

Bank AL Habib Limited

Result Preview

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

Pakistan Research

BAHL: 1QCY24 EPS to clock in at PKR 9.82, up 4% YoY, DPS PKR 5.00

- BAHL's BoD meeting is scheduled on April 25th, 2024 to approve the financial result for 1QCY24, wherein we expect the bank to report an unconsolidated EPS of PKR 9.82, up 4% YoY. Along with the result, we expect the bank to announce an interim cash payout of PKR 5.0/sh given the improvement in CET1 and minimal impact of IFRS-9 adoption (~PKR 4.9bn).
- We anticipate the Net Interest Income (NII) to increase by 50% YoY to PKR 37.0bn in 1QCY24 due to pricing support from elevated interest rates and volumetric growth manifesting from enhanced footprint. The bank's reliance on high-cost fixed deposits is expected to increase the interest expense (+61% YoY) and outpace interest income (+57% YoY). To highlight, CA % has deteriorated to 36.4% (Dec-23) from 42.9% (Dec-22).
- Non-interest income of the bank is likely to decline by 4% during 1QCY24 to PKR 6.1bn on the expectation of moderating FX income (-48% YoY). However, this is estimated to be partially offset by higher fee & commission income (+30% YoY).
- Provisions are anticipated to clock-in at PKR 1.1bn versus a reversal of PKR 952mn SPLY.
- The operating expenses are likely to increase by 27% YoY in 1QCY24 to PKR 19.5bn due to higher IT related expenditures. However, we expect bank's cost to income ratio to improve by 420bps YoY to 45.3% in 1QCY24 mainly on the back of NII expansion.
- Effective tax rate is expected at 52% vs 36% SPLY due to higher super tax and ADR related tax.
- We have a 'BUY' rating on the scrip. Our Dec-24 price target of PKR 112/share offers a capital upside of 24%, along with a dividend yield of 20%.

Key Data

PSX Ticker	BAHL
Target Price (PKR)	112
Current Price (PKR)	90
Upside/(Downside) (%)	+24%
Dividend Yield (%)	20%
Total Return (%)	44%
12-month High (PKR)	94
12-month Low (PKR)	40
Outstanding Shares (mn)	1,111
Market Cap (PKR mn)	100,062
Year End	December

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	1QCY23	1QCY24E	YoY
M/up Earned	74,805	117,691	57%
M/up Expense	50,181	80,715	61%
Net Interest Income	24,625	36,976	50%
Non-Interest Income	6,302	6,073	-4%
Total Provisions	(952)	1,037	-209%
Operating Expenses	15,322	19,513	27%
Profit Before Tax	16,557	22,499	36%
Taxation	6,018	11,585	93%
Profit After Tax	10,539	10,913	4%
EPS	9.48	9.82	4%
DPS	0.00	5.00	

Source: Company Accounts, Akseer Research

Key Financial Ratios

	CY21A	CY22A	CY23A	CY24E	CY25F	CY26F
EPS	16.8	14.9	31.8	36.9	34.8	32.4
EPS Growth	5.0%	-11.4%	113.1%	16.1%	-5.6%	-7.0%
DPS	7.0	7.0	14.0	18.0	18.0	18.3
BVPS	81.0	85.7	113.9	132.4	150.2	178.7
PER	5.4	6.0	2.8	2.4	2.6	2.8
Dividend Yield	7.8%	7.8%	15.6%	20.0%	20.0%	20.3%
P/B	1.1	1.1	0.8	0.7	0.6	0.5
ROE	22.0%	17.9%	31.8%	30.0%	24.7%	19.7%

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 18% to calculate exit P/B, along with a risk free rate of 15%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 21%.

Investment Thesis

We have a 'BUY' recommendation on the stock based on our Dec-24 PT of PKR 112/share which results in an upside of 24% along with a dividend yield of 20%. Our investment case on BAHL is based on (1) One of the best asset quality amongst the banks (2) aggressive branch expansion strategy to drive deposits (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 1,084 branches, 29 sub-branches, 4 representative branches and 2 overseas branches. The branch network of the bank also includes 201 Islamic Banking branches as of 31 December 2023.

Financial Highlights - BAHL

Income Statement (PKR mn)						
	CY21A	CY22A	CY23A	CY24E	CY25F	CY26F
Mark-up/interest earned	116,752	200,921	373,902	455,068	420,524	400,982
Mark-up/interest expensed	61,143	123,602	249,755	311,712	274,666	253,677
Net interest income	55,609	77,319	124,148	143,356	145,859	147,305
Non-interest income	14,027	21,196	23,227	25,380	25,476	26,556
Provision charged	(47)	12,871	4,200	4,845	4,669	2,909
Operating expenses	39,410	52,761	72,047	82,365	90,760	100,375
Profit after tax	18,702	16,570	35,319	41,017	38,712	35,994

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY21A	CY22A	CY23A	CY24E	CY25F	CY26F
Cash & Treasury Balances	125,340	109,231	148,397	148,190	177,828	204,502
Investments	826,600	1,158,521	1,503,895	1,538,538	1,887,112	2,206,844
Advances	733,799	813,535	869,459	1,133,897	1,316,075	1,489,297
Operating Fixed Assets	55,961	62,440	79,697	79,159	79,159	79,159
Other Assets	107,952	128,342	139,572	139,862	167,834	193,010
Total Assets	1,849,652	2,272,068	2,741,020	3,039,646	3,628,009	4,172,812
Borrowings from FIs	302,213	418,989	477,438	525,182	630,218	724,751
Deposits	1,309,823	1,568,138	1,934,037	2,127,440	2,552,928	2,935,867
Other Liabilities	147,601	189,698	202,939	239,920	277,875	313,566
Total Liabilities	1,759,637	2,176,826	2,614,413	2,892,542	3,461,021	3,974,184
Equity	90,015	95,242	126,607	147,104	166,988	198,628
Total Liabilities & Equity	1,849,652	2,272,068	2,741,020	3,039,646	3,628,009	4,172,812

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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