

MCB has announced its 1QCY20 result where it posted profit after tax of Rs6.5bn (EPS: Rs5.5) as compared to profit after tax of Rs5.1bn (EPS: Rs4.29) in same period last year, up by 28.3% YoY.

The company has posted the net interest income of Rs16.3bn against Rs13.5bn in SPLY, recording a growth of 21% YoY. We note that this growth is attributed to the growth in bank's deposits and expanded NIM on account of high interest rates and high CASA.

Non-interest income has been increased by 10.6% YoY to Rs3.9bn as compared to Rs3.5bn during SPLY, mainly due to the higher exchange gains, gains on securities and commission income during the year.

Furthermore, the management of the bank has successfully been able to manage the operating cost to income ratio which has been reduced to 40.4% as compared to 48.1% during SPLY.

Lastly, the bank has charged the provision of Rs742mn in 1QCY20 against the reversal of Rs484mn during SPLY.

MCB is currently trading at CY21E PE of 6.67x. Furthermore, the script is trading at a CY21E P/B of 1.02x which offers a discount of 18% relative to its historical 5-year average of 1.24x. We maintain our **BUY** stance on the script with a DDM based Jun-21 TP of Rs.191 which provides an upside potential of 22%. Furthermore, it also offers an attractive dividend yield of 13% which makes the total return of 35%.

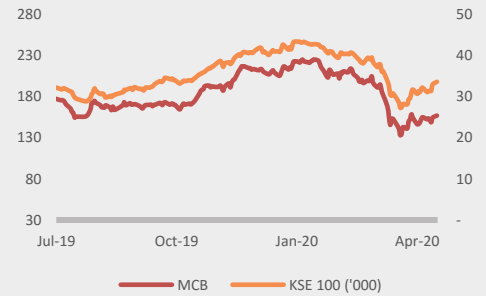
Rupees' millions	1QCY20	1QCY19	YoY	CY19	CY18	YoY
Interest earned	39,100	27,382	42.8% ▲	138,292	83,319	66.0% ▲
Interest expensed	-22,792	-13,903	63.9% ▲	-78,676	-37,305	110.9% ▲
Net Interest Income	16,308	13,479	21.0% ▲	59,616	46,014	29.6% ▲
Fee and commission income	2,846	2,814	1.1% ▲	11,288	10,731	5.2% ▲
Dividend income	224	189	18.1% ▲	1,377	1,280	7.6% ▲
Foreign exchange income	725	441	64.3% ▲	2,895	3,420	15.4% ▼
(Loss) / gain on securities	71	11	522.2% ▲	833	1,293	35.6% ▼
Other income	33	42	23.2% ▼	272	462	41.2% ▼
Non-Interest Income	3,888	3,514	10.6% ▲	16,679	17,198	3.0% ▼
Operating expenses	-8,161	-8,170	0.1% ▼	-32,671	-32,091	1.8% ▲
Workers' Welfare Fund	-217	-182	19.7% ▲	-802	-641	25.1% ▲
Other charges	-209	-46	353.0% ▲	-236	-170	39.2% ▲
Profit Before Provisions	11,607	8,595	35.0% ▲	42,586	30,310	40.5% ▲
Provisions	-742	484	253.4% ▼	-2,484	1,753	241.7% ▼
Profit Before Taxation	10,865	9,079	19.7% ▲	40,102	32,064	25.1% ▲
Taxation	-4,346	-3,999	8.7% ▼	-16,125	-10,704	50.6% ▲
Profit After Taxation	6,519	5,080	28.3% ▲	23,977	21,360	12.3% ▲
Closing Period: 15 Apr 20 - 22 Apr 20						
Earnings Per Share	5.50	4.29	28.3% ▲	20.23	18.02	12.3% ▲
Dividend	5.00	4.00		17.00	16.00	
Bonus	0%	0%		0%	0%	
Operating Cost to Income	-40.4%	-48.1%	7.7% ▼	-42.8%	-50.8%	7.9% ▼
Effective Taxation	-40.0%	-44.1%	4.1% ▼	-40.2%	-33.4%	6.8% ▲

Source: ACPL Research, Company Financials

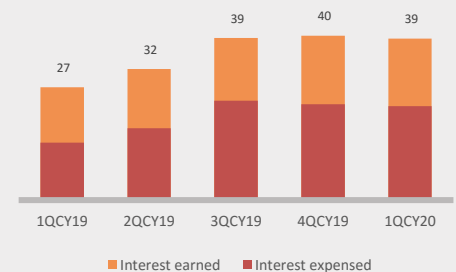
Key Statistics

Symbol	MCB
TP - Jun 21	191.00
LDCP	156.97
Upside (%)	21.68
Free Float ('mn)	415
Market Cap. (Rs.'mn)	186,019

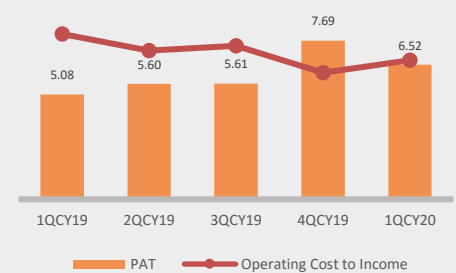
MCB vs KSE 100



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	2020E	2021E	2022E	2023E
Mark-up / Return / Interest earned	80,393	67,422	74,091	83,319	138,292	119,925	118,644	116,550	113,399
Mark-up / Return / Interest expensed	-31,077	-23,655	-31,429	-37,305	-78,676	-53,450	-57,134	-52,590	-46,740
Net Mark-up / Interest Income	49,316	43,767	42,662	46,014	59,616	66,475	61,509	63,960	66,659
Fee and commission income	7,842	7,640	9,741	10,731	11,288	11,852	12,445	13,067	13,721
Dividend income	1,267	1,456	1,941	1,280	1,377	1,478	1,588	1,708	1,840
Foreign exchange income	946	959	1,636	3,420	2,895	1,180	1,180	1,180	1,180
(Loss) / gain from derivatives	0	0	15	12	15	0	0	0	0
(Loss) / gain on securities	4,429	5,679	4,741	1,293	833	516	561	611	665
Other income	2,083	488	43	462	272	272	272	272	272
Total non-markup / interest income	16,566	16,222	18,118	17,198	16,679	15,298	16,046	16,838	17,677
Non mark-up / interest expenses									
Operating expenses	-21,968	-22,074	-27,958	-32,091	-32,671	-32,709	-31,022	-32,319	-33,734
Workers' Welfare Fund	-927	-916	-620	-641	-802	-902	-856	-891	-930
Other charges	0	0	-143	-170	-236	-473	-567	-681	-817
Profit Before Provisions	42,987	36,999	32,059	30,310	42,586	47,689	45,110	46,907	48,854
Provisions / (reversal of provisions)	-659	-925	-1,045	1,753	-2,484	-850	-868	-599	-1,573
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	46,839	44,242	46,308	47,282
Income tax expense	-16,782	-14,184	-8,555	-10,704	-16,125	-18,267	-16,370	-16,208	-16,549
Profit for the year	25,546	21,891	22,459	21,360	23,977	28,572	27,873	30,101	30,733
EPS	21.56	18.47	18.95	18.02	20.23	24.11	23.52	25.40	25.93

Source: ACPL Research, Company Financials

Horizontal Analysis

	2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E
Mark-up / Return / Interest earned	4.04%	-16.13%	9.89%	12.45%	65.98%	-13.28%	-1.07%	-1.76%	-2.70%
Mark-up / Return / Interest expensed	-7.94%	-23.88%	32.86%	18.70%	110.90%	-32.06%	6.89%	-7.95%	-11.12%
Net Mark-up / Interest Income	13.34%	-11.25%	-2.52%	7.86%	29.56%	11.50%	-7.47%	3.98%	4.22%
Total non-markup / interest income	27.99%	-2.08%	11.69%	-5.08%	-3.02%	-8.28%	4.89%	4.94%	4.98%
Non mark-up / interest expenses									
Operating expenses	6.58%	0.48%	26.66%	14.78%	1.81%	0.12%	-5.16%	4.18%	4.38%
Workers' Welfare Fund	-5.26%	-1.28%	-32.25%	3.38%	25.07%	12.47%	-5.16%	4.18%	4.38%
Other charges	0.00%	0.00%	0.00%	18.90%	39.16%	100.00%	20.00%	20.00%	20.00%
Profit Before Provisions	23.29%	-13.93%	-13.35%	-5.46%	40.50%	11.98%	-5.41%	3.98%	4.15%
Provisions / (reversal of provisions)	-135.33%	40.42%	13.00%	-267.77%	-241.65%	-65.78%	2.14%	-31.03%	162.66%
Profit before income tax	15.24%	-14.77%	-14.03%	3.38%	25.07%	16.80%	-5.54%	4.67%	2.10%
Income tax expense	35.29%	-15.48%	-39.68%	25.12%	50.65%	13.28%	-10.39%	-0.99%	2.10%
Profit for the year	5.02%	-14.31%	2.59%	-4.89%	12.25%	19.16%	-2.45%	7.99%	2.10%
EPS	5.02%	-14.31%	2.59%	-4.89%	12.25%	19.16%	-2.45%	7.99%	2.10%

Source: ACPL Research, Company Financials

Key Ratios

Profitability Ratios		2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E
Yield on Earning Assets	%	9.04	7.18	6.16	6.05	10.18	7.69	7.05	6.40	5.75
Interest Cost	%	3.69	2.63	2.79	2.90	6.31	3.93	3.85	3.25	2.65
Net Interest Margin	%	5.35	4.55	3.37	3.15	3.87	3.76	3.19	3.15	3.11
Operating Cost to Income	%	34.75	38.32	47.25	52.05	44.18	41.68	41.83	41.95	42.07
Return on Equity	%	18.54	15.46	14.62	14.31	14.19	16.25	15.29	15.74	15.29
Return on Assets	%	2.54	2.08	1.67	1.43	1.58	1.65	1.49	1.49	1.40
Balance Sheet Analysis		2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E
Deposits Growth	%	1.23	12.14	23.94	8.32	9.13	9.13	9.13	9.13	9.13
CASA to Deposits	%	90.34	91.07	87.54	86.04	86.13	86.93	86.93	86.93	86.93
Advances to Deposits	%	43.65	44.53	48.46	48.00	43.39	50.65	50.36	50.07	49.86
Investments to Deposits	%	81.18	71.14	67.83	71.43	65.41	64.17	63.18	62.28	61.45
PIBs to Investments	%	54.05	39.25	36.00	17.70	40.94	40.94	40.94	40.94	40.94
T Bills to Investments	%	43.85	58.32	61.72	79.67	55.65	55.65	55.65	55.65	55.65
Gross Infection Ratio	%	6.32	5.90	9.47	8.95	9.15	8.40	7.70	7.00	6.50
Provisioning Coverage	%	87.63	87.32	91.46	85.68	84.85	84.85	84.85	84.85	84.85
Net Infection Ratio	%	0.83	0.79	0.89	1.39	1.51	1.19	1.09	1.00	0.93
Capital Adequacy Ratio	%	19.43	19.33	16.34	17.02	17.84	16.46	15.81	15.34	14.89
Leverage Ratio	%	8.23	8.59	7.52	6.54	6.50	5.99	5.67	5.44	5.23
Operational Analysis		2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E
Market Share - Deposits	%	7.49	6.98	7.83	7.86	7.82	7.61	7.40	7.20	7.00
Market Share - Advances	%	6.75	6.60	7.89	6.93	6.62	6.44	6.26	6.09	5.92
Market Share - Investments	%	8.13	7.47	7.68	10.04	8.56	8.18	7.84	7.51	7.21
No. of Branches		1223	1238	1444	1387	1410	1433	1457	1481	1506
Investment Ratios		2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E
Dividend Per Share		16.00	16.00	16.00	16.00	17.00	20.00	20.00	20.00	20.00
Dividend Yield	%	10.19	10.19	10.19	10.19	10.83	12.74	12.74	12.74	12.74
Dividend Cover	x	1.35	1.15	1.18	1.13	1.19	1.21	1.18	1.27	1.30
Retention Ratio	%	25.78	13.38	15.57	11.23	15.98	17.05	14.97	21.26	22.88
Payout Ratio	%	74.22	86.62	84.43	88.77	84.02	82.95	85.03	78.74	77.12
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	24.11	23.52	25.40	25.93
Book Value Per Share		116.28	119.51	129.59	125.97	142.54	148.41	153.85	161.35	169.57
Price to Earnings	x	7.28	8.50	8.28	8.71	7.76	6.51	6.67	6.18	6.05
Price to Book Value	x	1.35	1.31	1.21	1.25	1.10	1.06	1.02	0.97	0.93

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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- II. Dividend Discount Model
- III. Relative Valuation Model
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HOLD	Between -5% to 15%
SELL	Less than and equal to -5%

Sector Rating	Sector Outlook
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Market Weight	Neutral
Underweight	Negative

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