

## Bank Alfalah Limited

### Result Review

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

Pakistan Research

## BAFL- 2QCY21 EPS comes at PKR 1.95 up 25% YoY, due to NII expansion

- BAFL announced its 2QCY21 financial results, where the bank reported net earnings of PKR 1.95/share, up 25% YoY. Cumulative earnings for 1HCY21 grew by 24% YoY to PKR 3.90/share. In line with our expectation, the bank announced an interim dividend of PKR 2.0/ share.
- The results were slightly higher than our expectations mainly due to deviation in net interest income (NII) growth assumptions. The bank posted 1% YoY increase in NII versus our forecast of 8% YoY decline. Besides high yielding consumer financing growth, leading to 2% YoY jump in the interest income in 2Q, we believe the bank mobilized zero cost current account deposits, which contained the cost of deposits during the period.
- During 2QCY21, the bank booked further gains on the government and overseas securities, which contained the non-interest income declined to only 1% YoY to PKR 4.1bn. Last year in the comparative quarter, capital gains stood at PKR 1.8bn.
- Provisions clocked in at PKR 934mn during 2QCY21, down 71% YoY, however, bit higher against the current industry norm of booking reversals and this we believe is because of fully expensing out HASCOL related delinquencies. For 1HCY21, provisioning charge declined by 76% YoY to PKR 1.2bn.
- Admin expenses during the quarter increased by 18% YoY to PKR 9.1bn. Branch network expansion and marketing campaigns related to RDA led to double digit hike in the cost. It is worth highlighting that BAFL ranks amongst the top 4 banks with market share of more than 12% in the RDA segment. Resultantly, cost to income ratio of the bank surged to 57% 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	2QCY21	YoY	1HCY20	1HCY21	YoY
M/up Earned	24,043	24,525	2%	49,948	45,913	-8%
M/up Expense	12,462	12,867	3%	26,587	23,929	-10%
<b>Net Interest Income</b>	11,580	11,658	1%	23,361	21,985	-6%
Non-Interest Income	4,173	4,142	-1%	6,882	7,976	16%
Total Provisions	3,261	934	-71%	4,788	1,150	-76%
Admin Expenses	7,652	9,064	18%	15,857	17,638	11%
<b>Profit Before Tax</b>	4,840	5,802	20%	9,597	11,172	16%
Taxation	2,077	2,339	13%	4,013	4,238	6%
<b>Profit After Tax</b>	2,763	3,463	25%	5,584	6,934	24%
EPS	1.55	1.95	25%	3.14	3.90	24%
DPS	0.00	2.00	NM	0.00	2.00	NM

Source: Company Accounts, Akseer Research

#### Key Financial Ratios

	CY18A	CY19A	CY20A	CY21E	CY22F	CY23F
EPS	5.98	7.14	5.89	6.9	7.8	10.0
EPS Growth	14.6%	19.5%	-17.5%	16.4%	14.1%	27.5%
DPS	2.50	4.00	4.00	3.75	4.75	6.00
PER	5.4	4.5	5.4	4.7	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%	13.8%	14.2%	16.6%

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	90,745	109,128	129,043
Mark-up/interest expensed	27,746	47,623	47,911	47,270	59,541	71,066
<b>Net interest income</b>	<b>31,926</b>	<b>44,857</b>	<b>44,705</b>	<b>43,475</b>	<b>49,587</b>	<b>57,976</b>
<b>Non-interest income</b>	<b>10,431</b>	<b>10,396</b>	<b>12,795</b>	<b>14,223</b>	<b>13,452</b>	<b>15,198</b>
Provision charged	27	3029	7589	2,171	2,206	2,747
Operating expenses	24,713	29,843	32,032	35,482	37,490	40,775
<b>Profit after tax</b>	<b>10,625</b>	<b>12,696</b>	<b>10,475</b>	<b>12,192</b>	<b>13,905</b>	<b>17,728</b>

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	603,078	655,821	713,357
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
<b>Total Assets</b>	<b>1,006,218</b>	<b>1,064,672</b>	<b>1,384,874</b>	<b>1,449,746</b>	<b>1,567,192</b>	<b>1,694,334</b>
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
<b>Total Liabilities</b>	<b>930,571</b>	<b>976,645</b>	<b>1,293,856</b>	<b>1,356,001</b>	<b>1,464,996</b>	<b>1,582,911</b>
Equity	75,647	88,028	91,017	93,746	102,197	111,424
<b>Total Liabilities &amp; Equity</b>	<b>1,006,218</b>	<b>1,064,672</b>	<b>1,384,874</b>	<b>1,449,746</b>	<b>1,567,192</b>	<b>1,694,334</b>

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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