

Habib Bank Limited

Result Review

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

Pakistan Research

HBL: 1QCY24 EPS clocked in at PKR 10.10, up 12% YoY; DPS PKR 4.00

- HBL announced its 1QCY24 financial result today wherein the bank reported a consolidated EPS of PKR 10.10, up 12% YoY. Along with the result, HBL announced an interim cash dividend of PKR 4.00/share.
- Net interest income (NII) for 1QCY24 increased by 8% YoY to PKR 60.5bn with interest expense (+49% YoY) outpacing interest income (+33% YoY) in 1Q.
- For 1QCY24, non-interest income increased by a considerable 135% YoY to PKR 20.2bn, mainly due to lower loss from the sale of securities. Moreover, fee and commission income increased by 27% YoY to PKR 11.9bn and FX income improved by 5.4x YoY to PKR 4.1bn.
- HBL booked a provisioning expense of PKR 3.6bn during 1QCY24 as a higher quantum of NPLs transitioned to the loss category versus 3.2bn SPLY.
- Operating expenses of the bank increased by 18% YoY to PKR 46.9bn due to higher IT expenses. However, cost-income ratio improved to 58.1% in 1QCY24 versus 61.6% SPLY.
- We note that HBL has reclassified the presentation of assets and liabilities in-line with IFRS-9, recording a deficit of PKR 15.8bn on net assets. The impact mainly stemmed from booking ECL of PKR 23.9bn and simultaneously recording a gain of PKR 10.3bn on unlisted securities. Instead of restating prior comparative figures, the cumulative transitional impact has been adjusted in equity as of Jan 01, 2024.
- Effective tax rate clocked in at 50% for 1QCY24 vs 38% in 1QCY23 due to higher super tax and lower benefit of deferred tax adjustment during the quarter.
- On capital adequacy, the bank reported a flattish CET1 (11.6%) and CAR (16.0%) vs. Dec-23.
- We have a 'BUY' rating on the scrip with Dec-24 PT of PKR 154/share, providing an upside of 33%, along with a dividend yield of 14%.

Key Data

PSX Ticker	HBL
Target Price (PKR)	154
Current Price (PKR)	116
Upside/(Downside) (%)	+ 33%
Dividend Yield (%)	14%
Total Return (%)	46%
12-month High (PKR)	133
12-month Low (PKR)	66
Outstanding Shares (mn)	1,467
Market Cap (PKR mn)	170,111
Year End	December

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	1QCY23	1QCY24	YoY
M/up Earned	148,551	198,314	33%
M/up Expense	92,708	137,777	49%
Net Interest Income	55,843	60,537	8%
Non-Interest Income	8,576	20,167	135%
Total Provisions	3,177	3,649	15%
Admin Expenses	39,740	46,942	18%
Profit Before Tax	21,502	30,113	40%
Taxation	8,245	15,070	83%
Profit After Tax	13,201	14,818	12%
EPS	9.00	10.10	12%
DPS	1.5	4.00	-

Source: Company Accounts, Akseer Research

Key Financial Ratios

	CY21A	CY22A	CY23A	CY24E	CY25F	CY26F
EPS	23.9	23.2	39.3	39.7	38.0	39.9
EPS Growth	13.4%	-2.7%	69.3%	1.0%	-4.3%	4.9%
DPS	7.5	6.8	9.8	15.8	15.3	19.8
BVPS	190.6	192.3	247.6	284.1	297.2	327.4
PER	4.9	5.0	2.9	2.9	3.0	2.9
Dividend Yield	6.5%	5.8%	8.4%	13.6%	13.1%	17.0%
P/B	0.6	0.6	0.5	0.4	0.4	0.4
ROE	13.0%	12.1%	17.9%	14.9%	13.1%	12.8%

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 14% to arrive at exit P/B, along with a risk-free rate of 15%, a beta of 1.0 and a market risk premium of 6% to arrive at a cost of equity of 21%.

Investment Thesis

We have a BUY recommendation on the stock based on our Dec-24 PT of 154/share. Our price target provides a capital upside of 33% along with a dividend yield of 14%. Our investment case on HBL is based on (1) NIMs expansion on the back of strong balance sheet growth (2) balance sheet ideally positioned to benefit from the monetary easing.

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 1,728 branches, including 408 Islamic banking branches, and 30 branches outside Pakistan. The Aga Khan Fund for Economic Development S.A. (AKFED) is the majority shareholder in the bank.

Financial Highlights - HBL

Income Statement (PKR mn)						
	CY21A	CY22A	CY23A	CY24E	CY25F	CY26F
Mark-up/interest earned	262,254	436,101	712,345	801,159	718,706	653,202
Mark-up/interest expensed	130,835	270,538	470,212	547,737	464,352	382,945
Net interest income	131,419	165,563	242,133	253,423	254,354	270,257
Non-interest income	36,311	46,732	57,451	77,461	86,312	90,459
Provision charged	8,087	8,482	13,266	15,490	16,786	14,259
Operating expenses	97,615	126,783	172,767	198,819	212,849	229,979
Profit/loss to shareholders	35,022	34,070	57,676	58,252	55,776	58,513

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY21A	CY22A	CY23A	CY24E	CY25F	CY26F
Cash & Treasury Balances	441,252	296,015	547,529	368,289	400,842	436,481
Investments	1,948,956	1,948,801	2,562,299	2,730,478	2,963,654	3,198,223
Advances	1,507,047	1,782,498	1,861,345	2,079,659	2,272,700	2,518,203
Operating Fixed Assets	111,307	132,294	164,615	144,516	147,137	149,759
Other Assets	308,906	479,198	398,561	369,078	387,833	418,366
Total Assets	4,317,468	4,638,806	5,534,348	5,692,019	6,172,166	6,721,030
Borrowings from FIs	436,258	583,771	665,043	692,985	754,239	821,297
Deposits	3,381,998	3,469,342	4,142,352	4,316,397	4,697,931	5,115,614
Other Liabilities	215,526	300,671	360,933	262,740	280,498	299,857
Total Liabilities	4,033,782	4,353,784	5,168,328	5,272,121	5,732,668	6,236,768
Equity	283,686	285,022	366,021	419,898	439,498	484,262
Total Liabilities & Equity	4,317,468	4,638,806	5,534,348	5,692,019	6,172,166	6,721,030

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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