

Day Break

Friday, 08 September 2017

COMPANY UPDATE

HABIB BANK LIMITED

COMMERCIAL BANKS

Recommendation	BUY
Target Price:	219.0
Last Closing: 7-Sep-17	152.9
Upside:	43.2
Valuation Methodology:	Asset based Valuation / Dividend Discount Model (DDM)
Time Horizon:	Dec-17

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)	224.3 2,129.0
Exchange	KSE 100
Price Info.	90D 180D 365D
Abs. Return	(40.6) (46.8) (33.4)
Lo	152.9 152.9 152.9
Hi	269.1 308.6 308.6

Key Company Financials

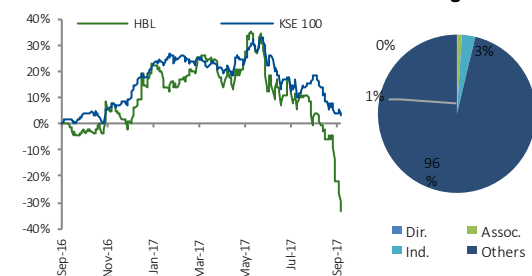
Period End: Dec

PKRbn	CY16A	CY17E	CY18F	CY19F
Total Revenue	113.0	111.7	118.1	132.5
Net Income	34.21	11.4	36.6	41.6
EPS (PKR)	23.3	7.8	24.9	28.4
DPS (PKR)	14.0	7.0	6.0	17.0
Total Assets	2,507.2	2,779.4	3,127.8	3,505.0
Total Equity	196.3	197.4	225.2	242.0

Key Financial Ratios

ROE (%)	17.4	5.8	16.2	17.2
P/E (x)	6.6	19.6	6.1	5.4
P/B (x)	1.1	1.1	1.0	0.9
DY (%)	9.2	4.6	3.9	11.1

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 1677 branches domestically, 45 Islamic banking branches and 54 branches outside the Country.

Source: Bloomberg, PSX & IGI Research

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Commercial Banks

HBL: "Accumulate" based on lower than expected penalty

- As per the latest notice issued by Habib Bank Limited (HBL), the company has agreed to pay a fine of USD 225mn on charges of weak anti-money laundering (AML) infrastructure and US Bank Secrecy Act.
- The bank will have to settle the amount due within 14 days of the execution of said order.
- The bank's request to shut down its NY operations has also been granted based on a set of conditions for orderly wind down of NY branch and the surrender of license.
- Given the amount agreed, we anticipate the BV of the bank to stand at PKR 134.6/share for CY17E. Similarly, we expect EPS to fall by 67% to PKR 7.8 from our initial CY17 expectation.
- CAR% is expected to decline to 14.7% due to which we expect no dividends in 2HCY17 and lower dividends in CY18F (PKR 6/share).
- Our revised target price for Dec-17 is PKR 219/share, offering a 43.2% upside from its last close. The scrip is currently trading at CY17E/CY18F forward P/B of 1.1x/1.0x and P/E of 19.6x/6.1x

Climax: HBL to pay USD 225mn for violation of US regulations

As per the latest notice issued by Habib Bank Limited (HBL), the company has agreed to pay a fine of USD 225mn on charges of weak anti-money laundering (AML) infrastructure and US Bank Secrecy Act. According to the notice, NYDFS has reduced the penalty amount from USD ~630mn to USD 225mn on account of out of court settlement as stated in the consent order. The bank will have to settle the amount due within 14 days of the execution of said order. The regulator also imposed a condition which stipulates that the bank cannot seek tax advantage within the US based on this transaction. Simultaneously, the bank's request to shut down its NY operations has also been granted based on a set of conditions for orderly wind down of NY branch and the surrender of license.

Background

To recall, the DFS (Department of Financial Services) New York had raised concern over HBL New York branch for not having adequate anti-money laundering (AML) infrastructure. Consequently, in a notice issued, the regulator sought to impose civil monetary penalty of up to USD ~630mn on HBL. However, at that time HBL management had decided to vigorously contest the penalty but ultimately agreed to an out of court settlement.

Final impact

The penal amount USD 225mn translates into a BV impact of PKR ~16/share. HBL reported a consolidated book size of PKR 136/share at June-17 and profitability of PKR 10.6/share for 1HCY17. We expect the bank to realize the full penal amount in 3QCY17. Given the amount agreed, we anticipate the BV of the bank to stand at PKR 134.6/share for CY17E. Similarly, we expect EPS to fall by 67% to PKR 7.8 from our initial CY17 expectation. We would also like to highlight that this amount is not

tax-deductible. At the same time, CAR% is expected to decline to 14.7% (against our previous estimate of 15.7% in CY17E) due to which we expect no dividends in 2HCY17 and lower dividends in CY18 (PKR 6/share). The lower CAR% is expected to dent the bank's asset growth momentum. However, it is noteworthy to mention that the bank is still sufficiently capitalized after the imposition of penalty, thus we foresee that there is less likelihood of raising further capital through right issue or TFC. With the expected decline in dividends, we expect the bank to regenerate sufficient capital buffer to continue its growth especially with the upcoming credit requirements in the economy due to CPEC related activity.

Exhibit:

HBL Imposition of USD 225mn Penalty Impact

PKRmn	Amount (USDmn)	Amount (PKRbn)	Impact (PKR/share)	EPS (revised)		BVPS (revised)		P/E		P/B		Revised TP	Recom.
				CY17E	CY18F	CY17E	CY18F	CY17E	CY18F	CY17E	CY18F		
HBL	225.0	23.6	16.1	7.8	24.9	134.6	153.5	19.6	6.1	1.1	1.0	219	BUY

Source: IGI Research

Recommendation

We upgrade our recommendation on HBL to **"BUY"** call based on lower than expected final penalty on the bank as well as recent correction in stock price in anticipation of higher penalty. Our revised target price for Dec-17 is PKR 219/share, offering a 43.2% upside from its last close. The scrip is currently trading at CY17E/CY18F forward P/B of 1.1x/1.0x and P/E of 19.6x/6.1x

News articles:

- New York Department of Financial Services**
Financial Services Superintendent Maria T. Vullo today announced that the Department of Financial Services (DFS) has fined Habib Bank and its New York branch \$225 million for failure to comply with New York laws and regulations designed to combat money laundering, terrorist financing, and other illicit financial transactions.
<http://www.dfs.ny.gov/about/ea/ea170907.pdf>

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