

STOCK ANALYST REPORT ON FUTURE OUTLOOK OF INVESTMENT BANKS IN PAKISTAN FOCUS ON SIBL

July, 2024

INVESTMENT BANKS IN PAKISTAN

March 2024-(9 months)	share price July 9, 2024	shares outstanding	Market cap (million)	total equity (million)	Total assets (mn)	operating profits (mn)	Net profit	EPS	Book value/share	Div/Bonus
Escort investment bank (ESBL)	4.2	135.6	565	586	738	-10.4	-8.0	-0.1	4.3	
First credit and investment (FCIBL)	7.75	65	504	773	2,531	40	29.5	0.5	11.9	
Security investment bank*	5.09	59.1	301	788	836.17	88.17	79.8	1.35	13.3	0.5%, 15%
Invest capital investment bank	1.47	284.9	419	658	1238	105	94.2	0.3	2.3	
Total			1,789	2,805	5,343	223	195			

*SIB annual Dec 2023

Presently there are four investment banks listed on PSX. Till recently, there were five investment banks. Earlier in 2024, First Dawood Investment Bank was converted into First Dawood Properties Ltd (change of name and nature of business) as the group has decided to pursue and handle its properties business through this entity.

During FY24, three investment banks have shown improvement in profitability with the exception of Escort Investment Bank, which remains in losses during the year. The entire market capitalization of four investment banks is only Rs 1,789mn, while total equity base of these banks is Rs 2,805mn, as their share prices are trading below their book values. With the exception of SIBL, none of these banks could pay dividend to their shareholders.

SIBL

The dividend payout of 0.5% and 15% bonus by SIBL has helped in improving its market cap by almost Rs 50mn to presently Rs 300mn. However, it remains the cheapest bank in terms of lowest price to book value and perhaps offer the highest upside provided the bank is able to remain profitable with potential payout of Rs 0.5-0.75 per share, which is roughly 15% dividend yield.

During the year ended December 2023, SIBL made net profit of almost Rs 80mn (EPS of Rs 1.35), with major contribution coming from booking capital gains in the equity portfolio in the last quarter (Rs 44mn). In the first quarter ended March, the bank reported net profit of Rs 15mn, with major contribution from interest income on its TB portfolio.

Till 1Q March 2024, SIBL has total investment portfolio of Rs 480mn. This included Rs 390mn in treasury bills and sukus (370 +20), while Rs 89mn held in the equity portfolio.

The company has sold its DHA commercial plot and realized Rs 120mn, which is shown as receivable by the end of quarter. After realization of this Rs 120mn, it is assumed that the total liquid portfolio will now be around Rs 600mn.

Since the bank is carrying mostly a liquid portfolio in excess of Rs 600mn, it has the potential to make gross revenues in the range of Rs 120-130mn during FY24. With equity market making new highs and

interest rates remaining high (200bps lower than previous year), it is expected that SIBL could potentially generate net profit in the range of Rs 70-90mn during the current accounting year.

ESBL

Escort bank has suffered losses on its microfinance exposure. The details have not been provided in the financial statements. Other major segment of its business is lending against gold.

FCIBL

First credit and investment bank-FCIBL is the only investment bank that has leveraged its balance sheet (between 3-4 times) mostly through interbank repo borrowings. The bank is mainly engaged in money market (trading portfolio in T-Bills) and it also claims to be active in interbank forex market. It has credit rating of 'A' (single A) by VIS credit rating. Given the high cost of interbank borrowings, the bank is unlikely to be making big spreads in this business, however, it has managed to generate positive returns overall.

ICIB

Invest capital is still facing problems on its loans, leasing and financing portfolios. It has wiped out Rs 415mn of its equity in past few years as it has to make provisions against non-performing assets. The bank is primarily concentrating on recoveries of its stuck-up loans.