PAKISTAN INVESTMENT RESEARCH

Flashnote

HABIB BANK LIMITED

3QCY21: Conference Call Takeaways

Monday, October 18, 2021

Habib Bank Limited (HBL) held its conference call today to discuss 3QCY21 financial results and future roadmap. To recap, HBL reported earnings of PKR 9.0Bn (EPS: PKR6.2), ↓11/5% YoY/QoQ respectively. On a sequential basis, despite flattish NII and the absence of capital gains, strong non-core income particularly fee income alongside well anchored admin expenses limited the overall decline in profitability. Along with the result, the bank announced an interim dividend of PKR 1.75/sh (9MCY21 payout: PKR 5.3/sh). Key highlights of the call are discussed below:

- NII declined by 1.7% on a YoY basis in 9MCY21 primarily on the back of NIMs attrition due to interest rate cuts last year. However, margin compression estimated at PKR 18.5Bn was largely offset by balance sheet expansion of over PKR 400Bn. As for 3Q, NII settled at PKR 32.3Bn (↓9.6/0.3% YoY/QoQ). Resultantly, NIMs shrank to 4.5% in 3Q (↓150/30bps YoY/QoQ) owing to hefty maturity of high yielding PIBs in the past quarter. The management expects NIMs to have bottomed out and recover following interest rate reversals.
- Non-funded income improved by ~7% YoY in 9MCY21 despite the absence of hefty capital gains booked in the SPLY (PKR 1.6Bn vs. PKR 7.4Bn in 9MCY20). The primary trigger behind the enhanced performance was fee income which shot up by 34% YoY backed by stellar contributions from card related fee, consumer finance and trade income. Forex income of PKR 2.9Bn in 9MCY21 against a loss of PKR 333Mn in the SPLY also supported profitability.
- Following the closure of NY branch last year, admin expenses have remained well-contained and declined by 0.6% YoY in 9MCY21. Resultantly, cost to income ratio shrank to 57.7% from 60.9% in the SPLY. Going forward, the management wishes to bring this number below 50% but acknowledges the fact that it would take at least 2 years to achieve the said target.
- Though declining by 35.5% YoY, provisioning charges remained at higher levels having clocked-in at PKR 5.5Bn in 9MCY21. The management has booked PKR 5.8bn against its advances book with major contribution coming from HASCOL that has now been fully provided for. Going forward with a coverage of 100%, the management remains confident on asset quality and has hence reversed PKR 1.7Bn worth of general provisions booked last year.
- Actively seeking to enhance their Islamic network, the management iterated that 280 branches would be fully Islamic by year end through a combination of conventional branch conversion and new additions. The target set for CY22 is 300.
- The management expects a broad-based 15-20% loan book expansion in the coming year while deposits are expected to grow in line with M2 (12-15%). In terms of interest rate outlook, the bank expects a 50bps hike by the end of the year while by the end of CY22, policy rate is expected to be 9.0-9.5%.
- The management highlighted that in order to facilitate a healthier pay-out, the bank would want to create a 200bps buffer over the minimum Tier-1 requirement. In terms of IFRS-9 adoption, the management forecasts a 50bps contraction in capital ratios while there is minimal impact of TSA implementation.

HBL vs. KSE-100 Index

%	3M	6M	12M
Absolute	-5	4	-9
Relative to KSE	1	6	-20

Source: PSX, BMA Research

Abdul Rehman Siddiqui
Senior Research Analyst
Tel: 111-262-111 ext. 2006
E-mail: abdul.rehman@bmacapital.com

BMA Capital Management Ltd.

Disclaimer

This research report is for information purposes only and does not constitute nor is it intended as an offer or solicitation for the purchase or sale of securities or other financial instruments. Neither the information contained in this research report nor any future information made available with the subject matter contained herein will form the basis of any contract. Information and opinions contained herein have been compiled or arrived at by BMA Capital Management Limited from publicly available information and sources that BMA Capital Management Limited believed to be reliable. Whilst every care has been taken in preparing this research report, no research analyst, director, officer, employee, agent or adviser of any member of BMA Capital Management Limited gives or makes any representation, warranty or undertaking, whether express or implied, and accepts no responsibility or liability as to the reliability, accuracy or completeness of the information set out in this research report. Any responsibility or liability for any information contained herein is expressly disclaimed. All information contained herein is subject to change at any time without notice. No member of BMA Capital Management Limited has an obligation to update, modify or amend this research report or to otherwise notify a reader thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate, or if research on the subject company is withdrawn. Furthermore, past performance is not indicative of future results.

The investments and strategies discussed herein may not be suitable for all investors or any particular class of investor. Investors should make their own investment decisions using their own independent advisors as they believe necessary and based upon their specific financial situations and investment objectives when investing. Investors should consult their independent advisors if they have any doubts as to the applicability to their business or investment objectives of the information and the strategies discussed herein. This research report is being furnished to certain persons as permitted by applicable law, and accordingly may not be reproduced or circulated to any other person without the prior written consent of a member of BMA Capital Management Limited. This research report may not be relied upon by any retail customers or person to whom this research report may not be provided by law. Unauthorized use or disclosure of this research report is strictly prohibited. Members of BMA Capital Management and/or their respective principals, directors, officers and employees may own, have positions or effect transactions in the securities or financial instruments referred herein or in the investments of any issuers discussed herein, may engage in securities transactions in a manner inconsistent with the research contained in this research report and with respect to securities or financial instruments covered by this research report, may sell to or buy from customers on a principal basis and may serve or act as director, placement agent, advisor or lender, or make a market in, or may have been a manager or a co-manager of the most recent public offering in respect of any investments or issuers of such securities or financial instruments referenced in this research report or may perform any other investment banking or other services for, or solicit investment banking or other business from any company mentioned in this research report. Investing in Pakistan involves a high degree of risk and many persons, physical and legal, may be restricted from dealing in the securities market of Pakistan. Investors should perform their own due diligence before investing. No part of the compensation of the authors of this research report was, is or will be directly or indirectly related to the specific recommendations or views contained in the research report. By accepting this research report, you agree to be bound by the foregoing limitations.

BMA Capital Management Limited and / or any of its affiliates, which operate outside Pakistan, do and seek to do business with the company(s) covered in this research document. Investors should consider this research report as only a single factor in making their investment decision. BMA Research Policy prohibits research personnel from disclosing a recommendation, investment rating, or investment thesis for review by an issuer/company prior to the publication of a research report containing such rating, recommendation or investment thesis.

Stock Rating

Investors should carefully read the definitions of all rating used within every research reports. In addition, research reports carry an analyst's independent view and investors should ensure careful reading of the entire research reports and not infer its contents from the rating ascribed by the analyst. Ratings should not be used or relied upon as investment advice. An investor's decision to buy, hold or sell a stock should depend on said individual's circumstances and other considerations. BMA Capital Limited uses a three tier rating system: i) Buy, ii) Neutral and iii) Underperform (new rating system effective Jan 1'18) with our rating being based on total stock returns versus BMA's index target return for the year. A table presenting BMA's rating definitions is given below:

Buy	>15% expected total return
Hold	10%-15% expected total return
Underperform	<10% expected total return
*Total stock return = capital gain + dividend yield	

Old rating system

Overweight	Total sector return > expected market return
Marketweight	Expected market return
Underweight	Total stock return < expected market return

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.)