

# BAFL

## 1QCY21 Result Review: BUY Stance Maintained

Equity Research | Commercial Banks | Thursday, 22 April, 2021



BAFL has announced its 1QCY21 result where it posted profit after tax of Rs3.5bn (EPS: Rs1.95) as compared to profit after tax of Rs2.8bn (EPS: Rs1.59) in same period last year, up by 23% YoY.

The company has posted the net interest income of Rs10.3bn against Rs25.9bn in SPLY, recording a negative growth of 12.3% YoY. We note that this decline is attributed to the increase in interest cost.

Non-interest income has been increased by 41.5% YoY to Rs3.8bn as compared to Rs2.7bn during SPLY, mainly due to the higher gain on securities.

Furthermore, the operating cost to income ratio has been increased to 59.7% as compared to 55.6% during SPLY.

Lastly, The bank has charged the provision of Rs216mn which is significantly lower than the 1QCY20's tally of Rs1.5bn.

BAFL is currently trading at CY21E PE of 4.23x. Furthermore, the script is trading at a CY20E P/B of 0.56x which offers a discount of 25% relative to its historical 5-year average of 0.74x. We have a **BUY** stance on the script with a Justified P/B based Dec-21 TP of Rs.45 which provides an upside potential of 35%. Furthermore, it also offers an attractive dividend yield of 13% which makes the total return of 48%.

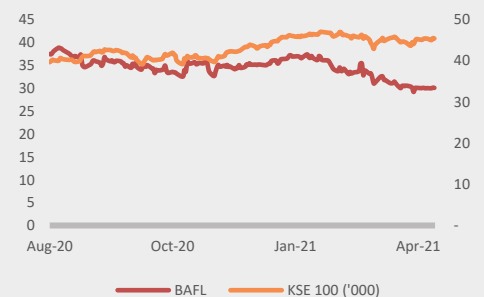
Rupees' millions	1QCY21	1QCY20	YoY	CY20	CY19	YoY
Interest earned	21,388	25,906	17.4% ▼	92,616	92,481	0.1% ▲
Interest expensed	-11,061	-14,125	21.7% ▼	-47,911	-47,623	0.6% ▲
<b>Net Interest Income</b>	<b>10,327</b>	<b>11,781</b>	<b>12.3% ▼</b>	<b>44,705</b>	<b>44,857</b>	<b>0.3% ▼</b>
Fee and commission income	1,861	1,652	12.7% ▲	6,559	7,034	6.8% ▼
Dividend income	133	87	52.5% ▲	403	339	19.0% ▲
Foreign exchange income	658	1,056	37.7% ▼	3,398	2,826	20.2% ▲
(Loss) / gain on securities	1,095	-46	2480.0% ▲	2,285	84	2622.0% ▲
Other income	38	22	72.9% ▲	171	180	5.4% ▼
<b>Non-Interest Income</b>	<b>3,833</b>	<b>2,709</b>	<b>41.5% ▲</b>	<b>12,795</b>	<b>10,396</b>	<b>23.1% ▲</b>
Operating expenses	-8,458	-8,054	5.0% ▲	-31,443	-29,066	8.2% ▲
Workers' Welfare Fund	-110	-110	0.5% ▼	-494	-508	2.6% ▼
Other charges	-7	-41	84.1% ▼	-94	-269	64.9% ▼
Profit Before Provisions	5,586	6,284	11.1% ▼	25,468	25,410	0.2% ▲
Provisions	-216	-1,528	85.8% ▼	-7,589	-3,029	150.6% ▲
Profit Before Taxation	5,370	4,757	12.9% ▲	17,878	22,382	20.1% ▼
Taxation	-1,899	-1,936	1.9% ▼	-7,403	-9,686	23.6% ▼
<b>Profit After Taxation</b>	<b>3,471</b>	<b>2,821</b>	<b>23.0% ▲</b>	<b>10,475</b>	<b>12,696</b>	<b>17.5% ▼</b>
<b>Earnings Per Share</b>	<b>1.95</b>	<b>1.59</b>	<b>23.0% ▲</b>	<b>5.89</b>	<b>7.14</b>	<b>17.5% ▼</b>
<b>Dividend</b>	<b>0.00</b>	<b>0.00</b>		<b>4.00</b>	<b>4.00</b>	
<b>Bonus</b>	<b>0%</b>	<b>0%</b>		<b>0%</b>	<b>0%</b>	
Operating Cost to Income	-59.7%	-55.6%	4.1% ▲	-54.7%	-52.6%	2.1% ▲
Effective Taxation	-35.4%	-40.7%	5.3% ▼	-41.4%	-43.3%	1.9% ▼

Source: ACPL Research, Company Financials

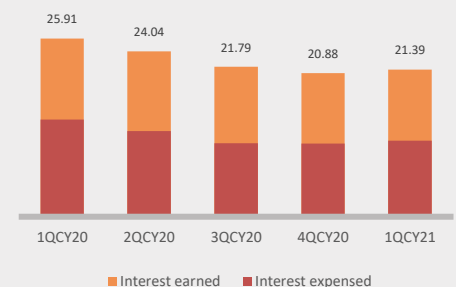
### Key Statistics

Symbol	BAFL
TP - Dec 21	42.00
LDPC	31.08
Upside (%)	35
Free Float ('mn)	711
Market Cap. (Rs.'mn)	55,234

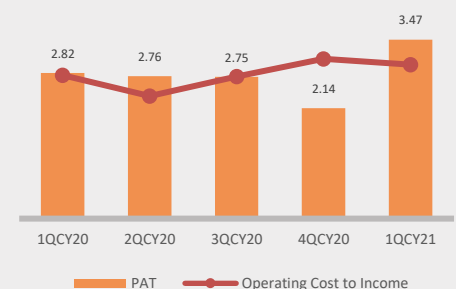
### BAFL vs KSE 100



### 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	2020	2021E	2022E	2023E
Mark-up / Return / Interest earned	61,438	57,245	56,176	59,318	92,481	92,616	85,453	91,846	103,062
Mark-up / Return / Interest expensed	-32,811	-28,474	-27,199	-27,727	-47,623	-47,911	-44,068	-49,610	-55,856
<b>Net Mark-up / Interest Income</b>	<b>28,627</b>	<b>28,770</b>	<b>28,976</b>	<b>31,591</b>	<b>44,857</b>	<b>44,705</b>	<b>41,385</b>	<b>42,236</b>	<b>47,206</b>
Fee and commission income	4,384	4,668	6,013	6,292	7,034	6,559	7,346	8,228	9,215
Dividend income	514	585	460	576	339	403	534	571	613
Foreign exchange income	1,379	1,121	1,443	2,169	2,826	3,398	2,056	2,169	2,343
(Loss) / gain from derivatives	0	0	-59	-21	-68	-21	0	0	0
(Loss) / gain on securities	1,836	1,682	1,134	993	84	2,285	3,817	4,224	4,683
Other income	748	813	85	192	180	171	161	153	145
<b>Total non-markup / interest income</b>	<b>8,862</b>	<b>8,868</b>	<b>9,076</b>	<b>10,200</b>	<b>10,396</b>	<b>12,795</b>	<b>13,915</b>	<b>15,345</b>	<b>16,999</b>
<b>Non mark-up / interest expenses</b>									
Operating expenses	-21,956	-23,423	-24,672	-23,967	-29,066	-31,443	-33,733	-35,125	-39,165
Workers' Welfare Fund	-330	-118	-259	-392	-508	-494	-409	-426	-475
Other charges	0	0	-33	-6	-269	-94	-87	-94	-105
<b>Profit Before Provisions</b>	<b>15,203</b>	<b>14,097</b>	<b>13,089</b>	<b>17,426</b>	<b>25,410</b>	<b>25,468</b>	<b>21,071</b>	<b>21,937</b>	<b>24,460</b>
Provisions / (reversal of provisions)	-2,599	-1,073	616	-588	-3,029	-7,589	-966	-1,463	-1,511
<b>Profit before income tax</b>	<b>12,604</b>	<b>13,023</b>	<b>13,705</b>	<b>16,838</b>	<b>22,382</b>	<b>17,878</b>	<b>20,105</b>	<b>20,474</b>	<b>22,949</b>
Income tax expense	-5,081	-5,123	-5,539	-6,687	-9,686	-7,403	-7,037	-7,166	-8,032
<b>Profit for the year</b>	<b>7,523</b>	<b>7,900</b>	<b>8,166</b>	<b>10,150</b>	<b>12,696</b>	<b>10,475</b>	<b>13,068</b>	<b>13,308</b>	<b>14,917</b>
<b>EPS</b>	<b>4.23</b>	<b>4.45</b>	<b>4.60</b>	<b>5.71</b>	<b>7.14</b>	<b>5.89</b>	<b>7.35</b>	<b>7.49</b>	<b>8.39</b>

Source: ACPL Research, Company Financials

## Horizontal Analysis

Horizontal Analysis	2015	2016	2017	2018	2019	2020	2021E	2022E	2023E
Mark-up / Return / Interest earned	10.94%	-6.83%	-1.87%	5.59%	55.91%	0.15%	-7.73%	7.48%	12.21%
Mark-up / Return / Interest expensed	-2.07%	-13.22%	-4.48%	1.94%	71.76%	0.60%	-8.02%	12.58%	12.59%
<b>Net Mark-up / Interest Income</b>	<b>30.88%</b>	<b>0.50%</b>	<b>0.72%</b>	<b>9.02%</b>	<b>41.99%</b>	<b>-0.34%</b>	<b>-7.43%</b>	<b>2.06%</b>	<b>11.77%</b>
Fee and commission income	40.53%	6.47%	28.81%	4.63%	11.80%	-6.75%	12.00%	12.00%	12.00%
Dividend income	4.48%	13.69%	-21.29%	25.14%	-41.15%	18.96%	32.45%	6.97%	7.35%
Foreign exchange income	-32.50%	-18.73%	28.74%	50.29%	30.34%	20.23%	-39.50%	5.49%	8.05%
Gain on securities	50.69%	-8.39%	-32.56%	-12.45%	-91.55%	2622.04%	67.07%	10.66%	10.86%
Other income	-65.43%	8.69%	-89.58%	126.54%	-6.03%	-5.37%	-5.37%	-5.37%	-5.37%
<b>Total non-markup / interest income</b>	<b>-1.94%</b>	<b>0.07%</b>	<b>2.35%</b>	<b>12.39%</b>	<b>1.91%</b>	<b>23.08%</b>	<b>8.76%</b>	<b>10.28%</b>	<b>10.78%</b>
<b>Non mark-up / interest expenses</b>									
Operating expenses	8.37%	6.68%	5.33%	-2.86%	21.28%	8.18%	7.28%	4.13%	11.50%
Workers' Welfare Fund	59.81%	-64.10%	118.65%	51.46%	29.48%	-2.61%	-17.23%	4.13%	11.50%
Other charges	0.00%	0.00%	0.00%	-80.35%	4086.67%	-64.90%	-7.73%	7.48%	12.21%
<b>Profit Before Provisions</b>	<b>45.59%</b>	<b>-7.28%</b>	<b>-7.15%</b>	<b>33.14%</b>	<b>45.82%</b>	<b>0.22%</b>	<b>-17.26%</b>	<b>4.11%</b>	<b>11.50%</b>
Provisions / (reversal of provisions)	34.7%	-58.7%	-157.4%	-195.5%	414.7%	150.6%	-87.3%	51.5%	3.3%
<b>Profit before income tax</b>	<b>48.05%</b>	<b>3.33%</b>	<b>5.24%</b>	<b>22.86%</b>	<b>32.93%</b>	<b>-20.12%</b>	<b>12.46%</b>	<b>1.84%</b>	<b>12.09%</b>
Income tax expense	76.88%	0.83%	8.11%	20.74%	44.84%	-23.57%	-4.95%	1.84%	12.09%
<b>Profit for the year</b>	<b>33.36%</b>	<b>5.01%</b>	<b>3.37%</b>	<b>24.30%</b>	<b>25.08%</b>	<b>-17.49%</b>	<b>24.76%</b>	<b>1.84%</b>	<b>12.09%</b>
<b>EPS</b>	<b>33.36%</b>	<b>5.01%</b>	<b>3.37%</b>	<b>24.30%</b>	<b>25.08%</b>	<b>-17.49%</b>	<b>24.76%</b>	<b>1.84%</b>	<b>12.09%</b>

Source: ACPL Research, Company Financials

## Key Ratios

Profitability Ratios		2015	2016	2017	2018	2019	2020	2021E	2022E	2023E
Yield on Earning Assets	%	7.25	6.62	6.13	6.44	9.49	7.15	5.86	5.61	5.60
Interest Cost	%	3.94	3.39	3.10	3.17	5.21	3.91	3.19	3.19	3.19
Net Interest Margin	%	3.31	3.24	3.04	3.27	4.28	3.24	2.67	2.42	2.42
Operating Cost to Income	%	59.45	62.55	65.60	58.30	54.01	55.71	61.90	61.90	61.90
Return on Equity	%	14.10	13.14	12.41	13.42	14.42	11.51	13.17	12.57	13.05
Return on Assets	%	0.83	0.86	0.82	1.01	1.19	0.76	0.84	0.76	0.76
<b>Balance Sheet Analysis</b>		<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
Deposits Growth	%	5.65	0.12	0.63	8.98	11.29	12.72	12.72	12.72	12.72
CASA to Deposits	%	70.06	79.99	73.51	70.62	71.94	74.53	74.53	74.53	74.53
Advances to Deposits	%	52.20	59.09	62.12	71.37	65.35	65.47	70.61	70.45	70.30
Investments to Deposits	%	66.09	60.71	62.13	39.50	38.23	62.04	58.55	55.56	52.92
PIBs to Investments	%	55.64	64.25	35.64	19.90	43.07	40.09	40.09	40.09	40.09
T Bills to Investments	%	22.73	14.71	47.73	59.28	32.51	37.73	37.73	37.73	37.73
Gross Infection Ratio	%	5.27	4.80	4.21	3.63	4.23	4.30	4.00	3.80	3.60
Provisioning Coverage	%	83.73	86.06	89.22	84.39	79.14	70.83	70.83	70.83	70.83
Net Infection Ratio	%	0.90	0.70	0.47	0.59	0.91	1.31	1.13	1.07	1.02
Capital Adequacy Ratio	%	13.27	13.18	13.39	14.95	16.88	16.53	15.96	15.30	14.81
Leverage Ratio	%	3.41	3.46	4.06	5.64	5.83	4.44	4.21	4.02	3.88
<b>Operational Analysis</b>		<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
Market Share - Deposits	%	6.88	5.72	5.22	5.26	5.35	4.93	4.92	4.91	4.89
Market Share - Advances	%	7.33	7.10	6.39	6.57	6.50	7.07	7.05	7.03	7.02
Market Share - Investments	%	6.23	5.27	4.66	3.68	3.35	4.69	4.42	4.19	3.98
No. of Branches		653	639	638	649	698	706	714	722	731
<b>Investment Ratios</b>		<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
Dividend Per Share		1.00	0.00	1.50	2.50	4.00	4.00	4.00	4.50	4.50
Dividend Yield	%	3.22	0.00	4.83	8.04	12.87	12.87	12.87	14.48	14.48
Dividend Cover	x	4.23	0.00	3.06	2.28	1.79	1.47	1.84	1.66	1.87
Retention Ratio	%	76.38	100.00	67.36	56.23	44.01	32.14	32.14	32.14	32.14
Payout Ratio	%	23.62	0.00	32.64	43.77	55.99	67.86	67.86	67.86	67.86
No. of Shares	('m)	1777	1777	1777	1777	1777	1777	1777	1777	1777
Earnings Per Share		4.23	4.45	4.60	5.71	7.14	5.89	7.35	7.49	8.39
Book Value Per Share		30.02	33.83	37.03	42.57	49.53	51.21	55.81	59.57	64.32
Price to Earnings	x	7.34	6.99	6.76	5.44	4.35	5.27	4.23	4.15	3.70
Price to Book Value	x	1.04	0.92	0.84	0.73	0.63	0.61	0.56	0.52	0.48

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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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
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