

## Foundation Alert

### BAFL: 2QCY21 Conference Call Key Takeaways

#### Event

- Bank Alfalah Limited (BAFL PA) held its conference call today to discuss 2QCY21 results and the future outlook of the bank. Following are the key takeaways of the briefing.

#### Impact

- To recall, BAFL announced its 2QCY21 result with earnings of Rs1.95/sh (up by 25% YoY and flat over QoQ). This takes 1HCY21 EPS to clock in at Rs3.90/sh (up 24% YoY). The result is accompanied with an interim cash dividend of Rs2/sh.
- The bank's deposit base grew by 27/12% YoY/QoQ to cross Rs1tn mark. This increase in deposit base was mainly driven by growth in current account deposit as BAFL's current account mix (CA) improved by 20/70bps over YoY/QoQ to 47%. However, share of saving deposits witnessed dilution of 160/40bps YoY/QoQ as mix of saving deposits (SA) clocked in at 32%. As a result BAFL's CASA declined/inclined by 140/30bps YoY/QoQ to 79%. Management expects deposit growth to continue its momentum and add 70 new branches during CY21.
- Advances of the bank posted a growth of 19/5% YoY/QoQ to stand at Rs613bn. This growth was mainly driven by ↑48/29/28% increase in advances to Consumer/Middle Market/Islamic (ex-consumer). This translates into ADR of 62.2%. Yield on advances observed a decrease/increase of 220/30bps to stand at 7.50%. To highlight, yield on advances is on the lower side due to bank's higher participation in concessionary loans. Management shared that BAFL is among the top 3 participants with Rs50bn+ of SBP's TERF Facility approved out of which Rs18bn has already reflected in the loan book. In addition to this, the bank is also playing an active role in Naya Pakistan Housing Program, COVID restructured loans, Kamyab Jawan Program, Ehsas/BISP Program and NRPs.
- Investment portfolio of the bank increased by 55/30% YoY/QoQ to clock in at Rs765bn translating into an IDR of 75%. This increase in investments was mainly driven by the increased positions to capitalize on the OMO spreads. BAFL's investment in PIBs stands at Rs312bn out of which ~40% is composed of floating rate PIBs. Management shared that the bank's fixed rate PIB portfolio has a yield of 9.55% and is expected to have maturity of ~Rs39bn by 3QCY21.
- BAFL's asset quality improved by 60/30bps YoY/QoQ to clock in at 3.90% with 16/5ppts increase in coverage to 99.3%. Management of the bank shared that BAFL's exposure in HASCOL amounts to Rs1.8bn and it is now fully provided for.
- On the international operations, management shared that BAFL doesn't have a lending portfolio in Afghanistan as it has kept the deployment of funds only to liquid sovereign bonds.
- Management expects interest rates to be increase by 50bps in 4QCY21 and another 50bps by 1HCY21.

#### Outlook

- We have an 'Outperform' rating on the stock. The bank is currently trading at an attractive forward P/B of 0.6x.

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Fig 01: BAFL 2QCY21 result

Income Statement	2QCY21	2QCY20	YoY	QoQ	1HCY21	1HCY20	YoY
Interest Income	24,525	24,043	2%	15%	45,913	49,948	-8%
Interest Expenses	12,867	12,462	3%	16%	23,929	26,587	-10%
<b>Net Int. Income</b>	<b>11,658</b>	<b>11,580</b>	<b>1%</b>	<b>13%</b>	<b>21,985</b>	<b>23,361</b>	<b>-6%</b>
<b>Non Int. Income</b>	<b>4,142</b>	<b>4,173</b>	<b>-1%</b>	<b>8%</b>	<b>7,976</b>	<b>6,882</b>	<b>16%</b>
<b>Total Income</b>	<b>15,801</b>	<b>15,753</b>	<b>0%</b>	<b>12%</b>	<b>29,960</b>	<b>30,243</b>	<b>-1%</b>
Admin expenses	8,932	7,485	19%	6%	17,390	15,539	12%
Other charges	132	167	-21%	14%	248	318	-22%
Non int. expense	9,064	7,652	18%	6%	17,638	15,857	11%
<b>Profit before prov</b>	<b>6,736</b>	<b>8,101</b>	<b>-17%</b>	<b>21%</b>	<b>12,322</b>	<b>14,386</b>	<b>-14%</b>
Provisions	934	3,261	-71%	332%	1,150	4,788	-76%
<b>Profit before tax</b>	<b>5,802</b>	<b>4,840</b>	<b>20%</b>	<b>8%</b>	<b>11,172</b>	<b>9,597</b>	<b>16%</b>
Taxation	2,339	2,077	13%	23%	4,238	4,013	6%
<b>Profit after tax</b>	<b>3,463</b>	<b>2,763</b>	<b>25%</b>	<b>0%</b>	<b>6,934</b>	<b>5,584</b>	<b>24%</b>
Diluted EPS	1.95	1.55	26%	0%	3.9	3.14	24%
DPS	2	-			2	-	
<b>Cost/Income</b>	<b>57%</b>	<b>48%</b>			<b>58%</b>	<b>51%</b>	
<b>Effective Tax Rate (%)</b>	<b>40%</b>	<b>43%</b>			<b>38%</b>	<b>42%</b>	

Source: Company Accounts, Foundation Research, August 2021

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