

Bank Alfalah Limited

Result Review

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

Pakistan Research

4QCY22 EPS clocks in at PKR 2.3 up 10% YoY; DPS at PKR 2.5

- BAFL announced its financial result today, wherein the bank reported an EPS PKR 2.3 in 4QCY22 against an EPS PKR 2.1 in 4QCY21. This takes CY22 EPS to PKR 10.2, up 28% YoY. Along with the result, BAFL announced final cash dividend of PKR 2.5/share, taking cumulative DPS to PKR 5.0 in CY22.
- Net interest income increased by 92% YoY to PKR 23.3bn due to higher interest rate during the quarter under review.
- Non-interest income declined by 11% YoY to PKR 4.3bn in 4Q. This decrease is mainly due to absence of capital gains (-92% YoY) and decline in forex income (-34% YoY).
- With deteriorating economic situation of country, bank has further built its cover to mitigate any impact of expected credit loss. Provisioning expense during the quarter clocked in at PKR 4.3bn vs PKR 0.9bn in SPLY.
- During the quarter, administrative expenses increased by 50% YoY to PKR 14.8 bn, which we believe is due to the aggressive branch expansion and inflationary pressures. However, the cost to income ratio clocked in at 54% on the back of higher interest income.
- The effective tax rate for the 4Q increased to 51.7% compared to 40.5% SPLY. Rise in tax rate is due to the increase in corporate tax rates for the banking industry and the introduction of a super-tax in FY23 budget.
- We have a 'BUY' rating on the scrip. Our Dec-23 target price of PKR 49/share offers capital upside of 57% along with a dividend yield of 23.6%.

Key Data

PSX Ticker	BAFL
Target Price (PKR)	49
Current Price (PKR)	31
Upside/(Downside) (%)	+ 57%
Dividend Yield (%)	23.6%
Total Return (%)	+ 81%
12-month High (PKR)	39
12-month Low (PKR)	28
Outstanding Shares (mn)	1,777
Market Cap (PKR mn)	55,501
Year End	December

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	4QCY21	4QCY22	YoY	CY21	CY22	YoY
M/up Earned	28,518	69,681	144%	100,182	213,897	114%
M/up Expense	16,363	46,353	183%	54,134	136,558	152%
Net Interest Income	12,155	23,328	92%	46,048	77,340	68%
Non-Interest Income	4,885	4,330	-11%	16,474	21,786	32%
Total Provisions	893	4,332	385%	2,312	12,468	439%
Admin Expenses	9,870	14,809	50%	36,840	50,497	37%
Profit Before Tax	6,277	8,517	36%	23,370	36,160	55%
Taxation	2,542	4,401	73%	9,154	17,954	96%
Profit After Tax	3,735	4,117	10%	14,217	18,206	28%
EPS	2.1	2.3	10%	8.0	10.2	28%
DPS	2.0	2.5		4.0	5.0	

Source: Company Accounts, Akseer Research

Key Financial Ratios

	CY19A	CY20A	CY21A	CY22E	CY23F	CY24F
EPS	7.1	5.9	8.0	10.2	17.2	17.6
EPS growth	19.5%	-17.5%	35.7%	28.1%	68.2%	2.4%
DPS	4.0	4.0	4.0	5.0	7.8	7.0
BVPS	49.5	51.2	56.3	60.5	78.4	87.8
PER	4.4	5.3	3.9	3.0	1.8	1.8
Dividend yield	12.8%	12.8%	12.8%	16.0%	24.8%	22.4%
P/B	0.6	0.6	0.6	0.5	0.4	0.4
ROE	15.5%	11.7%	14.9%	19.4%	23.5%	21.2%

Source: Company Accounts, Akseer Research

Muhammad Atif

muhammad.atif@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 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 57% along with a dividend yield of 23.6%. 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 841 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	CY22A	CY23E	CY24F
Mark-up/interest earned	92,481	92,616	100,182	213,897	290,193	252,867
Mark-up/interest expensed	47,623	47,911	54,134	136,558	193,398	152,448
Net interest income	44,857	44,705	46,048	77,340	96,794	100,419
Non-interest income	10,396	12,795	16,474	21,786	17,840	18,433
Provision charged	3029	7589	2312	12,468	3,773	3,985
Operating expenses	29,843	32,032	36,840	50,497	57,587	66,070
Profit after tax	12,696	10,475	14,217	18,206	27,170	27,814

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY19A	CY20A	CY21A	CY22E	CY23F	CY24F
Cash & Treasury Balances	100,732	99,348	105,606	121,975	139,052	158,519
Investments	299,098	547,090	809,214	947,906	1,134,800	1,275,040
Advances	511,236	577,316	673,881	747,873	792,897	915,554
Operating Fixed Assets	30,344	32,261	40,615	52,486	65,027	77,366
Other Assets	123,262	128,859	105,005	149,956	170,950	194,883
Total Assets	1,064,672	1,384,874	1,734,321	2,020,196	2,302,727	2,621,363
Borrowings from FIs	102,842	314,960	383,809	443,299	505,361	576,112
Deposits	782,284	881,767	1,139,045	1,315,597	1,499,780	1,709,749
Other Liabilities	91,518	97,129	111,465	153,786	173,987	196,971
Total Liabilities	976,645	1,293,856	1,634,319	1,912,682	2,179,128	2,482,832
Equity	88,028	91,017	100,003	107,514	123,599	138,531
Total Liabilities & Equity	1,064,672	1,384,874	1,734,321	2,020,196	2,302,727	2,621,363

Source: Company Accounts, Akseer Research

Disclaimer

This report has been prepared and marketed jointly by Akseer Research (Pvt) Limited and Alpha Capital (Pvt) Limited, hereinafter referred jointly as "JV" and is provided for information purposes only. Under no circumstances this is to be used or considered as an offer to sell or solicitation of any offer to buy. While reasonable care has been taken to ensure that the information contained therein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. From time to time, the JV and/or any of their officers or directors may, as permitted by applicable laws, have a position, or otherwise be interested in any transaction, in any securities directly or indirectly subject of this report. This report is provided only for the information of professionals who are expected to make their own investment decisions without undue reliance on this report. Investments in capital markets are subject to market risk and the JV accepts no responsibility whatsoever for any direct or indirect consequential loss arising from any use of this report or its contents. In particular, the report takes no account of the investment objectives, financial situation and particular needs of investors, who should seek further professional advice or rely upon their own judgment and acumen before making any investment. The views expressed in this report are those of the JV's Research Department and do not necessarily reflect those of the JV or its directors. Akseer Research and Alpha Capital as firms may have business relationships, including investment--banking relationships, with the companies referred to in this report. The JV or any of their officers, directors, principals, employees, associates, close relatives may act as a market maker in the securities of the companies mentioned in this report, may have a financial interest in the securities of these companies to an amount exceeding 1% of the value of the securities of these companies, may serve or may have served in the past as a director or officer of these companies, may have received compensation from these companies for corporate advisory services, brokerage services or underwriting services or may expect to receive or intend to seek compensation from these companies for the aforesaid services, may have managed or co-managed a public offering, take-over, buyback, delisting offer of securities or various other functions for the companies mentioned in this report.

All rights reserved by the JV. This report or any portion hereof may not be reproduced, distributed or published by any person for any purpose whatsoever. Nor can it be sent to a third party without prior consent of the JV. Action could be taken for unauthorized reproduction, distribution or publication.

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.

Research Dissemination Policy

The JV endeavours to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as email, fax mail etc.

Analyst Certification

The research analyst, denoted by 'AC' on the cover of this report, has also been involved in the preparation of this report, and is a member of JV's Equity Research Team. The analyst certifies that (1) the views expressed in this report accurately reflect his/her personal views and (2) no part of his/her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

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