

# BMA Flashnote

## HBL: 2QCY20 Result Review

Friday, July 24, 2020

### HBL performance

	3M	6M	12M
Absolute %	9%	-34%	-7%
Relative to KSE %	-5%	-22%	-23%

Source: BMA Research

Bloomberg	HBL.PA
Reuters	HBL.KA
MCAP (USD mn)	970
12M ADT (USD mn)	1.1
Shares Outstanding (mn)	1,467

Source: BMA Research

- Habib Bank Limited (HBL) stunned investors with significantly better results as compared to street expectations today. The bank reported an EPS of PKR 7.53 for 2QCY20 (up ~17x/2.7x YoY/QoQ) and remained much better than our expectation of PKR 4.83 for the quarter. Cumulative EPS in 1HCY20 now stands at PKR 10.23 which translates into an increase of 4x YoY.
- Multiple factors helped the bank post big earnings jump during the quarter which are summarized as follows:
  - ✓ Net Interest Income (NII) of the bank posted significant improvement due to steep reduction in MDR following 625bps cut in policy rate and lagged re-pricing of assets. Overall NII remained approx. 2% better than our expectations.
  - ✓ Fee income outperformed our expectations by a large margin as against our expectations of PKR 2,626 Mn, actual fee income clocked-in at PKR 4,169 Mn. This indicates that COVID-19 failed to dent the bank's income generation, especially branch banking fees sub-component, which accounts for approx. 24% of overall fee income.
  - ✓ FX income improved considerably possibly due to in-check PKR depreciation (implying lower losses on bank's USD loan) and volatility in PKR/USD pair.
  - ✓ A gain of PKR 4,427 Mn booked on securities held. To recall, HBL's balance sheet showed a revaluation surplus of PKR 15,444 Mn on its Available-for-Sale (AFS) portfolio. Large surplus possibly enabled the bank to realize gains during the quarter to boost its bottom-line.
  - ✓ Reduction of 6.4%/14.1% YoY/QoQ in bank's Operating Expenses to PKR 22,033 Mn also helped improve profitability. The expenses are down by ~PKR 3.6 Bn on a sequential basis and confirm management's opinion of continued reduction in US branch related expenses.
- The bank's provisioning expenses showed considerable increase during the quarter and remained higher than our estimates, clocking-in at PKR 4,843 Mn. This dented bottom-line during the quarter.
- Further details from the management on factors discussed above are awaited. Overall, start of improvement in operating expenses of the bank was one of the key highlights of today's result announcement.
- We reiterate our **BUY** on HBL with Dec'20 TP of PKR 140. Our TP translates into a potential upside of 26% from yesterday's closing.

HBL: Consolidated (PKR Mn)	Jun'20	% YoY	May'20	% QoQ	1HCY20	% YoY
Net interest income	35,062	44%	28,013	25%	63,075	32%
Non-interest income	10,866	732%	5,778	88%	16,644	109%
Fee income	4,169	-22%	4,731	-12%	8,900	-17%
Profit from associates	972	122%	255	281%	1,227	-8%
FX income	451	-122%	(1,194)	-138%	(742)	-55%
Income / (loss) from derivatives	539	-145%	(280)	-292%	258	-125%
Gain / (loss) on securities	4,427	-356%	2,280	94%	6,707	-417%
Operating expenses	22,033	-6%	25,639	-14%	47,672	0%
Provisions & write offs - net	4,843	715%	625	674%	5,468	0%
Profit before taxation	18,697	1181%	7,133	162%	25,829	161%
Profit after taxation (equity holders)	11,047	1595%	4,096	170%	15,143	309%
<b>EPS</b>	<b>7.53</b>	<b>44%</b>	<b>2.79</b>		<b>10.32</b>	
<b>DPS</b>	<b>-</b>		<b>1.25</b>		<b>1.25</b>	

Source: PSX Notices, BMA Research

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Buy	>20% expected total return
Hold	10%-20% expected total return
Underperform	<10% expected total return

\*Total stock return = capital gain + dividend yield

### Old rating system

Overweight	Total stock return > expected market return + 2%
Marketweight	Expected market return $\pm$ 2%
Underweight	Total stock return < expected market return - 2%

## Valuation Methodology

To arrive at our period end target prices, BMA Capital uses different valuation methodologies including

- Discounted cash flow (DCF, DDM)
- Relative Valuation (P/E, P/B, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)