

Bank AL Habib Limited

Result Review

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

Pakistan Research

BAHL: 1QCY22 unconsolidated EPS clocked in at PKR 4.47, up 8% YoY

- Bank AL Habib announced its 1QCY22 financial results today and reported unconsolidated net earnings of PKR 4.47/share, up 8% YoY. Higher profitability is due to rise in net interest income on the back of strong balance sheet growth and higher non-interest income.
- The bank posted 22% YoY increase in net interest income (NII) to PKR 16.0bn during 1QCY22. Interest income increased by 32% YoY to PKR 34.2bn while interest expense increased by 42% YoY to PKR 18.2bn due to the upward adjustment of interest rate hike.
- Non-interest income increased by 31% YoY to PKR 4.2bn mainly due to significant rise in fee and commission income by 43% YoY to PKR 2.8bn. However, non-interest income remained lower by 5% QoQ due to decline in forex income by 45% QoQ.
- The bank charged provisioning expense of PKR 154mn in 1QCY22 compared to provisioning reversal of PKR 245mn in 1QCY21.
- Admin expenses during the quarter increased by 25% YoY to PKR 11.8bn. Aggressive branch network expansion led to double digit hike in the cost. Resultantly, cost to income (C/I) ratio of the bank remained elevated at 59% during the 1Q.
- We maintain our 'BUY' recommendation on B AHL. Our Dec-22 price target (PT) of PKR 100/share provides an upside of 41% along with a dividend yield of 13%.

Key Data

PSX Ticker	BAHL
Target Price (PKR)	100
Current Price (PKR)	71
Upside/(Downside) (%)	+ 41.0%
Dividend Yield (%)	13.0%
Total Return (%)	+ 54.0%
12-month High (PKR)	78.5
12-month Low (PKR)	62.9
Outstanding Shares (mn)	1,111
Market Cap (PKR mn)	78,689
Year End	December

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	1QCY21	1QCY22	YoY	QoQ
M/up Earned	25,941	34,196	32%	10%
M/up Expense	12,831	18,172	42%	7%
Net Interest Income	13,110	16,024	22%	13%
Non-Interest Income	3,170	4,159	31%	-5%
Total Provisions	(245)	154	NM	NM
Admin Expenses	9,466	11,845	25%	13%
Profit Before Tax	7,059	8,185	16%	3%
Taxation	2,458	3,222	31%	1%
Profit After Tax	4,601	4,963	8%	4%
EPS	4.14	4.47	8%	4%

Key Financial Ratios

	CY19A	CY20A	CY21A	CY22E	CY23F	CY24F
EPS	10.0	16.0	16.8	23.5	26.8	25.6
EPS Growth	33%	59%	5%	40%	14%	-4%
DPS	3.50	4.50	7.00	9.25	10.50	10.00
PER	7.0	4.4	4.2	3.0	2.6	2.8
Dividend Yield	4.9%	6.4%	9.9%	13.1%	14.8%	14.1%
P/B	1.3	1.0	0.9	0.7	0.6	0.5
ROE	20.1%	25.2%	22.0%	26.3%	25.1%	20.8%

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 16.6% to calculate exit P/B, along with a risk free rate of 12%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 18%.

Investment Thesis

We have a 'BUY' recommendation on the stock based on our PT of PKR 100/share which results in an upside of 41% along with a dividend yield of 13.0%. Our investment case on BAHL is based on (1) One of the best asset quality amongst the banks (2) higher than industry deposit & advances growth (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 927 branches, 29 sub-branches and 02 overseas branches. The branch network of the bank also includes 138 Islamic Banking branches as of 31 Dec 2021.

Financial Highlights - BAHL

Income Statement (PKR mn)						
	CY19A	CY20A	CY21A	CY22E	CY23F	CY24F
Mark-up/interest earned	105,602	125,273	116,752	187,789	202,824	200,651
Mark-up/interest expensed	64,416	67,653	61,143	113,711	118,354	114,105
Net interest income	41,186	57,620	55,609	74,078	84,471	86,546
Non-interest income	9,481	10,273	14,027	16,446	16,530	16,816
Provision charged	3,395	4,543	(47)	2,926	3,995	4,312
Operating expenses	28,261	34,768	39,410	44,769	48,245	52,481
Profit after tax	11,169	17,812	18,702	26,096	29,744	28,407

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY19A	CY20A	CY21A	CY22E	CY23F	CY24F
Cash & Treasury Balances	123,363	125,598	125,340	136,620	148,916	162,319
Investments	586,141	764,944	826,600	908,651	994,784	1,102,206
Advances	488,669	510,252	733,799	804,929	883,183	951,260
Operating Fixed Assets	36,928	44,179	55,961	60,609	65,614	70,409
Other Assets	63,581	77,119	107,952	115,406	125,793	137,114
Total Assets	1,298,682	1,522,091	1,849,652	2,026,216	2,218,290	2,423,308
Borrowings from FIs	228,745	211,599	302,213	329,412	359,059	391,374
Deposits	903,740	1,099,686	1,309,823	1,427,707	1,556,201	1,696,259
Other Liabilities	104,694	130,949	147,601	160,504	174,701	190,325
Total Liabilities	1,237,179	1,442,235	1,759,637	1,917,623	2,089,961	2,277,958
Equity	61,503	79,856	90,015	108,593	128,329	145,350
Total Liabilities & Equity	1,298,682	1,522,091	1,849,652	2,026,216	2,218,290	2,423,308

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.

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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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