

## Pakistan Banks

### MEBL PA : Stellar growth continues

MEBL's ROE & ROA generation standout amongst peers, which is hovering at 36.4% & 1.7% vs. ISL universe average of 18% & 1.1%. This impressive performance is well supported by substantial balance sheet expansion on the back of robust deposits which grew at a CAGR of 35% (since inception). We estimate average ROE of the bank to remain at 27% over the next five years.

Bank's investment book is well placed, as it ramps up its Sukuk portfolio aggressively due to multiple issuance of Sukuk by govt during CY21. GoP Ijarah Sukuk issuance reached ~PKR1,483bn vs. PKR561bn in Dec'20. Similarly, MEBL's Sukuk to total investment mix has now risen to 87.5% compared to 73.4% in Dec'20. This should fix the excess liquidity problem for MEBL and for the entire Islamic banking industry.

We recommend 'BUY' on MEBL with Dec-22 DDM & Justified P/Bv based TP of PKR204/share, currently trading at P/E and P/Bv of 5.5x and 1.9x of CY22 estimates. Whereas bank capital ratios are still strong enough to support a decent dividend yield of 5.6%.

Key risks associated with our stance are as follows i) Lower than estimated deposit growth, ii) Higher than estimated non-performing loans, iii) Adverse impact of IFRS-9, iv) Abrupt movement in interest rates, iv) Lower availability of shariah-compliant investment avenues, and v) Regulatory risks.

#### Lowest infection ratio amongst the peers

Bank's gross ADR has now reached 53%, which will keep effective tax rate under 40%. As a result, loan book grew by 48% YoY during CY21. Overall asset quality is now improved as the infection ratio inches down further to 1.9% (lowest within ISL universe) vs. 2.8% in Dec'20. Whereas, NPL coverage of the bank now reached 133%, including general provision of PKR5.9bn. We expect NPL provisioning will likely inch-up in CY22 due to the anticipated slowdown in the economy. Therefore, we have built a credit charge of 0.4% in CY22 estimates; however, asset quality is likely to remain well above from industry average.

Capital ratios of the bank remained firm, despite substantial growth in risk-weighted assets (RWA ↑26% YoY), while Tier 1 and total CAR currently stands at 14% & 17.8%, respectively. With respect to IFRS-9 implementation, management commented that this would not significantly impact capital ratios, while banks hold enough space in general provision to neutralize negative impact, if any. The State Bank of Pakistan announced 1st Jan 2022 as the implementation date, but it will likely be implemented gradually and industry is waiting for final notification.

#### Consolidating deposits market share

MEBL has become the 4th largest bank in terms of the deposit base. As of 31st Dec 21, MEBL deposits have reached PKR1.4tr mark and are estimated

### Meezan Bank



BUY

HOLD

SELL

We recommend BUY with Dec 2022 DDM & P/Bv based Target Price of PKR204, providing 58% Total Return

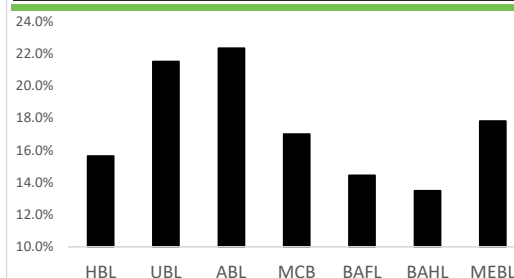
Target Price		204
Current Price		129.0
Market cap	PKR b	210
Market cap	US\$ b	8.82
Free Float Market cap	US\$ b	1.92
52 wk Avg. turnover	PKR m	94.2
52 wk Range		105.1 - 165.0
Shares Outstanding	m	1,627
Free float	%	22%
Major Sponsors	Noor Financial Invest Co	
Bloomberg Ticker	MEBL PA	

Financials (PKR bn)	2021	2022F	2023F
Net Spread Earned	68.9	92.6	102.4
Total Other Income	14.9	14.5	15.5
Provisions	(1.0)	(3.7)	(4.6)
Total other expenses	35.3	40.6	44.8
Profit Before Tax	49.5	62.7	68.6
Profit After Tax	28.4	38.3	41.8

Key Ratios	2021	2022F	2023F
EPS	17.4	23.5	25.7
DPS	6.00	7.00	9.00
Div. Yield	4.7%	5.4%	7.0%
P/E	7.4	5.5	5.0
BVPS	53.2	67.9	85.7
P/Bv	2.4	1.9	1.5

Source: Company Accounts, Insight Research

#### Banks: Capital Adequacy Ratio - (ISL Universe)



Source: Company Financials, ISL Research

to grow by 14% over the next five years. This growth is primarily driven by continued expansion in branch network, as MEBL's brick & mortar strategy is paying dividends. Bank is eyeing 1,000+ branches in two years (current branch network 902) and targets to open 50 new branches in CY22.

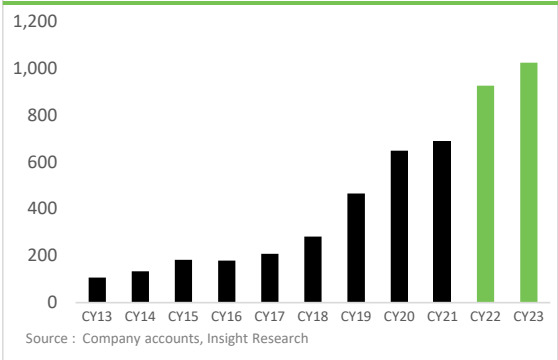
MEBL stands amongst top 3 in holding non-remunerative deposits and currently stands at 46%. MEBL zero-cost deposits are growing at a CAGR of 28%, whereas overall deposits CAGR stands at 21%.

**IDR improving**

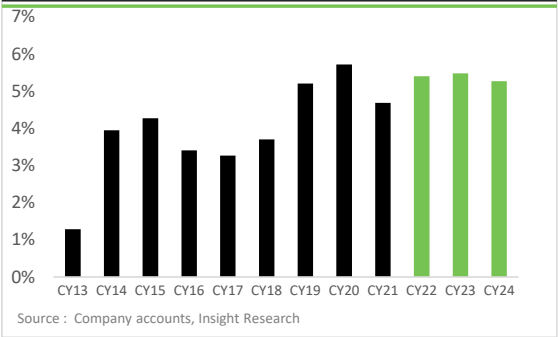
Bank's investment book is shaping well, as excess liquidity was deployed in Sukuks last year, which is in line with government targets to raise over PKR1tr through the issuance of Ijarah Sukuk in FY22 budget. As a result, IDR of the bank has now improved to 43% vs. 35% in Dec'20. Previously, placement of excess liquidity with other financial institutions remained a key earning driver for the bank.

Average spreads of the bank decreased by 110bps to reach 4.7% in CY21 due to low interest rates during the year. However, we expect spreads to inch up by 71bps to 5.4% in CY22, as full repricing effect of 275bps rise in interest rates will take place in 2QCY22. Likewise, net spreads earned are expected to expand by 34% in CY22 on the back of solid balance sheet expansion and liquidity deployment in a Govt Sukuk pipeline.

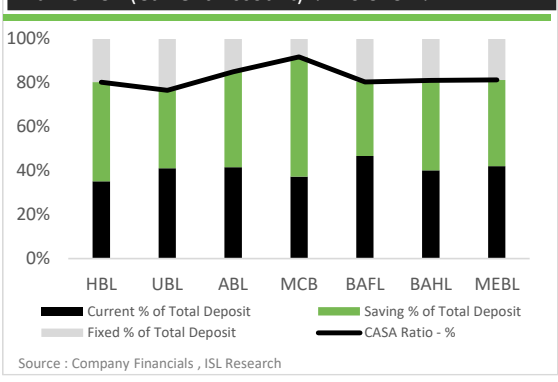
MEBL : Net Earning Spread - PKRbn



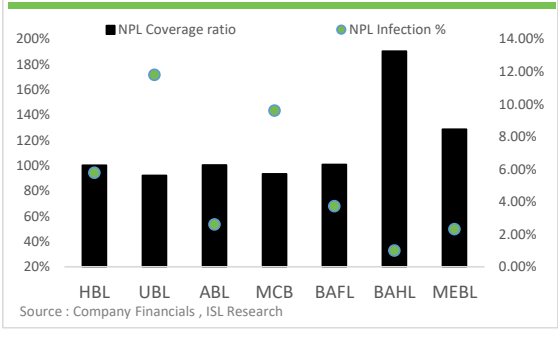
MEBL : Earning Spread (%)



Banks : CA (Current Account) % Vs CASA %



Banks : Asset Quality



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**Valuation Methodology:** To arrive at our period end target prices, ISL uses different valuation methodologies including

- Discounted cash flow (DCF)
- Relative Valuation (P/E, P/Bv, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)

### Frequently Used Acronyms

<b>TP</b>	Target Price	<b>DCF</b>	Discounted Cash Flows	<b>FCF</b>	Free Cash Flows
<b>FCFE</b>	Free Cash Flows to Equity	<b>FCFF</b>	Free Cash Flows to Firm	<b>DDM</b>	Dividend Discount Model
<b>SOTP</b>	Sum of the Parts	<b>P/E</b>	Price to Earnings ratio	<b>P/Bv</b>	Price to Book ratio
<b>P/S</b>	Price to Sales	<b>EVA</b>	Economic Valued Added	<b>BVPS</b>	Book Value per Share
<b>EPS</b>	Earnings per Share	<b>DPS</b>	Dividend per Share	<b>DY</b>	Dividend Yield
<b>ROE</b>	Return on Equity	<b>ROA</b>	Return on Assets	<b>CAGR</b>	Compounded Annual Growth Rate

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