

Flash Note

Wednesday, 08 February 2017

Commercial Banks

MCB: Higher Provisioning overshadows multiple positives; CY16 earnings down 14% to 19.67/share

- MCB bank Limited CY16 reported earnings showed a decline of 14% to PKR 21.89bn (EPS PKR 19.67) compared to PKR 25.55bn (EPS PKR 22.96) in CY15.
- The bank announced a PKR 4.0/share cash dividend, taking full year payout to PKR 16.0/share
- On a quarterly basis, earnings drop by a massive 34% to PKR 4.5bn or PKR 4.01/share, led by higher provision charge of PKR 1.4bn during 4QCY16. Provisioning against non-performing loans (NPL) stood 1.6bn during the 4QCY16, compared to 9MCY16 total reversal of PKR 0.95bn
- Bank's interest expense recorded a 2%QoQ decline to PKR 5.2bn. Interest earned decline of 3%QoQ. We highlight maturing government investment bond possible reasoning behind lower interest earned.
- Non-interest income recorded a decline of 25% mainly on account of lower capital gains compared to last quarter. Bank's fee income showed an impressive +16%QoQ growth.
- Bank's operating expense posted a -4%QoQ decline (or decline of 1%YoY)

Exhibit:

MCB Result Highlights

PKRmn (Period end=Dec)	CY16	CY15	YoY	4QCY16	QoQ
Interest Earned	67,422	80,532	-16%	15,128	-3%
Interest Expensed	23,655	31,210	-24%	5,220	-2%
Interest Income	43,767	49,322	-11%	9,908	-4%
Fee Income	7,640	8,383	-9%	2,011	16%
Capital Gain & Div. Income	7,135	5,694	25%	1,967	-48%
Non-Interest Income	16,222	17,115	-5%	4,353	-25%
Total Revenue	59,989	66,437	-10%	14,261	-12%
Operating Expenses	23,260	23,560	-1%	5,865	-4%
Pre-Provisioning Profits	36,728	42,877	-14%	8,396	-16%
NPL (Rev.) / Prov.	654	543	20%	1,490	n.m
Pre-Tax Profits	36,075	42,333	-15%	6,907	-33%
Taxation	14,184	16,782	-15%	2,446	-31%
Profit After Tax	21,891	25,551	-14%	4,461	-34%

EPS (PKR)	19.67	22.96	4.01
DPS (PKR)	16.00	16.00	4.00
BVPS (PKR)	125.8	123.8	125.8

KEY RATIOS

Cost-To-Income Ratio	39%	35%	41%
Effective Tax Rate	39%	40%	35%
Nii / Total Income	27%	26%	31%

Source: IGI Research, Company Financials

No. of shares 1,113.0

Recommendation

With a forward P/B of 1.8x and decent dividend yield of 7%, we recommend MCB a **BUY** call with our revised target price of PKR 275/share.

Analyst

Saad Khan

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

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
Yawar Saeed	Research Analyst	Tel: (+92-21) 111-234-234 Ext.: 973	yawar.saeed@igi.com.pk
Anjali Kukreja	Research Analyst	Tel: (+92-21) 111-234-234 Ext.: 957	anjali.kukreja@igi.com.pk
Jawad Ameer Ali	Research Analyst	Tel: (+92-21) 111-234-234 Ext.: 816	jawad.ameer@igi.com.pk
Umesh Solanki	Database Manager	Tel: (+92-21) 111-234-234 Ext.: 966	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) 2604861-2	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) 5871652-6	asif.saleem@igi.com.pk
Mehtab Ali	Branch Manager (Multan)	Tel: (+92-61) 4512003	mahtab.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

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