

Bank Al-Habib – Increase in advances is a good omen in CY16

CY15 estimations:

We cover Bank Al-Habib (BAHL). We expect BAHL to report EPS of Rs6.10/sh as against Rs5.71/sh reported in the same period last year; showing growth of 7%. The 4QEPS could be Rs1.37/sh vis-a-vis 3Q EPS of Rs1.75/sh.

BAHL has a historical payout ratio of 52.54% which translates into our expected cash dividend of Rs3.0/sh – Rs3.2/sh. The expected annual cash yield could around 7%. BAHL depict CY15PE of 6.9x which makes it historically undervalued.

Trend of advances showing growth as per SBP report...

The overall trend of making earning through investments in commercial paper will transform banks in CY16 despite substantial decrease in interest rates.

For last many years banks have made earnings through investments held in AFS & HTM which was in line with general trend for commercial banks in Pakistan.

For BAHL, we witnessed increasing advances since private sector lending has also generally picked up during 2HCY15.

We see this as good omen for the economy in general and second tier banks in particular. Bank Al-Habib (BAHL) has also showed this trend during 9MCY15 (increase of 10.5% to Rs200.6bn since CY14) and we expect another growth trend in loan book to the extent of Rs 220bn during concluded CY15.

~ The thrust in investments will likely to come down from Rs377bn reported in 9MCY15. BAHL NIMs, as per our estimations will stay around 4.5%, which is a decrease from last year level.

REK - 66

Valuations compelling

Price Rs 42.3
Chg -

CY14 EPS Rs 5.71
CY15E EPS Rs 6.10

CY14 PE 7.4x
CY15E PE 6.9x

CY14 PBV 1.32x
CY15E PBV 1.17x

CY14 DPS Rs 3
CY15E DPS Rs 3

CY15E Div.yield 7%

BAHL relative index ~ outperformance vis-a-vis KSE100

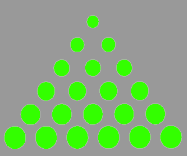


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Deposit trend in increasing for BAHL unlike industry...

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BAHL sits on good deposit base (9MCY15: Rs481.6bn); thus giving bank the room to enhance loan book. Bank continues to thrive on non-remunerative deposits which has shown increase during CY15 and thus bodes well for ongoing CY16.

BAHL to live on trade finance...

BAHL traditionally lives on trade finance business. During 9MCY15, BAHL made fee income of Rs1.66bn. The non-core fee income is derived from banking services. The overall non-core income could touch Rs30bn in our CY15 bound estimations. This means that BAHL non-core earnings could actually exceed core interest income which proves our thrust that BAHL derives main earnings through trade finance business.

Sits pretty as far as NPLs...

BAHL provided Rs1.3bn during 9MCY15 against non-performing loans and hence adequately provided. We do not see erosion in CY15 EPS estimations.

Expected price to book is 1.17x; cash yield 7%

~ The expected book value remains Rs36/sh wherein BAHL yields expected price to book of 1.17x. The historical P/BV remained 1.3x

~ Also expected dividend yield comes out to 7% at the premise of Rs3/sh – Rs3.2/sh final dividend in CY15 (CY14: Rs3/sh).

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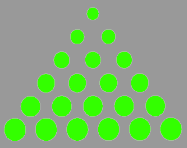
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