

Foundation Alert

MCB: Analyst Briefing Key Takeaways

Event

- MCB Bank Limited (MCB PA) held its analyst briefing today to discuss 1QCY23 results and outlook of the bank. Following are the key takeaways of the briefing.

Impact

- The bank posted unconsolidated PAT of Rs13.1bn in 1QCY23 (up by 46% YoY). The bank declared cash payout of Rs6.0 per share in 1QCY23.
- Interest income/interest expense for 1QCY23 clocked in at Rs64/34bn depicting increase of 61%/56% YoY, translating into increase of 66% 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.
- Non-markup income increased to Rs5.9bn, up 3% YoY, in 1QCY23 against Rs5.7bn in the corresponding period last year with major contributions coming in from fee commission income.
- Fee commission increased by 27% YoY with income from trade and guarantee business up by 59% YoY, card based income increased by 42% YoY and income from home remittances up by 39% YoY.
- Operational expenses of the bank increased by 25% YoY to Rs11.8bn in 1QCY23 due to an exceptionally high inflation, impact of currency devaluation and rapidly escalating fuel and utility costs.
- Moreover, Cost to Income Ratio improved to 32.8% as compared to 39.7% as at Mar'22.
- Profit of overseas operations increased by 220% YoY to Rs890mn (US\$3.28mn).
- Total Recoveries related to NPL stock transferred from NIB Bank amounts to Rs8.72bn including Rs205mn in 1QCY23.
- Bank deposit increased by 11.7% YoY to clock in at Rs1.5tn as of Mar'23 when compared with Dec'22 on the back of growth in current deposits.
- Current deposit base increased by 22% QoQ to Rs827bn as of Mar'23 due to business initiatives, customer engagements and focus on building no cost deposits. Subsequently, Current to Total Deposits Ratio improved to 54% as compared to 49% as at Dec-22. Moreover, CoD for 1QCY23 works out 6.83% (against 4.74% in 1QCY22) on account of sharp increase in policy rate since 1 year.
- Bank recorded healthy profitability ratios of RoE at 29.63% (against 19.78% at Dec'22) and RoA at 2.49% (against 1.61% at Dec'22).
- MCB's investment portfolio is primarily deployed in PIBs with a tilt towards floater. Banks investment portfolio constitute Rs540bn/Rs291bn/Rs80bn of PIB floater/PIB Fixed/T-Bills. Yield on investment increased to 15% in 1QCY23 as compared to 10.16% in 1QCY22.
- Gross advances decreased by Rs95bn (down 12% QoQ), to close the quarter at Rs657bn with prime concentration in Corporate Book, followed by Retail Segment. Moreover, corporate lending book decreased by Rs107bn (down 18% QoQ) whereas the Retail loan portfolio increased by Rs7bn (up 8% QoQ).
- Bank's total Capital Adequacy Ratio (CAR) is 18.01% against the requirement of 11.5% (including capital conservation buffer of 1.50%).
- MCB Islamic Bank recorded profit of Rs840mn in 1QCY23 against Rs1.5bn in CY22 as Islamic deposits grew to Rs163bn from Rs154bn at Dec'22.

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 01: Consolidated - Earnings Review MCB 1QCY23

	1QCY23	1QCY22	YoY	4QCY22	QoQ
Interest Earned	70,234	42,689	65%	66,073	6%
Interest Expensed	37,191	23,331	59%	37,344	0%
Net Interest Income (NII)	33,042	19,358	71%	28,729	15%
Fee Income	4,649	3,549	31%	4,289	8%
Dividend Income	654	699	-6%	694	-6%
Foreign Exchange Income	1,036	1,286	-19%	1,257	-18%
Gain on Securities	84	290	-71%	(1,544)	na
Other Income	64	52	23%	125	-49%
Total Non-Markup Income	6,487	5,876	10%	4,822	35%
Share of Profit from Associates	4	204	-98%	149	-97%
Total Income	39,533	25,438	55%	33,700	17%
Non-Markup Expense	14,152	11,083	28%	13,473	5%
Operating Expense	13,558	10,754	26%	12,937	5%
WWF	496	306	62%	434	14%
Other Charges	98	23	336%	102	-4%
Profit Before Provisions	25,381	14,355	77%	20,228	25%
Provisions	740	(992)	na	(1,343)	na
Profit Before Taxation	24,641	15,347	61%	21,570	14%
Taxation	10,662	6,242	71%	7,788	37%
Profit After Taxation	13,979	9,106	54%	13,782	1%
PAT Attributable to Shareholders	13,928	9,083	53%	13,677	2%
EPS	11.75	7.66		11.54	
DPS	6.00	5.00		6.00	
Cost/Income	36%	44%		40%	
ETR	43%	41%		36%	

Source: Company Accounts, Foundation Research, May 2023

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