



**BAFL hefty earnings... Half yearly review**

**CY11 PE 3.39x**

**Synopsis**

Bank Alfalah Ltd (BAFL), being one of the middle tier banks, reported noticeable financial results. It announced 1HCY11 after tax profits of Rs 1.91bn (Basic and Diluted EPS: Rs 1.41/sh) as against Rs 1.08bn (Basic and Diluted EPS: Rs 0.80/sh) in the same period last year, depicting a healthy growth of 76.9% y-o-y.

BAFL experienced a drastic increase in after tax profits by 99% in the 2QCY11 compared with same period last year showing an earning growth of 100%.

Some of the noticeable highlights are as follows;

- ❖ Pumped up *net interest earned* of Rs 21.4bn yielding y-o-y increase of 15.6%. This growth is ostensibly due to lofty lending rates which persisted in the 1<sup>st</sup> half of CY11 on account of high discount rate which lately stayed at 14%.
- ❖ *Net Interest Income (NII)* mounted to Rs 8.8bn, showing y-o-y jump of 39.8% in 1HCY11.
- ❖ *Provisions on NPL* remained a headache for BAFL along with other banks which piled up to Rs 1.66bn y-o-y increase of 72.7%.
- ❖ *Non core income* recorded a healthy increase of 22.8% y-o-y basis on account of gains on investment specifically in equity market.

**NII remained high**

BAFL's NII continued to increased at high pace; increasing 49% y-o-y basis in 1QY11 and elevated to Rs 8.8bn in 1HCY11. This growth is partially achieved by high net interest margins which stood at 4.27% in CY10. Likewise to other banks, BAFL has also preferably invested more in government papers, this can be witnessed in the 1QCY11 financials which displayed a growth of 5.5% in investment.

**BAFL 1HCY11 Earning Highlights**

Rs bn	1HCY11	1HCY10	% chg
Net Interest Income (NII)	8.84	6.32	39.8%
Provisions	(1.66)	(0.96)	72.7%
NII after provisions	7.17	5.36	33.9%
Non Interest Income	2.75	2.24	22.8%
Non Interest Expense	(6.85)	(6.00)	14.1%
PBT	3.07	1.60	92.6%
Taxation	(1.17)	(0.52)	125.2%
PAT	1.91	1.08	76.9%
EPS	1.41	0.80	76.9%

Source: KSE Announcements

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BAFL closing	Rs10.18/sh
High	Rs10.40
Low	Rs9.30
Chg	0.63%
52 week hi	Rs11.99/sh
52 week low	Rs7.32/sh
Beta	1.12
Total # of sh.	860.31mn
Free float	674.58mn

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## Enlarging provisions

BAFL's total provisions rose by 72.7% y-o-y in 1HCY11 to Rs 1.66bn from Rs 0.96bn threatening earning by Rs 0.21/sh. This includes large portion contributed by provisions against value of investment which climbed to Rs 1.31bn growing at an enormous rate of 1522% and provisions on bad loans which declined to Rs 0.35bn; shrinking by 60%.

Likewise to other banks, BAFL stayed cautious allowing less credit and preferably investing more in government papers. This can be evident by declining advances which plunged by 3.6% in 1QCY11. This seems to decline further which is in line with overall decline in industry advances.

## Valuations - P/BV - 0.44x

BAFL along with its healthy earnings is now glowing with catchy valuations. It is expected to yield CY11 PE of 3.6x (CY10 PE: 14.1x) with price to book multiple of 0.44x (CY10: 0.60x).

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