



First Capital
A Janashakthi Group Company

Banking Sector 4Q2023 Update

EQUITY | SRI LANKA | BANKING SECTOR

FIRST CAPITAL RESEARCH

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QUARTERLY SECTOR UPDATE | 22 MAR 2024

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Executive Summary

Profits spike in line with our expectations

- Since our last updates in Oct-23 & Dec-23, Banking Sector profitability improved steeply with a growth of 71.1%YoY in 3Q2023 whilst PBT of the big 6 listed banks grew by 93.4%YoY to LKR 32.1Bn in 4Q2023, in-line with our expectations. As identified previously, reduction in non-performing loans played as a key catalyst towards the recovery in profitability with stage 3 NPLs of the big six averaging at 5.04% in 4Q2023 cf. 5.82% in 3Q2023. Meanwhile, as anticipated banking sector NPL ratio climbed and peaked at 13.6% in 3Q2023 cf. 13.4% in 2Q2023.

Credit growth turns positive

- Private sector credit recovered during 2H2023 by 4.1%YoY cf. -4.5% in 1H2023, with big 6 listed banks growing of 2.7%. Amidst the steep decline in AWDR, banking sector CASA base improved to 30.6% in 3Q2023.

Capital Base growth in strength

- Banking sector capitalization continued to improve since our last report and recorded at 3.6%YoY growth in Tier 1 capital and 1.8%YoY growth in Tier 2 capital in 3Q2023 with several banks raising debentures during 4Q2023 as interest rates decline steeply.

Sector remains steeply discounted

- Despite a slight uptick in prices since our last update, the banking sector continues to trade 0.5x book value, offering opportunities close to doubling the investments, given that the Big Six has already offers an average ROE of 11.4% in 4Q2023.



First Capital Banking Universe

COMB, HNB, SAMP, NDB, SEYB, NTB

Stock	Stock Code	Market Cap (LKR Mn)	MPS	TP 2024E	Upside (%)	PER (x)		PBV (x)		DPS in	DY	Total Return
						2024E	2025E	2024E	2025E	2024E	2024E	
<u>Voting Shares</u>												
Commercial Bank - Voting	COMB.N	117,593.6	95.1	170.0	78.8%	4.6x	3.7x	0.6x	0.5x	9.2	10%	88.4%
Hatton National Bank - Voting	HNB.N	74,925.8	167.8	315.0	87.8%	3.4x	3.2x	0.4x	0.4x	6.8	4%	91.8%
Sampath Bank	SAMP.N	90,884.3	77.5	120.0	54.8%	4.4x	4.0x	0.6x	0.5x	6.7	9%	63.5%
NDB Bank	NDB.N	26,644.3	66.7	150.0	124.9%	3.2x	2.8x	0.3x	0.3x	5.8	9%	133.6%
Seylan Bank - Voting	SEYB.N	13,144.5	44.3	95.0	114.4%	3.5x	3.3x	0.4x	0.4x	3.0	7%	121.2%
Nations Trust Bank - Voting	NTB.N	28,869.3	104.5	185.0	77.0%	2.5x	2.4x	0.5x	0.5x	3.3	3%	80.2%
					89.6%						7%	96.5%
<u>Non - Voting Shares</u>												
Commercial Bank - Non - Voting	COMB.X	6,440.4	83.0	150.0	80.7%	4.0x	3.3x	0.5x	0.5x	9.2	11%	91.8%
Hatton National Bank - Non - Voting	HNB.X	16,397.6	145.0	240.0	65.5%	3.0x	2.7x	0.4x	0.4x	6.8	5%	70.2%
Seylan Bank - Non- Voting	SEYB.X	11,346.9	35.6	55.0	54.5%	2.8x	2.6x	0.3x	0.3x	3.0	8%	62.9%
Nations Trust Bank - Non - Voting	NTB.X	4,465.9	103.0	175.0	69.9%	2.5x	2.3x	0.5x	0.5x	3.3	3%	73.1%

Source: CSE/First Capital Research

4Q2023 Earnings Summary - Individual Banks

[COMB, HNB]

COMMERCIAL BANK OF CEYLON PLC [COMB.N0000]

COMB net earnings declined by 21.2%YoY to LKR 6.9Bn largely affected by the higher base during 4Q2022, which included a tax reversal of LKR 6.5Bn. However, on PBT COMB showcased a strong recovery of 260.3%YoY to LKR 8.9Bn driven by reduction in impairments and growth in core business. Going forward, we expect COMB to perform exceptionally well driven by the improvement in demand for credit as economy progress on the tracks to recovery. Additionally, we also expect an additional boost to profitability via reduction in impairments, which is also expected to augur well for the bank. Thus, considering the positive outlook for the bank, coupled with the attractive trading multiples of the share, we believe current trading prices offer a massive discount to our target prices set for 2024E, which stands at LKR 170.0 COMB.N and LKR 150.0 for COMB.X. Therefore, considering the upside of the share, we maintain our recommendation BUY.

Target Price Maintained

Fair Value:

2024E - LKR 170.0 [+81%]
2025E - LKR 200.0 [+113%]

Total Return with DPS:

2024E - 91% [AER 124%]
2024E - 125% [AER 57%]

HATTON NATIONAL BANK PLC [HNB.N0000]

HNB's earnings in 4Q2023 saw a 2.9%YoY rise, reaching LKR 4.4Bn, despite a notable 50.0%QoQ dip which was driven by a reduction in NII by 9.4%QoQ and a significant increase in impairment charges by nearly 100.0%QoQ. Looking forward to 2024E, we anticipate a further dip in AWPR which may result in a NIM contraction by 4.8%. However, with the promising outlook for economic expansion and trade and credit card operations, HNB's fee-based income is expected to grow by 11.6%YoY. In line with our estimates, HNB's NII grew by 5.8%YoY to LKR 118.1Bn, whilst earnings surged by 50.0%YoY to LKR 22.8Bn in 2023. HNB remains optimistic about improving impairment levels in 2024E, thereby boosting the bottom-line by 22.6%YoY to LKR 27.9Bn for the year. Additionally, for 2024E, we foresee a loan growth of 10.0% for HNB, slightly below its 10-year average of 11.6%, but surpassing the estimated average expansion of 7.5% for private credit this year. This growth is likely to be driven by increased lending to sectors such as manufacturing, healthcare, education, and agriculture. Based on HNB's strong loan book growth, positive sector outlook and the possibility of a potential re-rating, we anticipate it to trade at 0.9x its PBV during 2024E amidst the current discounted trading multiples, maintaining the FV at LKR 315.0 for HNB.N and LKR 240.0 for HNB.X. MAINTAIN BUY

Target Price Maintained

Fair Value:

2024E - LKR 315.0 [+98%]
2025E - LKR 350.0 [+120%]

Total Return with DPS:

2024E - 102% [AER 134%]
2025E - 126% [AER 56%]

4Q2023 Earnings Summary - Individual Banks

[SAMP, NDB]

SAMPATH BANK PLC [SAMP.N0000]

SAMP reported an 18.5%YoY decline in earnings to LKR 5.2Bn, with a slight 2.0%QoQ increase, amidst the contraction in NIMs to 5.16% on a YoY basis and total operating income in 4Q2023. However, the decline in earnings was partly offset by a significant 58.4%YoY decline in impairment charges attributed to the prudent provisioning in 2022. Reflecting the recovery in economic activities, the loan book marginally expanded by 1.1%QoQ to LKR 787.4Bn, while the deposit base improved by 4.2%QoQ to LKR 1.3Tn, with the CASA base reaching 33.4% from 32.7% in 2022. With a robust capital buffer, SAMP's lending portfolio is anticipated to grow by 6.5% in 2024E, followed by a 10.0% growth in 2025E as economic activities started to pick up from 2H2023. Additionally, a projected 53.6%YoY decline in impairment charges in 2024E is expected to drive a profit growth of 14.6%YoY to LKR 20.5Bn for the year. Anticipating a positive sector outlook and potential re-rating, SAMP is expected to trade at 0.9x PBV, resulting in a fair value of LKR 120.0 for 2024E, representing a significant 64.4% upside from the current market price of LKR 73.0. MAINTAIN BUY.

Target Price Maintained

Fair Value:

2024E - LKR 120.0 [+64%]

2025E - LKR 135.0 [+85%]

Total Return with DPS:

2024E - 74% [AER 95%]

2024E - 95% [AER 44%]

NDB BANK PLC [NDB.N0000]

NDB witnessed an 85.7%YoY decline in earnings to LKR 338.5Mn in 4Q2023, albeit falling below our expectations, primarily due to a 22.5%YoY increase in OPEX and a tax reversal recorded during the corresponding quarter in 2022. NDB also saw a 13.4%YoY decline in NII, due the reduction in AWPR, which prompted a contraction in interest spreads. Although there was a slight uptick of 1.7%YoY in impairment charges during the quarter, prudent provisioning in 2022 led to a significant reduction of 27.8%YoY in 2023. Moreover, an estimated 40.2%YoY decline in impairment charges in 2024E is expected to drive NDB's bottom-line growth by 44.8%YoY to LKR 8.3Bn. With a strategic focus on fostering growth within the SME segment and incorporating digitalization into its growth strategy, NDB is well-positioned to effectively utilize its strong capital base to achieve its targeted growth milestones. However, due to lower than-anticipated performance in 4Q2023, we have slightly downgraded the earnings forecast for 2024E and 2025E, and with NDB trading at a PBV of 0.4x and being one of the lowest in its listed peers, we believe that the current market price of the NDB share represents a massive discount to our FV estimate of LKR 150.0 for 2024E. MAINTAIN BUY

Target Price Maintained

Fair Value:

2024E - LKR 150.0 [+150%]

2025E - LKR 190.0 [+217%]

Total Return with DPS:

2024E – 160% [AER 217%]

2025E - 228% [AER 91%]

4Q2023 Earnings Summary - Individual Banks

[SEYB, NTB]

NATIONS TRUST BANK PLC [NTB.N0000]

During the fourth quarter of 2023, NTB's earnings saw a slight increase of 4.9% YoY, supported by an 18.4% YoY reduction in impairment charges and an 11.3% YoY increase in net fee and commission income. However, net interest income (NII) decreased by 3.0% QoQ due to a contraction in net interest margin (NIM). Despite this, NII expanded by 19.3% YoY in 2023 compared to 2022. NTB stood out in the industry with a 12.3% YoY growth in the loan book and a 17.0% YoY increase in the deposit base for 2023. Driven by expectations of a positive outlook fueled by gradual economic recovery and increased demand for credit. However, the accelerated decline in interest rates indicates a faster decline in NII. Hence, our earnings expectations for 2024E has been reduced to LKR 13.4Bn while 2025E earnings are estimated at LKR 14.4Bn. However, fair value for 2024E is maintained at LKR 185.0 for NTB.N (NTB.X FV: LKR 175.0), expecting a positive re-rating amidst the current steeply discounted trading multiples, while 2025E fair value is estimated at LKR 200.0 (NTB.X FV: LKR 190.0). MAINTAIN BUY

Target Price Maintained

Fair Value:

2024E - LKR 185.0 [+84%]
2025E - LKR 200.0 [+99%]

Total Return with DPS:

2024E - 87% [AER 115%]
2024E - 103% [AER 47%]

SEYLAN BANK PLC [NDB.N0000]

SEYB recorded earnings of LKR 1.9Bn during 4Q2023, whilst recording LKR 6.4Bn for the year ended 2023 broadly aligning with our target of LKR 6.6Bn. Despite sustained earnings throughout the year, 4Q2023 experienced a dip of 6.5%QoQ influenced by the prevailing low interest rate environment, which was caused by the AWPR witnessing a 250bps drop during the quarter influencing the interest rate spread to decline, exerting pressure on both top and bottom lines. Furthermore, impairment provision recorded a decline of -53.2YoY (-8.5%QoQ) whilst net fee and commission-based income displayed a growth of 7.5%YoY (11.5%QoQ) partly offsetting the decline registered in NII by 23.9%YoY (-5.7%QoQ). Accompanied by a capital structure exceeding necessary thresholds, the potential expansion of the loan portfolio alongside businesses' growth, and the anticipated economic rebound for 2024E which is steadily materializing, with an optimistic outlook on the banking sector we broadly maintain our target price for SEYB.N at LKR 95.0 and SEYB.X at LKR 55.0 with an earnings target of 7.7Bn for 2024E. MAINTAIN BUY.

Target Price Maintained

Fair Value:

2024E - LKR 95.0 [+121%]
2025E - LKR 103.0 [+140%]

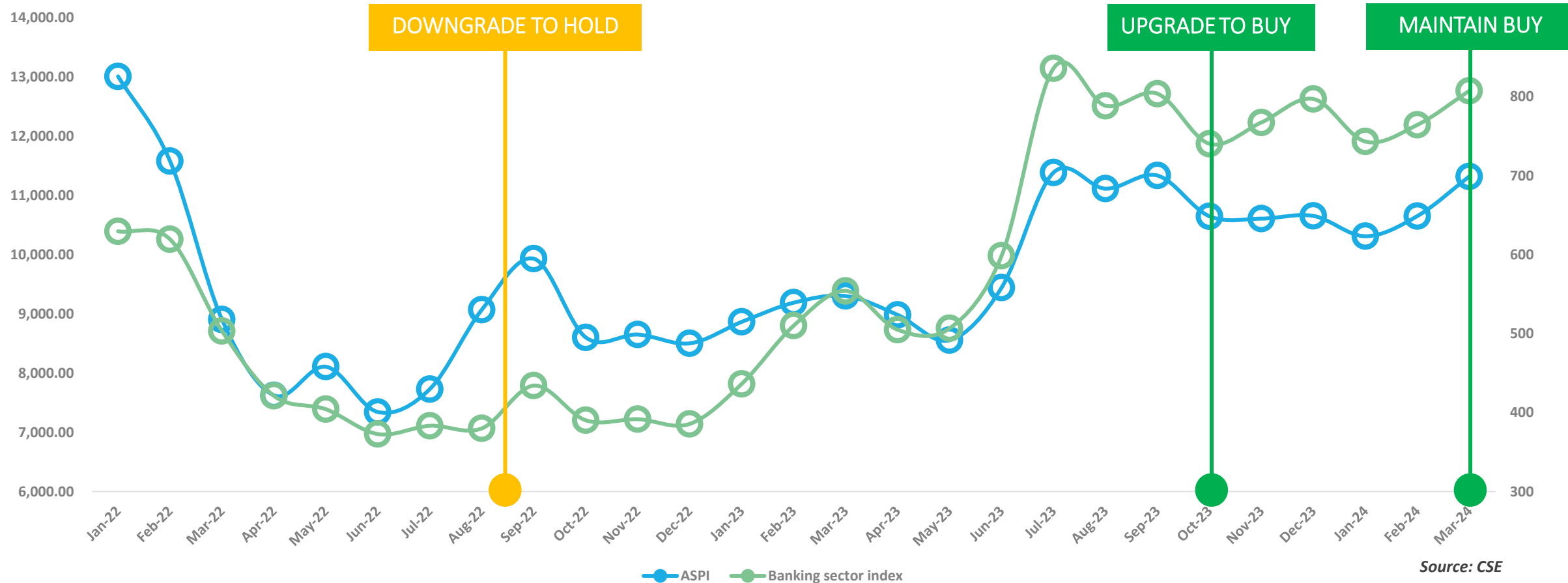
Total Return with DPS:

2024E - 128% [AER 185%]
2025E - 147% [AER 65%]

A woman with long blonde hair and glasses, wearing a patterned blouse and dark trousers, stands in front of a large window, gesturing with her hands as if presenting. She is holding a small object in her left hand. In the foreground, three people are seated, looking towards her. The man next to her has a beard and is wearing a white shirt. The woman in the foreground is wearing a red top. The background shows a view of a city building through the window.

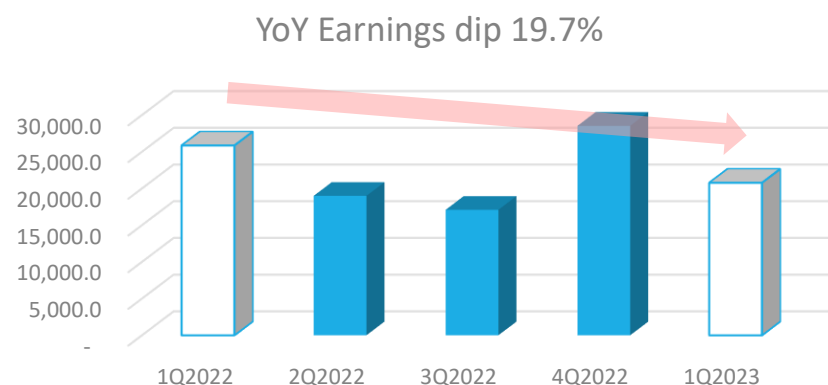
Banking Sector 4Q2023 Review

ASPI vs Banking Sector Index

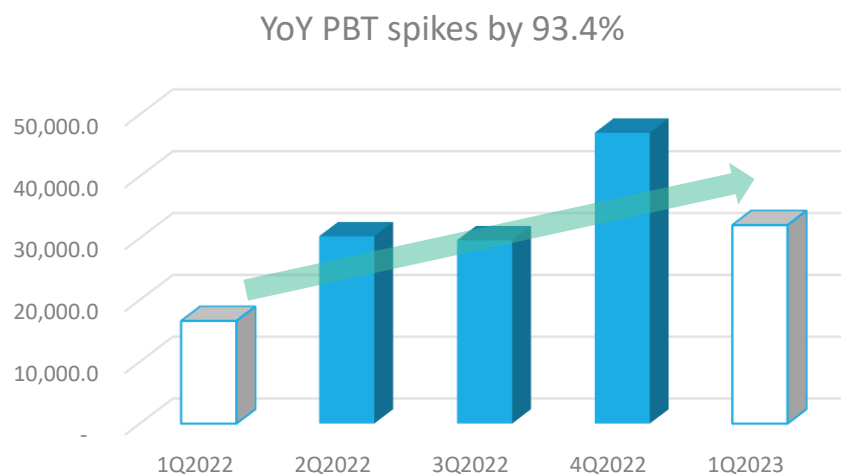


Source: CSE

FC Banking Universe earnings dip, but PBT spiked sharply in line with our expectations...



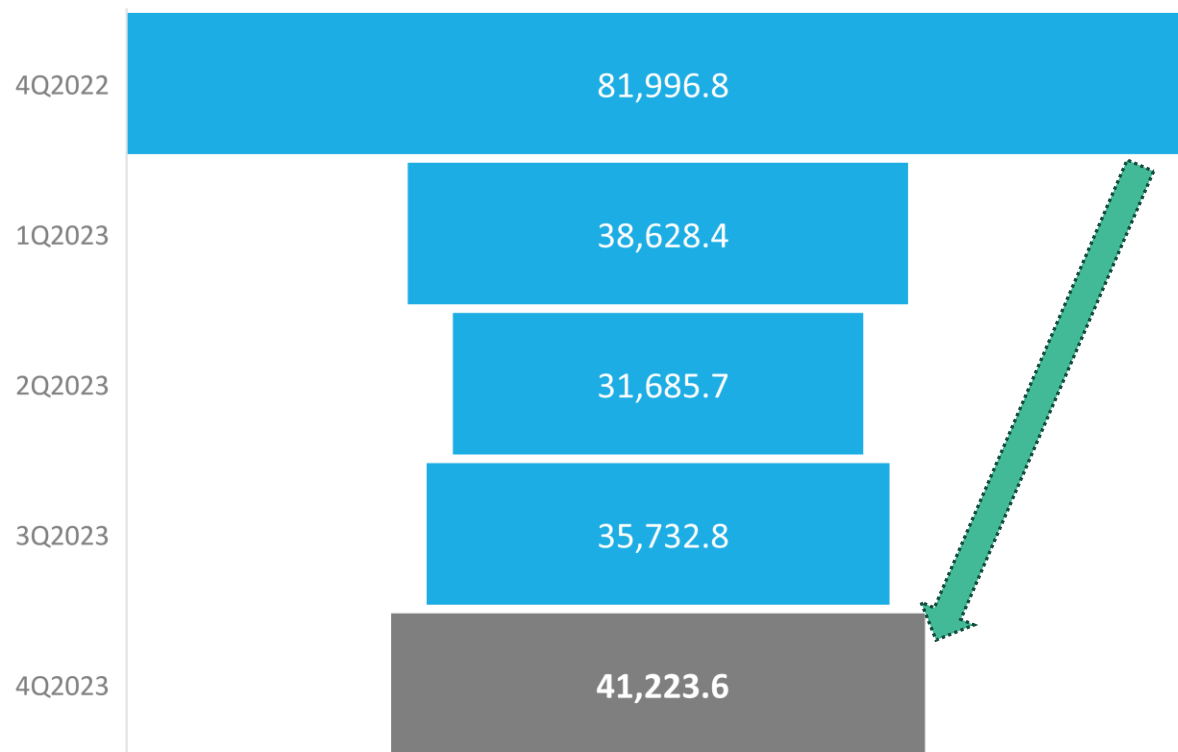
FC Banking Universe profitability dipped by 19.7%YoY amidst taxation normalizing and higher operational expenses, however, at PBT level the recovery in the banking earnings were showcased with growth of 93.4%YoY to reach LKR 32.1Bn.



Stock	Stock Code	4Q2022	4Q2023	YoY %	2022	2023	YoY %
Commercial Bank	COMB.N	8,775.0	6,915.0	↓ -21.2%	23,812.0	21,115.0	↓ -11.3%
Hatton National Bank	HNB.N	4,314.0	4,440.0	↑ 2.9%	15,329.0	22,771.0	↑ 48.5%
Sampath Bank	SAMP.N	6,375.0	5,194.0	↓ -18.5%	14,061.0	17,924.0	↑ 27.5%
NDB Bank	NDB.N	2,367.0	339.0	↓ -85.7%	3,009.0	5,759.0	↑ 91.4%
Seylan Bank	SEYB.N	2,079.0	1,847.0	↓ -11.2%	4,574.0	6,321.0	↑ 38.2%
Nations Trust Bank	NTB.N	1,937.0	2,033.0	↑ 5.0%	7,228.0	11,471.0	↑ 58.7%

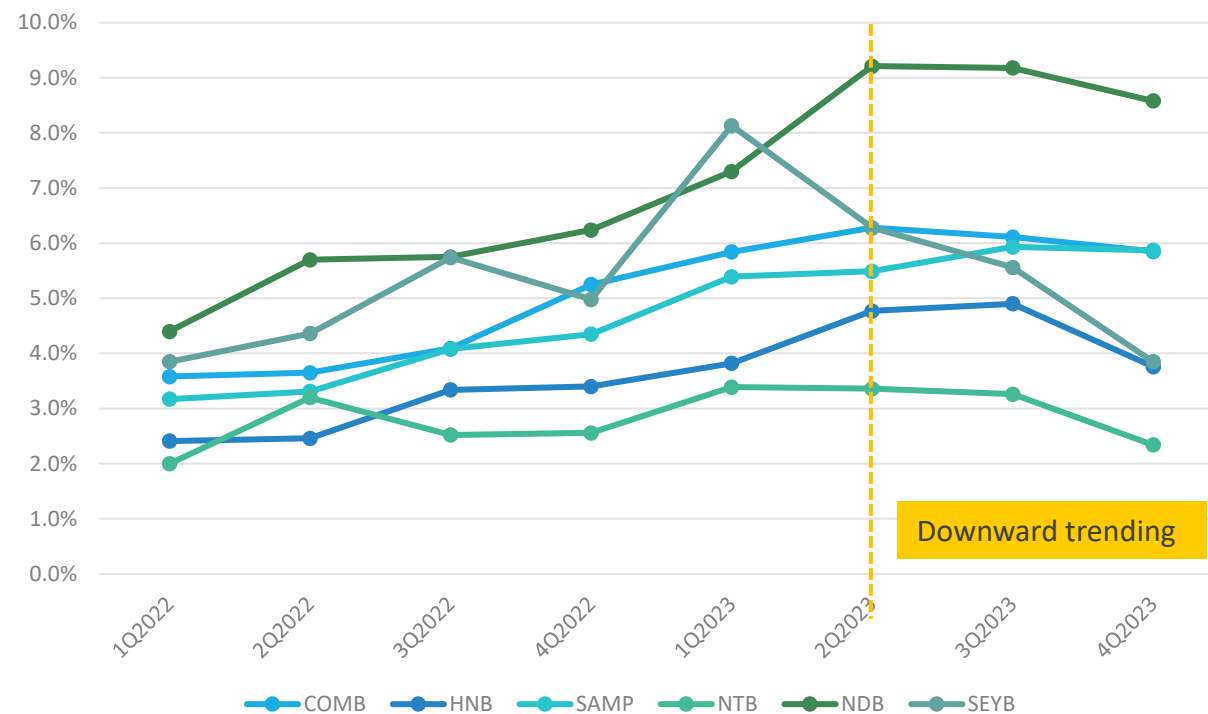
Source: Company Annual Reports, First Capital Research

Impairment provisioning almost halves in largest 6 listed banks



Source: Company Annual Reports, First Capital Research

Impaired loan (Stage 3) Ratio peaks in 2Q2023 illustrating a decelerating trend towards 3Q & 4Q



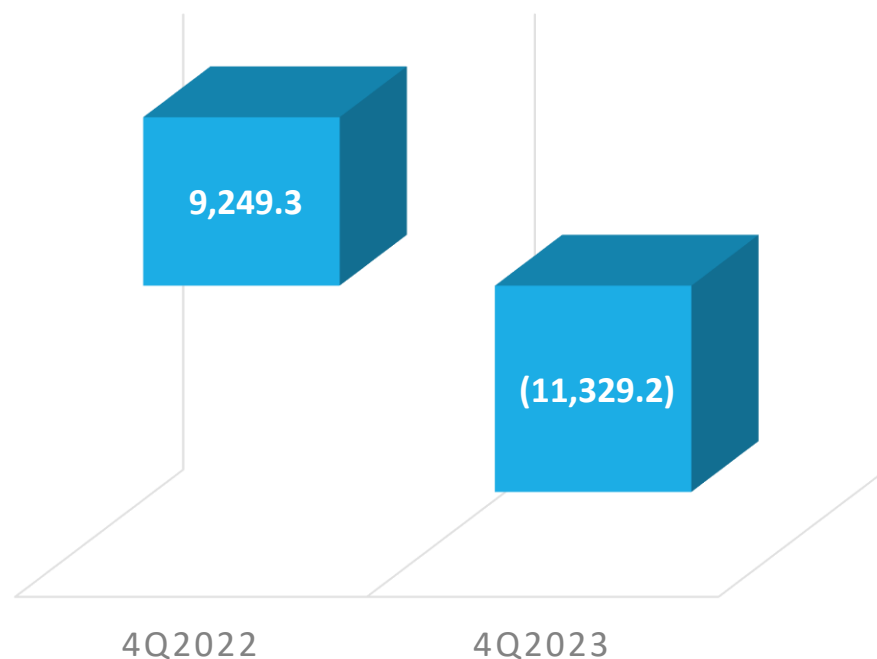
Source: Company Annual Reports, First Capital Research

...driven by reduction in impairment expenses...

As anticipated from our previous update (Oct-23 Report & individual bank updates in Nov-23), FC Banking Universe impairments has continued to decline substantially in 2023 with 4Q2023, plummeting by 49.7%YoY to LKR 41.2Bn with all 6 banks recording steep decline in impairment charges during the quarter.

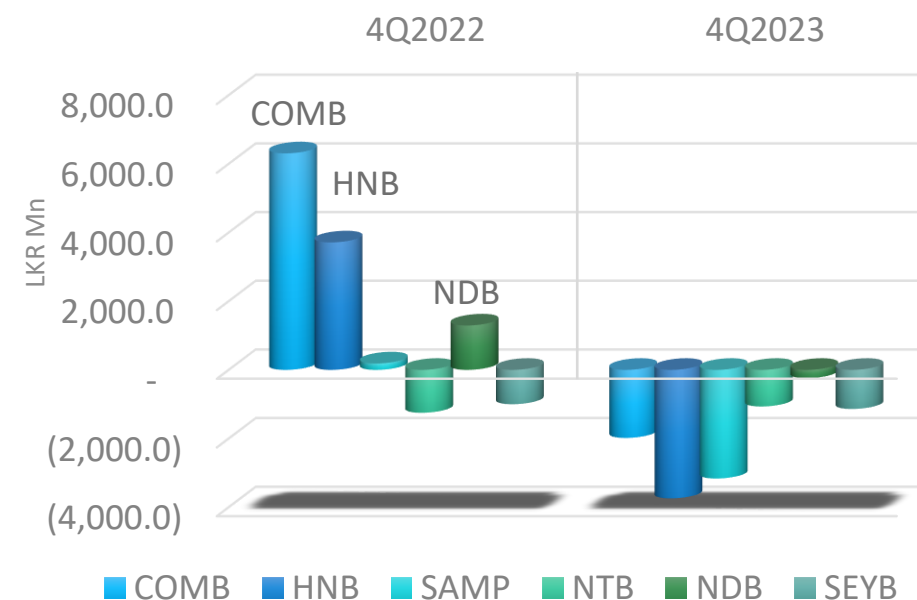
One-off tax reversals in previous comparative quarter dims post tax earnings in 4Q2023

4Q2022 thrived on tax reversals...



Source: Company Annual Reports, First Capital Research

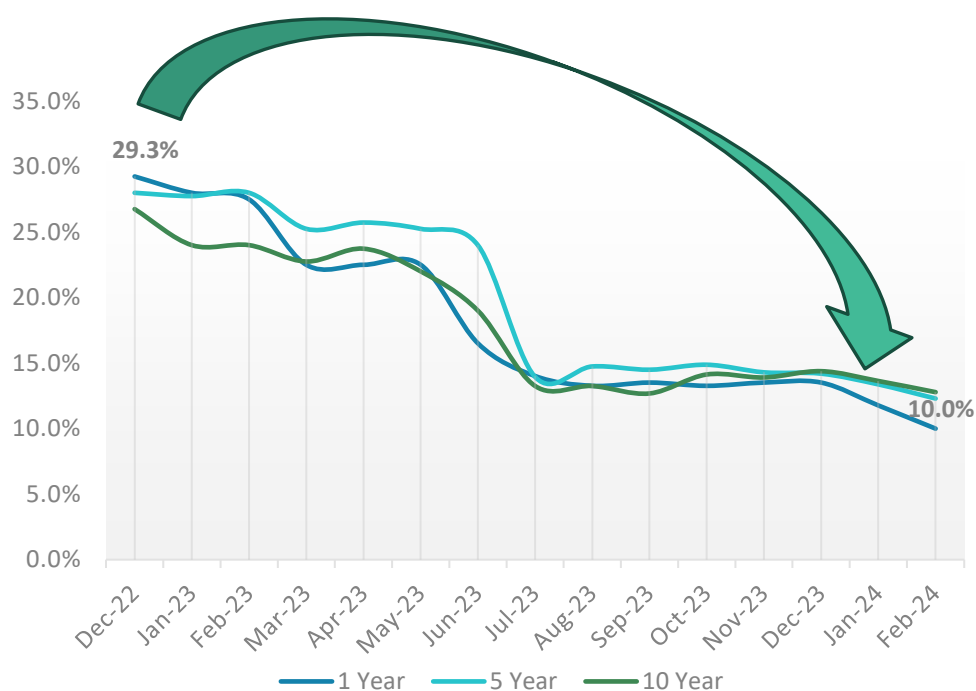
...with large tax reversals in COMB, HNB & NDB



Source: Company Annual Reports, First Capital Research

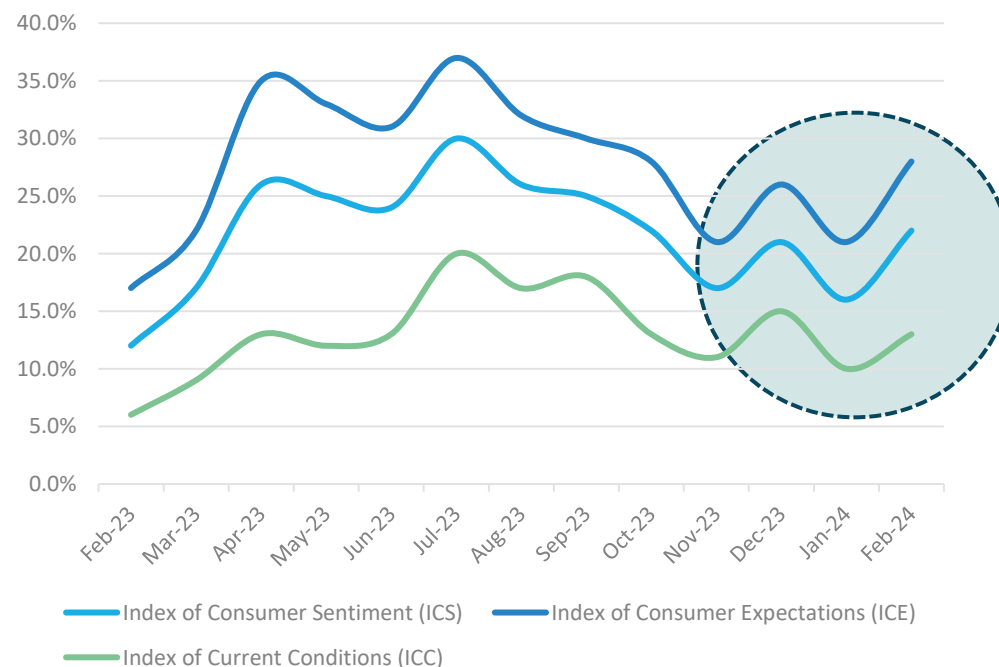
Declining interest rates and pick in economic activity...

G-Sec yields (1YR) dip from 29.0% to 10.0%



Source: CBSL, First Capital Research

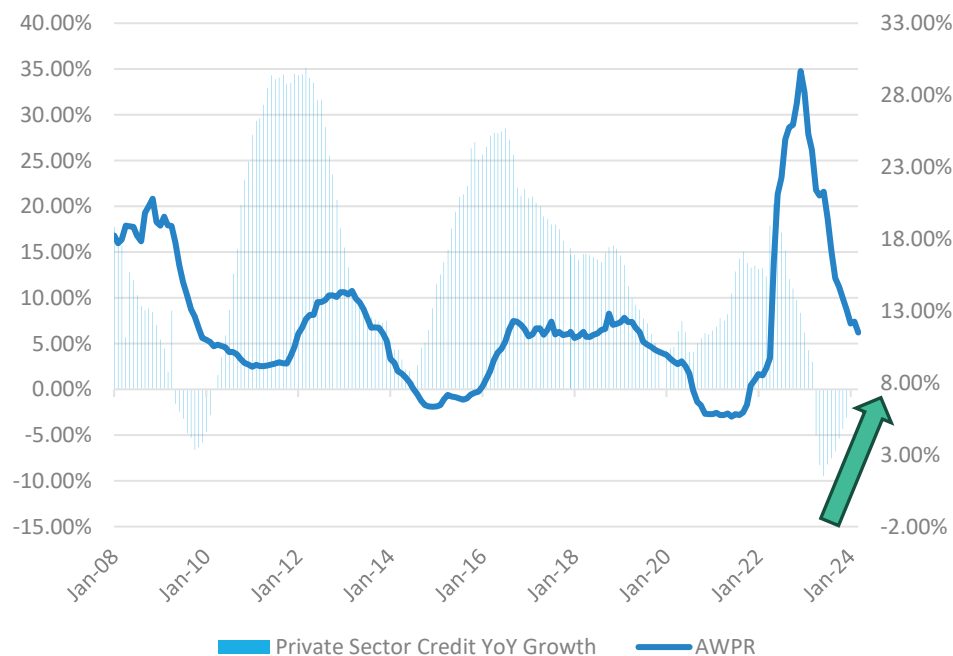
Early signs of economic activity starting to pick



Source: IHP

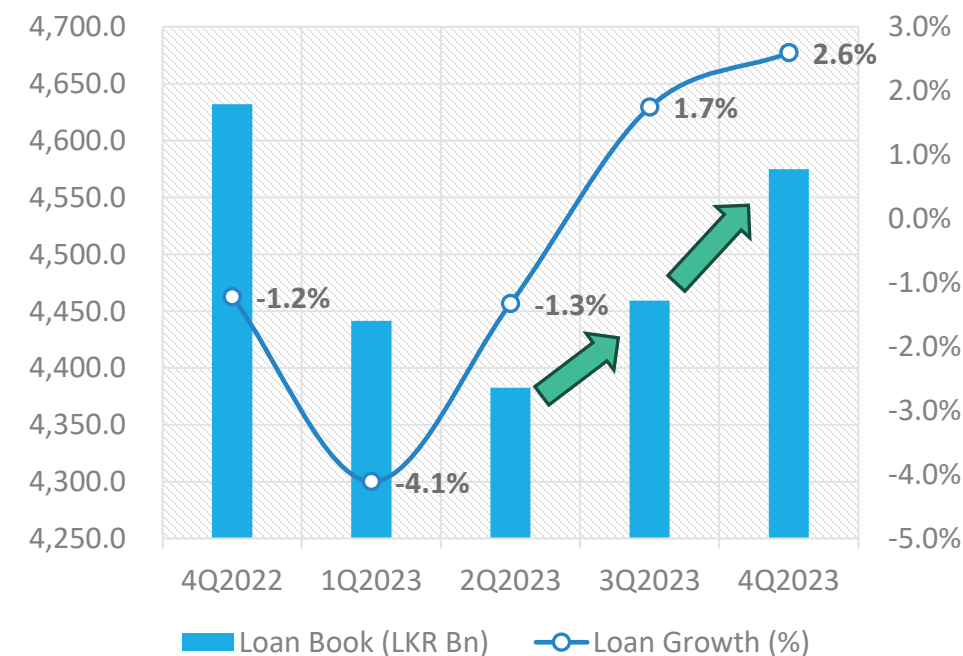
...reignites loan book growth for 2nd consecutive quarter ...

Private sector credit grows reducing the contraction in 2023...



Source: CBSL, First Capital Research

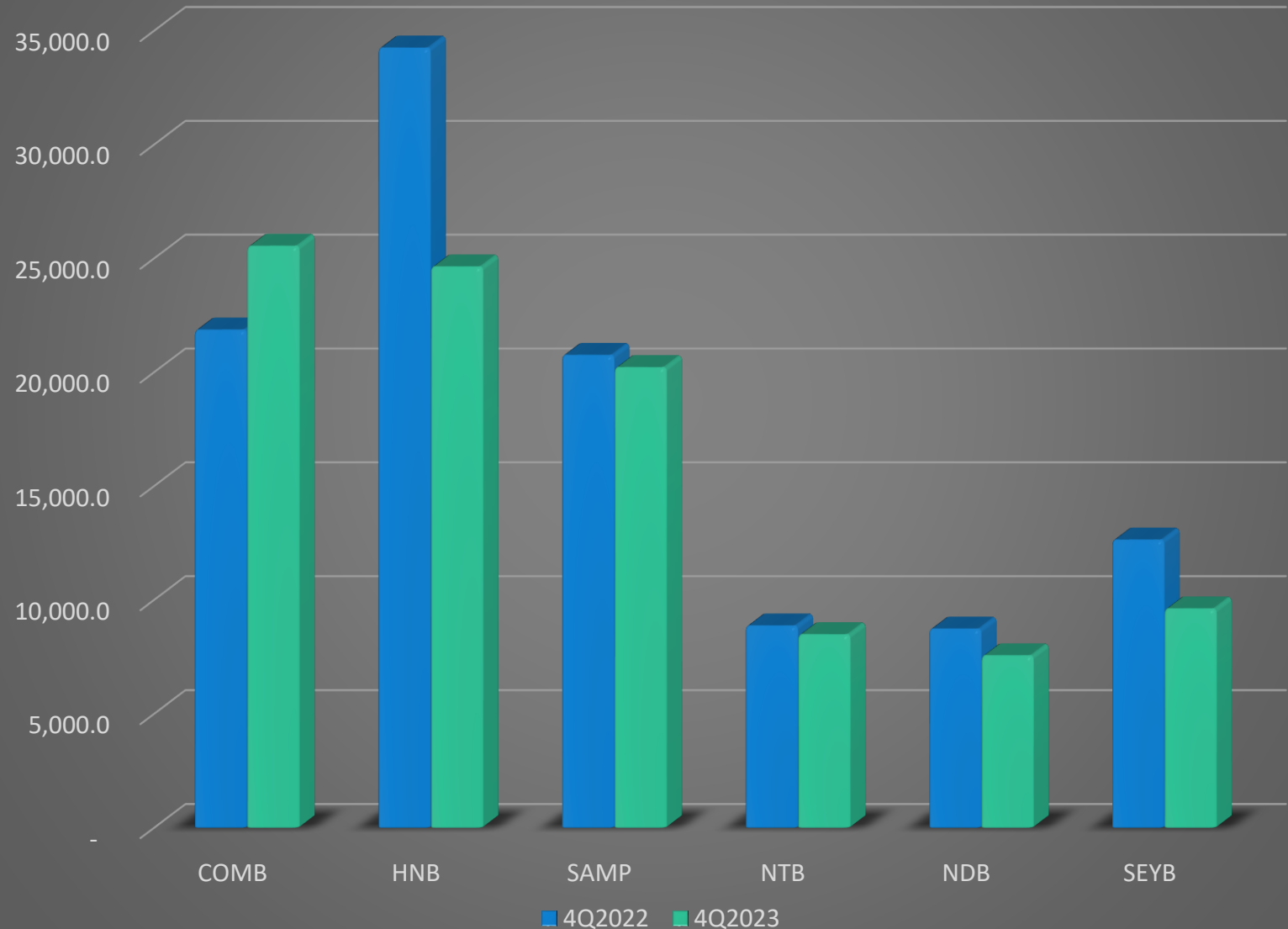
...signifying signs of a recovery despite the temporary setback of a slowdown in Jan-23 amidst higher taxes



Source: Company Annual Reports, First Capital Research

...however, NII registered a dip in all banks...

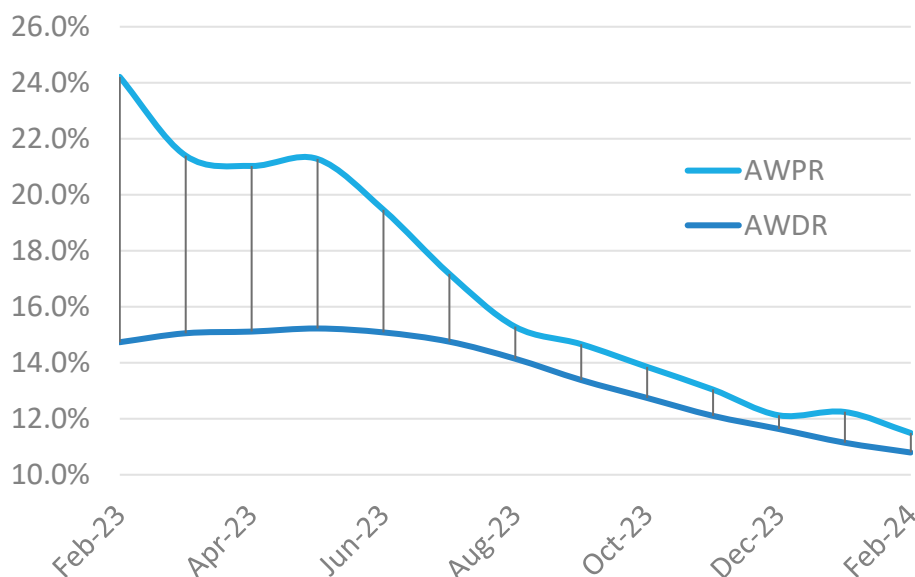
Excluding COMB, dip in NII was recorded across the board in all 6 largest listed banks



Source: Company Annual Reports, First Capital Research

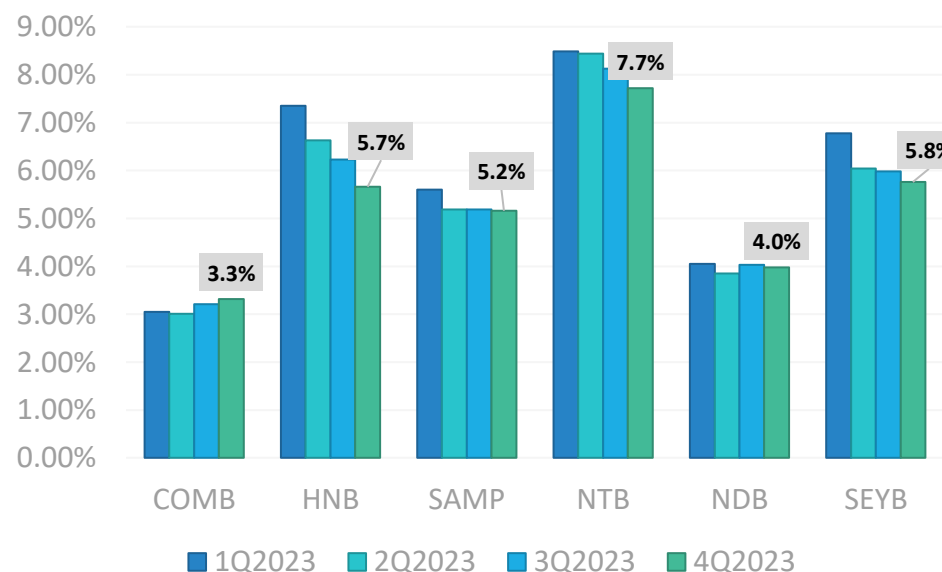
...resulting from lower spreads and NIMs

Interest rate spread have recorded a steep contraction over the last 12 months...

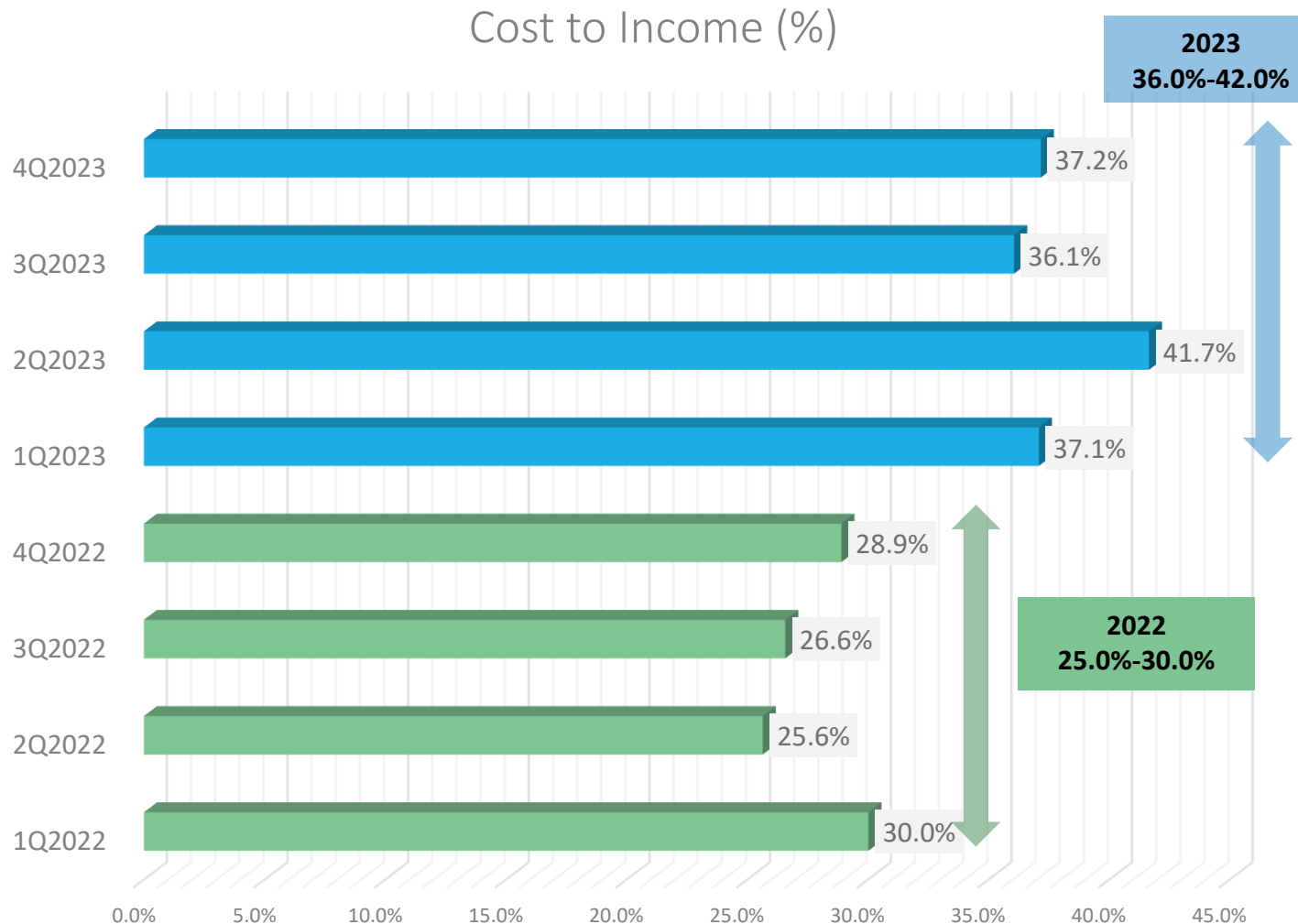


Source: CBSL, First Capital Research

...contracting banking sector NIMS



Source: Company Annual Reports, First Capital Research

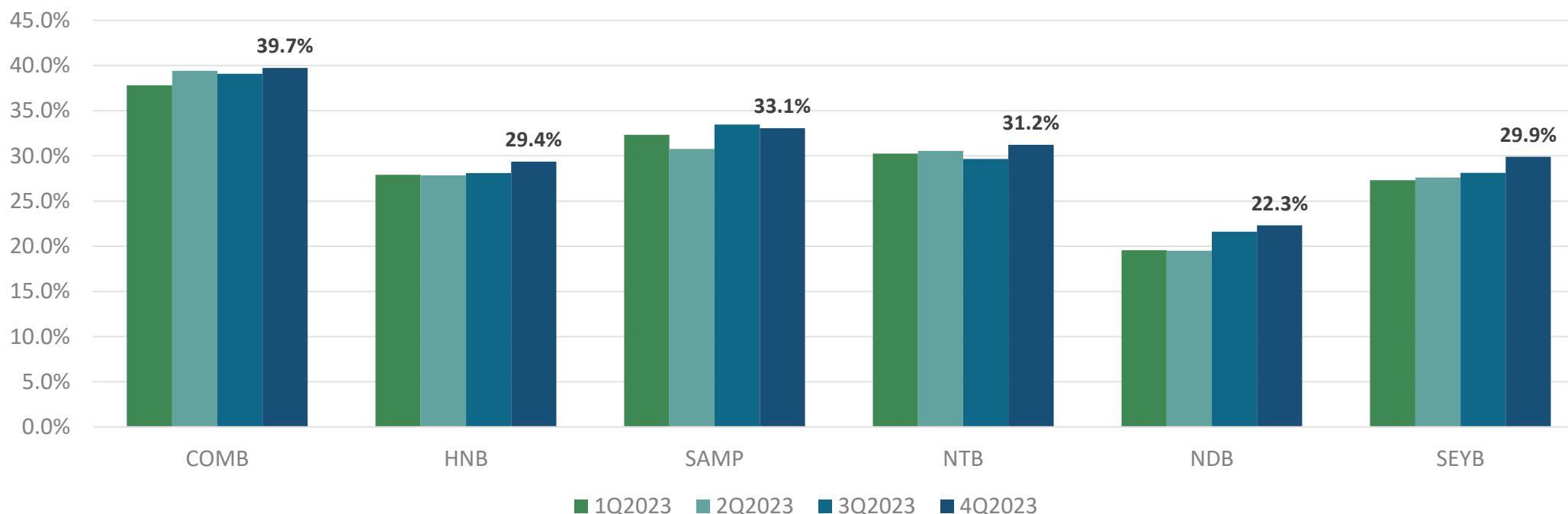


Cost - Income ratio remains elevated amidst the continued higher impairment provisioning...

Source: Company Annual Reports, First Capital Research

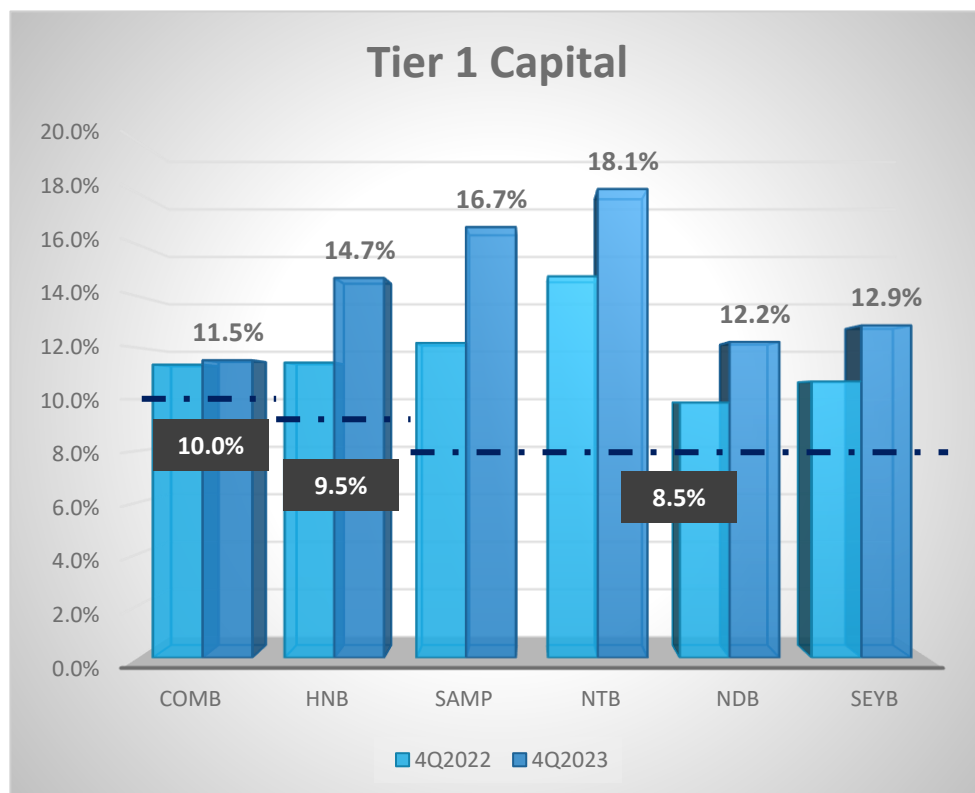
...while improvement in CASA and repricing of liabilities provides some respite

Decline in interest rates improves CASA of most banks improving cost of funding

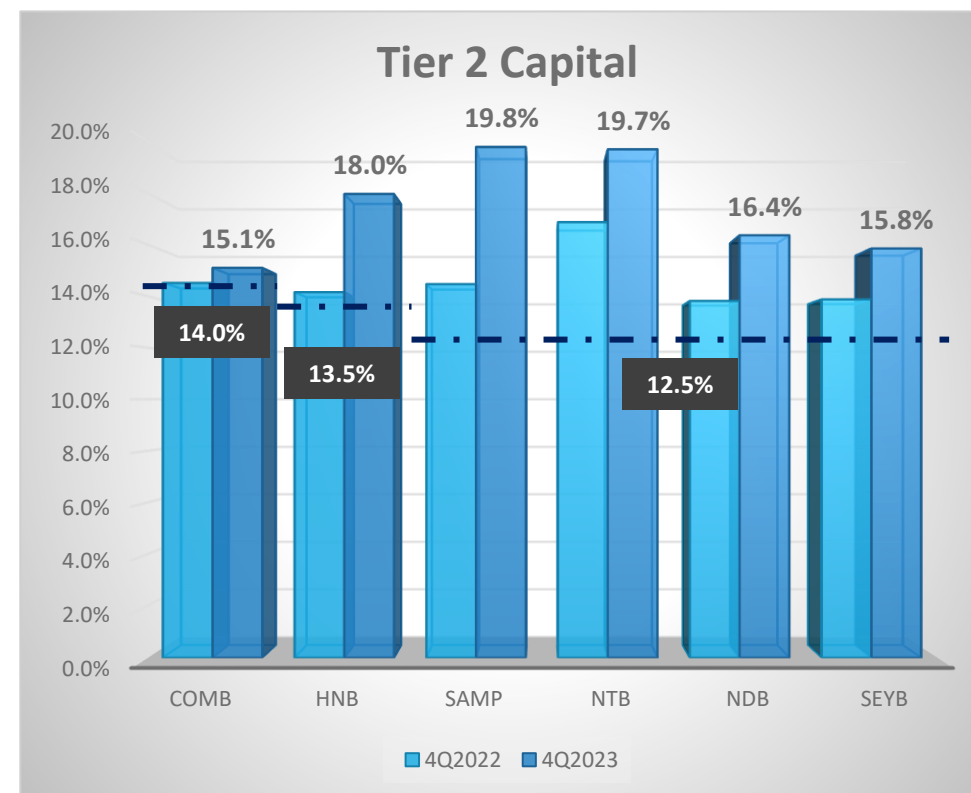


Source: Company Annual Reports, First Capital Research

Banking Sector capitalization strengthened with profitability, lower dividends...



Source: Company Annual Reports, First Capital Research



Source: Company Annual Reports, First Capital Research

... whilst Tier 2 supported by multiple debenture issues by listed banks.

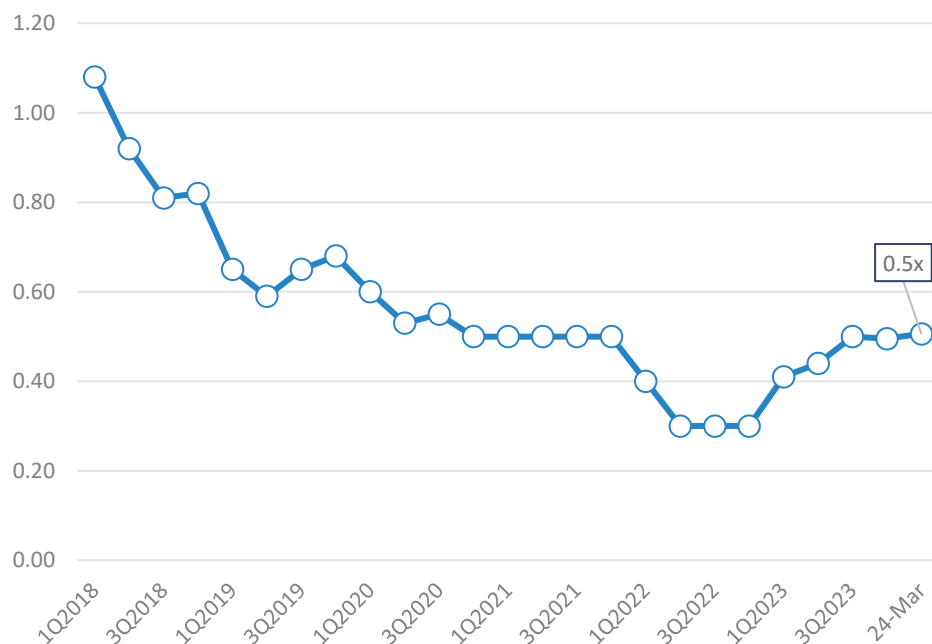
“With multiple banks opting to take advantage of the prevailing low interest rates and raise Tier 2 debentures to strengthen capitalization, we continue to remain pessimistic regarding right issues given the current trading multiples of banks and the sizable buffer from the regulatory requirement”

Announced Date	Bank	Debenture Type	Amount (LKR Mn)
30-Jan-24	Commercial Bank of Ceylon	Unsecured Subordinated Redeemable Debentures	10,000.0
27-Nov-23	Commercial Bank of Ceylon	Unsecured, Subordinated, Redeemable Debentures	12,000.0
01-Sep-23	Hatton National Bank	Unsecured, Subordinated, Redeemable Debentures	12,000.0
03-Jan-23	Sampath Bank	Unsecured, Subordinated, Redeemable Debentures	10,000.0
20-Feb-24	Seylan Bank	Unsecured, Subordinated, Redeemable Debentures	10,000.0
11-Apr-23	Seylan Bank	Unsecured, Subordinated, Redeemable Debentures	7,000.0
26-Jan-23	Seylan Bank	Unsecured, Subordinated, Redeemable Debentures	12,000.0
23-Nov-23	NDB Bank	Unsecured, Subordinated, Redeemable Debentures	5,000.0
25-Jan-23	NDB Bank	Unsecured, Subordinated, Redeemable Debentures	10,000.0

Source: Company Annual Reports, First Capital Research

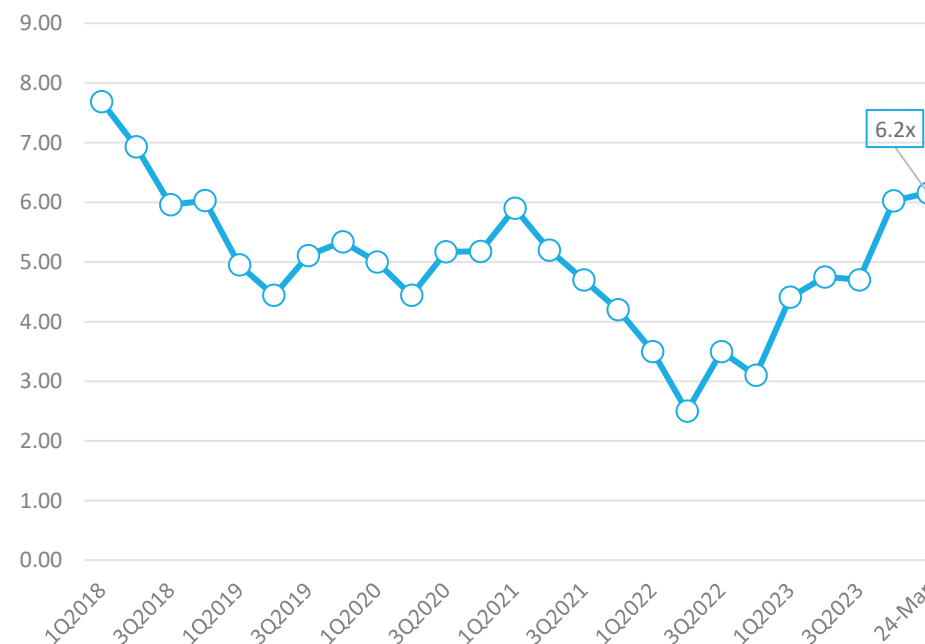
Banking Sector Valuations remain cheap at 0.5x PBV...

Sector trades at a PBV of 0.5x...



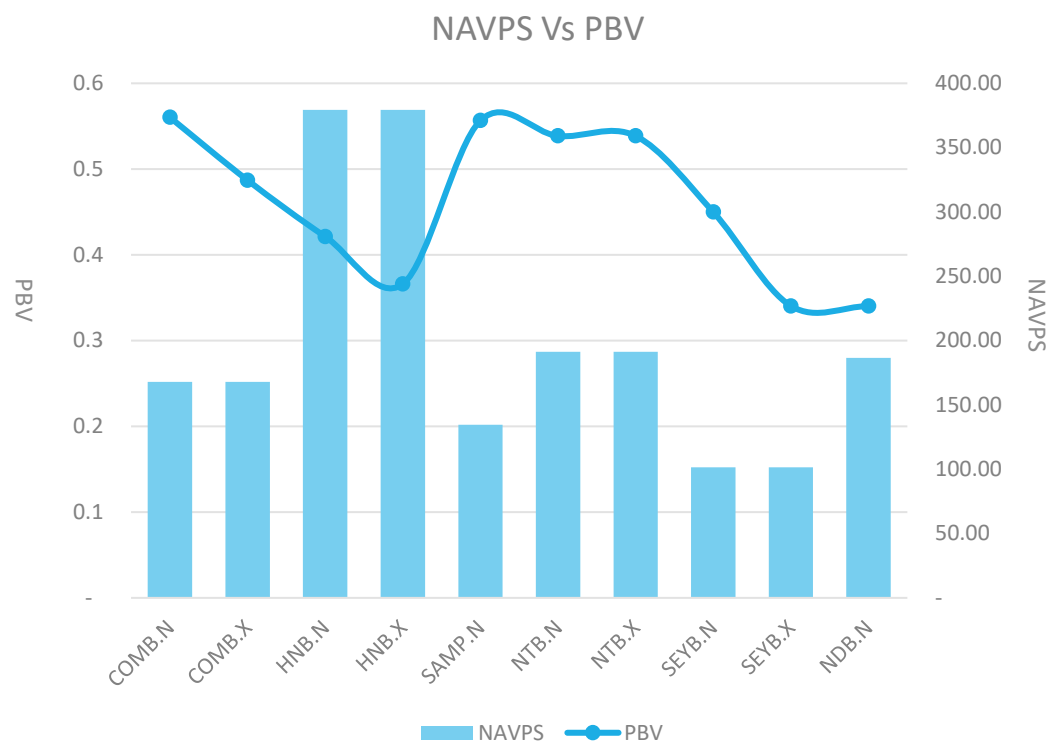
Source: CSE, First Capital Research

Sector trades at a PER of 6.2x...

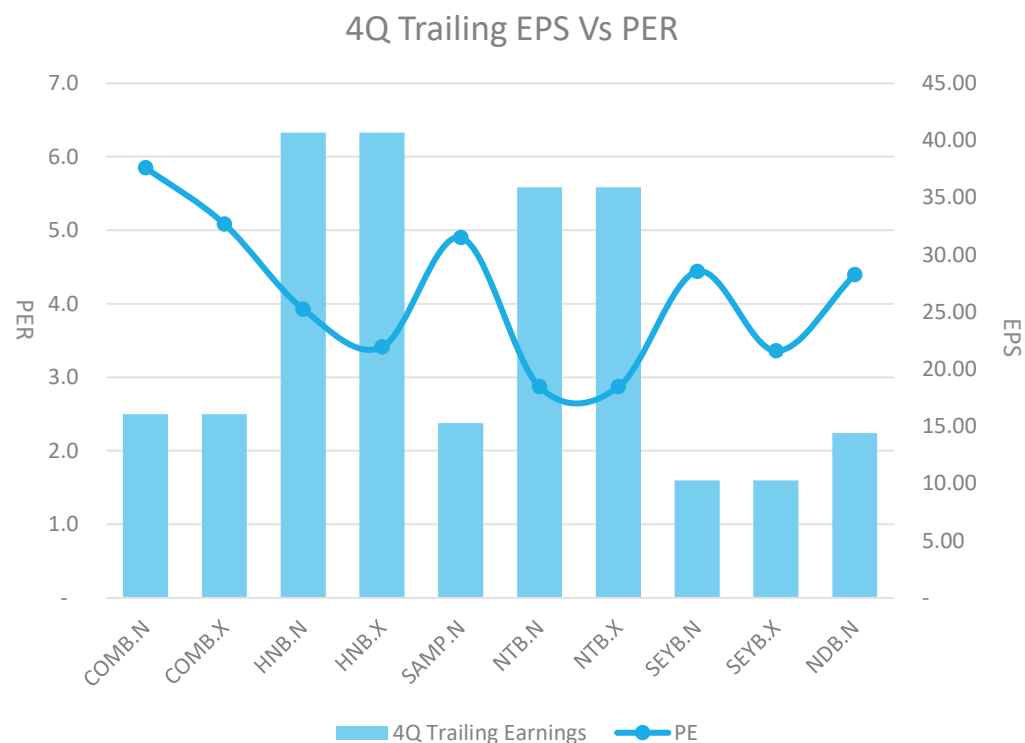


Source: CSE, First Capital Research

...as individual banks continuing to remain attractive with visible improvement in key indicators



Source: CSE, First Capital Research



Source: CSE, First Capital Research

A hand holding a set of keys, including a large octagonal key and a smaller key, against a blurred background of a room with a lamp and a plant.

Key Investment Risks

Sensitivity Analysis on impairment & Loan Growth

As highlighted on the sensitivity analysis tables, slight changes in impairment provisioning significantly impacts profitability of the banks.

Although we expect NPLs to improve in the coming months as economic indicators recovers, in an event where provisioning is increased, risk remains of significant adverse changes to bank profitability.

Commercial Bank of Ceylon PLC

		Gross Loan Growth				
		6%	8%	10%	12%	14%
Impairment provision as a % of gross loans	6%	43,995	44,164	44,333	44,501	44,670
	7%	35,864	35,879	35,894	35,910	35,925
	8%	27,732	27,594	27,456	27,318	27,180
	9%	19,600	19,309	19,017	18,726	18,434
	10%	11,469	11,024	10,579	10,134	9,689

Hatton National Bank PLC

		Gross Loan Growth				
		8%	9%	10%	11%	12%
Impairment Provisioning as a % of Gross Loans	7%	39,796	39,619	39,442	39,265	39,088
	8%	34,133	33,904	33,674	33,444	33,215
	9%	28,470	28,188	27,906	27,624	27,342
	10%	22,807	22,473	22,139	21,804	21,470
	11%	17,145	16,758	16,371	15,984	15,597

Sampath Bank PLC

		Gross Loan Growth				
		3%	4%	5%	6%	7%
Impairment Provisioning as a % of Gross Loans	12%	31,975	31,704	31,432	31,160	30,889
	13%	26,632	26,309	25,986	25,662	25,339
	14%	21,290	20,914	20,539	20,164	19,788
	15%	15,947	15,520	15,093	14,665	14,238
	16%	10,604	10,125	9,646	9,167	8,688

Sensitivity Analysis on impairment & Loan Growth

National Development Bank PLC

Impairment Provisioning as a % of Gross Loans	Gross Loan Growth					
		13%	14%	15%	16%	17%
	5%	14,371	14,522	14,672	14,822	14,973
	6%	11,234	11,371	11,507	11,643	11,779
	7%	8,097	8,219	8,341	8,464	8,586
	8%	4,960	5,068	5,176	5,284	5,392
	9%	1,823	1,917	2,011	2,105	2,199

Seylan Bank PLC

Impairment Provisioning as a % of Gross Loans	Gross Loan Growth					
		11%	12%	13%	14%	15%
	0%	13,424	13,625	13,826	14,026	14,227
	1%	10,428	10,602	10,776	10,949	11,123
	2%	7,432	7,579	7,726	7,872	8,019
	3%	4,436	4,556	4,676	4,795	4,915
	4%	1,440	1,533	1,626	1,719	1,811

Nations Trust Bank PLC

Impairment Provisioning as a % of Gross Loans	Gross Loan Growth					
		16%	17%	18%	19%	20%
	5%	17,113	17,172	17,230	17,289	17,347
	6%	15,223	15,265	15,308	15,350	15,392
	7%	13,333	13,359	13,385	13,411	13,437
	8%	11,443	11,453	11,462	11,472	11,482
	9%	9,553	9,546	9,540	9,534	9,527

Suspension of Parate execution to delay the NPL recovery timeline

- Introduced in 1990 to streamline and speedup the debt recovery process, Parate execution law was introduced to Sri Lanka through the Debt Recovery Act. In this process, banks can take possession of borrowers' properties but cannot own them. If the properties aren't sold, the bank gets them at a nominal price (usually at LKR 1,000.00), but they must sell them again to cover debts and refund any excess money to borrowers.
- However, the Cabinet of Ministers have approved a temporary suspension of Parate Executions until 15 December 2024 aiming to alleviate the strain on small and medium-sized enterprises (SMEs) grappling with financial challenges.
- The recent suspension of Parate execution is not expected to bore well with the banks, given that the expected recoveries and reduction of NPL's may get slowed down, further hampering the profitability of the banks.



**A COMMITTEE OF SRI LANKA'S
INTERNATIONAL PRIVATE
CREDITORS SENT ITS
FIRST DEBT REWORK PROPOSAL
TO THE COUNTRY'S AUTHORITIES
REGARDING OVER \$12 BILLION**



Sri Lanka's bondholders send debt rework proposal to government

Failure to reach an agreement in EDR remains a key concern,

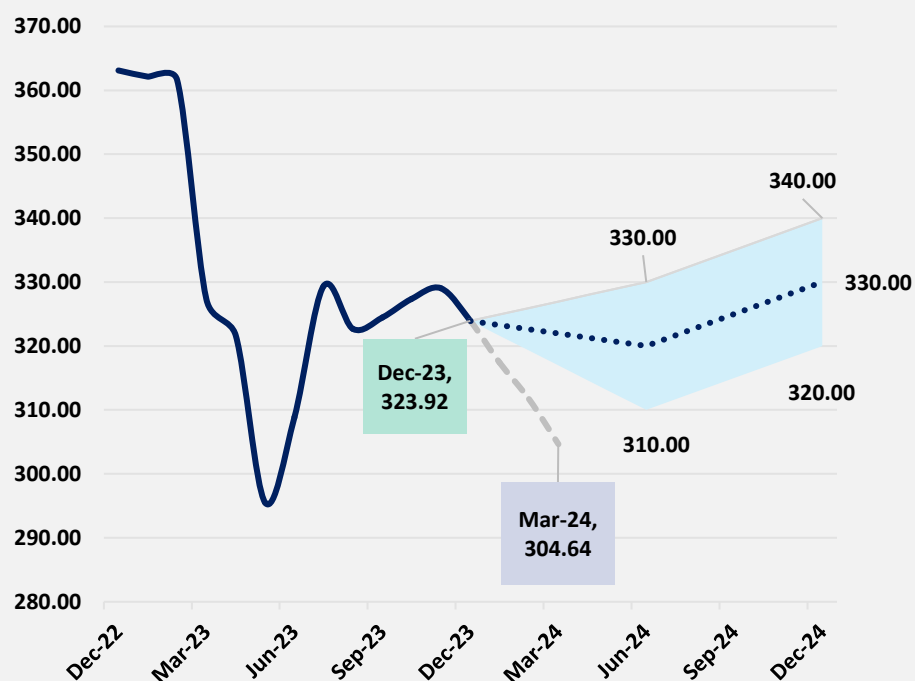
- Since our last update in Oct-23, Sri Lanka have taken considerable towards achieving IMF debt sustainability targets. With agreements in principle reached with official creditor committee and with the Paris Club in Dec-23, Sri Lanka is currently on path to reaching agreements with private creditors, which includes USD 12.0Bn in International Sovereign Bonds (ISB).
- Having received the initial proposal from the private creditors in Oct-23, for an exchange to 10 separate bonds maturing between 2027 to 2036 in return for the existing 11 Sri Lanka bonds with a 20% hair-cut, this proposal also includes an interest component of 7.75%-9.50% in cash, which becomes null, in an event GDP falls below certain thresholds.
- However, the GoSL has rejected the above proposal and countered with a proposal for an exchange of bond with a haircut of 40%. This proposal also has been rejected by the bondholders and currently the discussions are underway between the parties to meet on a middle ground, with the aim of achieving the debt sustainability target set by the IMF.
- Despite the positive strides made on debt restructuring, a risk of a failure to arrive at a consensus with the private creditors remains, given the complicated nature of the discussions. The failure to arrive at an agreement will adversely affect the banking sector and the economy in whole, with a delay in unlocking the 3rd tranche from the IMF and possible trading losses on the banks trading portfolio from rise in treasury yields.

HAMILTON RESERVE BANK:

**Sri Lanka Seeks Five-Month
Hold on Bondholder Suit**



Whilst LKR appreciation takes a toll on loan book



Source: CBSL, First Capital Research

- Having depreciated +80% to LKR 360.0/USD in 2022, Sri Lankan Rupee strengthened since Mar-23, revitalized by the steady recovery in Tourism and remittances whilst pressure from imports remained subdued amidst import ban and spending constraints. Moreover, unlocking of the IMF 3rd tranche together with inflows from multilateral agencies also contributed towards the appreciation during the period.
- Presently, Sri Lankan Rupee is amongst the best performing currencies in the world against the USD, having appreciated by 10.8%YoY in 2023 and 5.7%YTD to LKR 304.6 by Mar-24. The recent appreciation of the LKR has negatively impacted the banking sector loan book, with foreign currency denominated loans in the banking sector contracting by 4.2%YoY in 3Q2023.

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In Sri Lanka, the Political Opposition Remains as Fragmented as Ever

As Sri Lanka prepares for presidential and general elections, where do the various parties stand?

By **Uditha Devapriya** and **Rumeth Jayasinghe**
March 04, 2024



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Sri Lanka allocates Rs10bn for presidential and general elections in 2024

Tuesday February 6, 2024 2:01 pm

ECONOMYNEXT - Sri Lanka has to conduct presidential and general elections within the 10 billion rupees allocated for them in the 2024 budget, cabinet spokesman Bandula Gunawardena said.

“An allocation of 10 billion rupees was set aside by the budget for the year 2024, for covering the expenditure of the presidential election and general election this year,” Gunawardena said at a press briefing on Tuesday to announce cabinet decisions.

Funds required for conducting provincial council elections and local government elections in 2025 will be released from the budget for 2025.

Upcoming elections brings future policy uncertainty

Sri Lanka is expected to face an eventful 2024 with several elections including Presidential and general election scheduled to be held during the year. With a history of policy inconsistencies between different governing regimes, we believe the upcoming elections may also bring uncertainty, largely due to the unclear winner and future direction of Sri Lanka.

A woman with long blonde hair and glasses, wearing a patterned blouse and dark trousers, stands in front of a large window, gesturing with her hands as if presenting. She is holding a small object in her left hand. In the foreground, three people are seated, looking towards her. The man next to her has a beard and is wearing a white shirt. The woman in the foreground is wearing a red top. The background shows a view of a city building through the window. A semi-transparent grey box is overlaid on the right side of the image, containing the text.

Individual Bank 4Q2023 Review

Commercial Bank

COMMERCIAL BANK OF CEYLON [COMB.N0000]

Giant at a Bargain

MAINTAIN BUY

Fair Value: 2024E - LKR 170.0 [+81%]

2025E - LKR 200.0 [+113%]

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Total Return with DPS: 2024E - 91% [AER 124%]

2025E - 125% [AER 57%]

LKR (Mn)	4Q2022	4Q2023	YoY	2022	2023	YoY
Earnings (LKR 'Mn)						
NII	21,851	25,534	+17%	84,665	86,415	+2%
Total Operating Income	32,799	35,620	+9%	136,637	122,070	-11%
Net Operating Income	13,147	22,507	+71%	64,712	83,175	+29%
PBT	2,469	8,896	+260%	24,505	33,927	+38%
Net Profit	8,775	6,915	-21%	23,812	21,115	-11%
Balance Sheet (LKR 'Mn)						
Shareholder's Equity	208,865	220,471	+6%	208,865	220,471	+6%
NAVPS	168.5	167.8	-0%	168.5	167.8	-0%

COMB net earnings down YoY amidst a tax reversal in 4Q2022

COMB net earnings declined by 21.2%YoY to LKR 6.9Bn in 4Q2023, backed by a tax reversal of LKR 6.5Bn, which boosted 4Q2022 net profit to LKR 8.8Bn. However, on a recurrent basis, COMB reported PBT showcased a strong performance and posted a growth of 260.3%YoY to LKR 8.9Bn. The growth for the period was largely driven by the reduction in impairment charges (-33.3%YoY to LKR 13.1Bn) whilst growth in core business also supported the growth during the quarter. Benefitted by declining interest rates environment and a growth in CASA base (39.7% in 4Q2023 cf. 39.0% in 4Q2022), interest expenses declined by 5.5%YoY, which resulted with net interest income recording a growth of 16.9%YoY to LKR 25.5Bn in 4Q2023. Meanwhile, COMB profit before tax for the full year of 2023 also reported a growth of 38.4%YoY to LKR 33.9Bn whilst the lower tax base in 2022, dragged down net income by 11.3%YoY to LKR 21.1Bn in 2023.

Gross Loan book shows a recovery after three quarters of contraction

After three consecutive quarters of decline, COMB gross loan book expanded by 4.0%YoY (+4.6%QoQ) to LKR 1.3Tn driven by the growth in LKR denominated loans (+7.8%YoY and +6.3%QoQ) whilst foreign currency denominated loans declined by 4.1%YoY, adversely affected by fluctuations in the currency (LKR appreciated by 10.1%YoY and averaged at LKR 326.6/USD in 4Q2023). The expansion in domestic loan book was largely through the growth in term loans (+12.9%YoY and 6.4%QoQ) and pawning (+114.4%YoY and 14.2%QoQ) portfolios whilst growth in leasing (+14.1%YoY and +17.3%QoQ) and credit card (+7.4%YoY and 5.3%QoQ) portfolios also contributed positively towards the growth. Meanwhile, inline with our expectation, COMB's Stage 3 impaired loans ratio peaked during 3Q2023 at 6.11% and recovered in 4Q2023 to 5.85% as Sri Lankan economy showcased resilient performance during 2H2023 period. Meanwhile, COMB NPL ratio improved to 7.0% in 2023 cf. 7.3% in 2022.

COMB deposit base expanded by 8.6%YoY to LKR 2.1Tn

COMB deposit base expanded by 8.6%YoY to LKR 2.1Tn in 4Q2023 driven largely by local currency deposits (+13.0%YoY and +7.0%QoQ) whilst foreign currency deposits remained stagnant at LKR 743.3Mn, affected by the LKR appreciation. Meanwhile, amidst a declining interest rate environment, COMB prudently managed its cost base and reported an improvement in CASA base to 39.7% in 4Q2023 cf. 39.0% reported in 4Q2022.

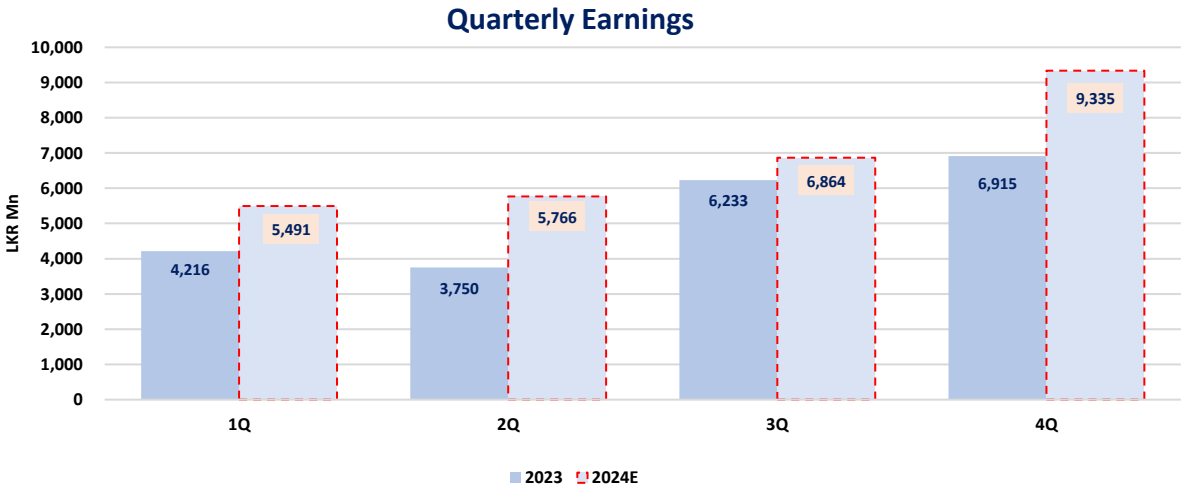
COMMERCIAL BANK OF CEYLON [COMB.N0000]

COMB remains adequately capitalized

COMB Tier 1 capital remains adequately capitalized at 11.51% cf. a minimum required of 10.00% whilst Total Capital Ratio also remained at 15.09% cf. regulatory directed 14.00% during 4Q2023. Meanwhile, on 12th December 2023, COMB raised LKR 12.0Bn via BASEL III compliant, Tier 2 listed rated unsecured subordinate debenture, which was oversubscribed.

TP maintained for COMB.N maintained at LKR 170.0 and COMB.X at LKR 150.0 for 2024E - MAINTAIN BUY

As predicted, COMB showcased a major recovery during the 2H2023 and in-line to achieve our targets set for the coming years. However, given the uncertainty surrounding external debt restructuring, clouds the potential for the share, offering an opportunity to collect at current trading multiples. Trading at 0.6x, we believe the share is still at a discount and offers an annualized return of 124% and 57% for 2024E and 2025E, respectively. Hence, considering the positive outlook for the banking sector amidst sizeable returns on our target price, we continue to maintain our recommendation on the share at **MAINTAIN BUY**.



Estimate Revision

In LKR Mn	2024E-O	2024E-R	% Change	2025E-O	2025E-R	% Change
Earnings Estimate						
NII	78,241	86,426	+10%	84,602	105,468	+25%
Total Operating Income	111,493	121,111	+9%	119,694	143,554	+20%
Net Operating Income	95,137	105,097	+10%	103,285	122,744	+19%
Profit before Tax	49,438	47,666	-4%	56,263	58,286	+4%
Net Profit	28,476	27,456	-4%	32,407	33,573	+4%
Adjusted EPS	21.7	20.9		24.7	25.5	
Balance Sheet Estimate						
Shareholders' Equity	246,832	231,064	-6%	278,710	258,452	-7%
Adjusted NAVPS	175.5	167.8		186.1	173.4	

Valuation Table

P/E 31st December	2020	2021	2022	2023	2024E	2025E	2026E
Estimates (LKR 'Mn)							
Net Interest Income	48,640	66,416	84,665	86,415	86,426	105,468	120,487
Total Operating Income	74,500	93,598	136,637	122,070	121,111	143,554	161,768
Net Profit: Equity Holders	16,940	24,062	23,812	21,115	27,456	33,573	37,203
Adjusted EPS (LKR)	12.9	18.3	18.1	16.1	20.9	25.5	28.3
YoY Growth (%)	-2%	42%	-1%	-11%	30%	22%	11%
Valuations							
PER (x)	7.3x	5.1x	5.2x	5.9x	4.5x	3.7x	3.3x
PBV (x)	0.8x	0.7x	0.6x	0.6x	0.6x	0.5x	0.5x
DY (%)	6.9%	8.0%	4.8%	6.9%	9.8%	12.5%	13.5%
Adjusted NAVPS (LKR)	120.8	127.4	158.9	167.8	165.1	173.4	181.5
DPS (LKR)	6.5	7.5	4.5	6.5	9.2	11.7	12.7
Dividend Payout (%)	50.4%	41.0%	24.8%	40.5%	44.0%	45.9%	44.8%

COMMERCIAL BANK OF CEYLON [COMB.N0000]

Valuation Summary

Return	2024E	2025E
Target Price	170.0	200.0
Current Price	94.0	94.0
Capital Gain (LKR)	76.0	106.0
Dividends upto 31st Dec (LKR)	9.2	11.7
Capital Gain %	81%	113%
Dividend Yield %	10%	12%
Total Return %	91%	125%
Annualized Return %	124%	57%

Expected COMB.N Price	2024E	2025E
Justified PBV based target price	165.1	190.7
PER Valuation based target price	167.1	204.4
RI Valuation based target price	189.7	202.2
Average Target Price	174.0	199.1
Target Price after Rounding off	170.0	200.0

Residual Income Valuation

Residual Income based Valuation	2024E	2025E
PV of Residual Income	28,802	48,782
No. of Shares ('Mn)	1,314	1,314
RI per Share	21.9	37.1
Opening Book Value per Share	167.8	165.1
Value per Share	189.7	202.2

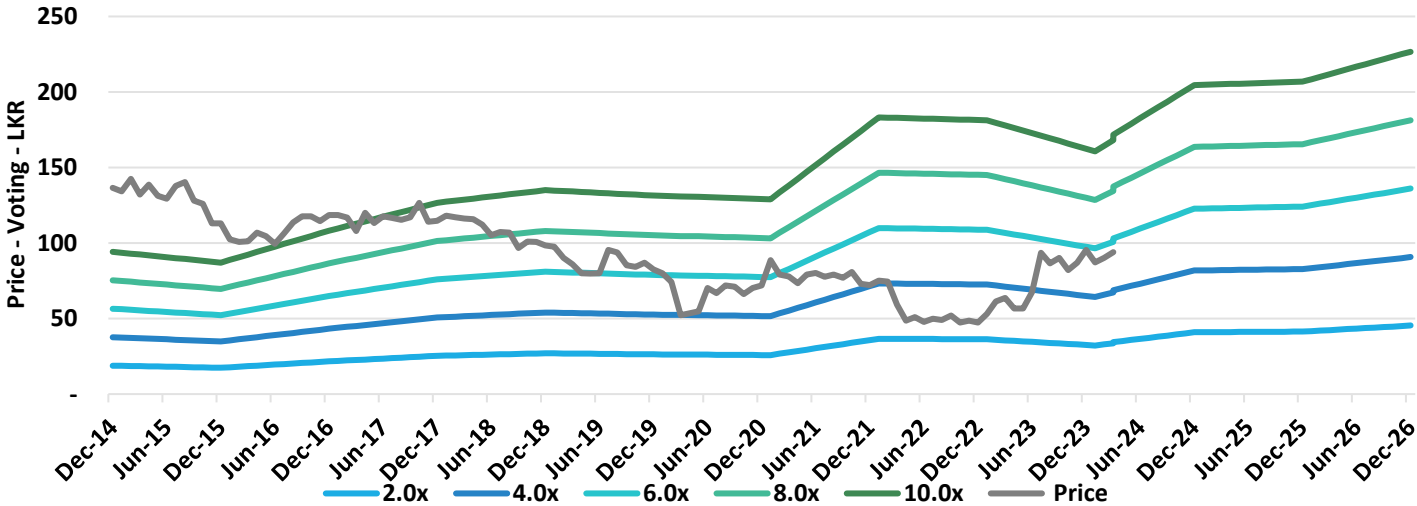
COE	2024E	2025E
Rf	11.0%	11.0%
Rm	19.0%	19.0%
Growth %	3.0%	3.0%
β	0.8	0.8
$Ke=Rf+\beta(Rm-Rf)$	17.4%	17.4%

Justified PBV Valuation

Justified PBV based Valuation	2024E	2025E
ROAE	12.2%	13.7%
Growth	3.0%	3.0%
COE	17.4%	17.4%
PBV	1.0	1.1
NAVPS	165.1	173.4
Target Price	165.1	190.7

PER Valuation

PER based Valuation	2024E	2025E
Earnings (LKR 'Mn)	27,456	33,573
No. of Shares ('Mn)	1,314	1,314
EPS	20.9	25.5
Expected PER	8.0x	8.0x
Price at 8.0x Earnings	167.1	204.4



Source: CSE/First Capital Research

COMMERCIAL BANK OF CEYLON [COMB.N0000]

Appendix I: Statement of Income and Expenses

Income Statement P/E 31st December	2020	2021	2022	2023	2024E	2025E	2026E
Gross Income	149,737	163,675	280,387	341,566	290,103	335,718	384,266
Interest Income	121,858	132,818	222,393	297,646	246,407	288,170	333,049
Less: Interest Expenses	73,219	66,402	137,728	211,231	159,980	182,702	212,562
Net Interest Income	48,640	66,416	84,665	86,415	86,426	105,468	120,487
Net Fee and Commission Income	9,822	12,242	20,169	22,387	23,174	24,333	25,549
Total Operating Income	74,500	93,598	136,637	122,070	121,111	143,554	161,768
Less: Impairment Charge/(Reversal) for Loans	21,420	25,140	71,924	38,895	16,014	20,810	24,943
Net Operating Income	53,081	68,458	64,712	83,175	105,097	122,744	136,825
Less : Operating Expense							
Personnel Expenses	14,993	16,799	19,788	22,825	29,207	31,620	34,137
Other Operating Expenses	11,270	12,859	16,494	21,465	25,024	28,111	31,803
Total Operating Expense s	26,263	29,658	36,282	44,290	54,232	59,731	65,940
Operating Profit before Value Added Tax (VAT)	26,818	38,801	28,430	38,885	50,865	63,014	70,885
Less: Value Added tax on Financial Services	4,531	5,845	3,921	4,961	3,203	4,732	6,301
Operating Profit after Value Added Tax (VAT)	22,287	32,955	24,509	33,924	47,663	58,282	64,584
Profit before Income Tax	22,291	32,957	24,505	33,927	47,666	58,286	64,589
Less: Income Tax Expense	7,433	8,667	106	12,027	19,067	23,314	25,835
Profit for the Year	14,858	24,290	24,399	21,900	28,600	34,972	38,753
Non-Controlling Interest	(2,082)	228	588	785	1,144	1,399	1,550
Profit Attributable to Equity Holders	16,940	24,062	23,812	21,115	27,456	33,573	37,203
Adjusted EPS	12.9	18.3	18.1	16.1	20.9	25.5	28.3

Appendix II: Statement of Financial Position

Statement of Financial Position P/E 31st December	2020	2021	2022	2023	2024E	2025E	2026E
ASSETS							
Cash and Cash Equivalents	50,817	69,335	151,109	159,702	184,555	119,359	76,467
Balances with Central Banks	115,359	56,777	78,597	62,634	77,011	95,509	107,881
Placements with Banks	16,422	12,499	96,083	81,507	73,356	66,020	59,418
Derivative Financial Instruments	2,637	3,245	8,345	7,226	6,089	6,698	7,703
Other Financial Assets Held-For-Trading	35,189	23,436	24,873	29,450	33,830	37,212	42,794
Loans and Receivables to Other Customers	909,829	1,029,584	1,155,493	1,204,866	1,318,427	1,468,656	1,643,259
Financial Investments - Available-for-sale	278,717	335,954	118,652	287,733	631,485	694,633	798,828
Property, Plant & Equipment	25,387	24,745	27,447	28,997	28,813	28,406	27,777
Intangible Assets	1,801	2,273	4,113	4,289	4,026	3,729	3,394
Other Assets	20,195	27,083	40,811	37,736	45,106	37,212	42,794
Total assets	1,762,058	1,983,491	2,499,554	2,655,612	2,812,562	3,105,316	3,551,040
LIABILITIES							
Securities Sold Under Repurchase Agreements	91,412	151,425	97,726	111,187	105,474	117,493	131,461
Due to Other Customers	1,286,616	1,472,640	1,977,744	2,147,907	2,255,302	2,480,832	2,852,957
Subordinated Term Debts	38,247	38,303	61,401	36,483	39,553	44,060	49,298
Total liabilities	1,601,547	1,813,939	2,286,581	2,430,637	2,575,849	2,839,818	3,254,321
EQUITY							
Stated Capital	52,188	54,567	58,150	62,948	71,490	81,042	91,723
Statutory Reserves	9,285	10,590	12,080	13,587	15,017	16,765	18,703
Retained Earnings	7,686	9,891	6,790	9,943	15,949	21,544	26,970
Other Reserves	89,596	92,427	131,846	133,993	128,609	139,101	150,727
Total Equity to Equity Owners of the Bank	158,755	167,475	208,865	220,471	231,064	258,452	288,122
Non-Controlling Interest	1,756	2,078	4,107	4,504	5,648	7,047	8,597
Total Equity	160,511	169,553	212,973	224,974	236,712	265,498	296,719
	1,762,058	1,983,491	2,499,554	2,655,612	2,812,562	3,105,316	3,551,040
Adjusted NAVPS	120.8	127.4	158.9	167.8	165.1	173.4	181.5

Hatton National Bank

HATTON NATIONAL BANK PLC [HNB.N0000]

Sailing tall through loan book expansion

MAINTAIN BUY

Fair Value: 2024E - LKR 315.0 [+98%]

2025E - LKR 350.0 [+120%]

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Total Return with DPS: 2024E - 102% [AER 134%]

2024E - 126% [AER 56%]

LKR (Mn)	4Q2023	4Q2022	YoY	2023	2022	YoY
Earnings (LKR 'Mn)						
NII	24,625	34,239	-28%	118,075	111,567	+6%
Total Operating Income	34,116	44,442	-23%	149,500	160,875	-7%
Net Operating Income	25,428	14,114	+80%	106,976	69,139	+55%
Pre Tax Profit	8,181	601	+1260%	37,218	14,420	+158%
Net Profit : Equity Holders	4,440	4,314	+3%	22,771	15,329	+49%
Balance Sheet (LKR 'Mn)						
Loans	988,601	1,014,519	-3%	988,601	1,014,519	-3%
Shareholder's Equity	212,240	183,292	+16%	212,240	183,292	+16%
Adjusted NAVPS	371.2	320.5	+16%	371.2	320.5	+16%

Earnings surge by 2.9%YoY despite the decline in AWPR

Despite facing an increase in the total effective tax rate to 52.5% in 2023 (2022: 17.8%) which led in a tax gain reversal provision of LKR 3.4Bn (+192.0YoY), HNB's bottom-line increased by 2.9%YoY (-50.0%QoQ) to LKR 4.4Bn in 4Q2023, whilst earnings for 2023 surged by 49.9%YoY to LKR 22.8Bn. The QoQ decline in earnings was driven by a reduction in net operating income by 21.3%QoQ, primarily led by a decline in the AWPR by nearly 8% during 2H2023 and a contraction in interest spread. Consequently, HNB recorded an NII of LKR 24.6Bn (-9.4%QoQ) in 4Q2023, whilst the NII for 2023 grew by 5.8%YoY to LKR 118.1Bn, aligning broadly with our estimate. Moreover, as we expect AWPR to further dip to 10.0%-12.0% by Jun-24, we anticipate an overall contraction of 4.8% in HNB's NIM during 2024E (2023: 7.0%), which may result in an NII of LKR 91.2Bn. Furthermore, in 4Q2023, HNB's net fee and commission income increased to LKR 4.2Bn (+8.4%QoQ) and reached LKR 16.6Bn (+4.2%YoY) in 2023, attributed to

higher credit card volumes, improved remittances, and rise in digital income. However, trade income experienced a slight impact due to reduced volumes and tariff rates in 2023. Moreover, with the anticipated expansion of economic activities and the relaxation of import restrictions, there's a promising outlook for trade and credit card operations, which could potentially bolster HNB's fee-based income by 11.6% in 2024E. Additionally, HNB's total operating expenses rose by 21.2%YoY in 2023, due to heightened inflationary pressures, notably driven by a rise in insurance claims which arose from elevated healthcare and repair costs, amplified credit card volumes, and increased IT expenses, which resulted in HNB's cost-to-income ratio to increase to 40.4% in 2023 (2022: 31.0%).

Impairment plunges by 71.4%YoY amidst improving credit quality levels

HNB witnessed a gradual reduction in impairment charges, as it declined by 71.4%YoY despite witnessing nearly a 100.0%QoQ increase to LKR 8.7Bn in 4Q2023. The YoY reduction was primarily due to the recovery of asset quality amidst improving economic conditions during 2H2023. However, HNB maintained a 52.0% provision on ISBs in anticipation of the expected finalization of the ISB restructuring during 2024. Moreover, HNB's NPL ratio improved to 3.8% in Dec-23 from 4.9% in Sep-23 due to improved repayments, and accounted for an impairment provisioning of 57.5%, reflecting the prevailing uncertainty in both global and local economy. Moving forward, HNB is optimistic about further decrease in impairment levels during this year and we expect a significant reduction in impairments during 2024E, which is expected to boost HNB's bottom-line by 22.6%YoY to LKR 27.9Bn.

Loan book contracts by 2.4%YoY due to higher interest rates and subdued demand

In 1H2023, HNB experienced a contraction in its loan book due to higher interest rates but subsequently saw a slight pickup in credit demand in 2H2023 following a significant decrease

HATTON NATIONAL BANK PLC [HNB.N0000]

in interest rates, which led to a growth in its gross loan book by 1.8%QoQ. Despite this rebound, HNB observed an overall 2.4%YoY contraction in its gross loan book, totaling LKR 1.2Tn for 2023. The appreciation of the LKR also impacted this, particularly since HNB holds roughly 20% of its loans in foreign currency denominated loans. Looking ahead to 2024E, we anticipate a loan growth of 10.0% for HNB, below its 10-year average loan growth of 11.6% but surpassing the estimated average expansion of 7.5% for private credit this year. As per HNB's outlook, the loan growth is expected to be driven by increased lending to the manufacturing, healthcare, education, and agricultural sectors in Sri Lanka. Despite this, HNB's total deposits for the year continued to grow, expanding by 11.5%YoY to LKR 1.6Tn, whilst its CASA ratio stood at 29.4% in 2023 (2022: 30.4%). Thus, we expect HNB's CASA to improve to around 40.0% in 2024E, fueled by the reduction of its fixed deposit rates and the rollout of its payment and cash management solution.

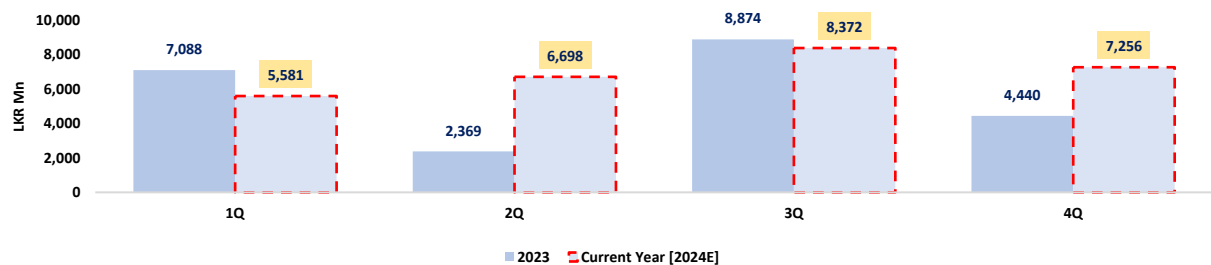
HNB remains well capitalized

HNB's Tier 1 and Total Capital Adequacy Ratio saw a notable increase, reaching 14.70% and 17.95%, respectively, which is well above the minimum levels of 9.50% and 13.50% as of Dec-23.

FV for FY24E is maintained at LKR 315.0 for HNB.N– MAINTAIN BUY

Based on HNB's strong loan book growth, positive sector outlook and the possibility of a potential re-rating, we anticipate HNB to trade at 0.9x its PBV during 2024E, amidst the current discounted trading multiples, maintaining the FV at LKR 315.0 for HNB.N and LKR 240.0 for HNB.X. **MAINTAIN BUY**

Quarterly Earnings



Estimate Revision

In LKR Mn	2024E-O	2024E-R	% Change	2025E-O	2025E-R	% Change
Earnings Estimate						
Net Interest Income	91,029	91,162	+0%	100,309	100,361	+0%
Total Operating Income	133,920	135,514	+1%	145,293	147,203	+1%
Net Operating Income	119,062	123,441	+4%	126,599	131,980	+4%
Pre Tax Profit	46,948	46,980	+0%	51,078	51,164	+0%
Net Profit : Equity Holders	27,887	27,906	+0%	30,340	30,392	+0%
Adjusted EPS	49.8	48.8	-2%	54.2	53.2	-2%
Net Profit Growth YoY	6%	23%		9%	9%	
Balance Sheet Estimate						
Loans & Advances	1,023,921	1,084,646	+6%	1,086,861	1,212,139	+12%
Shareholders' Equity	207,950	223,280	+7%	217,382	233,277	+7%
Adjusted NAVPS	371.5	390.5	+5%	388.4	408.0	+5%

Valuation Table

P/E 31st December	2020	2021	2022	2023	2024E	2025E	2026E
Estimates (LKR 'Mn)							
Net Interest Income	50,837	56,462	111,567	118,075	91,162	100,361	111,538
Total Operating Income	72,074	84,404	160,875	149,500	135,514	147,203	160,841
Net Profit: Equity Holders	13,095	19,025	15,329	22,771	27,906	30,392	34,497
Adjusted EPS (LKR)	22.9	33.3	26.8	39.8	48.8	53.1	60.3
YoY Growth (%)	-11%	45%	-19%	49%	23%	9%	14%
Valuations							
PER (x)	6.9x	4.8x	5.9x	4.0x	3.3x	3.0x	2.6x
PBV (x)	0.6x	0.5x	0.5x	0.4x	0.4x	0.4x	0.4x
Dividend Yield (%)	5.0%	5.7%	3.0%	2.5%	4.3%	6.1%	6.7%
Adjusted NAVPS (LKR)	269.8	309.0	320.5	371.2	390.5	408.0	425.4
DPS (LKR)	8.0	9.0	4.8	4.0	6.8	9.8	10.6
Dividend Payout (%)	34.9%	27.1%	17.8%	10.1%	13.9%	18.4%	17.6%

HATTON NATIONAL BANK PLC [HNB.N0000]

Valuation Summary

Return	2024E	2025E
Target Price	315.0	350.0
Current Price	159.0	159.0
Capital Gain (LKR)	156.0	191.0
Dividends upto 31st Dec (LKR)	6.8	9.8
Capital Gain %	98%	120%
Dividend Yield %	4%	6%
Total Return %	102%	126%
Annualized Return %	134%	56%

Expected HNB.N Price	2024E	2025E
Justified PBV Based Target Price	331.9	367.2
Residual Income Valuation	304.3	337.5
PER Valuation Based Target Price	317.2	345.5
Average Target Price	317.8	350.0
Target Price After Rounding Off	315.0	350.0

Residual Income Valuation

Residual Income Based Valuation	2024E	2025E
PV of Residual Income	-38,207	-30,304
No. of Shares ('Mn)	572	572
RI per Share	-66.8	-53.0
Opening Book Value per Share	371.2	390.5
Value per Share	304.3	337.5

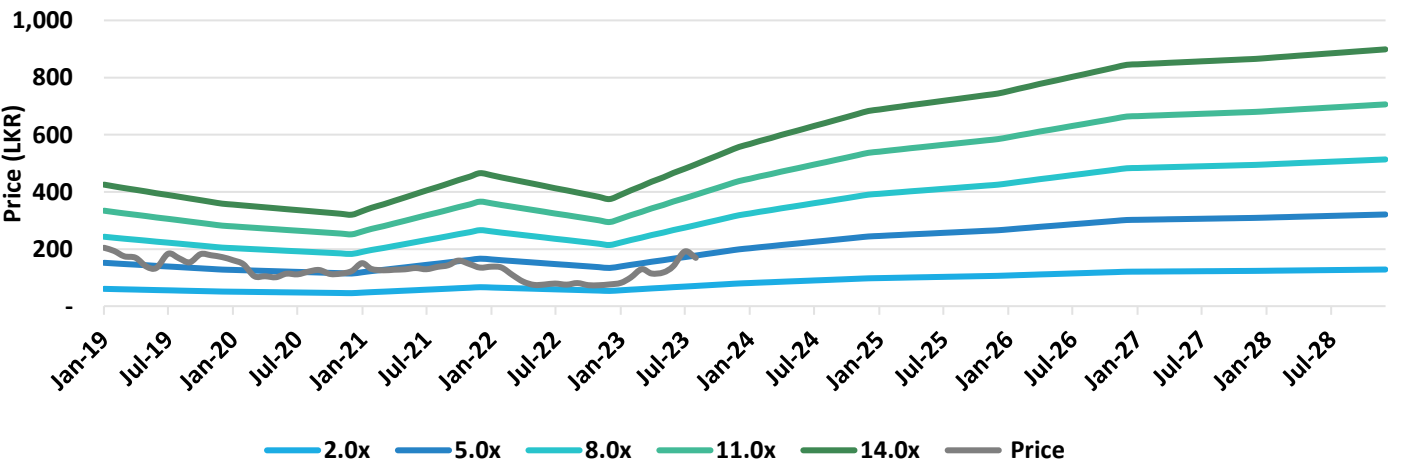
COE	2024E	2025E
Rf	11.0%	10.0%
Rm	19.0%	18.0%
Growth %	3.0%	3.0%
β	0.70	0.70
$K_e = R_f + \beta(R_m - R_f)$	16.6%	15.6%

Justified PBV Valuation

Justified PBV Based Valuation	2024E	2025E
ROAE	12.8%	13.3%
Growth	3.0%	3.0%
COE	16.6%	15.6%
PBV	0.9	0.9
NAVPS	390.5	408.0
Value per Share	331.9	367.2

PER Valuation

PER Based Valuation	2024E	2025E
Earnings (LKR 'Mn)	27,906	30,392
No. of Shares ('Mn)	572	572
EPS	48.8	53.1
Expected PER	6.5x	6.5x
Value per Share	317.2	345.5



Source: CSE/First Capital Research

HATTON NATIONAL BANK PLC [HNB.N0000]

Appendix I: Statement of Income and Expenses

Income Statement P/E 31 December	2020	2021	2022	2023	2024E	2025E	2026E
Interest income	112,825	107,408	220,581	304,578	226,880	246,229	266,726
Interest expenses	61,988	50,945	109,015	186,504	135,719	145,868	155,188
Net interest income	50,837	56,462	111,567	118,075	91,162	100,361	111,538
Net fee and commission income	8,026	10,316	15,902	16,573	18,436	19,910	21,304
Net loss from trading	-817	-384	4,826	-11,851	-2,647	-2,817	-2,987
Other operating income	13,819	17,813	28,558	26,393	28,252	29,435	30,670
Total Operating income	72,074	84,404	160,875	149,500	135,514	147,203	160,841
Less: Impairment charge/(reversal) for loans	-16,047	-19,534	-91,736	-42,524	-12,074	-15,223	-18,606
Net operating income	56,027	64,870	69,139	106,976	123,441	131,980	142,235
Personnel expenses	13,903	13,676	18,491	20,934	22,238	23,792	24,243
Other expenses	13,527	14,718	19,598	24,222	24,707	25,201	25,705
Total operating expenses	34,806	37,349	49,804	60,375	63,685	66,571	68,404
Operating profit before value added tax (VAT)	21,222	27,521	19,336	46,601	59,756	65,409	73,831
Value Added Tax (VAT) on Financial Services	4,048	4,760	5,248	10,523	13,939	15,432	16,967
Operating profit after value added tax (VAT)	17,173	22,761	14,088	36,077	45,817	49,977	56,864
Profit before income tax	17,580	23,054	14,420	37,218	46,980	51,164	58,075
Income Tax Expense	3,918	2,969	-1,328	13,612	18,792	20,466	23,230
Profit for the Year	13,662	20,084	15,748	23,606	28,188	30,699	34,845
Profit attributable to Equity holders of the Bank	13,095	19,025	15,329	22,771	27,906	30,392	34,497
Adjusted EPS	22.9	33.3	26.8	39.8	48.8	53.1	60.3

Appendix II: Statement of Financial Position

Balance Sheet (LKR Mn) As at 31st December	2020	2021	2022E	2023	2024E	2025E	2026E
Assets							
Cash and Cash Equivalents	34,899	41,712	80,630	73,759	79,452	83,019	84,523
Balances with Central Bank of Sri Lanka	7,212	25,820	32,344	12,234	12,834	14,127	16,147
Placements with Banks	12,126	6,371	58,172	61,836	62,564	71,010	81,662
Reverse Repurchase Agreements	2,827	6,246	1,381	1,830	1,957	2,187	2,490
Financial Assets Measured at FVTPL	1,095	863	236	801	865	982	1,129
Financial Assets Measured at Amortised Cost - Loans & Advances	800,816	911,253	1,014,519	988,601	1,084,646	1,212,139	1,380,017
Financial investments - FVOCI	256,395	210,804	6,062	195,975	199,857	226,838	260,863
Financial Assets Measured at Amortised Cost - Debt & Other Instruments	193,349	171,931	479,787	584,131	630,862	725,880	839,299
Property, Plant and Equipment	41,827	49,724	49,616	50,165	51,503	52,828	54,140
Other Assets	11,045	15,047	30,573	33,415	34,758	39,450	45,368
Total assets	1,371,483	1,453,651	1,798,275	2,047,040	2,205,574	2,476,744	2,815,985
Liabilities							
Due to Banks	89,747	17,076	6,105	9,020	9,155	10,090	11,267
Due to Other Customers	994,949	1,107,066	1,443,179	1,609,154	1,737,886	1,972,501	2,268,376
Dividends Payable	981	1,014	1,039	991	1,006	1,451	1,580
Other Borrowings	30,526	25,556	33,386	25,032	30,483	34,067	38,785
Other Liabilities	15,452	14,597	18,042	20,696	23,076	25,730	28,689
Total Liabilities	1,211,823	1,270,383	1,608,188	1,827,484	1,974,696	2,235,562	2,564,457
Equity							
Stated Capital	35,572	37,364	38,679	40,955	43,394	46,910	50,739
Retained Earnings	29,361	43,644	50,247	68,252	74,324	78,051	81,094
Total Equity Attributable to Equity Holders of the Bank	154,249	176,668	183,292	212,240	223,280	233,277	243,274
Non-controlling Interests	5,410	6,599	6,795	7,317	7,599	7,906	8,254
Total Equity	159,659	183,267	190,087	219,557	230,878	241,182	251,528
Total Liabilities and Equity	1,371,483	1,453,651	1,798,275	2,047,040	2,205,574	2,476,744	2,815,985
Adjusted NAVPS	269.8	309.0	320.5	371.2	390.5	408.0	425.4

Sampath Bank

Easing uncertainties to unlock growth potential

MAINTAIN BUY

Fair Value: 2024E - LKR 120.0 [+64%]

2025E - LKR 135.0 [+85%]

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Total Return with DPS: 2024E - 74% [AER 95%]

2024E - 95% [AER 44%]

LKR (Mn)	4Q2022	4Q2023	YoY	2022	2023	YoY
Earnings (LKR 'Mn)						
NII	20,741	20,205	-3%	76,042	75,443	-1%
Total Operating Income	29,737	24,830	-17%	114,768	95,463	-17%
Net Operating Income	16,019	19,119	+19%	51,860	75,253	+45%
Profit Before Tax	6,188	8,358	+35%	16,395	31,202	+90%
Net Profit	6,375	5,194	-19%	14,061	17,924	+27%
Balance Sheet (LKR 'Mn)						
Loans	839,977	787,356	-6%	839,977	787,356	-6%
Shareholders' Equity	135,551	157,830	+16%	135,551	157,830	+16%
NAVPS	115.6	134.6	+16%	115.6	134.6	+16%

YoY earnings dip with NIMs crunch; QoQ loan book surge mirrors economic recovery

SAMP reported a YoY decline in earnings of 18.5% to LKR 5.2Bn, with a marginal QoQ increase of 2.0%. The decline in earnings was primarily attributed to decreases in income sources, notably NII by 2.6%YoY and total operating income by 16.5%YoY. The decline in NII was largely influenced by a reduction in interest income by 2.1%YoY, exceeding interest expenses which declined by 1.7%YoY, primarily due to a significant drop in the AWPLR during the quarter by 254bps. Consequently, the NIMs as of 31st Dec 2023, contracted to 5.16% (5.66% in Dec 2022), with an expected further decline to 4.03% in 2024E, reflecting the downward trend in interest rates. Furthermore, loans and advances exhibited conservative growth on a QoQ basis, with a marginal increase of 1.1%, while on an annual basis, declined by 6.3% to LKR 787.4Bn. Looking ahead, we expect SAMP's loan book to grow by 6.5% in

2024E and subsequently by 10.0%, below its 10-year average of 14.0%. Approximately 57.0% of SAMP's loans are tied to the Trade, Manufacturing, and Tourism sectors as of 2023, indicating a likely gradual growth in line with the recovery of these sectors. On the other hand, the total deposit base has notably increased by 14.5%YoY, reaching LKR 1.3Tn, driven by growth in local currency deposits. Amidst the uptick in Demand and Savings deposits on a YoY basis, the bank's CASA ratio for 2023 has improved to 33.4% as of Dec 2023 from 32.7% in 2022 (33.8% as of Sep 2023). We expect the CASA ratio to normalize and further improve to 40.0% from 2024E-2026E, positioning the bank with a cost-effective source of funds compared to peers and thereby widening the interest spread.

Impairment contracts by 58.4%YoY, driving projected earnings growth

Impairment charges significantly dropped by 58.4%YoY to LKR 5.7Bn in 4Q2023, owing to the prudent provisioning in 2022 and easing uncertainties, largely driven by the ongoing economic recovery observed from the 2H2023. The sizable drop was further driven by the impairment reversal on SLDBs during the quarter, although it was partly mitigated by an increase in impairment provision on ISBs to anticipate a possible haircut in 2024E. Despite a 11.9%QoQ increase in stage 3 loans prompting precautionary provisioning, the NPL ratio slightly decreased to 5.87% in Dec 2023 from 5.93% in Sep 2023. Looking ahead, we expect a further reduction in impairment provisions, particularly with the resurgence of the tourism sector, to which it holds the highest exposure. The anticipated sectoral recovery is expected to facilitate timely repayments, potentially leading to a continued decline in impairment provisions in 2024E. The positive trend is expected to boost earnings, projecting a 14.6%YoY increase to LKR 20.5Bn in 2024E.

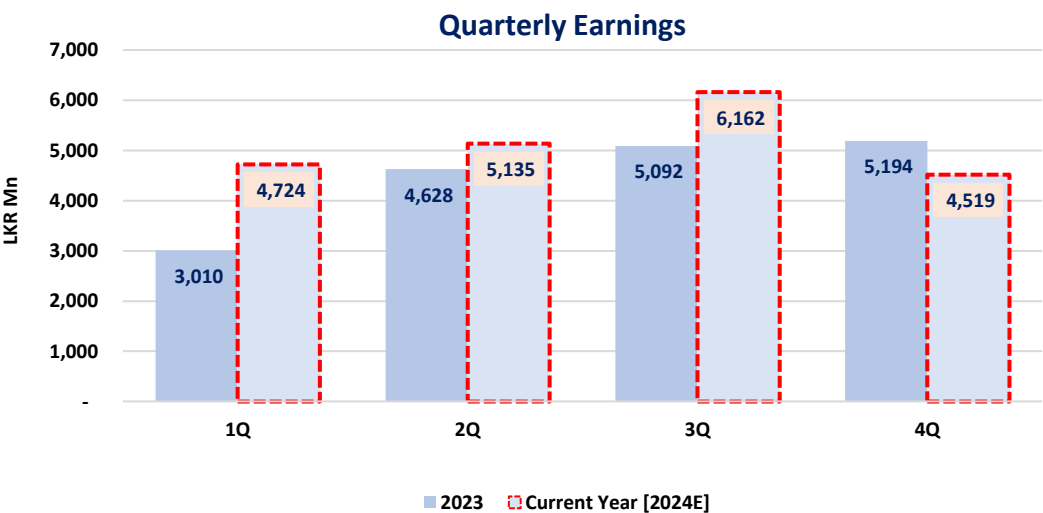
SAMPATH BANK [SAMP.N0000]

Well above capital ratios to boost lending portfolio

SAMP’s Tier I and Total Capital adequacy ratios stand at 16.67% and 19.77%, respectively as of 31st Dec 2023 which are well above the minimum regulatory requirement of 8.50% and 12.50%. We believe that SAMP’s adequate capital buffer may enable it to sail through the tough times and help boost credit growth in the near term as the economic activities may recover.

FV for 2024E derives at LKR 120.00 – MAINTAIN BUY

In light of the substantial 27.5%YoY recovery in SAMP earnings in 2023 and our optimistic outlook on the economic and banking sector recovery, we uphold our earnings forecast for 2024E at LKR 20.5Bn, maintaining the target price of SAMP at LKR 120.0 for 2024E. Considering the current trading multiples of the SAMP shares, we believe the share is significantly undervalued. Thus, we continue to maintain our recommendation on SAMP at **MAINTAIN BUY**.



Estimate Revision

In LKR Mn	2024E - O	2024E - R	% Change	2025E - O	2025E - R	% Change
Earnings Estimate						
Net Interest Income	66,503	65,542	-1%	74,774	79,353	+6%
Total Operating Income	91,453	90,200	-1%	101,015	106,400	+5%
Net Operating Income	83,327	80,822	-3%	93,515	91,983	-2%
Profit Before Tax	34,207	34,232	+0%	38,299	38,340	+0%
Net Profit	20,524	20,539	+0%	22,980	23,004	+0%
Adjusted EPS	17.5	17.5		19.6	19.6	
Growth YoY	12%	15%		12%	12%	
Balance Sheet Estimate						
Shareholders' Equity	150,802	162,238	+8%	160,541	172,722	+8%
Adjusted NAVPS	128.6	138.3		136.9	147.3	

Valuation Table

P/E 31 December	2019	2020	2021	2022	2023	2024E	2025E	2026E
Estimates (LKR 'Mn)								
Net Interest Income	44,764	36,827	45,518	76,042	75,443	65,542	79,353	90,106
Total Operating Income	59,141	50,066	64,399	114,768	95,463	90,200	106,400	117,594
Net Profit	11,668	8,443	13,856	14,061	17,924	20,539	23,004	28,514
Adjusted EPS (LKR)	9.9	7.2	11.8	12.0	15.3	17.5	19.6	24.3
YoY Growth (%)	-7%	-28%	64%	1%	27%	15%	12%	24%
Valuations								
PER (x)	7.3x	10.1x	6.2x	6.1x	4.8x	4.2x	3.7x	3.0x
PBV (x)	0.8x	0.7x	0.7x	0.6x	0.5x	0.5x	0.5x	0.5x
DY (%)	5.2%	3.7%	5.7%	6.1%	8.0%	9.2%	10.3%	12.7%
NAVPS	95.0	97.6	108.5	115.6	134.6	138.3	147.3	155.4
DPS (LKR)	3.8	2.7	4.1	4.5	5.9	6.7	7.5	9.3
Dividend Payout	38.4%	37.3%	35.1%	37.4%	38.3%	38.3%	38.3%	38.3%

SAMPATH BANK [SAMP.N0000]

Valuation Summary

Return	2024E	2025E
Target Price	120.0	135.0
Current Price	73.0	73.0
Capital Gain (LKR)	47.0	62.0
Dividends upto 31st Dec (LKR)	6.7	7.5
Capital Gain %	64%	85%
Dividend Yield %	9%	10%
Total Return %	74%	95%
Annualized Return %	95%	44%

Expected SAMP price	2024E	2025E
Justified PBV based target price	120.4	141.4
PER Valuation based target price	122.6	137.3
RI Valuation based target price	116.5	133.9
Average Target Price	119.8	137.5
Target Price after Rounding off	120.0	135.0

Residual Income Valuation

Residual Income based Valuation	2024E	2025E
PV of Residual Income	-21,160	-5,194
No. of Shares ('Mn)	1,173	1,173
RI per Share	-18.0	-4.4
Opening Book value per Share	134.6	138.3
Value per Share	116.5	133.9

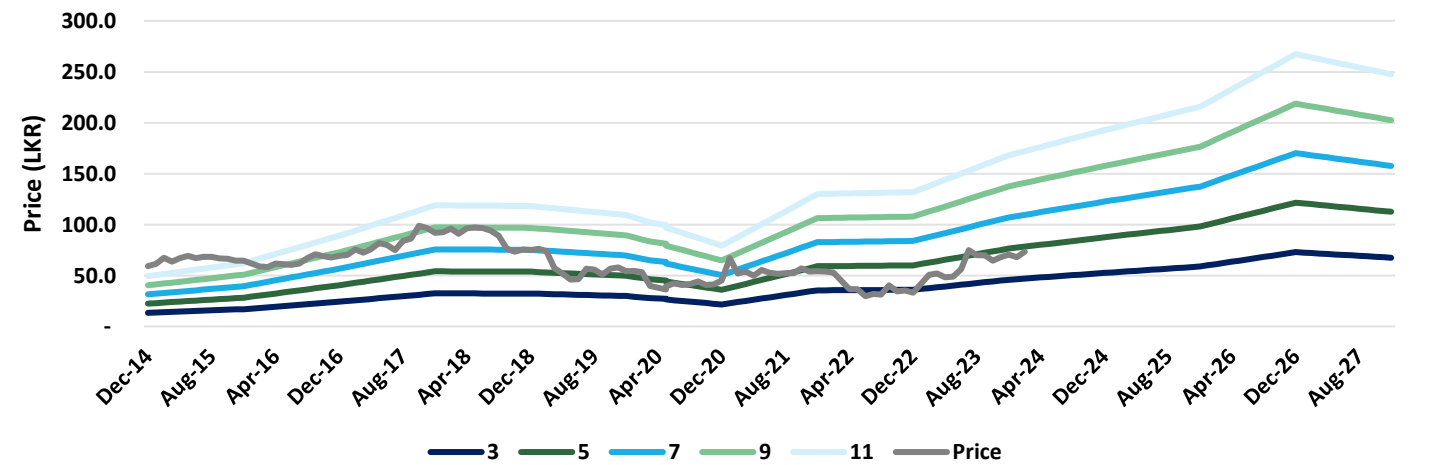
COE	2024E	2025E
Rf	11.0%	10.0%
Rm	19.0%	18.0%
Growth %	3.0%	3.0%
β	0.80	0.75
Ke=Rf+β(Rm-Rf)	17.4%	16.0%

Justified PBV Valuation

Justified PBV based Valuation	2024E	2025E
ROAE	12.8%	13.7%
Growth	3.0%	3.0%
COE	17.4%	16.0%
PBV	0.9	1.0
NAVPS	138.3	147.3
Target Price	120.4	141.4

PER Valuation

PER based Valuation	2024E	2025E
Earnings (LKR 'Mn)	20,539	23,004
No. of Shares ('Mn)	1,173	1,173
EPS	17.5	19.6
Expected PER	7.0x	7.0x
Price at 7.0x Earnings	122.6	137.3



Source: CSE/First Capital Research

Appendix I: Statement of Income and Expenses

Income Statement (LKR Mn)	2020	2021	2022	2023	2024E	2025E	2026E
P/E 31st December							
Gross Income	109,183	113,075	206,002	236,504	214,117	232,893	259,115
Interest Income	94,647	92,428	164,776	212,459	186,353	203,214	227,357
Interest Expenses	57,820	46,910	88,734	137,016	120,811	123,861	137,251
Net Interest Income	36,827	45,518	76,042	75,443	65,542	79,353	90,106
Fee & Other Income	13,239	18,881	38,726	20,020	24,658	27,047	27,489
Total Operating Income	50,066	64,399	114,768	95,463	90,200	106,400	117,594
Impairment (Charges)/ Reversal	-13,201	-18,559	-62,908	-20,210	-9,378	-14,417	-17,423
Net Operating Income	36,866	45,840	51,860	75,253	80,822	91,983	100,172
Less : Operating expenses							
Staff Cost	11,227	10,916	13,879	15,826	17,409	18,966	20,483
Other Operating Expenses	10,354	11,803	16,010	19,140	20,671	23,354	26,857
Total Operating Expenses	21,582	22,719	29,888	34,966	38,080	42,320	47,340
Profit from operations	15,284	23,121	21,971	40,287	42,742	49,664	52,832
VAT on Financial Services & DRL	3,394	4,296	5,577	9,085	8,510	11,324	12,097
Profit Before Tax	11,890	18,825	16,395	31,202	34,232	38,340	40,735
Income Tax Expense	3,447	4,969	2,334	13,277	13,693	15,336	12,220
Profit for the Year	8,443	13,856	14,061	17,924	20,539	23,004	28,514
Minority Interest	0	0	0	0	0	0	0
Profit attributable to Equity Holders	8,443	13,856	14,061	17,924	20,539	23,004	28,514
EPS	7.2	11.8	12.0	15.3	17.5	19.6	24.3

Appendix II: Statement of Financial Position

Balance Sheet (LKR Mn)	2020	2021	2022	2023	2024E	2025E	2026E
As at 31st December							
Assets							
Cash and cash equivalents	29,219	23,028	79,345	79,530	82,980	92,038	108,546
Financial instruments	17,732	10,169	15,167	5,579	4,979	5,476	7,239
Loans to & Deposits with Banks	16,563	33,614	42,506	48,205	61,747	65,541	68,849
Loans and Receivables	752,438	795,804	839,977	787,356	838,720	922,376	1,012,834
Debt and other instruments	275,126	294,667	284,238	373,900	372,242	409,467	450,413
Property, plant & equipment	15,891	16,338	19,067	19,961	20,022	22,793	21,153
Other Assets	42,716	69,013	87,020	272,845	285,670	294,582	304,100
Total Assets	1,149,685	1,242,633	1,367,320	1,587,376	1,666,361	1,812,272	1,973,135
Liabilities							
Due to other customers	902,499	994,318	1,115,156	1,276,551	1,378,675	1,516,543	1,668,197
Due to banks	42,905	31,532	15,255	17,345	13,787	15,165	16,682
Debt issued and other borrowed funds	56,906	56,474	45,779	72,961	50,245	46,582	44,082
Current tax liabilities	4,793	8,376	19,186	16,689	15,854	15,062	15,062
Other liabilities	28,168	24,748	36,392	46,000	45,561	46,199	46,836
Total Liabilities	1,035,271	1,115,447	1,231,768	1,429,545	1,504,123	1,639,551	1,790,858
Shareholders' Funds							
Stated Capital	47,622	47,622	47,622	48,741	48,741	48,741	48,741
Reserves	58,891	65,696	74,364	92,378	90,680	98,006	102,792
Retained earnings	7,901	13,867	13,565	16,712	22,817	25,975	30,744
Shareholders' Funds	114,415	127,186	135,551	157,830	162,238	172,722	182,277
Minority Interest	0	0	0	0	0	0	0
	114,415	127,186	135,551	157,830	162,238	172,722	182,277
Total Liabilities & Shareholders' Funds	1,149,685	1,242,633	1,367,320	1,587,376	1,666,361	1,812,272	1,973,135
NAVPS	97.6	108.5	115.6	134.6	138.3	147.3	155.4

National Development Bank

NATIONAL DEVELOPMENT BANK PLC [NDB.N0000]

Scaling up with a strong capital backbone

MAINTAIN BUY

Fair Value: 2024E - LKR 150.0 [+150%]
Total Return with DPS: 2024E - 160% [AER 217%]

2025E - LKR 190.0 [+217%]
2024E - 228% [AER 91%]

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LKR (Mn)	4Q2022	4Q2023	YoY	2022	2023	YoY
Earnings (LKR 'Mn)						
NII	8,717	7,547	-13%	31,130	32,380	+4%
Total Operating Income	11,786	12,038	+2%	44,448	47,124	+6%
Net Operating income	4,726	4,857	+3%	15,171	25,987	+71%
PBT	1,075	578	-46%	1,469	8,154	+455%
Net Profit	2,367	339	-86%	3,009	5,759	+91%
Balance Sheet (LKR 'Mn)						
Shareholders' Equity	67,505	74,471	+10%	67,505	74,471	+10%
Loans	545,920	452,740	-17%	545,920	452,740	-17%
NAVPS	177.6	186.4	+5%	177.6	186.4	+5%

Earnings plummet by 85.7%YoY due to increased OPEX and tax reversal in 2022

NDB experienced a significant decline in its bottom line, plunging by 85.7%YoY to LKR 338.5Mn. This decline was primarily driven by a 13.4%YoY reduction in NII to LKR 7.5Bn, a 22.5%YoY rise in total operating expenses driven by inflationary pressures, and a tax reversal in 4Q2022. Meanwhile, the bottom-line also witnessed an 88.8%QoQ decline during the quarter, largely driven by a 23.3%QoQ reduction in total operating income which fell to LKR 12.0Bn. This was attributed to a 20.6%QoQ decline in NII, partially due to a nearly 8.0% decline in the AWPR in 2H2023, which prompted a contraction of interest spread during 2023. Furthermore, all non-fund-based income categories, including net gains from trading experienced a substantial 42.5%QoQ decline, due to fluctuations in exchange and interest rates over the year. However, NDB's net fee and commission income grew by 3.4%YoY (+0.9%QoQ) in 4Q2023, driven by an

expansion in its trade-related services and digital income. With the anticipated expansion of economic activities and relaxation of import restrictions, there is a promising outlook for trade and credit card operations, which could potentially bolster NDB's net fee and commission income to LKR 8.8Bn in 2024E. Furthermore, in 2023, NDB experienced a 90.5%YoY surge in its bottom-line, despite facing a tax gain reversal totaling LKR 2.3Bn (+242.9%YoY). This notable earnings growth was driven by a 6.0%YoY rise in the total operating income, buoyed by a 4.0%YoY growth in NII amounting to LKR 32.4Bn. Consequently, NDB recorded a NIM of 5.0% in 2023 (2022: 4.9%), and we anticipate it to contract to 4.0% during 2024E, influenced by the expected decline in the AWPR to 10.0%-12.0% by Jun-24 and a further contraction of interest spread, resulting in an estimated NII of LKR 25.5Bn.

Impairment edges up by 1.7%YoY amidst credit quality headwinds

In 4Q2023, NDB saw a slight increase in impairment charges by 1.7%YoY (+18.5%QoQ) to LKR 7.2Bn, whilst impairment charges for 2023 reduced by 27.8%YoY to LKR 21.1Bn, primarily due to prudent impairment provisioning in 2022 for foreign currency investments. Despite maintaining provisions for investments in foreign currency bonds in anticipation of the ISB restructuring during this year, NDB managed to reduce its NPL ratio to 8.6% in Dec-23, down from 9.2% in Sep-23. However, it increased its Stage 3 impairments to Stage 3 loans provision to 41.1% in Dec-23, up from 36.6% in Sep-23, reflecting growing credit quality concerns. Looking ahead, we expect significant reduction in impairments during this year, which is expected to boost the bottom-line of NDB by 44.8%YoY to LKR 8.3Bn in 2024E.

Loan growth dips by 14.4%YoY due to LKR appreciation and subdued credit demand

In Dec-23, NDB observed a reduction of 14.4%YoY (-3.6%QoQ) in gross loans, totaling LKR 496.1Bn, attributed to the combined impact of LKR appreciation, elevated interest rates and

NATIONAL DEVELOPMENT BANK PLC [NDB.N0000]

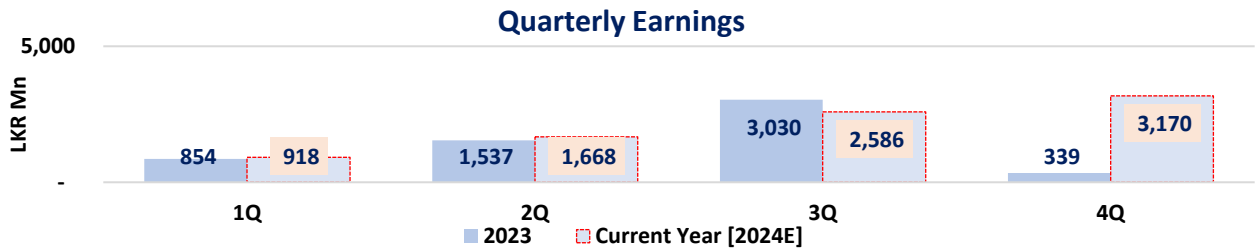
subdued credit demand, influenced by the country's sluggish economic activity and diminished consumer confidence especially during 1H2023. However, there has been a slight rebound in credit to the private sector, particularly after mid-year, spurred partly by significant reductions in interest rates. With gradual improvements in the overall economic landscape, there is an expectation that the industry-wide decline in gross loans will shift into positive territory during 2024. Hence, we project a loan growth of 8.0% for 2024E, below NDB's 10-year average loan growth of 14.0%. Conversely, NDB's customer deposits contracted by 8.4%YoY (-1.9%QoQ) to LKR 615.2Bn, partially due to LKR appreciation on foreign currency denominated deposit book, whilst its CASA ratio stood at 22.3% in FY23 (FY22: 21.0%), a trend we expect may continue to enhance by 25.0% in 2024E.

NDB remains well-capitalized

NDB's Tier 1 and Total Capital Adequacy Ratio saw a notable increase, reaching 12.22% and 16.35%, respectively, exceeding the minimum requirements of 8.50% and 12.50% as of Dec-23. Moreover, NDB strengthened its Tier 2 capital base through the issuance of debentures during the year, fortifying its financial position, and anticipates to leverage these funds to fuel further expansion of its business operations in the future.

Fair value for 2024E is maintained at LKR 150.0 – MAINTAIN BUY

The strategic emphasis on fostering growth within the SME segment and incorporating digitalization into its growth strategy, positions NDB to efficiently deploy its strong capital base in pursuit of its future expansion objectives. With NDB trading at a PBV of 0.4x and being one of the lowest in its listed peers, we believe that the current market price of the NDB share represents a massive discount to our FV estimate of LKR 150.0 for 2024E. **MAINTAIN BUY**



Estimate Revision

In LKR Mn	2024E - O	2024E - R	% Change	2025E - O	2025E - R	% Change
Earnings Estimate						
Net Interest Income	27,023	25,492	-6%	29,940	28,607	-4%
Total Operating Income	47,385	43,839	-7%	50,274	48,956	-3%
Net Operating Income	31,678	31,201	-2%	37,134	33,983	-8%
Profit before Tax	10,813	11,502	+6%	12,448	12,976	+4%
Net Profit	8,477	8,341	-2%	9,637	9,410	-2%
Adjusted EPS	21.2	20.9	-2%	24.1	23.6	-2%
Balance Sheet Estimate						
Loans & Advances	524,134	487,605	-7%	524,680	527,602	+1%
Shareholders' Equity	79,943	82,423	+3%	87,290	91,025	+4%
NAVPS (adjusted)	200.1	206.3		218.5	227.9	

Valuation Table

P/E 31 December	2020	2021	2022	2023	2024E	2025E	2026E
Estimates (LKR 'Mn)							
Net Interest Income	17,925	21,741	31,130	32,380	25,492	28,607	31,568
Total Operating Income	26,404	32,996	44,448	47,124	43,839	48,956	53,489
Net Profit	5,117	6,904	3,009	5,759	8,341	9,410	10,600
Adjusted EPS (LKR)	12.8	17.3	7.5	14.4	20.9	23.6	26.5
Net Profit YoY Growth (%)	7%	35%	-56%	91%	45%	13%	13%
Valuations							
PER (x)	4.7x	3.5x	8.0x	4.2x	2.9x	2.5x	2.3x
PBV (x)	0.5x	0.4x	0.4x	0.3x	0.3x	0.3x	0.2x
DY (%)	2.5%	9.2%	0.0%	6.7%	9.7%	11.0%	12.4%
NAVPS	120.1	157.0	169.0	186.4	206.3	227.9	252.2
Adjusted DPS	1.0	5.5	0.0	4.0	5.8	6.6	7.4
Dividend Payout	8%	32%	0%	28%	28%	28%	28%

NATIONAL DEVELOPMENT BANK PLC [NDB.N0000]

Valuation Summary

Return	2024E	2025E
Target Price	150.0	190.0
Current Price	60.0	60.0
Capital Gain (LKR)	90.0	130.0
Dividends upto 31st Dec (LKR)	5.8	6.6
Capital Gain %	150%	217%
Dividend Yield %	10%	11%
Total Return %	160%	228%
Annualized Return %	217%	91%

Expected NDB price	2024E	2025E
Justified PBV based target price	165.1	205.1
Residual Income based Valuation	146.9	194.7
PER Valuation based target price	146.2	188.5
Average Target Price	152.7	196.1
Target Price after Rounding off	150.0	190.0

Residual Income Valuation

Residual Income based Valuation	2024E	2025E
PV of Residual Income	-15,790	-4,638
No. of Shares ('Mn)	399	399
RI per Share	-39.5	-11.6
Opening Book value per Share	186.4	206.3
Value per Share	146.9	194.7

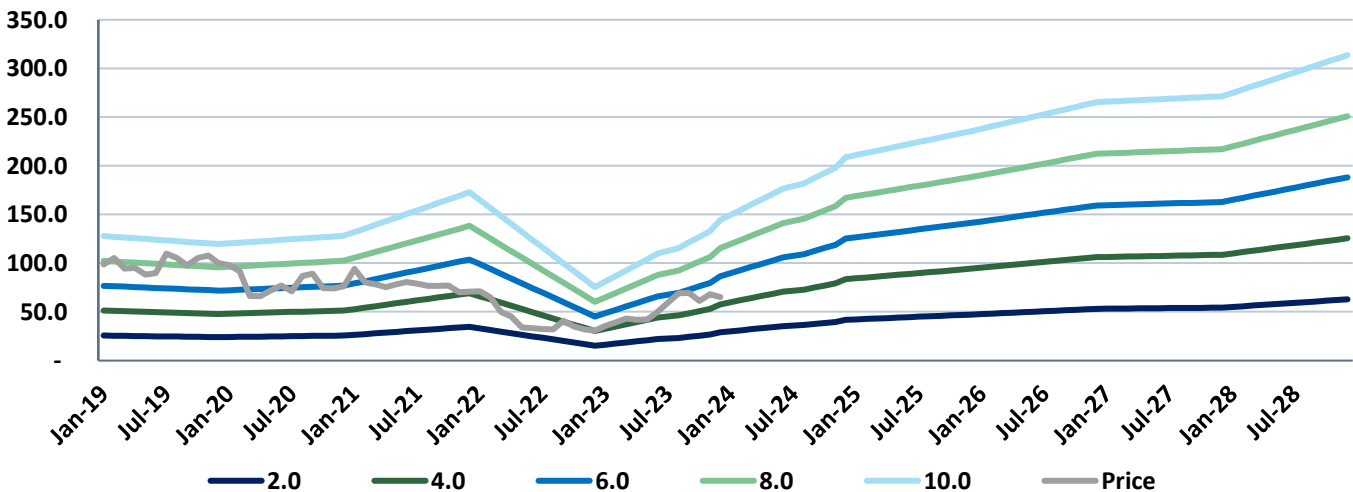
COE	2024E	2025E
Rf	11.0%	10.0%
Rm	19.0%	18.0%
Growth %	3.0%	3.0%
β	0.40	0.40
$Ke=Rf+\beta(Rm-Rf)$	14.2%	13.2%

Justified PBV Valuation

Justified PBV based Valuation	2024E	2025E
ROAE	10.6%	10.9%
Growth	3.0%	3.0%
COE	14.2%	13.2%
PBV	0.80	0.90
NAVPS	206.3	227.9
Target Price	165.1	205.1

PER Valuation

PER based Valuation	2024E	2025E
Earnings (LKR 'Mn)	8,341	9,410
No. of Shares ('Mn)	399	399
EPS	20.9	23.6
Expected PER	7.0x	8.0x
Value per Share	146.2	188.5



NATIONAL DEVELOPMENT BANK PLC [NDB.N0000]

Appendix I: Statement of Income and Expenses

Statement of Profit or Loss (LKR Mn)	2018	2019	2020	2021	2022	2023	2024E	2025E	2026E
As at 31st December									
Gross Income	51,621	60,237	61,632	64,050	111,552	134,466	117,316	124,160	129,983
Interest Income	44,622	53,402	53,153	52,795	98,217	119,722	98,970	103,811	108,062
Interest Expenses	-29,518	-35,431	-35,228	-31,053	-67,087	-87,342	-73,478	-75,203	-76,494
Net Interest Income	15,104	17,971	17,925	21,741	31,130	32,380	25,492	28,607	31,568
Fee & Other Income	7,450	6,836	8,479	11,255	13,317	14,743	18,346	20,349	21,921
Total Operating Income	22,553	24,806	26,404	32,996	44,448	47,124	43,839	48,956	53,489
Impairment (Charges)/ Reversal	-3,765	-4,405	-6,794	-10,253	-29,277	-21,137	-12,638	-14,974	-16,642
Net Operating Income	18,788	20,401	19,610	22,743	15,171	25,987	31,201	33,983	36,847
Less : Operating expenses									
Personal Expenses	-4,898	-5,460	-5,748	-6,323	-6,363	-7,379	-7,769	-8,221	-8,611
Depreciation and Amortization	-509	-883	-932	-914	-926	-1,054	-1,139	-1,202	-1,265
Other Operating Expenses	-3,959	-4,065	-3,721	-4,278	-5,296	-6,649	-6,981	-7,395	-7,765
Operating profit before value added tax	9,422	9,992	9,209	11,229	2,586	10,904	15,310	17,164	19,206
VAT on financial services	-1,938	-2,068	-1,819	-2,015	-1,203	-2,750	-3,808	-4,189	-4,590
Debt Repayment Levy	-235	-1,003	0	0	0	0	0	0	0
Operating profit after value added tax	7,248	6,921	7,390	9,214	1,383	8,154	11,502	12,976	14,616
Share of associate companies' profit	0	0	0	0	0	0	0	0	0
Profit Before Tax	7,248	6,921	7,390	9,214	1,383	8,154	11,502	12,976	14,616
Income Tax Expense	-1,972	-2,036	-2,173	-2,151	1,607	-2,296	-2,991	-3,374	-3,800
Profit for the Year	5,276	4,885	5,217	7,063	2,989	5,858	8,512	9,602	10,816
Minority Interest	140	109	101	158	-19	99	170	192	216
Profit attributable to Equity Holders	5,136	4,776	5,117	6,904	3,009	5,759	8,341	9,410	10,600
Adjusted EPS	12.9	12.0	12.8	17.3	7.5	14.4	20.9	23.6	26.5

Appendix II: Statement of Financial Position

Statement of Financial Position (LKR Mn)	2018	2019	2020	2021	2022	2023	2024E	2025E	2026E
As at 31st December									
ASSETS									
Cash and cash equivalents	7,071	6,081	10,779	13,765	35,728	28,581	30,197	31,072	31,817
Balances with Central Bank	15,546	13,887	6,812	16,403	18,188	7,040	8,555	9,156	9,841
Placements with banks	15,237	6,291	12,402	8,299	4,109	33,744	35,768	38,630	41,334
Derivative financial instruments	3,938	1,596	1,429	1,338	7,909	3,084	3,269	3,530	3,777
Financial assets recognised through profit or loss	4,052	3,489	7,713	4,784	20,789	26,040	31,303	33,807	36,174
Loans and advances to customers	344,276	396,672	425,682	504,374	545,920	452,740	487,605	527,602	567,857
Financial assets at amortised costs	24,175	27,486	44,712	54,263	135,048	125,672	130,429	140,864	150,724
Financial assets measured at Fair value through OCI	54,487	68,430	108,763	89,697	45,454	84,645	84,779	91,561	97,971
Other assets	2,933	3,228	3,595	5,671	7,038	5,564	6,521	7,043	7,536
Intangible assets	397	701	1,062	1,217	1,813	1,898	1,925	1,959	1,978
Deferred tax	1,101	647	1,946	3,443	9,049	9,718	9,912	10,110	10,313
Property, plant & equipment	3,144	3,565	3,541	3,735	3,908	3,817	3,911	4,018	4,140
Investment properties	2,111	2,273	2,362	2,528	2,879	3,112	3,175	3,238	3,303
Total assets	478,497	535,600	632,132	710,832	839,198	786,959	838,682	903,954	968,159
LIABILITIES									
Due to Banks	15,047	18,380	24,173	24,821	20,299	7,679	7,975	8,610	9,290
Derivative financial instruments	2,907	729	1,017	1,049	96	93	101	109	117
Due to customers	347,170	404,668	489,659	551,257	671,713	615,232	652,146	704,318	753,620
Debt securities issued and other borrowed funds	43,423	30,740	35,784	26,570	32,503	40,269	45,146	47,902	50,365
Tax liabilities	3,175	2,342	2,563	2,586	6,635	7,431	7,775	7,422	7,981
Other liabilities	8,838	9,807	8,435	11,123	9,183	8,608	9,271	10,032	10,797
Subordinated term debts	16,812	23,109	19,881	27,961	27,980	29,389	29,889	30,389	30,889
Deferred Tax	513	567	596	569	873	921	921	921	921
Retirement benefit obligations	502	719	820	830	1,019	1,439	1,439	1,439	1,439
Total liabilities	438,386	491,061	582,928	646,765	770,302	711,063	754,664	811,142	865,420
EQUITY ATTRIBUTABLE TO PARENT									
Stated capital	6,469	7,685	8,794	18,264	19,871	20,738	20,738	20,738	20,738
Statutory reserve fund	1,636	1,896	2,196	2,571	2,746	3,046	3,046	3,046	3,046
Investment Fund	239	571	842	-839	3,772	5,608	6,168	6,785	7,464
Retained Earnings	30,668	33,230	36,143	42,731	41,116	45,079	52,470	60,455	69,487
Equity attributable to parent	39,012	43,383	47,976	62,727	67,505	74,471	82,423	91,025	100,735
Non-controlling interests	1,099	1,155	1,227	1,339	1,391	1,425	1,595	1,787	2,004
Total Equity	40,111	44,539	49,203	64,067	68,896	75,896	84,018	92,812	102,739
Total liabilities and total equity	478,497	535,600	632,132	710,832	839,198	786,959	838,682	903,954	968,159
Adjusted NAVPS	97.7	108.6	120.1	157.0	169.0	186.4	206.3	227.9	252.2

Seylan Bank

Promising Future Prospects Despite Headwinds

MAINTAIN BUY

Fair Value: 2024E - LKR 95.0 [+121%]
Total Return with DPS: 2024E - 128% [AER 185%]

2025E - LKR 103.0 [+140%]
2025E - 147% [AER 65%]

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LKR (Mn)	4Q2022	4Q2023	YoY	2022	2023	YoY
Earnings (LKR 'Mn)						
NII	12,627	9,603	-24%	40,887	40,452	-1%
Total Operating Income	15,938	12,227	-23%	51,379	49,845	-3%
Net Operating Income	8,342	8,669	+4%	24,946	32,840	+32%
Pre Tax Profit	3,079	2,985	-3%	6,797	10,269	+51%
Net Profit	2,079	1,847	-11%	4,574	6,321	+38%
Balance Sheet (LKR 'Mn)						
Loans	444,220	437,532	-2%	444,220	437,532	-2%
Shareholders' Equity	56,202	62,382	+11%	56,202	62,382	+11%
NAVPS	97.3	101.4		97.3	101.4	

NII contracts whilst OPEX rise amidst fragile environment

The net interest income during 4Q2023 stood at LKR 9.6Bn, marking a decline of 23.9%YoY and 5.7%QoQ. This decline was attributed to the declining interest rate spread whilst the AWPLR declined by over 1,500bps during the year. Notably, interest income decreased by 15.6YoY(-9.0%QoQ), whilst interest expenses declined by 9.1YoY (-11.0%QoQ). Consequently, the interest margin of the bank decreased by 57bpsYoY to 5.8% in 4Q2023 primarily due to the pressure stemming from the overall decline in interest rates. However, operating expenditure registered a decline of 2.5%QoQ to LKR 4.6Bn despite the increase of 9.2%YoY influenced by higher cost of personal expenses and other expenses due to the higher cost of consumables and services due to adverse economic conditions.

Net earnings surge by 38.2%YoY during 2023, despite a contraction by 6.5%QoQ

SEYB experienced an uptick of 38.2% in earnings at LKR 6.3Bn for 2023 despite a contraction of 6.5% during 4Q2023 at LKR 1.8Bn, breaking a streak of consecutive gains in recent quarters due to a 9.0%QoQ decline in the top line, attributed by the prevailing low interest rate environment. However, Net fee and commission-based income expanded by 7.5%YoY increasing by 11.5%QoQ, reaching LKR 2.1Bn, driven by increased credit and debit card usage as well as loan transactions spurred by declined interest rates. Nonetheless, Net operating income registered at LKR 8.7Bn decreased by 3.6%QoQ, primarily due to a 35.3% decline in net trading income resulting from market fluctuations. Notably, impairment provision decreased significantly by 53.2%YoY, totaling only LKR 17.0Bn in 2023 compared to LKR 26.4Bn in 2022. This reduction was mainly driven by lower losses in loans and advances as well as foreign currency-denominated bonds. Moreover, impairment provision for the quarter decreased by 8.5%QoQ, aided by the low interest rate environment facilitating loan repayments. Furthermore, NPLs’ decreased by 113bpsYoY (-171bpsQoQ) to 3.9%, reflecting improvements in the bank's asset quality and reinforcing economic recovery efforts.

CASA base to improve aligning with the economic recovery

With the anticipated economic recovery towards 2024E backed by several factors such as, the gradual revival of the tourism and manufacturing sectors, increased activity in SMEs, and improved import and export volumes we anticipate the CASA base to surge between 33.0%-34.0% in 2024E, recovering from the poor CASA base of 22.0% in 2022, which improved to 30.0% in 2023.

SEYLAN BANK PLC [SEYB.N0000]

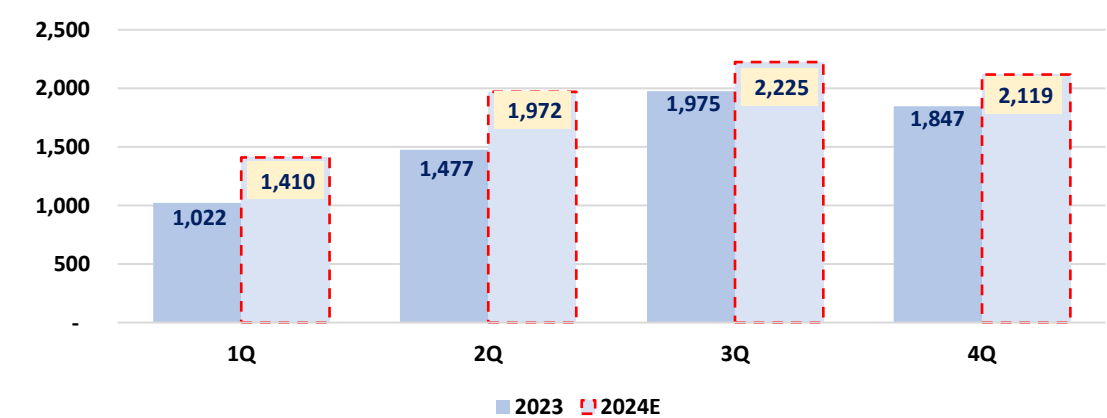
SEYB remains well capitalized along with a positive loan book growth ahead

SEYB reported a Tier 1 and Tier 2 capital adequacy ratio of 12.86% and 16.18% respectively which is above the required rate of 8.50% and 12.50% displaying a strong and healthy capital structure influenced by the increase in profits and reserves for the year ended 31st Dec 2023. Furthermore, with the anticipated economic recovery underway, we anticipate significant growth in the bank's loan portfolio.

FV maintained for SEYB.N at LKR 95.0 and SEYB.X at 55.0 for 2024E – MAINTAIN BUY

We are optimistic about a positive outlook, as the projected economic recovery for this year is gradually materializing coupled with the positive GDP outlook of +2.0 to +3.0% in 2024E by FCR which is likely to contribute to the continued recovery of the banking sector. We anticipate SEYB to trade at 0.8x PBV, resulting in a fair value of LKR 95.0 for SEYB.N and LKR 55.0 for SEYB.X, for 2024E. Thus, we continue to maintain our recommendation on SEYB at **MAINTAIN BUY**.

Quarterly Earnings



Estimate Revision

In LKR Mn	2024E - O	2024E - R	% Change	2025E - O	2025E - R	% Change
Earnings Estimate						
Net Interest Income	33,303	37,041	+11%	35,956	37,310	+4%
Total Operating Income	43,129	47,389	+10%	46,801	48,360	+3%
Net Operating Income	32,934	35,535	+8%	34,679	37,393	+8%
Pre Tax Profit	10,632	16,014	+51%	10,752	12,895	+20%
Net Profit	7,123	7,726	+8%	7,204	8,382	+16%
Adjusted EPS	12.3	12.6		12.5	13.6	
Growth YoY	13%	22%		2%	8%	
Balance Sheet Estimate						
Shareholders' Equity	62,990	68,710	+9%	73,593	75,246	+2%
Adjusted NAVPS	109.0	111.6		119.6	122.3	

Valuation Table

Y/E 31 December	2020	2021	2022	2023	2024E	2025E	2026E
Estimates (LKR 'Mn)							
Net Interest Income	19,811	23,904	40,887	40,452	37,041	37,310	37,920
Total Operating Income	25,723	31,729	51,379	49,845	47,389	48,360	49,897
Net Profit	3,039	4,653	4,574	6,321	7,726	8,382	8,733
Adjusted EPS (LKR)	4.9	7.6	7.4	10.3	12.6	13.6	14.2
YoY Growth (%)	-19%	53%	-2%	38%	22%	8%	4%
Valuations							
PER (x)	8.7x	5.7x	5.8x	4.2x	3.4x	3.2x	3.0x
PBV (x)	0.4x	0.4x	0.4x	0.4x	0.4x	0.4x	0.3x
DPS (LKR)	1.5	3.0	2.0	3.0	3.0	3.0	3.0
Dividend Payout	21%	21%	25%	29%	24%	22%	21%
DY (%)	3.5%	7.0%	4.7%	7.0%	7.0%	7.0%	7.0%
NAVPS	98.2	101.1	97.3	101.4	111.6	122.3	136.5

SEYLAN BANK PLC [SEYB.N0000]

Valuation Summary

Return	2024E	2025E
Target Price	95.0	103.0
Current Price	43.0	43.0
Capital Gain (LKR)	52.0	60.0
Dividends upto 31st Dec (LKR)	3.0	3.0
Capital Gain %	121%	140%
Dividend Yield %	7%	7%
Total Return %	128%	147%
Annualized Return %	181%	65%

Expected SEYB price for	2024E	2025E
Justified PBV based target price	89.0	103.9
PER Valuation based target price	87.0	95.3
RI Valuation based target price	95.0	111.0
Average Target Price	90.3	103.4
Target Price after Rounding off	95.0	103.0

Residual Income Valuation

Residual Income based Valuation	2024E	2025E
PV of Residual Income	-10,036	-10,030
No. of Shares ('Mn)	615	615
RI per Share	-16.3	-16.3
Opening Book value per Share	111.6	122.3
Value per Share	95.0	105.0

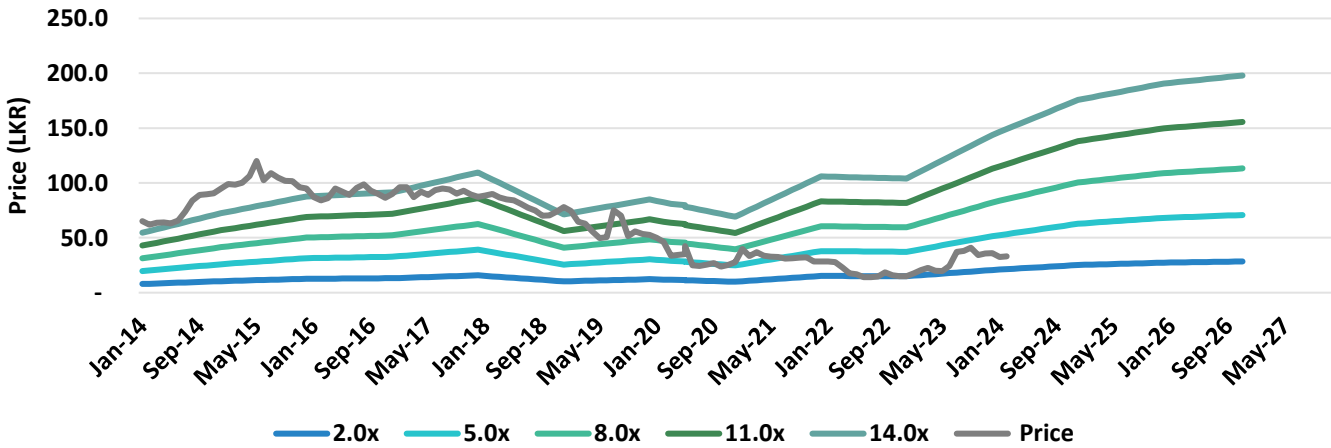
COE	2024E	2025E
Rf	11.0%	10.0%
Rm	19.0%	19.0%
Growth %	3.0%	3.0%
β	0.8	0.8
Ke=Rf+β(Rm-Rf)	17.0%	16.8%

Justified PBV Valuation

Justified PBV based Valuation	2024E	2025E
ROAE	11.8%	11.6%
Growth	3.0%	3.0%
COE	17.0%	17.0%
PBV	0.8	0.9
NAVPS	111.6	122.3
Target Price	89.0	103.0

PER Valuation

PER based Valuation	2024E	2025E
Earnings (LKR 'Mn)	7,726	8,382
No. of Shares ('Mn)	615	615
EPS	12.6	13.6
Expected PER	7.0x	7.0x
Price at 7.0x Earnings	87.0	95.0



Source: CSE/First Capital Research

SEYLAN BANK PLC [SEYB.N0000]

Appendix I: Statement of Income and Expenses

Income Statement (LKR Mn)	2020	2021	2022	2023	2024E	2025E	2026E
P/E 31st December							
Interest Income	51,112	46,781	86,106	107,168	84,759	86,662	91,690
Less : Interest Expenses	31,302	22,877	45,219	66,717	47,718	49,352	53,770
Net Interest Income	19,811	23,904	40,887	40,452	37,041	37,310	37,920
Fee & Other Income	5,912	7,826	10,492	9,393	10,348	11,050	11,976
Total Operating Income	25,723	31,729	51,379	49,845	47,389	48,360	49,897
Impairment (Charges)/ Reversal	6,993	10,422	26,433	17,005	11,854	10,968	10,159
Net Operating Income	18,730	21,308	24,946	32,840	35,535	37,393	39,737
Less : Operating expenses							
Staff Cost	7,275	6,946	8,007	9,194	9,787	10,800	11,916
Depreciation of PPE	1,486	1,479	1,416	1,348	1,317	1,404	1,494
Other Operating Expenses	4,145	4,763	5,951	8,093	8,417	8,753	9,104
Total Operating Expenses	12,906	13,188	15,375	18,635	19,521	20,957	22,514
Operating Profit Before Taxes	5,824	8,119	9,571	14,205	16,014	16,435	17,224
VAT, NBT & DRL	1,528	1,935	2,774	3,935	4,128	3,541	3,788
Profit Before Tax	4,296	6,185	6,797	10,269	11,886	12,895	13,435
Income Tax Expense	1,198	1,449	2,219	3,869	4,160	4,513	4,702
Profit for the Year	3,098	4,736	4,578	6,401	7,726	8,382	8,733
Less : Non-Controlling Interest	59	83	3	80	-	-	-
Profit attributable to Equity Holders	3,039	4,653	4,574	6,321	7,726	8,382	8,733
EPS	5.7	8.1	7.4	10.4	12.6	13.6	14.2

Appendix II: Statement of Financial Position

Balance Sheet (LKR Mn)	2020	2021	2022	2023	2024E	2025E	2026E
As at 31st December							
Assets							
Cash and Cash Equivalents	10,036	16,079	40,255	48,851	88,208	121,131	40,255
Balances with Central Bank of Sri Lanka	7,371	8,726	16,784	7,028	21,832	24,015	16,784
Placements with Banks and Finance Companies	15,688	13,507	20,120	49,907	28,062	27,517	1,819
Loans and Advances to Customers	393,766	441,977	444,220	437,532	503,541	566,275	472,013
Financial Assets	112,774	107,322	123,616	144,913	114,743	81,871	141,917
Property, Plant and Equipment	6,773	7,064	6,463	6,627	6,515	6,849	9,185
Other Assets	11,597	13,416	21,378	23,135	14,772	16,415	18,655
Total Assets	558,006	608,090	672,835	717,993	777,672	844,073	700,628
Liabilities							
Due to Banks	32,720	24,722	13,065	12,129	12,950	13,610	12,158
Due to Customers	440,303	488,653	547,316	590,698	620,233	682,257	547,316
Other Borrowings	19,649	24,287	33,569	26,847	49,514	46,362	34,476
Tax Liabilities	2,636	2,194	5,179	2,720	2,829	2,942	5,179
Other Liabilities	10,643	12,947	16,240	21,901	22,120	22,342	16,240
Total Liabilities	505,950	552,803	615,369	654,295	707,646	767,511	615,369
Shareholders Funds							
Stated Capital	17,548	18,324	19,926	20,909	20,909	20,909	20,909
Statutory Reserve Fund	2,104	2,333	2,568	2,881	3,267	3,686	4,123
Retained Earnings	25,382	29,967	31,698	35,541	39,489	43,929	50,479
Other Reserves	5,736	3,334	2,010	3,051	5,045	6,722	8,485
Shareholders Funds	50,770	53,958	56,202	62,382	68,710	75,246	83,995
Minority Interest	1,286	1,329	1,264	1,316	1,316	1,316	1,264
	52,056	55,287	57,466	63,698	70,026	76,562	85,260
Total Liabilities & Shareholders' Funds	558,006	608,090	672,835	717,993	777,672	844,073	700,628
NAVPS	98.2	101.1	97.3	101.4	111.6	122.3	136.5

Nations Trust Bank

NATIONS TRUST BANK PLC [NTB.N0000]

GROWTH STORY AHEAD...

MAINTAIN BUY

Fair Value: 2024E - LKR 185.0 [+84%]

2025E - LKR 200.0 [+99%]

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Total Return with DPS: 2024E - 87% [AER 115%]

2024E - 103% [AER 47%]

LKR (Mn)	4Q2022	4Q2023	YoY	2022	2023	YoY
Earnings (LKR 'Mn)						
NII	8,856	8,473	-4%	29,301	34,951	+19%
Total Operating Income	11,331	10,831	-4%	38,867	45,032	+16%
Net Operating Income	7,689	7,859	+2%	25,025	37,532	+50%
Profit Before Tax	3,186	3,099	-3%	10,445	18,308	+75%
Net Profit	1,937	2,033	+5%	7,228	11,471	+59%
Balance Sheet (LKR 'Mn)						
Loans	241,241	270,945	+12%	241,241	270,945	+12%
Shareholders' Equity	46,041	61,126	+33%	46,041	61,126	+33%
NAVPS	141.1	187.4	+33%	141.1	187.4	+33%

Earnings close modestly for the quarter with marginal gains

4Q2023 earnings of NTB displayed a marginal improvement of 4.9%YoY attributed to the reduction in impairment charges (-18.4%YoY) amidst a low NPL ratio of 2.3%. Meanwhile, net fee and commission income too edged higher by 11.3%YoY led by robust dollar liquidity facilitating the expansion of the bank's export business which further supported bottom-line. However, NII during the quarter ebbed low by 4.3%YoY (-3.0%QoQ), in tandem with the contraction in NIM which closed at 7.7% as at Dec-23 (-41bps QoQ, +74bps YoY). Decline in total operating income by 4.4%YoY (-8.2%QoQ) owing to the significant decline in net trading income (-167.3%YoY) recorded during the quarter further restrained bottom-line growth while total operating expenses rose by 6.2%YoY impacting operating profits negatively. On a

quarterly basis, earnings witnessed a downslide of 38.8%, as impairments surged by 89.6%QoQ while operating profit dipped by 38.8%QoQ. While many industry players witnessed a contraction in the loan books, NTB displayed robust improvement in the book, as it expanded by 12.3%YoY (+5.7%QoQ) to LKR 270.9Bn during 2023 contributed by the increased lending in Trade Finance and Term loans. Concurrently, NTB's deposit base witnessed a 17.0%YoY (+10.5%QoQ) growth in 2023. Consequently, the bank's CASA ratio stood at 31.2% as of 4Q2023.

NPL ratio abates from the peak

As of 4Q2023, NPL ratio of NTB subsided to 2.3% from the peak of 3.4% in 1Q2023, positioning NTB with one of the sector's lowest NPL ratios. Meanwhile, during the quarter, impairment charges decreased by 18.4%YoY. However, on a quarterly basis impairment charges scaled higher by 89.6% owing to higher provisioning that was made during the quarter. Consequently, impairment coverage (impairment to stage 3 loans ratio) increased to 55.3% in Dec-23, cf. to 50.9% in Sep-23. Nevertheless, the bank remains positive in the quarter ahead, anticipating further declines in impairment amidst low NPL, as NTB has strategically augmented its lending focus on the Corporate and Commercial segment, which constitutes majority of the total portfolio.

NATIONS TRUST BANK PLC [NTB.N0000]

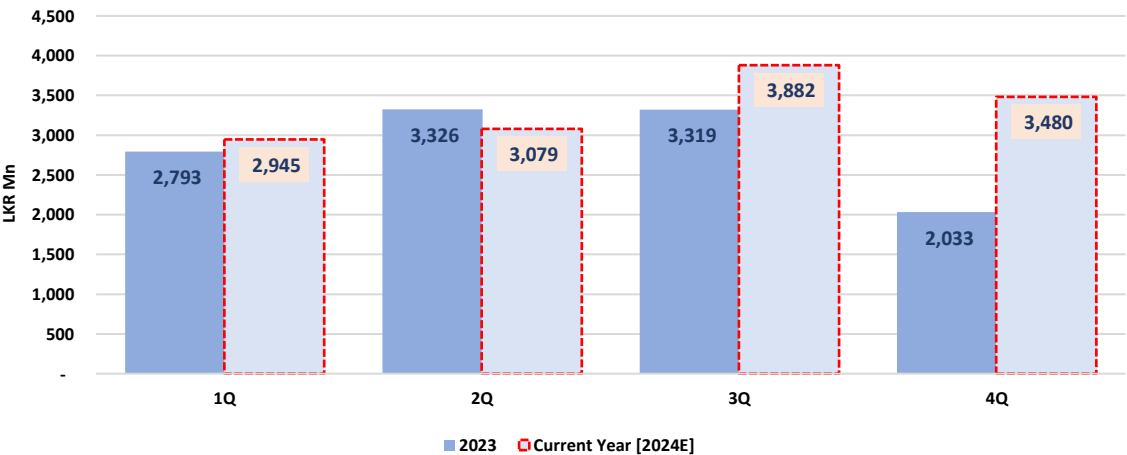
Comfortably capitalized to steer through the period ahead

As of Dec-23, NTB maintained a strong financial position, with Tier 1 and Total Capital Adequacy Ratios standing at 18.14% and 19.68%, respectively. These metrics exceed the minimum regulatory thresholds of 8.50% and 12.50%, demonstrating NTB's robust capital reserves. Consequently, we are confident that NTB's ample capital cushion positions it favorably to tackle forthcoming challenges and potentially drive credit expansion amidst the ongoing economic rebound.

FV for 2024E maintained at LKR 185.0 and 2025E FV is estimated at LKR 200.0 for NTB.N

We expect the period ahead to be positive for NTB on the grounds of gradual economic revival, increased demand for credit and reduction in impairments. However, the accelerated decline in interest rates indicates a faster decline in NII. Hence, our earnings expectations for 2024E has been reduced to LKR 13.4Bn while 2025E earnings are estimated at LKR 14.4Bn. However, fair value for 2024E is maintained at LKR 185.0 for NTB.N (NTB.X FV: LKR 175.0), expecting a positive re-rating amidst the current steeply discounted trading multiples, while 2025E fair value is estimated at LKR 200.0 (NTB.X FV: LKR 190.0). **MAINTAIN BUY**

Quarterly Earnings



Estimate Revision

In LKR Mn	2024E - O	2024E - R	% Change	2025E - O	2025E - R	% Change
Earnings Estimate						
Net Interest Income	35,735	30,573	-14%	37,632	32,281	-14%
Total Operating Income	44,825	41,284	-8%	47,639	43,217	-9%
Net Operating Income	42,802	38,409	-10%	46,181	40,595	-12%
Profit Before Tax	22,057	18,852	-15%	24,433	20,212	-17%
Net Profit	15,661	13,385	-15%	17,348	14,350	-17%
Adjusted EPS	49.0	41.0		54.3	44.0	
Growth YoY	27%	17%		11%	7%	
Balance Sheet Estimate						
Shareholders' Equity	74,034	68,071	-8%	89,994	73,274	-19%
Adjusted NAVPS	231.7	208.7		281.7	224.6	

Valuation Table

P/E 31 December	2020	2021	2022	2023	2024E	2025E	2026E
Estimates (LKR 'Mn)							
Net Interest Income	13,672	14,078	29,301	34,951	30,573	32,281	34,133
Total Operating Income	21,241	23,269	38,867	45,032	41,284	43,217	45,732
Net Profit	4,055	6,694	7,228	11,471	13,385	14,350	15,003
Adjusted EPS (LKR)	12.4	20.5	22.2	35.2	41.0	44.0	46.0
YoY Growth (%)	9%	65%	8%	59%	17%	7%	5%
Valuations							
PER (x)	8.4x	5.1x	4.7x	2.9x	2.4x	2.3x	2.2x
PBV (x)	1.0x	0.9x	0.7x	0.5x	0.5x	0.4x	0.4x
DY (%)	2.2%	1.9%	3.1%	2.5%	3.3%	3.5%	3.7%
Adjusted NAVPS	107.7	123.1	141.1	187.4	208.7	224.6	251.0
DPS (LKR)	2.30	2.00	3.29	2.50	3.28	3.52	3.68
Payout ratio	18.5%	9.7%	14.9%	7.1%	8.0%	8.0%	8.0%

NATIONS TRUST BANK PLC [NTB.N0000]

Valuation Summary

Return	2024E	2025E
Target Price	185.0	200.0
Current Price	100.5	100.5
Capital Gain (LKR)	84.5	99.5
Dividends upto 31st Dec (LKR)	3.3	3.5
Capital Gain %	84%	99%
Dividend Yield %	3%	4%
Total Return %	87%	103%
Annualized Return %	115%	47%

Expected NTB.N price	2024E	2025E
Justified PBV based target price	184.9	204.6
PER Valuation based target price	184.6	198.0
RI Valuation based target price	184.4	207.3
Average Target Price	184.7	203.3
Target Price after Rounding off	185.0	200.0

Residual Income Valuation

Residual Income based Valuation	2024E	2025E
PV of Residual Income	-961	-435
No. of Shares ('Mn)	326	326
RI per Share	-2.9	-1.3
Opening Book value per Share	187	209
Value per Share	184.4	207.3

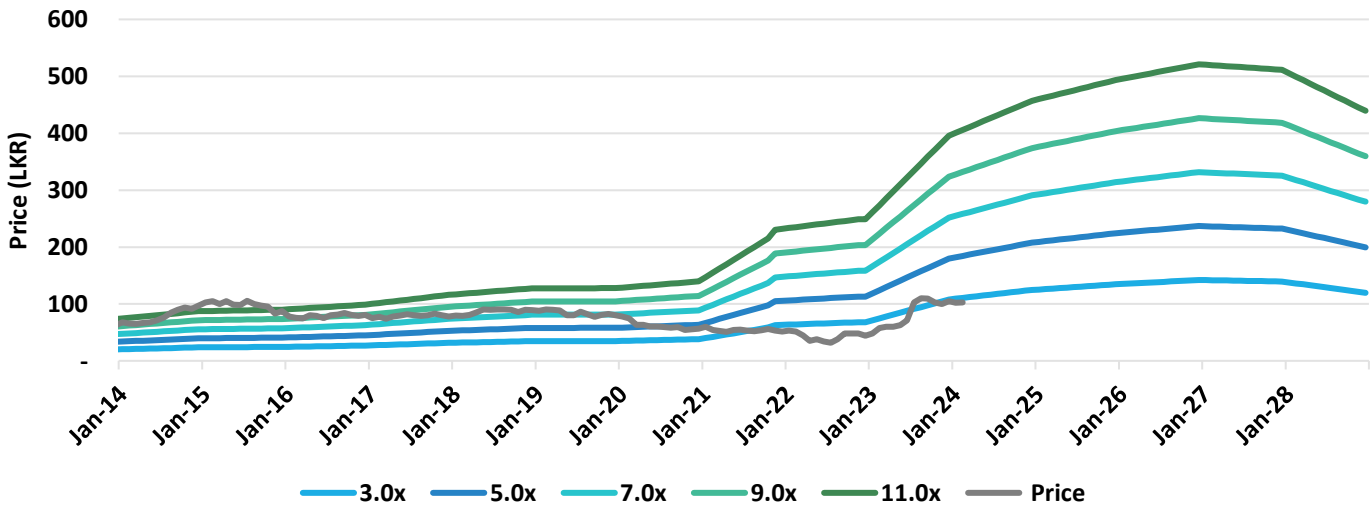
COE	2024E	2025E
Rf	11.0%	10.0%
Rm	19.0%	18.0%
Growth %	3.0%	3.0%
β	1.50	1.50
$K_e = R_f + \beta(R_m - R_f)$	23.0%	22.0%

Justified PBV Valuation

Justified PBV based Valuation	2024E	2025E
ROAE	20.7%	20.3%
Growth	3.0%	3.0%
COE	23.0%	22.0%
PBV	0.9	0.9
NAVPS	208.7	224.6
Target Price	184.9	204.6

PER Valuation

PER based Valuation	2024E	2025E
Earnings (LKR 'Mn)	13,385	14,350
No. of Shares ('Mn)	326	326
EPS	41.0	44.0
Expected PER	4.5x	4.5x
Price at 4.5x Earnings	184.6	198.0



Source: CSE/First Capital Research

NATIONS TRUST BANK PLC [NTB.N0000]

Appendix I: Statement of Income and Expenses

Income Statement (LKR Mn)	2020	2021	2022	2023	2024E	2025E	2026E
P/E 31st December							
Interest Income	32,944	28,657	54,308	70,558	56,158	59,744	63,711
Interest Expense	(19,272)	(14,580)	(25,007)	(35,607)	(25,584)	(27,463)	(29,579)
Net Interest Income	13,672	14,078	29,301	34,951	30,573	32,281	34,133
Fees and Commission Income	5,515	6,670	7,738	8,335	10,256	11,493	11,823
Fees and Commission Expense	(154)	(529)	(944)	(1,234)	(1,231)	(1,149)	(946)
Net Fees and Commission Income	5,361	6,140	6,794	7,100	9,025	10,344	10,877
Net Trading Income	2,553	2,472	14,233	(1,267)	(760)	(699)	(643)
Other Operating Income	(346)	79	(11,490)	3,775	2,446	1,291	1,365
Total Operating Income	21,241	23,269	38,867	45,032	41,284	43,217	45,732
Impairment (Charge) / Reversal for Loans and Advances	(3,847)	(3,742)	(13,842)	(7,500)	(2,875)	(2,621)	(1,859)
Net Operating Income	17,394	19,527	25,025	37,532	38,409	40,595	43,873
Personnel Expenses	4,633	4,620	5,999	7,441	6,830	7,206	8,048
Depreciation of Property, Plant and Equipment	491	436	346	248	427	535	676
Amortization of Intangible Assets	380	339	279	329	377	450	264
Other Operating Expenses	3,922	3,333	4,547	5,663	6,286	7,355	8,605
Less: Total Operating Expenses	9,839	9,122	11,559	14,079	13,920	15,545	17,593
Operating Profit Before Value Added Tax (VAT)	7,555	10,405	13,466	23,453	24,490	25,050	26,280
Less: Value Added Tax (VAT) on Financial Services	1,496	1,985	3,021	5,145	5,638	4,838	5,149
Profit Before Income Tax	6,059	8,420	10,445	18,308	18,852	20,212	21,131
Less: Income Tax Expense	2,004	1,726	3,217	6,837	5,467	5,861	6,128
Profit for the Year	4,055	6,694	7,228	11,471	13,385	14,350	15,003
EPS	12.4	20.5	22.2	35.2	41.0	44.0	46.0

Appendix II: Statement of Financial Position

Statement of Financial Position (LKR Mn)	2020	2021	2022	2023	2024E	2025E	2026E
As at 31st December							
Assets							
Cash and Cash Equivalents	9,145	13,428	58,748	40,180	56,897	42,877	37,211
Balances with Central Bank of Sri Lanka	2,195	6,915	6,074	2,684	6,385	6,768	7,039
Reverse Repurchase Agreements	5,091	3,001	1,502	1,502	1,878	1,991	828
Derivative Financial Instruments	240	473	103	4	616	710	775
Financial Assets - Held for Trading	2,417	6,151	3,734	10,934	3,756	3,981	4,141
Financial Assets - Available for Sale	73,258	67,521	30,350	79,923	78,874	71,663	70,389
Financial Assets - Held to Maturity	26,648	26,140	59,928	97,358	75,118	79,625	82,810
Other Financial Assets	-	611	3,772	3,144	-	-	-
Loans and Advances to Customers	210,186	247,441	241,241	270,945	307,756	354,860	387,441
Other Assets	2,409	2,047	3,400	3,378	3,078	3,549	3,874
Property, Plant and Equipment	3,682	3,299	3,495	3,500	3,657	3,612	4,113
Intangible Assets	1,222	1,175	1,285	1,354	1,148	984	1,007
Total Assets	337,991	379,552	414,944	516,134	539,163	570,619	599,627
Liabilities							
Due to Banks	4,942	2,016	3,989	49,682	40,739	39,109	39,500
Repurchase Agreements	28,040	35,305	33,533	18,500	24,620	28,389	30,995
Derivative Financial Instruments	251	166	39	659	758	871	1,002
Due to Customers	240,574	267,988	297,253	347,769	375,590	398,125	414,051
Debt Issued and Other Borrowed Funds	13,262	12,353	12,355	8,686	9,294	9,852	10,345
Current Tax Liabilities	1,320	2,461	5,243	5,667	3,280	3,517	3,677
Other Liabilities	7,058	9,675	12,629	17,414	16,810	17,482	18,181
Deferred Tax Liabilities	1,028	-	-	-	-	-	-
Total Liabilities	302,866	339,393	368,903	455,008	471,091	497,346	517,751
Equity Attributable to Equity Holders of the Parent							
Stated Capital	9,408	9,408	10,401	11,427	11,427	11,427	11,427
Statutory Reserve Fund	1,562	1,882	2,228	2,784	3,707	4,764	5,799
Retained Earnings	22,265	28,073	32,027	41,623	50,345	54,204	60,721
Other Reserves	1,890	796	1,384	5,292	2,592	2,879	3,930
Total Equity	35,125	40,159	46,041	61,126	68,071	73,274	81,876
Total Liabilities and Equity	337,991	379,552	414,944	516,134	539,163	570,619	599,627
NAVPS	107.7	123.1	141.1	187.4	208.7	224.6	251.0

Thank you!

*"SUCCESSFUL INVESTMENTS IS ABOUT
MANAGING RISKS"*

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