

Earning Review

MEBL: Analyst Briefing Key Takeaways

Event

- Meezan Bank Limited (MEBL PA) held its analyst briefing yesterday to discuss its CY22 financial/operational results and future outlook of the bank. Following are the key takeaways of the briefing.

Impact

- The bank posted a PAT of Rs45bn in CY22 (up by 59% YoY) despite higher tax charge of 49%, mainly due to higher Net interest income supported by higher non markup income.
- Net interest income (NII) increased by 77% YoY in CY22. Bank's NII was supported by increase in interest earned of 2.1x YoY, meanwhile interest expense increased by 2.7x YoY.
- Non markup income increased by 28% YoY due to 43% YoY increase in Fee Income and 15% YoY higher foreign exchange income. Whereas, dividend income and capital gain decreased by 39% YoY to Rs933mn in CY22.
- Operating expense increased by 37% YoY to Rs48.2bn in CY22, primarily due to an increase in costs associated with the opening of 60 new branches, a substantial rise in inflation, and a steep rupee devaluation. However, notwithstanding the increase in operating and other expenses, the Bank's income efficiency ratio improved to 34.3% from 42.1% in the corresponding period last year on the back of its continued focus on cost rationalization and efficient operating cycle (down by 7.8ppts YoY).
- The bank recorded provision expense of Rs4.1bn in CY22, (up 4.2x YoY) despite specific provision reversal of Rs661mn. Out of this Rs3.9bn charged has been booked against general provisioning against potential non-performing financings and decline in borrowers' repayment capacity given the current economic slowdown and the impact of the recent unprecedented floods.
- The Bank's non-performing financing ratio has improved to 1.3% with strong NPL coverage of 166%. Management does not foresee any adverse impact as a result of its implementation of IFRS 9.
- Effective tax rate for CY22 clocked in at 49% against 39% last year due to imposition of 10% super tax on CY22 profitability. Bank paid Rs9.2bn in lieu of super tax in CY22 against Rs1.8bn in CY21.
- The total assets of the Bank reached Rs2.58tn, increased by 35% YoY (Rs674bn), from Dec'21 levels of Rs1.90tn. The investment portfolio of the Bank doubled, increased to Rs1.28tn from Rs620bn last year, after an investment of more than Rs706bn in GoP Ijarah Sukuk. Management believes that the resumption of GoP Ijarah Sukuk has provided necessary liquidity deployment instruments for the Islamic Banking Industry and we are hopeful that this program will remain in place in line with SBP's 5 year strategic plan to grow the Islamic Banking Industry.
- Bank's gross financings increased to Rs1.0tn, up 31% YoY. The growth is well-distributed across all segments in line with the Bank's strategic objective to maintain a high-quality diversified asset portfolio spread across top-tier corporates, mid-tier commercials, small and medium-sized entities and consumer segments.
- The deposits of the Bank grew by 14% YoY or Rs202.6bn to Rs1.66tn as of Dec'22, representing 7.4% of total country deposits. Bank's current account deposit increased by 23% YoY to Rs819bn, representing 49% of Banks total deposit base. The Bank's saving accounts increased by 18% YoY or Rs100bn to Rs641bn bringing its total CASA deposits to 88% of total deposits, amounting to Rs1.46tn as of Dec'22 against Rs1.21tn last year.
- Banks deposit composition is highly granular as individuals' form 65% and private sector makes 33% while public sector contribute only 1%.

- The Bank remains sufficiently capitalized with Capital Adequacy Ratio (CAR) of 18.4% which is well above the minimum regulatory requirement of 12% including 0.5% for Additional CET1 for D-SIB.

Outlook

- We have an “Outperform” stance on the bank with Dec’23 TP of Rs123 as the elevated 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.

Table 1: Earnings Review MEBL CY22

	4QCY22	4QCY21	YoY	3QCY22	QoQ	CY22	CY21	YoY
Interest Earned	78,242	32,458	141%	65,582	19%	232,121	110,073	111%
Interest Expensed	33,688	12,055	179%	33,855	0%	110,418	41,151	168%
Net Interest Income (NII)	44,554	20,403	118%	31,727	40%	121,704	68,921	77%
Fee Income	3,716	2,744	35%	3,439	8%	13,316	9,353	42%
Dividend Income	435	619	-30%	128	239%	988	1,192	-17%
Foreign Exchange Income	(249)	1,009	-125%	735	-134%	3,617	3,158	15%
Gain on Securities	(132)	10	na	(105)	26%	(55)	349	na
Other Income	287	242	19%	191	51%	1,237	840	47%
Total Non-Markup Income	4,057	4,624	-12%	4,388	-8%	19,103	14,892	28%
Total Income	48,611	25,026	94%	36,115	35%	140,807	83,813	68%
Operating Expense	13,495	9,509	42%	12,279	10%	46,240	34,356	35%
WWF	667	211	217%	506	32%	1,910	940	103%
Other Charges	6	22	-72%	83	-93%	95	28	238%
Non-Markup Expense	14,169	9,741	45%	12,868	10%	48,245	35,324	37%
Profit Before Provisions	34,443	15,285	125%	23,247	48%	92,561	48,489	91%
Provisions	2,441	439	456%	546	347%	4,177	993	321%
Profit Before Taxation	32,001	14,846	116%	22,701	41%	88,385	47,496	86%
Taxation	15,591	6,057	157%	11,224	39%	43,378	19,141	127%
Profit After Taxation	16,410	8,789	87%	11,477	43%	45,007	28,355	59%
EPS	9.17	4.91		6.41		25.15	15.84	
DPS	3.00	1.50		2.00		8.50	5.60	
Cost/Income	29.15%	38.92%		35.63%		34.26%	42.15%	
Effective Tax rate	48.72%	40.80%		49.44%		49.08%	40.30%	

Source: Company Accounts, Foundation Research, February 2023

AnalystFoundation Research
+92 21 3561 2290-94research@fs.com.pk
Ext: 312**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.