

Day Break

Wednesday, 16 August 2017

COMPANY UPDATE

BANK ALFALAH LIMITED

COMMERCIAL BANKS

Recommendation	BUY
Target Price:	45.4
Last Closing: 15-Aug-17	41.2
Upside:	10.2
Valuation Methodology:	Asset based Valuation / Dividend Discount Model (DDM)
Time Horizon:	Dec-17

Market Data

Bloomberg Tkr.	BAFL PA
Shares (mn)	1,595.2
Free Float Shares (mn)	717.8
Free Float Shares (%)	45.0%
Market Cap (PKRbn USDmn)	65.8 624.2
Exchange	KSE 100
Price Info.	90D 180D 365D
Abs. Return	(5.5) 1.3 39.1
Lo	37.3 36.0 28.5
Hi	47.2 47.2 47.2

Key Company Financials

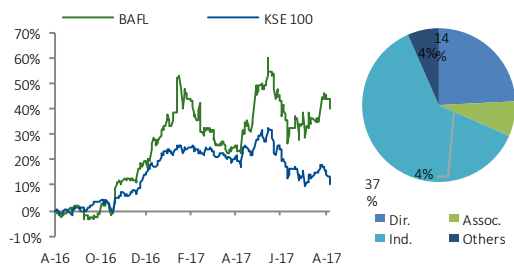
Period End: Dec

PKRbn	CY16A	CY17E	CY18F	CY19F
Total Revenue	37.6	36.6	40.6	45.2
Net Income	7.90	7.5	8.5	10.7
EPS (PKR)	5.0	4.7	5.3	6.7
DPS (PKR)	-	1.0	1.5	1.5
Total Assets	917.5	1,062.9	1,176.0	1,285.7
Total Equity	60.1	66.0	72.2	80.5

Key Financial Ratios

ROE (%)	13.1	11.3	11.8	13.3
P/E (x)	8.3	8.8	7.7	6.1
P/B (x)	1.1	1.0	0.9	0.8
DY (%)	-	2.4	3.6	3.6

Relative Price Performance & Shareholding



About the Company

The Bank was incorporated in Pakistan on June 21, 1992 as a public limited company. It commenced its banking operations on November 01, 1992. The Bank is engaged in banking services as described in the Banking Companies Ordinance, 1962.

Source: Bloomberg, KSE 100 & IGI Research

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Commercial Banks

BAFL: Super-tax and lower capital gains to drag down quarterly profitability

- We foresee the bank to post unconsolidated profit after tax (PAT) of PKR 1.9bn (EPS: 1.22 PKR), down by 30%QoQ (or up +3%YoY).
- We anticipate interest expense to grow faster than interest earned and net interest income to register a declining trend over 2QCY17 (down by 2%QoQ).
- We forecast non-interest income to fall as well based on lower capital gains (down by ~31%QoQ) despite rising fee income (up +9%QoQ).
- The major fall in profitability is expected to emanate from +23%QoQ rise in taxation due to the one-time provision of super-tax.
- We recommend "BUY" call with our Dec-17 target price of PKR 45/share, offering +10% upside from its last closing.

BAFL unconsolidated earnings to clock in at PKR 1.22/share

We preview, Bank Alfalah Limited (BAFL) financial results for 2QFY17. We foresee the bank to post unconsolidated profit after tax (PAT) of PKR 1.9bn (EPS: 1.22 PKR), down by 30%QoQ (or up +3%YoY). This will bring cumulative income for 1HFY17 to PKR 4.7bn (EPS: 2.96 PKR), up by +9%YoY. We also forecast the bank to maintain its policy of no dividends. The primary cause for decline in quarterly profitability is expected to be one-time provision of super-tax, leading to +23%QoQ rise in taxation as well as ~31%QoQ decline in Capital gains. Barring taxation, pre-tax profit is expected to decline by 12%QoQ to PKR 3.8bn. On an annual basis, 8%YoY fall in operating expenses is expected to result in a gain of +3%YoY in earnings.

Exhibit:

BAFL Result Highlights

PKRmn (Period end=Dec)	2QCY17	2QCY16	YoY	1QCY17	QoQ	1HFY17	YoY
Net Interest Income	7,151	7,553	-5%	7,262	-2%	14,413	-2%
Fee Income	1,325	1,395	-5%	1,216	9%	2,542	7%
Capital Gain & Div. Income	600	712	-16%	814	-26%	1,414	-13%
Non-Interest Income	2,375	2,649	-10%	2,553	-7%	4,929	-2%
Total Revenue	9,527	10,202	-7%	9,815	-3%	19,341	-2%
Operating Expenses	5,719	6,235	-8%	5,607	2%	11,326	-3%
Pre-Provisioning Profits	3,808	3,966	-4%	4,208	-10%	8,016	0%
NPL (Rev.) / Prov.	20	168	-88%	(82)	n.m	(62)	-115%
Pre-Tax Profits	3,788	3,798	0%	4,290	-12%	8,078	6%
Taxation	1,847	1,911	-3%	1,502	23%	3,349	3%
Profit After Tax	1,941	1,887	3%	2,788	-30%	4,729	9%
EPS (PKR)	1.22	1.18		1.75		2.96	
DPS (PKR)	-	-		-		-	
BVPS (PKR)	40.22	36.10		39.01		40.22	

KEY RATIOS

Cost-To-Income Ratio	60%	61%	57%	59%
Effective Tax Rate	49%	50%	35%	41%
Non-Il / Total Income	25%	26%	26%	25%

SOURCE: IGI Research, Company accounts, PSX notifications

Declining spreads to keep interest income in check

During 2QCY17 interest income is expected to show a meagre fall. Due to rising credit offtake in the economy, we expect interest earned to rise despite falling yields (Average WALR over the quarter fell by 7bps compared to 1QCY17 average) as volume of advances rise sector-wide (up by +8.41%QoQ). However, interest income will be dented as a result of rising cost of deposit (Average WADR over the quarter up by 14bps compared to 1QCY17 average) combined with higher total deposits (industry total deposits up by +7.26%QoQ). Resultantly, we anticipate interest expense to grow faster than interest earned and net interest income to register a declining trend over 2QCY17 (down by 2%QoQ), with NIMs compressed by 5bps over the quarter.

Rising taxation on the back of one-time provision of super-tax to curtail profitability

As is the case with interest income, we forecast non-interest income to fall as well based on lower capital gains (down by ~31%QoQ) despite rising fee income (up +9%QoQ). Resultantly, non-interest income-to-total income ratio is anticipated to be 25% relative to 26% in 1QCY17. On the other hand, operating expenses are slated to rise by +2%QoQ, relatively a nominal change. Similarly, we expect NPL provision to rise, denting the bottom-line further. However, the major fall in profitability is expected to emanate from +23%QoQ rise in taxation due to the one-time provision of super-tax, dragging down earnings for the quarter by 30%QoQ with effective tax rate rising to 49% compared to 35% in 1QCY17.

Recommendation

BAFL showed growth in yearly profitability despite the challenging environment in the banking sector. Therefore, based on sound fundamentals and attractive valuation, with a forward CY17/CY18 P/B of 1.0x/0.9x and dividend yield of 2.4%/3.6%, we recommend “**BUY**” call with our Dec-17 target price of PKR 45/share, offering +10% upside from its last closing.

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