

Foundation Alert

BAFL: Analyst Briefing Key Takeaways

Event

- Bank Alfalah Limited (BAFL PA) held its conference call today to discuss 1QCY22 results and outlook of the bank. Following are the key takeaways of the briefing.

Impact

- The bank posted PAT of Rs5.0bn (EPS: Rs2.83) in 1QCY22, up by 48/35% YoY/QoQ.
- The profitability was mainly driven from higher NII (↑38% YoY), and better non funded income (↑13% YoY).
- The increase in NII was due to better positioning of asset-liability management and strong assets growth.
- Management believes the improvement in NII would increase further as 250bps increase in policy rate would play in from after 2QCY22, due to lag in asset repricing.
- The increase in non-markup income was due to (1) better FX earnings (↑2.17x YoY) and (2) higher Fee income (↑31% YoY) which was driven by higher remittances and trade volume accompanied by FX market volatility.
- The bank currently occupies 18.2/7.7% market share in remittances and trade respectively.
- Operating expenses for the bank increased by 22% YoY to Rs10.3bn, translating to cost to income ratio of 56% for 1QCY22. As per management, the increase in admin cost was due to new branches, growth initiatives and impact of increments.
- Deposits increased by 29/3% YoY/QoQ to Rs1.18tn in 1QCY22. The increase in deposits improved CASA/CA to 80.6/46.5.
- Banks net loan portfolio stands at Ra686.4bn, translating to ADR of 60.4%. The yields on advances stood at 8.6% for the quarter.
- Banks NPL ratio stands at 3.4% (↓80/10bps YoY/QoQ), with strong coverage of 104.9% for 1QCY22.
- To highlight the COVID related general provisioning still remains on the book mounting up to 2.55bn.
- Banks investment book clocked in at Rs589.7bn with a skew towards floating rate PIBs and Tbill. The PIB holding consist of 85% floater and remaining fixed, with average duration of 3.4yrs of fixed PIBs. Meanwhile floater PIBs have average repricing of 1 month.
- CAR for the bank stood at comfortable level of 14.8%, and bank plans to maintain consistent dividend payout.
- On Afghanistan front, the taming political tension is easing capital flows. Meanwhile bank does not have any exposure in Sri Lanka.

Outlook

- Going forward, we expect NII to increase as asset book repricing takes place to counteract with higher deposit rate. Higher deposit growth coupled with diluting infection would keep profitability upbeat.
- We have an 'Outperform' rating on the stock with the Dec-22 TP of Rs46/sh.

Table 01: Earnings Review BAFL 1QCY22

	1QCY22	1QCY21	YoY	4QCY21	QoQ
Interest Earned	35,952	21,389	68%	28,522	26%
Interest Expensed	21,673	11,064	96%	16,365	32%
Net Interest Income (NII)	14,279	10,325	38%	12,157	17%
Fee Income	2,537	1,943	31%	2,314	10%
Dividend Income	195	133	47%	124	57%
Foreign Exchange Income	1,431	658	117%	1,332	7%
Gain on Securities	11	1,094	-99%	1,255	-99%
Other Income	241	87	177%	(138)	-275%
Total Non Markup Income	4,415	3,916	13%	4,887	-10%
Share of Profit from Associates	61	38	60%	42	46%
Total Income	18,755	14,279	31%	17,086	10%
Non-Markup Expense	10,503	8,626	22%	9,939	6%
Operating Expense	10,341	8,510	22%	9,793	6%
WWF	160	110	46%	145	10%
Other Charges	2	7	-72%	1	21%
Profit Before Provisions	8,252	5,654	46%	7,147	15%
Provisions	386	216	78%	893	-57%
Profit Before Taxation	7,866	5,437	45%	6,254	26%
Taxation	2,836	2,015	41%	2,540	12%
Profit After Taxation	5,030	3,422	47%	3,714	35%
PAT Attributable to Shareholders	5,033	3,411	48%	3,718	35%
EPS	2.83	1.92		2.09	
DPS	-	-		2.00	
Cost/Income	56%	60%		58%	
ETR	36%	37%		41%	

Source: Company Accounts, Foundation Research, May 2021

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