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MCB: 2QCY24 Corporate Briefing Takeaways

MCB Bank Limited

PSX: MCB | Bloomberg: MCB PA | Reuters: MCB.PSX

- MCB posted a PAT of PKR 31.9bn in 1HCY24 compared to a PAT of PKR 26.7bn in SPLY (up by 20% YoY). The bank declared a cash dividend of PKR 9.0/sh, taking the aggregate payout for 1HCY24 to PKR 18.0/sh.
- The bank anticipates a cut of 200bps in policy rate by the end of CY24. The first 100 bps cut is expected in Sep-24 followed by another one in Dec-24.
- NIM grew by 12% YoY to PKR 74.9bn, driven by a growth in the current accounts and a timely repositioning of the investment base. Management expects the favorable asset-liability pricing gap to shield the margins from probable rate cuts during 2HCY24. However, the 200bps rate cut will begin to take effect in 1QCY25, pressuring NIMs, though this will be offset by the strong growth in low-cost deposit mobilization.
- Current account deposits grew by PKR 110.3bn during 1HCY24. The bank aims to further improve the current account deposit mix to 55%, up from the present 49%.
- MCB aims to bring changes in the asset mix by (i) improving the ADR level from 33% in 1HCY24 to 50% by the end of CY24 to avoid ADR based taxation regime and (ii) reducing the investment base with a corresponding increase on the credit side.
- The PIBs are invested at a yield of 10.76% and the average maturity of the entire fixed PIB portfolio is ~2.39 years.
- NPLs are expected to remain under control in the near term. In addition, reversals are expected on a quarterly basis with a strong recovery pipeline.
- We have a 'BUY' rating on the scrip. Our Dec-24 price target of PKR 234/share offers capital upside of 10% along with a dividend yield of 17%.

Key Data

PSX Ticker	MCB
Target Price (PKR)	234
Current Price (PKR)	214
Upside/(Downside) (%)	10%
Dividend Yield (%)	17%
Total Return (%)	27%
12-month High (PKR)	247
12-month Low (PKR)	126
Outstanding Shares (Mn)	1,185
Market Cap (PKR Mn)	253,010

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	8.9%	9.4%	14.1%	16.9%	15.9%	15.9%
P/B	1.5	1.3	1.2	1.1	1.0	0.9
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 10% along with a dividend yield of 17%. 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 Fls	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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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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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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