

Equity Research | Commercial Banks | Tuesday, 20 April, 2021

MCB has announced its 1QCY21 result where it posted profit after tax of Rs6.8bn (EPS: Rs5.7) as compared to profit after tax of Rs6.5bn (EPS: Rs5.5) in same period last year, up by 4.2% YoY.

The company has posted the net interest income of Rs15.2bn against Rs16.3bn in SPLY, recording a decline of 6.5% YoY. We note that this negative growth is attributed to the decline in interest rate.

Non-interest income has been increased by 22.2% YoY to Rs4.7bn mainly due to the increase in fee and commission income during the period.

Furthermore, the operating cost to income ratio has been increased to 43.2% as compared to 40.4% during SPLY.

Lastly, the bank has booked a reversal of Rs177mn against the provision of Rs742mn during SPLY.

MCB is currently trading at CY21E PE of 5.97x. Furthermore, the script is trading at a CY21E P/B of 1.02x which offers a discount of 22% relative to its historical 5-year average of 1.30x. We suggest our investors to **BUY** the script with a DDM based Dec-21 TP of Rs.205 which provides an upside potential of 18%. Furthermore, it also offers an attractive dividend yield of 11% which makes the total return of 29%.

Rupees' millions	1QCY21	1QCY20	YoY	CY20	CY19	YoY
Interest earned	28,347	39,100	27.5% ▼	136,076	138,292	1.6% ▼
Interest expensed	-13,107	-22,792	42.5% ▼	-64,741	-78,676	17.7% ▼
Net Interest Income	15,240	16,308	6.5% ▼	71,334	59,616	19.7% ▲
Fee and commission income	3,336	2,846	17.2% ▲	10,936	11,288	3.1% ▼
Dividend income	416	224	86.2% ▲	1,210	1,377	12.2% ▼
Foreign exchange income	624	725	13.9% ▼	2,525	2,895	12.8% ▼
(Loss) / gain on securities	350	71	391.6% ▲	3,332	833	300.1% ▲
Other income	14	33	57.7% ▼	128	272	52.8% ▼
Non-Interest Income	4,749	3,888	22.2% ▲	18,136	16,679	8.7% ▲
Operating expenses	-8,636	-8,161	5.8% ▲	-32,646	-32,671	0.1% ▼
Workers' Welfare Fund	-226	-217	3.8% ▲	-965	-802	20.3% ▲
Other charges	-29	-209	86.0% ▼	-297	-236	25.8% ▲
Profit Before Provisions	11,099	11,607	4.4% ▼	55,562	42,586	30.5% ▲
Provisions	177	-742	123.9% ▼	-7,313	-2,484	194.5% ▲
Profit Before Taxation	11,276	10,865	3.8% ▲	48,249	40,102	20.3% ▲
Taxation	-4,486	-4,346	3.2% ▼	-19,212	-16,125	19.1% ▲
Profit After Taxation	6,790	6,519	4.2% ▲	29,037	23,977	21.1% ▲
Earnings Per Share	5.73	5.50	4.2% ▲	24.50	20.23	21.1% ▲
Dividend	4.50	5.00		20.00	17.00	
Bonus	0%	0%		0%	0%	

Closing Period: 12 May 2021 - 19 May 2021

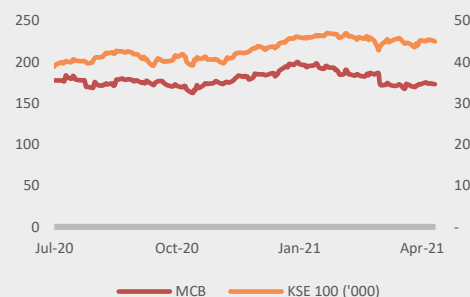
Operating Cost to Income	-43.2%	-40.4%	2.8% ▲	-36.5%	-42.8%	6.3% ▼
Effective Taxation	-39.8%	-40.0%	0.2% ▼	-39.8%	-40.2%	0.4% ▼

Source: ACPL Research, Company Financials

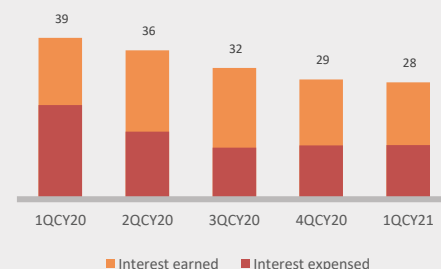
Key Statistics

Symbol	MCB
TP - Dec 21	205.00
LDGP	174
Upside (%)	18
Free Float ('mn)	415
Market Cap. (Rs.'mn)	206,200

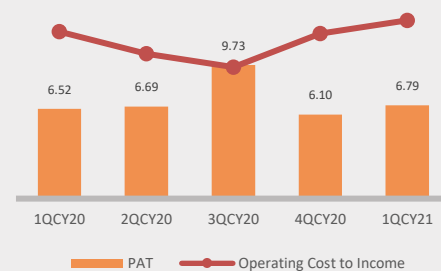
MCB vs KSE 100



Interest Earned vs Expensed (Rs'bn)



PAT (Rs'bn) vs Operating Cost To Income



Sources: ACPL Research, Company Financials

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Financial Projections

Rupees' millions	2015	2016	2017	2018	2019	2020	2021E	2022E	2023E
Mark-up / Return / Interest earned	80,393	67,422	74,091	83,319	138,292	136,076	145,045	154,503	166,947
Mark-up / Return / Interest expensed	-31,077	-23,655	-31,429	-37,305	-78,676	-64,741	-62,196	-68,416	-75,257
Net Mark-up / Interest Income	49,316	43,767	42,662	46,014	59,616	71,334	82,849	86,087	91,690
Fee and commission income	7,842	7,640	9,741	10,731	11,288	10,936	10,596	10,265	9,946
Dividend income	1,267	1,456	1,941	1,280	1,377	1,210	1,173	1,253	1,341
Foreign exchange income	946	959	1,636	3,420	2,895	2,525	2,064	2,064	2,064
(Loss) / gain from derivatives	0	0	15	12	15	4	0	0	0
(Loss) / gain on securities	4,429	5,679	4,741	1,293	833	3,332	3,536	3,859	4,214
Other income	2,083	488	43	462	272	128	61	29	14
Total non-markup / interest income	16,566	16,222	18,118	17,198	16,679	18,136	17,430	17,470	17,577
Non mark-up / interest expenses									
Operating expenses	-21,968	-22,074	-27,958	-32,091	-32,671	-32,646	-35,098	-36,245	-38,244
Workers' Welfare Fund	-927	-916	-620	-641	-802	-965	-1,107	-1,143	-1,206
Other charges	0	0	-143	-170	-236	-297	-357	-428	-514
Profit Before Provisions	42,987	36,999	32,059	30,310	42,586	55,562	63,717	65,741	69,304
Provisions / (reversal of provisions)	-659	-925	-1,045	1,753	-2,484	-7,313	-8,902	-1,032	-2,229
Extraordinary / unusual items	0	0	0	0	0	0	0	0	0
Profit before income tax	42,329	36,075	31,014	32,064	40,102	48,249	54,815	64,709	67,075
Income tax expense	-16,782	-14,184	-8,555	-10,704	-16,125	-19,212	-20,282	-22,648	-23,476
Profit for the year	25,546	21,891	22,459	21,360	23,977	29,037	34,534	42,061	43,599
EPS	21.56	18.47	18.95	18.02	20.23	24.50	29.14	35.49	36.79

Source: ACPL Research, Company Financials

Horizontal Analysis

	2015	2016	2017	2018	2019	2020	2021E	2022E	2023E
Mark-up / Return / Interest earned	4.04%	-16.13%	9.89%	12.45%	65.98%	-1.60%	6.59%	6.52%	8.05%
Mark-up / Return / Interest expensed	-7.94%	-23.88%	32.86%	18.70%	110.90%	-17.71%	-3.93%	10.00%	10.00%
Net Mark-up / Interest Income	13.34%	-11.25%	-2.52%	7.86%	29.56%	19.66%	16.14%	3.91%	6.51%
Total non-markup / interest income	27.99%	-2.08%	11.69%	-5.08%	-3.02%	8.73%	-3.89%	0.23%	0.62%
Non mark-up / interest expenses									
Operating expenses	6.58%	0.48%	26.66%	14.78%	1.81%	-0.08%	7.51%	3.27%	5.51%
Workers' Welfare Fund	-5.26%	-1.28%	-32.25%	3.38%	25.07%	20.31%	14.71%	3.27%	5.51%
Other charges	0.00%	0.00%	0.00%	18.90%	39.16%	25.83%	20.00%	20.00%	20.00%
Profit Before Provisions	23.29%	-13.93%	-13.35%	-5.46%	40.50%	30.47%	14.68%	3.18%	5.42%
Provisions / (reversal of provisions)	-135.33%	40.42%	13.00%	-267.77%	-241.65%	194.47%	21.73%	-88.41%	116.00%
Profit before income tax	15.24%	-14.77%	-14.03%	3.38%	25.07%	20.31%	13.61%	18.05%	3.66%
Income tax expense	35.29%	-15.48%	-39.68%	25.12%	50.65%	19.14%	5.57%	11.67%	3.66%
Profit for the year	5.02%	-14.31%	2.59%	-4.89%	12.25%	21.11%	18.93%	21.80%	3.66%
EPS	5.02%	-14.31%	2.59%	-4.89%	12.25%	21.11%	18.93%	21.80%	3.66%

Source: ACPL Research, Company Financials

Key Ratios

Profitability Ratios		2015	2016	2017	2018	2019	2020	2021E	2022E	2023E
Yield on Earning Assets	%	9.04	7.18	6.16	6.05	10.18	8.50	7.56	7.45	7.44
Interest Cost	%	3.69	2.63	2.79	2.90	6.31	4.38	3.83	3.83	3.83
Net Interest Margin	%	5.35	4.55	3.37	3.15	3.87	4.12	3.74	3.63	3.61
Operating Cost to Income	%	34.75	38.32	47.25	52.05	44.18	37.90	36.46	36.52	36.57
Return on Equity	%	18.54	15.46	14.62	14.31	14.19	15.27	17.04	19.32	18.58
Return on Assets	%	2.54	2.08	1.67	1.43	1.58	1.65	1.66	1.87	1.79
Balance Sheet Analysis		2015	2016	2017	2018	2019	2020	2021E	2022E	2023E
Deposits Growth	%	1.23	12.14	23.94	8.32	9.13	12.64	10.00	10.00	10.00
CASA to Deposits	%	90.34	91.07	87.54	86.04	86.13	88.89	88.89	88.89	88.89
Advances to Deposits	%	43.65	44.53	48.46	48.00	43.39	35.90	57.22	56.86	56.59
Investments to Deposits	%	81.18	71.14	67.83	71.43	65.41	78.78	69.18	67.16	65.32
PIBs to Investments	%	54.05	39.25	36.00	17.70	40.94	35.90	35.90	35.90	35.90
T Bills to Investments	%	43.85	58.32	61.72	79.67	55.65	61.43	61.43	61.43	61.43
Gross Infection Ratio	%	6.32	5.90	9.47	8.95	9.15	8.64	8.20	7.50	7.00
Provisioning Coverage	%	87.63	87.32	91.46	85.68	84.85	88.19	88.19	88.19	88.19
Net Infection Ratio	%	0.83	0.79	0.89	1.39	1.51	1.31	0.90	0.83	0.77
Capital Adequacy Ratio	%	19.43	19.33	16.34	17.02	17.84	19.69	18.13	17.99	17.88
Leverage Ratio	%	8.23	8.59	7.52	6.54	6.50	6.43	5.91	5.82	5.75
Operational Analysis		2015	2016	2017	2018	2019	2020	2021E	2022E	2023E
Market Share - Deposits	%	7.49	6.98	7.83	7.86	7.82	7.21	7.02	6.83	6.65
Market Share - Advances	%	6.75	6.60	7.89	6.93	6.62	6.97	7.83	7.62	7.42
Market Share - Investments	%	8.13	7.47	7.68	10.04	8.56	8.78	7.53	7.12	6.74
No. of Branches		1223	1238	1444	1387	1410	1410	1410	1410	1410
Investment Ratios		2015	2016	2017	2018	2019	2020	2021E	2022E	2023E
Dividend Per Share		16.00	16.00	16.00	16.00	17.00	20.00	20.00	25.00	25.00
Dividend Yield	%	9.20	9.20	9.20	9.20	9.77	11.49	11.49	14.37	14.37
Dividend Cover	x	1.35	1.15	1.18	1.13	1.19	1.23	1.46	1.42	1.47
Retention Ratio	%	25.78	13.38	15.57	11.23	15.98	18.38	31.37	29.56	32.05
Payout Ratio	%	74.22	86.62	84.43	88.77	84.02	81.62	68.63	70.44	67.95
No. of Shares	('m)	1185	1185	1185	1185	1185	1185	1185	1185	1185
Earnings Per Share		21.56	18.47	18.95	18.02	20.23	24.50	29.14	35.49	36.79
Book Value Per Share		116.28	119.51	129.59	125.97	142.54	160.42	170.99	183.75	198.03
Price to Earnings	x	8.07	9.42	9.18	9.65	8.60	7.10	5.97	4.90	4.73
Price to Book Value	x	1.50	1.46	1.34	1.38	1.22	1.08	1.02	0.95	0.88

Source: ACPL Research, Company Financials

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TP	Target Price	CAGR	Compound Annual Growth Rate	FCF	Free Cash Flows
FCFE	Free Cash Flows to Equity	FCFF	Free Cash Flows to Firm	DCF	Discounted Cash Flows
PE	Price to Earnings Ratio	PB	Price to Book Ratio	BVPS	Book Value Per Share
EPS	Earnings Per Share	DPS	Dividend Per Share	ROE	Return of Equity
ROA	Return on Assets	SOTP	Sum of the Parts	LDCP	Last Day Closing Price

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To arrive at our Target Price, Abbasi & Company (Private) Limited uses different valuation methods which include:

- I. Discounted Cash Flow Model
- II. Dividend Discount Model
- III. Relative Valuation Model
- IV. Sum of Parts Valuation

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BUY	Greater than 15%
HOLD	Between -5% to 15%
SELL	Less than and equal to -5%

Sector Rating	Sector Outlook
Overweight	Positive
Market Weight	Neutral
Underweight	Negative

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