

Pakistan Commercial Banks

Banks profitability to rise as sharp rate cuts lead to deposit cost re-pricing

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Gap between Conventional and Islamic Banks to become evident in this rate cutting cycle:

As banks are set to report their first quarterly earnings post any major decline in the Policy Rate (4.5% so far), Net Interest Incomes are set to rise. We expect NII to benefit from 1) the fact that majority of the treasury bill stock has been re-profiled from 3M to 12M as issuances of the later have been much larger 2) Banks benefit from lower MDR leading to a sharp reduction in deposit cost in 3Q compared to 2Q 3) Although a small % of the overall book, fixed PIBs provide some support to NIMs as the gap between their yields and the MDR expands.

We expect ~20% QoQ jump in profitability for conventional banks within our coverage due to the associated NIM expansion whereas FABL's earnings are not expected to grow. FABL's lack of growth is due to 1) a PKR ~800MN reversal in credit loss allowances in 2Q whereas we expect a PKR 800MN provision in 3Q 2) Due to the lack of 12M TBILLS and Fixed PIBs, Islamic banks NIMs should decline faster.

NII will decline in a V-shaped pattern: We expect NII to remain elevated over the coming quarter and so far as 1Q2025 if rates continue to decline at a similar pace for the remainder of 2024. During these three quarters, deposit cost should fall faster than advances income and investment yields should fall the least. As assets fully re-price in 2025, earnings should normalize and then go grow post 2025. The next few quarters remain instrumental in determining which banks are the best placed to minimize the damage from lower interest rates.

Banks	EPS				% YoY		QoQ	
	3Q2024	9M2024	3Q2023	9M2023	3Q2024	9M2024	2Q2024	%
BAFL	8.10	21.17	5.47	16.82	48%	26%	6.78	20%
BAHL	12.35	31.32	10.07	26.35	23%	19%	9.97	24%
HBL	12.28	32.46	11.34	29.20	8%	11%	9.80	25%
FABL	4.40	13.14	2.98	7.94	48%	65%	4.45	-1%

Banks	DPS				% YoY		QoQ	
	3Q2024	9M2024	3Q2023	9M2023	3Q2024	9M2024	2Q2024	%
BAFL	3.00	7.00	0.00	3.00	N/A	133%	2.00	50%
BAHL	5.00	12.00	4.50	9.00	11%	33%	3.50	43%
HBL	4.00	12.00	2.25	5.75	78%	109%	4.00	0%
FABL	1.00	5.00	1.00	2.00	0%	150%	2.00	-50%

Source: Company Accounts, BMA Research

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Old rating system

Valuation Methodology

To arrive at our period end target prices, BMA Capital uses different valuation methodologies including

- Discounted cash flow (DCF, DDM)
- Relative Valuation (P/E, P/B, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)