

Bank Alfalah Limited
Key Takeaways

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

Pakistan Research

BAFL: 1QCY22 Conference Call Key Takeaways

- Bank Alfalah Limited held a conference call today to discuss its 1QCY22 financial performance and banking industry's outlook. Earlier, the bank had reported strong earnings growth of 45% YoY to PKR 2.82/share in 1QCY22. Higher profitability was on the back of robust interest and non-interest income during the quarter.
- Management expects NIMs to improve further going forward as rate hike impact will be more visible from 2QCY22 onwards. The bank expects at least a 100bps hike in next monetary policy.
- BAFL investment book is largely skewed towards floating PIBs (85%) and shorter-term T-Bills. While fixed PIBs consists of 15% with a duration of 3.8 years and a yield of 10.64%.
- BAFL's asset quality improved further to 3.4% in 1QCY22 vs 3.5% in 4QCY21 with coverage ratio further increased to 104.9% in 1QCY22 (4QCY21: 101.9%). During 1QCY22, BAFL did not take any reversals regarding Covid related general provisions which stood at PKR 2.25bn as at March-22.
- The bank will continue to expand its deposit market share and target 12-15% deposit growth during CY22. With regards to the advances growth, the bank expects it to grow by 10-15% despite headwinds in the economy. The management further informed that there is a pipeline in place with respect to TERF related facilities and financing to the SME sector under GoP initiative. Currently, there is no stress on the SME segment while the bank is maintaining a very cautious stance.
- Bank expects growth in fee income to continue to grow by 15% during CY22, while forex income is also likely to remain strong due to market volatility.
- The bank opened 6 new branches in 1QCY22 while plans to expand its branch network by 110 branches in CY22, while present cost to income ratio of 55% will likely to continue during CY22 or it may be improved further following healthy growth in NIMs.
- With regards to the Sri Lanka operation, the management informed that the bank does not have any exposure in Sri Lanka.
- CAR of the bank further improves to 14.8% in 1QCY22 compared to 14.4% in 4QCY21, while BAFL will continue to sustain its payout ratio on the back of healthy profitability, going forward.

Key Data

PSX Ticker	BAFL
Target Price (PKR)	60
Current Price (PKR)	35
Upside/(Downside) (%)	+ 72%
Dividend Yield (%)	19%
Total Return (%)	+ 92%
12-month High (PKR)	39
12-month Low (PKR)	31
Outstanding Shares (mn)	1,777
Market Cap (PKR mn)	61,934
Year End	December

Source: Company Accounts, Akseer Research

Saqib Hussain
saqib.hussain@alphacapital.com.pk

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 15.3% to calculate exit P/B, along with a risk free rate of 12%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 18%.

Investment Thesis

We have a 'BUY' recommendation on the stock based on Dec-22 PT of PKR 60/share which results in an upside of 72% along with a dividend yield of 19%. 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 796 branches (including 234 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)						
	CY19A	CY20A	CY21A	CY22E	CY23F	CY24F
Mark-up/interest earned	92,481	92,616	100,182	175,641	196,153	198,276
Mark-up/interest expensed	47,623	47,911	54,134	107,932	115,043	109,881
Net interest income	44,857	44,705	46,048	67,710	81,110	88,395
Non-interest income	10,396	12,795	16,474	14,003	14,652	15,392
Provision charged	3029	7589	2312	3,685	3,862	4,477
Operating expenses	29,843	32,032	36,840	42,133	49,790	54,994
Profit after tax	12,696	10,475	14,217	21,559	25,504	26,784

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY19A	CY20A	CY21A	CY22E	CY23F	CY24F
Cash & Treasury Balances	100,732	99,348	105,606	109,902	121,442	134,801
Investments	299,098	547,090	809,214	879,543	950,247	1,128,629
Advances	511,236	577,316	673,881	746,898	828,198	901,044
Operating Fixed Assets	30,344	32,261	40,615	43,222	45,796	48,372
Other Assets	123,262	128,859	105,005	133,018	167,753	132,418
Total Assets	1,064,672	1,384,874	1,734,321	1,912,584	2,113,435	2,345,264
Borrowings from FIs	102,842	314,960	383,809	422,190	466,520	517,837
Deposits	782,284	881,767	1,139,045	1,252,949	1,384,509	1,536,805
Other Liabilities	91,518	97,129	111,465	122,494	135,148	149,692
Total Liabilities	976,645	1,293,856	1,634,319	1,797,633	1,986,176	2,204,334
Equity	88,028	91,017	100,003	114,951	127,258	140,930
Total Liabilities & Equity	1,064,672	1,384,874	1,734,321	1,912,584	2,113,435	2,345,264

Source: Company Accounts, Akseer Research

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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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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 (Formerly: Alfa Adhi (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@alfaadhi.net