

# Flash Note

Friday, 18 August 2017



Securities

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## Commercial Banks

### HMB: 3x higher capital gains counteract rising operating expenses to lift up quarterly pre-tax profits

- Habib Metropolitan Bank Limited (HMB) reported unconsolidated earnings for 2QCY17 of PKR 0.95bn (or PKR 0.91/share), down by 26%QoQ (or up by +32%YoY) bringing 1HCY17 total unconsolidated earnings to PKR 2.2bn (or PKR 2.14/share), down by 6%YoY.
- The bank announced no cash dividend for 2QCY17.
- During the quarter, higher capital gains realized (PKR 0.5bn vs PKR 0.2bn in 1QCY17) counteracted +16%QoQ rise in operating expenses to raise pre-tax profits by +5%QoQ.
- However, one-time provision of super-tax dented profitability, wherein, tax dragged down profit after-tax by 26%QoQ.

Exhibit:

### HMB Result Highlights

PKRmn (Period end=Dec)	2QCY17	2QCY16	YoY	1QCY17	QoQ	1HFY17	YoY
Interest Earned	8,079	8,619	-6%	7,893	2%	15,971	-6%
Interest Expensed	4,581	5,596	-18%	4,496	2%	9,077	-18%
<b>Net Interest Income</b>	<b>3,498</b>	<b>3,023</b>	<b>16%</b>	<b>3,397</b>	<b>3%</b>	<b>6,895</b>	<b>17%</b>
Fee Income	832	798	4%	844	-1%	1,676	10%
Capital Gain & Div. Income	856	852	1%	204	3.19x	1,060	-46%
<b>Non-Interest Income</b>	<b>1,941</b>	<b>2,015</b>	<b>-4%</b>	<b>1,304</b>	<b>49%</b>	<b>3,245</b>	<b>-23%</b>
Total Revenue	5,439	5,038	8%	4,701	16%	10,140	0%
Operating Expenses	2,862	2,437	17%	2,460	16%	5,322	17%
Pre-Provisioning Profits	2,577	2,601	-1%	2,241	15%	4,818	-14%
NPL (Rev.) / Prov.	479	585	-18%	248	93%	727	-28%
Pre-Tax Profits	2,098	2,017	4%	1,993	5%	4,091	-10%
Taxation	1,145	1,294	-11%	704	63%	1,850	-15%
<b>Profit After Tax</b>	<b>953</b>	<b>722</b>	<b>32%</b>	<b>1,288</b>	<b>-26%</b>	<b>2,241</b>	<b>-6%</b>
EPS (PKR)	0.91	0.69		1.23		2.14	
DPS (PKR)	-	-		-		-	
BVPS (PKR)	37.01	36.29		36.10		37.01	

#### KEY RATIOS

Cost-To-Income Ratio	53%	48%		52%		52%	
Effective Tax Rate	55%	64%		35%		45%	
Non-Il / Total Income	36%	40%		28%		32%	

SOURCE: IGI Research, Company accounts, PSX notifications

#### Recommendation

With a forward CY17/CY18 P/B of 0.8x/0.8x and dividend yield of 7.4%/8.9%, we recommend "BUY" call with our Dec-17 target price of PKR 40/share, offering +22% upside from its last closing.

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