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7<sup>th</sup> August 2024

## MCB: 2QCY24 EPS clocks in at PKR 12.98, up 13% YoY, DPS PKR 9.00

### MCB Bank Limited

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

- MCB announced the 2QCY24 result today wherein the bank recorded an unconsolidated EPS of PKR 12.98, up 13% YoY, in-line with our estimates. The bank declared a cash dividend of PKR 9.0/sh, taking the payout for 1HCY24 to PKR 18.0/sh.
- Net interest income for 2QCY24 remained flattish on a YoY basis at PKR 36.8bn. Interest expense accelerated at a faster pace (+29% YoY) to PKR 57.4bn, versus interest income which increased by 16% YoY to PKR 94.2bn.
- Non-interest income increased by 12% YoY to PKR 9.1bn on the back of a notable increase in fee & commission income (+13% YoY) to PKR 5.2bn and FX income (+15% YoY) to PKR 3.0bn.
- MCB booked a provision of PKR 574mn, versus PKR 1.3bn in SPLY, given the continuous improvement in loan recovery (particularly in the NIB book).
- Admin expenses for 2QCY24 increased by 17% YoY to PKR 15.2bn, translating into a cost-income ratio of 32% versus 27% in 2QCY23.
- Effective tax rate clocked in at 49% compared to 56% in SPLY.
- We have a 'BUY' rating on the scrip with Dec-24 price target of PKR 234/share, providing an upside of 6% along with a dividend yield of 16%.

#### Key Data

PSX Ticker	MCB
Target Price (PKR)	234
Current Price (PKR)	221
Upside/(Downside) (%)	6%
Dividend Yield (%)	16%
Total Return (%)	22%
12-month High (PKR)	247
12-month Low (PKR)	126
Outstanding Shares (mn)	1,185
Market Cap (PKR mn)	262,100

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)	2QCY23	2QCY24	YoY	1HCY23	1HCY24	YoY
M/up Earned	81,425	94,171	16%	145,279	183,181	26%
M/up Expense	44,485	57,385	29%	78,271	108,323	38%
<b>Net Interest Income</b>	<b>36,939</b>	<b>36,786</b>	<b>-0.4%</b>	<b>67,009</b>	<b>74,858</b>	<b>12%</b>
Non-Interest Income	8,143	9,132	12%	14,065	18,255	30%
Total Provisions	1,288	574	-55%	1,912	505	-74%
Admin Expenses	12,969	15,168	17%	25,320	29,891	18%
<b>Profit Before Tax</b>	<b>30,826</b>	<b>30,176</b>	<b>-2%</b>	<b>53,842</b>	<b>62,717</b>	<b>16%</b>
Tax	17,194	14,794	-14%	27,155	30,781	13%
<b>Profit After Tax</b>	<b>13,631</b>	<b>15,381</b>	<b>13%</b>	<b>26,687</b>	<b>31,936</b>	<b>20%</b>
EPS	11.50	12.98	-	22.52	26.95	-
DPS	7.00	9.00	-	13.00	18.00	-

Source: Company Accounts, Akseer Research

Key Financial Ratios	CY21A	CY22A	CY23A	CY24E	CY25F	CY26F
EPS (PKR)	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 (PKR)	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	8.6%	9.0%	13.6%	16.3%	15.4%	15.4%
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

## 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 a 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 6% 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
<b>Net interest income</b>	<b>63,987</b>	<b>87,156</b>	<b>147,701</b>	<b>138,979</b>	<b>140,787</b>	<b>142,293</b>
<b>Non-interest income</b>	<b>20,074</b>	<b>24,613</b>	<b>32,916</b>	<b>40,142</b>	<b>41,373</b>	<b>42,457</b>
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
<b>Profit after tax</b>	<b>30,811</b>	<b>32,741</b>	<b>59,631</b>	<b>60,016</b>	<b>58,205</b>	<b>57,861</b>

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
<b>Total Assets</b>	<b>1,970,468</b>	<b>2,085,355</b>	<b>2,520,434</b>	<b>2,562,600</b>	<b>2,745,123</b>	<b>2,938,254</b>
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
<b>Total Liabilities</b>	<b>1,796,061</b>	<b>1,895,861</b>	<b>2,300,620</b>	<b>2,324,824</b>	<b>2,488,209</b>	<b>2,663,113</b>
Equity	174,407	189,495	219,814	237,776	256,913	275,141
<b>Total Liabilities &amp; Equity</b>	<b>1,970,468</b>	<b>2,085,355</b>	<b>2,520,434</b>	<b>2,562,600</b>	<b>2,745,123</b>	<b>2,938,254</b>

Source: Company Accounts, Akseer Research

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