

BAFL

Profit & Loss

Rs mn	1QCY12	1QCY13	YoY
Net Interest Income	4,645	3824	-18%
Non- Interest Income	1,463	1864	27%
Fee & commission	545	641	18%
Dividend Income	83	127	52%
FX income	372	335	-10%
Capital Gain	56	319	471%
Unrealized HFT (Loss)/	(7)	-2	-68%
Other Income	414	444	7%
Total Revenue	6,108	5688	-7%
Provision against Loan	718	132	-82%
Operating expenses	3,566	4028	13%
PBT	1,824	1527	-16%
Taxation	622	516	-17%
PAT	1,202	1011	-16%
EPS	0.89	0.75	-16%

Source: Bank records

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Profit & Loss

Rs mn	CY12A	CY13E	CY14E
Net Interest Income	18,580	18,429	21,221
Non- Interest Income	7,281	8,258	8,343
Total Revenue	25,861	26,687	29,564
Provision against Loan	3,559	2,977	3,157
Operating expenses	15,519	17,419	19,129
PBT	6,783	6,291	7,278
Taxation	2,227	2,202	2,547
PAT	4,556	4,089	4,731
EPS	3.38	3.03	3.51

Source: Bank records & SCS Research

BAFL	CY12A	CY13E	CY14E
EPS(Rs)	3.38	3.03	3.51
DPS	2.00	1.50	2.00
P/E (x)	5.0	5.2	4.5
Div. Yield	12%	10%	13%
BVPs	22.4	23.7	26.1
P/BV(x)	0.8	0.7	0.6
ROE	16.3%	13.1%	14.1%

Source: Bank records & SCS Research

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Bank Alfalah: Credit growth to spur earnings; lowest market cap to deposit ratio; Strongest Book Flow growth

Investment Case:

We Like BAFL since it gives lowest PBV multiples among peers. Also investors tend to forget that BAFL is one of the cheapest options based on market capitalization to deposit ratio among all banks in Pakistan. We also seek consistent growth in core and noncore income of BAFL. BAFL is largely unaffected by the SBP's minimum return regulation since its age old deposit mobilization policy.

We see a changed scenario after election where investment friendly policies would spur growth, hence we see advances growth in BAFL. We even see a continuous case of earning stability in BAFL with CY 13 EPS of Rs.3.03 and CY14 EPS of Rs.3.51 with respective PE multiples 5.2x and 4.5x. **BUY**

1QCY13 overview:

BAFL reported 1QCY13 EPS of Re 0.75/sh, 16% lower against Re 0.89/sh in 1QCY12. The PAT was decreased to Rs .1011mn which is also decreased by 16% from PAT of same period last year of Rs.1202 mn.

Net Interest Income (NII) was reported 18% lower in 1QCY13, but due to strong financial position and continued outperforming stock market, BAFL managed to earn 27% higher non interest income.

Minimum return on saving account:

The regulation of State Bank of Pakistan for commercial banks to offer minimum return of 6% on saving account has shaken the banking sector inflated spreads. Hence medium sized banks such as BAFL spreads have decreased.

Deposit Mobilization:

Since 2004, BAFL is continuously focusing on growing through opening new conventional and Islamic branches across country to mobilize deposits and hence its business model is driven around deposit mobilization via branch expansion. In CY12 BAFL added 65 new branches across country, and with average per branch deposit of Rs.980mn; BAFL aims to open new branches in future and also focusing on branchless banking to mobilize further deposits. If interest rates come down than bank would be in a better position to take corporate level exposure.

Growth in Advances:

We expect that with favorable business environment and investment friendly government after general election will lead to growth in advances to big ventures. BAFL will keen to provide the big corporation loans and advances. We seek a positive business environment after general election and also corporations will also tend to borrow loans to invest in capacity expansion. And BAFL will divert its investment from government securities to advances at relatively higher return

Growth in Advances to Deposit ratio

The advances to deposit ratio has increase to 54.3% in CY12 against 52.7% in CY11, which is expected to further increase to 57% in CY13. Where in Investment to deposit ratio remain same at 41.5% in both CY11 and CY13.

Valuation:

BAFL is a deposit mobilization play and hence yield one of the lowest *market capitalizations to deposit ratio* of 5% in the country.

BAFL also yield one of the lowest PBV multiple among peers such as AKBL and BAML. At present BAFL is yielding PBV multiple of 0.7x (Book Value Rs.23.7; showing book flow growth of 5.7% from Dec 2012).

We recommend BUY in BAFL. We even see a continuous case of earning stability in BAFL with CY 13 EPS of Rs.3.03 and CY14 EPS of Rs.3.51 with respective PE multiples 5.2x and 4.5x.**BUY**

