

## BOP

## CY20 Result Review: BUY Stance Maintained

Equity Research | Commercial Banks | Friday, 19 February, 2021



BOP has announced its annual result where it posted profit after tax of Rs6.9bn (EPS: Rs2.63) as compared to profit after tax of Rs8.2bn (EPS: Rs3.12) in same period last year, down by 15.8% YoY.

The company has posted the net interest income of Rs23.3bn against Rs26.8bn in SPLY, recording a negative growth of 12.8% YoY owing to surge in interest cost.

Non-interest income has been increased by 231% YoY to Rs13bn as compared to Rs3.9bn 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 slightly been reduced to 46.4% as compared to 47.1% during SPLY.

Lastly, the bank has charged a hefty provision of Rs6.9bn which is significantly higher than the provision of Rs1.8bn during SPLY.

BOP is currently trading at CY21E PE of 5.31x. Furthermore, the script is trading at a CY20E P/B of 0.46x which offers a discount of 33% relative to its historical 5-year average of 0.69x. We maintain our **BUY** stance on the script with a Justified P/B based Dec-21 TP of Rs.11 which provides an upside potential of 16%. Furthermore, it also offers a dividend yield of 11% which makes the total return of 27%.

Rupees' millions	4QCY20	4QCY19	YoY	CY20	CY19	YoY
Interest earned	19,515	23,732	17.8% ▼	86,019	80,867	6.4% ▲
Interest expensed	-13,338	-16,807	20.6% ▼	-62,694	-54,110	15.9% ▲
<b>Net Interest Income</b>	<b>6,178</b>	<b>6,925</b>	<b>10.8% ▼</b>	<b>23,325</b>	<b>26,757</b>	<b>12.8% ▼</b>
Fee and commission income	944	924	2.2% ▲	3,732	3,530	5.7% ▲
Dividend income	45	29	56.7% ▲	137	104	31.8% ▲
Foreign exchange income	91	43	111.6% ▲	328	11	2997.8% ▲
(Loss) / gain on securities	166	113	47.1% ▲	8,466	222	3721.2% ▲
Other income	238	30	693.7% ▲	382	73	419.8% ▲
<b>Non-Interest Income</b>	<b>1,484</b>	<b>1,138</b>	<b>30.4% ▲</b>	<b>13,046</b>	<b>3,940</b>	<b>231.1% ▲</b>
Operating expenses	-4,612	-3,914	17.8% ▲	-16,880	-14,453	16.8% ▲
Workers' Welfare Fund	-66	-285	76.9% ▼	-335	-285	17.5% ▲
Other charges	0	-33	99.0% ▼	-304	-139	119.4% ▲
Profit Before Provisions	2,983	3,831	22.1% ▼	18,852	15,820	19.2% ▲
Provisions	-1,006	-303	232.2% ▲	-6,862	-1,776	286.4% ▲
Profit Before Taxation	1,977	3,529	44.0% ▼	11,989	14,044	14.6% ▼
Taxation	-862	-1,460	41.0% ▲	-5,046	-5,795	12.9% ▼
<b>Profit After Taxation</b>	<b>1,116</b>	<b>2,068</b>	<b>46.0% ▼</b>	<b>6,944</b>	<b>8,249</b>	<b>15.8% ▼</b>
<b>Earnings Per Share</b>	<b>0.42</b>	<b>0.78</b>	<b>46.0% ▼</b>	<b>2.63</b>	<b>3.12</b>	<b>15.8% ▼</b>
<b>Dividend</b>	<b>1.00</b>	<b>0.75</b>		<b>1.00</b>	<b>0.75</b>	
<b>Bonus</b>	<b>0%</b>	<b>0%</b>		<b>0%</b>	<b>0%</b>	

Closing Period: 24 Mar 2021 - 30 Mar 2021

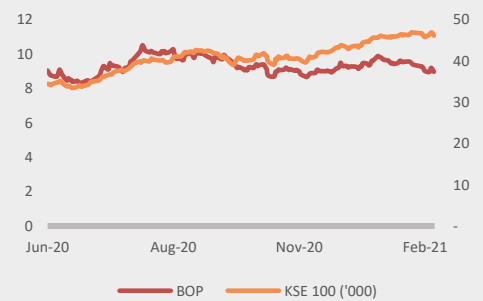
Operating Cost to Income	-60.2%	-48.5%	11.7% ▲	-46.4%	-47.1%	0.7% ▼
Effective Taxation	-43.6%	-41.4%	2.2% ▲	-42.1%	-41.3%	0.8% ▲

Source: ACPL Research, Company Financials

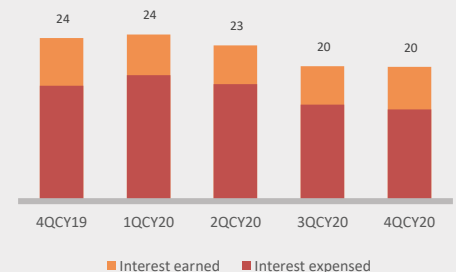
## Key Statistics

Symbol	BOP
TP - Dec 21	11.00
LDPCP	9.50
Upside (%)	16
Free Float ('mn)	1,116
Market Cap. (Rs.'mn)	25,115

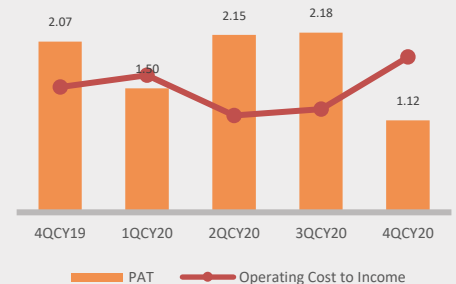
## BOP vs KSE 100



## 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	2020	2021E	2022E	2023E
Mark-up / Return / Interest earned	31,266	29,674	34,668	46,893	80,867	86,019	82,823	85,471	96,083
Mark-up / Return / Interest expensed	-20,199	-17,430	-19,095	-26,840	-54,110	-62,694	-60,765	-58,482	-70,010
<b>Net Mark-up / Interest Income</b>	<b>11,068</b>	<b>12,244</b>	<b>15,574</b>	<b>20,053</b>	<b>26,757</b>	<b>23,325</b>	<b>22,059</b>	<b>26,989</b>	<b>26,073</b>
Fee and commission income	824	975	2,807	3,245	3,530	3,732	3,946	4,172	4,410
Dividend income	51	62	91	82	104	137	153	171	191
Foreign exchange income	109	75	109	227	11	328	149	149	149
(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	8,466	1,452	1,647	1,871
Other income	1,635	1,658	269	92	73	382	546	783	1,120
<b>Total non-markup / interest income</b>	<b>7,624</b>	<b>5,294</b>	<b>4,591</b>	<b>3,673</b>	<b>3,940</b>	<b>13,046</b>	<b>6,246</b>	<b>6,921</b>	<b>7,742</b>
<b>Non mark-up / interest expenses</b>									
Operating expenses	-7,390	-8,346	-10,089	-12,613	-14,453	-16,880	-16,983	-20,346	-20,289
Workers' Welfare Fund	0	0	0	0	-285	-335	-195	-233	-232
Other charges	-20	-34	-43	-54	-139	-304	-304	-304	-304
<b>Profit Before Provisions</b>	<b>11,282</b>	<b>9,159</b>	<b>10,033</b>	<b>11,060</b>	<b>15,820</b>	<b>18,852</b>	<b>10,823</b>	<b>13,027</b>	<b>12,989</b>
Provisions / (reversal of provisions)	-3,753	-1,109	-14,731	1,148	-1,776	-6,862	-3,547	-3,408	-3,152
Extraordinary / unusual items	0	0	0	0	0	0	0	0	0
<b>Profit before income tax</b>	<b>7,529</b>	<b>8,050</b>	<b>-4,698</b>	<b>12,208</b>	<b>14,044</b>	<b>11,989</b>	<b>7,276</b>	<b>9,619</b>	<b>9,837</b>
Income tax expense	-2,781	-3,192	1,376	-4,645	-5,795	-5,046	-2,547	-3,367	-3,443
<b>Profit for the year</b>	<b>4,748</b>	<b>4,858</b>	<b>-3,322</b>	<b>7,564</b>	<b>8,249</b>	<b>6,944</b>	<b>4,729</b>	<b>6,252</b>	<b>6,394</b>
<b>EPS</b>	<b>1.80</b>	<b>1.84</b>	<b>(1.26)</b>	<b>2.86</b>	<b>3.12</b>	<b>2.63</b>	<b>1.79</b>	<b>2.36</b>	<b>2.42</b>

Source: ACPL Research, Company Financials

## Horizontal Analysis

	2015	2016	2017	2018	2019	2020	2021E	2022E	2023E
Mark-up / Return / Interest earned	5.91%	-5.09%	16.83%	35.26%	72.45%	6.37%	-3.72%	3.20%	12.42%
Mark-up / Return / Interest expensed	-1.59%	-13.71%	9.55%	40.56%	101.60%	15.86%	-3.08%	-3.76%	19.71%
<b>Net Mark-up / Interest Income</b>	<b>23.03%</b>	<b>10.63%</b>	<b>27.19%</b>	<b>28.76%</b>	<b>33.43%</b>	<b>-12.82%</b>	<b>-5.43%</b>	<b>22.35%</b>	<b>-3.39%</b>
Fee and commission income	-9.09%	18.27%	187.96%	15.62%	8.78%	5.72%	5.72%	5.72%	5.72%
Dividend income	52.87%	21.50%	47.21%	-10.20%	27.26%	31.81%	11.45%	11.78%	12.08%
Foreign exchange income	-40.55%	-31.14%	45.08%	107.63%	-95.32%	2997.78%	-54.67%	0.00%	0.00%
(Loss) / gain on securities	650.75%	-49.56%	-47.87%	-97.89%	697.94%	3721.24%	-82.84%	13.41%	13.56%
Other income	63.48%	1.42%	-83.81%	-65.92%	-19.77%	419.79%	43.19%	43.19%	43.19%
<b>Total non-markup / interest income</b>	<b>173.23%</b>	<b>-30.56%</b>	<b>-13.28%</b>	<b>-20.00%</b>	<b>7.26%</b>	<b>231.14%</b>	<b>-52.12%</b>	<b>10.80%</b>	<b>11.86%</b>
<b>Non mark-up / interest expenses</b>									
Operating expenses	18.9%	12.9%	20.9%	25.0%	14.6%	16.8%	0.6%	19.8%	-0.3%
Workers' Welfare Fund	0.0%	0.0%	0.0%	0.0%	0.0%	17.5%	-41.9%	19.8%	-0.3%
Other charges	1.2%	68.8%	27.6%	24.6%	158.9%	119.4%	0.0%	0.0%	0.0%
<b>Profit Before Provisions</b>	<b>103.2%</b>	<b>-18.8%</b>	<b>9.5%</b>	<b>10.2%</b>	<b>43.0%</b>	<b>19.2%</b>	<b>-42.6%</b>	<b>20.4%</b>	<b>-0.3%</b>
Provisions / (reversal of provisions)	201.5%	-70.4%	1228.1%	-107.8%	-254.7%	286.4%	-48.3%	-3.9%	-7.5%
<b>Profit before income tax</b>	<b>74.8%</b>	<b>6.9%</b>	<b>-158.4%</b>	<b>-359.9%</b>	<b>15.0%</b>	<b>-14.6%</b>	<b>-39.3%</b>	<b>32.2%</b>	<b>2.3%</b>
Income tax expense	83.1%	14.8%	-143.1%	-437.6%	24.8%	-12.9%	-49.5%	32.2%	2.3%
<b>Profit for the year</b>	<b>70.3%</b>	<b>2.3%</b>	<b>-168.4%</b>	<b>-327.7%</b>	<b>9.1%</b>	<b>-15.8%</b>	<b>-31.9%</b>	<b>32.2%</b>	<b>2.3%</b>
<b>EPS</b>	<b>70.3%</b>	<b>2.3%</b>	<b>-168.4%</b>	<b>127.7%</b>	<b>9.1%</b>	<b>-15.8%</b>	<b>-31.9%</b>	<b>32.2%</b>	<b>2.3%</b>

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	8.56	7.25	6.63	6.59
Interest Cost	%	4.65	3.47	3.17	4.13	6.93	6.85	6.01	5.05	5.28
Net Interest Margin	%	2.59	2.31	2.50	2.87	3.05	1.71	1.24	1.58	1.31
Operating Cost to Income	%	39.64	47.78	50.25	53.38	48.46	48.17	61.76	61.58	61.59
Return on Equity	%	20.94	17.44	-11.17	20.05	17.67	13.35	8.61	10.50	10.14
Return on Assets	%	1.01	0.89	-0.51	1.06	0.95	0.64	0.39	0.46	0.41
<b>Balance Sheet Analysis</b>		<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020E</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
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	64.46	64.46	64.46	64.46
Advances to Deposits	%	58.51	57.82	53.17	64.12	55.47	61.49	60.99	60.48	59.98
Investments to Deposits	%	46.95	44.07	43.59	35.27	52.31	57.37	55.77	54.38	53.16
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	13.00	12.00	11.00	10.00
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	1.16	1.08	1.00	0.92
Capital Adequacy Ratio	%	10.49	12.28	9.73	13.17	14.80	13.56	12.82	12.38	11.72
Leverage Ratio	%	3.26	3.35	2.57	3.40	3.57	3.26	3.01	2.85	2.62
<b>Operational Analysis</b>		<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020E</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
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	4.73	4.80	4.88	4.95
Market Share - Investments	%	2.63	2.79	2.88	2.82	4.11	4.59	4.53	4.48	4.45
No. of Branches		406	453	536	576	624	624	624	624	624
<b>Investment Ratios</b>		<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
Dividend Per Share		0.00	0.00	0.00	0.75	0.75	1.00	1.00	1.00	1.50
Dividend Yield	%	0.00	0.00	0.00	7.89	7.89	10.53	10.53	10.53	15.79
Dividend Cover	x	0.00	0.00	0.00	3.81	4.16	2.63	1.79	2.36	1.61
Retention Ratio	%	100.00	100.00	100.00	73.79	75.96	61.93	44.10	57.72	37.98
Payout Ratio	%	0.00	0.00	0.00	26.21	24.04	38.07	55.90	42.28	62.02
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	2.63	1.79	2.36	2.42
Book Value Per Share		8.58	10.54	11.25	14.27	17.66	19.68	20.79	22.52	23.86
Price to Earnings	x	5.29	5.17	0.00	3.32	3.04	3.62	5.31	4.02	3.93
Price to Book Value	x	1.11	0.90	0.84	0.67	0.54	0.48	0.46	0.42	0.40

Source: ACPL Research, Company Financials

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### DEFINITION OF TERMS

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

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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

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