

Habib Bank Limited

Key Takeaways

PSX: HBL Bloomberg: HBL: PA Reuters: HBL: KA

Pakistan Research

Conference Call Key Takeaways

- HBL conducted its conference call yesterday, wherein the management discussed its annual performance and bank's future prospects. Main points discussed during the briefing are presented below.
- For CY23, HBL announced a consolidated EPS of PKR 39.3, up 68% YoY, due to consistent performance of domestic franchise and strong turnaround from the international business. Along with the result, the bank announced final cash dividend of PKR 4.0/share, taking the cumulative CY23 payout to 9.75/share.
- Net interest income (NII) for the CY23 increased by 46% YoY to PKR 242.1bn on the back of higher interest rates. Moreover, non-interest income increased by 23% YoY to PKR 57.5bn, during CY23 due to strong growth of 34% in Fee income.
- Bank's Cards business contributed ~50% of fee increase while trade, cash management and retail banking delivered double-digit contribution.
- Provisioning expense of PKR 13.2bn in CY23 increases the infection ratio to 5.2% as loan book remains flat.
- Operating expenses increased by 36.3% YoY to PKR 170bn due to dollar denominated expenditures of IT and significant increase in legal and professional charges.
- Total deposits grew by 19.4% YoY to PKR 4.1tn, where avg domestic deposits increased by PKR 357bn to PKR 3.1tn due to low-cost deposits and Int'l deposits increased by 4% YoY to USD 1.97bn. The management expects deposit growth of 18-20% YoY in 2024.
- Bank's advances recovered from mid-year lows to close flat despite low demand and decline in private sector credit. Decline in corporate lending was offset by retail, consumer & agriculture. Moreover, advances growth to remain within 12-14% YoY during CY24 due to start of monetary easing by next MPC as per the management.
- Investment book increased to PKR 2.5tn due to weak loan demand with new deployments mainly in T-bills and floating rate PIBs. Moreover, deficit on investments reduced to PKR 12.3bn on the back of improvement in Pakistan Eurobond yields. Bank's investment book contains only 19% of fixed PIBs.
- IFRS 9 impact on the Group's equity as at Jan-24 is negative ~PKR 19.9bn due to Expected Credit Loss. However, SBP has permitted banks to adopt a transitional approach to book this impact over a period of five years with just PKR 1.9bn to be booked in CY24.
- We have a 'BUY' rating on the scrip with Dec-24 PT of PKR 160/share, providing an upside of 38%, along with a dividend yield of 12%.

Key Data

PSX Ticker	HBL
Target Price (PKR)	160
Current Price (PKR)	116
Upside/(Downside) (%)	+38%
Dividend Yield (%)	12%
Total Return (%)	50%
12-month High (PKR)	132
12-month Low (PKR)	66
Outstanding Shares (mn)	1,467
Market Cap (PKR mn)	170,081
Year End	December

Source: Company Accounts, Akseer Research

Key Financial Ratios

	CY21A	CY22A	CY23A	CY24E	CY25E	CY26E
EPS	23.9	23.2	39.3	42.0	40.4	44.1
EPS Growth	13.4%	-2.7%	69.3%	6.7%	-3.8%	9.2%
DPS	7.5	6.8	9.8	14.3	16.3	26.5
BVPS	190.6	192.3	237.1	266.4 –	288.6	313.3
PER	4.9	5.0	2.9	2.8	2.9	2.6
Dividend Yield	6.5%	5.8%	8.4%	12.3%	14.0%	22.9%
P/B	0.6	0.6	0.5	0.4	0.4	0.4
ROE	13.0%	12.1%	18.3%	16.7%	14.5%	14.6%

Source: Company Accounts, Akseer Research

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 160/share. Our price target provides a capital upside of 40% along with a dividend yield of 12.4%. Our investment case on HBL is based on (1) NIMs expansion on the back of strong balance sheet growth and (2) improvement in cost to income ratio.

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. At end of Dec-23, HBL's assets stood at PKR 5.5tn, and the deposit base reached PKR 4.1tn. 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	820,075	733,067	667,141
Mark-up/interest expensed	130,835	270,538	470,212	559,458	467,670	377,793
Net interest income	131,419	165,563	242,133	260,617	265,398	289,348
Non-interest income	36,311	46,732	57,451	69,321	71,300	74,447
Provision charged	8,087	8,482	13,266	6,795	6,009	5,094
Operating expenses	97,615	126,783	172,767	200,630	212,849	229,979
Profit/loss to shareholders	35,022	34,070	57,676	61,544	59,197	64,664

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY21A	CY22A	CY23A	CY24E	CY25F	CY26F
Cash & Treasury Balances	441,252	296,015	343,378	357,998	389,937	424,915
Investments	1,948,956	1,948,801	2,667,967	2,661,433	2,882,429	3,098,037
Advances	1,507,047	1,782,498	1,782,296	2,008,518	2,212,283	2,459,837
Operating Fixed Assets	111,307	132,294	128,222	130,844	133,465	136,087
Other Assets	308,906	479,198	395,775	397,307	425,886	459,927
Total Assets	4,317,468	4,638,806	5,317,638	5,556,100	6,044,000	6,578,803
Borrowings from FIs	436,258	583,771	677,175	706,008	768,994	837,975
Deposits	3,381,998	3,469,342	4,024,437	4,195,790	4,570,117	4,980,068
Other Liabilities	215,526	300,671	265,334	260,197	277,780	296,951
Total Liabilities	4,033,782	4,353,784	4,966,946	5,161,994	5,616,891	6,114,993
Equity	283,686	285,022	350,692	394,106	427,109	463,810
Total Liabilities & Equity	4,317,468	4,638,806	5,317,638	5,556,100	6,044,000	6,578,803

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.

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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%
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