

Flash Note

Friday, 11 August 2017



Securities

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Commercial Banks

HBL: Lower capital gains and higher NPL provision along with super-tax counteract interest income growth

- Habib Bank Limited (HBL) reported consolidated earnings for the 2QCY17 of PKR 6.5bn (or PKR 4.41/share) down by 28%QoQ (or down by 7%YoY) bringing 1HCY17 total consolidated earnings to PKR 15.5bn (or PKR 10.66/share), down by 3%YoY.
- The bank announced a cash dividend of PKR 3.5/share, bringing 1HCY17 total cash dividend to PKR 7.0/share.
- During the quarter, lower capital gains realised (PKR 0.65bn vs PKR 1.2bn realised in 1QCY17), higher NPL provision (PKR 0.84bn vs PKR 0.32bn in 1QCY17) counteracted the impact of rise witnessed in net interest income (interest income up by +6%QoQ) and rising fee income (up by +13%QoQ).
- Additionally, one time provision of super-tax also dented the bottom-line, wherein, tax dragged down PAT by 28%QoQ compared to a meagre 3%QoQ decline in Pre-tax income.

Exhibit:

HBL Result Highlights

| PKRmn (Period end=Dec) | 2QCY17 | 2QCY16 | YoY | 1QCY17 | QoQ | 1HFY17 | YoY |
|----------------------------|---------------|---------------|------------|---------------|-------------|---------------|------------|
| Interest Earned | 37,371 | 35,532 | 5% | 34,932 | 7% | 72,303 | 1% |
| Interest Expensed | 16,095 | 14,292 | 13% | 14,806 | 9% | 30,901 | 4% |
| Net Interest Income | 21,275 | 21,239 | 0% | 20,126 | 6% | 41,401 | 0% |
| Fee Income | 5,408 | 4,926 | 10% | 4,793 | 13% | 10,201 | 11% |
| Capital Gain & Div. Income | 1,158 | 1,723 | -33% | 1,409 | -18% | 2,567 | 4% |
| Non-Interest Income | 8,120 | 7,799 | 4% | 8,313 | -2% | 16,434 | 15% |
| Total Revenue | 29,396 | 29,038 | 1% | 28,439 | 3% | 57,835 | 4% |
| Operating Expenses | 14,891 | 13,608 | 9% | 14,065 | 6% | 28,957 | 11% |
| Pre-Provisioning Profits | 14,504 | 15,431 | -6% | 14,374 | 1% | 28,879 | -3% |
| NPL (Rev.) / Prov. | 840 | 986 | -15% | 322 | 1.61x | 1,161 | -20% |
| Pre-Tax Profits | 13,665 | 14,445 | -5% | 14,053 | -3% | 27,717 | -2% |
| Taxation | 7,067 | 7,508 | -6% | 4,973 | 42% | 12,040 | -2% |
| Profit After Tax | 6,462 | 6,937 | -7% | 9,032 | -28% | 15,495 | -3% |
| EPS (PKR) | 4.41 | 4.73 | | 6.16 | | 10.56 | |
| DPS (PKR) | 3.50 | 3.50 | | 3.50 | | 7.00 | |
| BVPS (PKR) | 136.29 | 133.32 | | 135.39 | | 136.29 | |

KEY RATIOS

| | | | | | | | |
|-----------------------|-----|-----|--|-----|--|-----|--|
| Cost-To-Income Ratio | 51% | 47% | | 49% | | 50% | |
| Effective Tax Rate | 52% | 52% | | 35% | | 43% | |
| Non-II / Total Income | 28% | 27% | | 29% | | 28% | |

SOURCE: IGI Research, Company accounts, PSX notifications

Recommendation

With a forward CY17/CY18 P/B of 1.7x/1.6x and dividend yield of 5.7%/6.1%, we recommend "BUY" call with our Dec-17 target price of PKR 305/share, offering +33% upside from its last closing.

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