

Day Break

Tuesday, 15 October 2019

COMPANY UPDATE

Habib Bank Limited

Commercial Banks

Recommendation		BUY
Target Price:	Dec/20	156.6
Last Closing:	11-Oct-19	134.5
Upside:		16.5
Valuation Methodology:	Residual Income / Asset based Valuation / Dividend	
Time Horizon:		15M

Market Data

Bloomberg Tkr.	HBL PA			
Shares (mn)	1,466.9			
Free Float Shares (mn)	733.4			
Free Float Shares (%)	50.0%			
Market Cap (PKRbn USDmn)	197.3	1,263.3		
Exchange	KSE 100			
Price Info.		90D	06M	12M
Abs. Return	13.7	8.8	0.5	
Lo	106.2	106.2	106.2	
Hi	134.5	134.5	151.4	

Key Company Financials

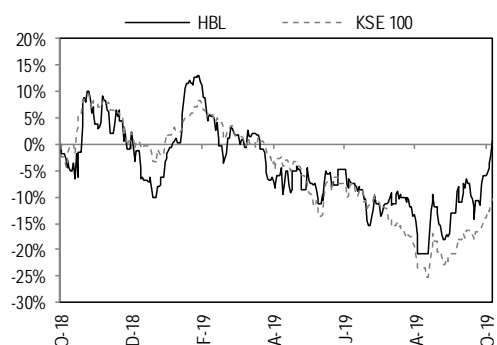
Period End: Dec

PKRbn	CY18A	CY19A	CY20F	CY21F
Total Revenue	101.6	112.9	148.9	164.0
Net Income	12.4	14.1	32.4	36.8
EPS (PKR)	8.5	9.6	22.1	25.1
DPS (PKR)	4.00	5.75	12.50	14.25
Total Assets	3,025.9	2,763.5	3,318.8	3,844.7
Total Equity	199.3	212.9	227.7	244.3

Key Financial Ratios

ROE (%)	6.4	6.8	14.7	15.6
P/E (x)	15.9	14.0	6.1	5.4
P/B (x)	1.0	0.9	0.9	0.8
DY (%)	3.0	4.3	9.3	10.6

Relative Price Performance



Source: Bloomberg, PSX & IGI Research

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Commercial Banks

HBL: Supported by NFI, 3q 2019 profitability to show a significant rise over 2q

- We preview 3q 2019 EPS for HBL at PKR 5.1bn or EPS: PKR 3.4 for the 3q up by +1.8x y/y and +6.8x q/q.
- In addition, we expect the bank to announce cash dividend of PKR 1.25 per share, taking 9m 2019 cumulative cash payout to PKR 3.75 per share.
- We maintain a 'buy' call on HBL. Our rolled over target price for Dec-20 now comes at PKR 157/share offering a decent +16.5% upside from its closing. Moreover, the stock offers a forward dividend yield of 9.3% and trades below 1.0x P/B in 2020 and sustainable tier 1 ROE of ~18%.

3q 2019, profitability expected to show a significant rise over 2q; EPS PKR 3.4, up by +6.8x q/q; supported by Non-interest income

Habib Bank Limited (HBL) board meeting will be held on 15th Oct-19 to announce its 3q 2019 result wherein we expect the bank to post earnings of PKR 5.1bn or EPS: PKR 3.4 for the 3q up by +1.8x y/y and +6.8x q/q. In addition, we expect the bank to announce cash dividend of PKR 1.25 per share, taking 9m 2019 cumulative cash payout to PKR 3.75 per share.

Key highlights

- Keeping up with the 1h trend, HBL's NIMs are expected to rise by +~20bps in 3q (+40 and 10bps in 1 and 2q) to +4.14% following better asset yields and sustained CoF; lower repo borrowing and declining high cost deposits.
- On NFI, recall HBL posted a decline of 77% y/y to PKR 1.3bn in 2q on account of market-related losses on FX income and open FX position; whereby the bank booked a loss of PKR 3.6bn. On positive side, bank's fee income continues to climb, reaching PKR 10.7bn in 1h 2019 compared to PKR 9.2bn in 1h 2018 (+16% y/y). We expect similar momentum to continue in 3q where we see fee income to reach PKR 5.5bn / qtr, taking cumulative growth in 9m 2019 to +27% y/y (+3% q/q). Nevertheless, in 3q overall NFI in the absence of further market-related activity losses on FX and equity market and supported by a decent fee income, is estimated to post a +44% q/q gr.
- On balance sheet, net loans growth showed a gradual increase in 1h 2019; rising by +5% with growth mainly concentrated on international advances (up by +~13% in 1h 2019). Despite a healthy coverage ratio above ~90%, overall provisioning charge has been restricted and NPL ratio has reduced to 6.9%. In 3q 2019 we do not expect much change, however we may see rising NPL ratio and thus can expect higher provisioning charge.

Recommendation

We maintain a 'buy' call on HBL. Our rolled over target price for Dec-20 now comes at PKR 157/share offering a decent +16.5% upside from its closing. Moreover, the stock offers a forward dividend yield of 9.3% and trades below 1.0x P/B in 2020 and sustainable tier 1 ROE of ~18%.

Exhibit: Habib Bank Limited (HBL) Financial highlights

Period end (Dec) - PKRbn	3Q'19	2Q'19	1Q'19	9m' 19	9m' 18	2018	4Q'18	3Q'18	2Q'18	1Q'18	2017	4Q'17	3Q'17	2Q'17	1Q'17	2016
Interest Income	27.3	24.3	23.4	75.0	60.7	81.7	20.6	20.8	20.2	19.7	81.8	19.9	20.6	21.3	20.1	82.0
NII Growth YoY	31%	20%	19%	23%	-2%	0%	4%	1%	-5%	-2%	0%	1%	-1%	0%	0%	9%
Fee Income	5.5	5.4	5.3	16.2	12.7	18.0	5.3	3.5	4.7	4.5	19.5	4.0	5.3	5.4	4.8	18.7
Non-Interest Income	6.9	1.3	6.6	14.8	15.9	19.9	4.4	4.7	5.7	5.4	34.1	7.8	9.9	8.1	8.3	31.1
NFI Growth YoY	44%	-77%	22%	-7%	-40%	-42%	-44%	-52%	-30%	-35%	10%	-12%	26%	4%	27%	-15%
Total Revenue	34.1	25.7	30.0	89.8	76.6	101.6	25.0	25.6	25.9	25.1	115.9	27.7	30.4	29.4	28.4	113.0
Non-II / Total Revenue	20%	5%	22%	16%	21%	20%	18%	19%	22%	22%	29%	28%	32%	28%	29%	27%
Total Revenue Growth YoY	33%	-1%	19%	17%	-13%	-12%	-10%	-16%	-12%	-12%	3%	-3%	6%	1%	6%	1%
Admin	25.1	23.5	21.4	70.1	56.3	77.4	21.1	20.1	18.5	17.7	61.3	17.8	15.1	14.6	13.8	54.4
Operating Expenses	25.1	23.6	21.7	70.3	57.1	75.0	17.8	20.3	18.9	17.9	62.4	17.7	15.8	14.9	14.1	55.8
OPEX Growth YoY	23%	25%	21%	23%	28%	20%	1%	29%	27%	27%	12%	10%	14%	9%	13%	12%
Cost-To-Income Ratio	74%	92%	72%	78%	75%	74%	71%	79%	73%	71%	54%	64%	52%	51%	49%	49%
PPOP	9.0	2.1	8.4	19.4	19.5	26.6	7.2	5.2	7.0	7.3	53.6	10.0	14.7	14.5	14.4	57.2
PPOP Growth YoY	72%	-71%	15%	0%	-55%	-50%	-28%	-64%	-52%	-50%	-6%	-21%	-1%	-6%	0%	-7%
Provisioning Charge	0.8	0.6	(0.1)	1.3	1.8	5.0	3.3	1.7	0.2	(0.1)	0.4	(0.7)	(0.1)	0.8	0.3	0.7
EO/one-offs	-	-	-	-	-	-	-	-	-	-	23.7	23.7	-	-	-	-
Pre-Tax Profits	8.3	1.5	8.4	18.2	17.7	21.6	3.9	3.6	6.8	7.4	29.5	10.7	14.8	13.7	14.1	56.5
Taxation	3.2	0.7	5.3	9.2	7.8	9.1	1.4	1.8	3.3	2.7	20.6	3.4	5.2	7.1	5.0	22.3
Effective Tax Rate	39%	49%	62%	51%	44%	42%	35%	50%	49%	36%	70%	32%	35%	52%	35%	39%
Profit After Tax	5.1	0.7	3.1	8.8	9.7	12.4	2.5	1.8	3.4	4.6	8.5	(16.8)	9.6	6.6	9.1	34.2
PAT Growth YoY	183%	-81%	-33%	-10%	-62%	46%	-115%	-81%	-49%	-50%	-75%	-299%	-2%	-5%	1%	7%
EPS	3.44	0.44	2.08	5.97	6.63	8.48	1.73	1.21	2.29	3.13	5.79	(11.44)	6.54	4.50	6.19	23.32
DPS	1.25	1.25	1.25	3.75	3.00	4.00	1.00	1.00	1.00	1.00	8.00	1.00	-	3.50	3.50	14.00
BVPS	145.2	143.0	139.2	145.2	133.7	135.8	135.8	133.1	133.7	133.7	128.7	128.7	119.2	136.1	135.4	133.8

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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)
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Time Horizon: Dec – 2019

Valuation Methodology: The analyst(s) has used following valuation methodology to arrive at the target price of the said security (ies):
(Discounted Cash Flow)

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