

BAFL

1QCY22 Result Review: BUY Stance Maintained

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BAFL has announced its 1QCY22 result where it posted a profit after tax of Rs5.02bn (EPS: Rs2.82) as compared to a profit after tax of Rs3.47bn (EPS: Rs1.95) in the same period last year, up by 44.6% YoY.

The bank has posted a net interest income of Rs14.29bn against Rs10.33bn in SPLY, recording a growth of 38.4% YoY. We note that this growth is attributed to the increase in interest earned. Non-interest income has increased by 14.3% YoY to Rs4.38bn as compared to Rs3.83bn during SPLY, mainly due to an increase in Fee and Commission Income and foreign exchange income.

Furthermore, the operating cost to income ratio has decreased to 55.1% as compared to 59.7% during SPLY.

The bank has charged the provision of Rs387mn which is significantly higher than the SPLY's tally of Rs216mn.

BAFL is currently trading at CY22E PE of 2.90x. Furthermore, the scrip is trading at a CY22E P/B of 0.55x which offers a discount of 17% relative to its historical 3-year average of 0.67x. We have a **BUY** stance on the scrip with a Justified P/B based Dec-22 TP of Rs.55 which provides an upside potential of 57%. Furthermore, it also offers an attractive dividend yield of 17% which makes the total return 74%.

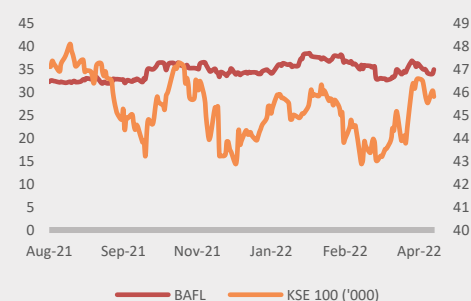
| Rupees' millions | 1QCY22 | 1QCY21 | YoY | CY21 | CY20 | YoY |
|------------------------------|---------------|---------------|----------------|---------------|---------------|----------------|
| Interest earned | 35,942 | 21,388 | 68.1% ▲ | 100,182 | 92,616 | 8.2% ▲ |
| Interest expensed | -21,653 | -11,061 | 95.8% ▲ | -54,134 | -47,911 | 13.0% ▲ |
| Net Interest Income | 14,289 | 10,327 | 38.4% ▲ | 46,048 | 44,705 | 3.0% ▲ |
| Fee and commission income | 2,474 | 1,861 | 32.9% ▲ | 8,221 | 6,559 | 25.3% ▲ |
| Dividend income | 225 | 133 | 69.2% ▲ | 603 | 403 | 49.5% ▲ |
| Foreign exchange income | 1,431 | 658 | 117.5% ▲ | 4,128 | 3,398 | 21.5% ▲ |
| (Loss) / gain on securities | 12 | 1,095 | 98.9% ▼ | 3,142 | 2,285 | 37.5% ▲ |
| Other income | 161 | 38 | 321.7% ▲ | 179 | 171 | 4.9% ▲ |
| Non-Interest Income | 4,382 | 3,833 | 14.3% ▲ | 16,474 | 12,795 | 28.8% ▲ |
| Operating expenses | -10,282 | -8,458 | 21.6% ▲ | -36,316 | -31,443 | 15.5% ▲ |
| Workers' Welfare Fund | -160 | -110 | 46.2% ▲ | -498 | -494 | 0.8% ▲ |
| Other charges | -2 | -7 | 72.4% ▼ | -26 | -94 | 73.0% ▼ |
| Profit Before Provisions | 8,226 | 5,586 | 47.3% ▲ | 25,682 | 25,468 | 0.8% ▲ |
| Provisions | -387 | -216 | 79.1% ▲ | -2,312 | -7,589 | 69.5% ▼ |
| Profit Before Taxation | 7,839 | 5,370 | 46.0% ▲ | 23,370 | 17,878 | 30.7% ▲ |
| Taxation | -2,821 | -1,899 | 48.5% ▲ | -9,154 | -7,403 | 23.6% ▲ |
| Profit After Taxation | 5,019 | 3,471 | 44.6% ▲ | 14,217 | 10,475 | 35.7% ▲ |
| Earnings Per Share | 2.82 | 1.95 | 44.6% ▲ | 8.00 | 5.89 | 35.7% ▲ |
| Dividend | 0.00 | 0.00 | - | 4.00 | 4.00 | - |
| Bonus | 0% | 0% | - | 0% | 0% | - |
| Operating Cost to Income | -55.1% | -59.7% | 4.7% ▼ | -58.1% | -54.7% | 3.4% ▲ |
| Effective Taxation | -36.0% | -35.4% | 0.6% ▲ | -39.2% | -41.4% | 2.2% ▼ |

Source: ACPL Research, Company Financials

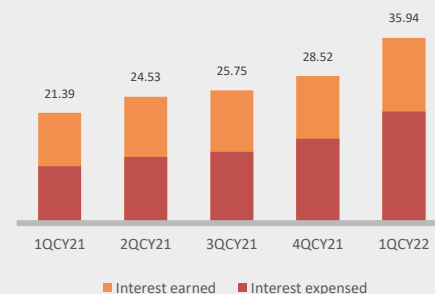
Key Statistics

| Symbol | BAFL |
|----------------------|--------|
| TP - Dec 22 | 55.00 |
| LDCP | 35.01 |
| Upside (%) | 57 |
| Free Float ('mn) | 622 |
| Market Cap. (Rs.'mn) | 62,645 |

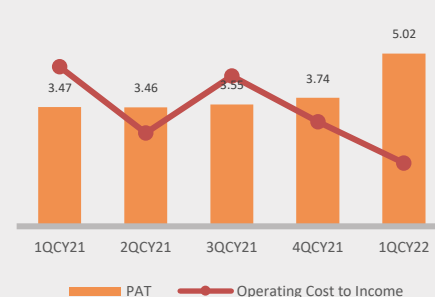
BAFL vs KSE 100



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 | 2019 | 2020 | 2021A | 2022E | 2023E | 2024E | 2025E |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Mark-up / Return / Interest earned | 92,481 | 92,616 | 100,182 | 139,785 | 163,891 | 181,943 | 201,872 |
| Mark-up / Return / Interest expensed | -47,623 | -47,911 | -54,134 | -80,303 | -101,484 | -111,555 | -122,634 |
| Net Mark-up / Interest Income | 44,857 | 44,705 | 46,048 | 59,481 | 62,407 | 70,387 | 79,238 |
| Fee and commission income | 7,034 | 6,559 | 8,221 | 9,906 | 11,006 | 12,228 | 13,586 |
| Dividend income | 339 | 403 | 603 | 910 | 635 | 672 | 713 |
| Foreign exchange income | 2,826 | 3,398 | 4,128 | 5,779 | 7,655 | 10,141 | 13,433 |
| (Loss) / gain from derivatives | -68 | -21 | 201 | 0 | 0 | 0 | 0 |
| (Loss) / gain on securities | 84 | 2,285 | 3,142 | 1,301 | 1,435 | 1,582 | 1,745 |
| Other income | 180 | 171 | 179 | 268 | 304 | 345 | 391 |
| Total non-markup / interest income | 10,396 | 12,795 | 16,474 | 18,165 | 21,036 | 24,969 | 29,869 |
| Non mark-up / interest expenses | | | | | | | |
| Operating expenses | -29,066 | -31,443 | -36,316 | -42,705 | -46,348 | -52,965 | -60,603 |
| Workers' Welfare Fund | -508 | -494 | -498 | -665 | -706 | -806 | -923 |
| Other charges | -269 | -94 | -26 | -36 | -42 | -46 | -51 |
| Profit Before Provisions | 25,410 | 25,468 | 25,682 | 34,241 | 36,348 | 41,539 | 47,530 |
| Provisions / (reversal of provisions) | -3,029 | -7,589 | -2,312 | -1,179 | -1,605 | -1,696 | -1,790 |
| Profit before income tax | 22,382 | 17,878 | 23,370 | 33,061 | 34,743 | 39,842 | 45,740 |
| Income tax expense | -9,686 | -7,403 | -9,154 | -11,572 | -12,160 | -13,945 | -16,009 |
| Profit for the year | 12,696 | 10,475 | 14,217 | 21,490 | 22,583 | 25,898 | 29,731 |
| EPS | 7.14 | 5.89 | 8.00 | 12.09 | 12.71 | 14.57 | 16.73 |

Source: ACPL Research, Company Financials

Horizontal Analysis

| Horizontal Analysis | 2019 | 2020 | 2021A | 2022E | 2023E | 2024E | 2025E |
|---|--------------|---------------|--------------|--------------|--------------|--------------|--------------|
| Mark-up / Return / Interest earned | 55.9% | 0.1% | 8.2% | 39.5% | 17.2% | 11.0% | 11.0% |
| Mark-up / Return / Interest expensed | 71.8% | 0.6% | 13.0% | 48.3% | 26.4% | 9.9% | 9.9% |
| Net Mark-up / Interest Income | 42.0% | -0.3% | 3.0% | 29.2% | 4.9% | 12.8% | 12.6% |
| Total non-markup / interest income | 1.9% | 23.1% | 28.8% | 10.3% | 15.8% | 18.7% | 19.6% |
| Non mark-up / interest expenses | | | | | | | |
| Operating expenses | 21.3% | 8.2% | 15.5% | 17.6% | 8.5% | 14.3% | 14.4% |
| Workers' Welfare Fund | 29.5% | -2.6% | 0.8% | 33.3% | 6.2% | 14.3% | 14.4% |
| Other charges | 4086.7% | -64.9% | -73.0% | 39.5% | 17.2% | 11.0% | 11.0% |
| Profit Before Provisions | 45.8% | 0.2% | 0.8% | 33.3% | 6.2% | 14.3% | 14.4% |
| Provisions / (reversal of provisions) | 414.7% | 150.6% | -69.5% | -49.0% | 36.1% | 5.7% | 5.5% |
| Profit before income tax | 32.9% | -20.1% | 30.7% | 41.5% | 5.1% | 14.7% | 14.8% |
| Income tax expense | 44.8% | -23.6% | 23.6% | 26.4% | 5.1% | 14.7% | 14.8% |
| Profit for the year | 25.1% | -17.5% | 35.7% | 51.2% | 5.1% | 14.7% | 14.8% |
| EPS | 25.1% | -17.5% | 35.7% | 51.2% | 5.1% | 14.7% | 14.8% |

Source: ACPL Research, Company Financials

Key Ratios

| Profitability Ratios | | 2019 | 2020 | 2021A | 2022E | 2023E | 2024E | 2025E |
|----------------------------|------|-------|-------|-------|-------|-------|-------|-------|
| Yield on Earning Assets | % | 9.49 | 7.15 | 6.15 | 7.74 | 8.24 | 8.31 | 8.38 |
| Interest Cost | % | 5.21 | 3.91 | 3.49 | 4.67 | 5.37 | 5.36 | 5.36 |
| Net Interest Margin | % | 4.28 | 3.24 | 2.66 | 3.07 | 2.88 | 2.95 | 3.02 |
| Operating Cost to Income | % | 54.01 | 55.71 | 58.92 | 55.90 | 56.44 | 56.44 | 56.44 |
| Return on Equity | % | 14.42 | 11.51 | 14.22 | 19.12 | 18.10 | 18.66 | 19.17 |
| Return on Assets | % | 1.19 | 0.76 | 0.82 | 1.12 | 1.07 | 1.11 | 1.16 |
| Balance Sheet Analysis | | 2019 | 2020 | 2021A | 2022E | 2023E | 2024E | 2025E |
| Deposits Growth | % | 11.29 | 12.72 | 29.18 | 10.00 | 10.00 | 10.00 | 10.00 |
| CASA to Deposits | % | 71.94 | 74.53 | 68.40 | 73.00 | 73.00 | 73.00 | 73.00 |
| Advances to Deposits | % | 65.35 | 65.47 | 59.16 | 63.47 | 63.39 | 63.32 | 63.24 |
| Investments to Deposits | % | 38.23 | 62.04 | 71.04 | 68.15 | 65.45 | 63.00 | 60.78 |
| PIBs to Investments | % | 43.07 | 40.09 | 63.76 | 63.76 | 63.76 | 63.76 | 63.76 |
| T Bills to Investments | % | 32.51 | 37.73 | 15.56 | 15.56 | 15.56 | 15.56 | 15.56 |
| Gross Infection Ratio | % | 4.23 | 4.30 | 3.53 | 3.53 | 3.43 | 3.33 | 3.23 |
| Provisioning Coverage | % | 79.14 | 70.83 | 85.49 | 81.81 | 81.81 | 81.81 | 81.81 |
| Net Infection Ratio | % | 0.91 | 1.31 | 0.53 | 0.62 | 0.60 | 0.59 | 0.57 |
| Capital Adequacy Ratio | % | 16.88 | 16.53 | 14.43 | 14.57 | 14.68 | 14.82 | 15.01 |
| Leverage Ratio | % | 5.83 | 4.44 | 3.84 | 3.90 | 3.99 | 4.08 | 4.20 |
| Operational Analysis | | 2019 | 2020 | 2021A | 2022E | 2023E | 2024E | 2025E |
| Market Share - Deposits | % | 5.35 | 4.93 | 5.43 | 5.26 | 5.10 | 4.94 | 4.79 |
| Market Share - Advances | % | 6.50 | 7.07 | 6.89 | 6.68 | 6.47 | 6.27 | 6.08 |
| Market Share - Investments | % | 3.35 | 4.69 | 5.75 | 5.34 | 4.97 | 4.64 | 4.34 |
| No. of Branches | | 698 | 706 | 779 | 860 | 948 | 1046 | 1155 |
| Investment Ratios | | 2019 | 2020 | 2021A | 2022E | 2023E | 2024E | 2025E |
| Dividend Per Share | | 4.00 | 4.00 | 4.00 | 6.00 | 6.50 | 7.50 | 8.50 |
| Dividend Yield | % | 11.43 | 11.43 | 11.43 | 17.14 | 18.57 | 21.42 | 24.28 |
| Dividend Cover | x | 1.79 | 1.47 | 2.00 | 2.02 | 1.95 | 1.94 | 1.97 |
| Retention Ratio | % | 44.01 | 32.14 | 50.00 | 50.00 | 50.00 | 50.00 | 50.00 |
| Payout Ratio | % | 55.99 | 67.86 | 50.00 | 50.00 | 50.00 | 50.00 | 50.00 |
| No. of Shares | ('m) | 1777 | 1777 | 1777 | 1777 | 1777 | 1777 | 1777 |
| Earnings Per Share | | 7.14 | 5.89 | 8.00 | 12.09 | 12.71 | 14.57 | 16.73 |
| Book Value Per Share | | 49.53 | 51.21 | 56.27 | 63.24 | 70.21 | 78.11 | 87.25 |
| Price to Earnings | x | 4.90 | 5.94 | 4.38 | 2.90 | 2.76 | 2.40 | 2.09 |
| Price to Book Value | x | 0.71 | 0.68 | 0.62 | 0.55 | 0.50 | 0.45 | 0.40 |

Source: ACPL Research, Company Financials

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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

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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 |
| Underweight | Negative |

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