

January 23, 2009

Pakistan Market**NBP: How much more selling?****MORNING BRIEFING**

KSE100 Index Closing 5020.71 ↓ (-115.77)

Pakistan market has shed another 17% of its value in last 6 trading sessions mainly due to aggressive foreign selling. However, one stock, NBP that is not amongst the top holdings of foreigners has been under pressure. NBP has eroded 26% in value in last 6 sessions. The stock is down 81% from its all time high of Rs253.50 (adjusted for bonus) witnessed on October 08, 2007. We have been getting queries as to how much foreigners own this stock which is now trading at an attractive PBV of 0.4x, PE of 3.0x and dividend yield of 13.2% on 2008 projected earnings likely to be announced in March 2009.

Foreigners now hold 20mn shares only

In Dec 2007 foreigners were holding 58mn (6.4% of total and 32.3% of free float) shares according to NBP annual accounts. In the last 13 months our estimation is that 38mn shares have been sold in the market. Thus in a worst case 20mn shares valuing Rs1.0bn (US\$12mn) can come to the market. Our guess is that only 10-15mn shares (Rs500-Rs700mn or US\$6-9mn) will immediately be sold in the market and the rest will be retained.

Assuming no distress selling by local leveraged investors, selling of 10-15mn shares can be absorbed in the market in the next few sessions. The top 2 stocks that foreigners hold are OGDC and MCB Bank.

NBP provisioning and EPS

Despite some uncertainty on the level of provisioning that NBP will book in 2008, full year EPS is likely to be in the range of Rs15-16. Though our base case assumption is provisioning of Rs9.1bn (17.5% of banking sectors total provisioning for 2008) that generates an EPS of Rs16.3. Assuming that in worst case provisioning increases by Rs2bn, then EPS will be Rs15. Meaning NBP in worst case trades at PE of 3.3x on 2008 profits. In 2009 we are expecting EPS of Rs13.5. In worst case with zero payout by NIT and Rs2bn additional provisioning EPS will be Rs11.1.

Valuations: One of the cheapest on regional basis

As mentioned that supply concern may be over in next few sessions, when local market will absorb the offshore selling. NBP's EPS is at discount of 24% from average Pakistan banks PE and 66% discount to Indian counterpart State Bank of India (SBI) on PE. On PBV the discount with its local peers is 37% while discount with SBI is around 65% on 2008E book value. On regional basis as shown in the table NBP trades at one of the lowest price that is 60% discount to its book value. Though we have a "market weight" stance on banking but we rate NBP as Buy.

Table: NBP's valuation multiples versus local and regional peers

Bank	Country	2008		2009	
		PE	PBV	PE	PBV
Philippine National Bank	Philippines	7.8	0.3	7.7	0.3
National Bank	Pakistan	3.0	0.4	3.7	0.4
Krung Thai	Thailand	3.7	0.4	4.5	0.4
Korea Exchange Bank	Korea	4.9	0.6	6.4	0.6
UnionBank of Philippines	Philippines	6.7	0.5	6.4	0.6
Habib Bank Limited	Pakistan	3.5	0.7	4.2	0.6
United Bank Limited	Pakistan	3.0	0.7	3.4	0.6
ICICI Bank	India	10.5	0.8	9.0	0.8
MCB Bank	Pakistan	3.7	0.9	4.0	0.9
Union Bank of India	India	5.1	1.1	4.7	0.9
United Overseas Bank	Singapore	8.7	1.1	9.6	1.1
State Bank of India	India	8.8	1.3	8.4	1.1
Bank of India	India	6.2	1.3	5.0	1.2
Mandiri	Indonesia	7.7	1.3	7.5	1.2
Bank Rakyat Indonesia	Indonesia	10.3	2.6	9.3	2.3
Hang Seng	Hong Kong	10.3	2.9	11.3	2.8
Public Bank	Malaysia	11.2	3.0	12.6	2.9

Source: Thomson Reuters, JS Research

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National Bank of Pakistan

Market Price: Rs49.35	Kats Code: NBP
Market Cap: Rs44.3bn (US\$554mn)	Bloomberg Code: NBP PA
1-yrs Avg. Daily Volume: 4.6mn shares, Rs888mn (US\$11.1mn)	Reuters Code: NBP.KA
1-year High/Low: Rs272.90/47.81	

Also in focus**FO price down 63% from its peak**

Amid sharp decline in international crude oil price, price of furnace oil plunged by 63% to Rs25,700/ton during last 4-months. This is beneficial for power sector as it would restrict further pileup of WAPDA dues. However, there was slight increase of 10% witnessed in the current fortnightly price of furnace oil effective January 16 versus price of last fortnight (i.e. Jan1-15, 2009).

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