

## Habib Bank Limited

### Result Review

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

Pakistan Research

## HBL: 1QCY22 EPS came in at PKR 5.78, up 2% YoY; DPS PKR 2.25

- HBL posted consolidated net earnings of PKR 5.78/share, up 2% YoY during 1QCY22. Along with the result, the bank also announced interim cash dividend of PKR 2.25/share.
- Net interest income (NII) for 1QCY22 increased by 12% YoY to PKR 36.3bn. Interest income increased by 36% YoY while interest expense increased by 62% YoY due to the upward adjustment of interest rate hike.
- Non-interest income grew 12% YoY to PKR 10.3bn in 1QCY22 on the back of higher fee & commission income (up 24% YoY to PKR 7.3bn) while forex income recorded at PKR 2.5bn vs 896mn in SPLY, supporting the non-interest income growth.
- The bank's provisioning expense declined by 35% YoY to PKR 1.2bn during 1QCY22, supporting the bottomline growth.
- Admin expenses of the bank increased by 27% YoY to PKR 30.8bn which could be due to continuous spending towards information technology and digitalization and inflationary pressures. Consequently, cost to income ratio increased to 66% in 1QCY22 compared to 60% in 1QCY21.
- The effective tax rate of the bank stood at 41% in 1QCY22 which can be attributed to lower ADR.
- On a sequential basis, consolidated earnings of the bank grew 2% QoQ mainly due to lower provision (-52%), tax (-16%) along with increase in NII by 6% QoQ.
- We have a 'BUY' rating on the scrip with Dec-22 price target of PKR 155/ share, implying an upside of 39.6% along with a dividend yield of 9.9%.

#### Key Data

PSX Ticker	HBL
Target Price (PKR)	155
Current Price (PKR)	111
Upside/(Downside) (%)	39.6%
Dividend Yield (%)	9.9%
Total Return (%)	49.5%
12-month High (PKR)	137.7
12-month Low (PKR)	107.6
Outstanding Shares (mn)	1,466.85
Market Cap (PKR mn)	162,909
Year End	December

Source: Company Accounts, Akseer Research

#### Financial Highlights (PKR mn)

	1QCY21	1QCY22	YoY	QoQ
M/up Earned	63,463	86,554	36%	25%
M/up Expense	30,994	50,288	62%	43%
<b>Net Interest Income</b>	32,469	36,266	12%	6%
Non-Interest Income	8,222	10,361	26%	-2%
Total Provisions	1,920	1,243	-35%	-52%
Admin Expenses	24,263	30,803	27%	16%
<b>Profit Before Tax</b>	14,508	14,581	1%	-7%
Taxation	5,948	5,967	0%	-16%
<b>Profit After Tax</b>	8,336	8,479	2%	2%
EPS	5.68	5.78	2%	2%
DPS	1.75	2.25	-	-

#### Key Financial Ratios

	CY19A	CY20A	CY21A	CY22E	CY23F	CY24F
EPS	10.45	21.06	23.88	32.94	34.37	38.43
EPS Growth	27%	101%	13%	38%	4%	12%
DPS	5.00	4.25	7.50	11.00	12.00	13.50
PER	10.6	5.3	4.7	3.4	3.2	2.9
Dividend Yield	4.5%	3.8%	6.8%	9.9%	10.8%	12.2%
P/B	0.74	0.62	0.58	0.55	0.51	0.46
ROE	7.4%	12.8%	13.0%	16.8%	16.3%	16.6%

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 15.1% to arrive at exit P/B, along with a risk-free rate of 12%, a beta of 1.0 and a market risk premium of 6% to arrive at a cost of equity of 18%.

### Investment Thesis

We have a BUY recommendation on the stock based on our PT of 155/share. Our price target provides an upside of 39.6% along with a dividend yield of 9.9%. Our investment case on HBL is based on (1) One-off expense which restricted earnings has been phased out (2) earnings recovering from CY20 onwards along with ROE (3) strong advances growth with a low infection ratio of 5.8% along with a coverage ratio of more than 100%.

### 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 1,648 branches, including 259 Islamic banking branches, and 37 branches outside Pakistan. End of Dec-21, HBL's assets stood at PKR 4.3tn, and the deposit base reached PKR 3.4tn as of Dec-21. The Aga Khan Fund for Economic Development S.A. (AKFED) is the majority shareholder in the bank.

### Financial Highlights - HBL

Income Statement (PKR mn)						
	CY19A	CY20A	CY21A	CY22E	CY23F	CY24E
Mark-up/interest earned	258,114	271,237	262,254	431,568	471,712	475,269
Mark-up/interest expensed	156,791	141,133	130,835	276,323	303,754	284,566
<b>Net interest income</b>	<b>101,323</b>	<b>130,104</b>	<b>131,419</b>	<b>155,245</b>	<b>167,958</b>	<b>190,702</b>
<b>Non-interest income</b>	<b>24,162</b>	<b>30,595</b>	<b>36,311</b>	<b>38,884</b>	<b>39,693</b>	<b>42,939</b>
Provision charged	3,314	12,220	8,087	10,875	7,222	9,672
Operating expenses	93,290	95,449	97,615	103,169	115,130	128,588
<b>Profit/loss to shareholders</b>	<b>15,333</b>	<b>30,892</b>	<b>35,022</b>	<b>48,322</b>	<b>50,412</b>	<b>56,371</b>

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY19A	CY20A	CY21A	CY22E	CY23F	CY24E
Cash & Treasury Balances	367,594	375,280	441,252	475,896	522,081	576,477
Investments	1,379,607	1,948,577	1,948,956	1,950,412	2,103,039	2,283,018
Advances	1,166,957	1,223,510	1,507,047	1,745,341	1,972,117	2,206,327
Operating Fixed Assets	89,552	99,603	111,307	133,638	135,826	138,015
Other Assets	223,423	202,093	308,906	332,716	361,467	402,222
<b>Total Assets</b>	<b>3,227,132</b>	<b>3,849,063</b>	<b>4,317,468</b>	<b>4,638,003</b>	<b>5,094,531</b>	<b>5,606,058</b>
Borrowings from FIs	382,206	544,108	436,258	470,510	516,172	569,952
Deposits	2,437,597	2,830,371	3,381,998	3,647,529	4,001,518	4,418,436
Other Liabilities	182,577	209,088	215,526	219,900	249,203	254,758
<b>Total Liabilities</b>	<b>3,002,381</b>	<b>3,583,568</b>	<b>4,033,782</b>	<b>4,337,939</b>	<b>4,766,893</b>	<b>5,243,146</b>
Equity	224,752	265,495	283,686	300,065	327,637	362,913
<b>Total Liabilities &amp; Equity</b>	<b>3,227,132</b>	<b>3,849,063</b>	<b>4,317,468</b>	<b>4,638,003</b>	<b>5,094,531</b>	<b>5,606,058</b>

Source: Company Accounts, Akseer Research

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