

Bank AL Habib Limited
Result Review

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

Pakistan Research

BAHL: 1QCY24 EPS clocked in at PKR 9.01, down 5% YoY, DPS PKR 3.50

- BAHL announced its financial result today, wherein, the bank posted an unconsolidated EPS of PKR 9.01, down 5% YoY. Along with the result, the bank announced an interim dividend of PKR 3.5/sh. The result is slightly below our expectations given higher than expected provisioning expense, partially diluted by higher non-interest income.
- Net interest income (NII) for the quarter increased by 50% YoY to PKR 36.8bn on the back of pricing support from elevated interest rates and volumetric growth manifesting from enhanced branch network. This is despite an increase in the interest expense (up 64% YoY) on high-cost deposits outpacing the rise in interest income (59% YoY).
- Non-interest income clocked in at PKR 7.6bn, up 20% YoY due to the higher fee & commission and capital gains. Fee & commission income increased by 36% YoY while FX income declined by 8% on currency stability.
- Bank reported the provisions expense of PKR 6.9bn for 1QCY24 against provisions reversal of PKR 952mn in SPLY on the back of economic slowdown.
- The operating expenses for the quarter came in at PKR 18.3bn, up 20%, which we believe is due to branch network expansion and inflationary pressures. However, cost to income ratio for the quarter clocked in at 41% vs 50% in 1QCY23 due to higher NII.
- Bank reported an effective tax rate of 48% for the quarter against a tax rate of 36% in 1QCY23 due to higher super tax rate.
- We have a 'BUY' rating on the scrip. Our Dec-24 price target of PKR 112/share offers a capital upside of 24%, along with a dividend yield of 18%.

Key Data

PSX Ticker	BAHL
Target Price (PKR)	112
Current Price (PKR)	90
Upside/(Downside) (%)	+24%
Dividend Yield (%)	18%
Total Return (%)	42%
12-month High (PKR)	94
12-month Low (PKR)	40
Outstanding Shares (mn)	1,111
Market Cap (PKR mn)	100,062
Year End	December

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	1QCY23	1QCY24	YoY
M/up Earned	74,805	119,092	59%
M/up Expense	50,181	82,249	64%
Net Interest Income	24,625	36,843	50%
Non-Interest Income	6,302	7,592	20%
Total Provisions	(952)	6,875	-822%
Operating Expenses	15,322	18,372	20%
Profit Before Tax	16,557	19,188	16%
Taxation	6,018	9,177	52%
Profit After Tax	10,539	10,011	-5%
EPS	9.48	9.01	-5%
DPS	0.00	3.50	-

Source: Company Accounts, Akseer Research

Key Financial Ratios

	CY21A	CY22A	CY23A	CY24E	CY25F	CY26F
EPS	16.8	14.9	31.8	36.2	34.9	32.5
EPS Growth	5.0%	-11.4%	113.1%	13.8%	-3.4%	-7.1%
DPS	7.0	7.0	14.0	16.0	18.0	18.3
BVPS	81.0	85.7	113.9	134.1	151.6	180.2
PER	5.4	6.0	2.8	2.5	2.6	2.8
Dividend Yield	7.8%	7.8%	15.5%	17.8%	20.0%	20.2%
P/B	1.1	1.1	0.8	0.7	0.6	0.5
ROE	22.0%	17.9%	31.8%	29.2%	24.5%	19.6%

Source: Company Accounts, Akseer Research

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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 15%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 21%.

Investment Thesis

We have a 'BUY' recommendation on the stock based on our Dec-24 PT of PKR 112/share which results in an upside of 24% along with a dividend yield of 18%. Our investment case on BAHL is based on (1) one of the best asset quality amongst the banks (2) aggressive branch expansion strategy to drive deposits (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 1,084 branches, 29 sub-branches, 4 representative branches and 02 overseas branches. The branch network of the bank also includes 201 Islamic Banking branches as of 31 December 2023.

Financial Highlights - BAHL

Income Statement (PKR mn)						
	CY21A	CY22A	CY23A	CY24E	CY25F	CY26F
Mark-up/interest earned	116,752	200,921	373,902	456,623	420,778	401,186
Mark-up/interest expensed	61,143	123,602	249,755	313,247	274,666	253,677
Net interest income	55,609	77,319	124,148	143,376	146,112	147,508
Non-interest income	14,027	21,196	23,227	26,900	25,476	26,557
Provision charged	(47)	12,871	4,200	10,683	4,669	2,909
Operating expenses	39,410	52,761	72,047	81,224	90,760	100,375
Profit after tax	18,702	16,570	35,319	40,193	38,841	36,099

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY21A	CY22A	CY23A	CY24E	CY25F	CY26F
Cash & Treasury Balances	125,340	109,231	148,397	148,190	177,828	204,502
Investments	826,600	1,158,521	1,503,895	1,540,493	1,888,641	2,208,477
Advances	733,799	813,535	869,459	1,133,897	1,316,075	1,489,297
Operating Fixed Assets	55,961	62,440	79,697	79,159	79,159	79,159
Other Assets	107,952	128,342	139,572	139,862	167,834	193,010
Total Assets	1,849,652	2,272,068	2,741,020	3,041,601	3,629,538	4,174,445
Borrowings from FIs	302,213	418,989	477,438	525,182	630,218	724,751
Deposits	1,309,823	1,568,138	1,934,037	2,127,440	2,552,928	2,935,867
Other Liabilities	147,601	189,698	202,939	239,920	277,875	313,566
Total Liabilities	1,759,637	2,176,826	2,614,413	2,892,542	3,461,021	3,974,184
Equity	90,015	95,242	126,607	149,059	168,516	200,260
Total Liabilities & Equity	1,849,652	2,272,068	2,741,020	3,041,601	3,629,538	4,174,445

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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