

## MCB Bank Limited

### Result Preview

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

Pakistan Research

## 4QCY22 EPS expected at PKR 8.49, up 22% YoY; DPS PKR 6.0

- MCB is scheduled to announce its 4QCY22 result tomorrow. We anticipate, the bank to post an unconsolidated EPS of PKR 8.49, up 22% YoY. This would take CY22 EPS to PKR 25.24, down 3% YoY. Along with the result, we expect the bank to announce final cash dividend of PKR 6.0/share, taking cumulative payout to PKR 20.0/share for CY22.
- NII during the quarter is expected to increase by 53% YoY to PKR 24.8bn. We expect interest income to increase by 82% YoY to PKR 60.7bn, while interest expense to rise to PKR 35.8bn up 108% on the back of increase in interest rate.
- Non-interest income is likely to decrease by 8% YoY to PKR 5.2bn in 4Q. This decline mainly comes from reduced dividend income (-48% YoY to PKR 423mn) and forex income (-25% YoY to PKR 1.0bn).
- We expect the bank to record higher provision expense owing to economic headwinds. The provisioning expense is likely to clock in at PKR 1.6bn during 4Q compared to a reversal of PKR 1.3bn in SPLY.
- Operating expenses are anticipated to grow by 39% YoY to PKR 15.2bn in 4QCY22 due to inflationary pressures.
- We have assumed MCB to cross the ADR threshold of 50%, and reverse the tax expense charged during earlier quarters due to the lower ADR levels.
- The effective tax rate during 4Q is likely to clock in at 34%, due to the reversal of ADR related taxes.
- We have a 'BUY' rating on the scrip with Dec-23 price target of PKR 150/share, providing an upside of 32% along with a dividend yield of 21.8%.

### Key Data

PSX Ticker	MCB
Target Price (PKR)	150
Current Price (PKR)	113
Upside/(Downside) (%)	32%
Dividend Yield (%)	21.8%
Total Return (%)	54%
12-month High (PKR)	166
12-month Low (PKR)	107
Outstanding Shares (mn)	1,185
Market Cap (PKR mn)	134,315
Year End	December

Source: Company Accounts, Akseer Research

### Financial Estimates (PKR mn)

	4QCY21	4QCY22E	YoY	CY21	CY22E	YoY
M/up Earned	33,431	60,698	82%	123,334	201,727	64%
M/up Expense	17,189	35,825	108%	59,347	115,343	94%
<b>Net Interest Income</b>	16,242	24,873	53%	63,987	86,384	35%
Non-Interest Income	5,691	5,222	-8%	20,074	25,472	27%
Total Provisions	(1,324)	1,627	NM	(4,823)	309	NM
Operating Expenses	9,538	13,263	39%	36,894	44,758	21%
<b>Profit Before Tax</b>	13,719	15,204	11%	51,989	66,789	28%
Taxation	5,464	5,145	-6%	21,178	36,879	74%
<b>Profit After Tax</b>	8,255	10,060	22%	30,811	29,910	-3%
EPS	6.97	8.49	22%	26.00	25.24	-3%
DPS	5.00	6.00	-	19.00	20.00	-

Source: Company Accounts, Akseer Research

### Key Financial Ratios

	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
EPS	20.2	24.5	26.0	25.2	34.8	38.5
EPS Growth	13.2%	21.1%	6.1%	-2.9%	37.7%	10.6%
DPS	17.0	20.0	19.0	20.0	29.0	30.5
BVPS	142.5	160.4	147.2	146.1	153.0	159.1
PER	5.6	4.6	4.4	4.5	3.3	2.9
Dividend Yield	15.0%	17.6%	16.8%	17.6%	25.6%	26.9%
P/B	0.8	0.7	0.8	0.8	0.7	0.7
ROE	15.1%	16.2%	16.9%	17.2%	23.2%	24.6%

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 24% to arrive to calculate exit P/B, along with a risk free rate of 17%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 23%.

### Investment Thesis

We have a 'BUY' recommendation on the stock based on our Dec-23 PT of PKR 150/share which results in an upside of 32% along with a dividend yield of 21.8%. 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 Sep 30, 2022, MCB is operating through 1,430 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	201,727	332,378	304,855
Mark-up/interest expensed	78,676	64,741	59,347	115,343	203,784	177,989
<b>Net interest income</b>	<b>59,616</b>	<b>71,334</b>	<b>63,987</b>	<b>86,384</b>	<b>128,594</b>	<b>126,866</b>
<b>Non-interest income</b>	<b>16,679</b>	<b>18,136</b>	<b>20,074</b>	<b>25,472</b>	<b>22,719</b>	<b>23,327</b>
Provision charged	2,484	7,313	(4,823)	309	12,077	6,451
Operating expenses	32,671	32,646	35,381	43,063	56,409	61,604
<b>Profit after tax</b>	<b>23,977</b>	<b>29,037</b>	<b>30,811</b>	<b>29,910</b>	<b>41,142</b>	<b>45,515</b>

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
Cash & Treasury Balances	132,705	122,181	164,613	152,310	165,257	168,284
Investments	748,765	1,015,869	1,035,585	954,283	1,057,237	1,135,942
Advances	496,679	462,942	589,711	748,167	823,482	914,035
Operating Fixed Assets	59,229	58,966	58,307	58,855	57,687	56,541
Other Assets	77,775	97,504	122,252	165,207	145,774	158,165
<b>Total Assets</b>	<b>1,515,152</b>	<b>1,757,462</b>	<b>1,970,468</b>	<b>2,078,822</b>	<b>2,249,435</b>	<b>2,432,967</b>
Borrowings from FIs	89,506	164,002	269,526	183,437	199,029	215,947
Deposits	1,144,763	1,289,502	1,411,852	1,588,333	1,723,341	1,869,825
Other Liabilities	111,968	113,857	114,684	133,910	145,728	158,605
<b>Total Liabilities</b>	<b>1,346,237</b>	<b>1,567,361</b>	<b>1,796,061</b>	<b>1,905,680</b>	<b>2,068,098</b>	<b>2,244,377</b>
Equity	168,915	190,102	174,407	173,142	181,337	188,590
<b>Total Liabilities &amp; Equity</b>	<b>1,515,152</b>	<b>1,757,462</b>	<b>1,970,468</b>	<b>2,078,822</b>	<b>2,249,435</b>	<b>2,432,967</b>

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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