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Inter Market Pulse

Pakistan Banks

NBP: Only bank to have surprised in CY15; estimates revised up, Neutral

- Of the six banks in our coverage, only NBP delivered a positive surprise in CY15 (on earnings & dividend). There are definite green shoots where (i) coverage is now close to 90%, (ii) admin costs increased by a very acceptable 5.5%YoY (vs. Big-5 ex. NBP & HBL avg. of 7%), and (iii) PIB stock reduced by 12%YoY, thereby limiting reinvestment risk later in the year.
- It has taken almost a decade but NBP has finally crossed its previous high NPAT of PkR19.4bn recorded in CY07. We see enough in the result to lift our profit projections by 8% on average, which takes our TP to PkR63/share from PkR60/share previously (remain Neutral). Our revised CY16/17F EPS estimates are PkR9.65/PkR9.67.
- NBP trades at a CY16F P/B of 0.7x and P/E of 6.3x. Importantly, D/Y is still a high 12.3% which can extend the rally in the stock (+12% since result announcement vs. KSE-100: +5.6%). We are cautiously optimistic on NBP but await sustainable improvement before turning incrementally bullish on the name.

The only surprise package in our coverage...

Of the Big-6 banks, National Bank of Pakistan (NBP) was the only one to deliver a positive surprise in CY15 (on earnings and dividend). While improved coverage (89%+), contained growth in admin cost (+5.5%YoY) and investment mix shift in favor of MTBs than PIBs suggest improvement in fundamentals, we await sustainability of this recent turnaround before turning incrementally bullish on the name. On balance, we remain Neutral on the stock with a revised TP of PkR63/share. To recall, NBP posted record high NPAT of PkR20.03bn (EPS: PkR9.42) in CY15 vs. restated NPAT of PkR16.08bn (EPS: PkR7.56) in CY14, up 25%YoY. During 4QCY15, EPS clocked in at PkR4.05, up 122%YoY, supported by (i) 29%QoQ surge in NII courtesy 7%QoQ decline in interest expense and 10%QoQ rise in interest income, (ii) impairment reversal on investments, and (iii) gain on sale of associates (listed mutual funds).

Positive fundamental changes to look out for

Other key highlights of CY15 financial statements include (i) 16%YoY increase in deposits, with growth in current account taking the lead (24%YoY), but CASA (63%) still remains relatively low; (ii) investments posted a 47%YoY incline, with change in portfolio mix in favor of MTBs (up 2.4x YoY) vs. decline in PIBs minimizing reinvestment risk concern this year; (iii) 8%YoY decline in advances, which could be attributed to weak commodities cycle; (iv) slight increase in NPL ratio to 18.4% partly overshadowed by coverage hitting 8yr high (89.4%); and (v) contained growth in administrative expense (up 5.6%YoY vs. Big-5 ex. NBP & HBL +7%YoY) with some support from decrease in staff strength.

Earnings estimates increased...

Subsequent to posting record high NPAT during CY15, we raise our EPS estimates for NBP by 15/9%YoY to PkR9.65/9.67, which thereby drives up our TP to PkR63/share (vs. PkR60/share previously). Though similar to other banks, NBP is also exposed to reinvestment/repricing risk, which is likely to keep NII in check; we attribute flattish earnings to contained credit costs (translating into lower provisions) and lower effective tax rate. However, surprises can occur with capital gains coming into play (pre-tax backlog of PkR45.6bn, majorly on equities) as the bank continues to remain active on its equity portfolio front. Going forward, we anticipate next leg of uptick in earnings growth from CY18F, characterized by improvement in commodities cycle and CPEC aiding loan growth, and interest rate up cycle.

...thus pushing valuation up

NBP currently trades at CY16F P/B 0.7x and P/E of 6.3x, with our revised Dec'16 TP of PkR63/share offering an meager upside of 2.8% (total return: 15.1%). While valuation upside remains limited and the short term rally post result may have maxed out, we highlight high CAR (18.4%) can support NBP to not only participate aggressively in the upcoming credit cycle, but to also ensure sustainable payouts.

National Bank of Pakistan

Price (Pkr/sh)	61.31
TP (Pkr/sh)	63.00
Stance	Neutral
Upside	2.8%
Fwd D/Y	12.3%
Total Return	15.1%
Bloomberg / Reuters	NBP PA / NBPK.KA
Mkt Cap (US\$m)	1,245.8
52wk Hi-Low (Pkr/sh)	67.61-48.18
3m Avg. Daily Vol ('000 shrs)	1,213
3m Avg. Traded Val (US\$m)	0.65

NBP – Revised Estimates

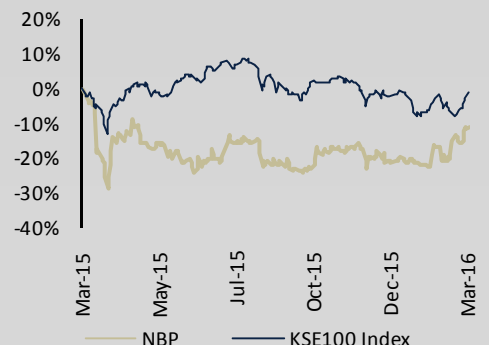
(Pkr)	CY16F	CY17F
EPS (Revised)	9.65	9.67
EPS (Old)	8.38	8.86
Change	15.1%	9.1%

Valuation Snapshot

	CY16F
P/B (x)	6.33
P/E (x)	0.71
ROE	11.6%
DPS (Pkr)	7.5
Div. Yield (%)	12.3%

Source: IMS Research

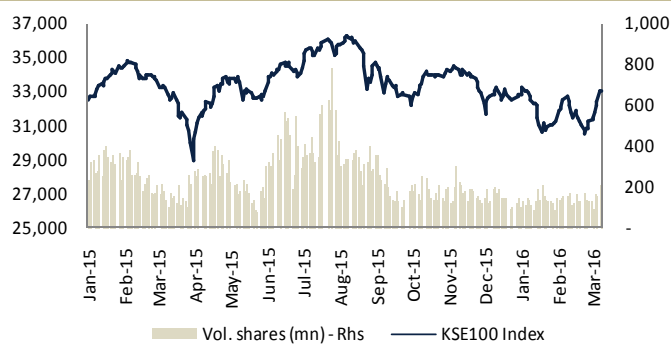
NBP vs. KSE100 Index



Source: PSX

Morning News

- **FIA starts investigations into allegations about RAW funds for MQM:** The Federal Investigation Agency has started investigation into allegations of funding by Indian intelligence agency RAW to the Muttahida Qaumi Movement and summoned Sarfaraz Merchant. An inquiry team of the FIA will investigate the charges against the party of money laundering, illegal purchase of weapons and RAW funding.
- **Ecneec approves five projects worth Pkr85.15bn:** The Executive Committee of the National Economic Council (Ecneec) on Tuesday approved five projects worth Pkr85.15bn in health, communication and water supply sectors. The meeting, presided over by Finance Minister Ishaq Dar approved principle of Rs13.33bn project for transportation of coal for power projects, subject to its further cost rationalization construction of additional carriageway of Indus Highway N-55, Sehwan-Khairpur Nathan Shah and Ratodero Section (around 200 kilometres). Ecneec also approved Mandra Chakwal Road project (64km) at a revised cost of Rs9.332bn, construction of coal conveying system measuring 4.8km and laying of 8km railways track with allied structures and facilities for transportation of coal from PIBT coal terminal to railway loading houses.
- **OGDC sets up reserve pool for employees as part of its austerity program:** As per the plan, excess employees will be asked to leave though they will continue to receive salaries. The board has also approved a cut in incentives for the company after posting a decline in earnings.

KSE100 index & volume

Source: PSX

World Indices

	Close	DoD Δ	DoD Δ (%)	CYTD Δ (%)	FYTD Δ (%)
Pakistan	33,032.9	10.3	0.0%	0.66%	-4.0%
China	2,901.4	4.0	0.1%	-18.02%	-32.2%
Hong Kong	20,011.6	-148.1	-0.7%	-8.68%	-23.8%
India	24,659.2	12.8	0.1%	-5.58%	-11.2%
Indonesia	4,811.0	-20.5	-0.4%	-12.10%	-2.0%
Malaysia	1,687.9	-10.1	-0.6%	-0.27%	-1.1%
Japan	16,783.2	-128.2	-0.8%	-11.82%	-17.1%
Singapore	2,778.8	-44.7	-1.6%	-3.61%	-16.2%
Korea	1,946.1	-11.8	-0.6%	-0.77%	-6.2%
Taiwan	8,664.3	4.8	0.1%	3.91%	-7.1%
Bangladesh	4,453.9	10.3	0.2%	-3.80%	-2.8%
Sri Lanka	5,934.7	-122.5	-2.0%	-13.92%	-15.5%
Philippines	6,915.5	22.8	0.3%	-0.53%	-8.6%
Thailand	1,374.6	-21.1	-1.5%	6.72%	-8.6%
Vietnam	574.7	-1.5	-0.3%	-0.75%	-3.1%
USA	1,979.3	-22.5	-1.1%	-3.16%	-4.1%
UK	6,125.4	-57.0	-0.9%	-1.87%	-6.1%
Germany	9,692.8	-86.1	-0.9%	-9.78%	-11.4%

Source: Bloomberg

Forex & Money Market

	Close	DoD Δ	YoY Δ bps	CYTD Δ bps	FYTD Δ bps
6m Tbill yield (%)	6.18	-0.01	-2.06	-0.21	-0.75
10Y PIB yield (%)	8.61	0.03	-0.66	-0.72	-1.36
6m Kibor (%)	6.11	0.01	-1.90	-0.15	-0.68

	Close	DoD Δ	DoD Δ (%)	YoY Δ (%)	CYTD Δ (%)	FYTD Δ (%)
PkR/US\$	104.75	0.015	0.01%	2.9%	0.0%	2.9%
PkR/EUR	115.42	0.671	0.58%	3.3%	0.9%	1.8%
PkR/JPY	0.927	0.004	0.47%	9.3%	6.5%	11.1%

Source: Bloomberg

Commodity Prices

	Close	DoD Δ	DoD Δ (%)	YoY Δ (%)	CYTD Δ (%)	FYTD Δ (%)
Gold - US\$/oz	1,261.42	-5.94	-0.5%	8.1%	18.8%	7.6%
Oil (WTI)- US\$/bbl	36.50	-1.40	-3.7%	-26.4%	-0.3%	-38.6%
Cotton US\$/lb	58.21	-0.71	-1.2%	-7.5%	-8.0%	-13.8%
Coal - US\$/MT	50.50	0.00	0.0%	-16.3%	4.2%	-16.0%
CRY Index	169.47	-2.23	-1.3%	-23.0%	-3.8%	-25.4%

Source: Bloomberg

Portfolio Flows

(US\$m)	Current	WTD	MTD	12M	CYTD	FYTD
Total FIPI	3.6	12.5	10.0	-330.4	-79.3	-320.0
Individuals	-0.4	-4.4	-3.6	101.0	16.8	69.7
Companies	-1.4	-0.2	0.3	53.8	42.2	106.9
Banks / DFI	-5.1	-20.7	-21.3	-28.7	5.1	26.5
NBFC	2.1	2.4	3.6	136.5	39.9	103.3
Mutual Funds	1.4	12.3	13.2	64.0	-18.7	24.3
Other Organization	-0.1	-1.1	-1.1	52.8	15.6	26.8
Broker Trading	-0.1	-0.8	-1.0	-48.9	-21.6	-37.5

Source: NCCPL

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Ratings Guide*

Buy	Upside more than 20%
Accumulate	Upside more than 10% but less than or equal to 20%
Neutral	Upside from 0% to 10%; Downside from 0% to -10%
Reduce	Downside more than 10% but less than or equal to 20%
Sell	Downside more than 20%

*Based on 12 month horizon unless stated otherwise in the report. Upside/Downside is defined as the percentage difference between the Target Price (TP) and the Market Price (last close).

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: (i) Repricing effect, (ii) reinvestment risk, (iii) delays in DR liftoff and (iv) lackluster loan growth due to weak commodities cycle

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