

August 03, 2010

**Pakistan Market****MCB: 1H2010 EPS expected at Rs10.79, up 6%YoY** KSE100 Index: Closing 10373.53 ↓ (-145.49)**MORNING BRIEFING**

MCB Bank (MCB) is scheduled to announce its 1H2010 result on Aug 5, 2010. We expect the bank to register unconsolidated earnings of Rs8.2bn (EPS Rs10.79) in 1H2010, as against earnings of Rs7.8bn (EPS Rs10.2) in the same period last year, an increase of 6%YoY. In 2Q alone, we expect the bank to record an earnings jump of 12%YoY to Rs4.1bn (EPS Rs5.35). Along with the result, we expect the bank to announce a cash dividend of Rs2.5-3/share, taking the total interim dividend to Rs5-5.5/share. The scrip currently trades at a 2010E PBV and PE of 2.0x and 9.1x respectively, and a discount of 9% to our target price of Rs230. We currently have a 'Hold' stance on the scrip.

**NII to show QoQ stability, Fee income to rise**

Despite an unimpressive offtake scenario, Net Interest Income (NII) is expected to show QoQ stability owing to strong spreads - especially in June. Average lending spreads jumped by a surprising 25bps MoM in Jun to 7.6%, as avg. deposit rates eased by 26bps to 5.79%. We therefore expect NIMs to grow by 4bps (QoQ) to 8.3% in the second quarter. However, on a YoY basis, we foresee NII to dip by 4%YoY due to lower KIBOR in 1H2010 (12.3% vs 13.7% in 1H2009). Moreover, Non Interest Income is expected to rise by 4%YoY to Rs2.9bn on the back of a 19% growth in Fee Income; however, this will partially be offset by lower capital gains in the period.

**Lower provisions to drive earnings growth**

Lower loan losses are likely to be the key earnings driver as we expect the losses to decline by 49%YoY to Rs1.7bn. Moreover, with offtake under pressure and lower NPL accretion we could see coverage rising further from 71% at the end of the first quarter.

On the other hand, operating expenditures are expected to rise by 12%YoY to Rs5.9bn in 1H2010 as lower pension fund reversals and inflationary pressure are expected to push up administrative costs.

**Recommendation: 'Hold' at current levels**

The scrip currently trades at a 2010E PBV and PE of 2.0x and 9.1x; and we currently recommend a 'Hold' stance on the scrip as it offers a potential 9% upside to our fair value of Rs230. Moreover, recent interest rate hike and the possible upward adjustment in KIBOR would lead to stronger NIMs, and remains an upside risk to our earnings outlook.

**Result preview - MCB**

(Rs mn)	1H2010E	1H2009	Δ%
Mark- up interest earned	26,145	25,850	1%
Mark-up interest paid	(8,757)	(7,765)	13%
<b>Net interest income</b>	<b>17,388</b>	<b>18,084</b>	<b>-4%</b>
Provisions/write offs	(1,882)	(3,892)	-52%
	15,507	14,192	9%
<b>Non interest income</b>	<b>2,865</b>	<b>2,758</b>	<b>4%</b>
Operating expenditures	(5,901)	(5,261)	12%
<b>Profit before tax</b>	<b>12,471</b>	<b>11,689</b>	<b>7%</b>
Taxation	(4,265)	(3,932)	8%
<b>Profit after taxation</b>	<b>8,206</b>	<b>7,756</b>	<b>6%</b>
Diluted earning per share	10.79	10.20	6%

Source: JS Research & Company accounts

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**Also in focus****EU proposes import duty on PET**

European Union (EU) has proposed to impose duty of 42-44 Euros per ton on import of plastic from Pakistan, Iran and UAE. The EU believes these countries provide subsidies to exports who supply plastic for Europe's growing soft-drinks market. If imposed, this is likely to have a negative impact on demand for PET (Polyethylene Terephthalate) which in turn could hamper demand for LOTPTA (PTA being a raw material for PET). We currently have a 'Sell' stance on the scrip.

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