

Bank AL Habib Limited

Result Review

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

Pakistan Research

BAHL: 3QCY21 EPS clocked in at PKR 4.40, down 17% YoY

- Bank AL Habib Limited (BAHL) announced its 3QCY21 financial results today wherein the bank reported net earnings of PKR 4.40/share, down 17% YoY. This takes cumulative earnings for 9M CY21 to PKR 12.53/share, up 6% YoY.
- The reversal in provisions and lower effective tax rate remained positive support to the bottomline.
- Net interest income (NII) for the quarter declined 18% YoY to PKR 14.0bn. Interest income shrunk by 8% YoY, while interest expense increased by 3% YoY due to the upward adjustment of an interest rate hike in Sept-21. For 9M CY21, NII remained lower by 6% YoY to PKR 41.4bn.
- Non-interest income rose 28% YoY to PKR 3.6bn in 3QCY21 owing to a surge in fee & commission income (+ 34% YoY) and forex income (+44% YoY).
- The bank booked provisioning reversal of PKR 105mn during the 3QCY21, taking cumulative provisioning reversals to PKR 133mn during 9-month period compared to the provisioning charge of PKR 3.4bn in the last year's comparative period.
- Operating expenses during 3Q increased by 14% YoY to PKR 9.7bn mainly associated with the higher number of branches on YoY. Resultantly, the cost to income ratio reached 55% in 3QCY21 as against 43% in 3QCY20.
- The bank's effective tax rate came in at 39% in 3QCY21 compared to 41% in 3QCY20.
- We have a 'BUY' rating on the scrip with a price target of PKR 97/share, which is offering a capital upside of 37%, along with a dividend yield of 9%.

Key Data

PSX Ticker	BAHL
Target Price (PKR)	97
Current Price (PKR)	71
Upside/(Downside) (%)	+ 37%
Dividend Yield (%)	9%
Total Return (%)	+ 46%
12-month High (PKR)	82
12-month Low (PKR)	61
Outstanding Shares (mn)	1,111
Market Cap (PKR mn)	78,689
Year End	December

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	3QCY20	3QCY21	YoY	9M CY20	9M CY21	YoY
M/up Earned	33,158	30,591	-8%	98,532	85,653	-13%
M/up Expense	16,146	16,572	3%	54,450	44,231	-19%
Net Interest Income	17,011	14,019	-18%	44,081	41,422	-6%
Non-Interest Income	2,782	3,560	28%	7,080	9,638	36%
Total Provisions	1,259	(105)	NM	3,437	(133)	NM
Admin Expenses	8,546	9,717	14%	25,635	28,886	13%
Profit Before Tax	9,988	7,967	-20%	22,089	22,307	1%
Taxation	4,078	3,075	-25%	8,954	8,378	-6%
Profit After Tax	5,910	4,891	-17%	13,135	13,930	6%
EPS	5.32	4.40	-17%	11.82	12.53	6%

Source: Company Accounts, Akseer Research

Key Financial Ratios

	CY18A	CY19A	CY20A	CY21E	CY22F	CY23F
EPS	7.57	10.05	16.03	16.4	18.6	24.32
EPS Growth	1%	33%	59%	2%	13%	31%
DPS	3.00	3.50	4.50	6.50	7.50	9.75
PER	9.4	7.0	4.4	4.3	3.8	2.9
Dividend Yield	4.2%	4.9%	6.4%	9.2%	10.6%	13.8%
P/B	1.6	1.3	1.0	0.9	0.7	0.6
ROE	17.4%	20.1%	25.2%	21.3%	21.0%	23.5%

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 17.6% to calculate exit P/B, along with a risk free rate of 11%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 17%.

Investment Thesis

We have a 'BUY' recommendation on the stock based on our PT of PKR 97/share which results in an upside of 46% including dividend yield of 9%. 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 903 branches, 32 sub-branches and 03 overseas branches. The branch network of the bank also includes 128 Islamic Banking branches as of 30 June 2021.

Financial Highlights - BAHL

Income Statement (PKR mn)						
	CY18	CY19A	CY20A	CY21E	CY22F	CY23F
Mark-up/interest earned	60,733	105,602	125,273	116,408	151,244	189,261
Mark-up/interest expensed	29,839	64,416	67,653	61,279	87,154	110,562
Net interest income	30,894	41,186	57,620	55,129	64,090	78,700
Non-interest income	7,157	9,481	10,273	13,452	13,828	14,220
Provision charged	247	3,395	4,543	642	1,020	1,284
Operating expenses	23,651	28,261	34,768	38,526	42,410	46,583
Profit after tax	8,307	11,169	17,812	18,237	20,693	27,032

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY18	CY19A	CY20A	CY21E	CY22F	CY23F
Cash & Treasury Balances	82,422	123,363	125,598	114,533	133,431	154,113
Investments	414,605	586,141	764,944	983,470	1,207,892	1,459,744
Advances	478,215	488,669	510,252	535,524	561,634	588,822
Operating Fixed Assets	26,350	36,928	44,179	48,679	52,598	56,074
Other Assets	46,647	63,581	77,119	87,753	102,233	118,079
Total Assets	1,048,239	1,298,682	1,522,091	1,769,960	2,057,788	2,376,832
Borrowings from FIs	119,038	228,745	211,599	253,802	295,680	341,510
Deposits	796,901	903,740	1,099,686	1,281,135	1,492,522	1,723,863
Other Liabilities	82,748	104,694	130,949	143,381	164,100	186,887
Total Liabilities	998,687	1,237,179	1,442,235	1,678,318	1,952,302	2,252,259
Equity	49,552	61,503	79,856	91,642	105,486	124,573
Total Liabilities & Equity	1,048,239	1,298,682	1,522,091	1,769,960	2,057,788	2,376,832

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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