

Bank Alfalah Limited
Result Preview

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

Pakistan Research

BAFL: 3QCY22 EPS expected to clock in at PKR 3.4, up 72% YoY

- BAFL is scheduled to announce its financial result on 17th October, 2022. We expect the bank to post unconsolidated profit after tax of PKR 6.1bn (EPS PKR 3.4) in 3QCY22 vs profit after tax of PKR 3.5bn (EPS PKR 2.0) in 3QCY21. This will take 9MCY22E EPS to PKR 8.3, up 41% YoY.
- Net interest income is anticipated to grow by 74% YoY to PKR 20.7bn on the back strong balance sheet growth coupled with hike in interest rate as assets continue to reprice during 3Q.
- Non-interest income is expected to increase by 32% YoY to PKR 4.7bn in 3QCY22. Major growth in this segment is expected from forex income (+50% YoY) due to higher currency volatility during 3Q and fee & commission income (+36% YoY).
- We expect the bank to build further general provision on the back of strong profitability to avoid any expected credit loss due to economic headwinds. We have assumed Provisioning expense of PKR 1.9bn during 3QCY22 vs PKR 0.3bn during 3QCY21.
- Admin expenses during 3QCY22 are expected to grow by 24% YoY to PKR 11.6bn due to aggressive branch network expansion and inflationary pressures. Cost to income ratio of the bank is expected to clock in at 46% in 3QCY22, due to the higher interest income.
- Effective tax rate of the bank is expected to reach at 49% in 3QCY22 vs 40% in 3QCY21. This is due to rise in corporate tax rates for the banking industry and imposition of the super-tax in FY23 budget.
- We have a 'BUY' rating on the scrip with June-23 target price of PKR 50/share, offering a capital upside of 61.3% along with a dividend yield of 23.4%.

Key Data

PSX Ticker	BAFL
Target Price (PKR)	50
Current Price (PKR)	31.0
Upside/(Downside) (%)	+ 61.3%
Dividend Yield (%)	23.4%
Total Return (%)	+ 84.7%
12-month High (PKR)	39.3
12-month Low (PKR)	29.5
Outstanding Shares (mn)	1,777.2
Market Cap (PKR mn)	55,092.1
Year End	December

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	3QCY21	3QCY22E	YoY	9MCY21	9MCY22E	YoY
M/up Earned	25,751	58,152	126%	71,664	140,783	96%
M/up Expense	13,843	37,423	170%	37,771	87,911	133%
Net Interest Income	11,908	20,729	74%	33,893	52,872	56%
Non-Interest Income	3,613	4,762	32%	11,589	15,663	35%
Total Provisions	269	1,898	606%	1,419	5,940	319%
Admin Expenses	9,332	11,606	24%	26,970	33,748	25%
Profit Before Tax	5,921	11,987	102%	17,093	28,847	69%
Taxation	2,374	5,874	147%	6,612	14,031	112%
Profit After Tax	3,548	6,114	72%	10,481	14,817	41%
EPS	2.0	3.4	72%	5.9	8.3	41%

Source: Company Accounts, Akseer Research

Key Financial Ratios

	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
EPS	7.1	5.9	8.0	11.9	15.4	12.7
EPS Growth	19.5%	-17.5%	35.7%	49.2%	28.8%	-17.1%
DPS	4.0	4.0	4.0	6.0	8.5	7.0
PER	4.3	5.3	3.9	2.6	2.0	2.4
Dividend Yield	12.9%	12.9%	12.9%	19.4%	27.4%	22.6%
P/B	0.6	0.6	0.6	0.5	0.4	0.4
ROE	15.5%	11.7%	14.9%	19.9%	22.8%	17.1%

Source: Company Accounts, Akseer Research

Saqib Hussain
saqib.hussain@alphacapital.com.pk

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 61.3% along with a dividend yield of 23.4%. 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 823 branches (including 252 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	199,939	221,449	182,598
Mark-up/interest expensed	47,623	47,911	54,134	125,460	134,299	98,855
Net interest income	44,857	44,705	46,048	74,480	87,150	83,743
Non-interest income	10,396	12,795	16,474	19,934	18,046	18,835
Provision charged	3029	7589	2312	7,003	1,996	3,237
Operating expenses	29,843	32,032	36,840	46,024	55,278	59,618
Profit after tax	12,696	10,475	14,217	21,211	27,316	22,642

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
Cash & Treasury Balances	100,732	99,348	105,606	125,219	138,366	153,587
Investments	299,098	547,090	809,214	927,007	1,064,568	1,140,776
Advances	511,236	577,316	673,881	702,793	731,319	843,751
Operating Fixed Assets	30,344	32,261	40,615	54,101	66,733	79,396
Other Assets	123,262	128,859	105,005	123,722	136,713	151,752
Total Assets	1,064,672	1,384,874	1,734,321	1,932,842	2,137,700	2,369,261
Borrowings from FIs	102,842	314,960	383,809	422,190	466,520	517,837
Deposits	782,284	881,767	1,139,045	1,252,949	1,384,509	1,536,805
Other Liabilities	91,518	97,129	111,465	144,721	159,803	177,139
Total Liabilities	976,645	1,293,856	1,634,319	1,819,860	2,010,831	2,231,781
Equity	88,028	91,017	100,003	112,981	126,869	137,480
Total Liabilities & Equity	1,064,672	1,384,874	1,734,321	1,932,842	2,137,700	2,369,261

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%

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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@alfaadhi.pk