

## Meezan Bank Limited

### Result Review

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

Pakistan Research

## MEBL: 3QCY22 EPS clocked in at PKR 6.4, up 65% YoY; DPS PKR 2.0

- Meezan Bank Limited (MEBL) announced its 3QCY22 financial results today, wherein the bank posted unconsolidated PAT of PKR 11.5bn (EPS PKR 6.4), up 65% YoY during 3QCY22. This took 9MCY22 EPS to PKR 16.0, up 46% YoY. Along with the result, the bank announced an interim cash dividend of PKR 2.0/share taking 9MCY22 DPS to PKR 5.5.
- During the quarter, Net Interest Income (NII) grew by 83% YoY to PKR 31.7bn in 3QCY22 on the back of strong balance sheet growth along with interest rates hikes.
- Non-interest income reached to PKR 4.4bn, up 27% YoY in 3QCY22. Major growth in this segment came from higher fee & commission income (+37% YoY) and forex income (+35% YoY) due to strong trade flows and currency volatility.
- MEBL booked provisioning expense of PKR 546mn in 3QCY22 vs PKR 121mn in SPLY. Higher provisions could be related to build up of general provisions to avoid any credit loss due to tough economic situations.
- Operating expenses remained higher by 46% YoY to PKR 12.9bn in 3QCY22 due to aggressive branch network expansion and allowance adjustment due to inflationary pressures.
- The bank recorded an 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 61.3% along with a dividend yield of 14.6%.

#### Key Data

PSX Ticker	MEBL
Target Price (PKR)	175
Current Price (PKR)	108.7
Upside/(Downside) (%)	+ 61.3%
Dividend Yield (%)	+14.6%
Total Return (%)	+ 75.9%
12-month High (PKR)	158.9
12-month Low (PKR)	107.9
Outstanding Shares (mn)	1,789.6
Market Cap (PKR mn)	194,532.2
Year End	December

Source: Company Accounts, Akseer Research

#### Financial Highlights (PKR mn)

	3QCY21	3QCY22	YoY	9MCY21	9MCY22	YoY
M/up Earned	27,499	65,582	138%	77,615	153,879	98%
M/up Expense	10,185	33,855	232%	29,096	76,730	164%
<b>Net Interest Income</b>	<b>17,313</b>	<b>31,727</b>	<b>83%</b>	<b>48,519</b>	<b>77,149</b>	<b>59%</b>
Non-Interest Income	3,457	4,388	27%	10,268	15,046	47%
Total Provisions	121	546	353%	553	1,735	214%
Admin Expenses	8,835	12,868	46%	25,583	34,077	33%
<b>Profit Before Tax</b>	<b>11,815</b>	<b>22,701</b>	<b>92%</b>	<b>32,650</b>	<b>56,383</b>	<b>73%</b>
Taxation	4,857	11,224	131%	13,084	27,787	112%
<b>Profit After Tax</b>	<b>6,958</b>	<b>11,477</b>	<b>65%</b>	<b>19,566</b>	<b>28,596</b>	<b>46%</b>
EPS	3.9	6.4	65%	10.9	16.0	46%
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	23.6	34.1	32.6
EPS Growth	70.0%	45.5%	40.7%	35.5%	44.2%	-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%	14.3%	14.9%
P/B	3.3	2.8	2.2	1.7	1.3	1.1
ROE	33.8%	39.2%	38.8%	43.2%	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 61.3% 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	220,355	257,481	228,122
Mark-up/interest expensed	47,732	41,740	41,151	111,832	116,090	85,982
<b>Net interest income</b>	<b>46,539</b>	<b>64,849</b>	<b>68,921</b>	<b>108,523</b>	<b>141,391</b>	<b>142,140</b>
<b>Non-interest income</b>	<b>9,320</b>	<b>10,072</b>	<b>14,892</b>	<b>19,513</b>	<b>18,262</b>	<b>18,866</b>
Provision charged	4,186	8,210	993	2,414	5,600	4,159
Operating expenses	25,522	29,775	35,324	42,459	47,135	54,525
<b>Profit/loss to shareholders</b>	<b>15,231</b>	<b>22,166</b>	<b>28,355</b>	<b>42,254</b>	<b>60,943</b>	<b>58,324</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	1,062,740	1,215,820	1,442,434
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>2,326,514</b>	<b>2,586,534</b>	<b>2,943,103</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	112,338	146,404	178,296
<b>Total Liabilities &amp; Equity</b>	<b>1,121,258</b>	<b>1,521,559</b>	<b>1,902,971</b>	<b>2,326,514</b>	<b>2,586,534</b>	<b>2,943,103</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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