

MCB Bank Limited

Result Review

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

Pakistan Research

MCB: 2QCY22 EPS clocked in at PKR 1.87, down 72% YoY; DPS PKR 4.0

- MCB announced its 2QCY22 financial results today, wherein the bank reported unconsolidated EPS of PKR 1.87, down 72% YoY. This takes 1HCY22 EPS to PKR 9.4, down 25% YoY. Along with the result, the bank announced an interim cash dividend of PKR 4.0/share, taking cumulative payout to PKR 9.0/share for 1HCY22.
- The NII during 2Q increased by 28% YoY to PKR 20.9bn, wherein interest income increased by 53% YoY to PKR 45.7bn while interest expense rose with higher pace of 83% YoY to PKR 24.8bn driven by sharp rise in interest rate.
- The bank recorded highest ever quarterly non-interest income of PKR 5.7bn, up 51% YoY during 2QCY22 led by higher forex income of PKR 2.9bn, up 277% YoY and higher fee & commission income of PKR 3.5bn, up 29% YoY.
- The bank booked provisioning expenses of PKR 61mn during 2Q compared to provision reversal of PKR 1.8bn in the same period last year.
- Operating expenses grew by 14% YoY to PKR 10.3bn in 2Q. However, cost to income ratio declined to 35.6% in 2QCY22 vs 40.6% in 2QCY21 owing to higher revenues.
- The effective tax rate of the bank stood at 87% in 2QCY22 vs 42% in 2QCY21 due to imposition of super tax on CY22 profits and higher taxation on income derived from government securities.
- We have a 'BUY' rating on the scrip with Dec-22 price target of PKR 147/share, implying an upside of 12% along with a dividend yield of 14%.

Key Data

PSX Ticker	MCB
Target Price (PKR)	147
Current Price (PKR)	131
Upside/(Downside) (%)	+ 12%
Dividend Yield (%)	14%
Total Return (%)	+ 26%
12-month High (PKR)	169
12-month Low (PKR)	118
Outstanding Shares (mn)	1,185.1
Market Cap (PKR mn)	154,887
Year End	December

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	2QCY21	2QCY22	YoY	1HCY21	1HCY22	YoY
M/up Earned	29,854	45,699	53%	58,201	85,416	47%
M/up Expense	13,545	24,823	83%	26,652	46,428	74%
Net Interest Income	16,309	20,876	28%	31,549	38,988	24%
Non-Interest Income	4,750	7,177	51%	9,499	12,896	36%
Total Provisions	(1,823)	61	NM	(2,001)	(802)	-60%
Operating Expenses	9,144	10,384	14%	18,035	20,153	12%
Profit Before Tax	13,737	17,607	28%	25,013	32,533	30%
Taxation	5,784	15,397	166%	10,270	21,411	108%
Profit After Tax	7,953	2,210	-72%	14,743	11,122	-25%
EPS	6.7	1.9	-72%	12.4	9.4	-25%
DPS	5.0	4.0	-	9.5	9.0	-

Source: Company Accounts, Akseer Research

Key Financial Ratios

	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
EPS	20.2	24.5	26.0	21.7	28.5	25.8
EPS Growth	13.2%	21.1%	6.1%	-16.7%	31.7%	-9.7%
DPS	17.0	20.0	19.0	18.0	23.0	18.0
PER	6.5	5.3	5.0	6.0	4.6	5.1
Dividend Yield	13.0%	15.3%	14.5%	13.8%	17.6%	13.8%
P/B	0.9	0.8	0.9	0.9	0.9	0.8
ROE	15.1%	16.2%	16.9%	14.7%	19.0%	16.4%

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 23.0% to arrive to calculate exit P/B, along with a risk free rate of 13%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 19%.

Investment Thesis

We have a 'BUY' recommendation on the stock based on our Dec-22 PT of PKR 147/share which results in upside of 12% including dividend yield of 14%. Our investment case on MCB is based on (1) NIMs expansion to support core earnings of the bank (2) One of the highest CASA in the industry (3) balance sheet ideally positioned to benefit from the rising interest rate scenario going forward.

Risks

Key risks to our investment thesis are: 1) lower than anticipated rise in interest rates, 2) lower than anticipated growth in advances and deposits 3) 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 March 31, 2022, MCB is operating through 1,426 branches in Pakistan and 10 branches outside the country, including Karachi Export Processing Zone. Maybank International Trust (Labuan) Berhad has a majority holding in the bank at 18.8% followed by associated companies having 18.4% stake in the bank.

Financial Highlights - MCB

Income Statement (PKR mn)						
	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
Mark-up/interest earned	138,292	136,076	123,334	221,433	258,792	213,884
Mark-up/interest expensed	78,676	64,741	59,347	132,633	155,221	115,815
Net interest income	59,616	71,334	63,987	88,800	103,571	98,069
Non-interest income	16,679	18,136	20,074	23,289	20,770	21,426
Provision charged	2,484	7,313	(4,823)	(243)	5,011	7,485
Operating expenses	32,671	32,646	35,381	38,587	41,146	44,175
Profit after tax	23,977	29,037	30,811	25,676	33,808	30,545

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
Cash & Treasury Balances	132,705	122,181	164,613	148,507	166,328	186,287
Investments	748,765	1,015,869	1,035,585	1,148,789	1,265,884	1,398,564
Advances	496,679	462,942	589,711	678,637	775,063	883,217
Operating Fixed Assets	59,229	58,966	58,307	57,448	56,307	55,190
Other Assets	77,775	97,504	122,252	133,474	149,491	167,430
Total Assets	1,515,152	1,757,462	1,970,468	2,166,853	2,413,073	2,690,687
Borrowings from FIs	89,506	164,002	269,526	332,275	372,148	416,805
Deposits	1,144,763	1,289,502	1,411,852	1,545,809	1,731,306	1,939,063
Other Liabilities	111,968	113,857	114,684	114,711	128,548	144,055
Total Liabilities	1,346,237	1,567,361	1,796,061	1,992,795	2,232,002	2,499,923
Equity	168,915	190,102	174,407	174,058	181,071	190,764
Total Liabilities & Equity	1,515,152	1,757,462	1,970,468	2,166,853	2,413,073	2,690,687

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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