

## Day Break

Tuesday, 11 April 2017

## COMPANY UPDATE

## BANK AL HABIB LIMITED

COMMERCIAL BANKS

<b>Recommendation</b>		<b>BUY</b>
Target Price		73.8
Last Closing	10-Apr-17	51.7
Upside		43.0

## Market Data

Bloomberg Tkr.		BAHL PA
Shares (mn)		1,111.4
Free Float Shares (mn)		722.4
Free Float Shares (%)		65.0%
Market Cap (PKRbn   USDmn)	57.4	547.5
Exchange		KSE 100

<b>Price Info.</b>	90D	180D	365D
Abs. Return	(12.0)	10.0	22.8
Lo	52.1	46.0	39.3
Hi	60.9	60.9	60.9

## Key Company Financials

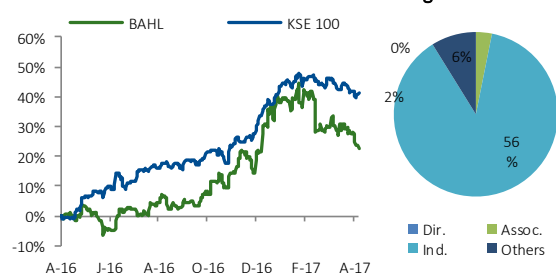
Period End: Dec

PKRbn	CY16A	CY17E	CY18F	CY19F
Total Revenue	29.7	30.5	34.5	38.0
Net Income	8.12	7.2	8.1	8.9
EPS (PKR)	7.3	6.5	7.3	8.0
DPS (PKR)	3.5	3.6	4.4	4.8
Total Assets	751.4	850.0	958.9	1,068.4
Total Equity	42.5	45.7	48.9	52.5

## Key Financial Ratios

ROE (%)	19.1	15.8	16.5	17.0
P/E (x)	7.1	8.0	7.1	6.4
P/B (x)	1.4	1.3	1.2	1.1
DY (%)	6.8	7.0	8.5	9.3

## Relative Price Performance &amp; Shareholding



## About the Company

The Bank was incorporated in Pakistan on October 15, 1991 as a public limited company. It is a scheduled bank principally engaged in the business of commercial banking with a network of 351 branches, 108 sub branches and 3 representative offices.

Source: Bloomberg, KSE 100 &amp; IGI Research

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## Bank Al Habib Limited

## On a strong footing

- Given adequate capital base (CY16 CAR of 14.2%), relentless focus on loan quality and limited exposure to troubled segments, we expect loan growth to stay upbeat registering ~12% over the next 3Yrs keeping loan infection ratio under ~3%.
- Changes in BAHL investment concentration was visible by 3QCY16 onwards, where the bank increased its concentration of low yielding treasury bills in response to maturing and absence of newer PIB issuance. With 2/3 of bank contractual maturities falling under 2yrs, pressure on investment yield cannot be ruled out.
- Management focus to keep the deposit mobilisation growth concentrated on current/saving deposit has led to improved deposit cost, which by CY16 reduced to 3.2% compared to 3.8% in CY15.
- In CY16, bank displayed impressive earning performance registering growth of 9.6%YoY highest amongst IGI coverage banking stock (ex-NBP). However, in CY17 we believe BAHL scrip performance may languish due to weaker earnings outlook. In CY17 we estimate bank's earnings to drop by 11%YoY to PKR 7.2bn (PKR 6.5/share) as against PKR 8.1bn (PKR 7.3/share) recorded in CY16. Despite weaker earnings outlook, that bank, the bank holds multiple of positives to generate organic growth in long-term, which would help the bank sustain ROE of ~17%.

Bank Al-Habib Limited (BAHL) is poised to benefit from increasing sector loan growth. Bank's strong capital base and low deposit cost, will allow the bank to generate stable NIMs, which should help the bank sustain ROE of ~17% over the next 3Yrs, justifying superior pricing multiples.

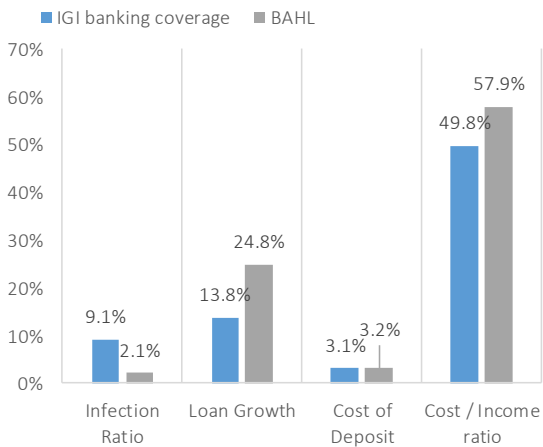
## Bank loan-strategy concentrated on low ticket quality corporate loans; adequate capital base to ensure ~12% 3Yr CAGR in advances

The bank ramp up its advances growth in CY16 by +25%YoY to PKR 269bn well ahead of industry advances growth of +11%. Share in industry advances has increased to 5.1% in CY16 from 4.2% two years back in CY14. Looking at bank's sector-wise breakup, concentration remains on increasing low-ticket quality corporate loans (food, commerce & trade and textile). As a result, this strategy has conferred to better asset quality, which kept bank's overall infection ratio just above ~2% compared to industry ~9% in CY16. However, this has also led to lower yield on performing advances. Nevertheless, given adequate capital base (CY16 CAR of 14.2%), relentless focus on loan quality and limited exposure to troubled segments, we expect loan growth to stay upbeat registering ~12% over the next 3Yrs keeping loan infection ratio under ~3%.

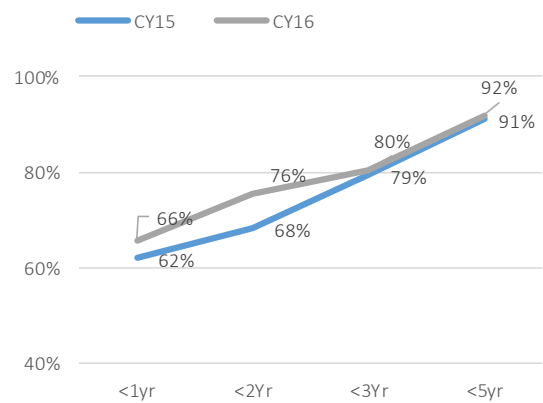
## With sizeable high yield investments maturing under 2Yrs, pressure on investment yields to drag earnings going forward

On investments side, bank's IDR during CY16 remained relatively unchanged at ~69%, having 98% of funds investment in government securities. Likewise banking sector, BAHL in CY15 and CY16 benefited heavily through investment in

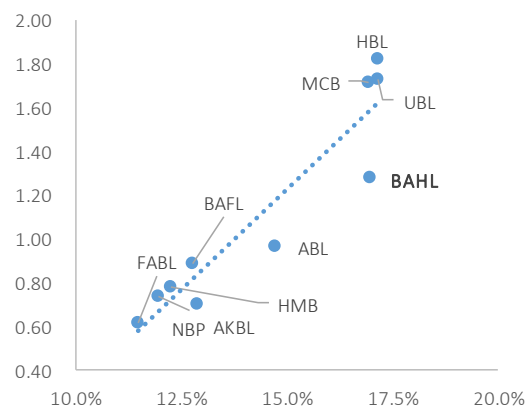
**BAHL compared to IGI Coverage banks (CY16)**



**BAHL, Investment Maturity Bucket**



**Banks P/B and RoE%**



Source: IGI Research

Pakistan Investment Bonds (PIB)s, uplifting effective investment yield to average 9% in CY16. Changes in BAHL investment concentration was visible by 3QCY16 onwards, where the bank increased its concentration of low yielding treasury bills in response to maturing and absence of newer PIB issuance (investment in T-bills as a %age of total investment stood at 59% compared to 40% in CY15). With 2/3 of bank contractual maturities falling under 2yrs, pressure on investment yield cannot be ruled out. On earning support, the bank holds unrealised gains of PKR 4.0bn as at CY16 on AFS, which if fully realised could add additional earning of PKR 2.0/share after tax, but would lower capital buffer for the bank.

**Strategic deposit mobilisation to keep NIMs compression relatively slow**

Bank's deposit growth of 13.2% in CY16 understated industry +~20% growth, but on a broader scale, BAHL deposit have registered ~15% growth in past 3Yrs over and above industry growth of ~14%. Management focus to keep the deposit mobilisation growth concentrated on current/saving deposit has led to improved deposit cost, which by CY16 reduced to 3.2% compared to 3.8% in CY15. Overall CASA deposits growth has been consistent at 15% in the past 3Yrs, one of the highest amongst large and medium size banks. More so, growth in current NR deposits registered a staggering +19% in past 3Yrs (+19.6% in CY16) well ahead of large banks growth of 15.5% (+14.2% in CY16). For BAHL, bank's focused deposit mobilisation, we suspect deposit cost will continue to trend lower going forward, aiding towards stabilising NIMs in the region of ~3.5% going forward from CY16 established ~4.0%.

**Looking at ~17% 3Yr forward ROE, current price multiples seems unjustified**

In CY16, bank displayed impressive earning performance registering growth of 9.6%YoY highest amongst IGI coverage banking stock (ex-NBP). As a result of the bank's superior earnings display, the stock rallied ~42% in CY16 relatively to market KSE 100 ~45%. However, in CY17 we believe BAHL scrip performance may languish due to weaker earnings outlook. In CY17 we estimate bank's earnings to drop by 11%YoY to PKR 7.2bn (PKR 6.5/share) as against PKR 8.1bn (PKR 7.3/share) recorded in CY16. Despite weaker earnings outlook, the bank holds multiple of positives to generate organic growth in long-term, which would help the bank sustain ROE of ~17% (ROA of ~1.0%) over the next 3Yrs, justifying close to 2.0x price to book multiple.

**Recommendation**

The bank is currently trading at CY17E P/B and P/E of 1.27x and 8.0x. With Dec-17, target price for BAHL at 74/share, the scrip offers 43% upside from its last closing. Hence we recommend a 'Buy' call on BAHL.

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