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Pakistan Market**NBP 9M2009 detailed accounts/‘Hold’ maintained**

KSE100 Index: Closing 8872.40 ↓ (-286.78)

MORNING BRIEFING

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National Bank of Pakistan (NBP) yesterday announced its nine months (Jan-Sep) 2009 results posting earnings of Rs10.1bn (EPS Rs9.34) a decline of 21%YoY. Despite a 6%YoY increase in Net Interest Income (NII), earning remained depressed due to surge in provision for Non Performing Loans (NPLs) and higher administrative expenses. As expected, NBP did not announce any payout with the results.

NII up 6%, Non Interest Income down 11%

NBP's net interest income rose by 6% amid high net interest margins and 5% growth in advances. Net Interest Margins (NIMs) arrived at 5.9% while advances growth outpaced 4.5% deposit growth resulting in 60bps increase in Advances to Deposit Ratio (ADR). Moving ahead, an expected 200bps cut in interest rates in the next 2 policy statements could squeeze spreads. However, it would provide a trade off in the form of higher expected credit offtake in the future.

In contrast to NII growth, non interest income suffered primarily on account of lower dividend income from NIT and one off income tax refund of Rs987mn in 9M2008. Given the difficult equity market conditions NIT announced dividend per unit of Rs3.05 as against Rs6.50 in 2008. Fee and commission income however, remained robust arriving at Rs6.5bn, up 15%YoY.

Asset quality down as NPL ratio rises to 14%

Despite decent growth in the top line, NBP's earnings were dragged down by a surge in provisions for NPLs. The bank recognized net provisions of Rs8.8bn up a massive 31%YoY, largely a result of 21% jump in NPLs to Rs68bn. Alone in 3Q2009, NBP recognized provisions for NPLs of Rs3.6bn versus only Rs1.7bn recognized in 3Q2008. As a result of rising NPLs, the Gross NPL ratio rose to 14% in Sep 2009 as against 12% in Dec 2008. Worryingly, this huge increase in provisions was despite the bank taking advantage of recent relaxation in prudential regulation on Forced Sale Value

(FSV), which helped reduce provisions by Rs636mn. Due to FSV relaxation, the NPL coverage ratio fell to 78% in Sep 2009 from 79% in Dec 2008.

Admin exp up 17%; cost/income ratio up 290bps

Apart from rising provisions, surge in administrative expenses turned out to be another earnings dampener in 9M2009. Rising inflationary pressures saw administrative expenses rise to Rs15.6bn up 17%YoY. As a result, cost to income ratio deteriorated by 290bps to 39.37% from 36.47% in 2008. Going forward, though inflationary pressures have subsided, pressure on NII from lower spreads is expected to prevent any major improvement in cost to income ratio.

Table: 9M2009 Financial highlights (YoY)

| (Rs mn) | 9M2009 | Δ% | 3Q2009 | Δ% |
|---|---------------|-------------|---------------|-------------|
| Markup interest earned | 55,932 | 29% | 18,663 | 23% |
| Markup interest paid | 27,248 | 67% | 8,959 | 25% |
| Net Interest Income | 28,684 | 6% | 9,704 | 21% |
| Provisions & write off | (8,773) | 31% | (3,198) | 90% |
| Net mark up income after prov | 19,910 | -2% | 6,507 | 3% |
| Fee income & brokerage income | 6,355 | 15% | 2,029 | 16% |
| Other non interest income | 4,885 | -31% | 2,244 | -31% |
| Net mark up + Non mark up income | 31,150 | -5% | 10,780 | -5% |
| Admin expenses & other charges | (16,150) | 17% | (5,470) | 9% |
| Profit before tax | 15,000 | -21% | 5,310 | -16% |
| Taxation | (4,949) | -22% | (1,541) | 2% |
| Profit after tax | 10,051 | -21% | 3,770 | -22% |
| EPS | 9.34 | -21% | 3.50 | -22% |

*Source: Company Accounts***Outlook: ‘Hold’ maintained**

Rising provisions for NPLs, lower dividend income particularly from NIT and higher administrative expenses remain key risks to earnings in 2009. As a result, we expect NBP's profits to decline by 20% in 2009. The bank currently trades at a 2009E PE and PBV of 6.9x and 0.8x, respectively, while it offers a 2009E ROE of 12%. We therefore maintain our ‘Hold’ stance on the scrip at current levels.

Also in focus**Provisional tax collection for Oct09 at Rs102bn**

The FBR has reported provisional tax collection for the month of October at Rs102bn compared to a target of Rs110bn. The same in October 2008 stood at Rs88bn. This takes the tax figure for the first four months of the fiscal year to Rs361bn. To recall, government has set a revenue collection target of Rs1,380bn for FY10.

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