

BAFL

1HCY20 Result Review: Stance Downgraded to HOLD

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BAFL has announced its 2QCY20 result where it posted profit after tax of Rs5.6bn (EPS: Rs3.14) in 1HCY20 as compared to profit after tax of Rs6.2bn (EPS: Rs3.49) in same period last year, down by 10.1% YoY.

The company has posted the net interest income of Rs23.4bn against Rs21.7bn in SPLY, recording a growth of 7.9% YoY. We note that this growth is attributed to the growth in bank's deposits and expanded NIM on account of high interest rates and high CASA.

Non-interest income has also increased by 37.8% YoY to Rs6.8bn as compared to Rs4.9bn during SPLY, mainly due to the higher exchange gains.

Furthermore, the management of the bank has successfully been able to manage the operating cost to income ratio which has been reduced to 51.4% as compared to 52.1% during SPLY.

The major hit to the earnings is caused by the significant provision charged by the bank. The bank has charged the provision of Rs4.8bn which is significantly higher than the 1HCY19's tally of Rs 980mn.

BAFL is currently trading at CY20E PE of 5.4x. Furthermore, the script is trading at a CY20E P/B of 0.70x which offers a discount of 30% relative to its historical 5-year average of 1.0x. We have a **HOLD** stance on the script with a Justified P/B based Jun-21 TP of Rs.41 which provides an upside potential of 10%. Furthermore, it also offers an attractive dividend yield of 10% which makes the total return of 20%.

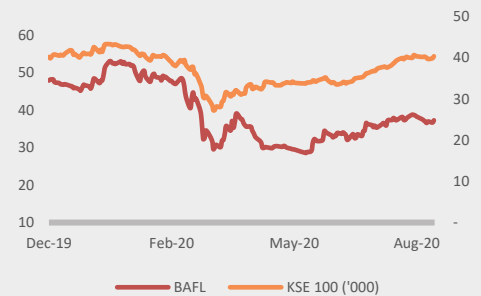
Rupees' millions	2QCY20	2QCY19	YoY	1HCY20	1HCY19	YoY
Interest earned	24,043	20,872	15.2% ▲	49,948	41,629	20.0% ▲
Interest expensed	-12,462	-10,382	20.0% ▲	-26,587	-19,977	33.1% ▲
Net Interest Income	11,580	10,490	10.4% ▲	23,361	21,652	7.9% ▲
Fee and commission income	1,308	1,829	28.5% ▼	2,960	3,512	15.7% ▼
Dividend income	110	94	16.6% ▲	197	170	15.8% ▲
Foreign exchange income	953	786	21.3% ▲	2,009	1,264	58.9% ▲
(Loss) / gain on securities	1,779	-38	4817.0% ▲	1,733	-64	2798.9% ▼
Other income	23	53	55.7% ▼	46	127	64.2% ▼
Non-Interest Income	4,173	2,708	54.1% ▲	6,882	4,996	37.8% ▲
Operating expenses	-7,485	-7,151	4.7% ▲	-15,539	-13,888	11.9% ▲
Workers' Welfare Fund	-166	-124	33.2% ▲	-276	-255	8.0% ▲
Other charges	-1	-108	98.7% ▼	-43	-109	61.1% ▼
Profit Before Provisions	8,101	5,815	39.3% ▲	14,386	12,395	16.1% ▲
Provisions	-3,261	-534	510.9% ▲	-4,788	-980	388.7% ▲
Profit Before Taxation	4,840	5,281	8.3% ▼	9,597	11,415	15.9% ▼
Taxation	-2,077	-2,194	5.3% ▼	-4,013	-5,206	22.9% ▼
Profit After Taxation	2,763	3,086	10.5% ▼	5,584	6,209	10.1% ▼
Earnings Per Share	1.55	1.74	10.5% ▼	3.14	3.49	10.1% ▼
Dividend	0.00	2.00		0.00	2.00	
Bonus	0%	0%		0%	0%	
Operating Cost to Income	-47.5%	-54.2%	6.7% ▼	-51.4%	-52.1%	0.7% ▼
Effective Taxation	-42.9%	-41.6%	1.4% ▲	-41.8%	-45.6%	3.8% ▼

Source: ACPL Research, Company Financials

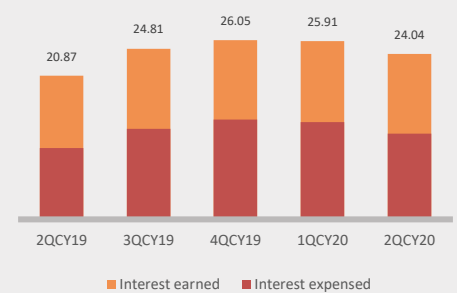
Key Statistics

Symbol	BAFL
TP - Jun 21	41.00
LDCP	37.25
Upside (%)	10.07
Free Float ('mn)	711
Market Cap. (Rs.'mn)	66,199

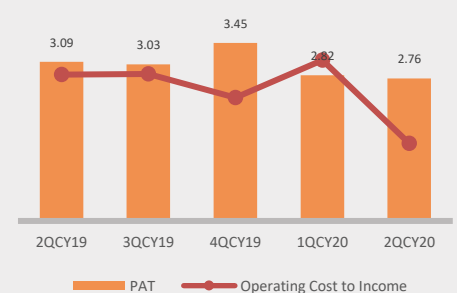
BAFL vs KSE 100



Interest Earned vs Expensed (Rs.'bn)



PAT (Rs.'bn) vs Operating Cost To Income



Sources: ACPL Research, Company Financials

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Financial Projections

Rupees' millions	2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E
Mark-up / Return / Interest earned	61,438	57,245	56,176	59,318	92,481	94,261	88,390	88,795	88,142
Mark-up / Return / Interest expensed	-32,811	-28,474	-27,199	-27,727	-47,623	-47,750	-46,222	-44,784	-42,472
Net Mark-up / Interest Income	28,627	28,770	28,976	31,591	44,857	46,510	42,168	44,011	45,670
Fee and commission income	4,384	4,668	6,013	6,292	7,034	6,683	7,017	7,368	7,736
Dividend income	514	585	460	576	339	343	376	414	455
Foreign exchange income	1,379	1,121	1,443	2,169	2,826	3,684	2,104	2,224	2,408
(Loss) / gain from derivatives	0	0	-59	-21	-68	0	0	0	0
(Loss) / gain on securities	1,836	1,682	1,134	993	84	3,146	1,394	1,545	1,713
Other income	748	813	85	192	180	180	180	180	180
Total non-markup / interest income	8,862	8,868	9,076	10,200	10,396	14,036	11,071	11,731	12,493
Non mark-up / interest expenses									
Operating expenses	-21,956	-23,423	-24,672	-23,967	-29,066	-32,263	-33,876	-35,570	-37,348
Workers' Welfare Fund	-330	-118	-259	-392	-508	-481	-329	-343	-354
Other charges	0	0	-33	-6	-269	-189	-177	-178	-176
Profit Before Provisions	15,203	14,097	13,089	17,426	25,410	27,614	18,857	19,651	20,284
Provisions / (reversal of provisions)	-2,599	-1,073	616	-588	-3,029	-7,563	-1,978	-2,697	-2,931
Profit before income tax	12,604	13,023	13,705	16,838	22,382	20,050	16,879	16,955	17,353
Income tax expense	-5,081	-5,123	-5,539	-6,687	-9,686	-7,820	-5,908	-5,934	-6,074
Profit for the year	7,523	7,900	8,166	10,150	12,696	12,231	10,971	11,020	11,280
EPS	4.23	4.45	4.60	5.71	7.14	6.88	6.17	6.20	6.35

Source: ACPL Research, Company Financials

Horizontal Analysis

Horizontal Analysis	2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E
Mark-up / Return / Interest earned	10.94%	-6.83%	-1.87%	5.59%	55.91%	1.92%	-6.23%	0.46%	-0.73%
Mark-up / Return / Interest expensed	-2.07%	-13.22%	-4.48%	1.94%	71.76%	0.27%	-3.20%	-3.11%	-5.16%
Net Mark-up / Interest Income	30.88%	0.50%	0.72%	9.02%	41.99%	3.68%	-9.34%	4.37%	3.77%
Fee and commission income	40.53%	6.47%	28.81%	4.63%	11.80%	-5.00%	5.00%	5.00%	5.00%
Dividend income	4.48%	13.69%	-21.29%	25.14%	-41.15%	1.13%	9.80%	9.93%	10.06%
Foreign exchange income	-32.50%	-18.73%	28.74%	50.29%	30.34%	30.34%	-42.90%	5.74%	8.27%
Gain on securities	50.69%	-8.39%	-32.56%	-12.45%	-91.55%	3648.10%	-55.69%	10.82%	10.87%
Other income	-65.43%	8.69%	-89.58%	126.54%	-6.03%	0.00%	0.00%	0.00%	0.00%
Total non-markup / interest income	-1.94%	0.07%	2.35%	12.39%	1.91%	35.02%	-21.12%	5.96%	6.49%
Non mark-up / interest expenses									
Operating expenses	8.37%	6.68%	5.33%	-2.86%	21.28%	11.00%	5.00%	5.00%	5.00%
Workers' Welfare Fund	59.81%	-64.10%	118.65%	51.46%	29.48%	-5.29%	-31.54%	4.18%	3.19%
Other charges	0.00%	0.00%	0.00%	-80.35%	4086.67%	-29.97%	-6.23%	0.46%	-0.73%
Profit Before Provisions	45.59%	-7.28%	-7.15%	33.14%	45.82%	8.67%	-31.71%	4.21%	3.22%
Provisions / (reversal of provisions)	34.7%	-58.7%	-157.4%	-195.5%	414.7%	149.7%	-73.8%	36.3%	8.7%
Profit before income tax	48.05%	3.33%	5.24%	22.86%	32.93%	-10.42%	-15.82%	0.45%	2.35%
Income tax expense	76.88%	0.83%	8.11%	20.74%	44.84%	-19.27%	-24.45%	0.45%	2.35%
Profit for the year	33.36%	5.01%	3.37%	24.30%	25.08%	-3.66%	-10.30%	0.45%	2.35%
EPS	33.36%	5.01%	3.37%	24.30%	25.08%	-3.66%	-10.30%	0.45%	2.35%

Source: ACPL Research, Company Financials

Key Ratios

Profitability Ratios		2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E
Yield on Earning Assets	%	7.25	6.62	6.13	6.44	9.49	8.72	7.39	6.70	6.00
Interest Cost	%	3.94	3.39	3.10	3.17	5.21	4.70	4.09	3.57	3.04
Net Interest Margin	%	3.31	3.24	3.04	3.27	4.28	4.02	3.29	3.13	2.96
Operating Cost to Income	%	59.45	62.55	65.60	58.30	54.01	54.39	64.58	64.75	65.13
Return on Equity	%	14.10	13.14	12.41	13.42	14.42	12.93	10.88	10.28	9.91
Return on Assets	%	0.83	0.86	0.82	1.01	1.19	1.04	0.84	0.76	0.70
Balance Sheet Analysis		2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E
Deposits Growth	%	5.65	0.12	0.63	8.98	11.29	11.29	11.29	11.29	11.29
CASA to Deposits	%	70.06	79.99	73.51	70.62	71.94	71.94	71.94	71.94	71.94
Advances to Deposits	%	52.20	59.09	62.12	71.37	65.35	70.74	70.61	70.55	70.48
Investments to Deposits	%	66.09	60.71	62.13	39.50	38.23	37.55	37.05	36.60	36.19
PIBs to Investments	%	55.64	64.25	35.64	19.90	43.07	43.07	43.07	43.07	43.07
T Bills to Investments	%	22.73	14.71	47.73	59.28	32.51	32.51	32.51	32.51	32.51
Gross Infection Ratio	%	5.27	4.80	4.21	3.63	4.23	5.00	4.80	4.70	4.60
Provisioning Coverage	%	83.73	86.06	89.22	84.39	79.14	85.00	85.00	85.00	85.00
Net Infection Ratio	%	0.90	0.70	0.47	0.59	0.91	0.72	0.69	0.68	0.66
Capital Adequacy Ratio	%	13.27	13.18	13.39	14.95	16.88	16.43	15.86	15.29	14.72
Leverage Ratio	%	3.41	3.46	4.06	5.64	5.83	5.44	5.20	4.95	4.70
Operational Analysis		2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E
Market Share - Deposits	%	6.88	5.72	5.22	5.26	5.35	5.27	5.19	5.12	5.05
Market Share - Advances	%	7.33	7.10	6.39	6.57	6.50	6.40	6.31	6.22	6.13
Market Share - Investments	%	6.23	5.27	4.66	3.68	3.35	3.26	3.17	3.08	3.00
No. of Branches		653	639	638	649	698	712	726	741	756
Investment Ratios		2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E
Dividend Per Share		1.00	0.00	1.50	2.50	4.00	3.85	3.46	3.47	3.55
Dividend Yield	%	2.68	0.00	4.03	6.71	10.74	10.35	9.28	9.32	9.54
Dividend Cover	x	4.23	0.00	3.06	2.28	1.79	1.79	1.79	1.79	1.79
Retention Ratio	%	76.38	100.00	67.36	56.23	44.01	44.01	44.01	44.01	44.01
Payout Ratio	%	23.62	0.00	32.64	43.77	55.99	55.99	55.99	55.99	55.99
No. of Shares	('m)	1777	1777	1777	1777	1777	1777	1777	1777	1777
Earnings Per Share		4.23	4.45	4.60	5.71	7.14	6.88	6.17	6.20	6.35
Book Value Per Share		30.02	33.83	37.03	42.57	49.53	53.25	56.73	60.30	64.04
Price to Earnings	x	8.80	8.38	8.11	6.52	5.21	5.41	6.03	6.01	5.87
Price to Book Value	x	1.24	1.10	1.01	0.88	0.75	0.70	0.66	0.62	0.58

Source: ACPL Research, Company Financials

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TP	Target Price	CAGR	Compound Annual Growth Rate	FCF	Free Cash Flows
FCFE	Free Cash Flows to Equity	FCFF	Free Cash Flows to Firm	DCF	Discounted Cash Flows
PE	Price to Earnings Ratio	PB	Price to Book Ratio	BVPS	Book Value Per Share
EPS	Earnings Per Share	DPS	Dividend Per Share	ROE	Return of Equity
ROA	Return on Assets	SOTP	Sum of the Parts	LDCP	Last Day Closing Price

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To arrive at our Target Price, Abbasi & Company (Private) Limited uses different valuation methods which include:

- I. Discounted Cash Flow Model
- II. Dividend Discount Model
- III. Relative Valuation Model
- IV. Sum of Parts Valuation

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Stock Rating	Expected Total Return
BUY	Greater than 15%
HOLD	Between -5% to 15%
SELL	Less than and equal to -5%

Sector Rating	Sector Outlook
Overweight	Positive
Market Weight	Neutral
Underweight	Negative

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