

**NATIONAL DEVELOPMENT BANK PLC [NDB.N0000]****MAINTAIN BUY****ROBUST LOAN BOOK GROWTH TO POWER EARNINGS...**

**Fair Value: 2021E - LKR 102.0 [+33%]**      **2022E-LKR 127.0[+66%]**  
**Total Return with DPS: 2021E - 33% [AER 155%]**      **2022E – 73%[AER 52%]**

*NDB's earnings saw an increase of 55%YoY in the 2Q2021 to LKR 1.7Bn while the surge was led by the growth in NII, Net Fee and Commission Income and Other Income. However, impairment saw an increase amidst the growth in lending portfolio and also in response to elevated risks caused by the pandemic. NDB recorded a strong loan growth of 10% for 1H2021 which was above our estimates. Accordingly, we have upgraded our loan book growth targets for 2021E while estimating NII to record a growth of 19%YoY amidst a potential rise in interest rates for 2H2021. Nevertheless, earnings were broadly maintained amidst the risk of higher impairment with the deteriorating macro-economic conditions. However, taking into account the higher risk-free rate applicable for valuations with the rise in interest rates, we have downgraded NDB's fair value for 2021E to LKR 102.0 (from previous LKR 110.0) and 2022E to LKR 127.0 (from previous LKR 130.0). **MAINTAIN BUY***

LKR (Mn)	2Q2020	2Q2021	YoY	1H2020	1H2021	YoY
<b>Earnings (LKR 'Mn)</b>						
Net Interest Income	4,541	5,244	+15%	8,921	10,407	+17%
Total Operating Income	6,364	7,681	+21%	12,759	16,200	+27%
Post Impairment Income	4,483	5,722	+28%	9,594	12,055	+26%
Pre Tax Profit	1,634	2,320	+42%	3,544	5,241	+48%
Net Profit	1,121	1,733	+55%	2,364	4,096	+73%
<b>Balance Sheet (LKR 'Mn)</b>						
Loans	413,256	466,327	+13%	413,256	466,327	+13%
Shareholders' Equity	45,861	61,046	+33%	45,861	61,046	+33%
NAVPS	197.1	170.9	-13%	197.1	170.9	-13%

**Earnings surged by 55%YoY led by the growth in Total Operating Income**

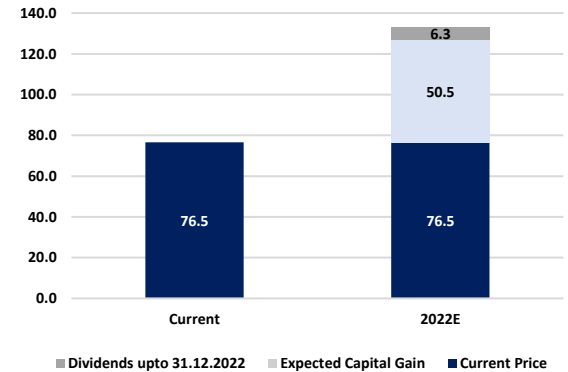
NDB recorded a surge in earnings by 55%YoY owing to the improvement in NII (15%YoY) to LKR 5.2Bn and Net Fee and Commission Income (83%YoY) to LKR 1.7Bn led by the larger credit volumes across all segments and increased transactions routed through the NDB NEOS digital platform. Net gains and trading also posted an increase of 62%YoY over 2Q2020 to LKR 555.7Mn, reflecting the forex income gained during the quarter. However, impairment charges recorded an increase of 4%YoY to LKR 2.0Bn in line with the growth in the loan book by 13%YoY (YTD growth of 10%) and provisions made at both collective and individual levels in response to elevated risks caused by the pandemic and other stresses.

**Loan Growth was upgraded to 16% for 2021E and estimated at 13% for 2022E**

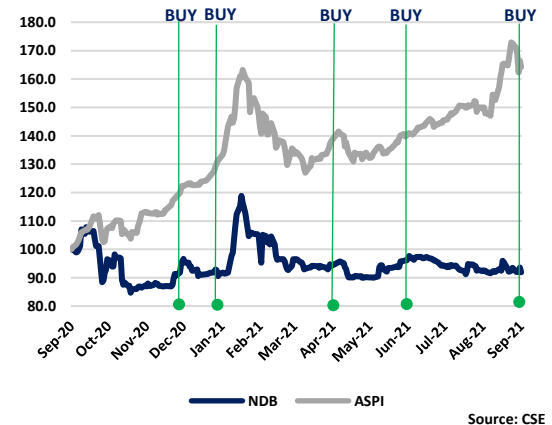
Capital infusion of LKR 9.5Bn from the rights issue and private placement in 2Q2021 lifted NDB's Tier 1 ratio to 10.8% by 2Q2021 from 9.7% recorded at end-2020 while acting as a cushion and is also likely to drive the future loan book growth. NDB seeks to cross LKR 1.0Tn in assets in 2025, after reaching LKR 500.0Bn in assets in 2019 ahead of its 2020 target. With its aggressive plans of increasing the market share, we expect NDB to clock a loan growth of 16% in 2021E and 13% in 2022E above the private sector credit growth expectation of c.12%. Hence, we expect NII to improve amidst the strong loan book growth and potential rise in interest rates; however earnings were broadly maintained considering the possible pressure on NDB's asset quality in the near to medium term.

**Fair Values were downgraded to LKR 102.0 for 2021E and LKR 127.0 for 2022E – MAINTAIN BUY**

Despite maintenance of earnings, we have downgraded NDB's fair value to LKR 102.0 for 2021E and LKR 127.0 for 2022E considering the surge in risk free rate used in valuation with a further potential pick up in interest rates during the latter period of the year. However, at the current market price of LKR 76.5, 2021E and 2022E fair values imply an upside of 33% and 66% respectively and trades well below its current book value of LKR 170.94 with a PBV of 0.4x.

**MAINTAIN BUY****FIRST CAPITAL RESEARCH**

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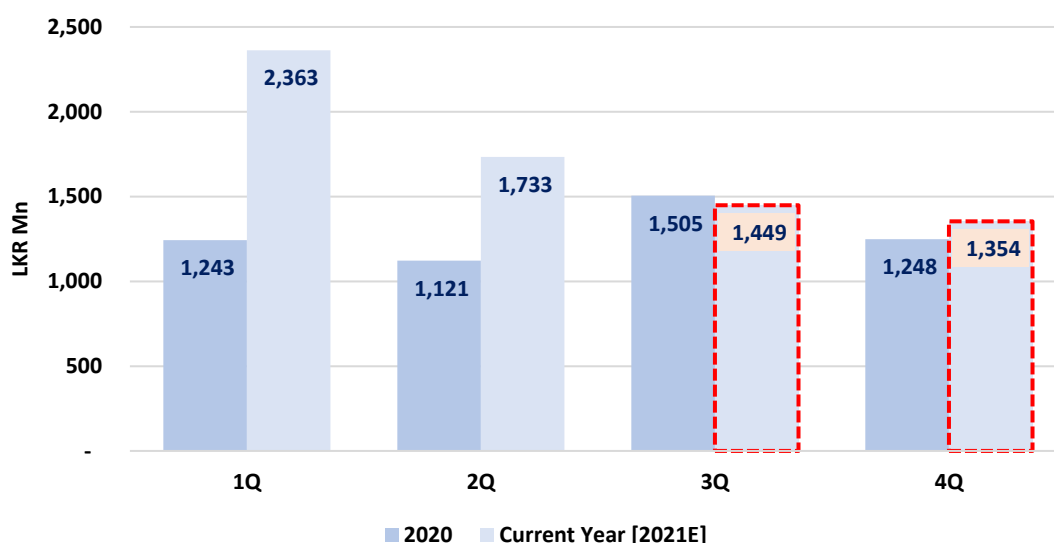
**Price performance of NDB vs ASPI and past recommendations****Minimum Return for BUY:**

**Buy Below for 2021E [AER of 12.1% with DPS]: LKR 99.0**  
 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.

## Quarterly Earnings



## Estimate Revision

In LKR Mn	2021E - O	2021E - R	% Change	2022E - O	2022E - R	% Change
<b>Earnings Estimate</b>						
Net Interest Income	19,693	21,266	+8%	22,021	24,780	+13%
Total Operating Income	29,103	30,465	+5%	32,129	34,579	+8%
Post Impairment Income	22,826	23,483	+3%	25,926	27,980	+8%
Pre Tax Profit	10,037	9,973	-1%	12,161	12,805	+5%
Net Profit	6,944	6,900	-1%	8,414	8,859	+5%
Adjusted EPS	19.4	19.3		23.6	24.8	
Net Profit Growth YoY	36%	35%		21%	28%	
<b>Balance Sheet Estimate</b>						
Loans & Advances	481,511	489,678	2%	546,109	549,976	+1%
Shareholders' Equity	63,163	64,369	2%	69,320	70,986	+2%
<b>NAVPS (adjusted)</b>	<b>176.9</b>	<b>180.2</b>		<b>194.1</b>	<b>198.8</b>	
<b>Ratio Estimate</b>						
<b>ROE (%)</b>	<b>12.4%</b>	<b>12.2%</b>		<b>12.4%</b>	<b>13.1%</b>	
<b>PER (x)</b>	<b>4.2</b>	<b>4.0</b>		<b>3.4</b>	<b>3.1</b>	
<b>PBV (x)</b>	<b>0.5</b>	<b>0.4</b>		<b>0.4</b>	<b>0.4</b>	

## 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	21,266	24,780	27,976
Total Operating Income	16,683	22,553	24,806	26,404	30,465	34,579	38,574
<b>Net Profit</b>	<b>3,490</b>	<b>5,136</b>	<b>4,776</b>	<b>5,117</b>	<b>6,900</b>	<b>8,859</b>	<b>11,020</b>
Adjusted EPS (LKR)	9.8	14.4	13.4	14.3	19.3	24.8	30.9
Net Profit YoY Growth (%)	30%	47%	-7%	7%	35%	28%	24%
<b>Valuations</b>							
PER (x)	7.8x	5.3x	5.7x	5.3x	4.0x	3.1x	2.5x
PBV (x)	0.8x	0.7x	0.6x	0.6x	0.4x	0.4x	0.3x
DY (%)	11.8%	10.5%	9.2%	2.0%	8.2%	10.5%	13.1%

## Valuation Summary

Expected NDB price	2021E	2022E
Justified PBV based target price	103.9	125.4
PER Valuation based target price	96.6	124.0
RI Valuation based target price	105.7	131.8
<b>Average Target Price</b>	<b>102.1</b>	<b>127.1</b>
<b>Target Price after Rounding off</b>	<b>102.0</b>	<b>127.0</b>

Return	2021E	2022E
Target Price	102.0	127.0
Current Price	76.5	76.5
Capital Gain (LKR)	25.5	50.5
Dividends upto 31st Dec (LKR)	0.0	6.3
Capital Gain %	33%	66%
Dividend Yield %	0%	8%
<b>Total Return %</b>	<b>33%</b>	<b>73%</b>
<b>Annualized Return %</b>	<b>155%</b>	<b>52%</b>

Residual Income based Valuation	2021E	2022E
PV of Residual Income	-18,113	-17,309
No. of Shares ('Mn)	357	357
RI per Share	-50.7	-48.5
Opening Book value per Share	156.4	180.2
<b>Value per Share</b>	<b>105.7</b>	<b>131.8</b>

COE	2021E	2022E
Rf	7.0%	9.0%
Rm	15.0%	17.0%
Growth %	3.0%	3.0%
$\beta$	1.50	1.50
$K_e = R_f + \beta(R_m - R_f)$	19.0%	21.0%

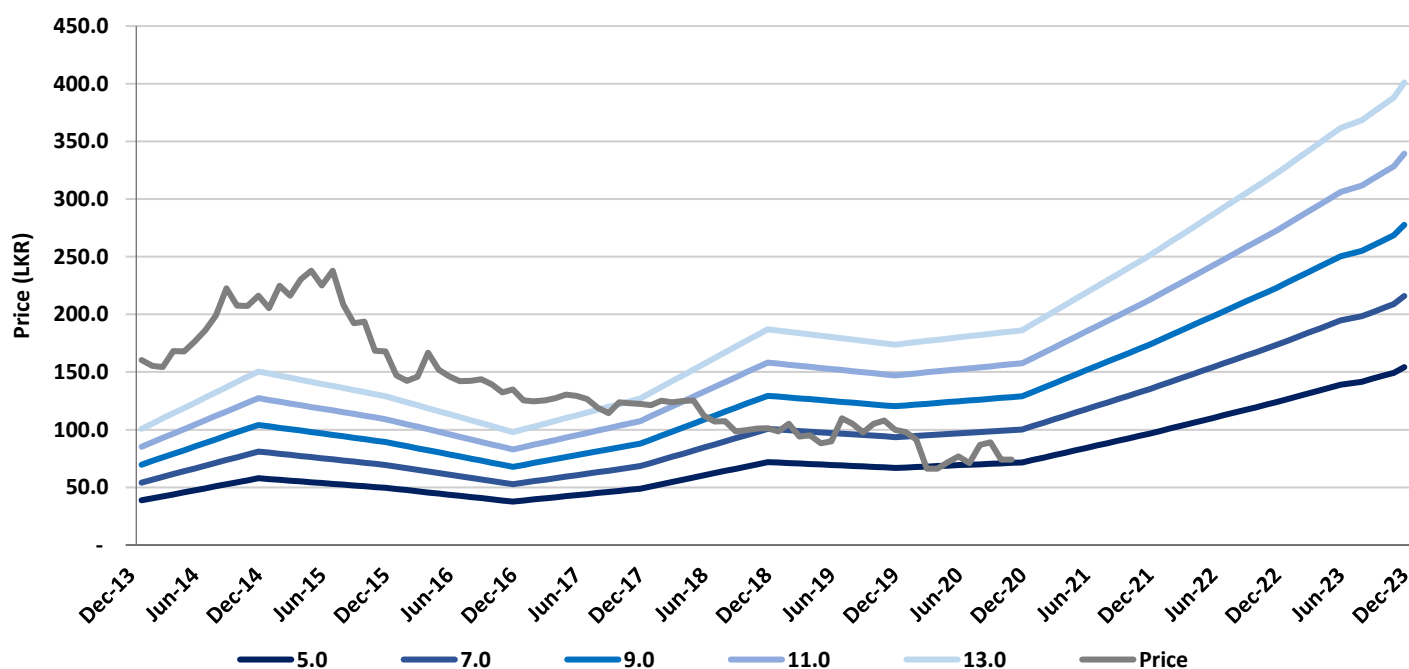
## Justified PBV Valuation

Justified PBV based Valuation	2021E	2022E
ROAE	12.2%	13.1%
Growth	3.0%	3.0%
COE	19.0%	19.0%
PBV	0.58	0.63
NAVPS	180.2	198.8
<b>Target Price</b>	<b>103.9</b>	<b>125.4</b>

## PER Valuation

PER based Valuation	2021E	2022E
Earnings (LKR 'Mn)	6,900	8,859
No. of Shares ('Mn)	357	357
EPS	19.3	24.8
Expected PER	5.0x	5.0x
<b>Price at 5.0x of Earnings</b>	<b>96.6</b>	<b>124.0</b>

## PER Chart



## Appendix I: Statement of Income and Expenses

Statement of Financial Performance (LKR Mn)	2017	2018	2019	2020	2021E	2022E	2023E
<b>P/E 31st Dec</b>							
<b>Gross Income</b>	<b>42,445</b>	<b>51,621</b>	<b>60,237</b>	<b>61,632</b>	<b>74,065</b>	<b>86,390</b>	<b>97,736</b>
Interest Income	37,421	44,622	53,402	53,153	64,866	76,591	87,137
Interest Expenses	-26,335	-29,518	-35,431	-35,228	-43,600	-51,811	-59,162
<b>Net Interest Income</b>	<b>11,086</b>	<b>15,104</b>	<b>17,971</b>	<b>17,925</b>	<b>21,266</b>	<b>24,780</b>	<b>27,976</b>
Fee & Other Income	5,597	7,450	6,836	8,479	9,198	9,799	10,599
<b>Total Operating Income</b>	<b>16,683</b>	<b>22,553</b>	<b>24,806</b>	<b>26,404</b>	<b>30,465</b>	<b>34,579</b>	<b>38,574</b>
Impairment (Charges)/ Reversal	-1,290	-3,765	-4,405	-6,794	-6,982	-6,599	-5,982
<b>Net Operating Income</b>	<b>15,393</b>	<b>18,788</b>	<b>20,401</b>	<b>19,610</b>	<b>23,483</b>	<b>27,980</b>	<b>32,592</b>
Less : Operating expenses							
Personal Expenses	-4,025	-4,898	-5,460	-5,748	-6,481	-7,191	-7,672
Depreciation and Amortization	-478	-509	-883	-932	-660	-716	-778
Other Operating Expenses	-3,698	-3,959	-4,065	-3,721	-4,092	-4,499	-4,947
<b>Op. profit before value added tax</b>	<b>7,192</b>	<b>9,422</b>	<b>9,992</b>	<b>9,209</b>	<b>12,251</b>	<b>15,574</b>	<b>19,195</b>
VAT on financial services	-1,547	-1,938	-2,068	-1,819	-2,278	-2,768	-3,267
Debt Repayment Levy	0	-235	-1,003	0	0	0	0
<b>Op. profit after value added tax</b>	<b>5,644</b>	<b>7,248</b>	<b>6,921</b>	<b>7,390</b>	<b>9,973</b>	<b>12,805</b>	<b>15,928</b>
Share of associate companies' profit	0	0	0	0	0	0	0
<b>Profit Before Tax</b>	<b>5,644</b>	<b>7,248</b>	<b>6,921</b>	<b>7,390</b>	<b>9,973</b>	<b>12,805</b>	<b>15,928</b>
Income Tax Expense	-2,212	-1,972	-2,036	-2,173	-2,932	-3,765	-4,683
<b>Profit for the Year</b>	<b>3,432</b>	<b>5,276</b>	<b>4,885</b>	<b>5,217</b>	<b>7,041</b>	<b>9,040</b>	<b>11,245</b>
Minority Interest	-57	140	109	101	141	181	225
<b>Profit attributable to Equity Holders</b>	<b>3,490</b>	<b>5,136</b>	<b>4,776</b>	<b>5,117</b>	<b>6,900</b>	<b>8,859</b>	<b>11,020</b>
<b>Adjusted EPS</b>	<b>9.8</b>	<b>14.4</b>	<b>13.4</b>	<b>14.3</b>	<b>19.3</b>	<b>24.8</b>	<b>30.9</b>

## Appendix II: Statement of Financial Position

Balance Sheet (LKR Mn)	2017	2018	2019	2020	2021E	2022E	2023E
<b>As at 31st December</b>							
<b>ASSETS</b>							
Cash and cash equivalents	5,343	7,170	6,966	21,391	21,740	43,786	49,147
Balances with Central Bank	15,365	15,546	13,887	6,812	7,907	8,939	9,858
Placements with banks	841	15,237	6,291	12,402	10,968	10,003	5,352
Derivative financial instruments	2,472	3,938	1,596	1,429	1,601	1,825	1,953
Financial assets recognised through profit or loss	2,660	4,052	3,489	5,517	6,179	7,045	7,538
Loans and advances to customers	274,079	344,276	396,672	425,682	489,678	549,976	590,513
Financial assets at amortised costs	23,316	24,175	27,486	44,712	50,077	37,512	36,793
Financial assets measured at Fair value through OC	52,976	54,487	68,430	108,763	121,815	138,869	148,589
Other assets	2,275	2,933	3,228	3,595	4,027	4,590	4,912
Intangible assets	397	397	701	1,062	1,038	1,007	969
Deffered tax	0	1,101	647	647	647	647	647
Property, plant & equipment	2,917	3,144	2,665	2,460	2,436	2,441	2,452
Investment properties	1,895	2,111	2,273	2,362	2,362	2,362	2,362
<b>Total assets</b>	<b>388,645</b>	<b>478,596</b>	<b>535,584</b>	<b>637,693</b>	<b>721,334</b>	<b>809,861</b>	<b>861,942</b>
<b>LIABILITIES</b>							
Due to Banks	20,237	15,047	18,380	24,173	25,990	29,520	32,383
Derivative financial instruments	937	2,907	729	1,017	1,170	1,314	1,411
Due to customers	273,041	347,170	404,668	489,659	548,418	625,196	668,960
Debt securities issued and other borrowed funds	28,107	43,423	30,740	40,932	40,118	39,236	37,988
Tax liabilities	1,575	3,175	2,319	2,518	3,398	4,363	5,428
Other liabilities	9,177	8,838	9,807	8,435	9,703	10,898	11,701
Subordinated term debts	19,337	16,812	23,109	19,881	25,485	25,485	21,859
Deferred Tax	1,796	513	567	567	567	567	567
Employee benefit liabilities	460	502	719	719	719	719	719
<b>Total liabilities</b>	<b>354,667</b>	<b>438,386</b>	<b>491,038</b>	<b>587,901</b>	<b>655,568</b>	<b>737,298</b>	<b>781,014</b>
<b>EQUITY ATTRIBUTABLE TO PARENT</b>							
Stated capital	2,209	6,469	7,685	8,794	18,264	18,264	18,264
Statutory reserve fund	1,336	1,636	1,896	2,196	2,196	2,196	2,196
Investment Fund	886	337	579	667	667	667	667
Retained Earnings	22,775	24,862	27,425	31,072	37,437	44,053	52,193
	<b>33,012</b>	<b>39,111</b>	<b>43,391</b>	<b>48,536</b>	<b>64,369</b>	<b>70,986</b>	<b>79,126</b>
Non-controlling interests	966	1,099	1,155	1,256	1,397	1,577	1,802
<b>Total Equity</b>	<b>33,978</b>	<b>40,210</b>	<b>44,546</b>	<b>49,792</b>	<b>65,766</b>	<b>72,563</b>	<b>80,928</b>
<b>Total liabilities and total equity</b>	<b>388,645</b>	<b>478,596</b>	<b>535,584</b>	<b>637,693</b>	<b>721,334</b>	<b>809,861</b>	<b>861,942</b>
<b>Adjusted NAVPS</b>	<b>92.4</b>	<b>109.5</b>	<b>121.5</b>	<b>135.9</b>	<b>180.2</b>	<b>198.8</b>	<b>221.6</b>



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