

# Banks' CY21 results preview

## Commercial Banks

## Overweight

February 1, 2022

### Key Points

- Our banking sector coverage universe is estimated to report a bottom-line growth of 39.5%YoY in 4QCY21 leading to CY21 earnings growth of 17.1%.
- On sequential basis, the earnings are estimated to dip 1.9%QoQ.
- The growth in 4QCY21 earnings is expected to stem from higher NII due to expansion in balance sheets and stable NIMs, and significantly lower provisions charge. We do not however, rule out possibilities of capital losses on fixed income portfolios charged on the P&L.
- Annual earnings are expected to grow by 17.1% where NII is expected to register a moderate growth of 1.6% and the growth is expected to be fuelled by higher non-funded income and lower provisions.
- Going forward, we maintain our liking for the sector as it is the major beneficiary of higher interest rates, and continued growth in economic activities.
- Although we have buy recommendations on all of our coverage banks as the sector trades at an attractive CY22E Tier-1 PBV of 0.9x and offers an attractive dividend yield of 8.7% (with highest yield of ~12.5% offered by BAFL and UBL), we prefer, BAFL, MEBL and MCB over other banks.

### Strong balance sheet growth of the sector

Banking sector deposits and advances registered staggering growth of 17.3%YoY and 19.4%YoY, respectively in Dec'21. Investments also increased by 22.3%YoY. Average deposits during 4QCY21 increased by 16.7%YoY/3.6%QoQ and average deposits during CY21 increased by 17.7%. Average 4QCY21 advances also increased by 17.8%YoY/7.7%QoQ while overall average advances for CY21 increased by 10.1%. The growth in deposits is mainly attributable to the overall expansion in money supply, economic growth and increasing documentation of the economy. Steep pick-up in advances growth may be attributable to higher working capital requirements, disbursements of financing schemes that were announced during the pandemic including TERF whose disbursements are ongoing, and increased financing towards housing, construction, and SMEs sectors. Average ADR/IDR of the sector stood at 48.1%/70.3% in CY21 compared to 51.4%/64.5% of the previous year. Going forward we see a stable growth rate in deposits while some moderation in advances growth due to higher interest rates and ending of the TERF related disbursements. However, higher tax incidence on ADRs lower than 50% and 40%, and incentives for advances to housing, construction and SMEs sectors, are likely to induce banks for aggressive loan disbursements, somewhat offsetting the impacts of higher interest rates and slowdown in economic activities as a result of tightening monetary and fiscal policies.

### MEBL to lead the earnings growth in 4QCY21

During 4QCY21, our banking sector coverage universe is estimated to report earnings growth of 39.5%YoY. Sequentially, however, the earnings are expected to drop by 1.9%QoQ. NII of our universe during 4QCY21 is estimated to report a growth of 15.9%YoY/6.5%QoQ despite a hike of 275bps in policy rate during the quarter. Expansion in balance sheet and greater increase in KIBOR and market yields than the policy rate are expected to put a check on NIMs compression due to asset-liability pricing mis-match. Average 6MKIBOR increased by 210bps during the quarter with average policy rate/MDR increasing by 111bps during the quarter. Similarly average secondary market yields also increased by 140-229bps, with the highest increase recorded in 1-year papers. Additional support is expected from 1) non-funded income that is expected to increase by 7.5%YoY, and 2) significantly lower provisions that are expected to shrink by 66%YoY during the quarter with major general provisions booked last year. Amongst our coverage universe, MEBL is expected to lead the 4QCY21 earnings growth table with no MDR and higher growth in balance sheet. We would like to highlight that in our estimates, we have not incorporated any realized capital losses in fixed income portfolios of banks due to the steep increase in interest rates. BAHL 4QCY21 earnings are expected to decline on YoY basis due to higher operating expenses (22%YoY) and normalized effective tax rate where 4QCY20 ETR was significantly lower at 28%. Although steep rise in interest rates is likely hurt equities of most of the banks, we do not see a significant deterioration in banks' dividend payout capacities.

For CY21 cumulative earnings, we estimate earnings to grow by 17.1% as a result of higher non-funded income (7.3%) despite significant reduction in capital gains, and significant reduction in provisions charge that is estimated to decline by 81%. NII for CY21 is expected to remain stable with a growth of 1.6% despite lower average annual interest rates.

## Pakistan Equities Commercial Banks

### Key Data

Mkt. Cap. (USDmn)	8,108
Mkt. Cap. (PKRbn)	1,432.8
Index Weightage (KSE-100)	23.8%
Number of Listed Companies	20

Source: PSX, Next Research

### EPS estimates

	4Q21E	YoY	QoQ	CY21E	YoY
AKBL	2.20	5%	3%	7.59	-11%
BAFL	1.80	49%	-10%	7.70	31%
BAHL	3.90	-7%	-11%	16.43	3%
BOP	0.64	52%	-46%	3.94	50%
HBL*	5.78	49%	-6%	23.99	14%
MCB*	6.80	34%	1%	26.09	5%
MEBL	5.08	57%	19%	17.11	26%
UBL*	5.98	39%	8%	23.74	39%

\* Consolidated accounts

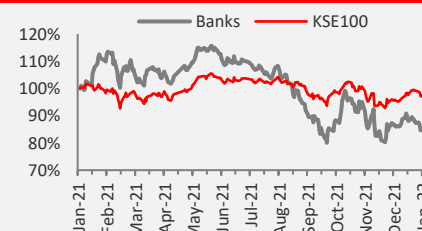
Source: Company Accounts, Next Research

### DPS estimates

	4QCY21E	CY21E
AKBL	2.00	2.00
BAFL	2.00	4.00
BAHL	4.50	4.50
BOP	0.75	0.75
HBL	1.75	7.00
MCB	4.50	18.50
MEBL	1.50	5.61
UBL	4.00	16.00

Source: Company Accounts, Next Research

### 1 Year Relative Performance



Source: PSX, Next Research

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# Next Banking Universe Financial Highlights

	4QCY21E	4QCY20	YoY	3QCY21	QoQ	CY21E	CY20	YoY
Interest/Profit Earned	294,888	233,186	26.5%	267,604	10.2%	1,047,280	1,060,907	-1.3%
Interest/Profit Expensed	157,447	114,651	37.3%	138,595	13.6%	535,643	557,124	-3.9%
<b>Net Interest/Profit Income</b>	<b>137,441</b>	<b>118,535</b>	<b>15.9%</b>	<b>129,009</b>	<b>6.5%</b>	<b>511,637</b>	<b>503,783</b>	<b>1.6%</b>
Fee, Commission, etc.	22,451	20,207	11.1%	22,353	0.4%	87,189	70,332	24.0%
Dividend Income	2,013	1,604	25.5%	1,794	12.2%	6,720	4,253	58.0%
Income from FX	4,850	4,458	8.8%	7,084	-31.5%	22,038	17,128	28.7%
Capital Gains/(Losses)	77	193	-60.0%	1,165	-93.4%	10,365	25,237	-58.9%
Others	1,936	2,675	-27.6%	1,273	52.1%	8,555	8,714	-1.8%
<b>Non-Interest Income</b>	<b>31,328</b>	<b>29,137</b>	<b>7.5%</b>	<b>33,669</b>	<b>-7.0%</b>	<b>134,868</b>	<b>125,664</b>	<b>7.3%</b>
<b>Total Income</b>	<b>168,769</b>	<b>147,672</b>	<b>14.3%</b>	<b>162,679</b>	<b>3.7%</b>	<b>646,506</b>	<b>629,447</b>	<b>2.7%</b>
Operating Expenses	86,795	79,110	9.7%	82,829	4.8%	331,553	306,820	8.1%
Provisions & Write-offs	5,311	15,746	-66.3%	619	758.5%	12,434	65,985	-81.2%
Others	1,652	1,225	34.9%	1,575	4.9%	6,591	6,758	-2.5%
<b>Profit Before Tax</b>	<b>75,011</b>	<b>51,591</b>	<b>45.4%</b>	<b>77,656</b>	<b>-3.4%</b>	<b>295,927</b>	<b>249,883</b>	<b>18.4%</b>
Tax	30,868	19,821	55.7%	31,497	-2.0%	119,403	100,406	18.9%
<b>Profit for Equityholders</b>	<b>44,127</b>	<b>31,641</b>	<b>39.5%</b>	<b>44,979</b>	<b>-1.9%</b>	<b>174,922</b>	<b>149,437</b>	<b>17.1%</b>

Source: Company accounts, Next Research



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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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