

BAFL

9M CY20 Result Review: Stance Upgraded to BUY

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BAFL has announced its 3QCY20 result where it posted profit after tax of Rs8.3bn (EPS: Rs4.69) in 9M CY20 as compared to profit after tax of Rs9.2bn (EPS: Rs5.2) in same period last year, down by 9.9% YoY.

The company has posted the net interest income of Rs34.5bn against Rs33.3bn in SPLY, recording a growth of 3.5% 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 41.1% YoY to Rs10bn as compared to Rs7.1bn 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 slightly been reduced to 52.6% as compared to 52.8% 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 Rs6.3bn which is significantly higher than the 9M CY19's tally of Rs 2bn.

BAFL is currently trading at CY20E PE of 5.5x. Furthermore, the script is trading at a CY20E P/B of 0.61x which offers a discount of 29% relative to its historical 5-year average of 0.91x. We have a **BUY** stance on the script with a Justified P/B based Jun-21 TP of Rs.40 which provides an upside potential of 17%. Furthermore, it also offers an attractive dividend yield of 10% which makes the total return of 27%.

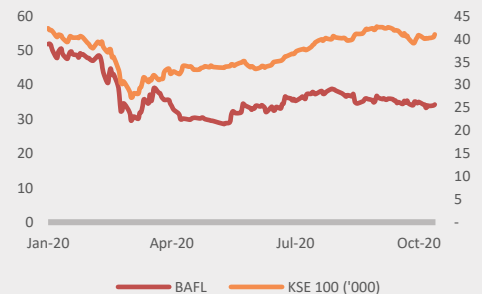
Rupees' millions	3QCY20	3QCY19	YoY	9M CY20	9M CY19	YoY
Interest earned	21,787	24,806	12.2% ▼	71,736	66,435	8.0% ▲
Interest expensed	-10,681	-13,146	18.7% ▼	-37,269	-33,124	12.5% ▲
Net Interest Income	11,106	11,660	4.8% ▼	34,467	33,312	3.5% ▲
Fee and commission income	1,832	1,739	5.3% ▲	4,791	5,251	8.8% ▼
Dividend income	57	81	29.2% ▼	254	251	1.3% ▲
Foreign exchange income	754	691	9.0% ▲	2,762	1,955	41.3% ▲
(Loss) / gain on securities	452	-374	221.0% ▲	2,185	-438	598.8% ▼
Other income	46	22	108.0% ▲	91	149	38.9% ▼
Non-Interest Income	3,142	2,110	48.9% ▲	10,024	7,106	41.1% ▲
Operating expenses	-7,844	-7,469	5.0% ▲	-23,383	-21,357	9.5% ▲
Workers' Welfare Fund	-130	-124	4.7% ▲	-406	-380	6.9% ▲
Other charges	-45	-62	27.6% ▼	-88	-172	48.9% ▼
Profit Before Provisions	6,229	6,114	1.9% ▲	20,614	18,509	11.4% ▲
Provisions	-1,490	-1,033	44.3% ▲	-6,279	-2,012	212.0% ▲
Profit Before Taxation	4,738	5,082	6.8% ▼	14,335	16,496	13.1% ▼
Taxation	-1,991	-2,048	2.8% ▼	-6,004	-7,254	17.2% ▼
Profit After Taxation	2,747	3,033	9.4% ▼	8,331	9,242	9.9% ▼
Earnings Per Share	1.55	1.71	9.4% ▼	4.69	5.20	9.9% ▼
Dividend	2.00	0.00		2.00	2.00	
Bonus	0%	0%		0%	0%	
Closing Period: 21 Nov 20 - 27 Nov 20						
Operating Cost to Income	-55.1%	-54.2%	0.8% ▲	-52.6%	-52.8%	0.3% ▼
Effective Taxation	-42.0%	-40.3%	1.7% ▲	-41.9%	-44.0%	2.1% ▼

Source: ACPL Research, Company Financials

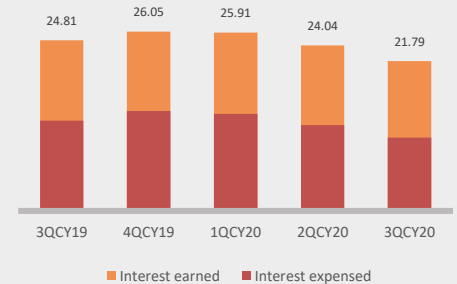
Key Statistics

Symbol	BAFL
TP - Jun 21	40.00
LDCP	34.22
Upside (%)	17
Free Float ('mn)	711
Market Cap. (Rs.'mn)	60,815

BAFL vs KSE 100



Interest Earned vs Expensed (Rs'bn)



PAT (Rs'bn) vs Operating Cost To Income



Sources: ACPL Research, Company Financials

M. Fawad Naveed

Phone: (+92) 42 38302028; Ext: 117
Email: fawad@abbasiandcompany.com

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	88,365	88,752	88,086
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	42,143	43,968	45,614
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	-342	-353
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	18,833	19,609	20,229
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	16,855	16,913	17,298
Income tax expense	-5,081	-5,123	-5,539	-6,687	-9,686	-7,820	-5,899	-5,919	-6,054
Profit for the year	7,523	7,900	8,166	10,150	12,696	12,231	10,955	10,993	11,244
EPS	4.23	4.45	4.60	5.71	7.14	6.88	6.16	6.19	6.33

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%	-6.25%	0.44%	-0.75%
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%	-9.39%	4.33%	3.74%
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%	-31.63%	4.09%	3.13%
Other charges	0.00%	0.00%	0.00%	-80.35%	4086.67%	-29.97%	-6.25%	0.44%	-0.75%
Profit Before Provisions	45.59%	-7.28%	-7.15%	33.14%	45.82%	8.67%	-31.80%	4.12%	3.16%
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%	-15.94%	0.34%	2.28%
Income tax expense	76.88%	0.83%	8.11%	20.74%	44.84%	-19.27%	-24.56%	0.34%	2.28%
Profit for the year	33.36%	5.01%	3.37%	24.30%	25.08%	-3.66%	-10.43%	0.34%	2.28%
EPS	33.36%	5.01%	3.37%	24.30%	25.08%	-3.66%	-10.43%	0.34%	2.28%

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	3.30	3.13	2.96
Operating Cost to Income	%	59.45	62.55	65.60	58.30	54.01	54.39	64.61	64.79	65.19
Return on Equity	%	14.10	13.14	12.41	13.42	14.42	12.96	10.92	10.33	9.97
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	16.39	15.80	15.20	14.61
Leverage Ratio	%	3.41	3.46	4.06	5.64	5.83	5.43	5.17	4.91	4.65
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	4.00	3.58	3.60	3.68
Dividend Yield	%	2.92	0.00	4.38	7.31	11.69	11.69	10.47	10.51	10.75
Dividend Cover	x	4.23	0.00	3.06	2.28	1.79	1.72	1.72	1.72	1.72
Retention Ratio	%	76.38	100.00	67.36	56.23	44.01	41.88	41.88	41.88	41.88
Payout Ratio	%	23.62	0.00	32.64	43.77	55.99	58.12	58.12	58.12	58.12
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	6.16	6.19	6.33
Book Value Per Share		30.02	33.83	37.03	42.57	49.53	53.10	56.44	59.88	63.48
Price to Earnings	x	8.08	7.70	7.45	5.99	4.79	4.97	5.55	5.53	5.41
Price to Book Value	x	1.14	1.01	0.92	0.80	0.69	0.64	0.61	0.57	0.54

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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- III. Relative Valuation Model
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HOLD	Between -5% to 15%
SELL	Less than and equal to -5%

Sector Rating	Sector Outlook
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Market Weight	Neutral
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RESEARCH DEPARTMENT

6 - Shadman, Lahore

Phone: (+92) 42 38302028; Ext 116, 117

Email: research@abbasiandcompany.com

web: www.abbasiandcompany.com

HEAD OFFICE

6 - Shadman, Lahore

Phone: (+92) 42 38302028

Email: info@abbasiandcompany.com

web: www.abbasiandcompany.com

BRANCH OFFICE

42 - Mall Road, Lahore

Phone: (+92) 42 37320707

Email: info@abbasiandcompany.com

web: www.abbasiandcompany.com