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MCB: 9MCY24 Corporate Briefing Takeaways

MCB Bank Limited

PSX: MCB | Bloomberg: MCB PA | Reuters: MCB.PSX

- MCB Bank Limited posted a PAT of PKR 48.5bn in 9MCY24 compared to a PAT of PKR 44.2bn in the SPLY (up by 10% YoY). The bank declared a cash dividend of PKR 9.0/sh, taking the aggregate payout for 9MCY24 to PKR 27.0/sh.
- The bank's total deposits crossed the PKR 2tn mark, with the domestic share standing at 6.09%. The bank aims to grow its deposit share by mobilizing low-cost current deposits to 55%, which stands at 48% as of Sep-24.
- The cost-to-income ratio was recorded at 30.9%, on account of a 10% increase in the total income. MCB expects the ratio to reach the 35% benchmark in the short term as interest rates decline.
- Gross advances were recorded at PKR 725.4bn (up by 16.6% YoY), with a major increase attributed to corporate lending, which makes up 73% of credit book. Yields on advances were 18.15% in Sep-24 vs 17.70% in Sep-23.
- On the investment front, the portfolio stood at PKR 1.5tn, with the Floating PIBs portfolio closing at PKR 801.8bn (up by PKR 206.7bn). Yields on investments increased to 19.4% in Sep-24 versus 17.8% in the SPLY.
- Non-interest income increased to PKR 26.9bn (up 19% YoY) with notable growth from (i) fee and commission income (up by 15% YoY) due to branch banking fee and debit card income, (ii) dividend income (up by 21%), and (iii) FX income (up by 27%).
- MCB's current ROE stands at 29.9% versus 31.6% in Dec-23. The slight dilution in the ROE is attributed to (i) a drop in investment yield which was more pronounced than the drop-in discount rate, and (ii) negative carry-on saving deposits with cost of deposits at ~17.7%. Going forward, the bank aims to manage this decline by improving its current account deposits concentration.
- The bank plans to transfer 39 branches of MCB Conventional to its Islamic subsidiary by 15 November 2024. This will close the year with a total of 300 branches for MCB Islamic and 1,400 branches for MCB Conventional.

Key Data

PSX Ticker	MCB
Target Price (PKR)	234
Current Price (PKR)	262
Upside/(Downside) (%)	-11%
Dividend Yield (%)	11%
Total Return (%)	0%
12-month High (PKR)	247
12-month Low (PKR)	126
Outstanding Shares (Mn)	1,185
Market Cap (PKR Mn)	310,580

Source: Company Accounts, Akseer Research

Key Financial Ratios	CY21A	CY22A	CY23A	CY24E	CY25F	CY26F
EPS	26.0	27.6	50.3	48.5	47.9	45.7
EPS Growth	6.1%	6.3%	82.1%	-3.6%	-1.2%	-4.6%
DPS	19.0	20.0	30.0	31.5	29.0	32.0
BVPS	147.2	159.9	185.5	200.7	216.8	232.2
PER	10.1	9.5	5.2	5.4	5.5	5.7
Dividend Yield	7.8%	7.6%	11.5%	12.0%	11.1%	12.2%
P/B	1.8	1.6	1.4	1.3	1.2	1.1
ROE	16.9%	18.0%	28.4%	24.5%	23.8%	22.6%

Source: Company Accounts, Akseer Research

- The bank expects the policy rate to decline by 200-250 bps down to 15% by the end of CY24. MCB expects NIM compression to begin in 1QCY25 due to repricing of maturities concentrated at the end of CY24.
- The bank's current ADR is 35%, with a target to reach the 50% benchmark. However, if the mark is not reached, the expected tax incidence will be ~PKR 7bn for the full year CY24.
- We have a 'Hold' rating on the scrip, with a Dec-25 price target of PKR 234/share, providing a downside of 11% along with a dividend yield of 11%.

Valuation Basis

Our PT for MCB Bank Limited has been computed using the dividend discounting method, with the justified P/B ratio to calculate the terminal value. We have used a sustainable ROE of 21.4% to calculate the exit P/B ratio, along with a risk-free rate of 15%, a beta of 1.0, and market risk premium of 6% to arrive at cost of equity of 21%.

Investment Thesis

We have a 'Hold' recommendation on the stock based on our Dec-25 PT of PKR 234/share, which results in a downside of 11% along with a dividend yield of 11%. Our investment case on MCB is based on 1) one of the highest CASAS in the industry 2) a higher CAR to ensure sustainability of payouts, and 3) the 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-expected provisioning.

Company Description

MCB Bank Limited is Pakistan's multinational commercial bank headquartered in Lahore. Incorporated in 1947, the bank offers a range of commercial banking and related services both domestically and internationally. As of Dec 31, 2023, MCB operates through a network of 1,430 branches in Pakistan and 8 branches overseas, including the Karachi Export Processing Zone (KEPZ).

Financial Highlights - MCB

Income Statement (PKR Mn)	CY21A	CY22A	CY23A	CY24E	CY25F	CY26F
Markup/Interest Earned	123,334	200,763	328,057	370,948	333,040	290,729
Markup/Interest Expenses	59,347	113,607	180,356	221,873	185,723	148,980
Net interest Income	63,987	87,156	147,701	149,075	147,317	141,749
Non-interest Income	20,074	24,613	32,916	38,672	42,899	46,334
Provision Charges	(4,823)	(2,782)	373	1,239	1,684	2,566
Operating Expenses	35,381	41,495	51,838	59,127	63,524	66,538
Profit after Tax	30,811	32,741	59,631	57,459	56,734	54,100

Source: Company Accounts, Akseer Research

Balance Sheet (PKR Mn)	CY21A	CY22A	CY23A	CY24E	CY25F	CY26F
Cash & Treasury Balances	183,443	121,241	205,790	204,860	297,952	345,624
Investments	1,035,585	978,731	1,249,439	1,462,776	1,716,951	2,016,276
Advances	589,711	753,400	577,863	707,158	778,298	855,838
Operating Fixed Assets	58,307	80,719	214,016	87,430	85,694	83,993
Other Assets	60,955	93,301	214,016	396,671	297,910	345,576
Total Assets	1,970,468	2,085,355	2,557,338	2,858,896	3,278,719	3,765,528
Borrowings from FIs	269,526	340,237	216,611	259,933	301,523	349,766
Deposits	1,411,852	1,378,717	1,805,387	2,166,465	2,513,099	2,915,195
Other Liabilities	89,365	137,769	101	194,599	207,793	241,040
Total Liabilities	1,796,061	1,895,861	2,047,195	2,620,997	3,039,824	3,525,595
Equity	174,407	189,495	230,707	237,898	238,896	239,933
Total Liabilities & Equity	1,970,468	2,085,355	2,277,902	2,858,896	3,278,719	3,765,528

Source: Company Accounts, Akseer Research

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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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