

## Habib Bank Limited

### Result Preview

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

Pakistan Research

## HBL: 3QCY22 EPS to clock in at PKR 6.95, up 13% YoY; DPS PKR 2.25

- HBL is scheduled to announce its 3QCY22 financial results on 26<sup>th</sup> October 2022. We expect the bank to post consolidated profit after tax of PKR 10.2bn (EPS PKR 6.95) in 3QCY22 compared to profit after tax of PKR 9.0bn (EPS PKR 6.17) in 3QCY21. This will take 9MCMY22 EPS to PKR 15.05 vs PKR 18.21 in 9MCMY21. The bank is also likely to announce an interim DPS of PKR 2.25 along with the result, taking cumulative DPS for 9MCMY22 to PKR 6.00.
- Net interest income (NII) for 3QCY22 is anticipated to grow by 40% YoY to PKR 45.3bn. Interest income is likely to increase by 104% YoY while interest expense to remain higher by 166% YoY due to the upward adjustment of interest rate hike.
- Non-interest income is likely to grow by 80% YoY to PKR 14.6bn in 3QCY22 on the back of higher fee & commission income up 30% YoY to PKR 8.0bn and forex income of PKR 5.0bn up 250% YoY.
- The bank is expected to book provisioning expense of PKR 2.6bn during 3QCY22 compared to a provisioning expense of 1.7bn in the SPLY, due to a stressed economic outlook.
- Admin expenses of the bank are expected to grow by 31% YoY to PKR 30.7bn on the back of continuous spending towards information technology and digitalization and adhoc rise in employee's salary to offset inflationary pressures.
- Tax expense is estimated to increase by 160% YoY to PKR 16.1bn, taking effective tax rate of the bank to 61% in 3QCY22 vs 41% in 3QCY21. Higher effective tax can be attributable to a rise in corporate tax rates for the banking industry and additional tax imposed on the banks with lower ADR in FY23 budget.
- We have a 'BUY' rating on the scrip with June-23 PT of PKR 135/ share, implying an upside of 58.8% along with a dividend yield of 15.2%.

#### Key Data

PSX Ticker	HBL
Target Price (PKR)	135
Current Price (PKR)	71.5
Upside/(Downside) (%)	58.8%
Dividend Yield (%)	15.2%
Total Return (%)	104.0%
12-month High (PKR)	131.9
12-month Low (PKR)	67.0
Outstanding Shares (mn)	1,466.8
Market Cap (PKR mn)	104,865.3
Year End	December

Source: Company Accounts, Akseer Research

#### Financial Estimates (PKR mn)

	3QCY21	3QCY22E	YoY	9MCMY21	9MCMY22E	YoY
M/up Earned	65,880	134,597	104%	192,743	322,232	67%
M/up Expense	33,591	89,300	166%	95,591	203,038	112%
<b>Net Interest Income</b>	<b>32,288</b>	<b>45,298</b>	<b>40%</b>	<b>97,152</b>	<b>119,194</b>	<b>23%</b>
Non-Interest Income	<b>8,113</b>	<b>14,568</b>	<b>80%</b>	<b>25,723</b>	<b>38,243</b>	<b>49%</b>
Total Provisions	1,758	2,655	51%	5,495	5,458	-1%
Admin Expenses	23,463	30,713	31%	71,002	90,890	28%
<b>Profit Before Tax</b>	<b>15,180</b>	<b>26,498</b>	<b>75%</b>	<b>46,377</b>	<b>61,089</b>	<b>32%</b>
Taxation	6,224	16,154	160%	19,391	38,638	99%
<b>Profit After Tax</b>	<b>9,051</b>	<b>10,188</b>	<b>13%</b>	<b>26,707</b>	<b>22,074</b>	<b>-17%</b>
EPS	6.17	6.95	13%	18.21	15.05	-17%
DPS	1.75	2.25	-	5.25	6.00	-

#### Key Financial Ratios

	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
EPS	10.5	21.1	23.9	24.4	36.2	34.3
EPS Growth	27.2%	101.5%	13.4%	2.2%	48.2%	-5.1%
DPS	5.0	4.3	7.5	9.0	12.8	12.0
PER	6.8	3.4	3.0	2.9	2.0	2.1
Dividend Yield	7.0%	5.9%	10.5%	12.6%	17.8%	16.8%
P/B	0.5	0.4	0.4	0.4	0.3	0.3
ROE	7.4%	12.8%	13.0%	12.6%	17.1%	14.4%

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 15.5% to arrive at exit P/B, along with a risk-free rate of 13%, a beta of 1.0 and a market risk premium of 6% to arrive at a cost of equity of 19%.

### Investment Thesis

We have a BUY recommendation on the stock based on our PT of 135/share. Our price target provides a capital upside of 58.8% along with a dividend yield of 15.2%. 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 1,676 branches, including 275 Islamic banking branches, and 37 branches outside Pakistan. End of June-22, HBL's assets stood at PKR 5.0tn, and the deposit base reached PKR 3.7tn. 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	CY22F	CY23F	CY24F
Mark-up/interest earned	258,114	271,237	262,254	467,605	519,242	427,538
Mark-up/interest expensed	156,791	141,133	130,835	295,843	330,613	239,663
<b>Net interest income</b>	<b>101,323</b>	<b>130,104</b>	<b>131,419</b>	<b>171,762</b>	<b>188,629</b>	<b>187,875</b>
<b>Non-interest income</b>	<b>24,162</b>	<b>30,595</b>	<b>36,311</b>	<b>48,206</b>	<b>40,068</b>	<b>43,259</b>
Provision charged	3,314	12,220	8,087	6,452	7,388	7,866
Operating expenses	93,290	95,449	97,615	117,004	126,858	133,631
<b>Profit/loss to shareholders</b>	<b>15,333</b>	<b>30,892</b>	<b>35,022</b>	<b>35,777</b>	<b>53,030</b>	<b>50,326</b>

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
Cash & Treasury Balances	367,594	375,280	441,252	506,784	555,966	613,890
Investments	1,379,607	1,948,577	1,948,956	2,078,142	2,271,904	2,498,325
Advances	1,166,957	1,223,510	1,507,047	1,846,704	2,067,299	2,283,446
Operating Fixed Assets	89,552	99,603	111,307	121,303	123,924	126,546
Other Assets	223,423	202,093	308,906	352,516	382,592	425,931
<b>Total Assets</b>	<b>3,227,132</b>	<b>3,849,063</b>	<b>4,317,468</b>	<b>4,905,448</b>	<b>5,401,685</b>	<b>5,948,139</b>
Borrowings from FIs	382,206	544,108	436,258	501,048	549,673	606,942
Deposits	2,437,597	2,830,371	3,381,998	3,884,268	4,261,228	4,705,192
Other Liabilities	182,577	209,088	215,526	227,176	258,237	264,045
<b>Total Liabilities</b>	<b>3,002,381</b>	<b>3,583,568</b>	<b>4,033,782</b>	<b>4,612,492</b>	<b>5,069,138</b>	<b>5,576,179</b>
Equity	224,752	265,495	283,686	292,956	332,547	371,959
<b>Total Liabilities &amp; Equity</b>	<b>3,227,132</b>	<b>3,849,063</b>	<b>4,317,468</b>	<b>4,905,448</b>	<b>5,401,685</b>	<b>5,948,139</b>

Source: Company Accounts, Akseer Research

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