

MCB Bank Limited

Key Takeaways

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

Pakistan Research

MCB - 2QCY21 Analyst briefing takeaways

- MCB Bank Limited held a conference call to discuss its 2QCY21 results. Earlier, the bank had reported net earnings of PKR 6.71/share during 2QCY21, up 19% YoY (1HCY21 EPS PKR 12.44, up 12% YoY). The result was also accompanied with an interim cash dividend of PKR 5.0/share (1H dividend PKR 9.5/share).
- Key highlight of healthy earnings was reversal in provisions to the tune of PKR 1.8bn in 2QCY21 versus an expense of PKR 3.8bn in the corresponding period last year. The management already had provided guidance about this in its annual analyst briefing session that reversals are expected to the tune of PKR 2-2.5bn in CY21. The management once again reiterated that reversals are likely to continue in 2H.
- Bank's profitability was also supported by higher non-interest income which grew by 49% YoY to PKR 4.8bn. Fee and commission income was up by 16% YoY owing to the normalized business environment in 2Q. Apart from this, the bank booked a gain of PKR 536mn on sale of non-banking assets acquired in satisfaction of claims, further augmenting non-interest income growth.
- Interest rate spreads improved marginally by 7 bp QoQ, from 3.76% in 1QCY21 to 3.83% in 2QCY21. The management is not foreseeing any decline in spreads going forward as repricing is adjusted completely.
- Updating on interest rate outlook, the MCB management now expects interest rates to increase by 50 bps in November 2021 while another hike of 50 bps is expected in the 1HCY22. Anticipating a hike in interest rates, the bank has increased its floating rate PIB mix to 44% in 2QCY21 vs 17% by end of Dec-20. For T-bills, the concentration remains in the shorter tenure.
- The management is eyeing an ambitious loan growth target of 19-20% to meet the minimum ADR of 40% while 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 6.6bn has been recovered so far out of PKR 29.6bn. Interestingly, PKR 540mn has also been recovered from the written off financing of NIB. The management is upbeat on further reversals from the NIB portfolio.

Key Data

PSX Ticker	MCB
Target Price (PKR)	200
Current Price (PKR)	165
Upside/(Downside) (%)	+ 21%
Dividend Yield (%)	12%
Total Return (%)	+ 33%
12-month High (PKR)	202
12-month Low (PKR)	150
Outstanding Shares (mn)	1,185.06
Market Cap (PKR mn)	196,127
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 24.6% 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 Dec-21 PT of PKR 200/share which results in total upside of 33% including dividend yield of 12%. 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 March 31, 2021, MCB Bank Limited operated 1,419 branches in Pakistan and 11 branches outside the country, including Karachi Export Processing Zone.

Financial Highlights - MCB

Income Statement (PKR mn)						
	CY18A	CY19A	CY20A	CY21F	CY22F	CY23F
Mark-up/interest earned	83,319	138,292	136,076	119,184	142,430	171,155
Mark-up/interest expensed	37,305	78,676	64,741	56,009	74,302	90,889
Net interest income	46,014	59,616	71,334	63,175	68,128	80,267
Non-interest income	17,199	16,679	18,136	18,643	19,808	20,585
Provision charged	(1,753)	2,484	7,313	1,016	2,163	3,192
Operating expenses	32,902	32,671	32,646	34,583	36,256	37,776
Profit/loss to shareholders	21,185	23,977	29,037	27,133	29,056	35,242

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY18A	CY19A	CY20A	CY21F	CY22F	CY23F
Cash & Treasury Balances	103,175	132,705	122,181	120,756	132,831	146,114
Investments	749,369	748,765	1,015,869	1,168,261	1,348,681	1,544,682
Advances	503,581	496,679	462,942	436,337	410,222	384,252
Operating Fixed Assets	41,442	59,229	58,966	57,782	56,635	55,511
Other Assets	100,563	77,775	97,504	93,065	102,371	112,608
Total Assets	1,498,130	1,515,152	1,757,462	1,876,200	2,050,740	2,243,167
Borrowings from FIs	216,019	89,506	164,002	176,844	194,528	213,981
Deposits	1,049,038	1,144,763	1,289,502	1,418,453	1,560,298	1,716,328
Other Liabilities	83,795	111,968	113,857	101,701	111,536	123,004
Total Liabilities	1,348,852	1,346,237	1,567,361	1,696,997	1,866,362	2,053,312
Equity	149,278	168,915	190,102	179,204	184,378	189,855
Total Liabilities & Equity	1,498,130	1,515,152	1,757,462	1,876,200	2,050,740	2,243,167

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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