

Earnings Review

MCB: 2QCY21 EPS clocked in at Rs6.64, up 16% YoY

Event

- MCB Bank Limited (MCB PA) announced its 2QCY21 result with consolidated earnings of Rs6.64/sh (up by 16/12% YoY/QoQ). This takes 1HCY21 EPS to clock in at Rs12.56/sh (up 11% YoY). The result is accompanied with an interim cash dividend of Rs4.5/sh which takes total cash dividend for 1HCY21 to stand at Rs9.0/sh.
- The result is better than our estimates where deviation emanated from reversal in provision expense and higher other income.

Impact

- The bank posted a PAT of Rs7,871mn in 2QCY21 (up by 15/12% YoY/QoQ). On YoY basis, increase in profitability is primarily contributed by higher reversal in provision expense (Rs1.8bn vs. expense of Rs3.3bn in 2QCY20). However, on QoQ basis, uptick in profitability was a result of better net interest income (↑7% QoQ) and higher reversal in provision expense (Rs1.8bn vs. reversal of Rs213mn in 1QCY21).
- During 2QCY21, interest income/expense declined by 17% YoY but increased by 5/3% QoQ to clock in at Rs32.1/14.7bn. As a result, net interest income decreased/increased by 17/7% YoY/QoQ.
- Non-markup income for 2QCY21 increased by 48/3% on YoY/QoQ. On YoY basis, improvement was witnessed across the board with major share originating from uptick in other income (Rs660mn vs. loss of 39mn in 2QCY20), fee income (↑17%, YoY) and higher dividend income (↑2.3x, YoY). Whereas on QoQ basis, increment in other income (↑37.6x, QoQ), fx income (↑35%, QoQ) and dividend income (↑45%, QoQ) overwhelmed the decline in fee income (↓18% QoQ).
- Operating expenses increased by 7/1% YoY/QoQ to clock in at Rs9.9bn translating into a cost/income of 44%.
- The bank reported a reversal in provision expense of Rs1.8bn compared to an expense/reversal of Rs3.3bn/Rs213mn in 2QCY20/1QCY21. This takes total provision reversals during 1HCY21 to Rs2bn.
- MCB reported a higher effective tax rate of 43% during the quarter (↑2/4ppts YoY/QoQ) to account for the additional taxation measures taken in the Federal Budget.

Outlook

- Going forward, we expect NII to recover due to recovery in banking spreads. However, likely increase in policy rate in coming quarters may exert some pressure in the short term until full asset repricing takes place. Whereas, recovery in economic activity and the delay in implementation of IFRS9 may keep the provisioning expense on the lower side.
- We have an 'Outperform' rating on the stock. The bank is currently trading at an attractive forward P/B of 1.07x.

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Fig 01: MCB 2QCY21 earnings review

Income Statement	2QCY21	2QCY20	YoY	1QCY21	QoQ	1HCY21	1HCY20	YoY
Interest Earned	32,132	38,752	-17%	30,601	5%	62,733	80,409	-22%
Interest Expensed	14,698	17,785	-17%	14,303	3%	29,002	42,156	-31%
Net Interest Income (NII)	17,434	20,967	-17%	16,298	7%	33,732	38,253	-12%
Fee Income	2,975	2,533	17%	3,637	-18%	6,611	5,658	17%
Dividend Income	505	215	135%	348	45%	853	416	105%
Foreign Exchange Income	818	699	17%	606	35%	1,424	1,533	-7%
Gain on Securities	168	51	226%	367	-54%	535	45	1084%
Other Income	660	(39)	na	18	3660%	678	(26)	na
Total Non-Markup Income	5,126	3,459	48%	4,975	3%	10,101	7,627	32%
Share of Profit from Associates	155	152	2%	277	-44%	432	413	5%
Total Income	22,715	24,578	-8%	21,549	5%	44,264	46,292	-4%
Non-Markup Expense	10,529	9,551	10%	10,089	4%	20,618	19,369	6%
Operating Expense	9,902	9,292	7%	9,829	1%	19,731	18,684	6%
WWF	280	228	23%	230	22%	510	445	15%
Other Charges	347	31	1025%	29	1088%	376	240	57%
Profit Before Provisions	12,186	15,027	-19%	11,460	6%	23,646	26,923	-12%
Provisions	(1,787)	3,296	-154%	(213)	737%	(2,000)	4,076	-149%
Profit Before Taxation	13,972	11,731	19%	11,674	20%	25,646	22,847	12%
Taxation	6,058	4,867	24%	4,624	31%	10,683	9,373	14%
Profit After Taxation	7,914	6,864	15%	7,050	12%	14,964	13,474	11%
PAT Attributable to Shareholders	7,871	6,801	16%	7,012	12%	14,883	13,425	11%
EPS	6.64	5.74		5.92		12.56	11.33	
DPS	4.50	-		4.50		9.00	5.00	
Effective Tax Rate	43%	41%		40%		42%	41%	
Cost/Income	44%	38%		46%		45%	40%	

Source: Company Accounts, Foundation Research, August 2021

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If	
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Expected return from -10% to +10%	Neutral.
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