

Commercial Banks

MCB: Higher Investment Impairments Dragged 4QCY15 Earning; Maintaining a Buy Call!

- MCB Bank Limited reported CY15 earnings of PKR 25.6bn (EPS PKR 22.96) up by +5%YoY. This was lower than market and our expectation.
- The bank announced a PKR 4.0/share dividend along with the result taking CY15 total payout to PKR 16/share.
- Bank's Interest income is up by +13%YoY to PKR 49.3bn led by lower cost of funding – interest expense down by 8% compared to +4% growth in interest earned in CY15. Bank's fee income is up by +16%YoY, while operating cost is up by +9%YoY in CY15.
- Major earnings drag came from a) PKR 0.83bn (PKR 1.3bn in 4QCY15) provisioning in value of investments – largely owing to bank's investments in Oil & Gas exploration companies and Energy/Power, b) lower interest income earned, PKR 18.9bn 4QCY15 versus PKR ~20.5bn average in 9MCY15, and c) lower capital gains in 4QCY15, resulting in 6%YoY decline in non-interest income.

Recommendation

We believe depressed earnings in 4QCY15 are primarily one-off events i-e investment impairments. The scrip has underperformed the benchmark index and peer banking stocks. With bank's core fundamentals still intact, we recommend a Buy stance, offering +28% upside to our Dec-16 target price of PKR 288/share. MCB is currently trading at a forward CY16 P/E and P/B of 9.0x and 1.7x, along with 7.7% dividend yield.

Exhibit: Financial Highlights

PKRmn	4QCY15	4QCY14	YoY	CY15	CY14	YoY
Interest Income	12,437	11,498	8%	49,322	43,512	13%
Non-Interest Income	3,637	3,885	-6%	17,115	13,435	27%
Total Revenue	16,074	15,384	4%	66,437	56,947	17%
Operating expenses	6,180	6,201	0%	23,560	21,668	9%
Pre-provisioning Operating Profits	9,893	9,183	8%	42,877	35,280	22%
Provisioning Charge	1,628	(39)	n.m	543	(1,450)	n.m
Pre-Tax Profits	8,265	9,222	-10%	42,333	36,729	15%
Taxation	2,930	3,022	-3%	16,782	12,405	35%
Profit After Tax	5,336	6,201	-14%	25,551	24,325	5%
EPS	4.79	5.57		22.96	21.85	
DPS	4.00	4.00		16.00	14.00	

Source: IGI Research, Company Financials

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Analyst Certification

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Recommendation	Rating System
Buy	If return on aforementioned security(ies) is more than 10%, from its last closing price(s)
Hold	If return on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
Sell	If return on aforementioned security(ies) is more than -10%, from its last closing price(s)

Valuation Methodology

The analyst[^] has used following valuation methodology to arrive at the target price of the said security (ies):

- Justified Price-to-book
- Dividend Discount Model

Time Horizon

- Dec-16

Risk

- Changes in State Bank of Pakistan Policy Rate
- Change in Country (Pakistan) macro-economic environment
- Changes in Company(ies) operating structure

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