

Banks: Profitability to decline by 4% YoY/ 3% QoQ in 3QCY21

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Prices as of 13th October, 2021

Profitability to decline by 4% YoY/ 3% QoQ

- With the onset of result season, we present 3QCY21 result previews of our banking universe. We expect profitability of the sector to decline by 4% YoY/ 3% QoQ during the 3QCY21 primarily owing to the NIMs contraction. Cumulatively for 9MCY21 the net earnings are expected to increase by 10% YoY.
- Net interest income (NII) during 3Q is expected to decline 10% YoY to PKR 107.9bn due to significant rise in interest expense of 19% YoY versus minimal growth of 3% YoY recorded in interest income. Increase in cost of funds can be attributable to double digit surge in deposit growth coupled with upward adjustment of cost of funds with the recent hike in interest rate. During 9MCY21, NII is likely to decrease 6% YoY.
- Non-interest income will continue to partially compensate for the decline in the interest income and is likely to grow by 7% YoY to PKR 27.8bn in 3QCY21 on the back of higher fee & commission income. During 9MCY21, non-interest income will grow by 16% YoY to PKR 87.2bn as business activities normalize.
- Provisioning expense will also be earnings accretive as it is estimated to shrink by 83% YoY to PKR 2.3bn given the banks are not expecting any major NPLs charge during the quarter. For 9MCY21, cumulative provisions likely to stand at PKR 5.5bn, down 87% YoY as most banks provided hefty provisions last year.
- With the ongoing network expansion coupled with increased digitalization activities, the operating expenses are likely to remain on the higher side during 3Q, up 6% YoY to PKR 69.8bn.
- Effective tax rate to clock in at 41% in 3QCY21 versus 40%, last year due to lower ADR for some of the banks.

Key Data	
Market Cap (PKR bn)	1,362.5
Current Traded Value (PKR bn)	2,314.3
Current Turnover (mn share)	53.4
Banking sector weight in KSE-100 (%)	+ 23.25%

EPS Estimates (PKR)								
	3QCY20	2QCY21	3QCY21E	YoY	QoQ	9MCY20	9MCY21E	YoY
BAFL	1.5	1.9	2.0	32%	5%	4.7	6.0	27%
BAHL	5.3	4.0	4.3	-19%	8%	11.8	12.4	5%
HBL	6.9	6.4	6.1	-12%	-5%	17.2	18.1	5%
MCB	8.2	6.7	5.8	-30%	-14%	19.4	18.2	-6%
UBL	3.8	6.2	5.7	49%	-9%	13.1	17.9	36%
MEBL*	3.9	4.0	4.3	9%	7%	12.0	11.7	8%

* MEBL: Actual numbers

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- On the balance sheet front, banking industry deposits have grown by 17% YoY to PKR 19.8tn whereas advances also posted double digit growth of 15% to settle at PKR 9.3tn as end of Sept-21.
- The ADR has resultantly increased to 47% as of Sept-21 compared to 45% in June-21. On the other hand, IDR also increased by 2ppts to 71% in Sept-21 versus 69% end of June-21.
- We expect quarterly dividend payouts to continue from HBL, MCB, UBL and MEBL.
- We have an 'overweight' stance on the banking sector as we expect 12% YoY growth in profitability in CY21 on the back of increased lending activities and rising interest rates. The sector is currently trading at a CY22F P/E of 5.0x and P/BV of 0.8x.

DPS Estimates (PKR)					
	3QCY20	2QCY21	3QCY21E	9MCY20	9MCY21E
BAFL	2.00	2.00	-	2.00	2.00
BAHL	-	-	-	-	-
HBL	-	1.75	1.75	1.25	5.25
MCB	-	5.00	5.00	5.00	14.50
UBL	2.50	4.00	4.00	2.50	12.00
MEBL*	-	1.50	1.50	4.00	4.50

* **MEBL: Actual numbers**

	Price Target (PKR)	Upside
BAFL	56	83%
BAHL	97	49%
HBL	158	44%
MCB	200	48%
UBL	160	42%
MEBL	196	44%

Source: Company Accounts & Akseer Research

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