

Habib Bank Limited
Result Review

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

Pakistan Research

HBL: 3QCY21 EPS came in at PKR 6.17; DPS PKR 1.75

- HBL announced its 3QCY21 result wherein the bank reported consolidated net earnings of PKR 6.17/share, down 10% YoY. This takes cumulative earnings for 9M CY21 to PKR 18.21/share, up 6.0% YoY. Along with the result, the bank has also announced an interim cash dividend of PKR 1.75/share, taking cumulative payout to PKR 5.25/share for 9M CY21.
- Net interest income (NII) for the quarter declined by 10% YoY to PKR 32.3bn. Interest income grew by 2% YoY while interest expense surged 15% YoY. Double digit increase in cost of deposit could be due to upward adjustment of interest rate hike in Sept-21. For 9M CY21, NII remained lower by 2% YoY to PKR 97.2bn.
- Non-interest income jumped 9% YoY to PKR 8.1bn in 3QCY21 on the back of higher fee & commission income (up 30% YoY to PKR 6.2bn). However, provisioning of loss on derivatives to the tune of PKR 968mn restricted the non-interest income growth.
- The bank recorded higher than expected provision of PKR 1.8bn during 3QCY21. We await further clarity in this regard. For 9M CY21, the cumulative provisions stood at PKR 5.5bn, down 35% YoY.
- Increase in operating expenses contained to only 2% YoY to PKR 23.5bn in 3QCY21. The cost to income ratio increased to 58% in 3QCY21 from 53% in 3QCY20.
- The effective tax rate of the bank stood at 41% in 3QCY21.
- We have a 'BUY' rating on the scrip with a June-22 price target of PKR 158/ share, implying an upside of 41.2% including a dividend yield of 8.6%.

Key Data

PSX Ticker	HBL
Target Price (PKR)	158
Current Price (PKR)	119.15
Upside/(Downside) (%)	32.6%
Dividend Yield (%)	8.6%
Total Return (%)	41.2%
12-month High (PKR)	144
12-month Low (PKR)	108
Outstanding Shares (mn)	1,466.85
Market Cap (PKR mn)	174,775
Year End	December

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	3QCY20	3QCY21	YoY	9M CY20	9M CY21	YoY
M/up Earned	64,800	65,880	2%	207,931	192,743	-7%
M/up Expense	29,090	33,591	15%	109,147	95,591	-12%
Net Interest Income	35,709	32,288	-10%	98,784	97,152	-2%
Non-Interest Income	7,424	8,113	9%	24,067	25,723	7%
Total Provisions	3,047	1,758	-42%	8,515	5,495	-35%
Admin Expenses	23,012	23,463	2%	71,434	71,002	-1%
Profit Before Tax	17,074	15,180	-11%	42,903	46,377	8%
Taxation	6,991	6,224	-11%	17,631	19,391	10%
Profit After Tax	10,048	9,051	-10%	25,192	26,707	6%
EPS	6.85	6.17	-10%	17.17	18.21	6%
DPS	-	1.75	-	1.25	5.25	320%

Source: Company Accounts, Akseer Research

Key Financial Ratios

	CY18A	CY19A	CY20A	CY21E	CY22F	CY23F
EPS	8.22	10.45	21.06	24.48	28.68	33.58
EPS Growth	54%	27%	101%	16%	17%	17%
DPS	4.00	5.00	4.25	7.00	10.25	11.75
PER	14.50	11.4	5.7	4.9	4.2	3.5
Dividend Yield	3.4%	4.2%	3.6%	5.9%	8.6%	9.9%
P/B	0.90	0.79	0.67	0.62	0.55	0.49
ROE	6.3%	7.4%	12.8%	13.2%	14.1%	14.7%

Source: Company Accounts, Akseer Research

Saqib Hussain

saqib.hussain@akseerresearch.com

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 at 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 41.2% including a dividend yield of 8.6%. 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, founded in 1947 and privatized in 2004 and is the largest bank in the country engaged in commercial banking services in Pakistan and overseas. The bank operates through an extensive network of 1,637 branches, including 161 Islamic banking branches, and 38 branches outside Pakistan. End of June-21, HBL's assets stood at PKR 4.1tn, and the deposit base reached PKR 3.1tn as of June-21. The Aga Khan Fund for Economic Development S.A. (AKFED) is the majority shareholder in the bank.

Financial Highlights - HBL

Income Statement (PKR mn)						
	CY18A	CY19A	CY20E	CY21E	CY22F	CY23F
Mark-up/interest earned	165,283	258,114	271,237	265,889	340,780	386,841
Mark-up/interest expensed	83,606	156,791	141,133	137,363	195,268	220,346
Net interest income	81,677	101,323	130,104	128,526	145,512	166,494
Non-interest income	19,894	24,162	30,595	35,084	35,709	39,469
Provision charged	5,009	3,314	12,220	6,721	6,519	7,064
Operating expenses	74,978	93,290	95,449	94,636	103,522	115,550
Profit/loss to shareholders	12,056	15,333	30,892	35,911	42,067	49,259

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY18A	CY19A	CY20E	CY21E	CY22F	CY23F
Cash & Treasury Balances	279,461	367,594	375,280	430,517	464,387	509,603
Investments	1,390,052	1,379,607	1,948,577	2,145,601	2,123,957	2,304,509
Advances	1,080,440	1,166,957	1,223,510	1,355,470	1,658,340	1,873,238
Operating Fixed Assets	71,949	89,552	99,603	118,035	125,718	127,907
Other Assets	203,951	223,423	202,093	233,438	253,959	275,746
Total Assets	3,025,853	3,227,132	3,849,063	4,283,061	4,626,361	5,091,003
Borrowings from FIs	523,319	382,206	544,108	528,549	570,131	625,643
Deposits	2,137,293	2,437,597	2,830,371	3,246,938	3,502,383	3,843,396
Other Liabilities	165,989	182,577	209,088	219,768	232,244	261,612
Total Liabilities	2,826,601	3,002,381	3,583,568	3,995,255	4,304,758	4,730,651
Equity	199,252	224,752	265,495	287,806	321,603	360,352
Total Liabilities & Equity	3,025,853	3,227,132	3,849,063	4,283,061	4,626,361	5,091,003

Source: Company Accounts, Akseer Research

Disclaimer

This report has been prepared and marketed jointly by Akseer Research (Pvt) Limited and Alfa Adhi Securities (Pvt) Limited, hereinafter referred jointly as "JV" and is provided for information purposes only. Under no circumstances this is to be used or considered as an offer to sell or solicitation of any offer to buy. While reasonable care has been taken to ensure that the information contained therein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. From time to time, the JV and/or any of their officers or directors may, as permitted by applicable laws, have a position, or otherwise be interested in any transaction, in any securities directly or indirectly subject of this report. This report is provided only for the information of professionals who are expected to make their own investment decisions without undue reliance on this report. Investments in capital markets are subject to market risk and the JV accepts no responsibility whatsoever for any direct or indirect consequential loss arising from any use of this report or its contents. In particular, the report takes no account of the investment objectives, financial situation and particular needs of investors, who should seek further professional advice or rely upon their own judgment and acumen before making any investment. The views expressed in this report are those of the JV's Research Department and do not necessarily reflect those of the JV or its directors. Akseer Research and Alfa Adhi Securities as firms may have business relationships, including investment--banking relationships, with the companies, referred to in this report. The JV or any of their officers, directors, principals, employees, associates, close relatives may act as a market maker in the securities of the companies mentioned in this report, may have a financial interest in the securities of these companies to an amount exceeding 1% of the value of the securities of these companies, may serve or may have served in the past as a director or officer of these companies, may have received compensation from these companies for corporate advisory services, brokerage services or underwriting services or may expect to receive or intend to seek compensation from these companies for the aforesaid services, may have managed or co-managed a public offering, take-over, buyback, delisting offer of securities or various other functions for the companies mentioned in this report.

All rights reserved by the JV. This report or any portion hereof may not be reproduced, distributed or published by any person for any purpose whatsoever. Nor can it be sent to a third party without prior consent of the JV. Action could be taken for unauthorized reproduction, distribution or publication.

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.

Rating Criteria

JV employs a three-tier rating 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 a 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%

Ratings are updated to account for any development impacting the economy/sector/company, changes in analysts' assumptions or a combination of these factors.

Research Dissemination Policy

The JV endeavours to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as email, fax mail etc.

Analyst Certification

The research analyst, denoted by 'AC' on the cover of this report, has also been involved in the preparation of this report and is a member of JV's Equity Research Team. The analyst certifies that (1) the views expressed in this report accurately reflect his/her personal views and (2) no part of his/her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

Contact Details**Akseer Research (Pvt) Limited**

1st Floor, Shaheen Chambers, KCHS block 7 & 8, off. Shahrah-e-Faisal
 T: +92-21-34320359 -60
 E: info@akseerresearch.com

Alfa Adhi Securities (Pvt) Limited

3rd Floor, Shaheen Chambers, A-4 Central Commercial Area, KCH
 Society, Block 7 & 8, Near Virtual University, Karachi
 T: +92-21-38694242
 E: info@alfaadhi.net