

**Sector: Commercial Banks**  
**LTP: Rs. 517** (As on 08/07/19)

**52 Week High – Low: 681-500**  
**180 days Average: Rs.564.27**

**Fair Price: 357.32**  
**Base Price: Rs.667.56**

**BUY**

[ICRANP – IR] A+ (January 2019)

**Key Coverage**

**Page**

- *Technical Outlook*..... 1
- *Synoptic Outlook*..... 1/2
- *Fundamental Outlook*..... 2/3
- *Investment Risk – VaR*..... 4
- *Peer Comparison*..... 4
- *NIB and M&A deals*..... 5
- *Disclaimer* ..... 5

**Stock Profile**

No. of Branches	80
ATM Outlets	114
Extension Counters	14
O/S Shares (Nos.)	125,618,064
Market Cap (Rs.)	64,944,539,088
NEPSE / Sector Coverage	4.18% / 7.90%
Beta with NEPSE/Sector	1.20 / 1.03
Corr. with NEPSE/Sector	0.72 /0.77
Liquidity	100%
180 days Avg. Volumes	16,361.5

# Data taken from 17/7/2011 – 08/07/2019 for Beta and Correlation calculation.

# NIB has higher beta indicating more systematic risk while it maintains slightly strong correlation with market benchmark.

# During the review period, NIB has outperformed to both NEPSE and Banking benchmark on annualized average return basis. Avg. Return of NIB, NEPSE and Banking are computed to be 19.58%, 14.88% and 14.51% respectively. However, on risk-adjusted basis, NIB has underperformed to NEPSE while it has exceeded Banking, indicating higher variance on NIB.

**Market Profile**

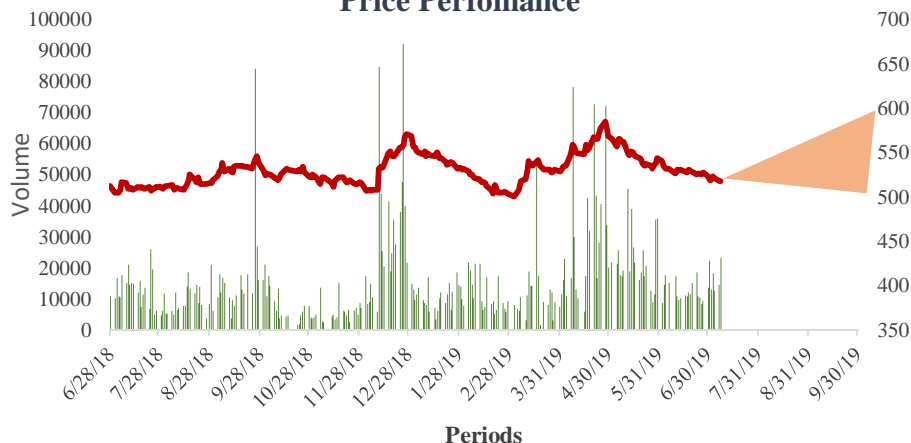
NEPSE Index	1,247.35
Total Market Cap (Millions)	1,552,165.99
Banking Cap (Millions)	822,114.91 (52.97%)
Avg. Return NEPSE/Banks	14.88% / 14.51%
Std. Dev. NEPSE/Banks	18.59% / 23.40%

# Data taken from 17/7/2011– 08/07/2019 for Average return and Standard Deviation calculation.

# Very strong positive correlation of 0.96 is found between Banking and NEPSE Index. Banking is found more volatile than NEPSE as evidenced by Standard deviation.

# 230 days is assumed and used for annualized purpose.

**Price Performance**



Exponential Moving Average (35)	Rs.529.80
Pivot Point	Rs.529.67
Bollinger Band: Top	Rs. 533.48
Bollinger Band: Bottom	Rs.529.05
RSI (14)	33
MACD	-5
ATR Band: Top	Rs.537.23
ATR Band: Bottom	Rs.496.77
<b>3 Month Target Range:</b>	<b>Rs.500 – Rs.590</b>

**Outlook**



**Investment Thesis:** We recommend **BUY** to the script of NIB on two perspective: NIB making Acquisition and NIB going into Merger. Given that the bank adopt the first and acquires the BFIs, the trading of the script will not be halted in the secondary market, giving potential for capital yield as well. Under circumstances of the bank adopting Merger, the trading of the script could be halted for undefined periods, resulting benefit of dividend yield only.

**SYNOPSIS**

**Trading at lower region:** The bank share traded at Rs.517 on 22<sup>nd</sup> Asadh 76. The mean price of 27 listed CBs on the same date is Rs. 345. The stock is trading at significant 45% premium to the fair price we computed. However, market has always priced the stock above its relative prices. And, we believe the trading price of Rs.517 (after 18% bonus adjustment) is cheaper while observing the 180 days avg. price, 52 weeks high-low and its peer banks prices, implying limited downside and higher upside potentials.

**Unpleasant Q3 Report:** The bank reported the fall of its Net Profit by y-o-y 13.68% and Operating profit by 12.47% in Q3 75/76, owing to requirements of large provision. The NPL is increasing and stand 3.04% while CAR is tight. Historically, EPS is at lowest.

**Ink Merger & Acquisition deal with JEFL:** On 10th March 19, NIB signed MoU to acquire Jebils Finance Ltd. (JEFL), a “C” Class BFIs. The Swap ratio was determined 100:33 where the bank will be providing 0.33 share of NIB to each unit share of JEFL. Promoter: Public ratio post the Acquisition will still be 69:31. (Joint transaction date: 30<sup>th</sup> Asadh 2076)

**“10.50% NIB Debenture 2082”:** The bank recently issued “10.50% NIB Debenture 2082” worth Rs.2 billion with a maturity of 7 years. ICRA Nepal had assigned credit rating of ICRANP LA+ to the issue, which indicate adequate degree of safety regarding timely servicing of financial obligations.

**Interest rate effective from 8<sup>th</sup> Asadh 76:** Effective from 8<sup>th</sup> Asadh, the bank has capped the interest rate on fixed deposits to 9.25% and limited to 3.5% on saving account. Interest rate charged on varying lending schemes is set as the Base rate plus the max. premium of 6.5%.

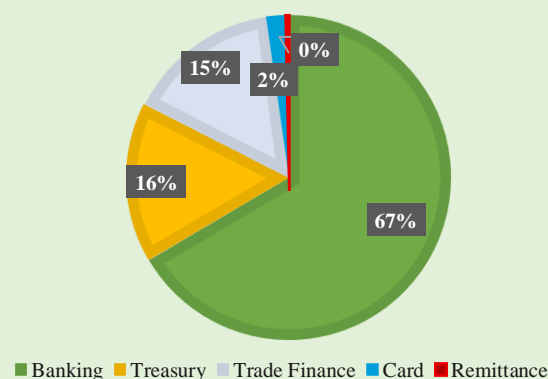
**Authorized to proceed the Brokerage business:** Among the 10 CBs, NRB signaled Green for carrying out the Brokerage services, NIB was one. So, the bank, through the establishment of Brokerage house (*wholly owned subsidiary of NIB*) could be seen acting as the Broker, Securities dealer and Market maker in future.

**To lead the loan syndication for 78MW Sanjen Khola HEP:** NIB along with KBL and CZBIL signed for the facilities agreement of 78MW Sanjen Khola HEP being developed by Salasungi Power Ltd. The project cost is estimated to be above Rs.13.2 billion and 92% stake is held by Chinese company. NIB will act as the leader of the syndicated loan.

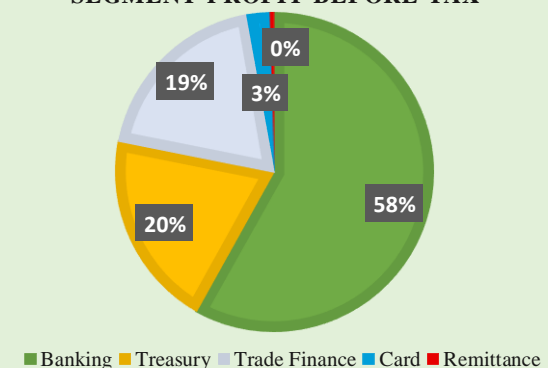
**Awarded as “Bank of the Year” for the highest time:** NIB is the only bank in the country, having been awarded with “Bank of the Year” by The Financial Times of Britain. It bagged the awards in Yr 2016, 2010, 2008, 2005 & 2003. In 2018, NIB was granted with ‘Nepal’s Best Bank’ by Euromoney magazine’s Awards for Excellence 2018.

**“Big Merger” wave in Banking Industry:** Commercial Banking sector at present is heated up with “Big Merger” talks, following the urges made by the NRB Governor Dr. Chiranjibi Nepal. Accordingly, NIB has given its written commitment to NRB for undertaking M&A. However, the bank has not mentioned the partner bank for such, we believe NIB to be the Acquirer but for the moment, the bank might focus on acquiring “B” and “C” class BFIs.

## SEGMENT REVENUES



## SEGMENT PROFIT BEFORE TAX



# As on Q3 75/76

## FUNDAMENTAL ANALYSIS

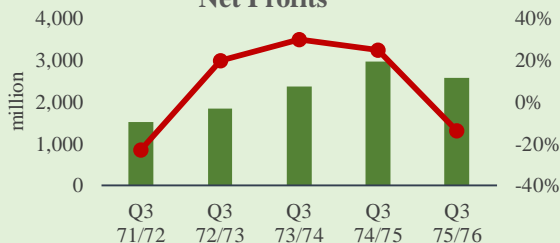
Financial Highlights (Fig. in millions)			
Particulars	Q3 75/76	Q2 75/76	Q3 74/75
Paid Up Capital	12,589.90	12,589.90	10,645.59
Res. & Surplus	12,489.28	11,977.4	13,948.5
Retained Earnings	1830.64	-	-
Deposits	142,029.07	142,106.65	130,197.45
Bond & Deb.	1250	1250	1250
Loan & Adv.	128,156.57	127,416.90	116,926.47
Total Assets	176,533.52	174,983.72	162,960.16
Operating Profits	3,687.51	2,843.76	4,212.89
Net Profits	2,565.64	1,975.57	2,972.08
Profit after reg. adj.	1,437.64	1,726.53	2,838.44

Growth	3 YR Average		3 YR CAGR	
	NIB	Industry	NIB	Industry
Net Profits	13.71%	24.62%	11.89%	24.44%
Op. Profit	14.00%	26.78%	12.32%	26.61%
Deposits	8.04%	18.44%	8.04%	18.41%
Loan & Adv.	15.04%	25.36%	14.95%	25.26%
Total Assets	9.38%	21.35%	9.34%	21.35%

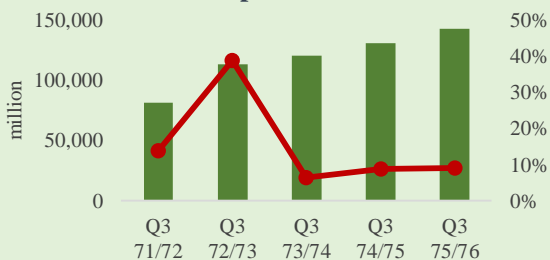
Ratios	Q3 75/76	Q2 75/76	Q3 74/75
EPS	27.17	33.99	35.55
BVPS	199.20	195.13	202.58
Asset Per Share	1402.18	1389.87	1517.42
ROE	10.4%	7.89%	12.68%
ROA	1.47%	1.14%	1.87%
CAR	11.97%	11.90%	13.25%
Credit to Deposit	76.19%	76.43%	78.03%
Base Rate	8.54%	8.96%	9.12%
Cost of Fund	6.48%	6.59%	6.35%
Net Int. Spread	4.24%	4.24%	4.28%
NPL	3.04%	2.04%	0.76%
Net Liquid Asset	23.44%	24.80%	23.93%
Average Yield	NA	10.83%	10.63%
Equity Multiplier	7.04	7.12	6.63

Amount of NPA (As per Q3 BASEL III Report)			
	Gross	Provision	Net
Substandard	1,631,907,290	407,976,822	1,223,930,467
Doubtful	1,646,417,245	823,208,622	823,208,622
Loss	677,871,894	677,871,894	-
Total	3,956,196,429	1,909,057,339	2,047,139,090

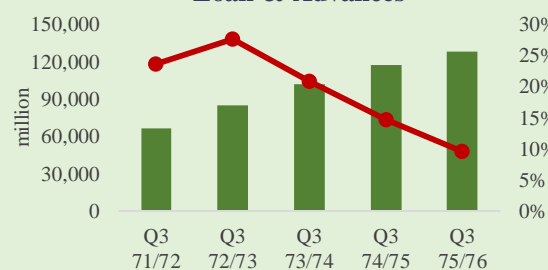
### Net Profits



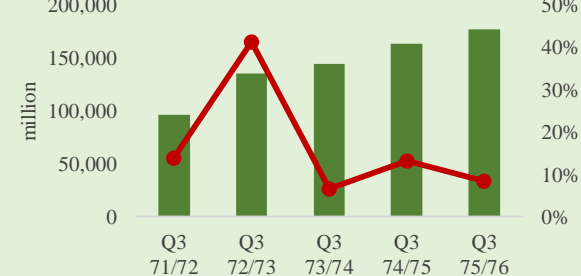
### Deposits



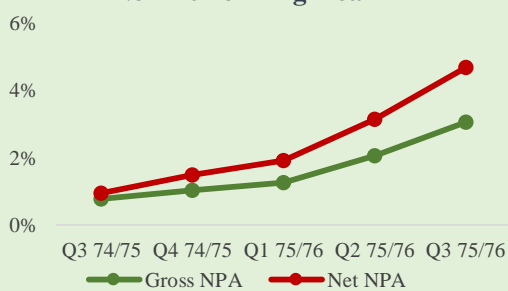
### Loan & Advances



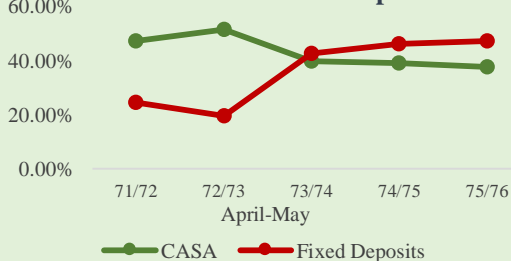
### Assets size



### Non-Performing Loan



### CASA Vs Fixed Deposit



✓ **Profitability growth:** Bank's earnings and profitability has lagged behind the industry growth in last 3 years in which the growth is resting near half the industry. Although, in monetary terms, the Bank has the 2<sup>nd</sup> highest earnings and profitability in Q3 75/76, the growth has fallen significantly to 15.85% as compared to 54.85% on a corresponding year. Considering the size of deposits and loan & advances of the bank, we expect bank to deliver below industry growth while present superior earning figures in period ahead.

✓ **Deposits and Loan growth:** Similarly, 3 year deposits and loan & adv. is half the industry growth where loan & adv. growth is twice the growth of deposit, *potential warning of credit crunch*. In Q3 75/76, Bank has 3<sup>rd</sup> highest deposit and loan & adv. size, which is actually a demoted figures.

✓ **Strong net worth:** NIB has 4<sup>th</sup> highest BVPS as on Q3 75/76. Paid up capital stand 2<sup>nd</sup> highest, after ADBL while its Reserves & Surplus is 4<sup>th</sup> highest in the industry. In reserve, Rs.10.22 crores still remain as Share premium amount (FPO at Rs.601).

✓ **Alarming NPL:** NPL (Gross) was the most notable red flag in NIB Q3 75/76 report that rose above 3% and is among the highest in industry. Industry average NPL is 1.53%. Coming to Q3, NIB doubtful loan has increased by 338.68% while loss loan has gone up by 1.42%. Net NPL is 1.62%. Higher NPL has negative impact on Net profit, CAR and CCD ratio.

✓ **Compact CAR:** Another alarming sign is the tight CAR of 11.97% in Q3, which just slightly exceed the minimal requirement of 11%. Industry average CAR of the same period is 13.77%. Tight CAR will possibly limit the business growth opportunities and prospect of the bank since extending further loan & advances will further lower the ratio. Recent issue of Rs.2 billion worth of debenture is expected to improve the CAR in the future.

✓ **Comfortable CCD Ratio:** CCD ratio of NIB as on Q3 is 76.19% which is well below the 80% NRB requirement and below the industry average of 77.94%. This lower CCD ratio hints more business prospect in NIB through expansion of its lending activities, but to the restriction put on by the CAR. Further, the debenture inflow will favor the CCD ratio of the bank.

✓ **Declining CASA ratio:** CASA ratio of the bank is declining over the period while the size of fixed deposits to total deposits is increasing. This is one reason to justify the rising cost of fund of the bank. Lower CASA ratio have negative impact on both the net interest margin and profitability of the bank.

✓ **Higher interest rate risk:** In Q3 75/76, 86.6% of NIB's operational income is contributed by Interest revenue. Compared to the banking industry that has 89.15% average contribution of interest income on operational inflows, we remark the bank has moderate to lower threat of fluctuating interest rates on its profitability.

✓ **Higher Return Distribution:** Though the dividend (cash/bonus) distribution by the company is comparatively and competitively better in the industry, the distribution falls little behind compared to its peer banks like NABIL, SCB, EBL etc. In past 8 FY, NIB has distributed average 38.625% dividend that includes average 20.125% Bonus and 21.14% Cash. Provided that the bank is unable to reverse the provision for higher NPL and y-o-y profit falls by approx. 14%, the dividend distribution of the bank for FY 75/76 may fall shorter than that of FY 74/75. (To maintain CAR, more preference to bonus dividend may be made).

For the FY 75/76, we expect the profit to be partly contributed by the reversals of provisions made for NPL.

NIB Ace Capital Ltd., a wholly owned subsidiary of NIB recently brought Rs.50 crores worth (5 crores units at Rs.10 each) of NIBL Sahabagita Fund, the only open end Mutual fund in the country. NIB, the sponsor has seed investment worth Rs.6.5 crores while NIBL Ace Capital has funded Rs.1 crores.

## Relative Pricing

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	NIB	Industry	Fair Price
EPS	27.17	23.72	<b>391.71</b>
P/E	19.03	14.42	
Basis: P/B			
BVPS	199.2	167.8	<b>403.17</b>
P/B	2.60	2.02	
Basis: EV/EBIT			
EV (per share)	81.00	78.07	<b>277.08</b>
EV/EBIT	5.65	3.42	
Average Price			<b>357.32</b>

### Peer Banks Stats (Q3 75/76)

S.N.	Ticker	LTP	EPS	BVPS	NPL	CAR	F. Leverage
1	NABIL	787	47.21	242.38	0.64%	12.50%	8.35x
2	SCB	655	28.87	177.18	0.20%	18.89%	6.23x
3	HBL	534	31.52	179.17	1.31%	11.82%	8.68x
4	EBL	645	36.74	206.16	0.18%	13.38%	9.63x
5	<b>NIB</b>	<b>517</b>	<b>27.17</b>	<b>199.20</b>	<b>3.04%</b>	<b>11.97%</b>	<b>7.04x</b>

## Investment Risks – Value at Risk

Mean (Daily)	0.08%		
Std. Dev. (Daily)	2.05%		
Parametric Method	1 DAY VAR	1 WEEK VAR	1 MONTH VAR
90% C.I.	-2.54%	-5.69%	-11.66%
95% C.I.	-3.29%	-7.36%	-15.08%
99% C.I.	-4.69%	-10.48%	-21.49%
Expected Shortfall / CVAR			
90% C.I.	-3.16%	-7.07%	-14.49%
95% C.I.	-4.19%	-9.38%	-19.58%
99% C.I.	-7.53%	-16.84%	-34.51%

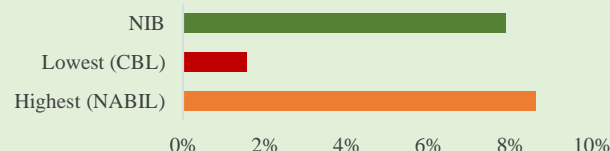
# 1 Day 10% VAR can be interpreted in two ways as below:

- I. There is 10% probability that the loss on investment in NIB will be 2.54% or more on any normal trading day. **OR**
- II. There is 90% confidence that the loss on investment in NIB will be less than 2.54% on any normal trading day.

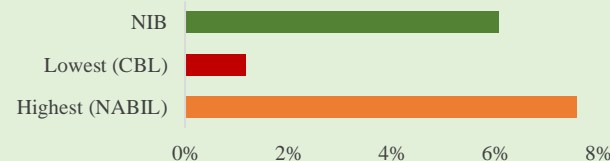
# 1 Day 10% CVAR can be interpreted as: There is 10% probability that the average losses in excess of VAR on investment in NIB will be 3.16% on any single trading day

# NIB has comparatively higher investment risk as per VAR among the Commercial banks. Note: Parametric method assumes normal distribution.

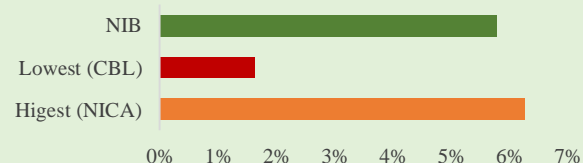
### Market Cap. Ranking 2



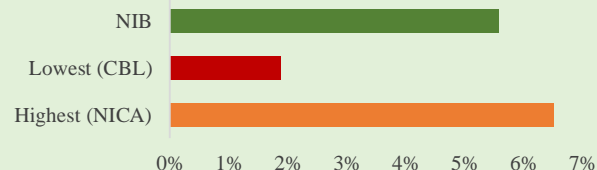
### Net Profit Ranking 2



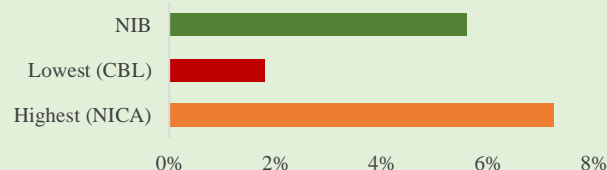
### Deposits Ranking 3



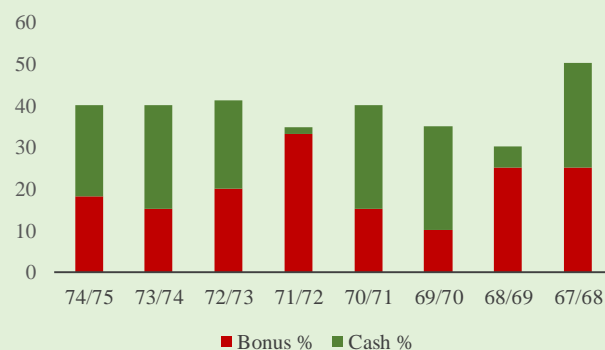
### Loan & Advances Ranking 3



### Total Assets Ranking 3



### Dividend History





## Company Profile

Leading "A" Class Commercial bank that has presence over 33 years in the Nepalese banking industry. Established in 1986 as Nepal Indosuez Bank, a JV between Nepalese and French partners, later the French partner Credit Agricole Indosuez divested its 50% stake to Nepalese stakeholder and the name was changed to Nepal Investment Bank Ltd.

**Chairman** Mr. Prithivi Bahadur Pande  
**CEO** Mr. Jyoti Prakash Pande

## Subsidiaries

- I. NIBL Ace Capital Limited (wholly owned)
- II. M Nepal Limited (66.66% ownership)

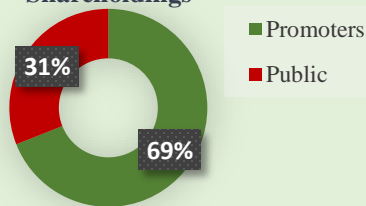
## Associates

- I. National Microfinance Bittiya Sanstha Ltd (25%)
- II. Flexitem Private Limited (43%)

## Top 5 Shareholders

- I. Rastriya Beema Company Ltd. – 12.42%
- II. Maha Laxmi Investment P. Ltd. – 7.31%
- III. Chhaya Investment P. Ltd. – 6.79%
- IV. K.U.P. Investment P. Ltd. – 6.47%
- V. Sophia Investment P. Ltd. – 6.15%

## Shareholdings



## Contact Detail

Head Office: Durbar Marg, Kathmandu (Lease)  
Email: info@nibl.com.np  
Phone No: (977-1) 4228229  
Fax: (977-1) 4226349, 4228927



## NIB and M&A Deals...

### ➤ Acquisition of **Ace Development Bank Ltd.**

NIB made the acquisition of Ace Development Bank ("B" Class BFIs) at swap ratio of 100:41 on early 2074. The joint transaction started from 29<sup>th</sup> Asadh 2074. As such, the Annual Report of FY 74/75 provides the post-merger performance. Here we make a brief comparison of the M&A deal

Before Joint-Transactions Status (Q3 73/74)				(figures in million)		
	MPS *	Paid up Cap.	Deposits	L&A	BVPS	NPL
NIB	1,040	8,746	119,811.45	101,946.2	213.96	0.64%
ACEDBL	445	1,203	7517.07	6,975.9	131.53	1.60%
Post-Merger Status (At present)						
NIB	517	12,589.91	142029	128,156.57		

\*MPS as on 7<sup>th</sup> Aug.16

We opine the acquisition deal was justifiable.

However, following the acquisition fundamental component has been down. Net interest income has declined and operating expenses has increased. Operating profit has increased by only 6% while in FY73/74, it was 27%. There is huge increment of non- operating expense resulting 8% fall in net profit on y-o-y basis. R&S has gone down by 4.6% while there is no significant increment observed in B/S Post Merger. Post-merger MPS of NIB is lower than Pre-merger prices.

### ➤ In process Acquisition of **Jebils Finance Limited**

Swap Ratio: 100:33

Pre-Merger Status (As on Q3 75/76) (Figures in Million)						
	Paid up Cap.	Equity	Deposits	L&A	NPL	Net Profit
NIB	12,589	25,079.19	142,029	128,156.57	3.04%	2,565.64
JEFL	848	909.75	1,017.18	1,168.97	6.02%	5.43
Post-Merger Likely Status						
NIB	12,869.75	25,927.2	143,046.25	129,325.54	-	-

We opine the acquisition of JEFL by NIB is costlier to the latter. The acquisition at or lower the swap ratio of 100:28 would have been acceptable.

In Q3, JEFL reported the massive 59% fall of net profit compared to Q2 and comparing to corresponding previous period, it is just increment of 1.95%. The fall is argued by significant provision for possible losses with rising NPL. NPL was reported to be 6%. CAR is 56.56% and CCD ratio is 65.53%, which we opine to be inefficient utilization of resources. NIB has asset size of more than 88 times greater than that of JEFL while the market cap. as on 23<sup>rd</sup> Falgun 75 (last trading day of JEFL) is 55 times greater. Fixed asset of the company is only Rs.37.93 lakhs. Head office is located at New Road, Kathmandu and has no branches.

The synergy from the deal is yet to be realized after the joint operation. However, given the tight CAR of NIB, the acquisition could boost the business activities of the bank for the time being.

Joint transaction date: from 30<sup>th</sup> Asadh 2076.

**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.

This report should not be construed as investment advice or recommendation and ultimate investment decision stays on investors own wisdom. KCL Astute Capital including the Research Team shall not be liable for any loss or damages that investors incurs from investment action based on this report.