

# Flash Note

Wednesday, 25 October 2017

## Commercial Banks

### MCB: Rise in operating expenses and lower capital gains drag down profitability by 19%YoY

- MCB Bank Limited (MCB) reported its 3QCY17 unconsolidated earnings at PKR 5.45bn (or diluted EPS PKR 4.6) down by 19%YoY (down by 28%QoQ). This brings 9MCY17 total earnings to PKR 19.14bn (EPS PKR 16.2), up by +10%YoY.
- Bank announced cash dividend of PKR 4.0/share along with the result, bringing 9MCY17 total cash dividend to PKR 12.0/share.
- 74%YoY decline in capital gains pulled down total revenue by 3%YoY despite +11%YoY uptick in net interest income and +37%YoY rise in fee income.
- Profitability was depressed further by +29%YoY rise in operating expenses despite 1.27x rise in provision reversal. The uptick in administrative expenses can be attributed to consolidation of NIB into MCB bank.
- However, profit after tax declined by 19%YoY despite 20% fall in taxation.
- At the same time, the board of directors of MCB bank have approved the demerger of 90 branches of MCB Bank and merger of the said branches into MCB Islamic Bank against payment of cash consideration.

Exhibit:

#### MCB Result Highlights

PKRmn (Period end=Dec)	3QCY17	YoY	QoQ	9MCY17	9MCY16	YoY
Interest Earned	19,537	25%	4%	55,620	52,294	6%
Interest Expensed	8,131	53%	-4%	24,164	18,435	31%
<b>Net Interest Income</b>	<b>11,406</b>	<b>11%</b>	<b>11%</b>	<b>31,456</b>	<b>33,859</b>	<b>-7%</b>
Fee Income	2,387	37%	-2%	7,025	5,629	25%
Capital Gain & Div. Income	1,281	-66%	-11%	5,322	5,168	3%
<b>Non-Interest Income</b>	<b>4,178</b>	<b>-28%</b>	<b>-7%</b>	<b>13,856</b>	<b>11,869</b>	<b>17%</b>
Total Revenue	15,584	-3%	5%	45,312	45,728	-1%
Operating Expenses	7,847	29%	12%	21,210	17,396	22%
Pre-Provisioning Profits	7,737	-23%	0%	24,102	28,332	-15%
NPL (Rev.) / Prov.	(537)	1.27x	12%	(1,897)	(836)	1.26x
Pre-Tax Profits	8,273	-19%	0%	25,999	29,168	-11%
Taxation	2,824	-20%	2.97x	6,860	11,738	-42%
<b>Profit After Tax</b>	<b>5,449</b>	<b>-19%</b>	<b>-28%</b>	<b>19,138</b>	<b>17,430</b>	<b>10%</b>
EPS (PKR)	4.60			16.15	14.71	
DPS (PKR)	4.00			12.00	12.00	
BVPS (PKR) Est.	121.93					

#### KEY RATIOS

Cost-To-Income Ratio	50%	47%	38%
Effective Tax Rate	34%	26%	40%
Non-Il / Total Income	27%	31%	26%

SOURCE: IGI Research, Company accounts, PSX

No. of shares (mn): 1185.1

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