

MCB Bank Limited
Result Preview

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

Pakistan Research

MCB: 1QCY23 EPS expected at PKR 11.35, up 51% YoY; DPS PKR 5.50

- MCB is scheduled to announce its 1QCY23 financial result on 27th April, 2023. We anticipate the bank to post an unconsolidated EPS of PKR 11.35, up 51% YoY. Along with the result, we expect the bank to announce an interim cash dividend of PKR 5.50/share for 1Q.
- NII for the 1QCY23 is likely to increase by 83% YoY to PKR 33.1bn on back of the higher interest rates. Interest income is expected to increase by 85% YoY to PKR 73.6bn, while interest expense to clock in at PKR 40.6bn up 88% YoY.
- Non-interest income is anticipated to grow by 10% YoY to PKR 6.3bn during the first quarter. The increase is likely to come from higher forex income, up 20% YoY and elevated fee & commission income, up 15% YoY.
- We expect the bank to record provision expense owing to economic headwinds. The provisioning expense is likely to clock in at PKR 1.5bn during 1Q compared to a reversal of PKR 864mn SPLY.
- Operating expenses are likely to increase by 46% YoY to PKR 14.2bn in 1QCY23. While cost to income ratio for the quarter is expected to come at 35% vs 40% in 1QCY22.
- The effective tax rate during 1Q is likely to clock in at 43%, due to the increase in corporate tax rate for the banking sector and imposition of super-tax.
- We have a 'BUY' rating on the scrip with Dec-23 price target of PKR 175/share, providing an upside of 48% along with a dividend yield of 20.0%.

Key Data

PSX Ticker	MCB
Target Price (PKR)	175
Current Price (PKR)	119
Upside/(Downside) (%)	48%
Dividend Yield (%)	20.0%
Total Return (%)	68%
12-month High (PKR)	153
12-month Low (PKR)	107
Outstanding Shares (mn)	1,185
Market Cap (PKR mn)	140,572
Year End	December

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	1QCY22	1QCY23E	YoY
M/up Earned	39,717	73,633	85%
M/up Expense	21,605	40,571	88%
Net Interest Income	18,112	33,063	83%
Non-Interest Income	5,719	6,295	10%
Total Provisions	(864)	1,488	NM
Operating Expenses	9,769	14,281	46%
Profit Before Tax	14,926	23,589	58%
Taxation	6,014	10,143	69%
Profit After Tax	8,912	13,446	51%
EPS	7.52	11.35	51%
DPS	5.00	5.50	-

Source: Company Accounts, Akseer Research

Key Financial Ratios

	CY20A	CY21A	CY22A	CY23E	CY24F	CY25F
EPS	24.5	26.0	27.6	55.5	57.5	46.3
EPS Growth	21.1%	6.1%	6.3%	100.8%	3.7%	-19.5%
DPS	20.0	19.0	20.0	27.5	43.5	35.0
BVPS	160.4	147.2	159.9	190.0	206.2	218.7
PER	4.8	4.6	4.3	2.1	2.1	2.6
Dividend Yield	16.9%	16.0%	16.9%	23.2%	36.7%	29.5%
P/B	0.7	0.8	0.7	0.6	0.6	0.5
ROE	16.2%	16.9%	18.0%	31.7%	29.0%	21.8%

Source: Company Accounts, Akseer Research

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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 18% to arrive to calculate exit P/B, along with a risk free rate of 17%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 23%.

Investment Thesis

We have a 'BUY' recommendation on the stock based on our Dec-23 PT of PKR 175/share which results in an upside of 48% along with a dividend yield of 20.0%. 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 Dec 31, 2022, MCB is operating through 1,439 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)						
	CY20A	CY21A	CY22A	CY23E	CY24F	CY25F
Mark-up/interest earned	136,076	123,334	200,763	352,161	349,035	286,117
Mark-up/interest expensed	64,741	59,347	113,607	198,013	187,406	144,801
Net interest income	71,334	63,987	87,156	154,148	161,629	141,316
Non-interest income	18,136	20,074	24,613	24,544	24,771	25,482
Provision charged	7,313	(4,823)	(2,782)	6,589	5,030	3,960
Operating expenses	32,646	35,381	41,495	54,633	59,453	64,076
Profit after tax	29,037	30,811	32,741	65,737	68,198	54,898

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY20A	CY21A	CY22A	CY23E	CY24F	CY25F
Cash & Treasury Balances	122,181	164,613	96,369	104,560	146,075	160,683
Investments	1,015,869	1,035,585	978,731	1,164,261	1,241,465	1,379,028
Advances	462,942	589,711	753,400	814,604	883,130	958,979
Operating Fixed Assets	58,966	58,307	80,719	79,117	77,547	76,007
Other Assets	97,504	122,252	176,136	121,228	131,533	144,686
Total Assets	1,757,462	1,970,468	2,085,355	2,283,771	2,479,750	2,719,383
Borrowings from FIs	164,002	269,526	340,237	369,157	400,536	440,589
Deposits	1,289,502	1,411,852	1,378,717	1,495,908	1,623,060	1,785,366
Other Liabilities	113,857	114,684	176,906	193,529	211,763	234,204
Total Liabilities	1,567,361	1,796,061	1,895,861	2,058,594	2,235,359	2,460,159
Equity	190,102	174,407	189,495	225,177	244,391	259,224
Total Liabilities & Equity	1,757,462	1,970,468	2,085,355	2,283,771	2,479,750	2,719,383

Source: Company Accounts, Akseer Research

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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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