

Foundation Alert

BAFL: Analyst Briefing Key Takeaways

Event

- Bank Alfalah Limited (BAFL PA) held its conference call today to discuss its 3QCY21 results and future outlook of the bank. Following are the key takeaways of the briefing.

Impact

- To recall, the bank posted a PAT of Rs3.7bn (EPS: 2.09) in 3QCY21 (up by 29/4% YoY/QoQ) taking cumulative PAT for 9MCY21 to Rs10.7bn (EPS: 6.03).
- Deposits clocked in at Rs1tr, increasing by 26% YoY, with current account contributing by 45%. This translated into Net Interest Income increase of 7% YoY in 3QCY21. Management expects the industry deposit base to increase by ~18% YoY in CY22 whereas BAFL is expected to maintain its market share.
- Advances during the quarter increased by 30/12% YoY/QoQ to clock in at Rs496bn. As a result, ADR clocked in at 65% for the bank, which would likely to result in lower effective tax rate. Corporate lending accounts for the highest share (45%) in the loan portfolio followed by Retail with 24% share. Business segment wise, Textile accounts for 20% share followed by Power (15%) and Individuals (11%). Furthermore, management of the bank shared that consumer financing was up by 51% YoY, which was upheld by auto financing, however it is expected to tame down in light of SBP's prudential regulations to curtail auto financing.
- In addition to this, management also shared that BAFL is among Top 3 participants with PKR50bn+ of SBP's TERF facility provided to more than 100 customers. To date PKR21bn has reflected in the loan book
- Provisions for the quarter reduced by 82/71% YoY/QoQ to clock in at Rs269mn taking cumulative provision expense to Rs1.4bn (↓77% YoY). Furthermore, management of the bank also shared that the reversal of COVID related general provisioning during 9MCY21 amounted to Rs1.15bn.
- Bank's infection ratio stands at 3.7% for 3QCY21 with the coverage ratio of 100.8%. Furthermore, management also shared that the infection on SME lending is at ~9% out of which 90% is provided for.
- Management of the bank shared that they plan to maintain the dividend payout and are comfortable with the current level of CAR which stands at 14.7%
- Management shared the fixed/floater duration is at 3.5yr and 2months whereas duration of TBills stands at 40 days. Yield on fixed/floater clocked in at 10.1/7.9%. Management of the bank also shared that average period of loan pricing for the bank stands at 3 months.
- Management expects increase of 75bps in upcoming MPS, and further 125bps in 1QCY22.
- The implementation of IFRS9 is expected to have no material impact on the profitability.

Outlook

- We have an 'Outperform' rating on the stock with the Jun-22 TP of Rs48/sh.

Table 01: Earnings Review BAFL 3QCY21 (Rs mn)

	3QCY21	3QCY20	YoY	2QCY21	QoQ	9MCY21	9MCY20	YoY
Interest Earned	25,753	21,789	18%	24,528	5%	71,670	71,741	0%
Interest Expensed	13,848	10,685	30%	12,871	8%	37,783	37,281	1%
Net Interest Income (NII)	11,905	11,104	7%	11,656	2%	33,887	34,461	-2%
Fee Income	2,100	1,906	10%	2,166	-3%	6,209	4,948	25%
Dividend Income	95	57	66%	140	-32%	368	209	76%
Foreign Exchange Income	1,075	754	43%	1,064	1%	2,796	2,762	1%
Gain on Securities	363	453	-20%	768	-53%	2,225	405	449%
Other Income	51	47	8%	40	26%	178	1,812	-90%
Total Non-Markup Income	3,683	3,217	14%	4,178	-12%	11,777	10,137	16%
Share of Profit from Associates	278	183	52%	215	29%	531	527	1%
Total Income	15,866	14,504	9%	16,050	-1%	46,195	45,125	2%
Non-Markup Expense	9,383	8,071	16%	9,115	3%	27,123	24,003	13%
Operating Expense	9,254	7,895	17%	8,983	3%	26,746	23,509	14%
WWF	124	130	-5%	120	4%	353	406	-13%
Other Charges	5	45	-89%	12	-60%	24	88	-73%
Profit Before Provisions	6,483	6,434	1%	6,935	-7%	19,072	21,122	-10%
Provisions	269	1,490	-82%	934	-71%	1,419	6,279	-77%
Profit Before Taxation	6,215	4,943	26%	6,000	4%	17,652	14,843	19%
Taxation	2,487	2,059	21%	2,405	3%	6,906	6,180	12%
Profit After Taxation	3,728	2,884	29%	3,596	4%	10,746	8,663	24%
PAT Attributable to Shareholders	3,724	2,877	29%	3,583	4%	10,719	8,656	24%
EPS	2.09	1.62		2.02		6.03	4.87	
DPS				-		-	-	
Cost/Income	58%	54%		56%		58%	52%	
ETR	40%	42%		40%		39%	42%	

Source: Company Accounts, Foundation Research, November 2021

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