

# BAHL

## CY21 Result Review: BUY Stance Maintained

Equity Research | Commercial Banks | Wednesday, 9 February, 2022



BAHL has announced its CY21 result where it posted a profit after tax of Rs18.7bn (EPS: Rs16.83) as compared to profit after tax of Rs17.8bn (EPS: Rs16.03) in the same period last year, up by 5% YoY.

The company has posted a net interest income of Rs55.6bn against Rs57.6bn in SPLY, recording a negative growth of 3.5% YoY. We note that this decline is attributed to the increased interest cost.

Non-interest income has increased by 36.5% YoY to Rs14.03bn as compared to Rs10.27bn during SPLY, mainly due to the increase in fee and commission income which has grown by 39% YoY.

Furthermore, the operating cost to income ratio has been increased to 55.7% as compared to 50.1% during SPLY.

Lastly, the bank has booked a reversal of Rs47mn as compared to the hefty provision of Rs4.54bn during SPLY.

BAHL is currently trading at CY22E PE of 4.12x. Furthermore, the scrip is trading at a CY22E P/B of 0.74x which offers a discount of 31% relative to its historical 3-year average of 1.07x. We recommend our investors to **BUY** the scrip with a Justified PB Dec-22 TP of Rs.100 which provides an upside potential of 36%. Furthermore, it also offers an attractive dividend yield of 10% which makes the total return of 46%.

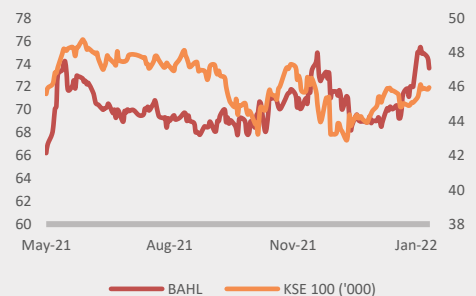
| Rupees' millions                          | 4QCY21        | 4QCY20        | YoY            | CY21          | CY20          | YoY            |
|---|---------------|---------------|----------------|---------------|---------------|----------------|
| Interest earned                           | 31,100        | 26,741        | 16.3% ▲        | 116,752       | 125,273       | 6.8% ▼         |
| Interest expensed                         | -16,913       | -13,202       | 28.1% ▲        | -61,143       | -67,653       | 9.6% ▼         |
| <b>Net Interest Income</b>                | <b>14,187</b> | <b>13,539</b> | <b>4.8% ▲</b>  | <b>55,609</b> | <b>57,620</b> | <b>3.5% ▼</b>  |
| Fee and commission income                 | 2,703         | 1,940         | 39.3% ▲        | 9,305         | 6,678         | 39.3% ▲        |
| Dividend income                           | 156           | 97            | 60.4% ▲        | 655           | 486           | 34.8% ▲        |
| Foreign exchange income                   | 1,073         | 744           | 44.2% ▲        | 2,970         | 2,143         | 38.6% ▲        |
| (Loss) / gain on securities               | -42           | 171           | -              | -41           | 186           | 4214.6% ▼      |
| Other income                              | 499           | 240           | 107.9% ▲       | 1,138         | 780           | 45.9% ▲        |
| <b>Non-Interest Income</b>                | <b>4,389</b>  | <b>3,193</b>  | <b>37.5% ▲</b> | <b>14,027</b> | <b>10,273</b> | <b>36.5% ▲</b> |
| Operating expenses                        | -10,328       | -8,976        | 15.1% ▲        | -38,754       | -34,040       | 13.8% ▲        |
| Workers' Welfare Fund                     | -163          | -155          | 5.0% ▲         | -620          | -672          | 7.7% ▼         |
| Other charges                             | -33           | -3            | 1123.6% ▲      | -36           | -57           | 36.0% ▼        |
| Profit Before Provisions                  | 8,051         | 7,598         | 6.0% ▲         | 30,226        | 33,124        | 8.8% ▼         |
| Provisions                                | -86           | -1,106        | 92.2% ▼        | 47            | -4,543        | 101.0% ▼       |
| Profit Before Taxation                    | 7,965         | 6,492         | 22.7% ▲        | 30,273        | 28,581        | 5.9% ▲         |
| Taxation                                  | -3,193        | -1,815        | 75.9% ▲        | -11,570       | -10,770       | 7.4% ▲         |
| <b>Profit After Taxation</b>              | <b>4,773</b>  | <b>4,677</b>  | <b>2.1% ▲</b>  | <b>18,702</b> | <b>17,812</b> | <b>5.0% ▲</b>  |
| <b>Earnings Per Share</b>                 | <b>4.29</b>   | <b>4.21</b>   | <b>2.1% ▲</b>  | <b>16.83</b>  | <b>16.03</b>  | <b>5.0% ▲</b>  |
| <b>Dividend</b>                           | <b>7.00</b>   | <b>4.50</b>   | <b>55.6% ▲</b> | <b>7.00</b>   | <b>4.50</b>   | <b>55.6% ▲</b> |
| <b>Bonus</b>                              | <b>0%</b>     | <b>0%</b>     |                | <b>0%</b>     | <b>0%</b>     |                |
| Closing Period: 21 Mar 2022 – 29 Mar 2022 |               |               |                |               |               |                |
| Operating Cost to Income                  | -55.6%        | -53.6%        | 2.0% ▲         | -55.7%        | -50.1%        | 5.5% ▲         |
| Effective Taxation                        | -40.1%        | -28.0%        | 12.1% ▲        | -38.2%        | -37.7%        | 0.5% ▲         |

Source: ACPL Research, Company Financials

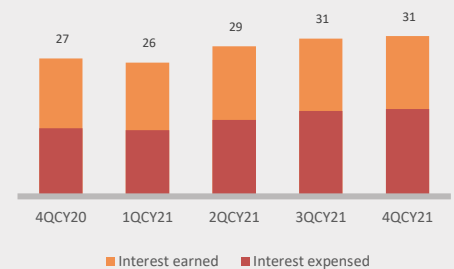
### Key Statistics

| Symbol               | BAHL   |
|----------------------|--------|
| TP - Dec 22          | 100    |
| LDCP                 | 70     |
| Upside (%)           | 36     |
| Free Float ('mn)     | 722    |
| Market Cap. (Rs.'mn) | 85,379 |

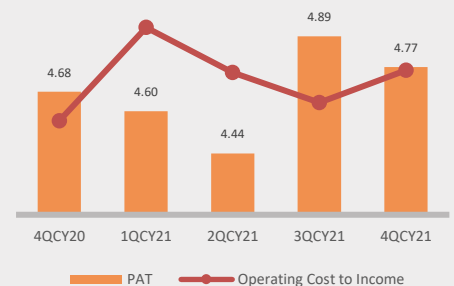
### BAHL vs KSE 100



### 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                          | 2019          | 2020          | 2021          | 2022E         | 2023E         | 2024E         | 2025E         |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Mark-up / Return / Interest earned        | 105,602       | 125,273       | 116,752       | 144,702       | 168,750       | 194,376       | 223,877       |
| Mark-up / Return / Interest expensed      | -64,416       | -67,653       | -61,143       | -87,279       | -100,107      | -114,859      | -131,823      |
| <b>Net Mark-up / Interest Income</b>      | <b>41,186</b> | <b>57,620</b> | <b>55,609</b> | <b>57,423</b> | <b>68,643</b> | <b>79,517</b> | <b>92,054</b> |
| Fee and commission income                 | 6,093         | 6,678         | 9,305         | 11,631        | 14,539        | 18,174        | 22,717        |
| Dividend income                           | 451           | 486           | 655           | 747           | 837           | 941           | 1,060         |
| Foreign exchange income                   | 2,305         | 2,143         | 2,970         | 2,970         | 2,970         | 2,970         | 2,970         |
| Gain on securities                        | -32           | 186           | -41           | 246           | 281           | 321           | 367           |
| Other income                              | 664           | 780           | 1,138         | 1,252         | 1,377         | 1,515         | 1,667         |
| <b>Total non-markup / interest income</b> | <b>9,481</b>  | <b>10,273</b> | <b>14,027</b> | <b>16,846</b> | <b>20,004</b> | <b>23,920</b> | <b>28,781</b> |
| <b>Non mark-up / interest expenses</b>    |               |               |               |               |               |               |               |
| Operating expenses                        | -27,719       | -34,040       | -38,754       | -40,662       | -48,534       | -56,632       | -66,157       |
| Workers' Welfare Fund                     | -448          | -672          | -620          | -679          | -810          | -945          | -1,104        |
| Other charges                             | -93           | -57           | -36           | -36           | -36           | -36           | -36           |
| <b>Profit Before Provisions</b>           | <b>22,406</b> | <b>33,124</b> | <b>30,226</b> | <b>32,891</b> | <b>39,266</b> | <b>45,824</b> | <b>53,537</b> |
| Provisions / (reversal of provisions)     | -3,395        | -4,543        | 47            | -1,612        | -1,854        | -2,132        | -2,452        |
| <b>Profit before income tax</b>           | <b>19,011</b> | <b>28,581</b> | <b>30,273</b> | <b>31,279</b> | <b>37,412</b> | <b>43,692</b> | <b>51,085</b> |
| Income tax expense                        | -7,842        | -10,770       | -11,570       | -10,948       | -13,094       | -15,292       | -17,880       |
| <b>Profit for the year</b>                | <b>11,169</b> | <b>17,812</b> | <b>18,702</b> | <b>20,331</b> | <b>24,318</b> | <b>28,400</b> | <b>33,205</b> |
| <b>EPS</b>                                | <b>10.05</b>  | <b>16.03</b>  | <b>16.83</b>  | <b>18.29</b>  | <b>21.88</b>  | <b>25.55</b>  | <b>29.88</b>  |

Source: ACPL Research, Company Financials

## Horizontal Analysis

|   | 2019         | 2020         | 2021         | 2022E        | 2023E        | 2024E        | 2025E        |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Mark-up / Return / Interest earned        | 73.9%        | 18.6%        | -6.8%        | 23.9%        | 16.6%        | 15.2%        | 15.2%        |
| Mark-up / Return / Interest expensed      | 115.9%       | 5.0%         | -9.6%        | 42.7%        | 14.7%        | 14.7%        | 14.8%        |
| <b>Net Mark-up / Interest Income</b>      | <b>33.3%</b> | <b>39.9%</b> | <b>-3.5%</b> | <b>3.3%</b>  | <b>19.5%</b> | <b>15.8%</b> | <b>15.8%</b> |
| <b>Total non-markup / interest income</b> | <b>33.2%</b> | <b>8.4%</b>  | <b>36.5%</b> | <b>20.1%</b> | <b>18.7%</b> | <b>19.6%</b> | <b>20.3%</b> |
| <b>Non mark-up / interest expenses</b>    |              |              |              |              |              |              |              |
| Operating expenses                        | 19.5%        | 22.8%        | 13.8%        | 4.9%         | 19.4%        | 16.7%        | 16.8%        |
| Workers' Welfare Fund                     | 52.2%        | 49.8%        | -7.7%        | 9.5%         | 19.4%        | 16.7%        | 16.8%        |
| Other charges                             | 2551.2%      | -39.2%       | -36.0%       | 0.0%         | 0.0%         | 0.0%         | 0.0%         |
| <b>Profit Before Provisions</b>           | <b>54.4%</b> | <b>47.8%</b> | <b>-8.8%</b> | <b>8.8%</b>  | <b>19.4%</b> | <b>16.7%</b> | <b>16.8%</b> |
| Provisions / (reversal of provisions)     | 1273.5%      | 33.8%        | -101.0%      | -3511.6%     | 15.0%        | 15.0%        | 15.0%        |
| <b>Profit before income tax</b>           | <b>33.3%</b> | <b>50.3%</b> | <b>5.9%</b>  | <b>3.3%</b>  | <b>19.6%</b> | <b>16.8%</b> | <b>16.9%</b> |
| Income tax expense                        | 34.1%        | 37.3%        | 7.4%         | -5.4%        | 19.6%        | 16.8%        | 16.9%        |
| <b>Profit for the year</b>                | <b>32.7%</b> | <b>59.5%</b> | <b>5.0%</b>  | <b>8.7%</b>  | <b>19.6%</b> | <b>16.8%</b> | <b>16.9%</b> |
| <b>EPS</b>                                | <b>32.7%</b> | <b>59.5%</b> | <b>5.0%</b>  | <b>8.7%</b>  | <b>19.6%</b> | <b>16.8%</b> | <b>16.9%</b> |

Source: ACPL Research, Company Financials

## Key Ratios

| Profitability Ratios          |      | 2019        | 2020        | 2021        | 2022E        | 2023E        | 2024E        | 2025E        |
|-------------------------------|------|-------------|-------------|-------------|--------------|--------------|--------------|--------------|
| Yield on Earning Assets       | %    | 8.84        | 8.98        | 6.92        | 7.73         | 7.83         | 7.84         | 7.84         |
| Interest Cost                 | %    | 5.52        | 4.98        | 3.51        | 4.79         | 4.79         | 4.78         | 4.77         |
| Net Interest Margin           | %    | 3.33        | 4.00        | 3.41        | 2.94         | 3.05         | 3.06         | 3.07         |
| Operating Cost to Income      | %    | 55.78       | 51.21       | 56.59       | 55.71        | 55.71        | 55.70        | 55.69        |
| Return on Equity              | %    | 18.16       | 22.30       | 20.24       | 19.16        | 19.74        | 19.86        | 20.05        |
| Return on Assets              | %    | 0.86        | 1.17        | 1.05        | 1.00         | 1.03         | 1.05         | 1.06         |
| <b>Balance Sheet Analysis</b> |      | <b>2019</b> | <b>2020</b> | <b>2021</b> | <b>2022E</b> | <b>2023E</b> | <b>2024E</b> | <b>2025E</b> |
| Deposits Growth               | %    | 13.41       | 21.68       | 17.00       | 15.00        | 15.00        | 15.00        | 15.00        |
| CASA to Deposits              | %    | 74.55       | 76.56       | 76.56       | 76.56        | 76.56        | 76.56        | 76.56        |
| Advances to Deposits          | %    | 54.07       | 46.40       | 46.49       | 46.55        | 46.60        | 46.65        | 46.69        |
| Investments to Deposits       | %    | 64.86       | 69.56       | 67.02       | 65.12        | 63.46        | 62.02        | 60.77        |
| PIBs to Investments           | %    | 41.75       | 68.07       | 68.07       | 68.07        | 68.07        | 68.07        | 68.07        |
| T Bills to Investments        | %    | 50.91       | 18.95       | 18.95       | 18.95        | 18.95        | 18.95        | 18.95        |
| Gross Infection Ratio         | %    | 1.46        | 1.41        | 1.40        | 1.40         | 1.40         | 1.40         | 1.40         |
| Provisioning Coverage         | %    | 85.44       | 88.02       | 88.02       | 88.02        | 88.02        | 88.02        | 88.02        |
| Net Infection Ratio           | %    | 0.22        | 0.17        | 0.17        | 0.17         | 0.17         | 0.17         | 0.17         |
| Capital Adequacy Ratio        | %    | 14.35       | 15.09       | 14.99       | 14.99        | 15.10        | 15.20        | 15.28        |
| Leverage Ratio                | %    | 3.98        | 3.98        | 3.98        | 4.02         | 4.08         | 4.15         | 4.20         |
| <b>Operational Analysis</b>   |      | <b>2019</b> | <b>2020</b> | <b>2021</b> | <b>2022E</b> | <b>2023E</b> | <b>2024E</b> | <b>2025E</b> |
| Market Share - Deposits       | %    | 6.18        | 6.15        | 6.37        | 6.48         | 6.59         | 6.71         | 6.83         |
| Market Share - Advances       | %    | 6.11        | 6.15        | 6.37        | 6.48         | 6.60         | 6.71         | 6.83         |
| Market Share - Investments    | %    | 6.66        | 6.62        | 6.61        | 6.53         | 6.48         | 6.44         | 6.42         |
| No. of Branches               |      | 759         | 818         | 921         | 1037         | 1168         | 1315         | 1480         |
| <b>Investment Ratios</b>      |      | <b>2019</b> | <b>2020</b> | <b>2021</b> | <b>2022E</b> | <b>2023E</b> | <b>2024E</b> | <b>2025E</b> |
| Dividend Per Share            |      | 3.50        | 4.50        | 7.00        | 7.50         | 8.50         | 10.00        | 12.00        |
| Dividend Yield                | %    | 4.76        | 6.11        | 9.51        | 10.19        | 11.55        | 13.59        | 16.30        |
| Dividend Cover                | x    | 2.87        | 3.56        | 2.40        | 2.44         | 2.57         | 2.54         | 2.47         |
| Retention Ratio               | %    | 65.17       | 71.92       | 71.92       | 60.00        | 60.00        | 60.00        | 60.00        |
| Payout Ratio                  | %    | 34.83       | 28.08       | 28.08       | 40.00        | 40.00        | 40.00        | 40.00        |
| No. of Shares                 | ('m) | 1111        | 1111        | 1111        | 1111         | 1111         | 1111         | 1111         |
| Earnings Per Share            |      | 10.05       | 16.03       | 16.83       | 18.29        | 21.81        | 25.41        | 29.65        |
| Book Value Per Share          |      | 55.34       | 71.85       | 83.15       | 95.46        | 110.51       | 127.93       | 147.88       |
| Price to Earnings             | x    | 7.32        | 4.59        | 4.37        | 4.02         | 3.37         | 2.90         | 2.48         |
| Price to Book Value           | x    | 1.33        | 1.02        | 0.89        | 0.77         | 0.67         | 0.58         | 0.50         |

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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