

April 20, 2010

Pakistan Market

MCB & HBL: 1Q2010 result preview

MORNING BRIEFING



KSE100 Index: Closing 10669.88 ↑ (+10.67)

MCB Bank and Habib Bank Limited (HBL) are scheduled to announce their 1Q2010 results on April 21 and 22, 2010 respectively. We expect MCB to post unconsolidated earnings of Rs4.2bn (EPS Rs5.57) as against 1Q2009 earnings of Rs4.1bn (EPS Rs5.44), a marginal increase of 2%YoY. Along with the results, we expect the bank to announce a cash dividend of Rs2.5-3.0/share. Moreover, we estimate HBL to post profits of Rs3.51bn (EPS Rs3.51) as compared to profits of Rs3.48bn (EPS Rs3.48) previously- up a meager 1% YoY. We anticipate no payout from HBL.

MCB: 5% NII growth to drive 1Q2010 EPS to Rs5.57

We anticipate MCB's Net Interest Income (NII) to arrive at Rs9.5bn - a decent growth, both on a YoY (5%) and QoQ basis (4%). A 2.5% QoQ advances growth and stable NIMs (8.8%) are the major factors behind the impressive core performance.

Non Interest Income, on the other hand, is expected to decline by 7%YoY to Rs1.6bn on account of a one off substantial foreign currency gain of Rs432mn in the corresponding period last year.

Financial highlights - MCB

(Rs mn)	1Q2010E	1Q2009A	Δ%
Mark- up interest earned	13,918	13,002	7%
Mark-up interest paid	(4,391)	(3,908)	12%
Net interest income	9,527	9,094	5%
Provisions/write offs	(1,533)	(1,742)	-12%
	7,994	7,352	9%
Non interest income	1,570	1,688	-7%
Operating expenditures	(3,249)	(2,802)	16%
Profit before tax	6,315	6,238	1%
Taxation	(2,084)	(2,103)	-1%
Profit after taxation	4,231	4,135	2%
Diluted earning per share	5.57	5.44	2%

Source: JS Research & Company accounts

Apart from rising NII, another factor contributing towards earnings growth would be the 15% fall in provisions for NPLs as the accretion rate slows down. However, we opine provisions would remain sticky QoQ as the backlog of accretion from the previous quarters would be recorded in the current period. Moreover, operating expenses are expected to jump 16%YoY to Rs3.2bn, on account of lower pension fund reversals.

HBL: Provisions to keep 1Q2010 EPS flat at Rs3.51

We estimate HBL earnings to grow by a mere 1%YoY due to the base effect, as Rs Rs919mn impairment reversals were recorded in 1Q2009. That said, NII is likely to remain substantial as advances and investment growth of 4% and 37% respectively is likely to drive NII to Rs11.2bn (up 7%YoY). The strong NII growth is despite a 38bps contraction in NIMs to 6.7% as KIBOR rates have fallen from the peak levels in 1Q2009.

Similar to NII, Non Interest Income is estimated to show decent growth of 15% to Rs2.3bn in the period, driven by better fee income and higher capital gains on account of improved equity market conditions.

Financial highlights -HBL

(Rs mn)	1Q2010E	1Q2009A	Δ%
Mark- up interest earned	20,341	18,237	12%
Mark-up interest paid	(9,169)	(7,818)	17%
Net interest income	11,172	10,420	7%
Provisions/write offs	(2,113)	(1,186)	78%
	9,059	9,234	-2%
Non interest income	2,251	1,949	15%
Operating expenditures	(5,905)	(5,726)	3%
Profit before tax	5,405	5,457	-1%
Taxation	(1,892)	(1,976)	-4%
Profit after taxation	3,513	3,481	1%
Diluted earning per share	3.51	3.47	1%

Source: JS Research & Company accounts

Moreover, provisions for NPLs are estimated to decline by 13%YoY to Rs2.1bn compared to Rs2.4bn respectively. However, total provisions are likely to increase by 78% YoY - inflated owing to an impairment reversal of Rs919mn in 1Q2009. Administration costs too will remain on the higher side, up 3%YoY in response to inflationary pressures.

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Also in focus

KAPCO: 9MFY10 EPS of Rs4.68 likely

The board of KAPCO is meeting on April 21 to announce the company's 9MFY10 financial results. We expect the company to post net profit of Rs4.1bn (EPS: Rs4.68) versus profit of Rs4.2bn (EPS: Rs4.74). The relatively flat earnings trend is mainly attributable to the stagnant PCE component of the company's tariff profile. In addition, the benefit of tariff indexation is likely to be offset by the cost of short term borrowings. The stock offers an FY10E dividend yield of 12.9%, at current levels, and we recommend 'Hold' on KAPCO.

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