

# Flash Note

Monday, 26 February 2018

## Commercial Banks

### BAFL: CY17 profits rose by +6%YoY despite high operating expenses in 4QCY17

- Bank Alfalah Limited (BAFL) reported unconsolidated earnings of PKR 1.2bn (Basic EPS PKR 0.74) for 4QCY17, down by 27%YoY (down by 48%QoQ). This brings CY17 total earnings to PKR 8.4bn (Basic EPS PKR 5.20), up by +6%YoY.
- The bank also announced cash dividend of PKR 1.50/share for CY17/4QCY17 compared to no dividend in CY16. We believe that recent issuance of TFC has created the required capital buffer which enabled the bank to give dividends.
- During the quarter, total revenue increased by +6%YoY due to +7%YoY rise in net interest income and +49%YoY rise in Fee income. For CY17 total revenue rose by +4%YoY due to +2%YoY increase in net interest income and +32%YoY rise in fee income, despite 24% fall in capital gains and dividend income.
- Operating expenses in 4QCY17 rose significantly, up by +27%YoY, which brings cumulative CY17 expense growth to +8%YoY. We believe that the higher operating expenses are a result of change in management of the bank but further clarity will be obtained in analyst briefing.
- The bank booked a provision charge of PKR 276mn during the quarter compared to a reversal of PKR 536mn in 9MCY17, taking CY17 total provision reversal to PKR 260mn. The provision emanates from NPLs and we await analyst briefing to get details of the provision.
- The bank also communicated intent to sell its Afghanistan operations having a total equity of PKR 2.3bn (PKR 1.44/share) as of Sep-17. To note, Afghanistan operations generated annualized ROE of 18% in 9MCY17.

Exhibit:

#### BAFL Result Highlights

PKRmn (Period end=Dec)	4QCY17	4QCY16	YoY	CY17	CY16	YoY
Interest Earned	14,837	13,803	7%	56,919	57,245	-1%
Interest Expensed	7,241	6,713	8%	27,639	28,474	-3%
<b>Net Interest Income</b>	<b>7,596</b>	<b>7,089</b>	<b>7%</b>	<b>29,281</b>	<b>28,770</b>	<b>2%</b>
Fee Income	1,945	1,302	49%	6,166	4,668	32%
Capital Gain & Div. Income	(323)	158	n.m	1,727	2,267	-24%
<b>Non-Interest Income</b>	<b>1,927</b>	<b>1,935</b>	<b>0%</b>	<b>9,894</b>	<b>8,868</b>	<b>12%</b>
Total Revenue	9,524	9,025	6%	39,175	37,638	4%
Operating Expenses	7,340	5,774	27%	25,389	23,432	8%
Pre-Provisioning Profits	2,184	3,250	-33%	13,785	14,206	-3%
Provision (Rev.) / Charge	276	848	-67%	(260)	1,183	n.m
Pre-Tax Profits	1,908	2,402	-21%	14,045	13,023	8%
Taxation	716	768	-7%	5,678	5,123	11%
<b>Profit After Tax</b>	<b>1,192</b>	<b>1,634</b>	<b>-27%</b>	<b>8,367</b>	<b>7,900</b>	<b>6%</b>
EPS (PKR)	0.74	1.02		5.20	4.91	
DPS (PKR)	1.50	-		1.50	-	
BVPS (PKR) Est.	40.87	37.40				
<b>KEY RATIOS</b>						
Cost-To-Income Ratio	77%	64%		65%	62%	
Effective Tax Rate	38%	32%		40%	39%	
Non-II / Total Income	20%	21%		25%	24%	

SOURCE: IGI Research, Company accounts, PSX

No. of shares (mn): 1607.6

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