



## AKD Securities Limited

TREC Holder & Registered Broker  
Pakistan Stock Exchange

Equity Research / Pakistan



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### Today's Daily

#### ■ MCB: Capital gains could surprise

MCB's 3QCY16 earnings were up 4%YoY/41%QoQ, standing at PkR6.89bn (EPS: PkR6.18), heavily influenced by capital gains. In this regard, gains worth PkR3.4bn were booked during the quarter alone which was surprising as the bank had been refraining from doing so until then. With interest rates now bottoming out, we believe the bank is likely to continue with this strategy especially when fundamentals otherwise remain weak (NII down 7%YoY, fee income down 3%YoY). Adjusting our capital gains assumption (+4%/+5% for CY17/CY18), MCB's earnings estimate rise by 3%/6%. Consequently, our TP goes up by 5% to PkR242.1/sh. In terms of price performance, MCB has been a laggard, returning just 1.7% (lowest among the B-6) while the sector gained 15% in the last three months. While consequent earnings dilution on acquisition of NIB (pending approvals) is one, we feel MCB's relative lack of aggression on tapping lending opportunities has raised concerns on the pace of earnings recovery going forward. That said, we feel a catch-up rally could be in the making where 4QCY16 earnings could surprise positively (should the bank choose to utilize hefty gains).

#### KSE100 - Index

Current 46,689.73  
Previous 46,633.99  
Chg. 0.12%

#### Mkt Cap. (PkRbn/US\$bn)

Current 9,358 / 89.29  
Previous 9,331 / 89.04  
Chg. 0.28%

#### Daily Turnover (mn)

Current 179.67  
Previous 229.38  
Chg. -21.7%

#### Value Traded (PkRmn/US\$m)

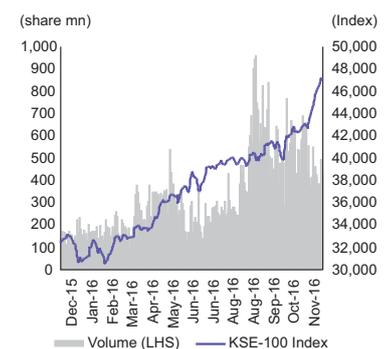
Current 8,988 / 85.77  
Previous 10,528 / 100.46  
Chg. -14.6%

AKD Daily

Tuesday, Dec 27, 2016

### News and Views

- Habib Sugar Mills will invest up to PkR120mn (maximum up to 17.5%) in ordinary shares of Uni-Food Industries, a public unlisted company, in tranches.
- Meezan Bank (MEBL) recently signed a Memorandum of Understanding (MoU) with AI-Sadiq Consulting, an advisory company based in China, to explore opportunities for Islamic finance under China-Pakistan Economic Corridor
- China's Ministry of Finance (MOF) will adjust tariffs on a number of exports and imports relating to Pakistan. The new plan is expected to come in to force on Jan 01'17. To meet domestic demand, tax rates will be lowered on some imported commodities next year including hydraulic actuators for aircraft. Exports tariffs on commodities including nitrogen and phosphate fertilisers will be scrapped and commodities such as steel billet will see reduced export tariffs.



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## MCB: Capital gains could surprise

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**3QCY16 earnings review:** MCB posted consolidated NPAT of PkR17.8bn (EPS: PkR16.01) in 9MCY16 vs. NPAT of PkR19.9bn (EPS: PkR17.89) in 9MCY15, down 11%YoY. Sequentially, we saw 41%QoQ jump in earnings on the back of: 1) gains worth PkR3.4bn in 3QCY16 vs. PkR519mn in 2QCY16 and 2) lower taxation expense (effective tax rate for 3QCY16 at 41% vs. 52% in 2QCY16). Alongside the result, MCB also announced a third interim dividend of PkR4/sh taking 9MCY16 payout to PkR12/sh (payout: 75%).

**Update on NIB acquisition:** As per notices issued to the stock exchange, the Board of MCB and NIB has approved the amalgamation scheme of the two banks. The swap ratio in this regard has worked out to 1 share of merged entity for every 140 shares of NIB translating into an acquisition price of PkR1.63/sh (22% discount to NIB's price as of Dec 7'16). MCB would have to issue 73.6mn additional shares increasing its share base by 6.6% (pending approvals). While earnings dilution will be a consequence, benefits include additional branch network (+171 branches), tax benefit (deferred tax asset of PkR8.7bn on NIB's book) and access to NIB's consumer portfolio.

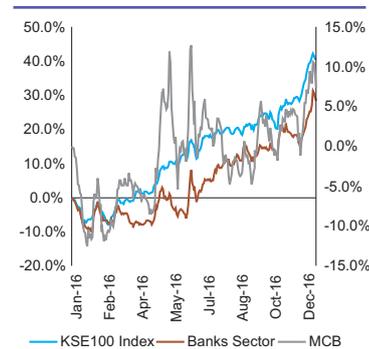
**Investment Perspective:** MCB's price performance has remained muted despite the sector rallying by 15% in last three months. We believe a catch-up rally could be in the making where 4QCY16 earnings could surprise positively (should the bank choose to utilize hefty gains). Trading at a forward PB/PE of 1.8x/10.6x, current price levels offer limited upside. We advocate building position on dips.

MCB: EPS & TP revision

	CY16F	CY17F	TP
New	22.13	23.7	242.5
Old	21.41	22.81	230.9
Change	3%	4%	5%

Source: AKD Research

Price Performance: MCB vs. Sector



Source: KSE & AKD Research



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Reduce	< -5% to > -20% downside potential
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