

Foundation Alert

MCB: Analyst Briefing Key Takeaways

Event

- MCB Bank Limited (MCB PA) held its conference call today to discuss CY21 results and the outlook of the bank. Following are the key takeaways of the briefing.

Impact

- To recall, the bank posted highest-ever PAT of Rs31.18bn (EPS: 26.31) in CY21 (up by 6% YoY). The result was accompanied with a DPS of Rs5.0 taking cumulative DPS for CY21 to Rs19.0.
- Interest income/interest expense for CY21 clocked in at Rs132.6/64.2bn depicting a decline of 9/8% YoY, translating in to a decrease of 10% YoY in net interest income. Banks profitability was supported by higher fee income of Rs14.0bn (↑17% YoY), and provision reversal of Rs5.5bn in CY21 as compared to Rs7.3bn in CY20.
- Management shared the NPLs are mainly on account of NIB, of which bank has been able to recover 30% of NPLs, and is optimistic in further recoveries.
- Management believes the NIMs are expected to improve due to asset reprising to take place in 1QCY22, as blocks of investment book are set to mature in Jan'22. NIMs for the bank are expected to reach 5% in CY22.
- Banks deposits stood at Rs1,412bn depicting an increase of 9% YoY (↓3% QoQ). The growth was mainly from CA increasing by 15% YoY, however the sequential decline was due to term deposits down by 15%. This shift kept CASA to 92.93%. Management focuses on attracting small ticket current account to improve CASA and minimize cost of deposit.
- Management further disclosed bank's ADR stood at 45% as gross advances clocked in at Rs635bn. The loan book remained concentrated with corporate lending as commodities cycle remains strong. Bank also prudently disbursed housing loan of Rs4.75bn in 'mera pakistan mera ghar' scheme and as SBP increased housing finance limit. High loan concentration to corporate sector is expected to keep NPLs minimized.
- Investment book stands at Rs1.03tn, with 31/23/41% in Tbill/fixed PIB/Floaters, with concentration remaining in low tenures. Management further disclosed that yields for Tbills and PIB stood at 7.37% and 9.35% respectively for the quarter. Furthermore Yields for PIB fixed and floater rate stood at 9.75% and 8.76%.
- Banks CAR stood at 17% in dec'21, the decline was because of (1) low investment, (2) investment surplus changing into deficit, and (3) higher advances. The implementation of IFRS-9 would uplift CAR marginally, however provisioning on gov't securities curtails risks to CAR.
- MCB live, a digital platform, became operational with robust opening remarks, and management believes it could digitalize and prove to be a key strategic driver. Bank maintains its hybrid form of growth in brick-mortar and digital gateways.
- 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%.
- Management expects interest rate to rise by 50bps in this MPS and further 50bps by 1HCY22.

Outlook

- Bank is expected to post robust profitability due to its prudent investment book and low cost of deposit. We have an 'Outperform' rating on the stock with the Jun-22 TP of Rs212/sh, dividend yield of 12% and attractive P/B of 0.96.

Table 01: Earnings Review MCB 4QCY21 (Rs mn)

	4QCY21	4QCY20	YoY	3QCY21	QoQ	CY21	CY20	YoY
Interest Earned	35,843	31,256	15%	34,032	5%	132,609	145,772	-9%
Interest Expensed	18,513	14,212	30%	16,716	11%	64,231	69,929	-8%
Net Interest Income (NII)	17,330	17,044	2%	17,316	0%	68,378	75,843	-10%
Fee Income	3,875	3,180	22%	3,475	12%	13,961	11,971	17%
Dividend Income	727	340	114%	375	94%	1,955	969	102%
Foreign Exchange Income	1,469	635	131%	954	54%	3,848	2,735	41%
Gain on Securities	(122)	464	-126%	207	-159%	263	3,396	-92%
Other Income	(541)	86	-728%	133	-506%	627	196	220%
Total Non Markup Income	5,408	4,705	15%	5,146	5%	20,655	19,269	7%
Share of Profit from Associates	253	54	367%	259	-2%	944	573	65%
Total Income	22,991	21,803	5%	22,720	1%	89,976	95,685	-6%
Non-Markup Expense	10,928	9,778	12%	10,627	3%	42,173	39,037	8%
Operating Expense	10,562	9,532	11%	10,297	3%	40,590	37,764	7%
WWF	278	208	34%	270	3%	1,058	975	9%
Other Charges	88	39	128%	61	44%	525	298	76%
Profit Before Provisions	12,063	12,025	0%	12,093	0%	47,803	56,648	-16%
Provisions	(1,972)	2,140	-192%	(1,501)	31%	(5,473)	7,330	na
Profit Before Taxation	14,035	9,884	42%	13,594	3%	53,275	49,318	8%
Taxation	5,674	3,834	48%	5,591	1%	21,948	19,756	11%
Profit After Taxation	8,361	6,050	38%	8,003	4%	31,328	29,562	6%
PAT Attributable to Shareholders	8,325	6,003	39%	7,972	4%	31,180	29,410	6%
EPS	7.03	5.07		6.73		26.31	24.82	
DPS	5.00	15.00		4.50		19.00	20.00	
Cost/Income	48%	45%		47%		47%	41%	
ETR	40%	39%		41%		41%	40%	

Source: Company Accounts, Foundation Research, Feb 2022

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