capital gains that offset the impact of higher provisions and lower fee income.
- We do not expect dividend announcement by any bank except MEBL.
- We have an over-weight stance on the banking sector with preference to big banks including HBL, MCB and UBL.

3QCY20 earnings of Next Banking Universe estimated to grow 10%YoY/-24%QoQ

BAFL, BAH, BOP, HBL, MCB, MEBL and UBL that form Next Banking Sector Universe are expected to report a combined earnings that would be higher by 10%YoY but lower by 24%QoQ. HBL is expected to lead the earnings growth table in both 3Q and 9M YoY comparisons primarily due to normalization of operating expenditure post winding-up of New York operations. BAFL is the only bank that is estimated to report a positive growth number in QoQ comparison while UBL is estimated to report a decline of 7%QoQ. In QoQ comparison, MEBL is estimated to post the highest decline in earnings of 44%QoQ. During 9M CY20, earnings of the universe are estimated to improve by 35%YoY as a result of higher NIMs in 2QCY20, and higher capital gains during the year compared to losses during the previous year, restricting the impact of higher provision and lower fee income.

Next Banking Sector Universe Financial Highlights

PKRmn	3QCY20E	3QCY19	YoY	2QCY20	QoQ	9M CY20E	9M CY19	YoY
Interest/Profit Earned	214,351	262,443	-18%	260,897	-18%	746,250	666,013	12%
Interest/Profit Expensed	105,577	162,480	-35%	131,910	-20%	401,745	383,154	5%
Net Interest/Profit Income	108,774	99,963	9%	128,987	-16%	344,505	282,859	22%
Fee, Commission, etc.	16,151	17,169	-6%	13,996	15%	46,890	53,391	-12%
Dividend Income	845	692	22%	891	-5%	2,523	2,821	-11%
Income from FX	2,900	5,333	-46%	4,058	-29%	9,836	11,221	-12%
Capital Gains/(Losses)	42	(242)	n/a	10,574	n/a	14,987	(2,460)	n/a
Others	1,405	2,022	-30%	2,676	-47%	4,633	5,813	-20%
Non-Interest Income	21,344	24,975	-15%	32,195	-34%	78,869	70,788	11%
Total Income	130,118	124,938	4%	161,182	-19%	423,374	353,646	20%
Operating Expenses	69,548	69,445	0%	69,433	0%	211,693	199,426	6%
Provisions & Write-offs	9,395	7,784	21%	23,750	-60%	42,445	18,101	134%
Others	1,192	1,551	-23%	1,560	-24%	4,883	3,625	35%
Profit Before Tax	49,983	46,157	8%	66,438	-25%	164,352	132,495	24%
Tax	20,109	18,658	8%	27,214	-26%	66,943	58,468	14%
Profit for Equityholders	30,034	27,387	10%	39,366	-24%	97,685	72,371	35%

Source: Company Accounts, Next Research

Phenomenal growth in deposits where advances growth lags behind

By the end of Sep'20, total deposits of scheduled banks reported a phenomenal improvement of 17.5%YoY (12.7%YTD) whereas average deposits during 3QCY20 increased by 17.5%YoY also. Advances on the other hand remained flat with 0.7%YoY growth in Sep'20 and 1.1%YoY growth in average advances during 3QCY20. A 19.2%YoY growth in investments of scheduled is reported in Sep'20 with 25.6%YoY growth in average investments during 3QCY20.

NIMs to normalize during 3QCY20

As a result of aggressive monetary easing during Mar-Jun'20 when policy rate was reduced by 625bps to minimize the negative impacts of the COVID-19 pandemic and subsequent lockdown, NIMs of the banking sector had gone up significantly higher during 2QCY20 (NIMs of Next Banking Universe went up to 4.6% in 2QCY20 compared to 4.1% in 1QCY20 and 3.9% in 2QCY19). As interest rates normalize and asset yields adjust downwards, we estimate NIMs of our coverage universe to come down to 3.7% during 3QCY20 that is expected to result in 15%QoQ dip in NII of the sector. Exposure to long-term fixed rate PIBs of higher rates would hedge some banks against the decline in NIMs.

Pakistan Equities Commercial Banks

Key Data

Mkt. Cap. (USDmn)	1,280
Mkt. Cap. (PKRbn)	6,813
Index Weightage (KSE-100)	23.0%
Number of Listed Companies	20

Source: PSX, Next Research

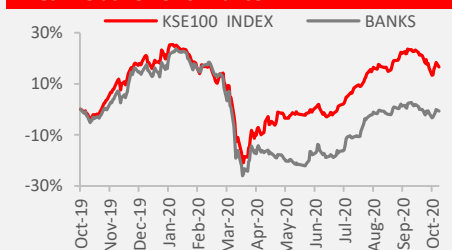
EPS estimates

	3QCY20E	YoY	QoQ	9M CY20E	YoY
BAFL	1.56	-8%	1%	4.71	-9%
BAHL	2.83	23%	-28%	9.33	48%
BOP	0.54	-34%	-34%	1.92	-18%
HBL*	5.20	55%	-31%	15.52	164%
MCB*	5.01	4%	-13%	16.34	20%
MEBL	2.45	-24%	-44%	10.70	97%
UBL*	4.63	12%	-7%	13.57	17%

* Consolidated

Source: Company Accounts, Next Research

1 Year Relative Performance



Source: PSX, Next Research

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Provisions to come down but still high

During 2QCY20 most of the banks in our coverage booked pre-emptive general provisions amounting to ~PKR10bn (24bps of average net advances) out of the total provisions charged to the tune of PKR23.8bn (54bps of average net advances). During 3QCY20, we estimate a slightly lesser credit cost of 23bps (PKR9.4bn) compared to 30bps charged (specific) during 2QCY20 and quarterly average of 10bps during the past 6 years. While infection ratio is estimated to climb up to 7.3% against 6.6% in Dec'19, coverage ratio is also expected to improve from 91% to 94%.

MEBL may announce dividend

In line with the directives of the SBP banks that have declared dividends with Mar'20 result (HBL, MCB and UBL from our universe) would not be announcing cash dividend along with 3QCY20 results whereas others can announce but BOP and BAHL generally announce on annual basis while BAFL announce on half yearly basis. In short we do not expect dividend announcement by any bank except MEBL.



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Over Weight	> Weight in KSE 100 index
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Rating	Expected Total Return
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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

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