

Flash Note

Tuesday, 19 April 2016

Commercial Banks

MCB: Fault lines appear in MCB top line down by 4%QoQ, Profitability down by 24%YoY to PKR 5.41/share

- MCB Bank Limited (MCB) reported its 1QCY16 earnings of PKR 6.0bn (EPS PKR 5.41) down by 24%YoY. On quarterly basis, bank's 1QCY16 profitability is up by +13%QoQ. Along with result, the bank announced a PKR 4.0/share cash dividend.
- The result is below our expectations.
- Fault lines appear in bank's 6%QoQ decline in interest earned, compared to 1%QoQ decline in interest expense, as a result overall interest income is down by a sizeable 8%QoQ, to PKR 11.5bn.
- Moreover, bank booked in lower capital gains of PKR 203.2mn compared to PKR 2.45bn booked in 1QCY15. In addition, MCB booked in provisioning reversal of PKR 446mn compared to provision charge in last quarter.

Recommendation

The scrip is currently trading at FY16E P/B of 1.6x and P/E of 8.3x with our Dec-16 TP of PKR 260.3/share, the stock offers upside of +29% and we maintain our **'Buy'** call on the scrip.

Exhibit: Financial Highlights

PKRmn (Period end=Dec)	1QCY16	1QCY15	YoY	4QCY15	QoQ
Interest Income	11,468	11,975	-4%	12,437	-8%
Non-Interest Income	2,969	5,243	-43%	3,637	-18%
Total Revenue	14,437	17,218	-16%	16,074	-10%
Operating expenses	5,805	5,610	3%	6,180	-6%
Pre-provisioning Operating Profits	8,632	11,608	-26%	9,893	-13%
Provisioning Charge	(446)	(266)	n.m.	1,628	n.m.
Pre-Tax Profits	9,078	11,874	-24%	8,265	10%
Taxation	3,057	3,962	-23%	2,930	4%
Profit After Tax	6,021	7,912	-24%	5,336	13%
EPS	5.41	7.11		4.79	
DPS	4.00	4.00		4.00	
BVPS	125.22	122.81	2%	123.81	1%

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

Time Horizon

- Dec-16

Risk

- Changes in State Bank of Pakistan Policy Rate

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