

MCB has announced its CY19 result where it posted profit after tax of Rs 23.9bn (EPS: Rs 20.23) in CY19 as compared to profit after tax of Rs 21.4bn (EPS: Rs 18.02) in same period last year, up by 12.3% YoY.

The company has posted the net interest income of Rs 138.3bn against Rs 83.3bn in SPLY, recording a growth of 66% 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 decreased by 3% YoY to Rs 16.7bn as compared to Rs 17.2bn during SPLY, mainly due to the lower exchange gains, gains on securities and other income during the year.

Furthermore, the management of the bank has successfully been able to manage the operating cost to income ratio this year which has been reduced to 42.8% as compared to 50.8% during SPLY.

Lastly, the bank has charged the provision of Rs 2.5bn in CY19 against the reversal of Rs 1.8bn during SPLY.

MCB is currently trading at CY20E PE of 7.7x. Furthermore, the script is trading at a CY20E P/B of 1.48x which offers a discount of 11% relative to its historical 5-year average of 1.65x. We maintain our **BUY** stance on the script with a DDM based Dec-20 TP of Rs.250 which provides an upside potential of 23%. Furthermore, it also offers an attractive dividend yield of 10% which makes the total return of 33%.

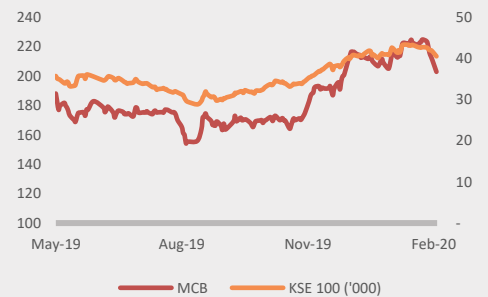
Rupees' millions	4QCY19	4QCY18	YoY	CY19	CY18	YoY
Interest earned	39,842	24,393	63.3% ▲	138,292	83,319	66.0% ▲
Interest expensed	-23,220	-12,305	88.7% ▲	-78,676	-37,305	110.9% ▲
Net Interest Income	16,622	12,088	37.5% ▲	59,616	46,014	29.6% ▲
Fee and commission income	2,965	2,791	6.2% ▲	11,288	10,731	5.2% ▲
Dividend income	510	479	6.4% ▲	1,377	1,280	7.6% ▲
Foreign exchange income	702	1,680	58.2% ▼	2,895	3,420	15.4% ▼
(Loss) / gain on securities	899	148	506.3% ▲	833	1,293	35.6% ▼
Other income	139	23	504.5% ▲	272	462	41.2% ▼
Non-Interest Income	5,226	5,089	2.7% ▲	16,679	17,198	3.0% ▼
Operating expenses	-8,044	-6,922	16.2% ▲	-32,671	-32,091	1.8% ▲
Workers' Welfare Fund	-252	-175	44.0% ▲	-802	-641	25.1% ▲
Other charges	-89	-66	34.3% ▲	-236	-170	39.2% ▲
Profit Before Provisions	13,464	10,014	34.4% ▲	42,586	30,310	40.5% ▲
Provisions	-867	-1,266	31.5% ▼	-2,484	1,753	241.7% ▼
Profit Before Taxation	12,596	8,748	44.0% ▲	40,102	32,064	25.1% ▲
Taxation	-4,906	-1,700	188.6% ▼	-16,125	-10,704	50.6% ▲
Profit After Taxation	7,690	7,049	9.1% ▲	23,977	21,360	12.3% ▲
Earnings Per Share	6.49	5.95	9.1% ▲	20.23	18.02	12.3% ▲
Dividend	5.00	4.00		17.00	16.00	
Bonus	0%	0%		0%	0%	
Operating Cost to Income	-36.8%	-40.3%	3.5% ▼	-42.8%	-50.8%	7.9% ▼
Effective Taxation	-38.9%	-19.4%	19.5% ▲	-40.2%	-33.4%	6.8% ▲

Source: ACPL Research, Company Financials

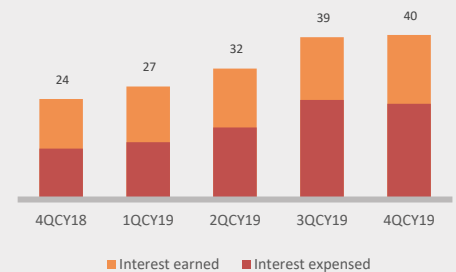
Key Statistics

Symbol	MCB
TP - Dec 20	250.00
LDPCP	202.65
Upside (%)	23.37
Free Float ('mn)	415
Market Cap. (Rs.'mn)	240,152

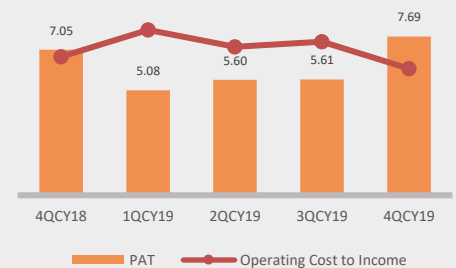
MCB vs KSE 100



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	159,790	171,520	171,366	170,128
Mark-up / Return / Interest expensed	-31,077	-23,655	-31,429	-37,305	-78,676	-94,157	-102,213	-101,654	-99,973
Net Mark-up / Interest Income	49,316	43,767	42,662	46,014	59,616	65,634	69,307	69,712	70,155
Fee and commission income	7,842	7,640	9,741	10,731	11,288	12,417	13,659	15,024	16,527
Dividend income	1,267	1,456	1,941	1,280	1,377	1,991	2,131	2,284	2,453
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	2,398	2,657	2,941	3,254
Other income	2,083	488	43	462	272	407	611	916	1,375
Total non-markup / interest income	16,566	16,222	18,118	17,198	16,679	18,394	20,237	22,346	24,789
Non mark-up / interest expenses									
Operating expenses	-21,968	-22,074	-27,958	-32,091	-32,671	-30,250	-32,236	-33,141	-34,180
Workers' Welfare Fund	-927	-916	-620	-641	-802	-989	-1,054	-1,083	-1,117
Other charges	0	0	-143	-170	-236	-284	-340	-408	-490
Profit Before Provisions	42,987	36,999	32,059	30,310	42,586	52,505	55,915	57,426	59,157
Provisions / (reversal of provisions)	-659	-925	-1,045	1,753	-2,484	-1,815	-768	-408	-1,478
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	50,690	55,146	57,018	57,679
Income tax expense	-16,782	-14,184	-8,555	-10,704	-16,125	-19,769	-20,404	-19,956	-20,187
Profit for the year	25,546	21,891	22,459	21,360	23,977	30,921	34,742	37,061	37,491
EPS	21.56	18.47	18.95	18.02	20.23	26.09	29.32	31.27	31.64

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%	15.55%	7.34%	-0.09%	-0.72%
Mark-up / Return / Interest expensed	-7.94%	-23.88%	32.86%	18.70%	110.90%	19.68%	8.56%	-0.55%	-1.65%
Net Mark-up / Interest Income	13.34%	-11.25%	-2.52%	7.86%	29.56%	10.09%	5.60%	0.58%	0.63%
Total non-markup / interest income	27.99%	-2.08%	11.69%	-5.08%	-3.02%	10.28%	10.02%	10.42%	10.93%
Non mark-up / interest expenses									
Operating expenses	6.58%	0.48%	26.66%	14.78%	1.81%	-7.41%	6.57%	2.81%	3.13%
Workers' Welfare Fund	-5.26%	-1.28%	-32.25%	3.38%	25.07%	23.27%	6.57%	2.81%	3.13%
Other charges	0.00%	0.00%	0.00%	18.90%	39.16%	20.00%	20.00%	20.00%	20.00%
Profit Before Provisions	23.29%	-13.93%	-13.35%	-5.46%	40.50%	23.29%	6.49%	2.70%	3.01%
Provisions / (reversal of provisions)	-135.33%	40.42%	13.00%	-267.77%	-241.65%	-26.91%	-57.69%	-46.83%	261.92%
Profit before income tax	15.24%	-14.77%	-14.03%	3.38%	25.07%	26.40%	8.79%	3.39%	1.16%
Income tax expense	35.29%	-15.48%	-39.68%	25.12%	50.65%	22.60%	3.21%	-2.20%	1.16%
Profit for the year	5.02%	-14.31%	2.59%	-4.89%	12.25%	28.96%	12.36%	6.68%	1.16%
EPS	5.02%	-14.31%	2.59%	-4.89%	12.25%	28.96%	12.36%	6.68%	1.16%

Source: ACPL Research, Company Financials

Key Ratios

Profitability Ratios		2015	2016	2017	2018	2019E	2020E	2021E	2022E	2023E
Yield on Earning Assets	%	9.04	7.18	6.16	6.05	10.12	9.55	9.47	8.73	7.99
Interest Cost	%	3.76	2.72	2.79	2.90	6.74	6.35	6.27	5.67	5.07
Net Interest Margin	%	5.28	4.46	3.37	3.15	3.38	3.20	3.20	3.06	2.92
Operating Cost to Income	%	34.75	38.32	47.25	52.05	44.18	37.51	37.56	37.62	37.69
Return on Equity	%	18.54	15.46	14.62	14.31	15.55	19.02	20.14	20.30	19.41
Return on Assets	%	2.54	2.08	1.67	1.43	1.42	1.70	1.76	1.73	1.61
Balance Sheet Analysis		2015	2016	2017	2018	2019E	2020E	2021E	2022E	2023E
Deposits Growth	%	1.23	12.14	23.94	8.32	10.00	10.00	10.00	10.00	10.00
CASA to Deposits	%	90.34	91.07	87.54	86.04	86.04	87.36	87.36	87.36	87.36
Advances to Deposits	%	43.65	44.53	48.46	48.00	56.23	55.97	55.65	55.33	55.10
Investments to Deposits	%	81.18	71.14	67.83	71.43	69.64	67.62	65.78	64.11	62.59
PIBs to Investments	%	54.05	39.25	36.00	17.70	17.70	17.70	17.70	17.70	17.70
T Bills to Investments	%	43.85	58.32	61.72	79.67	79.67	79.67	79.67	79.67	79.67
Gross Infection Ratio	%	6.32	5.90	9.47	8.95	8.95	8.40	7.70	7.00	6.50
Provisioning Coverage	%	87.63	87.32	91.46	85.68	85.68	85.68	85.68	85.68	85.68
Net Infection Ratio	%	0.83	0.79	0.89	1.39	1.19	1.12	1.03	0.94	0.88
Capital Adequacy Ratio	%	19.43	19.33	16.34	17.02	15.74	15.33	15.01	14.65	14.28
Leverage Ratio	%	8.23	8.59	7.52	6.54	5.93	5.73	5.56	5.38	5.19
Operational Analysis		2015	2016	2017	2018	2019E	2020E	2021E	2022E	2023E
Market Share - Deposits	%	7.49	6.98	7.83	7.86	7.86	7.86	7.86	7.86	7.86
Market Share - Advances	%	6.75	6.60	7.89	6.93	6.93	6.93	6.93	6.93	6.93
Market Share - Investments	%	8.13	7.47	7.68	10.04	9.73	9.45	9.19	8.96	8.75
No. of Branches		1223	1238	1444	1387	1401	1415	1429	1443	1458
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	22.00	24.00	24.00
Dividend Yield	%	7.90	7.90	7.90	7.90	8.39	9.87	10.86	11.84	11.84
Dividend Cover	x	1.35	1.15	1.18	1.13	1.19	1.30	1.33	1.30	1.32
Retention Ratio	%	25.78	13.38	15.57	11.23	15.98	23.35	24.96	23.26	24.14
Payout Ratio	%	74.22	86.62	84.43	88.77	84.02	76.65	75.04	76.74	75.86
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	26.09	29.32	31.27	31.64
Book Value Per Share		116.28	119.51	129.59	125.97	130.10	137.18	145.59	154.07	163.02
Price to Earnings	x	9.40	10.97	10.69	11.24	10.02	7.77	6.91	6.48	6.41
Price to Book Value	x	1.74	1.70	1.56	1.61	1.56	1.48	1.39	1.32	1.24

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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- I. Discounted Cash Flow Model
- 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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