

BOP

CY19 Result Review: BUY Stance Maintained

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BOP has announced its CY19 result where it posted profit after tax of Rs8.2bn (EPS: Rs3.12) in CY19 as compared to profit after tax of Rs7.6bn (EPS: Rs2.81) in same period last year, up by 11.1% YoY.

The company has posted the net interest income of Rs26.8bn against Rs20.1bn in SPLY, recording a growth of 33.4% YoY. We note that this growth is attributed to the growth in bank's deposits and expanded NIM on account of high interest rates and high ADR.

Non-interest income has also increased by 7.3% YoY to Rs3.9bn as compared to Rs3.7bn during SPLY, mainly due to the increase in fee and commission income and gain on securities which grew by 8.8% YoY and 698% YoY respectively in CY19.

Furthermore, the management of the bank has successfully been able to manage the operating cost to income ratio this year which has been reduced to 47.1% as compared to 53.2% during SPLY.

Lastly, the bank has charged the provision of Rs1.8bn against the reversal of Rs1.1bn during SPLY.

BOP is currently trading at CY20E PE of 3.64x. Furthermore, the script is trading at a CY20E P/B of 0.64x which offers a significant discount of 49% relative to its historical 5-year average of 1.26x. We maintain our **BUY** stance on the script with a Justified P/B based Dec-20 TP of Rs.14.4 which provides an upside potential of 16%. Furthermore, it also offers a dividend yield of 6% which makes the total return of 22%.

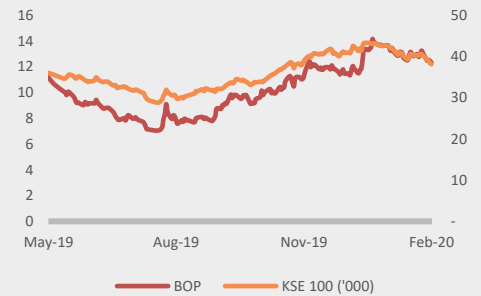
Rupees' millions	4QCY19	4QCY18	YoY	CY19	CY18	YoY
Interest earned	23,732	14,261	66.4% ▲	80,867	46,893	72.4% ▲
Interest expensed	-16,807	-8,350	101.3% ▲	-54,110	-26,840	101.6% ▲
Net Interest Income	6,925	5,910	17.2% ▲	26,757	20,053	33.4% ▲
Fee and commission income	924	715	29.2% ▲	3,530	3,245	8.8% ▲
Dividend income	29	28	2.2% ▲	104	82	27.3% ▲
Foreign exchange income	43	43	1.0% ▼	11	227	95.3% ▼
(Loss) / gain on securities	113	1	20267.7% ▲	222	28	697.9% ▲
Other income	30	41	27.6% ▼	73	92	19.8% ▼
Non-Interest Income	1,138	828	37.4% ▲	3,940	3,673	7.3% ▲
Operating expenses	-3,914	-3,580	9.3% ▲	-14,453	-12,613	14.6% ▲
Workers' Welfare Fund	-285	0	-	-285	0	-
Other charges	-33	-1	2358.9% ▲	-139	-54	158.9% ▲
Profit Before Provisions	3,831	3,157	21.4% ▲	15,820	11,060	43.0% ▲
Provisions	-303	200	-	-1,776	1,148	-
Profit Before Taxation	3,529	3,357	5.1% ▲	14,044	12,208	15.0% ▲
Taxation	-1,460	-1,236	18.1% ▼	-5,795	-4,645	24.8% ▲
Profit After Taxation	2,068	2,121	2.5% ▼	8,249	7,564	9.1% ▲
Earnings Per Share	0.78	0.80	2.5% ▼	3.12	2.81	11.1% ▲
Dividend	0.75	0.75		0.75	0.75	
Bonus	0%	0%		0%	0%	
Closing Period: 24 Mar 20 - 30 Mar 20						
Operating Cost to Income	-48.5%	-53.1%	4.6% ▼	-47.1%	-53.2%	6.1% ▼
Effective Taxation	-41.4%	-36.8%	4.6% ▲	-41.3%	-38.0%	3.2% ▲

Source: ACPL Research, Company Financials

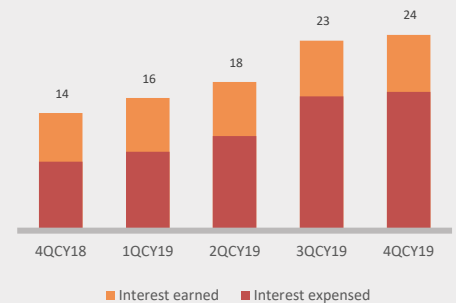
Key Statistics

Symbol	BOP
TP - Dec 20	14.40
LDCP	12.39
Upside (%)	16
Free Float ('mn)	1,116
Market Cap. (Rs.'mn)	32,755

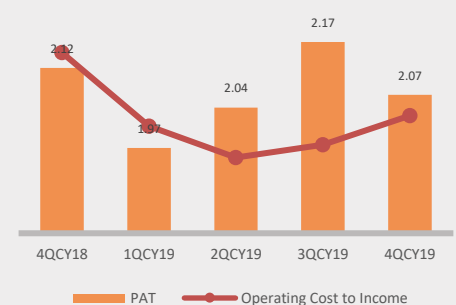
BOP vs KSE 100



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	2019E	2020E	2021E	2022E	2023E
Mark-up / Return / Interest earned	31,266	29,674	34,668	46,893	80,867	94,826	96,884	98,261	98,956
Mark-up / Return / Interest expensed	-20,199	-17,430	-19,095	-26,840	-54,110	-67,225	-67,487	-67,160	-66,119
Net Mark-up / Interest Income	11,068	12,244	15,574	20,053	26,757	27,601	29,396	31,101	32,836
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	115	125	135	147
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	434	477	525	578
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	4,489	4,739	5,004	5,285
Non mark-up / interest expenses									
Operating expenses	-7,390	-8,346	-10,089	-12,613	-14,453	-15,754	-17,171	-18,888	-20,777
Workers' Welfare Fund	0	0	0	0	-285	-287	-298	-302	-304
Other charges	-20	-34	-43	-54	-139	-139	-139	-139	-139
Profit Before Provisions	11,282	9,159	10,033	11,060	15,820	15,912	16,527	16,776	16,901
Provisions / (reversal of provisions)	-3,753	-1,109	-14,731	1,148	-1,776	-661	-1,816	-1,149	-2,088
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	15,251	14,711	15,627	14,813
Income tax expense	-2,781	-3,192	1,376	-4,645	-5,795	-6,253	-5,149	-5,469	-5,185
Profit for the year	4,748	4,858	-3,322	7,564	8,249	8,998	9,562	10,157	9,629
EPS	1.80	1.84	(1.26)	2.86	3.12	3.40	3.62	3.84	3.64

Source: ACPL Research, Company Financials

Horizontal Analysis

	2015	2016	2017	2018	2019E	2020E	2021E	2022E	2023E
Mark-up / Return / Interest earned	5.91%	-5.09%	16.83%	35.26%	72.45%	17.26%	2.17%	1.42%	0.71%
Mark-up / Return / Interest expensed	-1.59%	-13.71%	9.55%	40.56%	101.60%	24.24%	0.39%	-0.49%	-1.55%
Net Mark-up / Interest Income	23.03%	10.63%	27.19%	28.76%	33.43%	3.16%	6.50%	5.80%	5.58%
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%	11.04%	8.25%	8.38%	8.51%
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%	95.88%	10.01%	10.01%	10.00%
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%	13.95%	5.55%	5.59%	5.63%
Non mark-up / interest expenses									
Operating expenses	18.9%	12.9%	20.9%	25.0%	14.6%	9.0%	9.0%	10.0%	10.0%
Workers' Welfare Fund	0.0%	0.0%	0.0%	0.0%	0.0%	0.6%	3.8%	1.5%	0.7%
Other charges	1.2%	68.8%	27.6%	24.6%	158.9%	0.0%	0.0%	0.0%	0.0%
Profit Before Provisions	103.2%	-18.8%	9.5%	10.2%	43.0%	0.6%	3.9%	1.5%	0.7%
Provisions / (reversal of provisions)	201.5%	-70.4%	1228.1%	-107.8%	-254.7%	-62.8%	175.0%	-36.7%	81.7%
Profit before income tax	74.8%	6.9%	-158.4%	-359.9%	15.0%	8.6%	-3.5%	6.2%	-5.2%
Income tax expense	83.1%	14.8%	-143.1%	-437.6%	24.8%	7.9%	-17.7%	6.2%	-5.2%
Profit for the year	70.3%	2.3%	-168.4%	-327.7%	9.1%	9.1%	6.3%	6.2%	-5.2%
EPS	70.3%	2.3%	-168.4%	127.7%	9.1%	9.1%	6.3%	6.2%	-5.2%

Source: ACPL Research, Company Financials

Key Ratios

Profitability Ratios		2015	2016	2017	2018	2019E	2020E	2021E	2022E	2023E
Yield on Earning Assets	%	7.24	5.78	5.66	7.00	11.38	10.95	10.25	9.52	8.78
Interest Cost	%	4.65	3.47	3.17	4.13	8.62	8.57	7.83	7.09	6.35
Net Interest Margin	%	2.59	2.31	2.50	2.87	2.76	2.38	2.42	2.43	2.42
Operating Cost to Income	%	39.64	47.78	50.25	53.38	48.46	50.42	51.58	53.54	55.66
Return on Equity	%	20.94	17.44	-11.17	20.05	18.61	17.45	16.24	15.51	13.69
Return on Assets	%	1.01	0.89	-0.51	1.06	0.98	0.98	0.96	0.93	0.81
Balance Sheet Analysis		2015	2016	2017	2018	2019E	2020E	2021E	2022E	2023E
Deposits Growth	%	9.54	20.87	22.74	7.06	10.00	10.00	10.00	10.00	10.00
CASA to Deposits	%	62.98	68.68	65.29	63.45	63.45	63.45	63.45	63.45	63.45
Advances to Deposits	%	58.51	57.82	53.17	64.12	78.28	77.71	77.33	76.88	76.56
Investments to Deposits	%	46.95	44.07	43.59	35.27	34.55	33.96	33.42	32.93	32.48
PIBs to Investments	%	52.18	37.73	14.38	0.12	0.12	0.12	0.12	0.12	0.12
T Bills to Investments	%	41.98	57.05	80.45	93.49	93.49	93.49	93.49	93.49	93.49
Gross Infection Ratio	%	22.80	18.70	14.91	11.60	10.70	9.80	9.20	8.50	8.00
Provisioning Coverage	%	53.61	57.25	89.42	88.14	88.14	88.14	88.14	88.14	88.14
Net Infection Ratio	%	12.07	8.96	1.82	1.53	1.16	1.07	1.01	0.94	0.89
Capital Adequacy Ratio	%	10.49	12.28	9.73	13.17	13.19	13.92	14.45	14.68	14.46
Leverage Ratio	%	3.26	3.35	2.57	3.40	3.42	3.66	3.83	3.89	3.81
Operational Analysis		2015	2016	2017	2018	2019E	2020E	2021E	2022E	2023E
Market Share - Deposits	%	4.03	4.05	4.50	4.46	4.46	4.46	4.46	4.46	4.46
Market Share - Advances	%	5.24	5.27	5.23	5.40	5.40	5.40	5.40	5.40	5.40
Market Share - Investments	%	2.63	2.79	2.88	2.82	2.76	2.72	2.67	2.63	2.60
No. of Branches		406	453	536	576	634	697	767	843	928
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	6.05	6.05	6.46	8.07	12.11	16.14
Dividend Cover	x	0.00	0.00	0.00	3.81	4.16	4.25	3.62	2.56	1.82
Retention Ratio	%	100.00	100.00	100.00	73.79	75.96	76.50	72.35	60.96	45.09
Payout Ratio	%	0.00	0.00	0.00	26.21	24.04	23.50	27.65	39.04	54.91
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	3.40	3.62	3.84	3.64
Book Value Per Share		8.58	10.54	11.25	14.27	16.76	19.50	22.27	24.77	26.60
Price to Earnings	x	6.90	6.74	-9.86	4.33	3.97	3.64	3.43	3.22	3.40
Price to Book Value	x	1.44	1.18	1.10	0.87	0.74	0.64	0.56	0.50	0.47

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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