

MCB Bank Limited
Result Preview

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

Pakistan Research

MCB: 1QCY24 EPS expected at PKR 12.44, up 13% YoY; DPS PKR 9.00

- MCB is scheduled to announce its 1QCY24 financial result on 24th April, 2024 wherein we anticipate the bank to post an unconsolidated EPS of PKR 12.44, up 13% YoY. Along with the result, we expect MCB to announce an interim cash dividend of PKR 9.00/share.
- NII for 1QCY24 is likely to increase by 18% YoY to PKR 35.6bn on the back of higher interest rates. Interest income is expected to increase by 45% YoY to PKR 92.5bn, while interest expense is estimated to clock in at PKR 56.9bn, up 68% YoY.
- Non-interest income is anticipated to grow by 63% YoY to PKR 9.7bn during 1Q. The increase is likely to come from higher fee & commission income, up 45% YoY and elevated FX income, up 2.3x YoY.
- We expect provisioning for the bank to decrease by 49% YoY due to prudent risk management practices and persistent improvement in loan recovery.
- Operating expenses are likely to increase by 26% YoY to PKR 15.6bn in 1QCY24 with cost to income for the quarter expected to clock-in at 33%.
- Effective tax rate is expected to arrive at 50% in 1Q after the imposition of super tax and ADR related tax.
- We have a 'BUY' rating on the scrip with Dec-24 price target of PKR 233/share, providing an upside of 10% along with a dividend yield of 16%.

Key Data

PSX Ticker	MCB
Target Price (PKR)	233
Current Price (PKR)	212
Upside/(Downside) (%)	10%
Dividend Yield (%)	16%
Total Return (%)	26%
12-month High (PKR)	222
12-month Low (PKR)	110
Outstanding Shares (mn)	1,185
Market Cap (PKR mn)	251,576
Year End	December

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)			
	1QCY23	1QCY24E	YoY
M/up Earned	63,855	92,473	45%
M/up Expense	33,785	56,914	68%
Net Interest Income	30,070	35,559	18%
Non-Interest Income	5,922	9,669	63%
Total Provisions	624	317	-49%
Operating Expenses	12,351	15,587	26%
Profit Before Tax	23,016	29,326	27%
Taxation	9,960	14,581	46%
Profit After Tax	13,056	14,745	13%
EPS	11.02	12.44	13%
DPS	6.00	9.00	-

Source: Company Accounts, Akseer Research

Key Financial Ratios						
	CY21A	CY22A	CY23A	CY24F	CY25F	CY26F
EPS	26.0	27.6	50.3	49.0	49.2	48.9
EPS Growth	6.1%	6.3%	82.1%	-2.5%	0.3%	-0.6%
DPS	19.0	20.0	30.0	34.0	34.0	34.0
BVPS	147.2	159.9	185.5	201.0	217.3	232.7
PER	8.2	7.7	4.2	4.3	4.3	4.3
Dividend Yield	9.0%	9.4%	14.1%	16.0%	16.0%	16.0%
P/B	1.4	1.3	1.1	1.1	1.0	0.9
ROE	16.9%	18.0%	29.1%	25.4%	23.5%	21.7%

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 21.4% 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 233/share which results in an upside of 10% along with a dividend yield of 16%. 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	CY24F	CY25F	CY26F
Mark-up/interest earned	123,334	200,763	328,057	363,506	319,385	289,737
Mark-up/interest expensed	59,347	113,607	180,356	227,154	178,523	147,367
Net interest income	63,987	87,156	147,701	136,352	140,862	142,370
Non-interest income	20,074	24,613	32,916	40,687	41,374	42,459
Provision charged	(4,823)	(2,782)	373	862	1,429	1,333
Operating expenses	35,381	41,495	51,838	59,247	62,833	65,861
Profit after tax	30,811	32,741	59,631	58,116	58,298	57,956

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY21A	CY22A	CY23A	CY24F	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	1,169,061	1,241,019	1,313,839
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	2,563,069	2,745,685	2,938,912
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	238,245	257,476	275,798
Total Liabilities & Equity	1,970,468	2,085,355	2,520,434	2,563,069	2,745,685	2,938,912

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

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