

Equity Research | Commercial Banks | Friday, 24 February, 2023

HBL has announced its CY22 result where it posted a profit after tax of Rs30.87bn (EPS: Rs21.04) as compared to a profit after tax of Rs34.27bn (EPS: Rs23.36) in the same period last year, down by 9.9% YoY amid super tax imposed by the government.

The bank has posted a net interest income of Rs152.14bn against Rs120.95bn in SPLY, recording an increase of 25.8%. Non-interest income has increased by 24.5% YoY to Rs38.26bn as compared to Rs30.72bn during SPLY, mainly due to a surge in fee & commission and foreign exchange income by 24.3% and 206% respectively.

The operating cost-to-income ratio has increased to 58% as compared to 55.8% during SPLY. Furthermore, effective taxation has increased to 56.9% as compared to the 41.9% SPLY.

HBL is currently trading at CY23E PE of 2.53x. Furthermore, the scrip is trading at a CY23E P/B of 0.36x which offers a discount of 13% relative to its historical 3-year average of 0.41x. We recommend our investors to **BUY** the scrip with a Justified PB Dec-23 TP of Rs.90 which provides an upside potential of 28%. Furthermore, it also offers an attractive dividend yield of 10% which makes a total return of 38%.

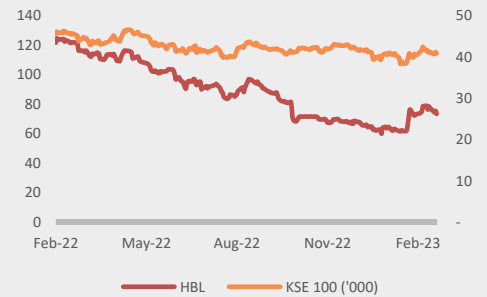
Rupees' millions	4QCY22	4QCY21	YoY	CY22	CY21	YoY
Interest earned	118,960	64,254	85.1% ▲	408,973	245,252	66.8% ▲
Interest expensed	-73,522	-33,318	120.7% ▲	-256,836	-124,305	106.6% ▲
Net Interest Income	45,438	30,936	46.9% ▲	152,137	120,947	25.8% ▲
Fee and commission income	7,667	6,582	16.5% ▲	27,653	22,244	24.3% ▲
Dividend income	983	423	132.4% ▲	2,199	1,509	45.7% ▲
Foreign exchange income	-820	2,120	138.7% ▼	9,482	4,598	206% ▲
(Loss) / gain on securities	342	-459	174.6% ▼	1,030	1,442	28.6% ▼
Other income	153	137	11.3% ▲	511	1,114	54.1% ▼
Non-Interest Income	9,118	8,698	4.8% ▲	38,256	30,724	24.5% ▲
Operating expenses	-29,993	-22,567	32.9% ▲	-110,475	-84,608	30.6% ▲
Workers' Welfare Fund	-401	-276	45.1% ▲	-1,431	-1,180	21.3% ▲
Other charges	-26	-478	94.6% ▼	-477	-557	14.5% ▼
Profit Before Provisions	24,136	16,314	48.0% ▲	78,010	65,327	19.4% ▲
Provisions	-4,100	-2,437	68.3% ▲	-6,456	-6,353	1.6% ▲
Profit Before Taxation	20,036	13,877	44.4% ▲	71,555	58,974	21.3% ▲
Taxation	-10,868	-6,051	79.6% ▲	-40,688	-24,703	64.7% ▲
Profit After Taxation	9,168	7,826	17.2% ▲	30,867	34,271	9.9% ▼
Earnings Per Share	6.25	5.34	17.2% ▲	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: 22 March 2023 - 29 March 2023						
Operating Cost to Income	-55.0%	-56.9%	2.0% ▼	-58.0%	-55.8%	2.2% ▲
Effective Taxation	-54.2%	-43.6%	10.6% ▲	-56.9%	-41.9%	15.0% ▲

Source: ACPL Research, Company Financials

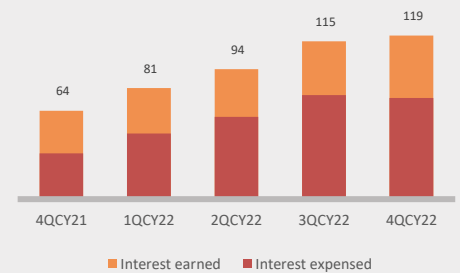
Key Statistics

Symbol	HBL
TP - Dec 23	90
LDCP	70.49
Upside (%)	28
Free Float ('mn)	733
Market Cap. (Rs.'mn)	103,398

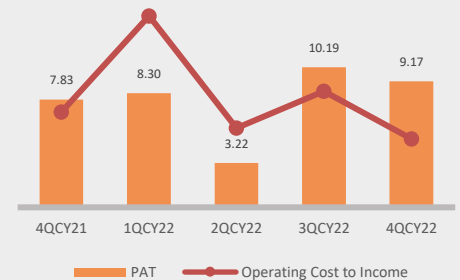
HBL vs KSE 100



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	449,971	500,736	556,207	617,741
Mark-up / Return / Interest expensed	-135,725	-124,305	-256,836	-280,638	-312,023	-340,977	-366,678
Net Mark-up / Interest Income	122,052	120,947	152,137	169,333	188,712	215,230	251,063
Fee and commission income	16,353	22,244	27,653	30,418	33,460	36,806	40,487
Dividend income	1,668	1,509	2,199	2,073	2,190	2,392	2,614
Foreign exchange income	-422	4,598	9,482	2,107	2,107	2,107	2,107
(Loss) / gain from derivatives	1,078	-182	-2,618	262	131	131	131
(Loss) / gain on securities	7,027	1,442	1,030	555	610	671	738
Other income	38	1,114	511	562	619	680	748
Total non-markup / interest income	25,743	30,724	38,256	35,976	39,116	42,787	46,825
Non mark-up / interest expenses							
Operating expenses	-83,152	-84,608	-110,475	-121,133	-131,027	-148,389	-171,319
Workers' Welfare Fund	-1,104	-1,180	-1,431	-1,549	-1,742	-1,972	-2,277
Other charges	-321	-557	-477	-720	-868	-964	-1,070
Profit Before Provisions	63,218	65,327	78,010	81,908	94,192	106,692	123,222
Provisions / (reversal of provisions)	-10,224	-6,353	-6,456	-6,486	-7,134	-7,847	-8,632
Profit before income tax	52,994	58,974	71,555	75,423	87,058	98,845	114,589
Income tax expense	-21,471	-24,703	-40,688	-34,633	-39,176	-44,480	-51,565
Profit for the year	31,524	34,271	30,867	40,790	47,882	54,365	63,024
EPS	21.49	23.36	21.04	27.81	32.64	37.06	42.97

Horizontal Analysis

Horizontal Analysis	2020	2021	2022	2023E	2024E	2025E	2026E
Mark-up / Return / Interest earned	4.6%	-4.9%	66.8%	10.0%	11.3%	11.1%	11.1%
Mark-up / Return / Interest expensed	-10.6%	-8.4%	106.6%	9.3%	11.2%	9.3%	7.5%
Net Mark-up / Interest Income	29.0%	-0.9%	25.8%	11.3%	11.4%	14.1%	16.6%
Fee and commission income	-10.1%	36.0%	24.3%	10.0%	10.0%	10.0%	10.0%
Dividend income	27.2%	-9.5%	45.7%	-5.8%	5.7%	9.2%	9.3%
Foreign exchange income	-339.4%	-1190.8%	106.2%	-77.8%	0.0%	0.0%	0.0%
(Loss) / gain on securities	-548.7%	-79.5%	-28.6%	-46.1%	10.0%	10.0%	10.0%
Other income	-95.4%	2815.2%	-54.1%	10.0%	10.0%	10.0%	10.0%
Total non-markup / interest income	37.2%	19.4%	24.5%	-6.0%	8.7%	9.4%	9.4%
Non mark-up / interest expenses							
Operating expenses	0.5%	1.8%	30.6%	9.6%	8.2%	13.3%	15.5%
Workers' Welfare Fund	94.7%	6.8%	21.3%	8.2%	12.4%	13.3%	15.5%
Other charges	-33.2%	73.7%	-14.5%	51.1%	20.5%	11.1%	11.1%
Profit Before Provisions	113.4%	3.3%	19.4%	5.0%	15.0%	13.3%	15.5%
Provisions / (reversal of provisions)	304.1%	-37.9%	1.6%	0.5%	10.0%	10.0%	10.0%
Profit before income tax	95.6%	11.3%	21.3%	5.4%	15.4%	13.5%	15.9%
Income tax expense	78.4%	15.1%	64.7%	-14.9%	13.1%	13.5%	15.9%
Profit for the year	109.3%	8.7%	-9.9%	32.1%	17.4%	13.5%	15.9%
EPS	109.3%	8.7%	-9.9%	32.1%	17.4%	13.5%	15.9%

Source: ACPL Research, Company Financials

Key Ratios

Profitability Ratios		2020	2021	2022	2023E	2024E	2025E	2026E
Yield on Earning Assets	%	7.59	6.47	8.02	9.91	10.06	10.20	10.33
Interest Cost	%	4.14	3.38	5.51	6.32	6.39	6.35	6.21
Net Interest Margin	%	3.45	3.09	2.51	3.59	3.67	3.85	4.12
Operating Cost to Income	%	57.23	56.93	59.03	60.11	58.66	58.65	58.64
Return on Equity	%	12.99	13.29	11.92	14.07	14.68	14.79	16.69
Return on Assets	%	0.87	0.84	0.68	0.82	0.88	0.91	0.97
Balance Sheet Analysis		2020	2021	2022	2023E	2024E	2025E	2026E
Deposits Growth	%	15.97	19.28	10.00	10.00	10.00	10.00	10.00
CASA to Deposits	%	74.03	70.78	68.78	68.78	68.78	68.78	68.78
Advances to Deposits	%	41.86	43.48	47.98	47.96	47.94	47.92	47.90
Investments to Deposits	%	71.63	59.83	59.39	58.90	58.45	58.04	57.67
PIBs to Investments	%	55.04	63.14	48.97	48.97	48.97	48.97	48.97
T Bills to Investments	%	33.26	20.66	20.66	20.66	20.66	20.66	20.66
Gross Infection Ratio	%	6.32	5.07	4.07	4.07	4.07	4.07	4.07
Provisioning Coverage	%	88.89	93.15	94.15	94.15	94.15	94.15	94.15
Net Infection Ratio	%	0.75	0.37	0.23	0.23	0.23	0.23	0.23
Capital Adequacy Ratio	%	17.24	15.63	15.41	15.69	16.02	16.38	16.50
Leverage Ratio	%	4.25	4.38	4.25	4.34	4.45	4.58	4.27
Operational Analysis		2020	2021	2022	2023E	2024E	2025E	2026E
Market Share - Deposits	%	14.93	15.18	15.02	14.55	14.10	13.67	13.25
Market Share - Advances	%	14.05	14.42	14.26	13.82	13.39	12.98	12.58
Market Share - Investments	%	16.47	13.54	13.27	12.75	12.26	11.80	11.36
No. of Branches		1697	1697	1697	1697	1697	1697	1697
Investment Ratios		2020	2021	2022	2023E	2024E	2025E	2026E
Dividend Per Share		4.25	7.50	6.75	7.00	8.25	9.25	10.75
Dividend Yield	%	6.03	10.64	9.58	9.93	11.70	13.12	15.25
Dividend Cover	x	5.06	3.12	3.12	3.97	3.96	4.01	4.00
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	27.81	32.64	37.06	42.97
Book Value Per Share		165.47	175.84	176.49	197.65	222.43	250.67	257.39
Price to Earnings	x	3.28	3.02	3.35	2.53	2.16	1.90	1.64
Price to Book Value	x	0.43	0.40	0.40	0.36	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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To arrive at our Target Price, Abbasi & Company (Private) Limited uses different valuation methods which include:

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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
Underweight	Negative

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