

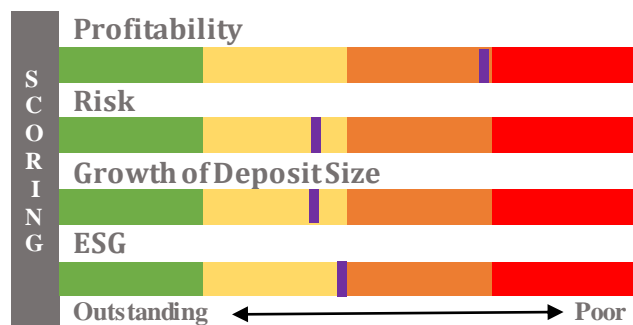


Sector: Commercial Banks
LTP: Rs.168 (As on 10/01/18)

52 Week High – Low: 197 – 149
180 days Average: 169.85

Fair Price: 211.96
Base Price: 253.00

Under Fair Over
PRICE



#ESG- Environment, Social and Corporate Governance

Stock Profile

No. of Branches	130
ATM Outlets	70
O/S Shares (Nos.)	80,007.86
Market Cap (Rs.)	13441320144
NEPSE / Sector Coverage	0.95% / 1.80%
180 days Avg. Price	172.99
Beta with NEPSE/Sector	1.03 / 1.09
Corr. with NEPSE/Sector	0.88 / 0.94
Liquidity	100%
Avg. Volumes	30,847

Data taken from 7/11/2016 – 10/01/2019 for Beta and Correlation calculation.

In the review period, both NEPSE and Banking sector has been highly volatile with significantly poor return. Both NEPSE and Banking Index peaked at 1881.45 and 1779.08, respectively on 27/7/2016. However, it travelled back to 1118.13 and 985.77 respectively on 5/12/2018.

Market Profile

NEPSE Index	1180.84
Total Market Cap (Millions)	1,412,988.47
Banking Cap (Millions)	745,589.76
Avg. Return NEPSE/Banks	11.27% / 10.48%
Std. Dev. NEPSE/Banks	18.13% / 24.04%

Data taken from 7/17/2003– 1/10/2019 for Average return and Standard Deviation calculation.

Banking sector seems to be more volatile than NEPSE while the return is comparatively lower.

230 days is assumed and used for annualized purpose.

SYNOPSIS

Trading at relatively lower level: The bank share traded at 168 on 10th Jan. 2018. The mean price of 27 listed commercial banks on the same date is Rs. 323.33. The stock is trading at 20.74 % discount to the fair price. Furthermore, it is only at 1.09% discount to its 180 days average price, showing slightly underpriced status.

Market underestimating earnings growth: Considering the 3 years CAGR net earnings of the company & industry, PEG of JBNL surfaced 0.1182 while industry is 0.47. The PE ratio of the company is lower than industry average PE while the earnings growth of the company is significantly higher than industry average. This shows the market yet to price the growth fundamental of the company.

Growth in net profit driven largely by recent acquisitions: The performance of the bank seems to have improved drastically as per the Q1 2075/76. While the interest income increased by only 29.96% on year on year basis, the net profit has shot up by 99.48% compared to corresponding previous quarter. Despite the impressive rise in net profit, the bank is underperforming its industry average EPS and BVPS by a long shot. For the FY 2075/76, we expect the bank's Net profit to exceed Rs. 1.28 billion in the.

9th AGM on its way: The bank is going to hold its 9th AGM for the FY 2074/75 on 29th Poush 2075. Major agendas of the meeting includes the 8.5% cash dividend.

Decent financial performance post-merger: After the merger of JBNL with Triveni Bikas Bank and acquisition of Siddhartha Development Bank (Joint Transaction Date: 2017-04-07 and 2017-07-14), the bank has reported growth in its profit by 373.76% in FY 2016/17 as compared with the previous year. Similarly, the post-merger EPS increased from 5.79 to 7.91.

Distribution of cash dividend expected to drag down reserve and lower the CAR ratio: After accounting for cash dividend, the reserve of the company which is already below industry average will decline by Rs. 680 millions. This puts the company in a precarious position in terms of reserve. Furthermore, the adjustment of cash dividend is likely to bring down the CAR ratio to less than 13.5%. With CD ratio already nearing the 80% ceiling and low deposit size, JBNL will find it challenging to garner additional deposit given the liquidity crunch that the banking industry is facing currently.

Fundamental Analysis

Financial Highlights (Fig. in millions)			
Particulars	Q1 75/76	Q4 74/75*	Q1 74/75
Paid Up Capital	8,000.78	8000.78	6993.69
Res. & Surplus	2,345.96	2034.79	1892.16
Deposits	62,887.90	58,329.72	52,353.48
Bond & Deb.	-	-	-
Loan & Adv.	58,456.18	52,791.71	47,736.95
Total Assets	75,694.21	71,234.98	63,431.98
Net Int. Income	795.06	2,408.60	358.46
Operating Profits	459.93	1349.40	41.18
Net Profits	321.95	1002.78	64.81
Profit after reg. adj.	255.99	-	-

Growth	3 YR Average		3 YR CAGR	
	JBNL	Industry	JBNL	Industry
Int. Income	63.58%	36.80%	57.04%	35.83%
Op. Profit	108.90%	30.53%	89.73%	30.83%
Net Profits	106.11%	29.51%	88.23%	29.15%
Deposits	43.72%	20.70%	38.05%	20.63%
Loan & Adv.	51.32%	26.37%	43.40%	26.34%
Total Assets	47.87%	23.02%	40.67%	23.01%

Ratios	Q1 75/76	Q4 74/75	Q1 74/75
EPS	16.10	11.68	3.71
BVPS	129.32	121.58	127.06
Asset Per Share	946.08	900.43	906.99
ROE	12.44%	9.61%	2.83%
ROA	1.70%	1.30%	0.4%
CAR	14.37%	15.48%	15.99%
Credit to Deposit	79.52%	77.40%	73.26%
Base Rate	11.22%	11.60%	11.50%
Cost of Fund	7.73%	7.88%	7.90%
Net Int. Spread	-	4.41%	3.72%
NPL	1.54%	1.32%	1.65%
Liquidity Ratio	22.19%	24.50%	26.04%
Equity Multiplier	7.29	7.40	7.13

Major Loan Exposure	% of Total Loan
Wholesalers and Retailers	23.41%
Manufacturing and Production	22.31%
Construction	9.27%

As on Q1 2075/76.

- ✓ **Astounding growth in profit largely driven by the acquisition:** Bank's profitability has nearly increased four-fold relative to the industry average growth in the past 3 years. It lies in the bottom region in terms of earnings when compared with other banks in Q1 2075/76. The increase in profitability can be attributed to the recent M&A streak. Moreover, the EPS is well below the industry average.
- ✓ **Deposits and Loan growth:** Bank falls at 23rd and 22nd ranks on the size of Deposits and Loan & Advances. Bank has exceeded the industry growth in the past 3 years on deposits & loan by a long shot. The growth is largely attributed to M&A activities. Before the acquisition, the 3 year average deposit growth until 2015/16 stood at 21.84% per year.
- ✓ **Lousy reserve with impending escalation after dividend distribution:** The capital and reserves of the bank is very low in comparison to other banking institutions. After accounting for 8.5% cash dividend, the reserve of the company is expected to fall down by Rs.680 million, further worsening the condition of reserve.
- ✓ **CAR well within the defined parameter after accounting for cash dividend:** The bank has a CAR of 14.37%, which is a tad below the industry average of 14.62%. Likewise, with the proposed 8.5% cash dividend, we expect the ratio to further fall below 13.5%.
- ✓ **Restrictive CCD Ratio:** CCD is higher than the industry average of 77.72% and has nearly touched the ceiling of 80% limiting the ability to further disburse loan and advances. With banks vying for deposit collection owing to the weak liquidity situation in the market, it is safe to infer that the bank will not post the same level of deposit growth witnessed over the past quarters. As such, the growth prospects do not look promising.
- ✓ **Higher NPL:** NPL is comparatively higher than the industry average of 1.37% in Q1 2075/76. Starting from the year 2073/74, there has been an uptick in the NPL ratio of JBNL. This suggests that the bank has been aggressive in its lending, which is also corroborated by higher than average industry growth.
- ✓ **Dividend outlook:** The bank has already proposed a cash dividend of 8.5%, which is awaiting approval from the upcoming AGM. The distribution of dividend will cut down the reserve even further. It is important that the bank retain sizable chunk of profit in the coming years to strengthen the reserves. As such, we don't expect bank to provide industry competitive dividends in the years ahead.

Relative Pricing and Assumptions

We have used *three* relative pricing approaches to derive the fair pricing of the bank share. These method includes Price to Earnings (P/E), Price to Book Value (P/B) and Enterprise Value to Earnings before Interest and Tax (EV/EBIT). Such approach helps determine the monetary worth of the company operating at similar industry on the premise of “**Law of One Price**”.

Fair Pricings			
Basis: P/E	JBNL	Industry	Fair Price
EPS	16.10	25.63	210.33
P/E	10.43	13.01	
Basis: P/B			
BVPS	129.32	177.74	233.43
P/B	1.30	1.81	
Basis: EV/EBIT			
EV (per share)	20.75	27.14	192.13
EV/EBIT	7.29	9.26	
Average Price			211.96

Peer Banks Price Changes						
S.N.	Ticker	LTP	1 Week	4 Weeks	YTD	
1	NBB	193	0.52%	3.48%	-6.10%	-0.52%
2	MEGA	171	-1.16%	-4.67%	-13.42%	-3.39%
3	CCBL	172	1.18%	-1.71%	-9.95%	0.00%
4	JBNL	168	-2.89%	-1.81%	-8.46%	-2.89%
5	CBL	163	0.62%	-0.61%	-6.32%	0.62%

Investment Risks – Value at Risk

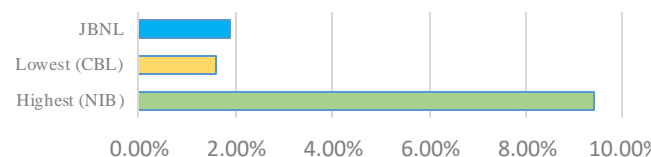
Mean (Daily)	-0.01%		
Std. Dev. (Daily)	2.64%		
Parametric Method	1 DAY VAR	1 WEEK VAR	1 MONTH VAR
90% C.I.	-3.40%	-7.60%	-15.57%
95% C.I.	-4.36%	-9.75%	-19.98%
99% C.I.	-6.1%	-13.78%	-28.24%
Expected Shortfall / CVAR			
90% C.I.	-4.94%	-11.05%	-22.65%
95% C.I.	-6.62%	-14.80%	-30.34%
99% C.I.	-13.16%	-29.42%	-60.30%

1 Day 10% VAR can be interpreted in two ways as below

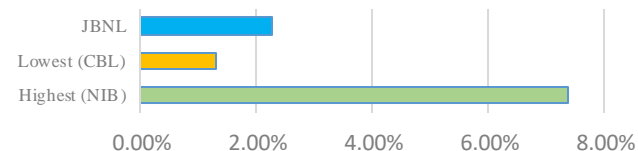
- I. There is 10% probability that the loss on investment in JBNL will be 3.40% or more on any normal trading day. **OR**
- II. There is 90% confidence level that the loss on investment in JBNL will be less than 3.40% on any normal trading day.

1 Day 10% CVAR can be interpreted as: There is 10% probability that the average losses in excess of VAR on investment in JBNL will be 4.94% on any single trading day

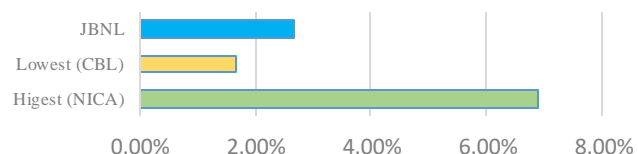
Market Cap. Ranking 17



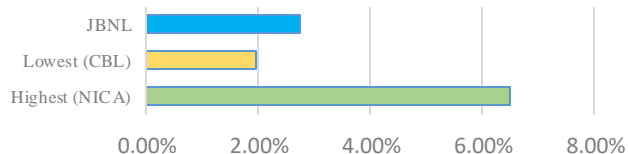
Net Profit Ranking 23



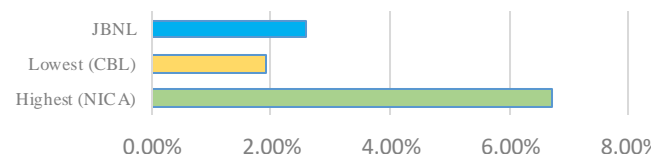
Deposits Ranking 23



Loan & Advances Ranking 22

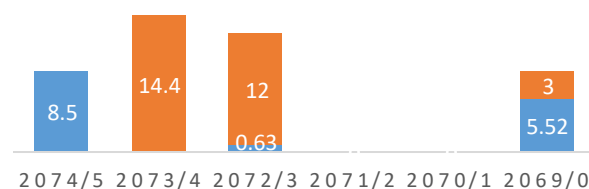


Total Assets Ranking 24



DIVIDEND HISTORY

■ Cash Dividend ■ Bonus Share



Company Profile

“Class A” commercial bank that has been in operation since 2010. The bank has merged with Triveni Bikas Bank Limited and acquired Siddhartha Development Bank in the year 2017.

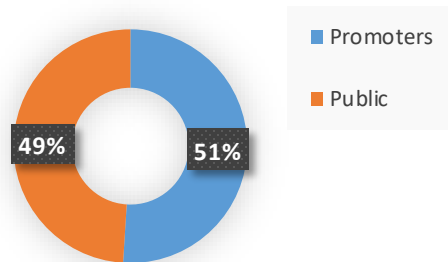
The bank has been listed as “Z-Class” by NEPSE.

Chairman Mr. Keshav Bahadur Rayamajhi
Chief Executive Officer Mr. Parshuram Kumar Chhetri

Subsidiaries

I. Janata Capital Limited (100% owned)

Shareholdings



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This report is prepared before the bank conene its 9th AGM.

Technical Analysis



Moving Average: SMA-14 has crossed SMA-50 from above on 20th Nov. 2018, implying downward momentum of the stock in a short run.

Bollinger Bands: Bollinger band seems to indicate a narrow trading range. Towards the end of December, the price went past the upper band, signaling a momentary price movement in the upward direction. However, the price was unable to break the resistance at around Rs.190. Currently, the stock is trading close to the lower band showing higher sellers.

RSI: RSI (14) of the stock which at present is 45 has been hovering around the mid-region right from November, signaling that the stock price might not exhibit a strong upward or downward momentum anytime soon. It is possible that the stock might continue to move sideways.

Volume: After posting a spike in volume towards the end of September, volume has remained fairly stable. In fact, for much of November and December, volume has remained pretty low. The relatively low level of trading volume means that the stock is under consolidation at present. The 20 days MA volume is 30.8 K whereas the daily volume has reached 16.31 K.

Support and Resistance: Rs. 162 - 200

Disclaimer: This report has been prepared by research team of KCL Astute Capital after study and analysis of publicly available data and information of the subject company and does not use any inside information. Further, the data and information studied are believed to be proper and reliable. However, we do not guarantee the correctness of the same.

The sole purpose of this report is to showcase the brief analysis of the company, market participants may be interested to.

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