Foundation Securities
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Foundation Alert

MCB: Analyst Briefing Key Takeaways

Event

- MCB Bank Limited (MCB PA) held its conference call today to discuss 9MCY21 results and the outlook of the bank. Following are the key takeaways of the briefing.

Impact

- To recall, the bank posted a PAT of Rs8.0bn (EPS: 6.73) in 3QCY21 (down/up by 20/1% YoY/QoQ) taking cumulative PAT for 9MCY21 to Rs22.85bn (EPS: 19.29). The result was accompanied with a DPS of Rs4.5 taking cumulative DPS for 9MCY21 to Rs14.0.
- Interest income/interest expense for 9MCY21 clocked in at Rs96.8/45.7bn depicting a decline of 16/18% YoY, translating in to a decrease of 13% YoY in net interest income.
- Bank's profitability was supported by provision reversal of Rs3.5bn in 9MCY21 compared to a provisioning expense of Rs5.2bn same period last year, this is mainly due to recovery in economic activity translating in strong corporate profitability. Recovery in economic activity also reflected in improving infection ratio clocking in at 9.7% compared to 10.0% in Dec'21.
- Cost to income ratio clocked in at 42.5% compared to 35.8%, management expects cost/income to come down in medium term.
- Deposit growth remained upbeat by increasing 14/1% YoY/QoQ to clock in at 1.34tr as of 3QCY21. Bank reported CASA of 91.94% for the quarter. The management expects deposit growth of 13-14% in the medium term.
- MCB's investment portfolio primarily deployed in TBills and PIBs with the respective shares of 43% and 51%. Investments in TBills is mainly concentrated in 6M tenor with 79% share whereas the remaining 21% is invested in 3M tenor. Furthermore, investments in PIB is mainly concentrated in shorter tenor with 3/5/10YR accounting for 44/27/29% share respectively. The management also shared that the 70% of PIB investments composed of floating rate PIBs
- ADR for the bank clocked in at 39% which management aims to maintain at 40% based on growth in corporate lending. Currently auto financing has stimulated credit growth which is expected to cool off recent SBP regulation to curtail auto financing.
- Management shared the acquisition of Telenor microfinance bank would be supplementary to retail banking for digitization from easy paisa app, however due diligence is still in progress given feasibility and strategic synergies to be evaluated. Furthermore, management also shared that the target company has an infection ratio of ~60%.
- On NIB front, recoveries has now increased to 23% of Rs29bn, which management expects to reach 40% in the medium term.
- Management expects interest rate to rise by 50-100bps in this MPS and further 50bps in next MPS.

Outlook

- We have an 'Outperform' rating on the stock with the Jun-22 TP of Rs235/sh.

Table 01: Earnings Review MCB 3QCY21

	3QCY21	3QCY20	YoY	2QCY21	QoQ	9MCY21	9MCY20	YoY
Interest Earned	34,032	34,108	0%	32,132	6%	96,766	114,517	-16%
Interest Expensed	16,716	13,561	23%	14,698	14%	45,718	55,717	-18%
Net Interest Income (NII)	**17,316**	**20,547**	**-16%**	**17,434**	**-1%**	**51,048**	**58,800**	**-13%**
Fee Income	3,475	3,134	11%	2,975	17%	10,086	8,792	15%
Dividend Income	375	214	76%	505	-26%	1,228	629	95%
Foreign Exchange Income	954	567	68%	818	17%	2,379	2,100	13%
Gain on Securities	207	2,935	-93%	168	24%	384	2,932	-87%
Other Income	133	88	52%	660	-80%	1,168	110	963%
Total Non-Markup Income	**5,146**	**6,937**	**-26%**	**5,126**	**0%**	**15,246**	**14,563**	**5%**
Share of Profit from Associates	**259**	**106**	**144%**	**155**	**66%**	**690**	**519**	**33%**
Total Income	**22,720**	**27,590**	**-18%**	**22,715**	**0%**	**66,985**	**73,882**	**-9%**
Non-Markup Expense	**10,627**	**9,890**	**7%**	**10,529**	**1%**	**31,245**	**29,259**	**7%**
Operating Expense	10,297	9,549	8%	9,902	4%	30,028	28,232	6%
WWF	270	322	-16%	280	-4%	780	767	2%
Other Charges	61	19	218%	347	-82%	437	259	69%
Profit Before Provisions	**12,093**	**17,700**	**-32%**	**12,186**	**-1%**	**35,739**	**44,623**	**-20%**
Provisions	(1,501)	1,114	na	(1,787)	-16%	(3,501)	5,190	-167%
Profit Before Taxation	**13,594**	**16,587**	**-18%**	**13,972**	**-3%**	**39,241**	**39,434**	**0%**
Taxation	5,591	6,549	-15%	6,058	-8%	16,274	15,922	2%
Profit After Taxation	**8,003**	**10,038**	**-20%**	**7,914**	**1%**	**22,967**	**23,512**	**-2%**
PAT Attributable to Shareholders	**7,972**	**9,981**	**-20%**	**7,871**	**1%**	**22,854**	**23,407**	**-2%**
EPS	**6.73**	**8.42**		**6.64**		**19.29**	**19.75**	
DPS	**4.50**	**-**		**5.00**		**14.00**	**5.00**	
Cost/Income	**45%**	**35%**		**44%**		**45%**	**38%**	
ETR	**41%**	**39%**		**43%**		**41%**	**40%**	

Source: Company Accounts, Foundation Research, November 2021

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Important disclosures:

Recommendations definitions

If

Expected return >+10%	Outperform.
Expected return from -10% to +10%	Neutral.
Expected return <-10%	Underperform.