

# 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%
<b>Net Interest Income (NII)</b>	<b>44,554</b>	<b>20,403</b>	<b>118%</b>	<b>31,727</b>	<b>40%</b>	<b>121,704</b>	<b>68,921</b>	<b>77%</b>
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%
<b>Total Non-Markup Income</b>	<b>4,057</b>	<b>4,624</b>	<b>-12%</b>	<b>4,388</b>	<b>-8%</b>	<b>19,103</b>	<b>14,892</b>	<b>28%</b>
<b>Total Income</b>	<b>48,611</b>	<b>25,026</b>	<b>94%</b>	<b>36,115</b>	<b>35%</b>	<b>140,807</b>	<b>83,813</b>	<b>68%</b>
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%
<b>Non-Markup Expense</b>	<b>14,169</b>	<b>9,741</b>	<b>45%</b>	<b>12,868</b>	<b>10%</b>	<b>48,245</b>	<b>35,324</b>	<b>37%</b>
<b>Profit Before Provisions</b>	<b>34,443</b>	<b>15,285</b>	<b>125%</b>	<b>23,247</b>	<b>48%</b>	<b>92,561</b>	<b>48,489</b>	<b>91%</b>
Provisions	2,441	439	456%	546	347%	4,177	993	321%
<b>Profit Before Taxation</b>	<b>32,001</b>	<b>14,846</b>	<b>116%</b>	<b>22,701</b>	<b>41%</b>	<b>88,385</b>	<b>47,496</b>	<b>86%</b>
Taxation	15,591	6,057	157%	11,224	39%	43,378	19,141	127%
<b>Profit After Taxation</b>	<b>16,410</b>	<b>8,789</b>	<b>87%</b>	<b>11,477</b>	<b>43%</b>	<b>45,007</b>	<b>28,355</b>	<b>59%</b>
<b>EPS</b>	<b>9.17</b>	<b>4.91</b>		<b>6.41</b>		<b>25.15</b>	<b>15.84</b>	
<b>DPS</b>	<b>3.00</b>	<b>1.50</b>		<b>2.00</b>		<b>8.50</b>	<b>5.60</b>	
<b>Cost/Income</b>	<b>29.15%</b>	<b>38.92%</b>		<b>35.63%</b>		<b>34.26%</b>	<b>42.15%</b>	
<b>Effective Tax rate</b>	<b>48.72%</b>	<b>40.80%</b>		<b>49.44%</b>		<b>49.08%</b>	<b>40.30%</b>	

Source: Company Accounts, Foundation Research, February 2023

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