



Sector: Commercial Banks
LTP: 205 (As on 17/02/19)

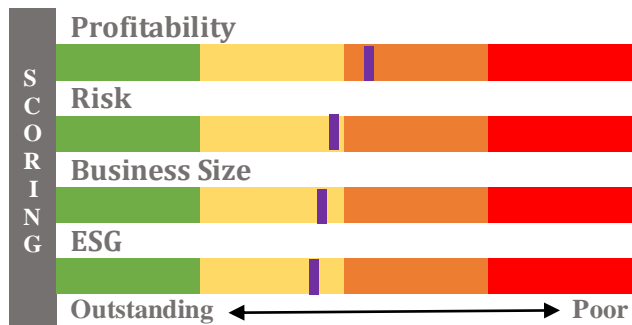
52 Week High – Low: Rs. 269-173
180 days Average: Rs. 215.36

Fair Price: 245.63
Base Price: Rs. 265.67

Under Fair Over



PRICE



#ESG- Environment, Social and Corporate Governance

SYNOPSIS

Trading at relatively lower level: The bank share traded at Rs.205 on 17th Feb. 2018. The mean price of 27 listed commercial banks on the same date is Rs. 301.19. The stock is trading at 16.5% discount to the fair price. Furthermore, it is only at 1.96% discount to its 180 days average price, showing underpriced status.

Attractive with regard to PEG ratio: Considering the 3 years CAGR net earnings of the company & industry, PEG of NCCB surfaced 0.22 while industry PEG stands at 0.42. The PE ratio of the company is lower than industry average PE while the earnings growth of the company is higher than industry average.

Below average financial performance showing dampening outlook: As per the Q2 2075/76, the performance of the bank does not paint an optimistic picture. It earned 2.33% lower compared to corresponding previous quarter. The bank is underperforming the industry average EPS and BVPS of Rs. 24.41 and Rs.170.29 respectively. Based on the financials of 2nd quarter, it is projected that the bank will earn Rs.2.06 billion operating profit in the current FY and we expect the bank's Net profit to exceed Rs. 1.48 billion in the FY 2075/76.

Historic merger deal between NCCB and four development banks:

After the merger of NCCB with Infrastructure Development Bank, Apex Development Bank, Supreme Development Bank and International Development Bank, the paid up capital soared from 2.3 billion to 4.6 billion. After the merger, the profit amounting to Rs. 129,027,000 in the Q1 2016/17 culminated into a loss of Rs.51,408,000 in the subsequent quarter.

Bonus issue expected after approval from the upcoming AGM:

The paid up capital received another round of boost after the issuance of rights share amounting to Rs. 2,339,529,100. The portion of rights issue that was not exercised has been auctioned off. The bank collected a share premium of Rs. 169,832,830 from the auction. At the present juncture, the bank is deficient in terms of paid up capital by Rs. 981.44 million. The bank is expected to fill this deficiency through the issue of bonus shares, subject to approval from the upcoming AGM. The AGM of FY 2016/17 and FY 2017/18 is still pending.

Province 3 accounts for sizable chunk of total expenses, 76.04% to be precise:

Province 3 accounts for 61.73% of total revenue and 76.04% of total expenses. Province 2 is second in line in terms segmental activity; it accounts for 10.45% of total revenue and 5.56% of total expenses. With Province 6 accounting for only 1.11% of total revenue, it makes very minimal contribution to the overall revenue.

NRB recent opinion to limit the size of Call deposit to 10% of total deposits likely to affect the Bank:

In its semi-annual review and analysis of Monetary Policy, NRB has opined to cap the size of Call deposit to 10% of total deposits of Bank. On circumstances of such provision coming into effect, NCCB is likely to be negatively affected as the bank has the Call deposits size of approx. 19.76%. Either the Bank has to convert the deposit amounts into other kinds or have to see a reduction in its deposits size, thus affecting the performance and profitability.

Stock Profile

No. of Branches	128
ATM Outlets	75
O/S Shares (Nos.)	70,185,590
Market Cap (Rs. Mil.)	1,357,745.92
NEPSE / Sector Coverage	1.06% / 2.06%
180 days Avg. Price	215.36
Beta with NEPSE/Sector	1.25 / 1.23
Corr. with NEPSE/Sector	0.96/0.95
Liquidity	100%
Avg. Volumes	24,512

Data taken from 19/06/2017 –17/02/2018 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	1109.72
Total Market Cap (Millions)	1,357,745.92
Banking Cap (Millions)	34,215.19 (2.52%)
Avg. Return NEPSE/Banks	10.80% / 9.99%
Std. Dev. NEPSE/Banks	18.08% / 23.96%

Data taken from 24/12/2003– 17/02/2019 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.

Fundamental Analysis

Financial Highlights (Fig. in millions)			
Particulars	Q2 75/76	Q1 75/76	Q2 74/75
Paid Up Capital	7,018.55	4,685.90	4,679.05
Res. & Surplus	4,179.30	3,700.79	3,769.10
Deposits	64,717.38	62,843.02	59,152.76
Bond & Deb.	-	-	-
Loan & Adv.	58,442.37	56,088.90	49,994.69
Total Assets	79,010.06	75,865.01	70,082.68
Net Int. Income	1,465.44	792.23	672.68
Operating Profits	1,033.11	598.68	736.03
Net Profits	741.17	459.05	530.01
Profit after reg. adj.	643.97	286.22	277.48

Growth	3 YR Average		3 YR CAGR	
	NCCB	Industry	NCCB	Industry
Int. Income	61.79%	36.80%	53.54%	35.83%
Op. Profit	101.43%	30.53%	47.91%	30.38%
Net Profits	96.84%	29.51%	44.33%	29.15%
Deposits	38.56%	20.70%	33.56%	20.68%
Loan & Adv.	41.53%	26.37%	37.15%	26.34%
Total Assets	40.55%	23.02%	34.90%	23.01%

Ratios	Q2 75/76	Q1 75/76	Q2 74/75
EPS	21.12	39.24	22.65
BVPS	159.55	178.97	180.55
Asset Per Share	1,125.73	1619.00	1497.79
ROE	14.26%	19.56%	9.99%
ROA	1.9%	2.43%	0.97%
CAR	14.10%	12.67%	11.24%
Credit to Deposit	78.21%	78.98%	76.48%
Base Rate	10.87%	11.45%	11.45%
Cost of Fund	7.95%	7.88%	8.64%
Net Int. Spread	-	4.47%	2.92%
NPL	3.53%	3.69%	4.04%
Liquidity Ratio	24.61%	22.25%	28.23%
Equity Multiplier	7.05	9.04	8.29

Major Loan Exposure	% of Total Loan
Manufacturing and Production	20.84%
Wholesalers and Retailers	16.95%
Other Sectors	15.31%

As on Q2 2075/76.

- ✓ **Profitability growth:** Bank's profitability is more than tripled the industry average growth in the past 3 years. When compared with net profit of other banks in Q2 2075/76, the bank falls in the 20th position. We expect the bank profitability to align with the industry in the medium to long term.
- ✓ **Deposits and Loan growth:** Bank falls at 24th rank in terms of size of Deposits and Loan & Advances. The average deposit growth rate of the bank is nearly two times the average deposit growth rate of banking industry. Similarly, the loan growth rate of the bank also outstrips the industry average loan growth rate by a long shot.
- ✓ **Inadequate equity:** After the rights issue, the paid up capital has shot up from the Rs. 4.68 billion to Rs.7.01billion. This means that the bank is deficient in terms of paid up capital by approximately Rs.1 billion. In order to meet the capital requirement, the bank needs to issue 13.98% bonus shares.
- ✓ **Comfortable CAR:** The CAR ratio of NCCB is a tad higher than the industry average of 13.91%, meaning that the bank is in a comfortable situation in terms of CAR. As such, the bank's ability to expand its business further is not restricted by its CAR.
- ✓ **Decent CCD Ratio:** The bank has a CCD ratio of 78.21%, this ratio is higher than the industry average of 77.77%. Both CAR and CCD Ratio suggest that the bank has room for further business expansion without having to attract additional deposit. However, it is imperative to increase the size of deposit to compete with the likes of Civil Bank Limited, Lumbini Bank Limited, Sunrise Bank Limited and Century Commercial Bank Limited.
- ✓ **Noticeably Higher NPL:** The NPL of bank is noticeably higher than the industry average of 1.46%. As a matter of fact, with the alarming NPL of 3.53%, the bank is near the bottom of the table in terms of NPL rank. The NPL of the bank spiked up from 0.96% to 4.84% during the 2nd quarter of FY 2016/17 after the merger deal. However, the bank has been successful in toning down the NPL over the last 2 years.
- ✓ **Impending bonus distribution:** Since the bank is yet to meet the paid up capital requirement, the bank is already set to issue bonus shares. Currently, the bank falls in the 18th position in terms of reserve standing but the distribution of bonus shares will put a downward pressure on the reserve, pinning it down to somewhere around Rs.3 billion.

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	NCCB	Industry	Fair Price
EPS	21.12	24.41	256.58
P/E	9.71	12.15	
Basis: P/B			
BVPS	159.55	170.29	278.78
P/B	1.28	1.75	
Basis: EV/EBIT			
EV (per share)	49.28	54.73	203.42
EV/EBIT	3.48	4.09	
Average Price			245.63

Peer Banks Price Changes						
S.N.	Ticker	LTP	1 Week	4 Weeks	12 Weeks	YTD
1	LBL	186	-3.12%	-8.08%	-10.92%	-9.72%
2	CZBIL	201	-1.47%	-6.94%	-9.19%	-5.19%
3	NCCB	205	-1.44%	-5.09%	-3.30%	-3.76%
4	SRBL	207	-1.43%	-3.72%	-0.44%	-4.61%
5	MBL	209	0.00%	-0.48%	4.13%	0.97%

Investment Risks – Value at Risk

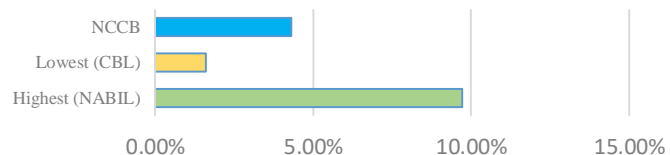
Mean (Daily)	0.01%		
Std. Dev. (Daily)	2.88%		
Parametric Method	1 DAY VAR	1 WEEK VAR	1 MONTH VAR
90% C.I.	-3.68%	-8.23%	-16.87%
95% C.I.	-4.73%	-10.57%	-21.67%
99% C.I.	-6.69%	-14.97%	-30.67%
Expected Shortfall / CVAR			
90% C.I.	-4.97%	-11.10%	-22.77%
95% C.I.	-6.69%	-14.96%	-30.67%
99% C.I.	-12.27%	-27.43%	-56.23%

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

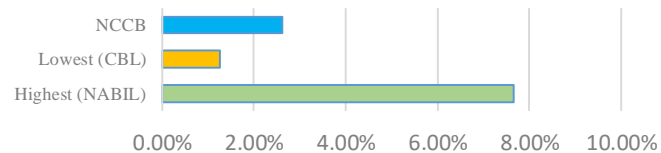
- I. There is 10% probability that the loss on investment in NCCB will be 3.68% or more on any normal trading day. **OR**
- II. There is 90% confidence level that the loss on investment in NCCB will be less than 3.68% on any normal trading day.

1 Day 10% CVAR can be interpreted as: There is 10% probability that the average losses in excess of VAR on investment in NCCB will be 4.97% on any single trading day

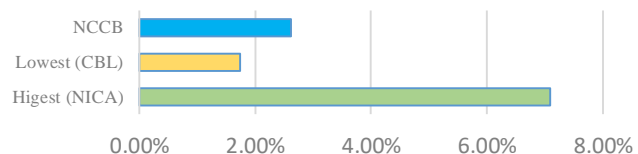
Market Cap. Ranking 24



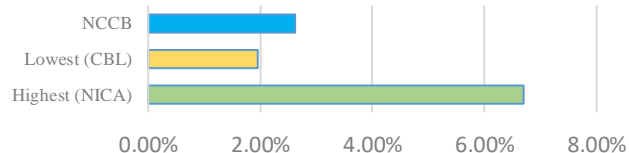
Net Profit Ranking 20



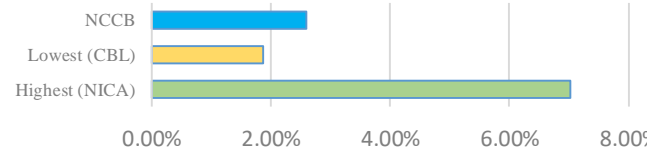
Deposits Ranking 24



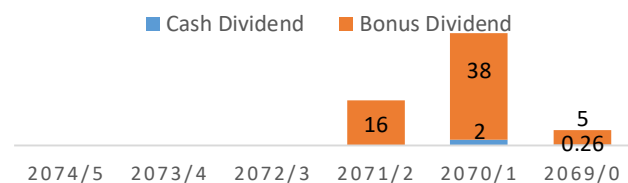
Loan & Advances Ranking 24



Total Assets Ranking 24



DIVIDEND HISTORY



Company Profile

NCCB came into operation on 14 October, 1996 as a Joint Venture with Bank of Ceylon, Srilanka. After completing 2 decades of banking on 14th October 2016, the bank entered into a historic merger with four development bank, viz., Infrastructure Development Bank Ltd., Apex Development Bank Ltd., Supreme Development Bank Ltd. and International Development Bank Ltd.

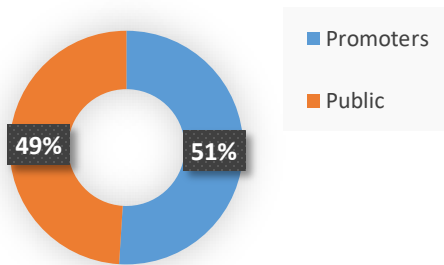
Chairman Mr. Upendra Kesari Neupane

Chief Executive Officer Mr. Ramesh Raj Aryal

Subsidiaries

No subsidiary owned

Shareholdings



Contact Info

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Technical Analysis



Moving Average: The 14 days SMA has crossed 20 days SMA and 50 days SMA from above. The 14 days SMA is on the verge of crossing 150 days SMA from above. However, there is no clear indication of uptrend or downtrend.

Bollinger Bands: The Bollinger band indicates narrow trading range and low volatility. The stock is trading near the bottom band indicating a momentary downward pressure.

RSI: The RSI has been declining gradually since the start of 2019 at which point RSI was floating within 50-60 range. Currently, the RSI value is hovering around 35 which indicates a slight downward pressure in stock price.

Volume: The start of 2019 saw an upsurge in volume and the volume has been on the lower side thereafter. The daily volume has reached 27,571. The volume figure does not show encouraging participation from the public as of late.

Support and Resistance: Rs. 224 – Rs. 197

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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