

# Day Break

Tuesday, 18 April 2017

## Sector Update

### 1QCY17 Result Preview

Bank	EPS	DPS	BVPS
HBL (cons)	5.85	3.50	136
UBL	5.02	3.00	126
MCB	4.89	4.00	128
ABL	2.58	1.75	89
NBP	3.37	-	86
BAHL	1.42	-	40
BAFL	1.20	-	39
FABL	0.71	-	30
AKBL	1.02	-	27

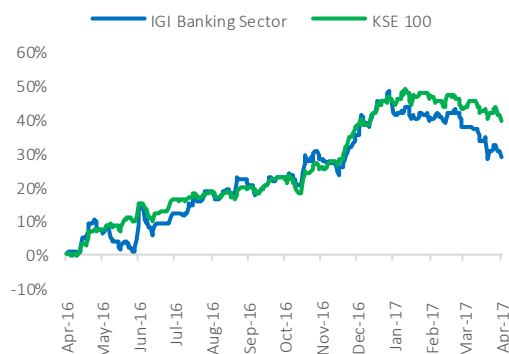
\*Target Price based on Dec-17

Bank	P/B	D/Y	P/E	ROE
HBL (cons)	1.84	5.3%	11.26	17.2%
UBL	1.75	5.2%	10.87	17.4%
MCB	1.67	7.4%	10.50	17.2%
ABL	0.97	6.6%	7.32	14.7%
NBP	0.71	11.4%	6.02	11.9%
BAHL	0.88	2.7%	7.43	12.9%
BAFL	1.23	7.1%	7.68	17.1%
FABL	0.58	5.5%	5.56	11.5%
AKBL	0.66	8.0%	4.54	12.8%

ROE%: based on average CY17-19F

	Current Price	Target Price	Recomm.
HBL (cons)	263.9	307.0	<b>BUY</b>
UBL	232.9	282.1	<b>BUY</b>
MCB	217	250.7	<b>BUY</b>
ABL	91.4	131.3	<b>BUY</b>
NBP	61.5	86.4	<b>BUY</b>
BAHL	36.5	45.9	<b>BUY</b>
BAFL	51	75.1	<b>BUY</b>
FABL	18.2	25.3	<b>BUY</b>
AKBL	18.8	25.6	<b>BUY</b>

### Relative Price Performance



Source: Bloomberg, KSE 100 & IGI Research

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## Commercial Banks

### Soft interest income during the 1QCY17 to keep sector profitability growth subtle

- For 1QCY17, we estimate, lower earning yields along with downward sticky cost of deposit will to keep interest income relatively soft. However, realization of capital gains or lower provisioning charge could rescue bottom line.
- On advances side, we do not expect it to be a major earning driver, as overall sector advances inched up by 2%, given lending rate has come down further to 8.4% (Feb-17) from 8.55% registered in 4QCY16, (down by 13bps).
- Banks investments continue to speed up albeit this time concentration has been in treasury bills. Low earning yield in Treasury bill along with no major maturity witnessed in 1QCY17, we see banks investments yield to stay flat in 1QCY17.
- On deposit side, continued deposit reshuffling will likely keep overall cost of deposit static during the quarter.
- Amongst our coverage banks, we recommend BAHL and BAFL purely on the basis of cheap valuation, whereas our recommendation for UBL, HBL and MCB mainly stands on upward valuation re-rating in the event of reclassification of Pakistan in MSCI Emerging Market Index.

We preview 1QCY17 IGI banking sector coverage earnings. In terms of profitability growth, we expect UBL, NBP and BAHL to report earnings decline on quarterly basis, whereas on yearly basis expect NBP and AKBL all banks are expected to show a profitability decline.

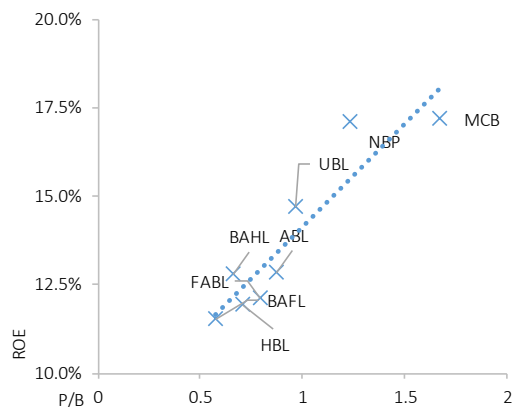
### Soft interest income to drag 1QCY17 profitability; whereas realization of capital gains or lower provisioning charge could rescue bottom line

During CY16, Banks suffered a setback caused mainly by slowdown in interest income, lower capital gain realization, higher operating cost and provision charge (compared to net reversals last year). As result, pre-tax profitability of banks' under IGI dropped by 1% to PKR 251bn, from PKR 253bn reported last year. For 1QCY17, we estimate, lower earning yields along with downward sticky cost of deposit will keep interest income relatively soft. However, realization of capital gains or lower provisioning charge could rescue bottom line. In this respect, we estimate on a quarterly basis banks' profitability to drop by 3%QoQ or 7%YoY.

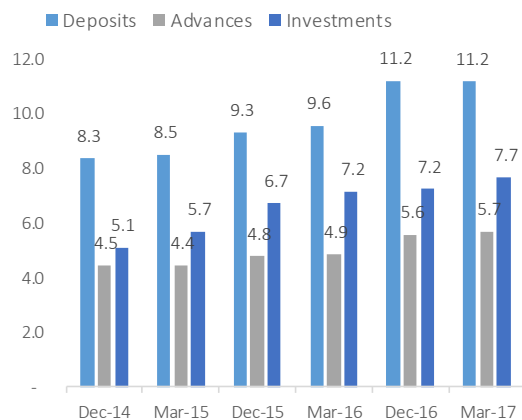
### Changing asset mix; Investments and advances yield not as strong

On advances side, we do not expect it to be a major earning driver, as overall sector advances inched up by 2% to reach PKR 5,697bn by Mar-17, from PKR 5,572bn recorded in Dec-16. Deposits growth after registering a healthy +20% growth in CY16 has taken a slight respite (down by PKR 33bn) during the quarter to reach PKR 11,170bn from PKR 11,200bn. Resultantly banks Advance to deposit Ratio (ADR) improved slightly by 127bps during the quarter. However, lending rate has come down further to 8.4% (Feb-17) from 8.55% registered in 4QCY16, (down by 13bps) which hints towards tamed earning yields on advances. Banks investments continue to speed up albeit this time concentration has been in treasury bills. By

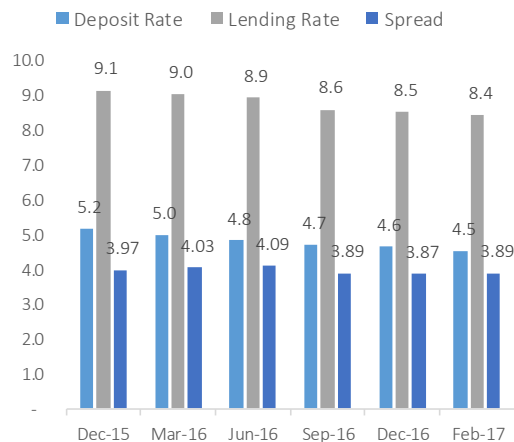
**Exhibit: Banks P/B and RoE**



**Exhibit: Banks Asset Mix**



**Exhibit: Banking Sector weighted Avg. Rates**



Source: SBP, IGI Research

Feb-17, end overall investments in treasury bills reached PKR 6,705bn from PKR 6,473bn last seen in Dec-16. Low earning yield in Treasury bill along with no major maturity witnessed in 1QCY17, we see banks investments yield to stay flat in 1QCY17. On deposit side, continued deposit reshuffling will likely keep overall cost of deposit static during the quarter. These combined factors in our view will keep interest income growth on declining trend. However, possible realization of capital gains and provisioning reversals at few banks would help rescuing bottom line.

**Recommendation**

Amongst our coverage banks, we recommend BAH and BAFL purely on the basis of cheap valuation, whereas our recommendation for UBL, HBL and MCB mainly stands on upward valuation re-rating in the event of reclassification of Pakistan in MSCI Emerging Market Index. For NBP pending decision on outstanding employees' pension payments (PKR ~48bn) could keep stock price under pressure, however we feel the decision likely to be in favour of NBP.

Exhibit:

**Financial highlight**

Bank	EPS	DPS	BVPS	Earnings growth		Non-II / Total Income	Cost-To-Income Ratio
	1QCY17E	1QCY17E	1QCY17E	QoQ	YoY	1QCY17E	1QCY17E
HBL	5.85	3.50	136.15	1%	-5%	29%	52%
UBL	5.02	3.00	126.01	-4%	-16%	25%	45%
MCB	4.89	4.00	128.13	22%	-10%	24%	40%
ABL	2.58	1.75	88.75	34%	-38%	19%	54%
NBP	3.37	-	86.44	-23%	78%	30%	51%
BAHL	1.42	-	39.67	-44%	-38%	15%	59%
BAFL	1.20	-	38.89	18%	-22%	22%	65%
FABL	0.71	-	29.88	53%	-38%	28%	64%
AKBL	1.02	-	26.87	25%	6%	22%	66%

SOURCE: IGI Research, Company accounts

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