

Sarah Rehman, CFA

sarah.rehman@alfalahclsa.com
+92-21-35645090-95 (Ext: 338)

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Pakistan Banks

NII and profitability to grow QoQ

Provisioning expenses(ex-UBL) to more than double in 4QCY23

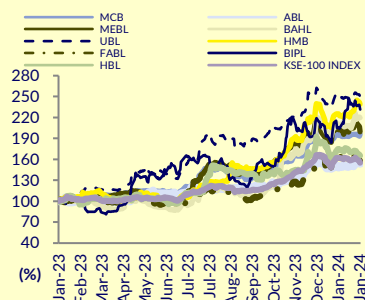
AFS banking universe is set to post earnings growth of 6.5/66.3% QoQ/YoY in 4QCY23. On a QoQ basis, NII is likely to grow by 11.3% due to impact of asset repricing. On the non-interest income side, foreign exchange gains are anticipated to be lower QoQ and gain on securities (Ex-UBL) is likely to be higher. Moreover, provisioning expenses (Ex-UBL) are estimated to more than double QoQ (PKR13.7bn in 4QCY23 vs PKR5.8bn in 3QCY23), as some banks recorded reversals in 3QCY23. We have an overweight stance on the sector as it trades on cheap valuations, CY24E PB/PE: 0.7/2.6x and DY: 18.0%.

Earnings to grow on a sequential basis

- ❑ We expect a QoQ increase in profitability in 4QCY23 due to higher NII (+11.3% QoQ) due to lagged impact of asset repricing and stable interest rates since past few months. Forex income shall be lower QoQ and administrative expenses shall remain on the higher side.
- ❑ In terms of NII, we expect ABL, FABL and UBL to post highest QoQ increase as asset repricing kicks-in further. Details of expected EPS and DPS are given in Figure1 on next page. On the other hand, MEBL and BIPL are estimated to experience flattish NII QoQ.
- ❑ We expect provisioning expenses to grow this quarter. Ex-UBL, which booked a provisioning reversal of ~PKR9bn in 3QCY23, provisioning expenses are estimated to more than double QoQ (PKR13.7bn in 4QCY23 vs PKR5.8bn in 3QCY23). Some banks in AFSCLSA Banking Universe recorded provisions in 3QCY23, whereas others posted a relatively smaller provisioning expense.
- ❑ CY23 PAT is poised to grow by ~95% YoY. NII shall be higher by ~66% YoY due to elevated interest rates and impressive deposit growth. On the other hand, forex income is estimated to be lower (PKR36.7bn vs PKR58.2bn in CY22) due to less currency volatility this year.

Overweight stance on the sector: We hold a positive stance on the banking sector based on a blend of growth and impressive dividend yields. As base case, we expect 500bps rate cut in CY24, with the first cut expected in Mar-2024, however, lagged asset repricing and deposit growth shall lead to ~14%YoY earnings growth in CY24. AFSCLSA banking universe trades at 2024E PE/PB of 2.6/0.7x, and offers CY24E dividend yield of 18.0%. We highlight BAHL, HMB and MEBL as our top picks; offering total return of 90.8/54.6/48.4% respectively (CY24 dividend yields of 23.6/23.5/10.5% respectively).

Banks vs. KSE100 performance



Source: PSX, Alfalah CLSA Research

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Figure 1

Bank's profitability								
EPS (PKR)	4QCY23	3QCY23	4QCY22	QoQ	YoY	CY23	CY22	YoY
MCB	16.5	16.6	11.6	-0.1%	42.6%	57.2	29.0	97.4%
HBL	12.4	11.3	7.3	9.8%	71.1%	41.6	23.2	79.3%
UBL	13.6	12.0	10.9	13.0%	24.3%	49.1	25.8	90.6%
ABL	11.3	10.0	7.5	13.5%	50.4%	36.7	18.6	97.5%
MEBL	14.3	14.4	9.1	-0.6%	58.3%	47.1	25.1	87.5%
FABL	4.0	3.3	2.4	22.3%	69.3%	12.4	7.5	64.4%
HMB	7.5	7.1	3.8	5.7%	96.0%	26.1	13.7	90.4%
BAHL	11.4	10.2	1.5	11.8%	663.2%	38.2	15.0	154.5%
BIPL	2.8	3.0	1.4	-9.7%	92.1%	10.4	4.0	159.5%
DPS (PKR)								
MCB	8.5	8.0	6.0	6.3%	41.7%	29.5	20.0	48%
HBL	3.0	2.3	1.5	33.3%	100.0%	8.8	6.8	30%
UBL	12.0	11.0	9.0	9.1%	33.3%	45.0	22.0	105%
ABL	3.5	3.0	2.5	16.7%	40.0%	11.5	8.5	35%
MEBL	5.0	5.0	3.0	0.4%	67.3%	17.0	8.5	100%
FABL	2.5	1.0	1.0	150.0%	150.0%	4.5	7.0	-36%
HMB	5.5	0.0	3.3	N/M	69.2%	10.5	5.3	100%
BAHL	7.0	4.5	7.0	55.6%	0.0%	16.0	7.0	129%
BIPL	1.8	1.8	1.0	0.0%	75.0%	3.5	1.0	N/M

Source: Company Account, Alfalah CLSA Research

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