

PAKISTAN BANKS

BAHL: Trading at unjustified valuations

- We maintain our buy rating on Bank Alhabib limited (BAHL) with a Dec'21TP of Pkr96.4/sh offering an upside of 56.2% from last close. The stock is currently trading at a CY21F P/B of 0.8x, at a discount of 17.1% vis-à-vis universe's multiples based on ROE to PB compared to a premium of 16.8% in the past 3 years.
- Cheap valuations compensate for bank's static earnings growth profile in the medium run (CY21-23F CAGR of 0.5%) following, i) high base effect of CY20, ii) lagged impact of potential interest rates hikes and branch expansion (95 branches added in CY20 or 11% of total branch network), and iii) ~50% of total fixed PIB maturing in CY22. However, earnings growth remains robust in the long term.
- The bank has added 95 branches in CY20 taking c. branch network to 854 branches where assuming 2y gestation period, bank's market share in deposits is expected to increase by a ppt to 7.4% by CY23 with potential improvement in CASA mix as seen in CY20 (fixed deposit share declined by 2ppt to 20%). Fee income is also likely to gain traction given 17.7/15.4% contribution by branch banking fees
- Previewing 1QCY21 results, we expect BAHL to post an earnings of Pkr3.8bn (EPS: Pkr3.4) compared to Pkr2.8bn (EPS: Pkr2.56) in the same period last year. On a sequential basis, earnings is forecast to decline by 20.0%QoQ on account of potentially higher administrative expenses as seen historically at the start of the year.

Inconsistency between bank's valuation and core fundamentals: Bank Alhabib Limited (BAHL) is currently trading at a CY21F P/B of 0.8x, in defiance of CY21-23F ROE of 16.8%. The stock is currently trading at a discount of 17.1% vis-à-vis universe's multiples based on ROE to PB compared to a premium of 16.8% in the past 3 years. Cheap valuations compensate for bank's static earnings growth profile in the medium run (CY21-23F CAGR of 0.5%) following, i) high base effect of CY20, ii) lagged impact of potential interest rates hikes and branch expansion (95 branches added in CY20 or 11% of total branch network), and iii) ~50% of total fixed PIB maturing in CY22. However, longer term earnings growth is expected in the range of 15-25%. Moreover, coverage ratio of 171.3% provides the bank adequate buffer to wither downturn in asset quality in the near term (cost of provisioning assumed at 0.3% over CY21-23F). We have a buy rating on the stock with a Dec'21TP of Pkr96.4/sh — upside of 56.2% from last close. Given the bank strategizing growth in the medium run, we expect dividend payout to be restricted with 3y avg. yield at 7.2%.

Longer term earnings growth to be driven by bank's growth strategy: The bank has added 95/201 branches in CY20/last 3y, taking c. branch network to 854 branches whereas assuming 2y gestation period, bank's market share in deposits is to increase by a ppt to 7.4% by CY23. Equivalently, BAHL has begun to tilt its deposit mix towards low cost deposits reducing fixed deposits share in the mix by 2ppt in CY20. We expect the trend to continue possibly improving CASA to likes of BAFL's 81.2% vs. 78.7% for BAHL in the medium run, potentially expanding NIMs in the meantime (CY21-23F NIMs: 4.0% vs. BAFL's NIMs of 3.6%). Moreover, branch banking fees has contributed 17.7/15.4% in total fees in CY19/20 where the additions in branch network should exponentially grow bank's fee income franchise in medium to long run while near term growth could be driven by resumption in trade (BAHL's trade commissions are second largest in our universe). Additionally, branches surpassing breakeven stage should also smoothen cost to income ratio to historical avg. (last 5y avg. of 60.7%) in the long run from 60.7% in the medium run.

1QCY21 Result Preview: BAHL's 1QCY21 earnings is expected at Pkr3.8bn (EPS: Pkr3.4) compared to Pkr2.8bn (EPS: Pkr2.56) in the same period last year. On a sequential basis, earnings is expected to decline by 20.0%QoQ on account of potentially higher administrative expenses as seen historically at the start of the year. It also negated 7.4%QoQ on jump in net interest income primarily led by balance sheet growth and possible ease-off in provisioning costs with adequate buffers already in place as of CY20-end.

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BUY

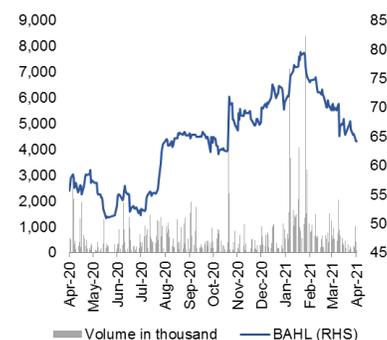
TARGET PRICE (Pkr)	SHARE PRICE (Pkr)
96.4	61.7
UPSIDE/DOWNSIDE	DIV. YIELD
56.2%	7.2%

BAHL - Valuations Glance

Key matrices	CY20A	CY21F	CY22F	CY23F
EPS	16.2	13.85	13.78	16.03
DPS	4.5	4.50	4.50	5.00
BVPS	72.4	81.8	91.4	104.6
P/E (x)	3.9	4.5	4.5	3.9
P/BV (x)	0.9	0.8	0.7	0.6
Div. Yield	7.2%	7.2%	7.2%	8.0%
Earn. Growth	60.3%	-14.2%	-0.5%	16.3%
ROA	1.2%	1.0%	0.8%	0.8%
ROE	25.2%	18.0%	15.9%	16.4%

Source: Company Report & AKD Research

BAHL stock performance



Source: PSX & AKD Research



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To arrive at our period end target prices, AKDS uses different valuation techniques including:

- Discounted Cash Flow (DCF, DDM)
- Relative Valuation (P/E, P/B, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)

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Buy	> 14.5% expected total return (Rf: 8.5% + Rp: 6%)
Neutral	> 8.5% to < 14.5% expected total return
Sell	< 8.5% expected total return (Rf: 8.5%)



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