

- **NBP’s stock price has declined and remained range bound since the announcement of pension case verdict against the bank. However bank has filed a review pretention and expects favorable outcome, but market has already slot in the impact of any decision against the bank**
- **Incase of any unfavorable outcome bank have to charge one time pension cost of Rs54.3bn which will result in increase of pension expense by Rs7.5bn per year which could erode Rs18.88/share (post tax) from the book value**
- **With introduction of D-SIBs framework where 3 banks including NBP have to maintain additional 1.5% of CET-1 Ratio till Mar-19, we estimate that incase of adverse decision CET -1 ratio will fall below 9.4% if NBP is forced to charge pension expense in CY18 earnings**
- **NBP’s international loan book contributes around 10% in total advances where Rs32bn are classified as nonperforming loans against which 96% provision has already been charged**
- **NBP is currently trading at CY18E and CY19E P/B 0.54x and 0.48x and P/E of 5.25x and 4.32x respectively. We have a BUY stance on NBP with Dec 18 TP of Rs62 based on Justified P/B**

Pension Case– A tough time for Bank

- On 25th Sep, 2017 Honorable Supreme Court had issued a verdict against NBP on pension case in favor of Lahore High Court. NBP management has filed a review petition against the judgment in anticipation of a favorable outcome. In case of denial in review petition NBP have to pay a sum of Rs54.3bn (post tax EPS impact Rs16.80) to the pensioners and it also has to increase annual pension expense by Rs7.5bn (post tax EPS impact Rs2.14) as a result NBP’s stock price has declined significantly
- Current book value of bank stands at Rs87.39/share, that will come down to Rs75.23/share (Dec 2018) in case of an adverse outcome. We estimate this will reduce our CY19 earnings estimate by Rs1.1/share. In our view market has slot in adverse impact already

Additional capital requirement and concern of decline in CET-1 ratio

- SBP has introduced D-SIBs in order to further strengthen financial system. Initially 3 top tier banks fall in this category which are required to maintain additional CET-1 requirement above the current required level. NBP has to maintain additional CET-1 of 1.5% from current required level of 7.9% by the end of March 2019.
- The case referred above could adversely impact bank’s capital ratio, we estimate CET-1 ratio will fall below 9.4% if bank takes a hit in CY18 which could result in dividend cut for another 1.5 years

Relief on international loan book

- NBP’s international loan book contributes around 10% in total advances where Rs32bn are classified as non performing loans. NBP has already charged around 96% provision on international loan book as compared to its peer banks (average 77%) which are facing difficulties managing their foreign loan book. Further any possible recoveries on this account may contribute positively in bottom line going forward

Valuation

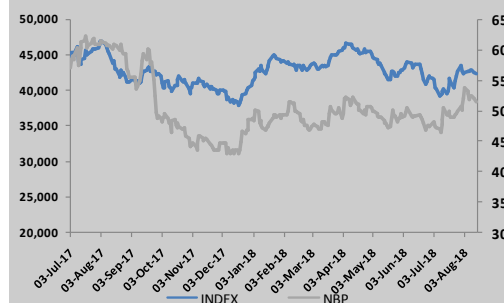
- We estimate CY18E and CY19E EPS to be Rs9.74 and Rs11.83 respectively, our earnings estimates incorporates 50bps and 100bps increase in policy rate 2HCY18 and CY19 respectively (above estimates does not include pension expense)
- NBP is currently trading at CY18E and CY19E P/B of 0.54x and 0.48x respectively which is unjustified in our view, while justified P/B comes around 0.8x assuming Tier-1 ROE of 16.2%. Therefore we arrive at a target price of Rs62, providing upside of 20% from LDCP. We have a BUY stance on stock.

Key Risk to our estimates

- Higher than estimated provision on NPL and pension liability
- Lower than estimated increase in interest rates
- Lower than estimated deposit growth
- Change in regulatory requirements

KATS Symbol	NBP
Reuters Symbol	NBPK.KA
Target Price	Rs62
LDCP	Rs51.11
Outstanding Shares (mn)	2,127.51
Free Float (mn)	506.64
Market Cap (mn Rs)	108,737

Price Performance vs KSE100 Index



Source: PSX

EPS Estimates

	CY17A	CY18E	CY19E
EPS (Rs)	10.90	9.74	11.83
P/E (x)	4.69	5.25	4.32
P/B (x)	0.61	0.54	0.48

Source: Co Financials, AS Research

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Valuation Methodology

To arrive at period end target price, Abbasi Securities uses different valuation methodologies:

- Comparable Method (P/E, P/B, Justified P/B & P/E etc.)
- Discounted Cash flow Method
- Equity and Asset based valuation

Rating

BUY	Total return more than 20% from last closing of market price
HOLD	Total return is in between 10% and 20% from last closing of market price
REDUCE	Total return is less than 10% from last closing market price