

Bank Al-Habib: Investment option | PE 5.8x, DY8.5%

We have fine tuned our BAML model after the advent of CY15 report. We expect BAML to focus on increased advance base from existing Rs205.85bn. This is mainly due to our premise that BAML is geared up towards increase in deposits i.e. Rs516.2bn as at Dec 31, 2015.

BAML continue to thrive over decline in the provisioning. We expect BAML to maintain its earnings spree in CY16 based on our CY16 premise of 24.8% increase in advances due to its policy to focus on increasing branch base.

We also expect increase in *advance to deposit ratio* (ADR) which is to increase from 39.9% (our estimation above 42% given lower interest rate regime – slight improving business environment).

Our premise of increase in advances is also at the pretext of increase in branches (CY15: 423 as against CY14: 351). Hence our model for BAML is based on the assumption of branch increase.

BAML yield CY16PE of 5.8x, PBV of 1.09 (below than previous years & cash yield of 8.7% for CY16. BAML is a good investment option.

P&L statement Highlights

In million Rs	CY14	CY15	CY16E
Interest earned	44,001	50,293	46,580
Interest expensed	24,937	25,476	24,903
Net interest income	19,064	24,817	21,677
Provisions	553	1,960	890
Non mark-up income	3,808	4,511	4,545
Non mark-up expenses	12,402	(15,036)	14,338
PBT	9,917	12,332	10,994
PAT	6,349	7,405	7,586
EPS	5.71	6.66	6.83
DPS	3.00	3.50	3.48

Source: Bank's Books & SCS research

....**Outgoing CY15**....Bank Al-Habib (BAML) reported CY15 EPS of Rs 6.66/sh as against Rs 5.71/sh reported in CY14. BAML also passed on dividend of Rs3.5/sh as per our expectation. The growth in earnings is mainly attributed to growth in advances. We see change emerging in general trend since private sector credit off-take has started increasing since 4QCY15. We expect BAML to be one of the main beneficiaries. Short-term advances for CY15 have grown by 84%. Its share from total Advances

REP – 033

Valuations

Price Rs 40.49
Chg +0.37

CY14 EPS Rs. 5.71
CY15 EPS Rs 6.66
CY16E EPS Rs 6.83

CY14 PE 7.1x
CY15 PE 6.0x
CY16E PE 5.8x

CY14 PBV 1.36
CY15 PBV 1.17
CY16E PBV 1.09

CY15 DPS Rs 3.5
CY16E DPS Rs 3.48

CY16E Div.yield 8.7%

Our expected NIM for CY16 is 4.3% from 3.8% (CY15)

We expect Book Value to increase by 5% to Rs 35.8/sh

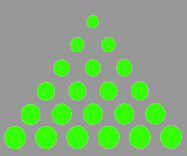
We expect total Assets to increase by 9.8% and will reach Rs. 702bn

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(Rs. 4.78 trillion) for CY15 is 4.3%.

Provisioning...BAHL has adequately provided against NPLs and we expect around Rs800mn could be provided as per our estimation. Though, it could be lower up to Rs300mn – Rs 500 mn which indeed could amplify our earning estimation presented in table.

Increase in Deposits....For CY15 Deposits increased by 16% (Rs. 446bn CY14), which is good for its growth. BAHAL has opened 62 new branches and other operation activities. Its total deposit share is 5.5% of total deposits Rs. 9.3 trillion which is same as of CY14 (Rs. 8.3 trillion).

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