

MCB Bank Limited
Result Review

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

Pakistan Research

MCB: 1QCY24 EPS clocked in at PKR 13.97, up 27% YoY; DPS PKR 9.00

- MCB announced its 1QCY24 result on April 24th, 2024. For the first quarter, the bank posted an unconsolidated EPS of PKR 13.97, up 27% YoY. Along with the result, MCB declared an interim cash dividend of PKR 9.00/share.
- NII for the 1QCY24 increased by 27% YoY to PKR 38.1bn. This is despite the interest expense increase (+51% YoY), outpacing the interest income (+39% YoY).
- Non-interest income increased by 54% YoY to PKR 9.1bn during the first quarter due to a noticeable increase in fee & commission income (+46% YoY) and FX income (+97% YoY). Further support came from higher dividend income (+55% YoY) in 1QCY24.
- The Bank booked a provisioning reversal of PKR 69mn despite economic slowdown given the persistent improvement in loan recovery (particularly in the NIB book) and prudent risk management practices.
- Operating expenses for 1QCY24 increased by 19% YoY to PKR 14.7bn, translating into a cost-income ratio of 31% versus 34% in SPLY due to higher NII.
- Effective tax rate clocked in at 49%, owing to higher super tax in 1QCY24.
- We have a 'BUY' rating on the scrip with Dec-24 price target of PKR 234/share, providing an upside of 10% along with a dividend yield of 17%.

Key Data

PSX Ticker	MCB
Target Price (PKR)	234
Current Price (PKR)	213
Upside/(Downside) (%)	10%
Dividend Yield (%)	17%
Total Return (%)	27%
12-month High (PKR)	222
12-month Low (PKR)	110
Outstanding Shares (mn)	1,185
Market Cap (PKR mn)	252,956
Year End	December

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	1QCY23	1QCY24	YoY
M/up Earned	63,855	89,009	39%
M/up Expense	33,785	50,938	51%
Net Interest Income	30,070	38,071	27%
Non-Interest Income	5,922	9,123	54%
Total Provisions	624	(69)	-111%
Operating Expenses	12,351	14,722	19%
Profit Before Tax	23,016	32,541	41%
Taxation	9,960	15,986	61%
Profit After Tax	13,056	16,555	27%
EPS	11.02	13.97	27%
DPS	6.00	9.00	-

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

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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 21.4% 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 FIs	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
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Hold	Between -5% and +15%
Sell	Less than or equal to -5%

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