

Flash Note

Tuesday, 14 February 2017

Commercial Banks

HBL: Lower provisioning failed to lift bottom-line as revenue remained flat; CY16 earnings down 3% to PKR 23.3/share (down by ~14%QoQ to PKR 5.8/share)

- Habib Bank Limited (HBL) reported earnings decline of 3%YoY to PKR 34.2bn (EPS PKR 23.3) in CY16 compared to PKR 35.1bn (EPS PKR 23.9) last year.
- The company announced a cash dividend of PKR 3.5/share along with the result, taking full year payout to PKR 14.0/share.
- On a quarterly basis, earnings dropped by a massive 14% to PKR 8.5bn (EPS PKR 5.76/share), led by dismissal performance of interest income down by 5%QoQ. Bank reported provision reversals of PKR 0.4bn during 4QCY16, taking CY16 total provisioning charge to PKR 0.7bn. Reversals against non-performing loans (NPL) stood at PKR 396mn during the 4QCY16, compared to 9MCY16 provisioning charge of PKR 887mn.
- Bank's interest expense recorded a decline of 9%QoQ to PKR 14.0bn. Interest earned declined by 7%QoQ to PKR 33.7bn, owing to maturing government investment bonds and lower interest earned on performing advances.
- Non-interest income printed a +13%QoQ growth, led by robust fee income growth up by +16%QoQ along with dividend income of PKR 1.27bn (PKR 2.5bn in 9MCY16).
- Bank's operating expense showed +16%QoQ growth taking cost-to-income ratios to 56%. Possible reasons includes addition of new branches along with higher marketing and advertisement expense.

Exhibit:

HBL Result Highlights

PKRmn (Period end=Dec)	CY16	CY15	YoY	4QCY16	QoQ
Interest Earned	141,089	144,232	-2%	33,716	-7%
Interest Expensed	59,138	66,064	-10%	13,994	-9%
Interest Income	81,951	78,169	5%	19,722	-5%
Fee Income	18,653	17,089	9%	5,066	16%
Capital Gain & Div. Income	6,616	12,603	-48%	2,222	16%
Non-Interest Income	31,062	36,584	-15%	8,882	13%
Total Revenue	113,013	114,753	-2%	28,604	0%
Operating Expenses	55,771	49,959	12%	15,977	16%
Pre-Provisioning Profits	57,242	64,794	-12%	12,627	-15%
NPL (Rev.) / Prov.	718	4,508	n.m	(404)	21%
Pre-Tax Profits	56,525	60,286	-6%	13,031	-14%
Taxation	22,319	25,185	-11%	4,580	-15%
Profit After Tax	34,206	35,102	-3%	8,452	-14%

EPS (PKR)	23.32	23.93	5.76
DPS (PKR)	14.00	14.00	3.50
BVPS (PKR)	136.8	124.5	136.8

KEY RATIOS

Cost-To-Income Ratio	49%	44%	56%
Effective Tax Rate	39%	42%	35%
Nii / Total Income	27%	32%	31%

Source: IGI Research, Company Financials

No. of shares 1,466.9

Recommendation

With a forward P/B of 1.8x and decent dividend yield of 6%, we recommend a "BUY" call on HBL with our Dec-17 target price of PKR 298/share.

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