

Bank Alfalah Limited

Result Review

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

Pakistan Research

BAFL: 2QCY24 EPS clocks in at PKR 6.79, up 36% YoY, DPS PKR 2.00

- BAFL announced its 2QCY24 financial result today, wherein the bank posted an unconsolidated profit after tax of PKR 10.7bn (EPS PKR 6.79), up 36% YoY. The bank also announced an interim cash dividend of PKR 2.0 /sh in period under review, taking the 1HCY24 DPS to PKR 4.0.
- Net interest income for the quarter fell by 2% YoY to PKR 30.6bn. As expected, the interest expense accelerated at a faster pace (+39% YoY) to PKR 96.5bn, compared to interest income (+26% YoY), thereby pressuring the net interest income.
- For 2QCY24, non-interest income clocked in at PKR 12.1bn up 87% YoY, primarily because of higher fee & commission income (up 48% YoY) and FX income, which increased by 70% YoY during the quarter. The bank also realized sizable capital gains of PKR 3.1bn.
- The bank has managed to improve its profitability compared to 1QCY24, through realizing higher capital gains and improving the mix of current account, leading to relative advantage in cost.
- BAFL recorded a provision expense of PKR 1.5bn, compared to an expense of PKR 4.5bn in 2QCY23.
- Admin expenses rose by 23% YoY to PKR 20.1bn, driven by branch expansion and higher marketing expenses. Consequently, the cost-to-income ratio increased to 47% in 2QCY24 vs 43% in 2QCY23.
- Effective tax rate reduced to 49%, compared to 53% SPLY.
- We have a 'BUY' recommendation on the stock. Our Dec-24 price target of PKR 69/share offers capital upside of 11% along with a dividend yield of 13%.

Key Data

| | |
|-------------------------|----------|
| PSX Ticker | BAFL |
| Target Price (PKR) | 69 |
| Current Price (PKR) | 62 |
| Upside/(Downside) (%) | +11% |
| Dividend Yield (%) | 13% |
| Total Return (%) | 24% |
| 12-month High (PKR) | 71 |
| 12-month Low (PKR) | 38 |
| Outstanding Shares (mn) | 1,577 |
| Market Cap (PKR mn) | 97,989 |
| Year End | December |

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

| | 2QCY23 | 2QCY24 | YoY | 1HCY23 | 1HCY24 | YoY |
|----------------------------|---------------|---------------|------------|---------------|---------------|------------|
| M/up Earned | 100,868 | 127,214 | 26% | 176,456 | 255,888 | 45% |
| M/up Expense | 69,614 | 96,572 | 39% | 117,265 | 194,435 | 66% |
| Net Interest Income | 31,254 | 30,641 | -2% | 59,191 | 61,453 | 4% |
| Non-Interest Income | 6,467 | 12,080 | 87% | 13,019 | 28,063 | 116% |
| Total Provisions | 4,480 | 1,514 | -66% | 5,002 | 1,401 | -72% |
| Admin Expenses | 16,350 | 20,098 | 23% | 31,343 | 39,086 | 25% |
| Profit Before Tax | 16,891 | 21,109 | 25% | 35,865 | 40,819 | 14% |
| Taxation | 9,013 | 10,412 | 16% | 17,245 | 20,210 | 17% |
| Profit After Tax | 7,877 | 10,697 | 36% | 18,620 | 20,609 | 11% |
| EPS | 5.00 | 6.79 | | 11.81 | 13.07 | |
| DPS | 3.00 | 2.00 | | 3.00 | 4.00 | |

Source: Company Accounts, Akseer Research

Key Financial Ratios

| | CY21A | CY22A | CY23A | CY24E | CY25F | CY26F |
|----------------|-------|-------|--------|-------|-------|-------|
| EPS | 9 | 11.5 | 23.1 | 23.7 | 22.6 | 25.1 |
| EPS growth | 35.7% | 28.1% | 100.2% | 2.5% | -4.6% | 11.1% |
| DPS | 4.5 | 5.6 | 8 | 8 | 9 | 11.3 |
| BVPS | 63.4 | 63.4 | 87.4 | 101.1 | 118.3 | 133.9 |
| PER | 6.4 | 5 | 2.5 | 2.4 | 2.5 | 2.3 |
| Dividend yield | 7.2% | 9.0% | 12.9% | 12.9% | 14.5% | 18.2% |
| P/B | 1.0 | 1.0 | 0.7 | 0.6 | 0.5 | 0.5 |
| ROE | 14.9% | 18.2% | 30.6% | 25.1% | 20.6% | 19.9% |

Source: Company Accounts, Akseer Research

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Valuation Basis

Our PT for Bank Alfalah Limited (BAFL) has been computed using the dividend discounting method, with the Justified P/B for the calculation of the terminal value. We have used sustainable ROE of 20% to calculate exit P/B, along with a risk-free rate of 15%, a beta of 1.0, and a 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 11% along with a dividend yield of 13%. Our investment case on BAFL is based on (1) strong deposit growth (2) banks focused on reducing cost-to-income ratio in the medium term, and (3) prudent exposure management of its loan book.

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, and 3) a higher-than-anticipated increase in cost-to-income ratio.

Company Description

Bank Alfalah Limited commenced its banking operations in November 1992 and was listed on the Pakistan Stock Exchange in 2004. The bank provides a range of banking services, with a key focus on consumer financing. It has a network of 1,009 branches across the country, including 348 Islamic branches, and 10 overseas branches 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 | 548,861 | 494,425 | 467,826 |
| Mark-up/interest expensed | 54,134 | 136,558 | 285,877 | 412,458 | 354,460 | 313,857 |
| Net interest income | 46,048 | 77,340 | 126,070 | 136,403 | 139,965 | 153,969 |
| Non-interest income | 16,474 | 21,786 | 28,063 | 30,310 | 30,218 | 31,099 |
| Provision charged | 2312 | 12468 | 9,462 | 9,971 | 10,550 | 9,270 |
| Operating expenses | 36,840 | 50,497 | 66,497 | 82,135 | 89,727 | 98,108 |
| Profit after tax | 14,217 | 18,206 | 36,456 | 37,909 | 35,651 | 39,622 |

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 | 1,980,682 | 2,252,343 | 2,551,074 |
| 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 | 3,556,935 | 4,057,398 | 4,621,416 |
| 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 | 159,412 | 186,606 | 211,150 |
| Total Liabilities & Equity | 1,734,321 | 2,253,197 | 3,345,917 | 3,556,935 | 4,057,398 | 4,621,416 |

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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