

Commercial Banks

1QCY24: Banking Sector to Post a dip of 12%/y/y in Earnings Driven by Lower Yields

- For the 1QCY24, we expect sector earnings (IGI coverage banking universe) to take a dip of -12%/y/y to PKR 63bn compared to PKR 72bn last year same quarter, and down -19%q/q compared to PKR 78bn last quarter.
- We expect HBL/UBL/MCB/BAFL/FABL/ABL/BAHL to post EPS of PKR 7.3/8.0/11.3/4.5/3.5/7.8/7.2 during 1QCY24 and DPS of PKR 4.00/11.0/9.0/0.0/2.0/4.0/5.0.
- Decrease in profitability during 1QCY24 can be mainly attributed to lower net interest income due to declining asset yields. Moreover, Operating expenses are also to remain high due to inflationary pressure.

Banking Sector: Earnings to decline by 12%/y/y during 1QCY24

For the 1QCY24, we expect sector earnings (IGI coverage banking universe) to take a dip of -12%/y/y to PKR 63bn compared to PKR 72bn last year same quarter, and down -19%q/q compared to PKR 78bn last quarter. Decrease in profitability during 1QCY24 can be mainly attributed to lower net interest income due to declining asset yields.

Exhibit: IGI Banking Sector Earnings Preview for 1QCY23

PKR/share				
EPS	Mar-24	Dec-23	q/q	y/y
HBL	7.27	10.12	-28%	-19%
UBL	8.00	10.06	-20%	-30%
MCB	11.34	13.07	-13%	3%
BAFL	4.55	5.84	-22%	-33%
FABL	3.46	5.27	-34%	63%
ABL	7.80	10.50	-26%	18%
BAHL	7.18	5.43	32%	-24%
Total (PKRbn)	63.24	77.91	-19%	-12%
DPS				
HBL	4.00	4.00		
UBL	11.00	11.00		
MCB	9.00	9.00		
BAFL	-	5.00		
FABL	2.00	2.00		
ABL	4.00	4.00		
BAHL	5.00	5.00		

Analyst

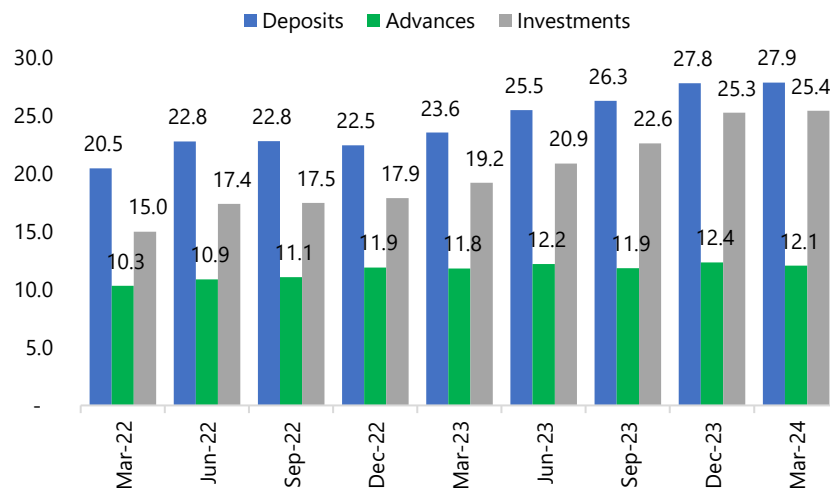
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We expect HBL/UBL/MCB/BAFL/FABL/ABL/BAHL to post EPS of PKR 7.3/8.0/11.3/4.5/3.5/7.8/7.2 during 1QCY24 and DPS of PKR 4.00/11.0/9.0/0.0/2.0/4.0/5.0. The following factors to affect sector earnings in upcoming quarterly results:

- **Deposits/Advances:** Total sector deposits are expected to grow by ~18%/y/y to PKR 27.9tn while remaining flat on quarterly basis. However, total advances to increase by ~2%/y/y (down by -2%/q/q) to stand at PKR 12.1tn. Total investments to stand at PKR 25.4tn depicting a growth of 32%/y/y (1%/q/q). Sector ADR dropped to 43% as at Mar-24 compared to 44% as at Dec-23 whereas IDR to remain flat at 91% as at Mar-24.
- **Declining asset yields to lower earnings:** We expect banking sector NIMs to shrink owing to declining asset yields in the secondary market whereas cost of deposits remained high.
- **Non-markup income:** Fee Income is likely to report higher growth whereas normalized gain on sale of securities and stable FX income might lead to a decline in non-markup income as well.
- **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 43% from 50% and IDR increased to 91% from 82% since Mar-23.



Source: SBP, IGI Research

Exhibit: Quarterly EPS Trend Since Jun-2021

All Banks except BAML to post decline in EPS on a quarterly basis

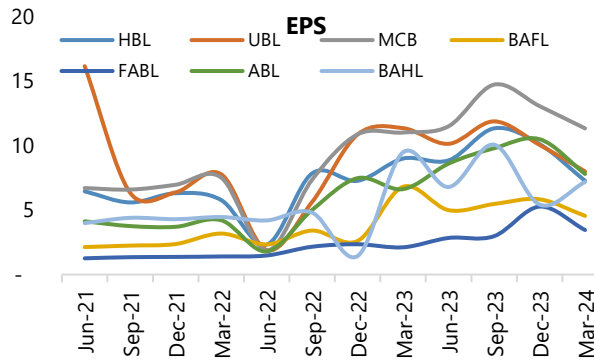


Exhibit: Quarterly DPS Trend Since Jun-2021

Payouts to remain stable amid decline in profitability

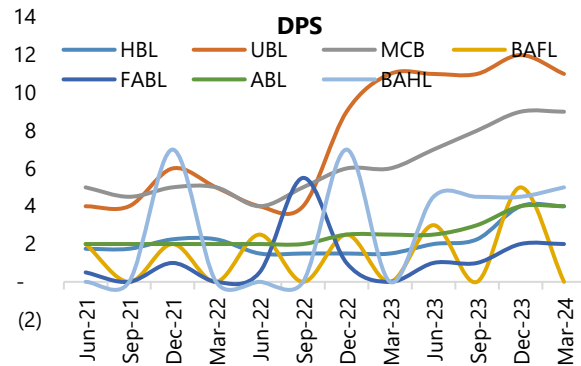


Exhibit: IGI Banking Universe Profit After Tax (PAT)

PAT to take a dip due to lower NIMs

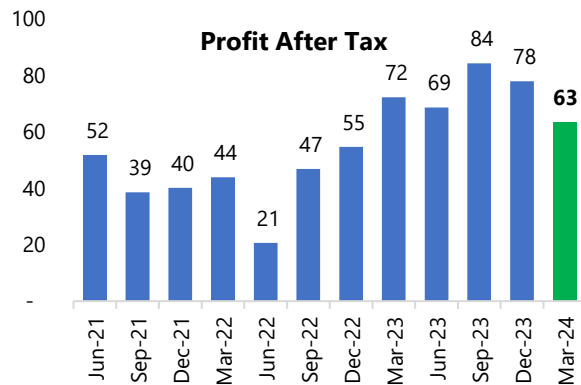
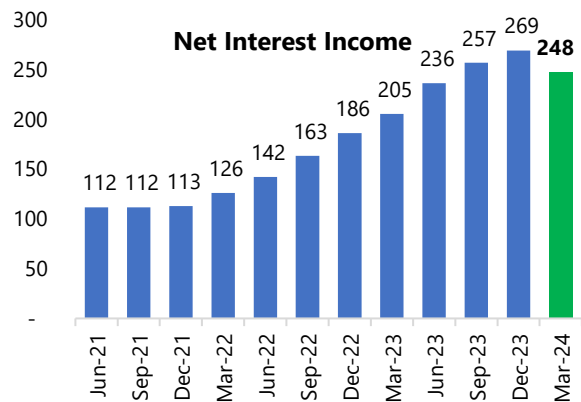


Exhibit: IGI Banking Universe Net Interest Income (NII)

NII likely to be lower due to declining yields



Source: Company Financial Report, IGI Research

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