

Pakistan Banks

1QCY25 Previews: Dividends intact despite softening yields

We estimate profitability of ISL coverage bank to decline by ~10%/5% YoY/QoQ. The decline is primarily attributable to falling yield resulting in NIMs compression along with moderation in non-funded income. On the flip side, operating expenses are expected to decline sequentially, while lower provision expense during the quarter is expected to provide some respite to the bottom-line. In 1QCY25, we project HBL/UBL/MCB/MEBL/BAFL to post EPS of PKR6.0/19.8/11.9/11.1/5.2, respectively. On dividend payouts, we expect absolute dividend amount to remain intact for this quarter supported by comfortable capital buffers. We expect HBL/UBL/MCB/MEBL/BAFL to announce DPS of PKR4.3/11.0/9.0/7.0/2.3, respectively.

The sector's NIMs are expected to witness softening in 1QCY25, amid decline in asset yields, as reflected in secondary market trends. However, the impact will be partially offset by the 200bps reduction in the policy rate at the end of CY24 and 100bps cut in Jan'25. The cumulative impact of these rate cuts is likely to be more pronounced during 1QCY25, in the form of lower cost of funds during this quarter. Non-funded income is also expected to moderate in 1QCY25, as banks had recorded healthy capital gains in the preceding quarters.

The negative impact of softer NIMs and lower non-markup income is likely to be mitigated by a sequential decline in operating expenses, which were elevated in the previous quarter due to year-end adjustments. Moreover, credit loss allowances are also expected to decline on a sequential basis, as the sector witnessed a sharp increase in advances towards the end of 4QCY24 to meet ADR requirements. The expected drop in advances in 1QCY25 will result in lower provisioning expenses during the quarter.

On a sequential basis, taxation charges are likely to decrease, as most banks booked higher tax liabilities in 4QCY24 due to the incidence of higher tax rates at year-end. However, on a YoY basis, taxation expense is expected to rise, due to higher effective tax rate.

ISL Banking Sector 1QCY25 Earning Preview

PKR/sh	1QCY25E	1QCY24	4QCY24	YoY	QoQ	DPS
HBL	6.0	10.4	9.8	-42%	-39%	4.3
UBL	19.8	13.1	21.3	52%	-7%	11.0
MCB	11.9	15.0	8.9	-21%	34%	9.0
MEBL	11.1	14.2	13.4	-22%	-17%	7.0
BAFL	5.2	6.3	3.0	-17%	76%	2.3

Source: Company accounts, Insight Research

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Analyst certifications and important disclosures are in the end.

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- Discounted cash flow (DCF)
- Relative Valuation (P/E, P/Bv, P/S etc.)
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Frequently Used Acronyms

TP	Target Price	DCF	Discounted Cash Flows	FCF	Free Cash Flows
FCFE	Free Cash Flows to Equity	FCFF	Free Cash Flows to Firm	DDM	Dividend Discount Model
SOTP	Sum of the Parts	P/E	Price to Earnings ratio	P/Bv	Price to Book ratio
P/S	Price to Sales	EVA	Economic Valued Added	BVPS	Book Value per Share
EPS	Earnings per Share	DPS	Dividend per Share	DY	Dividend Yield
ROE	Return on Equity	ROA	Return on Assets	CAGR	Compounded Annual Growth Rate

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