

# Day Break

Wednesday, 23 August 2017

## COMPANY UPDATE

### NATIONAL BANK OF PAKISTAN

#### COMMERCIAL BANKS

<b>Recommendation</b>	<b>BUY</b>
Target Price:	82.8
Last Closing: 22-Aug-17	60.3
Upside:	37.2
Valuation Methodology:	Asset based Valuation / Dividend Discount Model (DDM)
Time Horizon:	Dec-17

#### Market Data

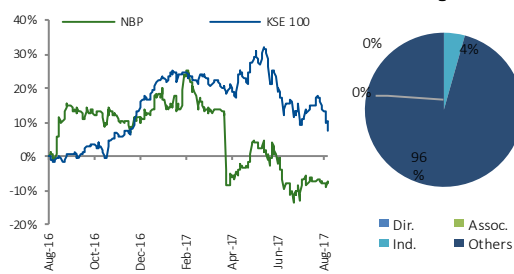
Bloomberg Tkr.	NBP PA		
Shares (mn)	2,127.5		
Free Float Shares (mn)	506.3		
Free Float Shares (%)	23.8%		
Market Cap (PKRbn   USDmn)	128.4	1,218.3	
Exchange	KSE 100		
<b>Price Info.</b>	90D	180D	365D
Abs. Return	(9.8)	(24.4)	(8.6)
Lo	57.0	57.0	57.0
Hi	68.9	80.3	82.7

#### Key Company Financials

Period End: Dec

PKRbn	CY16A	CY17E	CY18F	CY19F
Total Revenue	84.8	83.1	88.6	101.2
Net Income	22.75	21.4	20.4	24.9
EPS (PKR)	10.7	10.1	9.6	11.7
DPS (PKR)	7.5	7.0	7.0	8.0
Total Assets	1,975.7	2,122.6	2,379.4	2,682.1
Total Equity	176.7	183.3	188.8	196.7
<b>Key Financial Ratios</b>				
ROE (%)	12.9	11.7	10.8	12.6
P/E (x)	5.6	6.0	6.3	5.2
P/B (x)	0.7	0.7	0.7	0.7
DY (%)	12.4	11.6	11.6	13.3

#### Relative Price Performance & Shareholding



#### About the Company

The Bank was incorporated under the National Bank of Pakistan Ordinance 1949. The Bank is engaged in providing commercial banking and related services in Pakistan and Overseas. The bank also works as an agent to the State Bank of Pakistan.

Source: Bloomberg, PSX & IGI Research

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## Commercial Banks

### NBP: Profitability to be up by +13%QoQ on the back of higher fee income

- NBP is expected to post profit after tax of PKR 4.8bn (or EPS: 2.25 PKR), up by +13%QoQ (or down 11%YoY).
- We foresee the cumulative impact of advances growth on interest income to be larger than the impact of increase in cost of deposit.
- Non-interest income is anticipated to be up by +52%QoQ based on volumetric growth in business from the government, while trade related revenue might stagnate.
- We expect taxation to increase by 1.13x and to reduce profit after tax growth to +13%QoQ compared to pre-tax growth in profitability by +49%QoQ.
- We recommend "BUY" call with our Dec-17 target price of PKR 82.8/share, offering +37% upside from its last closing.

#### Earnings per share to clock in at 2.25 PKR

We preview National Bank of Pakistan (NBP) financial result for 2QCY17. NBP is expected to post profit after tax of PKR 4.8bn (or EPS: 2.25 PKR), up by +13%QoQ (or down 11%YoY). This will bring 1HCY17 earnings to PKR 9.0bn (or EPS: 4.24 PKR), down 5%YoY. We expect rise in interest income and fee income to be the primary reason of uptick in profitability. On the other hand, decline in interest income and higher operating expenses will lead to receding profits on a yearly basis (down 11%YoY).

Exhibit:

#### NBP Result Highlights

PKRmn (Period end=Dec)	2QCY17	2QCY16	YoY	1QCY17	QoQ	1HFY17	YoY
<b>Net Interest Income</b>	<b>15,275</b>	<b>15,621</b>	<b>-2%</b>	<b>14,388</b>	<b>6%</b>	<b>29,663</b>	<b>7%</b>
Fee Income	4,894	4,219	16%	3,228	52%	8,122	15%
Capital Gain & Div. Income	2,200	2,431	-10%	2,397	-8%	4,597	-3%
<b>Non-Interest Income</b>	<b>7,894</b>	<b>7,640</b>	<b>3%</b>	<b>6,480</b>	<b>22%</b>	<b>14,374</b>	<b>1%</b>
Total Revenue	23,169	23,262	0%	20,868	11%	44,037	5%
Operating Expenses	12,510	11,839	6%	12,514	0%	25,024	8%
Pre-Provisioning Profits	10,659	11,423	-7%	8,354	28%	19,013	2%
NPL (Rev.) / Prov.	1,000	1,061	-6%	1,850	-46%	2,850	38%
Pre-Tax Profits	9,659	10,362	-7%	6,504	49%	16,163	-2%
Taxation	4,866	4,951	-2%	2,276	1.13x	7,143	1%
<b>Profit After Tax</b>	<b>4,793</b>	<b>5,410</b>	<b>-11%</b>	<b>4,228</b>	<b>13%</b>	<b>9,020</b>	<b>-5%</b>
EPS (PKR)	2.25	2.54		1.99		4.24	
DPS (PKR)	-	-		-		-	
BVPS (PKR)	80.76	77.31		78.50		80.76	

#### KEY RATIOS

Cost-To-Income Ratio	54%	51%	60%	57%
Effective Tax Rate	50%	48%	35%	44%
Non-IL / Total Income	34%	33%	31%	33%

SOURCE: IGI Research, Company accounts, PSX notifications

#### **Interest income to be higher based on expanding loan book**

During the quarter, average WALR declined by 7bps which will translate into lower advances yield for NBP. However, at the same time, advances in the sector grew by +8.4%QoQ, depicting higher interest earning over the quarter due to the bigger size of the loan book. On the other hand, interest expense is also rising due to increasing deposits (industry deposits up +7.3%QoQ) with the cumulative impact of advances growth on interest income being larger than the impact of increase in cost of deposit.

#### **Fee income to pull up the bottom-line**

Non-interest income is anticipated to be up by +52%QoQ based on volumetric growth in business from the government, while trade related revenue might stagnate. Capital gain is expected to be moderate, with 14% decline over the previous quarter. Overall, non-interest income is expected to rise by +22%QoQ riding on growth in fee income.

#### **Profitability to remain high despite provision of super-tax**

We see stagnant operating expenses as a result of measures taken for optimal cost management by the bank. Additionally, we foresee decline in provision charge. However, due to one-time provision of super-tax, we expect taxation to increase by 1.13x and to reduce profit after tax growth to +13%QoQ compared to pre-tax growth in profitability by +49%QoQ.

#### **Recommendation**

NBP showed growth in quarterly profitability despite the provision of super-tax in 2QCY17. Hence, based on sound fundamentals and attractive valuation, with a forward CY17/CY18 P/B of 0.7x/0.7x and dividend yield of 11.6%/11.6%, we recommend **“BUY”** call with our Dec-17 target price of PKR 82.8/share, offering +37% upside from its last closing.

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