

Bank AL Habib Limited
Result Preview

PSX: B AHL Bloomberg: B AHL: PA Reuters: B KEQ: KA

Pakistan Research

BAHL: 2QCY21 EPS to grow by 2% YoY to PKR 4.0

- Bank AL Habib Limited (BAHL) is scheduled to announce its 2QCY21 financial results today 4th August 2021. In this regard, we expect the bank to record net earnings of PKR 4.0/share, up 2% YoY. This will take cumulative earnings for 1HCY21 to PKR 8.14/share, up 25% YoY.
- Increase in profitability is expected on the back of higher non-interest income and lower provisions. On a sequential basis, BAHL's earnings are likely to witness attrition of 2% YoY due to potential normalization of provisioning cost as bank booked reversal of PKR 245mn in 1QCY21.
- Net interest income (NII) for the quarter is likely to decline by 11% YoY due to repricing of assets on lower interest rates. However, for 1HCY21, NII is expected to remain flat at PKR 27.1bn on the back of expected growth of 21% YoY in investments and 5% YoY increase in the loan book.
- Non-interest income of the bank to rise by 64% YoY to PKR 3.3bn in 2QCY21 owing to expected surge in fee & commission income (up 77% YoY).
- Provisioning expense is anticipated to remain on the lower side and clock in at PKR 293mn in 2QCY21 as compared to PKR 1.8bn charged in 2QCY20 as the bank booked hefty general provisions on account of potential pandemic related delinquencies. For 1HCY21, the cumulative provisions likely to stand at PKR 47mn, down 98% YoY due to provisioning reversals in 1QCY21.
- Operating expenses during 2Q likely to surge by 12% YoY to PKR 9.7bn. Resultantly, the cost to income ratio is expected to reach 56% in 2QCY21 against 49% in 2QCY20.
- We have a 'BUY' rating on the scrip with a Dec-21 price target of PKR 97, implying an upside of 47% including a dividend yield of 9%.

Key Data

| | |
|-------------------------|----------|
| PSX Ticker | BAHL |
| Target Price (PKR) | 97 |
| Current Price (PKR) | 71 |
| Upside/(Downside) (%) | + 38% |
| Dividend Yield (%) | 9% |
| Total Return (%) | + 47% |
| 12-month High (PKR) | 82 |
| 12-month Low (PKR) | 61 |
| Outstanding Shares (mn) | 1,111 |
| Market Cap (PKR mn) | 78,689 |
| Year End | December |

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

| | 2QCY20 | 2QCY21E | YoY | 1HCY20 | 1HCY21E | YoY |
|----------------------------|--------|---------|------|--------|---------|------|
| M/up Earned | 33,000 | 28,276 | -14% | 65,374 | 54,218 | -17% |
| M/up Expense | 17,187 | 14,263 | -17% | 38,304 | 27,094 | -29% |
| Net Interest Income | 15,814 | 14,013 | -11% | 27,070 | 27,123 | 0% |
| Non-Interest Income | 2,008 | 3,290 | 64% | 4,298 | 6,460 | 50% |
| Total Provisions | 1,836 | 293 | -84% | 2,178 | 47 | -98% |
| Admin Expenses | 8,674 | 9,729 | 12% | 17,088 | 19,195 | 12% |
| Profit Before Tax | 7,311 | 7,282 | 0% | 12,101 | 14,341 | 19% |
| Taxation | 2,945 | 2,840 | -4% | 4,876 | 5,298 | 9% |
| Profit After Tax | 4,366 | 4,442 | 2% | 7,225 | 9,043 | 25% |
| EPS | 3.93 | 4.00 | 2% | 6.50 | 8.14 | 25% |

Source: Company Accounts, Akseer Research

Key Financial Ratios

| | CY18A | CY19A | CY20A | CY21E | CY22F | CY23F |
|----------------|-------|-------|-------|-------|-------|-------|
| EPS | 7.57 | 10.05 | 16.03 | 17.1 | 18.6 | 24.35 |
| EPS Growth | 1% | 33% | 59% | 6% | 9% | 31% |
| DPS | 3.00 | 3.50 | 4.50 | 6.75 | 7.50 | 9.75 |
| PER | 9.4 | 7.0 | 4.4 | 4.1 | 3.8 | 2.9 |
| Dividend Yield | 4.2% | 4.9% | 6.4% | 9.5% | 10.6% | 13.8% |
| P/B | 1.6 | 1.3 | 1.0 | 0.9 | 0.7 | 0.6 |
| ROE | 17.4% | 20.1% | 25.2% | 22.0% | 20.9% | 23.4% |

Source: Company Accounts, Akseer Research

Saqib Hussain
saqib.hussain@akseerresearch.com

Valuation Basis

Our PT for Bank Al-Habib Limited (BAHL) has been computed on dividend discounting method using Justified P/B for the calculation of terminal value. We have used sustainable ROE of 17.6% to calculate exit P/B, along with a risk free rate of 11%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 17%.

Investment Thesis

We have a 'BUY' recommendation on the stock based on our Dec-21 PT of PKR 97/share which results in an upside of 47% including dividend yield of 9.0%. Our investment case on BAHL is based on (1) One of the best asset quality amongst the banks (2) higher than industry deposit & advances growth (3) investment book focused on short term instruments.

Risks

Key risks to our investment thesis are: 1) higher than anticipated increase in NPLs, 2) lower than anticipated growth in advances and deposits 3) higher than expected increase in cost/income ratio.

Company Description

Incorporated in 1991 in Karachi, Bank AL Habib Limited provides retail and commercial banking products and services in Pakistan, the Middle East, the Asia Pacific, and Africa. Through its subsidiary the bank is also present in Retail Brokerage segments. Further, the bank engages in all treasury and international trade related activities. It operates through a network of 870 branches, 32 sub-branches and 03 overseas branches. The branch network of the bank also includes 117 Islamic Banking branches as of 31 March 2021.

Financial Highlights - BAHL

| Income Statement (PKR mn) | | | | | | |
|----------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | CY18 | CY19A | CY20A | CY21E | CY22F | CY23F |
| Mark-up/interest earned | 60,733 | 105,602 | 125,273 | 122,431 | 155,443 | 180,677 |
| Mark-up/interest expensed | 29,839 | 64,416 | 67,653 | 67,213 | 91,653 | 106,307 |
| Net interest income | 30,894 | 41,186 | 57,620 | 55,218 | 63,789 | 74,370 |
| Non-interest income | 7,157 | 9,481 | 10,273 | 11,541 | 11,881 | 12,586 |
| Provision charged | 247 | 3,395 | 4,543 | 1,172 | 1,264 | 1,385 |
| Operating expenses | 23,651 | 28,261 | 34,768 | 38,677 | 42,402 | 46,576 |
| Profit after tax | 8,307 | 11,169 | 17,812 | 16,295 | 19,203 | 23,397 |

Source: Company Accounts, Akseer Research

| Balance sheet (PKR mn) | | | | | | |
|---------------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | CY18 | CY19A | CY20A | CY21E | CY22F | CY23F |
| Cash & Treasury Balances | 82,422 | 123,363 | 125,598 | 146,322 | 170,465 | 198,592 |
| Investments | 414,605 | 586,141 | 764,944 | 922,856 | 1,109,446 | 1,332,375 |
| Advances | 478,215 | 488,669 | 510,252 | 561,432 | 617,750 | 679,699 |
| Operating Fixed Assets | 26,350 | 36,928 | 44,179 | 48,607 | 52,534 | 56,017 |
| Other Assets | 46,647 | 63,581 | 77,119 | 89,203 | 103,921 | 121,068 |
| Total Assets | 1,048,239 | 1,298,682 | 1,522,091 | 1,768,420 | 2,054,116 | 2,387,751 |
| Borrowings from FIs | 119,038 | 228,745 | 211,599 | 246,513 | 287,188 | 334,574 |
| Deposits | 796,901 | 903,740 | 1,099,686 | 1,281,135 | 1,492,522 | 1,738,788 |
| Other Liabilities | 82,748 | 104,694 | 130,949 | 148,664 | 169,329 | 193,243 |
| Total Liabilities | 998,687 | 1,237,179 | 1,442,235 | 1,676,312 | 1,949,039 | 2,266,605 |
| Equity | 49,552 | 61,503 | 79,856 | 92,108 | 105,077 | 121,146 |
| Total Liabilities & Equity | 1,048,239 | 1,298,682 | 1,522,091 | 1,768,420 | 2,054,116 | 2,387,751 |

Source: Company Accounts, Akseer Research

Disclaimer

This report has been prepared and marketed jointly by Akseer Research (Pvt) Limited and Alfa Adhi Securities (Pvt) Limited, hereinafter referred jointly as "JV" 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, the JV and/or any of their 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 professionals 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 the JV 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 particular 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 the JV's Research Department and do not necessarily reflect those of the JV or its directors. Akseer Research and Alfa Adhi Securities as firms may have business relationships, including investment--banking relationships, with the companies referred to in this report. The JV or any of their officers, directors, principals, employees, associates, close relatives may act as a market maker in the securities of the companies mentioned in this report, may have a financial interest in the securities of these companies to an amount exceeding 1% of the value of the securities of these companies, may serve or may have served in the past as a director or officer of these companies, may have received compensation from these companies for corporate advisory services, brokerage services or underwriting services or may expect to receive or intend to seek compensation from these companies for the aforesaid services, may have managed or co-managed a public offering, take-over, buyback, delisting offer of securities or various other functions for the companies mentioned in this report.

All rights reserved by the JV. 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 the JV. Action could be taken for unauthorized reproduction, distribution or publication.

Valuation Methodology

To arrive at our 12-months Price Target, the JV uses different valuation methods which include: 1). DCF methodology, 2). Relative valuation methodology, and 3). Asset-based valuation methodology.

Ratings Criteria

JV employs a three-tier ratings system to rate a stock, as mentioned below, which is based upon the level of expected return for a specific stock. The rating is based on the following with time horizon of 12-months.

| Rating | Expected Total Return |
|--------|-------------------------------|
| Buy | Greater than or equal to +15% |
| Hold | Between -5% and +15% |
| Sell | Less than or equal to -5% |

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

The JV endeavours 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.

Analyst Certification

The research analyst, denoted by 'AC' on the cover of this report, has also been involved in the preparation of this report, and is a member of JV's Equity Research Team. The analyst certifies that (1) the views expressed in this report accurately reflect his/her personal views and (2) 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.

Contact Details

Akseer Research (Pvt) Limited

1st Floor, Shaheen Chambers, KCHS block 7 & 8, off. Shahrah-e-Faisal

T: +92-21-34320359 -60

E: info@akseerresearch.com

Alfa Adhi Securities (Pvt) Limited

3rd Floor, Shaheen Chambers, A-4 Central Commercial Area, KCH

Society, Block 7 & 8, Near Virtual University, Karachi

T: +92-21-38694242

E: info@alfaadhi.net