

Bank Alfalah Limited

Result Review

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

Pakistan Research

BAFL: 1QCY23 unconsolidated EPS came at PKR 6.81

- BAFL announced its 1QCY23 financial today, wherein the bank posted an unconsolidated profit after tax of PKR 10.7bn (EPS PKR 6.81), up 46% YoY.
- Net interest income for the quarter increased by 96% YoY to PKR 27.9bn due to the higher interest rate during 1Q. Interest earned surged by 110% YoY, while interest expense increased with a higher rate of 120% YoY.
- For 1QCY23, non-interest income clocked in at PKR 6.5bn up 50% YoY. The increase in the NII is due to higher forex income up 2.32x YoY, along with elevated fee and commission income up 34% YoY.
- Bank build provision on its robust profitability, in order to mitigate the potential impact of economic headwinds. Provisioning expense for the 1Q clocked in at PKR 522mn vs PKR 387mn SPLY.
- During the quarter, administrative expenses increased by 44% YoY to PKR 15bn, which we believe is driven by aggressive branch expansion and inflationary pressures. However, the cost to income ratio came at 43% in 1QCY23 vs 56% in 1QCY22, due to higher interest income.
- The expected effective tax rate of the bank for the 1QCY23 is increased to 43%, compared to 36% SPLY. This increase is attributed to the rise in corporate tax rates for the banking industry and imposition of super-tax.
- We have a 'BUY' rating on the scrip. Our Dec-23 target price of PKR 49/share offers capital upside of 67% along with a dividend yield of 36.7%.

Key Data

PSX Ticker	BAFL
Target Price (PKR)	49
Current Price (PKR)	29
Upside/(Downside) (%)	+67%
Dividend Yield (%)	36.7%
Total Return (%)	104%
12-month High (PKR)	36
12-month Low (PKR)	28
Outstanding Shares (mn)	1,577
Market Cap (PKR mn)	46,148
Year End	December

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	1QCY22	1QCY23	YoY
M/up Earned	35,942	75,589	110%
M/up Expense	21,653	47,652	120%
Net Interest Income	14,289	27,937	96%
Non-Interest Income	4,382	6,552	50%
Total Provisions	387	522	35%
Admin Expenses	10,444	14,993	44%
Profit Before Tax	7,839	18,974	142%
Taxation	2,821	8,232	192%
Profit After Tax	5,019	10,743	114%
EPS	3.2	6.8	114%

Source: Company Accounts, Akseer Research

Key Financial Ratios

	CY20A	CY21A	CY22A	CY23E	CY24F	CY25F
EPS	6.6	9.0	11.5	26.3	29.8	22.2
EPS growth	-17.5%	35.7%	28.1%	128.0%	13.1%	-25.5%
DPS	4.5	4.5	5.6	10.8	12.0	8.8
BVPS	57.7	63.4	63.4	82.8	99.9	113.1
PER	4.4	3.2	2.5	1.1	1.0	1.3
Dividend yield	15.4%	15.4%	19.3%	36.7%	41.0%	29.9%
P/B	0.5	0.5	0.5	0.4	0.3	0.3
ROE	11.7%	14.9%	18.2%	36.0%	32.6%	20.8%

Source: Company Accounts, Akseer 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 17% to calculate exit P/B, along with a risk free rate of 17%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 23%.

Investment Thesis

We have a 'BUY' recommendation on the stock based on Dec-23 PT of PKR 49/share which results in an upside of 67% along with a dividend yield of 36.7%. 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 877 branches (including 230 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)						
	CY20A	CY21A	CY22A	CY23E	CY24F	CY25F
Mark-up/interest earned	92,616	100,182	213,897	378,388	386,140	326,983
Mark-up/interest expensed	47,911	54,134	136,558	254,684	242,956	199,518
Net interest income	44,705	46,048	77,340	123,704	143,185	127,466
Non-interest income	12,795	16,474	21,786	19,354	18,301	18,757
Provision charged	7589	2312	12468	4,121	5,633	4,103
Operating expenses	32,032	36,840	50,497	64,166	73,498	80,748
Profit after tax	10,475	14,217	18,206	42,547	46,942	34,982

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY20A	CY21A	CY22A	CY23E	CY24F	CY25F
Cash & Treasury Balances	99,348	105,606	140,613	151,159	169,298	189,614
Investments	547,090	809,214	1,114,407	1,217,711	1,366,032	1,499,306
Advances	577,316	673,881	732,375	792,304	890,517	1,026,608
Operating Fixed Assets	32,261	40,615	49,721	62,504	74,436	85,350
Other Assets	128,859	105,005	216,081	222,598	249,310	279,227
Total Assets	1,384,874	1,734,321	2,253,197	2,446,276	2,749,593	3,080,105
Borrowings from FIs	314,960	383,809	491,180	528,018	591,380	662,346
Deposits	881,767	1,139,045	1,486,845	1,598,359	1,790,162	2,004,981
Other Liabilities	97,129	111,465	175,157	189,266	210,546	234,411
Total Liabilities	1,293,856	1,634,319	2,153,182	2,315,643	2,592,088	2,901,738
Equity	91,017	100,003	100,015	130,633	157,505	178,367
Total Liabilities & Equity	1,384,874	1,734,321	2,253,197	2,446,276	2,749,593	3,080,105

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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