

## Bank AL Habib Limited

### Result Preview

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

Pakistan Research

## BAHL: 1QCY23 EPS to clock in at PKR 5.20, up 16% YoY

- BAHL's BoD meeting is scheduled on April 19, 2023 to consider the accounts for 1QCY23. We expect the bank to announce an unconsolidated EPS of PKR 5.2, up 16% YoY.
- For 1QCY23, we expect net interest income (NII) to increase by 40% YoY to PKR 22.4bn due to the higher interest rates. Where in, interest income is likely to grow by 115% YoY, while the interest expense is anticipated to increase at a higher pace of 182% YoY.
- Non-interest income of the bank is likely to remain flat at PKR 4.2bn, up 1% YoY during the 1Q. Fee & commission income is likely to increase by 5% YoY, and forex income is expected to grow by 5% YoY.
- Provisions are anticipated to increase by 4.9x YoY to PKR 913mn for 1QCY23.
- The operating expenses are likely to increase by 31% YoY to PKR 15.5bn due to branch network expansion and inflationary pressures during the quarter. We expect cost to income ratio for the bank to come at 58% in 1QCY23 vs 59% in SPLY.
- We expect the effective tax rate for the 1Q to clock in at 43% vs 39% in SPLY. Higher effective tax rate is attributable to the increase in corporate tax rate for banks and imposition of super-tax.
- We have a 'BUY' rating on the scrip. Our Dec-23 price target of PKR 80/share offers a capital upside of 94%, along with a dividend yield of 21.9%.

#### Key Data

PSX Ticker	BAHL
Target Price (PKR)	80
Current Price (PKR)	41
Upside/(Downside) (%)	+94%
Dividend Yield (%)	21.9%
Total Return (%)	116%
12-month High (PKR)	72
12-month Low (PKR)	40
Outstanding Shares (mn)	1,111
Market Cap (PKR mn)	45,691
Year End	December

Source: Company Accounts, Akseer Research

#### Financial Estimates (PKR mn)

	1QCY22	1QCY23E	YoY
M/up Earned	34,196	73,540	115%
M/up Expense	18,172	51,156	182%
<b>Net Interest Income</b>	<b>16,024</b>	<b>22,384</b>	<b>40%</b>
Non-Interest Income	4,159	4,212	1%
Total Provisions	154	913	494%
Operating Expenses	11,845	15,539	31%
<b>Profit Before Tax</b>	<b>8,185</b>	<b>10,143</b>	<b>24%</b>
Taxation	3,222	4,362	35%
<b>Profit After Tax</b>	<b>4,963</b>	<b>5,782</b>	<b>16%</b>
EPS	4.5	5.2	16%

Source: Company Accounts, Akseer Research

#### Key Financial Ratios

	CY20A	CY21A	CY22A	CY23E	CY24F	CY25F
EPS	16.0	16.8	14.9	22.6	32.0	30.61
EPS Growth	59.5%	5.0%	-11.4%	51.5%	41.6%	-4%
DPS	4.5	7.0	7.0	9.0	11.3	10.8
BVPS	71.9	81.0	85.7	101.3	124.3	143.7
PER	2.6	2.4	2.8	1.8	1.3	1.3
Dividend Yield	10.9%	17.0%	17.0%	21.9%	27.4%	26.1%
P/B	0.6	0.5	0.5	0.4	0.3	0.3
ROE	25.2%	22.0%	17.9%	24.2%	28.3%	22.8%

Source: Company Accounts, Akseer Research

Muhammad Atif

[muhammad.atif@alphacapital.com.pk](mailto:muhammad.atif@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 23% 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 Dec-23 PT of PKR 80/share which results in an upside of 94% along with a dividend yield of 21.9%. Our investment case on BAHL is based on (1) One of the best asset quality amongst the banks (2) highest 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 1,050 branches, 29 sub-branches and 02 overseas branches. The branch network of the bank also includes 178 Islamic Banking branches as of 31 December 2022.

### Financial Highlights - BAHL

Income Statement (PKR mn)						
	CY20A	CY21A	CY22A	CY23E	CY24F	CY25F
Mark-up/interest earned	125,273	116,752	200,921	357,638	380,299	334,495
Mark-up/interest expensed	67,653	61,143	123,602	259,160	252,343	201,449
<b>Net interest income</b>	<b>57,620</b>	<b>55,609</b>	<b>77,319</b>	<b>98,478</b>	<b>127,956</b>	<b>133,046</b>
<b>Non-interest income</b>	<b>10,273</b>	<b>14,027</b>	<b>21,196</b>	<b>18,266</b>	<b>17,481</b>	<b>18,018</b>
Provision charged	4,543	(47)	12,871	5,149	4,563	2,528
Operating expenses	34,768	39,410	52,761	67,563	78,536	88,850
<b>Profit after tax</b>	<b>17,812</b>	<b>18,702</b>	<b>16,570</b>	<b>25,099</b>	<b>35,532</b>	<b>34,021</b>

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY20A	CY21A	CY22A	CY23E	CY24F	CY25F
Cash & Treasury Balances	125,598	125,340	109,231	122,339	137,019	153,461
Investments	764,944	826,600	1,158,521	1,305,680	1,447,647	1,593,617
Advances	510,252	733,799	813,535	932,745	1,071,247	1,233,295
Operating Fixed Assets	44,179	55,961	62,440	62,281	66,632	70,569
Other Assets	77,119	107,952	128,342	124,245	139,154	155,853
<b>Total Assets</b>	<b>1,522,091</b>	<b>1,849,652</b>	<b>2,272,068</b>	<b>2,547,290</b>	<b>2,861,700</b>	<b>3,206,795</b>
Borrowings from FIs	211,599	302,213	418,989	469,268	525,580	588,650
Deposits	1,099,686	1,309,823	1,568,138	1,756,315	1,967,072	2,203,121
Other Liabilities	130,949	147,601	189,698	209,110	230,883	255,302
<b>Total Liabilities</b>	<b>1,442,235</b>	<b>1,759,637</b>	<b>2,176,826</b>	<b>2,434,693</b>	<b>2,723,535</b>	<b>3,047,074</b>
Equity	79,856	90,015	95,242	112,597	138,165	159,721
<b>Total Liabilities &amp; Equity</b>	<b>1,522,091</b>	<b>1,849,652</b>	<b>2,272,068</b>	<b>2,547,290</b>	<b>2,861,700</b>	<b>3,206,795</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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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](mailto: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](mailto:info@alphacapital.com.pk)