

Habib Bank Limited
 Result Preview

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

Pakistan Research
2QCY21 EPS expected to clock in at PKR 5.85, down 22% YoY

- HBL is scheduled to announce its 2QCY21 financial results today 29th July 2021, where we expect the bank to report net earnings of PKR 5.85/share, down 22% YoY. This will take cumulative earnings for 1HCY21 to PKR 11.53/share, up 12% YoY. The bank is also expected to announce an interim cash dividend of PKR 1.75/share, taking cumulative payout to PKR 3.50/share for 1HCY21.
- The decline in 2QCY21 profitability is due to lower net interest income and the absence of capital gains.
- Net interest income (NII) for the quarter is likely to decline by 5% YoY due to balance sheet repricing on lower interest rates. For 1HCY21, NII is expected to grow by 4% YoY to PKR 65.7bn on the back of expected growth of 32% YoY in investments and 5% YoY in the loan book.
- Provisioning expense is expected to ease off by 59% YoY to PKR 2.0bn in 2QCY21. For 1HCY21, the cumulative provisions likely to stand at PKR 3.9bn, down 28% YoY.
- Operating expenses during the quarter are likely to increase by 9% YoY due to the normalization of the business activity. Resultantly, the cost to income ratio is expected to touch 60% in 2QCY21 from 49% in 2QCY20.
- 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	2QCY21E	YoY	1HCY20	1HCY21E	YoY
M/up Earned	70,486	63,656	-10%	143,132	127,119	-11%
M/up Expense	35,424	30,360	-14%	80,056	61,354	-23%
Net Interest Income	35,062	33,296	-5%	63,075	65,765	4%
Non-Interest Income	10,866	7,336	-32%	16,644	15,558	-7%
Total Provisions	4,843	2,001	-59%	5,468	3,921	-28%
Admin Expenses	22,388	24,494	9%	48,421	48,758	1%
Profit Before Tax	18,697	14,136	-24%	25,829	28,645	11%
Taxation	7,616	5,513	-28%	10,641	11,462	8%
Profit After Tax	11,047	8,580	-22%	15,143	16,916	12%
EPS	7.53	5.85	-22%	10.32	11.53	12%
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 investments 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 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 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
Net interest income	81,677	101,323	130,104	130,259	135,258	153,134
Non-interest income	19,894	24,162	30,595	31,075	31,625	34,994
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
Profit/loss to shareholders	12,056	15,333	30,892	36,244	38,076	46,371

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
Total Assets	3,025,853	3,227,132	3,849,063	4,060,884	4,300,846	4,601,585
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
Total Liabilities	2,826,601	3,002,381	3,583,568	3,788,268	4,012,480	4,289,394
Equity	199,252	224,752	265,495	272,616	288,366	312,191
Total Liabilities & Equity	3,025,853	3,227,132	3,849,063	4,060,884	4,300,846	4,601,585

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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