

COMMERCIAL BANKS

Soaring inflation and beginning of monetary tightening to provide stimulus

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We expect the SBP to raise the interest rate by around 100-200 bps during the current fiscal year to combat inflation which is expected to rise due to the surge in petroleum prices and power tariff coupled with rising international commodity prices and depreciating Pak rupee

BAHL, BAFL, MCB, BOP, and MEBL to remain our top picks during current scenario

Supply Chain Disruptions to Cause High Inflation

Restrictions introduced to stop the spread of the coronavirus disease temporarily closed the economies and severely disrupted the global supply chains. Near-record supply chain disruptions have led to the fastest rise in global input prices since August 2008. Recently, the GoP has increased the petrol price by Rs10.49 to a record high of Rs137.79 per liter to pass on the impact of rising international crude oil prices. Similarly, the power tariff has also been increased by Rs1.39 per unit to fulfill the demand of the IMF. The significant surge in petroleum prices and power tariff coupled with rising international commodity prices and depreciating Pak rupee is expected to massively increase the inflation rate in the coming days.

Uptick in Interest Rate is Inevitable Now

Abrupt shifts in local fundamentals since Mar'20 due to the COVID-19 had pushed the local banking sector into a backdrop of low-interest rates as the SBP decided to grab the policy rate into a negative real interest rate territory by lowering it to 7% from the peak of 13.25% to provide stimulus to the suffering economy. Later on, the SBP took an unusual step in Jan-21 by issuing forward guidance according to which the MPC would adjust the policy rate gradually to achieve mildly positive real interest rates as the economy started showing a sharp recovery fueled by the robust growth in remittances and government's policy of keeping the businesses open with SOPs amid the third wave of Covid-19. After providing this forward guidance, the SBP decided to implement it after 8 months and raised the interest rate by 25 bps to 7.25% in Sep-21. We expect it to be the beginning of the long-awaited monetary tightening phase which could provide a stimulus to the banking sector. Going forward, we expect the SBP to raise the interest rate by around 100-200 bps during the current fiscal year to moderate growth and combat rising inflation.

Strong Growth in Bank Deposits to Enhance Profitability

Bank deposits have grown by 16% YoY during the first nine months (January-September) of the calendar year 2021 due to record growth in the remittances which ultimately translated into local currency and found a place in banks. Resultantly, the total investments and advances of the scheduled banks have been increased by 23.4% YoY and 9.6% YoY respectively during 9MCY21. Going forward, we expect the bank deposits growth to remain robust in the future as well amid the government's effort to document the economy and strong growth in remittances due to the worldwide economic recovery after the removal of lockdowns.

Recommended Picks

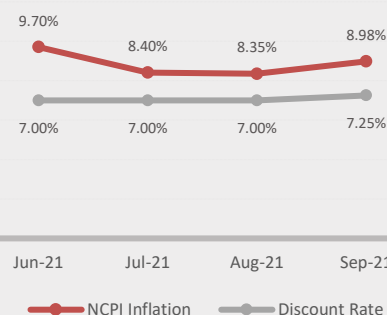
Four commercial banks come under our coverage i.e. BAHL, BAFL, MCB, and BOP. All of these banks remain our top picks with the Jun-22 targets of Rs.90, Rs.42, Rs.210, and Rs.12 respectively. Other than these commercial banks, an Islamic bank i.e. MEBL is also trading at a lucrative valuation considering consistent growth in its deposits and profitability.

Key Statistics

Scripts	LDPC	Jun-22 TP	Return
BAHL	69.30	90.00	29.9%
BAFL	35.80	42.00	17.3%
MCB	158.00	210.00	32.9%
BOP	8.75	12.00	37.1%

Scripts	1HCY21 EPS	Dividend	Div. Yield
BAHL	8.13	4.50	6.5%
BAFL	3.90	4.00	11.2%
MCB	12.40	20.00	12.7%
BOP	2.12	1.00	11.4%
MEBL	7.75	6.00	4.3%

National CPI vs Discount Rate



Sources: ACPL Research, Company Financials, PSX

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TP	Target Price	CAGR	Compound Annual Growth Rate	FCF	Free Cash Flows
FCFE	Free Cash Flows to Equity	FCFF	Free Cash Flows to Firm	DCF	Discounted Cash Flows
PE	Price to Earnings Ratio	PB	Price to Book Ratio	BVPS	Book Value Per Share
EPS	Earnings Per Share	DPS	Dividend Per Share	ROE	Return of Equity
ROA	Return on Assets	SOTP	Sum of the Parts	LDCP	Last Day Closing Price

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- II. Dividend Discount Model
- III. Relative Valuation Model
- IV. Sum of Parts Valuation

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HOLD	Between -5% to 15%
SELL	Less than and equal to -5%

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Market Weight	Neutral
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