

Corporate Briefing Takeaways: Annual 2021

Commercial Banks

MCB Bank Limited

MCB Bank Limited (MCB) held its 2021 annual corporate briefing session yesterday. We highlight some of the key takeaways from the meetings;

Operating results: To recall, the bank reported full year earnings of PKR 30.8bn (PKR 26/share) compared to last year PKR 29.0bn (PKR 24.5/share), an increase of +6.1%y. Net-interest income of PKR 63.9bn (down by 10.4%y) and non-interest income of PKR 20bn (up by +10.3%y). As a result total revenue of the bank stood at PKR 84bn (down by 6%y). Moreover, the bank recorded operating expenses of PKR 36.9bn (up by +9%y) which deteriorated bank's cost/income ratio to 43.9% (last year: 37.9%). In addition, the bank booked a provisioning reversal of PKR 4.82bn compared to last year provision charge of PKR 7.3bn.

Investments: As per the management insight as of current, MCB investment book is well positioned to benefit from the rising interest rate environment. Total investment size as of Dec-21 stood at PKR 1,035.6bn (up by 1.9%y) of which bank holds nearly PKR 659bn worth PIBs having average yield of 9.35%. In terms of break-up, ~65% are floating instruments (3.5yrs duration), rest 35% are fixed (2.5yrs duration). Moreover, bank holds approximately PKR 325.5bn worth of treasury bills major concentrate in shorter-term papers 3 & 6 months, with an average yield 7.37%. Roughly, PKR 174bn of treasury bills have retired in Jan-22.

Advances: During 2021, bank's gross advance increased by +23.7%y to PKR 635bn, taking its net ADR to 41.7% compared to last year net ADR of 35.9%. Majority of this growth PKR 122bn in gross advances is led by corporate segment, PKR 102bn. Moreover, in order to avoid additional taxation, the management expects gross ADR to reach 50% by 2022, with minimal impact on CAR. Nevertheless, given the rise in gross advances, non-performing loans growth remained tamed bringing its loan infection ratio to Infection ratio of the bank dropped to 7.9% from 9.9% last year, along with coverage ratio dropping to 90.83% from 98.87% last year. As a result, of reduced npl growth and coverage ratio, bank was able to book in provision reversal of PKR 4.7bn against advances compared to a net charge of PKR 7.5bn last year. This recovery also includes NIB Bank portfolio; of the total PKR 29bn bank has managed to recover so far PKR 7bn.

Deposits: Total deposit base of the bank reached PKR 1,411.8bn (up by +9.4%y). The growth in deposits however was less than its peers banks, mainly due to competitive rates offered elsewhere. Breakup wise, current deposit share stood at 40% slightly increasing from last year 38%. Management expects 15-20%y growth in 2022.

Capital: Bank's Capital Adequacy Ratio (CAR) dropped to ~17%, due to increase advances growth, drop in surplus revaluation and higher payout. Looking ahead, management suggests that despite looking at a higher advances growth in 2022, overall capital will remain comfortable with minimal impact on payout ratio. Implementation of IFRS9 as per management will take in Mar-22, and as for the bank, IFRS9 will initially have a positive impact on bank's CAR due to setting up of additional IFRS9 reserve.

Macro outlook: Bank management expects 50bps further rate hike in 2022, at the earliest monetary policy statement (Mar-22).

Link: <https://www.igisecurities.com.pk/downloads/research/MCBcbs2021.pdf>

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