

MCB Bank Limited

Result Review

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

Pakistan Research

MCB: Hefty provisioning reversal lifted 3QCY21 EPS to PKR 6.59

- MCB Bank announced its 3QCY21 financial results today wherein the EPS of the bank clocked in at PKR 6.59/share, down 20% YoY. For 9MCY21, EPS of the bank stood at PKR 19.03, down 2% YoY.
- The result was also accompanied by lower-than-expected interim cash dividend of PKR 4.50/share, taking 9MCY21 dividend payout to PKR 14.0 (payout ratio 74%).
- The result was higher than our expectation primarily due to provisioning reversals of PKR 1.5bn during 3QCY21 against our estimate for provision expense of PKR 500mn. For 9MCY21, MCB booked provisioning reversals of PKR 3.5bn against provision expense of PKR 5.1bn in 9MCY20.
- Net interest income of the bank declined by 16% YoY to PKR 16.2bn during 3QCY21. Interest income remained flat on YoY basis to PKR 31.7bn, while interest expense surged by 24% YoY to PKR 15.5bn. During 9MCY21, Bank's NII declined by 14% YoY.
- Despite 9% YoY growth in fee & commission income, non-interest income declined 25% YoY to PKR 4.9bn in 3QCY21 as the bank booked huge capital gains in 3QCY20. However, on a quarterly basis, non-interest income posted +ve growth of 6%, led by higher fee & commission (+17% QoQ) and forex income (+21% QoQ).
- Admin expenses grew by 9% YoY to PKR 9.3bn in 3QCY21, which led the cost to income ratio to increase to 42.7%. For 9MCY21, the cost to income ratio stood at 42%, up 7ppts compared to last year.
- We have a 'BUY' stance on the stock with our June-22 PT of PKR 200/share, offering a total upside of 39% from current levels (including a dividend yield of 13%).

Key Data

| | |
|-------------------------|----------|
| PSX Ticker | MCB |
| Target Price (PKR) | 200 |
| Current Price (PKR) | 159 |
| Upside/(Downside) (%) | + 26.0% |
| Dividend Yield (%) | 13.0% |
| Total Return (%) | + 39.0% |
| 12-month High (PKR) | 202 |
| 12-month Low (PKR) | 147 |
| Outstanding Shares (mn) | 1,185.1 |
| Market Cap (PKR mn) | 187,962 |
| Year End | December |

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

| | 3QCY20 | 3QCY21 | YoY | 9MCY20 | 9MCY21 | YoY |
|----------------------------|---------------|---------------|-------------|---------------|---------------|-------------|
| M/up Earned | 31,824 | 31,702 | 0% | 107,035 | 89,903 | -16% |
| M/up Expense | 12,490 | 15,506 | 24% | 51,689 | 42,158 | -18% |
| Net Interest Income | 19,333 | 16,195 | -16% | 55,346 | 47,745 | -14% |
| Non-Interest Income | 6,476 | 4,884 | -25% | 13,559 | 14,383 | 6% |
| Total Provisions | 1,145 | (1,499) | NM | 5,109 | (3,499) | NM |
| Admin Expenses | 8,565 | 9,321 | 9% | 25,443 | 27,356 | 8% |
| Profit Before Tax | 16,099 | 13,257 | -18% | 38,354 | 38,270 | 0% |
| Taxation | 6,374 | 5,444 | -15% | 15,419 | 15,714 | 2% |
| Profit After Tax | 9,725 | 7,813 | -20% | 22,935 | 22,556 | -2% |
| EPS | 8.21 | 6.59 | -20% | 19.35 | 19.03 | -2% |
| DPS | 0.00 | 4.50 | NM | 5.00 | 14.00 | 180% |

Source: Company Accounts, Akseer Research

Key Financial Ratios

| | CY18A | CY19A | CY20A | CY21E | CY22F | CY23F |
|----------------|-------|-------|-------|-------|-------|-------|
| EPS | 17.9 | 20.2 | 24.5 | 24.0 | 24.7 | 25.3 |
| EPS Growth | -5.7% | 13.2% | 21.1% | -1.9% | 2.8% | 2.4% |
| DPS | 16.0 | 17.0 | 20.0 | 19.0 | 21.0 | 21.5 |
| PER | 8.9 | 7.8 | 6.5 | 6.6 | 6.4 | 6.3 |
| Dividend Yield | 10.1% | 10.7% | 12.6% | 12.0% | 13.2% | 13.6% |
| P/B | 1.3 | 1.1 | 1.0 | 1.0 | 1.0 | 1.0 |
| ROE | 14.0% | 15.1% | 16.2% | 15.3% | 15.8% | 15.7% |

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 21.2% 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 Jun-22 PT of PKR 200/share which results in total upside of 39% including dividend yield of 13%. 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, 2021, MCB is operating through 1,419 branches in Pakistan and 11 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) | | | | | | |
|------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | CY18A | CY19A | CY20A | CY21E | CY22F | CY23F |
| Mark-up/interest earned | 83,319 | 138,292 | 136,076 | 119,892 | 144,980 | 179,901 |
| Mark-up/interest expensed | 37,305 | 78,676 | 64,741 | 57,234 | 72,075 | 95,020 |
| Net interest income | 46,014 | 59,616 | 71,334 | 62,657 | 72,906 | 84,881 |
| Non-interest income | 17,199 | 16,679 | 18,136 | 19,230 | 18,451 | 18,875 |
| Provision charged | (1,753) | 2,484 | 7,313 | (2,668) | 4,021 | 9,590 |
| Operating expenses | 32,902 | 32,671 | 32,646 | 34,913 | 37,113 | 42,495 |
| Profit/loss to shareholders | 21,185 | 23,977 | 29,037 | 28,499 | 29,293 | 30,005 |

Source: Company Accounts, Akseer Research

| Balance sheet (PKR mn) | | | | | | |
|---------------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | CY18A | CY19A | CY20A | CY21E | CY22F | CY23F |
| Cash & Treasury Balances | 103,175 | 132,705 | 122,181 | 145,035 | 165,340 | 185,180 |
| Investments | 749,369 | 748,765 | 1,015,869 | 1,041,065 | 1,172,192 | 1,293,460 |
| Advances | 503,581 | 496,679 | 462,942 | 537,841 | 616,142 | 700,399 |
| Operating Fixed Assets | 41,442 | 59,229 | 58,966 | 57,960 | 56,809 | 55,681 |
| Other Assets | 100,563 | 77,775 | 97,504 | 103,466 | 117,952 | 132,106 |
| Total Assets | 1,498,130 | 1,515,152 | 1,757,462 | 1,885,366 | 2,128,434 | 2,366,828 |
| Borrowings from FIs | 216,019 | 89,506 | 164,002 | 135,036 | 153,941 | 172,414 |
| Deposits | 1,049,038 | 1,144,763 | 1,289,502 | 1,470,033 | 1,675,837 | 1,876,938 |
| Other Liabilities | 83,795 | 111,968 | 113,857 | 98,680 | 110,413 | 123,632 |
| Total Liabilities | 1,348,852 | 1,346,237 | 1,567,361 | 1,703,748 | 1,940,191 | 2,172,984 |
| Equity | 149,278 | 168,915 | 190,102 | 181,618 | 188,243 | 193,844 |
| Total Liabilities & Equity | 1,498,130 | 1,515,152 | 1,757,462 | 1,885,366 | 2,128,434 | 2,366,828 |

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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