

# BAFL

## 1QCY20 Result Review: BUY Stance Maintained

Equity Research | Commercial Banks | Monday, 27 April, 2020



BAFL has announced its 1QCY20 result where it posted profit after tax of Rs2.8bn (EPS: Rs1.59) as compared to profit after tax of Rs3.1bn (EPS: Rs1.76) in same period last year, down by 9.6% YoY.

The company has posted the net interest income of Rs11.8bn against Rs11.2bn in SPLY, recording a growth of 24.8% 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 18.4% YoY to Rs2.7bn as compared to Rs2.3bn during SPLY, mainly due to the higher exchange gains.

Furthermore, the operating cost to income ratio has been increased to 55.6% as compared to 50.1% during SPLY.

Lastly, the bank has charged the provision of Rs 1.5bn which is significantly higher than the 1QCY19's tally of Rs 446mn.

BAFL is currently trading at CY20E PE of 3.95x. Furthermore, the script is trading at a CY20E P/B of 0.60x which offers a discount of 30% relative to its historical 5-year average of 0.87x. We maintain our **BUY** stance on the script with a Justified P/B based Jun-21 TP of Rs.41 which provides an upside potential of 26%. Furthermore, it also offers an attractive dividend yield of 14% which makes the total return of 40%.

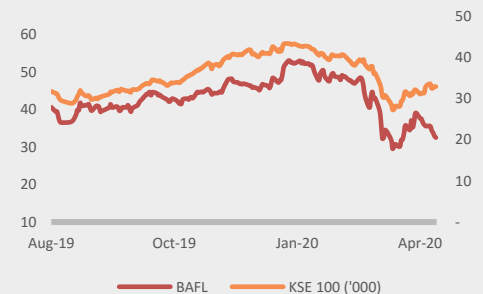
Rupees' millions	1QCY20	1QCY19	YoY	CY19	CY18	YoY
Interest earned	25,906	20,757	24.8% ▲	92,481	59,318	55.9% ▲
Interest expensed	-14,125	-9,595	47.2% ▲	-47,623	-27,727	71.8% ▲
<b>Net Interest Income</b>	<b>11,781</b>	<b>11,162</b>	<b>5.5% ▲</b>	<b>44,857</b>	<b>31,591</b>	<b>42.0% ▲</b>
Fee and commission income	1,652	1,683	1.9% ▼	7,034	6,292	11.8% ▲
Dividend income	87	76	14.9% ▲	339	576	41.2% ▼
Foreign exchange income	1,056	478	120.9% ▲	2,826	2,169	30.3% ▲
(Loss) / gain on securities	-46	-26	73.6% ▼	84	993	91.5% ▼
Other income	22	74	70.3% ▼	180	192	6.0% ▼
<b>Non-Interest Income</b>	<b>2,709</b>	<b>2,288</b>	<b>18.4% ▲</b>	<b>10,396</b>	<b>10,200</b>	<b>1.9% ▲</b>
Operating expenses	-8,054	-6,737	19.6% ▲	-29,066	-23,967	21.3% ▲
Workers' Welfare Fund	-110	-131	16.0% ▼	-508	-392	29.5% ▲
Other charges	-41	-1	2779.5% ▲	-269	-6	4086.7% ▲
Profit Before Provisions	6,284	6,580	4.5% ▼	25,410	17,426	45.8% ▲
Provisions	-1,528	-446	242.5% ▲	-3,029	-588	414.7% ▲
Profit Before Taxation	4,757	6,134	22.5% ▼	22,382	16,838	32.9% ▲
Taxation	-1,936	-3,012	35.7% ▼	-9,686	-6,687	44.8% ▲
<b>Profit After Taxation</b>	<b>2,821</b>	<b>3,122</b>	<b>9.6% ▼</b>	<b>12,696</b>	<b>10,150</b>	<b>25.1% ▲</b>
<b>Earnings Per Share</b>	<b>1.59</b>	<b>1.76</b>	<b>9.6% ▼</b>	<b>7.14</b>	<b>5.71</b>	<b>25.1% ▲</b>
<b>Dividend</b>	<b>0.00</b>	<b>0.00</b>		<b>4.00</b>	<b>2.50</b>	
<b>Bonus</b>	<b>0%</b>	<b>0%</b>		<b>0%</b>	<b>10%</b>	
Operating Cost to Income	-55.6%	-50.1%	5.5% ▲	-52.6%	-57.3%	4.7% ▼
Effective Taxation	-40.7%	-49.1%	8.4% ▼	-43.3%	-39.7%	3.6% ▲

Source: ACPL Research, Company Financials

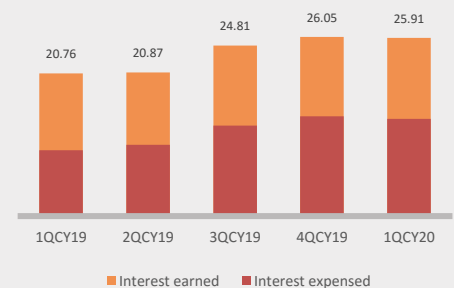
### Key Statistics

Symbol	BAFL
TP - Jun 21	41.00
LDCP	32.50
Upside (%)	26.15
Free Float ('mn)	711
Market Cap. (Rs.'mn)	57,758

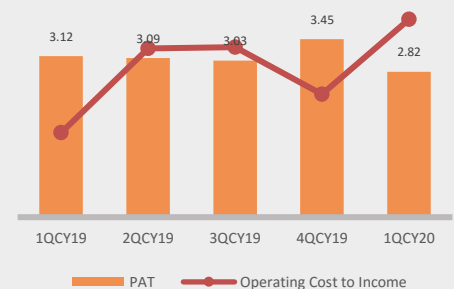
### BAFL vs KSE 100



### 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	93,371	86,350	86,247	85,128
Mark-up / Return / Interest expensed	-32,811	-28,474	-27,199	-27,727	-47,623	-43,199	-41,156	-39,146	-36,197
<b>Net Mark-up / Interest Income</b>	<b>28,627</b>	<b>28,770</b>	<b>28,976</b>	<b>31,591</b>	<b>44,857</b>	<b>50,173</b>	<b>45,194</b>	<b>47,101</b>	<b>48,930</b>
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	1,615	2,105	2,743	3,576
(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	93	103	114	126
Other income	748	813	85	192	180	180	180	180	180
<b>Total non-markup / interest income</b>	<b>8,862</b>	<b>8,868</b>	<b>9,076</b>	<b>10,200</b>	<b>10,396</b>	<b>8,914</b>	<b>9,781</b>	<b>10,819</b>	<b>12,074</b>
<b>Non mark-up / interest expenses</b>									
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	-456	-359	-380	-402
Other charges	0	0	-33	-6	-269	-187	-173	-172	-170
<b>Profit Before Provisions</b>	<b>15,203</b>	<b>14,097</b>	<b>13,089</b>	<b>17,426</b>	<b>25,410</b>	<b>26,181</b>	<b>20,568</b>	<b>21,798</b>	<b>23,083</b>
Provisions / (reversal of provisions)	-2,599	-1,073	616	-588	-3,029	-2,240	-2,493	-2,774	-3,088
<b>Profit before income tax</b>	<b>12,604</b>	<b>13,023</b>	<b>13,705</b>	<b>16,838</b>	<b>22,382</b>	<b>23,941</b>	<b>18,075</b>	<b>19,023</b>	<b>19,996</b>
Income tax expense	-5,081	-5,123	-5,539	-6,687	-9,686	-9,337	-6,326	-6,658	-6,998
<b>Profit for the year</b>	<b>7,523</b>	<b>7,900</b>	<b>8,166</b>	<b>10,150</b>	<b>12,696</b>	<b>14,604</b>	<b>11,749</b>	<b>12,365</b>	<b>12,997</b>
<b>EPS</b>	<b>4.23</b>	<b>4.45</b>	<b>4.60</b>	<b>5.71</b>	<b>7.14</b>	<b>8.22</b>	<b>6.61</b>	<b>6.96</b>	<b>7.31</b>

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%	0.96%	-7.52%	-0.12%	-1.30%
Mark-up / Return / Interest expensed	-2.07%	-13.22%	-4.48%	1.94%	71.76%	-9.29%	-4.73%	-4.88%	-7.53%
<b>Net Mark-up / Interest Income</b>	<b>30.88%</b>	<b>0.50%</b>	<b>0.72%</b>	<b>9.02%</b>	<b>41.99%</b>	<b>11.85%</b>	<b>-9.92%</b>	<b>4.22%</b>	<b>3.88%</b>
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%	-42.86%	30.34%	30.34%	30.34%
Gain on securities	50.69%	-8.39%	-32.56%	-12.45%	-91.55%	10.71%	10.77%	10.82%	10.87%
Other income	-65.43%	8.69%	-89.58%	126.54%	-6.03%	0.00%	0.00%	0.00%	0.00%
<b>Total non-markup / interest income</b>	<b>-1.94%</b>	<b>0.07%</b>	<b>2.35%</b>	<b>12.39%</b>	<b>1.91%</b>	<b>-14.26%</b>	<b>9.73%</b>	<b>10.61%</b>	<b>11.60%</b>
<b>Non mark-up / interest expenses</b>									
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%	-10.18%	-21.34%	5.93%	5.84%
Other charges	0.00%	0.00%	0.00%	-80.35%	4086.67%	-30.63%	-7.52%	-0.12%	-1.30%
<b>Profit Before Provisions</b>	<b>45.59%</b>	<b>-7.28%</b>	<b>-7.15%</b>	<b>33.14%</b>	<b>45.82%</b>	<b>3.03%</b>	<b>-21.44%</b>	<b>5.98%</b>	<b>5.90%</b>
Provisions / (reversal of provisions)	34.7%	-58.7%	-157.4%	-195.5%	414.7%	-26.0%	11.3%	11.3%	11.3%
<b>Profit before income tax</b>	<b>48.05%</b>	<b>3.33%</b>	<b>5.24%</b>	<b>22.86%</b>	<b>32.93%</b>	<b>6.97%</b>	<b>-24.50%</b>	<b>5.25%</b>	<b>5.11%</b>
Income tax expense	76.88%	0.83%	8.11%	20.74%	44.84%	-3.61%	-32.24%	5.25%	5.11%
<b>Profit for the year</b>	<b>33.36%</b>	<b>5.01%</b>	<b>3.37%</b>	<b>24.30%</b>	<b>25.08%</b>	<b>15.03%</b>	<b>-19.55%</b>	<b>5.25%</b>	<b>5.11%</b>
<b>EPS</b>	<b>33.36%</b>	<b>5.01%</b>	<b>3.37%</b>	<b>24.30%</b>	<b>25.08%</b>	<b>15.03%</b>	<b>-19.55%</b>	<b>5.25%</b>	<b>5.11%</b>

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	8.63	7.21	6.50	5.79
Interest Cost	%	3.94	3.39	3.10	3.17	5.21	4.25	3.64	3.12	2.59
Net Interest Margin	%	3.31	3.24	3.04	3.27	4.28	4.38	3.56	3.38	3.20
Operating Cost to Income	%	59.45	62.55	65.60	58.30	54.01	55.69	62.59	62.37	62.16
Return on Equity	%	14.10	13.14	12.41	13.42	14.42	15.26	11.50	11.33	11.15
Return on Assets	%	0.83	0.86	0.82	1.01	1.19	1.24	0.90	0.85	0.81
<b>Balance Sheet Analysis</b>		<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020E</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
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	70.13	70.12	70.11	70.10
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	4.23	4.23	4.23	4.23
Provisioning Coverage	%	83.73	86.06	89.22	84.39	79.14	79.14	79.14	79.14	79.14
Net Infection Ratio	%	0.90	0.70	0.47	0.59	0.91	0.85	0.85	0.85	0.85
Capital Adequacy Ratio	%	13.27	13.18	13.39	14.95	16.88	16.58	16.05	15.53	15.02
Leverage Ratio	%	3.41	3.46	4.06	5.64	5.83	5.53	5.29	5.06	4.84
<b>Operational Analysis</b>		<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020E</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
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
<b>Investment Ratios</b>		<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020E</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
Dividend Per Share		1.00	0.00	1.50	2.50	4.00	4.60	3.70	3.90	4.10
Dividend Yield	%	3.08	0.00	4.62	7.69	12.31	14.16	11.39	11.99	12.60
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	8.22	6.61	6.96	7.31
Book Value Per Share		30.02	33.83	37.03	42.57	49.53	53.83	57.51	61.42	65.58
Price to Earnings	x	7.68	7.31	7.07	5.69	4.55	3.95	4.92	4.67	4.44
Price to Book Value	x	1.08	0.96	0.88	0.76	0.66	0.60	0.57	0.53	0.50

Source: ACPL Research, Company Financials

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### DEFINITION OF TERMS

<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
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