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21 August 2024

HBL: 2QCY24 EPS to clock in at PKR 10.11, up 14% YoY; DPS PKR 4.00

Habib Bank Limited

PSX: HBL | Bloomberg: HBL PA | Reuters: HBL.PSX

- Habib Bank Limited (HBL) is scheduled to announce its 2QCY24 financial result on 26th August, 2024, wherein we expect the bank to post a consolidated EPS of PKR 10.11 during 2QCY24, up 14% YoY. Along with the results, we expect HBL to announce an interim cash dividend of PKR 4.00/sh.
- Net interest income (NII) for the quarter is anticipated to remain flat (up by 3% YoY) to PKR 60.0bn, with interest expense expected to outpace interest income, growing by 37% YoY vs 25% YoY during 2Q.
- Non-interest income is estimated to increase by 33% YoY to PKR 20.7bn during 2QCY24. Fee & commission income is expected to stand at PKR 10.4bn (up 16% YoY), while forex income is anticipated to increase by 5.0x YoY to PKR 3.8bn.
- The provisioning expense for 2Q is likely to clock in at PKR 3.4bn, compared to a provisioning expense of PKR 2.8bn in SPLY.
- In line with 1QCY24, we expect cost rationalization initiatives to keep administrative expenses muted at PKR 47.7bn (up 17% YoY), translating into a cost-to-income ratio at 59% vs 55% in 2QCY23.
- Effective tax rate for 2QCY24 is estimated to reach 49% vs 56% in SPLY.
- We have a Buy rating on the scrip with Dec-24 PT of PKR 159/share, providing an upside of 17%, along with a dividend yield of 12%.

Key Data

PSX Ticker	HBL
Target Price (PKR)	159
Current Price (PKR)	136
Upside/(Downside) (%)	+17%
Dividend Yield (%)	12%
Total Return (%)	29%
12-month High (PKR)	149
12-month Low (PKR)	90
Outstanding Shares (mn)	1,467
Market Cap (PKR mn)	199,477

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)	2QCY23	2QCY24E	YoY	1HCY23	1HCY24E	YoY
M/up Earned	170,646	213,985	25%	319,197	412,300	29%
M/up Expense	112,534	154,012	37%	205,242	291,789	42%
Net Interest Income	58,112	59,973	3%	113,955	120,511	6%
Non-Interest Income	15,504	20,681	33%	24,081	40,852	70%
Total Provisions	2,822	3,401	21%	5,999	7,050	18%
Admin Expenses	40,787	47,721	17%	80,527	94,663	18%
Profit Before Tax	30,007	29,532	-2%	51,509	59,650	16%
Tax	16,924	14,471	-14%	25,169	29,540	17%
Profit After Tax	12,992	14,835	14%	26,193	30,057	15%
EPS	8.86	10.11	-	17.86	20.49	-
DPS	2.00	4.00	-	3.50	8.00	-

Source: Company Accounts, Akseer Research

Key Financial Ratios	CY21A	CY22A	CY23A	CY24E	CY25F	CY26F
EPS	23.9	23.2	39.3	39.7	38.0	39.9
EPS Growth	13.4%	-2.7%	69.3%	1.0%	-4.3%	4.9%
DPS	7.5	6.8	9.8	15.8	15.3	19.8
BVPS	190.6	192.3	247.6	284.1	297.2	327.4
PER	4.9	5.0	2.9	2.9	3.0	2.9
Dividend Yield	5.5%	5.0%	7.2%	11.6%	11.3%	14.6%
P/B	0.7	0.7	0.5	0.5	0.5	0.4
ROE	13.0%	12.1%	17.9%	14.9%	13.1%	12.8%

Source: Company Accounts, Akseer Research

Valuation Basis

Our PT for HBL has been computed using the dividend discounting method, with Justified P/B for the calculation of the terminal value. We have used sustainable ROE of 14% to arrive at exit P/B, along with a risk-free rate of 15%, a beta of 1.0, and a market risk premium of 6% to arrive at a cost of equity of 21%.

Investment Thesis

We have a Buy recommendation on the stock based on our Dec-24 PT of 159/share. Our price target provides a capital upside of 17% along with a dividend yield of 12%. Our investment case on HBL is based on (1) NIMs expansion on the back of strong balance sheet growth, (2) balance sheet positioned to benefit from monetary easing.

Risks

Key risks to our investment thesis are 1) cost-to-income ratio remains elevated longer than anticipated, 2) higher-than-expected decline in the interest rates 3) lower-than-anticipated growth in advances and deposits, and 4) a higher-than-anticipated increase in NPLs.

Company Description

Founded in 1947 and privatized in 2004, Habib Bank Limited (HBL) is the largest bank in Pakistan, engaged in commercial banking services both in the country and overseas. The bank operates through an extensive network of 1,728 branches, including 408 Islamic banking branches, and 30 branches outside Pakistan. The Aga Khan Fund for Economic Development S.A. (AKFED) is the majority shareholder in the bank.

Financial Highlights - HBL

Income Statement (PKR mn)	CY21A	CY22A	CY23A	CY24E	CY25F	CY26F
Mark-up/interest earned	262,254	436,101	712,345	801,159	718,706	653,202
Mark-up/interest expensed	130,835	270,538	470,212	547,737	464,352	382,945
Net interest income	131,419	165,563	242,133	253,423	254,354	270,257
Non-interest income	36,311	46,732	57,451	77,461	86,312	90,459
Provision charged	8,087	8,482	13,266	15,490	16,786	14,259
Operating expenses	97,615	126,783	172,767	198,819	212,849	229,979
Profit after tax	35,022	34,070	57,676	58,252	55,776	58,513

Source: Company Accounts, Akseer Research

Balance Sheet (PKR mn)	CY21A	CY22A	CY23A	CY24E	CY25F	CY26F
Cash & treasury balances	441,252	296,015	547,529	368,289	400,842	436,481
Investments	1,948,956	1,948,801	2,562,299	2,730,478	2,963,654	3,198,223
Advances	1,507,047	1,782,498	1,861,345	2,079,659	2,272,700	2,518,203
Operating fixed assets	111,307	132,294	164,615	144,516	147,137	149,759
Other assets	308,906	479,198	398,561	369,078	387,833	418,366
Total Assets	4,317,468	4,638,806	5,534,348	5,692,019	6,172,166	6,721,030
Borrowings from FIs	436,258	583,771	665,043	692,985	754,239	821,297
Deposits	3,381,998	3,469,342	4,142,352	4,316,397	4,697,931	5,115,614
Other liabilities	215,526	300,671	360,933	262,740	280,498	299,857
Total Liabilities	4,033,782	4,353,784	5,168,328	5,272,121	5,732,668	6,236,768
Equity	283,686	285,022	366,021	419,898	439,498	484,262
Total Liabilities & Equity	4,317,468	4,638,806	5,534,348	5,692,019	6,172,166	6,721,030

Source: Company Accounts, Akseer Research

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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.

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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%

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