



AKD Securities Limited

TREC Holder & Registered Broker
Pakistan Stock Exchange

Equity Research / Pakistan



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Today's Daily

■ MCB: Relatively attractive

With earnings growth remaining subpar over the last two years, MCB is likely to resume its growth phase from CY17F onwards with our projected 3yr NPAT CAGR standing at a healthy 13%. Declining NII, higher provisioning charges, lack of support from non-funded income (ex cap. gains growth: -15%YoY) - factors that hurt profitability in CY16 are expected to alleviate going forward while likely discontinuation of super tax in CY18 should help further. While loan growth is expected to remain tepid (8% growth expected in CY17F vs. avg. 13% for peers), the bank's C/A focus (39% of total deposits in CY17F) is likely to provide support, keeping NIMs >4.5% in CY17F. While NIB acquisition has its associated pros and cons, we believe the move is encouraging, indicating the bank's push for growth opportunities. Having lost 5.9% MTD, MCB is currently trading at its 9-mth low. This underperformance, in our opinion, has opened up valuations with PB/PER at 1.56x/10.2x vs. 1.73x/11.2x for peers. In addition, an attractive D/Y at 7.7% remains the second highest in AKD Banking Universe, furthering our investment case. Adjusting for super tax, our revised CY17F earnings/TP stand at PkR20.4/PkR232.5 per share Accumulate!

KSE100 - Index

Current 47,608.64
Previous 48,071.04
Chg. -0.96%

Mkt Cap. (PkRbn/US\$bn)

Current 9,489 / 90.49
Previous 9,581 / 91.36
Chg. -0.96%

Daily Turnover (mn)

Current 255.54
Previous 317.18
Chg. -19.4%

Value Traded (PkRmn/US\$m)

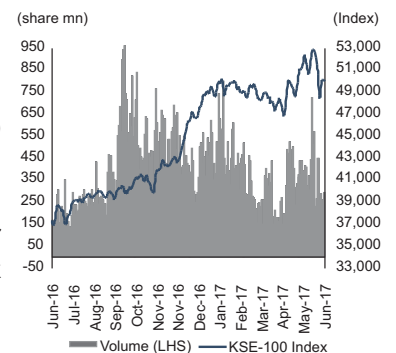
Current 10,432 / 99.47
Previous 14,957 / 142.62
Chg. -30.3%

AKD Daily

Thursday, Jun 15, 2017

News and Views

- Prime Minister Nawaz Sharif will appear before the Joint Investigation Team (JIT) to record his statement today (Thursday).
- Shamsuddin Ahmed Shaikh (CEO of Sindh Engro Coal Mining Company) has stated that the company has achieved 40% of mining and 33% progress on the power projects in 15 months after the financial closure achieved in Apr'16. He further said the total duration envisaged for completion of the project was set at 42 months, but the pace of the work ensures us of its completion in 38 months instead.
- As per news sources, the Economic Coordination Committee (ECC) is likely to allow public gas utilities to borrow PkR175bn from commercial banks for laying a new pipeline from Karachi to Lahore, which will transmit 1.2bcfd of imported gas.



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MCB: Relatively attractive

With earnings growth remaining subpar over the last two years, MCB is likely to resume its growth phase from CY17F onwards with our projected 3yr NPAT CAGR standing at a healthy 13%. Declining NII, higher provisioning charges, lack of support from non-funded income (ex cap. gains growth: -15%YoY) - factors that hurt profitability in CY16 are expected to alleviate going forward while likely discontinuation of super tax in CY18 should help further. While loan growth is expected to remain tepid (8% growth expected in CY17F vs. avg. 13% for peers), the bank's C/A focus (39% of total deposits in CY17F) is likely to provide support, keeping NIMs >4.5% in CY17F. While NIB acquisition has its associated pros and cons, we believe the move is encouraging, indicating the bank's push for growth opportunities. Having lost 5.9% MTD, MCB is currently trading at its 9-mth low. This underperformance, in our opinion, has opened up valuations with PB/PER at 1.56x/10.2x vs. 1.73x/11.2x for peers. In addition, an attractive D/Y at 7.7% remains the second highest in AKD Banking Universe, furthering our investment case. Adjusting for super tax, our revised CY17F earnings/TP stand at PkR20.4/PkR232.5 per share Accumulate!

Earnings growth to resume from CY17F: With CY17F shaping up to be a slow year particularly on continuation of super tax, we expect earnings to fully recover from CY18F, spearheaded by lower provisioning charges and growth in non-funded income (NFI). With regards to asset quality, MCB retains excellent credentials (coverage/NPL at 90%/5.7%) where post a slight blip last year, we see credit cost averaging 20bps over the medium term vs. 33bps in CY16. On the other hand, efforts towards improving the bank's NFI stream have borne fruit with NFI contribution to total income rising to 34.7% in Mar'17 vs. 27.0% in Dec'16. While capital gains utilization was a major contributor to NFI, fee income growth at an encouraging 14%YoY in Mar'17 puts weight behind our 3yr average growth assumption of 10%.

NIMs to lag behind: NIMs are likely to remain under pressure in CY17F given the second set of PIB maturities in 2HCY17 and no visible improvement in banking spreads. While loan growth is also expected to remain tepid (8%YoY growth expected in CY17F vs avg. 13%YoY for peers), the bank's increasing C/A focus (39% of total deposits in Mar'17) is likely to support margins, keeping NIMs above 4.5% in CY17F. That said, NIMs should improve over the medium term taking support from the anticipated monetary tightening expected to commence by end CY17.

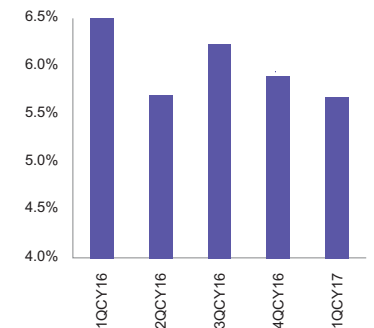
Investment Perspective: Following the market's bearish sentiment, MCB has lost 5.9% MTD and is currently trading at its 9mth low. Based on projected 3yr NPAT CAGR of 13% and an attractive valuation set (PB/PER/DY at 1.56x/10.2x/7.7%), any near term price volatility should be considered as an opportunity to buy MCB. Our revised TP of PkR232.5/sh offers 12% capital upside.

MCB: Earnings & TP Revision

	CY17F	CY18F	TP
New	20.4	23.6	232.5
Old	21.2	23.6	242.1
Change	-3.8%	0.0%	-4.0%

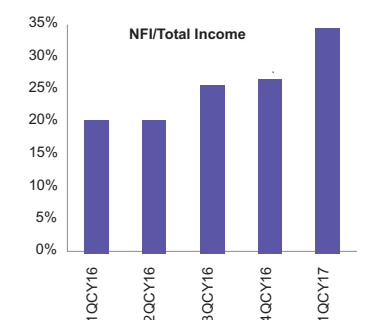
Source: AKD Research

NPL Ratio improving



Source: Company Reports & AKD Research

NFI Contribution rising



Source: Company Reports & AKD Research



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



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