



# NATIONS TRUST BANK PLC [NTB.N0000]

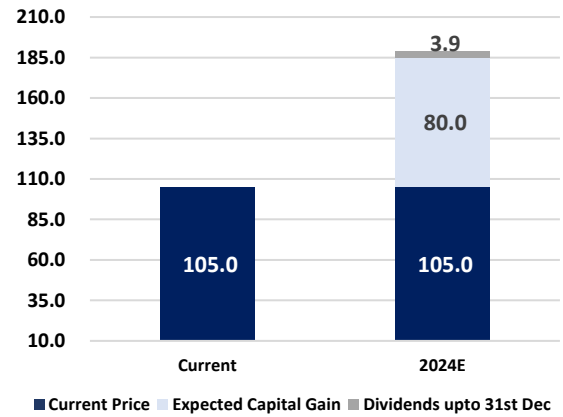
**MAINTAIN BUY**

**“PRUDENTLY NAVIGATING AMIDST THE ECONOMIC REBOUND”**

**Fair Value: 2024E - LKR 185.00 [+76%]**

Total Return with DPS: 2024E - 80% [AER 75%]

NTB earnings inclined by 28.1%YoY (-0.2%QoQ) to LKR 3.3Bn in 3Q2023 driven by the massive upsurge in Net trading income which mounted by 289.9%YoY to LKR 2.7Bn. Additionally, a commendable 54.3%YoY reduction in impairment charges, attributed to improvements in non-performing loans, further bolstered NTB's bottom line. However, NII for the quarter remained stable with a slim gain of 0.3%YoY (-0.9%QoQ) at LKR 8.7Bn. However, NII on a YTD basis surged by 30.8% aided by a higher NIM of 8.1%. On the loan book, NTB experienced a 6.3%YTD increase to LKR 256.3Bn, reflecting the slight pickup in appetite for credit while banks deposit base improved by 5.9%YTD to LKR 314.8Bn. Looking ahead, the outlook for NTB appears optimistic, driven by the gradual recovery in economic activities and an increasing demand for credit amidst a declining interest rate environment. Given the Bank's robust performance, we raise the 2024E earnings target to LKR 15.7Bn (from LKR 11.6Bn) and revise the fair value for 2024E to LKR 185.0 (from LKR 175.0) for NTB.N, with NTB.X fair value estimated at LKR 175.0 (from LKR 170.0) amidst current discounted trading multiples. **MAINTAIN BUY**

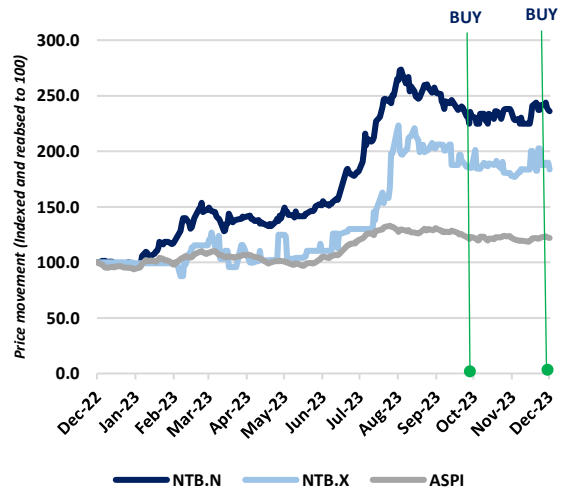


**FIRST CAPITAL RESEARCH**

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LKR (Mn)	3Q2022	3Q2023	YoY	9M2022	9M2023	YoY
<b>Earnings (LKR 'Mn)</b>						
NII	8,707	8,733	+0%	20,445	26,478	+30%
Total Operating Income	10,943	11,798	+8%	27,536	34,201	+24%
Net Operating Income	7,514	10,230	+36%	17,336	29,673	+71%
Profit Before Tax	3,651	5,316	+46%	7,260	15,209	+110%
Net Profit	2,591	3,319	+28%	5,291	9,438	+78%
<b>Balance Sheet (LKR 'Mn)</b>						
Loans	256,234	256,337	+0%	256,234	256,337	+0%
Shareholders' Equity	43,671	59,043	+35%	43,671	59,043	+35%
NAVPS	136.6	184.7	+35%	136.6	184.7	+35%

Price movement of NTB Vs ASPI (Indexed and rebased to 100)



**Earnings flow strong amidst reduced impairments and skyrocketing trading income**

NTB registered an earning of LKR 3.3Bn in 3Q2023 demonstrating a 28.1%YoY improvement while it remained broadly stable on a QoQ basis (-0.2%). NII remained steady at LKR 8.7Bn (+0.3%YoY, -0.9%QoQ) in tandem with the marginal dip in NIM by 31bps to 8.1% in 3Q2023 cf. 2Q2023. However, on the flip side, during the 3Q2023, NTB managed to reverse trading losses of previous two quarters while recording an impressive 289.9%YoY surge to LKR 2.7Bn, significantly bolstering bottom-line growth. Meanwhile, impairment charge for the quarter reduced by 54.3%YoY attributed by the decline in the impairment to stage 3 loan ratio to 50.9% compared to 51.5% in Sep-22. However, on a QoQ basis impairment charges increased notably by 83.4%YoY as few customers moved to non-performing group. Nevertheless, the bank remains positive in the quarter ahead, anticipating further declines in impairment, with the current NPL ratio of 3.3% considered to have peaked. Meanwhile, improvement in Net Fee and Commission income by 27.0%YoY provided support to the bottom-line. Conversely Total Operating Expenses inclined by 25.5%YoY posing constraints on earning potential.

**Strategically fuelling loan book expansion**

NTB exhibited a 6.3%YTD increase in its loan book during the 9M2023 while on a QoQ basis the book expanded by 8.3% to LKR 256.3Bn. Notably, NTB strategically augmented its lending focus on the Corporate and Commercial segment, constituting 72% of the total portfolio, while Consumer loans comprised only 29% as of Sep-23. This allocation has effectively minimized the risk of loan defaults, positioning NTB with one of the sector's lowest NPL ratios. Looking ahead, NTB's loan book is poised for further expansion, driven by a reviving economy and anticipated declines in lending rates. The bank's emphasis on the Export segment, value-added manufacturers, and service providers will be pivotal in shaping its lending strategy. Concurrently, NTB's deposit base experienced a 5.9%YTD expansion, while registering a 5.0%QoQ increase. Consequently, the Bank's CASA ratio stood at 32.0% at the end of the 3Q2023.

**Minimum Return for BUY:**

Buy Below for 2024E [AER of 19.0% with DPS]: LKR 158.0  
NTB categorized as 'Grade A' counter

**Disclosure on Shareholding:**

First Capital Group do not hold shares in NTB and will not trade in this share for three trading days following the issue of this document.

Source: CSE

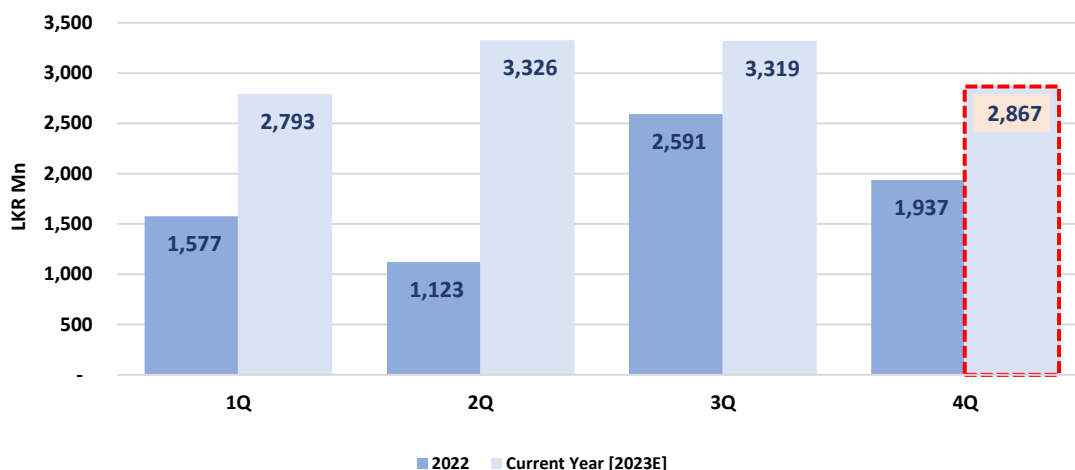
**Comfortably capitalized to steer through the period ahead**

As of Sep-23, NTB maintains a robust financial standing, boasting Tier I and Total Capital Adequacy Ratios of 13.95% and 15.61%, respectively. These figures significantly surpass the minimum regulatory requirements of 8.5% and 12.5%. Hence, we believe that NTB's significant capital buffer places it in a favorable position to navigate challenges and potentially fuel credit expansion in the near term amid ongoing economic recovery.

**FV for 2024E estimated at LKR 185.0 for NTB.N and LKR 175.0 for NTB.X**

Looking ahead, the outlook for NTB appears optimistic, driven by the gradual recovery in economic activities and an increasing demand for credit amidst a declining interest rate environment. Given the Bank's robust performance, we raise the 2024E earnings target to LKR 15.7Bn (from LKR 11.6Bn) and revise the fair value for 2024E to LKR 185.0 (from LKR 175.0) for NTB.N, with NTB.X fair value estimated at LKR 175.0 (from LKR 170.0) amidst current discounted trading multiples. **MAINTAIN BUY**

## Quarterly Earnings



## Estimate Revision

In LKR Mn	2023E - O	2023E - R	% Change	2024E - O	2024E - R	% Change
<b>Earnings Estimate</b>						
Net Interest Income	25,618	31,777	+24%	30,572	35,735	+17%
Total Operating Income	34,302	40,651	+19%	39,527	44,825	+13%
Net Operating Income	29,422	34,855	+18%	37,541	42,802	+14%
Profit Before Tax	11,033	17,579	+59%	16,295	22,057	+35%
Net Profit	7,833	12,305	+57%	11,569	15,661	+35%
Adjusted EPS	24.5	38.5		36.2	49.0	
Growth YoY	8%	70%		48%	27%	
<b>Balance Sheet Estimate</b>						
Loans & Advances	247,958	259,330	+5%	283,022	296,078	+5%
Shareholders' Equity	55,512	59,627	+7%	66,156	74,034	+12%
<b>Adjusted NAVPS</b>	<b>173.68</b>	<b>186.6</b>		<b>207.0</b>	<b>231.7</b>	
<b>Ratio Estimate</b>						
ROE (%)	14.1%	20.6%		17.5%	21.2%	
PER (x)	4.2	2.7		2.8	2.1	
PBV (x)	0.6	0.6		0.5	0.5	

## Valuation Table

P/E 31 December	2019	2020	2021	2022	2023E	2024E	2025E
<b>Estimates (LKR 'Mn)</b>							
Net Interest Income	16,134	13,672	14,078	29,301	31,777	35,735	37,632
Total Operating Income	22,552	21,241	23,269	38,867	40,651	44,825	47,639
<b>Net Profit</b>	<b>3,714</b>	<b>4,055</b>	<b>6,694</b>	<b>7,228</b>	<b>12,305</b>	<b>15,661</b>	<b>17,348</b>
Adjusted EPS (LKR)	11.6	12.7	20.9	22.6	38.5	49.0	54.3
YoY Growth (%)	0%	9%	65%	8%	70%	27%	11%
<b>Valuations</b>							
PER (x)	9.0x	8.3x	5.0x	4.6x	2.7x	2.1x	1.9x
PBV (x)	1.1x	1.0x	0.8x	0.7x	0.6x	0.5x	0.4x
DY (%)	1.7%	1.9%	1.7%	3.0%	2.9%	3.7%	4.1%
NAVPS	98.3	109.9	125.7	144.1	186.6	231.7	281.7
DPS (LKR)	1.83	2.04	1.78	3.11	3.08	3.92	4.34
Payout ratio	15.7%	16.1%	8.5%	13.7%	8.0%	8.0%	8.0%

### Valuation Summary

Expected NTB.N price	2024E
Justified PBV based target price	185.4
PER Valuation based target price	196.0
RI Valuation based target price	177.5
<b>Average Target Price</b>	<b>186.3</b>
<b>Target Price after Rounding off</b>	<b>185.0</b>

Return	2024E
Target Price	185.0
Current Price	105.0
Capital Gain (LKR)	80.0
Dividends upto 31st Dec (LKR)	3.9
Capital Gain %	76%
Dividend Yield %	4%
<b>Total Return %</b>	<b>80%</b>
Annualized Return %	75%

### Residual Income Valuation

Residual Income based Valuation	2024E
PV of Residual Income	-2,909
No. of Shares ('Mn)	320
RI per Share	-9.1
Opening Book value per Share	187
<b>Value per Share</b>	<b>177.5</b>

COE	2024E
Rf	11.0%
Rm	19.0%
Growth %	3%
$\beta$	1.23
$Ke=Rf+\beta(Rm-Rf)$	20.8%

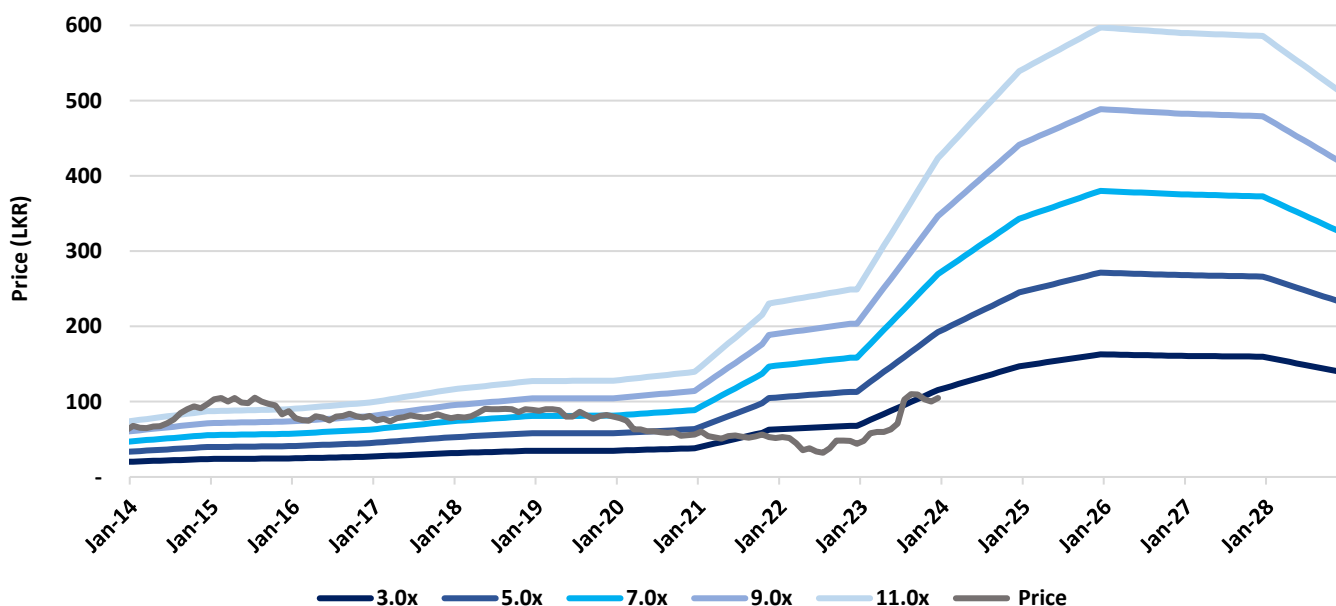
### Justified PBV Valuation

Justified PBV based Valuation	2024E
ROAE	23.4%
Growth	3.0%
COE	20.8%
PBV	0.8
NAVPS	231.7
<b>Target Price</b>	<b>185.4</b>

### PER Valuation

PER based Valuation	2024E
Earnings (LKR 'Mn)	15,661
No. of Shares ('Mn)	320
EPS	49.0
Expected PER	4.0x
<b>Price at 4.0x Earnings</b>	<b>196.0</b>

### PER Chart



**Appendix I: Statement of Income and Expenses**

Income Statement (LKR Mn) P/E 31st December	2019	2020	2021	2022	2023E	2024E	2025E
Interest Income	39,572	32,944	28,657	54,308	64,488	59,490	56,118
Interest Expense	-23,437	-19,272	-14,580	-25,007	-32,711	-23,755	-18,486
<b>Net Interest Income</b>	<b>16,134</b>	<b>13,672</b>	<b>14,078</b>	<b>29,301</b>	<b>31,777</b>	<b>35,735</b>	<b>37,632</b>
Fees and Commission Income	6,482	5,515	6,670	7,738	6,951	6,997	7,976
Fees and Commission Expense	-325	-154	-529	-944	-487	-385	-439
<b>Net Fees and Commission Income</b>	<b>6,157</b>	<b>5,361</b>	<b>6,140</b>	<b>6,794</b>	<b>6,464</b>	<b>6,612</b>	<b>7,538</b>
Net Trading Income	-1315.7	2,553	2,472	14,233	1,139	1,048	964
Other Operating Income	1,577	(346)	79	(11,490)	1,271	1,429	1,505
<b>Total Operating Income</b>	<b>22,552</b>	<b>21,241</b>	<b>23,269</b>	<b>38,867</b>	<b>40,651</b>	<b>44,825</b>	<b>47,639</b>
Impairment Charge / (Reversal ) for Loans and Advances	(3,301)	(3,847)	(3,742)	(13,842)	5,796	2,023	1,458
<b>Net Operating Income</b>	<b>19,252</b>	<b>17,394</b>	<b>19,527</b>	<b>25,025</b>	<b>34,855</b>	<b>42,802</b>	<b>46,181</b>
Personnel Expenses	4,540	4,633	4,620	5,999	6,660	7,067	7,641
Depreciation of Property, Plant and Equipment	472	491	436	346	369	683	713
Amortization of Intangible Assets	349	380	339	279	310	377	450
Other Operating Expenses	5,060	3,922	3,333	4,547	5,320	6,225	7,283
<b>Total Operating Expenses</b>	<b>10,808</b>	<b>9,839</b>	<b>9,122</b>	<b>11,559</b>	<b>12,659</b>	<b>14,352</b>	<b>16,087</b>
Operating Profit Before Value Added Tax (VAT)	8,444	7,555	10,405	13,466	22,196	28,450	30,094
Value Added Tax (VAT) on Financial Services	1,792	1,496	1,985	3,021	4,617	6,393	5,660
<b>Profit Before Income Tax</b>	<b>5,783</b>	<b>6,059</b>	<b>8,420</b>	<b>10,445</b>	<b>17,579</b>	<b>22,057</b>	<b>24,433</b>
Income Tax Expense	2,070	2,004	1,726	3,217	5,274	6,397	7,086
<b>Profit for the Year</b>	<b>3,714</b>	<b>4,055</b>	<b>6,694</b>	<b>7,228</b>	<b>12,305</b>	<b>15,661</b>	<b>17,348</b>
EPS	11.6	12.7	20.9	22.6	38.5	49.0	54.3

**Appendix II: Statement of Financial Position**

Statement of Financial Position (LKR Mn) As at 31st December	2019	2020	2021	2022	2023E	2024E	2025E
<b>Assets</b>							
Cash and Cash Equivalents	8,756	9,145	13,428	58,748	60,945	55,052	59,106
Balances with Central Bank of Sri Lanka	8,377	2,195	6,915	6,074	5,089	5,490	5,710
Reverse Repurchase Agreements	13,827	5,091	3,001	1,502	1,575	1,615	1,679
Derivative Financial Instruments	193	240	473	103	519	592	663
Financial Assets - Held for Trading	634	2,417	6,151	3,734	3,151	3,230	3,359
Financial Assets - Available for Sale	38,315	73,258	67,521	30,350	31,509	38,756	43,665
Financial Assets - Held to Maturity	19,063	26,648	26,140	59,928	56,716	45,215	33,588
Other Financial Assets	-	-	611	3,772	-	-	-
Loans and Advances to Customers	226,794	210,186	247,441	241,241	259,330	296,078	331,714
Other Assets	2,180	2,409	2,047	3,400	2,593	2,961	3,317
Property, Plant and Equipment	4,073	3,682	3,299	3,495	3,522	3,280	3,057
Intangible Assets	1,376	1,222	1,175	1,285	1,259	1,168	1,004
<b>Total Assets</b>	<b>325,369</b>	<b>337,991</b>	<b>379,552</b>	<b>414,944</b>	<b>426,209</b>	<b>453,436</b>	<b>486,862</b>
<b>Liabilities</b>							
Due to Banks	6,484	4,942	2,016	3,989	4,029	4,069	4,110
Repurchase Agreements	27,285	28,040	35,305	33,533	20,746	23,686	26,537
Derivative Financial Instruments	312	251	166	39	45	52	60
Due to Customers	226,872	240,574	267,988	297,253	315,088	322,966	335,884
Debt Issued and Other Borrowed Funds	13,263	13,262	12,353	12,355	11,367	12,162	12,892
Current Tax Liabilities	1,362	1,320	2,461	5,243	3,164	3,838	4,251
Other Liabilities	7,049	7,058	9,675	12,629	12,142	12,628	13,133
Deferred Tax Liabilities	1,160	1,028	-	-	-	-	-
<b>Total Liabilities</b>	<b>293,974</b>	<b>302,866</b>	<b>339,393</b>	<b>368,903</b>	<b>366,582</b>	<b>379,401</b>	<b>396,868</b>
<b>Equity Attributable to Equity Holders of the Parent</b>							
Stated Capital	9,408	9,408	9,408	10,401	10,401	10,401	10,401
Statutory Reserve Fund	1,372	1,562	1,882	2,228	3,078	4,158	5,355
Retained Earnings	19,083	22,265	28,073	32,027	41,638	53,869	67,417
Other Reserves	1,533	1,890	796	1,384	4,510	5,606	6,821
<b>Total Equities</b>	<b>31,396</b>	<b>35,125</b>	<b>40,159</b>	<b>46,041</b>	<b>59,627</b>	<b>74,034</b>	<b>89,994</b>
<b>Total Liabilities and Equity</b>	<b>325,369</b>	<b>337,991</b>	<b>379,552</b>	<b>414,944</b>	<b>426,209</b>	<b>453,436</b>	<b>486,862</b>
NAVPS	98.3	109.9	125.7	144.1	186.6	231.7	281.7



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