

24th December 2018

NMB

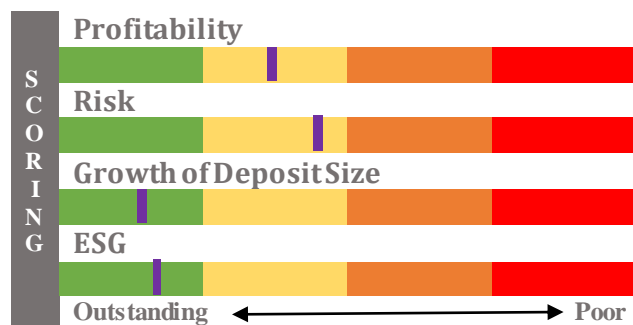
Sector: Commercial Banks
LTP: Rs. 380 (As on 20/12/18)

52 Week High – Low: 486-307
180 days Average: Rs.374.61

Fair Price: 328.24
Base Price: Rs.391.70

Under Fair Over

PRICE



ESG - Environmental, Social and Governance

SYNOPSIS

Trading at relatively higher level: The bank share traded at Rs.380 on 20th Dec. 2018. The mean price of 27 listed commercial banks on the same date is Rs. 333.63. The stock is trading at 15.76% premium to the fair price computed as it is nearing its Book close. Furthermore, it is only at 1.44% premium to its 180 days average price, showing fairly priced. It is expected to trade at mean price of commercial bank after factoring Cash and Bonus share: 10% adjustment for bonus share as per the guideline and auto adjustment of NPR 20 by the market.

PEG implying underpriced: Generally, having less than 1 PEG is considered attractive. Though PE ratio of the company is twice the average industry PE, PEG ratio is showing the stock relatively attractive. Considering the 3 years CAGR net earnings of the company & industry, PEG of NMB surfaced 0.433 while industry is 0.46. Higher beta of NMB also support the PEG outlook and upward momentum.

Healthy financials with competitive outlooks: The bank looks financially sound as per the Q1 2075/76. Bank EPS and BVPS excelled the industry average of Rs. 25.63 and Rs.176.603 respectively. It earned 18.81% higher compared to corresponding previous quarter. With reference to current standing, we expect the bank's Net profit to exceed Rs. 2.2 billion in the FY 2075/76.

"Bank of the year" for two consecutive years: NMB Bank was honored with Bank of the year Award 2018 by the Financial Times of Britain. The Bank had earlier bagged the award in 2017. The award is given based on the ability of bank to deliver returns to shareholders, financial performance, shareholders' value, customers' initiative, corporate governance etc.

Recently led the largest loan syndication in Nepalese Banking History: The bank led the largest loan syndication amounting Rs.16 billion of Hongshi Shivam Cement, investing Rs.6.75 billion for the project alone.

Rs.3 billion worth of Debenture underway: The bank has obtained the approval from NRB for issuance of Rs.3 billion worth of Debentures with 7 years maturity and interest rate yet to be decided.

Credit tight wave back again in Banking Industry: As per the Q1 2075/76, the average CCD Ratio of the Commercial bank is 77.72%, with more than 50% banks almost touching the 80% ceiling.

Concentrated operation in Province 3: The bank has 19 branches alone in the Capital city. As per Q1 75/76 report, 78% of the segment revenue is from Province 3 while Segment profits accounts 84%. 69% of the assets is located in Province 3. Bank has least concentration on Province 4 and 7.

NMB became the first bank to get approval to bring in foreign currency loan from IFC.

Stock Profile

No. of Branches	118
ATM Outlets	100
O/S Shares (Nos.)	87,437,842
Market Cap (Rs.)	33,226,379,960
NEPSE / Sector Coverage	2.40% / 4.43%
180 days Avg. Price	374.61
Beta with NEPSE/Sector	1.18 / 1.14
Corr. with NEPSE/Sector	0.94 / 0.97
Liquidity	100%
Avg. Volumes	70,681

Data taken from 20/12/2015 – 19/12/2018 for Beta and Correlation calculation.

In the review period, both NEPSE and Banking sector has been highly volatile with significantly poor return. On 20/12/2018, NEPSE was 1118.95 and Banking Index was 1016.82. But on 19/12/2018, NEPSE came stood 1162.7 and Banking Index 1022.42. During the period, NEPSE peaked at 1881.45 and Banking Index 1779.08, both on 27/7/2016.

Market Profile

NEPSE Index	1162.70
Total Market Cap (Millions)	1,387,226.52
Banking Cap (Millions)	749,676.57 (54%)
Avg. Return NEPSE/Banks	11.22% / 10.56%
Std. Dev. NEPSE/Banks	18.14% / 24.08%

Data taken from 17/7/2003– 19/12/2018 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	Q1 75/76	Q4 74/75	Q1 74/75
Paid Up Capital	8,743.78	7,603.29	6,461.77
Res. & Surplus	8,722.15	8,880.99	4,930.53
Deposits	85,832.09	84,507.14	71,949.24
Bond & Deb.	500	500	500
Loan & Adv.	82,779.30	75,210.55	63,483.89
Total Assets	112,461.01	104,848.29	87,878.07
Net Int. Income	976.29	2,904.01	625.04
Operating Profits	781.7	2,518.29	623.65
Net Profits	550.56	1,813.53	463.41
Profit after reg. adj.	492.5	1,790.59	451.35

Growth	3 YR Average		3 YR CAGR	
	NMB	Industry	NMB	Industry
Int. Income	56.15%	36.80%	55.57%	35.83%
Op. Profit	59.67%	30.53%	53.82%	30.38%
Net Profits	63.96%	29.51%	59.15%	29.15%
Deposits	35.05%	20.70%	32.14%	20.68%
Loan & Adv.	44.56%	26.37%	40.61%	26.34%
Total Assets	39.50%	23.02%	36.71%	23.01%

Ratios	Q1 75/76	Q4 74/75	Q1 74/75
EPS	26.64	28.66	28.69
BVPS	199.75	216.8	176.3
Asset Per Share	1360.62	1621.81	1359.32
ROE	12.62%	13.21%	16.14%
ROA	1.99%	1.76%	1.96%
CAR	15.36%	15.88%	13.80%
Credit to Deposit	78.31%	77.72%	77.84%
Base Rate	10.68%	10.70%	10.21%
Cost of Fund	7.38%	7.46%	7.14%
Net Int. Spread	3.78%	4.14%	4.09%
NPL	0.76%	0.88%	1.67%
Liquidity Ratio	21.55%	23.64%	23.92%
Average Yield	10.62%	10.91%	10.40%
Equity Multiplier	6.44	6.29	7.71

Major Loan Exposure	% of Total Loan
Wholesalers and Retailers	27.27%
Manufacturing and Production	22.71%
Construction	13.05%

As on Q1 2075/76.

- ✓ **Profitability growth:** Bank's profitability has doubled the industry average growth in the past 3 years. It lies within mid region in terms of earning when compared with other banks in Q1 2075/76. Considering the outperformance of banks in terms of deposit & loan, we expect bank's performance to be above the industry average.
- ✓ **Deposits and Loan growth:** Bank falls at 12th and 11th ranks on size of Deposits and Loan & Advances. Bank has outstripped the industry growth in the past 3 years on deposits & loan.
- ✓ **Strong capital:** It has comparatively strong capital & reserves. For its upcoming 23rd AGM, it has proposed the issue of 10% bonus shares which will increase the paid up capital to Rs.9.61 billion. The AGM has to pass resolution for increasing the Issued capital while authorized capital is within the limit.
- ✓ **Inflated reserves:** Bank has the 5th highest reserves at present which is contributed by share premium of Rs.2.66 billion from recent FPO issuance.
- ✓ **Comfortable CAR:** Bank has maintained its CAR at comfortable level, higher than industry average of 14.62%. However, with the 20% cash dividend being recently proposed, CAR is expected to decrease but incorporating Rs.3 billion debentures underway, CAR could increase. This shall increase the lending capacity of the bank.
- ✓ **Heating CCD Ratio:** CCD ratio is higher than industry average of 77.72%., limiting its business prospects presently. This ratio is expected to further increase following the distribution of proposed cash dividend, though addition of Debenture amounts will have capacity to lower the CCD ratio. Bank at present has to increase the deposits significantly for future business growth.
- ✓ **Commendable NPL:** NPL is comparatively lower than the industry average of 1.37% in Q1 2075/76. Besides, the bank has been able to reduce its NPL over the periods.
- ✓ **Dividend outlook:** As per the recent news in circulation, NRB is in process to bring 'Counter Cycle Capital Buffer' where BFI's CAR is expected to be increased further. This is likely to encourage the Banks to issue Bonus shares rather than cash dividend going forward. Fundamental ratios like EPS, ROE, ROA, BVPS etc. are expected to be further compressed unless compensated by much higher earnings.

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	NMB	Industry	Fair Price
EPS	26.64	25.63	357.87
P/E	14.26	13.43	
Basis: P/B			
BVPS	199.75	177.74	371.11
P/B	1.90	1.86	
Basis: EV/EBIT			
EV (per share)	27.62	27.14	255.73
EV/EBIT	9.60	9.26	
Average Price			328.24

Peer Banks Price Changes						
S.N.	Ticker	LTP	1 Week	4 Weeks	12 Weeks	YTD
1	NMB	380	4.68%	11.76%	1.88%	-5.62%
2	SANIMA	303	1%	-2.36%	-9.62%	-7.50%
3	ADBL	343	1.78%	0%	-6.03%	-0.33%
4	PCBL	324	2.21%	-0.31%	-5.26%	3.18%
5	SBL	313	3.64%	-3.99%	-9.28%	6.05%

Investment Risks – Value at Risk

Mean (Daily)	0.09%		
Std. Dev. (Daily)	2.41%	1 WEEK	1 MONTH
Parametric Method	1 DAY VAR	VAR	VAR
90% C.I.	-2.99%	-6.69%	-13.71%
95% C.I.	-3.87%	-8.64%	-17.72%
99% C.I.	-5.51%	-12.31%	-25.23%
Expected Shortfall / CVAR			
90% C.I.	-3.92%	-8.77%	-17.98%
95% C.I.	-4.91%	-10.97%	-22.49%
99% C.I.	-7.38%	-16.50%	-33.82%

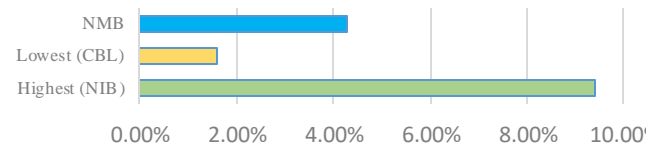
1 Day 10% VAR can be interpreted in two ways as below:

- I. There is 10% probability that the loss on investment in NMB will be 2.99% or more on any normal trading day. **OR**
- II. There is 90% confidence that the loss on investment in NMB will be less than 2.99% on any normal trading day.

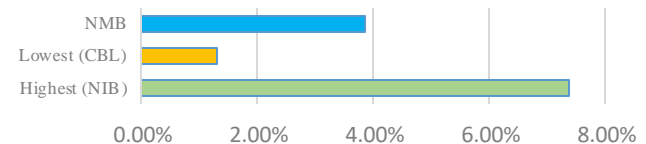
1 Day 10% CVAR can be interpreted as: There is 10% probability that the average losses in excess of VAR on investment in NMB will be 3.92% on any single trading day

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

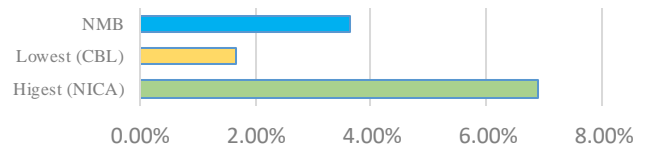
Market Cap. Ranking 7



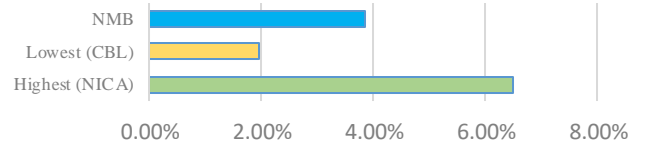
Net Profit Ranking 11



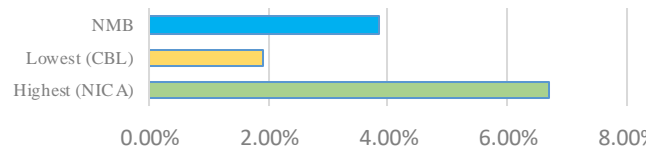
Deposits Ranking 12



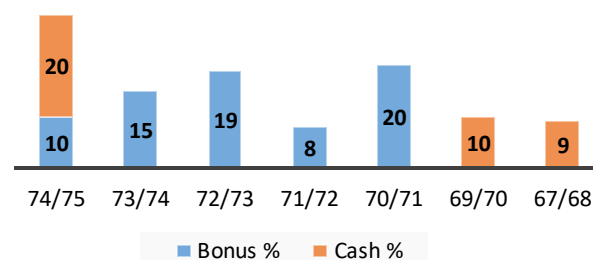
Loan & Advances Ranking 11



Total Assets Ranking 12



Dividend History



Company Profile

Leading "A" Class commercial bank that has presence over 20 years in the Nepalese banking industry. It began its journey as Nepal Merchant Banking and Finance Company in 1996 and was licensed as "A" Class Commercial Bank in 2008.

Chairman Mr. Pawan Kumar Golyan
Chief Executive Officer Mr. Sunil KC

Subsidiaries

- I. NMB Capital Limited (wholly owned)
- II. NMB Microfinance (51% ownership)

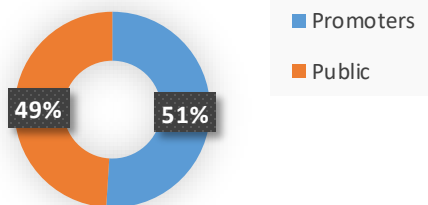
Major Shareholders

- I. Nederland based FMO – 20% (Joint Venture)
- II. Employees Provident Fund – 8.07%
- III. Yong Lian Realty SDN BHD, Malaysia – 6.16%

With FMO, AAA rated Dutch Development Bank, as the joint venture partner, the bank enjoys an added advantage with regard to providing credit facilities to SMEs and micro SMEs. Furthermore, the bank has been grooming its staff by exposing them to foreign market.

With FMO by its side, it has been increasing its exposure in agriculture, infrastructure, tourism, energy and education.

Shareholdings



Technical Analysis



Moving Average: SMA-14 has crossed above both SMA-50 and SMA-200 implying upward momentum of the stock on a long run. However, SMA-50 has crossed below SMA-14 giving bearish outlook in short run.

Bollinger Bands: Price has reached the upper band showing higher number of buyers for the stock. We expect the price to correct in a while but believe the strong upward momentum.

RSI: RSI (14) of the stock is 69 signaling nearly overbought situation given the downtrend of the overall market. Though it shows strong uptrend signal, we expect the seller to come thereby pushing the price down after bonus share adjustment.

Volume: The stock is found to be gaining up momentum since a month of this report date with rising prices supported by increasing volumes. 20 days moving average volume is 78.7K whereas daily volume has crossed 148k. This shows good enthusiasm of market participants on the stock.

Support and Resistance: Rs. 300 – Rs. 440

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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