

## Bank AL Habib Limited

### Result Review

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

Pakistan Research

## Hefty provisioning charge restricted the bottomline growth to 9% YoY to PKR 4.80

- BAHL announced unconsolidated EPS of PKR 4.80, up 9% YoY during 3QCY22. This took cumulative EPS for 9M CY22 to PKR 13.47, up 7% YoY. The result came in lower than our expectation mainly due to higher than expected provisioning expense and operating expenses.
- Net interest income (NII) of the bank increased by 46% YoY to PKR 20.4bn in 3QCY22. Interest income surged by 84% YoY, while interest expense increased at a higher pace of 117% YoY on the back of higher interest rate.
- The bank reported non-interest income of PKR 6.0bn, up 69% YoY in 3QCY22 led by significant rise in forex income, up 204% YoY and higher fee & commission income up 25% YoY.
- We believe, in order to avoid expected credit loss due to tough economic situation, the bank has booked a provision expense of PKR 1.8Bn during 3QCY22 as compared to a reversal of PKR 105mn SPLY.
- Operating expenses are increased by 46% YoY to PKR 10.4bn in 3QCY22 mainly associated with the aggressive branch network expansion and inflationary pressures. Despite this, the cost to income ratio clocked in at 54% 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 70%, along with a dividend yield of 15.1%.

#### Key Data

PSX Ticker	BAHL
Target Price (PKR)	90
Current Price (PKR)	53
Upside/(Downside) (%)	+ 70%
Dividend Yield (%)	15.1%
Total Return (%)	+ 85%
12-month High (PKR)	79
12-month Low (PKR)	53
Outstanding Shares (mn)	1,111
Market Cap (PKR mn)	59,006
Year End	December

Source: Company Accounts, Akseer Research

#### Financial Highlights (PKR mn)

	3QCY21	3QCY22	YoY	9M CY21	9M CY22	YoY
M/up Earned	30,591	56,359	84%	85,653	133,181	55%
M/up Expense	16,572	35,954	117%	44,231	78,599	78%
<b>Net Interest Income</b>	<b>14,019</b>	<b>20,406</b>	<b>46%</b>	<b>41,422</b>	<b>54,583</b>	<b>32%</b>
Non-Interest Income	3,560	6,017	69%	9,638	16,109	67%
Total Provisions	(105)	1,795	NM	(133)	2,444	NM
Operating Expenses	9,717	14,184	46%	28,886	39,384	36%
<b>Profit Before Tax</b>	<b>7,967</b>	<b>10,443</b>	<b>31%</b>	<b>22,307</b>	<b>28,864</b>	<b>29%</b>
Taxation	3,075	5,104	66%	8,378	13,895	66%
<b>Profit After Tax</b>	<b>4,891</b>	<b>5,339</b>	<b>9%</b>	<b>13,930</b>	<b>14,969</b>	<b>7%</b>
EPS	4.40	4.80	9%	12.53	13.47	7%

Source: Company Accounts, Akseer Research

#### Key Financial Ratios

	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
EPS	10.0	16.0	16.8	18.8	21.2	18.8
EPS Growth	32.7%	59.5%	5.0%	12.0%	12.4%	-11.4%
DPS	3.5	4.5	7.0	7.5	8.5	7.5
PER	5.3	3.3	3.2	2.8	2.5	2.8
Dividend Yield	6.6%	8.5%	13.2%	14.1%	16.0%	14.1%
P/B	1.0	0.7	0.7	0.6	0.5	0.5
ROE	20.1%	25.2%	22.0%	22.1%	21.9%	17.3%

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 70% along with a dividend yield of 15.1%. 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	193,391	215,891	178,615
Mark-up/interest expensed	64,416	67,653	61,143	119,217	139,704	102,877
<b>Net interest income</b>	<b>41,186</b>	<b>57,620</b>	<b>55,609</b>	<b>74,173</b>	<b>76,186</b>	<b>75,738</b>
<b>Non-interest income</b>	<b>9,481</b>	<b>10,273</b>	<b>14,027</b>	<b>20,534</b>	<b>16,766</b>	<b>17,284</b>
Provision charged	3,395	4,543	(47)	3,066	1,528	1,091
Operating expenses	28,261	34,768	39,410	51,073	50,143	53,539
<b>Profit after tax</b>	<b>11,169</b>	<b>17,812</b>	<b>18,702</b>	<b>20,937</b>	<b>23,530</b>	<b>20,855</b>

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	927,774	1,041,550	1,146,001
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
<b>Total Assets</b>	<b>1,298,682</b>	<b>1,522,091</b>	<b>1,849,652</b>	<b>2,016,402</b>	<b>2,203,890</b>	<b>2,403,240</b>
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
<b>Total Liabilities</b>	<b>1,237,179</b>	<b>1,442,235</b>	<b>1,759,637</b>	<b>1,916,711</b>	<b>2,088,934</b>	<b>2,276,803</b>
Equity	61,503	79,856	90,015	99,691	114,956	126,437
<b>Total Liabilities &amp; Equity</b>	<b>1,298,682</b>	<b>1,522,091</b>	<b>1,849,652</b>	<b>2,016,402</b>	<b>2,203,890</b>	<b>2,403,240</b>

Source: Company Accounts, Akseer Research

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