

Commercial Banks

4QCY24: Banking Sector to Post -5%/y/-21%q/q drop in Earnings

- For the 4QCY24, we expect sector earnings (IGI coverage banking universe) to decrease by -5%/y to PKR 86.2bn compared to PKR 90.5bn recorded in the same period last year. On a q/q basis, earnings are expected to decline by -21%.
- We expect HBL/UBL/MCB/BAFL/FABL/ABL/BAHL/NBP to post EPS of PKR 8.8/13.8/10.4/5.3/3.0/8.4/6.5/6.6 during 4QCY24 and DPS of PKR 4.00/11.0/9.0/2.0/1.5/4.0/3.5/3.0.
- During CY24, the State Bank of Pakistan (SBP) adopted monetary easing on the bank of continued drop in inflation and slashed the policy rate by 1000 bps from the high of 22% to 13%. The falling interest rates led to some suppression in net interest margins (NIMs) for banks on the back declining yields on investments. Moreover, the government also revised the corporate tax rate for banks from 49% to 54%, including a 10% super tax which is expected to further dent earnings.

Banking Sector: Earnings to decline by 5%/y during 2QCY24

For the 4QCY24, we expect sector earnings (IGI coverage banking universe) to decrease by -5%/y to PKR 86.2bn compared to PKR 90.5bn recorded in the same period last year. On a q/q basis, earnings are expected to decline by -21%. During CY24, the State Bank of Pakistan (SBP) adopted monetary easing on the bank of continued drop in inflation and slashed the policy rate by 1000 bps from the high of 22% to 13%. The falling interest rates led to some suppression in net interest margins (NIMs) for banks on the back declining yields on investments. Moreover, the government also revised the corporate tax rate for banks from 49% to 54%, including a 10% super tax in CY24 which is expected to further dent earnings.

We expect HBL/UBL/MCB/BAFL/FABL/ABL/BAHL/NBP to post EPS of PKR 8.8/13.8/10.4/5.3/3.0/8.4/6.5/6.6 during 4QCY24 and DPS of PKR 4.00/11.0/9.0/2.0/1.5/4.0/3.5/3.0. The following factors to affect sector earnings in upcoming quarterly results:

- **Deposits/Advances:** As at Dec-24, total sector deposits stand at PKR 30.3trn down by -3% since Sep-24 whereas total advances and investments were recorded at PKR 16.0tn (+30%) and PKR 29.1tn (-5%) respectively from PKR 12.3tn and PKR 30.7tn in Sep-24. Sector ADR increased to 53% as at Dec-24 compared to 39% as at Sep-24 whereas IDR has declined to 96% in Dec-24 against 98% in Sep-24.

Analyst

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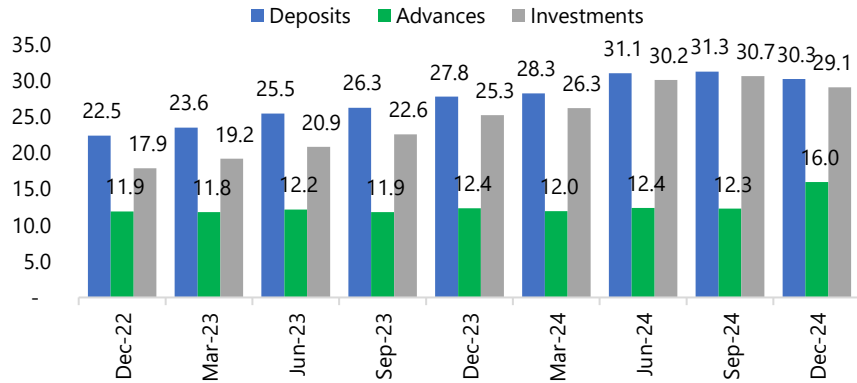
- **NII is likely to decrease:** Net Interest Income is anticipated to decline by ~-7.7%q/q/-7.4%y/y on the back of declining yields on investments amid falling interest rates environment.
- **Non-markup Income:** Non-markup income is expected to witness a significant rise on both y/y and q/q basis on the back of higher fees and commission income generated from higher transaction volumes. Moreover, the banks also recorded healthy capital gains on the back of revaluation of their investments.
- **Increase in Corporate Tax Rate:** The federal cabinet revised the Income Tax Ordinance for the banking sector which eliminated the previously imposed ADR-related tax of 10-16% on income from Government securities while at the same time increased the corporate income tax rate from 39% to 44% for the tax year ending December 31, 2024 while the existing super tax of 10% also remained in place, thus taking the effective tax rate for banks to 54% from the existing 49%. This increase in taxation is expected to reduce earnings on a q/q basis.

Exhibit: IGI Banking Sector Earnings Preview 4QCY24								
PKR/share								
EPS	Dec-24	Sep-24	q/q	Dec-23	y/y	CY24	CY23	y/y
HBL	8.8	9.9	-10%	10.1	-13%	38.9	39.3	-1%
UBL	13.8	20.9	-34%	9.2	51%	58.7	42.5	38%
MCB	10.4	13.9	-25%	13.2	-21%	51.3	50.4	2%
BAFL	5.3	8.3	-36%	5.8	-9%	26.6	23.1	15%
FABL	3.0	4.3	-29%	5.3	-42%	16.1	13.2	22%
ABL	8.4	10.5	-20%	10.5	-20%	39.6	35.5	11%
BAHL	6.5	10.8	-40%	5.4	20%	36.2	31.8	14%
NBP	6.6	4.1	60%	6.4	3%	10.8	23.8	-55%
Banks (PKRbn)	86.1	108.8	-21%	90.5	-5%	268.8	270.3	-1%
DPS								
HBL	4.00	4.00		4.00		16.00	9.75	
UBL	11.00	11.00		11.00		44.00	44.00	
MCB	9.00	9.00		9.00		36.00	30.00	
BAFL	2.00	2.00		5.00		8.00	8.00	
FABL	1.50	1.50		2.00		6.00	4.00	
ABL	4.00	4.00		4.00		16.00	12.00	
BAHL	3.50	3.50		5.00		14.00	14.00	
NBP	3.00	-				3.00	-	

Source: Company Financials, IGI Research

Exhibit: Sector Deposits, Advances, and Investments

ADR has dropped increased to 53% from 39% and IDR declined to 96% from 98% since Sep-24.



Source: SBP, IGI Research

Exhibit: Quarterly EPS Trend Since Mar-2022

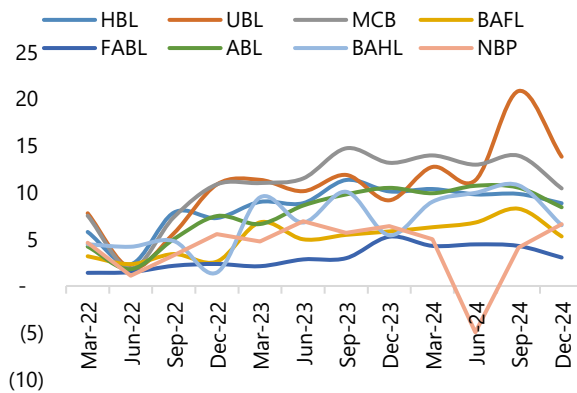


Exhibit: Quarterly DPS Trend Since Mar-2022

Payouts to remain stable amid excess liquidity with banks

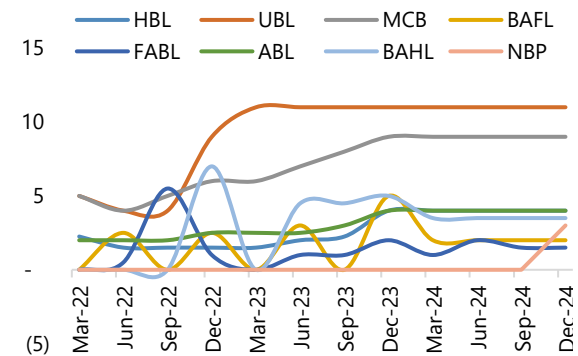


Exhibit: IGI Banking Universe Profit After Tax (PAT)

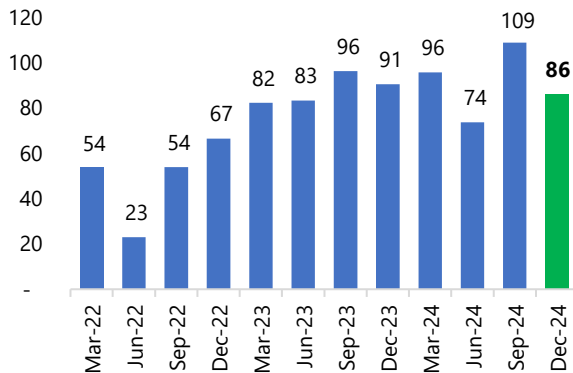
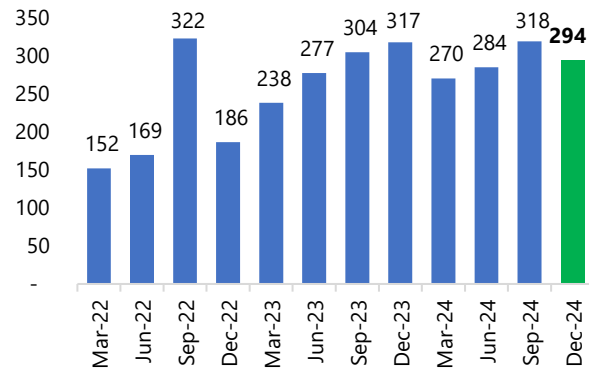


Exhibit: IGI Banking Universe Net Interest Income (NII)



Source: Company Financial Report, IGI Research

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