



NATIONS TRUST BANK PLC [NTB.N0000]

MAINTAIN BUY

NICHE MARKET FOCUSED GROWTH

Fair Value [FY19E]: LKR 110.0 [+22%]

Total Return with DPS 25% [AER 31%]

*Nations Trust Bank, one of the fastest growing commercial bank, captures a target price of LKR 110.0 with an earnings CAGR of c.14% over 2019-21E. NTB's credit card portfolio which achieved the No.1 status in lending volumes is expected drive fees & commission income with a CAGR of c.17% over 2019E-21E. NTB's loan book is expected to grow by a of CAGR c.18% over 2019-21E to reach LKR 357Bn by 2021E supported by its focused niche SME clientele. We expect NTB share to register a total return of 25% with 23% capital gain and dividend yield of 2% over 1-year period. **MAINTAIN BUY***

P/E 31 December	2015	2016	2017	2018	2019E	2020E	2021E
Estimates (LKR 'Mn)							
Net Interest Income	9,105	9,786	12,288	14,818	16,992	18,601	19,551
Total Operating Income	12,519	13,711	16,913	21,291	24,388	27,329	29,670
Net Profit	2,614	2,869	3,371	3,852	4,669	5,567	5,741
Adjusted EPS (LKR)	9.4	10.3	12.1	13.9	16.8	19.5	20.7
YoY Growth (%)	3%	10%	18%	14%	21%	16%	6%
Valuations							
PER (x)	9.6x	8.7x	7.4x	6.5x	5.4x	4.6x	4.4x
PBV (x)	1.6x	1.4x	1.0x	0.9x	0.7x	0.7x	0.6x
DY (%)	1.9%	1.9%	1.9%	2.5%	3.3%	3.7%	4.1%

Credit cards to drive Fees & Commission Income at a CAGR of 18% 2019E-21E

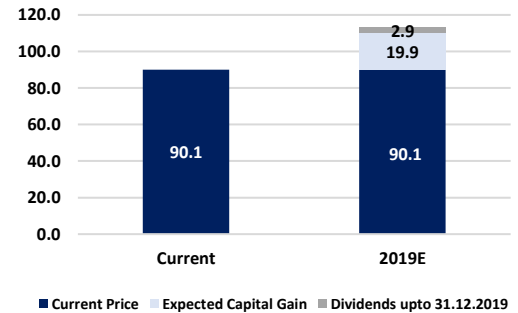
NTB's credit card segment to drive fees and commission income (FCI) at a CAGR of 18% to LKR 9.9Bn by 2021E growing from LKR 6.0Bn in 2018 with the credit card lending portfolio likely to grow by a CAGR of 20% 2019E-21E. NTB as a relatively smaller bank has a strategy of focusing on the mass affluent segment, a potential customer base expected to double over the next 3 years supported by the Sri Lanka's transition to an upper middle-income status and the potential surge in Western Province GDP per capita.

Convenience and new digital platforms to drive the growth of niche SME clientele

NTB is planning to further strengthen its emphasis on SME segment by increasing personalized services and by introducing new digital platforms which is expected to improve business efficiency. One of the platforms, FriMi, has already resulted in a surge in mobile transactions while providing easy access to consumers and new business opportunities for SMEs. We expect NTB's loan growth to record c.18% in 2019E to LKR 265.7Bn while outperforming overall market. Loan growth is likely to emerge from retail and SME lending segments.

NTB.N & NTB.X are both rated BUY

NTB earnings are likely to grow at CAGR of c.14% during 2019-21E while growing 21% in 2019E and 16% in 2020E. NTB has outperformed the market with voting share gaining 14% over last 12 months while ASPI has dipped 11%. We remain positive on NTB despite the outperformance last year with lending growth and earnings continuing to outperform sector. **MAINTAIN BUY**



FIRST CAPITAL RESEARCH

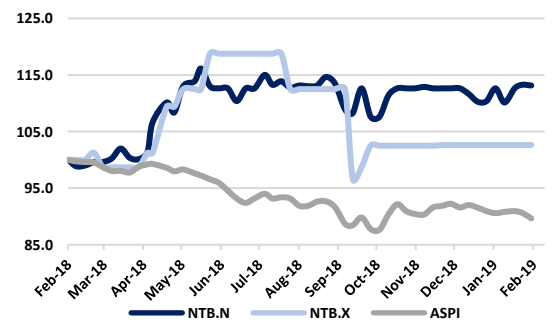
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KEY DATA

	NTB.N0000	NTB.X0000
CSE Ticker	NTB.N0000	NTB.X0000
Bloomberg Ticker	NTB SL	NTBX SL
Share Price (LKR)	90.10	82.10
52w High (LKR)	92.80	78.90
52w Low (LKR)	95.00	77.30
Avg. Daily Volume (Shares)	25,630	2,121
Avg. Daily Turnover (LKR)	2,347,294	171,975
Issued Share Capital (Shares 'Mn)	237.6	40.1
Market Cap (LKR 'Mn)	21,409	
Market Cap (USD 'Mn)	119	

*1 USD = LKR 180

Price Performance (%)	1 mth	3 mths	12mths
NTB - Voting	1%	0%	14%
NTB - Non-Voting	0%	0%	3%
ASPI	-2%	-2%	-11%



Source: CSE

Minimum Return for BUY:

Buy Below [AER of 16.22% with DPS]: LKR 101.0

NTB categorized as 'Grade A' counter (Refer page 20 for Recommendation criteria of Grade A, B & C Stocks)

Disclosure on Shareholding:

First Capital Group holds 84,967 shares in NTB and will not trade in this share for seven trading days following the issue of this document.

Figure 01: Peer Comparison – Local

Company	Country	Mkt Cap (USD Mn)	P/E	P/B	ROE*	ROA*	Div Yield	Total Assets (USD Bn)
Commercial Bank	Sri Lanka	590.6	6.0	0.9	16.6%	1.6%	4.3%	7.4
Hatton National Bank	Sri Lanka	520.2	4.2	0.7	13.2%	1.8%	4.1%	6.5
Sampath Bank	Sri Lanka	366.7	4.9	0.7	15.9%	1.4%	7.0%	5.2
National Development Bank	Sri Lanka	124.1	3.7	0.5	13.4%	1.1%	7.4%	2.7
Nations Trust Bank	Sri Lanka	139.2	6.0	0.8	16.3%	1.3%	2.5%	1.9
Seylan Bank	Sri Lanka	106.6	7.5	0.7	8.8%	0.7%	3.9%	2.6

Source: Bloomberg
Figure 02: Peer Comparison – Global

Company	Country	Mkt Cap (USD Mn)	P/E	P/B	ROE*	ROA*	Div Yield	Total Assets (USD Bn)
Invest Bank Co	Jordan	207.3	7.9	0.9	8.5%	1.7%	-	1.9
Michinoku Bank Ltd	Japan	260.4	48.5	0.4	1.2%	0.0%	6.8%	1.7
Tokyo Kiraboshi Financial	Japan	435.4	32.8	0.2	0.6%	0.0%	2.5%	20.2
Juroku Bank Ltd	Japan	785.2	9.5	0.3	2.7%	0.2%	3.8%	49.3
Gunma Bank Ltd	Japan	1,900.0	7.8	0.4	5.1%	0.3%	3.1%	57.4
Umpqua Holdings Corp	US	4,010.0	11.7	1.0	8.6%	1.2%	2.8%	73.7

Source: Bloomberg
Figure 03: Peer Comparison - Asia Pacific (Emerging)

Company	Country	Mkt Cap (USD Mn)	P/E	P/B	ROE*	ROA*	Div Yield	Total Assets (USD Bn)
Lakshmi Vilas Bank Ltd	India	198.31	-	0.61	-26.20%	-1.55%	-	6.21
Jammu & Kashmir Bank Ltd	India	297.14	10.4	0.34	3.42%	0.24%	-	13.77
Bank of Maharashtra	India	468.87	-	0.33	-12.68%	-0.70%	-	24.02
Andhra Bank	India	599.43	-	0.27	-30.36%	-1.43%	-	37.78
Karur Vysya Bank Ltd	India	754.88	14.8	0.72	6.11%	0.54%	0.81%	10.27
Allahabad Bank	India	886.09	-	0.30	-33.64%	-1.86%	-	38.96

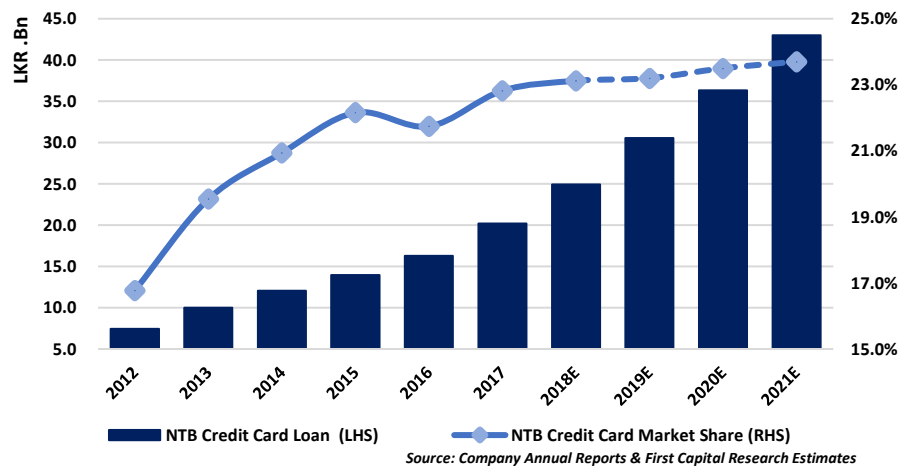
Source: Bloomberg

1.0 Credit card business to drive Fees & Commission Income at CAGR of c.18% over 2019-21E

1.1 NTB's No.01 status in Credit Cards boost credit card lending

Credit card lending to grow at CAGR of 20%: NTB currently achieved the No.01 position in the credit card segment in 2018 with market share of 23% which is further expected to grow at a CAGR of c.20% to LKR 42.8Bn by 2021E from LKR 24.9Bn in 2018. The use of credit card in the country has been on an uptrend trajectory and the credit cards in issue increased by 13%YoY in 2018. Meanwhile, total outstanding balance in credit card also increased by 22%YoY to LKR 107.8Bn during the same period which is expected to grow to LKR 180.5Bn by 2021E.

Figure 04: NTB credit card market share to grow above 23%



1.2 NTB's niche market of affluent customers base may double over next 3 years supporting credit card lending

Figure 05: Prosperity Index to grow 1.4 by 2021E

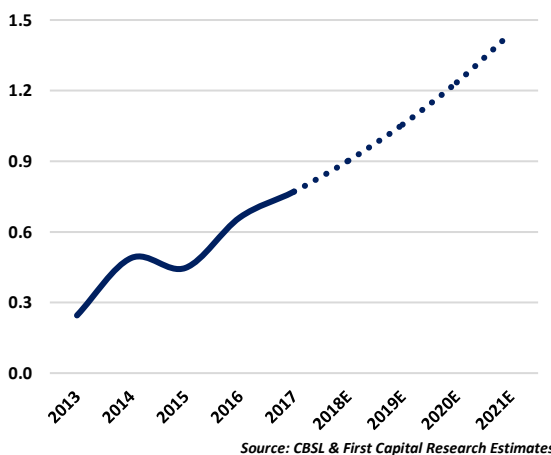
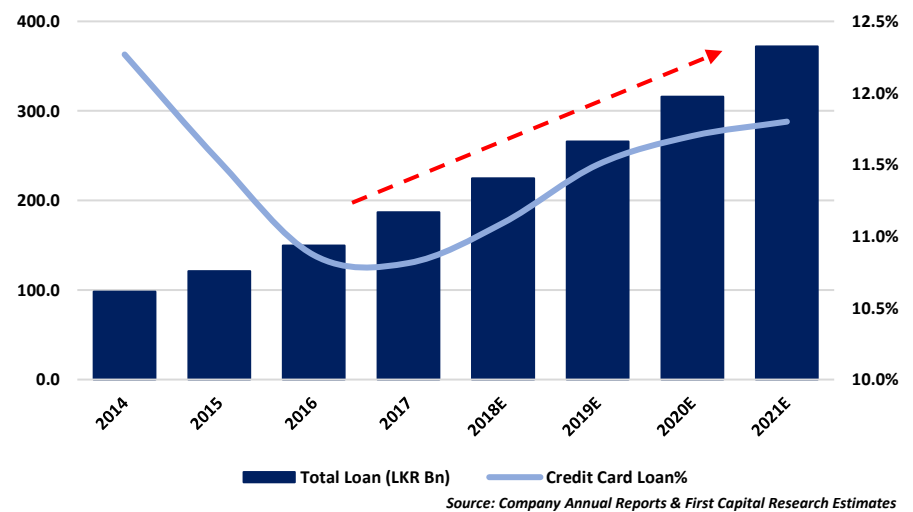


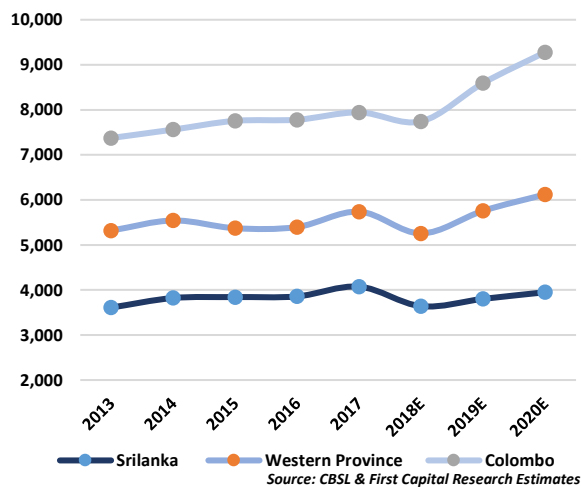
Figure 06: NTB credit card exposure to reach 12% by 2021E



Sri Lanka achieving upper middle-income status: Sri Lanka's likely transition to an upper middle-income earning country has resulted in a parallel widening of the middle class as prosperity index grow to 1.4 by

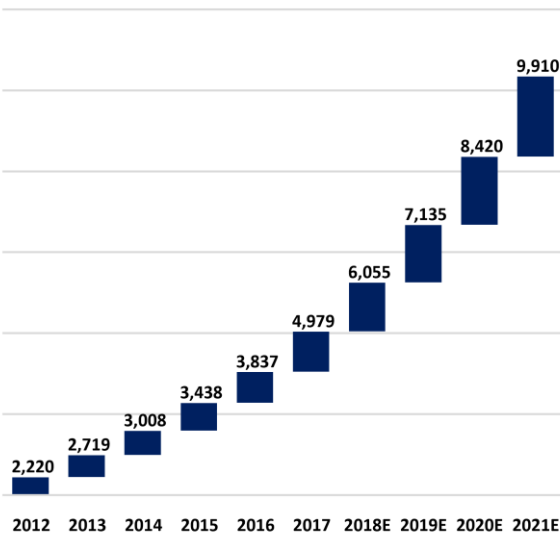
2021E from 0.8 in 2017 which may double NTB’s potential niche market of affluent customer base supporting NTB’s credit card lending growth. Increased customer affluence is likely to lead to higher demand for white goods and sophisticated financial products assisting NTB to grow its credit card lending exposure to 12% of total loan portfolio by 2021E from 11% in 2017.

Figure 07: Western province GDP per Capita growth



Western Province per capita GDP to surge with Megapolis project: The Western Province region generates more than 40% of the nation’s GDP but hosts around 29% of the population. Currently NTB’s 69% of total consumer and SME loans disburse in the Western Province with a heavy exposure towards Colombo. By 2030, the master plan of Western megapolis is expected to triple per Capita income to USD 12,000 through shifting from labour-intensive to skills-intensive industries. We expect with the on-going development, GDP of Western province and Colombo district to grow at a faster rate than the country’s GDP growth which is likely to help NTB to get more affordable customer base into their credit card portfolio. By 2021E, we expect Western Province GDP per capita to reach USD 6,121 from USD 5,738 and Colombo GDP per capita to reach USD 9,278 from USD 7,943.

Figure 08: NTB's Fee Based Income in LKR.Mn

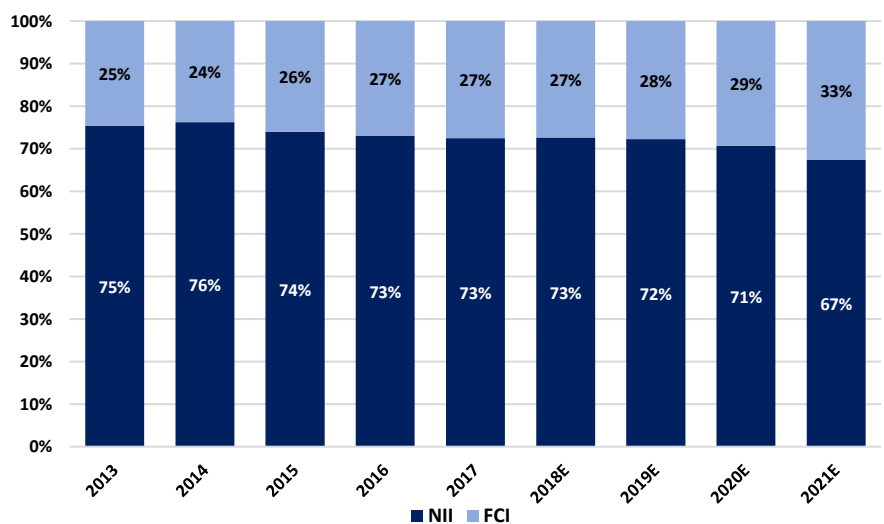


Source: Company Annual Reports & First Capital Research Estimates

2.0 Convenience and new digital platforms to grow niche SME Clientele

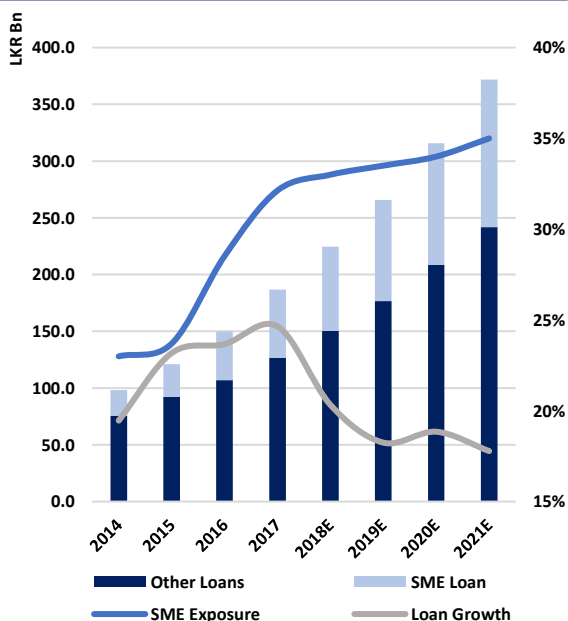
Convenience through personalized service attracts niche market despite higher fees & rates: NTB attracts the niche SME clientele amidst competitive nature of the industry differentiating it's offer through focusing on customer convenience and ease of conducting business. This unique and holistic value proposition to customers is expected to lead to an upsurge in fee-based income to reach a CAGR of 18% to LKR 9.9Bn by 2021E. Improving customer service and convenience has been the upmost priority for NTB and with the intention, significant investments were borne in 2017-18 to upgrade the convenience of customer (Eg: Introduction of FriMi). NTB placed heavy attention on simplifying credit approval and disbursement processes through increased collaboration among different departments, effective use of technology and streamlining legal procedures to reduce the turnaround time for loan approval.

Figure 09: Fee and Income to grow with niche customers



Source: Company Annual Reports & First Capital Research Estimates

Figure 10: SME exposure to reach 35% in 2021E



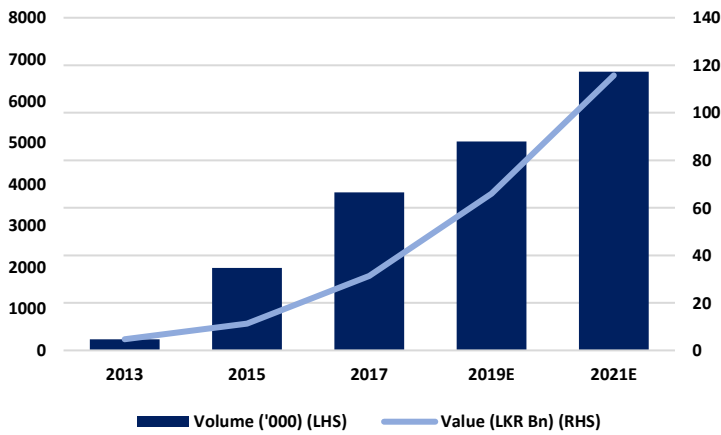
Source: Company Annual Reports & First Capital Research Estimates

New Digital Platforms supports SME portfolio growth: NTB's lending portfolio growth is expected to grow at a CAGR of c.18% 2019E-21E to reach LKR 357Bn by 2021E outperforming the overall market. SME segment is likely to gain priority amidst the newly developed digital platforms of NTB. We expect SME exposure to reach 35% by 2021E from 32% in 2017. We expect large part of the loan growth to pick up from 2H2019 as consumer confidence recovers. NTB introduced several digital solutions for the benefit of the SME customers to fulfil all their requirements rather than just the lending aspect. NTB's successful digital platform FriMi helps to grow Banks's SME and consumer portfolio. Number of other digital platforms have also been introduced after identifying requirements and gaps in the SME segments. NTB's SME clientele has already started to integrate the platforms into their internal systems which helps the companies streamline and monitor their revenue stream improving business efficiency while also

providing convenience and ease of doing business for consumers with the ability of digital transactions. Additionally, the measure promotes the retail clients of the SMEs to open up accounts supporting NTB’s long term strategy of improving its CASA ratio.

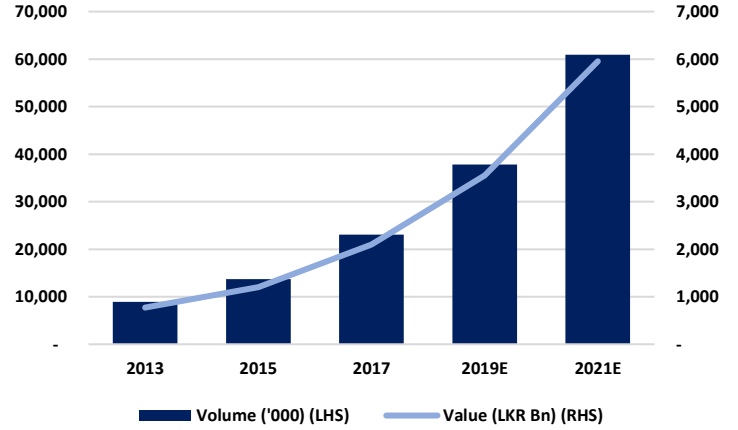
FriMi revolutionising electronic payment and banking platform: NTB launched FriMi in 2017 allowing customers to open savings accounts from their mobile without visiting a branch. FriMi is an all-in-one bank account, payment system and e-wallet with facilities for the customers to send and receive money, pay utility bills and use as a virtual debit card to pay for goods at over 600 stores. In 2017, the total volume of transactions performed through electronic banking increased by 64% while nearly 50% of the transactions were conducted through electronic/digital platforms.

Figure 11: Transaction through Mobile in Sri Lanka



Source: Payments Bulletin

Figure 12: Transaction through Internet in Sri Lanka



Source: Payments Bulletin

3.0 Future Outlook

NTB Earnings CAGR of 14% 2019-21E: Nations Trust Bank, one of the fastest growing commercial bank, captures a target price of LKR 110.0 with earnings CAGR of c.14% 2019-21E. NTB’s credit card which achieved No.1 status in lending volumes is expected to drive Fees & Commission income by a CAGR of 17% over 2019-21E. NTB’s loan book is expected to grow by c.18% to LKR 265Bn in 2019E supported by its focused niche SME clientele. We expect NTB to register a total return of 25% comprising of 23% capital Gain and dividend yield of 3% over 1-year period. **MAINTAIN BUY**

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Valuations							
PER (x)	9.6x	8.7x	7.4x	6.5x	5.4x	4.6x	4.4x
PBV (x)	1.6x	1.4x	1.0x	0.9x	0.7x	0.7x	0.6x
DY (%)	1.9%	1.9%	1.9%	2.5%	3.3%	3.7%	4.1%

Return	
Target Price	110.0
Current Price	90.1
Capital Gain (LKR)	19.9
Dividends upto 31.12.2019 (LKR)	2.9
Capital Gain %	22%
Dividend Yield %	3%
Total Return %	25%
Annualized Return %	31%

Expected NTB.N price for 2019E	
Justified PBV based target price	106.1
PER Valuation based target price	107.6
RI Valuation based target price	115.5
Average Target Price	109.7
Target Price after Rounding off	110.0

Expected NTB.X price for 2019E	
Target Price for NTB.N	110.0
Average 12 month discount 10%	-11.0
Target Price for NTB.X	99.0
Target Price after Rounding up	100.0

3.1 Justified PBV valuation

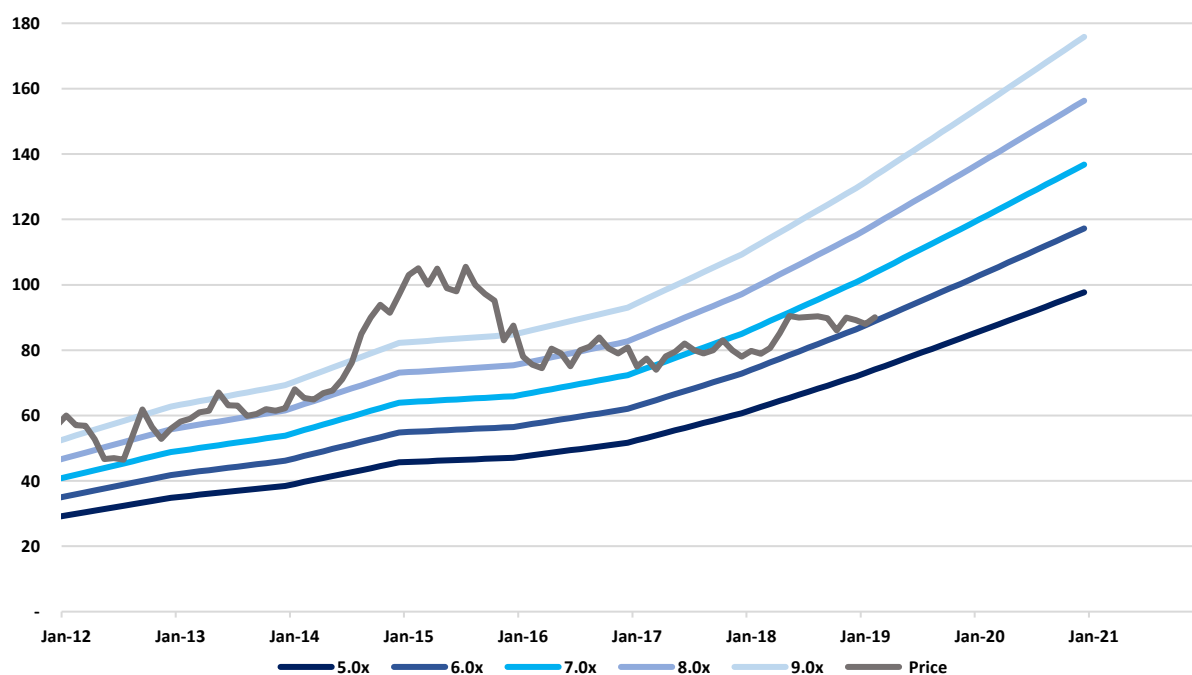
COE	
Rf	11.2%
Rm	18.0%
Growth %	3%
β	0.80
$Ke=Rf+\beta(Rm-Rf)$	16.7%

Justified PBV based Valuation	
ROAE	15.6%
Growth	2.8%
COE	17.1%
PBV	0.9
NAVPS	114.4
Target Price	106.1

3.2 PER based valuation

PER based Valuation	
2019E Earnings (LKR 'Mn)	4,669
No. of Shares ('Mn)	278
2019E EPS	16.8
Expected PER	6.4x
Price at 6.4x 2019E Earnings	107.6

PER Valuation



Source: CSE, Company Annual Reports and First Capital Research Estimates

3.3 Residual Income based valuation

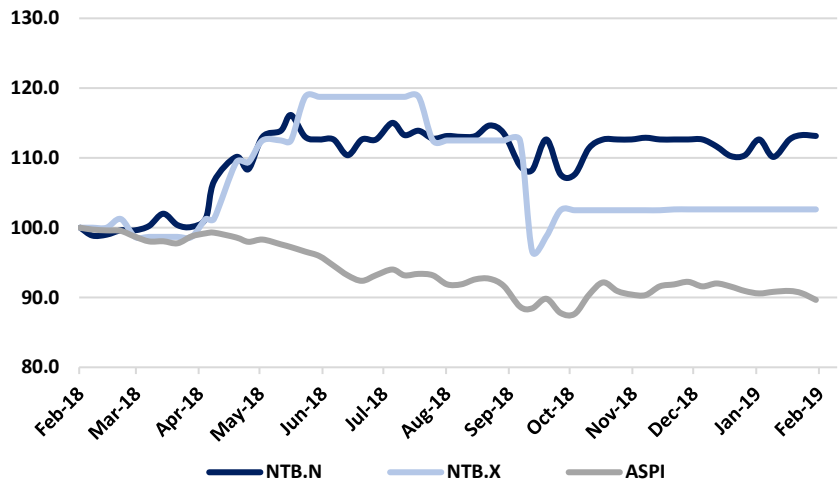
Residual Income based Valuation	
PV of Residual Income	4,704
No. of Shares ('Mn)	278
RI per Share	14.9
Opening Book value per Share	101
Value per Share	115.5



4.0 Company Profile

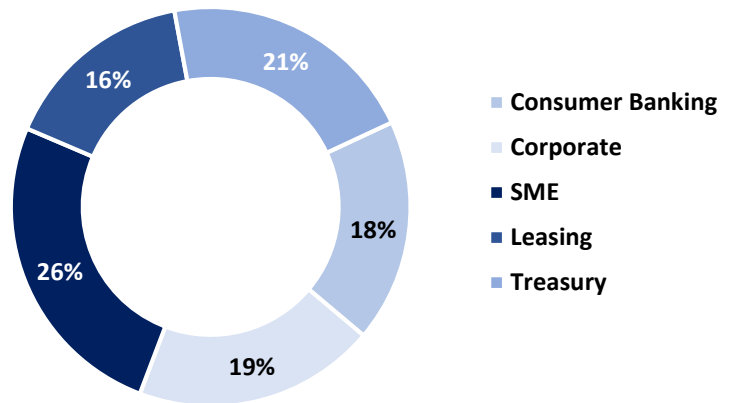
Established in 1999: Nations Trust Bank was established in July 1999. NTB is one of Sri Lanka’s most dynamic and responsive banks, which has successfully carved out a niche position in the intensely competitive banking sector through offering a unique customer proposition characterized by innovation, convenience, and excellence in customer service. NTB operates with 93 branches, 138 ATMs, 23 CDMs and 53 leasing centers, 3,014 employees as well as an automated digital channel serving over 600,000 customers across the island. NTB is the issuer and sole acquirer of American Express Credit Cards in Sri Lanka. Fitch SL has affirmed NTB with a credit rating of “A- (Ika)” – Outlook Stable.

Figure 13: NTB’s price performance vs ASPI



Share Price Performance: Over the past 12 months NTB’s share price outperformed the market where NTB.N and NTB.X both has seen a hike of 14.6% and 2.62% respectively. NTB.N had been trading between LKR 78.9- LKR 92.8 and NTB.X had been trading between LKR 77.3 - LKR 95.0.

Figure 14: Diversification of NTB Loan Book



5.0 Licensed Commercial Banking Industry in SL

Industry Overview: Sri Lankan Licensed Commercial Banking (LCBs) Sector comprises of 13 local banks and 13 foreign banks which together comprise of 88% banking sector asset while specialized banks (LSB) At the end of 3Q of 2018, local LCBs lead the LCB sector with a market share of 83%. The health of the financial system depends largely on local LCBs while its stability is primarily dependent on the performance and financial strength of 6 largest LCBs, consisting of two state banks and three largest domestic private commercial banks referred to as 'Systemically Important Banks'.

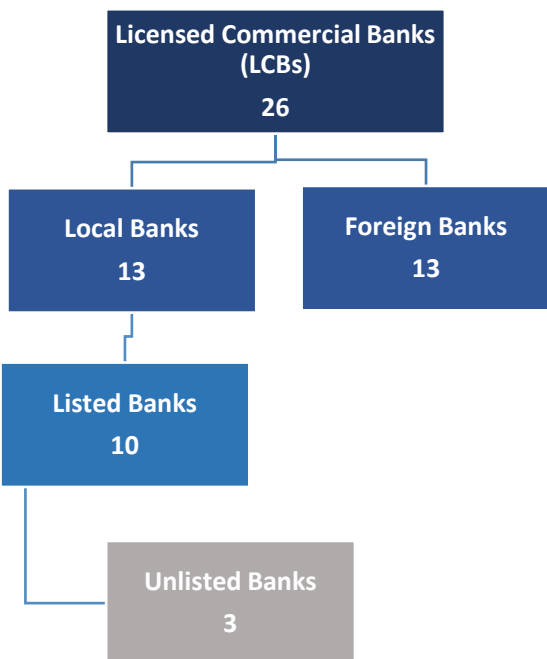
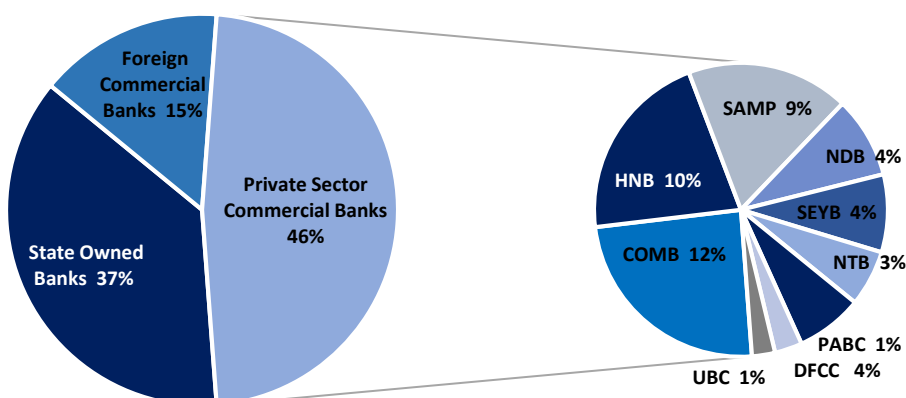


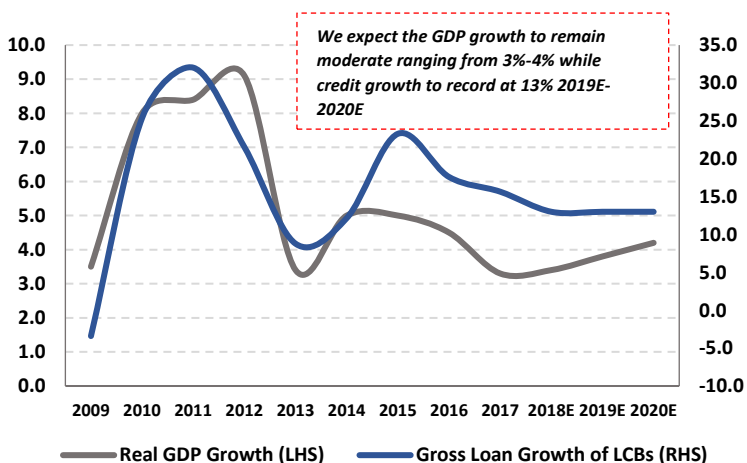
Figure 15: Distribution of Assets among LCBs



Source: Company Reports and CBSL

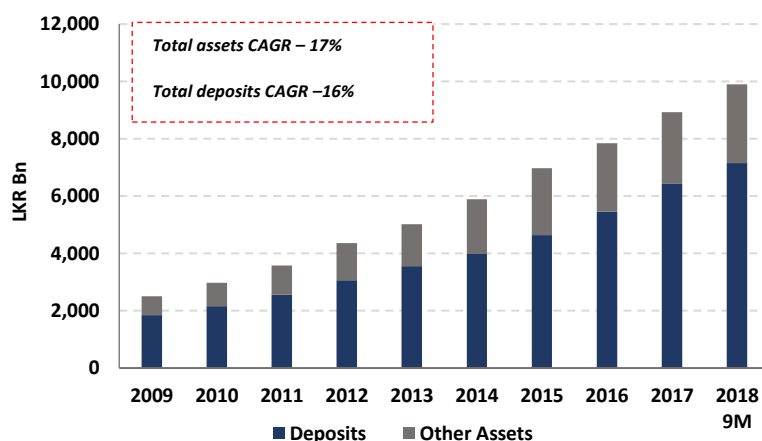
LCBs are expected face challenges on the macro front despite the recent growth witnessed: Sri Lankan banking sector has been growing steadily with a total asset CAGR of 17% since 2009 in the midst of challenging economic environments. LCB sector loan growth has been a good proxy for economic growth of the country while indicating a positive correlation with real GDP growth rate over last decade. LCB sector assets and deposits have grown steadily over the years while deposit remaining the major source of funding for more than 72% of total assets.

Figure 16: LCBs gross loans (%) have moved in tandem with real GDP



Source: CBSL, Bloomberg

Figure 17: Total Assets and Deposits growth of LCBs sector



Source: CBSL

Modest credit growth of 13%: Going forward, we expect operating conditions for LCBs to be difficult against the challenging macroeconomic backdrop, which is expected to continue to pressure LCBs performance in the short to medium term. Sri Lanka is due to enter an election cycle. In addition, the country has large external debt-refinancing needs from 2019-2020 amidst tighter global monetary conditions, with heightened capital requirements which could dampen prospects for banks in the short to medium term. Accordingly, we expect modest 13% annual private sector credit growth for 2019E and next 2 years based on the tight macroeconomic fundamentals and capital pressure on banks, despite historical average being 15% for last 5 years.

Profitability of LCBs: LCBs have been able to maintain strong profitability over the years while expanding rapidly since 2009. Albeit there was a strong growth of profitability in initial years of post war era, NIIs, PAT, ROEs and ROAs have been remaining almost stable in last 3 years due to considerable increase in the assets and capital base of the banking sector to meet the minimum regulatory requirements.

Figure 18: LCB's Net Interest Income and Profit After Tax

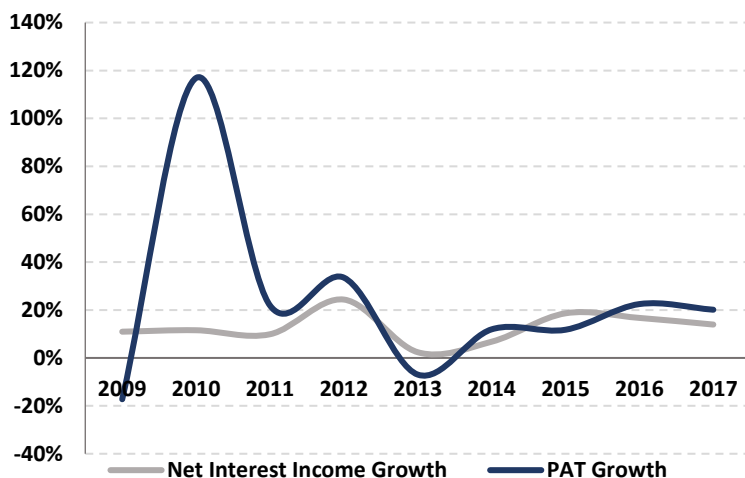
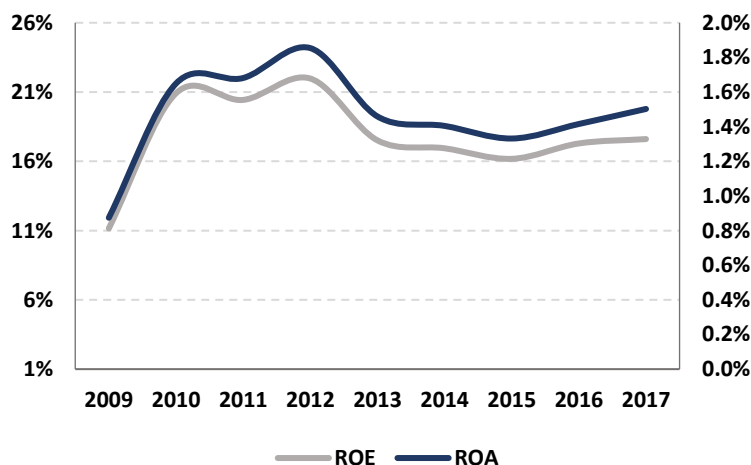


Figure 19: ROEs and ROAs of LCBs

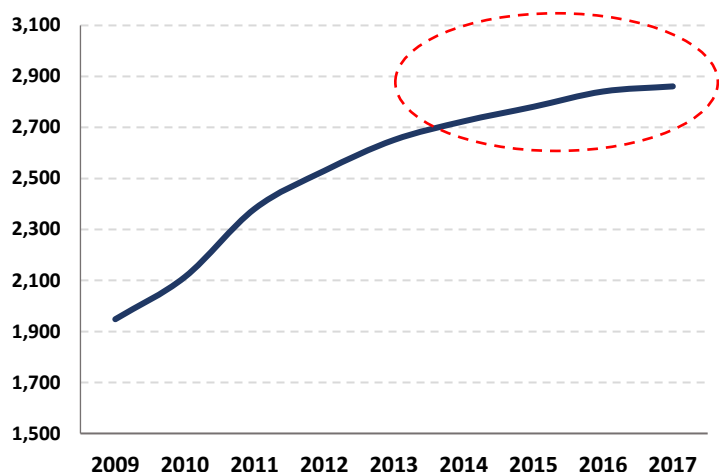


Source: CBSL

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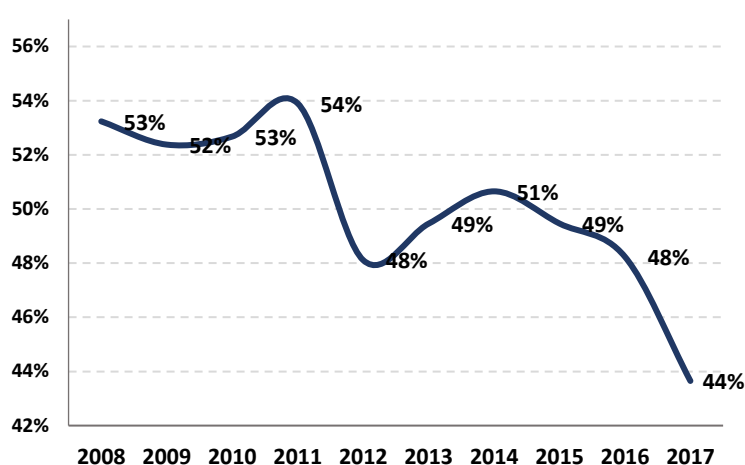
LCB's significant investment towards Digitalization is expected to improve the Cost to Income Ratio thus improving the bottom line: Previous cost structure of Sri Lankan LCBs was more than 50% of their total income and placing above the average of other Asia Pacific countries. Despite the significant branch expansion witnessed after war, which was expected to weigh on the higher cost-to-income ratio, we expect the shift towards virtual banking platform to cut down operational cost, thus bringing down the cost structure of banking sector in medium to long term.

Figure 20: Stagnant branch expansion of LCBs



Source: CBSL

Figure 21: Cost to Income ratio of LCBs is gradually declining



Source: CBSL

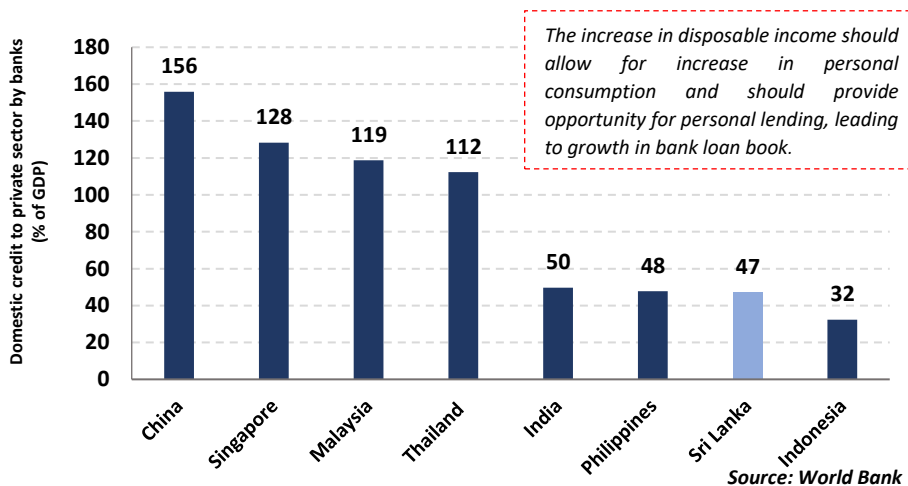
Increased Regulations to affect the LCB sector: Globally and domestically there has been an onset of increased financial sector regulation to ensure stability and soundness of banks and other financial institutions. Increased regulations are expected to create greater complexity and higher compliance costs for financial institutions, some of which may impact customers through pass-on effects.

Figure 22: Upcoming policies and regulations affecting LCBs

Regulation	Minimum Value	Timeline
Basel III: Capital Adequacy		By 01.01.2019
<u>Banks with Assets Less than Rs. 500 Bn</u>		
➤ Common Equity Tier 1 including Capital Conservation Buffer.	7.00%	
➤ Total Tier I including Capital Conservation Buffer.	8.50%	
➤ Total Capital Ratio including Capital Conservation Buffer.	12.50%	
<u>Banks with Assets above Rs. 500 Bn</u>	8.50%	
➤ Common Equity Tier 1 including Capital Conservation Buffer.	10.00%	
➤ Total Tier I including Capital Conservation Buffer.	14.00%	
➤ Total Capital Ratio including Capital Conservation Buffer.		
SLFRS 9: Financial Instruments	N/A	Adoption after 01.01.2018
Liquidity Coverage Ratio	100%	By 2019
Net Stable funding Ratio	90% and 100%	By 01.01.2019 and 01.07.201
Leverage Ratio	3%	Commencing from 01.01.201
Limitations on foreign currency borrowings	Based on capital	N/A

However, low credit penetration is expected to drive the credit growth in the long term. Despite the steady growth in credit, Sri Lanka remains comparatively underpenetrated compared to regional peers which will enable it to record a sound credit growth in the long run as country is heading towards per capita GDP of USD 4,000.

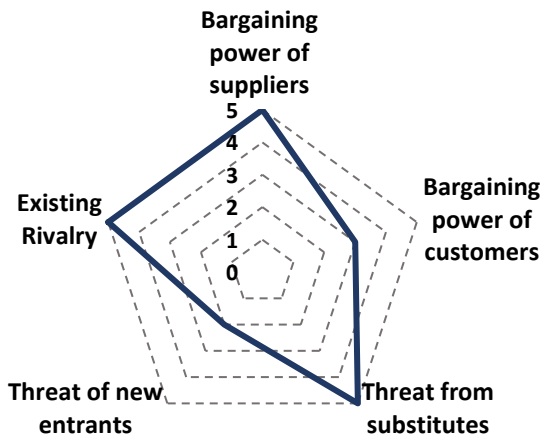
Figure 23: Despite strong credit growth, SL remains underpenetrated compared to peers in credit



Analysis of LCB industry in Sri Lanka

Bargaining power of suppliers	<ul style="list-style-type: none"> Bargaining power of depositors are high at times of increasing interest rates. Funding institutions have high bargaining power during periods of tight liquidity. 	High
Bargaining power of customers	<ul style="list-style-type: none"> Large corporate clients have bargaining power based on their high credit worthiness. Retail and SME customers' bargaining is relatively low. 	Neutral
Threat from substitutes	<ul style="list-style-type: none"> NBFIs create a significant threat to LCBs. Equity financing and alternative financing products for borrowers. Large corporates raise capital from debentures. 	High
Threat of new entrants	<ul style="list-style-type: none"> Tight licensing requirement and regulations by CBSL create a strong entry barrier. Initial and subsequent investments are very high making industry entry difficult for new banks. 	Low
Existing Rivalry	<ul style="list-style-type: none"> Competition amongst existing banks and other NBFIs are very high due to large number of players operating in the industry compared to the size of the economy. Industry consolidation can control this competition. 	High
Based on the above factors overall LCB industry attractiveness		Low

Figure 24: Analysis of Competition in the LCB industry



Source: First Capital Research

Figure:25 Analysis of Competition in the LCB industry in terms of Assets

Bank	Value of Assets*	Market Share
Bank of Ceylon	2,099,678	21%
Peoples Bank	1,882,320	19%
Commercial Bank	1,255,287	13%
Hatton National Bank	1,090,283	11%
Sampath Bank	925,527	9%
National Development Bank	463,073	5%
Seylan Bank	442,340	4%
DFCC Bank	380,602	4%
Nations Trust Bank	319,800	3%
Pan Asia Banking Corporation	156,378	2%
Union Bank	131,174	1%
Foreign Banks	746,935	8%
Total	9,893,397	100%

*Note- Value of assets are in LKR Mn

Source: Company Reports

6.0 Key Ratios

Ratio Analysis	2015	2016	2017	2018E	2019E	2020E	2021E
Tier 1	13.15%	11.40%	10.83%	10.87%			
Tier 2	15.53%	15.82%	13.89%	14.66%			
Return on Average Equity	17.99%	17.66%	17.38%	15.60%	15.65%	16.34%	14.86%
Return on Average Assets	1.56%	1.48%	1.41%	1.30%	1.34%	1.39%	1.22%
Net Interest Spread	6.71%	6.83%	5.38%	5.36%	5.30%	5.04%	4.57%
Net Interest Margin	6.47%	6.23%	6.55%	6.56%	6.28%	5.80%	5.10%
Cost / Income	55%	56%	52%	48%	48%	49%	51%
Cost / Average Assets	4.1%	3.9%	3.7%	3.4%	3.3%	3.3%	3.2%
Asset Growth	10%	20%	27%	22%	14%	15%	19%
Deposit Growth	16%	17%	28%	17%	19%	19%	19%
Borrowings Growth	27%	9%	40%	88%	-15%	-8%	37%
Loan Growth	23%	24%	25%	20%	18%	19%	18%
Avg. yield on earning assets	11.8%	13.6%	13.9%	13.5%	12.8%	12.5%	12.0%
Avg. cost of funds	5.1%	6.8%	8.5%	8.1%	7.5%	7.4%	7.5%
Loan / Deposits	94%	99%	96%	99%	98%	98%	97%
Loan / Total Assets	69%	71%	70%	69%	72%	74%	73%
Deposit / Liabilities	80%	78%	79%	76%	80%	82%	82%
Equity / Assets	9%	8%	8%	9%	9%	8%	8%
CASA	32%	28%	28%	28%	27%	27%	26%
Cost / Branch (Rs.'Mn)	74.6	81.9	94.3	106.6	119.5	135.0	149.0
Rev. / Employee (Rs.'Mn)	4.6	4.9	5.7	7.0	7.6	7.9	8.4
Employees	2,695	2,770	2,943	3,040	3,201	3,465	3,535
Branches	92	93	93	95	97	99	101
New Branches during the Year	3	1	0	2	2	2	2

Source : Company Annual Reports and First Capital Research Estimates

7.0 Shareholding of NTB

Top 20 shareholders - (% held) - NTB.N	3QFY19	2QFY19	QoQ	3QFY18	YoY
John Keells Holdings PLC	19.9%	20.0%	-0.1%	20.0%	-0.1%
HWIC Asia Fund	15.0%	15.0%	-	15.0%	-
Central Finance Company PLC A/C No 03	9.9%	10.0%	0.0%	9.0%	1.0%
Mackinnons Keells Limited.	9.9%	9.9%	0.0%	9.9%	0.0%
Janashakthi Insurance PLC - Equity Fund	8.0%	8.1%	0.0%	0.0%	8.0%
Bnymansv Re-First State Investments Icvc-Stewart Investors Asia Pac	6.6%	6.7%	0.0%	6.7%	0.0%
CF Insurance Brokers (Pvt) Ltd	5.0%	5.0%	0.0%	4.6%	0.4%
CF Growth Fund Ltd A/C No.01	5.0%	5.0%	0.0%	6.4%	-1.5%
Janashakthi Insurance PLC (Policy Holders)	1.8%	1.8%	-	1.8%	-
Hatton National Bank PLC A/C No 1	1.6%	1.6%	0.0%	1.6%	0.0%
Rubber Investment Trust Limited A/C # 01	1.2%	1.1%	0.2%	0.5%	0.8%
Mr. M.F. Hashim	1.1%	1.1%	0.0%	1.1%	0.0%
Mr. Premalal Brahammanage	0.9%	0.9%	-	0.0%	0.9%
City Bank NewYork S/A Norges Bank Account 02	0.8%	0.5%	0.3%	0.0%	0.8%
Mr. N.R. Somaiya	0.6%	0.6%	-	0.6%	-
Timex Garments (Pvt) Ltd	0.5%	0.5%	0.0%	0.5%	0.1%
Malship Ceylon Ltd	0.5%	0.5%	-	0.5%	-0.1%
Mr. D.J.M. Blackler	0.4%	0.4%	-	0.4%	-
HSBC Intl Nom Ltd-SSBT-Parametric Tax-Managed Emerging Markets	0.4%	0.4%	0.0%	0.4%	0.0%
E.W. Balasuriya & Co. (Pvt) Ltd	0.3%	0.2%	0.0%	0.0%	0.3%

Top 20 shareholders - (% held) - NTB.X	3QFY19	2QFY19	QoQ	3QFY18	YoY
John Keells Holdings PLC	36.1%	35.3%	0.9%	0.0%	-
Central Finance Company PLC A/C No 03	17.9%	17.5%	0.4%	0.0%	-
HWIC Asia Fund	15.0%	15.0%	-	0.0%	-
Mackinnons Keells Limited.	10.2%	9.9%	0.3%	0.0%	-
Bnymansv Re-First State Investments Icvc-Stewart Investors Asia Pac	6.8%	6.7%	0.2%	0.0%	-
CF Insurance Brokers (Pvt) Ltd	5.2%	5.0%	0.1%	0.0%	-
CF Growth Fund Ltd A/C No.01	5.1%	5.0%	0.1%	0.0%	-
Mr. S. G. H. I. Jafferjee	1.0%	1.0%	0.0%	0.0%	-
Mr. H. N.Esufally	0.8%	0.8%	0.0%	0.0%	-
Mr. M. A. H.Esufally	0.5%	0.5%	0.0%	0.0%	-
Mr. D.J.M. Blackler	0.3%	0.3%	0.0%	0.0%	-
J.B. Cocoshell (Pvt) Ltd	0.1%	0.1%	-	0.0%	-
Mr. M. J. Fernando	0.1%	0.1%	-	0.0%	-
The Incorporated Trustees of the Church of Ceylon	0.1%	0.1%	-	0.0%	-
Mr. M. L. Hirdaramani	0.1%	0.1%	-	0.0%	-
Mr. K.N.J.Balendra	0.1%	0.1%	-0.1%	0.0%	-
Mr. S. J. Hirdaramani	0.0%	0.0%	0.0%	0.0%	-
Mr. A. K. L. Hirdaramani	0.0%	0.0%	0.0%	0.0%	-
Mr. D. C. Fernando	0.0%	0.0%	0.0%	0.0%	-
Vinik (Pvt) Ltd	0.0%	0.0%	0.0%	0.0%	-

8.0 Investment Risks

Credit risk increase with non-collateral lending: NTB credit card portfolio accounts for 10% total loan portfolio as entire portfolio non-collateral loan there is compactivity heavy credit risk on the particular portfolio segments. If the economic condition further aggravates there is likely to be higher level of defaults adversely affecting bottom line.

SME lending increase NPL: NTB SME portfolio stands at 32% of overall lending portfolio which is a segment highly sensitive to economic conditions. If the economic condition further aggravates NTB may experience high NPL provisioning. NTB’s NPL ratio stood at 3.71% in Sep 2018 up from 2.29% reported in Dec 2017, mirroring industry NPL of 3.4%.

Capital adequacy requirement fulfilled as at Dec-18: NTB currently has a capital adequacy ratio well above the minimum threshold. Tier 1 was at 12.15% and Total Capital was at 15.59%. In future capital adequacy requirements are to become more stringent when NTB asset level increase above LKR 500Bn in relation to total risk weighted assets. We expect NTB’s Total asset to increase to LKR 500Bn by 2021E following which NTB may require additional capital in order to maintain a high growth momentum.

Appendix I: Income Statement

Income Statement	2015	2016	2017	2018E	2019E	2020E	2021E
Interest Income	16,628	21,384	30,385	36,062	40,256	44,949	50,785
Interest Expense	(7,523)	(11,598)	(18,097)	(21,245)	(23,264)	(26,348)	(31,234)
Net Interest Income	9,105	9,786	12,288	14,818	16,992	18,601	19,551
Fees and Commission Income	3,438	3,837	4,979	6,055	7,089	8,375	9,791
Fees and Commission Expense	(236)	(238)	(323)	(478)	(560)	(662)	(773)
Net Fees and Commission Income	3,201	3,598	4,656	5,577	6,529	7,714	9,017
Net Trading Income	(94)	(241)	(559)	81	187	270	320
Other Operating Income	307	568	527	815	680	744	782
Total Operating Income	12,519	13,711	16,913	21,291	24,388	27,329	29,670
Impairment Charge / (Reversal) for Loans and Advances	985	690	1,089	3,271	2,338	1,549	1,737
Net Operating Income	11,534	13,020	15,825	18,020	22,050	25,780	27,933
Personnel Expenses	2,883	3,331	3,857	4,383	4,938	5,666	6,127
Depreciation of Property, Plant and Equipment	375	362	367	535	575	619	667
Amortization of Intangible Assets	242	263	276	295	326	357	388
Other Operating Expenses	3,362	3,663	4,273	4,914	5,750	6,727	7,871
Total Operating Expenses	6,862	7,620	8,773	10,127	11,588	13,369	15,053
Operating Profit Before Value Added Tax (VAT)	4,672	5,401	7,052	7,893	10,462	12,411	12,880
Value Added Tax (VAT) on Financial Services	767	1,060	1,658	1,841	2,310	2,712	2,851
Profit Before Income Tax	3,905	4,340	5,393	5,837	7,074	8,434	8,699
Income Tax Expense	1,291	1,471	2,022	1,984	2,405	2,868	2,958
Profit for the Year	2,614	2,869	3,371	3,852	4,669	5,567	5,741
EPS	9.4	10.3	12.1	13.9	16.8	19.5	20.7

Source : Company Annual Reports and First Capital Research Estimates

Appendix II: Balance Sheet

Statement of Financial Position	2015	2016	2017	2018E	2019E	2020E	2020E
Assets							
Cash and Cash Equivalents	6,392	4,188	6,870	10,827	11,607	11,581	17,439
Balances with Central Bank of Sri Lanka	5,284	8,512	11,193	15,456	18,393	21,887	26,046
Reverse Repurchase Agreements	302	15	11	455	541	644	766
Derivative Financial Instruments	554	65	230	449	531	632	744
Financial Assets - Held for Trading	2,044	1,575	521	2,273	2,705	3,219	3,830
Financial Assets - Available for Sale	16,533	22,149	38,852	45,459	40,572	38,625	38,303
Financial Assets - Held to Maturity	12,744	12,999	9,950	9,092	10,819	12,875	19,151
Other Financial Assets	6,511	6,861	6,798	11,365	13,524	16,094	22,982
Loans and Advances to Customers	121,143	149,818	186,746	224,707	265,710	315,789	371,943
Other Assets	1,386	1,814	1,941	2,247	2,657	3,158	3,719
Property, Plant and Equipment	2,144	1,997	3,364	3,364	3,380	3,412	3,463
Intangible Assets	1,224	1,188	1,153	1,140	1,096	1,021	915
Total Assets	176,261	211,180	267,629	326,833	371,535	428,936	509,302
Liabilities							
Due to Banks	2,276	11,851	10,714	10,821	10,929	11,039	11,149
Repurchase Agreements	10,406	9,261	11,941	13,482	15,943	18,947	22,317
Derivative Financial Instruments	53	130	496	570	655	754	867
Due to Customers	129,158	151,502	194,269	227,295	270,481	321,872	383,028
Debt Issued and Other Borrowed Funds	12,974	14,145	19,738	37,066	31,462	29,004	39,635
Current Tax Liabilities	426	478	848	1,191	1,443	1,721	1,775
Other Liabilities	5,064	5,523	6,327	6,580	6,844	7,117	7,402
Deferred Tax Liabilities	733	969	1,828	1,919	2,015	2,116	2,222
Total Liabilities	161,090	193,859	246,159	298,924	339,772	392,570	468,394
Equity Attributable to Equity Holders of the Parent							
Stated Capital	5,101	5,101	5,101	8,310	8,310	8,310	8,310
Statutory Reserve Fund	661	796	1,011	1,277	1,599	1,983	2,379
Retained Earnings	9,336	11,601	14,238	16,817	19,882	23,544	27,116
Other Reserves	73	(178)	1,120	1,506	1,972	2,529	3,103
Total Equities	15,171	17,321	21,470	27,909	31,763	36,366	40,908
Total Liabilities and Equity	176,261	211,180	267,629	326,833	371,535	428,936	509,302
NAVPS	55	62	93	101	114	127	147

Source : Company Annual Reports and First Capital Research Estimates

Appendix III: Recommendation criteria

Categorization	Company Category	Buy	Hold	Sell
Grade A	S&P SL20 Companies	T.Bill + 5% & Above	T.Bill + 1% & Above	Below T.Bill + 1%
Grade B	Rest of the Companies	T.Bill + 8% & Above	T.Bill + 3% & Above	Below T.Bill + 3%
Grade C	Companies less than LKR 1Bn Market Cap	T.Bill + 11% & Above	T.Bill + 6% & Above	Below T.Bill + 6%

Weighted Average 1-year T-bill rate during Dec 2018: 11.22%

Categorization	Company Category	Buy	Hold	Sell
Grade A	S&P SL20 Companies	16.22%	12.22%	12.22%
Grade B	Rest of the Companies	19.22%	14.22%	14.22%
Grade C	Companies less than LKR 1Bn Market Cap	22.22%	17.22%	17.22%



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GOVERNMENT SECURITIES SALES

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

CORPORATE DEBT SALES

Sewwandi Kathriarachchi	+94 77 3461 734	Mahesh Amarasinghe	+94 77 0073 684
Nethalie De Mel	+94 11 2639 854	Dharshanie Vasanthajothy	+94 77 9159 878

EQUITY SALES

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			Priyanka Anuruddha	+94 70 2910 035
Colombo			Priyantha Wijesiri	+94 70 2910 036
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UNIT TRUST SALES

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Imali Abeygunawardena	+94 77 1764 799		

BRANCHES

Kandy	Kurunegala	Matara	Negombo
2nd Floor, No.121 Kotugodella Veediya (E L Senanayake Veediya) Kandy 20000.	Ground Floor No. 42, Mihindu Mawatha, Kurunegala 60000.	2nd Floor, E.H. Cooray Building No: 24, 1/3, Anagarika Dharmapala Mawatha, Matara 81000.	1st Floor No: 163B, Colombo Road, Negombo 11500.
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