



AKD Securities Limited

TREC Holder & Registered Broker
Pakistan Stock Exchange

Equity Research / Pakistan



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Today's Daily

■ Pakistan Banks: Nov'16 Sector update

Latest banking sector data for Nov'16 indicates that banks' balance sheet (BS) continues to grow at strong levels (+9%YoY) to PkR12.3tn. With banks lowering their preference for risk-free GoP securities (investments down 9% since Jun'16 while up 5%YoY marginally), private sector credit growth has picked up pace, posting an encouraging growth of 11.7%YoY in Nov'16. Consumer financing grew by a healthy 20.1%YoY in Nov'16 (10.3% of the private sector loans) as banks look to re-focus on high margin auto finance and personal loans in the current lower inflationary environment. Expecting spreads to bottom out this year as interest rates rise next year (AKD expects reversal in 1HCY17), we retain our liking for banks that have: 1) the room to benefit from loan growth, 2) an adequate CAR buffer, 3) achieved economies of scale and 4) a strong non-interest income franchise. Playing this theme, we like HBL and UBL however, post price-bull run over the last 6 months, we advise building position on dips.

KSE100 - Index

Current 47,666.66
Previous 47,424.63
Chg. 0.51%

Mkt Cap. (PKRbn/US\$bn)

Current 9,570 / 91.28
Previous 9,517 / 90.78
Chg. 0.55%

Daily Turnover (mn)

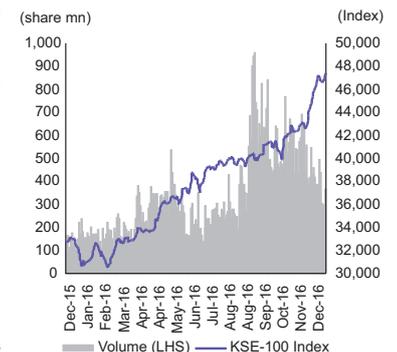
Current 390.85
Previous 273.09
Chg. 43.1%

Value Traded (PKRmn/US\$mn)

Current 18,622 / 177.63
Previous 16,473 / 157.13
Chg. 13.0%

News and Views

- Ogra has recommended to the GoP to make an increase of up to 16% in prices of all petroleum products for the month of Jan'17. According to the summary an increase of PkR0.31/ltr, PkR3.61, PkR6.93/ltr and PkR3.48/ltr has been recommended in the price of Motor Spirit (Petrol) and HSD, Kerosene Light Diesel Oil (LDO) respectively.
- CNG prices have been increased by up to PkR3.5/kg across Sindh, the first hike following the government's decision to deregulate the country's CNG market.
- In a new development Russia will install 60 LPG AirMix plants in Pakistan out of which 24 will be set up in Balochistan. The remaining will be set up at Muree, in Gilgit-Baltistan and AJK.
- Pakistan and China have formally approved to include ML-1 Peshawar-Karachi railway line project and some infrastructure projects in the framework of the CPEC, jacking up its overall size from US\$46bn to US\$54bn as well as establishing eight industrial estates located in all the four provinces and special areas.



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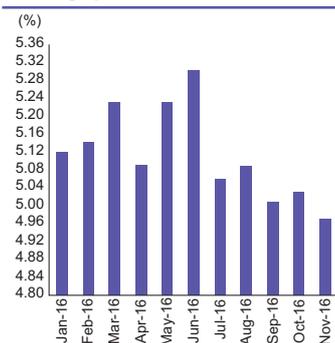
Spreads: With 11MCY16 spreads registering at an average 5.12%, weighted average banking sector spreads have clocked in at 4.97% for Nov'16, lower by 32bps YoY/ 6bps MoM. The downtrend in spreads is more on account of a 72bps drop in lending yields to 8.06% against 40bps decline in deposit costs to 3.09%. Expecting spreads to continue trending in the 4.8%-5.0% range, we believe spreads should bottom out on expectations of possible monetary tightening (AKD expects interest rate reversal in May'17).

BS growth: Latest banking sector data indicates that banks' balance sheet continues to grow at strong levels (+9%YoY) to PkR12.3tn. With banks lowering their preference for risk-free GoP securities (investments down 9% since Jun'16 while up 5%YoY marginally), private sector credit growth has picked up pace, posting an encouraging growth of 11.7%YoY in Nov'16. In this regard, selected sectors such as Electricity (+21%YoY), Textiles (+18%YoY) and Foods (+14%YoY) have been the key recipients of industry's credit disbursements.

Consumer financing continues to expand: Consumer financing grew by a healthy 20.1%YoY in Nov'16 (10.3% of the private sector loans in Nov'16 vs. 8.5% in Nov'15) as banks look to re-focus on high margin auto finance and personal loans in the current lower inflationary environment. Going forward, while interest rates are poised to go up, they are still likely to remain in mid- single digit keeping room available for continued growth in advances.

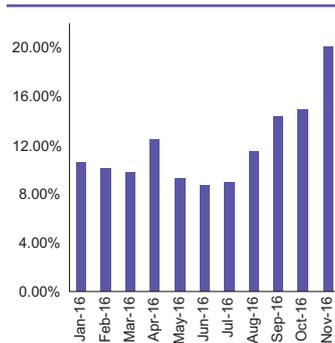
Investment perspective: Expecting spreads to bottom out this year as interest rates rise next year (AKD expects reversal in 1HCY17), we retain our liking for banks that have: 1) the room to benefit from loan growth, 2) an adequate CAR buffer, 3) achieved economies of scale and 4) a strong non-interest income franchise. Playing this theme, our preferred plays include HBL and UBL however, post the price-bull run over the last 6 months, we advise building position on dips.

Banking spreads on a downtrend



Source: SBP & AKD Research

Consumer financing growth on the roll



Source: SBP & AKD Research



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Neutral	≤ 5% to ≥ -5% potential
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Sell	≤ -20% downside potential



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