

SRI LANKA



First Capital  
A Janashakthi Group Company

# Banking Sector 1H2024 Update

EQUITY | SRI LANKA | BANKING SECTOR

FIRST CAPITAL RESEARCH

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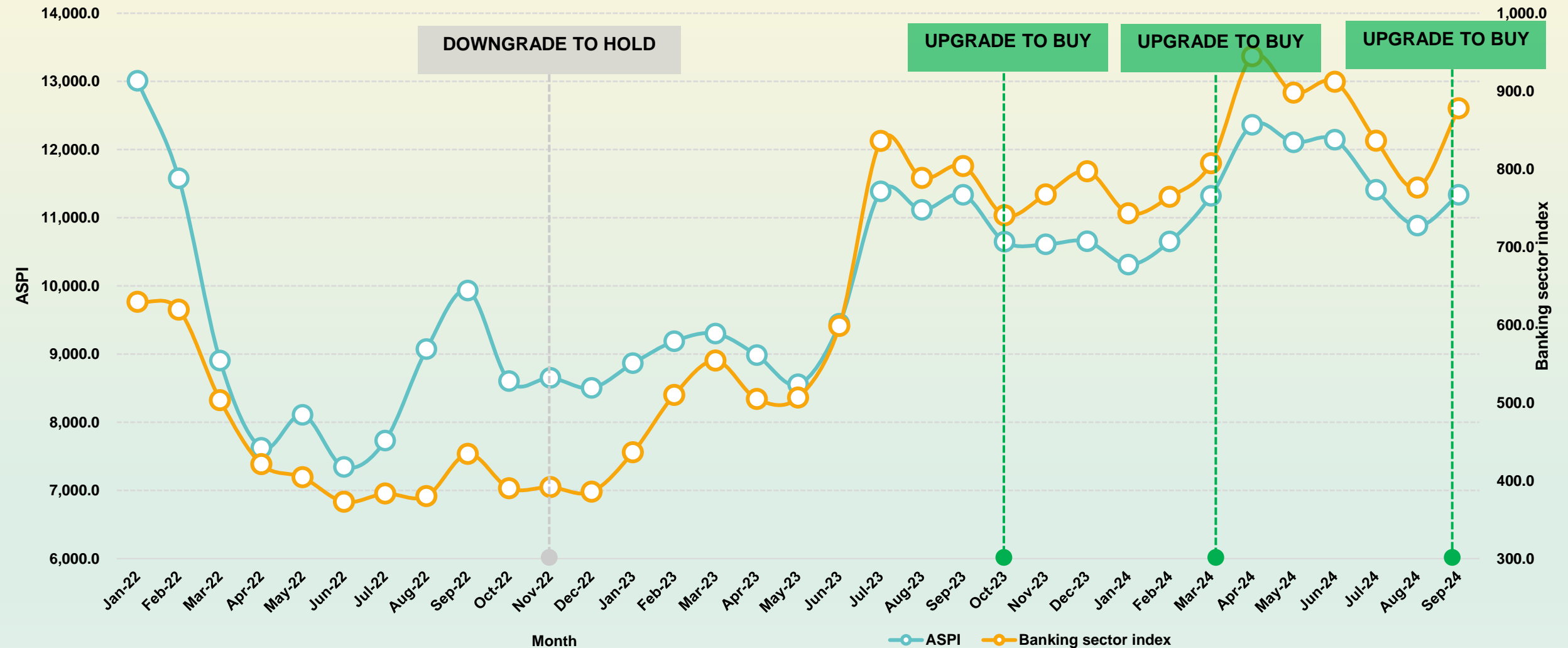
MID YEAR SECTOR UPDATE | 30 SEP 2024

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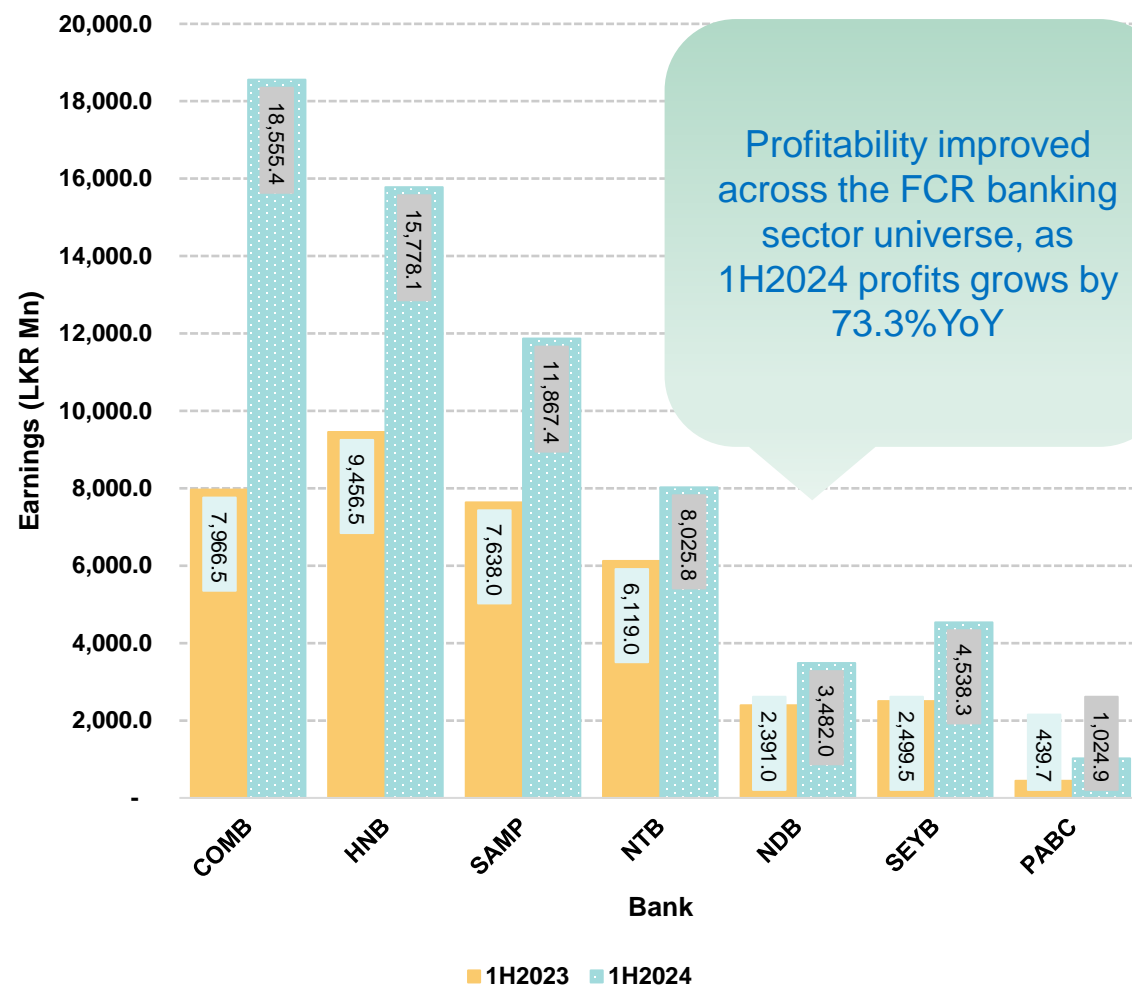
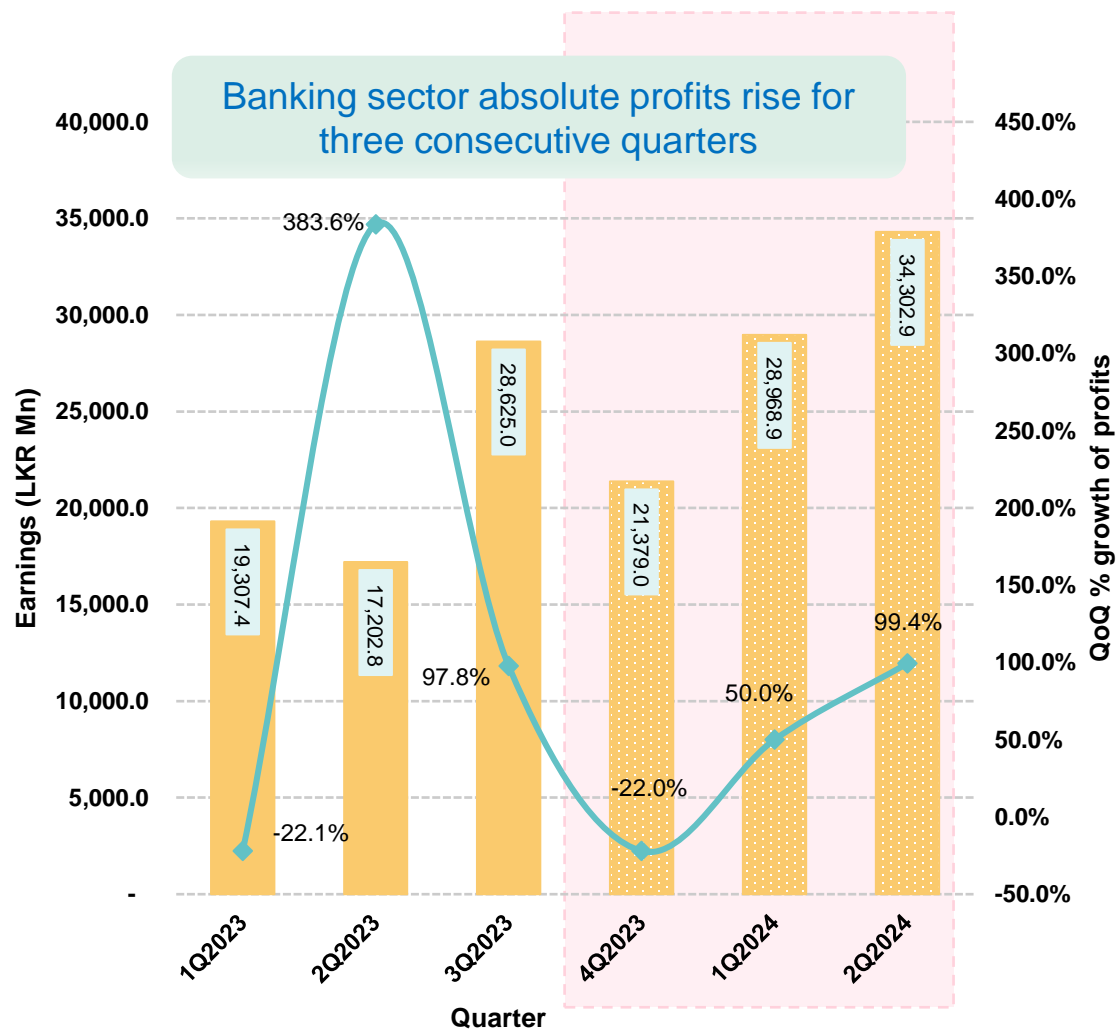
# ASPI vs Banking Sector Index





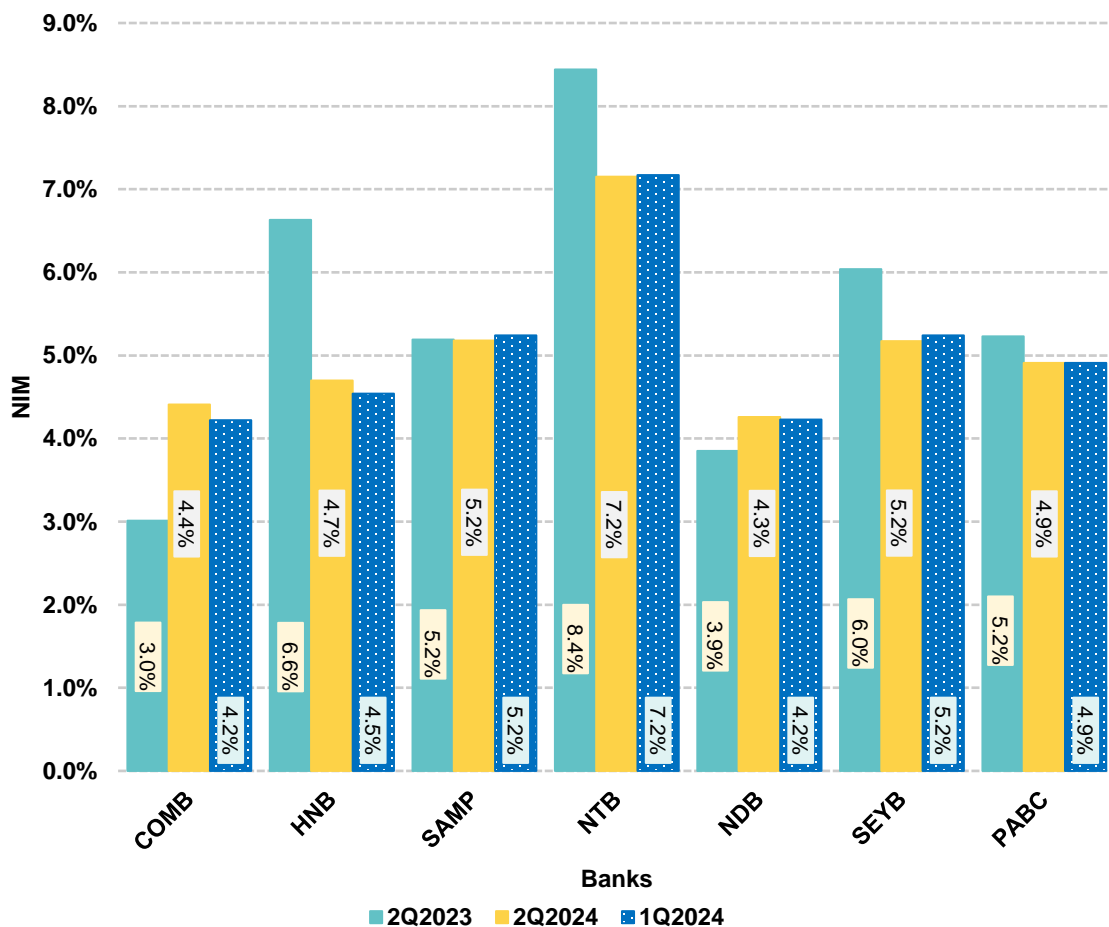
**Core profitability to grow inline  
with the interest rate spreads**

# Banking sector profits grow inline with FC expectations...

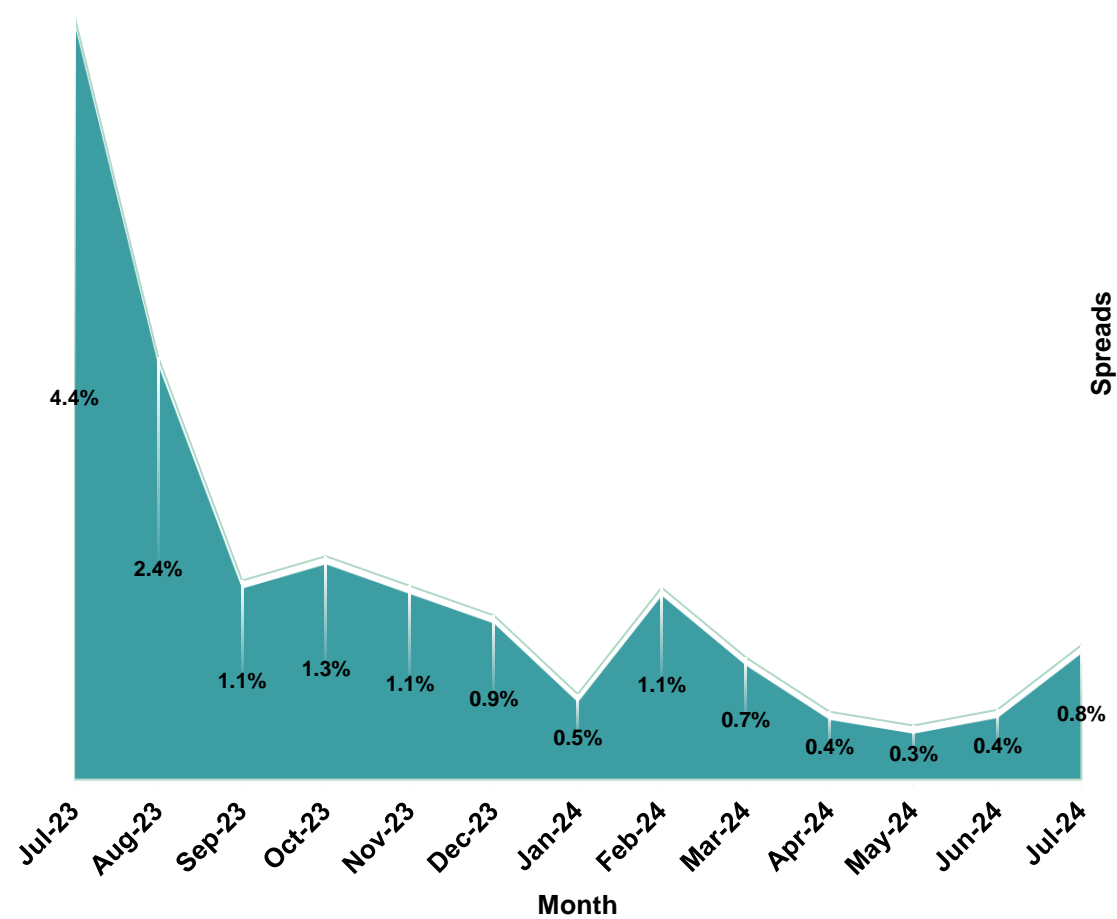


# ... driven by growth in core business as spreads improve...

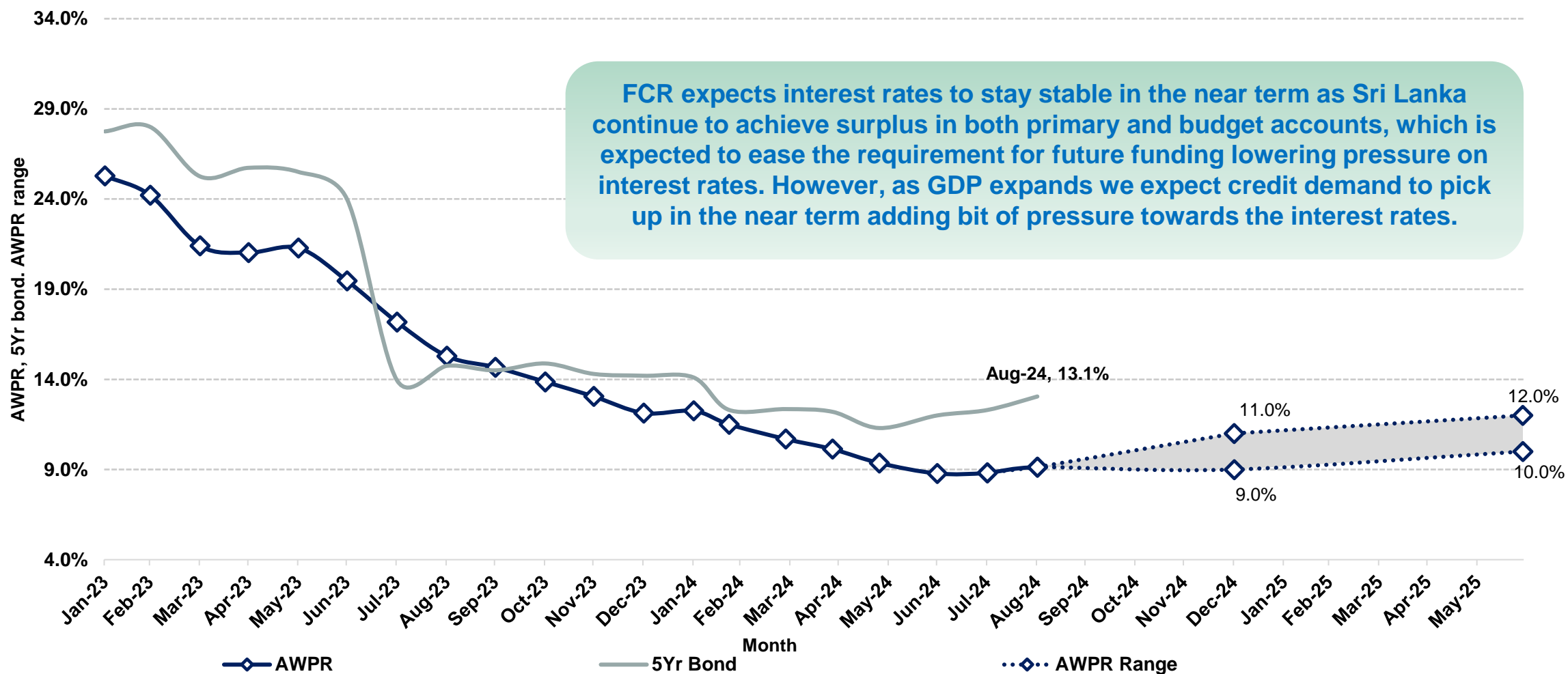
Net interest margins recovered on a QoQ basis across the banking sector yet continue to remain lower on a YoY basis backed by higher rates that prevailed during 2Q2023.



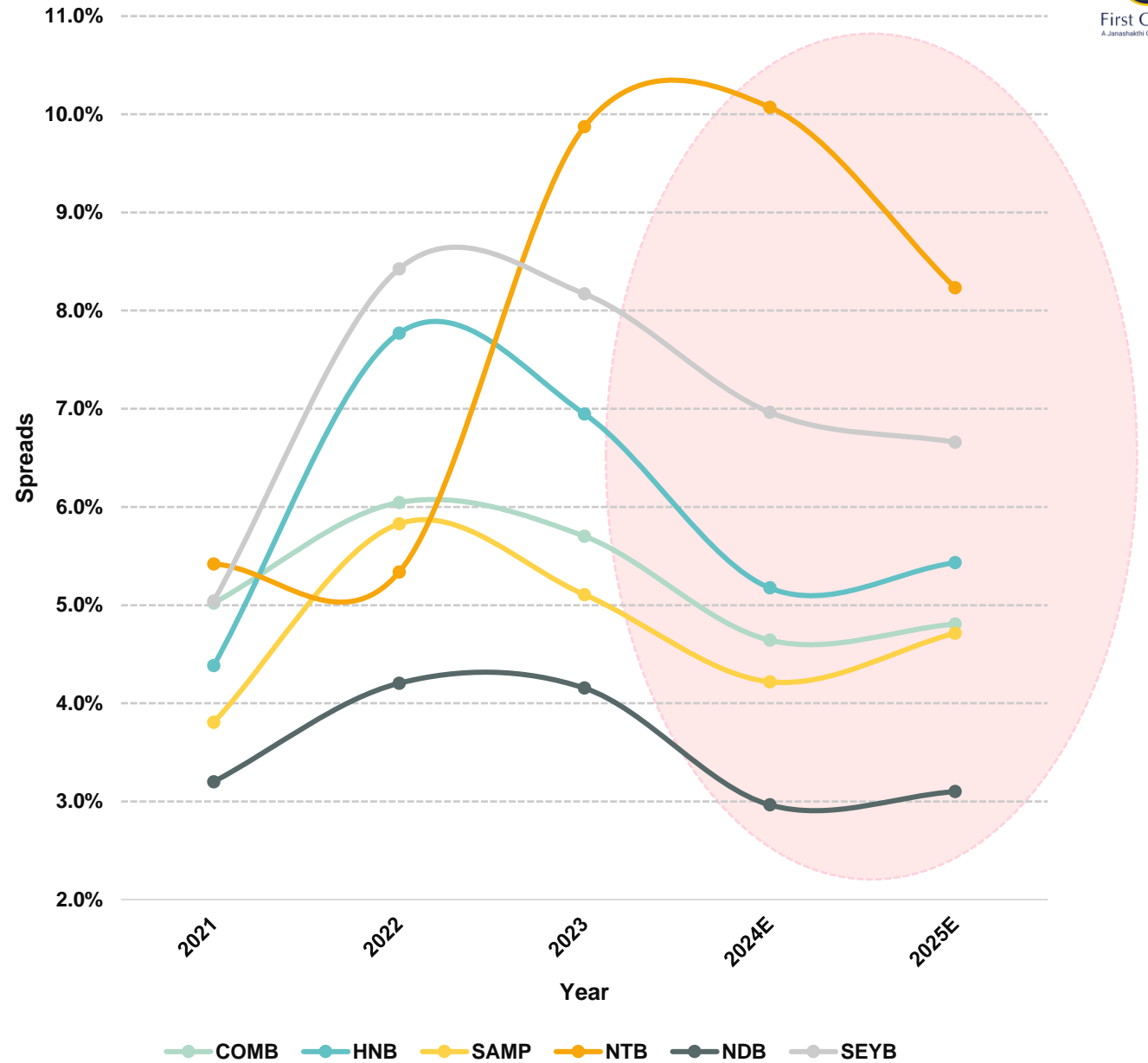
Banking spreads bottomed out in May-24 and started to show improvement during the last 2 months with the timely repricing of deposits by banks



# ... whilst FCR expects interest rates to remain at current levels...

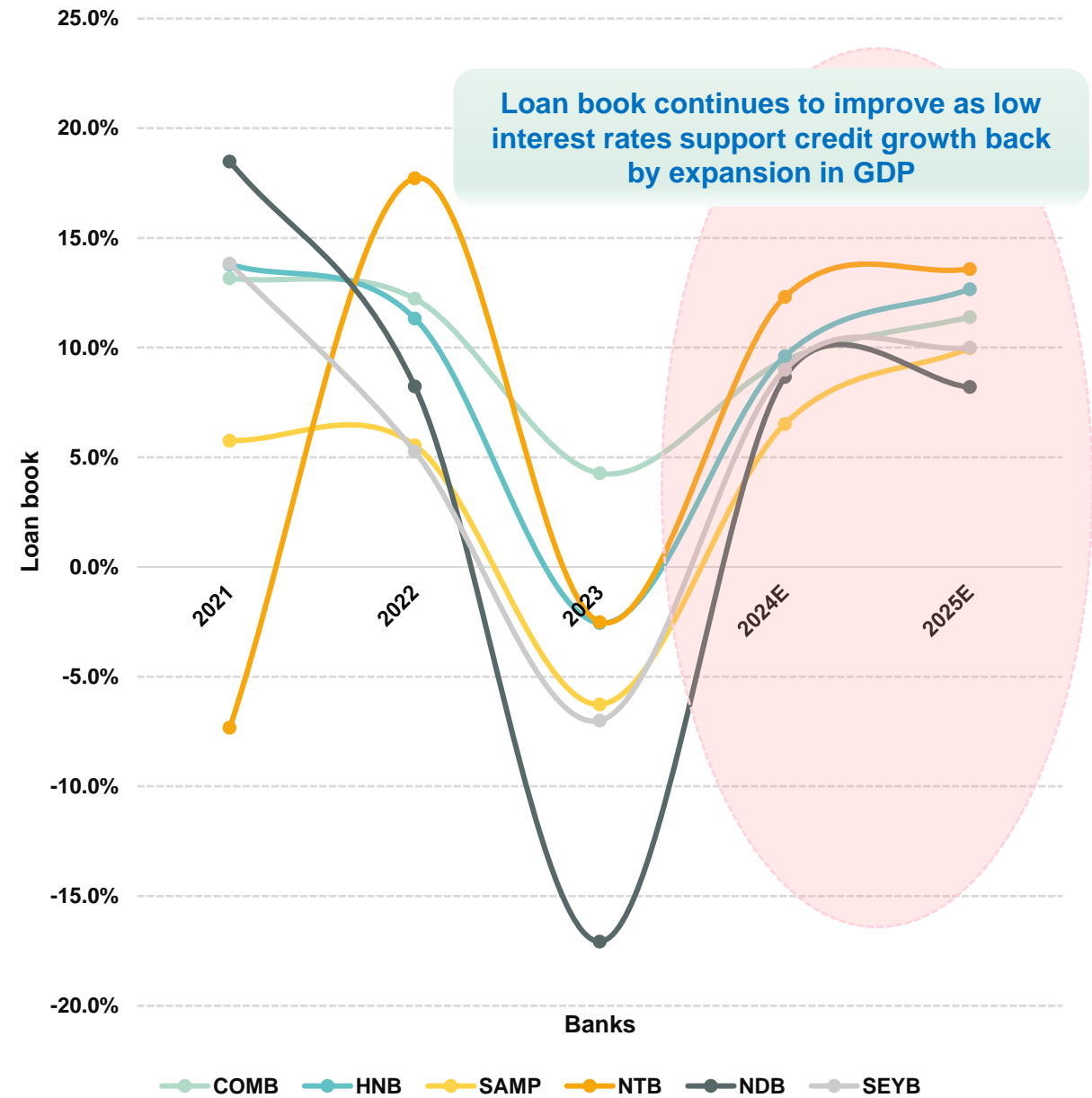


... enabling  
banks to  
maintain  
spreads in the  
medium term

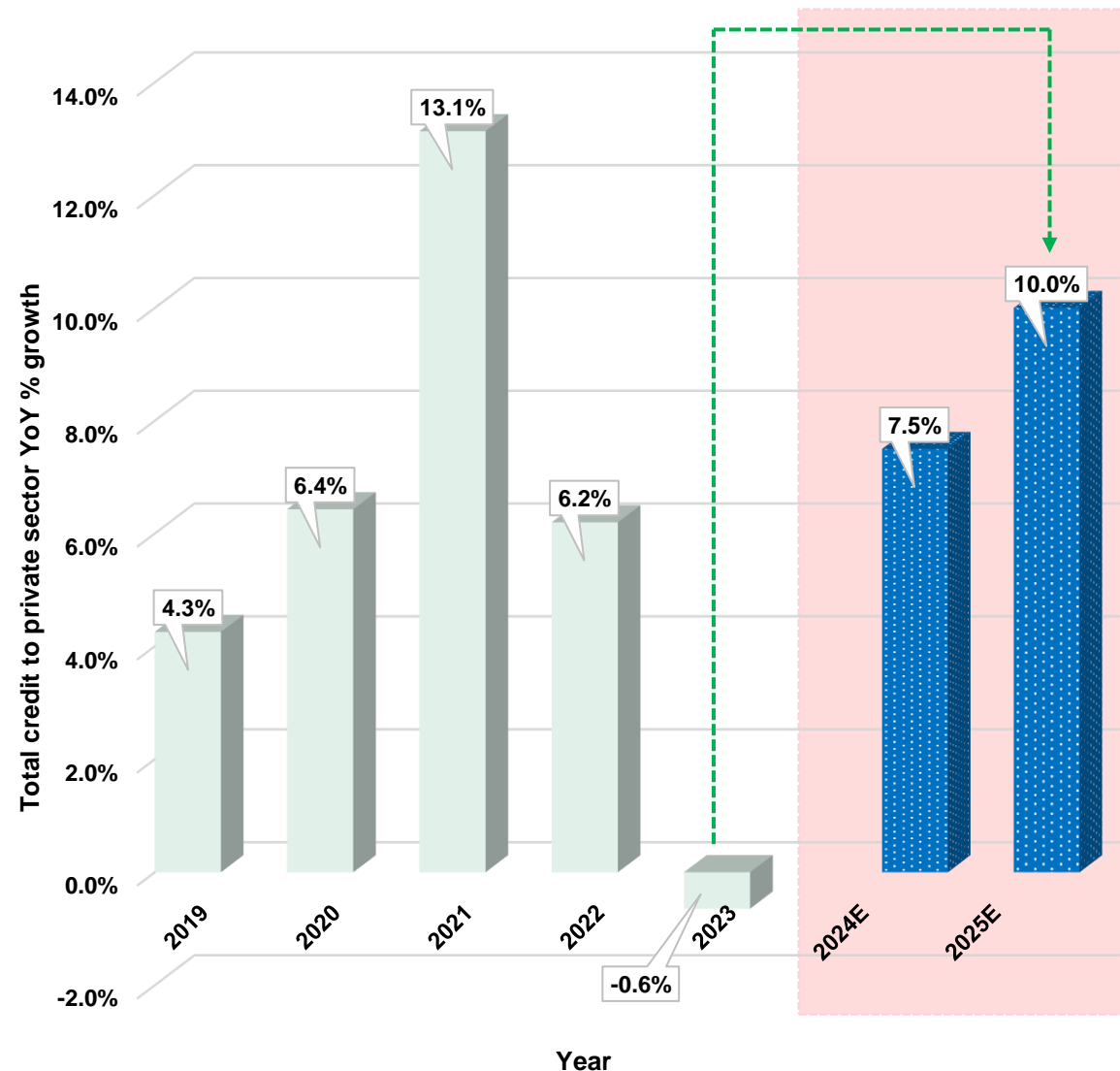
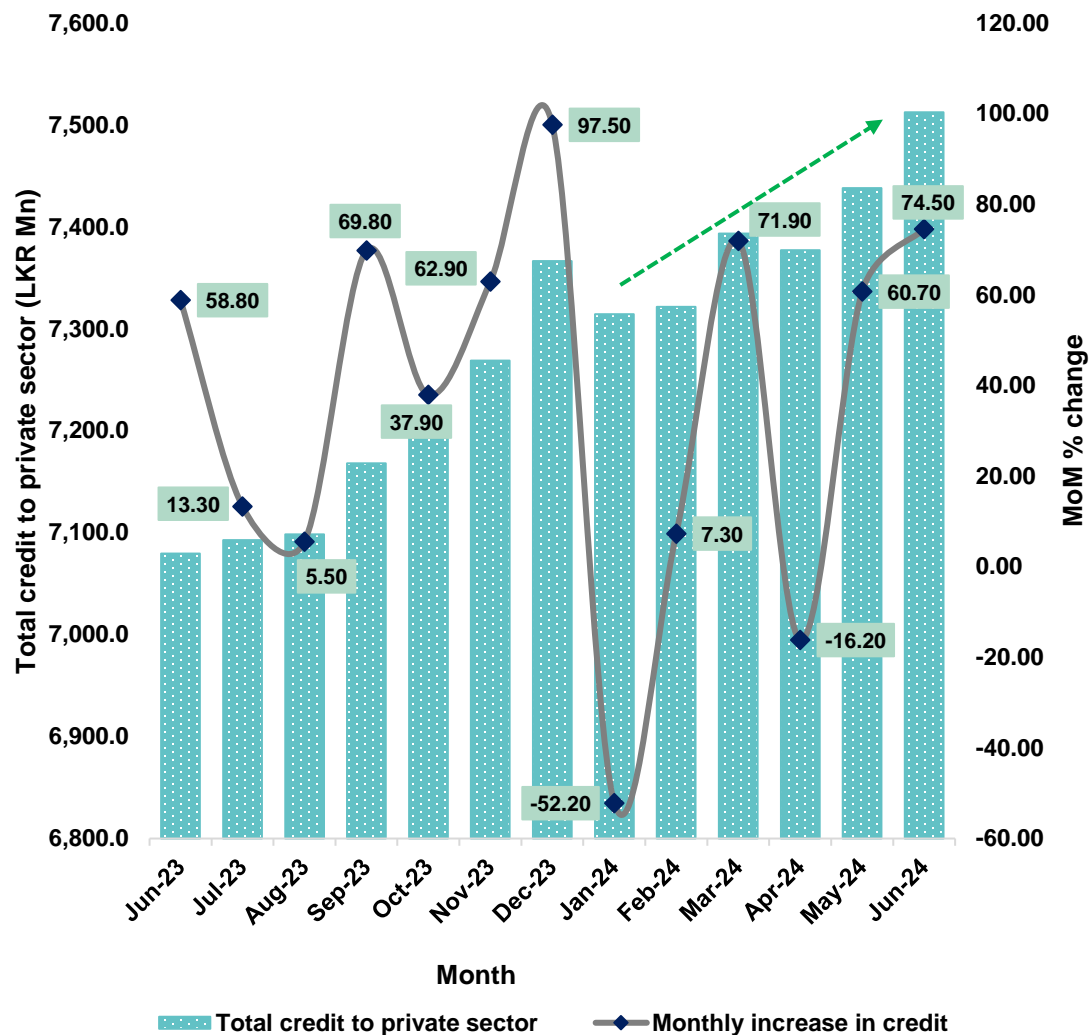




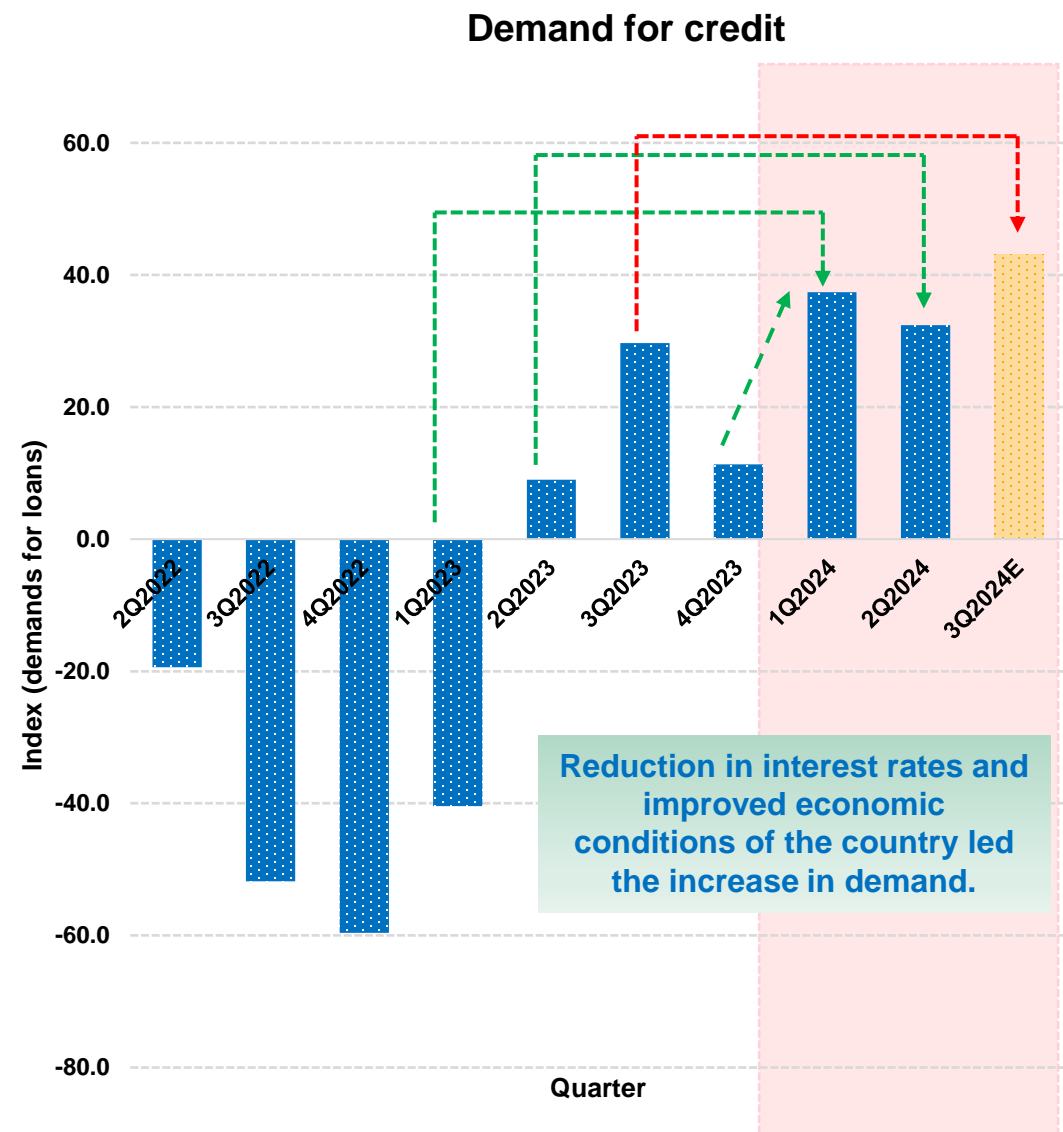
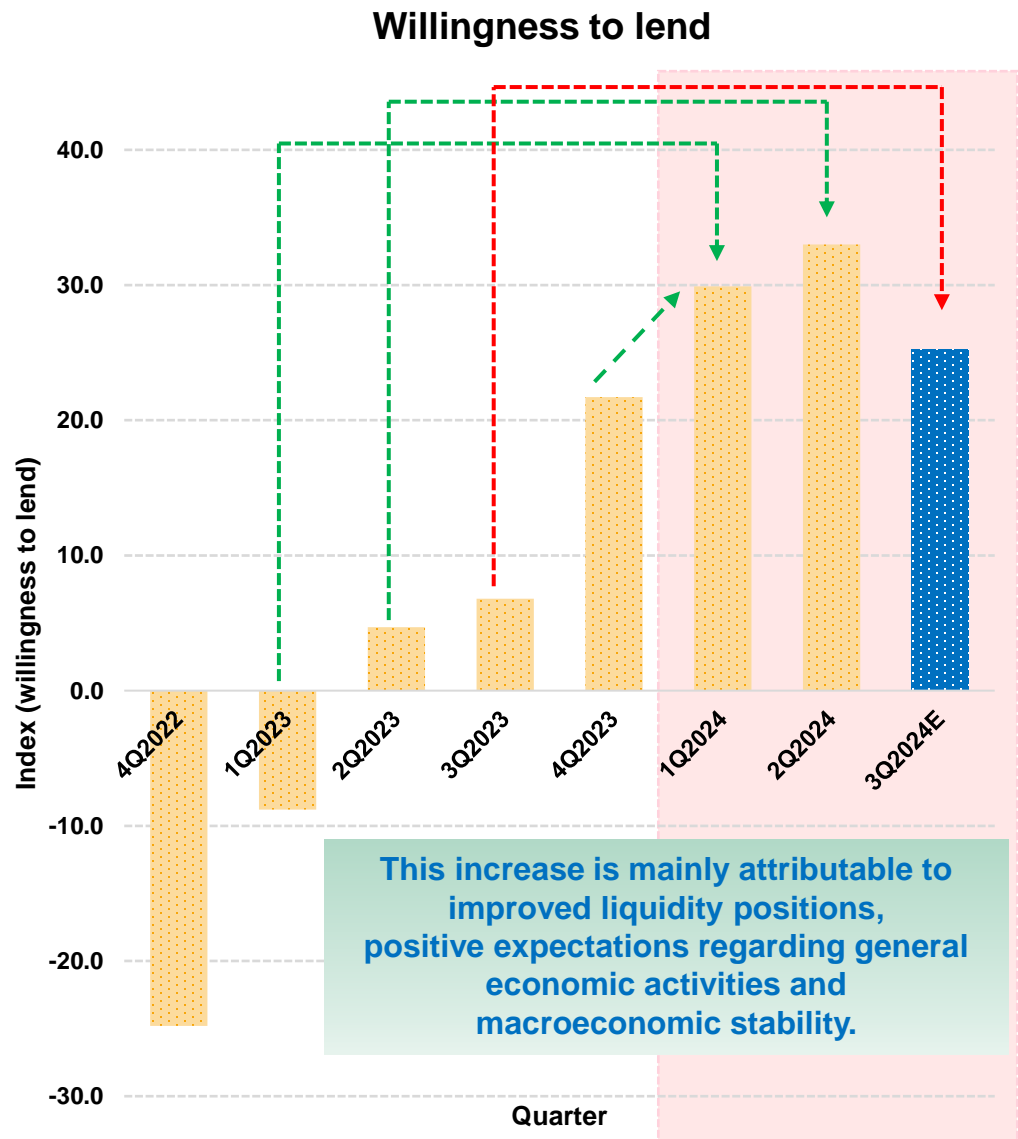
**Banking sector  
loan book to  
grow at a CAGR  
of 10.0%...**



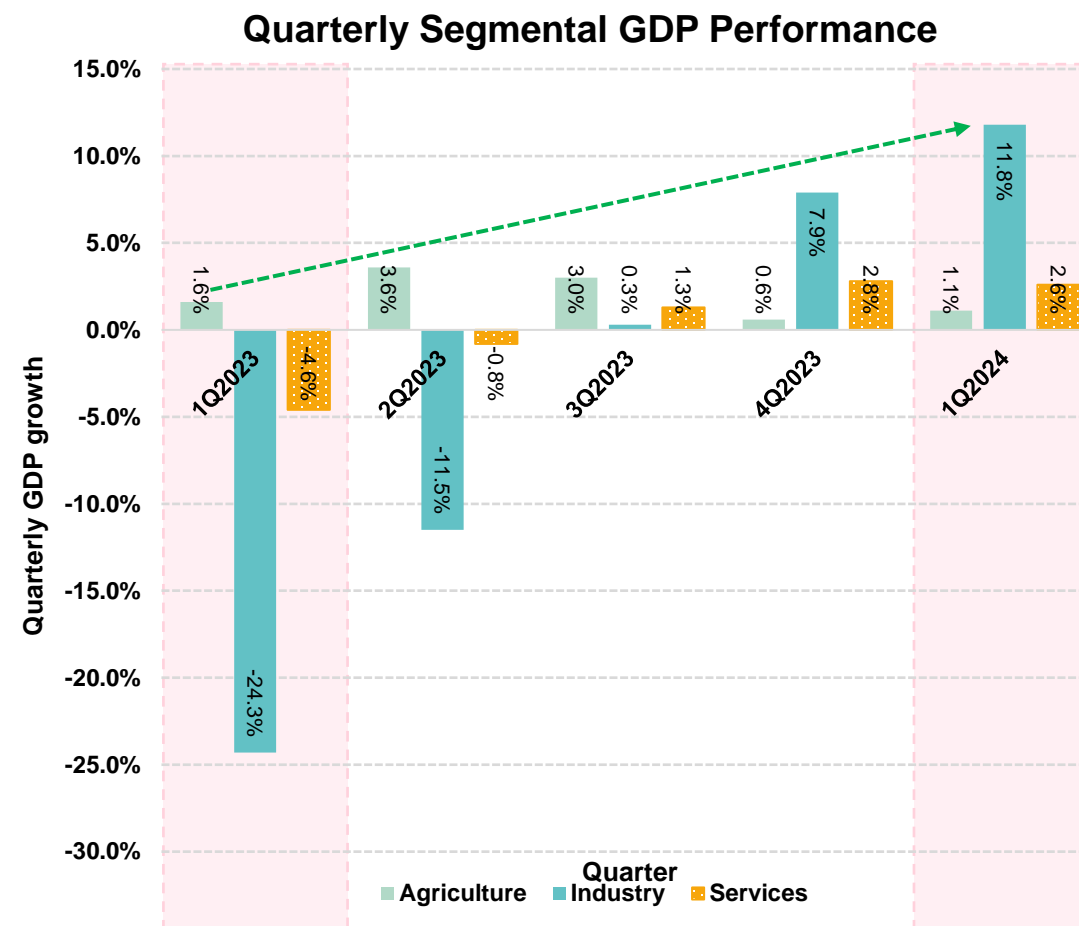
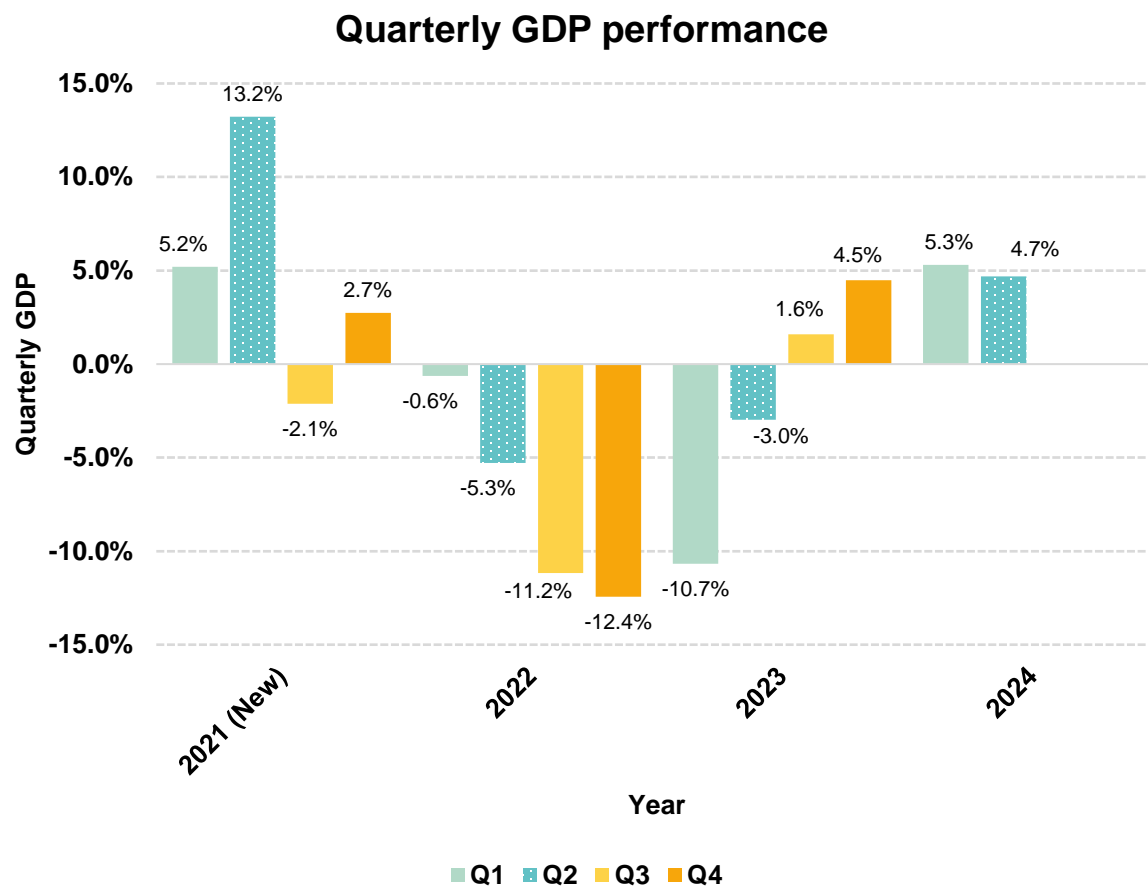
... supported by expansion in private sector credit...



# ... as willingness to lend and demand for credit picks up...

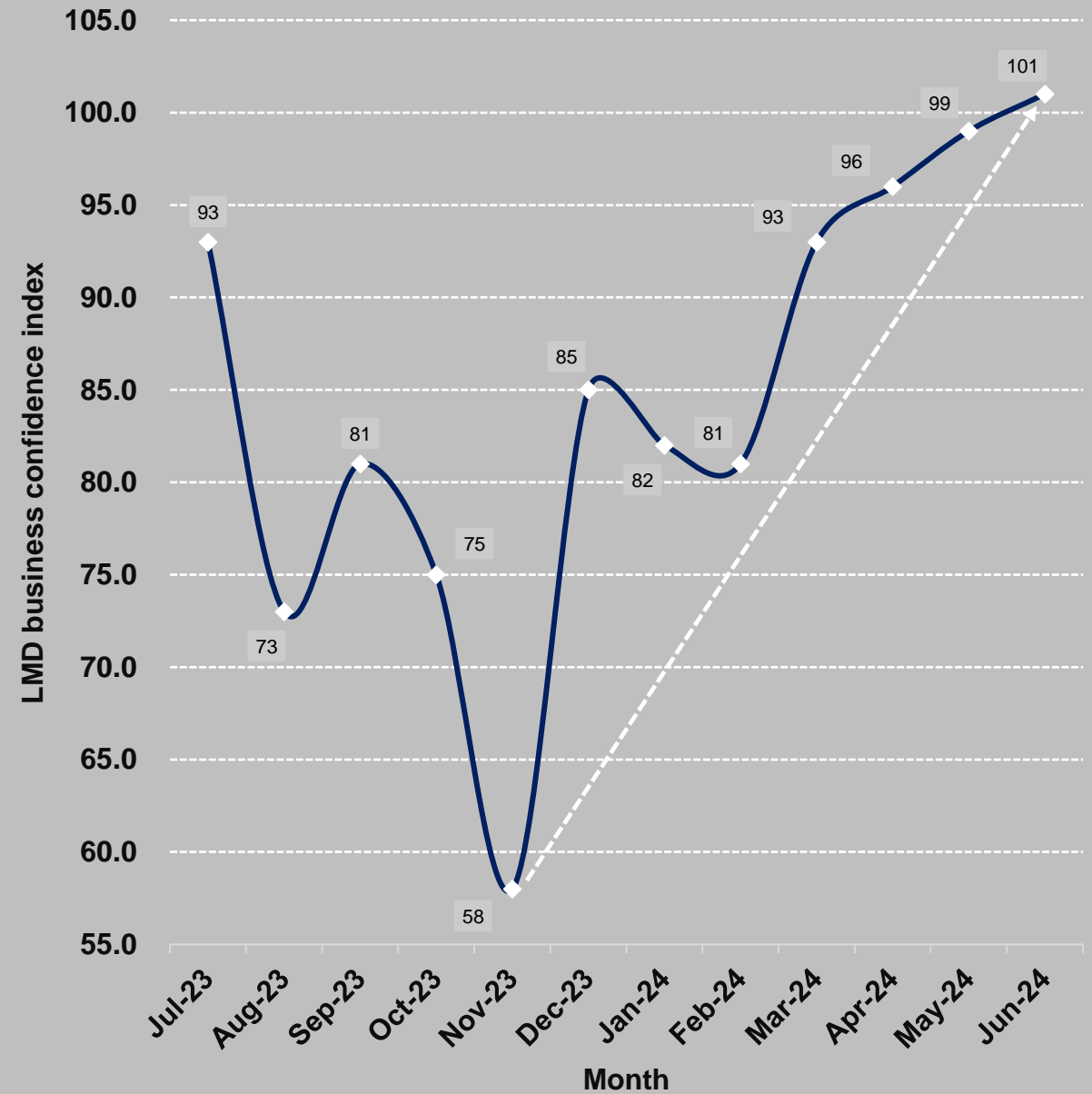


... driven by the recovery in key sectors of the economy...



“Sri Lanka has shown great resilience as it Shaked off economic crisis and continued to post growth during the past 4-quarter period. The growth was largely driven by the recovery in industry and Services subsegments, due to the recovery of tourism and apparel manufacturing segments”

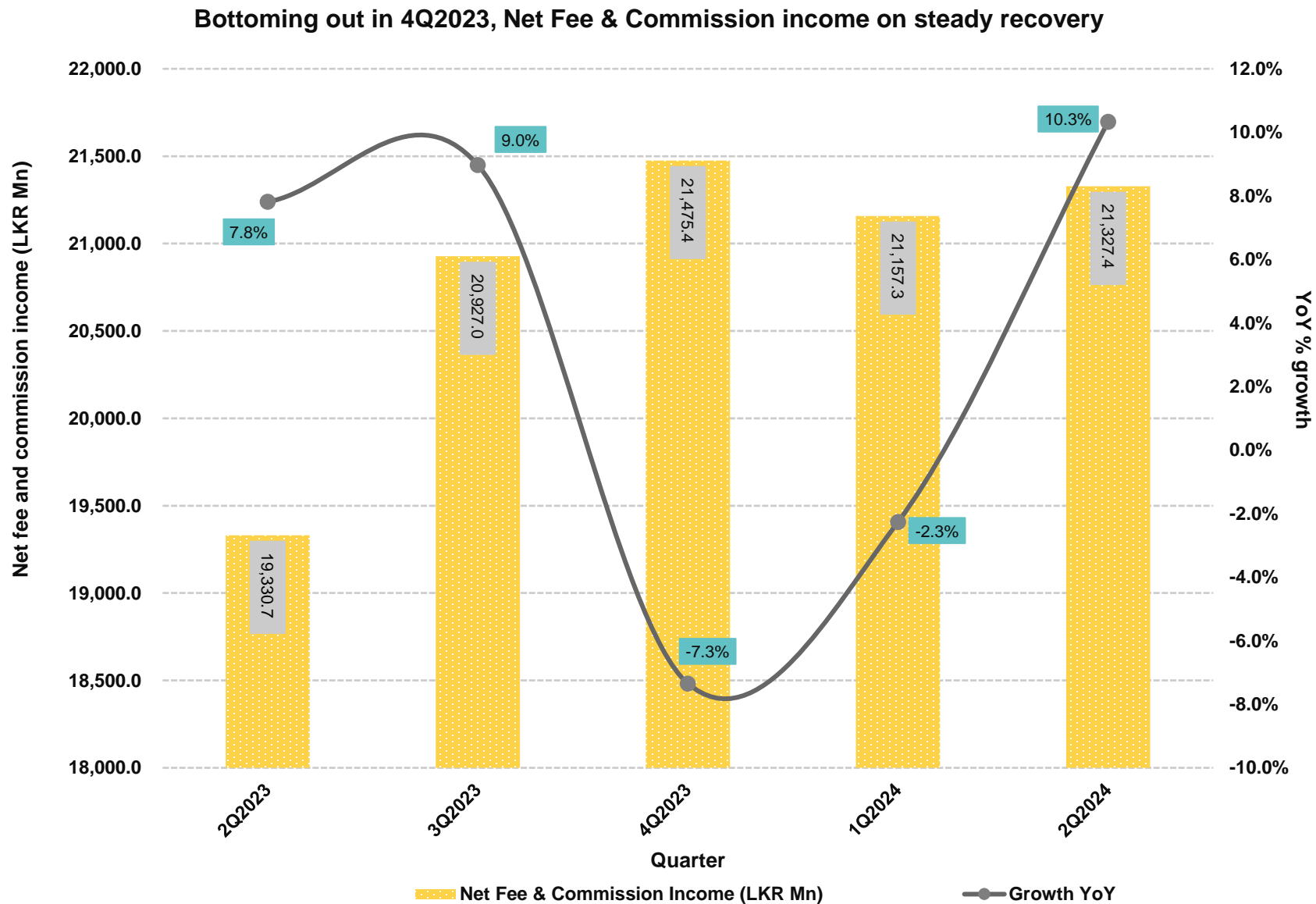
... and  
business  
outlook  
improves



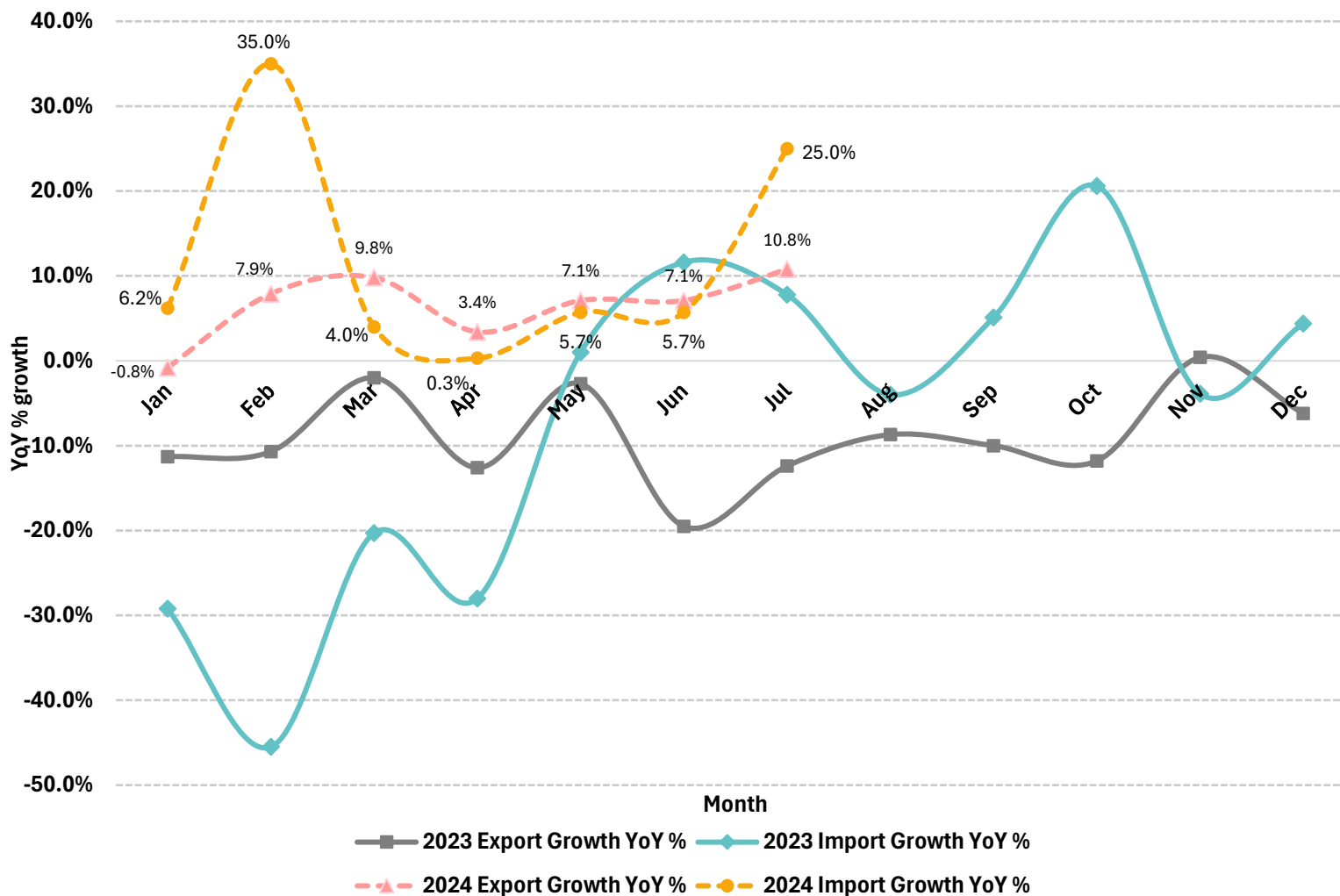


**Digitalization and GDP recovery  
to drive fee business**

# Net Fee & commission business records YoY growth since 3Q2023...



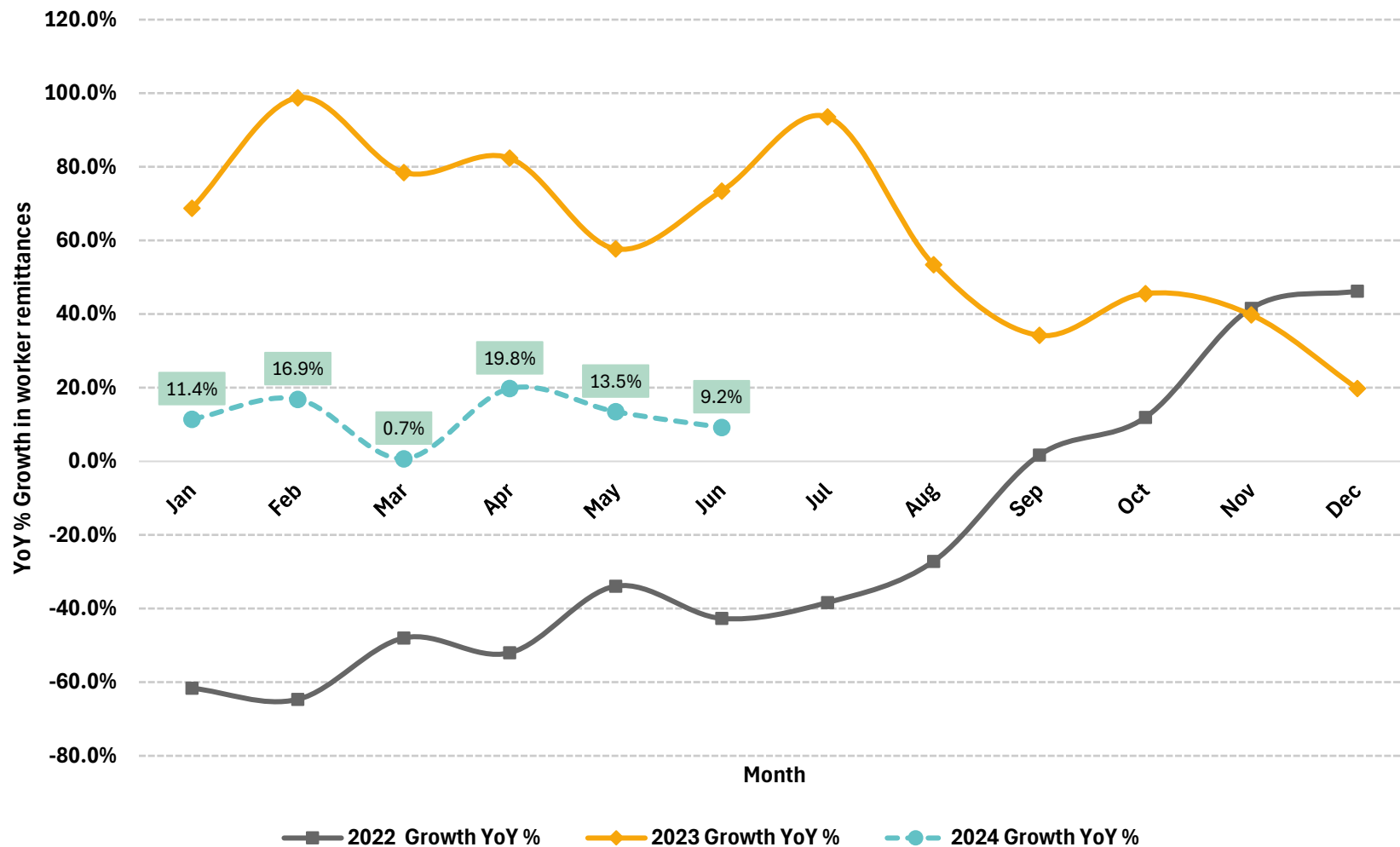
# ...as trade recovers and import restrictions ease



*The growth of exports and imports is being fueled by economic expansion and a rebound in global trade, as global GDP is expected to recover.*



... evident by improved volumes via official payment channels



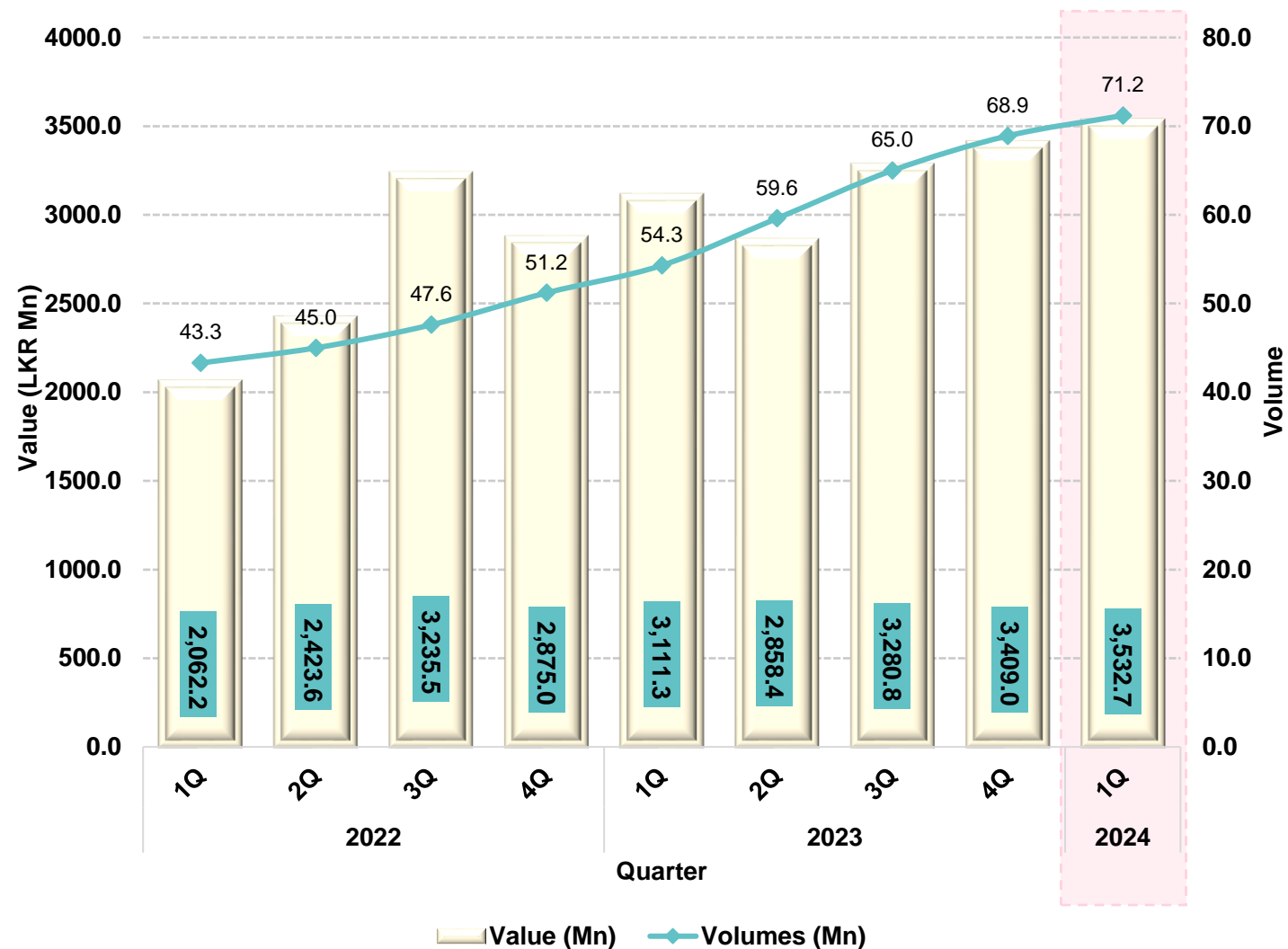
“ Worker remittances grew from Jan-24 to Jun-24 compared to the same period in 2022 and 2023, with narrowing down of spreads between official and unofficial channels, creating a significant difference compared to 2022. ”

# Digitalization remains key as government tries to go online...



**Key government agencies like IRD, DMT and Customs have aimed to move their operations online this year.**

... supporting the already accelerated online trading volumes...

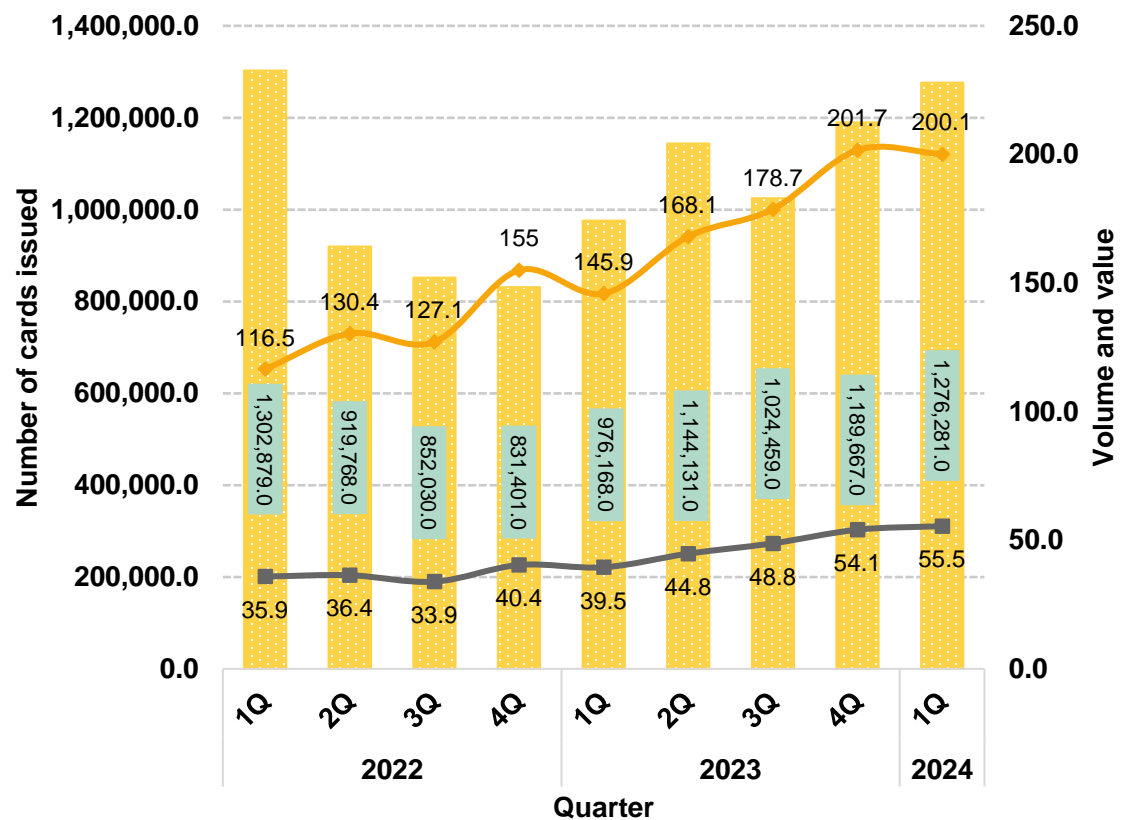


*Online trading volumes reached an over 2 year high in 1Q2024 due to the accelerated economic growth coupled with increased usage in internet and smart devices.*

# ... and card transaction volumes...

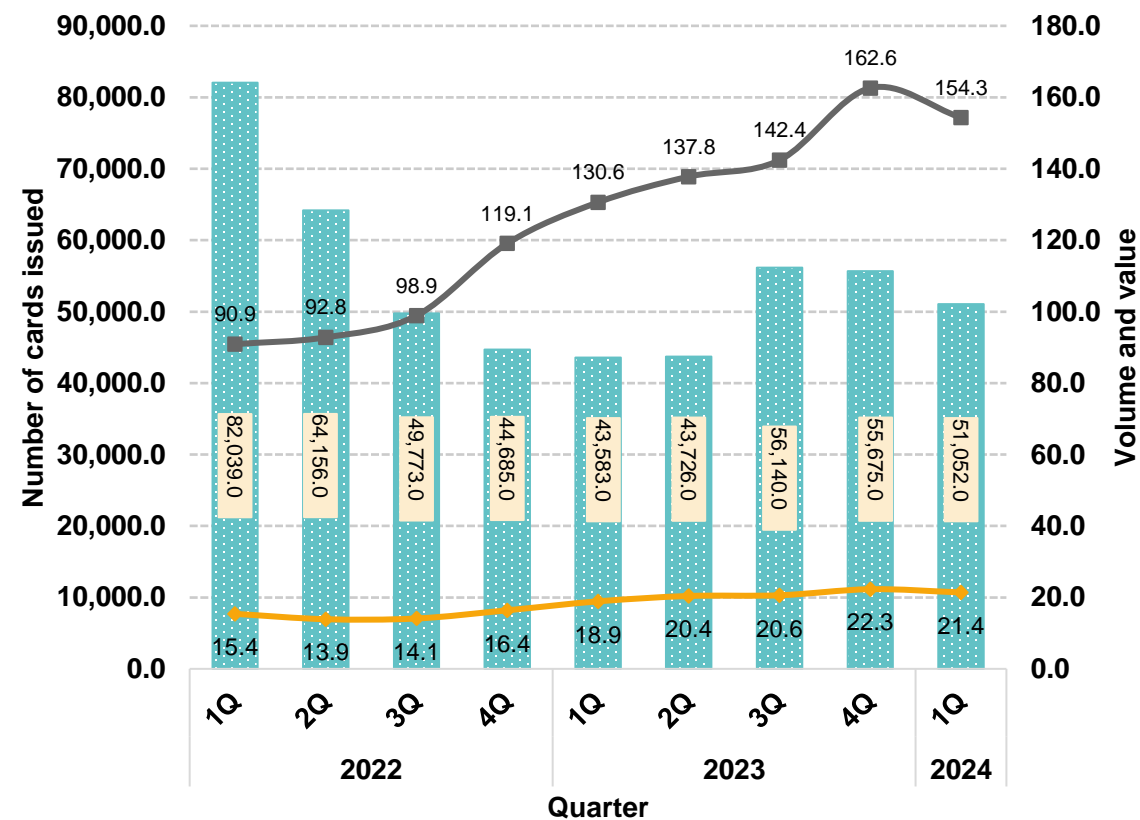
With modern trade growth, development of technology and consumption, number of cards issued, volumes and transaction amounts were increased compared to the last seven quarters.

### Debit cards



Despite the slight slowdown in volumes and transactions during 1Q2024, credit card transactions have witnessed resurgence, buoyed by the low-interest rate environment and recovery in trade.

### Credit cards



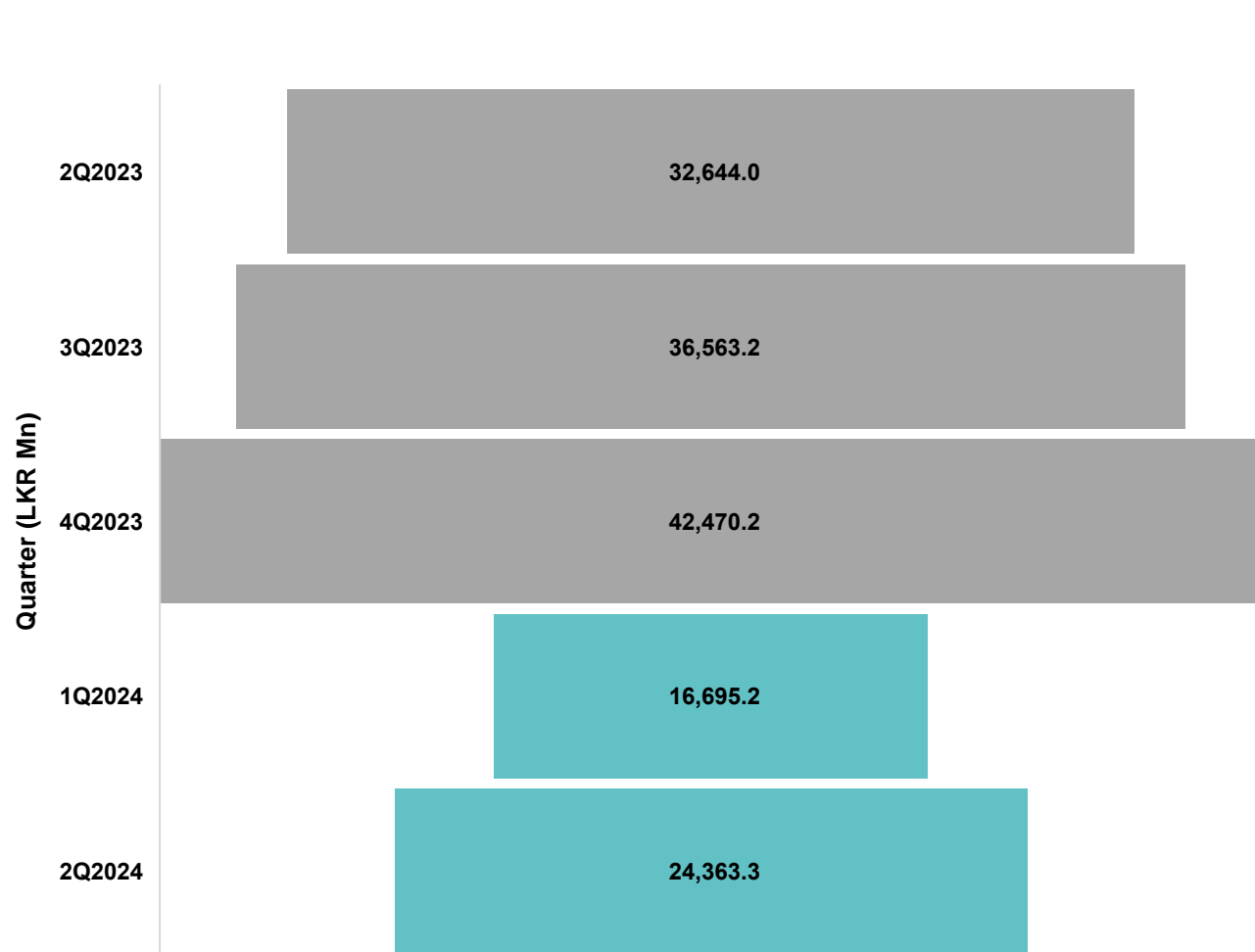
■ Number of cards issued      ■ Total volume of transactions (Mn)  
— Total value of transactions (Mn)

■ Number of cards issued      — Total volume of transactions (Mn)  
■ Total value of transactions (Mn)



**Burden from NPL to ease on  
profitability**

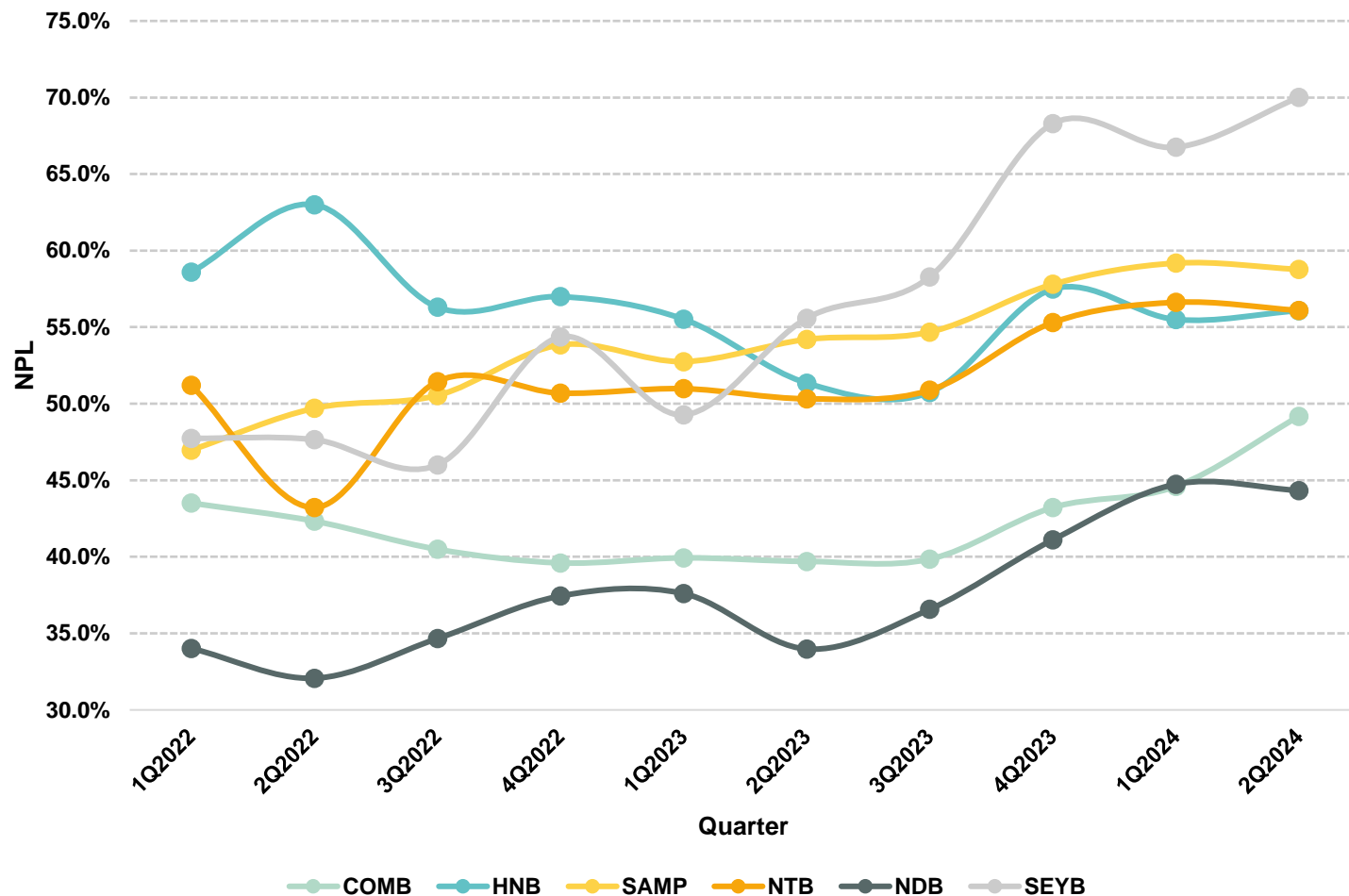
# Impairments continue to decline inline with FCR expectations...



Impairment provisions continued to edge down from its peak recorded in 4Q2023.

However, as loan book expanded in tandem with GDP recovery, provisions slightly picked up on a QoQ basis.

# ...whilst stage 3 NPL continues to remain stable and show signs of easing...



**Pressure from Stage 3 NPL on balance sheet continued to ease as economy recovers.**

**However, expansion in loan book may add pressure to NPL backed by the conservative stance maintained by banks.**

# ... while resurgence in tourism...

Tourism sector earnings for the companies listed in CSE showing steady recovery influenced by the recovery in arrivals.

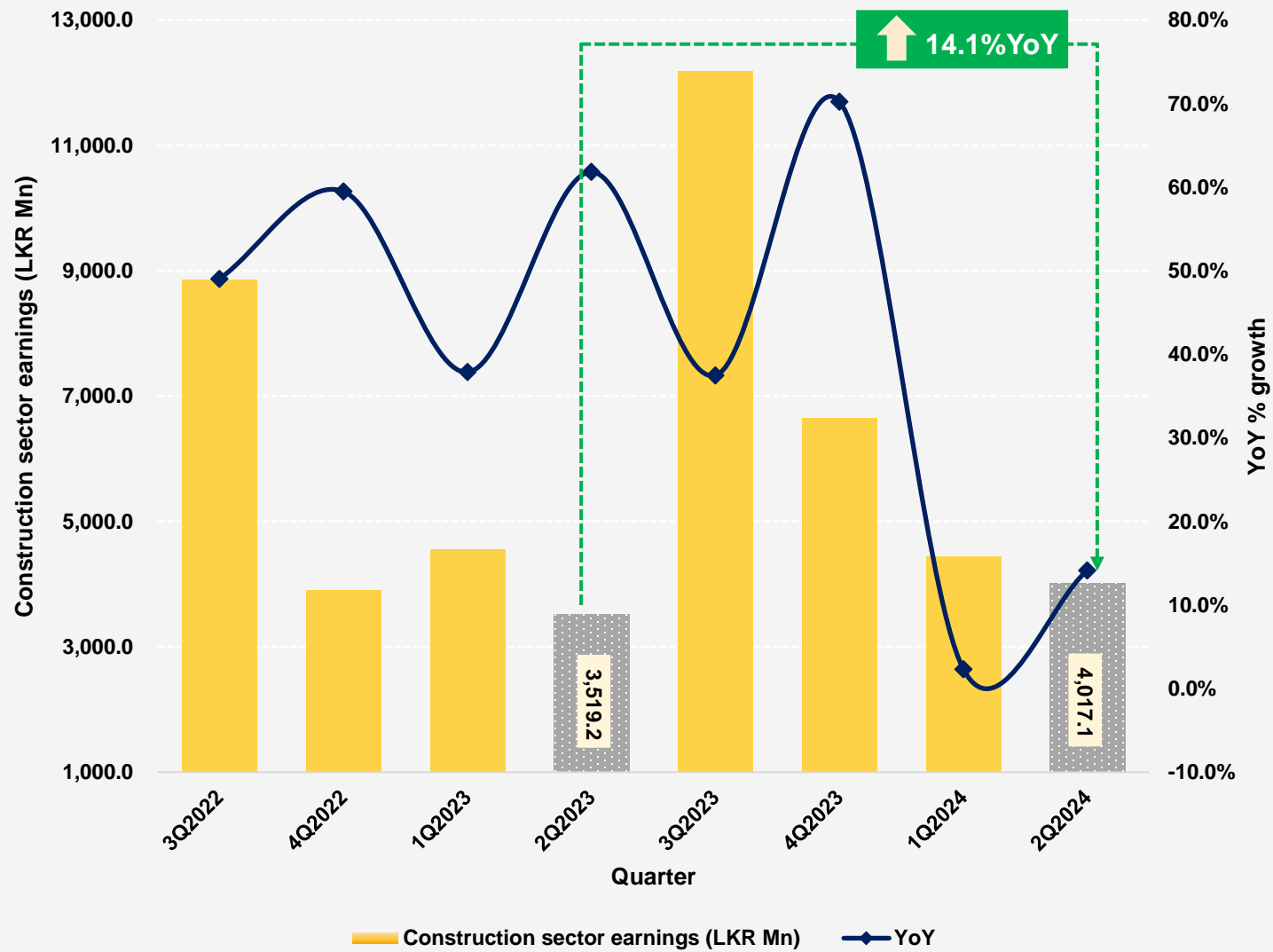


Despite the off-peak arrivals, 2Q2024 recorded a remarkable 30.6% YoY increase in tourism sector earnings compared to 2Q2023, driven by a 29.5% YoY growth in tourist arrivals. In 2023, tourism contributed 2.5% to the GDP and provided 429,641 direct and indirect employment opportunities in the country. The continued growth in tourism earnings is poised to foster economic development and enhance the disposable income of the population, signaling a positive trajectory for the nation's prosperity.



# ...and construction aids towards recoveries

Sri Lanka's construction sector\*\* showed notable growth (14.1%YoY) in 2Q2024, driven by a favorable business environment and the resumption of large-scale infrastructure projects after a two-year suspension. Despite the expansion, the sector faces challenges with a shortage of skilled workers and ongoing employment contraction, though optimism remains high due to the increasing pipeline of projects and declining material costs.

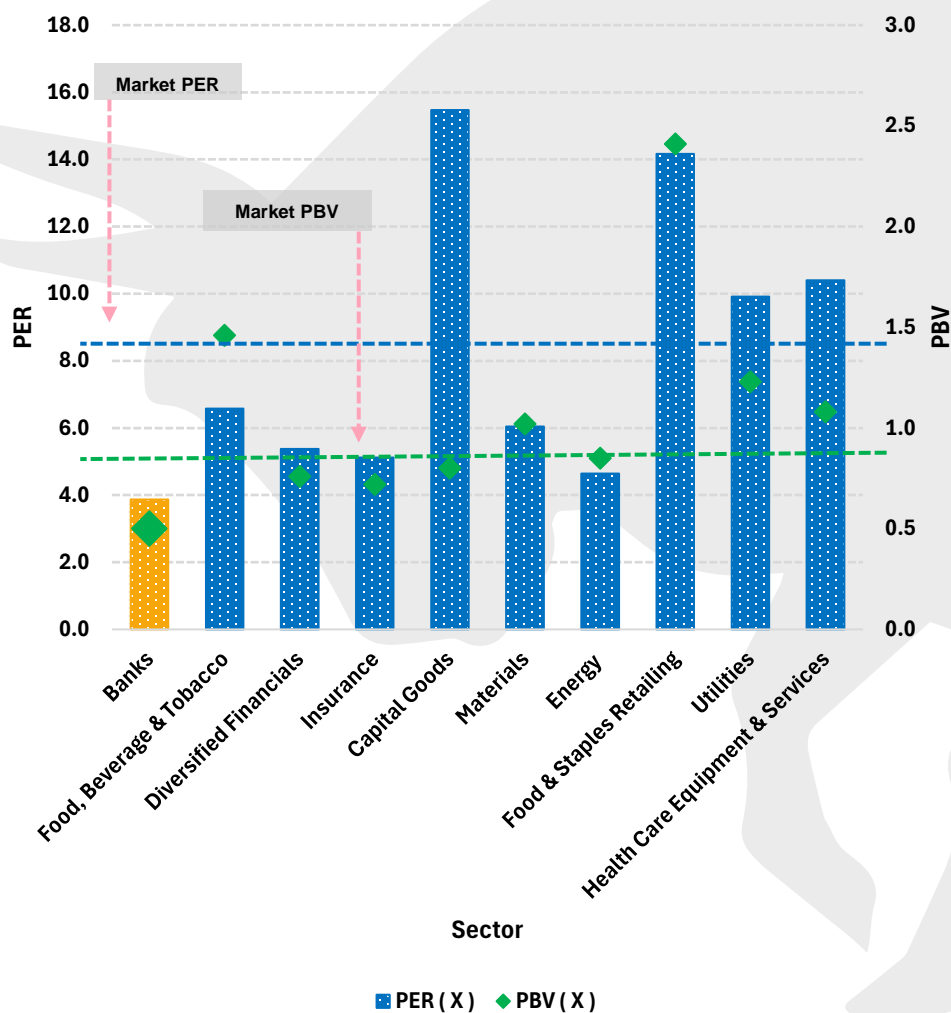


\*\*CERA, AEL, ACL, CIND, KCAB, LWL, RCL, SIRA and TKYO have been taken for the construction sector earnings as those companies are the direct players in the construction industry

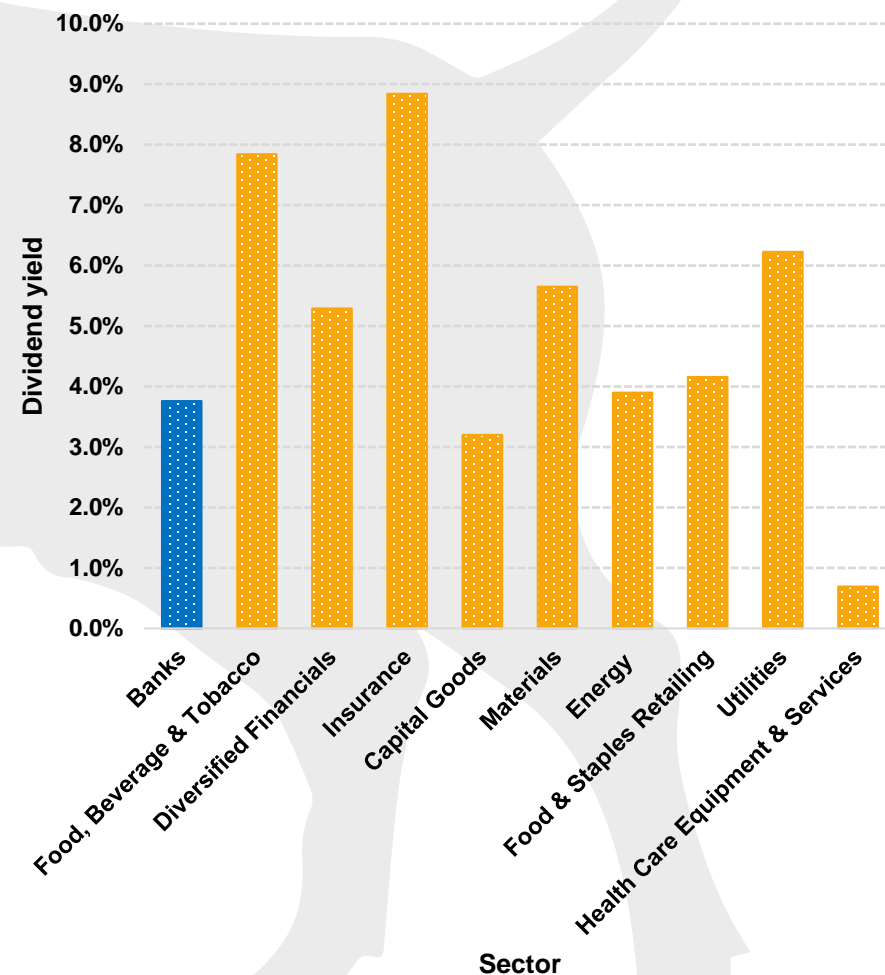


Great valuations at a great bargain

# Banks continue to offer great value to other listed sectors...

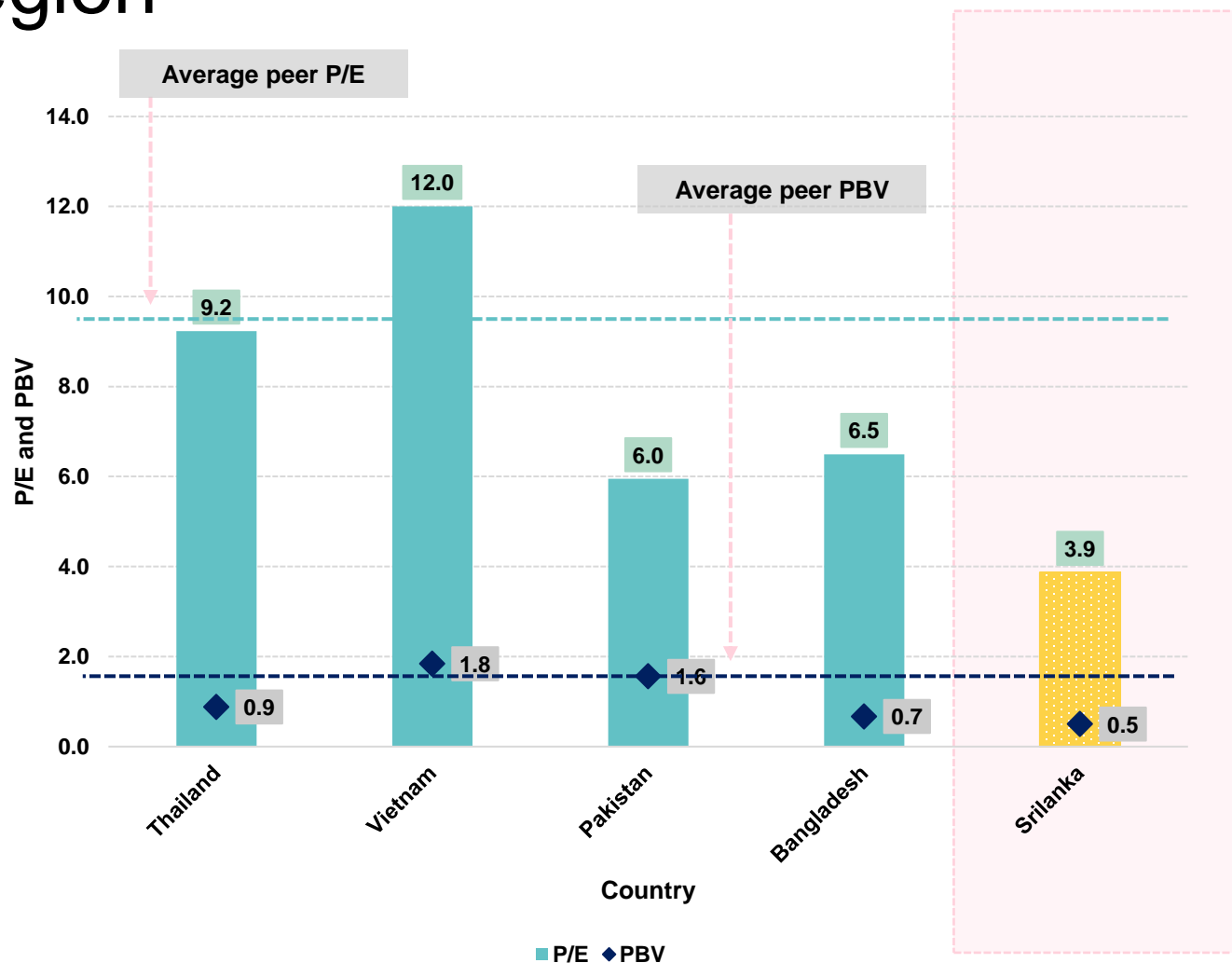


The Banking sector appears undervalued relative to other sectors listed on the CSE and the market. Given the current P/E and PBV multiples, there is potential for a rerating upon completion of the EDR and rating upgrade.



\*\*Data as of 23-Sep-24

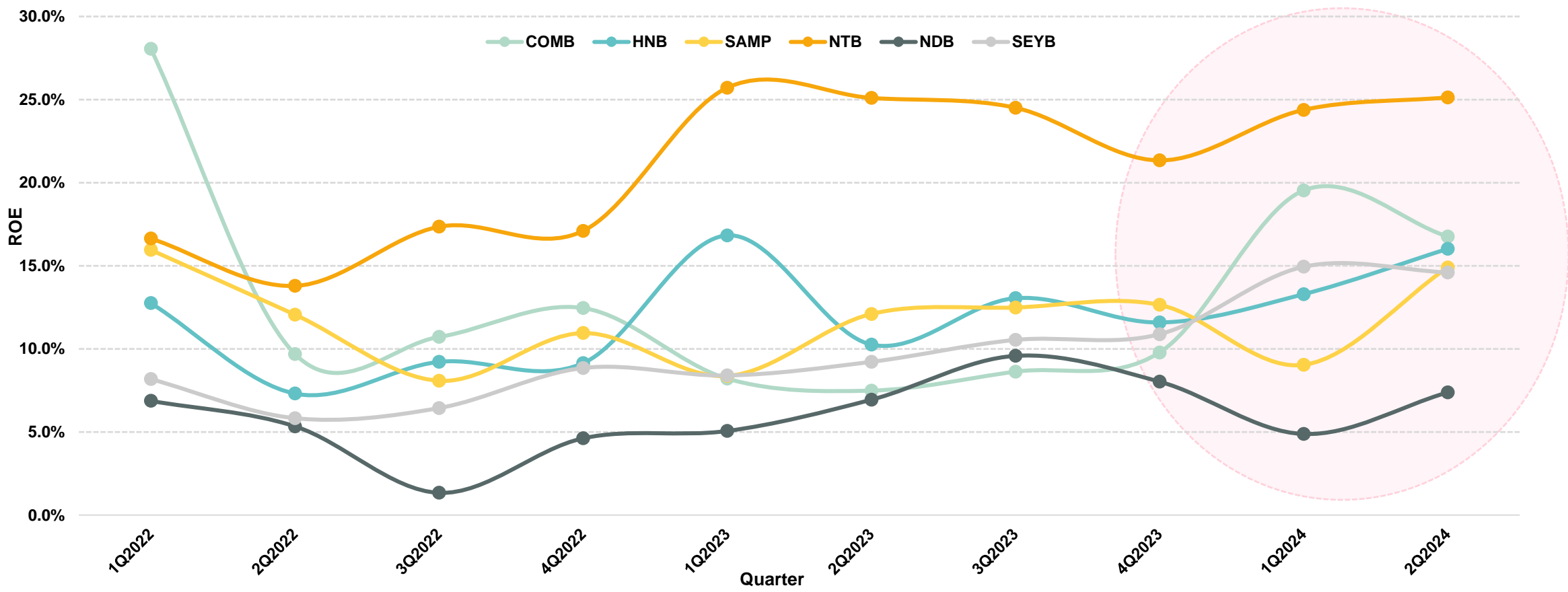
... whilst continuing to remain amongst the cheapest in the region



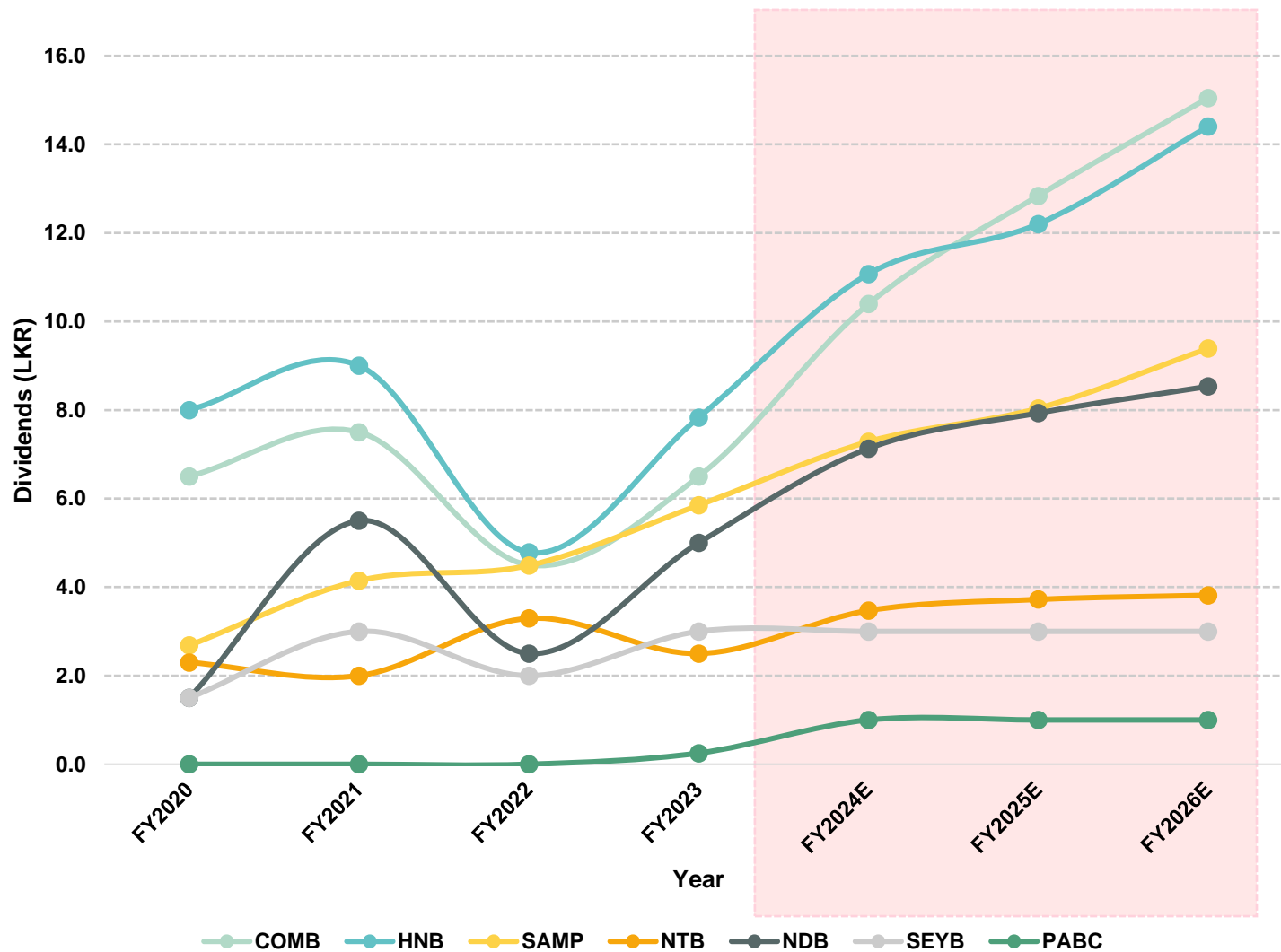
Compared to the selected Banking sectors in frontier and emerging markets in Asia, Banking sector in Sri Lanka is undervalued considering current trading P/E and PBV relative multiples. FCR believes Banking sector in Sri Lanka will rerate considering the anticipated economic developments in the country and currently, companies in the sector are trading at a discount.

\*\*Data as of 23-Sep-24

# Recovery in core business and profitability to offer entry to high ROE companies...



... coupled with the resumption of dividends from last year



During FY2023 Banking sector counters in FCR Banking sector universe have increased their dividends compared to FY2022. The FCR project's dividend growth will be steadily increasing over the next three years.



## Challenges to the sector



# Sri Lanka ticks off the final box on debt restructuring...

**In a major move towards achieving debt sustainability, the Government of Sri Lanka reached an agreement in principle with the Restricted Members of the Steering Committee on the terms of a comprehensive restructuring of the Bonds.**

**Having completed Domestic Debt Optimization (DDO) in Sep-23 and Bilateral creditor discussions in Dec-23, the agreement in principle with the Steering Committee ticks off the final box on debt restructuring.**

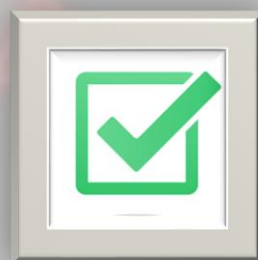
**The agreements will be finalized upon the inking of the MoUs with all relevant parties and with the exchanging of bonds.**



**Domestic Debt Optimization  
Dec-23**



**Completion of Bilateral Debt Discussions  
Dec-23**



**Agreements reached with External  
Creditors Sep-24**



# ... whilst the offered local deal a game changer for banks...

## Local Option

### PDI Bond

Exchange of USD-denominated instruments into USD-denominated securities, with features identical to the PDIs treatment agreed with international bondholders:

- 11% haircut on claim as of end March-2024
- Nonlinear amortization as per the JWF amortization structure, with first amortization in 2024 and final maturity in 2028 (30-Sep-2024: 7.0%, 31-Mar-2025: 20.0%, 31-Mar-2026: 20.0%, 31-Mar-2027: 20.0%, 31-Mar-2028: 33.0%)
- Fixed interest rate coupon at 4%

### Terms of USD-denominated securities ("USD Bond") 70% of nominal value (before haircut)

Exchange of USD-denominated instruments into USD-denominated securities, with the following features:

- Consent fee of c. 1.8% applied to the face value of ISB holdings (identical to the Agreement in Principle)
- 10% nominal haircut on 70% of the face value of ISB holdings (face amount of the USD-denominated B bond at 63% of the original face value)

Amortization <sup>(1)</sup>			Maturity date	Coupon payments <sup>(2)</sup>									
2029-32	2033-37	2038		2024	2025	2026	2027	2028	2029-30	2031-32	2033-35	2036-38	
8.0%	12.0%	8.0%	31-Mar-2038	1.0%	1.0%	1.5%	1.75%	2.0%	2.25%	2.75%	3.0%	3.5%	

- Foreign law bond

### Terms of LKR-denominated securities ("LKR Bond") 30% of nominal value

Exchange of USD-denominated instruments into LKR-denominated securities, with the following features:

- Linear semi-annual amortization, with first amortization in 2036 and final maturity in 2043
- Floating interest rate coupon: Central Bank of Sri Lanka's SLFR + 0.5% margin
- Governing law of Sri Lanka

The recently completed deal also includes a local option, where a deal was offered to exchange 70% of the face value of ISB via a Dollar bond at a haircut of 10%, whilst a Rupee bond was also offered with a zero haircut for the balance 30% of the outstanding face value of ISB.

We believe that the agreed deal is far more beneficial for banks, from the previous expected, having already provisioned between 50%-55% of the outstanding ISB face values.

The NPV loss on the outstanding bonds from the agreed deal is expected to be significantly lower than provisioned, enabling banks to reverse the over provisions.

... yet a delay in finalizing the deal pose a threat for the re-rating.

Having agreed in principle on conditions related to External Debt Restructuring, Sri Lanka is currently on the verge of achieving debt sustainability.

However, the agreed deal needs to be assessed for comparability by the Official Creditor Committee (OCC) and MoU needs to be signed as the final stage with all related parties.

Given the sensitive position Sri Lanka is in, we believe that the newly appointed President may look to finish up the debt restructuring endeavor and resume on improving and passing of the much-needed reforms that are anticipated by the people.

However, the risk also lies where in an event the deal is derailed or delayed, the uncertainty pertaining to ISB can resurface and affect towards the re-rating of the banking sector.



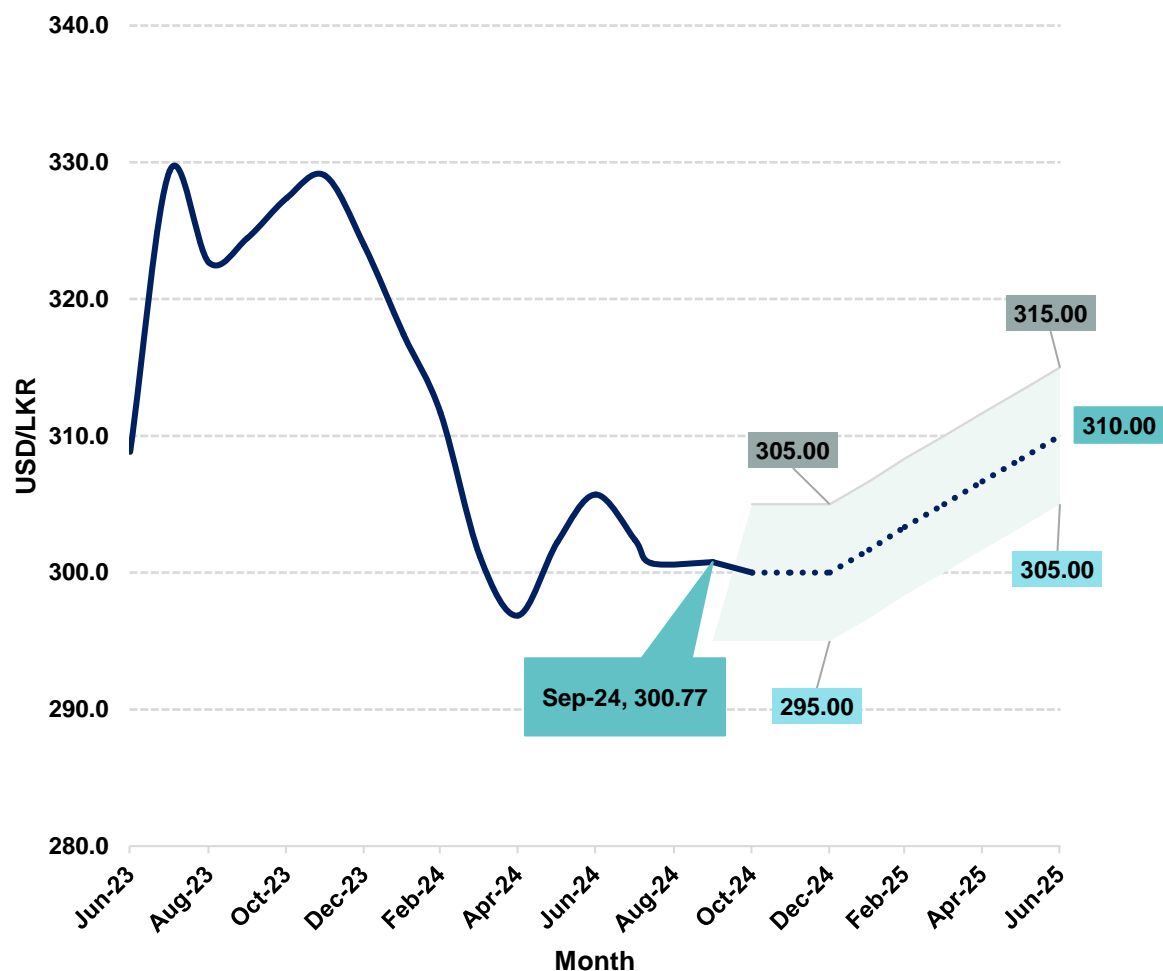
# Suspension of Parate challenges return to business as usual...

As we have continuously highlighted in our previous updates, the suspension of the Parate execution pose challenges for banks to recover the NPL assets. Furthermore, the suspension also poses a risk through relatively higher spreads maintained by banks, to mitigate the potential threats of NPLs, which is hindering the loan growth of the banks.

However, we believe there is a good chance that the suspension of Parate is lifted upon the 15<sup>th</sup> Dec-24, given that the economy is on a recovery trajectory and loan growth is vital in absence of monetary stimulus by the government.



# ... whilst currency appreciation poses a challenge on books...



Sri Lankan economy and imports show a positive relationship throughout history, given the Sri Lanka's export industry as well as consumption which is primarily dependent on imported raw materials.

Given that Sri Lanka is on a recovery trajectory, we believe imports will continue to grow in the medium-term adding pressure to the currency.

Moreover, if enacted, the EDR is also expected to add further pressure on the currency. The new local option included in the deal, is expected to reduce bank's foreign currency position via the exchange of a local currency bond. Which may result in aggressive Dollar purchases by banks to recapitalize the required Dollar buffers of the banks.



# Individual banks review 2Q2024



COMMERCIAL BANK

# COMMERCIAL BANK OF CEYLON PLC



“GIANT AT A BARGAIN”

**MAINTAIN BUY**

**Fair Value: 2024E - LKR 165.0 [+65%]**

**2025E - LKR 190.0 [+90%]**

**Ranjan Ranatunga**

*Total Return with DPS: 2024E - 75% [AER 807%]*

*2025E - 103% [AER 76%]*

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LKR (Mn)	2Q2023	2Q2024	YoY	1H2023	1H2024	YoY
<b>Earnings (LKR 'Mn)</b>						
NII	18,474	30,922	+67%	37,450	58,620	+57%
Total Operating Income	25,233	42,310	+68%	50,520	77,257	+53%
Net Operating Income	18,819	26,729	+42%	37,309	58,241	+56%
PBT	7,351	12,379	+68%	14,092	29,117	+107%
Net Profit	3,750	7,929	+111%	7,967	18,555	+133%
<b>Balance Sheet (LKR 'Mn)</b>						
Shareholder's Equity	205,805	224,831	+9%	205,805	224,831	+9%
NAVPS	123.4	134.8	+9%	123.4	134.8	+9%

### COMB net earnings up YoY driven by core business growth

COMB net earnings inclined by 111.4%YoY to LKR 7.9Bn for 2Q2024 (variance of -2.5%). The growth in core business drove the profitability during the quarter, where NII increased by 67.4%YoY backed by proactive adjustments by banks on deposits, which resulted with interest expense declining by 32.7%YoY compared to the 8.0%YoY decline in interest income. Moreover, the growth was also supported by the improvement in net fee and commission income by 4.8%YoY backed by the recovery in the GDP and trade. Meanwhile, with the improvement in loan book, provision for impairments increased by 142.9%YoY to LKR 15.6Bn, partially offsetting the growth seen from core business expansion.

### Gross Loan book recovery accelerates in 2Q2024

COMB gross loan book accelerated in 2Q2024 recording a growth of 3.6%QoQ to LKR 1.4Tn aided by the prevailing low-interest rate environment and improved business sentiment. Term loans emerged as the largest contributor towards the loan book expansion, recording a growth of 4.7%QoQ to LKR 821.2Bn whilst Lease rental receivables (+9.0%QoQ) and overdrafts (+2.5%QoQ) also showed steady growth. However, trade finance business declined during the quarter (-4.3%QoQ), possibly due to the appreciation of the LKR cf. the USD. Meanwhile, impairment provisioning on loans and advances inclined by 6.4%QoQ to LKR 97.3Bn as loan book expanded whilst stage 3 NPL ratio declined to 4.87% in 2Q2024 from 5.59% in 1Q2024.

### COMB deposit base expanded by 2.4%QoQ to LKR 2.2Tn

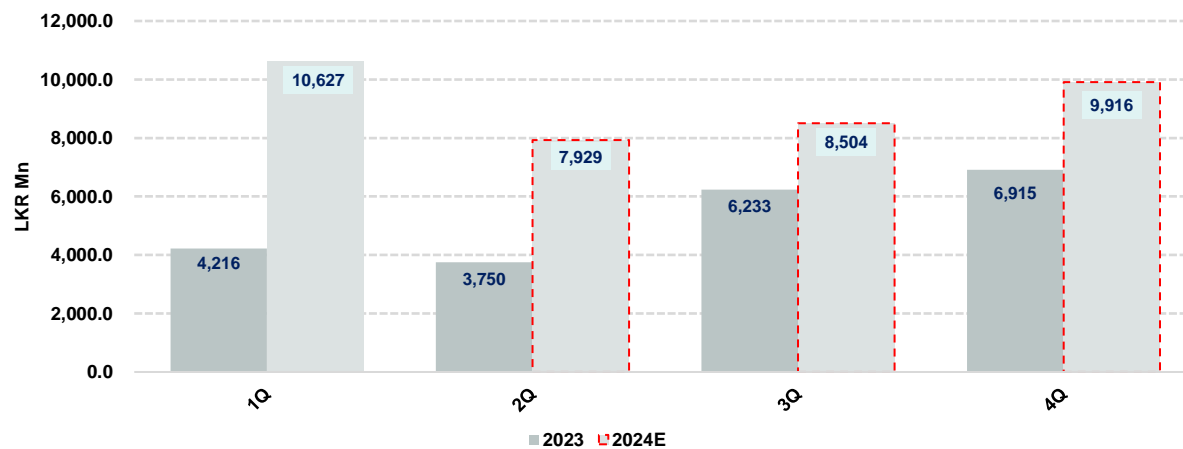
COMB deposit base expanded by 2.4%QoQ to LKR 2.2Tn in 2Q2024 driven largely by local currency deposits (+16.1%YoY and +3.7%QoQ) whilst foreign currency deposits remained stagnant at LKR 693.4Bn, affected by the LKR appreciation. Meanwhile, amidst a declining interest rate environment, COMB prudently managed its cost base and reported an improvement in CASA base to 41.4% in 2Q2024 cf. 40.9% reported in 1Q2024.

## COMB announces LKR 22.5Bn rights issue to strengthen buffers

In a move to strengthen the thin buffers in terms of Tier 1 capital COMB announced a rights issue of 1 new share for every existing 5 shares held for both voting and non-voting shares at LKR 85.0 and LKR 69.0, respectively. The proposed LKR 22.5Bn rights issue is expected to strengthen the 2Q2024 reported tier 1 capital ratio of 11.661% (Regulatory Req. 10.0%). Moreover, COMB liquidity position was also strengthened as the bank raised funds few times through debentures, expecting to lift the 2Q2024 reported total capital ratio of 15.088%.

## TP adjusted for new shares as recommendation maintained

Despite the poor performance of the share price (affected mostly by political uncertainty), COMB recorded a profit growth of 132.9%YoY to LKR 18.6Bn in 1H2024, performing inline with our expectations. Thus, we continue to maintain our rights adjusted target price of LKR 190.0 for 2025E offering a substantial upside of 90% to the current share price. Given the upside to our TP, we continue to rate the bank **MAINTAIN BUY**.



## Estimate Revision

In LKR Mn	2024E-O	2024E-R	% Change	2025E-O	2025E-R	% Change
<b>Earnings Estimate</b>						
NII	106,404	106,404	0%	125,351	125,351	0%
Total Operating Income	143,186	143,186	0%	165,525	165,525	0%
Net Operating Income	122,313	122,313	0%	141,385	141,385	0%
Profit before Tax	64,194	64,194	0%	75,994	75,994	0%
Net Profit	36,976	36,976	0%	43,773	43,773	0%
Adjusted EPS	28.1	28.1		33.3	33.3	
<b>Balance Sheet Estimate</b>						
Shareholders' Equity	259,138	259,138	0%	293,773	293,773	0%
<b>Adjusted NAVPS</b>	<b>155.4</b>	<b>155.4</b>		<b>165.4</b>	<b>165.4</b>	

## Valuation Table

P/E 31st December	2020	2021	2022	2023	2024E	2025E	2026E
<b>Estimates (LKR 'Mn)</b>							
Net Interest Income	48,640	66,416	84,665	86,415	106,404	125,351	146,909
Total Operating Income	74,500	93,598	136,637	122,070	143,186	165,525	190,965
<b>Net Profit: Equity Holders</b>	<b>16,940</b>	<b>24,062</b>	<b>23,812</b>	<b>21,115</b>	<b>36,976</b>	<b>43,773</b>	<b>52,536</b>
Adjusted EPS (LKR)	12.9	18.3	18.1	16.1	28.1	33.3	40.0
YoY Growth (%)	-2%	42%	-1%	-11%	75%	18%	20%
<b>Valuations</b>							
PER (x)	7.8x	5.5x	5.5x	6.2x	3.6x	3.0x	2.5x
PBV (x)	1.1x	1.0x	0.8x	0.8x	0.6x	0.6x	0.6x
DY (%)	6.5%	7.5%	4.5%	6.5%	10.4%	12.8%	15.0%
Adjusted NAVPS (LKR)	95.2	100.4	125.3	132.2	155.4	165.4	176.2
DPS (LKR)	6.5	7.5	4.5	6.5	10.4	12.8	15.0
Dividend Payout (%)	50.4%	41.0%	24.8%	40.5%	36.9%	38.5%	37.6%



## Valuation Summary

Return	2024E	2025E
Target Price	165.0	190.0
Current Price	100.0	100.0
Capital Gain (LKR)	65.0	90.0
Dividends upto 31st Dec (LKR)	10.4	12.8
Capital Gain %	65%	90%
Dividend Yield %	10%	13%
<b>Total Return %</b>	<b>75%</b>	<b>103%</b>
<b>Annualized Return %</b>	<b>807%</b>	<b>76%</b>

Expected COMB.N Price	2024E	2025E
Justified PBV based target price	155.4	182.0
PER Valuation based target price	177.4	197.2
RI Valuation based target price	166.6	198.7
Average Target Price	166.5	192.6
Target Price after Rounding off	165.0	190.0

## Residual Income Valuation

Residual Income based Valuation	2024E	2025E
PV of Residual Income	57,309	76,806
No. of Shares ('Mn)	1,667	1,776
RI per Share	34.4	43.3
Opening Book Value per Share	132.2	155.4
<b>Value per Share</b>	<b>166.6</b>	<b>198.7</b>

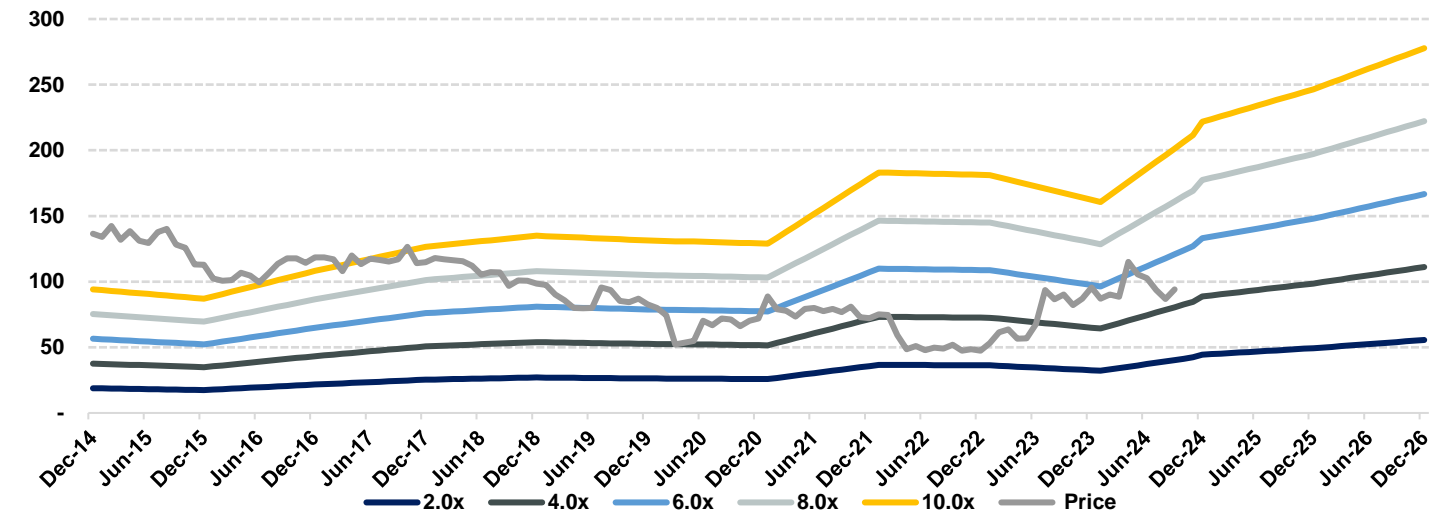
COE	2024E	2025E
Rf	11.0%	11.0%
Rm	19.0%	19.0%
Growth %	3.0%	3.0%
$\beta$	0.8	0.8
$Ke=Rf+\beta(Rm-Rf)$	17.4%	17.4%

## Justified PBV Valuation

Justified PBV based Valuation	2024E	2025E
ROAE	15.4%	15.8%
Growth	3.0%	3.0%
COE	17.4%	17.4%
PBV	1.0	1.1
NAVPS	155.4	165.4
<b>Target Price</b>	<b>155.4</b>	<b>182.0</b>

## PER Valuation

PER based Valuation	2024E	2025E
Earnings (LKR 'Mn)	36,976	43,773
No. of Shares ('Mn)	1,667	1,776
EPS	22.2	24.6
Expected PER	8.0x	8.0x
<b>Price at 8.0x Earnings</b>	<b>177.4</b>	<b>197.2</b>



## Appendix I: Statement of Income and Expenses

Income Statement P/E 31st December	2020	2021	2022	2023	2024E	2025E	2026E
<b>Gross Income</b>	<b>149,737</b>	<b>163,675</b>	<b>280,387</b>	<b>341,566</b>	<b>312,466</b>	<b>355,173</b>	<b>410,951</b>
Interest Income	121,858	132,818	222,393	297,646	266,672	305,536	356,960
Less: Interest Expenses	73,219	66,402	137,728	211,231	160,268	180,185	210,051
<b>Net Interest Income</b>	<b>48,640</b>	<b>66,416</b>	<b>84,665</b>	<b>86,415</b>	<b>106,404</b>	<b>125,351</b>	<b>146,909</b>
Net Fee and Commission Income	9,822	12,242	20,169	22,387	23,174	24,333	25,549
<b>Total Operating Income</b>	<b>74,500</b>	<b>93,598</b>	<b>136,637</b>	<b>122,070</b>	<b>143,186</b>	<b>165,525</b>	<b>190,965</b>
Less: Impairment Charge/(Reversal) for Loans	21,420	25,140	71,924	38,895	20,873	24,140	25,821
<b>Net Operating Income</b>	<b>53,081</b>	<b>68,458</b>	<b>64,712</b>	<b>83,175</b>	<b>122,313</b>	<b>141,385</b>	<b>165,144</b>
<b>Less : Operating Expense</b>							
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
<b>Total Operating Expenses</b>	<b>26,263</b>	<b>29,658</b>	<b>36,282</b>	<b>44,290</b>	<b>54,232</b>	<b>59,731</b>	<b>65,940</b>
<b>Operating Profit before Value Added Tax (VAT)</b>	<b>26,818</b>	<b>38,801</b>	<b>28,430</b>	<b>38,885</b>	<b>68,082</b>	<b>81,654</b>	<b>99,204</b>
Less: Value Added tax on Financial Services	4,531	5,845	3,921	4,961	3,892	5,664	8,000
<b>Operating Profit after Value Added Tax (VAT)</b>	<b>22,287</b>	<b>32,955</b>	<b>24,509</b>	<b>33,924</b>	<b>64,190</b>	<b>75,990</b>	<b>91,204</b>
<b>Profit before Income Tax</b>	<b>22,291</b>	<b>32,957</b>	<b>24,505</b>	<b>33,927</b>	<b>64,194</b>	<b>75,994</b>	<b>91,208</b>
Less: Income Tax Expense	7,433	8,667	106	12,027	25,678	30,398	36,483
<b>Profit for the Year</b>	<b>14,858</b>	<b>24,290</b>	<b>24,399</b>	<b>21,900</b>	<b>38,516</b>	<b>45,597</b>	<b>54,725</b>
Non-Controlling Interest	(2,082)	228	588	785	1,541	1,824	2,189
<b>Profit Attributable to Equity Holders</b>	<b>16,940</b>	<b>24,062</b>	<b>23,812</b>	<b>21,115</b>	<b>36,976</b>	<b>43,773</b>	<b>52,536</b>
<b>Adjusted EPS</b>	<b>12.9</b>	<b>18.3</b>	<b>18.1</b>	<b>16.1</b>	<b>28.1</b>	<b>33.3</b>	<b>40.0</b>

## Appendix II: Statement of Financial Position

Statement of Financial Position P/E 31st December	2020	2021	2022	2023	2024E	2025E	2026E
<b>ASSETS</b>							
Cash and Cash Equivalents	50,817	69,335	151,109	159,702	173,101	89,622	57,985
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	1,378,355	1,562,832	1,740,859
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
<b>Total assets</b>	<b>1,762,058</b>	<b>1,983,491</b>	<b>2,499,554</b>	<b>2,655,612</b>	<b>2,861,036</b>	<b>3,169,754</b>	<b>3,630,159</b>
<b>LIABILITIES</b>							
Securities Sold Under Repurchase Agreements	91,412	151,425	97,726	111,187	110,268	125,027	139,269
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	41,351	46,885	52,226
<b>Total liabilities</b>	<b>1,601,547</b>	<b>1,813,939</b>	<b>2,286,581</b>	<b>2,430,637</b>	<b>2,595,854</b>	<b>2,868,113</b>	<b>3,286,787</b>
<b>EQUITY</b>							
Stated Capital	52,188	54,567	58,150	62,948	94,010	105,391	118,117
Statutory Reserves	9,285	10,590	12,080	13,587	15,512	17,792	20,528
Retained Earnings	7,686	9,891	6,790	9,943	18,031	25,327	32,988
Other Reserves	89,596	92,427	131,846	133,993	131,584	145,263	161,681
<b>Total Equity to Equity Owners of the Bank</b>	<b>158,755</b>	<b>167,475</b>	<b>208,865</b>	<b>220,471</b>	<b>259,138</b>	<b>293,773</b>	<b>333,314</b>
Non-Controlling Interest	1,756	2,078	4,107	4,504	6,044	7,868	10,057
<b>Total Equity</b>	<b>160,511</b>	<b>169,553</b>	<b>212,973</b>	<b>224,974</b>	<b>265,183</b>	<b>301,641</b>	<b>343,372</b>
	<b>1,762,058</b>	<b>1,983,491</b>	<b>2,499,554</b>	<b>2,655,612</b>	<b>2,861,036</b>	<b>3,169,754</b>	<b>3,630,159</b>
<b>Adjusted NAVPS</b>	<b>95.2</b>	<b>100.4</b>	<b>125.3</b>	<b>132.2</b>	<b>155.4</b>	<b>165.4</b>	<b>176.2</b>



# HATTON NATIONAL BANK PLC



“TURNING IMPAIRMENT CUTS INTO PROFIT GOLD”

**MAINTAIN BUY**

**Fair Value: 2024E - LKR 315.0 [+93%]**

**2025E - LKR 350.0 [+114%]**

**Vinodhini Rajapoopathy**

+94 11 263 9866

**Total Return with DPS: 2024E – 99% [AER 731%]**

**2025E - 122% [AER 82%]**

[vinodhini@firstcapital.lk](mailto:vinodhini@firstcapital.lk)

LKR (Mn)	2Q2023	2Q2024	YoY	1H2023	1H2024	YoY
<b>Earnings (LKR 'Mn)</b>						
NII	31,444	27,252	-13%	66,265	52,586	-21%
Total Operating Income	37,532	37,745	+1%	78,732	70,350	-11%
Net Operating Income	19,752	36,930	+87%	49,242	67,901	+38%
Pre Tax Profit	3,870	15,766	+307%	15,195	27,008	+78%
Net Profit : Equity Holders	2,369	8,570	+262%	9,457	15,778	+67%
<b>Balance Sheet (LKR 'Mn)</b>						
Loans	934,680	992,354	+6%	934,680	992,354	+6%
Shareholder's Equity	193,678	227,540	+17%	193,678	227,540	+17%
Adjusted NAVPS	338.7	397.9	+17%	338.7	397.9	+17%

### Profits take flight at 18.9%QoQ as impairment charges nosedive 50.1%QoQ

HNB's bottom line surged by 18.9%QoQ (+261.7%YoY) to reach LKR 8.6Bn in 2Q2024, driven by a significant reduction in impairment charges, which dropped by 50.1%QoQ (-104.6%YoY) to LKR 815.0Mn. Lower interest rates, improving economic conditions, and proactive measures by HNB to support distressed borrowers played a key role in boosting collections and recovery. Impairments related to ISBs saw a significant reduction as HNB maintained a provision cover of 52.0% on ISBs since Dec-23, supported by an improved operating environment. However, the NPL ratio slightly deteriorated to 4.09% in Jun-24 from 4.02% in Mar-24, with net stage 3 impairment provisioning at 56.1%, both above the industry average. The sectors contributing to the Stage 3 ratio included construction (25.0%), trade (20.0%), tourism (14.0%), and healthcare (12.0%). Looking ahead, HNB is optimistic about further reductions in impairment levels throughout the year. We project a significant 39.0%YoY increase in the bottom line, reaching LKR 31.7Bn by the end of 2024E, driven by ongoing decreases in impairments.

### Interest, fee and commission income steer profit growth

NII grew by 7.6%QoQ (-13.3%YoY) to LKR 27.3Bn in 2Q2024, partly due to a slight expansion in NIM to 4.7% (1Q2024: 4.5%). However, the YoY decline was largely driven by a sharp drop in AWPLR, which fell from 19.47% to 8.78% during the year ending Jun-24. On a QoQ basis, interest income fell by 7.8% (-26.8%YoY), while interest expenses dropped 17.7% (-35.3%YoY), attributed to a lag in repricing deposit rates. Looking ahead, with AWPR expected to average around 9.0%-11.0% by Dec-24, we expect HNB's NIM to average 5.2% in 2024E (2023: 7.0%), potentially resulting in an NII of LKR 98.5Bn. Furthermore, net fee and commission income rose by 10.0%QoQ (+23.1%YoY) to LKR 4.8Bn during the quarter, driven by higher card usage and digital channel transactions. With the anticipated expansion of economic activities, we project HNB's net fee and commission income to grow by 11.2% in 2024E. Overall, total operating income increased by 15.8%QoQ (+0.6%YoY) to LKR 37.7Bn, aided by LKR appreciation and strong contributions from HNB's insurance and joint venture businesses. This may be further bolstered by HNB's planned acquisition of Bank Alfalah Limited (BAFL) Bangladesh's operations.

### Capital adequacy soars past regulatory hurdles

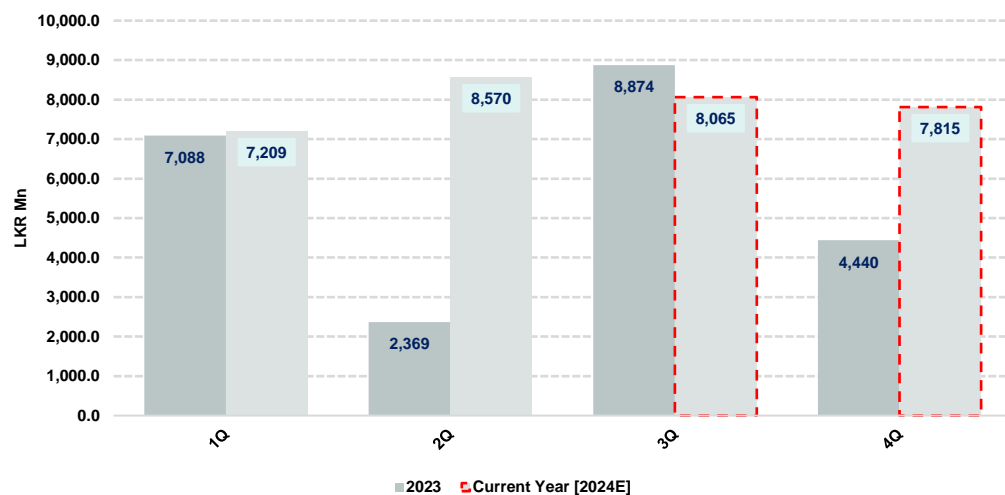
HNB has strengthened its capital position, with its Tier 1 and Total Capital Adequacy Ratios rising to 16.89% and 20.18%, respectively, well above the minimum regulatory thresholds of 9.50% and 13.50% as of Jun-24. To further bolster its capital base, HNB is set to raise up to LKR 12.0Bn through a 120.0Mn debenture issue.

## Loan book expands by 2.7%QoQ as private credit gains momentum

HNB's gross loan book saw a modest increase of 2.7%QoQ, reaching LKR 1.1Tn in 2Q2024. On a quarterly basis, domestic and foreign currency loans grew by 2.9% and 1.7%, respectively. With the AWPLR hovering around 9.0%, further growth in private sector credit is anticipated. We forecast HNB's loan growth to reach 10.0% in 2024E, which, although below its 10-year average of 11.2%, exceeds the projected 7.5% average growth for private credit this year. In 2Q2024, HNB's total deposits rose by 2.4%QoQ, reaching LKR 1.6Tn, while the loan-to-deposit ratio edged up to 61.1% from 60.7% in 1Q2024. Additionally, HNB's CASA ratio improved from 30.4% in 1Q2024 to 32.4% in 2Q2024. We expect this to further increase to around 40.0% by the end of 2024E, driven by reductions in fixed deposit rates and the rollout of HNB's payment and cash management solutions.

## FV for 2025E is maintained at LKR 350.0 for HNB.N and LKR 270.0 for HNB.X – MAINTAIN BUY

With the expected conclusion of the external debt restructuring program, coupled with HNB's strong loan book growth and positive macroeconomic trends, we project that HNB would trade at 0.9x its PBV in 2025E. Given the current discounted trading multiples, we maintain a FV estimate of LKR 350.0 for HNB.N and LKR 270.0 for HNB.X. **MAINTAIN BUY**



## Estimate Revision

In LKR Mn	2024E-O	2024E-R	% Change	2025E-O	2025E-R	% Change
<b>Earnings Estimate</b>						
Net Interest Income	91,162	98,548	+8%	100,361	116,472	+16%
Total Operating Income	135,514	139,201	+3%	147,203	159,442	+8%
Net Operating Income	123,441	136,917	+11%	131,980	155,317	+18%
Pre Tax Profit	46,980	53,296	+13%	51,164	58,733	+15%
Net Profit : Equity Holders	27,906	31,658	+13%	30,392	34,888	+15%
Adjusted EPS	48.8	55.4	+13%	53.1	61.0	+15%
Net Profit Growth YoY	23%	39%		9%	10%	
<b>Balance Sheet Estimate</b>						
Loans & Advances	1,084,646	1,083,624	-0%	1,212,139	1,220,919	+1%
Shareholders' Equity	223,280	224,117	+0%	233,277	235,808	+1%
<b>Adjusted NAVPS</b>	<b>390.5</b>	<b>391.9</b>	<b>+0%</b>	<b>408.0</b>	<b>412.4</b>	<b>+1%</b>

## Valuation Table

P/E 31st December	2020	2021	2022	2023	2024E	2025E	2026E
<b>Estimates (LKR 'Mn)</b>							
Net Interest Income	50,837	56,462	111,567	118,075	98,548	116,472	140,297
Total Operating Income	72,074	84,404	160,875	149,500	139,201	159,442	185,687
<b>Net Profit: Equity Holders</b>	<b>13,095</b>	<b>19,025</b>	<b>15,329</b>	<b>22,771</b>	<b>31,658</b>	<b>34,888</b>	<b>41,177</b>
Adjusted EPS (LKR)	22.9	33.3	26.8	39.8	55.4	61.0	72.0
YoY Growth (%)	-11%	45%	-19%	49%	39%	10%	18%
<b>Valuations</b>							
PER (x)	7.1x	4.9x	6.1x	4.1x	3.0x	2.7x	2.3x
PBV (x)	0.6x	0.5x	0.5x	0.4x	0.4x	0.4x	0.4x
Dividend Yield (%)	4.9%	5.5%	2.9%	4.8%	6.8%	7.5%	8.8%
Adjusted NAVPS (LKR)	269.8	309.0	320.5	371.2	391.9	412.4	437.4
DPS (LKR)	8.0	9.0	4.8	7.8	11.1	12.2	14.4
Dividend Payout (%)	34.9%	27.1%	17.8%	19.7%	20.0%	20.0%	20.0%

## Valuation Summary

Return	2024E	2025E
Target Price	315.0	350.0
Current Price	163.5	163.5
Capital Gain (LKR)	151.5	186.5
Dividends upto 31st Dec (LKR)	11.1	12.2
Capital Gain %	93%	114%
Dividend Yield %	7%	7%
<b>Total Return %</b>	<b>99%</b>	<b>122%</b>
<b>Annualized Return %</b>	<b>731%</b>	<b>82%</b>

Expected HNB.N Price	2024E	2025E
Justified PBV Based Target Price	333.1	350.5
Residual Income Valuation	292.3	333.4
PER Valuation Based Target Price	332.2	366.1
Average Target Price	319.2	350.0
Target Price After Rounding Off	315.0	350.0

## Residual Income Valuation

Residual Income Based Valuation	2024E	2025E
PV of Residual Income	-45,082	-33,498
No. of Shares ('Mn)	572	572
RI per Share	-78.8	-58.6
Opening Book Value per Share	371.2	391.9
<b>Value per Share</b>	<b>292.3</b>	<b>333.4</b>

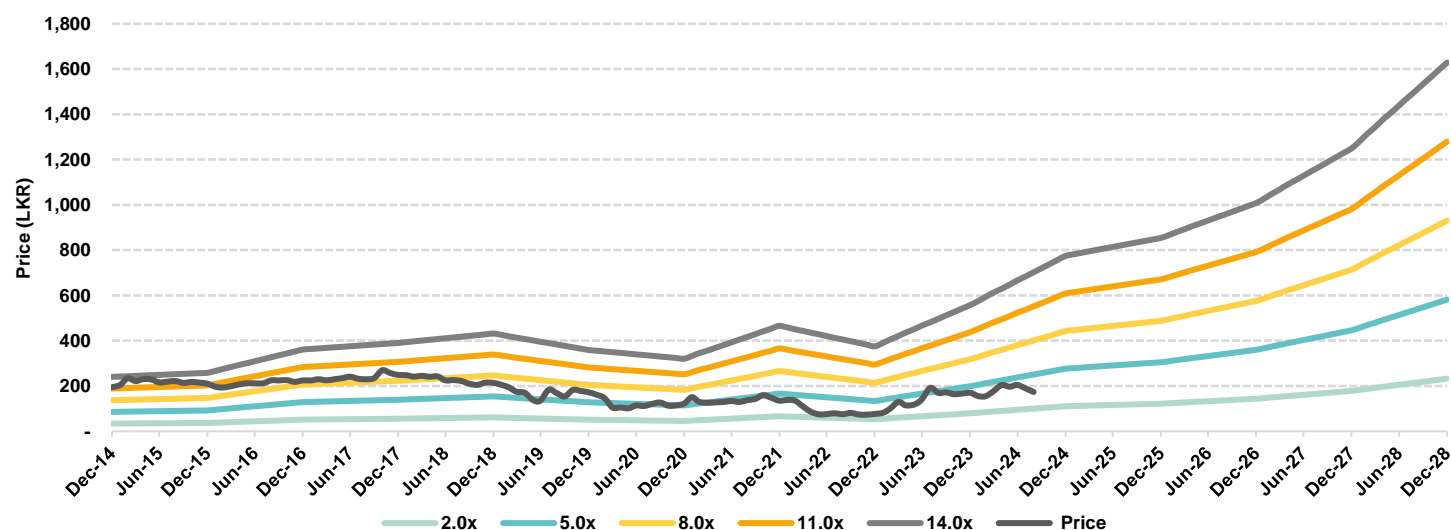
COE	2024E	2025E
Rf	10.0%	11.0%
Rm	18.0%	19.0%
Growth %	3.0%	3.0%
$\beta$	1.60	1.60
$K_e = R_f + \beta(R_m - R_f)$	22.8%	23.8%

## Justified PBV Valuation

Justified PBV Based Valuation	2024E	2025E
ROAE	14.5%	15.2%
Growth	3.0%	3.0%
COE	22.8%	23.8%
PBV	0.9	0.9
NAVPS	391.9	412.4
<b>Value per Share</b>	<b>333.1</b>	<b>350.5</b>

PER Based Valuation	2024E	2025E
Earnings (LKR 'Mn)	31,658	34,888
No. of Shares ('Mn)	572	572
EPS	55.4	61.0
Expected PER	6.0x	6.0x
<b>Value per Share</b>	<b>332.2</b>	<b>366.1</b>



## 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	241,439	275,036	317,106
Interest expenses	61,988	50,945	109,015	186,504	142,891	158,565	176,809
<b>Net interest income</b>	<b>50,837</b>	<b>56,462</b>	<b>111,567</b>	<b>118,075</b>	<b>98,548</b>	<b>116,472</b>	<b>140,297</b>
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	-1,191	-1,409	-1,494
Other operating income	13,819	17,813	28,558	26,393	22,881	23,887	24,940
<b>Total Operating income</b>	<b>72,074</b>	<b>84,404</b>	<b>160,875</b>	<b>149,500</b>	<b>139,201</b>	<b>159,442</b>	<b>185,687</b>
Less: Impairment charge/(reversal) for loans	-16,047	-19,534	-91,736	-42,524	-2,284	-4,125	-7,840
<b>Net operating income</b>	<b>56,027</b>	<b>64,870</b>	<b>69,139</b>	<b>106,976</b>	<b>136,917</b>	<b>155,317</b>	<b>177,847</b>
Personnel expenses	13,903	13,676	18,491	20,934	27,370	34,620	39,967
Other expenses	13,527	14,718	19,598	24,222	26,644	29,309	32,240
<b>Total operating expenses</b>	<b>34,806</b>	<b>37,349</b>	<b>49,804</b>	<b>60,375</b>	<b>70,755</b>	<b>81,506</b>	<b>90,663</b>
Operating profit before value added tax (VAT)	21,222	27,521	19,336	46,601	66,163	73,811	87,184
Value Added Tax (VAT) on Financial Services	4,048	4,760	5,248	10,523	14,030	16,265	19,073
<b>Operating profit after value added tax (VAT)</b>	<b>17,173</b>	<b>22,761</b>	<b>14,088</b>	<b>36,077</b>	<b>52,133</b>	<b>57,546</b>	<b>68,111</b>
<b>Profit before income tax</b>	<b>17,580</b>	<b>23,054</b>	<b>14,420</b>	<b>37,218</b>	<b>53,296</b>	<b>58,733</b>	<b>69,322</b>
Income Tax Expense	3,918	2,969	-1,328	13,612	21,319	23,493	27,729
<b>Profit for the Year</b>	<b>13,662</b>	<b>20,084</b>	<b>15,748</b>	<b>23,606</b>	<b>31,978</b>	<b>35,240</b>	<b>41,593</b>
<b>Profit attributable to Equity holders of the Bank</b>	<b>13,095</b>	<b>19,025</b>	<b>15,329</b>	<b>22,771</b>	<b>31,658</b>	<b>34,888</b>	<b>41,177</b>
Adjusted EPS	22.9	33.3	26.8	39.8	55.4	61.0	72.0

## Appendix II: Statement of Financial Position

Balance Sheet (LKR Mn) As at 31st December	2020	2021	2022E	2023	2024E	2025E	2026E
<b>Assets</b>							
Cash and Cash Equivalents	34,899	41,712	80,630	73,759	77,143	84,166	91,701
Balances with Central Bank of Sri Lanka	7,212	25,820	32,344	12,234	13,687	15,314	17,822
Placements with Banks	12,126	6,371	58,172	61,836	61,985	73,142	84,113
Reverse Repurchase Agreements	2,827	6,246	1,381	1,830	7,585	8,546	9,785
Financial Assets Measured at FVTPL	1,095	863	236	801	3,444	4,063	4,673
Financial Assets Measured at Amortised Cost - Loans & Advances	800,816	911,253	1,014,519	988,601	1,083,624	1,220,919	1,397,866
Financial investments - FVOCI	256,395	210,804	6,062	195,975	198,006	233,648	268,695
Financial Assets Measured at Amortised Cost - Debt & Other Instruments	193,349	171,931	479,787	584,131	619,846	772,053	887,861
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	34,436	40,634	46,730
<b>Total assets</b>	<b>1,371,483</b>	<b>1,453,651</b>	<b>1,798,275</b>	<b>2,047,040</b>	<b>2,197,559</b>	<b>2,553,647</b>	<b>2,913,812</b>
<b>Liabilities</b>							
Due to Banks	89,747	17,076	6,105	9,020	9,149	10,143	11,374
Due to Other Customers	994,949	1,107,066	1,443,179	1,609,154	1,721,794	2,031,717	2,336,475
Dividends Payable	981	1,014	1,039	991	1,646	1,814	2,141
Other Borrowings	30,526	25,556	33,386	25,032	30,455	34,313	39,286
Other Liabilities	15,452	14,597	18,042	20,696	24,422	28,817	34,005
<b>Total Liabilities</b>	<b>1,211,823</b>	<b>1,270,383</b>	<b>1,608,188</b>	<b>1,827,484</b>	<b>1,965,817</b>	<b>2,307,335</b>	<b>2,653,095</b>
<b>Equity</b>							
Stated Capital	35,572	37,364	38,679	40,955	44,944	49,340	54,528
Retained Earnings	29,361	43,644	50,247	68,252	73,271	77,406	82,781
<b>Total Equity Attributable to Equity Holders of the Bank</b>	<b>154,249</b>	<b>176,668</b>	<b>183,292</b>	<b>212,240</b>	<b>224,117</b>	<b>235,808</b>	<b>250,103</b>
Non-controlling Interests	5,410	6,599	6,795	7,317	7,637	7,989	8,405
<b>Total Equity</b>	<b>159,659</b>	<b>183,267</b>	<b>190,087</b>	<b>219,557</b>	<b>231,753</b>	<b>243,797</b>	<b>258,508</b>
<b>Total Liabilities and Equity</b>	<b>1,371,483</b>	<b>1,453,651</b>	<b>1,798,275</b>	<b>2,047,040</b>	<b>2,197,570</b>	<b>2,551,132</b>	<b>2,911,603</b>
Adjusted NAVPS	269.8	309.0	320.5	371.2	391.9	412.4	437.4



ஈழபன் வங்குல  
சம்பத் வங்கி  
*SampathBank*

**SAMPATH BANK PLC**

ஈழபன் வங்குல  
சம்பத் வங்கி  
**SampathBank**



“REACHING NEW HEIGHTS THROUGH SUSTAINABLE GROWTH”

**MAINTAIN BUY**

**Fair Value: 2024E - LKR 120.0 [+71%]**

**2025E - LKR 135.0 [+93%]**

**Tharusha Ashokgar**

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**Total Return with DPS: 2024E - 82% [AER 556%]**

**2024E - 104% [AER 72%]**

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LKR (Mn)	2Q2023	2Q2024	YoY	1H2023	1H2024	YoY
<b>Earnings (LKR 'Mn)</b>						
NII	16,632	21,842	+31%	35,427	43,405	+23%
Total Operating Income	20,631	28,686	+39%	42,530	51,393	+21%
Net Operating Income	20,249	26,942	+33%	35,330	45,243	+28%
Profit Before Tax	8,428	12,810	+52%	13,430	19,715	+47%
Net Profit	4,628	8,074	+74%	7,638	11,867	+55%
<b>Balance Sheet (LKR 'Mn)</b>						
Loans	810,840	821,943	+1%	810,840	821,943	+1%
Shareholders' Equity	141,061	163,279	+16%	141,061	163,279	+16%
NAVPS	120.3	139.2	+16%	120.3	139.2	+16%

However, income from trade-related activities fell due to lower commission rates on import transactions amidst a 7.2%YTD appreciation of the LKR. SAMP has proactively provisioned for anticipated losses and contingencies related to the ISB restructuring, and no additional provisions are expected. With an improved economic environment, FCR projects a 24.5%YoY growth in net earnings for 2024E, followed by a 10.3%YoY increase in 2025E.

### Declining interest rates fuel growth in local currency loan book

With In 1H2024, SAMP's gross loan book continued to expand, increasing by 4.4%YTD (+1.8%QoQ) to LKR 821.9Bn. The growth was driven by a 4.7%YTD rise in LKR-denominated loans, while foreign currency loans experienced a slight decline of 1.5%YTD, reflecting the 7.2%YTD appreciation of the LKR against the USD. The expansion in the local currency loan book was largely fueled by the reduction in interest rates, with the AWLR decreasing from 12.13% in 4Q2023 to 8.78% at the end of 2Q2024. The rate reduction is expected to spur private sector credit growth and GDP expansion in 2H2024. SAMP's Stage 3 impaired loans ratio improved to 5.70% in 2Q2024, down from 5.87% in 4Q2023, as the Sri Lankan economy showed resilience since 2H2023. Looking ahead, we expect SAMP's loan book to grow by 6.5% in 2024E, with a further increase of 10.0% in 2025E. In addition, the total deposit base saw a significant rise of 7.0%YTD, reaching LKR 1.4Tn, driven by a 11.1%YTD growth in local currency deposits. The uptick in Demand and Savings deposits improved the bank's CASA ratio to 33.4% during 1H2024, up from 31.3% in 1H2023. We anticipate the CASA ratio will further enhance to 40.0% between 2024E and 2026E, positioning the bank with a cost-effective funding base compared to peers.

### Robust 74.5%YoY earnings growth in 2Q2024, driven by strong NII expansion

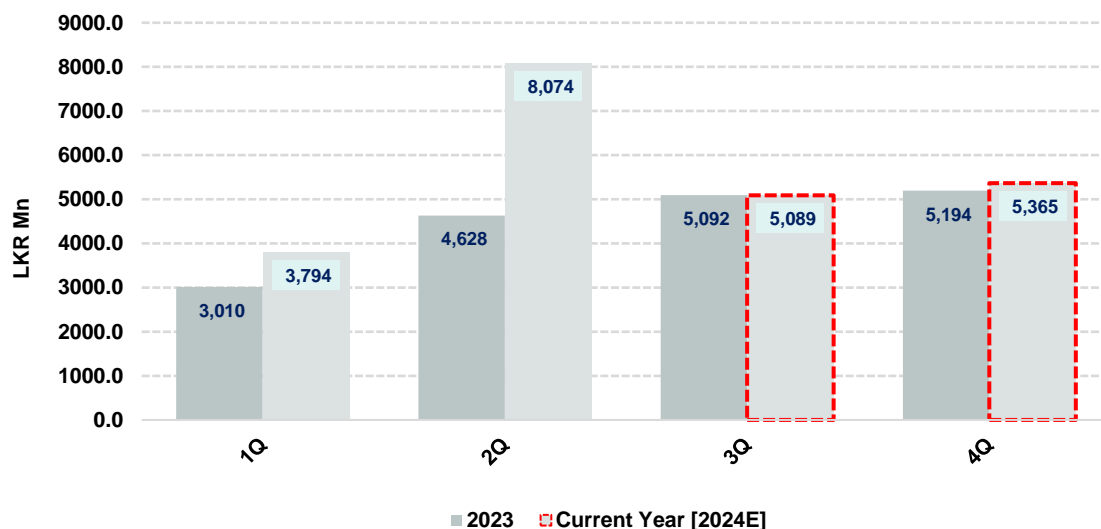
Loans SAMP reported a remarkable 74.5%YoY increase in earnings (+112.8%QoQ), reaching LKR 8.1Bn in 2Q2024. The substantial growth was largely driven by a 31.3%YoY rise in NII and a significant turnaround in Net Trading Income, which surged to LKR 2.2Bn from a loss of LKR 3.1Mn in 1Q2024. Additionally, the QoQ earnings growth was supported by a notable reduction in impairment charges, which decreased from LKR 4.4Bn in 1Q2024 to LKR 1.7Bn in 2Q2024. The increase in NII was primarily due to a 26.1% YoY reduction in interest expenses, which offset an 8.0% YoY decline in interest income, resulting in an expansion of NIM's to 5.18% as of 30th Jun 2024. However, with the AWPLR decreasing to 9.13% in Aug 2024, we project a decline in NIMs, anticipating a year-end figure of 4.22%. Net Fee and Commission Income saw a marginal YoY growth of 2.5%, reaching LKR 5.5Bn, driven by increased credit, electronic, card, and remittance-related activities.

## Well above capital ratios to boost lending portfolio

As of 30th Jun 2024, SAMP's Tier I and Total Capital Adequacy Ratios are 16.67% and 19.77%, respectively, significantly exceeding the minimum regulatory requirements of 8.50% and 12.50%. The strong capital buffer positions SAMP well to navigate challenging periods and supports its ability to drive credit growth in the near term, particularly as economic activities are expected to recover.

## FV for 2025E estimated at LKR 135.00 – MAINTAIN BUY

Given After exceeding our 2Q2024 earnings estimates, primarily due to NIMs expansion, we have revised our forecasts upward. For 2024E, we now project earnings of LKR 22.3Bn, up from our previous estimate of LKR 20.5Bn. Similarly, our 2025E earnings estimate has been increased to LKR 24.6Bn, from LKR 23.0Bn. Despite the earnings revision, we are maintaining our target price for SAMP at LKR 135.0 for 2025E. Given the favorable outlook for the bank and the current trading multiples, with SAMP shares trading at 0.5x PBV, we believe the stock is undervalued. This, coupled with the positive momentum and strong financial performance, reinforces our bullish stance on SAMP. **MAINTAIN BUY.**



## Estimate Revision

In LKR Mn	2024E - O	2024E - R	% Change	2025E - O	2025E - R	% Change
<b>Earnings Estimate</b>						
Net Interest Income	65,542	68,648	+5%	79,353	82,027	+3%
Total Operating Income	90,200	93,661	+4%	106,400	109,643	+3%
Net Operating Income	80,822	84,283	+4%	91,983	95,226	+4%
Profit Before Tax	34,232	37,203	+9%	38,340	41,047	+7%
Net Profit	20,539	22,322	+9%	23,004	24,628	+7%
Adjusted EPS	17.5	19.0		19.6	21.0	
Growth YoY	15%	25%		12%	10%	
<b>Balance Sheet Estimate</b>						
Loans & Advances	838,720	838,720	0%	922,376	922,376	0%
Shareholders' Equity	162,238	162,768	+0%	172,722	173,475	+0%
Adjusted NAVPS	138.3	138.8		147.3	147.9	
<b>Ratio Estimate</b>						
ROE (%)	12.7%	13.7%		13.3%	14.2%	
PER (x)	4.8	3.7		4.4	3.3	
PBV (x)	0.6	0.5		0.5	0.5	

## Valuation Table

P/E 31 December	2019	2020	2021	2022	2023	2024E	2025E	2026E
<b>Estimates (LKR 'Mn)</b>								
Net Interest Income	44,764	36,827	45,518	76,042	75,443	68,648	82,027	90,106
Total Operating Income	59,141	50,066	64,399	114,768	95,463	93,661	109,643	118,029
<b>Net Profit</b>	<b>11,668</b>	<b>8,443</b>	<b>13,856</b>	<b>14,061</b>	<b>17,924</b>	<b>22,322</b>	<b>24,628</b>	<b>28,769</b>
Adjusted EPS (LKR)	9.9	7.2	11.8	12.0	15.3	19.0	21.0	24.5
YoY Growth (%)	-7%	-28%	64%	1%	27%	25%	10%	17%
<b>Valuations</b>								
PER (x)	7.0x	9.7x	5.9x	5.8x	4.6x	3.7x	3.3x	2.9x
PBV (x)	0.7x	0.7x	0.6x	0.6x	0.5x	0.5x	0.5x	0.4x
DY (%)	5.5%	3.8%	5.9%	6.4%	8.4%	10.4%	11.5%	13.4%
NAVPS	95.0	97.6	108.5	115.6	134.6	138.8	147.9	156.1
DPS (LKR)	3.8	2.7	4.1	4.5	5.9	7.3	8.0	9.4
Dividend Payout	38.4%	37.3%	35.1%	37.4%	38.3%	38.3%	38.3%	38.3%

## Valuation Summary

Return	2024E	2025E
Target Price	120.0	135.0
Current Price	70.0	70.0
Capital Gain (LKR)	50.0	65.0
Dividends upto 31st Dec (LKR)	7.3	8.0
Capital Gain %	71%	93%
Dividend Yield %	10%	11%
<b>Total Return %</b>	<b>82%</b>	<b>104%</b>
<b>Annualized Return %</b>	<b>556%</b>	<b>72%</b>

Expected SAMP price	2024E	2025E
Justified PBV based target price	120.8	142.0
PER Valuation based target price	114.2	126.0
RI Valuation based target price	121.6	134.9
<b>Average Target Price</b>	<b>118.9</b>	<b>134.3</b>
<b>Target Price after Rounding off</b>	<b>120.0</b>	<b>135.0</b>

## Residual Income Valuation

Residual Income based Valuation	2024E	2025E
PV of Residual Income	-15,178	-4,617
No. of Shares ('Mn)	1,173	1,173
RI per Share	-12.9	-3.9
Opening Book value per Share	134.6	138.8
<b>Value per Share</b>	<b>121.6</b>	<b>134.9</b>

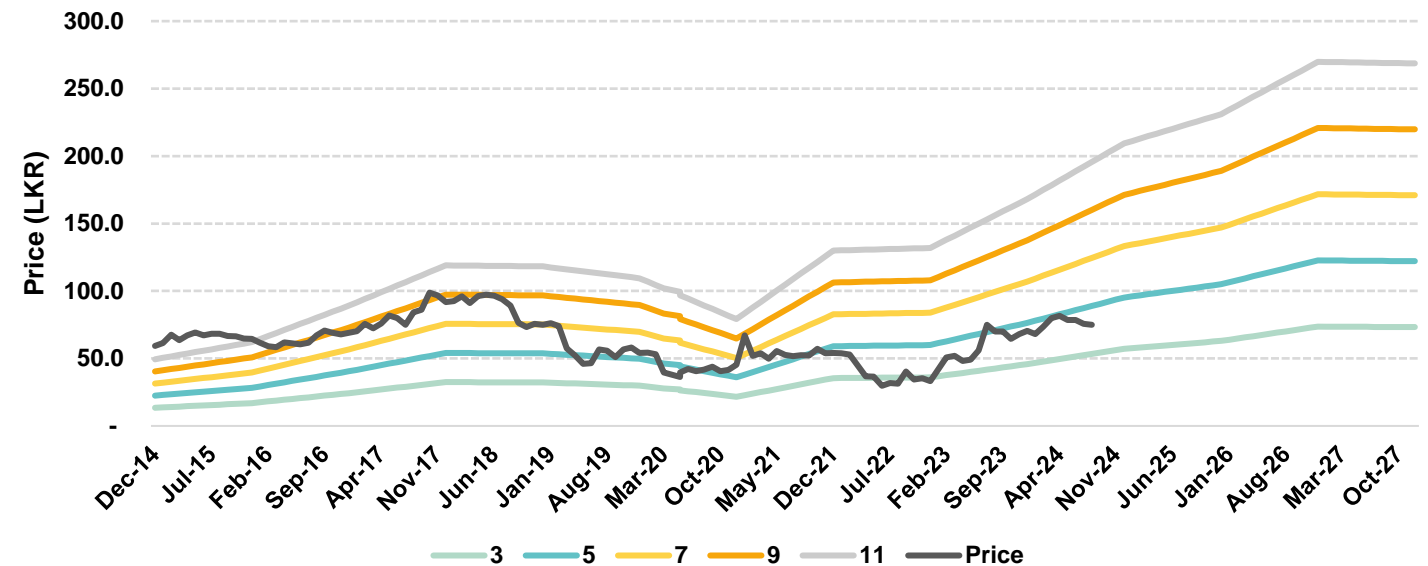
COE	2024E	2025E
Rf	10.0%	11.0%
Rm	18.0%	19.0%
Growth %	3.0%	3.0%
$\beta$	0.88	0.88
$Ke=Rf+\beta(Rm-Rf)$	17.0%	18.0%

## Justified PBV Valuation

Justified PBV based Valuation	2024E	2025E
ROAE	13.9%	14.6%
Growth	3.0%	3.0%
COE	17.0%	18.0%
PBV	0.9	1.0
NAVPS	138.8	147.9
<b>Target Price</b>	<b>120.8</b>	<b>142.0</b>

## PER Valuation

PER based Valuation	2024E	2025E
Earnings (LKR 'Mn)	22,322	24,628
No. of Shares ('Mn)	1,173	1,173
EPS	19.0	21.0
Expected PER	6.0x	6.0x
<b>Price at 6.0x Earnings</b>	<b>114.2</b>	<b>126.0</b>



## Appendix I: Statement of Income and Expenses

Income Statement (LKR Mn) P/E 31st December	2020	2021	2022	2023	2024E	2025E	2026E
<b>Gross Income</b>	<b>109,183</b>	<b>113,075</b>	<b>206,002</b>	<b>236,504</b>	<b>217,613</b>	<b>236,195</b>	<b>259,640</b>
Interest Income	94,647	92,428	164,776	212,459	189,459	205,888	227,357
Interest Expenses	57,820	46,910	88,734	137,016	120,811	123,861	137,251
<b>Net Interest Income</b>	<b>36,827</b>	<b>45,518</b>	<b>76,042</b>	<b>75,443</b>	<b>68,648</b>	<b>82,027</b>	<b>90,106</b>
Fee & Other Income	13,239	18,881	38,726	20,020	25,013	27,616	27,924
<b>Total Operating Income</b>	<b>50,066</b>	<b>64,399</b>	<b>114,768</b>	<b>95,463</b>	<b>93,661</b>	<b>109,643</b>	<b>118,029</b>
Impairment (Charges)/ Reversal	-13,201	-18,559	-62,908	-20,210	-9,378	-14,417	-17,423
<b>Net Operating Income</b>	<b>36,866</b>	<b>45,840</b>	<b>51,860</b>	<b>75,253</b>	<b>84,283</b>	<b>95,226</b>	<b>100,607</b>
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
<b>Total Operating Expenses</b>	<b>21,582</b>	<b>22,719</b>	<b>29,888</b>	<b>34,966</b>	<b>38,080</b>	<b>42,320</b>	<b>47,340</b>
<b>Profit from operations</b>	<b>15,284</b>	<b>23,121</b>	<b>21,971</b>	<b>40,287</b>	<b>46,203</b>	<b>52,906</b>	<b>53,267</b>
VAT on Financial Services & DRL	3,394	4,296	5,577	9,085	9,000	11,859	12,169
<b>Profit Before Tax</b>	<b>11,890</b>	<b>18,825</b>	<b>16,395</b>	<b>31,202</b>	<b>37,203</b>	<b>41,047</b>	<b>41,098</b>
Income Tax Expense	3,447	4,969	2,334	13,277	14,881	16,419	12,329
<b>Profit for the Year</b>	<b>8,443</b>	<b>13,856</b>	<b>14,061</b>	<b>17,924</b>	<b>22,322</b>	<b>24,628</b>	<b>28,769</b>
Minority Interest	0	0	0	0	0	0	0
<b>Profit attributable to Equity Holders</b>	<b>8,443</b>	<b>13,856</b>	<b>14,061</b>	<b>17,924</b>	<b>22,322</b>	<b>24,628</b>	<b>28,769</b>
EPS	7.2	11.8	12.0	15.3	19.0	21.0	24.5

## Appendix II: Statement of Financial Position

Balance Sheet (LKR Mn) As at 31st December	2020	2021	2022	2023	2024E	2025E	2026E
<b>Assets</b>							
Cash and cash equivalents	29,219	23,028	79,345	79,530	83,510	92,791	109,342
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
<b>Total Assets</b>	<b>1,149,685</b>	<b>1,242,633</b>	<b>1,367,320</b>	<b>1,587,376</b>	<b>1,666,891</b>	<b>1,813,025</b>	<b>1,973,931</b>
<b>Liabilities</b>							
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
<b>Total Liabilities</b>	<b>1,035,271</b>	<b>1,115,447</b>	<b>1,231,768</b>	<b>1,429,545</b>	<b>1,504,123</b>	<b>1,639,551</b>	<b>1,790,858</b>
<b>Shareholders' Funds</b>							
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	23,347	26,728	31,540
<b>Shareholders' Funds</b>	<b>114,415</b>	<b>127,186</b>	<b>135,551</b>	<b>157,830</b>	<b>162,768</b>	<b>173,475</b>	<b>183,073</b>
Minority Interest	0	0	0	0	0	0	0
	114,415	127,186	135,551	157,830	162,768	173,475	183,073
<b>Total Liabilities &amp; Shareholders' Funds</b>	<b>1,149,685</b>	<b>1,242,633</b>	<b>1,367,320</b>	<b>1,587,376</b>	<b>1,666,891</b>	<b>1,813,025</b>	<b>1,973,931</b>
NAVPS	97.6	108.5	115.6	134.6	138.8	147.9	156.1



# NATIONAL DEVELOPMENT BANK PLC



# NATIONAL DEVELOPMENT BANK PLC [NDB.N0000]

“EARNINGS DOUBLE AS CORE INCOME SPROUTS & IMPAIRMENT WITHERS”

**MAINTAIN BUY**

**Fair Value: 2024E - LKR 150.0 [+138%]**

**2025E - LKR 190.0 [+201%]**

**Vinodhini Rajapoopathy**

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**Total Return with DPS: 2024E - 149% [AER 1805%]**

**2025E - 214% [AER 139%]**

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LKR (Mn)	2Q2023	2Q2024	YoY	1H2023	1H2024	YoY
<b>Earnings (LKR 'Mn)</b>						
NII	6,638	8,495	+28%	15,333	16,644	+9%
Total Operating Income	9,642	13,508	+40%	19,392	24,188	+25%
Net Operating income	6,580	9,476	+44%	11,499	15,800	+37%
PBT	2,117	3,812	+80%	3,140	5,216	+66%
Net Profit	1,537	2,608	+70%	2,391	3,446	+44%
<b>Balance Sheet (LKR 'Mn)</b>						
Shareholders' Equity	71,345	75,432	+6%	71,345	75,432	+6%
Loans	469,746	459,120	-2%	469,746	459,120	-2%
Adjusted NAVPS	171.7	181.5	+6%	171.7	181.5	+6%

**Profit blooms 211.4%QoQ growing tall in the shade of falling impairments and sector recovery**

NDB's bottom line saw a significant growth spurt, rising 211.4%QoQ and 69.7%YoY, reaching LKR 2.6Bn for 2Q2024. This was driven by a 7.5%QoQ reduction (+31.7%YoY) in impairment charges, amounting to LKR 4.0Bn. Despite the rise in impairment charges on a YoY basis, it remained within the bank's anticipated impairment buildup on a business-as-usual basis. During this period, NDB has prudently maintained a 53.0% provision for ISBs. Consequently, NDB's NPL ratio improved to 7.7% in Jun-24, down from 8.3% in Mar-24, as a result of increased recovery measures and efforts to prevent credit migration. The bank's net Stage 3 impairment provisioning stands at 44.3%, reflecting its prudent strategy to build reserves to shield against potential losses in this category, as part of its credit risk management strategy. The impairments have primarily stemmed from the construction and tourism sectors, which are now beginning to show signs of recovery. With these sectors starting to thrive, a significant reduction in impairments is expected throughout the year, which should drive NDB's bottom line to an estimated LKR 8.5Bn in 2024E, representing a 48.3%YoY increase.

**Core income sprouts 26.5%QoQ rooting a strong bottom-line**

While the reduction in impairment charges acted as a catalyst for the bottom-line growth, NDB's operating income grew robustly, increasing by 26.5%QoQ (+40.1%YoY) to LKR 13.5Bn. Within this expansion, the NII climbed 4.3%QoQ (+28.0%YoY) to LKR 8.5Bn in 2Q2024, thriving amidst a low interest-rate environment. Although interest income declined by 8.8%QoQ (-28.0%YoY), driven by a 191bps drop in AWPR over the quarter, this was more than compensated by a significant 15.5%QoQ (-43.6%YoY) reduction in interest expenses driven by the swift repricing of the deposit book. During the quarter, NDB's NIM reached a decade-high of 4.25% in 2Q2024, up from 4.22% in 1Q2024. Looking forward, with expectations for the AWPR to stabilize between 9.0%-11.0% during 2H2024, NDB's NIM is projected to average around 4.3% in 2024E (down from 5.0% in 2023), potentially leading to a NII of LKR 27.3Bn. Additionally, gains from the derecognition of financial assets surged by 192.8%QoQ (+177.1%YoY) to LKR 2.1Bn, providing a substantial boost to the bottom line. Furthermore, other operating income turned to a gain of LKR 388.5Mn on foreign revaluation reserves, reversing from a substantial loss of LKR 1.2Bn in 1Q2024 and LKR 1.1Bn in 2Q2023, further boosting the bottom line.

**Net fee income falls by 7.4%QoQ but growth sows seeds of future gains**

Despite the robust growth in other areas, net fee and commission income experienced a slight dip, retreating by 7.4%QoQ (+2.9%YoY) to LKR 2.1Bn for the quarter. This decline was due to a period of market sluggishness, reduced import volumes, tighter tariffs, and narrowing effect spreads. However, with expectations for economic activities to bloom, there is an optimistic outlook for trade and credit card operations, which could nourish NDB's fee-based income with a 4.4%YoY increase in 2024E.

**Capital buffer slightly recedes but expansion plans poised to strengthen canopy**

NDB saw a slight thinning in both its Tier 1 and Total Capital Adequacy Ratios, settling at 11.64% and 15.28%, respectively. This gentle retreat was due to the impact of cash dividends distributed in 2023, yet the bank's capital canopy remains well above the regulatory minimum thresholds of 8.5% and 12.5%, respectively as of Jun-24. NDB is setting plans to fortify and expand its capital adequacy ratio by raising up to LKR 10.0Bn in Tier 2 capital through a debenture issue, nurturing future expansion activities.

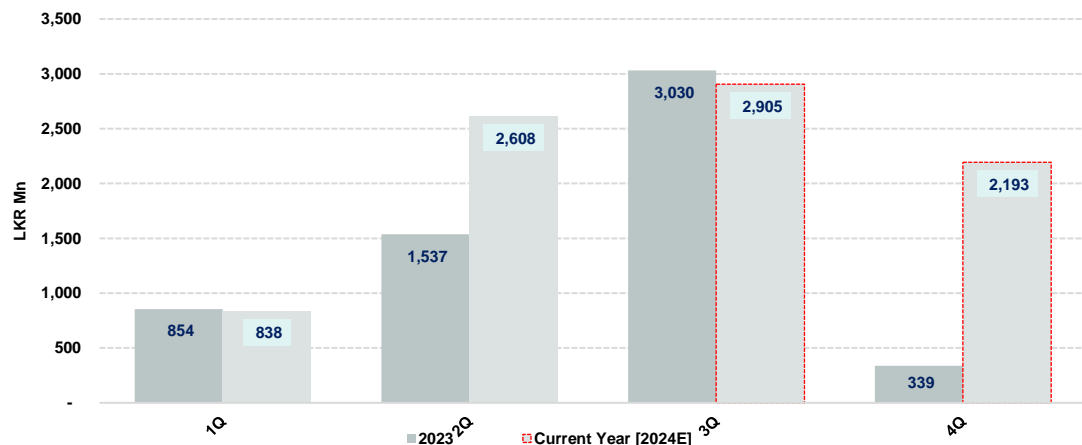
# NATIONAL DEVELOPMENT BANK PLC [NDB.N0000]

## Loan book grows 4.0%QoQ tilling the soil for continued credit growth

Despite a lackluster demand for credit, NDB managed to grow its gross loan book by 4.0%QoQ (-0.9%YoY) to LKR 505.0Bn fueled by a thriving wholesale banking portfolio and infrastructure projects, marking a revival from the previous two quarters' decline. On a quarterly basis, domestic and foreign currency loans expanded by 4.6% and 2.0%, respectively. With the AWPLR currently around 9.0%, further credit growth is expected, particularly from the SME segment, with a projected 10.0% loan growth for NDB in 2024E. Although this is below NDB's 10-year average of 13.4%, it surpasses the anticipated 7.5% increase in private credit growth this year. NDB's total deposits in 2Q2024 saw a modest increase of 0.8%QoQ (-1.4%YoY) to LKR 618.7Bn, reversing the previous five quarters' decline. Domestic deposits, however, fell by 0.2%QoQ (-0.6%YoY) due to reduced domestic time deposits. Consequently, NDB's CASA ratio improved to 24.2% in 2Q2024, up from 22.9% in 1Q2024, and we anticipate it will ascend to approximately 25.0% in 2024E.

## FV for 2025E is maintained at LKR 190.0 – MAINTAIN BUY

NDB's strategic path, focusing on three key trails including nurturing its CASA book to reduce the cost of funds, expanding its fee-based income through transaction banking, and enhancing portfolio quality, sets the stage for driving profitability and reaching new heights. As the external debt restructuring program concludes and the economic climate stabilizes post-elections, we anticipate NDB will flourish, trading at 0.9x its PBV by 2025E. Currently trading at a PBV of 0.4x, NDB is notably undervalued compared to its peers, with its current market price representing a significant discount to our fair value estimate of LKR 190.0 for 2025E. **MAINTAIN BUY**



## Estimate Revision

In LKR Mn	2024E - O	2024E - R	% Change	2025E - O	2025E - R	% Change
<b>Earnings Estimate</b>						
Net Interest Income	26,024	27,319	+5%	29,709	30,109	+1%
Total Operating Income	44,546	44,466	-0%	50,294	50,117	-0%
Net Operating Income	31,613	31,534	-0%	34,942	34,765	-1%
Profit before Tax	11,847	11,780	-1%	13,777	13,629	-1%
Net Profit	8,591	8,543	-1%	9,991	9,883	-1%
Adjusted EPS	20.7	20.6	-1%	24.0	23.8	-1%
<b>Balance Sheet Estimate</b>						
Loans & Advances	496,365	496,365	0%	537,092	537,092	0%
Shareholders' Equity	83,692	83,195	-1%	94,140	93,034	-1%
<b>Adjusted NAVPS</b>	<b>201.4</b>	<b>200.2</b>		<b>226.6</b>	<b>223.9</b>	

## Valuation Table

P/E 31 December	2020	2021	2022	2023	2024E	2025E	2026E
<b>Estimates (LKR 'Mn)</b>							
Net Interest Income	17,925	21,741	31,130	32,380	27,319	30,109	32,754
Total Operating Income	26,404	32,996	44,448	47,124	44,466	50,117	54,367
<b>Net Profit</b>	<b>5,117</b>	<b>6,904</b>	<b>3,009</b>	<b>5,759</b>	<b>8,543</b>	<b>9,883</b>	<b>11,058</b>
Adjusted EPS (LKR)	12.3	16.6	7.2	13.9	20.6	23.8	26.6
Net Profit YoY Growth (%)	7%	35%	-56%	91%	48%	16%	12%
<b>Valuations</b>							
PER (x)	5.1x	3.8x	8.7x	4.6x	3.1x	2.7x	2.4x
PBV (x)	0.5x	0.4x	0.4x	0.4x	0.3x	0.3x	0.3x
DY (%)	2.4%	8.7%	4.0%	7.9%	11.3%	12.6%	13.5%
Adjusted NAVPS	115.5	151.0	162.5	179.2	200.2	223.9	250.8
Adjusted DPS	1.0	5.5	2.5	5.0	7.1	7.9	8.5
Dividend Payout	8%	33%	35%	36%	35%	33%	32%

## Valuation Summary

Expected NDB price	2024E	2025E
Justified PBV based target price	160.2	201.5
Residual Income based Valuation	146.1	190.4
PER Valuation based target price	143.9	183.0
<b>Average Target Price</b>	<b>150.1</b>	<b>191.6</b>
<b>Target Price after Rounding off</b>	<b>150.0</b>	<b>190.0</b>

Return	2024E	2025E
Target Price	150.0	190.0
Current Price	63.1	63.1
Capital Gain (LKR)	86.9	126.9
Dividends upto 31st Dec (LKR)	7.1	7.9
Capital Gain %	138%	201%
Dividend Yield %	11%	13%
<b>Total Return %</b>	<b>149%</b>	<b>214%</b>
<b>Annualized Return %</b>	<b>1805%</b>	<b>139%</b>

## Residual Income Valuation

Residual Income based Valuation	2024E	2025E
PV of Residual Income	-13,750	-4,264
No. of Shares ('Mn)	416	432
RI per Share	-33.1	-9.9
Opening Book value per Share	179.2	200.2
<b>Value per Share</b>	<b>146.1</b>	<b>190.4</b>

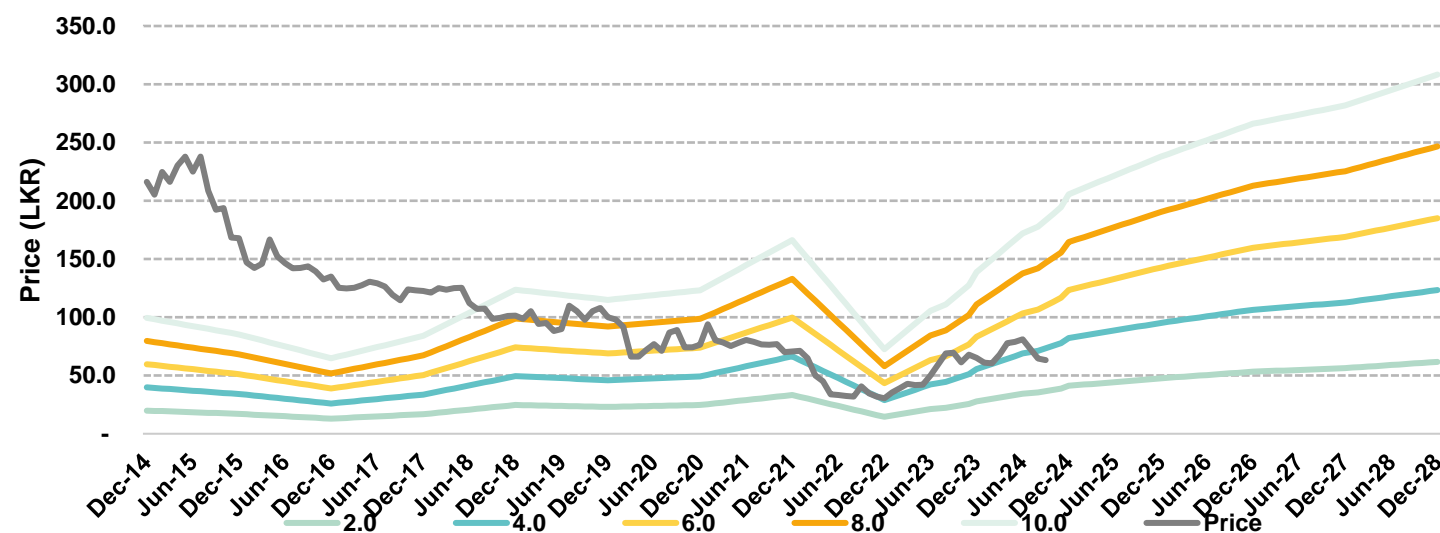
COE	2024E	2025E
Rf	10.0%	11.0%
Rm	18.0%	19.0%
Growth %	3.0%	3.0%
$\beta$	0.30	0.30
$K_e = R_f + \beta(R_m - R_f)$	12.4%	13.4%

## Justified PBV Valuation

Justified PBV based Valuation	2024E	2025E
ROAE	10.8%	11.2%
Growth	3.0%	3.0%
COE	12.4%	13.4%
PBV	0.80	0.90
NAVPS	200.2	223.9
<b>Target Price</b>	<b>160.2</b>	<b>201.5</b>

## PER Valuation

PER based Valuation	2024E	2025E
Earnings (LKR 'Mn)	8,543	9,883
No. of Shares ('Mn)	416	432
EPS	20.6	22.9
Expected PER	7.0x	8.0x
<b>Value per Share</b>	<b>143.9</b>	<b>183.0</b>





# NATIONAL DEVELOPMENT BANK PLC [NDB.N0000]

## Appendix I: Statement of Income and Expenses

Statement of Profit or Loss (LKR Mn) As at 31st December	2018	2019	2020	2021	2022	2023	2024E	2025E	2026E
<b>Gross Income</b>	<b>51,621</b>	<b>60,237</b>	<b>61,632</b>	<b>64,050</b>	<b>111,552</b>	<b>134,466</b>	<b>117,764</b>	<b>124,930</b>	<b>130,406</b>
Interest Income	44,622	53,402	53,153	52,795	98,217	119,722	100,616	104,922	108,793
Interest Expenses	-29,518	-35,431	-35,228	-31,053	-67,087	-87,342	-73,298	-74,813	-76,039
<b>Net Interest Income</b>	<b>15,104</b>	<b>17,971</b>	<b>17,925</b>	<b>21,741</b>	<b>31,130</b>	<b>32,380</b>	<b>27,319</b>	<b>30,109</b>	<b>32,754</b>
Fee & Other Income	7,450	6,836	8,479	11,255	13,317	14,743	17,147	20,008	21,613
<b>Total Operating Income</b>	<b>22,553</b>	<b>24,806</b>	<b>26,404</b>	<b>32,996</b>	<b>44,448</b>	<b>47,124</b>	<b>44,466</b>	<b>50,117</b>	<b>54,367</b>
Impairment (Charges)/ Reversal	-3,765	-4,405	-6,794	-10,253	-29,277	-21,137	-12,932	-15,352	-16,763
<b>Net Operating Income</b>	<b>18,788</b>	<b>20,401</b>	<b>19,610</b>	<b>22,743</b>	<b>15,171</b>	<b>25,987</b>	<b>31,534</b>	<b>34,765</b>	<b>37,604</b>
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
<b>Operating profit before value added tax</b>	<b>9,422</b>	<b>9,992</b>	<b>9,209</b>	<b>11,229</b>	<b>2,586</b>	<b>10,904</b>	<b>15,644</b>	<b>17,946</b>	<b>19,963</b>
VAT on financial services	-1,938	-2,068	-1,819	-2,015	-1,203	-2,750	-3,863	-4,318	-4,715
Debt Repayment Levy	-235	-1,003	0	0	0	0	0	0	0
<b>Operating profit after value added tax</b>	<b>7,248</b>	<b>6,921</b>	<b>7,390</b>	<b>9,214</b>	<b>1,383</b>	<b>8,154</b>	<b>11,780</b>	<b>13,629</b>	<b>15,248</b>
Share of associate companies' profit	0	0	0	0	0	0	0	0	0
<b>Profit Before Tax</b>	<b>7,248</b>	<b>6,921</b>	<b>7,390</b>	<b>9,214</b>	<b>1,383</b>	<b>8,154</b>	<b>11,780</b>	<b>13,629</b>	<b>15,248</b>
Income Tax Expense	-1,972	-2,036	-2,173	-2,151	1,607	-2,296	-3,063	-3,543	-3,965
<b>Profit for the Year</b>	<b>5,276</b>	<b>4,885</b>	<b>5,217</b>	<b>7,063</b>	<b>2,989</b>	<b>5,858</b>	<b>8,718</b>	<b>10,085</b>	<b>11,284</b>
Minority Interest	140	109	101	158	-19	99	174	202	226
<b>Profit attributable to Equity Holders</b>	<b>5,136</b>	<b>4,776</b>	<b>5,117</b>	<b>6,904</b>	<b>3,009</b>	<b>5,759</b>	<b>8,543</b>	<b>9,883</b>	<b>11,058</b>
<b>Adjusted EPS</b>	<b>12.4</b>	<b>11.5</b>	<b>12.3</b>	<b>16.6</b>	<b>7.2</b>	<b>13.9</b>	<b>20.6</b>	<b>23.8</b>	<b>26.6</b>

## Appendix II: Statement of Financial Position

Statement of Financial Position (LKR Mn) As at 31st December	2018	2019	2020	2021	2022	2023	2024E	2025E	2026E
<b>ASSETS</b>									
Cash and cash equivalents	7,071	6,081	10,779	13,765	35,728	28,581	30,616	34,771	39,444
Balances with Central Bank	15,546	13,887	6,812	16,403	18,188	7,040	9,505	10,173	10,935
Placements with banks	15,237	6,291	12,402	8,299	4,109	33,744	35,868	38,737	41,449
Derivative financial instruments	3,938	1,596	1,429	1,338	7,909	3,084	2,609	2,817	3,014
Financial assets recognised through profit or loss	4,052	3,489	7,713	4,784	20,789	26,040	19,564	21,130	22,609
Loans and advances to customers	344,276	396,672	425,682	504,374	545,920	452,740	496,365	537,092	578,071
Financial assets at amortised costs	24,175	27,486	44,712	54,263	135,048	125,672	129,125	137,342	143,188
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	11,175	12,852	14,780
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
<b>Total assets</b>	<b>478,497</b>	<b>535,600</b>	<b>632,132</b>	<b>710,832</b>	<b>839,198</b>	<b>786,959</b>	<b>836,472</b>	<b>904,097</b>	<b>969,812</b>
<b>LIABILITIES</b>									
Due to Banks	15,047	18,380	24,173	24,821	20,299	7,679	6,169	6,717	7,249
Derivative financial instruments	2,907	729	1,017	1,049	96	93	496	537	578
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	45,308	48,140	50,672
Tax liabilities	3,175	2,342	2,563	2,586	6,635	7,431	6,126	7,087	7,929
Other liabilities	8,838	9,807	8,435	11,123	9,183	8,608	9,438	10,212	10,991
Subordinated term debts	16,812	23,109	19,881	27,961	27,980	29,389	29,489	29,589	29,689
Deferred Tax	513	567	596	569	873	921	921	921	921
Retirement benefit obligations	502	719	820	830	1,019	1,439	1,583	1,742	1,916
<b>Total liabilities</b>	<b>438,386</b>	<b>491,061</b>	<b>582,928</b>	<b>646,765</b>	<b>770,302</b>	<b>711,063</b>	<b>751,677</b>	<b>809,263</b>	<b>863,565</b>
<b>EQUITY ATTRIBUTABLE TO PARENT</b>									
Stated capital	6,469	7,685	8,794	18,264	19,871	20,738	21,757	23,023	24,603
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	5,720	5,834	5,951
Retained Earnings	30,668	33,230	36,143	42,731	41,116	45,079	52,672	61,130	70,620
<b>Equity attributable to parent</b>	<b>39,012</b>	<b>43,383</b>	<b>47,976</b>	<b>62,727</b>	<b>67,505</b>	<b>74,471</b>	<b>83,195</b>	<b>93,034</b>	<b>104,220</b>
Non-controlling interests	1,099	1,155	1,227	1,339	1,391	1,425	1,599	1,801	2,027
<b>Total Equity</b>	<b>40,111</b>	<b>44,539</b>	<b>49,203</b>	<b>64,067</b>	<b>68,896</b>	<b>75,896</b>	<b>84,794</b>	<b>94,835</b>	<b>106,247</b>
<b>Total liabilities and total equity</b>	<b>478,497</b>	<b>535,600</b>	<b>632,132</b>	<b>710,832</b>	<b>839,198</b>	<b>786,959</b>	<b>836,472</b>	<b>904,097</b>	<b>969,812</b>
<b>Adjusted NAVPS</b>	<b>93.9</b>	<b>104.4</b>	<b>115.5</b>	<b>151.0</b>	<b>162.5</b>	<b>179.2</b>	<b>200.2</b>	<b>223.9</b>	<b>250.8</b>



# SEYLAN BANK PLC



## “OPTIMIZING PROFITS AMID ECONOMIC GROWTH”

**MAINTAIN BUY**

**Fair Value: 2024E - LKR 100.0 [+123%]**

**2025E - LKR 110.0 [+146%]**

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*Total Return with DPS: 2024E - 130% [AER 1811%]*

*2025E - 152% [AER 106%]*

LKR (Mn)	2Q2023	2Q2024	YoY	6M2023	6M2024	YoY
<b>Earnings (LKR 'Mn)</b>						
NII	9,178	9,314	+1%	20,665	18,785	-9%
Total Operating Income	11,356	11,590	+2%	24,734	23,419	-5%
Net Operating Income	8,163	10,190	+25%	15,175	20,463	+35%
Pre Tax Profit	2,510	3,599	+43%	4,184	7,371	+76%
Net Profit (equity share holders)	1,477	2,211	+50%	2,500	4,538	+82%
<b>Balance Sheet (LKR 'Mn)</b>						
Loans	420,595	434,413	+3%	420,595	434,413	+3%
Shareholders' Equity	59,039	66,401	+12%	59,039	66,401	+12%
NAVPS	95.9	104.5		95.9	104.2	

### Bottom line surge by 49.7%YoY during 2Q2024

SEYB reported earnings of LKR 2.2Bn during 2Q2024, reflecting a substantial YoY growth of 49.7%, aligning closely with our target of LKR 2.3Bn. This improvement in profitability was primarily driven by a significant reduction in impairment charges, which fell to LKR 1.4Bn which declined by 56.1%YoY (10.0%QoQ). This reduction is attributed to a collective decrease in provisioning for loans, advances, and foreign currency-denominated bonds. Additionally, net fee and commission income increased by 9.0%YoY (3.5% QoQ), supported by higher card-related income, commissions on guarantees, and trade-related income. Conversely, net trading income declined by 86.0%YoY during this quarter. Net interest income grew by 1.5%YoY, despite a decrease in both interest income and expenses, which fell by 21.9%YoY and 33.7% YoY, respectively, due to the prevailing low interest rate environment. Net interest margins deteriorated by 87bps YoY (59bps QoQ) to 5.17%, primarily influenced by a 135bps reduction in AWPR, which stood at 8.8% at the end of Jun 2024.

### 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% in 2024E, recovering from the poor CASA base of 22.0% in 2022, which improved to 30.0% in 2023.

### Loan portfolio and CASA set to thrive with economic growth

Loans and advances experienced a 3.3%YoY increase, with local currency loans rising by 3.6% YoY (+0.6% QoQ). This growth indicates a normalization of economic activity and enhanced economic sentiment, which has encouraged individuals to pursue loans in the context of a lower interest rate environment. Conversely, foreign currency loans experienced a substantial increase of 15.9%YoY (+10.8%QoQ), amidst a 4.0% appreciation of the LKR during the quarter. Deposits also saw significant growth, rising by 9.9%YoY (+2.3%QoQ), driven by a 10.4%YoY increase in local currency deposits (+2.3%QoQ) and a 7.5%YoY increase in foreign currency deposits (+5.6%QoQ). Additionally, Stage 3 loans decreased to 3.5%, down from 3.9% in 1Q2024.

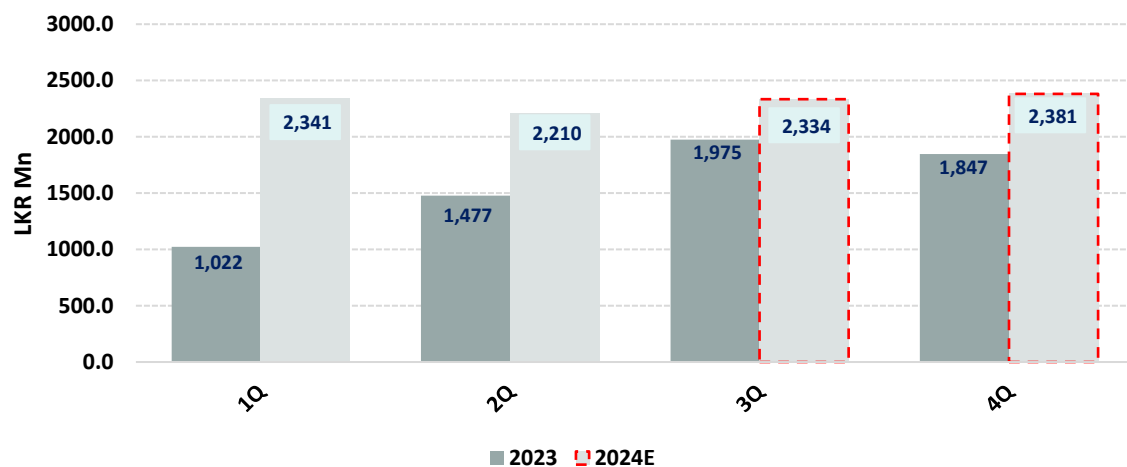
## SEYB remains well capitalized above required thresholds

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 100.0 and SEYB.X at 62.0 for 2024E – MAINTAIN BUY

Given the positive economic outlook supported by an FCR forecast of +2% to +3% GDP growth towards 2024E, positivity surrounding the finalization of EDR and the attractive trading multiples we find SEYB's future prospects appealing. Furthermore, with the improved business confidence, steady recovery in SMEs and new digitalization initiatives by the bank, we anticipate SEYB to trade at 0.9x PBV, resulting in a fair value of LKR 100.0 for SEYB.N and LKR 62.0 for SEYB.X, for 2024E. Thus, we continue to maintain our recommendation on SEYB at

### MAINTAIN BUY.



## Estimate Revision

In LKR Mn	2024E - O	2024E - R	% Change	2025E - O	2025E - R	% Change
<b>Earnings Estimate</b>						
Net Interest Income	36,262	36,262	0%	37,191	37,191	0%
Total Operating Income	46,360	46,360	0%	48,630	48,630	0%
Net Operating Income	38,356	38,356	0%	40,701	40,701	0%
Pre Tax Profit	18,835	18,835	0%	15,773	15,773	0%
Net Profit	9,266	9,266	0%	10,252	10,252	0%
Adjusted EPS	15.1	15.1		16.7	16.7	
Growth YoY	47%	47%		11%	11%	
<b>Balance Sheet Estimate</b>						
Shareholders' Equity	70,251	70,251	0%	78,657	78,657	0%
Adjusted NAVPS	114.1	114.1		127.8	127.8	
<b>Ratio Estimate</b>						
ROE (%)	14.0%	14.0%		13.8%	13.8%	
PER (x)	3.0	3.0		2.7	2.7	
PBV (x)	0.4	0.4		0.4	0.4	

## Valuation Table

Y/E 31 December	2020	2021	2022	2023	2024E	2025E	2026E
<b>Estimates (LKR 'Mn)</b>							
Net Interest Income	19,811	23,904	40,887	40,452	36,262	37,191	38,148
Total Operating Income	25,723	31,729	51,379	49,845	46,360	48,630	52,379
<b>Net Profit</b>	<b>3,039</b>	<b>4,653</b>	<b>4,574</b>	<b>6,321</b>	<b>9,266</b>	<b>10,252</b>	<b>11,602</b>
Adjusted EPS (LKR)	4.9	7.6	7.4	10.3	15.1	16.7	18.9
YoY Growth (%)	-19%	53%	-2%	38%	47%	11%	13%
<b>Valuations</b>							
PER (x)	9.1x	5.9x	6.0x	4.4x	3.0x	2.7x	2.4x
PBV (x)	0.5x	0.4x	0.5x	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%	20%	18%	16%
DY (%)	3.3%	6.7%	4.5%	6.7%	6.7%	6.7%	6.7%
NAVPS	98.2	101.1	97.3	101.4	114.1	127.8	146.7

## Valuation Summary

Return	2024E	2025E
Target Price	100.0	110.0
Current Price	44.8	44.8
Capital Gain (LKR)	55.2	65.2
Dividends upto 31st Dec (LKR)	3.0	3.0
Capital Gain %	123%	146%
Dividend Yield %	7%	7%
<b>Total Return %</b>	<b>130%</b>	<b>152%</b>
<b>Annualized Return %</b>	<b>1811%</b>	<b>106%</b>

Expected SEYB price for	2024E	2025E
Justified PBV based target price	102.0	108.0
PER Valuation based target price	105.0	116.6
RI Valuation based target price	90.0	107.0
<b>Average Target Price</b>	<b>99.0</b>	<b>110.5</b>
<b>Target Price after Rounding off</b>	<b>100.0</b>	<b>110.0</b>

## Residual Income Valuation

Residual Income based Valuation	2024E	2025E
PV of Residual Income	-6,901	-4,090
No. of Shares ('Mn)	615	615
RI per Share	-11.2	-6.6
Opening Book value per Share	101.4	114.1
<b>Value per Share</b>	<b>90.0</b>	<b>107.0</b>

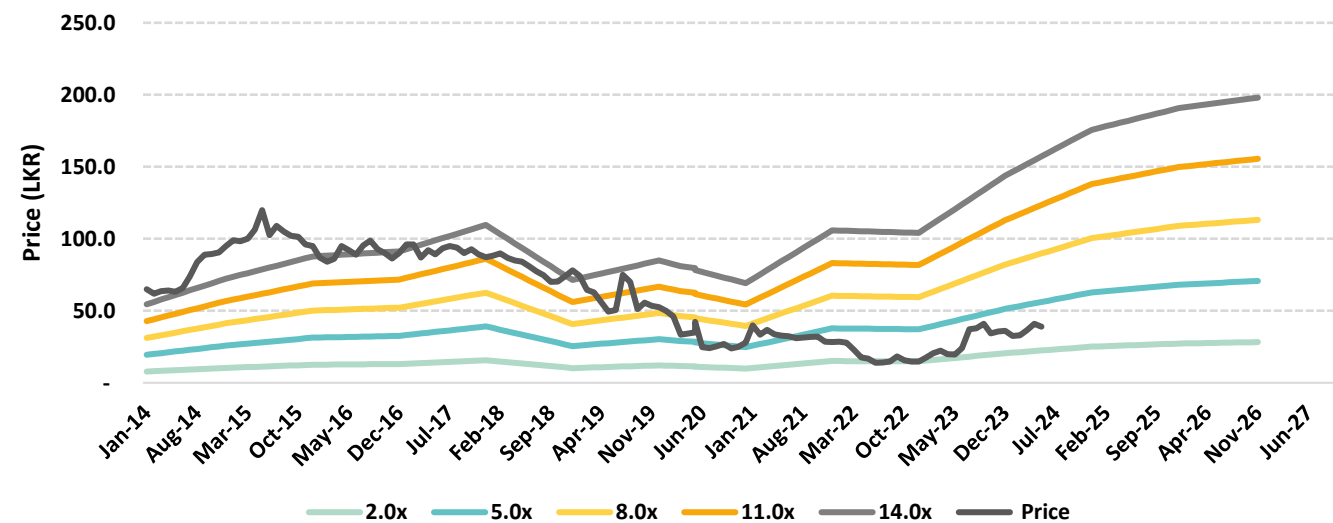
COE	2024E	2025E
Rf	10.0%	11.0%
Rm	18.0%	19.0%
Growth %	3.0%	3.0%
$\beta$	0.8	0.8
$K_e = R_f + \beta(R_m - R_f)$	16.0%	17.0%

## Justified PBV Valuation

Justified PBV based Valuation	2024E	2025E
ROAE	14.0%	13.8%
Growth	3.0%	3.0%
COE	16.0%	17.0%
PBV	0.9	0.9
NAVPS	114.1	127.8
<b>Target Price</b>	<b>102.0</b>	<b>108.0</b>

## PER Valuation

PER based Valuation	2024E	2025E
Earnings (LKR 'Mn)	9,266	10,252
No. of Shares ('Mn)	615	615
EPS	15.1	16.7
Expected PER	7.0x	7.0x
<b>Price at 7.0x Earnings</b>	<b>105.0</b>	<b>116.6</b>



## Appendix I: Statement of Income and Expenses

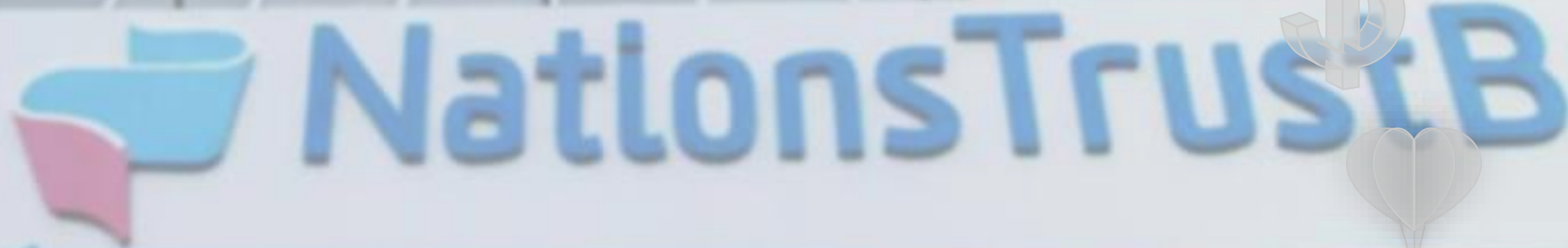
Income Statement (LKR Mn) P/E 31st December	2020	2021	2022	2023	2024E	2025E	2026E
Interest Income	51,112	46,781	86,106	107,168	83,958	86,487	90,069
Less : Interest Expenses	31,302	22,877	45,219	66,717	47,695	49,296	51,922
<b>Net Interest Income</b>	<b>19,811</b>	<b>23,904</b>	<b>40,887</b>	<b>40,452</b>	<b>36,262</b>	<b>37,191</b>	<b>38,148</b>
Fee & Other Income	5,912	7,826	10,492	9,393	10,098	11,439	14,231
<b>Total Operating Income</b>	<b>25,723</b>	<b>31,729</b>	<b>51,379</b>	<b>49,845</b>	<b>46,360</b>	<b>48,630</b>	<b>52,379</b>
Impairment (Charges)/ Reversal	6,993	10,422	26,433	17,005	8,004	7,930	7,820
<b>Net Operating Income</b>	<b>18,730</b>	<b>21,308</b>	<b>24,946</b>	<b>32,840</b>	<b>38,356</b>	<b>40,701</b>	<b>44,558</b>
<b>Less : Operating expenses</b>							
Staff Cost	7,275	6,946	8,007	9,194	9,787	10,800	11,775
Depreciation of PPE	1,486	1,479	1,416	1,348	1,317	1,404	1,491
Other Operating Expenses	4,145	4,763	5,951	8,093	8,417	8,753	9,016
<b>Total Operating Expenses</b>	<b>12,906</b>	<b>13,188</b>	<b>15,375</b>	<b>18,635</b>	<b>19,521</b>	<b>20,957</b>	<b>22,282</b>
<b>Operating Profit Before Taxes</b>	<b>5,824</b>	<b>8,119</b>	<b>9,571</b>	<b>14,205</b>	<b>18,835</b>	<b>19,744</b>	<b>22,276</b>
VAT, NBT & DRL	1,528	1,935	2,774	3,935	4,580	3,971	4,427
<b>Profit Before Tax</b>	<b>4,296</b>	<b>6,185</b>	<b>6,797</b>	<b>10,269</b>	<b>14,256</b>	<b>15,773</b>	<b>17,849</b>
Income Tax Expense	1,198	1,449	2,219	3,869	4,989	5,521	6,247
<b>Profit for the Year</b>	<b>3,098</b>	<b>4,736</b>	<b>4,578</b>	<b>6,401</b>	<b>9,266</b>	<b>10,252</b>	<b>11,602</b>
Less : Non-Controlling Interest	59	83	3	80	-	-	-
<b>Profit attributable to Equity Holders</b>	<b>3,039</b>	<b>4,653</b>	<b>4,574</b>	<b>6,321</b>	<b>9,266</b>	<b>10,252</b>	<b>11,602</b>
EPS	5.7	8.1	7.4	10.4	15.1	16.7	18.9

## Appendix II: Statement of Financial Position

Balance Sheet (LKR Mn) As at 31st December	2020	2021	2022	2023	2024E	2025E	2026E
<b>Assets</b>							
Cash and Cash Equivalents	10,036	16,079	40,255	48,851	103,930	121,053	120,896
Balances with Central Bank of Sri Lanka	7,371	8,726	16,784	7,028	21,832	24,015	26,417
Placements with Banks and Finance Companies	15,688	13,507	20,120	49,907	28,057	27,506	30,316
Loans and Advances to Customers	393,766	441,977	444,220	437,532	489,147	538,936	593,732
Financial Assets	112,774	107,322	123,616	144,913	114,743	112,572	127,582
Property, Plant and Equipment	6,773	7,064	6,463	6,627	6,515	6,849	7,114
Other Assets	11,597	13,416	21,378	23,135	14,412	15,731	17,124
<b>Total Assets</b>	<b>558,006</b>	<b>608,090</b>	<b>672,835</b>	<b>717,993</b>	<b>778,637</b>	<b>846,663</b>	<b>923,182</b>
<b>Liabilities</b>							
Due to Banks	32,720	24,722	13,065	12,129	12,950	13,610	14,304
Due to Customers	440,303	488,653	547,316	590,698	620,233	682,257	750,482
Other Borrowings	19,649	24,287	33,569	26,847	48,938	45,541	41,248
Tax Liabilities	2,636	2,194	5,179	2,720	2,829	2,942	3,059
Other Liabilities	10,643	12,947	16,240	21,901	22,120	22,342	22,565
<b>Total Liabilities</b>	<b>505,950</b>	<b>552,803</b>	<b>615,369</b>	<b>654,295</b>	<b>707,070</b>	<b>766,690</b>	<b>831,659</b>
<b>Shareholders Funds</b>							
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	3,344	3,857	4,437
Retained Earnings	25,382	29,967	31,698	35,541	40,644	46,487	55,189
Other Reserves	5,736	3,334	2,010	3,051	5,354	7,404	9,724
<b>Shareholders Funds</b>	<b>50,770</b>	<b>53,958</b>	<b>56,202</b>	<b>62,382</b>	<b>70,251</b>	<b>78,657</b>	<b>90,259</b>
<b>Minority Interest</b>	<b>1,286</b>	<b>1,329</b>	<b>1,264</b>	<b>1,316</b>	<b>1,316</b>	<b>1,316</b>	<b>1,264</b>
	<b>52,056</b>	<b>55,287</b>	<b>57,466</b>	<b>63,698</b>	<b>71,567</b>	<b>79,973</b>	<b>91,523</b>
<b>Total Liabilities &amp; Shareholders' Funds</b>	<b>558,006</b>	<b>608,090</b>	<b>672,835</b>	<b>717,993</b>	<b>778,637</b>	<b>846,663</b>	<b>923,182</b>
NAVPS	98.2	101.1	97.3	101.4	114.1	127.8	146.7



**Nations Trust Bank PLC**



# NATIONS TRUST BANK PLC [NTB.N0000]

## “ECONOMIC REVIVAL SPARKS EARNINGS BREAKTHROUGH”

**MAINTAIN BUY**

**Fair Value: 2024E - LKR 185.0 [+50%]**

**2025E - LKR 200.0 [+62%]**

**Zaheema Jihan**

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*Total Return with DPS: 2024E - 53% [AER 394%]*

*2025E - 65% [AER 49%]*

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LKR (Mn)	2Q2023	2Q2024	YoY	06M2023	06M2024	YoY
<b>Earnings (LKR 'Mn)</b>						
NII	8,811	8,963	+2%	17,745	18,055	+2%
Total Operating Income	11,175	12,600	+13%	22,771	24,498	+8%
Net Operating Income	10,321	12,180	+18%	19,810	23,520	+19%
Profit Before Tax	5,366	6,546	+22%	9,894	12,457	+26%
Net Profit	3,326	4,250	+28%	6,119	8,026	+31%
<b>Balance Sheet (LKR 'Mn)</b>						
Loans	236,628	275,121	+16%	236,628	275,121	+16%
Shareholders' Equity	53,481	69,039	+29%	53,481	69,039	+29%
NAVPS	167.3	211.6	+26%	167.3	211.6	+26%

### Strong Net Operating Income fuels profit gains

NTB recorded earnings of LKR 4.3Bn for 2Q2024 cf. LKR 3.3Bn recorded in 2Q2023 (+27.8%YoY; +12.5%QoQ) amidst notable increase in net operating income during the quarter although NII remained stable at LKR 9.0Bn (+1.7%YoY; -1.4%QoQ). Accordingly, net operating income rose by 20.1%YoY, led by the significant improvement in Net Trading Income which recorded a substantial uptick of 260.6%YoY, reversing the trading loss of LKR 1.4Bn incurred in 2Q2023. Benefitting from the increasing external trade volumes in the country, NTB's net fee and commission income nudged higher by 45.8%YoY to LKR 2.3Bn during the quarter, further supporting the bottom-line growth. Notably, net operating income further thrived as impairment charges continued to decelerate for the 3rd consecutive quarter, declining by 50.9%YoY (-24.8%QoQ) with the exclusion of ISB provisioning and reducing stage-3 loan provisioning.

### Loan book growth stagnates amidst weak credit demand

Loan book growth remained minimal during the quarter, increasing only marginally by 2.6%QoQ to LKR 275.1Bn, as credit demand continued to be subdued. However, on a year-on-year basis, loan book growth reached a solid 16.3%, reflecting a substantial improvement compared to industry peers. This growth was primarily driven by term loans and offshore loans. Looking ahead, we expect the loan book to expand by 13.5% in 2024E, supported by the ongoing economic recovery and a rise in business activity, which is anticipated to boost credit demand. NTB's deposit base also grew by 17.1%YoY, reaching LKR 351.1Bn, with the CASA ratio standing at 30.4% for the quarter. Additionally, the Impaired Loans (Stage 3) Ratio remained stable at 2.1%, the lowest in the industry. This was bolstered by NTB's strategic shift away from subprime customer segments and a focus on lending to more creditworthy clients, such as corporates and mid-corporates.

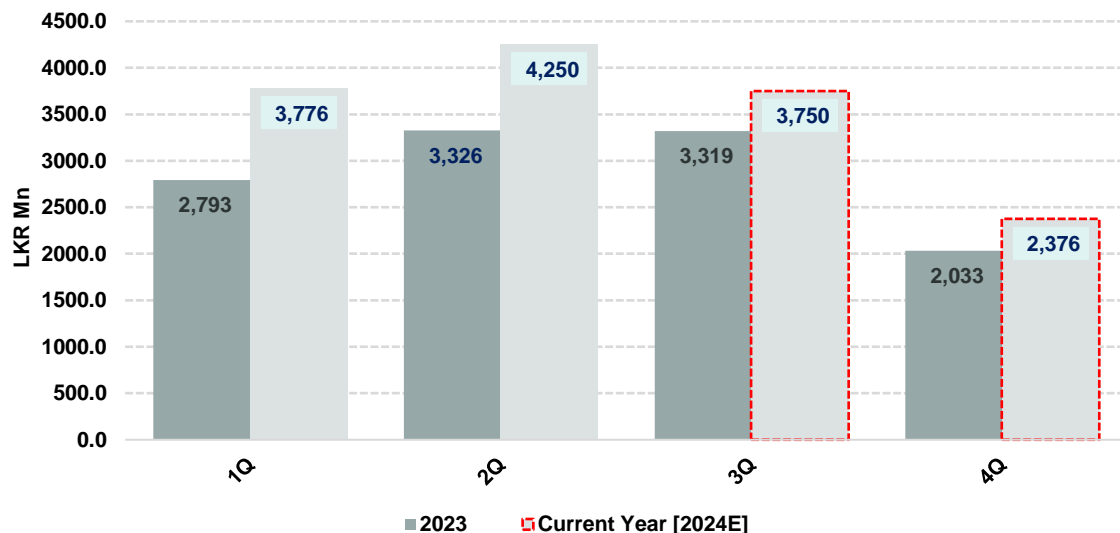
### Strong capital buffer poised for navigating the road ahead

As of June 2024, NTB maintained a solid financial standing, with Tier 1 and Total Capital Adequacy Ratios at 16.62% and 17.83%, respectively. Both ratios significantly exceed the regulatory requirements of 8.50% and 12.50%, reflecting NTB's strong capital base. This healthy capital buffer provides the bank with the resilience needed to navigate future challenges while offering the capacity to support credit growth amid the ongoing economic recovery.



## 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 conclusion of EDR. As quarterly earnings of NTB exceeded expectations, we have slightly upgraded our earnings projections for 2024E and 2025E to LKR 14.2Bn and LKR 15.2Bn, respectively. Consequently, we maintain 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**



## Estimate Revision

In LKR Mn	2024E - O	2024E - R	% Change	2025E - O	2025E - R	% Change
<b>Earnings Estimate</b>						
Net Interest Income	30,573	31,793	+4%	32,281	33,275	+3%
Total Operating Income	41,284	42,602	+3%	43,217	44,583	+3%
Net Operating Income	38,409	39,727	+3%	40,595	41,962	+3%
Profit Before Tax	18,852	19,932	+6%	20,212	21,373	+6%
Net Profit	13,385	14,152	+6%	14,350	15,175	+6%
Adjusted EPS	41.0	43.4		44.0	46.5	
Growth YoY	17%	23%		7%	7%	

## Balance Sheet Estimate

Shareholders' Equity	68,071	68,777	+1%	73,724	74,738	+1%
<b>Adjusted NAVPS</b>	<b>208.7</b>	<b>210.8</b>		<b>224.6</b>	<b>229.1</b>	

## Valuation Table

P/E 31 December	2020	2021	2022	2023	2024E	2025E	2026E
<b>Estimates (LKR 'Mn)</b>							
Net Interest Income	13,672	14,078	29,301	34,951	31,793	33,275	34,689
Total Operating Income	21,241	23,269	38,867	45,032	42,602	44,583	46,657
<b>Net Profit</b>	<b>4,055</b>	<b>6,694</b>	<b>7,228</b>	<b>11,471</b>	<b>14,152</b>	<b>15,175</b>	<b>15,561</b>
Adjusted EPS (LKR)	12.4	20.5	22.2	35.2	43.4	46.5	47.7
YoY Growth (%)	9%	65%	8%	59%	23%	7%	3%
<b>Valuations</b>							
PER (x)	8.4x	5.1x	4.7x	3.5x	2.8x	2.7x	2.6x
PBV (x)	1.0x	0.9x	0.7x	0.7x	0.6x	0.5x	0.5x
DY (%)	2.2%	1.9%	3.1%	2.0%	2.8%	3.0%	3.1%
Adjusted NAVPS	107.7	123.1	141.1	187.4	210.8	229.1	257.1
DPS (LKR)	2.3	2.0	3.3	2.5	3.5	3.7	3.8
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	123.3	123.3
Capital Gain (LKR)	61.7	76.7
Dividends upto 31st Dec (LKR)	3.5	3.7
Capital Gain %	50%	62%
Dividend Yield %	3%	3%
<b>Total Return %</b>	<b>53%</b>	<b>65%</b>
<b>Annualized Return %</b>	<b>394%</b>	<b>49%</b>

Expected NTB.N price	2024E	2025E
Justified PBV based target price	189.7	206.2
PER Valuation based target price	195.2	209.3
RI Valuation based target price	173.1	201.2
<b>Average Target Price</b>	<b>186.0</b>	<b>205.6</b>
<b>Target Price after Rounding off</b>	<b>185.0</b>	<b>200.0</b>

## Residual Income Valuation

Residual Income based Valuation	2024E	2025E
PV of Residual Income	-4,646	-3,154
No. of Shares ('Mn)	326	326
RI per Share	-14.2	-9.7
Opening Book value per Share	187	211
<b>Value per Share</b>	<b>173.1</b>	<b>201.2</b>

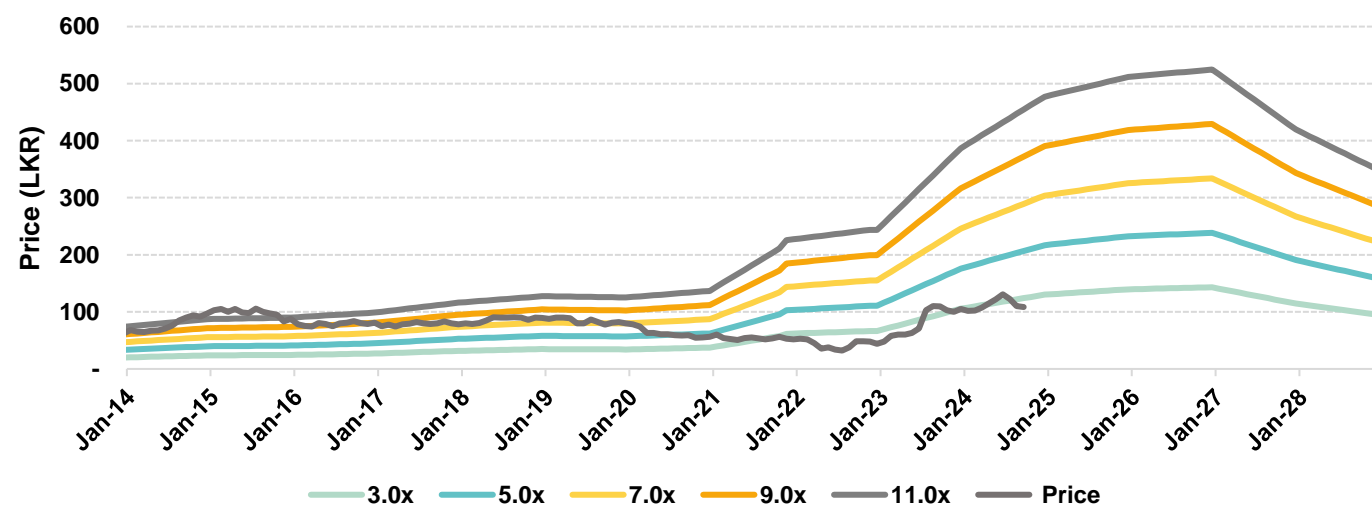
	2024E	2025E
COE		
Rf	10.0%	11.0%
Rm	18.0%	19.0%
Growth %	3.0%	3.0%
$\beta$	1.65	1.65
$Ke=Rf+\beta(Rm-Rf)$	23.2%	24.2%

## Justified PBV Valuation

Justified PBV based Valuation	2024E	2025E
ROAE	21.8%	21.1%
Growth	3.0%	3.0%
COE	23.2%	24.2%
PBV	0.9	0.9
NAVPS	210.8	229.1
<b>Target Price</b>	<b>189.7</b>	<b>206.2</b>

## PER Valuation

PER based Valuation	2024E	2025E
Earnings (LKR 'Mn)	14,152	15,175
No. of Shares ('Mn)	326	326
EPS	43.4	46.5
Expected PER	4.5x	4.5x
<b>Price at 4.5x Earnings</b>	<b>195.2</b>	<b>209.3</b>



## Appendix I: Statement of Income and Expenses

Income Statement (LKR Mn) P/E 31st December	2020	2021	2022	2023	2024E	2025E	2026E
Interest Income	32,944	28,657	54,308	70,558	57,894	60,738	64,268
Interest Expense	(19,272)	(14,580)	(25,007)	(35,607)	(26,100)	(27,463)	(29,579)
<b>Net Interest Income</b>	<b>13,672</b>	<b>14,078</b>	<b>29,301</b>	<b>34,951</b>	<b>31,793</b>	<b>33,275</b>	<b>34,689</b>
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)
<b>Net Fees and Commission Income</b>	<b>5,361</b>	<b>6,140</b>	<b>6,794</b>	<b>7,100</b>	<b>9,025</b>	<b>10,344</b>	<b>10,877</b>
Net Trading Income	2,553	2,472	14,233	(1,267)	(760)	(699)	(643)
Other Operating Income	(346)	79	(11,490)	3,775	2,543	1,664	1,734
<b>Total Operating Income</b>	<b>21,241</b>	<b>23,269</b>	<b>38,867</b>	<b>45,032</b>	<b>42,602</b>	<b>44,583</b>	<b>46,657</b>
Impairment (Charge) / Reversal for Loans and Advances	(3,847)	(3,742)	(13,842)	(7,500)	(2,875)	(2,621)	(1,859)
<b>Net Operating Income</b>	<b>17,394</b>	<b>19,527</b>	<b>25,025</b>	<b>37,532</b>	<b>39,727</b>	<b>41,962</b>	<b>44,799</b>
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
<b>Less: Total Operating Expenses</b>	<b>9,839</b>	<b>9,122</b>	<b>11,559</b>	<b>14,079</b>	<b>13,920</b>	<b>15,545</b>	<b>17,593</b>
Operating Profit Before Value Added Tax (VAT)	7,555	10,405	13,466	23,453	25,807	26,417	27,206
Less: Value Added Tax (VAT) on Financial Services	1,496	1,985	3,021	5,145	5,875	5,043	5,288
<b>Profit Before Income Tax</b>	<b>6,059</b>	<b>8,420</b>	<b>10,445</b>	<b>18,308</b>	<b>19,932</b>	<b>21,373</b>	<b>21,918</b>
Less: Income Tax Expense	2,004	1,726	3,217	6,837	5,780	6,198	6,356
<b>Profit for the Year</b>	<b>4,055</b>	<b>6,694</b>	<b>7,228</b>	<b>11,471</b>	<b>14,152</b>	<b>15,175</b>	<b>15,561</b>
EPS	12.4	20.5	22.2	35.2	43.4	46.5	47.7

## Appendix II: Statement of Financial Position

Statement of Financial Position (LKR Mn) As at 31st December	2020	2021	2022	2023	2024E	2025E	2026E
<b>Assets</b>							
Cash and Cash Equivalents	9,145	13,428	58,748	40,180	57,791	44,543	39,326
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
<b>Total Assets</b>	<b>337,991</b>	<b>379,552</b>	<b>414,944</b>	<b>516,134</b>	<b>540,056</b>	<b>572,286</b>	<b>601,742</b>
<b>Liabilities</b>							
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	3,468	3,719	3,814
Other Liabilities	7,058	9,675	12,629	17,414	16,810	17,482	18,181
Deferred Tax Liabilities	1,028	-	-	-	-	-	-
<b>Total Liabilities</b>	<b>302,866</b>	<b>339,393</b>	<b>368,903</b>	<b>455,008</b>	<b>471,279</b>	<b>497,548</b>	<b>517,888</b>
<b>Equity Attributable to Equity Holders of the Parent</b>							
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	3,760	4,877	5,951
Retained Earnings	22,265	28,073	32,027	41,623	50,959	55,500	62,453
Other Reserves	1,890	796	1,384	5,292	2,631	2,934	4,023
<b>Total Equity</b>	<b>35,125</b>	<b>40,159</b>	<b>46,041</b>	<b>61,126</b>	<b>68,777</b>	<b>74,738</b>	<b>83,855</b>
<b>Total Liabilities and Equity</b>	<b>337,991</b>	<b>379,552</b>	<b>414,944</b>	<b>516,134</b>	<b>540,056</b>	<b>572,286</b>	<b>601,742</b>
NAVPS	107.7	123.1	141.1	187.4	210.8	229.1	257.1



**First Capital**  
A Janashakthi Group Company

# Thank you!

*“SUCCESSFUL INVESTMENTS IS ABOUT  
MANAGING RISKS”*

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