

## Bank Alfalah Limited

### Result Review

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

Pakistan Research

## BAFL: CY21 unconsolidated EPS comes at PKR 8.0, up 36% YoY; DPS 2.0

- BAFL announced its CY21 financial results today, where the bank reported unconsolidated profit after tax of PKR 14.2bn (EPS PKR 8.0), up 36% YoY compared to net profit of PKR 10.5bn (EPS PKR 5.9) in CY20. For 4QCY21, BAFL earnings grew by 74% YoY to PKR 3.7bn (EPS PKR 2.1/share). Along with the result, BAFL announced final cash dividend of PKR 2.0/share taking total payout to PKR 4.0/share during CY21.
- The bank posted 19% YoY increase in NII during 4Q to PKR 12.1bn. Interest income increased by 37% YoY to PKR 28.5bn while interest expense increased by 54% YoY to PKR 16.4bn. For full year CY21, NII grew by 3% to PKR 46.0bn.
- Non-interest income came in higher than our expectation and grew by 76% YoY to PKR 4.9bn during 4QCY21. Major growth in this segment came from fee & commission income (+26% to PKR 2.2bn), forex income (+109% YoY PKR 1.3bn) and realization of capital gains which stood at PKR 1.1bn in 4QCY21 compared to 138mn in 4QCY20. For full year CY21, non-interest income increased by 29% YoY to PKR 16.5bn.
- Provisions clocked in at PKR 893mn during 4QCY21, down 32% YoY. For CY21, provisioning charge declined by 70% YoY to PKR 2.3bn.
- Admin expenses during the quarter increased by 21% YoY to PKR 9.8bn. Aggressive branch network expansion led to double digit hike in the cost. Resultantly, cost to income (C/I) ratio of the bank remained elevated at 58% during the 4Q. For CY21, C/I ratio surged to 59% versus 56% in CY20.
- We have a 'BUY' rating on the scrip with Dec-22 price target of PKR 55/share, implying an upside of 45% along with a dividend yield of 16.5%.

### Key Data

PSX Ticker	BAFL
Target Price (PKR)	55
Current Price (PKR)	37.9
Upside/(Downside) (%)	+ 45.0%
Dividend Yield (%)	16.5%
Total Return (%)	+ 61.0%
12-month High (PKR)	39
12-month Low (PKR)	28
Outstanding Shares (mn)	1,777
Market Cap (PKR mn)	67,461
Year End	December

Source: Company Accounts, Akseer Research

### Financial Highlights (PKR mn)

	4QCY20	4QCY21	YoY	CY20	CY21	YoY
M/up Earned	20,880	28,518	37%	92,616	100,182	8%
M/up Expense	10,643	16,363	54%	47,911	54,134	13%
<b>Net Interest Income</b>	10,238	12,155	19%	44,705	46,048	3%
Non-Interest Income	2,771	4,885	76%	12,795	16,474	29%
Total Provisions	1,310	893	-32%	7,589	2,312	-70%
Admin Expenses	8,155	9,870	21%	32,032	36,840	15%
<b>Profit Before Tax</b>	3,543	6,277	77%	17,878	23,370	31%
Taxation	1,399	2,542	82%	7,403	9,154	24%
<b>Profit After Tax</b>	2,143	3,735	74%	10,475	14,217	36%
EPS	1.21	2.10	74%	5.89	8.00	36%
DPS	2.00	2.00	0%	4.00	4.00	0%

Source: Company Accounts, Akseer Research

### Key Financial Ratios

	CY18A	CY19A	CY20A	CY21A	CY22F	CY23F
EPS	5.98	7.1	5.9	8.0	11.5	13.8
EPS Growth	14.6%	19.5%	-17.5%	35.7%	44.2%	19.9%
DPS	2.50	4.00	4.00	4.00	6.25	7.50
PER	6.3	5.3	6.4	4.7	3.3	2.7
Dividend Yield	6.6%	10.5%	10.5%	10.5%	16.5%	19.8%
P/B	0.9	0.8	0.7	0.7	0.6	0.5
ROE	14.2%	15.5%	11.7%	15.5%	20.0%	21.2%

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 15.3% to calculate exit P/B, along with a risk free rate of 12%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 18%.

### Investment Thesis

We have a 'BUY' recommendation on the stock based on Dec-22 PT of PKR 55/share which results in an upside of 45.0% along with a dividend yield of 16.5%. 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 749 branches ( including 197 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)						
	CY18A	CY19A	CY20A	CY21A	CY22F	CY23F
Mark-up/interest earned	59,672	92,481	92,616	100,182	149,947	181,017
Mark-up/interest expensed	27,746	47,623	47,911	54,134	83,885	101,491
<b>Net interest income</b>	<b>31,926</b>	<b>44,857</b>	<b>44,705</b>	<b>46,048</b>	<b>66,061</b>	<b>79,526</b>
<b>Non-interest income</b>	<b>10,431</b>	<b>10,396</b>	<b>12,795</b>	<b>16,474</b>	<b>12,770</b>	<b>13,360</b>
Provision charged	27	3029	7589	2312	3,788	3,870
Operating expenses	24,713	29,843	32,032	36,840	41,097	48,362
<b>Profit after tax</b>	<b>10,625</b>	<b>12,696</b>	<b>10,475</b>	<b>14,217</b>	<b>20,496</b>	<b>24,584</b>

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY18A	CY19A	CY20A	CY21E	CY22F	CY23F
Cash & Treasury Balances	82,408	100,732	99,348	88,681	91,778	101,415
Investments	277,660	299,098	547,090	708,991	761,295	820,301
Advances	501,636	511,236	577,316	690,116	765,006	848,466
Operating Fixed Assets	19,556	30,344	32,261	35,236	41,198	46,856
Other Assets	124,958	123,262	128,859	114,908	144,866	179,209
<b>Total Assets</b>	<b>1,006,218</b>	<b>1,064,672</b>	<b>1,384,874</b>	<b>1,637,932</b>	<b>1,804,143</b>	<b>1,996,246</b>
Borrowings from FIs	123,738	102,842	314,960	374,803	412,283	455,573
Deposits	702,895	782,284	881,767	1,049,303	1,154,233	1,275,428
Other Liabilities	103,937	91,518	97,129	117,401	128,867	142,225
<b>Total Liabilities</b>	<b>930,571</b>	<b>976,645</b>	<b>1,293,856</b>	<b>1,541,506</b>	<b>1,695,383</b>	<b>1,873,225</b>
Equity	75,647	88,028	91,017	96,426	108,761	123,021
<b>Total Liabilities &amp; Equity</b>	<b>1,006,218</b>	<b>1,064,672</b>	<b>1,384,874</b>	<b>1,637,932</b>	<b>1,804,143</b>	<b>1,996,246</b>

Source: Company Accounts, Akseer Research

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