

MCB has announced its 1HCY22 result where it posted a profit after tax of Rs11.13bn (EPS: Rs9.39) as compared to a profit after tax of Rs14.74bn (EPS: Rs12.44) in the same period last year, down by 24.5% YoY.

The company has posted a net interest income of Rs38.99bn against Rs31.55bn in SPLY, recording a growth of 23.6% YoY. We note that this growth is attributed to the high-interest rate.

Non-interest income has increased by 35.8% YoY to Rs12.90bn 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 37.5% as compared to 41.9% during SPLY. Moreover, effective taxation has increased to 65.8% amid the imposition of super taxes by the government.

Lastly, the bank has booked a reversal of Rs802mn against the reversal of Rs2,001mn during SPLY.

MCB is currently trading at CY22E PE of 6.76x. Furthermore, the scrip is trading at a CY22E P/B of 0.84x which offers a discount of 3% relative to its historical 3-year average of 0.87x. We suggest our investors to **BUY** the scrip with a justified P/B Jun-23 TP of Rs.160 which provides an upside potential of 23%. Furthermore, it also offers an attractive dividend yield of 11% which makes a total return of 34%.

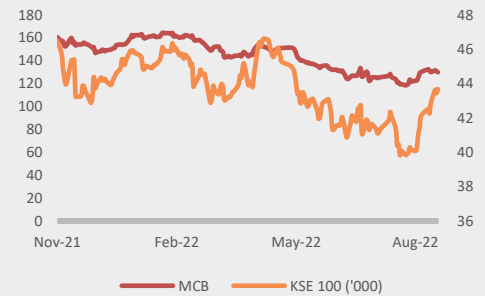
Rupees' millions	2QCY22	2QCY21	YoY	1HCY22	1HCY21	YoY
Interest earned	45,699	29,854	53.1% ▲	85,416	58,201	46.8% ▲
Interest expensed	-24,823	-13,545	83.3% ▲	-46,428	-26,652	74.2% ▲
<b>Net Interest Income</b>	<b>20,876</b>	<b>16,309</b>	<b>28.0% ▲</b>	<b>38,988</b>	<b>31,549</b>	<b>23.6% ▲</b>
Fee and commission income	3,452	2,676	29.0% ▲	6,726	6,011	11.9% ▲
Dividend income	499	562	11.4% ▼	1,254	979	28.1% ▲
Foreign exchange income	2,903	771	276.6% ▲	4,114	1,395	194.9% ▲
(Loss) / gain on securities	253	135	87.3% ▲	667	485	37.7% ▲
Other income	61	607	89.9% ▼	125	620	79.9% ▼
<b>Non-Interest Income</b>	<b>7,177</b>	<b>4,750</b>	<b>51.1% ▲</b>	<b>12,898</b>	<b>9,499</b>	<b>35.8% ▲</b>
Operating expenses	-9,990	-8,560	16.7% ▲	-19,439	-17,196	13.0% ▲
Workers' Welfare Fund	-352	-275	28.2% ▲	-651	-500	30.1% ▲
Other charges	-42	-310	86.4% ▼	-63	-339	81.4% ▼
Profit Before Provisions	17,669	11,914	48.3% ▲	31,734	23,012	37.9% ▲
Provisions	-61	1,823	103.4% ▼	802	2,001	59.9% ▼
Profit Before Taxation	17,607	13,737	28.2% ▲	32,536	25,013	30.1% ▲
Taxation	-15,397	-5,784	166.2% ▼	-21,411	-10,270	108.5% ▲
<b>Profit After Taxation</b>	<b>2,210</b>	<b>7,953</b>	<b>72.2% ▼</b>	<b>11,125</b>	<b>14,743</b>	<b>24.5% ▼</b>
<b>Earnings Per Share</b>	<b>1.87</b>	<b>6.71</b>	<b>72.2% ▼</b>	<b>9.39</b>	<b>12.44</b>	<b>24.5% ▼</b>
<b>Dividend</b>	<b>4.00</b>	<b>5.00</b>	<b>20.0% ▼</b>	<b>9.00</b>	<b>9.50</b>	<b>5.3% ▼</b>
<b>Bonus</b>	<b>0%</b>	<b>0%</b>		<b>0%</b>	<b>0%</b>	
Closing Period: Sep 01, 2022 - Sep 03, 2022						
Operating Cost to Income	-35.6%	-40.6%	5.0% ▼	-37.5%	-41.9%	4.4% ▼
Effective Taxation	-87.4%	-42.1%	45.3% ▲	-65.8%	-41.1%	24.7% ▲

Source: ACPL Research, Company Financials

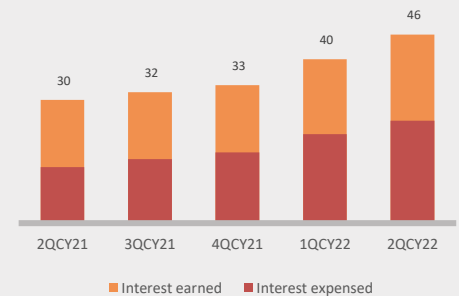
## Key Statistics

Symbol	MCB
TP - Jun 23	160
LDPC	129.74
Upside (%)	23
Free Float ('mn)	415
Market Cap. (Rs. 'mn)	155,610

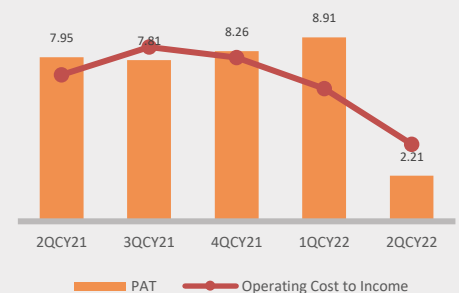
## MCB vs KSE 100



## 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	CY19	CY20	CY21	CY22E	CY23E	CY24E	CY25E
Mark-up / Return / Interest earned	138,292	136,076	123,334	194,665	222,793	222,109	241,100
Mark-up / Return / Interest expensed	-78,676	-64,741	-59,347	-106,313	-127,938	-127,112	-139,571
<b>Net Mark-up / Interest Income</b>	<b>59,616</b>	<b>71,334</b>	<b>63,987</b>	<b>88,353</b>	<b>94,855</b>	<b>94,997</b>	<b>101,529</b>
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	2,741	2,946	3,171	3,418
Foreign exchange income	2,895	2,525	3,734	6,162	6,567	6,999	7,460
(Loss) / gain from derivatives	15	4	14	0	0	0	0
(Loss) / gain on securities	833	3,332	811	1,128	1,249	1,382	1,529
Other income	272	128	823	408	408	408	408
<b>Total non-markup / interest income</b>	<b>16,679</b>	<b>18,136</b>	<b>20,074</b>	<b>23,500</b>	<b>24,884</b>	<b>26,360</b>	<b>27,935</b>
<b>Non mark-up / interest expenses</b>							
Operating expenses	-32,671	-32,646	-35,381	-39,148	-41,909	-42,475	-45,313
Workers' Welfare Fund	-802	-965	-1,040	-1,459	-1,562	-1,583	-1,688
Other charges	-236	-297	-474	-497	-522	-548	-576
<b>Profit Before Provisions</b>	<b>42,586</b>	<b>55,562</b>	<b>47,167</b>	<b>70,748</b>	<b>75,747</b>	<b>76,751</b>	<b>81,888</b>
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
<b>Profit before income tax</b>	<b>40,102</b>	<b>48,249</b>	<b>51,989</b>	<b>66,476</b>	<b>73,667</b>	<b>74,819</b>	<b>80,152</b>
Income tax expense	-16,125	-19,212	-21,178	-43,748	-31,336	-31,826	-34,094
<b>Profit for the year</b>	<b>23,977</b>	<b>29,037</b>	<b>30,811</b>	<b>22,728</b>	<b>42,331</b>	<b>42,993</b>	<b>46,058</b>
<b>EPS</b>	<b>20.23</b>	<b>24.50</b>	<b>26.00</b>	<b>19.18</b>	<b>35.72</b>	<b>36.28</b>	<b>38.87</b>

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%	57.8%	14.4%	-0.3%	8.6%
Mark-up / Return / Interest expensed	110.9%	-17.7%	-8.3%	79.1%	20.3%	-0.6%	9.8%
<b>Net Mark-up / Interest Income</b>	<b>29.6%</b>	<b>19.7%</b>	<b>-10.3%</b>	<b>38.1%</b>	<b>7.4%</b>	<b>0.1%</b>	<b>6.9%</b>
<b>Total non-markup / interest income</b>	<b>-3.0%</b>	<b>8.7%</b>	<b>10.7%</b>	<b>17.1%</b>	<b>5.9%</b>	<b>5.9%</b>	<b>6.0%</b>
<b>Non mark-up / interest expenses</b>							
Operating expenses	1.8%	-0.1%	8.4%	10.6%	7.1%	1.4%	6.7%
Workers' Welfare Fund	25.1%	20.3%	7.8%	40.3%	7.1%	1.4%	6.7%
Other charges	39.2%	25.8%	59.3%	5.0%	5.0%	5.0%	5.0%
<b>Profit Before Provisions</b>	<b>40.5%</b>	<b>30.5%</b>	<b>-15.1%</b>	<b>50.0%</b>	<b>7.1%</b>	<b>1.3%</b>	<b>6.7%</b>
Provisions / (reversal of provisions)	-241.7%	194.5%	-165.9%	-188.6%	-51.3%	-7.1%	-10.2%
<b>Profit before income tax</b>	<b>25.1%</b>	<b>20.3%</b>	<b>7.8%</b>	<b>27.9%</b>	<b>10.8%</b>	<b>1.6%</b>	<b>7.1%</b>
Income tax expense	50.6%	19.1%	10.2%	106.6%	-28.4%	1.6%	7.1%
<b>Profit for the year</b>	<b>12.3%</b>	<b>21.1%</b>	<b>6.1%</b>	<b>-26.2%</b>	<b>86.3%</b>	<b>1.6%</b>	<b>7.1%</b>
<b>EPS</b>	<b>12.3%</b>	<b>21.1%</b>	<b>6.1%</b>	<b>-26.2%</b>	<b>86.3%</b>	<b>1.6%</b>	<b>7.1%</b>

Source: ACPL Research, Company Financials

## Key Ratios

<b>Profitability Ratios</b>		<b>CY19</b>	<b>CY20</b>	<b>CY21</b>	<b>CY22E</b>	<b>CY23E</b>	<b>CY24E</b>	<b>CY25E</b>
Yield on Earning Assets	%	10.18	8.50	6.76	9.75	10.16	9.23	9.13
Interest Cost	%	6.31	4.38	3.48	5.67	6.20	5.60	5.59
Net Interest Margin	%	3.87	4.12	3.28	4.08	3.96	3.63	3.54
Operating Cost to Income	%	44.18	37.90	43.89	36.75	36.74	36.76	36.75
Return on Equity	%	14.19	15.27	17.67	12.46	21.64	20.62	20.61
Return on Assets	%	1.58	1.65	1.56	1.05	1.79	1.65	1.61
<b>Balance Sheet Analysis</b>		<b>CY19</b>	<b>CY20</b>	<b>CY21</b>	<b>CY22E</b>	<b>CY23E</b>	<b>CY24E</b>	<b>CY25E</b>
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	16.22	15.85	15.41	15.04
Leverage Ratio	%	6.50	7.03	6.13	5.83	5.70	5.54	5.41
<b>Operational Analysis</b>		<b>CY19</b>	<b>CY20</b>	<b>CY21</b>	<b>CY22E</b>	<b>CY23E</b>	<b>CY24E</b>	<b>CY25E</b>
Market Share - Deposits	%	7.82	7.21	6.73	6.73	6.52	6.33	6.14
Market Share - Advances	%	6.62	6.04	6.26	6.60	6.40	6.20	6.02
Market Share - Investments	%	8.56	8.78	7.46	7.61	7.21	6.84	6.50
No. of Branches		1410	1410	1426	1442	1459	1475	1492
<b>Investment Ratios</b>		<b>CY19</b>	<b>CY20</b>	<b>CY21</b>	<b>CY22E</b>	<b>CY23E</b>	<b>CY24E</b>	<b>CY25E</b>
Dividend Per Share		17.00	20.00	19.00	14.00	26.00	27.00	28.00
Dividend Yield	%	13.10	15.42	14.64	10.79	20.04	20.81	21.58
Dividend Cover	x	1.19	1.23	1.37	1.37	1.37	1.34	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	19.18	35.72	36.28	38.87
Book Value Per Share		142.54	160.42	147.17	153.90	165.08	175.97	188.61
Price to Earnings	x	6.41	5.29	4.99	6.76	3.63	3.58	3.34
Price to Book Value	x	0.91	0.81	0.88	0.84	0.79	0.74	0.69

Source: ACPL Research, Company Financials

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<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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HOLD	Between -5% to 15%
SELL	Less than and equal to -5%

Sector Rating	Sector Outlook
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Market Weight	Neutral
Underweight	Negative

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