

# Commercial Banks

## OUTPERFORM

### Earnings to Rise Q/Q with Favorable Accounting, Reduced OMO

31 July 2024

- **Earnings expected to increase modestly by 3% Q/Q.** The rise in earnings is supported by 6% Q/Q improvement in NII on 1) substantially reduced borrowing, excluding UBL, by around PKR 812 BN in 1QCY24 (down 27% Q/Q) and 2) healthy deposit growth (industry deposits increased 10% Q/Q in 2QCY24). This increase, however, is expected to be diluted by a 6% Q/Q decline in Non-Interest Income and a 55% rise in provisions expense on normalization, taking net profitability to PKR 103 BN (3% Q/Q).
- **UBL & MEBL to drive growth in NII.** We expect around a PKR 17 BN jump in NII Q/Q, of which about PKR 9 BN is due to the rise in deposits, whereas the rest is explained by 1) reduced OMO and 2) accounting treatments (UBL on discounted T-Bills, MEBL on Islamic assets/advances). Conversely, we expect BAHL and HMB to report a decline in NII Q/Q.
- **Non Interest Income likely to fall Q/Q.** We forecast a 6% Q/Q decline in Non-Interest Income largely due to lower capital gains realization by UBL in 2QCY24. UBL is expected to continue booking capital gains to stabilize earnings in 2QCY24 as well, followed by a natural rise in NII from declining interest rates and its strategic investment positions. Fee income is projected to grow by 3% Q/Q and 22% Y/Y.
- **Provision expected to normalize.** We expect credit charge to normalize to ~0.1% of advances after large provisioning reversals last quarter. Despite a potential decline, BAHL's provisions might stay elevated with stage 2 loans at 25% of gross loans compared to 15% average across our universe.
- **Outlook.** We maintain an outperform stance on our universe, forecasting 18% Y/Y earnings increase in CY24, offering a 14.3% DY, and trading at a P/B ratio of 1.0 on CY24 estimates.

	2QCY24E	CY24E	CY25E	CY26E	
<b>PKR</b>		<b>EPS</b>			<b>FV</b>
HBL	10.0	43.7	45.9	45.1	150
UBL	12.8	57.3	62.1	51.4	275
MCB	14.8	57.1	55.0	52.2	255
MEBL	16.7	63.0	51.5	42.8	270
BAHL	9.1	35.0	38.6	36.6	140
BAFL	6.4	25.8	24.8	21.5	80
HMB	5.2	23.0	25.5	25.0	90
<b>PKR</b>		<b>DPS</b>			<b>DY*</b>
HBL	4.0	16.0	16.0	16.0	12%
UBL	11.0	44.0	44.0	44.0	17%
MCB	9.0	36.0	36.0	36.0	16%
MEBL	8.0	31.0	32.0	32.0	13%
BAHL	3.5	14.5	16.0	16.0	13%
BAFL	2.0	9.0	10.0	10.0	14%
HMB	2.5	11.0	12.0	12.0	16%

Source: Optimus Research

\*DY on CY24E DPS

\*Our estimates incorporates ADR taxation in last quarter

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## Optimus Banking Universe Estimates

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PKR MN	Jun-24E	Mar-24	Dec-23	Sep-23	Jun-23	Q/Q	Y/Y	1HCY24E	1HCY23	Y/Y
NII	298,476	281,162	312,570	297,375	259,041	6%	15%	579,638	488,559	19%
Interest Income	993,271	963,401	913,200	822,343	700,649	3%	42%	1,956,672	1,285,811	52%
Interest Expense	694,795	682,239	600,630	524,968	441,609	2%	57%	1,377,034	797,252	73%
Non-Interest Income	71,261	76,063	66,982	45,121	49,123	-6%	45%	147,324	93,656	57%
Fees & Commission	41,266	39,991	37,956	35,564	33,814	3%	22%	81,257	64,212	27%
Dividend	3,949	3,634	3,123	1,623	3,450	9%	14%	7,583	6,387	19%
FX Income	14,288	15,260	15,432	10,466	11,273	-6%	27%	29,548	25,096	18%
Others	11,758	17,178	10,471	(2,532)	586	-32%	1906%	28,935	(2,039)	n.m
<b>Total Revenues</b>	<b>369,737</b>	<b>357,225</b>	<b>379,552</b>	<b>342,496</b>	<b>308,164</b>	<b>4%</b>	<b>20%</b>	<b>726,962</b>	<b>582,215</b>	<b>25%</b>
Operating expense	152,553	148,609	152,545	140,441	129,550	3%	18%	301,162	250,342	20%
Provisions	13,894	8,943	13,876	(429)	8,156	55%	70%	22,837	17,687	29%
<b>PBT</b>	<b>203,290</b>	<b>199,674</b>	<b>213,131</b>	<b>202,484</b>	<b>170,457</b>	<b>2%</b>	<b>19%</b>	<b>402,963</b>	<b>314,185</b>	<b>28%</b>
Taxation	99,612	99,725	122,205	98,830	91,602	0%	9%	199,337	152,016	31%
PAT	103,678	99,949	90,926	103,654	78,855	4%	31%	203,627	162,170	26%
<b>Attributable to Equity holders</b>	<b>103,290</b>	<b>100,088</b>	<b>90,927</b>	<b>103,628</b>	<b>78,740</b>	<b>3%</b>	<b>31%</b>	<b>203,378</b>	<b>161,947</b>	<b>26%</b>
Dividends	53,980	52,190	63,522	40,196	46,826			178,689	97,344	
Payout	52.3%	52.1%	69.9%	38.8%	59.5%			87.9%	60.1%	
NIM	5.7%	5.5%	6.8%	7.0%	6.3%			6.6%	5.0%	
Effective Tax	49%	50%	57%	49%	54%			49%	48%	

Source: Company accounts, Optimus Research

## Banks Specific Preview

PKR / share	Jun-24E	Mar-24	Dec-23	Sep-23	Jun-23	Q/Q	Y/Y	1HCY24E	1HCY23	Y/Y
<b>EPS</b>										
HBL	10.0	10.4	10.1	11.3	8.9	-4%	13%	20.4	17.9	14%
UBL	12.8	12.7	10.1	11.9	10.1	0%	26%	25.5	21.5	19%
MCB	14.8	15.0	14.2	16.6	12.4	-2%	20%	29.8	24.1	24%
MEBL	16.7	14.2	14.8	14.2	9.6	17%	74%	30.9	18.2	69%
BAHL	9.1	9.0	5.4	10.1	6.8	1%	34%	18.1	16.3	11%
BAFL	6.4	6.3	5.8	5.5	5.0	2%	28%	12.7	11.8	8%
HMB	5.2	5.6	5.0	7.1	5.8	-8%	-11%	10.8	11.2	-4%
<b>DPS</b>										
HBL	4.0	4.0	4.0	2.3	2.0	0%	100%	8.0	3.5	129%
UBL	11.0	11.0	11.0	11.0	11.0	0%	0%	22.0	22.0	0%
MCB	9.0	9.0	9.0	8.0	7.0	0%	29%	18.0	13.0	38%
MEBL	8.0	7.0	8.0	5.0	4.0	14%	100%	15.0	7.0	114%
BAHL	3.5	3.5	5.0	4.5	4.5	0%	-22%	7.0	4.5	56%
BAFL	2.0	2.0	5.0	-	3.0	0%	-33%	4.0	3.0	33%
HMB	2.5	2.5	5.5	-	5.0	0%	-50%	5.0	5.0	0%

Source: Company accounts, Optimus Research

## Key Financial Highlights

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	Jun-24E	Mar-24	Dec-23	Sep-23	Jun-23	Q/Q	Y/Y
<b>HBL</b>							
ADR	42.7%	42.9%	47.4%	47.3%	49.2%	-0.2%	-6.5%
IDR	60.3%	59.9%	61.9%	63.1%	57.8%	0.3%	2.4%
NIMs	5.3%	5.3%	5.8%	6.2%	5.7%	0.0%	-0.4%
ROEs	17.2%	18.0%	17.9%	20.8%	16.8%	-0.9%	0.4%
Payout	40.0%	38.6%	39.5%	19.8%	22.6%	1.4%	17.4%
<b>UBL</b>							
ADR	29.9%	28.1%	30.5%	31.9%	36.2%	1.8%	-6.2%
IDR	194.1%	187.5%	186.6%	115.0%	84.0%	6.6%	110.2%
NIMs	2.6%	2.3%	4.0%	5.4%	5.6%	0.3%	-3.0%
ROEs	25.8%	25.3%	20.8%	26.3%	22.9%	0.5%	2.9%
Payout	86.2%	86.4%	109.3%	92.6%	108.5%	-0.1%	-22.2%
<b>MCB</b>							
ADR	36.8%	37.0%	35.7%	38.0%	39.8%	-0.2%	-3.0%
IDR	68.0%	67.8%	68.3%	71.5%	65.9%	0.2%	2.1%
NIMs	7.9%	7.8%	8.6%	8.8%	8.4%	0.1%	-0.5%
ROEs	28.4%	29.3%	29.1%	36.4%	28.8%	-1.0%	-0.4%
Payout	60.8%	59.9%	63.2%	48.3%	56.5%	0.9%	4.3%

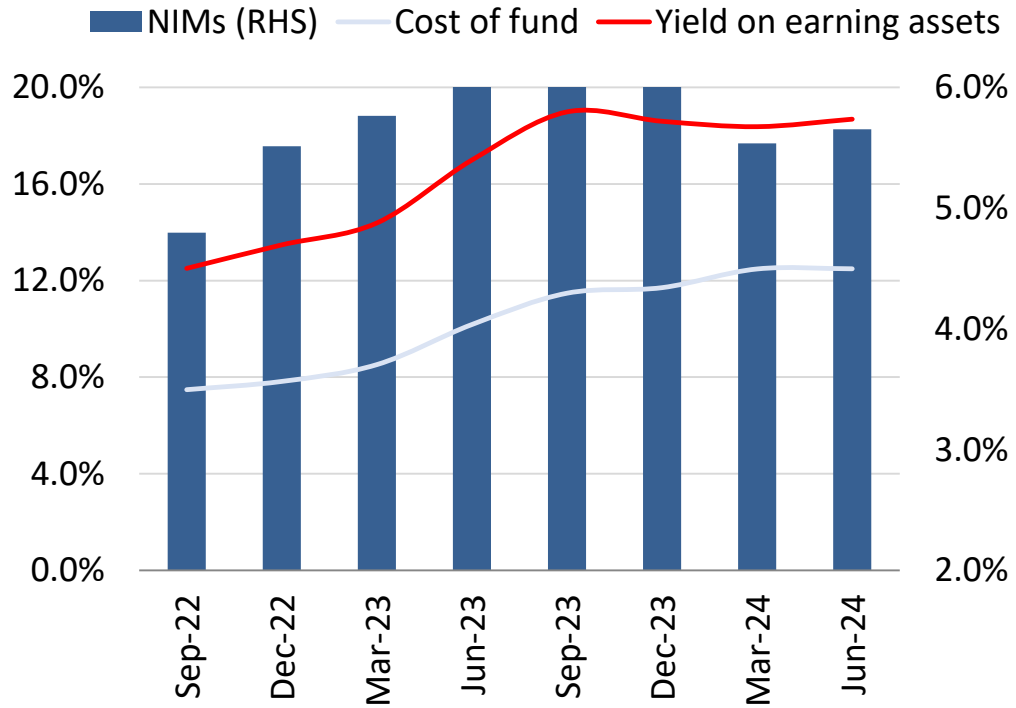
Source: Company accounts, Optimus Research

## Key Financial Highlights

	Jun-24E	Mar-24	Dec-23	Sep-23	Jun-23	Q/Q	Y/Y
<b>MEBL</b>							
ADR	44.3%	41.0%	44.7%	47.6%	54.4%	3.3%	-10.1%
IDR	65.9%	71.6%	70.9%	77.1%	70.8%	-5.8%	-4.9%
NIMs	11.7%	10.5%	11.4%	10.5%	8.4%	1.2%	3.3%
ROEs	59.0%	53.6%	62.4%	70.0%	53.0%	5.4%	6.0%
Payout	48.0%	49.3%	54.2%	35.2%	41.7%	-1.3%	6.3%
<b>BAHL</b>							
ADR	42.6%	40.8%	46.3%	46.8%	43.9%	1.9%	-1.2%
IDR	75.2%	76.6%	77.8%	64.6%	64.3%	-1.4%	10.9%
NIMs	5.8%	6.3%	7.3%	6.7%	5.1%	-0.5%	0.7%
ROEs	31.1%	31.6%	19.8%	39.5%	30.4%	-0.5%	0.6%
Payout	10.4%	11.2%	15.7%	16.1%	20.0%	-0.8%	-9.6%
<b>BAFL</b>							
ADR	35.5%	36.9%	37.3%	38.9%	44.9%	-1.4%	-9.4%
IDR	87.4%	88.7%	99.1%	82.7%	81.0%	-1.3%	6.4%
NIMs	5.0%	4.6%	5.8%	5.7%	5.8%	0.4%	-0.8%
ROEs	28.1%	28.5%	28.6%	29.6%	28.9%	-0.4%	-0.8%
Payout	15.7%	16.5%	44.2%	0.0%	25.4%	-0.8%	-9.7%
<b>HMB</b>							
ADR	42.7%	42.4%	43.3%	46.6%	48.2%	0.3%	-5.5%
IDR	81.7%	82.8%	91.4%	70.7%	71.6%	-1.1%	10.1%
NIMs	4.6%	5.0%	6.6%	7.0%	5.5%	-0.4%	-1.0%
ROEs	22.9%	25.3%	23.4%	35.8%	31.4%	-2.4%	-8.6%
Payout	23.1%	23.6%	45.7%	0.0%	44.5%	-0.5%	-21.3%

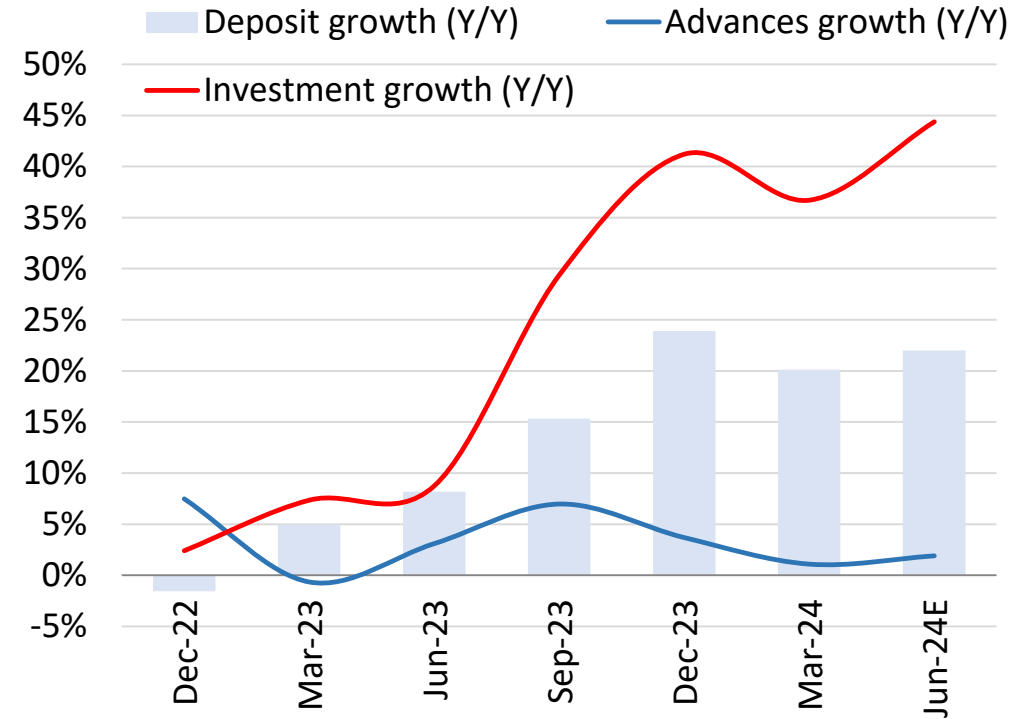
Source: Company accounts, Optimus Research

**Chart 1: Universe NIMs are expected to improve by 0.1 ppts on reduced OMO**



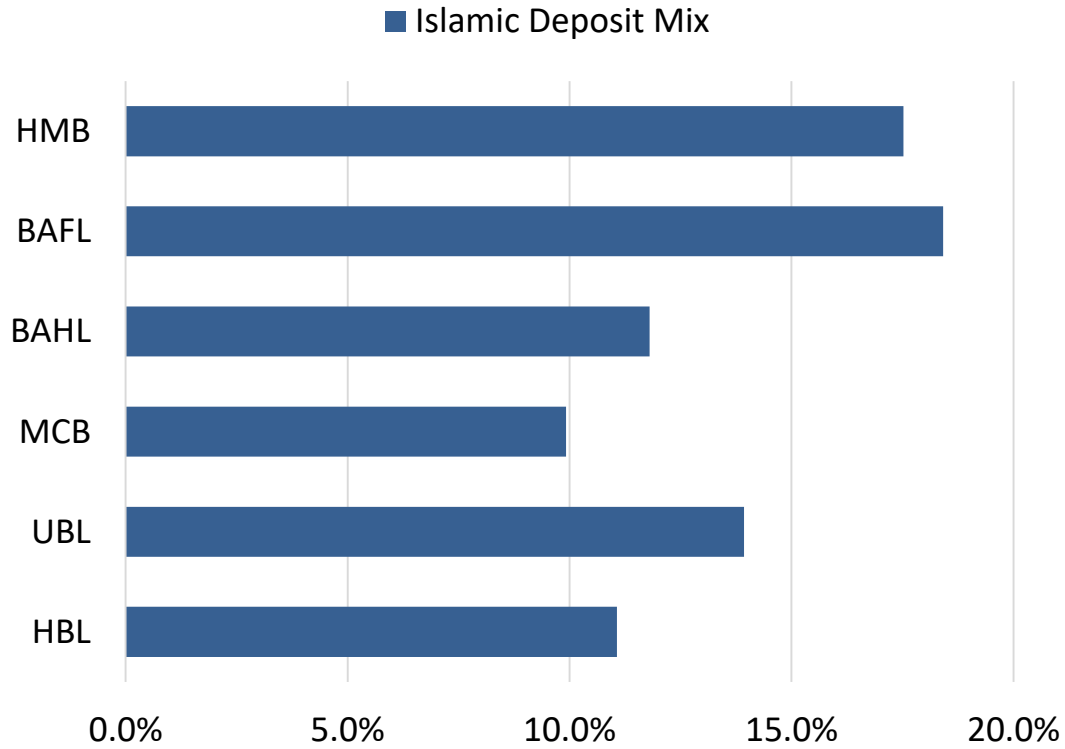
Source: SBP, Optimus Research

**Chart 2: Industry investments soared by 44.4% Y/Y in 2QCY24**



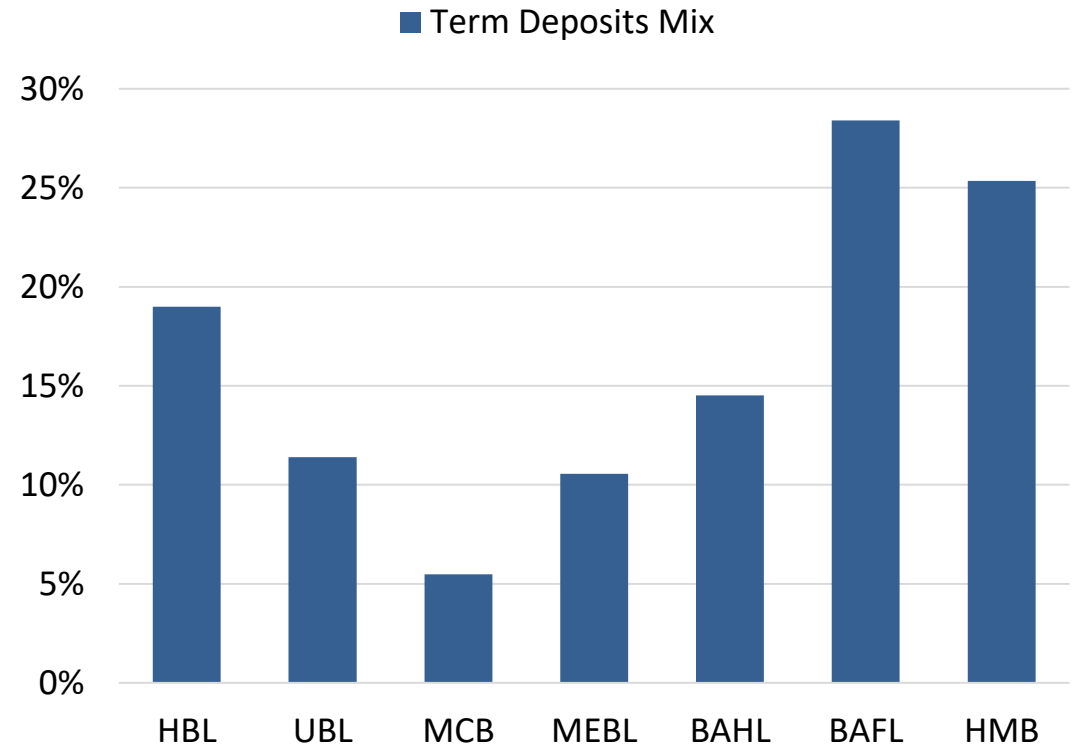
Source: SBP, Optimus Research

**Chart 3: BAFL continues to lead in Islamic banking deposit mix (1QCY24)**



Source: SBP, Optimus Research

**Chart 4: HMB/BAFL/HBL have the highest mix of term deposit (1QCY24)**



Source: SBP, Optimus Research

## Analyst Certification

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