



# COMMERCIAL BANK OF CEYLON PLC [COMB.N0000]

## MAINTAIN BUY

### RESILIENT QUARTER; CONFIDENT COMMENTARY

**Fair Value: 2021E - LKR 100.0 [+11%], 2022E-LKR 125.0[+39%]**  
*Total Return with DPS: 2021E - 16% [AER 33%] 2022E - 50% [AER 30%]*

COMB's earnings grew by 79%YoY to record LKR 6.8Bn for 1Q2021, performing better than our expectations, led by improved NII, higher fee and commission income and lower tax. Despite COMB's strong 1Q earnings, considering the potential fall back from the 3<sup>rd</sup> wave, we are maintaining our earnings outlook for 2021E at LKR 17.8Bn (+5%YoY) while continuing our positive outlook for 2022E at LKR 20.5Bn (+15%YoY). Our expectation for 2021E and 2022E is further supported by lower interest rate environment and tax reduction, though to a certain extent it may offset by the 3<sup>rd</sup> Wave moratorium on SME loans. Our Fair value for 2021E LKR 100.0 and 2022E LKR 125.0. **MAINTAIN BUY.**

LKR (Mn)	1Q2020	1Q2021	YoY	2019	2020	YoY
<b>Earnings (LKR 'Mn)</b>						
NII	12,783	15,477	+21%	48,356	50,869	+5%
NII + Other Income	19,848	24,161	+22%	67,687	76,729	+13%
Post Impairment Income	13,195	17,005	+29%	56,355	55,310	-2%
Pre Tax Profit	6,448	9,952	+54%	22,984	24,516	+7%
Net Profit	3,765	6,750	+79%	17,263	16,940	-2%
<b>Balance Sheet (LKR 'Mn)</b>						
Loans	917,442	929,618	+1%	893,919	909,829	+2%
Shareholders' Equity	135,377	161,803	+20%	134,424	159,193	+18%
NAVPS	131.8	135.5		130.8	136.4	

### Earnings improved amidst lower credit growth

COMB recorded a 79%YoY increase in earnings to record at LKR 6.8Bn for 1Q2021 with a NII growth of 21%YoY to reach LKR 15.5Bn. Earnings were far better than our expectation for 1Q2021 due to higher fee and commission income and lower tax. We maintain our earnings outlook of LKR 17.8Bn (+5%YoY) for 2021E and LKR 20.5Bn (15%YoY) for 2022E amidst possibly lower-than-expected 2Q struck by the 3<sup>rd</sup> wave of Covid-19 which may off set positivity of 1Q2021. With COMB focusing more on corporate lending, we believe a negative impact from the moratorium on SME loans to be at a significantly lower level compared to the local peers.

### COMB's loan growth improved along with the industry

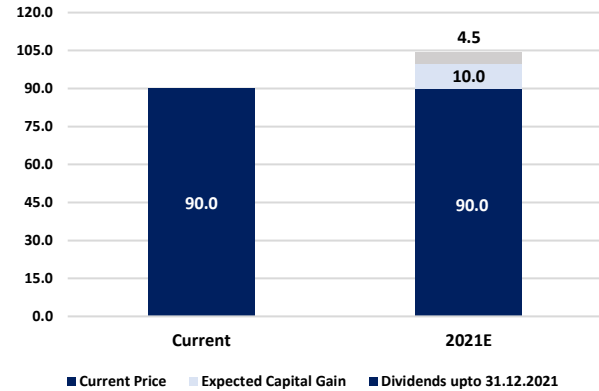
As the largest private bank, COMB's growth closely follows the industry average, and accordingly we expect a gradual improvement in credit demand towards 2H2021E, thereby we expect COMB loan growth to reach 7% with private sector credit estimated to be 12% for 2021E. COMB's NII grew by a substantial 21.0%YoY to LKR 15.5Bn consequent to the reduction in interest expenses by 17.1%YoY to LKR 16.2Bn despite a marginal decline of 2.0%YoY in interest income to LKR 31.7Bn.

### COMB capital adequacy well above risk appetite thresholds

COMB's Tier I Capital and Total Capital Adequacy ratios as at 31<sup>st</sup> Mar 2021 were at 13.0% and 16.5% respectively, well above the minimum regulatory requirement and Basel III capital requirements of 7.5% and 13.0%.

### We MAINTAIN BUY on both Voting and Non-Voting

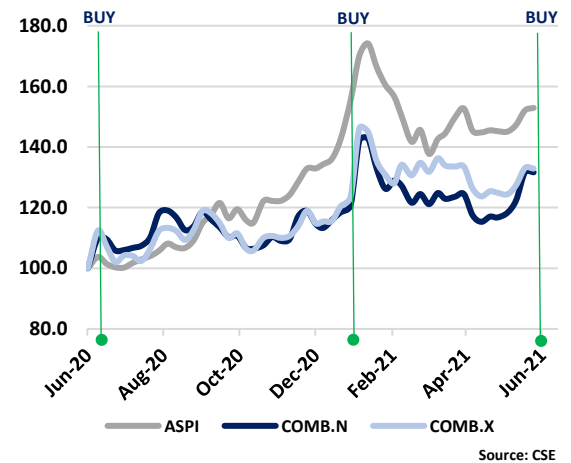
We maintain our earnings target at LKR 17.8Bn (+5%YoY) for 2021E and at LKR 20.5Bn (+15%YoY) for 2022E while fair values are estimated at LKR 100.0 for 2021E and LKR 125.0 for 2022E. COMB.X is valued at LKR 85.0 and 105.0 for 2021E and 2022E respectively anticipating 15% discount to the voting share. **MAINTAIN BUY for COMB.N and COMB.X**



### FIRST CAPITAL RESEARCH

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### Price Movement of COMB vs ASPI and Past Recommendations



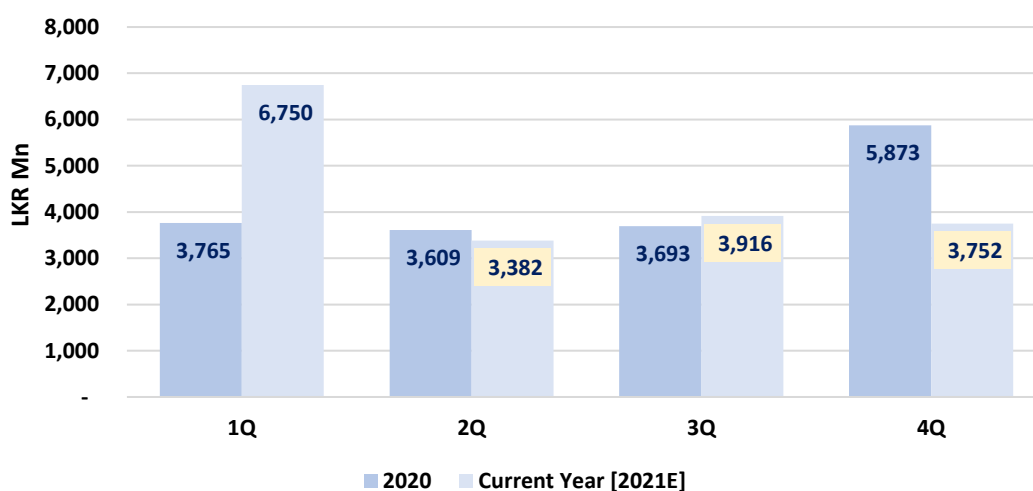
#### Minimum Return for BUY:

Buy Below for 2021E [AER of 10.1% with DPS]: LKR 95.0. COMB 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



### Valuation Table

P/E 31st December	2017	2018	2019	2020	2021E	2022E	2023E
<b>Estimates (LKR 'Mn)</b>							
Net Interest Income	39,567	45,618	48,356	50,869	48,937	55,013	56,258
Total Operating Income	49,537	64,864	67,687	76,729	72,245	79,534	82,479
<b>Net Profit</b>	<b>16,982</b>	<b>17,735</b>	<b>17,263</b>	<b>16,940</b>	<b>17,799</b>	<b>20,533</b>	<b>22,668</b>
Adjusted EPS (LKR)	14.6	15.2	14.8	14.5	15.3	17.6	19.4
YoY Growth (%)	17%	4%	-3%	-2%	5%	15%	10%
<b>Valuations</b>							
PER (x)	6.2x	5.9x	6.1x	6.2x	5.9x	5.1x	4.6x
PBV (x)	0.8x	0.8x	0.7x	0.7x	0.6x	0.6x	0.5x
DY (%)	7.2%	7.2%	7.3%	5.2%	5.4%	6.2%	6.7%

### Valuation Summary

Expected COMB.N price	2021E	2022E
Justified PBV based target price	96.4	124.1
PER Valuation based target price	106.8	123.2
RI Valuation based target price	106.8	122.2
<b>Average Target Price</b>	<b>103.3</b>	<b>123.2</b>
<b>Target Price after Rounding off</b>	<b>100.0</b>	<b>125.0</b>

Return	2021E	2022E
Target Price	100.0	125.0
Current Price	90.0	90.0
Capital Gain (LKR)	10.0	35.0
Dividends upto 31st Dec (LKR)	4.5	10.1
Capital Gain %	11%	39%
Dividend Yield %	5%	11%
<b>Total Return %</b>	<b>16%</b>	<b>50%</b>
<b>Annualized Return %</b>	<b>33%</b>	<b>30%</b>

### Residual Income Valuation

Residual Income based Valuation	2021E	2022E
PV of Residual Income	-34,512	-28,682
No. of Shares ('Mn)	1,167	1,167
RI per Share	-29.6	-24.6
Opening Book value per Share	136.4	146.8
<b>Value per Share</b>	<b>106.8</b>	<b>122.2</b>

COE	2021E	2022E
Rf	6.9%	7.3%
Rm	14.4%	14.8%
Growth %	3.0%	3.0%
$\beta$	0.90	1.00
$Ke=Rf+\beta(Rm-Rf)$	13.7%	14.8%

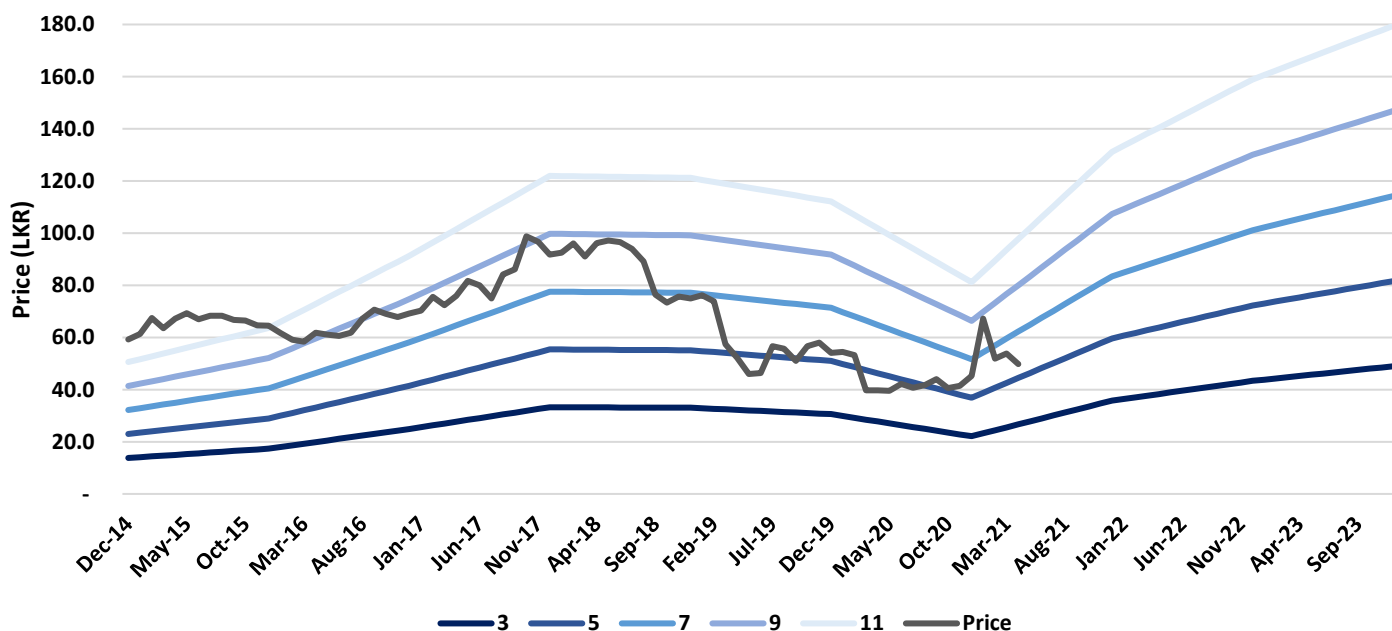
### Justified PBV Valuation

Justified PBV based Valuation	2021E	2022E
ROAE	10.7%	11.3%
Growth	3.0%	3.0%
COE	14.8%	13.7%
PBV	0.7	0.8
NAVPS	146.8	158.5
<b>Target Price</b>	<b>96.4</b>	<b>124.1</b>

### PER Valuation

PER based Valuation	2021E	2022E
Earnings (LKR 'Mn)	17,799	20,533
No. of Shares ('Mn)	1,167	1,167
EPS	15.25	17.60
Expected PER	7.0x	7.0x
<b>Price at 7.0x Earnings</b>	<b>106.8</b>	<b>123.2</b>

### PER Chart



## Appendix I: Statement of Income and Expenses

Income Statement P/E 31st December	2017	2018	2019	2020	2021E	2022E	2023E
<b>Gross Income</b>	<b>115,605</b>	<b>139,657</b>	<b>150,741</b>	<b>151,966</b>	<b>167,564</b>	<b>180,209</b>	<b>194,000</b>
Interest Income	104,049	118,551	129,288	124,088	142,516	153,826	165,786
Less: Interest Expenses	64,482	72,933	80,931	73,219	93,579	98,813	109,528
<b>Net Interest Income</b>	<b>39,567</b>	<b>45,618</b>	<b>48,356</b>	<b>50,869</b>	<b>48,937</b>	<b>55,013</b>	<b>56,258</b>
Fee and Commission Income	10,511	12,494	12,875	11,840	12,432	13,302	14,233
<b>Total Operating Income</b>	<b>49,537</b>	<b>64,864</b>	<b>67,687</b>	<b>76,729</b>	<b>72,245</b>	<b>79,534</b>	<b>82,479</b>
Less: Impairment Charge/(Reversal) for Loans	613	8,833	11,330	21,420	15,233	14,510	11,626
<b>Net Operating Income</b>	<b>48,924</b>	<b>56,031</b>	<b>56,356</b>	<b>55,310</b>	<b>57,012</b>	<b>65,024</b>	<b>70,854</b>
<b>Less : Operating Expense</b>							
Personnel Expenses	11,339	13,290	14,409	14,993	16,194	17,121	18,101
Other Operating Expenses	9,036	10,597	11,717	11,270	12,296	13,490	14,860
<b>Total Operating Expenses</b>	<b>20,374</b>	<b>23,887</b>	<b>26,125</b>	<b>26,263</b>	<b>28,489</b>	<b>30,611</b>	<b>32,961</b>
<b>Operating Profit before Value Added Tax (VAT)</b>	<b>28,550</b>	<b>32,144</b>	<b>30,231</b>	<b>29,047</b>	<b>28,523</b>	<b>34,413</b>	<b>37,893</b>
Less: Value Added tax on Financial Services	4,897	5,402	4,787	4,531	4,919	5,669	6,159
<b>Operating Profit after Value Added Tax (VAT)</b>	<b>23,653</b>	<b>26,093</b>	<b>22,975</b>	<b>24,516</b>	<b>23,604</b>	<b>28,744</b>	<b>31,734</b>
<b>Profit before Income Tax</b>	<b>23,657</b>	<b>26,099</b>	<b>22,985</b>	<b>24,520</b>	<b>23,608</b>	<b>28,748</b>	<b>31,738</b>
Less: Income Tax Expense	6,654	8,236	5,564	7,433	5,666	8,049	8,887
<b>Profit for the Year</b>	<b>17,003</b>	<b>17,863</b>	<b>17,422</b>	<b>17,087</b>	<b>17,942</b>	<b>20,699</b>	<b>22,851</b>
Profit Attributable to Equity Holders of the Bank	16,982	17,735	17,263	16,940	17,799	20,533	22,668
Non-Controlling Interest	21	128	158	147	144	166	183
<b>Profit for the Year</b>	<b>17,003</b>	<b>17,863</b>	<b>17,422</b>	<b>17,087</b>	<b>17,942</b>	<b>20,699</b>	<b>22,851</b>
<b>EPS</b>	<b>16.9</b>	<b>15.2</b>	<b>14.8</b>	<b>14.5</b>	<b>15.3</b>	<b>17.6</b>	<b>19.4</b>

## Appendix II: Statement of Financial Position

Statement of Financial Position P/E 31st December	2017	2018	2019	2020	2021E	2022E	2023E
<b>ASSETS</b>							
Cash and Cash Equivalents	34,673	43,268	53,580	36,246	66,281	120,754	78,675
Balances with Central Banks	45,546	55,407	46,101	115,359	58,418	64,173	71,873
Placements with Banks	17,633	19,899	24,904	16,422	18,392	20,600	23,072
Derivative Financial Instruments	2,335	7,910	1,831	2,637	3,057	3,424	3,835
Other Financial Assets Held-For-Trading	4,411	5,520	21,468	35,189	21,229	23,777	26,630
Loans and Receivables to Other Customers	742,444	867,612	893,919	909,829	1,000,401	1,103,334	1,222,070
Financial Investments - Available-for-sale	154,914	176,761	197,825	278,717	297,208	317,022	443,831
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	28,306	31,702	35,506
<b>Total assets</b>	<b>1,155,821</b>	<b>1,318,824</b>	<b>1,408,941</b>	<b>1,760,925</b>	<b>1,838,486</b>	<b>2,028,308</b>	<b>2,247,531</b>
<b>LIABILITIES</b>							
Securities sold under repurchase agreements	49,532	48,951	51,117	91,412	100,040	110,333	122,207
Due to Other Customers	857,270	994,371	1,068,983	1,286,616	1,415,278	1,585,111	1,775,325
Subordinated Term Debts	25,166	36,904	37,887	39,383	40,928	42,534	44,203
<b>Total liabilities</b>	<b>1,046,954</b>	<b>1,198,227</b>	<b>1,272,928</b>	<b>1,599,976</b>	<b>1,663,480</b>	<b>1,837,192</b>	<b>2,038,650</b>
<b>EQUITY</b>							
Stated Capital	37,144	39,148	40,917	52,188	54,184	56,456	58,944
Statutory Reserves	6,493	7,444	8,388	9,285	10,182	11,217	12,360
Retained Earnings	5,087	4,950	5,182	8,124	8,838	15,899	23,693
Other Reserves	59,272	67,856	79,937	89,596	99,902	105,479	111,637
<b>Total Equity to Equity Owners of the Bank</b>	<b>107,995</b>	<b>119,398</b>	<b>134,424</b>	<b>159,193</b>	<b>173,106</b>	<b>189,051</b>	<b>206,633</b>
Non-Controlling Interest	872	1,199	1,589	1,756	1,899	2,065	2,248
<b>Total Equity</b>	<b>108,867</b>	<b>120,597</b>	<b>136,013</b>	<b>160,949</b>	<b>175,006</b>	<b>191,116</b>	<b>208,881</b>
	<b>1,155,821</b>	<b>1,318,824</b>	<b>1,408,941</b>	<b>1,760,925</b>	<b>1,838,486</b>	<b>2,028,308</b>	<b>2,247,531</b>
<b>NAVPS</b>	<b>107.7</b>	<b>118.1</b>	<b>130.8</b>	<b>136.4</b>	<b>146.8</b>	<b>158.5</b>	<b>171.3</b>



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