

MEBL

Largest shariah-compliant bank, offering a total return of 43pc

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We initiate our coverage on Meezan Bank Limited (MEBL) with a Justified P/B based Dec-22 TP of Rs.175 which provides an upside potential of 36% The scrip also offers a dividend yield of 7% which makes a total return of 43%

The bank is one of the largest banks in Pakistan in terms of deposits, which closed at Rs1.45tn – up by 16% from Dec-20. Going forward, we expect the deposits to grow at a 5-year CAGR of 16% to Rs3.1tn amid SBP's target to lift the Islamic banking market share to 30% by 2025

Furthermore, one of the lowest infection ratios among peers, higher CASA, and adequate capital buffer have made the valuation of the bank much more attractive

Sector Overview

The growth in the deposits of Islamic banking has outperformed the growth in the deposits of conventional banks (10-year CAGR: 12%) by posting a 10-year CAGR of 23% as a strong preference for "markup-free banking" has emerged among the people and businessmen of Pakistan. In terms of deposits, the market share of Shariah-compliant banks has grown to over 19% at present compared to 12-13% in 2015 as the conventional banks are losing more and more of their market share to Islamic banks with each passing year. Furthermore, around 60% market share of house financing is enjoyed by Islamic banks at present. Similarly, Islamic banks' market share in car financing has grown to 30%. Going forward, the SBP has targeted to lift the Islamic banking market share to 30% by 2025. Simultaneously, it aims to reduce the market share of conventional banks by 10-11% by 2025.

Strong Growth in Deposits Likely to Continue

MEBL being the first full-fledged Islamic bank in Pakistan is enjoying high deposit growth due to the changed preferences of people and businessmen. The bank is one of the largest banks in Pakistan in terms of deposits, which closed at Rs1.45tn – up by 16% from Dec-20. The robust growth in deposits has been made possible by the network of 902 branches which have been grown at a 5-year CAGR of 10. In terms of the deposit base, Meezan Bank is now in the fourth position following Habib Bank Limited, National Bank of Pakistan, and United Bank of Pakistan. Going forward, we expect the deposits to grow at a 5-year CAGR of 16% to Rs3.1tn amid SBP's target to lift the Islamic banking market share to 30% by 2025.

NIMs Likely to Expand Further Amid High CASA

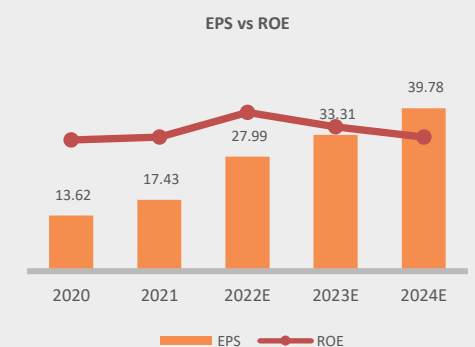
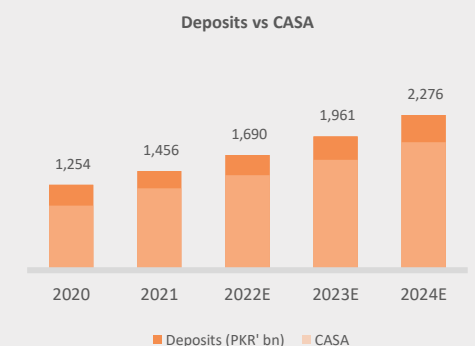
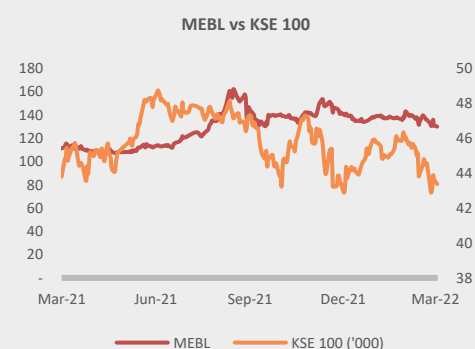
MEBL has always been enjoying high net interest margins on account of the high proportion of CASA in deposits among its peers. The bank posted a NIM of 3.78% along with CASA to deposits ratio of 83% in CY21. Going forward, we expect the bank would be one of the largest beneficiaries of the rate hike as high CASA to deposits would help the bank to limit its interest expense which will result in the expansion of NIM by around 84 bps to 4.62% in CY22.

Recent Performance has Beaten Market Expectations

MEBL recorded excellent results for CY21, with a Profit after tax of Rs28.4 billion as compared to Rs22.2 billion in the corresponding period last year – reflecting an impressive growth of 28% due to increased net interest income and massive growth in fee and commission income. EPS of the bank increased to Rs17.43 per share against Rs13.62 per share in Dec-20 on the enhanced capital of Rs16.2 billion.

Key Statistics

Symbol	MEBL
TP - Dec 22	175.00
LDCP	129.00
Upside	36%
Free Float (mn)	407
Market Cap. (Rs.mn)	209,874



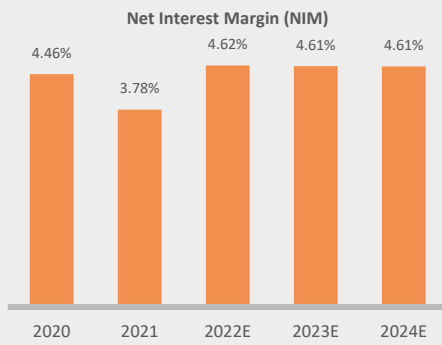
Sources: ACPL Research, Company Financials, PSX

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Key Statistics



The Board approved Rs1.50 per share final cash dividend for the year, bringing the total payout for the year to Rs6 per share as Rs4.50 per share interim cash dividend was paid in addition to 15% bonus shares issued during the year.

Lowest Infection Ratio Amongst Peers

The infection ratio of MEBL stands at 1.86% in CY21 against a banking industry average of 9% reflecting its prudent credit risk management and lending strategy. The ratio was under control even in the rising interest rate regime and weak macroeconomic conditions. Going forward, we expect the provision expense to remain under control on account of higher specific coverage of 92% and total coverage of 133% during CY21.

Payouts Likely to Continue Amid Adequate Capital Buffer

The bank is a well-capitalized institution with a Capital Adequacy Ratio (CAR) of 17.81% over and above the minimum regulatory requirement of 11.50% for 2021. Considering the rise in risk-weighted assets, we expect the CAR to remain above 20% going forward. Therefore, the payout policy of distributing 30-35% of its earnings to remain intact in the future as well.

Valuation

MEBL is currently trading at CY22E PE of 4.6x. Furthermore, the scrip is trading at a CY22E P/B of 1.79x which offers a discount of 40% relative to its historical 3-year average of 3.01x. We have a **BUY** stance on the scrip with a Justified P/B based Dec-22 TP of Rs.175 which provides an upside potential of 36%. The scrip also offers a dividend yield of 7% which makes a total return of 43%

Key Risks to Valuation

- Delay in rise in interest rate
- More than expected rise in NPLs

Financial Projections

Rupees' millions	2019	2020	2021	2022E	2023E	2024E	2025E
Mark-up / Return / Interest earned	94,270	106,589	110,073	184,603	215,298	251,298	293,222
Mark-up / Return / Interest expensed	-47,731	-41,740	-41,151	-84,855	-98,483	-114,299	-132,655
Net Mark-up / Interest Income	46,539	64,849	68,921	99,747	116,815	137,000	160,567
Fee and commission income	6,175	5,914	9,353	12,159	15,806	20,548	22,603
Dividend income	341	624	1,192	1,403	1,648	1,933	2,262
Foreign exchange income	2,684	2,154	3,158	3,790	4,548	5,457	6,549
Gain on securities	-418	683	349	411	482	565	662
Other income	538	697	840	1,010	1,216	1,464	1,762
Total non-markup / interest income	9,320	10,072	14,892	18,773	23,701	29,967	33,838
Non mark-up / interest expenses							
Operating expenses	-24,831	-28,809	-34,356	-39,112	-46,370	-55,099	-64,154
Workers' Welfare Fund	-610	-873	-940	-1,509	-1,789	-2,126	-2,475
Other charges	-82	-93	-28	-28	-28	-28	-28
Profit Before Provisions	30,337	45,146	48,489	77,871	92,328	109,714	127,748
Provisions / (reversal of provisions)	-4,186	-8,210	-993	-1,597	-1,556	-1,305	-753
Profit before income tax	26,151	36,936	47,496	76,274	90,772	108,408	126,994
Income tax expense	-10,919	-14,770	-19,141	-30,738	-36,581	-43,688	-51,178
Profit for the year	15,232	22,166	28,355	45,536	54,191	64,720	75,816
EPS	9.36	13.62	17.43	27.99	33.31	39.78	46.60

Source: ACPL Research, Company Financials

Horizontal Analysis

	2019	2020	2021	2022E	2023E	2024E	2025E
Mark-up / Return / Interest earned	93.9%	13.1%	3.3%	67.7%	16.6%	16.7%	16.7%
Mark-up / Return / Interest expensed	133.3%	-12.6%	-1.4%	106.2%	16.1%	16.1%	16.1%
Net Mark-up / Interest Income	65.2%	39.3%	6.3%	44.7%	17.1%	17.3%	17.2%
Fee and commission income	17.5%	-4.2%	58.1%	30.0%	30.0%	30.0%	10.0%
Dividend income	-39.8%	82.6%	91.2%	17.7%	17.4%	17.2%	17.1%
Foreign exchange income	103.6%	-19.8%	46.6%	20.0%	20.0%	20.0%	20.0%
Gain on securities	-5126.5%	-263.6%	-48.9%	17.7%	17.4%	17.2%	17.1%
Other income	72.8%	29.7%	20.4%	20.4%	20.4%	20.4%	20.4%
Total non-markup / interest income	24.9%	8.1%	47.9%	26.1%	26.2%	26.4%	12.9%
Non-mark-up/interest expenses							
Operating expenses	28.7%	16.0%	19.3%	13.8%	18.6%	18.8%	16.4%
Workers' Welfare Fund	67.9%	43.2%	7.7%	60.6%	18.6%	18.8%	16.4%
Other charges	401.1%	13.3%	-69.8%	0.0%	0.0%	0.0%	0.0%
Profit Before Provisions	90.1%	48.8%	7.4%	60.6%	18.6%	18.8%	16.4%
Provisions / (reversal of provisions)	258.4%	96.1%	-87.9%	60.9%	-2.6%	-16.1%	-42.3%
Profit before income tax	76.8%	41.2%	28.6%	60.6%	19.0%	19.4%	17.1%
Income tax expense	87.3%	35.3%	29.6%	60.6%	19.0%	19.4%	17.1%
Profit for the year	70.0%	45.5%	27.9%	60.6%	19.0%	19.4%	17.1%
EPS	70.0%	45.5%	27.9%	60.6%	19.0%	19.4%	17.1%

Source: ACPL Research, Company Financials

Key Ratios

Profitability Ratios		2019	2020	2021	2022E	2023E	2024E	2025E
Yield on Earning Assets	%	9.14	7.45	6.15	8.85	8.84	8.84	8.85
Interest Cost	%	4.75	3.00	2.37	4.22	4.23	4.24	4.24
Net Interest Margin	%	4.40	4.46	3.78	4.62	4.61	4.61	4.61
Operating Cost to Income	%	45.69	39.74	42.15	34.30	34.29	34.29	34.29
Return on Equity	%	25.81	32.05	32.76	38.80	35.26	32.79	30.53
Return on Assets	%	1.36	1.46	1.49	2.05	2.09	2.14	2.15
Balance Sheet Analysis		2019	2020	2021	2022E	2023E	2024E	2025E
Deposits Growth	%	18.73	34.51	16.06	16.06	16.06	16.06	16.06
CASA to Deposits	%	72.73	74.84	81.66	81.66	81.66	81.66	81.66
Advances to Deposits	%	52.95	40.86	52.07	52.37	52.62	52.81	52.94
Investments to Deposits	%	24.20	34.61	42.59	43.39	43.91	44.36	44.74
Gross Infection Ratio	%	1.78	2.81	1.86	1.36	0.96	0.66	0.46
Provisioning Coverage	%	92.09	91.09	92.31	92.31	92.31	92.31	92.31
Net Infection Ratio	%	0.14	0.26	0.15	0.11	0.07	0.05	0.04
Capital Adequacy Ratio	%	16.58	17.82	17.81	20.17	22.25	24.18	25.84
Leverage Ratio	%	4.27	4.09	3.92	4.58	5.18	5.74	6.22
Operational Analysis		2019	2020	2021	2022E	2023E	2024E	2025E
Market Share - Deposits	%	6.37	7.02	6.94	7.02	7.09	7.17	7.24
Market Share - Advances	%	6.21	6.26	7.66	7.74	7.82	7.91	7.99
Market Share - Investments	%	2.43	3.70	4.36	4.47	4.57	4.67	4.76
No. of Branches		760	815	902	992	1091	1201	1321
Investment Ratios		2019	2020	2021	2022E	2023E	2024E	2025E
Dividend Per Share		5.00	6.00	6.00	9.50	11.50	13.50	16.00
Dividend Yield	%	3.88	4.65	4.65	7.36	8.91	10.47	12.40
Dividend Cover	x	1.87	2.27	2.90	2.95	2.90	2.95	2.91
Retention Ratio	%	46.60	55.96	65.57	65.57	65.57	65.57	65.57
Payout Ratio	%	53.40	44.04	34.43	34.43	34.43	34.43	34.43
No. of Shares	('m)	1627	1627	1627	1627	1627	1627	1627
Earnings Per Share		9.36	13.62	17.43	27.99	33.31	39.78	46.60
Book Value Per Share		36.27	42.51	53.20	72.13	94.46	121.33	152.62
Price to Earnings	x	13.78	9.47	7.40	4.61	3.87	3.24	2.77
Price to Book Value	x	3.56	3.03	2.42	1.79	1.37	1.06	0.85

Source: ACPL Research, Company Financials

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TP	Target Price	CAGR	Compound Annual Growth Rate	FCF	Free Cash Flows
FCFE	Free Cash Flows to Equity	FCFF	Free Cash Flows to Firm	DCF	Discounted Cash Flows
PE	Price to Earnings Ratio	PB	Price to Book Ratio	BVPS	Book Value Per Share
EPS	Earnings Per Share	DPS	Dividend Per Share	ROE	Return of Equity
ROA	Return on Assets	SOTP	Sum of the Parts	LDCP	Last Day Closing Price

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- II. Dividend Discount Model
- III. Relative Valuation Model
- IV. Sum of Parts Valuation

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BUY	Greater than 15%
HOLD	Between -5% to 15%
SELL	Less than and equal to -5%

Sector Rating	Sector Outlook
Overweight	Positive
Market Weight	Neutral
Underweight	Negative

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