

# FABL

## Transition to Islamic Bank: Enabling Riba-free Economic Progress

Equity Research | Commercial Banks | Tuesday, 22 November, 2022

We initiate our coverage on Faysal Bank Limited (FABL) with a Justified P/B based Dec-23 TP of Rs.36 which provides an upside potential of 19%.

FABL posted a massive growth of 51 percent in its profit before tax for the nine months period ended September, 2022. Moreover, the bank has recently achieved the landmark of Rs.1 trillion in its Balance Sheet footings. With respect to conversion towards Islamic banking, the bank applied for the issuance of an Islamic banking license in October 2022. Going forward, we expect the bank to benefit from the announcement by the Finance Ministry to withdraw its appeal against the Federal Shariat Court's decree to ensure the conversion of Islamic instruments by 2027.

### Company Overview

FABL was incorporated in October 1994 and is the 6<sup>th</sup> fully Islamic bank in Pakistan with operations in 240+ cities across Pakistan with 643 branches under its network. The bank is the subsidiary of Ithmaar Bank B.S.C, Bahrain.

### Strong Performance in 9MFY22

In the first nine months of FY22, FABL delivered an impressive performance with a record Profit Before Tax (PBT) of Rs.15bn, a massive growth of 51% over Rs.9.9bn in the corresponding period last year. However, Profit After Tax (PAT) increased by just 26% due to excessive and retrospective taxation announced by the Federal government.

Furthermore, strong balance sheet expansion and improvement in overall spreads assisted the net markup income to grow by 42% to Rs.26.9bn while due to a loss in securities, non-markup income grew marginally by just 3%. However, the total revenue jumped by 33% to Rs.33.6bn over the corresponding same period last year. Moreover, non-markup expenses increased by 27% on the back of high inflation, devaluation of PKR, and an expansion in the branch network.

On the back of a healthy growth in current account deposits by 13% YoY in addition to borrowings, FABL achieved the landmark of Rs.1 trillion in total assets. Additionally, market share improved to 3.2% in September 2022 over 3.1% in December 2021. The bank continues to generate liquidity through investments in Sukuks while the overall investments have increased by 15% to Rs412bn.

EPS for 9MCY22 is Rs.5.05, reporting an increase of 26.2% over Rs.4.00 in 9MCY21. The bank declared the interim cash dividend of Rs.6.0 for nine months ended September 2022.

Going forward, we expect the bank to continue its growth trajectory in the coming years as well amid Islamic conversion and an improvement in ADR. Moreover, with an expansion in the branch network and strong deposit mobilization, we expect the market share to improve further.

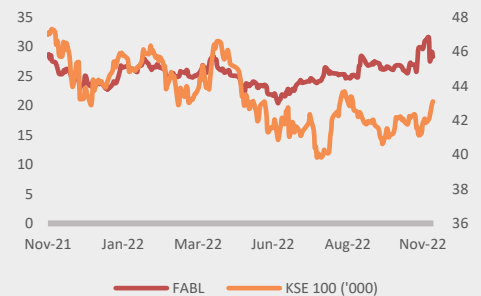
### Valuation

FABL is currently trading at CY23E PE of 3.68x. Furthermore, the scrip is trading at a CY23E P/B of 0.59x which offers a discount of 20% relative to its historical 3-year average of 0.75x. We recommend our investors to **BUY** the scrip with a justified PB Jun-23 of Rs.36 which offers an upside potential of 19%. Furthermore, it offers a dividend yield of 15.95% which makes the total return of 35%.

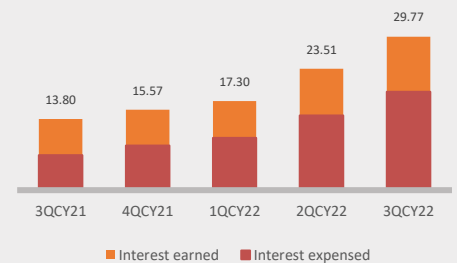
### Key Statistics

Symbol	FABL
TP - Jun 23	36.00
LDPC	30.30
Upside	19%
Free Float (mn)	379
Market Cap. (Rs.mn)	46,001

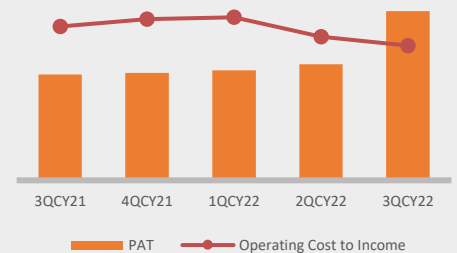
### FABL vs KSE 100



### Interest Earned vs Expensed (Rs'bn)



### PAT (Rs'bn) vs Operating Cost To Income



Sources: ACPL Research, Company Financials, PSX

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## Financial Projections

Rupees' millions	2020A	2021A	2022E	2023E	2024E	2025E	2026E
Mark-up / Return / Interest earned	55,922	53,869	94,107	109,616	125,418	147,700	174,823
Mark-up / Return / Interest expensed	-31,388	-28,035	-58,323	-65,145	-78,527	-94,705	-116,262
<b>Net Mark-up / Interest Income</b>	<b>24,534</b>	<b>25,834</b>	<b>35,783</b>	<b>44,471</b>	<b>46,891</b>	<b>52,995</b>	<b>58,561</b>
Fee and commission income	3,861	5,094	6,274	7,728	9,519	11,724	14,441
Dividend income	378	464	556	589	624	661	700
Foreign exchange income	2,093	2,379	3,200	3,892	4,733	5,757	7,002
(Loss) / gain from derivatives	48	-25	169	171	179	188	198
(Loss) / gain on securities	1,697	310	-1,623	385	434	493	563
Other income	153	287	263	294	329	367	410
<b>Total non-markup / interest income</b>	<b>8,231</b>	<b>8,509</b>	<b>8,840</b>	<b>13,060</b>	<b>15,819</b>	<b>19,191</b>	<b>23,314</b>
<b>Non-mark-up/interest expenses</b>							
Operating expenses	-19,401	-20,606	-25,268	-32,577	-35,509	-40,875	-46,362
Workers' Welfare Fund	-225	-274	-416	-485	-528	-608	-690
Other charges	-114	-7	-23	-81	-93	-110	-130
<b>Profit Before Provisions</b>	<b>13,025</b>	<b>13,456</b>	<b>18,916</b>	<b>24,388</b>	<b>26,579</b>	<b>30,593</b>	<b>34,694</b>
Provisions / (reversal of provisions)	-2,254	-48	981	-3,251	-3,873	-4,614	-5,497
<b>Profit before income tax</b>	<b>10,770</b>	<b>13,409</b>	<b>19,897</b>	<b>21,137</b>	<b>22,706</b>	<b>25,979</b>	<b>29,197</b>
Income tax expense	-4,260	-5,256	-9,751	-9,512	-10,218	-11,691	-13,139
<b>Profit for the year</b>	<b>6,510</b>	<b>8,153</b>	<b>10,146</b>	<b>11,625</b>	<b>12,488</b>	<b>14,288</b>	<b>16,058</b>
<b>EPS</b>	<b>4.29</b>	<b>5.37</b>	<b>6.68</b>	<b>7.66</b>	<b>8.23</b>	<b>9.41</b>	<b>10.58</b>

## Horizontal Analysis

Horizontal Analysis	2020A	2021A	2022E	2023E	2024E	2025E	2026E
Mark-up / Return / Interest earned	-4.2%	-3.7%	74.7%	16.5%	14.4%	17.8%	18.4%
Mark-up / Return / Interest expensed	-15.8%	-10.7%	108.0%	11.7%	20.5%	20.6%	22.8%
<b>Net Mark-up / Interest Income</b>	<b>16.2%</b>	<b>5.3%</b>	<b>38.5%</b>	<b>24.3%</b>	<b>5.4%</b>	<b>13.0%</b>	<b>10.5%</b>
Fee and commission income	-6.1%	31.9%	23.2%	23.2%	23.2%	23.2%	23.2%
Dividend income	-10.8%	22.7%	19.8%	5.9%	5.9%	5.9%	5.9%
Foreign exchange income	-26.1%	13.7%	34.5%	21.6%	21.6%	21.6%	21.6%
(Loss) / gain on securities	-392.9%	-81.7%	-623.0%	-123.7%	12.8%	13.5%	14.1%
Other income	-45.6%	87.5%	-8.1%	11.7%	11.7%	11.7%	11.7%
<b>Total non-markup / interest income</b>	<b>13.6%</b>	<b>3.4%</b>	<b>3.9%</b>	<b>47.7%</b>	<b>21.1%</b>	<b>21.3%</b>	<b>21.5%</b>
<b>Non-mark-up/interest expenses</b>							
Operating expenses	13.7%	6.2%	22.6%	28.9%	9.0%	15.1%	13.4%
Workers' Welfare Fund	-3.2%	21.5%	52.1%	16.5%	9.0%	15.1%	13.4%
Other charges	250.6%	-93.9%	234.3%	251.4%	14.4%	17.8%	18.4%
<b>Profit Before Provisions</b>	<b>18.0%</b>	<b>3.3%</b>	<b>40.6%</b>	<b>28.9%</b>	<b>9.0%</b>	<b>15.1%</b>	<b>13.4%</b>
Provisions / (reversal of provisions)	167.4%	-97.9%	-2159.4%	-431.4%	19.1%	19.1%	19.1%
<b>Profit before income tax</b>	<b>5.7%</b>	<b>24.5%</b>	<b>48.4%</b>	<b>6.2%</b>	<b>7.4%</b>	<b>14.4%</b>	<b>12.4%</b>
Income tax expense	2.6%	23.4%	85.5%	-2.5%	7.4%	14.4%	12.4%
<b>Profit for the year</b>	<b>7.8%</b>	<b>25.2%</b>	<b>24.4%</b>	<b>14.6%</b>	<b>7.4%</b>	<b>14.4%</b>	<b>12.4%</b>
<b>EPS</b>	<b>7.8%</b>	<b>25.2%</b>	<b>24.4%</b>	<b>14.6%</b>	<b>7.4%</b>	<b>14.4%</b>	<b>12.4%</b>

Source: ACPL Research, Company Financials

Sources: ACPL Research, Company Financials, PSX

## Key Ratios

Profitability Ratios		2020A	2021A	2022E	2023E	2024E	2025E	2026E
Yield on Earning Assets	%	8.59	6.69	11.49	11.29	10.90	10.82	10.80
Interest Cost	%	5.12	3.64	7.30	6.84	6.92	7.01	7.22
Net Interest Margin	%	3.47	3.04	4.19	4.45	3.98	3.82	3.58
Operating Cost to Income	%	60.25	60.82	57.61	57.61	57.62	57.62	57.63
Return on Equity	%	10.83	12.39	15.22	16.08	15.90	16.68	17.15
Return on Assets	%	0.92	0.94	1.12	1.09	0.99	0.95	0.90
<b>Balance Sheet Analysis</b>		<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
Deposits Growth	%	18.10	19.14	10.62	19.14	19.14	19.14	19.14
CASA to Deposits	%	68.03	67.55	58.28	67.81	62.48	67.81	62.48
Advances to Deposits	%	58.85	61.53	72.45	72.43	72.41	72.40	72.39
Investments to Deposits	%	51.22	55.50	50.92	47.81	45.20	43.01	41.17
PIBs to Investments	%	0.00	0.00	0.00	0.00	0.00	0.00	0.00
T Bills to Investments	%	76.23	82.96	82.96	82.96	82.96	82.96	82.96
Gross Infection Ratio	%	7.72	5.62	5.62	5.62	5.62	5.62	5.62
Provisioning Coverage	%	78.74	83.50	72.06	72.06	72.06	72.06	72.06
Net Infection Ratio	%	1.75	0.97	1.51	1.51	1.51	1.51	1.51
Capital Adequacy Ratio	%	18.67	17.53	18.46	17.63	17.07	16.80	16.84
Leverage Ratio	%	5.96	5.46	4.88	4.49	4.12	3.79	3.49
<b>Operational Analysis</b>		<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
Market Share - Deposits	%	3.02	3.07	2.96	3.07	3.18	3.30	3.43
Market Share - Advances	%	3.41	3.56	3.69	3.83	3.97	4.12	4.27
Market Share - Investments	%	3.27	3.55	3.01	2.93	2.87	2.84	2.82
No. of Branches		415	511	629	775	954	1175	1446
<b>Investment Ratios</b>		<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
Dividend Per Share		0.00	1.50	6.00	4.50	4.75	5.50	6.25
Dividend Yield	%	0.00	5.32	21.26	15.95	16.83	19.49	22.15
Dividend Cover	x	0.00	3.58	1.11	1.70	1.73	1.71	1.69
Retention Ratio	%	100.00	72.08	10.25	41.16	41.16	41.16	41.16
Payout Ratio	%	0.00	27.92	89.75	58.84	58.84	58.84	58.84
No. of Shares	('m)	1518	1518	1518	1518	1518	1518	1518
Earnings Per Share		4.29	5.37	6.68	7.66	8.23	9.41	10.58
Book Value Per Share		39.60	43.37	43.94	47.64	51.76	56.45	61.70
Price to Earnings	x	6.58	5.25	4.22	3.68	3.43	3.00	2.67
Price to Book Value	x	0.71	0.65	0.64	0.59	0.55	0.50	0.46

Source: ACPL Research, Company Financials

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<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

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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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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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