

Foundation Alert

MCB: Analyst Briefing Key Takeaways

Event

- MCB Bank Limited (MCB PA) held its conference call today to discuss CY22 results and outlook of the bank. Following are the key takeaways of the briefing.

Impact

- To recall, the bank posted unconsolidated PAT of Rs32.7bn (EPS: Rs27.63) in CY22 (up by 6% YoY). The bank declared cash payout of Rs20 per share in CY22.
- Interest income/interest expense for CY22 clocked in at Rs200.8/113.6bn depicting increase of 63%/91% YoY, translating into increase of 36% YoY in net interest income. Increase in net interest income is the result of strong volumetric growth in current account and favorable yield curve movements.
- Increase of 23% YoY in non-interest income provided significant support to bank's profitability, which is led by 145% YoY increase in forex income due to volatile exchange rate movement and 14% YoY increase in Fee income on the back of 37% YoY increase in card based income and 33% YoY growth in remittances. Moreover, Dividend income is rose by 7% from Rs2.3bn in 2021 to Rs2.4bn in 2022.
- Bank's profitability was supported by provision reversal of Rs2.8bn in CY22 compared to a provisioning reversal of Rs4.8bn 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 6.43%.
- Total Recoveries related to NPL stock transferred from NIB Bank amounts to Rs8.52bn.
- Operational expenses of the bank increased by a modest 17% YoY despite an exceptionally high inflation, minimum wage application, impact of currency devaluation and continued investments in human resources, branch network and technology upgradation.
- Moreover, Cost to Income Ratio improved to 37.1% as compared to 42.1% as at Dec'21.
- Bank deposit decreased by 2% YoY to clock in at Rs1.4tn as of Dec'22 when compared with Dec'21 on the back of 14% and 44% decrease in Savings and Term deposits, respectively.
- However, current deposit base increased by 21% YoY to Rs680bn as of Dec'22 due to business initiatives, customer engagements and improved service quality. Subsequently, Current to Total Deposits Ratio improved to 49% as compared to 40% as at Dec-21. Moreover, CoD for CY22 works out 6.23% (against 3.42% in CY21) on account of 625bps increase in policy rate i.e. 16.00% from 9.75%.
- Bank recorded healthy profitability ratios of RoE at 19.78% (against 19.11% at Dec'21) and RoA at 1.61% (against 1.65% at Dec'21) despite adverse implications of tax amendments enacted through Finance Act 2022.
- MCB's investment portfolio is primarily deployed in PIBs with a tilt towards floater. Banks investment portfolio constitute Rs528bn/Rs289bn/Rs132bn of PIB floater/PIB Fixed/T-Bills. Yield on investment increased to 12.41% in CY22 as compared to 8.30% in CY21.
- Gross advances registered historic growth of Rs162bn (up 25% YoY), above the industry average, to close the year at Rs798bn with prime concentration in Corporate Book, followed by Retail Segment. Moreover, corporate lending book grew by Rs161bn (up 36% YoY) whereas the consumer loan portfolio increased by Rs4.5bn (up 12% YoY).
- Bank's total Capital Adequacy Ratio (CAR) is 18.84% against the requirement of 11.5% (including capital conservation buffer of 1.50%).

- MCB Islamic Bank recorded profit of Rs1.5bn in CY22 against Rs100mn last year as Islamic deposits grew to Rs154bn from Rs123bn a year ago.

Outlook

- Prudent asset deployment with lower ADR concentrated corporate book along with higher CASA would provide cushion to the Bank to pass through this tough economic environment. Moreover, lower cost of deposits and operating cost along with adequate CAR would further strengthen our conviction for the bank to reflect asset repricing in its profitability. Thus, we have an “Outperform” stance on the bank with Dec-23 TP of Rs154.0.

Table 1: Earnings Review MCB CY22 (Consolidated)

	4QCY22	4QCY21	YoY	3QCY22	QoQ	CY22	CY21	YoY
Interest Earned	66,073	35,843	84%	61,034	8%	219,423	132,609	65%
Interest Expensed	37,344	18,513	102%	36,045	4%	123,455	64,231	92%
Net Interest Income (NII)	28,729	17,330	66%	24,990	15%	95,968	68,378	40%
Fee Income	4,289	3,875	11%	3,911	10%	15,574	13,961	12%
Dividend Income	694	727	-4%	331	110%	2,130	1,955	9%
Foreign Exchange Income	1,283	1,469	-13%	4,102	-69%	9,622	3,848	150%
Gain on Securities	(1,544)	(122)	1170%	(543)	184%	(1,709)	263	na
Other Income	100	(541)	na	60	65%	296	627	-53%
Total Non-Markup Income	4,822	5,408	-11%	7,861	-39%	25,913	20,655	25%
Share of Profit from Associates	149	253	-41%	160	-7%	671	944	-29%
Total Income	33,700	22,991	47%	33,010	2%	122,552	89,976	36%
Non-Markup Expense	13,473	10,928	23%	13,066	3%	49,853	42,173	18%
Operating Expense	12,937	10,562	22%	12,557	3%	48,075	40,590	18%
WWF	434	278	56%	409	6%	1,510	1,058	43%
Other Charges	102	88	16%	101	1%	268	525	-49%
Profit Before Provisions	20,228	12,063	68%	19,944	1%	72,699	47,803	52%
Provisions	(1,343)	(1,972)	-32%	(377)	256%	(2,641)	(5,473)	-52%
Profit Before Taxation	21,570	14,035	54%	20,322	6%	75,340	53,275	41%
Taxation	7,788	5,674	37%	11,039	-29%	40,889	21,948	86%
Profit After Taxation	13,782	8,361	65%	9,282	48%	34,451	31,328	10%
PAT Attributable to Shareholders	13,677	8,325	64%	9,318	47%	34,365	31,180	10%
EPS	11.54	7.03		7.86		29.00	26.31	
DPS	6.00	5.00		5.00		20.00	19.00	
Cost/Income	40%	48%		40%		41%	47%	
ETR	36%	40%		54%		54%	41%	

Source: Company Accounts, Foundation Research, February 2023

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Recommendations definitions

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