

Meezan Bank Limited

Result Review

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

Pakistan Research

MEBL: 3QCY21 EPS recorded at PKR 4.28; DPS PKR 1.50

- Meezan Bank Limited (MEBL) announced its 3QCY21 financial results, wherein the company reported net earnings of PKR 4.28/share, up 9% YoY compared to PKR 3.93/share in 3QCY20. Cumulatively for 9MCY21, net earnings of the company settled at PKR 12.03 (up 8% YoY). Along with the result, the company also announced interim cash dividend of PKR 1.5/share taking 9MCY21 payout to PKR 4.5/share compared to PKR 4.0/share during the same period last year.
- The earnings were slightly higher than our expectation owing to deviation in fee & commission income and lower than expected provisions.
- Net interest income (NII) for the quarter almost remained flat on YoY basis to PKR 17.3bn in 3QCY21. Interest expense of the bank surged by 26% YoY while interest income grew by 8% YoY in 3QCY21. Significant increase in cost of deposits could be due to double digit deposit growth along with upward adjustment of recent hike in interest rate. During 9MCY21, NII remained lower by 2% YoY to PKR 10.3bn.
- Non-interest income jumped 62% YoY to PKR 3.5bn in 3QCY21 on the back of higher fee & commission income.
- The bank charged lower than estimated provisions, PKR 121mn during 3QCY21, depicting improvement in the asset quality. For 9MCY21, the bank booked cumulative provisions of PKR 553mn compared to PKR 4.1bn recorded in the same period last year.
- Operating expenses during the quarter surged by 14% YoY to PKR 8.8bn. This could be attributable to the incremental cost associated with the opening of new branches. The bank plans to add 80 branches during 2HCY21.
- Effective tax rate of the bank stood at 41.1% in 3QCY21 compared to 40.0% in 3QCY20. Higher tax accrual could be additional tax charge on lower ADR. We await further clarity in this regard.
- We have a 'Buy' stance on MEBL with June-22 price target of PKR 196/share. The stock is offering an upside of 45% including a dividend yield of 4%.

Key Data

PSX Ticker	MEBL
Target Price (PKR)	196
Current Price (PKR)	139
Upside/(Downside) (%)	41%
Dividend Yield (%)	+ 4%
Total Return (%)	+ 45%
12-month High (PKR)	165
12-month Low (PKR)	78
Outstanding Shares (mn)	1,626.9
Market Cap (PKR mn)	197,802
Year End	December

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	3QCY20	3QCY21	YoY	9MCY20	9MCY21	YoY
M/up Earned	25,483	27,499	8%	83,312	77,615	-7%
M/up Expense	8,083	10,185	26%	33,557	29,096	-13%
Net Interest Income	17,401	17,313	-1%	49,756	48,519	-2%
Non-Interest Income	2,139	3,457	62%	7,165	10,268	43%
Total Provisions	1,091	121	-89%	4,188	553	-87%
Admin Expenses	7,775	8,835	14%	22,667	25,583	13%
Profit Before Tax	10,674	11,815	11%	30,065	32,650	9%
Taxation	4,272	4,857	14%	11,986	13,084	9%
Profit After Tax	6,402	6,958	9%	18,079	19,566	8%
EPS (adjusted for bonus)	3.93	4.28	9%	11.11	12.03	8%
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	16.07	19.94	24.09
EPS Growth	11.3%	70.0%	32.3%	2.6%	24.1%	20.8%
DPS	3.50	5.00	6.00	5.61	8.25	10.75
PER	19.96	11.75	8.88	8.66	6.98	5.77
Dividend Yield	2.5%	3.6%	4.3%	4.0%	5.9%	7.7%
P/B	4.44	3.03	1.82	1.5	1.2	0.97
ROE	24.0%	33.8%	39.2%	36.4%	35.8%	35.0%

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 45% 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	107,534	130,894	155,645
Mark-up/interest expensed	20,457	47,732	41,740	40,176	47,505	54,287
Net interest income	28,168	46,539	64,849	67,358	83,389	101,358
Non-interest income	7,463	9,320	10,072	13,687	13,558	13,862
Provision charged	1,168	4,186	8,210	834	2,369	2,737
Operating expenses	19,670	25,522	29,775	34,780	40,503	47,166
Profit/loss to shareholders	8,962	15,231	22,166	26,148	32,445	39,190

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	489,507	468,658	513,135
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
Total Assets	937,915	1,121,258	1,521,559	1,801,546	1,997,148	2,232,750
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
Total Liabilities	897,582	1,062,243	1,452,404	1,715,202	1,889,905	2,103,141
Equity	40,333	59,015	69,155	86,344	107,242	129,608
Total Liabilities & Equity	937,915	1,121,258	1,521,559	1,801,546	1,997,148	2,232,750

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.

Ratings Criteria

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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