

BOP

1HCY20 Result Review: BUY Stance Maintained

Equity Research | Commercial Banks | Thursday, 27 August, 2020

BOP has announced its 2QCY20 result where it posted profit after tax of Rs3.6bn (EPS: Rs1.38) in 1HCY20 as compared to profit after tax of Rs4.0bn (EPS: Rs1.52) in same period last year, down by 9.0% YoY.

The company has posted the net interest income of Rs11.5bn against Rs13.1bn in SPLY, recording a negative growth of 11.7% YoY owing to surge in interest cost.

Non-interest income has been increased by 275% YoY to Rs6.9bn as compared to Rs1.8bn during SPLY, mainly due to the increase in gain on securities and foreign exchange income.

Furthermore, the management of the bank has successfully been able to manage the operating cost to income ratio which has been reduced to 44.2% as compared to 46.6% during SPLY.

Lastly, the bank has charged the provision of Rs3.5bn which is significantly higher than the provision of Rs1bn during SPLY.

BOP is currently trading at CY20E PE of 4.55x. Furthermore, the script is trading at a CY20E P/B of 0.51x which offers a discount of 39% relative to its historical 5-year average of 0.84x. We maintain our **BUY** stance on the script with a Justified P/B based Jun-21 TP of Rs.12 which provides an upside potential of 22%. Furthermore, it also offers a dividend yield of 8% which makes the total return of 30%.

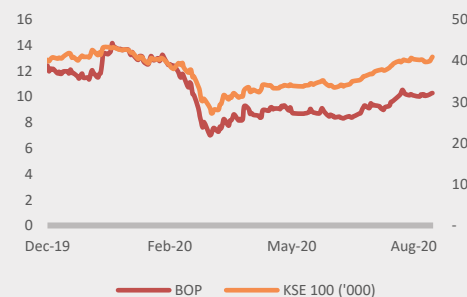
Rupees' millions	2QCY20	2QCY19	YoY	1HCY20	1HCY19	YoY
Interest earned	22,655	18,031	25.6% ▲	46,867	34,118	37.4% ▲
Interest expensed	-17,007	-11,464	48.4% ▲	-35,320	-21,035	67.9% ▲
Net Interest Income	5,648	6,568	14.0% ▼	11,547	13,084	11.7% ▼
Fee and commission income	960	908	5.7% ▲	1,812	1,675	8.2% ▲
Dividend income	23	30	24.0% ▼	64	58	11.2% ▲
Foreign exchange income	133	33	298.1% ▲	206	31	569.1% ▲
(Loss) / gain on securities	3,761	20	18774.0% ▲	4,765	34	13949.5% ▲
Other income	13	35	64.2% ▼	45	40	11.7% ▲
Non-Interest Income	4,889	1,026	376.6% ▲	6,892	1,838	275.0% ▲
Operating expenses	-3,958	-3,456	14.5% ▲	-8,158	-6,958	17.3% ▲
Workers' Welfare Fund	-104	0	-	-162	0	-
Other charges	-1	-2	60.2% ▼	-288	-3	10726.8% ▲
Profit Before Provisions	6,476	4,136	56.5% ▲	9,831	7,961	23.5% ▲
Provisions	-2,803	-784	257.7% ▲	-3,490	-1,034	237.6% ▲
Profit Before Taxation	3,672	3,353	9.5% ▲	6,340	6,927	8.5% ▼
Taxation	-1,524	-1,309	16.4% ▼	-2,691	-2,918	7.8% ▼
Profit After Taxation	2,149	2,044	5.1% ▲	3,649	4,009	9.0% ▼
Earnings Per Share	0.81	0.77	5.1% ▲	1.38	1.52	9.0% ▼
Dividend	0.00	0.00		0.00	0.00	
Bonus	0%	0%		0%	0%	
Operating Cost to Income	-37.6%	-45.5%	7.9% ▼	-44.2%	-46.6%	2.4% ▼
Effective Taxation	-41.5%	-39.0%	2.4% ▲	-42.4%	-42.1%	0.3% ▲

Source: ACPL Research, Company Financials

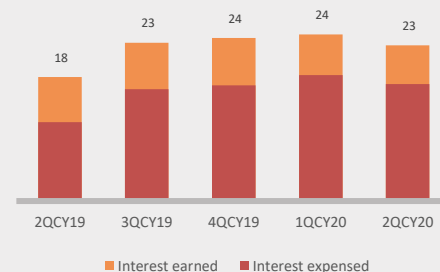
Key Statistics

Symbol	BOP
TP - Jun 21	12.00
LDCP	9.87
Upside (%)	22
Free Float ('mn)	1,116
Market Cap. (Rs.'mn)	26,093

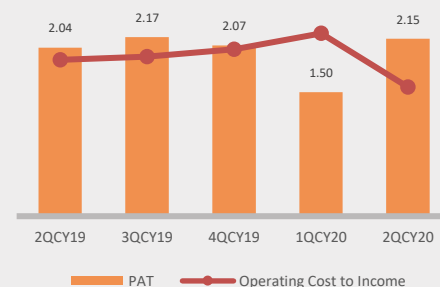
BOP vs KSE 100



Interest Earned vs Expensed (Rs'bn)



PAT (Rs'bn) vs Operating Cost To Income



Sources: ACPL Research, Company Financials

M. Fawad Naveed

Phone: (+92) 42 38302028; Ext: 117

Email: fawad@abbasiandcompany.com

Financial Projections

Rupees' millions	2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E
Mark-up / Return / Interest earned	31,266	29,674	34,668	46,893	80,867	80,995	86,211	89,251	100,673
Mark-up / Return / Interest expensed	-20,199	-17,430	-19,095	-26,840	-54,110	-60,966	-58,286	-64,225	-68,952
Net Mark-up / Interest Income	11,068	12,244	15,574	20,053	26,757	20,029	27,925	25,026	31,721
Fee and commission income	824	975	2,807	3,245	3,530	3,707	3,892	4,087	4,291
Dividend income	51	62	91	82	104	126	140	155	174
Foreign exchange income	109	75	109	227	11	412	159	159	159
(Loss) / gain from derivatives	0	0	0	0	0	0	0	0	0
(Loss) / gain on securities	5,005	2,524	1,316	28	222	6,068	1,374	1,557	1,767
Other income	1,635	1,658	269	92	73	88	97	107	117
Total non-markup / interest income	7,624	5,294	4,591	3,673	3,940	10,400	5,661	6,065	6,508
Non mark-up / interest expenses									
Operating expenses	-7,390	-8,346	-10,089	-12,613	-14,453	-14,302	-15,786	-14,613	-17,968
Workers' Welfare Fund	0	0	0	0	-285	-403	-445	-412	-507
Other charges	-20	-34	-43	-54	-139	-416	-416	-416	-416
Profit Before Provisions	11,282	9,159	10,033	11,060	15,820	15,308	16,940	15,650	19,339
Provisions / (reversal of provisions)	-3,753	-1,109	-14,731	1,148	-1,776	-5,588	-2,736	-2,394	-1,893
Extraordinary / unusual items	0	0	0	0	0	0	0	0	0
Profit before income tax	7,529	8,050	-4,698	12,208	14,044	9,720	14,203	13,256	17,446
Income tax expense	-2,781	-3,192	1,376	-4,645	-5,795	-3,985	-4,971	-4,640	-6,106
Profit for the year	4,748	4,858	-3,322	7,564	8,249	5,735	9,232	8,616	11,340
EPS	1.80	1.84	(1.26)	2.86	3.12	2.17	3.49	3.26	4.29

Source: ACPL Research, Company Financials

Horizontal Analysis

	2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E
Mark-up / Return / Interest earned	5.91%	-5.09%	16.83%	35.26%	72.45%	0.16%	6.44%	3.53%	12.80%
Mark-up / Return / Interest expensed	-1.59%	-13.71%	9.55%	40.56%	101.60%	12.67%	-4.40%	10.19%	7.36%
Net Mark-up / Interest Income	23.03%	10.63%	27.19%	28.76%	33.43%	-25.14%	39.43%	-10.38%	26.75%
Fee and commission income	-9.09%	18.27%	187.96%	15.62%	8.78%	5.00%	5.00%	5.00%	5.00%
Dividend income	52.87%	21.50%	47.21%	-10.20%	27.26%	20.95%	11.00%	11.37%	11.70%
Foreign exchange income	-40.55%	-31.14%	45.08%	107.63%	-95.32%	3784.45%	-61.32%	0.00%	0.00%
(Loss) / gain on securities	650.75%	-49.56%	-47.87%	-97.89%	697.94%	2638.85%	-77.37%	13.34%	13.50%
Other income	63.48%	1.42%	-83.81%	-65.92%	-19.77%	20.00%	10.00%	10.00%	10.00%
Total non-markup / interest income	173.23%	-30.56%	-13.28%	-20.00%	7.26%	164.00%	-45.57%	7.13%	7.31%
Non mark-up / interest expenses									
Operating expenses	18.9%	12.9%	20.9%	25.0%	14.6%	-1.0%	10.4%	-7.4%	23.0%
Workers' Welfare Fund	0.0%	0.0%	0.0%	0.0%	0.0%	41.5%	10.4%	-7.4%	23.0%
Other charges	1.2%	68.8%	27.6%	24.6%	158.9%	200.0%	0.0%	0.0%	0.0%
Profit Before Provisions	103.2%	-18.8%	9.5%	10.2%	43.0%	-3.2%	10.7%	-7.6%	23.6%
Provisions / (reversal of provisions)	201.5%	-70.4%	1228.1%	-107.8%	-254.7%	214.7%	-51.0%	-12.5%	-20.9%
Profit before income tax	74.8%	6.9%	-158.4%	-359.9%	15.0%	-30.8%	46.1%	-6.7%	31.6%
Income tax expense	83.1%	14.8%	-143.1%	-437.6%	24.8%	-31.2%	24.7%	-6.7%	31.6%
Profit for the year	70.3%	2.3%	-168.4%	-327.7%	9.1%	-30.5%	61.0%	-6.7%	31.6%
EPS	70.3%	2.3%	-168.4%	127.7%	9.1%	-30.5%	61.0%	-6.7%	31.6%

Source: ACPL Research, Company Financials

Key Ratios

Profitability Ratios		2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E
Yield on Earning Assets	%	7.24	5.78	5.66	7.00	9.98	8.00	7.56	6.93	6.92
Interest Cost	%	4.65	3.47	3.17	4.13	6.93	6.82	5.70	5.48	5.14
Net Interest Margin	%	2.59	2.31	2.50	2.87	3.05	1.18	1.86	1.45	1.78
Operating Cost to Income	%	39.64	47.78	50.25	53.38	48.46	49.69	49.56	49.66	49.41
Return on Equity	%	20.94	17.44	-11.17	20.05	17.67	11.24	15.81	13.20	15.39
Return on Assets	%	1.01	0.89	-0.51	1.06	0.95	0.53	0.76	0.63	0.73
Balance Sheet Analysis		2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E
Deposits Growth	%	9.54	20.87	22.74	7.06	16.02	14.65	14.65	14.65	14.65
CASA to Deposits	%	62.98	68.68	65.29	63.45	66.95	66.95	66.95	66.95	66.95
Advances to Deposits	%	58.51	57.82	53.17	64.12	55.47	68.42	67.86	67.29	66.73
Investments to Deposits	%	46.95	44.07	43.59	35.27	52.31	50.34	48.74	47.34	46.12
PIBs to Investments	%	52.18	37.73	14.38	0.12	58.78	58.78	58.78	58.78	58.78
T Bills to Investments	%	41.98	57.05	80.45	93.49	37.18	37.18	37.18	37.18	37.18
Gross Infection Ratio	%	22.80	18.70	14.91	11.60	11.98	11.30	10.30	9.30	8.30
Provisioning Coverage	%	53.61	57.25	89.42	88.14	87.84	90.00	90.00	90.00	90.00
Net Infection Ratio	%	12.07	8.96	1.82	1.53	1.63	1.02	0.94	0.86	0.77
Capital Adequacy Ratio	%	10.49	12.28	9.73	13.17	14.80	13.41	13.58	13.47	13.45
Leverage Ratio	%	3.26	3.35	2.57	3.40	3.57	3.22	3.25	3.20	3.17
Operational Analysis		2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E
Market Share - Deposits	%	4.03	4.05	4.50	4.46	4.72	4.80	4.87	4.94	5.02
Market Share - Advances	%	5.24	5.27	5.23	5.40	5.26	5.34	5.42	5.50	5.59
Market Share - Investments	%	2.63	2.79	2.88	2.82	4.11	4.03	3.96	3.90	3.86
No. of Branches		406	453	536	576	624	676	732	793	859
Investment Ratios		2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E
Dividend Per Share		0.00	0.00	0.00	0.75	0.75	0.80	1.00	1.00	1.50
Dividend Yield	%	0.00	0.00	0.00	7.60	7.60	8.11	10.13	10.13	15.20
Dividend Cover	x	0.00	0.00	0.00	3.81	4.16	2.71	3.49	3.26	2.86
Retention Ratio	%	100.00	100.00	100.00	73.79	75.96	63.12	71.36	69.32	65.03
Payout Ratio	%	0.00	0.00	0.00	26.21	24.04	36.88	28.64	30.68	34.97
No. of Shares	('m)	2644	2644	2644	2644	2644	2644	2644	2644	2644
Earnings Per Share		1.80	1.84	-1.26	2.86	3.12	2.17	3.49	3.26	4.29
Book Value Per Share		8.58	10.54	11.25	14.27	17.66	19.29	22.09	24.69	27.88
Price to Earnings	x	5.50	5.37	0.00	3.45	3.16	4.55	2.83	3.03	2.30
Price to Book Value	x	1.15	0.94	0.88	0.69	0.56	0.51	0.45	0.40	0.35

Source: ACPL Research, Company Financials

This report has been prepared by Abbasi & Company (Private) Limited and is provided for information purposes only. Under no circumstances, this is to be used or considered as an offer to sell or solicitation of any offer to buy. While reasonable care has been taken to ensure that the information contained therein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. From time to time, Abbasi & Company (Private) Limited and or any of its officers or directors may, as permitted by applicable laws, have a position, or otherwise be interested in any transaction, in any securities directly or indirectly subject of this report. This report is provided only for the information of professional advisers who are expected to make their own investment decisions without undue reliance on this report. Investments in capital markets are subject to market risk and Abbasi & Company (Private) Limited accepts no responsibility whatsoever for any direct or indirect consequential loss arising from any use of this report or its contents. In particular, the report takes no account of the investment objectives, financial situation and needs of investors, who should seek further professional advice or rely upon their own judgment and acumen before making any investment. The views expressed in this report are those of Abbasi & Company (Private) Limited Research Department and do not necessarily reflect those of the company or its directors. Abbasi & Company (Private) Limited as a firm may have business relationships, including investment-banking relationships, with the companies referred to in this report. Abbasi & Company (Private) Limited does not act as a market maker in the securities of the subject company. Abbasi & Company (Private) Limited or any officers, directors, associates or close relatives do not have a financial interest in the securities of the subject company to an amount exceeding 1% of the value of the securities of the subject company at the time of issuance of this report. Abbasi & Company (Private) Limited or any officers, directors, associates or close relatives are not currently serving or have served in the past three years as a director or officer of the subject company. Abbasi & Company (Private) Limited or any officers, directors, associates or close relatives have not received compensation from the subject company in the previous 12 months. The subject company currently is not, or during the 12-month period preceding the date of publication or distribution of this report, was not, a client of Abbasi & Company (Private) Limited. We have not managed or co-managed a public offering or any take-over, buyback or delisting offer of securities for the subject company in the past 12 months and/or received compensation for corporate advisory services, brokerage services or underwriting services from the subject company in the past 12 months. Abbasi & Company (Private) Limited does not expect to receive or intend to seek compensation for corporate advisory services or underwriting services from the subject company in the next 3 months

All rights reserved by Abbasi & Company (Private) Limited. This report or any portion hereof may not be reproduced, distributed or published by any person for any purpose whatsoever. Nor can it be sent to a third party without prior consent of Abbasi & Company (Private) Limited. Action could be taken for unauthorized reproduction, distribution or publication

VALIDITY OF THE PUBLICATION OR REPORT

The information in this publication or report is, regardless of source, given in good faith, and may only be valid as of the stated date of this publication or report. The information may be subject to change without notice, its accuracy is not guaranteed, it may be incomplete or condensed and it may not contain all material information concerning the company, jurisdiction or financial instruments referred to in this report. The valuations, opinions, estimates, forecasts, ratings or risk assessments herein constitutes a judgment as of the date of this report and were based upon several estimates and assumptions and are inherently subject to significant uncertainties and contingencies. It can be expected that one or more of the estimates on which the valuations, opinions, estimates, forecasts, ratings or risk assessments were based will not materialize or will vary significantly from actual results. Therefore, the inclusion of the valuations, opinions, estimates, forecasts, ratings or risk assessments described herein is not to be relied upon as a representation and/or warranty by Abbasi & Company (Private) Limited and/or its other associated and affiliated companies, that:

- I. Such valuations, opinions, estimates, forecasts, ratings or risk assessments or their underlying assumptions will be achieved, and
- II. There is any assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments stated therein

DEFINITION OF TERMS

TP	Target Price	CAGR	Compound Annual Growth Rate	FCF	Free Cash Flows
FCFE	Free Cash Flows to Equity	FCFF	Free Cash Flows to Firm	DCF	Discounted Cash Flows
PE	Price to Earnings Ratio	PB	Price to Book Ratio	BVPS	Book Value Per Share
EPS	Earnings Per Share	DPS	Dividend Per Share	ROE	Return of Equity
ROA	Return on Assets	SOTP	Sum of the Parts	LDCP	Last Day Closing Price

VALUATION METHODOLOGY

To arrive at our Target Price, Abbasi & Company (Private) Limited uses different valuation methods which include:

- I. Discounted Cash Flow Model
- II. Dividend Discount Model
- III. Relative Valuation Model
- IV. Sum of Parts Valuation

RATINGS CRITERIA

Abbasi & Company (Private) Limited employs a three-tier ratings system to rate a stock and sector, as mentioned below, which is based upon the level of expected return for a specific stock and outlook of sector. The rating is based on the following with stated time horizon

Stock Rating	Expected Total Return
BUY	Greater than 15%
HOLD	Between -5% to 15%
SELL	Less than and equal to -5%

Sector Rating	Sector Outlook
Overweight	Positive
Market Weight	Neutral
Underweight	Negative

Ratings are updated to account for any development impacting the economy/sector/company, changes in analysts' assumptions or a combination of these factors.

RESEARCH DISSEMINATION POLICY

Abbasi & Company (Private) Limited endeavors to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as email, fax mail etc. Nevertheless, all clients may not receive the material at the same time

OTHER DISCLOSURES

The research analyst is primarily involved in the preparation of this report, certifies that:

- I. The views expressed in this report accurately reflect his/her personal views about the subject company/stock /sector and economy
- II. No part of his/her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report

The Research Analyst is not and was not involved in issuing of a research report on any of the subject company's associated companies

RESEARCH DEPARTMENT

6 - Shadman, Lahore

Phone: (+92) 42 38302028; Ext 116, 117

Email: research@abbasiandcompany.com

web: www.abbasiandcompany.com

HEAD OFFICE

6 - Shadman, Lahore

Phone: (+92) 42 38302028

Email: info@abbasiandcompany.com

web: www.abbasiandcompany.com

BRANCH OFFICE

42 - Mall Road, Lahore

Phone: (+92) 42 37320707

Email: info@abbasiandcompany.com

web: www.abbasiandcompany.com