

**Meezan Bank Limited**  
Result Preview

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

Pakistan Research

**MEBL – 3QCY21 EPS to clock in at PKR 3.99; DPS PKR 1.50**

- Meezan Bank Limited (MEBL) is scheduled to announce its 3QCY21 financial results on 14<sup>th</sup> October 2021. We expect net earnings to remain almost flat on QoQ/ YoY basis to PKR 3.99/share. This will take cumulative earnings for 9MCY21 to PKR 11.74/share, up 6% YoY. The bank is also expected to announce an interim cash dividend of PKR 1.50/share, taking cumulative payout to PKR 4.50/share for 9MCY21.
- Net interest income (NII) for the quarter is likely to decline by 2% YoY to PKR 17.1bn due to hefty jump of 22% YoY in interest expense versus 6% YoY growth interest income. Double digit surge in deposits coupled with quick adjustment of interest rate hike in the deposits cost led to burgeoning cost of funds.
- Non-interest income will grow by 59% YoY to PKR 3.4bn in 3QCY21 on the back of higher fee & commission income.
- Lower provisioning expense will be a positive for the bottom line, declining by 75% YoY to PKR 270mn in 3QCY21. For 9MCY21, the cumulative provisions likely to stand at PKR 703mn, down 83% YoY.
- Operating expenses during the quarter are likely to increase by 11% YoY to PKR 8.6bn due to increased cost associated with the opening of new branches. The bank plans to add 80 branches during 2HCY21.
- We have assumed higher tax rate of 44% during 3QCY21 as the bank is subject to additional tax of 2.5% due to lower ADR (9MCY21 effective tax rate 41%).
- We recommend 'Buy' on MEBL with our revised and rolled over June-22 price target of PKR 196/share. The stock is offering an upside of 44% including a dividend yield of 4%.

**Key Data**

PSX Ticker	MEBL
Target Price (PKR)	196
Current Price (PKR)	139
Upside/(Downside) (%)	40%
Dividend Yield (%)	+ 4%
Total Return (%)	+ 44%
12-month High (PKR)	165
12-month Low (PKR)	78
Outstanding Shares (mn)	1,626.9
Market Cap (PKR mn)	197,990
Year End	December

Source: Company Accounts, Akseer Research

**Financial Estimates (PKR mn)**

	3QCY20	3QCY21E	YoY	9MCY20	9MCY21E	YoY
M/up Earned	25,483	27,025	6%	83,312	77,141	-7%
M/up Expense	8,083	9,890	22%	33,557	28,801	-14%
<b>Net Interest Income</b>	17,401	17,134	-2%	49,756	48,340	-3%
Non-Interest Income	2,139	3,391	59%	7,165	10,202	42%
Total Provisions	1,091	270	-75%	4,188	703	-83%
Admin Expenses	7,775	8,654	11%	22,667	25,402	12%
<b>Profit Before Tax</b>	10,674	11,601	9%	30,065	32,436	8%
Taxation	4,272	5,105	19%	11,986	13,331	11%
<b>Profit After Tax</b>	6,402	6,497	1%	18,079	19,105	6%
EPS (adjusted for bonus)	3.93	3.99	1%	11.11	11.74	6%
DPS	4.00	1.50	-63%	4.00	4.50	13%

Source: Company Accounts, Akseer Research

**Key Financial Ratios**

	CY18A	CY19A	CY20A	CY21E	CY22F	CY23F
EPS	6.97	11.84	15.67	15.98	19.94	24.08
EPS Growth	11.3%	70.0%	32.3%	2.0%	24.7%	20.8%
DPS	3.50	5.00	6.00	5.61	8.25	10.75
PER	20.08	11.82	8.93	8.76	7.02	5.81
Dividend Yield	2.5%	3.6%	4.3%	4.0%	5.9%	7.7%
P/B	4.46	3.05	1.83	1.5	1.2	0.98
ROE	24.0%	33.8%	39.2%	36.2%	35.9%	35.1%

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 11%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 17%.

**Investment Thesis**

We have a 'BUY' recommendation on the stock based on our Jun-22 PT of PKR 196/share which provides total upside of 44% including dividend yield of 4%. 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 June 30, 2021, MEBL operated 835 branches in Pakistan.

**Financial Highlights - MEBL**

Income Statement (PKR mn)						
	CY18A	CY19A	CY20A	CY21E	CY22F	CY23F
Mark-up/interest earned	48,624	94,270	106,589	107,054	130,881	155,630
Mark-up/interest expensed	20,457	47,732	41,740	39,881	47,505	54,287
<b>Net interest income</b>	<b>28,168</b>	<b>46,539</b>	<b>64,849</b>	<b>67,172</b>	<b>83,377</b>	<b>101,343</b>
<b>Non-interest income</b>	<b>7,463</b>	<b>9,320</b>	<b>10,072</b>	<b>13,621</b>	<b>13,558</b>	<b>13,862</b>
Provision charged	1,168	4,186	8,210	984	2,369	2,737
Operating expenses	19,670	25,522	29,775	34,598	40,503	47,166
<b>Profit/loss to shareholders</b>	<b>8,962</b>	<b>15,231</b>	<b>22,166</b>	<b>26,003</b>	<b>32,438</b>	<b>39,182</b>

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY18A	CY19A	CY20A	CY21E	CY22F	CY23F
Cash & Treasury Balances	65,022	92,193	136,242	153,054	162,220	180,650
Investments	123,743	225,646	434,208	489,362	468,506	512,974
Advances	512,565	493,775	512,532	633,981	789,548	899,090
Operating Fixed Assets	13,754	24,065	24,648	25,855	26,476	27,113
Other Assets	28,780	46,517	52,024	69,515	76,631	85,337
<b>Total Assets</b>	<b>937,915</b>	<b>1,121,258</b>	<b>1,521,559</b>	<b>1,801,401</b>	<b>1,996,995</b>	<b>2,232,588</b>
Borrowings from FIs	36,408	42,047	94,501	109,585	120,803	134,528
Deposits	785,477	932,579	1,254,431	1,474,434	1,625,367	1,810,034
Other Liabilities	37,947	53,600	58,979	71,435	78,747	87,694
<b>Total Liabilities</b>	<b>897,582</b>	<b>1,062,243</b>	<b>1,452,404</b>	<b>1,715,202</b>	<b>1,889,905</b>	<b>2,103,141</b>
Equity	40,333	59,015	69,155	86,199	107,090	129,447
<b>Total Liabilities &amp; Equity</b>	<b>937,915</b>	<b>1,121,258</b>	<b>1,521,559</b>	<b>1,801,401</b>	<b>1,996,995</b>	<b>2,232,588</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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