

October 22, 2009

Pakistan Market

Results preview: MCB and HBL

MORNING BRIEFING



KSE100 Index: Closing 9247.79 ↓ (-321.28)

The result season is starting to gather momentum with two heavy weights MCB Bank (MCB) and Habib Bank Limited (HBL) scheduled to announce their nine months (Jan-Sep) 2009 results on Oct 23 and Oct 24, 2009, respectively. We expect MCB to post earnings of Rs11.60bn (EPS of Rs16.78) in 9M2009 versus Rs11.63bn (EPS Rs16.82) in 9M2008.

Moreover, HBL is expected to post earnings of Rs9.8bn (EPS Rs10.76), up 2%YoY. Despite significant increase in net interest income, higher provisions for non-performing loans (NPLs) and jump in administrative expenses are likely to keep earnings under check. Both MCB and HBL are expected to benefit from the recent relaxation in forced sale value regime which would boost 4Q2009 earnings.

MCB: 9M2009 EPS expected at Rs16.78

We expect MCB bank to post earnings of Rs11.60bn (EPS Rs16.78) in 9M2009 versus earnings of Rs11.63bn (EPS Rs16.82) in corresponding period last year. While Net Interest Income (NII) is expected to post a handsome growth of 32%YoY to Rs26.9bn at the back of higher lending rates, higher provisions and rising admin. expenses would largely keep profits under check. We expect provisions & write offs to stand at Rs5.7bn versus Rs2.2bn in 9M2008, a massive increase of 160%YoY, while admin. expenses are expected to surge by 24% to Rs7.9bn. Moreover, relatively weak equity market conditions would mean reduced opportunity for capital gains. As a result, non interest income is likely to decline by 5% to Rs4.3bn.

Along with the results, we expect the bank to announce a dividend payout of Rs2.5/share taking the cumulative dividend for 2009 to Rs7.5/share.

MCB currently trades at 2009E and 2010F PE of 9.7x and 8.9x, respectively, while it trades at a respective 2.1x and 1.8x on 2009E and 2010F book values. We have a 'Hold' stance on MCB at current levels.

Table: MCB 9M2009 Financial highlights

(Rs mn)	9M2009E	9M2008A	Δ%
Markup interest earned	38,584	28,078	37%
Marup interest paid	11,682	7,758	51%
Net Interest Income	26,902	20,320	32%
Provisions & write off	(5,747)	(2,207)	160%
Net mark up income after prov	21,155	18,113	17%
Fee income	2,530	2,169	17%
Other non interest income	1,768	2,335	-24%
Net mark up + Non mark up income	25,453	22,617	13%
Admin expenses & other charges	(7,858)	(6,319)	24%
Profit before tax	17,595	16,298	8%
Taxation	(5,999)	(4,673)	28%
Profit after tax	11,596	11,626	0%
EPS	16.78	16.82	0%

Source: JS Research & Company accounts

HBL: EPS of Rs10.76 likely in 9M2009

HBL is expected to post earnings of Rs9.8bn (EPS Rs10.76) versus earnings of Rs9.6bn (EPS Rs10.59) in 9M2008 – a growth of paltry 2%YoY. Despite strong growth in net interest income due to higher lending rates and robust advances growth, rising Non Performing Loans (NPLs) and higher administrative expenses would stifle the growth.

We expect Net Interest Income (NII) to increase by 20% to Rs31.3bn as against Rs25.9bn recorded in the corresponding period last year. However, provisions for NPLs are expected to witness a jump of 173%YoY to Rs7.3bn as against only Rs2.7bn recorded in 9M2008, hence negating the impact of higher NII. Moreover, a 8% rise in administrative expenses to Rs16.5bn is likely to exert further pressure on earnings. We don't expect any payout with the results.

HBL is currently trading at 2009E PE & PBV of 8.8x and 1.7x, respectively. Hence, we maintain our 'Sell' stance on the scrip at current levels.

Table: HBL 9M2009 Financial highlights

(Rs mn)	9M2009E	9M2008A	Δ%
Markup interest earned	55,259	43,911	26%
Marup interest paid	24,004	17,947	34%
Net Interest Income	31,255	25,965	20%
Provisions & write off	(7,277)	(2,669)	173%
Net mark up income after prov	23,978	23,296	3%
Fee income	3,570	3,247	10%
Other non interest income	3,736	4,048	-8%
Net mark up + Non mark up income	31,284	30,591	2%
Admin expenses & other charges	(16,474)	(15,189)	8%
Profit before tax	14,810	15,402	-4%
Taxation	(5,013)	(5,755)	-13%
Profit after tax	9,797	9,647	2%
EPS	10.8	10.6	2%

Source: JS Research & Company accounts

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Also in focus**Oil import bill down 43%**

According to the latest numbers released by the Federal Bureau of Statistics (FBS), oil import bill for the first quarter (Jul-Sep) FY10 came in at US\$2.2bn as compared to US\$3.9bn in the corresponding period last year, down 43%YoY. Lower oil prices which averaged at US\$69 per barrel in 1QFY10 as against US\$115 per barrel in 1QFY09 were the major reason behind the decline.

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