

## BOP

## 9M CY22 Result Review: BUY Stance Maintained

Equity Research | Commercial Banks | Wednesday, 2 November, 2022



BOP has announced its 9M CY22 result where it posted a profit after tax of Rs7.598bn (EPS: Rs2.55) as compared to a profit after tax of Rs8.72bn (EPS: Rs2.93) in the same period last year, down by 12.8% YoY amid surge in operating cost.

The bank has posted a net interest income of Rs22.88bn against Rs21.91bn in SPLY, recording a growth of 4.4% YoY due to an increase in interest rate.

Non-interest income has increased by 5.5% YoY to Rs6.37bn as compared to Rs6.04bn during SPLY, mainly due to an increase in fee and commission.

The operating cost-to-income ratio has increased to 69.8% as compared to 54.5% during SPLY. Lastly, the bank has booked a reversal of Rs3.85bn as compared to a provision of Rs0.97bn during SPLY.

BOP is currently trading at CY23E PE of 1.28x. Furthermore, the scrip is trading at a CY23E P/B of 0.22x which offers a discount of 21% relative to its historical 3-year average of 0.28x. We recommend our investors to **BUY** the scrip with a Justified PB Jun-23 TP of Rs.7.8 which provides an upside potential of 49%.

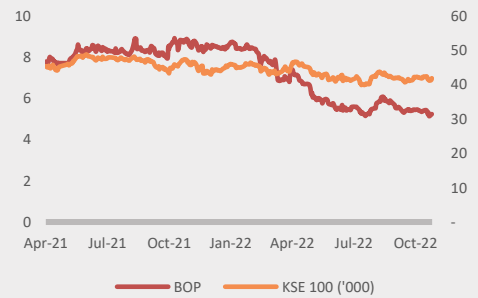
Rupees' millions	3QCY22	3QCY21	YoY	9M CY22	9M CY21	YoY
Interest earned	35,662	20,938	70.3% ▲	94,542	59,804	58.1% ▲
Interest expensed	-28,648	-12,908	121.9% ▲	-71,664	-37,892	89.1% ▲
<b>Net Interest Income</b>	<b>7,014</b>	<b>8,030</b>	<b>12.7% ▼</b>	<b>22,878</b>	<b>21,912</b>	<b>4.4% ▲</b>
Fee and commission income	1,646	1,359	21.1% ▲	5,001	3,851	29.9% ▲
Dividend income	167	106	57.4% ▲	388	211	83.7% ▲
Foreign exchange income	904	160	464.0% ▲	1,589	301	428.1% ▲
(Loss) / gain on securities	49	13	291.9% ▲	-812	1,628	149.9% ▼
Other income	9	17	45.4% ▼	208	53	293.6% ▲
<b>Non-Interest Income</b>	<b>2,776</b>	<b>1,656</b>	<b>67.7% ▲</b>	<b>6,374</b>	<b>6,044</b>	<b>5.5% ▲</b>
Operating expenses	-6,554	-5,103	28.4% ▲	-20,416	-15,244	33.9% ▲
Workers' Welfare Fund	-64	-84	24.0% ▼	-211	-251	16.1% ▼
Other charges	-1	0	262.9% ▲	-35	-1	4753.4% ▲
Profit Before Provisions	3,172	4,499	29.5% ▼	8,591	12,459	31.0% ▼
Provisions	915	494	85.3% ▲	3,855	-97	3858.4% ▲
Profit Before Taxation	4,087	4,993	18.1% ▼	12,446	12,362	0.7% ▲
Taxation	-1,910	-1,873	1.9% ▲	-4,848	-3,645	33.0% ▲
<b>Profit After Taxation</b>	<b>2,177</b>	<b>3,120</b>	<b>30.2% ▼</b>	<b>7,598</b>	<b>8,717</b>	<b>12.8% ▼</b>
<b>Earnings Per Share</b>	<b>0.73</b>	<b>1.05</b>	<b>30.2% ▼</b>	<b>2.55</b>	<b>2.93</b>	<b>12.8% ▼</b>
Dividend	-	-	-	-	-	-
Bonus	-	-	-	-	-	-
Operating Cost to Income	-66.9%	-52.7%	14.3% ▲	-69.8%	-54.5%	15.3% ▲
Effective Taxation	-46.7%	-37.5%	9.2% ▲	-39.0%	-29.5%	9.5% ▲

Source: ACPL Research, Company Financials

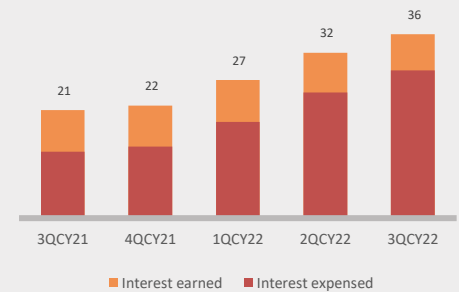
## Key Statistics

Symbol	BOP
TP - Jun 23	7.80
LDPC	5.23
Upside (%)	49
Free Float ('mn)	1,256
Market Cap. (Rs.'mn)	15,554

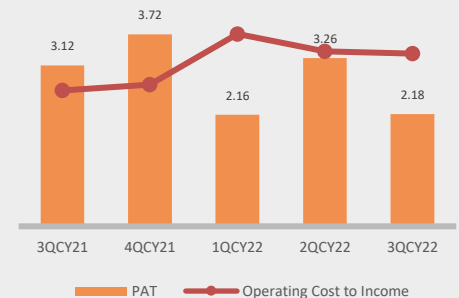
## BOP vs KSE 100



## Interest Earned vs Expensed (Rs'bn)



## PAT (Rs'bn) vs Operating Cost To Income



Sources: ACPL Research, Company Financials

Muhammad Ahmed

Phone: (+92) 42 38302028; Ext: 118

Email: mahmed@abbasiandcompany.com

## Financial Projections

Rupees' millions	CY20	CY21	CY22E	CY23E	CY24E	CY25E	CY26E
Mark-up / Return / Interest earned	86,019	81,651	126,070	176,129	199,745	216,118	246,620
Mark-up / Return / Interest expensed	-62,694	-51,775	-95,265	-138,478	-155,443	-165,583	-184,255
<b>Net Mark-up / Interest Income</b>	<b>23,325</b>	<b>29,876</b>	<b>30,804</b>	<b>37,651</b>	<b>44,302</b>	<b>50,535</b>	<b>62,365</b>
Fee and commission income	3,732	5,103	6,660	7,773	9,073	10,590	12,360
Dividend income	137	377	518	424	484	554	635
Foreign exchange income	328	577	2,117	1,270	1,856	2,712	3,963
(Loss) / gain from derivatives	0	0	0	0	0	0	0
(Loss) / gain on securities	8,466	1,786	-1,081	-280	-298	-318	-343
Other income	382	61	274	366	487	649	865
<b>Total non-markup / interest income</b>	<b>13,046</b>	<b>7,904</b>	<b>8,488</b>	<b>9,553</b>	<b>11,602</b>	<b>14,186</b>	<b>17,480</b>
<b>Non mark-up / interest expenses</b>							
Operating expenses	-16,880	-20,637	-27,422	-25,591	-30,308	-35,087	-43,287
Workers' Welfare Fund	-335	-363	-283	-431	-510	-591	-729
Other charges	-304	-13	-64	-70	-77	-85	-93
<b>Profit Before Provisions</b>	<b>18,852</b>	<b>16,766</b>	<b>11,524</b>	<b>21,112</b>	<b>25,009</b>	<b>28,958</b>	<b>35,737</b>
Provisions / (reversal of provisions)	-6,862	1,642	5,529	-1,071	-735	-4,605	-4,887
Extraordinary / unusual items	0	0	0	0	0	0	0
<b>Profit before income tax</b>	<b>11,989</b>	<b>18,408</b>	<b>17,053</b>	<b>20,042</b>	<b>24,275</b>	<b>24,353</b>	<b>30,849</b>
Income tax expense	-5,046	-5,968	-5,994	-7,846	-9,504	-9,534	-12,077
<b>Profit for the year</b>	<b>6,944</b>	<b>12,440</b>	<b>11,059</b>	<b>12,195</b>	<b>14,771</b>	<b>14,819</b>	<b>18,772</b>
<b>EPS</b>	<b>2.33</b>	<b>4.18</b>	<b>3.72</b>	<b>4.10</b>	<b>4.97</b>	<b>4.98</b>	<b>6.31</b>

Source: ACPL Research, Company Financials

## Horizontal Analysis

	CY20	CY21	CY22E	CY23E	CY24E	CY25E	CY26E
Mark-up / Return / Interest earned	6.4%	-5.1%	54.4%	39.7%	13.4%	8.2%	14.1%
Mark-up / Return / Interest expensed	15.9%	-17.4%	84.0%	45.4%	12.3%	6.5%	11.3%
<b>Net Mark-up / Interest Income</b>	<b>-12.8%</b>	<b>28.1%</b>	<b>3.1%</b>	<b>22.2%</b>	<b>17.7%</b>	<b>14.1%</b>	<b>23.4%</b>
<b>Total non-markup / interest income</b>	<b>231.1%</b>	<b>-39.4%</b>	<b>7.4%</b>	<b>12.5%</b>	<b>21.5%</b>	<b>22.3%</b>	<b>23.2%</b>
<b>Non mark-up / interest expenses</b>							
Operating expenses	16.8%	22.3%	32.9%	-6.7%	18.4%	15.8%	23.4%
Workers' Welfare Fund	17.5%	8.5%	-22.2%	52.5%	18.4%	15.8%	23.4%
Other charges	119.4%	-95.6%	375.0%	10.0%	10.0%	10.0%	10.0%
<b>Profit Before Provisions</b>	<b>19.2%</b>	<b>-11.1%</b>	<b>-31.3%</b>	<b>83.2%</b>	<b>18.5%</b>	<b>15.8%</b>	<b>23.4%</b>
Provisions / (reversal of provisions)	286.4%	-123.9%	236.7%	-119.4%	-31.4%	526.9%	6.1%
<b>Profit before income tax</b>	<b>-14.6%</b>	<b>53.5%</b>	<b>-7.4%</b>	<b>17.5%</b>	<b>21.1%</b>	<b>0.3%</b>	<b>26.7%</b>
Income tax expense	-12.9%	18.3%	0.4%	30.9%	21.1%	0.3%	26.7%
<b>Profit for the year</b>	<b>-15.8%</b>	<b>79.2%</b>	<b>-11.1%</b>	<b>10.3%</b>	<b>21.1%</b>	<b>0.3%</b>	<b>26.7%</b>
<b>EPS</b>	<b>-15.8%</b>	<b>79.2%</b>	<b>-11.1%</b>	<b>10.3%</b>	<b>21.1%</b>	<b>0.3%</b>	<b>26.7%</b>

Source: ACPL Research, Company Financials

## Key Ratios

Profitability Ratios		CY20	CY21	CY22E	CY23E	CY24E	CY25E	CY26E
Yield on Earning Assets	%	8.26	7.21	9.22	11.24	11.10	10.43	10.33
Interest Cost	%	6.26	4.74	7.59	9.52	9.22	8.47	8.13
Net Interest Margin	%	2.00	2.47	1.63	1.72	1.88	1.96	2.20
Operating Cost to Income	%	48.17	55.62	70.67	55.27	55.26	55.26	55.24
Return on Equity	%	13.29	22.69	17.60	16.94	17.65	15.53	18.25
Return on Assets	%	0.63	1.04	0.77	0.74	0.78	0.68	0.75
<b>Balance Sheet Analysis</b>		<b>CY20</b>	<b>CY21</b>	<b>CY22E</b>	<b>CY23E</b>	<b>CY24E</b>	<b>CY25E</b>	<b>CY26E</b>
Deposits Growth	%	20.85	20.10	16.01	16.01	16.01	16.01	16.01
CASA to Deposits	%	64.62	63.44	52.27	59.87	59.87	59.87	59.87
Advances to Deposits	%	46.84	48.30	57.01	56.53	56.07	55.89	55.71
Investments to Deposits	%	67.99	53.01	52.24	51.34	50.57	49.90	49.32
PIBs to Investments	%	37.42	72.46	36.63	36.63	36.63	36.63	36.63
T Bills to Investments	%	58.55	23.32	58.60	58.60	58.60	58.60	58.60
Gross Infection Ratio	%	12.93	9.74	8.74	8.04	7.34	7.34	7.34
Provisioning Coverage	%	83.58	89.76	75.00	71.00	67.00	63.00	59.00
Net Infection Ratio	%	2.40	1.10	2.04	2.20	2.30	2.59	2.88
Capital Adequacy Ratio	%	16.23	12.27	11.76	11.74	11.85	11.75	11.14
Leverage Ratio	%	3.21	3.01	2.85	2.83	2.85	2.81	2.62
<b>Operational Analysis</b>		<b>CY20</b>	<b>CY21</b>	<b>CY22E</b>	<b>CY23E</b>	<b>CY24E</b>	<b>CY25E</b>	<b>CY26E</b>
Market Share - Deposits	%	4.67	4.78	5.18	5.46	5.76	6.07	6.40
Market Share - Advances	%	5.21	5.26	5.75	6.06	6.39	6.74	7.11
Market Share - Investments	%	4.91	3.87	4.44	4.60	4.78	4.98	5.19
No. of Branches		636	662	689	717	747	777	809
<b>Investment Ratios</b>		<b>CY20</b>	<b>CY21</b>	<b>CY22E</b>	<b>CY23E</b>	<b>CY24E</b>	<b>CY25E</b>	<b>CY26E</b>
Dividend Per Share		1.00	0.00	1.00	1.00	1.00	1.00	2.00
Dividend Yield	%	19.12	0.00	19.12	19.12	19.12	19.12	38.24
Dividend Cover	x	2.33	0.00	3.72	4.10	4.97	4.98	3.16
Retention Ratio	%	57.17	100.00	73.11	75.61	79.87	79.93	68.31
Payout Ratio	%	42.83	0.00	26.89	24.39	20.13	20.07	31.69
No. of Shares	('m)	2974	2974	2974	2974	2974	2974	2974
Earnings Per Share		2.33	4.18	3.72	4.10	4.97	4.98	6.31
Book Value Per Share		17.57	18.44	21.13	24.20	28.14	32.08	34.59
Price to Earnings	x	2.24	1.25	1.41	1.28	1.05	1.05	0.83
Price to Book Value	x	0.30	0.28	0.25	0.22	0.19	0.16	0.15

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

<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

#### 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