

March 06, 2009

Pakistan Market**MCB: 2008 detailed accounts & analyst briefing****MORNING BRIEFING**

KSE100 Index: Closing 5788.27 ↓ (-27.16)

MCB bank yesterday held an analyst briefing to discuss key highlights of 2008 results. The bank had posted an EPS of Rs24.5 up 1%YoY, with 10% bonus and final dividend of Rs2 per share. The recognition of Rs2.6bn impairment loss on investments & reversal of Rs2.5bn general provisions remained major talking points of the results.

NII up 19%, non interest income down 10%

MCB bank's NII rose by 19% to Rs28.4bn amid rising spreads and 20% advances growth. Net interest spreads rose by 60bps, while advances growth outpaced 8% deposit growth resulting in a 500bps increase in Advances to Deposit Ratio (ADR). Moving ahead, given lower credit offtake & crowding out of deposits by the government, we expect spreads and net interest margins to contract. The management however expects spreads to remain strong while advances growth is likely to be in single digits skewed towards the power sector.

In sharp contrast to NII, non interest income depicted a fall of 10% to Rs5.8bn, mainly driven by weak equity market conditions. While both fee income & income from forex transactions grew by 9 and 5% respectively, a 51% fall in gain on sale of investments pushed non interest income growth in the negative. We expect a slowing economy and relatively challenging equity market conditions would keep non interest income under pressure in 2009 as well.

NPLs surge to Rs18.2bn; coverage ratio at 59%

MCB bank which is generally regarded one of best local banks as far as NPLs ratio and coverage is concerned saw a 70% rise in NPLs in 2008 on account of both general economic slowdown and exposures towards the equity markets. As per the management, Rs2bn of additional NPLs were on account of capital markets which are covered by adequate liquid securities and recovery is likely in 2009. NPL coverage ratio in the mean time fell to 59% in Dec 2008 from 100% in Dec 2007. Primary reasons for lower coverage ratio were due to majority of incremental NPLs in the substandard

category which requires only 25% coverage, along with change in accounting whereby general provisions estimate was revised to 0.1% of gross loans from 1.0% earlier.

Rs2.6bn impairment; pension surplus at Rs6.2bn

One major highlight in 2008 financial results was the recognition of Rs2.6bn (Rs2.7/share) impairment loss on available for sale investments (AFS) portfolio. While total diminution in value was determined as Rs4.9bn only Rs2.6bn was recognized in P&L, as management believed that Dec 31, 2008 prices were artificial and not a fair reflection of equity values. According to SECP's directive, the remaining amount of Rs2.3bn currently recognized in equity would have to be transferred to P&L on a quarterly basis adjusted for price movements during 2009. Anticipating some recovery in equity markets, we expect MCB bank to recognize around 60% of the remaining amount as impairment loss in 2009.

While further impairment provisions in 2009 would dilute earnings, Rs6.2bn pension fund surplus is likely to continue to provide support to earnings in 2009 and 2010. MCB recognized pension fund gains of Rs5.4bn in 2008 and given its policy to amortize gains over a 3 year period, we expect Rs3bn to be recognized in each of the next two years.

Outlook: "Hold" maintained

We expect MCB bank's earnings to fall by 10% in 2009 at the back of falling NIMs, and higher provisions for NPLs. The bank currently trades at 2009E PE and PBV of 6.0x and 1.3x respectively. Moreover it offers a dividend yield of 7.6%.

farhan.rizvi@js.com
92 (21) 111-574-111(Ext. 3096)

MCB Bank	
Market Price: Rs132.04	Kats Code: MCB
Market Cap: Rs83.0bn (US\$1.0bn)	Bloomberg Code: MCB PA
1-yrs Avg. Daily Volume: 2.8mn shares, Rs866.4mn (US\$10.8mn)	Reuters Code: MCB.KA
1-year High/Low: Rs429.50/77.76	

Also in focus**INDU: Analyst Briefing Update**

Indus Motor (INDU) conducted its half-year end analyst briefing yesterday. The company identified depreciating rupee and rising steel prices as major reasons for falling margins and in turn profitability during 1HFY09. The management foresees a 43% decline in the overall auto market for FY09 with luxury car and diesel variant segments the major cause for concern, amid increasing duties & falling price advantage of diesel over petrol. They further informed that there were 6 non production days in January 2009 followed by 4 non production day in February.

Going forward, INDU expects margins to improve over the previous quarter as yen appreciation looks to ease. Moreover, they do not see a decline in car prices in the near future.

JS Global Capital Limited

6th Floor, Faysal House, Main Shahrah-e-Faisal, Karachi

Research:

Tel: +92 (21) 2799005
Fax: +92 (21) 2800163
js.research@js.com

Fixed Income Sales:

Tel: +92 (21) 2799541-44
Fax: +92 (21) 2800165
tariq.usman@js.com

Equity Sales:

Tel: +92 (21) 2799513
Fax: +92 (21) 2800166
junaid.iqbal@js.com

Corporate Finance:

Tel: +92 (21)2799005
Fax: +92 (21) 2800166
Ilyas.ahmed@js.com

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