

Bank Alfalah (BAFL)

2017 Conference Call Notes

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Key Takeaways

- BAFL reported 2017 consolidated earnings of Rs8.5bn (EPS Rs5.3), up 8% YoY helped by provisions reversals and higher non-interest income during the year.
- Bank's Net Interest Income (NII) was up 1% to Rs29.2bn despite margins compression during the year (NIMs of 3.5% in 2017 vs. 3.7% in 2016). This was driven by volumetric growth in deposits and positive spread on investments against repo borrowing.
- The bank management expects a further 50bps hike in interest rates in 1H2018 which could support NII going forward.
- Management expects PIB maturity of ~Rs65bn in 2018 having yields of around 8.5% which is close to bank's current weighted average yield.
- Admin expense of the bank during 2017 was up 6% YoY whereas cost to income ratio of BAFL remained flat at 62%. This was on the back of a one-off ex-gratia payment to outgoing executives including the CEO which amounted to Rs695mn during the year. The company also incurred one-off legal charges relating to likely ADT-I (Additional Tier-I Capital) issue by the bank.
- Management anticipates admin cost to normalize and cost to income ratio to come down going forward in absence of certain one-offs.
- The bank is in process of issuing ADT- I capital which is likely to be completed by end of 1Q2018 and will likely have a positive impact on CAR of the bank. BAFL's CAR as of Dec 2017 stood at 13.7%. Any further capital raise depends upon bank's overall balance sheet growth and profitability outlook, management commented.
- The company plans to target further deposit mobilization and improve the deposit mix going forward. In 2017, deposits of the bank grew by 2%.

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