

Bank AL Habib Limited
Result Review

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

Pakistan Research

BAHL: 1QCY23 EPS came at PKR 9.48, up 2.1x YoY

- BAHL announced its financial result today, wherein, the bank posted an unconsolidated EPS of PKR 9.48, up 2.1x YoY.
- Net interest income (NII) for the quarter increased by 54% YoY to PKR 24.6bn on the back of higher interest rates. Interest income surged by 119% YoY, while interest expense increased by 176% YoY.
- For 1QCY23, non-interest income clocked in at PKR 6.3bn, up 52% YoY due to the higher fee and forex income. Fee & commission income increased by 9% YoY, and forex income is up by 4.6x YoY due to the PKR/USD volatility during the 1Q.
- Bank reported the provisions reversal of PKR 952mn for 1QCY23 against provisions expense of PKR 154mn in SPLY.
- The operating expenses for the quarter came at PKR 15.3bn, up 29%, which we believe is due to branch network expansion and inflationary pressures. However, cost to income ratio for the quarter clocked in at 50% vs 59% in 1QCY22.
- BAHL reported an effective tax rate of 36% for the quarter against a tax rate of 43% for the sector.
- We have a 'BUY' rating on the scrip. Our Dec-23 price target of PKR 80/share offers a capital upside of 91%, along with a dividend yield of 22.6%.

Key Data

PSX Ticker	BAHL
Target Price (PKR)	80
Current Price (PKR)	42
Upside/(Downside) (%)	+91%
Dividend Yield (%)	22.6%
Total Return (%)	113%
12-month High (PKR)	72
12-month Low (PKR)	40
Outstanding Shares (mn)	1,111
Market Cap (PKR mn)	46,680
Year End	December

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	1QCY22	1QCY23	YoY
M/up Earned	34,196	74,805	119%
M/up Expense	18,172	50,181	176%
Net Interest Income	16,024	24,625	54%
Non-Interest Income	4,159	6,302	52%
Total Provisions	154	(952)	-719%
Operating Expenses	11,845	15,322	29%
Profit Before Tax	8,185	16,557	102%
Taxation	3,222	6,018	87%
Profit After Tax	4,963	10,539	112%
EPS	4.5	9.5	112%

Source: Company Accounts, Akseer Research

Key Financial Ratios

	CY20A	CY21A	CY22A	CY23E	CY24F	CY25F
EPS	16.0	16.8	14.9	27.1	32.2	30.9
EPS Growth	59.5%	5.0%	-11.4%	81.8%	18.9%	-4%
DPS	4.5	7.0	7.0	9.5	9.8	9.3
BVPS	71.9	81.0	85.7	105.8	128.6	149.7
PER	2.6	2.5	2.8	1.5	1.3	1.4
Dividend Yield	10.7%	16.7%	16.7%	22.6%	23.2%	22.0%
P/B	0.6	0.5	0.5	0.4	0.3	0.3
ROE	25.2%	22.0%	17.9%	28.3%	27.5%	22.2%

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 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 91% along with a dividend yield of 22.6%. 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	359,621	381,126	335,344
Mark-up/interest expensed	67,653	61,143	123,602	258,184	252,343	201,449
Net interest income	57,620	55,609	77,319	101,436	128,784	133,895
Non-interest income	10,273	14,027	21,196	20,362	17,482	18,020
Provision charged	4,543	(47)	12,871	3,540	4,905	2,870
Operating expenses	34,768	39,410	52,761	67,345	78,536	88,850
Profit after tax	17,812	18,702	16,570	30,122	35,810	34,311

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	1,310,704	1,452,393	1,600,319
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
Total Assets	1,522,091	1,849,652	2,272,068	2,552,314	2,866,445	3,213,498
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
Total Liabilities	1,442,235	1,759,637	2,176,826	2,434,693	2,723,535	3,047,074
Equity	79,856	90,015	95,242	117,621	142,910	166,424
Total Liabilities & Equity	1,522,091	1,849,652	2,272,068	2,552,314	2,866,445	3,213,498

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.

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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