

Bank Alfalah Limited
Result Preview

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

Pakistan Research

BAFL: 2QCY24 EPS likely to clock in at PKR 4.86, down by 3% YoY

- BAFL is scheduled to announce its 2QCY24 financial result on 1st August, 2024, wherein we expect the bank to post an unconsolidated profit after tax of PKR 7.7bn (EPS PKR 4.86), down by 3% YoY.
- Along with the result, we expect BAFL to announce an interim cash dividend of PKR 2.0/share for 2QCY24.
- Net interest income is likely to decrease by 8% YoY to PKR 29.0bn due to a downward movement in the policy rate and the resulting impact of faster repricing of liabilities. This is expected to accelerate the interest expense by 32% YoY to PKR 91.9bn, while interest income is estimated to increase by 20% YoY to PKR 120.8bn.
- Non-interest income is expected to increase by 15% YoY to PKR 7.4bn during this quarter with the rise driven by higher fee & commission income, up 34% YoY.
- We expect a provisioning expense of PKR 0.8bn in 2Q vs PKR 4.5bn in SPLY, translating to a 0.5% cost of risk.
- The bank's branch expansion strategy and inflationary pressures are expected to push the administrative expenses by 25% YoY to PKR 20.5bn. Consequently, the cost-to-income ratio is expected to clock in at 56% compared to 43% in 2QCY23.
- The expected effective tax rate is estimated at 49%, versus 53% SPLY.
- We have a 'Hold' rating on the script. Our Dec-24 target price of PKR 69/share offers capital upside of 4% along with a dividend yield of 11%.

Key Data

PSX Ticker	BAFL
Target Price (PKR)	69
Current Price (PKR)	66
Upside/(Downside) (%)	+4%
Dividend Yield (%)	11%
Total Return (%)	15%
12-month High (PKR)	71
12-month Low (PKR)	34
Outstanding Shares (mn)	1,577
Market Cap (PKR mn)	104,140
Year End	December

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	2QCY23	2QCY24E	YoY	1HCY23	1HCY24E	YoY
M/up Earned	100,868	120,754	20%	176,456	249,428	41%
M/up Expense	69,614	91,862	32%	117,265	189,725	62%
Net Interest Income	31,254	28,892	-8%	59,191	59,703	1%
Non-interest Income	6,437	7,426	15%	12,988	15,201	17%
Total Provisions	4,480	829	-82%	5,002	716	-86%
Admin Expenses	16,320	20,450	25%	31,313	39,438	26%
Profit Before Tax	16,891	15,039	-11%	35,865	34,749	-3%
Tax	9,013	7,369	-18%	17,245	17,167	0%
Profit After Tax	7,877	7,670	-3%	18,620	17,582	-6%
EPS	4.99	4.86		11.81	11.15	
DPS	3.00	2.00		3.00	4.00	

Source: Company Accounts, Akseer Research

Key Financial Ratios

	CY21A	CY22A	CY23A	CY24E	CY25F	CY26F
EPS	9.0	11.5	23.1	21.8	22.5	25.0
EPS Growth	35.7%	28.1%	100.2%	-5.8%	3.2%	11.1%
DPS	4.5	5.6	8.0	7.5	9.0	11.3
BVPS	63.4	63.4	87.4	101.8	116.4	131.9
PER	6.4	5.0	2.5	2.6	2.6	2.3
Dividend Yield	6.8%	8.5%	12.1%	11.4%	13.6%	17.1%
P/B	1.0	1.0	0.8	0.6	0.6	0.5
ROE	14.9%	18.2%	30.6%	23.0%	20.6%	20.1%

Source: Company Accounts, Akseer Research

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Valuation Basis

Our PT for Bank Alfalah Limited (BAFL) has been computed on the dividend discounting method using Justified P/B for the calculation of the terminal value. We have used sustainable ROE of 20% to calculate exit P/B, along with a risk-free rate of 15%, a beta of 1.0, and a market risk premium of 6% to arrive at a cost of equity of 21%.

Investment Thesis

We have a 'Hold' recommendation on the stock based on Dec-24 PT of PKR 69/share, which results in an upside of 4% along with a dividend yield of 11%. Our investment case on BAFL is based on (1) strong deposit growth (2) banks focused on reducing cost-to-income ratio in the medium term, and (3) prudent exposure management of its loan book.

Risks

Key risks to our investment thesis are: 1) higher-than-anticipated growth in NPLs, especially from consumer portfolio, 2) lower-than-expected growth in advances and deposits 3) higher-than-anticipated increase in cost-to-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 a key focus on the consumer financing with a network of 1,009 branches (including 348 Islamic branches) across the country, and operating 10 overseas and one offshore banking unit.

Financial Highlights - BAFL

Income Statement (PKR mn)						
	CY21A	CY22A	CY23A	CY24E	CY25F	CY26F
Mark-up/Interest Earned	100,182	213,897	411,948	559,557	494,064	467,424
Mark-up/Interest Expensed	54,134	136,558	285,877	426,597	354,460	313,857
Net Interest Income	46,048	77,340	126,070	132,960	139,604	153,568
Non-interest Income	16,474	21,786	28,063	30,294	30,182	31,060
Provision Charged	2312	12468	9,462	10,496	10,550	9,270
Operating Expenses	36,840	50,497	66,497	81,899	89,727	98,108
Profit After Tax	14,217	18,206	36,456	34,359	35,449	39,397

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY21A	CY22A	CY23A	CY24E	CY25F	CY26F
Cash & Treasury Balances	105,606	140,613	202,692	209,012	238,274	271,633
Investments	809,214	1,114,407	2,067,263	1,981,864	2,249,379	2,547,886
Advances	673,881	732,375	735,052	1,082,107	1,241,783	1,428,272
Operating Fixed Assets	40,615	49,721	63,138	75,700	86,245	98,258
Other Assets	105,005	216,081	277,773	209,433	238,754	272,179
Total Assets	1,734,321	2,253,197	3,345,917	3,558,117	4,054,435	4,618,228
Borrowings from FIs	383,809	491,180	909,543	964,116	1,099,092	1,252,965
Deposits	1,139,045	1,486,845	2,084,997	2,210,097	2,519,511	2,872,242
Other Liabilities	111,465	175,157	213,453	223,310	252,190	285,059
Total Liabilities	1,634,319	2,153,182	3,207,994	3,397,523	3,870,792	4,410,266
Equity	100,003	100,015	137,923	160,593	183,642	207,962
Total Liabilities & Equity	1,734,321	2,253,197	3,345,917	3,558,117	4,054,435	4,618,228

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%

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