

Pakistan Banks: 2QCY22 result preview & impact of FY23 budget

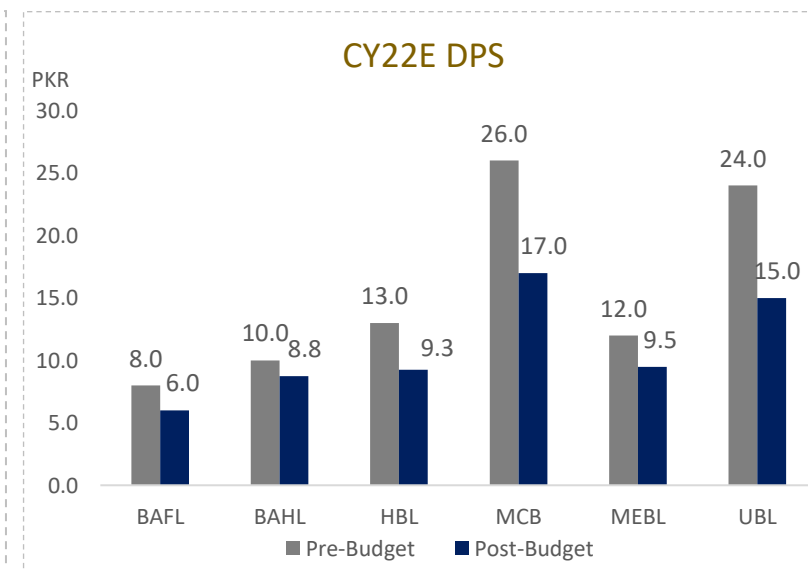
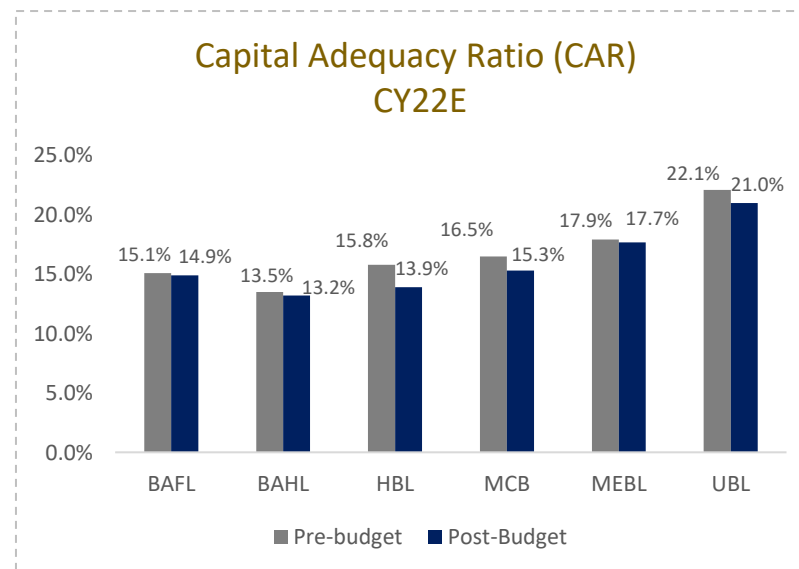
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FY23 budgetary measures would eat up the entire CY22E pretax earnings growth

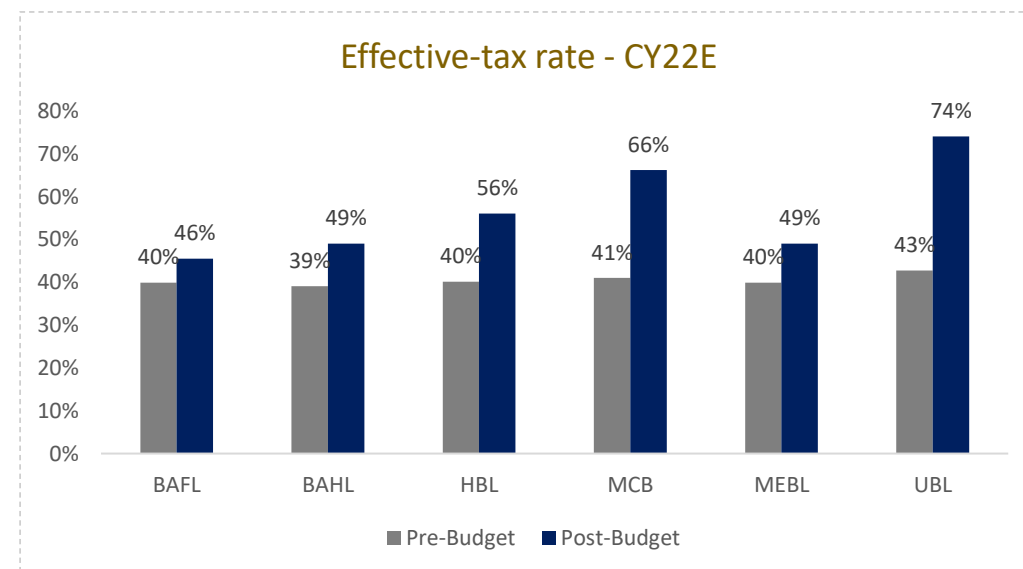
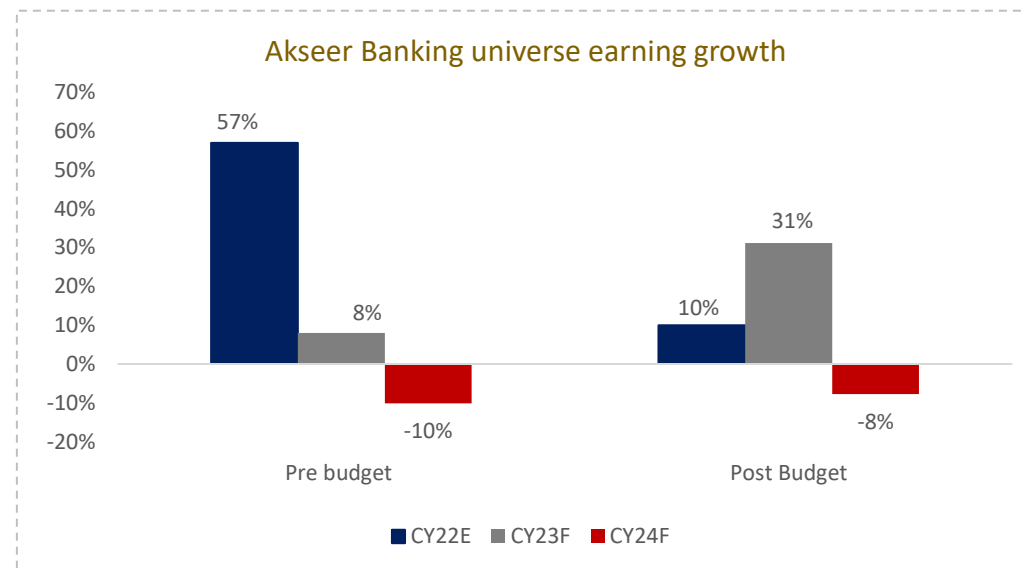
- New taxes introduced in the Federal Budget FY23 would eat up almost the entire CY22 pretax expected earnings growth of the Akseer's banking universe.
- Despite 57% YoY pretax profit growth in CY22E, PAT growth of Akseer's banking universe would now be limited to 10% YoY vs pre budget growth 57% YoY.
- Consequently, due to low CY22E base effect, earnings would now grow by 31% in CY23E, compared to pre budget estimated growth of 8% YoY.
- We have reduced CY22E/23E EPS of our banking universe by 30/15% and target prices by 4-20%.
- These measures will have negative repercussions on the Capital Adequacy Ratios (CAR) leading to a decline in dividend payout. CAR of our banking universe is expected to fall by an average 82bps in CY22.

Akseer Banking Universe EPS & PT								
	CY22E			CY23F			PT	
	Pre-Budget	Post-Budget	% Δ	Pre-Budget	Post-Budget	% Δ	Pre-Budget	Post-Budget
BAFL	15.0	13.4	-11%	16.7	15.8	-6%	47	45
BAHL	26.4	22.0	-17%	27.4	26.1	-5%	90	86
HBL	36.1	23.8	-34%	38.8	37.2	-4%	140	135
MCB	36.5	20.1	-45%	38.8	28.6	-26%	185	148
MEBL	31.0	26.2	-16%	35.0	33.0	-6%	172	163
UBL	37.1	16.9	-54%	39.1	23.5	-40%	170	145



Key tax measures for the banking sector (1/2)

- Government has substantially increased tax incidence on the banking sector for CY22**
 - Federal Government has made a substantial increase in taxation for the banking sector in the FY23 budget. The increase in taxation on the banking sector seems to be driven by the fact that banks are going to be the key beneficiaries of the increase in interest rates during the prevailing economic crisis.
 - The cost of deposits for the banking sector is upward sticky i.e. their margins expand in times of rising interest rates. Banking sector reported an 11% YoY increase in profits to PKR 267bn in CY21. CY22 pretax profits for Akseer’s banking universe will likely rise 57% YoY.
 - New taxes introduced would eat up almost the entire CY22 pretax earnings growth of the banking sector. PAT growth of Akseer’s banking universe would now be limited to 10% in CY22E.
 - The tax measures proposed for the banking sector (except 6% additional super tax) will be applicable beyond Tax year 2023 as well. Hence the banking sector will likely be subject to higher taxes beyond CY22 as well.



Key tax measures for the banking sector (2/2)

■ Increase in corporate tax rate

- The income tax rate for the banking sector has been increased by 4pp to 39% in the FY23 federal budget.
- Earlier, the banking industry was subject to an effective tax rate of 35%.

■ Imposition of one-time super tax on CY22 profits

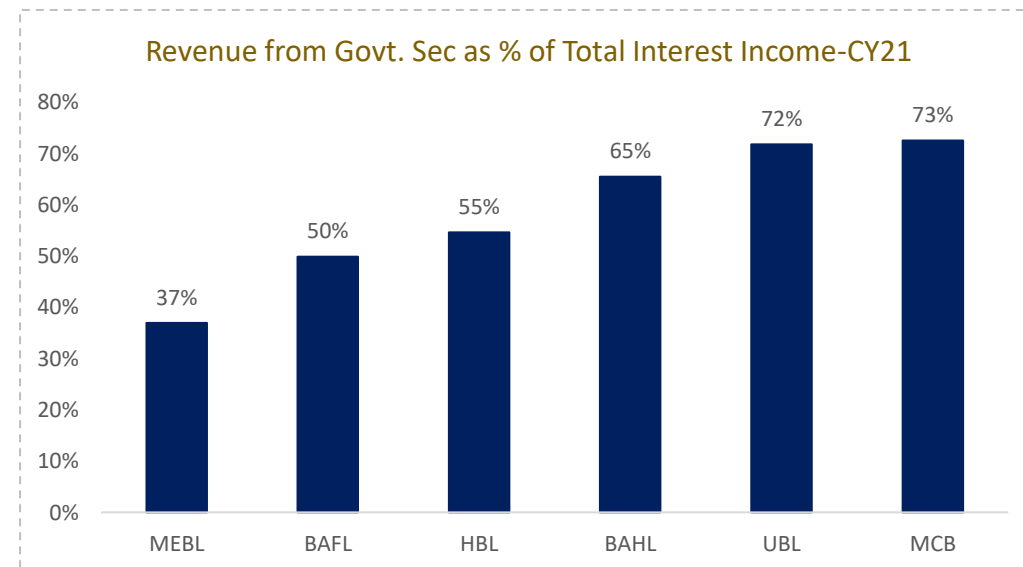
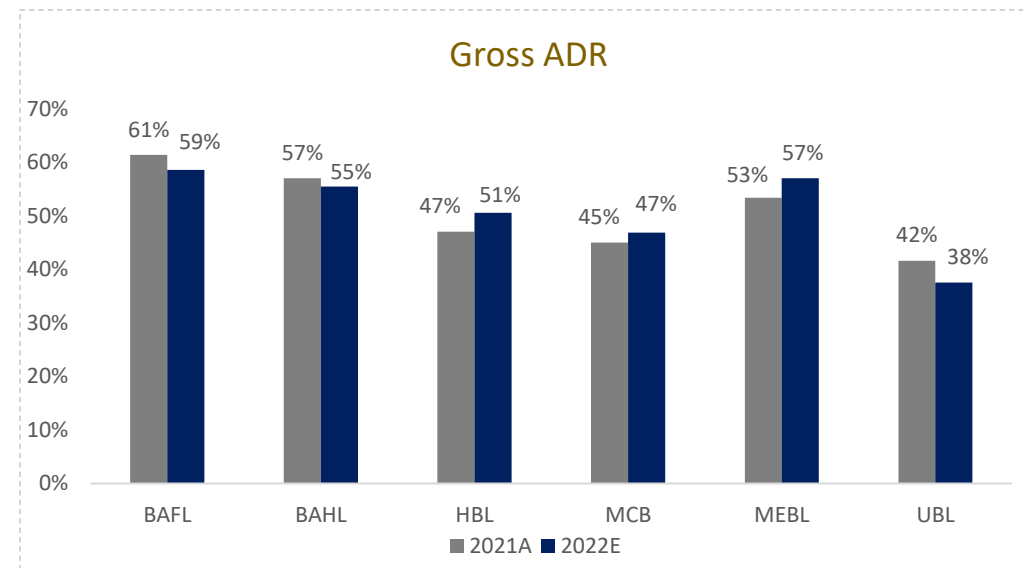
- The government has imposed a one-time super tax of 6% on the banking sector which will be applicable on CY22 profits. Additionally, 4% super tax would be charged on a recurring basis for tax year 2023 onwards on all individuals and companies earning more than PKR 300mn per annum.
- All the banks in Akseer universe have profits above PKR 300mn making them liable to pay the additional super tax.

■ Banks with lower ADR will be taxed more

- The government has also enhanced the quantum of additional taxation applicable on banks that have low ADR ratios. Banks will now have to pay an additional tax on income from investment in government securities as per the following schedule.

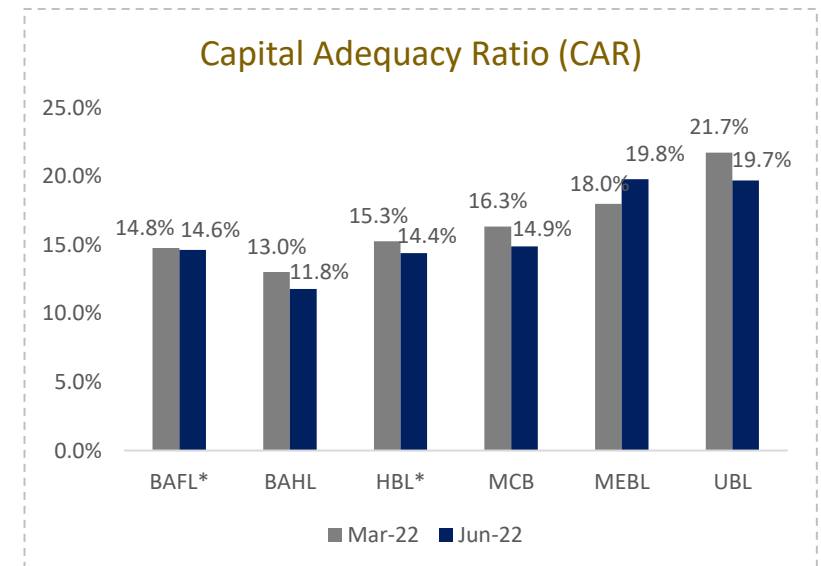
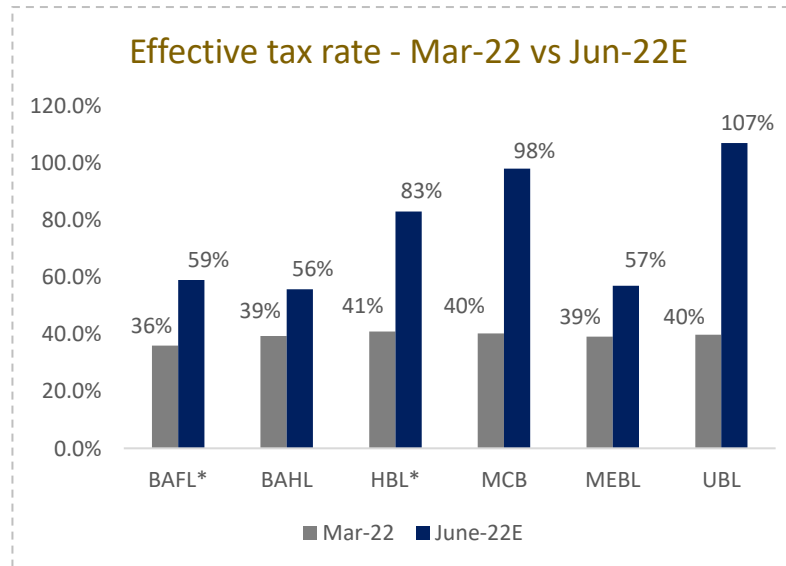
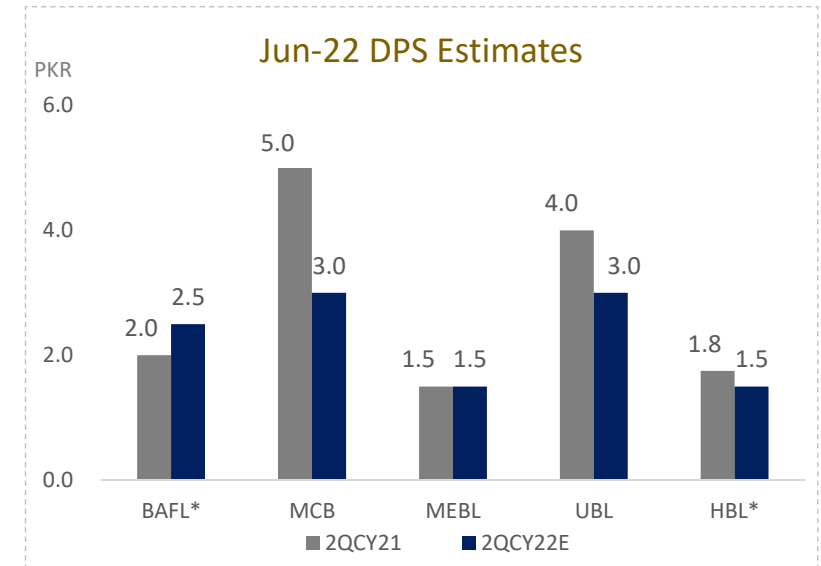
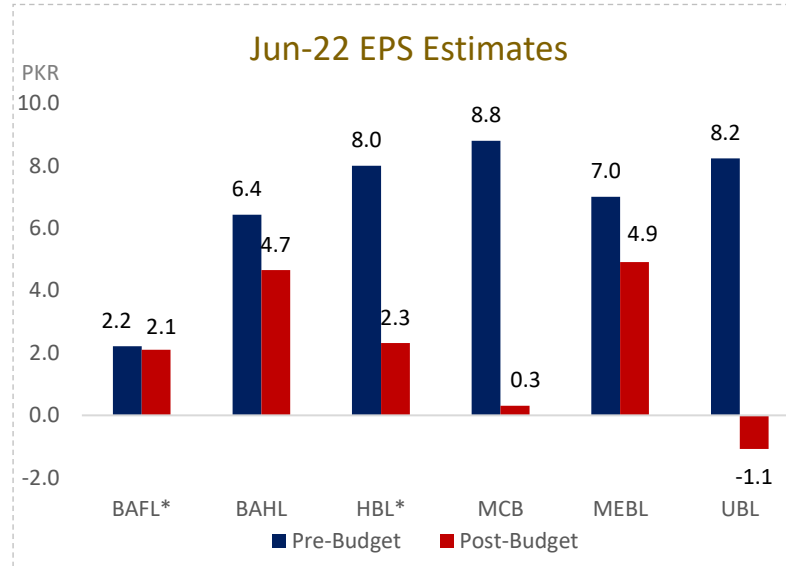
ADR Level	Additional tax applicable on income from GoP securities
<40%	16% (previously: 5.0%)
40-50%	10% (previously: 2.5%)

- Within our universe, UBL and MCB will be the most affected by this measure. UBL's ADR stood at 41.6% as of Dec-21 and MCB's ADR stood at 45.0% as of Dec-21.
- Moreover, these taxes will be applicable retrospectively on CY21 profits and onwards.



2QCY22 profitability to fall 51% YoY

- June quarter to witness one-time hefty tax expenses**
 - Banking sector would likely report higher tax in Jun-22 due to one time 10% super tax on CY22 profits. Additionally, banks with lower ADR would likely book higher tax on income derived from investment in government securities in CY21 and 1QCY22.
 - These measures would bring down earnings of Akseer's banking universe by 51% YoY and 58% QoQ.
 - Within our universe, UBL is expected to report a loss during 2QCY22, while other banks will likely report minimal profits.
 - We expect lower payouts from our banking universe owing to deterioration in CAR.
- Banking sector's CAR would likely fall by 65bps QoQ in June-22**
 - Akseer's banking universe's CAR is expected to decline by an average 65bps QoQ during 2QCY22.
 - MCB and UBL's capital adequacy ratio will be the most affected due to higher taxation.

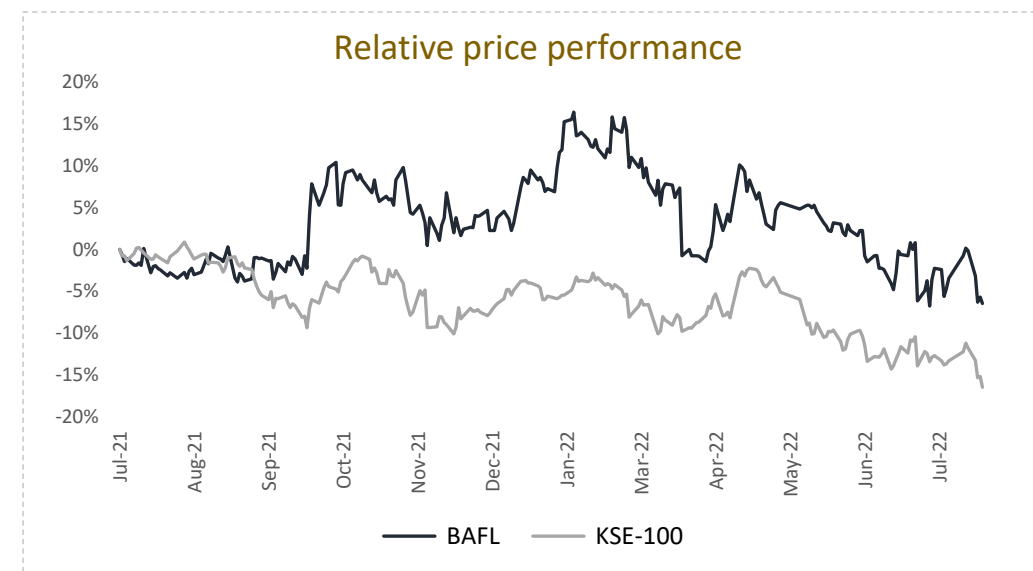


*HBL & *BAFL-actual numbers

BAFL: 2QCY22 EPS clocks in at PKR 2.1, up 6% YoY; DPS PKR 2.5

- BAFL posted unconsolidated profit after tax of PKR 3.6bn (EPS PKR 2.1) in 2QCY22 vs profit after tax of PKR 3.5bn (EPS PKR 1.9) in 2QCY21. Cumulative EPS for 1HCY22 stood at PKR 4.9, up 26% YoY. Along with the result, the bank announced an interim cash dividend of PKR 2.5/share.
- Net interest income grew by 53% YoY to PKR 17.8bn on the back strong balance sheet growth coupled with rise in interest rate.
- BAFL recorded highest quarterly non-interest income of PKR 6.5bn, up 57% YoY in 2QCY22. This was led by 222% YoY increase in forex income to PKR 3.4bn and 28% YoY growth in fee & commission income to PKR 2.7bn.
- However, In anticipation of expected credit headwinds caused by the current economic stress, the Bank has taken an additional general provision of PKR 2.8bn in 2QCY22. Accordingly, the coverage ratio stands at 109.8% in 2QCY22 vs 99.3% in 2QCY21. Gross infection ratio improved to 3.5% in 2QCY22 compared to 3.9% in 2QCY21.
- Admin expenses during 2QCY22 increased by 29% YoY to PKR 11.7bn due to aggressive branch network expansion.
- Effective tax rate of the bank increased to 59% in 2QCY22 vs 40% in 2QCY21. This is due to rise in tax rates for the banking industry in the FY23 budget.
- The Bank remains adequately capitalized and CAR was well above the regulatory requirement at 14.64% in June-22 compared to 15.40% in June-21.
- We have revised our CY22/23E EPS of BAFL downwards by 11%/6% and Price Target by 4%. We have a 'BUY' recommendation on the scrip with Dec-22 Price Target of PKR 45/share, offering a reasonable upside of 34% along with a dividend yield of 7.9%.

Financial Highlights					
(PKR mn)	2QCY21	2QCY22	YoY	1HCY22	YoY
Net Interest Income	11,658	17,854	53%	32,143	46%
Non-Interest income	4,142	6,519	57%	10,901	37%
Total Provision	934	3,654	291%	4,041	251%
Admin Expenses	9,064	11,698	29%	22,142	26%
Profit Before Tax	5,802	9,021	55%	16,860	51%
Tax	2,339	5,336	128%	8,157	92%
Profit After Tax	3,463	3,685	6%	8,703	26%
EPS	1.9	2.1	6%	4.9	26%
DPS	2.0	2.5	-	2.5	-



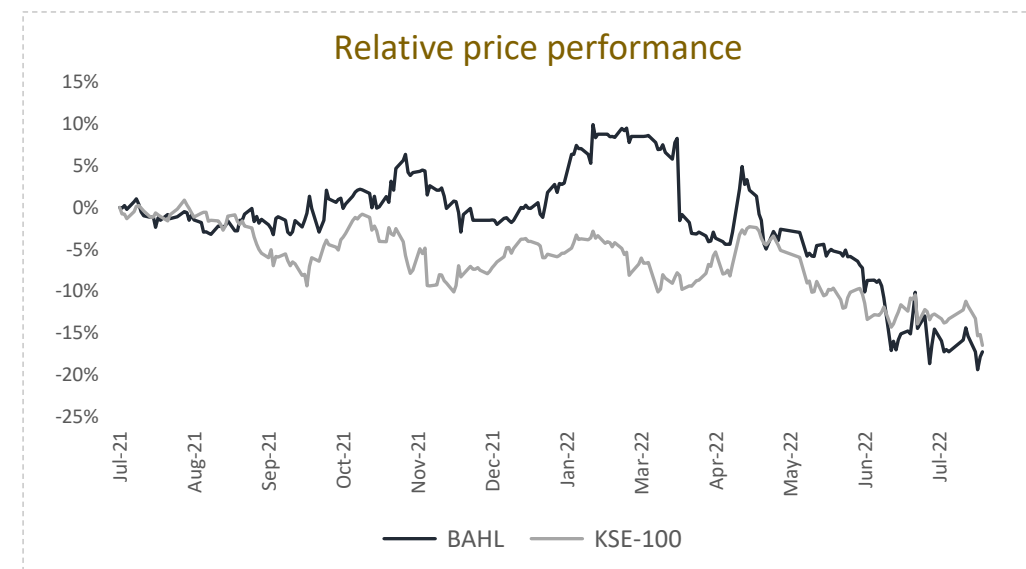
BAFL- Financials Snapshot

Key Ratios	CY19	CY20	CY21	CY22E	CY23F	CY24F
EPS	7.1	5.9	8.0	13.4	15.8	12.9
DPS	4.0	4.0	4.0	6.0	8.8	7.0
Dividend yield	12.8%	12.8%	12.8%	19.2%	28.0%	22.4%
PER	4.4	5.3	3.9	2.3	2.0	2.4
P/B	0.6	0.6	0.6	0.5	0.4	0.4
ROE	15.5%	11.7%	14.9%	25.1%	22.7%	16.8%
Income statement (PKR mn)						
Net interest income	44,857	44,705	46,048	79,319	90,028	82,883
Non-interest income	10,396	12,795	16,474	18,489	16,383	17,159
Provision	3,029	7,589	2,312	5,857	3,516	2,056
Operating Expense	29,843	32,032	36,840	45,461	53,755	57,806
Profit after Tax	12,696	10,475	14,217	23,814	28,010	22,903
Balance Sheet (PKR mn)						
Investments	299,098	547,090	809,214	941,349	1,062,937	1,191,409
Advances	511,236	577,316	673,881	706,892	732,690	845,096
Total Assets	1,064,672	1,384,874	1,734,321	1,925,299	2,129,838	2,360,036
Deposits	782,284	881,767	1,139,045	1,252,949	1,384,509	1,536,805
Other liabilities	91,518	97,129	111,465	133,948	147,883	163,896
Total Liabilities	976,645	1,293,856	1,634,319	1,809,087	1,998,912	2,218,538
Equity	88,028	91,017	100,003	116,212	130,926	141,499
Total Liabilities & Equities	1,064,672	1,384,874	1,734,321	1,925,299	2,129,838	2,360,036

BAHL: 2QCY22 EPS is expected at PKR 4.65, up 17% YoY

- Bank AL Habib Ltd (BAHL) is expected to post unconsolidated EPS of PKR 4.65 in 2QCY22, up 17% compared to an EPS of PKR 3.99 in 2QCY21. For 1HCY22, EPS is expected to reach PKR 9.12, up 12% YoY. Higher profitability is likely due to rise in net interest income on the back of strong balance sheet growth.
- Net interest income is expected to increase by 34% YoY to PKR 19.2bn in 2QCY22. Interest income would likely increase by 84% YoY while interest expense is expected to remain higher by 133% YoY due to upward adjustment in interest rates.
- Non-interest income is anticipated to grow by 35% to PKR 3.9bn mainly led by higher fee & commission income (+40% YoY).
- Provisions are expected to reach at PKR 0.6bn in 2QCY22 vs PKR 0.2bn in 2QCY21.
- Admin expenses are likely to grow by 11% YoY to PKR 10.8bn. Aggressive branch network expansion led to double digit hike in admin cost.
- BAHL is expected to book tax expense of PKR 6.5bn, up 129% YoY.
- We have reduced BAHL's CY22/CY23E EPS by 17%/5% and Price Target by 4%. We have a 'BUY' recommendation on BAHL with Dec-22 target price of 86/share, offering an upside of 50% along with a dividend yield of 15%.

Financial Estimates					
(PKR mn)	2QCY21	2QCY22E	YoY	1HCY22E	YoY
Net Interest Income	14,293	19,191	34%	35,216	29%
Non-Interest income	2,908	3,930	35%	8,089	33%
Total Provision	217	642	196%	795	NM
Admin Expenses	9,703	10,796	11%	22,640	18%
Profit Before Tax	7,282	11,684	60%	19,868	39%
Tax	2,845	6,514	129%	9,736	84%
Profit After Tax	4,438	5,170	17%	10,133	12%
EPS	3.99	4.65	17%	9.12	12%
DPS	-	-	-	-	-



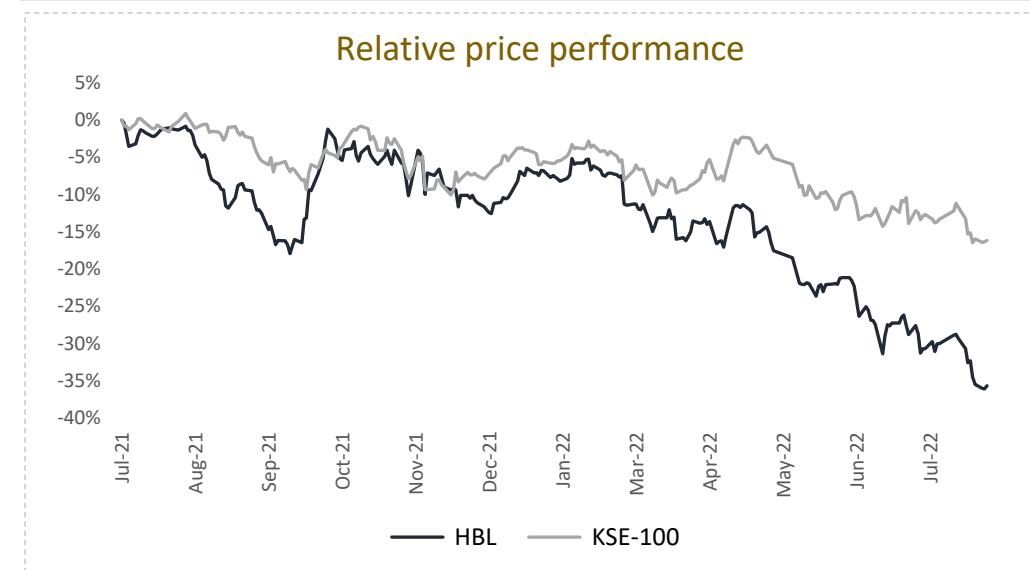
BAHL- Financials Snapshot

Key Ratios	CY19	CY20	CY21	CY22E	CY23F	CY24F
EPS	10.0	16.0	16.8	22.0	26.1	24.3
DPS	3.5	4.5	7.0	8.8	10.3	9.5
Dividend yield	6.1%	7.8%	12.2%	15.2%	17.8%	16.5%
PER	5.7	3.6	3.4	2.6	2.2	2.4
P/B	1.0	0.8	0.7	0.6	0.5	0.5
ROE	20.1%	25.2%	22.0%	25.0%	25.2%	20.4%
Income statement (PKR mn)						
Net interest income	41,186	57,620	55,609	78,869	87,484	84,199
Non-interest income	9,481	10,273	14,027	17,076	16,582	17,195
Provision	3,395	4,543	-47	2,869	5,341	1,141
Operating Expense	28,261	34,768	39,410	45,162	47,922	52,871
Profit after Tax	11,169	17,812	18,702	24,436	28,958	27,007
Balance Sheet (PKR mn)						
Investments	586,141	764,944	826,600	933,462	1,055,113	1,163,131
Advances	488,669	510,252	733,799	775,640	817,804	883,800
Total Assets	1,298,682	1,522,091	1,849,652	2,021,254	2,212,805	2,416,380
Deposits	903,740	1,099,686	1,309,823	1,427,707	1,556,201	1,696,259
Other liabilities	104,694	130,949	147,601	158,852	172,842	188,232
Total Liabilities	1,237,179	1,442,235	1,759,637	1,915,971	2,088,102	2,275,866
Equity	61,503	79,856	90,015	105,283	124,703	140,514
Total Liabilities & Equities	1,298,682	1,522,091	1,849,652	2,021,254	2,212,805	2,416,380

HBL: 2QCY22 EPS came in at PKR 2.3, down 63% YoY; DPS PKR 1.50

- HBL posted consolidated EPS of PKR 2.32 in 2QCY22, down 63% YoY. This takes cumulative 1HNCY22 EPS to PKR 8.10, down 33% YoY. HBL also announced an interim cash dividend of PKR 1.50/share, taking cumulative payout to PKR 3.75/share for 1HNCY22.
- Net Interest Income (NII) for 2QCY22 increased by 16% YoY to PKR 37.6bn on the back of strong balance sheet growth. Advances rose 26% YoY and deposits increased 20% YoY. Interest income increased by 59% YoY while interest expense increased by 105% YoY due to higher interest rates.
- Non-interest income came in higher than our expectation at PKR 13.3bn, up 42% YoY in 2QCY22. This was due to a significant increase in forex income to PKR 5.3bn in 2QCY22 vs PKR 172mn in 2QCY21 owing to increase in exchange rate volatility. Fee & commission income increased by 43% YoY to PKR 7.7bn.
- Provisioning expense declined by 14% YoY to PKR 1.6bn during 2QCY22. Infection ratio dropped to 5.1% in 2QCY22 vs 5.5% in 2QCY21.
- Admin expenses increased by 26% YoY to PKR 29.3bn, likely driven by inflationary pressures and spending towards information technology and digitalization. Consequently, cost to income ratio increased to 58% in 2QCY22 compared to 56% in 2QCY21.
- The effective tax rate stood at 83% in 2QCY22 vs 43% in 2QCY21 due to imposition of super tax on CY22 profits and higher taxation on income derived from government securities.
- We have reduced CY22/23E EPS of HBL by 34%/4% and Price Target by 4%. We have a 'BUY' recommendation on HBL with Dec-22 target price of PKR 135/ share, implying an upside of 57% along with a dividend yield of 10.7%.

Financial Highlights					
(PKR mn)	2QCY21	2QCY22	YoY	1HNCY22	YoY
Net Interest Income	32,394	37,630	16%	73,896	14%
Non-Interest income	9,387	13,314	42%	23,675	34%
Total Provision	1,817	1,560	-14%	2,803	-25%
Admin Expenses	23,276	29,373	26%	60,176	27%
Profit Before Tax	16,689	20,011	20%	34,591	11%
Tax	7,219	16,517	129%	22,484	71%
Profit After Tax	9,320	3,407	-63%	11,886	-33%
EPS	6.4	2.3	-63%	8.1	-33%
DPS	1.8	1.5	-	3.8	-



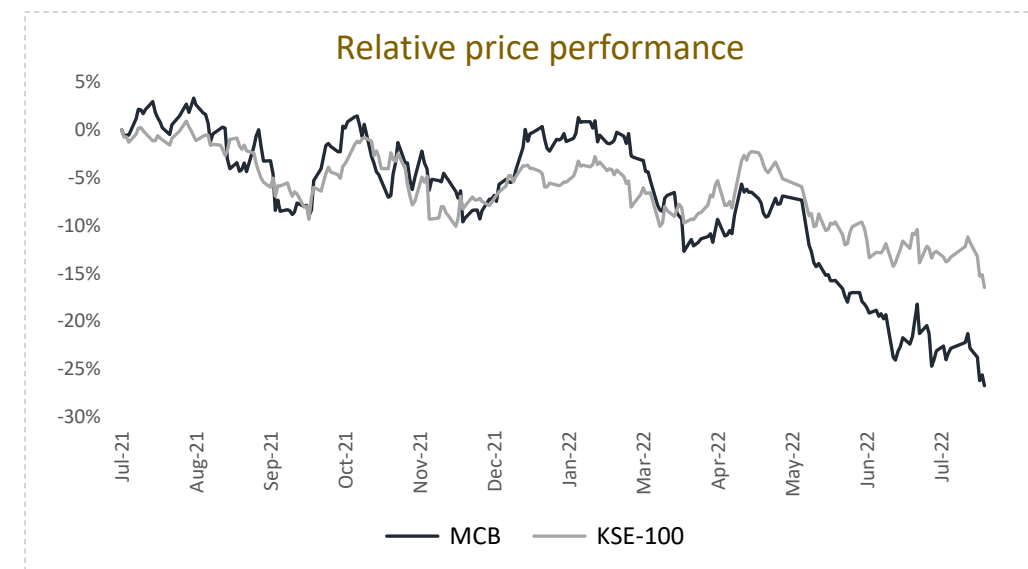
HBL- Financials Snapshot

Key Ratios	CY19	CY20	CY21	CY22E	CY23F	CY24F
EPS	10.5	21.1	23.9	23.8	37.2	34.1
DPS	5.0	4.3	7.5	9.3	13.0	12.0
Dividend yield	5.9%	5.0%	8.9%	11.0%	15.4%	14.2%
PER	8.1	4.0	3.5	3.5	2.3	2.5
P/B	0.6	0.5	0.4	0.4	0.4	0.3
ROE	7.4%	12.8%	13.0%	12.3%	17.5%	14.2%
Income statement (PKR mn)						
Net interest income	101,323	130,104	131,419	155,597	182,568	176,263
Non-interest income	24,162	30,595	36,311	40,756	39,782	43,012
Provision	3,314	12,220	8,087	12,277	14,755	12,098
Operating Expense	93,290	95,449	97,615	103,178	110,395	118,117
Profit after Tax	15,333	30,892	35,022	34,976	54,573	50,003
Balance Sheet (PKR mn)						
Investments	1,379,607	1,948,577	1,948,956	1,954,950	2,126,247	2,315,449
Advances	1,166,957	1,223,510	1,507,047	1,743,540	1,967,054	2,198,684
Total Assets	3,227,132	3,849,063	4,317,468	4,650,182	5,123,074	5,641,280
Deposits	2,437,597	2,830,371	3,381,998	3,647,529	4,001,518	4,418,436
Other liabilities	182,577	209,088	215,526	237,737	267,450	273,321
Total Liabilities	3,002,381	3,583,568	4,033,782	4,355,775	4,785,140	5,261,708
Equity	224,752	265,495	283,686	294,406	337,934	379,572
Total Liabilities & Equities	3,227,132	3,849,063	4,317,468	4,650,182	5,123,074	5,641,280

MCB: 2QCY22 EPS expected at PKR 0.3, down 95% YoY; DPS PKR 3.0

- We expect MCB to post PAT of PKR 13mn (EPS: PKR 0.3) in 2QCY22 compared to PKR 7.9bn (EPS: PKR 6.7) in 2QCY21. This will take cumulative EPS for 1HCY22 to PKR 7.8. MCB is also expected to announce an interim cash dividend of PKR 3.0/share, taking cumulative payout to PKR 8.0/share in 1HCY22.
- Interest income is expected to increase by 100% YoY while cost of deposits is expected to increase by 170% YoY in 2QCY22 owing to higher interest rates. Consequently, net interest income would likely grow by 42% YoY to PKR 23.2bn in 2QCY22.
- Non-interest income will likely grow by 12% YoY to PKR 5.3bn in 2QCY22 led by rise in fee & commission income and forex income.
- We have assumed provisions of PKR 0.2bn in 2QCY22 as compared to reversal of PKR 1.8bn in 2QCY21.
- MCB is expected to book effective tax rate of 98% in 2QCY22 vs 42% in 2QCY21. MCB's effective rate would be higher than peers due to its lower advance to deposit ratio. Higher taxes alone will have a negative EPS impact of PKR 8.9 in 2QCY22.
- We have reduced MCB's CY22/23E EPS by 45%/26% and Price Target by 20%. We have a 'BUY' recommendation on the scrip with Dec-22 Price Target of PKR 148/share. MCB offers an upside of 22% along with a dividend yield of 14.0%.

Financial Estimates					
(PKR mn)	2QCY21	2QCY22E	YoY	1HCY22E	YoY
Net Interest Income	16,309	23,211	42%	41,323	31%
Non-Interest income	4,750	5,332	12%	11,051	16%
Total Provision	(1,823)	224	NM	(639)	-68%
Admin Expenses	9,144	9,491	4%	19,260	7%
Profit Before Tax	13,737	18,828	37%	33,754	35%
Tax	5,784	18,456	219%	24,470	138%
Profit After Tax	7,953	373	-95%	9,284	-37%
EPS	6.7	0.3	-95%	7.8	-37%
DPS	5.0	3.0	-	8.0	-



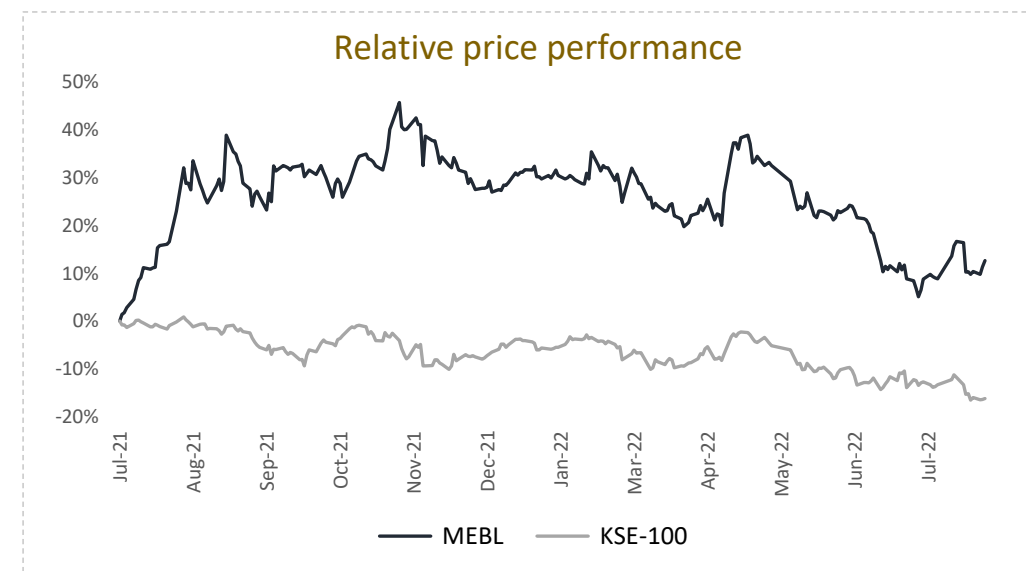
MCB- Financials Snapshot

Key Ratios	CY19	CY20	CY21	CY22E	CY23F	CY24F
EPS	20.2	24.5	26.0	20.1	28.5	25.8
DPS	17.0	20.0	19.0	17.0	23.0	18.0
Dividend yield	14.0%	16.4%	15.6%	14.0%	18.9%	14.8%
PER	6.0	5.0	4.7	6.0	4.3	4.7
P/B	0.9	0.8	0.8	0.8	0.8	0.8
ROE	15.1%	16.2%	16.9%	13.7%	19.1%	16.5%
Income statement (PKR mn)						
Net interest income	59,616	71,334	63,987	91,068	103,489	98,013
Non-interest income	16,679	18,136	20,074	21,444	20,769	21,425
Provision	2,484	7,313	-4,823	-80	5,011	7,485
Operating Expense	32,671	32,646	35,381	37,724	41,146	44,175
Profit after Tax	23,977	29,037	30,811	23,835	33,830	30,583
Balance Sheet (PKR mn)						
Investments	748,765	1,015,869	1,035,585	1,148,132	1,265,249	1,397,967
Advances	496,679	462,942	589,711	678,637	775,063	883,217
Total Assets	1,515,152	1,757,462	1,970,468	2,166,197	2,412,438	2,690,091
Deposits	1,144,763	1,289,502	1,411,852	1,545,809	1,731,306	1,939,063
Other liabilities	111,968	113,857	114,684	114,711	128,548	144,055
Total Liabilities	1,346,237	1,567,361	1,796,061	1,992,795	2,232,002	2,499,923
Equity	168,915	190,102	174,407	173,402	180,436	190,167
Total Liabilities & Equities	1,515,152	1,757,462	1,970,468	2,166,197	2,412,438	2,690,091

MEBL: 2QCY22 EPS to grow 23% YoY to PKR 4.9; DPS PKR 1.5

- Meezan Bank is expected to post EPS of PKR 4.9, up 23% YoY in 2QCY22. This will take cumulative 1HCY22 EPS to PKR 10.6, up 36% YoY. The bank is also expected to announce an interim cash dividend of PKR 1.50/share, taking cumulative payout to PKR 3.25/share for 1HCY22.
- Net Interest Income (NII) for the quarter is likely to increase by 46% YoY to PKR 23.6b due to 86% YoY growth in interest income and 150% YoY increase in interest expenses, driven by 10% expected rise in deposits and higher interest rates.
- Non-interest income is anticipated to grow by 69% YoY to PKR 5.5bn in 2QCY22 on the back of higher fee & commission income and forex income.
- Provisioning expenses are expected to increase by 208% YoY to PKR 0.4bn in 2QCY22.
- Operating expenses during the quarter are likely to increase by 16% YoY to PKR 10.0bn due to increased costs associated with the opening of new branches. The bank plans to add 65 branches during CY22.
- Tax expense of the bank will likely clock in at PKR 7.9bn in 2QCY22, up 23% YoY owing to imposition of higher taxes in the FY23 budget.
- We have revised downward MEBL's EPS estimates for CY22/23 by 16%/6% and Price Target by 5%. We have a 'BUY' recommendation on MEBL with Dec-22 Price Target of PKR 163/share. The stock is currently offering an upside 38% along with a dividend yield of 8.0%.

Financial Estimates					
(PKR mn)	2QCY21	2QCY22E	YoY	1HCY22E	YoY
Net Interest Income	16,151	23,570	46%	45,007	44%
Non-Interest income	3,248	5,492	69%	9,792	44%
Total Provision	148	456	208%	684	58%
Admin Expenses	8,657	10,041	16%	20,410	22%
Profit Before Tax	10,593	18,565	75%	33,706	62%
Tax	4,087	10,581	159%	16,516	101%
Profit After Tax	6,507	7,984	23%	17,190	36%
EPS	4.0	4.9	23%	10.6	36%
DPS	1.5	1.5	-	3.3	-



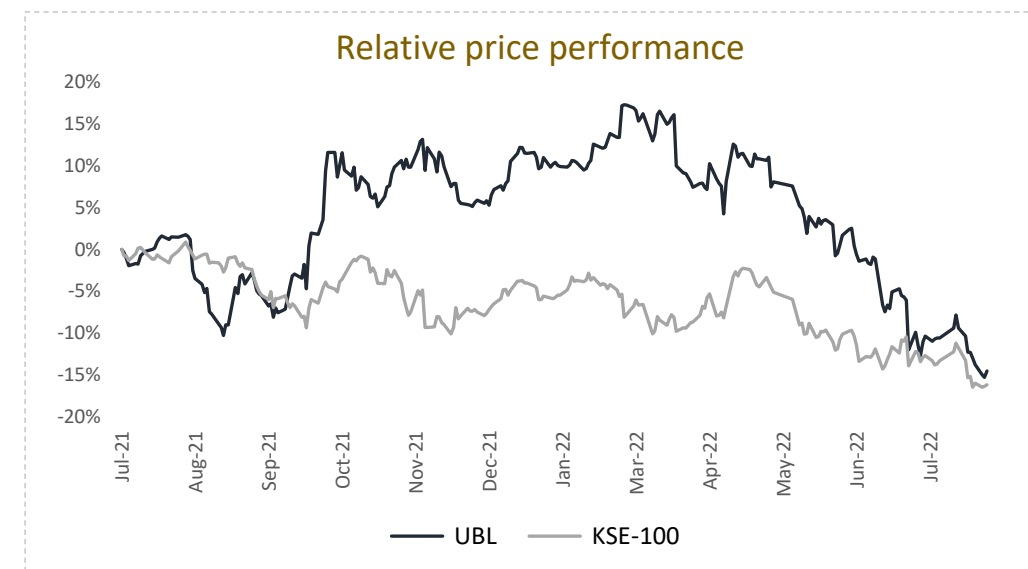
MEBL- Financials Snapshot

Key Ratios	CY19	CY20	CY21	CY22E	CY23F	CY24F
EPS	9.4	13.6	17.4	26.2	33.0	30.7
DPS	5.0	6.0	5.6	9.5	15.0	15.5
Dividend yield	4.2%	5.1%	4.7%	8.0%	12.7%	13.1%
PER	12.7	8.7	6.8	4.5	3.6	3.9
P/B	3.3	2.8	2.2	1.7	1.4	1.1
ROE	33.8%	39.2%	38.8%	43.7%	42.4%	32.4%
Income statement (PKR mn)						
Net interest income	46,539	64,849	68,921	108,428	128,050	125,044
Non-interest income	9,320	10,072	14,892	17,491	18,458	19,234
Provision	4,186	8,210	993	1,668	5,665	2,618
Operating Expense	25,522	29,775	35,324	40,613	46,585	53,921
Profit after Tax	15,231	22,166	28,355	42,656	53,727	50,011
Balance Sheet (PKR mn)						
Investments	92,193	136,242	170,501	160,476	176,904	200,693
Advances	225,646	434,208	620,132	738,575	855,331	1,030,364
Total Assets	46,517	52,024	63,802	71,437	78,749	89,339
Deposits	42,047	94,501	220,414	243,093	267,977	304,013
Other liabilities	932,579	1,254,431	1,455,886	1,605,682	1,770,051	2,008,074
Total Liabilities	53,600	58,979	82,982	99,389	109,563	124,296
Equity	1,062,243	1,452,404	1,816,414	2,015,529	2,220,777	2,516,120
Total Liabilities & Equities	59,015	69,155	86,558	113,317	141,856	168,714

UBL: 2QCY22 LPS to clock in at PKR 1.1; DPS PKR 3.0

- UBL is the only bank in our universe which is expected to report a loss of PKR 1.1/share during 2QCY22 compared to an EPS of PKR 6.2 during 2QCY21. For 1HCY22, EPS will likely reach PKR 6.7, down 45% YoY. We expect UBL to announce an interim cash dividend of PKR 3.0/share which will take cumulative payout to PKR 8.0/share in 1HCY22.
- Net Interest Income is expected to grow by 39% YoY to PKR 25.3bn in 2QCY22 on the back of strong balance sheet growth. Interest income will likely grow by 73% YoY while cost of funds will rise at a higher pace of 109% YoY, driven by sharp rise in interest rates.
- Non-interest income is anticipated to increase by 9% YoY to PKR 6.2bn in 2QCY22 led by higher forex income (+108% YoY) and fee & commission income (+10% YoY).
- We have assumed provisioning expense of PKR 0.3bn in 2QCY22 compared to a reversal of PKR 0.4bn in the 2QCY21.
- Despite a 39% YoY increase in PBT, higher taxes would erode the bank's profitability during 2QCY22. UBL is expected to report higher effective tax rate of 107% in 2QCY22 vs 45% in 2QCY21.
- We have reduced UBL's CY22/23E EPS by 54%/40% and Price Target by 15%. We have a 'BUY' recommendation on UBL with Dec-22 Price Target of PKR 145/share, offering a reasonable upside of 32% along with a dividend yield of 13.6%.

Financial Estimates					
(PKR mn)	2QCY21	2QCY22E	YoY	1HCY22E	YoY
Net Interest Income	18,231	25,283	39%	46,756	33%
Non-Interest income	5,646	6,162	9%	12,943	13%
Total Provision	(441)	321	-173%	668	NM
Admin Expenses	10,633	12,101	14%	24,159	16%
Profit Before Tax	13,685	19,025	39%	34,872	35%
Tax	6,093	20,352	234%	26,672	146%
Profit After Tax	7,593	(1,328)	-117%	8,200	-45%
EPS	6.20	(1.08)	-117%	6.7	-45%
DPS	4.00	3.00	-	8.0	-



UBL- Financials Snapshot

Key Ratios	CY19	CY20	CY21	CY22E	CY23F	CY24F
EPS	15.6	17.1	25.2	16.9	23.5	24.2
DPS	12.0	12.0	18.0	15.0	15.0	16.0
Dividend yield	10.9%	10.9%	16.3%	13.6%	13.6%	14.5%
PER	7.1	6.5	4.4	6.5	4.7	4.6
P/B	0.8	0.7	0.7	0.7	0.6	0.6
ROE	11.9%	11.8%	15.9%	10.2%	13.8%	13.5%
Income statement (PKR mn)						
Net interest income	61,774	74,959	71,759	107,336	117,916	117,355
Non-interest income	21,676	17,094	23,379	24,271	23,736	24,689
Provision	8,220	16,768	-955	1,325	3,590	3,488
Operating Expense	40,989	41,093	43,966	50,573	55,773	61,802
Profit after Tax	19,134	20,898	30,882	20,717	28,745	29,630
Balance Sheet (PKR mn)						
Investments	840,448	1,128,674	1,496,542	1,427,747	1,560,142	1,670,631
Advances	636,220	530,279	646,188	685,723	725,152	800,190
Total Assets	1,893,695	2,049,583	2,618,166	2,655,527	2,862,142	3,085,335
Deposits	1,467,063	1,640,212	1,750,944	2,056,826	2,221,372	2,399,082
Other liabilities	103,078	96,310	99,295	139,242	149,581	160,748
Total Liabilities	1,724,626	1,865,510	2,413,523	2,453,171	2,648,625	2,859,715
Equity	169,069	184,073	204,643	202,355	213,517	225,620
Total Liabilities & Equities	1,893,695	2,049,583	2,618,166	2,655,527	2,862,142	3,085,335

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