

Bank AL Habib Limited

Key takeaways

PSX: B AHL Bloomberg: B AHL: PA Reuters: B KEQ: KA

Pakistan Research

Corporate Briefing Key Takeaways

- Bank AL Habib Limited (BAHL) held its corporate briefing session today to discuss the 9MCY23 result and future outlook. Following are the key takeaways of the briefing.
- The bank reported an unconsolidated EPS of PKR 10.07, up 110% YoY. This took the cumulative 9MCY23 EPS to PKR 26.35, up 96% YoY. Along with the result, bank announced an interim cash dividend of PKR 4.50/share. This took 9MCY23 payout to PKR 9.00/share.
- Net interest income for the quarter increased by 56% YoY to PKR 84.5bn due to higher interest rates. Interest income surged by 97% YoY to PKR 261.3bn, while the interest expense came in at PKR 176.5bn, up 125% YoY.
- During 9MCY23, deposits grew by 22% YoY or PKR 343.9bn to PKR 1.91tn as current account deposits witnessed substantial increase of 20% YoY to PKR 720bn and saving account increased by 40% YoY to PKR 667bn leading to CASA of 86% in 9MCY23.
- The management stated that the majority of their investment portfolio consists of PIBs (floater+fixed), amounting to 982.5 billion out of the total investment portfolio of PKR 1,235 bn.
- Advances of the bank increased by 7% YoY in 9MCY23. The overall advances portfolio amounts at PKR 874bn, with 33% of the advances lend to textile sector.
- The advance to deposit spread for B AHL is at 5%, whereas the Gross ADR recorded a figure of 46.8%.
- The management also conveyed that their deposits saw a 23% growth during the 9M period, surpassing the industry deposit growth rate of 17%. This outperformance is attributed to the company's value-added services and the expansion of Islamic banking branches network.
- Administrative expenses of the bank clocked in at PKR 49.27bn, up 28% YoY. This is largely due to increase in information technology (50% YoY), communication (3.4x YoY) and vehicle running expenses (62% YoY). Subsequently, bank cost to income ratio stood at 48% in 9MCY23.
- The NPL ratio of the bank for 9MCY23 stood at 1.86%.
- The CEO of the bank informed that the bank is looking to incorporate 80 more branches by 2025, while this year bank has already opened 25 branches, which will further improve bank's deposit growth.

Key Data

PSX Ticker	BAHL
Target Price (PKR)	82
Current Price (PKR)	74
Upside/(Downside) (%)	+11%
Dividend Yield (%)	17%
Total Return (%)	+28%
12-month High (PKR)	75
12-month Low (PKR)	40
Outstanding Shares (mn)	1,111
Market Cap (PKR mn)	81,923
Year End	December

Source: Company Accounts, Akseer Research

Research

research@alphacapital.com.pk

Valuation Basis

Our PT for Bank Al-Habib Limited (BAHL) has been computed on dividend discounting method using Justified P/B for the calculation of terminal value. We have used sustainable ROE of 18% to calculate exit P/B, along with a risk free rate of 17%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 23%.

Investment Thesis

We have a 'BUY' recommendation on the stock based on our June-24 PT of PKR 82/share which results in an upside of 11% along with a dividend yield of 17.0%. Our investment case on BAHL is based on (1) One of the best asset quality amongst the banks (2) higher coverage ratio in the industry (3) investment book focused on short term instruments.

Risks

Key risks to our investment thesis are: 1) higher than anticipated increase in NPLs, 2) lower than anticipated growth in advances and deposits 3) higher than expected increase in cost/income ratio.

Company Description

Incorporated in 1991 in Karachi, Bank AL Habib Limited provides retail and commercial banking products and services in Pakistan, the Middle East, the Asia Pacific, and Africa. Through its subsidiary the bank is also present in Retail Brokerage segments. Further, the bank engages in all treasury and international trade related activities. It operates through a network of 1,062 branches, 29 sub-branches and 02 overseas branches. The branch network of the bank also includes 181 Islamic Banking branches as of 30 June 2022.

Financial Highlights - BAHL

Income Statement (PKR mn)						
	CY20A	CY21A	CY22A	CY23E	CY24F	CY25F
Mark-up/interest earned	125,273	116,752	200,921	378,431	434,884	356,299
Mark-up/interest expensed	67,653	61,143	123,602	260,889	283,451	224,392
Net interest income	57,620	55,609	77,319	117,543	151,433	131,907
Non-interest income	10,273	14,027	21,196	22,938	19,380	19,299
Provision charged	4,543	(47)	12,871	(1)	7,022	7,375
Operating expenses	34,768	39,410	52,761	68,555	77,111	84,891
Profit after tax	17,812	18,702	16,570	38,962	33,574	30,060

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY20A	CY21A	CY22A	CY23E	CY24F	CY25F
Cash & Treasury Balances	125,598	125,340	109,231	128,892	145,004	163,129
Investments	764,944	826,600	1,158,521	1,484,666	1,655,180	1,823,753
Advances	510,252	733,799	813,535	855,440	997,807	1,165,169
Operating Fixed Assets	44,179	55,961	62,440	78,285	78,285	78,285
Other Assets	77,119	107,952	128,342	121,649	136,855	153,962
Total Assets	1,522,091	1,849,652	2,272,068	2,668,932	3,013,132	3,384,299
Borrowings from Fis	211,599	302,213	418,989	494,408	556,209	625,735
Deposits	1,099,686	1,309,823	1,568,138	1,850,403	2,081,703	2,341,916
Other Liabilities	130,949	147,601	189,698	204,312	226,122	250,661
Total Liabilities	1,442,235	1,759,637	2,176,826	2,549,122	2,864,034	3,218,312
Equity	79,856	90,015	95,242	119,809	149,098	165,987
Total Liabilities & Equity	1,522,091	1,849,652	2,272,068	2,668,932	3,013,132	3,384,299

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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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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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

Alpha Capital (Pvt) Limited (Formerly: 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@alphacapital.com.pk