

HATTON NATIONAL BANK PLC - Debenture Issue 2016 -



Corporate Profile

Hatton National Bank PLC provides various banking products and services in Sri Lanka and internationally. It operates through five segments: Banking, Leasing/Hire Purchase, Property, Insurance, and Others. The company offers all traditional banking products, In addition, the company offers cash management services; derivatives & other services; credit & debit cards; merchant services; microfinance. Further, its activities include development banking, offshore banking, mortgage financing, lease and hire purchase financing, dealing in government securities and listed equities, pawn broking, e-banking facilities, Islamic banking, custodian banking, stock broking, life and general insurance services, property development, and other financial services, as well as is involved in the construction and letting of premises for commercial purposes and related services. HNB was founded in 1888 and now operating with 249 branches and 462 ATMs spread across the island. Its subsidiaries are HNB Assurance PLC, Sithma Development (Pvt) Ltd & HNB Grameen Finance Limited.

ISSUE AT A GLANCE				
Issuer	Hatton National Bank PLC			
Instrument	Subordinated Unsecured Redeemable Rated Debentures			
Issue Rating	A+(lka) by Fitch Ratings Lanka Limited			
Issuer Rating	AA- (lka/Stable) by Fitch Ratings Lanka Limited			
Trustees to the Issue	Deutsche Bank AG, Colombo Branch			
Number of Debentures to be Issued	An initial issue of fifty Million (50,000,000) Debentures with an option to issue up to a further Ten Million (10,000,000) of said Debentures at the discretion of the Bank in the event of an oversubscription of the initial Issue .			
Total Value of the Issue	Sri Lanka Rupees Five Billion (LKR 5,000,000,000/-) with an option to raise further up to Sri Lanka Rupees One Billion (LKR 1,000,000,000/-) at the discretion of the Bank in the event of an oversubscription.			
Par/ Issue Value of a Debenture	LKR 100/- per Debenture			
Interest Rate	Type	Interest rate	AER	Redemption
	Type A	11.75% Payable Annually	11.75%	60 months (5 years)
	Type B	13.00% Payable Annually	13.00%	84 Months (07 Years)
Issue Opening Date	25 October 2016			
Issue Closing Date	11 November 2016 or such earlier date on which; <ul style="list-style-type: none"> ➤ The maximum of 60,000,000 Debentures are fully subscribed; or ➤ The Board of Directors of the Bank decides to close the Issue upon the issue of 50,000,000 Debentures becoming fully subscribed. 			

	In the event the Board of Directors of HNB decides to exercise the option to issue the second tranche of 10,000,000 Debentures but subsequently decides to close the subscription list prior to full subscription of the second tranche, such decisions made shall be notified to the CSE on the day such decision is made and the subscription list will be closed on the following Market Day
Minimum Subscription	A minimum of One Hundred (100) Debentures (LKR 10,000/-) and in multiples of One Hundred (100) Debentures (LKR 10,000/-) thereafter
Listing	The Debentures will be listed on the Colombo Stock Exchange

Objectives of the Issue

To increase the Tier II capital base of the Bank in order to further enhance the Total Capital Adequacy Ratio.

- ✓ Tier II capital base of the Bank stood at LKR 17.1 Billion and the Total Capital Adequacy Ratio recorded as 12.97% as at 30 June 2016. It is expected that the Tier II capital base will increase to LKR 22.1 Billion and LKR 23.1 Billion resulting in the Total Capital Adequacy Ratio improving upto 13.9% and 14.1% with the initial issue of LKR 5 Billion Debentures and at the maximum issue of LKR 6 Billion Debentures respectively. The capital base will increase upon the allotment of the Debentures. HNB has obtained the requisite CBSL approval. The increase in the capital base will enable the Bank to leverage the balance sheet and thereby enhance the Bank's lending portfolio.
- ✓ To strengthen the Bank's liquidity position and to increase the loan portfolio The Bank intends to utilize the entire proceeds of the Issue to expand its loan portfolio in the ordinary course of business. During the last three month period, the Bank has achieved a net growth in its Loans and Receivables at an average of LKR 4 Billion per month.

Risks Related To Achieving The Objectives Of The Issue

Considering the current growth in lending, the Bank foresee no specific risk factor in granting loans and advances from the proceeds of the issue within the time period specified below and thereby achieve the above mentioned objective. The funds raised via the Debenture would be disbursed to product segments of the Bank such as, corporate banking, retail banking, small and medium enterprise banking depending on the demand generated through such segments. It is the understanding of the Bank that the above objective of the Debenture Issue will be achieved by the end of the financial year 31 December 2016 considering the demand for credit by the private sector. It should be noted that the proceeds of the Issue would be utilized for the above stated objective and will not be utilized to settle any outstanding borrowings of the Bank.

The Bank mobilizes funds from different sources such as deposits and borrowings to fund its loan book. As such, dependency on Debenture Issue proceeds is marginal in terms of expanding Bank's lending portfolio.

However, if the Bank fails to lend these funds due to a systemic risk, the Bank would opt to invest the Debenture proceeds in Government Securities at zero default risk until funds are fully utilised. The process of utilisation of funds will be carried out with the necessary approvals of the Asset Liability Committee of HNB in the event the Bank fails to lend the Debenture funds within specific timeline.

The utilization of the proceeds of the Debenture Issue will be disclosed in the Annual Report and the Interim Financial Statements from the Issue Opening Date and until the objectives of the Debenture Issue are achieved.

Taxes With Regard To Interest Payment on Listed Debentures

As per Section 9 and 13 of the Inland Revenue Act No. 10 of 2006 (amended by Section 4 and 5 of the Inland Revenue (Amendment) Act No. 18 of 2013), the profits and interest income from any investment made on or after 01 January 2013 in corporate debt securities (i.e. Debentures) quoted in any stock exchange licensed by SEC is exempt from income tax.

Payment of the interest on the Debentures will be made after deducting any taxes and charges thereon (if any) in Sri Lanka Rupees as per the applicable law prevalent at the time of interest payment to the Debenture Holders.

Procedure for Application

- All applicants should indicate their CDS account number.
- Applicants should apply only for one Type of Debentures (i.e. either Type A Debentures or Type B Debentures) under one Application Form. In the event an Applicant wishes to apply for more than one Type of Debentures, separate Application Forms should be used.
- Payment should be made separately in respect of each application either by Cheques, Bank Drafts, Bank Guarantees drawn upon any licensed commercial bank operating in Sri Lanka or RTGS transfer through any licensed commercial bank operating in Sri Lanka, as the case may be, subject to the following:
 - ❖ Payments for Application values below Sri Lanka Rupees One Hundred Million (LKR 100,000,000/-) should be supported by a Bank draft/cheque drawn upon any licensed commercial bank operating in Sri Lanka. Cheques or Bank Drafts should be payable to “**HATTON NATIONAL BANK PLC – DEBENTURE ISSUE 2016**” crossed “Account Payee Only” and must be honoured on the first presentation.
 - ❖ Payments for Application values above and inclusive of Sri Lanka Rupees One Hundred Million (LKR 100,000,000/-) should be supported by either
 - ✓ Bank guarantee issued by a licensed commercial bank; or
 - ✓ Multiple bank drafts/cheques drawn upon any licensed commercial bank operating in Sri Lanka, each of which should be for a value less than LKR 100,000,000/-.
 - ✓ RTGS transfer with value on the date of the Issue Opening Date.
 - ❖ Multiple cheques or RTGS will not be accepted for Application values **below** LKR 100 Mn.
 - ❖ Payment for the Debentures by **Non-Residents** should be made only out of the monies available to the credit of a “**Securities Investment Account**” (SIA) maintained with any licensed commercial bank in Sri Lanka in accordance with the directions given by the Controller of Exchange in that regard to licensed commercial banks.

An endorsement by way of a letter by the licensed commercial bank in Sri Lanka in which the applicant maintains the SIA, should be attached to the Application Form to the effect that such payment through bank draft/bank guarantee/RTGS/ internal fund transfers within Hatton National Bank PLC has been made out of the funds available in the SIA.

Long Term Instruments and their corresponding interest rates

Treasury Bond			
Date	Rate	AER	Maturity
03 rd Oct 16	10.61%	10.89%	4 Years
1 st Sep 16	11.76%	12.11%	5 Years
03 rd Oct 16	10.96%	11.26%	8 Years
03 rd Oct 16	11.06%	11.37%	10 Years

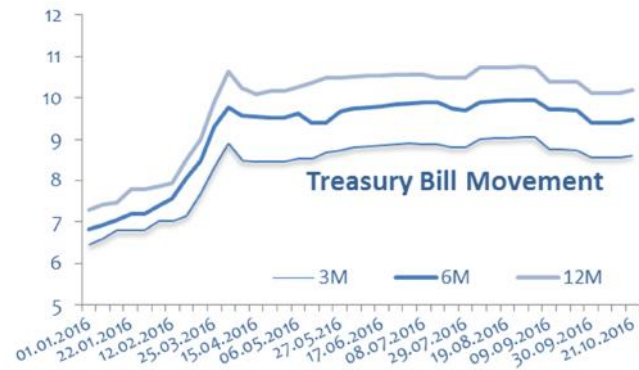
5 Year Fixd Deposit Rates (~ AER)		
BANK	Rate	With effect from
NDB	11.35%	20 th Oct 2016
Sampath	8.45%	11 th Oct 2016
COMB	10.50%	13 th Oct 2016
DFCC	11.00%	26 th Sep 2016

Central Bank's Policy Rates	
Description	Rate (PA)
Standing Deposit Facility (SDF)	7.00 %.
Standing Lending Facility (SLF)	8.50 %.
Bank Rate	15.00 %.
Statutory Reserve Ratio (SRR)	7.50 %.

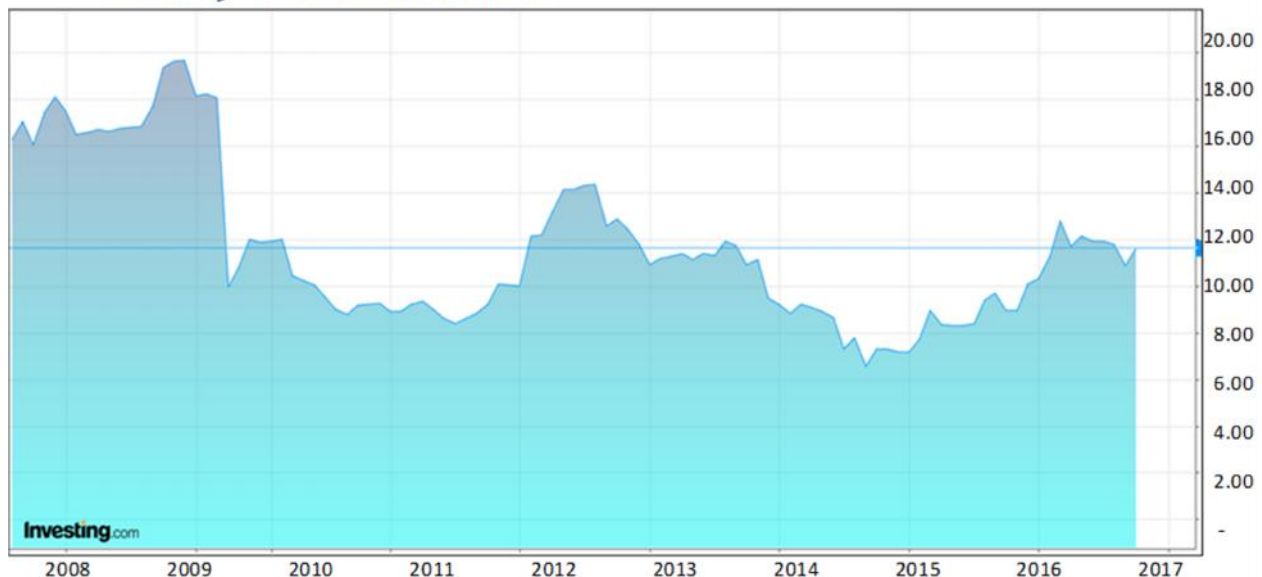
Recent Debenture Issues		
Company	Issue Rating	Rate
SFIN- 2016 Mar	BBB (Fitch)	12.00% (4Y)
CDB-2016 May	BBB (ICRA)	12.75% (5Y)
SAMP - 2016 Jun	A+ (Fitch)	12.75% (5Y)
SEYB- 2016 Jul	BBB+(Fitch)	13.00% (5Y)
SEYB- 2016 Jul	BBB+(Fitch)	13.75% (7Y)

Treasury Bill Rates (182 Days)	
Date	Rate (PA)
19 th Oct 2016	9.46
28 th Sep 2016	9.39
21 st Sep 2016	9.69

Proposed Issues		
COMB -2016 Oct	AA- (Fitch)	12.00% (5Y)
COMB -2016 Oct	AA- (Fitch)	12.25% (10Y)



Sri Lanka 5-Year Bond Yield Overview



Financial Information of the Group

OPERATING RESULTS	2011	2012	2013	2014	2015
Year Ended 31st December	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn
Gross Income	37,066	51,539	61,006	59,500	61,153
Profit Before Taxation	8,388	9,876	10,008	12,064	15,050
Taxation	2,123	2,342	2,998	3,059	4,601
Profit After Taxation	6,265	7,534	7,010	9,005	10,449
Other Comprehensive Income, Net of Income Tax	-3,296	2,749	436	3,482	-1,207
Total Comprehensive Income	2,969	10,283	7,446	12,487	9,242
Deposits	291,357	341,424	387,158	419,327	527,126
Borrowings and Debentures	31,917	36,771	56,873	63,879	101,620
Loans & Receivables (Net)	257,198	302,761	351,965	396,277	498,342
Total Assets	380,484	446,358	510,310	572,851	725,208

Performance Indicators		2011	2012	2013	2014	2015
Return on Average Assets	%	1.80	1.80	1.50	1.70	1.60
Return On Average Equity	%	18.00	18.00	14.00	16.00	17.00
Income Growth	%	6.00	39.00	18.00	(2.00)	3.00
Dividend Cover	Times	2.10	2.20	2.10	2.60	3.00
Property, Plant and Equipments to Shareholder's Funds	%	21.00	20.00	19.00	15.00	18.00
Total Assets to Shareholder's Funds	Times	10.00	10.00	10.00	9.00	11.00
Total Deposit Liabilities to Capital (Equity)	Times	7.67	7.28	7.52	6.89	8.10
Capital Funds to Liabilities (Including Contingent Liabilities)	%	11%	12%	11%	12%	10%
Liquid Assets to Liabilities	%	22%	22%	23%	23%	24%

Analysis for Investment

The Type A debentures of Hatton National Bank PLC will generate an Annual Equivalent Rate of 11.75 % and is for tenure of Five Years. The Type B debentures of Hatton National Bank PLC will generate an Annual Equivalent Rate of 13.00 % which is having a maturity of Seven Years.

The AER for 5-year period fixed deposits with interest paid annually of four selected leading high credit worthy banks in Sri Lanka (such as NDB, Sampath, COMB, and DFCC) range between 8.45% to 11.35%. The 5-year Treasury bond will yield an AER of 12.11% and the 10-year Treasury bond will yield an AER of 11.37% .

In terms of risk levels, Treasury Bonds and Bills are the least risky in comparison to Commercial Banks as they are government gilt edged securities. The selected Commercial Banks are rated high by the various credit rating agencies and thus have a low risk level.

Hatton National Bank PLC debentures are Listed Unsecured Subordinated Redeemable Debentures. Rated “A+ (Ika)” by Fitch Ratings Lanka Limited and are redeemable at the time of maturity. Listed Debentures are tradable on the secondary market but are fairly illiquid in the present context.

The decision to invest is based on the expected risk-return profile of the investor.

Contact Information

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