



## AKD Securities Limited

TREC Holder & Registered Broker  
Pakistan Stock Exchange

Equity Research / Pakistan



REP-108  
www.jamapunji.pk

### Today's Daily

#### ■ MCB: In the catbird seat

The banking sector in Pakistan and particularly MCB has seen weak price performance over the last 6 months. Earnings deceleration, initially driven by lower NII, was further exacerbated by the bank's inability to grow its non-interest income franchise. The softness in NII has been particularly pronounced for MCB where the bank's conservatism to tap lending opportunities amid maturities of high-yielding PIBs are to be blamed. However, this foot-off-the-pedal approach is now beginning to change where we are now seeing a visible shift in the bank's business strategy. Loan growth is showing signs of acceleration with focus on the high-margin consumer space. Furthermore, effective utilization of CAR (acquisition of NIB/ foray into the profitable Islamic banking business), makes us more confident on the bank's push for growth. Other positives such as: 1) CASA at 94% - the highest in the industry and 2) excellent asset quality credentials place MCB at a vantage point in times of interest rate reversal. The mentioned factors drive our 3yr NPAT CAGR of 13.9%, making way for a superior valuation set (CY18F PB/PER/DY at 1.36x/9.9x/7.2%). At our TP of PKR244.9/sh, the stock offers a potential upside of 10.3% along with a dividend yield of 7.2% at current price level. Accumulate!

*(Detailed report to be released shortly)*

#### KSE100 - Index

Current 42,347.49  
Previous 42,933.72  
Chg. -1.37%

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

Current 8,801 / 79.62  
Previous 8,905 / 80.56  
Chg. -1.17%

#### Daily Turnover (mn)

Current 130.48  
Previous 238.67  
Chg. -45.3%

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

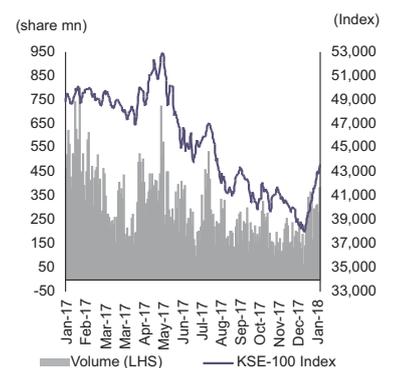
Current 5,819 / 52.64  
Previous 10,323 / 93.39  
Chg. -43.6%

AKD Daily

Tuesday, Jan 16, 2018

#### News and Views

- The NAB has filed a review petition in the Supreme Court against the dismissal of its plea for reopening the 18yr old Hudaibya Paper Mills case against the Sharif family, arguing that the previous gov'ts had colluded to indefinitely adjourn the reference.
- Minister for Privatization, Daniyal Aziz, has said that privatization process of core business relating to management and flight operation of PIA will be completed in accordance with the PIA Act which had been passed by the Parliament on April 15, 2016.
- SECP on Monday approved new rules to simplify procedures prerequisite for a brokerage licence and ease cost of doing business, apparently to assuage dealers who opt for exit on regulatory burden.
- Sindh Bank on the directions of Department of Agriculture (Sindh) has invited applications from farmers to determine their eligibility for PKR200-300k subsidy on purchase of locally manufactured tractors. Sindh Bank will award the subsidies by the process of balloting.



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## MCB: In the catbird seat

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**NIB acquisition- benefits are numerous:** Post NIB acquisition, MCB has now become the third largest bank in Pakistan with 1,405 branches while its deposit base has reached PkR989.4bn. Additional benefits include: 1) access to NIB's consumer portfolio - a segment that MCB looks to tap aggressively (29%YoY growth in CY16), 2) expanding footprint in the rapidly growing Islamic banking space and 3) re-profiling and optimization of deposit base. That said, by virtue of its small size, NIB comes with its fair share of complexities - higher operating costs and weak asset quality being the most prominent. While streamlining is expected to take some time, we feel MCB's management is able enough to aptly tackle the issues at hand as vindicated by MCB's excellent risk-management credentials.

**Loan growth - ready to take off:** A strategic shift in the bank's lending policy is visible with management targeting loan growth in the range of 10-12% over a period of 3-4yrs, in line with AKD estimates. Targeting infrastructure projects on the corporate side mainly, the opportunity is sizable particularly when other frontline banks struggle to capture the same on account of capital constraints. More surprisingly, consumer financing is now being touted as a key focus area expected to drive the next phase of growth for the bank. In line with these developments, our forecasts for the loan book include 3yr CAGR of 11.6% /13.4% for the corporate/consumer segments.

**Fundamentals to take a positive turn:** We believe both the operating

**MCB: Valuation Matrix**

	CY16A	CY17F	CY18F	CY19F
EPS (PKR)	19.82	21.08	22.41	25.04
EPS Growth	-11.9%	6.4%	6.3%	11.7%
Total BVS (PKR)	130.7	150.8	159.1	167.5
P/B (Total SHEQ) (x)	1.7	1.5	1.4	1.3
PER (x)	11.2	10.5	9.9	8.9
Dividend yield	7.2%	7.2%	7.2%	7.7%

Source: Company Report & AKD Research



environment and MCB's own dynamics will take a turn for the positive from CY18F onwards. In this regard, we expect an uptick in interest rates (+75bps in CY18F) while MCB should be in a much stronger position to reap acquisition benefits of NIB driving our projected 3yr NPAT CAGR of 13.9%. While the impact of the ongoing PIB substitution (~PkR90bn of PIB maturity in Jul'18) is likely to dilute the benefits of an upward adjustment in interest rates, we feel MCB's strategic focus on building its low cost current account base along with the keen urge to grow its advances should counter pressure on NIMs.

**Investment Perspective:** MCB's foot-off-the-pedal approach has begun to change where the bank's recent acquisition of NIB and planned foray into the profitable Islamic banking business (the only bank to have established an Islamic subsidiary amongst the B-5) is indicative of the bank's push for growth. Comfort on CAR is another distinguishing factor allowing the bank enough room to sustain its dividend payout and participate in the credit upcycle particularly when peers struggle with the same. All these factors drive our investment case for MCB that remains an ideal bet in times of interest reversal given its upward sticky cost of funds and higher CASA. With fundamental triggers well in place, we feel any dip in the market should be considered as an opportunity to accumulate the stock.



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Accumulate	> 5% to < 20% upside potential
Neutral	≤ 5% to ≥ -5% potential
Reduce	< -5% to > -20% downside potential
Sell	≤ -20% downside potential



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