

morning shout

Pakistan Daily Notes

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NBP: NIT & Tax credit drive earning growth

- NBP posted upbeat bottom-line growth of 18% YoY in 2009 to PRs16.92/sh with cash dividend of PRs7.5/sh and stock dividend of 25%.
- Earnings were primarily driven by gain from NIT (PRs4.0bn) and tax credit of prior years. Adjusting for these two, core net profit declined ~19% YoY to ~11.6/sh.
- Pre-prov op profit (PPOP) was down 1% YoY, despite NIT gain, mainly due to decline in net interest margin (NIM) and higher operating expenses (up 24% YoY).
- While divergence in op. performance between NBP and peers is evident, the stock has rallied +24% in 2010 vs +1.1% for sector. Trading at 36% discount on P/B as compared to historical discount of 30% we maintain underperform on NBP.

NBP 2009 Result: Capital gains and tax credit

Bottom line: The Bank posted upbeat bottom-line growth of 18% YoY in 2009 to PRs16.92/sh but primarily driven by gain from National Investment Trust (NIT) divestment (PRs4.0bn) and tax credit of prior years. Adjusting for these extra-ordinary line items, core profit declined by ~19% YoY to ~PRs11.6/sh, below our expectations of PRs12.21/sh. However, the bank announced a strong payout with cash of PRs7.5/sh and stock dividend of 25% which excited the market. We maintain our earnings estimates until the release of detailed results.

PRsmn	2008	2009	YoY	Comments
Net int income	37,058	38,458	4%	Meager growth -margin down -60bp despite higher AEA
Non int income	16,416	19,025	16%	Redemption gain from NIT, -PRs4bn. Ex- NIT down 10% YoY
Operating exp	-18,171	-22,571	24%	Potentially higher salary and administrative expenses
Other expenses	-1,708	-1,568	-8%	Lower other charges/write-offs, Impairment of PRs605mn
PPOP	33,595	33,344	-1%	As above
Provisions	-10,594	-11,043	4%	Await details
PBT	23,001	22,300	-3%	As above
Tax	-7,542	-4,088	-46%	Lower eff tax rate, due to NIT and tax credit from prior years
PAT	15,459	18,212	18%	As above
EPS	14.4	16.9	18%	As above

Source: NBP, KASB estimates

Key takeaway: PPOP declines

Pre-provisioning operating profit (PPOP) was down 1% YoY, despite NIT gain, mainly due to decline in net interest margin (NIM) and higher administrative expenses (up 24% YoY). Adjusting for NIT gain, PPOP declined by 12% YoY in 2009 which was slightly worse than our estimate. Loan loss provisions remained side ways, up by only +4% YoY, however were high in absolute terms at PRs11bn and 33% of reported PPOP for 2009 (32% in 2008).

Performance variance to our universe

National Bank operating performance remains an exception among the large 5 banks. Core earnings of NBP are being dragged by weak top-line (Net interest income up only 4% YoY despite decent growth in average earning assets) due to decline in margins and loan provisions (PRs11bn) as opposed to peers that have posted healthy YoY growth in NII and PPOP but have suffered from provisions only. This divergence is also visible from the cost-side where operating expenditure of NBP is growing at a much higher pace than peers. However expectations on hefty dividend and reported bottom-line have driven stock price higher in 2010, +24% vs +1.1% sector & +1.3% KSE.

Maintain underperform rating

While NBP capital base (~13% of assets and ~CAR of 16.6%) and role as a treasurer to the govt. are plus points, relatively weak outlook on PPOP coupled with risk of disintermediation in government deposits with the bank (25% of total NBP deposits) to single treasury account (STA) justifies valuation discount to peers in our view. Trading at 36% discount on P/B as compared to historical mean discount of 30% we maintain underperform on NBP.

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Current Price PRs92.55
Price Objective PRs82.00

KATS NBP
Bloomberg NBP PA
Reuters NBPK.KA

Shares Outstanding
1,076.37mn

Market Cap
PRs 99,618m (US\$1,172mn)

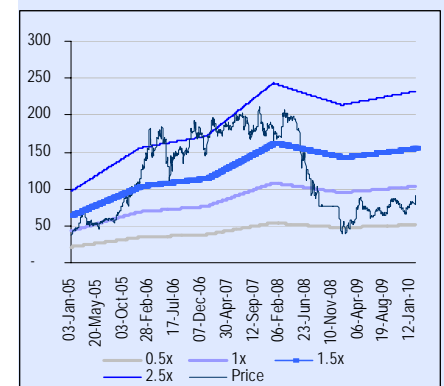
3m average daily volume
4,333,720 shares

12-month High/Low
92.55 / 53.39

Stock Performance

	1M	3M	12M
Absolute%	13.4	35.6	67.1
Rel Index %	16.4	29.8	2.8
Abs. (PRs)	10.9	24.3	37.2

NBP P/B chart



Source: NBP, KSE

Morning News

► **SBP allows two banks to conduct due diligence of RBS (BR)**
 In a notification to KSE, the State Bank of Pakistan (SBP) has given approval to two banks, namely, Faysal Bank and Egypt's EFG-Hermes for commencing due diligence for the acquisition of Royal Bank of Scotland (RBS) operations in Pakistan. Recall that RBS has put on sale its business in 36 countries including Pakistan after world-wide losses of US\$38bn in 2008 due to the global economic recession. Earlier, MCB Bank had also shown interest to acquire RBS, however, the deal could not materialized due to non issuance of NOC by the central bank.

Technical View

Aiyaz M. Hassan

First support 9,462 points, second support 9,406 points; first resistance 9,575 points, second resistance 9,631 points

The index opened on a positive note and after initially dipping in the red, it took to an uptrend and closed well in the green. Volumes showed a marked improvement of 38.81% and stood at 160.84 mln. The index's formation with the improvement in volume suggests that the pullback is likely to continue. Moreover it managed to sustain above the 100-DMA as well.

The Stochastic Oscillator has now generated a buy signal having just cleared the oversold region, while the 14-day RSI to has shown appreciation as well. This confirms the above view that the pullback is likely to continue towards the 50-DMA which presently stands at 9,677 points.

The first support is at 9,462 points and the second support is at 9,406 points. The first resistance is at 9,575 points and the second resistance is at 9,631 points.

Gold Spot

Strategy: Buy

Gold registered a decent gain on 2nd March and was seen trading in the positive, while maintaining itself above resistance of \$ 1,134.44. The Stochastic Oscillator maintains its steady uptrend as well as its buy signal, while the 14-D too continues to rise. It is suggested to buy between \$ 1,130.96 and \$ 1,134.73 with stops below \$ 1,127.19. The first resistance is at \$ 1,142.27 and the second resistance is at \$ 1,145.49.

West Texas Intermediate (WTI) Spot (Crude Oil)

Strategy: Buy

WTI is consolidating around its critical level of \$ 79.82, while the formation created by it is suggestive of the end of the consolidation phase and the resumption of the uptrend. The Stochastic Oscillator has once again generated a buy signal and is supported by the 14-D RSI, thus augmenting the above view. It is suggested to buy between \$ 78.23 and \$ 78.98 with stops below \$ 77.56. The first resistance is at \$ 80.40 and the second resistance is at \$ 81.24.

KSE-100 Intra-day Movement



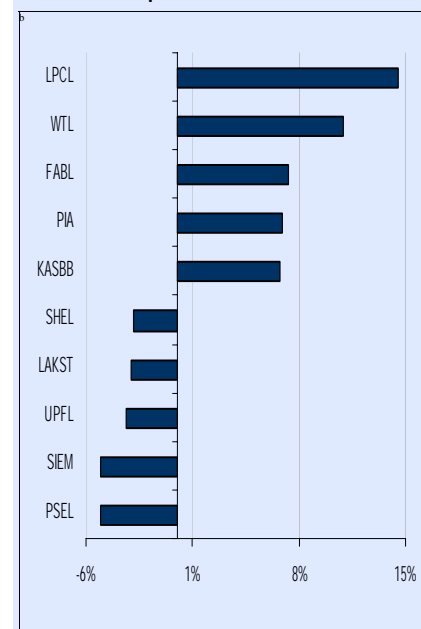
Source: KSE

Index Data & Volume Leaders

	Close	% Chg	Vol. US\$m
KSE30	9,968.78	1.21%	68.21
KSE100	9,511.53	0.98%	72.59
KSE All Share	6,726.17	0.98%	75.23
NBP	92.45	4.82%	31.80
AHSL	43.35	4.99%	4.35
FFBL	31.20	1.93%	3.70
JSCL	22.10	4.99%	3.61
OGDC	116.50	0.09%	2.51

Source: KSE

KSE-100: Top Gainers & Losers



Source: KSE

World Markets and Commodity Prices

International Equity Markets

Asian Markets (Closing Rates)

	Price	Abs. Chg.	% Chg.
All Ordinaries	4,757.60	13.80	0.29
Shanghai Composite	3,023.37	-73.63	-2.38
Hang Seng	20,575.78	-301.01	-1.44
BSE 30	16,971.70	-28.31	-0.17
Jakarta Composite	2,565.65	-1.44	-0.06
KLSE Composite	1,284.09	-2.01	-0.16
Nikkei 225	10,145.72	-107.42	-1.05
NZSE 50	3,213.56	15.03	0.47
Straits Times	2,768.70	-14.09	-0.51
Seoul Composite	1,618.20	-4.24	-0.26
Taiwan Weighted	7,569.80	-59.72	-0.78
KSE-100 Index	9,511.53	92.10	0.98

Source: Bloomberg

European Markets (Last Trading Session's Rates)

	Price	Abs. Chg.	% Chg.
ATX	2,409.54	-47.44	-1.93
BEL-20	2,582.96	-9.60	-0.37
CAC 40	3,828.41	-14.11	-0.37
DAX	5,795.32	-22.56	-0.39
AEX General	332.45	0.59	0.18
Swiss Market	6,804.87	-8.29	-0.12
FTSE 100	5,527.16	-6.05	-0.11
American Markets			
Dow Jones Ind. Average	10,444.14	47.38	0.46
NASDAQ Composite	2,292.31	11.63	0.51
NASDAQ -100	1,859.72	8.15	0.44
S&P 500 Index, RTH	1,122.97	4.18	0.37

Foreign Portfolio Investment in Equities

Country	Day (US\$m)	WTD (US\$m)	MTD (US\$m)	YTD (US\$m)	YTD Net (US\$m)	Date
Pakistan	3.9	17.5	17.5	49.5	NA	03-04
India	220.8	554.3	554.3	787.9	146.0%	03-03
Indonesia	-21.5	82.3	82.3	-81.2	53.3%	03-04
Japan	Na	646.5	2970.4	21,110.1	187.0%	02-26
Philippines	-1.3	-5.8	-5.8	115.9	367.8%	03-04
South Korea	106.9	565.2	565.2	1,129.5	265.3%	03-04
Taiwan	-145.9	292.2	292.2	-2,581.7	-3.3%	03-04
Thailand	41.5	252.0	252.0	189.5	176.2%	03-04
Vietnam	-1.2	0.5	0.5	20.0	376.0%	03-04

Source: Bloomberg, NCCPL

Forex and Money Market snapshot

	Current	Previous	Chg.
6-Month KIBOR (Offer)	12.39	12.40	-0.01
12-M T-Bill (Average)	12.25	12.26	-0.01
10- year PIB (Average)	12.63	12.64	-0.01
PkR/ US\$	84.94	85.05	-0.11

Source: KASB Money Market

Commodity Prices

	Price	Abs. Chg.	% Chg.
WTI (Crude Oil)	80.21	-0.66	-0.82
Gold	1,133.1	-3.13	-0.28
CRB Index (Mar 3 rd)	430.41	2.14	0.50

Source: Bloomberg

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