

**Meezan Bank Limited**  
 Result Preview

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

**Pakistan Research**
**MEBL - 2QCY21 EPS expected to clock in at PKR 4.20, down 4% YoY**

- Meezan Bank Limited (MEBL) is scheduled to announce its 2QCY21 financial results today 12<sup>th</sup> August 2021. In this regard, we expect the bank to report net earnings of PKR 4.20/share, down 4% YoY. This will take cumulative earnings for 1HCY21 to PKR 8.52/share, up 3% YoY. The bank is also expected to announce an interim cash dividend of PKR 1.50/share, taking cumulative payout to PKR 3.0/share for 1HCY21.
- The decline in 2QCY21 profitability will be due to lower net interest income and higher admin expenses. Support to the bottomline is expected from higher fee & commission income and normalization of provisioning cost.
- Net interest income (NII) for the quarter is likely to decline by 9% YoY due to balance sheet repricing on lower interest rates. For 1HCY21, NII is expected to decline by 4% YoY to PKR 31.1bn.
- Non-interest income is likely to grow by 71% YoY to PKR 3.1bn in 2QCY21 on the back of higher fee & commission income.
- Provisioning expense is expected to positively support the bottom line, declining by 76% YoY to PKR 351mn in 2QCY21. For 1HCY21, the cumulative provisions likely to stand at PKR 635mn, down 79% YoY.
- Operating expenses during the quarter are likely to increase by 14% YoY due to the normalization of the business activity and increase in cost associated with the opening of more than 25 branches since June 2020.
- We change our stance from 'BUY' to 'HOLD' on MEBL owing to recent price appreciation. At the current price the stock provides upside potential of 2% along with dividend yield of 5%.

**Key Data**

PSX Ticker	MEBL
Target Price (PKR)	137
Current Price (PKR)	135
Upside/(Downside) (%)	+ 2%
Dividend Yield (%)	5%
Total Return (%)	+ 7%
12-month High (PKR)	138
12-month Low (PKR)	76
Outstanding Shares (mn)	1,414.7
Market Cap (PKR mn)	191,157
Year End	December

*Source: Company Accounts, Akseer Research*
**Financial Estimates (PKR mn)**

	2QCY20	2QCY21E	YoY	1HCY20	1HCY21E	YoY
M/up Earned	27,995	25,443	-9%	57,829	49,673	-14%
M/up Expense	10,359	9,381	-9%	25,474	18,556	-27%
<b>Net Interest Income</b>	17,637	16,062	-9%	32,355	31,117	-4%
Non-Interest Income	1,835	3,132	71%	5,026	6,694	33%
Total Provisions	1,459	351	-76%	3,097	635	-79%
Admin Expenses	7,782	8,859	14%	14,892	16,950	14%
<b>Profit Before Tax</b>	10,230	9,984	-2%	19,391	20,226	4%
Taxation	4,059	4,036	-1%	7,714	8,177	6%
<b>Profit After Tax</b>	6,171	5,948	-4%	11,677	12,049	3%
EPS	4.36	4.20	-4%	8.25	8.52	3%
DPS	0.00	1.50	NM	-	3.00	NM

Source: Company Accounts, Akseer Research

**Key Financial Ratios**

	CY18A	CY19A	CY20A	CY21E	CY22F	CY23F
EPS	6.97	11.84	15.67	18.60	24.32	33.59
EPS Growth	11.3%	70.0%	32.3%	18.7%	30.8%	38.1%
DPS	3.50	5.00	6.00	7.00	11.00	16.75
PER	19.39	11.41	8.62	7.27	5.56	4.02
Dividend Yield	2.6%	3.7%	4.4%	5.2%	8.1%	12.4%
P/B	4.31	2.94	1.77	1.4	1.1	0.92
ROE	24.0%	33.8%	39.2%	36.6%	38.1%	42.0%

Source: Company Accounts, Akseer Research

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**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 20% to arrive to calculate exit P/B, along with a risk free rate of 11%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 17%.

**Investment Thesis**

We have a 'Hold' recommendation on the stock based on our Dec-21 PT of PKR 137/share which provides total upside of 7% including dividend yield of 5%. Our investment case on MEBL is based on (1) Higher than industry deposit growth (2) Low cost deposits. (3) One of the lowest cost to income ratio in banking industry.

**Risks**

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

**Company Description**

Meezan Bank Limited is a banking company incorporated in Pakistan providing scheduled Islamic Commercial banking since 2002. Currently, the Bank is engaged in corporate, commercial, consumer, investment and retail banking activities. As of March 31, 2021, MEBL operated 825 branches in Pakistan.

**Financial Highlights - MEBL**

Income Statement (PKR mn)						
	CY18A	CY19A	CY20A	CY21E	CY22F	CY23F
Mark-up/interest earned	48,624	94,270	106,589	106,518	140,335	182,050
Mark-up/interest expensed	20,457	47,732	41,740	36,609	51,861	63,062
<b>Net interest income</b>	<b>28,168</b>	<b>46,539</b>	<b>64,849</b>	<b>69,909</b>	<b>88,474</b>	<b>118,988</b>
<b>Non-interest income</b>	<b>7,463</b>	<b>9,320</b>	<b>10,072</b>	<b>13,623</b>	<b>14,275</b>	<b>14,688</b>
Provision charged	1,168	4,186	8,210	1,394	1,754	2,097
Operating expenses	19,670	25,522	29,775	37,977	43,240	51,812
<b>Profit/loss to shareholders</b>	<b>8,962</b>	<b>15,231</b>	<b>22,166</b>	<b>26,308</b>	<b>34,406</b>	<b>47,519</b>

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY18A	CY19A	CY20A	CY21E	CY22F	CY23F
Cash & Treasury Balances	65,022	92,193	136,242	178,020	213,561	256,196
Investments	123,743	225,646	434,208	553,300	663,061	795,048
Advances	512,565	493,775	512,532	636,103	765,424	920,571
Operating Fixed Assets	13,754	24,065	24,648	25,658	26,728	27,843
Other Assets	28,780	46,517	52,024	72,525	87,004	104,373
<b>Total Assets</b>	<b>937,915</b>	<b>1,121,258</b>	<b>1,521,559</b>	<b>1,861,661</b>	<b>2,230,901</b>	<b>2,674,010</b>
Borrowings from FIs	36,408	42,047	94,501	130,806	156,920	188,248
Deposits	785,477	932,579	1,254,431	1,513,014	1,815,075	2,177,441
Other Liabilities	37,947	53,600	58,979	79,677	95,584	114,667
<b>Total Liabilities</b>	<b>897,582</b>	<b>1,062,243</b>	<b>1,452,404</b>	<b>1,775,814</b>	<b>2,124,204</b>	<b>2,541,828</b>
Equity	40,333	59,015	69,155	85,847	106,697	132,182
<b>Total Liabilities &amp; Equity</b>	<b>937,915</b>	<b>1,121,258</b>	<b>1,521,559</b>	<b>1,861,661</b>	<b>2,230,901</b>	<b>2,674,010</b>

Source: Company Accounts, Akseer Research

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To arrive at our 12-months Price Target, the JV uses different valuation methods which include: 1). DCF methodology, 2). Relative valuation methodology, and 3). Asset-based valuation methodology.

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Rating	Expected Total Return
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Hold	Between -5% and +15%
Sell	Less than or equal to -5%

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