

## Bank Alfalah Limited

### Result Preview

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

Pakistan Research

## 4QCY22 EPS to clock in at PKR 3.1, DPS at PKR 3.0

- BAFL is scheduled to announce its CY22 financial result on February 2, 2023. We expect the bank to post unconsolidated profit after tax of PKR 5.5bn (EPS PKR 3.1) in 4Q vs profit after tax of PKR 3.7bn (EPS PKR 2.1) in SPLY. This will take CY22 EPS to PKR 11.0, up 38% YoY. Along with the result, we expect the bank to announce final cash dividend of PKR 3.0/share.
- Net interest income for the quarter is anticipated to grow by 68% YoY to PKR 20.4bn due to a higher interest rate which has overshadowed the meagre balance sheet growth.
- Non-interest income is expected to increase by 18% YoY to PKR 5.7bn in 4Q. The increase in the NII is due to higher forex income (+85% YoY) and fee and commission income (+32% YoY).
- We expect the bank to build further general provision on its robust profitability, to mitigate the potential impact of economic headwinds on expected credit loss. We have assumed Provisioning expense of PKR 2.4bn during 4Q vs PKR 0.9bn in SPLY.
- During the quarter, administrative expenses are projected to increase by 31% YoY to PKR 12.9 bn, driven by inflationary pressures. However, the cost to income ratio is expected to clock in at 49%, due to higher interest income.
- The expected effective tax rate of the bank for the fourth quarter of CY22 is estimated to increase to 49%, compared to 40% in the fourth quarter of CY21. This increase is attributed to the rise in corporate tax rates for the banking industry and the introduction of a super-tax in the FY23 budget.
- We have a 'BUY' rating on the scrip. Our Dec-23 target price of PKR 49/share offers capital upside of 59% along with a dividend yield of 23.9%.

### Key Data

|                         |          |
|-------------------------|----------|
| PSX Ticker              | BAFL     |
| Target Price (PKR)      | 49       |
| Current Price (PKR)     | 31       |
| Upside/(Downside) (%)   | + 59%    |
| Dividend Yield (%)      | 23.9%    |
| Total Return (%)        | + 82%    |
| 12-month High (PKR)     | 39       |
| 12-month Low (PKR)      | 28       |
| Outstanding Shares (mn) | 1,777    |
| Market Cap (PKR mn)     | 48,734   |
| Year End                | December |

Source: Company Accounts, Akseer Research

### Financial Estimates (PKR mn)

|                            | 4QCY21        | 4QCY22E       | YoY        | CY21          | CY22E         | YoY        |
|----------------------------|---------------|---------------|------------|---------------|---------------|------------|
| M/up Earned                | 28,518        | 62,590        | 119%       | 100,182       | 206,806       | 106%       |
| M/up Expense               | 16,363        | 42,230        | 158%       | 54,134        | 132,435       | 145%       |
| <b>Net Interest Income</b> | <b>12,155</b> | <b>20,360</b> | <b>68%</b> | <b>46,048</b> | <b>74,372</b> | <b>62%</b> |
| Non-Interest Income        | 4,885         | 5,754         | 18%        | 16,474        | 23,210        | 41%        |
| Total Provisions           | 893           | 2,386         | 167%       | 2,312         | 10,523        | 355%       |
| Admin Expenses             | 9,870         | 12,896        | 31%        | 36,840        | 48,584        | 32%        |
| <b>Profit Before Tax</b>   | <b>6,277</b>  | <b>10,832</b> | <b>73%</b> | <b>23,370</b> | <b>38,475</b> | <b>65%</b> |
| Taxation                   | 2,542         | 5,308         | 109%       | 9,154         | 18,861        | 106%       |
| <b>Profit After Tax</b>    | <b>3,735</b>  | <b>5,524</b>  | <b>48%</b> | <b>14,217</b> | <b>19,614</b> | <b>38%</b> |
| <b>EPS</b>                 | <b>2.1</b>    | <b>3.1</b>    | <b>48%</b> | <b>8.0</b>    | <b>11.0</b>   | <b>38%</b> |
| <b>DPS</b>                 | <b>2.0</b>    | <b>3.0</b>    |            | <b>4.0</b>    | <b>5.5</b>    |            |

Source: Company Accounts, Akseer Research

### Key Financial Ratios

|                | CY19A | CY20A  | CY21A | CY22E | CY23F | CY24F |
|----------------|-------|--------|-------|-------|-------|-------|
| EPS            | 7.1   | 5.9    | 8.0   | 11.0  | 17.3  | 17.7  |
| EPS growth     | 19.5% | -17.5% | 35.7% | 38.0% | 56.4% | 2.3%  |
| DPS            | 4.0   | 4.0    | 4.0   | 5.5   | 7.8   | 7.0   |
| BVPS           | 49.5  | 51.2   | 56.3  | 61.3  | 78.7  | 88.2  |
| PER            | 4.3   | 5.2    | 3.9   | 2.8   | 1.8   | 1.7   |
| Dividend yield | 12.9% | 12.9%  | 12.9% | 17.8% | 25.1% | 22.7% |
| P/B            | 0.6   | 0.6    | 0.5   | 0.5   | 0.4   | 0.4   |
| ROE            | 15.5% | 11.7%  | 14.9% | 18.8% | 23.4% | 21.2% |

Source: Company Accounts, Akseer Research

Muhammad Atif  
[muhammad.atif@alphacapital.com.pk](mailto:muhammad.atif@alphacapital.com.pk)

### 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 17%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 23%.

### Investment Thesis

We have a 'BUY' recommendation on the stock based on Dec-23 PT of PKR 49/share which results in an upside of 59% along with a dividend yield of 23.9%. 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 841 branches ( including 263 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         | CY22E         | CY23F         | CY24F          |
| Mark-up/interest earned    | 92,481        | 92,616        | 100,182       | 206,806       | 290,303       | 252,940        |
| Mark-up/interest expensed  | 47,623        | 47,911        | 54,134        | 132,435       | 193,398       | 152,448        |
| <b>Net interest income</b> | <b>44,857</b> | <b>44,705</b> | <b>46,048</b> | <b>74,372</b> | <b>96,905</b> | <b>100,491</b> |
| <b>Non-interest income</b> | <b>10,396</b> | <b>12,795</b> | <b>16,474</b> | <b>23,210</b> | <b>17,844</b> | <b>18,438</b>  |
| Provision charged          | 3029          | 7589          | 2312          | 10,523        | 3,773         | 3,985          |
| Operating expenses         | 29,843        | 32,032        | 36,840        | 48,584        | 57,587        | 66,070         |
| <b>Profit after tax</b>    | <b>12,696</b> | <b>10,475</b> | <b>14,217</b> | <b>19,614</b> | <b>27,228</b> | <b>27,858</b>  |

Source: Company Accounts, Akseer Research

| Balance sheet (PKR mn)                |                  |                  |                  |                  |                  |                  |
|---------------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
|                                       | CY19A            | CY20A            | CY21A            | CY22E            | CY23F            | CY24F            |
| Cash & Treasury Balances              | 100,732          | 99,348           | 105,606          | 121,975          | 139,052          | 158,519          |
| Investments                           | 299,098          | 547,090          | 809,214          | 949,314          | 1,135,378        | 1,275,662        |
| Advances                              | 511,236          | 577,316          | 673,881          | 747,873          | 792,897          | 915,554          |
| Operating Fixed Assets                | 30,344           | 32,261           | 40,615           | 52,486           | 65,027           | 77,366           |
| Other Assets                          | 123,262          | 128,859          | 105,005          | 149,956          | 170,950          | 194,883          |
| <b>Total Assets</b>                   | <b>1,064,672</b> | <b>1,384,874</b> | <b>1,734,321</b> | <b>2,021,604</b> | <b>2,303,305</b> | <b>2,621,985</b> |
| Borrowings from FIs                   | 102,842          | 314,960          | 383,809          | 443,299          | 505,361          | 576,112          |
| Deposits                              | 782,284          | 881,767          | 1,139,045        | 1,315,597        | 1,499,780        | 1,709,749        |
| Other Liabilities                     | 91,518           | 97,129           | 111,465          | 153,786          | 173,987          | 196,971          |
| <b>Total Liabilities</b>              | <b>976,645</b>   | <b>1,293,856</b> | <b>1,634,319</b> | <b>1,912,682</b> | <b>2,179,128</b> | <b>2,482,832</b> |
| Equity                                | 88,028           | 91,017           | 100,003          | 108,922          | 124,177          | 139,153          |
| <b>Total Liabilities &amp; Equity</b> | <b>1,064,672</b> | <b>1,384,874</b> | <b>1,734,321</b> | <b>2,021,604</b> | <b>2,303,305</b> | <b>2,621,985</b> |

Source: Company Accounts, Akseer Research

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| 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](mailto:info@akseerresearch.com)

**Alpha Capital (Pvt) Limited (Formerly: 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.pk](mailto:info@alfaadhi.pk)