

## Commercial Banks

### 4QCY23: Banking Sector to Post 64%/y Earnings Growth Driven by Higher NIMs

- For the 4QCY23, we expect sector earnings (IGI coverage banking universe) to post an earnings growth of 64%/y to PKR 90bn compared to PKR 54.7bn last year same quarter, and up +7%/q compared to PKR 84.2bn last quarter.
- We expect HBL/UBL/MCB/BAFL/FABL/ABL/BAHL to post EPS of PKR 11.6/12.0/16.2/6.5/3.5/10.3/10.3 during 4QCY23 and DPS of PKR 2.5/12.0/8.0/3.0/2.0/3.0/4.5.
- Earnings growth is likely to be driven by deposit growth, higher non-markup income and lagged asset repricing. However, higher operating costs are likely to keep earnings growth limited during 4QCY23.

#### Banking Sector: Earnings to improve by +64%/y during 4QCY23

For the 4QCY23, we expect sector earnings (IGI coverage banking universe) to post an earnings growth of 64%/y to PKR 90bn compared to PKR 54.7bn last year same quarter, and up +7%/q compared to PKR 84.2bn last quarter. As a result, total profitability for CY23 is likely to increase by +71%/y to PKR 174bn. Growth in profitability during 4QCY23 is likely to be driven by asset growth, higher non-markup income and lagged asset re-pricing.

Exhibit: IGI Banking Sector Earnings Preview						
PKR/share						
EPS	4q'23e	3q'23	q/q	y/y	CY23e	y/y
HBL	11.61	11.34	2%	60%	40.81	76%
UBL	11.95	11.88	1%	10%	45.33	73%
MCB	16.21	14.73	10%	49%	53.47	94%
BAFL	6.50	5.47	19%	149%	23.78	106%
FABL	3.53	2.98	19%	50%	11.47	55%
ABL	10.33	9.80	5%	38%	35.36	91%
BAHL	10.27	10.07	2%	612%	36.62	146%
Banks (PKRbn)	89.73	84.21	7%	64%	173.94	71%
DPS						
HBL	2.50	2.25			8.25	
UBL	12.00	11.00			45.00	
MCB	8.00	8.00			29.00	
BAFL	3.00	-			6.00	
FABL	2.00	1.00			4.00	
ABL	3.00	3.00			11.00	
BAHL	4.50	4.50			13.50	

#### Analyst

Abdullah Farhan  
[Abdullah.farhan@igi.com.pk](mailto:Abdullah.farhan@igi.com.pk)

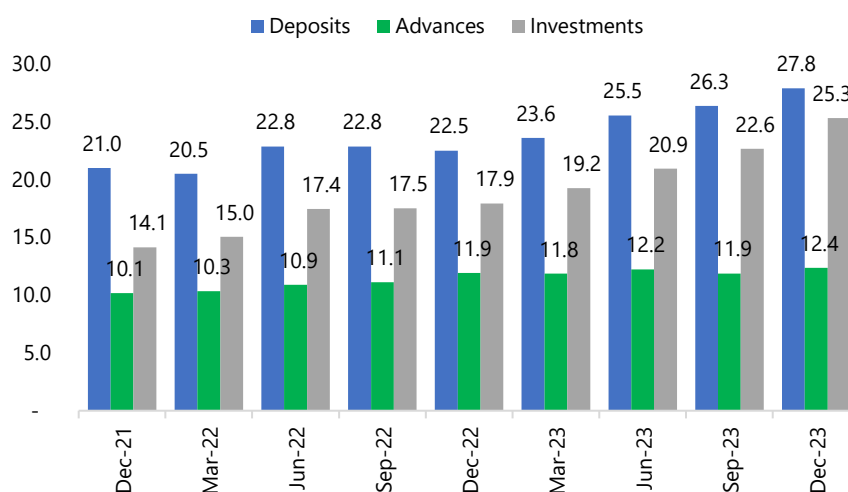
Source: IGI Research

We expect HBL/UBL/MCB/BAFL/FABL/ABL/BAHL to post EPS of PKR 11.6/12.0/16.2/6.5/3.5/10.3/10.3 during 4QCY23 and DPS of PKR 2.5/12.0/8.0/3.0/2.0/3.0/4.5. The following factors to drive sector earnings in upcoming quarterly results:

- **Deposits/Advances:** Total sector deposits grew by 24%/y/y (6%q/q) to PKR 27.8tn. However, total advances increase by 4%/y/y (up by 4%q/q) to stand at PKR 12.4tn. Total investments stood at PKR 25.3tn depicting a growth of 41%/y/y (12%q/q). Sector ADR dropped to 44% as at Dec-23 compared to 45% as at Sep-23 whereas IDR increased to 91% as at Dec-23 against 86% in Dec-23.
- **Deposit growth and improved IDR to support earnings:** We expect banking sector NIMs to expand owing to low cost deposits, healthy deposit growth and lagged asset repricing. These are likely to support NIMs during 4QCY23.
- **Non-markup income:** Growth in fee income to lift non-markup income, which is likely to support earnings growth during 4QCY23.
- **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

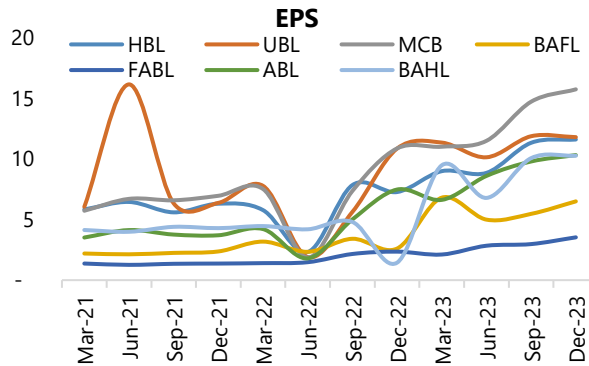
ADR has dropped down close to 44% from 53% and IDR increased to 91% from 80% since Dec-22.



Source: SBP, IGI Research

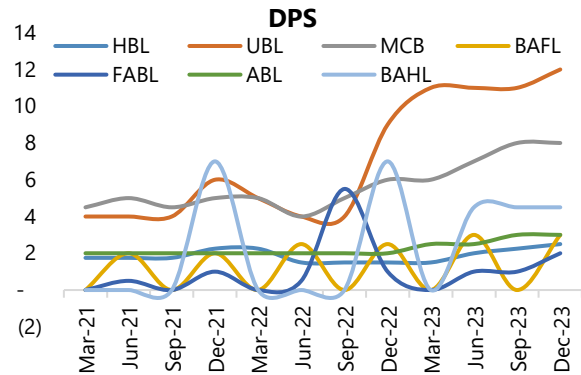
**Exhibit: Quarterly EPS Trend Since Mar-2021**

All of the banks to post growth in eps



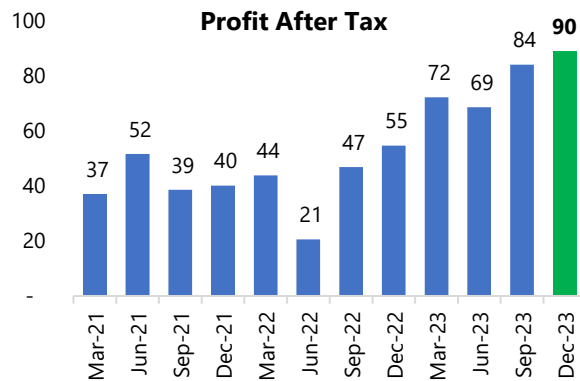
**Exhibit: Quarterly DPS Trend Since Mar-2021**

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



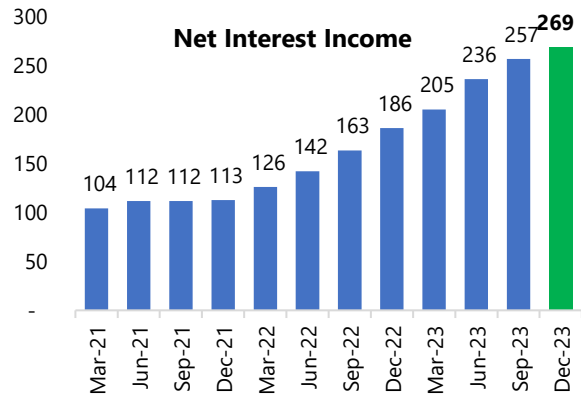
**Exhibit: IGI Banking Universe Profit After Tax (PAT)**

PAT to improve owing to higher NIMs



**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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IGI Finex Securities Limited

Research Analyst(s)

Research Identity Number: BRP009

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# Contact Details

## Equity Sales

Zaeem Haider Khan	Head of Equities	Tel: (+92-42) 35301405	zaeem.haider@igi.com.pk
Muhammad Naveed	Regional Manager (Islamabad & Upper North)	Tel: (+92-51) 2604861-62	muhammad.naveed@igi.com.pk
Syeda Mahrukh Hameed	Branch Manager (Lahore)	Tel: (+92-42) 38303564	mahrukh.hameed@igi.com.pk
Shakeel Ahmad	Branch Manager (Faisalabad)	Tel: (+92-41) 2540843-45	shakeel.ahmad1@igi.com.pk
Asif Saleem	Equity Sales (RY Khan)	Tel: (+92-68) 5871652-56	asif.saleem@igi.com.pk
Mehtab Ali	Equity Sales (Multan)	Tel: (+92-61) 4512003	mahtab.ali@igi.com.pk

## Research Team

Abdullah Farhan	Head of Research	Tel: (+92-21) 111-234-234 Ext: 912	abdullah.farhan@igi.com.pk
Sakina Makati	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 810	sakina.makati@igi.com.pk
Laraib Nisar	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 974	laraib.nisar@igi.com.pk

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Website: [www.igisecurities.com.pk](http://www.igisecurities.com.pk)

### Head Office

Suite No 701-713, 7th Floor, The Forum, G-20,  
 Khayaban-e-Jami Block-09, Clifton, Karachi-75600  
 UAN: (+92-21) 111-444-001 | (+92-21) 111-234-234  
 Fax: (+92-21) 35309169, 35301780

### Lahore Office

Shop # G-009, Ground Floor,  
 Packages Mall  
 Tel: (+92-42) 38303560-69  
 Fax: (+92-42) 38303559

### Islamabad Office

Mezzanine Floor, Office 5, 6 & 7, Kashmir Plaza,  
 Block- B, Jinnah Avenue, Blue Area  
 Tel: (+92-51) 2604861-2, 2604864, 2273439  
 Fax: (+92-51) 2273861

### Faisalabad Office

Office No. 2, 5 & 8, Ground Floor, The  
 Regency International 949, The Mall  
 Faisalabad  
 Tel: (+92-41) 2540843-45

### Rahim Yar Khan Office

Plot # 12, Basement of Khalid Market,  
 Model Town, Town Hall Road  
 Tel: (+92-68) 5871652-3  
 Fax: (+92-68) 5871651

### Multan Office

Mezzanine Floor, Abdali Tower,  
 Abdali Road  
 Tel: (92-61) 4512003, 4571183

IGI Finex Securities Limited

Research Analyst(s)

Research Identity Number: BRP009

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