

**Bank Alfalah Limited (BAFL)**

- **BAFL posted 1HCY18 profit after tax of Rs6.03bn (EPS:Rs3.40) as compared to Rs4.88bn (EPS:Rs2.75) in the SPLY, up by 24% YoY. Growth in earning has emanated from increase in non interest income, reversal in provision charges and decline in admin cost**
- **BAFL is in a position to benefit from the rising interest rate trend where its ADR stand at around 72%, focus towards non remunerative deposit (contribute around 46% in total deposits) and investment in T-Bills which stood at 46% of total investment at the end of 1HCY18.**
- **BAFL’s effort of restructuring has shown positive result as cost to income ratio has declined to 53.5% in 2QCY18 as compared to 59.8% in 2QCY17**
- **BAFL’s CAR stands at 14.7% which is well above the regulatory requirement, it has enabled the bank to go further towards risky assets**
- **We expect BAFL’s CY18E ROE to move to ~18% as compared to 5 years avg. of ~16%. BAFL is currently trading at CY18E/CY19E P/B of 1.25x/1.10x as compared to Justified P/B of 1.45x. We expect BAFL to post FY18E and FY19E EPS of Rs6.71 and 7.35 (Bonus Adjusted) respectively and currently trading at CY18E and CY19E P/E 7.45x and 6.80x respectively. We have a BUY stance on stock with Justified P/B based Dec 2019 TP of Rs65/share**

**1HCY18 Result Highlights:**

- BAFL posted 1HCY18 profit after tax of Rs6.03bn (EPS: Rs3.40) as compared to Rs4.88bn (EPS: Rs2.75) in the SPLY, up by 24% YoY. Growth in earning has emanated from increase in non interest income, reversal in provision charges and decline in admin cost.
- Net interest income has increased by 3.6% despite nominal growth in interest revenue. Other income has posted growth of 5.1% which is mainly due to increase in FX income (up by 19% YoY) and fee & commission income (up 12% YoY)
- BAFL posted provision reversal of Rs495mn in 1HCY18 as compared to provision charge of 56mn in SPLY. Admin expense declined by 1.2% YoY due to cost effective measures taken by bank

**Well positioned to take benefit from rising interest rates**

- BAFL is the major beneficiary of rising interest rate environment as bank’s ADR stands at 72% (against industry avg. of 52.2%) and advances grew by 17% YoY, around 46% investment in short term government papers (T-bills) and bank’s focus on non remunerative deposits which stand around 46% of total deposits which will improve earnings of BAFL in case of any increase in interest rate. We estimate 50bps increase in interest rate could add ~Rs0.69/share
- We expect BAFL CY18E ROE to move to ~18% as compared to 5 years avg. of 16%

**Management efforts has resulted in improved Admin to income ratio**

- BAFL’s plan to close down loss making branches, restructuring of existing branches and change in top management has resulted in cost savings as bank’s admin to cost ratio is down to 53.5% in 2QCY18 as compared to 59.8% in SPLY
- Recently introduced depositor protection mechanism for banks with an aim to provide protection to small depositors. According to regulation banks have to pay annual premium of 0.16% on eligible deposits. According to our estimate in CY19 BAFL have to charge additional cost of ~Rs680mn to meet the above regulation

**Capital Ratios at satisfactory level**

- BAFL’s CAR stand at 14.7% (well above SBP’s requirement of 11.9% till Dec-18) as compared to 12.7% in SPLY. To recall, BAFL issued Tier-1 instrument of Rs7bn at the start of CY18 which has strengthened capital base and has created further room to increase exposure in risky assets

**Valuation**

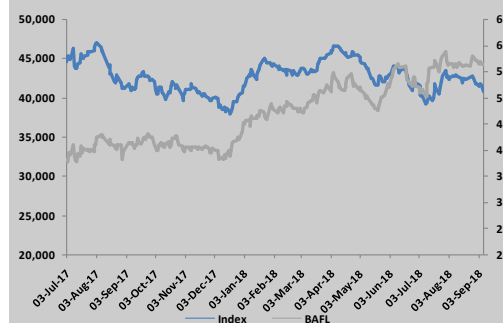
- We expect BAFL to post FY18E and FY19E EPS of Rs6.71 and 7.35 respectively and currently trading at CY18E and CY19E P/E of 7.45x and 6.80x. respectively
- BAFL is currently trading at CY18E/CY19E P/B of 1.25x/1.10x as compared to Justified P/B of 1.45x. We have BUY stance on stock with Justified P/B based Dec 2019 TP of Rs65/share

**Key Risk to our estimates**

- Change in deposit mix
- Lower than estimated increase in interest rates
- Increase in non performing loans
- Changes in regulatory and reporting requirement

KATS Symbol	BAFL
Reuters Symbol	BAFL.KA
Target Price	Rs65
LDPC	Rs49.98
Outstanding Shares (mn)	1,774.36
Free Float (mn)	562.65
Market Cap (mn Rs)	88,682.5

Price Performance Against KSE100 Index



Source: PSX

**Earning Estimates**

	CY17A	CY18E	CY19E
EPS (Rs)	4.72	6.71	7.35
P/E (x)	10.60	7.45	6.80
BVPS (Rs)	37.08	40.06	45.40
P/B (x)	1.35	1.25	1.10

Source: Co Financials, AS Research

\*\* EPS no. are bonus adjusted

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**Valuation Methodology**

To arrive at period end target price, Abbasi Securities uses different valuation methodologies:

- Comparable Method ( P/E, P/B etc.)
- Discounted Cash flow Method
- Equity and Asset based valuation

**Rating**

BUY	Total return more than 20% from last closing of market price
HOLD	Total return is in between 10% and 20% from last closing of market price
REDUCE	Total return is less than 10% from last closing market price