

Bank Alfalah Limited

Result Review

PSX: BAFL Bloomberg: BAFL: PA Reuters: BAFL: KA

Pakistan Research

BAFL: 4QCY23 EPS arrives at PKR 5.84, up 124% YoY, DPS PKR 5.00

- BAFL announced its annual financial result today, wherein the bank posted an unconsolidated EPS of PKR 5.84, up 124% YoY in 4QCY23. This took the CY23 EPS to PKR 23.11, up 100% YoY. Along with the result, BAFL announced a final cash dividend of PKR 5.00/share taking full year payout to PKR 8.00/share.
- Net interest income (NII) for the 4Q increased by 50% YoY to PKR 35.1bn. Interest earned grew by 80% YoY, partially diluted by high cost of funding as translated by 96% YoY surge in interest expense.
- Non-interest income for the quarter increased by 120% YoY to PKR 9.5bn due to PKR 2.7bn gain booked on derivatives and higher fee income of PKR 4.3bn up 47% YoY. Moreover, fee and commission income increased by 2.3x YoY to PKR 2.0bn in 4QCY23.
- Provisioning expense for the 4QCY23 clocked in at PKR 298mn vs PKR 4,332mn in SPLY.
- Administrative expenses for the 4Q increased by 28% YoY to PKR 18.9bn translating into a cost to income ratio of 42% vs 53% in 4QCY22.
- Effective tax rate for 4QCY23 clocked in at 64% due to a windfall tax charge booked on foreign exchange income and the continuation of super tax.
- We have a 'BUY' rating on the scrip. Our Dec-24 target price of PKR 60/share offers capital upside of 18.8% along with a dividend yield of 15.8%.

Key Data	
PSX Ticker	BAFL
Target Price (PKR)	60
Current Price (PKR)	50
Upside/(Downside) (%)	+19%
Dividend Yield (%)	16%
Total Return (%)	35%
12-month High (PKR)	53
12-month Low (PKR)	28
Outstanding Shares (mn)	1,577
Market Cap (PKR mn)	79,631
Year End	December

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	4QCY22	4QCY23	YoY	CY22	CY23	YoY
M/up Earned	69,681	125,715	80%	213,897	411,948	93%
M/up Expense	46,353	90,630	96%	136,558	285,877	109%
Net Interest Income	23,328	35,085	50%	77,340	126,070	63%
Non-Interest Income	4,330	9,544	120%	21,786	28,063	29%
Total Provisions	4,332	298	-93%	12,468	9,462	-24%
Admin Expenses	14,809	18,910	28%	50,497	66,497	32%
Profit Before Tax	8,517	25,422	198%	36,160	78,174	116%
Taxation	4,401	16,218	269%	17,954	41,719	132%
Profit After Tax	4,117	9,204	124%	18,206	36,456	100%
EPS	2.61	5.84	124%	11.54	23.11	100%
DPS	2.50	5.00		5.00	8.00	

Source: Company Accounts, Akseer Research

Key Financial Ratios

	CY21A	CY22A	CY23A	CY24E	CY25F	CY26F
EPS	9.0	11.5	23.1	21.8	21.2	24.5
EPS growth	35.7%	28.1%	100.2%	-5.8%	-2.9%	15.9%
DPS	4.5	5.6	8.0	8.0	8.5	11.0
BVPS	63.4	63.4	81.8	95.6	108.4	122.8
PER	5.6	4.4	2.2	2.3	2.4	2.1
Dividend yield	8.9%	11.2%	15.8%	15.8%	16.8%	21.8%
P/B	0.8	0.8	0.6	0.5	0.5	0.4
ROE	14.9%	18.2%	31.8%	24.6%	20.7%	21.2%

Source: Company Accounts, Akseer Research

Research
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Valuation Basis

Our PT for Bank Alfalah Limited (BAFL) has been computed on dividend discounting method using Justified P/B for the calculation of terminal value. We have used sustainable ROE of 18% to calculate exit P/B, along with a risk free rate of 15%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 21%.

Investment Thesis

We have a 'BUY' recommendation on the stock based on Dec-24 PT of PKR 60/share which results in an upside of 18.8% along with a dividend yield of 15.8%. Our investment case on BAFL is based on (1) NIMs expansion to support core earnings of the bank (2) banks focus on reducing its cost to income ratio in the medium term (3) investment book focused towards shorter tenor bills and floating rate PIBs to benefit in changing interest rate environment.

Risks

Key risks to our investment thesis are: 1) higher than anticipated growth in NPLs especially from consumer portfolio, 2) lower than anticipated growth in advances and deposits 3) higher than anticipated increase in cost/income ratio.

Company Description

Bank Alfalah Limited commenced its banking operations in November 1992 and got listed on the Pakistan Stock Exchange in 2004. The Bank is engaged in banking services, with key focus towards the consumer financing with a network of 942 branches (including 312 Islamic branches) across more than 225 cities in the country, and international presence in Afghanistan, Bangladesh, Bahrain and the UAE.

Financial Highlights - BAFL

Income Statement (PKR mn)						
	CY21A	CY22A	CY23F	CY24F	CY25F	CY26F
Mark-up/interest earned	100,182	213,897	411,948	485,272	434,640	411,663
Mark-up/interest expensed	54,134	136,558	285,877	358,407	302,792	266,163
Net interest income	46,048	77,340	126,070	126,865	131,848	145,500
Non-interest income	16,474	21,786	28,063	26,101	26,820	27,639
Provision charged	2312	12468	9,462	11,439	12,032	8,553
Operating expenses	36,840	50,497	66,497	74,164	81,219	88,745
Profit after tax	14,217	18,206	36,456	34,355	33,363	38,678

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY21A	CY22A	CY23F	CY24F	CY25F	CY26F
Cash & Treasury Balances	105,606	140,613	171,548	195,565	222,944	249,697
Investments	809,214	1,114,407	1,574,925	1,661,319	1,884,398	2,074,065
Advances	673,881	732,375	743,786	980,775	1,124,307	1,294,652
Operating Fixed Assets	40,615	49,721	63,972	75,700	86,245	98,258
Other Assets	105,005	216,081	171,894	195,959	223,393	250,200
Total Assets	1,734,321	2,253,197	2,726,125	3,109,318	3,541,286	3,966,873
Borrowings from FIs	383,809	491,180	599,239	683,132	778,771	872,224
Deposits	1,139,045	1,486,845	1,813,951	2,067,905	2,357,411	2,640,300
Other Liabilities	111,465	175,157	183,956	207,428	234,147	260,719
Total Liabilities	1,634,319	2,153,182	2,597,146	2,958,465	3,370,329	3,773,243
Equity	100,003	100,015	128,978	150,853	170,957	193,630
Total Liabilities & Equity	1,734,321	2,253,197	2,726,125	3,109,318	3,541,286	3,966,873

Source: Company Accounts, Akseer Research

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Valuation Methodology

To arrive at our 12-months Price Target, the JV uses different valuation methods which include: 1). DCF methodology, 2). Relative valuation methodology, and 3). Asset-based valuation methodology.

Ratings Criteria

JV employs a three tier ratings system to rate a stock, as mentioned below, which is based upon the level of expected return for a specific stock. The rating is based on the following with time horizon of 12-months.

Rating	Expected Total Return
Buy	Greater than or equal to +15%
Hold	Between -5% and +15%
Sell	Less than or equal to -5%

Ratings are updated to account for any development impacting the economy/sector/company, changes in analysts' assumptions or a combination of these factors.

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