

Meezan Bank Limited

Result Review

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

Pakistan Research

MEBL: 2QCY22 EPS clocked in at PKR 4.86, up 22% YoY, DPS PKR 1.75; Bonus 10%

- Meezan Bank Limited (MEBL) announced its 2QCY22 financial results today, wherein, the bank posted EPS of PKR 4.86, up 22% YoY taking cumulative EPS for 1HCY22 to PKR 10.5. Along with the result, bank announced interim cash dividend of PKR 1.75/share, which took cumulative payout to PKR 3.5/share for 1HCY22. MEBL also announced a 10% bonus share.
- During 2QCY22, the bank recorded 49% YoY growth in Net Interest Income (NII), wherein interest income increased by 94% YoY while interest expense surged at a higher pace of 169% YoY due to sharp rise in interest rates.
- MEBL reported the highest ever quarterly non-interest income which grew by 96% YoY to PKR 6.3bn in 2QCY22. Forex income increased 196% YoY to PKR 2.3bn due to PKR devaluation against USD. Fee & commission income grew 56% YoY to PKR 3.2bn, while other income also supported the non-interest income growth.
- The bank recorded provisioning expenses of PKR 961mn in 2QCY22 vs PKR 148mn in 2QCY21, which restricted the bottomline growth.
- Operating expenses remained higher by 25% YoY to PKR 10.8bn in 2QCY21 due to increased costs associated with the opening of new branches. The bank plans to add 65 new branches in CY22. Cost to income ratio improved to 36% in 2QCY22 vs 45% in 2QCY21.
- The effective tax rate of the bank stood at 57% in 2QCY22 vs 39% in 2QCY21 due to the imposition of the super tax on CY22 profits.
- We have a 'BUY' stance on the stock with Dec-22 PT of PKR 163/share, providing a capital upside of 27.5% whereas dividend yield stands at 7.6%.

Key Data

PSX Ticker	MEBL
Target Price (PKR)	163
Current Price (PKR)	128
Upside/(Downside) (%)	+ 28%
Dividend Yield (%)	+7.6%
Total Return (%)	+ 35%
12-month High (PKR)	165
12-month Low (PKR)	109
Outstanding Shares (mn)	1,626.9
Market Cap (PKR mn)	208,345
Year End	December

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	2QCY21	2QCY22	YoY	1HCY21	1HCY22	YoY
M/up Earned	25,887	50,185	94%	50,116	88,296	76%
M/up Expense	9,736	26,200	169%	18,911	42,874	127%
Net Interest Income	16,151	23,985	49%	31,205	45,422	46%
Non-Interest Income	3,248	6,358	96%	6,811	10,658	56%
Total Provisions	148	961	548%	433	1,189	175%
Admin Expenses	8,657	10,840	25%	16,748	21,209	27%
Profit Before Tax	10,593	18,542	75%	20,835	33,682	62%
Taxation	4,087	10,628	160%	8,227	16,563	101%
Profit After Tax	6,507	7,914	22%	12,608	17,119	36%
EPS	4.0	4.9	22%	7.7	10.5	36%
DPS	1.5	1.8	-	3.0	3.5	-

Key Financial Ratios

	CY19A	CY20A	CY21A	CY22E	CY23F	CY24F
EPS	9.4	13.6	17.4	26.2	33.0	30.7
EPS Growth	70.0%	45.5%	27.9%	50.1%	26.1%	-6.9%
DPS	5.0	6.0	5.6	9.8	15.0	15.3
PER	36.3	42.5	53.2	69.3	86.9	103.6
Dividend Yield	13.6	9.4	7.3	4.9	3.9	4.1
P/B	3.9%	4.7%	4.4%	7.7%	11.8%	12.0%
ROE	3.5	3.0	2.4	1.8	1.5	1.2

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 25% to calculate exit P/B, along with a risk free rate of 13%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 19%.

Investment Thesis

We have a 'BUY' recommendation on the stock based on our Dec-22 PT of PKR 163/share which provides total upside of 27.5% along with a dividend yield of 7.6%. Our investment case on MEBL is based on (1) Higher 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 Sep 30, 2021, MEBL operated 908 branches in Pakistan.

Financial Highlights - MEBL

Income Statement (PKR mn)						
	CY18A	CY19A	CY20A	CY21A	CY22F	CY23F
Mark-up/interest earned	94,270	106,589	110,073	208,187	237,352	205,933
Mark-up/interest expensed	47,732	41,740	41,151	99,374	109,368	80,929
Net interest income	46,539	64,849	68,921	108,813	127,984	125,004
Non-interest income	9,320	10,072	14,892	18,357	18,457	19,233
Provision charged	4,186	8,210	993	2,173	5,665	2,618
Operating expenses	25,522	29,775	35,324	41,417	46,584	53,920
Profit/loss to shareholders	15,231	22,166	28,355	42,567	53,690	49,989

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY18A	CY19A	CY20A	CY21A	CY22F	CY23F
Cash & Treasury Balances	92,193	136,242	170,501	160,476	176,904	200,693
Investments	225,646	434,208	620,132	738,080	854,799	1,030,216
Advances	493,775	512,532	758,086	898,009	967,811	1,046,856
Operating Fixed Assets	24,065	24,648	35,454	37,106	37,742	38,394
Other Assets	46,517	52,024	63,802	71,437	78,749	89,339
Total Assets	1,121,258	1,521,559	1,902,971	2,128,351	2,362,101	2,684,687
Borrowings from FIs	42,047	94,501	220,414	243,093	267,977	304,013
Deposits	932,579	1,254,431	1,455,886	1,605,682	1,770,051	2,008,074
Other Liabilities	53,600	58,979	82,982	99,389	109,563	124,296
Total Liabilities	1,062,243	1,452,404	1,816,414	2,015,529	2,220,777	2,516,120
Equity	59,015	69,155	86,558	112,822	141,324	168,567
Total Liabilities & Equity	1,121,258	1,521,559	1,902,971	2,128,351	2,362,101	2,684,687

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.

Ratings Criteria

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%

Ratings are updated to account for any development impacting the economy/sector/company, changes in analysts' assumptions or a combination of these factors.

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