

BAHL

CY19 Result Review: BUY Stance Maintained

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BAHL has announced its CY19 result where it posted profit after tax of Rs 11.2bn (EPS: Rs 10.05) in CY19 as compared to profit after tax of Rs 8.4bn (EPS: Rs 7.57) in same period last year, up by 32.7% YoY.

The company has posted the net interest income of Rs 41.2bn against Rs 30.9bn in SPLY, recording a growth of 33.3% 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 33.2% YoY to Rs 9.5bn as compared to Rs 7.1bn during SPLY, mainly due to the increase in fee and commission income which grew by 48.1% YoY in CY19.

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 54.7% as compared to 61% during SPLY.

Lastly, the bank has charged the provision of Rs 3.4bn which is significantly higher than the CY18's tally of Rs 247mn.

BAHL is currently trading at CY20E PE of 5.92x. Furthermore, the script is trading at a CY20E P/B of 1.24x which offers a significant discount of 36% relative to its historical 5-year average of 1.95x. We maintain our **BUY** stance on the script with a Justified P/B based Dec-20 TP of Rs.95 which provides an upside potential of 17%. Furthermore, it also offers an attractive dividend yield of 6% which makes the total return of 23%.

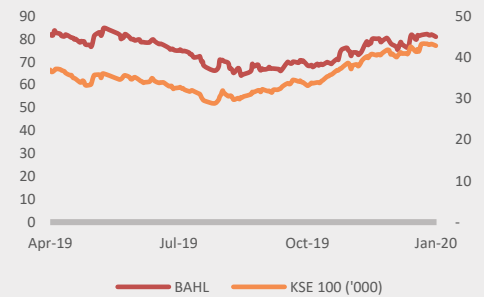
Rupees' millions	4QCY19	4QCY18	YoY	CY19	CY18	YoY
Interest earned	31,869	17,909	77.9% ▲	105,602	60,733	73.9% ▲
Interest expensed	-20,697	-9,512	117.6% ▲	-64,416	-29,839	115.9% ▲
Net Interest Income	11,172	8,397	33.0% ▲	41,186	30,894	33.3% ▲
Fee and commission income	1,887	773	144.1% ▲	6,093	4,115	48.1% ▲
Dividend income	102	111	7.9% ▼	451	445	1.5% ▲
Foreign exchange income	832	598	39.2% ▲	2,305	1,632	41.3% ▲
(Loss) / gain on securities	33	-35	193.9% ▲	-32	-15	118.2% ▲
Other income	221	641	65.6% ▼	664	940	29.4% ▼
Non-Interest Income	3,075	2,088	47.2% ▲	9,481	7,117	33.2% ▲
Operating expenses	-7,381	-5,987	23.3% ▲	-27,719	-23,202	19.5% ▲
Workers' Welfare Fund	-127	-89	42.9% ▲	-448	-295	52.2% ▲
Other charges	-7	-1	606.0% ▲	-93	-4	2551.2% ▲
Profit Before Provisions	6,732	4,408	52.7% ▲	22,406	14,511	54.4% ▲
Provisions	-596	-66	805.4% ▲	-3,395	-247	1273.5% ▲
Profit Before Taxation	6,136	4,342	41.3% ▲	19,011	14,264	33.3% ▲
Taxation	-1,972	-1,827	8.0% ▼	-7,842	-5,846	34.1% ▲
Profit After Taxation	4,163	2,515	65.5% ▲	11,169	8,418	32.7% ▲
Earnings Per Share	3.75	2.26	65.5% ▲	10.05	7.57	32.7% ▲
Dividend	3.50	2.50		3.50	2.50	
Bonus	0%	0%		0%	0%	
Operating Cost to Income	-51.8%	-57.1%	5.3% ▼	-54.7%	-61.0%	6.3% ▼
Effective Taxation	-32.1%	-42.1%	9.9% ▼	-41.3%	-41.0%	0.3% ▲

Source: ACPL Research, Company Financials

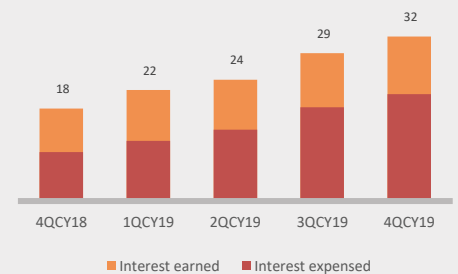
Key Statistics

Symbol	BAHL
TP - Dec 20	95.00
LDCP	80.98
Upside (%)	17.31
Free Float ('mn)	722
Market Cap. (Rs.'mn)	90,003

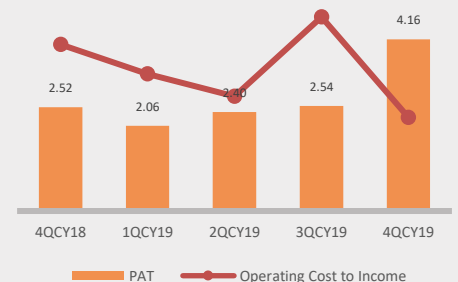
BAHL vs KSE 100



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	2019E	2020E	2021E	2022E	2023E
Mark-up / Return / Interest earned	50,293	47,804	50,309	60,733	105,602	129,433	137,636	144,977	151,275
Mark-up / Return / Interest expensed	-25,476	-23,133	-24,387	-29,839	-64,416	-84,398	-88,673	-92,416	-95,367
Net Mark-up / Interest Income	24,817	24,672	25,923	30,894	41,186	45,034	48,963	52,561	55,908
Fee and commission income	2,287	2,521	3,153	4,115	6,093	7,555	8,311	9,142	10,056
Dividend income	602	592	448	445	451	503	564	633	713
Foreign exchange income	707	491	914	1,632	2,305	2,305	2,305	2,305	2,305
Gain on securities	217	719	2,739	-15	-32	-37	-42	-48	-55
Other income	697	729	864	940	664	730	767	805	845
Total non-markup / interest income	4,511	5,052	8,118	7,117	9,481	11,058	11,905	12,838	13,865
Non mark-up / interest expenses									
Operating expenses	-14,695	-17,728	-19,779	-23,202	-27,719	-29,448	-31,956	-34,334	-36,631
Workers' Welfare Fund	0	0	-287	-295	-448	-521	-565	-607	-648
Other charges	-302	492	-36	-4	-93	-93	-93	-93	-93
Profit Before Provisions	14,330	12,488	13,939	14,511	22,406	26,030	28,254	30,364	32,401
Provisions / (reversal of provisions)	-1,999	676	-49	-247	-3,395	-1,122	-1,291	-1,486	-1,710
Profit before income tax	12,332	13,164	13,890	14,264	19,011	24,907	26,963	28,878	30,692
Income tax expense	-4,927	-5,045	-5,389	-5,846	-7,842	-9,714	-9,976	-10,107	-10,742
Profit for the year	7,405	8,119	8,501	8,418	11,169	15,194	16,986	18,771	19,949
EPS	6.66	7.31	7.65	7.57	10.05	13.67	15.28	16.89	17.95

Source: ACPL Research, Company Financials

Horizontal Analysis

	2015	2016	2017	2018	2019E	2020E	2021E	2022E	2023E
Mark-up / Return / Interest earned	14.30%	-4.95%	5.24%	20.72%	73.88%	22.57%	6.34%	5.33%	4.34%
Mark-up / Return / Interest expensed	2.16%	-9.20%	5.42%	22.36%	115.87%	31.02%	5.06%	4.22%	3.19%
Net Mark-up / Interest Income	30.17%	-0.59%	5.07%	19.18%	33.32%	9.34%	8.72%	7.35%	6.37%
Fee and commission income	17.23%	10.26%	25.04%	30.53%	48.06%	24.00%	10.00%	10.00%	10.00%
Dividend income	65.02%	-1.70%	-24.23%	-0.81%	1.48%	11.62%	11.97%	12.30%	12.61%
Foreign exchange income	-17.20%	-30.59%	86.13%	78.56%	41.25%	0.00%	0.00%	0.00%	0.00%
Gain on securities	73795.92%	230.88%	281.07%	-100.54%	118.25%	13.86%	14.00%	14.13%	14.25%
Other income	9.40%	4.57%	18.48%	8.82%	-29.40%	10.00%	5.00%	5.00%	5.00%
Total non-markup / interest income	18.47%	12.00%	60.69%	-12.33%	33.21%	16.63%	7.66%	7.84%	8.00%
Non mark-up / interest expenses									
Operating expenses	20.6%	20.6%	11.6%	17.3%	19.5%	6.2%	8.5%	7.4%	6.7%
Workers' Welfare Fund	0.0%	0.0%	0.0%	2.8%	52.2%	16.1%	8.5%	7.4%	6.7%
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%	16.2%	8.5%	7.5%	6.7%
Provisions / (reversal of provisions)	255.5%	-133.8%	-107.2%	409.2%	1273.5%	-66.9%	15.1%	15.1%	15.1%
Profit before income tax	24.3%	6.7%	5.5%	2.7%	33.3%	31.0%	8.3%	7.1%	6.3%
Income tax expense	38.07%	2.40%	6.83%	8.47%	34.15%	23.87%	2.70%	1.31%	6.28%
Profit for the year	16.63%	9.65%	4.70%	-0.98%	32.68%	36.04%	11.80%	10.50%	6.28%
EPS	16.63%	9.65%	4.70%	-0.98%	32.68%	36.04%	11.80%	10.50%	6.28%

Source: ACPL Research, Company Financials

Key Ratios

Profitability Ratios		2015	2016	2017	2018	2019E	2020E	2021E	2022E	2023E
Yield on Earning Assets	%	8.39	6.74	5.76	6.25	10.46	10.09	9.33	8.54	7.76
Interest Cost	%	4.31	3.32	2.85	3.14	6.88	6.73	6.15	5.58	5.01
Net Interest Margin	%	4.07	3.41	2.91	3.11	3.58	3.36	3.18	2.97	2.75
Operating Cost to Income	%	51.14	57.99	59.05	61.82	55.78	53.59	53.58	53.57	53.56
Return on Equity	%	19.56	19.10	18.53	16.99	18.13	20.92	19.99	19.02	17.59
Return on Assets	%	1.16	1.08	0.90	0.80	0.92	1.09	1.06	1.02	0.95
Balance Sheet Analysis										
Deposits Growth	%	15.64	13.16	18.56	15.06	15.06	15.06	15.06	15.06	15.06
CASA to Deposits	%	74.28	77.59	75.55	74.99	74.99	74.99	74.99	74.99	74.99
Advances to Deposits	%	40.16	44.75	49.07	60.01	60.59	60.54	60.50	60.46	60.43
Investments to Deposits	%	69.09	69.33	68.75	52.03	50.88	49.36	48.03	46.88	45.88
PIBs to Investments	%	54.96	35.81	24.56	19.90	19.90	19.90	19.90	19.90	19.90
T Bills to Investments	%	39.20	58.08	70.20	72.55	72.55	72.55	72.55	72.55	72.55
Gross Infection Ratio	%	2.72	2.12	1.52	1.08	1.50	1.50	1.50	1.50	1.50
Provisioning Coverage	%	94.26	85.42	83.19	83.12	83.12	83.12	83.12	83.12	83.12
Net Infection Ratio	%	0.16	0.32	0.26	0.18	0.25	0.25	0.26	0.26	0.26
Capital Adequacy Ratio	%	13.75	14.18	13.81	13.43	13.47	13.78	14.02	14.15	14.16
Leverage Ratio	%	0.00	3.60	4.26	4.07	4.10	4.26	4.38	4.46	4.49
Operational Analysis										
Market Share - Deposits	%	5.55	5.21	5.60	5.97	6.24	6.53	6.83	7.14	7.47
Market Share - Advances	%	4.51	4.83	5.32	6.16	6.44	6.74	7.05	7.38	7.72
Market Share - Investments	%	5.23	5.52	5.56	5.50	5.56	5.64	5.75	5.87	6.00
No. of Branches		528	605	650	721	793	872	960	1056	1161
Investment Ratios										
Dividend Per Share		3.50	3.50	3.00	2.50	3.50	4.76	5.32	5.88	6.25
Dividend Yield	%	4.32	4.32	3.70	3.09	4.32	5.88	6.57	7.26	7.72
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	13.67	15.28	16.89	17.95
Book Value Per Share		34.06	38.25	41.28	44.58	55.43	65.34	76.46	88.79	102.02
Price to Earnings	x	12.15	11.09	10.59	10.69	8.06	5.92	5.30	4.79	4.51
Price to Book Value	x	2.38	2.12	1.96	1.82	1.46	1.24	1.06	0.91	0.79

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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