

Equity Research | Commercial Banks | Thursday, 28 April, 2022

MCB has announced its 1QCY22 result where it posted a profit after tax of Rs8.91bn (EPS: Rs7.52) as compared to a profit after tax of Rs6.79bn (EPS: Rs5.73) in the same period last year, up by 31.3% YoY.

The company has posted a net interest income of Rs18.11bn against Rs15.24bn in SPLY, recording a growth of 18.8% YoY. We note that this growth is attributed to the high-interest rate.

Non-interest income has been increased by 20.5% YoY to Rs5.72bn mainly due to the increase in dividend income and foreign exchange income during the period.

Furthermore, the operating cost to income ratio has declined to 39.6% as compared to 43.2% during SPLY.

Lastly, the bank has booked a provision of Rs864mn against the provision of Rs177mn during SPLY.

MCB is currently trading at CY22E PE of 4.06x. Furthermore, the scrip is trading at a CY22E P/B of 0.95x which offers a discount of 6% relative to its historical 3-year average of 1.00x. We suggest our investors to **BUY** the scrip with a justified P/B Dec-22 TP of Rs.180 which provides an upside potential of 21%. Furthermore, it also offers an attractive dividend yield of 18% which makes the total return of 39%.

Rupees' millions	1QCY22	1QCY21	YoY	CY21	CY20	YoY
Interest earned	39,717	28,347	40.1% ▲	123,334	136,076	9.4% ▼
Interest expensed	-21,605	-13,107	64.8% ▲	-59,347	-64,741	8.3% ▼
Net Interest Income	18,112	15,240	18.8% ▲	63,987	71,334	10.3% ▼
Fee and commission income	3,274	3,336	1.8% ▼	12,440	10,936	13.7% ▲
Dividend income	755	416	81.5% ▲	2,251	1,210	86.1% ▲
Foreign exchange income	1,211	624	94.0% ▲	3,734	2,525	47.9% ▲
(Loss) / gain on securities	415	350	18.6% ▲	811	3,332	75.7% ▼
Other income	64	14	362.3% ▲	823	128	542.0% ▲
Non-Interest Income	5,722	4,749	20.5% ▲	20,074	18,136	10.7% ▲
Operating expenses	-9,449	-8,636	9.4% ▲	-35,381	-32,646	8.4% ▲
Workers' Welfare Fund	-299	-226	32.4% ▲	-1,040	-965	7.8% ▲
Other charges	-21	-29	28.4% ▼	-474	-297	59.3% ▲
Profit Before Provisions	14,065	11,099	26.7% ▲	47,167	55,562	15.1% ▼
Provisions	864	177	386.6% ▲	4,823	-7,313	165.9% ▼
Profit Before Taxation	14,928	11,276	32.4% ▲	51,989	48,249	7.8% ▲
Taxation	-6,014	-4,486	34.1% ▼	-21,178	-19,212	10.2% ▲
Profit After Taxation	8,914	6,790	31.3% ▲	30,811	29,037	6.1% ▲
Earnings Per Share	7.52	5.73	31.3% ▲	26.00	24.50	6.1% ▲
Dividend	5.00	4.50	11.1% ▲	19.00	20.00	5.0% ▼
Bonus	0%	0%		0%	0%	

Closing Period: 11 May 2022 – 13 May 2022

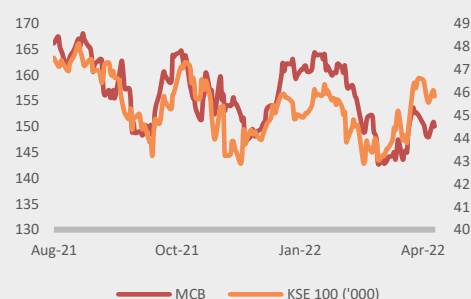
Operating Cost to Income	-39.6%	-43.2%	3.6% ▼	-42.1%	-36.5%	5.6% ▲
Effective Taxation	-40.3%	-39.8%	0.5% ▲	-40.7%	-39.8%	0.9% ▲

Source: ACPL Research, Company Financials

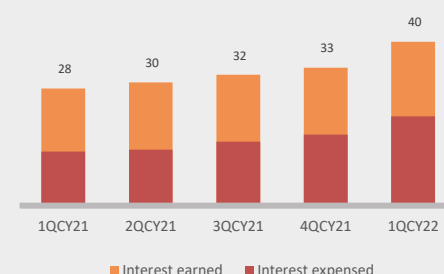
Key Statistics

Symbol	MCB
TP - Dec 22	180.00
LDCP	150.02
Upside (%)	21
Free Float ('mn)	414
Market Cap. (Rs. 'mn)	178,813

MCB vs KSE 100



Interest Earned vs Expensed (Rs'bn)



PAT (Rs'bn) vs Operating Cost To Income



Sources: ACPL Research, Company Financials

Muhammad Nauman Naeem

Phone: (+92) 42 38302028; Ext: 116

Email: nauman@abbasiandcompany.com

Financial Projections

Rupees' millions	CY19	CY20	CY21	CY22E	CY23E	CY24E	CY25E
Mark-up / Return / Interest earned	138,292	136,076	123,334	193,940	229,358	250,299	273,370
Mark-up / Return / Interest expensed	-78,676	-64,741	-59,347	-101,311	-130,369	-143,153	-157,216
Net Mark-up / Interest Income	59,616	71,334	63,987	92,629	98,989	107,146	116,153
Fee and commission income	11,288	10,936	12,440	13,062	13,715	14,400	15,121
Dividend income	1,377	1,210	2,251	3,655	3,928	4,227	4,557
Foreign exchange income	2,895	2,525	3,734	3,734	3,734	3,734	3,734
(Loss) / gain from derivatives	15	4	14	0	0	0	0
(Loss) / gain on securities	833	3,332	811	2,006	2,221	2,459	2,720
Other income	272	128	823	702	702	702	702
Total non-markup / interest income	16,679	18,136	20,074	23,158	24,300	25,523	26,834
Non mark-up / interest expenses							
Operating expenses	-32,671	-32,646	-35,381	-40,526	-43,151	-46,434	-50,045
Workers' Welfare Fund	-802	-965	-1,040	-1,510	-1,608	-1,730	-1,865
Other charges	-236	-297	-474	-643	-874	-1,186	-1,611
Profit Before Provisions	42,586	55,562	47,167	73,109	77,656	83,318	89,466
Provisions / (reversal of provisions)	-2,484	-7,313	4,823	-4,272	-2,079	-1,933	-1,736
Extraordinary / unusual items	0	0	0	0	0	0	0
Profit before income tax	40,102	48,249	51,989	68,837	75,577	81,385	87,731
Income tax expense	-16,125	-19,212	-21,178	-25,020	-27,470	-29,581	-31,887
Profit for the year	23,977	29,037	30,811	43,817	48,107	51,805	55,843
EPS	20.23	24.50	26.00	36.97	40.59	43.71	47.12

Source: ACPL Research, Company Financials

Horizontal Analysis

	CY19	CY20	CY21	CY22E	CY23E	CY24E	CY25E
Mark-up / Return / Interest earned	66.0%	-1.6%	-9.4%	57.2%	18.3%	9.1%	9.2%
Mark-up / Return / Interest expensed	110.9%	-17.7%	-8.3%	70.7%	28.7%	9.8%	9.8%
Net Mark-up / Interest Income	29.6%	19.7%	-10.3%	44.8%	6.9%	8.2%	8.4%
Total non-markup / interest income	-3.0%	8.7%	10.7%	15.4%	4.9%	5.0%	5.1%
Non mark-up / interest expenses							
Operating expenses	1.8%	-0.1%	8.4%	14.5%	6.5%	7.6%	7.8%
Workers' Welfare Fund	25.1%	20.3%	7.8%	45.2%	6.5%	7.6%	7.8%
Other charges	39.2%	25.8%	59.3%	35.8%	35.8%	35.8%	35.8%
Profit Before Provisions	40.5%	30.5%	-15.1%	55.0%	6.2%	7.3%	7.4%
Provisions / (reversal of provisions)	-241.7%	194.5%	-165.9%	-188.6%	-51.3%	-7.1%	-10.2%
Profit before income tax	25.1%	20.3%	7.8%	32.4%	9.8%	7.7%	7.8%
Income tax expense	50.6%	19.1%	10.2%	18.1%	9.8%	7.7%	7.8%
Profit for the year	12.3%	21.1%	6.1%	42.2%	9.8%	7.7%	7.8%
EPS	12.3%	21.1%	6.1%	42.2%	9.8%	7.7%	7.8%

Source: ACPL Research, Company Financials

Key Ratios

Profitability Ratios		CY19	CY20	CY21	CY22E	CY23E	CY24E	CY25E
Yield on Earning Assets	%	10.18	8.50	6.76	9.68	10.43	10.36	10.30
Interest Cost	%	6.31	4.38	3.48	5.40	6.32	6.30	6.29
Net Interest Margin	%	3.87	4.12	3.28	4.28	4.11	4.06	4.01
Operating Cost to Income	%	44.18	37.90	43.89	36.86	37.01	37.20	37.43
Return on Equity	%	14.19	15.27	17.67	23.30	23.77	23.75	23.68
Return on Assets	%	1.58	1.65	1.56	2.03	2.03	1.99	1.95
Balance Sheet Analysis								
		CY19	CY20	CY21	CY22E	CY23E	CY24E	CY25E
Deposits Growth	%	9.13	12.64	9.49	10.00	10.00	10.00	10.00
CASA to Deposits	%	86.13	88.89	89.33	87.59	87.59	87.59	87.59
Advances to Deposits	%	43.39	35.90	41.77	44.23	44.45	44.67	44.89
Investments to Deposits	%	65.41	78.78	73.35	69.38	67.78	66.32	65.00
PIBs to Investments	%	40.94	35.90	65.37	65.37	65.37	65.37	65.37
T Bills to Investments	%	55.65	61.43	32.23	32.23	32.23	32.23	32.23
Gross Infection Ratio	%	9.15	9.97	7.94	7.44	6.94	6.44	5.94
Provisioning Coverage	%	84.85	88.19	87.45	87.52	87.52	87.52	87.52
Net Infection Ratio	%	1.51	1.31	1.07	1.00	0.93	0.85	0.78
Capital Adequacy Ratio	%	17.84	20.98	17.01	16.67	16.34	16.04	15.78
Leverage Ratio	%	6.50	7.03	6.13	6.03	5.92	5.82	5.74
Operational Analysis								
		CY19	CY20	CY21	CY22E	CY23E	CY24E	CY25E
Market Share - Deposits	%	7.82	7.21	6.73	6.52	6.32	6.13	5.94
Market Share - Advances	%	6.62	6.04	6.26	6.40	6.20	6.01	5.82
Market Share - Investments	%	8.56	8.78	7.46	6.82	6.46	6.12	5.82
No. of Branches		1410	1410	1426	1442	1459	1475	1492
Investment Ratios								
		CY19	CY20	CY21	CY22E	CY23E	CY24E	CY25E
Dividend Per Share		17.00	20.00	19.00	27.00	30.00	32.00	34.00
Dividend Yield	%	11.33	13.33	12.66	18.00	20.00	21.33	22.66
Dividend Cover	x	1.19	1.23	1.37	1.37	1.35	1.37	1.39
Retention Ratio	%	15.98	18.38	26.92	26.92	26.92	26.92	26.92
Payout Ratio	%	84.02	81.62	73.08	73.08	73.08	73.08	73.08
No. of Shares	('m)	1185	1185	1185	1185	1185	1185	1185
Earnings Per Share		20.23	24.50	26.00	36.97	40.59	43.71	47.12
Book Value Per Share		142.54	160.42	147.17	158.70	170.75	184.08	198.97
Price to Earnings	x	7.41	6.12	5.77	4.06	3.70	3.43	3.18
Price to Book Value	x	1.05	0.94	1.02	0.95	0.88	0.81	0.75

Source: ACPL Research, Company Financials

DISCLAIMER

This report has been prepared by Abbasi & Company (Private) Limited and is provided for information purposes only. Under no circumstances, this is to be used or considered as an offer to sell or solicitation of any offer to buy. While reasonable care has been taken to ensure that the information contained therein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. From time to time, Abbasi & Company (Private) Limited and or any of its officers or directors may, as permitted by applicable laws, have a position, or otherwise be interested in any transaction, in any securities directly or indirectly subject of this report. This report is provided only for the information of professional advisers who are expected to make their own investment decisions without undue reliance on this report. Investments in capital markets are subject to market risk and Abbasi & Company (Private) Limited accepts no responsibility whatsoever for any direct or indirect consequential loss arising from any use of this report or its contents. In particular, the report takes no account of the investment objectives, financial situation and needs of investors, who should seek further professional advice or rely upon their own judgment and acumen before making any investment. The views expressed in this report are those of Abbasi & Company (Private) Limited Research Department and do not necessarily reflect those of the company or its directors. Abbasi & Company (Private) Limited as a firm may have business relationships, including investment-banking relationships, with the companies referred to in this report. Abbasi & Company (Private) Limited does not act as a market maker in the securities of the subject company. Abbasi & Company (Private) Limited or any officers, directors, associates or close relatives do not have a financial interest in the securities of the subject company to an amount exceeding 1% of the value of the securities of the subject company at the time of issuance of this report. Abbasi & Company (Private) Limited or any officers, directors, associates or close relatives are not currently serving or have served in the past three years as a director or officer of the subject company. Abbasi & Company (Private) Limited or any officers, directors, associates or close relatives have not received compensation from the subject company in the previous 12 months. The subject company currently is not, or during the 12-month period preceding the date of publication or distribution of this report, was not, a client of Abbasi & Company (Private) Limited. We have not managed or co-managed a public offering or any take-over, buyback or delisting offer of securities for the subject company in the past 12 months and/or received compensation for corporate advisory services, brokerage services or underwriting services from the subject company in the past 12 months. Abbasi & Company (Private) Limited does not expect to receive or intend to seek compensation for corporate advisory services or underwriting services from the subject company in the next 3 months

All rights reserved by Abbasi & Company (Private) Limited. This report or any portion hereof may not be reproduced, distributed or published by any person for any purpose whatsoever. Nor can it be sent to a third party without prior consent of Abbasi & Company (Private) Limited. Action could be taken for unauthorized reproduction, distribution or publication

VALIDITY OF THE PUBLICATION OR REPORT

The information in this publication or report is, regardless of source, given in good faith, and may only be valid as of the stated date of this publication or report. The information may be subject to change without notice, its accuracy is not guaranteed, it may be incomplete or condensed and it may not contain all material information concerning the company, jurisdiction or financial instruments referred to in this report. The valuations, opinions, estimates, forecasts, ratings or risk assessments herein constitutes a judgment as of the date of this report and were based upon several estimates and assumptions and are inherently subject to significant uncertainties and contingencies. It can be expected that one or more of the estimates on which the valuations, opinions, estimates, forecasts, ratings or risk assessments were based will not materialize or will vary significantly from actual results. Therefore, the inclusion of the valuations, opinions, estimates, forecasts, ratings or risk assessments described herein is not to be relied upon as a representation and/or warranty by Abbasi & Company (Private) Limited and/or its other associated and affiliated companies, that:

- I. Such valuations, opinions, estimates, forecasts, ratings or risk assessments or their underlying assumptions will be achieved, and
- II. There is any assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments stated therein

DEFINITION OF TERMS

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

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

RATINGS CRITERIA

Abbasi & Company (Private) Limited employs a three-tier ratings system to rate a stock and sector, as mentioned below, which is based upon the level of expected return for a specific stock and outlook of sector. The rating is based on the following with stated time horizon

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

Ratings are updated to account for any development impacting the economy/sector/company, changes in analysts' assumptions or a combination of these factors.

RESEARCH DISSEMINATION POLICY

Abbasi & Company (Private) Limited endeavors to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as email, fax mail etc. Nevertheless, all clients may not receive the material at the same time

OTHER DISCLOSURES

The research analyst is primarily involved in the preparation of this report, certifies that:

- I. The views expressed in this report accurately reflect his/her personal views about the subject company/stock /sector and economy
- II. No part of his/her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report

The Research Analyst is not and was not involved in issuing of a research report on any of the subject company's associated companies

RESEARCH DEPARTMENT

6 - Shadman, Lahore

Phone: (+92) 42 38302028; Ext 116, 117

Email: research@abbasiandcompany.com

web: www.abbasiandcompany.com

HEAD OFFICE

6 - Shadman, Lahore

Phone: (+92) 42 38302028

Email: info@abbasiandcompany.com

web: www.abbasiandcompany.com

BRANCH OFFICE

42 - Mall Road, Lahore

Phone: (+92) 42 37320707

Email: info@abbasiandcompany.com

web: www.abbasiandcompany.com