

# BAFL

## CY19 Result Review: BUY Stance Maintained

Equity Research | Commercial Banks | Friday, 14 February, 2020



BAFL has announced its CY19 result where it posted profit after tax of Rs12.7bn (EPS: Rs 7.14) in CY19 as compared to profit after tax of Rs10.2bn (EPS: Rs 5.71) in same period last year, up by 25.1% YoY.

The company has posted the net interest income of Rs92.5bn against Rs59.3bn in SPLY, recording a growth of 55.9% 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 moderately increased by 1.9% YoY to Rs10.4bn as compared to Rs10.2bn during SPLY, mainly due to the increase in fee and commission income and exchange gains.

Furthermore, the management of the bank has successfully been able to manage the operating cost to income ratio this year which has been reduced to 52.6% as compared to 57.3% during SPLY.

Lastly, the bank has charged the provision of Rs 3.0bn which is significantly higher than the CY18's tally of Rs 588mn.

BAFL is currently trading at CY20E PE of 5.94x. Furthermore, the script is trading at a CY20E P/B of 0.96x which offers a discount of 28% relative to its historical 5-year average of 1.34x. We maintain our **BUY** stance on the script with a Justified P/B based Dec-20 TP of Rs.56 which provides an upside potential of 13%. Furthermore, it also offers an attractive dividend yield of 9% which makes the total return of 22%.

Rupees' millions	4QCY19	4QCY18	YoY	CY19	CY18	YoY
Interest earned	26,046	16,414	58.7% ▲	92,481	59,318	55.9% ▲
Interest expensed	-14,500	-8,065	79.8% ▲	-47,623	-27,727	71.8% ▲
<b>Net Interest Income</b>	<b>11,546</b>	<b>8,349</b>	<b>38.3% ▲</b>	<b>44,857</b>	<b>31,591</b>	<b>42.0% ▲</b>
Fee and commission income	1,783	1,613	10.6% ▲	7,034	6,292	11.8% ▲
Dividend income	88	230	61.6% ▼	339	576	41.2% ▼
Foreign exchange income	871	765	13.8% ▲	2,826	2,169	30.3% ▲
(Loss) / gain on securities	522	-374	239.5% ▲	84	993	91.5% ▼
Other income	31	23	37.0% ▲	180	192	6.0% ▼
<b>Non-Interest Income</b>	<b>3,290</b>	<b>2,191</b>	<b>50.1% ▲</b>	<b>10,396</b>	<b>10,200</b>	<b>1.9% ▲</b>
Operating expenses	-7,709	-6,330	21.8% ▲	-29,066	-23,967	21.3% ▲
Workers' Welfare Fund	-128	-95	34.7% ▲	-508	-392	29.5% ▲
Other charges	-98	-5	1913.6% ▲	-269	-6	4086.7% ▲
Profit Before Provisions	6,902	4,111	67.9% ▲	25,410	17,426	45.8% ▲
Provisions	-1,016	-1,535	33.8% ▼	-3,029	-588	414.7% ▲
Profit Before Taxation	5,885	2,577	128.4% ▲	22,382	16,838	32.9% ▲
Taxation	-2,432	-1,055	130.5% ▲	-9,686	-6,687	44.8% ▲
<b>Profit After Taxation</b>	<b>3,453</b>	<b>1,521</b>	<b>127.0% ▲</b>	<b>12,696</b>	<b>10,150</b>	<b>25.1% ▲</b>
<b>Earnings Per Share</b>	<b>1.94</b>	<b>0.86</b>	<b>127.0% ▲</b>	<b>7.14</b>	<b>5.71</b>	<b>25.1% ▲</b>
<b>Dividend</b>	<b>2.00</b>	<b>1.50</b>		<b>4.00</b>	<b>2.50</b>	
<b>Bonus</b>	<b>0%</b>	<b>0%</b>		<b>0%</b>	<b>10%</b>	

Closing Period: 20-Feb-20 - 27-Feb-20

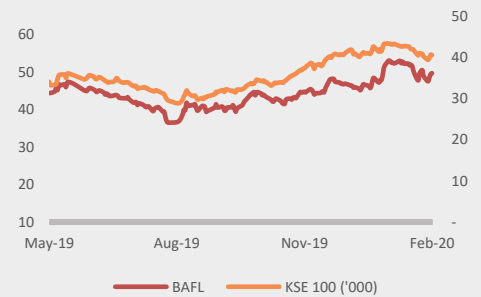
Operating Cost to Income	-52.0%	-60.1%	8.1% ▼	-52.6%	-57.3%	4.7% ▼
Effective Taxation	-41.3%	-41.0%	0.4% ▲	-43.3%	-39.7%	3.6% ▲

Source: ACPL Research, Company Financials

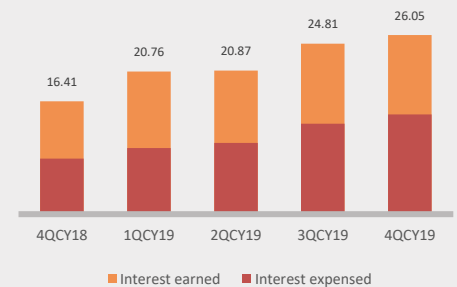
### Key Statistics

Symbol	BAFL
TP - Dec 20	56.00
LDPCP	49.66
Upside (%)	12.77
Free Float ('mn)	711
Market Cap. (Rs.'mn)	88,254

### 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	2019E	2020E	2021E	2022E	2023E
Mark-up / Return / Interest earned	61,438	57,245	56,176	59,318	92,481	105,578	109,361	112,257	111,593
Mark-up / Return / Interest expensed	-32,811	-28,474	-27,199	-27,727	-47,623	-58,765	-58,407	-57,222	-55,388
<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>46,813</b>	<b>50,954</b>	<b>55,035</b>	<b>56,205</b>
Fee and commission income	4,384	4,668	6,013	6,292	7,034	7,386	7,755	8,143	8,550
Dividend income	514	585	460	576	339	356	378	402	429
Foreign exchange income	1,379	1,121	1,443	2,169	2,826	1,504	1,961	2,555	3,331
(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	1,122	1,216	1,318	1,430
Other income	748	813	85	192	180	189	199	209	219
<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>10,557</b>	<b>11,508</b>	<b>12,627</b>	<b>13,958</b>
<b>Non mark-up / interest expenses</b>									
Operating expenses	-21,956	-23,423	-24,672	-23,967	-29,066	-30,519	-32,045	-33,647	-35,330
Workers' Welfare Fund	-330	-118	-259	-392	-508	-521	-590	-659	-675
Other charges	0	0	-33	-6	-269	-307	-318	-327	-325
<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>26,023</b>	<b>29,509</b>	<b>33,029</b>	<b>33,833</b>
Provisions / (reversal of provisions)	-2,599	-1,073	616	-588	-3,029	-1,646	-1,794	-1,955	-2,131
<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>24,377</b>	<b>27,715</b>	<b>31,073</b>	<b>31,703</b>
Income tax expense	-5,081	-5,123	-5,539	-6,687	-9,686	-9,507	-9,700	-10,876	-11,096
<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>14,870</b>	<b>18,015</b>	<b>20,198</b>	<b>20,607</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>8.37</b>	<b>10.14</b>	<b>11.37</b>	<b>11.60</b>

Source: ACPL Research, Company Financials

## Horizontal Analysis

Horizontal Analysis	2015	2016	2017	2018	2019E	2020E	2021E	2022E	2023E
Mark-up / Return / Interest earned	10.94%	-6.83%	-1.87%	5.59%	55.91%	14.16%	3.58%	2.65%	-0.59%
Mark-up / Return / Interest expensed	-2.07%	-13.22%	-4.48%	1.94%	71.76%	23.40%	-0.61%	-2.03%	-3.21%
<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>4.36%</b>	<b>8.84%</b>	<b>8.01%</b>	<b>2.13%</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%	4.90%	6.27%	6.43%	6.58%
Foreign exchange income	-32.50%	-18.73%	28.74%	50.29%	30.34%	-46.78%	30.34%	30.34%	30.34%
Gain on securities	50.69%	-8.39%	-32.56%	-12.45%	-91.55%	1236.29%	8.37%	8.42%	8.46%
Other income	-65.43%	8.69%	-89.58%	126.54%	-6.03%	5.00%	5.00%	5.00%	5.00%
<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>1.55%</b>	<b>9.01%</b>	<b>9.72%</b>	<b>10.54%</b>
<b>Non mark-up / interest expenses</b>									
Operating expenses	8.37%	6.68%	5.33%	-2.86%	21.28%	5.00%	5.00%	5.00%	5.00%
Workers' Welfare Fund	59.81%	-64.10%	118.65%	51.46%	29.48%	2.53%	13.28%	11.83%	2.41%
Other charges	0.00%	0.00%	0.00%	-80.35%	4086.67%	14.16%	3.58%	2.65%	-0.59%
<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>2.41%</b>	<b>13.39%</b>	<b>11.93%</b>	<b>2.44%</b>
Provisions / (reversal of provisions)	34.7%	-58.7%	-157.4%	-195.5%	414.7%	-45.6%	9.0%	9.0%	9.0%
<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>8.91%</b>	<b>13.69%</b>	<b>12.12%</b>	<b>2.02%</b>
Income tax expense	76.88%	0.83%	8.11%	20.74%	44.84%	-1.85%	2.03%	12.12%	2.02%
<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>17.13%</b>	<b>21.15%</b>	<b>12.12%</b>	<b>2.02%</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>17.13%</b>	<b>21.15%</b>	<b>12.12%</b>	<b>2.02%</b>

Source: ACPL Research, Company Financials

## Key Ratios

Profitability Ratios		2015	2016	2017	2018	2019E	2020E	2021E	2022E	2023E
Yield on Earning Assets	%	7.25	6.62	6.13	6.44	9.90	10.28	9.77	9.19	8.38
Interest Cost	%	3.94	3.39	3.10	3.17	5.26	6.04	5.51	4.96	4.41
Net Interest Margin	%	3.31	3.24	3.04	3.27	4.64	4.24	4.25	4.23	3.97
Operating Cost to Income	%	59.45	62.55	65.60	58.30	54.01	54.64	52.76	51.19	51.78
Return on Equity	%	14.10	13.14	12.41	13.42	15.08	16.17	17.82	18.09	16.79
Return on Assets	%	0.83	0.86	0.82	1.01	1.22	1.32	1.47	1.51	1.42
<b>Balance Sheet Analysis</b>		<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019E</b>	<b>2020E</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
Deposits Growth	%	5.65	0.12	0.63	8.98	8.98	8.98	8.98	8.98	8.98
CASA to Deposits	%	70.06	79.99	73.51	70.62	70.62	70.62	70.62	70.62	70.62
Advances to Deposits	%	52.20	59.09	62.12	71.37	76.12	76.12	76.11	76.10	76.09
Investments to Deposits	%	66.09	60.71	62.13	39.50	38.87	37.84	36.90	36.04	35.25
PIBs to Investments	%	55.64	64.25	35.64	19.90	19.90	19.90	19.90	19.90	19.90
T Bills to Investments	%	22.73	14.71	47.73	59.28	59.28	59.28	59.28	59.28	59.28
Gross Infection Ratio	%	5.27	4.80	4.21	3.63	3.63	3.63	3.63	3.63	3.63
Provisioning Coverage	%	83.73	86.06	89.22	84.39	84.39	84.39	84.39	84.39	84.39
Net Infection Ratio	%	0.90	0.70	0.47	0.59	0.55	0.55	0.55	0.55	0.55
Capital Adequacy Ratio	%	13.27	13.18	13.39	14.95	15.56	15.63	15.80	16.02	16.17
Leverage Ratio	%	3.41	3.46	4.06	5.64	5.49	5.54	5.63	5.75	5.83
<b>Operational Analysis</b>		<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019E</b>	<b>2020E</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
Market Share - Deposits	%	6.88	5.72	5.22	5.26	5.21	5.17	5.12	5.07	5.02
Market Share - Advances	%	7.33	7.10	6.39	6.57	6.51	6.45	6.39	6.33	6.27
Market Share - Investments	%	6.23	5.27	4.66	3.68	3.54	3.42	3.30	3.20	3.10
No. of Branches		653	639	638	649	660	672	683	695	707
<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	4.50	5.50	6.00	6.00
Dividend Yield	%	2.01	0.00	3.02	5.03	8.05	9.06	11.08	12.08	12.08
Dividend Cover	x	4.23	0.00	3.06	2.28	1.79	1.86	1.84	1.89	1.93
Retention Ratio	%	76.38	100.00	67.36	56.23	44.01	46.22	45.74	47.21	48.25
Payout Ratio	%	23.62	0.00	32.64	43.77	55.99	53.78	54.26	52.79	51.75
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	8.37	10.14	11.37	11.60
Book Value Per Share		30.02	33.83	37.03	42.57	47.38	51.73	56.90	62.84	69.06
Price to Earnings	x	11.73	11.17	10.81	8.69	6.95	5.94	4.90	4.37	4.28
Price to Book Value	x	1.65	1.47	1.34	1.17	1.05	0.96	0.87	0.79	0.72

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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