

Commercial Banks

BAHL: Capital gain leads to +80%YoY increase in profitability

- Bank Al-Habib Limited (BAHL) reported unconsolidated earnings for 2QCY17 of PKR 2.3bn (or PKR 2.03/share) down by 2%QoQ (or up by +80%YoY) bringing 1HCY17 total unconsolidated earnings to PKR 4.6bn (or PKR 4.10/share), up by +20%YoY.
- During the quarter, 2.15x higher capital gains and dividend income received (PKR 1.8bn vs PKR 0.8bn in 1QCY17) and higher interest income (up +5%QoQ) helped surge total revenues by +15%QoQ. However, higher NPL provision charge (PKR 331mn vs reversal of 202mn in 1QCY17) dented the bottom-line.
- Simultaneously, one-time provision of super-tax dampened profitability, wherein, profit after tax declined by 2%QoQ while pre-tax profits rose by +12%QoQ.

Exhibit:

BAHL Result Highlights

| PKRmn (Period end=Dec) | 2QCY17 | 2QCY16 | YoY | 1QCY17 | QoQ | 1HFY17 | YoY |
|----------------------------|--------------|--------------|--------------|--------------|------------|---------------|-------------|
| Interest Earned | 12,509 | 12,652 | -1% | 12,143 | 3% | 24,652 | -1% |
| Interest Expensed | 5,973 | 6,143 | -3% | 5,939 | 1% | 11,912 | -1% |
| Net Interest Income | 6,536 | 6,509 | 0% | 6,204 | 5% | 12,740 | 0% |
| Fee Income | 769 | 655 | 17% | 811 | -5% | 1,581 | 26% |
| Capital Gain & Div. Income | 1,761 | 197 | 8.71x | 798 | 2.15x | 2,559 | 488% |
| Non-Interest Income | 2,897 | 1,166 | 2.48x | 2,009 | 44% | 4,906 | 106% |
| Total Revenue | 9,433 | 7,675 | 23% | 8,213 | 15% | 17,646 | 17% |
| Operating Expenses | 5,045 | 4,485 | 12% | 4,806 | 5% | 9,851 | 9% |
| Pre-Provisioning Profits | 4,388 | 3,189 | 38% | 3,407 | 29% | 7,796 | 27% |
| NPL (Rev.) / Prov. | 331 | 452 | -27% | (202) | n.m | 129 | -118% |
| Pre-Tax Profits | 4,057 | 2,737 | 48% | 3,610 | 12% | 7,667 | 12% |
| Taxation | 1,802 | 1,485 | 21% | 1,305 | 38% | 3,107 | 2% |
| Profit After Tax | 2,255 | 1,252 | 80% | 2,305 | -2% | 4,560 | 20% |
| EPS (PKR) | 2.03 | 1.13 | | 2.07 | | 4.10 | |
| DPS (PKR) | - | - | | - | | - | |
| BVPS (PKR) | 38.47 | 35.24 | | 36.44 | | 38.47 | |

KEY RATIOS

| | | | | | | | |
|-----------------------|-----|-----|--|-----|--|-----|--|
| Cost-To-Income Ratio | 53% | 58% | | 59% | | 56% | |
| Effective Tax Rate | 44% | 54% | | 36% | | 41% | |
| Non-II / Total Income | 31% | 15% | | 24% | | 28% | |

SOURCE: IGI Research, Company accounts, PSX notifications

Recommendation

With a forward CY17/CY18 P/B of 1.3x/1.2x and dividend yield of 6.5%/8.5%, we recommend "BUY" call with our Dec-17 target price of PKR 72/share, offering +29% upside from its last closing.

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