

Meezan Bank PE 3.7x | D/Y 13% | Payout improving...

Friday, 20 September 2024

Our premise... on scheduled Islamic bank...

- **MEBL is now maintaining a dividend yield perspective of 12% – 13% in line with dividend paying companies belonging to other sectors. This could be in line with June 2025 benchmark interest rate target of 14% as per banks.**
- **MEBL maintains one of the highest NIMs of 10.7% till 1HCY24.**
- **MEBL keeps on pursuing branch led growth.**
- **MEBL's ADR increased by 17% on QoQ bases. This is despite the fact that the deposits increased by 6% QoQ. The reported ADR is now 46.4% as at 2Q.**
- **The book flow growth is recorded at 7% QoQ i.e. PKR 116 / sh translating into PBV of 1.85x.**
- The **dividend payment** of MEBL is PKR 7 / sh in 2Q. The trailing annual dividend yield is 12% – 13% adjusted for tax on dividend. The annual dividend of MEBL during CY23 is around PKR 20 / sh. We are expecting MEBL annual dividend will increase by 30% during CY24. It could be around PKR 28 / sh as per our estimations.
- The **Net interest margin (NIM)** have shown an improvement on a QoQ and YoY basis as it's increasing respectively. During 2QCY24, NIM is 2.66% as compared to 2QCY23; it was around 2.11%. During CY23, NIM was 9.13%. If we look into data of June 2024 it shows that NIM increased to 10.7% but now we may see decrease in NIMs on a QoQ and YoY basis as monetary policy rate has recently dropped to 17.5% by SBP.
- We see an improvement in the EPS of MEBL on a QoQ basis Of 4.9%. The **payout ratio** of MEBL is improving. In 2QCY24, the payout ratio is 47.0% as compared to 38.5% in 2QCY23.

MEBL Snapshot

| | |
|------------------------------|---------------|
| Price | 217 |
| MKT Cap | 388.52bn |
| Avg Vol (12m) | 1.55 mn |
| Paid-up | 17.9bn |
| Authorized Cap | 23.3bn |
| Beta | 0.99 |
| Expected D/Y | 13.02% |
| Leading PE | 3.70 |
| Exp PBV | 1.85x |
| Par Value | 10 |
| 52 weeks low | 114.3 |
| 52 weeks high | 263.89 |
| Annualized Net Margin | 10.69% |

Source: SCS Research

MEBL balance sheet snapshot: PKR 2.4 Trillion Deposits

| | 1QCY24 | 2QCY24 | QoQ |
|--------------------------|--------------|--------------|-----------|
| Deposits (PKR bn) | 2,270 | 2,415 | 6% |
| Advances (PKR bn) | 897 | 1,120 | 25% |
| Investments (PKR bn) | 1,626 | 1,644 | 1% |
| ADR (%) | 39.5% | 46.4% | 17% |
| IDR (%) | 71.6% | 68.1% | -5% |
| Equity (bn) | 194.587 | 208.528 | 7% |
| No of shares (bn) | 1.795 | 1.795 | |
| BV/sh (PKR) | 108.42 | 116.19 | 7% |
| P/BV (x) | 1.53 | 1.85 | 21% |

Source: SCS Research

MEBL in perspective | Market Cap \$1.45bn | Branch led growth...

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MEBL - Valuation Sheet

| CY24 | 1QCY24 | 2QCY24 | CY24E |
|----------------------------|--------|--------|--------|
| PAT PKR bn | 25.41 | 26.66 | 104.11 |
| EPS (PKR/sh) | 14.19 | 14.89 | 58.08 |
| BV/sh | 108.42 | 116.19 | 131.19 |
| DPS | 7.00 | 7.00 | 28.00 |
| ROE % | 13.1% | 25.0% | 44.2% |
| Payout ratio % | 49.3% | 47.0% | 48.2% |
| Shareholders Equity PKR bn | 194.59 | 208.53 | 235.45 |

Source: SCS Research

| Amount In mn | CY24 | CY23 | CY22 | CY21 | CY20 | CY19 | CY18 |
|------------------------------|--------|--------|--------|--------|--------|--------|--------|
| Market Capitalization (PKR) | 402.02 | 289.04 | 178.14 | 218.19 | 147.75 | 122.35 | 108.02 |
| Market Capitalization (\$bn) | 1.446 | 1.040 | 0.641 | 0.785 | 0.531 | 0.440 | 0.389 |

Source: SCS Research

MEBL ADR improving with branch led growth in tough times...

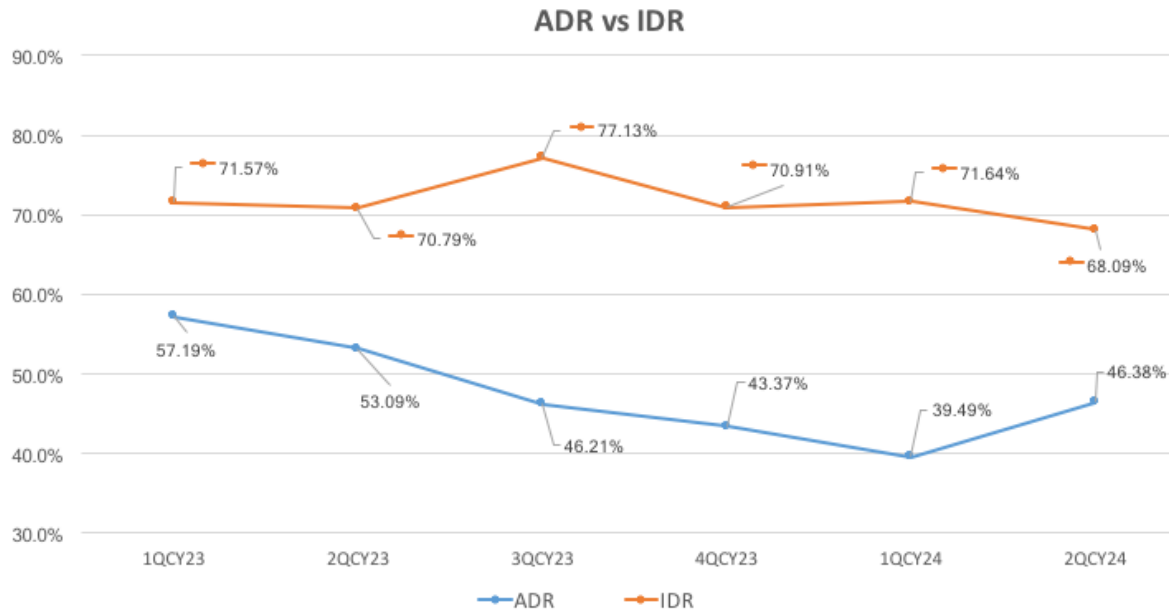
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| | 1QCY23 | 2QCY23 | 3QCY23 | 4QCY23 | 1QCY24 | 2QCY24 |
|-----|--------|--------|--------|--------|--------|--------|
| ADR | 57.19% | 53.09% | 46.21% | 43.37% | 39.49% | 46.38% |
| IDR | 71.57% | 70.79% | 77.13% | 70.91% | 71.64% | 68.09% |

Source: SCS Research

| | 1QCY23 | 2QCY23 | 3QCY23 | 4QCY23 | 1QCY24 | 2QCY24 |
|-------------------------|--------|--------|--------|--------|--------|--------|
| Bank Branches | 972 | 982 | 983 | 983 | 1007 | 1010 |
| Change in Bank branches | 10 | 10 | 1 | 0 | 24 | 3 |

Source: SCS Research



MEBL PAT increased by 60% in 1HCY24

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- MEBL posted net earnings of PKR 52bn in 1HCY24 compared to PAT of PKR 32.5bn in 1HCY23. MEBL reported 1HCY24 EPS of PKR of 29.08 vs 1HCY23 EPS of 18.20 thus depicting growth of 59.7%.
- MEBL **added 27 new branches** in 1HCY24, taking the total number to 1010 branches across 335 cities. 30 – 40 branches are targeted to open in 2HCY24.
- The Islamic bank maintains a strong capital position, with a **Capital Adequacy Ratio (CAR)** of 22.4%, well above the minimum regulatory requirement of 11.5%.
- The management highlighted that their focus will be on digital banking and thus improving the customer experience. MEBL **expected 18% to 20% growth in deposits in CY24**.
- In 2QCY24, we see growth in deposits of MEBL by 6.38% while **ADR of MEBL is increased by 17.42%** while IDR declined by 4.96% respectively. Mostly banks are targeting (ADR) to reach at 50% by the end of CY24.
- While the advances during 2QCY24 increased by 25% in comparison to 1QCY24.
- Non Interest Income decreased by 16.3% QoQ but it increased by 4.18% YoY. On the other hand Fx Income is also decreased by 78.7% QoQ due to non volatility in currency.

| PKR in "000" | 1QCY24 | 2QCY24 | QoQ | 1HCY24 | 1HCY23 | YoY |
|----------------------|-------------|-------------|------|-------------|-------------|-------|
| Return Earned | 119,145,992 | 130,204,369 | 9% | 249,350,361 | 182,984,732 | 36% |
| Return Expensed | 51,581,860 | 59,871,921 | 16% | 111,453,781 | 92,406,535 | 21% |
| Nil | 67,564,132 | 70,332,448 | 4% | 137,896,580 | 90,578,197 | 52% |
| Fee & Comm. | 5,048,904 | 4,418,018 | -12% | 9,466,922 | 7,785,016 | 22% |
| Dividend Income | 442,647 | 475,901 | 8% | 918,548 | 458,464 | 100% |
| Forex Income | 477,930 | 101,614 | -79% | 579,544 | 540,801 | 7% |
| Gain on Securities | 60,100 | 54,692 | -9% | 114,792 | (375,513) | -131% |
| Other Income - Net | 327,973 | 273,290 | -17% | 601,263 | 566,812 | 6% |
| Total Other Income | 6,357,554 | 5,323,515 | -16% | 11,681,069 | 8,975,580 | 30% |
| Total Income | 73,921,686 | 75,655,963 | 2% | 149,577,649 | 99,553,777 | 50% |
| Opex | 19,956,911 | 21,053,129 | 5% | 41,010,040 | 29,788,289 | 38% |
| WWF | 1,118,616 | 1,107,525 | -1% | 2,226,141 | 1,485,032 | 50% |
| Other charges | 132,596 | 923 | | 133,519 | 52,280 | 155% |
| Total Other Expenses | 21,208,123 | 22,161,577 | 4% | 43,369,700 | 31,325,601 | 38% |
| Profit before prov. | 52,713,563 | 53,494,386 | 1% | 106,207,949 | 68,228,176 | 56% |
| Prov. | 344,143 | 935,211 | 172% | 1,279,354 | 3,634,144 | -65% |
| PBT | 53,057,706 | 54,429,597 | 3% | 107,487,303 | 64,594,032 | 66% |
| Tax | 27,650,918 | 27,773,625 | 0% | 55,424,543 | 32,008,385 | 73% |
| PAT | 25,406,788 | 26,655,972 | 5% | 52,062,760 | 32,585,647 | 60% |
| EPS | 14.19 | 14.89 | 5% | 29.08 | 18.20 | 60% |
| DPS | 7.00 | 7.00 | | 14.00 | 7.00 | |
| Effect. Tax rate | 52% | 51% | | 103% | 98% | |

Source: SCS Research, Company Books

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Following research techniques adopted to calculate target price/recommendation

- Price to earnings & Price to Book, EV-EBITDA multiple
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