

# Flash Note

Thursday, 15 February 2018

## Commercial Banks

### MCB: Higher provisioning charge dents quarterly performance

- MCB Bank Limited (MCB) reported its 4QCY17 unconsolidated earnings at PKR 3.3bn (or EPS PKR 2.80), down by 26%YoY (down by 39%QoQ). This brings full year CY17 earnings to PKR 22.5bn (EPS PKR 18.95), up by +3%YoY.
- The bank announced cash dividend of PKR 4.0/share along with 4QCY17 result, bringing CY17 total cash dividend to PKR 16.0/share.
- Countering rapidly rising interest expense (up +44%YoY) by +22%YoY increase in interest earned, MCB reported +11%YoY increase in net interest income during 4QCY17. However, cumulatively for CY17, net interest income declined by 3%YoY.
- Fee income depicted a robust trend, rising by +16%YoY during 4QCY17 (up +22%YoY in CY17), but decline in capital gains and dividend income (down 31%YoY in 4QCY17; down 6%YoY in CY17) dragged down non-interest income by 31%YoY over the last quarter (up 11%YoY in CY17).
- During the quarter, operating expenses were up +27%YoY (up +23%YoY for CY17) likely due to consolidation related expenses of NIB acquisition, in our view.
- The biggest dent to earnings, over the quarter, resulted from PKR 2.6bn of provision charge (up +72%YoY). Provision charge increased primarily due to diminution in value of investments to the tune of PKR 3.0bn, overriding PKR 425mn reversal in provision for NPLs.

Exhibit:

#### MCB Result Highlights

PKRmn (Period end=Dec)	4QCY17	4QCY16	YoY	CY17	CY16	YoY
Interest Earned	18,471	15,128	22%	74,091	67,422	10%
Interest Expensed	7,520	5,220	44%	31,684	23,655	34%
<b>Net Interest Income</b>	<b>10,951</b>	<b>9,908</b>	<b>11%</b>	<b>42,407</b>	<b>43,767</b>	<b>-3%</b>
Fee Income	2,329	2,011	16%	9,354	7,640	22%
Capital Gain & Div. Income	1,360	1,967	-31%	6,682	7,135	-6%
<b>Non-Interest Income</b>	<b>4,104</b>	<b>4,353</b>	<b>-6%</b>	<b>17,960</b>	<b>16,222</b>	<b>11%</b>
Total Revenue	15,055	14,261	6%	60,367	59,989	1%
Operating Expenses	7,470	5,865	27%	28,679	23,260	23%
Pre-Provisioning Profits	7,585	8,396	-10%	31,688	36,728	-14%
Provision (Rev.) / Charge.	2,570	1,490	72%	673	654	3%
Pre-Tax Profits	5,015	6,907	-27%	31,014	36,075	-14%
Taxation	1,695	2,446	-31%	8,555	14,184	-40%
<b>Profit After Tax</b>	<b>3,320</b>	<b>4,461</b>	<b>-26%</b>	<b>22,459</b>	<b>21,891</b>	<b>3%</b>
EPS (PKR)	2.80	3.76		18.95	18.47	
DPS (PKR)	4.00	4.00		16.00	16.00	
BVPS (PKR) Est.	130.85	119.51				
<b>KEY RATIOS</b>						
Cost-To-Income Ratio	50%	41%		48%	39%	
Effective Tax Rate	34%	35%		28%	39%	
Non-Il / Total Income	27%	31%		30%	27%	

SOURCE: IGI Research, Company accounts, PSX

No. of shares (mn): 1185.1

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