

Recommendation: Buy		Target Price : HNB N- LKR 448.00 HNB X- LKR 358.00					Sector: Banks
YE Dec	2020	2021	2022	2023	2024	2025E	2026E
Net Profit LKR mn)	13,095	19,025	15,329	22,771	43,539	39,517	41,573
YoY growth (%)	-10.7%	45.3%	-19.4%	48.6%	91.2%	-9.2%	5.2%
EPS (LKR) on current shares	22.9	33.3	26.8	39.8	76.1	69.1	72.7
YoY growth (%)	-10.7%	45.3%	-19.4%	48.6%	91.2%	-9.2%	5.2%
DPS (LKR)	8.0	9.0	5.0	8.0	15.0	17.3	18.2
BVPS (LKR)	269.8	309.0	320.5	371.2	457.1	508.9	563.4
ROE (%)	8.7%	11.5%	8.5%	11.5%	18.4%	14.3%	13.6%
Dividend Payout on reported EPS	31.3%	24.9%	17.5%	19.7%	19.7%	25.0%	25.0%
Dividend Yield	2.2%	2.5%	1.4%	2.2%	4.2%	4.8%	5.1%
Voting- PER (x)	15.7	10.8	13.4	9.0	4.7	5.2	4.9
Voting- PBV (x)	1.3	1.2	1.1	1.0	0.8	0.7	0.6
Non Voting-PER (x)	12.4	8.6	10.6	7.2	3.7	4.1	3.9
Non Voting- PBV (x)	1.1	0.9	0.9	0.8	0.6	0.6	0.5

Prices as at 21.07.2025

Key Statistics		Main Shareholders as at 31.03.2025- HNB Voting	
Market Cap (LKR Bn) - Voting	162.30		
Market Cap (LKR Bn) - Non Voting	33.20		%
Market Cap (USD Mn) - Voting	541.00	Browns Investments Plc (Consisting Of Sampath Bank Plc/	
Market Cap (USD Mn) - Non Voting	110.67	Browns Investments Plc & Browns Investments Plc Accounts)	9.99
Issued Quantity (Mn) - Voting	455.97	Employee'S Provident Fund	9.75
Issued Quantity (Mn) - Non Voting	115.85	Sri Lanka Insurance Corporation Ltd-Life Fund	8.27
Current Trading Range - Voting	355.00-358.00	Milford Exports (Ceylon) (Pvt) Limited	7.91
Current Trading Range - Non Voting	285.25-288.00	Stassen Exports (Pvt) Limited	6.85
52 week High - Voting	362.00		
52 week Low - Voting	155.00		%
52 week High - Non Voting	300.00	Browns Investments Plc (Consisting Of Sampath Bank	
52 week Low -Non Voting	128.00	Plc/Browns Investments Plc & Browns Investments Plc	
YTD High - Voting	362.00	Accounts)	45.87
YTD Low- Voting	269.75	Acuity Partners (Pvt) Limited/Mr.Elayathamby Thavagnanasoor	4.44
YTD High - Non Voting	300.00	Akbar Brothers Pvt Ltd A/C No 1	4.42
YTD Low- Non Voting	231.00	Saboor Chatoor (Pvt) Ltd	0.8
		People'S Leasing & Finance Plc/Mr. I.D.R. Perera	0.74
		Browns investment PLC disposed 33.26% of issued shares of HNB-NV on 16.07.2025 at LKR 280/- per share	
Valuation		Main Shareholders as at 31.03.2025- HNB Non-Voting	
Market PE (x)	8.90		
Market PBV (x)	1.20		
Trailing PE (x) - Voting	4.40		
Trailing PE (x) - Non Voting	3.50		
PBV (x) - Voting	0.78		
PBV (x) - Non Voting	0.62		
Bloomberg Ticker	HNB SL		
GICS Industry Group	Banks		



Hatton National Bank PLC (HNB) is Sri Lanka’s second-largest private sector commercial bank and is designated as a Domestic Systemically Important Bank (D-SIB) by the Central Bank of Sri Lanka. With an extensive branch network of over 250 locations, HNB offers a comprehensive suite of financial services including retail, corporate, SME banking, trade finance, and treasury operations. The bank holds a strong position in the retail and SME segments and has made significant investments in digital banking to enhance customer access and operational efficiency. Distinct from its peers, HNB has built a diversified business model with strategic investments in the insurance sector through HNB Assurance PLC, in non-bank financial services via HNB Finance PLC, and more recently, through the acquisition of Acuity Partners, which provides it with a fully-fledged investment banking arm. This diversification strengthens HNB’s earnings profile and creates multiple growth avenues beyond traditional banking.

HNB’s 1Q’25 earnings grew by 48% YoY to LKR 10.7 Bn largely aided by higher topline and impairment reversals. HNB profits surged by 48% to LKR 10.7Bn for 1Q’25 added by higher net interest income (+10%YoY), higher fee and commission income (+23% YoY), gains from trading (from a loss of LKR 4.0Bn to a profit of LKR 712Mn), surge in insurance premium (+26%YoY) and reversal in impairment charges (reversal of LKR 194Mn from a charge of LKR 1.6Bn in the corresponding quarter last year). The Group's interest income declined by 10.5% YoY mainly due to the gradual decline in AWPLR, however, interest expenses dropped at a higher rate supported by a steady growth in CASA deposits, resulting in the growth in NII. Higher fee was backed by higher card usage and growth in digital transactions, pushing the total operating income too to increase by 27% YoY to LKR 41.1Bn. Bank witnessed a positive movement in stage 3 portfolio resulting in a total impairment reversal of Rs 194 Mn, compared to a charge of Rs 1.6 Bn in the corresponding period last year mainly driven by the Bank’s robust risk management framework and intensified recovery efforts. Operating expenses however rose by 16.24% YoY due to the increase in staff cost resulted by the realignment of compensation and the performance-based pay structure of the Bank. During 1Q’25, the Bank’s asset base surpassed LKR 2.1 Tn, reflecting a 3.4% expansion while gross loans grew by 1.7%YTD while deposit book grew by 0.6%YTD.

HNB records one of the lowest Stage 3 impairment ratios with a coverage over 75%. HNB’s asset quality continued to improve, as evidenced by the decline in its Stage 3 impaired loan ratio to 1.8%, in 1Q’25 (COMB-2.6%, SAMP-4.6%, NDB-5.5%) alongside a strengthened impairment coverage ratio of 75%. This reflects prudent risk management and a proactive approach to provisioning, particularly following the LKR 14Bn allocation toward legacy NPAs in 4Q’24 (as additional buffer was set aside specifically to cover non-performing loans inherited or classified in earlier periods) This positive trend can be attributed to the bank's proactive recovery efforts, the gradual stabilization of the Sri Lankan economy, and the successful restructuring of external debt, including International Sovereign Bonds (ISBs). These metrics should also provide a strong buffer against the potential credit losses in the future in our view. Moreover, if recoveries or credit assessments improve, HNB could reverse part of this LKR 14 Bn provision, boosting future earnings without requiring fresh profit generation.



Recommendation: Buy Target Price : HNB N- LKR 448.00 HNB X- LKR 358.00 Sector: Banks

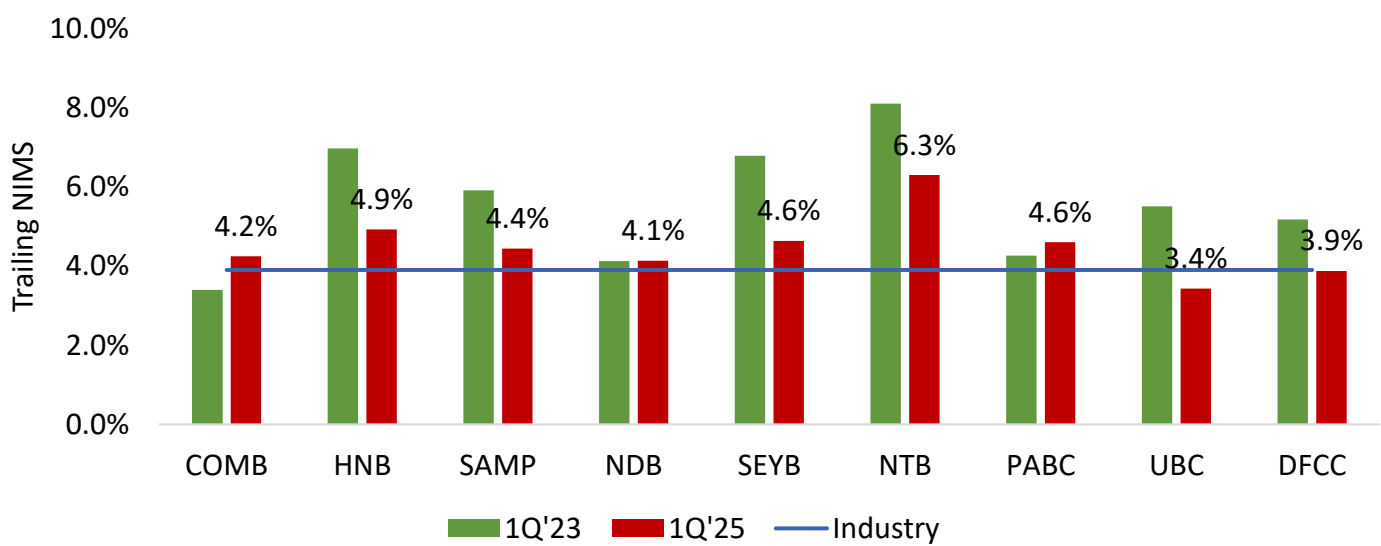
NIMS one of the best in the industry. HNB is expected to maintain higher NIMs relative to peers (HNB – 5.2%, COMB – 4.2%, SAMP – 4.4%, NDB – 4.1%), supported by its lower funding costs and a higher CASA ratio, which stood at 33.4% as of 1Q2025. Additionally, the bank’s loan mix, with approximately 40% exposure to the Micro, SME, and Retail segments, contributes to stronger yields given these segments typically carry higher margins compared to large corporate or government lending. However, we anticipate NIMs to moderate to around 4.8%–4.9% in 2025E, reflecting the faster repricing of HNB’s investment portfolio amid a declining interest rate environment.

HNB’s high capital buffer is a sign of financial strength and resilience HNB’s Tier 1 and Total Capital Adequacy ratios stands at 17.60% and 21.89%, respectively, well above the minimum statutory requirements of 9.5% and 13.5% , indicating strong capital buffers. This in turn will help HNB to invest in growth-oriented strategies , where HNB could expand its loan book more aggressively specially that Sri Lanka is moving towards an economic recovery where private sector credit growth is picking up amid low-interest rate environment. (AWPLR has dropped to 8.0% levels from+25% in 2022 and private sector credit has picked up by 16.1% YoY in in May’25 compared to just 6.3% a year earlier) b

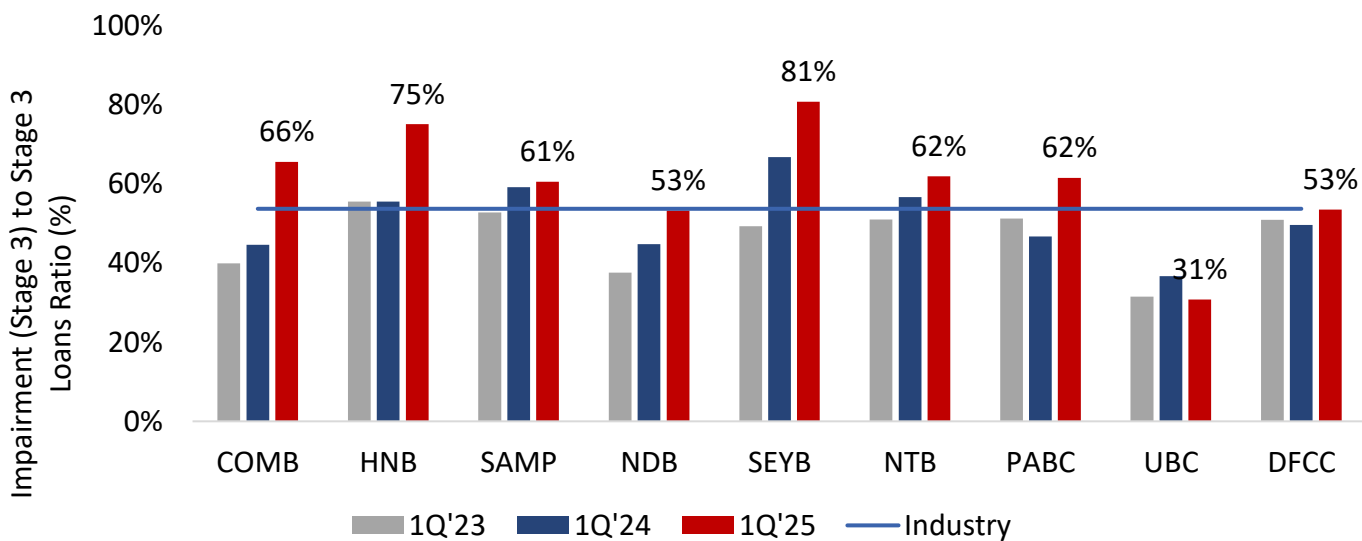
We expect the loan book to pick up to mid teen levels . During 2019-2024, HNB recorded compound annual growth rates (CAGR) of 17.9% in deposits, 7.5% in advances, and 24.5% in earnings. HNB’s loan book grew by 11.7% YoY, reflecting improving credit demand amid economic recovery, while deposits increased +8.8% YoY as of 31 December 2024. The bank’s CASA ratio strengthened to 33.4%, up from 29.4% in 2023 supported by an improved funding mix. The anticipated recovery in lending, particularly in the personal and SME segments, along with a resurgence in credit demand from sectors such as construction and tourism, is expected to partially mitigate pressure on net interest income (NII). Loan growth is projected to remain robust at 13%-15%% annually from 2025E to 2026E, supported by the revival of economic activity and improving business confidence.

Recurring profits to surge by 23%YoY to LKR 40.7Bn in 2025E, and to LKR 42.8Bn in FY 2026E. We estimate HNB’s recurrent profits to surge (Under ISB restructuring, banks exchanged 30% of ISB exposure into Sri Lankan rupee bonds and adopted a 10% haircut on the remaining 70% in USD bonds. As a result, HNB’s previously recognized impairment provisions of LKR 91.6Bn were reversed. Simultaneously, HNB realized an LKR 49.5 Bn one-time accounting loss from derecognition of ISBs. Combining these effects—with a net deferred tax charge of LKR 26.2 Bn—resulted in an overall net gain to profit after tax of LKR 11.8 bn) 23% YoY to LKR 40.7Bn in 2025E and further surge to LKR 42.8Bn in 2026E backed by 1) uptick in loan book supported by revival in economic activities (ii) above average industry NIMS (iii) above average provision cover and (iv) continued improvement in asset quality. HNB currently trades at 0.81x PBV, representing a significant discount to domestic peers such as COMB (0.98x) and SAMP (0.95x), as well as to leading regional banks that trade at notable premiums to their book values. Conservatively applying a PBV multiple of 0.88x to HNB’s 2025E book value, we derive a target price of LKR 448.00 for HNB Voting shares and LKR 358.00 for HNB Non-Voting shares, implying an upside of approximately 25% from current levels. We therefore maintain our recommendation BUY.

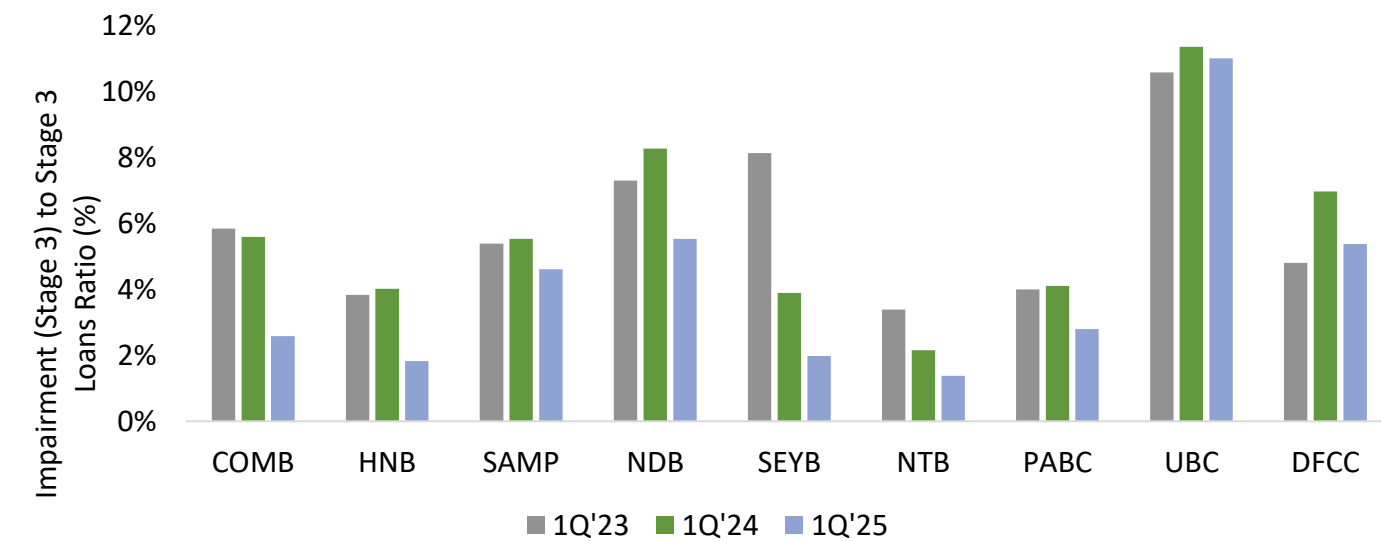
HNB commands one of the highest NIMS in the industry



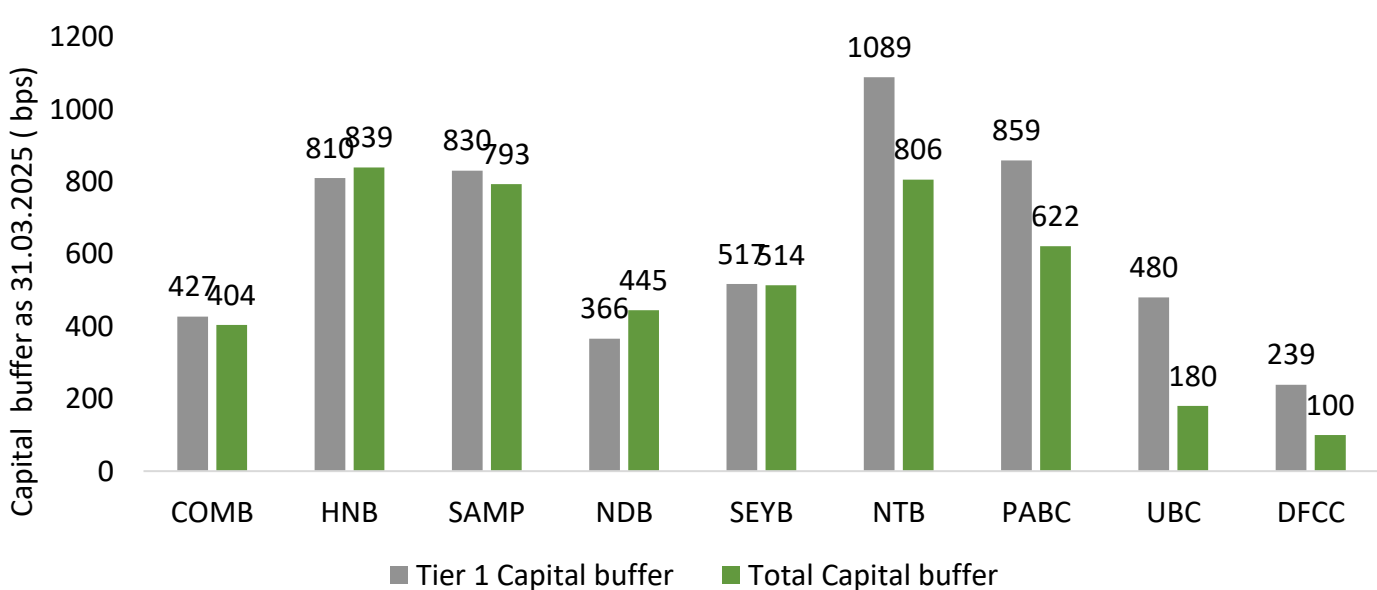
HNB’s provision coverage- one of the highest in the industry



HNB’s Stage 3 impairments- one of the lowest in the industry



HNB also records strong capital buffers





HATTON NATIONAL BANK PLC (HNB N: LKR 358.50, HNB X- LKR 285.00)

Recommendation: Buy

Target Price : HNB N- LKR 448.00 HNB X- LKR 358.00

Sector: Banks

Earnings Forecast

FY Dec	2020	2021	2022	2023	2024	2025E	2026E
Income Statement (LKR Mn)							
Net Interest Income	50,837	56,462	111,567	118,075	109,765	117,654	127,343
Total Non-Interest Income	21,955	27,942	49,309	31,717	(12,172)	49,719	56,534
Total Operating Income	72,792	84,404	160,875	149,791	97,593	167,373	183,877
Impairment Charges	16,047	19,534	91,736	42,524	(77,406)	12,000	17,500
Total Operating Expenses	33,612	37,349	49,804	60,375	71,129	79,863	86,934
Profit Before Tax	23,541	27,813	19,668	48,033	105,247	78,265	82,337
Profit for the Year	15,575	20,084	15,748	23,898	44,840	40,698	42,815

Balance Sheet (LKR Mn)							
Net Loans & Advances	800,816	911,253	1,014,519	988,601	1,104,013	1,268,750	1,430,409
Y-o-Y Growth	4%	14%	11%	-3%	12%	15%	13%
Property, Plant & Equipment	41,827	49,724	49,616	50,165	55,468	46,216	44,241
Total Assets	1,371,483	1,453,651	1,798,275	2,047,040	2,209,174	2,434,881	2,765,561
Due to Other Customers	994,949	1,107,066	1,443,179	1,609,154	1,750,259	1,925,285	2,194,825
Y-o-Y Growth	19%	11%	30%	12%	9%	10%	14%
Total Equity Attributable to Equity Holders	154,249	176,668	183,292	212,240	261,361	290,999	322,179
Net Asset Value per Share	269.8	309.0	320.5	371.2	457.1	508.9	563.4

Ratios							
Banking Ratios							
Net Interest Margin	4.0%	4.0%	6.9%	6.1%	5.2%	5.1%	4.9%
Non-Interest Income/Banking Income	30.2%	33.1%	30.7%	21.2%	-12.5%	29.7%	30.7%
Cost/Income (Ex. Prov)	46.2%	44.3%	31.0%	40.3%	72.9%	47.7%	47.3%
Impairment/Gross Loans	1.9%	2.0%	8.3%	3.9%	-6.4%	0.9%	1.1%
Operating Profit Margin	32.3%	33.0%	12.2%	32.1%	107.8%	46.8%	44.8%
ROAA (After Tax)	1.2%	1.4%	1.0%	1.2%	2.1%	1.8%	1.6%
ROE (Average Equity)	8.7%	11.5%	8.5%	11.5%	18.4%	14.3%	13.6%
CASA	38.7%	40.0%	30.4%	29.4%	33.5%	33.0%	32.5%
EPS	22.9	33.3	26.8	39.8	76.1	69.1	72.7
DPS	8.0	9.0	5.0	8.0	15.0	17.3	18.2
Valuation							
PBV (x) -Voting	1.3	1.2	1.1	1.0	0.8	0.7	0.6
PER (x) - Voting	15.7	10.8	13.4	9.0	4.7	5.2	4.9
PBV (x) -Non Voting	1.1	0.9	0.9	0.8	0.6	0.6	0.5
PER (x) - Non Voting	12.4	8.6	10.6	7.2	3.7	4.1	3.9
Dividend Yield	2.2%	2.5%	1.4%	2.2%	4.2%	4.8%	5.1%

Source: Company annual reports, CSE,ACS Research



HATTON NATIONAL BANK PLC (HNB N: LKR 358.50, HNB X- LKR 285.00)

Recommendation: Buy	Target Price : HNB N- LKR 448.00 HNB X- LKR 358.00	Sector: Banks
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