Habib Metropolitan Bank Ltd.

PKR52.0 - BUY

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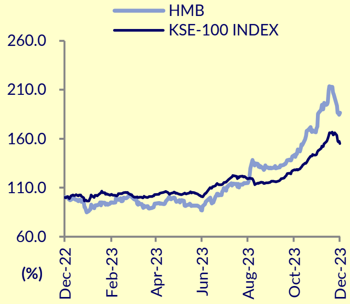
Pakistan
Banks

Bloomberg	**HMB PA**
Reuters	**HMB.PSX**
Priced on 22 December 2023	
KSE100 @ 61,705.1	
12M hi/lo	PKR59.6/23.7
Dec-24 price target	PKR78.0
±% potential	+49.9%
Shares in issue	1,047.8m
Free float	45.0%
Mkt. cap	USD193.0m
3M ADV	USD0.1m

HMB vs. KSE100 performance



Source: PSX, Bloomberg

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Offering attractive yields

A case for higher and more frequent dividends

We have a BUY call on Habib Metropolitan Bank (HMB) with Dec-24 price target of PKR78/sh (upside potential ~50%), alongside an impressive CY24E dividend yield of 26.9%. We expect the bank to post an EPS of PKR26.1/29.5/25.7 in CY23/24/25. HMB has historically performed well on the NPL (infection) front; infection ratio has come down significantly to as low as 4.7/5.2% in CY22/3QCY23 from 14.8/12.8% in 2011/2014 respectively. We also highlight that HMB pays a half yearly dividend and has the potential to move towards quarterly payouts just like BAHL and FABL. Moreover, its (Tier-1) CAR buffer of 8.4% provides flexibility to increase dividends.

Potential to increase payouts: HMB can increase dividend payouts from current levels. Moreover, it can pay out more frequent dividends as BAHL and FABL have initiated. CAR also contains a reasonable buffer (Tier-1 ratio/buffer: 15.9/8.4% as of 3QCY23). We expect CY24/25 dividend yield to clock-in at 26.9/24.0% at a payout ratio of 47/49%. Sensitivity of CAR to various levels of payouts is presented in the following table:

Figure 1

Sensitivity of Tier-1 CAR to dividend payouts

Payout	CY24	CY25	CY26	CY27
40%	17.7%	19.1%	19.9%	19.6%
50%	17.2%	18.2%	18.7%	18.2%
60%	16.0%	16.7%	17.0%	16.4%
70%	15.5%	15.8%	15.8%	15.0%

Source: Company Accounts, Alfalah CLSA Research

Profitability to jump 13% YoY: Earnings are expected to increase by ~13% in CY24 to PKR29.5/sh. NII is estimated to increase by ~20% while non-interest income shall decrease considerably due to absence of massive foreign exchange gains. Note that provisioning expenses (and infection ratio) shall remain around current levels as textile exposure remains high (more than 40% of total advances).

Non-funded Income has remained high for the bank as HMB surpassed industry growth in fee income. Note that the banking industry's fee income grew at a 5-year CAGR of 14.8%, whereas HMB's fee income grew at an impressive 5-year CAGR of 20.6%.

Improvement in advances quality and NPL Coverage: HMB has managed to significantly bring down its infection ratio from historically high levels of 14.8/12.8% in CY11/14 to 4.7% in CY22; 5.2% in 3QCY23. We also highlight that textile exposure has come down to ~41% from highs of ~48% in CY14. This reflects

Financials Snapshot

Year to 31 Dec	CY21	CY22	CY23E	CY24E	CY25E
EPS	12.9	13.7	26.1	29.5	25.7
EPS growth	12.2%	6.3%	90.0%	13.3%	-13.1%
P/E	4.0	3.8	2.0	1.8	2.0
DPS	5.0	5.3	11.0	14.0	12.5
Div. Yield	9.6%	10.1%	21.1%	26.9%	24.0%
P/BV	0.86	0.73	0.63	0.53	0.47
BVPS	60.5	71.6	83.0	98.5	111.7
ROA	1.2%	1.1%	1.9%	2.0%	1.6%
ROE	22.3%	20.8%	33.7%	32.5%	24.4%

Source: Company Accounts, Alfalah CLSA Research a considerable improvement in the quality of advances book over years; however, textile exposure still remains high as compared to other banks (advances composition detailed in Figure 2).

Furthermore, the total coverage ratio also remains high at ~105%; therefore, the bank remains adequately covered for any shock on the loan book. Note that the bank has also significantly improved this ratio over the years (illustrated in Figure 4).

Figure 2

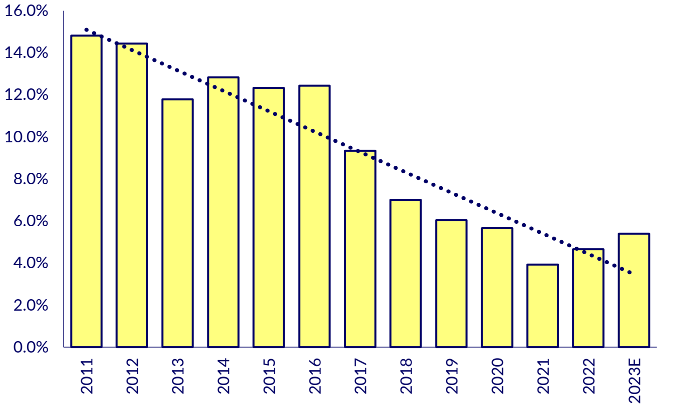
Analysing the advances composition over years

Infection ratio	4.7%	12.8%	14.8%
Advances Composition	**CY22**	**CY14**	**CY11**
Textile	41.2%	47.9%	47.5%
Power (electricity), gas, water, sanitary	8.7%	8.3%	5.4%
Edibles	8.5%	0.0%	0.0%
Chemicals and pharmaceuticals	7.4%	3.6%	6.6%
Commodity finance	5.1%	0.0%	0.0%
Electronics and electrical appliances	4.0%	2.5%	2.9%
Services	3.7%	1.6%	1.2%
Commercial trade	3.6%	0.0%	0.0%
Individuals	3.5%	1.3%	1.0%
Others	3.5%	17.4%	16.6%
Basic metals & metal products	2.5%	0.0%	0.0%
Cement	2.2%	0.8%	0.0%
Sugar	1.7%	1.3%	1.1%
Construction and real estate	1.5%	1.1%	0.8%
Automobile and transportation equipment	0.7%	1.3%	1.7%
Transport, storage and communication	0.7%	3.4%	2.9%
Footwear and leather garments	0.6%	0.5%	0.8%
Agriculture, forestry, hunting and fishing	0.5%	0.3%	0.0%
Financial	0.4%	1.4%	1.3%
Mining and quarrying	0.0%	0.3%	0.4%
Exports/Imports	0.0%	4.4%	7.4%
Wholesale & Retail Trade	0.0%	2.5%	2.5%

Source: Company Accounts, Alfalah CLSA Research

Figure 3

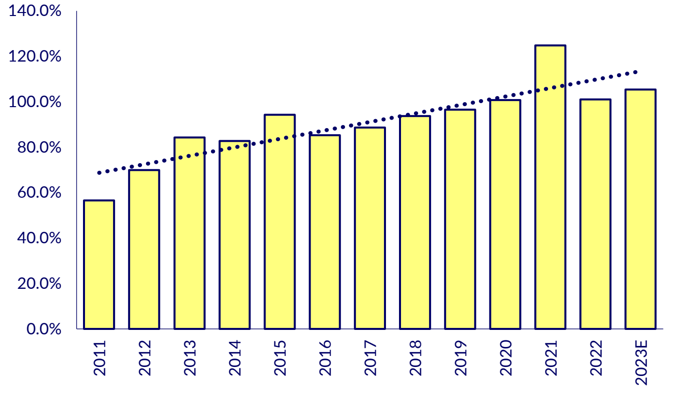
Infection ratio has decreased over years



Source: Company Accounts, Alfalah CLSA Research

Figure 4

Coverage has improved over years



Source: Company Accounts, Alfalah CLSA Research

Key valuation methodology & Recommendation

We have used a combination of Dividend discount model and justified PB to value HMB. The scrip offers potential upside of ~50% and trading at a CY24E PB/PE of 0.5/1.8x.

Downside risks

Economic slowdown affecting deposit and advances growth

Upside risks

Delays in rate decline

Higher dividend payout

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