



Banking Sector Profits down 3% YoY in 2Q2018

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Profits down 3% as Big Banks witness uptick in expenses

Consolidated Income Statement

Rsmn	2Q2018	2Q2017	1Q2018	YoY	QoQ
Mark-up / Interest earned	247,131	224,532	235,749	10%	5%
Mark-up / Interest expense	122,890	108,964	118,263	13%	4%
Net Mark-up / Interest income	124,241	115,568	117,486	8%	6%
Total provisioning Expense	3,260	3,114	-1,308	5%	NM
Non-Interest Income	48,401	50,910	45,421	-5%	7%
Share of Profit from associates	322	296	696	9%	-54%
Non-Interest Expense	102,910	90,653	100,478	14%	2%
Profit before taxation	66,789	73,059	61,849	-9%	8%
Tax Expense	27,189	31,913	22,343	-15%	22%
Profit attributable to shareholders	39,453	40,862	39,292	-3%	0%

Source: Company Accounts, Topline Research

- Pakistan Banking Sector profitability declined by 3% YoY to Rs39bn mainly on account of increased expenses incurred by big banks on the back of pension & compliance cost. For our analysis, we have taken results of all listed banks that have announced 2Q2018 financial results except Summit Bank (SMBL).
- Net Interest Income (NII) of the banks improved by 8% YoY to Rs124bn in 2Q2018, led by higher interest rates & improved deposit mix. SBP had raised policy rate by 75bps by 2Q2018 vs. 2Q2017 & a further 100bps has been increased in Jul 2018 which will continue to support NII going ahead.

Profits down 3% as Big Banks witness uptick in expenses



- Mid tier banks remained outperformers as they posted above average NII growth during the quarter. Amongst large banks, MCB Bank (MCB) and National Bank (NBP) posted NII growth of 13%.
- Total provisioning expense of sector was up by 5% as banks continued to see major NPL recoveries as bank booked provision reversals. United Bank (UBL) and National Bank (NBP) continued to book higher provisions charge against NPLs as they booked provision expense of Rs2.3bn & Rs2.6bn respectively.
- Non-markup expense of the sector was up 14% to Rs102bn as big banks like UBL and Habib Bank (HBL) registered higher cost amid pension charges and compliance cost. UBL booked additional pension charge of Rs2bn during 2Q2018, whereas HBL increased compliance cost on the back of ongoing concerns on its international operations. This restricted bottom-line growth of the sector.
- Along with higher Non-markup expense, Non-markup income of the sector was down by 5% YoY to Rs48bn driven by lower capital gains registered by the banks on account of lower gains on equities and Pakistan Investment Bonds (PIBs).
- During the period under review, effective tax rate of the sector also declined to 41% in 2Q2018 as compared to 44% in 2Q2017 as banks booked super taxation on the basis of 6M2018 profitability compared to full year super tax charged during same period last year after change in tax laws.
- We maintain our 'Overweight' stance on banking Sector as the sector is anticipated to benefit from rising interest rates scenario. We anticipate SBP to increase interest rates by further 225bps to 9.75% by 2020. BAFL, BAHF and MCB are our top picks for the sector.

Bank wise Net Interest Income & Profitability

Banks: 2Q2018 Financial Results

Name	Symbol	NII (Rsmn)	YoY	QoQ	Profits (Rsmn)	YoY	QoQ	EPS
Allied Bank	ABL	7,800	-6%	-3%	3,401	16%	-12%	3.0
Askari Bank	AKBL	4,703	16%	11%	1,140	-31%	-17%	0.9
Bank Al Habib	BAHL	7,896	21%	12%	2,144	2%	4%	1.9
Bank Alfalah	BAFL	7,803	3%	3%	2,912	41%	-11%	1.8
Bank Islami	BIPL	1,382	12%	2%	76	-159%	-14%	0.1
Bank of Khyber	BOK	1,394	16%	0%	329	-43%	-27%	0.3
Bank of Punjab	BOP	4,527	17%	-3%	1,899	206%	-2%	0.7
Faysal Bank	FABL	3,817	9%	13%	1,193	20%	-2%	0.8
Habib Bank	HBL	20,319	-4%	2%	3,360	-48%	-27%	2.3
Habib Metropolitan Bank	HMB	4,184	17%	10%	1,379	43%	-13%	1.3
JS Bank	JSBL	2,349	56%	11%	336	691%	-11%	0.3
MCB Bank	MCB	11,919	13%	5%	4,760	-38%	1%	4.0
Meezan Bank	MEBL	6,636	29%	13%	2,211	50%	0%	2.1
National Bank of Pakistan	NBP	16,078	13%	13%	7,595	73%	50%	3.6
Samba Bank	SBL	627	7%	-1%	50	-42%	-87%	0
Silk Bank	SILK	1,764	31%	14%	486	42%	87%	0.1
Soneri Bank	SNBL	1,645	0%	-5%	316	46%	-52%	0.3
Standard Chartered Bank	SCBPL	4,643	4%	7%	2,459	4%	-10%	0.6
United Bank	UBL	14,758	0%	3%	3,409	-40%	22%	2.8
Sector		124,241	8%	6%	39,453	-3%	0%	

Source: PSX Notice, Topline Research

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