

# Flash Note

Tuesday, 01 March 2016

## Commercial Banks

### BAFL: Profitability up by +34%YoY, Lower Than Expected Dividend, Recommending a 'Hold' Stance

- Bank Al Falah Limited (BAFL) reported its CY15 earnings of PKR 7.5bn (EPS PKR 4.74) up by +34%YoY.
- Along with result, Bank also announced a PKR 1.0/share cash dividend, lower than our expectation of PKR 2.5/share, bringing bank's pay-out ratio to 21%. We suggest this is likely due to bank's limited capital base, following growth in gross advances (+11%YoY in 9M CY15)
- On quarterly basis, bank's 4QCY15 profitability clocked in at PKR 1.49bn (EPS PKR 0.9) down by 8%YoY.
- Major drag during the 4QCY15 came from a) 20%YoY decline in bank's non-interest income, and b) drop in bank's interest earning by 2%YoY. During the quarter, non-interest income was up by 2%QoQ to PKR 2.0bn.
- Bank booked in provisioning charge against advances to the tune of PKR 0.9bn in 4QCY15, bringing CY15 total charge to PKR 2.2bn as compared to PKR 1.5bn in same period last year.
- Bank's operating cost is up by +8%YoY in CY15, bringing cost-to-income ratio to 60% (67% in CY14)

#### Recommendation

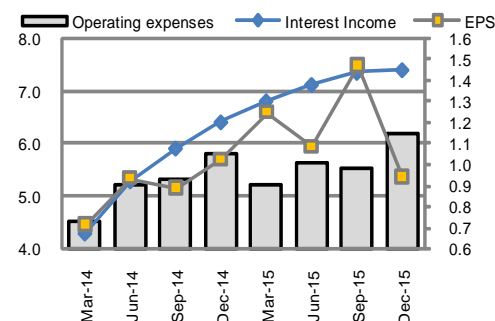
Given lower than expected dividend pay, we suggest a "Hold" a stance on the scrip.

#### Exhibit: Financial Highlights

PKRmn (Period end=Dec)	4QCY15	4QCY14	YoY	CY15	CY14	YoY
Interest Income	7,392	6,401	15%	28,648	21,873	31%
Non-Interest Income	2,078	2,593	-20%	8,851	9,036	-2%
Total Revenue	9,470	8,994	5%	37,499	30,910	21%
Operating expenses	6,205	5,807	7%	22,598	20,863	8%
PPOP	3,265	3,187	2%	14,901	10,047	48%
Provisioning Charge	934	803	16%	2,287	1,534	49%
Pre-Tax Profits	2,331	2,384	-2%	12,614	8,514	48%
Taxation	843	759	11%	5,081	2,873	77%
Profit After Tax	1,488	1,625	-8%	7,533	5,641	34%
EPS	0.94	1.02		4.74	3.55	
DPS	1.00	2.00		1.00	2.00	
BVPS	33.8	28.2		33.8	28.2	

Source: IGI Research, Company Financials, KSE

#### Exhibit: Bank's Quarterly Earnings



#### Key Ratios

Cost-to-income Ratio	66%	65%	60%	67%
Effective tax Rate	36%	32%	40%	34%
Non-interest Income / Total Income	22%	29%	24%	29%

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### Analyst Certification

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Recommendation	Rating System
Buy	If return on aforementioned security(ies) is more than 10%, from its last closing price(s)
Hold	If return on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
Sell	If return on aforementioned security(ies) is more than -10%, from its last closing price(s)

### Valuation Methodology

The analyst<sup>^</sup> has used following valuation methodology to arrive at the target price of the said security (ies):

- Justified Price-to-book
- Dividend Discount Model

### Time Horizon

- Dec-16

### Risk

- Changes in State Bank of Pakistan Policy Rate
- Change in Country (Pakistan) macro-economic environment
- Changes in Company(ies) operating structure

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