

Day Break

Friday, 19 January 2018

COMPANY UPDATE

Bank Al Habib Limited

Commercial Banks

Recommendation	BUY
Target Price:	73.1
Last Closing: 18-Jan-18	64.1
Upside:	14.0
Valuation Methodology:	Asset based Valuation / Dividend Discount Model (DDM)
Time Horizon:	Dec-18

Market Data

Bloomberg Tkr.	BAHL PA
Shares (mn)	1,111.4
Free Float Shares (mn)	722.4
Free Float Shares (%)	65.0%
Market Cap (PKRbn USDmn)	71.3 643.5
Exchange	KSE 100
Price Info.	90D 180D 365D
Abs. Return	10.6 14.5 12.5
Lo	54.1 54.0 50.8
Hi	65.3 65.3 65.3

Key Company Financials

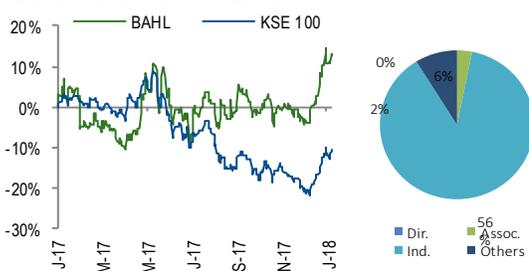
Period End: Dec

PKRbn	CY16A	CY17E	CY18F	CY19F
Total Revenue	29.7	32.6	33.4	37.5
Net Income	8.1	7.9	7.1	8.4
EPS (PKR)	7.3	7.1	6.4	7.6
DPS (PKR)	3.5	3.6	3.2	3.8
Total Assets	751.4	864.3	980.0	1,101.0
Total Equity	42.5	44.0	46.3	49.7

Key Financial Ratios

ROE (%)	19.1	18.0	15.3	16.9
P/E (x)	8.8	9.0	10.0	8.5
P/B (x)	1.7	1.6	1.5	1.4
DY (%)	5.5	5.6	5.0	5.9

Relative Price Performance



About the Company

The Bank was incorporated in Pakistan on October 15, 1991 as a public limited company. It is a scheduled bank principally engaged in the business of commercial banking with a network of 351 branches, 108 sub branches and 3 representative offices.

Source: Bloomberg, PSX & IGI Research

Syed Daniyal Adil

Research Analyst

daniyal.adil@igi.com.pk

Tel: (+92-21) 111-234-234 Ext.: 973

Commercial Banks

BAHL: Despite banking sector rally, BAHL still offers considerable upside

- Although strong sector tailwinds led to a healthier start in CY18, yet, BAHL's performance has remained relatively sluggish despite having superior fundamental metrics
- Rapid advances growth (~+27%YoY), superior asset quality (infection ratio: 1.9%), robust deposit growth (+17%YoY), highest 5-Yr average ROE (~22%) in IGI Universe and optimal positioning to take advantage of a rate hike – Bank Al-Habib Limited (BAHL) qualifies as our top pick
- Asset mix as well as deposit mix are both suitably poised for the anticipated rate hike
- Robust asset quality is one of the key virtues of the bank; BAHL is well equipped to deal with any incremental NPL accretion against a backdrop of macroeconomic uncertainty
- The issuance of Tier-I TFC will help strengthen the capital cushion amid growing regulatory requirements
- The bank currently trades at a CY18F/19F P/B of 1.5x/1.4x with a Dec-18 TP of 73.1 (not incorporating the expected rate hike) translating into a +14.0% upside from its last close along with a dividend yield of 5.0%

Macro tailwinds boost sector performance

Strong sector tailwinds led to a healthier start in CY18, wherein, banking sector has rallied by nearly ~10% to date, outperforming the benchmark KSE 100 index by ~3%. Primarily, performance was led by HBL, FABL and UBL, up by 18/14 /11%, respectively. However, compared to other coverage banks, Bank Al-Habib Limited's (BAHL) performance has remained sluggish despite having superior fundamental metrics. To recall, BAHL's reported 9MCY17 earning stood at PKR 6.4bn, up by +20.5%YoY compared to sector decline of 1.8%YoY (ex-HBL). The earnings were led by +3%YoY increase in net interest income, +18%YoY rise in fee income and 4.5x higher capital gains.

Exhibit:

BAHL key profitability metrics compared to sector during 9MCY17

%YoY growth	Interest Income	Fee Income	Total Revenue	PPOP
BAHL	3%	28%	17%	24%
IGI Coverage Banks	-1%	12%	-1%	-11%

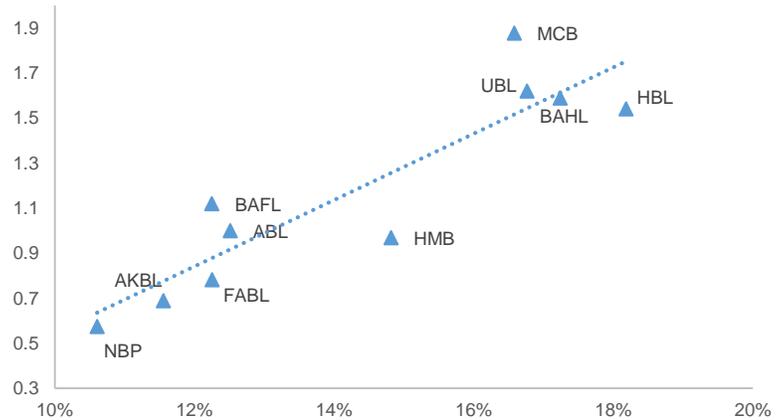
Source: Company Financials, IGI Research

BAHL valuation upside supported by strong fundamentals

Rapid advances growth (~+27%YoY), superior asset quality (infection ratio: 1.9%), robust deposit growth (+17%YoY), highest 5-Yr average ROE (~22%) in IGI Universe and optimal positioning to take advantage of a rate hike – Bank Al-Habib Limited (BAHL) justifies the P/B (above mid-tier banks) it trades at and thus qualifies as our top pick. During 9MCY17, the bank's profitability (up +20%YoY) grew the most in IGI Universe while we forecast the bank's ROE to

clock in at an average of 17.2% (21.2% in case of a rate hike by CY18 end) in the next 3 years with earnings to bottom out in CY18.

Exhibit:
3-Yr fwd ROE to P/B of IGI Banking Universe

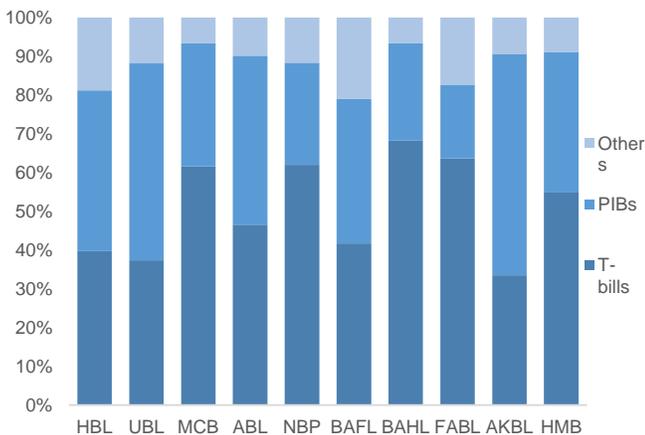


Source: Company Financials, IGI Research

Ideally placed to benefit from a rate hike

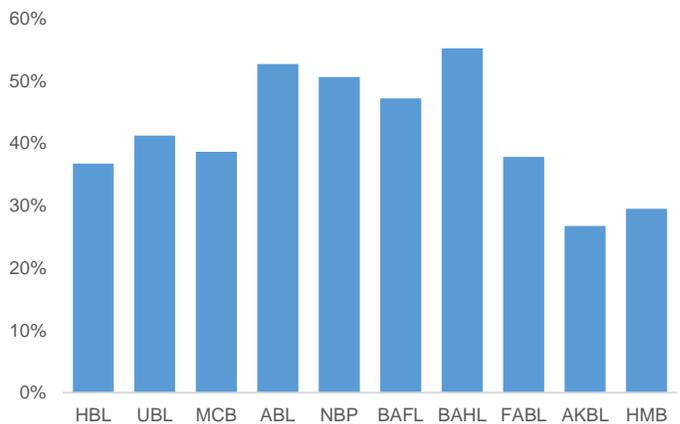
Asset mix as well as deposit mix are both suitably poised for the anticipated rate hike. Investments are concentrated in shorter term paper (68.2% as at Sep-17) to minimize repricing risk while deposit mix is concentrated in current accounts (55.1% as at Sep-17) to keep cost of deposits (COD) upward sticky. Similarly, advances growth is robust (+26.5%YoY in Sep-17) while ADR is at 46% to grab the upside resulting from change in interest rates. The bank is optimally positioned as compared to the rest of IGI universe, wherein, we see the bank to possess a positive funding gap, based on Sep-17 data points, and forecast a 2x rise in 3-Yr EPS CAGR to +18.5% owing to forecasted rate hike of 100bps by the end of CY18.

Exhibit:
Investment mix well positioned to minimize repricing risk



Source: IGI Research, Company Financials, Bloomberg

Exhibit:
High proportion of Current Account deposits to keep COD upward sticky when monetary cycle reverses



Asset quality of little concern against macroeconomic uncertainty

Robust asset quality is one of the key virtues of the bank; With the lowest infection ratio in IGI banking sector (1.9% as at Sep-17) and a coverage ratio of 82.5% (138% including general provisioning), BAML is well equipped to deal with any incremental NPL accretion against a backdrop of macroeconomic uncertainty.

Rapid advances growth and remaining high yield PIBs are expected to keep earnings downward sticky for the time being

The bank's 5-Yr advances CAGR comes in at +17.5% and in the 9MCY17 the bank has expanded its loan book by a further +26.5%. Although the yields attained are low, but we believe the earning impact will be compensated by volumetric growth. Simultaneously, the bank's remaining high yield PIBs will help resist fall in interest earnings until the monetary cycle reverses to provide some relief.

Exhibit: Lowest infection ratio in IGI universe to keep balance sheet clean amidst any macro headwinds

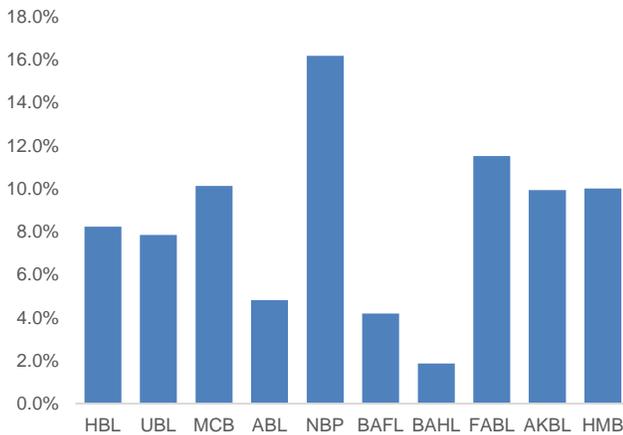
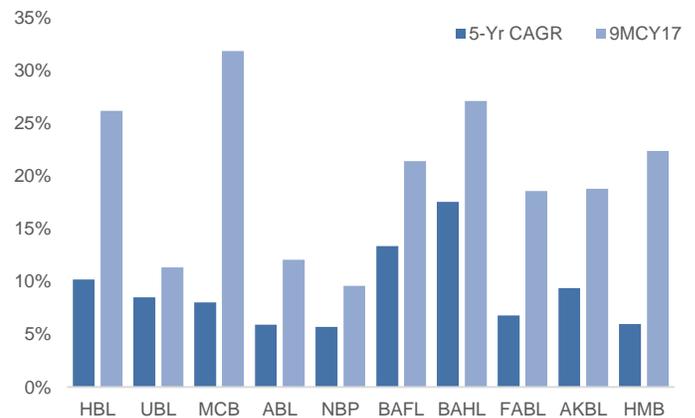


Exhibit: Fastest 5-Yr advances CAGR in IGI universe and robust 9MCY17 advances growth to maintain interest income in CY18



Source: IGI Research, Company Financials, Bloomberg

Capital buffer restored with Tier-I TFC

Limited CAR ratio could have been an impediment to progress, however, the issuance of Tier-I TFC will help strengthen the capital cushion, amid growing regulatory requirements, and will add further impetus to growth. We see a 170-200bps impact on Tier-I CAR with the TFC issue equivalent to PKR 7bn.

Exhibit:

Impact of issued Tier-I TFC on Capital Adequacy Ratio

		Dec-17E	DEC-18F	Dec-19F
Regulatory requirement	Tier-1 + CCB	9.3%	10.0%	10.0%
	Total Capital + CCB	11.9%	12.50%	12.50%
Before Tier-I TFC issue	Tier-1 + CCB	10.5%	10.1%	9.9%
	Total Capital + CCB	13.5%	12.7%	12.2%
After Tier-I TFC issue	Tier-1 + CCB	12.4%	11.7%	11.4%
	Total Capital + CCB	15.4%	14.3%	13.7%

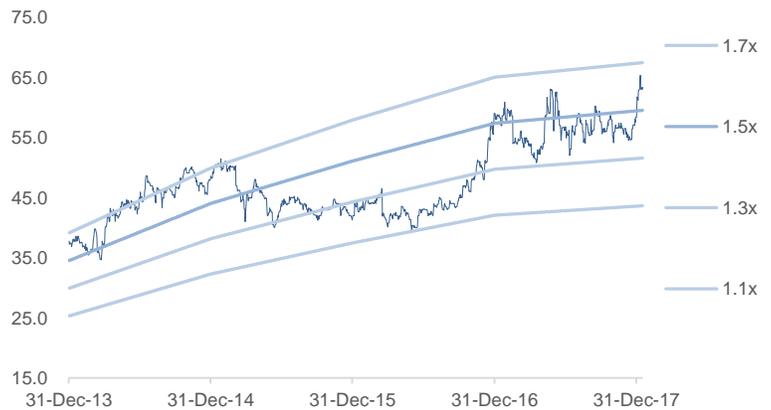
Source: SBP, IGI Research, Company Financials

Recommendation

With capital adequacy issues resolved and favorable macro environment to follow, we recommend a **‘BUY’** call on BAML. The bank currently trades at a CY18F/19F P/B of 1.5x/1.4x with a Dec-18 TP of PKR 73.1/share (not incorporating the expected rate hike) translating into a +14.0% upside from its last close along with a dividend yield of 5.0%.

Exhibit:

BAML trading below its 3-Yr high P/B



Source: Company Financials, IGI Research

Bank Al-Habib Limited (BAHL)

Current Price (PKR): 64.1 Target Price (PKR): 73

Upside: 14

Recommendation: BUY

Period end (DEC) - PKR Br CY15A CY16A CY17E CY18F CY19F CY20F

Period end (DEC) - PKR Bn CY15A CY16A CY17E CY18F CY19F CY20F

Income Items

Net Interest Income	24.8	24.7	24.8	25.9	29.6	33.7
Fee Income	2.3	2.5	3.5	4.2	4.9	5.6
Non Interest Income	4.5	5.1	7.8	7.5	7.8	8.1
Total Op. Revenues	29.3	29.7	32.6	33.4	37.5	41.8
Operating Exp.	15.0	17.2	19.0	21.1	23.4	25.9
Pre-Prov. Profits	14.3	12.5	13.7	12.3	14.1	15.9
Provisions	2.0	(0.6)	0.7	1.4	1.1	1.2
Pre-tax Profits	12.3	13.2	13.0	10.9	12.9	14.8
Tax	4.9	5.0	5.1	3.8	4.5	5.2
Post-tax Profits	7.4	8.1	7.9	7.1	8.4	9.6

Per Share Data

EPS (diluted)	6.7	7.3	7.1	6.4	7.6	8.6
DPS	3.5	3.5	3.6	3.2	3.8	4.3
BVPS	34.1	38.3	39.6	41.6	44.7	48.7
Payout	52.5	47.9	50.0	50.0	50.0	50.0
Bonus (%)	-	-	-	-	-	-

Period end (DEC) CY15A CY16A CY17E CY18F CY19F CY20F

Valuation

P/E (X)	9.6	8.8	9.0	10.0	8.5	7.4
P/B (X)	1.9	1.7	1.6	1.5	1.4	1.32
Div. Yld (%)	5.5	5.5	5.6	5.0	5.9	6.7
ROE	21.0	20.2	18.3	15.7	17.5	18.5
ROE (tier 1)	25.0	24.0	20.9	17.0	18.5	19.2

Growth Rates

Advances	14.8	24.8	20.0	15.0	12.0	10.0
NPL Growth	16.9	(2.7)	(5.2)	14.7	9.0	9.4
IEA	10.4	17.2	15.7	13.8	12.6	11.8
Deposits	15.6	13.2	16.5	13.3	13.3	13.3
NII	30.1	(0.6)	0.6	4.2	14.6	13.6
Non Interest Income	14.7	12.0	54.4	(3.6)	4.1	4.0
Operating Exp.	20.7	14.4	10.2	11.2	10.9	10.7
Profits	15.5	9.6	(2.4)	(10.5)	18.6	14.0
Equity	16.0	12.3	3.6	5.1	7.3	9.1

Capital

CAR %	13.9	14.2	13.5	12.7	12.2	12.1
-------	------	------	------	------	------	------

Balance Sheet Items

NPLs	5.9	5.7	5.4	6.2	6.8	7.4
Net Advances	207.3	261.4	314.8	362.0	405.6	446.2
Investments	356.6	405.0	451.3	509.9	576.3	651.4
Total Assets	640.0	751.4	864.3	980.0	1,101.0	1,229.2
Deposits	516.2	584.2	680.5	770.7	872.8	988.5
CASA	327.4	382.5	451.5	510.3	576.8	652.0
Total Liabilities	602.1	708.9	820.3	933.8	1,051.4	1,175.0
Share Capital	11.1	11.1	11.1	11.1	11.1	11.1
Total Equity	37.9	42.5	44.0	46.3	49.7	54.2

Cashflow Items

Operating Cashflow	-	21.3	7.1	9.6	11.2	12.7
Investing Cashflow	-	(36.9)	(4.9)	(18.2)	(10.6)	(3.1)
Financing Cashflow	-	29.3	1.6	15.8	7.5	(0.4)
Closing Cash	38.6	50.6	54.4	61.7	69.8	79.1

Non-Financial

Branches	528	608	643	678	713	748
----------	-----	-----	-----	-----	-----	-----

Period end (DEC) CY15A CY16A CY17E CY18F CY19F CY20F

Asset Quality

NIMs	4.6	4.0	3.4	3.1	3.2	3.2
IEA/Total Assets	89.2	89.1	89.6	90.0	90.2	90.3
Cost of Deposit	3.8	3.2	2.7	2.6	2.5	2.5
IDR	69.1	69.3	66.3	66.2	66.0	65.9
ADR	40.2	44.8	46.3	47.0	46.5	45.1
Infection Ratio	2.7	2.1	1.7	1.7	1.6	1.6
Coverage Ratio	94.3	85.4	86.0	86.0	86.0	86.0

Du-Pont Analysis

NIMs	4.6	4.0	3.4	3.1	3.2	3.2
Cost / Income	51.3	57.9	58.1	63.2	62.4	61.9
Cost / Asset.	2.3	2.3	2.2	2.2	2.1	2.1
Pre-prov/ROA	2.3	1.8	1.7	1.3	1.4	1.4
Prov. / ROA	0.3	(0.1)	0.1	0.2	0.1	0.1
Tax Rate	40.0	38.3	39.1	35.0	35.0	35.0
ROA	1.2	1.2	1.0	0.8	0.8	0.8
Asset / Equity	17.3	17.3	18.7	20.4	21.7	22.4
ROE	21.0	20.2	18.3	15.7	17.5	18.5

Source: Company Financials, IGI Research, Bloomberg

Important Disclaimer and Disclosures

Research Analyst(s) Certification: The Research Analyst(s) hereby certify that the views about the company/companies and the security/securities discussed in this report accurately reflect his or her or their personal views and that he/she has not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report. The analyst(s) is principally responsible for the preparation of this research report and that he/she or his/her close family/relative does not own 1% or more of a class of common equity securities of the following company/companies covered in this report.

Disclaimer: The information and opinions contained herein are prepared by IGI Finex Securities Limited and is for information purposes only. Whilst every effort has been made to ensure that all the information (including any recommendations or opinions expressed) contained in this document (the information) is not misleading or unreliable, IGI Finex Securities Limited makes no representation as to the accuracy or completeness of the information. Neither, IGI Finex Securities Limited nor any director, officer or employee of IGI Finex Securities Limited shall in any manner be liable or responsible for any loss that may be occasioned as consequence of a party relying on the information. This document takes no account of the investment objectives, financial situation and particular needs of investors, who shall seek further professional advice before making any investment decision. This document and the information may not be reproduced, distributed or published by any recipient for any purpose. This report is not directed or intended for distribution to, or use by any person or entity not a client of IGI Finex Securities Limited, else directed for distribution.

Rating system: IGI Finex Securities employs three tier ratings system, depending upon expected total return (return is defined as capital gain exclusive of tax) of the security in stated time period, as follows:

Recommendation	Rating System
Buy	If target price on aforementioned security(ies) is more than 10%, from its last closing price(s)
Hold	If target price on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
Sell	If target price on aforementioned security(ies) is less than -10%, from its last closing price(s)

Risk: Investment in securities are subject to economic risk, market risk, interest rate risks, currency risks, credit risks, political and geopolitical risks. The performance of company(ies) covered herein might unfavorably be affected by multiple factors including, business, economic, and political conditions. Hence, there is no assurance or guarantee that estimates, recommendation, opinion, etc. given about the security(ies)/company(ies) in the report will be achieved.

Basic Definitions and Terminologies used: **Target Price:** A price target is the projected price level of a financial security stated by an investment analyst or advisor. It represents a security's price that, if achieved, results in a trader recognizing the best possible outcome for his investment. **Market Cap.:** Market capitalization is calculated by multiplying a company's shares outstanding by current trading price. **ROE:** Return on equity is the amount of net income returned as a percentage of shareholders' equity. **P/E:** Price to Earnings ratio of a company's share price to its per-share earnings. **P/B:** Price to Book ratio used to compare a stock's market value to its book value. **DY:** The dividend yield is dividend per share, divided by the price per share.

IGI Finex Securities Limited

Research Analyst(s)

Research Identity Number: BRP009

© Copyright 2017 IGI Finex Securities Limited

Contact Details

Research Team

Saad Khan	Head of Research	Tel: (+92-21) 111-234-234 Ext: 810	saad.khan@igi.com.pk
Abdullah Farhan	Senior Analyst	Tel: (+92-21) 111-234-234 Ext: 912	abdullah.farhan@igi.com.pk
Syed Daniyal Adil	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 973	daniyal.adil@igi.com.pk
Suleman Ashraf	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 957	suleman.ashraf@igi.com.pk
Muhammad Saad	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 816	muhammad.saad@igi.com.pk
Tanweer Kabbeer	Research/Fund Select	Tel: (+92-21) 111-234-234 Ext: 966	tanweer.kabbeer@igi.com.pk
Umesh Solanki	Database Manager	Tel: (+92-21) 111-234-234 Ext: 974	umesh.solanki@igi.com.pk

Equity Sales

Faisal Jawed Khan	Head of Equities	Tel: (+92-21) 35301779	faisal.jawed@igi.com.pk
Zaeem Haider Khan	Regional Head (North)	Tel: (+92-42) 35777863-70	zaeem.haider@igi.com.pk
Muhammad Naveed	Regional Manager (Islamabad & Upper North)	Tel: (+92-51) 2604861-62	muhammad.naveed@igi.com.pk
Ejaz Rana	Regional Manager (Faisalabad)	Tel: (+92-41) 2540843-45	ejaz.rana@igi.com.pk
Asif Saleem	Branch Manager (RY Khan)	Tel: (+92-68) 5871652-56	asif.saleem@igi.com.pk
Mehtab Ali	Branch Manager (Multan)	Tel: (+92-61) 4512003	mehtab.ali@igi.com.pk
Zeeshan Kayani	Branch Manager (Abbottabad)	Tel: (+92-992) 408243-44	zeeshan.kayani@igi.com.pk
Ihsan Mohammad	Branch Manager (Peshawar)	Tel: (92-91) 5253035	ihsan.mohammad@igi.com.pk

IGI Finex Securities Limited

Trading Rights Entitlement Certificate (TREC) Holder of
Pakistan Stock Exchange Limited |
Corporate member of Pakistan Mercantile Exchange Limited

Head Office

Suite No 701-713, 7th Floor, The Forum, G-20,
Khayaban-e-Jami Block-09, Clifton, Karachi-75600
UAN: (+92-21) 111-444-001 | (+92-21) 111-234-234
Fax: (+92-21) 35309169, 35301780

Website: www.igisecurities.com.pk

Stock Exchange Office

Room # 719, 7th Floor, PSX Building, Stock Exchange Road, Karachi.
Tel: (+92-21) 32429613-4, 32462651-2, Fax: (+92-21) 32429607

Lahore Office

5-F.C.C. Ground Floor, Syed Maratib Ali Road,
Gulberg II, Lahore
Tel: (+92-42) 35777863-70, 35876075-76
Fax: (+92-42) 35763542

Faisalabad Office

Room #: 515-516, 5th Floor, State Life
Building, 2- Liaqat Road, Faisalabad
Tel: (+92-41) 2540843-45
Fax: (+92-41) 2540815

Multan Office

Mezzanine Floor, Abdali Tower,
Abdali Road, Multan
Tel: (92-992) 408243 - 44

Peshawar Office

2nd Floor, The Mall Tower,
35 The Mall Peshawar Cantt.
Tel: (92-91) 5253035, 5278448

Islamabad Office

Mezzanine Floor, Office 5, 6 & 7, Kashmir Plaza,
Block- B, Jinnah Avenue, Blue Area, Islamabad
Tel: (+92-51) 2604861-2, 2604864, 2273439
Fax: (+92-51) 2273861

Rahim Yar Khan Office

Plot # 12, Basement of Khalid Market,
Model Town, Town Hall Road, Rahim Yar Khan
Tel: (+92-68) 5871653-6, 5871652
Fax: (+92-68) 5871651

Abbottabad Office

Ground Floor, Al Fatah Shopping Center, Opp. Rad
Station, Mansehra Road, Abbottabad
Tel: (+92-99) 2408243 - 44

Sialkot Office

Suite No. 10 & 11, 1st Floor, Soni Square,
Mubarak Pura, Sialkot.
Tel: (+92-52) 3258437, 3258762