

Foundation Alert

MCB: Analyst Briefing Key Takeaways

Event

- MCB Bank Limited (MCB PA) held its conference call today to discuss 9MCY22 results and outlook of the bank. Following are the key takeaways of the briefing.

Impact

- To recall, the bank posted unconsolidated PAT of Rs19.85bn (EPS: 16.75) in 9MCY22 (down by 12% YoY). The bank declared cash payout of Rs14 per share in 9MCY22.
- Interest income/interest expense for 9MCY22 clocked in at Rs141.03/79.52bn depicting increase of 51.1/37.4% YoY, translating into increase of 29% YoY in net interest income.
- Increase of 41% YoY in non-interest income provided significant support to bank's profitability which is led by 242% YoY increase in forex income due to volatile exchange rate movement and 13% YoY increase in Fee income on the back of 33% YoY increase in card based income and 35% YoY growth in remittances.
- Bank's profitability was supported by provision reversal of Rs1.3bn in 9MCY22 compared to a provisioning expense of Rs3.5bn same period last year, this is mainly due to proactive monitoring and recovery efforts. Furthermore, slowdown in economic activity also reflected in deteriorating infection ratio clocking in at 8.37% compared to 9.7% in Sep'21.
- Operational expenses of the bank increased by a modest 16% YoY despite an exceptionally high inflation, impact of currency devaluation and continued investments in human resources.
- However, Cost to income ratio significantly improved to 37.3% in 9MCY22 as compare to 42.5% in 9MCY21.
- During the same period profit of overseas operations increased by 180% YoY to Rs1.6bn (US\$ 7.78mn).
- Deposit growth remained upbeat increasing by 12.6% to clock in at 1.59tn as of Sep'22 when compared with Dec'21 with current deposits increased by Rs117bn to Rs680bn and improving CASA base to 93.73%.
- Current to Total Deposits Ratio improved to 43% as compared to 40% as at Dec'21.
- MCB's investment portfolio is primarily deployed in PIBs with a tilt towards floater. Banks investment portfolio constitute Rs559bn/Rs284bn/Rs210bn of PIB floater/PIB Fixed/T-Bills. Yield on investment increased to 11.83% in 9MCY22 as compared to 8.25% in 9MCY21.
- Gross advances registered a decrease of Rs9bn (-1.39% since Dec'21) with prime concentration in Corporate Book, followed by Retail Segment. Moreover, Consumer lending slowed down in 3rd quarter, up Rs4.7bn in 9MCY22 and down Rs623mn QoQ, as bank focuses on asset quality in these economically stressful times.
- On NIB front, recoveries have increased to 28% of Rs29bn, which management expect to remain in the range of Rs1bn for a year.
- Management expects interest rate to remain at these levels with monitoring easing to start during the latter half of next year.

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, providing dividend yield of 16% and trading at an attractive P/B of 0.8.

Table 01: Consolidated earnings review 3QCY22

	3QCY22	3QCY21	YoY	QoQ	9MCY22	9MCY21	YoY
Interest Earned	61,034	34,032	79%	23%	153,350	96,766	58%
Interest Expensed	36,045	16,716	116%	35%	86,111	45,718	88%
Net Interest Income (NII)	24,990	17,316	44%	9%	67,239	51,048	32%
Fee Income	3,911	3,475	13%	2%	11,285	10,086	12%
Dividend Income	331	375	-12%	-18%	1,436	1,228	17%
Foreign Exchange Income	4,102	954	330%	39%	8,339	2,379	251%
Gain on Securities	(543)	207	-362%	-720%	(165)	384	-143%
Other Income	60	133	-55%	-28%	196	1,168	-83%
Total Non-Markup Income	7,861	5,146	53%	7%	21,091	15,246	38%
Share of Profit from Associates	160	259	-38%	1%	522	690	-24%
Total Income	33,010	22,720	45%	9%	88,852	66,985	33%
Non-Markup Expense	13,066	10,627	23%	7%	36,380	31,245	16%
Operating Expense	12,557	10,297	22%	6%	35,139	30,028	17%
WWF	409	270	51%	13%	1,076	780	38%
Other Charges	101	61	65%	139%	165	437	-62%
Profit Before Provisions	19,944	12,093	65%	10%	52,472	35,739	47%
Provisions	(377)	(1,501)	-75%	-629%	(1,298)	(3,501)	-63%
Profit Before Taxation	20,322	13,594	49%	12%	53,770	39,241	37%
Taxation	11,039	5,591	97%	-30%	33,101	16,274	103%
Profit After Taxation	9,282	8,003	16%	307%	20,669	22,967	-10%
PAT Attributable to Shareholders	9,246	7,972	16%	304%	20,615	22,854	-10%
EPS	7.80	6.73			17.40	19.29	
DPS	5.00	4.50			14.00	14.00	
Cost/Income	40%	47%			41%	47%	
ETR	54%	41%			62%	41%	

Source: Company Accounts, Foundation Research, November 2022

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