

BAFL

1HCY22 Result Review: BUY Stance Maintained

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BAFL has announced its 1HCY22 result where it posted a profit after tax of Rs8.7bn (EPS: Rs4.9) as compared to a profit after tax of Rs6.93bn (EPS: Rs3.9) in the same period last year, up by 25.5% YoY.

The bank has posted a net interest income of Rs32.14bn against Rs22.08bn in SPLY, recording a growth of 45.6% YoY. We note that this growth is attributed to the increase in interest earned. Non-interest income has increased by 38.4% YoY to Rs10.9bn as compared to Rs7.88bn 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 50.4% as compared to 58% during SPLY.

The bank has charged the provision of Rs4.04bn which is almost four times higher than the SPLY's tally of Rs1.15bn. Furthermore, effective taxation has surged to 59.2% as compared to 40.3% SPLY due to the imposition of super tax.

BAFL is currently trading at CY22E PE of 2.99x. Furthermore, the scrip is trading at a CY22E P/B of 0.50x which offers a discount of 17% relative to its historical 3-year average of 0.60x. We have a **BUY** stance on the scrip with a Justified P/B based Jun-23 TP of Rs.45 which provides an upside potential of 44%. Furthermore, it also offers an attractive dividend yield of 16% which makes the total return 60%.

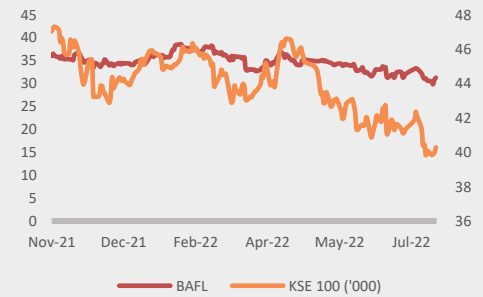
| Rupees' millions | 2QCY22 | 2QCY21 | YoY | 1HCY22 | 1HCY21 | YoY |
|--|---------------|---------------|----------------|---------------|---------------|----------------|
| Interest earned | 46,688 | 24,624 | 89.6% ▲ | 82,631 | 46,012 | 79.6% ▲ |
| Interest expensed | -28,835 | -12,867 | 124.1% ▲ | -50,488 | -23,929 | 111.0% ▲ |
| Net Interest Income | 17,854 | 11,757 | 51.9% ▲ | 32,143 | 22,083 | 45.6% ▲ |
| Fee and commission income | 2,686 | 1,992 | 34.9% ▲ | 5,159 | 3,852 | 33.9% ▲ |
| Dividend income | 442 | 191 | 130.8% ▲ | 666 | 324 | 105.5% ▲ |
| Foreign exchange income | 3,421 | 1,064 | 221.6% ▲ | 4,852 | 1,722 | 181.8% ▲ |
| (Loss) / gain on securities | -93 | 757 | 112.3% ▼ | -82 | 1,851 | 104.4% ▼ |
| Other income | 43 | 42 | 3.5% ▲ | 204 | 80 | 155.3% ▲ |
| Non-Interest Income | 6,519 | 4,044 | 61.2% ▲ | 10,901 | 7,877 | 38.4% ▲ |
| Operating expenses | -11,429 | -8,932 | 28.0% ▲ | -21,711 | -17,390 | 24.8% ▲ |
| Workers' Welfare Fund | -264 | -120 | 120.1% ▲ | -424 | -229 | 84.8% ▲ |
| Other charges | -5 | -12 | 56.9% ▼ | -7 | -19 | 62.2% ▼ |
| Profit Before Provisions | 12,675 | 6,736 | 88.2% ▲ | 20,902 | 12,322 | 69.6% ▲ |
| Provisions | -3,654 | -934 | 291.2% ▲ | -4,041 | -1,150 | 251.3% ▲ |
| Profit Before Taxation | 9,021 | 5,802 | 55.5% ▲ | 16,860 | 11,172 | 50.9% ▲ |
| Taxation | -5,336 | -2,339 | 128.1% ▲ | -8,157 | -4,238 | 92.5% ▲ |
| Profit After Taxation | 3,685 | 3,463 | 6.4% ▲ | 8,703 | 6,934 | 25.5% ▲ |
| Earnings Per Share | 2.07 | 1.95 | 6.4% ▲ | 4.90 | 3.90 | 25.5% ▲ |
| Dividend | 2.50 | 2.00 | 25.0% ▲ | 2.50 | 2.00 | 25.0% ▲ |
| Bonus | 0% | 0% | | 0% | 0% | |
| Closing Period from 12 August 2022 to 16 August 2022 | | | | | | |
| Operating Cost to Income | -46.9% | -56.5% | 9.6% ▼ | -50.4% | -58.0% | 7.6% ▼ |
| Effective Taxation | -59.2% | -40.3% | 18.8% ▲ | -48.4% | -37.9% | 10.4% ▲ |

Source: ACPL Research, Company Financials

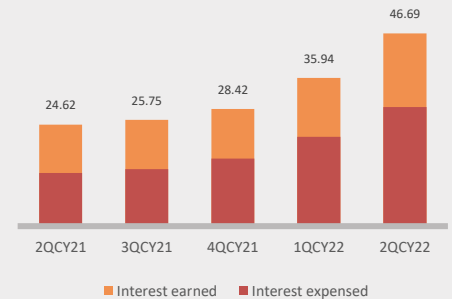
Key Statistics

| Symbol | BAFL |
|----------------------|--------|
| TP - Jun 23 | 45.00 |
| LDCP | 31.25 |
| Upside (%) | 44 |
| Free Float ('mn) | 622 |
| Market Cap. (Rs.'mn) | 59,357 |

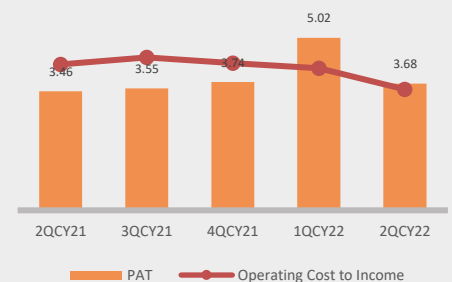
BAFL vs KSE 100



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 | 167,134 | 221,087 | 228,116 | 231,835 |
| Mark-up / Return / Interest expensed | -47,623 | -47,911 | -54,134 | -100,704 | -142,196 | -141,572 | -137,179 |
| Net Mark-up / Interest Income | 44,857 | 44,705 | 46,048 | 66,430 | 78,891 | 86,544 | 94,657 |
| Fee and commission income | 7,034 | 6,559 | 8,221 | 10,358 | 11,622 | 13,041 | 14,632 |
| Dividend income | 339 | 403 | 603 | 1,186 | 693 | 734 | 779 |
| Foreign exchange income | 2,826 | 3,398 | 4,128 | 9,288 | 13,882 | 20,750 | 31,014 |
| (Loss) / gain from derivatives | -68 | -21 | 201 | 0 | 0 | 0 | 0 |
| (Loss) / gain on securities | 84 | 2,285 | 3,142 | 650 | 717 | 791 | 872 |
| Other income | 180 | 171 | 179 | 268 | 304 | 345 | 391 |
| Total non-markup / interest income | 10,396 | 12,795 | 16,474 | 21,751 | 27,220 | 35,660 | 47,688 |
| Non mark-up / interest expenses | | | | | | | |
| Operating expenses | -29,066 | -31,443 | -36,316 | -43,429 | -57,718 | -66,473 | -77,428 |
| Workers' Welfare Fund | -508 | -494 | -498 | -851 | -920 | -1,060 | -1,235 |
| Other charges | -269 | -94 | -26 | -17 | -22 | -23 | -23 |
| Profit Before Provisions | 25,410 | 25,468 | 25,682 | 43,884 | 47,450 | 54,649 | 63,659 |
| Provisions / (reversal of provisions) | -3,029 | -7,589 | -2,312 | -7,834 | -2,133 | -2,274 | -2,422 |
| Profit before income tax | 22,382 | 17,878 | 23,370 | 36,050 | 45,317 | 52,375 | 61,238 |
| Income tax expense | -9,686 | -7,403 | -9,154 | -17,484 | -20,393 | -23,569 | -27,557 |
| Profit for the year | 12,696 | 10,475 | 14,217 | 18,566 | 24,924 | 28,806 | 33,681 |
| EPS | 7.14 | 5.89 | 8.00 | 10.45 | 14.02 | 16.21 | 18.95 |

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% | 66.8% | 32.3% | 3.2% | 1.6% |
| Mark-up / Return / Interest expensed | 71.8% | 0.6% | 13.0% | 86.0% | 41.2% | -0.4% | -3.1% |
| Net Mark-up / Interest Income | 42.0% | -0.3% | 3.0% | 44.3% | 18.8% | 9.7% | 9.4% |
| Total non-markup / interest income | 1.9% | 23.1% | 28.8% | 32.0% | 25.1% | 31.0% | 33.7% |
| Non mark-up / interest expenses | | | | | | | |
| Operating expenses | 21.3% | 8.2% | 15.5% | 19.6% | 32.9% | 15.2% | 16.5% |
| Workers' Welfare Fund | 29.5% | -2.6% | 0.8% | 70.8% | 8.1% | 15.2% | 16.5% |
| Other charges | 4086.7% | -64.9% | -73.0% | -34.5% | 32.3% | 3.2% | 1.6% |
| Profit Before Provisions | 45.8% | 0.2% | 0.8% | 70.9% | 8.1% | 15.2% | 16.5% |
| Provisions / (reversal of provisions) | 414.7% | 150.6% | -69.5% | 238.9% | -72.8% | 6.6% | 6.5% |
| Profit before income tax | 32.9% | -20.1% | 30.7% | 54.3% | 25.7% | 15.6% | 16.9% |
| Income tax expense | 44.8% | -23.6% | 23.6% | 91.0% | 16.6% | 15.6% | 16.9% |
| Profit for the year | 25.1% | -17.5% | 35.7% | 30.6% | 34.2% | 15.6% | 16.9% |
| EPS | 25.1% | -17.5% | 35.7% | 30.6% | 34.2% | 15.6% | 16.9% |

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 | 9.24 | 11.10 | 10.40 | 9.59 |
| Interest Cost | % | 5.21 | 3.91 | 3.49 | 5.85 | 7.52 | 6.81 | 6.00 |
| Net Interest Margin | % | 4.28 | 3.24 | 2.66 | 3.39 | 3.59 | 3.59 | 3.59 |
| Operating Cost to Income | % | 54.01 | 55.71 | 58.92 | 50.23 | 55.28 | 55.28 | 55.28 |
| Return on Equity | % | 14.42 | 11.51 | 14.22 | 16.69 | 19.93 | 20.41 | 21.11 |
| Return on Assets | % | 1.19 | 0.76 | 0.82 | 0.97 | 1.18 | 1.24 | 1.31 |
| 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 | 63.81 | 63.73 | 63.65 | 63.57 |
| Investments to Deposits | % | 38.23 | 62.04 | 71.04 | 67.95 | 65.26 | 62.82 | 60.60 |
| 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 | 4.02 | 3.92 | 3.82 | 3.72 |
| Provisioning Coverage | % | 79.14 | 70.83 | 85.49 | 85.49 | 85.49 | 85.49 | 85.49 |
| Net Infection Ratio | % | 0.91 | 1.31 | 0.53 | 0.56 | 0.55 | 0.53 | 0.52 |
| Capital Adequacy Ratio | % | 16.88 | 16.53 | 14.43 | 14.44 | 14.71 | 15.02 | 15.37 |
| Leverage Ratio | % | 5.83 | 4.44 | 3.84 | 3.85 | 4.00 | 4.16 | 4.33 |
| 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 | 5.00 | 7.00 | 8.00 | 9.50 |
| Dividend Yield | % | 12.80 | 12.80 | 12.80 | 16.00 | 22.40 | 25.60 | 30.40 |
| Dividend Cover | x | 1.79 | 1.47 | 2.00 | 2.09 | 2.00 | 2.03 | 1.99 |
| 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 | 10.45 | 14.02 | 16.21 | 18.95 |
| Book Value Per Share | | 49.53 | 51.21 | 56.27 | 62.60 | 70.38 | 79.42 | 89.78 |
| Price to Earnings | x | 4.37 | 5.30 | 3.91 | 2.99 | 2.23 | 1.93 | 1.65 |
| Price to Book Value | x | 0.63 | 0.61 | 0.56 | 0.50 | 0.44 | 0.39 | 0.35 |

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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