Meezan Bank Limited

In a league of its own!

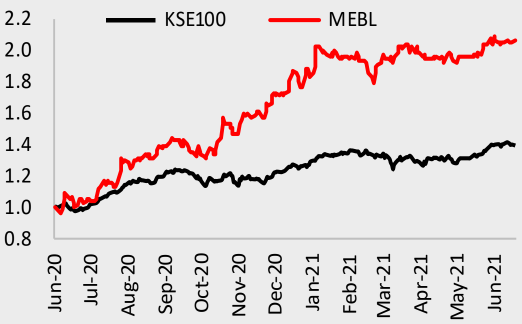
Pakistan

MEBL PA		Outperform
Price (LDCP)	Rs	113.0
Jun-22 Target Price	Rs	146.0
Upside/Downside	%	29.2
12M Target Price	Rs	145.4
- 2-Stage Gordon growth model		
Sector		Banks
Market cap	Rs bn	159.9
30-day avg turnover	$ m	0.4
Market cap	$ m	1,024.8
Freet float	m	353.7
Shares issued	m	1,414.7

Investment fundamentals

Year end Dec		2020A	2021E	2022E	2023E
NII	mn	64,849	64,911	75,752	88,081
NFI	m	10,072	12,513	13,251	14,281
Fee Income	m	5,914	7,746	8,535	9,510
Total Income	m	74,921	77,424	89,002	102,362
Non Markup Exp.	%	29,775	33,240	37,353	42,364
A.Expenses	m	28,809	32,295	36,275	41,117
Provisions		8,210	5,242	3,497	3,022
PBT		36,936	38,941	48,152	56,975
PAT	Rs	22,166	23,608	29,373	34,755
EPS	Rs	15.7	16.7	20.8	24.6
DPS	Rs	6.00	6.00	8.00	8.00
EPS Growth	x	45.5	6.5	24.4	18.3
Payout Ratio	%	38.3	36.0	38.5	32.6
Div. Yield	%	5.3	5.3	7.1	7.1
NIMs	%	5.81	4.67	4.71	4.76
ADR	%	42.4	41.4	39.0	37.7
Infection Ratio	x	2.8	3.0	3.1	3.0
Coverage Ratio	x	127.6	134.1	131.5	130.0
IDR	x	34.6	36.4	34.4	32.3
Deposit growth	x	34.5	17.3	20.7	18.5

MEBL KSE 100 Relative Performance



Source: Bloomberg, Foundation Research, June 2021
(all figures are in Rs unless noted)

Analysts

Masroor Zaidi masroor@fs.com.pk
+92 21 3561 2290-94 Ext 313

Foundation Securities (Pvt) Ltd
Tuesday, June 22, 2021

Initiating with Outperform stance

We initiate our coverage on Meezan Bank Limited (MEBL PA) with a BUY call and a Jun'22 Target Price of Rs146/sh, providing an upside of 29%. We attribute this upside to (1) continuation of robust deposit growth, (2) strong asset quality, (3) superior ROE generation and (4) sufficient capital buffer. Decent dividend yield of 5.3%, strengthens our Outperform stance on the scrip.

Unmatched deposit growth

MEBL's deposit base is estimated to grow at a 3/5yr CAGR of 19/18% crossing Rs2tn mark by CY23. The bank's deposit base has been growing at a CAGR of over 30% since inception. As a result of this robust deposit growth, MEBL was able to cross Rs1tn mark in less than two decades and now ranks as 5th largest bank in terms of deposits. Our assumption of high deposit growth is driven by aggressive branch expansion as the bank has added 155 branches in the past two years and plans to take its branch network to over 1,000 branches in next 2-3yrs from current branch network of 825 branches.

Strong Asset Quality

We expect MEBL's gross lending to grow by 15% YoY in CY21 mainly on back of sharp revival in economic activity and government's pro-growth policies. To highlight, growth in gross advances of the bank has remained muted in past two years and has only increased by mere 1.79%. Due to prudent lending and uptick in corporate profitability, accumulation of NPLs is likely to lose steam going forward. Therefore, we expect Meezan Bank's infection ratio to incline by 12bps to 2.92% in CY21. This increase is likely to emerge as SBP's principal repayment deferral schemes expires. To incorporate this risk, we have taken provisioning expense of Rs4.6bn in CY21.

Superior ROE generation

With the probable reversal in the interest rate cycle, we expect profitability for the banking sector in general and MEBL in particular to remain upbeat due to its exposure in floating rate instruments. We estimate MEBL's average ROE to remain over 29% for next 3yrs. To highlight, MEBL has been generating average ROE of 26% for past 5yrs and made an ROE of 35% in CY20.

Sufficient Capital Buffer

Improving profitability, robust asset quality, moderate dividend stream and manageable level of risk is likely to keep MEBL's Capital Adequacy Ratio (CAR) at desirable levels, in our view. We are estimating bank's CAR to clock in at 19.9% in CY21.

Price Catalyst

- June- 22 TP: Rs146/sh based on 2-Stage Gordon growth model methodology
- Catalyst: (1) Strong deposit growth, (2) better availability of shariah compliant investment instruments, and (3) earlier than expected interest rate hike.
- Risk: (1) Higher than expected increase in NPLs, 2) implementation of IFRS 9 and (3) lower availability of shariah compliant instruments.

Outlook

- With the potential increase in interest rates and sharp reversal in economic activity, we believe MEBL is well positioned for improvement in profitability. We have an "Outperform" stance on the scrip with Jun-22 TP of Rs146/sh.

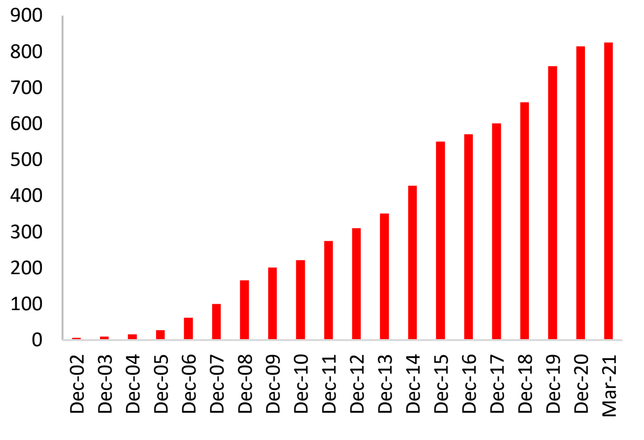
Why do we have an Outperform stance?

We initiate our coverage on Meezan Bank Limited (MEBL PA) with an 'Outperform' stance and a Jun'22 TP of Rs146/sh translating into a capital gain of 29% from the last close. Our preference for the stock is based on 1) unmatched deposit growth as MEBL's deposit base has been growing with a CAGR of 36% since inception, 2) sound asset quality with one of the lowest infection ratio among peers along with higher provision coverage, 3) superior ROE generation over peers, and 4) sufficient capital buffer providing further comfort in these testing times for asset quality.

Our estimate reflects a 3yr earnings CAGR of 22% which is likely to driven by uptick in Net Interest Income (NII) along with the improvement in fee income. To highlight the broader picture, we expect the State Bank of Pakistan (SBP) to increase interest rates by the end of 4QCY21. As a result of this potential uptick in interest rate, banking spreads are likely to witness a compression in the short run before incorporating its full impact and expand in CY22. Despite the reduction in NII, we expect MEBL's profitability to increase by 7% YoY during CY21 mainly due to better performance of fee income and lower provisioning expense. Fee income is expected to remain upbeat on account of post COVID normalization of fee income from branches, improving share in trade business and growth in card related income. In addition to this, we expect provision expense to remain on the lower side due to the probable delay in the implementation of IFRS 9 and sharp economic recovery post COVID induced restrictions.

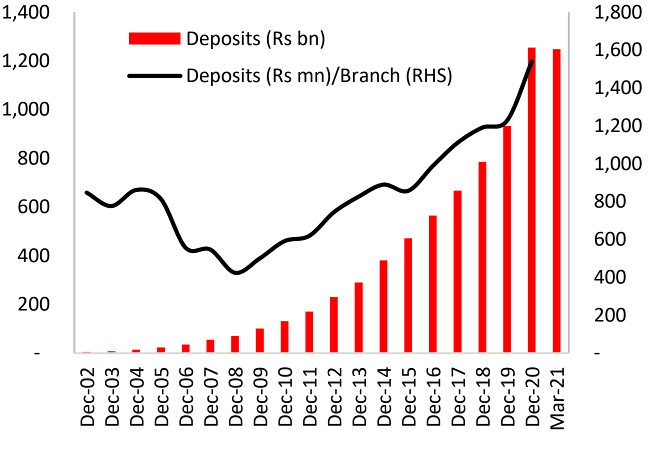
Is there any upside left? Appreciating the impressive fundamental outlook, stock is currently trading at a forward P/BV of 1.8x which is well above the industry average which begs the question whether is there any upside left or not. We opine that the assigned market multiple is primarily due to impressive deposit growth (3yr CAGR of 23%), superior ROE generation (29% 3yr avg ROE), robust asset quality (2.74% infection ratio) and higher provision coverage of 130%. We believe that the current market multiple is well below the MEBL's justified P/BV of over 2.5x and there is still room for price appreciation. As per our Jun'22 TP, the stock currently offers 29% capital upside with low risk profile.

Fig 01: Aggressive branch expansion



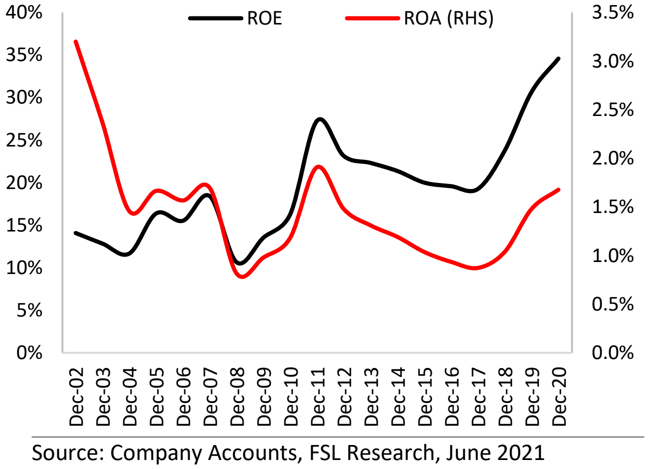
Source: Company Accounts, FSL Research, June 2021

Fig 02: Impressive deposit growth



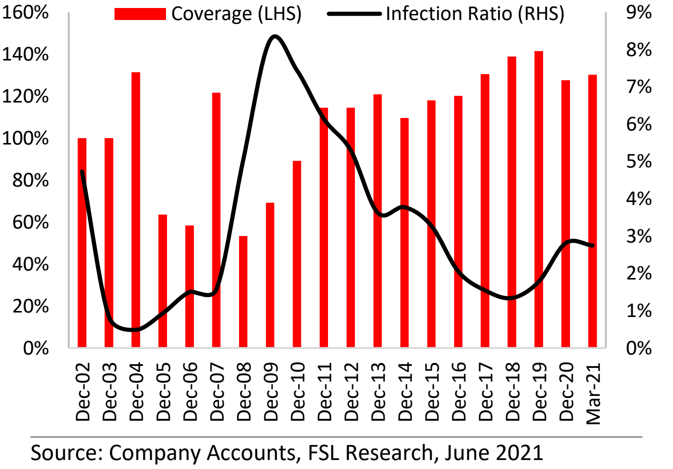
Source: Company Accounts, FSL Research, June 2021

Fig 03: Superior ROE generation



Source: Company Accounts, FSL Research, June 2021

Fig 04: Robust Asset Quality



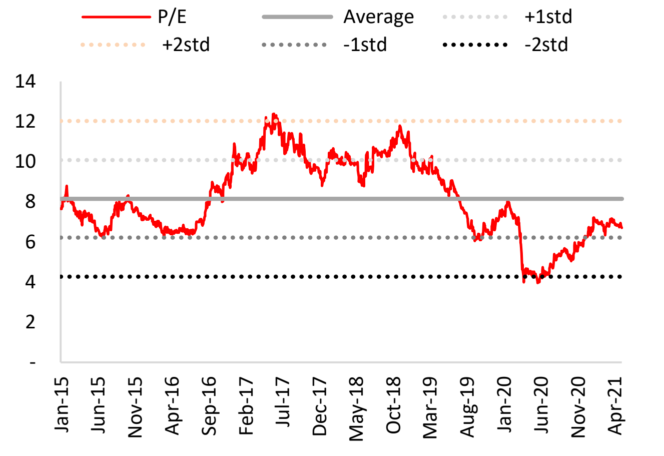
Source: Company Accounts, FSL Research, June 2021

Attractively placed on market multiples

Meezan Bank Limited (MEBL PA) is currently trading at attractive multiples compared to peers given the sustainable growth in profitability. On a price to earnings multiple, the stock is trading at a 15% discount compared to its past 5yr average P/E of 8.0x. The stock traded at its highest multiple of 12.39x during 2017 where it posted a deposit growth of 18% and registered ROE of 19.26%. On a P/BV basis, the stock is currently trading at a trailing/forward P/BV of 2.3/1.8x and touched its peak of 2.44x during Nov-2018 during which the bank made 24% ROE and its deposit base grew by 18%. We believe that the assigned market multiples are yet to incorporate the higher ROE (avg. ROE of 29% for next 3yrs), sound asset quality with strong provision coverage and sufficient capital buffer.

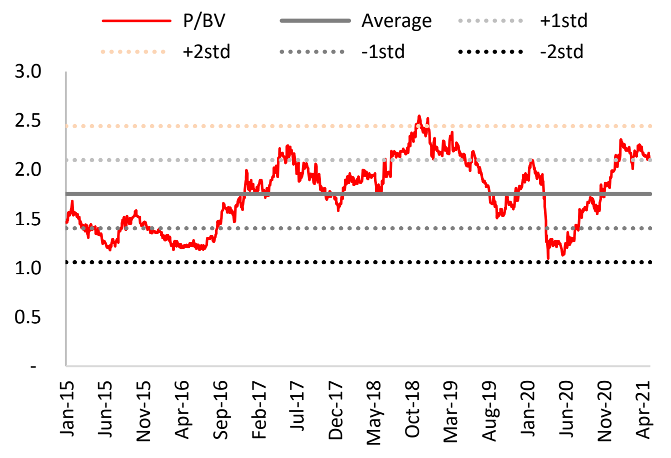
On a broader level, P/E and P/BV for Meezan Bank peaked during CY17-CY18 and came under pressure on account of deterioration in the overall sector multiple due to slower economic growth, mounting concerns over asset quality and the potential implementation of IFRS 9. This erosion in market multiple was later followed by the economic recovery staged during 2HCY19. However, this partial recovery was overwhelmed by the surge in coronavirus cases in the country during 1HCY20. The stock has recovered 135% from its bottom price of Rs47.62/sh observed during 1QCY20 and has outperformed KSE-100/Banking Sector by 62/98ppts since then. We are of the view that given the robust economic recovery, likely delay of IFRS9 implementation and potential interest rate hike has added further charm to the banking sector.

Fig 05: P/E Band



Source: Company, PSX, FSL Research, June 2021

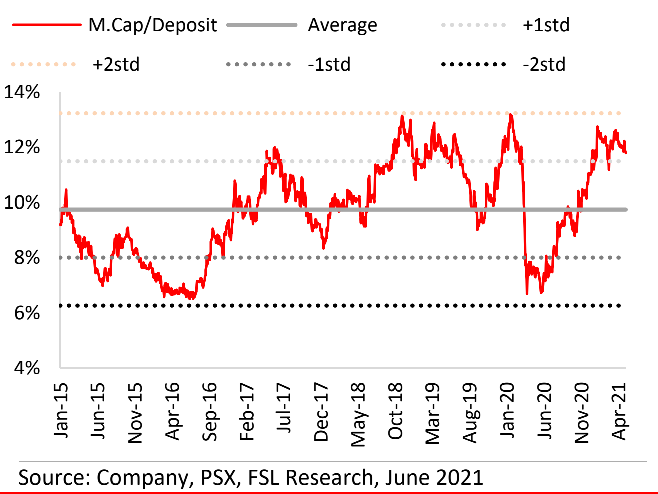
Fig 06: P/BV Band



Source: Company, PSX, FSL Research, June 2021

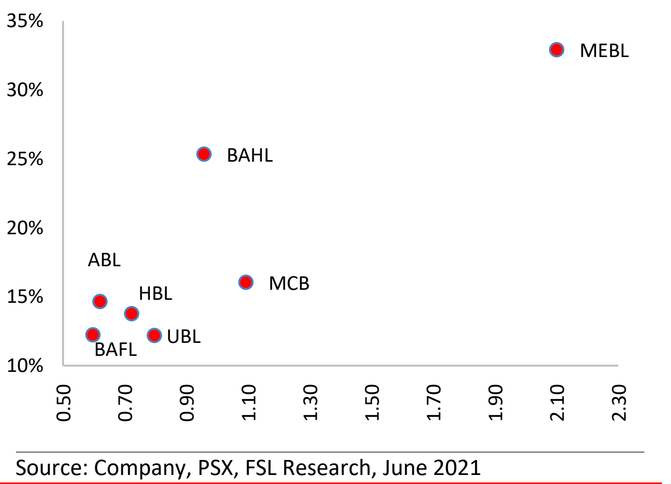
The stock currently trades at a Market Cap/deposit of 11% compared to its 5yr average of 10% after posting a strong recovery from its lows of 6% observed during the first wave of COVID-19. We believe that the higher market multiple compared to its 5yr average is a reflection of impressive fundamental performance that has been put up by the bank as it has remained the fastest growing bank in terms of deposit growth and managed to consistently outperform peers in ROE generation. This is the main reason why investors have been giving higher multiple to the stock. Recently, the bank has become the fourth largest bank of the country by surpassing ABL's deposit base which has been around for much longer time. We are of the view that MEBL is likely to continue this growth trajectory with ambitious branch expansion targets where improved availability of shariah compliant instruments would provide further uplift to profitability.

Fig 07: Market Cap/Deposit band



Source: Company, PSX, FSL Research, June 2021

Fig 08: Earned higher market multiple vs peers

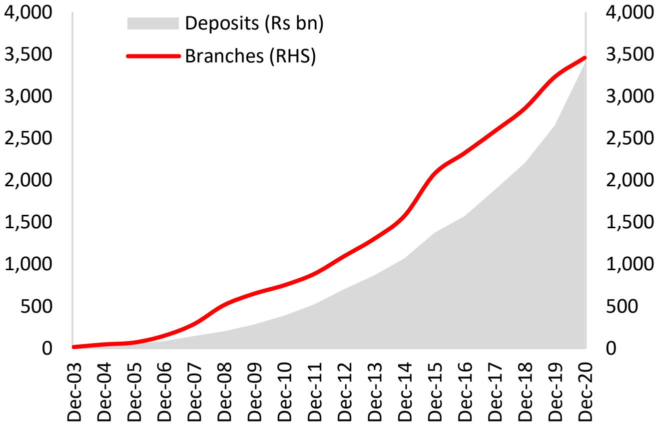


Source: Company, PSX, FSL Research, June 2021

Islamic Banking – Sector Outlook

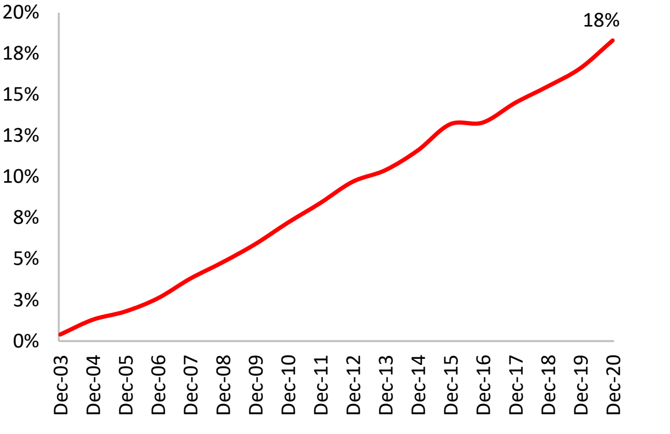
Since its launch in early 2000s, deposit base of Islamic banking has been growing with an impressive CAGR of 43% to now stand at Rs3.39tn accounting for 18% market share in the total deposit base. In the past few years, deposits of Islamic banking has increased with a 3/5yr CAGR of 22/20% outperforming industry deposit base by 9/6ppts. Initially, growth in Islamic banking was primarily driven by full-fledged Islamic banks but conventional banks have now also jumped on the bandwagon accounting for 40% of the total Islamic deposit base via dedicated Islamic branches. Similar trend is also evident in the branch bifurcation where dedicated Islamic branches of conventional banks now accounts for 49% of the total branch network. To highlight, Islamic banks have added 456 branches in the past 5yrs (till Dec'20) whereas conventional banks has increased their network of Islamic branches by whooping 925 branches. This has translated into a 5yr CAGR of 6% in case of branch expansion for Islamic banks compared to 17% of conventional banks. However, deposit growth has been less responsive for Islamic operations of conventional banks compared to that of full-fledged Islamic banks, reflecting strong customer preference towards full fledge Islamic banks.

Fig 09: Islamic deposits ↑ with a CAGR of 43% since CY02



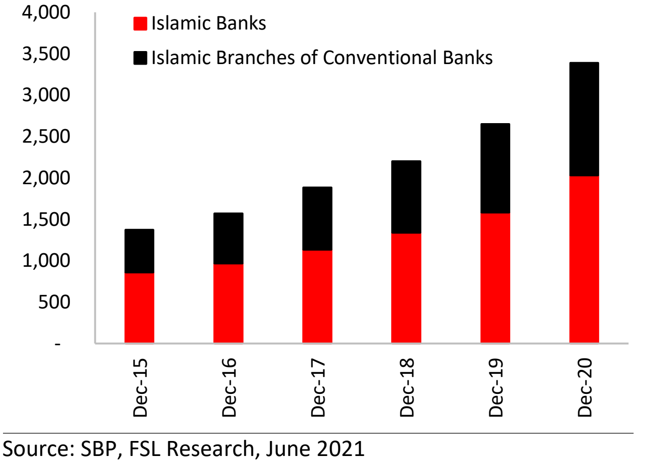
Source: SBP, FSL Research, June 2021

Fig 10: Industry share of Islamic deposits ↑18%



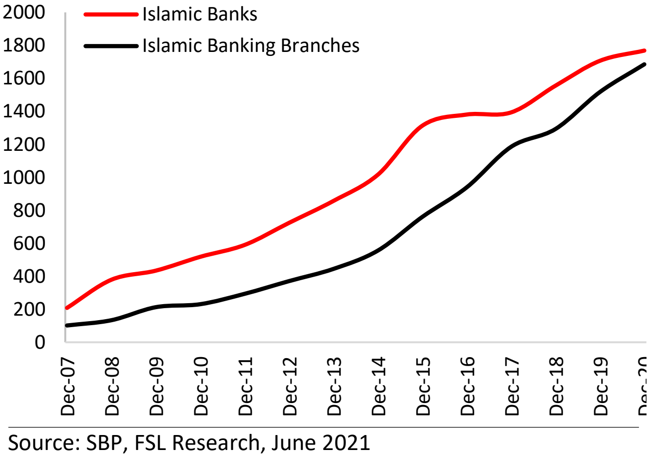
Source: SBP, FSL Research, June 2021

Fig 11: Deposit share of Islamic banks has remained stable



Source: SBP, FSL Research, June 2021

Fig 12: conventional banks are adding more branches



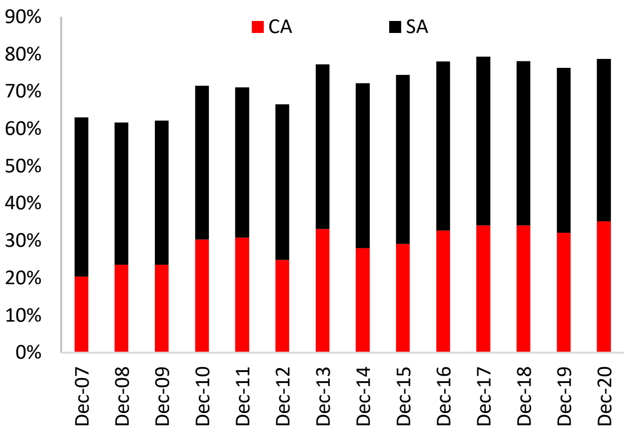
Source: SBP, FSL Research, June 2021

When it comes to branch expansion, Meezan bank has been leading the Islamic banking industry with the addition of 268 branches in past 5yrs followed by MCB Islamic Bank Limited which has expanded its branch network by 148 branches during the same period. In the conventional-Islamic space, Faysal Bank Limited has been outperforming its peers when it comes to expansion of Islamic branches as it has added 431 branches in past 5yrs. To highlight, number for the Faysal Bank is on the higher side since the bank has also been converting its conventional branches into Islamic. In addition to this, National Bank of Pakistan (NBP) ranks second in branch expansion in conventional Islamic category as it has added 109 branches in past five years. Other notable names in the list are Allied Bank Limited (ABL), Bank al Habib (BAHL), United Bank Limited (UBL) and Bank of Punjab (BoP) with respective additions of 90, 77, 58 and 53 branches. We expect this trend to continue going forward as the number of Islamic Banks has largely remained the same while conventional banks have been cashing in the opportunity with their Islamic branches.

While growth in overall deposits has remained robust, current account has been growing at a higher rate of 24% (5yr CAGR) compared to a 19% growth observed in saving deposits. This has resulted in a 6ppt improvement in CA to 35% whereas SA deteriorated by 2ppts to 44% in last five years. Overall CASA of the Islamic banking industry has improved to 79% as of Dec-20 compared to 74% in CY15. While absence of minimum deposit rate for the Islamic banking industry has further uplifted the margins by keeping cost of deposit in check.

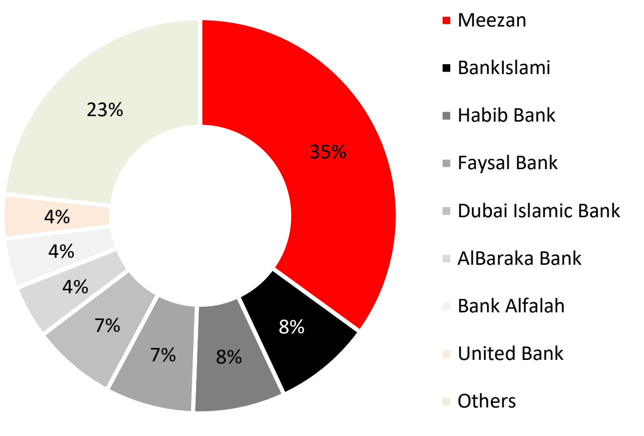
Despite the increasing deposit share of conventional banks in the Islamic industry, Meezan bank has been able to continue its dominance by maintaining the largest market share in the industry (35%) outperforming all peers by a mile. To put things in perspective, the bank with the second highest deposit share in the industry accounts for 8% of the market share which is much lower than Meezan bank. To continue its dominance in the industry, MEBL has been aggressively increasing its foot print and has added over 155 branches in the past two years. Having said that, increasing focus of conventional banks on Islamic banking is likely to increase competition in the space going forward. However, evidence suggests that the full-fledged Islamic banks may continue to have an edge over Islamic branches of conventional banks. To promote Islamic banking, SBP has set a target to increase the share of Islamic banking deposits in overall banking industry to 30% by CY25.

Fig 13: CASA mix has been showing improvement



Source: SBP, FSL Research, June 2021

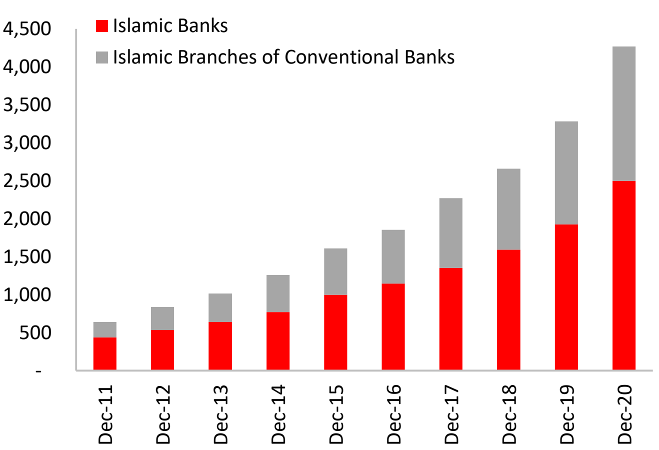
Fig 14: MEBL maintains its dominance



Source: SBP, FSL Research, June 2021

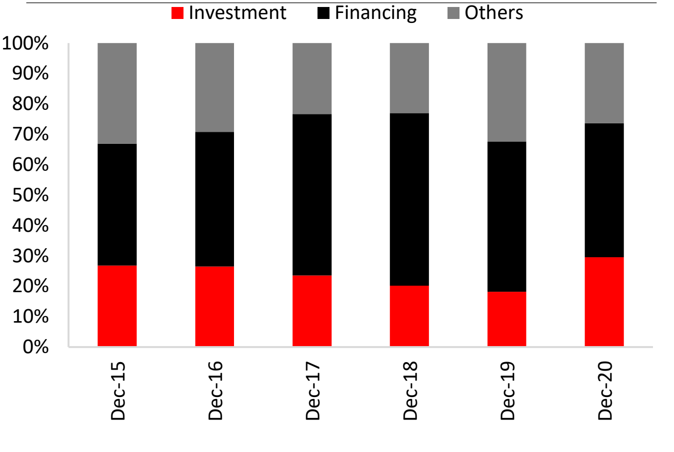
While the increasing deposit base has been driving the growth in Islamic banking, lack of availability of investment instrument has been preventing it from reaching its full potential. This is one of the key reasons why SBP doesn't set MDR for Islamic banks. Asset base of the Islamic industry has been growing at a 5yr CAGR of 22%, whereas distribution of this asset base has been skewed towards Islamic operations of conventional banks as it registered a growth of 24% compared to Islamic industry's growth of 20% during the same period. While the share of financing in the asset mix has largely remained stable and on the higher side, share of investments has consistently remained low (under 30%). However, increase in issuance of GoP ijarah sukuk has resulted in improvement in investment share to 30% in Dec'20 from the low of 18% observed as of Dec'19. Going forward, we expect share of investment to remain broadly stable due to increase in availability of shariah compliant instruments.

Fig 15: Breakup of investments investee wise



Source: SBP, FSL Research, June 2021

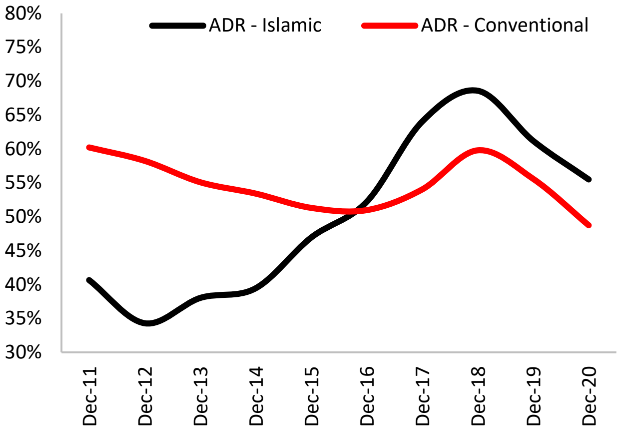
Fig 16: Composition of Assets



Source: SBP, FSL Research, June 2021

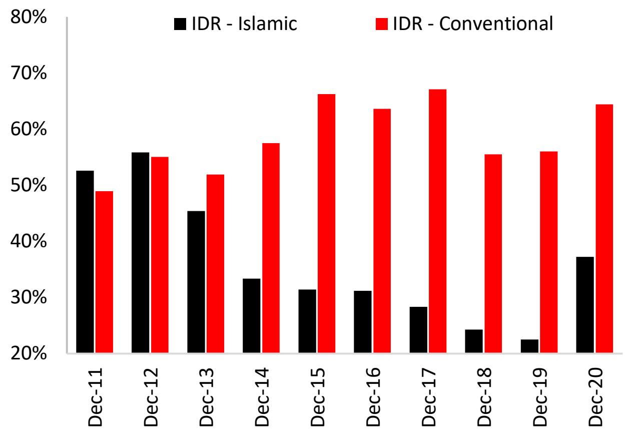
Lack of availability of shariah compliant investment instruments has shifted the focus of Islamic banks on the financing which is one of the key reason why ADRs for Islamic bank has largely remained higher compared to their conventional counterparts. Whereas, IDR for the Islamic banks has remained substantially low compared to conventional peers. Business segment wise, financing done by Islamic banks has major concentration in textile and energy just like their conventional counterparts. However, share of individuals and agribusiness is relatively higher in Islamic banking compared to industry. More reliance on the financing for asset deployment seems to have made Islamic banks more prudent in lending as a result, infection ratio has remained lower compared to the overall banking industry.

Fig 17: ADR of Islamic banks has largely remained higher



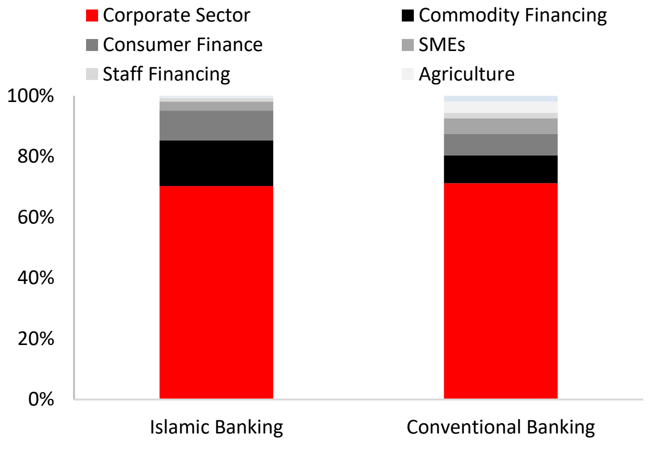
Source: SBP, FSL Research, June 2021

Fig 18: IDR of Islamic Banks remained lower



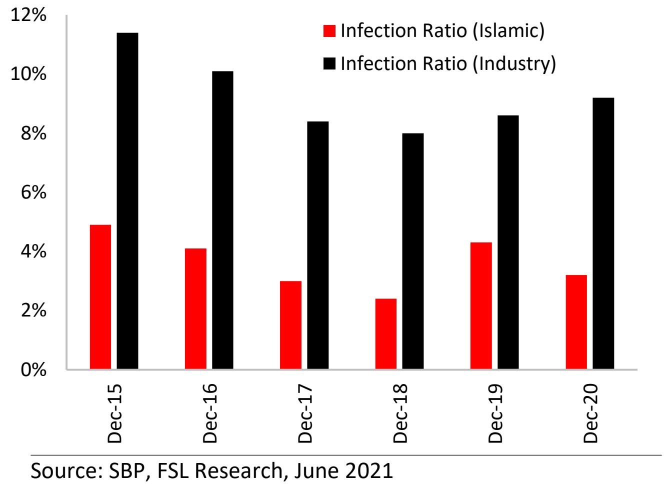
Source: SBP, FSL Research, June 2021

Fig 19: High concentration in corporates lowers the risk



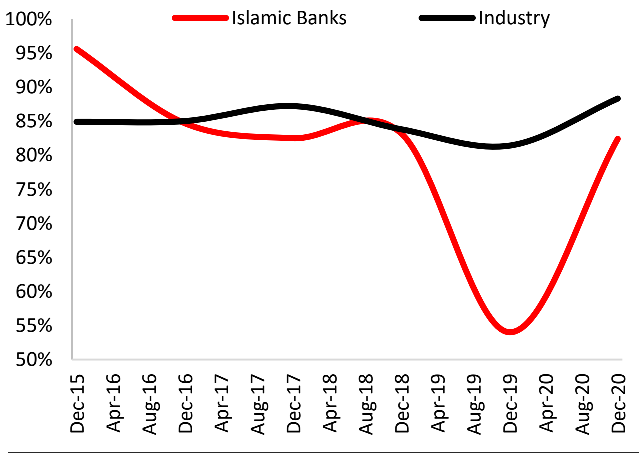
Source: SBP, FSL Research, June 2021

Fig 20: .. as a result infection ratio has been lower



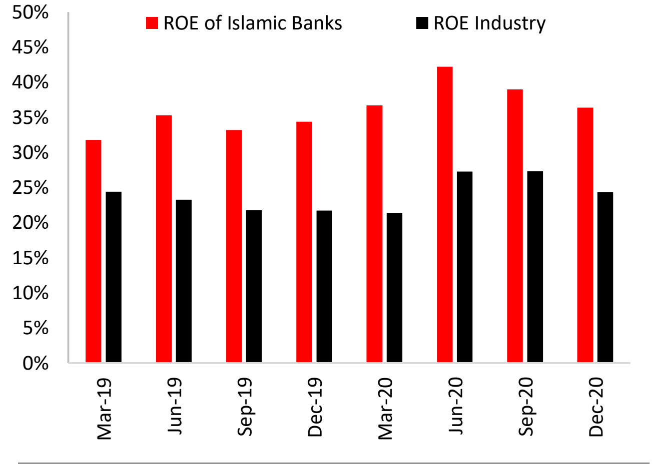
Source: SBP, FSL Research, June 2021

Fig 21: ..with decent provision coverage



Source: SBP, FSL Research, June 2021

Fig 22: .. contributing to superior ROEs vs. industry

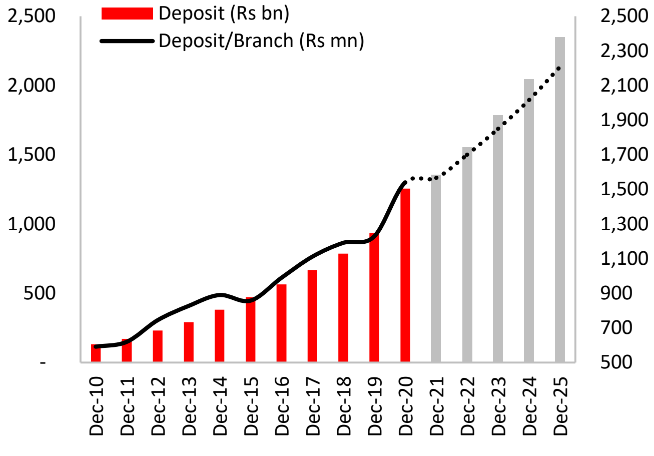


Source: SBP, FSL Research, June 2021

Deposit growth to remain robust

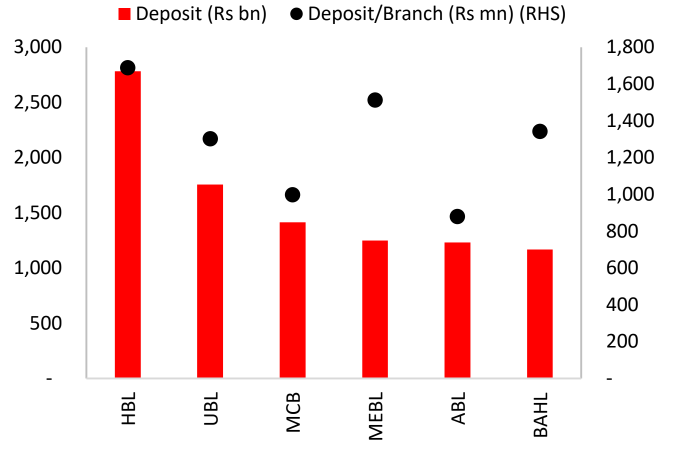
MEBL's deposit base is estimated to grow at a 3/5yr CAGR of 19/18% crossing Rs2 tn mark by CY23. The bank's deposit base has been growing at an unprecedented CAGR of over 30% since inception. As a result of this robust deposit growth, MEBL was able to cross Rs 1tn mark in less than two decades and now ranks as 5th largest bank in terms of deposits. Our assumption of high deposit growth is driven by aggressive branch expansion (the bank has added 155 branches in past two years) along with the organic growth in the existing deposit base. Compared to peers, MEBL's deposit/branch is only second to HBL (the bank with the highest deposit base and largest branch network). Going forward, we expect MEBL to surpass HBL as new branch additions start to contribute.

Fig 23: Deposit base to cross 2tn mark by CY23



Source: Company, FSL Research, June 2021

Fig 24: MEBL vs peers

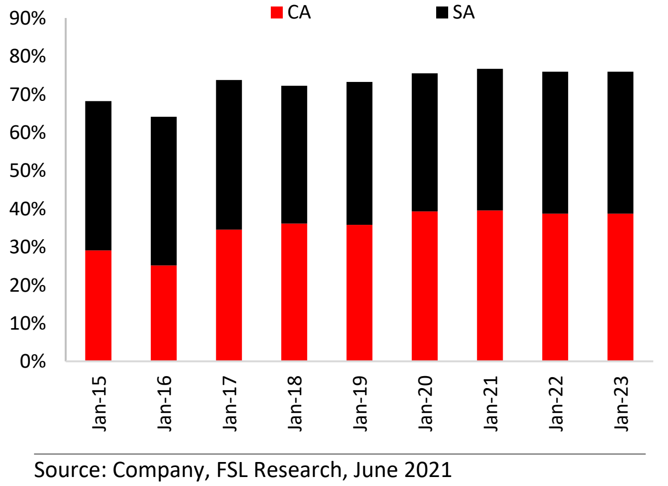


Source: Company, FSL Research, June 2021

Despite the strong growth momentum, we expect high concentration of low-cost deposits to largely remain intact as CASA is estimated to remain over 76% compared to recent CASA of 77%. To put things in perspective, the bank's current/saving account deposits has been growing with a 3yr CAGR of 29/20%. As per our cautious estimates, this number is expected to grow with a 3yr CAGR of 19/21% going forward. We believe that comparison of crude CASA number of MEBL with its conventional peers will not be a fair comparison as being a Islamic bank MEBL is not subjected to MDR requirement. This has allowed MEBL to operate at much lower cost of deposit at same CASA.

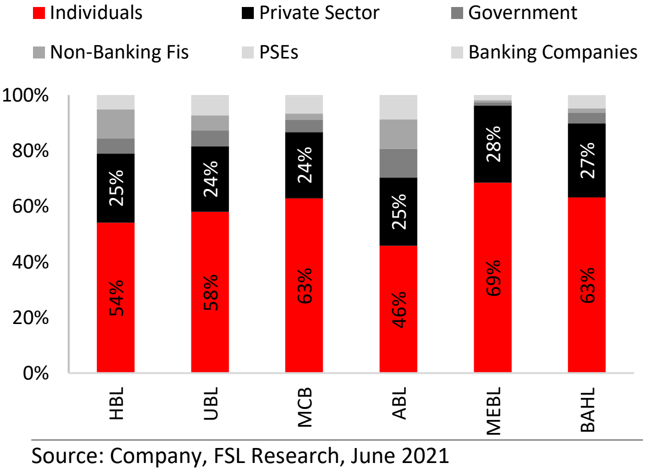
In contrast to peers, a major chunk of MEBL's deposit base consists of deposits from individuals (69%) followed by private sector deposits (28%) jointly contributing to 96% of the total deposit base. This is the highest concentration of retail deposits compared to peers followed by BAHL and MCB with both having 63% concentration of deposits from individuals. We believe that this is the key reason of MEBL's emphasis on the aggressive branch expansion. The Bank's management has ambitious plan to expand its branch network to over 1,000 branches in next 2-3yrs from the existing network of 825 branches. We expect, this expansion in branch network to deliver our estimated deposit growth along with the growth in private deposits as economic activity seems to be back on the road to growth.

Fig 25: High concentration of low cost deposits



Source: Company, FSL Research, June 2021

Fig 26: Strongest retail franchise

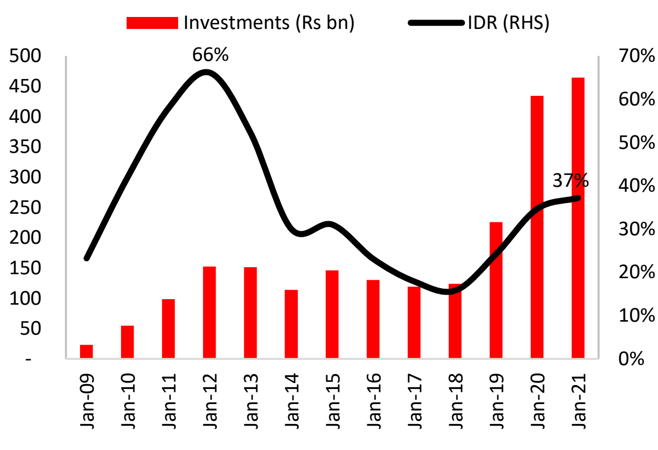


Source: Company, FSL Research, June 2021

Availability of instruments to keep IDR range bound

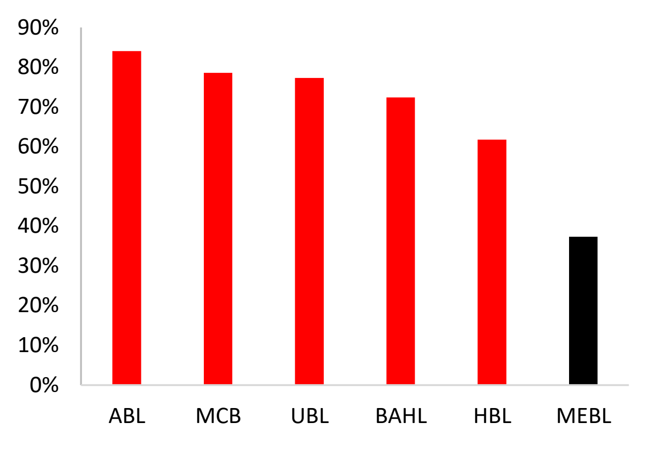
On the back of uncertain macroeconomic landscape during CY20 due to outbreak of COVID-19, banks across the globe has been inclined towards investments for fund deployment. Similar trend was witnessed in Pakistan as well, however, lack of availability of shariah compliant instruments has kept this trend well contained for Islamic banks in Pakistan. MEBL's investment remained under pressure during CY15-18 and declined by 15% despite the 27% increase in the stock of GoP ijarah Sukuk diluting IDR by 15ppts to 16% by Dec'18. However, MEBL's investment level substantially improved by 3.51x in next two years (CY18-20) as the bank's investment in GoP ijarah sukuk increased by 3.8x during followed by 2.5x increase in Bai Muajjal Placements. In addition to this, investment in Pakistan Energy Sukuk amounting to Rs117bn played a crucial share in improving investment outlook. As a result, MEBL's IDR ratio increased to 37% (as of March'21) which is one of the highest level for the bank but still much lower compared to conventional peers.

Fig 27: Availability of Islamic instrument has ↑IDR



Source: Company, FSL Research, June 2021

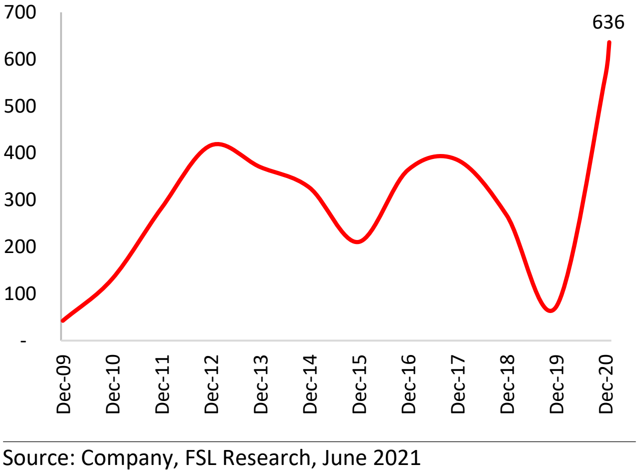
Fig 28: …but it is still lower than conventional peers



Source: Company, FSL Research, June 2021

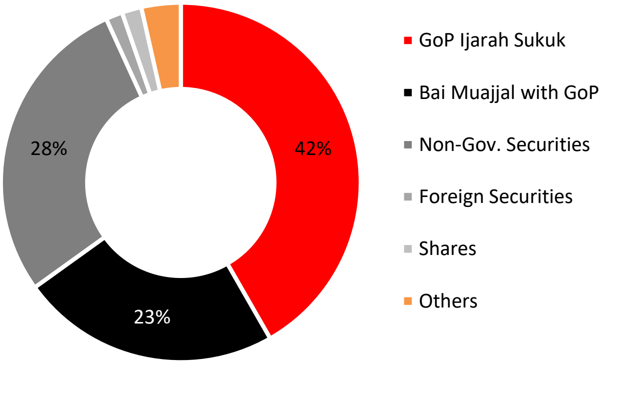
All Islamic banks including Meezan Bank Limited are heavily dependent on the GoP ijarah sukuk and GoP Bai Muajjal facility to meet their investment requirements. To put things in to perspective, during CY15-18 (before Pakistan Energy Sukuk) these both instruments accounted for 75% (on average) of the total investments made by the bank. Therefore, lower stock of Ijarah sukuk (Rs 71bn as of Dec'19) due to non-issuance of new instruments raised concerns about the funds deployment for Islamic banking. However, recent increase in the stock of Ijarah Sukuk (9x up since Dec'19 to 636bn) has generated much needed space for the Islamic banks. However, despite this substantial increase, Ijarah Sukuk still only accounts for 4.4% of GoP marketable securities. As of 1QCY21, GoP Ijarah Sukuk/Bai Muajjal accounted for 42/23% of total investments for MEBL followed by Non-Government securities (mainly includes investments in Pakistan Energy Sukuks (I&II)) having share of 28%. Going forward, we expect supply of Islamic instruments to improve due to more sukuk issuance by the federal government which would improve the overall investment outlook for the Islamic banks. Notable Sukuk issuance includes Sukuk of Jinnah Terminal, energy payment sukuk, Ijarah sukuk, etc.

Fig 29: Issuance of Ijarah Sukuk is on the rise



Source: Company, FSL Research, June 2021

Fig 30: MEBL heavily reliant on Ijarah Sukuk



Source: Company, FSL Research, June 2021

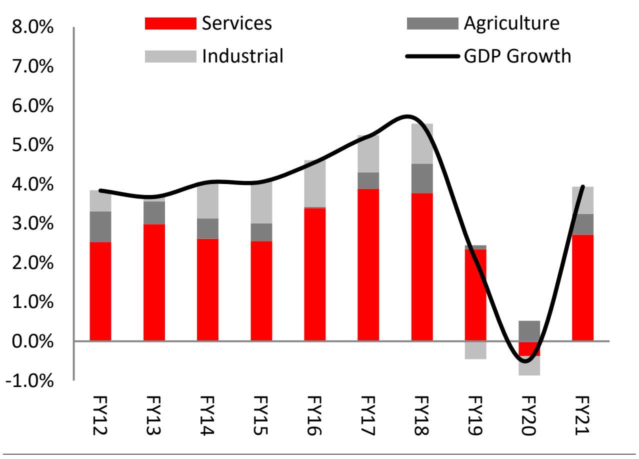
Economy has shifted gear from recovery to growth

Along with the conducive fiscal policies, SBP had sharply reduced the policy rate to 7% (↓6.25%) and kept it unchanged to counter economic stress exerted by the COVID related disruptions. These measures have not only prevented the slowdown in economic activities but has also been a catalyst for economic growth. As a result, GDP growth rate for FY21 is estimated to be 3.9% YoY. This GDP growth was driven by 2.8%, 3.6% and 4.4% growth in agricultural, industrial and services sectors. Total GDP size is estimated to be Rs47.7tn in FY21 versus Rs41.6tn for FY20. Per capita income increased by 13.4% from US$1,361 in FY20 to US$1,543 in FY21. Whereas, growth for FY20 was revised downward from -0.4% to -0.5%. This outcome for FY21 is a substantial increase from Gov't forecast of 2.1% and SBP forecast of 1.5-2.5%. Moreover, Gov't has set GDP growth for FY22/FY23/FY24 at 5%/5.7%/6.3%. This growth would be attainable as the govt sets Federal PSDP of Rs900bn vs Rs630bn last year, while keeping Rs1,235 bn for provincial PSDP.

Recovery in economic activity has fed into growth in goods imports (up 17% YoY in 10MFY21) which has caused trade deficit in goods to increase by 22% YoY. However, this increase has been offset by record high remittances, up 29% YoY, resulting in a current account surplus of ~US$773mn in 10MFY21. We expect that CAD for the year to remain under manageable level for FY21. On the fiscal front, deficit for 9MFY21 has clocked in at Rs1.7tn (3.6% of GDP) primarily on the back of 12% YoY incline in FBR revenue. Gov't has set fiscal deficit target for FY22/23/24 at 6.3/5.3/3.9% of GDP based on higher FBR tax collection and relatively lower increase in expenditures.

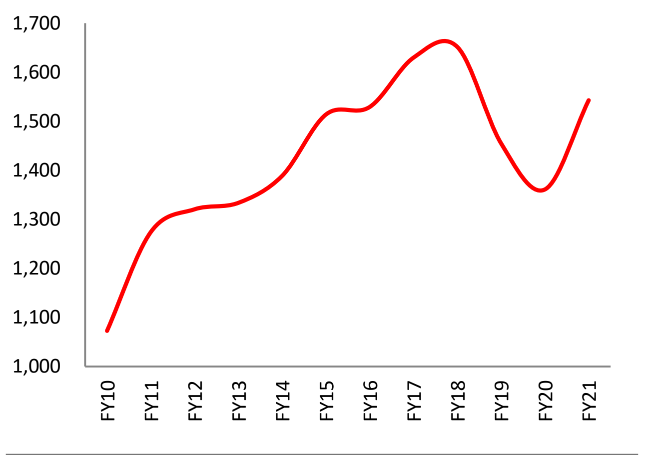
Inflation is expected to remain in double digits in Jun'21 due to (1) low base effect and (2) higher int'l food prices (see Fig 3 below) but decline thereafter. We foresee avg inflation of ~8.9/8.0% in FY21/22 if there is no increase in electricity tariff as announced by the new finance minister. In case electricity tariff is increased as per IMF requirements, it would take up average inflation to ~9.0/9.3% YoY in FY21/22.

Fig 31: GDP growth bounced back!



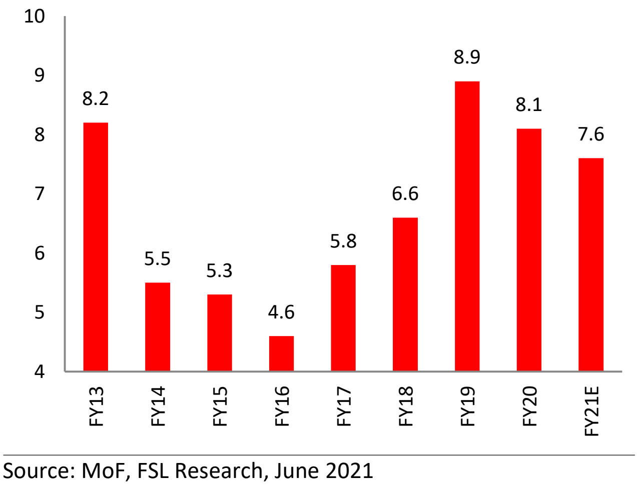
Source: PBS, FSL Research, June 2021

Fig 32: GDP/Capita in US$ also recovered



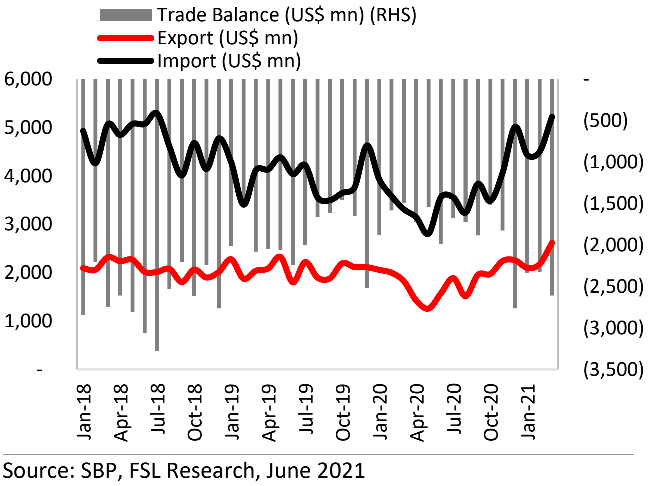
Source: PBS, FSL Research, June 2021

Fig 33: Improving fiscal discipline ↓ fiscal deficit (% GDP)



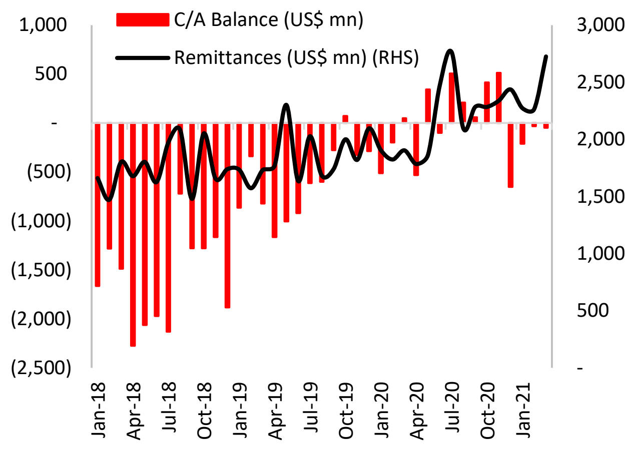
Source: MoF, FSL Research, June 2021

Fig 34: Imports have also started to pick up



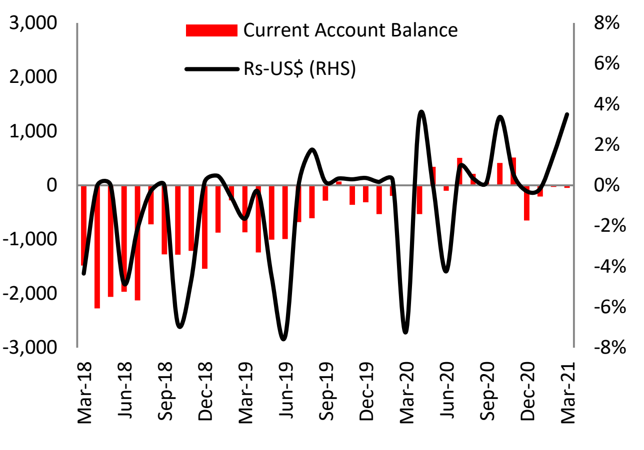
Source: SBP, FSL Research, June 2021

Fig 35: ↑Remittances significantly reduced C/A deficit



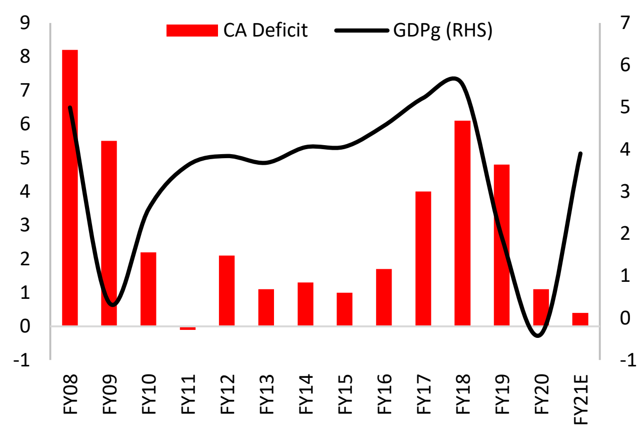
Source: SBP, FSL Research, June 2021

Fig 36: Current account and Rs-US$ exchange rate



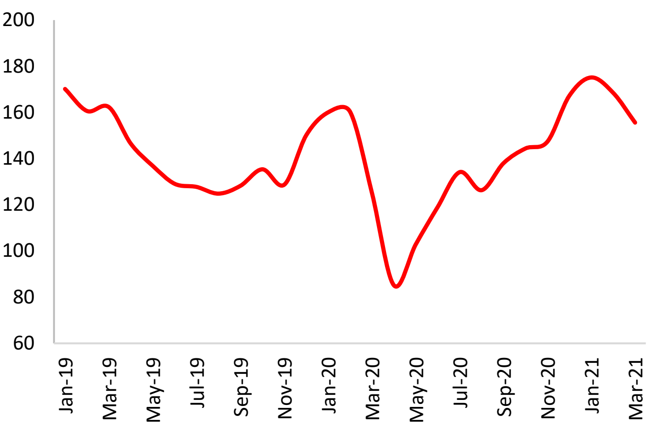
Source: SBP, FSL Research, June 2021

Fig 37: CAD has remained under manageable levels



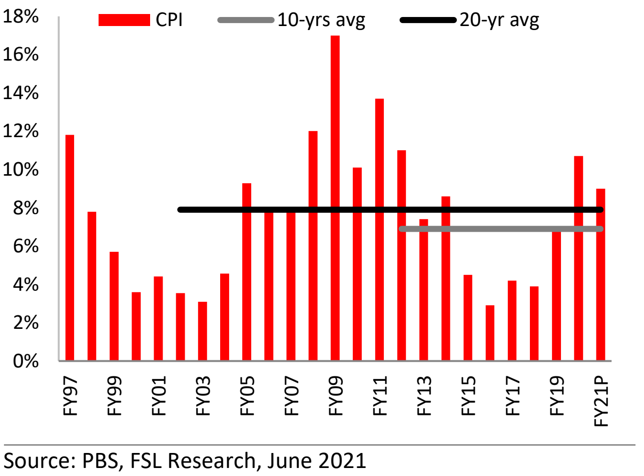
Source: PBS, FSL Research, June 2021

Fig 38: LSM has increased 12.8% during FY21TD



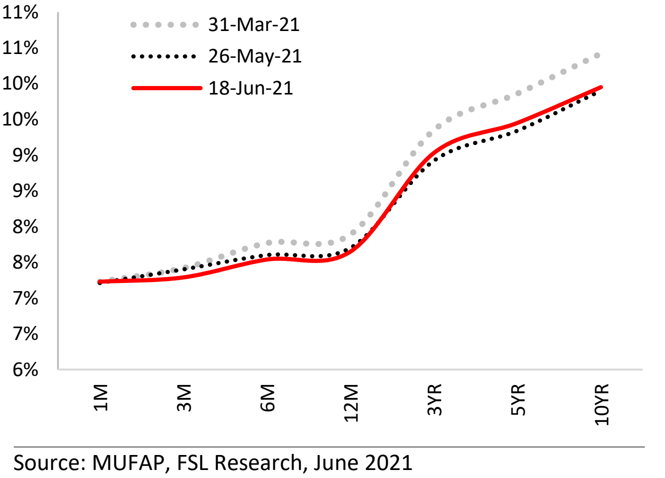
Source: PBS, FSL Research, June 2021

Fig 39: Uptick in economic activity resulting in ↑CPI



Source: PBS, FSL Research, June 2021

Fig 40: Market yields remained reflective of improvements



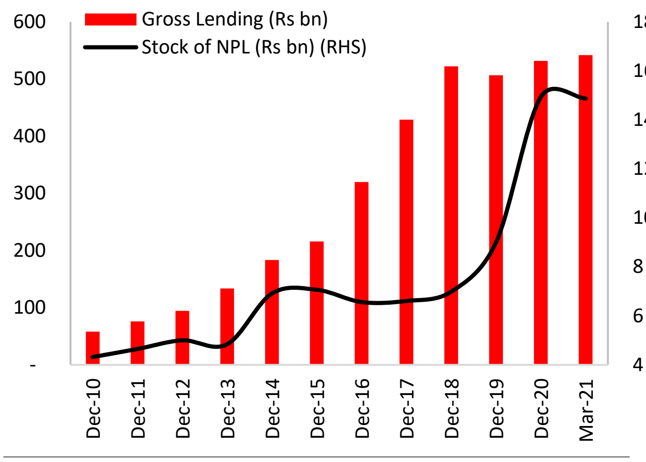
Source: MUFAP, FSL Research, June 2021

Prudent lending is likely to keep NPLs off the shore

We expect MEBL's gross lending to grow by 15% YoY in CY21 mainly on the back of sharp revival in economic activity and government's pro-growth policies. To highlight, growth in gross advances of the bank has remained muted in past two years and has merely increased by 1.79%. Recovery in economic growth is reflected into a higher GDP growth estimate of 3.9% for FY21. We opine that the recovery in Large Scale Manufacturing (LSM) would continue its momentum (up 12.84% YoY in 10MFY21) and as a result, credit demand will go up. Owing to uncertain economic scenario, the bank became cautious with its loan book as gross lending largely remained stagnant during 9MCY20 and only grew in the last 4QCY20 as economy started to show signs of recovery on the back timely policy measures taken by the government and SBP. As a result of lower gross lending and substantial deposit growth, ADR during CY20 dropped by 12ppts to stand at 42%. While this strategy has shielded MEBL from the risk of mounting NPLs in the short term, it is likely to generate a catch up effect for the lending book as the ADR now stands at an 8yr low.

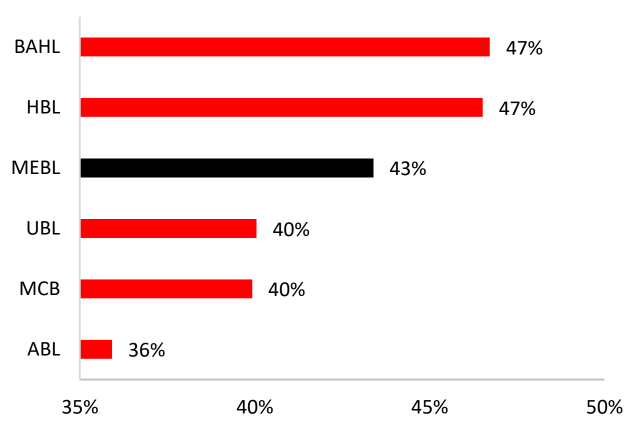
Segment-wise loan book exposure reveals that corporate banking accounts for over 69% of the loan portfolio which is generally less prone to default. In addition to this, SME/commercial accounts for 20% of the lending portfolio followed by consumer with a contribution of 10%. Business-wise bifurcation of the lending portfolio reveals that the textile sector accounts for the highest share in the loan portfolio followed by agriculture and energy. This high concentration in the aforementioned categories provides us comfort on the loan book as textile sector has been top priority sector for the government and the provision of incentives has started producing results as textile exports have increased by 19% YoY during 11MFY21. Therefore, we expect profitability of textile sector to remain robust going forward. Recovery from COVID has been resulted in a demand-supply gap creating a surge in commodity prices across the globe which is likely to translate in higher profitability for food business. Due to better availability of underlined sectors, we are of the view that MEBL's loan book is unlikely to witness any substantial increase in the NPL stock and the asset quality is likely to remain robust.

Fig 41: Decelerating lending has kept NPL under check



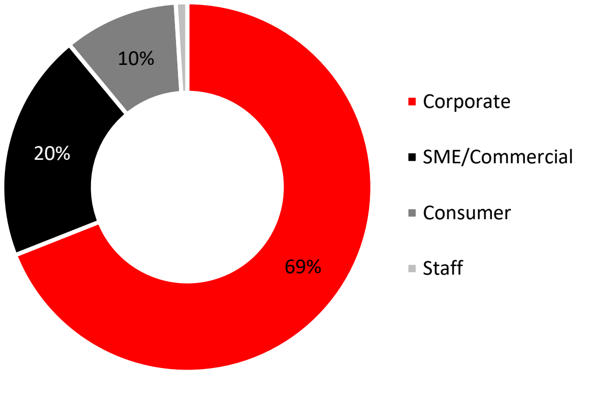
Source: Company, FSL Research, June 2021

Fig 42: MEBL'S ADR ↓43% but still higher than peers



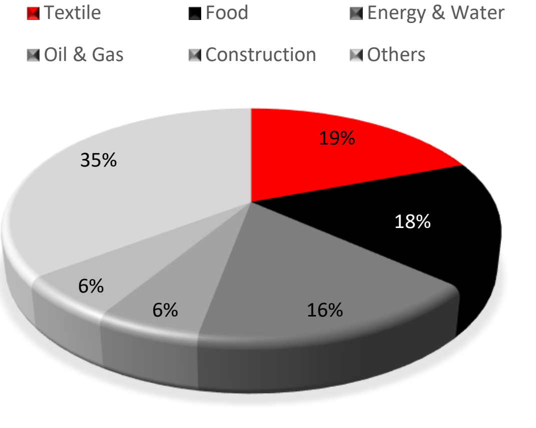
Source: Company, FSL Research, June 2021

Fig 43: Advances Exposure – Segment Wise



Source: Company, FSL Research, June 2021

Fig 44: Advances Exposure – Industry wise

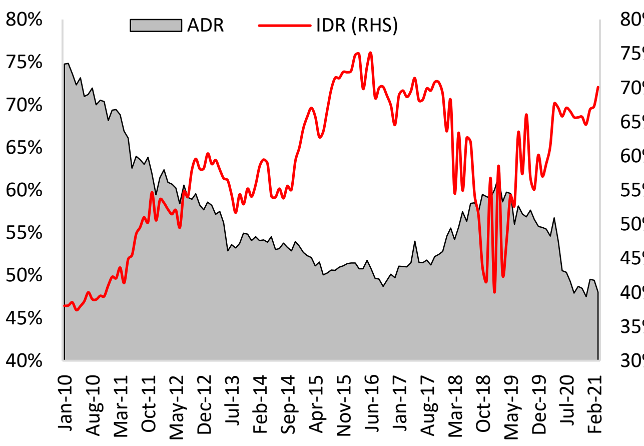


Source: Company, FSL Research, June 2021

Industry loan infection to remain manageable

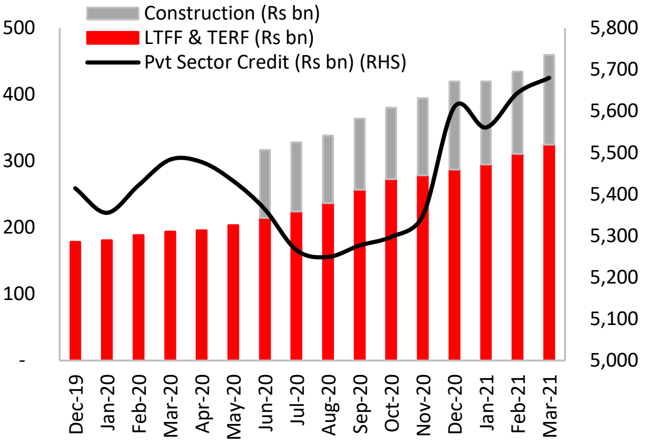
With the revival of economic activities across major sectors, we expect credit demand to remain upbeat in CY21 despite the expiration of SBP's TERF facility. We believe that proactive management of lending portfolios by the banks (reflected by lower ADRs) along with the substantial increase in coverage ratio has diluted the investors' concerns of a surge in NPLs. Furthermore, the high concentration of corporate lending provides us further comfort on the asset quality. In addition to this, we opine that the expiration of SBP's deferral scheme is unlikely to create any significant pressure on the asset quality as corporate profitability has seen a sharp rebound and high concentration of textile (priority sector for government) may keep the asset quality intact.

Fig 45: Cautious lending resulted in ↑ sector IDR



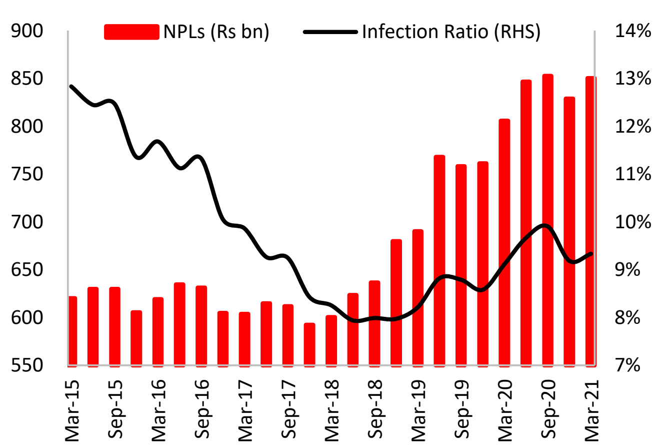
Source: SBP, FSL Research, June 2021

Fig 46: Concessionary lending uplifts sector credit



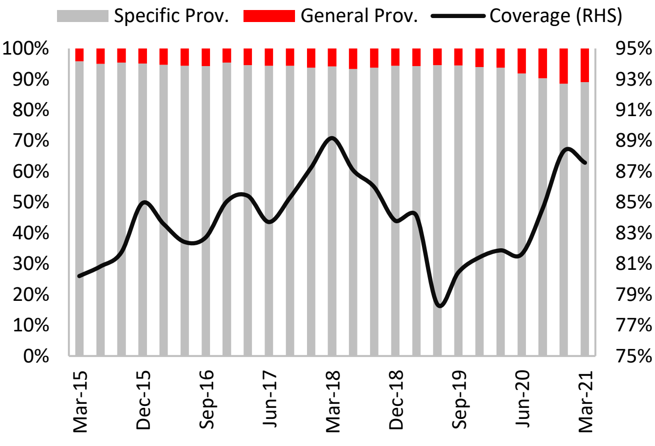
Source: SBP, FSL Research, June 2021

Fig 47: Accumulation of NPL remained manageable



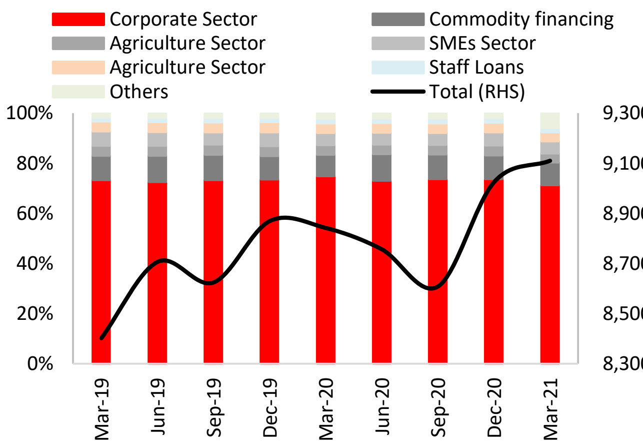
Source: SBP, FSL Research, June 2021

Fig 48: Prudent approach ↑ provision coverage



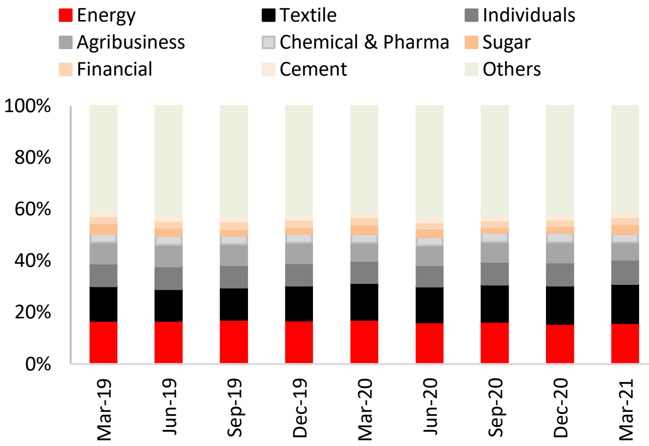
Source: SBP, FSL Research, June 2021

Fig 49: Corporate sector has the highest share in adv.



Source: SBP, FSL Research, June 2021

Fig 50: Energy and Textile accounts for 30% of the mix



Source: SBP, FSL Research, June 2021

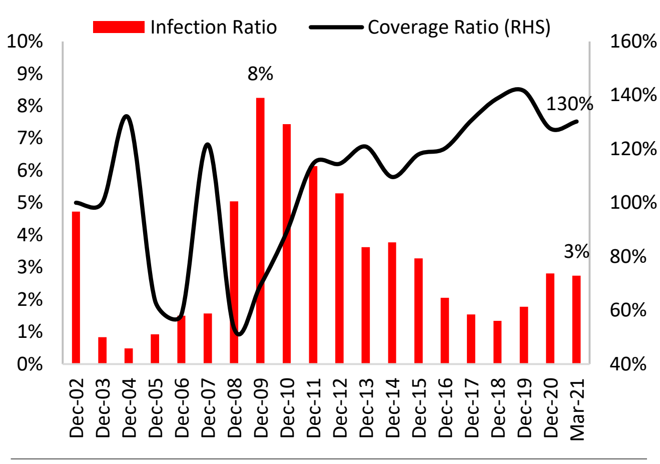
Strong asset quality to dilute concerns

Due to MEBL's prudent lending and uptick in corporate profitability, accumulation of NPLs is likely to lose steam. We expect Meezan Bank's infection ratio to incline by 12bps to 2.92% in CY21. This increase is likely to emerge as SBP's principal repayment deferral scheme expires. To incorporate this risk, we have taken provisioning expense of Rs4.6bn in CY21.

The bank's asset quality has been significantly improving as infection ratio has declined by 5ppts since Dec'10 to 2.74% as accumulation of non-performing loan has been on the lower side despite 9.3x increase in gross lending. This improvement in the infection ratio despite substantial increase in the lending reflects the prudent and sound asset quality of the bank. During CY20, MEBL recorded a reduction of Rs1.25bn in NPLs from the textile sector which accounts for the highest weight (19%) in the loan portfolio. Whereas the stock of NPL of other major segments like Power remained stagnant while individuals recorded an incline of Rs426mn. However, sharp movement in international oil price tested the financial strength of the local OMCs which resulted a surge of Rs4.5bn in NPLs (only from one company) translating into an infection ratio of 15%. However, this generation of NPL remained restricted to only one name which was timely spotted by the management and is now fully provided for. Therefore, we believe that the bank is unlikely to experience such surge in the NPLs.

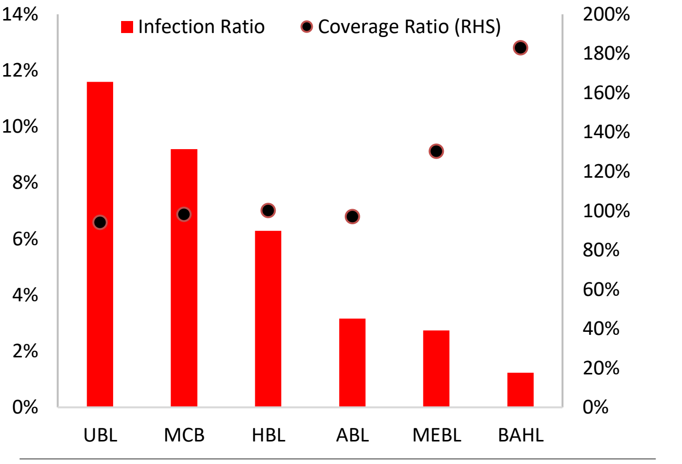
To provide for the recent credit deterioration and generate cushion for probable stress in the loanbook, MEBL recorded a provisioning expense of Rs5.6bn (↑40%) during past four quarters. This has translated into a coverage ratio of 130% which is 33ppts higher compared to peer average (ex BAHL). We expect MEBL's coverage ratio to remain over 130% for next few years. Having said that, MEBL's high exposure in textile, energy and individuals is unlikely to experience any significant uptick in infection rate which may keep overall infection ratio well contained. Going forward, we opine that the existing coverage ratio of the bank is sufficient to tackle any credit deterioration that may arise going forward.

Fig 51: Cautious lending with lower infection ratio



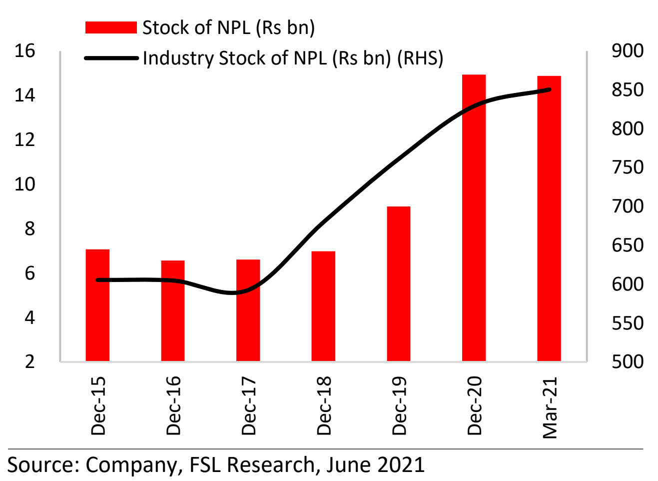
Source: Company, FSL Research, June 2021

Fig 52: Low infection and decent coverage among peers



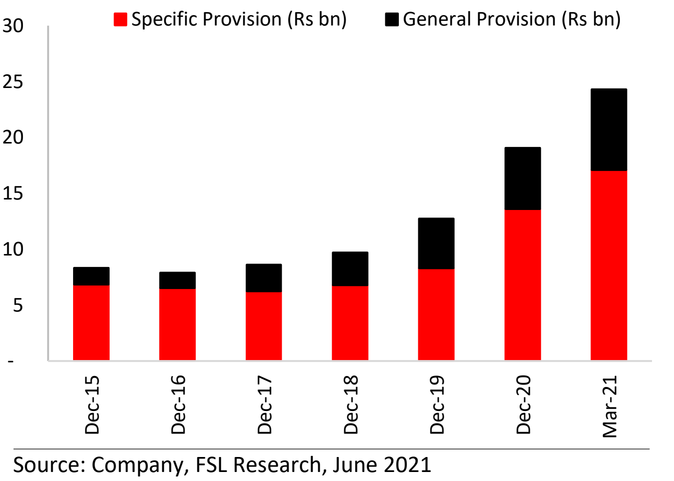
Source: Company, FSL Research, June 2021

Fig 53: NPL Stock remained manageable



Source: Company, FSL Research, June 2021

Fig 54: Sufficient general provisioning buffer



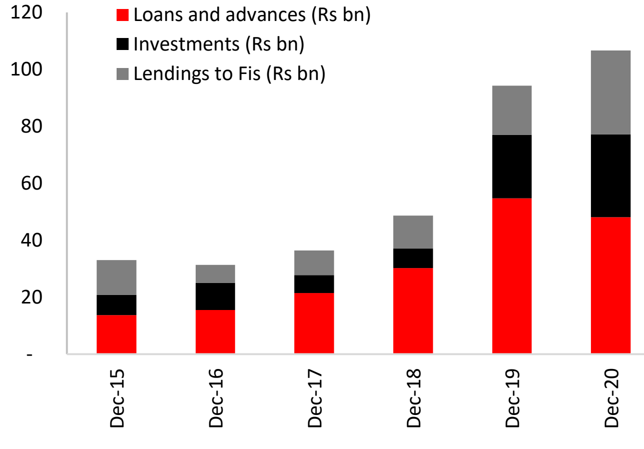
Source: Company, FSL Research, June 2021

NII to witness some pressure in CY21 before increasing in CY22

Net Interest Income for banking sector is likely to come under stress in CY21 on account of potential hike in the interest rate. However, we estimate this drop in NIMs to be limited due to better availability of investment instruments where the absence of minimum deposit rate (MDR) adds further to the attraction. As a result, NIMs in CY21 are estimated to drop by 114bps YoY. However, this drop is likely to follow with a 3yr CAGR of NII/PAT of 11/16% as full impact of asset repricing lifts interest income. Interest income from investments is likely to remain upbeat due to healthy pipeline of GoP Ijarah Sukuk. Therefore, interest income is likely to remain upbeat post CY21. Complementing robust interest income, interest expense is likely to remain well contained due to high concentration of low cost deposits.

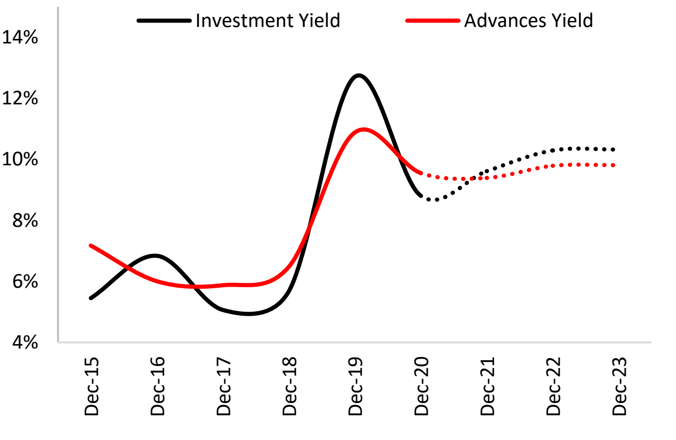
CY20 has turned out to be a great year for the banking sector as Net Interest Income (NII) recorded a substantial increase in uplifting profitability. NII for the commercial banks recorded an increase of 23% YoY to clock in at Rs844bn compared to Rs685bn in CY19. This surge in NII was a result of a sharp decline in the policy rate to 7.00% from its peak of 13.25% as SBP became more accommodative with the monetary policy to support economic activity. As a result, NII increased on account of swift deposit and lagged asset repricing. For MEBL, share of interest income from investments/FIs improved by 4/9ppts YoY and share of loans and advances dropped by 13% YoY. Another reason for lower contribution from advances can be attributed to a modest increase of 4% YoY in net advances. In contrast to this, net investments posted a significant increase of 92% to clock in at Rs434bn. Increase in investments was mainly attributed to ↑7.9x YoY in the overall stock of GoP Ijarah Sukuk as a result of this, MEBL's investment in GOP Ijarah Sukuk ↑14x YoY to came in at Rs179bn compared to Rs13bn in the previous year. On the interest expense side, improvement in deposit mix on the back of strong current account deposit growth has kept the cost of funds in check. Going into 2HCY21, based on our assumption of interest rate hike, we expect MEBL's NIIs to remain under pressure on account of contraction in NIMs. As a result, NIMs are likely to come off by 95bps in CY21 which would start increasing in following years.

Fig 55: Interest income to remain upbeat



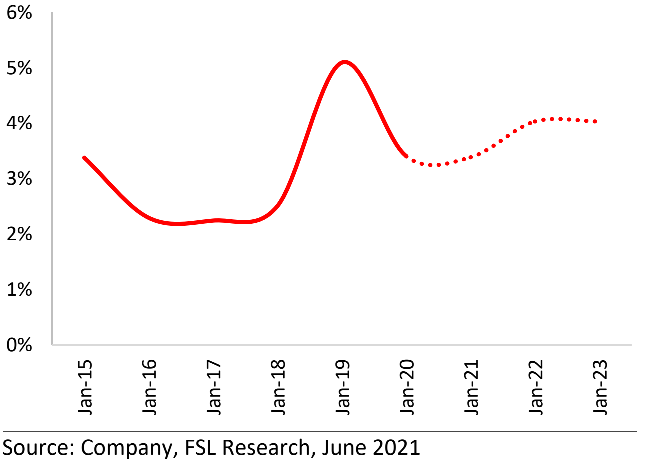
Source: Company, FSL Research, June 2021

Fig 56: ..as yield improves



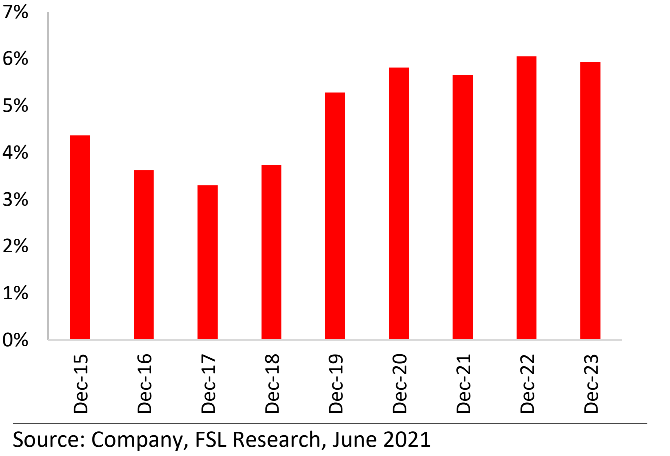
Source: Company, FSL Research, June 2021

Fig 57: Cost of deposits may also go up



Source: Company, FSL Research, June 2021

Fig 58: .. NIMs would ↓ in CY21 before ↑ in CY22



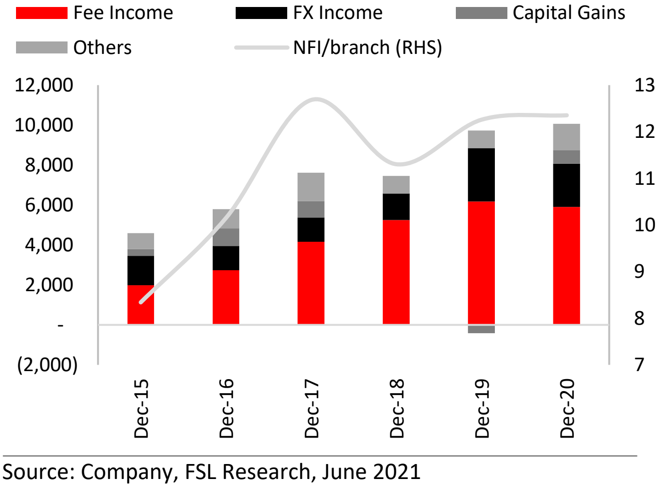
Source: Company, FSL Research, June 2021

Non-Markup/Funded Income to remain robust

With the support of strong fee income and robust FX income, non-markup income is estimated to grow by 24% YoY in CY21. However, capital gain on securities is likely to remain lower compared to previous year. Going forward, we expect NFI to grow with a 3yr CAGR of 12%. Non-Funded Income (NFI) during CY20 increased by 8% YoY as the rise of capital gain recorded on investments was partially diluted by the 4/20% YoY drop in fee income/fx income. Fee income has been relatively stable part of NFI and accounts for major chunk of the total share. If we get into the details of fee income, commission on trade has been registering promising growth as it has grown with a 3yr CAGR of 26% to stand at Rs2.6bn in CY20 accounting for 43% share in the fee income. As per the published numbers, the bank handled trade business worth of Rs1.1tn (~US$6.8bn, 10% share in trade business) in CY20. We expect MEBL's share in trade business to slightly increase however increasing competition may hurt margins going forward. Followed by trade business, branch banking customer fees and card related fees are the other important heads with joint share of over 40% in the fee income. Due to COVID related restrictions, branch banking operations remained affected resulting in a sharp decline of 33% YoY (17% share in fee income) in branch banking fees. As economic activity has now largely returned to normal course, we expect fee income from branches to pick up in CY21 and carry the momentum for the following years. In addition to this, card related fees which marginally declined during CY20 is expected to recover in CY21 which is also estimated to get support from higher consumer spending.

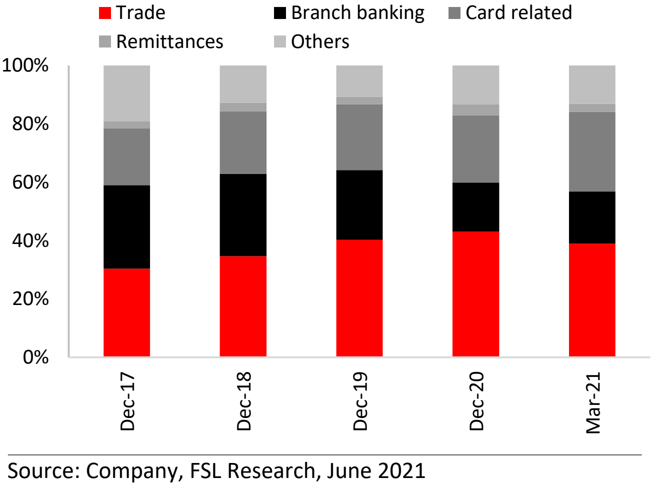
MEBL lags a bit behind in terms of Fee Income and Fee Income/branch with HBL, MCB and UBL topping the charts. Compared to its peers, MEBL's fee income reveals room for significant improvement. With the continuation of branch expansion and normalization of economic activity post COVID, we expect fee income from branches to pick up going forward. However, increased competition in the trade and remittances business will make it difficult to increase substantial share in the market but overall increase in the market size may uplift fee income, in our view.

Fig 59: NFI Income to remain robust



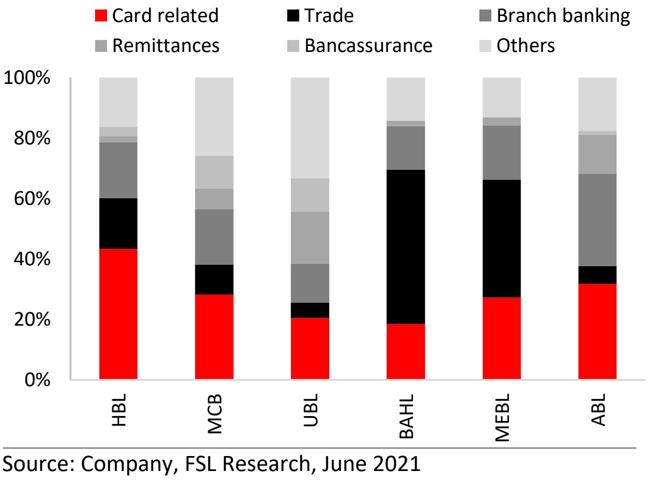
Source: Company, FSL Research, June 2021

Fig 60: Fee Income provides room for improvement



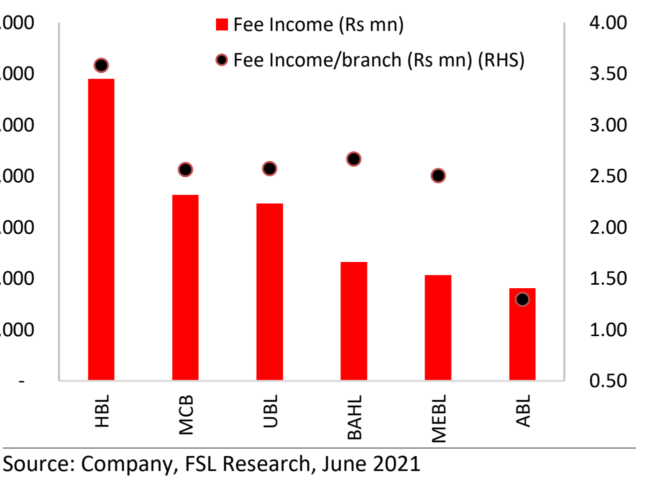
Source: Company, FSL Research, June 2021

Fig 61: NFI Income to remain robust



Source: Company, FSL Research, June 2021

Fig 62: Fee Income provides room for improvement



Source: Company, FSL Research, June 2021

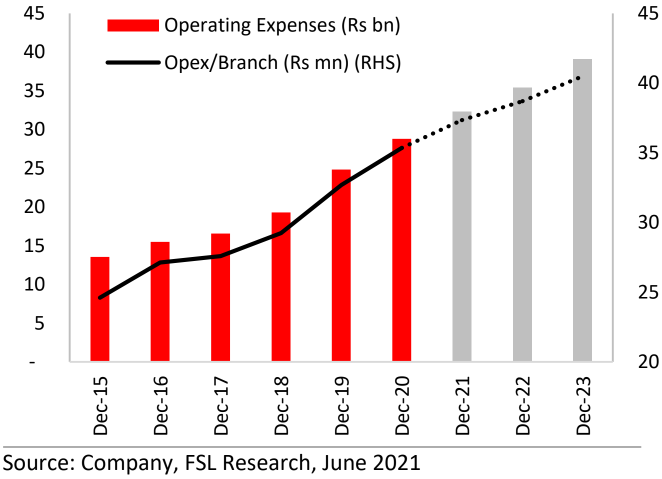
Operating expense to remain manageable

We expect operating expenses to grow with 3yr CAGR of 13% as the bank is expected to continue with its aggressive branch expansion with a target to cross 1,000 branches in next 2-3yrs. As CY21 is likely to bring a drop in income levels originating from pressure in NII and the moderate increase in non-markup income. As a result, cost/income may see an increment of 186bps to 40.31% in CY21 followed by a dilution of 272bps in CY22 to 37.59%. On the other hand, operating cost as a percentage of deposits is expected to decline to 2.37% (↓27bps, YoY) in CY21 on the back of continuation of strong momentum in deposit growth.

Operating expense has remained under manageable level during CY20 as it grew by 16% YoY to clock in at Rs28.8bn. Despite the mounting inflationary pressures and COVID-19 related additional costs, operating expenses remained well contained given the addition of 55 branches during the year. On the branch level basis, growth in operating expenses (↑8.2% YoY) has largely remained in line with its 3/5yr CAGR of 8.6/7.5% to stand at Rs35mn/branch. Employee compensation accounts for over 50% of the operating cost which registered a growth of 22% YoY, however, compensation/employee reflected a moderate increase of 12% YoY. This shows that the growth in compensation expenses which is driving the overall expenses is a combination of uptick in CPI inflation and MEBL's growth plan. Compared to peers, MEBL has been operating at efficient levels with one of the lowest operating expenses per branch among peers with HBL and BAHL topping the charts followed by MCB.

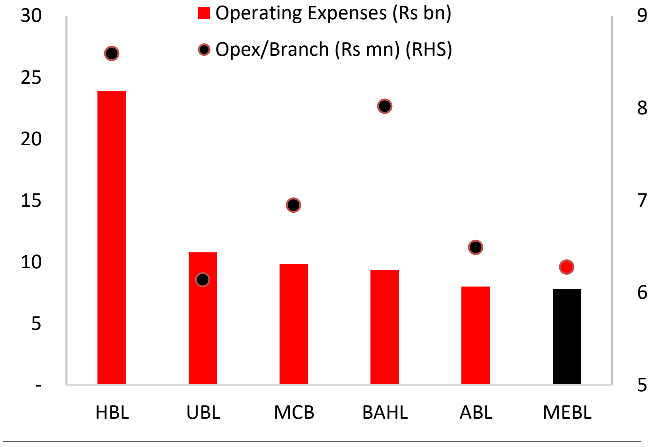
Tamed operating expenses and improving profitability has resulted in a substantial improvement in MEBL's cost/income which declined by 21ppts in past 5yrs dropping to 38% at a multi-year low in CY20. The banks superior ROE generation and lower compensation cost has been the key ingredient of it operating at lowest cost/income among peers. Going forward, we expect MEBL to operate at an average cost/income of 40% in the near term.

Fig 63: Operating expense to remain under control



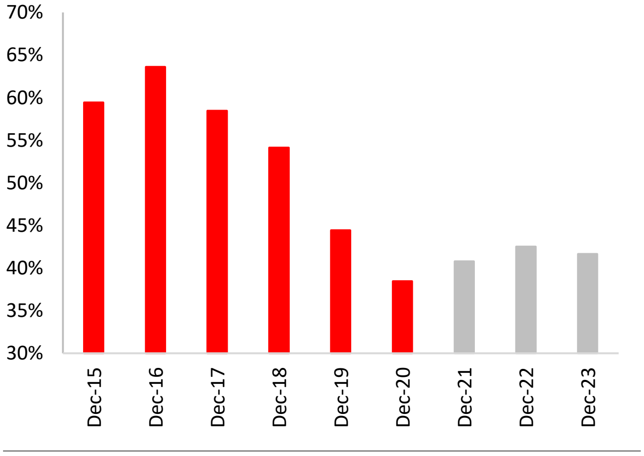
Source: Company, FSL Research, June 2021

Fig 64: One of the most cost effective bank



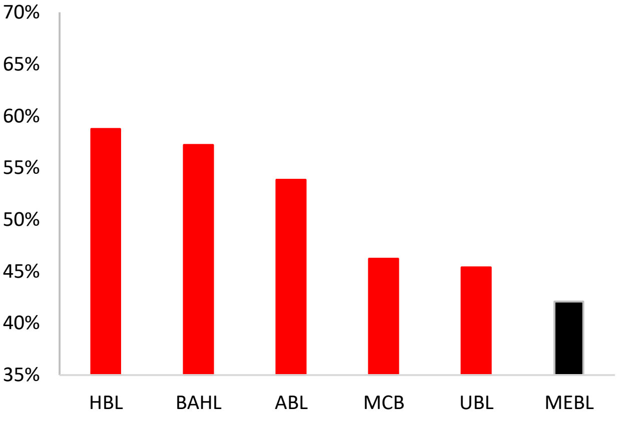
Source: Company, FSL Research, June 2021

Fig 65: Cost/Income to remain manageable



Source: Company, FSL Research, June 2021

Fig 66: Lowest Cost/Income among peers

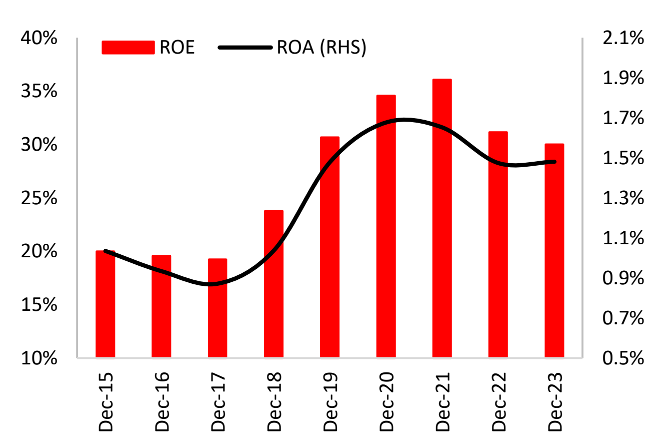


Source: Company, FSL Research, June 2021

MEBL to continue making superior ROE/ROAs

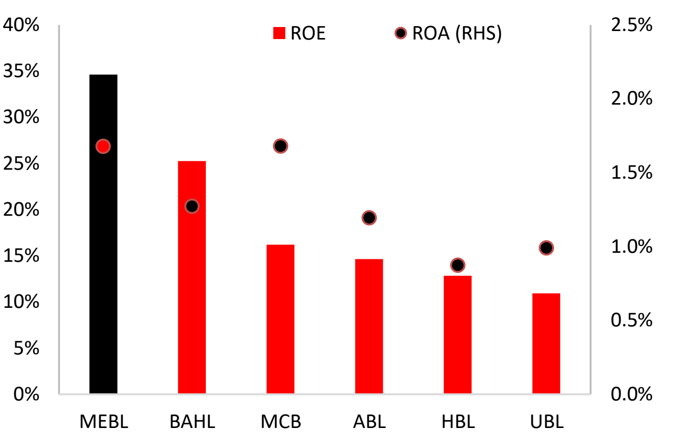
With the probable reversal in the interest rate cycle, we expect profitability for the banking sector in general and MEBL in particular due to its exposure in floating rate instruments, to remain upbeat in the medium term. Though the initial impact of an uptick in interest rates may result in margin compression in CY21 but is expected to bode well in CY22 and beyond as asset re-pricing kicks in. In the recent past, the bank has been making superior ROE/ROAs with a 5yr average of 26/1.2% and 35/1.7% in CY20. Going forward, we expect a drop in NII and increase in operating costs to keep profitability in check during CY21. Whereas, probable delay in the implementation of IFRS 9 may support earnings during the year. Going forward, we expect ROE generation likely remain over 29% in the next three years.

Fig 67: MEBL to continue making superior ROE/ROAs



Source: Company, FSL Research, June 2021

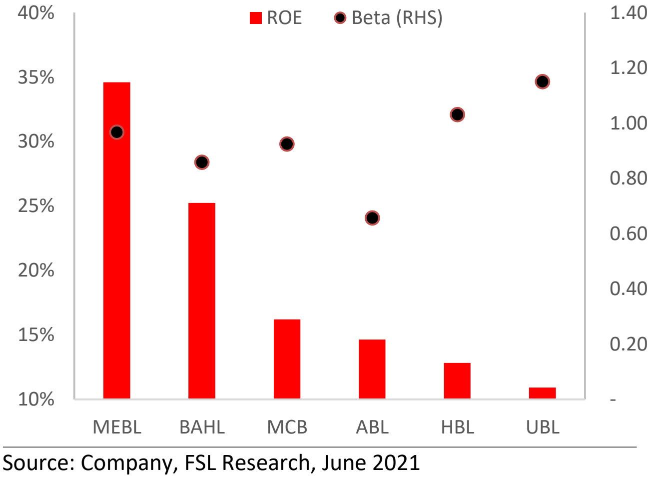
Fig 68: Outperforming peers by a mile



Source: Company, FSL Research, June 2021

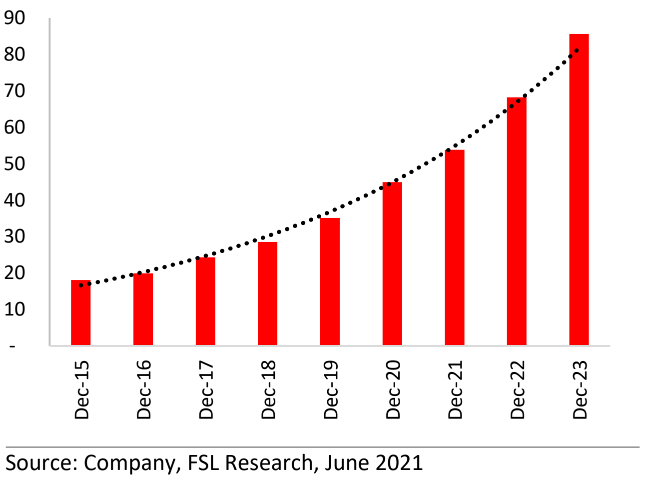
Higher ROE generation along with moderate dividend stream has resulted in an unprecedented growth in the book value. MEBL's book value grew (exclusive of surplus) at a 3yr CAGR of over 20% to stand at Rs47/sh as of March'21. Given the continuation of aggressive branch expansion plan of the bank with the current payout policy, we expect MEBL's book value to grow at a 3yr CAGR of 24%. Compared to its peers, Meezan bank stands out on ROE offering given the market risk. However, there may be a point of concern of overhang supply as bank's major shareholder Noor Financials has been planning to reduce its exposure. Although given the current market multiples of the bank and previous NDM transaction that took place, we believe that there is still room for sufficient gain from the last market close.

Fig 69: ROE vs Beta



Source: Company, FSL Research, June 2021

Fig 70: Growth in book value



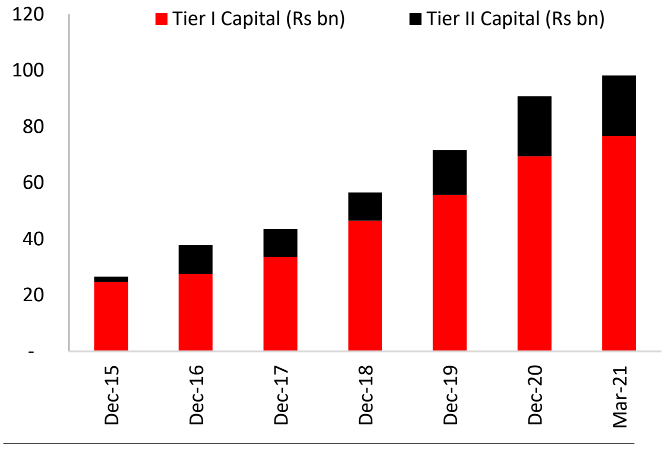
Source: Company, FSL Research, June 2021

Sufficient capital buffers to provide comfort

Improving profitability, robust asset quality, moderate dividend stream and manageable level of risk is likely to keep MEBL's Capital Adequacy Ratio (CAR) at desirable levels, in our view. We are estimating bank's CAR to clock in at 19.9% in CY21. Commercial banks have been increasing their capital buffers to improve adequacy ratios to gear up for the implementation of IFRS 9. Implementation of IFRS 9 is likely to result in capital erosion as it requires the use of expected credit loss model which may increase provisioning expense resulting capital erosion. However, the quantum of this capital erosion is likely to vary from bank to bank depending on the credit scores assigned to individual clients. Since these credit scores are generated from customized credit models based on a great amount of subjectivity, therefore its impact becomes difficult to quantify. Having said that, keeping in view the sluggish progress over the matter we expect that its implementation may probably defer to CY22. However, based on our initial workings, MEBL has sufficient general provisioning buffer and is unlikely to witness any significant impact due to its robust asset quality and high provision coverage.

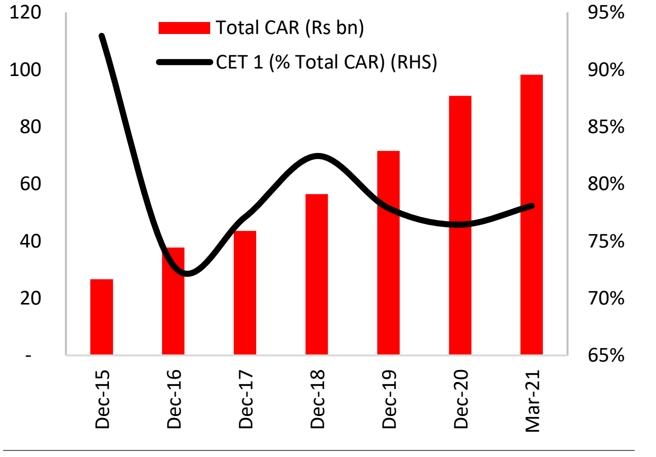
Significant surge in MEBL's profitability reflected by a 5yr CAGR of 35% has increased the bank's Total Capital to an all-time high of Rs94bn as of March'21 translating into an increase of 21% YoY. Along with the improvement in the capital buffer, the bank's Risk-Weighted Assets (RWA) has also diluted as a percentage of total assets. RWA as a percentage of total assets diluted to 28% as the balance sheet went through gradual de-risking over the past few years. Consequently, MEBL's Tier I CAR has significantly improved to 14.16%. Whereas, the bank's total CAR has improved to 18.37% well above the regulatory requirements set by the central bank. Going forward, we expect MEBL to continue operating at comfortable CAR levels despite consistent cash payouts.

Fig 71: Better profitability to improve capital



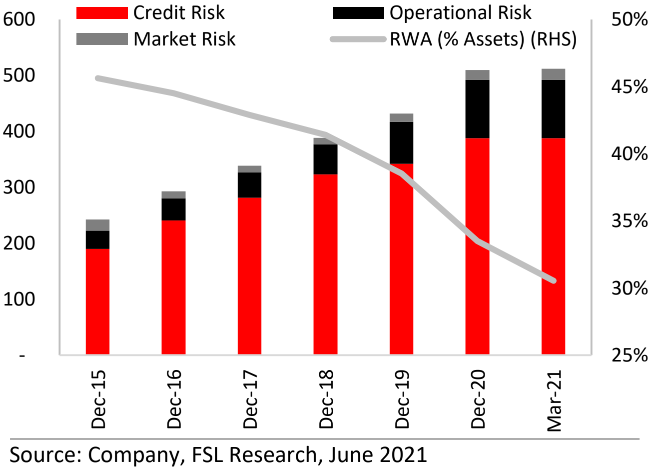
Source: Company, FSL Research, June 2021

Fig 72: Risk weighted assets to carry its trajectory



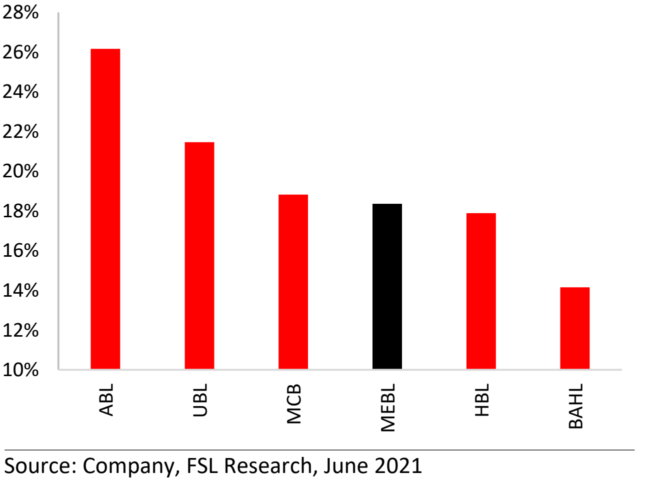
Source: Company, FSL Research, June 2021

Fig 73: CAR to remain above regulatory requirements



Source: Company, FSL Research, June 2021

Fig 74: Decent capital buffers among peers



Source: Company, FSL Research, June 2021

Key risks to our thesis

Increasing Competition in the Islamic Banking Space

Increasing customer preference for Islamic Banking and SBP's ambitious target to increase industry share of the Islamic banking to 30% in terms of deposits as well as in terms of asset has been keeping the competition intense. Islamic banking deposits have been growing with a 3yr CAGR of 22% vs 13% of the overall industry. If we dive down in further details, composition of this growth has been rapidly evolving as the charm of Islamic banking has been able to get the attention of conventional banks. As a result, conventional players are now working to tap this potential via either their independent Islamic banking subsidiaries like MCB bank or via dedicated Islamic banking branches like most other banks. As a result, deposit base of Islamic banks (inclusive of MCB Islamic) has increased by a 3yr CAGR of 19% vs. 21% for Islamic banking branches of conventional banks. This commendable growth was a result of the fact that conventional banks have added 925 Islamic branches in past five years which is double the addition compared to Islamic banks. This has narrowed the lead of Islamic banks to only 84 branches (lowest in past 14yrs). Having said that, MEBL still accounts for the highest share of the pie and is expected to continue to dominate with a wide margin due to its 1) Image of pioneer Islamic Bank in Pakistan and 2) aggressive branch expansion plan. However, if MEBL slows down the pace of branch expansion which has been the vital ingredient for its impressive deposit growth then it may lose the share to other players.

Lower Availability of Shariah Compliant Investment Instrument

Lack of the availability of shariah compliant investment instrument has been a major setback for the growth and profitability of the Islamic banks. In the uncertain economic times of COVID, conventional banks were able to channelize funds deployment towards investments in order to remain cautious with lending. As a result, IDR/ADRs for most of the banks substantially increased/decreased whereas Islamic banks were unable to do the same because there were not enough investment instruments available. This puts Islamic banks at a disadvantage compared to conventional banks. However, this has been partially compensated by the absence of MDR but the incremental risks associated with the lending overwhelms the equation. However, recent increase in the stock of GoP Ijarah Sukuk sparks some optimism. To put things in perspective, stock of GoP Ijarah sukuk increased by 9x YoY as of March'21 to Rs637bn. We expect, this increment in Ijarah sukuk is likely to be followed by further sukuk issuance as per the healthy pipeline set by the Federal Government and ambitious target set by SBP (30% share of Islamic assets in the total industry asset base).

Implementation of IFRS 9

With the slowdown in economic activity caused by the 3rd wave of COVID-19 in 1QCY21, the policy makers are likely to give relaxation for the implementation of IFRS 9. However, there has been no such indication from the SBP but it was supposed to be implemented from Jan'21 and no bank has incorporated IFRS 9 into their 1QCY21 results. In addition to this, management of most of the banks believe that SBP would give further leniency and the implementation of IFRS 9 may be move to next year. Implementation of IFRS 9 has been the major cause of concern as it is likely to spike up provisioning expense at the time of implementation, thus results in elevated provisioning expense going forward. However, since MEBL has been operating at lower infection ratio with higher provision coverage, we believe that the implementation of IFRS 9 is unlikely to result in any material change for the bank.

Table 01: Meezan Bank Limited (MEBL PA, Outperform, Target Price Rs146)

Balance Sheet		CY20	CY21E	CY22E	CY23E
Cash	m	136,242	234,552	378,200	534,226
Investments	m	434,208	536,166	610,415	680,098
Advances	m	512,532	585,176	664,860	764,023
Fixed Assets	m	23,568	23,908	24,390	24,881
Total Assets	m	1,521,559	1,826,281	2,204,213	2,615,699
Deposits	m	1,254,431	1,471,903	1,777,022	2,106,026
Borrowings	m	94,501	127,252	153,630	182,074
Other Liabilities	m	103,473	136,905	165,285	195,887
Total Liabilities	m	1,452,404	1,736,060	2,095,938	2,483,986
Net Assets	m	69,155	90,221	108,276	131,713
Share Capital	m	14,147	14,147	14,147	14,147
Unapp. Profits	m	29,022	42,824	60,878	84,316
Total Equity	m	69,155	90,221	108,276	131,713

Income Statement		CY20	CY21E	CY22E	CY23E
NII	m	64,849	64,911	75,752	88,081
NFI	m	10,072	12,513	13,251	14,281
Fee Income	m	5,914	7,746	8,535	9,510
Total Income	m	74,921	77,424	89,002	102,362
Opex Expenses	m	29,775	33,240	37,353	42,364
A.Expenses	m	28,809	32,295	36,275	41,117
Provisions	m	8,210	5,242	3,497	3,022
PBT	m	36,936	38,941	48,152	56,975
PAT	m	22,166	23,608	29,373	34,755
EPS		15.67	16.69	20.76	24.57
DPS		6.00	6.00	8.00	8.00
EPS Growth	%	45.52	6.51	24.42	18.32
Payout	%	38.30	35.96	38.53	32.56

Quarterly I/S		Q1 CY21	Q2 CY21E	Q3 CY21E	Q4 CY21E
NII	m	15,055	15,865	16,650	17,341
NFI	m	3,563	2,684	2,916	3,350
Fee Income	m	2,067	1,740	1,922	2,017
Total Income	m	18,617	18,549	19,566	20,691
Opex Expenses	m	8,091	8,204	8,381	8,564
Admin Expenses	m	7,836	7,992	8,152	8,315
Provisions	m	285	1,717	1,841	1,400
PBT	m	10,242	8,628	9,345	10,726
PAT	m	6,101	5,263	5,700	6,543
EPS		4.31	3.72	4.03	4.63
DPS		1.50	1.50	1.00	2.00

Key Ratios		CY20	CY21E	CY22E	CY23E
NIMs	%	5.81	4.67	4.71	4.76
ADR	%	42.4	41.4	39.0	37.7
Infection	%	2.81	2.97	3.05	2.98
Coverage	%	127.6	134.1	131.5	130.0
IDR	%	34.6	36.4	34.4	32.3
Deposit growth	%	34.5	17.3	20.7	18.5
CASA	%	75.6	76.7	76.2	76.2
Cost/Income	%	38.5	41.7	40.8	40.2
CAR	%	17.8	19.9	21.4	23.8
ROE	%	35.0	30.0	30.0	29.0
BV	x	48.9	63.8	76.5	93.1

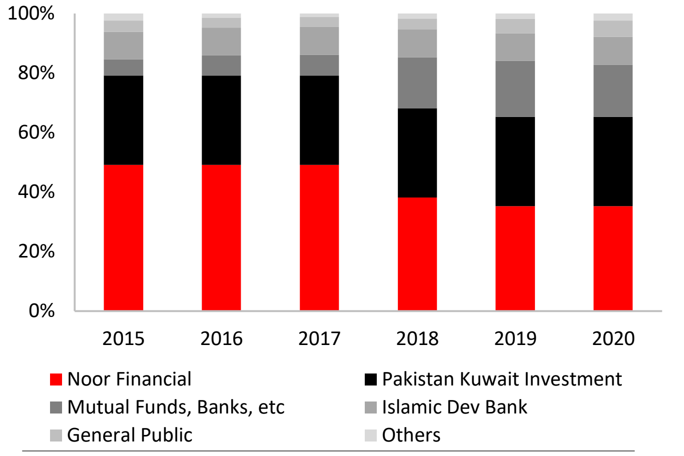
All figures are in Rs unless noted

Source: Company Accounts, FSL Research, Jun 2021

About the Bank

Meezan Bank Limited (MEBL PA) is Pakistan's largest Islamic Bank with a paid up capital of Rs14.1bn and equity value of Rs 72.5bn. The bank commenced its operations back in 2002 as the first Islamic Bank of the country. With its impressive growth, MEBL has now become Pakistan's fifth largest bank with the deposit base of Rs1.25tn and a branch network of 825 branches with presence in over 248 cities. Noor Financial Investment Company Limited Kuwait holds 35% of the shares of MEBL followed by Pak Kuwait Investment Company Limited with a share holding of 30%. Other major shareholder of the bank is Islamic Development Bank with a shareholding of 9%. Since 2017, Noor Financial Investments has reduced its shareholding from 49% to 35%.

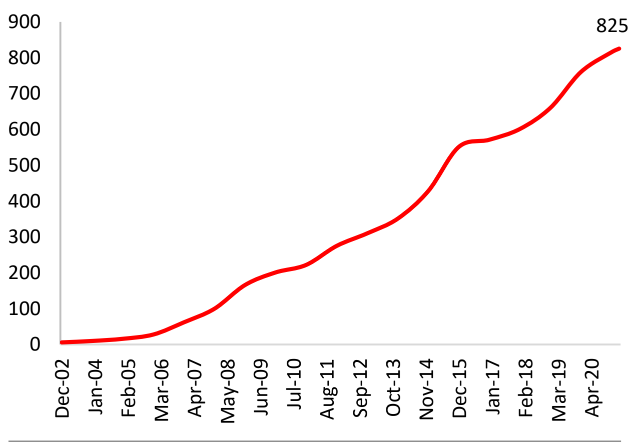
Fig 75: MEBL's Deposit vs Industry share



Source: SBP, Company, FSL Research, June 2021

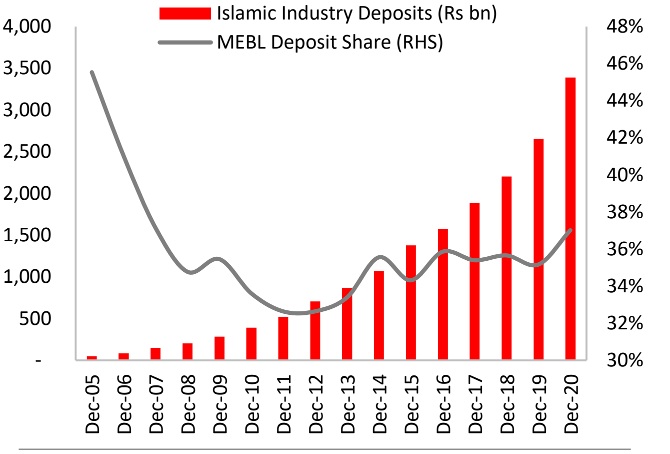
Being the country's first Islamic bank puts MEBL at an advantage compared to other Islamic Banks. However, increment in number of participants has been chipping away MEBL's market share in terms of Deposits, Investments and Advances but the bank is still outperforming its peers by a wide margin. Meezan Bank, accounted for 24/37/34/28% market share in branch network/deposit/investments/gross financing of the overall Islamic Industry.

Fig 76: MEBL Branch Network



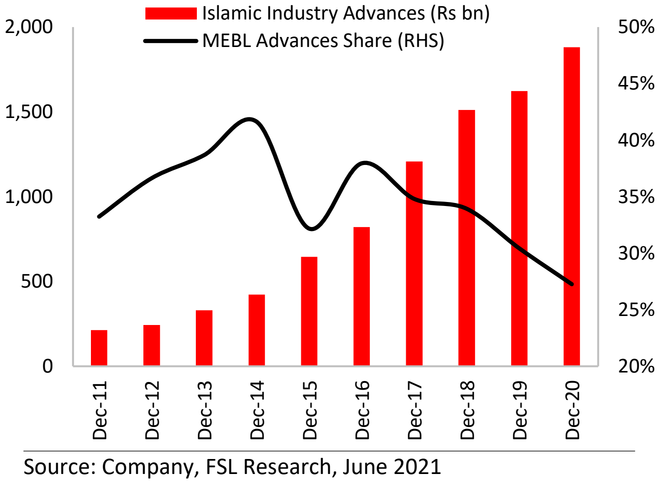
Source: Company, FSL Research, June 2021

Fig 77: MEBL's Share in Industry Deposits



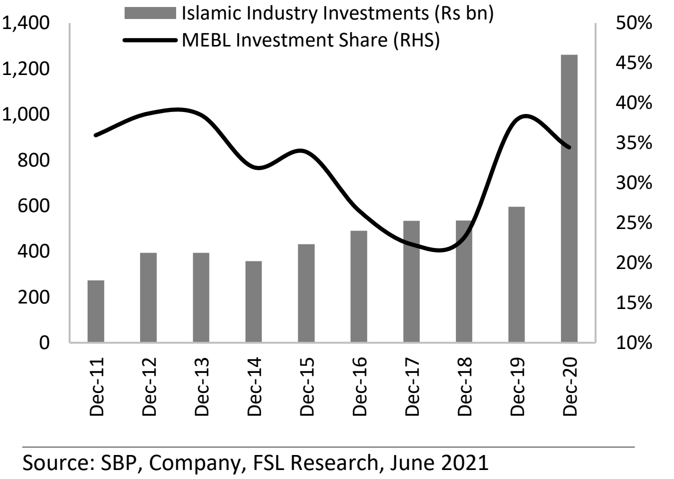
Source: SBP, Company, FSL Research, June 2021

Fig 78: Islamic Industry advances on a growth path



Source: Company, FSL Research, June 2021

Fig 79: MEBL mkt.shr. in investments at historic levels



Source: SBP, Company, FSL Research, June 2021

Abbreviations

NII	Net Interest Income
NFI	Non-Funded Income
SBP	State Bank of Pakistan
Opex	Operating Expenses
MEBL	Meezan Bank Limited
NPL	Non-Performing Loans
BAFL	Bank Alfalah Limited
MCB	MCB Bank Limited
BAHL	Bank Alhabib Limited
HBL	Habib Bank Limited
HMB	Habib Metropolitan Bank Limited
FABL	Faysal Bank Limited
BOP	The Bank of Punjab Limited
ECL	Expected Credit Loss
PD	Probability of Default
LGD	Loss Given Default
ROA	Return on Asset
ROE	Return on Equity
YoY	Year-on-Year
QoQ	Quarter-on-Quarter
BS	Balance Sheet
Bn	Billion
Mn	Million
Rs	Rupee
FRB	Floating Rate Bonds

Important disclosures:

Research Dissemination Policy: Foundation Securities (Pvt.) Ltd. endeavors to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as mail, fax and/or email. Nevertheless, not all clients may receive the material at the same time.

Target price risk disclosures: Any inability to compete successfully in their markets may harm the business. This could be a result of many factors which may include geographic mix and introduction of improved products or service offerings by competitors. The results of operations may be materially affected by global economic conditions generally, including conditions in financial markets. The company is exposed to market risks, such as changes in interest rates, foreign exchange rates and input prices. From time to time, the company will enter into transactions, including transactions in derivative instruments, to manage certain of these exposures.

Analyst certification: The views expressed in this research accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst principally responsible for the preparation of this research receives compensation based on overall revenues of Foundation Securities and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

Recommendations definitions

If

Expected return >+10%	Outperform.
Expected return from -10% to +10%	Neutral.
Expected return <-10%	Underperform.

Foundation Securities (Pvt) Ltd

URL: www.fs.com.pk
e-mail: info@fs.com.pk

Corporate Office:

Ground Floor, Bahria Complex II
M.T. Khan Road, Karachi
UAN: (92 21) 111 000 375
PABX: (92 21) 351 0380

Syed Ahmed Zaidi	Chief Executive Officer	+92 21 3561 2253	azaidi@fs.com.pk

Foundation Research

Analyst	Sector	PABX	E-mail:
Muhammad Awais Ashraf, CFA	Strategy, E&P, Fertilizer, Power	Dir: +92 21 3563 5012 +92 21 3561 2290 ext 338	m.awais@fs.com.pk
Zeeshan Azhar	Economy, Textile, Chemical	+92 21 3561 2290 ext 331	zeeshan@fs.com.pk
Usman Arif	Fertilizer , Steel, Technology, FMCG, Pharmaceuticals	+92 21 3561 2290 ext 339	usman.arif@fs.com.pk
Syed Masroor Hussain Zaidi	Banks, Insurance	+92 21 3561 2290 ext 313	masroor@fs.com.pk
Muhammad Haris Siddiqui	Autos	+92 21 3561 2290 ext 311	haris@fs.com.pk
Daniyal Rafiq	Database	+92 21 3561 2290 ext 312	daniyal@fs.com.pk

Business Development

M Arsalan Siddiqui	Head of Business Development	+92 21 3561 2290 ext 335	arsalan.siddiqui@fs.com.pk

Foundation Sales

Trader	Designation	PABX	E-mail:
Karachi:			
Siraj Ebrahim Kazi	Head of Broking	+92 21 3561 2256	siraj@fs.com.pk
Muhammad Rameez	Head of Sales	+92 21 3561 0820	mrameez@fs.com.pk
Faisal Dhedhi	Deputy Head – Inst sales	+9221 3563 5011	faisal.dhedhi@fs.com.pk
Adnan Usmani	Trader Equities	+92 21 3561 0625	adnan@fs.com.pk
Sohail A. Sattar	Trader Equities	+92 21 3563 5134	abdul.sattar@fs.com.pk
Islamabad:			
Mohammad Irfan		+92 51 3289 5221	m.irfan@fs.com.pk
Lahore:			
Muhammad Usman	Branch Manager	+92 42 35776831	usman@fs.com.pk
Online Trading			
Najeeb Ahmed Khan	Head Online Business	+92 21 3561 2290 ext 351	najeeb.warsi@fs.com.pk