

# BAHL

## 1QCY23 Result Review: BUY Stance Maintained

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BAHL has announced its 1QCY23 result where it posted a profit after tax of Rs10.54bn (EPS: Rs9.48) as compared to a profit after tax of Rs4.96bn (EPS: Rs4.47) in the same period last year, up by 1.12x YoY amid an increase in interest earned on the back of higher interest rates in addition to massive foreign exchange gains.

The bank has posted a net interest income of Rs74.80bn against Rs34.20bn in SPLY, recording a growth of 1.19x YoY. We note that this increase is attributed to the increased interest earned. Non-interest income has increased by 51.5% YoY to Rs6.30bn as compared to Rs4.16bn during SPLY, mainly due to the increase in foreign exchange gain income which surged by 3.61x YoY to Rs2.70bn. The effective taxation decreased to 36.3% as compared to 39.4% SPLY while the operating cost to income ratio decreased to 48.5% as compared to 57.3% in the SPLY. The bank booked the reversal of Rs0.95bn as compared to provision of Rs0.15bn during the SPLY.

BAHL is currently trading at CY23E PE of 1.93x. Furthermore, the scrip is trading at a CY23E P/B of 0.45x which offers a discount of 22% relative to its historical 3-year average of 0.57x. We recommend our investors to **BUY** the scrip with a Justified PB Dec-23 TP of Rs60 which provides an upside potential of 33%. Furthermore, it also offers an attractive dividend yield of 19% which makes a total return of 52%.

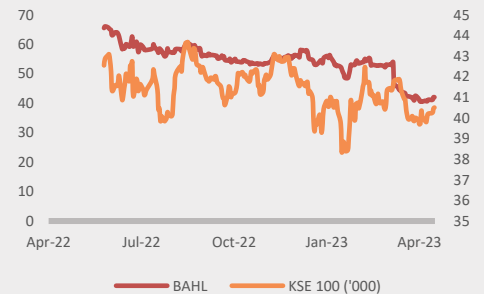
Rupees' millions	1QCY23	1QCY22	YoY	CY22	CY21	YoY
Interest earned	74,805	34,196	118.8% ▲	200,921	116,752	72.1% ▲
Interest expensed	-50,181	-18,246	175.0% ▲	-123,602	-61,273	101.7% ▲
<b>Net Interest Income</b>	<b>24,625</b>	<b>15,950</b>	<b>54.4% ▲</b>	<b>77,319</b>	<b>55,479</b>	<b>39.4% ▲</b>
Fee and commission income	3,019	2,781	8.6% ▲	11,595	9,305	24.6% ▲
Dividend income	313	381	17.7% ▼	1,343	655	104.9% ▲
Foreign exchange income	2,698	585	361.2% ▲	7,241	2,970	143.8% ▲
(Loss) / gain on securities	25	186	86.8% ▼	183	-41	18381% ▲
Other income	247	227	9.0% ▲	835	1,138	26.7% ▼
<b>Non-Interest Income</b>	<b>6,302</b>	<b>4,159</b>	<b>51.5% ▲</b>	<b>21,196</b>	<b>14,027</b>	<b>51.1% ▲</b>
Operating expenses	-14,984	-11,603	29.1% ▲	-51,787	-38,624	34.1% ▲
Workers' Welfare Fund	-338	-167	102.3% ▲	-817	-620	31.8% ▲
Other charges	0	0	72.1% ▼	-156	-36	331.0% ▲
Profit Before Provisions	15,605	8,338	87.1% ▲	45,755	30,226	51.4% ▲
Provisions	952	-154	719% ▼	-12,871	47	27134% ▲
Profit Before Taxation	16,557	8,185	102.3% ▲	32,884	30,273	8.6% ▲
Taxation	-6,018	-3,222	86.8% ▲	-16,314	-11,570	41.0% ▲
<b>Profit After Taxation</b>	<b>10,539</b>	<b>4,963</b>	<b>112.4% ▲</b>	<b>16,570</b>	<b>18,702</b>	<b>11.4% ▼</b>
<b>Earnings Per Share</b>	<b>9.48</b>	<b>4.47</b>	<b>112.4% ▲</b>	<b>14.91</b>	<b>16.83</b>	<b>11.4% ▼</b>
<b>Dividend</b>	<b>0.00</b>	<b>0.00</b>	-	<b>7.00</b>	<b>7.00</b>	-
<b>Bonus</b>	<b>0%</b>	<b>0.00</b>	-	<b>0%</b>	<b>0%</b>	-
Operating Cost to Income	-48.5%	-57.3%	8.9% ▼	-52.6%	-55.6%	3.0% ▼
Effective Taxation	-36.3%	-39.4%	3.0% ▼	-49.6%	-38.2%	11.4% ▲

Source: ACPL Research, Company Financials

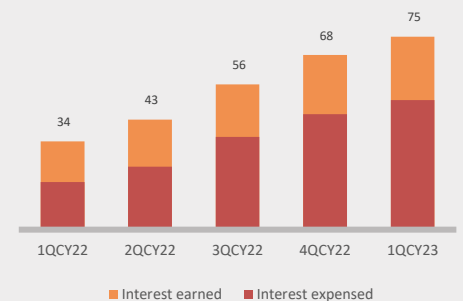
### Key Statistics

Symbol	BAHL
TP - Dec 23	60
LDCP	45.15
Upside (%)	33
Free Float ('mn)	722
Market Cap. (Rs.'mn)	50,181

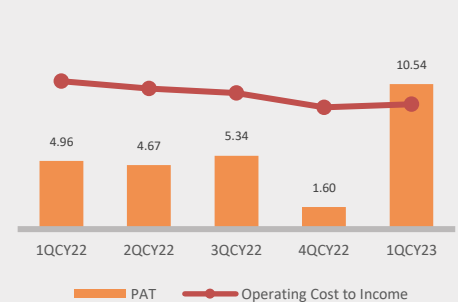
### BAHL vs KSE 100



### 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	2020	2021	2022	2023E	2024E	2025E	2026E
Mark-up / Return / Interest earned	125,273	116,752	200,921	253,057	288,780	323,786	364,049
Mark-up / Return / Interest expensed	-67,653	-61,273	-123,602	-197,556	-230,095	-260,985	-297,646
<b>Net Mark-up / Interest Income</b>	<b>57,620</b>	<b>55,479</b>	<b>77,319</b>	<b>55,501</b>	<b>58,684</b>	<b>62,802</b>	<b>66,403</b>
Fee and commission income	6,678	9,305	11,595	12,077	13,889	16,389	19,830
Dividend income	486	655	1,343	1,111	1,254	1,426	1,632
Foreign exchange income	2,143	2,970	7,241	3,621	4,164	4,580	5,038
Gain on securities	186	-41	183	98	242	397	613
Other income	780	1,138	835	989	1,087	1,196	1,316
<b>Total non-markup / interest income</b>	<b>10,273</b>	<b>14,027</b>	<b>21,196</b>	<b>17,895</b>	<b>20,636</b>	<b>23,988</b>	<b>28,429</b>
<b>Non mark-up / interest expenses</b>							
Operating expenses	-34,040	-38,624	-51,787	-35,561	-38,431	-42,050	-45,947
Workers' Welfare Fund	-672	-620	-817	-802	-803	-878	-960
Other charges	-57	-36	-156	-2	-2	-2	-2
<b>Profit Before Provisions</b>	<b>33,124</b>	<b>30,226</b>	<b>45,755</b>	<b>37,032</b>	<b>40,085</b>	<b>43,860</b>	<b>47,925</b>
Provisions / (reversal of provisions)	-4,543	47	-12,871	3,819	-3,113	-3,620	-4,206
<b>Profit before income tax</b>	<b>28,581</b>	<b>30,273</b>	<b>32,884</b>	<b>40,851</b>	<b>36,972</b>	<b>40,240</b>	<b>43,719</b>
Income tax expense	-10,770	-11,570	-16,314	-14,847	-16,637	-18,108	-19,673
<b>Profit for the year</b>	<b>17,812</b>	<b>18,702</b>	<b>16,570</b>	<b>26,004</b>	<b>20,335</b>	<b>22,132</b>	<b>24,045</b>
<b>EPS</b>	<b>16.03</b>	<b>16.83</b>	<b>14.91</b>	<b>23.40</b>	<b>18.30</b>	<b>19.91</b>	<b>21.63</b>

Source: ACPL Research, Company Financials

## Horizontal Analysis

	2020	2021	2022	2023E	2024E	2025E	2025E
Mark-up / Return / Interest earned	18.6%	-6.8%	72.1%	25.9%	14.1%	12.1%	12.4%
Mark-up / Return / Interest expensed	5.0%	-9.4%	101.7%	59.8%	16.5%	13.4%	14.0%
<b>Net Mark-up / Interest Income</b>	<b>39.9%</b>	<b>-3.7%</b>	<b>39.4%</b>	<b>-28.2%</b>	<b>5.7%</b>	<b>7.0%</b>	<b>5.7%</b>
<b>Total non-markup / interest income</b>	<b>9.6%</b>	<b>39.3%</b>	<b>24.6%</b>	<b>4.2%</b>	<b>15.0%</b>	<b>18.0%</b>	<b>21.0%</b>
<b>Non mark-up / interest expenses</b>	<b>7.7%</b>	<b>34.8%</b>	<b>104.9%</b>	<b>-17.3%</b>	<b>12.9%</b>	<b>13.7%</b>	<b>14.4%</b>
Operating expenses	-671.7%	-122.2%	-544.3%	-46.4%	146.6%	64.4%	54.4%
Workers' Welfare Fund	17.5%	45.9%	-26.7%	18.4%	10.0%	10.0%	10.0%
Other charges	<b>8.4%</b>	<b>36.5%</b>	<b>51.1%</b>	<b>-15.6%</b>	<b>15.3%</b>	<b>16.2%</b>	<b>18.5%</b>
<b>Profit Before Provisions</b>							
Provisions / (reversal of provisions)	22.8%	13.5%	34.1%	-31.3%	8.1%	9.4%	9.3%
<b>Profit before income tax</b>	<b>49.8%</b>	<b>-7.7%</b>	<b>31.8%</b>	<b>-1.9%</b>	<b>0.1%</b>	<b>9.4%</b>	<b>9.3%</b>
Income tax expense	-39.2%	-36.0%	331.0%	-99.0%	0.0%	0.0%	0.0%
<b>Profit for the year</b>	<b>47.8%</b>	<b>-8.8%</b>	<b>51.4%</b>	<b>-19.1%</b>	<b>8.2%</b>	<b>9.4%</b>	<b>9.3%</b>
<b>EPS</b>	<b>33.8%</b>	<b>-101.0%</b>	<b>-27334%</b>	<b>-129.7%</b>	<b>-181.5%</b>	<b>16.3%</b>	<b>16.2%</b>
<b>EPS</b>	<b>50.3%</b>	<b>5.9%</b>	<b>8.6%</b>	<b>24.2%</b>	<b>-9.5%</b>	<b>8.8%</b>	<b>8.6%</b>

Source: ACPL Research, Company Financials

## Key Ratios

Profitability Ratios		2020	2021	2022	2023E	2024E	2025E	2026E
Yield on Earning Assets	%	8.98	6.88	9.52	10.41	9.96	9.37	8.84
Interest Cost	%	4.98	3.69	5.99	8.28	8.07	7.66	7.30
Net Interest Margin	%	4.00	3.19	3.53	2.13	1.90	1.71	1.54
Operating Cost to Income	%	51.21	56.51	53.56	49.54	49.46	49.46	49.46
Return on Equity	%	22.30	20.78	17.40	23.10	16.15	15.75	15.80
Return on Assets	%	1.17	1.01	0.73	0.99	0.65	0.59	0.54
<b>Balance Sheet Analysis</b>		<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
Deposits Growth	%	21.68	19.11	19.72	19.72	19.72	19.72	19.72
CASA to Deposits	%	76.56	76.52	76.01	76.01	74.01	74.01	74.01
Advances to Deposits	%	46.40	56.02	51.88	53.91	53.99	54.06	54.12
Investments to Deposits	%	69.56	63.11	73.88	67.95	64.09	60.86	58.17
PIBs to Investments	%	68.07	65.30	73.90	73.90	73.90	73.90	73.90
T Bills to Investments	%	18.95	15.16	10.51	10.51	10.51	10.51	10.51
Gross Infection Ratio	%	1.41	1.04	1.77	1.46	1.46	1.46	1.46
Provisioning Coverage	%	88.02	83.83	78.84	94.90	91.90	88.90	85.90
Net Infection Ratio	%	0.17	0.17	0.38	0.08	0.12	0.16	0.21
Capital Adequacy Ratio	%	15.09	13.49	14.74	14.88	14.13	13.40	12.43
Leverage Ratio	%	3.98	3.74	3.71	3.71	3.52	3.32	3.02
<b>Operational Analysis</b>		<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
Market Share - Deposits	%	6.15	6.25	6.98	7.18	7.57	7.99	8.42
Market Share - Advances	%	6.15	7.36	6.98	8.16	8.60	9.08	9.57
Market Share - Investments	%	6.62	5.88	6.60	7.32	7.28	7.29	7.35
No. of Branches		818	956	1079	1218	1375	1551	1751
<b>Investment Ratios</b>		<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
Dividend Per Share		4.50	7.00	7.00	8.50	7.00	7.50	8.00
Dividend Yield	%	9.97	15.50	15.50	18.83	15.50	16.61	17.72
Dividend Cover	x	3.56	2.40	2.13	2.75	2.61	2.66	2.70
Retention Ratio	%	71.92	58.40	53.05	63.11	63.11	63.11	63.11
Payout Ratio	%	28.08	41.60	46.95	36.89	36.89	36.89	36.89
No. of Shares	('m)	1111	1111	1111	1111	1111	1111	1111
Earnings Per Share		16.03	16.83	14.91	23.40	18.30	19.91	21.63
Book Value Per Share		71.85	80.99	85.69	101.28	113.25	126.47	136.92
Price to Earnings	x	2.82	2.68	3.03	1.93	2.47	2.27	2.09
Price to Book Value	x	0.63	0.56	0.53	0.45	0.40	0.36	0.33

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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SELL	Less than and equal to -5%

Sector Rating	Sector Outlook
Overweight	Positive
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