

Meezan Bank Limited

Key Takeaways

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

Pakistan Research

MEBL: 1QCY24 Conference Call Key Takeaways

- MEBL held its conference call yesterday to discuss 1QCY24 results and its future outlook. The bank reported an unconsolidated EPS of PKR 14.2, up 65% YoY. Along with the result, the bank announced an interim cash dividend of PKR 7.0/share.
- The bank's spread earned increased by 65% YoY to PKR 67.6bn in 1QCY24, where profit earned surged by 45% YoY to PKR 119.2bn due to higher underlying policy rate and a higher average volume of earning assets. However, the return on deposits and other dues expensed grew at a slower rate of 26% YoY to PKR 51.6bn, primarily due to a reduction in SBP borrowing.
- Non-funded income grew by 64% YoY to PKR 6.4bn, primarily attributed to fee & commission income and absence of forex and capital losses. Core fee & commission income posted a robust increase of 40% YoY to PKR 5.0bn, mainly stemming from debit card, branch banking, and trade related income.
- In 1QCY24, the bank added more than 240k debit cards, taking the overall portfolio to 3.4mn. Moreover, spending on debit cards increased by 43% YoY to PKR 71bn in 1Q.
- The bank earned foreign exchange income of PKR 478mn in 1QCY24 against a loss of PKR 155mn in 1QCY23 on better trade flows and stable exchange rate parity.
- Operating expenses increased to PKR 21.2bn during 1QCY24, up 42% YoY, due to inflationary pressures and increase in IT-related expenses on Rupee devaluation amid branch expansion. However, the cost-to-income ratio improved to 29% compared to 33% in 1QCY23 due to strong income growth.
- Investment portfolio grew to PKR 1.6tn due to regular Sukuk auctions, which has eased liquidity issues for Islamic banks.
- However, the bank's ADR declined to 41% due to a 6% YoY drop in Advances to PKR 931bn in 1QCY24. This is attributed to economic slowdown and the bank's strategy to prioritize the preservation of its financing portfolio. Corporate and SME/Commercial lending form 73% and 17% of advancing portfolio, respectively, while consumer loans account for just 8%. Moreover, the management aims for an ADR of 50% by year-end, provided that the current taxation related to ADR remains in effect.
- Non-performing loans increased to PKR 18bn resulted in higher infection ratio of 1.9%; however, the bank's coverage ratio increased to 194%.
- The bank's CAR improved to an all-time high of 24.1% at Mar-24, which is 12.6% above the regulatory requirement, due to robust RoE generation of 53.9% in 1QCY24.
- Effective tax rate for 1QCY24 clocked in at 52% (1QCY23:44%) due to higher charges comprising super tax and ADR related taxation, we believe.
- We have a 'Neutral' stance on the stock with Dec-24 PT of PKR 196/share, providing a capital downside of 11% while the stock is offering a dividend yield of 12%.

Key Data

PSX Ticker	MEBL
Target Price (PKR)	196
Current Price (PKR)	219
Upside/(Downside) (%)	-11%
Dividend Yield (%)	12%
Total Return (%)	+1%
12-Month High (PKR)	238
12-Month Low (PKR)	82
Outstanding Shares (mn)	1,790
Market Cap (PKR mn)	393,091
Year End	December

Source: Company Accounts, Akseer Research

Key Financial Ratios

	CY21A	CY22A	CY23A	CY24E	CY25F	CY26F
EPS	17.4	25.1	47.2	54.2	47.2	46.2
EPS Growth	11.2%	44.2%	87.7%	14.9%	-12.9%	-2.1%
DPS	5.6	8.2	20.0	26.8	27.5	27.8
BVPS	48.3	64.4	103.2	129.1	149.3	167.5
PER	12.6	8.7	4.7	4.1	4.6	4.8
Dividend Yield	2.6%	3.7%	9.1%	12.2%	12.5%	12.6%
P/B	4.5	3.4	2.1	1.7	1.5	1.3
ROE	38.8%	45.4%	58.3%	49.3%	35.6%	30.5%

Source: Company Accounts, Akseer Research

Muhammad Awais Ashraf, CFA
awais.ashraf@akseerresearch.com

Valuation Basis

Our PT for Meezan Bank Limited (MEBL) has been computed on the dividend discounting method using Justified P/B for the calculation of terminal value. We have used sustainable ROE of 26% to calculate exit P/B, along with a risk-free rate of 15%, beta of 1.0, and market risk premium of 6% to arrive at cost of equity of 21%.

Investment Thesis

We have a 'Neutral' recommendation on the stock based on our Dec-24 PT of PKR 196/share which provides a downside of 11% along with a dividend yield of 12%. Our investment case on MEBL is based on (1) normalization of deposit growth and (2) decline in interest rates.

Risks

Key risks to our investment thesis are: 1) A lower-than-anticipated decline 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 that has been operating in the country since 2002. Currently, the bank is engaged in corporate, commercial, consumer, investment, and retail banking activities. As of Dec 31, 2023, MEBL operated 1,004 branches in Pakistan.

Financial Highlights - MEBL

Income Statement (PKR mn)						
	CY21A	CY22A	CY23A	CY24E	CY25F	CY26F
Mark-up/interest earned	110,073	232,121	431,722	459,415	421,150	412,390
Mark-up/interest expensed	41,151	110,418	205,293	208,170	173,230	142,749
Net interest income	68,921	121,704	226,429	251,245	247,920	269,641
Non-interest income	14,892	19,103	22,107	28,189	30,179	31,617
Provision charged	993	4,177	7,340	2,801	3,665	4,617
Operating expenses	35,324	48,245	71,788	90,785	100,897	113,780
Profit/loss to shareholders	28,355	45,007	84,476	97,046	84,548	82,742

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY21A	CY22A	CY23A	CY24E	CY25F	CY26F
Cash & Treasury Balances	170,501	117,743	242,612	259,594	298,534	343,314
Investments	620,132	1,283,210	1,572,388	1,461,975	1,637,681	1,916,680
Advances	758,086	995,508	961,673	1,154,932	1,367,114	1,524,691
Operating Fixed Assets	35,454	42,271	60,890	71,936	84,711	99,755
Other Assets	63,802	85,379	128,130	184,105	211,721	243,479
Total Assets	1,902,971	2,577,398	3,012,109	3,183,072	3,657,870	4,194,745
Borrowings from FIs	220,414	573,326	377,495	347,886	400,069	460,080
Deposits	1,455,886	1,658,490	2,217,474	2,372,697	2,728,602	3,137,892
Other Liabilities	82,982	169,095	167,305	167,316	192,413	221,275
Total Liabilities	1,816,414	2,462,077	2,827,201	2,951,875	3,390,455	3,894,690
Equity	86,558	115,321	184,908	231,197	267,415	300,055
Total Liabilities & Equity	1,902,971	2,577,398	3,012,109	3,183,072	3,657,870	4,194,745

Source: Company Accounts, Akseer Research

Disclaimer

This report has been prepared and marketed jointly by Akseer Research (Pvt) Limited and Alpha Capital (Pvt) Limited, hereinafter referred jointly as "JV" and is provided for information purposes only. Under no circumstances this is to be used or considered as an offer to sell or solicitation of any offer to buy. While reasonable care has been taken to ensure that the information contained therein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. From time to time, the JV and/or any of their officers or directors may, as permitted by applicable laws, have a position, or otherwise be interested in any transaction, in any securities directly or indirectly subject of this report. This report is provided only for the information of professionals who are expected to make their own investment decisions without undue reliance on this report. Investments in capital markets are subject to market risk and the JV accepts no responsibility whatsoever for any direct or indirect consequential loss arising from any use of this report or its contents. In particular, the report takes no account of the investment objectives, financial situation and particular needs of investors, who should seek further professional advice or rely upon their own judgment and acumen before making any investment. The views expressed in this report are those of the JV's Research Department and do not necessarily reflect those of the JV or its directors. Akseer Research and Alpha Capital as firms may have business relationships, including investment--banking relationships, with the companies referred to in this report. The JV or any of their officers, directors, principals, employees, associates, close relatives may act as a market maker in the securities of the companies mentioned in this report, may have a financial interest in the securities of these companies to an amount exceeding 1% of the value of the securities of these companies, may serve or may have served in the past as a director or officer of these companies, may have received compensation from these companies for corporate advisory services, brokerage services or underwriting services or may expect to receive or intend to seek compensation from these companies for the aforesaid services, may have managed or co-managed a public offering, take-over, buyback, delisting offer of securities or various other functions for the companies mentioned in this report.

All rights reserved by the JV. This report or any portion hereof may not be reproduced, distributed or published by any person for any purpose whatsoever. Nor can it be sent to a third party without prior consent of the JV. Action could be taken for unauthorized reproduction, distribution or publication.

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 the 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.

Research Dissemination Policy

The JV endeavours to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as email, fax mail, etc.

Analyst Certification

The research analyst, denoted by 'AC' on the cover of this report, has also been involved in the preparation of this report, and is a member of JV's Equity Research Team. The analyst certifies that (1) the views expressed in this report accurately reflect his/her personal views and (2) no part of his/her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

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