



# HATTON NATIONAL BANK PLC [HNB.N0000]

## MAINTAIN BUY

### “OUTLOOK DRIVES VALUE”

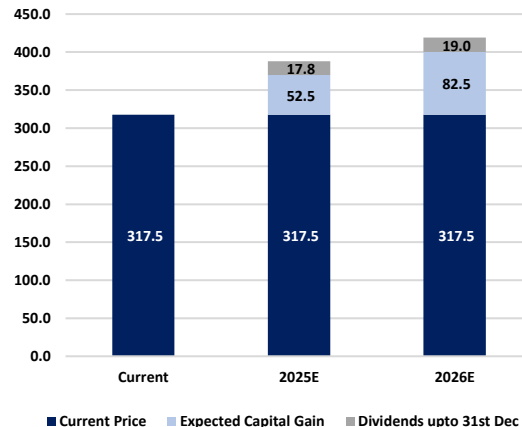
**Fair Value: 2025E - LKR 370.0 [+17%]**

**Total Return with DPS: 2025E - 22% [AER 47%]**

**2026E – LKR 400.0 [+26%]**

**2026E – 32% [AER 20%]**

HNB reported a 48.4% YoY surge in net profits to LKR 10.7Bn in 1Q2025, outperforming our expectations. This performance was mainly driven by a rise in Net Interest Income (NII) and a turnaround in trading gains compared to losses recorded in 1Q2024. However, on a QoQ basis, earnings declined by 47.9%, primarily due to a one-off reversal of impairment charges recognized in 4Q2024 related to previously impaired ISBs. The YoY growth in NII was supported by a drop in interest expenses due to lower interest rates and an overall improvement in macroeconomic conditions. Looking ahead, we project a strong 144.4% YoY growth in recurring net profit, reaching LKR 36.6Bn by end-2025E, underpinned by continued growth in NII, higher fee and commission income, and lower impairment charges. Despite a declining interest rate environment, HNB's NII increased 10.2% YoY to LKR 27.9Bn, though it declined 10.7% QoQ. Net fee and commission income rose by 23.2% YoY, driven by increased card usage and stronger engagement through digital channels. HNB's loan portfolio grew 1.7% QoQ to LKR 1.2Tn, while its capital adequacy ratios remain well above regulatory thresholds. We expect loan growth to accelerate to 9% in 2025E, supported by further reductions in lending rates and a favorable economic backdrop. Given HNB's solid fundamentals, robust loan growth prospects, and a positive outlook for the sector, we expect the bank to trade at 0.8x PBV in 2025E. Reflecting the currently attractive valuations, we have revised our 2025E fair value estimates to LKR 370.0 for HNB.N and LKR 300.0 for HNB.X. For 2026E, we have established fair value estimates of LKR 400.0 for HNB.N and LKR 320.0 for HNB.X, **MAINTAIN BUY**.



LKR (Mn)	1Q2024	1Q2025	YoY	2023	2024	YoY
<b>Earnings (LKR 'Mn)</b>						
NII	25,334	27,911	+10%	118,075	109,765	-7%
Total Operating Income	32,605	41,452	+27%	149,500	97,593	-35%
Net Operating Income	30,971	41,646	+34%	106,976	174,998	+64%
Pre Tax Profit	11,242	17,067	+52%	37,218	84,099	+126%
Net Profit : Equity Holders	7,209	10,698	+48%	22,771	43,539	+91%
<b>Balance Sheet (LKR 'Mn)</b>						
Loans	1,055,253	1,227,362	+16%	1,081,186	1,206,782	+12%
Shareholder's Equity	218,641	263,530	+21%	212,240	261,361	+23%
Adjusted NAVPS	382.4	460.9	+21%	379.2	466.9	+23%

### HNB earnings up by 48.4% YoY during 1Q2025

HNB reported a 10.2% YoY increase in NII to LKR 27.9Bn in 1Q2025, supported by a lower interest rate environment compared to the same period in 2024. While the bank's loan book expanded by LKR 172Bn YoY, interest income declined by 10.5% YoY, reflecting the impact of reduced lending rates. However, this was more than offset by a sharper 23.9% YoY reduction in interest expenses, driven by sustained growth in low-cost Current and Savings Account (CASA) deposits. As a result, Net Interest Margins (NIMs) stood at 4.48%, compared to 4.86% in 4Q2024 and 4.54% in 1Q2024. Net Fee and Commission Income grew by 23.2% YoY, primarily due to increased card transaction volumes and greater usage of digital banking platforms. Meanwhile, other income, mainly comprising exchange gains, rose sharply to LKR 8.2Bn, compared to LKR 2.9Bn in 1Q2024, supported by a 2.7% YTD depreciation of the LKR against the USD during the Jan–Jun 2025 period. On the asset quality front, HNB reported a net impairment reversal of LKR 194.3Mn, in contrast to an impairment charge of LKR 1.6Bn in the same period last year, reflecting a positive shift in the Stage 3 loan portfolio. Accordingly, the Net Stage 3 ratio improved to 1.82% from 1.88% in December 2024, while the Stage 3 coverage ratio increased to 75.12%, indicating enhanced provisioning strength. However, profitability was partially offset by rising cost pressures. Operating expenses rose by 16.2% YoY, and tax-related expenses saw notable increases, with VAT on financial services up by 52.3% YoY and corporate income taxes rising by 57.3% YoY. Despite these challenges, HNB delivered a solid performance in 1Q2025, underpinned by strong core banking operations, improved asset quality, and diversified income streams.

### Loan book expands as private credit gains momentum

Amid a significant decline in market lending rates, private sector credit growth accelerated to 14.0% YoY as of March 2025, up from 10.7% YoY in December 2024. Within this context, HNB's gross loan portfolio registered a modest 1.7% QoQ growth, reaching LKR 1.2Tn in 1Q2025. This growth was partly impacted by the bank's foreign currency loan exposure, which accounted for approximately 12.1% of the total loan book. On a quarterly basis, domestic currency loans increased by 3.5%, driven by higher volumes across term loans, overdrafts, lease rentals, and housing loans. Conversely, foreign currency lending declined by 9.8% QoQ, primarily due to a reduction in term loan disbursements, despite the depreciation of the LKR against the USD during the quarter. With the Average Weighted Prime Lending Rate (AWPLR) stabilizing around 11.80%, further expansion in private sector credit is expected. Against this backdrop, we forecast HNB's loan book to grow by 9.0% in 2025E, slightly below the estimated 12.0% average growth rate for private sector credit for the year. On the funding side, HNB's total deposits grew by 0.6% QoQ to LKR 1.8Tn in 1Q2025, while the loan-to-deposit ratio edged up to 63.9%, from 63.1% in 4Q2024. The CASA ratio stood at 33.4%, marginally down from 33.5% in the previous quarter. However, we anticipate a meaningful improvement in the CASA ratio by end-2025E, supported by declining fixed deposit rates and the strategic rollout of HNB's enhanced payment and cash management solutions.

## FIRST CAPITAL RESEARCH

Shahana Kanagaratnam +94 11 263 9866

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

### Price performance of HNB vs ASPI (Indexed and rebased to 100)



Source: CSE

### Minimum Return for BUY:

**Buy Below 2026E [AER of 18.0% with DPS]: LKR 325.6**  
HNB.N categorized as 'Grade A' counter

### Disclosure on Shareholding:

**First Capital Group holds 1.6% of the outstanding voting share capital of HNB.**



#### **Capital adequacy soars past regulatory hurdles**

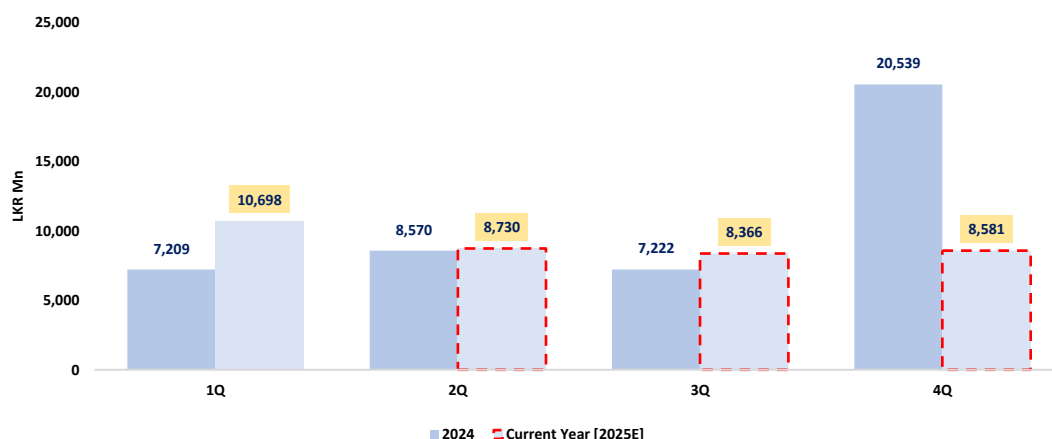
During the quarter, HNB successfully completed the acquisition of the remaining 50% stake in HNB Investment Bank from DFCC PLC and participated in the rights issue of HNB Finance PLC, further reinforcing its position as a well-diversified financial services conglomerate in Sri Lanka. Despite these strategic investments, the Bank maintained robust capital buffers, with Tier 1 and Total Capital Adequacy Ratios standing at 17.60% and 21.89%, respectively, significantly above the regulatory minimum requirements of 9.50% and 13.50%. In addition, the Bank sustained a strong liquidity position, with an all-currency Liquidity Coverage Ratio (LCR) of 364.49%, comfortably exceeding the minimum statutory requirement of 100%.

#### **FV for 2025E revised up to LKR 370.0 for HNB.N and LKR 300.0 for HNB.X – MAINTAIN BUY**

Given HNB’s robust loan book growth and a constructive sector outlook, we expect the stock to trade at approximately 0.8x forward Price-to-Book Value (PBV) in 2025E. Our fair value estimates have been upgraded to LKR 370.0 for HNB.N and LKR 300.0 for HNB.X. This upward revision is underpinned by improved asset quality, stronger-than-expected capital and liquidity positions, and a re-rating of banking sector valuations amid easing monetary conditions. For 2026E, we have established fair value estimates of LKR 400.0 for HNB.N and LKR 320.0 for HNB.X. Supported by HNB’s solid fundamentals, resilient earnings trajectory, and attractive valuation multiples, we **MAINTAIN BUY**.



## Quarterly Earnings



Note: 4Q2024 earnings include the impact of impairment reversals on ISB holdings

## Estimate Revision

In LKR Mn	2025E-O	2025E-R	% Change	2026E-O	2026E-R	% Change
<b>Earnings Estimate</b>						
Net Interest Income	116,472	113,666	-2%	140,297	128,067	-9%
Total Operating Income	159,442	160,635	+1%	185,687	176,705	-5%
Net Operating Income	155,317	151,595	-2%	177,847	161,841	-9%
Pre Tax Profit	58,733	62,660	+7%	69,322	66,722	-4%
Net Profit : Equity Holders	34,888	36,375	+4%	41,177	38,733	-6%
Adjusted EPS	61.0	63.6	+4%	72.0	67.7	-6%
Net Profit Growth YoY	10%	143%		9%	6%	
<b>Balance Sheet Estimate</b>						
Loans & Advances	1,220,919	1,203,584	-1%	1,212,139	1,280,798	+6%
Shareholders' Equity	235,808	273,091	+16%	233,277	284,528	+22%
<b>Adjusted NAVPS</b>	<b>412.4</b>	<b>487.9</b>	<b>+18%</b>	<b>408.0</b>	<b>508.3</b>	<b>+25%</b>

## Valuation Table

P/E 31st December	2021	2022	2023	2024	2025E	2026E	2027E
<b>Estimates (LKR 'Mn)</b>							
Net Interest Income	56,462	111,567	118,075	109,765	113,666	128,067	140,643
Total Operating Income	84,404	160,875	149,500	97,593	160,635	176,705	191,656
<b>Net Profit: Equity Holders</b>	<b>19,025</b>	<b>15,329</b>	<b>22,771</b>	<b>43,539</b>	<b>36,375</b>	<b>38,733</b>	<b>39,692</b>
<b>Recurring Net Profit: Equity Holders</b>	<b>19,025</b>	<b>15,329</b>	<b>22,771</b>	<b>14,974</b>	<b>36,375</b>	<b>38,733</b>	<b>39,692</b>
Adjusted EPS (LKR)	33.3	26.8	39.8	26.2	63.6	67.7	69.4
YoY Growth (%)	45%	-19%	49%	-34%	143%	6%	2%
<b>Valuations</b>							
PER (x)	9.5x	11.8x	8.0x	12.1x	5.0x	4.7x	4.6x
PBV (x)	1.0x	1.0x	0.8x	0.7x	0.7x	0.6x	0.6x
Dividend Yield (%)	2.8%	1.5%	2.5%	4.7%	5.6%	6.0%	6.1%
Adjusted NAVPS (LKR)	315.6	327.5	379.2	466.9	487.9	508.3	528.5
DPS (LKR)	9.0	4.8	8.0	15.0	17.8	19.0	19.4
Dividend Payout (%)	27.1%	17.8%	20.1%	57.3%	28.0%	28.0%	28.0%

Note: Recurring net profit for 2024 indicates reported net profit adjusted for impairment reversal on ISB holdings and net losses from derecognition of financial assets.



## Valuation Summary

Expected HNB.N Price	2025E	2026E
Justified PBV Based Target Price	365.9	381.2
Residual Income Valuation	371.2	391.7
PER Valuation Based Target Price	381.7	406.4
Average Target Price	372.9	393.1
Target Price After Rounding Off	370.0	400.0

Return	2025E	2026E
Target Price	370.0	400.0
Current Price	317.5	317.5
Capital Gain (LKR)	52.5	82.5
Dividends upto 31st Dec (LKR)	17.8	19.0
Capital Gain %	17%	26%
Dividend Yield %	6%	6%
Total Return %	22%	32%
Annualized Return %	47%	20%

## Justified PBV Valuation

Justified PBV Based Valuation	2025E	2026E
ROAE	13.6%	13.9%
Growth	3.0%	3.0%
COE	19.1%	19.1%
PBV	0.8	0.8
NAVPS	487.9	508.3
Value per Share	365.9	381.2

## PER Valuation

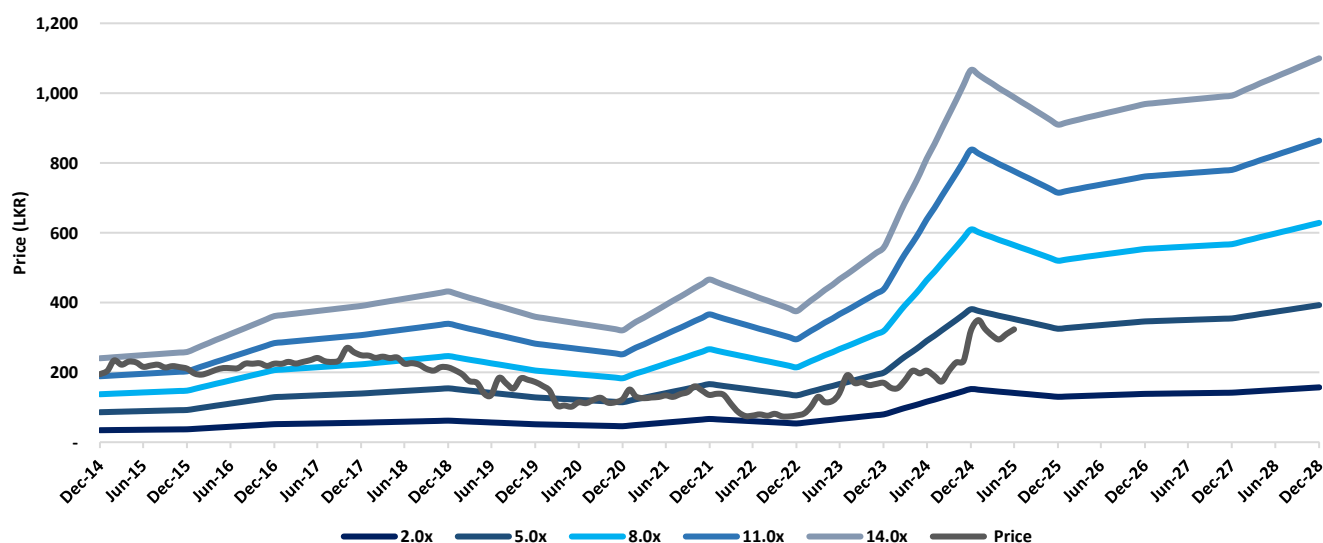
PER Based Valuation	2025E	2026E
Earnings (LKR 'Mn)	36,375	38,733
No. of Shares ('Mn)	572	572
EPS	63.6	67.7
Expected PER	6.0x	6.0x
Value per Share	381.7	406.4

## Residual Income Valuation

Residual Income Based Valuation	2025E	2026E
PV of Residual Income	-54,770	-55,009
No. of Shares ('Mn)	572	572
RI per Share	-95.8	-96.2
Opening Book Value per Share	466.9	487.9
Value per Share	371.2	391.7

COE	2025E	2026E
Rf	10.0%	10.0%
Rm	18.0%	18.0%
Growth %	3.0%	3.0%
$\beta$	1.14	1.14
$Ke = Rf + \beta(Rm - Rf)$	19.1%	19.1%

## PER Chart





## Appendix I: Statement of Income and Expenses

Income Statement	2021	2022	2023	2024	2025E	2026E	2027E
<b>P/E 31 December</b>							
Interest income	107,408	220,581	304,578	240,244	232,157	256,541	287,654
Interest expenses	50,945	109,015	186,504	130,479	118,491	128,474	147,011
<b>Net interest income</b>	<b>56,462</b>	<b>111,567</b>	<b>118,075</b>	<b>109,765</b>	<b>113,666</b>	<b>128,067</b>	<b>140,643</b>
<b>Net fee and commission income</b>	<b>10,316</b>	<b>15,902</b>	<b>16,573</b>	<b>19,149</b>	<b>22,181</b>	<b>24,177</b>	<b>26,353</b>
Net loss from trading	-384	4,826	-11,851	-3,966	2,278	1,645	1,518
Other operating income	17,813	28,558	26,393	-27,862	21,978	22,364	22,757
<b>Total Operating income</b>	<b>84,404</b>	<b>160,875</b>	<b>149,500</b>	<b>97,593</b>	<b>160,635</b>	<b>176,705</b>	<b>191,656</b>
Less: Impairment charge/(reversal) for loans	-19,534	-91,736	-42,524	77,406	-9,040	-14,864	-20,225
<b>Net operating income</b>	<b>64,870</b>	<b>69,139</b>	<b>106,976</b>	<b>174,998</b>	<b>151,595</b>	<b>161,841</b>	<b>171,431</b>
Personnel expenses	13,676	18,491	20,934	26,329	27,050	29,057	32,699
Other expenses	14,718	19,598	24,222	27,486	29,960	32,656	35,595
<b>Total operating expenses</b>	<b>37,349</b>	<b>49,804</b>	<b>60,375</b>	<b>71,129</b>	<b>74,757</b>	<b>79,904</b>	<b>86,940</b>
Operating profit before value added tax (VAT)	27,521	19,336	46,601	103,869	76,838	81,937	84,491
Value Added Tax (VAT) on Financial Services	4,760	5,248	10,523	21,148	15,583	16,649	17,579
<b>Operating profit after value added tax (VAT)</b>	<b>22,761</b>	<b>14,088</b>	<b>36,077</b>	<b>82,722</b>	<b>61,255</b>	<b>65,288</b>	<b>66,912</b>
<b>Profit before income tax</b>	<b>23,054</b>	<b>14,420</b>	<b>37,218</b>	<b>84,099</b>	<b>62,660</b>	<b>66,722</b>	<b>68,375</b>
Income Tax Expense	2,969	-1,328	13,612	39,260	25,160	26,791	27,455
<b>Profit for the Year</b>	<b>20,084</b>	<b>15,748</b>	<b>23,606</b>	<b>44,840</b>	<b>37,500</b>	<b>39,931</b>	<b>40,920</b>
<b>Profit attributable to equity holders of the Bank</b>	<b>19,025</b>	<b>15,329</b>	<b>22,771</b>	<b>43,539</b>	<b>36,375</b>	<b>38,733</b>	<b>39,692</b>
<b>Recurring profit attributable to equity holders of the Bank</b>	<b>19,025</b>	<b>15,329</b>	<b>22,771</b>	<b>14,974</b>	<b>36,375</b>	<b>38,733</b>	<b>39,692</b>
Adjusted EPS	33.3	26.8	39.8	26.2	63.6	67.7	69.4

## Appendix II: Statement of Financial Position

Balance Sheet (LKR Mn)	2021	2022	2023	2024	2025E	2026E	2027E
<b>As at 31st December</b>							
<b>Assets</b>							
Cash and Cash Equivalents	41,712	80,630	73,759	64,065	35,464	39,963	35,029
Balances with Central Bank of Sri Lanka	25,820	32,344	12,234	6,913	7,621	8,219	8,970
Placements with Banks	6,371	58,172	61,836	48,656	57,102	62,241	67,999
Reverse Repurchase Agreements	6,246	1,381	1,830	5,281	6,429	6,841	7,222
Financial Assets Measured at FVTPL	863	236	801	2,963	3,222	3,512	3,837
Financial Assets Measured at Amortised Cost - Loans & Advances	911,253	1,014,519	988,601	1,104,013	1,203,584	1,280,798	1,352,058
Financial investments - FVOCI	210,804	6,062	195,975	112,407	142,756	259,339	328,661
Financial Assets Measured at Amortised Cost - Debt & Other Instruments	171,931	479,787	584,131	770,021	837,499	829,885	906,650
Property, Plant and Equipment	49,724	49,616	50,165	55,468	58,092	60,714	63,335
Other Assets	15,047	30,573	33,415	24,538	26,685	29,086	31,777
<b>Total assets</b>	<b>1,453,651</b>	<b>1,798,275</b>	<b>2,047,040</b>	<b>2,209,174</b>	<b>2,395,051</b>	<b>2,598,787</b>	<b>2,825,343</b>
<b>Liabilities</b>							
Due to Banks	17,076	6,105	9,020	6,596	8,909	9,251	9,558
Due to Other Customers	1,107,066	1,443,179	1,609,154	1,750,259	1,903,407	2,074,714	2,266,625
Dividends Payable	1,014	1,039	991	994	3,056	3,254	3,334
Other Borrowings	25,556	33,386	25,032	19,742	22,679	24,134	25,477
Other Liabilities	14,597	18,042	20,696	21,549	22,436	22,997	23,572
<b>Total Liabilities</b>	<b>1,270,383</b>	<b>1,608,188</b>	<b>1,827,484</b>	<b>1,939,424</b>	<b>2,112,447</b>	<b>2,303,547</b>	<b>2,517,562</b>
<b>Equity</b>							
Stated Capital	37,364	38,679	40,955	42,858	49,275	56,107	63,109
Retained Earnings	43,644	50,247	68,252	91,385	93,720	95,155	96,218
<b>Total Equity Attributable to Equity Holders of the Bank</b>	<b>176,668</b>	<b>183,292</b>	<b>212,240</b>	<b>261,361</b>	<b>273,091</b>	<b>284,528</b>	<b>295,842</b>
Non-controlling Interests	6,599	6,795	7,317	8,389	9,514	10,711	11,939
<b>Total Equity</b>	<b>183,267</b>	<b>190,087</b>	<b>219,557</b>	<b>269,749</b>	<b>282,604</b>	<b>295,240</b>	<b>307,781</b>
<b>Total Liabilities and Equity</b>	<b>1,453,651</b>	<b>1,798,275</b>	<b>2,047,040</b>	<b>2,209,174</b>	<b>2,395,051</b>	<b>2,598,787</b>	<b>2,825,343</b>
Adjusted NAVPS	315.6	327.5	379.2	466.9	487.9	508.3	528.5



**First Capital**  
A Janashakthi Group Company

# First Capital Holdings PLC

No.2, Deal Place,  
Colombo 3

Tel: +94 11 2145 000  
Fax: +94 11 2145 050

## RESEARCH

Dimantha Mathew	+94 11 2639 853	Akna Tennakoon	+94 11 2639 866
Ranjan Ranatunga	+94 11 2639 863	Manusha Kandanaarachchi	+94 11 2639 866
Shahana Kanagaratnam	+94 11 2639 866	Salaama Sanoon	+94 11 2639 866

## GOVERNMENT SECURITIES SALES

Anjelo Simmons	+94 77 3031 636	Arun Kandasamy	+94 75 4861 506
Anushka Dissanayake	+94 77 2220 021		
Anushi Ranawaka	+94 77 3876 819		

## CORPORATE DEBT SALES

Tharusha Ekanayake	+94 77 7 809 154
--------------------	------------------

## EQUITY SALES

			Equity Branches		
CEO	Jaliya Wijeratne	+94 71 5329 602	Negombo	Priyanka Anuruddha	+94 77 4546 070
				Priyantha Wijesiri	+94 77 9065 779
Colombo					
Rasika Vidanalage		+94 77 7072 698			
Isuru Jayawardana		+94 76 7084 953			
Nishantha Mudalige		+94 77 3204 929			
Anushka Buddhika		+94 71 4310 600	Agents		
Thushara Pathiraja		+94 77 0076 314	Colombo	Kithsiri Jayasinghe	+94 77 7790 657
Anjelo LaBrooy		+94 77 7546 645	Anuradhapura	Amila Luwishewa	+94 71 0628 195
Dillon Lowe		+94 76 6160 647	Galle	Nuwan Abeynayake	+94 77 7288 274
Evelyn John		+94 77 779 2452	Kandy	Ajith Ihalawatta	+94 77 8477 530
Yudheshan Kannadasan		+94 77 415 5809	Embilipitiya	Ruwan Wanniarachchi	+94 77 3877 734

## UNIT TRUST SALES

Kavin Karunamoorthy	+94 77 0328 060	Imali Abeygunawardena	+94 77 1764 799
---------------------	-----------------	-----------------------	-----------------

## BRANCHES

Kandy	Kurunegala	Matara	Negombo
CSE Branch Office, No. 88, Dalada Veediya, Kandy 20000.	No.174/B2, Negombo Road, Kurunegala. Kurunegala 60000.	CSE Branch Office, 1st Floor, E.H.Coaray Tower, No.24, Anagarika Dharmapala Mawatha, Matara 81000.	Colombo Stock Exchange Negombo Branch Office, No. 72 A, 2/1, Old Chilaw Road, Negombo 11500.
<b>Manager: Salinda Samarakoon</b>	<b>Manager:</b>	<b>Manager: Rohana Jayakody</b>	<b>Manager:</b>
Tel: +94 81 2236 010	Tel: +94 37 2222 930	Tel: +94 41 2222 988	Tel: +94 31 4937 072

## Disclaimer:

This Review is prepared and issued by First Capital Holdings PLC based on information in the public domain, internally developed and other sources, believed to be correct. Although all reasonable care has been taken to ensure the contents of the Review are accurate, First Capital Holdings PLC and/or its Directors, employees, are not responsible for the accuracy, usefulness, reliability of same. First Capital Holdings PLC is not a Broker in the investments which are the subject of this document or related investments and may have acted on or used the information contained in this document, or the research or analysis on which it is based, for its publication. First Capital Holdings PLC and/or a connected person or associated person may also have a position or be otherwise interested in the investments referred to in this document. This is not an offer to buy the investments referred to in this document. This Review may contain data which are inaccurate and unreliable. You hereby waive irrevocably any rights or remedies in law or equity you have or may have against First Capital Holdings PLC with respect to the Review and agree to indemnify and hold First Capital Holdings PLC and/or its principal, their respective directors and employees harmless to the fullest extent permitted by law regarding all matters related to your use of this Review. No part of this document may be reproduced, distributed or published in whole or in part by any means to any other person for any purpose without the prior written permission.