

# Flash Note

Tuesday, 15 October 2019

## Commercial Banks

### Habib Bank Limited (HBL)

#### Higher FX income saves the qtr; disappointed on interest expense and provisioning charge; EPS up 2.86x y/y to PKR 3.4/share in 3q (PKR 5.9/share in 9m down by 10%/y/y)

- On consolidated basis, HBL posted earnings of PKR 4.9bn (or PKR 3.36/share) up by +2.86x y/y for the period 3q, taking its 9m 2019, cumulative earnings to PKR 8.6bn (or PKR 5.9/share) a decline of 10% from last year same period. The bank announced a cash dividend of PKR 1.25/share, bringing a 9m cash payout to PKR 3.75/share.
- Bank's interest earned increased by a healthy +72% to PKR 71.5 during 3q, which was offset by a rather significant increase of 2.2x in interest expense, limiting interest income growth to +~26% (PKR 26.4bn). We suspect higher borrowing during the quarter which led to a significant rise in interest expense cost.
- Nevertheless, more than expected FX income worth PKR 1.94bn upped non-funded income (NFI) to PKR 7.8bn +65% y/y or +5x on q/q basis. Operating expenses reported a +21% y/y growth bringing down C/I to ~72% level versus 92% in 2q and 72% in 1q. On pre-provisioning profits basis, bank reported a steady growth of +84% y/y during the quarter under review. Understandingly, provisioning charge for the qtr came slightly higher at PKR 1.3bn compared to previous 2019 qtrs, but is still well contained compared to previous year.

Exhibit: Habib Bank Limited (HBL) Financial highlights

Period end (Dec) - PKRbn	3Q'19	2Q'19	1Q'19	9m' 19	9m' 18	2018	4Q'18	3Q'18	2Q'18	1Q'18	2017	4Q'17	3Q'17	2Q'17	1Q'17	2016
Interest Income	26.4	24.3	23.4	74.1	60.7	81.7	20.6	20.8	20.2	19.7	81.8	19.9	20.6	21.3	20.1	82.0
<b>NII Growth YoY</b>	<b>26%</b>	<b>20%</b>	<b>19%</b>	<b>22%</b>	<b>-2%</b>	<b>0%</b>	<b>4%</b>	<b>1%</b>	<b>-5%</b>	<b>-2%</b>	<b>0%</b>	<b>1%</b>	<b>-1%</b>	<b>0%</b>	<b>0%</b>	<b>9%</b>
Fee Income	4.8	5.4	5.3	15.5	12.7	18.0	5.3	3.5	4.7	4.5	19.5	4.0	5.3	5.4	4.8	18.7
Non-Interest Income	7.8	1.3	6.6	15.8	15.9	19.9	4.4	4.7	5.7	5.4	34.1	7.8	9.9	8.1	8.3	31.1
<b>NFI Growth YoY</b>	<b>65%</b>	<b>-77%</b>	<b>22%</b>	<b>-1%</b>	<b>-40%</b>	<b>-42%</b>	<b>-44%</b>	<b>-52%</b>	<b>-30%</b>	<b>-35%</b>	<b>10%</b>	<b>-12%</b>	<b>26%</b>	<b>4%</b>	<b>27%</b>	<b>-15%</b>
<b>Total Revenue</b>	<b>34.2</b>	<b>25.7</b>	<b>30.0</b>	<b>89.8</b>	<b>76.6</b>	<b>101.6</b>	<b>25.0</b>	<b>25.6</b>	<b>25.9</b>	<b>25.1</b>	<b>115.9</b>	<b>27.7</b>	<b>30.4</b>	<b>29.4</b>	<b>28.4</b>	<b>113.0</b>
<b>Non-II / Total Revenue</b>	<b>23%</b>	<b>5%</b>	<b>22%</b>	<b>18%</b>	<b>21%</b>	<b>20%</b>	<b>18%</b>	<b>19%</b>	<b>22%</b>	<b>22%</b>	<b>29%</b>	<b>28%</b>	<b>32%</b>	<b>28%</b>	<b>29%</b>	<b>27%</b>
<b>Total Revenue Growth YoY</b>	<b>34%</b>	<b>-1%</b>	<b>19%</b>	<b>17%</b>	<b>-13%</b>	<b>-12%</b>	<b>-10%</b>	<b>-16%</b>	<b>-12%</b>	<b>-12%</b>	<b>3%</b>	<b>-3%</b>	<b>6%</b>	<b>1%</b>	<b>6%</b>	<b>1%</b>
Admin	24.0	23.5	21.4	69.0	56.3	77.4	21.1	20.1	18.5	17.7	61.3	17.8	15.1	14.6	13.8	54.4
Operating Expenses	24.5	23.6	21.7	69.8	57.1	75.0	17.8	20.3	18.9	17.9	62.4	17.7	15.8	14.9	14.1	55.8
<b>OPEX Growth YoY</b>	<b>21%</b>	<b>25%</b>	<b>21%</b>	<b>22%</b>	<b>28%</b>	<b>20%</b>	<b>1%</b>	<b>29%</b>	<b>27%</b>	<b>27%</b>	<b>12%</b>	<b>10%</b>	<b>14%</b>	<b>9%</b>	<b>13%</b>	<b>12%</b>
<b>Cost-To-Income Ratio</b>	<b>72%</b>	<b>92%</b>	<b>72%</b>	<b>78%</b>	<b>75%</b>	<b>74%</b>	<b>71%</b>	<b>79%</b>	<b>73%</b>	<b>71%</b>	<b>54%</b>	<b>64%</b>	<b>52%</b>	<b>51%</b>	<b>49%</b>	<b>49%</b>
PPOP	9.7	2.1	8.4	20.1	19.5	26.6	7.2	5.2	7.0	7.3	53.6	10.0	14.7	14.5	14.4	57.2
<b>PPOP Growth YoY</b>	<b>84%</b>	<b>-71%</b>	<b>15%</b>	<b>3%</b>	<b>-55%</b>	<b>-50%</b>	<b>-28%</b>	<b>-64%</b>	<b>-52%</b>	<b>-50%</b>	<b>-6%</b>	<b>-21%</b>	<b>-1%</b>	<b>-6%</b>	<b>0%</b>	<b>-7%</b>
Provisioning Charge	1.3	0.6	(0.1)	1.8	1.8	5.0	3.3	1.7	0.2	(0.1)	0.4	(0.7)	(0.1)	0.8	0.3	0.7
EO/one-offs	-	-	-	-	-	-	-	-	-	-	23.7	23.7	-	-	-	-
Pre-Tax Profits	8.4	1.5	8.4	18.3	17.7	21.6	3.9	3.6	6.8	7.4	29.5	10.7	14.8	13.7	14.1	56.5
Taxation	3.5	0.7	5.3	9.5	7.8	9.1	1.4	1.8	3.3	2.7	20.6	3.4	5.2	7.1	5.0	22.3
<b>Effective Tax Rate</b>	<b>42%</b>	<b>49%</b>	<b>62%</b>	<b>52%</b>	<b>44%</b>	<b>42%</b>	<b>35%</b>	<b>50%</b>	<b>49%</b>	<b>36%</b>	<b>70%</b>	<b>32%</b>	<b>35%</b>	<b>52%</b>	<b>35%</b>	<b>39%</b>
Profit After Tax	4.9	0.7	3.1	8.6	9.6	12.4	2.5	1.7	3.4	4.5	8.5	(16.4)	9.6	6.6	9.1	34.2
<b>PAT Growth YoY</b>	<b>186%</b>	<b>-81%</b>	<b>-33%</b>	<b>-10%</b>	<b>-62%</b>	<b>46%</b>	<b>-115%</b>	<b>-82%</b>	<b>-49%</b>	<b>-50%</b>	<b>-75%</b>	<b>-294%</b>	<b>-2%</b>	<b>-5%</b>	<b>1%</b>	<b>7%</b>
<b>EPS</b>	<b>3.36</b>	<b>0.44</b>	<b>2.08</b>	<b>5.89</b>	<b>6.56</b>	<b>8.48</b>	<b>1.73</b>	<b>1.18</b>	<b>2.29</b>	<b>3.10</b>	<b>5.79</b>	<b>(11.20)</b>	<b>6.54</b>	<b>4.50</b>	<b>6.19</b>	<b>23.32</b>
<b>DPS</b>	<b>1.25</b>	<b>1.25</b>	<b>1.25</b>	<b>3.75</b>	<b>3.00</b>	<b>4.00</b>	<b>1.00</b>	<b>1.00</b>	<b>1.00</b>	<b>1.00</b>	<b>8.00</b>	<b>1.00</b>	<b>-</b>	<b>3.50</b>	<b>3.50</b>	<b>14.00</b>
<b>BVPS</b>	<b>145.1</b>	<b>143.0</b>	<b>139.2</b>	<b>145.1</b>	<b>133.7</b>	<b>135.8</b>	<b>135.8</b>	<b>133.1</b>	<b>133.7</b>	<b>133.7</b>	<b>128.7</b>	<b>128.7</b>	<b>119.2</b>	<b>136.1</b>	<b>135.4</b>	<b>133.8</b>
Interest Earned	71.5	59.6	51.5	182.6	117.1	165.3	48.2	41.5	38.5	37.0	148.0	38.6	37.1	37.4	34.9	141.1
Interest Expense	45.2	35.2	28.2	108.6	56.3	83.6	27.7	20.7	18.3	17.3	66.2	18.8	16.5	16.1	14.8	59.1
Interest Earned growth	72%	55%	39%	56%	62%	12%	25%	12%	3%	6%	5%	15%	3%	5%	-2%	0%
Interest Expense growth	118%	92%	63%	93%	82%	26%	47%	25%	14%	17%	12%	34%	8%	13%	-5%	-10%

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