

February 24, 2010

Pakistan Market**MCB: 2009 EPS expected at Rs22.8, up 2%YoY****MORNING BRIEFING**

KSE100 Index: Closing 9823.57 ↓ (-129.50)

MCB Bank is scheduled to announce its 2009 annual results tomorrow. We expect the bank to post unconsolidated profits of Rs15.7bn (EPS Rs22.8) as against earnings of Rs15.4bn (EPS Rs22.3) in 2008, an increase of 2%. Although we anticipate a growth of 25% in Net Interest Income, earnings will be kept in check by 61% higher YoY provisioning and significantly higher admin expenses amid lower pension fund reversals. Along with the results, we expect the bank to announce a final cash dividend of Rs2.5/share – taking the cumulative dividend to Rs10/share – and a bonus issue of 10%.

NII to grow by 25% amid higher NIMs

MCB's Net Interest Income is expected to display a sharp increase, again taking advantage of high spreads in the outgoing year. The bank is the best placed amongst local players in terms of its cost of funds, with a strategically distributed branch network coupled with strong CASA (83%). We expect NIMs to approximate 9.2% in 2009 as against 8.2% in 2008. Resultantly, Net Interest Income is likely to arrive at Rs35.5bn in 2009 versus Rs28.5bn in 2008.

In sharp contrast to the growth in NII, non interest income is bound to decline by 8% to Rs5.3bn on account of relatively lower return on foreign currency dealings. Income from forex dealings is estimated at Rs341mn, down 53%YoY.

Higher provisions & admin exp. to check profits

We expect provisions for NPLs to rise 7%YoY to Rs5.5bn, with fourth quarter likely to add another Rs1.2bn in provisions. Moreover, a steep (32%) rise in admin expenses to Rs9.9bn (Rs7.5bn in 2008) would also drag down earnings in 2009. The increase in admin expenses is anticipated due to a lower quantum of pension fund reversals. It may be recalled here, that MCB has historically enjoyed high pension fund reversals which has kept its cost income ratio close to 25% (over the last few years), the lowest in the banking sector.

Outlook: 'Hold' maintained

Though MCB continues to enjoy a competitive advantage in terms of NIMs and its superior return from pension funds, we believe this is already reflected in the scrip's current market price. Trading at a 2010E PE and PBV of 8.6x and 1.9x respectively, we maintain our 'Hold' stance on MCB at current levels.

Table: MCB 2009E earnings estimates

(Rs mn)	2009E	2008A	Δ%
Mark-up interest earned	50,974	40,044	27%
Mark-up interest paid	(15,438)	(11,561)	34%
Net interest income	35,536	28,483	25%
Provisions/write offs/reversal	(6,712)	(4,019)	67%
	28,824	24,464	18%
Non interest income	5,333	5,791	-8%
Operating expenditures	(10,642)	(8,388)	27%
Profit before tax	23,515	21,867	8%
Taxation	(7,782)	(6,493)	20%
Profit After Taxation	15,733	15,374	2%
Eaming per share (EPS)	22.77	22.25	2%

Source: Company accounts & JS Research

Also in focus**FABL posts earnings of Rs1.2bn, up 8% YoY**

Faysal bank announced earnings of Rs1.2bn (EPS Rs1.97) for 2009, as against earnings of Rs1.1bn (EPS Rs1.83) last year. Net Interest Income remained flat at Rs5bn, while non interest income rose 22% on higher gain on sale securities in the period. However, 28%YoY higher provisions for NPLs and Rs369mn worth of provisioning on investments in the fourth quarter have led final quarter earnings (before tax) into the red. FABL though, has benefited from deferred taxation in the period, and reported earnings of Rs0.46/share in the final quarter. The bank did not announce any payout with the results.

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