

Foundation Alert

HBL: Analyst briefing Key Takeaways

Event

- Habib Bank Limited (HBL PA) held its analyst briefing today to discuss 1HCY22 results and outlook of the bank. Following are the key takeaways of the briefing.

Impact

- The bank posted PAT of Rs11.9bn (EPS: Rs8.1) in 1HCY22, down by 33% YoY. The result was accompanied with interim cash dividend of Rs1.5 per share taking half year payout to Rs3.75 per share.
- Management accredited reduction in profitability to higher super tax charge and increase in ADR based tax rates.
- The increase in NFI was mainly because of high fees and commission as (1) cards up 36% YoY, accounting for more than of 50% of fee growth, (2) trade volume increased to US\$9.9bn (↑30% YoY), and (3) higher remittances volume of US\$1.6bn (↑37% YoY) during the first half.
- Similarly NFI was also boosted due to better FX income which was due to the volatile movement in currency during 1HCY22. Bank earned (1) US\$1.3bn from revaluation of foreign assets, (2) US\$3.2bn from derivatives along with US\$1.1bn loss from derivatives and (3) US\$1.9bn from trade and customer business.
- Bank's deposits increased by 11% over Dec'21 to Rs3.7tn. The quarterly growth of Rs505b in Q2'22 was the highest ever. Consequently, market share improved from 14.14% in Dec'21 to 14.32% in Jun'22. CA increased by 12% over Dec'21. Average current accounts grew by 16% YoY over 1HCY21 to Rs966bn while mix improved from 35.1% to 35.8%.
- Advances grew by 3.8% QoQ to Rs1.65tn in 1QCY22. This improved ADR to 51.6% (↑5.2/4.6ppt YoY/QoQ). The growth in advances was mainly driven by increasing microfinancing and agri portfolio. Similarly international advances grew strongly to US\$1.6bn.
- International deposits remained flat to Dec'21 levels of US\$1.9b. In Rupee terms, International deposits rose by 15.7%.
- Domestic advances up ~Rs100bn over Dec'21 to Rs1.3tn with growth across all businesses (1) Agriculture lending reached its highest level of Rs44bn, (2) consumer loan grew by Rs15bn and (3) Microfinance grew by 27% to Rs72bn with housing construction at Rs21bn.
- Overseas advances up US\$19mn over Dec'21 to US\$1.6bn. In rupee terms, advances up by 17.5% to Rs322bn.
- Infection ratio was reduced to 5.1%, ↑/↑ 0.1/0.4ppt YoY/QoQ. Meanwhile coverage for the bank remained strong at 101% with 87% of specific NPLs accounted for.
- Domestic loan portfolio includes 40/19/13/6/6/3% in Corporate/International/Islamic/Consumer/Commercial/Agriculture. The International loan book remained dominated by Bahrain/UK/UAE (29/22/20%).
- Banks CAR declined due to continued PKR devaluation and higher tax charge from 15.3%, in Mar'22 to 14.4% in Jun'22.
- Book value per share for the bank clocked in at Rs187/sh, declining by Rs4/sh, due to increase in mark-to-market deficit on investments.
- NIMs for 2QCY22 marginally declined to 4.9% as compared to 5.0% in 1QCY21. Management plans to keep NIMs at 5% during CY22.

Outlook

- We have Outperform stance on the stock with target price of Rs176.0 for Dec-22. High ADR and improving CAR would support profitability and payout outlook for the bank. The stock is currently trading at an attractive P/B of 0.45.

Table 1: HBL Earnings Review 2QCY22

	2QCY22	2QCY21	YoY	1QCY22	QoQ	1HCY22	1HCY21	YoY
Interest Earned	101,081	63,401	59%	86,554	17%	187,634	126,864	48%
Interest Expensed	63,450	31,006	105%	50,288	26%	113,738	62,000	83%
Net Interest Income (NII)	37,630	32,394	16%	36,266	4%	73,896	64,864	14%
Fee Income	7,716	5,873	31%	7,342	5%	15,057	11,777	28%
Dividend Income	155	256	-39%	255	-39%	410	373	10%
Foreign Exchange Income	4,376	568	670%	2,527	73%	6,903	1,464	372%
Gain on Securities	210	1,688	-88%	194	8%	403	1,482	-73%
Other Income	135	26	414%	(50)	-371%	85	1,278	-93%
Total Non-Markup Income	12,591	8,411	50%	10,268	23%	22,858	16,374	40%
Share of Profit from Associates	723	977	-26%	93	674%	816	1,236	-34%
Total Income	50,944	41,782	22%	46,627	9%	97,571	82,473	18%
Operating Expense	28,690	22,950	25%	30,357	-5%	59,047	46,852	26%
WWF	400	316	27%	287	40%	687	635	8%
Other Charges	283	10	2838%	159	78%	442	52	753%
Non-Markup Expense	29,373	23,276	26%	30,803	-5%	60,176	47,539	27%
Profit Before Provisions	21,571	18,506	17%	15,824	36%	37,395	34,934	7%
Provisions	1,560	1,817	-14%	1,243	26%	2,803	3,737	-25%
Profit Before Taxation	20,011	16,689	20%	14,581	37%	34,591	31,197	11%
Taxation	16,517	7,219	129%	5,967	177%	22,484	13,167	71%
Profit After Taxation	3,494	9,470	-63%	8,614	-59%	12,108	18,030	-33%
PAT Attributable to								
Shareholders	3,407	9,320	-63%	8,479	-60%	11,886	17,656	-33%
EPS	2.32	6.35		5.78		8.10	12.04	
DPS	1.50	1.75		2.25		3.75	3.50	
Cost/Income	58%	56%		66%		62%	58%	
Effective Tax rate	83%	43%		41%		65%	42%	

Source: Company Accounts, Foundation Research, July 2022

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Recommendations definitions

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