

MCB Bank Limited

Result Review

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

Pakistan Research

MCB: 4QCY22 EPS reported at PKR 10.88, up 56% YoY; DPS PKR 6.0

- MCB announced its 4QCY22 financial result today, wherein the bank posted an unconsolidated EPS of PKR 10.88, up 56% YoY. This took cumulative CY22 EPS to PKR 27.63, up 6% YoY. Along with the result, the bank announced a final cash dividend of PKR 6.0/share, taking the total payout to PKR 20.0/share for CY22.
- During 4Q, NII increased by 58% YoY to PKR 25.6bn. Interest income increased by 79% YoY to PKR 69.7bn, while interest expense rose to PKR 34.1bn up 98% due to the increase in interest rate during the quarter.
- Non-interest income declined to PKR 4.4bn, down 23% YoY. This decline is mainly attributable to capital loss of PKR 1.5bn and decrease in forex income by -15% YoY to PKR 1.2bn.
- Against our expectation, the bank has recorded a reversal in provision expense of PKR 1.5bn during 4Q.
- Operating expenses of the bank grew by 23% YoY to PKR 11.6bn, which we believe is due to the inflationary pressures. However, cost to income ratio of the bank declined to 37% vs 42% SPLY.
- The effective tax rate during 4Q clocked in at 35% vs 40% in SPLY. MCB has crossed the required level of ADR (i.e. 50%). This led to reversal of tax expense charged during earlier quarters on account of lower ADR levels.
- We have a 'BUY' rating on the scrip with Dec-23 price target of PKR 150/share, providing an upside of 32% along with a dividend yield of 21.8%.

Key Data

PSX Ticker	MCB
Target Price (PKR)	150
Current Price (PKR)	113
Upside/(Downside) (%)	32%
Dividend Yield (%)	21.8%
Total Return (%)	54%
12-month High (PKR)	166
12-month Low (PKR)	107
Outstanding Shares (mn)	1,185
Market Cap (PKR mn)	134,315
Year End	December

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	4QCY21	4QCY22	YoY	CY21	CY22	YoY
M/up Earned	33,431	59,735	79%	123,334	200,763	63%
M/up Expense	17,189	34,090	98%	59,347	113,607	91%
Net Interest Income	16,242	25,645	58%	63,987	87,156	36%
Non-Interest Income	5,691	4,363	-23%	20,074	24,613	23%
Total Provisions	(1,324)	(1,465)	11%	(4,823)	(2,782)	-42%
Operating Expenses	9,538	11,692	23%	36,894	43,186	17%
Profit Before Tax	13,719	19,781	44%	51,989	71,365	37%
Taxation	5,464	6,890	26%	21,178	38,624	82%
Profit After Tax	8,255	12,891	56%	30,811	32,741	6%
EPS	6.97	10.88	56%	26.00	27.63	6%
DPS	5.00	6.00	-	19.00	20.00	-

Source: Company Accounts, Akseer Research

Key Financial Ratios

	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
EPS	20.2	24.5	26.0	27.6	35.0	38.7
EPS Growth	13.2%	21.1%	6.1%	6.3%	26.7%	10.6%
DPS	17.0	20.0	19.0	20.0	29.0	30.5
BVPS	142.5	160.4	147.2	148.5	155.6	162.0
PER	5.6	4.6	4.4	4.1	3.2	2.9
Dividend Yield	15.0%	17.6%	16.8%	17.6%	25.6%	26.9%
P/B	0.8	0.7	0.8	0.8	0.7	0.7
ROE	15.1%	16.2%	16.9%	18.7%	23.0%	24.4%

Source: Company Accounts, Akseer Research

Muhammad Atif
muhammad.atif@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 24% 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 150/share which results in an upside of 32% along with a dividend yield of 21.8%. 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 Sep 30, 2022, MCB is operating through 1,430 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	CY22A	CY23F	CY24F
Mark-up/interest earned	138,292	136,076	123,334	200,763	333,008	305,466
Mark-up/interest expensed	78,676	64,741	59,347	113,607	203,784	177,989
Net interest income	59,616	71,334	63,987	87,156	129,224	127,477
Non-interest income	16,679	18,136	20,074	24,613	22,725	23,334
Provision charged	2,484	7,313	(4,823)	(2,782)	12,077	6,451
Operating expenses	32,671	32,646	35,381	41,495	56,409	61,604
Profit after tax	23,977	29,037	30,811	32,741	41,474	45,876

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
Cash & Treasury Balances	132,705	122,181	164,613	152,310	165,257	168,284
Investments	748,765	1,015,869	1,035,585	957,114	1,060,349	1,139,354
Advances	496,679	462,942	589,711	748,167	823,482	914,035
Operating Fixed Assets	59,229	58,966	58,307	58,855	57,687	56,541
Other Assets	77,775	97,504	122,252	165,207	145,774	158,165
Total Assets	1,515,152	1,757,462	1,970,468	2,081,653	2,252,548	2,436,379
Borrowings from FIs	89,506	164,002	269,526	183,437	199,029	215,947
Deposits	1,144,763	1,289,502	1,411,852	1,588,333	1,723,341	1,869,825
Other Liabilities	111,968	113,857	114,684	133,910	145,728	158,605
Total Liabilities	1,346,237	1,567,361	1,796,061	1,905,680	2,068,098	2,244,377
Equity	168,915	190,102	174,407	175,973	184,449	192,003
Total Liabilities & Equity	1,515,152	1,757,462	1,970,468	2,081,653	2,252,548	2,436,379

Source: Company Accounts, Akseer Research

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Valuation Methodology

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.

Ratings Criteria

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%

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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