

Earnings Review

BAFL: 2QCY21 EPS clocked in at Rs2.02, DPS Rs2.0

Event

- Bank Alfalah Limited (BAFL PA) announced its 2QCY21 result with consolidated earnings of Rs2.02/sh (up by 24/5% YoY/QoQ). This takes 1HCY21 EPS to clock in at Rs3.94/sh (up 21% YoY). The result is accompanied with a cash dividend of Rs2/sh.
- The result is above our expectation on the back of better Net Interest Income (NII).

Impact

- The bank posted a PAT of Rs3,596mn in 2QCY21 (up by 25/5% YoY/QoQ). On YoY basis, uptick in profitability was primarily driven by lower provisioning expense which came in 71% lower compared to same period last year. Furthermore, net interest income (NII) performed better than our estimates as it posted $\uparrow 1\%$ YoY despite the sharp decrease in interest rates. Whereas, on QoQ basis, improvement in profitability was a result better NII ($\uparrow 13\%$ QoQ) along with the strong recovery in fee income ($\uparrow 11\%$ YoY).
- During 2QCY21, interest income/expense increased by 2/3% YoY and 15/16% QoQ to clock in at Rs24.5/12.9bn. As a result, net interest income increased by 1/13% YoY/QoQ to stand at Rs11.7bn.
- Non-markup income for 2QCY21 remained flattish over YoY but increased by 7% QoQ to clock in at Rs4.2bn. On YoY basis, fee income staged a strong recovery of $\uparrow 61\%$ YoY which was diluted by lower gain on securities ($\downarrow 57\%$ YoY). On QoQ basis, uptick in fx income ($\uparrow 62\%$ QoQ) and decent growth in fee income ($\uparrow 11\%$ QoQ) uplifted non-markup income whereas absence of substantial capital gains ($\downarrow 30\%$ QoQ) kept overall growth in check.
- Operating expenses increased by 19/6% YoY/QoQ to clock in at Rs9.0bn translating into a cost/income of 56% (up/down by 9/4ppts over YoY/QoQ).
- The bank reported decent provision expense of Rs934mn (down/up 71/332% YoY/QoQ).
- BAFL reported an effective tax rate of 40% which is largely similar to previous quarters. We expect ETR to remain in the same range due to BAFL's high ADR.

Outlook

- Going forward, we expect NII to recover due to recovery in banking spreads. However, likely increase in policy rate in coming quarters may exert some pressure in the short term until full asset repricing takes place. Whereas, recovery in economic activity and the delay in implementation of IFRS9 may keep the provisioning expense on the lower side.
- We have an 'Outperform' rating on the stock. The bank is currently trading at an attractive forward P/B of 0.65x.

Analyst

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Fig 01: BAFL 2QCY21 earnings review

Income Statement	2QCY21	2QCY20	YoY	QoQ	1HCY21	1HCY20	YoY
Interest Earned	24,528	24,045	2%	15%	45,917	49,953	-8%
Interest Expensed	12,871	12,468	3%	16%	23,935	26,596	-10%
Net Interest Income (NII)	11,656	11,577	1%	13%	21,982	23,357	-6%
Fee Income	2,166	1,345	61%	11%	4,109	3,042	35%
Dividend Income	140	65	117%	6%	273	152	80%
Foreign Exchange Income	1,064	953	12%	62%	1,722	2,009	-14%
Gain on Securities	768	1,780	-57%	-30%	1,862	1,733	7%
Other Income	40	23	72%	-54%	128	(16)	-914%
Total Non-Markup Income	4,178	4,166	0%	7%	8,094	6,920	17%
Share of Profit from Associates	215	236	-9%	460%	253	344	-26%
Total Income	16,050	15,979	0%	12%	30,329	30,621	-1%
Non-Markup Expense	9,115	7,687	19%	6%	17,741	15,933	11%
Operating Expense	8,983	7,520	19%	6%	17,492	15,614	12%
WWF	120	166	-28%	9%	229	276	-17%
Other Charges	12	1	781%	91%	19	43	-55%
Profit Before Provisions	6,935	8,292	-16%	23%	12,588	14,688	-14%
Provisions	934	3,261	-71%	332%	1,150	4,788	-76%
Profit Before Taxation	6,000	5,031	19%	10%	11,438	9,900	16%
Taxation	2,405	2,146	12%	19%	4,420	4,121	7%
Profit After Taxation	3,596	2,886	25%	5%	7,018	5,778	21%
PAT Attributable to Shareholders	3,583	2,885	24%	5%	6,995	5,777	21%
EPS	2.02	1.62			3.94	3.25	
DPS	2.00	-			2.00	-	
Effective Tax Rate	40%	43%			39%	42%	
Cost/Income	56%	47%			58%	51%	

Source: Company Accounts, Foundation Research, August 2021

Important disclosures:

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If	
Expected return >+10%	Outperform.
Expected return from -10% to +10%	Neutral.
Expected return <-10%	Underperform.