



## Banking sector valuations...revisited

Banking sector results have been sanguine during outgoing 1HCY15 despite impact of super tax seems to be imposed on earnings. Bank earnings are derived mainly on mark-up on existing advances alongside gains on government securities.

We believe banking sector is on the verge of increasing advances albeit dwindling *Advance to Deposit ratio (ADR)*. We think finance minister was also concerned about dwindling advances appetite and now once existing lending rates will come down we expect build up in loan books. We believe lending rates may continue to see downward trend. This indeed is a good sign for country's economy in general and corporate sector in particular. Banks on the other hand will focus on core functions instead of huge exposure in government paper.

We have sorted out table based on higher incidence of *Return on Equity (ROE)*. We see at least five banks showing good performance i.e. 18% - 19% ROE viz. HBL, BAHL, MEBL, MCB & ABL. We also see these banks depicting low PEs.

Symbol	CY14 EPS	1HCY15 EPS	P/E	Exp P/E	PBV	ROE %
<a href="#">HBL</a>	21.21	11.53	9.76	8.98	1.85	19.71
<a href="#">BAHL</a>	5.71	3.02	7.53	7.12	1.48	19.46
<a href="#">MEBL</a>	4.56	2.67	9.87	8.43	1.9	19.14
<a href="#">MCB</a>	21.85	12.17	11.64	10.45	2.07	18.7
<a href="#">ABL</a>	13.11	6.42	7.63	7.79	1.35	18.56
<a href="#">UBL</a>	17.91	10.39	9.17	7.91	1.51	17.47
<a href="#">AKBL</a>	3.19	2.41	7.4	4.9	1.2	16.94
<a href="#">HMB</a>	4.7	4.23	7.12	3.95	0.98	14.18
<a href="#">BAFL</a>	3.55	2.33	7.54	5.74	0.92	12.59
<a href="#">FABL</a>	2.06	2.14	7.83	3.77	0.69	9.42
<a href="#">SNBL</a>	1.44	1.00	9.67	6.97	0.89	9.28
<a href="#">NBP</a>	7.06	3.54	7.49	7.46	0.67	8.43
<a href="#">JSBL</a>	0.99	0.53	8.6	8.03	0.65	8.1
<a href="#">SBL</a>	0.22	0.20	32.27	17.75	0.62	2.01
<a href="#">NIB</a>	-0.05	0.14	N/M	7.54	1.29	-3.24

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Few banks are undervalued on the basis of lower PBV vis-a-vis industry PBVs.

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