



## NBS BANK

<b>Price (MWK)</b>	<b>23.00</b>
<b>DPS (MWK)</b>	<b>1.15</b>
<b>P/E (x)</b>	<b>9.50</b>
<b>P/B (x)</b>	<b>3.49</b>
<b>DPS Yield (%)</b>	<b>5.00</b>
<b>Market Cap (MWK - mln)</b>	<b>66 943</b>
<b>Recommendation</b>	<b>BUY</b>

	Dec-20	Dec-19	YoY
Interest Income	36,571	25,416	44%
Interest Expense	(9,987)	(5,600)	78%
<b>Net Interest Income</b>	<b>26,584</b>	<b>19,816</b>	<b>34%</b>
Loan loss Charge	(1,983)	810	-345%
NII after credit losses	24,601	20,626	19%
<b>Non-Funded Income</b>	<b>10,571</b>	<b>9,026</b>	<b>17%</b>
<b>Total Income</b>	<b>35,172</b>	<b>29,652</b>	<b>19%</b>
Operating Expenses	(25,198)	(22,784)	11%
PBT	9,974	6,868	45%
Tax	(2,925)	(2,411)	21%
PAT	7,049	4,457	58%
Loans	59,035	38,562	53%
Bank Placements	11,818	8,035	47%
Investment Securities	104,695	82,267	27%
Earning Assets	199,640	143,595	39%
<b>Total Assets</b>	<b>218,331</b>	<b>159,270</b>	<b>37%</b>
Deposits	153,861	120,739	27%
Borrowings	6,808	7,863	-13%
Capital/NAV	19,166	14,582	31%
NIM	15.49%	15.22%	
NPLs	3,081	5,814	
NFI/Total Income	30%	30%	
CIR	72%	77%	
LDR	38%	32%	
ROA	3.7%	3.2%	
<b>ROE</b>	<b>42%</b>	<b>35%</b>	
NPLs Ratio	5.22%	15.08%	
Cost of Funding	7%	5%	
Leverage (x)	11.39	10.92	

### *Consolidating the turnaround....*

NBS released a solid set of results headlined by a 58% rise in the PAT to MWK7 billion. ROE at 42%, was up 700bps on FY19 and is one of the highest in the sector. The total capital ratio of 18.5% is sufficiently above the regulatory minimum of 15%, giving the Board room to recommend a MWK1.15/share dividend. NPLs also improved to 5% from 15% in FY19, on prudent underwriting and the aggressive growth in the loan book. Despite the good innings, some ratios like leverage at 11.39x, suggest overtrading and the cost to income ratio in the 70s is not yet at optimum levels.

### *Good deposit growth and asset creation....*

Deposits grew 27% to MWK154bln, although the bank continues to have a relatively high cost of funding of 7% pa, a 200bps deterioration from 5% in FY19. NBS is yet to shed its building society roots in terms of the funding structure. On the asset side, credit expanded 53% to MWK59bln and fixed income securities rose 27% to MWK105bln. The preponderance of money market securities meant that NBS had a loan to deposit ratio of 38%. This is a legacy asset structure arising from the time when the regulator had imposed lending restrictions.

From these balance sheet activities, net interest income increased 34% to MWK27bln, with an unchanged net interest margin of 15% pa. Non-funded income (NFI) of MWK11bln, up 17% on the prior year, meant that total income advanced 19% to MWK35bln, post the loan loss provisions of MWK2bln. The contribution of NFI at 30% is too low for a transaction based bank. A 11% hike in operating expenses to MWK25bln was in line with inflation resulting in a cost to income ratio of 72%, having improved by 500bps. NBS barely covers operating expenses with net interest income, a state which is not ideal.

In FY20, NBS advanced MWK12bln to a group of companies involved in the electrical energy sector. This facility, at 60% of core capital, exceeds the prudential exposure limit guideline to one client of 25%.

### *Still has some runway...*

We value banks based on a 2-year exit price-to-book (P/B) multiple using the average ROE. Using this approach, we get an intrinsic value of **MWK26** per share, implying a potential upside of 13% on the current price. **BUY**

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