

Flash Note

Thursday, 17 August 2017

Commercial Banks

BAFL: Rise in operating expenses nullifies impact of higher interest income and robust fee income growth

- Bank Alfalah Limited (BAFL) reported unconsolidated earnings for 2QCY17 of PKR 2.1bn (or PKR 1.30/share) down by 25%QoQ (or up by +11%YoY) bringing 1HCY17 total unconsolidated earnings to PKR 4.9bn (or PKR 3.06/share), up by +12%YoY.
- The bank announced no cash dividend for 2QCY17.
- During the quarter, higher net interest income (up +4%QoQ) and robust growth in fee income (up +31%QoQ) supported the bottom-line, while +13%QoQ rise in operating expenses nullified the impact.
- Simultaneously, one-time provision of super-tax dented profitability, wherein, tax dragged down profit after-tax by 25%QoQ compared to a fall of 3%QoQ in Pre-tax income.

Exhibit:

BAFL Result Highlights

PKRmn (Period end=Dec)	2QCY17	2QCY16	YoY	1QCY17	QoQ	1HFY17	YoY
Interest Earned	14,187	14,762	-4%	13,862	2%	28,049	-6%
Interest Expensed	6,629	7,209	-8%	6,600	0%	13,229	-12%
Net Interest Income	7,558	7,553	0%	7,262	4%	14,820	1%
Fee Income	1,593	1,395	14%	1,216	31%	2,810	18%
Capital Gain & Div. Income	851	712	20%	814	4%	1,665	2%
Non-Interest Income	2,930	2,649	11%	2,553	15%	5,483	9%
Total Revenue	10,488	10,202	3%	9,815	7%	20,303	3%
Operating Expenses	6,362	6,235	2%	5,607	13%	11,969	3%
Pre-Provisioning Profits	4,126	3,966	4%	4,208	-2%	8,334	4%
NPL (Rev.) / Prov.	(54)	168	n.m	(82)	-35%	(136)	-133%
Pre-Tax Profits	4,180	3,798	10%	4,290	-3%	8,470	12%
Taxation	2,087	1,911	9%	1,502	39%	3,589	11%
Profit After Tax	2,093	1,887	11%	2,788	-25%	4,881	12%
EPS (PKR)	1.30	1.17		1.73		3.04	
DPS (PKR)	-	-		-		-	
BVPS (PKR)	40.01	35.82		38.71		40.01	

KEY RATIOS

Cost-To-Income Ratio	61%	61%		57%		59%	
Effective Tax Rate	50%	50%		35%		42%	
Non-II / Total Income	28%	26%		26%		27%	

SOURCE: IGI Research, Company accounts, PSX notifications

Recommendation

With a forward CY17/CY18 P/B of 1.0x/0.9x and dividend yield of 2.4%/3.6%, we recommend "HOLD" call with our Dec-17 target price of PKR 45/share, offering +7% upside from its last closing.

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