

Day Break

Tuesday, 29 August 2017

COMPANY UPDATE

HABIB BANK LIMITED

COMMERCIAL BANKS

Recommendation	UNDER REVIEW		
Target Price:	-		
Last Closing:	28-Aug-17	256.0	
Upside:	-		
Valuation Methodology:	-		

Time Horizon: -

Market Data

Bloomberg Tkr.	HBL PA		
Shares (mn)	1,466.9		
Free Float Shares (mn)	660.1		
Free Float Shares (%)	45.0%		
Market Cap (PKRbn USDmn)	375.5	3,564.0	
Exchange	KSE 100		
Price Info.	90D	180D	365D
Abs. Return	(27.2)	(24.1)	(5.8)
Lo	207.2	207.2	207.2
Hi	284.6	308.6	308.6

Key Company Financials

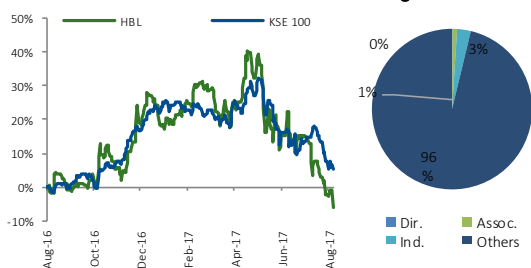
Period End: Dec

PKRbn	CY16A	CY17E	CY18F	CY19F
Total Revenue	113.0	UR	UR	UR
Net Income	34.21	UR	UR	UR
EPS (PKR)	23.3	UR	UR	UR
DPS (PKR)	14.0	UR	UR	UR
Total Assets	2,507.2	UR	UR	UR
Total Equity	196.3	UR	UR	UR

Key Financial Ratios

ROE (%)	17.4	UR	UR	UR
P/E (x)	11.0	UR	UR	UR
P/B (x)	1.9	UR	UR	UR
DY (%)	5.5	UR	UR	UR

Relative Price Performance & Shareholding



About the Company

The Bank is incorporated in Pakistan and is engaged in commercial banking and asset management services in Pakistan and overseas. The Bank operates 1596 branches domestically, 43 Islamic banking branches and 48 branches outside the Country.

Source: Bloomberg, PSX & IGI Research

Syed Daniyal Adil / Saad Khan

Research Analyst

daniyal.adil@igi.com.pk / Saad.khan@igi.com.pk

Tel: (+92-21) 111-234-234 Ext.: 973

Commercial Banks

HBL: Alleged over having weak anti-money laundering infrastructure; downgrading to a "Sell" call

- As per recent notice issued by HBL (Habib Bank Limited), the DFS (Department of Financial Services) New York has raised concern over HBL New York branch for having weak anti-money laundering (AML) infrastructure including US Bank Secrecy Act.
- NYDFS has identified the HBL New York Branch with 53 alleged violations dating back to 2007, amongst which Al-Rajhi Bank (a private Saudi Arabian Bank) accounted for nearly ~24% of the risky transactions.
- The management has not declined to allegations but has questioned the size of penalty imposed and said that the bank will be contesting the amount in the administrative court hearing scheduled on 27th of September, 2017.
- We note, the penalty will lead to lower book value and provision of the said penalty will certainly dent bank's profitability, hence we are downgrading our investment call on the bank.
- Based on our analysis we recommend a 'Sell' call on HBL while, Sep-17 hearing outcome will provide a guidance on bank's future outlook.

HBL alleged over having weak anti-money laundering infrastructure

As per recent notice issued by HBL (Habib Bank Limited), the DFS (Department of Financial Services) New York has raised concern over HBL New York branch for having weak anti-money laundering (AML) infrastructure including US Bank Secrecy Act. As a result, NYDFS seeks to impose civil monetary penalty of up to USD ~630mn on HBL. However, in a statement issued later, the management of HBL, has indicated to vigorously contest the penalised amount and further added that this will not have any material impact on HBL business outside of US.

Background

As per the news report ([link](#)), NYDFS has identified the HBL New York Branch with 53 alleged violations dating back to 2007, amongst which Al-Rajhi Bank (a private Saudi Arabian Bank) accounted for nearly ~24% of the risky transactions. In addition to Al-Rajhi Bank, alleged transactions with a cybercriminal wanted by Federal Bureau of Investigation and a Chinese weapons manufacturer that was subject to US sanctions were also in question.

Bank Response

In response to allegations and penalty imposed, the HBL management held an analyst briefing stating their position. The management has not declined to allegations but has questioned the size of penalty imposed and said that the bank will be contesting the amount in the administrative court hearing scheduled on 27th of September, 2017. In case of failure at this end the bank will resort to out-of-court settlement and hinted time frame of nearly one and half year for the whole process to rest.

Bottom-line

As mentioned the bank has questioned the amount of penalty and will contest it vigorously in administrative court hearing later in September this year. Either way, we think the penalty is for certain. Acceptance of AML allegations by the management will undoubtedly leave a dent on overall bank's reputation, we think.

The penal amount USD 630mn translates into a BV of PKR ~45/share. To recall, HBL 1HCY17 reported a consolidated book size of PKR 136/share and profitability of PKR 10.6/share. While it is difficult to assess the exact amount of penal amount and respective provisioning; we have to wait for outcomes after administrative court hearing later this Sep-17. To highlight, a few other global large banks have also been previously alleged of non-compliance of AML, where Deutsche Bank was recently penalized o similar amount over AML non-compliance.

HBL: Sensitivity analysis and broader outlook

Nevertheless, we have run a sensitivity of potential fine on HBL. We note, the penalty will lead to lower book value and provision of the said penalty will certainly dent bank's profitability, hence we are downgrading our investment call on the bank. On a broader scale, the said penalty would also restrict bank's dividend distribution (PKR 8.0/share announced in 1HCY17) and lower bank's regulatory capital with given expected asset growth momentum, we expect in full payment of penalty to leave CAR % of 11.3% versus estimated 16.3% in FY17. Lower CAR% will certainly question bank's future growth prospects.

Exhibit:

HBL Key Valuations outlook post imposition of penalty

	in USD	%age of Penalty imposed	in USDbn	in PKRbn	in PKR/share	BV	EPS	CAR%	P/B (x)	P/E (x)	Avg. ROE for next 5Yrs
Current						149.7	23.9	16.3%	1.4	8.7	16.9%
Case 1	629.6	100%	630	66.1	45.1	104.6	- 21.2	11.6%	2.0	n.m.	12.8%
Case 2	629.6	75%	472	49.6	33.8	115.9	- 9.9	12.8%	1.8	n.m.	13.8%
Case 3	629.6	50%	315	33.1	22.5	127.2	1.4	14.0%	1.6	152.2	14.8%
Case 4	629.6	25%	157	16.5	11.3	138.4	12.6	15.1%	1.5	16.4	15.9%

Source: IGI Research, Estimates for 2017

Recommendation

Based on our analysis we recommend a 'Sell' call on HBL while, Sep-17 hearing outcome will provide a guidance on bank's future outlook.

Important Disclaimer and Disclosures

Research Analyst(s) Certification: The Research Analyst(s) hereby certify that the views about the company/companies and the security/securities discussed in this report accurately reflect his or her or their personal views and that he/she has not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report. The analyst(s) is principally responsible for the preparation of this research report and that he/she or his/her close family/relative does not own 1% or more of a class of common equity securities of the following company/companies covered in this report.

Disclaimer: The information and opinions contained herein are prepared by IGI Finex Securities Limited and is for information purposes only. Whilst every effort has been made to ensure that all the information (including any recommendations or opinions expressed) contained in this document (the information) is not misleading or unreliable, IGI Finex Securities Limited makes no representation as to the accuracy or completeness of the information. Neither, IGI Finex Securities Limited nor any director, officer or employee of IGI Finex Securities Limited shall in any manner be liable or responsible for any loss that may be occasioned as consequence of a party relying on the information. This document takes no account of the investment objectives, financial situation and particular needs of investors, who shall seek further professional advice before making any investment decision. This document and the information may not be reproduced, distributed or published by any recipient for any purpose. This report is not directed or intended for distribution to, or use by any person or entity not a client of IGI Finex Securities Limited, else directed for distribution.

Rating system: IGI Finex Securities employs three tier ratings system, depending upon expected total return (return is defined as capital gain exclusive of tax) of the security in stated time period, as follows:

Recommendation	Rating System
Buy	If target price on aforementioned security(ies) is more than 10%, from its last closing price(s)
Hold	If target price on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
Sell	If target price on aforementioned security(ies) is less than -10%, from its last closing price(s)

Risk: Investment in securities are subject to economic risk, market risk, interest rate risks, currency risks, credit risks, political and geopolitical risks. The performance of company(ies) covered herein might unfavorably be affected by multiple factors including, business, economic, and political conditions. Hence, there is no assurance or guarantee that estimates, recommendation, opinion, etc. given about the security(ies)/company(ies) in the report will be achieved.

Basic Definitions and Terminologies used: **Target Price:** A price target is the projected price level of a financial security stated by an investment analyst or advisor. It represents a security's price that, if achieved, results in a trader recognizing the best possible outcome for his investment. **Market Cap.:** Market capitalization is calculated by multiplying a company's shares outstanding by current trading price. **ROE:** Return on equity is the amount of net income returned as a percentage of shareholders' equity. **P/E:** Price to Earnings ratio of a company's share price to its per-share earnings. **P/B:** Price to Book ratio used to compare a stock's market value to its book value. **DY:** The dividend yield is dividend per share, divided by the price per share.

IGI Finex Securities Limited

Research Analyst(s)

Research Identity Number: BRP009

© Copyright 2016 IGI Finex Securities Limited

Contact Details

Research Team

Saad Khan	Head of Research	Tel: (+92-21) 111-234-234 Ext: 810	saad.khan@igi.com.pk
Abdullah Farhan	Senior Analyst	Tel: (+92-21) 111-234-234 Ext: 912	abdullah.farhan@igi.com.pk
Syed Daniyal Adil	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 973	daniyal.adil@igi.com.pk
Suleman Ashraf	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 957	suleman.ashraf@igi.com.pk
Tanweer Kabbeer	Research/Fund Select	Tel: (+92-21) 111-234-234 Ext: 966	tanweer.kabbeer@igi.com.pk
Umesh Solanki	Database Manager	Tel: (+92-21) 111-234-234 Ext: 974	umesh.solanki@igi.com.pk

Equity Sales

Faisal Jawed Khan	Head of Equities	Tel: (+92-21) 35301779	faisal.jawed@igi.com.pk
Zaeem Haider Khan	Regional Head (North)	Tel: (+92-42) 35777863-70	zaeem.haider@igi.com.pk
Muhammad Naveed	Regional Manager (Islamabad & Upper North)	Tel: (+92-51) 2604861-62	muhammad.naveed@igi.com.pk
Ejaz Rana	Regional Manager (Faisalabad)	Tel: (+92-41) 2540843-45	ejaz.rana@igi.com.pk
Gul Hussain	Branch Manager (Faisalabad)	Tel: (+92-41) 2540843-45	gul.hussain@igi.com.pk
Asif Saleem	Branch Manager (RY Khan)	Tel: (+92-68) 5871652-56	asif.saleem@igi.com.pk
Mehtab Ali	Branch Manager (Multan)	Tel: (+92-61) 4512003	mehtab.ali@igi.com.pk
Zeeshan Kayani	Branch Manager (Abbottabad)	Tel: (+92-992) 408243-44	zeeshan.kayani@igi.com.pk
Ihsan Mohammad	Branch Manager (Peshawar)	Tel: (92-91) 5253035	ihsan.mohammad@igi.com.pk

IGI Finex Securities Limited

Trading Rights Entitlement Certificate (TREC) Holder of
Pakistan Stock Exchange Limited |
Corporate member of Pakistan Mercantile Exchange Limited

Head Office

Suite No 701-713, 7th Floor, The Forum, G-20,
Khayaban-e-Jami Block-09, Clifton, Karachi-75600
UAN: (+92-21) 111-444-001 | (+92-21) 111-234-234
Fax: (+92-21) 35309169, 35301780

Website: www.igisecurities.com.pk

Stock Exchange Office

Room # 719, 7th Floor, PSX Building, Stock Exchange Road, Karachi.
Tel: (+92-21) 32429613-4, 32462651-2, Fax: (+92-21) 32429607

Lahore Office

5-F.C.C. Ground Floor, Syed Maratib Ali Road,
Gulberg II, Lahore
Tel: (+92-42) 35777863-70, 35876075-76
Fax: (+92-42) 35763542

Faisalabad Office

Room #: 515-516, 5th Floor, State Life
Building, 2- Liaqat Road, Faisalabad
Tel: (+92-41) 2540843-45
Fax: (+92-41) 2540815

Multan Office

Mezzanine Floor, Abdali Tower,
Abdali Road, Multan
Phone: (92-992) 408243 - 44

Peshawar Office

2nd Floor, The Mall Tower,
35 The Mall Peshawar Cantt.
Phone: (92-91) 5253035, 5278448

Islamabad Office

Mezzanine Floor, Office 5, 6 & 7, Kashmir Plaza,
Block- B, Jinnah Avenue, Blue Area, Islamabad
Tel: (+92-51) 2604861-2, 2604864, 2273439
Fax: (+92-51) 2273861

Rahim Yar Khan Office

Plot # 12, Basement of Khalid Market,
Model Town, Town Hall Road, Rahim Yar Khan
Tel: (+92-68) 5871653-6, 5871652
Fax: (+92-68) 5871651

Abbottabad Office

Ground Floor, Al Fatah Shopping Center, Opp. Rad
Station, Mansehra Road, Abbottabad
Phone: (+92-99) 2408243 - 44