



## AKD Securities Limited

TREC Holder & Registered Broker  
Pakistan Stock Exchange

Equity Research / Pakistan



REP-108  
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### Today's Daily

#### ■ Pakistan Banks: Pension case comes to a conclusion

After gaining 9.5%MoM in Jan'18, the AKD Banking Universe lost ~1% MTD primarily on concerns pertaining to the outcome of pension case. In this regard, it has been reported that the Supreme Court (SC) has ordered banks to upward revise pension payout to a minimum Pkr8,000 per month (banks had been suggesting Pkr5,250 p.m.) with an annual growth of 5% in payments. With channel checks suggesting applicability on a prospective basis, the impact in such a scenario will be two pronged: 1) a one-off impact arising from revision of the defined benefit obligation – differential to be routed through P&L and 2) increase in banks' pension related expenses on a recurring basis. We have presented earnings sensitivity to revision in pension obligation for every 1000 employees assuming various pension differential levels where our calculations indicate impact in the range of Pkr0.33-0.56 per share for different banks. Moreover, banking sector results are to commence this week with MCB (Feb 15'18), UBL (Feb 19'18), NBP (Feb 20'18) and ABL (Feb 21'18) scheduled to declare results. Earnings performance in CY17F is expected to remain subpar with profits for B-6 expected to remain flat YoY (adjusting for HBL) as lower yield on earnings assets continue to keep NIMs under pressure. More specifically, BAFL and MCB, outshine peers remaining the only banks expected to post earnings growth on the back of continued improvement in credit quality alongwith double digit growth in fee income.

#### KSE100 - Index

Current 43,690.36  
Previous 43,515.08  
Chg. 0.40%

#### Mkt Cap. (PkrBn/US\$bn)

Current 9,080 / 82.13  
Previous 9,050 / 81.87  
Chg. 0.33%

#### Daily Turnover (mn)

Current 203.69  
Previous 215.32  
Chg. -5.4%

#### Value Traded (PkrMn/US\$m)

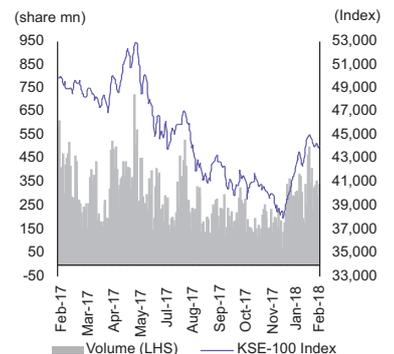
Current 7,565 / 68.43  
Previous 7,940 / 71.82  
Chg. -4.7%

AKD Daily

Wednesday, Feb 14, 2018

#### News and Views

- The Trump administration has asked Congress to approve US\$336mn of civil and military aid to Pakistan for the next fiscal year, arguing that the proposed military assistance will help defeat Al Qaeda and the militant Islamic State (IS) group.
- The government's incentives package to increase the country's exports is in final stage, which would offer subsidized rates of electricity and gas to the exporters and is likely to be announced within next couple of weeks. An official said the exporters would have to show 20-25 percent growth in their exports to avail the package.
- A government's proposal to eliminate subsidy on urea is likely to offset the benefit of a three percent reduction in sales tax on the key agriculture input. An industry official said the reduction of general sales tax on urea from 5 percent (Rs70/bag) to 2 percent (Rs28/bag) would bring down a bag price by Rs42.



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After gaining 9.5%MoM in Jan'18, the AKD Banking Universe lost ~1% MTD primarily on concerns pertaining to the outcome of pension case. In this regard, it has been reported that the Supreme Court (SC) has ordered banks to upward revise pension payout to a minimum PkR8,000 per month (banks had been suggesting PkR5,250 p.m.) with an annual growth of 5% in payments. With channel checks suggesting applicability on a prospective basis, the impact in such a scenario will be two pronged: 1) a one-off impact arising from revision of the defined benefit obligation – differential to be routed through P&L and 2) increase in banks' pension related expenses on a recurring basis. We have presented earnings sensitivity to revision in pension obligation for every 1000 employees assuming various pension differential levels where our calculations indicate impact in the range of PkR0.33-0.56 per share for different banks. Moreover, banking sector results are to commence this week with MCB (Feb 15'18), UBL (Feb 19'18), NBP (Feb 20'18) and ABL (Feb 21'18) scheduled to declare results. Earnings performance in CY17F is expected to remain subpar with profits for B-6 expected to remain flat YoY (adjusting for HBL) as lower yield on earnings assets continue to keep NIMs under pressure. More specifically, BAFL and MCB, outshine peers remaining the only banks expected to post earnings growth on the back of continued improvement in credit quality alongwith double digit growth in fee income.

**Pension case - the background:** The pension issue was initially raised by pensioners of the state run National Bank, claiming higher entitlement to benefits (70% pension) instead of the reduced 33%. To note, the bank reduced pension rate post dissolution of the Pakistan Banking council, as it attained the status of an autonomous entity under MoF. Dismissing NBP's plea, the court ended up giving a ruling in favor of the pensioners stating that the GoP's notification, dated 1977, regarding 70% pension for NBP employees was statutory in nature and all employees that retired between 1999 and 2003 should be duly compensated. Consequently, NBP was ordered to release claims worth PkR48bn as payment obligation. Similarly, pre-privatization officers and executives of other banks (UBL, HBL, ABL and possibly MCB) also sought the court's help for increasing their pension. In this regard, it has been reported that the Supreme Court (SC) has ordered the banks to increase pension payout to a minimum PkR8,000 per month (banks had been suggesting PkR5,250 p.m.) with an annual growth of 5% in payments.

**Earnings impact below market expectations:** With channel checks suggesting applicability on a prospective basis (on future pension obligations), the impact in this case will be two pronged in our view: 1) a

### Dec'16: Pension fund obligation

	PV of defined benefit obligation (PkR)	Emp. under pension scheme (No.)
UBL	2,932	6,829
HBL	4,970	2,743
ABL	2,002	1,262
MCB	3,519	n.m.

\*n.m = not mentioned Source: Company Reports

### Pre tax impact for revision in pension obligation for every 1000 employees

PkR/sh	PkR5000	PkR6000	PkR6500
UBL	0.40	0.48	0.52
HBL	0.33	0.40	0.44
ABL	0.43	0.51	0.56
MCB	0.41	0.50	0.54

Source: Co. Report & AKD Research



one-off impact arising from revision of the defined benefit obligation – differential to be routed through P&L and 2) increase in bank’s pension related expenses on a recurring basis. As we await further clarity in this regard, we have calculated the potential revision in pension obligation for every 1000 employees assuming various pension differential levels.

**CY17F earnings to end flat:** As a group, we expect the Big-6 banks to post combined NPAT of PkR100.6bn in CY17F as compared to PkR129.7bn in CY16- earnings decline of 22%YoY (post adjusting for HBL, earnings ended up flat). Top-line growth is likely to be constrained on account of lower yield on earning assets amid ongoing PIB substitution and flattish banking spreads with net interest income anticipated to go down by 3%YoY. However, improvement in credit quality( B-6 expected to book reversals worth PkR1.1bn against provisioning charge of PkR2.83bn in CY16) alongwith fee income growth (est. 11%YoY) are likely to be key positives restricting earnings decline.

#### CY17F Earnings snapshot

	(EPS)			(DPS)			
	CY17F	CY16	YoY	4QCY17F	QoQ	4QCY17	CY17
UBL	20.43	22.7	-10%	4.82	-3%	3.00	12.00
HBL	6.76	23.32	-71%	5.81	n.a.	-	7.00
MCB	20.08	18.6	8%	4.40	-5%	4.00	16.00
BAFL	5.88	4.95	19%	1.39	-4%	-	-
NBP*	9.19	10.83	-15%	2.24	-23%	-	-
ABL	11.33	12.84	-12%	2.70	-6%	1.75	7.00

\* Assuming no pension related payment in CY17

Source: Company Report & AKD Research

**Investment Perspective:** Retracing ~1% MTD (after gaining 9.5%MoM in Jan’18), the price performance of B-6 has largely factored in the negativity arising out of the pension case. The impact remains below market expectations where we feel the investors would now re-shift their focus on the fundamental themes of interest rate reversal and higher loan growth, post resolution of the case.



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