

# Day Break

Wednesday, 23 August 2017

## COMPANY UPDATE

### BANK AL HABIB LIMITED

#### COMMERCIAL BANKS

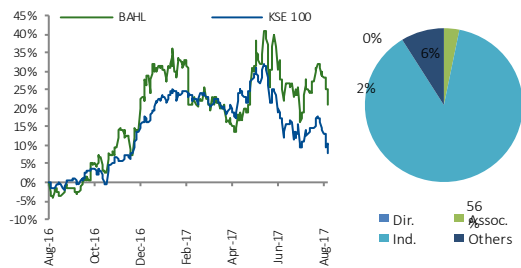
<b>Recommendation</b>	<b>BUY</b>		
Target Price:	71.9		
Last Closing:	21-Aug-17	54.0	
Upside:	33.1		
Valuation Methodology:	Asset based Valuation / Dividend Discount Model (DDM)		
Time Horizon:	Dec-17		
<b>Market Data</b>			
Bloomberg Tkr.	BAHL PA		
Shares (mn)	1,111.4		
Free Float Shares (mn)	722.4		
Free Float Shares (%)	65.0%		
Market Cap (PKRbn   USDmn)	60.0	569.6	
Exchange	KSE 100		
<b>Price Info.</b>			
	90D	180D	365D
Abs. Return	(8.3)	0.1	24.2
Lo	52.0	50.8	42.9
Hi	63.1	63.1	63.1

#### Key Company Financials

Period End: Dec

PKRbn	CY16A	CY17E	CY18F	CY19F
Total Revenue	29.7	30.5	34.5	38.0
Net Income	8.12	6.9	8.1	8.9
EPS (PKR)	7.3	6.2	7.3	8.0
DPS (PKR)	3.5	3.4	4.4	4.8
Total Assets	751.4	850.3	959.2	1,068.8
Total Equity	42.5	45.6	48.9	52.4
<b>Key Financial Ratios</b>				
ROE (%)	19.1	15.1	16.6	17.0
P/E (x)	7.4	8.7	7.4	6.7
P/B (x)	1.4	1.3	1.2	1.1
DY (%)	6.5	6.3	8.1	8.9

#### Relative Price Performance & Shareholding



#### 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 &amp; IGI Research

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## Commercial Banks

### BAHL: NPL provision and super-tax to drag down quarterly earnings

- We expect the bank to post unconsolidated profit after tax (PAT) of PKR 1.7bn (EPS: 1.56 PKR), down by 25%QoQ (or up +39%YoY).
- The bank's interest income is expected to rise based on quantum growth of advances counteracting the fall in yield in advances.
- Fee income is expected to fall by 4%QoQ predominantly because of high base effect of 1QCY27.
- The major dent to earnings will come from super-tax, wherein, taxation will increase by +34%QoQ to drag down quarterly profit after tax by 25%QoQ.
- With a forward CY17/CY18 P/B of 1.3x/1.2x and dividend yield of 6.3%/8.1%, we recommend "BUY" call with our Dec-17 target price of PKR 71.9/share, offering +31.1% upside from its last closing.

#### Higher NPL charge to drag down quarterly pre-tax profits

We preview Bank AL Habib Limited (BAHL) financial results for 2QCY17. We expect the bank to post unconsolidated profit after tax (PAT) of PKR 1.7bn (EPS: 1.56 PKR), down by 25%QoQ (or up +39%YoY). This will bring cumulative income for 1HFY17 to PKR 4.0bn (EPS: 3.64 PKR), up by +7%YoY. We foresee one-time provision of super-tax to be the primary cause of fall in profitability, leading to +34%QoQ rise in taxation. Disregarding taxation, pre-tax profit is also expected to fall as a result of declining fee income (down 4%QoQ) and higher NPL charge. On a yearly basis, rise in non-interest income (up +60%YoY) and fall in NPL provision (down 89%YoY) are expected to result in a rise of 39%YoY in profit after tax.

Exhibit:

#### BAHL Result Highlights

PKRmn (Period end=Dec)	2QCY17	2QCY16	YoY	1QCY17	QoQ	1HFY17	YoY
Interest Earned	13,173	12,652	4%	12,143	8%	25,316	2%
Interest Expended	6,566	6,143	7%	5,939	11%	12,504	4%
<b>Net Interest Income</b>	<b>6,608</b>	<b>6,509</b>	<b>2%</b>	<b>6,204</b>	<b>7%</b>	<b>12,812</b>	<b>0%</b>
Fee Income	780	655	19%	811	-4%	1,591	26%
Capital Gain & Div. Income	810	197	3.11x	798	1%	1,608	270%
<b>Non-Interest Income</b>	<b>1,870</b>	<b>1,166</b>	<b>60%</b>	<b>2,009</b>	<b>-7%</b>	<b>3,879</b>	<b>63%</b>
Total Revenue	8,477	7,675	10%	8,213	3%	16,690	10%
Operating Expenses	4,946	4,485	10%	4,806	3%	9,751	8%
Pre-Provisioning Profits	3,532	3,189	11%	3,407	4%	6,939	13%
NPL (Rev.) / Prov.	50	452	-89%	(202)	n.m	(152)	-79%
Pre-Tax Profits	3,482	2,737	27%	3,610	-4%	7,091	4%
Taxation	1,745	1,485	17%	1,305	34%	3,050	0%
<b>Profit After Tax</b>	<b>1,737</b>	<b>1,252</b>	<b>39%</b>	<b>2,305</b>	<b>-25%</b>	<b>4,041</b>	<b>7%</b>
EPS (PKR)	1.56	1.13		2.07		3.64	
DPS (PKR)	-	-		-		-	
BVPS (PKR)	38.00	35.24		36.44		38.00	

#### KEY RATIOS

Cost-To-Income Ratio	58%	58%	59%	58%
Effective Tax Rate	50%	54%	36%	43%
Non-II / Total Income	22%	15%	24%	23%

SOURCE: IGI Research, Company accounts, PSX notifications

**Quantum growth in advances to help counteract falling yields**

For the quarter, the bank's interest income is expected to rise based on quantum growth of advances (industry advances up by +8.4%QoQ) counteracting the fall in yield in advances (average WALR down by 7 bps vs last quarters average). Yield from investment is also expected to fall due to re-profiling and repricing of PIBs as high yielding securities mature. On the other hand, cost of deposit is expected to rise based on uptick in average WADR over the last quarter by 14bps with increase in CASA to act as a moderating factor.

**High base effect of fee income to dent quarterly performance**

Fee income is expected to fall by 4%QoQ predominantly because of high base effect of 1QCY27. To recall, fee income in 1QCY17 rose by 20%QoQ (up 34%YoY), recording a figure of PKR 811mn. Simultaneously, declining trend witnessed in foreign trade is also expected to dent fee income and consequently earnings.

**One-time provision of super-tax to pull-down profit-after tax by 25%QoQ**

During the last quarter, the bank increased its branches by 18 to 533 branches which will result in higher operating expenses (expected to be up by 3%QoQ). We also expect rise in NPL provision due to the expected rapid rise in advances (industry advances up by 8.4%QoQ). However, the major dent to earnings will come from super-tax, wherein, taxation will increase by +34%QoQ to drag down quarterly profit after tax by 25%QoQ (up by +39%YoY). However, we highlight that the pre-tax income is expected to fall by 4%QoQ as well.

**Recommendation**

BAHL showed improved yearly profitability despite sector-wide NIMs compression. Hence, with a forward CY17/CY18 P/B of 1.3x/1.2x and dividend yield of 6.3%/8.1%, we recommend "BUY" call with our Dec-17 target price of PKR 71.9/share, offering +31.1% upside from its last closing.

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