

Commercial Banks

NBP: Exceptional 4QCY15 Performance; Earnings up by +56%QoQ to PKR 3.35/share

- National Bank of Pakistan (NBP) reported CY15 earnings of PKR 19.2bn (EPS PKR 9.03) up by a massive +28%YoY, higher than market and our estimate of PKR 7.6/share. Bank also announced a PKR 7.5/share cash dividend along with the result, which again is a surprise.
- On quarterly basis, bank booked in profitability of PKR 7.12bn (EPS PKR 3.35) compared to 9MCY15 profitability of 12.1bn (EPS PKR 5.69).
- Bank's Interest income is up by +17%YoY to PKR 53.7bn led primarily by 12%YoY decline in interest expense (CASA ratio: 9MCY15 +71% compared to 9MCY14 +69.7%). In 4QCY15, bank's interest income is up by a significant +41%QoQ to PKR 17.3bn, with +16%QoQ growth in interest based earnings.
- Bank's non-interest income is up +11%YoY to PKR 34.98bn, led by +2%YoY/+60%QoQ growth in fee income and capital gains of PKR 12.6bn (+44%YoY).
- The bank booked in provisioning charge against diminution of investments mounted to PKR 1.1bn in 4QCY15 (PKR 0.2bn in 9MCY15).
- Bank's operating cost is up by +3%YoY (cost to income ratio +49% in CY15), while admin expense is also up by +5.4%.

Recommendation

We will soon be revisiting our investment case on NBP, given bank's exceptionally good performance in 4QCY15. However given a strong dividend yield of 13% (PKR 7.5/share dividend) we recommend a 'BUY' call on NBP.

Exhibit: Financial Highlights

PKRmn (Period end=Dec)	4QCY15	4QCY14	YoY	CY15	CY14	YoY
Interest Income	17,328	14,344	21%	53,721	44,166	22%
Non-Interest Income	8,940	9,358	-4%	34,983	31,472	11%
Total Revenue	26,268	23,702	11%	88,704	75,639	17%
Operating expenses	11,536	12,061	-4%	43,667	42,561	3%
PPOP	14,732	11,641	27%	45,037	33,078	36%
Provisioning Charge	3,619	7,663	-53%	11,821	11,077	7%
Pre-Tax Profits	11,114	3,978	179%	33,216	22,001	51%
Taxation	3,990	1,024	290%	13,997	6,973	101%
Profit After Tax	7,124	2,954	141%	19,219	15,028	28%
EPS	3.35	1.39		9.03	7.06	
DPS	7.50	5.50		7.50	5.50	

Source: IGI Research, Company Financials, KSE

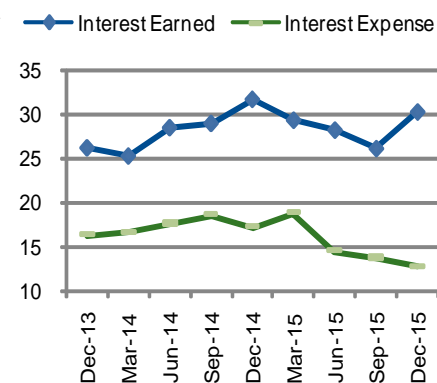
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Exhibit: Bank's Improving interest income



Analyst Certification

The analyst[^] hereby certify that the views about the company/companies and the security/securities discussed in this report are accurately expressed and that he/she has not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report. The analyst is principally responsible for the preparation of this research report and that he/she or his/her close family/relative does not own 1% or more of a class of common equity securities of the following company/companies covered in this report.

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Recommendation	Rating System
Buy	If return on aforementioned security(ies) is more than 10%, from its last closing price(s)
Hold	If return on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
Sell	If return on aforementioned security(ies) is more than -10%, from its last closing price(s)

Valuation Methodology

The analyst[^] has used following valuation methodology to arrive at the target price of the said security (ies):

- Justified Price-to-book
- Dividend Discount Model

Time Horizon

- Dec-16

Risk

- Changes in State Bank of Pakistan Policy Rate
- Change in Country (Pakistan) macro-economic environment
- Changes in Company(ies) operating structure

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