March 02, 2010

Pakistan Market

MORNING BRIEFING

NBP expected to post an EPS of Rs12 in 2009

KSE100 Index: Closing 9498.57 ↓ (-159.22)

National Bank of Pakistan (NBP) is scheduled to announce its full year 2009 results on March 4, 2010. We expect the bank to post earnings of Rs13.0bn (EPS Rs12.03) as against earnings of Rs15.5bn (EPS Rs14.36), a decline of 16% YoY. In 4Q alone we estimate the bank will post earnings of Rs2.9bn (EPS Rs2.69). Along with the results, we expect the bank to announce a final cash dividend of Rs6/share and a bonus issue of 15%.

Net Interest Income to rise 6% to Rs39.4bn

NBP's Net Interest Income (NII) is expected to rise 6%YoY amid higher spreads and steady growth in advances. We expect full year NIM's to settle around 6% in 2009, up 6bps YoY. However in contrast to NII, Non Interest Income is expected to dip by 13% to Rs14.3bn, as the bank booked lower dividend income from NIT (Rs1.3bn in 2009 vs Rs2.4bn last year). Further, due to lower volatility in the Pak rupee in 2009, we expect income from dealing in foreign currency to decrease by 24%.

(Rs mn)	2009E	2008	Δ%
Mark-up interest earned	75,612	60,943	24%
Mark-up interest paid	(36,244)	(23,885)	52%
Net interest income	39,368	37,058	6%
Provisions/write offs/reversal	(11,925)	(10,971)	9%
	27,443	26,087	5%
Non interest income	14,241	16,416	-13%
Operating expenditures	(22,290)	(19,502)	14%
Profit before tax	19,394	23,001	-16%
Taxation	(6,443)	(7,542)	-15%
Profit After Taxation	12,951	15,459	-16%
Earning per share (EPS)	12.03	14.36	-16%

Source: Annual reports, JS Research

Provisioning to remain a key concern

We expect provisioning to continue to remain a concern in the period and expect total provisions to rise by 9% to Rs11.9bn. Provision for NPLs is expected to rise to Rs11.8bn in 2009, up 12%YoY, as NBP continues to book new provisions. In 4Q alone, we expect the bank to record provisions for NPLs worth Rs3.2bn. NBP's gross NPL ratio has already witnessed an increase in 2009 - rising from 12% in 2008 to 14% in Sep 09. Moreover, the bank has already taken into account, partial benefit pertaining to FSV, which helped reduce provisions by Rs636mn in 9M2009.

Operating exp to jump 14% in 2009

Operating expenses will continue to remain an earnings dampener and are anticipated to increase 14%YoY to Rs22.3bn, due to general inflationary pressures and salary hikes.

Outlook

Although higher provisions and operating costs are likely to keep earnings in check in 2009, we remain positive on the scrip. The bank is also expected to record capital gains on redemption of NIT portfolio of Rs4.5bn (EPS impact Rs4.3) in the first quarter of 2010, as the terms for the agreement expired on Dec 31, 2009. The bank currently trades at a 2010F PE and PBV of 5.8x and 0.7x, and we maintain our 'Buy' call on the scrip.

Key statistics 2010F	NBP	Sector
Earnings Growth	22%	21%
PER (x)	5.8	7.7
Dividend Yield	7%	4%
ROE	13%	14%
PBV (x)	0.70	1.07

Source: JS Research

mustufa.bilwani@js.com
92 (21) 111-574-111 (ext. 3100)

Also in focus

Oil slips after hitting 18 month high

On the back of recovery in US dollar, oil prices slid down 96 cents to US$78.7 per barrel after hitting its highest level (since mid - January) of US$80.6 per barrel. The decline in International oil prices could lead to lower than expected earnings for E&Ps and OMC. However, it bodes well for country's marco fundamentals by keeping the trade deficit in check.

JS Global Capital Limited
6th Floor, Faysal House, Main Shahrah-e-Faisal, Karachi

Research:
Tel: +92 (21) 32799005
Fax: +92 (21) 32800163
js.research@js.com

Equity Sales:
Tel: +92 (21) 32799513
Fax: +92 (21) 32800166
junaid.iqbal@js.com

Fixed Income Sales:
Tel: +92 (21) 32799541-44
Fax: +92 (21) 32800165
tariq.usman@js.com

Corporate Finance:
Tel: +92 (21) 32799005
Fax: +92 (21) 22800163
azhar.iqbal@js.com