

Foundation Alert

Earnings review: HBL 2QCY21 EPS clocked in at Rs6.35

Event

- Habib Bank Limited (HBL PA) announced its 2QCY21 result with consolidated earnings of Rs6.35/sh (down/up by 16/12% YoY/QoQ). The result is accompanied with a cash dividend of Rs1.75/sh.
- The result is better than our estimates where deviation emanated from higher than estimated capital gains and lower operating expense for the quarter.

Impact

- The bank posted a PAT of Rs9.5bn in 2QCY21 (down/up by 16/12% YoY/QoQ). On QoQ basis, increase in profitability is primarily contributed by higher gain on securities and lower operating expense. However, on YoY basis, decline in profitability was merely a reflection of high base effect due to better NII and hefty capital gains recorded in the same quarter last year.
- During 2QCY21, interest income/expense remained flattish over QoQ and declined by 10/12% YoY. This has translated into flattish NII for the quarter clocking in at Rs32.4bn. On the other hand, NII recorded a substantial decline (\downarrow 8%, YoY) on YoY basis as a result of sharp reduction in interest rates.
- Non-markup income for 2QCY21 decreased/increased by 15/6% on YoY/QoQ. Recovery in non-markup income on QoQ basis was driven by capital gain on securities which clocked in at Rs1.7bn compared to a loss of Rs206mn in the previous quarter. Whereas YoY improvement in fee income (\uparrow 41% YoY) and foreign exchange income (\uparrow 26% YoY) was overwhelmed by the drop in capital gains (\downarrow 62% YoY). Furthermore, profit from associates registered a steep recovery of 3.8x QoQ but remained flattish over YoY.
- Operating expense continued its improvement as it clocked in at Rs23.0bn (up/down 4% over YoY/QoQ). Tamed operating expenses and uptick in total income has translated into cost/income of 55% (up/down 7/4pts YoY/QoQ).
- The bank reported a provisioning expense of Rs1.8bn against an expense of Rs1.9bn in the previous quarter.

Outlook

- Going forward, we expect NII to recover due to recovery in banking spreads. However, likely increase in policy rate in CY21 may exert some pressure until full asset re-pricing takes place. Whereas, recovery in economic activity and the delay in implementation of IFRS9 may keep the provisioning expense on the lower side. To highlight, the bank has booked a cumulative provisioning expense of Rs13.5bn in past four quarters.
- We have an 'Outperform' rating on the stock with the Jun-22 TP of Rs174/sh. The bank is currently trading at an attractive forward P/B of 0.7x.

Analyst

Syed Masroor Hussain Zaidi
+92 21 3561 2290-94

masroor@fs.com.pk
Ext: 313

Fig 01: HBL 2QCY21 earnings preview

Income Statement	2QCY21	1QCY21	QoQ	YoY	1HCY21	1HCY20	YoY
Interest Earned	63,401	63,463	0%	-10%	126,864	143,132	-11%
Interest Expensed	31,006	30,994	0%	-12%	62,000	80,056	-23%
Net Interest Income (NII)	32,394	32,469	0%	-8%	64,864	63,075	3%
Fee Income	5,873	5,904	-1%	41%	11,777	8,900	32%
Dividend Income	226	118	92%	92%	343	197	74%
Foreign Exchange Income	568	896	-37%	26%	1,464	(742)	-297%
Gain on Securities	1,688	(206)	na	-62%	1,482	6,707	-78%
Other Income	56	1,251	-96%	-92%	1,308	355	268%
Total Non-Markup Income	8,411	7,963	6%	-15%	16,374	15,416	6%
Share of Profit from Associates	977	259	277%	0%	1,236	1,227	1%
Total Income	41,782	40,691	3%	-9%	82,473	79,719	3%
Non-Markup Expense	23,276	24,263	-4%	4%	47,539	48,421	-2%
Operating Expense	22,950	23,902	-4%	4%	46,852	47,672	-2%
WWF	316	319	-1%	-11%	635	517	23%
Other Charges	10	42	-77%	2249%	52	233	-78%
Profit Before Provisions	18,506	16,428	13%	-21%	34,934	31,297	12%
Provisions	1,817	1,920	-5%	-62%	3,737	5,468	-32%
Profit Before Taxation	16,689	14,508	15%	-11%	31,197	25,829	21%
Taxation	7,219	5,948	21%	-5%	13,167	10,641	24%
Profit After Taxation	9,470	8,560	11%	-15%	18,030	15,189	19%
Non- Controlling Interest	150	224	-33%	352%	374	45	728%
PAT Attributable to Shareholders	9,320	8,336	12%	-16%	17,656	15,143	17%
EPS	6.35	5.68	12%	-16%	12.04	10.32	17%
DPS	1.75	1.75	0%		3.50	1.25	180%
Effective Tax Rate	43%	41%			42%	41%	

Source: Company Accounts, Foundation Research, July 2021

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If	
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Expected return from -10% to +10%	Neutral.
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