

Overview of HNB Finance Limited (HNBF.N / X)

HNB Finance Limited was incorporated as a limited liability company in Sri Lanka on December 20, 1999. The **Company was first established under the Ceylinco Group as a micro-financing institution** under the name of **Ceylinco Grameen Credit Co. Ltd.** The Company had pioneered the 'Grameen' microfinancing model in Sri Lanka. However, subsequent to the collapse of several unregulated financial institutions within the Ceylinco Group, the Company was acquired by the Prime Lands Group in 2011. Thereafter, it was renamed as Prime Grameen Microfinance Limited and became a fully-fledged finance company. Subsequently, **in 2014, 51% of the Company was acquired by Hatton National Bank PLC (HNB).** In October 2018, the Company was renamed as 'HNB Finance Limited', poised to benefit from the relationship with the parent entity HNB.

- Prime Lands (Private) Limited is offering for sale, 10Mn **Ordinary Voting Shares (HNBF.N)** amounting to 0.70% of the HNBF.N Shares in order to facilitate the listing of the Ordinary Voting Shares of HNB on the CSE.
- The Share Offer Price for HNBF.N Shares LKR 5.70 per share was determined by the Selling Shareholder based on the Independent Valuation Report provided by Nexia Management Services (Pvt) LTD.
- HNB will not receive any proceeds raised via the Offer. All proceeds from the sale of Existing Ordinary Voting Shares would be received by the Selling Shareholders.
- The **Ordinary Non-Voting Shares (HNBF.X)** of the Company **was issued** by the Company in 2011 **under a restructure of deposits and borrowings** held by the Company. Specifically, following the financial crisis in 2009-2010 and the inability of the Company to meet its repayment obligations on deposits and borrowings.
- The Company converted the funds of depositors and debt holders held by it into HNBF.X Shares under a series of Directions issued by the Central Bank of Sri Lanka via letters dated January 07, 2011, June 06, 2011 and June 29, 2011. Accordingly, 298.2Mn **HNBF.X Shares were issued** on the basis of **1 HNBF.X for each 10 rupees of deposits and borrowings**. No consent or approvals were obtained by the Company from depositors and debt holders when converting such deposits and borrowings into HNBF.X Shares.

OFFER FOR SALE AT A GLANCE

Number of shares to be offered	HNBF.N - 10Mn
Share Offer Price	LKR 5.70
Selling Shareholder	Prime Lands (Pvt) Ltd
Minimum Subscription	1,000 Shares
Offer Opening Date	February 17, 2020
Offer Closing Date	06-03-2020 or earlier
Consideration to be Received	LKR 57Mn
Number of Securities to be Listed through Introduction	HNBF.X - 298.2Mn
Reference Price of Ordinary Non-Voting Shares	LKR 4.20
Credit Rating	A(lka), stable outlook

Board of Directors

Name	Designation
Mr. A. J. Alles	Chairman
Mr. B. Premalal	Deputy Chairman
Mr. B. M. D. C. Prabhath	Managing Director/ CEO
Dr. S. U. H. Fernando	Independent Non-Ex
Mr. A. S. Wijesinha	Independent Non-Ex
Mr. P. A. H. D. Wijesundara	Independent Non-Ex
Mr. A. G. R. Dissanayake	Non-Independent Non-Ex
Mr. M. Perera	Non-Independent Non-Ex

- **Contact details of the beneficiaries of 65Mn HNBF.X Shares** were not available with HNBF at the time of the said conversion and thereby such Shares were held in a trust named the “**Prime Grameen Class A Non-Voting Share Trust**”, later beneficiaries of 37.8Mn HNBF.X Shares were located and such shares were **bought back by Prime Lands (Private) Limited** from the said beneficiaries. Remaining **27.23Mn Shares were transferred to “Wealth Guard (Private) Limited”** which will act as single purpose vehicle to hold the Shares on behalf of the persons who are entitled, until they are contacted and transferred to them in due course.

20 LARGEST SHAREHOLDERS – HNBF.N - PRE IPO			
No	Name	No. of Shares	%
1	Hatton National Bank PLC	724,904,118	51.00
2	Prime Lands (Private) Limited	562,391,533	39.57
3	DWM Funds S.C.A SICAV- SIF	112,700,000	7.93
4	B. M. D. C. Prabath	1,000,000	0.07
5	H. M. U. Senevirathna	150,000	0.01
6	W. S. P. Arangala	110,000	0.01
7	S. L. Y. Liyanawatte	102,500	0.01
8	S. T. D. Pieris	101,000	0.01
9	J. S. B. Galagoda	101,000	0.01
10	W. B. A. Fernando	100,500	0.01
11	S. A. R. Fernando	100,500	0.01
12	B. S. Seneviratne	100,100	0.01
13	R. P. K. Gallage	100,000	0.01
14	E. A. D. Silva	100,000	0.01
15	R. D. S. Munasinghe	100,000	0.01
16	W. D. Wijesinghe	50,500	0.00
17	R. M. M. Tissa	50,500	0.00
18	R. K. M. Priyanga	50,200	0.00
19	J. M. R. Fonseka	50,100	0.00
20	G. V. Rathnayake	50,000	0.00
	other Shareholders	18,968,073	1.33
	Total	1,421,380,624	100

- The **Reference Price for HNBF.X Shares LKR 4.20** per share was determined by the Company in consultation with Nexia Management Services (PVT) LTD, and the Board of Directors of HNBF is of the opinion that the Reference Price is fair and reasonable.

- Prior to being acquired by Prime Lands, HNBF had significant **accumulated losses** (LKR 3.9Bn). To wipe out the major portion of the accumulated losses, HNBF carried out a **capital reduction exercise** during the FY 2015/16, which amounted to LKR 3,672Mn. This, together with the profit recorded during the FY 2015/16 resulted in the accumulated losses amounting to LKR 1.4Bn while the stated capital (Voting and Non-Voting) **reduced to LKR 223.5Mn** by the end of 2015/16 from LKR 3,895Mn recorded in 2014/15.

SHAREHOLDERS – HNBF.X - PRE IPO			
1	Seylan Bank PLC	233,200,000	78.20
2	Prime Lands (Private) Limited	37,772,148	12.67
3	Wealth Guard (Private) Limited	27,227,852	9.13

- In terms of CSE Listing Rule 2.1.1(e)(ii), the 1.28Bn shares held by **Non-Public Shareholders**, namely HNB, Prime Lands (Private) Limited, B. M. D. C. Prabath, W. S. P. Arangala, S. A. R. Fernando, W. B. A. Fernando & B. S. Seneviratne **would be** subject to a ‘**lock-in**’ for a period of six (06) months from the date of listing of Shares.

Distribution of Shareholders - HNBF.N	
Shareholding Range	No. of Shareholders
31st March 2019	
1 - 1,000	99,530
1,001 - 10,000	810
10,001 - 100,000	25
100,001 - 1,000,000	9
Over 1,000,000	3
Total	100,377

- However, HNBF.N shares held by **Public Shareholders (132.67Mn)** prior to the date of the listing application **shall not be locked in**.

- ✓ Total number of Shareholders - 100,377.
- ✓ DWM Funds S.C.A SICAV- SIF - 112.7Mn shares.
- ✓ Other 100,369 shareholders - 19.97Mn shares.

Based on the interim financial statements for the period ended **30th September 2019** LKR Mn

HNB Finance Limited (HNBF.N)				Sector: DIVERSIFIED FINANCIALS				
	6 M 2020	6 M 2019	Change	FY 2019	FY 2018	Change		
Interest income	3,986.61	3,446.38	16%	7,229.17	6,537.66	11%		
Interest expense	1,830.42	1,279.08	43%	2,802.09	2,373.46	18%		
Net interest income	2,156.19	2,167.30	-1%	4,427.08	4,164.20	6%		
Fee & commissions	445.46	301.90	48%	777.76	702.44	11%		
Impairment charge	330.00	303.56	9%	842.91	685.27	23%		
Personnel expenses	750.65	617.36	22%	1,235.85	1,108.12	12%		
Other expenses	801.60	634.89	26%	1,492.20	1,167.90	28%		
VAT, NBT & DRL	283.33	213.62	33%	455.74	392.26	16%		
Income tax expense	127.28	214.38	-41%	431.33	570.88	-24%		
Profit for the Period	315.92	474.38	-33%	830.60	1,011.78	-18%		
Earnings per share	0.18	0.28	-33%	0.48	0.59	-17.9%		
CMP (LKR)	NAV	Trail EPS	Trail P/E	FWD EPS	FWD P/E	Sector PE	PBV	Sector PBV
5.70	2.88	0.39	14.6	0.37	15.5	9.8	2.0	1.0
Total Assets (Mn)	35,486	Equity (Mn)		4,945	No. of. Shares in Issue (Mn)		1719.6	
ROA - FY 19/20	1.8%	ROE - FY 19/20		12.8%	Asset / Equity ratio		7.18	
Dividend	0.00	Payout Ratio		0%	Dividend Yield		0.0%	

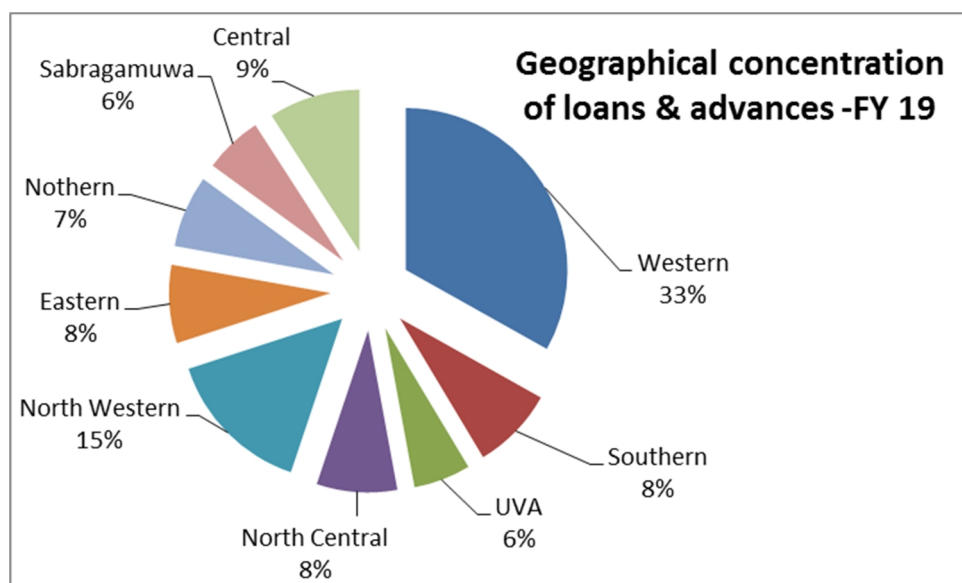
Comparable Company Analysis based on Sep 2019 Earnings

Counter	CMP	Fwd EPS	PE	NAV	PBV	Dividend	Div Yield	Total Assets	Total Equity
AAF	8.10	0.87	9.31	17.37	0.47	-	0.0%	14.5Bn	2.16Bn
SFIN	12.40	1.22	10.16	17.93	0.69	1.10	8.9%	20.8Bn	3.62Bn
PLC	15.90	2.79	5.70	20.11	0.79	1.20	7.5%	183.0Bn	32.7Bn
COCR	27.10	6.44	4.21	42.52	0.64	1.00	3.7%	89.9Bn	13.5Bn
CDB.X	63.40	19.32	3.28	147.76	0.43	5.00	7.9%	92.6Bn	10.3Bn
CDB	83.00	19.32	4.30	147.76	0.56	5.00	6.0%	92.6Bn	10.3Bn
LFIN	163.20	36.48	4.47	147.56	1.11	12.00	7.4%	144.2Bn	20.4Bn
Average			5.92		0.67		5.9%		
HNBF.N	5.70	0.37	15.51	2.88	1.98	-		35.5Bn	4.9Bn
HNBF.X	4.20	0.37	11.43	2.88	1.46	-		35.5Bn	4.9Bn

Lending Portfolio (Productwise)

(LKR MN)

For the Year Ended March 31,	2018	2019	2018	2019
Loans and Advances to Customers	13,515	16,168	71%	63%
Gold loan advances	-	77	0%	0%
Loan against Fixes desposits	444	511	2%	2%
Saving advance	50	-	0%	0%
Total Loans and Advances to Customers	14,009	16,756	74%	66%
Lease Rentals Recieveable and Stockout on Hire	4,455	8,073	23%	32%
Staff Loans	350	344	1.8%	1.4%
Staff Mortgage Loan	230	279	1.2%	1.1%
Total Loans And Advances to others	580	641	3.0%	2.5%
Total Loans and Advances	19,045	25,471		



Summerized Audited Income Statemenets (LKR MN)

For the Year Ended March 31,	2015	2016	2017	2018	2019
Interst Income	2,468	3,906	5,327	6,538	7,229
Interst Expenses	(716)	(996)	(1,466)	(2,373)	(2,802)
Net Interest Income	1,752	2,911	3,861	4,164	4,427
Net Fee and Commision Income	226	410	572	581	625
Total Operating Income	2,013	3,387	4,670	4,989	5,337
Impairment Chargers for Loan	(70)	(110)	(708)	(685)	(843)
Net Operating Income	1,942	3,277	3,963	4,303	4,494
Total Operating Expenses	(1,123)	(1,455)	(1,956)	(2,276)	(2,728)
Operating Profit before VAT and NBT	819	1,822	2,007	2,027	1,765
Operating Profit after VAT and NBT	657	1,545	1,626	1,583	1,262
Profit for the Year	535	1,110	1,059	1,012	831
Earnings per Share(LKR)	0.31	0.65	0.62	0.59	0.48
Dividend per Share		0.11	0.10	0.09	

Summerized Audied Statemenet of Financial Position

For the Year Ended March 31,	2015	2016	2017	2018	2019
Assets					
Loans and Advances	5,725	9,138	13,764	19,045	25,471
Financial Investments	2,017	2,667	2,078	2,535	2,500
Property, Plant and Equipment	880	950	1119	1,159	1,420
Total Assets	10,086	14,376	19,553	25,339	32,929
Liabilities					
Deposits	7,558	10,420	14,040	18,821	22,632
Debt and Other Borrowed Funds	815	910	1,333	1,178	4,218
Total Liabilities	8,813	11,984	16,163	21,208	28,300
Total Shareholders' Fund	1,273	2,392	3,390	4,130	4,629
Net asset per Share	0.74	1.39	1.97	2.40	2.69
Total Liabilities and Shareholder's Funds	10,086	14,376	19,553	25,339	32,929

Key Finanancial Ratios

For the Year Ended March 31,	2015	2016	2017	2018	2019
Net profit margin*	30.54%	38.13%	27.43%	24.30%	18.77%
Return on equity**	53.12%	60.58%	36.62%	26.91%	18.96%
Gearing ratio***	39.04%	27.55%	28.23%	22.20%	47.67%
Interest cover ratio****	2.15	2.83	2.37	1.85	1.63

*Net profit margin = Net profit for the period/ Net interest income for the period

**Return on equity = Net profit for the period/ Average total equity during the year or period

***Gearing ratio = Interest bearing borrowings / (Interest bearing borrowings + Total shareholders' funds)

****Interest cover ratio = Earnings before interest and tax for the period/ Interest expenses for the period

Contact Information

Head Office

Sales

Mr Upul Priyantha	upul@ashasecurities.net	+94 11 2429106
Mr Shanmugam Sudhagar	sudha@ashasecurities.net	+94 11 2429107
Mr J M Gamage	gamage@ashasecurities.net	+94 11 2429126
Mrs Vasantha Wicramasinghe	vasantha@ashasecurities.net	+94 11 2429114
Mr Hussain Fawmie	fawmie@ashasecurities.net	+94 11 2429113
Mrs Nilmini Hapuarachchi	nilmi@ashasecurities.net	+94 11 2429212
Mrs Chandrika Abeywickrema	chandrika@ashasecurities.net	+94 11 2429125
Mr Nuwan Hewage	nuwan@ashasecurities.net	+94 11 2429133

Research

Visaahan Arumainayagam	visaahan@ashasecurities.net	+94 11 2429139
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Regional Offices

Colombo (H/O)

60, 5th Lane,
Colombo 03.
Tel - 94 112429100
Fax - 94 112429199

www.ashasecurities.net
info@ashasecurities.net

Matara

Mr Prasad Wijesinghe
#24-1/3A,
E.H. Cooray Tower, 2nd Floor,
Anagarika Dharmapala Mw,
Matara.
Tel: 041 2235191-5
prasad@ashasecurities.net

Kandy

Mr Mohamed Illiyas
88, Ceybank House,
Dalada Vidiya,
Kandy.
Tel. 081 2204750
illiyas@ashasecurities.net

Gampaha

Mr Nishantha Liyanaarachchi
#116, Sanasa Ideal Complex,
Buddhaloka Mawatha,
Gampaha.
Tel. 033 2234888
nish@ashasecurities.net

Negombo

Mr Sanath Karunaweera
#72 A 2/1,
Old Chilaw Road,
Negombo.
Tel. 031 2227474
sanath@ashasecurities.net

Kiribathgoda

Mr Dhanushka Fernando
#94, Udeshi City Shopping Complex,
2nd Floor, #2/12, Makola Road,
Kiribathgoda.
Tel. 011 2908511
dhanushka@ashasecurities.net

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