Bank Alfalah Limited

1QCY21: ANALYST BRIEFING TAKEAWAYS

Hefty capital gains, limited provisioning and lower tax charge jack up profitability

Bank Alfalah Limited (BAFL) held its webinar today to discuss 1QCY21 financial results and share management's outlook going forward. To recall, BAFL reported above expected earnings of PKR 3.5Bn (EPS: PKR2.0), ↑23/62% YoY/QoQ respectively. Significant decline in provisioning expense was the primary reason behind the above expected result alongside hefty gains from the investments portfolio. Earnings increase was also supported by lower tax charge on the back of adjustments in deferred tax which resulted in Effective Tax Rate (ETR) of only 35.4%. The bank did not announced an interim dividend. Key highlights of the webinar are discussed below:

- In the outgoing quarter, NIMs of the bank shrank to 3.4% compared to 5.3/3.6% in Mar/Dec'20. This was a resultant of sizable interest rate cuts over the course of the year and balance sheet expansion. Going forward, the management expects NIMs to expand as interest rate cycle reverses however, buildup in the investments book and volumetric growth will also aid the increase.
- The management highlighted that 13/5% YoY/QoQ surge in fee income was a resultant of greater trade business, increased remittance management and higher consumer card related fee. The bank has managed to increase its market share in the trade business to 7.7% from 7.0% in the SPLY and the management expects increased focus on the non-core income end will likely keep this upwelling.
- The management indicated that hike in admin expenses was a mix of rise in compensation expenses, addition of new branches and inflation related effect. The hike in compensation expenses was due to a combination of year end appraisals, new hiring as branch network is being expanded and conversion of some contractual employees into permanent employees. Going forward, the management expects the Cost/Income ratio to remain within the 60% range.
- The management expects to open 70 new branches in the current calendar year and hinted at a two-pronged strategy with simultaneous focus on branch expansion and digitalization for deposit mobilization.
- The management is confident on the loan book quality of the bank and does not expect any major NPL hike from that end. The bank has already booked general provisioning to the tune of PKR 4.25Bn which provides them a reasonable cushion to combat any adverse developments. The management expects 10% loan book growth for the current calendar year.
- The management does not expect a rate hike in the current year owing to the third wave of COVID-19 and impetus from the government to support the slow economic recovery.
- The management pointed out that the second phase of Treasury Single Account (TSA) will begin from July-21 onwards however, they do not expect any material impact on their balance sheet as a result of the exercise.
- The management reiterated that there is no specific timeline set for the implementation of IFRS-9 by the State Bank of Pakistan however, they expect to hear from the Central Bank with regards to developments on this end in 2Q.
- We have a BUY call on the scrip with a Dec-21 TP of PKR 40/sh.

BAFL vs. KSE-100 Index

%	3M	6M	12M
Absolute	-16	-18	-2
Relative to KSE	-11	-28	-31

Source: PSX

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Buy	>15% expected total return
Hold	10%-15% expected total return
Underperform	<10% expected total return
*Total stock return = capital gain + dividend yield	

Old rating system

Overweight	Total sector return > expected market return
Marketweight	Expected market return
Underweight	Total stock return < expected market return

Valuation Methodology

To arrive at our period end target prices, BMA Capital uses different valuation methodologies including

- Discounted cash flow (DCF, DDM)
- Relative Valuation (P/E, P/B, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)