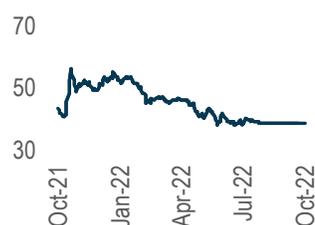


Rating	BUY
Price (BDT)	38.5
Target Price (BDT)	111.1
Total Return (%)	188%
# of shares (mn)	1,497
Market Cap (US\$m)	576

Share Price



## BRAC Bank Ltd. (BRACBANK)

### 3Q22: Operating outlook turning a corner

- **Both bank and bKash beat expectations:** BRAC Bank reported 3Q22 EPS of BDT1.06, beating both last year's and our estimate quite comfortably. Overall, 3Q22 appears to be a watershed moment for BRAC Bank with both the interest rate caps set too be withdrawn and bKash turning bottom line positive, implying EPS outlook going forward is likely to be significantly better.
- **Light at end of the tunnel:** Rate caps introduced in 2Q20 hit BRAC particularly hard due to its SME centric loan book, leading to a prolonged period of depressed earnings for the bank. With the IMF loan in the final negotiation stage, and media reports suggesting rate caps could be on their way out, it appears things are finally turning a corner.

We have a TP of BDT 111, implying an ETR of 188%. The stock is trading at an FY22f P/B multiple of 1.0x. Detailed comments on standalone bank and bKash numbers are presented in the subsequent pages.

Table 1: Key metrics (Consolidated)

Element	3Q21	% cng	3Q22	Delta v Forecast		3Q22f
				%	value	
Interest Income	7,323	26%	9,240	4%	392	8,848
Interest Expense	1,898	82%	3,463	18%	532	2,931
Net interest income	5,425	6%	5,777	-2%	(140)	5,917
Non-interest income	2,505	60%	4,016	60%	1,508	2,509
Operating income	7,930	23%	9,793	16%	1,367	8,426
Operating expenses	5,381	20%	6,462	9%	542	5,920
Profit before provision	2,549	31%	3,332	33%	826	2,506
Provisions	643	-26%	477	-50%	(485)	962
Profit after tax	1,234	53%	1,892	78%	827	1,065
Minority interest	(183)	Na	303	Na	349	(46)
NPAT	1,416	12%	1,590	43%	479	1,111
Loans	288,306	38%	396,639	10%	34,528	362,111
Investments	69,490	55%	107,429	9%	8,946	98,483
Deposits	334,348	25%	418,568	4%	14,879	403,690

(Amounts in BDT million)

Ratios	3Q21	cng (in bps)	3Q22	bps	3Q22f
NIM	5.3%	(97)	4.3%	(24)	4.6%
Cost-Income	67.9%	(187)	66.0%	(428)	70.3%
Cost of risk	0.9%	(41)	0.5%	(58)	1.1%
Effective tax rate	35.3%	(157)	33.7%	270	31.0%
ROE	11.7%	(85)	10.9%	319	7.7%

Source: EDGE Calculation and Company Reports

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## Standalone bank

### Rate caps on the way out

- **Beat stemming from non-operating wins:** Standalone BRAC Bank posted a 3Q22 EPS of BDT0.93, flat YoY but beating our forecast by 26%. Key deviations to forecast stem from non-interest income (beat), operating expenses (miss) and provisions (beat). In general, 3Q22 is a strong quarter for BRAC not because of the results posted this quarter but due to expectations of rate caps being repealed, which would propel numbers forward quite substantially for the following quarters.
- **Long night for BRAC Bank appears to be ending:** With rate caps very likely on their way out, things appear to be falling in place for the bank. Provisions linked to covid related stress have been sorted, while rate caps and covid worries forced the bank to make operating efficiency gains on the back end. On the front end, customer facing alternative channels such as BRAC's Astha platform seem like a strong launch, making it arguably the best alternative channel experience available locally.
- **SME yields unlikely to return to previous levels:** Our conversations with management suggest BRAC is unlikely to seek pre-rate cap yields on SME loans even with a rate cap repeal. Their preferred way forward would be to focus on efficiency and pass on whatever gains they can to SMEs. This suggests pre-provision yield on such loans would remain largely stable, even if headline NIMs decline.

Table 2: Key metrics (Standalone)

Element	3Q21	% cng	3Q22	Delta v Forecast		3Q22f
				%	Value	
Interest income	6,542	31%	8,586	14%	1,085	7,501
Interest expense	1,657	116%	3,573	38%	976	2,597
Net interest income	4,885	3%	5,013	2%	109	4,904
Non-interest income	979	72%	1,683	44%	517	1,166
Operating income	5,864	14%	6,696	10%	625	6,070
Operating expenses	3,190	25%	3,983	15%	507	3,477
Profit before provision	2,675	1%	2,713	5%	119	2,594
Provisions	642	-26%	477	-50%	(485)	962
NPAT	1,378	1%	1,387	26%	286	1,100
Loans	287,351	37%	395,013	9%	33,933	361,080
Investments	52,489	6%	55,698	-2%	(1,279)	56,976
Deposits	278,130	30%	360,812	4%	14,143	346,668
<i>(Amounts in BDT million)</i>						
Ratios	3Q21	cng (in bps)	3Q22	bps	3Q22f	
NIM	5.5%	(115)	4.4%	(5)	4.4%	
Cost-Income	54.4%	510	59.5%	222	57.3%	
Cost of risk	0.9%	(41)	0.5%	(58)	1.1%	
Effective tax rate	32.2%	576	38.0%	540	32.6%	
ROE	11.7%	(177)	9.9%	196	8.0%	

Source: EDGE Calculation and Company Reports

## bKash

### Profits seem to be coming along well

- **Expect monetization to grow:** As highlighted in our 2Q22 note, bKash seems have changed focus from a “grow at all costs” to a mix of growth and profits. Our best guess is that this is a response in change to global funding rhetoric where posting profits appear to coming back in favor.
- **Business growing strong despite low burn:** Compared to most payment peers around the world, bKash has always been relatively low burn, partially thanks to limited competition locally. While this changed course for a while post the Alipay funding round, it seems the low burn mode is back in action. The interesting bit is that lower spend is not hampering growth too much, which puts bKash in the goldilocks zone. Moreover, it seems the business is finally reaching a size where scale benefits are coming into effect, as evidenced by the gross profit boom. Going forward, we think this is likely to go into accelerate, given transaction volumes keep snowballing.
- **Rate cap repeal could further boost earnings:** Part of the change in numbers so far has come from interest income (both float and Softbank cash), and with interest rates expected to rise further in the coming months with the repeal of the rate cap, we think bottom line is going to improve further.

Table 3: Key metrics

Element	3Q21	% cng	3Q22	Delta vs forecast		3Q22f
				%	value	
Net revenue	6,717	28%	8,579	8%	633	7,945
Cost of services	5,075	19%	6,020	3%	198	5,822
<b>Gross profit</b>	<b>1,643</b>	<b>56%</b>	<b>2,559</b>	<b>20%</b>	<b>435</b>	<b>2,123</b>
Admin expenses	1,436	20%	1,726	10%	162	1,564
Marketing expenses	510	9%	556	-8%	(45)	601
Net finance income	(3)	Na	285	Na	266	19
<b>Profit before tax</b>	<b>(305)</b>	<b>Na</b>	<b>548</b>	<b>Na</b>	<b>570</b>	<b>(23)</b>
<b>NPAT</b>	<b>(295)</b>	<b>Na</b>	<b>466</b>	<b>Na</b>	<b>483</b>	<b>(17)</b>
Float	57,920	15%	66,430	-12%	(8,721)	75,151
<i>(Amounts in BDT million)</i>						
Ratios	3Q21	cng (in bps)	3Q22	bps		3Q22f
Gross margin	24.5%	537	29.8%	310		26.7%
Net margin	-4.4%	981	5.4%	564		-0.2%

Source: EDGE Calculation and Company Reports

Table 4: Earnings to date and annualized comparison (Consolidated Entity)

Element	9M22	Delta vs forecast		9M22f	9M22 Annualized	Delta vs forecast		2022f
		% cng	Value			% cng	Value	
Interest income	25,681	2%	392	25,290	34,242	-3%	(1,109)	35,351
Interest expense	8,892	6%	532	8,359	11,855	-3%	(362)	12,217
<b>Net interest income</b>	<b>16,790</b>	<b>-1%</b>	<b>(140)</b>	<b>16,930</b>	<b>22,386</b>	<b>-3%</b>	<b>(747)</b>	<b>23,133</b>
Income from investments	2,131	12%	237	1,895	2,842	42%	842	2,000
Fees & exchange income	8,165	17%	1,183	6,982	10,887	34%	2,737	8,150
Other income	220	66%	88	133	294	56%	106	188
<b>Non-interest income</b>	<b>10,517</b>	<b>17%</b>	<b>1,508</b>	<b>9,009</b>	<b>14,022</b>	<b>36%</b>	<b>3,684</b>	<b>10,338</b>
<b>Operating income</b>	<b>27,306</b>	<b>5%</b>	<b>1,367</b>	<b>25,939</b>	<b>36,409</b>	<b>9%</b>	<b>2,937</b>	<b>33,471</b>
Operating expenses	19,198	3%	542	18,657	25,598	8%	1,927	23,671
Other income	(6)	Na	(6)	0	(8)	Na	(8)	0
<b>Profit before provisions</b>	<b>8,102</b>	<b>11%</b>	<b>820</b>	<b>7,282</b>	<b>10,803</b>	<b>10%</b>	<b>1,002</b>	<b>9,801</b>
Provisions	1,814	-21%	(485)	2,299	2,418	-37%	(1,428)	3,846
<b>Profit before tax</b>	<b>6,288</b>	<b>26%</b>	<b>1,305</b>	<b>4,984</b>	<b>8,384</b>	<b>41%</b>	<b>2,430</b>	<b>5,954</b>
Tax	2,490	24%	484	2,006	3,320	80%	1,473	1,847
<b>Profit after tax</b>	<b>3,798</b>	<b>28%</b>	<b>821</b>	<b>2,977</b>	<b>5,064</b>	<b>23%</b>	<b>957</b>	<b>4,108</b>
Minority interest	10	Na	349	(338)	14	Na	197	(183)
<b>NPAT</b>	<b>3,788</b>	<b>14%</b>	<b>472</b>	<b>3,316</b>	<b>5,051</b>	<b>18%</b>	<b>760</b>	<b>4,291</b>
Loans	396,639	10%	34,528	362,111	425,123	21%	74,078	351,044
Investments	107,429	9%	8,946	98,483	123,876	28%	27,126	96,750
Deposits	418,568	4%	14,879	403,690	438,383	12%	45,732	392,651
<i>(Amounts in BDT million)</i>								
Ratios	9M22	cng (in bps)		9M22f	9M22 Annualized	bps		2022f
NIM	4.4%	(18)		4.6%	4.3%	(47)		4.7%
Cost-Income	70.3%	(162)		71.9%	70.3%	(41)		70.7%
Cost of risk	0.6%	(24)		0.8%	0.6%	(53)		1.1%
Effective tax rate	39.6%	(66)		40.3%	39.6%	858		31.0%
ROE	8.7%	100		7.7%	8.6%	121		7.4%

Source: Company Reports and EDGE Calculation

Table 5: Earnings to date and annualized comparison (Standalone Bank)

Element	9M22	Delta vs forecast		9M22f	9M22 Annualized	Delta vs forecast		2022f
		% cng	Value			% cng	Value	
Interest income	23,316	5%	1,085	22,231	31,089	2%	568	30,520
Interest expense	9,060	12%	976	8,083	12,079	2%	185	11,894
<b>Net interest income</b>	<b>14,257</b>	<b>1%</b>	<b>109</b>	<b>14,148</b>	<b>19,009</b>	<b>2%</b>	<b>383</b>	<b>18,626</b>
Income from investments	712	-25%	(239)	951	949	-21%	(251)	1,200
Fees & exchange income	4,063	20%	690	3,374	5,418	46%	1,703	3,715
Other income	178	59%	66	112	237	52%	81	156
<b>Non-interest income</b>	<b>4,953</b>	<b>12%</b>	<b>517</b>	<b>4,436</b>	<b>6,604</b>	<b>30%</b>	<b>1,533</b>	<b>5,071</b>
<b>Operating income</b>	<b>19,210</b>	<b>3%</b>	<b>625</b>	<b>18,585</b>	<b>25,613</b>	<b>8%</b>	<b>1,916</b>	<b>23,698</b>
Operating expenses	11,275	5%	507	10,769	15,034	11%	1,497	13,537
<b>Profit before provisions</b>	<b>7,935</b>	<b>2%</b>	<b>119</b>	<b>7,816</b>	<b>10,580</b>	<b>4%</b>	<b>419</b>	<b>10,161</b>
Provisions	1,810	-21%	(485)	2,295	2,413	-37%	(1,434)	3,846
<b>Profit before tax</b>	<b>6,125</b>	<b>11%</b>	<b>604</b>	<b>5,521</b>	<b>8,167</b>	<b>29%</b>	<b>1,852</b>	<b>6,314</b>
Tax	2,201	17%	317	1,883	2,934	43%	877	2,057
<b>NPAT</b>	<b>3,924</b>	<b>8%</b>	<b>286</b>	<b>3,638</b>	<b>5,232</b>	<b>23%</b>	<b>975</b>	<b>4,257</b>
Loans	395,013	9%	33,933	361,080	423,206	21%	73,085	350,121
Investments	55,698	-2%	(1,279)	56,976	57,138	1%	388	56,750
Deposits	360,812	4%	14,143	346,668	377,678	10%	34,767	342,912

(Amounts in BDT million)

Ratios	9M22	cng (in bps)	9M22f	9M22 Annualized	bps	2022f
NIM	4.4%	(12)	4.5%	4.3%	(24)	4.5%
Cost-Income	58.7%	75	57.9%	58.7%	157	57.1%
Cost of risk	0.6%	(24)	0.8%	0.6%	(53)	1.1%
Effective tax rate	35.9%	182	34.1%	35.9%	335	32.6%
ROE	9.4%	59	8.8%	9.3%	163	7.7%

Source: Company Reports and EDGE Calculation

Table 6: Earnings to date and annualized comparison (bKash)

Element	9M22	Delta vs forecast		9M22f	9M22 Annualized	Delta vs forecast		2022f
		% cng	Value			% cng	Value	
Net revenue	25,024	3%	633	24,391	33,366	1%	314	33,052
Cost of services	18,327	1%	198	18,129	24,436	0%	(8)	24,444
<b>Gross profit</b>	<b>6,697</b>	<b>7%</b>	<b>435</b>	<b>6,262</b>	<b>8,929</b>	<b>4%</b>	<b>322</b>	<b>8,608</b>
Operating expenses	7,306	2%	117	7,189	9,741	6%	558	9,183
<b>Operating profit</b>	<b>(609)</b>	<b>Na</b>	<b>318</b>	<b>(927)</b>	<b>(812)</b>	<b>Na</b>	<b>(236)</b>	<b>(576)</b>
Net finance income	880	43%	266	614	1,173	1435%	1,097	76
Cont to WPPF	(14)	Na	(14)	0	(18)	Na	(18)	0
<b>Profit before tax</b>	<b>285</b>	<b>Na</b>	<b>597</b>	<b>(313)</b>	<b>380</b>	<b>Na</b>	<b>879</b>	<b>(499)</b>
Tax	217	-29%	(88)	304	289	Na	413	(125)
<b>NPAT</b>	<b>68</b>	<b>Na</b>	<b>685</b>	<b>(617)</b>	<b>91</b>	<b>Na</b>	<b>465</b>	<b>(374)</b>
Float	66,430	-12%	(8,721)	75,151	69,292	-9%	(6,530)	75,822
<i>(Amounts in BDT million)</i>								
Ratios	9M22	cng (in bps)		9M22f	9M22 Annualized	bps		2022f
Gross margin	26.8%	109		25.7%	26.8%	72		26.0%
Operating margin	-2.4%	137		-3.8%	-2.4%	(69)		-1.7%
Net margin	0.3%	280		-2.5%	0.3%	141		-1.1%

Source: Company Reports and EDGE Calculation

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