



First Capital
A Janashakthi Group Company

NATIONS TRUST BANK PLC [NTB.N0000]

MAINTAIN BUY

“RIDING THE WAVE OF ECONOMIC REBOUND”

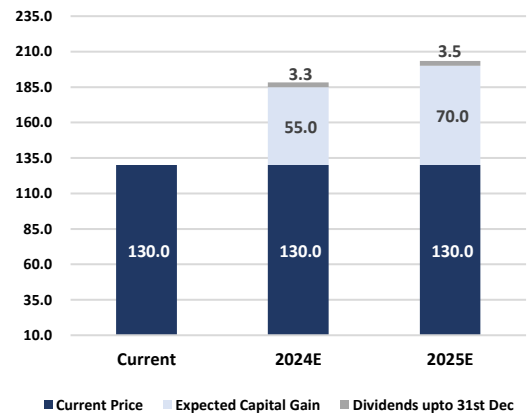
Fair Value: 2024E - LKR 185.00 [+42%]

Total Return with DPS: 2024E - 45% [AER 92%]

2025E - LKR 200.00 [+54%]

2025E - 57% [AER 33%]

During 1Q2024, NTB demonstrated substantial improvement in earnings, with a notable increase of 35.2%YoY to LKR 3.8Bn. This growth was primarily driven by a significant reduction in impairment charges, contributing to the expansion of the bottom line. Additionally, the Net Fee and Commission income also showed a noteworthy increase, further supporting the overall earnings growth. Meanwhile, NII saw a 7.3% QoQ increase to LKR 9.1Bn, with a marginal 1.8% YoY rise, attributed to a reduction in interest expenses outweighing the decline in interest income. During the same period, NTB's loan book experienced a 16.3%YoY increase while remaining relatively stable on a quarterly basis. Looking ahead, we anticipate a 13.6% expansion in the loan book for 2024E, followed by a 15.3% expansion in 2025E, driven by positive macroeconomic developments and growing demand for credit in the economy. Considering the faster-than-expected economic recovery and the sectors' currently discounted trading multiples, we maintain our earnings projections for 2024E and 2025E at LKR 13.4Bn and LKR 14.4Bn, respectively. Consequently, we uphold the fair value for 2024E at LKR 185.0 (with NTB.X FV: LKR 175.0), while maintaining the fair value for 2025E at LKR 200.0 (with NTB.X FV: LKR 190.0). **MAINTAIN BUY**



FIRST CAPITAL RESEARCH

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| LKR (Mn) | 1Q2023 | 1Q2024 | YoY | 2022 | 2023 | YoY |
|--------------------------------|---------|---------|------|---------|---------|------|
| Earnings (LKR 'Mn) | | | | | | |
| NII | 8,934 | 9,092 | +2% | 29,301 | 34,951 | +19% |
| Total Operating Income | 11,595 | 11,898 | +3% | 38,867 | 45,032 | +16% |
| Net Operating Income | 9,490 | 11,340 | +19% | 25,025 | 37,532 | +50% |
| Profit Before Tax | 4,528 | 5,911 | +31% | 10,445 | 18,308 | +75% |
| Net Profit | 2,793 | 3,776 | +35% | 7,228 | 11,471 | +59% |
| Balance Sheet (LKR 'Mn) | | | | | | |
| Loans | 230,591 | 268,175 | +16% | 241,241 | 270,945 | +12% |
| Shareholders' Equity | 49,130 | 65,009 | +32% | 46,041 | 61,126 | +33% |
| NAVPS | 153.7 | 199.3 | +30% | 141.1 | 187.4 | +33% |

Earnings thrive as cost pressures ease down

NTB registered earnings of LKR 3.8Bn inclining by 35.2%YoY while recording a notable quarterly increase of 85.8%, supported by the sizeable reduction in impairment charges. Accordingly, impairment charges eased down by 73.5%YoY (-81.2%QoQ) as ISB impairments have been eliminated during 1Q2024. Moreover, Net fee and commission income edged up by 29.8%YoY supporting the growth in NTB's net operating income during the quarter. Despite the tapering NIM which closed at 7.17% as at 1Q2024 cf. 7.72% in 4Q2023, NTB's NII saw a moderate increase of 7.3%QoQ (+1.8%YoY) as the reduction in interest expense outpaced the interest income reduction. However, total operating income witnessed pressure as net trading loss rose significantly on a QoQ basis by 627.0%, (+25.7%YoY) yet the negative impact was partly offset by the increase in other operating income by 499.7%QoQ (+17.5%YoY).

Rupee appreciation blocks loan book growth

During the first quarter of 2024, NTB observed a slight 1.0% decrease in its loan book on a quarterly basis, primarily influenced by the appreciation of the rupee during that period, which impacted the foreign currency denominated loans of the bank. However, on a year-over-year basis, the loan book exhibited a growth of 16.3%, amounting to LKR 268.2Bn, driven by increased lending in Trade Finance and Term loans. Looking ahead, we anticipate the loan book to expand further, supported by the ongoing economic recovery and the uptick in business activities, which is expected to enhance credit demand in the economy. Furthermore, NTB's deposit base experienced a notable 14.9%YoY increase, albeit with a minor decline of 3.2% on a quarterly basis during 1Q2024. Additionally, NTB continues to maintain the lowest NPL ratio (Stage 3 ratio) in the industry, standing at 2.2%. This reflects the bank's strategic focus on quality credit, with lending predominantly targeted towards the Commercial and Corporate segments.

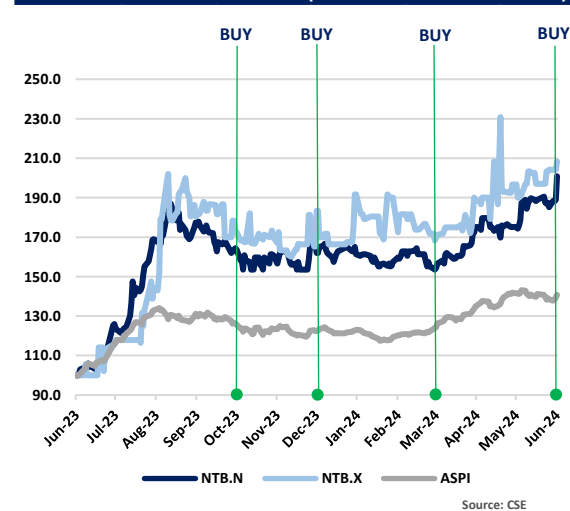
Comfortably capitalized to steer through the period ahead

As of Mar-24, NTB maintained a strong financial position, with Tier 1 and Total Capital Adequacy Ratios standing at 17.33% and 18.76%, 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. Considering the faster than expected recovery in the economy and the sectors' steeply discounted trading multiples, we maintain our earnings expectations for 2024E and 2025E at LKR 13.4Bn and LKR 14.4Bn, respectively. Accordingly, fair value for 2024E is maintained at LKR 185.0 (NTB.X FV: LKR 175.0), while 2025E fair value is maintained at LKR 200.0 (NTB.X FV: LKR 190.0). **MAINTAIN BUY.**

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



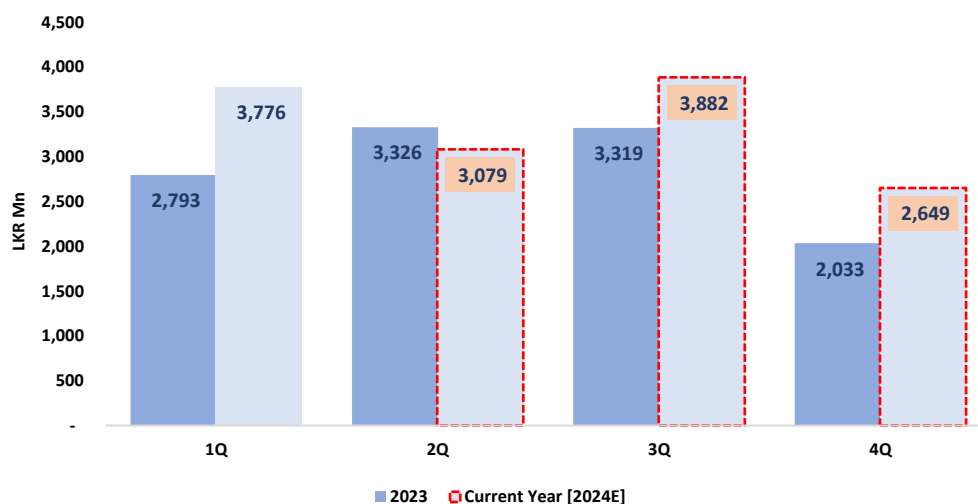
Minimum Return for BUY:

Buy Below for 2024E [AER of 19.0% with DPS]: LKR 170.0
NTB categorized as 'Grade A' counter

Disclosure on Shareholding:

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

Quarterly Earnings



Estimate Revision

| In LKR Mn | 2024E - O | 2024E - R | % Change | 2025E - O | 2025E - R | % Change |
|-------------------------------|-----------|-----------|----------|-----------|-----------|----------|
| Earnings Estimate | | | | | | |
| Net Interest Income | 30,573 | 30,573 | 0% | 32,281 | 32,281 | 0% |
| Total Operating Income | 41,284 | 41,284 | 0% | 43,217 | 43,217 | 0% |
| Net Operating Income | 38,409 | 38,409 | 0% | 40,595 | 40,595 | 0% |
| Profit Before Tax | 18,852 | 18,852 | 0% | 20,212 | 20,212 | 0% |
| Net Profit | 13,385 | 13,385 | 0% | 14,350 | 14,350 | 0% |
| Adjusted EPS | 41.0 | 41.0 | | 44.0 | 44.0 | |
| Growth YoY | 17% | 17% | | 7% | 7% | |
| Balance Sheet Estimate | | | | | | |
| Shareholders' Equity | 68,071 | 68,071 | 0% | 73,274 | 73,274 | 0% |
| Adjusted NAVPS | 208.7 | 208.7 | | 224.6 | 224.6 | |
| Ratio Estimate | | | | | | |
| ROE (%) | 19.7% | 19.7% | | 19.6% | 19.6% | |
| PER (x) | 2.4 | 3.2 | | 2.3 | 3.0 | |
| PBV (x) | 0.5 | 0.6 | | 0.4 | 0.6 | |

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 | 3.7x | 3.2x | 3.0x | 2.8x |
| PBV (x) | 1.0x | 0.9x | 0.7x | 0.7x | 0.6x | 0.6x | 0.5x |
| DY (%) | 2.2% | 1.9% | 3.1% | 1.9% | 2.5% | 2.7% | 2.8% |
| Adjusted NAVPS | 107.7 | 123.1 | 141.1 | 187.4 | 208.7 | 224.6 | 251.0 |
| DPS (LKR) | 2.3 | 2.0 | 3.3 | 2.5 | 3.3 | 3.5 | 3.7 |
| Payout ratio | 18.5% | 9.7% | 14.9% | 7.1% | 8.0% | 8.0% | 8.0% |

Valuation Summary

| 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 |

| Return | 2024E | 2025E |
|-------------------------------|------------|------------|
| Target Price | 185.0 | 200.0 |
| Current Price | 130.0 | 130.0 |
| Capital Gain (LKR) | 55.0 | 70.0 |
| Dividends upto 31st Dec (LKR) | 3.3 | 3.5 |
| Capital Gain % | 42% | 54% |
| Dividend Yield % | 3% | 3% |
| Total Return % | 45% | 57% |
| Annualized Return % | 92% | 33% |

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 |
| $Ke=Rf+\beta(Rm-Rf)$ | 23.0% | 22.0% |

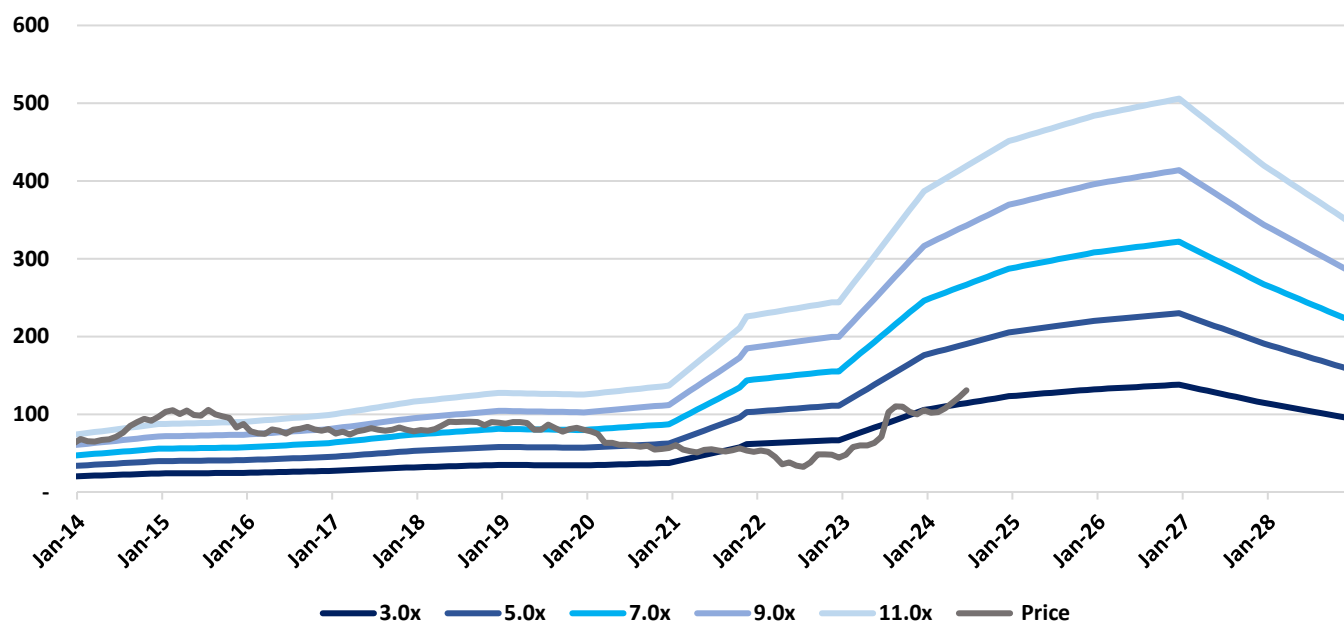
Justified PBV Valuation

| 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 |

PER Chart



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 |



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CORPORATE DEBT SALES

| | |
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|--------------------|-------------------|

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UNIT TRUST SALES

| | | | |
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|---------------------|-----------------|-----------------------|-----------------|

BRANCHES

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