

# Foundation Alert

## HBL Analyst Briefing Key Takeaways

### Event

- Habib Bank Limited (HBL PA) held its conference call today to discuss 2QCY21 results and the future outlook of the bank. Following are the key takeaways of the briefing.

### Impact

- To recall, The bank posted a PAT of Rs9,320mn (EPS: 6.35) in 2QCY21 (down/up by 16/12% YoY/QoQ) taking cumulative PAT for 1HCY21 to Rs17,656mn (EPS: 12.04). The result was accompanied with a DPS of Rs1.75 taking cumulative DPS for 1HCY21 to Rs3.75.
- Management shared that HBL's customer base has increased by 2.1mn during 1HCY21 to 24.5mn and as a result of a digital push the transaction value of MB/IB during 1HCY21 has increased by a whopping 117% YoY to Rs466bn whereas number of digital transactions has also more than doubled to 35mn compared to 17mn in the 1HCY20. This has diluted the share of OTC transactions to 26% (↓7ppts, YoY) of the overall transaction volume.
- The bank's deposit base grew by 10% during 1HCY21 to cross Rs3tn mark taking balance sheet size to over Rs4tn. Growth in the deposit base was primarily driven by the current account deposits which grew by 10% during 1HCY21 to cross Rs1tn mark translating into a CA of 35%. Management shared that HBL is likely to maintain its market share amid decent M2 growth. Industry deposits is likely to support the bank's deposit base going forward.
- On the investment front, management shared that the average PIB yield is just over north of 9%. Furthermore out of bank's total PIB exposure 40% consists of floating rate PIBs. HBL is not expected to face any major maturities in its fixed PIB portfolio in next two quarters except for the recent maturity of ~Rs100bn. In addition to this, management also shared that PIBs portfolio duration stands at 1.25-1.5yrs with average maturity of fixed rate PIBs of 3.5yrs.
- On the back of ongoing economic recovery management believes that the credit growth is likely to stay upbeat and therefore HBL may witness double digit growth in advances during CY21. To highlight, gross advances during 1HCY21 increased by 6% to clock in at Rs1.39tn. Furthermore, HBL's infection ratio currently stands at 5.51% with a provision coverage of 103%.
- Effective tax rate for the 2QCY21 clocked in on the higher side (43%) due to provision for additional tax measures taken by federal government in the recent budget. As per the management, the banks will be charged additional tax on their total income from federal government securities. However, finer details related to the subject is yet to be released by the federal government.
- Management shared that the NIMs have now bottomed out and they expect it to remain somewhat flattish as bank expect interest rate to remain same during CY21.

### Outlook

- 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 1: HBL 2QCY21 earnings preview

Income Statement	2QCY21	1QCY21	YoY	QoQ	1HCY21	1HCY20	YoY
Interest Earned	63,401	63,463	-10%	0%	126,864	143,132	-11%
Interest Expensed	31,006	30,994	-12%	0%	62,000	80,056	-23%
<b>Net Interest Income (NII)</b>	<b>32,394</b>	<b>32,469</b>	<b>-8%</b>	<b>0%</b>	<b>64,864</b>	<b>63,075</b>	<b>3%</b>
Fee Income	5,873	5,904	41%	-1%	11,777	8,900	32%
Dividend Income	226	118	92%	92%	343	197	74%
Foreign Exchange Income	568	896	26%	-37%	1,464	(742)	-297%
Gain on Securities	1,688	(206)	-62%	-918%	1,482	6,707	-78%
Other Income	56	1,251	-92%	-96%	1,308	355	268%
<b>Total Non-Markup Income</b>	<b>8,411</b>	<b>7,963</b>	<b>-15%</b>	<b>6%</b>	<b>16,374</b>	<b>15,416</b>	<b>6%</b>
<b>Share of Profit from Associates</b>	<b>977</b>	<b>259</b>	<b>0%</b>	<b>277%</b>	<b>1,236</b>	<b>1,227</b>	<b>1%</b>
<b>Total Income</b>	<b>41,782</b>	<b>40,691</b>	<b>-9%</b>	<b>3%</b>	<b>82,473</b>	<b>79,719</b>	<b>3%</b>
<b>Non-Markup Expense</b>	<b>23,276</b>	<b>24,263</b>	<b>4%</b>	<b>-4%</b>	<b>47,539</b>	<b>48,421</b>	<b>-2%</b>
Operating Expense	22,950	23,902	4%	-4%	46,852	47,672	-2%
WWF	316	319	-11%	-1%	635	517	23%
Other Charges	10	42	2249%	-77%	52	233	-78%
<b>Profit Before Provisions</b>	<b>18,506</b>	<b>16,428</b>	<b>-21%</b>	<b>13%</b>	<b>34,934</b>	<b>31,297</b>	<b>12%</b>
Provisions	1,817	1,920	-62%	-5%	3,737	5,468	-32%
<b>Profit Before Taxation</b>	<b>16,689</b>	<b>14,508</b>	<b>-11%</b>	<b>15%</b>	<b>31,197</b>	<b>25,829</b>	<b>21%</b>
Taxation	7,219	5,948	-5%	21%	13,167	10,641	24%
<b>Profit After Taxation</b>	<b>9,470</b>	<b>8,560</b>	<b>-15%</b>	<b>11%</b>	<b>18,030</b>	<b>15,189</b>	<b>19%</b>
Non- Controlling Interest	149.73	224.01	352%	-33%	373.73	45.12	728%
<b>PAT Attributable to Shareholders</b>	<b>9,320</b>	<b>8,336</b>	<b>-16%</b>	<b>12%</b>	<b>17,656</b>	<b>15,143</b>	<b>17%</b>
EPS	6.35	5.68	-16%	12%	12.04	10.32	17%
DPS	1.75	1.75			3.50	1.25	180%
<b>ETR</b>	<b>43%</b>	<b>41%</b>			<b>42%</b>	<b>41%</b>	

Source: Company Accounts, Foundation Research, July 2021

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If	
Expected return >+10%	Outperform.
Expected return from -10% to +10%	Neutral.
Expected return <-10%	Underperform.