

Commercial Banks

Results preview: CY23e to mark unprecedented profit peaks

30-Jan-2024

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Best Securities House: 2023
Best Investment Bank: 2023



Best Investment Bank: 2022



Best Equity House: 2022



Best Equity Advisor: 2021



Best Brokerage House: 2023
Corporate Finance House: 2023
Best Economic Research House: 2023
Best Equity Sales Person (Runner up): 2023



Top 25 Companies
(2019, 2018 & 2017)



Excellence Award
Leading Brokerage House for RDA 2021



Best Money Market Broker
(Islamic) 2021

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- As CY23 concludes, the banking sector has wrapped up the year on a positive note, benefitting from following key factors: Firstly, the impact of asset repricing has led to improved NIMs for banks. Secondly, a strategic focus on building-up low-cost deposit portfolios served as a prudent precautionary measure, mitigating the impact of a 600bps hike during the year. Lastly, increased non-interest income, fueled by growth in fee earnings and PKR volatility, has further bolstered the sector's performance.
- Our projections indicate a substantial YoY profitability growth of +74% for the banks within our coverage in CY23, with an anticipated 4Q surge of 46% YoY.
- The AHL's banking universe outperformed the KSE100 by 4% in total returns, posting a return of 39% during the outgoing quarter (4Q). The AHL banking universe's performance stands out even more, exceeding the sector by an impressive 34% and yielding a remarkable return of 88%.
- Additionally, we project that banks will maintain capital reserves well above the minimum requirement levels, with the likelihood of some, like AKBL, resuming dividend payouts. Meanwhile, others such as FABL might consider increasing their quarterly dividend payout, driven by their optimistic earnings outlook and bolstered capital adequacy buffer.
- Moreover, the banking sector concluded CY23 with a record-high deposit figure of PKR 27.8trn, reflecting a significant 24% YoY growth. Furthermore, by the end of Dec'23, the banking industry witnessed a 4% QoQ increase in advances. In contrast, deposits showed a more substantial growth of 6% QoQ, resulting in the overall ADR for the banking sector reaching 44.4%. In addition, the IDR surged to 90.8% as of Dec'23, indicating a substantial portion of banking deposits allocated towards government securities.

Exhibit: Financial Highlights

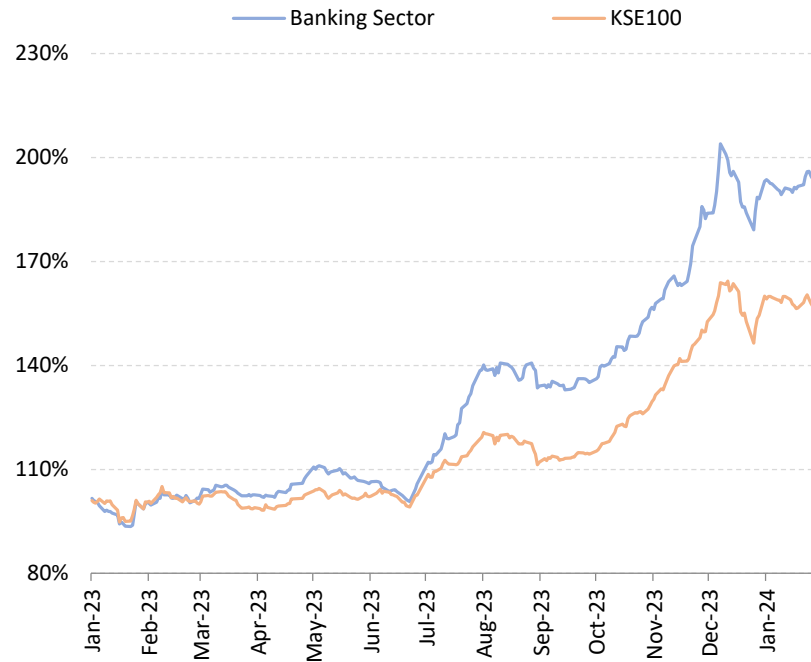
(PKR mn)	4QCY23e	4QCY22a	YoY	CY23e	CY22a	YoY	QoQ
Earnings per Share							
MCB	16.73	11.60	44%	57.44	29.00	98%	1%
UBL	12.28	10.67	15%	46.33	25.76	80%	2%
BAFL	5.89	2.61	125%	23.30	11.66	100%	5%
HBL	11.59	7.27	59%	40.79	23.23	76%	2%
ABL	10.22	7.51	36%	35.57	18.56	92%	3%
NBP	6.13	5.47	12%	24.61	14.49	70%	6%
AKBL	4.07	2.29	78%	14.14	9.71	46%	3%
BOP	1.03	0.96	7%	2.81	3.25	-14%	37%
MEBL	15.96	9.11	75%	48.66	25.09	94%	11%
FABL	3.44	2.38	44%	11.55	7.54	53%	12%
Dividend per Share							
MCB	8.00	6.00		29.00	20.00		
UBL	11.00	9.00		44.00	22.00		
BAFL	3.00	2.50		6.00	5.00		
HBL	2.25	1.50		8.00	6.75		
ABL	3.00	2.50		11.00	8.50		
NBP	-	-		-	-		
AKBL	2.00	-		2.00	-		
BOP	-	-		-	-		
MEBL	5.00	3.00		17.00	8.50		
FABL	1.50	1.00		3.50	7.00		

Source: Company Financials and AHL Research, @ current shares

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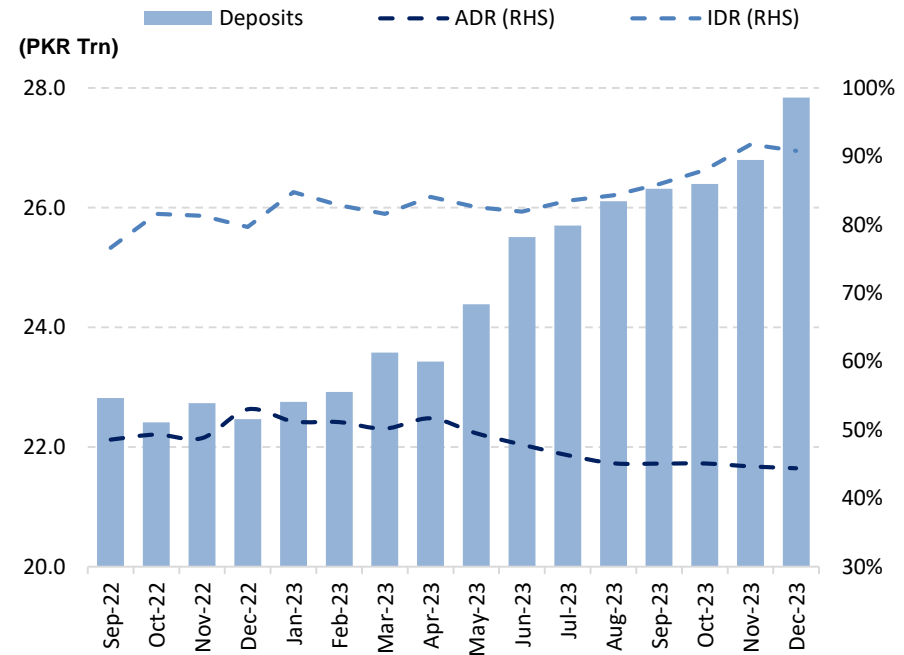
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Exhibit: Banking Sector vs KSE100 Relative



Source (s): PSX, AHL Research

Exhibit: Banking Sector's ADR vs IDR



Source (s): SBP, AHL Research

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Arif Habib Limited (AHL) uses three rating categories, depending upon return form current market price, with Target period as Dec 2024 for Target Price. In addition, return excludes all type of taxes. For more details, kindly refer the following table;

Rating	Description
BUY	Upside* of subject security(ies) is more than +15% from last closing of market price(s)
HOLD	Upside* of subject security(ies) is between -15% and +15% from last closing of market price(s)
SELL	Upside* of subject security(ies) is less than -15% from last closing of market price(s)

Equity Valuation Methodology

AHL Research uses the following valuation technique(s) to arrive at the period end target prices;

- Discounted Cash Flow (DCF)
- Dividend Discount Model (DDM)
- Sum of the Parts (SoTP)
- Justified Price to Book (JPTB)
- Reserved Base Valuation (RBV)

Risks: The following risks may potentially impact our valuations of subject security (ies);

- Market risk
- Interest Rate Risk
- Exchange Rate (Currency) Risk

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Arif Habib Limited (AHL) has a shareholding in HBL, NBP and BOP.