



First Capital
A Janashakthi Group Company

COMMERCIAL BANK OF CEYLON PLC [COMB.N0000]

MAINTAIN BUY

“EARNINGS ON ROBUST CREDIT GROWTH”

Fair Value: 2022E - LKR 115.0 [+45%]

Total Return with DPS: 2022E - 55% [AER 56%]

COMB has posted exceptional results for 3Q2021 with earnings improved by 78.4%YoY to LKR 6.6Bn compared to LKR 3.7Bn recorded in 3Q2020. Improvement in NII, Fee and Commission Income and Other Operating Income have largely contributed towards the outstanding results of the quarter. Moreover, impairment provisioning also noticed a significant drop of 41.9%YoY despite recording a rise of 7.6%YoY for 9M2021. COMB recorded a gross loan growth of 10.9% to LKR 1.1Tn for 9M2021 with a net loan growth of 9.9% YTD. Increased appetite for credit by corporate as well as individuals is expected to stimulate the gradual economic recovery and thereby enable COMB to persevere the positive growth momentum in the loan book. Thus, we are upgrading our earnings forecast for 2021E and 2022E to LKR 25.1Bn and LKR 27.3Bn, respectively. However, considering the higher risk-free rate stemming from the increased interest rates, we are almost rolling over our previous target price for 2021E of COMB.N for 2022E at LKR 115.0 together with a total upside potential of 55.0%. **MAINTAIN BUY**

LKR (Mn)	3Q2020	3Q2021	YoY	9M2020	9M2021	YoY
Earnings (LKR 'Mn)						
NII	14,029	16,375	+17%	36,796	47,533	+29%
Total Operating Income	20,381	22,607	+11%	55,818	68,951	+24%
Net Operating Income	12,909	18,264	+41%	39,085	50,954	+30%
Pre Tax Profit	6,262	11,064	+77%	19,452	29,674	+53%
Net Profit : Equity Holders	3,693	6,588	+78%	11,067	18,845	+70%
Balance Sheet (LKR 'Mn)						
Loans	899,988	999,914	+11%	899,988	999,914	+11%
Shareholders' Equity	144,115	165,937	+15%	144,115	165,937	+15%
NAVPS	137.0	139.0		137.0	139.0	

Quarterly earnings secured a tremendous growth of 78.4%YoY

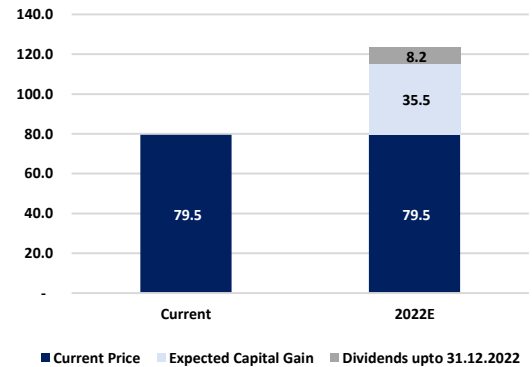
COMB earnings for 3Q2021 recorded a massive growth of 78.4%YoY to LKR 6.6Bn compared to LKR 3.7Bn recorded in 3Q2020. Improvement in NII, Fee and Commission Income and Other Operating Income have largely contributed towards the outstanding results of the quarter. Interest expense displayed a notable reduction owing to the low interest rate regime and the considerable lag in terms of repricing of deposits, thereby improving the NII by 16.7%YoY to LKR 16.4Bn. Fee and Commission Income also posted a sizable expansion by 24.6%YoY promoted by the extensive use of card transactions and online payment platforms during the lockdown period. Net Other Operating Income posted an enormous growth of 644.7%YoY to LKR 2.6Bn on account of the higher foreign exchange gains. Moreover, impairment provisioning also noticed a significant drop of 41.9%YoY despite recording a rise of 7.6%YoY for 9M2021. Considering more than expected earnings delivered during 9M2021, we have enhanced our NII target for 2021E to LKR 60.3Bn (+23% from the previous target) and for 2022E to LKR 64.0Bn (+16% from the previous target). We have also restated our earnings targets for 2021E and 2022E to LKR 25.1Bn and LKR 27.3Bn, respectively.

Revival in private sector credit advanced the Gross Loan Book by 10.9%

COMB has achieved a gross loan growth of 10.9% to LKR 1.1Tn during the 9M2021 while recording a net loan growth of 9.9% YTD. A notable improvement witnessed in private sector credit growth during Oct – Nov 2021 which exhibited an increased appetite for credit by corporate as well as individuals propels the gradual economic recovery, thereby it is expected COMB to keep up the positive momentum in the loan book while maintaining the growth within a range of 11% - 12% in the coming years.

Target price for COMB.N at LKR 115.0 and COMB.X at LKR 95.0 for 2022E - MAINTAIN BUY

We have accounted for proposed surcharge tax of 25% (LKR 4.3Bn) through the retained earnings while no adjustment made in terms of the turnover levy of 2.5% (Social Security Contribution), assuming it can be passed on to the customers. Considering the gradual rise in risk free rate and thereby the increase in expected return, we have ascertained the fair value of COMB.N to reach LKR 115.0 (previous TP – LKR 125.0) in 2022E for a total return of 55.0% at the current market price, and the share is trading well below its current book value of LKR 139.0 with a PBV of 0.6x. COMB.X is valued at LKR 95.0 by 2022E assigning a 15% discount to the voting share. **MAINTAIN BUY.**

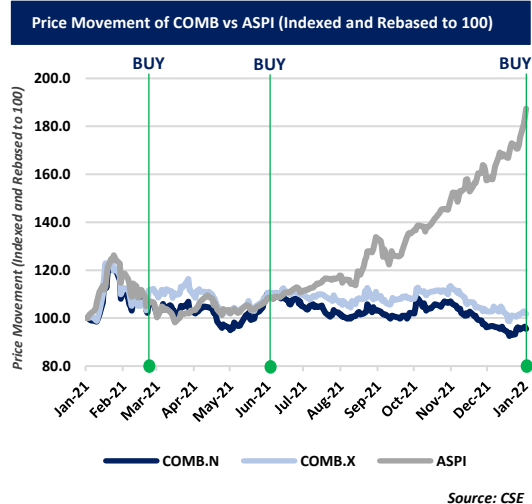


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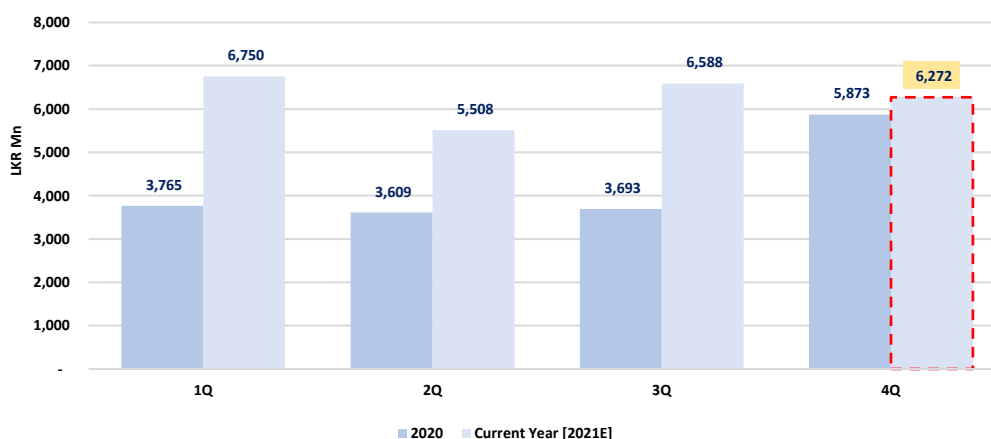
Minimum Return for BUY:

Buy Below 2022E - [AER of 15% with DPS]: LKR 107.0
COMB.N categorized as 'Grade A' counter

Disclosure on Shareholding:

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

Quarterly Earnings



Estimate Revision

In LKR Mn	2021E - O	2021E - R	% Change	2022E - O	2022E - R	% Change
Earnings Estimate						
Net Interest Income	48,937	60,256	+23%	55,013	63,951	+16%
Total Operating Income	59,629	70,823	+19%	66,453	74,916	+13%
Net Operating Income	72,245	86,276	+19%	79,534	90,053	+13%
Pre Tax Profit	23,608	33,314	+41%	28,748	36,259	+26%
Net Profit : Equity Holders	17,799	25,116	+41%	20,533	27,337	+33%
Adjusted EPS	15.3	21.0		17.6	22.3	
Growth YoY	5%	48%		5%	6%	
Balance Sheet Estimate						
Loans & Advances	1,000,401	1,005,643	+1%	1,103,334	1,106,100	+0%
Shareholders' Equity	173,106	178,964	+3%	189,051	200,483	+6%
Adjusted NAVPS	146.8	149.5		158.5	163.2	
Ratio Estimate						
ROE (%)	10.7%	14.9%		11.3%	14.4%	
PER (x)	5.9	3.8		5.1	3.6	
PBV (x)	0.6	0.5		0.6	0.5	

Valuation Table

P/E 31st December	2017	2018	2019	2020	2021E	2022E	2023E
Estimates (LKR 'Mn)							
Net Interest Income	39,567	45,618	48,356	50,869	60,256	63,951	67,771
Total Operating Income	49,537	64,864	67,687	76,729	86,276	90,053	95,792
Net Profit: Equity Holders	16,982	17,735	17,263	16,940	25,116	27,337	29,469
Adjusted EPS (LKR)	14.2	14.9	14.5	14.2	21.0	22.3	23.4
YoY Growth (%)	17%	4%	-3%	-2%	48%	6%	5%
Valuations							
PER (x)	5.6x	5.4x	5.5x	5.6x	3.8x	3.6x	3.4x
PBV (x)	0.9x	0.8x	0.7x	0.6x	0.5x	0.5x	0.4x
DY (%)	8.1%	8.2%	8.2%	8.2%	10.4%	11.0%	11.6%
Adjusted NAVPS (LKR)	90.4	100.0	112.6	133.3	149.5	163.2	177.4
DPS (LKR)	6.5	6.5	6.5	6.5	8.2	8.7	9.2
Dividend Payout (%)	45.4%	43.8%	45.0%	45.8%	39.3%	39.3%	39.3%

* Adjusted EPS / NAVPS for 2017 - 2020 is derived based on the actual number of shares as of 05.01.22 and the EPS / NAVPS for the forecasted period has been calculated based on the forecasted number of shares.



Valuation Summary

Expected COMB.N Price	2022E
Justified PBV based target price	124.1
PER Valuation based target price	111.3
RI Valuation based target price	118.0
Average Target Price	117.8
Target Price after Rounding off	115.0

Return	2022E
Target Price	115.0
Current Price	79.5
Capital Gain (LKR)	35.5
Dividends upto 31st Dec (LKR)	8.2
Capital Gain %	45%
Dividend Yield %	10%
Total Return %	55%
Annualized Return %	56%

Residual Income Valuation

Residual Income based Valuation	2022E
PV of Residual Income	-38,692
No. of Shares ('Mn)	1,228
RI per Share	-31.5
Opening Book Value per Share	149.5
Value per Share	118.0

COE	2022E
Rf	10.0%
Rm	18.0%
Growth %	3.0%
β	1.0
$Ke=Rf+\beta(Rm-Rf)$	18.0%

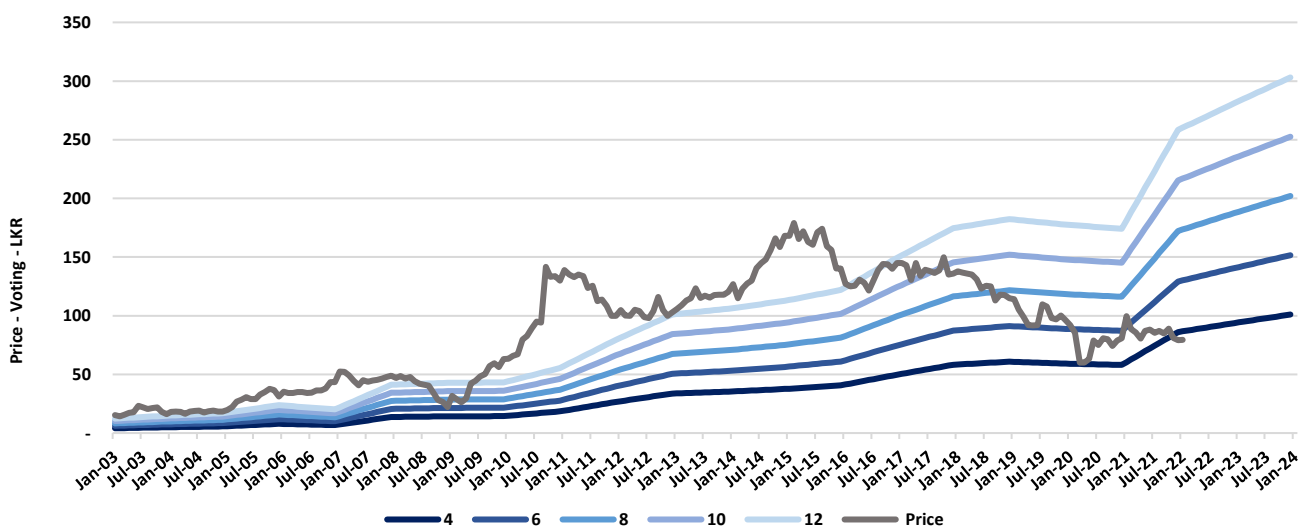
Justified PBV Valuation

Justified PBV based Valuation	2022E
ROAE	14.4%
Growth	3.0%
COE	18.0%
PBV	0.8
NAVPS	163.2
Target Price	124.1

PER Valuation

PER based Valuation	2022E
Earnings (LKR 'Mn)	27,337
No. of Shares ('Mn)	1,228
EPS	22.3
Expected PER	5.0x
Price at 5.0x Earnings	111.3

PER Chart



Appendix I: Statement of Income and Expenses

Income Statement P/E 31st December	2017	2018	2019	2020	2021E	2022E	2023E
Gross Income	115,605	139,657	150,741	151,966	169,251	184,462	197,952
Interest Income	104,049	118,551	129,288	124,088	141,366	156,272	167,780
Less: Interest Expenses	64,482	72,933	80,931	73,219	81,111	92,321	100,009
Net Interest Income	39,567	45,618	48,356	50,869	60,256	63,951	67,771
Fee and Commission Income	10,511	12,494	12,875	11,840	12,432	13,053	13,445
Total Operating Income	49,537	64,864	67,687	76,729	86,276	90,053	95,792
Less: Impairment Charge/(Reversal) for Loans	613	8,833	11,330	21,420	19,609	18,044	18,340
Net Operating Income	48,924	56,031	56,356	55,310	66,667	72,009	77,452
Less : Operating Expense							
Personnel Expenses	11,339	13,290	14,409	14,993	15,575	16,254	17,185
Other Operating Expenses	9,036	10,597	11,717	11,270	12,047	13,009	14,229
Total Operating Expenses	20,374	23,887	26,125	26,263	27,622	29,263	31,414
Operating Profit before Value Added Tax (VAT)	28,550	32,144	30,231	29,047	39,045	42,745	46,037
Less: Value Added tax on Financial Services	4,897	5,402	4,787	4,531	5,735	6,490	6,954
Operating Profit after Value Added Tax (VAT)	23,653	26,093	22,975	24,516	33,310	36,255	39,083
Profit before Income Tax	23,657	26,099	22,985	24,520	33,314	36,259	39,087
Less: Income Tax Expense	6,654	8,236	5,564	7,433	7,995	8,702	9,381
Profit for the Year	17,003	17,863	17,422	17,087	25,319	27,557	29,706
Profit Attributable to Equity Holders of the Bank	16,982	17,735	17,263	16,940	25,116	27,337	29,469
Non-Controlling Interest	21	128	158	147	203	220	238
Profit for the Year	17,003	17,863	17,422	17,087	25,319	27,557	29,706
Adjusted EPS	14.2	14.9	14.5	14.2	21.0	22.3	23.4

Appendix II: Statement of Financial Position

Statement of Financial Position P/E 31st December	2017	2018	2019	2020	2021E	2022E	2023E
ASSETS							
Cash and Cash Equivalents	34,673	43,268	53,580	36,246	51,970	42,340	60,109
Balances with Central Banks	45,546	55,407	46,101	115,359	66,044	72,346	78,660
Placements with Banks	17,633	19,899	24,904	16,422	18,392	21,151	24,324
Derivative Financial Instruments	2,335	7,910	1,831	2,637	3,113	3,424	3,698
Other Financial Assets Held-For-Trading	4,411	5,520	21,468	35,189	21,615	23,777	25,679
Loans and Receivables to Other Customers	742,444	867,612	893,919	909,829	1,005,643	1,106,100	1,201,359
Financial Investments - Available-for-sale	154,914	176,761	197,825	278,717	331,432	396,278	427,980
Property, Plant & Equipment	16,317	17,015	22,525	25,387	22,643	19,928	17,239
Intangible Assets	1,251	1,434	1,646	1,801	2,193	2,733	3,402
Other Assets	17,363	24,051	23,444	20,195	28,820	31,702	34,238
Total assets	1,155,821	1,318,824	1,408,941	1,760,925	1,872,254	2,040,640	2,198,009
LIABILITIES							
Securities Sold Under Repurchase Agreements	49,532	48,951	51,117	91,412	100,564	110,610	120,136
Due to Other Customers	857,270	994,371	1,068,983	1,286,616	1,441,010	1,585,111	1,711,920
Subordinated Term Debts	25,166	36,904	37,887	39,383	40,928	42,534	44,203
Total liabilities	1,046,954	1,198,227	1,272,928	1,599,976	1,691,331	1,837,978	1,971,911
EQUITY							
Stated Capital	37,144	39,148	40,917	52,188	55,249	58,580	62,172
Statutory Reserves	6,493	7,444	8,388	9,285	10,551	11,929	13,414
Retained Earnings	5,087	4,950	5,182	8,124	17,222	27,126	37,802
Other Reserves	59,272	67,856	79,937	89,596	95,942	102,848	110,293
Total Equity to Equity Owners of the Bank	107,995	119,398	134,424	159,193	178,964	200,483	223,681
Non-Controlling Interest	872	1,199	1,589	1,756	1,958	2,179	2,417
Total Equity	108,867	120,597	136,013	160,949	180,923	202,662	226,098
	1,155,821	1,318,824	1,408,941	1,760,925	1,872,254	2,040,640	2,198,009
Adjusted NAVPS	90.4	100.0	112.6	133.3	149.5	163.2	177.4



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