

## Upgrading to positive as banking industry's profitability set to improve

REP-092

December 13, 2016

We have rolled over and updated our target price on National Bank (NBP) to PKR 83, from PKR 77 previously. The Bank negatively surprised us by posting earnings of PKR 1.87/share only (PAT PKR 4.0bn) in 3QCY16 due to higher than expected interest expense. The unexpectedly high interest expense was due to greater proportion of fixed deposits in total deposits than expected. In fact the proportion of fixed deposits reported in 3QCY16 was the highest since 1QCY14. Other line items were in mostly line with our expectations. Our new target price offers an upside of 14% to NBP's last closing price; hence we are changing our stance on the stock from neutral to positive.

## High fixed deposits undermine lower overall profit rates

Although NBP, like other banks, saw a fall in profit rates offered on deposits in 3QCY16, its interest expense still rose slightly due to a rise in fixed deposits. The proportion of fixed deposits in total deposits was reported at 26.2% by the end of September 2016, which is the highest level since March end 2014. NBP's cost of funds was 4.268% in 3QCY16 as opposed to 4.37% in 2QCY16.

Going forward we expect cost of funds, as well as yields on earning assets to begin rising from the mid of 2017 as we expect a rate hike of 25bps then and another 50bps hike thereafter.

## High reversals in provisions for investments make up for provisions charge on NPLs

NBP posted high provisions charge in 3QCY16, which was thankfully compensated by surprisingly high reversals for provisions for diminution in the value of investments. NBP's non-performing loans rose by PKR 6bn in 3QCY16, after declining by PKR 2.7bn in 2QCY16. NBP has historically had a very volatile infection of loan book, which sees drastic improvements and deterioration from quarter to quarter. As a result the recent surge in NPLs and the resultant rise in provisions charge did not come entirely as a surprise.

## Updating Target Price to PKR 83

We have updated and rolled over our target price to PKR 83 for December 2017 from PKR 77 for June 2017 previously. Our new target price, based on a justified price to book multi-

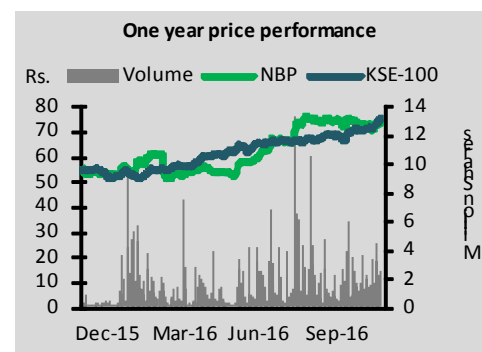
## NBP 3QCY16 Review (PKR mln)

Unconsolidated	3Q2016	3Q2015	% YoY	2Q2016	% QoQ	9M2016	9M2015	%Chg
Interest Earned	26,646	26,085	2.2%	30,225	(11.8)%	83,842	83,490	0.4%
Interest Expensed	15,025	13,768	9.1%	14,604	2.9%	44,574	47,097	(5.4)%
Net Interest Income	11,621	12,316	(5.6)%	15,621	(25.6)%	39,268	36,393	7.9%
Total Provisions	444	1,423	(68.8)%	672	(34.0)%	2,119	8,193	(74.1)%
Non-Interest Income	6,724	6,790	(1.0)%	7,629	(11.9)%	20,892	26,044	(19.8)%
Non-Interest Expense	11,589	10,707	8.2%	12,216	(5.1)%	35,196	32,132	9.5%
Profit Before Taxation	6,312	6,977	(9.5)%	10,362	(39.1)%	22,845	22,112	3.3%
Less: Taxation	2,344	2,412	(2.8)%	4,951	(52.7)%	9,429	10,007	(5.8)%
Profit After Taxation	3,968	4,565	(13.1)%	5,410	(26.7)%	13,415	12,105	10.8%
EPS (PKR)	1.87	2.15	(13.1)%	2.54	(26.7)%	6.31	5.69	10.8%
DPS (PKR)	-	-	0.0%	-	0.0%	-	-	0.0%

Source: Company Reports, IIS Research

National Bank of Pakistan			
<b>Target Price</b>	<b>83.0</b>		
Current Price	73.47		
Upside	13%		
<b>Positive</b>			
<b>Key Stats</b>			
KATS Code	NBP		
52 Week High (PKR)	76.11		
52 Week Low (PKR)	51.17		
Avg. daily volume ('000)	1,528.63		
Market Cap (PKR Bln)	156.31		
Market Cap (USD, mIn)	1,488.65		
O/S Shares (MIn)	2,127.51		
<b>Technical</b>			
RSI	53.78		
1 Month moving average	72.68		
3 Month moving average	73.71		
1 Year moving average	61.83		
<b>Performance</b>			
	<b>1 M</b>	<b>3 M</b>	<b>1 Yr</b>
Absolute	(1.2)%	1.07%	37.22%
*Relative	-7.44%	-13.93%	-1.82%
* KSE-100 Index			

Key Metrics	CY15A	CY16F	CY17F	CY18F
EPS	9.03	7.92	7.22	8.67
DPS	7.50	6.50	6.00	7.00
BVPS	54.53	55.75	56.47	59.15
P/Ex	8.1	9.2	10.1	8.4
P/BVx	1.3	1.3	1.3	1.2
Dividend Yield	0.10	0.09	0.08	0.10
Earnings growth	28%	-12%	-9%	20%
ROE	17%	15%	13%	15%
ROA	1%	1%	1%	1%
ADR	40%	44%	45%	45%

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Research is also available on Bloomberg (IISPK), S&amp;P Capital IQ, and Thomson Reuters Eikon

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ple of 1.47x, gives a % upside to the Bank's last closing price. Hence, we are changing our stance on the stock from neutral to positive.

<b>NBP Financial Summary (Unconsolidated)</b>	<b>2012A</b>	<b>2013A</b>	<b>2014A</b>	<b>2015A</b>	<b>2016F</b>	<b>2017F</b>	<b>2018E</b>	<b>2019F</b>	<b>2020F</b>
<b>Income Statement Items (PKR mn)</b>									
Mark-up/Return/Interest Earned	100,092	99,028	114,174	113,662	108,674	106,964	123,924	138,134	154,237
Mark-up/Return/Interest Expensed	56,418	60,823	70,007	59,941	58,759	61,278	74,261	82,235	91,173
Net Mark-up/Interest Income	43,674	38,205	44,166	53,721	49,915	45,687	49,663	55,899	63,064
Total Provisions	10,688	19,491	11,077	11,821	3,170	3,346	5,651	7,293	7,875
Total Non-Markup/Interest Income	23,849	25,570	31,472	34,983	28,159	30,207	33,182	36,664	40,542
Total Non-Markup/Interest Expense	35,457	37,205	42,561	43,667	46,764	48,905	50,828	53,802	56,951
Profit Before Taxation	21,378	7,078	22,001	33,216	28,139	23,642	26,366	31,468	38,780
Profit After Taxation	14,941	5,500	15,028	19,219	16,857	15,367	18,456	22,027	27,146
<b>Balance Sheet Items (PKR mn)</b>									
Investments	343,538	397,959	561,764	826,302	779,307	852,425	939,219	1,037,604	1,146,317
Advances	654,690	615,420	626,704	577,893	621,815	700,211	782,038	874,291	977,050
Total Assets	1,309,528	1,364,341	1,543,054	1,706,361	1,736,635	1,900,671	2,089,229	2,304,057	2,543,285
Borrowings from Fis	51,297	21,995	37,541	21,911	29,826	32,924	36,409	40,368	44,755
Deposits	1,036,739	1,101,139	1,233,525	1,431,037	1,420,307	1,567,793	1,733,767	1,922,273	2,131,175
Total Liabilities	1,169,548	1,208,055	1,364,725	1,538,010	1,564,901	1,727,399	1,910,266	2,117,959	2,348,124
Share Capital	18,500	21,275	21,275	21,275	21,275	21,275	21,275	21,275	21,275
Total Equity	139,981	156,287	178,329	168,351	171,735	173,273	178,964	186,099	195,161
<b>Key Ratios</b>									
Earnings Per Share (PKR)	7.02	2.59	7.06	9.03	7.92	7.22	8.67	10.35	12.76
DPS (PKR)	7.00	2.00	5.50	7.50	6.50	6.00	7.00	8.50	10.00
Book Value Per Share (PKR)	56.61	47.41	51.87	54.53	55.75	56.47	59.15	62.50	66.76
Dividend Yield	9.6%	2.7%	7.6%	10.3%	8.9%	8.2%	9.6%	11.7%	13.7%
Price/Earning	10.37	28.17	10.31	8.06	9.19	10.08	8.40	7.03	5.71
Price/Book	1.29	1.54	1.40	1.34	1.31	1.29	1.23	1.17	1.09
Yield on Earning Assets	11.7%	10.7%	11.2%	9.2%	8.1%	7.7%	8.0%	8.1%	8.1%
Cost of Funds	5.9%	5.8%	6.2%	4.7%	4.2%	4.1%	4.5%	4.5%	4.5%
Net Interest Margin	5.1%	4.1%	4.3%	4.4%	3.7%	3.3%	3.2%	3.3%	3.3%
Return on Equity	14.0%	5.4%	14.3%	17.4%	14.8%	13.3%	15.0%	17.0%	19.7%
Return on Assets	1.2%	0.4%	1.0%	1.2%	1.0%	0.8%	0.9%	1.0%	1.1%
ADR	63.1%	55.9%	50.8%	40.4%	43.8%	44.7%	45.1%	45.5%	45.8%
NPLs/G.Advances	12.6%	16.3%	16.6%	18.4%	18.2%	17.0%	16.3%	15.0%	14.0%
Provisions/NPLs	78.4%	77.6%	81.2%	87.0%	85.0%	83.4%	82.0%	84.0%	85.0%

Source: Company Reports, IIS Research

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(Target Price/Current Price - 1) > 10%	Positive
(Target Price/Current Price - 1) < -10%	Negative
9% > (Target Price/Current Price - 1) > -9%	Neutral

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