

1QCY18 Preview

- HMB is scheduled to hold its board meeting to announce 1QCY18 result on 20th April, 2018. We expect bank to post earning of Rs1.34/share compared to Rs1.26/share in SPLY. Despite increase in earning assets by 22%, profitability is estimated to grow only by 6% YoY and decrease by 40% QoQ. Primarily due to increase in provision charge on NPL's and lower capital gains

NFI income is expected to remain strong during CY18

- NFI (Non Funded Income) contributes ~29.3% of total revenue in CY17 (Tier-II banking average ~26.5%), where FX income is major contributor in NFI. We expect strong FX Income support to continue in CY18 due to vulnerable economic condition especially on external account front

Asset quality continues to get better

- HMB Advances are gone up by 24% during CY17, while NPL stock decline by 7% due to recovery from textile sector (total exposure of textile segment as of Dec-17 is ~40%)
- Contribution of textile segment in total NPL is ~73%, whereas ongoing recovery in textile export may increase the possibility reversal in provision (~87% of textile segments NPL provision has previously charged)
- HMB current CAR stands at comfortable level of 17.3% which is well above the regulatory requirement, which may allow the bank to increase its exposure to risk weighted assets. HMB current ADR stands at 35% as compared to 55% tier-II banks.

Unmatched deposits expansion but at a higher cost

- Bank has the highest deposits per branch which is ~Rs1.6bn compared similar size banks average of Rs1bn. HMB deposit grew at 5year CAGR of 19% stands at Rs517.6bn where most of their deposits are classified in the category of fixed and saving (~66% of total deposits) which is the main cause of declining retail business profitability
- HMB cost of deposit is ~3.4% while similar size banks average is ~3.08%
- We expect deposit growth is likely to remain in line with CAGR during CY18

Investment mix has adjusted toward PIB's surprisingly

- HMB investment in PIB's has gone up by 40% contrary to industry where most banks have tuned up their investments towards T-bills
- We estimate 12% PIB's are to be maturing this year which is expect to drag earning by Rs0.25/share due to reprising of instruments at lower rates

Valuation

- HMB is currently trading at CY18E and CY19E P/B of 0.99x and 0.9x respectively. Our target price of Rs51 (upside 14.5%) is based on justified P/B which is comes around 1.13x (assuming sustainable ROE~15.1%) and also offers a dividend yield of 6.7%

Key Risk to our estimates

- Higher than estimated increase in NPL
- Lower than estimated increase in interest rates

Rs '000	4QCY17	3QCY17	2QCY17	1QCY17	4QCY16
Interest Income	9,284,204	8,842,084	8,181,176	7,893,835	7,680,944
Interest expense	5,589,681	5,259,901	4,604,642	4,495,278	4,694,321
Net Interest Income	3,694,523	3,582,183	3,576,534	3,398,557	2,986,623
Provisions	653,745	(1,291)	(478,653)	(247,927)	201,859
NII after Provision	4,348,268	3,580,892	3,097,881	3,150,630	3,188,482
Non Interest income	1,574,979	979,140	1,994,469	1,354,664	2,815,427
Admin & Other expense	(2,339,129)	(2,830,293)	(2,925,453)	(2,474,743)	(2,443,863)
Profit before taxation	3,584,118	1,729,739	2,166,897	2,030,551	3,560,046
Taxation	(1,141,160)	(630,438)	(1,168,285)	(706,503)	(1,254,412)
Profit after taxation	2,442,958	1,099,301	998,612	1,324,048	2,305,634
EPS	2.25	0.98	0.92	1.26	2.20

Source: Co Financials, AS Research

KATS Symbol	HMB
Reuters Symbol	HMB.KA
Target Price	Rs51
LDCP	Rs44.55
Outstanding Shares (mn)	1,047.83
Free Float (mn)	471.52
Market Cap (mn Rs)	46,681

Price Performance vs KSE100 Index**EPS estimates**

	CY17A	CY18E	CY19E
EPS (Rs)	5.41	6.13	7.56
P/Ex	8.23	7.27	5.89
BV (Rs)	41.86	44.99	49.55
P/Bx	1.06	0.99	0.90

Source: Co Financials, AS Research

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Valuation Methodology

To arrive at period end target price, Abbasi Securities uses different valuation methodologies:

- Comparable Method (P/E, P/B, Justified P/B & P/E etc.)
- Discounted Cash flow Method
- Equity and Asset based valuation

Rating

BUY	Total return more than 20% from last closing of market price
HOLD	Total return is in between 10% and 20% from last closing of market price
REDUCE	Total return is less than 10% from last closing market price