

Bank AL Habib Limited
Result Preview

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

Pakistan Research

BAHL: 4QCY22 EPS likely to increase by 9% YoY to PKR 4.7

- BAHL is scheduled to announce its 4QCY22 financial results on 15th February, 2023. We expect the bank to report unconsolidated PAT of PKR 5.2bn (EPS PKR 4.7), up 9.3% YoY. This would take cumulative EPS for CY22 to PKR 18.2, up 7.9% YoY. Along with the result, we expect the bank to announce a final cash dividend of PKR 6.0/share.
- Net interest income (NII) is expected to clock in at PKR 22.1bn, up 55% YoY during the quarter under review. Interest income to increase by 94% YoY, while interest expense is expected to surge at a higher pace of 126% YoY due to the increase in interest rates.
- Non-interest income of the bank is anticipated to increase by 5% YoY to PKR 4.6bn during 4Q. This increase is led by 15% YoY rise in fee and commission.
- Due to economic headwinds, we expect the bank to build the provision to avoid any credit losses. We have assumed provisioning expense of PKR 1.5bn during 4QCY22 as compared to PKR 86mn in SPLY.
- We anticipate, operating expenses to grow by 41% YoY to PKR 14.8bn mainly associated with the aggressive branch network expansion and inflationary pressures. However, the cost to income ratio is expected to clock in at 56% in 4QCY22 vs 57% in SPLY, on back of higher revenues.
- The effective tax rate is expected to come at 49% in 4QCY22 vs 40% in SPLY. Increase in tax rate is due to the imposition of super tax on CY22 profits and rise in corporate tax rate for the banking industry in the FY23 budget.
- We have a 'BUY' rating on the scrip. Our Dec-23 price target of PKR 82/share offers a capital upside of 49%, along with a dividend yield of 19.9%.

Key Data

PSX Ticker	BAHL
Target Price (PKR)	82
Current Price (PKR)	55
Upside/(Downside) (%)	+ 49%
Dividend Yield (%)	19.9%
Total Return (%)	+ 69%
12-month High (PKR)	78
12-month Low (PKR)	48
Outstanding Shares (mn)	1,111
Market Cap (PKR mn)	61,473
Year End	December

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	4QCY21	4QCY22E	YoY	CY21	CY22E	YoY
M/up Earned	31,100	60,225	94%	116,752	193,406	66%
M/up Expense	16,913	38,166	126%	61,143	116,765	91%
Net Interest Income	14,187	22,059	55%	55,609	76,642	38%
Non-Interest Income	4,389	4,588	5%	14,027	20,697	48%
Total Provisions	86	1,587	17.4x	(47)	4,031	NM
Operating Expenses	10,524	14,832	41%	39,410	54,215	38%
Profit Before Tax	7,965	10,229	28%	30,273	39,093	29%
Taxation	3,193	5,012	57%	11,570	18,907	63%
Profit After Tax	4,773	5,217	9%	18,702	20,186	8%
EPS	4.3	4.7	9%	16.8	18.2	8%
DPS	7.0	6.0	-	7.0	6.0	-

Source: Company Accounts, Akseer Research

Key Financial Ratios

	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
EPS	10.0	16.0	16.8	18.2	27.7	35.2
EPS Growth	32.7%	59.5%	5.0%	7.9%	52.8%	27.0%
DPS	3.5	4.5	7.0	6.0	11.0	12.3
BVPS	55.3	71.9	81.0	89.5	111.3	135.6
PER	5.5	3.5	3.3	3.0	2.0	1.6
Dividend Yield	6.3%	8.1%	12.7%	10.8%	19.9%	22.1%
P/B	1.0	0.8	0.7	0.6	0.5	0.4
ROE	20.1%	25.2%	22.0%	21.3%	27.6%	28.5%

Source: Company Accounts, Akseer Research

Muhammad Atif

muhammad.atif@alphacapital.com.pk

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 18% to calculate exit P/B, along with a risk free rate of 17%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 23%.

Investment Thesis

We have a 'BUY' recommendation on the stock based on our Dec-23 PT of PKR 82/share which results in an upside of 49% along with a dividend yield of 19.9%. Our investment case on BAHL is based on (1) One of the best asset quality amongst the banks (2) highest coverage ratio in the industry (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 1,019 branches, 29 sub-branches and 02 overseas branches. The branch network of the bank also includes 165 Islamic Banking branches as of 30 September 2022.

Financial Highlights - BAHL

Income Statement (PKR mn)						
	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
Mark-up/interest earned	105,602	125,273	116,752	193,406	328,497	337,946
Mark-up/interest expensed	64,416	67,653	61,143	116,765	216,096	200,333
Net interest income	41,186	57,620	55,609	76,642	112,401	137,613
Non-interest income	9,481	10,273	14,027	20,697	17,590	17,731
Provision charged	3,395	4,543	(47)	4,031	1,936	2,243
Operating expenses	28,261	34,768	39,410	54,215	67,588	84,416
Profit after tax	11,169	17,812	18,702	20,186	30,838	39,150

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
Cash & Treasury Balances	123,363	125,598	125,340	142,887	160,034	179,238
Investments	586,141	764,944	826,600	957,614	1,077,857	1,192,947
Advances	488,669	510,252	733,799	775,668	892,490	1,026,817
Operating Fixed Assets	36,928	44,179	55,961	58,873	63,785	67,993
Other Assets	63,581	77,119	107,952	120,700	117,929	132,080
Total Assets	1,298,682	1,522,091	1,849,652	2,055,743	2,312,095	2,599,076
Borrowings from FIs	228,745	211,599	302,213	298,640	334,476	374,614
Deposits	903,740	1,099,686	1,309,823	1,493,199	1,672,382	1,873,068
Other Liabilities	104,694	130,949	147,601	164,404	181,513	200,693
Total Liabilities	1,237,179	1,442,235	1,759,637	1,956,243	2,188,372	2,448,375
Equity	61,503	79,856	90,015	99,500	123,722	150,701
Total Liabilities & Equity	1,298,682	1,522,091	1,849,652	2,055,743	2,312,095	2,599,076

Source: Company Accounts, Akseer Research

Disclaimer

This report has been prepared and marketed jointly by Akseer Research (Pvt) Limited and Alpha Capital (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 Alpha Capital 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

Alpha Capital (Pvt) Limited (Formerly: 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.pk