

# Foundation Alert

## HBL Analyst Briefing Key Takeaways

### Event

- Habib Bank Limited (HBL PA) held its conference call today to discuss 3QCY21 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 Rs8.96bn (EPS: 6.17) in 3QCY21 (down by 10/3% YoY/QoQ) taking cumulative PAT for 3QCY21 to Rs26.7bn (EPS: 18.21). The result was accompanied with a DPS of Rs1.75 taking cumulative DPS for 1HCY21 to Rs5.25.
- Revenue clocked in at Rs123bn during 9MCY21 which is accredited to better non-markup income (↑10% YoY) which was primarily driven by strong fee income and robust growth in FX income.
- Management shared that the transaction mix has increased to digital base which has diluted the OTC transactions to 26%, with IB/MB/Konnect services increasing their transaction mix to 40%. Mobile/IB increasing transaction volume of more than Rs755bn (↑104% YoY) and Konnect with transaction quantum of Rs234bn (↑16% YoY) in 9MCY21. Similarly, card/POS spent grew by 62/49% YoY in 9MCY21.
- Consumer loans have increased by 22% CYTD, which has reached Rs95.7bn and management plans to build on this momentum as HBL eyes to become first bank to cross Rs100bn mark in consumer banking by the end of CY21. Management of the bank also shared that domestic trade volumes for HBL has crossed US\$10bn for the first time during 9MCY21 translating into ↑81% YoY.
- Deposits base increased by 12% to Rs3.17tn since Dec'20 which has mainly driven by ↑11% in domestic deposits which clocked in at Rs2.86tn. Current account deposits also remained robust during 9MCY21 and grew by 12% to Rs1.1tn which lowered the cost of deposits to 3.7% in 9MCY21 compared to 5.2% in 9MCY20.
- Despite the mounting economic stress, the bank remained active with the lending portfolio which grew by 12% since Dec'20. This increase was mainly driven by the growth in domestic lending book which grew by 9% during 9MCY21. On the other hand, international advances increased by 20% to stand at US\$1.5bn. As a result, HBL's group/domestic ADR clocked in at 43/39%. Management aims to alleviate ADR levels to over 50% which would result in lower tax liability. However, this target is unlikely to be achieved by Dec'22. Infection ratio for 3QCY21 was 5.8%, which was an increase of 30bps on sequential basis. Meanwhile coverage ratio remained over 100%.
- Management shared that the out of the total PIB investments of Rs1,054bn, Rs455bn is invested in fixed rate PIBs while the remaining amount is in the floating rate PIBs.
- Cost to income for 3QCY21 was 51.7% which is expected to drop below 50% in the medium to long term.
- ROE for 3QCY21 clocked in at 15%. Going forward company targets ROE of 18-19% in the medium term.
- Management expects policy rate to increase by 50bps or more in the upcoming monetary policy in Nov'21. Whereas, they expect policy rate to reach 9-9.5% by CY22.

### Outlook

- We have an 'Outperform' rating on the stock with the Jun-22 TP of Rs174/sh.

Table 01: Earnings Review HBL 3QCY21 (Rs mn)

	3QCY21	3QCY20	YoY	QoQ	9MCY21	9MCY20	YoY
Interest Earned	65,880	64,800	2%	4%	192,743	207,931	-7%
Interest Expensed	33,591	29,090	15%	8%	95,591	109,147	-12%
<b>Net Interest Income (NII)</b>	<b>32,288</b>	<b>35,709</b>	<b>-10%</b>	<b>0%</b>	<b>97,152</b>	<b>98,784</b>	<b>-2%</b>
Fee Income	6,163	4,484	37%	5%	17,940	13,383	34%
Dividend Income	148	91	63%	-42%	521	288	81%
Foreign Exchange Income	1,447	409	254%	155%	2,911	(333)	-973%
Gain on Securities	88	655	-87%	-95%	1,570	7,362	-79%
Other Income	(441)	466	-195%	n.a	836	821	2%
<b>Total Non-Markup Income</b>	<b>7,404</b>	<b>6,104</b>	<b>21%</b>	<b>-12%</b>	<b>23,778</b>	<b>21,521</b>	<b>10%</b>
<b>Share of Profit from Associates</b>	<b>709</b>	<b>1,319</b>	<b>-46%</b>	<b>-27%</b>	<b>1,945</b>	<b>2,546</b>	<b>-24%</b>
<b>Total Income</b>	<b>40,401</b>	<b>43,133</b>	<b>-6%</b>	<b>-3%</b>	<b>122,874</b>	<b>122,852</b>	<b>0%</b>
<b>Non-Markup Expense</b>	<b>23,463</b>	<b>23,012</b>	<b>2%</b>	<b>1%</b>	<b>71,002</b>	<b>71,434</b>	<b>-1%</b>
Operating Expense	23,161	22,612	2%	1%	70,013	70,285	0%
WWF	274	340	-19%	-13%	910	857	6%
Other Charges	27	60	-54%	183%	79	292	-73%
<b>Profit Before Provisions</b>	<b>16,939</b>	<b>20,121</b>	<b>-16%</b>	<b>-8%</b>	<b>51,873</b>	<b>51,418</b>	<b>1%</b>
Provisions	1,758	3,047	-42%	-3%	5,495	8,515	-35%
<b>Profit Before Taxation</b>	<b>15,180</b>	<b>17,074</b>	<b>-11%</b>	<b>-9%</b>	<b>46,377</b>	<b>42,903</b>	<b>8%</b>
Taxation	6,224	6,991	-11%	-14%	19,391	17,631	10%
<b>Profit After Taxation</b>	<b>8,956</b>	<b>10,083</b>	<b>-11%</b>	<b>-5%</b>	<b>26,986</b>	<b>25,272</b>	<b>7%</b>
<b>PAT Attributable to Shareholders</b>	<b>9,051</b>	<b>10,048</b>	<b>-10%</b>	<b>-3%</b>	<b>26,707</b>	<b>25,192</b>	<b>6%</b>
<b>EPS</b>	<b>6.17</b>	<b>6.85</b>			<b>18.21</b>	<b>17.17</b>	
<b>DPS</b>	<b>1.75</b>	<b>-</b>			<b>5.25</b>	<b>1.25</b>	
<b>Cost/Income</b>	<b>57%</b>	<b>52%</b>			<b>57%</b>	<b>57%</b>	
<b>ETR</b>	<b>41%</b>	<b>41%</b>			<b>42%</b>	<b>41%</b>	

Source: Company Accounts, Foundation Research, October 2021

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