

HBL has announced its 9MCY22 result where it posted a profit after tax of Rs21.70bn (EPS: Rs14.79) as compared to a profit after tax of Rs26.45bn (EPS: Rs18.03) in the same period last year, down by 17.9% YoY amid super tax imposition by the Government.

The bank has posted a net interest income of Rs106.70bn against Rs90.01bn in SPLY, recording an increase of 18.5%. Non-interest income has increased by 32.3% YoY to Rs29.12bn as compared to Rs22.03bn during SPLY, mainly due to the huge increase in foreign exchange and fee & commission income.

The operating cost-to-income ratio has increased to 59.2% as compared to 55.4% during SPLY. Furthermore, effective taxation has increased to 57.9% as compared to the 41.4% SPLY.

HBL is currently trading at CY23E PE of 1.88x. Furthermore, the scrip is trading at a CY23E P/B of 0.35x which offers a discount of 16% relative to its historical 3-year average of 0.41x. We recommend our investors to **BUY** the scrip with a Justified PB Jun-23 TP of Rs.90 which provides an upside potential of 26%. Furthermore, it also offers an attractive dividend yield of 13% which makes a total return of 39%.

Rupees' millions	3QCY22	3QCY21	YoY	9MCY22	9MCY21	YoY
Interest earned	114,681	62,026	84.9% ▲	290,013	180,998	60.2% ▲
Interest expensed	-75,656	-31,946	136.8% ▲	-183,314	-90,987	101.5% ▲
<b>Net Interest Income</b>	<b>39,025</b>	<b>30,081</b>	<b>29.7% ▲</b>	<b>106,699</b>	<b>90,011</b>	<b>18.5% ▲</b>
Fee and commission income	6,786	5,391	25.9% ▲	19,986	15,662	27.6% ▲
Dividend income	394	197	100.1% ▲	1,217	1,086	12.0% ▲
Foreign exchange income	3,946	1,200	228.9% ▲	10,302	2,478	1030094% ▲
(Loss) / gain on securities	212	93	126.4% ▲	687	1,901	63.8% ▼
Other income	117	537	78.2% ▼	359	977	63.3% ▼
<b>Non-Interest Income</b>	<b>9,136</b>	<b>6,450</b>	<b>41.7% ▲</b>	<b>29,138</b>	<b>22,026</b>	<b>32.3% ▲</b>
Operating expenses	-28,141	-20,480	37.4% ▲	-80,482	-62,041	29.7% ▲
Workers' Welfare Fund	-381	-272	40.1% ▲	-1,030	-903	14.1% ▲
Other charges	-9	-27	68.1% ▼	-451	-79	470.3% ▲
Profit Before Provisions	19,630	15,751	24.6% ▲	53,874	49,014	9.9% ▲
Provisions	-527	-754	30.0% ▼	-2,356	-3,916	39.8% ▼
Profit Before Taxation	19,103	14,997	27.4% ▲	51,518	45,098	14.2% ▲
Taxation	-8,916	-6,036	47.7% ▲	-29,819	-18,652	59.9% ▲
<b>Profit After Taxation</b>	<b>10,187</b>	<b>8,961</b>	<b>13.7% ▲</b>	<b>21,699</b>	<b>26,446</b>	<b>17.9% ▼</b>
<b>Earnings Per Share</b>	<b>6.94</b>	<b>6.11</b>	<b>13.7% ▲</b>	<b>14.79</b>	<b>18.03</b>	<b>17.9% ▼</b>
<b>Dividend</b>	<b>1.50</b>	<b>1.75</b>	<b>14.3% ▼</b>	<b>5.25</b>	<b>5.25</b>	-
<b>Bonus</b>	<b>0%</b>	<b>0%</b>		<b>0%</b>	<b>0%</b>	

Closing period: 8 Nov 2022 - 10 Nov 2022

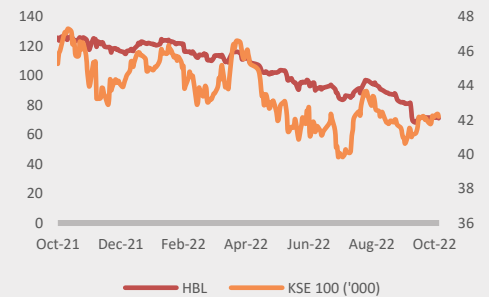
Operating Cost to Income	-58.4%	-56.1%	2.4% ▲	-59.2%	-55.4%	3.9% ▲
Effective Taxation	-46.7%	-40.2%	6.4% ▲	-57.9%	-41.4%	16.5% ▲

Source: ACPL Research, Company Financials

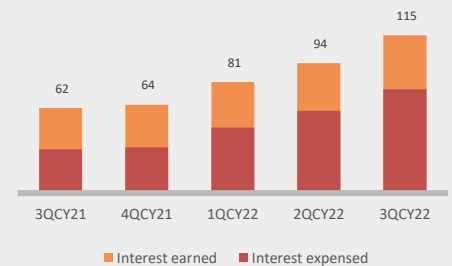
## Key Statistics

Symbol	HBL
TP - Jun 23	90
LDCP	71.09
Upside (%)	26
Free Float ('mn)	733
Market Cap. (Rs.'mn)	103,310

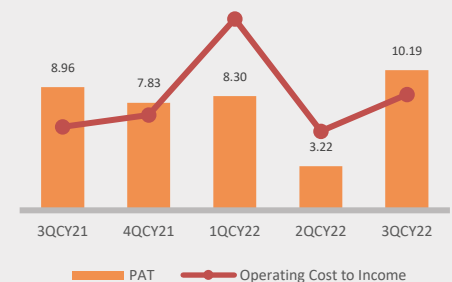
## HBL vs KSE 100



## Interest Earned vs Expensed (Rs'bn)



## PAT (Rs'bn) vs Operating Cost To Income



Sources: ACPL Research, Company Financials

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## Financial Projections

Rupees' millions	2020	2021E	2022E	2023E	2024E	2025E	2026E
Mark-up / Return / Interest earned	257,777	245,252	389,014	487,032	503,590	519,192	568,053
Mark-up / Return / Interest expensed	-135,725	-124,305	-244,480	-280,993	-279,299	-278,750	-290,914
<b>Net Mark-up / Interest Income</b>	<b>122,052</b>	<b>120,947</b>	<b>144,534</b>	<b>206,039</b>	<b>224,292</b>	<b>240,441</b>	<b>277,139</b>
Fee and commission income	16,353	22,244	26,693	29,362	32,298	35,528	39,081
Dividend income	1,668	1,509	1,622	1,770	1,932	2,110	2,307
Foreign exchange income	-422	4,598	13,794	2,544	2,544	2,544	2,544
(Loss) / gain from derivatives	1,078	-182	-4,552	-2,276	-1,138	-1,138	-1,138
(Loss) / gain on securities	7,027	1,442	932	1,025	1,128	1,241	1,365
Other income	38	1,114	501	576	663	762	877
<b>Total non-markup / interest income</b>	<b>25,743</b>	<b>30,724</b>	<b>38,989</b>	<b>33,001</b>	<b>37,426</b>	<b>41,047</b>	<b>45,034</b>
<b>Non mark-up / interest expenses</b>							
Operating expenses	-83,152	-84,608	-108,279	-131,472	-143,945	-154,818	-177,195
Workers' Welfare Fund	-1,104	-1,180	-1,384	-1,345	-1,472	-1,583	-1,812
Other charges	-321	-557	-622	-779	-806	-831	-909
<b>Profit Before Provisions</b>	<b>63,218</b>	<b>65,327</b>	<b>73,238</b>	<b>105,444</b>	<b>115,495</b>	<b>124,256</b>	<b>142,257</b>
Provisions / (reversal of provisions)	-10,224	-6,353	-4,140	-4,449	-4,578	-4,688	-4,774
<b>Profit before income tax</b>	<b>52,994</b>	<b>58,974</b>	<b>69,098</b>	<b>100,995</b>	<b>110,917</b>	<b>119,568</b>	<b>137,483</b>
Income tax expense	-21,471	-24,703	-39,995	-45,448	-49,913	-53,806	-61,867
<b>Profit for the year</b>	<b>31,524</b>	<b>34,271</b>	<b>29,103</b>	<b>55,547</b>	<b>61,004</b>	<b>65,762</b>	<b>75,616</b>
EPS	21.49	23.36	19.84	37.87	41.59	44.83	51.55

## Horizontal Analysis

Horizontal Analysis	2020	2021E	2022E	2023E	2024E	2025E	2025E
Mark-up / Return / Interest earned	4.6%	-4.9%	58.6%	25.2%	3.4%	3.1%	9.4%
Mark-up / Return / Interest expensed	-10.6%	-8.4%	96.7%	14.9%	-0.6%	-0.2%	4.4%
<b>Net Mark-up / Interest Income</b>	<b>29.0%</b>	<b>-0.9%</b>	<b>19.5%</b>	<b>42.6%</b>	<b>8.9%</b>	<b>7.2%</b>	<b>15.3%</b>
Fee and commission income	-10.1%	36.0%	20.0%	10.0%	10.0%	10.0%	10.0%
Dividend income	27.2%	-9.5%	7.5%	9.1%	9.2%	9.2%	9.3%
Foreign exchange income	-339.4%	-1190.8%	200.0%	-81.6%	0.0%	0.0%	0.0%
(Loss) / gain on securities	-548.7%	-79.5%	-35.3%	10.0%	10.0%	10.0%	10.0%
Other income	-95.4%	2815.2%	-55.0%	15.0%	15.0%	15.0%	15.0%
<b>Total non-markup / interest income</b>	<b>37.2%</b>	<b>19.4%</b>	<b>26.9%</b>	<b>-15.4%</b>	<b>13.4%</b>	<b>9.7%</b>	<b>9.7%</b>
<b>Non mark-up / interest expenses</b>							
Operating expenses	0.5%	1.8%	28.0%	21.4%	9.5%	7.6%	14.5%
Workers' Welfare Fund	94.7%	6.8%	17.4%	-2.9%	9.5%	7.6%	14.5%
Other charges	-33.2%	73.7%	11.7%	25.2%	3.4%	3.1%	9.4%
<b>Profit Before Provisions</b>	<b>113.4%</b>	<b>3.3%</b>	<b>12.1%</b>	<b>44.0%</b>	<b>9.5%</b>	<b>7.6%</b>	<b>14.5%</b>
Provisions / (reversal of provisions)	304.1%	-37.9%	-34.8%	7.5%	2.9%	2.4%	1.8%
<b>Profit before income tax</b>	<b>95.6%</b>	<b>11.3%</b>	<b>17.2%</b>	<b>46.2%</b>	<b>9.8%</b>	<b>7.8%</b>	<b>15.0%</b>
Income tax expense	78.4%	15.1%	61.9%	13.6%	9.8%	7.8%	15.0%
<b>Profit for the year</b>	<b>109.3%</b>	<b>8.7%</b>	<b>-15.1%</b>	<b>90.9%</b>	<b>9.8%</b>	<b>7.8%</b>	<b>15.0%</b>
EPS	109.3%	8.7%	-15.1%	90.9%	9.8%	7.8%	15.0%

Source: ACPL Research, Company Financials

## Key Ratios

Profitability Ratios		2020	2021	2022E	2023E	2024E	2025E	2026E
Yield on Earning Assets	%	7.59	6.47	9.36	10.70	10.11	9.47	9.45
Interest Cost	%	4.14	3.38	6.05	6.33	5.72	5.19	4.92
Net Interest Margin	%	3.45	3.09	3.31	4.38	4.39	4.28	4.52
Operating Cost to Income	%	57.23	56.93	60.09	55.89	55.87	55.86	55.84
Return on Equity	%	12.99	13.29	11.29	18.52	17.62	16.60	18.07
Return on Assets	%	0.87	0.84	0.64	1.12	1.12	1.10	1.15
<b>Balance Sheet Analysis</b>		<b>2020</b>	<b>2021</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2025E</b>
Deposits Growth	%	15.97	19.28	10.00	10.00	10.00	10.00	10.00
CASA to Deposits	%	74.03	70.78	70.78	70.78	70.78	70.78	70.78
Advances to Deposits	%	41.86	43.48	47.69	47.58	47.48	47.38	47.28
Investments to Deposits	%	71.63	59.83	60.00	59.51	59.06	58.65	58.28
PIBs to Investments	%	55.04	63.14	48.97	48.97	48.97	48.97	48.97
T Bills to Investments	%	33.26	20.66	20.66	20.66	20.66	20.66	20.66
Gross Infection Ratio	%	6.32	5.07	5.07	4.87	4.67	4.47	4.27
Provisioning Coverage	%	88.89	93.15	90.56	90.56	90.56	90.56	90.56
Net Infection Ratio	%	0.75	0.37	0.45	0.44	0.42	0.40	0.39
Capital Adequacy Ratio	%	17.24	15.63	15.33	16.10	16.80	17.34	16.82
Leverage Ratio	%	4.25	4.38	4.23	4.49	4.73	4.93	4.75
<b>Operational Analysis</b>		<b>2020</b>	<b>2021</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2025E</b>
Market Share - Deposits	%	14.93	15.18	15.02	14.55	14.10	13.67	13.25
Market Share - Advances	%	14.05	14.42	14.07	13.64	13.21	12.81	12.41
Market Share - Investments	%	16.47	13.54	13.40	12.88	12.39	11.92	11.48
No. of Branches		1697	1697	1697	1697	1697	1697	1697
<b>Investment Ratios</b>		<b>2020</b>	<b>2021</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2025E</b>
Dividend Per Share		4.25	7.50	6.25	9.50	10.50	11.25	13.00
Dividend Yield	%	5.98	10.55	8.79	13.36	14.77	15.83	18.29
Dividend Cover	x	5.06	3.12	3.17	3.99	3.96	3.99	3.97
Retention Ratio	%	80.22	67.90	67.90	75.00	75.00	75.00	75.00
Payout Ratio	%	19.78	32.10	32.10	25.00	25.00	25.00	25.00
No. of Shares	('m)	1467	1467	1467	1467	1467	1467	1467
Earnings Per Share		21.49	23.36	19.84	37.87	41.59	44.83	51.55
Book Value Per Share		165.47	175.84	175.79	204.51	235.99	270.00	285.26
Price to Earnings	x	3.31	3.04	3.58	1.88	1.71	1.59	1.38
Price to Book Value	x	0.43	0.40	0.40	0.35	0.30	0.26	0.25

Source: ACPL Research, Company Financials

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<b>TP</b>	Target Price	<b>CAGR</b>	Compound Annual Growth Rate	<b>FCF</b>	Free Cash Flows
<b>FCFE</b>	Free Cash Flows to Equity	<b>FCFF</b>	Free Cash Flows to Firm	<b>DCF</b>	Discounted Cash Flows
<b>PE</b>	Price to Earnings Ratio	<b>PB</b>	Price to Book Ratio	<b>BVPS</b>	Book Value Per Share
<b>EPS</b>	Earnings Per Share	<b>DPS</b>	Dividend Per Share	<b>ROE</b>	Return of Equity
<b>ROA</b>	Return on Assets	<b>SOTP</b>	Sum of the Parts	<b>LDCP</b>	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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BUY	Greater than 15%
HOLD	Between -5% to 15%
SELL	Less than and equal to -5%

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Market Weight	Neutral
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