

# MEBL

## 1QCY23 Result Review: BUY Stance Maintained

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MEBL has announced its 1QCY23 result where it posted a profit after tax of Rs15.42bn (EPS: Rs8.62) as compared to a profit after tax of Rs9.21bn (EPS: Rs5.14) in the same period last year, up by 67.7% YoY mainly due to the expansion of net interest income.

The bank has posted a net interest income of Rs41.05bn against Rs21.44bn in SPLY, recording a massive growth of 91.5% YoY due to an increase in interest rate.

Non-interest income has been decreased by 10.1% YoY to Rs3.87bn as compared to Rs4.3bn during SPLY, mainly due to the loss on Foreign Exchange income and loss on securities.

The operating cost to income ratio has decreased to 31.9% as compared to 39% during SPLY. Furthermore, the bank has charged a provision of Rs2.13bn as compared to a provision of Rs0.23bn during SPLY up by 8.34x. Lastly, effective taxation has increased to 44.6% as compared to 39.2% during SPLY.

MEBL is currently trading at CY23E PE of 2.88x. Furthermore, the scrip is trading at a CY23E P/B of 1.13x which offers a discount of 45% relative to its historical 3-year average of 2.05x. We recommend our investors to **BUY** the scrip with a Justified PB Dec-23 TP of Rs125 which provides an upside potential of 25%. Furthermore, the scrip also provides a dividend yield of 11% which brings the total return to 36%.

Rupees' millions	1QCY23	1QCY22	YoY	CY22	CY21	YoY
Interest earned	81,953	38,111	115.0% ▲	232,121	110,073	110.9% ▲
Interest expensed	-40,907	-16,674	145.3% ▲	-110,418	-41,151	168.3% ▲
<b>Net Interest Income</b>	<b>41,046</b>	<b>21,437</b>	<b>91.5% ▲</b>	<b>121,704</b>	<b>68,921</b>	<b>76.6% ▲</b>
Fee and commission income	3,598	2,990	20.4% ▲	13,316	9,353	42.4% ▲
Dividend income	241	304	20.7% ▼	988	1,192	17.2% ▼
Foreign exchange income	-155	813	119.1% ▼	3,617	3,158	14.5% ▲
(Loss) / gain on securities	-106	15	788.3% ▼	-55	349	115.8% ▼
Other Income	287	178	61.5% ▲	1,237	840	47.4% ▲
<b>Non-Interest Income</b>	<b>3,865</b>	<b>4,300</b>	<b>10.1% ▼</b>	<b>19,103</b>	<b>14,892</b>	<b>28.3% ▲</b>
Operating expenses	-14,345	-10,033	43.0% ▲	-46,240	-34,356	34.6% ▲
Workers' Welfare Fund	-590	-335	76.2% ▲	-1,910	-940	103.3% ▲
Other charges	-3	-1	149.8% ▲	-95	-28	237.7% ▲
Profit Before Provisions	29,974	15,369	95.0% ▲	92,561	48,489	90.9% ▲
Provisions	-2,130	-228	834.6% ▲	-4,177	-993	320.7% ▲
Profit Before Taxation	27,844	15,141	83.9% ▲	88,385	47,496	86.1% ▲
Taxation	-12,420	-5,935	109.3% ▲	-43,378	-19,141	126.6% ▲
<b>Profit After Taxation</b>	<b>15,424</b>	<b>9,206</b>	<b>67.6% ▲</b>	<b>45,007</b>	<b>28,355</b>	<b>58.7% ▲</b>
<b>Earnings Per Share</b>	<b>8.62</b>	<b>5.14</b>	<b>67.6% ▲</b>	<b>25.15</b>	<b>15.84</b>	<b>58.7% ▲</b>
<b>Dividend</b>	<b>3.00</b>	<b>1.75</b>	<b>71.4% ▲</b>	<b>8.50</b>	<b>6.00</b>	<b>41.7% ▲</b>
<b>Bonus</b>	<b>0.0%</b>	<b>0.0%</b>		<b>10.0%</b>	<b>12.5%</b>	

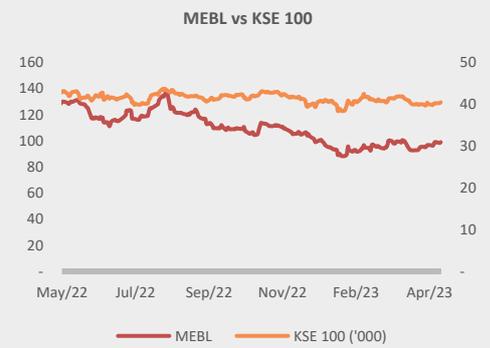
Closing Period: May 02, 2023 to May 04, 2023

Operating Cost to Income	-31.9%	-39.0%	7.0% ▼	-32.8%	-41.0%	8.2% ▼
Effective Taxation	-44.6%	-39.2%	5.4% ▲	-49.1%	-40.3%	8.8% ▲

Source: ACPL Research, Company Financials

### Key Statistics

Symbol	MEBL
TP - Dec 23	125
LDCP	98.92
Upside (%)	25
Free Float ('mn)	447
Market Cap. (Rs.'mn)	176,260



### Interest Earned vs Expensed (Rs'bn)



### PAT (Rs'bn) vs Operating Cost To Income



Sources: ACPL Research, Company Financials

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## Financial Projections

Rupees' millions	2020	2021	2022	2023E	2024E	2025E	2026E
Mark-up / Return / Interest earned	106,589	110,073	232,121	351,587	392,469	439,154	467,525
Mark-up / Return / Interest expensed	-41,740	-41,151	-110,418	-186,447	-195,017	-220,710	-245,810
<b>Net Mark-up / Interest Income</b>	<b>64,849</b>	<b>68,921</b>	<b>121,704</b>	<b>165,139</b>	<b>197,452</b>	<b>218,444</b>	<b>221,715</b>
Fee and commission income	5,914	9,353	13,316	14,864	16,591	18,250	20,075
Dividend income	624	1,192	988	1,012	995	1,057	1,127
Foreign exchange income	2,154	3,158	3,617	-543	-570	-598	-628
Gain on securities	683	349	-55	-340	-58	-61	-65
Other income	697	840	1,237	1,324	1,754	2,325	3,080
<b>Total non-markup / interest income</b>	<b>10,072</b>	<b>14,892</b>	<b>19,103</b>	<b>16,317</b>	<b>18,713</b>	<b>20,973</b>	<b>23,589</b>
<b>Non mark-up / interest expenses</b>							
Operating expenses	-28,809	-34,356	-46,240	-59,589	-78,426	-86,862	-88,997
Workers' Welfare Fund	-873	-940	-1,910	-2,350	-2,738	-3,033	-3,107
Other charges	-93	-28	-95	-95	-95	-95	-95
<b>Profit Before Provisions</b>	<b>45,146</b>	<b>48,489</b>	<b>92,561</b>	<b>119,422</b>	<b>134,906</b>	<b>149,427</b>	<b>153,104</b>
Provisions / (reversal of provisions)	-8,210	-993	-4,177	-8,634	-7,180	-8,090	-9,166
<b>Profit before income tax</b>	<b>36,936</b>	<b>47,496</b>	<b>88,385</b>	<b>110,788</b>	<b>127,726</b>	<b>141,337</b>	<b>143,937</b>
Income tax expense	-14,770	-19,141	-43,378	-49,418	-57,477	-63,602	-64,772
<b>Profit for the year</b>	<b>22,166</b>	<b>28,355</b>	<b>45,007</b>	<b>61,370</b>	<b>70,249</b>	<b>77,736</b>	<b>79,166</b>
<b>EPS</b>	<b>12.39</b>	<b>15.84</b>	<b>25.15</b>	<b>34.29</b>	<b>39.25</b>	<b>43.44</b>	<b>44.24</b>

Source: ACPL Research, Company Financials

## Horizontal Analysis

	2020	2021	2022	2023E	2024E	2025E	2026E
Mark-up / Return / Interest earned	13.1%	3.3%	110.9%	51.5%	11.6%	11.9%	6.5%
Mark-up / Return / Interest expensed	-12.6%	-1.4%	168.3%	68.9%	4.6%	13.2%	11.4%
<b>Net Mark-up / Interest Income</b>	<b>39.3%</b>	<b>6.3%</b>	<b>76.6%</b>	<b>35.7%</b>	<b>19.6%</b>	<b>10.6%</b>	<b>1.5%</b>
Fee and commission income	-4.2%	58.1%	42.4%	11.6%	11.6%	10.0%	10.0%
Dividend income	82.6%	91.2%	-17.2%	2.5%	-1.7%	6.3%	6.6%
Foreign exchange income	-19.8%	46.6%	14.5%	-115.0%	5.0%	5.0%	5.0%
Gain on securities	-263.6%	-48.9%	-115.8%	517.5%	-83.1%	6.2%	6.6%
Other income	29.7%	20.4%	47.4%	7.0%	32.5%	32.5%	32.5%
<b>Total non-markup / interest income</b>	<b>8.1%</b>	<b>47.9%</b>	<b>28.3%</b>	<b>-14.6%</b>	<b>14.7%</b>	<b>12.1%</b>	<b>12.5%</b>
<b>Non mark-up / interest expenses</b>							
Operating expenses	16.0%	19.3%	34.6%	28.9%	31.6%	10.8%	2.5%
Workers' Welfare Fund	43.2%	7.7%	103.3%	23.0%	16.5%	10.8%	2.5%
Other charges	13.3%	-69.8%	237.7%	0.0%	0.0%	0.0%	0.0%
<b>Profit Before Provisions</b>	<b>48.8%</b>	<b>7.4%</b>	<b>90.9%</b>	<b>29.0%</b>	<b>13.0%</b>	<b>10.8%</b>	<b>2.5%</b>
Provisions / (reversal of provisions)	96.1%	-87.9%	320.7%	106.7%	-16.8%	12.7%	13.3%
<b>Profit before income tax</b>	<b>41.2%</b>	<b>28.6%</b>	<b>86.1%</b>	<b>25.3%</b>	<b>15.3%</b>	<b>10.7%</b>	<b>1.8%</b>
Income tax expense	35.3%	29.6%	126.6%	13.9%	16.3%	10.7%	1.8%
<b>Profit for the year</b>	<b>45.5%</b>	<b>27.9%</b>	<b>58.7%</b>	<b>36.4%</b>	<b>14.5%</b>	<b>10.7%</b>	<b>1.8%</b>
<b>EPS</b>	<b>45.5%</b>	<b>27.9%</b>	<b>58.7%</b>	<b>36.4%</b>	<b>14.5%</b>	<b>10.7%</b>	<b>1.8%</b>

Source: ACPL Research, Company Financials

## Key Ratios

Profitability Ratios		2020	2021	2022	2023E	2024E	2025E	2026E
Yield on Earning Assets	%	7.45	6.15	9.52	13.54	13.37	13.26	12.67
Interest Cost	%	3.00	2.37	4.82	7.75	7.26	7.37	7.36
Net Interest Margin	%	4.46	3.78	4.70	5.79	6.11	5.89	5.31
Operating Cost to Income	%	39.74	42.15	34.26	34.19	37.59	37.59	37.59
Return on Equity	%	32.05	32.76	39.03	39.32	34.75	30.62	29.40
Return on Assets	%	1.46	1.49	1.75	2.24	2.28	2.24	2.05
<b>Balance Sheet Analysis</b>		<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
Deposits Growth	%	34.51	16.06	13.92	5.00	11.66	11.66	11.66
CASA to Deposits	%	74.84	81.66	85.00	85.00	85.00	85.00	85.00
Advances to Deposits	%	40.86	52.07	60.02	60.05	60.11	60.17	60.21
Investments to Deposits	%	34.61	42.59	77.37	75.38	71.09	67.24	63.79
Gross Infection Ratio	%	2.81	1.86	1.34	1.34	1.34	1.34	1.34
Provisioning Coverage	%	91.09	92.31	94.02	94.02	94.02	94.02	94.02
Net Infection Ratio	%	0.26	0.15	0.08	0.08	0.08	0.08	0.08
Capital Adequacy Ratio	%	17.82	17.81	18.42	22.68	25.66	28.31	29.37
Leverage Ratio	%	4.09	3.92	4.09	5.31	6.27	7.17	6.92
<b>Operational Analysis</b>		<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
Market Share - Deposits	%	7.02	6.94	7.38	6.72	6.59	6.46	6.33
Market Share - Advances	%	6.26	7.66	8.55	8.31	8.15	7.99	7.83
Market Share - Investments	%	3.70	4.36	7.19	6.39	5.94	5.55	5.19
No. of Branches		815	902	962	1026	1094	1167	1245
<b>Investment Ratios</b>		<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
Dividend Per Share		6.00	6.00	8.50	11.50	13.50	14.50	15.00
Dividend Yield	%	6.07	6.07	8.59	11.63	13.65	14.66	15.16
Dividend Cover	x	2.06	2.64	2.96	2.98	2.91	3.00	2.95
Retention Ratio	%	51.56	62.13	66.20	66.20	66.20	66.20	66.20
Payout Ratio	%	48.44	37.87	33.80	33.80	33.80	33.80	33.80
No. of Shares	('m)	1790	1790	1790	1790	1790	1790	1790
Earnings Per Share		12.39	15.84	25.15	34.29	39.25	43.44	44.24
Book Value Per Share		38.64	48.37	64.44	87.22	112.95	141.86	150.46
Price to Earnings	x	7.99	6.24	3.93	2.88	2.52	2.28	2.24
Price to Book Value	x	2.56	2.05	1.54	1.13	0.88	0.70	0.66

Source: ACPL Research, Company Financials

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<b>TP</b>	Target Price	<b>CAGR</b>	Compound Annual Growth Rate	<b>FCF</b>	Free Cash Flows
<b>FCFE</b>	Free Cash Flows to Equity	<b>FCFF</b>	Free Cash Flows to Firm	<b>DCF</b>	Discounted Cash Flows
<b>PE</b>	Price to Earnings Ratio	<b>PB</b>	Price to Book Ratio	<b>BVPS</b>	Book Value Per Share
<b>EPS</b>	Earnings Per Share	<b>DPS</b>	Dividend Per Share	<b>ROE</b>	Return of Equity
<b>ROA</b>	Return on Assets	<b>SOTP</b>	Sum of the Parts	<b>LDCP</b>	Last Day Closing Price

### VALUATION METHODOLOGY

To arrive at our Target Price, Abbasi & Company (Private) Limited uses different valuation methods which include:

- I. Discounted Cash Flow Model
- II. Dividend Discount Model
- III. Relative Valuation Model
- IV. Sum of Parts Valuation

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BUY	Greater than 15%
HOLD	Between -5% to 15%
SELL	Less than and equal to -5%

Sector Rating	Sector Outlook
Overweight	Positive
Market Weight	Neutral
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