

Meezan Bank and Bank Islami

Buy MEBL@30 | Hold BIPL@9.6

Both Meezan Bank (MEBL) and Bank Islami (BIPL) have been relieved by recent decision of the State Bank of Pakistan (SBP) of decreasing allowable PLS ceiling from 6% to 5% which would be a prelude for their lower cost of liabilities as against other conventional banks in Pakistan. However, these banks are already doing better business owing to their branch expansions throughout Pakistan and their profitability is now visible.

Both the banks can boast of lower provision incidence given their less or one should say risk-averse exposure to trade and industry. However their lower *financing to deposit ratio* is a concern.

Real asset growth is minimal...

MEBL has shown virulent 22% y-o-y growth in deposits which reached Rs 207.6bn wherein BIPL has shown 27% y-o-y growth in deposits which reached Rs 56.7bn. There is a sizable difference between the two entities since MEBL is now operating with over 300 branches wherein BIPL is operating with 112 branches.

There is one criticism which one could hurl on Islamic banks is lower *financing to deposit ratio* of these banks since they are not financing much in recent times and hence their gross spreads are lower as against conventional banks. Islamic banks take lot of deposits but take less exposure against animated sectors as against some proactive modaraba companies. Hence *book flow growth* of these banks is also lower.

Meezan Bank				Bank Islami					
Balance Sheet	Rsbn	9MCY12	9MCY11	Chg.	Balance Sheet	Rsbn	9MCY12	9MCY11	Chg.
Deposits		207.6	170.0	22%	Deposits		56.7	44.6	27%
Investment		147.1	98.5	49%	Investment		27.8	17.8	56%
Financing		56.1	59.2	-5%	Financing		18.4	15.4	19%
<b>Financing to deposits</b>		<b>27%</b>	<b>35%</b>	<b>-22%</b>	<b>Financing to deposits</b>		<b>32%</b>	<b>35%</b>	<b>-6%</b>
Equity		14.6	13.3	10%	Equity		5.6	5.0	12%
Paid up		9.0	8.0	13%	Paid up		5.3	5.3	0%
<b>Book value</b>		<b>16.2</b>	<b>16.6</b>	<b>-2%</b>	<b>Book value</b>		<b>10.6</b>	<b>9.5</b>	<b>12%</b>

Source: Accounts

Meezan Bank				Bank Islami					
Profit and Loss	Rsbn	9MCY12	9MCY11	Chg.	Profit and Loss	Rsbn	9MCY12	9MCY11	Chg.
Net spreads		7.8	6.9	13%	Net spreads		1.9	1.9	-1%
Provisions		0.5	1.2	-56%	Provisions		0.06	0.1	-40%
PAT		2.7	2.3	16%	PAT		0.4	0.2	63%
<b>EPS</b>		<b>2.95</b>	<b>2.85</b>	<b>3%</b>	<b>EPS</b>		<b>0.71</b>	<b>0.43</b>	<b>63%</b>

Source: Accounts

Valuation: On earnings propensity MEBL is good; based on PBV BIPL is good...

We prefer MEBL over BIPL given propensity of earnings in CY12 and beyond. MEBL too has a dividend paying capacity. MEBL is yielding CY12PE of 7.5x vis-a-vis BIPL which is yielding PE of 10.1x. BIPL looks good over PBV, having multiple of 0.9x as against heavy PBV of MEBL of 1.8x.

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