

MCB Bank Limited

Key Takeaways



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

Pakistan Research

MCB: 1QCY22 Conference Call Key Takeaways

- MCB Bank Limited held its conference call today to discuss 1QCY22 results. Earlier, the bank had reported unconsolidated net earnings of PKR 7.52/share for 1QCY21, up 31% YoY. The result was also accompanied with an interim cash dividend of PKR 5.0/share.
- Key highlights of healthy earnings were reversal in provisions to the tune of PKR 864mn in 1QCY22 compared to a reversal of PKR 177mn, last year. Non-interest income registered a growth 20% YoY to PKR 5.7bn on the back of rise in foreign exchange and dividend income by 94% & 81%, respectively.
- Foreign exchange income is anticipated to grow further due to volatile forex market during the quarter.
- With regards to the NIMS, the bank's management informed that NIMs are likely to remain flattish in 2QCY22, while interest rate impact on the asset side will be visible from 2HCY22.
- With regards to the interest outlook, the management is expecting another 100-150bps hike in policy rate in next the monetary policy scheduled on 23rd May 2022.
- MCB's ADR for 1QCY22 clocks in at 42% which is expected to further decline to ~40% for CY22 due to slowdown in Advances on the back of soaring interest rates. Earlier, the bank had targeted to increase its ADR to 50% in CY22. While deposits are expected to grow by 15-18% led by targeting small ticket accounts through remittance.
- MCB do not see any risk on its asset quality going forward. In fact, the management is expecting provisioning reversal to the tune of PKR 3-4bn during CY22. These reversals are related to the general provisions being provided by the bank during CY20 on account of covid.
- Commenting on the recent development regarding acquisition of Telenor microfinance Easypaisa segment, the management informed that it will complete due diligence within 15 days.
- With regards to the Sri Lanka situation, the management disclosed that the bank had disposed of its foreign currency denominated exposure at the time of default.

Key Data

PSX Ticker	MCB
Target Price (PKR)	200
Current Price (PKR)	160
Upside/(Downside) (%)	+ 42%
Dividend Yield (%)	17%
Total Return (%)	+ 59%
12-month High (PKR)	169
12-month Low (PKR)	141
Outstanding Shares (mn)	1,185.1
Market Cap (PKR mn)	168,018
Year End	December

Source: Company Accounts, Akseer Research

Saqib Hussain
saqib.hussain@alphacapital.com.pk

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 23.0% to arrive to calculate exit P/B, along with a risk free rate of 12%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 18%.

Investment Thesis

We have a 'BUY' recommendation on the stock based on our Dec-22 PT of PKR 200/share which results in upside of 42% along with a dividend yield of 17%. 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 Mar 31, 2022, MCB is operating through 1,426 branches in Pakistan and 10 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	CY22E	CY23F	CY24F
Mark-up/interest earned	138,292	136,076	123,334	208,281	222,253	227,736
Mark-up/interest expensed	78,676	64,741	59,347	126,459	131,365	129,797
Net interest income	59,616	71,334	63,987	81,823	90,889	97,939
Non-interest income	16,679	18,136	20,074	20,047	20,215	20,810
Provision charged	2,484	7,313	(4,823)	2,719	7,265	7,869
Operating expenses	32,671	32,646	35,381	37,783	41,120	44,149
Profit after tax	23,977	29,037	30,811	35,848	36,477	38,814

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY19A	CY20A	CY21A	CY22E	CY23F	CY24F
Cash & Treasury Balances	132,705	122,181	164,613	180,232	201,860	226,083
Investments	748,765	1,015,869	1,035,585	1,103,439	1,215,060	1,338,109
Advances	496,679	462,942	589,711	675,972	770,145	877,915
Operating Fixed Assets	59,229	58,966	58,307	57,149	56,015	54,903
Other Assets	77,775	97,504	122,252	133,851	149,914	167,903
Total Assets	1,515,152	1,757,462	1,970,468	2,150,644	2,392,993	2,664,913
Borrowings from FIs	89,506	164,002	269,526	295,098	330,510	370,171
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	125,565	140,737	157,795
Total Liabilities	1,346,237	1,567,361	1,796,061	1,966,473	2,202,554	2,467,029
Equity	168,915	190,102	174,407	184,171	190,439	197,884
Total Liabilities & Equity	1,515,152	1,757,462	1,970,468	2,150,644	2,392,993	2,664,913

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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Contact Details**Akseer Research (Pvt) Limited**

1st Floor, Shaheen Chambers, KCHS block 7 & 8, off. Shahrah-e-Faisal

T: +92-21-34320359 -60

E: info@akseerresearch.com

Alpha Capital (Pvt) Limited (Formerly: Alfa Adhi Securities (Pvt) Limited)

3rd Floor, Shaheen Chambers, A-4 Central Commercial Area, KCH

Society, Block 7 & 8, Near Virtual University, Karachi

T: +92-21-38694242

E: info@alfaadhi.pk