

BAHL

9MCY20 Result Review: BUY Stance Maintained

Equity Research | Commercial Banks | Wednesday, 21 October, 2020



BAHL has announced its 3QCY20 result where it posted profit after tax of Rs13.1bn (EPS: Rs11.82) in 9MCY20 as compared to profit after tax of Rs7bn (EPS: Rs6.3) in same period last year, up by 87.5% YoY.

The company has posted the net interest income of Rs44.1bn against Rs30 bn in SPLY, recording a growth of 46.9% 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 increased by 10.5% YoY to Rs7.1bn as compared to Rs6.4bn during SPLY, mainly due to the increase in fee and commission income which has grown by 12.6% YoY.

Furthermore, the management has been able to restrict its operating cost to income ratio at 49% as compared to 55.8% during SPLY.

Lastly, the bank has charged the provision of Rs3.4bn as compared to Rs2.8bn during SPLY.

BAHL is currently trading at CY21E PE of 3.37x. Furthermore, the scrip is trading at a CY21E P/B of 0.76x which offers a discount of 50% relative to its historical 5-year average of 1.51x. We recommend our investors to **BUY** the scrip with a Residual Income based Jun-21 TP of Rs.90 which provides an upside potential of 44%. Furthermore, it also offers an attractive dividend yield of 8% which makes the total return of 52%.

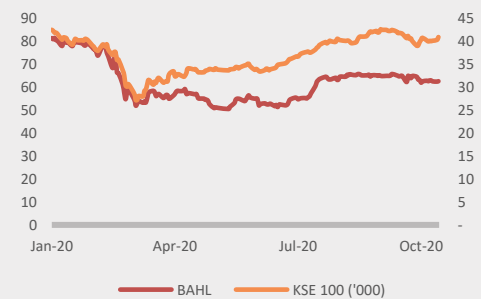
Rupees' millions	3QCY20	3QCY19	YoY	9MCY20	9MCY19	YoY
Interest earned	33,158	28,685	15.6% ▲	98,532	73,733	33.6% ▲
Interest expensed	-16,146	-18,194	11.3% ▼	-54,450	-43,718	24.5% ▲
Net Interest Income	17,011	10,491	62.2% ▲	44,081	30,015	46.9% ▲
Fee and commission income	1,713	1,343	27.6% ▲	4,738	4,206	12.6% ▲
Dividend income	193	165	17.5% ▲	389	349	11.4% ▲
Foreign exchange income	588	394	49.2% ▲	1,399	1,473	5.0% ▼
(Loss) / gain on securities	14	1	1784.0% ▲	14	-65	121.9% ▼
Other income	273	152	79.8% ▲	540	443	21.9% ▲
Non-Interest Income	2,782	2,054	35.4% ▲	7,080	6,406	10.5% ▲
Operating expenses	-8,266	-7,415	11.5% ▲	-25,064	-20,339	23.2% ▲
Workers' Welfare Fund	-227	-104	118.2% ▲	-516	-321	60.9% ▲
Other charges	-53	-52	2.8% ▲	-54	-86	37.6% ▼
Profit Before Provisions	11,247	4,975	126.1% ▲	25,527	15,674	62.9% ▲
Provisions	-1,259	-645	95.3% ▲	-3,437	-2,799	22.8% ▲
Profit Before Taxation	9,988	4,330	130.7% ▲	22,089	12,875	71.6% ▲
Taxation	-4,078	-1,785	128.4% ▼	-8,955	-5,870	52.6% ▲
Profit After Taxation	5,910	2,545	132.3% ▲	13,135	7,006	87.5% ▲
Earnings Per Share	5.32	2.29	132.3% ▲	11.82	6.30	87.5% ▲
Dividend	0.00	0.00		0.00	0.00	
Bonus	0%	0%		0%	0%	
Operating Cost to Income	-41.8%	-59.1%	17.3% ▼	-49.0%	-55.8%	6.9% ▼
Effective Taxation	-40.8%	-41.2%	0.4% ▼	-40.5%	-45.6%	5.1% ▼

Source: ACPL Research, Company Financials

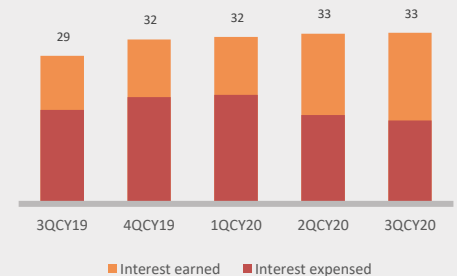
Key Statistics

Symbol	BAHL
TP - Jun 21	90.00
LDCP	62.66
Upside (%)	44
Free Float ('mn)	722
Market Cap. (Rs.'mn)	69,642

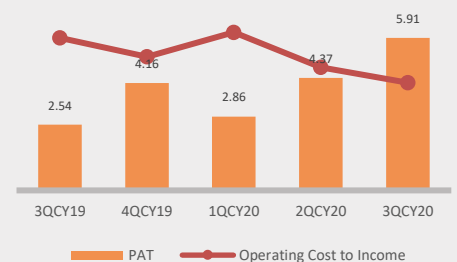
BAHL vs KSE 100



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	122,704	127,360	130,794	134,128
Mark-up / Return / Interest expensed	-25,476	-23,133	-24,387	-29,839	-64,416	-62,905	-68,901	-67,949	-65,651
Net Mark-up / Interest Income	24,817	24,672	25,923	30,894	41,186	59,798	58,459	62,845	68,476
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	539	591	650	716
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	9,552	10,309	11,142	12,058
Non mark-up / interest expenses									
Operating expenses	-14,695	-17,728	-19,779	-23,202	-27,719	-33,982	-33,696	-36,254	-39,462
Workers' Welfare Fund	0	0	-287	-295	-448	-704	-698	-751	-817
Other charges	-302	492	-36	-4	-93	-93	-93	-93	-93
Profit Before Provisions	14,330	12,488	13,939	14,511	22,406	34,572	34,281	36,889	40,162
Provisions / (reversal of provisions)	-1,999	676	-49	-247	-3,395	-3,895	-1,511	-1,708	-1,930
Profit before income tax	12,332	13,164	13,890	14,264	19,011	30,677	32,769	35,181	38,232
Income tax expense	-4,927	-5,045	-5,389	-5,846	-7,842	-12,271	-12,125	-12,313	-13,381
Profit for the year	7,405	8,119	8,501	8,418	11,169	18,406	20,644	22,868	24,851
EPS	6.66	7.31	7.65	7.57	10.05	16.56	18.57	20.58	22.36

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%	16.19%	3.79%	2.70%	2.55%
Mark-up / Return / Interest expensed	2.16%	-9.20%	5.42%	22.36%	115.87%	-2.34%	9.53%	-1.38%	-3.38%
Net Mark-up / Interest Income	30.17%	-0.59%	5.07%	19.18%	33.32%	45.19%	-2.24%	7.50%	8.96%
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%	19.48%	9.65%	9.94%	10.22%
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%	-100.22%	12.12%	12.21%	12.30%
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%	0.75%	7.93%	8.08%	8.22%
Non mark-up / interest expenses									
Operating expenses	20.6%	20.6%	11.6%	17.3%	19.5%	22.6%	-0.8%	7.6%	8.8%
Workers' Welfare Fund	0.0%	0.0%	0.0%	2.8%	52.2%	57.0%	-0.8%	7.6%	8.8%
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%	54.3%	-0.8%	7.6%	8.9%
Provisions / (reversal of provisions)	255.5%	-133.8%	-107.2%	409.2%	1273.5%	14.7%	-61.2%	13.0%	13.0%
Profit before income tax	24.3%	6.7%	5.5%	2.7%	33.3%	61.4%	6.8%	7.4%	8.7%
Income tax expense	38.07%	2.40%	6.83%	8.47%	34.15%	56.47%	-1.19%	1.56%	8.67%
Profit for the year	16.63%	9.65%	4.70%	-0.98%	32.68%	64.80%	12.16%	10.77%	8.67%
EPS	16.63%	9.65%	4.70%	-0.98%	32.68%	64.80%	12.16%	10.77%	8.67%

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	8.92	8.17	7.41	6.72
Interest Cost	%	4.31	3.32	2.85	3.14	5.52	4.69	4.55	3.98	3.41
Net Interest Margin	%	4.07	3.41	2.91	3.11	3.33	4.22	3.61	3.43	3.31
Operating Cost to Income	%	51.14	57.99	59.05	61.82	55.78	50.15	50.15	50.14	50.13
Return on Equity	%	19.56	19.10	18.53	16.99	18.16	24.26	22.49	20.99	19.55
Return on Assets	%	1.16	1.08	0.90	0.80	0.86	1.23	1.22	1.19	1.15
Balance Sheet Analysis		2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E
Deposits Growth	%	15.64	13.16	18.56	15.06	13.41	15.00	13.00	13.00	13.00
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	48.74	48.78	48.81	48.84
Investments to Deposits	%	69.09	69.33	68.75	52.03	64.86	67.35	65.35	63.58	62.02
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	93.00	93.00	93.00	93.00
Net Infection Ratio	%	0.16	0.32	0.26	0.18	0.22	0.14	0.14	0.14	0.14
Capital Adequacy Ratio	%	13.75	14.18	13.81	13.43	14.35	15.23	16.15	16.85	17.33
Leverage Ratio	%	0.00	3.60	4.26	4.07	3.98	4.36	4.75	5.06	5.28
Operational Analysis		2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E
Market Share - Deposits	%	5.55	5.21	5.60	5.97	6.18	6.29	6.29	6.30	6.30
Market Share - Advances	%	4.51	4.83	5.32	6.16	6.11	5.64	5.65	5.65	5.65
Market Share - Investments	%	5.23	5.52	5.56	5.50	6.66	7.05	6.84	6.66	6.50
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	%	5.59	5.59	4.79	3.99	5.59	7.18	7.98	9.58	11.17
Dividend Cover	x	1.90	2.09	2.55	3.03	2.87	3.68	3.71	3.43	3.19
Retention Ratio	%	47.47	52.09	60.78	66.99	65.17	72.83	73.08	70.84	68.69
Payout Ratio	%	52.53	47.91	39.22	33.01	34.83	27.17	26.92	29.16	31.31
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	16.56	18.57	20.58	22.36
Book Value Per Share		34.06	38.25	41.28	44.58	55.34	68.27	82.61	98.04	114.38
Price to Earnings	x	9.40	8.58	8.19	8.27	6.24	3.78	3.37	3.05	2.80
Price to Book Value	x	1.84	1.64	1.52	1.41	1.13	0.92	0.76	0.64	0.55

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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