

April 10, 2009

**Pakistan Market****NBP: 2008 Detailed Accounts/'Hold' maintained****MORNING BRIEFING**

KSE100 Index Closing 7295.98 ↓ (-44.32)

National Bank of Pakistan (NBP) which had announced its full year 2008 results a few weeks back has recently released its detailed accounts. The bank had posted profits of Rs15.5bn (Rs17.2/share), a decline of 19%YoY mainly led by a surge in provisions for Non Performing Loans (NPLs). Along with the results, NBP also announced a bonus and dividend payout of 20% and 65%, respectively.

In today's report, we discuss NBP's financial performance in 2008 along with our outlook on the stock after incorporating the detailed financial results.

**Non Interest Income up 21%, NII rose by 10%**

NBP's non interest income rose by 21%, mainly driven by extraordinary rise in foreign exchange income. Exchange rate volatility helped the bank's forex income to surge by a massive 281% to Rs4.0bn. Moreover, increased trade activity and other business transactions helped the bank's fee & commission income to rise by 17% to Rs7.9bn.

In addition to strong non interest income growth, NBP's top line was well supported by a 10% rise in Net Interest Income (NII) amid rising interest margins and 21% growth in advances. Net Interest Margins (NIMs) rose by 30bps while advances growth outpaced 6% deposit growth resulting in 400bps increase in Advances to Deposit Ratio (ADR).

Moving ahead, falling KIBOR, substantial slowdown in credit off take and higher deposit cost due to minimum 5% deposit rate on savings would squeeze spreads and hence adversely affect NII growth. Similarly, relative stability in Rupee is likely to reduce exchange gain income while lower levels of trade & consumer business would affect fee income going forward.

**Asset quality deteriorates as NPLs surge by 47%**

Despite handsome growth in the top line, NBP's earnings were dragged down by a surge in provisions for NPLs. The bank recognized net provisions of Rs10.6bn up a massive 124%YoY, largely a result of 47% jump in NPLs to Rs56bn. Worryingly, the huge increase in provisions was despite the

bank taking advantage of relaxation in Prudential regulation on Forced Sale Value (FSV), which helped reduce provisions by Rs485mn. Due to a combination of FSV relaxation and a higher than usual percentage of incremental NPLs in the doubtful category (requires only 50% coverage), the NPL coverage ratio fell to 76% in Dec 2008 from 84% in Dec 2007.

**Rs394mn impairment recognized; Rs2bn deferred**

NBP like most of its contemporaries suffered from the equity market turmoil last year incurring an impairment loss of Rs2.4bn on listed equity securities and mutual fund investments. Taking advantage of the State Bank's relaxation which allows deferment of impairment loss to 2009, NBP only recognized Rs394mn of the total amount as impairment loss in 2008. The remaining amount of Rs2.0bn, in accordance with the directive was recognized in equity and would have to be transferred to P&L on a quarterly basis adjusting for price movements.

On a positive note, the recent bull run in equity markets (KSE up 24.4% from Dec 2008 levels), means a much lower quantum would have to be recognized as impairment in 2009.

**Outlook: 'Hold' maintained**

NBP's share price has rallied on the back of decent results and a better than expected payout. We however, believe risk of rising NPLs, falling spreads, and decline in dividend income particularly from NIT remain key risks to future earnings. As a result, we expect NBP's profits to decline by 16% in 2009. The bank trades at a 2009E PE and PBV of 6.7x and 0.9x, respectively, while it offers a 2009E ROE of 12%. We maintain our 'Hold' stance on the scrip at current levels.

farhan.rizvi@js.com  
92 (21) 111-574-111 (ext. 3096)

National Bank of Pakistan	
<b>Market Price:</b> Rs96.76	<b>Kats Code:</b> NBP
<b>Market Cap:</b> Rs86.8bn (US\$1.1bn)	<b>Bloomberg Code:</b> NBP PA
<b>1-yrs Avg. Daily Volume:</b> 4.6mn shares, Rs543.5mn (US\$6.7mn)	<b>Reuters Code:</b> NBP.KA
<b>1-year High/Low:</b> Rs237.35/46.56	

**Also in focus****Arab light crude close to US\$51 per barrel**

Arab light crude, which is the benchmark grade for local crude oil pricing, is trading at US\$51 per barrel. So far in this fiscal year FY09, price of this particular crude has averaged US\$68 per barrel. We have assumed average Arab light price of US\$64 per barrel for full year FY09, down 30% from last year's price US\$92 per barrel.

**JS Global Capital Limited**

6th Floor, Faysal House, Main Shahrah-e-Faisal, Karachi

**Research:**

Tel: +92 (21) 2799005

Fax: +92 (21) 2800163

js.research@js.com

**Fixed Income Sales:**

Tel: +92 (21) 2799541-44

Fax: +92 (21) 2800165

tariq.usman@js.com

**Equity Sales:**

Tel: +92 (21) 2799513

Fax: +92 (21) 2800166

junaid.iqbal@js.com

**Corporate Finance:**

Tel: +92 (21)2799005

Fax: +92 (21) 2800166

azhar.iqbal@js.com

JS RESEARCH IS AVAILABLE ON BLOOMBERG &  
THOMSON REUTERS