

Earnings Review

MEBL: 2QCY21 EPS clocked in at Rs4.60, up 5% YoY

Event

- Meezan Bank Limited (MEBL PA) announced its 2QCY21 result with consolidated earnings of Rs4.60/sh (up by 5/7%, YoY/QoQ). This takes 1HCY21 EPS to clock in at Rs8.91/sh (↑8%, YoY). This result is accompanied with an interim cash dividend of Rs1.5/sh and bonus share of 15%. This takes total cash payout for 1HCY21 to Rs3.0/sh.
- The result is in line with our expectations.

Impact

- The bank posted a PAT of Rs6,507mn in 2QCY21 (up by 5/7% YoY/QoQ). On YoY basis, increase in profitability is primarily driven by lower provision expense (↓90%, YoY) which more than compensated for the ↑12% YoY increase in operating expenses as total income almost remained stagnant despite the sharp decrease in interest rates. However, on QoQ basis, uptick in profitability was a result of improvement in Net Interest Income (NII) (↑7%, QoQ) which outshined drop in non-markup income (↓9%, QoQ) and increase in operating expenses (↑8%, QoQ).
- During 2QCY21, interest income/expense declined by 8/6% YoY but increased by 7/6% QoQ to clock in at Rs25.9/9.7bn. As a result, net interest income decreased/increased by 8/7% YoY/QoQ.
- Non-markup income for 2QCY21 increased/decreased by 77/9% on YoY/QoQ. On YoY basis, uptick in non-markup income was driven by substantial increase in fee income (↑95%, YoY) mainly due to normalized branch and trade operations. Furthermore, better fx income (↑134%, YoY) also supported total income. On QoQ basis, decline in non-markup income is witnessed across all items.
- Operating expenses carried the momentum by registering a growth of 12/8% YoY/QoQ. This increase in operating expense is expected to be the result of branch additions and inflationary pressures. As a result, cost/income increased by 5/1ppt to clock in at 43%.
- The bank reported a modest provision expense of Rs148mn (↓90/48%, YoY/QoQ). To recall, MEBL's coverage ratio clocked in at 130% by the end of previous quarter.
- MEBL reported an effective tax rate of 39% i.e. much lower compared to the recent result announcements of conventional banks. We don't expect this number to substantially increase due to bank's better ADR (43%) and low IDR (37%).

Outlook

- Going forward, we expect NII to recover due to recovery in banking spreads. However, likely increase in policy rate in coming quarters may exert some pressure in the short term until full asset repricing takes place. Whereas, recovery in economic activity and the delay in implementation of IFRS9 may keep the provisioning expense on the lower side.
- We have an 'Outperform' rating on the stock. The bank is currently trading at a forward P/B of 2.2x which still seems attractive given MEBL's impressive deposit growth and superior ROE generation.

Analyst

Syed Masroor Hussain Zaidi
 +92 21 3561 2290-94

masroor@fs.com.pk
 Ext: 313

Fig 01: MEBL 2QCY21 earnings review

Income Statement	2QCY21	2QCY20	YoY	1QCY21	QoQ	1HCY21	1HCY20	YoY
Interest Earned	25,887	27,995	-8%	24,229	7%	50,116	57,829	-13%
Interest Expensed	9,736	10,359	-6%	9,175	6%	18,911	25,474	-26%
Net Interest Income (NII)	16,151	17,637	-8%	15,055	7%	31,205	32,355	-4%
Fee Income	2,035	1,041	95%	2,067	-2%	4,102	2,329	76%
Dividend Income	129	89	46%	283	-54%	413	213	94%
Foreign Exchange Income	784	335	134%	822	-5%	1,605	1,298	24%
Gain on Securities	117	259	-55%	141	-17%	258	939	-73%
Other Income	183	111	64%	250	-27%	433	246	76%
Total Non Markup Income	3,248	1,835	77%	3,563	-9%	6,811	5,026	36%
Total Income	19,399	19,471	0%	18,617	4%	38,016	37,381	2%
Non-Markup Expense	8,657	7,782	11%	8,091	7%	16,748	14,892	12%
Operating Expense	8,424	7,543	12%	7,836	8%	16,259	14,349	13%
WWF	230	239	-4%	254	-9%	484	459	5%
Other Charges	4	1	597%	1	156%	5	84	-94%
Profit Before Provisions	10,742	11,690	-8%	10,526	2%	21,268	22,488	-5%
Provisions	148	1,459	-90%	285	-48%	433	3,097	-86%
Profit Before Taxation	10,593	10,230	4%	10,242	3%	20,835	19,391	7%
Taxation	4,087	4,059	1%	4,140	-1%	8,227	7,714	7%
Profit After Taxation	6,507	6,171	5%	6,101	7%	12,608	11,677	8%
PAT Attributable to Shareholders	6,507	6,171	5%	6,101	7%	12,608	11,677	8%
EPS	4.60	4.36		4.31		8.91	8.25	
DPS	1.50	-		1.50		3.00	-	
Effective Tax Rate	39%	40%		40%		39%	40%	
Cost/Income	43%	39%		42%		43%	38%	

Source: Company Accounts, Foundation Research, August 2021

Important disclosures:

Disclaimer: This report has been prepared by FSL. The information and opinions contained herein have been compiled or arrived at based upon information obtained from sources believed to be reliable and in good faith. Such information has not been independently verified and no guaranty, representation or warranty, express or implied is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. This document is for information purposes only. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this document is not, and should not be construed as, an offer, or solicitation of an offer, to buy or sell any securities or other financial instruments. FSL may, to the extent permissible by applicable law or regulation, use the above material, conclusions, research or analysis before such material is disseminated to its customers. Not all customers will receive the material at the same time. FSL, their respective directors, officers, representatives, employees, related persons may have a long or short position in any of the securities or other financial instruments mentioned or issuers described herein at any time and may make a purchase and/or sale, or offer to make a purchase and/or sale of any such securities or other financial instruments from time to time in the open market or otherwise, either as principal or agent. FSL may make markets in securities or other financial instruments described in this publication, in securities of issuers described herein or in securities underlying or related to such securities. FSL may have recently underwritten the securities of an issuer mentioned herein. This document may not be reproduced, distributed or published for any purposes.

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.