

MCB Bank Limited

Analyst Briefing Key Takeaways

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

Pakistan Research

MCB: 1HCY22 Analyst Briefing Key Takeaways

- MCB Bank Limited (MCB) held an analyst briefing session on August 23, 2022 to discuss its 1HCY22 result and future outlook. Earlier, the bank announced an unconsolidated EPS of PKR 1.87 for 2QCY22, down 72% YoY, taking 1HCY22 EPS to PKR 9.4, down 25% YoY. The result was also accompanied with an interim cash dividend of PKR 4.0/share, which took cumulative payout to PKR 9.0/share for 1HCY22.
- MCB's deposits depicted a growth of 10% YoY to PKR 1.59tn while current account deposits witnessed substantial increase of 28% YoY to PKR 681bn and savings account increased by 9% YoY to PKR 788bn leading to CASA of 92.4% during 1HCY22. Going forward, management of the bank is expecting slowdown in deposit growth for 2HCY22.
- MCB bank's gross financing increased by PKR ~140bn to PKR 651bn in 1HCY22, up 27% YoY. This resulted in improved ADR of 41% in 1HCY22 vs 35% in 1HCY21. Corporate sector leads the financing mix with 70% share. The bank is eyeing aggressive advances growth during 2HCY22 to bring ADR at 50% at year end to avoid the additional tax related to ADR.
- NPL ratio further improved to 7.9% in 1HY22 vs 10.0% in 1HCY21 despite aggressive lending while coverage ratio decreased to 86.78% in 1HCY22 vs 95.7% in 1HCY21. Bank is optimistic regarding recovery of NPLs from corporate clients and specially against the NIB portfolio during 1HCY22, wherein the recoveries from NIB clocked in at PKR 490mn.
- MCB's non-interest income increased by an impressive 36% YoY to PKR 12.9bn in 1HCY22 where major growth came from higher forex income (+195% YoY), fee & commission income (+12% YoY) and dividend income (+28% YoY).
- MCB's PIB portfolio consists of 38% fixed rate with an average yield of 11.6% while remaining 62% is floating rate portfolio with an average yield of 15%. Around 90% of the floating PIBS would be repriced during the 2HCY22.
- The management expects interest rates to remain unchanged in 2022.
- Operating expenses remained higher by 13% YoY to PKR 19.6bn in 1HCY22. This is due to an increase in minimum wage rate by the government. The management expects operating expenses to remain elevated during the 2HCY22.
- Bank's Capital Adequacy Ratio (CAR) stood at 16.5% as at June-22 vs 17% in Dec-22, which is well above the regulatory requirement of 11.5%.
- After the due diligence of the Telenor Microfinance Bank, the MCB's management decided not to pursue the transaction for 52% stake in the bank.

Key Data

PSX Ticker	MCB
Target Price (PKR)	147
Current Price (PKR)	129
Upside/(Downside) (%)	+ 14%
Dividend Yield (%)	14%
Total Return (%)	+ 28%
12-month High (PKR)	169
12-month Low (PKR)	118
Outstanding Shares (mn)	1,185.1
Market Cap (PKR mn)	153,193
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 21.0% 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 Dec-22 PT of PKR 147/share which results in upside of 14% including dividend yield of 14%. 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	221,433	258,792	213,884
Mark-up/interest expensed	78,676	64,741	59,347	132,633	155,221	115,815
Net interest income	59,616	71,334	63,987	88,800	103,571	98,069
Non-interest income	16,679	18,136	20,074	23,289	20,770	21,426
Provision charged	2,484	7,313	(4,823)	(243)	5,011	7,485
Operating expenses	32,671	32,646	35,381	38,587	41,146	44,175
Profit after tax	23,977	29,037	30,811	25,676	33,808	30,545

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
Cash & Treasury Balances	132,705	122,181	164,613	148,507	166,328	186,287
Investments	748,765	1,015,869	1,035,585	1,148,789	1,265,884	1,398,564
Advances	496,679	462,942	589,711	678,637	775,063	883,217
Operating Fixed Assets	59,229	58,966	58,307	57,448	56,307	55,190
Other Assets	77,775	97,504	122,252	133,474	149,491	167,430
Total Assets	1,515,152	1,757,462	1,970,468	2,166,853	2,413,073	2,690,687
Borrowings from FIs	89,506	164,002	269,526	332,275	372,148	416,805
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	114,711	128,548	144,055
Total Liabilities	1,346,237	1,567,361	1,796,061	1,992,795	2,232,002	2,499,923
Equity	168,915	190,102	174,407	174,058	181,071	190,764
Total Liabilities & Equity	1,515,152	1,757,462	1,970,468	2,166,853	2,413,073	2,690,687

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
Buy	Greater than or equal to +15%
Hold	Between -5% and +15%
Sell	Less than or equal to -5%

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