

BAHL

A script with strong deposit growth offering a total return of 42%

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We initiate our coverage on Bank AL Habib Limited (BAHL) with a Justified P/B based Dec-20 TP of Rs.93 which provides an upside potential of 33%. A dividend yield of 9%, if incorporated gives a total return of 42%

The deposit base of BAHL bank has grown at a 5-year CAGR of 16% to Rs797bn in CY18. Furthermore, CASA and NIM stand at 75% and 3.11% respectively during the same period

Going forward, we expect the NIM to expand further to 3.58% in CY19, making BAHL one of the largest beneficiaries of the interest rate hike. Furthermore, strong deposits' growth, extremely low proportion of government deposits, high ROE amongst peers, high ADR and the lowest infection ratio have made the valuation of the company much more attractive

Sector Overview

According to the data updated by State Bank of Pakistan (SBP), total deposits of all banks showed a healthy growth of 10.68% or Rs 1.395 trillion in FY19 to reach an all-time high level of Rs. 14.46 trillion as of June 30, 2019 compared with Rs 13.062 trillion on June 30, 2018. The growth in deposits was mostly fueled in June 2019, mainly due to the amnesty scheme and seasonal targets. On a month-on-month basis, during June 2019, deposits grew by Rs. 998 billion or 7% to Rs 14.458 trillion up from Rs 13.46 trillion in May 2019.

The State Bank of Pakistan's latest data shows the government borrowed Rs1.367 trillion from July 1 to Aug 2 (33 days) as against net debt retirement of Rs20.2bn during the same period last fiscal year. This shift in government's borrowing to the private banks came as a result of SBP's decision to stop lending to the center and finance its cash shortages. Banking money's flow is now directed towards the government papers which is likely to hit the economic growth. However, this scenario is highly favorable for the banking sector of the country.

Banking profitability is set to recover strongly in 2019 on the back of expansion in NIM (net interest margin) coupled with growing deposits and rising interest rate. We expect that the interest rate has come to its peak now at 13.25% after an increase of 750 bps since Dec-17. Keeping the numbers of current account deficit, fiscal deficit and CPI inflation in view, we expect a rate cut of around 25-50 bps before Jun-20. (Dawn, 2019) (Islamabad, 2019) (TheNews, 2018)

Strong Growth in Deposits Likely to Continue

The deposit base of BAHL has grown at a 5-year CAGR of 16% to Rs797bn in CY18. The robust growth in deposits has been made possible by the network of 721 branches which have been grown at a 5-year CAGR of 12. Going forward, we expect the deposit base to grow at a 5-year CAGR of 15% to Rs1.61tr by CY23 on account of strong brand equity, and the government's efforts to document the economy.

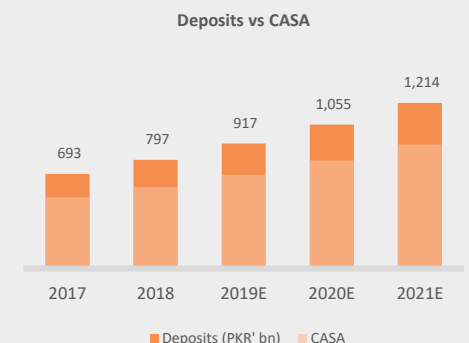
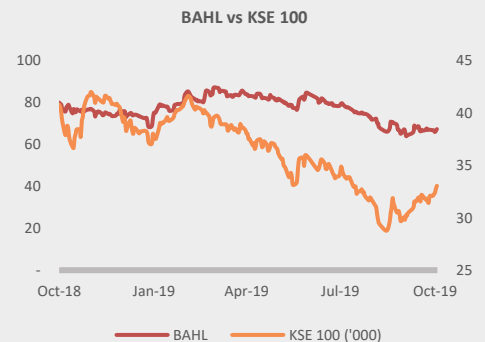
NIMs Likely to Expand Further

BAHL has always been enjoying high net interest margins on account of the high proportion of CASA in deposits among its peers. The bank posted the NIM of 3.11% along with CASA to deposits ratio of 75% in CY18. Going forward, we expect the bank would be one of the largest beneficiaries of the rate hike as high CASA to deposits would help the bank to limit its interest expense which will result in the expansion of NIM by around 47 bps to 3.58% in CY19.

Key Statistics

Symbol	BAHL
TP - Dec 20	93.00
LDCP	69.83
Upside	33%
Free Float (mn)	722
Market Cap. (Rs.mn)	77,611

Symbol	P.B
MEBL	2.57
MCB	1.37
ABL	1.12
BAFL	0.94
Peer Average	1.50
BAHL	1.68
Discount	12%



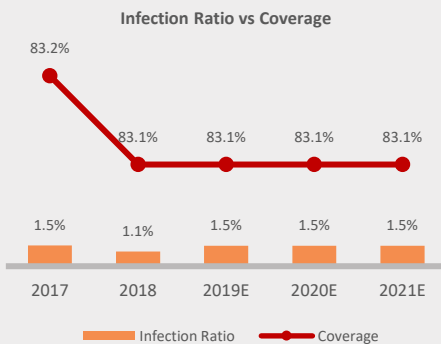
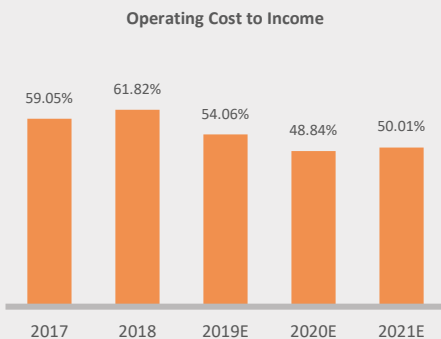
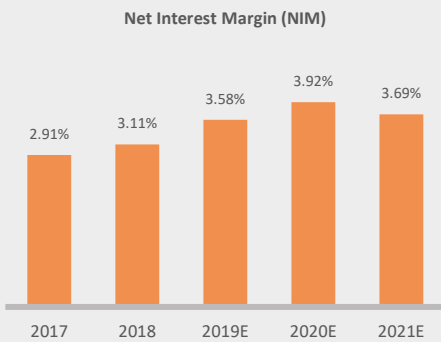
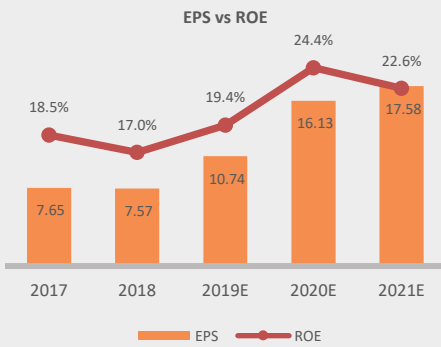
Sources: ACPL Research, Company Financials, PSX

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Key Statistics



Sources: ACPL Research, Company Financials, PSX

Extremely Low Proportion of Government Deposits

BAHL has almost the lowest proportion of government deposits in its deposit base. By the end of CY18, the bank had only 2.4% of government deposits which makes it the least affected bank in case of the formation of treasury single account (TSA) in the future.

High Advances to Deposit Ratio

Despite slowdown in economy and industrial growth, the ADR of BAHL stood at 60% in CY18 as compared to its peers' average of 56% due to which it stands out amongst its peers. High ADR enables the bank to expand its NIM by earning high yields on corporate loans and allocate the rest of the available funds to the government papers which are also offering double digit returns on account of on-going monetary contractionary phase.

Lowest Infection Ratio Amongst Peers

As BAHL is one of the conservative banks in Pakistan, its infection ratio is expected to remain under control even in the rising interest rate regime. As per the financials of CY18, the figure stood at 1.1% which is the lowest amongst its peers. However, we expect the significant provision of around Rs2.7bn in CY19 on account of lower coverage (83%) in CY18 as compared to its peers' average of 88%.

Valuation

BAHL is offering CY20E ROE of 24% and is currently trading at CY20E PE of 4.33x. Furthermore, the script is trading at a CY20E P/B of 1.06x which offers a massive discount of 44% relative to its historical 5-year average of 1.90x. We have a **BUY** stance on the script with a Justified P/B based Dec-20 TP of Rs.93 which provides an upside potential of 33%. Furthermore, it also offers an attractive dividend yield of 9% which makes the total return of 42%.

Key Risks to Valuation

- Earlier than expected cut in interest rate
- More than expected rise in NPLs

Key Ratios

Profitability Ratios		2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E	2023E
Yield on Earning Assets	%	8.09	8.39	6.74	5.76	6.25	10.46	10.64	9.84	9.05	8.27
Interest Cost	%	4.65	4.31	3.32	2.85	3.14	6.88	6.73	6.15	5.58	5.01
Net Interest Margin	%	3.44	4.07	3.41	2.91	3.11	3.58	3.92	3.69	3.48	3.26
Operating Cost to Income	%	54.18	51.14	57.99	59.05	61.82	54.06	48.84	50.01	51.19	52.73
Return on Equity	%	19.46	19.56	19.10	18.53	16.99	19.40	24.44	22.62	21.12	19.08
Return on Assets	%	1.10	1.16	1.08	0.90	0.80	0.99	1.29	1.22	1.16	1.04
Balance Sheet Analysis		2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E	2023E
Deposits Growth	%	15.60	15.64	13.16	18.56	15.06	15.06	15.06	15.06	15.06	15.06
CASA to Deposits	%	74.34	74.28	77.59	75.55	74.99	74.99	74.99	74.99	74.99	74.99
Advances to Deposits	%	40.63	40.16	44.75	49.07	60.01	60.59	60.54	60.50	60.46	60.43
Investments to Deposits	%	74.24	69.09	69.33	68.75	52.03	50.88	49.36	48.03	46.88	45.88
PIBs to Investments	%	46.97	54.96	35.81	24.56	19.90	19.90	19.90	19.90	19.90	19.90
T Bills to Investments	%	48.84	39.20	58.08	70.20	72.55	72.55	72.55	72.55	72.55	72.55
Gross Infection Ratio	%	2.67	2.72	2.12	1.52	1.08	1.50	1.50	1.50	1.50	1.50
Provisioning Coverage	%	80.26	94.26	85.42	83.19	83.12	83.12	83.12	83.12	83.12	83.12
Net Infection Ratio	%	0.55	0.16	0.32	0.26	0.18	0.25	0.25	0.26	0.26	0.26
Capital Adequacy Ratio	%	14.89	13.75	14.18	13.81	13.43	13.44	13.90	14.21	14.39	14.39
Leverage Ratio	%	0.00	0.00	3.60	4.26	4.07	4.10	4.31	4.46	4.56	4.58
Operational Analysis		2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E	2023E
Market Share - Deposits	%	5.35	5.55	5.21	5.60	5.97	6.24	6.53	6.83	7.14	7.47
Market Share - Advances	%	4.22	4.51	4.83	5.32	6.16	6.44	6.74	7.05	7.38	7.72
Market Share - Investments	%	6.42	5.23	5.52	5.56	5.50	5.56	5.64	5.75	5.87	6.00
No. of Branches		459	528	605	650	721	793	872	960	1056	1161
Investment Ratios		2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E	2023E
Dividend Per Share		3.00	3.50	3.50	3.00	2.50	4.29	6.45	7.03	7.65	7.93
Dividend Yield	%	4.30	5.01	5.01	4.30	3.58	6.15	9.24	10.07	10.95	11.36
Dividend Cover	x	1.90	1.90	2.09	2.55	3.03	2.50	2.50	2.50	2.50	2.50
Retention Ratio	%	47.48	47.47	52.09	60.78	66.99	60.00	60.00	60.00	60.00	60.00
Payout Ratio	%	52.52	52.53	47.91	39.22	33.01	40.00	40.00	40.00	40.00	40.00
No. of Shares	('m)	1111	1111	1111	1111	1111	1111	1111	1111	1111	1111
Earnings Per Share		5.71	6.66	7.31	7.65	7.57	10.74	16.13	17.58	19.12	19.83
Book Value Per Share		29.36	34.06	38.25	41.28	44.58	55.32	66.01	77.71	90.50	103.93
Price to Earnings	x	12.22	10.48	9.56	9.13	9.22	6.50	4.33	3.97	3.65	3.52
Price to Book Value	x	2.38	2.05	1.83	1.69	1.57	1.26	1.06	0.90	0.77	0.67

Source: ACPL Research, Company Financials

Financial Projections

Rupees' millions	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E	2023E
Mark-up / Return / Interest earned	44,001	50,293	47,804	50,309	60,733	116,735	136,671	145,315	153,812	161,405
Mark-up / Return / Interest expensed	-24,937	-25,476	-23,133	-24,387	-29,839	-75,183	-84,398	-88,673	-92,416	-95,367
Net Mark-up / Interest Income	19,064	24,817	24,672	25,923	30,894	41,552	52,273	56,643	61,396	66,037
Fee and commission income	1,951	2,287	2,521	3,153	4,115	4,609	5,070	5,577	6,135	6,748
Dividend income	365	602	592	448	445	365	407	456	512	576
Foreign exchange income	854	707	491	914	1,632	879	879	879	879	879
(Loss) / gain on securities	0	217	719	2,739	-15	48	55	63	72	82
Other income	638	697	729	864	940	959	978	998	1,018	1,038
Total non-markup / interest income	3,808	4,511	5,052	8,118	7,117	6,860	7,389	7,972	8,615	9,324
Non mark-up / interest expenses										
Operating expenses	-12,190	-14,695	-17,728	-19,779	-23,202	-25,754	-28,587	-31,732	-35,222	-39,097
Workers' Welfare Fund	0	0	0	-287	-295	-374	-513	-543	-574	-598
Other charges	-203	-302	492	-36	-4	-42	-42	-42	-42	-42
Profit Before Provisions	10,479	14,330	12,488	13,939	14,511	22,242	30,520	32,298	34,173	35,624
Provisions / (reversal of provisions)	-562	-1,999	676	-49	-247	-2,683	-1,122	-1,291	-1,486	-1,710
Profit before income tax	9,917	12,332	13,164	13,890	14,264	19,560	29,398	31,007	32,687	33,914
Income tax expense	-3,568	-4,927	-5,045	-5,389	-5,846	-7,628	-11,465	-11,473	-11,440	-11,870
Profit for the year	6,349	7,405	8,119	8,501	8,418	11,931	17,933	19,534	21,246	22,044
EPS	5.71	6.66	7.31	7.65	7.57	10.74	16.13	17.58	19.12	19.83

Horizontal Analysis

	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E	2023E
Mark-up / Return / Interest earned	18.11%	14.30%	-4.95%	5.24%	20.72%	92.21%	17.08%	6.32%	5.85%	4.94%
Mark-up / Return / Interest expensed	8.45%	2.16%	-9.20%	5.42%	22.36%	151.96%	12.26%	5.06%	4.22%	3.19%
Net Mark-up / Interest Income	33.68%	30.17%	-0.59%	5.07%	19.18%	34.50%	25.80%	8.36%	8.39%	7.56%
Total non-markup / interest income	-2.57%	18.47%	12.00%	60.69%	-12.33%	-3.61%	7.71%	7.89%	8.06%	8.22%
Non mark-up / interest expenses										
Operating expenses	21.8%	20.6%	20.6%	11.6%	17.3%	11.0%	11.0%	11.0%	11.0%	11.0%
Workers' Welfare Fund	0.0%	0.0%	0.0%	0.0%	2.8%	26.9%	37.1%	5.8%	5.8%	4.2%
Other charges	29.4%	49.0%	-263.0%	-107.4%	-90.4%	1093.4%	0.0%	0.0%	0.0%	0.0%
Profit Before Provisions	30.9%	36.7%	-12.9%	11.6%	4.1%	53.3%	37.2%	5.8%	5.8%	4.2%
Provisions / (reversal of provisions)	14.5%	255.5%	-133.8%	-107.2%	409.2%	985.3%	-58.2%	15.1%	15.1%	15.1%
Profit before income tax	32.0%	24.3%	6.7%	5.5%	2.7%	37.1%	50.3%	5.5%	5.4%	3.8%
Income tax expense	51.29%	38.07%	2.40%	6.83%	8.47%	30.49%	50.30%	0.06%	-0.28%	3.75%
Profit for the year	23.17%	16.63%	9.65%	4.70%	-0.98%	41.74%	50.30%	8.93%	8.76%	3.75%
EPS	23.17%	16.63%	9.65%	4.70%	-0.98%	41.74%	50.30%	8.93%	8.76%	3.75%

Source: ACPL Research, Company Financials

Advances Analysis

For the Year 2018	Gross Advances	Infection Ratio	NPLs Coverage
Textile	23.6%	1.5%	96.4%
Wholesale and Retail Trade	10.3%	0.4%	76.3%
Power (electricity), Gas, Water, Sanitary	10.2%	0.0%	0.0%
Services (other than financial services)	10.2%	0.0%	50.0%
Exports / Imports	5.8%	1.3%	99.0%
Iron and steel	4.7%	0.0%	0.0%
Food and Allied	4.6%	0.0%	0.0%
Individuals	4.3%	0.3%	88.0%
Chemical and Pharmaceuticals	3.4%	0.0%	0.0%
Transport, Storage and Communication	2.7%	0.0%	100.0%
Ghee and Edible Oil	2.6%	0.0%	0.0%
Agriculture, Forestry, Hunting and Fishing	2.3%	1.1%	93.4%
Oil Refinery / Marketing	1.9%	0.0%	0.0%
Others	1.5%	34.2%	71.2%
Automobile and transportation equipment	1.5%	0.3%	100.0%
Sugar	1.5%	0.0%	0.0%
Construction	1.4%	1.7%	92.4%
Financial	1.3%	1.7%	85.5%
Metal Products and Surgical Equipment's	1.2%	0.0%	0.0%
Cement	1.0%	0.0%	0.0%
Plastic products	1.0%	0.0%	0.0%
Ship breaking and waste / scrap (junk) etc.	0.9%	0.0%	0.0%
Paper and Board	0.8%	0.0%	0.0%
Electronics and electrical appliances	0.7%	0.0%	0.0%
Footwear and Leather garments	0.5%	0.0%	0.0%
Insurance	0.1%	0.0%	0.0%
Mining and Quarrying	0.0%	0.0%	0.0%
Total	100.0%	1.1%	83.1%

Source: ACPL Research, Company Financials

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TP	Target Price	CAGR	Compound Annual Growth Rate	FCF	Free Cash Flows
FCFE	Free Cash Flows to Equity	FCFF	Free Cash Flows to Firm	DCF	Discounted Cash Flows
PE	Price to Earnings Ratio	PB	Price to Book Ratio	BVPS	Book Value Per Share
EPS	Earnings Per Share	DPS	Dividend Per Share	ROE	Return of Equity
ROA	Return on Assets	SOTP	Sum of the Parts	LDCP	Last Day Closing Price

VALUATION METHODOLOGY

To arrive at our Target Price, Abbasi & Company (Private) Limited uses different valuation methods which include:

- I. Discounted Cash Flow Model
- II. Dividend Discount Model
- III. Relative Valuation Model
- IV. Sum of Parts Valuation

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Stock Rating	Expected Total Return
BUY	Greater than 15%
HOLD	Between -5% to 15%
SELL	Less than and equal to -5%

Sector Rating	Sector Outlook
Overweight	Positive
Market Weight	Neutral
Underweight	Negative

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