

Meezan Bank Limited

Result Review

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

Pakistan Research

MEBL: 1QCY23 EPS clocked in at PKR 8.62, up 68% YoY; DPS PKR 3.00

- MEBL announced its 1QCY23 result today, wherein the bank reported an unconsolidated EPS of PKR 8.6, up 73% YoY. Along with the result, the bank announced an interim cash dividend of PKR 3.0/share.
- Net Spread Earned for the 1Q increased to PKR 41.0bn, up 91% YoY, on back of higher interest rates. Profit earned surged by 115% YoY to PKR 82bn, while the return expensed grew with a higher pace of 145% YoY to PKR 40.9bn.
- For 1QCY23, MEBL reported non-funded income of PKR 3.9bn, down 10% YoY, mainly due to the forex and capital loss of PKR 155mn and 106mn respectively. While, fee & commission income increased 20% YoY to PKR 3.6bn.
- Provision expense for the quarter, came at PKR 2.1bn against provision expense of PKR 228mn SPLY.
- Operating expenses increased to PKR 14.9bn during 1QCY23, up 44% YoY, which we believe is due to the branch expansion and inflationary pressures. While the cost to income ratio for the quarter settled at 33% vs 40% in SPLY.
- Effective tax rate for 1QCY23 clocked in at 45% (1QCY22:39%).
- 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 20.0%.

Key Data

PSX Ticker	MEBL
Target Price (PKR)	180
Current Price (PKR)	99
Upside/(Downside) (%)	+82%
Dividend Yield (%)	20.0%
Total Return (%)	102%
12-month High (PKR)	147
12-month Low (PKR)	86
Outstanding Shares (mn)	1,790
Market Cap (PKR mn)	177,029
Year End	December

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	1QCY22	1QCY23	YoY
Profit/Return Earned	38,111	81,953	115%
Profit/Return Expensed	16,674	40,907	145%
Net Spread Earned	21,437	41,046	91%
Non-funded Income	4,300	3,865	-10%
Total Provisions	228	2,130	8.4x
Admin Expenses	10,369	14,937	44%
Profit Before Tax	15,141	27,844	84%
Taxation	5,935	12,420	109%
Profit After Tax	9,206	15,424	68%
EPS	5.1	8.6	68%
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	44.3	53.3	46.4
EPS Growth	32.3%	11.2%	44.3%	76.1%	20.5%	-13.1%
DPS	6.0	5.6	8.2	15.5	24.0	25.5
BVPS	38.6	48.4	64.4	94.5	124.3	146.1
PER	6.3	5.7	3.9	2.2	1.9	2.1
Dividend Yield	6.1%	5.7%	8.3%	15.7%	24.3%	25.8%
P/B	2.6	2.0	1.5	1.0	0.8	0.7
ROE	39.2%	38.8%	45.4%	55.5%	48.6%	34.2%

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 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 20.0%. 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
Profit/Return Earned	106,589	110,073	232,121	386,722	420,480	370,718
Profit/Return Expensed	41,740	41,151	110,418	191,541	177,973	142,182
Net Spread Earned	64,849	68,921	121,704	195,181	242,507	228,536
Non-funded Income	10,072	14,892	19,103	19,505	21,206	21,800
Provision charged	8,210	993	4,177	8,338	8,870	5,398
Operating expenses	29,775	35,324	48,245	66,505	87,341	99,406
Profit/loss to shareholders	22,166	28,355	45,007	79,264	95,476	82,954

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY20A	CY21A	CY22A	CY23E	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	1,398,163	1,581,629	1,759,028
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	2,725,362	2,996,087	3,271,203
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	169,055	222,447	261,526
Total Liabilities & Equity	1,521,559	1,902,971	2,577,398	2,725,362	2,996,087	3,271,203

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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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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