



SAMPATH BANK PLC [SAMP.N0000]

MAINTAIN BUY

EARNINGS NORMALISE WITH IMPROVING OPERATING METRICS....

Fair Value: 2019E - LKR 180.0 [+6%], 2020E - LKR 225.0 [+33%]

Total Return with DPS: 2019E - 6% [AER 60%], 2020E - 38% [AER 33%]

SAMP recorded flat earnings of LKR 2.6Bn for 3Q2019 (-1%YoY) after recording negative earnings growth for previous four consecutive quarters. Bottom line was supported by improvement in NII (16%YoY) on the back of credit growth of 3.3% during the quarter and lower impairment cost. Earnings for the 3Q2019 was in line with our expectation and thereby we maintain the earnings outlook at LKR 10.1Bn and LKR 13.0Bn for 2019E and 2020E respectively. We maintain SAMP's fair value for 2019E at LKR 180.0 and LKR 225.0 for 2020E with an annualized return of 33%.

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LKR (Mn)	3Q2018	3Q2019	YoY	9M2018	9M2019	YoY
Earnings (LKR 'Mn)						
NII	10,220	11,862	+16%	29,243	33,051	+13%
Total Operating Income	14,593	15,990	+10%	40,906	43,688	+7%
Net Operating Income	10,179	12,564	+23%	31,841	32,363	+2%
Pre Tax Profit	4,068	4,905	+21%	13,167	10,845	-18%
Net Profit	2,615	2,597	-1%	8,819	6,770	-23%
Balance Sheet (LKR 'Mn)						
Loans	658,074	712,182	+8%	658,074	712,182	+8%
Shareholders' Equity	89,769	106,392	+19%	89,769	106,392	+19%
NAVPS	319.6	278.9		319.6	278.9	

Earnings normalise with the pickup in credit growth and lesser delinquencies

SAMP's profit for the quarter was recorded at LKR 2.6Bn (-1%YoY) while the earnings growth was mainly supported by the growth in Net Interest Income on the back of 3.3% credit growth in the quarter and relatively lower impairment charge of LKR 3.4Bn, 22.4% decline compared to 3Q2018, reflecting the recovery in overall economic conditions. Operating profit recorded a growth of 35%YoY to LKR 6.9Bn although DRL dragged down profits by LKR 654.6Mn resulting in a marginal decline (-1%YoY) in bottom line compared to 3Q2018. We maintain our earnings forecast for 2019E at LKR 10.1Bn (-19%YoY) as 3Q2019 results were in line with our expectations.

Asset quality improves with relatively lower impairment in 3Q2019

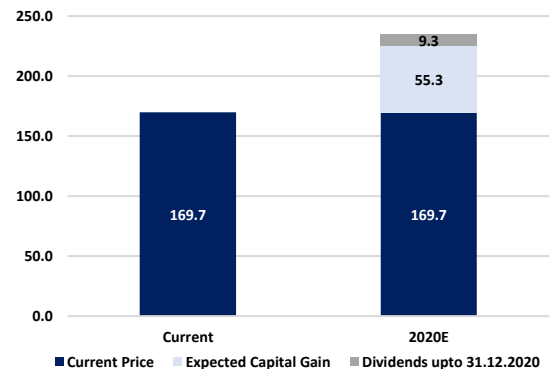
Reversing the trend witnessed in previous quarters, SAMP's impairment for the quarter stood at LKR 3.4Bn recording a decline of 22%YoY and -16%QoQ in line with the gradual recovery in the overall economy post Easter Sunday attacks. We have factored an impairment of LKR 12.3Bn for 2019E and estimate to gradually ease off towards 2020E amounting to LKR 6.7Bn with the expectation of improvement in overall activities in line with the stability that will be created post elections.

Credit growth supported by better capitalization

Despite SAMP's loan book growing only by 1.7% in 1H2019, credit accelerated during 3Q2019 while growing by 3.3% (total disbursements of LKR 23Bn) resulting in 9M2019 credit growth rising to 5%. Quarterly growth in the loan book was mainly led by the term loans, money market loans and leasing. We expect SAMP's comfortable capital buffer (Tier 1 capital ratio of 13.57% and common capital ratio of 17.73% which are remaining well above the minimum regulatory requirement of 10.0% and 14.0%, and the entire banking sector) to help in boosting the credit growth going forward supported by the recovery in economic activities. Accordingly, SAMP's net credit growth is estimated at 7% for 2019E while 2020E credit growth is estimated at 15%YoY.

TP is maintained at LKR 225.0 for 2020E – MAINTAIN BUY

We maintain our earnings target at LKR 10.1Bn (-19%YoY) for 2019E and at LKR 13.0Bn (25%YoY)



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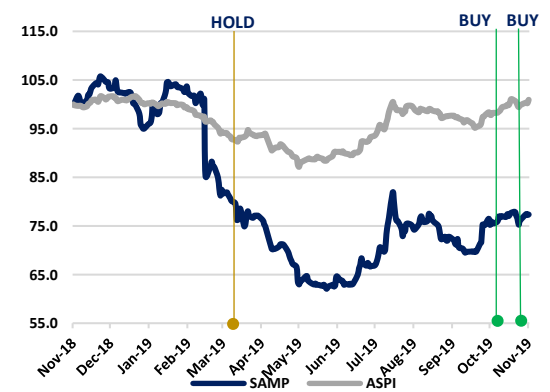
KEY DATA

CSE Ticker	SAMP.N0000
Bloomberg Ticker	SAMP SL
Share Price (LKR)	169.7
52w High (LKR)	232.0
52w Low (LKR)	136.2
Avg. Daily Volume (Shares)	216,468
Avg. Daily Turnover (LKR)	24,097,969
Issued Share Capital (Shares 'Mn)	381.46
Market Cap (LKR 'Mn)	64,733
Market Cap (USD 'Mn)	360

*1 USD = LKR 180

Price Performance (%)	1 mth	3 mths	12mths
SAMP	2%	4%	-23%
ASPI	3%	2%	1%

Price Movement of SAMP vs ASPI and past recommendations



Source: CSE

Minimum Return for BUY:

Buy Below for 2020E [AER of 14% with DPS]: LKR 202.1
SAMP categorized as 'Grade A' counter (Refer page 9 for Recommendation criteria of Grade A, B & C Stocks)

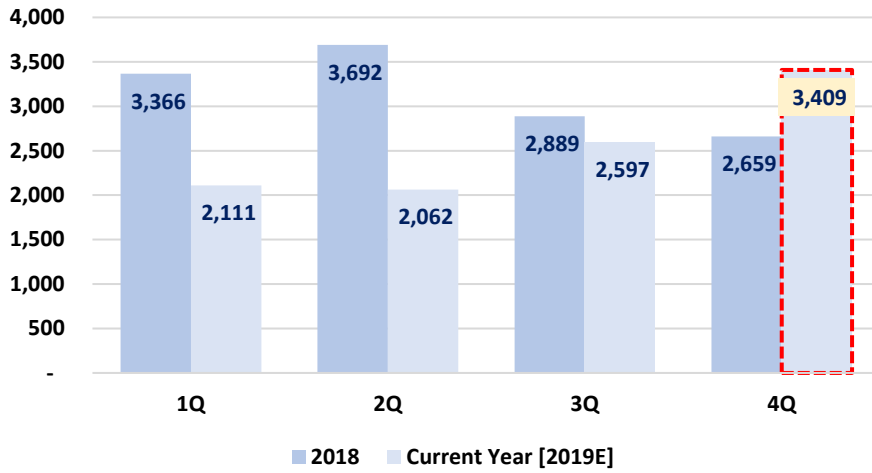
Disclosure on Shareholding:

First Capital Group do not hold shares in SAMP and will not trade in this share for three trading days following the issue of this document.

for 2020E while fair values are estimated at LKR 180.0 for 2019E and LKR 225.0 for 2020E. Since our previous earnings update on 10th October 2019 share price appreciated by 3% and still trades significantly below the current book value of LKR 278.9 with a PBV of 0.6x at the current market price of LKR 169.70. We expect the book value to improve to LKR 299.5 for 2020E.

MAINTAIN BUY

Quarterly Earnings Forecast for 2019E



Estimate Revision

In LKR Mn	2019E - O	2019E - R	% Change	2020E - O	2020E - R	% Change
Earnings Estimate						
Net Interest Income	39,072	43,364	+11%	46,049	45,110	-2%
Total Operating Income	53,351	57,715	+8%	61,182	60,337	-1%
Post Impairment Income	45,364	45,367	+0%	53,654	53,646	-0%
Pre Tax Profit	14,966	14,968	+0%	19,260	19,253	-0%
Net Profit	10,177	10,178	+0%	13,097	13,092	-0%
Adjusted EPS	25.9	26.7		32.5	33.5	
Growth YoY	-19%	-19%		26%	25%	
Balance Sheet Estimate						
Loans & Advances	716,751	726,346	+1%	978,736	926,721	-5%
Shareholders' Equity	107,782	107,784	+0%	117,204	117,201	-0%
Adjusted NAVPS	274.3	282.6		291.0	299.5	
Ratio Estimate						
ROE (%)	10.3%	10.3%		11.6%	11.6%	
PER (x)	6.6	6.4		5.2	5.1	
PBV (x)	0.6	0.6		0.6	0.6	

Valuation Table

P/E 31 December	2015	2016	2017	2018	2019E	2020E	2021E
Estimates (LKR 'Mn)							
Net Interest Income	18,550	23,955	30,297	40,872	43,364	45,110	49,730
Total Operating Income	26,742	33,957	42,473	57,233	57,715	60,337	65,729
Net Profit	6,623	9,496	12,683	12,606	10,178	13,092	16,464
Adjusted EPS (LKR)	17.4	24.9	33.2	33.0	26.7	33.5	41.2
YoY Growth (%)	-7%	43%	34%	-1%	-19%	25%	23%
Valuations							
PER (x)	9.8x	6.8x	5.1x	5.1x	6.4x	5.1x	4.1x
PBV (x)	1.7x	1.3x	0.9x	0.7x	0.6x	0.6x	0.5x
DY (%)	7.7%	11.0%	10.1%	9.6%	5.5%	5.9%	8.5%

Valuation Summary

Expected SAMP price for 2020E		Return	
Justified PBV based target price	208.3	Target Price	225.0
PER Valuation based target price	234.2	Current Price	169.7
RI Valuation based target price	237.7	Capital Gain (LKR)	55.3
Average Target Price	226.7	Dividends upto 31.12.2020 (LKR)	9.3
Target Price after Rounding off	225.0	Capital Gain %	33%
		Dividend Yield %	5%
		Total Return %	38%
		Annualized Return %	33%

Residual Income Valuation

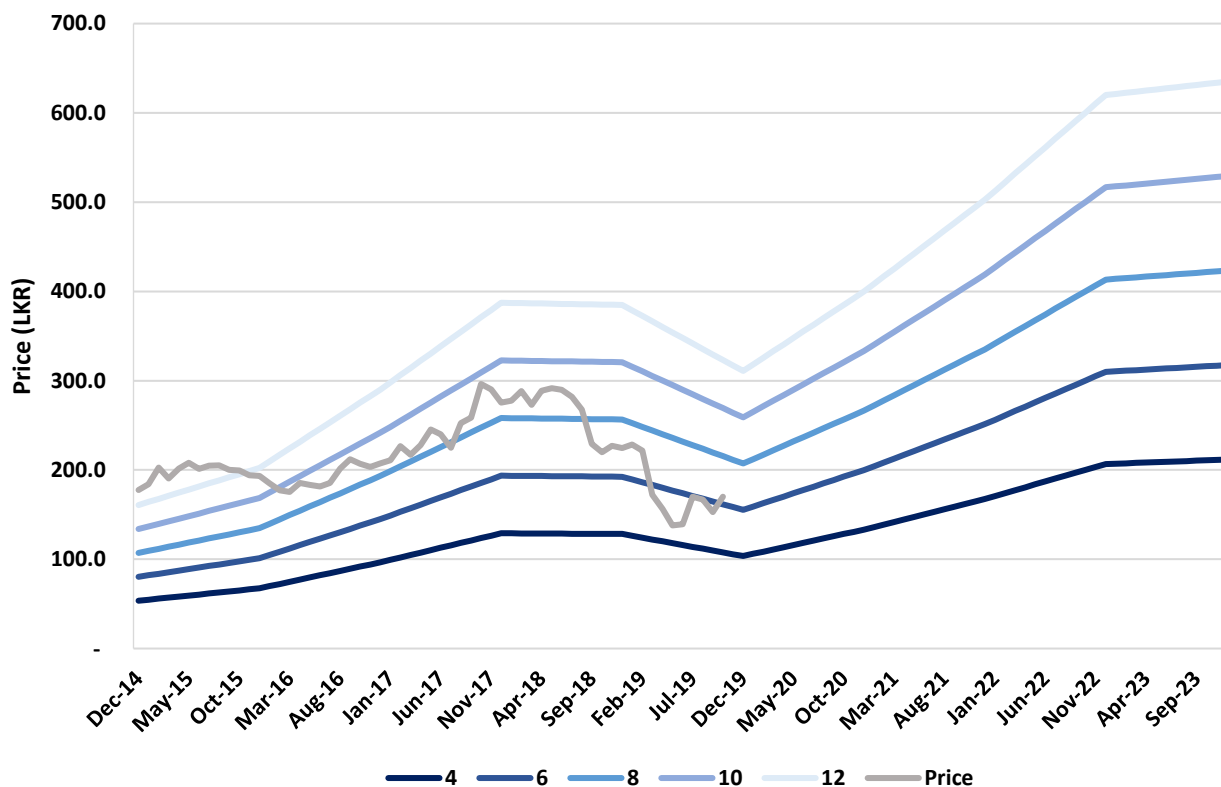
Residual Income based Valuation	
PV of Residual Income	-17,566
No. of Shares ('Mn)	391
RI per Share	-44.9
Opening Book value per Share	282.6
Value per Share	237.7

Justified PBV Valuation

Justified PBV based Valuation	
ROAE	11.6%
Growth	3.0%
COE	15.4%
PBV	0.70
NAVPS	299.5
Target Price	208.3

COE	
Rf	8.4%
Rm	16.4%
Growth %	3.0%
β	0.88
$Ke=Rf+\beta(Rm-Rf)$	15.4%

PER Valuation



Source: CSE, Company Annual Reports, First Capital Research

PER based Valuation	
2020E Earnings (LKR 'Mn)	13,092
No. of Shares ('Mn)	391
2020E EPS	33.5
Expected PER	7.0x
Price at 7.0x 2020E Earnings	234.2

Appendix I: Key Ratios

SAMP P/E 31 December	2015	2016	2017	2018	2019E	2020E	2021E
Capital							
Tier 1 (5%)	7.9%	8.3%	10.3%	12.1%			
Tier 2 (10%)	12.3%	12.9%	14.4%	15.7%			
Equity / Assets							
Earnings							
Return on Average Equity	17.99%	21.38%	21.38%	15.86%	10.29%	11.64%	13.25%
Return on Average Assets	1.35%	1.56%	1.68%	1.42%	1.04%	1.24%	1.40%
Avg. yield on earning assets	8.99%	10.79%	12.45%	13.19%	12.93%	12.70%	12.64%
Avg. cost of funds	4.79%	6.38%	7.95%	8.05%	8.01%	8.00%	8.00%
Net Interest Spread	4.20%	4.41%	4.50%	5.13%	4.92%	4.70%	4.63%
Net Interest Margin	4.20%	4.38%	4.50%	5.19%	5.02%	4.81%	4.73%
Efficiency							
Cost / Income	52%	48%	42%	36%	41%	44%	45%
Cost/ Core Income	35%	28%	21%	20%	21%	22%	22%
Cost / Average Assets	2.8%	2.7%	2.4%	2.3%	2.5%	2.5%	2.5%
Cost / Branch (Rs.'Mn)	62.1	71.0	78.3	90.9	104.3	115.9	129.8
Rev. / Employee (Rs.'Mn)	12.3	17.8	24.3	29.1	30.9	33.1	36.6
Asset Quality							
Asset Growth	22%	26%	22%	15%	6%	10%	14%
Deposit Growth	20%	26%	24%	10%	8%	15%	14%
Borrowings Growth	49%	33%	5%	20%	3%	-17%	14%
Loan Growth	25%	22%	24%	15%	7%	15%	15%
Liquidity							
Loan / Deposits	95%	92%	92%	97%	96%	96%	97%
Loan / (Deposits+ Borrowings)	81%	78%	80%	83%	83%	86%	87%
Loan / Total Assets	72%	70%	71%	71%	73%	75%	77%
Deposit / Liabilities	82%	81%	84%	82%	85%	88%	88%
CASA	47%	38%	35%	33%	38%	38%	38%

Source : Company Annual Reports, First Capital Research Estimates

Appendix II: Statement of Income and Expenses

Income Statement (LKR Mn) P/E 31st December	2015	2016	2017	2018	2019E	2020E	2021E
Gross Income	49,443	70,211	97,100	121,884	127,559	139,093	154,205
Interest Income	39,706	58,976	83,909	103,833	111,663	119,003	132,799
Interest Expenses	21,156	35,021	53,612	62,960	68,299	73,893	83,070
Net Interest Income	18,550	23,955	30,297	40,872	43,364	45,110	49,730
Fee & Other Income	8,192	10,001	12,175	16,361	14,351	15,227	16,000
Total Operating Income	26,742	33,957	42,473	57,233	57,715	60,337	65,729
Impairment (Charges)/ Reversal	-993	-1,535	-2,634	-12,139	-12,348	-6,691	-2,335
Net Operating Income	25,749	32,422	39,839	45,094	45,367	53,646	63,394
Less : Operating expenses							
Staff Cost	6,524	7,835	8,702	9,675	11,068	12,175	13,636
Other Operating Expenses	7,438	8,431	9,318	11,149	12,822	14,360	16,084
	13,962	16,266	18,019	20,824	23,890	26,535	29,719
Profit from operations	11,787	16,156	21,820	24,270	21,477	27,111	33,674
VAT on Financial Services & DRL	1,998	2,943	4,309	5,149	6,509	7,857	9,462
Profit Before Tax	9,790	13,214	17,510	19,121	14,968	19,253	24,212
Income Tax Expense	3,161	3,712	4,828	6,515	4,790	6,161	7,748
Profit for the Year	6,628	9,501	12,683	12,606	10,178	13,092	16,464
Minority Interest	5	5	0	0	0	0	0
Profit attributable to Equity Holders	6,623	9,496	12,683	12,606	10,178	13,092	16,464
EPS	17.4	24.9	33.2	33.0	26.7	33.5	41.2

Source : Company Annual Reports, First Capital Research Estimates

Appendix III: Statement of Financial Position

Balance Sheet (LKR Mn)	2015	2016	2017	2018	2019E	2020E	2021E
As at 31st December							
Assets							
Cash and cash equivalents	13,713	17,222	22,088	19,218	18,095	19,005	18,432
Financial instruments	4,911	73,229	23,917	31,150	30,231	45,128	40,527
Loans to & Deposits with Banks	26,535	42,475	44,325	45,305	50,166	50,221	60,975
Loans and Receivables to Customers	421,297	514,105	637,808	798,648	848,758	926,721	1,058,696
Financial Assets	58,524	14,945	77,108	0	0	0	0
Property, plant & equipment	8,697	10,709	12,631	13,602	9,137	8,126	7,124
Other Assets	4,969	7,414	8,839	39,862	44,789	55,240	69,050
Total Assets	538,647	680,099	826,717	947,785	1,001,178	1,104,442	1,254,804
Liabilities							
Due to other customers	407,164	512,550	634,641	699,661	755,634	868,979	990,636
Due to banks	3,418	6,955	4,820	8,965	5,667	3,476	3,963
Debt issued and other borrowed funds	74,291	94,338	95,593	123,035	115,585	97,990	111,695
Current tax liabilities	5,021	4,386	5,631	9,682	0	0	0
Other liabilities	9,550	12,127	17,123	16,391	16,507	16,795	17,150
Total Liabilities	499,444	630,356	757,808	857,735	893,394	987,241	1,123,444
Shareholders Funds							
Stated Capital	5,381	6,471	16,308	32,796	47,174	49,526	52,984
Reserves	29,103	36,955	44,067	48,773	46,021	44,576	45,399
Retained earnings	4,624	6,315	8,534	8,482	14,589	23,099	32,978
Shareholders Funds	39,109	49,742	68,908	90,051	107,784	117,201	131,360
Minority Interest	95	0	0	0	0	0	0
	39,203	49,742	68,908	90,051	107,784	117,201	131,360
Total Liabilities & Shareholders' Funds	538,647	680,099	826,717	947,785	1,001,178	1,104,442	1,254,804
NAVPS	102.5	130.4	180.6	236.1	282.6	299.5	328.7

Source : Company Annual Reports, First Capital Research Estimates

Appendix IV: Top 20 Shareholders

Top 20 Voting Shareholders - (% held)	3Q2019	2Q2019	QoQ	3Q2018	YoY
Vallibel One PLC	15.0%	15.0%	-	15.0%	-
Employees' Provident Fund	10.0%	10.0%	-	10.0%	-
Mr Y S H I Silva*	8.2%	8.2%	-	10.0%	-1.8%
BBH-Matthews International Funds-Matthews Asia Growth Fund	5.7%	5.7%	-	5.7%	-
Ayenka Holdings Private Limited	4.7%	4.7%	-	0.0%	4.7%
Rosewood (Pvt) Limited - Account No.1	4.5%	4.6%	-0.1%	4.1%	0.4%
BBH-Matthews Emerging Asia Fund	3.7%	3.7%	-	3.1%	0.6%
Citi Bank Newyork S/A Norges Bank Account 2	3.0%	3.0%	-	2.0%	1.0%
Phoenix Ventures Private Limited	2.2%	2.2%	-	1.0%	1.2%
Akbar Brothers Pvt Ltd A/C No. 1	2.1%	2.1%	-	2.0%	0.1%
Seylan Bank PLC / W D N H Perera	1.1%	1.1%	0.1%	0.0%	1.1%
Pemberton Asian Opportunities Fund	1.1%	1.1%	-	1.0%	0.1%
Employees Trust Fund Board	1.1%	1.0%	0.1%	0.8%	0.3%
Sampath Bank PLC Account No. 4 (Sampath Bank Pension Fund)	1.0%	1.0%	-	1.3%	-0.2%
Morgan Stanley and Co.LLC-RWC Frontier Markets Equity Master Fund	0.8%	0.8%	-	0.0%	0.8%
Sri Lanka Insurance Corporation Ltd - Life Fund	0.8%	0.8%	-	0.0%	0.8%
Jinadasa Brothers (Pvt) Ltd	0.7%	0.7%	0.1%	0.9%	-0.2%
BNYMSANV RE-MAGNA UMBRELLA FUND PLC	0.7%	0.7%	-	0.9%	-0.2%
Commercial Bank of Ceylon PLC / P Subasinghe	0.7%	0.0%	0.7%	0.0%	0.7%
State Street Luxembourg C/O SSBT - Alliancebernstein Next 50 Emergir	0.7%	0.7%	-	0.0%	0.7%

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 2019: 8.38%

Categorization	Company Category	Buy	Hold	Sell
Grade A	S&P SL20 Companies	13.38%	9.38%	9.38%
Grade B	Rest of the Companies	16.38%	11.38%	11.38%
Grade C	Companies less than LKR 1Bn Market Cap	19.38%	14.38%	14.38%



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GOVERNMENT SECURITIES SALES

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Anushka Dissanayake	+94 77 2220 021	Arun Kandasamy	+94 75 4861 506
Anushi Ranawaka	+94 77 3876 819		

CORPORATE DEBT SALES

Sewwandi Kathriarachchi	+94 77 3461 734	Mahesh Amarasinghe	+94 77 0073 684
Nethalie De Mel	+94 11 2639 854	Dharshanie Vasanthajothy	+94 77 9159 878

EQUITY SALES

CEO	Jaliya Wijeratne	+94 70 2910 042	Negombo	
			Priyanka Anuruddha	+94 70 2910 035
Colombo			Priyantha Wijesiri	+94 70 2910 036
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Isuru Jayawardana		+94 70 2910 034		
Ifadh Marikar		+94 77 9625 679		
Thushara Pathiraja		+94 70 2910 037		
Anushka Buddhika		+94 70 2910 030		

UNIT TRUST SALES

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Imali Abeygunawardena	+94 77 1764 799		

BRANCHES

Kandy	Kurunegala	Matara	Negombo
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Manager: Salinda Samarakoon	Manager:	Manager: Rohana Jayakody	Manager:
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