

# BAFL

## 1QCY23 Result Review: BUY Stance Maintained

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BAFL has announced its 1QCY23 result where it posted a profit after tax of Rs10.74bn (Diluted EPS: Rs6.81) as compared to a profit after tax of Rs5.02bn (Diluted EPS: Rs3.18) in the same period last year, up by 1.14x YoY amid higher NIM and hefty foreign exchange and dividend income.

The bank has posted a net interest income of Rs27.94bn against Rs14.29bn in SPLY, recording a growth of 95.5% YoY. Non-interest income has increased by 49.5% YoY to Rs6.55bn as compared to Rs4.38bn during SPLY. FX income surged by 1.32x to Rs3.32bn while dividend income increased by 33.6% to Rs3.30bn.

Furthermore, the operating cost-to-income ratio has decreased to 42.3% as compared to 55.1% during SPLY. The bank classified certain parties in Non-Performing category and charged the provision of Rs0.52bn, up by 34.8% as compared to SPLY's tally of Rs0.39bn. Furthermore, effective taxation has surged to 43.4% as compared to 36% SPLY.

BAFL is currently trading at CY23E PE of 1.62x. Furthermore, the scrip is trading at a CY23E P/B of 0.39x which offers a discount of 19% relative to its historical 3-year average of 0.48x. We have a **BUY** stance on the scrip with a Justified P/B based Dec-23 TP of Rs.37 which provides an upside potential of 27%. Furthermore, it also offers an attractive dividend yield of 27% which makes the total return 54%.

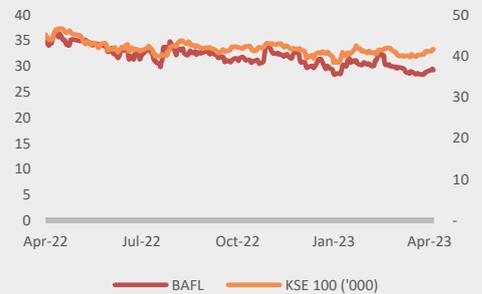
Rupees' millions	1QCY23	1QCY22	YoY	CY22	CY21	YoY
Interest earned	75,589	35,817	111.0% ▲	213,897	100,402	113.0% ▲
Interest expensed	-47,652	-21,528	121.3% ▲	-136,558	-54,134	152.3% ▲
<b>Net Interest Income</b>	<b>27,937</b>	<b>14,289</b>	<b>95.5% ▲</b>	<b>77,340</b>	<b>46,268</b>	<b>67.2% ▲</b>
Fee and commission income	3,305	2,474	33.6% ▲	10,842	8,001	35.5% ▲
Dividend income	274	225	22.0% ▲	1,232	603	104.4% ▲
Foreign exchange income	3,325	1,431	132.4% ▲	9,219	4,128	123.3% ▲
(Loss) / gain on securities	-316	12	2842.7% ▼	-164	3,142	105.2% ▼
Other income	64	161	60.1% ▼	326	179	82.2% ▲
<b>Non-Interest Income</b>	<b>6,552</b>	<b>4,382</b>	<b>49.5% ▲</b>	<b>21,786</b>	<b>16,254</b>	<b>34.0% ▲</b>
Operating expenses	-14,584	-10,282	41.8% ▲	-49,562	-36,316	36.5% ▲
Workers' Welfare Fund	-398	-160	148.3% ▲	-907	-498	82.1% ▲
Other charges	-11	-2	508.6% ▲	-27	-26	6.5% ▲
Profit Before Provisions	19,496	8,226	137.0% ▲	48,629	25,682	89.3% ▲
Provisions	-522	-387	34.8% ▲	-12,468	-2,312	439.3% ▲
Profit Before Taxation	18,974	7,839	142.0% ▲	36,160	23,370	54.7% ▲
Taxation	-8,232	-2,821	191.8% ▲	-17,954	-9,154	96.1% ▲
<b>Profit After Taxation</b>	<b>10,743</b>	<b>5,019</b>	<b>114.1% ▲</b>	<b>18,206</b>	<b>14,217</b>	<b>28.1% ▲</b>
<b>Earnings Per Share</b>	<b>6.81</b>	<b>3.18</b>	<b>114.1% ▲</b>	<b>11.54</b>	<b>9.01</b>	<b>28.1% ▲</b>
<b>Dividend</b>	<b>0.00</b>	<b>0.00</b>	-	<b>5.00</b>	<b>4.00</b>	<b>25.0% ▲</b>
<b>Bonus</b>	<b>0%</b>	<b>0%</b>		<b>0%</b>	<b>0%</b>	
Operating Cost to Income	-42.3%	-55.1%	12.8% ▼	-50.0%	-58.1%	8.1% ▼
Effective Taxation	-43.4%	-36.0%	7.4% ▲	-49.7%	-39.2%	10.5% ▲

Source: ACPL Research, Company Financials

### Key Statistics

Symbol	BAFL
TP - Dec 23	37
LDCP	29.19
Upside (%)	27
Free Float ('mn)	631
Market Cap. (Rs.'mn)	46,037

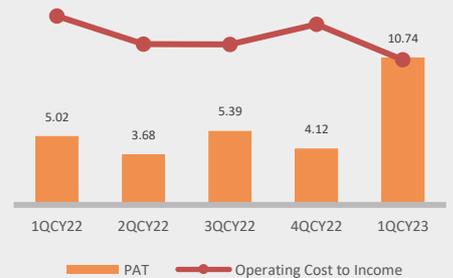
### BAFL vs KSE 100



### 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	2020A	2021A	2022A	2023E	2024E	2025E	2026E
Mark-up / Return / Interest earned	92,616	100,402	213,897	294,777	326,988	364,490	408,603
Mark-up / Return / Interest expensed	-47,911	-54,134	-136,558	-210,971	-238,583	-268,649	-301,141
<b>Net Mark-up / Interest Income</b>	<b>44,705</b>	<b>46,268</b>	<b>77,340</b>	<b>83,806</b>	<b>88,404</b>	<b>95,840</b>	<b>107,462</b>
Fee and commission income	6,559	8,001	10,842	13,200	16,500	20,625	23,719
Dividend income	403	603	1,232	1,098	1,719	1,994	1,557
Foreign exchange income	3,398	4,128	9,219	13,302	16,628	19,954	23,944
(Loss) / gain from derivatives	-21	201	332	0	0	0	0
(Loss) / gain on securities	2,285	3,142	-164	-1,260	1,644	2,140	2,757
Other income	171	179	326	257	282	311	342
<b>Total non-markup / interest income</b>	<b>12,795</b>	<b>16,254</b>	<b>21,786</b>	<b>26,597</b>	<b>36,774</b>	<b>45,024</b>	<b>52,319</b>
<b>Non mark-up / interest expenses</b>							
Operating expenses	-31,443	-36,316	-49,562	-46,686	-52,934	-59,567	-67,566
Workers' Welfare Fund	-494	-498	-907	-1,196	-1,402	-1,577	-1,789
Other charges	-94	-26	-27	-43	-292	-325	-364
<b>Profit Before Provisions</b>	<b>25,468</b>	<b>25,682</b>	<b>48,629</b>	<b>62,478</b>	<b>70,551</b>	<b>79,395</b>	<b>90,061</b>
Provisions / (reversal of provisions)	-7,589	-2,312	-12,468	-12,244	-13,534	-11,013	-13,320
<b>Profit before income tax</b>	<b>17,878</b>	<b>23,370</b>	<b>36,160</b>	<b>50,235</b>	<b>57,016</b>	<b>68,382</b>	<b>76,741</b>
Income tax expense	-7,403	-9,154	-17,954	-21,793	-25,087	-30,088	-33,766
<b>Profit for the year</b>	<b>10,475</b>	<b>14,217</b>	<b>18,206</b>	<b>28,441</b>	<b>31,929</b>	<b>38,294</b>	<b>42,975</b>
EPS	6.64	9.01	11.54	18.03	20.24	24.28	27.25

Source: ACPL Research, Company Financials

## Horizontal Analysis

Horizontal Analysis	2020A	2021A	2022A	2023E	2024E	2025E	2026E
Mark-up / Return / Interest earned	0.1%	8.4%	113.0%	37.8%	10.9%	11.5%	12.1%
Mark-up / Return / Interest expensed	0.6%	13.0%	152.3%	54.5%	13.1%	12.6%	12.1%
<b>Net Mark-up / Interest Income</b>	<b>-0.3%</b>	<b>3.5%</b>	<b>67.2%</b>	<b>8.4%</b>	<b>5.5%</b>	<b>8.4%</b>	<b>12.1%</b>
<b>Total non-markup / interest income</b>	<b>23.1%</b>	<b>27.0%</b>	<b>34.0%</b>	<b>22.1%</b>	<b>38.3%</b>	<b>22.4%</b>	<b>16.2%</b>
<b>Non mark-up / interest expenses</b>							
Operating expenses	8.2%	15.5%	36.5%	-5.8%	13.4%	12.5%	13.4%
Workers' Welfare Fund	-2.6%	0.8%	82.1%	31.8%	17.2%	12.5%	13.4%
Other charges	-64.9%	-73.0%	6.5%	57.5%	581.2%	11.5%	12.1%
<b>Profit Before Provisions</b>	<b>0.2%</b>	<b>0.8%</b>	<b>89.3%</b>	<b>28.5%</b>	<b>12.9%</b>	<b>12.5%</b>	<b>13.4%</b>
Provisions / (reversal of provisions)	150.6%	-69.5%	439.3%	-1.8%	10.5%	-18.6%	20.9%
<b>Profit before income tax</b>	<b>-20.1%</b>	<b>30.7%</b>	<b>54.7%</b>	<b>38.9%</b>	<b>13.5%</b>	<b>19.9%</b>	<b>12.2%</b>
Income tax expense	-23.6%	23.6%	96.1%	21.4%	15.1%	19.9%	12.2%
<b>Profit for the year</b>	<b>-17.5%</b>	<b>35.7%</b>	<b>28.1%</b>	<b>56.2%</b>	<b>12.3%</b>	<b>19.9%</b>	<b>12.2%</b>
EPS	-17.5%	35.7%	28.1%	56.2%	12.3%	19.9%	12.2%

Source: ACPL Research, Company Financials

## Key Ratios

Profitability Ratios		2020A	2021A	2022A	2023E	2024E	2025E	2026E
Yield on Earning Assets	%	7.15	6.15	10.08	11.24	10.08	9.07	8.23
Interest Cost	%	3.91	3.49	6.72	8.37	7.64	6.93	6.26
Net Interest Margin	%	3.24	2.66	3.36	2.87	2.44	2.14	1.97
Operating Cost to Income	%	55.71	58.92	50.94	43.41	43.64	43.64	43.63
Return on Equity	%	11.51	14.22	18.20	23.85	22.86	23.25	23.93
Return on Assets	%	0.76	0.82	0.81	1.02	0.93	0.90	0.81
<b>Balance Sheet Analysis</b>		<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
Deposits Growth	%	12.72	29.18	30.53	24.14	24.14	24.14	24.14
CASA to Deposits	%	74.53	68.40	66.44	66.44	66.44	66.44	66.44
Advances to Deposits	%	65.47	59.16	49.26	66.71	66.82	66.70	66.60
Investments to Deposits	%	62.04	71.04	74.95	57.07	52.77	49.30	46.51
PIBs to Investments	%	40.09	63.76	80.33	80.33	80.33	80.33	80.33
T Bills to Investments	%	37.73	15.56	0.18	0.18	0.18	0.18	0.18
Gross Infection Ratio	%	4.30	3.53	4.04	3.94	3.84	3.74	3.64
Provisioning Coverage	%	70.83	85.49	82.00	70.00	79.44	79.44	79.44
Net Infection Ratio	%	1.31	0.53	0.76	1.14	0.76	0.74	0.73
Capital Adequacy Ratio	%	16.53	14.43	13.83	13.19	12.54	11.99	10.77
Leverage Ratio	%	4.44	3.84	3.51	3.31	3.15	3.02	2.64
<b>Operational Analysis</b>		<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
Market Share - Deposits	%	4.93	5.43	6.62	7.48	8.45	9.54	10.78
Market Share - Advances	%	7.07	6.89	6.43	9.10	10.28	11.61	13.12
Market Share - Investments	%	4.69	5.75	6.34	5.44	5.68	6.00	6.39
No. of Branches		730	790	894	1012	1145	1296	1466
<b>Investment Ratios</b>		<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
Dividend Per Share		4.00	4.00	5.00	8.00	9.00	10.50	12.00
Dividend Yield	%	13.70	13.70	17.13	27.41	30.83	35.97	41.11
Dividend Cover	x	1.66	2.25	2.31	2.25	2.25	2.31	2.27
Retention Ratio	%	39.77	55.62	56.69	56.69	56.69	56.69	56.69
Payout Ratio	%	60.23	44.38	43.31	43.31	43.31	43.31	43.31
No. of Shares	('m)	1577	1577	1577	1577	1577	1577	1577
Earnings Per Share		6.64	9.01	11.54	18.03	20.24	24.28	27.25
Book Value Per Share		57.71	63.41	63.41	75.62	88.56	104.44	113.86
Price to Earnings	x	4.40	3.24	2.53	1.62	1.44	1.20	1.07
Price to Book Value	x	0.51	0.46	0.46	0.39	0.33	0.28	0.26

Source: ACPL Research, Company Financials

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

#### VALUATION METHODOLOGY

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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