

PAKISTAN BANKS

MARKET VISTA

MCB: On the straight and narrow

- We revise and roll over our target price to Dec'21 for MCB Bank Limited (MCB), which stands at PkR223.4/sh (previously: PkR211.0/sh) offering an upside of 20.5% from last close. MCB has gained 6.6% over the past 1M – in line with market return – where stock performance could be triggered from expectations surrounding payouts (4QCY20E: PkR15/sh, c. CY20F: PkR20/sh, CY21F DY: 10.8%).
- Revision in estimates come from, i) favorable tilt towards higher yielding PIBs and interest rate hikes (AKD estimates CY21-end interest rate at 8.5%), ii) increasing proportion of CA in the deposit mix (management targets 40% CA vs. 35.3% currently), and iii) improving macro situation proportionally diluting credit risks (MCB booked general provision of PkR5.9bn to mitigate such risks, 1.1% of performing advances).
- Accordingly, NIMs of the bank are likely to gradually climb to 4.7% in the med run vs. normalized NIMs of 4.3%. Non-funded income's contribution could gain prominence from potential capital gain realization (unrealized gains on investments stood at PkR16.6bn as of Sep'20) and recovery in fee income base of the bank (fee income down 2.8%YoY).
- MCB Bank reported earnings of PkR23.4bn (EPS: PkR19.75) in 9MCY20 vis-à-vis PkR16.1bn (EPS: PkR13.63) in the same period last year. On a quarterly basis, MCB reported EPS of PkR8.42, +46.2%/75.7% QoQ/YoY largely a product of i) NIMs standing at an elevated level of 5.74% in 3QCY20 vs. 6.1% in the previous quarter, and ii) realization of capital gains (PkR2.9bn) primarily on bonds.

Target price revised upward as interest rate cycle and asset mix to buttress earnings profile:

We revise and roll over our target price to Dec'21 for MCB Bank Limited (MCB), which stands at PkR223.4/sh (previously: PkR211.0/sh) offering an upside of 20.5% from last close. Revision in estimates come from, i) favorable tilt towards higher yielding PIBs of which ~70% are fixed-rate that would continue bulwarking gross income of the bank (c. PIB yield stands at 11.85%) with interest rate hikes (AKD estimates CY21-end interest rate at 8.5%) also contributing to the cause, ii) increasing proportion of CA in the deposit mix (management targets 40% CA vs. 35.3% currently) though clenching deposit growth (CY21-23F CAGR: 8.7%), and iii) improving macro situation proportionally diluting credit risks (MCB booked general provision of PkR5.9bn to mitigate such risks, 1.1% of performing advances) as well as opening opportunities for recovery from NIB portfolio (PkR5.5bn to date, 49.1% of targeted recoveries). MCB has gained 6.6% over the past 1M – in line with market return – where stock performance could be triggered from expectations surrounding dividend announcement (4QCY20E: PkR15/sh, c. CY20F: PkR20/sh, CY21F DY: 10.8%) in the short run.

... though balance sheet growth could be cramped in the med run: Constricted deposit growth (CY21-23F CAGR: 8.7%) leaves med run earnings growth (CY21-23F CAGR: 9.3%) hanging upon the upturn in interest rate cycle (interest rate sensitive assets/liabilities: 1.2x as of Sep'20) and potential efficiency gains. Accordingly, NIMs of the bank are likely to gradually climb to 4.7% in the med run vs. normalized NIMs of 4.3%. Non-funded income's contribution could gain prominence from potential capital gain realization (unrealized gains on investments stood at PkR16.6bn as of Sep'20) and recovery in fee income base of the bank (fee income down 2.8% YoY). With regards to improvement in efficiency, together with improving CA in the deposit, a key role would be played by keeping a lid on cost side where during 9MCY20 admin expenses (exc. PF reversals) are down 1.17%YoY. We have factored in admin cost growth 8.3% in our estimates in line with historical avgs (13 branches added pa. during the period CY12-16), accounting for branch additions plan of 15 branches in CY21.

9MCY20 result review: MCB Bank reported earnings of PkR23.4bn (EPS: PkR19.75) in 9MCY20 vis-à-vis PkR16.1bn (EPS: PkR13.63) in the same period last year. On a quarterly basis, MCB reported EPS of PkR8.42, +46.2%/75.7% QoQ/YoY largely a product of i) NIMs standing at an elevated level of 5.74% in 3QCY20 vs. 6.1% in the previous quarter, benefitting from holding of PIB floaters (due to reprice in 4QCY20) and holding of treasury bills at the long-end of the curve, and ii) realization of capital gains (PkR2.9bn) primarily on bonds. Moreover, the bank booked lower provisioning expense (down 66.2%QoQ) primarily as a result of lower contribution in loss reserves (PkR1.4bn general provisioning in 3QCY20 vs. PkR4.6bn in 2QCY20).

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BUY

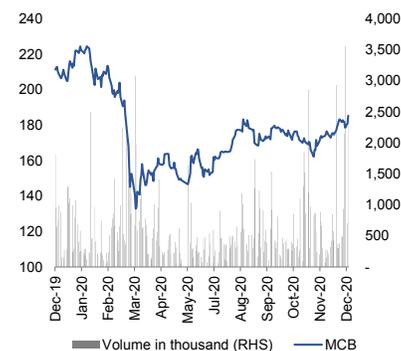
TARGET PRICE (PkR)	SHARE PRICE (PkR)
223.4	185.32
UPSIDE/DOWNSIDE	DIV. YIELD
20.5%	10.8%

MCB: Valuation Glance

	CY19A	CY20F	CY21F	CY22F
EPS (PkR)	20.1	25.2	24.5	24.9
DPS (PkR)	17.0	20.0	20.0	20.0
BVPS (PkR)	144.6	155.7	160	165.5
P/E(x)	9.2	7.4	7.6	7.5
P/BV(x)	1.3	1.2	1.2	1.1
Div.Yield	9.1%	10.8%	10.8%	10.8%
Earn. Growth	17.3%	25.3%	-3.0%	1.7%
ROA	1.5%	1.7%	1.5%	1.5%
ROE	14.8%	16.9%	15.6%	15.4%

Source: Company reports & AKD Research

MCB: Price vs Volume



Source: PSX & AKD Research



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Valuation Methodology

To arrive at our period end target prices, AKDS uses different valuation techniques including:

- Discounted Cash Flow (DCF, DDM)
- Relative Valuation (P/E, P/B, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)

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Buy	> 14.5% expected total return (Rf: 8.5% + Rp: 6%)
Neutral	> 8.5% to < 14.5% expected total return
Sell	< 8.5% expected total return (Rf: 8.5%)



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