Bank AL Habib Limited

PKR75.9 - BUY

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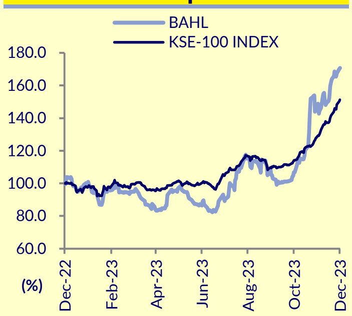
6 December 2023

Pakistan

Banks

Bloomberg	BAHL PA
Reuters	BKEQ.PSX
Priced on 05 December 2023	
KSE100 @ 62,956.0	
12M hi/lo	PKR75.9/36.6
Dec-24 price target	PKR125.0
±% potential	+64.6%
Shares in issue	1,111.4m
Free float	65.0%
Mkt. cap	USD296.8m
3M ADV	USD0.2m

BAHL vs. KSE100 performance



Source: PSX, Bloomberg

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Cheap valuations warrant a buy

Perfect combination of high yield and growth

We have analysed Bank-Al-Habib from two angles: 1) increment in dividends 2) focus towards Islamic banking. From a payout perspective, we opine that BAHL has room to increase dividend payouts going forward while maintaining its CAR at adequate level. Moreover, the bank has been consistently focusing towards Islamic banking business and planning to add around 80 branches next year, most of them being Islamic. BAHL trades at an attractive CY24E PE/PB of 1.5/0.5x, with Dec-24 TP of PKR125/sh offering an upside of 65%.

Ability to increase dividend payout: Current payout ratio (45%), corresponds to a CY24/25 dividend yield of 29.1/26.1%. We have assessed a scenario where BAHL uplifts its payout to 65% and its resultant impact on the capital adequacy. We conclude that the bank, barring any unforeseen scenario, has the ability to maintain a higher payout ratio for next 3 years, while keeping the Tier-1 CAR around 12%. If payout is assumed at 65%, CY24/25E dividend yield increases to 42.0/37.2%.

Figure 1

CAR sensitivity at various payout levels

	Tier-1 CAR		
Payout	**CY24**	**CY25**	**CY26**
40%	13.8%	14.6%	14.8%
45%	13.6%	14.2%	14.3%
55%	13.1%	13.4%	13.2%
65%	12.6%	12.6%	12.2%

Source: Company Accounts, Alfalah CLSA Research

We highlight that we have assumed a deposit growth of 11% per annum after CY23 in the above analysis, which if higher, can have a bearing on this payout increment. However, it is safe to say that the bank can increase the payout from current levels while focusing on both growth and pay-out. The bank plans to add around 80 branches next year, which can result in a higher deposit growth. Assuming the deposit grows by 15% in CY24 instead of 11%, and the bank maintains 45% payout (our base case), CY24/25/26 EPS and DPS will be PKR50.7/46.1/40.8 and PKR22.8/20.7/18.4 respectively. This corresponds to a dividend yield of 30.8/28.0/24.8% for CY24/25/26 respectively. Note that Tier-1 CAR at these assumptions shall be 13.3/14.0/14.2%.

We also highlight that unlike larger peers, BAHL is not a part of Domestically Systematically Important banks (DSIB), thus it has more leeway in increasing payouts. Currently, HBL, NBP and UBL are part of DSIB.

Financials Snapshot

Year to 31 Dec	**CY21**	**CY22**	**CY23E**	**CY24E**	**CY25E**
EPS	16.7	15.0	38.1	47.9	42.9
EPS growth	3.5%	-10.2%	154.0%	25.6%	-10.6%
P/E	4.4	4.9	1.9	1.5	1.7
DPS	7.0	7.0	17.0	21.6	19.3
Div. Yield	9.5%	9.5%	23.0%	29.1%	26.1%
P/BV	0.9	0.9	0.7	0.5	0.5
BVPS	81.2	86.0	110.0	136.3	159.9
ROA	1.1%	0.8%	1.7%	2.0%	1.6%
ROE	21.8%	18.0%	38.9%	38.9%	28.9%

Source: Company Accounts, Alfalah CLSA Research

Another key development is the initiation of quarterly dividend payments. To note, investors usually prefer banks with more frequent payouts.

Eyeing for expansion in Islamic banking business: Back in Apr 2022, Federal Shariah Court gave its final verdict on Riba, giving a timeline of five years (till Dec 2027) for its elimination.

BAHL's Islamic market share has grown consistently from 3.4% in Dec-22 to 3.9% in Sept-23. BAHL aims to open 80 branches next year, majority of which shall be Islamic. According to back of the envelope calculations, if we assume that 65 (~34/6% of existing Islamic/total branches) new branches will be Islamic next year, and if these branches have deposit of PKR1bn each, this leads to ~26/3% growth in Islamic/total deposits this year.

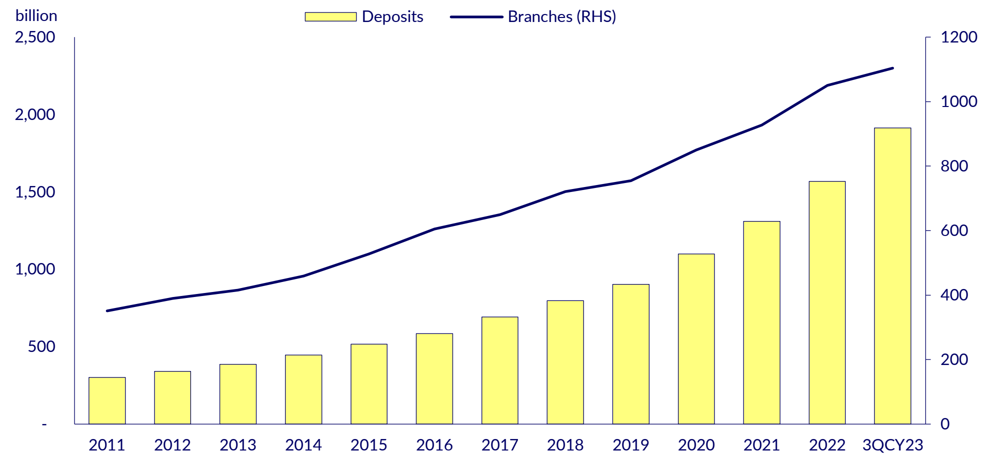
Displaying impressive numbers: The bank has displayed an impressive 2/3/5-year deposit CAGR of 22.6/20.6/20.0% (vs industry CAGR of 15.2/15.9/15.1%), with deposits hitting close to PKR2trn mark. Other than BAHL, HMB is the only conventional bank in our universe, which has grown at a comparable pace.

Earnings are expected to grow by ~26% in CY24 (47.9 vs 38.1 in CY23) even though rate decline is on cards. Lagged asset repricing and deposit growth shall lead to incremental earnings, offsetting the impact of rate decline. Note that BAHL commands highest ROE in the AFS Conventional Banking Universe.

The bank has an impressive track record of lower infection ratio (1.9% vs industry average of 7.7% as of Sept 2023). Despite of high exposure in textiles (~33%), the bank has managed to maintain its infection ratio at lower levels. Moreover, BAHL has a superior loan coverage ratio of 121% vs industry average of 96% in 3QCY23.

Figure 2

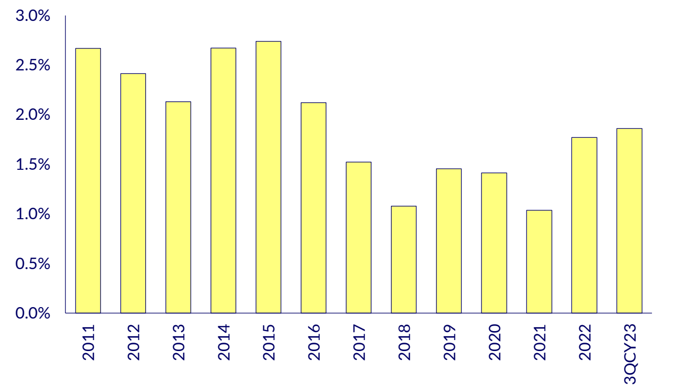
Deposit growth and branch expansion



Source: Company Accounts, Alfalah CLSA Research

Figure 3

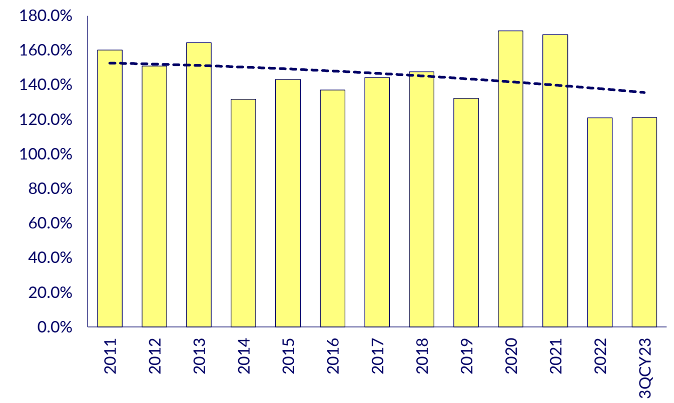
Low Infection ratio maintained



Source: Company Accounts, Alfalah CLSA Research

Figure 4

One of the highest coverage ratios in the industry



Source: Company Accounts, Alfalah CLSA Research

Recommendation: The scrip offers potential upside of 65% and trading at a CY24E PB/PE of 0.5/1.5x. The expected dividend yield is higher than current and forecasted KIBOR, which creates a strong case for re-rating.

Key valuation methodology

We have used two stage Gordon growth model to value BAHL

Downside risks Economic slowdown affecting deposit and advances growth

Upside risks Delays in rate decline

More Provisioning reversals

Higher dividend payout

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