



**Advances grow by 17% in 2017;
ADR improves to 53%**

Umair Naseer^{AC}

umair.naseer@topline.com.pk

Tel: +9221-35303330, Ext: 119

Topline Securities, Pakistan



www.jamapunji.pk

ASIAMONEY

Best Local Brokerage House
Brokers Poll 2011-14, 2016-17



Best Local Brokerage House 2015-16

Advances continue to grow led by economic growth

- Advances of the banking sector grew by 17% in 2017 which is in line with growth registered during last year. Advances to deposit ratio (ADR) however improved to 53% in 2017 versus 50% in 2016. This indicates an encouraging trend as growth in advances outpaced deposit growth during the year.
- Growth in advances during the year could be attributed to 1) rising economic growth, 2) multi-decade low interest rates, and 3) rising Large Scale Manufacturing (LSM) growth and capacity expansions.
- This trend is also evident from rising credit to private sector which is up 11% YoY in 11M2017 as compared to 6% growth in same period last year. Similarly, consumer financing also increased by 19% during the period under review led by increasing car financing.
- Going ahead, advances could grow further despite our expectation of rate hike as ADR is still low compared to level of over 70% seen in 2008.
- Deposits of the banks in 2017 increased by 10% in-line with expectations as compared to 20% deposit growth registered last year. Banks during the year kept their focus on improving their deposit profile rather than going after volumes, we believe.
- Sector investments continued to rise, posting growth of 18% in 2017. Consequently, IDR of the banks increased to 69% vs. 65% last year.

Banking Sector Statistics (Rsbm)					
	Advances	Deposits	Investments	ADR	IDR
2012	3,857	6,683	3,889	58%	58%
2013	4,071	7,529	4,070	54%	54%
2014	4,458	8,342	5,108	53%	61%
2015	4,782	9,305	6,726	51%	72%
2016	5,572	11,203	7,233	50%	65%
2017	6,530	12,362	8,542	53%	69%

Source: SBP, Topline Research

Advances continue to grow led by economic growth

- Banks as of Dec 2017 stand more leveraged compared to last year. They have used repo borrowing to earn a positive spread on investments. This is evident from the SUM of IDR and ADR which has crossed 122% vs. 114% last year.
- We maintain our 'Overweight' stance on the banking sector as the sector is anticipated to benefit from expected rise in interest rates from 2018. Our top pick for the sector includes Habib Bank (HBL), United Bank (UBL) and Bank Al Habib (BAHL).

Banks: Key Numbers					
	2015A	2016A	2017E*	2018F	2019F
PE	8.4	8.3	8.7	7.5	6.41
Earnings Growth	11%	1%	-3%	15%	18%
PBV	1.4	1.3	1.3	1.1	1.0
Dividend Yield	9%	9%	6%	7%	7%
ROE	16%	16%	16%	16%	18%

Source: Topline Research

***Adjusted for outliers**

Analyst Certification and Disclosures

The research analyst(s), denoted by an “AC” on the cover of this report, primarily involved in the preparation of this report, certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject companies/securities/sectors and (2) no part of his/her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

Furthermore, it is stated that the research analyst or its close relative have neither served as a director/officer in the past 3 years nor received any compensation from the subject company in the past 12 months.

Additionally, as per regulation 8(2)(i) of the Research Analyst Regulations, 2015, we currently do not have a financial interest in the securities of the subject company aggregating more than 1% of the value of the company.

Rating System

Topline Securities employs three tier ratings system to rate a stock, as mentioned below, which is based upon the level of expected return for a specific stock. The rating is based on the following with time horizon of 12-months.

Rating	Expected Total Return
Buy	Stock will outperform the average total return of stocks in universe
Neutral	Stock will perform in line with the average total return of stocks in universe
Sell	Stock will underperform the average total return of stocks in universe

For sector rating, Topline Securities employs three tier ratings system, depending upon the sector’s proposed weight in the portfolio as compared to sector’s weight in KSE-100 Index:

Rating	Sector’s Proposed Weight in Portfolio
Over Weight	> Weight in KSE-100 Index
Market Weight	= Weight in KSE-100 Index
Under Weight	< Weight in KSE-100 Index

Ratings are updated daily to account for the latest developments in the economy/sector/company, changes in stock prices and changes in analyst’s assumptions or a combination of any of these factors.

Valuation Methodology

To arrive at our 12-months Target Price, Topline Securities uses different valuation methods which include: 1). Present value methodology, 2). Multiplier methodology, and 3). Asset-based methodology.

Research Dissemination Policy

Topline Securities endeavors to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as email, fax mail etc. Nevertheless, all clients may not receive the material at the same time.

Disclaimer

This report has been prepared by Topline Securities and is provided for information purposes only. Under no circumstances this is to be used or considered as an offer to sell or solicitation of any offer to buy. While reasonable care has been taken to ensure that the information contained therein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. From time to time, Topline Securities and/or any of its officers or directors may, as permitted by applicable laws, have a position, or otherwise be interested in any transaction, in any securities directly or indirectly subject of this report. This report is provided only for the information of professional advisers who are expected to make their own investment decisions without undue reliance on this report. Investments in capital markets are subject to market risk and Topline Securities accepts no responsibility whatsoever for any direct or indirect consequential loss arising from any use of this report or its contents. In particular, the report takes no account of the investment objectives, financial situation and particular needs of investors, who should seek further professional advice or rely upon their own judgment and acumen before making any investment. The views expressed in this report are those of Topline Research Department and do not necessarily reflect those of Topline or its directors. Topline as a firm may have business relationships, including investment-banking relationships, with the companies referred to in this report.

All rights reserved by Topline Securities. This report or any portion hereof may not be reproduced, distributed or published by any person for any purpose whatsoever. Nor can it be sent to a third party without prior consent of Topline Securities. Action could be taken for unauthorized reproduction, distribution or publication.