



## AKD Securities Limited

TREC Holder & Registered Broker  
Pakistan Stock Exchange

Equity Research / Pakistan



REK-216  
www.jamapunji.pk

### Today's Daily

#### ■ HBL: Asset quality betterment to assist earnings

Beating our expectations, HBL's 3QCY16 earnings were up 40%QoQ taking 9MCY16 earnings to PkR17.47/sh. The focal point in this regard was the improvement in asset quality that came under considerable stress following the slowdown in GCC economies in CY15 raising concerns on further infection of its international exposure. However, with provisions going down by a substantial 67%YoY in 9MCY16 on the back of PkR336mn reversal in 3QCY16 (first after 2QCY14), we are now more optimistic on the bank's asset quality metrics. Amending the same, we have lowered our provision charges for CY16F/CY17F by 14%/12% raising our profitability estimates by 8%/7% (our TP goes up by 11%). Gaining 47% from its 1yr low, HBL's price performance has been driven by a confluence of factors such as: 1) Pakistan's inclusion into MSCI EM space, 2) interest rate cycle reversal drawing close and 3) a resilient earnings profile. Valuation multiples have expanded with CY16F P/E and P/B ratios at 10.6x and 1.8x respectively where we advocate building position on dips.

#### KSE100 - Index

Current 46,358.35  
Previous 46,185.27  
Chg. 0.37%

#### Mkt Cap. (PkRbn/US\$bn)

Current 9,303 / 88.74  
Previous 9,269 / 88.42  
Chg. 0.36%

#### Daily Turnover (mn)

Current 340.44  
Previous 360.78  
Chg. -5.6%

#### Value Traded (PkRmn/US\$mn)

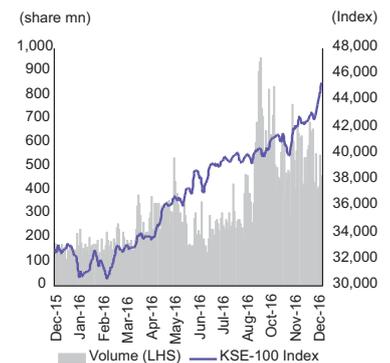
Current 19,364 / 184.72  
Previous 18,973 / 180.99  
Chg. 2.1%

AKD Daily

Friday, Dec 16, 2016

### News and Views

- ECC of the cabinet on Thursday reversed its earlier decision to reduce the gas sale price for industrial sector from PkR600/mmbtu to PkR400/mmbtu. However it approved reduction in price for power stations and IPPs from PkR613/mmbtu to PkR400/mmbtu.
- As per SBP, Pakistan's foreign direct investment (FDI) sharply fell 45.2%YoY to US\$459.8mn from US\$839.7mn during the 5MFY17. The inflow from China and UK significantly decreased to US\$156.5mn US\$39.6mn from US\$375.9mn and US\$66.7mn respectively. FDI from UAE, however, increased to US\$63.7mn from US\$39.4mn. In Nov 16 alone, FDI stood at US\$143.7mn as against US\$229.2mn in Nov'15.
- As per SBP, The total liquid foreign exchange reserves of the country decreased US\$50mn to US\$23.294bn during the week ended Dec 9'16.



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## HBL: Asset quality betterment to assist earnings

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**3QCY16 earnings were a positive surprise:** HBL posted consolidated NPAT of PkR25.6bn (EPS: PkR17.47) in 9MCY16 vs. NPAT of PkR26.8bn (EPS: PkR18.19) in 9MCY15, down 4%YoY. Sequentially, we saw 40%QoQ jump in earnings on the back of 1) reversals worth PkR336mn in 3QCY16 vs. provisions of PkR1.4bn in 1HCY16, 2) lower taxation expense (effective tax rate for 3QCY16 at 36% vs. 52% in 2QCY16). Alongside the result, HBL also announced a third interim dividend of PkR3.5/sh taking 9MCY16 payout to PkR10.5 (payout: 60%).

**An unexpected reversal in 3QCY16:** HBL posted a loan reversal of PkR336mn in 3QCY16 vs. a provisioning charge of 986mn in 2QCY16. Additionally, NPL growth has stagnated with coverage hovering close to 86%. We believe, this is commendable particularly in the backdrop of infection concerns on its GCC exposure that sprung up in CY15. With oil prices now stabilizing alongwith improvement in domestic recoveries, we are now more optimistic on HBL's credit quality, accordingly lowering our provision charges by 14%/12% in CY16F/CY17F.

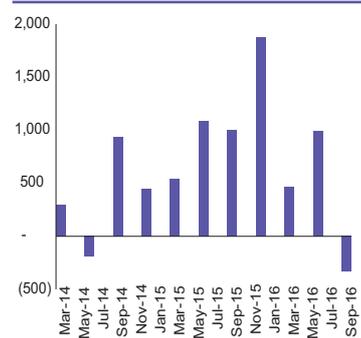
**Earnings momentum to sustain in CY17:** Despite the prevailing lower interest rate scenario and maturity of high yielding PIBs in Jul'16, the bank was able to grow its NII by 7%YoY in 9MCY16. While the impact of the ongoing PIB substitution is likely to trickle down, we feel HBL's strategic focus on building its low cost current account base alongwith the keen urge to grow its advances book will likely counter pressure on NIMs. In this regard, we see current accounts increasing by 15%YoY in CY17F while advances growth is likely to remain at 10%YoY (with room for improvement should pvt. sector credit growth/CPEC related activity picks up pace).

HBL: EPS & TP Revision

	CY16F	CY17F	TP
New	23.85	25.73	267.50
Old	22.1	24.01	240.9
Change	8%	7%	11%

Source: AKD Research

Quarterly provision trend



Source: Co. Report & AKD Research



**Investment Perspective:** After a lackluster start in 1HCY16 (-1.7%), HBL's price performance rebounded strongly in 2HCY16 gaining 14.1% since then. While a resilient earnings profile was one, price triggers also included 1) interest rate cycle reversal drawing close and 3) multiple re-rating upon formal MSCI inclusion. Valuation multiples have expanded after the price bull-run with CY16F P/E and P/B ratios at 10.6x and 1.8x respectively. We currently have an Accumulate stance on the scrip, advocating building position on dips.



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



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