

Habib Bank Limited

Key Takeaways

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

Pakistan Research

HBL: Conference Call Key Takeaways

- HBL conducted its conference call yesterday, wherein the management discussed its 1QCY24 performance and bank's future prospects. Main points discussed during the briefing are presented below.
- For 1QCY24, HBL announced a consolidated EPS of PKR 10.10, up 12% YoY, due to continuous improvement in international business. Along with the result, the bank announced an interim cash dividend of PKR 4.0/share.
- Bank's International core business profit before tax (PBT) surged 92% YoY to PKR 12.3bn against PKR 6.4bn while domestic core business PBT declined 13% YoY to PKR 26.9bn in 1QCY24.
- Net interest income (NII) for the 1QCY24 increased by 6% YoY to PKR 50.5bn on the back of balance sheet growth as NIMs shrink 9bps amid drag in asset yields.
- Bank's non-interest income increased by 135% YoY to PKR 20.2bn, during 1QCY24 due to double digit growth in General banking and Trade; while Remittances and Banca grew more than double. Furthermore, Card fee grew 15% YoY contributing 35% to growth.
- HBL infection ratio deteriorated to 5.6% at Mar-24 from 5.2% at Dec'23 as NPLs increase on a declining loan book due to implementation of IFRS 9. Subsequently, bank incurred provision expense of PKR 1.9bn in 1QCY24.
- Operating expenses increased by 18% YoY to PKR 46.9bn due to transaction related variable cost, resulting in cost to income ratio of 57.2% in 1QCY24.
- Total deposits grew by 17.8% YoY to PKR 4.4tn, where avg domestic deposits increased by PKR 507bn YoY to PKR 4.0tn due to low-cost deposits and Int'l deposits increased by 3% YoY to USD 2.0bn. Moreover, current account depicted highest Q1 growth of last five years with increase of PKR 80bn during the quarter.
- Bank's advances dropped by PKR 97bn CYTD at Mar-24 due to broad based drop in corporate (PKR 52bn) and commercial lending (PKR 17bn). While Consumer lending grew at a slower pace. Moreover, Overseas advances declined by USD 34mn to USD 1.2bn. However, management expects advances to grow on the back of monetary easing.
- Investment book increased to PKR 2.6tn owing to weak loan demand with new deployments mainly in T-bills. Whereas, Bank reduced its exposure in fixed PIB's to 15%.
- We have a 'BUY' rating on the scrip with Dec-24 PT of PKR 158/share, providing an upside of 35%, along with a dividend yield of 14%.

Key Data

PSX Ticker	HBL
Target Price (PKR)	158
Current Price (PKR)	118
Upside/(Downside) (%)	+35%
Dividend Yield (%)	14%
Total Return (%)	49%
12-month High (PKR)	133
12-month Low (PKR)	66
Outstanding Shares (mn)	1,467
Market Cap (PKR mn)	172,693
Year End	December

Source: Company Accounts, Akseer Research

Key Financial Ratios

	CY21A	CY22A	CY23A	CY24E	CY25F	CY26F
EPS	23.9	23.2	39.3	39.7	42.4	44.5
EPS Growth	13.4%	-2.7%	69.3%	0.9%	6.7%	5.1%
DPS	7.5	6.8	9.8	16.0	16.8	20.0
BVPS	190.6	192.3	247.6	275.1	292.0	326.1
PER	4.9	5.1	3.0	3.0	2.8	2.6
Dividend Yield	6.4%	5.7%	8.3%	13.6%	14.2%	17.0%
P/B	0.6	0.6	0.5	0.4	0.4	0.4
ROE	13.0%	12.1%	17.9%	15.2%	14.9%	14.4%

Source: Company Accounts, Akseer Research

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Valuation Basis

Our PT for Habib Bank Limited (HBL) has been computed on the dividend discounting method using Justified P/B for the calculation of 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 21.0%.

Investment Thesis

We have a BUY recommendation on the stock based on our Dec-24 PT of 158/share. Our price target provides a capital upside of 35% along with a dividend yield of 14%. Our investment case on HBL is based on (1) NII expansion on the back of strong balance sheet growth and (2) improvement in cost to income ratio on normalization of legal fees.

Risks

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

Company Description

Habib Bank Limited, founded in 1947 and privatized in 2004 and is the largest bank in the country engaged in commercial banking services in Pakistan 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	814,664	776,564	685,869
Mark-up/interest expensed	130,835	270,538	470,212	566,683	501,679	403,081
Net interest income	131,419	165,563	242,133	247,981	274,885	282,789
Non-interest income	36,311	46,732	57,451	80,357	90,029	94,357
Provision charged	8,087	8,482	13,266	13,003	14,559	11,832
Operating expenses	97,615	126,783	172,767	198,819	212,849	229,979
Profit/loss to shareholders	35,022	34,070	57,676	58,223	62,128	65,291

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY21A	CY22A	CY23A	CY24E	CY25F	CY26F
Cash & Treasury Balances	441,252	296,015	547,529	379,869	415,970	462,689
Investments	1,948,956	1,948,801	2,562,299	2,787,757	3,050,462	3,429,846
Advances	1,507,047	1,782,498	1,861,345	2,090,845	2,290,081	2,541,695
Operating Fixed Assets	111,307	132,294	164,615	144,516	147,137	149,759
Other Assets	308,906	479,198	398,561	432,983	467,900	498,297
Total Assets	4,317,468	4,638,806	5,534,348	5,835,969	6,371,551	7,082,285
Borrowings from FIs	436,258	583,771	665,043	714,774	782,704	870,612
Deposits	3,381,998	3,469,342	4,142,352	4,452,113	4,875,232	5,422,781
Other Liabilities	215,526	300,671	360,933	263,230	282,663	307,547
Total Liabilities	4,033,782	4,353,784	5,168,328	5,430,117	5,940,599	6,600,940
Equity	283,686	285,022	366,021	405,852	430,952	481,346
Total Liabilities & Equity	4,317,468	4,638,806	5,534,348	5,835,969	6,371,551	7,082,285

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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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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