

Foundation Alert

HBL Corporate Briefing Key Takeaways

Event

- Habib Bank Limited (HBL PA) held its corporate briefing to discuss the business dynamics and future outlook of the bank. Following are the key takeaways of the briefing.

Digital banking

- Bank's model to enable technology by digitalizing the business to include Cognitive Process Automation and Data monetization that would allow real time decision making and enhance payment structure by Fintechs and open APIs.
- Management strategies to indulge financial services to the untapped domestic population and move towards regional business.
- Managements aims to create awareness for rebranding and enhancing digital marketing and to create single platform and self-service portal for costumers that would allow HR chatbot and data standardization.
- Bank aim to shift towards new avenues for banking that would attract more consumers by extending services such as payment gateways, WhatsApp and CCDMs.
- HBL has been able attract 750k+ active accounts through Konnect app which has acquired 13% branchless banking market share by volume. Meanwhile HBL Mobile has 16% share of commercial bank users and Rs1.3mn active users.
- Other Digital Products for HBL includes RDA and Konnect Account, Digital business loan on mobile, Argri Lending digitalization and Tap&Pay/HBL Fusion/HBL Infinity.

Agriculture

- HBL currently acquires 32% share in farmer financing amongst commercial banks, with 650+ rural lending branching country wide.
- Bank has been proactively lending in agriculture sector by their program of Kissan ki Aawaz which engaged in rural value chain and creating financial awareness amongst farmers.
- HBL has disbursed Rs1.2bn for dairy and livestock which mounts upto more than 800 dairy and livestock and their working capital needs and purchase of various breeds.
- HBL introduced Electronic Warehouse Receipt Financing (EWR) to farmers, traders and processors against their agricultural commodity that allowed real time access to banks with information regarding the following and reducing transaction and operational risk.
- HBL has integrated their system with Punjab land record authority and established a network of 200+ branches in Punjab.
- This engagement with farmers have allowed the portfolio for the bank to 150 farmer, volume of Rs469mn and land of 10.5 crop acres. This multifold effect has been in execution since start of this CY.

Financials

- 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 9MCY21 to Rs26.7bn (EPS: 18.21). The result was accompanied with a DPS of Rs1.75 taking cumulative DPS for 9MCY21 to Rs5.25.

- 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.
- HBL channeled ~US\$360mn in RDA since its launch, with opening more than 50k accounts, and further Rs600mn disbursed under Roshan Apni Car scheme since its inception.
- Deposits base increased by 12% YTD to Rs3.17tn since Dec'20 which has mainly driven by ↑11% YTD 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. This has clocked HBLs asset base to Rs4tr. Management expects growth momentum of deposits to increase by 12-14%.
- 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%.
- Corporate (43.2%) and International (18.7%) are major lending avenues for the bank, of which 28/22% of the international loan are deployed in UK and UAE respectively. Moreover rural/consumer lending remained strong with Rs37/96bn allocated to the following. Meanwhile Microfinancing also showed tenacious growth by clocking in at Rs49/75bn (↑16/21% YTD) in loans/advances.
- NIMs for the bank remained under pressure by clocking in at 4.5% given rising interest rate to account for delay in asset pricing compared to deposit base repricing. Management believes NIMs would remain suppressed in 4QCY21.

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%
Net Interest Income (NII)	32,288	35,709	-10%	0%	97,152	98,784	-2%
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%
Total Non-Markup Income	7,404	6,104	21%	-12%	23,778	21,521	10%
Share of Profit from Associates	709	1,319	-46%	-27%	1,945	2,546	-24%
Total Income	40,401	43,133	-6%	-3%	122,874	122,852	0%
Non-Markup Expense	23,463	23,012	2%	1%	71,002	71,434	-1%
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%
Profit Before Provisions	16,939	20,121	-16%	-8%	51,873	51,418	1%
Provisions	1,758	3,047	-42%	-3%	5,495	8,515	-35%
Profit Before Taxation	15,180	17,074	-11%	-9%	46,377	42,903	8%
Taxation	6,224	6,991	-11%	-14%	19,391	17,631	10%
Profit After Taxation	8,956	10,083	-11%	-5%	26,986	25,272	7%
PAT Attributable to Shareholders	9,051	10,048	-10%	-3%	26,707	25,192	6%
EPS	6.17	6.85			18.21	17.17	
DPS	1.75	-			5.25	1.25	
Cost/Income	57%	52%			57%	57%	
ETR	41%	41%			42%	41%	

Source: Company Accounts, Foundation Research, Nov 2021

AnalystFoundation Research
+92 21 3561 2290-94research@fs.com.pk
Ext: 313

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