



## NATIONAL BANK OF MALAWI

<b>Price (MWK)</b>	<b>650.00</b>
<b>DPS (MWK)</b>	<b>17.91</b>
<b>P/E (x)</b>	<b>13.55</b>
<b>P/B (x)</b>	<b>2.58</b>
<b>DPS Yield (%)</b>	<b>2.76</b>
<b>Market Cap (MWK - mln)</b>	<b>303 506</b>
<b>Recommendation</b>	<b>BUY</b>

	Dec-20	Dec-19	YoY
Interest Income	55,253	50,904	9%
Interest Expense	(5,314)	(5,207)	2%
Net Interest Income	49,939	45,697	9%
Loan loss Charge	(2,444)	(4,412)	(45%)
NII after credit losses	47,495	41,285	15%
Non-Funded Income	28,610	24,546	17%
Total Income	76,105	65,831	16%
Operating Expenses	(43,297)	(40,480)	7%
PBT	32,808	25,351	29%
Tax	(10,359)	(8,196)	26%
Minority	(43)	(49)	(12%)
PAT	22,406	17,106	31%
Loans	200,140	188,324	6%
Bank Placements	44,231	17,826	148%
Investment Securities	223,383	166,275	34%
Earning Assets	498,765	394,872	26%
<b>Total Assets</b>	<b>572,693</b>	<b>459,156</b>	25%
Deposits	403,703	318,470	27%
Borrowings	13,713	16,335	(16%)
Capital/NAV	117,805	100,762	17%
NIM	11.18%	12.16%	
NPLs	24,592	22,571	
NFI/Total Income	38%	37%	
CIR	57%	61%	
LDR	50%	59%	
ROA	4.3%	3.9%	
<b>ROE</b>	<b>21%</b>	<b>18%</b>	
NPLs Ratio	11.69%	11.00%	
Cost of Funding	1%	2%	
Leverage (x)	4.86	4.56	

### *Non-funded income comes to the fore....*

Non-funded income (NFI) registered the most growth of 17% to MWK28.6bln, significantly augmenting the 9% rise of net interest income to MWK49.9bln. Adding up the two revenue lines, we get a total banking income of MWK76.1bln, up 16%. The net interest margin of 11% pa was 100bps lower than last year.

### *Stringent cost controls ....*

On the other hand, expenses were well managed and restricted to a 7% growth to MWK43.3bln in FY20 resulting in an improvement in the cost to income ratio of 400bps to 57%. This is one of the lowest expense ratios in the sector.

As a result, PBT rose 29% to MWK32.8bln and PAT advanced to MWK22.4bln, up 31% on FY19. The ROE improved 300bps to 21%.

### *Interest earning asset structure ....*

Given the difficult economic conditions, loan growth was understandably muted at 6% to MWK200bln while the investment in securities grew 34% to MWK223.4bln, underscoring the adoption of a prudent asset strategy. The loan book had an unchanged base yield of 12.3% pa whereas, the fixed income securities book experienced a 397bps rise in yields to 12% pa.

Funding the credit book was MWK403.7bln worth of deposits, up 27% on the prior year, whose cost had improved 100bps to 1% pa. With the deposit base growing faster than the loan book, the loan to deposit ratio decreased to 50% from 59%.

### *Solid capital base ...*

NBM has a total capital base of MWK117.8bln and a leverage ratio of 4.86x. As such, the lender has adequate capital enabling it to (a) underwrite highly profitable big-ticket loans; (b) fund acquisitions, and (c) pay enhanced dividends. However, the recently announced US\$7mln acquisition of 51% of Akiba Commercial Bank in Tanzania will not move the needle in the medium term. Tanzania is a very difficult banking market.

### *NBM remains a bell weather stock ...*

Using our 2-year exit price-to-book (P/B) multiple method, we get an intrinsic value of **MWK800** per share, implying a potential upside of 23% on the current price. **BUY**

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