

**NATIONAL DEVELOPMENT BANK PLC [NDB.N0000]****MAINTAIN BUY AND SUBSCRIBE FOR RIGHTS****“NDB’S RIGHT ISSUE TO ACCELERATE THE GROWTH ENGINE”****Fair Value: 2021E - LKR 110.0 [+46%]***Total Return with DPS: 2021E - 46% [AER 75%]*

Previous report in Feb 2021: First Capital Research published a Corporate Update on 04th Jan 2021 maintaining the share at **BUY** with a Fair Value of LKR 115.0 for 2021E considering the fact that the successful subscription of the Rights Issue (RI) may support the NDB’s lending growth while also addressing its capital concerns.

Potential LKR 11.0Bn to be raised with RI and Private Placement (PP): The Corporate Update assumed a right issue amount of LKR 8.0Bn. However, with the announcement published by NDB in Mar 2021, NDB announced a RI and PP potentially raising a maximum of LKR 11.0Bn. With the proposed RI, NDB expects to issue up to 106.8Mn of shares in the proportion of 28:61 at a price of LKR 75.0 per share raising up to LKR 8.0Bn. Norfund, the Norwegian Investment Fund has expressed interest to subscribe for any undersubscribed shares at a price of LKR 75.0 and/or subscribe for voting shares at a price of LKR 82.5 by way of a private placement. The maximum shares to be issued under private placement would be 37.7Mn shares amounting to a maximum of LKR 3.1Bn and private placement will only take place in the event Norfund doesn’t secure maximum 9.99% via the RI. The capital raised through the issue will provide sufficient buffer for the NDB with its growth plans while maintaining adequate levels of capital. However, on a conservative basis we have estimated only LKR 10.0Bn will be raised through the RI and PP.

Loan Growth to record at 14% for 2021E and 2022E: NDB intends to utilise the entire proceeds of the fund raising 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, we expect NDB to record a loan growth of 14% in 2021E and 2022E above the private sector credit growth expectation of 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 estimated at LKR 110.0 for 2021E: We expect successful subscription of the RI to alleviate the capital concerns and enhance the lending growth of NDB. We have slightly increased the earnings target for NDB for 2021E and for 2022E at LKR 6.9Bn and LKR 8.4Bn while Fair Value is estimated at LKR 110.0 due to the dilution of shares with the additional funds that will be raised through the PP. **MAINTAIN BUY AND SUBSCRIBE FOR RIGHTS**

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Key Dates	
XR Date	Apr 12, 2021
Commencement of Trading of Rights	Apr 27, 2021
Last Date of Renunciation to CDS	May 04, 2021
Last Date of Acceptance and Payment	May 05, 2021

	Capital Adequacy Level Post RI	Capital Adequacy Level Post RI and PP
Common Equity Tier I Capital with Capital Conservation Buffer	10.97%	11.66%
Total Tier I Capital with Capital Conservation Buffer	10.97%	11.66%
Total Capital Ratio with Capital Conservation Buffer	16.06%	16.73%

P/E 31 December	2017	2018	2019	2020	2021E	2022E	2023E
Estimates (LKR 'Mn)							
Net Interest Income	11,086	15,104	17,971	17,925	22,627	25,603	28,319
Total Operating Income	16,683	22,553	24,806	26,404	31,678	35,834	39,385
Net Profit	3,490	5,136	4,776	5,117	6,900	8,440	9,929
Adjusted EPS (LKR)	9.6	14.1	13.1	14.1	19.0	23.2	27.3
Net Profit YoY Growth (%)	30%	47%	-7%	7%	34%	22%	18%
Valuations							
PER (x)	7.9x	5.3x	5.7x	5.4x	4.0x	3.3x	2.8x
PBV (x)	0.8x	0.7x	0.6x	0.6x	0.4x	0.4x	0.3x
DY (%)	11.9%	10.6%	9.3%	2.0%	8.2%	10.0%	11.8%



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