

Equity Research | Commercial Banks | Wednesday, 10 February, 2021

MCB has announced its annual result where it posted profit after tax of Rs29bn (EPS: Rs24.5) as compared to profit after tax of Rs24bn (EPS: Rs20.23) in same period last year, up by 21.1% YoY.

The company has posted the net interest income of Rs71bn against Rs60bn in SPLY, recording a growth of 19.7% YoY. We note that this growth is attributed to the growth in bank's deposits and expanded NIM on account of high CASA.

Non-interest income has been increased by 8.7% YoY to Rs18bn 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 36.5% as compared to 42.8% during SPLY.

Lastly, the bank has charged the provision of Rs7bn against the provision of Rs2.5bn during SPLY.

MCB is currently trading at CY21E PE of 6.78x. Furthermore, the script is trading at a CY21E P/B of 1.19x which offers a discount of 17% relative to its historical 5-year average of 1.43x. We suggest our investors to **BUY** the script with a DDM based Dec-21 TP of Rs.230 which provides an upside potential of 21%. Furthermore, it also offers an attractive dividend yield of 11% which makes the total return of 32%.

Rupees' millions	4QCY20	4QCY19	YoY	CY20	CY19	YoY
Interest earned	29,040	39,842	27.1% ▼	136,076	138,292	1.6% ▼
Interest expensed	-13,052	-23,220	43.8% ▼	-64,741	-78,676	17.7% ▼
<b>Net Interest Income</b>	<b>15,988</b>	<b>16,622</b>	<b>3.8% ▼</b>	<b>71,334</b>	<b>59,616</b>	<b>19.7% ▲</b>
Fee and commission income	2,915	2,965	1.7% ▼	10,936	11,288	3.1% ▼
Dividend income	481	510	5.7% ▼	1,210	1,377	12.2% ▼
Foreign exchange income	605	702	13.8% ▼	2,525	2,895	12.8% ▼
(Loss) / gain on securities	537	899	40.3% ▼	3,332	833	300.1% ▲
Other income	32	139	77.2% ▼	128	272	52.8% ▼
<b>Non-Interest Income</b>	<b>4,577</b>	<b>5,226</b>	<b>12.4% ▼</b>	<b>18,136</b>	<b>16,679</b>	<b>8.7% ▲</b>
Operating expenses	-8,229	-8,044	2.3% ▲	-32,646	-32,671	0.1% ▼
Workers' Welfare Fund	-198	-252	21.4% ▼	-965	-802	20.3% ▲
Other charges	-38	-89	56.8% ▼	-297	-236	25.8% ▲
Profit Before Provisions	12,100	13,464	10.1% ▼	55,562	42,586	30.5% ▲
Provisions	-2,204	-867	154.1% ▲	-7,313	-2,484	194.5% ▲
Profit Before Taxation	9,895	12,596	21.4% ▼	48,249	40,102	20.3% ▲
Taxation	-3,793	-4,906	22.7% ▲	-19,212	-16,125	19.1% ▲
<b>Profit After Taxation</b>	<b>6,102</b>	<b>7,690</b>	<b>20.6% ▼</b>	<b>29,037</b>	<b>23,977</b>	<b>21.1% ▲</b>
<b>Earnings Per Share</b>	<b>5.15</b>	<b>6.49</b>	<b>20.6% ▼</b>	<b>24.50</b>	<b>20.23</b>	<b>21.1% ▲</b>
<b>Dividend</b>	<b>15.00</b>	<b>5.00</b>		<b>20.00</b>	<b>17.00</b>	
<b>Bonus</b>	<b>0%</b>	<b>0%</b>		<b>0%</b>	<b>0%</b>	

Closing Period: 16 Mar 2021 - 27 Mar 2021

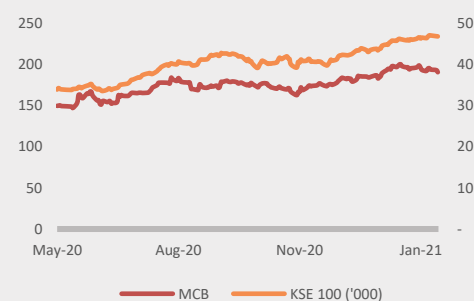
Operating Cost to Income	-40.0%	-36.8%	3.2% ▲	-36.5%	-42.8%	6.3% ▼
Effective Taxation	-38.3%	-38.9%	0.6% ▼	-39.8%	-40.2%	0.4% ▼

Source: ACPL Research, Company Financials

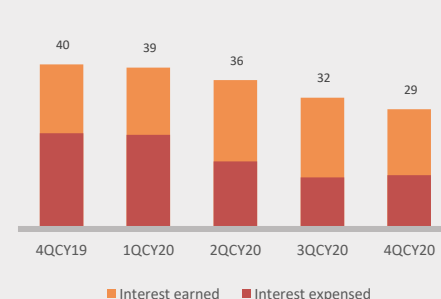
## Key Statistics

Symbol	MCB
TP - Dec 21	230.00
LDPCP	189.99
Upside (%)	21
Free Float ('mn)	415
Market Cap. (Rs.'mn)	225,150

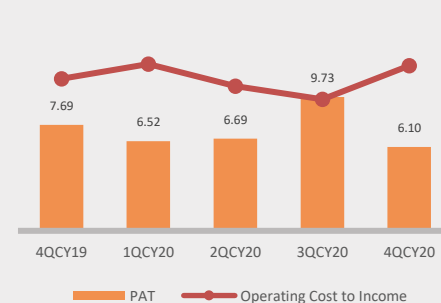
## MCB vs KSE 100



## 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	142,467	144,103	143,955
Mark-up / Return / Interest expensed	-31,077	-23,655	-31,429	-37,305	-78,676	-64,741	-73,193	-69,529	-64,400
<b>Net Mark-up / Interest Income</b>	<b>49,316</b>	<b>43,767</b>	<b>42,662</b>	<b>46,014</b>	<b>59,616</b>	<b>71,334</b>	<b>69,274</b>	<b>74,574</b>	<b>79,555</b>
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	1,150	1,244	1,348
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	3,576	3,923	4,305
Other income	2,083	488	43	462	272	128	61	29	14
<b>Total non-markup / interest income</b>	<b>16,566</b>	<b>16,222</b>	<b>18,118</b>	<b>17,198</b>	<b>16,679</b>	<b>18,136</b>	<b>17,445</b>	<b>17,525</b>	<b>17,676</b>
<b>Non mark-up / interest expenses</b>									
Operating expenses	-21,968	-22,074	-27,958	-32,091	-32,671	-32,646	-30,352	-32,235	-34,031
Workers' Welfare Fund	-927	-916	-620	-641	-802	-965	-957	-1,017	-1,073
Other charges	0	0	-143	-170	-236	-297	-357	-428	-514
<b>Profit Before Provisions</b>	<b>42,987</b>	<b>36,999</b>	<b>32,059</b>	<b>30,310</b>	<b>42,586</b>	<b>55,562</b>	<b>55,053</b>	<b>58,420</b>	<b>61,613</b>
Provisions / (reversal of provisions)	-659	-925	-1,045	1,753	-2,484	-7,313	-2,339	-1,273	-2,414
Extraordinary / unusual items	0	0	0	0	0	0	0	0	0
<b>Profit before income tax</b>	<b>42,329</b>	<b>36,075</b>	<b>31,014</b>	<b>32,064</b>	<b>40,102</b>	<b>48,249</b>	<b>52,715</b>	<b>57,146</b>	<b>59,199</b>
Income tax expense	-16,782	-14,184	-8,555	-10,704	-16,125	-19,212	-19,504	-20,001	-20,720
<b>Profit for the year</b>	<b>25,546</b>	<b>21,891</b>	<b>22,459</b>	<b>21,360</b>	<b>23,977</b>	<b>29,037</b>	<b>33,210</b>	<b>37,145</b>	<b>38,480</b>
<b>EPS</b>	<b>21.56</b>	<b>18.47</b>	<b>18.95</b>	<b>18.02</b>	<b>20.23</b>	<b>24.50</b>	<b>28.02</b>	<b>31.34</b>	<b>32.47</b>

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%	4.70%	1.15%	-0.10%
Mark-up / Return / Interest expensed	-7.94%	-23.88%	32.86%	18.70%	110.90%	-17.71%	13.05%	-5.01%	-7.38%
<b>Net Mark-up / Interest Income</b>	<b>13.34%</b>	<b>-11.25%</b>	<b>-2.52%</b>	<b>7.86%</b>	<b>29.56%</b>	<b>19.66%</b>	<b>-2.89%</b>	<b>7.65%</b>	<b>6.68%</b>
<b>Total non-markup / interest income</b>	<b>27.99%</b>	<b>-2.08%</b>	<b>11.69%</b>	<b>-5.08%</b>	<b>-3.02%</b>	<b>8.73%</b>	<b>-3.81%</b>	<b>0.46%</b>	<b>0.86%</b>
<b>Non mark-up / interest expenses</b>									
Operating expenses	6.58%	0.48%	26.66%	14.78%	1.81%	-0.08%	-7.03%	6.20%	5.57%
Workers' Welfare Fund	-5.26%	-1.28%	-32.25%	3.38%	25.07%	20.31%	-0.80%	6.20%	5.57%
Other charges	0.00%	0.00%	0.00%	18.90%	39.16%	25.83%	20.00%	20.00%	20.00%
<b>Profit Before Provisions</b>	<b>23.29%</b>	<b>-13.93%</b>	<b>-13.35%</b>	<b>-5.46%</b>	<b>40.50%</b>	<b>30.47%</b>	<b>-0.92%</b>	<b>6.11%</b>	<b>5.47%</b>
Provisions / (reversal of provisions)	-135.33%	40.42%	13.00%	-267.77%	-241.65%	194.47%	-68.02%	-45.55%	89.57%
<b>Profit before income tax</b>	<b>15.24%</b>	<b>-14.77%</b>	<b>-14.03%</b>	<b>3.38%</b>	<b>25.07%</b>	<b>20.31%</b>	<b>9.26%</b>	<b>8.41%</b>	<b>3.59%</b>
Income tax expense	35.29%	-15.48%	-39.68%	25.12%	50.65%	19.14%	1.52%	2.55%	3.59%
<b>Profit for the year</b>	<b>5.02%</b>	<b>-14.31%</b>	<b>2.59%</b>	<b>-4.89%</b>	<b>12.25%</b>	<b>21.11%</b>	<b>14.37%</b>	<b>11.85%</b>	<b>3.59%</b>
<b>EPS</b>	<b>5.02%</b>	<b>-14.31%</b>	<b>2.59%</b>	<b>-4.89%</b>	<b>12.25%</b>	<b>21.11%</b>	<b>14.37%</b>	<b>11.85%</b>	<b>3.59%</b>

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	8.68	7.96	7.39	6.77
Interest Cost	%	3.69	2.63	2.79	2.90	6.31	4.74	4.64	4.01	3.38
Net Interest Margin	%	5.35	4.55	3.37	3.15	3.87	3.93	3.32	3.38	3.39
Operating Cost to Income	%	34.75	38.32	47.25	52.05	44.18	37.90	36.52	36.57	36.63
Return on Equity	%	18.54	15.46	14.62	14.31	14.19	16.33	17.54	18.60	18.18
Return on Assets	%	2.54	2.08	1.67	1.43	1.58	1.60	1.68	1.72	1.63
<b>Balance Sheet Analysis</b>		<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020E</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
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	93.20	93.20	93.20	93.20
Advances to Deposits	%	43.65	44.53	48.46	48.00	43.39	48.71	56.58	56.27	56.05
Investments to Deposits	%	81.18	71.14	67.83	71.43	65.41	65.72	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	10.00	8.20	7.50	7.00
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	1.85	1.54	1.41	1.32
Capital Adequacy Ratio	%	19.43	19.33	16.34	17.02	17.84	15.86	15.53	15.04	14.62
Leverage Ratio	%	8.23	8.59	7.52	6.54	6.50	5.71	5.55	5.31	5.11
<b>Operational Analysis</b>		<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020E</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
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	6.47	7.47	7.33	7.18
Market Share - Investments	%	8.13	7.47	7.68	10.04	8.56	8.83	7.48	7.21	6.97
No. of Branches		1223	1238	1444	1387	1410	1413	1416	1419	1422
<b>Investment Ratios</b>		<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
Dividend Per Share		16.00	16.00	16.00	16.00	17.00	20.00	20.00	25.00	25.00
Dividend Yield	%	8.42	8.42	8.42	8.42	8.95	10.53	10.53	13.16	13.16
Dividend Cover	x	1.35	1.15	1.18	1.13	1.19	1.23	1.40	1.25	1.30
Retention Ratio	%	25.78	13.38	15.57	11.23	15.98	18.38	28.63	20.24	23.01
Payout Ratio	%	74.22	86.62	84.43	88.77	84.02	81.62	71.37	79.76	76.99
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	28.02	31.34	32.47
Book Value Per Share		116.28	119.51	129.59	125.97	142.54	150.07	159.78	168.52	178.64
Price to Earnings	x	8.81	10.29	10.02	10.54	9.39	7.75	6.78	6.06	5.85
Price to Book Value	x	1.63	1.59	1.47	1.51	1.33	1.27	1.19	1.13	1.06

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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