PAKISTAN **March 2, 2023**

Foundation Alert

HBL: Analyst briefing Key Takeaways

Event

- Habib Bank Limited (HBL PA) held its analyst briefing today to discuss CY22 results and outlook of the bank. Following are the key takeaways of the briefing.

Impact

- The bank posted PAT of Rs34.1bn (EPS: Rs23.2) in CY22, down by 3% YoY due to (i) retrospective tax and (ii) 10% increase in tax rate. The bank paid cash dividend of Rs6.75 per share in CY22.
- Bank's PBT increased by 24% YoY where core domestic PBT up 30% to Rs84.9bn due to strong performance across all business lines and international franchise delivered an operating profit, reducing losses from US$28.6mn in 2021 to US$5.0mn.
- Net Interest Income (NII) increase driven by Rs351bn growth in average balance sheet volumes and margin expansion of 69 bps.
- Increase in Non-Markup Income was mainly because of high fees and commission as cards fee up 34% YoY, accounting for 50% of fee income while Konnect and trade made significant contribution.
- Admin expense increased significantly due to higher premises and variable costs resulting from devaluation and extremely high inflation.
- Bank booked specific charge of Rs3.3bn and general provisioning of Rs2.2bn in CY22.
- Overall, deposits remain flat during the CY22. Encouragingly, domestic current deposits are up 20% YoY (Rs205bn) over Dec'21 to Rs1.2tn. The domestic CA mix improved to a record 40%.
- Total domestic deposits, at Rs3.0tn, have remained flat in CY22 due to a lower level of high-cost deposits. During the same period, International deposits, in Rupee terms, rose by Rs97bn while remain flat in dollar terms at US$1.9bn.
- Advances grew by 18% to Rs1.8tn in CY22. The growth in advances was mainly driven by increasing microfinancing and agri portfolio. Thus, ADR moves above 50% given prudent deposit mobilization.
- Domestic advances up ~Rs270bn over Dec'21 to Rs1.5tn with growth across all businesses outperforming (1) agriculture lending reached its highest level of Rs50bn (up 27% YoY), (2) consumer loan grew by Rs20bn to Rs122bn, (3) commercial businesses crossed Rs100bn closing at Rs108bn and (3) microfinance grew by 50% to Rs85bn backed by an industry-leading mortgage portfolio.
- Overseas advances are down to US$317mn in CY22 due to a more conservative risk posture.
- Infection ratio remains steady at historical low of 4.8% as of Dec'22. Meanwhile coverage for the bank remained strong at 100.8% with 86.3% of specific NPLs accounted for.
- At Dec'22, domestic loan portfolio includes 43/16/12/6/6/3% in Corporate/International/Islamic/Consumer/Commercial/Agriculture. The International loan book remained dominated by UK/ Bahrain/UAE (27/26/19%).
- Banks CAR declined due to continued PKR devaluation and higher tax charge from 15.6%, in Dec'21 to 14.8% in Dec'22.
- Book value per share for the bank clocked in at Rs194/sh, improving by Rs2/sh, backed by strong profitability despite increase in mark-to-market deficit on investments.

- NIMs for 4QCY22 increased to 6.2% compared to 4.2% in 4QCY21 and 5.4% in 3QCY22 as lagged asset repricing begins to catch up.

Outlook

- Elevated interest rates would support profitability of the bank going forward that is currently trading at an attractive P/B of 0.37. However, Bank's CAR would remain in pressure due to increase in interest rates, resulting in higher provisions and mark to mark deficit on investments.

Table 01: Earnings Review CY22 (Consolidated)

	4QCY22	4QCY21	YoY	3QCY22	QoQ	CY22	CY21	YoY
Interest Earned	127,002	69,511	83%	121,465	5%	436,101	262,254	66%
Interest Expensed	77,478	35,244	120%	79,323	-2%	270,539	130,835	107%
Net Interest Income (NII)	**49,524**	**34,267**	**45%**	**42,142**	**18%**	**165,562**	**131,419**	**26%**
Fee Income	8,737	7,493	17%	7,716	13%	31,510	25,433	24%
Dividend Income	948	393	141%	150	531%	1,509	914	65%
Foreign Exchange Income	(129)	2,470	na	2,556	-105%	9,329	5,381	73%
Gain on Securities	335	(1,752)	na	127	163%	866	(182)	na
Other Income	298	1,344	-78%	106	181%	489	2,180	-78%
Total Non-Markup Income	**10,189**	**9,948**	**2%**	**10,655**	**-4%**	**43,703**	**33,726**	**30%**
Share of Profit from Associates	**935**	**641**	**46%**	**1,277**	**-27%**	**3,028**	**2,586**	**17%**
Total Income	**60,649**	**44,856**	**35%**	**54,075**	**12%**	**212,294**	**167,730**	**27%**
Operating Expense	33,881	25,772	31%	31,879	6%	124,807	95,785	30%
WWF	421	364	16%	391	7%	1,499	1,273	18%
Other Charges	26	478	-95%	9	195%	477	557	-14%
Non-Markup Expense	**34,327**	**26,614**	**29%**	**32,279**	**6%**	**126,783**	**97,615**	**30%**
Profit Before Provisions	**26,321**	**18,242**	**44%**	**21,795**	**21%**	**85,511**	**70,115**	**22%**
Provisions	4,891	2,592	89%	788	521%	8,482	8,087	5%
Profit Before Taxation	**21,431**	**15,651**	**37%**	**21,007**	**2%**	**77,030**	**62,028**	**24%**
Taxation	10,661	7,130	50%	9,487	12%	42,632	26,521	61%
Profit After Taxation	**10,770**	**8,521**	**26%**	**11,520**	**-7%**	**34,398**	**35,507**	**-3%**
PAT Attributable to Shareholders	**10,670**	**8,315**	**28%**	**11,514**	**-7%**	**34,070**	**35,022**	**-3%**
EPS	**7.27**	**5.67**		**7.85**		**23.23**	**23.88**	
DPS	1.50	2.25		1.50		6.75	7.50	
Cost/Income	57%	59%		60%		60%	58%	
Effective Tax rate	50%	46%		45%		55%	43%	

Source: Company Accounts, Foundation Research, March 2023

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Recommendations definitions

If

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