

BAHL

CY20 Result Review: BUY Stance Maintained

Equity Research | Commercial Banks | Wednesday, 27 January, 2021



BAHL has announced its annual result where it posted profit after tax of Rs17.8bn (EPS: Rs16.03) in CY20 as compared to profit after tax of Rs11.2bn (EPS: Rs10.05) in same period last year, up by 59.5% YoY.

The company has posted the net interest income of Rs57.6bn against Rs41.2bn in SPLY, recording a growth of 39.9% YoY. We note that this growth is attributed to the growth in bank's deposits and expanded NIM on account of high CASA.

Non-interest income has increased by 8.4% YoY to Rs10.3bn as compared to Rs9.5bn during SPLY, mainly due to the increase in fee and commission income which has grown by 9.6% YoY.

Furthermore, the management has been able to restrict its operating cost to income ratio at 50.1% as compared to 54.7% during SPLY.

Lastly, the bank has charged the provision of Rs4.5bn as compared to Rs3.4bn during SPLY.

BAHL is currently trading at CY21E PE of 4.47x. Furthermore, the scrip is trading at a CY21E P/B of 0.97x which offers a discount of 42% relative to its historical 5-year average of 1.67x. We recommend our investors to **BUY** the scrip with a Residual Income based Dec-21 TP of Rs.100 which provides an upside potential of 26%. Furthermore, it also offers an attractive dividend yield of 6% which makes the total return of 32%.

Rupees' millions	4QCY20	4QCY19	YoY	CY20	CY19	YoY
Interest earned	26,741	31,869	16.1% ▼	125,273	105,602	18.6% ▲
Interest expensed	-13,202	-20,697	36.2% ▼	-67,653	-64,416	5.0% ▲
Net Interest Income	13,539	11,172	21.2% ▲	57,620	41,186	39.9% ▲
Fee and commission income	1,940	1,887	2.8% ▲	6,678	6,093	9.6% ▲
Dividend income	97	102	4.8% ▼	486	451	7.7% ▲
Foreign exchange income	744	832	10.6% ▼	2,143	2,305	7.0% ▼
(Loss) / gain on securities	171	33	426.3% ▲	186	-32	18662.2% ▲
Other income	240	221	8.8% ▲	780	664	17.5% ▲
Non-Interest Income	3,193	3,075	3.8% ▲	10,273	9,481	8.4% ▲
Operating expenses	-8,976	-7,381	21.6% ▲	-34,040	-27,719	22.8% ▲
Workers' Welfare Fund	-155	-127	21.9% ▲	-672	-448	49.8% ▲
Other charges	-3	-7	59.8% ▼	-57	-93	39.2% ▼
Profit Before Provisions	7,598	6,732	12.9% ▲	33,124	22,406	47.8% ▲
Provisions	-1,106	-596	85.6% ▲	-4,543	-3,395	33.8% ▲
Profit Before Taxation	6,492	6,136	5.8% ▲	28,581	19,011	50.3% ▲
Taxation	-1,815	-1,972	8.0% ▲	-10,770	-7,842	37.3% ▲
Profit After Taxation	4,677	4,163	12.3% ▲	17,812	11,169	59.5% ▲
Earnings Per Share	4.21	3.75	12.3% ▲	16.03	10.05	59.5% ▲
Dividend	4.50	3.50		4.50	3.50	
Bonus	0%	0%		0%	0%	

Closing Period: 15 Mar 2021 - 21 Mar 2021

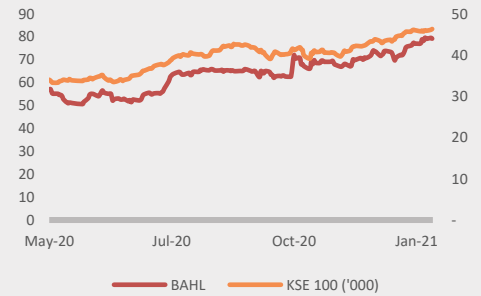
Operating Cost to Income	-53.6%	-51.8%	1.8% ▲	-50.1%	-54.7%	4.6% ▼
Effective Taxation	-28.0%	-32.1%	4.2% ▼	-37.7%	-41.3%	3.6% ▼

Source: ACPL Research, Company Financials

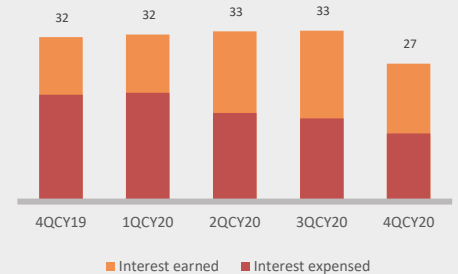
Key Statistics

Symbol	BAHL
TP - Dec 21	100
LDCP	79
Upside (%)	26
Free Float ('mn)	722
Market Cap. (Rs.'mn)	87,914

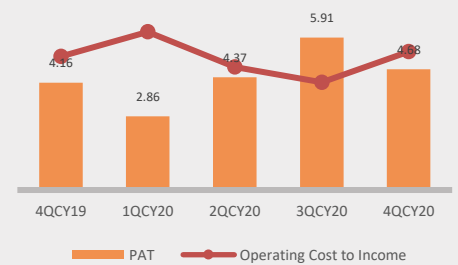
BAHL vs KSE 100



Interest Earned vs Expensed (Rs'bn)



PAT (Rs'bn) vs Operating Cost To Income



Sources: ACPL Research, Company Financials

M. Fawad Naveed

Phone: (+92) 42 38302028; Ext: 117
Email: fawad@abbasiandcompany.com

Financial Projections

Rupees' millions	2015	2016	2017	2018	2019	2020	2021E	2022E	2023E
Mark-up / Return / Interest earned	50,293	47,804	50,309	60,733	105,602	125,273	131,839	138,576	143,638
Mark-up / Return / Interest expensed	-25,476	-23,133	-24,387	-29,839	-64,416	-67,653	-75,157	-75,355	-74,003
Net Mark-up / Interest Income	24,817	24,672	25,923	30,894	41,186	57,620	56,682	63,221	69,635
Fee and commission income	2,287	2,521	3,153	4,115	6,093	6,678	7,346	8,081	8,889
Dividend income	602	592	448	445	451	486	541	605	678
Foreign exchange income	707	491	914	1,632	2,305	2,143	2,143	2,143	2,143
Gain on securities	217	719	2,739	-15	-32	186	212	242	276
Other income	697	729	864	940	664	780	819	860	903
Total non-markup / interest income	4,511	5,052	8,118	7,117	9,481	10,273	11,061	11,930	12,889
Non mark-up / interest expenses									
Operating expenses	-14,695	-17,728	-19,779	-23,202	-27,719	-34,040	-33,965	-37,679	-41,376
Workers' Welfare Fund	0	0	-287	-295	-448	-672	-670	-744	-816
Other charges	-302	492	-36	-4	-93	-57	-57	-57	-57
Profit Before Provisions	14,330	12,488	13,939	14,511	22,406	33,124	33,051	36,672	40,275
Provisions / (reversal of provisions)	-1,999	676	-49	-247	-3,395	-4,543	-1,849	-2,126	-2,445
Profit before income tax	12,332	13,164	13,890	14,264	19,011	28,581	31,202	34,545	37,830
Income tax expense	-4,927	-5,045	-5,389	-5,846	-7,842	-10,770	-11,545	-12,091	-13,240
Profit for the year	7,405	8,119	8,501	8,418	11,169	17,812	19,657	22,455	24,589
EPS	6.66	7.31	7.65	7.57	10.05	16.03	17.69	20.20	22.12

Source: ACPL Research, Company Financials

Horizontal Analysis

	2015	2016	2017	2018	2019	2020	2021E	2022E	2023E
Mark-up / Return / Interest earned	14.30%	-4.95%	5.24%	20.72%	73.88%	18.63%	5.24%	5.11%	3.65%
Mark-up / Return / Interest expensed	2.16%	-9.20%	5.42%	22.36%	115.87%	5.03%	11.09%	0.26%	-1.79%
Net Mark-up / Interest Income	30.17%	-0.59%	5.07%	19.18%	33.32%	39.90%	-1.63%	11.54%	10.15%
Fee and commission income	17.23%	10.26%	25.04%	30.53%	48.06%	9.60%	10.00%	10.00%	10.00%
Dividend income	65.02%	-1.70%	-24.23%	-0.81%	1.48%	7.74%	11.37%	11.74%	12.08%
Foreign exchange income	-17.20%	-30.59%	86.13%	78.56%	41.25%	-7.05%	0.00%	0.00%	0.00%
Gain on securities	73795.92%	230.88%	281.07%	-100.54%	118.25%	-671.69%	14.04%	14.16%	14.27%
Other income	9.40%	4.57%	18.48%	8.82%	-29.40%	17.52%	5.00%	5.00%	5.00%
Total non-markup / interest income	18.47%	12.00%	60.69%	-12.33%	33.21%	8.35%	7.67%	7.86%	8.04%
Non mark-up / interest expenses									
Operating expenses	20.6%	20.6%	11.6%	17.3%	19.5%	22.8%	-0.2%	10.9%	9.8%
Workers' Welfare Fund	0.0%	0.0%	0.0%	2.8%	52.2%	49.8%	-0.2%	10.9%	9.8%
Other charges	49.0%	-263.0%	-107.4%	-90.4%	2551.2%	-39.2%	0.0%	0.0%	0.0%
Profit Before Provisions	36.7%	-12.9%	11.6%	4.1%	54.4%	47.8%	-0.2%	11.0%	9.8%
Provisions / (reversal of provisions)	255.5%	-133.8%	-107.2%	409.2%	1273.5%	33.8%	-59.3%	15.0%	15.0%
Profit before income tax	24.3%	6.7%	5.5%	2.7%	33.3%	50.3%	9.2%	10.7%	9.5%
Income tax expense	38.07%	2.40%	6.83%	8.47%	34.15%	37.33%	7.20%	4.73%	9.51%
Profit for the year	16.63%	9.65%	4.70%	-0.98%	32.68%	59.48%	10.36%	14.23%	9.51%
EPS	16.63%	9.65%	4.70%	-0.98%	32.68%	59.48%	10.36%	14.23%	9.51%

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	8.71	7.64	6.98	6.29
Interest Cost	%	4.31	3.32	2.85	3.14	5.52	4.91	4.47	3.90	3.34
Net Interest Margin	%	4.07	3.41	2.91	3.11	3.33	3.80	3.17	3.07	2.95
Operating Cost to Income	%	51.14	57.99	59.05	61.82	55.78	51.21	51.21	51.20	51.20
Return on Equity	%	19.56	19.10	18.53	16.99	18.16	23.52	21.63	20.82	19.51
Return on Assets	%	1.16	1.08	0.90	0.80	0.86	1.10	1.05	1.05	1.00
Balance Sheet Analysis		2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E
Deposits Growth	%	15.64	13.16	18.56	15.06	13.41	25.00	15.00	15.00	15.00
CASA to Deposits	%	74.28	77.59	75.55	74.99	74.55	76.73	76.73	76.73	76.73
Advances to Deposits	%	40.16	44.75	49.07	60.01	54.07	48.80	48.84	48.87	48.90
Investments to Deposits	%	69.09	69.33	68.75	52.03	64.86	65.96	63.88	62.07	60.49
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	1.90	1.90	1.90	1.90
Provisioning Coverage	%	94.26	85.42	83.19	83.12	85.44	95.00	95.00	95.00	95.00
Net Infection Ratio	%	0.16	0.32	0.26	0.18	0.22	0.10	0.10	0.10	0.10
Capital Adequacy Ratio	%	13.75	14.18	13.81	13.43	14.35	14.19	14.73	15.14	15.36
Leverage Ratio	%	0.00	3.60	4.26	4.07	3.98	4.00	4.25	4.44	4.56
Operational Analysis		2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E
Market Share - Deposits	%	5.55	5.21	5.60	5.97	6.18	6.84	6.96	7.09	7.22
Market Share - Advances	%	4.51	4.83	5.32	6.16	6.11	6.13	6.24	6.36	6.48
Market Share - Investments	%	5.23	5.52	5.56	5.50	6.66	7.50	7.40	7.32	7.26
No. of Branches		528	605	650	721	759	799	841	885	932
Investment Ratios		2015	2016	2017	2018	2019	2020	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	%	4.42	4.42	3.79	3.16	4.42	5.69	6.32	7.59	8.85
Dividend Cover	x	1.90	2.09	2.55	3.03	2.87	3.56	3.54	3.37	3.16
Retention Ratio	%	47.47	52.09	60.78	66.99	65.17	71.92	71.73	70.30	68.36
Payout Ratio	%	52.53	47.91	39.22	33.01	34.83	28.08	28.27	29.70	31.64
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	16.03	17.69	20.20	22.12
Book Value Per Share		34.06	38.25	41.28	44.58	55.34	68.14	81.77	97.05	113.41
Price to Earnings	x	11.87	10.83	10.34	10.44	7.87	4.94	4.47	3.92	3.58
Price to Book Value	x	2.32	2.07	1.92	1.77	1.43	1.16	0.97	0.82	0.70

Source: ACPL Research, Company Financials

DISCLAIMER

This report has been prepared by Abbasi & Company (Private) Limited and is provided for information purposes only. Under no circumstances, this is to be used or considered as an offer to sell or solicitation of any offer to buy. While reasonable care has been taken to ensure that the information contained therein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. From time to time, Abbasi & Company (Private) Limited and or any of its officers or directors may, as permitted by applicable laws, have a position, or otherwise be interested in any transaction, in any securities directly or indirectly subject of this report. This report is provided only for the information of professional advisers who are expected to make their own investment decisions without undue reliance on this report. Investments in capital markets are subject to market risk and Abbasi & Company (Private) Limited accepts no responsibility whatsoever for any direct or indirect consequential loss arising from any use of this report or its contents. In particular, the report takes no account of the investment objectives, financial situation and needs of investors, who should seek further professional advice or rely upon their own judgment and acumen before making any investment. The views expressed in this report are those of Abbasi & Company (Private) Limited Research Department and do not necessarily reflect those of the company or its directors. Abbasi & Company (Private) Limited as a firm may have business relationships, including investment-banking relationships, with the companies referred to in this report. Abbasi & Company (Private) Limited does not act as a market maker in the securities of the subject company. Abbasi & Company (Private) Limited or any officers, directors, associates or close relatives do not have a financial interest in the securities of the subject company to an amount exceeding 1% of the value of the securities of the subject company at the time of issuance of this report. Abbasi & Company (Private) Limited or any officers, directors, associates or close relatives are not currently serving or have served in the past three years as a director or officer of the subject company. Abbasi & Company (Private) Limited or any officers, directors, associates or close relatives have not received compensation from the subject company in the previous 12 months. The subject company currently is not, or during the 12-month period preceding the date of publication or distribution of this report, was not, a client of Abbasi & Company (Private) Limited. We have not managed or co-managed a public offering or any take-over, buyback or delisting offer of securities for the subject company in the past 12 months and/or received compensation for corporate advisory services, brokerage services or underwriting services from the subject company in the past 12 months. Abbasi & Company (Private) Limited does not expect to receive or intend to seek compensation for corporate advisory services or underwriting services from the subject company in the next 3 months

All rights reserved by Abbasi & Company (Private) Limited. This report or any portion hereof may not be reproduced, distributed or published by any person for any purpose whatsoever. Nor can it be sent to a third party without prior consent of Abbasi & Company (Private) Limited. Action could be taken for unauthorized reproduction, distribution or publication

VALIDITY OF THE PUBLICATION OR REPORT

The information in this publication or report is, regardless of source, given in good faith, and may only be valid as of the stated date of this publication or report. The information may be subject to change without notice, its accuracy is not guaranteed, it may be incomplete or condensed and it may not contain all material information concerning the company, jurisdiction or financial instruments referred to in this report. The valuations, opinions, estimates, forecasts, ratings or risk assessments herein constitutes a judgment as of the date of this report and were based upon several estimates and assumptions and are inherently subject to significant uncertainties and contingencies. It can be expected that one or more of the estimates on which the valuations, opinions, estimates, forecasts, ratings or risk assessments were based will not materialize or will vary significantly from actual results. Therefore, the inclusion of the valuations, opinions, estimates, forecasts, ratings or risk assessments described herein is not to be relied upon as a representation and/or warranty by Abbasi & Company (Private) Limited and/or its other associated and affiliated companies, that:

- I. Such valuations, opinions, estimates, forecasts, ratings or risk assessments or their underlying assumptions will be achieved, and
- II. There is any assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments stated therein

DEFINITION OF TERMS

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

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

RATINGS CRITERIA

Abbasi & Company (Private) Limited employs a three-tier ratings system to rate a stock and sector, as mentioned below, which is based upon the level of expected return for a specific stock and outlook of sector. The rating is based on the following with stated time horizon

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
Underweight	Negative

Ratings are updated to account for any development impacting the economy/sector/company, changes in analysts' assumptions or a combination of these factors.

RESEARCH DISSEMINATION POLICY

Abbasi & Company (Private) Limited endeavors to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as email, fax mail etc. Nevertheless, all clients may not receive the material at the same time

OTHER DISCLOSURES

The research analyst is primarily involved in the preparation of this report, certifies that:

- I. The views expressed in this report accurately reflect his/her personal views about the subject company/stock /sector and economy
- II. No part of his/her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report

The Research Analyst is not and was not involved in issuing of a research report on any of the subject company's associated companies

RESEARCH DEPARTMENT

6 - Shadman, Lahore

Phone: (+92) 42 38302028; Ext 116, 117

Email: research@abbasiandcompany.com

web: www.abbasiandcompany.com

HEAD OFFICE

6 - Shadman, Lahore

Phone: (+92) 42 38302028

Email: info@abbasiandcompany.com

web: www.abbasiandcompany.com

BRANCH OFFICE

42 - Mall Road, Lahore

Phone: (+92) 42 37320707

Email: info@abbasiandcompany.com

web: www.abbasiandcompany.com