

Bank Alfalah Limited
Result Preview

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

Pakistan Research

BAFL- 2QCY21 EPS expected to rise 10% YoY to PKR 1.72, due to low provisioning

- BAFL is scheduled to announce its 2QCY21 financial results on 25th August 2021, where we expect the bank to report net earnings of PKR 1.72/share, up 10% YoY. This will take cumulative earnings for 1HCY21 to PKR 3.67/share, up 17% YoY. Along with the result, we expect the bank to announce an interim dividend of PKR 2.0/ share.
- Major reason behind the increase in earnings is lower provisioning expenses (down 90% YoY) during 2QCY21 as the bank prudently booked provisions against pandemic related susceptible accounts during 2QCY20. For 1HCY21, the cumulative provisions are likely to stand at PKR 548mn, down 89% YoY.
- We expect net interest income (NII) to decline 8% YoY to PKR 10.6bn due to balance sheet repricing on lower interest rates. For 1HCY21, NII is expected to decline by 10% YoY to PKR 20.9bn.
- Interestingly, unlike other banks, BAFL's non-interest income is expected to recede by 27% YoY to PKR 3.0bn as the bank booked hefty capital gains on government and overseas securities in the comparative quarter last year. However, a 47% YoY increase in fee & commission income during 2QCY21 will restrict the decline in non-interest income.
- Operating expenses during the quarter are likely to increase by 9% YoY to PKR 8.3bn due to the normalization of the business activity. This coupled with potential increase in branch network will surge the cost to income ratio to 61% in 2QCY21 from 49% in 2QCY20.
- We have a 'BUY' rating on the scrip with Dec-21 price target of PKR 50/ share, implying an upside of 67.4% including a dividend yield of 11.7%.

Key Data

PSX Ticker	BAFL
Target Price (PKR)	50
Current Price (PKR)	32.1
Upside/(Downside) (%)	+ 55.8%
Dividend Yield (%)	11.7%
Total Return (%)	+ 67.4%
12-month High (PKR)	39
12-month Low (PKR)	28
Outstanding Shares (mn)	1,777
Market Cap (PKR mn)	57,047
Year End	December

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	2QCY20	2QCY21E	YoY	1HCY20	1HCY21E	YoY
M/up Earned	24,043	21,399	-11%	49,948	42,787	-14%
M/up Expense	12,462	10,767	-14%	26,587	21,828	-18%
Net Interest Income	11,580	10,632	-8%	23,361	20,959	-10%
Non-Interest Income	4,173	3,038	-27%	6,882	6,872	0%
Total Provisions	3,261	332	-90%	4,788	548	-89%
Admin Expenses	7,652	8,336	9%	15,857	16,910	7%
Profit Before Tax	4,840	5,002	3%	9,597	10,372	8%
Taxation	2,077	1,951	-6%	4,013	3,850	-4%
Profit After Tax	2,763	3,051	10%	5,584	6,522	17%
EPS	1.55	1.72	10%	3.14	3.67	17%
DPS	0.00	2.00	NM	0.00	4.00	NM

Source: Company Accounts, Akseer Research

Key Financial Ratios

	CY18A	CY19A	CY20A	CY21E	CY22F	CY23F
EPS	5.98	7.14	5.89	6.6	7.8	10.0
EPS Growth	14.6%	19.5%	-17.5%	12.5%	18.1%	27.5%
DPS	2.50	4.00	4.00	3.75	4.75	6.00
PER	5.4	4.5	5.4	4.8	4.1	3.2
Dividend Yield	7.8%	12.5%	12.5%	11.7%	14.8%	18.7%
P/B	0.75	0.65	0.63	0.61	0.56	0.51
ROE	14.2%	15.5%	11.7%	12.8%	14.3%	16.7%

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 16.4% to calculate exit P/B, along with a risk free rate of 11%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 17%.

Investment Thesis

We have a 'BUY' recommendation on the stock based on Dec-21 PT of PKR 50/share which results in an upside of 67.4% including dividend yield of 11.7%. 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 (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. It is operating through a network of 510 conventional banking branches, 10 overseas branches, 187 Islamic banking branches and 1 offshore banking unit.

Financial Highlights - BAFL

Income Statement (PKR mn)						
	CY18A	CY19A	CY20A	CY21F	CY22F	CY23F
Mark-up/interest earned	59,672	92,481	92,616	87,604	109,096	129,008
Mark-up/interest expensed	27,746	47,623	47,911	45,169	59,541	71,066
Net interest income	31,926	44,857	44,705	42,435	49,554	57,942
Non-interest income	10,431	10,396	12,795	13,144	13,506	15,259
Provision charged	27	3029	7589	1,569	2,206	2,747
Operating expenses	24,713	29,843	32,032	34,754	37,490	40,775
Profit after tax	10,625	12,696	10,475	11,787	13,918	17,744

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY18A	CY19A	CY20A	CY21F	CY22F	CY23F
Cash & Treasury Balances	82,408	100,732	99,348	92,348	99,735	107,714
Investments	277,660	299,098	547,090	602,672	655,428	712,980
Advances	501,636	511,236	577,316	623,959	673,902	727,459
Operating Fixed Assets	19,556	30,344	32,261	31,808	31,295	30,851
Other Assets	124,958	123,262	128,859	98,554	106,439	114,954
Total Assets	1,006,218	1,064,672	1,384,874	1,449,341	1,566,800	1,693,958
Borrowings from FIs	123,738	102,842	314,960	299,352	323,301	349,165
Deposits	702,895	782,284	881,767	952,308	1,028,493	1,110,773
Other Liabilities	103,937	91,518	97,129	104,340	113,202	122,973
Total Liabilities	930,571	976,645	1,293,856	1,356,001	1,464,996	1,582,911
Equity	75,647	88,028	91,017	93,340	101,804	111,047
Total Liabilities & Equity	1,006,218	1,064,672	1,384,874	1,449,341	1,566,800	1,693,958

Source: Company Accounts, Akseer Research

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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.

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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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