NBP: 1H2010 EPS expected at Rs6.13, up 31%YoY

KSE100 Index: Closing 9,847.61 ↑ (+142.61)

National Bank of Pakistan (NBP) is scheduled to hold its BoD meeting on Aug 24, 2010 to announce its 1H2010 financial results. We expect the bank to register unconsolidated profits of Rs8.2bn (EPS Rs6.13) as against earnings of Rs6.3bn (EPS Rs4.67) in the same period last year, a significant jump of 31%YoY. In 2Q alone, we estimate the bank to record earnings of Rs4.0bn (EPS Rs3.0), an impressive growth of 95%YoY; however earnings would dip slightly by 4% on a QoQ basis- owing to rising operating expenditures. Moreover, we do not expect any payout with the results. Currently trading at a 2010E PBV and PE of 0.8x and 5.3x respectively, we recommend a 'Hold' on the scrip with a target price of Rs75.

NII to grow on higher earning assets

Net Interest Income (NII) of the bank is expected to register a decent 9%YoY growth to Rs20.7bn, primarily driven by higher average earning assets in the period. Both advances and investments are expected to be higher by 9% and 11% respectively on a YoY basis in 1H2010. However, the effect will be mitigated by the 135bps decline in average KIBOR in 1H2010. Resultantly, we could see NIMs dropping by 14bps to 5.53% in 1H2010.

Non interest Income too, is projected to rise 12%YoY to Rs7.8bn driven by higher fee income and capital gains on sale of securities. However, income from dealing in foreign currency is estimated to dip in the period due to relatively low volatility of the Pak Rupee.

Lower provisions to generate growth

We expect provisions for NPL to drop 19%YoY to Rs4.1bn in 1H2010; however in Apr-Jun alone we opine these will rise 11%QoQ. The impressive 95%YoY earning growth in 2Q2010 is expected to come from the significantly lower loan losses in the quarter at Rs2.2bn, compared to Rs3.5bn in 2Q2009.

Interestingly, according to the industry's NPL data reported by the SBP yesterday, NPLs for public sector banks dropped by Rs4.7bn in 2Q2010, we believe NBP being the largest public sector bank may stand to be one of the key beneficiaries.

Operating expenses however, are expected to jump in response to inflationary pressure by 11%YoY to Rs11.9bn, eroding some of the growth from an otherwise strong expected performance.

Result preview - NBP

(Rs mn)	1H2010E	1H2009A	Δ%
Mark- up interest earned	43,088	37,268	16%
Mark-up interest paid	(22,400)	(18,289)	22%
Net interest income	20,689	18,979	9%
Provisions/write offs	(4,170)	(5,576)	-25%
	16,518	13,403	23%
Non interest income	7,804	6,967	12%
Operating expenditures	(11,892)	(10,681)	11%
Profit before tax	12,430	9,690	28%
Taxation	(4,183)	(3,409)	23%
Profit after taxation	8,247	6,281	31%
Diluted earning per share	6.13	4.67	31%

Source: JS Research & Company accounts

Recommendation: 'Hold'

We believe NBP's strong expected earnings in the period – especially in 2Q (on a YoY basis) could perk up investor interest. However, earnings will take a YoY dip in 3Q2010 owing to absence of dividend income from NIT, as the portfolio has already been transferred to the bank. We currently recommend a 'Hold' call on the stock, trading at a 2010E PBV and PE of 0.8x and 5.3x, respectively.

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National Bank of Pakistan

Market Price: Rs65.83	**Kats Code:** NBP
Market Cap: Rs88.6bn (US$1.0bn)	**Bloomberg Code:** NBP PA
1-yrs Avg. Daily Volume: 4.6mn shares, Rs359.7mn (US$4.2mn)	**Reuters Code:** NBPK.KA
1-year High/Low: Rs101.10/61.52	

Also in focus

Discovery at Gopang-1 well

According to news reports, OGDC has made an oil and gas discovery at Gopang-1 well in the NIM block. As per the initial tests, oil and gas flows from the field currently stand at 3.25mmcfd of gas and 100bpd of oil. OGDC has a stake of 95% in the field with GHPL being the other stake holder. Based on our estimates, this discovery would add Rs0.1 per share on an annualized basis to OGDC's earnings.

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