

Meezan Bank Limited

Result Preview

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

Pakistan Research

MEBL: 1QCY23 EPS likely to come at PKR 8.90, up 73% YoY; DPS PKR 3.0

- MEBL's BoD meeting is scheduled on April 18, 2023 to consider the accounts for 1QCY23. We expect the bank to post unconsolidated EPS of PKR 8.90, up 73% YoY. Along with the result, we expect the bank to announce an interim dividend of PKR 3.0/share.
- We expect the banks' NII to grow by 82% YoY to PKR 39.0bn for the quarter due to the higher interest rate. Interest income is likely to increase by 106% YoY to PKR 78.6bn while the interest expense is expected to grow at a higher pace of 138% YoY to PKR 39.6bn.
- Non-interest income is expected to further drive the profitability with an increase of 13% YoY to PKR 4.8bn during 1QCY23. Fee & commission income is likely to grow 5% YoY, while the forex income is anticipated to increase by 50% YoY on back of higher PKR/USD volatility during the quarter.
- We expect the bank to book the provision expense of PKR 1.8bn during 1QCY23 against provision expense of PKR 228mn SPLY.
- Operating expenses are likely to clock in at PKR 14.1bn during 1QCY23, up 36% YoY. While the cost to income ratio to settle at 32% for 1QCY23 vs 40% for 1QCY22.
- Effective tax rate of the bank is anticipated to come in at 43% in 1QCY23 (1QCY22:39%). Higher effective tax rate is due to the increase in corporate tax rate for banks and imposition of super-tax.
- We have a 'BUY' stance on the stock with Dec-23 PT of PKR 180/share, providing a capital upside of 82% while the stock is offering dividend yield of 19.9%.

Key Data

PSX Ticker	MEBL
Target Price (PKR)	180
Current Price (PKR)	99
Upside/(Downside) (%)	+82%
Dividend Yield (%)	19.9%
Total Return (%)	102%
12-month High (PKR)	147
12-month Low (PKR)	86
Outstanding Shares (mn)	1,790
Market Cap (PKR mn)	177,191
Year End	December

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	1QCY22	1QCY23E	YoY
M/up Earned	38,111	78,648	106%
M/up Expense	16,674	39,609	138%
Net Interest Income	21,437	39,039	82%
Non-Interest Income	4,300	4,881	13%
Total Provisions	228	1,846	710%
Admin Expenses	10,369	14,117	36%
Profit Before Tax	15,141	27,957	85%
Taxation	5,935	12,022	103%
Profit After Tax	9,206	15,936	73%
EPS	5.1	8.9	73%
DPS	1.6	3.0	-

Source: Company Accounts, Akseer Research

Key Financial Ratios

	CY20A	CY21A	CY22A	CY23E	CY24F	CY25F
EPS	15.7	17.4	25.1	44.6	53.3	46.3
EPS Growth	32.3%	11.2%	44.3%	77.2%	19.7%	-13.1%
DPS	6.0	5.6	8.2	15.5	24.0	25.5
BVPS	38.6	48.4	64.4	94.7	124.6	146.4
PER	6.3	5.7	3.9	2.2	1.9	2.1
Dividend Yield	6.1%	5.7%	8.3%	15.7%	24.2%	25.8%
P/B	2.6	2.0	1.5	1.0	0.8	0.7
ROE	39.2%	38.8%	45.4%	55.7%	48.5%	34.1%

Source: Company Accounts, Akseer Research

Muhammad Atif

muhammad.atif@alphacapital.com.pk

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 28% to calculate exit P/B, along with a risk free rate of 17%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 23%.

Investment Thesis

We have a 'BUY' recommendation on the stock based on our Dec-23 PT of PKR 180/share which provides total upside of 82% along with a dividend yield of 19.9%. Our investment case on MEBL is based on (1) Higher than industry deposit growth (2) Low cost of 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 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 Dec 31, 2022, MEBL operated 962 branches in Pakistan.

Financial Highlights - MEBL

Income Statement (PKR mn)						
	CY20A	CY21A	CY22A	CY23E	CY24F	CY25F
Mark-up/interest earned	106,589	110,073	232,121	383,481	420,561	370,780
Mark-up/interest expensed	41,740	41,151	110,418	190,242	177,973	142,182
Net interest income	64,849	68,921	121,704	193,239	242,588	228,598
Non-interest income	10,072	14,892	19,103	20,521	21,207	21,801
Provision charged	8,210	993	4,177	8,139	8,984	5,512
Operating expenses	29,775	35,324	48,245	65,687	87,340	99,404
Profit/loss to shareholders	22,166	28,355	45,007	79,762	95,458	82,925

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY20A	CY21A	CY22A	CY23A	CY24F	CY25F
Cash & Treasury Balances	136,242	170,501	117,743	127,163	137,971	149,699
Investments	434,208	620,132	1,283,210	1,398,661	1,582,109	1,759,479
Advances	512,532	758,086	995,508	1,008,173	1,066,912	1,133,523
Operating Fixed Assets	24,648	35,454	42,271	47,122	52,531	58,561
Other Assets	52,024	63,802	85,379	92,209	100,047	108,551
Total Assets	1,521,559	1,902,971	2,577,398	2,725,860	2,996,568	3,271,655
Borrowings from FIs	94,501	220,414	573,326	516,307	560,193	607,810
Deposits	1,254,431	1,455,886	1,658,490	1,791,169	1,943,419	2,108,609
Other Liabilities	58,979	82,982	169,095	182,623	198,146	214,988
Total Liabilities	1,452,404	1,816,414	2,462,077	2,556,307	2,773,640	3,009,677
Equity	69,155	86,558	115,321	169,554	222,927	261,977
Total Liabilities & Equity	1,521,559	1,902,971	2,577,398	2,725,860	2,996,568	3,271,655

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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Sell	Less than or equal to -5%

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Contact Details

Akseer Research (Pvt) Limited
1st Floor, Shaheen Chambers, KCHS block 7 & 8, off.
Shahrah-e-Faisal, Karachi
T: +92-21-34320359 -60
E: info@akseerresearch.com

Alpha Capital (Pvt) Limited (Formerly: Alfa Adhi Securities (Pvt) Ltd)
3rd Floor, Shaheen Chambers, A-4 Central Commercial Area, KCH
Society, Block 7 & 8, Near Virtual University, Karachi
T: +92-21-38694242
E: info@alphacapital.com.pk