

**MCB Bank Limited**  
Result Review

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

Pakistan Research

**MCB: For 1QCY23 reported an EPS of PKR 11.02, up 46% YoY; DPS PKR 6.00**

- MCB announced its 1QCY23 result on April 27<sup>th</sup>, 2023. For the first quarter, the bank posted an unconsolidated EPS of PKR 11.02, up 46% YoY. Along with the result, bank declared an interim cash dividend of PKR 6.00/share for the quarter.
- NII for the 1QCY23 increased by 66% YoY to PKR 30.1bn on back of the higher interest rates. Interest income grew by 61% YoY to PKR 63.8bn, while interest expense clocked in at PKR 33.8bn up 56% YoY.
- Non-interest income increased by 4% YoY to PKR 5.9bn during the first quarter. Fee & commission income is up 27% YoY, whereas forex income declined by 19% YoY.
- Owing to economic headwinds, the bank recorded provision expense of PKR 624mn during 1QCY23 compared to a reversal of PKR 864mn SPLY.
- Operating expenses for the first quarter increased by 26% YoY to PKR 12.3bn. While cost to income ratio for the 1QCY23 came at 33% vs 40% in 1QCY22.
- The effective tax rate during 1QCY23 clocked 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 46% along with a dividend yield of 19.8%.

**Key Data**

|                         |          |
|-------------------------|----------|
| PSX Ticker              | MCB      |
| Target Price (PKR)      | 175      |
| Current Price (PKR)     | 120      |
| Upside/(Downside) (%)   | 46%      |
| Dividend Yield (%)      | 19.8%    |
| Total Return (%)        | 66%      |
| 12-month High (PKR)     | 153      |
| 12-month Low (PKR)      | 107      |
| Outstanding Shares (mn) | 1,185    |
| Market Cap (PKR mn)     | 142,207  |
| Year End                | December |

Source: Company Accounts, Akseer Research

**Financial Highlights (PKR mn)**

|                            | 1QCY22 | 1QCY23 | YoY |
|----------------------------|--------|--------|-----|
| M/up Earned                | 39,717 | 63,855 | 61% |
| M/up Expense               | 21,605 | 33,785 | 56% |
| <b>Net Interest Income</b> | 18,112 | 30,070 | 66% |
| Non-Interest Income        | 5,719  | 5,922  | 4%  |
| Total Provisions           | (864)  | 624    | NM  |
| Operating Expenses         | 9,769  | 12,351 | 26% |
| <b>Profit Before Tax</b>   | 14,926 | 23,016 | 54% |
| Taxation                   | 6,014  | 9,960  | 66% |
| <b>Profit After Tax</b>    | 8,912  | 13,056 | 46% |
| EPS                        | 7.5    | 11.0   | 46% |
| DPS                        | 5.0    | 6.0    | -   |

Source: Company Accounts, Akseer Research

**Key Financial Ratios**

|                | CY20A | CY21A | CY22A | CY23E | CY24F | CY25F  |
|----------------|-------|-------|-------|-------|-------|--------|
| EPS            | 24.5  | 26.0  | 27.6  | 54.9  | 57.3  | 46.2   |
| EPS Growth     | 21.1% | 6.1%  | 6.3%  | 98.9% | 4.3%  | -19.4% |
| DPS            | 20.0  | 19.0  | 20.0  | 27.5  | 43.0  | 34.5   |
| BVPS           | 160.4 | 147.2 | 159.9 | 189.5 | 205.4 | 218.3  |
| PER            | 4.9   | 4.6   | 4.3   | 2.2   | 2.1   | 2.6    |
| Dividend Yield | 16.7% | 15.8% | 16.7% | 22.9% | 35.8% | 28.8%  |
| P/B            | 0.7   | 0.8   | 0.8   | 0.6   | 0.6   | 0.5    |
| ROE            | 16.2% | 16.9% | 18.0% | 31.5% | 29.0% | 21.8%  |

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 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 46% along with a dividend yield of 19.8%. 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       | 342,254        | 348,907        | 286,056        |
| Mark-up/interest expensed  | 64,741        | 59,347        | 113,607       | 191,227        | 187,406        | 144,801        |
| <b>Net interest income</b> | <b>71,334</b> | <b>63,987</b> | <b>87,156</b> | <b>151,026</b> | <b>161,502</b> | <b>141,255</b> |
| <b>Non-interest income</b> | <b>18,136</b> | <b>20,074</b> | <b>24,613</b> | <b>24,169</b>  | <b>24,769</b>  | <b>25,481</b>  |
| Provision charged          | 7,313         | (4,823)       | (2,782)       | 5,725          | 5,030          | 3,960          |
| Operating expenses         | 32,646        | 35,381        | 41,495        | 52,623         | 59,453         | 63,838         |
| <b>Profit after tax</b>    | <b>29,037</b> | <b>30,811</b> | <b>32,741</b> | <b>65,109</b>  | <b>67,902</b>  | <b>54,756</b>  |

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          | 1,163,633        | 1,240,541        | 1,378,555        |
| 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          |
| <b>Total Assets</b>                   | <b>1,757,462</b> | <b>1,970,468</b> | <b>2,085,355</b> | <b>2,283,143</b> | <b>2,478,826</b> | <b>2,718,910</b> |
| 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          |
| <b>Total Liabilities</b>              | <b>1,567,361</b> | <b>1,796,061</b> | <b>1,895,861</b> | <b>2,058,594</b> | <b>2,235,359</b> | <b>2,460,159</b> |
| Equity                                | 190,102          | 174,407          | 189,495          | 224,549          | 243,467          | 258,751          |
| <b>Total Liabilities &amp; Equity</b> | <b>1,757,462</b> | <b>1,970,468</b> | <b>2,085,355</b> | <b>2,283,143</b> | <b>2,478,826</b> | <b>2,718,910</b> |

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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