

HBL has announced its 1QCY23 result where it posted a profit after tax of Rs15.30bn (EPS: Rs10.43) as compared to a profit after tax of Rs8.29bn (EPS: Rs5.65) in the same period last year, up by 84.4% YoY amid an increase in interest earned due to higher interest rates in addition to a massive increase in other income.

The bank has posted a net interest income of Rs140.28bn against Rs80.87bn in SPLY, recording an increase of 73.5%. Non-interest income has increased by 32.2% YoY to Rs12.17bn as compared to Rs9.20bn during SPLY, mainly due to a surge in fee & commission and other income by 27.9% and 97.15x respectively.

The operating cost-to-income ratio has decreased to 55.2% as compared to 63.9% during SPLY. Furthermore, effective taxation has decreased to 39.6% as compared to the 41% SPLY.

HBL is currently trading at CY23E PE of 2.2x. Furthermore, the scrip is trading at a CY23E P/B of 0.37x which offers a discount of 14% relative to its historical 3-year average of 0.43x. We recommend our investors to **BUY** the scrip with a Justified PB Dec-23 TP of Rs100 which provides an upside potential of 32%. Furthermore, it also offers an attractive dividend yield of 11% which makes a total return of 43%.

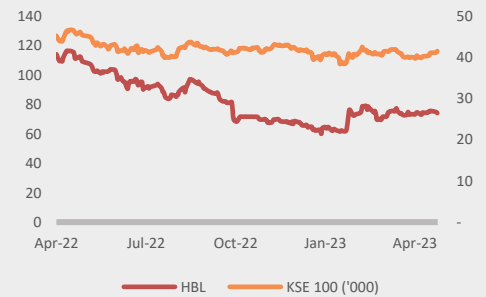
Rupees' millions	1QCY23	1QCY22	YoY	CY22	CY21	YoY
Interest earned	140,285	80,872	73.5% ▲	408,973	245,252	66.8% ▲
Interest expensed	-88,708	-47,710	85.9% ▲	-256,836	-124,305	106.6% ▲
Net Interest Income	51,576	33,161	55.5% ▲	152,137	120,947	25.8% ▲
Fee and commission income	8,244	6,446	27.9% ▲	27,653	22,244	24.3% ▲
Dividend income	1,216	598	103.4% ▲	2,199	1,509	45.7% ▲
Foreign exchange income	383	2,017	81.0% ▼	9,482	4,598	206% ▲
(Loss) / gain on securities	-1,079	198	644.1% ▼	1,030	1,442	28.6% ▼
Other income	9,569	97	9714.8% ▲	511	1,114	54.1% ▼
Non-Interest Income	12,173	9,205	32.2% ▲	38,256	30,724	24.5% ▲
Operating expenses	-35,204	-27,078	30.0% ▲	-110,475	-84,608	30.6% ▲
Workers' Welfare Fund	-508	-282	80.4% ▲	-1,431	-1,180	21.3% ▲
Other charges	-16	-159	90.1% ▼	-477	-557	14.5% ▼
Profit Before Provisions	28,021	14,847	88.7% ▲	78,010	65,327	19.4% ▲
Provisions	-2,680	-787	240.6% ▲	-6,456	-6,353	1.6% ▲
Profit Before Taxation	25,342	14,060	80.2% ▲	71,555	58,974	21.3% ▲
Taxation	-10,042	-5,765	74.2% ▲	-40,688	-24,703	64.7% ▲
Profit After Taxation	15,300	8,295	84.4% ▲	30,867	34,271	9.9% ▼
Earnings Per Share	10.43	5.65	84.4% ▲	21.04	23.36	9.9% ▼
Dividend	1.50	2.25	33.3% ▼	6.75	7.50	10.0% ▼
Bonus	0%	0%		0%	0%	
Closing period: 9 May 2023 - 11 May 2023						
Operating Cost to Income	-55.2%	-63.9%	8.7% ▼	-58.0%	-55.8%	2.2% ▲
Effective Taxation	-39.6%	-41.0%	1.4% ▼	-56.9%	-41.9%	15.0% ▲

Source: ACPL Research, Company Financials

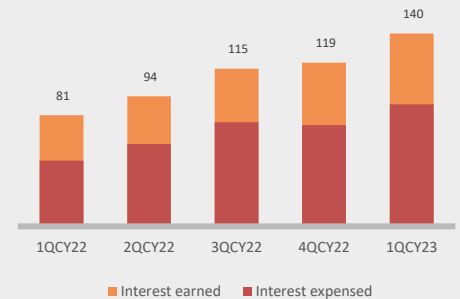
Key Statistics

Symbol	HBL
TP - Dec 23	100
LDCP	72.87
Upside (%)	32
Free Float ('mn)	733
Market Cap. (Rs.'mn)	106,890

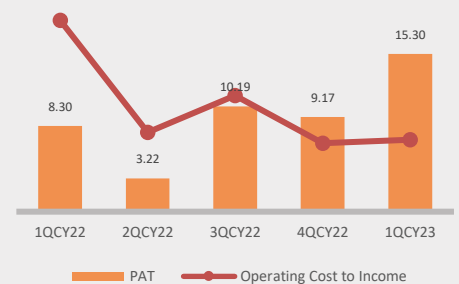
HBL vs KSE 100



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	2021	2022	2023E	2024E	2025E	2026E
Mark-up / Return / Interest earned	257,777	245,252	408,973	540,460	570,292	604,743	645,611
Mark-up / Return / Interest expensed	-135,725	-124,305	-256,836	-383,969	-404,273	-409,104	-428,337
Net Mark-up / Interest Income	122,052	120,947	152,137	156,491	166,020	195,640	217,275
Fee and commission income	16,353	22,244	27,653	32,976	39,571	43,528	47,881
Dividend income	1,668	1,509	2,199	4,858	2,544	2,646	2,754
Foreign exchange income	-422	4,598	9,482	1,530	1,530	1,530	1,530
(Loss) / gain from derivatives	1,078	-182	-2,618	-15,709	-7,854	-7,854	-7,854
(Loss) / gain on securities	7,027	1,442	1,030	-2,934	671	625	709
Other income	38	1,114	511	23,517	35,275	38,803	48,503
Total non-markup / interest income	25,743	30,724	38,256	44,238	71,736	79,278	93,523
Non mark-up / interest expenses							
Operating expenses	-83,152	-84,608	-110,475	-110,847	-133,911	-154,842	-175,050
Workers' Welfare Fund	-1,104	-1,180	-1,431	-1,600	-1,846	-2,134	-2,413
Other charges	-321	-557	-477	-61	-769	-815	-871
Profit Before Provisions	63,218	65,327	78,010	88,221	101,230	117,126	132,464
Provisions / (reversal of provisions)	-10,224	-6,353	-6,456	-7,737	-5,853	-6,145	-6,452
Profit before income tax	52,994	58,974	71,555	80,484	95,377	110,981	126,011
Income tax expense	-21,471	-24,703	-40,688	-31,892	-42,920	-49,941	-56,705
Profit for the year	31,524	34,271	30,867	48,592	52,458	61,040	69,306
EPS	21.49	23.36	21.04	33.13	35.76	41.61	47.25

Horizontal Analysis

Horizontal Analysis	2020	2021	2022	2023E	2024E	2025E	2026E
Mark-up / Return / Interest earned	4.6%	-4.9%	66.8%	32.2%	5.5%	6.0%	6.8%
Mark-up / Return / Interest expensed	-10.6%	-8.4%	106.6%	49.5%	5.3%	1.2%	4.7%
Net Mark-up / Interest Income	29.0%	-0.9%	25.8%	2.9%	6.1%	17.8%	11.1%
Fee and commission income	-10.1%	36.0%	24.3%	19.3%	20.0%	10.0%	10.0%
Dividend income	27.2%	-9.5%	45.7%	120.9%	-47.6%	4.0%	4.1%
Foreign exchange income	-339.4%	-1190.8%	106.2%	-83.9%	0.0%	0.0%	0.0%
(Loss) / gain on securities	-548.7%	-79.5%	-28.6%	-384.9%	-122.9%	-6.8%	13.4%
Other income	-95.4%	2815.2%	-54.1%	4500.0%	50.0%	10.0%	25.0%
Total non-markup / interest income	37.2%	19.4%	24.5%	15.6%	62.2%	10.5%	18.0%
Non mark-up / interest expenses							
Operating expenses	0.5%	1.8%	30.6%	0.3%	20.8%	15.6%	13.1%
Workers' Welfare Fund	94.7%	6.8%	21.3%	11.8%	15.3%	15.6%	13.1%
Other charges	-33.2%	73.7%	-14.5%	-87.3%	1166.1%	6.0%	6.8%
Profit Before Provisions	113.4%	3.3%	19.4%	13.1%	14.7%	15.7%	13.1%
Provisions / (reversal of provisions)	304.1%	-37.9%	1.6%	19.8%	-24.4%	5.0%	5.0%
Profit before income tax	95.6%	11.3%	21.3%	12.5%	18.5%	16.4%	13.5%
Income tax expense	78.4%	15.1%	64.7%	-21.6%	34.6%	16.4%	13.5%
Profit for the year	109.3%	8.7%	-9.9%	57.4%	8.0%	16.4%	13.5%
EPS	109.3%	8.7%	-9.9%	57.4%	8.0%	16.4%	13.5%

Source: ACPL Research, Company Financials

Key Ratios

Profitability Ratios		2020	2021	2022	2023E	2024E	2025E	2026E
Yield on Earning Assets	%	7.59	6.47	10.09	12.55	12.54	12.59	12.81
Interest Cost	%	4.14	3.38	6.61	9.42	9.45	9.11	9.08
Net Interest Margin	%	3.45	3.09	3.47	3.13	3.10	3.48	3.73
Operating Cost to Income	%	57.23	56.93	59.03	56.05	57.42	57.40	57.38
Return on Equity	%	12.99	13.29	12.16	16.72	15.88	16.22	17.68
Return on Assets	%	0.87	0.84	0.71	1.06	1.08	1.19	1.29
Balance Sheet Analysis		2020	2021	2022	2023E	2024E	2025E	2026E
Deposits Growth	%	15.97	19.28	1.57	5.00	5.00	5.00	5.00
CASA to Deposits	%	74.03	70.78	80.29	80.29	80.29	80.29	80.29
Advances to Deposits	%	41.86	43.48	50.17	55.59	55.57	55.55	55.54
Investments to Deposits	%	71.63	59.83	58.19	56.84	56.29	55.77	55.27
PIBs to Investments	%	55.04	63.14	63.95	63.95	63.95	63.95	63.95
T Bills to Investments	%	33.26	20.66	11.23	11.23	11.23	11.23	11.23
Gross Infection Ratio	%	6.32	5.07	4.96	4.96	4.96	4.96	4.96
Provisioning Coverage	%	88.89	93.15	88.04	90.59	90.59	90.59	90.59
Net Infection Ratio	%	0.75	0.37	0.62	0.44	0.44	0.44	0.44
Capital Adequacy Ratio	%	17.24	15.63	14.83	15.83	16.82	17.91	18.89
Leverage Ratio	%	4.25	4.38	4.20	4.49	4.88	5.31	5.27
Operational Analysis		2020	2021	2022	2023E	2024E	2025E	2026E
Market Share - Deposits	%	14.93	15.18	14.40	13.76	13.15	12.56	12.00
Market Share - Advances	%	14.05	14.42	14.35	13.71	13.10	12.52	11.97
Market Share - Investments	%	16.47	13.54	10.80	10.22	9.67	9.16	8.67
No. of Branches		1697	1685	1746	1809	1875	1943	2013
Investment Ratios		2020	2021	2022	2023E	2024E	2025E	2026E
Dividend Per Share		4.25	7.50	6.75	8.25	9.00	10.50	11.75
Dividend Yield	%	5.83	10.29	9.26	11.32	12.35	14.41	16.12
Dividend Cover	x	5.06	3.12	3.12	4.02	3.97	3.96	4.02
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	21.04	33.13	35.76	41.61	47.25
Book Value Per Share		165.47	175.84	173.01	198.13	225.15	256.54	267.25
Price to Earnings	x	3.39	3.12	3.46	2.20	2.04	1.75	1.54
Price to Book Value	x	0.44	0.41	0.42	0.37	0.32	0.28	0.27

Source: ACPL Research, Company Financials

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TP	Target Price	CAGR	Compound Annual Growth Rate	FCF	Free Cash Flows
FCFE	Free Cash Flows to Equity	FCFF	Free Cash Flows to Firm	DCF	Discounted Cash Flows
PE	Price to Earnings Ratio	PB	Price to Book Ratio	BVPS	Book Value Per Share
EPS	Earnings Per Share	DPS	Dividend Per Share	ROE	Return of Equity
ROA	Return on Assets	SOTP	Sum of the Parts	LDCP	Last Day Closing Price

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- II. Dividend Discount Model
- III. Relative Valuation Model
- IV. Sum of Parts Valuation

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HOLD	Between -5% to 15%
SELL	Less than and equal to -5%

Sector Rating	Sector Outlook
Overweight	Positive
Market Weight	Neutral
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