

## Bank Alfalah Limited

### Result Preview

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

Pakistan Research

## BAFL: 1QCY23 EPS likely to clock in at PKR 4.65

- BAFL is scheduled to announce its 1QCY23 financial result on 27<sup>th</sup> April, 2023. We expect the bank to post unconsolidated profit after tax of PKR 7.3bn (EPS PKR 4.65), up 46% YoY.
- Net interest income for the quarter is anticipated to grow by 68% YoY to PKR 24.0bn due to the higher interest rate. Interest earned is expected to increase by 114% YoY, while interest expense would likely surge by 145% YoY.
- Non-interest income is expected to increase by 23% YoY to PKR 5.4bn during 1Q. The increase in the NII is due to higher forex income up 40% YoY, along with elevated fee and commission income up 20% YoY.
- We expect the bank to build provision on its robust profitability, in order to mitigate the potential impact of economic headwinds on expected credit loss. We have assumed Provisioning expense of PKR 1.6bn during 1Q vs PKR 387mn in SPLY.
- During the quarter, administrative expenses are projected to increase by 44% YoY to PKR 12.9 bn, mainly driven by aggressive branch expansion and inflationary pressures. However, the cost to income ratio is expected to clock in at 51%, due to higher interest income.
- The expected effective tax rate of the bank for the 1QCY23 is estimated to increase at 43%, compared to 36% SPLY. This increase is attributed to the rise in corporate tax rates for the banking industry and imposition of super-tax.
- We have a 'BUY' rating on the scrip. Our Dec-23 target price of PKR 49/share offers capital upside of 70% along with a dividend yield of 33.9%.

#### Key Data

PSX Ticker	BAFL
Target Price (PKR)	49
Current Price (PKR)	29
Upside/(Downside) (%)	+ 70.3%
Dividend Yield (%)	33.9%
Total Return (%)	104%
12-month High (PKR)	36
12-month Low (PKR)	28
Outstanding Shares (mn)	1,577
Market Cap (PKR mn)	45,375
Year End	December

Source: Company Accounts, Akseer Research

#### Financial Estimates (PKR mn)

	1QCY22	1QCY23E	YoY
M/up Earned	35,942	77,027	114%
M/up Expense	21,653	52,981	145%
<b>Net Interest Income</b>	<b>14,289</b>	<b>24,046</b>	<b>68%</b>
Non-Interest Income	4,382	5,399	23%
Total Provisions	387	1,556	302%
Admin Expenses	10,444	15,021	44%
<b>Profit Before Tax</b>	<b>7,839</b>	<b>12,867</b>	<b>64%</b>
Taxation	2,821	5,533	96%
<b>Profit After Tax</b>	<b>5,019</b>	<b>7,334</b>	<b>46%</b>
<b>EPS</b>	<b>3.2</b>	<b>4.7</b>	<b>46%</b>

Source: Company Accounts, Akseer Research

#### Key Financial Ratios

	CY20A	CY21A	CY22A	CY23E	CY24F	CY25F
EPS	6.6	9.0	11.5	24.6	29.6	22.1
EPS growth	-17.5%	35.7%	28.1%	113.4%	20.1%	-25.5%
DPS	4.5	4.5	5.6	9.8	11.8	8.8
BVPS	57.7	63.4	63.4	81.2	98.4	111.7
PER	4.3	3.2	2.5	1.2	1.0	1.3
Dividend yield	15.7%	15.7%	19.6%	33.9%	40.8%	30.4%
P/B	0.5	0.5	0.5	0.4	0.3	0.3
ROE	11.7%	14.9%	18.2%	34.1%	33.0%	21.0%

Source: Company Accounts, Akseer Research

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### 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 17% 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 70% along with a dividend yield of 33.9%. 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 877 branches ( including 230 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)						
	CY20A	CY21A	CY22A	CY23E	CY24F	CY25F
Mark-up/interest earned	92,616	100,182	213,897	379,382	385,740	326,708
Mark-up/interest expensed	47,911	54,134	136,558	260,014	242,956	199,518
<b>Net interest income</b>	<b>44,705</b>	<b>46,048</b>	<b>77,340</b>	<b>119,368</b>	<b>142,784</b>	<b>127,191</b>
<b>Non-interest income</b>	<b>12,795</b>	<b>16,474</b>	<b>21,786</b>	<b>18,156</b>	<b>18,237</b>	<b>18,687</b>
Provision charged	7589	2312	12468	5,155	5,633	4,103
Operating expenses	32,032	36,840	50,497	64,194	73,498	80,748
<b>Profit after tax</b>	<b>10,475</b>	<b>14,217</b>	<b>18,206</b>	<b>38,859</b>	<b>46,677</b>	<b>34,785</b>

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY20A	CY21A	CY22A	CY23E	CY24F	CY25F
Cash & Treasury Balances	99,348	105,606	140,613	151,159	169,298	189,614
Investments	547,090	809,214	1,114,407	1,215,206	1,363,657	1,497,129
Advances	577,316	673,881	732,375	792,304	890,517	1,026,608
Operating Fixed Assets	32,261	40,615	49,721	62,504	74,436	85,350
Other Assets	128,859	105,005	216,081	222,598	249,310	279,227
<b>Total Assets</b>	<b>1,384,874</b>	<b>1,734,321</b>	<b>2,253,197</b>	<b>2,443,771</b>	<b>2,747,218</b>	<b>3,077,928</b>
Borrowings from FIs	314,960	383,809	491,180	528,018	591,380	662,346
Deposits	881,767	1,139,045	1,486,845	1,598,359	1,790,162	2,004,981
Other Liabilities	97,129	111,465	175,157	189,266	210,546	234,411
<b>Total Liabilities</b>	<b>1,293,856</b>	<b>1,634,319</b>	<b>2,153,182</b>	<b>2,315,643</b>	<b>2,592,088</b>	<b>2,901,738</b>
Equity	91,017	100,003	100,015	128,128	155,130	176,190
<b>Total Liabilities &amp; Equity</b>	<b>1,384,874</b>	<b>1,734,321</b>	<b>2,253,197</b>	<b>2,443,771</b>	<b>2,747,218</b>	<b>3,077,928</b>

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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Rating	Expected Total Return
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Hold	Between -5% and +15%
Sell	Less than or equal to -5%

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