

Meezan Bank Limited

Result Preview

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

Pakistan Research

MEBL: 1QCY24 EPS likely to come at PKR 13.06, up 52% YoY; DPS PKR 8.0

- MEBL's BoD meeting is scheduled on April 18, 2024 to consider the accounts for 1QCY24. We expect the bank to post unconsolidated EPS of PKR 13.06, up 52% YoY. Along with the result, we expect the bank to announce an interim dividend of PKR 8.0/share.
- We expect the banks' NII to grow by 73% YoY to PKR 70.8bn in 1QCY24 due to higher interest rate. Interest income is likely to increase by 59% YoY to PKR 130.3bn while the interest expense is expected to grow at a lower pace of 45% YoY to PKR 59.4bn.
- Non-interest income is expected to further drive the profitability with an increase of 61% YoY to PKR 6.2bn in 1QCY24 primarily because of normalization of FX income. Fee & commission income is likely to grow 20% YoY, while the forex income is anticipated to remain positive on the back of exchange rate stability.
- We expect the bank to book the provision expense of PKR 1.9bn during 1QCY24 against provision expense of PKR 2.1bn SPLY.
- Operating expenses are likely to clock in at PKR 21.4bn during 1QCY24, up 43% YoY. However, the cost to income ratio to settle at 28% for 1QCY24 vs 33% for 1QCY23 due to higher Markup Earned.
- Effective tax rate of the bank is anticipated to come in at 56% in 1QCY24 (1QCY22:45%) due to higher Super tax and imposition of ADR related tax.
- We have a 'Neutral' stance on the stock with Dec-24 PT of PKR 194/share, providing a capital downside of 15% while the stock is offering dividend yield of 13%.

Key Data

PSX Ticker	MEBL
Target Price (PKR)	194
Current Price (PKR)	228
Upside/(Downside) (%)	-15%
Dividend Yield (%)	13%
Total Return (%)	-2%
12-month High (PKR)	238
12-month Low (PKR)	82
Outstanding Shares (mn)	1,790
Market Cap (PKR mn)	408,674
Year End	December

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	1QCY23	1QCY24E	YoY
M/up Earned	81,953	130,255	59%
M/up Expense	40,907	59,406	45%
Net Interest Income	41,046	70,849	73%
Non-Interest Income	3,865	6,230	61%
Total Provisions	2,130	1,919	-10%
Admin Expenses	14,937	21,432	43%
Profit Before Tax	27,844	53,728	93%
Taxation	12,420	30,331	144%
Profit After Tax	15,424	23,397	52%
EPS	8.61	13.06	52%
DPS	3.00	8.00	167%

Source: Company Accounts, Akseer Research

Key Financial Ratios

	CY21A	CY22A	CY23A	CY24F	CY25F	CY26F
EPS	17.4	25.1	47.2	58.3	50.1	47.5
EPS Growth	11.2%	44.2%	87.7%	23.6%	-14.0%	-5.3%
DPS	5.6	8.2	20.0	30.0	29.8	28.5
BVPS	48.3	64.4	103.2	130.8	151.9	170.1
PER	13.1	9.1	4.8	3.9	4.6	4.8
Dividend Yield	2.5%	3.6%	8.8%	13.1%	13.0%	12.5%
P/B	4.7	3.5	2.2	1.7	1.5	1.3
ROE	38.8%	45.4%	58.3%	52.6%	37.2%	30.8%

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 26% to calculate exit P/B, along with a risk free rate of 15%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 21%.

Investment Thesis

We have a 'Neutral' recommendation on the stock based on our Dec-24 PT of PKR 194/share which provides a downside of 15% along with a dividend yield of 13%. Our investment case on MEBL is based on (1) normalization of deposit growth and (2) decline in interest rates.

Risks

Key risks to our investment thesis are: 1) lower than anticipated decline 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 Dec 31, 2023, MEBL operated 1,004 branches in Pakistan.

Financial Highlights - MEBL

Income Statement (PKR mn)						
	CY21A	CY22A	CY23A	CY24F	CY25F	CY26F
Mark-up/interest earned	110,073	232,121	431,722	529,149	502,910	473,123
Mark-up/interest expensed	41,151	110,418	205,293	249,697	230,436	205,832
Net interest income	68,921	121,704	226,429	279,452	272,473	267,292
Non-interest income	14,892	19,103	22,107	28,070	29,761	30,908
Provision charged	993	4,177	7,340	7,294	7,475	8,281
Operating expenses	35,324	48,245	71,788	95,552	108,613	123,192
Profit/loss to shareholders	28,355	45,007	84,476	104,385	89,812	85,031

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY21A	CY22A	CY23A	CY24F	CY25F	CY26F
Cash & Treasury Balances	170,501	117,743	242,612	266,873	306,904	343,732
Investments	620,132	1,283,210	1,572,388	1,616,806	1,817,765	2,036,414
Advances	758,086	995,508	961,673	1,185,245	1,398,998	1,556,924
Operating Fixed Assets	35,454	42,271	60,890	60,850	74,077	90,180
Other Assets	63,802	85,379	128,130	147,320	169,418	189,748
Total Assets	1,902,971	2,577,398	3,012,109	3,328,151	3,825,879	4,282,761
Borrowings from FIs	220,414	573,326	377,495	415,244	477,531	534,834
Deposits	1,455,886	1,658,490	2,217,474	2,439,221	2,805,105	3,141,717
Other Liabilities	82,982	169,095	167,305	173,779	199,846	223,827
Total Liabilities	1,816,414	2,462,077	2,827,201	3,093,944	3,553,792	3,978,006
Equity	86,558	115,321	184,908	234,207	272,087	304,755
Total Liabilities & Equity	1,902,971	2,577,398	3,012,109	3,328,151	3,825,879	4,282,761

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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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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