

Meezan Bank Limited
Result Review

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

Pakistan Research

MEBL: CY21 EPS settled at PKR 17.4, up 28% YoY; DPS PKR 1.50

- Meezan Bank Limited (MEBL) announced its CY21 financial results, wherein the bank reported net earnings of PKR 17.4/share, up 28% YoY compared to PKR 13.6/share in CY20. For 4QCY21, net earnings of the bank settled at PKR 5.4/share (up 115% YoY). Along with the result, the bank also announced interim cash dividend of PKR 1.5/share taking cumulative payout for CY21 to PKR 6.0/share.
- Higher than anticipated earnings were on the back of impressive growth in net interest income which could be due to higher than expected growth in interest earning assets.
- Net interest income (NII) for the quarter grew on YoY basis to PKR 20.4bn in 4QCY21. Interest expense of the bank surged by 47% YoY while interest income grew by 39% YoY. Significant increase in cost of deposits could be due to double digit deposit growth along with upward adjustment of recent hike in interest rate. During CY21, NII remained higher by 6% YoY.
- The bank reported highest ever quarterly non-interest income of PKR 4.6bn, up 59% YoY on the back of higher fee & commission income and forex income.
- The bank charged lower than estimated provisions of PKR 439mn during 4QCY21, depicting improvement in the asset quality. For CY21, the bank booked cumulative provisions of PKR 993mn compared to PKR 8.2bn recorded in SPLY.
- Operating expenses during the quarter surged by 37% YoY to PKR 9.7bn. This could be attributable to the incremental cost associated with the opening of new branches. The bank had planned to add more than 50 branches in 4QCY21.
- Effective tax rate of the bank stood at 40.3% in CY21 compared to 40.0% in CY20. We had incorporated higher effective tax during 4Q due to the fact that bank's ADR was lower than 50%, however topline growth indicating that the bank has achieved 50% ADR by Dec-21. We await further clarity in this regard once detailed financial accounts are published.
- We have a 'Buy' stance on MEBL with Dec-22 price target of PKR 196/share. The stock is offering an upside of 41% along with a dividend yield of 7.4%.

Key Data

| | |
|-------------------------|----------|
| PSX Ticker | MEBL |
| Target Price (PKR) | 196 |
| Current Price (PKR) | 139 |
| Upside/(Downside) (%) | + 41% |
| Dividend Yield (%) | +7.4% |
| Total Return (%) | + 48% |
| 12-month High (PKR) | 165 |
| 12-month Low (PKR) | 102 |
| Outstanding Shares (mn) | 1,626.9 |
| Market Cap (PKR mn) | 197,156 |
| Year End | December |

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

| | 4QCY20 | 4QCY21 | YoY | CY20 | CY21 | YoY |
|----------------------------|--------|--------|------|---------|---------|------|
| M/up Earned | 23,277 | 32,458 | 39% | 106,589 | 110,073 | 3% |
| M/up Expense | 8,183 | 12,055 | 47% | 41,740 | 41,151 | -1% |
| Net Interest Income | 15,093 | 20,403 | 35% | 64,849 | 68,921 | 6% |
| Non-Interest Income | 2,907 | 4,624 | 59% | 10,072 | 14,892 | 48% |
| Total Provisions | 4,022 | 439 | -89% | 8,210 | 993 | -88% |
| Admin Expenses | 7,107 | 9,741 | 37% | 29,775 | 35,324 | 19% |
| Profit Before Tax | 6,871 | 14,846 | 116% | 36,936 | 47,496 | 29% |
| Taxation | 2,784 | 6,057 | 118% | 14,770 | 19,141 | 30% |
| Profit After Tax | 4,087 | 8,789 | 115% | 22,166 | 28,355 | 28% |
| EPS (adjusted for bonus) | 2.51 | 5.40 | 115% | 13.62 | 17.43 | 28% |
| DPS | 2.00 | 1.50 | -25% | 6.00 | 6.00 | 0% |

Source: Company Accounts, Akseer Research

Key Financial Ratios

| | CY18A | CY19A | CY20A | CY21A | CY22F | CY23F |
|----------------|-------|-------|-------|-------|-------|-------|
| EPS | 5.5 | 9.4 | 13.6 | 17.4 | 25.6 | 30.4 |
| EPS Growth | 42.0% | 70.0% | 45.5% | 27.9% | 47.0% | 18.7% |
| DPS | 3.5 | 5.0 | 6.0 | 5.6 | 10.3 | 13.8 |
| PER | 25.3 | 14.9 | 10.2 | 8.0 | 5.4 | 4.6 |
| Dividend Yield | 2.5% | 3.6% | 4.3% | 4.0% | 7.4% | 9.9% |
| P/B | 5.6 | 3.8 | 3.3 | 2.6 | 2.0 | 1.6 |
| ROE | 24.0% | 33.8% | 39.2% | 38.8% | 43.4% | 39.9% |

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 25% to calculate exit P/B, along with a risk free rate of 12%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 18%.

Investment Thesis

We have a 'BUY' recommendation on the stock based on our Dec-22 PT of PKR 196/share which provides total upside of 41% along with a dividend yield of 7.4%. 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 Sep 30, 2021, MEBL operated 849 branches in Pakistan.

Financial Highlights - MEBL

| Income Statement (PKR mn) | | | | | | |
|------------------------------------|---------------|---------------|---------------|---------------|---------------|----------------|
| | CY18A | CY19A | CY20A | CY21A | CY22F | CY23F |
| Mark-up/interest earned | 48,624 | 94,270 | 106,589 | 110,073 | 160,455 | 191,466 |
| Mark-up/interest expensed | 20,457 | 47,732 | 41,740 | 41,151 | 61,531 | 72,946 |
| Net interest income | 28,168 | 46,539 | 64,849 | 68,921 | 98,923 | 118,520 |
| Non-interest income | 7,463 | 9,320 | 10,072 | 14,892 | 13,596 | 14,068 |
| Provision charged | 1,168 | 4,186 | 8,210 | 993 | 2,154 | 2,517 |
| Operating expenses | 19,670 | 25,522 | 29,775 | 35,324 | 40,881 | 47,595 |
| Profit/loss to shareholders | 8,962 | 15,231 | 22,166 | 28,355 | 41,691 | 49,485 |

Source: Company Accounts, Akseer Research

| Balance sheet (PKR mn) | | | | | | |
|---------------------------------------|----------------|------------------|------------------|------------------|------------------|------------------|
| | CY18A | CY19A | CY20A | CY21A | CY22F | CY23F |
| Cash & Treasury Balances | 65,022 | 92,193 | 136,242 | 143,724 | 147,420 | 164,169 |
| Investments | 123,743 | 225,646 | 434,208 | 506,789 | 455,010 | 499,202 |
| Advances | 512,565 | 493,775 | 512,532 | 636,690 | 796,279 | 910,591 |
| Operating Fixed Assets | 13,754 | 24,065 | 24,648 | 26,334 | 26,955 | 27,592 |
| Other Assets | 28,780 | 46,517 | 52,024 | 77,358 | 82,617 | 92,004 |
| Total Assets | 937,915 | 1,121,258 | 1,521,559 | 1,795,208 | 1,940,080 | 2,174,416 |
| Borrowings from FIs | 36,408 | 42,047 | 94,501 | 147,327 | 157,343 | 175,219 |
| Deposits | 785,477 | 932,579 | 1,254,431 | 1,422,118 | 1,518,798 | 1,691,357 |
| Other Liabilities | 37,947 | 53,600 | 58,979 | 78,511 | 83,849 | 93,375 |
| Total Liabilities | 897,582 | 1,062,243 | 1,452,404 | 1,706,967 | 1,824,148 | 2,029,903 |
| Equity | 40,333 | 59,015 | 69,155 | 88,241 | 115,932 | 144,513 |
| Total Liabilities & Equity | 937,915 | 1,121,258 | 1,521,559 | 1,795,208 | 1,940,080 | 2,174,416 |

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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