

# Commercial Banks

## Changing dynamics redefine the sector outlook

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# Commercial Banks

## Changing dynamics redefine the sector outlook

Conventional banks are gearing up for a profit boost as the State Bank of Pakistan's (SBP) revamped profit calculation framework for savings accounts takes effect on January 1, 2025, offering a cushion against the expected suppression of interest rates in CY25. With BOP, AKBL and NBP leading the pack, sector earnings are projected to rise by 0.5% (-7.1% excluding NBP), marking a slight recovery from the previously anticipated 6.4% decline. Banks with a strong dependence on institutional deposits are set to gain the most, while Islamic banks like MEBL and FABL are likely to experience narrower margins.

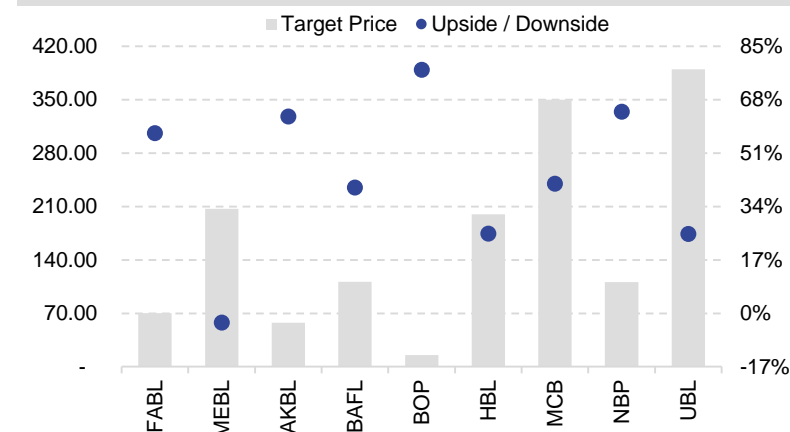
### Relief for conventional banks: MDR gets a reprieve

Conventional banks are set to breathe easier as the SBP eliminates the Minimum Deposit Rate on savings deposits from financial institutions, public sector enterprises, and public limited companies. This move is more than just a technical adjustment—it has the potential to substantially boost profitability. As of Sep'24, the total local currency (LCY) savings deposits of banks under our coverage stood at PKR 10.6trn, making up 42.9% of the total deposits of PKR 24.8trn. On average, we expect the profitability of our covered banks to rise by PKR 4.93 per share in CY25f, with significant increases from our previous estimates, including a massive 61% jump for BOP and a 46% rise for AKBL.

### Islamic Banks face new constraints: MDR imposed

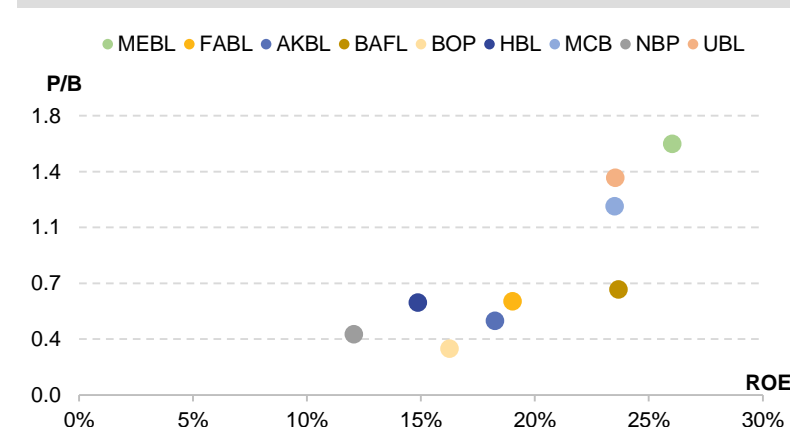
In contrast, the SBP has introduced a new MDR for Islamic Banking Institutions. Effective Jan'25, IBIs must offer at least 75% of the weighted average gross yield on their investment pools for PKR savings deposits—excluding those from financial institutions, public sector enterprises, and public limited companies. The calculation is rigorous, as it factors monthly gross earnings over average assets, omitting fixed assets and pools tied to Shariah-compliant standing ceiling facilities and OMOs. With this, MEBL and FABL are likely to experience some pressure, with potential earnings reductions of PKR 9 and PKR 1 per share, respectively, due to the revised minimum profit calculation.

**Exhibit: Target prices and the potential upside/(downside)**



Source (s): Company Financials, AHL Research

**Exhibit: PB and ROE of AHL universe (CY25f)**



Source (s): Company Financials, AHL Research

# Commercial Banks

## Recalibrating - Earnings and valuation

In light of these regulatory changes, we have recalibrated our models to reflect adjustments to the minimum deposit rate regime across our banking universe. Additionally, we have assumed that banks will comply with ADR-related thresholds, maintaining effective taxes at 49%. As a result of these updates, our universe's revised earnings and target prices are presented in the table below.

AHL banking universe is currently trading at a CY25f P/B of 0.8x and a P/E of 4.0x. Despite margin compression, we expect the ROE for our universe to remain above 19.7% in CY25f. Additionally, dividend yields are projected to be strong, averaging 12%. The banks maintain a solid capital base, benefiting from the partial MDR removal, which helps sustain margins. Coupled with higher expected fee income and improved asset quality metrics, these factors are likely to offset the impact of potential interest rate declines.

**Exhibit:** AHL banking universe earnings and valuation snapshot

Symbol	Stance	Target Price		CY25f (Previous)				CY25f (Revised)			
		CY25f (Previous)	CY25f (Revised)	EPS (PKR)	P/E (x)	P/B (x)	D/Y (%)	EPS (PKR)	P/E (x)	P/B (x)	D/Y (%)
UBL	Buy	313.3	389.9	49.3	7.3	1.5	12.2	58.2	6.2	1.4	12.2
HBL	Buy	133.5	199.7	35.6	4.9	0.6	8.0	42.8	4.1	0.6	10.3
NBP	Buy	89.3	111.0	18.6	4.1	0.4	11.9	23.2	3.3	0.4	15.8
MEBL	Hold	205.2	223.1	34.3	7.1	1.8	9.8	36.6	6.7	1.6	8.3
MCB	Buy	337.6	350.0	49.7	5.8	1.2	12.5	53.3	5.4	1.2	13.2
FABL	Buy	63.1	70.4	14.2	3.5	0.6	8.1	14.5	3.4	0.6	9.1
BAFL	Buy	82.9	111.4	24.5	3.5	0.7	9.2	28.5	3.1	0.7	10.3
AKBL	Buy	35.6	57.4	10.3	3.8	0.5	10.2	14.5	2.7	0.5	15.3
BOP	Buy	7.2	15.1	2.7	3.7	0.3	9.9	4.8	2.1	0.3	9.9

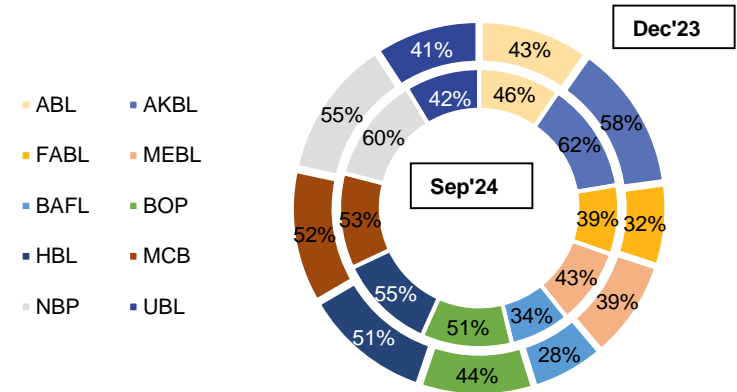
Source: Company Financials, PSX, AHL Research

# Commercial Banks

## Reliance on savings deposits

- The removal of the MDR is anticipated to reduce the cost of deposits for banks, offering a prominent boost to profitability, especially for those less reliant on individual deposits.
- Assuming a 1% reduction in deposit costs as the base case, banks with a lower share of individual deposits are expected to benefit more significantly. BOP and AKBL, which rely less on individual deposits (12.4% and 34.7%, respectively), will see relatively higher increases in EPS, resulting in our revised estimates of PKR 4.8 and PKR 14.5.
- Conversely, banks like MCB and UBL, with 61.5% and 63.8% of deposits from individuals, will see EPS increases of PKR 3.3 and PKR 4.0, with revised EPS of PKR 53.3 and PKR 58.2. Similarly, HBL, holding 58.5% of its deposits from individuals, is likely to see a substantial EPS uplift of PKR 6.0, reaching PKR 42.8.

**Exhibit:** Savings deposit as a % of total deposits



Source (s): Company Financials, AHL Research

**Exhibit:** Impact of MDR removal (base case) on AHL banking universe

PKR bn	Individuals Deposits	Other than individuals Deposits	% of total deposits		Total cost of Deposits	Other than individuals cost of deposits		Impact Per Share	Impact on EPS	Revised EPS*
			Individuals	Other than individuals		Amount	%			
AKBL	449.1	843.7	34.7%	65.3%	157.8	103.0	12.2%	3.0	28.8%	14.5
BAFL	762.4	1,322.6	36.6%	63.4%	167.5	106.3	8.0%	4.3	17.5%	28.5
BOP	189.2	1,331.6	12.4%	87.6%	190.7	167.0	12.5%	2.1	76.9%	4.8
HBL	2,424.3	1,718.1	58.5%	41.5%	353.9	146.8	8.5%	6.0	16.8%	42.8
MCB	1,236.4	773.4	61.5%	38.5%	156.1	60.1	7.8%	3.3	6.7%	53.3
NBP	1,220.9	2,452.2	33.2%	66.8%	365.0	243.6	9.9%	5.9	31.6%	23.2
UBL	1,681.2	953.5	63.8%	36.2%	177.8	64.3	6.7%	4.0	8.1%	58.2

Source (s): Company Financials, AHL Research, \*this also includes assumption of ADR compliance

## **Conventional Banks**

MDR relief brings some respite

**NBP, MCB, UBL, HBL, BAFL, AKBL & BOP**

# Commercial Banks

## Top tier stands strong

### National Bank of Pakistan (NBP)

**Target Price: PKR 111.0 | Stance: Buy**

- NBP's revised EPS for CY25f has been updated to PKR 23.2, a significant increase from the previous estimate of PKR 18.6. Additionally, we have factored in the expected decrease in the cost of saving deposits, which is projected to positively impact NBP's EPS by PKR 5.9 in CY25f.
- Several key factors contribute to NBP's promising outlook, including the resolution of the pension fund case, robust capital adequacy that supports dividend growth, and strategic balance sheet expansion that aims to drive earnings growth while maintaining asset quality.
- With the bank's P/E dropping to 3.3x, its investment appeal strengthens, making it an attractive option for investors. The stock currently offers a potential upside of 46% from its current price, and with a P/B of 0.4x.

### MCB Bank Limited (MCB)

**Target Price: PKR 350.0 | Stance: Buy**

- MCB stands out in the banking industry with a consistently high CASA ratio, showcasing its risk-averse approach to conservative lending practices. Complementing this stability, the bank has maintained an impressive payout ratio of ~75%.
- With a substantial capital buffer in place, MCB is not only well-prepared for unforeseen challenges but also poised for future growth in dividends, potentially surpassing the currently projected figures. Furthermore, a decrease in the cost of saving deposits is anticipated to increase MCB's EPS by PKR 3.3 in CY25f.
- Trading at a P/B of 1.2x, the bank offers strong growth prospects with an expected 7.9% increase in EPS for CY25f, from PKR 49.7 to PKR 53.3. The stock offers an upside of 22% to its target price of PKR 350. MCB's dividend yield of 13.2% and robust asset quality make it an attractive buy for investors looking for stability and consistent returns.

### Exhibit: NBP's CY25f Projections

Previous	Revised
EPS: 18.6	EPS: 23.2
P/E: 4.1	P/E: 3.3
P/B: 0.4	P/B: 0.4
D/Y: 11.9%	D/Y: 15.8%

Source (s): AHL Research

### Exhibit: MCB's CY25f Projections

Previous	Revised
EPS: 49.7	EPS: 53.3
P/E: 5.8	P/E: 5.4
P/B: 1.2	P/B: 1.2
D/Y: 12.5%	D/Y: 13.2%

Source (s): AHL Research

# Commercial Banks

## Top tier stands strong

### United Bank Limited (UBL)

**Target Price: PKR 389.9 | Stance: Buy**

- UBL has recently gained prominence in the banking sector, primarily attributable to its remarkable dividend policy shift initiated back in Dec'22. Subsequently, UBL has adopted an aggressive strategy in dividend payouts, and this approach is expected to continue. However, UBL, we believe will ensure the maintenance of a healthy buffer of capital well above the stipulated minimum requirement.
- We have revised our EPS projection for CY25f to PKR 58.2, up from PKR 49.3, taking into account the positive impact of a decrease in the cost of saving deposits, which is expected to boost UBL's EPS by PKR 4.0 in CY25f.
- With the stock trading at PKR 360, UBL offers a total return of 21%, backed by strong capital adequacy, stable earnings growth, and a dividend yield of 12.2%.

### Habib Bank Limited (HBL)

**Target Price: PKR 199.7 | Stance: Buy**

- While the broader banking sector has outperformed the KSE-100 index in the past year, HBL has been a relative laggard.
- Supported by a resilient asset portfolio, a well-positioned investment book, a high CASA mix, lower than industry average infection, and decent spreads; HBL has shown solid potential despite its focus on reinvesting in growth rather than prioritizing high dividend payouts.
- A decrease in the cost of saving deposits is expected to increase HBL's EPS by PKR 6.0 in CY25f. Revised EPS for CY25f stands at PKR 42.8, up from PKR 35.6. Investors seeking value will find HBL's strong earnings growth and solid fundamentals appealing.
- Currently trading at a P/B of 0.6x, the bank is undervalued, compared to our coverage banks' average P/B of 0.98x. Moreover, the stock offers a dividend yield of 10.3% translating into a total return of 25%.

**Exhibit: UBL's CY25f Projections**

Previous	Revised
EPS: 49.3	EPS: 58.2
P/E: 7.3	P/E: 6.2
P/B: 1.5	P/B: 1.4
D/Y: 12.2%	D/Y: 12.2%

Source (s): AHL Research

**Exhibit: HBL's CY25f Projections**

Previous	Revised
EPS: 35.6	EPS: 42.8
P/E: 4.9	P/E: 4.1
P/B: 0.6	P/B: 0.6
D/Y: 8.0%	D/Y: 10.3%

Source (s): AHL Research

# Commercial Banks

## Uncovering mid tier potential

### Bank of Punjab (BOP)

**Target Price: PKR 15.1 | Stance: Buy**

- BOP emerges as the major beneficiary of the MDR removal within our banking universe, with a significant 88% of its deposits coming from sources other than individual accounts.
- Additionally, BOP has 49.3% of LCY savings accounts in its CASA mix, further strengthening its earnings outlook.
- These factors contribute to our revised earnings projections, with revised EPS from PKR 2.7 to PKR 4.8 in CY25f, reflecting a substantial 61% increase in earnings.
- From its last closing price, BOP offers an impressive upside of 50% to the target price of PKR 15.1. The bank's low P/B of 0.3x makes it a standout with the highest upside potential in the sector, positioning it as a highly attractive investment.

**Exhibit: BOP's CY25f Projections**

Previous	Revised
EPS: 2.7	<b>EPS: 4.8</b>
P/E: 3.7	<b>P/E: 2.1</b>
P/B: 0.3	<b>P/B: 0.3</b>
D/Y: 9.9%	<b>D/Y: 9.9%</b>

Source (s): AHL Research

### Askari Bank Limited (AKBL)

**Target Price: PKR 57.4 | Stance: Buy**

- AKBL stands out with relatively high LCY savings deposit ratios of 54.7%.
- The bank's revised EPS for CY25f has increased to PKR 14.5, up from PKR 10.3, reflecting a PKR 3/share jump driven by MDR removal.
- Despite its strong fundamentals, AKBL has lagged in terms of price performance.
- Trading at a significant discount to its historical P/B of 0.5x, AKBL offers an attractive entry point for investors.
- With a P/E of 2.7x and a dividend yield of 15.3%, AKBL presents substantial upside potential, with a total return of 62% expected in CY25f.

**Exhibit: AKBL's CY25f Projections**

Previous	Revised
EPS: 10.3	<b>EPS: 14.5</b>
P/E: 3.8	<b>P/E: 2.7</b>
P/B: 0.5	<b>P/B: 0.5</b>
D/Y: 10.2%	<b>D/Y: 15.3%</b>

Source (s): AHL Research



# Commercial Banks

## Uncovering mid tier potential

### Bank Alfalah (BAFL)

**Target Price: PKR 111.4 | Stance: Buy**

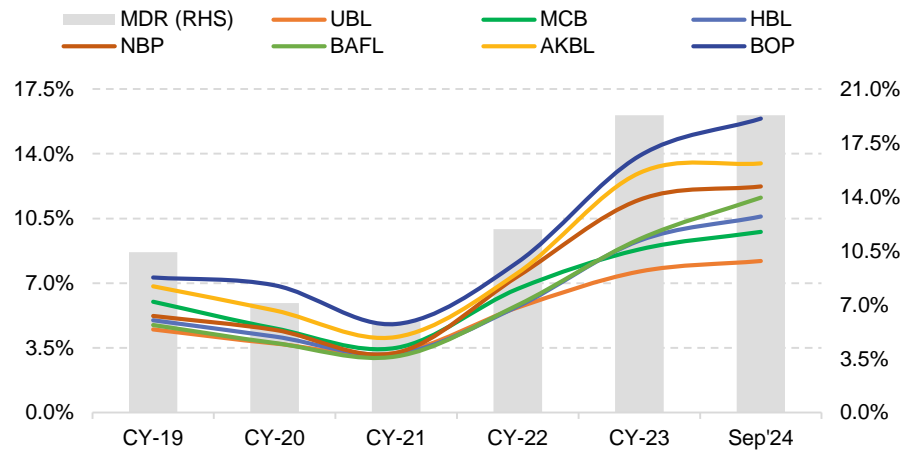
- After incorporating the PKR 4.3/share impact of MDR removal, we revise our EPS projection for BAFL to PKR 28.5 for CY25f, reflecting a 16.3% increase.
- This improved earnings lead to BAFL offering an upside potential, with an increase of 28% from its current price of PKR 86.9 to the revised target price of PKR 111.4.
- BAFL has adopted a prudent approach by proactively building provisioning buffers to mitigate potential asset quality shocks.
- Additionally, the bank is making substantial strides in various segments, particularly in the realm of digital banking, reflecting its aggressive growth strategy.

**Exhibit: BAFL's CY25f Projections**

Previous	Revised
EPS: 24.5	EPS: 28.5
P/E: 3.5	P/E: 3.1
P/B: 0.7	P/B: 0.7
D/Y: 9.2%	D/Y: 10.3%

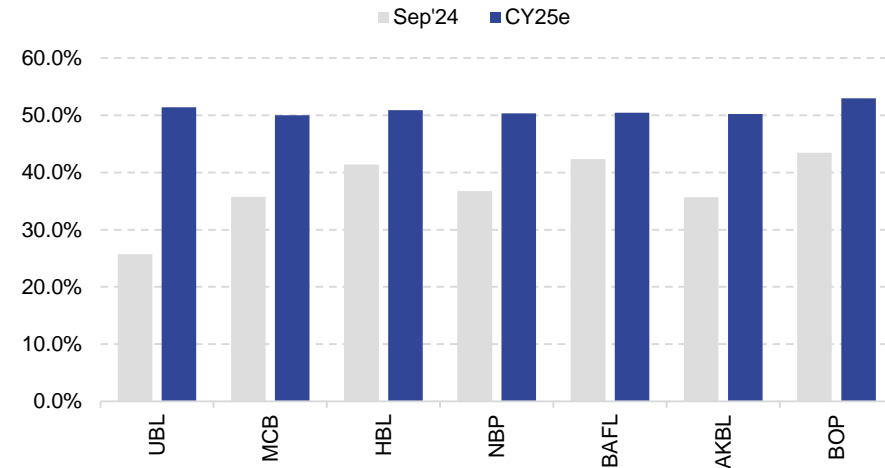
Source (s): AHL Research

**Exhibit: Conventional banks' cost of deposit vs MDR**



Source (s): Company Financials, AHL Research

**Exhibit: ADR as of Sep'24 vs Projected**



Source (s): Company Financials, AHL Research

## **Islamic Banks**

Islamic banks face headwinds

**MEBL & FABL**

# Commercial Banks

## Islamic banks face headwinds

### Meezan Bank Limited (MEBL)

**Target Price: PKR 223.1 | Stance: Hold**

- Although our target price for MEBL has been slightly revised upwards after removing the ADR-related tax assumption, bringing the stock into the "hold" range based on our criteria, caution should be observed as the MDR imposition remains a key concern.
- MEBL faces a significant challenge due to its heavy reliance on individual depositors, who account for ~68% of its total deposits.
- Our analysis suggests that MEBL will face an increase in the cost of deposits, rising to ~10.7% after the MDR imposition with current average cost of saving deposit estimated to be 7.2%, we view. The additional cost of deposits is estimated to be ~PKR 16.2bn, with a projected EPS decline of PKR 9 per share.
- To mitigate this adverse impact, MEBL must revise its strategy to focus on growing current accounts and reduce reliance on high-cost savings deposits. While this strategic shift may help in the longer term, it is likely to take time to achieve results.

### Faysal Bank Limited (FABL)

**Target Price: PKR 70.4 | Stance: Buy**

- FABL has a relatively lower reliance on savings accounts compared to its peers, with around 34% of its total deposits coming from this category.
- This gives FABL an edge in managing the MDR imposition, as it is less exposed to the negative effects of rising deposit costs.
- Moreover, the bank's capital structure is robust, and it has a low infection ratio and strong coverage metrics, providing further resilience.
- The cost of deposits is projected to rise to 10.2%, with an additional cost of deposits expected to be PKR 1.45bn. The bank's lower reliance on savings deposits (9.9% cost, our estimated) helps mitigate the impact, limiting the decrease in EPS to just PKR 1/ share.
- We expect FABL to post an EPS of PKR 14.5 in CY25f, slightly up from the previous expectation of PKR 14.2.

**Exhibit: MEBL's CY25f Projections**

Previous	Revised
EPS: 34.3	EPS: 36.6
P/E: 7.1	P/E: 6.7
P/B: 1.8	P/B: 1.6
D/Y: 9.8%	D/Y: 8.3%

Source (s): AHL Research

**Exhibit: FABL's CY25f Projections**

Previous	Revised
EPS: 14.2	EPS: 14.5
P/E: 3.5	P/E: 3.4
P/B: 0.6	P/B: 0.6
D/Y: 8.1%	D/Y: 9.1%

Source (s): AHL Research

# Commercial Banks

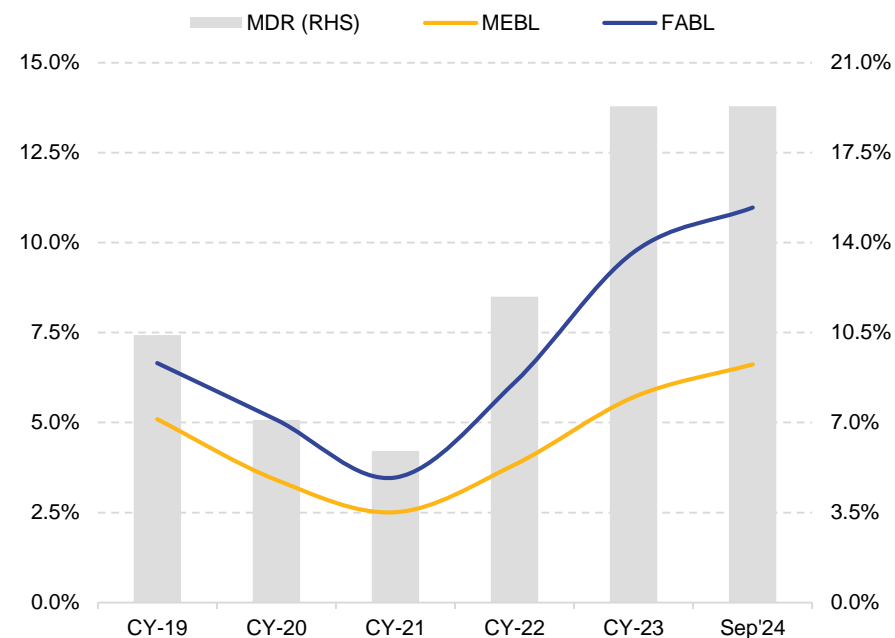
## Islamic banks face headwinds

**Exhibit:** Revised earnings expectations for CY25f

	CY25f	
	MEBL	FABL
Return on Earning Assets	14.2%	13.6%
Cost of Deposits after imposition of MDR (75% of return of investment pool)	10.7%	10.2%
Cost on saving deposits (AHL est. )	7.6%	9.7%
Additional cost of deposit expected	3.1%	0.5%
Expected Local currency Saving deposits (PKR mn)	1,064,144	518,243
Additional cost of deposit expected before tax (PKR mn)	32,456	2,591
Additional cost of deposit expected after tax (PKR mn)	16,553	1,322
Number of shares	1,795	1,518
Impact on Earnings (PKR/share)	<b>-9.2</b>	<b>-0.9</b>

Source (s): AHL Research

**Exhibit:** Islamic banks' cost of deposit vs MDR



Source (s): Company Financials, AHL Research

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

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- 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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