

NATIONAL DEVELOPMENT BANK PLC [NDB.N0000]

MAINTAIN BUY

“VALUATION REFLECTS POTENTIAL”

Fair Value: 2025E - LKR 170.0 [+27%]

Total Return with DPS: 2025E - 32% [AER 88%]

2026E – LKR 190.0 [+42%]

2026E – 47% [AER 31%]

NDB delivered a strong 143.6% YoY earnings growth in 1Q2025, though slightly under our expectations due to weaker than anticipated loan expansion. The surge in YoY profitability was largely attributable to a sharp decline in impairment charges. However, on a QoQ basis, earnings contracted by 58.5%, primarily due to a one-off reversal of impairment charges recognized in 4Q2024 related to previously impaired ISBs. Net Interest Income (NII) declined 1.3% YoY and 18.6% QoQ to LKR 8.0Bn, impacted by the prevailing low interest rate environment. Meanwhile, net fee and commission income grew a marginal 1.6% YoY, underperforming peers due to weak card-based transaction volumes. Looking forward, we anticipate a robust 208.4% YoY increase in recurring net profit to LKR 8.7Bn in 2025E, supported by a recovery in NII, enhanced fee income, and sustained reductions in impairments. We maintain a constructive outlook on NDB, underpinned by a favorable macroeconomic environment and easing interest rates, which are expected to support continued loan book expansion. Reflecting this, our fair value estimate for 2026E is set at LKR 190.0, indicating strong growth potential. Our 2025E fair value estimate is revised down to LKR 170.0, reflecting a more conservative stance, considering the lower than expected loan growth. With resilient fundamentals, a stable earnings trajectory, and compelling valuation, NDB remains well positioned for long-term value creation, we **MAINTAIN BUY**.

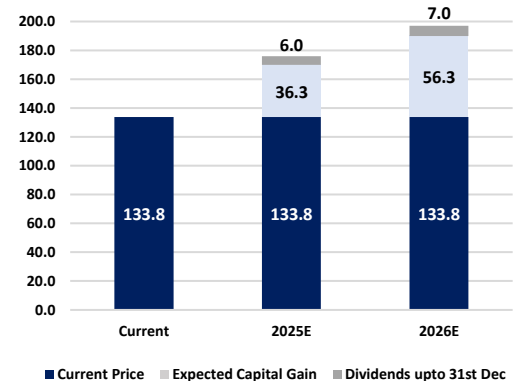
LKR (Mn)	1Q2024	1Q2025	YoY	2023	2024	YoY
Earnings (LKR 'Mn)						
Net Interest Income	8,148	8,042	-1.3%	32,380	34,494	+6.5%
Total Operating Income	10,680	11,170	+4.6%	47,124	48,388	+2.7%
Post Impairment Income	6,323	8,995	+42.3%	25,987	44,099	+69.7%
Pre Tax Profit	1,404	3,161	+125.2%	8,154	20,167	+147.3%
Net Profit	838	2,041	+143.6%	5,759	9,794	+70.1%
Balance Sheet (LKR 'Mn)						
Gross Loans	485,693	535,289	+10.2%	496,148	509,850	+2.8%
Shareholders' Equity	74,643	82,002	+9.9%	74,471	82,743	+11.1%
NAVPS	175.3	192.5	+9.9%	174.8	194.3	+11.1%

NDB earnings up by 143.6% YoY during 1Q2025

NDB reported a robust 143.6% YoY increase in earnings for 1Q2025, primarily driven by a significant reduction in impairment charges. The net impairment charge for the quarter declined to LKR 2.6Bn, down from LKR 4.4Bn in 1Q2024, indicating improved asset quality and better performance in the Stage 3 loan portfolio. Despite the positive earnings trajectory, core banking performance was mixed. NII declined by 1.3% YoY to LKR 8.0Bn, reflecting the impact of a lower interest rate environment. Although the bank's loan book expanded by LKR 49.6Bn YoY, total interest income contracted by 15.3%, underscoring the pressure from reduced lending rates. A more pronounced 22.5% YoY decline in interest expenses helped cushion the decline in NII. However, Net Interest Margins (NIMs) compressed to 3.92%, compared to 4.22% in 1Q2024 and 4.34% in 4Q2024, indicating continued margin pressure. Non-interest income showed mixed trends. Net fee and commission income rose by a modest 1.6% YoY, well below industry averages due to subdued card transaction volumes. In contrast, other income, largely driven by exchange gains, saw a significant increase to LKR 840.8Mn from LKR 280.0Mn in 1Q2024, benefiting from a 2.7% YTD depreciation of the LKR against the USD during January-June 2025 period. Cost pressures remained a headwind to profitability. Operating expenses increased by 11.6% YoY, on the back of an increase in premises and establishment expenses. Meanwhile, tax burdens surged, with VAT on financial services rising by 64.8% YoY, and corporate income tax nearly doubling with a 97.1% YoY increase. In summary, while top-line growth and margins remained under pressure due to macroeconomic conditions and rate compression, NDB's sharp improvement in bottom-line profitability was largely attributable to reduced impairments and forex-related gains.

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, NDB's gross loan portfolio registered a modest 5.0% QoQ growth, reaching LKR 535.3Bn in 1Q2025. On a quarterly basis, domestic currency loans, which account for 76.1% of the loan portfolio increased by 4.3% on the back of moderate growth seen in the medium and short-term loans. On the other hand, foreign currency lending increased by 7.1% QoQ, primarily due to the depreciation of the LKR against the USD during the quarter. The lower interest rate environment, with the Average Weighted Lending Rate (AWLR) easing to 11.80% at the end of 1Q2025 from 11.93% in 4Q2024, alongside a broad-based recovery in economic activity is likely to lead to further expansion in private sector credit. However, given the lower than anticipated loan growth recorded by NDB in 1Q2025, we forecast NDB's loan book to grow by 10.0% in 2025E, below our estimated 15.0% average growth rate for private sector credit for the year.

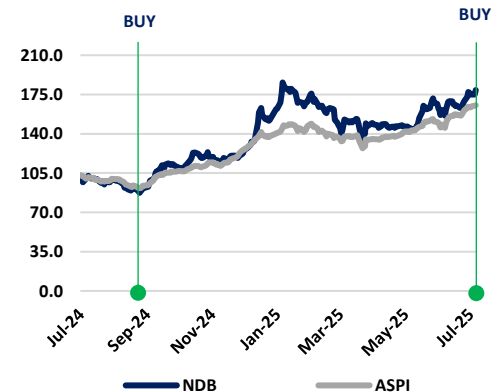


FIRST CAPITAL RESEARCH

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



Source: CSE

Minimum Return for BUY:

Buy Below 2026E [AER of 18.0% with DPS]: LKR 155.3
NDB categorized as 'Grade A' counter

Disclosure on Shareholding:

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



On the funding side, NDB’s total deposits grew by 1.7% QoQ to LKR 642.0Bn in 1Q2025, while the loan-to-deposit ratio edged up to 75.6%, from 73.0% in 4Q2024. The CASA ratio stood at 25.7%, slightly above from 24.7% in the previous quarter.

Capital adequacy surpasses regulatory requirements

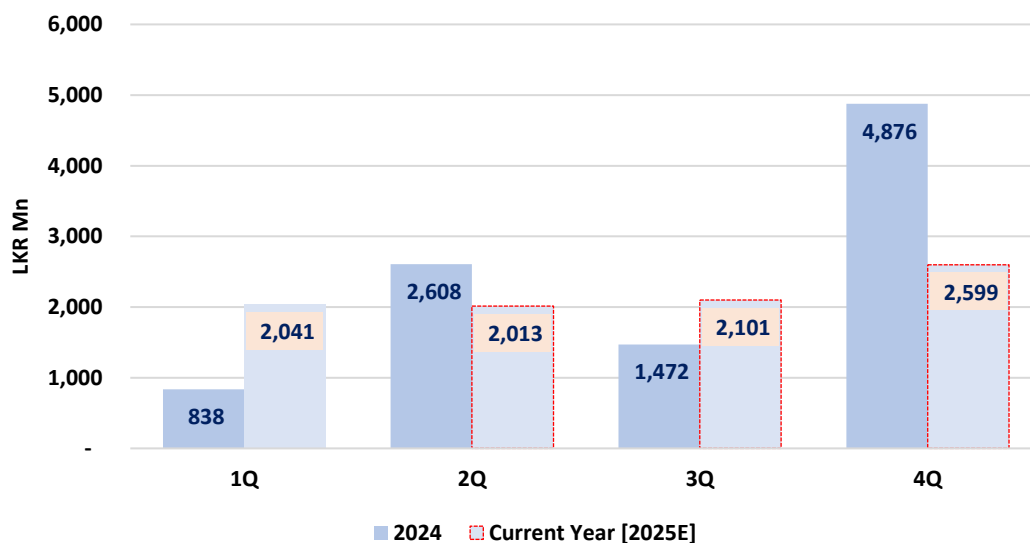
Denoting sound capital adequacy, Tier I and Total capital adequacy of the group stood at 12.72% and 17.39%, above the minimum requirements of 8.5% and 12.5% respectively.

FV for 2026E at LKR 190.0 – MAINTAIN BUY

We maintain a constructive outlook on NDB, underpinned by a favorable macroeconomic environment and easing interest rates, which are expected to support continued loan book expansion. Furthermore, the pick-up in trade finance and the increased usage of digital transactions are also likely to have a positive impact on earnings via increased fee-based income. Reflecting this, our fair value estimate for 2026E is set at LKR 190.0, indicating strong growth potential. Our 2025E fair value estimate is revised down to LKR 170.0, reflecting a more conservative stance, considering the lower than expected loan growth. With resilient fundamentals, a stable earnings trajectory, and compelling valuation, NDB remains well positioned for long-term value creation, 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
Earnings Estimate						
Net Interest Income	30,109	28,055	-7%	32,754	31,070	-5%
Total Operating Income	50,117	44,920	-10%	54,367	49,102	-10%
Net Operating Income	34,765	37,108	+7%	37,604	40,978	+9%
Profit before Tax	13,629	12,506	-8%	15,248	15,080	-1%
Net Profit	9,883	8,667	-12%	11,058	10,451	-5%
Adjusted EPS	22.9	20.1	-12%	24.6	23.3	-5%
Balance Sheet Estimate						
Loans & Advances	537,092	505,963	-6%	578,071	547,027	-5%
Shareholders' Equity	93,034	89,863	-3%	104,220	98,786	-5%
Adjusted NAVPS	215.3	208.0		231.9	219.8	

Valuation Table

P/E 31 December	2021	2022	2023	2024	2025E	2026E	2027E
Estimates (LKR 'Mn)							
Net Interest Income	21,741	31,130	32,380	34,494	28,055	31,070	36,522
Total Operating Income	32,996	44,448	47,124	48,388	44,920	49,102	55,689
Net Profit	6,904	3,009	5,759	9,794	8,667	10,451	12,093
Adjusted Net Profit	6,904	3,009	5,759	2,810	8,667	10,451	12,093
Adjusted EPS (LKR)	16.2	7.1	13.5	6.8	20.1	23.3	25.9
Net Profit YoY Growth (%)	35%	-56%	91%	-51%	208%	21%	16%
Valuations							
PER (x)	8.3x	18.9x	9.9x	19.8x	6.7x	5.8x	5.2x
PBV (x)	0.9x	0.8x	0.8x	0.7x	0.6x	0.6x	0.6x
DY (%)	4.1%	1.9%	3.7%	3.7%	4.5%	5.2%	5.8%
Adjusted NAVPS	147.3	158.5	174.8	194.3	208.0	219.8	234.1
Adjusted DPS	5.5	2.5	5.0	5.0	6.0	7.0	7.8
Dividend Payout	34%	35%	37%	74%	30%	30%	30%

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 NDB price	2025E	2026E
Justified PBV based target price	166.4	175.8
Residual Income based Valuation	172.8	194.5
PER Valuation based target price	160.5	186.0
Average Target Price	166.5	185.5
Target Price after Rounding off	170.0	190.0

Return	2025E	2026E
Target Price	170.0	190.0
Current Price	133.8	133.8
Capital Gain (LKR)	36.3	56.3
Dividends upto 31st Dec (LKR)	6.0	7.0
Capital Gain %	27%	42%
Dividend Yield %	4%	5%
Total Return %	32%	47%
Annualized Return %	88%	31%

Justified PBV Valuation

Justified PBV based Valuation	2025E	2026E
ROAE	10.0%	11.1%
Growth	3.0%	3.0%
COE	15.2%	15.2%
PBV	0.8	0.8
NAVPS	208.0	219.8
Target Price	166.4	175.8

PER Valuation

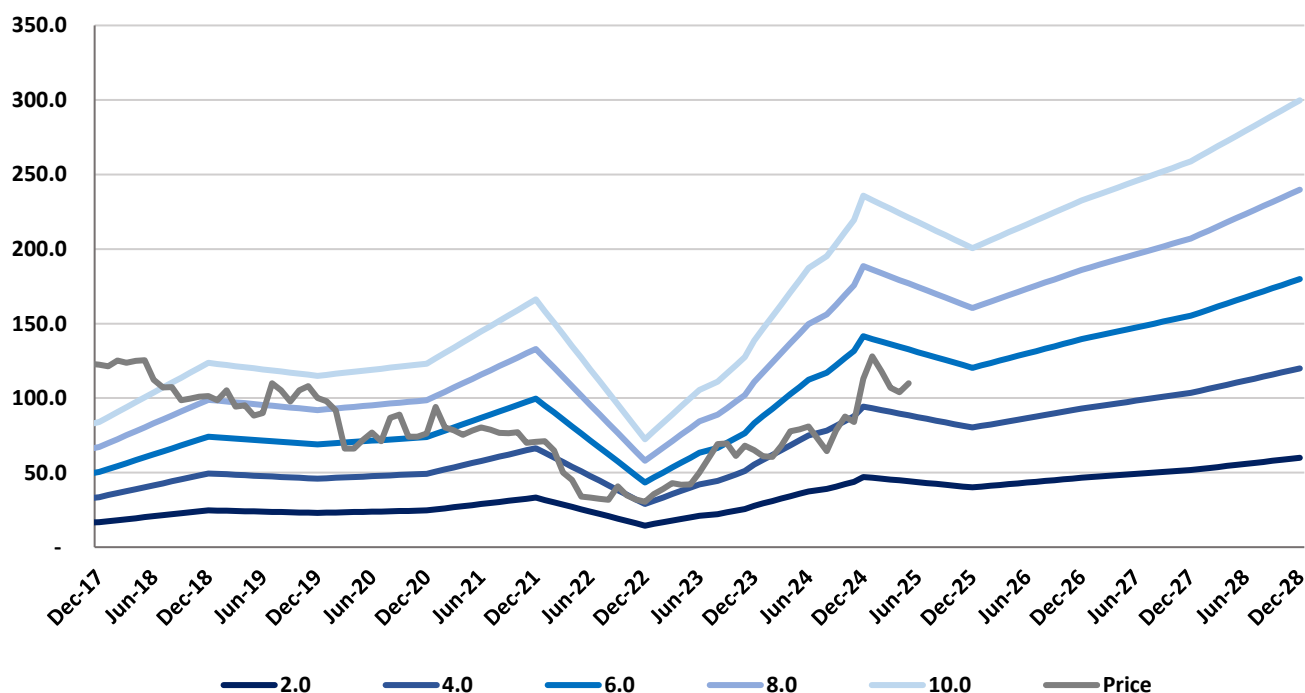
PER based Valuation	2025E	2026E
Earnings (LKR 'Mn)	8,667	10,451
No. of Shares ('Mn)	432	449
EPS	20.1	23.3
Expected PER	8.0x	8.0x
Value per Share	160.5	186.0

Residual Income Valuation

Residual Income based Valuation	2025E	2026E
PV of Residual Income	-9,264	-6,033
No. of Shares ('Mn)	432	449
RI per Share	-21.4	-13.4
Opening Book value per Share	194.3	208.0
Value per Share	172.8	194.5

COE	2025E	2026E
Rf	10.0%	10.0%
Rm	18.0%	18.0%
Growth %	3.0%	3.0%
β	0.7	0.7
$Ke=Rf+\beta(Rm-Rf)$	15.2%	15.2%

PER Chart





Appendix I: Statement of Income and Expenses

Statement of Profit or Loss (LKR Mn)	2021	2022	2023	2024	2025E	2026E	2027E
As at 31st December							
Gross Income	64,083	111,552	134,473	102,204	93,617	101,841	112,626
Interest Income	52,795	98,217	119,722	88,283	76,752	83,810	93,458
Interest Expenses	-31,053	-67,087	-87,342	-53,789	-48,697	-52,740	-56,937
Net Interest Income	21,741	31,130	32,380	34,494	28,055	31,070	36,522
Fee & Other Income	11,255	13,317	14,743	13,895	16,865	18,032	19,168
Total Operating Income	32,996	44,448	47,124	48,388	44,920	49,102	55,689
Loss on restructuring of SLSBs	0	0	0	-14,344	0	0	0
Impairment (Charges)/ Reversal	-10,253	-29,277	-21,137	10,055	-7,812	-8,124	-11,059
Net Operating Income	22,743	15,171	25,987	44,099	37,108	40,978	44,631
Less : Operating expenses							
Personal Expenses	-6,323	-6,277	-7,379	-9,909	-10,524	-10,696	-10,870
Depreciation and Amortization	-914	-926	-1,054	-1,168	-1,258	-1,319	-1,384
Other Operating Expenses	-4,278	-5,296	-6,649	-7,330	-7,765	-8,225	-8,711
Operating profit before value added tax	11,229	2,672	10,904	25,691	17,561	20,738	23,666
VAT on financial services	-2,015	-1,203	-2,750	-5,524	-5,055	-5,658	-6,216
Debt Repayment Levy	0	0	0	0	0	0	0
Operating profit after value added tax	9,214	1,469	8,154	20,167	12,506	15,080	17,449
Share of associate companies' profit	0	0	0	0	0	0	0
Profit Before Tax	9,214	1,469	8,154	20,167	12,506	15,080	17,449
Income Tax Expense	-2,151	1,607	-2,296	-10,275	-3,752	-4,524	-5,235
Profit for the Year	7,063	3,076	5,858	9,892	8,754	10,556	12,214
Minority Interest	158	67	99	98	87	105	121
Profit attributable to Equity Holders	6,904	3,009	5,759	9,794	8,667	10,451	12,093
Recurring Profit attributable to Equity Holders	6,904	3,009	5,759	2,810	8,667	10,451	12,093
Adjusted EPS	16.2	7.1	13.5	6.8	20.1	23.3	25.9

Appendix II: Statement of Financial Position

Statement of Financial Position (LKR Mn)	2021	2022	2023	2024	2025E	2026E	2027E
As at 31st December							
ASSETS							
Cash and cash equivalents	13,765	35,728	28,581	18,682	33,110	26,185	26,581
Balances with Central Bank	16,403	18,188	7,040	8,053	8,125	8,634	9,217
Placements with banks	8,299	4,109	33,744	22,099	23,413	24,935	26,680
Derivative financial instruments	1,338	7,909	3,084	1,146	2,676	2,850	3,049
Financial assets recognised through profit or loss	4,784	20,789	26,040	9,905	20,068	21,373	22,869
Loans and advances to customers	504,374	545,920	452,740	460,781	505,963	547,027	586,829
Financial assets at amortised costs	54,263	135,048	125,672	166,356	153,858	163,858	175,328
Financial assets measured at Fair value through OCI	89,697	45,454	84,645	94,659	86,963	92,616	99,099
Other assets	5,671	7,038	5,564	7,518	6,689	7,124	7,623
Intangible assets	1,217	1,813	1,898	1,815	2,907	2,768	2,614
Deferred tax	3,443	9,049	9,718	4,217	4,849	5,577	6,413
Property, plant & equipment	3,735	3,908	3,817	4,071	4,205	4,357	4,526
Investment properties	2,528	2,879	3,112	3,108	3,170	3,233	3,298
Total assets	710,832	839,198	786,959	803,780	857,398	911,967	975,590
LIABILITIES							
Due to Banks	24,821	20,299	7,679	4,841	6,284	6,844	7,370
Derivative financial instruments	1,049	96	93	345	506	547	587
Due to customers	551,257	671,713	615,232	631,081	668,946	712,428	762,298
Debt securities issued and other borrowed funds	26,570	32,503	40,269	30,027	38,082	40,215	42,722
Tax liabilities	2,586	6,635	7,431	5,474	6,566	5,202	4,450
Other liabilities	11,123	9,183	8,608	11,712	9,613	10,394	11,150
Subordinated term debts	27,961	27,980	29,389	33,565	33,302	33,039	32,776
Deferred Tax	569	873	921	976	976	976	976
Retirement benefit obligations	830	1,019	1,439	1,557	1,713	1,884	2,072
Total liabilities	646,765	770,302	711,063	719,578	765,988	811,530	864,401
EQUITY ATTRIBUTABLE TO PARENT							
Stated capital	18,264	19,871	20,738	21,757	23,023	24,603	26,574
Statutory reserve fund	2,571	2,746	3,046	3,521	3,521	3,521	3,521
Investment Fund	-839	3,772	5,608	9,188	9,372	9,559	9,750
Retained Earnings	42,731	41,116	45,079	48,276	53,947	61,103	69,571
Equity attributable to parent	62,727	67,505	74,471	82,743	89,863	98,786	109,417
Non-controlling interests	1,339	1,391	1,425	1,460	1,546	1,651	1,772
Total Equity	64,067	68,896	75,896	84,202	91,410	100,437	111,189
Total liabilities and total equity	710,832	839,198	786,959	803,780	857,398	911,967	975,590
Adjusted NAVPS	147.3	158.5	174.8	194.3	208.0	219.8	234.1



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