

Bank Alfalah Limited

Result Preview

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

Pakistan Research

BAFL: 1QCY24 EPS likely to clock in at PKR 5.90, down 13% YoY

- BAFL is scheduled to announce its 1QCY24 financial result on 24th April, 2024. We expect the bank to post unconsolidated profit after tax of PKR 9.3bn (EPS PKR 5.90), down 13% YoY.
- Pricing support through unprecedented high interest rates and volumetric growth through aggressive branch expansion strategy is expected to increase the net interest income by 19% YoY to PKR 33.1bn in 1Q. This is despite the expectation of growth in interest expense (+123% YoY) exceeding interest earned (+84% YoY) on the back of raising expensive deposits. To highlight, CA has decreased from 45% at Dec-22 to 38% at Dec-23.
- Non-interest income is expected to increase by 19% YoY to PKR 7.8bn during the quarter. The increase in the NII is due to higher fee & commission income, up 32% YoY, and capital gains. However, forex income is anticipated to moderate and decrease by 38% YoY.
- We have assumed provisioning expense at PKR 412mn in 1Q vs PKR 522mn in SPLY.
- The bank's branch expansion strategy and inflationary pressures are expected to push the administrative expenses by 25% YoY to PKR 18.8bn. Consequently, the cost to income ratio is expected to clock in at 46% as compared to 43% in 1QCY23.
- The expected effective tax rate is estimated to increase to 57%, versus 43% SPLY with the increase attributable to the imposition of super tax and ADR related tax.
- We have a 'BUY' rating on the scrip. Our Dec-24 price target of PKR 69/share offers capital upside of 20% along with a dividend yield of 13%.

Key Data	
PSX Ticker	BAFL
Target Price (PKR)	69
Current Price (PKR)	57
Upside/(Downside) (%)	+ 20%
Dividend Yield (%)	13%
Total Return (%)	33%
12-month High (PKR)	60
12-month Low (PKR)	28
Outstanding Shares (mn)	1,577
Market Cap (PKR mn)	92,375
Year End	December

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	1QCY23	1QCY24E	YoY
M/up Earned	75,589	139,230	84%
M/up Expense	47,652	106,114	123%
Net Interest Income	27,937	33,116	19%
Non-Interest Income	6,552	7,780	19%
Total Provisions	522	412	-21%
Admin Expenses	14,993	18,751	25%
Profit Before Tax	18,974	21,732	15%
Taxation	8,232	12,433	51%
Profit After Tax	10,743	9,299	-13%
EPS	6.81	5.90	-13%

Source: Company Accounts, Akseer Research

Key Financial Ratios

	CY21A	CY22A	CY23A	CY24E	CY25F	CY26F
EPS	9.0	11.5	23.1	21.8	22.5	25.0
EPS growth	35.7%	28.1%	100.2%	-5.8%	3.2%	11.1%
DPS	4.5	5.6	8.0	7.5	9.0	11.3
BVPS	63.4	63.4	87.4	101.8	116.4	131.9
PER	6.4	5.0	2.5	2.6	2.6	2.3
Dividend yield	7.8%	9.8%	13.9%	13.0%	15.7%	19.6%
P/B	0.9	0.9	0.7	0.6	0.5	0.4
ROE	14.9%	18.2%	30.6%	23.0%	20.6%	20.1%

Source: Company Accounts, Akseer Research

Muhammad Awais Ashraf, CFA
awais.ashraf@alphacapital.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 20% 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 PT of PKR 69/share which results in an upside of 20% along with a dividend yield of 13%. Our investment case on BAFL is based on (1) strong deposit growth (2) banks focus on reducing cost to income ratio in the medium term and (3) prudent exposure management of its loan book in challenging times.

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 the country, and operating 10 overseas and one offshore banking unit.

Financial Highlights - BAFL

Income Statement (PKR mn)						
	CY21A	CY22A	CY23A	CY24E	CY25F	CY26F
Mark-up/interest earned	100,182	213,897	411,948	559,557	494,064	467,424
Mark-up/interest expensed	54,134	136,558	285,877	426,597	354,460	313,857
Net interest income	46,048	77,340	126,070	132,960	139,604	153,568
Non-interest income	16,474	21,786	28,063	30,294	30,182	31,060
Provision charged	2312	12468	9,462	10,496	10,550	9,270
Operating expenses	36,840	50,497	66,497	81,899	89,727	98,108
Profit after tax	14,217	18,206	36,456	34,359	35,449	39,397

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY21A	CY22A	CY23A	CY24E	CY25F	CY26F
Cash & Treasury Balances	105,606	140,613	202,692	209,012	238,274	271,633
Investments	809,214	1,114,407	2,067,263	1,981,864	2,249,379	2,547,886
Advances	673,881	732,375	735,052	1,082,107	1,241,783	1,428,272
Operating Fixed Assets	40,615	49,721	63,138	75,700	86,245	98,258
Other Assets	105,005	216,081	277,773	209,433	238,754	272,179
Total Assets	1,734,321	2,253,197	3,345,917	3,558,117	4,054,435	4,618,228
Borrowings from FIs	383,809	491,180	909,543	964,116	1,099,092	1,252,965
Deposits	1,139,045	1,486,845	2,084,997	2,210,097	2,519,511	2,872,242
Other Liabilities	111,465	175,157	213,453	223,310	252,190	285,059
Total Liabilities	1,634,319	2,153,182	3,207,994	3,397,523	3,870,792	4,410,266
Equity	100,003	100,015	137,923	160,593	183,642	207,962
Total Liabilities & Equity	1,734,321	2,253,197	3,345,917	3,558,117	4,054,435	4,618,228

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
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Hold	Between -5% and +15%
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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

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@alphacapital.com.pk