

Foundation Alert

BAFL: Analyst Briefing Key Takeaways

Event

- Bank Alfalah Limited (BAFL PA) held its conference call today to discuss CY22 results and outlook of the bank. Following are the key takeaways of the briefing.

Impact

- The bank posted unconsolidated PAT of Rs18.2bn in CY22 (up by 28% YoY). Management attributes increase in profitability to (1) higher Net Interest Income (NII) and (2) higher fee and FX income despite higher provision expense.
- During CY22, interest income/expense increased by 113/152% YoY. This has translated into a 67% YoY increase in NII which clocked in at Rs77.3bn for CY22.
- Net Interest Income grew 67% YoY due to solid growth in earning assets and margins expansion after repricing of the well positioned asset book.
- Non-markup income clocked in at Rs21.7bn (up by 34% over YoY). Fee income is led by card business, trade/remittances flows, Banca and ADC. Increase in forex income is due to stronger trade/Remittances flows and market volatility.
- Operating expenses remained upbeat as it registered a growth of 36% YoY to clock in at Rs49.6bn due to cost of living allowance, new branches, inflation and PKR depreciation, still cost/income remains at 51%.
- The bank reported a provisioning expense of Rs12.5bn (↑ 5.4x YoY). To highlight, provision expense of Rs4.3bn in 4QCY22 includes additional ECL on overseas investments and cross border risk provision.
- Effective tax rate for the bank clocked in at 50%, up 10ppts YoY. The additional taxation was due to imposition of super tax at the rate of 10%.
- Deposits for the bank clocked in at Rs1.49tn, increasing by 31% YoY due to branch network expansion, improved staff productivity in line with strategy of regaining market share, with CASA of 71.7% (CA of 44.5%) at Dec'22. Cost of deposits for the bank stood at 6.3% in CY22 compared with 3.3% at Dec'21.
- Net advances increased by 9% YoY driven by Corporate & Islamic, mostly SBP refinance, while maintaining credit discipline. The growth is reflective of the Bank's strategy to focus on consumer finance, SME lending and penetration in digital lending space.
- Bank advances composed of 42%/22%/20%/9%/5% from Corporate/Retail/Islamic/Consumer/Overseas.
- On Segment wise basis, bank advances comprises of 23% Textile, 15% Individuals, 10% Food and allied, 9% Power etc.
- ADR clocked in at 51.5% due to cautious lending but still above threshold of attracting penal tax rates, with NPLs increasing to 4.0% as of Dec'22 due to few subjective classifications. Banks coverage remained strong at 107.6%, improving by 5.7ppt YoY.
- Yield on advances increased to 10.8% in CY22 as compared to 7.4% in CY21.
- Investment book clocked in at Rs1.1tn portfolio remained skewed towards floating rate PIBs and GoP Sukuks.
- Management disclosed that Average yield on investments was 14.6% in 4QCY22 with average of 12.7% in CY22, which has improved 300bps since 1QCY22.

- During CY22, the Bank opened 104 new branches which helped with customer acquisition, deposit mobilization and hence revenue growth. The Bank plans to open 140 new branches in CY23.
- CAR for the bank stood at comfortable level of 13.8% against 14.4% in CY21.

Outlook

- We have an 'Outperform' rating on the stock as it is trading at P/B of ~0.5x with a proven track record of 18.2% 5yr CAGR of deposit growth and comfortable CAR despite higher ADR.

Table 01: Earnings Review BAFL CY22

	4QCY22	4QCY21	YoY	QoQ	CY22	CY21	YoY
Interest Earned	69,696	28,522	144%	13%	213,950	100,192	114%
Interest Expensed	46,393	16,365	183%	17%	136,679	54,148	152%
Net Interest Income (NII)	23,303	12,157	92%	7%	77,271	46,044	68%
Fee Income	3,002	2,314	30%	3%	11,232	8,523	32%
Dividend Income	329	124	165%	92%	1,091	492	122%
Foreign Exchange Income	1,086	1,332	-18%	-70%	9,550	4,128	131%
Gain on Securities	(34)	1,255	na	-23%	(163)	3,144	na
Other Income	(6)	(138)	na	-112%	326	377	-13%
Total Non-Markup Income	4,378	4,887	-10%	-34%	22,037	16,664	32%
Share of Profit from Associates	50	42	19%	-78%	670	573	17%
Total Income	27,731	17,086	62%	-4%	99,977	63,281	58%
Non-Markup Expense	14,909	9,939	50%	9%	50,833	37,063	37%
Operating Expense	14,652	9,793	50%	9%	49,898	36,539	37%
WWF	244	145	68%	2%	907	498	82%
Other Charges	13	1	762%	81%	27	26	6%
Profit Before Provisions	12,823	7,147	79%	-15%	49,145	26,219	87%
Provisions	4,332	893	385%	6%	12,467	2,312	439%
Profit Before Taxation	8,491	6,254	36%	-23%	36,677	23,907	53%
Taxation	4,369	2,540	72%	-20%	18,280	9,446	94%
Profit After Taxation	4,122	3,714	11%	-25%	18,397	14,460	27%
PAT Attributable to Shareholders	4,115	3,718	11%	-25%	18,395	14,437	27%
EPS	2.32	2.09			10.35	8.12	
DPS	2.50	2.00			5.00	4.00	
Cost/Income	54%	58%			51%	59%	
ETR	51%	41%			50%	40%	

Source: Company Accounts, Foundation Research, March 2023

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