

Pakistan Banks

BAFL PA: Well positioned book to drive NIMs

Bank Alfalah Limited is one of our top pick in banking sector, our liking premises on i) Impressive deposit growth with aggressive expansion plans, ii) Well positioned investment book, iii) Higher mix of zero cost deposits resulting in lower cost of funds, iv) NIMs expansion amid aggressive monetary stance, v) Decent capital buffer; ~230bps above regulatory requirement, vi) Higher general provision will provide comfort on asset quality, vii) Attractive dividend yield and viii) Continued focus on digital banking initiatives. We maintain our BUY stance on stock with Dec'23 target price of PKR54/sh based on DDM & Justified P/B ratio, depicting an upside of ~82% along with an attractive dividend yield of 25%. Currently, BAFL is trading at P/B of 0.4x.

Despite higher taxation bank posted PAT of PKR18.2bn in CY22 vs. PKR14.2bn in CY21, recording growth of ~28% YoY. The increase in earning is primarily attributable to higher NII which clocked in at PKR77.3bn vs. PKR46.0bn in SPLY. Similarly, NIMs recorded an expansion of ~100bps YoY, amid rise in policy rate coupled with decent mix of current account deposits. Bank also completed buy back of 200mn shares during the year, which will have a positive impact on bank's capital ratio.

Key risk to our investment thesis includes i) Lower than estimated deposit growth, ii) Higher than estimated operating expenses amid inflationary pressure and aggressive expansion plan, iii) Economic turmoil to result in elevated NPLs and iv) Abrupt changes in regulatory framework.

Impressive Deposit Growth

Bank Alfalah's domestic deposits stood at PKR1.25tr at the end of CY22 vs. PKR0.57tr in CY17, recording a healthy CAGR of 17% vs. industry's ~13%. Bank's market share stood at ~5.6% at the end of CY22 as compared to ~4.0% at the end of CY20, improving by ~160bps in last 2 years. The growth in deposit base is primarily attributable to aggressive branch expansion which stood at 894 (incl. 285 Islamic) at the end of CY22. Bank's CASA stood at ~72% at the end of CY22, while share of current accounts in total deposit stood at ~44.5%. The management has emphasized that they will continue to expand their branch network in coming year by opening ~140 new branches, taking the tally above 1,000.

Likely expansion in NIMs to keep NII upbeat

BAFL's NIMs clocked in at ~4.8% during 4QCY22 as compared to 3.3% in SPLY. We expect NIMs to expand by ~225bps in next 4 quarters amid recent increase of 300bps in policy rate which have not been repriced yet. Furthermore, there is a possibility of further increase of 100-200 bps in upcoming MPC meeting scheduled in next few days, which will further expand margins. Bank's investment book is tilted towards floating rate instruments which are likely to keep margins upbeat in current interest rate scenario. To note, 15% of bank's PIB portfolio is fixed while remaining is floater PIBs.

Bank Alfalah Limited

BUY

HOLD

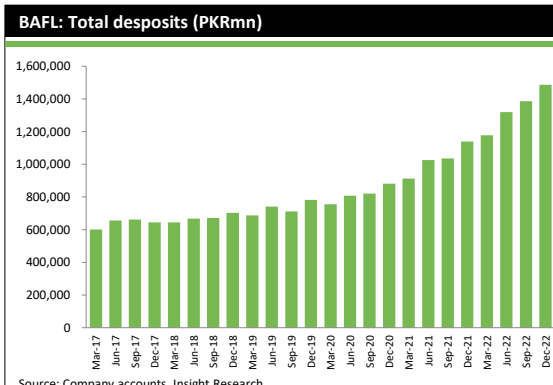
SELL

We recommend BUY with Dec'23 DDM & P/Bv based Target Price of PKR53.9, providing 108% Upside

Target Price		53.9	
Current Price		30	
Market cap	PKR b	47	
Market cap	US\$ b	0.16	
Free Float Market cap	US\$ b	0.06	
30 day Avg. turnover	PKR m	53	
52 wk Range		28.1-37.4	
Shares Outstanding	m	1,577	
Free float	%	39%	
Major Sponsors	Abu Dhabi Group		
Bloomberg Ticker	BAFL PA		
Financials (PKR bn)	CY22	CY23F	CY24F
Net Interest Income	77.3	113.7	125.9
Non Markup Income	21.8	17.3	18.0
Provisions	12.5	14.6	14.3
Operating Expenses	50.5	64.3	71.0
Profit Before Tax	36.2	52.1	58.6
Profit After Tax	18.2	29.7	33.4

Key Ratios	CY22	CY23F	CY24F
EPS	11.5	18.8	21.2
DPS	5.0	7.6	8.5
Div. Yield	16.9%	25.5%	28.6%
P/E	2.6	1.6	1.4
BVPS	63.4	77.1	88.1
P/Bv	0.5	0.4	0.3
ROE	18%	27%	26%

Source: Company Accounts, Insight Research

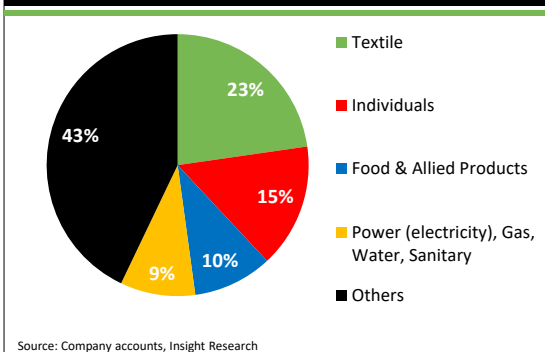


Economic turmoil raises questions over advances portfolio

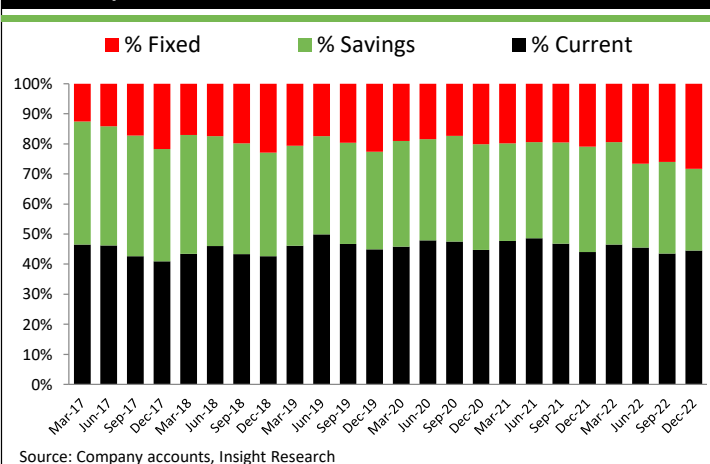
BAFL's gross advances stood at PKR765bn in CY22 vs. PKR699bn in SPLY, up by ~9% YoY. However, economic downturn where inflation is making higher highs, businesses are closing and tight monetary stance of central bank has raised some questions about asset quality. Textile sector has the largest pie in BAFL's advances portfolio with ~23% weight, while share of individuals stood at second, having weight of 15%. To note, textile exports have recorded a decline of ~11% YoY in 8MFY23 as compared to SPLY. The sector has been facing multiple challenges such as raw material imports, higher financing rate, slowdown in demand and inflationary pressures.

As per industry sources, there isn't significant stress on advances portfolio of the sector due to cautious lending and decent coverage. However, deteriorating economic situation can worsen the outlook. To note, BAFL's gross infection ratio for domestic portfolio stood at ~4.2%, while coverage stands at ~108%.

BAFL Advances mix (%)



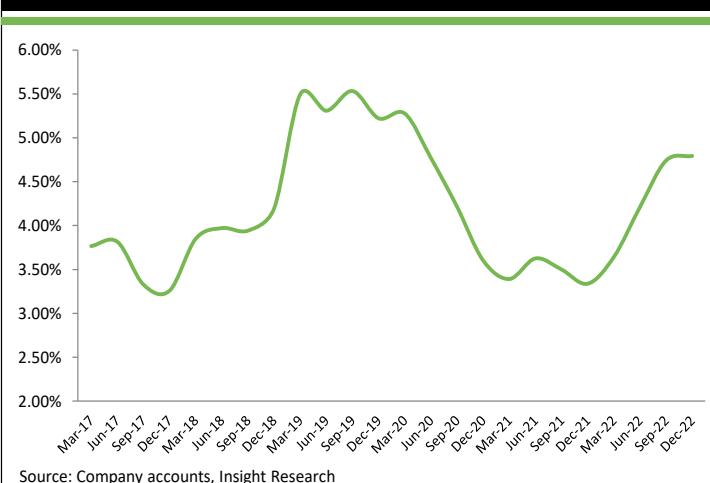
BAFL: Deposit mix



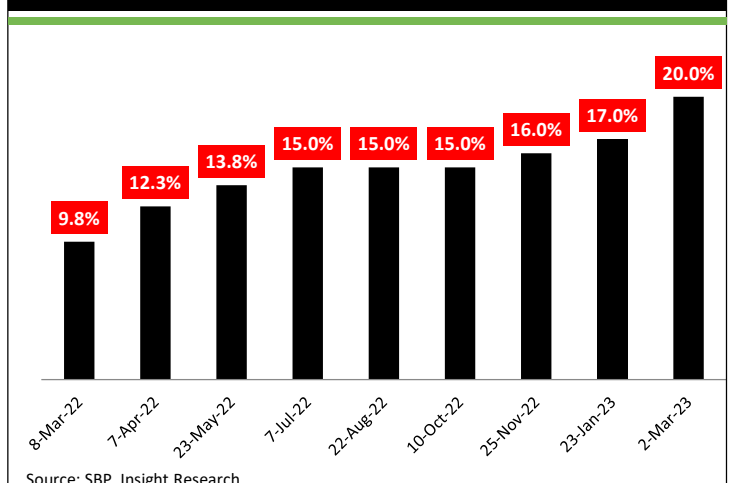
BAFL: Capital Adequacy Ratio



BAFL: NIMs



Recent MPC decisions



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Valuation Methodology: To arrive at our period end target prices, ISL uses different valuation methodologies including

- Discounted cash flow (DCF)
- Relative Valuation (P/E, P/Bv, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)

Frequently Used Acronyms

TP	Target Price	DCF	Discounted Cash Flows	FCF	Free Cash Flows
FCFE	Free Cash Flows to Equity	FCFF	Free Cash Flows to Firm	DDM	Dividend Discount Model
SOTP	Sum of the Parts	P/E	Price to Earnings ratio	P/Bv	Price to Book ratio
P/S	Price to Sales	EVA	Economic Valued Added	BVPS	Book Value per Share
EPS	Earnings per Share	DPS	Dividend per Share	DY	Dividend Yield
ROE	Return on Equity	ROA	Return on Assets	CAGR	Compounded Annual Growth Rate

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