

**MCB Bank Limited
Corporate Briefing****Commercial Banks****Key Takeaways**

MCB held its conference call today whereby they discussed the banks' financials and its future outlook. The call was led by the CFO Mr. Hammad Khalid.

Highlights:

- To recall, MCB announced earnings for CY20 slightly below expectations, at PKR 29.4bn (EPS: PKR 24.82), depicting a YoY uptick of 23%, while declining 40% QoQ (4QCY20 EPS: PKR 5.07). Sequential decline came on account of a dip in NII as impact of interest rate cuts comes through on assets. The bank also booked lower capital gains than expected while provisioning clocked in higher than expected. The bank announced a DPS of PKR 15.00 in-line with expectations taking full year payout to PKR 20.00/share.
- In-line with industry trend, gross advances are down 4.9% YoY while deposit growth has accelerated 12.6% YoY. Consumer banking has shown impressive growth with the loan book increasing by PKR 2.6bn YoY, while the deposit book has been led by the retail segment (+PKR 131bn).
- NPLs are up 2% QoQ to settle at PKR 51.2bn due to downgrading of subjective classifications following critical evaluation of the portfolio. The downgrading was from exposures in textile and shipbreaking. Infection now stands at 9.97% against 9.15% SPLY while coverage is at 98.9%.
- NIB recoveries have settled at just over PKR 6bn out of PKR 29.6bn (20% recovery over 3.5 yrs). Decent uptick on real estate has improved prospects of recoveries going forward. Target for 2021 is 25% in excess of 2020 recoveries.
- The bank has a very healthy outlook on asset quality going forward, with the management expecting a net reversal of PKR 2-2.5bn during 2021. The management does not expect any major NPL accretion during CY21 citing the unprecedented V-shaped recovery shown across various cyclical indicators.
- Maturity profile of investments is skewed towards shorter term securities which will help during rate hikes, with T-Bills comprising 59% of investments and PIBs contributing 34%.
- PIB concentration category-wise is as follows: 3-Yr: 27%, 5-Yr: 32%, 10-Yr and above: 41%
- T-Bills concentration category-wise is as follows: 3-M: 59%, 6-M: 23%, 1-Yr: 18%
- Fixed PIBs (PKR 244bn) are yielding ~ 11.35% while floater PIBs (PKR 125bn) are yielding ~7.62%. Average yield on outstanding portfolio is 10.3% with an average maturity of 2.5 years.
- Double digit growth is expected in 2021 for gross advances of around 14-15%. TERF (PKR 41.9bn allocation) and construction sector is expected to fuel growth. The bank expects the robust momentum in the auto financing segment to continue. ADR is expected to pick up to 42-43% in 2021
- The bank expects deposit growth to settle at 9-10% during CY21 with a focus on current account (targeting 38% mix).
- The management expects interest rate hike in May and majorly during 2H CY21. The bank expects a total of 150-200bps hike.
- MCB accounts for about 8-9% of total RDA inflows so far.
- The impact of asset re-pricing has majorly been reflected during the outgoing quarter (~80%). NIMs are expected to slightly decline during 2021 compared to 2020.
- 12-13 branches per year are expected to be added going forward plus focus on digital channels will continue.

Recommendation

- Currently, we have a 'BUY' call on the stock with a Dec21 target price of PKR 226/share.

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Rating	Description
BUY	Upside* of subject security(ies) is more than +10% from last closing of market price(s)
HOLD	Upside* of subject security(ies) is between -10% and +10% from last closing of market price(s)
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* Upside for Power Generation Companies (Ex. KEL) is upside plus dividend yield.

Equity Valuation Methodology

AHL Research uses the following valuation technique(s) to arrive at the period end target prices:

- **Discounted Cash Flow (DCF)**
- **Dividend Discount Model (DDM)**
- **Sum of the Parts (SoTP)**
- **Justified Price to Book (JPTB)**
- **Reserved Base Valuation (RBV)**

Risks

The following risks may potentially impact our valuations of subject security (ies);

- **Market risk**
- **Interest Rate Risk**
- **Exchange Rate (Currency) Risk**

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Disclosure required under Research Analyst Regulations, 2015:

In order to avoid any conflict of interest, we hereby disclosed that;

- Analyst and Close relative of analyst have shareholding in MCB.