

Bank Alfalah Limited

Analyst Briefing Takeaways

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

Pakistan Research

3QCY22 Analyst Briefing Key Takeaways

- Bank Alfalah Limited (BAFL) held a conference call today to discuss its 3QCY22 financial performance and future outlook. Earlier, the bank had reported strong earnings growth of 52% YoY to PKR 3.03/share in 3QCY22. Higher profitability was on the back of increase in interest earning assets and margin expansion. Higher forex income and fee & commission income also supported the bottomline.
- The bank continues to increase its deposit-based market share to 5.6% in 3QCY22 compared to 5.3% in earlier quarter. Deposits of the bank grew by 21.6% to PKR 1.38tn in 3QCY22 as compared to Dec-21.
- Management expects NIMs to improve further in 4QCY22 due to repricing of its investment book. BAFL investment book is largely skewed towards floating PIBs which consists of 84% of total investment while remaining is invested in fixed PIBs with a duration of 3-3.5 years, yielding around 11.75%.
- The management is expecting 100bps increase in the upcoming monetary policy due to expected deterioration in balance of payment and higher inflation.
- During 3QCY22, the bank recorded a provisioning expense of PKR 4.1bn. BAFL's asset quality deteriorated to 4.1% in 3QCY22 vs 3.5% in 2QCY22 as bank subjectively downgrade one of its clients. The coverage ratio of the bank declined to 103.9% in 3QCY22 vs 109.8% in 2QCY22.
- Operating expenses of the bank increased by 45% YoY to PKR 13.5bn in 3QCY22. Higher expenses are attributable to aggressive branch network expansion, adhoc increase in employees' allowance and PKR depreciation. The bank further plans to add 33 branches during 4QCY22. That said, operating expenses are expected to remain elevated in 4QCY22.
- Bank is more focused towards the expansion of Islamic branches as it grew to 263 in 3QCY22 vs 252 in 2QCY22. Around 15% of the total assets, 17% of the total deposits and 31% of branches are Islamic.
- CAR of the bank clocked in at 14.5% in 3QCY22 compared to 14.6% in 2QCY22. The bank is planning to issue a TFC worth PKR 7bn in 4QCY22.

Key Data

PSX Ticker	BAFL
Target Price (PKR)	50
Current Price (PKR)	31
Upside/(Downside) (%)	+ 61%
Dividend Yield (%)	19.7%
Total Return (%)	+ 81%
12-month High (PKR)	39
12-month Low (PKR)	30
Outstanding Shares (mn)	1,777
Market Cap (PKR mn)	55,234
Year End	December

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 14.6% to calculate exit P/B, along with a risk free rate of 13%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 19%.

Investment Thesis

We have a 'BUY' recommendation on the stock based on June-23 PT of PKR 50/share which results in an upside of 61% along with a dividend yield of 19.7%. 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 857 branches (including 263 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)						
	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
Mark-up/interest earned	92,481	92,616	100,182	209,721	240,387	208,947
Mark-up/interest expensed	47,623	47,911	54,134	131,627	152,024	118,054
Net interest income	44,857	44,705	46,048	78,093	88,362	90,893
Non-interest income	10,396	12,795	16,474	21,784	16,760	17,465
Provision charged	3029	7589	2312	10,624	4,015	4,167
Operating expenses	29,843	32,032	36,840	47,885	54,006	61,125
Profit after tax	12,696	10,475	14,217	21,090	26,848	24,548

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
Cash & Treasury Balances	100,732	99,348	105,606	119,123	135,800	154,812
Investments	299,098	547,090	809,214	1,062,584	1,254,974	1,412,634
Advances	511,236	577,316	673,881	698,937	746,962	861,265
Operating Fixed Assets	30,344	32,261	40,615	52,486	65,027	77,366
Other Assets	123,262	128,859	105,005	163,256	186,112	212,168
Total Assets	1,064,672	1,384,874	1,734,321	2,096,386	2,388,875	2,718,244
Borrowings from FIs	102,842	314,960	383,809	460,571	525,051	598,558
Deposits	782,284	881,767	1,139,045	1,366,854	1,558,213	1,776,363
Other Liabilities	91,518	97,129	111,465	158,565	179,434	203,181
Total Liabilities	976,645	1,293,856	1,634,319	1,985,989	2,262,698	2,578,101
Equity	88,028	91,017	100,003	110,397	126,178	140,142
Total Liabilities & Equity	1,064,672	1,384,874	1,734,321	2,096,386	2,388,875	2,718,244

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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