



Today's Daily

■ HBL: Attractive valuations call for accumulation

HBL's 1HCY17 earnings were down 3%YoY on spread compression, credit quality infection and higher expenses (tax and otherwise). Pick up in advances was the key highlight where materialization of CPEC investments led 11.2%YoY growth in loans. Corporate book continues to form the major chunk, however HBL is also keenly building on its consumer portfolio which while accretive to margins can lead to higher domestic NPLs. This together with continued pressure on NIMs at least until CY18F when interest rates are expected to reverse, has led us to revise down our CY17F/CY18F earnings estimates by 5%/7%. Consequently our TP has also been brought down to PkR253.1/sh. Undergoing steep correction, HBL's stock price is currently hovering around levels last seen in Aug'16. While market weakness has had its role to play, rumors pertaining to irregularities in the bank's NYC branch further dented sentiments. While clarity in this regard is yet to come, we base our case on strong fundamentals (4yr forward earnings CAGR of 12%) coupled with discounted valuations (CY18F PB/PER at 1.4x/8.9x), where our TP of PkR253.1/sh advocates an Accumulate stance.

KSE100 - Index

Current 43,078.38
Previous 43,136.06
Chg. -0.13%

Mkt Cap. (PKRbn/US\$bn)

Current 8,991 / 85.31
Previous 8,983 / 85.23
Chg. 0.09%

Daily Turnover (mn)

Current 188.14
Previous 167.27
Chg. 12.5%

Value Traded (PKRmn/US\$m)

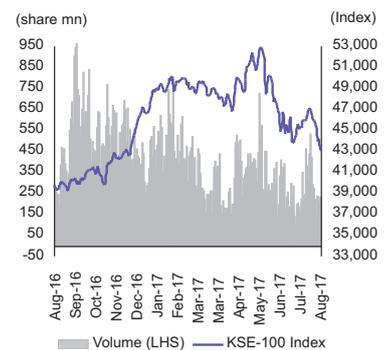
Current 11,278 / 107.01
Previous 8,840 / 83.87
Chg. 27.6%

AKD Daily

Tuesday, Aug 22, 2017

News and Views

- In an Afghan-Pak policy announcement, Donald Trump has committed more US troops to win the war in Afghanistan while criticized Pakistan for offering safe-havens to terrorists.
- As per recent data released by SBP, the country's current account deficit widened by a significant 3.1xYoY to US\$2.053bn in Jul'17, where imports registered growth of 50.85%YoY to clocked in at US\$4.69bn, outpacing 21%YoY and 16%YoY increase in exports (US\$1.809bn) and workers remittances (US\$1.54bn).
- NBP President Saeed Ahmed and PSMA Chairman Javed Kiyani have appeared before the NAB and recorded their statements regarding the ongoing probe against the Sharif family.



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Recovery in NIMs to take longer: NIMs for HBL clocked in at 4% in 1HCY17, down 40bps YoY. With interest rate reversal expectations pushed forward, we see NIMs remaining under pressure atleast until CY18F. Recovery thereon is likely to be gradual (an average uptick of 21bps in NIMs post CY18F) taking support from the bank's: 1) aggressive push into low cost C/A (+17%YoY in 1HCY17) and 2) expanding footprint in the high margin consumer segment (6% of loan book by CY19F vs. 3% in CY14).

Manageable deterioration in asset quality: Higher provisioning expense during 2QCY17 (+161%YoY- the highest since Jun'16) has raised infection concerns on the bank's credit portfolio especially when HBL intends to aggressively grow its loan book (both corporate and consumer). Anticipating loan growth to average 14% for the next three years, we expect provision expense to remain elevated where we have slightly raised our estimates for the same during CY17F/CY18F by 3%/5%. That said, we see no major concurrent threat on this front where comprehensive risk management practices are likely to keep infection ratio under 8%.

Investment Perspective: Hovering close to its 1yr low, HBL's stock price has undergone sharp correction on rumors pertaining to irregularities in its foreign business. While clarity in this regard is yet to come, we base our case on strong fundamentals (4yr forward earnings CAGR of 12%) and discounted valuations (CY18F PB/PER at 1.4x/8.9x). Our TP of PkR253.1/sh offers 17% upside.

KATS Code	HBL
Bloomberg Code	HBL.PA
Price PkR	214.16
Market Cap (PkRmn)	314,141
Market Cap (US\$mn)	2,993.82
Shares (mn)	1,466.85
3M High (PkR)	306.84
3M Low (PkR)	214.16
1Yr High (PkR)	308.57
1Yr Low (PkR)	214.16
3M Avg Turnover '000	2,029.98
1 Yr Avg Turnover '000	1,315.04
3M Avg DT Value (PkRmn)	527.12
3M Avg DT Value (US\$mn)	5.02
1Yr Avg DT Value (PkRmn)	346.27
1Yr Avg DT Value (US\$mn)	3.30

HBL: Earnings & TP revision

PkR/sh	CY17F	CY18F	TP
New	22.1	24.1	253.1
Old	23.2	26.0	297.1
change	-5%	-7%	-15%

Source: AKD Research

HBL vs. KSE100 Index



Source: Co. Reports & AKD Research



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Neutral	≤ 5% to ≥ -5% potential
Reduce	< -5% to > -20% downside potential
Sell	≤ -20% downside potential



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