

Bank Alfalah Limited

Result Review

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

Pakistan Research

BAFL: 3QCY22 EPS clocked in at PKR 3.0, up 52% YoY

- BAFL announced its 3QCY22 financial result today, wherein the bank posted an unconsolidated EPS of PKR 3.0 vs PKR 2.0 in 3QCY21. This takes 9MCY22 EPS to PKR 7.9, up 34% YoY.
- Net interest income grew by 139% YoY to PKR 61.6bn on the back of strong balance sheet growth along with repricing of interest-bearing assets.
- Deposit base of the bank depicted a growth of 33.7% YoY to PKR 1.4tn in 3QCY22, where current account deposit mobilization grew by 29.8% YoY. Despite challenging economic environment, gross Advances of the bank grew by 15.9% YoY to PKR 777.6bn. Resultantly, gross advance to deposit ratio stood at 56.1% in 3QCY22.
- Non-interest income increased by 81% YoY to PKR 6.5bn in 3QCY22. Major growth in this segment came from forex income, depicting a growth of 224% YoY to PKR 3.4bn, due to strong trade flows and higher currency volatility during 3Q.
- During 3QCY22, the bank provided a provision of PKR 4.1bn vs PKR 269mn in 3QCY21. Due to strong profitability, BAFL has prudently downgraded some of its assets which could be default in the current tough economic environment.
- Admin expenses grew by 45% YoY to PKR 13.5bn in 3QCY22 due to aggressive branch network expansion. During 3Q, BAFL announced an adhoc allowance for its employees to cope up with the rising inflation. Despite higher operating expenses, cost to income ratio of the bank declined to 48% in 3QCY22 vs 60% in 3QCY21 mainly due to higher revenues.
- Effective tax rate of the bank reached at 50% in 3QCY22 vs 40% in 3QCY21. This is due to rise in corporate tax rates for the banking industry and imposition of the super-tax in FY23 budget.
- We have a 'BUY' rating on the scrip with June-23 target price of PKR 50/share, offering a capital upside of 58.7% along with a dividend yield of 22.6%.

Key Data

PSX Ticker	BAFL
Target Price (PKR)	50
Current Price (PKR)	31.5
Upside/(Downside) (%)	+ 58.7%
Dividend Yield (%)	22.6%
Total Return (%)	+ 81.3%
12-month High (PKR)	39.3
12-month Low (PKR)	29.5
Outstanding Shares (mn)	1,777.2
Market Cap (PKR mn)	55,980.7
Year End	December

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	3QCY21	3QCY22	YoY	9MCY21	9MCY22	YoY
M/up Earned	25,751	61,586	139%	71,664	144,216	101%
M/up Expense	13,843	39,717	187%	37,771	90,205	139%
Net Interest Income	11,908	21,869	84%	33,893	54,012	59%
Non-Interest Income	3,613	6,555	81%	11,589	17,456	51%
Total Provisions	269	4,095	1424%	1,419	8,137	473%
Admin Expenses	9,332	13,546	45%	26,970	35,688	32%
Profit Before Tax	5,921	10,783	82%	17,093	27,643	62%
Taxation	2,374	5,396	127%	6,612	13,553	105%
Profit After Tax	3,548	5,387	52%	10,481	14,090	34%
EPS	2.0	3.0	52%	5.9	7.9	34%
DPS	-	-		2.0	2.5	

Key Financial Ratios

	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
EPS	7.1	5.9	8.0	11.5	15.4	12.7
EPS Growth	19.5%	-17.5%	35.7%	44.0%	33.3%	-17.1%
DPS	4.0	4.0	4.0	5.8	8.5	7.0
PER	4.4	5.3	3.9	2.7	2.1	2.5
Dividend Yield	12.7%	12.7%	12.7%	18.3%	27.0%	22.2%
P/B	0.6	0.6	0.6	0.5	0.4	0.4
ROE	15.5%	11.7%	14.9%	21.4%	22.9%	17.2%

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 14.6% to calculate exit P/B, along with a risk free rate of 13%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 19%.

Investment Thesis

We have a 'BUY' recommendation on the stock based on June-23 PT of PKR 50/share which results in an upside of 58.7% along with a dividend yield of 22.6%. 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 823 branches (including 252 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)						
	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
Mark-up/interest earned	92,481	92,616	100,182	203,347	221,401	182,568
Mark-up/interest expensed	47,623	47,911	54,134	127,754	134,299	98,855
Net interest income	44,857	44,705	46,048	75,594	87,102	83,713
Non-interest income	10,396	12,795	16,474	21,728	18,052	18,842
Provision charged	3029	7589	2312	9,200	1,996	3,237
Operating expenses	29,843	32,032	36,840	47,964	55,278	59,618
Profit after tax	12,696	10,475	14,217	20,472	27,292	22,629

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
Cash & Treasury Balances	100,732	99,348	105,606	125,219	138,366	153,587
Investments	299,098	547,090	809,214	926,268	1,064,250	1,140,444
Advances	511,236	577,316	673,881	702,793	731,319	843,751
Operating Fixed Assets	30,344	32,261	40,615	54,101	66,733	79,396
Other Assets	123,262	128,859	105,005	123,722	136,713	151,752
Total Assets	1,064,672	1,384,874	1,734,321	1,932,103	2,137,381	2,368,929
Borrowings from FIs	102,842	314,960	383,809	422,190	466,520	517,837
Deposits	782,284	881,767	1,139,045	1,252,949	1,384,509	1,536,805
Other Liabilities	91,518	97,129	111,465	144,721	159,803	177,139
Total Liabilities	976,645	1,293,856	1,634,319	1,819,860	2,010,831	2,231,781
Equity	88,028	91,017	100,003	112,242	126,550	137,148
Total Liabilities & Equity	1,064,672	1,384,874	1,734,321	1,932,103	2,137,381	2,368,929

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%

Ratings are updated to account for any development impacting the economy/sector/company, changes in analysts' assumptions or a combination of these factors.

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