

Bank AL Habib Limited

Result Review

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

Pakistan Research

BAHL: CY21 unconsolidated EPS settled at PKR 16.83, up 5% YoY; DPS 7.0

- BAHL announced its CY21 financial results today, where the bank reported unconsolidated profit after tax of PKR 18.7bn (EPS PKR 16.83), up 5% YoY. For 4QCY21, BAH L earnings grew by 2% YoY to PKR 4.7bn (EPS PKR 4.29/share). Along with the result, the bank announced higher than expected final cash dividend of PKR 7.0/share compared to PKR 4.5/share in CY20.
- The bank posted 5% YoY increase in NII during 4Q to PKR 14.1bn. Interest income increased by 16% YoY to PKR 31.1bn while interest expense increased by 28% YoY to PKR16.9bn due to the upward adjustment of interest rate hike. For full year CY21, NII declined by 3% to PKR 55.6bn.
- Non-interest income came in higher than our expectation and grew by 37% YoY to PKR 4.3bn during 4QCY21. Major growth in this segment came from fee & commission income (+39% to PKR 2.7bn) and forex income (+44% YoY PKR 1.0bn). However, the bank realized loss on securities during 4Q amounting to PKR 42mn compared to capital gain of PKR 171mn in same period last year. For full year CY21, non-interest income increased by 37% YoY to PKR 14.0bn.
- Provisions clocked in at PKR 86mn during 4QCY21 compared to PKR 1.1bn recorded in 4QCY20. For CY21, BAH L recorded provisioning reversals of PKR 47mn compared to provisioning expense of PKR 4.5bn, last year.
- Admin expenses during the quarter increased by 15% YoY to PKR 10.5bn. Aggressive branch network expansion led to double digit hike in the cost. Resultantly, cost to income (C/I) ratio of the bank remained elevated at 57% during the 4Q. For CY21, C/I ratio surged to 57% versus 51% in CY20.
- We have a 'BUY' rating on the scrip with Dec-22 price target of PKR 102/share, implying an upside of 38.5% along with a dividend yield of 12.9%.

Key Data

PSX Ticker	BAHL
Target Price (PKR)	102
Current Price (PKR)	74
Upside/(Downside) (%)	+ 38.5%
Dividend Yield (%)	12.9%
Total Return (%)	+ 51.4%
12-month High (PKR)	61
12-month Low (PKR)	77
Outstanding Shares (mn)	1,111
Market Cap (PKR mn)	84,801
Year End	December

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	4QCY20	4QCY21	YoY	CY20	CY21	YoY
M/up Earned	26,741	31,100	16%	125,273	116,752	-7%
M/up Expense	13,202	16,913	28%	67,653	61,143	-10%
Net Interest Income	13,539	14,187	5%	57,620	55,609	-3%
Non-Interest Income	3,193	4,389	37%	10,273	14,027	37%
Total Provisions	1,106	86	-92%	4,543	(47)	NM
Admin Expenses	9,134	10,524	15%	34,768	39,410	13%
Profit Before Tax	6,492	7,965	23%	28,581	30,273	6%
Taxation	1,815	3,193	76%	10,770	11,570	7%
Profit After Tax	4,677	4,773	2%	17,812	18,702	5%
EPS	4.21	4.29	2%	16.03	16.83	5%
DPS	4.50	7.00	56%	4.50	7.00	56%

Source: Company Accounts, Akseer Research

Key Financial Ratios

	CY18A	CY19A	CY20A	CY21A	CY22F	CY23F
EPS	7.57	10.05	16.03	16.83	23.7	27.0
EPS Growth	1%	33%	59%	5%	41%	14%
DPS	3.00	3.50	4.50	7.00	9.50	10.75
PER	9.7	7.3	4.6	4.4	3.1	2.7
Dividend Yield	4.1%	4.8%	6.1%	9.5%	12.9%	14.6%
P/B	1.7	1.3	1.0	0.9	0.7	0.6
ROE	17.4%	20.1%	25.2%	21.7%	25.8%	24.7%

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 16.6% to calculate exit P/B, along with a risk free rate of 12%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 18%.

Investment Thesis

We have a 'BUY' recommendation on the stock based on our PT of PKR 102/share which results in an upside of 39% along with a dividend yield of 12.9%. Our investment case on BAHL is based on (1) One of the best asset quality amongst the banks (2) higher than industry deposit & advances growth (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 921 branches, 34 sub-branches and 03 overseas branches. The branch network of the bank also includes 133 Islamic Banking branches as of 30 Sep 2021.

Financial Highlights - BAHL

Income Statement (PKR mn)						
	CY18A	CY19A	CY20A	CY21A	CY22F	CY23F
Mark-up/interest earned	60,733	105,602	125,273	116,752	165,359	194,795
Mark-up/interest expensed	29,839	64,416	67,653	61,143	90,060	108,474
Net interest income	30,894	41,186	57,620	55,609	75,299	86,321
Non-interest income	7,157	9,481	10,273	14,027	13,301	13,803
Provision charged	247	3,395	4,543	(47)	2,476	3,073
Operating expenses	23,651	28,261	34,768	39,410	42,973	47,915
Profit after tax	8,307	11,169	17,812	18,702	26,322	29,973

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY18A	CY19A	CY20A	CY21E	CY22F	CY23F
Cash & Treasury Balances	82,422	123,363	125,598	119,140	129,862	141,550
Investments	414,605	586,141	764,944	930,235	1,002,610	1,104,958
Advances	478,215	488,669	510,252	588,487	664,185	722,268
Operating Fixed Assets	26,350	36,928	44,179	56,262	60,425	64,952
Other Assets	46,647	63,581	77,119	83,388	90,893	99,074
Total Assets	1,048,239	1,298,682	1,522,091	1,777,513	1,947,975	2,132,802
Borrowings from FIs	119,038	228,745	211,599	335,513	365,709	398,623
Deposits	796,901	903,740	1,099,686	1,209,655	1,318,524	1,437,191
Other Liabilities	82,748	104,694	130,949	139,472	151,658	165,076
Total Liabilities	998,687	1,237,179	1,442,235	1,684,640	1,835,891	2,000,890
Equity	49,552	61,503	79,856	92,873	112,084	131,912
Total Liabilities & Equity	1,048,239	1,298,682	1,522,091	1,777,513	1,947,975	2,132,802

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%

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

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