

Bank Alfalah Limited

Key Takeaways

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

Pakistan Research

BAFL - Conference Call Key Takeaways

- Bank Alfalah Limited (BAFL) held its conference call today to discuss its 2QCY21 financial performance and banking industry's outlook. To recall, the bank had reported net earnings of PKR 1.95/share in 2QCY21 (up 25% YoY) taking cumulative earnings for 1HCY21 to PKR 3.90/share (up 24% YoY). Along with the result, the bank also announced an interim cash dividend of PKR 2.0/share.
- Key highlights of the result were 13% sequential growth in Net Interest Income which was possible due to growth in the current account mix which contained the cost of deposits and favourable positioning of the investment book.
- Sequential growth is also supported by higher non-interest income which grew by 8% QoQ to PKR 4.1bn on the back of surge in fees and commission income (+12% QoQ), dividend income (+44% QoQ) and forex income (+62% QoQ).
- Provisions clocked in at PKR 934mn during 2QCY21, up from PKR 216mn in the previous quarter. The management highlighted that it has around PKR 1.8bn exposure in HASCOL which is now fully provided.
- Furthermore, the main highlight of the call was the bank's operations in Afghanistan. BAFL operates in Afghanistan through 2 branches at present, one in Kabul and another in Herat, with a total deposit base of AFN 11bn (~PKR 21bn). Due to the political chaos in the country post US's exodus, the bank has relocated its operating facility to Rawalpindi city for its Afghanistan branches.
- Updating on local branch network expansion, the bank told that it planned to open 70 branches in CY21 of which only 6 branches have been inaugurated so far. In order to meet the aggressive expansion plan, the bank will incur big jump in its admin cost during 2HCY21, keeping the cost to income ratio on higher side.
- We have a 'BUY' rating on the scrip with Dec-21 price target of PKR 50/ share, implying an upside of 64.9% including a dividend yield of 11.5%.

Key Data

PSX Ticker	BAFL
Target Price (PKR)	50
Current Price (PKR)	32.6
Upside/(Downside) (%)	+ 53.4%
Dividend Yield (%)	11.5%
Total Return (%)	+ 64.9%
12-month High (PKR)	39
12-month Low (PKR)	28
Outstanding Shares (mn)	1,777
Market Cap (PKR mn)	57,936
Year End	December

Source: Company Accounts, Akseer Research

Saqib Hussain

saqib.hussain@akseerresearch.com

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 64.9% including dividend yield of 11.5%. 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
Net interest income	31,926	44,857	44,705	43,475	49,587	57,976
Non-interest income	10,431	10,396	12,795	14,223	13,452	15,198
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
Profit after tax	10,625	12,696	10,475	12,192	13,905	17,728

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
Total Assets	1,006,218	1,064,672	1,384,874	1,449,746	1,567,192	1,694,334
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	93,746	102,197	111,424
Total Liabilities & Equity	1,006,218	1,064,672	1,384,874	1,449,746	1,567,192	1,694,334

Source: Company Accounts, Akseer Research

Disclaimer

This report has been prepared and marketed jointly by Akseer Research (Pvt) Limited and Alfa Adhi Securities (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 Alfa Adhi Securities 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 endeavours 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

Alfa Adhi Securities (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