

## Habib Bank Limited

### Result Review

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

Pakistan Research

## HBL: 1QCY23 EPS clocked in at PKR 9.00, up 56% YoY; DPS PKR 1.50

- HBL announced its 1QCY23 financial result today. Wherein, the bank posted a consolidated EPS of PKR 9.00 during first quarter, up 56% YoY. Along with the result, bank announced an interim cash dividend of PKR 1.50/share.
- Net interest income (NII) for 1QCY23 increased by 54% YoY to PKR 55.8bn on the back of higher interest rates. Interest income grew by 72% YoY, while interest expense increased by 84% YoY, during 1Q.
- For 1QCY23, non-interest income decreased by 17% YoY to PKR 8.6bn, mainly due to loss from derivatives of PKR 6.2bn, and a dip in forex income of 70% YoY to PKR 759mn. However, fee and commission income increased by 27% YoY to PKR 9.3bn, along with a gain on derecognition of joint venture of PKR 3.7bn.
- HBL booked a provision expense of PKR 3.2bn during 1QCY23 compared to a provision expense of 1.2bn SPLY.
- Operating expenses of the bank increased by 29% YoY to PKR 39.7bn on the back of higher IT expenses and inflationary pressures. Cost to income ratio for 1QCY23 came at 62% vs 66% in 1QCY22.
- Effective tax rate clocked in at 38% for 1QCY23 vs 41% in 1QCY22 due to a deferred tax adjustment of PKR 2.2bn during the quarter.
- We have a 'BUY' rating on the scrip with Dec-23 PT of PKR 120/share, providing an upside of 60%, along with a dividend yield of 12.7%.

#### Key Data

PSX Ticker	HBL
Target Price (PKR)	120
Current Price (PKR)	76
Upside/(Downside) (%)	+ 60%
Dividend Yield (%)	12.7%
Total Return (%)	73%
12-month High (PKR)	112
12-month Low (PKR)	59
Outstanding Shares (mn)	1,467
Market Cap (PKR mn)	109,515
Year End	December

Source: Company Accounts, Akseer Research

#### Financial Highlights (PKR mn)

	1QCY22	1QCY23	YoY
M/up Earned	86,554	148,551	72%
M/up Expense	50,288	92,708	84%
<b>Net Interest Income</b>	<b>36,266</b>	<b>55,843</b>	<b>54%</b>
Non-Interest Income	10,361	8,576	-17%
Total Provisions	1,243	3,177	156%
Admin Expenses	30,803	39,740	29%
<b>Profit Before Tax</b>	<b>14,581</b>	<b>21,502</b>	<b>47%</b>
Taxation	5,967	8,245	38%
<b>Profit After Tax</b>	<b>8,479</b>	<b>13,201</b>	<b>56%</b>
EPS	5.8	9.0	56%
DPS	2.3	1.5	-

Source: Company Accounts, Akseer Research

#### Key Financial Ratios

	CY20A	CY21A	CY22A	CY23E	CY24E	CY25E
EPS	21.1	23.9	23.2	43.0	47.8	47.1
EPS Growth	101.5%	13.4%	-2.7%	85.0%	11.2%	-1.3%
DPS	4.3	7.5	6.8	9.5	14.3	14.0
BVPS	177.9	190.6	192.3	221.4	255.7	289.7
PER	3.5	3.1	3.2	1.7	1.6	1.6
Dividend Yield	5.7%	10.0%	9.0%	12.7%	19.1%	18.8%
P/B	0.4	0.4	0.4	0.3	0.3	0.3
ROE	12.8%	13.0%	12.1%	20.8%	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 60% along with a dividend yield of 12.7%. 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	684,639	706,635	598,508
Mark-up/interest expensed	141,133	130,835	270,538	472,862	468,760	352,734
<b>Net interest income</b>	<b>130,104</b>	<b>131,419</b>	<b>165,563</b>	<b>211,777</b>	<b>237,875</b>	<b>245,774</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>63,018</b>	<b>70,050</b>	<b>69,110</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	2,163,787	2,398,637	2,621,329
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	493,386	532,968	591,698
<b>Total Assets</b>	<b>3,849,063</b>	<b>4,317,468</b>	<b>4,638,806</b>	<b>4,962,881</b>	<b>5,355,183</b>	<b>5,891,776</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	327,955	378,715	427,204
<b>Total Liabilities &amp; Equity</b>	<b>3,849,063</b>	<b>4,317,468</b>	<b>4,638,806</b>	<b>4,962,881</b>	<b>5,355,183</b>	<b>5,891,776</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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