

August 07, 2009

Pakistan Market**MCB: EPS of Rs11.26 expected in 1H2009****MORNING BRIEFING**

KSE100 Index: Closing 7822.32 ↓ (-12.37)

MCB Bank is scheduled to announce its first half (Jan-June) 2009 result on Aug 10, 2009. We expect MCB to post earnings of Rs7.8bn (EPS of Rs11.26) in 1H2009 versus Rs7.7bn (EPS Rs11.11) in 1H2008 – an increase of a paltry 1%. Despite significant increase in net interest income, higher provisions for non-performing loans (NPLs) and jump in administrative expenses are likely to keep earnings flat.

Along with the result, we expect MCB bank to announce a dividend payout of Rs2.5/share taking the cumulative dividend to Rs5/share.

Higher KIBOR to drive 40% NII growth in 1H2009

We expect MCB's Non Interest Income (NII) to arrive at Rs17.7bn in 1H2009 up a significant 40% versus Rs12.6bn in 1H2008. A combination of higher KIBOR and advances growth are the likely drivers for this strong NII. Despite the minimum rate of 5% on savings, increase in lending rates has outpaced the rise in cost of deposits effectively resulting in higher NIM. However, on a QoQ basis, NII are expected to depict a declining trend as 73bps decline in KIBOR is likely to result in 6% fall in NII to Rs8.6bn in 2Q2009. Moreover, NIM is expected to contract to 9.4% versus 9.7% in 1Q2009.

Rising NPLs & admin expense to contain profits

Despite significant increase in net interest income, surge in provisions for NPLs and higher admin expenses are expected to keep MCB's earnings flat. Amid rising NPLs, we expect provisions to arrive at Rs3.7bn up 201%YoY, while lower quantum of pension fund reversals are likely to result in 68% rise in admin expenses to Rs5.2bn.

Outlook: 'Buy' reiterated

We reiterate our liking for MCB bank given its superior asset quality, strong NIMs, high capital adequacy and aggressive management focus. Trading at 2009E PE and PBV of 8.0x and 1.7x, respectively, MCB may seem expensive to local peers, however its attractive 3 year (2009-11) average ROE

of 21.5% justifies the premium. The scrip currently offers an attractive upside of 20% to our target price of Rs200.

Table: 1H2009 Financial highlights

Rs mn	1H2009E	1H2008A	% Δ
Markup interest earned	25,414	16,936	50%
Marup interest paid	7,766	4,339	79%
Net Interest Income	17,648	12,597	40%
Provisions & write off	(3,692)	(1,452)	154%
Net mark up income after prov	13,956	11,145	25%
Fee income	1,623	1,548	5%
Other non interest income	1,605	1,307	23%
Net mark up + Non mark up income	17,184	14,000	23%
Admin expenses & other charges	(5,546)	(3,371)	65%
Profit before tax	11,638	10,629	9%
Taxation	(3,858)	(2,952)	31%
Profit after tax	7,780	7,677	1%
EPS	11.26	11.11	

Source: JS Research, Company accounts

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MCB Bank Limited**Market Price:**

Rs166.56

Market Cap:

Rs115.1bn (US\$1.4bn)

1-yrs Avg. Daily Volume:

2.9mn shares, Rs469.9mn (US\$5.7mn)

1-year High/Low:

Rs316.50/77.76

Kats Code:

MCB

Bloomberg Code:

MCB PA

Reuters Code:

MCB.KA

Also in focus**UBL Conference Call Takeaways**

United Bank Limited (UBL) yesterday held an analyst call to discuss key highlights of 1H2009 results. The bank had posted profits of Rs4.3bn (EPS of Rs3.85) v/s earnings of Rs5.6bn (EPS Rs5.03) in 1H2008 – a decline of 23%YoY. Though Net Interest Income rose a healthy 20%YoY, provisions for NPLs remained the major reason behind the decline in profitability as NPLs rose by 172%YoY to Rs5.3bn. The management informed that the surge in NPLs during 2Q2009 was contributed by a few large accounts. However, pace of incremental NPLs is expected to go down amid a combination of stringent risk management & some improvement in economic situation. As a result, UBL expects lower quantum of provisioning in the coming quarters. Moreover, contrary to earlier speculation, most of the provisioning in 2Q2009 was related to the local corporate sector as against international real estate segment.

According to the management, around Rs3-4bn of the real estate portfolio (only 3-4% of total intl. portfolio) is under varying degrees of threat, however adequate risk management mechanisms are in place. Moreover, there have been no signs of any significant deterioration in the intl. real estate portfolio. Further, efforts to reduce cost of deposits have been underway since UBL has been successful in shedding expense deposits as reflected by decline in cost of deposits from 6.4% in 1Q2009 to 5.8% in 2Q2009. The bank expects no major change in lending rates in the next 6-8 months.

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