

**Habib Bank Limited**

## Key Takeaways

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

Pakistan Research

**HBL: 3QCY21 Conference call Key Takeaways**

- Habib Bank Limited held a conference call today to discuss its 3QCY21 financial performance and banking industry's outlook. Last week, the bank had reported consolidated net earnings of PKR 6.17/share, down 10% YoY, taking 9MCMY21 net earnings to PKR 18.21/share, up by 6.1% YoY compared to PKR 17.17/share in the same period last year. The bank also announced an interim cash dividend of PKR 1.75/share, in addition to PKR 3.5/share already announced during the year.
- During 3QCY21, non-interest income of the bank grew by 9% YoY to PKR 8.1bn. HBL recorded highest ever quarterly fee & commission income of PKR 6.2bn (+38% YoY). The management highlighted that 60% of the growth in fee & commission income came from debit/credit card fees, 2nd biggest driver was the trading fees while consumer loans also contributed positively towards the growth in fee & commission income.
- With regards to the additional taxation on ADR, the management highlighted that the Gross ADR will take time to reach 50% given the management is continuing with growth strategy for deposits.
- The management believes that NIMs compression has bottomed out and it will have an uptrend from current levels.
- The bank is targeting deposit growth of 12-15% in next year in line with M2 growth while advances target are set at 15-20%. Despite economic tightening, HBL is optimistic on its loan growth wherein SME and agriculture sectors will be in focus.
- With regards to interest rate outlook, the management believes that policy rate may increase by more than 50bps in the upcoming monetary policy. Policy rate to peak in single digit of 9-9.5% next year.
- The bank recorded higher than expected provision of PKR 3.5bn during 3QCY21 mainly related to the oil & marketing company and now is fully provided. The management does not foresee further risk on its asset quality as now most of the provisions have been fully provided. Infection ratio slightly increased to 5.8% in 3QCY21 from 5.5% in 2QCY21 with coverage ratio still above 100% in 3QCY21 (2QCY21:103%).
- The cost to income ratio maintained downward trajectory to 58.1% in Sep-21 from 63.5% in Dec-20, despite margins compression. The bank is targeting to bring cost to income ratio below 50% in the medium term.
- To highlight, HBL has been aggressively expanding its Islamic branches network and successfully converted/opened 101 branches during 9MCMY21. The bank is eyeing to further increase its Islamic banking footprint to 280 branches by Dec-21.
- We have a 'BUY' rating on the scrip with a June-22 price target of PKR 158/ share, implying an upside of 38.2% including a dividend yield of 8.4%.

**Key Data**

PSX Ticker	HBL
Target Price (PKR)	158
Current Price (PKR)	121.79
Upside/(Downside) (%)	29.8%
Dividend Yield (%)	8.4%
Total Return (%)	38.2%
12-month High (PKR)	144
12-month Low (PKR)	108
Outstanding Shares (mn)	1,466.85
Market Cap (PKR mn)	178,648
Year End	December

Source: Company Accounts, Akseer Research

Saqib Hussain

[saqib.hussain@akseerresearch.com](mailto:saqib.hussain@akseerresearch.com)

### 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 11%, a beta of 1.0 and a market risk premium of 6% to arrive at a cost of equity of 17%.

### Investment Thesis

We have a BUY recommendation on the stock based on our PT of 158/share. Our price target provides an upside of 38.2% including a dividend yield of 8.4%. 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 4) 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 1,640 branches, including 163 Islamic banking branches, and 38 branches outside Pakistan. End of June-21, HBL's assets stood at PKR 4.1tn, and the deposit base reached PKR 3.1tn as of Sep-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)						
	CY18A	CY19A	CY20E	CY21E	CY22F	CY23F
Mark-up/interest earned	165,283	258,114	271,237	265,889	340,780	386,841
Mark-up/interest expensed	83,606	156,791	141,133	137,363	195,268	220,346
<b>Net interest income</b>	<b>81,677</b>	<b>101,323</b>	<b>130,104</b>	<b>128,526</b>	<b>145,512</b>	<b>166,494</b>
<b>Non-interest income</b>	<b>19,894</b>	<b>24,162</b>	<b>30,595</b>	<b>35,084</b>	<b>35,709</b>	<b>39,469</b>
Provision charged	5,009	3,314	12,220	6,721	6,519	7,064
Operating expenses	74,978	93,290	95,449	94,636	103,522	115,550
<b>Profit/loss to shareholders</b>	<b>12,056</b>	<b>15,333</b>	<b>30,892</b>	<b>35,911</b>	<b>42,067</b>	<b>49,259</b>

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY18A	CY19A	CY20E	CY21E	CY22F	CY23F
Cash & Treasury Balances	279,461	367,594	375,280	430,517	464,387	509,603
Investments	1,390,052	1,379,607	1,948,577	2,145,601	2,123,957	2,304,509
Advances	1,080,440	1,166,957	1,223,510	1,355,470	1,658,340	1,873,238
Operating Fixed Assets	71,949	89,552	99,603	118,035	125,718	127,907
Other Assets	203,951	223,423	202,093	233,438	253,959	275,746
<b>Total Assets</b>	<b>3,025,853</b>	<b>3,227,132</b>	<b>3,849,063</b>	<b>4,283,061</b>	<b>4,626,361</b>	<b>5,091,003</b>
Borrowings from FIs	523,319	382,206	544,108	528,549	570,131	625,643
Deposits	2,137,293	2,437,597	2,830,371	3,246,938	3,502,383	3,843,396
Other Liabilities	165,989	182,577	209,088	219,768	232,244	261,612
<b>Total Liabilities</b>	<b>2,826,601</b>	<b>3,002,381</b>	<b>3,583,568</b>	<b>3,995,255</b>	<b>4,304,758</b>	<b>4,730,651</b>
Equity	199,252	224,752	265,495	287,806	321,603	360,352
<b>Total Liabilities &amp; Equity</b>	<b>3,025,853</b>	<b>3,227,132</b>	<b>3,849,063</b>	<b>4,283,061</b>	<b>4,626,361</b>	<b>5,091,003</b>

Source: Company Accounts, Akseer Research

**Disclaimer**

This report has been prepared and marketed jointly by Akseer Research (Pvt) Limited and Alfa Adhi Securities (Pvt) Limited, hereinafter referred jointly as "JV" and is provided for information purposes only. Under no circumstances this is to be used or considered as an offer to sell or solicitation of any offer to buy. While reasonable care has been taken to ensure that the information contained therein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. From time to time, the JV and/or any of their officers or directors may, as permitted by applicable laws, have a position, or otherwise be interested in any transaction, in any securities directly or indirectly subject of this report. This report is provided only for the information of professionals who are expected to make their own investment decisions without undue reliance on this report. Investments in capital markets are subject to market risk and the JV accepts no responsibility whatsoever for any direct or indirect consequential loss arising from any use of this report or its contents. In particular, the report takes no account of the investment objectives, financial situation and particular needs of investors, who should seek further professional advice or rely upon their own judgment and acumen before making any investment. The views expressed in this report are those of the JV's Research Department and do not necessarily reflect those of the JV or its directors. Akseer Research and Alfa Adhi Securities as firms may have business relationships, including investment--banking relationships, with the companies, referred to in this report. The JV or any of their officers, directors, principals, employees, associates, close relatives may act as a market maker in the securities of the companies mentioned in this report, may have a financial interest in the securities of these companies to an amount exceeding 1% of the value of the securities of these companies, may serve or may have served in the past as a director or officer of these companies, may have received compensation from these companies for corporate advisory services, brokerage services or underwriting services or may expect to receive or intend to seek compensation from these companies for the aforesaid services, may have managed or co-managed a public offering, take-over, buyback, delisting offer of securities or various other functions for the companies mentioned in this report.

All rights reserved by the JV. This report or any portion hereof may not be reproduced, distributed or published by any person for any purpose whatsoever. Nor can it be sent to a third party without prior consent of the JV. Action could be taken for unauthorized reproduction, distribution or publication.

**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.

**Rating Criteria**

JV employs a three-tier rating 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 a time horizon of 12-months.

Rating	Expected Total Return
Buy	Greater than or equal to +15%
Hold	Between -5% and +15%
Sell	Less than or equal to -5%

Ratings are updated to account for any development impacting the economy/sector/company, changes in analysts' assumptions or a combination of these factors.

**Research Dissemination Policy**

The JV endeavours to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as email, fax mail etc.

**Analyst Certification**

The research analyst, denoted by 'AC' on the cover of this report, has also been involved in the preparation of this report and is a member of JV's Equity Research Team. The analyst certifies that (1) the views expressed in this report accurately reflect his/her personal views and (2) no part of his/her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

**Contact Details****Akseer Research (Pvt) Limited**

1st Floor, Shaheen Chambers, KCHS block 7 & 8, off. Shahrah-e-Faisal  
 T: +92-21-34320359 -60  
 E: [info@akseerresearch.com](mailto:info@akseerresearch.com)

**Alfa Adhi Securities (Pvt) Limited**

3rd Floor, Shaheen Chambers, A-4 Central Commercial Area, KCH  
 Society, Block 7 & 8, Near Virtual University, Karachi  
 T: +92-21-38694242  
 E: [info@alfaadhi.net](mailto:info@alfaadhi.net)