

## Habib Bank Limited

### Result Preview

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

Pakistan Research

## HBL: 1QCY23 EPS likely to clock in at PKR 10.0, up 73% YoY; DPS PKR 3.0

- HBL is scheduled to announce its 1QCY23 financial results on 27<sup>th</sup> April, 2023. We expect the bank to post consolidated EPS of PKR 10.0 in 1QCY23 up 73% YoY. Along with the result, we expect the bank to announce an interim cash dividend of PKR 3.0/share.
- Net interest income (NII) for 1QCY23 is likely to increase by 38% YoY to PKR 50.1bn on the back of higher interest rates. Interest income is anticipated to grow by 70% YoY, while interest expense is expected to increase with a higher rate of 93% YoY, during the quarter.
- Non-interest income is anticipated to surge by 25% YoY to PKR 12.9bn during 1Q. Fee & commission income is likely to increase by 16% YoY, while forex income is expected to grow by 15% YoY.
- We expect the bank to book a provisioning expense of PKR 2.1bn during 1QCY23 compared to a provisioning expense of 1.2bn in SPLY.
- Operating expenses of the bank are expected to increase by 13% YoY to PKR 34.7bn on the back of higher IT expenses and inflationary pressures.
- Effective tax rate is estimated to clock in at 43% in 1QCY23 compared to 41% in SPLY.
- We have a 'BUY' rating on the scrip with Dec-23 PT of PKR 120/share, providing an upside of 66%, along with a dividend yield of 14.6%.

#### Key Data

PSX Ticker	HBL
Target Price (PKR)	120
Current Price (PKR)	76
Upside/(Downside) (%)	+ 66%
Dividend Yield (%)	14.6%
Total Return (%)	81%
12-month High (PKR)	112
12-month Low (PKR)	59
Outstanding Shares (mn)	1,467
Market Cap (PKR mn)	110,762
Year End	December

Source: Company Accounts, Akseer Research

#### Financial Estimates (PKR mn)

	1QCY22	1QCY23E	YoY
M/up Earned	86,554	147,399	70%
M/up Expense	50,288	97,306	93%
<b>Net Interest Income</b>	<b>36,266</b>	<b>50,093</b>	<b>38%</b>
Non-Interest Income	10,361	12,944	25%
Total Provisions	1,243	2,142	72%
Admin Expenses	30,803	34,758	13%
<b>Profit Before Tax</b>	<b>14,581</b>	<b>26,137</b>	<b>79%</b>
Taxation	5,967	11,239	88%
<b>Profit After Tax</b>	<b>8,479</b>	<b>14,674</b>	<b>73%</b>
EPS	5.8	10.0	73%
DPS	2.25	3.00	-

#### Key Financial Ratios

	CY20A	CY21A	CY22A	CY23E	CY24E	CY25E
EPS	21.1	23.9	23.2	36.9	47.7	47.1
EPS Growth	101.5%	13.4%	-2.7%	58.9%	29.3%	-1.3%
DPS	4.3	7.5	6.8	11.0	14.3	16.5
BVPS	177.9	190.6	192.3	220.9	255.2	287.9
PER	3.6	3.2	3.3	2.0	1.6	1.6
Dividend Yield	5.6%	9.9%	8.9%	14.6%	18.9%	21.9%
P/B	0.4	0.4	0.4	0.3	0.3	0.3
ROE	12.8%	13.0%	12.1%	17.9%	20.0%	17.3%

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 18% to arrive at exit P/B, along with a risk-free rate of 17%, a beta of 1.0 and a market risk premium of 6% to arrive at a cost of equity of 23%.

### Investment Thesis

We have a BUY recommendation on the stock based on our PT of 120/share. Our price target provides a capital upside of 66% along with a dividend yield of 14.6%. Our investment case on HBL is based on (1) NIMs expansion on the back of strong balance sheet growth (2) balance sheet ideally positioned to benefit from the higher interest rates.

### 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 1,714 branches, including 294 Islamic banking branches, and 32 branches outside Pakistan. End of Dec-22, HBL's assets stood at PKR 4.6tn, and the deposit base reached PKR 3.5tn. The Aga Khan Fund for Economic Development S.A. (AKFED) is the majority shareholder in the bank.

### Financial Highlights - HBL

Income Statement (PKR mn)						
	CY20A	CY21A	CY22A	CY23E	CY24F	CY25F
Mark-up/interest earned	271,237	262,254	436,101	683,538	706,509	598,406
Mark-up/interest expensed	141,133	130,835	270,538	477,460	468,760	352,734
<b>Net interest income</b>	<b>130,104</b>	<b>131,419</b>	<b>165,563</b>	<b>206,078</b>	<b>237,749</b>	<b>245,672</b>
<b>Non-interest income</b>	<b>30,595</b>	<b>36,311</b>	<b>46,732</b>	<b>45,053</b>	<b>48,489</b>	<b>49,579</b>
Provision charged	12,220	8,087	8,482	11,649	5,224	5,901
Operating expenses	95,449	97,615	126,783	143,060	156,373	166,359
<b>Profit/loss to shareholders</b>	<b>30,892</b>	<b>35,022</b>	<b>34,070</b>	<b>54,136</b>	<b>69,980</b>	<b>69,053</b>

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY20A	CY21A	CY22A	CY23E	CY24F	CY25F
Cash & Treasury Balances	375,280	441,252	296,015	320,078	344,945	379,221
Investments	1,948,577	1,948,956	1,948,801	2,163,116	2,397,898	2,620,536
Advances	1,223,510	1,507,047	1,782,498	1,859,589	1,949,972	2,168,244
Operating Fixed Assets	99,603	111,307	132,294	126,040	128,662	131,283
Other Assets	202,093	308,906	479,198	493,359	532,938	591,666
<b>Total Assets</b>	<b>3,849,063</b>	<b>4,317,468</b>	<b>4,638,806</b>	<b>4,962,183</b>	<b>5,354,415</b>	<b>5,890,950</b>
Borrowings from FIs	544,108	436,258	583,771	631,226	680,265	747,862
Deposits	2,830,371	3,381,998	3,469,342	3,751,362	4,042,805	4,444,528
Other Liabilities	209,088	215,526	300,671	252,338	253,398	272,183
<b>Total Liabilities</b>	<b>3,583,568</b>	<b>4,033,782</b>	<b>4,353,784</b>	<b>4,634,925</b>	<b>4,976,468</b>	<b>5,464,573</b>
Equity	265,495	283,686	285,022	327,257	377,947	426,378
<b>Total Liabilities &amp; Equity</b>	<b>3,849,063</b>	<b>4,317,468</b>	<b>4,638,806</b>	<b>4,962,183</b>	<b>5,354,415</b>	<b>5,890,950</b>

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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