

BAHL

1HCY20 Result Review: BUY Stance Maintained

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BAHL has announced its 2QCY20 result where it posted profit after tax of Rs7.2bn (EPS: Rs6.50) in 1HCY20 as compared to profit after tax of Rs4.5bn (EPS: Rs4.01) in same period last year, up by 62.0% YoY.

The company has posted the net interest income of Rs27.1bn against Rs45.0bn in SPLY, recording a growth of 38.7% 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 declined by 1.2% YoY to Rs4.3bn as compared to Rs4.4bn during SPLY, mainly due to the decline in foreign exchange income which showed a negative growth 24.8% YoY.

Furthermore, the management has been able to restrict its operating cost to income ratio at 53.6% as compared to 54.1% during SPLY.

Lastly, the bank has charged the provision of Rs2.18bn as compared to Rs2.15bn during SPLY.

BAHL is currently trading at CY21E PE of 4.52x. Furthermore, the script is trading at a CY21E P/B of 0.88x which offers a discount of 44% relative to its historical 5-year average of 1.55x. We recommend our investors to **BUY** the scrip on dips with a Residual Income based Jun-21 TP of Rs.80 which provides an upside potential of 24%. Furthermore, it also offers an attractive dividend yield of 8% which makes the total return of 32%.

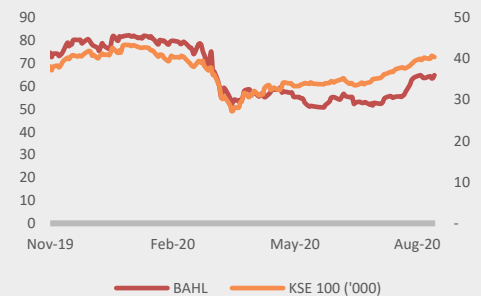
Rupees' millions	2QCY20	2QCY19	YoY	1HCY20	1HCY19	YoY
Interest earned	33,000	23,537	40.2% ▲	65,374	45,048	45.1% ▲
Interest expensed	-17,187	-13,861	24.0% ▲	-38,304	-25,524	50.1% ▲
Net Interest Income	15,814	9,675	63.4% ▲	27,070	19,524	38.7% ▲
Fee and commission income	1,390	1,481	6.1% ▼	3,025	2,863	5.6% ▲
Dividend income	119	98	21.0% ▲	196	185	6.0% ▲
Foreign exchange income	436	814	46.4% ▼	811	1,079	24.8% ▼
(Loss) / gain on securities	0	-78	100.0% ▲	0	-66	100.0% ▼
Other income	63	155	59.5% ▼	267	291	8.4% ▼
Non-Interest Income	2,008	2,470	18.7% ▼	4,298	4,352	1.2% ▼
Operating expenses	-8,494	-6,477	31.1% ▲	-16,798	-12,924	30.0% ▲
Workers' Welfare Fund	-180	-113	59.2% ▲	-290	-217	33.4% ▲
Other charges	0	-24	98.9% ▼	-1	-34	98.5% ▼
Profit Before Provisions	9,147	5,532	65.4% ▲	14,279	10,700	33.5% ▲
Provisions	-1,836	-1,430	28.5% ▲	-2,178	-2,154	1.1% ▲
Profit Before Taxation	7,311	4,102	78.2% ▲	12,101	8,546	41.6% ▲
Taxation	-2,945	-1,702	73.0% ▼	-4,876	-4,085	19.4% ▲
Profit After Taxation	4,366	2,400	81.9% ▲	7,225	4,461	62.0% ▲
Earnings Per Share	3.93	2.16	81.9% ▲	6.50	4.01	62.0% ▲
Dividend	0.00	0.00		0.00	0.00	
Bonus	0%	0%		0%	0%	
Operating Cost to Income	-47.7%	-53.3%	5.7% ▼	-53.6%	-54.1%	0.6% ▼
Effective Taxation	-40.3%	-41.5%	1.2% ▼	-40.3%	-47.8%	7.5% ▼

Source: ACPL Research, Company Financials

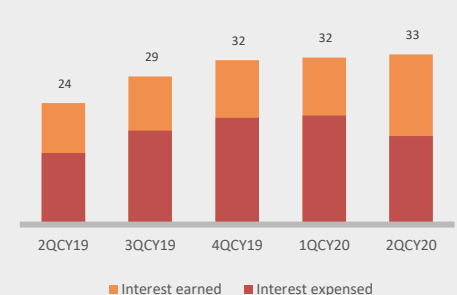
Key Statistics

Symbol	BAHL
TP - Jun 21	80.00
LDCP	64.64
Upside (%)	23.76
Free Float ('mn)	722
Market Cap. (Rs.'mn)	71,843

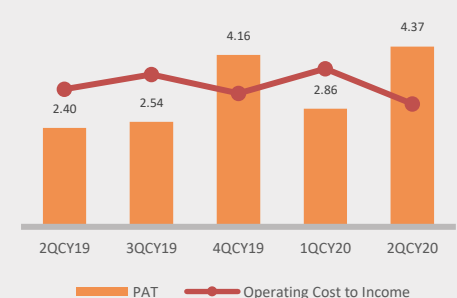
BAHL vs KSE 100



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	50,293	47,804	50,309	60,733	105,602	112,398	100,519	96,994	95,893
Mark-up / Return / Interest expensed	-25,476	-23,133	-24,387	-29,839	-64,416	-62,451	-51,105	-48,160	-43,572
Net Mark-up / Interest Income	24,817	24,672	25,923	30,894	41,186	49,947	49,415	48,834	52,321
Fee and commission income	2,287	2,521	3,153	4,115	6,093	6,702	7,373	8,110	8,921
Dividend income	602	592	448	445	451	493	540	594	655
Foreign exchange income	707	491	914	1,632	2,305	1,614	1,614	1,614	1,614
Gain on securities	217	719	2,739	-15	-32	0	0	0	0
Other income	697	729	864	940	664	697	732	769	807
Total non-markup / interest income	4,511	5,052	8,118	7,117	9,481	9,506	10,259	11,086	11,997
Non mark-up / interest expenses									
Operating expenses	-14,695	-17,728	-19,779	-23,202	-27,719	-32,105	-32,224	-32,357	-34,732
Workers' Welfare Fund	0	0	-287	-295	-448	-544	-546	-549	-589
Other charges	-302	492	-36	-4	-93	-93	-93	-93	-93
Profit Before Provisions	14,330	12,488	13,939	14,511	22,406	26,711	26,810	26,922	28,904
Provisions / (reversal of provisions)	-1,999	676	-49	-247	-3,395	-4,175	-1,596	-1,810	-2,053
Profit before income tax	12,332	13,164	13,890	14,264	19,011	22,536	25,214	25,111	26,851
Income tax expense	-4,927	-5,045	-5,389	-5,846	-7,842	-9,014	-9,329	-8,789	-9,398
Profit for the year	7,405	8,119	8,501	8,418	11,169	13,522	15,885	16,322	17,453
EPS	6.66	7.31	7.65	7.57	10.05	12.17	14.29	14.69	15.70

Source: ACPL Research, Company Financials

Horizontal Analysis

	2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E
Mark-up / Return / Interest earned	14.30%	-4.95%	5.24%	20.72%	73.88%	6.44%	-10.57%	-3.51%	-1.14%
Mark-up / Return / Interest expensed	2.16%	-9.20%	5.42%	22.36%	115.87%	-3.05%	-18.17%	-5.76%	-9.53%
Net Mark-up / Interest Income	30.17%	-0.59%	5.07%	19.18%	33.32%	21.27%	-1.07%	-1.17%	7.14%
Fee and commission income	17.23%	10.26%	25.04%	30.53%	48.06%	10.00%	10.00%	10.00%	10.00%
Dividend income	65.02%	-1.70%	-24.23%	-0.81%	1.48%	9.28%	9.63%	9.96%	10.27%
Foreign exchange income	-17.20%	-30.59%	86.13%	78.56%	41.25%	-30.00%	0.00%	0.00%	0.00%
Gain on securities	73795.92%	230.88%	281.07%	-100.54%	118.25%	-100.21%	12.47%	12.57%	12.66%
Other income	9.40%	4.57%	18.48%	8.82%	-29.40%	5.00%	5.00%	5.00%	5.00%
Total non-markup / interest income	18.47%	12.00%	60.69%	-12.33%	33.21%	0.27%	7.92%	8.07%	8.21%
Non mark-up / interest expenses									
Operating expenses	20.6%	20.6%	11.6%	17.3%	19.5%	15.8%	0.4%	0.4%	7.3%
Workers' Welfare Fund	0.0%	0.0%	0.0%	2.8%	52.2%	21.4%	0.4%	0.4%	7.3%
Other charges	49.0%	-263.0%	-107.4%	-90.4%	2551.2%	0.0%	0.0%	0.0%	0.0%
Profit Before Provisions	36.7%	-12.9%	11.6%	4.1%	54.4%	19.2%	0.4%	0.4%	7.4%
Provisions / (reversal of provisions)	255.5%	-133.8%	-107.2%	409.2%	1273.5%	23.0%	-61.8%	13.4%	13.4%
Profit before income tax	24.3%	6.7%	5.5%	2.7%	33.3%	18.5%	11.9%	-0.4%	6.9%
Income tax expense	38.07%	2.40%	6.83%	8.47%	34.15%	14.95%	3.49%	-5.79%	6.93%
Profit for the year	16.63%	9.65%	4.70%	-0.98%	32.68%	21.07%	17.48%	2.75%	6.93%
EPS	16.63%	9.65%	4.70%	-0.98%	32.68%	21.07%	17.48%	2.75%	6.93%

Source: ACPL Research, Company Financials

Key Ratios

Profitability Ratios		2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E
Yield on Earning Assets	%	8.39	6.74	5.76	6.25	8.84	8.30	6.55	5.58	4.87
Interest Cost	%	4.31	3.32	2.85	3.14	5.52	4.72	3.41	2.84	2.27
Net Interest Margin	%	4.07	3.41	2.91	3.11	3.33	3.58	3.14	2.74	2.61
Operating Cost to Income	%	51.14	57.99	59.05	61.82	55.78	55.07	55.07	55.07	55.06
Return on Equity	%	19.56	19.10	18.53	16.99	18.16	19.11	19.39	17.64	16.90
Return on Assets	%	1.16	1.08	0.90	0.80	0.86	0.92	0.95	0.86	0.82
Balance Sheet Analysis		2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E
Deposits Growth	%	15.64	13.16	18.56	15.06	13.41	13.41	13.41	13.41	13.41
CASA to Deposits	%	74.28	77.59	75.55	74.99	74.55	74.55	74.55	74.55	74.55
Advances to Deposits	%	40.16	44.75	49.07	60.01	54.07	53.81	53.85	53.88	53.91
Investments to Deposits	%	69.09	69.33	68.75	52.03	64.86	62.46	60.38	58.55	56.93
PIBs to Investments	%	54.96	35.81	24.56	19.90	41.75	41.75	41.75	41.75	41.75
T Bills to Investments	%	39.20	58.08	70.20	72.55	50.91	50.91	50.91	50.91	50.91
Gross Infection Ratio	%	2.72	2.12	1.52	1.08	1.46	2.00	2.00	2.00	2.00
Provisioning Coverage	%	94.26	85.42	83.19	83.12	85.44	90.00	90.00	90.00	90.00
Net Infection Ratio	%	0.16	0.32	0.26	0.18	0.22	0.20	0.20	0.20	0.20
Capital Adequacy Ratio	%	13.75	14.18	13.81	13.43	14.35	14.56	14.83	14.81	14.63
Leverage Ratio	%	0.00	3.60	4.26	4.07	3.98	4.11	4.25	4.27	4.23
Operational Analysis		2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E
Market Share - Deposits	%	5.55	5.21	5.60	5.97	6.18	6.20	6.23	6.26	6.28
Market Share - Advances	%	4.51	4.83	5.32	6.16	6.11	6.13	6.16	6.19	6.21
Market Share - Investments	%	5.23	5.52	5.56	5.50	6.66	6.44	6.26	6.09	5.95
No. of Branches		528	605	650	721	759	799	841	885	932
Investment Ratios		2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E
Dividend Per Share		3.50	3.50	3.00	2.50	3.50	4.50	5.00	6.00	7.00
Dividend Yield	%	5.41	5.41	4.64	3.87	5.41	6.96	7.74	9.28	10.83
Dividend Cover	x	1.90	2.09	2.55	3.03	2.87	2.70	2.86	2.45	2.24
Retention Ratio	%	47.47	52.09	60.78	66.99	65.17	63.01	65.02	59.14	55.42
Payout Ratio	%	52.53	47.91	39.22	33.01	34.83	36.99	34.98	40.86	44.58
No. of Shares	('m)	1111	1111	1111	1111	1111	1111	1111	1111	1111
Earnings Per Share		6.66	7.31	7.65	7.57	10.05	12.17	14.29	14.69	15.70
Book Value Per Share		34.06	38.25	41.28	44.58	55.34	63.67	73.72	83.27	92.95
Price to Earnings	x	9.70	8.85	8.45	8.53	6.43	5.31	4.52	4.40	4.12
Price to Book Value	x	1.90	1.69	1.57	1.45	1.17	1.02	0.88	0.78	0.70

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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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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