

Pakistan Banks

MEBL PA: Strong fundamentals; BUY maintained

Meezan Bank Limited has been outperforming its peers in almost all key metrics. Since inception, MEBL's deposits have grown at an impressive CAGR of ~33.5%, while its PAT recorded a CAGR of ~30% since inception. In last 5 year, bank's deposit growth has outpaced industry deposit growth by ~700bps to clock in at ~19.8% vs industry's ~12.7%. MEBL recorded its highest ever PAT in CY22, which clocked in at ~PKR45bn (EPS: PKR25.1) vs PKR28.3bn (EPS: PKR15.8) in CY21, depicting a growth of ~59%. This growth was primarily attributable to handsome net spread income.

Meezan Bank Limited is one of our top picks in the banking sector, our liking premises on i) Impressive deposit growth, ii) Robust ROE & ROA generation, iii) Higher mix of zero cost deposits and improving CASA ratio, iv) Improving spreads, v) Healthy capital buffer; ~700bps above regulatory requirement, vi) Higher general provision to comfort asset quality, and vii) Attractive dividend yield. We maintain our BUY stance on stock with Dec'23 target price of PKR176/sh based on DDM & Justified P/B ratio, depicting an upside of 83% along with an attractive dividend yield of 12%. To note, MEBL is trading at CY23F P/B of 1.2x.

Key risks to our investment thesis include i) Lower than estimated deposit growth, ii) Higher than estimated operating expenses amid inflationary pressure, iii) Economic turmoil to result in higher NPLs, iv) Imposition of Minimum Deposit Rate on Islamic Banking, v) Lack of Shariah-Compliant Investment avenues and vi) Abrupt changes in regulatory regime.

Robust deposit growth with favorable mix

MEBL's deposit growth is continuously outpacing its peers, which clocked in at PKR1.6tr at the end of CY22 vs PKR0.67tr at the end of CY17, recording a robust CAGR of ~19.8%. The growth in deposits is primarily attributable to continued expansion in branch network, which has grown at a CAGR of ~29%, since inception. Bank's CASA has improved by 490bps YoY in CY22, to clock in at ~88% vs 83.1% in SPLY. Whereas, share of current accounts has inched up by ~180bps YoY, to reach at ~47% vs 45% In SPLY. Rising share of current accounts in deposit mix will keep the cost of deposits under control.

Healthy spreads to uplift profitability

Meezan Bank's net spread income witnessed a remarkable growth of ~77% in CY22, to clock in at PKR121.7bn vs. PKR68.9bn in SPLY. On QoQ basis, spread income recorded a growth of ~40% in 4QCY22. The growth is mainly attributable to expansion in earning spread which clocked in at ~6.2% in CY22 vs. 4.7% in CY21. Similarly, spreads witnessed a growth of ~200bps in 4QCY22, to clock at ~8%. We expect spread to remain strong in coming quarter due to steep rise in policy rate by~500bps, where absence of Minimum Deposit Rate (MDR) requirement and asset re-pricing will expand margins.

Meezan Bank



BUY

HOLD

SELL

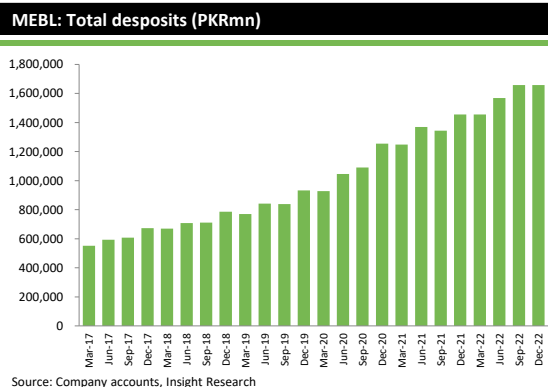
We recommend BUY with Dec 2023 DDM & P/Bv based Target Price of PKR176.2, providing 83% Total Return

Target Price		176
Current Price		96.5
Market cap	PKR b	173
Market cap	US\$ b	0.60
Free Float Market cap	US\$ b	0.15
30 day Avg. turnover	PKR m	87.3
52 wk Range		85.7-147.4
Shares Outstanding	m	1,790
Free float	%	25%
Major Sponsors	Noor Financial Invest Co	
Bloomberg Ticker	MEBL PA	

Financials (PKR bn)	CY22	CY23F	CY24F
Net Spread Earned	121.7	198.1	232.5
Total Other Income	19.1	18.7	20.0
Provisions	4.2	25.5	29.3
Total other expenses	48.2	70.8	83.7
Profit Before Tax	88.4	120.4	139.6
Profit After Tax	45.0	68.6	79.5

Key Ratios	CY22	CY23F	CY24F
EPS	25.1	38.4	44.4
DPS	8.50	12.25	14.25
Div. Yield	8.8%	12.7%	14.8%
P/E	3.8	2.5	2.2
BVPS	64.4	78.3	126.7
P/Bv	1.5	1.2	0.8
ROE	39%	54%	43%

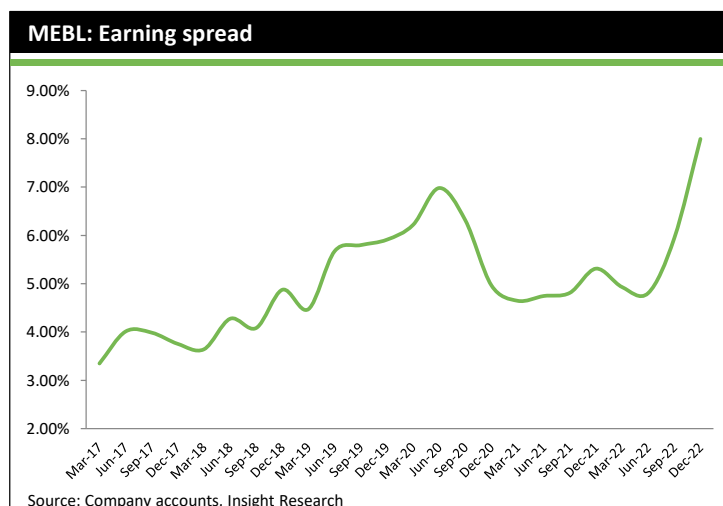
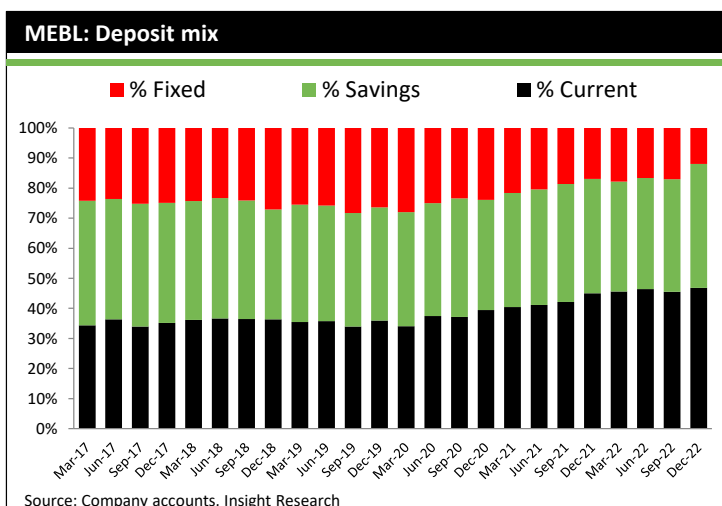
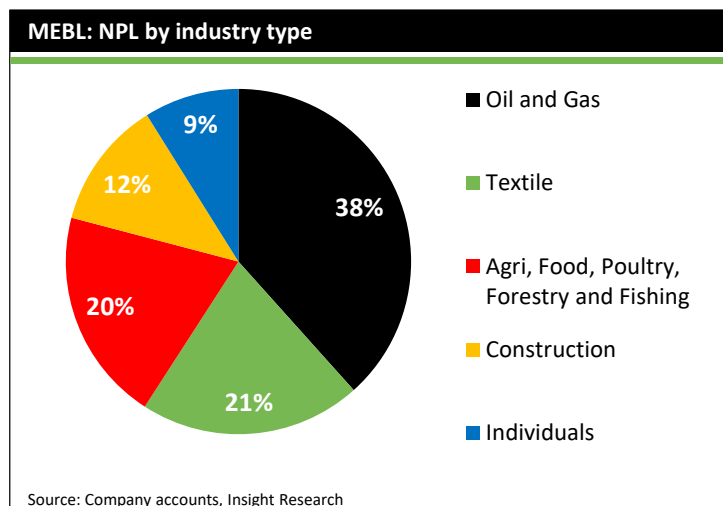
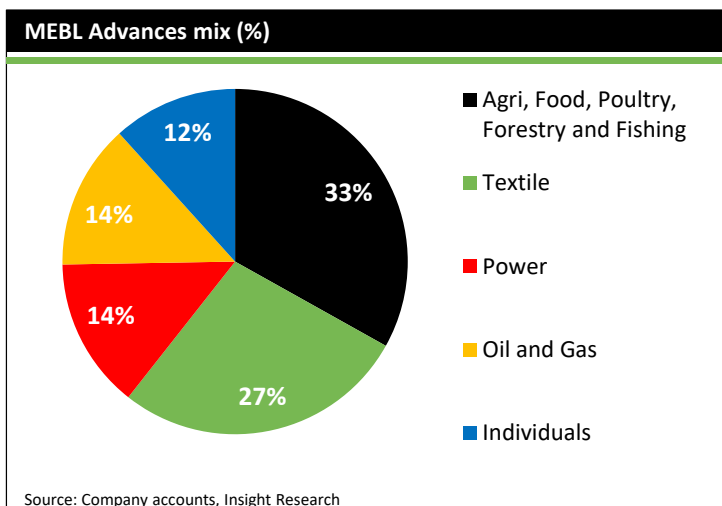
Source: Company Accounts, Insight Research



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Adequate coverage to tackle risks on asset quality

The country is under severe stress due to worsening economic conditions which were further exacerbated by political tensions, this has raised serious questions over asset quality of domestic banks as it has increased the risk of higher NPLs. MEBL gross advances stood at PKR995bn in CY22 vs. PKR758bn in SPLY, up by ~31% YoY. As per latest accounts, bank's infection ratio stands at ~1.3% as compared to 1.9% in SPLY. Despite one of the lowest infection ratio, MEBL's coverage ratio stands at ~166% at the end of CY22, which provides decent cushion in current economic scenario. Agri sector has the largest share in bank's advances portfolio, which stands at ~20%, followed by textile and power sector having share of ~17% and 8.7%, respectively.



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- 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

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

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