

Day Break

Friday, 11 August 2017

COMPANY UPDATE

HABIB BANK LIMITED

COMMERCIAL BANKS

Recommendation	BUY
Target Price:	304.7
Last Closing: 10-Aug-17	229.8
Upside:	32.6
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)	337.1 3,199.3
Exchange	KSE 100
Price Info.	90D 180D 365D
Abs. Return	(21.6) (11.2) 10.3
Lo	227.5 227.5 214.9
Hi	308.6 308.6 308.6

Key Company Financials

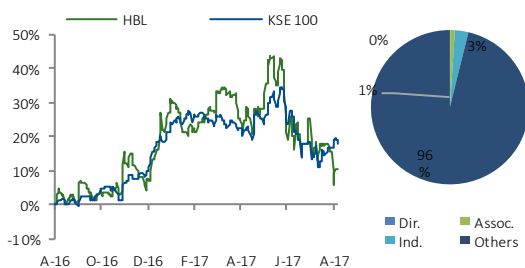
Period End: Dec

PKRbn	CY16A	CY17E	CY18F	CY19F
Total Revenue	113.0	111.7	118.1	132.5
Net Income	34.21	35.1	36.6	41.6
EPS (PKR)	23.3	23.9	24.9	28.4
DPS (PKR)	14.0	14.0	15.0	17.0
Total Assets	2,507.2	2,779.4	3,127.8	3,505.0
Total Equity	196.3	210.8	225.3	242.0

Key Financial Ratios

ROE (%)	17.4	16.6	16.2	17.2
P/E (x)	9.9	9.6	9.2	8.1
P/B (x)	1.7	1.6	1.5	1.4
DY (%)	6.1	6.1	6.5	7.4

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, KSE 100 & IGI Research

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Commercial Banks

HBL: Despite receding spreads, pretax profits to edge up by 1%QoQ

- On a consolidated basis, we expect bank to post earnings of PKR 7.0bn or (EPS: PKR 4.78) down by 22%QoQ.
- For HBL, we estimate interest income to rise by +4%QoQ to PKR 20.2bn, with annualized NIMs declining by ~4bps on quarterly basis.
- Despite an +8%QoQ growth in fee income and steady capital gains expected, we estimate non-interest income to show negligible growth.
- The major cut in profitability is expected to be a result of super-tax provision wherein, effective tax rate will be up to 51% as compared to 35% in 1QCY17 and profit after tax will fall by 22%QoQ as compared to pretax profit that is expected to rise by 1%QoQ.
- We recommend "BUY" call with our Dec-17 target price of PKR 305/share, offering +33% upside from its last closing.

HBL to post PKR 4.78/share with steady YoY performance

We preview Habib Bank Limited (HBL) financial result for 2QCY17, scheduled to be announced on 11th Aug-17. On a consolidated basis, we expect bank to post earnings of PKR 7.0bn or (EPS: PKR 4.78) down by 22%QoQ. However, despite lower earnings, we expect bank to maintain its payout of PKR 3.5/share cash dividend. This brings 1HCY17 cumulative earnings to PKR 16.0bn (PKR 10.94/share) depicting flattish growth of 1%YoY. For the quarter, decline in earnings is primarily attributed to the one-time provision of super-tax. Disregarding super-tax, bank's pre-tax income is estimated to show a meagre +1%QoQ growth to PKR 14.1bn, led by +3%QoQ growth in total revenue and negated by higher NPL provisioning expected during the quarter. Nevertheless, on a yearly basis bank's net income is estimated to increase by +1%YoY, driven by robust fee income growth and lower NPL provision charge.

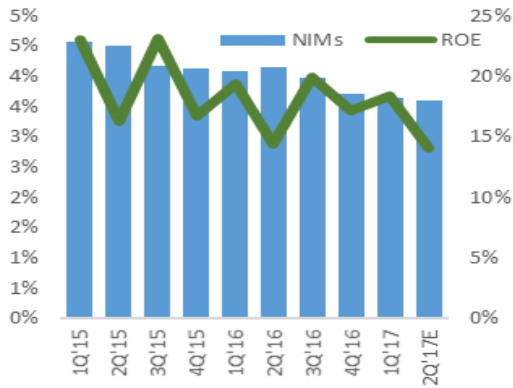
NIMs to remain under pressure due to falling banking spreads

For the quarter, despite fall in WALR (Average WALR: 7.42% in 2QCY17 compared to 7.49% in 1QCY17), higher growth witnessed in sector advances (up by +6.9%QoQ, HBL share in 1QCY17 13.4%) will help lift interest earning income assuming no major change in bank's investment profile. However, growth expected in interest earning assets will be achieved at the behest of robust deposit growth (Deposit growth of 6.8% in 2QCY17 compared to 4.4% in 1QCY17), with a slightly higher WADR witnessed during the quarter. Although higher WADR and lower WALR will suppress NIMs, yet, increasing quantum will lead to growth in net interest income overall. For HBL, we estimate interest income to rise by +4%QoQ to PKR 20.2bn, with annualized NIMs declining by ~4bps on quarterly basis.

Fee income growth to counteract fall in income from joint ventures

On non-interest income, we expect relatively flattish growth on quarterly basis since we anticipate slowdown in income from associated companies and FX. To

Exhibit: Receding NIMs (LHS) and ROE (RHS)

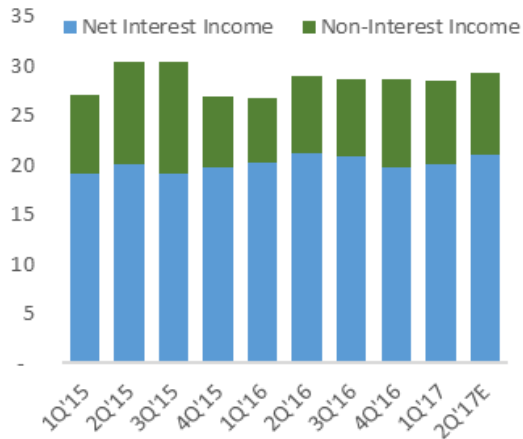


recall, bank income from associated companies increased substantially whereby bank registered average income of PKR ~1.2bn in the past 3 quarters. This was primarily led by robust performance from HBL AMC. Henceforth, despite an +8%QoQ growth in fee income and steady capital gains expected, we estimate non-interest income to show negligible growth.

Super –tax takes off major chunk from profitability

Major profitability drag during the quarter comes from higher operating expense, increase in provision charge and one-time provision of super-tax. We expect operating expenses to grow by 2%QoQ as expenses related to consolidation of First Microfinance bank tone down. We also foresee doubling of provisioning charge to dent total profitability. However, the major cut in profitability is expected to be a result of super-tax provision wherein, effective tax rate will be up to 51% (vs 52% in 2QCY16) as compared to 35% in 1QCY17 and profit after tax will fall by 22%QoQ as compared to pretax profit that is expected to rise by 1%QoQ.

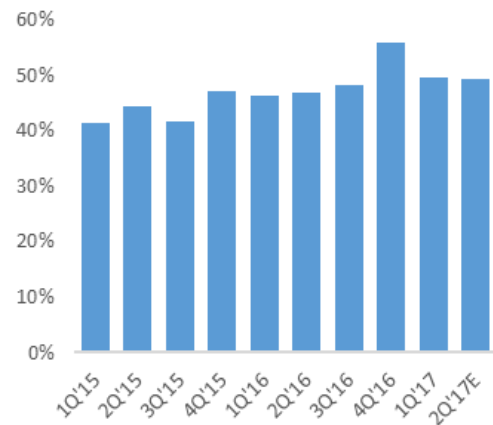
Exhibit: Non-Interest Income and Interest Income (PKR bn)



Recommendation

HBL showed growth in yearly profitability despite the competitive environment in the banking space. Thus, based on sound fundamentals and attractive valuation, with a forward CY17/CY18 P/B of 1.7x/1.6x and dividend yield of 5.7%/6.1%, we recommend **“BUY”** call with our Dec-17 target price of PKR 305/share, offering +33% upside from its last closing.

Exhibit: Cost to Income ratio (%)



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