

Inter Market Pulse

Pakistan Banks

NBP: Continues to surprise; maintain Buy

- We revise our Dec'17 TP for NBP to Pkr92/sh (from previous Pkr89/sh), which offers a total return of 33% (Stance: Buy). Our revised CY17/18F EPS estimates of Pkr11.31/11.89 (up 9%/5% from previous) reflect the improved asset quality, loan growth and cost control depicted in the CY16 result.
- NBP's impressive earnings streak continues with the bank posting all-time high consolidated NPAT of Pkr23.04bn (EPS: Pkr10.83) in CY16, much higher than consensus expectation. Tier-I ROE clocked in at 19% (first time since CY09), heading close to top tier bank levels. Loan provision reversal of Pkr2.25bn in 4QCY16 (reported for the first time ever since CY07) was the highlight.
- NBP trades at CY17F P/B of 0.82x and P/E of 6.64x, implying a considerable discount to the large private banks despite similar Tier-I ROEs. The bank is in the midst of a turnaround, with leveraging of strong capital base, unique fee franchise and improved cost efficiencies to likely transpire into true earnings potential, in our view.

Estimates revised up; maintain Buy stance

We revise our Dec'17 TP for NBP to Pkr92/sh (from previous Pkr89/sh), which offers a total return of 33% (Stance: Buy). Our revised CY17/18F EPS estimates of Pkr11.31/11.89 (up 9%/5% from previous) reflect improved asset quality (Pkr708mn loan provision in CY16 vs. Pkr10.8bn in CY15), loan growth (15%YoY in CY17F) and cost efficiencies (10%YoY growth in admin costs in CY16). Other triggers, which can potentially support higher earnings growth, are incremental core earnings from addition of 100 branches in CY17F, higher Fee Income with debit cards set to launch shortly and an increase in government transactions, and potential loan provision reversals with Management highlighting possibility of continuation of NPL recovery trend.

Enticing triggers could support earnings growth

NBP's impressive earnings streak continues with the bank posting all-time high consolidated NPAT of Pkr23.04bn (EPS: 10.83) in CY16, implying growth of 15%YoY. Tier-I ROE stood at 19% (first time ever since CY09), approaching top-tier levels. The result came in much higher than consensus expectation, primarily on account of surprise loan provision reversal of Pkr2.25bn in 4QCY16 (reported for the first time ever since CY07), with NPL recovery trend expected to continue as per Management. Loan provisions could have been lower had the Management decided to avail the benefits of Forced Sale Value (FSV) of collaterals in CY16. To recall, NBP had availed FSV amounting to Pkr3.6bn in CY15, which resulted in lower loan provisions. Major domestic NPL recoveries came from Fertilizer (Pkr15bn) and Textile (Pkr1.6bn) sectors. While we do not see NBP's asset quality reaching parity with that of private banks, high 90% coverage provides comfort. Among the other positives, Fee Income posted growth of 18%YoY, with impetus from recent expansion in ATM network and contributions from government related transactions.

Loan growth accelerates

On the Balance Sheet front, advances grew by 15%YoY, with major contribution from an uptick in loans to Energy sector (Pkr68bn increase YoY). Similar to other banks, IDR fell by 3ppt to 54%, with T-Bills continuing to dominate. Capital gains backlog (inclusive of equities) stands at Pkr51bn (pre-tax), which has the potential to surprise. On the liabilities front, deposits grew by 16%YoY, with CASA declining by 3ppt YoY to 60%.

Valuations should expand

NBP trades at CY17F P/B of 0.82x and P/E of 6.64x, implying a considerable discount to the large private banks despite similar Tier-I ROE. The bank is in the midst of a turnaround, with leveraging of strong capital base, unique fee franchise and improved cost efficiencies likely to transpire into true earnings potential, in our view.

National Bank of Pakistan

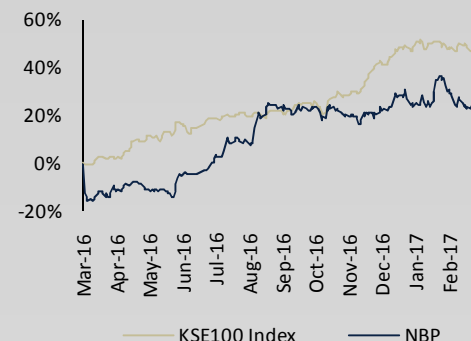
| | |
|-------------------------------|-----------------|
| Price (Pkr/sh) | 75.08 |
| TP (Pkr/sh) | 92.00 |
| Stance | Buy |
| Upside | 22.5% |
| Fwd D/Y | 10.7% |
| Total Return | 33.2% |
| Bloomberg / Reuters | NBP PA / NBP.KA |
| Mkt Cap (US\$m) | 1,523.9 |
| 52wk Hi-Low (Pkr/sh) | 82.66-51.17 |
| 3m Avg. Daily Vol ('000 shrs) | 2,922 |
| 3m Avg. Traded Val (US\$m) | 2.176 |

Revised Estimates

| EPS (Pkr) | CY17F | CY18F | CY19F |
|----------------|-------|-------|-------|
| Revised | 11.31 | 11.89 | 12.35 |
| Previous | 10.41 | 11.35 | 12.77 |
| P/B Tier I (x) | 1.14 | 1.08 | 1.02 |
| P/B Total (x) | 0.82 | 0.79 | 0.76 |
| P/E (x) | 6.64 | 6.32 | 6.08 |
| D/Y | 11% | 11% | 12% |

Source: IMS Research

NBP vs. KSE100 Index

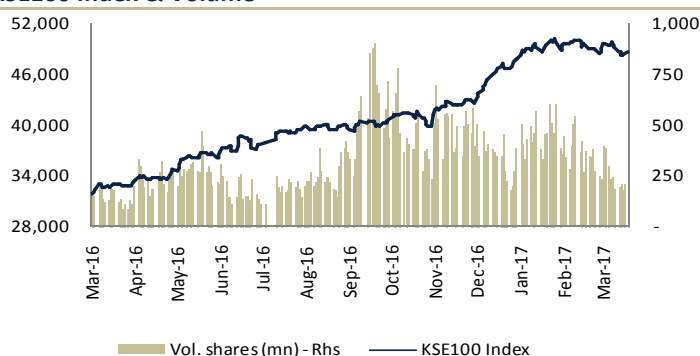


Source: IMS Research

Morning News

- **KE's average tariff cut by PkR3.50/KWh for seven years:** NEPRA on Monday cut average electricity tariff for K-Electric by PkR3.50/KWh for the next seven years besides legally doing away with its service monopoly. The new tariff would now become effective from the date of its notification by the federal government, legally required within 15 days unless challenged for review or reconsideration. It will remain effective until 2023. The previous tariff helped KE to scale down its transmission and distribution (T&D) losses from 35% to about 22.1% over the years, but most of the efficiency gain was allowed to the KE to let it invest and become profitable from being a loss-making entity.
- **Sharif orders reopening of Afghan border:** The government on Monday reopened border crossings with Afghanistan as a goodwill gesture, but with a hope that Kabul would address its concerns about terrorist sanctuaries on the border.
- **Current account deficit widens 120% in 8MFY17:** Pakistan's current account deficit more than doubled to US\$5.47bn in the 8MFY17 due to burgeoning imports and declining remittances. The figure amounts to 2.6% of the GDP.
- **Hub coal plant construction kicks off today:** The groundbreaking ceremony of the 1320MW HUBCO project is expected to take place today. The US\$2bn project is being constructed by China Power Hub Generation Company (CPHGC) – a joint venture project company set up by HUBCO and China Power International Holding Ltd (CPIH).
- **Non-cash banking transactions fall sharply:** Non-cash banking transactions fell sharply by 29% in 8MFY17 to PkR193bn as non-filers switched to informal banking to avoid an enhanced withholding tax resulting in collection of only PkR7.7bn in taxes as compared to PkR8.04bn in SPLY.

KSE100 Index & Volume



Forex & Money Market

| | Close | DoD Δ | YoY Δ bps | CYTD Δ bps | FYTD Δ bps |
|--------------------|-------|-------|-----------|------------|------------|
| 6m Tbill yield (%) | 5.97 | 0.00 | -0.21 | -0.04 | 0.09 |
| 10Y PIB yield (%) | 8.05 | 0.00 | -0.51 | -0.47 | 0.46 |
| 6m Kibor (%) | 6.09 | 0.01 | -0.26 | -0.03 | 0.04 |

| | Close | DoD Δ | DoD Δ (%) | YoY Δ (%) | CYTD Δ (%) | FYTD Δ (%) |
|----------|--------|-------|-----------|-----------|------------|------------|
| PkR/US\$ | 104.86 | 0.00 | 0.00% | 0.2% | 0.2% | 0.0% |
| PkR/EUR | 112.82 | -0.15 | -0.13% | -4.5% | 2.0% | -3.4% |
| PkR/JPY | 0.930 | 0.00 | 0.48% | -1.1% | 3.9% | -8.8% |

Source: Bloomberg

World Indices

| | Close | DoD Δ | DoD Δ (%) | CYTD Δ (%) | FYTD Δ (%) |
|-------------|----------|--------|-----------|------------|------------|
| Pakistan | 48,697.7 | 288.3 | 0.60% | 1.86% | 28.89% |
| China | 3,250.8 | 13.4 | 0.41% | 4.74% | 10.96% |
| Hong Kong | 24,502.0 | 192.1 | 0.79% | 11.37% | 17.83% |
| India | 29,518.7 | -130.3 | -0.44% | 10.86% | 9.33% |
| Indonesia | 5,534.0 | -6.4 | -0.12% | -12.10% | 10.31% |
| Malaysia | 1,749.4 | 4.2 | 0.24% | 6.56% | 5.76% |
| Japan | 19,521.6 | 0.0 | 0.00% | 2.13% | 25.33% |
| Singapore | 3,165.7 | -3.7 | -0.12% | 9.89% | 11.43% |
| Korea | 2,157.0 | -7.6 | -0.35% | 6.44% | 9.47% |
| Taiwan | 9,913.0 | 4.3 | 0.04% | 7.13% | 14.38% |
| Bangladesh | 5,695.7 | -5.6 | -0.10% | 13.10% | 26.36% |
| Sri Lanka | 6,041.2 | -6.7 | -0.11% | -3.00% | -3.85% |
| Philippines | 7,316.6 | -28.5 | -0.39% | 6.96% | -6.15% |
| Thailand | 1,563.5 | 2.6 | 0.16% | 2.44% | 8.20% |
| Vietnam | 715.1 | 4.5 | 0.64% | 7.55% | 13.10% |
| USA | 2,373.5 | -4.8 | -0.20% | 6.01% | 13.08% |
| UK | 7,429.8 | 4.9 | 0.1% | 4.02% | 14.23% |
| Germany | 12,052.9 | -42.3 | -0.35% | 4.98% | 24.51% |

Source: Bloomberg

Commodity Prices

| | Close | DoD Δ | DoD Δ (%) | YoY Δ (%) | CYTD Δ (%) | FYTD Δ (%) |
|----------------|----------|-------|-----------|-----------|------------|------------|
| Gold - US\$/oz | 1,228.71 | -0.58 | 0.0% | 0.0% | 6.6% | -7.1% |
| Oil- US\$/bbl | 48.35 | -0.43 | -0.9% | 0.0% | -10.0% | 0.0% |
| Cotton US\$/lb | 76.97 | -1.39 | -1.8% | 0.0% | 8.9% | 22.5% |
| Coal - US\$/MT | 77.60 | -0.65 | -0.8% | 0.0% | -7.3% | 32.6% |
| CRY Index | 184.78 | 0.30 | 0.2% | 0.0% | -4.0% | -4.9% |

Source: Bloomberg

Portfolio Flows

| (US\$m) | Current | WTD* | MTD | 12M | CYTD | FYTD |
|---------------------|---------|--------|--------|---------|---------|---------|
| Total FIPI | 0.37 | (14.1) | (6.9) | (393.9) | (147.4) | (445.3) |
| Individuals | (0.2) | (4.5) | (32.9) | 2.0 | (36.4) | (55.5) |
| Companies | (0.0) | 14.5 | 23.2 | (64.0) | 62.7 | 124.3 |
| Banks / DFI | 0.4 | (4.0) | (3.2) | (178.4) | (54.0) | (147.1) |
| NBFC | (0.0) | 0.3 | (1.7) | 203.4 | 18.8 | 120.4 |
| Mutual Funds | 0.3 | 3.9 | 7.7 | 417.9 | 99.6 | 406.4 |
| Other Organization | (0.1) | (1.3) | 0.9 | (1.6) | 19.3 | (6.3) |
| Broker Trading | (2.1) | (1.7) | 2.1 | (12.2) | 10.6 | (23.7) |
| Insurance Companies | 1.3 | 6.9 | 10.8 | 26.9 | 26.9 | 26.9 |

Source: NCCPL

*Last 5 working days

I, Abdul Ghani Fatani, certify that the views expressed in the report reflect my personal views about the subject securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations made in this report. I further certify that I do not have any beneficial holding of the specific securities that I have recommendations on in this report.

| Ratings Guide* | Total Return |
|----------------|------------------|
| Buy | More than 15% |
| Neutral | Between 0% - 15% |
| Sell | Below 0% |

*Based on 12 month horizon unless stated otherwise in the report. Total Return is sum of any Upside/Downside (percentage difference between the Target Price and Market Price) and Dividend Yield.

Valuation Methodology: We use multiple valuation methodologies in arriving at a Target Price including, but not limited to, Discounted Cash Flow (DCF), Dividend Discount Model (DDM) and relative multiples based valuations.

Risks: (1) Increase in NPLs, (2) politically influenced lending, and (3) cost inefficiencies.

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