

Commercial Banks

3QCY23: NIMs Expansion to Drive Earnings Growth

- For the 3qCy23, we expect sector earnings (IGI coverage banking universe) to post an earnings growth of 73%/y/y to PKR 81bn compared to PKR 46.9bn last year same quarter, and up +18%/y/y compared to PKR 68.6bn last year same period.
- We expect HBL/UBL/MCB/BAFL/FABL/ABL/BAHL to post EPS of PKR 10.4/11.8/14.4/6.8/3.6/9.9/6.3 during 3QCY23 where HBL/UBL/MCB/ABL are likely to announce quarterly DPS of PKR 2.0/11.0/8.0/2.5.
- Earnings growth is likely to be driven by healthy deposit growth, low cost deposits, higher non-markup income and asset repricing. However, higher operating costs are likely to keep earnings growth limited during 3QCY23.

Banking Sector: Earnings to improve by +73%/y/y during 3qCy23

For the 3qCy23, we expect sector earnings (IGI coverage banking universe) to post an earnings growth of 73%/y/y to PKR 81bn compared to PKR 46.9bn last year same quarter, and up +18%/y/y compared to PKR 68.6bn last year same period. Furthermore, the banking sector outperformed the Pakistan Stock Index KSE-100 benchmark by +14% during 3QCY23 due to favorable interest rate cycles.

Exhibit: IGI Banking Sector Earnings Preview 3QCY23								
PKR/share								
EPS	Sep'23	Jun'23	q/q	Sep'22	y/y	9M'23	9M'22	y/y
HBL	10.38	8.86	17%	7.85	32%	28.24	16.11	75%
UBL	11.75	10.14	16%	5.63	2.1x	33.25	15.32	117%
MCB	14.39	11.50	25%	7.36	95%	36.91	16.75	120%
BAFL	6.76	4.99	35%	3.42	98%	18.56	8.94	108%
FABL	3.57	2.84	25%	2.16	65%	8.52	5.05	69%
ABL	9.90	8.61	15%	5.01	97%	25.13	11.03	128%
BAHL	6.25	6.79	-8%	4.80	30%	22.52	13.46	67%
Sector (PKRbn)	81.01	68.64	18%	46.89	73%	149.65	67.59	121%
DPS								
HBL	2.00	2.00		1.50		5.50	5.25	
UBL	11.00	11.00		4.00		33.00	13.00	
MCB	8.00	7.00		5.00		21.00	14.00	
BAFL	-	3.00		-		3.00	2.50	
FABL	-	1.00		5.50		1.00	6.00	
ABL	2.50	2.50		2.00		7.50	6.00	
BAHL	-	4.50		-		4.50	-	

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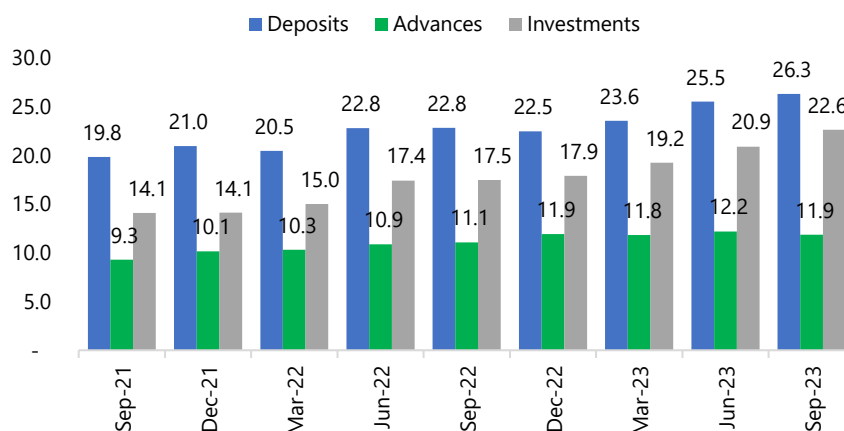
Source: IGI Research

We expect HBL/UBL/MCB/BAFL/FABL/ABL/BAHL to post EPS of PKR 10.4/11.8/14.4/6.8/3.6/9.9/6.3 during 3QCY23 where HBL/UBL/MCB/ABL are likely to announce quarterly DPS of PKR 2.0/11.0/8.0/2.5. The following factors to drive sector earnings in upcoming quarterly results:

- Deposits/Advances:** Total sector deposits grew by 15%/y/y (3%q/q) to PKR 26.3tn. However, total advances increase by 7%/y/y (down by 3%q/q) to stand at PKR 11.9tn. Total investments stood at PKR 22.6tn depicting a growth of 9%/y/y (4%q/q). Sector ADR dropped to 45% as at Sep-23 compared to 50% as at Jun-23 whereas IDR increased to 86% as at Sep-23 against 82% in Jun-23. Drop in ADR is mainly attributable to government repealing the ADR-related taxation policy, banks cautious approach to lending and lower borrowing from private sector.
- Asset repricing and favorable deposit mix:** We expect banking sector NIMs to expand owing to low cost deposits, healthy deposit growth and asset repricing. These are likely to lift NIMs during 3QCY23.
- Higher non-markup income:** Growth in fee income to lift non-markup income, which is likely to support earnings growth during 3QCY23.
- OPEX to remain elevated owing to record inflation:** Operating expenses are likely to remain high due to inflationary pressure, which is likely to keep earnings growth restricted.

Exhibit: Sector Deposits, Advances, and Investments

ADR has dropped down close to 45% from 53% and IDR increased to 86% from 80% since Jan-23.



Source: SBP, IGI Research

Exhibit: Quarterly EPS Trend Since Sept-2020

All of the banks to post growth in eps

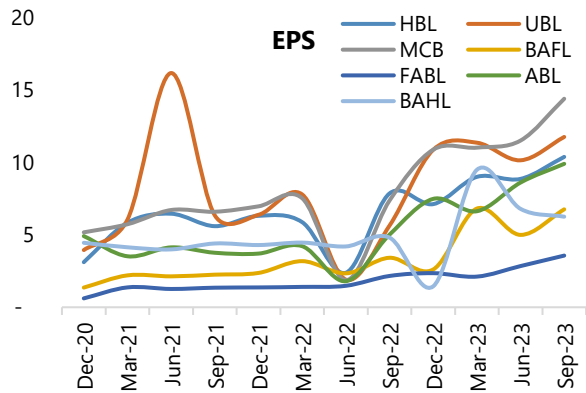


Exhibit: Quarterly DPS Trend Since Sept-2020

Payouts to remain robust amid higher profits and maintaining adequate capital buffer

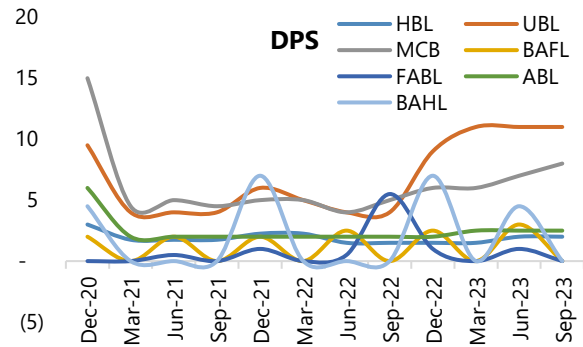


Exhibit: IGI Banking Universe Profit After Tax (PAT)

PAT to improve owing to asset repricing

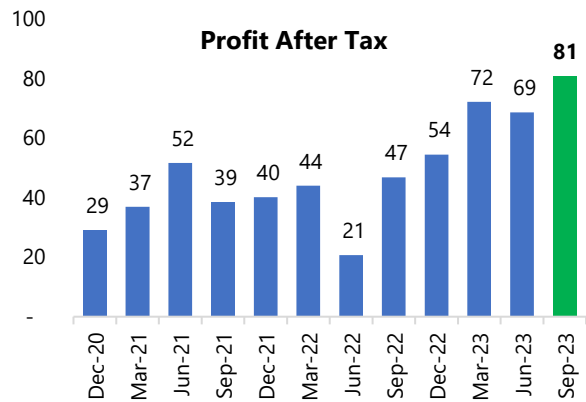
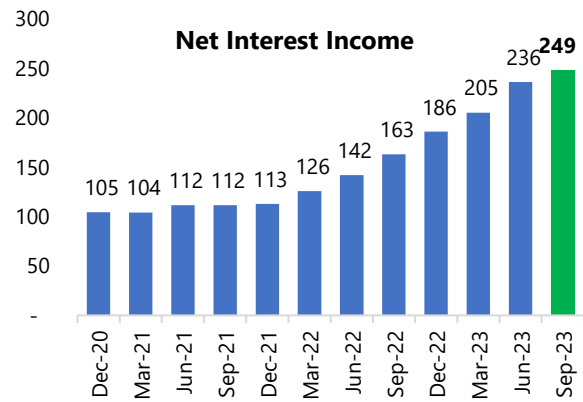


Exhibit: IGI Banking Universe Net Interest Income (NII)

NII likely to be higher due to higher deposits, low cost deposit and asset repricing



Source: Company Financial Report, IGI Research

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