

MCB Bank Limited

Result Review

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

Pakistan Research

MCB: 4QCY23 EPS reported at PKR 13.05, up 20% YoY; DPS PKR 9.0

- MCB announced its 4QCY23 financial result today, wherein the bank posted an unconsolidated EPS of PKR 13.0, up 20% YoY. This took cumulative CY23 EPS to PKR 50.3, up 82.1% YoY.
- Along with the result, the bank announced a final cash dividend of PKR 9.0/share, taking the total payout to PKR 30.0/share for CY23.
- During 4Q, NII increased by 61.0% YoY to PKR 41.2bn. Interest income increased by 55.1% YoY to PKR 92.7bn, while interest expense rose to PKR 51.4bn up 50.8% due to the increase in interest rate during the quarter.
- Non-interest income increased to PKR 10.3bn, up 136.5% YoY. This increase is attributable to improvement across all sub heads. Fee & commission income/Dividend/FX income increased by 54.3/40.2/114.7% YoY in 4Q. Moreover, bank booked capital gain of PKR 623mn in 4Q as compared to capital loss of PKR 1.5 bn in 4QCY22.
- The bank has recorded a reversal in provision expense of PKR 843mn during 4QCY24, down 42.5% YoY.
- Operating expenses of the bank grew by 31.0% YoY to PKR 15.3bn, which we believe is due to the inflationary pressures. However, cost to income ratio of the bank declined to 29.7% vs 39.0% SPLY.
- The effective tax rate during 4Q clocked in at 58.3% vs 34.8% in SPLY as the bank booked a windfall tax on foreign exchange income.
- We have a 'BUY' rating on the scrip with Dec-24 price target of PKR 215/share, providing an upside of 16.8% along with a dividend yield of 16.8%.

Key Data

PSX Ticker	MCB
Target Price (PKR)	215
Current Price (PKR)	184
Upside/(Downside) (%)	17%
Dividend Yield (%)	17%
Total Return (%)	34%
12-month High (PKR)	192
12-month Low (PKR)	110
Outstanding Shares (mn)	1,185
Market Cap (PKR mn)	218,098
Year End	December

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	4QCY22	4QCY23	YoY	CY22	CY23	YoY
M/up Earned	59,735	92,676	55%	200,763	328,057	63%
M/up Expense	34,090	51,392	51%	113,607	180,356	59%
Net Interest Income	25,645	41,284	61%	87,156	147,701	69%
Non-Interest Income	4,363	10,316	136%	24,613	32,916	34%
Total Provisions	(1,465)	(843)	-42%	(2,782)	373	-113%
Operating Expenses	11,692	15,319	31%	43,186	55,003	27%
Profit Before Tax	19,781	37,125	88%	71,365	125,241	75%
Taxation	6,890	21,661	214%	38,624	65,609	70%
Profit After Tax	12,891	15,464	20%	32,741	59,631	82%
EPS	10.88	13.05		27.63	50.32	
DPS	6.00	9.00		20.00	30.00	

Source: Company Accounts, Akseer Research

Key Financial Ratios

	CY21A	CY22A	CY23E	CY24F	CY25F	CY26F
EPS	26.0	27.6	50.3	52.5	52.0	48.8
EPS Growth	6.1%	6.3%	82.1%	4.2%	-0.9%	-6.1%
DPS	19.0	20.0	30.0	31.0	31.5	34.0
BVPS	147.2	159.9	185.5	206.5	227.5	244.3
PER	7.1	6.7	3.7	3.5	3.5	3.8
Dividend Yield	10.3%	10.9%	16.3%	16.8%	17.1%	18.5%
P/B	1.3	1.2	1.0	0.9	0.8	0.8
ROE	16.9%	18.0%	29.1%	26.8%	24.0%	20.7%

Source: Company Accounts, Akseer Research

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 20% 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 215/share which results in an upside of 17% along with a 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) higher CAR to ensure constant payout.

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)						
	CY21A	CY22A	CY23A	CY24F	CY25F	CY26F
Mark-up/interest earned	123,334	200,763	328,057	374,888	324,719	289,510
Mark-up/interest expensed	59,347	113,607	180,356	225,276	173,050	140,649
Net interest income	63,987	87,156	147,701	149,612	151,668	148,861
Non-interest income	20,074	24,613	32,916	35,490	36,241	37,240
Provision charged	(4,823)	(2,782)	373	587	641	2,864
Operating expenses	35,381	41,495	51,838	59,247	62,833	65,861
Profit after tax	30,811	32,741	59,631	62,158	61,594	57,824

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY21A	CY22A	CY23A	CY24F	CY25F	CY26F
Cash & Treasury Balances	164,613	96,369	164,791	166,439	178,089	190,556
Investments	1,035,585	978,731	1,226,218	1,143,645	1,210,059	1,273,909
Advances	589,711	753,400	711,630	839,851	927,861	1,022,512
Operating Fixed Assets	58,307	80,719	81,310	79,696	78,114	76,563
Other Assets	122,252	176,136	249,965	252,464	270,137	289,046
Total Assets	1,970,468	2,085,355	2,433,913	2,482,095	2,664,260	2,852,586
Borrowings from FIs	269,526	340,237	292,958	295,888	316,600	338,762
Deposits	1,411,852	1,378,717	1,737,184	1,754,555	1,877,374	2,008,790
Other Liabilities	114,684	176,906	183,957	186,995	200,732	215,512
Total Liabilities	1,796,061	1,895,861	2,214,099	2,237,438	2,394,706	2,563,065
Equity	174,407	189,495	219,814	244,657	269,554	289,522
Total Liabilities & Equity	1,970,468	2,085,355	2,433,913	2,482,095	2,664,260	2,852,586

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%

Ratings are updated to account for any development impacting the economy/sector/company, changes in analysts' assumptions or a combination of these factors.

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