

Meezan Bank Limited

Result Review & Key Takeaways

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

Pakistan Research

MEBL – Higher non-interest income lifted 2QCY21 EPS to PKR 4.60, up 5% YoY

- Meezan Bank Limited (MEBL) posted the highest ever quarterly profit of PKR 6.5bn (EPS PKR 4.60), taking cumulative EPS for 1HCY21 to PKR 8.91, up 8% YoY. The bank also announced an interim cash dividend of PKR 1.5/share (1H DPS: PKR 3.0) and a 15% bonus, 1H payout coming at 45%.
- The bank conducted its analyst briefing yesterday to discuss the main drivers of healthy earnings during 2Q. Major reasons behind elevated earnings were a 77% YoY increase in the non-interest income and a 90% YoY decline in the provisioning expense.
- The bank's management highlighted that fee and commission income was the major contributor behind higher non-interest income. Normalized trading activities, debit card fees, branch banking fees, and trade & guarantee commissions lifted the fee & commission income. As a result, the bank has witnessed robust growth in trade business volumes of 77% YoY during the first half of 2021 to PKR 793bn.
- The current accounts (CA) growth continued its upward trajectory, increasing by 45% YoY in 1HCY21 to PKR 576bn, contributing positively to the bottom-line growth.
- Going forward, the management expects deposits and loan book to grow by 15% YoY, and the bank is not foreseeing a hike in the interest rates any time soon.
- MEBL NPL coverage ratio stood at 136%. The bank net provisions stood at PKR 60mn in 1HCY21 (charged PKR 1.23bn and reversals of PKR 1.17bn) against the specific provision. The bank also booked general provisions of PKR 300mn for the pandemic-related delinquencies.
- Regarding the implementation of IFRS 9, the bank has provided enough general provisions to cover IFRS 9. The bank is expecting the Sukuk program to resume from October this year.
- Updating on HASCOL's debt, the management updated that the consortium of banks has formed a steering committee and working with Vitol to discuss restructuring options. MEBL has PKR 4.2bn outstanding loan to the company, and it has been 100% provided for.
- The bank slowed down its branch expansion in 1H and opened only 20 branches. However, 80 more branches are planned for 2HCY21.

Key Data

PSX Ticker	MEBL
Target Price (PKR)	137
Current Price (PKR)	141
Upside/(Downside) (%)	- 3%
Dividend Yield (%)	5%
Total Return (%)	+ 2%
12-month High (PKR)	144
12-month Low (PKR)	76
Outstanding Shares (mn)	1,414.7
Market Cap (PKR mn)	199,547
Year End	December

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	2QCY20	2QCY21	YoY	1HCY20	1HCY21	YoY
M/up Earned	27,995	25,887	-8%	57,829	50,116	-13%
M/up Expense	10,359	9,736	-6%	25,474	18,911	-26%
Net Interest Income	17,637	16,151	-8%	32,355	31,205	-4%
Non-Interest Income	1,835	3,248	77%	5,026	6,811	36%
Total Provisions	1,459	148	-90%	3,097	433	-86%
Admin Expenses	7,782	8,657	11%	14,892	16,748	12%
Profit Before Tax	10,230	10,593	4%	19,391	20,835	7%
Taxation	4,059	4,087	1%	7,714	8,227	7%
Profit After Tax	6,171	6,507	5%	11,677	12,608	8%
EPS	4.36	4.60	5%	8.25	8.91	8%
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	19.07	24.51	33.86
EPS Growth	11.3%	70.0%	32.3%	21.7%	28.5%	38.1%
DPS	3.50	5.00	6.00	7.25	11.00	16.75
PER	20.24	11.91	9.00	7.40	5.75	4.17
Dividend Yield	2.5%	3.5%	4.3%	5.1%	7.8%	11.9%
P/B	4.50	3.07	1.84	1.5	1.2	0.96
ROE	24.0%	33.8%	39.2%	37.4%	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	106,987	140,377	182,123
Mark-up/interest expensed	20,457	47,732	41,740	36,964	51,861	63,062
Net interest income	28,168	46,539	64,849	70,023	88,516	119,060
Non-interest income	7,463	9,320	10,072	13,740	14,276	14,688
Provision charged	1,168	4,186	8,210	1,192	1,754	2,097
Operating expenses	19,670	25,522	29,775	37,781	43,241	51,814
Profit/loss to shareholders	8,962	15,231	22,166	26,981	34,678	47,903

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	553,973	663,652	796,022
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
Total Assets	937,915	1,121,258	1,521,559	1,862,334	2,231,492	2,674,984
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
Total Liabilities	897,582	1,062,243	1,452,404	1,775,814	2,124,204	2,541,828
Equity	40,333	59,015	69,155	86,520	107,288	133,156
Total Liabilities & Equity	937,915	1,121,258	1,521,559	1,862,334	2,231,492	2,674,984

Source: Company Accounts, Akseer Research

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Valuation Methodology

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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JV employs a three tier ratings system to rate a stock, as mentioned below, which is based upon the level of expected return for a specific stock. The rating is based on the following with time horizon of 12-months.

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

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