

Meezan Bank Limited
Result Preview

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

Pakistan Research

MEBL: 4QCY22 EPS likely to clock in at PKR 6.3, up 29% YoY

- MEBL is scheduled to announce its 4QCY22 financial results on 16th February, 2023. We expect the bank to post unconsolidated PAT of PKR 11.4bn (EPS PKR 6.3), up 29% YoY during 4QCY22. This would take the CY22 cumulative EPS to PKR 22.3, up 41% YoY. Along with the result, we expect the bank to announce a final cash dividend of PKR 2.0/share, taking cumulative payout to PKR 7.2/share in CY22.
- Net Interest Income (NII) is likely to grow by 62% YoY to PKR 33.1bn during 4Q, on the back of strong balance sheet growth along with asset repricing due to interest rate hike. We expect interest earning to grow by 108% YoY, while interest expense to increase with a higher rate of 187% YoY.
- Non-interest income is anticipated to clock in at PKR 5.1bn, up 11% YoY during 4Q. Major growth in this segment is expected from fee & commission income with an increase of 35% YoY.
- We have assumed provisioning expense of PKR 1.1bn in 4QCY22 vs PKR 439mn in SPLY, due to the adverse economic conditions.
- Operating expenses are expected to remain higher by 52% YoY to PKR 14.8bn in 4QCY22, due to aggressive branch network expansion and inflationary pressures.
- The bank is expected to record an effective tax rate of 49% in 4QCY22 vs 41% in corresponding period last year. Higher effective tax rate 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 Dec-23 PT of PKR 178/share, providing a capital upside of 89%, along with a dividend yield of 19.3%.

Key Data

PSX Ticker	MEBL
Target Price (PKR)	178
Current Price (PKR)	95
Upside/(Downside) (%)	+ 89%
Dividend Yield (%)	19.3%
Total Return (%)	+ 108%
12-month High (PKR)	147
12-month Low (PKR)	86
Outstanding Shares (mn)	1,790
Market Cap (PKR mn)	169,030
Year End	December

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	4QCY21	4QCY22E	YoY	CY21	CY22E	YoY
M/up Earned	32,458	67,674	108%	110,073	221,552	101%
M/up Expense	12,055	34,594	187%	41,151	111,324	171%
Net Interest Income	20,403	33,080	62%	68,921	110,229	60%
Non-Interest Income	4,624	5,124	11%	14,892	20,170	35%
Total Provisions	439	1,091	148%	993	2,826	185%
Admin Expenses	9,741	14,848	52%	35,324	48,924	39%
Profit Before Tax	14,846	22,266	50%	47,496	78,649	66%
Taxation	6,057	10,910	80%	19,141	38,697	102%
Profit After Tax	8,789	11,356	29%	28,355	39,952	41%
EPS	4.9	6.3	29%	15.8	22.3	41%
DPS	1.4	2.0		5.1	7.2	

Key Financial Ratios

	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
EPS	8.5	12.4	17.4	22.3	33.5	42.5
EPS Growth	70.0%	45.5%	40.7%	28.1%	50.2%	26.8%
DPS	5.0	6.0	5.6	7.2	15.0	21.5
BVPS	33.0	38.6	48.4	62.3	82.9	104.4
PER	11.1	7.6	5.4	4.2	2.8	2.2
Dividend Yield	5.3%	6.4%	5.9%	7.6%	15.9%	22.8%
P/B	2.9	2.4	2.0	1.5	1.1	0.9
ROE	33.8%	39.2%	38.8%	41.3%	46.4%	45.6%

Source: Company Accounts, Akseer Research

Muhammad Atif
muhammad.atif@alphacapital.com.pk

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 30% 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 178/share which provides total upside of 89% along with a dividend yield of 19.3%. Our investment case on MEBL is based on (1) Higher deposit growth (2) Low cost of deposits and, (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 and, 2) 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 September 30, 2022, MEBL operated 940 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	221,552	360,918	385,055
Mark-up/interest expensed	47,732	41,740	41,151	111,324	187,596	174,053
Net interest income	46,539	64,849	68,921	110,229	173,322	211,001
Non-interest income	9,320	10,072	14,892	20,170	18,232	18,523
Provision charged	4,186	8,210	993	2,826	6,309	4,687
Operating expenses	25,522	29,775	35,324	48,924	67,598	91,364
Profit/loss to shareholders	15,231	22,166	28,355	39,952	60,000	76,080

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
Cash & Treasury Balances	92,193	136,242	170,501	207,752	225,411	244,571
Investments	225,646	434,208	620,132	918,303	1,068,700	1,189,673
Advances	493,775	512,532	758,086	1,025,791	1,070,777	1,160,696
Operating Fixed Assets	24,065	24,648	35,454	41,465	42,126	42,804
Other Assets	46,517	52,024	63,802	111,735	121,232	131,537
Total Assets	1,121,258	1,521,559	1,902,971	2,615,541	2,865,133	3,134,804
Borrowings from FIs	42,047	94,501	220,414	540,679	586,637	636,501
Deposits	932,579	1,254,431	1,455,886	1,773,971	1,924,758	2,088,362
Other Liabilities	53,600	58,979	82,982	124,406	134,980	146,454
Total Liabilities	1,062,243	1,452,404	1,816,414	2,503,963	2,716,795	2,947,940
Equity	59,015	69,155	86,558	111,578	148,339	186,863
Total Liabilities & Equity	1,121,258	1,521,559	1,902,971	2,615,541	2,865,133	3,134,804

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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Contact Details

Akseer Research (Pvt) Limited
1st Floor, Shaheen Chambers, KCHS block 7 & 8,
off. Shahrah-e-Faisal
T: +92-21-34320359 -60
E: info@akseerresearch.com

Alpha Capital (Pvt) Limited (Formerly: Alfa Adhi Securities (Pvt) Limited)
3rd Floor, Shaheen Chambers, A-4 Central Commercial Area, KCH
Society, Block 7 & 8, Near Virtual University, Karachi
T: +92-21-38694242
E: info@alfaadhi.pk