

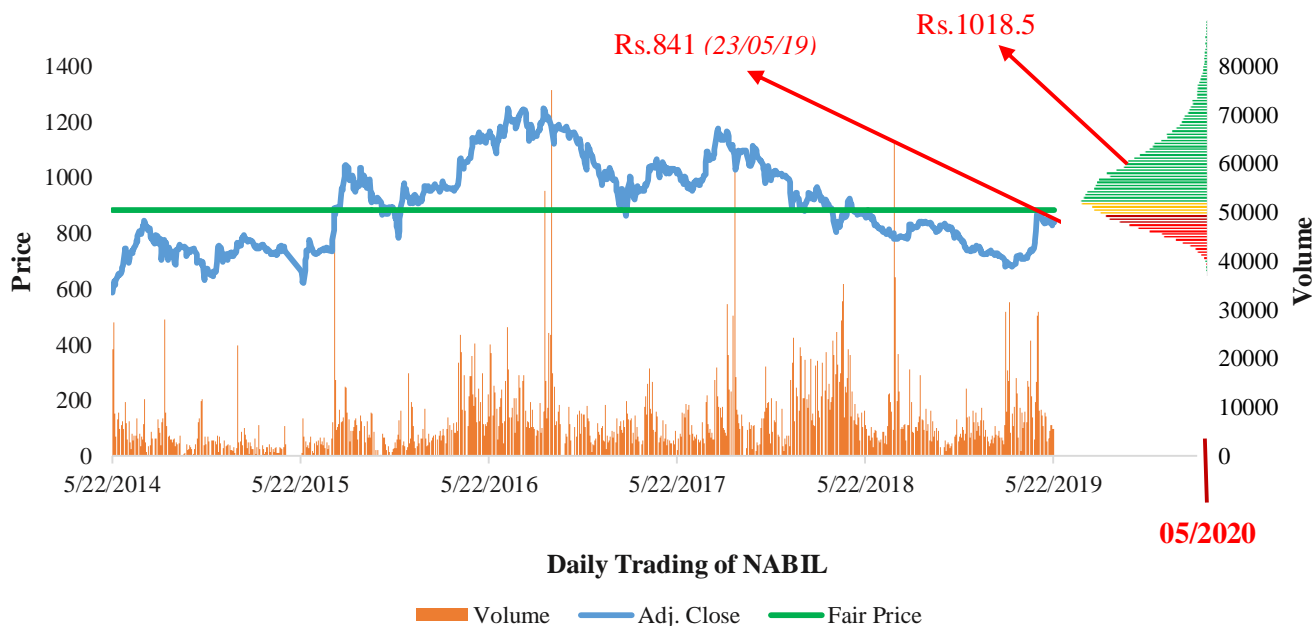
Nabil Bank Limited - NABIL



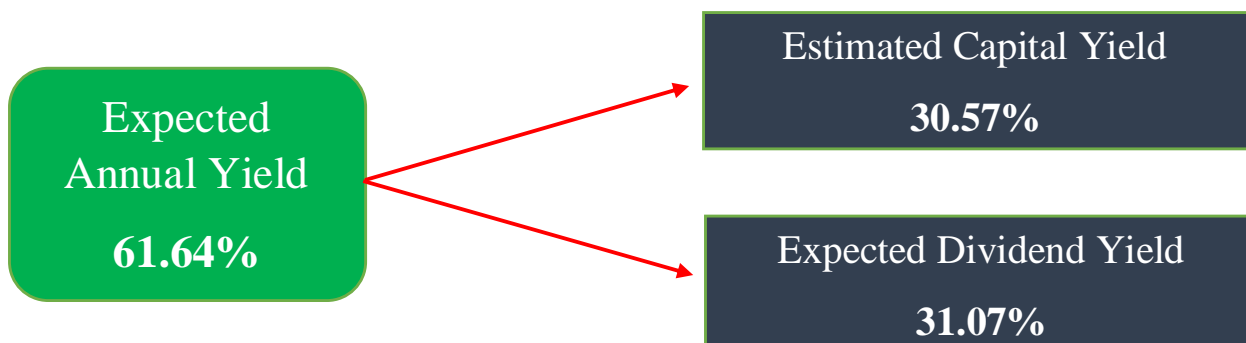
June 2019

RECOMMENDATION

BUY



Latest Trading Price	Rs.841
Target 1Y Price Range	≤ Rs.1,018
Target Buying Range	≤ Rs.780
Stop loss Price	≤ Rs.760



We recommend a **BUY** to the stock of Nabil Bank Limited with an expected total yield (annual) of 61.64%, which is a blend of estimated capital yield of 30.57% and dividend yield (both bonus and cash) of 31.07% (for FY 2075/76). (For capital yield, we have considered the target buying price of Rs.780) Target Rs.1018 is the average of the 50,000 simulated prices using Monte Carlo Approach.

Nabil Bank Limited - NABIL



June 2019

Key Highlights

1. Leading Commercial Banks

NABIL is one of the leading commercial bank in the country, which stands at front in terms of market coverage, trading price, profitability, deposits, loan & advances, assets size and several other fundamental parameters.

2. Position and Profitability

As on the Q3, NABIL has the highest after tax earnings of Rs.3.19 billion. Earnings reflects the increment of 46.59% on Q-o-Q basis and 3.18% on Y-o-Y basis. Similarly, the bank has the highest asset base of Rs.182.33 billion while its equities is 4th largest. In Q4, we anticipate the bank to post at least Rs.4.307 billion Net profits and have Rs.3.20 billion as Free Profits.

3. Dividend Payout Ratio

Previous 5 years (from FY 70/74 to FY 74/75) average dividend payout ratio (DPR) of the bank is 75.30%. For FY 74/75, the bank had the DPR of 68.68%, which includes 34% dividend (22% Cash and 12% Bonus). For FY 75/76, we anticipate the DPR to be at least 65%, where the bank would provide 31% dividend at floor.

4. Debentures on the way

The bank is in the process of issuing Rs.2 billion worth of Debenture (i.e. 20 lakhs units at Rs.1000 each) with a 10% coupon and maturity period of 7 years. ICRA Nepal has assigned ICRANP LAA- to the proposed debentures which indicate high degree of safety. Bank has appointed Laxmi Capital Ltd. as issue manager for the same.

5. Trading price vs relative prices

The stock has been found trading at premium to the fair prices computed using Relative valuation approach. Compared to fair prices as per P/E, the trading is at significant premium to fair prices as per P/B, implying the market participants to follow P/E approach more. Therefore, our recommendation is not affected by the relative valuation we have derived. Latest trading price of Rs.841 is only 1.32% discount to 180 days average price.

6. Technical Trend

Technically, we foresee the stock to make a bearish turn in a short run with S1 Rs.796.22, S2 Rs.780.75 and S3 Rs.772.23. On a medium to long run, we expect the stock to surge from the current level.

7. ICRA Rating – ICRANP – IR AA

ICRA Nepal, on January 2019, assigned ICRANP – IR AA- to NABIL, which is the high credit-quality ratings assigned by ICRA Nepal. Rating indicate low credit risk.

8. Mergers & Acquisition

Right now, we don't foresee any possibility of the bank to undergo Merger & Acquisition activities with any other BFIs.

LTP: Rs.841

52w H-L: Rs.1012-682

180 days avg. Rs.852.17 O/s Shares: 90,048,000 units

Market Cap: Rs. 75.730.368.000

Nabil Bank Limited - NABIL



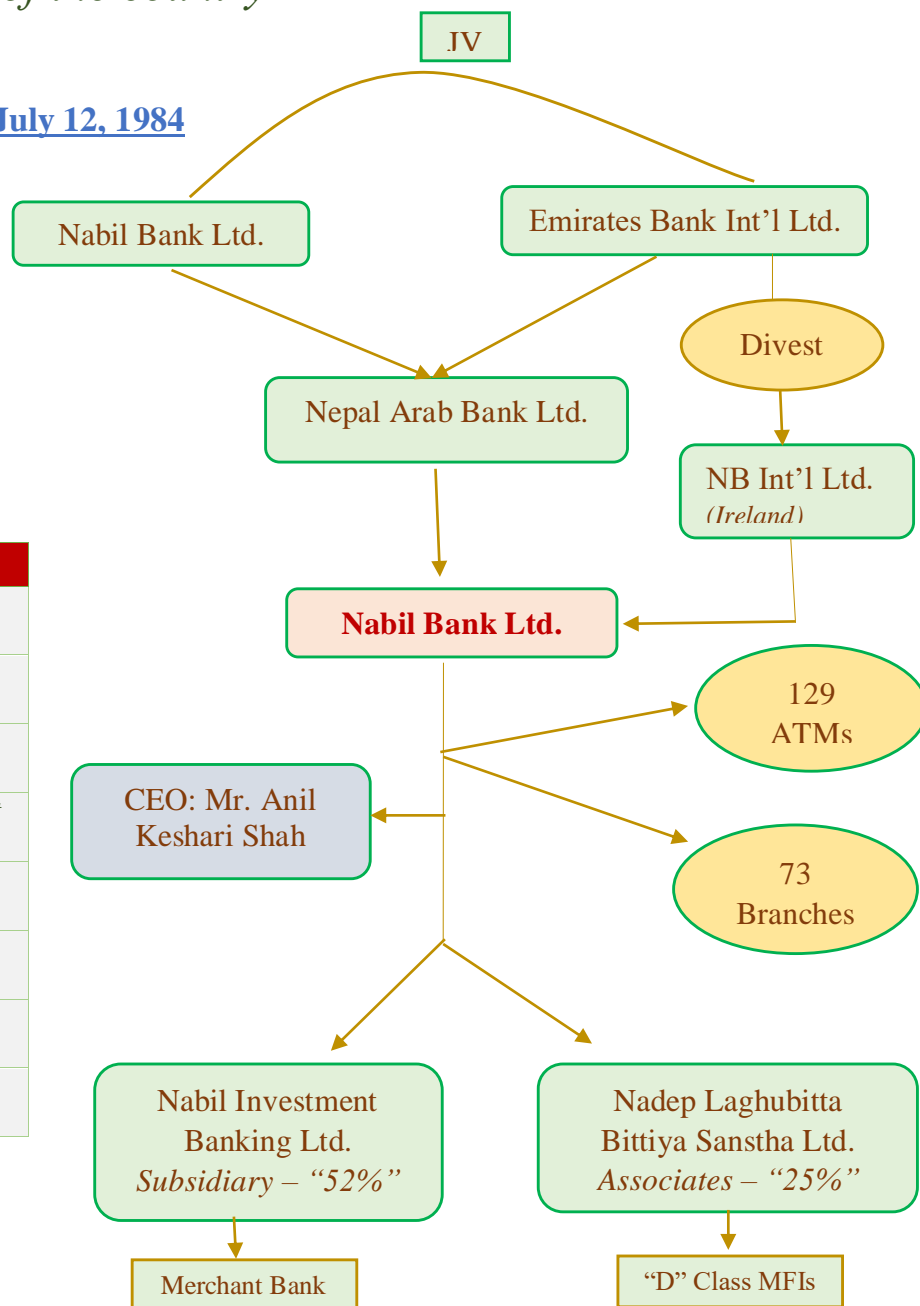
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COMPANY PROFILE'S

"First private sector bank of the country"



July 12, 1984



BoD Composition

S. N.	Name	Shareholders Represented
1.	Shambhu Prasad Poudel, Chairman	"C"
2.	Nirvana Kumar Choudhary, Member	"A"
3.	Pratap Kumar Pathak, Member	"Independent"
4.	Virender Paul Dani, Member	"A"
5.	Dayaram Gopal Agarwal, Member	"C"
6.	Upendra Prasad Poudyal, Member	"A"
7.	Malay Mukherjee, Member	"A"

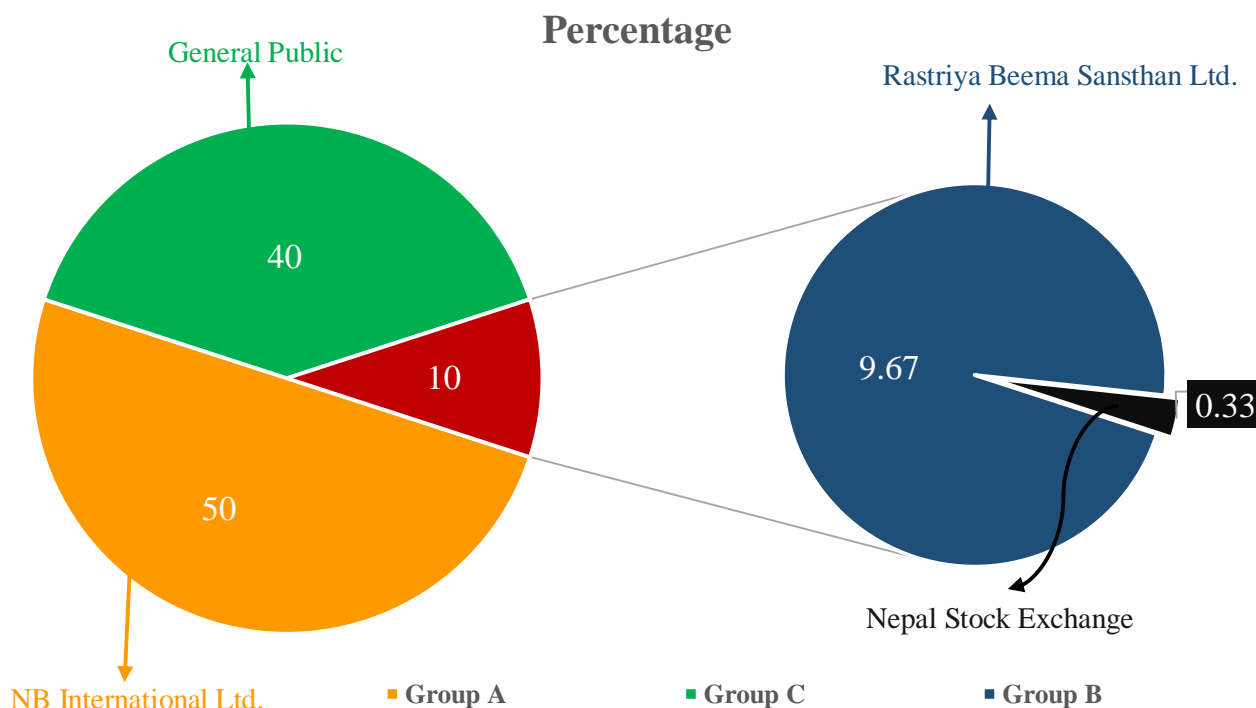
Head office: Nabil Center (Lease)
Beema Marga, Teendhara, Durbar Marg
Kathmandu, Nepal

Nabil Bank Limited - NABIL



June 2019

OWNERSHIP STRUCTURE



Capital Structures

Authorized:

100,000,000 units @ Rs.100
Rs.10,000,000,000

Issued:

90,118,454 units @ Rs.100
Rs.9,011,845,400

Paid Up:

90,118,454 units @ Rs.100
Rs.9,011,845,400

Following the NRB direction of prohibiting the cross-holding of shares, the Group B shareholder NIDC Development Bank Ltd. had auctioned its 10% ownership to the Public on Chaitra 2069 BS.

The 34th AGM of the bank held on 27th Falgun 2075 endorsed the agenda to convert the 10% NABILP shares to NABIL. At present NABILP is still trading at Market.

CG Corp Global has investment in Nabil Bank through the Irish Company, NB International Ltd, which is a subsidiary of South Asia Financial Services Corporation.
 Source: <https://www.chaudharygroup.com/index.php/our-company/financial-services.html>

Nabil Bank Limited - NABIL



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PRODUCT & SERVICES

Personal

Deposits

Saving

General Savings

Nari Bachat Jestha Bachat

Students Savings

Bachat Yoiana Share Khata

Nabil Sahuliyat Khata

Lok Bachat Bal Bachat

Nabil Premium Nari Bachat

Safe Deposit Locker

Nabil Premium Payroll Savings

Current A/c

Premium A/c

Fixed Deposit A/c

Critical Insurance Coverage

Call A/c

Card & e-Banking

NabilSmart Visa Domestic

Debit Card

Credit Card

NabilSmart Visa Int'l

NabilSmart MasterCard Domestic

Nabil Merchant List

Pre-Paid Card (Travel Card)

NabilSmart Visa Domestic

NabilSmart MasterCard Int'l

Nabil Installment

Loan

Housing Loan

Auto Loan

Education Loan

Personal Overdraft

Nabil Property (Mortgage Loan)

Nabil Share Loan

Remittance

Western Union

Nabil Korea Remit

Nabil Remit

Other modes of remittance

List of Correspondent Banks

Electronic Channel

USD A/c

GBP A/c

Manager's Cheque

Bank Draft

FIURO A/c

INR A/c

JPY A/c

SGD A/c

DKK A/c

CHF A/c

Services

Nabil Online

Nabil e-Secure

Nabil ViberBanking

NabilNet

Discount in hospitals of India

Nabil SmartBank

Nabil Electronic Payment Gateway (FPG)

Business

Institutional Banking

Corporate Current

Fund Management Services

Corporate eSewa

Online Account Management

Any Branch Bank

Cash Management Services

Corporate Call Account

Stand-In Instructions

Corporate Fixed Term Deposit

Employee A/c Services

Retirement Fund Services

Corporate Staff Savings

Payments & Collections

Payment Cards for Executives

Electronic Fund Transfer

Other Services

Insurance Services

Business Banking

Working Capital Loans

Overdraft Loans

Loans for Exporters & Importers

Term Loans

Customized Short Term Solutions

Guarantees & Indemnities

Fixed Capital Loans

Comprehensive Project Loans

Infrastructure & Project Financing

SME Banking

Customized SME Loans

Micro Finance/Deprived Sector Loans

Products

Loans for Commercial Agri Business

Nabil Nari Karia

Nabil Saiilo Karia

Women Run Micro Enterprises Loan

Trade Services

Solutions for Importers

Solutions for Exporters

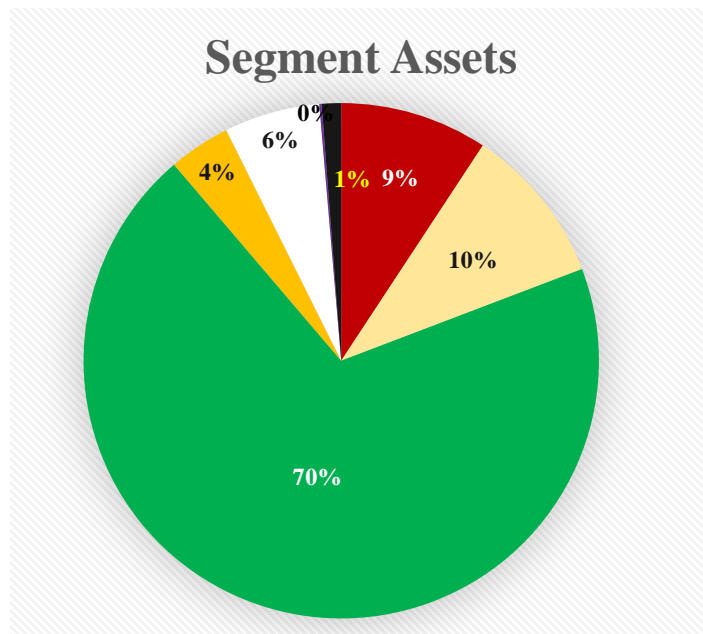
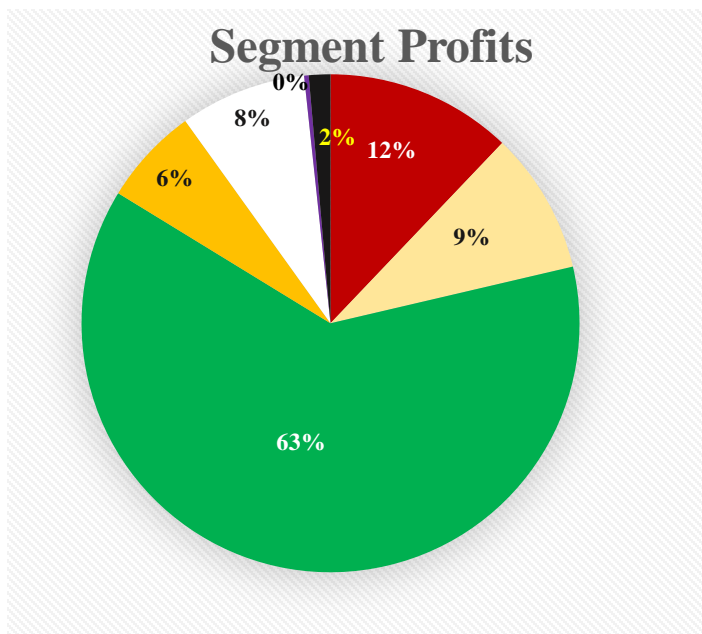
Solutions for Organizations

Nabil Bank Limited - NABIL



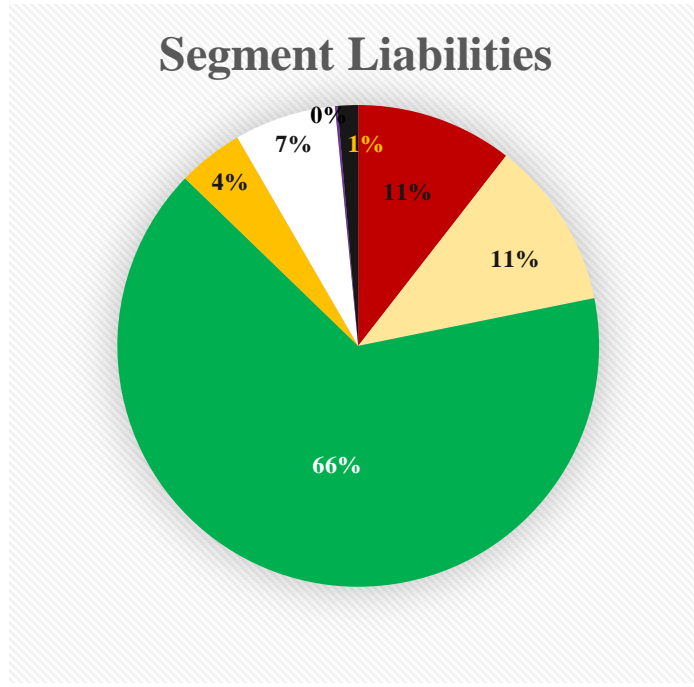
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BUSINESS SEGMENTS



Legends	
	Province 1
	Province 2
	Province 3
	Gandaki
	Province 5
	Karnali
	Province 7

Nearly 2/3 of NABIL's businesses are concentrated on Province 3, followed by Province 2 and 1. It has the least presence in Karnali and Province 7. Bank thereby requires to focus on its geographical diversification.

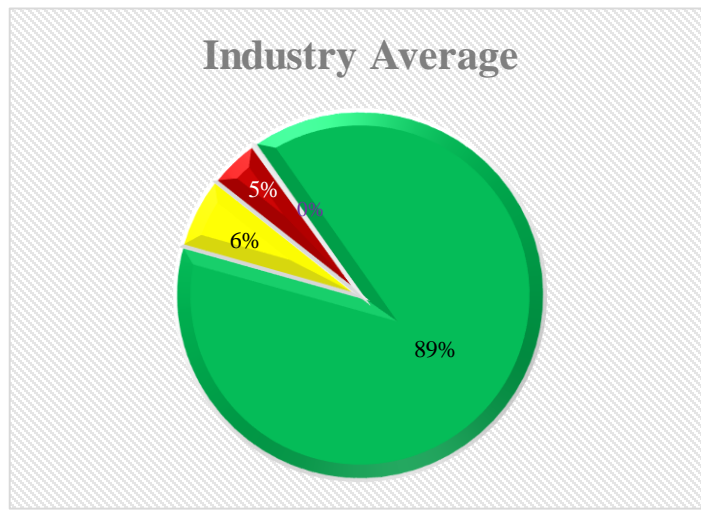
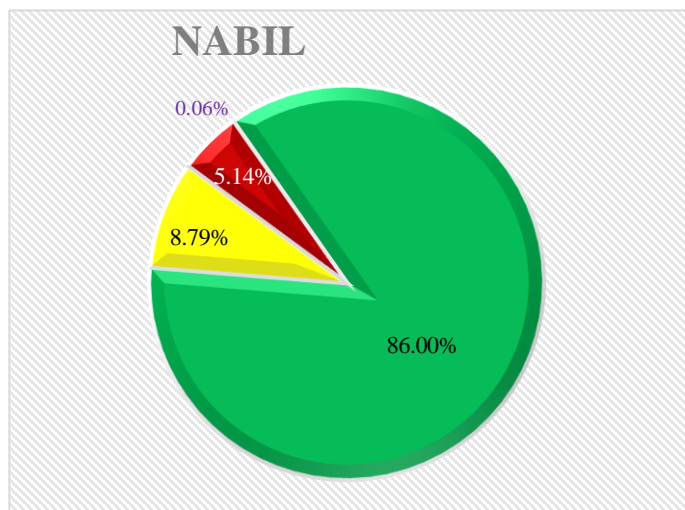


Nabil Bank Limited - NABIL



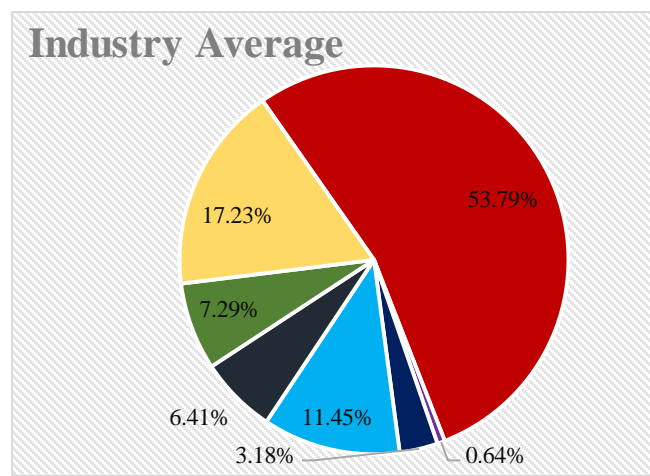
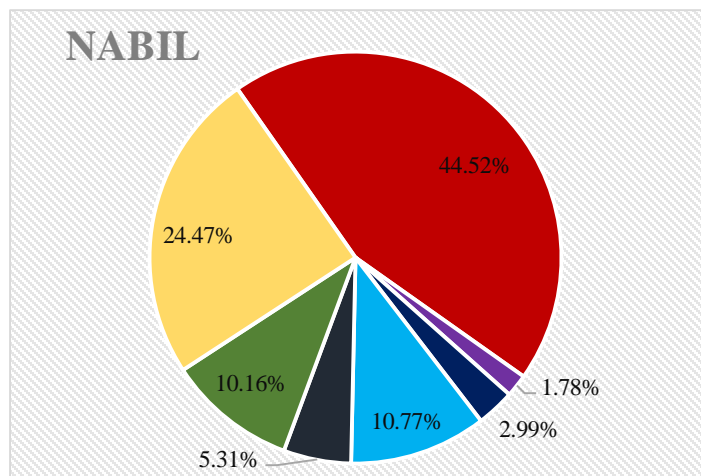
June 2019

REVENUE DRIVERS



Interest Income Fees and Commission Income Other Op. Income Non Op. Income

Revenue Consumers



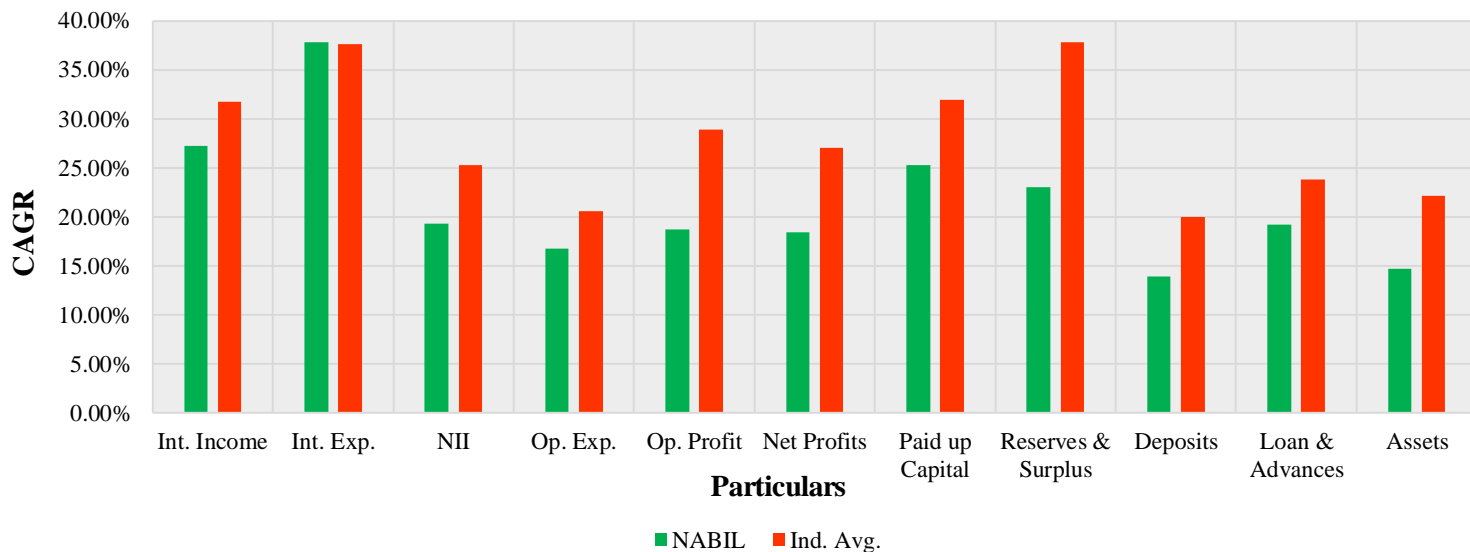
Int. Exp. Fees and Com. Exp. Impairment Charge Personal Exp. Other Op. Exp. Income tax Net Profit

Nabil Bank Limited - NABIL

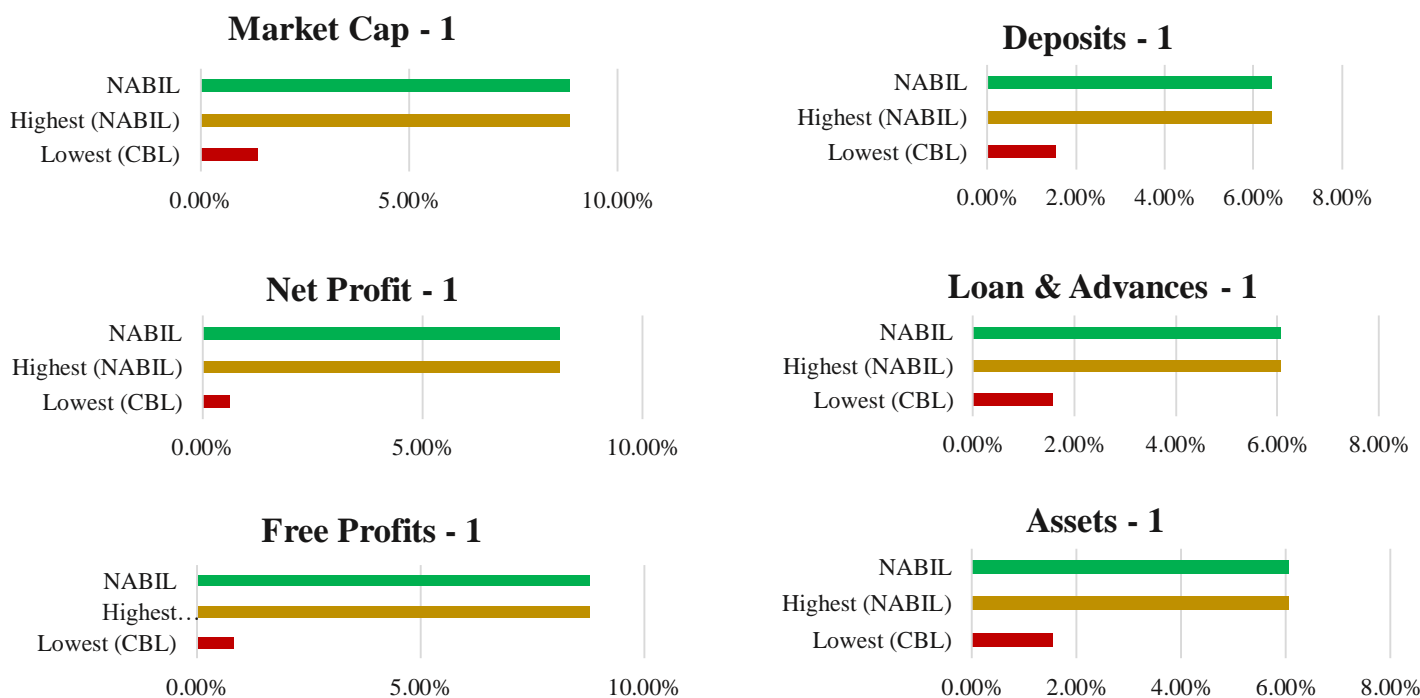


June 2019

4 Year CAGR



Industry Rankings – Q3 75/76



Nabil Bank Limited - NABIL



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Financial Analysis

Profitability Ratio's	NABIL - Q3	Ind. Avg.
Net Profit Margin	28.45%	19.50%
Op. Profit Margin	40.19%	27.49%
Return on Equity	14.94%	9.71%
Return on Assets	1.86%	1.31%
Op. Return on Assets	2.62%	1.85%

Leverage Ratio's		
Equity Multiplier	8.35	7.84
Debt to Total Assets	0%	0.54%
Debt to Equity	0%	5.06%

Liquidity Ratio's		
Quick Ratio	0.29	0.29

Ratio's as per NRB Directives		
CAR	12.50%	13.77%
NPL to Total Loan	0.64%	1.53%
Total Loan loss provision to Total NPL	260.81%	240.97%
Costs of Funds	6.06%	7.17%
CD Ratio	78.85%	77.94%
Base Rate	7.99%	9.81%
Interest Rate Spread	4.63%	4.40%

Other Ratio's		
Interest Income / L & A	8.39%	8.74%
Op. Expenses / Int. Income	18.70%	20.11%
Employees Expenses / Total Operating Expenses	66.97%	63.57%
Interest Expenses / Deposits & Borrowings	3.76%	4.65%
L & A / Deposits	87.03%	92.52%

EPS	47.21	23.72
BVPS	242.38	170.07

CASA Ratio: 58.77% (as on Falgun 2075)
(We include call account as well)

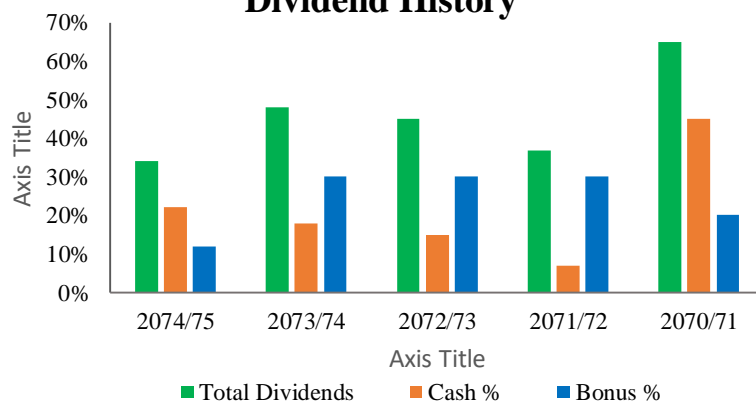
Positive Facet

- As on Q3, profitability metrics of NABIL is comparatively higher than industry average of banks. It's ROE is highest, while ROA and Op. ROA ranks second highest. Net profit margin and Op. profit margin are third highest.
- EPS and BVPS as well surpass the industry average. It has the highest EPS and third highest BVPS in industry.
- Asset quality is superior with significantly lower NPL.
- 3rd lowest base rate, supposedly to amplify the lending.
- Similarly, cost of fund is the fourth lowest in industry, helping bank to acquire funds at competitively lower interest charge.
- IRS is higher, showing major catalyst of higher profitability.
- Lower operating expenses

Negative Facet

- Tight CAR and CD ratios, limiting the prospects of further business growth through expansion of lending activities.
- Bank has the 7th highest loan loss provision, lowering profits.
- Comparatively lower interest income on loan & advances.
- 5th largest employee's expenses to operating expenses.
- Higher equity multiplier indicating higher financial leverage
- Both the ROE and ROA in Q3 are lower and falling
- Both operating and net profit margin in Q3 are lower & falling.
- CASA Ratio is in declining mode over the period, indicating the increasing cost of funds.

Dividend History



Nabil Bank Limited - NABIL



June 2019

Relative Pricing

Approach

NABIL



Industry
Average



Fair
Price

1.
P/E

47.21

NABIL
EPS

14.88

Industry P/E

Rs.
702.43

2.
P/B

242.38

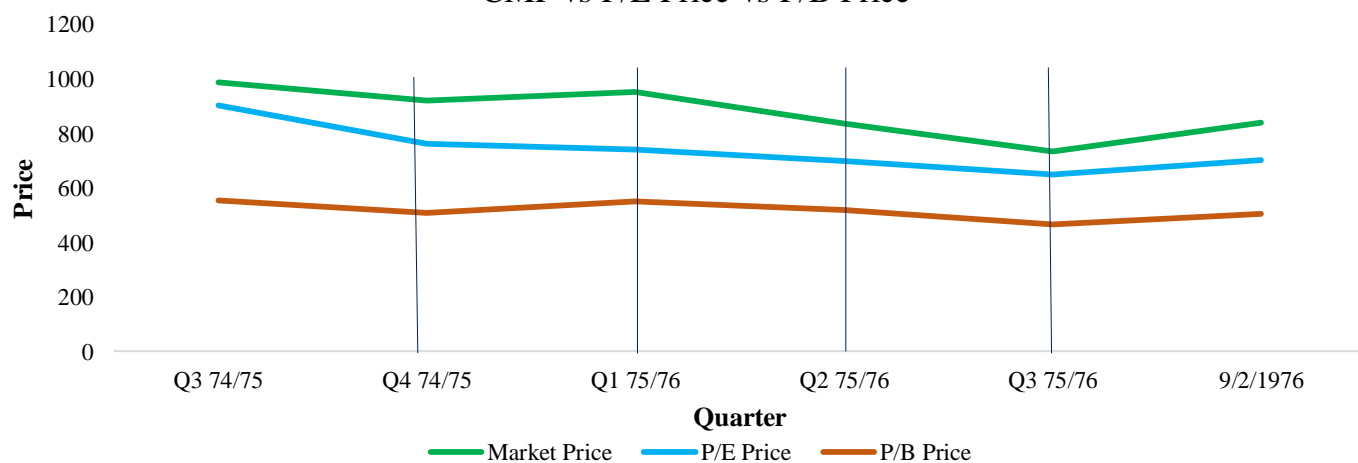
NABIL BVPS

2.09

Industry P/B

Rs.
507

CMP vs P/E Price vs P/B Price



NABIL script is found to be trading in secondary market at higher to both its fair price as per P/E and P/B Approach. Compared to P/E approach, the script is trading at significantly higher premium to P/B approach.

Nabil Bank Limited - NABIL



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Horizontal Analysis

Periods	Q3 13/14	Q3 14/15	Q3 15/16	Q3 16/17	Q3 17/18	Q3 18/19
Income Statement						
<i>Interest Income</i>	4,185,997	2.20%	6.96%	36.60%	94.17%	167.95%
<i>Interest Expense</i>	1,457,568	10.47%	-1.13%	12.26%	144.12%	298.34%
Net Interest Income	2,728,429	-2.22%	11.28%	49.60%	67.49%	98.29%
Net fees and Commission Income	782,875	-9.47%	-3.11%	11.75%	-8.23%	16.80%
Other Operating Income	138,372	41.61%	63.34%	104.28%	184.68%	384.72%
Total Operating Income	3,649,676	-2.11%	10.17%	43.56%	55.69%	91.67%
Impairment Charge	283,207	-39.08%	-138.62%	-89.46%	-96.77%	37.71%
Net Operating Income	3,366,469	1.00%	22.68%	54.75%	68.51%	96.21%
<i>Personal Expenses</i>	712,983	1.88%	24.31%	42.43%	70.45%	97.04%
Other Operating Expenses	355,942	13.24%	9.46%	33.17%	32.56%	94.65%
Operating Profit	2,297,544	-1.17%	24.23%	61.91%	73.48%	96.19%
Non-Operating Income/Expense	35,138	-9.37%	64.94%	167.66%	685.90%	-77.27%
Profit/Loss for the period	1,641,949	-1.35%	25.00%	63.45%	88.36%	94.35%
Balance Sheets						
<i>Paid Up Capital</i>	3,047,168	20.03%	56.10%	102.99%	163.96%	195.74%
<i>Reserves and Surplus</i>	5,284,968	6.04%	28.35%	53.14%	130.71%	142.78%
Deposits	73,904,384	23.53%	53.33%	58.39%	66.51%	107.96%
Bond and Debentures	300,000	0.00%	0.00%	0.00%	0.00%	-100.00%
Other Liabilities and Provisions	4,634,433	-7.00%	14.89%	20.93%	-28.83%	33.75%
Cash and Cash Equivalent	6,253,559	94.42%	113.99%	67.80%	-33.97%	39.03%
Due from NRB and Placement with BFIs	434,230	99.81%	293.73%	469.23%	3173.07%	3436.06%
Loan and Advances	53,512,561	23.91%	32.20%	69.22%	96.81%	149.95%
Investments Securities	22,960,947	-3.23%	104.14%	22.93%	-20.82%	-8.47%
Property and Equipment	839,071	-4.32%	-7.83%	-4.42%	4.45%	23.20%
Other Assets	3,170,584	-11.35%	15.07%	48.37%	46.97%	-28.31%
ASSETS	87,170,952	20.64%	57.31%	57.45%	69.13%	109.16%

Note: Base period Q3 2013/14

Nabil Bank Limited - NABIL



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Vertical Analysis

Income Statements	Q3 13/14	Q3 14/15	Q3 15/16	Q3 16/17	Q3 17/18	Q3 18/19
Total Revenues	4,359,507.00	4,505,970.00	4,761,314.00	6,094,781.00	9,545,707.00	13,041,444.00
	100%	100%	100%	100%	100%	100%
Interest Income	96.02%	94.94%	94.04%	93.82%	85.15%	86.00%
Interest Expense	33.43%	35.74%	30.27%	26.85%	37.28%	44.52%
Net Interest Income	62.59%	59.21%	63.77%	66.97%	47.87%	41.48%
Fees and Commission Income	0.00%	0.00%	0.00%	0.00%	7.83%	8.79%
Fees and Commission Expense	0.00%	0.00%	0.00%	0.00%	0.31%	1.78%
Net fees and Commission Income	17.96%	15.73%	15.93%	14.35%	7.53%	7.01%
Other Operating Income	3.17%	4.35%	4.75%	4.64%	4.13%	5.14%
Total Operating Income	83.72%	79.29%	84.45%	85.96%	59.53%	53.64%
Impairment Charge	6.50%	3.83%	-2.30%	0.49%	0.10%	2.99%
Net Operating Income	77.22%	75.46%	86.74%	85.47%	59.43%	50.65%
Personal Expenses	16.35%	16.12%	18.61%	16.66%	12.73%	10.77%
Other Operating Expenses	8.16%	8.94%	8.18%	7.78%	4.94%	5.31%
Operating Profit	52.70%	50.39%	59.95%	61.04%	41.76%	34.56%
Non-Operating Income/Expense	0.81%	0.71%	1.22%	1.54%	2.89%	0.06%
Profit before Tax	53.51%	51.10%	61.16%	62.58%	44.65%	34.62%
Income Tax	15.84%	15.15%	18.06%	18.55%	12.25%	10.16%
Profit/Loss for the period	37.66%	35.95%	43.11%	44.03%	32.40%	24.47%
Other Comprehensive Income					-8.45%	-0.96%
Total Comprehensive Income					23.95%	23.51%
Net Profit/Loss as per profit or loss					32.40%	24.47%
Regulatory adjustment					-3.07%	-6.65%
Free Profit after regulatory adjustment					29.33%	17.82%
Balance Sheets						
Capital & Liabilities	87,170,953	105,164,563	137,131,058	137,252,512	147,429,933	182,329,154
	100%	100%	100%	100%	100%	100%
Paid Up Capital	3.50%	3.48%	3.47%	4.51%	5.46%	4.94%
Reserves and Surplus	6.06%	5.33%	4.95%	5.90%	8.27%	7.04%
Deposits	84.78%	86.81%	82.63%	85.29%	83.47%	84.30%
Borrowings	0.00%	0.00%	4.85%	0.01%	0.36%	0.33%
Bond and Debentures	0.34%	0.29%	0.22%	0.22%	0.20%	0.00%
Other Liabilities and Provisions	5.32%	4.10%	3.88%	4.08%	2.24%	3.40%
Assets	87,170,952	105,164,563	137,131,058	137,252,510	147,429,933	182,329,152
	100%	100%	100%	100%	100%	100%
Cash and Cash Equivalent	7.17%	11.56%	9.76%	7.65%	2.80%	4.77%
Due from NRB and Placement with BFIs	0.50%	0.83%	1.25%	1.80%	9.64%	8.42%
Loan and Advances	61.39%	63.05%	51.59%	65.98%	71.44%	73.36%
Investments Securities	26.34%	21.13%	34.18%	20.57%	12.33%	11.53%
Property and Equipment	0.96%	0.76%	0.56%	0.58%	0.59%	0.57%
Investments in Subsidiaries & Associates	0.00%	0.00%	0.00%	0.00%	0.00%	0.09%
Goodwill and Intangible Assets	0.00%	0.00%	0.00%	0.00%	0.04%	0.02%
Other Assets	3.64%	2.67%	2.66%	3.43%	3.16%	1.25%

Nabil Bank Limited - NABIL



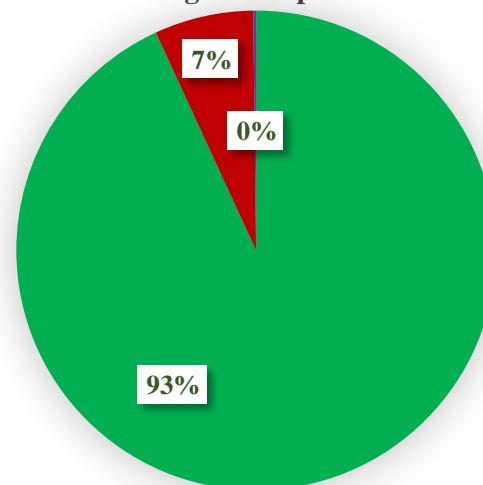
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Excerpt from Q3 75/76 Basel 3 Report

Out of the total Rs. 158.12 billion Risk Weighted Exposures, Credit Risk alone consists 93.14% i.e. Rs.147.26 billion. Operational Risk consist 6.67% i.e. 10.55 billion of RWE while Market risk is negligible, covering only 0.19% i.e. Rs.30.2 million. (Note: We have summed only 3 Risks type – Credit, Operational and Market and excluded 3% of the total RWE under Supervisory Review and 3% Capital Charge for Operational Risk).

We believe the Credit Risk exposure amount is justifiable since the significant percentage of the banking activities relates to Credit disbursement. However, we believe the Market Risk Exposure amount is significantly lower because the investment in Securities made by bank alone is Rs.21 billion. The bank is also exposed to Market risks like Foreign Currency risk, interest rate risk etc.

Risk Weighted Exposures



■ RWE for Credit Risk
■ RWE for Operational Risk
■ RWE for Market Risk

Capital Adequacy Ratios

Common Equity Tier 1 Ratio	11.34%
Core Capital Ratio – Tier I	11.34%
Total Capital Ratio – Tier I + Tier II	12.50%

Qualifying Capital

Core Capital (Tier 1 Capital)	18,575,757,453
Supplementary Capital (Tier II)	1,901,874,050
Total Capital Fund (Tier I and Tier II)	20,477,631,503

NPA Ratios

	Ratio (%)
Gross NPA to Gross Advances	0.64
Net NPA to Net Advances*	0

Non-Performing Assets

Particulars	Q3 75/76	Q3 75/76
Gross NPA	835,808,669	798,427,553
NPA (%)	0.64	0.62

*The Bank has Total loan loss provision of NPR 2,179,851,653 of which NPR 1,487,063,991 is on account of general loan loss provision and NPR 692,787,662 specific loan loss provision against NPAs. As such, as the Total loan loss provision is higher than Gross NPA, Net NPA to Net Advances is reported as Nil.

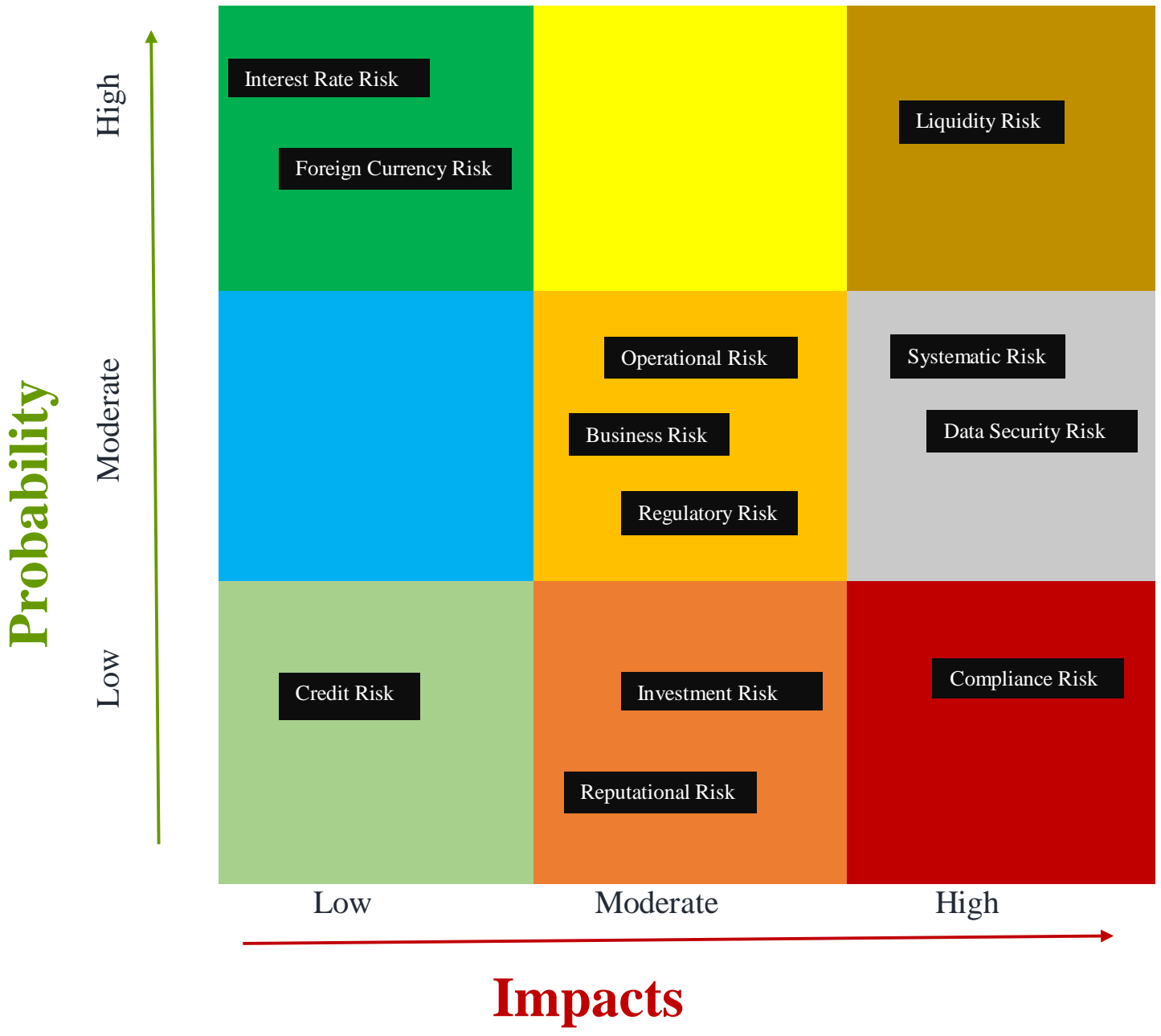
(Excerpt taken from the Report)

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RISKS



Nabil Bank Limited - NABIL



June 2019

Financial Highlights

(Fig. in '000)

Balance Sheet	Q3 2018/19	Q2 2018/19	Q3 2017/18
Paid Up Capital	9,011,845	8,043,221	8,043,221
Reserves and Surplus	12,831,093	14,523,753	12,192,722
Deposits	153,695,132	149,382,011	123,058,607
Borrowings	592,610	404,700	537,195
Bond and Debentures	-	-	300,000
Other Liabilities and Provisions	6,198,474	5,317,867	3,298,188
Assets	182,329,152	177,671,553	147,429,933
Cash and Cash Equivalent	8,694,151	8,684,766	4,129,360
Due from NRB and Placement with BFIs	15,354,641	17,517,611	14,212,659
Loan and Advances	133,755,307	130,710,675	105,320,191
Investments Securities	21,016,463	18,020,021	18,179,544
Property and Equipment	1,033,740	977,922	876,436
Investments in Subsidiaries and Associates	158,000	158,000	-
Goodwill and Intangible Assets	43,798	43,798	51,778
Other Assets	2,273,052	1,558,760	4,659,965
Income Statement			
Interest Income	11,216,182	7,325,065	8,127,995
Interest Expense	5,806,088	3,713,710	3,558,216
Net Interest Income	5,410,094	3,611,355	4,569,779
Fees and Commission Income	1,146,560	687,264	747,651
Fees and Commission Expense	232,160	67,249	29,205
Net fees and Commission Income	914,400	620,015	718,446
Other Operating Income	670,716	465,318	393,913
Total Operating Income	6,995,210	4,696,688	5,682,138
Impairment Charge	390,012	229,754	9,143
Net Operating Income	6,605,198	4,466,934	5,672,995
Personal Expenses	1,404,872	946,099	1,215,291
Other Operating Expenses	692,846	437,148	471,852
Operating Profit	4,507,480	3,083,687	3,985,852
Non-Operating Income/Expense	7,986	1,762	276,148
Profit before Tax	4,515,466	3,085,449	4,262,000
Income Tax	1,324,396	908,588	1,169,234
Profit/Loss for the period	3,191,070	2,176,861	3,092,766
Other Comprehensive Income	-124,842	-242,382	-806,328
Total Comprehensive Income	3,066,228	1,934,479	2,286,438
Distributable Profit			
Net Profit/Loss as per profit or loss	3,191,070	2,176,861	3,092,766
Regulatory adjustment	-866,647	-131,814	-293,412
Free Profit after regulatory adjustment	2,324,423	2,045,047	2,799,354

Nabil Bank Limited - NABIL



June 2019

TECHNICAL VIEW



Support Level: S1 Rs.796.22 S2 Rs.780.75 S3 Rs.772.23
Resistance Level (both by channel and Fibonnacci 61.8%-841.05)
RSI - 55
20 days MA 5.27 k
Traded volume : 2822
Purchase when price reaches 780

Nabil Bank Limited - NABIL



June 2019

Call Deposit Ratio

NRB recently issued a circular stating that the maximum call deposit ratio to be maintained by the Commercial Banks is 10%.

As of Falgun end, Nabil Bank has maintained:

Total Deposits: Rs. 156,265.38 billion

Call Deposits: Rs. 24,474.43 billion

Domestic: Rs. 19,814.06 billion

Foreign: Rs. 4,660.37 billion

Call Deposits Ratio: 15.66%

To comply with the NRB direction the bank will have to decrease its call deposit ratio to 10%. If it were to keep the call deposit amount constant then the total deposits needs to increase by 56.62% which seems rather unlikely since its past tendency of increase in deposits stands at 4 YEAR CAGR of 13.91%.

Likewise, the company has alternative to decrease the call deposits ratio by transferring call deposits account into current account which is a non- interest bearing account that might be unacceptable for depositors or it could be converted to fixed deposit account which adds to the interest expense of the Bank.

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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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