

# Flash Note

Wednesday, 26 April 2017



Securities

SERVING YOU SINCE 1994

## Commercial Banks

### MCB: Higher capital gains and NPLs reversal saves the quarter; Profitability up by +38%QoQ to PKR 5.5/share

- MCB Bank Limited (MCB) reported its 1QCY17 unconsolidated earnings at PKR 6.15bn (or PKR 5.5/share) up by +38%QoQ (or +2%YoY).
- Bank announced cash dividend of PKR 4.0/share along with the result.
- On a quarterly basis, bank's net interest income decreased by 2%QoQ, led by higher interest expense.
- The bank during the quarter realised capital gains worth PKR 2.2bn (or PKR 2.0/share) leading to +19%QoQ growth in non-interest income.
- Compared to last quarter, bank booked in NPLs reversals of PKR 757mn; highest in single quarter recorded in past three years.
- Bank's operating expense was up by +8%QoQ (or +9%YoY).

Exhibit:

#### MCB Result Highlights

PKRmn (Period end=Dec)	1QCY17	1QCY16	YoY	4QCY16	QoQ
Interest Earned	17,320	17,896	-3%	15,128	14%
Interest Expensed	7,585	6,427	18%	5,220	45%
Interest Income	9,735	11,468	-15%	9,908	-2%
Fee Income	2,196	1,939	13%	2,011	9%
Capital Gain & Div. Income	2,598	652	2.98x	1,967	32%
Non-Interest Income	5,184	2,969	75%	4,353	19%
<b>Total Revenue</b>	<b>14,919</b>	<b>14,437</b>	<b>3%</b>	<b>14,261</b>	<b>5%</b>
Operating Expenses	6,326	5,805	9%	5,865	8%
Pre-Provisioning Profits	8,593	8,632	0%	8,396	2%
NPL (Rev.) / Prov.	(880)	(446)	n.m.	1,490	n.m
Pre-Tax Profits	9,473	9,078	4%	6,907	37%
Taxation	3,326	3,057	9%	2,446	36%
<b>Profit After Tax</b>	<b>6,147</b>	<b>6,021</b>	<b>2%</b>	<b>4,461</b>	<b>38%</b>

EPS (PKR)	5.52	5.41	4.01
DPS (PKR)	4.00	4.00	4.00
BVPS (PKR)	128.77	126.10	127.24

#### KEY RATIOS

Cost-To-Income Ratio	42%	40%	41%
Effective Tax Rate	35%	34%	35%
Non-II / Total Income	35%	21%	31%

SOURCE: IGI Research, Company accounts, PSX notifications

#### Recommendation

With our Dec-17 based target price of PKR 251/share, the scrip offers +16% upside from its last closing. On CY17 forward basis, bank is trading at P/B and P/E of 1.7x and 10.5x, respectively. We recommend "BUY" call on MCB.

#### Analyst

Saad Khan

[saad.khan@igi.com.pk](mailto:saad.khan@igi.com.pk)

Tel: (+92-21) 111-234-234 Ext.: 810

## Important Disclaimer and Disclosures

**Research Analyst(s) Certification:** The Research Analyst(s) hereby certify that the views about the company/companies and the security/securities discussed in this report accurately reflect his or her or their personal views and that he/she has not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report. The analyst(s) is principally responsible for the preparation of this research report and that he/she or his/her close family/relative does not own 1% or more of a class of common equity securities of the following company/companies covered in this report.

**Disclaimer:** The information and opinions contained herein are prepared by IGI Finex Securities Limited and is for information purposes only. Whilst every effort has been made to ensure that all the information (including any recommendations or opinions expressed) contained in this document (the information) is not misleading or unreliable, IGI Finex Securities Limited makes no representation as to the accuracy or completeness of the information. Neither, IGI Finex Securities Limited nor any director, officer or employee of IGI Finex Securities Limited shall in any manner be liable or responsible for any loss that may be occasioned as consequence of a party relying on the information. This document takes no account of the investment objectives, financial situation and particular needs of investors, who shall seek further professional advice before making any investment decision. This document and the information may not be reproduced, distributed or published by any recipient for any purpose. This report is not directed or intended for distribution to, or use by any person or entity not a client of IGI Finex Securities Limited, else directed for distribution.

**Rating system:** IGI Finex Securities employs three tier ratings system, depending upon expected total return (return is defined as capital gain exclusive of tax) of the security in stated time period, as follows:

Recommendation	Rating System
Buy	If target price on aforementioned security(ies) is more than 10%, from its last closing price(s)
Hold	If target price on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
Sell	If target price on aforementioned security(ies) is less than -10%, from its last closing price(s)

**Risk:** Investment in securities are subject to economic risk, market risk, interest rate risks, currency risks, credit risks, political and geopolitical risks. The performance of company(ies) covered herein might unfavorably be affected by multiple factors including, business, economic, and political conditions. Hence, there is no assurance or guarantee that estimates, recommendation, opinion, etc. given about the security(ies)/company(ies) in the report will be achieved.

**Basic Definitions and Terminologies used:** **Target Price:** A price target is the projected price level of a financial security stated by an investment analyst or advisor. It represents a security's price that, if achieved, results in a trader recognizing the best possible outcome for his investment. **Market Cap.:** Market capitalization is calculated by multiplying a company's shares outstanding by current trading price. **ROE:** Return on equity is the amount of net income returned as a percentage of shareholders' equity. **P/E:** Price to Earnings ratio of a company's share price to its per-share earnings. **P/B:** Price to Book ratio used to compare a stock's market value to its book value. **DY:** The dividend yield is dividend per share, divided by the price per share.

IGI Finex Securities Limited

**Research Analyst(s)**

Research Identity Number: BRP009

© Copyright 2016 IGI Finex Securities Limited


**JamaPunji**  
 سروسامانہ نگاری مسجد ہداری کے ساتھ  
<http://www.jamapunji.pk>

## Contact Details

### Research Team

Saad Khan	Deputy Head of Research	Tel: (+92-21) 111-234-234 Ext: 810	saad.khan@igi.com.pk
Abdullah Farhan	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 912	abdullah.farhan@igi.com.pk
Jawad Ameer Ali	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 816	jawad.ameer@igi.com.pk
Anjali Kukreja	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 957	anjali.kukreja@igi.com.pk
Umesh Solanki	Database Manager	Tel: (+92-21) 111-234-234 Ext: 974	umesh.solanki@igi.com.pk

### Equity Sales

Faisal Jawed Khan	Head of Equities	Tel: (+92-21) 35301779	faisal.jawed@igi.com.pk
Zaeem Haider Khan	Regional Head (North)	Tel: (+92-42) 35777863-70	zaeem.haider@igi.com.pk
Muhammad Naveed	Branch Manager (Islamabad)	Tel: (+92-51) 2604861-62	muhammad.naveed@igi.com.pk
Gul Hussain	Branch Manager (Faisalabad)	Tel: (+92-41) 2540843-45	gul.hussain@igi.com.pk
Asif Saleem	Branch Manager (RY Khan)	Tel: (+92-68) 5871652-56	asif.saleem@igi.com.pk
Mehtab Ali	Branch Manager (Multan)	Tel: (+92-61) 4512003	mehtab.ali@igi.com.pk
Zeeshan Kayani	Branch Manager (Abbottabad)	Tel: (+92-992) 408243-44	zeeshan.kayani@igi.com.pk

### IGI Finex Securities Limited

Trading Rights Entitlement Certificate (TREC) Holder of  
Pakistan Stock Exchange Limited |  
Corporate member of Pakistan Mercantile Exchange Limited

#### Head Office

Suite No 701-713, 7th Floor, The Forum, G-20,  
Khayaban-e-Jami Block-09, Clifton, Karachi-75600  
UAN: (+92-21) 111-444-001 | (+92-21) 111-234-234  
Fax: (+92-21) 35309169, 35301780  
Website: [www.igisecurities.com.pk](http://www.igisecurities.com.pk)

#### Stock Exchange Office

Room # 719, 7th Floor, KSE Building, Stock Exchange Road, Karachi.  
Tel: (+92-21) 32429613-4, 32462651-2, Fax: (+92-21) 32429607

#### Lahore Office

5-F.C.C. Ground Floor, Syed Maratib Ali Road,  
Gulberg II, Lahore  
Tel: (+92-42) 35777863-70, 35876075-76  
Fax: (+92-42) 35763542

#### Faisalabad Office

Room #: 515-516, 5th Floor, State Life  
Building, 2- Liaqat Road, Faisalabad  
Tel: (+92-41) 2540843-45  
Fax: (+92-41) 2540815

#### Multan Office

Mezzanine Floor, Abdali Tower,  
Abdali Road, Multan  
Phone: (92-992) 408243 - 44

#### Islamabad Office

Mezzanine Floor, Office 5, 6 & 7, Kashmir Plaza,  
Block- B, Jinnah Avenue, Blue Area, Islamabad  
Tel: (+92-51) 2604861-2, 2604864, 2273439  
Fax: (+92-51) 2273861

#### Rahim Yar Khan Office

Plot # 12, Basement of Khalid Market,  
Model Town, Town Hall Road, Rahim Yar Khan  
Tel: (+92-68) 5871653-6, 5871652  
Fax: (+92-68) 5871651

#### Abbottabad Office

Ground Floor, Al Fatah ShoppingCenter , Opp. Radio  
Station, MansehraRoad, Abbottabad  
Phone: (+92-99) 2408243 - 44