

Flash Note

Wednesday, 01 August 2018

Commercial Banks

Weak capital gain income, higher tax and Opex failed to reflect improving asset quality and interest income growth; 2QCY18 earnings to PKR 4.0/share – down by 38%YoY

- On unconsolidated basis, MCB Bank Limited (MCB) reported earnings of PKR 4.0/share or PKR 4.7bn for the 2QCY18, compared to PKR 6.5/share or PKR 7.7bn last year same quarter, posting a decline of 38%YoY. On a quarterly basis, earnings are down 65%.
- The bank also announced a cash dividend of PKR 4.0/share for the 2QCY18, taking 1HCY18 total payout to PKR 8.0/share
- On revenue side, the bank reported higher interest income growth up by +13% (expected ~10%) along with sizeable decline in capital gain income despite a +7%YoY growth in fee income. As a result, total revenue declined by 9%YoY (57%QoQ).
- Operating expenses are up by +14%YoY, as bank has reclassified pension scheme penalty charge PKR 2.02bn pertaining to compliance with Honorable Supreme Court's order of minimum pension PKR 8,000.
- Asset quality remain healthy and recovery effort seems to reflect, quarterly accounts. During the quarter MCB booked reversal of PKR 1.1bn compared to PKR 0.3bn in previous quarter.
- Moreover, as expected effective tax charged during the quarter was at 43% owing to super-tax.

Exhibit:

MCB Result Highlights

PKRmn (Period end=Dec)	2QCY18	2QCY17	YoY	1HCY18	1HCY17	QoQ
Interest Earned	20,326	19,128	6%	39,272	36,797	-45%
Interest Expensed	8,406	8,577	-2%	16,014	16,267	-48%
Net Interest Income	11,919	10,551	13%	23,259	20,531	-42%
Fee Income	2,770	2,598	7%	5,588	4,954	-44%
Capital Gain & Div. Income	736	1,445	-49%	1,504	3,819	-81%
Non-Interest Income	4,248	4,674	-9%	8,607	9,823	-57%
Total Revenue	16,167	15,224	6%	31,866	30,353	-47%
Operating Expenses	8,596	7,533	14%	17,928	14,383	-40%
Provision (Rev.) / Charge	(667)	(475)	40%	(1,396)	(1,353)	-51%
Taxation	3,636	646	4.62x	6,220	4,067	-11%
Profit After Tax	4,760	7,682	-38%	9,461	13,579	-65%
EPS (PKR)	3.99	6.46		7.95	11.44	
DPS (PKR)	4.00	4.00		4.00	4.00	
BVPS (PKR) Est.	129.54	121.34		129.55	120.64	

KEY RATIOS

Cost-To-Income Ratio	53%	49%	56%	47%
Effective Tax Rate	43%	8%	40%	23%
Non-II / Total Income	26%	31%	27%	32%

SOURCE: IGI Research, Company accounts, PSX

No. of shares (mn): 1185.1

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