

Bank Alfalah – Valuation update

BAFL is on our radar based on sanguine valuations viz.

- Lowest current Price to Book value of 0.78x & expected Price to Book value of 0.88x (at the premise of our expected Book value of Rs 38.9/sh)
- Book flow growth is noticeable i.e. 15% during CY16
- Expected PE of 5.5x (recurring) & attractive PEG of 0.35
- Prospect of dividend of Rs2/sh ~ dividend yield 6.6%
- One of the lowest market-cap-to-deposit ratio of 7.5%; delineating opportunity of better investor value
- One time materialization of selling off Warid (may be in 4Q) as per BAFL report and reporting of shares of Mobilink (PMCL) as an investment

Story...

BAFL reported growth in 1HCY16 EPS of Rs2.73/sh as against Rs2.33/sh reported last year. We also expect recurring CY16 EPS of Rs5.0/sh to 5.52/sh which will entail yearly growth of 15% - 17%. We see extent of NPLs not provided is around Rs 3.3bn. We expect a part of that would be provided in CY16. Moreover, we expect better performance of Agritech in CY16 (given resumption of feedstock gas supplies), which may be a turnaround story in that fertilizer company – would herald a good fortune for BAFL, which is one of the investor in that company in shape of Sukuk bonds worth around Rs500mn.

Our thrust on BAFL is its proactive investment banking wherein we see lot of activity. We consider investment banking activity to be a cornerstone behind any bank's strategy to move forward. This is particularly important at a time when lot of activity is generated with respect to *China-Pakistan-Economic-Corridor* wherein we see some coordinated effort is going on between perspective Chinese investors & other stakeholders such as Planning Commission in Islamabad & Government of Punjab etc.

Moreover, there is an increase, reported in segment wise retail & corporate asset base & also international operations. The segment wise ROA is improving and hence paints a better picture.

Typically, BAFL continues to derive growth from branch led expansion since 2004. We see per branch deposits remained one of the best as against peers. However, during CY16, conventional bank branches remained 484 alongside emphasis on Islamic branches of 158 and no notable increase is reported during ongoing calendar year.

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BAFL @30.4

52 Week Low 23.7

52 Week High 30.5

Market Cap Rs48.2bn

Key balance sheet snapshot

Rs bn	1HCY16	CY15
Advances	345	334
Investments	424	423
Deposits	640	640

Equity 57.5 53.3

BAFL report

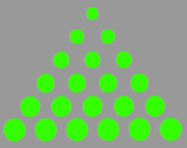
Mobilink...

BAFL shall transfer existing stakes in Warid Telecom Pvt. Ltd to Mobilink (PMCL). This deal is expected to complete in 4Q.

As at June 30, 2016, BAFL investment in Warid stands fully impaired. The transaction will result in de-recognition from books of BAFL and recognition of shares of Mobilink allotted to the bank.

Outperforming...





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