

Bank AL Habib Limited

Result Preview

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

Pakistan Research

BAHL: 3QCY22 EPS to grow by 30% YoY to PKR 5.70

- Bank AL Habib Limited (BAHL) is scheduled to announce its 3QCY22 financial results on 27th October, 2022. We expect the bank to report unconsolidated EPS of PKR 5.70, up 30% YoY during 3QCY22. This would take cumulative EPS for 9M CY22 to PKR 14.37, up 15% YoY.
- Net interest income (NII) of the bank is anticipated to grow by 43% YoY to PKR 20.0bn in 3QCY22. Interest income to surge by 96% YoY, while interest expense is expected to increase at a higher pace of 142% YoY on the back of increase in interest rate.
- The bank is expected to report non-interest income of PKR 5.6bn, up 56% YoY in 3QCY22 led by significant rise in forex income, up 150% YoY and higher fee & commission income up 30% YoY.
- We expect the bank to build the provision expense to avoid any credit losses due to tough economic situation. We have assumed provisioning expense of PKR 866mn during 3QCY22 as compared to a reversal of PKR 105mn SPLY.
- Operating expenses are anticipated to grow by 27% YoY to PKR 12.3bn mainly associated with the aggressive branch network expansion and inflationary pressures. However, the cost to income ratio is expected to fall to 48% in 3QCY22 as against 55% in 3QCY21 due to higher revenues.
- The bank's effective tax rate came in at 49% in 3QCY22 vs 39% in 3QCY21 due to imposition of the super tax on CY22 profits and rise in corporate tax rate for the banking industry in the FY23 budget.
- We have a 'BUY' rating on the scrip with a June-23 price target of PKR 90/share, which is offering a capital upside of 69%, along with a dividend yield of 15%.

Key Data

PSX Ticker	BAHL
Target Price (PKR)	90
Current Price (PKR)	53
Upside/(Downside) (%)	+ 69%
Dividend Yield (%)	15%
Total Return (%)	+ 84%
12-month High (PKR)	78
12-month Low (PKR)	53
Outstanding Shares (mn)	1,111
Market Cap (PKR mn)	59,350
Year End	December

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	3QCY21	3QCY22E	YoY	9M CY21	9M CY22E	YoY
M/up Earned	30,591	60,083	96%	85,653	136,905	60%
M/up Expense	16,572	40,059	142%	44,231	82,704	87%
Net Interest Income	14,019	20,024	43%	41,422	54,201	31%
Non-Interest Income	3,560	5,568	56%	9,638	15,660	62%
Total Provisions	(105)	866	NM	(133)	1,514	NM
Operating Expenses	9,717	12,296	27%	28,886	37,496	30%
Profit Before Tax	7,967	12,430	56%	22,307	30,850	38%
Taxation	3,075	6,091	98%	8,378	14,882	78%
Profit After Tax	4,891	6,339	30%	13,930	15,969	15%
EPS	4.40	5.70	30%	12.53	14.37	15%

Source: Company Accounts, Akseer Research

Key Financial Ratios

	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
EPS	10.0	16.0	16.8	19.8	21.2	18.8
EPS Growth	32.7%	59.5%	5.0%	17.4%	7.4%	-11.4%
DPS	3.5	4.5	7.0	7.8	8.5	7.5
PER	5.3	3.3	3.2	2.7	2.5	2.8
Dividend Yield	6.6%	8.4%	13.1%	14.5%	15.9%	14.0%
P/B	1.0	0.7	0.7	0.6	0.5	0.5
ROE	20.1%	25.2%	22.0%	23.0%	21.8%	17.2%

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 17% to calculate exit P/B, along with a risk free rate of 13%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 19%.

Investment Thesis

We have a 'BUY' recommendation on the stock based on our PT of PKR 90/share which results in an upside of 69% along with a dividend yield of 15%. 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 988 branches, 29 sub-branches and 02 overseas branches. The branch network of the bank also includes 154 Islamic Banking branches as of 30 June 2022.

Financial Highlights - BAHL

Income Statement (PKR mn)						
	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
Mark-up/interest earned	105,602	125,273	116,752	197,151	215,990	178,689
Mark-up/interest expensed	64,416	67,653	61,143	123,323	139,704	102,877
Net interest income	41,186	57,620	55,609	73,827	76,285	75,812
Non-interest income	9,481	10,273	14,027	20,085	16,766	17,284
Provision charged	3,395	4,543	(47)	2,137	1,528	1,091
Operating expenses	28,261	34,768	39,410	49,185	50,143	53,539
Profit after tax	11,169	17,812	18,702	21,956	23,587	20,895

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
Cash & Treasury Balances	123,363	125,598	125,340	136,620	148,916	162,319
Investments	586,141	764,944	826,600	928,792	1,042,348	1,146,839
Advances	488,669	510,252	733,799	777,025	823,000	889,047
Operating Fixed Assets	36,928	44,179	55,961	59,577	64,631	68,758
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	2,017,421	2,204,687	2,404,077
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	159,592	173,674	189,169
Total Liabilities	1,237,179	1,442,235	1,759,637	1,916,711	2,088,934	2,276,803
Equity	61,503	79,856	90,015	100,710	115,753	127,274
Total Liabilities & Equity	1,298,682	1,522,091	1,849,652	2,017,421	2,204,687	2,404,077

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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