

# BAHL

## 1QCY20 Result Review: BUY Stance Maintained

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BAHL has announced its 1QCY20 result where it posted profit after tax of Rs2.9bn (EPS: Rs2.57) as compared to profit after tax of Rs2.1bn (EPS: Rs1.85) in same period last year, up by 38.7% YoY.

The company has posted the net interest income of Rs11.3bn against Rs9.8bn in SPLY, recording a growth of 14.3% 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 21.7% YoY to Rs2.3bn as compared to Rs1.9bn during SPLY, mainly due to the increase in fee and commission income which grew by 18.2% YoY.

Furthermore, the operating cost to income ratio has been increased to 61.3% as compared to 55% during SPLY.

Lastly, the bank has charged the provision of Rs342mn as compared to Rs725mn during SPLY.

BAHL is currently trading at CY21E PE of 5.09x. Furthermore, the script is trading at a CY21E P/B of 0.82x which offers a discount of 41% relative to its historical 5-year average of 1.40x. We maintain our **BUY** stance on the script with a Justified P/B based Jun-21 TP of Rs.75 which provides an upside potential of 29%. Furthermore, it also offers an attractive dividend yield of 7% which makes the total return of 36%.

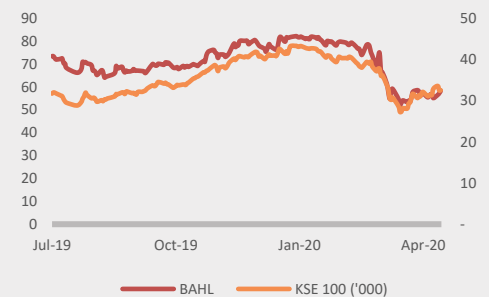
Rupees' millions	1QCY20	1QCY19	YoY	CY19	CY18	YoY
Interest earned	32,374	21,511	50.5% ▲	105,602	60,733	73.9% ▲
Interest expensed	-21,117	-11,663	81.1% ▲	-64,416	-29,839	115.9% ▲
<b>Net Interest Income</b>	<b>11,257</b>	<b>9,848</b>	<b>14.3% ▲</b>	<b>41,186</b>	<b>30,894</b>	<b>33.3% ▲</b>
Fee and commission income	1,635	1,382	18.2% ▲	6,093	4,115	48.1% ▲
Dividend income	77	86	11.1% ▼	451	445	1.5% ▲
Foreign exchange income	374	265	41.4% ▲	2,305	1,632	41.3% ▲
(Loss) / gain on securities	0	12	99.9% ▼	-32	-15	118.2% ▲
Other income	204	136	49.5% ▲	664	940	29.4% ▼
<b>Non-Interest Income</b>	<b>2,290</b>	<b>1,881</b>	<b>21.7% ▲</b>	<b>9,481</b>	<b>7,117</b>	<b>33.2% ▲</b>
Operating expenses	-8,304	-6,447	28.8% ▲	-27,719	-23,202	19.5% ▲
Workers' Welfare Fund	-109	-104	5.3% ▲	-448	-295	52.2% ▲
Other charges	0	-10	97.6% ▼	-93	-4	2551.2% ▲
Profit Before Provisions	5,132	5,168	0.7% ▼	22,406	14,511	54.4% ▲
Provisions	-342	-725	52.8% ▼	-3,395	-247	1273.5% ▲
Profit Before Taxation	4,790	4,443	7.8% ▲	19,011	14,264	33.3% ▲
Taxation	-1,931	-2,382	18.9% ▲	-7,842	-5,846	34.1% ▲
<b>Profit After Taxation</b>	<b>2,859</b>	<b>2,061</b>	<b>38.7% ▲</b>	<b>11,169</b>	<b>8,418</b>	<b>32.7% ▲</b>
<b>Earnings Per Share</b>	<b>2.57</b>	<b>1.85</b>	<b>38.7% ▲</b>	<b>10.05</b>	<b>7.57</b>	<b>32.7% ▲</b>
<b>Dividend</b>	<b>0.00</b>	<b>0.00</b>		<b>3.50</b>	<b>2.50</b>	
<b>Bonus</b>	<b>0%</b>	<b>0%</b>		<b>0%</b>	<b>0%</b>	
Operating Cost to Income	-61.3%	-55.0%	6.3% ▲	-54.7%	-61.0%	6.3% ▼
Effective Taxation	-40.3%	-53.6%	13.3% ▼	-41.3%	-41.0%	0.3% ▲

Source: ACPL Research, Company Financials

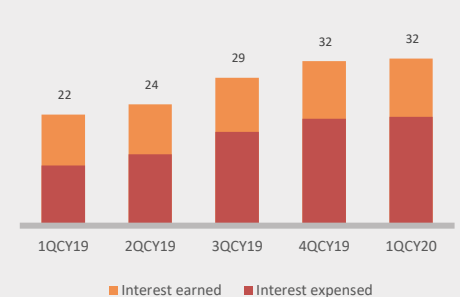
### Key Statistics

Symbol	BAHL
TP - Jun 21	75.00
LDCP	58.13
Upside (%)	29.02
Free Float ('mn)	722
Market Cap. (Rs.'mn)	64,607

### 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	101,737	103,952	105,650	105,817
Mark-up / Return / Interest expensed	-25,476	-23,133	-24,387	-29,839	-64,416	-60,241	-59,600	-57,775	-54,456
<b>Net Mark-up / Interest Income</b>	<b>24,817</b>	<b>24,672</b>	<b>25,923</b>	<b>30,894</b>	<b>41,186</b>	<b>41,496</b>	<b>44,351</b>	<b>47,875</b>	<b>51,361</b>
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	730	767	805	845
<b>Total non-markup / interest income</b>	<b>4,511</b>	<b>5,052</b>	<b>8,118</b>	<b>7,117</b>	<b>9,481</b>	<b>9,539</b>	<b>10,294</b>	<b>11,123</b>	<b>12,035</b>
<b>Non mark-up / interest expenses</b>									
Operating expenses	-14,695	-17,728	-19,779	-23,202	-27,719	-30,621	-32,787	-35,399	-38,038
Workers' Welfare Fund	0	0	-287	-295	-448	-427	-457	-493	-530
Other charges	-302	492	-36	-4	-93	-93	-93	-93	-93
<b>Profit Before Provisions</b>	<b>14,330</b>	<b>12,488</b>	<b>13,939</b>	<b>14,511</b>	<b>22,406</b>	<b>19,894</b>	<b>21,308</b>	<b>23,013</b>	<b>24,735</b>
Provisions / (reversal of provisions)	-1,999	676	-49	-247	-3,395	-1,037	-1,176	-1,333	-1,512
<b>Profit before income tax</b>	<b>12,332</b>	<b>13,164</b>	<b>13,890</b>	<b>14,264</b>	<b>19,011</b>	<b>18,858</b>	<b>20,132</b>	<b>21,679</b>	<b>23,223</b>
Income tax expense	-4,927	-5,045	-5,389	-5,846	-7,842	-7,543	-7,449	-7,588	-8,128
<b>Profit for the year</b>	<b>7,405</b>	<b>8,119</b>	<b>8,501</b>	<b>8,418</b>	<b>11,169</b>	<b>11,315</b>	<b>12,683</b>	<b>14,092</b>	<b>15,095</b>
<b>EPS</b>	<b>6.66</b>	<b>7.31</b>	<b>7.65</b>	<b>7.57</b>	<b>10.05</b>	<b>10.18</b>	<b>11.41</b>	<b>12.68</b>	<b>13.58</b>

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%	-3.66%	2.18%	1.63%	0.16%
Mark-up / Return / Interest expensed	2.16%	-9.20%	5.42%	22.36%	115.87%	-6.48%	-1.06%	-3.06%	-5.74%
<b>Net Mark-up / Interest Income</b>	<b>30.17%</b>	<b>-0.59%</b>	<b>5.07%</b>	<b>19.18%</b>	<b>33.32%</b>	<b>0.75%</b>	<b>6.88%</b>	<b>7.94%</b>	<b>7.28%</b>
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%	10.00%	5.00%	5.00%	5.00%
<b>Total non-markup / interest income</b>	<b>18.47%</b>	<b>12.00%</b>	<b>60.69%</b>	<b>-12.33%</b>	<b>33.21%</b>	<b>0.62%</b>	<b>7.91%</b>	<b>8.06%</b>	<b>8.20%</b>
<b>Non mark-up / interest expenses</b>									
Operating expenses	20.6%	20.6%	11.6%	17.3%	19.5%	10.5%	7.1%	8.0%	7.5%
Workers' Welfare Fund	0.0%	0.0%	0.0%	2.8%	52.2%	-4.9%	7.1%	8.0%	7.5%
Other charges	49.0%	-263.0%	-107.4%	-90.4%	2551.2%	0.0%	0.0%	0.0%	0.0%
<b>Profit Before Provisions</b>	<b>36.7%</b>	<b>-12.9%</b>	<b>11.6%</b>	<b>4.1%</b>	<b>54.4%</b>	<b>-11.2%</b>	<b>7.1%</b>	<b>8.0%</b>	<b>7.5%</b>
Provisions / (reversal of provisions)	255.5%	-133.8%	-107.2%	409.2%	1273.5%	-69.5%	13.4%	13.4%	13.4%
<b>Profit before income tax</b>	<b>24.3%</b>	<b>6.7%</b>	<b>5.5%</b>	<b>2.7%</b>	<b>33.3%</b>	<b>-0.8%</b>	<b>6.8%</b>	<b>7.7%</b>	<b>7.1%</b>
Income tax expense	38.07%	2.40%	6.83%	8.47%	34.15%	-3.82%	-1.25%	1.86%	7.12%
<b>Profit for the year</b>	<b>16.63%</b>	<b>9.65%</b>	<b>4.70%</b>	<b>-0.98%</b>	<b>32.68%</b>	<b>1.31%</b>	<b>12.10%</b>	<b>11.10%</b>	<b>7.12%</b>
<b>EPS</b>	<b>16.63%</b>	<b>9.65%</b>	<b>4.70%</b>	<b>-0.98%</b>	<b>32.68%</b>	<b>1.31%</b>	<b>12.10%</b>	<b>11.10%</b>	<b>7.12%</b>

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	7.52	6.79	6.09	5.39
Interest Cost	%	4.31	3.32	2.85	3.14	5.52	4.56	3.98	3.41	2.83
Net Interest Margin	%	4.07	3.41	2.91	3.11	3.33	2.97	2.81	2.68	2.55
Operating Cost to Income	%	51.14	57.99	59.05	61.82	55.78	61.02	61.01	60.99	60.98
Return on Equity	%	19.56	19.10	18.53	16.99	18.16	16.25	16.11	15.86	15.13
Return on Assets	%	1.16	1.08	0.90	0.80	0.86	0.77	0.76	0.75	0.71
<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	%	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	54.12	54.16	54.19	54.22
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	1.46	1.46	1.46	1.46
Provisioning Coverage	%	94.26	85.42	83.19	83.12	85.44	85.44	85.44	85.44	85.44
Net Infection Ratio	%	0.16	0.32	0.26	0.18	0.22	0.22	0.22	0.22	0.22
Capital Adequacy Ratio	%	13.75	14.18	13.81	13.43	14.35	14.36	14.35	14.32	14.22
Leverage Ratio	%	0.00	3.60	4.26	4.07	3.98	4.03	4.06	4.08	4.07
<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	%	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
<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		3.50	3.50	3.00	2.50	3.50	3.55	3.97	4.42	4.73
Dividend Yield	%	6.02	6.02	5.16	4.30	6.02	6.10	6.84	7.60	8.14
Dividend Cover	x	1.90	2.09	2.55	3.03	2.87	2.87	2.87	2.87	2.87
Retention Ratio	%	47.47	52.09	60.78	66.99	65.17	65.17	65.17	65.17	65.17
Payout Ratio	%	52.53	47.91	39.22	33.01	34.83	34.83	34.83	34.83	34.83
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	10.18	11.41	12.68	13.58
Book Value Per Share		34.06	38.25	41.28	44.58	55.34	62.64	70.83	79.96	89.78
Price to Earnings	x	8.72	7.96	7.60	7.68	5.78	5.71	5.09	4.58	4.28
Price to Book Value	x	1.71	1.52	1.41	1.30	1.05	0.93	0.82	0.73	0.65

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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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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