

March 09, 2010

**Pakistan Market****NBP: Analyst briefing takeaways****MORNING BRIEFING**

KSE100 Index: Closing 9740.19 ↑ (+113.90)

National Bank of Pakistan (NBP) held an analyst briefing yesterday to discuss the bank's performance in the past year and its outlook for 2010. To recall, NBP announced full year 2009 earnings of Rs18.2bn (EPS: Rs16.92), with a one off NIT gain and tax credits as two key factors behind the 18%YoY growth. The bank also announced a higher than expected payout of 75% cash and 25% bonus issue. The stock has performed considerably well, up 25%YTD and 5.5% since announcement of the 2009 earnings. We remain Overweight on the scrip, which currently trades at a 2010E PBV of 0.8x.

**NIT gain and tax credit drive earnings growth**

NBPs 18%YoY growth was primarily driven by a one off NIT gain and tax credits utilized in 2009. The bank recorded capital gains of Rs3.9bn (~85% of total) from the redemption of NIT portfolio. NBP has also utilized tax credits of Rs4.1bn from prior years, and plans to utilize more going forward. Further tax credits available from prior years stand at ~Rs7bn. Moreover admin expenses were up 24%YoY- which included a one time charge of Rs1.4bn due to the revision of the pension fund rate, adjusting for which expenses are up 16%.

**Increased focus on Non Interest Income**

The management was of the view, that Non Interest Income is expected to remain a key element in the bank's strategy going forward. Non Interest Income's share in total income stands at 33% in 2009 (28% ex NIT gain) which is on the higher side, when compared to the industry. The management will continue to focus on increasing this in the future; making it less vulnerable to an expected contraction in spreads. The management reckons trading income in particular, has good potential to offer.

**Agri and SMEs to be targeted**

The management highlighted its intention of focusing on largely untapped segments such as, agriculture and SMEs

and is presently taking measures to fulfill the appetite of these potential customers. Agri credit is one segment in particular, where the bank believes it has a competitive edge given its sizeable rural presence (650+ branches).

**Outlook**

The management expects NPL accretion to slowdown further in 2010, but expects earnings to remain under pressure because of higher provisioning requirements on the already existing NPLs. As far as concerns regarding pooling government deposits (these deposits constitute 36.9% of the total chunk as of 2009) in a single treasury account, the bank expects any transfers to be made on phase wise basis spread over a certain time period. Moreover the bank expects the rising cost of funds (~5.5% in 2009) to decline by 30-40bps as expensive deposits phase out. We remain Overweight on the scrip which currently trades at a 2010E PBV of 0.8x.

National Bank of Pakistan	
<b>Market Price:</b> Rs93.04	<b>Kats Code:</b> NBP
<b>Market Cap:</b> Rs100.2bn (US\$1.2bn)	<b>Bloomberg Code:</b> NBP PA
<b>1-yrs Avg. Daily Volume:</b> 6.2mn shares, Rs490.6mn (US\$5.8mn)	<b>Reuters Code:</b> NBP.KA
<b>1-year High/Low:</b> Rs107.82/60.29	

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**Also in focus****MCB conference call highlights**

MCB Bank held a conference call yesterday to discuss its 2009 financials. MCB's YoY earnings were relatively flat at Rs22.4/share. The rising NII on the back of strong spreads failed to trickle down to the bottom line, as higher YoY provisions and increased administrative expenses dampened the effect. Total provisions jumped 82% to Rs7.3bn and included an impairment charge of Rs733mn in the final quarter and Rs500mn as provision for a single corporate. Admin expenses were higher, owing to inflationary pressures as well as a lower quantum of reversals from pension funds (Rs3.9bn in 2009 vs Rs5.4bn in 2008). The bank is also focusing on expanding its rural branch network, focusing mainly towards deposit collection.

As far as the overall outlook for the sector is concerned, the bank remains cautiously optimistic about the economic environment, and expects credit growth to come from the power sector and commodity financing. We maintain our 'Hold' on the scrip which trades at a 2010E PBV of 1.9x.

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