

## Meezan Bank Limited

### Result Preview

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

Pakistan Research

## MEBL: 3QCY22 EPS to clock in at PKR 6.5, up 66% YoY; DPS PKR 2.0

- Meezan Bank Limited (MEBL) is scheduled to announce its 3QCY22 financial results on 19<sup>th</sup> October, 2022. We expect the bank to post unconsolidated PAT of PKR 11.5bn (EPS PKR 6.5), up 66% YoY during 3QCY22. This would take 9MCY22 EPS to PKR 16.0, up 47% YoY. Along with the result, the bank is expected to announce an interim cash dividend of PKR 2.0/share, which will take 9MCY22 DPS to PKR 5.5.
- Net Interest Income (NII) is anticipated to grow by 66% YoY to PKR 28.7bn in 3QCY22, on the back of strong balance sheet growth along with asset repricing due to interest rate hikes.
- Non-interest income is likely to reach PKR 5.7bn, up 66% YoY in 3QCY22. Major growth in this segment is expected from forex income (+270% YoY) due to strong trade flows and currency volatility followed by fee & commission income (+30% YoY).
- We have assumed provisioning expense of PKR 798mn in 3QCY22 vs PKR 121mn in SPLY.
- Operating expenses are expected to remain higher by 24% YoY to PKR 10.9bn in 3QCY22 due to aggressive branch network expansion and inflationary pressures. To highlight, the bank has set a target to reach ~1000 branches by the end of CY22.
- The bank is expected to record the effective tax rate of 49% in 3QCY22 vs 41% in 3QCY21. Higher effective tax 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 June-23 PT of PKR 175/share, providing a capital upside of 61.1% along with a dividend yield of 14.6%.

#### Key Data

PSX Ticker	MEBL
Target Price (PKR)	175
Current Price (PKR)	108.9
Upside/(Downside) (%)	+ 61.1%
Dividend Yield (%)	+14.6%
Total Return (%)	+ 75.7%
12-month High (PKR)	158.9
12-month Low (PKR)	107.9
Outstanding Shares (mn)	1,789.6
Market Cap (PKR mn)	194,872.2
Year End	December

Source: Company Accounts, Akseer Research

#### Financial Estimates (PKR mn)

	3QCY21	3QCY22E	YoY	9MCY21	9MCY22E	YoY
M/up Earned	27,499	66,501	142%	77,615	154,798	99%
M/up Expense	10,185	37,840	272%	29,096	80,715	177%
<b>Net Interest Income</b>	17,313	28,661	66%	48,519	74,083	53%
Non-Interest Income	3,457	5,732	66%	10,268	16,390	60%
Total Provisions	121	798	562%	553	1,987	259%
Admin Expenses	8,835	10,946	24%	25,583	32,154	26%
<b>Profit Before Tax</b>	11,815	22,650	92%	32,650	56,332	73%
Taxation	4,857	11,098	129%	13,084	27,661	111%
<b>Profit After Tax</b>	6,958	11,551	66%	19,566	28,670	47%
EPS	3.9	6.5	66%	10.9	16.0	47%
DPS	1.5	2.0	-	4.5	5.5	-

#### Key Financial Ratios

	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
EPS	8.5	12.4	17.4	23.7	34.1	32.6
EPS Growth	70.0%	45.5%	40.7%	35.7%	44.0%	-4.3%
DPS	5.0	6.0	5.6	7.7	15.5	16.3
PER	12.8	8.8	6.2	4.6	3.2	3.3
Dividend Yield	4.6%	5.5%	5.2%	7.1%	14.2%	14.9%
P/B	3.3	2.8	2.3	1.7	1.3	1.1
ROE	33.8%	39.2%	38.8%	43.3%	46.8%	35.7%

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 June-23 PT of PKR 175/share which provides total upside of 61.1% along with a dividend yield of 14.6%. 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 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 June 30, 2022, MEBL operated 931 branches in Pakistan.

**Financial Highlights - MEBL**

Income Statement (PKR mn)						
	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
Mark-up/interest earned	94,270	106,589	110,073	221,276	257,490	228,130
Mark-up/interest expensed	47,732	41,740	41,151	115,817	116,090	85,982
<b>Net interest income</b>	<b>46,539</b>	<b>64,849</b>	<b>68,921</b>	<b>105,459</b>	<b>141,400</b>	<b>142,148</b>
<b>Non-interest income</b>	<b>9,320</b>	<b>10,072</b>	<b>14,892</b>	<b>20,858</b>	<b>18,262</b>	<b>18,866</b>
Provision charged	4,186	8,210	993	2,665	5,600	4,159
Operating expenses	25,522	29,775	35,324	40,540	47,135	54,525
<b>Profit/loss to shareholders</b>	<b>15,231</b>	<b>22,166</b>	<b>28,355</b>	<b>42,328</b>	<b>60,948</b>	<b>58,328</b>

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
Cash & Treasury Balances	92,193	136,242	170,501	165,498	182,440	206,973
Investments	225,646	434,208	620,132	1,062,813	1,215,899	1,442,517
Advances	493,775	512,532	758,086	900,178	973,344	1,054,673
Operating Fixed Assets	24,065	24,648	35,454	40,139	40,801	41,479
Other Assets	46,517	52,024	63,802	67,238	74,121	84,088
<b>Total Assets</b>	<b>1,121,258</b>	<b>1,521,559</b>	<b>1,902,971</b>	<b>2,326,587</b>	<b>2,586,612</b>	<b>2,943,186</b>
Borrowings from FIs	42,047	94,501	220,414	467,776	515,661	585,003
Deposits	932,579	1,254,431	1,455,886	1,559,254	1,718,870	1,950,011
Other Liabilities	53,600	58,979	82,982	103,700	114,315	129,687
<b>Total Liabilities</b>	<b>1,062,243</b>	<b>1,452,404</b>	<b>1,816,414</b>	<b>2,214,176</b>	<b>2,440,130</b>	<b>2,764,808</b>
Equity	59,015	69,155	86,558	112,412	146,482	178,379
<b>Total Liabilities &amp; Equity</b>	<b>1,121,258</b>	<b>1,521,559</b>	<b>1,902,971</b>	<b>2,326,587</b>	<b>2,586,612</b>	<b>2,943,186</b>

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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Hold	Between -5% and +15%
Sell	Less than or equal to -5%

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