

MCB has announced its 3QCY20 result where it posted profit after tax of Rs22.9bn (EPS: Rs19.35) in 9MCY20 as compared to profit after tax of Rs16.3bn (EPS: Rs13.74) in same period last year, up by 40.8% YoY.

The company has posted the net interest income of Rs55.3bn against Rs42.9bn in SPLY, recording a growth of 28.7% 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 18.4% YoY to Rs2.8bn mainly due to the gain on securities during the period.

Furthermore, the management of the bank has successfully been able to manage the operating cost to income ratio which has been reduced to 35.4% as compared to 45.2% during SPLY.

Lastly, the bank has charged the provision of Rs5.1bn in 9MCY20 against the provision of Rs1.6bn during SPLY.

MCB is currently trading at CY20E PE of 6.75x. Furthermore, the script is trading at a CY20E P/B of 1.12x which offers a discount of 21% relative to its historical 5-year average of 1.34x. We suggest our investors to **BUY** the script with a DDM based Jun-21 TP of Rs.210 which provides an upside potential of 24%. Furthermore, it also offers an attractive dividend yield of 12% which makes the total return of 36%.

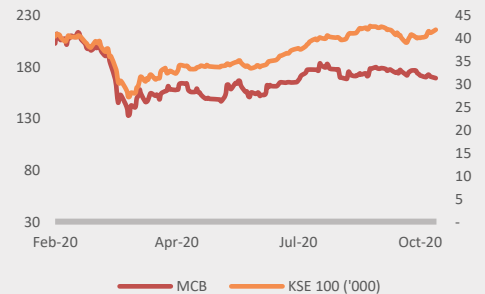
Rupees' millions	3QCY20	3QCY19	YoY	9MCY20	9MCY19	YoY
Interest earned	31,824	39,317	19.1% ▼	107,035	98,450	8.7% ▲
Interest expensed	-12,490	-24,123	48.2% ▼	-51,689	-55,456	6.8% ▼
Net Interest Income	19,333	15,194	27.2% ▲	55,346	42,994	28.7% ▲
Fee and commission income	2,876	2,757	4.3% ▲	8,021	8,323	3.6% ▼
Dividend income	195	157	24.3% ▲	729	867	16.0% ▼
Foreign exchange income	493	465	6.0% ▲	1,921	2,193	12.4% ▼
(Loss) / gain on securities	2,862	51	5464.4% ▲	2,795	-66	4312.2% ▲
Other income	47	56	16.1% ▼	97	133	27.2% ▼
Non-Interest Income	6,476	3,493	85.4% ▲	13,559	11,453	18.4% ▲
Operating expenses	-8,224	-8,348	1.5% ▼	-24,417	-24,627	0.9% ▼
Workers' Welfare Fund	-322	-185	73.9% ▲	-767	-550	39.4% ▲
Other charges	-19	-41	53.5% ▼	-259	-148	75.4% ▲
Profit Before Provisions	17,245	10,114	70.5% ▲	43,462	29,122	49.2% ▲
Provisions	-1,145	-856	33.7% ▲	-5,109	-1,616	216.1% ▲
Profit Before Taxation	16,099	9,257	73.9% ▲	38,354	27,506	39.4% ▲
Taxation	-6,374	-3,646	74.8% ▼	-15,419	-11,219	37.4% ▲
Profit After Taxation	9,725	5,612	73.3% ▲	22,935	16,287	40.8% ▲
Earnings Per Share	8.21	4.74	73.3% ▲	19.35	13.74	40.8% ▲
Dividend	0.00	4.00		5.00	12.00	
Bonus	0%	0%		0%	0%	
Operating Cost to Income	-31.9%	-44.7%	12.8% ▼	-35.4%	-45.2%	9.8% ▼
Effective Taxation	-39.6%	-39.4%	0.2% ▲	-40.2%	-40.8%	0.6% ▼

Source: ACPL Research, Company Financials

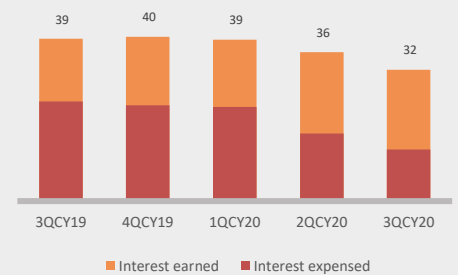
Key Statistics

Symbol	MCB
TP - Jun 21	210.00
LDCP	169.07
Upside (%)	24
Free Float ('mn)	415
Market Cap. (Rs.'mn)	200,358

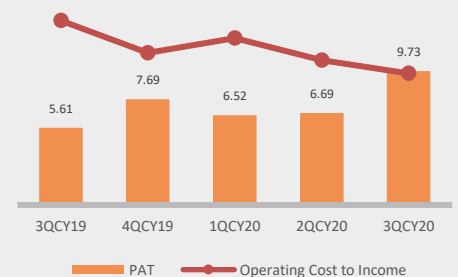
MCB vs KSE 100



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	140,253	141,781	143,809	143,601
Mark-up / Return / Interest expensed	-31,077	-23,655	-31,429	-37,305	-78,676	-66,244	-69,925	-66,508	-61,709
Net Mark-up / Interest Income	49,316	43,767	42,662	46,014	59,616	74,009	71,856	77,301	81,892
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	1,221	1,255	1,358	1,471
Foreign exchange income	946	959	1,636	3,420	2,895	2,895	2,125	2,125	2,125
(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	3,499	3,807	4,177	4,583
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	19,739	19,903	20,998	22,172
Non mark-up / interest expenses									
Operating expenses	-21,968	-22,074	-27,958	-32,091	-32,671	-36,562	-34,868	-37,354	-39,544
Workers' Welfare Fund	-927	-916	-620	-641	-802	-1,051	-1,046	-1,121	-1,186
Other charges	0	0	-143	-170	-236	-473	-567	-681	-817
Profit Before Provisions	42,987	36,999	32,059	30,310	42,586	55,662	55,277	59,144	62,517
Provisions / (reversal of provisions)	-659	-925	-1,045	1,753	-2,484	-7,019	-4,314	-2,808	-2,751
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	48,643	50,963	56,336	59,765
Income tax expense	-16,782	-14,184	-8,555	-10,704	-16,125	-18,971	-18,856	-19,718	-20,918
Profit for the year	25,546	21,891	22,459	21,360	23,977	29,672	32,107	36,618	38,847
EPS	21.56	18.47	18.95	18.02	20.23	25.04	27.09	30.90	32.78

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%	1.42%	1.09%	1.43%	-0.14%
Mark-up / Return / Interest expensed	-7.94%	-23.88%	32.86%	18.70%	110.90%	-15.80%	5.56%	-4.89%	-7.22%
Net Mark-up / Interest Income	13.34%	-11.25%	-2.52%	7.86%	29.56%	24.14%	-2.91%	7.58%	5.94%
Total non-markup / interest income	27.99%	-2.08%	11.69%	-5.08%	-3.02%	18.35%	0.83%	5.50%	5.59%
Non mark-up / interest expenses									
Operating expenses	6.58%	0.48%	26.66%	14.78%	1.81%	11.91%	-4.63%	7.13%	5.86%
Workers' Welfare Fund	-5.26%	-1.28%	-32.25%	3.38%	25.07%	31.09%	-0.52%	7.13%	5.86%
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%	30.71%	-0.69%	7.00%	5.70%
Provisions / (reversal of provisions)	-135.33%	40.42%	13.00%	-267.77%	-241.65%	182.62%	-38.53%	-34.91%	-2.03%
Profit before income tax	15.24%	-14.77%	-14.03%	3.38%	25.07%	21.30%	4.77%	10.54%	6.09%
Income tax expense	35.29%	-15.48%	-39.68%	25.12%	50.65%	17.65%	-0.60%	4.57%	6.09%
Profit for the year	5.02%	-14.31%	2.59%	-4.89%	12.25%	23.75%	8.20%	14.05%	6.09%
EPS	5.02%	-14.31%	2.59%	-4.89%	12.25%	23.75%	8.20%	14.05%	6.09%

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	8.55	7.91	7.36	6.74
Interest Cost	%	3.69	2.63	2.79	2.90	6.31	4.62	4.44	3.84	3.24
Net Interest Margin	%	5.35	4.55	3.37	3.15	3.87	3.93	3.48	3.53	3.50
Operating Cost to Income	%	34.75	38.32	47.25	52.05	44.18	40.63	39.76	39.83	39.92
Return on Equity	%	18.54	15.46	14.62	14.31	14.19	16.66	17.00	17.89	17.43
Return on Assets	%	2.54	2.08	1.67	1.43	1.58	1.63	1.62	1.69	1.65
Balance Sheet Analysis		2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E
Deposits Growth	%	1.23	12.14	23.94	8.32	9.13	15.00	10.00	10.00	10.00
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	53.77	56.70	56.48	56.26
Investments to Deposits	%	81.18	71.14	67.83	71.43	65.41	60.76	56.77	55.85	55.01
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	9.15	8.50	8.00	7.50
Provisioning Coverage	%	87.63	87.32	91.46	85.68	84.85	80.00	80.00	80.00	80.00
Net Infection Ratio	%	0.83	0.79	0.89	1.39	1.51	1.70	1.59	1.50	1.41
Capital Adequacy Ratio	%	19.43	19.33	16.34	17.02	17.84	15.90	15.48	15.37	15.33
Leverage Ratio	%	8.23	8.59	7.52	6.54	6.50	5.73	5.53	5.46	5.43
Operational Analysis		2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E
Market Share - Deposits	%	7.49	6.98	7.83	7.86	7.82	8.02	7.86	7.71	7.56
Market Share - Advances	%	6.75	6.60	7.89	6.93	6.62	7.19	7.47	7.33	7.18
Market Share - Investments	%	8.13	7.47	7.68	10.04	8.56	8.17	7.48	7.21	6.97
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	%	9.46	9.46	9.46	9.46	10.06	11.83	11.83	11.83	11.83
Dividend Cover	x	1.35	1.15	1.18	1.13	1.19	1.25	1.35	1.55	1.64
Retention Ratio	%	25.78	13.38	15.57	11.23	15.98	20.12	26.18	35.28	38.99
Payout Ratio	%	74.22	86.62	84.43	88.77	84.02	79.88	73.82	64.72	61.01
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	25.04	27.09	30.90	32.78
Book Value Per Share		116.28	119.51	129.59	125.97	142.54	150.29	159.38	172.68	188.11
Price to Earnings	x	7.84	9.15	8.92	9.38	8.36	6.75	6.24	5.47	5.16
Price to Book Value	x	1.45	1.41	1.30	1.34	1.19	1.12	1.06	0.98	0.90

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
- IV. Sum of Parts Valuation

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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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