

Pakistan Banking Sector

NBP: Attractive DY yield on offer, 'Hold'

KSE100 Index: Closing 36,061.56 ↓ (173.13)

- We reiterate our 'Hold' rating on National Bank of Pakistan (NBP) with a revised Target Price of Rs54 (Rs55 previously), offering an attractive dividend yield of 9%.
- We also revise our 2016E-2017F earnings forecasts for NBP upwards by 1-2%, where we now expect 2016E EPS to clock in at Rs6.33 (-30% YoY).
- We highlight that extension of 4% Super Tax for another year in Federal Budget FY17 is likely to trim our 2016E earnings estimate by 10%.
- The bank posted 1Q2016 PAT at Rs4.04bn (EPS: Rs1.90), which came in 23% YoY higher, but 43% QoQ lower on an unconsolidated basis. NBP's Net Interest Income (NII) increased by 15% YoY.
- Advances continued with their downward trajectory declining by 9% YoY in 1Q2016 vs. industry's growth of 10% YoY. Contraction in loan book trimmed the bank's ADR by 10ppt YoY to 44%.

TP revised to Rs54, Hold

We reiterate our 'Hold' rating on National Bank of Pakistan (NBP) with a revised Target Price of Rs54 (Rs55 previously). NBP is currently trading at 2016E P/B of 0.70x, while the stock offers an attractive DY of 9%. We also revise our 2016E-2017F earnings forecasts for NBP upwards by 1-2%, where we now expect 2016E earnings to clock in at Rs6.33/share (-30% YoY). We highlight that extension of 4% Super Tax for another year in Federal Budget FY17 is likely to trim our 2016E earnings estimate by 10%.

1Q2016: Lower cost of funds support spreads

The bank posted 1Q2016 PAT at Rs4.04bn (EPS: Rs1.90), which came in 23% YoY higher, but 43% QoQ lower on an unconsolidated basis. NBP's Net Interest Income (NII) increased by 15% YoY in 1Q2016 as the bank managed to bring down its Interest Expense by a massive 20% YoY on 13% YoY growth in zero cost deposits.

NBP: 1Q2016 financial highlights

| (Rs mn) | 1Q2016 | 1Q2015 | YoYΔ% | 4Q2015 | QoQΔ% |
|----------------------------|---------------|---------------|------------|---------------|-------------|
| Interest Earned | 26,970 | 29,256 | -8% | 30,171 | -11% |
| Interest Expense | 14,945 | 18,777 | -20% | 12,844 | 16% |
| Net Interest Income | 12,025 | 10,479 | 15% | 17,327 | -31% |
| Provisioning Expense | 1,003 | 3,314 | -70% | 3,629 | -72% |
| Non-Interest Income | 6,539 | 8,464 | -23% | 8,942 | -27% |
| Operating expenses | 11,391 | 10,608 | 7% | 11,536 | -1% |
| PBT | 6,171 | 5,020 | 23% | 11,105 | -44% |
| Tax | 2,133 | 1,743 | 22% | 3,991 | -47% |
| PAT | 4,038 | 3,278 | 23% | 7,113 | -43% |
| EPS (Rs) | 1.90 | 1.54 | 23% | 3.34 | -43% |

Source: Company Accounts

MORNING BRIEFING

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Market Price: Rs53.94

December 2016 Target Price: Rs54

Valuation Methodology: Justified P/B

Market Cap: Rs115bn, US\$1,094mn

1-yr Avg. Daily Volume:
0.9mn shares, Rs47mn, US\$0.5mn

1-yr High / Low: Rs61.31 / 51.15

Estimated free float: 506mn shares (24%)

Estimates revision

| (Rs) | | 2016E | 2017F | 2018F |
|------|----------|-------|-------|-------|
| EPS | Previous | 6.24 | 4.32 | 5.87 |
| | Revised | 6.33 | 4.39 | 5.73 |
| | % Change | 1% | 2% | -2% |
| DPS | Previous | 5.00 | 3.50 | 4.75 |
| | Revised | 5.00 | 3.50 | 4.50 |
| | % Change | 0% | 0% | -5% |

Source: JS Research

Key statistics

| (Rs mn) | 2015A | 2016E | 2017F |
|---------------------|--------|--------|--------|
| Net Interest Income | 53,720 | 47,488 | 46,649 |
| Total Income | 88,702 | 71,232 | 70,493 |
| NIMs | 3.84% | 3.08% | 2.91% |
| Operating expenses | 43,666 | 45,554 | 50,254 |
| EPS (Rs) | 9.03 | 6.33 | 4.39 |
| EPS growth | 28% | -30% | -31% |
| DPS (Rs) | 7.50 | 5.00 | 3.50 |
| BVPS (Rs) | 79 | 77 | 76 |
| P/B | 0.68 | 0.70 | 0.71 |
| DY | 14% | 9% | 6% |
| Tier I ROE | 17% | 12% | 8% |

Source: JS Research

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NBP's cost of funds declined by 242bps YoY, resulting in spreads to expand by 48bps YoY to 1.94%. In addition, higher Provisioning Expenses base in 1Q2015 further boosted 1Q2016 EPS. The bank booked capital gains worth Rs1.5bn during 1Q2016, lowest since 3Q2014.

Advances continue to decline

NBP's deposit base posted 12% YoY growth, in-line with the industry, supporting the 12% YoY growth in asset base as of March 2016. NBP's investments in short-term government papers (T-Bills) increased further to Rs369bn, taking contribution of T-Bills to total Investments to 43% (1Q2015: 26%). Higher T-Bills also increased total Investments by 42% YoY, to Rs851bn, taking the IDR to 67% (+14ppt YoY). Meanwhile, Advances continued with their downward trajectory declining by 9% YoY in 1Q2016 vs. industry's growth of 10% YoY. Contraction in loan book trimmed the bank's ADR by 10ppt YoY to 44%.

Also in Focus

11MFY16 tax collection at Rs2.64trn, up 21% YoY

The provisional tax collection for 11MFY16 has amounted to Rs2,642bn, up 21% YoY. The FBR provisionally collected Rs296bn in May 2016, up 26% YoY. The FBR is required to collect around Rs462bn during June 2016 to achieve the annual target of Rs3,104bn for FY16.

Pakistan market statistics (May 31, 16)

| | |
|------------------------------|-----------|
| KSE-100 Index | 36,061.56 |
| Previous KSE-100 Index | 36,234.69 |
| Change from last closing | -173.13 |
| Change from last closing (%) | -0.48% |
| PSX Market Cap. (Rs. bn) | 7,357.59 |
| PSX Market Cap. (US\$ bn) | 70.17 |
| Total Volume (Shares mn) | 220.79 |
| Traded Value (Rs. bn) | 10.35 |
| Traded Value (US\$ mn) | 98.67 |
| KSE-30 Index | 20,781.54 |
| Change from last closing | -131.48 |
| Change from last closing (%) | -0.63% |
| Futures Volume (Shares mn) | 45.18 |
| Futures Value (Rs. mn) | 3,184.23 |
| Futures Spread | 8.96% |

Source: PSX

PSX valuations

| | 2014A | 2015A | 2016E |
|-----------------|-------|-------|-------|
| P/E (x) | 8.5 | 8.3 | 8.0 |
| P/BV (x) | 1.6 | 1.5 | 1.4 |
| Div. Yield (%) | 6% | 6% | 7% |
| Earnings growth | 9% | 3% | 4% |

Source: JS Research

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