

MCB Bank (MCB)

2Q2018 EPS of Rs4, -38% YoY (flat QoQ); 1H2018 EPS Rs8, down 30% YoY

Interim Cash dividend of Rs4/share

In-line with expectations

Umair Naseer^{AC}

umair.naseer@topline.com.pk

Tel: +9221-35303330

Topline Securities, Pakistan



www.jamapunji.pk

ASIAMONEY

Best Local Brokerage House
Brokers Poll 2011-14, 2016-17



Best Local Brokerage House 2015-16

Earnings down 38% YoY due to higher taxation, PBT flat YoY

MCB: Financial Highlight

Rsmn	2Q2018	2Q2017	YoY	1Q2018	QoQ
Markup interest earned	20,326	19,128	6%	18,947	7%
Markup interest expensed	8,406	8,577	-2%	7,607	11%
Net Interest Income	11,919	10,551	13%	11,340	5%
NPL provisioning/reversals	-1,110	-1,186	NM	-313	NM
Total provisioning expense	-667	-475	NM	-730	NM
Non Interest Income	4,248	4,674	-9%	4,359	-3%
Non Interest Expense	8,596	7,533	14%	7,307	18%
Profit before Tax	8,396	8,328	1%	7,296	15%
Taxation	3,636	646	463%	2,584	41%
Profit attributable to equity holder	4,723	7,658	-38%	4,701	0%
EPS	3.99	6.46		3.97	

Source: PSX, Topline Research

- MCB announced 2Q2018 financial results reporting earnings of Rs4/share, down 38% YoY primarily on back of higher taxation during the quarter. To recall, MCB's effective tax in 2Q2017 stood at ~8% which was below average on account of tax reversal last year. Profit before tax in 2Q2018 remained flat on YoY basis.
- Net Interest Income (NII) of the bank improved by 13% YoY to Rs11.9bn and 5% QoQ amid higher interest rates during the period under review. SBP had cumulatively increased policy rate by 75bps during 1H2018 to 6.5% which was further increased to 7.5% in July. This likely to further support NII in 3Q2018.

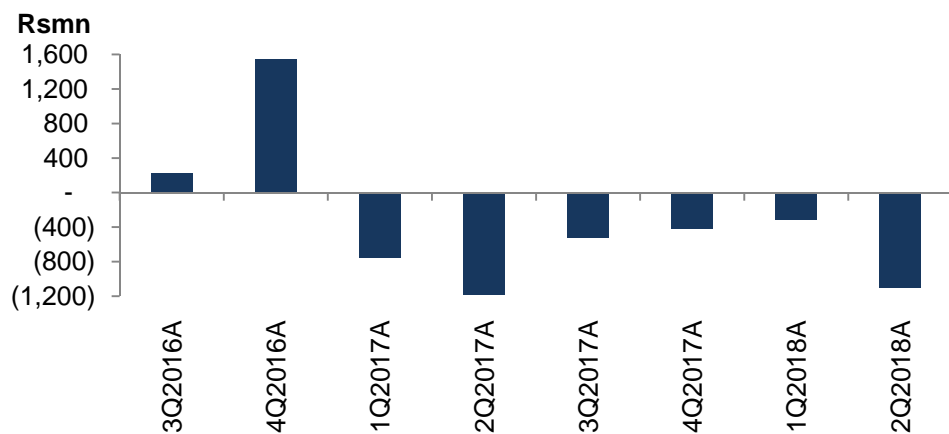
Admin charge & lower capital gains also contained earnings

- Non-interest expense of MCB also increased by 14% YoY to Rs8.6bn, mainly on back of higher admin charge. Cost to income ratio of 52% was in line with average seen during last 3-quarters post consolidation of NIB with MCB.
- Capital gains during the quarter also declined by 65% YoY to Rs400mn, due to lower gains from bonds and equities, we believe. Consequently, non-interest income of MCB dropped by 9% to Rs4bn, keeping bottom-line of the bank in check.
- On QoQ basis, MCB registered flat earnings (PBT +15%) where the bank also booked super tax during 2Q2018. NII posted growth of 5% QoQ on the back of higher policy rate.
- In 1H2018, earnings of the bank clocked in at Rs8/share, down 30% YoY on the back of higher taxation, one off pension cost (booked in 1Q2018) and lower non-interest income.
- Key risks for the company include 1) delay in hike in policy rate, 2) lower than expected advances growth and deposit growth, and 3) deterioration in Pakistan macros.

MCB: Key Numbers					
	2013A	2014A	2015A	2016A	2017A
EPS	18.5	20.8	21.0	18.6	19.1
Earnings Growth	4%	13%	1%	-11%	3%
PE at Rs207.2	11.2	10.0	9.9	11.1	10.8
Dividend Yield	6%	6%	8%	8%	8%
ROE	19%	18%	18%	15%	15%
PBV	2.1	1.8	1.7	1.7	1.7

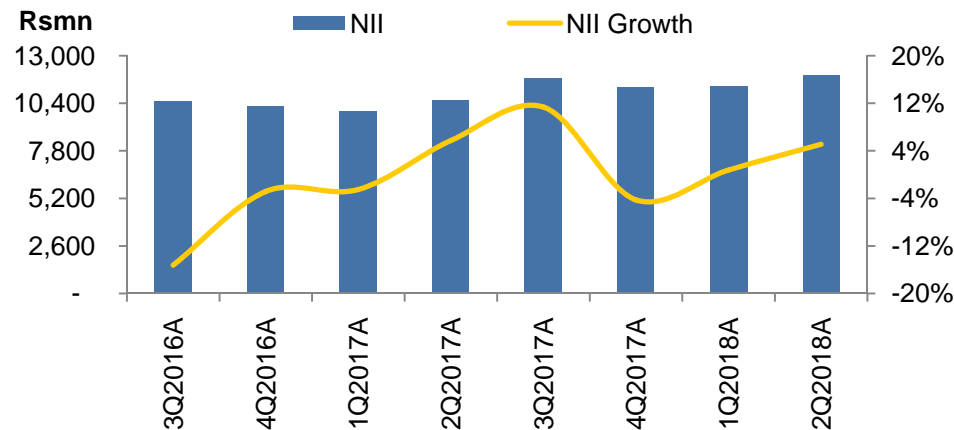
Source: Company Accounts, Topline Research

MCB: Quarterly NPL provisioning / Reversal



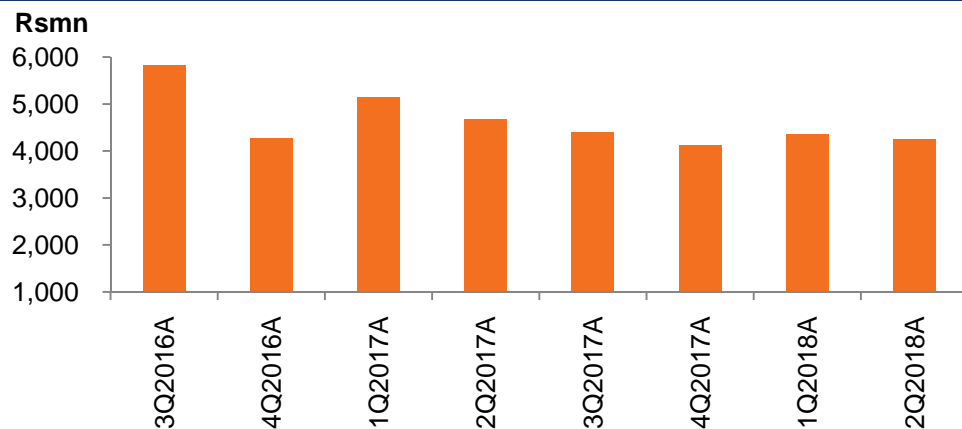
Source: Company Accounts, Topline Research

MCB: Quarterly NII and NII Growth



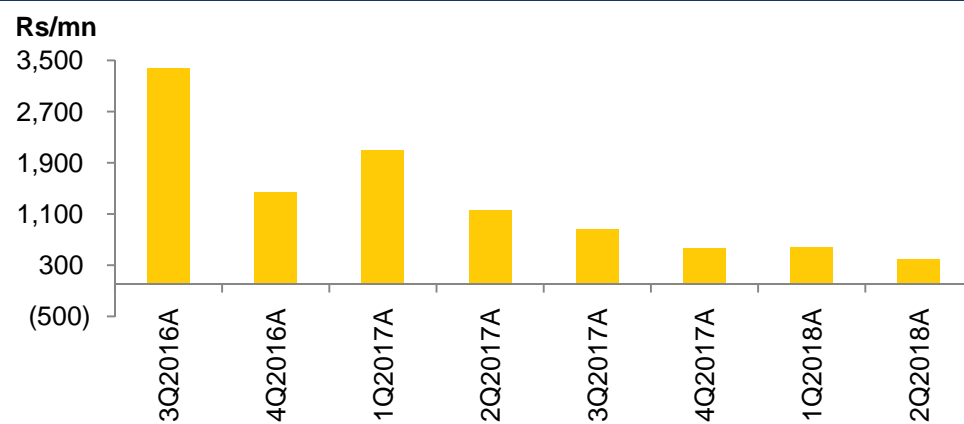
Source: Company Accounts, Topline Research

MCB: Quarterly Non interest income



Source: Company Accounts, Topline Research

MCB: Quarterly Capital gains



Source: Company Accounts, Topline Research

Analyst Certification and Disclosures

The research analyst(s), denoted by an “AC” on the cover of this report, primarily involved in the preparation of this report, certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject companies/securities/sectors and (2) no part of his/her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

Furthermore, it is stated that the research analyst or its close relative have neither served as a director/officer in the past 3 years nor received any compensation from the subject company in the past 12 months.

Additionally, as per regulation 8(2)(i) of the Research Analyst Regulations, 2015, we currently do not have a financial interest in the securities of the subject company aggregating more than 1% of the value of the company.

Rating System

Topline Securities employs three tier ratings system to rate a stock, as mentioned below, which is based upon the level of expected return for a specific stock. The rating is based on the following with time horizon of 12-months.

Rating	Expected Total Return
Buy	Stock will outperform the average total return of stocks in universe
Neutral	Stock will perform in line with the average total return of stocks in universe
Sell	Stock will underperform the average total return of stocks in universe

For sector rating, Topline Securities employs three tier ratings system, depending upon the sector’s proposed weight in the portfolio as compared to sector’s weight in KSE-100 Index:

Rating	Sector’s Proposed Weight in Portfolio
Over Weight	> Weight in KSE-100 Index
Market Weight	= Weight in KSE-100 Index
Under Weight	< Weight in KSE-100 Index

Ratings are updated daily to account for the latest developments in the economy/sector/company, changes in stock prices and changes in analyst’s assumptions or a combination of any of these factors.

Valuation Methodology

To arrive at our 12-months Target Price, Topline Securities uses different valuation methods which include: 1). Present value methodology, 2). Multiplier methodology, and 3). Asset-based methodology.

Research Dissemination Policy

Topline Securities endeavors to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as email, fax mail etc. Nevertheless, all clients may not receive the material at the same time.

Disclaimer

This report has been prepared by Topline Securities and is provided for information purposes only. Under no circumstances this is to be used or considered as an offer to sell or solicitation of any offer to buy. While reasonable care has been taken to ensure that the information contained therein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. From time to time, Topline Securities and/or any of its officers or directors may, as permitted by applicable laws, have a position, or otherwise be interested in any transaction, in any securities directly or indirectly subject of this report. This report is provided only for the information of professional advisers who are expected to make their own investment decisions without undue reliance on this report. Investments in capital markets are subject to market risk and Topline Securities accepts no responsibility whatsoever for any direct or indirect consequential loss arising from any use of this report or its contents. In particular, the report takes no account of the investment objectives, financial situation and particular needs of investors, who should seek further professional advice or rely upon their own judgment and acumen before making any investment. The views expressed in this report are those of Topline Research Department and do not necessarily reflect those of Topline or its directors. Topline as a firm may have business relationships, including investment-banking relationships, with the companies referred to in this report.

All rights reserved by Topline Securities. This report or any portion hereof may not be reproduced, distributed or published by any person for any purpose whatsoever. Nor can it be sent to a third party without prior consent of Topline Securities. Action could be taken for unauthorized reproduction, distribution or publication.