

Pakistan Banking Sector

Deposits up 10% MoM, an all time high

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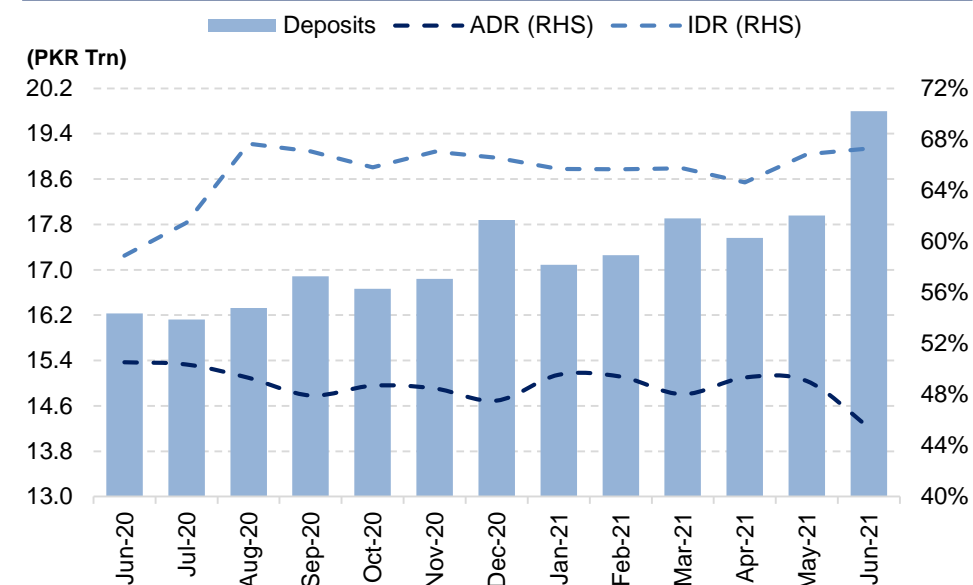
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Pakistan Banking Sector

Banks Balance Sheets Fueled by Investment Book

- Deposits of the banking sector have continued their upward trajectory, clocking in at PKR 19,795bn as at Jun'21, registering a 22% YoY jump while rising by a staggering 10% MoM, an all time high.
- Broad Money (M2) has seen an aggressive growth in tandem, posting a 13.7% YoY growth during FY21 while Currency in Circulation (CiC) is up 13.9% YoY. Pertinently, CiC/M2 has remained almost stagnant at ~30% compared to SPLY.
- Meanwhile credit demand across the country is slowly reviving. Jun'21 showed a 10% YoY jump in Gross Advances to settle at PKR 8,996bn, while portraying a nominal 2% MoM increase. Private sector credit as of May'21 stood at PKR 6,427bn, posting a 6.4% YoY jump, the highest YoY jump since Oct'19 (20-month high).
- Investments have shown a sharp 29% YoY acceleration to clock in at PKR 13,742bn amid weaker demand for advances and abundant liquidity. With interest rates expected to rise this year, banks have aggressively built positions towards the shorter end of the yield curve.
- Gross ADR ratio has settled at 45.45% as at Jun'21 against 50.54% SPLY and 49.07% last month, as banks mobilized liquidity towards investments. IDR stands at 69.42% as at Jun'21 against 65.82% SPLY and 72.78% last month. Banks have favoured risk-free debt instruments to expand their asset base.
- Moreover, banking sector spreads clocked in at 4.44% in May'21 on outstanding deposits (4.99% on fresh deposits).

Exhibit: Deposit increased by 22% YoY to 19.8trn during Jun'21



Source (s): SBP, AHL Research

Exhibit: Total Advances, Deposits and Investments

PKR bn	Jun-21	Jun-20	YoY	May-21	MoM
Advances	8,996	8,202	9.7%	8,811	2.1%
Deposits	19,796	16,229	22.0%	17,955	10.3%
Investments	13,742	10,681	28.7%	13,068	5.2%

Source (s): SBP, AHL Research

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AHL Research uses the following valuation technique(s) to arrive at the period end target prices;

- Discounted Cash Flow (DCF)
- Dividend Discounted Model (DDM)
- Sum of the Parts (SoTP)
- Justified Price to Book (JPTB)
- Reserved Base Valuation (RBV)

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The following risks may potentially impact our valuations of subject security (ies);

- Market risk
- Interest Rate Risk
- Exchange Rate (Currency) Risk

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