

Flash Note

Wednesday, 07 December 2016



Commercial Banks

NIB Bank Limited merges into MCB Bank, Seeking Synergy Benefits

- As per the latest PSX notice, NIB Bank Limited (NIB) amalgamation/merger into MCB Bank Limited (MCB) has been approved with an equity swap ratio of 1:140.043 shares of NIB. The decision awaits approval of MCB Shareholders, SBP and CCoP and other regulatory authorities.
- Based on the swap ratio MCB Limited paid a price of PKR 1.64/share for NIB Bank Limited, which is currently trading at PKR 2.09/share a discount of 22%.
- MCB share capital will increase by PKR 735.7mn or 73.6mn shares.
- Post-merger MCB Bank Limited total share capital will accrue to PKR 11,186.7mn or 1,118.6mn shares. MCB new book value will increase from PKR 125.8/shares (based on 9MCY16 financials) to PKR 134.0/shares.
- The merger will likely take MCB total deposit to PKR 872bn (PKR 754bn MCB + PKR 118bn NIB) making the third largest bank in terms of deposits and branching network is likely to increase above 1,300 (considering identical location branches of MCB and NIB).
- However, given higher NPLs of NIBs and cost of income, MCB post-merger profitability is likely to take a hit. While benefits of deferred taxation cannot be ignored we suspect MCB ROE to drop below current ~19% (9MCY16), entailing weaker valuations.

Recommendation

- MCB is currently trading at forward P/E of 9.8x and P/B of 1.6x. We revised down our 'Buy' call to a '**Hold**' call as we await post-merger financial accounts and management strategy.

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