

BAFL decides to buy-back up to 11.25% of its share capital

- The Board of Directors of BAFL in its meeting yesterday, approved buy-back of up to 200mn shares constituting 11.25% of the existing Paid-up Capital of the Bank. The decision is subject to approval of SBP and the members of the bank through voting in an EoGM that is scheduled to be held on Dec. 6, 2022, by way of passing of Special Resolution allowing the buy-back.
- The buy-back of shares, if approved, would result in cancellation of the purchased shares by the bank during the purchase period, which would start from Dec. 14, 2022 and end on Jun. 2, 2023, or till the date of completion of purchase, whichever comes first.
- The bank highlighted positive effects on Book Value, ROE, and EPS as justification for the buy-back.
- The bank also highlighted that this buy-back would provide an opportunity of exit to those members who wish to liquidate their investments in the bank, fully or partially.
- As per the rules, Sponsors, Directors, Officers, and Associated Companies and Undertakings shall not directly or indirectly trade in shares of the bank after the meeting of the Board of Directors in which decision is made for the buy-back till the end of the purchase period.
- This leaves IFC that owns 14.74% (261.9mn shares) of the bank as a potential seller out of the major shareholders of the bank. However, the rules also prohibit trades in the NDM.
- The proposed buy-back at yesterday's closing price of PKR34.26/share, would cost BAFL PKR6,852mn (6.6% of BAFL's Sep'22 Equity). It translates in to PKR3.86/share on current number of shares outstanding and PKR4.34/share on post-buy-back number of shares, significantly lower than estimated annual dividend.
- The bank plans to buy-back these shares from its distributable profits.
- The proposed buy-back if approved, would have a positive impact on the Ego ratios involving outstanding shares including EPS, ROE, BVPS etc, however, it would have a negative impact on the bank's CAR.

Impact of buy-back on CY23 estimates

	Current Estimates	Post Buy-Back Estimates	Change
No. of shares (mn)	1,777	1,577	-11.3%
PAT (PKRmn)	22,302	22,302	0.0%
EPS	12.55	14.14	12.7%
PER@34.26	2.7	2.4	-11.3%
Shareholders' Equity (PKRmn)			
@30	119,677	113,677	-5.0%
@34.26	119,677	112,825	-5.7%
@40	119,677	111,677	-6.7%
BVPS			
@30	67.34	72.08	7.0%
@34.26	67.34	71.54	6.2%
@40	67.34	70.81	5.1%
PBV(x)			
@30	0.4	0.4	-6.6%
@34.26	0.5	0.5	-5.9%
@40	0.6	0.6	-4.9%
Total CAR (Sep'22)*			
@30	14.5%	13.7%	(76)
@34.26	14.5%	13.6%	(86)
@40	14.5%	13.5%	(101)

* Change in basis points

Source: Company account, Next Capital Research

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- It needs to be highlighted here that BAFL's unconsolidated CET-1/Tier-1/Total CAR at the end of Sep'22 stood at 10.6%/11.4%/14.5%. These adequacy ratios have sufficient buffers and are well above the required regulatory minimums.
- The potential one-time impact of the said buy-back on BAFL's CAR is estimated at 86bps at yesterday's closing price.
- The table in the right side illustrates various ratios on a pre and post buy-back scenarios at various price levels.
- BAFL is amongst our most preferred picks that trades at undemanding valuations with CY23 PER/PBV of 2.7x/0.5x, and offers a handsome dividend yield of 19%. The bank has strong fundamentals with a high ADR of 56%, high Current Accounts of 43.6% in deposits mix, and total coverage ratio of 104%. The bank may also consider issuing an AT-1 instrument that would compensate for the decline in CAR.
- We believe, that the bank would maintain a healthy dividend payout ratio, which currently stand at 50%.

Annexure

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