

## Meezan Bank Limited

### Result Review

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

Pakistan Research

## MEBL: 1QCY24 EPS clocked in at PKR 14.18, up 65% YoY; DPS PKR 7.00

- MEBL announced its 1QCY24 result today, wherein the bank reported an unconsolidated EPS of PKR 14.2, up 65% YoY. Along with the result, the bank announced an interim cash dividend of PKR 7.0/share.
- Net spread earned for the 1QCY24 increased to PKR 67.6bn, up 65% YoY, on the back of higher interest rates. Profit earned surged by 45% YoY to PKR 119.2bn, while the return expensed grew at a slower rate of 26% YoY to PKR 51.6bn.
- For 1QCY24, MEBL reported non-funded income of PKR 6.4bn, up 64% YoY, primarily because of fee & commission income and absence of forex and capital losses. Moreover, fee & commission income increased 40% YoY to PKR 5.1bn.
- Provision reversal for the quarter, came in at PKR 344mn against provision expense of PKR 2.1bn SPLY.
- Operating expenses increased to PKR 21.2bn during 1QCY24, up 42% YoY, which we believe is due to inflationary pressures. While the cost to income ratio for the quarter settled at 29% vs 33% in SPLY.
- Effective tax rate for 1QCY24 clocked in at 52% (1QCY23:44%) due to higher charge incorporating super tax and ADR related taxation, we believe.
- We have a 'Neutral' stance on the stock with Dec-24 PT of PKR 194/share, providing a capital downside of 16% while the stock is offering dividend yield of 12%.

#### Key Data

PSX Ticker	MEBL
Target Price (PKR)	194
Current Price (PKR)	228
Upside/(Downside) (%)	-16%
Dividend Yield (%)	12%
Total Return (%)	-4%
12-month High (PKR)	238
12-month Low (PKR)	82
Outstanding Shares (mn)	1,790
Market Cap (PKR mn)	411,253
Year End	December

Source: Company Accounts, Akseer Research

#### Financial Highlights (PKR mn)

	1QCY23	1QCY24	YoY
M/up Earned	81,953	119,146	45%
M/up Expense	40,907	51,582	26%
<b>Net Interest Income</b>	<b>41,046</b>	<b>67,564</b>	<b>65%</b>
Non-Interest Income	3,865	6,358	64%
Total Provisions	2,130	(344)	-116%
Admin Expenses	14,937	21,208	42%
<b>Profit Before Tax</b>	<b>27,844</b>	<b>53,058</b>	<b>91%</b>
Taxation	12,420	27,651	123%
<b>Profit After Tax</b>	<b>15,424</b>	<b>25,407</b>	<b>65%</b>
EPS	8.6	14.2	65%
DPS	3.0	7.0	133%

Source: Company Accounts, Akseer Research

#### Key Financial Ratios

	CY21A	CY22A	CY23A	CY24F	CY25F	CY26F
EPS	17.4	25.1	47.2	55.4	50.2	47.5
EPS Growth	11.2%	44.2%	87.7%	17.4%	-9.3%	-5.3%
DPS	5.6	8.2	20.0	27.5	29.8	28.8
BVPS	48.3	64.4	103.2	131.4	152.8	170.9
PER	13.2	9.1	4.9	4.1	4.6	4.8
Dividend Yield	2.4%	3.6%	8.7%	12.0%	13.0%	12.5%
P/B	4.8	3.6	2.2	1.7	1.5	1.3
ROE	38.8%	45.4%	58.3%	51.0%	37.0%	30.6%

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 12%. 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	508,254	503,143	473,318
Mark-up/interest expensed	41,151	110,418	205,293	241,872	230,436	205,832
<b>Net interest income</b>	<b>68,921</b>	<b>121,704</b>	<b>226,429</b>	<b>266,382</b>	<b>272,707</b>	<b>267,486</b>
<b>Non-interest income</b>	<b>14,892</b>	<b>19,103</b>	<b>22,107</b>	<b>28,197</b>	<b>29,761</b>	<b>30,909</b>
Provision charged	993	4,177	7,340	5,031	7,475	8,281
Operating expenses	35,324	48,245	71,788	95,086	108,618	123,197
<b>Profit/loss to shareholders</b>	<b>28,355</b>	<b>45,007</b>	<b>84,476</b>	<b>101,430</b>	<b>89,923</b>	<b>85,128</b>

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	1,617,882	1,819,398	2,037,697
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
<b>Total Assets</b>	<b>1,902,971</b>	<b>2,577,398</b>	<b>3,012,109</b>	<b>3,329,227</b>	<b>3,827,513</b>	<b>4,284,044</b>
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
<b>Total Liabilities</b>	<b>1,816,414</b>	<b>2,462,077</b>	<b>2,827,201</b>	<b>3,093,944</b>	<b>3,553,792</b>	<b>3,978,006</b>
Equity	86,558	115,321	184,908	235,283	273,720	306,038
<b>Total Liabilities &amp; Equity</b>	<b>1,902,971</b>	<b>2,577,398</b>	<b>3,012,109</b>	<b>3,329,227</b>	<b>3,827,513</b>	<b>4,284,044</b>

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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Rating	Expected Total Return
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Hold	Between -5% and +15%
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