

On the cusp of another macro bull cycle

May 16, 2017

Sector Performance

	1M	3M	12M
Absolute %	10.9	3.7	38.9
Relative to KSE %	4.1	0.1	(4.4)

Banking Industry EPS Estimates (PKR/sh)

EPS	CY16	CY17F	CY18F	CY19F
HBL	23.3	24.6	27.4	30.7
UBL	22.7	24.2	26.5	29.2
MCB	19.7	20.7	22.7	25.0
NBP	10.7	10.6	11.5	12.6
ABL	12.6	13.1	14.3	15.7
BAFL	5.0	5.1	5.4	5.8
BAHL	7.3	6.9	7.2	7.9

Source: BIPLS Research

Banking Industry D/Y Estimates

D/Y	CY16	CY17F	CY18F	CY19F
HBL	5%	5%	5%	6%
UBL	5%	5%	5%	6%
MCB	6%	6%	7%	8%
NBP	11%	11%	12%	14%
ABL	7%	7%	8%	8%
BAFL	0%	0%	2%	3%
BAHL	6%	5%	6%	6%

Source: BIPLS Research

Valuation Comparison

D/Y	Rating	Dec'17 TP	CY17 D/Y	Total Return
HBL	Buy	341	5%	16%
UBL	Buy	296	5%	16%
MCB	Hold	252	6%	2%
NBP	Buy	83	11%	33%
ABL	Buy	126	7%	37%
BAFL	Sell	43	0%	-2%
BAHL	Buy	68	5%	16%

Source: BIPLS Research

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Pakistan banks, like the economy in general, are well geared for a sustainable bull cycle. Major economic indicators such as pick up in LSM growth, increased disposable income and government spending on infrastructure projects all point towards higher sustainable growth in the country. A new wave of expansionary cycle is already underway and is likely to trigger a huge demand for credit. Consumer financing is also likely to pick amid improved economic indicators and increase in discretionary income. Asset quality of the BIPLS' banking universe is extremely comfortable with systematic coverage approaching ~92%, which gives the industry a cushion in case there is a buildup in infected loans. Finally, the improved fundamentals are yet to be priced in completely with banks trading close to their long term average P/B multiples. Were the banks to re-rate to CY14 highs again (+1.5 SD above the mean), valuations are likely to improve by 20%-25% above current valuations. Two key factors that may trigger this valuation are i) rising interest rates and ii) reclassification into MSCI EM Index where the banks have a significant representation.

(Detailed report to follow shortly)

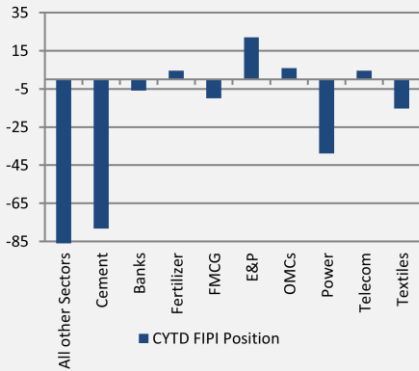
Economy - taking steps in the right direction: Going forward, the economic growth outlook is far more supportive than it has been at any point in the past 10 years with country expected to report 5.0%+ average GDP growth over the foreseeable future. The growth is likely to be driven by the manufacturing sector which benefits from mega projects under CPEC and otherwise. The inflation figures, though likely to pick up, are also expected to remain manageable around 6% - 7% mark. A reversal in benchmark DR is likely (175bps over our investment horizon) but the same will be smoothed over 2yrs period and is unlikely to stunt the country's growth story in our view.

Economic growth to stimulate advances growth: While the current interest rate does have a bearing on consumer borrowings, future economic outlook is the primary driver for the growth in advances in the country. A sound economic outlook driven by mega development and growth projects and increase in consumer disposable income will likely result in higher credit off-take from private sector going forward. Many manufacturing sectors have already reached their optimal capacities and the demand for capacity expansions has become profound. Going forward, we will likely see a shift in advances from working capital related financing to CAPEX financing.

Banks may re-rate to higher multiples: Despite 33% gains for the sector in CY16, the BIPLS universe still trades close to its LT P/B multiple. Like in the past, and also as the cross-sectional analysis will suggest, the banks could re-rate to +1.5 SD above the mean. Were the banks to re-rate to CY14 highs again (+1.5 SD above the mean), valuations are likely to improve by 20%-25% above current valuations. Two key factors are likely to trigger this valuation re-rating i) rising interest rates and ii) reclassification into MSCI EM Index where the banks have a significant representation.

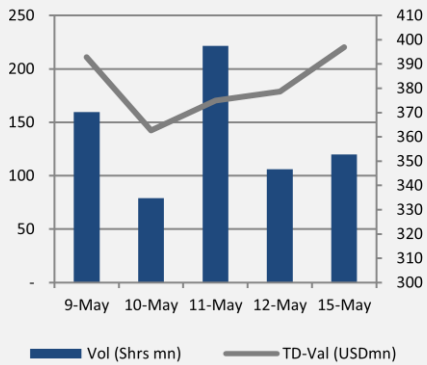
Investment Perspective: BIPLS banking universe trades at a CY18 forward P/B of ~1.6x. We highlight HBL and UBL as potential outperformers on the back of i) participation in economic growth and ii) attractive yields on investment portfolio, respectively. In addition to the two mentioned, ABL and BAHL also offer decent upsides from current levels.

Sector wise Net FIPI (USDmn)



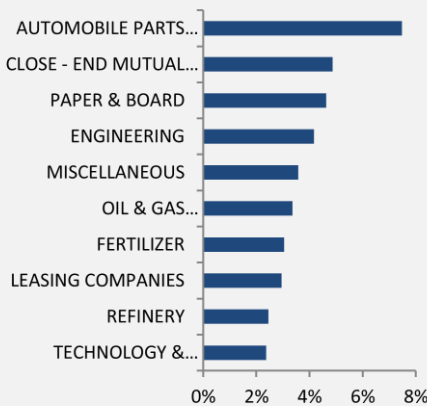
Source: NCCPL

KSE Market Participation



Source: PSX

Sector Performance WoW



Source: PSX

Morning News

PKR100bn sales tax blocked by FBR (Recorder): FBR has blocked PKR100bn sales tax refund and rolled back refund payment order.

10MFY17 FDI up 13% YoY (Recorder): FDI posted an increase of 13% YoY in 10MFY17 supported by Chinese investment under CPEC.

Water shortage delay cotton sowing (Recorder): Acute water shortage and ill-planning have delayed sowing of cotton crop in Punjab.

Payments released for adding 6,020MW (Dawn): Government is making full payments to the power projects to deliver about 6,020 MW of additional power generation capacity to the national grid by December.

World Markets and Commodity Prices

International Equity Markets

Asian Markets (Last trading session's)

	Price	Abs. Chg.	% Chg.
All Ordinaries	5,868.4	-2.6	-0.04
Shanghai Composite	3,090.2	6.7	0.22
Hang Seng	25,371.6	215.3	0.86
BSE 30	30,322.1	134.0	0.44
Jakarta Composite	5,688.9	13.7	0.24
KLSE Composite	1,778.7	2.8	0.16
Nikkei 225	19,869.9	-14.1	-0.07
NZSE 50	7,429.9	-22.4	-0.30
Straits Times	3,264.2	8.9	0.27
Seoul Composite	2,290.7	4.6	0.20
Taiwan Weighted	10,036.8	50.0	0.50
KSE-100 Index	52,387.9	637.0	1.23

Source: Bloomberg

European Markets (Last Trading Session's Rates)

	Price	Abs. Chg.	% Chg.
ATX	3,133.6	51.5	1.7
BEL-20	4,023.7	15.3	0.4
CAC 40	5,417.4	12.0	0.2
DAX	12,807.0	36.6	0.3
AEX General	535.4	0.7	0.1
Swiss Market	9,108.3	-15.2	-0.2
FTSE 100	7,454.4	19.0	0.3
American Markets			
Dow Jones Ind. Average	20,981.9	85.3	0.4
NASDAQ Composite	6,149.7	28.4	0.5
NASDAQ -100	5,704.5	17.7	0.3
S&P 500 Index, RTH	2,402.3	11.4	0.5

Foreign Portfolio Investment in Equities

Country	Day (US\$m)	WTD (US\$m)	MTD (US\$m)	YTD (US\$m)	12M (US\$m)	Date
Pakistan	-1.8	-1.8	-23.6	-221.2	-444.8	15-05
India	142.5	486.2	359.3	6,713.2	7,602.1	12-05
Indonesia	-55.7	-55.7	380.3	2,056.4	3,123.9	15-05
Japan	-	2,142.7	2,142.7	-2,192.3	6,983.1	05-05
Philippines	2.2	2.2	107.3	-43.4	-30.6	15-05
South Korea	-80.8	-142.6	902.4	6,619.9	14,443.7	16-05
Sri Lanka	-0.1	-0.1	2.4	110.4	150.3	15-05
Taiwan	6.2	6.2	1,421.4	8,160.9	16,138.3	15-05
Thailand	-14.7	-14.7	12.9	249.7	2,144.4	15-05
Vietnam	-0.8	-0.8	-3.7	239.3	-5.6	15-05
Abu Dhabi	-3.8	-3.8	36.0	382.9	648.6	14-07

Source: Bloomberg, NCCPL

Forex and Money Market snapshot

	Current	Abs. Chg.	% Chg.
6-Month KIBOR (Offer)	6.1	6.2	-0.01
12-M T-Bill (Average)	6.0	6.0	0.00
10- year PIB (Average)	8.2	8.3	-0.02
PkR/ US\$	104.8	104.8	-0.04

Source: Bloomberg

Commodity Prices

	Price	Abs. Chg.	% Chg.
WTI (Crude Oil)	48.9	1.0	2.1
Gold	1,230.7	2.6	0.2
CRB Index	182.7	1.1	0.6

Source: Bloomberg

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The rating system

Rating Definition	
Buy	Total stock return \geq 15%
Hold	0% \leq Total stock return $<$ 15%
Sell	Total stock return $<$ 0%

* Total stock return = capital gains + dividend yield

Valuation Methodology

To arrive at our period end target prices, BIPL Securities 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.)