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BAFL: 2QCY24 Corporate Briefing Takeaways

Bank Alfalah Limited

PSX: BAFL | Bloomberg: BAFL PA | Reuters: BAFL.PSX

- BAFL posted a PAT of PKR 20.6bn in 1HCY24 compared to PAT of PKR 18.6bn in SPLY, up by 11% YoY mainly driven by an increase in the non-funded income. Robust growth in remittances, cards and trade business translated in higher fee and commission income (up 40% YoY).
- NIM contracted on a YoY basis as cost of funds outpaced asset yields.
- Market share (deposits) stood at 6.3% in Jun-24 whereas deposits increased by 18.3% YoY. Current accounts in the overall deposits mix were recorded at 41.4% in 2Q. The bank aims to improve the share to 44-45% by the end 2024f.
- BAFL is targetting to open 150 new branches in 2024f, with 100 branches dedicated to Islamic banking.
- Net advances prudently grew by 2% YoY. ADR levels currently stand at 36.7%. However, this would increase to above 50% by the end of CY24 to avoid higher ADR based taxation. The demand for loans remains low despite monetary easing.
- On the investments front, the portfolio is skewed towards floater PIBs and T-Bills.
- Within PIBs, fixed portion represents around 20% with a yield of around 15%. It has a duration of 2 years.
- The coverage ratio is tracking the NPL ratio due to SBP's IFRS 9 related clarification which now classifies provisions at customer level. To highlight, the NPL ratio increased to 4.9% with coverage ratio at 118.5%. The adoption of IFRS 9 has resulted in an increase of PKR 2bn (net of tax) on opening equity.
- BAFL anticipates SBP to continue with monetary easing bringing the policy rate to 16% by the end of Dec-24. In case of pressure on the exchange rate, the cuts might halt.
- We have a 'BUY' rating on the scrip. Our Dec-24 price target of PKR 69/share offers capital upside of 16% along with a dividend yield of 13%.

Key Data	
PSX Ticker	BAFL
Target Price (PKR)	69
Current Price (PKR)	60
Upside/(Downside) (%)	16%
Dividend Yield (%)	13%
Total Return (%)	29%
12-month High (PKR)	71
12-month Low (PKR)	38
Outstanding Shares (Mn)	1,577
Market Cap (PKR Mn)	94,629

Source: Company Accounts, Akseer Research

Key Financial Ratios	CY21A	CY22A	CY23A	CY24E	CY25F	CY26F
EPS	9.0	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	8.0	8.0	9.0	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	7.5%	9.4%	13.4%	13.4%	15.1%	18.9%
P/B	0.9	0.9	0.7	0.6	0.5	0.4
ROE	14.9%	18.2%	30.6%	25.1%	20.6%	19.9%

Source: Company Accounts, Akseer Research

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 16% 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 3) higher than anticipated increase in cost-to-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	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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Hold	Between -5% and +15%
Sell	Less than or equal to -5%

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