

Day Break

Wednesday, 10 August 2016

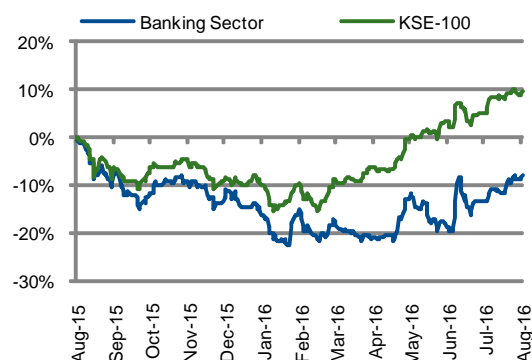
Sector Update

Sector recommendation				
	Recomm.	TP	Upside	P/B
NBP	HOLD	69.8	4%	0.8
MCB	BUY	238.0	11%	1.6
HBL	BUY	248.1	13%	1.6
ABL	BUY	125.6	35%	1.1
BAHL	BUY	56.0	28%	1.2
BAFL	HOLD	30.3	4%	0.8
UBL	HOLD	205.7	4%	1.6
AKBL	Under review	-	-	-
FABL	BUY	17.0	19%	0.5

Sector Earnings (EPS)				
	1HCY16	YoY	2QCY16	QoQ
NBP	3.02	-15%	1.13	-41%
MCB	10.11	-17%	4.70	-13%
HBL	10.21	-13%	4.05	-34%
ABL	6.73	5%	2.55	-39%
BAHL	4.03	33%	1.75	-23%
BAFL	2.44	5%	0.89	-43%

Sector Dividend (DPS)				
	1HCY16	1HCY15	2QCY16	2QCY15
NBP	-	-	-	-
MCB	8.00	8.00	4.00	4.00
HBL	7.00	7.00	3.50	3.50
ABL	3.50	3.50	1.75	1.75
BAHL	-	-	-	-
BAFL	-	-	-	-

Relative Performance to KSE 100



Source: Bloomberg, KSE 100 & IGI Research

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Commercial Banks

Super tax and flat interest income to keep profitability in check during 2QCY16

- For our coverage banks (HBL, NBP, UBL, MCB, ABL, BAHL, BAFL, FABL, AKBL) we expect 1HCY16 net profitability decline by 5%YoY to PKR 72.4bn compared to last year PKR 75.9bn.
- On a quarterly basis net profitability is expected to take impact of super tax leading to a 25%QoQ decline in earnings. However, pre-tax profits are estimated to show flattish growth of 1%QoQ.
- At current prices our best pick amongst the IGI banking sector stands for BAHL with a dec-16 based target price of 56/share, followed by HBL target price of 248/share.

Banks Earnings Preview: Profitability to take a hit from Super tax and flattish interest income

For our coverage banks (HBL, NBP, UBL, MCB, ABL, BAHL, BAFL, FABL, AKBL) we expect 1HCY16 net profitability decline by 5%YoY to PKR 72.4bn compared to last year PKR 75.9bn. Net interest income is expected to stay relatively unchanged while lower capital gains income is estimated to drag down overall revenue by 6%YoY to PKR 270.4bn compared to PKR 286.3bn. Similarly overall provision charge is estimated to drop by a massive 73% to PKR 5.4bn compared to PKR 19.7bn, mainly owing to NBP. On a quarterly basis net profitability is expected to take impact of super tax leading to a 25%QoQ decline in earnings. However, pre-tax profits are estimated to show flattish growth of 1%QoQ.

Recommendation: Top picks BAHL and HBL

The recent rally in banking stock, starting Jun-16 (+14.6% versus KSE 100 +10.0%) has left limited upside. HBL, NBP, and BAFL have rallied nearly ~20% during the time period. At current prices our best pick amongst the IGI banking sector stands for BAHL with a dec-16 based target price of 56/share, followed by HBL target price of 248/share.

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MCB: 1HCY16 earnings expect at PKR 10.1/share, down by 17%YoY

MCB Bank Limited (MCB) is scheduled to announce its 1HCY16 financial result on 10th Aug-16. We expect the bank to post unconsolidated earnings of PKR 11.2bn (EPS: PKR 10.1) down by 17%YoY compared to PKR 13.5bn (EPS: PKR 12.2). On a quarterly basis earnings are estimated to ease by nearly 13%QoQ to PKR 5.2bn (EPS: 4.7) taking in effect of 4% super tax (effective tax ~50%), despite a +12%QoQ growth in total revenue. Along with the result we expect the bank to pay a cash dividend of PKR 4.0/share taking 1HCY16 total payout to PKR 8.0/share.

Recommendation

At current price of PKR 214.0/share, MCB offers limited upside to our dec-16 based target price of PKR 238/share (+11%), however making it relatively attractive on dividend yield of 7.0%. The scrip is currently trading at CY16E P/B of 1.6x and at a relatively expensive P/E of 9.7x.

Exhibit: Financial Highlights

PKRmn (Period end=Dec)	1HCY16E	1HCY15	YoY	2QCY16E	QoQ
Interest Income	23,818	24,876	-4%	12,350	8%
Non-Interest Income	6,857	9,444	-27%	3,888	31%
Total Revenue	30,675	34,321	-11%	16,238	12%
Operating expenses	11,586	11,286	3%	5,782	0%
Pre-provisioning Operating Profits	19,089	23,035	-17%	10,456	21%
Provisioning Charge	(646)	(755)	na	(200)	na
Pre-Tax Profits	19,734	23,790	-17%	10,656	17%
Taxation	8,481	10,249	-17%	5,423	77%
Profit After Tax	11,254	13,541	-17%	5,233	-13%
EPS	10.11	12.17		4.70	
DPS	8.00	8.00		4.00	
BVPS	126.8	123.0	3%	126.8	0%
Key Ratios					
Cost-to-income Ratio	38%	33%		36%	
Effective tax Rate	43%	43%		51%	
Non-interest Income / Total Income	22%	28%		24%	

Source: IGI Research, Company Financials

ABL: 1HCY16 earnings expect at PKR 6.7/share, up by +5%YoY

Allied Bank Limited (ABL) is scheduled to announce its 1HCY16 financial result on 10th of Aug-16, where we expect the bank to post net earnings of PKR 7.7bn (EPS: PKR 6.7) up by +5%YoY. Interest income is expected to show flattish growth of +1%YoY (+7%QoQ) while non-interest income is expected to show a +4%YoY growth (41%QoQ decline, in absence of dividend income). Along with the result we expect the bank to announce 1.75/share cash dividend bringing 1HCY16 total payout to PKR 3.50/share.

Recommendation

At current level of PKR 93/share we have a 'Buy' rating on ABL with dec-16 target price of PKR 125.6/share offering 35% upside. The bank currently has a strong ROA of ~1.9% and stands at strong capital base CAR of 20.9%. However, bank has been less active on fee income source (~8% of total revenue compared to ~16% on average for big 5 banks), which has increased overall reliance of earnings on interest income. The scrip is trading at CY16E P/B of 1.1x and offers one of the highest dividend yield of 7.5% (ex-NBP) in big 5 banks.

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Exhibit: Financial Highlights

PKRmn (Period end=Dec)	1HCY16E	1HCY15	YoY	2QCY16E	QoQ
Interest Income	17,598	17,385	1%	9,100	7%
Non-Interest Income	5,897	5,675	4%	2,108	-44%
Total Revenue	23,495	23,060	2%	11,208	-9%
Operating expenses	9,467	8,931	6%	4,831	4%
Pre-provisioning Operating Profits	14,029	14,128	-1%	6,378	-17%
Provisioning Charge	587	550	7%	311	13%
Pre-Tax Profits	13,442	13,579	-1%	6,067	-18%
Taxation	5,731	6,222	-8%	3,144	22%
Profit After Tax	7,711	7,357	5%	2,923	-39%
EPS	6.73	6.42		2.55	
DPS	3.50	3.50		1.75	
BVPS	82.6	75.2	10%	82.6	0%
Key Ratios					
Cost-to-income Ratio	40%	39%		43%	
Effective tax Rate	43%	46%		52%	
Non-interest Income / Total Income	25%	25%		19%	

Source: IGI Research, Company Financials

HBL: 1HCY16 earnings expect at PKR 10.2/share, down by 13%YoY

On consolidated basis, Habib Bank Limited (HBL) is expected to register 13%YoY decline in earnings to PKR 14.9bn (EPS PKR 10.2) for 1HCY16. Major drag comes from a) 26% decline in non-interest income in absences of higher capital gains and minimal interest income growth of 3%YoY, leading to a 6%YoY decline in total revenues. On a quarterly basis, earnings are expected to show a 34%QoQ decline taking in impact of 4% super tax (pre-tax income down by 7%QoQ). Along with the result we expect the bank to pay cash dividend of PKR 3.5/share taking 1HCY16 total payout to PKR 7.0/share.

Recommendation

We maintain a 'Buy' rating on HBL, with a Dec-16 target price of PKR 248.1/share offering a ~13% upside from its last closing of PKR 220/share. The scrip is currently trading at CY16 P/B of 1.6x and offering a dividend yield of 6%.

Exhibit: Financial Highlights

PKRmn (Period end=Dec)	1HCY16E	1HCY15	YoY	2QCY16E	QoQ
Interest Income	40,363	39,294	3%	20,179	0%
Non-Interest Income	13,418	18,127	-26%	6,886	5%
Total Revenue	53,781	57,421	-6%	27,065	1%
Operating expenses	26,123	24,609	6%	13,728	11%
Pre-provisioning Operating Profits	27,658	32,812	-16%	13,337	-7%
Provisioning Charge	958	1,627	-41%	490	5%
Pre-Tax Profits	26,700	31,184	-14%	12,847	-7%
Taxation	11,727	14,029	-16%	6,908	43%
Profit After Tax	14,974	17,156	-13%	5,939	-34%
EPS	10.21	11.70		4.05	
DPS	7.00	7.00		3.50	
BVPS	130.4	121.2	8%	130.4	0%
Key Ratios					
Cost-to-income Ratio	49%	43%		51%	
Effective tax Rate	44%	45%		54%	
Non-interest Income / Total Income	25%	32%		25%	

Source: IGI Research, Company Financials

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BAHL: 1HCY16 earnings expect at PKR 4.0/share, down by +33%YoY

For 1HCY16, we expect Bank Al-Habib Limited (BAHL) to post earnings growth of +33%YoY to PKR 4.48bn (EPS: 4.03) largely owing to reversals against the NPLs booked in 1QCY16 to the tune of PKR 1.17bn. Nevertheless, bank's total revenue are estimated to grow by 4%YoY led by healthy interest income growth of 7%YoY.

Recommendation

Standing tall, Bank Al-Habib Limited (BAHL) remains our top pick, with Dec-16 based target price of PKR 56/share offering +28% upside from its last closing of PKR 44.0/share. In addition the stock offers 9% dividend yield compared to IGI coverage banks average yield of 7.5%. In addition the bank trades at a relatively cheaper CY16E P/E multiple of 6.9x and P/B multiple of 1.2x.

Exhibit: Financial Highlights

PKRmn (Period end=Dec)	1HCY16E	1HCY15	YoY	2QCY16E	QoQ
Interest Income	12,780	11,988	7%	6,531	5%
Non-Interest Income	2,481	2,648	-6%	1,265	4%
Total Revenue	15,262	14,636	4%	7,796	4%
Operating expenses	8,785	7,479	17%	4,245	-7%
Pre-provisioning Operating Profits	6,476	7,157	-10%	3,551	21%
Provisioning Charge	(1,377)	1,131	na	(200)	na
Pre-Tax Profits	7,853	6,025	30%	3,751	-9%
Taxation	3,374	2,670	26%	1,806	15%
Profit After Tax	4,480	3,356	33%	1,945	-23%
EPS	4.03	3.02		1.75	
DPS	-	-		-	
BVPS	35.1	30.7	14%	35.1	0%
Key Ratios					
Cost-to-income Ratio	58%	51%		54%	
Effective tax Rate	43%	44%		48%	
Non-interest Income / Total Income	16%	18%		16%	

Source: IGI Research, Company Financials

NBP: 1HCY16 earnings expect at PKR 3.0/share, down by 15%YoY

For 1HCY16, we expect National Bank of Pakistan (NBP) to show 15%YoY decline to PKR 6.4bn (EPS: PKR 3.02) compared to last year same period PKR 7.5bn (EPS: PKR 3.54). This comes mainly on the back of lower capital gain income of PKR 2.7bn in 1HCY16E compared to PKR 7.8bn booked in 1HCY15, leading to a 33% decline in non-interest income of the bank. In addition lower provisioning charge is expected to provide some respite to bottom line, as we expect bank's coverage ratio to reduce from ~87% in CY15 to <83% in 1HCY16 (Mar-16; 83%). Finally bank's ongoing branch expansion and installation of new technology at branch level (introduction of biometric ATM, CBA etc.) is expected to keep overall operating cost high.

Recommendation

With our Dec-16 based target price of PKR 69.8/share the scrip offers limited upside of 4% from its last closing of PKR 67.4.0/share. However, the bank offers the highest dividend yield of 11.9%, and is trading at a comparatively cheaper CY16E P/B and P/E pricing multiples of 0.8x and 6.4x.

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Exhibit: Financial Highlights

PKRmn (Period end=Dec)	1HCY16E	1HCY15	YoY	2QCY16E	QoQ
Interest Income	24,172	24,076	0%	12,146	1%
Non-Interest Income	12,953	19,253	-33%	6,413	-2%
Total Revenue	37,124	43,329	-14%	18,560	0%
Operating expenses	23,073	21,425	8%	11,682	3%
Pre-provisioning Operating Profits	14,051	21,904	-36%	6,877	-4%
Provisioning Charge	2,153	6,770	-68%	1,150	15%
Pre-Tax Profits	11,898	15,134	-21%	5,727	-7%
Taxation	5,467	7,594	-28%	3,333	56%
Profit After Tax	6,431	7,540	-15%	2,394	-41%
EPS	3.02	3.54		1.13	
DPS	-	-		-	
BVPS	73.3	79.1	-7%	73.3	0%
Key Ratios					
Cost-to-income Ratio	62%	49%		63%	
Effective tax Rate	46%	50%		58%	
Non-interest Income / Total Income	35%	44%		35%	

Source: IGI Research, Company Financials

BAFL: 1HCY16 earnings expect at PKR 2.4/share, up by +5%YoY

For Bank Al-Falah Limited (BAFL) we expect earnings to register an increase of +5%YoY, with net interest remaining relatively unchanged and non-interest income down by 6%YoY. Biggest support for bottom line comes from lower provisioning charge as banks infection ratio is expected to improve from 6.2% in 1HCY15 to 5.5% in 1HCY16E (5.7% in Mar-16).

Recommendation

At current price of PKR 29.2/share BAFL is currently a 'HOLD' call based on De-16 target price of PKR 30.2/share, offering 4% upside. The scrip is trading at CY16E pricing multiples of 5.8x (P/E) and 0.8x (P/B), and offering 6.9% dividend yield.

Exhibit: Financial Highlights

PKRmn (Period end=Dec)	1HCY16E	1HCY15	YoY	2QCY16E	QoQ
Interest Income	13,947	13,914	0%	6,853	-3%
Non-Interest Income	4,462	4,728	-6%	2,101	-11%
Total Revenue	18,410	18,642	-1%	8,953	-5%
Operating expenses	11,112	10,855	2%	5,690	5%
Pre-provisioning Operating Profits	7,298	7,787	-6%	3,264	-19%
Provisioning Charge	555	1,210	-54%	315	31%
Pre-Tax Profits	6,742	6,577	3%	2,949	-22%
Taxation	2,863	2,872	0%	1,536	16%
Profit After Tax	3,879	3,705	5%	1,412	-43%
EPS	2.44	2.33		0.89	
DPS	-	-		-	
BVPS	35.5	30.2	18%	35.5	0%
Key Ratios					
Cost-to-income Ratio	60%	58%		64%	
Effective tax Rate	42%	44%		52%	
Non-interest Income / Total Income	24%	25%		23%	

Source: IGI Research, Company Financials

Analyst Certification

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Recommendation	Rating System
Buy	If return on aforementioned security(ies) is more than 10%, from its last closing price(s)
Hold	If return on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
Sell	If return on aforementioned security(ies) is more than -10%, from its last closing price(s)

Valuation Methodology

The analyst[^] has used following valuation methodology to arrive at the target price of the said security (ies):

- Justified Price to book

Time Horizon

- Dec-16

Risk

- Changes in State Bank of Pakistan Policy Rate

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