

**Habib Bank Limited**  
Result Review

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

Pakistan Research

**HBL: CY21 EPS came in at PKR 23.88, up 13% YoY; DPS PKR 2.25**

- HBL posted consolidated net earnings of PKR 23.88/share, up 13% YoY in CY21. For 4QCY21, consolidated earnings came in at PKR 5.67/share, up 46% YoY. Along with the result, the bank also announced final cash dividend of PKR 2.25/share, taking cumulative payout to PKR 7.5/share for CY21.
- Net interest income (NII) for 4QCY21 increased by 9% YoY to PKR 34.3bn. Interest income and expense, both grew by 10% YoY. For CY21, NII grew by meagre 1% YoY to PKR 131.4bn.
- Non-interest income jumped 62% YoY to PKR 10.6bn in 4QCY21 on the back of higher fee & commission income (up 38% YoY to PKR 7.5bn) while forex income recorded at PKR 2.5bn vs 172mn in SPLY, supporting the non-interest income growth. However, provisioning of loss on derivatives to the tune of PKR 650mn restricted the non-interest income growth.
- The bank recorded higher than expected provision of PKR 2.6bn during 4QCY21. We await further clarity in this regard. For CY21, the cumulative provisions stood at PKR 8.1bn, down 34% YoY.
- The bank recorded double digit growth in admin expenses of 11% YoY to PKR 26.6 which could be due to inflationary pressures. For full year CY21, cost to income ratio declined to 58.2% vs 59.4% in CY20.
- The effective tax rate of the bank stood at 45.6% in 4QCY21 which can be attributed to lower ADR.
- On a sequential basis, consolidated earnings of the bank depicted a drop of 8% QoQ mainly due to higher provision (+47%), admin expenses (+13%) and tax (+15%) despite increase in NII & non-interest income by 6% QoQ and 31% QoQ, respectively.
- We have a 'BUY' rating on the scrip with Dec-22 price target of PKR 155/ share, implying an upside of 33.5% along with a dividend yield of 11.0%.

**Key Data**

PSX Ticker	HBL
Target Price (PKR)	155
Current Price (PKR)	116
Upside/(Downside) (%)	33.5%
Dividend Yield (%)	11.0%
Total Return (%)	44.5%
12-month High (PKR)	144
12-month Low (PKR)	108
Outstanding Shares (mn)	1,466.85
Market Cap (PKR mn)	170,522
Year End	December

Source: Company Accounts, Akseer Research

**Financial Estimates (PKR mn)**

	4QCY20	4QCY21	YoY	CY20	CY21	YoY
M/up Earned	63,306	69,511	10%	271,237	262,254	-3%
M/up Expense	31,986	35,244	10%	141,133	130,835	-7%
<b>Net Interest Income</b>	31,320	34,267	9%	130,104	131,419	1%
Non-Interest Income	6,528	10,589	62%	30,595	36,311	19%
Total Provisions	3,705	2,592	-30%	12,220	8,087	-34%
Admin Expenses	24,015	26,614	11%	95,449	97,615	2%
<b>Profit Before Tax</b>	10,127	15,651	55%	53,031	62,028	17%
Taxation	4,486	7,130	59%	22,117	26,521	20%
<b>Profit After Tax</b>	5,700	8,315	46%	30,892	35,022	13%
EPS	3.89	5.67	46%	21.06	23.88	13%
DPS	3.00	2.25		4.25	7.50	

Source: Company Accounts, Akseer Research

**Key Financial Ratios**

	CY18A	CY19A	CY20A	CY21A	CY22E	CY23F
EPS	8.22	10.45	21.06	23.88	36.32	42.59
EPS Growth	54%	27%	101%	13%	52%	17%
DPS	4.00	5.00	4.25	7.50	12.75	15.25
PER	14.1	11.1	5.5	4.9	3.2	2.7
Dividend Yield	3.4%	4.3%	3.7%	6.5%	11.0%	13.1%
P/B	0.87	0.77	0.65	0.61	0.55	0.49
ROE	6.3%	7.4%	12.8%	12.9%	18.0%	19.0%

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 15.1% to arrive at exit P/B, along with a risk-free rate of 12%, a beta of 1.0 and a market risk premium of 6% to arrive at a cost of equity of 18%.

### Investment Thesis

We have a BUY recommendation on the stock based on our PT of 155/share. Our price target provides an upside of 33.5% along with a dividend yield of 11.0%. 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 (3) 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 Sep-21, HBL's assets stood at PKR 4.1tn, and the deposit base reached PKR 3.2tn 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	CY20A	CY21A	CY22E	CY23F
Mark-up/interest earned	165,283	258,114	271,237	262,254	373,331	440,663
Mark-up/interest expensed	83,606	156,791	141,133	130,835	209,236	251,919
<b>Net interest income</b>	<b>81,677</b>	<b>101,323</b>	<b>130,104</b>	<b>131,419</b>	<b>164,095</b>	<b>188,744</b>
<b>Non-interest income</b>	<b>19,894</b>	<b>24,162</b>	<b>30,595</b>	<b>36,311</b>	<b>35,908</b>	<b>39,386</b>
Provision charged	5,009	3,314	12,220	8,087	6,326	6,874
Operating expenses	74,978	93,290	95,449	97,615	103,522	115,550
<b>Profit/loss to shareholders</b>	<b>12,056</b>	<b>15,333</b>	<b>30,892</b>	<b>35,022</b>	<b>53,282</b>	<b>62,472</b>

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY18A	CY19A	CY20A	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	1,925,783	1,887,961	2,043,380
Advances	1,080,440	1,166,957	1,223,510	1,350,092	1,653,349	1,868,592
Operating Fixed Assets	71,949	89,552	99,603	119,474	127,158	129,346
Other Assets	203,951	223,423	202,093	321,273	343,804	374,387
<b>Total Assets</b>	<b>3,025,853</b>	<b>3,227,132</b>	<b>3,849,063</b>	<b>4,147,139</b>	<b>4,476,658</b>	<b>4,925,308</b>
Borrowings from FIs	523,319	382,206	544,108	407,810	439,893	482,724
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	207,169	219,126	247,416
<b>Total Liabilities</b>	<b>2,826,601</b>	<b>3,002,381</b>	<b>3,583,568</b>	<b>3,861,917</b>	<b>4,161,402</b>	<b>4,573,536</b>
Equity	199,252	224,752	265,495	285,222	315,256	351,772
<b>Total Liabilities &amp; Equity</b>	<b>3,025,853</b>	<b>3,227,132</b>	<b>3,849,063</b>	<b>4,147,139</b>	<b>4,476,658</b>	<b>4,925,308</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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