

Bank Alfalah Limited

Analyst Briefing Key Takeaways

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

Pakistan Research

BAFL: Analyst Briefing Key Takeaways

- BAFL held its analyst briefing today to discuss the financial results for CY23 and its future outlook.
- To recall, the bank had posted an unconsolidated EPS of PKR 5.84, up 124% YoY in 4QCY23. This took the CY23 EPS to PKR 23.11, up 100% YoY. Along with the result, BAFL announced a final cash dividend of PKR 5.00/share taking the full year payout to PKR 8.00/share.
- Net interest income (NII) in CY23 increased by 63% YoY owing to improved spreads after re-pricing of the well positioned asset book amid growth in balance sheet size.
- Non-interest income increased by 28% YoY in CY23 due to (i) 37% YoY growth in Fee and Commission Income that is mainly led by Cards, ADC and Trade, (ii) higher derivative income and (iii) capital gains on shares and foreign securities.
- Bank's admin expenses increased by 30% YoY mainly due to branch expansion, technology cost, inflation and PKR devaluation. However, the bank's cost to income ratio improved to 41.8% as against 50.0% last year.
- Provisioning expense for the year clocked in at PKR 9,462mn that mainly relates to additional charge on the back of prudent provisioning including subjective downgrades, partly offset by investment provision reversal and recovery against written off debt.
- Effective tax rate for CY23 clocked in at 53% due to a windfall tax charge booked on foreign exchange income and the continuation of super tax.
- Bank's deposits crossed the landmark of PKR 2tn with impressive growth of 40% YoY in CY23, mainly stemming from 62% increase in saving accounts amid aggressive branch expansion. In CY23, the bank established over 100 new branches.
- ADR decreased to 37.3% in CY23 from 51.5% in CY22 due to cautious lending in view of prevailing economic conditions and strong deposit growth.
- NPL ratio increased to 4.8% primarily because of subjective classification and downgrading. NPL remain fully covered with coverage being 112% at Dec-23.
- Investment book of the bank grew by 86% YoY to PKR 2,067mn, while the portfolio remained skewed towards floater PIBs and T-Bills. Moreover, fixed income PIB constitutes 15% of the portfolio with an average yield of 14% and duration of 2-2.5 years.
- Revaluation surplus increased to PKR 11,268mn mainly because of yield curve movement, as well as recovery in Pak Euro Bonds.
- We have a 'BUY' rating on the scrip. Our Dec-24 target price of PKR 67/share offers capital upside of 25.8% along with a dividend yield of 15.5%.

Key Data

PSX Ticker	BAFL
Target Price (PKR)	67
Current Price (PKR)	53
Upside/(Downside) (%)	+26%
Dividend Yield (%)	16%
Total Return (%)	41%
12-month High (PKR)	59
12-month Low (PKR)	28
Outstanding Shares (mn)	1,577
Market Cap (PKR mn)	84,031
Year End	December

Source: Company Accounts, Akseer Research

Key Financial Ratios

	CY21A	CY22A	CY23A	CY24E	CY25F	CY26F
EPS	9.0	11.5	23.1	23.9	24.0	26.1
EPS growth	35.7%	28.1%	100.2%	3.2%	0.7%	8.6%
DPS	4.5	5.6	8.0	8.3	9.5	11.8
BVPS	63.4	63.4	87.4	103.4	119.3	135.1
PER	5.9	4.6	2.3	2.2	2.2	2.0
Dividend yield	8.5%	10.6%	15.0%	15.5%	17.8%	22.1%
P/B	0.8	0.8	0.6	0.5	0.4	0.4
ROE	14.9%	18.2%	30.6%	25.0%	21.6%	20.5%

Source: Company Accounts, Akseer Research

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Valuation Basis

Our TP 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 18% to calculate exit P/B, along with a risk free rate of 15%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 21%.

Investment Thesis

We have a 'BUY' recommendation on the stock based on Dec-24 TP of PKR 67/share which results in an upside of 25.8% along with a dividend yield of 15.5%. 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 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 1,009 branches (including 348 Islamic branches) across more than 225 cities in the country, and international presence with 10 branches.

Financial Highlights - BAFL

Income Statement (PKR mn)						
	CY21A	CY22A	CY23F	CY24F	CY25F	CY26F
Mark-up/interest earned	100,182	213,897	411,948	568,176	506,293	475,114
Mark-up/interest expensed	54,134	136,558	285,877	430,550	359,103	317,870
Net interest income	46,048	77,340	126,070	137,626	147,190	157,244
Non-interest income	16,474	21,786	28,063	29,469	30,185	31,005
Provision charged	2312	12468	9,462	11,439	13,377	9,497
Operating expenses	36,840	50,497	66,497	81,899	89,727	98,108
Profit after tax	14,217	18,206	36,456	37,616	37,878	41,128

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY21A	CY22A	CY23F	CY24F	CY25F	CY26F
Cash & Treasury Balances	105,606	140,613	202,692	216,900	238,590	267,220
Investments	809,214	1,114,407	2,067,263	2,082,093	2,245,624	2,475,635
Advances	673,881	732,375	735,052	1,095,131	1,254,472	1,443,600
Operating Fixed Assets	40,615	49,721	63,138	75,700	86,245	98,258
Other Assets	105,005	216,081	277,773	217,336	239,070	267,758
Total Assets	1,734,321	2,253,197	3,345,917	3,687,161	4,064,000	4,552,472
Borrowings from FIs	383,809	491,180	909,543	1,000,498	1,100,548	1,232,613
Deposits	1,139,045	1,486,845	2,084,997	2,293,497	2,522,847	2,825,588
Other Liabilities	111,465	175,157	213,453	230,104	252,461	281,258
Total Liabilities	1,634,319	2,153,182	3,207,994	3,524,099	3,875,855	4,339,460
Equity	100,003	100,015	137,923	163,062	188,145	213,013
Total Liabilities & Equity	1,734,321	2,253,197	3,345,917	3,687,161	4,064,000	4,552,472

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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