

MCB Bank (MCB)

1H2018 Conference Call Notes

Topline Research
research@topline.com.pk
Tel: +9221-35303330
Topline Securities, Pakistan



www.jamapunji.pk Best Local Brokerage House 2015-16

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



Key Takeaways

- MCB declared earnings of Rs9.4bn (EPS Rs7.95), down 30% YoY in 1H2018. This was due to 12% lower non-interest income (primarily due to lower capital gains) & higher admin charge.
- Advances of MCB in 2Q2018 clocked in at Rs564bn, up 11% in 2018 to date which was driven by corporate, consumer and seasonal commodity financing. The management expects advances growth of 7-8% going ahead.
- Gross NPL ratio of the bank also improved to 7.7% in Jun 2018 vs. 8.9% in Dec 2017 primarily due to recoveries mainly on account ex NIB's NPL portfolio (merged with MCB). Consequently, MCB booked net provision reversals of Rs1.1bn during the quarter.
- The management is targeting to recover 40-50% of NIB's NPL portfolio during the next few years.
- Current T-Bill portfolio of MCB is around Rs452bn, which is up from Rs384bn in Dec 2017. The T-Bill portfolio is entirely of 3-months tenure.
- Net Interest Income (NII) of the bank improved by 13% in 1H2018 to Rs23bn due to higher interest income on assets amid higher interest rates and lower interest expense due to reduced repo borrowings by the bank.
- The bank has so far booked the entire pension cost as per the instructions of Supreme Court in 1H2018 and there is no un-booked amount as of now on account of pension cost.
- Current to total deposits of MCB stood at 38% in Jun 2018, which the bank plans to increase to at least 40%.
- The management is eyeing 17-18% growth in fee, commission income going forward which will support Non-Interest Income of the bank.
- Deposit Insurance scheme would cost around Rs100mn/month during 2018 (starting from Jul 2018) and slightly over Rs100mn/month from 2019 onwards.

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.