

Bank AL Habib Limited
Result Review

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

Pakistan Research

BAHL: 4QCY22 EPS clocked in at PKR 1.4, down 66% YoY; DPS at PKR 7.0

- BAHL announced its 4QCY22 financial results today, wherein the bank reported an unconsolidated EPS of PKR 1.4, down 66% YoY. This took cumulative CY22 EPS to PKR 14.9, down 11% YoY. Along with the result, the bank announced a cash dividend of PKR 7.0/share.
- Net interest income (NII) clocked in at PKR 22.7bn, up 60% YoY during the quarter under review. The interest income of the bank increased by 118% YoY, while the interest expense grew at a higher pace of 166% YoY due to the higher interest rates.
- Non-interest income of the bank increased to PKR 5.1bn, up 16% YoY during the 4Q. This increase is led by 45% YoY increase in forex income due to the exchange rate volatility and elevated fee and commission income, up 10% YoY.
- The bank has booked massive provisions of PKR 10.4bn during 4Q against PKR 86mn in SPLY. We await detailed accounts for clarity.
- The operating expenses increased by 27% YoY to PKR 13.4bn mainly associated with the aggressive branch network expansion and inflationary pressures. The cost to income ratio clocked in at 48% in 4QCY22 vs 57% in SPLY, on the back of higher revenues.
- The effective tax rate for the 4Q clocked in at 60% vs 40% in SPLY, which further deteriorates the bottomline.
- We have a 'BUY' rating on the scrip. Our Dec-23 price target of PKR 82/share offers a capital upside of 48%, along with a dividend yield of 20%.

Key Data

PSX Ticker	BAHL
Target Price (PKR)	82
Current Price (PKR)	55
Upside/(Downside) (%)	+ 48%
Dividend Yield (%)	20%
Total Return (%)	+ 68%
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	4QCY22	YoY	CY21	CY22	YoY
M/up Earned	31,100	67,740	118%	116,752	200,921	72%
M/up Expense	16,913	45,004	166%	61,143	123,602	102%
Net Interest Income	14,187	22,736	60%	55,609	77,319	39%
Non-Interest Income	4,389	5,088	16%	14,027	21,196	51%
Total Provisions	86	10,427	120x	(47)	12,871	NM
Operating Expenses	10,524	13,377	27%	39,410	52,761	34%
Profit Before Tax	7,965	4,020	-50%	30,273	32,884	9%
Taxation	3,193	2,419	-24%	11,570	16,314	41%
Profit After Tax	4,773	1,602	-66%	18,702	16,570	-11%
EPS	4.29	1.44	-66%	16.83	14.91	-11%
DPS	7.00	7.00	-	7.00	7.00	-

Source: Company Accounts, Akseer Research

Key Financial Ratios

	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
EPS	10.0	16.0	16.8	14.9	27.3	34.8
EPS Growth	32.7%	59.5%	5.0%	-11.4%	83.4%	27.2%
DPS	3.5	4.5	7.0	7.0	11.0	12.3
BVPS	55.3	71.9	81.0	86.3	106.7	130.5
PER	5.5	3.4	3.3	3.7	2.0	1.6
Dividend Yield	6.4%	8.2%	12.7%	12.7%	20.0%	22.3%
P/B	1.0	0.8	0.7	0.6	0.5	0.4
ROE	20.1%	25.2%	22.0%	17.8%	28.4%	29.3%

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 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 48% along with a dividend yield of 20%. 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	CY22A	CY23F	CY24F
Mark-up/interest earned	105,602	125,273	116,752	200,921	327,635	337,083
Mark-up/interest expensed	64,416	67,653	61,143	123,602	216,096	200,333
Net interest income	41,186	57,620	55,609	77,319	111,539	136,751
Non-interest income	9,481	10,273	14,027	21,196	17,586	17,729
Provision charged	3,395	4,543	(47)	12,871	1,936	2,243
Operating expenses	28,261	34,768	39,410	52,761	67,588	84,416
Profit after tax	11,169	17,812	18,702	16,570	30,397	38,657

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	953,999	1,072,689	1,187,286
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	2,052,128	2,306,926	2,593,415
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	95,885	118,554	145,040
Total Liabilities & Equity	1,298,682	1,522,091	1,849,652	2,052,128	2,306,926	2,593,415

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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