

Equity Research | Commercial Banks | Thursday, 28 October, 2021

MCB has announced its 9MCY21 result where it posted a profit after tax of Rs22.56bn (EPS: Rs19.03) as compared to profit after tax of Rs22.94bn (EPS: Rs19.35) in the same period last year, down by 1.7% YoY.

The company has posted a net interest income of Rs47.7bn against Rs55.35bn in SPLY, recording a decline of 14% YoY. We note that this negative growth is attributed to the low-interest rate.

Non-interest income has been increased by 6.1% YoY to Rs14.38bn mainly due to the increase in fee and commission and other income during the period.

Furthermore, the operating cost to income ratio has been increased to 42.2% as compared to 35.4% during SPLY.

Lastly, the bank has booked a reversal of Rs3.499bn against the provision of Rs5.109bn during SPLY.

MCB is currently trading at CY21E PE of 6.11x. Furthermore, the scrip is trading at a CY21E P/B of 0.95x which offers a discount of 10% relative to its historical 2-year average of 1.06x. We suggest our investors to **BUY** the script with a DDM based Jun-22 TP of Rs.200 which provides an upside potential of 27%. Furthermore, it also offers an attractive dividend yield of 13% which makes the total return of 40%.

| Rupees' millions             | 3QCY21        | 3QCY20        | YoY            | 9MCY21        | 9MCY20        | YoY             |
|------------------------------|---------------|---------------|----------------|---------------|---------------|-----------------|
| Interest earned              | 31,702        | 31,824        | 0.4% ▼         | 89,903        | 107,035       | 16.0% ▼         |
| Interest expensed            | -15,506       | -12,490       | 24.1% ▲        | -42,158       | -51,689       | 18.4% ▼         |
| <b>Net Interest Income</b>   | <b>16,195</b> | <b>19,333</b> | <b>16.2% ▼</b> | <b>47,745</b> | <b>55,346</b> | <b>13.7% ▼</b>  |
| Fee and commission income    | 3,143         | 2,876         | 9.3% ▲         | 9,154         | 8,021         | 14.1% ▲         |
| Dividend income              | 463           | 195           | 137.5% ▲       | 1,442         | 729           | 97.8% ▲         |
| Foreign exchange income      | 935           | 493           | 89.7% ▲        | 2,331         | 1,921         | 21.3% ▲         |
| (Loss) / gain on securities  | 219           | 2,862         | 92.4% ▼        | 703           | 2,795         | 74.8% ▼         |
| Other income                 | 124           | 47            | 164.0% ▲       | 744           | 97            | 670.5% ▲        |
| <b>Non-Interest Income</b>   | <b>4,884</b>  | <b>6,476</b>  | <b>24.6% ▼</b> | <b>14,383</b> | <b>13,559</b> | <b>6.1% ▲</b>   |
| Operating expenses           | -8,995        | -8,224        | 9.4% ▲         | -26,190       | -24,417       | 7.3% ▲          |
| Workers' Welfare Fund        | -265          | -322          | 17.7% ▼        | -765          | -767          | 0.2% ▼          |
| Other charges                | -61           | -19           | 220.6% ▲       | -400          | -259          | 54.5% ▲         |
| Profit Before Provisions     | 11,759        | 17,245        | 31.8% ▼        | 34,771        | 43,462        | 20.0% ▼         |
| Provisions                   | 1,499         | -1,145        | 230.8% ▼       | 3,499         | -5,109        | 168.5% ▼        |
| Profit Before Taxation       | 13,257        | 16,099        | 17.7% ▼        | 38,270        | 38,354        | 0.2% ▼          |
| Taxation                     | -5,444        | -6,374        | 14.6% ▲        | -15,714       | -15,419       | 1.9% ▲          |
| <b>Profit After Taxation</b> | <b>7,813</b>  | <b>9,725</b>  | <b>19.7% ▼</b> | <b>22,556</b> | <b>22,935</b> | <b>1.7% ▼</b>   |
| <b>Earnings Per Share</b>    | <b>6.59</b>   | <b>8.21</b>   | <b>19.7% ▼</b> | <b>19.03</b>  | <b>19.35</b>  | <b>1.7% ▼</b>   |
| <b>Dividend</b>              | <b>4.50</b>   | <b>0.00</b>   |                | <b>14.00</b>  | <b>5.00</b>   | <b>180.0% ▲</b> |
| <b>Bonus</b>                 | <b>0%</b>     | <b>0%</b>     |                | <b>0%</b>     | <b>0%</b>     |                 |

Closing Period: 10 Nov 2021 - 12 Nov 2021

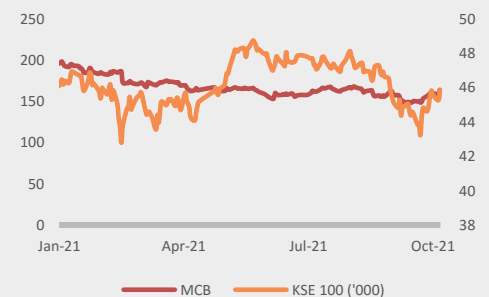
|                          |        |        |         |        |        |        |
|--------------------------|--------|--------|---------|--------|--------|--------|
| Operating Cost to Income | -42.7% | -31.9% | 10.8% ▲ | -42.2% | -35.4% | 6.7% ▲ |
| Effective Taxation       | -41.1% | -39.6% | 1.5% ▲  | -41.1% | -40.2% | 0.9% ▲ |

Source: ACPL Research, Company Financials

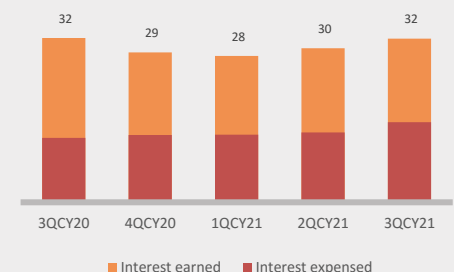
## Key Statistics

| Symbol                | MCB     |
|-----------------------|---------|
| TP - Jun 22           | 200.00  |
| LDPC                  | 158.61  |
| Upside (%)            | 27      |
| Free Float ('mn)      | 415     |
| Market Cap. (Rs. 'mn) | 195,535 |

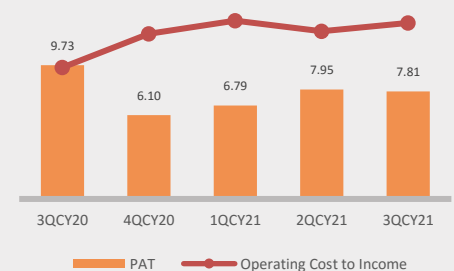
## MCB vs KSE 100



## 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                          | CY19          | CY20          | CY21E         | CY22E         | CY23E         | CY24E         | CY25E         |
|-------------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Mark-up / Return / Interest earned        | 138,292       | 136,076       | 120,152       | 128,545       | 139,178       | 147,690       | 161,348       |
| Mark-up / Return / Interest expensed      | -78,676       | -64,741       | -54,944       | -60,439       | -66,482       | -73,131       | -80,444       |
| <b>Net Mark-up / Interest Income</b>      | <b>59,616</b> | <b>71,334</b> | <b>65,208</b> | <b>68,107</b> | <b>72,695</b> | <b>74,559</b> | <b>80,904</b> |
| Fee and commission income                 | 11,288        | 10,936        | 12,030        | 13,233        | 14,556        | 16,012        | 17,613        |
| Dividend income                           | 1,377         | 1,210         | 1,079         | 1,159         | 1,246         | 1,343         | 1,449         |
| Foreign exchange income                   | 2,895         | 2,525         | 2,579         | 2,579         | 2,579         | 2,579         | 2,579         |
| (Loss) / gain from derivatives            | 15            | 4             | 0             | 0             | 0             | 0             | 0             |
| (Loss) / gain on securities               | 833           | 3,332         | 1,007         | 1,101         | 1,205         | 1,318         | 1,443         |
| Other income                              | 272           | 128           | 923           | 1,015         | 1,116         | 1,228         | 1,351         |
| <b>Total non-markup / interest income</b> | <b>16,679</b> | <b>18,136</b> | <b>17,619</b> | <b>19,087</b> | <b>20,703</b> | <b>22,480</b> | <b>24,435</b> |
| <b>Non mark-up / interest expenses</b>    |               |               |               |               |               |               |               |
| Operating expenses                        | -32,671       | -32,646       | -34,696       | -36,526       | -39,125       | -40,650       | -44,126       |
| Workers' Welfare Fund                     | -802          | -965          | -817          | -860          | -922          | -958          | -1,039        |
| Other charges                             | -236          | -297          | -357          | -428          | -514          | -617          | -740          |
| <b>Profit Before Provisions</b>           | <b>42,586</b> | <b>55,562</b> | <b>46,956</b> | <b>49,380</b> | <b>52,838</b> | <b>54,815</b> | <b>59,433</b> |
| Provisions / (reversal of provisions)     | -2,484        | -7,313        | 1,906         | -971          | -1,961        | -1,830        | -1,653        |
| Extraordinary / unusual items             | 0             | 0             | 0             | 0             | 0             | 0             | 0             |
| <b>Profit before income tax</b>           | <b>40,102</b> | <b>48,249</b> | <b>48,862</b> | <b>48,409</b> | <b>50,877</b> | <b>52,985</b> | <b>57,780</b> |
| Income tax expense                        | -16,125       | -19,212       | -18,079       | -16,943       | -17,807       | -18,545       | -20,223       |
| <b>Profit for the year</b>                | <b>23,977</b> | <b>29,037</b> | <b>30,783</b> | <b>31,466</b> | <b>33,070</b> | <b>34,440</b> | <b>37,557</b> |
| <b>EPS</b>                                | <b>20.23</b>  | <b>24.50</b>  | <b>25.98</b>  | <b>26.55</b>  | <b>27.91</b>  | <b>29.06</b>  | <b>31.69</b>  |

Source: ACPL Research, Company Financials

## Horizontal Analysis

|                                           | CY19         | CY20         | CY21E         | CY22E        | CY23E       | CY24E       | CY25E       |
|-------------------------------------------|--------------|--------------|---------------|--------------|-------------|-------------|-------------|
| Mark-up / Return / Interest earned        | 66.0%        | -1.6%        | -11.7%        | 7.0%         | 8.3%        | 6.1%        | 9.2%        |
| Mark-up / Return / Interest expensed      | 110.9%       | -17.7%       | -15.1%        | 10.0%        | 10.0%       | 10.0%       | 10.0%       |
| <b>Net Mark-up / Interest Income</b>      | <b>29.6%</b> | <b>19.7%</b> | <b>-8.6%</b>  | <b>4.4%</b>  | <b>6.7%</b> | <b>2.6%</b> | <b>8.5%</b> |
| <b>Total non-markup / interest income</b> | <b>-3.0%</b> | <b>8.7%</b>  | <b>-2.9%</b>  | <b>8.3%</b>  | <b>8.5%</b> | <b>8.6%</b> | <b>8.7%</b> |
| <b>Non mark-up / interest expenses</b>    |              |              |               |              |             |             |             |
| Operating expenses                        | 1.8%         | -0.1%        | 6.3%          | 5.3%         | 7.1%        | 3.9%        | 8.6%        |
| Workers' Welfare Fund                     | 25.1%        | 20.3%        | -15.3%        | 5.3%         | 7.1%        | 3.9%        | 8.6%        |
| Other charges                             | 39.2%        | 25.8%        | 20.0%         | 20.0%        | 20.0%       | 20.0%       | 20.0%       |
| <b>Profit Before Provisions</b>           | <b>40.5%</b> | <b>30.5%</b> | <b>-15.5%</b> | <b>5.2%</b>  | <b>7.0%</b> | <b>3.7%</b> | <b>8.4%</b> |
| Provisions / (reversal of provisions)     | -241.7%      | 194.5%       | -126.1%       | -150.9%      | 102.0%      | -6.7%       | -9.7%       |
| <b>Profit before income tax</b>           | <b>25.1%</b> | <b>20.3%</b> | <b>1.3%</b>   | <b>-0.9%</b> | <b>5.1%</b> | <b>4.1%</b> | <b>9.0%</b> |
| Income tax expense                        | 50.6%        | 19.1%        | -5.9%         | -6.3%        | 5.1%        | 4.1%        | 9.0%        |
| <b>Profit for the year</b>                | <b>12.3%</b> | <b>21.1%</b> | <b>6.0%</b>   | <b>2.2%</b>  | <b>5.1%</b> | <b>4.1%</b> | <b>9.0%</b> |
| <b>EPS</b>                                | <b>12.3%</b> | <b>21.1%</b> | <b>6.0%</b>   | <b>2.2%</b>  | <b>5.1%</b> | <b>4.1%</b> | <b>9.0%</b> |

Source: ACPL Research, Company Financials

## Key Ratios

| <b>Profitability Ratios</b>   |      | <b>CY19</b> | <b>CY20</b> | <b>CY21E</b> | <b>CY22E</b> | <b>CY23E</b> | <b>CY24E</b> | <b>CY25E</b> |
|-------------------------------|------|-------------|-------------|--------------|--------------|--------------|--------------|--------------|
| Yield on Earning Assets       | %    | 10.18       | 8.50        | 6.56         | 6.47         | 6.45         | 6.29         | 6.31         |
| Interest Cost                 | %    | 6.31        | 4.38        | 3.38         | 3.38         | 3.38         | 3.38         | 3.38         |
| Net Interest Margin           | %    | 3.87        | 4.12        | 3.18         | 3.09         | 3.06         | 2.91         | 2.93         |
| Operating Cost to Income      | %    | 44.18       | 37.90       | 43.31        | 43.37        | 43.43        | 43.51        | 43.58        |
| Return on Equity              | %    | 14.19       | 15.27       | 15.53        | 15.52        | 15.81        | 15.85        | 16.42        |
| Return on Assets              | %    | 1.58        | 1.65        | 1.55         | 1.45         | 1.41         | 1.35         | 1.35         |
| <b>Balance Sheet Analysis</b> |      |             |             |              |              |              |              |              |
|                               |      | <b>CY19</b> | <b>CY20</b> | <b>CY21E</b> | <b>CY22E</b> | <b>CY23E</b> | <b>CY24E</b> | <b>CY25E</b> |
| Deposits Growth               | %    | 9.13        | 12.64       | 10.00        | 10.00        | 10.00        | 10.00        | 10.00        |
| CASA to Deposits              | %    | 86.13       | 88.89       | 88.89        | 88.89        | 88.89        | 88.89        | 88.89        |
| Advances to Deposits          | %    | 43.39       | 35.90       | 56.51        | 56.21        | 55.99        | 55.77        | 55.55        |
| Investments to Deposits       | %    | 65.41       | 78.78       | 63.64        | 62.11        | 60.73        | 59.47        | 58.33        |
| PIBs to Investments           | %    | 40.94       | 35.90       | 35.90        | 35.90        | 35.90        | 35.90        | 35.90        |
| T Bills to Investments        | %    | 55.65       | 61.43       | 61.43        | 61.43        | 61.43        | 61.43        | 61.43        |
| Gross Infection Ratio         | %    | 9.15        | 9.97        | 8.20         | 7.50         | 7.00         | 6.50         | 6.00         |
| Provisioning Coverage         | %    | 84.85       | 88.19       | 72.00        | 72.00        | 72.00        | 72.00        | 72.00        |
| Net Infection Ratio           | %    | 1.51        | 1.31        | 2.15         | 1.98         | 1.86         | 1.73         | 1.60         |
| Capital Adequacy Ratio        | %    | 17.84       | 19.69       | 18.44        | 17.44        | 16.60        | 15.89        | 15.40        |
| Leverage Ratio                | %    | 6.50        | 6.43        | 5.95         | 5.51         | 5.15         | 4.84         | 4.63         |
| <b>Operational Analysis</b>   |      |             |             |              |              |              |              |              |
|                               |      | <b>CY19</b> | <b>CY20</b> | <b>CY21E</b> | <b>CY22E</b> | <b>CY23E</b> | <b>CY24E</b> | <b>CY25E</b> |
| Market Share - Deposits       | %    | 7.82        | 7.21        | 7.02         | 6.83         | 6.65         | 6.47         | 6.30         |
| Market Share - Advances       | %    | 6.62        | 6.04        | 7.83         | 7.62         | 7.42         | 7.22         | 7.02         |
| Market Share - Investments    | %    | 8.56        | 8.78        | 6.93         | 6.58         | 6.26         | 5.97         | 5.70         |
| No. of Branches               |      | 1410        | 1410        | 1410         | 1410         | 1410         | 1410         | 1410         |
| <b>Investment Ratios</b>      |      |             |             |              |              |              |              |              |
|                               |      | <b>CY19</b> | <b>CY20</b> | <b>CY21E</b> | <b>CY22E</b> | <b>CY23E</b> | <b>CY24E</b> | <b>CY25E</b> |
| Dividend Per Share            |      | 17.00       | 20.00       | 20.00        | 25.00        | 25.00        | 25.00        | 25.00        |
| Dividend Yield                | %    | 10.72       | 12.61       | 12.61        | 15.76        | 15.76        | 15.76        | 15.76        |
| Dividend Cover                | x    | 1.19        | 1.23        | 1.30         | 1.06         | 1.12         | 1.16         | 1.27         |
| Retention Ratio               | %    | 15.98       | 18.38       | 23.01        | 5.84         | 10.41        | 13.98        | 21.12        |
| Payout Ratio                  | %    | 84.02       | 81.62       | 76.99        | 94.16        | 89.59        | 86.02        | 78.88        |
| No. of Shares                 | ('m) | 1185        | 1185        | 1185         | 1185         | 1185         | 1185         | 1185         |
| Earnings Per Share            |      | 20.23       | 24.50       | 25.98        | 26.55        | 27.91        | 29.06        | 31.69        |
| Book Value Per Share          |      | 142.54      | 160.42      | 167.29       | 171.10       | 176.50       | 183.30       | 193.01       |
| Price to Earnings             | x    | 7.84        | 6.47        | 6.11         | 5.97         | 5.68         | 5.46         | 5.00         |
| Price to Book Value           | x    | 1.11        | 0.99        | 0.95         | 0.93         | 0.90         | 0.87         | 0.82         |

Source: ACPL Research, Company Financials

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### DEFINITION OF TERMS

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

### VALUATION METHODOLOGY

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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| Stock Rating | Expected Total Return      |
|--------------|----------------------------|
| 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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