

**MCB Bank Limited**

## Key Takeaways

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

Pakistan Research

**MCB: 3QCY21 Analyst briefing takeaways**

- MCB Bank Limited held conference call today to discuss its 3QCY21 results. Earlier, the bank had reported net earnings of PKR 6.59/share during 3QCY21, down 20% YoY (9MCY21 EPS PKR 19.03, up 2% YoY). The result was also accompanied with an interim cash dividend of PKR 4.5/share (9M dividend PKR 14.0/share).
- Key highlight of healthy earnings was reversal in provisions to the tune of PKR 1.5bn in 3QCY21 versus an expense of PKR 5.1bn in the corresponding period last year. The bank booked total reversal of PKR 3.5bn in 9MCY21. The management once again reiterated that reversals are likely to continue in 4QCY21.
- Commenting on the recent development regarding acquisition of Telenor micro finance Easypaisa segment, the management told that it will supplement the bank's digital banking growth as it will capitalize upon the consumer base of Easypaisa. However, the proposition is in preliminary stage and the bank will only pursue this if its financially fit to the MCB's strategy.
- Despite increase in the Policy Rate, interest rate spreads of the bank declined slightly by 3bps QoQ to 3.73% in 3QCY21 which was due to huge PIB maturity of around PKR 87bn in July 2021. Next maturity cycle of PIB is expected in the 4QCY22. The management is not foreseeing any decline in spreads going forward as repricing is adjusted completely.
- MCB management now expects interest rates to increase by 50-75 bps in the upcoming Monetary Policy followed by a further hike of 150bps in CY22. Anticipating a hike in interest rates, the bank has added additional PIB floaters of PKR 248bn during the 3Q. For T-bills, the concentration remains in the shorter tenure and all the T-bills will be matured by Jan-22.
- The management is eyeing an ambitious loan growth target to meet the minimum ADR of 40% YoY. This will be supported by major chunk of TERF facility disbursement and working capital requirement from the corporate sector. Deposit growth target is set in the range of 12-13% for CY21.
- MCB is currently operating with 1419 domestic branches while it plans to further add 10 branches in CY21. Cost to income ratio to remain in the range of 40-43% during CY21.
- With regards to NIB delinquencies, around PKR 6.8bn have been recovered out of PKR 29.6bn. Interestingly, PKR 580mn has also been recovered from the written off financing of NIB. The management is upbeat on further reversals from the NIB portfolio.
- The management highlighted that there was no specific reason for the reduction in dividend and expect the payout ratio to be in the range of 75%-80%, going forward.

**Key Data**

|                         |          |
|-------------------------|----------|
| PSX Ticker              | MCB      |
| Target Price (PKR)      | 200      |
| Current Price (PKR)     | 158      |
| Upside/(Downside) (%)   | + 27%    |
| Dividend Yield (%)      | 13%      |
| Total Return (%)        | + 40%    |
| 12-month High (PKR)     | 202      |
| 12-month Low (PKR)      | 147      |
| Outstanding Shares (mn) | 1,185.06 |
| Market Cap (PKR mn)     | 187,322  |
| Year End                | December |

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 21.2% to arrive to calculate exit P/B, along with a risk free rate of 11%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 17%.

### Investment Thesis

We have a 'BUY' recommendation on the stock based on our June-22 PT of PKR 200/share which results in total upside of 40% including dividend yield of 13%. 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 expected growth in advances and deposits 3) higher than estimated 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 Sept 30, 2021, MCB is operating through 1,419 branches in Pakistan and 11 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)          |               |               |               |               |               |               |
|------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
|                                    | CY18A         | CY19A         | CY20A         | CY21E         | CY22F         | CY23F         |
| Mark-up/interest earned            | 83,319        | 138,292       | 136,076       | 119,892       | 144,980       | 179,901       |
| Mark-up/interest expensed          | 37,305        | 78,676        | 64,741        | 57,234        | 72,075        | 95,020        |
| <b>Net interest income</b>         | <b>46,014</b> | <b>59,616</b> | <b>71,334</b> | <b>62,657</b> | <b>72,906</b> | <b>84,881</b> |
| <b>Non-interest income</b>         | <b>17,199</b> | <b>16,679</b> | <b>18,136</b> | <b>19,230</b> | <b>18,451</b> | <b>18,875</b> |
| Provision charged                  | (1,753)       | 2,484         | 7,313         | (2,668)       | 4,021         | 9,590         |
| Operating expenses                 | 32,902        | 32,671        | 32,646        | 34,913        | 37,113        | 42,495        |
| <b>Profit/loss to shareholders</b> | <b>21,185</b> | <b>23,977</b> | <b>29,037</b> | <b>28,499</b> | <b>29,293</b> | <b>30,005</b> |

Source: Company Accounts, Akseer Research

| Balance sheet (PKR mn)                |                  |                  |                  |                  |                  |                  |
|---------------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
|                                       | CY18A            | CY19A            | CY20A            | CY21E            | CY22F            | CY23F            |
| Cash & Treasury Balances              | 103,175          | 132,705          | 122,181          | 145,035          | 165,340          | 185,180          |
| Investments                           | 749,369          | 748,765          | 1,015,869        | 1,041,065        | 1,172,192        | 1,293,460        |
| Advances                              | 503,581          | 496,679          | 462,942          | 537,841          | 616,142          | 700,399          |
| Operating Fixed Assets                | 41,442           | 59,229           | 58,966           | 57,960           | 56,809           | 55,681           |
| Other Assets                          | 100,563          | 77,775           | 97,504           | 103,466          | 117,952          | 132,106          |
| <b>Total Assets</b>                   | <b>1,498,130</b> | <b>1,515,152</b> | <b>1,757,462</b> | <b>1,885,366</b> | <b>2,128,434</b> | <b>2,366,828</b> |
| Borrowings from FIs                   | 216,019          | 89,506           | 164,002          | 135,036          | 153,941          | 172,414          |
| Deposits                              | 1,049,038        | 1,144,763        | 1,289,502        | 1,470,033        | 1,675,837        | 1,876,938        |
| Other Liabilities                     | 83,795           | 111,968          | 113,857          | 98,680           | 110,413          | 123,632          |
| <b>Total Liabilities</b>              | <b>1,348,852</b> | <b>1,346,237</b> | <b>1,567,361</b> | <b>1,703,748</b> | <b>1,940,191</b> | <b>2,172,984</b> |
| Equity                                | 149,278          | 168,915          | 190,102          | 181,618          | 188,243          | 193,844          |
| <b>Total Liabilities &amp; Equity</b> | <b>1,498,130</b> | <b>1,515,152</b> | <b>1,757,462</b> | <b>1,885,366</b> | <b>2,128,434</b> | <b>2,366,828</b> |

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.

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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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