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MEBL: 2QCY24 Corporate Briefing Takeaways

Meezan Bank Limited

PSX: MEBL | Bloomberg: MEBL PA | Reuters: AMZN.PSX

- MEBL posted an unconsolidated PAT of PKR 51.8bn in 1HCY24 compared to PAT of PKR 32.5bn in SPLY, up by 59% YoY. The bank announced a DPS of PKR 7.0/sh for 2QCY24, taking 1H payout to PKR 14.0/sh, up 100% YoY. The payout ratio for 1HCY24 stood at 48% vs 38% in 1HCY23.
- 80% of the growth in Net Spread earned was driven by an increase in interest rates and 20% by volumetric growth. Moreover, other income increased (+30% YoY) due to a considerable increase in dividend income (+100% YoY) along with capital gains (+131% YoY).
- The bank's outlook for future profitability in the declining policy rate environment will be contingent on the volumetric growth in deposits and interest earning assets which are expected to offset the shrinking spreads.
- MEBL's market share in the sector's deposits stood at 7.8% in Jun-24. Individual deposits. Deposits rose 26% YoY driven by a growth in CASA deposits by 28% YoY. The bank is aiming for a 20% YoY growth in deposits in CY24, with a focus on CASA.
- MEBL added 6 new branches in 1HCY24, taking the total number to 1,010 branches across 335 cities. 30-40 additional branches are targeted to open in 2HCY24.
- The current ADR stood at 48% at Jun-24, with a target of achieving a 50-52% ADR ratio by the end of CY24. Financing book is expected to grow faster than deposits. One of the lowest costs of funds allows MEBL to tap into high credit quality clients.
- At PKR 1.5tn, GOP Ijarah Sukuk represents 90% of the investment mix. 80% of the GIS is booked at variable rates. The weighted average yield on fixed Sukuk portfolio is 11% with an average maturity of 2 years.

Key Data

| | |
|-------------------------|---------|
| PSX Ticker | MEBL |
| Target Price (PKR) | 194 |
| Current Price (PKR) | 241 |
| Upside/(Downside) (%) | -20% |
| Dividend Yield (%) | 11% |
| Total Return (%) | -9% |
| 12-month High (PKR) | 256 |
| 12-month Low (PKR) | 40 |
| Outstanding Shares (Mn) | 1,791 |
| Market Cap (PKR Mn) | 429,900 |

Source: Company Accounts, Akseer Research

| Key Financial Ratios | CY21A | CY22A | CY23A | CY24E | CY25F | CY26F |
|----------------------|-------|-------|-------|-------|-------|-------|
| EPS | 17.4 | 25.1 | 47.2 | 55.4 | 50.2 | 47.5 |
| EPS Growth | 11.2% | 44.2% | 87.7% | 17.4% | -9.3% | -5.3% |
| DPS | 5.6 | 8.2 | 20.0 | 27.5 | 29.8 | 28.8 |
| BVPS | 48.3 | 64.4 | 103.2 | 131.4 | 152.8 | 170.9 |
| PER | 13.2 | 9.1 | 4.9 | 4.1 | 4.6 | 4.8 |
| Dividend Yield | 2.3% | 3.4% | 8.3% | 11.4% | 12.4% | 11.9% |
| P/B | 5.0 | 3.7 | 2.3 | 1.8 | 1.6 | 1.4 |
| ROE | 38.8% | 45.4% | 58.3% | 51.0% | 37.0% | 30.6% |

Source: Company Accounts, Akseer Research

- MEBL's CAR at the end of 1HCY24 stood at 24.7% versus 21.0% in SPLY, translating into an excess of 13.2% over the regulatory requirement of 11.5%. On the MDR front, MEBL is part of the ongoing discussions with the SBP but has not reached a final verdict yet.
- We have a 'Hold' stance on the stock with Dec-24 PT of PKR 194/sh, providing a capital downside of 20% and dividend yield of 11%. ROE was recorded at 52.9% in 1HCY24 and has remained above 50% for the past 2Y. The declining policy rate environment is expected to reduce the ROE from existing levels.

Valuation Basis

Our PT for Meezan Bank Limited (MEBL) has been computed on dividend discounting method using Justified P/B for the calculation of terminal value. We have used sustainable ROE of 26% to calculate exit P/B, along with a risk free rate of 15%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 21%.

Investment Thesis

We have a 'Hold' recommendation on the stock based on our Dec-24 PT of PKR 194/sh which provides a downside of 20% along with a dividend yield of 11%. Our investment case on MEBL is based on (1) normalization of deposit growth and (2) decline in interest rates.

Risks

Key risks to our investment thesis are: 1) lower than anticipated decline in interest rates, 2) lower than estimated growth in advances and deposits 3) higher than expected provisioning.

Company Description

Meezan Bank Limited is the largest Islamic commercial bank operating in the country since 2002. Currently, the Bank is engaged in corporate, commercial, consumer, investment and retail banking activities. As of March 2024, MEBL operated 1,007 branches in Pakistan.

Financial Highlights - MEBL

| Income Statement (PKR Mn) | CY21A | CY22A | CY23A | CY24E | CY25F | CY26F |
|----------------------------|---------------|----------------|----------------|----------------|----------------|----------------|
| Mark-up/interest earned | 110,073 | 232,121 | 431,722 | 508,254 | 503,143 | 473,318 |
| Mark-up/interest expensed | 41,151 | 110,418 | 205,293 | 241,872 | 230,436 | 205,832 |
| Net interest income | 68,921 | 121,704 | 226,429 | 266,382 | 272,707 | 267,486 |
| Non-interest income | 14,892 | 19,103 | 22,107 | 28,197 | 29,761 | 30,909 |
| Provision charged | 993 | 4,177 | 7,340 | 5,031 | 7,475 | 8,281 |
| Operating expenses | 35,324 | 48,245 | 71,788 | 95,086 | 108,618 | 123,197 |
| Profit after tax | 28,355 | 45,007 | 84,476 | 101,430 | 89,923 | 85,128 |

Source: Company Accounts, Akseer Research

| Balance Sheet (PKR Mn) | CY21A | CY22A | CY23A | CY24E | CY25F | CY26F |
|---------------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Cash & Treasury Balances | 170,501 | 117,743 | 242,612 | 266,873 | 306,904 | 343,732 |
| Investments | 620,132 | 1,283,210 | 1,572,388 | 1,617,882 | 1,819,398 | 2,037,697 |
| Advances | 758,086 | 995,508 | 961,673 | 1,185,245 | 1,398,998 | 1,556,924 |
| Operating Fixed Assets | 35,454 | 42,271 | 60,890 | 60,850 | 74,077 | 90,180 |
| Other Assets | 63,802 | 85,379 | 128,130 | 147,320 | 169,418 | 189,748 |
| Total Assets | 1,902,971 | 2,577,398 | 3,012,109 | 3,329,227 | 3,827,513 | 4,284,044 |
| Borrowings from FIs | 220,414 | 573,326 | 377,495 | 415,244 | 477,531 | 534,834 |
| Deposits | 1,455,886 | 1,658,490 | 2,217,474 | 2,439,221 | 2,805,105 | 3,141,717 |
| Other Liabilities | 82,982 | 169,095 | 167,305 | 173,779 | 199,846 | 223,827 |
| Total Liabilities | 1,816,414 | 2,462,077 | 2,827,201 | 3,093,944 | 3,553,792 | 3,978,006 |
| Equity | 86,558 | 115,321 | 184,908 | 235,283 | 273,720 | 306,038 |
| Total Liabilities & Equity | 1,902,971 | 2,577,398 | 3,012,109 | 3,329,227 | 3,827,513 | 4,284,044 |

Source: Company Accounts, Akseer Research

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|--------|-------------------------------|
| Buy | Greater than or equal to +15% |
| Hold | Between -5% and +15% |
| Sell | Less than or equal to -5% |

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