

Bank Alfalah Limited
Result Review

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

Pakistan Research

BAFL: 3QCY21 unconsolidated EPS comes at PKR 2.0 up; 29% YoY

- BAFL announced its 3QCY21 financial results today, where the bank reported unconsolidated profit after tax of PKR 3.6bn (EPS PKR 2.0), up 29% YoY compared to net profit of PKR 2.7bn (EPS PKR 1.55), in the corresponding period last year. Cumulative earnings for 9MCY21 grew by 26% YoY to PKR 10.5bn (EPS PKR 5.90/share).
- The bank posted 7% YoY increase in NII during 3Q to PKR 11.9bn. Interest income increased by 18% YoY to PKR 25.7bn while interest expense remained higher by 30% YoY to PKR13.8bn. On a quarterly basis, Bank's NII expanded by 2% QoQ.
- Non-interest income grew by 15% YoY to PKR 3.6bn during 3QCY21. Major growth in this segment came from fee & commission income (+11% to PKR 2.0bn) and forex income (+43% YoY PKR 1.1bn).
- Provisions clocked in at PKR 269mn during 3QCY21, down 82% YoY. For 9MCY21, provisioning charge declined by 77% YoY to PKR 1.4bn.
- Admin expenses during the quarter increased by 16% YoY to PKR 9.3bn. Aggressive branch network expansion led to double digit hike in the cost. Bank's management highlighted in its 2Q conference call that its operating cost is to remain elevated in 2HCY21 as it plans to add more than 60 branches during 2H. Resultantly, cost to income (C/I) ratio of the bank surged to 60% in 3QCY21 from 56% in 3QCY20. For 9MCY21, C/I ratio surged to 59% versus 54% in 9MCY20.
- We have a 'BUY' rating on the scrip with Jun-22 price target of PKR 56/ share, implying an upside of 67.0% including a dividend yield of 13.0%.

Key Data

PSX Ticker	BAFL
Target Price (PKR)	50
Current Price (PKR)	32.1
Upside/(Downside) (%)	+ 54.0%
Dividend Yield (%)	13.0%
Total Return (%)	+ 67.0%
12-month High (PKR)	39
12-month Low (PKR)	28
Outstanding Shares (mn)	1,777
Market Cap (PKR mn)	64,831
Year End	December

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	3QCY20	3QCY21	YoY	9MCY20	9MCY21	YoY
M/up Earned	21,787	25,751	18%	71,736	71,664	0%
M/up Expense	10,681	13,843	30%	37,269	37,771	1%
Net Interest Income	11,106	11,908	7%	34,467	33,893	-2%
Non-Interest Income	3,142	3,613	15%	10,024	11,589	16%
Total Provisions	1,490	269	-82%	6,279	1,419	-77%
Admin Expenses	8,019	9,332	16%	23,877	26,970	13%
Profit Before Tax	4,738	5,921	25%	14,335	17,093	19%
Taxation	1,991	2,374	19%	6,004	6,612	10%
Profit After Tax	2,747	3,548	29%	8,331	10,481	26%
EPS	1.55	2.00	29%	4.69	5.90	26%
DPS	2.00	0.00	-100%	2.00	2.00	0%

Source: Company Accounts, Akseer Research

Key Financial Ratios

	CY18A	CY19A	CY20A	CY21E	CY22F	CY23F
EPS	5.98	7.14	5.89	7.85	8.79	9.93
EPS Growth	14.6%	19.5%	-17.5%	33.2%	12.0%	12.9%
DPS	2.50	4.00	4.00	4.25	4.75	5.50
PER	6.1	5.1	6.2	4.6	4.1	3.7
Dividend Yield	6.9%	11.0%	11.0%	11.7%	13.0%	15.1%
P/B	0.86	0.7	0.7	0.6	0.6	0.5
ROE	14.2%	15.5%	11.5%	14.2%	14.5%	15.1%

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 Jun-22 PT of PKR 56/share which results in an upside of 67.0% including dividend yield of 13.0%. 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 with a network of 736 branches (including 190 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)						
	CY18A	CY19A	CY20A	CY21E	CY22F	CY23F
Mark-up/interest earned	59,672	92,481	92,616	99,681	126,700	151,104
Mark-up/interest expensed	27,746	47,623	47,911	53,484	70,661	85,277
Net interest income	31,926	44,857	44,705	46,196	56,039	65,826
Non-interest income	10,431	10,396	12,795	14,541	12,814	13,415
Provision charged	27	3029	7589	1,702	3,095	3,726
Operating expenses	24,713	29,843	32,032	36,201	39,848	46,333
Profit after tax	10,625	12,696	10,475	13,955	15,628	17,644

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY18A	CY19A	CY20A	CY21E	CY22F	CY23F
Cash & Treasury Balances	82,408	100,732	99,348	99,722	103,923	114,835
Investments	277,660	299,098	547,090	706,105	758,023	816,279
Advances	501,636	511,236	577,316	689,122	764,468	847,836
Operating Fixed Assets	19,556	30,344	32,261	32,653	33,374	34,252
Other Assets	124,958	123,262	128,859	131,256	162,849	199,080
Total Assets	1,006,218	1,064,672	1,384,874	1,658,857	1,822,637	2,012,282
Borrowings from FIs	123,738	102,842	314,960	415,578	457,136	505,135
Deposits	702,895	782,284	881,767	1,049,303	1,154,233	1,275,428
Other Liabilities	103,937	91,518	97,129	90,302	99,149	109,516
Total Liabilities	930,571	976,645	1,293,856	1,555,183	1,710,519	1,890,079
Equity	75,647	88,028	93,977	103,674	112,119	122,203
Total Liabilities & Equity	1,006,218	1,064,672	1,387,833	1,658,857	1,822,637	2,012,282

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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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