

**Bank Alfalah Limited**  
Result Preview

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

Pakistan Research

**BAFL: 2QCY22 EPS expected to decline 16% YoY to PKR 1.6; DPS PKR 1.5**

- BAFL is scheduled to announce its financial result on 29<sup>th</sup> July, 2022. We expect the bank to post unconsolidated profit after tax of PKR 2.9bn (EPS PKR 1.6) in 2QCY22 vs profit after tax of PKR 3.5bn (EPS PKR 1.9) in 2QCY21. This will take 1HCY22E EPS to PKR 4.5, up 15% YoY. Along with the result, the bank is likely to announce interim cash dividend of PKR 1.5/share.
- Net interest income is anticipated to grow by 26% YoY to PKR 14.7bn on the back strong balance sheet growth coupled with rise in interest rate.
- Non-interest income is expected to increase by 6% YoY to PKR 4.4bn in 2QCY22. Major growth in this segment is expected from fee & commission income (+10% YoY) and forex income (+50% YoY).
- Provisions are expected to decline by 64% YoY to PKR 0.3bn in 2QCY22 as bank had booked higher provision against its exposure in HACOL, last year.
- Admin expenses during 2QCY22 are expected to increase by 21% YoY to PKR 11.0bn due to aggressive branch network expansion. Resultantly, cost to income ratio of the bank is expected to remain elevated at 58% in 2QCY22.
- Effective tax rate of the bank is expected to reach at 62% in 2QCY22 vs 40% in 2QCY21. This is due to rise in tax rates for the banking industry in the FY23 budget.
- We have revised downward CY22/23E EPS of BAFL by 13.5%/6.2% and target price by 3.9%. We have a 'BUY' rating on the scrip with Dec-22 target price of PKR 45/share, offering a decent capital upside of 44.0% along with dividend yield of 18.4%.

**Key Data**

PSX Ticker	BAFL
Target Price (PKR)	45
Current Price (PKR)	31.2
Upside/(Downside) (%)	+ 44.0%
Dividend Yield (%)	18.4%
Total Return (%)	+ 62.4%
12-month High (PKR)	39.3
12-month Low (PKR)	29.5
Outstanding Shares (mn)	1,777.2
Market Cap (PKR mn)	55,536.4
Year End	December

Source: Company Accounts, Akseer Research

**Financial Estimates (PKR mn)**

	2QCY21	2QCY22E	YoY	1HCY21	1HCY22E	YoY
M/up Earned	24,525	45,936	87%	45,913	81,879	78%
M/up Expense	12,867	31,254	143%	23,929	52,907	121%
<b>Net Interest Income</b>	<b>11,658</b>	<b>14,683</b>	<b>26%</b>	<b>21,985</b>	<b>28,972</b>	<b>32%</b>
Non-Interest Income	4,142	4,404	6%	7,976	8,786	10%
Total Provisions	934	341	-64%	1,150	728	-37%
Admin Expenses	9,064	11,008	21%	17,638	21,452	22%
<b>Profit Before Tax</b>	<b>5,802</b>	<b>7,738</b>	<b>33%</b>	<b>11,172</b>	<b>15,577</b>	<b>39%</b>
Taxation	2,339	4,812	106%	4,238	7,633	80%
<b>Profit After Tax</b>	<b>3,463</b>	<b>2,926</b>	<b>-16%</b>	<b>6,934</b>	<b>7,944</b>	<b>15%</b>
EPS	1.9	1.6	-16%	3.9	4.5	15%
DPS	2.0	1.5	-	2.0	1.5	-

Source: Company Accounts, Akseer Research

**Key Financial Ratios**

	CY19A	CY20A	CY21A	CY22E	CY23E	CY24E
EPS	7.1	5.9	8.0	13.0	15.7	12.9
EPS Growth	19.5%	-17.5%	35.7%	62.3%	21.3%	-18.3%
DPS	4.00	4.00	4.00	5.75	8.75	7.00
PER	4.4	5.3	3.9	2.4	2.0	2.4
Dividend Yield	12.8%	12.8%	12.8%	18.4%	28.0%	22.4%
P/B	0.6	0.6	0.6	0.5	0.4	0.4
ROE	15.5%	11.7%	14.9%	21.2%	22.6%	16.8%

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 13.7% 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 Dec-22 PT of PKR 45/share which results in an upside of 44% along with a dividend yield of 18.4%. 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 776 branches ( including 234 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	CY22E	CY23E	CY24E
Mark-up/interest earned	92,481	92,616	100,182	198,413	219,541	179,306
Mark-up/interest expensed	47,623	47,911	54,134	122,222	129,528	96,454
<b>Net interest income</b>	<b>44,857</b>	<b>44,705</b>	<b>46,048</b>	<b>76,191</b>	<b>90,013</b>	<b>82,852</b>
<b>Non-interest income</b>	<b>10,396</b>	<b>12,795</b>	<b>16,474</b>	<b>16,365</b>	<b>16,362</b>	<b>17,136</b>
Provision charged	3029	7589	2312	2,544	3,516	2,056
Operating expenses	29,843	32,032	36,840	44,771	53,755	57,806
<b>Profit after tax</b>	<b>12,696</b>	<b>10,475</b>	<b>14,217</b>	<b>23,072</b>	<b>27,990</b>	<b>22,872</b>

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY19A	CY20A	CY21A	CY22E	CY23E	CY24E
Cash & Treasury Balances	100,732	99,348	105,606	118,150	130,556	144,917
Investments	299,098	547,090	809,214	942,385	1,062,619	1,191,060
Advances	511,236	577,316	673,881	706,892	732,690	845,096
Operating Fixed Assets	30,344	32,261	40,615	53,915	66,870	80,572
Other Assets	123,262	128,859	105,005	104,993	136,785	98,043
<b>Total Assets</b>	<b>1,064,672</b>	<b>1,384,874</b>	<b>1,734,321</b>	<b>1,926,334</b>	<b>2,129,520</b>	<b>2,359,687</b>
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	133,948	147,883	163,896
<b>Total Liabilities</b>	<b>976,645</b>	<b>1,293,856</b>	<b>1,634,319</b>	<b>1,809,087</b>	<b>1,998,912</b>	<b>2,218,538</b>
Equity	88,028	91,017	100,003	117,247	130,609	141,150
<b>Total Liabilities &amp; Equity</b>	<b>1,064,672</b>	<b>1,384,874</b>	<b>1,734,321</b>	<b>1,926,334</b>	<b>2,129,520</b>	<b>2,359,687</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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