

BAFL offers lowest PBV, PE & highest D / Y

Wednesday, 27 November 2024

Banks	BAFL	HMB	BAHL
Advances (mn)	855,964	479,456	767,789
Deposits (mn)	2,136,416	1,045,899	2,222,308
Investment (mn)	1,918,262	924,187	1,814,569
Advances	7.0%	3.9%	6.2%
Deposits	6.8%	3.3%	7.1%
Investment	6.2%	3.0%	5.9%
ADR	40.1%	45.8%	34.5%
IDR	89.8%	88.4%	81.7%
Effective tax rate	49.4%	48.8%	47.6%
BV (PKR/sh)	106.00	105.82	135.84
EPS (PKR/sh)	29	25	39
DPS (PKR/sh)	10	10	14
PBV (x)	0.77	0.83	0.97
P/E	2.82	3.51	3.38
D/Y	12.2%	11.4%	10.6%
Corporate Deposit	61.9%	52.5%	31.5%

Source: SCS Research (Company Reports)

Banks market share...

- BAFL has the highest market share of ~7% in deposits in the banking system. Some of the bigger banks have a double digit market share in deposits

Banking Valuations...BAFL is better off!

- BAFL yields discounted PBV of 0.77x from initial banking PBV target of 1x.
- Also BAFL yield lowest CY24 PE of 2.8x vs leading KSE 100 PE of 6x.
- Also BAFL offers better Dividend Yield (D/Y) of 12% in lieu of our PKR 10/sh yearly cash consideration (9M DPS 6/sh).

We are comparing 3 peer banks i.e. BAFL, HMB & BAHL.

These days banking sector is in the news. Initially banks imposed fee on their big corporate clients who were maintaining deposits above PKR 5bn. Banks facing ignominy to avoid additional FBR tax in lieu of lower *Advance to Deposit* (ADR) burden. However, it turned out to be unsuccessful attempt as banks had to withdraw such service charge. We have compared a scenario for three peer banks in terms of deposits.

- According to our data, BAHL has the highest deposits till 9M CY24 in comparison with BAFL & HMB. Even though, BAFL has the highest exposure to investments which were mainly government bonds.
- Now since government is adamant to impose additional tax which is 15% on banks who are operating with less than 50% ADR.
- And now banks are trying their ways to meet ADR requirement before Jan-25 to avoid incidence of additional 15% tax.
- **If we look into this scenario of ADR, then HMB is better off to avoid additional tax implementation.**
- Over the years, banks heavily rely on corporate deposits wherein banks such as BAFL thrived with corporate deposit chunk of ~62% as against their total deposits figure of over PKR 2 trillion. Now we believe withdrawing service fee was the only logical option to 'appease' big clients.
- So far the highest Effective tax rate implied is 49.4% on BAFL.

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Following research techniques adopted to calculate target price/recommendation

- Price to earnings & Price to Book, EV-EBITDA multiple
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