

Meezan Bank Limited
Result Review

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

Pakistan Research

MEBL: 4QCY22 EPS increased by 87% YoY to PKR 9.2; DPS at PKR 3.0

- MEBL announced its 4QCY22 financial results today. During the 4Q, the bank has posted unconsolidated PAT of PKR 16.4bn (EPS PKR 9.2), up 87% YoY. This took the CY22 cumulative EPS to PKR 25.1, up 59% YoY. Along with the result, the bank announced a final cash dividend of PKR 3.0/share, taking CY22 cumulative payout to PKR 8.2/share.
- Net Interest Income (NII) increased by whooping 118% YoY to PKR 44.5bn during 4Q, which we believe is on the back of improvement in net spread. Interest earning increased by 141% YoY, while interest expense grew with a higher pace of 179% YoY.
- Non-interest income took a dip of 12% YoY to PKR 4.1bn during the quarter under review. The decline in this segment is due to the forex loss of PKR 249mn and capital loss of PKR 132mn.
- MEBL booked the provisioning expense of PKR 2.4bn in 4QCY22 vs PKR 439mn in SPLY.
- Operating expenses increased by 45% YoY to PKR 14.2bn in 4QCY22, which we believe is due to aggressive branch network expansion and inflationary pressures. However, cost to income ratio during the quarter clocked in at 29% vs 39% in SPLY.
- The bank recorded an effective tax rate of 49% in 4QCY22 vs 41% in corresponding period last year. Higher effective tax rate is due to a rise in corporate tax rates for the banking industry and imposition of the super tax on CY22 profits.
- We have a 'BUY' stance on the stock with Dec-23 PT of PKR 178/share, providing an upside of 93%, along with a dividend yield of 19.9%.

Key Data

PSX Ticker	MEBL
Target Price (PKR)	178
Current Price (PKR)	92
Upside/(Downside) (%)	+ 93%
Dividend Yield (%)	19.9%
Total Return (%)	+ 113%
12-month High (PKR)	147
12-month Low (PKR)	86
Outstanding Shares (mn)	1,790
Market Cap (PKR mn)	165,361
Year End	December

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	4QCY21	4QCY22	YoY	CY21	CY22	YoY
M/up Earned	32,458	78,242	141%	110,073	232,121	111%
M/up Expense	12,055	33,688	179%	41,151	110,418	168%
Net Interest Income	20,403	44,555	118%	68,921	121,704	77%
Non-Interest Income	4,624	4,057	-12%	14,892	19,103	28%
Total Provisions	439	2,441	456%	993	4,177	321%
Admin Expenses	9,741	14,169	45%	35,324	48,245	37%
Profit Before Tax	14,846	32,002	116%	47,496	88,385	86%
Taxation	6,057	15,591	157%	19,141	43,378	127%
Profit After Tax	8,789	16,410	87%	28,355	45,007	59%
EPS	4.9	9.2	87%	15.8	25.1	59%
DPS	1.4	3.0	-	5.1	8.2	-

Key Financial Ratios

	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
EPS	8.5	12.4	17.4	25.1	33.7	42.7
EPS Growth	70.0%	45.5%	40.7%	44.3%	33.9%	26.7%
DPS	5.0	6.0	5.6	8.2	15.3	21.5
BVPS	33.0	38.6	48.4	65.2	84.6	106.3
PER	10.9	7.5	5.3	3.7	2.7	2.2
Dividend Yield	5.4%	6.5%	6.1%	8.9%	16.5%	23.3%
P/B	2.8	2.4	1.9	1.4	1.1	0.9
ROE	33.8%	39.2%	38.8%	45.3%	45.2%	44.9%

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 30% 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 178/share which provides total upside of 93% along with a dividend yield of 19.9%. Our investment case on MEBL is based on (1) Higher deposit growth (2) Low cost of deposits and, (3) One of the lowest cost to income ratio in banking industry.

Risks

Key risks to our investment thesis are: 1) lower than estimated growth in advances and deposits and, 2) 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 September 30, 2022, MEBL operated 940 branches in Pakistan.

Financial Highlights - MEBL

Income Statement (PKR mn)						
	CY19A	CY20A	CY21A	CY22A	CY23F	CY24F
Mark-up/interest earned	94,270	106,589	110,073	232,121	361,433	385,546
Mark-up/interest expensed	47,732	41,740	41,151	110,418	187,596	174,053
Net interest income	46,539	64,849	68,921	121,704	173,837	211,492
Non-interest income	9,320	10,072	14,892	19,103	18,235	18,526
Provision charged	4,186	8,210	993	4,177	6,309	4,687
Operating expenses	25,522	29,775	35,324	48,245	67,610	91,376
Profit/loss to shareholders	15,231	22,166	28,355	45,007	60,258	76,354

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
Cash & Treasury Balances	92,193	136,242	170,501	207,752	225,411	244,571
Investments	225,646	434,208	620,132	923,358	1,071,775	1,193,022
Advances	493,775	512,532	758,086	1,025,791	1,070,777	1,160,696
Operating Fixed Assets	24,065	24,648	35,454	41,465	42,126	42,804
Other Assets	46,517	52,024	63,802	111,735	121,232	131,537
Total Assets	1,121,258	1,521,559	1,902,971	2,620,595	2,868,209	3,138,153
Borrowings from FIs	42,047	94,501	220,414	540,679	586,637	636,501
Deposits	932,579	1,254,431	1,455,886	1,773,971	1,924,758	2,088,362
Other Liabilities	53,600	58,979	82,982	124,406	134,980	146,454
Total Liabilities	1,062,243	1,452,404	1,816,414	2,503,963	2,716,795	2,947,940
Equity	59,015	69,155	86,558	116,632	151,414	190,213
Total Liabilities & Equity	1,121,258	1,521,559	1,902,971	2,620,595	2,868,209	3,138,153

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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