



# CITIZENS DEVELOPMENT BUSINESS FINANCE PLC [CDB.N0000]

**MAINTAIN BUY**

## NAVIGATING THROUGH STORMY WATERS

**Fair Value: FY19E - LKR 120.0 [+50%]**

Total Return with DPS 56% [AER 120%]

*CDB earnings grew 168%YoY to LKR 339Mn in 1QFY19 with a boost in interest income and fee based income supported with 43%YoY growth in loan register. Despite increasing pressure of impairment charges due to IFRS/SLFRS 9 implementation, we expect earnings to grow +20%YoY in FY19E and thereby maintain TP at LKR 120.0 **Maintain BUY***

LKR (Mn)	1QFY18	1QFY19	YoY	FY17	FY18	YoY
<b>Earnings (LKR 'Mn)</b>						
Gross Income	2,449	3,701	+51%	8,703	12,050	+38%
Net Interest Income	749	1,199	+60%	2,978	3,615	+21%
Operating Income	1,041	1,578	+52%	3,995	5,345	+34%
Pre Tax Profit	193	427	+121%	1,260	1,764	+40%
Net Profit-Equity Holders	126	337	+168%	1,023	1,449	+42%
<b>Balance Sheet (LKR 'Mn)</b>						
Loans & Advances	45,838	65,355	+43%	43,605	60,585	+39%
Shareholders' Equity	6,495	7,556	+16%	6,282	7,224	+15%
NAVPS	119.6	139.2		115.7	133.0	

### Earnings improved despite the pressure of increasing impairments

With a gross income growth of 51%YoY recording LKR 3.7Bn in 1QFY19, profits boosted by 168%YoY to LKR 339Mn against LKR 126Mn in 1QFY18. CDB's impairment charges has increased by 99%YoY to LKR 214Mn from LKR 107Mn recorded in the same quarter previous year, as it being the first finance company to implement SLFRS 9 among its peers. Cost to income ratio has decreased from 66% in 1QFY18 to 54% in 1QFY19 due to the topline advance further supporting the earnings growth of the company.

### Margins expanded with interest income advance

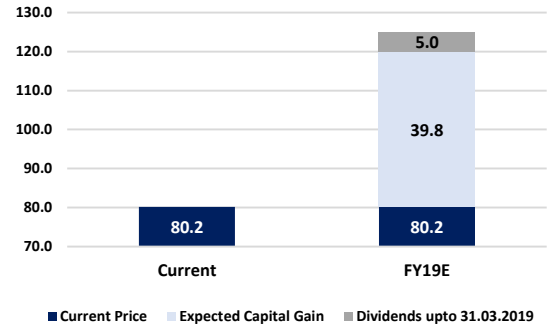
CDB's NIMs has increased from 6.61% in 1QFY18 to 8.16% during 1QFY19 backed by net interest income growth of 60%YoY to LKR 1.2Bn from LKR 0.8Bn in 1QFY18. Growth was mainly contributed by 51%YoY increase in interest income from lease and hire purchase, recorded as LKR 2.3Bn in 1QFY19 compared to LKR 1.5Bn recorded in 1QFY18 and 74%YoY increase interest income with re-pricing of loans & advances which was LKR 846Mn in the last quarter compared to LKR 486Mn a year ago.

### Steady loan growth through digital marketing strategies

Loan book has increased by 43%YoY to LKR 65.4Bn in 1QFY19 from LKR 45.8Bn recorded at 1QFY18 primarily supported by growth in leases and loans & advance balances. Through digital platforms such as patpat.lk which facilitates for vehicle market, leasing businesses are channelled into CDB allowing to maintain low cost marketing strategies by fintech platforms. However the NPLs has increased to 4.60% in 1QFY19 moving above 3.07% recorded for FY18 and 3.74% in 1QFY18 due to lease defaults driven by low disposable income of consumers.

### TP maintain at LKR 120.0 – Maintain Buy

We increase our profit target for FY19E to LKR 1.7Bn with a growth of 20%YoY leading the fair value to LKR 143.0 for FY19E and LKR 172.0 for FY20E. However with the pressure from industry risk factors such as NPLs and impairments, we maintain our target price for FY19E at LKR 120.0 with an annualized return of 120%. **MAINTAIN BUY**



### FIRST CAPITAL RESEARCH

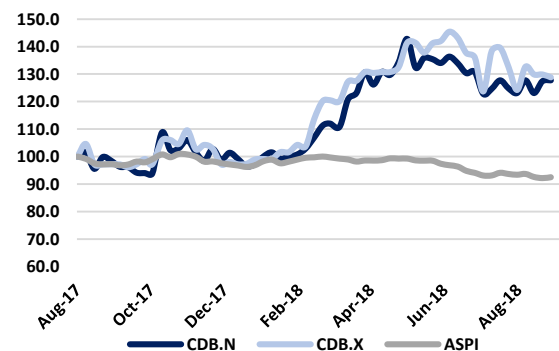
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KEY DATA	Voting	Non-Voting
CSE Ticker	CDB.N0000	CDB.X0000
Bloomberg Ticker	CDB SL	CDBX SL
Share Price (LKR)	80.20	73.00
52w High (LKR)	92.80	82.30
52w Low (LKR)	60.20	54.20
Avg. Daily Volume (Shares)	27,279	4,407
Avg. Daily Turnover (LKR)	1,979,785	294,398
Issued Share Capital (Shares 'Mn)	46.3	8.0
Market Cap (LKR 'Mn)		4,298
Market Cap (USD 'Mn)		27

\*1 USD = LKR 162

Price Performance (%)	1 mth	3 mths	12mths
CDB - Voting	1%	-6%	29%
CDB - Non-Voting	16%	1%	47%
ASPI	0%	-5%	-4%



#### Minimum Return for BUY:

**Buy Below [AER of 17% with DPS]: LKR 106.9**  
 CDB categorized as 'Grade B' counter (Refer page 08 for Recommendation criteria of Grade A, B & C Stocks)

#### Disclosure on Shareholding:

First Capital Group holds 570,247 shares in CDB and will not trade in this share for three trading days following the issue of this document.

## Estimate Revision

In LKR Mn	FY19E - O	FY19E - R	% Change	FY20E - O	FY20E - R	% Change
<b>Earnings Estimate</b>						
Net Interest Income	4,470	4,730	+6%	5,378	5,571	+4%
Operating Income	6,310	6,955	+10%	7,469	8,097	+8%
Post Impairment Income	5,941	6,028	+1%	6,753	7,499	+11%
Pre Tax Profit	2,017	2,216	+10%	2,230	2,846	+28%
Net Profit - Equity Holders	1,452	1,750	+21%	1,605	2,135	+33%
Adjusted EPS	26.6	32.1		29.4	39.2	
Growth YoY	17%	20%		11%	22%	
<b>Balance Sheet Estimate</b>						
Loans & Advances	73,231	70,194	-4%	86,015	80,473	-6%
Shareholders' Equity	8,381	8,619	+3%	9,660	10,322	+7%
<b>Adjusted NAVPS</b>	<b>154.3</b>	<b>158.7</b>		<b>177.9</b>	<b>190.1</b>	
<b>Ratio Estimate</b>						
<b>ROE (%)</b>	<b>18.5%</b>	<b>22.0%</b>		<b>17.7%</b>	<b>22.5%</b>	
<b>PER (x)</b>	<b>2.5</b>	<b>2.5</b>		<b>2.0</b>	<b>2.0</b>	
<b>PBV (x)</b>	<b>0.5</b>	<b>0.5</b>		<b>0.4</b>	<b>0.4</b>	

## Valuation Table

P/E 31 March	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
<b>Estimates (LKR 'Mn)</b>							
Net Interest Income	2,896	3,111	2,978	3,615	4,730	5,571	6,322
Total Operating Income	452	846	1,017	1,730	2,225	2,526	2,874
<b>Net Profit</b>	<b>709</b>	<b>1,019</b>	<b>1,023</b>	<b>1,449</b>	<b>1,745</b>	<b>2,128</b>	<b>2,280</b>
EPS (LKR)	13.1	18.8	18.8	26.7	32.1	39.2	42.0
YoY Growth (%)	26%	44%	0%	42%	20%	22%	7%
<b>Valuations</b>							
<b>PER (x)</b>	<b>6.1x</b>	<b>4.3x</b>	<b>4.3x</b>	<b>3.0x</b>	<b>2.5x</b>	<b>2.0x</b>	<b>1.9x</b>
<b>PBV (x)</b>	<b>1.0x</b>	<b>0.9x</b>	<b>0.7x</b>	<b>0.6x</b>	<b>0.5x</b>	<b>0.4x</b>	<b>0.4x</b>
<b>DY (%)</b>	<b>0.0%</b>	<b>4.4%</b>	<b>4.4%</b>	<b>6.2%</b>	<b>8.0%</b>	<b>9.8%</b>	<b>10.5%</b>

## Valuation Summary

<b>Expected CDB.N price for FY19E</b>	
Justified PBV based target price	162.2
PER Valuation based target price	160.6
RI Valuation based target price	154.4
<b>Average Target Price</b>	<b>159.1</b>
Liquidity Discount (10%)	-15.9
Target Price after Discount	143.0
<b>Target Price</b>	<b>120.0</b>

<b>Return</b>	
<b>Target Price</b>	<b>120.0</b>
<b>Current Price</b>	<b>80.2</b>
<b>Capital Gain (LKR)</b>	<b>39.8</b>
<b>Dividends upto 31.03.2019 (LKR)</b>	<b>5.0</b>
<b>Capital Gain %</b>	<b>50%</b>
<b>Dividend Yield %</b>	<b>6%</b>
<b>Total Return %</b>	<b>56%</b>
<b>Annualized Return %</b>	<b>120%</b>

### Residual Income Valuation

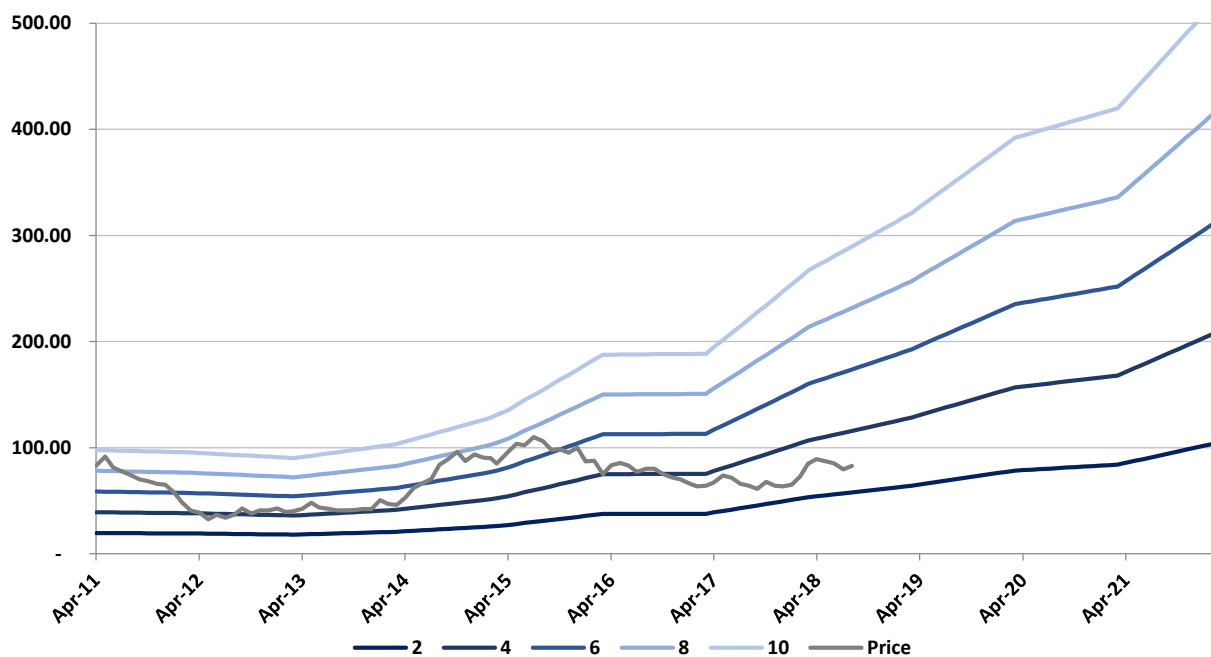
<b>Justified PBV</b>	<b>FY19E</b>
ROAE	22.0%
Growth rate (g)	3.0%
Cost of Equity ( $K_e$ )	21.6%
Justified PBV	1.0
NAVPS	158.7
<b>Fair Value</b>	<b>162.2</b>

### Justified PBV Valuation

<b>RI Valuation</b>	<b>FY19E</b>
PV of Residual Income	1,161
No. of Shares	54.3
RI per share	21.4
Opening book value	133.0
<b>Fair Value</b>	<b>154.4</b>

<b>Cost of Equity (<math>K_e</math>)</b>	
$R_f$	9.5%
$R_m$	17%
$\beta$	1.52
Growth (%)	3%
$K_e = R_f + \beta (R_m - R_f)$	22%

### PER Valuation



Source: First Capital Research Estimates

<b>PER based Valuation</b>	<b>FY19E</b>
FY19E Earnings (LKR 'Mn)	1,745
No. of Shares ('Mn)	54.3
FY19E EPS	32.13
Expected PER	5.0x
<b>Price at 5.0x FY19E Earnings</b>	<b>160.6</b>

## Key Ratios

CDB	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Tier 1 (5%)	12.79%	11.72%	12.32%	10.64%			
Tier 2 (10%)	15.57%	11.74%	14.12%	13.93%			
Return on Average Equity	18%	22%	18%	21%	22%	22%	20%
Return on Average Assets	1.97%	2.29%	1.95%	2.21%	2.11%	2.21%	2.02%
Net Interest Spread	7.80%	6.85%	5.35%	5.53%	6.05%	6.30%	6.30%
Net Interest Margin	9.57%	8.27%	6.66%	6.54%	6.84%	7.02%	6.95%
Non-Core Income / Net Income	14%	21%	25%	32%	32%	31%	31%
Cost / Income	54%	53%	58%	54%	49%	50%	51%
Cost / Average Assets	5%	5%	4%	4%	4%	4%	4%
Asset Growth	13%	33%	7%	41%	16%	17%	17%
Deposit Growth	10%	14%	6%	37%	12%	12%	12%
Borrowings Growth	13%	153%	7%	51%	22%	25%	25%
Lending Growth	15%	31%	13%	39%	16%	15%	15%
Avg. yield on earning assets	19%	16%	16%	18%	18%	18%	18%
Avg. cost of funds	11%	10%	11%	12%	12%	12%	12%
Loan / Deposits	109%	126%	134%	136%	140%	144%	147%
Loan / Total Assets	78%	77%	80%	79%	79%	77%	76%
Deposit / Liabilities	80%	68%	68%	64%	62%	60%	57%
Equity / Assets	11%	10%	12%	9%	10%	10%	10%
Cost / Branch (Rs.'Mn)	30.7	33.9	33.8	40.7	46.6	53.5	61.4
Rev. / Employee (Rs.'Mn)	5.8	6.6	6.0	7.6	9.3	10.5	11.8

Source : Company Annual Reports and First Capital Research Estimates

**Appendix I: Statement of Financial Position**

Balance Sheet (LKR mn) as at 31st March	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
<b>Assets</b>							
Cash and cash equivalents	334	730	507	3,040	3,396	6,731	8,229
Financial instruments held-for-trading	56	122	163	1,519	1,519	1,519	1,519
Loans to & Deposits with Banks	2,245	4,589	2,549	3,868	3,755	4,206	4,711
Loans and Receivables to Customers	29,620	38,754	43,605	60,585	70,194	80,473	92,544
Investments	3,167	3,326	3,657	2,497	3,995	3,866	6,185
Property, plant & equipment	1,426	1,611	1,842	2,043	2,451	2,942	3,530
Other Assets	1,276	1,515	1,910	3,046	3,502	4,203	5,043
<b>Total Assets</b>	<b>38,125</b>	<b>50,646</b>	<b>54,233</b>	<b>76,598</b>	<b>88,813</b>	<b>103,940</b>	<b>121,761</b>
<b>Liabilities</b>							
Deposits	27,079	30,804	32,590	44,705	50,070	56,078	62,808
Borrowings	4,882	12,354	13,193	19,913	24,293	30,367	37,958
Current tax liabilities	117	111	179	445	445	445	445
Other liabilities	<b>1,707</b>	<b>2,272</b>	<b>1,956</b>	<b>4,274</b>	<b>5,343</b>	<b>6,679</b>	<b>8,349</b>
<b>Total Liabilities</b>	<b>33,786</b>	<b>45,540</b>	<b>47,919</b>	<b>69,338</b>	<b>80,152</b>	<b>93,569</b>	<b>109,560</b>
<b>Shareholders Funds</b>							
Stated Capital	1,185	1,185	1,185	1,185	1,185	1,185	1,185
Reserves	1,664	1,804	2,406	1,759	2,108	2,534	2,990
Retained earnings	1,460	2,086	2,691	4,279	5,326	6,603	7,971
<b>Shareholders Funds</b>	<b>4,310</b>	<b>5,075</b>	<b>6,282</b>	<b>7,224</b>	<b>8,619</b>	<b>10,322</b>	<b>12,146</b>
Minority Interest	30	30	33	36	42	48	55
	<b>4,339</b>	<b>5,106</b>	<b>6,315</b>	<b>7,260</b>	<b>8,661</b>	<b>10,370</b>	<b>12,201</b>
<b>Total Liabilities &amp; Shareholders' Funds</b>	<b>38,125</b>	<b>50,646</b>	<b>54,233</b>	<b>76,598</b>	<b>88,813</b>	<b>103,940</b>	<b>121,761</b>
<b>NAVPS</b>	<b>79.4</b>	<b>93.5</b>	<b>115.7</b>	<b>133.0</b>	<b>158.7</b>	<b>190.1</b>	<b>223.7</b>

Source : Company Annual Reports and First Capital Research Estimates

## Appendix II: Statement of Income and Expenses

Profit & Loss Statement (LKR Mn)	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
<b>P/E 31st March</b>							
<b>Gross Income</b>	<b>6,737</b>	<b>7,549</b>	<b>8,703</b>	<b>12,050</b>	<b>15,120</b>	<b>17,344</b>	<b>19,961</b>
Interest Income	6,285	6,703	7,686	10,320	12,896	14,817	17,087
Interest Expenses	-3,389	-3,591	-4,708	-6,705	-8,165	-9,246	-10,765
<b>Net Interest Income</b>	<b>2,896</b>	<b>3,111</b>	<b>2,978</b>	<b>3,615</b>	<b>4,730</b>	<b>5,571</b>	<b>6,322</b>
Fee & Other Income	452	846	1,017	1,730	2,225	2,526	2,874
<b>Total Operating Income</b>	<b>3,348</b>	<b>3,958</b>	<b>3,995</b>	<b>5,345</b>	<b>6,955</b>	<b>8,097</b>	<b>9,196</b>
Impairment (Charges)/ Reversal	-475	-405	-232	-396	-928	-598	-438
<b>Net Operating Income</b>	<b>2,873</b>	<b>3,553</b>	<b>3,763</b>	<b>4,949</b>	<b>6,028</b>	<b>7,499</b>	<b>8,758</b>
Less : Operating expenses							
Staff Cost	-603	-754	-902	-1,084	-1,271	-1,452	-1,659
Depreciation of PPE	-901	-992	-1,113	-1,359	-1,593	-1,912	-2,294
Other Operating Expenses	-306	-356	-316	-449	-539	-646	-775
	<b>-1,810</b>	<b>-2,102</b>	<b>-2,331</b>	<b>-2,891</b>	<b>-3,403</b>	<b>-4,010</b>	<b>-4,729</b>
<b>Profit from operations</b>	<b>1,063</b>	<b>1,451</b>	<b>1,432</b>	<b>2,058</b>	<b>2,625</b>	<b>3,489</b>	<b>4,029</b>
VAT on Financial Services	-95	-173	-173	-293	-409	-642	-853
<b>Profit Before Tax</b>	<b>968</b>	<b>1,278</b>	<b>1,260</b>	<b>1,764</b>	<b>2,216</b>	<b>2,846</b>	<b>3,176</b>
Income Tax Expense	-258	-258	-235	-310	-465	-712	-889
<b>Profit for the Year</b>	<b>710</b>	<b>1,021</b>	<b>1,025</b>	<b>1,454</b>	<b>1,750</b>	<b>2,135</b>	<b>2,287</b>
Minority Interest	-1	-2	-2	-5	-6	-6	-7
<b>Profit attributable to Equity Holders</b>	<b>709</b>	<b>1,019</b>	<b>1,023</b>	<b>1,449</b>	<b>1,745</b>	<b>2,128</b>	<b>2,280</b>
<b>EPS</b>	<b>13.1</b>	<b>18.8</b>	<b>18.8</b>	<b>26.7</b>	<b>32.1</b>	<b>39.2</b>	<b>42.0</b>

Source : Company Annual Reports and First Capital Research Estimates

### Appendix III: Top 20 Shareholders

Top 20 shareholders - (% held) - CDB.N	1QFY19	4QFY18	QoQ	1QFY18	YoY
Ceylinco Life Insurance Limited Account No. 1	33.5%	33.5%	-	33.5%	-
Janashakthi Insurance PLC – Equity Fund	5.1%	5.1%	-	5.2%	0.0%
Janashakthi Insurance PLC (Policyholders)	5.0%	5.0%	-	5.0%	-
Ceylinco General Insurance Limited	4.0%	4.0%	-	4.0%	-
People's Leasing & Finance Plc / Mr.W.P.C.M.Nanayakkara	3.9%	3.9%	-	3.9%	0.1%
Citizens Development Business Finance Plc A/C 02	3.7%	3.7%	-	3.7%	-
People's Leasing & Finance PLC/Asia Management Consultancy	3.5%	3.5%	-	1.6%	1.9%
Ceylinco Life Insurance Limited Account No. 3	2.4%	2.4%	0.1%	1.9%	0.5%
People's Leasing & Finance PLC/Mr.S.V.Munasinghe	2.2%	2.2%	-	2.2%	-
Seylan Bank PLC/ T. M. D. Prasanna Tennakoon	2.0%	2.0%	-	2.0%	-
PLC/ Mr. R.H. & Mrs. V.F. Abeygoonewardena	2.0%	2.0%	-	2.0%	-
First Capital Limited	1.2%	1.2%	-	0.0%	1.2%
Mr. Warnakula Weerasooriya Kingsly Malcom Weerasooriya	1.1%	1.1%	-	1.1%	-
Mr. H. M. L. M. Bandara Heenkenda	1.0%	1.0%	-	1.0%	-
Mr. Elangovan Karthik	0.9%	0.9%	-	0.9%	-
Seylan Bank PLC /Janashakthi PLC	0.9%	0.0%	0.9%	0.0%	0.9%
People's Leasing & Finance PLC/Mrs.N.D.Kodagoda	0.9%	0.9%	-	0.8%	0.1%
Mr.Hasitha Kaushalya Dassanayake	0.6%	0.6%	-	0.6%	-
Mr.Isanka Madhawa Kotigala	0.6%	0.6%	-	0.6%	-
People's Leasing & Finance PLC/Mr.M.N.M.Imdaad	0.5%	0.5%	-	0.5%	-

Top 20 shareholders - (% held) - CDB.X	1QFY19	4QFY18	QoQ	1QFY18	YoY
Deutsche Bank Ag As Trustee For Jb Vantage Value Equity Fund	16.7%	16.7%	-	16.7%	-
J.B. Cocoshell (Pvt) Ltd	14.5%	14.5%	-	13.0%	1.5%
Mr.Amarakoon Mudiyanseelage Weerasinghe	7.7%	7.7%	-	7.7%	-
People's Leasing & Finance Plc/Mr.H.M. Abdulhussein	3.9%	3.9%	-	2.7%	1.2%
Askold (Private) Limited	3.0%	3.0%	-	3.0%	-
Mr.Yusuf Husseinally Abdulhussein	2.7%	2.6%	0.1%	1.9%	0.8%
Mr.Malik Joseph Fernando	2.6%	2.6%	-	2.6%	-
Mr.Husein Nuruddin Esufally	2.6%	2.6%	-	2.6%	-
Miss.Rukaiya Husseinally Abdulhussein	2.3%	2.0%	0.4%	1.6%	0.8%
Essajee Carimjee Insurance Brokers (Pvt) Ltd	2.3%	2.0%	0.2%	1.5%	0.8%
Mr.Murtazaali Abidhussen Hassanaly Esufally	2.0%	2.0%	-	2.0%	-
Mr.Abbasally Nuruddin Esufally	2.0%	2.0%	-	2.0%	-
Mr.Gulzar Hussein Ibrahim Jafferjee (Deceased)	2.0%	2.0%	-	2.0%	-
Mr. Murtaza Ali Jafferjee	1.3%	0.0%	1.3%	0.0%	1.3%
Jafferjees Investments (Pvt) Ltd	1.3%	1.3%	-	1.3%	-
Gold Investment Limited.	1.3%	1.3%	-	1.3%	-
Mr.Mukesh Abhaykumar Valabhji	1.3%	1.3%	-	1.3%	-
Commercial Bank of Ceylon Plc A/C No. 04	1.3%	1.3%	-	1.3%	-
Lakdhanavi Limited	1.3%	1.3%	-	1.3%	-
Seylan Bank PLC/Mr. Duleep Nissanka Daluwatte	1.0%	1.0%	-	0.0%	1.0%

## Appendix V: 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 Jun 2018: 9.46%

Categorization	Company Category	Buy	Hold	Sell
Grade A	S&P SL20 Companies	14.46%	10.46%	10.46%
Grade B	Rest of the Companies	17.46%	12.46%	12.46%
Grade C	Companies less than LKR 1Bn Market Cap	20.46%	15.46%	15.46%





First Capital

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