

Bank AL Habib Limited

Result Review

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

Pakistan Research

BAHL: 2QCY22 EPS clocked in at PKR 4.20, up 5% YoY

- Bank AL Habib Limited (BAHL) announced its 2QCY22 financial results today wherein the bank reported unconsolidated EPS of PKR 4.20, up 5% YoY. This takes cumulative EPS for 1HCY22 to PKR 8.66, up 7% YoY.
- Net interest income (NII) for the 2Q increased 27% YoY to PKR 18.1bn. Interest income surged 46% YoY, while interest expense increased by 65% YoY due to the upward adjustment of interest rate hike. For 1HCY22, NII increased by 25% YoY to PKR 34.2bn.
- The bank has reported highest ever quarterly non-interest income of PKR 5.9bn, up 104% YoY in 2QCY22 led by significant rise in forex income (+532% YoY) and higher fee & commission income (+45% YoY).
- Provisioning expense clocked in PKR 495mn during 2QCY22, taking cumulative provisioning to PKR 649mn during 1HCY22 compared to a reversal of PKR 29mn in 1HCY21.
- Operating expenses during 2QCY22 increased by 38% YoY to PKR 13.3bn mainly associated with the higher number of branches on YoY basis. However, the cost to income ratio declined to 55% in 2QCY22 as against 56% in 2QCY21.
- The bank's effective tax rate came in at 54.4% in 2QCY22 vs 39% in 2QCY21 due to imposition of the super tax on CY22 profits.
- We have a 'BUY' rating on the scrip with a price target of PKR 86/share, which is offering a capital upside of 46%, along with a dividend yield of 15%.

Key Data

PSX Ticker	BAHL
Target Price (PKR)	86
Current Price (PKR)	59
Upside/(Downside) (%)	+46%
Dividend Yield (%)	15%
Total Return (%)	+61%
12-month High (PKR)	79
12-month Low (PKR)	54
Outstanding Shares (mn)	1,111
Market Cap (PKR mn)	65,830
Year End	December

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	2QCY21	2QCY22	YoY	1HCY21	1HCY22	YoY
M/up Earned	29,120	42,626	46%	55,061	76,822	40%
M/up Expense	14,827	24,473	65%	27,658	42,645	54%
Net Interest Income	14,293	18,153	27%	27,403	34,177	25%
Non-Interest Income	2,908	5,933	104%	6,078	10,092	66%
Total Provisions	217	495	128%	(29)	649	NM
Operating Expenses	9,703	13,355	38%	19,169	25,199	31%
Profit Before Tax	7,282	10,236	41%	14,341	18,420	28%
Taxation	2,845	5,569	96%	5,303	8,791	66%
Profit After Tax	4,438	4,666	5%	9,038	9,629	7%
EPS	3.99	4.20	5%	8.13	8.66	7%

Source: Company Accounts, Akseer Research

Key Financial Ratios

	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
EPS	10.0	16.0	16.8	21.5	26.0	24.3
EPS Growth	33%	59%	5%	28%	21%	-7%
DPS	3.5	4.5	7.0	8.5	10.3	9.5
PER	5.9	3.7	3.5	2.8	2.3	2.4
Dividend Yield	6%	8%	12%	14%	17%	16%
P/B	1.1	0.8	0.7	0.6	0.5	0.5
ROE	20%	25%	22%	25%	25%	20%

Source: Company Accounts, Akseer Research

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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% to calculate exit P/B, along with a risk free rate of 13%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 19%.

Investment Thesis

We have a 'BUY' recommendation on the stock based on our PT of PKR 86/share which results in an upside of 46% along with a dividend yield of 15%. 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 957 branches, 29 sub-branches and 02 overseas branches. The branch network of the bank also includes 142 Islamic Banking branches as of 31 March 2022.

Financial Highlights - BAHL

Income Statement (PKR mn)						
	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
Mark-up/interest earned	105,602	125,273	116,752	205,156	228,377	188,060
Mark-up/interest expensed	64,416	67,653	61,143	127,363	140,932	103,887
Net interest income	41,186	57,620	55,609	77,793	87,445	84,173
Non-interest income	9,481	10,273	14,027	19,079	16,582	17,194
Provision charged	3,395	4,543	(47)	2,723	5,341	1,141
Operating expenses	28,261	34,768	39,410	47,721	47,922	52,871
Profit after tax	11,169	17,812	18,702	23,914	28,936	26,992

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
Cash & Treasury Balances	123,363	125,598	125,340	136,620	148,916	162,319
Investments	586,141	764,944	826,600	932,939	1,054,847	1,162,850
Advances	488,669	510,252	733,799	775,640	817,804	883,800
Operating Fixed Assets	36,928	44,179	55,961	60,125	65,179	70,016
Other Assets	63,581	77,119	107,952	115,406	125,793	137,114
Total Assets	1,298,682	1,522,091	1,849,652	2,020,731	2,212,538	2,416,099
Borrowings from FIs	228,745	211,599	302,213	329,412	359,059	391,374
Deposits	903,740	1,099,686	1,309,823	1,427,707	1,556,201	1,696,259
Other Liabilities	104,694	130,949	147,601	158,852	172,842	188,232
Total Liabilities	1,237,179	1,442,235	1,759,637	1,915,971	2,088,102	2,275,866
Equity	61,503	79,856	90,015	104,760	124,437	140,233
Total Liabilities & Equity	1,298,682	1,522,091	1,849,652	2,020,731	2,212,538	2,416,099

Source: Company Accounts, Akseer Research

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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.

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