

REP-091  
December 6, 2017

## Instrument

- Bank Alfalah is raising up to Rs7,000mn (including greenshoe option of Rs2,000mn), by issuing a TFC which will be classified as Additional Tier 1 Capital
- The TFC is being issued in denominations of Rs5,000, offering a coupon rate of 6M KIBOR + 1.5% (equates to 7.7% at current KIBOR) payable semi-annually in arrears
- The TFC is perpetual (i.e. no maturity date) but has a call option after 5 years. The paper will be listed on PSX which can be an avenue for initial investors to exit through sale

## Objectives

- The purpose of the issue is to increase Tier 1 Capital and thus improve Capital Adequacy Ratio which currently stands at 13.18% (SBP requirement 10.65%)
- Improved capital adequacy would enhance BAFL's ability to participate in anticipated growth in private sector credit

## Financials

- Annual interest cost of this TFC (including greenshoe options) is estimated at Rs539m which is around 4% of pre-tax profits for 2016
- We anticipate the interest cost to decline by around Rs290m per annum post December 2017 following maturity of current TFCs (TFC IV) amounting to Rs3,324m

## Recommendation

- This TFC offers an opportunity for fixed income investor to enhance their yield. TFC offers yield of 7.7% based on current KIBOR, which is higher than 5-Y PIBs (6.9%) and fixed deposit (~5.5%).
- We recommend investors to review the prospectus prior to making their decision

## Key Financial highlights of Bank Alfalah Limited for past 6 years

PKR in Millions	2011	2012	2013	2014	2015	2016
Total Deposits	401,233	457,044	525,526	605,963	640,189	640,944
Total Advances	213,640	252,173	276,039	311,507	350,351	395,863
Total Investments	166,532	189,487	219,690	324,319	423,100	389,093
Profit Before Tax	5,434	6,783	6,807	8,514	12,604	13,023
Profit After Tax	3,503	4,556	4,676	5,641	7,523	7,900
Shareholders' Equity	22,617	25,502	28,266	37,824	42,425	49,185
Total Assets	468,294	536,569	611,427	743,128	902,607	917,457
No. of Branches	406	471	574	648	653	639
CET 1 to RWA	8.62%	8.45%	8.44%	9.57%	9.59%	9.86%
Capital Adequacy Ratio	11.6%	12.6%	12.06%	12.75%	13.27%	13.18%

## Key Terms and Comments

Mark-up will be:

- a) 6-Month Kibor + 1.50% (provided the bank is compliant with SBP's Minimum Capital Requirements (MCR) and Capital Adequacy Requirements (CAR)); or

Mark-Up Rate: b) 0% Mark-Up (if not compliant with the MCR and CAR Requirements).

BAFL's capital currently stands at Rs15.9 (SBP's MCR requirement Rs10bn) whilst CAR stands at 13.18% (SBP's requirement 10.65%). Mark up is non-cumulative

Lock-in Clause Mark-up will only be paid from current year's earning and if BAFL is in compliance of regulatory MCR and CAR requirements set by SBP. As noted above, expected interest cost on TFC is likely to be around 4% of annual pre-tax earnings for 2016

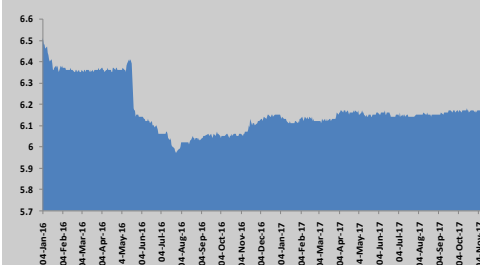
Call Option BAFL may exercise call option any time after five years from the Issue Date subject to certain conditions. Call price will be face value of TFC plus coupon/mark up accrued from the last coupon/mark-up payment date up to but excluding the Call Option Date

The claims of the Investors will rank:

- Seniority of Claim
- a) superior to the claims of ordinary shareholders;
  - b) junior to all other claims (including depositors and general creditors);
  - c) pari passu without preference amongst themselves.

Instrument	Additional Tier 1 TFC
Issuer	Bank Alfalah Limited
Issuer Rating Long Term	AA+
Issuer Rating Short Term	A1+
Instrument Rating	AA-
Issue Size	Rs5bn
Greenshoe Option	Rs2bn
Per Unit Price	Rs5,000
Minimum Investment	Rs5,000
Issue Price	At Par
Coupon Rate	6M KIBOR+1.5%
Tenure	Perpetual
Current	6M KIBOR 6.2%

6M KIBOR TREND



Source: SBP

Ratings by : JCR-VIS and PACRA

## Glossary

CET 1	Common Equity Tier 1
RWA	Risk Weighted Assets
PONV	Point of Non-Viability

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