

Habib Bank Limited

Result Review

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

Pakistan Research

3QCY22 EPS clocked in at PKR 7.85, up 27% YoY; DPS PKR 1.50

- HBL announced consolidated profit after tax of PKR 11.5bn (EPS PKR 7.85) for 3QCY22 compared to profit after tax of PKR 9.0bn (EPS PKR 6.17) in 3QCY21. This takes cumulative EPS for 9MCY22 to PKR 15.95 vs PKR 18.21 in 9MCY21. Along with the result, the bank announced an interim DPS of PKR 1.50 taking cumulative DPS for 9MCY22 to PKR 5.25.
- Net interest income (NII) for 3QCY22 grew by 31% YoY to PKR 42.1bn. Interest income increased by 84% YoY while interest expense remained higher by 136% YoY due to the upward adjustment of interest rate hike.
- Non-interest income jumped 47% YoY to PKR 11.9bn in 3QCY22 on the back of higher fee & commission income of PKR 7.7bn, up 25% YoY, while forex income recorded at PKR 4.9bn in 3QCY22 vs PKR 1.4bn in SPLY, supporting the bottomline growth. However, provisioning of loss on derivatives to the tune of PKR 2.3bn restricted the non interest income growth.
- The bank booked lower than anticipated provisioning expense of PKR 788mn during 3QCY22 compared to a provisioning expense of 1.7bn in the SPLY.
- Admin expenses of the bank grew by 38% YoY to PKR 32.3bn on the back of continuous spending towards information technology and digitalization along with adhoc rise in employee's salary to offset inflationary pressures.
- Effective tax rate of the bank came in lower than expectation of 45% in 3QCY22 vs 41% in 3QCY21. HBL's gross advance to deposit ratio (ADR) increased to 53.6% in 3QCY22 vs 46.5% in 2QCY22, resulting in reversal of tax related to lower ADR.
- We have a 'BUY' rating on the scrip with June-23 PT of PKR 135/share, implying an upside of 90.2% along with a dividend yield of 14.8%.

Key Data

PSX Ticker	HBL
Target Price (PKR)	135
Current Price (PKR)	71.1
Upside/(Downside) (%)	90.2%
Dividend Yield (%)	14.8%
Total Return (%)	105.0%
12-month High (PKR)	129.1
12-month Low (PKR)	67.0
Outstanding Shares (mn)	1,466.8
Market Cap (PKR mn)	104,278.5
Year End	December

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	3QCY21	3QCY22	YoY	9MCY21	9MCY22	YoY
M/up Earned	65,880	121,465	84%	192,743	309,099	60%
M/up Expense	33,591	79,323	136%	95,591	193,061	102%
Net Interest Income	32,288	42,142	31%	97,152	116,038	19%
Non-Interest Income	8,113	11,932	47%	25,723	35,607	38%
Total Provisions	1,758	788	-55%	5,495	3,591	-35%
Admin Expenses	23,463	32,279	38%	71,002	92,455	30%
Profit Before Tax	15,180	21,007	38%	46,377	55,599	20%
Taxation	6,224	9,487	52%	19,391	31,971	65%
Profit After Tax	9,051	11,514	27%	26,707	23,400	-12%
EPS	6.2	7.8	27%	18.2	16.0	-12%
DPS	1.8	1.5	-	5.3	5.3	-

Key Financial Ratios

	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
EPS	10.5	21.1	23.9	26.9	36.3	34.4
EPS Growth	27.2%	101.5%	13.4%	12.7%	34.8%	-5.1%
DPS	5.0	4.3	7.5	8.3	12.8	12.0
PER	6.8	3.4	3.0	2.6	2.0	2.1
Dividend Yield	7.0%	6.0%	10.6%	11.6%	17.9%	16.9%
P/B	0.5	0.4	0.4	0.4	0.3	0.3
ROE	7.4%	12.8%	13.0%	13.8%	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 90.2% along with a dividend yield of 14.8%. 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	454,521	519,542	427,791
Mark-up/interest expensed	156,791	141,133	130,835	285,867	330,613	239,663
Net interest income	101,323	130,104	131,419	168,654	188,929	188,128
Non-interest income	24,162	30,595	36,311	48,206	40,068	43,259
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
Profit/loss to shareholders	15,333	30,892	35,022	39,456	53,198	50,468

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	2,079,437	2,274,422	2,500,980
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	352,565	382,687	426,031
Total Assets	3,227,132	3,849,063	4,317,468	4,906,793	5,404,297	5,950,894
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
Total Liabilities	3,002,381	3,583,568	4,033,782	4,612,492	5,069,138	5,576,179
Equity	224,752	265,495	283,686	294,300	335,159	374,714
Total Liabilities & Equity	3,227,132	3,849,063	4,317,468	4,906,793	5,404,297	5,950,894

Source: Company Accounts, Akseer Research

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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.

Ratings Criteria

JV employs a three tier ratings 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 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%

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