

BAFL: 9MCY24 Corporate Briefing Takeaways

Bank Alfalah Limited

PSX: BAFL | Bloomberg: BAFL PA | Reuters: BAFL.PSX

- Bank Alfalah Limited (BAFL) posted a PAT of PKR 33.6bn in 9MCY24 compared to PAT of PKR 27.3bn in the SPLY, up by 23% YoY, mainly driven by an increase in the non-interest income.
- On the non-interest income (NII) front, the key drivers for growth are (i) capital gains on government securities, and (ii) higher fee & commission, led by robust growth in remittances, cards, and trade.
- NII growth has remained muted at 5% YoY in 9M, due to significant downward pressure on spreads, offset by volumetric growth in assets.
- Admin expenses have posted growth of 25% YoY on the back of inflationary pressures, rising utility costs, increments in staff payouts, and branch expansion in 9MCY24.
- Net Interest Margins (NIMs) have contracted on a YoY basis as an increase in the cost of funds outpaced asset yields. On sequential basis however, spreads have increased (up 0.2% QoQ) which can be attributed to the cost of funds reducing more than asset yields due to favorable lagged repricing.
- Deposits for the bank remained at PKR 2.1tn, growing by 17% YoY in Sep-24. However, on a sequential basis, deposit growth was muted (up by 2% QoQ) to maintain deposit quality and cautious positioning for the ADR benchmark.
- BAFL is confident about achieving a gross ADR higher than 50% by the end of CY24, while staying cognizant of its lending quality. If the benchmark is not achieved, the management expects effective tax rate for the year to be 56%.
- On the investments front, the portfolio grew by 27% YoY and is skewed towards floater PIBs and T-bills. About 25% of the portfolio is allocated to fixed securities, with about 13% in T-bills and the remainder in floaters. PIB yields are above 14.5%, with the FRR exceeding 18%. Investments declined by 6% QoQ on the back of lower borrowings.

Key Data

PSX Ticker	BAFL
Target Price (PKR)	69
Current Price (PKR)	67
Upside/(Downside) (%)	+2%
Dividend Yield (%)	14%
Total Return (%)	16%
12-month High (PKR)	71
12-month Low (PKR)	38
Outstanding Shares (Mn)	1,577
Market Cap (PKR Mn)	106,632

Source: Company Accounts, Akseer Research

Key Financial Ratios	CY21A	CY22A	CY23A	CY24E	CY25F	CY26F
EPS	8.0	10.2	22.7	26.5	23.4	21.1
EPS Growth	35.7%	28.1%	121.1%	17.0%	-6.1%	-2.8%
DPS	4.0	5.0	8.0	8.0	9.3	9.5
BVPS	56.3	56.3	87.4	109.5	120.4	133.2
PER	8.5	6.6	3.0	2.6	2.9	3.2
Dividend Yield	5.9%	7.4%	11.9%	11.9%	13.6%	14.0%
P/B	1.2	1.2	0.8	0.6	0.6	0.5
ROE	14.9%	18.2%	30.6%	26.3%	21.0%	16.7%

Source: Company Accounts, Akseer Research

- BAFL expects the SBP to continue with monetary easing, bringing down the policy rate to 12% by Jan-25. With the declining policy rate outlook, the bank anticipates the cost to income ratio will grow to at least 56%, depending on the timing of the rate cuts.
- Despite the upcoming challenges for banking sector returns, BAFL finds itself capable of withstanding headwinds through the flexibility to reposition itself and offset the impact of reducing spreads by increasing volumes while maintaining consistent payouts.
- We have a 'Buy' rating on the scrip with a Dec-25 PT of PKR 69/share, providing an upside of 2%, along with a dividend yield of 14%.

Valuation Basis

Our PT for BAFL has been computed using the dividend discount method, with the justified P/B ratio to calculate the terminal value. We have used a sustainable ROE of 20% to calculate the exit P/B ratio, along with a risk-free rate of 14%, a beta of 1.0, and market risk premium of 6% to arrive at a cost of equity of 20%.

Investment Thesis

We have a 'Buy' recommendation for the stock based on Dec-25 PT of PKR 69/share which results in an upside of 2%, along with a dividend yield of 14%. Our investment case on BAFL is based on (1) strong deposit growth, (2) banks focused on reducing the 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 the consumer portfolio, 2) lower-than-anticipated growth in advances and deposits, and 3) a higher-than-expected increase in the cost-to-income ratio.

Company Description

Bank Alfalah Limited commenced its banking operations in November 1992 and was listed on the Pakistan Stock Exchange (PSX) in 2004. The bank offers a wide range of banking services, with the key focus on consumer financing. BAFL has a vast network of 1,009 branches across the country — including 348 Islamic branches — as well as 10 overseas branches 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	505,726	394,731	331,383
Mark-up/interest expensed	54,134	136,558	285,877	382,097	269,579	218,533
Net interest income	46,048	77,340	126,070	123,629	125,151	112,850
Non-interest income	16,474	21,786	28,063	43,311	46,835	63,611
Provision charged	2312	12468	9,462	2,280	9,623	8,369
Operating expenses	36,840	50,497	66,497	81,673	90,058	98,532
Profit after tax	14,217	18,206	36,456	41,807	36,876	35,476

Source: Company Accounts, Akseer Research

Balance Sheet (PKR Mn)	CY21A	CY22A	CY23A	CY24E	CY25F	CY26F
Cash & Treasury Balances	105,606	140,613	202,692	214,854	236,339	259,973
Investments	809,214	1,114,407	2,067,263	1,898,997	2,046,803	2,187,747
Advances	673,881	732,375	735,052	1,080,515	1,237,680	1,423,510
Operating Fixed Assets	40,615	49,721	63,138	80,151	91,663	104,829
Other Assets	105,005	216,081	277,773	288,070	316,877	348,565
Total Assets	1,734,321	2,253,197	3,345,917	3,562,588	3,929,363	4,324,624
Borrowings from FIs	383,809	491,180	909,543	964,116	1,060,528	1,166,580
Deposits	1,139,045	1,486,845	2,084,997	2,210,097	2,431,107	2,674,217
Other Liabilities	111,465	175,157	213,453	215,661	247,841	272,329
Total Liabilities	1,634,319	2,153,182	3,207,994	3,389,874	3,739,475	4,113,127
Equity	100,003	100,015	137,923	172,714	189,888	211,497
Total Liabilities & Equity	1,734,321	2,253,197	3,345,917	3,562,588	3,929,363	4,324,624

Source: Company Accounts, Akseer Research

Disclaimer

This report has been prepared and marketed jointly by Akseer Research (Pvt) Limited and Alpha Capital (Pvt) Limited, hereinafter referred jointly as "JV" and is provided for information purposes only. Under no circumstances this is to be used or considered as an offer to sell or solicitation of any offer to buy. While reasonable care has been taken to ensure that the information contained therein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. From time to time, the JV and/or any of their officers or directors may, as permitted by applicable laws, have a position, or otherwise be interested in any transaction, in any securities directly or indirectly subject of this report. This report is provided only for the information of professionals who are expected to make their own investment decisions without undue reliance on this report. Investments in capital markets are subject to market risk and the JV accepts no responsibility whatsoever for any direct or indirect consequential loss arising from any use of this report or its contents. In particular, the report takes no account of the investment objectives, financial situation and particular needs of investors, who should seek further professional advice or rely upon their own judgment and acumen before making any investment. The views expressed in this report are those of the JV's Research Department and do not necessarily reflect those of the JV or its directors. Akseer Research and Alpha Capital as firms may have business relationships, including investment--banking relationships, with the companies referred to in this report. The JV or any of their officers, directors, principals, employees, associates, close relatives may act as a market maker in the securities of the companies mentioned in this report, may have a financial interest in the securities of these companies to an amount exceeding 1% of the value of the securities of these companies, may serve or may have served in the past as a director or officer of these companies, may have received compensation from these companies for corporate advisory services, brokerage services or underwriting services or may expect to receive or intend to seek compensation from these companies for the aforesaid services, may have managed or co-managed a public offering, take-over, buyback, delisting offer of securities or various other functions for the companies mentioned in this report.

All rights reserved by the JV. This report or any portion hereof may not be reproduced, distributed or published by any person for any purpose whatsoever. Nor can it be sent to a third party without prior consent of the JV. Action could be taken for unauthorized reproduction, distribution or publication.

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.

Research Dissemination Policy

The JV endeavors to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as email, fax mail etc.

Analyst Certification

The research analyst, denoted by 'AC' on the cover of this report, has also been involved in the preparation of this report, and is a member of JV's Equity Research Team. The analyst certifies that (1) the views expressed in this report accurately reflect his/her personal views and (2) no part of his/her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

Contact Details



Akseer Research (Pvt) Limited
 1st Floor, Shaheen Chambers, KCHS block 7 & 8,
 off. Shahrah-e-Faisal
 T: +92-21-34320359 -60
 E: info@akseerresearch.com



Alpha Capital (Pvt) Limited
 3rd Floor, Shaheen Chambers, A-4 Central Commercial Area,
 KCH Society, Block 7 & 8, Near Virtual University, Karachi
 T: +92-21-38694242
 E: info@alphacapital.com.pk



www.jamapunji.pk