ARIF HABIB LIMITED

Pakistan Commercial Banks

Meezan Bank Limited

MDR clarity keeps bank earnings steady

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REP - 300

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MDR clarity keeps bank earnings steady

Where initial concerns loomed over the potential impact of the Minimum Deposit Rate (MDR) on Islamic banks from Jan'25, Meezan Bank Limited (MEBL) has proven its resilience early on. While the regulation was expected to narrow margins across the Islamic banking space, Meezan's stronghold in low-cost current deposits and deep customer loyalty have helped it absorb the initial shock far better than anticipated. Although some pressure on NIMs may gradually emerge going forward, Meezan Bank's strong balance sheet and sound funding profile leave it well-positioned to absorb the impact, offering a cushion to overall profitability.

We reiterate our Buy rating on Meezan, with a Jun'26 target price of PKR 448.3/share, offering a potential 28% upside. The case for Meezan is backed by its strong volumetric growth, which provides earnings support even as spreads tighten, its sector-leading asset quality, prudent lending approach, and consistently high return on equity (ROE). It is pertinent to note that despite the anticipated YoY dip in earnings for CY25, Meezan is expected to maintain its dividend at PKR 28/share, supported by a robust capital base and resilient core profitability.

Investment Overview

MDR moves in, but Meezan holds its ground

The implementation of the Minimum Deposit Rate (MDR) in early CY25 initially raised concerns about margin pressure for Islamic banks. However, Meezan Bank (MEBL) has managed the transition effectively, with average saving rates stabilizing at 7.8% in 1QCY25. The SBP's decision to allow the inclusion of fixed asset in gross yield calculations provided much-needed relief. Although asset yields are expected to moderate and spreads may narrow, they are likely to remain within a manageable range.

Deposit mix- A competitive edge

Meezan Bank's deposit strategy remains a core strength. Current accounts are expected to cross 50% of total deposits in CY25, while the cost of deposits is projected to fall to 3.4%, well below the industry average. A strong retail base, combined with a declining share of high-cost institutional deposits, is expected to support funding cost stability and margins. Total deposits are projected to reach PKR 3.6trn by CY27f.

Volume to cushion margin compression

Meezan Bank's NIMs are expected to decline to 6.7% in CY25 from 9.6% in CY24 amid falling interest rates. However, the pressure on margins is likely to be offset by strong volumetric growth, supported by a growing deposit base and disciplined asset allocation. This positions Meezan to sustain profitability despite narrowing spreads.

Strong asset quality, disciplined cost base

Meezan Bank's NPL ratio is projected to remain under 2.0%, far better than the sector average, supported by strong risk management and provisioning. Operating costs remain in check due to controlled branch expansion, with the cost-to-income ratio expected to hover near 35% in CY25f. Together, these factors help support a resilient earnings outlook.

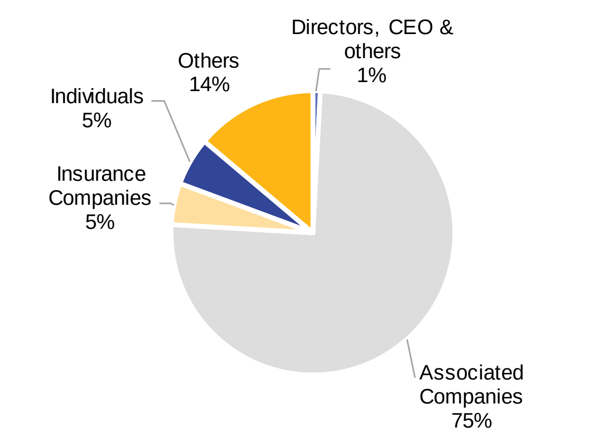
	MEBL PA
Recommendation	**BUY**
Target Price (Jun-26)	448.3
Last Closing	350.7
Upside / (Downside) %	27.8
Shares (mn)	1,794.7
Free float (%)	25.0
Market Cap. (PKR mn)	629,451.5
Market Cap. (USD mn)	2,222.5

Price Performance

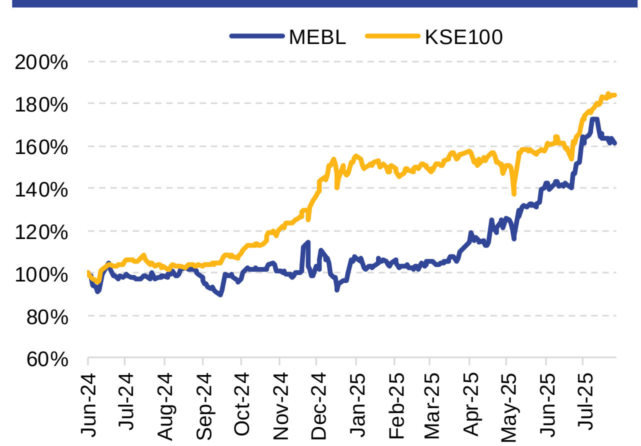
	3M	6M	12M
Return (%)	29.8	53.0	65.0
Avg. Volume (000)	1,423	1,316	1,428
ADTV (mn) - PKR	444	373	368
ADTV (000) - USD	1,568	1,325	1,314
High Price - PKR	375.8	375.8	375.8
Low Price - PKR	253.1	222.2	195.7

Source: PSX, AHL Research

Shareholding Pattern



Source: Company Financials, AHL Research



Source: Bloomberg AHL Research

With sector-leading ROE and a high CAR, MEBL sets the bar

Meezan's forecasted ROE of 33% in CY25f places it well ahead of peers, while a CAR of 24% gives it room to boost shareholder returns. We expect the dividend payout to increase to 60%, implying PKR 28/share, supported by a solid capital position and robust earnings outlook.

Valuation

We have valued MEBL using justified price to book multiple valuation method whereby our Jun'26 target price is set at PKR 448.3/share, which translates into an upside of 28% from the last closing of PKR 350.7/share. Our valuation parameters include a 5-year adjusted beta of 1.03, a risk-free rate of 12.0%, and a risk premium of 6.0%, which gives a cost of equity of 18.2%. Currently, the stock is trading at CY25, CY26, and CY27 P/B of 2.2x, 1.9x and 1.7x, respectively. Hence, we recommend a '**BUY**' stance on the scrip.

Exhibit: Valuation Snapshot

		CY24a	CY25e	CY26f	CY27f
EPS	PKR	57.8	47.5	53.4	57.1
DPS	%	28.0	28.0	32.0	34.5
P/E	x	4.2	7.4	6.6	6.1
P/B	x	1.7	2.2	1.9	1.7
ROE	%	40.9	29.5	29.3	27.9
ROA	%	2.7	1.9	1.9	1.9

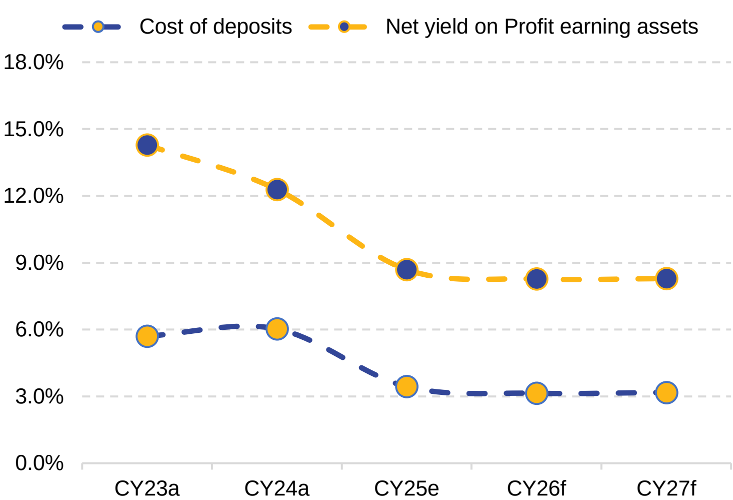
Source (s): Company Financials, AHL Research

MDR moves in, but Meezan holds its ground

The much-anticipated implementation of the Minimum Deposit Rate (MDR) for Islamic banks stirred early concerns across the industry; raising questions about profitability pressure and spread compression. But as the dust begins to settle, Meezan Bank (MEBL), the country's largest Islamic bank, appears to be navigating the change with confidence. Effective early CY25, the new MDR requires Islamic banks to offer a minimum return on savings accounts equal to 75% of their gross asset yield. While financial institutions, public sector enterprises, and public limited companies are exempt, the regulation posed a potential hit to Islamic banks' margins, especially for those with large retail deposit bases. However, MEBL's earnings resilience has remained intact. Average saving rates on its Profit and Loss Sharing (PLS) accounts settled around 7.8% in 1QCY25, signaling that the initial fears may have been overplayed. Further support came in Jan'25, when the SBP issued a circular (IFPD Circular Letter No. 01 of 2025) permitting banks to factor fixed asset into gross yield calculations, a move that softened the blow and provided breathing space for the sector.

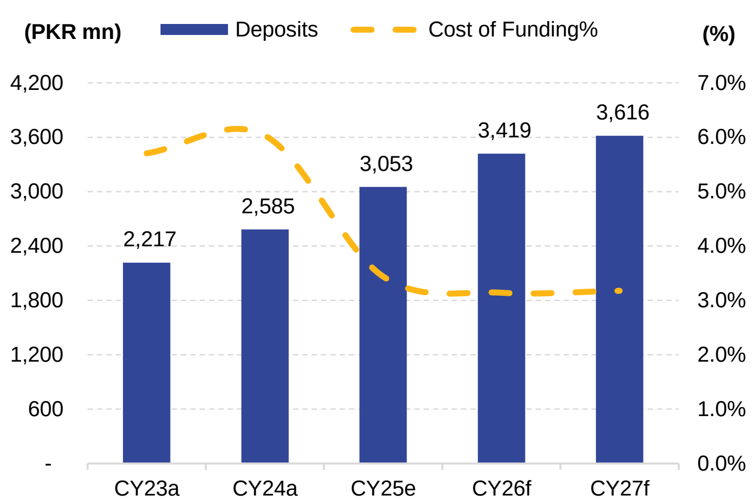
Looking ahead, Meezan is expected to strategically realign its liability mix, gradually bringing down the cost of deposits. While net asset yields are forecast to moderate, they are likely to stabilize near 8%, ensuring that spreads, though narrower, remain healthy and manageable. In essence, while MDR has certainly reset the rules, Meezan Bank's ability to adapt and absorb the impact without a hit to profitability reaffirms its industry leadership.

Exhibit: Cost of saving deposits vs yield on profit earning assets



Source (s): Company Financials, AHL Research

Exhibit: Deposit growth and Cost of Funding



Source (s): Company Financials, AHL Research

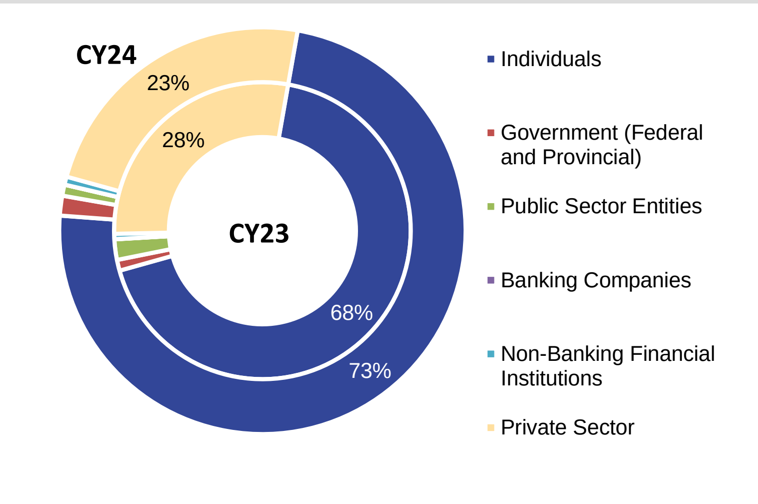
Deposit mix- A competitive edge

Meezan Bank's continued focus on expanding its current account base remains a key driver of its industry-leading deposit franchise. The bank is on track to surpass the PKR 3trn deposit mark in CY25, a historic milestone that reflects its strong growth trajectory. Over the past five years, Meezan has maintained an impressive average annual deposit growth of 23%, and for CY25, we forecast a solid 18% YoY increase.

A major strength lies in the quality and composition of its deposit base. With 73% of deposits sourced from retail customers and 23% from the private sector, the bank enjoys a highly stable and sticky funding profile. To note, current accounts now make up 49% of total deposits and are expected to exceed the 50% threshold in CY25, reflecting Meezan's ongoing efforts to reduce its cost of funds.

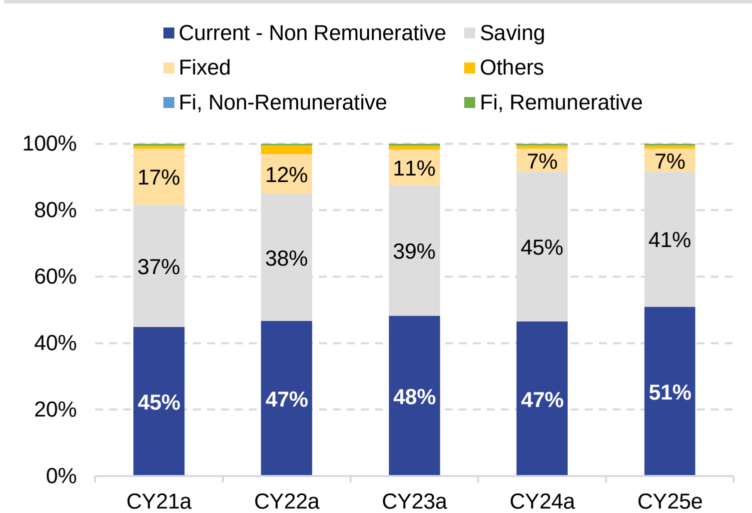
This favorable deposit mix is translating into financial benefits. Meezan's cost of deposits is expected to decline to 3.4% in CY25, significantly lower than the industry average of 5.6%. Looking ahead, deposit growth is projected to remain strong, reaching PKR 3.6trn by CY27f. The cost of funding is also expected to decline gradually, supported by a rising share of non-remunerative current accounts, projected at 51% in CY25. In parallel, the proportion of high-cost institutional deposits has come down from 28% in CY23 to 23% in CY24. This improving deposit composition strengthens the balance sheet and supports margin stability, ensuring Meezan Bank remains well-positioned in a competitive banking environment.

Exhibit: Composition of deposits



Source (s): Company Financials, AHL Research

Exhibit: Deposit mix



Source (s): Company Financials, AHL Research

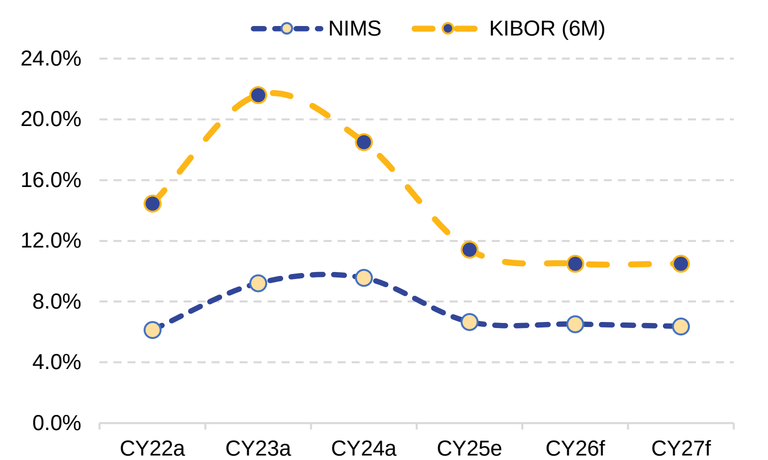
Volume to cushion margin compression

With interest rates expected to decline further and bottom out at 10% in the coming months (as per AHL estimates), the banking sector is likely to see a normalization of net interest margins (NIMs) from their recent elevated levels. For Meezan Bank (MEBL), we project NIMs to ease to 6.7% in CY25, down from an estimated 9.6% in CY24, reflecting the broader impact of monetary easing across the sector.

While the compression in NIMs may weigh on profitability, Meezan's strong volumetric growth is expected to act as a natural buffer. The bank's rapidly expanding deposit base, supported by a rising share of low-cost current accounts, and its disciplined asset deployment strategy are key factors that will help mitigate the pressure on spreads. Continued growth in earning assets, coupled with a stable funding profile, should partially offset the impact of narrowing margins and support earnings resilience through the down cycle.

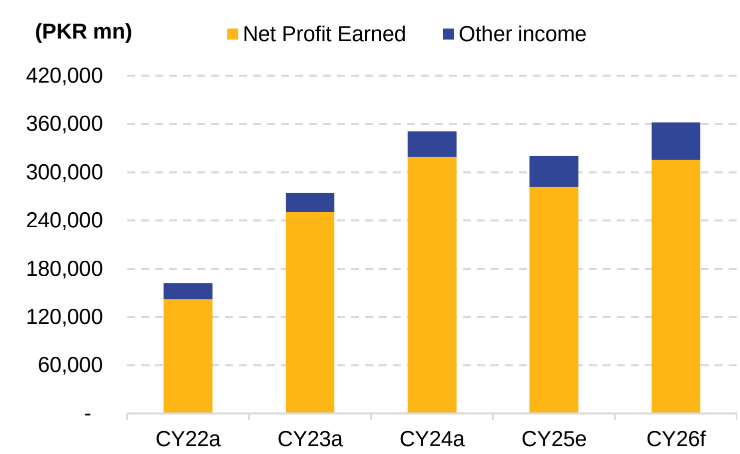
Meezan's ability to combine cost-efficient funding with volume-driven balance sheet expansion positions it well to maintain healthy profitability even in a declining interest rate environment.

Exhibit: NIMs vs Kibor (6M)



Source (s): Company Financials, SBP, AHL Research

Exhibit: Net profit earned & Other income



Source (s): Company Financials, AHL Research

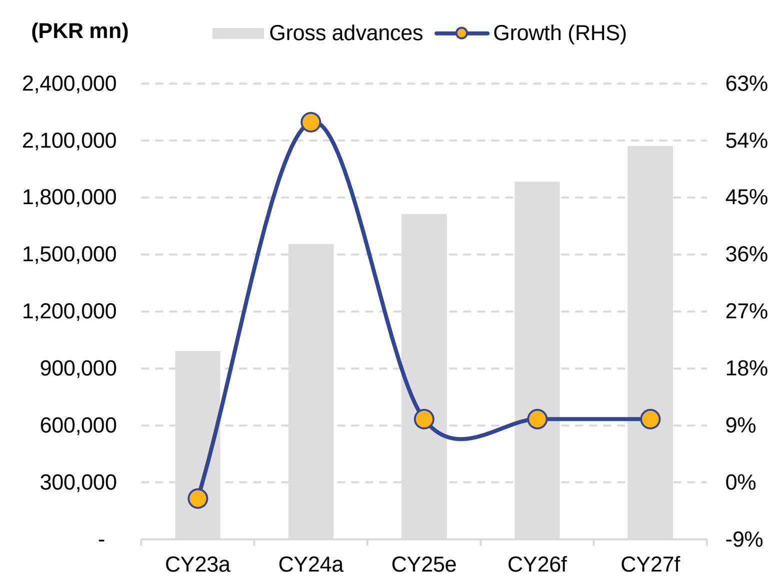
Strong asset quality, disciplined cost base

Meezan Bank continues to distinguish itself with exceptional asset quality and tight cost controls, setting a benchmark in the Islamic banking sector. As of 1QCY25, the bank's non-performing loan (NPL) ratio stands at a mere 2.1%, significantly below the industry average of 6.4%, reflecting its cautious lending practices and rigorous risk controls. Looking ahead, we expect the NPL ratio to improve further, reaching 1.6% in CY25f, while maintaining a coverage ratio of approximately 162%, underscoring the bank's robust provisioning stance.

Meezan's risk management framework has consistently proven effective, especially during periods of economic and monetary tightening. Unlike many peers who experienced rising delinquency levels amid elevated interest rates in CY24, Meezan's portfolio displayed remarkable stability, a testament to the proactive buffers the bank has built over the past five years.

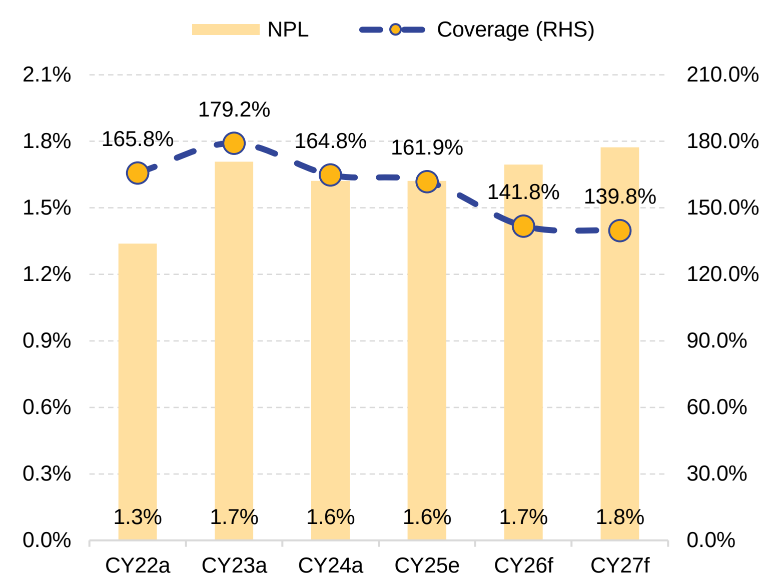
On the operational front, expense growth has been contained, thanks to a measured expansion strategy. Only one new branch was added in 1QCY25, helping to moderate the rise in administrative costs. These are expected to increase at a 5-year CAGR of 16%, aligning with the bank's revenue trajectory. With topline growth expected to normalize in the near term, the cost-to-income ratio is projected to settle around 35% in CY25f, keeping profitability on a stable path.

Exhibit: Gross Advances vs Growth



Source (s): Company Financials, AHL Research

Exhibit: NPL & Coverage ratio



Source (s): Company Financials, AHL Research

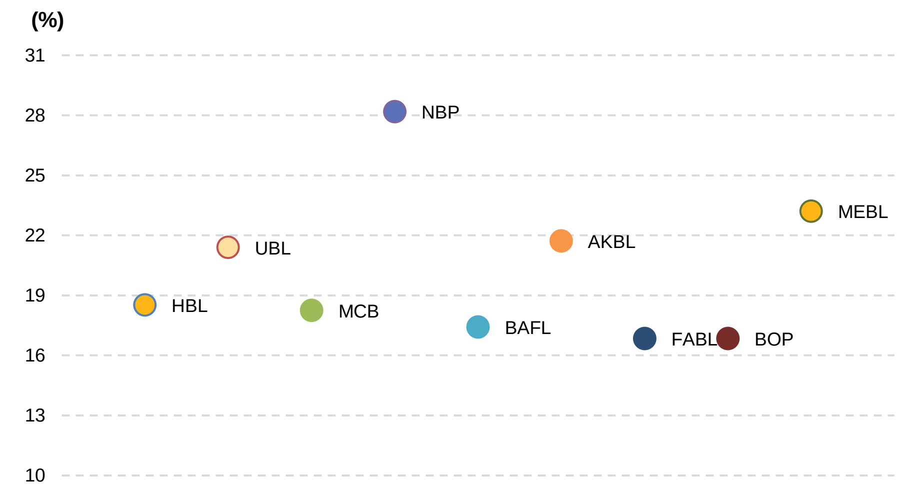
With sector-leading ROE and a high CAR, MEBL sets the bar

Meezan Bank continues to set itself apart with sector-leading profitability and a solid capital base. The bank's structural advantage is reflected in its asset-to-equity ratio of 15x and a healthy Return on Assets (ROA) of ~1.8%, positioning it for sustained earnings delivery. For CY25f, we expect Return on Equity (ROE) to climb to 33%, significantly ahead of the sector average of 18.1%. This strong performance is the result of prudent lending, robust deposit mobilization, and a focused strategy on high-margin segments.

Strong earnings have also allowed Meezan to steadily build capital buffers. As of 1QCY25, its Common Equity Tier-1 (CET-1) ratio stands at 18%, while total Capital Adequacy Ratio (CAR) has reached 24%, well above the regulatory threshold of 11.5%. This makes Meezan one of the most well-capitalized banks among its peers, offering the flexibility to support both growth and shareholder returns.

With capital strength and profitability firmly in place, we believe Meezan has ample room to increase its payout to shareholders. We expect the bank to raise its dividend payout ratio to 60% in CY25f, resulting in an annual dividend of PKR 28/share, a sharp jump from its 5-year average payout of 38%. This increase would reflect the bank's confidence in its earnings trajectory and ability to maintain strong buffers.

Exhibit: MEBL has second highest CAR* in our coverage banking sector



Source (s): Company Financials, AHL Research, *as of (1QCY25)

Valuation

We have valued MEBL using justified price to book multiple valuation method whereby our Jun'26 target price is set at PKR 448.3/share, which translates into an upside of 28% from the last closing of PKR 350.7/share. Our valuation parameters include a 5-year adjusted beta of 1.03, a risk-free rate of 12.0%, and a risk premium of 6.0%, which gives a cost of equity of 18.2%. Currently, the stock is trading at CY25, CY26, and CY27 P/B of 2.2x, 1.9x and 1.7x, respectively. Hence, we recommend a '**BUY**' stance on the scrip.

Exhibit: Key financial highlights

PKR bn	CY24a	CY25e	CY26f	CY27f	CY28f		Unit	CY24a	CY25e	CY26f	CY27f	CY28f
Income Statement Items						**Key Ratios**						
Profit Earned	494.3	404.3	430.1	473.4	522.0	EPS	PKR	57.8	47.5	53.4	57.1	59.8
Profit Expensed	207.3	160.3	161.0	183.9	206.6	DPS	PKR	28.0	28.0	32.0	34.5	36.0
Net Profit Earned	287.0	244.0	269.0	289.5	315.5	BVPS	PKR	141.3	160.8	182.2	204.8	228.6
Other income	31.8	38.0	46.5	50.5	55.2	P/E	x	4.2	7.4	6.6	6.1	5.9
Total Revenue	318.9	282.0	315.5	340.0	370.7	P/B	x	1.7	2.2	1.9	1.7	1.5
OPEX	86.8	97.5	115.5	133.1	153.5	D/Y	%	11.5	8.0	9.1	9.8	10.3
Provisioning	9.2	3.2	0.2	5.9	6.8	Payout Ratio	%	48.5	59.0	59.9	60.4	60.2
PBT	222.8	181.3	199.8	201.0	210.4	RoE	%	40.9	29.5	29.3	27.9	26.2
PAT	103.7	85.2	95.9	102.5	107.3	RoA	%	2.7	1.9	1.9	1.9	1.8
						ADR	%	58.6	54.6	53.8	55.9	54.8
Balance Sheet Items						IDR	%	72.7	71.5	72.4	73.4	74.4
Paid-up Capital	17.9	17.9	17.9	17.9	17.9	Infection	%	1.6	1.6	1.7	1.8	1.9
Total Equity	253.6	288.6	327.0	367.6	410.3	Coverage	%	164.8	161.9	141.8	139.8	137.8
Total Deposits	2,584.6	3,052.5	3,418.8	3,616.4	4,050.3	CASA	%	92.6	92.6	92.6	92.6	92.6
Net Investments	1,878.9	2,181.6	2,476.2	2,654.7	3,012.3	NIMS	%	9.6	6.7	6.5	6.4	6.3
Islamic Financing	1,514.8	1,667.0	1,837.9	2,020.2	2,220.5	CAR	%	20.4	19.5	19.5	20.2	20.1
Total Assets	3,910.5	4,446.0	4,982.6	5,397.6	6,041.9	CIR	%	27.2	34.6	36.6	39.2	41.4

Source (s): Company Financials, AHL Research

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Arif Habib Limited (AHL) uses three rating categories, depending upon return form current market price, with Target period as Jun'26 for Target Price. In addition, return excludes all type of taxes. For more details kindly refer the following table;

Rating	Description
BUY	Upside of subject security(ies) is more than +15% from last closing of market price(s)
HOLD	Upside of subject security(ies) is between 0% and +15% from last closing of market price(s)
SELL	Upside of subject security(ies) is less than 0% from last closing of market price(s)

* Upside for Power Generation Companies is upside plus dividend yield.

Equity Valuation Methodology

AHL Research uses the following valuation technique(s) to arrive at the period end target prices;

- **Discounted Cash Flow (DCF)**
- **Dividend Discounted Model (DDM)**
- **Sum of the Parts (SoTP)**
- **Justified Price to Book (JPTB)**
- **Reserved Base Valuation (RBV)**

Risks

The following risks may potentially impact our valuations of subject security (ies);

- **Market risk**
- **Interest Rate Risk**
- **Exchange Rate (Currency) Risk**

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