

MCB Bank Limited
Result Review

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

Pakistan Research

3QCY22 EPS came in at PKR 7.36, up 12% YoY; DPS PKR 5.0

- MCB posted unconsolidated EPS of PKR 7.36 in 3QCY22, up 12% YoY. This took 9MICY22 EPS to PKR 16.8, down 12% YoY. Along with the result, the bank also announced an interim cash dividend of PKR 5.0/share, taking cumulative payout to PKR 14.0/share for 9MICY22.
- NII during the quarter increased by 39% YoY to PKR 22.5bn driven by upward repricing of both assets and deposits. Interest income increased by 75% YoY to PKR 55.6bn, while interest expense grew by 113% YoY to PKR 33.1bn.
- Non-interest income grew by 51% YoY to PKR 7.3bn in 3QCY22 on the back of higher fee & commission income up 14% YoY to PKR 3.6bn and forex income of PKR 3.9bn up 312% YoY.
- MCB booked a provisioning reversal of PKR 516mn in 3QCY22 against a reversal of PKR 1.5bn in SPLY.
- Operating expenses increased by 22% YoY to PKR 11.3bn in 3QCY22. However, cost to income ratio declined to 36.4% in 3QCY22 vs 42.7% in 3QCY21 owing to higher revenue growth.
- The bank recorded an effective tax rate 54% in 3QCY22 against 41% in 3QCY21 due to 1) rise in corporate tax rates and 2) imposition of super tax on CY22 profits and 3) additional tax imposed on the banks with lower ADR in FY23 budget.
- We have a 'BUY' rating on the scrip with June-23 price target of PKR 160/share, implying an upside of 34% along with a dividend yield of 17.4%.

Key Data

PSX Ticker	MCB
Target Price (PKR)	160
Current Price (PKR)	119
Upside/(Downside) (%)	+ 34%
Dividend Yield (%)	17.4%
Total Return (%)	+ 52%
12-month High (PKR)	166
12-month Low (PKR)	115
Outstanding Shares (mn)	1,185
Market Cap (PKR mn)	141,022
Year End	December

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	3QCY21	3QCY22	YoY	9MICY21	9MICY22	YoY
M/up Earned	31,702	55,612	75%	89,903	141,028	57%
M/up Expense	15,506	33,090	113%	42,158	79,518	89%
Net Interest Income	16,195	22,523	39%	47,745	61,511	29%
Non-Interest Income	4,884	7,355	51%	14,383	20,250	41%
Total Provisions	(1,499)	(516)	-66%	(3,499)	(1,318)	-62%
Operating Expenses	9,321	11,342	22%	27,356	31,494	15%
Profit Before Tax	13,257	19,051	44%	38,270	51,585	35%
Taxation	5,444	10,323	90%	15,714	31,735	102%
Profit After Tax	7,813	8,728	12%	22,556	19,850	-12%
EPS	6.6	7.4	12%	19.0	16.75	-12%
DPS	4.5	5.0	-	14.0	14.0	-

Source: Company Accounts, Akseer Research

Key Financial Ratios

	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
EPS	20.2	24.5	26.0	22.5	28.2	25.6
EPS Growth	13.2%	21.1%	6.1%	-13.5%	25.6%	-9.4%
DPS	17.0	20.0	19.0	18.5	23.0	18.0
PER	5.9	4.9	4.6	5.3	4.2	4.7
Dividend Yield	14.3%	16.8%	16.0%	15.5%	19.3%	15.1%
P/B	0.8	0.7	0.8	0.8	0.8	0.8
ROE	15.1%	16.2%	16.9%	15.5%	19.4%	16.8%

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 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 June-23 PT of PKR 160/share which results in upside of 34% including dividend yield of 17%. 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 June 30, 2022, MCB is operating through 1,428 branches in Pakistan and 09 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	199,081	221,882	193,205
Mark-up/interest expensed	78,676	64,741	59,347	113,443	120,637	99,470
Net interest income	59,616	71,334	63,987	85,638	101,245	93,735
Non-interest income	16,679	18,136	20,074	25,438	21,733	22,461
Provision charged	2,484	7,313	(4,823)	(352)	6,748	3,809
Operating expenses	32,671	32,646	35,381	41,303	43,007	46,170
Profit after tax	23,977	29,037	30,811	26,637	33,457	30,308

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
Cash & Treasury Balances	132,705	122,181	164,613	166,507	186,488	174,516
Investments	748,765	1,015,869	1,035,585	913,866	1,068,592	1,208,371
Advances	496,679	462,942	589,711	678,745	773,435	885,264
Operating Fixed Assets	59,229	58,966	58,307	58,475	57,314	56,176
Other Assets	77,775	97,504	122,252	174,402	131,382	147,147
Total Assets	1,515,152	1,757,462	1,970,468	1,991,994	2,217,210	2,471,475
Borrowings from FIs	89,506	164,002	269,526	155,639	174,315	195,233
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	121,093	135,705	152,081
Total Liabilities	1,346,237	1,567,361	1,796,061	1,822,541	2,041,327	2,286,377
Equity	168,915	190,102	174,407	169,454	175,883	185,097
Total Liabilities & Equity	1,515,152	1,757,462	1,970,468	1,991,994	2,217,210	2,471,475

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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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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