

**Habib Bank Limited**  
 Result Review

PSX: HBL      Bloomberg: HBL: PA      Reuters: HBL: KA

**Pakistan Research**
**HBL: 2QCY21 EPS came in at PKR 6.35, down 16% YoY**

- HBL announced its 2QCY21 result wherein the bank reported consolidated net earnings of PKR 6.35/share, down 16% YoY. This takes cumulative earnings for 1HCY21 to PKR 12.04/share, up 17% YoY. Along with the result, the bank has also announced an interim cash dividend of PKR 1.75/share, taking cumulative payout to PKR 3.50/share for 1HCY21.
- The result is slightly above our expectations which can be attributable to higher than expected non-interest income and lower admin expenses.
- Net interest income (NII) for the quarter declined by 8% YoY due to lower interest rates as compared to the previous year. Going forward we do not expect a further decline in NII as most of the asset base has been repriced. For 1HCY21, NII grew by 3% YoY to PKR 64.9bn.
- In line with our expectation, provisioning expense declined by 62% YoY to PKR 1.8bn in 2QCY21. For 1HCY21, the cumulative provisions stood at PKR 3.7bn, down 32% YoY.
- Operating expenses during the quarter increased by 4% YoY due to the full resumption of the business activity. Resultantly, the cost to income ratio increased to 56% in 2QCY21 from 49% in 2QCY20.
- The effective tax rate of the bank stood at 43% in 2QCY21 which also restricted the bottom-line growth.
- We have a 'BUY' rating on the scrip with a Dec-21 price target of PKR 158, implying an upside of 28.1% including a dividend yield of 6.9%.

**Key Data**

PSX Ticker	HBL
Target Price (PKR)	158
Current Price (PKR)	131
Upside/(Downside) (%)	21.2%
Dividend Yield (%)	6.9%
Total Return (%)	28.1%
12-month High (PKR)	144
12-month Low (PKR)	112
Outstanding Shares (mn)	1,466.85
Market Cap (PKR mn)	191,864.31
Year End	December

*Source: Company Accounts, Akseer Research*
**Financial Estimates (PKR mn)**

	2QCY20	2QCY21	YoY	1HCY20	1HCY21	YoY
M/up Earned	70,486	63,401	-10%	143,132	126,864	-11%
M/up Expense	35,424	31,006	-12%	80,056	62,000	-23%
<b>Net Interest Income</b>	<b>35,062</b>	<b>32,394</b>	<b>-8%</b>	<b>63,075</b>	<b>64,864</b>	<b>3%</b>
Non-Interest Income	10,866	9,387	-14%	16,644	17,609	6%
Total Provisions	4,843	1,817	-62%	5,468	3,737	-32%
Admin Expenses	22,388	23,276	4%	48,421	47,539	-2%
<b>Profit Before Tax</b>	<b>18,697</b>	<b>16,689</b>	<b>-11%</b>	<b>25,829</b>	<b>31,197</b>	<b>21%</b>
Taxation	7,616	7,219	-5%	10,641	13,167	24%
<b>Profit After Tax</b>	<b>11,047</b>	<b>9,320</b>	<b>-16%</b>	<b>15,143</b>	<b>17,656</b>	<b>17%</b>
EPS	7.53	6.35	-16%	10.32	12.04	17%
DPS	0.00	1.75	-	1.25	3.50	180%

Source: Company Accounts, Akseer Research

**Key Financial Ratios**

	CY18A	CY19A	CY20A	CY21E	CY22F	CY23F
EPS	8.22	10.45	21.06	24.71	25.96	31.61
EPS Growth	54%	27%	101%	17%	5%	22%
DPS	4.00	5.00	4.25	9.00	10.50	12.75
PER	15.91	12.51	6.21	5.3	5.0	4.14
Dividend Yield	3.1%	3.8%	3.2%	6.9%	8.0%	9.7%
P/B	0.98	0.87	0.74	0.72	0.68	0.63
ROE	6.3%	7.4%	12.8%	13.7%	13.8%	15.8%

Source: Company Accounts, Akseer Research

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### Valuation Basis

Our PT for Habib Bank Limited (HBL) has been computed on the dividend discounting method using Justified P/B for the calculation of terminal value. We have used sustainable ROE of 18% to arrive to calculate exit P/B, along with a risk-free rate of 11%, a beta of 1.0 and a market risk premium of 6% to arrive at a cost of equity of 17%.

### Investment Thesis

We have a BUY recommendation on the stock based on our PT of 158/share. Our price target provides an upside of 28.1% including a dividend yield of 6.9%. Our investment case on HBL is based on (1) One-off expense which restricted earnings has been phased out (2) earnings recovering from CY20 onwards along with ROE 4) strong advances growth with a low infection ratio of 6.5% along with a coverage ratio of more than 100%.

### Risks

Key risks to our investment thesis are 1) cost to income ratio remaining elevated longer than anticipated, 2) more than anticipated decline in interest rates 3) lower than anticipated growth in advances and deposits 4) higher than the forecasted increase in NPLs.

### Company Description

Habib Bank Limited, together with its subsidiaries, provides commercial banking and asset management related services in Pakistan. It also has operations in Asia, Africa, Europe, the United States, and the Middle East. The bank operates through 1,659 branches, including 62 Islamic banking branches, and 38 branches outside Pakistan. Habib Bank Limited was founded in 1947 and is headquartered in Karachi. Habib Bank Limited is a subsidiary of The Aga Khan Fund for Economic Development (AKFED), S.A.

### Financial Highlights - HBL

Income Statement (PKR mn)						
	CY18A	CY19A	CY20E	CY21E	CY22F	CY23F
Mark-up/interest earned	165,283	258,114	271,237	259,435	306,503	356,230
Mark-up/interest expensed	83,606	156,791	141,133	129,176	171,245	203,095
<b>Net interest income</b>	<b>81,677</b>	<b>101,323</b>	<b>130,104</b>	<b>130,259</b>	<b>135,258</b>	<b>153,134</b>
<b>Non-interest income</b>	<b>19,894</b>	<b>24,162</b>	<b>30,595</b>	<b>31,075</b>	<b>31,625</b>	<b>34,994</b>
Provision charged	5,009	3,314	12,220	5,061	4,307	4,619
Operating expenses	74,978	93,290	95,449	93,145	98,798	105,835
<b>Profit/loss to shareholders</b>	<b>12,056</b>	<b>15,333</b>	<b>30,892</b>	<b>36,244</b>	<b>38,076</b>	<b>46,371</b>

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY18A	CY19A	CY20E	CY21E	CY22F	CY23F
Cash & Treasury Balances	279,461	367,594	375,280	431,572	457,444	489,425
Investments	1,390,052	1,379,607	1,948,577	1,990,742	2,079,787	2,216,868
Advances	1,080,440	1,166,957	1,223,510	1,324,141	1,432,615	1,549,798
Operating Fixed Assets	71,949	89,552	99,603	82,317	79,545	76,488
Other Assets	203,951	223,423	202,093	232,112	251,455	269,007
<b>Total Assets</b>	<b>3,025,853</b>	<b>3,227,132</b>	<b>3,849,063</b>	<b>4,060,884</b>	<b>4,300,846</b>	<b>4,601,585</b>
Borrowings from FIs	523,319	382,206	544,108	332,405	352,333	376,965
Deposits	2,137,293	2,437,597	2,830,371	3,254,893	3,450,020	3,691,214
Other Liabilities	165,989	182,577	209,088	200,970	210,127	221,216
<b>Total Liabilities</b>	<b>2,826,601</b>	<b>3,002,381</b>	<b>3,583,568</b>	<b>3,788,268</b>	<b>4,012,480</b>	<b>4,289,394</b>
Equity	199,252	224,752	265,495	272,616	288,366	312,191
<b>Total Liabilities &amp; Equity</b>	<b>3,025,853</b>	<b>3,227,132</b>	<b>3,849,063</b>	<b>4,060,884</b>	<b>4,300,846</b>	<b>4,601,585</b>

Source: Company Accounts, Akseer Research

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