

# The Vantage Point

## Banks

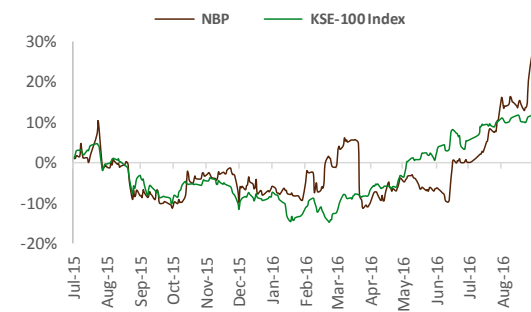
### Realizing NBP's Growth Potential; Outperform

#### National Bank of Pakistan

KATS Code	NBP
Bloomberg Code	NBP PA
Price PKR	72.58
Target Price PKR	78.30
Valuation technique	
-Justified Price to Book	
Market Cap (PKR mn)	154,414.68
Market Cap (US\$ mn)	1,470.62
Shares (mn)	2,127.51
52 weeks High	73.65
52 weeks Low	51.15
52 weeks Avg. Trading Volume ('000 sh)	1,070.01
52 weeks Avg. Trading Value (PKR mn)	63,450.36
Beta 1-Year	1.081

Source: Shajar Research

#### NBP vs KSE-100 Index



Source: Shajar Research, Bloomberg

#### National Bank of Pakistan - Financial Performance

PKR in Mn*	CY15A	CY16E	CY17F
Net Interest Income	53,721	53,942	49,384
NII after provision	41,900	49,137	42,878
Non-Fund Income	34,983	28,671	29,011
Non-Markup Expense	43,666	46,308	47,912
Profit Before Taxation	33,217	31,499	23,977
Profit After Taxation	19,219	18,150	15,585
Earning Assets Yield	8.98%	7.94%	7.70%
NIMs	4.24%	3.70%	2.99%
Coverage Ratio	89.4%	85.7%	85.8%
EPS	9.03	8.53	7.33
DPS	7.50	7.00	6.00
BVPS	79.1	80.5	81.2

Source: Company Reports, Shajar Research

Note: The projections are on unconsolidated basis

\* where applicable

- We revise our Dec'16TP to PkR78.3/sh (Previously: PkR56.2/sh) of National Bank of Pakistan (NBP), post-discussion with the management and strong core business turnaround.
- NBP recorded an EPS of PkR2.54 on an unconsolidated basis in the 2QCY16 (+33.6%QoQ, 27%YoY) as 1) income earned surged by PkR3bn on sequential basis driven by investment income and recoveries of mark-up from non-performing advances (PkR300-400mn) 2) cost of provisioning dipped to 0.12% vs. 0.15% in 1QCY16 3) Fee Income improving by PkR1bn QoQ led by growth in government transaction fee and one-off investment advisory fee (PkR350mn).
- According to the management, the cleaning exercise was carried out in 2015 and expects no major provisioning coming-in in the near-term. They further expect ~5%/year recoveries from Bangladesh.
- On the capital gain front, the management indicated that they intend to hold their equity portfolio (Surplus: PkR27.9bn) to yield dividend income while some gains can be realized on the bond portfolio. We have assumed PkR1bn gain in each of the remaining quarters.

#### Estimates revised upward; strong performance expected to continue

Accounting for the better core business performance in the 2Q, we revise our CY16E/17F to PkR8.5/7.3 (Previously: PkR6.6/6.8). While balance sheet growth is funded through borrowing in 1HCY16 (PkR247bn vs. PkR21.9bn in CY15), we believe the strategy to be the product of management's expectation of deposit growth in the 2HCY16. The management still expects a 10% growth in deposits for CY16 despite deposits receding by PkR32bn to PkR1.3tr in the 1HCY16 which the management attributes to offloading of PkR100bn expensive deposit of telecom companies. The management does not expect proportion of CA deposits (31.5% in 1HCY16) to improve, however, the focus is to increase SA deposits.

The management further targets 10% growth in advances with particular focus on SME and retail segment. In CY16TD, the bank lend PkR50bn to Oil & Gas sector while PkR35bn is advanced for Neelum-Jhelum project. Guiding on the provisions, NBP management stated that the cleaning exercise was carried out in CY15 and cost to provisions is to remain <1% in near-term. With regard to PkR5bn accretion in NPLs, the management has classified Youth loans (PMYBL) on the subjective basis. Considering the bank's focus on high risks segment we have incorporated higher provisioning cost CY18 onwards.

Higher operational cost remains a concern for us. Administrative expenses currently stand at PkR32.2mn/branch (annualized) vs. PkR29.5mn/branch in CY15 and <PkR25mn/branch of peers. The bank plans to add 40 branches and 16 commercial centers in the 2HCY16 as against other banks that have deferred expansion plans in a low-interest rate environment. As per management, it takes ~1 year for a branch to reach breakeven point.

#### Valuation Perspective

We upgrade our investment thesis to "Outperform" from "Neutral", as we revise our Dec'16TP to PkR78.3/sh offering an upside of 9%. Along with a dividend yield of 9%, the scrip offers a total return of 18% at current levels.

Hamza Kamal<sup>AC</sup>

Tel : +(92 21) 32469141 - 50 -Ext 540

[hamza.kamal@shajarcapital.com](mailto:hamza.kamal@shajarcapital.com)

## Analyst Certification

The Research Analyst(s), if any, denoted by AC on the cover of this report, certifies that (1) the views expressed in this report are unbiased and independent opinions of the Research Analyst(s) which accurately reflect his/her personal views about all of the subject companies/securities and (2) no part of his/her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report. Furthermore, he/she does not hold any beneficial holding in the scrip. Also, research analyst(s) or his/her close relatives have not traded in the subject security in the past 7 days and will not trade in next 5 days.

## Disclaimer

This research report is for information purposes only and does not constitute nor is it intended as an offer or solicitation for the purchase or sale of securities or other financial instruments. Neither the information contained in this research report nor any future information made available with the subject matter contained herein will form the basis of any contract. Information and opinions contained herein have been compiled or arrived at by Shajar Capital Pakistan Private Limited ("Shajar Capital") from publicly available information and sources that are believed to be reliable. Whilst every care has been taken in preparing this research report, no research analyst, director, officer, employee, agent or adviser of any member of Shajar Capital gives or makes any representation, warranty or undertaking, whether express or implied, and accepts no responsibility or liability as to the reliability, accuracy or completeness of the information set out in this research report. Any responsibility or liability for any information contained herein is expressly disclaimed. All information contained herein is subject to change at any time without notice. No member of Shajar Capital has an obligation to update, modify or amend this research report or to otherwise notify a reader thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate, or if research on the subject company is withdrawn. Furthermore, past performance is not indicative of future results.

The investments and strategies discussed herein may not be suitable for all investors or any particular class of investor. Investors should make their own investment decisions using their own independent advisors as they believe necessary and based upon their specific financial situations and investment objectives when investing. Investors should consult their independent advisors if they have any doubts as to the applicability to their business or investment objectives of the information and the strategies discussed herein. This research report is being furnished to certain persons as permitted by applicable law, and accordingly may not be reproduced or circulated to any other person without the prior written consent of a member of Shajar Capital. Members of Shajar Capital and/or their respective principals, directors, officers and employees may own, have positions or effect transactions in the securities or financial instruments referred herein or in the investments of any issuers discussed herein, may engage in securities transactions in a manner inconsistent with the research contained in this research report and with respect to securities or financial instruments covered by this research report, may sell to or buy from customers on a principal basis and may serve or act as director, placement agent, advisor or lender, or make a market in, or may have been a manager or a co-manager of the most recent public offering in respect of any investments or issuers of such securities or financial instruments referenced in this research report or may perform any other investment banking or other services for, or solicit investment banking or other business from any company mentioned in this research report. By accepting this research report, you agree to be bound by the foregoing limitations.

Shajar Capital Research Policy prohibits research personnel from disclosing a recommendation, investment rating, or investment thesis for review by an issuer/company prior to the publication of a research report containing such rating, recommendation or investment thesis.

## Rating System

We use a 3-tier rating system i.e. Overweight, Marketweight and Underweight, based on the level of expected return (New rating system effective Jun 23, 2016). Ratings are frequently updated and can be changed because of a movement in the stock's price, revision in the analyst's estimate of the stock's fair value, a change in the analyst's assessment of a company's business risk, or a combination of any of these factors. In addition, research reports contain information carrying the analyst's views and investors should carefully read the entire research report and not infer its contents from the rating ascribed by the analyst(s). In any case, ratings or research should not be used or relied upon as investment advice. An investor's decision to buy, sell or hold a stock should depend on individual circumstances (such as the investors existing holdings or investment objectives) and other considerations. Bearing in mind the prevailing low interest rate environment, the revised ratings are tabled below:

Rating Definitions		Old Rating Definitions*	
Overweight	>10% Total return	Buy	=+15% potential
Marketweight	+/- 10% Total return	Hold	=-5% to +15% potential
Underweight	<-10% Total return	Sell	More than 5% down side

\* The Old rating system is discarded effective June 23, 2016

## Time Horizon

Time horizon of the Shajar Universe companies is generally the year-end financial reporting period of the company (unless otherwise mentioned).

## Research Dissemination Policy

Shajar Capital is fully committed to disseminate research to all clients (without any preference, prejudice or biasness) in a timely manner through either physical or electronic distribution such as mail, fax and/or email. Nevertheless, not all clients may receive the material at the same time.

## Valuation Methodology

To arrive at our Target Price, we use the following valuation techniques:

- Dividend discount Model
- Discount cash flow Model
- Assets based Approach
- FCF (Free cash flow for the firm)
- Comparable Method (P/E, P/Bv, P/S)
- Sum of Parts Valuation