



COMMERCIAL CREDIT & FINANCE PLC [COCR.N0000]

MAINTAIN BUY

"EARNINGS STAY ON COURSE AS CREDIT GROWTH NORMALISES"

Fair Value: FY27E - LKR 185.0 [+47%]

FY28E - LKR 210.0 [+67%]

Total Return with DPS: FY27E - 55% [AER 75%]

FY28E - 76% [AER 37%]

COCR's performance this quarter reflected a mixed outlook, as earnings dipped marginally by 8.9%YoY to LKR 3.6Bn, mainly brought on by a 47.5%YoY contraction in Net Interest Income (NII) to LKR 3.5Bn (vs. LKR 6.7Bn in 4QFY25) amid continued margin normalisation. Nonetheless, the company delivered a resilient performance in FY26, with PAT increasing 59.0%YoY to LKR 9.8Bn, supported by a substantial improvement in credit quality and strong associate contributions. While NII rose 9.0%YoY in FY26, to LKR 19.5Bn, reflecting lower market interest rates and a shift in the asset mix, net fee and commission income grew 4.9%YoY to LKR 2.8Bn, supported by healthy business volumes. Consequently, Total Operating Income grew 7.6%YoY to LKR 23.8Bn in FY26. Encouragingly, impairment charges contracted 371.3%YoY to a reversal of LKR 4.5Bn, reflecting stronger recoveries and improving asset quality, while share of associate profits increased 148.0%YoY to LKR 799.8Mn, helping offset softer core spreads. As a result, PBIT increased 58.2%YoY to LKR 15.2Bn, underpinning the strong earnings growth achieved during the year. In terms of balance sheet expansion, loans and advances (excluding leases) grew 47.1%YoY to LKR 32.6Bn, while the lease rentals and stock on hire portfolio expanded 38.9%YoY to LKR 66.3Mn, reflecting sustained demand following the reopening of vehicle imports and strong growth in vehicle registrations. While FY26 credit growth exceeded FCR's expectations, recent LTV revisions and higher vehicle related taxes are expected to moderate industry wide vehicle financing growth from FY27E onwards. Accordingly, FCR's target prices for FY27E and FY28E stand at LKR 185.0 and LKR 210.0, respectively, implying total returns of 55.2% and 76.1% (AER: 74.6% and 37.1%) including DPS from the current price of LKR 125.5, supported by improving asset quality, resilient credit growth, and a favourable medium term operating environment – **MAINTAIN BUY**.

LKR (Mn)	4QFY25	4QFY26	YoY	FY25	FY26	YoY
Earnings (LKR 'Mn)						
Net interest income	6,697	3,515	-48%	17,884	19,501	+9%
Total operating income	8,465	5,152	-39%	22,165	23,845	+8%
Net operating income	9,868	8,786	-11%	20,513	28,327	+38%
PBT	6,038	5,601	-7%	9,622	15,217	+58%
Net Profit	3,959	3,606	-9%	6,147	9,776	+59%
Balance Sheet (LKR 'Mn)						
Shareholders' Equity	28,502	36,110	+27%	28,502	36,110	+27%
Loans and Advances (inclusive of Leases)	69,885	98,889	+42%	69,885	98,889	+42%
NAVPS	89.6	113.5	+27%	89.6	113.5	+27%

PAT declines 8.9%YoY in 4QFY26, while FY26 earnings remain resilient

Despite a significant improvement in credit quality, PBT declined 7.2%YoY to LKR 5.6Bn, primarily due to the normalisation in NII and lower fair value gains compared to the elevated earnings environment witnessed in FY25. Consequently, 4QFY26 PAT declined 8.9%YoY to LKR 3.6Bn (4QFY25: LKR 4.0Bn). Looking ahead, FCR expects credit growth to moderate from FY26's elevated levels as pent-up vehicle demand normalises, while tighter LTV regulations, higher vehicle-related surcharges, and LKR depreciation are likely to weigh on vehicle financing demand. However, COCR's diversified lending portfolio, improving asset quality, and strong recovery momentum should continue to support earnings resilience. FCR expects NIMs to expand by 155bps to 20.6% in FY27E and a further 49bps to 21.1% in FY28E, supported by the repricing of leasing yields and a stabilising funding base amid an upward adjustment in interest rates. Accordingly, improved spreads and stronger recoveries are expected to support NII growth and profitability despite a more moderate credit growth environment.

Vehicle-led credit growth remains robust but moderation expected post-FY26

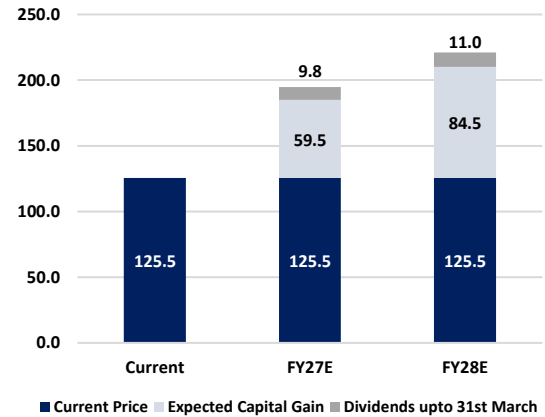
Balance sheet growth remained robust during FY26, with the loan book (excluding leases) expanding 47.1%YoY to LKR 32.6Bn, while the lease rentals portfolio grew 38.9%YoY to LKR 66.3Bn, driven by strong vehicle financing demand following the reopening of vehicle imports and the sharp recovery in vehicle registrations. The expansion was supported by healthy leasing activity across passenger, commercial, and SME-linked transport segments, as vehicle registrations continued to exhibit improvement. While growth significantly exceeded FCR's expectations during FY26, credit expansion is expected to moderate towards the 12.0%-14.0% range in FY27E as pent-up demand normalises and tighter CBSL LTV regulations increase upfront funding requirements for borrowers. Nevertheless, COCR's diversified lending portfolio and improving operating environment should continue to support healthy growth relative to the broader sector.

Impairment reversals drive earnings resilience amid margin and funding pressures

Operating expenses remained broadly in line on a YoY basis; however, coupled with weaker-than-expected NII, profitability in 4QFY26 was largely supported by a sharp improvement in asset quality and stronger recovery-driven impairment reversals. Impairment reversals surged 159.1%YoY to LKR 3.6Bn in 4QFY26. Meanwhile, COCR continued to face funding-side pressures, with the deposit base declining 0.8%YoY to LKR 55.2Bn, marking the fourth consecutive quarterly decline during FY26. This signals intensifying competition for deposits across the banking and NBFI sectors and a gradual shift towards alternative funding sources to support continued balance sheet growth. Nevertheless, the sharp improvement in credit quality and recovery offset these headwinds, underpinning the company's strong profitability performance during the year.

FV target for FY27E revised to LKR 185.0 and FY28E target introduced at LKR 210.0; MAINTAIN BUY

While COCR's FY26 performance was broadly in line with expectations, FCR expects credit growth to moderate from 2HFY27E onwards as tighter LTV regulations, higher vehicle-related surcharges, and LKR depreciation weigh on vehicle financing demand and loan affordability. Consequently, FCR has revised its earnings forecasts to reflect a more measured growth trajectory, although profitability is expected to remain supported by improving asset quality, strong recovery trends, and a diversified lending portfolio. Accordingly, FCR anticipates COCR's earnings to stand at LKR 10.4Bn in FY27E and LKR 11.7Bn in FY28E, resulting in ROEs of 27.2% and 26.2%, respectively. Consequently, the target prices for FY27E and FY28E stand at LKR 185.0 and LKR 210.0, respectively, implying total returns of 55.2% and 76.1% (AER: 74.6% and 37.1%) including DPS from the current price of LKR 125.5, supported by improving asset quality, resilient credit growth, and a favourable medium-term operating environment; **MAINTAIN BUY**.



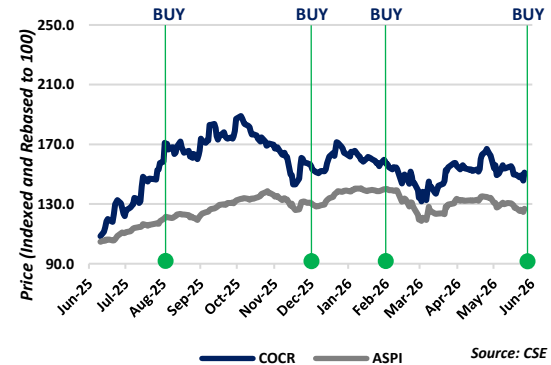
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Price Movement of COCR vs ASPI (Indexed and Rebased to 100)



Minimum Return for BUY:

Buy Below FY28E - [AER of 18.0% with DPS]: LKR 164.3
COCR.N categorized as 'Grade B' counter

Disclosure on Shareholding:

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

Key risks associated with our recommendation

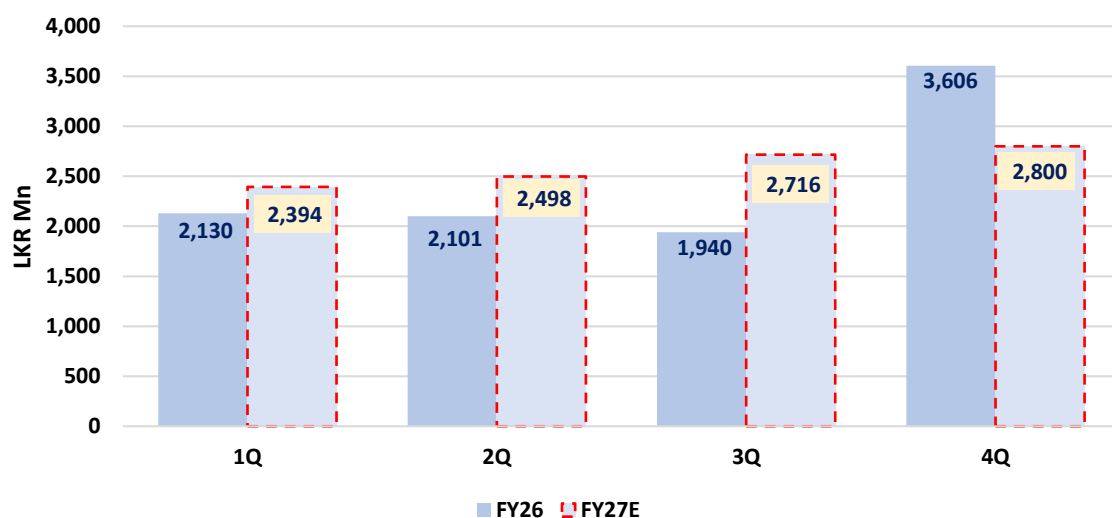
Downside risks

- Interest and exchange rate risk
- Regulatory risk
- Lower LTV ratio may dampen the loan growth
- Greater than anticipated slowdown in vehicle imports
- Increased deposit side and funding pressures

Upside risks

- Greater than anticipated demand for vehicles
- Increase in gold prices due to global economic uncertainty
- Further easing of CBSL's monetary policy stance

Quarterly Earnings



Estimate Revision

In LKR Mn	FY27E - O	FY27E - R	% Change	FY28E - O	FY28E - R	% Change
Earnings Estimate						
Net Interest Income	28,406	25,036	-11.9%	33,050	28,814	-12.8%
Total Operating Income	35,765	29,854	-16.5%	41,327	33,985	-17.8%
Pre Income Tax Profit	15,377	14,457	-6.0%	19,093	16,166	-15.3%
Net Profit	10,903	10,407	-4.5%	13,922	11,661	-16.2%
Adjusted EPS	34.3	32.7	-4.6%	43.8	36.7	-16.3%
<i>Growth YoY</i>						
Balance Sheet Estimate						
Loans and Advances	121,667	114,302	-6.1%	132,919	127,967	-3.7%
Equity attributable to equity holders	41,572	40,363	-2.9%	51,317	48,526	-5.4%
Adjusted NAVPS	133.1	126.9		161.3	152.6	
Ratio Estimate						
ROE (%)	26.3%	27.2%		30.0%	26.2%	
PER (x)	3.7x	3.8x		2.9x	3.4x	

Valuation Table

P/E 31 March	FY23	FY24	FY25	FY26	FY27E	FY28E	FY29E
Estimates (LKR'Mn)							
Net Interest Income	11,107	14,898	17,884	19,501	25,036	28,814	33,430
Other Revenue	2,968	2,572	2,645	2,775	3,086	3,199	3,387
Total Operating Income	15,049	18,824	22,165	23,845	29,854	33,985	39,075
Net Profit	2,616	3,641	6,147	9,776	10,407	11,661	13,925
Adjusted EPS (LKR)	8.2	11.4	19.3	30.7	32.7	36.7	43.8
YoY Growth %	-42%	39%	69%	59%	6%	12%	19%
Valuations							
PER (X)	15.3	11.0	6.5	4.1	3.8	3.4	2.9
PBV (X)	2.0	1.7	1.4	1.1	1.0	0.8	0.7
Dividend Yield (%)	1.6%	0.8%	3.2%	7.2%	7.8%	8.8%	10.5%
NAVPS	64.1	72.9	89.6	113.5	126.9	152.6	183.2
DPS (LKR)	2.0	1.0	4.0	9.0	9.8	11.0	13.1
Dividend Payout (%)	24%	9%	21%	29%	30%	30%	30%

Ratio Analysis

		FY23	FY24	FY25	FY26	FY27E	FY28E	FY29E
Growth	Asset	9.1%	3.7%	4.1%	19.9%	12.3%	12.0%	10.4%
	Deposit	23.2%	4.9%	-10.4%	-0.8%	3.6%	13.0%	21.9%
	Loan	10.7%	13.2%	-6.9%	47.1%	22.1%	12.0%	13.3%
Profitability	Return on Average Equity	13.2%	16.7%	23.8%	30.3%	27.2%	26.2%	26.1%
	Return on Average Assets	2.7%	3.5%	5.7%	8.1%	7.4%	7.4%	8.0%
	Net Interest Spread	10.4%	11.7%	18.4%	18.9%	19.5%	18.9%	19.3%
	Net Interest Margin	13.1%	16.6%	19.7%	19.1%	20.6%	21.1%	22.1%
Funding & liquidity	Loan / Deposits	128.6%	128.1%	125.5%	179.1%	199.8%	197.9%	179.1%
	Loan / Total Assets	74.5%	75.1%	63.4%	74.8%	77.0%	76.9%	76.8%
	Deposit / Liabilities	72.4%	75.1%	68.1%	57.5%	52.9%	54.9%	62.9%

Valuation Summary

Expected COCR price	FY27E	FY28E
Justified PBV based target price	185.1	213.6
Residual Income based target price	173.1	188.7
PER based target price	196.3	220.0
Average Target Price	184.8	207.4
Average Target Price after Rounding off	185.0	210.0

Return	FY27E	FY28E
Target Price	185.0	210.0
Current Price	125.5	125.5
Capital Gain (LKR)	59.5	84.5
Dividend (LKR)	9.8	11.0
Capital Gain %	47.4%	67.3%
Dividend Yield %	7.8%	8.8%
Total Return %	55.2%	76.1%
Annualized Return %	74.6%	37.1%

Residual Income Valuation

Residual Income Valuation	FY27E	FY28E
PV of Residual Income (LKR Mn)	18,939	19,666
No of Shares (Mn)	318	318
RI per share	59.5	61.8
Opening book value per share	113.5	126.9
Value per Share	173.1	188.7

COE	FY27E	FY28E
Rf	10%	10%
Rm	18%	18%
Growth %	3%	3%
β	1.2	1.2
$K_e = R_f + \beta(R_m - R_f)$	20%	20%

Justified PBV based Valuation

Justified PBV based Valuation	FY27E	FY28E
ROAE	27.2%	26.2%
Growth	3.0%	3.0%
COE	20%	20%
PBV	1.5	1.4
NAVPS	126.9	152.6
Target Price	185.1	213.6

PER based Valuation

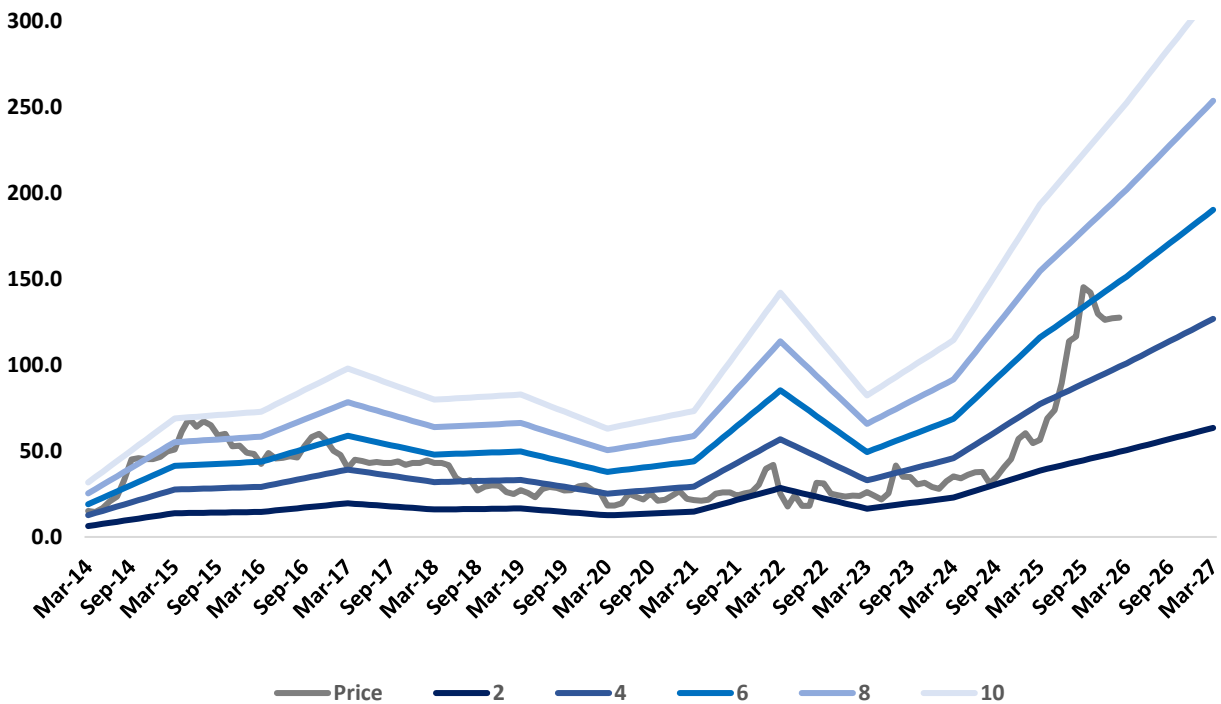
PER based Valuation	FY27E	FY28E
Earnings (LKR 'Mn)	10,407	11,661
No. of Shares ('Mn)	318	318
EPS	32.7	36.7
Forward PER	6.0x	6.0x
Price at 6.0x Earnings	196.3	220.0

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%

Categorization	Company Category	Buy	Hold	Sell
Grade A	S&P SL20 Companies	15.00%	11.00%	11.00%
Grade B	Rest of the Companies	18.00%	13.00%	13.00%
Grade C	Companies less than LKR 1Bn Market Cap	21.00%	16.00%	16.00%

PER Chart



Appendix I: Statement of Income and Expenses

Income Statement (LKR Mn)	FY23	FY24	FY25	FY26	FY27E	FY28E	FY29E
Interest income	25,055	29,329	27,338	27,578	34,865	40,976	46,558
Interest expense	13,948	14,431	9,454	8,077	9,829	12,162	13,128
Net interest income	11,107	14,898	17,884	19,501	25,036	28,814	33,430
Net fee and commission income	2,968	2,572	2,645	2,775	3,086	3,199	3,387
Net income from Real estate sales	2	-	-	1	-	-	-
Net gain/(loss) from trading	28	(3)	(25)	16	18	21	26
Other operating income	907	981	930	1,131	1,252	1,441	1,672
Change in fair value of Investment property	38	376	731	421	463	509	560
Total operating income	15,049	18,824	22,165	23,845	29,854	33,985	39,075
Impairment charge/ (reversal) for loans and other losses	(3,423)	(4,235)	(1,652)	4,482	(1,990)	(3,293)	(3,956)
Net operating income	11,628	14,581	20,513	28,327	27,864	30,692	35,119
Less: Operating Expenses							
Personnel costs	3,569	2,874	3,410	4,912	5,432	6,034	6,727
Depreciation of Property, Plant and Equipment	321	509	571	584	671	805	967
Other operating expenses	2,673	3,984	4,708	4,619	4,921	5,122	5,154
Total operating expenses	6,563	7,367	8,689	10,115	11,025	11,961	12,848
Operating profit before value added tax	5,066	7,214	11,824	18,212	16,839	18,730	22,271
Value Added Tax (VAT) on financial services	(1,143)	(1,456)	(2,217)	(3,331)	(3,341)	(3,715)	(4,350)
Operating profit after value added tax	3,845	5,555	9,300	14,418	13,498	15,016	17,921
Income tax expense	(1,270)	(2,098)	(3,475)	(5,441)	(4,049)	(4,505)	(5,376)
Profit for the year	2,616	3,641	6,147	9,776	10,407	11,661	13,925
EPS	8.2	11.4	19.3	30.7	32.7	36.7	43.8

Appendix II: Statement of Financial Position

Balance Sheet (LKR Mn)	FY23	FY24	FY25	FY26	FY27E	FY28E	FY29E
Assets							
Cash and Bank balances	2,455	2,163	4,732	3,062	2,498	3,843	4,157
Placement with banks	2,667	3,790	4,707	2,695	2,918	3,686	4,414
Financial instruments - Held for trading	8,437	6,883	6,741	4,666	5,150	6,143	7,645
Loans and Advances	21,028	23,797	22,164	32,611	39,806	44,583	50,502
Lease rentals receivable & Stock out on hire	55,142	55,791	47,721	66,279	74,496	83,384	90,635
Debt and other instruments	-	588	9,381	7,336	6,602	5,942	5,348
Financial assets at fair value through OCI	3	57	138	183	183	183	183
Other financial assets	203	171	232	391	391	391	391
Other assets	2,170	2,221	2,198	2,607	3,079	3,263	3,582
Investment property	1,220	2,438	4,223	4,598	5,715	6,398	7,057
Property, plant and equipment	6,460	6,797	6,691	7,085	7,642	8,553	9,749
Deferred Tax Asset	1,163	765	752	-	-	-	-
Total Assets	102,193	105,937	110,270	132,166	148,480	166,368	183,662
Liabilities							
Due to banks	16,260	12,607	15,116	29,463	33,660	34,032	25,424
Due to customers	59,244	62,121	55,682	55,216	57,222	64,660	78,816
Debt instruments issued and Other borrowed funds	1,296	1,296	1,296	1,501	1,651	1,816	1,997
Unsecured subordinated term loan	-	-	1,500	2,846	2,846	2,846	2,846
Other Liabilities	3,362	4,356	4,439	1,882	7,324	8,025	8,585
Post employment benefit obligations	366	496	709	955	380	422	471
Tax Liabilities	1,290	1,865	3,026	4,194	5,033	6,040	7,248
Total liabilities	81,817	82,741	81,768	96,057	108,115	117,840	125,387
Shareholders' Funds							
Stated capital	2,151	2,151	2,151	2,151	2,151	2,151	2,151
Retained earnings	13,671	11,357	20,778	28,385	30,870	36,700	43,663
Reserves	4,554	9,689	5,574	5,574	7,344	9,676	12,461
Total Shareholders' Funds	20,376	23,197	28,502	36,110	40,364	48,527	58,275
Total Liabilities and Shareholders' Funds	102,193	105,937	110,270	132,166	148,480	166,368	183,662
NAVPS	64.1	72.9	89.6	113.5	126.9	152.6	183.2



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