

August 26, 2009

Pakistan Market**NBP: 1H2009 EPS expected at Rs5.72 down 22%YoY** KSE100 Index: Closing 8246.72 ↓ (-40.28)**MORNING BRIEFING**

National Bank of Pakistan (NBP) is scheduled to announce its first half (Jan-June) 2009 result on Aug 29, 2009. We expect NBP to post earnings of Rs6.2bn (EPS of Rs5.72) in 1H2009 versus Rs7.9bn (EPS Rs7.32) in 1H2008 – a decline of 22%YoY. Higher administrative expenses, squeezing net interest income along with lower non interest income are the major reasons for the dismal earnings in 1H2009.

compelling valuation multiples. NBP currently trades at 2009E PBV and PE of 0.63x and 5.5x, respectively, which is at a deep discount of 53% on PBV to its major local peers such as UBL, MCB and HBL. This deep discount seems unjustified as NBP offers a 3 year (2009-11) average ROE of 12.4% which is only 26% lower than peers' average of 16.7%.

Table: 1H2009 Financial highlights

Rs mn	1H2009E	1H2008A	% change
Markup interest earned	36,731	28,017	31%
Marup interest paid	18,835	9,081	107%
Net Interest Income	17,896	18,936	-5%
Provisions & write off	(5,201)	(5,034)	3%
Net mark up income after prov	12,695	13,902	-9%
Fee income	3,540	3,777	-6%
Other non interest income	3,461	3,785	-9%
Net mark up + Non mark up income	19,696	21,464	-8%
Admin expenses & other charges	(10,501)	(8,790)	19%
Profit before tax	9,195	12,674	-27%
Taxation	(3,043)	(4,792)	-36%
Profit after tax	6,152	7,882	-22%
EPS	5.72	7.32	-22%

Source: JS Research, Company accounts

NII & Non interest income to fall by 5% & 9%

NBP's Net Interest Income (NII) is expected to arrive at Rs17.9bn in 1H2009 versus Rs18.9bn in 1H2008, a decline of 5%YoY. Despite higher KIBOR and strong advances growth, surge in cost of deposits on account of both 5% minimum cost on saving deposits and higher quantum of term deposits have led to the squeeze in NII. In addition to falling NII, earnings are expected to witness pressure from declining non interest income as lower quantum of fee income along with reduced capital gains are likely to hurt non interest income. Amid weak economic environment, fee income is expected to fall by 6% to Rs3.5bn while reduced opportunity for capital gains at the local bourse are likely to taper other income to Rs3.5bn as against Rs3.8bn in 1H2008.

Admin exp. to jump 19%; prov. to remain high

In addition to weak topline performance, NBP is expected to witness pressure on the cost front as well. Rising inflationary pressures are likely to push admin expenses to Rs10.5bn in 1H2009, up 19%YoY. Moreover, provisions for NPLs are expected to remain high at Rs5.2bn up 3% from Rs5bn in 1H2008. The magnitude of the provisions can be judged from the fact that NBP had flagged a couple of major accounts in 2Q2008, as a result of which provisions remained very high last year.

Outlook: 'Buy' reiterated

Despite substantial decline in earnings, NBP remains one of the top picks in the JS Universe companies, driven by its

National Bank of Pakistan	
Market Price: Rs66.72	Kats Code: NBP
Market Cap: Rs71.8bn (US\$867mn)	Bloomberg Code: NBP PA
1-yrs Avg. Daily Volume: 5.1mn shares, Rs385mn (US\$4.7mn)	Reuters Code: NBP.KA
1-year High/Low: Rs107.82/46.56	

Also in focus**LSM declines 8.18% in FY09**

According to data released by Federal Bureau of Statistics (FBS), Large Scale Manufacturing (LSM) has depicted a fall of 8.18% in FY09. This has been primarily due economic slowdown, power and gas shortages, capacity and input constraints in certain industries and frequent political disturbances. The break up shows a decline largely broad based with major decline observed in sugar and auto industries which declined by 33% and 30% respectively. Moreover, production of petroleum products contracted by 9% whereas phosphate fertilizer was amongst the major sectors which showed a 28% rise in production.

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