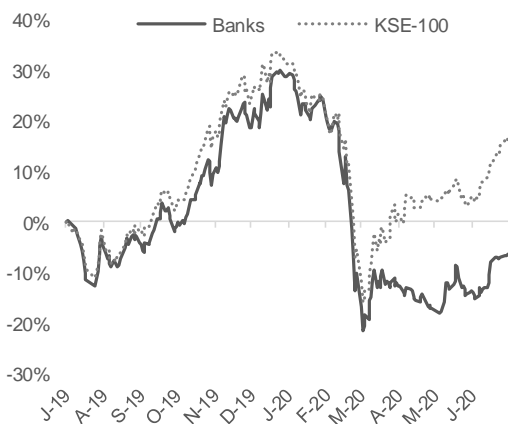


## Sector Update

## Banks Result preview

PKR/share	2q/20e	YoY	1h/20e	YoY
<b>EPS</b>				
HBL	3.7	8x	6.5	3x
UBL	4.4	0%	8.5	9%
NBP	1.7	-48%	3.6	-31%
MCB	5.9	25%	11.4	26%
ABL	3.6	33%	7.1	34%
BAHL	3.2	50%	5.8	45%
BAFL	1.7	0%	3.3	-5%
FABL	1.8	91%	3.1	58%
AKBL	1.2	14%	2.6	7%
<b>DPS</b>				
	2q/20e	YoY	1h/20e	YoY
HBL	-	-	1.3	-
UBL	-	-	2.5	-
NBP	-	-	-	-
MCB	-	-	5.0	-
ABL	-	-	2.0	-
BAHL	-	-	-	-
BAFL	-	-	-	-
FABL	-	-	-	-
AKBL	-	-	-	-

## Relative Performance to KSE 100



Source: Bloomberg, PSX 100 &amp; IGI Research

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## Commercial Banks

## Banks 2q earnings to see a +22% rise on expanding NIMs

- ✓ We preview Pakistan banks earnings for the 2qCy20, where we expect earnings to increase by +22%y/y and +9%q/q to PKR 36.4bn,
- ✓ Moreover, quarterly payouts will be held back as per directives of State Bank of Pakistan (SBP) to preserve capital amid potential loan stress arising from on-going Covid-19,
- ✓ Since Mar-20 end, overall sector stock performance has remained rather dull, rising by ~10% compared KSE00 up by nearly ~29%. Risks a) further rate cuts, b) accumulation of NPLs and c) overall slowdown in economic activity will keep sector earnings in check. At current prices we prefer, BAFL, MCB and BAHL.

## Steady interest income, reduced non-interest income and higher provisioning charge to keep 2q earnings in check

We preview Pakistan banks earnings for the 2qCy20, where we expect earnings to increase by +22%y/y and +9%q/q to PKR 36.4bn. Moreover, quarterly payouts will be held back as per directives of State Bank of Pakistan (SBP) to preserve capital amid potential loan stress arising from on-going Covid-19. The earnings accretion is due to;

- ✓ Interest Income: Reduced deposit cost as interest rates have come down by 400bps to 7.0%. Moreover, asset re-pricing will unlikely be delayed this time, given a) SBP lowered ceiling rate by 50bps in a bid to make interest rate corridor more symmetric around policy rate while keeping minimum deposit rate (MDR) spread unchanged, and b) yield curves have remained inverted during much of 2qCy20 and inflation expectations remain dull. Reflecting that 6mKIBOR has come down by 457bps point and average Treasury bill (T-bill) rate has come down by an average 575bps since Mar-20 to Jun-20. For Banks, like HBL, BAHL, MCB and AKBL timely shift in investment bonds should see lesser earning yield erosion.
- ✓ Non-interest Income: Slowdown in domestic economic activity, trade and remittances should reflect overall slowdown in fee income. However a marked fluctuations in FX income and capital gains could potentially cushion a sharp decline in fee income. We expect a 4% q/q sequential decline in non-interest income.
- ✓ Provisions: Government relief package for Covid-19 affected included a) deferment of loan principal for 12 months, and ii) rescheduling / restructuring of loans with individuals/ businesses having distressed cash-flows. So far PKR 566.2bn worth of loan application have been received by banks for deferment of principal, which is roughly ~12% of total estimated principal (or PKR 4.7trn) due in next 12 months. We expect 2qCy20 is unlikely to report major increase in NPLs provisions however, post 2q we may see a steep rise. Moreover, some support from better equity market performance could also come given ~17.8% market index movement.

**Outlook**

Since Mar-20 end, overall sector stock performance has remained rather dull, rising by ~10% compared KSE00 up by nearly ~29%. Risks a) further rate cuts, b) accumulation of NPLs and c) overall slowdown in economic activity will keep sector earnings in check. At current prices we prefer, BAFL, MCB and BAHL.

Exhibit: Pakistan Commercial Banks June, 2020 Result Preview								
PKR/share	2q/20	1q/20	2q/19	q/q	y/y	1h/20	1h/19	y/y
<b>EPS</b>								
HBL	3.7	2.8	0.4	34%	8x	6.5	2.5	3x
UBL	4.4	4.1	4.4	6%	0%	8.5	7.8	9%
NBP	1.7	1.9	3.3	-13%	-48%	3.6	5.2	-31%
MCB	5.9	5.5	4.7	7%	25%	11.4	9.0	26%
ABL	3.6	3.5	2.7	2%	33%	7.1	5.3	34%
BAHL	3.2	2.6	2.2	26%	50%	5.8	4.0	45%
BAFL	1.7	1.6	1.7	9%	0%	3.3	3.5	-5%
FABL	1.8	1.4	0.9	30%	91%	3.1	2.0	58%
AKBL	1.2	1.5	1.0	-20%	14%	2.6	2.5	7%
<b>DPS</b>								
HBL	-	1.3	1.3			1.3	2.5	-50%
UBL	-	2.5	2.5			2.5	5.0	-50%
NBP	-	-	-			-	-	
MCB	-	5.0	4.0			5.0	8.0	-38%
ABL	-	2.0	2.0			2.0	4.0	-50%
BAHL	-	-	-			-	-	
BAFL	-	-	2.0			-	2.0	
FABL	-	-	-			-	-	
AKBL	-	-	-			-	-	

Exhibit: Banks Asset and deposit Growth

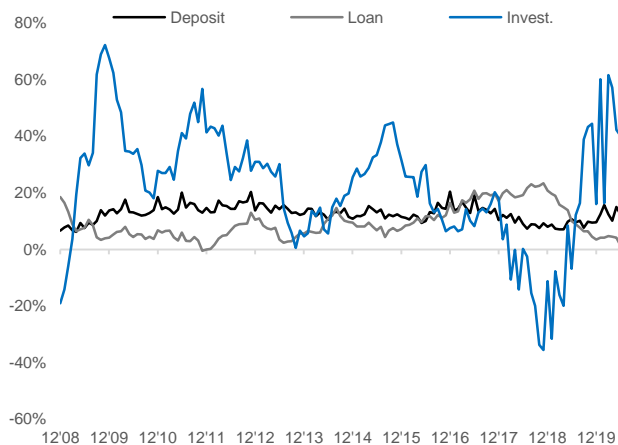
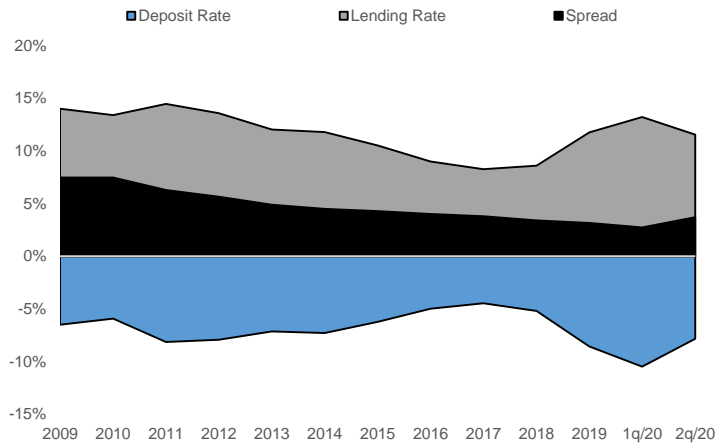


Exhibit: Banking Spread



<b>Exhibit: Banks combined 2qCY20 Earnings highlights</b>												
<b>HBL, UBL, MCB, NBP, ABL, BAHL, BAFL, FABL, AKBL</b>												
Period end (Dec) - PKRbn	2q/20	1q/20	2019	4q/19	3q/19	2q/19	1q/19	2018	4q/18	3q/18	2q/18	1q/18
<b>Interest Income</b>	<b>131.1</b>	<b>125.3</b>	<b>465.4</b>	<b>125.7</b>	<b>117.9</b>	<b>113.5</b>	<b>108.3</b>	<b>374.0</b>	<b>99.7</b>	<b>91.4</b>	<b>94.0</b>	<b>88.9</b>
NII Growth YoY	16%	16%	24%	26%	29%	21%	22%	6%	10%	6%	4%	5%
-- Fee Income	17.7	21.8	90.5	23.5	21.2	24.0	21.9	83.2	24.6	17.9	21.6	19.1
-- Treasury Income	12.7	10.6	39.5	14.0	9.5	7.5	8.5	47.4	12.8	9.2	13.8	11.7
-- Other	2.5	2.0	14.2	4.9	3.1	3.3	2.9	9.5	2.0	2.9	2.0	2.5
<b>Non-Interest Income</b>	<b>32.9</b>	<b>34.4</b>	<b>144.1</b>	<b>42.3</b>	<b>33.7</b>	<b>34.9</b>	<b>33.2</b>	<b>140.0</b>	<b>39.4</b>	<b>30.0</b>	<b>37.5</b>	<b>33.3</b>
NFI Growth YoY	-6%	4%	3%	8%	13%	-7%	0%	-3%	12%	-11%	-2%	-10%
<b>Total Revenue</b>	<b>164.0</b>	<b>159.6</b>	<b>609.6</b>	<b>168.0</b>	<b>151.7</b>	<b>148.3</b>	<b>141.5</b>	<b>513.5</b>	<b>138.5</b>	<b>121.4</b>	<b>131.4</b>	<b>122.1</b>
Non-II / Total Revenue	20%	22%	24%	25%	22%	24%	23%	27%	28%	25%	28%	27%
Total Revenue Growth YoY	11%	13%	19%	21%	25%	13%	16%	4%	10%	1%	3%	0%
<b>Operating Expenses</b>	<b>90.7</b>	<b>91.8</b>	<b>355.3</b>	<b>100.5</b>	<b>87.9</b>	<b>87.2</b>	<b>79.6</b>	<b>303.3</b>	<b>79.8</b>	<b>76.3</b>	<b>75.4</b>	<b>71.8</b>
OPEX Growth YoY	4%	15%	17%	26%	15%	16%	11%	11%	9%	13%	11%	13%
Cost-To-Income Ratio	55%	57%	58%	60%	58%	59%	56%	59%	58%	63%	57%	59%
PPOP	73.3	67.9	254.3	67.5	63.8	61.1	61.9	210.7	59.3	45.0	56.0	50.3
PPOP Growth YoY	20%	10%	21%	14%	42%	9%	23%	-6%	12%	-15%	-7%	-13%
Provisioning Charge	14.0	11.8	36.9	12.0	9.9	11.5	3.5	27.3	18.1	6.5	3.6	(0.9)
Pre-Tax Profits	59.3	56.0	217.4	55.5	53.9	49.6	58.4	183.4	41.3	38.5	52.4	51.2
Taxation	22.9	22.6	92.0	20.4	21.7	19.7	30.2	66.0	14.2	15.4	20.2	16.3
Effective Tax Rate	39%	40%	42%	37%	40%	40%	52%	36%	35%	40%	38%	32%
<b>Profit After Tax</b>	<b>36.4</b>	<b>33.4</b>	<b>125.3</b>	<b>35.2</b>	<b>32.2</b>	<b>29.8</b>	<b>28.1</b>	<b>110.5</b>	<b>29.1</b>	<b>22.8</b>	<b>30.2</b>	<b>28.4</b>
PAT Growth YoY	22%	19%	13%	21%	41%	-1%	-1%	-7%	201%	-38%	-13%	-26%

Source: IGI Research, Company Accounts

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