| **PAKISTAN** | **May 5, 2023** |

Foundation Alert

BAFL: Analyst Briefing Key Takeaways

Event

▪ Bank AlFalah Limited (BAFL PA) held its conference call today to discuss 1QCY23 results and outlook of the bank. Following are the key takeaways of the briefing.

Impact

▪ The bank posted unconsolidated PAT of Rs10.7bn in 1QCY23 (up by 114/161% YoY/QoQ). Management attributes increase in profitability to (1) higher Net Interest Income (NII) and (2) higher fee and FX income despite higher provision expense.

▪ During 1QCY23, interest income increased by 111/8% YoY/QoQ and interest expense increased by 121/3% YoY/QoQ. This has translated into a 96/20% YoY/QoQ increase in NII which clocked in at Rs27.9bn for 1QCY23.

▪ Net Interest Income grew 96% YoY due to solid growth in earning assets and improved spreads after repricing of the well positioned asset book. Moreover, 1QCY23 includes markup suspension reversal.

▪ Non-markup income clocked in at Rs6.6bn (up by 50/51% over YoY/QoQ) in 1QCY23. Fee income growth of 34% YoY is led by card business, ADC followed by trade/remittances flows. Increase in forex income is due to stronger flows and higher spreads capturing market movements.

▪ Operating expenses remained upbeat as it registered a growth of 42% YoY to clock in at Rs14.6bn due to new branches, donations, inflation and PKR depreciation, still cost/income remains at 42.3%.

▪ The bank reported a provisioning expense of Rs522mn (↑32% YoY). Provisions represent additional charge (include fx movement and subjective charge) while flood general provisioning reversed as situation improved.

▪ Deposits for the bank clocked in at Rs1.55tn, increasing by 32% YoY due to branch network expansion, improved staff productivity in line with strategy of regaining market share, with CASA of 68.0% (CA of 43.7%) at Mar'23. Cost of deposits for the bank stood at 8.0% in 1QCY23 compared with 4.7% in 1QCY22 and 7.6% in 4QCY22.

▪ Net advances increased by 2% YoY due to cautious lending strategy. Bank has reduced retail portfolio as a result of routine settlement while management expects single digit growth in advances for this year due to lower industry appetite.

▪ Bank advances composition is 41%/24%/18%/9%/6% from Corporate/Islamic/Retail/Consumer/Overseas.

▪ On Segment wise basis, bank advances comprises of 23% Textile, 15% Individuals, 10% Food and allied, 9% Power etc.

▪ Subsequently, ADR clocked reduced to 47.1%, with NPLs increasing to 4.5% as of Mar'23 due to few subjective classifications and lower gross advances. Banks coverage remained strong at 103.2%.

▪ Yield on advances increased to 14.2% in 1QCY23 as compared to 8.6% in 1QCY22 and 14.6% in 4QCY22.

▪ Investment book clocked in at Rs1.28tn, up 42% YoY, with portfolio remaining skewed towards short duration PIBs and T-bills.

▪ Management disclosed that Average yield on investments was 15.9% in 1QCY23 as against 9.7% in 1QCY22 and 14.6% in 4QCY22.

▪ During CY22, the Bank opened 104 new branches which helped with customer acquisition, deposit mobilization and hence revenue growth. The Bank plans to open more than 100 new branches in CY23.

▪ CAR for the bank stood at comfortable level of 14.7% against 14.8% in 1QCY22.

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 banks cautious strategy towards lending as economy slowdowns.

Table 01: Consolidated - Earnings Review BAFL 1QCY23

	1QCY23	1QCY22	YoY	4QCY22	QoQ
Interest Earned	75,601	35,952	110%	69,696	8%
Interest Expensed	47,687	21,673	120%	46,393	3%
Net Interest Income (NII)	**27,914**	**14,279**	**95%**	**23,303**	**20%**
Fee Income	3,425	2,537	35%	3,002	14%
Dividend Income	208	195	7%	329	-37%
Foreign Exchange Income	3,325	1,431	132%	885	276%
Gain on Securities	(312)	11	-2923%	(34)	822%
Other Income	(37)	241	-115%	195	-119%
Total Non-Markup Income	**6,609**	**4,415**	**50%**	**4,378**	**51%**
Share of Profit from Associates	**123**	**61**	**101%**	**50**	**145%**
Total Income	**34,646**	**18,755**	**85%**	**27,731**	**25%**
Non-Markup Expense	**15,095**	**10,503**	**44%**	**14,909**	**1%**
Operating Expense	14,687	10,341	42%	14,652	0%
WWF	398	160	148%	244	63%
Other Charges	11	2	509%	13	-15%
Profit Before Provisions	**19,551**	**8,252**	**137%**	**12,823**	**52%**
Provisions	522	386	35%	4,332	-88%
Profit Before Taxation	**19,029**	**7,866**	**142%**	**8,491**	**124%**
Taxation	8,258	2,836	191%	4,369	89%
Profit After Taxation	**10,771**	**5,030**	**114%**	**4,122**	**161%**
PAT Attributable to Shareholders	**10,772**	**5,033**	**114%**	**4,115**	**162%**
EPS	**6.06**	**2.83**		**2.32**	
DPS	**-**	**-**		**2.50**	
Cost/Income	**44%**	**56%**		**54%**	
ETR	**43%**	**36%**		**51%**	

Source: Company Accounts, Foundation Research, May 2023

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Important disclosures: