

Foundation Alert

MEBL: Conference Call Key Takeaways

Event

- Meezan Bank Limited (MEBL PA) held its conference call today to discuss CY21 results and the outlook of the bank. Following are the key takeaways of the briefing.

Impact

- The bank posted PAT of Rs28.35bn (EPS: 17.43) in CY21 (up by 28% YoY). The result was accompanied with a DPS of Rs1.5 taking cumulative DPS for CY21 to Rs5.6/sh.
- The increase in profitability was mainly due to higher Non-funded income (↑48% YoY) and lower provisioning by 88% YoY in CY21.
- Higher NFI was accredited to increase in trade business volume by 49% YoY, translating to 29% increase in trade related fees and guarantee commissions. NFI was further supported by card related fees increasing by 2.26x YoY.
- Management classifies non-funded income as non-recurring and expects NFI to slowdown.
- Deposits increased to Rs1.46tn, increasing by 16% YoY. The increase in deposits was mainly on current account side. Banks maintained its strategy to increase current account to keep cost of deposits low.
- Current account increased by 32% YoY whereas term deposits declined by 17% YoY. This was translated in CASA improving to 83% as compared to 76% SPLY, with CA/SA segregation of 46/37%.
- Management expects 15-17% growth in deposit base as it would be relatively difficult due to increase in size of pie and increasing players in the Islamic banking industry.
- The bank increased its branch network by 87 new branches and plans to increase 50 more next year.
- Bank was also able to improve its ADR to 53% as compared to 42% in Dec'20.
- Bank investment book also increased to Rs620bn, increasing by 43% YoY. The investment book was boosted mainly due to investment in GoP Ijarah Sukuk.
- Management expects the asset book to remain inflated with borrowing as 50% of TERF is due in 1HCY22.
- Bank's ROE increased to 36.4% in CY21 as compared to 34.6% in CY20.
- CAR for the bank remained stagnant at 17.8%.
- The bank is well geared for IFRS 9 due to its high general provisioning.

Outlook

- The rising interest rate environment would prove to be fruitful for MEBLs profitability, due to its low cost of deposits and high ADR. Bank seems to be well covered from NPLs. However we expect the robust deposit growth to diffuse. We maintain neutral stance with Dec'22 target price of Rs137/sh. The stock is currently trading at P/B of 2.51

Table 01: Earnings Review MEBL 4QCY21

	4QCY21	4QCY20	YoY	QoQ	CY21	CY20	YoY
Interest Earned	32,458	23,277	39%	18%	110,073	106,589	3%
Interest Expensed	12,055	8,183	47%	18%	41,151	41,740	-1%
Net Interest Income (NII)	20,403	15,093	35%	18%	68,921	64,849	6%
Fee Income	2,744	2,030	35%	9%	9,353	5,914	58%
Dividend Income	619	338	83%	286%	1,192	624	91%
Foreign Exchange Income	1,009	551	83%	86%	3,158	2,154	47%
Gain on Securities	10	(252)	-104%	-88%	349	683	-49%
Other Income	242	240	1%	47%	840	697	20%
Total Non Markup Income	4,624	2,907	59%	34%	14,892	10,072	48%
Total Income	25,026	18,001	39%	20%	83,813	74,921	12%
Non-Markup Expense	9,741	7,107	37%	10%	35,324	29,775	19%
Operating Expense	9,509	6,919	37%	11%	34,356	28,809	19%
WWF	211	180	17%	-14%	940	873	8%
Other Charges	22	9	149%	1246%	28	93	-70%
Profit Before Provisions	15,285	10,893	40%	28%	48,489	45,146	7%
Provisions	439	4,022	-89%	265%	993	8,210	-88%
Profit Before Taxation	14,846	6,871	116%	26%	47,496	36,936	29%
Taxation	6,057	2,784	118%	25%	19,141	14,770	30%
Profit After Taxation	8,789	4,087	115%	26%	28,355	22,166	28%
EPS	5.40	2.51			17.43	13.62	
DPS	1.50	1.74			5.60	5.22	
		0.56%					
Cost/Income	38.92%	39.48%			42%	40%	
Effective Tax rate	40.80%	40.52%			40%	40%	

Source: Company Accounts, Foundation Research, February 2022

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Recommendations definitions

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