

MCB Bank Limited

Key Takeaways

PSX: MCB Bloomberg: MCB: PA Reuters: MCB: KA

Pakistan Research

MCB: 1QCY24 Conference Call Key Takeaways

- MCB Bank Limited held its conference call today to discuss 1QCY24 results. Earlier, the bank had reported an unconsolidated EPS of PKR 13.97, up 27% YoY. Along with the result, MCB declared an interim cash dividend of PKR 9.00/share.
- Bank's net interest income increased by 27% YoY through focus on maintaining no cost deposit base while optimizing earning asset mix.
- Non-interest income increased by 54% YoY with major contribution coming from fee commission income (PKR 6.1bn), foreign exchange income (PKR 1.9bn) and dividend income (PKR 1.0bn). Moreover, improved customer experience led to 46% YoY growth in fee income while trade and guarantee related business income grew by 100% YoY, cards related income up by 48% YoY and home remittances income surged by 41% YoY.
- Operating expenses increased by 18% YoY due to inflationary pressures and continuous upgradation of IT infrastructure. However, cost to income improved to 29.5% in 1QCY24 from 32.8% in 1QCY23 given improved NII and non-interest income.
- Bank's profit from overseas operations increased by 110% YoY to PKR 1.9bn (USD 6.7mn).
- Gross Advances of the bank increased by 4% CYTD (PKR 25.0bn) with corporate lending increased by 3% CYTD (PKR 15.3bn) and retail portfolio up by 20% CYTD (PKR 14.8bn). Bank's coverage and infection ratios improved to 92.7% and 8.6%, respectively. Moreover, management target ADR of 50% by Dec-24 from 35% at Mar-24.
- Investment portfolio increased by 3.1% CYTD (PKR 39.2bn) to PKR 1.3tn with majority of the deployment in Fixed PIBs (PKR 33.8bn). Yield on investments increased to 19.3% in 1QCY24 from 15.0% in 1QCY23. Moreover, duration of Fixed PIBs is 2.64 years, with PKR 80bn maturing in 3QCY24, which were locked in at 10.5%.
- Bank has maintained the current deposit mix at 48% (CASA at 96.7%), with a growth of 2.5% CYTD (PKR 46.0bn), while aiming to increase the mix to 50% by Dec-24 and 55% by Dec-25. Moreover, the management expects the bank's deposits to cross the PKR 2.0tn mark by the end of CY24.
- Management expects monetary easing of 200bps in 2HCY24 and a status quo in the upcoming MPC.
- Bank is planning to add 10-11 branches in CY24 in its current portfolio of 1,429.
- MCB's Capital Adequacy Ratio (CAR) slightly dropped to 19.6% due to implementation of IFRS-9 (PKR 4.4bn) with leverage ratio of 6.5%.
- Profitability of the Islamic Business increased by 38% YoY to PKR 1.2bn in 1QCY24.
- Islamic business deposits remained unchanged at PKR 204bn while Advances grew by 20% CYTD to PKR 109.1bn.
- We have a 'BUY' rating on the scrip with Dec-24 price target of PKR 243/share, providing an upside of 18% along with a dividend yield of 18%.

Key Data

PSX Ticker	MCB
Target Price (PKR)	243
Current Price (PKR)	206
Upside/(Downside) (%)	18%
Dividend Yield (%)	18%
Total Return (%)	36%
12-month High (PKR)	222
12-month Low (PKR)	110
Outstanding Shares (mn)	1,185
Market Cap (PKR mn)	243,554
Year End	December

Source: Company Accounts, Akseer Research

Key Financial Ratios

	CY21A	CY22A	CY23A	CY24E	CY25F	CY26F
EPS	26.0	27.6	50.3	51.0	47.4	49.2
EPS Growth	6.1%	6.3%	82.1%	1.3%	-7.0%	3.8%
DPS	19.0	20.0	30.0	36.0	33.0	34.5
BVPS	147.2	159.9	194.7	206.2	221.3	237.2
PER	7.9	7.4	4.1	4.0	4.3	4.2
Dividend Yield	9.2%	9.7%	14.6%	17.5%	16.1%	16.8%
P/B	1.4	1.3	1.1	1.0	0.9	0.9
ROE	16.9%	18.0%	28.4%	25.4%	22.2%	21.5%

Source: Company Accounts, Akseer Research

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Valuation Basis

Our PT for MCB Bank Limited (MCB) has been computed on dividend discounting method using Justified P/B for the calculation of terminal value. We have used sustainable ROE of 21.5% to arrive to calculate exit P/B, along with a risk free rate of 15%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 21%.

Investment Thesis

We have a 'BUY' recommendation on the stock based on our Dec-24 PT of PKR 243/share which results in an upside of 18% along with a dividend yield of 18%. Our investment case on MCB is based on 1) One of the highest CASA in the industry 2) higher CAR to ensure sustainability of payouts, and 3) lowest cost to income ratio.

Risks

Key risks to our investment thesis are: 1) lower than anticipated growth in advances and deposits 2) higher than anticipated provisioning.

Company Description

MCB Bank Limited is a banking company incorporated in Pakistan providing commercial banking and related services in Pakistan and outside the country. The bank was incorporated in 1947 and is based in Lahore, Pakistan. As of Mar 31, 2024, MCB is operating through 1,429 branches in Pakistan and 8 branches outside the country, including Karachi Export Processing Zone.

Financial Highlights - MCB

Income Statement (PKR mn)						
	CY21A	CY22A	CY23A	CY24E	CY25F	CY26F
Mark-up/interest earned	123,334	200,763	328,057	366,919	341,112	316,557
Mark-up/interest expensed	59,347	113,607	180,356	227,106	203,883	172,976
Net interest income	63,987	87,156	147,701	139,813	137,229	143,581
Non-interest income	20,074	24,613	32,916	39,309	40,491	41,747
Provision charged	(4,823)	(2,782)	373	883	978	988
Operating expenses	35,381	41,495	51,838	58,356	62,833	65,861
Profit after tax	30,811	32,741	59,631	60,409	56,171	58,332

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY21A	CY22A	CY23A	CY24E	CY25F	CY26F
Cash & Treasury Balances	164,613	96,369	170,717	191,812	210,993	232,092
Investments	1,035,585	978,731	1,249,439	1,181,901	1,309,384	1,438,331
Advances	589,711	753,400	577,863	974,692	1,066,144	1,177,099
Operating Fixed Assets	58,307	80,719	83,857	79,696	78,114	76,563
Other Assets	122,252	176,136	345,303	393,814	433,195	476,515
Total Assets	1,970,468	2,085,355	2,427,179	2,821,915	3,097,831	3,400,601
Borrowings from FIs	269,526	340,237	216,611	340,995	375,095	412,604
Deposits	1,411,852	1,378,717	1,805,387	2,022,034	2,224,237	2,446,661
Other Liabilities	114,684	176,906	174,474	214,527	236,298	260,286
Total Liabilities	1,796,061	1,895,861	2,196,472	2,577,557	2,835,630	3,119,552
Equity	174,407	189,495	230,707	244,358	262,200	281,050
Total Liabilities & Equity	1,970,468	2,085,355	2,427,179	2,821,915	3,097,831	3,400,601

Source: Company Accounts, Akseer Research

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To arrive at our 12-months Price Target, the JV uses different valuation methods which include: 1). DCF methodology, 2). Relative valuation methodology, and 3). Asset-based valuation methodology.

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JV employs a three tier ratings system to rate a stock, as mentioned below, which is based upon the level of expected return for a specific stock. The rating is based on the following with time horizon of 12-months.

Rating	Expected Total Return
Buy	Greater than or equal to +15%
Hold	Between -5% and +15%
Sell	Less than or equal to -5%

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