



# NATIONAL DEVELOPMENT BANK PLC [NDB.N0000]

**MAINTAIN BUY**

## RIGHTS ISSUE TO ACCELERATE THE GROWTH DRIVE...

**Fair Value: 2021E - LKR 110.0 [+36%], 2022E-LKR 130.0[+60%]**  
*Total Return with DPS: 2021E - 40% [AER 87%] 2022E – 72%[AER 42%]*

*NDB's earnings saw an increase of 90%YoY in the 1Q2021 to LKR 2.4Bn while surge was led by the growth in NII, Net Fee and Commission Income and Other Income. However, impairment saw an increase amidst growth in lending and in response to elevated risks caused by the pandemic. We believe that NDB's recently completed Rights Issue and Private Placement amounting to LKR 9.5Bn (amount raised from the RI is broadly in line with the value estimated in our Event Update report which published on 30<sup>th</sup> Apr 2021) to alleviate its capital related concerns and aid in enhancing the future loan growth. As mentioned in the event update report, with a solid capital buffer, we expect stronger earnings for NDB and maintain our earnings and fair value targets at LKR 110.0 for 2021E and at LKR 130.0 for 2022E. **MAINTAIN BUY***

LKR (Mn)	1Q2020	1Q2021	YoY	2019	2020	YoY
<b>Earnings (LKR 'Mn)</b>						
Net Interest Income	4,380	5,164	+18%	17,971	17,925	-0%
Total Operating Income	6,395	8,520	+33%	24,806	26,404	+6%
Post Impairment Income	5,111	6,333	+24%	20,401	19,610	-4%
Pre Tax Profit	1,910	2,921	+53%	6,921	7,390	+7%
Net Profit	1,243	2,363	+90%	4,776	5,117	+7%
<b>Balance Sheet (LKR 'Mn)</b>						
Loans	410,995	442,249	+8%	396,672	425,682	+7%
Shareholders' Equity	44,466	49,722	+12%	43,383	47,976	+11%
NAVPS	191.1	213.7	+12%	195.6	206.2	+5%

### Earnings surged by 90%YoY led by growth in NII and Non Fund based income

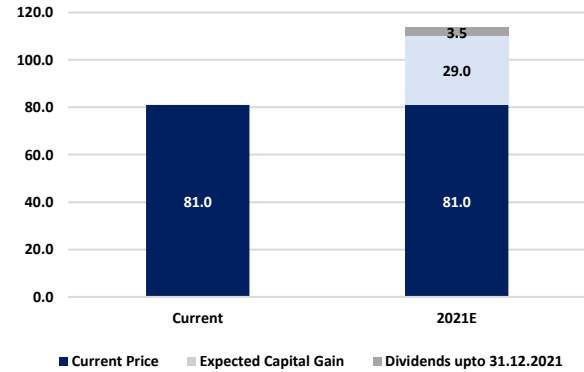
NDB recorded a 90%YoY surge in earnings owing to the improvement in NII (18%YoY) to LKR 5.2Bn and Net Fee and Commission Income (51%YoY) to LKR 1.8Bn led by the larger credit volumes across all segments and increased transactions routed through NDB NEOS digital platforms. Net gains and trading also posted an increase of 116%YoY over 1Q2020 to LKR 460.0Mn, reflecting the forex income gained during the quarter. However, impairment charges recorded an increase of 70%YoY to LKR 2.2Bn in line with the growth in the loan book by 8%YoY and provisions made at both collective and individual levels in response to elevated risks caused by the pandemic and other stresses.

### Loan Growth to record at 14% for 2021E and 2022E

NDB intends to utilise the entire proceeds of the funds raised to expand its loan book in the ordinary course of business including continued expansion of its Micro/SMEs portfolios. Accordingly, as mentioned in the Corporate Update in Jan 2021, we expect NDB to record a loan growth of 14% in 2021E and 2022E above the private sector credit growth expectation of c.12%. Moreover, in the short term NDB expects to invest any unutilised proceeds in either one or a combination of Govt. Securities, deposits in LCBs and Money Market funds generating a minimum return equivalent to the prevailing overnight REPO rate until such funds are utilised for lending. Accordingly, we expect margins to slightly improve in the short-term, thus enhancing the bottom line.

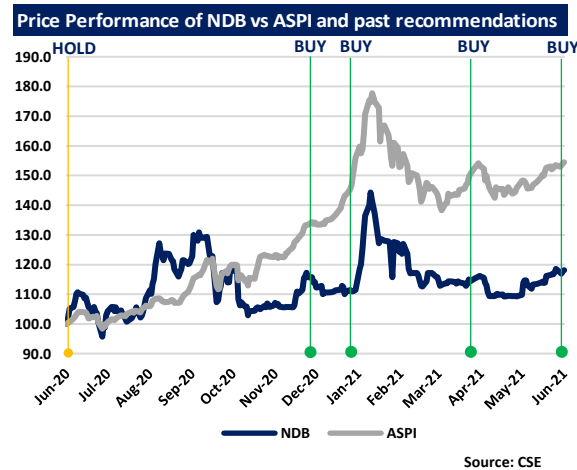
### Fair Value is maintained at LKR 110.0 for 2021E and LKR 130.0 for 2022E – MAINTAIN BUY

With estimated and unchanged earnings of LKR 6.9Bn for 2021E, we maintain NDB's fair value at LKR 110.0 for 2021E implying an upside of 36% from current market price of LKR 81.0. **MAINTAIN BUY**



### FIRST CAPITAL RESEARCH

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#### Minimum Return for BUY:

**Buy Below for 2021E [AER of 10.1% with DPS]: LKR 108.0**  
 NDB categorized as 'Grade A' counter

#### Disclosure on Shareholding:

First Capital Group or the covering analyst did not hold 1% or more of the total outstanding share capital of NDB during the five trading days prior to the issuance of this document.

## Valuation Table

P/E 31 December	2017	2018	2019	2020	2021E	2022E	2023E
<b>Estimates (LKR 'Mn)</b>							
Net Interest Income	11,086	15,104	17,971	17,925	19,693	22,021	23,911
Total Operating Income	16,683	22,553	24,806	26,404	29,103	32,129	34,863
<b>Net Profit</b>	<b>3,490</b>	<b>5,136</b>	<b>4,776</b>	<b>5,117</b>	<b>6,944</b>	<b>8,414</b>	<b>10,112</b>
Adjusted EPS (LKR)	9.8	14.4	13.4	14.3	19.4	23.6	28.3
Net Profit YoY Growth (%)	30%	47%	-7%	7%	36%	21%	20%
<b>Valuations</b>							
PER (x)	8.3x	5.6x	6.1x	5.7x	4.2x	3.4x	2.9x
PBV (x)	0.9x	0.7x	0.7x	0.6x	0.5x	0.4x	0.4x
DY (%)	11.1%	9.9%	8.6%	6.2%	7.8%	9.5%	11.4%

Note- NDB has so far paid an interim dividend of LKR 1.50 in respect of 2020. We have assumed a total dividend of LKR 5.0 for 2020 (considering dividend yields in previous years) and balance dividend of LKR 3.50 to be paid in 2021 in lieu of 2020 (as indicated in the Interim Financial statement of March 2021).

## Valuation Summary

Expected NDB price	2021E	2022E
Justified PBV based target price	110.9	125.2
PER Valuation based target price	116.7	141.4
RI Valuation based target price	106.5	128.3
<b>Average Target Price</b>	<b>111.4</b>	<b>131.6</b>
<b>Target Price after Rounding off</b>	<b>110.0</b>	<b>130.0</b>

Return	2021E	2022E
<b>Target Price</b>	<b>110.0</b>	<b>130.0</b>
<b>Current Price</b>	<b>81.0</b>	<b>81.0</b>
<b>Capital Gain (LKR)</b>	<b>29.0</b>	<b>49.0</b>
<b>Dividends upto 31st Dec (LKR)</b>	<b>3.5</b>	<b>9.8</b>
<b>Capital Gain %</b>	<b>36%</b>	<b>60%</b>
<b>Dividend Yield %</b>	<b>4%</b>	<b>12%</b>
<b>Total Return %</b>	<b>40%</b>	<b>72%</b>
<b>Annualized Return %</b>	<b>87%</b>	<b>42%</b>

## Residual Income Valuation

Residual Income based Valuation	2021E	2022E
PV of Residual Income	-17,817	-17,349
No. of Shares ('Mn)	357	357
RI per Share	-49.9	-48.6
Opening Book value per Share	156.4	176.9
<b>Value per Share</b>	<b>106.5</b>	<b>128.3</b>

COE	2021E	2022E
Rf	7.0%	7.5%
Rm	15.0%	16.5%
Growth %	3.0%	3.0%
$\beta$	1.38	1.38
<b>Ke=Rf+<math>\beta</math>(Rm-Rf)</b>	<b>18.0%</b>	<b>19.9%</b>

## Justified PBV Valuation

Justified PBV based Valuation	2021E	2022E
ROAE	12.4%	12.7%
Growth	3.0%	3.0%
COE	18.0%	18.0%
PBV	0.63	0.65
<b>NAVPS</b>	<b>176.9</b>	<b>194.1</b>
<b>Target Price</b>	<b>110.9</b>	<b>125.2</b>

## PER Valuation

PER based Valuation	2021E	2022E
Earnings (LKR 'Mn)	6,944	8,414
No. of Shares ('Mn)	357	357
EPS	19.4	23.6
Expected PER	6.0x	6.0x
<b>Price at 6.0x of Earnings</b>	<b>116.7</b>	<b>141.4</b>



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