

BOP

1QCY20 Result Review: BUY Stance Maintained

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BOP has announced its 1QCY20 result where it posted profit after tax of Rs1.5bn (EPS: Rs0.57) as compared to profit after tax of Rs2.0bn (EPS: Rs0.74) in same period last year, down by 23.6% YoY.

The company has posted the net interest income of Rs5.9bn against Rs6.5bn in SPLY, recording a negative growth of 9.5% YoY owing to surge in interest cost.

Non-interest income has been increased by 146.7% YoY to Rs2.0bn as compared to Rs812mn during SPLY, mainly due to the increase in gain on securities which grew by 7077% YoY to Rs1.0bn in 1QCY20.

Furthermore, the upsurge of operating cost to income ratio to 53.2% as compared to 47.8% during same period last year also contributed to the decline of earnings.

Lastly, the bank has charged the provision of Rs687mn against the provision of Rs250mn during SPLY.

BOP is currently trading at CY20E PE of 3.43x. Furthermore, the script is trading at a CY20E P/B of 0.45x which offers a discount of 41% relative to its historical 5-year average of 0.75x. We maintain our **BUY** stance on the script with a Justified P/B based Jun-21 TP of Rs.11 which provides an upside potential of 25%. Furthermore, it also offers a dividend yield of 9% which makes the total return of 34%.

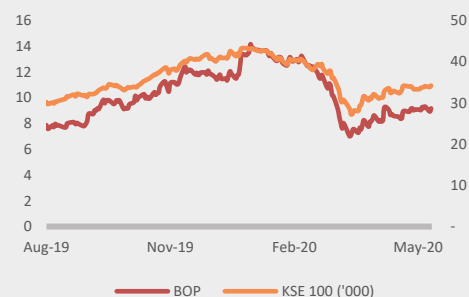
Rupees' millions	1QCY20	1QCY19	YoY	CY19	CY18	YoY
Interest earned	24,212	16,087	50.5% ▲	80,867	46,893	72.4% ▲
Interest expensed	-18,313	-9,571	91.3% ▲	-54,110	-26,840	101.6% ▲
Net Interest Income	5,899	6,516	9.5% ▼	26,757	20,053	33.4% ▲
Fee and commission income	852	767	11.0% ▲	3,530	3,245	8.8% ▲
Dividend income	42	28	48.1% ▲	104	82	27.3% ▲
Foreign exchange income	73	-3	2801.9% ▼	11	227	95.3% ▼
(Loss) / gain on securities	1,004	14	7077.3% ▲	222	28	697.9% ▲
Other income	32	5	555.2% ▲	73	92	19.8% ▼
Non-Interest Income	2,002	812	146.7% ▲	3,940	3,673	7.3% ▲
Operating expenses	-4,201	-3,502	19.9% ▲	-14,453	-12,613	14.6% ▲
Workers' Welfare Fund	-58	0	-	-285	0	-
Other charges	-288	-1	28074.9% ▲	-139	-54	158.9% ▲
Profit Before Provisions	3,355	3,824	12.3% ▼	15,820	11,060	43.0% ▲
Provisions	-687	-250	174.6% ▲	-1,776	1,148	254.7% ▼
Profit Before Taxation	2,668	3,574	25.3% ▼	14,044	12,208	15.0% ▲
Taxation	-1,168	-1,609	27.4% ▲	-5,795	-4,645	24.8% ▲
Profit After Taxation	1,501	1,965	23.6% ▼	8,249	7,564	9.1% ▲
Earnings Per Share	0.57	0.74	23.6% ▼	3.12	2.86	9.1% ▲
Dividend	0.00	0.00		0.75	0.75	
Bonus	0%	0%		0%	0%	
Operating Cost to Income	-53.2%	-47.8%	5.4% ▲	-47.1%	-53.2%	6.1% ▼
Effective Taxation	-43.8%	-45.0%	1.3% ▼	-41.3%	-38.0%	3.2% ▲

Source: ACPL Research, Company Financials

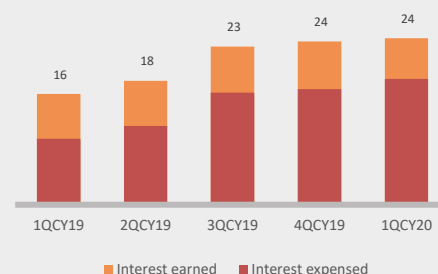
Key Statistics

Symbol	BOP
TP - Jun 21	11.00
LDCP	8.82
Upside (%)	24.72
Free Float ('mn)	1,116
Market Cap. (Rs.'mn)	23,317

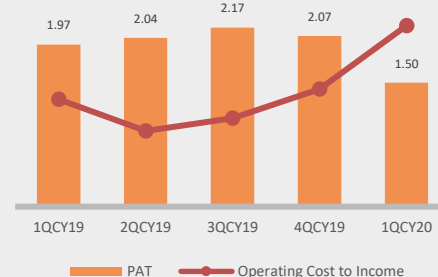
BOP vs KSE 100



Interest Earned vs Expensed (Rs'bn)



PAT (Rs'bn) vs Operating Cost To Income



Sources: ACPL Research, Company Financials

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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	76,146	80,184	84,128	87,488
Mark-up / Return / Interest expensed	-20,199	-17,430	-19,095	-26,840	-54,110	-47,669	-47,121	-45,223	-41,556
Net Mark-up / Interest Income	11,068	12,244	15,574	20,053	26,757	28,477	33,063	38,905	45,932
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	136	153	172	194
Foreign exchange income	109	75	109	227	11	123	123	123	123
(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	1,227	1,403	1,608	1,846
Other income	1,635	1,658	269	92	73	110	121	133	147
Total non-markup / interest income	7,624	5,294	4,591	3,673	3,940	5,303	5,692	6,123	6,600
Non mark-up / interest expenses									
Operating expenses	-7,390	-8,346	-10,089	-12,613	-14,453	-17,958	-20,603	-23,937	-27,927
Workers' Welfare Fund	0	0	0	0	-285	-278	-318	-370	-432
Other charges	-20	-34	-43	-54	-139	-416	-416	-416	-416
Profit Before Provisions	11,282	9,159	10,033	11,060	15,820	15,128	17,418	20,304	23,758
Provisions / (reversal of provisions)	-3,753	-1,109	-14,731	1,148	-1,776	-3,594	-3,141	-2,833	-2,345
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	11,535	14,277	17,471	21,413
Income tax expense	-2,781	-3,192	1,376	-4,645	-5,795	-4,729	-4,997	-6,115	-7,494
Profit for the year	4,748	4,858	-3,322	7,564	8,249	6,805	9,280	11,356	13,918
EPS	1.80	1.84	(1.26)	2.86	3.12	2.57	3.51	4.30	5.26

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%	-5.84%	5.30%	4.92%	3.99%
Mark-up / Return / Interest expensed	-1.59%	-13.71%	9.55%	40.56%	101.60%	-11.90%	-1.15%	-4.03%	-8.11%
Net Mark-up / Interest Income	23.03%	10.63%	27.19%	28.76%	33.43%	6.43%	16.10%	17.67%	18.06%
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%	31.17%	12.05%	12.48%	12.87%
Foreign exchange income	-40.55%	-31.14%	45.08%	107.63%	-95.32%	1062.24%	0.00%	0.00%	0.00%
(Loss) / gain on securities	650.75%	-49.56%	-47.87%	-97.89%	697.94%	453.57%	14.40%	14.60%	14.78%
Other income	63.48%	1.42%	-83.81%	-65.92%	-19.77%	50.00%	10.00%	10.00%	10.00%
Total non-markup / interest income	173.23%	-30.56%	-13.28%	-20.00%	7.26%	34.60%	7.34%	7.57%	7.80%
Non mark-up / interest expenses									
Operating expenses	18.9%	12.9%	20.9%	25.0%	14.6%	24.3%	14.7%	16.2%	16.7%
Workers' Welfare Fund	0.0%	0.0%	0.0%	0.0%	0.0%	-2.6%	14.7%	16.2%	16.7%
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%	-4.4%	15.1%	16.6%	17.0%
Provisions / (reversal of provisions)	201.5%	-70.4%	1228.1%	-107.8%	-254.7%	102.3%	-12.6%	-9.8%	-17.2%
Profit before income tax	74.8%	6.9%	-158.4%	-359.9%	15.0%	-17.9%	23.8%	22.4%	22.6%
Income tax expense	83.1%	14.8%	-143.1%	-437.6%	24.8%	-18.4%	5.7%	22.4%	22.6%
Profit for the year	70.3%	2.3%	-168.4%	-327.7%	9.1%	-17.5%	36.4%	22.4%	22.6%
EPS	70.3%	2.3%	-168.4%	127.7%	9.1%	-17.5%	36.4%	22.4%	22.6%

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	7.46	6.90	6.34	5.77
Interest Cost	%	4.65	3.47	3.17	4.13	6.93	5.27	4.50	3.73	2.96
Net Interest Margin	%	2.59	2.31	2.50	2.87	3.05	2.19	2.40	2.61	2.81
Operating Cost to Income	%	39.64	47.78	50.25	53.38	48.46	55.21	55.06	54.91	54.78
Return on Equity	%	20.94	17.44	-11.17	20.05	17.67	13.05	15.56	16.68	17.87
Return on Assets	%	1.01	0.89	-0.51	1.06	0.95	0.63	0.75	0.80	0.86
Balance Sheet Analysis		2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E
Deposits Growth	%	9.54	20.87	22.74	7.06	16.02	16.00	16.00	16.00	16.00
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	68.10	67.54	66.99	66.44
Investments to Deposits	%	46.95	44.07	43.59	35.27	52.31	50.19	48.48	47.01	45.74
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	10.98	9.98	8.98	7.98
Provisioning Coverage	%	53.61	57.25	89.42	88.14	87.84	87.84	87.84	87.84	87.84
Net Infection Ratio	%	12.07	8.96	1.82	1.53	1.63	1.22	1.11	1.01	0.91
Capital Adequacy Ratio	%	10.49	12.28	9.73	13.17	14.80	13.57	13.61	13.60	13.60
Leverage Ratio	%	3.26	3.35	2.57	3.40	3.57	3.26	3.25	3.23	3.22
Operational Analysis		2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E
Market Share - Deposits	%	4.03	4.05	4.50	4.46	4.72	4.85	4.98	5.12	5.26
Market Share - Advances	%	5.24	5.27	5.23	5.40	5.26	5.40	5.55	5.70	5.85
Market Share - Investments	%	2.63	2.79	2.88	2.82	4.11	4.06	4.03	4.01	4.01
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	1.50	2.00
Dividend Yield	%	0.00	0.00	0.00	8.50	8.50	9.07	11.34	17.01	22.68
Dividend Cover	x	0.00	0.00	0.00	3.81	4.16	3.22	3.51	2.86	2.63
Retention Ratio	%	100.00	100.00	100.00	73.79	75.96	68.92	71.51	65.08	62.01
Payout Ratio	%	0.00	0.00	0.00	26.21	24.04	31.08	28.49	34.92	37.99
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	2.57	3.51	4.30	5.26
Book Value Per Share		8.58	10.54	11.25	14.27	17.66	19.72	22.56	25.75	29.46
Price to Earnings	x	4.91	4.80	0.00	3.08	2.83	3.43	2.51	2.05	1.68
Price to Book Value	x	1.03	0.84	0.78	0.62	0.50	0.45	0.39	0.34	0.30

Source: ACPL Research, Company Financials

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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

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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

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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

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