

## Bank Alfalah Limited

### Result Review

PSX: BAFL Bloomberg: BAFL: PA Reuters: BAFL.PSX

Pakistan Research

## BAFL: 1QCY24 EPS came in at PKR 6.28, down 8% YoY, DPS PKR 2.00

- BAFL announced its 1QCY24 financial result today, wherein the bank posted an unconsolidated profit after tax of PKR 9.9bn (EPS PKR 6.28), down 8% YoY. Contrary to our and market expectation, the bank announced a cash payout of PKR2.00 suggesting that similar to BAHF, BAFL has also switched the dividend paying frequency from bi-annual to quarterly.
- Net interest income for the quarter increased by 10% YoY to PKR 30.8bn on the back of elevated interest rates amid significant growth in advances due to an aggressive branch expansion strategy. However, Interest expense increased by 105% YoY partially because of expensive deposits, whereas interest income increased at a lower pace of 70% YoY in 1QCY24.
- For 1QCY24, non-interest income clocked in at PKR 7.8bn up 19% YoY primarily because of higher Fee & commission income (up 33% YoY) and gain arising from derivatives. However, FX income decreased by 31% YoY during the quarter.
- BAFL recorded a provision reversal of PKR 112mn vs. an expense of PKR 522mn in 1QCY23.
- During the quarter, administrative expenses increased by 27% YoY to PKR 18.9bn, which we believe is driven by aggressive branch expansion and IT related expenditures. Subsequently, the cost to income ratio increased to 49% in 1QCY24 vs 43% in 1QCY23.
- Effective tax rate increased to 50%, versus 43% SPLY due to higher super tax charge.
- The bank remains adequately capitalized with CAR at 17% (Mar-24) after adoption of IFRS-9.
- We have a 'BUY' rating on the scrip. Our Dec-24 price target of PKR 69/share offers capital upside of 20% along with a dividend yield of 14%.

#### Key Data

PSX Ticker	BAFL
Target Price (PKR)	69
Current Price (PKR)	57
Upside/(Downside) (%)	+ 20%
Dividend Yield (%)	14%
Total Return (%)	34%
12-month High (PKR)	60
12-month Low (PKR)	28
Outstanding Shares (mn)	1,577
Market Cap (PKR mn)	90,671
Year End	December

Source: Company Accounts, Akseer Research

#### Financial Highlights (PKR mn)

	1QCY23	1QCY24	YoY
M/up Earned	75,589	128,674	70%
M/up Expense	47,652	97,863	105%
<b>Net Interest Income</b>	<b>27,937</b>	<b>30,811</b>	<b>10%</b>
Non-Interest Income	6,552	7,774	19%
Total Provisions	522	(112)	na
Admin Expenses	14,993	18,988	27%
<b>Profit Before Tax</b>	<b>18,974</b>	<b>19,710</b>	<b>4%</b>
Taxation	8,232	9,798	19%
<b>Profit After Tax</b>	<b>10,743</b>	<b>9,912</b>	<b>-8%</b>
<b>EPS</b>	<b>6.81</b>	<b>6.28</b>	<b>-8%</b>
<b>DPS</b>	<b>0.00</b>	<b>2.00</b>	<b>-</b>

Source: Company Accounts, Akseer Research

#### Key Financial Ratios

	CY21A	CY22A	CY23A	CY24E	CY25F	CY26F
EPS	9.0	11.5	23.1	23.7	22.6	25.1
EPS growth	35.7%	28.1%	100.2%	2.5%	-4.6%	11.1%
DPS	4.5	5.6	8.0	8.0	9.0	11.3
BVPS	63.4	63.4	87.4	101.1	118.3	133.9
PER	6.4	5.0	2.5	2.4	2.5	2.3
Dividend yield	7.8%	9.8%	13.9%	13.9%	15.7%	19.6%
P/B	0.9	0.9	0.7	0.6	0.5	0.4
ROE	14.9%	18.2%	30.6%	25.1%	20.6%	19.9%

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 20% to calculate exit P/B, along with a risk free rate of 15%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 21%.

### Investment Thesis

We have a 'BUY' recommendation on the stock based on Dec-24 PT of PKR 69/share which results in an upside of 20% along with a dividend yield of 14%. Our investment case on BAFL is based on (1) strong deposit growth (2) bank's focus on reducing cost to income ratio in the medium term and (3) prudent exposure management of its loan book in challenging times.

### 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 1,009 branches (including 348 Islamic branches) across the country, and operating 10 overseas and one offshore banking unit.

### Financial Highlights - BAFL

Income Statement (PKR mn)						
	CY21A	CY22A	CY23A	CY24E	CY25F	CY26F
Mark-up/interest earned	100,182	213,897	411,948	548,861	494,425	467,826
Mark-up/interest expensed	54,134	136,558	285,877	412,458	354,460	313,857
<b>Net interest income</b>	<b>46,048</b>	<b>77,340</b>	<b>126,070</b>	<b>136,403</b>	<b>139,965</b>	<b>153,969</b>
<b>Non-interest income</b>	<b>16,474</b>	<b>21,786</b>	<b>28,063</b>	<b>30,310</b>	<b>30,218</b>	<b>31,099</b>
Provision charged	2312	12468	9,462	9,971	10,550	9,270
Operating expenses	36,840	50,497	66,497	82,135	89,727	98,108
<b>Profit after tax</b>	<b>14,217</b>	<b>18,206</b>	<b>36,456</b>	<b>37,909</b>	<b>35,651</b>	<b>39,622</b>

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY21A	CY22A	CY23A	CY24E	CY25F	CY26F
Cash & Treasury Balances	105,606	140,613	202,692	209,012	238,274	271,633
Investments	809,214	1,114,407	2,067,263	1,980,682	2,252,343	2,551,074
Advances	673,881	732,375	735,052	1,082,107	1,241,783	1,428,272
Operating Fixed Assets	40,615	49,721	63,138	75,700	86,245	98,258
Other Assets	105,005	216,081	277,773	209,433	238,754	272,179
<b>Total Assets</b>	<b>1,734,321</b>	<b>2,253,197</b>	<b>3,345,917</b>	<b>3,556,935</b>	<b>4,057,398</b>	<b>4,621,416</b>
Borrowings from FIs	383,809	491,180	909,543	964,116	1,099,092	1,252,965
Deposits	1,139,045	1,486,845	2,084,997	2,210,097	2,519,511	2,872,242
Other Liabilities	111,465	175,157	213,453	223,310	252,190	285,059
<b>Total Liabilities</b>	<b>1,634,319</b>	<b>2,153,182</b>	<b>3,207,994</b>	<b>3,397,523</b>	<b>3,870,792</b>	<b>4,410,266</b>
Equity	100,003	100,015	137,923	159,412	186,606	211,150
<b>Total Liabilities &amp; Equity</b>	<b>1,734,321</b>	<b>2,253,197</b>	<b>3,345,917</b>	<b>3,556,935</b>	<b>4,057,398</b>	<b>4,621,416</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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Hold	Between -5% and +15%
Sell	Less than or equal to -5%

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