

MCB Bank Limited

Result Preview

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

Pakistan Research

MCB: 2QCY24 EPS to clock in at PKR 13.12, up 14% YoY; DPS PKR 9.00

- MCB is scheduled to announce its 2QCY24 financial result on 7th August, 2024 wherein we anticipate the bank to post an unconsolidated EPS of PKR 13.12, up 14% YoY. Along with the result, we expect MCB to announce an interim cash dividend of PKR 9.00/share.
- We anticipate NII to arrive at PKR 36.2bn for 2QCY24, remaining flattish on a YoY basis (-2%). Interest income is expected to increase by 16% YoY to PKR 94.2bn, while interest expense is estimated to clock in at PKR 51.0bn up 15% YoY driven by deposit based volumetric increase.
- Non-interest income is anticipated to grow by 21% YoY to PKR 9.8bn during 2Q on the back of higher fee & commission income which is expected increase by 36% YoY to PKR 6.3bn.
- We expect MCB to book a provision reversal of PKR 59mn (in line with Q1 2024) versus PKR 1.2bn in SPLY on the back of prudent risk management practices and persistent improvement in loan recovery.
- Admin expenses are likely to increase by 20% YoY to PKR 15.6bn in 2QCY24 with cost to income for the quarter expected to clock-in at 32%.
- The effective tax rate is expected to arrive at 49% in 2Q versus 56% in SPLY.
- We have a 'BUY' rating on the scrip with Dec-24 price target of PKR 234/share, providing an upside of 5% along with a dividend yield of 16%.

Key Data

PSX Ticker	MCB
Target Price (PKR)	234
Current Price (PKR)	222
Upside/(Downside) (%)	+5%
Dividend Yield (%)	16%
Total Return (%)	21%
12-month High (PKR)	247
12-month Low (PKR)	126
Outstanding Shares (mn)	1,185
Market Cap (PKR mn)	262,396
Year End	December

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	2QCY23	2QCY24E	YoY	1HCY23	1HCY24E	YoY
M/up Earned	81,425	94,243	16%	145,279	183,252	26%
M/up Expense	44,485	51,031	15%	78,271	108,989	39%
Net Interest Income	36,939	36,192	-2%	67,009	74,264	11%
Non-Interest Income	8,143	9,814	21%	14,065	18,938	35%
Total Provisions	1,267	(59)	NM	1,891	(127)	NM
Admin Expenses	12,969	15,572	20%	25,320	30,295	20%
Profit Before Tax	30,846	30,492	-1%	53,862	63,035	17%
Taxation	17,194	14,941	-13%	27,155	30,927	14%
Profit After Tax	13,652	15,551	14%	26,708	32,107	20%
EPS	11.52	13.12	-	22.54	27.09	-
DPS	7.00	9.00	-	13.00	18.00	-

Source: Company Accounts, Akseer Research

Key Financial Ratios

	CY21A	CY22A	CY23A	CY24E	CY25F	CY26F
EPS	26.0	27.6	50.3	50.6	49.1	48.8
EPS Growth	6.1%	6.3%	82.1%	0.6%	-3.0%	-0.6%
DPS	19.0	20.0	30.0	36.0	34.0	34.0
BVPS	147.2	159.9	185.5	200.6	216.8	232.2
PER	8.2	7.7	4.2	4.2	4.3	4.4
Dividend Yield	8.5%	9.0%	13.5%	16.2%	15.3%	15.3%
P/B	1.5	1.4	1.2	1.1	1.0	1.0
ROE	16.9%	18.0%	29.1%	26.2%	23.5%	21.8%

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 21.4% 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 234/share which results in an upside of 5% along with a dividend yield of 16%. 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 Dec 31, 2023, MCB is operating through 1,430 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	360,157	319,310	289,660
Mark-up/interest expensed	59,347	113,607	180,356	221,178	178,523	147,367
Net interest income	63,987	87,156	147,701	138,979	140,787	142,293
Non-interest income	20,074	24,613	32,916	40,142	41,373	42,457
Provision charged	(4,823)	(2,782)	373	477	1,429	1,333
Operating expenses	35,381	41,495	51,838	58,356	62,833	65,861
Profit after tax	30,811	32,741	59,631	60,016	58,205	57,861

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY21A	CY22A	CY23A	CY24E	CY25F	CY26F
Cash & Treasury Balances	164,613	96,369	171,261	172,973	185,081	198,037
Investments	1,035,585	978,731	1,430,221	1,168,592	1,240,457	1,313,181
Advances	589,711	753,400	577,863	878,962	960,728	1,050,078
Operating Fixed Assets	58,307	80,719	81,310	79,696	78,114	76,563
Other Assets	122,252	176,136	259,779	262,376	280,743	300,395
Total Assets	1,970,468	2,085,355	2,520,434	2,562,600	2,745,123	2,938,254
Borrowings from FIs	269,526	340,237	304,460	307,505	329,030	352,062
Deposits	1,411,852	1,378,717	1,805,387	1,823,441	1,951,082	2,087,658
Other Liabilities	114,684	176,906	190,773	193,878	208,097	223,393
Total Liabilities	1,796,061	1,895,861	2,300,620	2,324,824	2,488,209	2,663,113
Equity	174,407	189,495	219,814	237,776	256,913	275,141
Total Liabilities & Equity	1,970,468	2,085,355	2,520,434	2,562,600	2,745,123	2,938,254

Source: Company Accounts, Akseer Research

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Valuation Methodology

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.

Ratings Criteria

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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