

MCB: Hefty provisioning reversal lifted CY21 EPS to PKR 26.0, up 6% YoY; DPS 5.0

- MCB announced its CY21 financial results today, where the bank reported higher than expected unconsolidated profit after tax of PKR 30.8bn (EPS PKR 26.0), up 6% YoY. For 4QCY21, MCB earnings grew by 35% YoY and 6% QoQ to PKR 4.7bn (EPS PKR 6.97/share). Along with the result, the bank announced final cash dividend of PKR 5.0/share, taking cumulative dividend for CY21 to PKR 19.0/share compared to PKR 20.0/share in CY20.
- The bank posted 2% YoY increase in NII during 4Q to PKR 16.2bn. Interest income increased by 15% YoY to PKR 33.4bn while interest expense remained higher by 32% YoY to PKR 17.2bn due to the upward adjustment of interest rate hike. For full year CY21, NII declined by 10% to PKR 63.9bn.
- Non-interest income, nevertheless, grew by 24% YoY to PKR 5.7bn during 4QCY21 mainly on account of higher than expected forex income (up 132% YoY to PKR 1.4bn). Other positive contributors were fee & commission income (+13% YoY) and dividend income (+ 68% YoY) which offset the decline in capital gains of 79% YoY. For full year CY21, non-interest income increased by 11% YoY to PKR 20.1bn.
- The bank booked provisioning reversals of PKR 1.3bn during 4Q compared to provision expense of PKR 2.2bn in the same period last year. For CY21, MCB recorded provisioning reversals of PKR 4.8bn compared to provisioning expense of PKR 7.3bn, last year.
- Admin expenses grew by 13% YoY to PKR 9.5bn in 4Q, which led the cost to income ratio to increase by 42%. For CY21, the cost to income ratio stood at 42%, up 6ppts compared to last year.
- We have a 'BUY' rating on the scrip with Dec-22 price target of PKR 205/share, implying an upside of 25% along with a dividend yield of 15%.

Key Data

PSX Ticker	MCB
Target Price (PKR)	205
Current Price (PKR)	164
Upside/(Downside) (%)	+ 25%
Dividend Yield (%)	15%
Total Return (%)	+ 40%
12-month High (PKR)	192
12-month Low (PKR)	146
Outstanding Shares (mn)	1,185.1
Market Cap (PKR mn)	194,362
Year End	December

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	4QCY20	4QCY21	YoY	CY20	CY21	YoY
M/up Earned	29,040	33,431	15%	136,076	123,334	-9%
M/up Expense	13,052	17,189	32%	64,741	59,347	-8%
Net Interest Income	15,988	16,242	2%	71,334	63,987	-10%
Non-Interest Income	4,577	5,691	24%	18,136	20,074	11%
Total Provisions	2,204	(1,324)	NM	7,313	(4,823)	NM
Admin Expenses	8,465	9,538	13%	33,908	36,894	9%
Profit Before Tax	9,895	13,719	39%	48,249	51,989	8%
Taxation	3,793	5,464	44%	19,212	21,178	10%
Profit After Tax	6,103	8,255	35%	29,037	30,811	6%
EPS	5.15	6.97	35%	24.50	26.00	6%
DPS	15.00	5.00	-67%	20.00	19.00	-5%

Source: Company Accounts, Akseer Research

Key Financial Ratios

	CY18A	CY19A	CY20A	CY21A	CY22F	CY23F
EPS	17.9	20.2	24.5	26.0	29.5	32.6
EPS Growth	-5.7%	13.2%	21.1%	6.1%	13.5%	10.3%
DPS	16.0	17.0	20.0	19.0	25.0	28.0
PER	9.2	8.1	6.7	6.3	5.6	5.0
Dividend Yield	9.8%	10.4%	12.2%	11.6%	15.2%	17.1%
P/B	1.3	1.2	1.0	1.1	1.0	1.0
ROE	14.0%	15.1%	16.2%	16.6%	18.9%	20.0%

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 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 205/share which results in upside of 25% including dividend yield of 15%. 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, 2021, MCB is operating through 1,419 branches in Pakistan and 11 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)						
	CY18A	CY19A	CY20A	CY21A	CY22F	CY23F
Mark-up/interest earned	83,319	138,292	136,076	123,334	180,210	224,894
Mark-up/interest expensed	37,305	78,676	64,741	59,347	98,515	127,853
Net interest income	46,014	59,616	71,334	63,987	81,694	97,041
Non-interest income	17,199	16,679	18,136	20,074	18,993	19,446
Provision charged	(1,753)	2,484	7,313	(4,823)	3,647	7,749
Operating expenses	32,902	32,671	32,646	35,381	37,136	42,523
Profit after tax	21,185	23,977	29,037	30,811	34,970	38,574

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY18A	CY19A	CY20A	CY21E	CY22F	CY23F
Cash & Treasury Balances	103,175	132,705	122,181	120,885	137,809	154,346
Investments	749,369	748,765	1,015,869	1,134,153	1,279,680	1,413,390
Advances	503,581	496,679	462,942	539,403	618,078	704,176
Operating Fixed Assets	41,442	59,229	58,966	58,279	57,122	55,988
Other Assets	100,563	77,775	97,504	95,597	108,981	122,059
Total Assets	1,498,130	1,515,152	1,757,462	1,948,317	2,201,670	2,449,958
Borrowings from FIs	216,019	89,506	164,002	193,003	220,024	246,427
Deposits	1,049,038	1,144,763	1,289,502	1,470,033	1,675,837	1,876,938
Other Liabilities	83,795	111,968	113,857	104,505	116,453	130,353
Total Liabilities	1,348,852	1,346,237	1,567,361	1,767,541	2,012,314	2,253,717
Equity	149,278	168,915	190,102	180,776	189,356	196,241
Total Liabilities & Equity	1,498,130	1,515,152	1,757,462	1,948,317	2,201,670	2,449,958

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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