

Habib Bank Limited

Result Preview

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

Pakistan Research

HBL: 4QCY22 EPS to clock in at PKR 7.9, up 39% YoY

- HBL is scheduled to announce its 4QCY22 financial results on 24th February 2023. We expect the bank to post consolidated EPS of PKR 7.9 in 4QCY22 up 39% YoY, compared to an EPS of PKR 5.7 in 4QCY21. This would take CY22 EPS to PKR 23.8 vs PKR 23.9 in CY21. Along with the result, we expect the bank to announce final cash dividend of PKR 2.25/share, taking cumulative CY22 payout to PKR 7.50/share.
- Net interest income (NII) for 4QCY22 is anticipated to increase by 36% YoY to PKR 46.5bn on back of higher interest rates. Interest income is likely to grow by 88% YoY, while interest expense to increase with higher rate of 136% YoY, during the quarter.
- Non-interest income is anticipated to surge by 10% YoY to PKR 11.6bn in 4Q. Fee & commission income is likely to increase by 8% YoY, while forex income is likely to take a dip of 20% YoY.
- We expect, the bank to book a provisioning expense of PKR 5.1bn during 4QCY22 compared to a provisioning expense of 2.6bn in SPLY.
- Operating expenses of the bank are expected to increase by 29% YoY to PKR 34.3bn on the back of higher IT expenses and inflationary pressures.
- Effective tax rate is estimated to clock in at 37% in 4QCY22 compare to 46% in SPLY. We expect the bank to reverse additional taxes charged due to lower ADR in 2QCY22.
- We have a 'BUY' rating on the scrip with Dec-23 PT of PKR 118/share, implying an upside of 56%, along with a dividend yield of 15.6%.

Key Data

PSX Ticker	HBL
Target Price (PKR)	118
Current Price (PKR)	75
Upside/(Downside) (%)	+ 56%
Dividend Yield (%)	15.6%
Total Return (%)	+ 72%
12-month High (PKR)	121
12-month Low (PKR)	59
Outstanding Shares (mn)	1,467
Market Cap (PKR mn)	110,630
Year End	December

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	4QCY21	4QCY22E	YoY	CY21	CY22E	YoY
M/up Earned	69,511	130,575	88%	262,254	439,674	68%
M/up Expense	35,244	84,112	139%	130,835	277,173	112%
Net Interest Income	34,267	46,463	36%	131,419	162,502	24%
Non-Interest Income	10,589	11,675	10%	36,311	47,282	30%
Total Provisions	2,592	5,057	95%	8,087	8,649	7%
Admin Expenses	26,614	34,266	29%	97,615	126,722	30%
Profit Before Tax	15,651	18,815	20%	62,028	74,414	20%
Taxation	7,130	7,057	-1%	26,521	39,028	47%
Profit After Tax	8,315	11,581	39%	35,022	34,981	0%
EPS	5.7	7.9	39%	23.9	23.8	0%
DPS	2.3	2.3	-	7.5	7.5	-

Key Financial Ratios

	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
EPS	10.5	21.1	23.9	23.8	33.3	37.0
EPS Growth	27.2%	101.5%	13.4%	-0.1%	39.5%	11.1%
DPS	5.0	4.3	7.5	7.5	11.8	12.8
BVPS	150.2	177.9	190.6	196.3	220.0	246.1
PER	7.2	3.6	3.2	3.2	2.3	2.0
Dividend Yield	6.6%	5.6%	9.9%	9.9%	15.6%	16.9%
P/B	0.5	0.4	0.4	0.4	0.3	0.3
ROE	7.4%	12.8%	13.0%	12.3%	16.0%	15.9%

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 118/share. Our price target provides a capital upside of 56% along with a dividend yield of 15.6%. 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 1,693 branches, including 277 Islamic banking branches, and 36 branches outside Pakistan. End of Sep-22, HBL's assets stood at PKR 4.5tn, and the deposit base reached PKR 3.4tn. 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	439,674	677,508	651,502
Mark-up/interest expensed	156,791	141,133	130,835	277,173	463,331	433,693
Net interest income	101,323	130,104	131,419	162,502	214,177	217,808
Non-interest income	24,162	30,595	36,311	47,282	39,852	43,096
Provision charged	3,314	12,220	8,087	8,649	8,298	5,628
Operating expenses	93,290	95,449	97,615	126,722	142,565	154,702
Profit/loss to shareholders	15,333	30,892	35,022	34,981	48,796	54,209

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
Cash & Treasury Balances	367,594	375,280	441,252	471,484	510,169	550,570
Investments	1,379,607	1,948,577	1,948,956	1,904,730	2,162,242	2,391,427
Advances	1,166,957	1,223,510	1,507,047	1,755,126	1,836,339	1,925,402
Operating Fixed Assets	89,552	99,603	111,307	122,349	124,970	127,592
Other Assets	223,423	202,093	308,906	335,902	352,231	380,552
Total Assets	3,227,132	3,849,063	4,317,468	4,589,592	4,985,952	5,375,543
Borrowings from FIs	382,206	544,108	436,258	466,147	504,394	544,338
Deposits	2,437,597	2,830,371	3,381,998	3,613,709	3,910,211	4,219,867
Other Liabilities	182,577	209,088	215,526	218,839	245,416	246,720
Total Liabilities	3,002,381	3,583,568	4,033,782	4,298,695	4,660,021	5,010,925
Equity	224,752	265,495	283,686	290,897	325,930	364,618
Total Liabilities & Equity	3,227,132	3,849,063	4,317,468	4,589,592	4,985,952	5,375,543

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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