

MCB: 3QCY22 EPS to clock at PKR 6.90, up 5% YoY; DPS PKR 5.0

- MCB's board meeting is scheduled on 26th October 2022 to consider 3QCY22 results. We anticipate, the bank to post unconsolidated EPS of PKR 6.90, up 5% YoY. This would take 9MCY22 EPS to PKR 16.3, down 14% YoY. The bank is also expected to announce an interim cash dividend of PKR 5.0/share, taking cumulative payout to PKR 14.0/share for 9MCY22.
- NII during the quarter is expected to increase by 63% YoY to PKR 26.3bn. Interest income is likely to increase by 82% YoY to PKR 57.8bn, while interest expense is likely to rise by 103% YoY to PKR 31.4bn driven by sharp rise in interest rate.
- Non-interest income is likely to grow by 27% YoY to PKR 6.2bn in 3QCY22 on the back of higher fee & commission income up 10% YoY to PKR 3.4bn and forex income of PKR 2.1bn up 125% YoY.
- We have assumed a provisioning expense of PKR 1.1bn during 3Q compared to a reversal of PKR 1.5bn in the same period last year. Higher provision is expected to avoid any expected credit loss due to economic headwinds.
- Operating expenses are anticipated to grow by 24% YoY to PKR 11.6bn in 3QCY22. However, cost to income ratio is expected to decline to 34.3% in 3QCY22 vs 42.7% in 3QCY21 owing to higher revenue growth.
- The bank is likely to record the effective tax rate 59% in 3QCY22 against 41% in 3QCY21 due to 1) rise in corporate tax rates and 2) imposition of super tax on CY22 profits and 3) additional tax imposed on the banks with lower ADR in FY23 budget.
- We have a 'BUY' rating on the scrip with June-23 price target of PKR 160/share, implying an upside of 37.2% along with a dividend yield of 17.8%.

Key Data

PSX Ticker	MCB
Target Price (PKR)	160
Current Price (PKR)	116.6
Upside/(Downside) (%)	+ 37.2%
Dividend Yield (%)	17.8%
Total Return (%)	+ 55.0%
12-month High (PKR)	166.2
12-month Low (PKR)	115.0
Outstanding Shares (mn)	1,185.1
Market Cap (PKR mn)	138,237.2
Year End	December

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	3QCY21	3QCY22E	YoY	9MCY21	9MCY22E	YoY
M/up Earned	31,702	57,797	82%	89,903	143,213	59%
M/up Expense	15,506	31,449	103%	42,158	77,877	85%
Net Interest Income	16,195	26,347	63%	47,745	65,335	37%
Non-Interest Income	4,884	6,202	27%	14,383	19,097	33%
Total Provisions	(1,499)	1,113	NM	(3,499)	310	NM
Operating Expenses	9,321	11,603	24%	27,356	31,756	16%
Profit Before Tax	13,257	19,833	50%	38,270	52,366	37%
Taxation	5,444	11,662	114%	15,714	33,073	110%
Profit After Tax	7,813	8,172	5%	22,556	19,294	-14%
EPS	6.6	6.9	5%	19.0	16.3	-14%
DPS	4.5	5.0	-	14.0	14.0	-

Source: Company Accounts, Akseer Research

Key Financial Ratios

	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
EPS	20.2	24.5	26.0	22.0	28.3	25.6
EPS Growth	13.2%	21.1%	6.1%	-15.3%	28.5%	-9.4%
DPS	17.0	20.0	19.0	18.5	23.0	18.0
PER	5.8	4.8	4.5	5.3	4.1	4.5
Dividend Yield	14.6%	17.1%	16.3%	15.9%	19.7%	15.4%
P/B	0.8	0.7	0.8	0.8	0.8	0.7
ROE	15.1%	16.2%	16.9%	15.2%	19.5%	16.9%

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 23.0% to arrive to calculate exit P/B, along with a risk free rate of 13%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 19%.

Investment Thesis

We have a 'BUY' recommendation on the stock based on our June-23 PT of PKR 160/share which results in upside of 37% including dividend yield of 18%. 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 June 30, 2022, MCB is operating through 1,428 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)						
	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
Mark-up/interest earned	138,292	136,076	123,334	201,247	221,823	193,166
Mark-up/interest expensed	78,676	64,741	59,347	111,802	120,637	99,470
Net interest income	59,616	71,334	63,987	89,445	101,186	93,696
Non-interest income	16,679	18,136	20,074	24,285	21,732	22,461
Provision charged	2,484	7,313	(4,823)	1,276	6,748	3,809
Operating expenses	32,671	32,646	35,381	41,615	43,007	46,170
Profit after tax	23,977	29,037	30,811	26,094	33,527	30,392

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
Cash & Treasury Balances	132,705	122,181	164,613	166,507	186,488	174,516
Investments	748,765	1,015,869	1,035,585	913,323	1,068,119	1,207,982
Advances	496,679	462,942	589,711	678,745	773,435	885,264
Operating Fixed Assets	59,229	58,966	58,307	58,475	57,314	56,176
Other Assets	77,775	97,504	122,252	174,402	131,382	147,147
Total Assets	1,515,152	1,757,462	1,970,468	1,991,451	2,216,736	2,471,086
Borrowings from FIs	89,506	164,002	269,526	155,639	174,315	195,233
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	121,093	135,705	152,081
Total Liabilities	1,346,237	1,567,361	1,796,061	1,822,541	2,041,327	2,286,377
Equity	168,915	190,102	174,407	168,910	175,409	184,708
Total Liabilities & Equity	1,515,152	1,757,462	1,970,468	1,991,451	2,216,736	2,471,086

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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