

Company Update

MCB Bank Limited

Commercial Banks

Recommendation	BUY
Target Price	288.4
Last Closing	209.0
Upside	38%

Market Data

Bloomberg Tkr.		MCB PA	
Shares (mn)		1,113.0	
Market Cap (PKRbn USDmn)	232.6	2,216.7	
Price Info.	90D	180D	365D
Abs. Return	(14.8)	(27.5)	(37.0)
Low	190.2	190.2	190.2
High	240.3	279.9	322.3

Key Company Financials

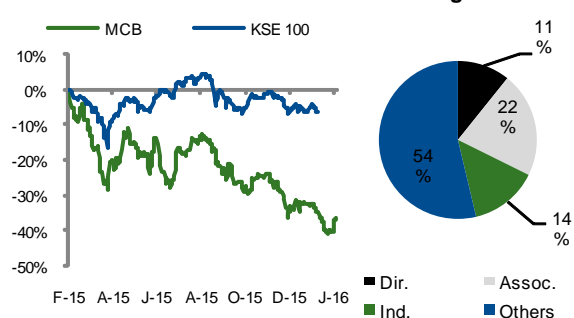
Period End: Dec

PKRbn	CY14A	CY15E	CY16F	CY17F
Total Revenue	56.9	63.0	66.0	72.0
Net Income	24.3	25.3	26.0	27.6
EPS (PKR)	21.9	22.7	23.4	24.8
DPS (PKR)	14.0	16.0	16.0	17.0
Total Assets	934.6	1,051.9	1,184.6	1,337.0
Total Equity	130.1	137.6	145.8	154.5

Key Financial Ratios

ROE (%)	19%	18%	18%	18%
P/E (x)	9.6	9.2	8.9	8.4
P/B (x)	1.8	1.7	1.6	1.5
DY (%)	6.7	7.7	7.7	8.1

Relative Price Performance & Shareholding



About the Company

The Bank was incorporated in Pakistan and is engaged in commercial banking and related services. Its Global Depository Receipts (GDRs) are traded on the International Order Book System of the London Stock Exchange.

Source: Bloomberg, KSE 100 & IGI Research

Analyst

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Commercial Banks

MCB: CY15 Earnings Expected at PKR 24.3/share up by +11%YoY; Maintaining a BUY Stance

- MCB Bank Limited is scheduled to announce its CY15 full year result on 9th Feb-16. For 4QCY15, we expect MCB to post earnings of PKR 6.9bn (EPS PKR 6.18) compared to PKR 6.2bn (EPS PKR 5.6), depicting a growth of +11%YoY. This will bring bank's full year CY15 earnings to PKR 27.1bn (EPS PKR 24.35).
- We expect the bank to announce PKR 4.0/share dividend in the last result, taking the full year dividend pay out to PKR 16.0/share (pay-out of 66%).
- The scrip has underperformed the benchmark considerably and peer banking stocks, led largely due to foreign selling. With bank's core fundamentals intact, ROA +2.5% (versus IGI banking sector coverage ROA of ~1.2%), MCB implied P/B comes at 2.2x. Our Dec-16, target price for the scrip comes at 288.2/share, offering a +38% upside.

MCB: CY15 earnings expected at PKR 24.4/share, up by +11%YoY

MCB Bank Limited is scheduled to announce its CY15 full year result on 9th Feb-16. For 4QCY15, we expect MCB to post earnings of PKR 6.9bn (EPS PKR 6.18) compared to PKR 6.2bn (EPS PKR 5.6), depicting a growth of +11%YoY. This will bring bank's full year CY15 earnings to PKR 27.1bn (EPS PKR 24.35). Having already declared a PKR 12.0/share cash dividend, we expect the bank to announce PKR 4.0/share dividend in the last quarter result, taking the full year dividend pay out to PKR 16.0/share (pay-out of 66%).

This surge in profitability is on the back of a) +14%YoY rise in net interest income on the back of heavy investments in PIBS (47.5% of the total investment), b) bank's superior CASA deposits (93.4% in 9MCY15), c) +17% growth in fee income, d) consistent provision reversal against advances and e) minimal +7% growth in operating expense (cost to income ratio: 34% versus 38% in CY14).

Exhibit: Financial Highlights

PKRmn (Period end=Dec)	4QCY15E	4QCY14	YoY	CY15E	CY14	YoY
Interest Income	12,791	11,498	11%	49,675	43,512	14%
Non-Interest Income	3,521	3,885	-9%	16,999	13,435	27%
Total Revenue	16,312	15,384	6%	66,674	56,947	17%
Operating expenses	5,820	6,201	-6%	23,200	21,668	7%
Pre-provisioning Operating Profits	10,492	9,183	14%	43,475	35,280	23%
Provisioning Charge	(99)	(39)	151%	(1,184)	(1,450)	-18%
Pre-Tax Profits	10,591	9,222	15%	44,659	36,729	22%
Taxation	3,707	3,022	23%	17,559	12,405	42%
Profit After Tax	6,884	6,201	11%	27,099	24,325	11%
EPS	6.2	5.6		24.3	21.9	
DPS	4.00	4.00		16.00	14.00	
BVPS	123.6	116.9		123.6	116.9	

Source: IGI Research, Company Financials

Recommendation

The scrip has underperformed the benchmark considerably (MCB down by 27% in CY15, compared to +2% by KSE-100) and peer banking stocks (UBL down by 7%, HBL down by 3%, ABL down by 13% and NBP down by 15%). Partially this underperformance in MCB stock was due to sector-wide concerns, but a bigger part of this underperformance was due to foreign selling. With bank's core fundamentals intact, ROA +2.5% (versus IGI banking sector coverage ROA of ~1.2%), MCB implied P/B comes at 2.2x. Our Dec-16 target price for the scrip comes at 288.2/share, offering a +38% upside. In addition, the bank offers a dividend yield of 7.7% based on CY15 cash dividend of PKR 16.0/share.

Analyst Certification

The analyst[^] hereby certify that the views about the company/companies and the security/securities discussed in this report are accurately expressed 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 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.

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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 return on aforementioned security(ies) is more than 10%, from its last closing price(s)
Hold	If return on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
Sell	If return on aforementioned security(ies) is more than -10%, from its last closing price(s)

Valuation Methodology

The analyst[^] has used following valuation methodology to arrive at the target price of the said security (ies):

- Justified Price-to-book
- Dividend Discount Model

Time Horizon

- Dec-16

Risk

- Changes in State Bank of Pakistan Policy Rate
- Change in Country (Pakistan) macro-economic environment
- Changes in Company(ies) operating structure

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