

MCB Bank (MCB)

**4Q2017EPS of Rs3, -32% YoY; 2017 EPS Rs19.1, flat YoY;
Final cash dividend of Rs4/share
In-line with expectations**

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Impairment against equities keep earnings in check

MCB: Financial Highlight

Rsmn	4Q2017	YoY	QoQ	2017	2016	YoY
Markup interest earned	19,113	21%	-5%	76,190	69,014	10%
Markup interest expensed	7,859	43%	-7%	32,650	24,167	35%
Net Interest Income	11,254	10%	-4%	43,540	44,847	-3%
NPL provisioning/reversals	(425)	NM	NM	(2,895)	1,205	NM
Total provisioning expense	2,570	NM	NM	676	558	21%
Non Interest Income	4,125	-4%	-6%	18,340	16,309	12%
Non Interest Expense	8,210	26%	-3%	31,024	24,824	25%
Profit before Tax	4,537	-31%	-46%	30,614	36,721	-17%
Taxation	1,613	-31%	-44%	8,566	14,547	-41%
Profit attributable to equity holder	2,884	-32%	-47%	21,963	22,063	0%
EPS	3.0			19.1	19.8	

Source: PSX, Topline Research

- MCB announced 4Q2017 earnings of Rs2.8bn (EPS Rs3), down 32% YoY mainly on account of impairment against equity investments. The results remained in line with anticipation. Please refer to our report “Impairment for fall in equity valuation” on Dec 18, 2017, in which we highlighted that banks earnings could get affected from impairments as benchmark KSE 100 index fell by 15% in 2017.
- MCB booked provisions of Rs2.8bn in 4Q2017 vs. provision reversal of Rs540mn in same period last year.
- Net interest Income (NII) of MCB improved by 10% to Rs11.2bn as strong deposit growth and consolidation with NIB supported NII growth.

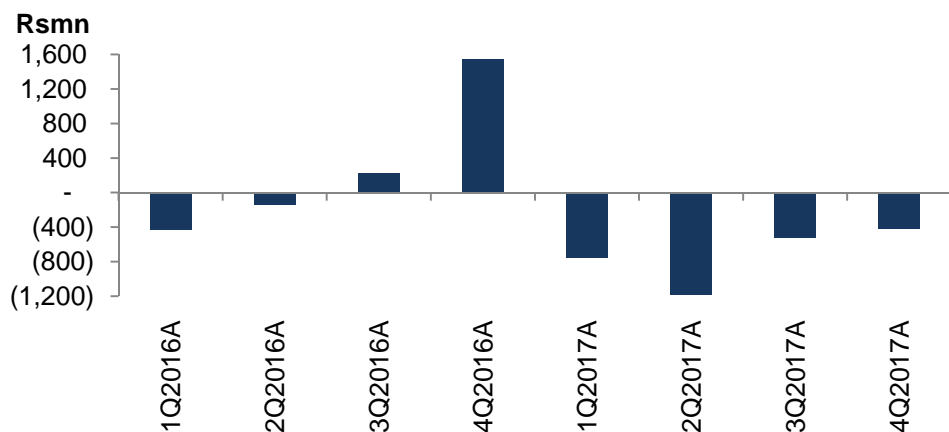
Impairment against equities keep earnings in check

- Non-interest income of the bank was down 4% YoY to Rs4.1bn in 4Q2017 mainly led by lower capital gains during 4Q2017.
- Non-markup expense increased by 30% to Rs8bn however on QoQ basis it is down 2% QoQ basis. To recall, NIB with high cost to income ratio was merged into MCB In 3Q2017 which increased non-markup expense for the bank.
- In 2017, MCB's earnings remained flat at Rs19/share. NII of MCB was down 3% whereas Non-Markup income was up 12% during the same period last year.
- The stock is currently trading at a 2018PE of 11.4x with ROE of 18%. We currently have a 'Buy' call on the stock. 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%	22%	22%	0%
PE at Rs218.5	11.8	10.5	11.8	11.8	11.8
Dividend Yield	5%	6%	7%	7%	7%
ROE	19%	18%	18%	15%	15%
PBV	2.2	1.9	1.8	1.8	1.8

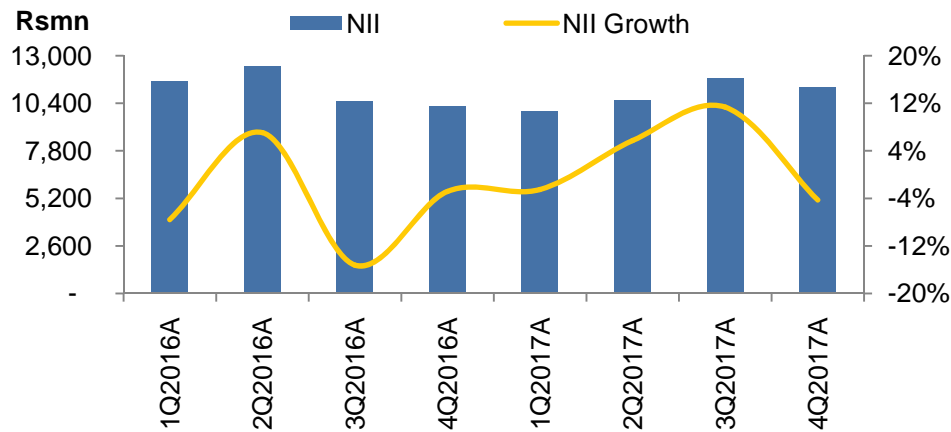
Source: Company Accounts, Topline Research

MCB: Quarterly NPL provisioning / Reversal



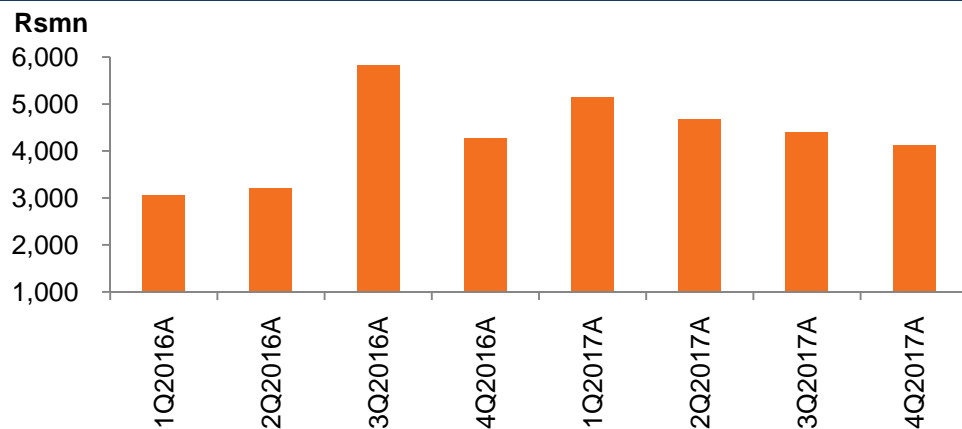
Source: Company Accounts, Topline Research

MCB: Quarterly NII and NII Growth



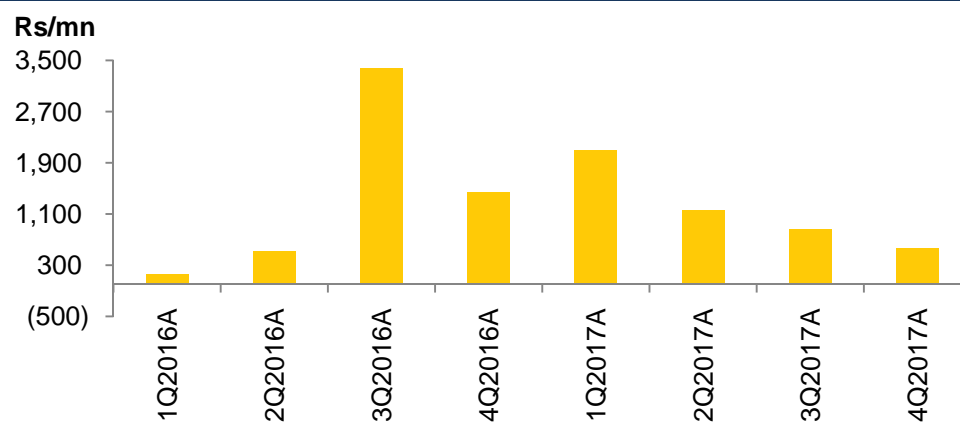
Source: Company Accounts, Topline Research

MCB: Quarterly Non interest income



Source: Company Accounts, Topline Research

MCB: Quarterly Capital gains



Source: Company Accounts, Topline Research

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