

Habib Bank Limited

Result Review

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

Pakistan Research

HBL: 4QCY22 EPS clocked in at PKR 7.3, up 28% YoY; DPS at PKR 1.5

- HBL announced its 4QCY22 financial results today, wherein the bank reported a consolidated EPS of PKR 7.3 in 4QCY22, up 28% YoY, compared to an EPS of PKR 5.7 in 4QCY21. The cumulative CY22 EPS clocked in at PKR 23.2 vs PKR 23.8 in CY21. Along with the result, the bank announced a final cash dividend of PKR 1.50/share, taking cumulative CY22 payout to PKR 6.75/share.
- Net interest income (NII) for 4QCY22 grew by 45% YoY to PKR 49.5bn. Interest income increased by 83% YoY, while the interest expense surged with a higher rate of 120% YoY.
- Non-interest income increased by 5% YoY to PKR 11.1bn during the quarter under review. Fee & commission income grew by 17% YoY to PKR 8.7bn, while a gain on investment of PKR 1.1bn was booked in 4QCY22 vs loss of PKR 650mn in SPLY.
- The bank booked the provisioning expense of PKR 4.9bn during 4QCY22, compared to PKR 2.6bn in the same quarter last year. Out of the total provisioning expense, PKR 2.1bn pertains to Eurobonds and PKR 719mn to foreign debt securities.
- Operating expenses increased by 29% YoY to PKR 34.3bn, on the back of higher IT expenses and inflationary pressures. However, cost to income ratio for the 4QCY22 came at 57% compared to 59% SPLY.
- Effective tax rate clocked in at 50% in 4QCY22, compared to 46% in SPLY. Higher effective tax is attributed to a rise in corporate tax rates for the banking industry.
- We have a 'BUY' rating on the scrip with Dec-23 PT of PKR 118/share, implying an upside of 61%, along with a dividend yield of 16.0%.

Key Data

PSX Ticker	HBL
Target Price (PKR)	118
Current Price (PKR)	73
Upside/(Downside) (%)	+ 61%
Dividend Yield (%)	16.0%
Total Return (%)	+ 77%
12-month High (PKR)	121
12-month Low (PKR)	59
Outstanding Shares (mn)	1,467
Market Cap (PKR mn)	107,638
Year End	December

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	4QCY21	4QCY22	YoY	CY21	CY22E	YoY
M/up Earned	69,511	127,002	83%	262,254	436,101	66%
M/up Expense	35,244	77,477	120%	130,835	270,538	107%
Net Interest Income	34,267	49,524	45%	131,419	165,563	26%
Non-Interest Income	10,589	11,125	5%	36,311	46,732	29%
Total Provisions	2,592	4,891	89%	8,087	8,482	5%
Admin Expenses	26,614	34,327	29%	97,615	126,783	30%
Profit Before Tax	15,651	21,431	37%	62,028	77,030	24%
Taxation	7,130	10,661	50%	26,521	42,632	61%
Profit After Tax	8,315	10,670	28%	35,022	34,070	-3%
EPS	5.7	7.3	28%	23.9	23.23	-3%
DPS	2.25	1.50	-	7.50	6.75	-

Key Financial Ratios

	CY19A	CY20A	CY21A	CY22A	CY23F	CY24F
EPS	10.5	21.1	23.9	23.2	33.2	36.8
EPS Growth	27.2%	101.5%	13.4%	-2.7%	42.9%	11.0%
DPS	5.0	4.3	7.5	6.8	11.8	12.8
BVPS	150.2	177.9	190.6	192.3	218.2	244.2
PER	7.0	3.5	3.1	3.2	2.2	2.0
Dividend Yield	6.8%	5.8%	10.2%	9.2%	16.0%	17.4%
P/B	0.5	0.4	0.4	0.4	0.3	0.3
ROE	7.4%	12.8%	13.0%	12.1%	16.2%	15.9%

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 at exit P/B, along with a risk-free rate of 17%, a beta of 1.0 and a market risk premium of 6% to arrive at a cost of equity of 23%.

Investment Thesis

We have a BUY recommendation on the stock based on our PT of 118/share. Our price target provides a capital upside of 61% along with a dividend yield of 16.0%. Our investment case on HBL is based on (1) NIMs expansion on the back of strong balance sheet growth and, (2) balance sheet ideally positioned to benefit from the higher interest rates.

Risks

Key risks to our investment thesis are 1) cost to income ratio remains elevated longer than anticipated, 2) more than anticipated decline in interest rates 3) lower than anticipated growth in advances and deposits 4) higher-than-expected 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 1,714 branches, including 294 Islamic banking branches, and 32 branches outside Pakistan. End of Dec-22, HBL's assets stood at PKR 4.6tn, and the deposit base reached PKR 3.5tn. The Aga Khan Fund for Economic Development S.A. (AKFED) is the majority shareholder in the bank.

Financial Highlights - HBL

Income Statement (PKR mn)						
	CY19A	CY20A	CY21A	CY22A	CY23F	CY24F
Mark-up/interest earned	258,114	271,237	262,254	436,101	677,472	651,530
Mark-up/interest expensed	156,791	141,133	130,835	270,538	463,331	433,693
Net interest income	101,323	130,104	131,419	165,563	214,142	217,836
Non-interest income	24,162	30,595	36,311	46,732	39,852	43,096
Provision charged	3,314	12,220	8,087	8,482	8,298	5,628
Operating expenses	93,290	95,449	97,615	126,783	142,565	154,702
Profit/loss to shareholders	15,333	30,892	35,022	34,070	48,777	54,224

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY19A	CY20A	CY21A	CY22A	CY23F	CY24F
Cash & Treasury Balances	367,594	375,280	441,252	296,015	510,169	550,570
Investments	1,379,607	1,948,577	1,948,956	1,948,801	2,161,165	2,390,219
Advances	1,166,957	1,223,510	1,507,047	1,782,498	1,836,339	1,925,402
Operating Fixed Assets	89,552	99,603	111,307	132,294	124,970	127,592
Other Assets	223,423	202,093	308,906	479,198	352,191	380,507
Total Assets	3,227,132	3,849,063	4,317,468	4,638,806	4,984,834	5,374,290
Borrowings from FIs	382,206	544,108	436,258	583,771	504,394	544,338
Deposits	2,437,597	2,830,371	3,381,998	3,469,342	3,910,211	4,219,867
Other Liabilities	182,577	209,088	215,526	300,671	246,872	248,200
Total Liabilities	3,002,381	3,583,568	4,033,782	4,353,784	4,661,477	5,012,405
Equity	224,752	265,495	283,686	285,022	323,358	361,885
Total Liabilities & Equity	3,227,132	3,849,063	4,317,468	4,638,806	4,984,834	5,374,290

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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