

FIRST CAPITAL TREASURIES PLC

EQUITY | SRI LANKA | DIVERSIFIED FINANCIALS



First Capital
A Janashakthi Group Company

IPO Report | 01 Dec 2021

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“On a Strong Footing”

[FY23E]: LKR 47.5 [22%],
Total Return with DPS: FY23E- 31% [AER 22%],

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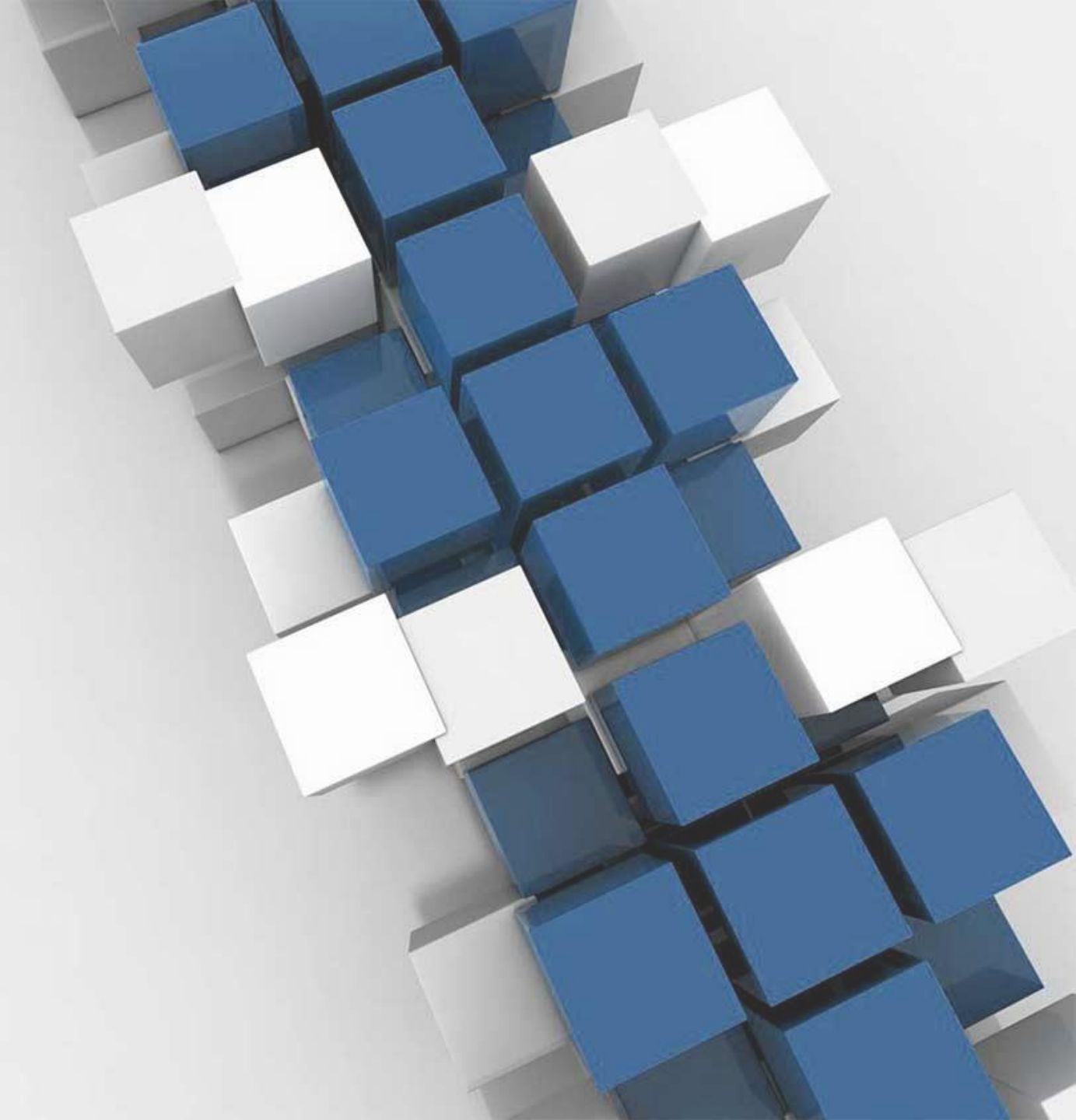
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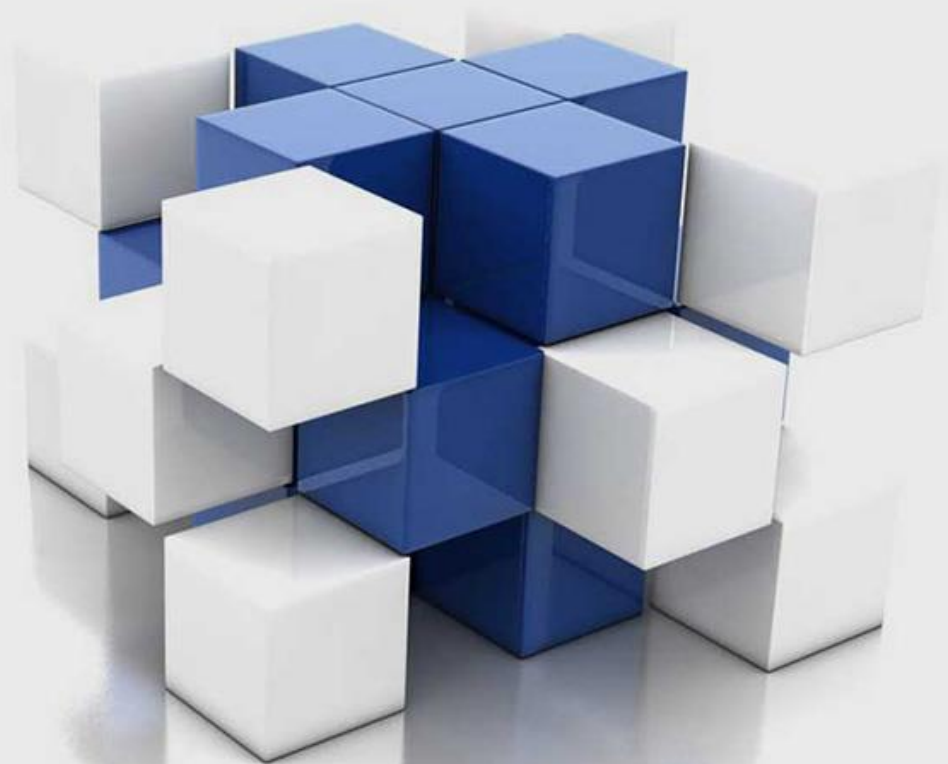
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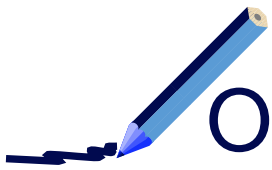
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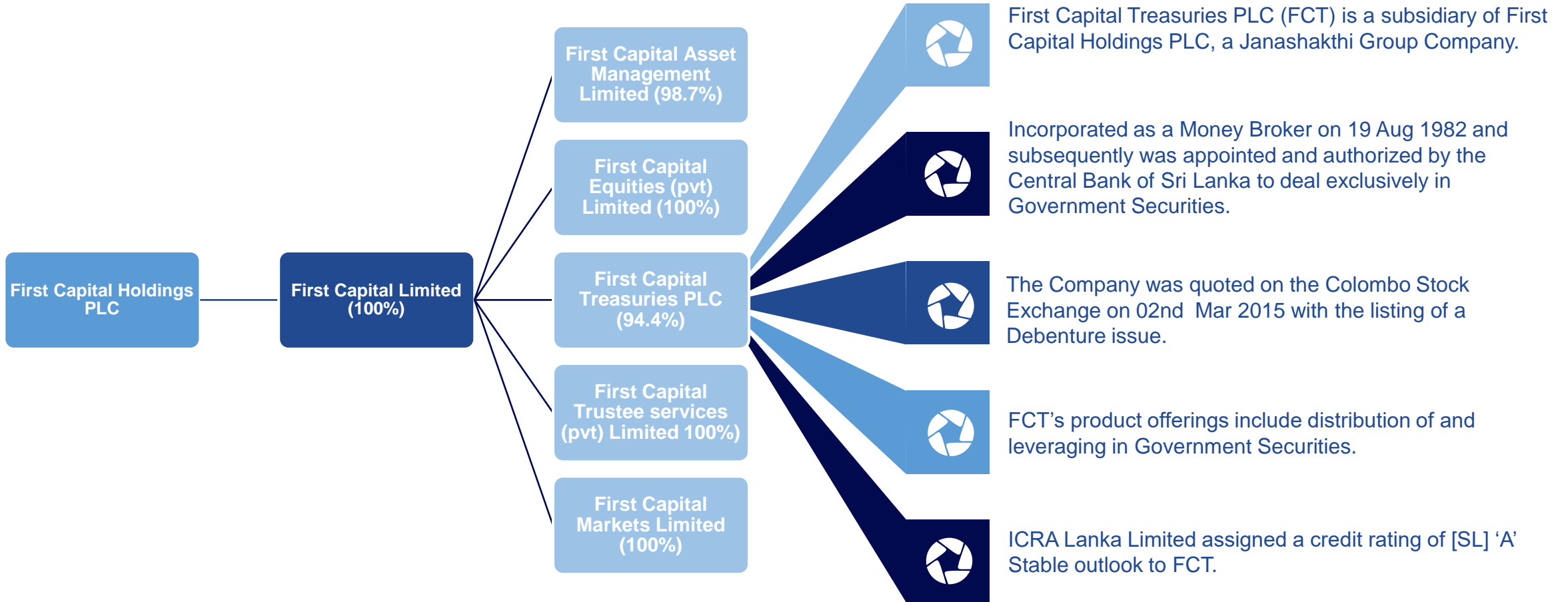


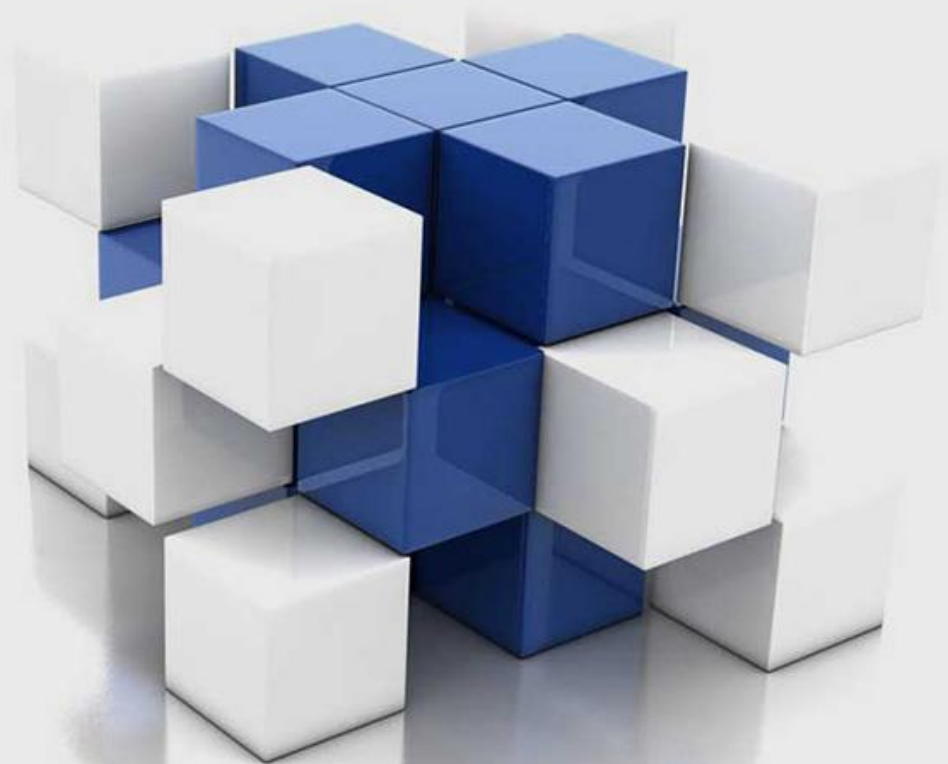


1. Company Highlights



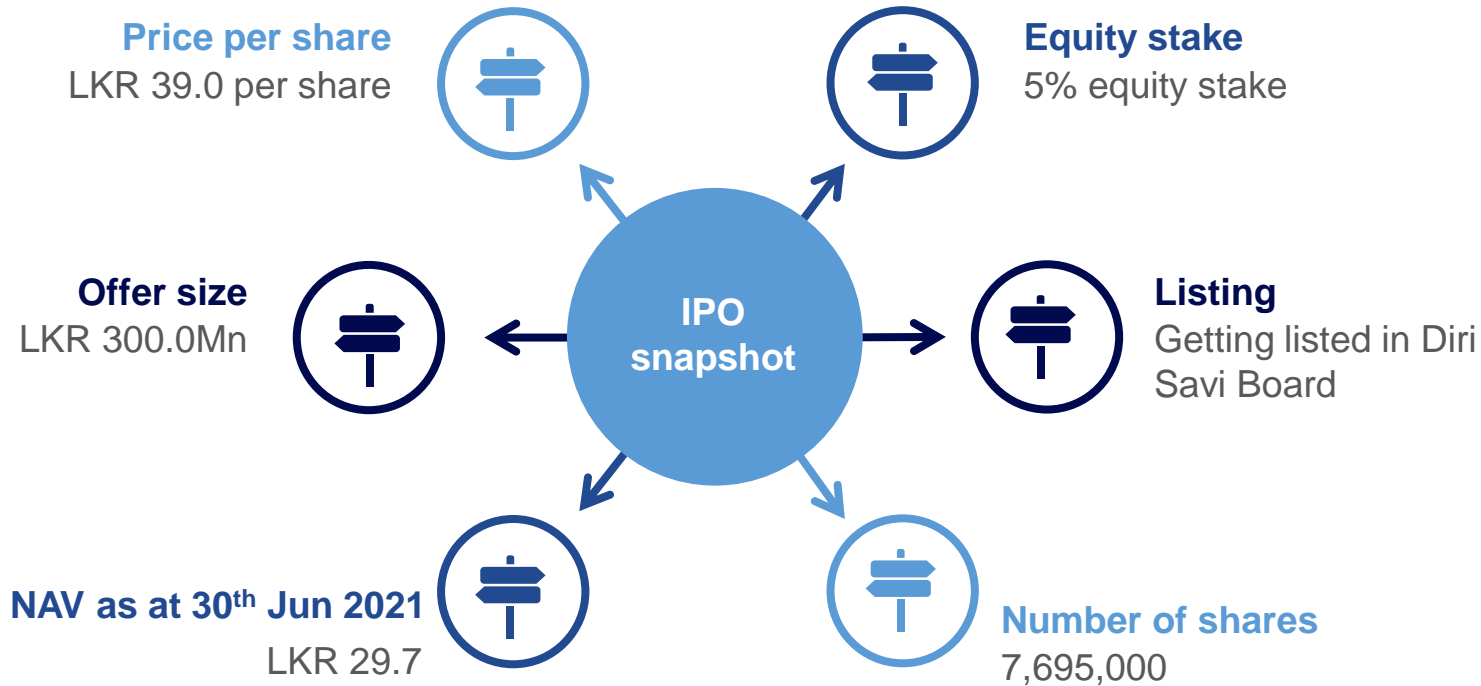
Over three decades of experience in the industry





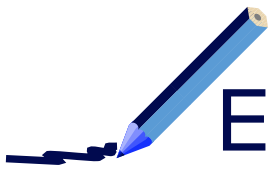
2. Offer Summary

IPO price of LKR 39.0 offering LKR 300.0Mn



These shares will be offered by FCT's parent First Capital Limited by divesting 5% of its equity interest through an Offer for Sale. While no capital will be raised into FCT, the IPO is part of the Company's strategic efforts to broaden its ownership base, bring in more liquidity, and strengthen its brand identity.

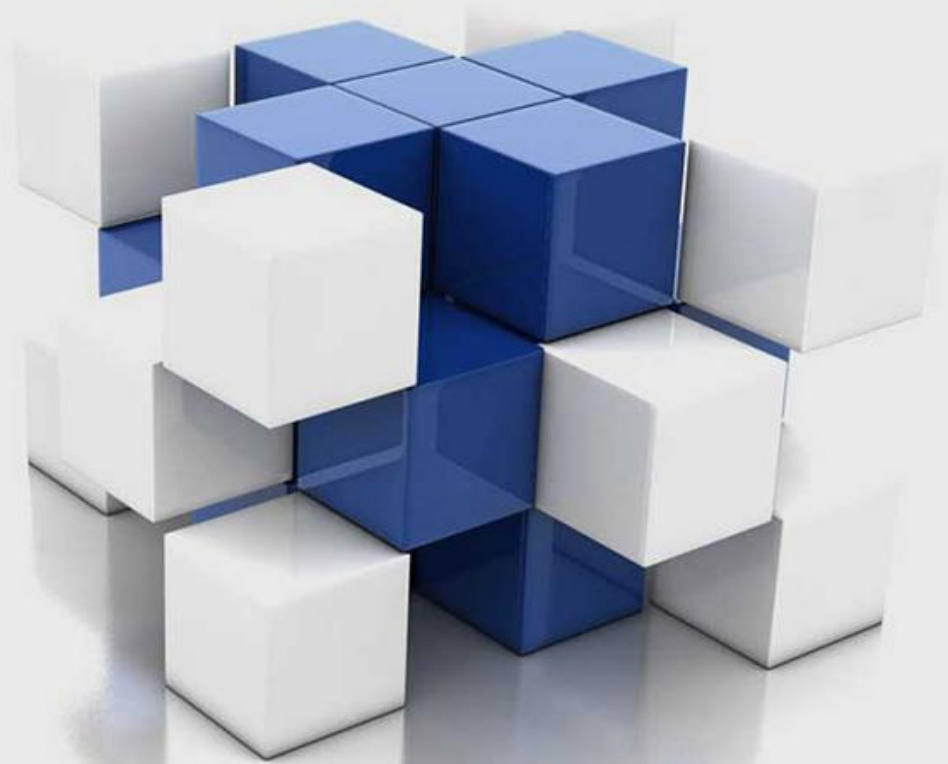
Source: Company IPO reports



Existing shareholder details and allotment structure

Shareholder Name	Pre IPO		Post IPO	
	Number of shares	% of ownership	Number of shares	% of ownership
First Capital Limited	145,349,990	94.44%	137,654,990	89.44%
Employees' Trust Fund Board	8,550,000	5.56%	8,550,000	5.56%
Others	10	0.00%	10	0.00%
Public-IPO	-	-	7,695,000	5.00%
Total	153,900,000	100.00%	153,900,000	100.0%

Source: Company IPO reports



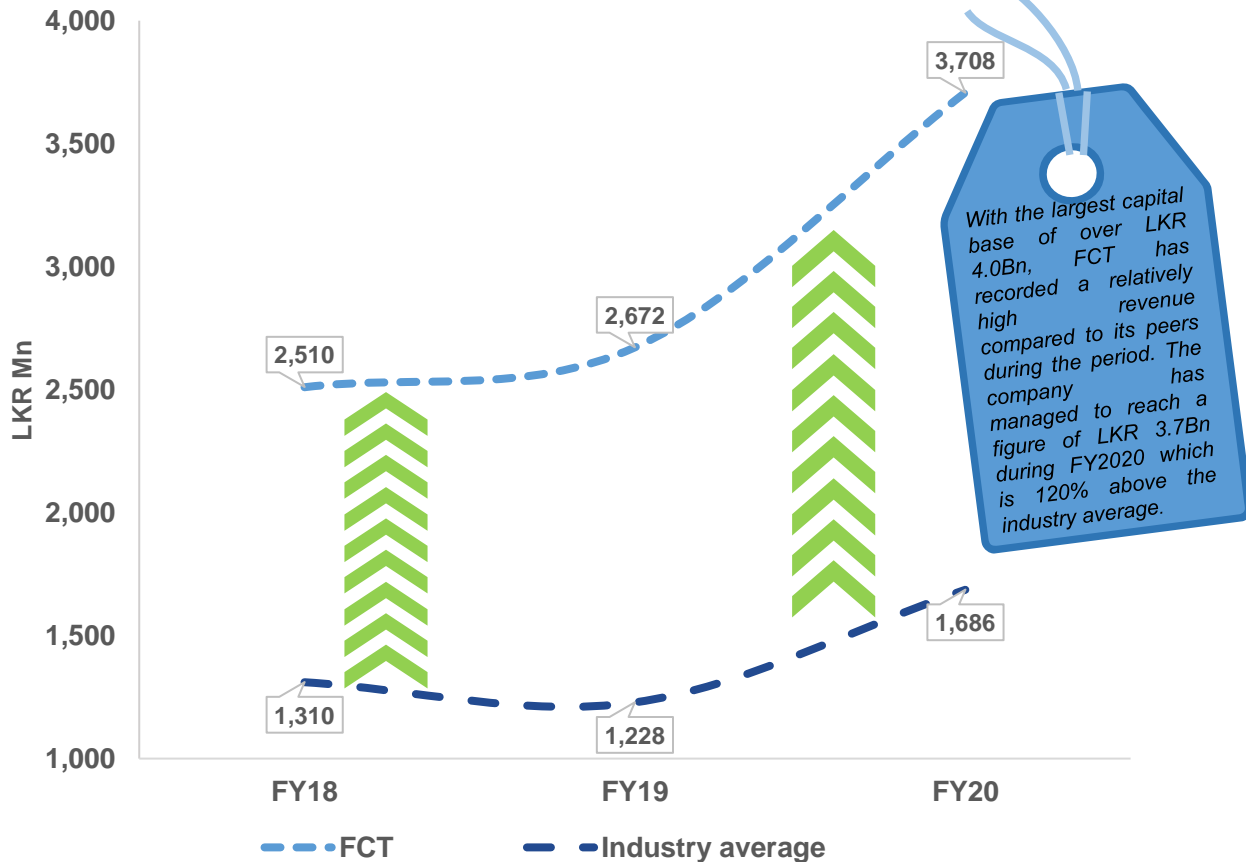
3. Investment Rationale



3.1 Steady performance with organic growth

Being the leader among non-bank affiliated PDs...

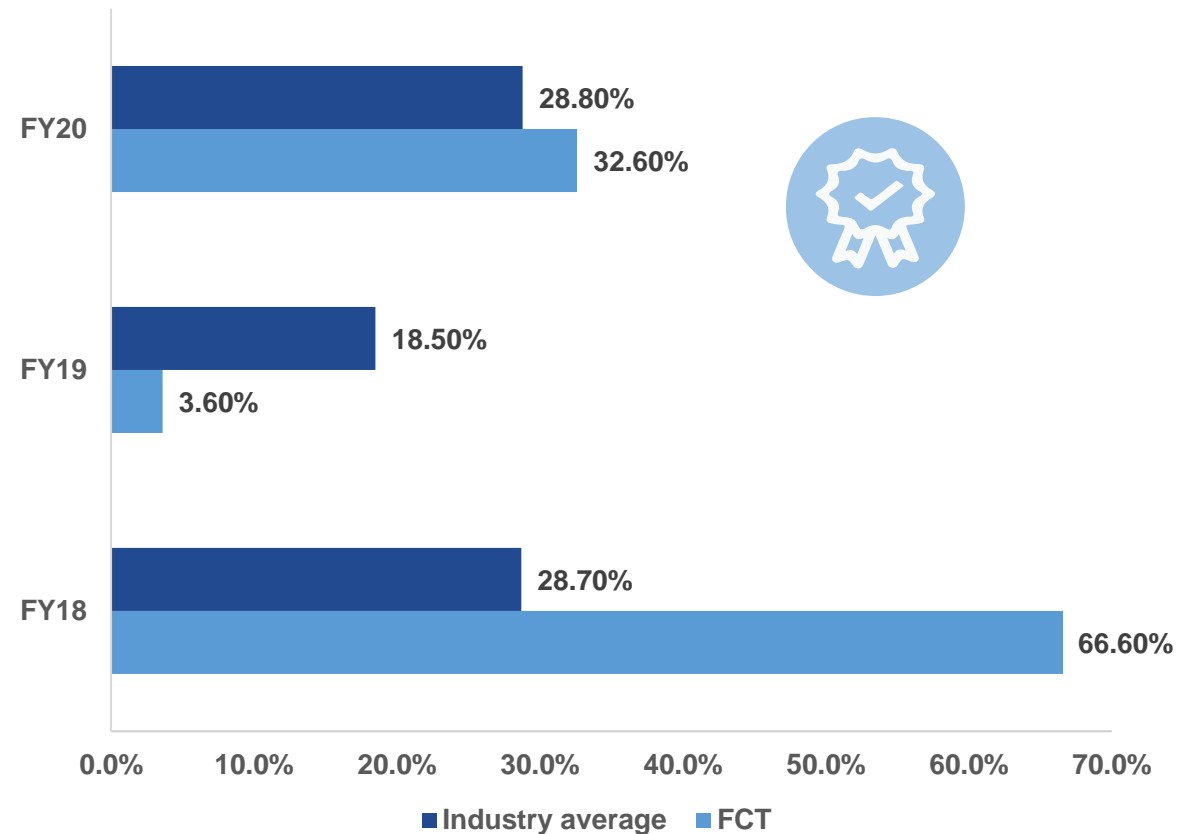
Revenue of FCT and Industry average



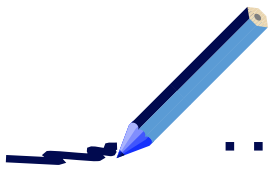
Source: Company Reports and Management Information

First Capital Research

Net Income Margins of FCT is higher than the industry in FY18 and FY20



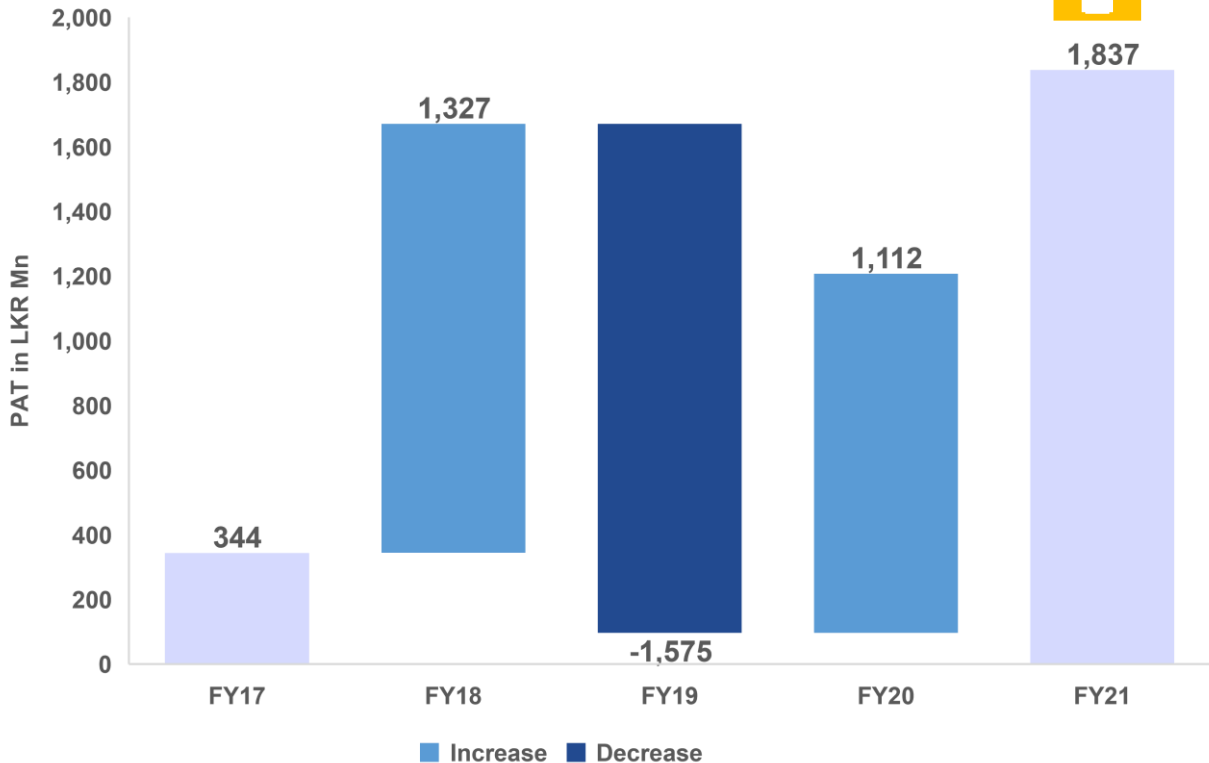
Source: Company Reports and Management Information



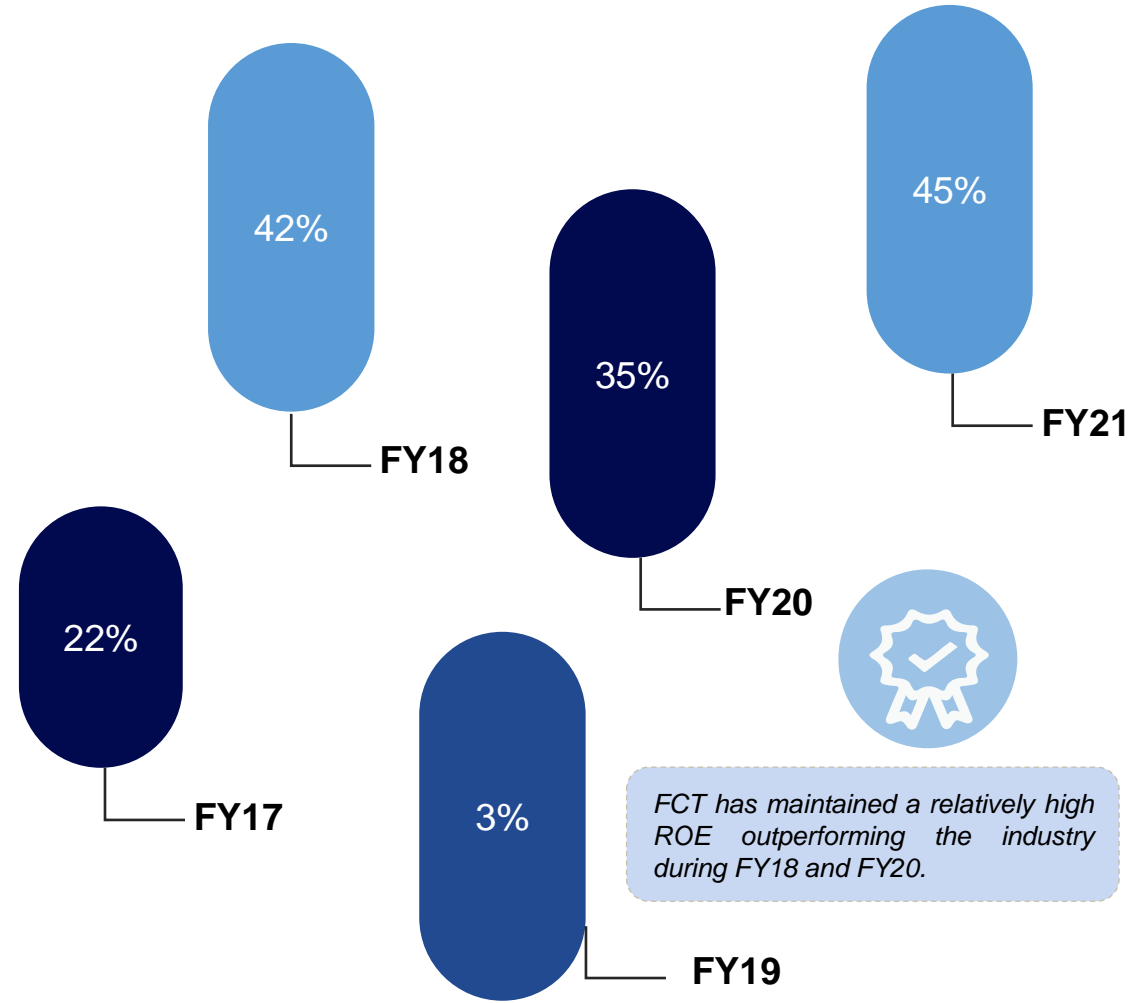
...while generating 5-year average ROE of 29%...

5 Yr PAT CAGR of 52% in FY21

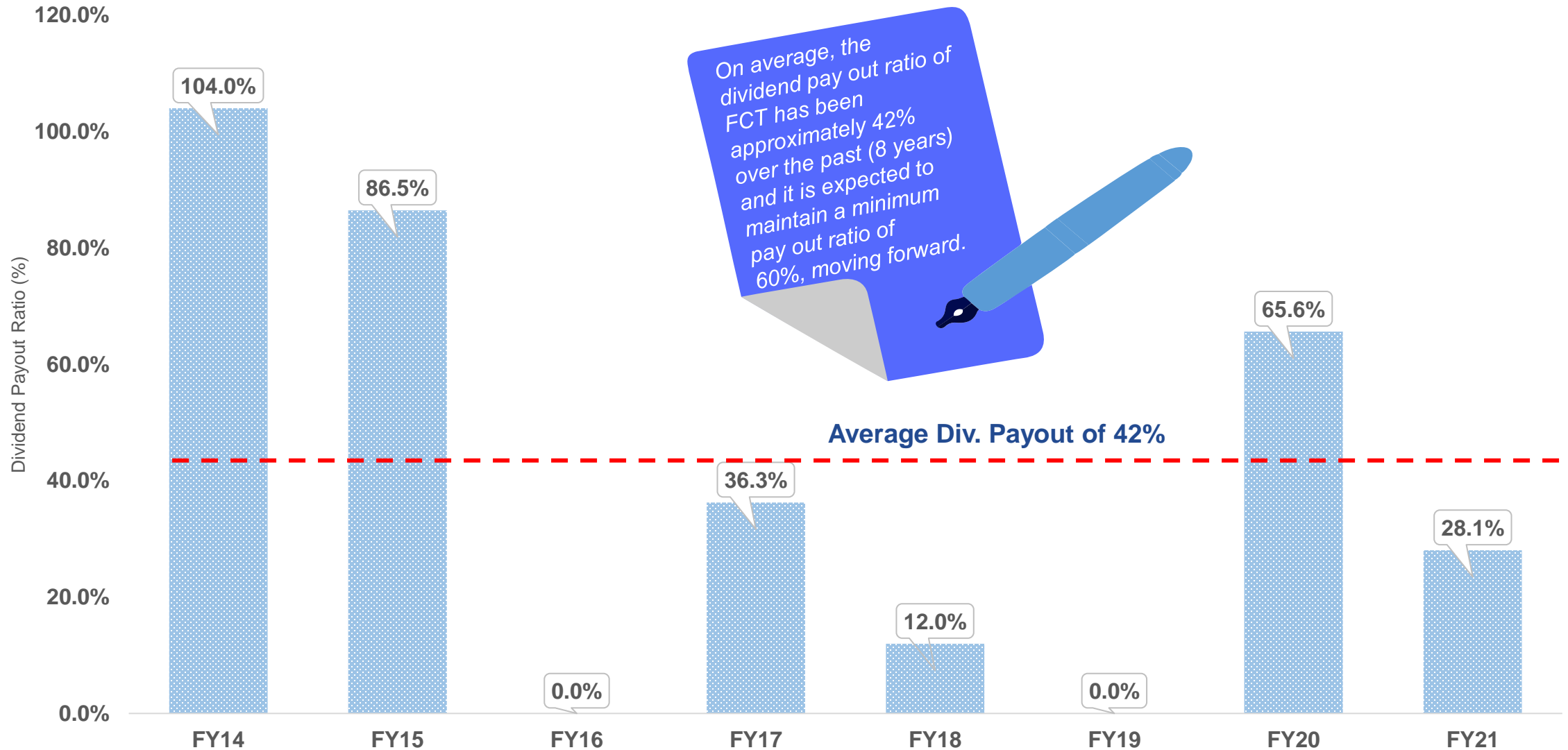
FCT recorded its highest PAT in its history in FY 21 amidst the significant decline in yields in Govt. securities

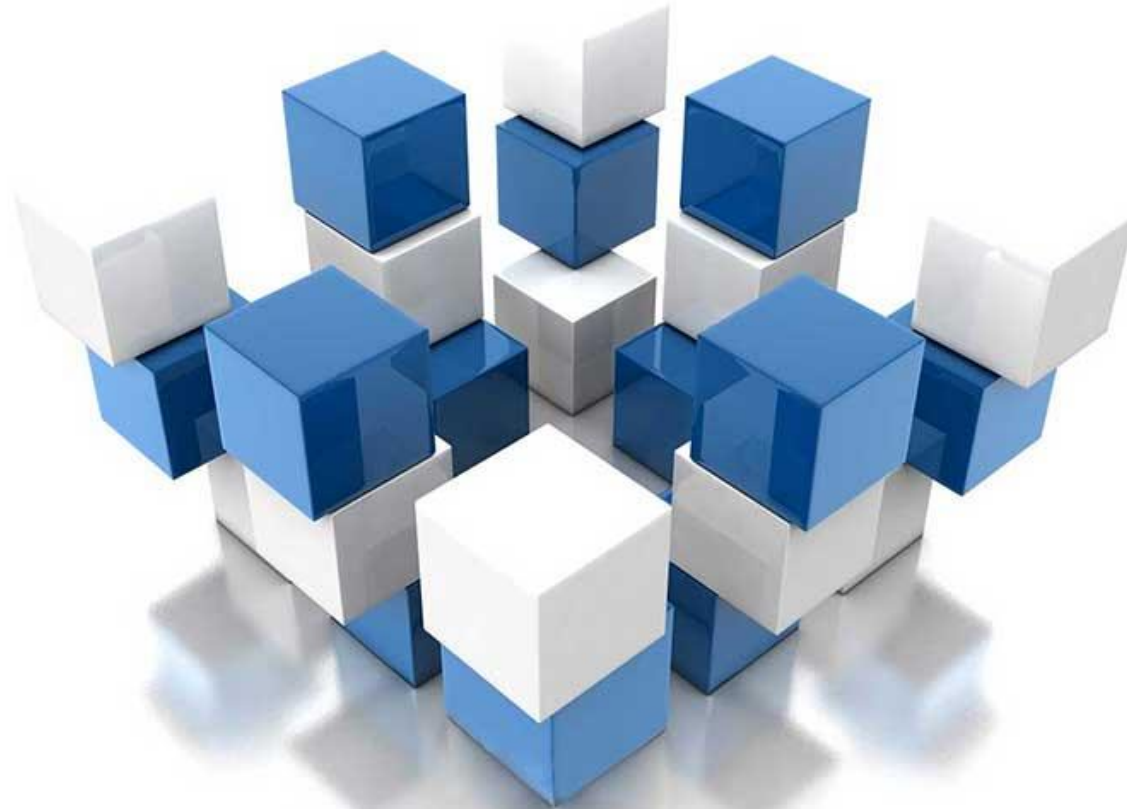


FCT claims a 5 Yr average ROE of 29%



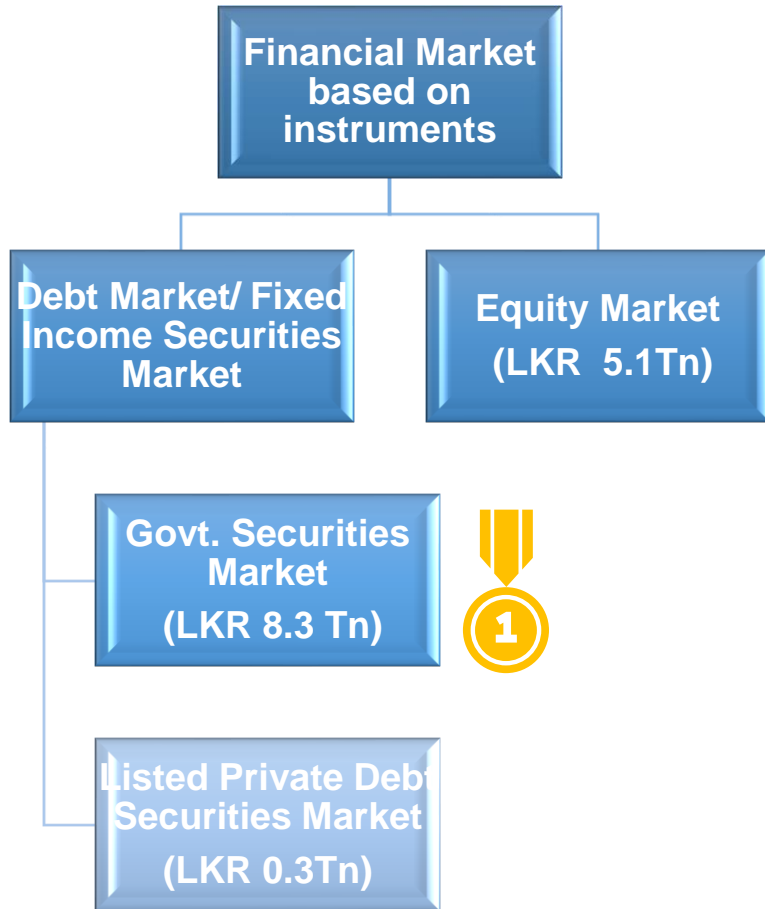
...and average 8-year dividend payout of 42%





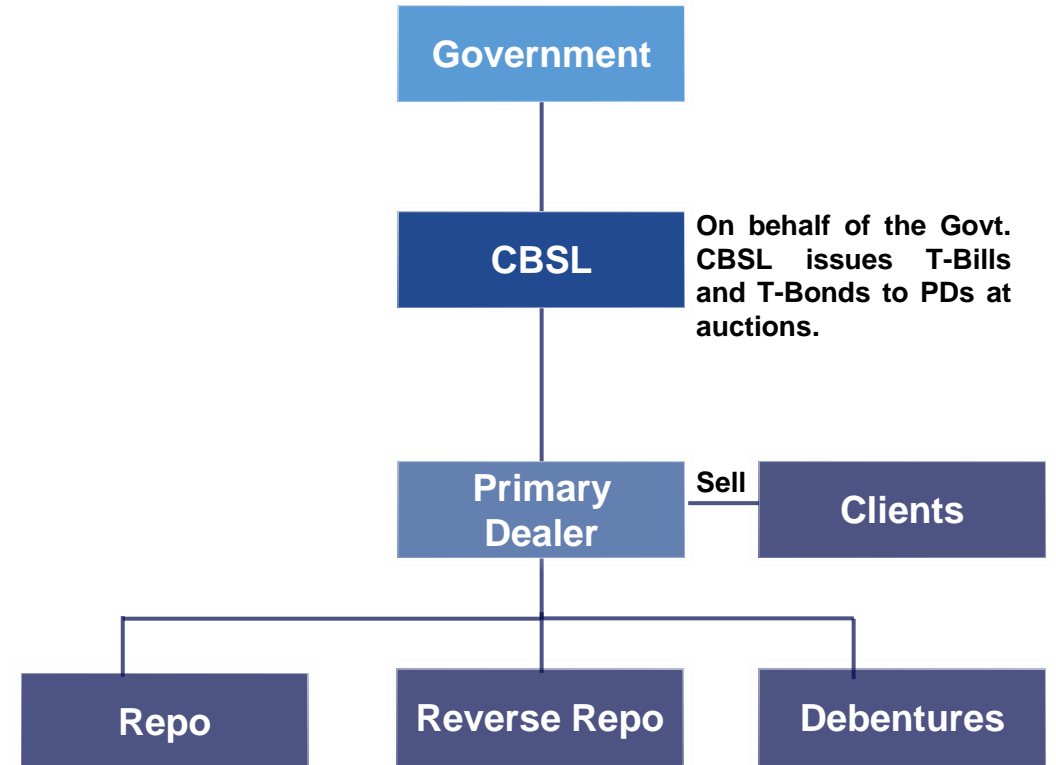
3.2 FCT operates in an industry represented by the largest asset class in the country

PDs raise debt for govt. which is the largest asset class

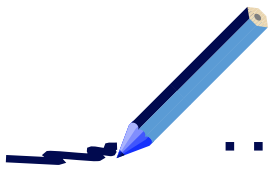


✓ Govt. securities market represented by bills and bonds is the largest asset class in the country with a value of LKR 8.3Tn as at end of Aug 2021.

Source: Company Reports and First Capital Research

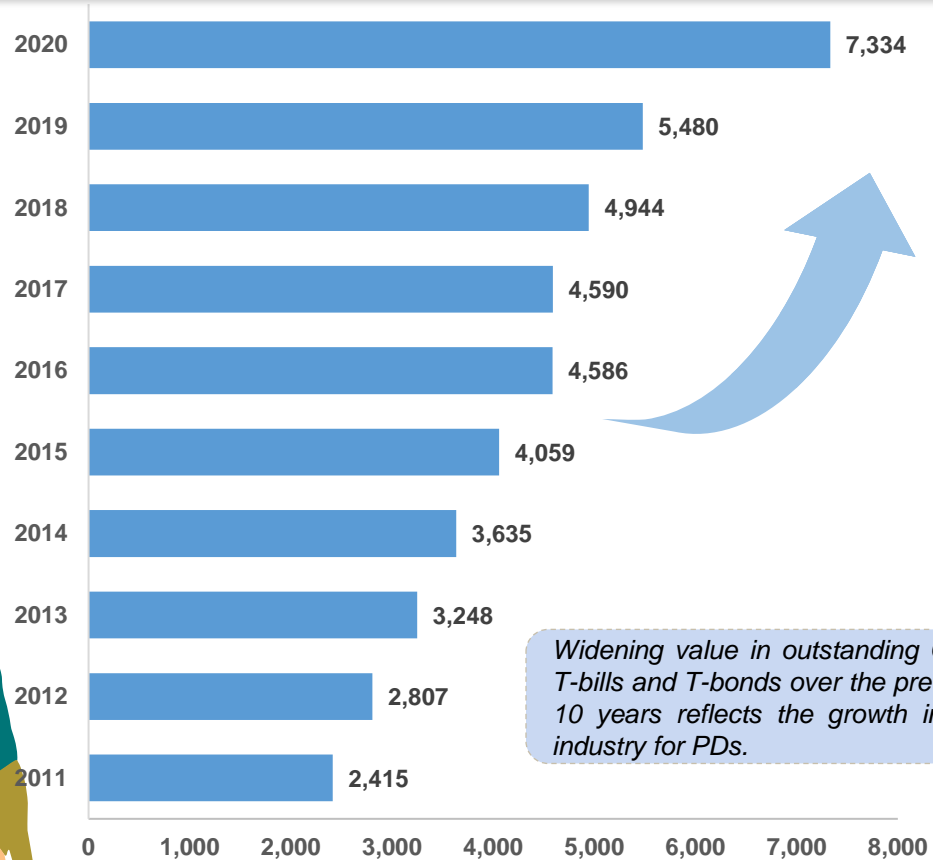


✓ PDs raise funds mainly through capital, Repos and by issuing Debentures to investors. Through Reverse Repo agreements PDs lend to clients by keeping the govt. security as a collateral.



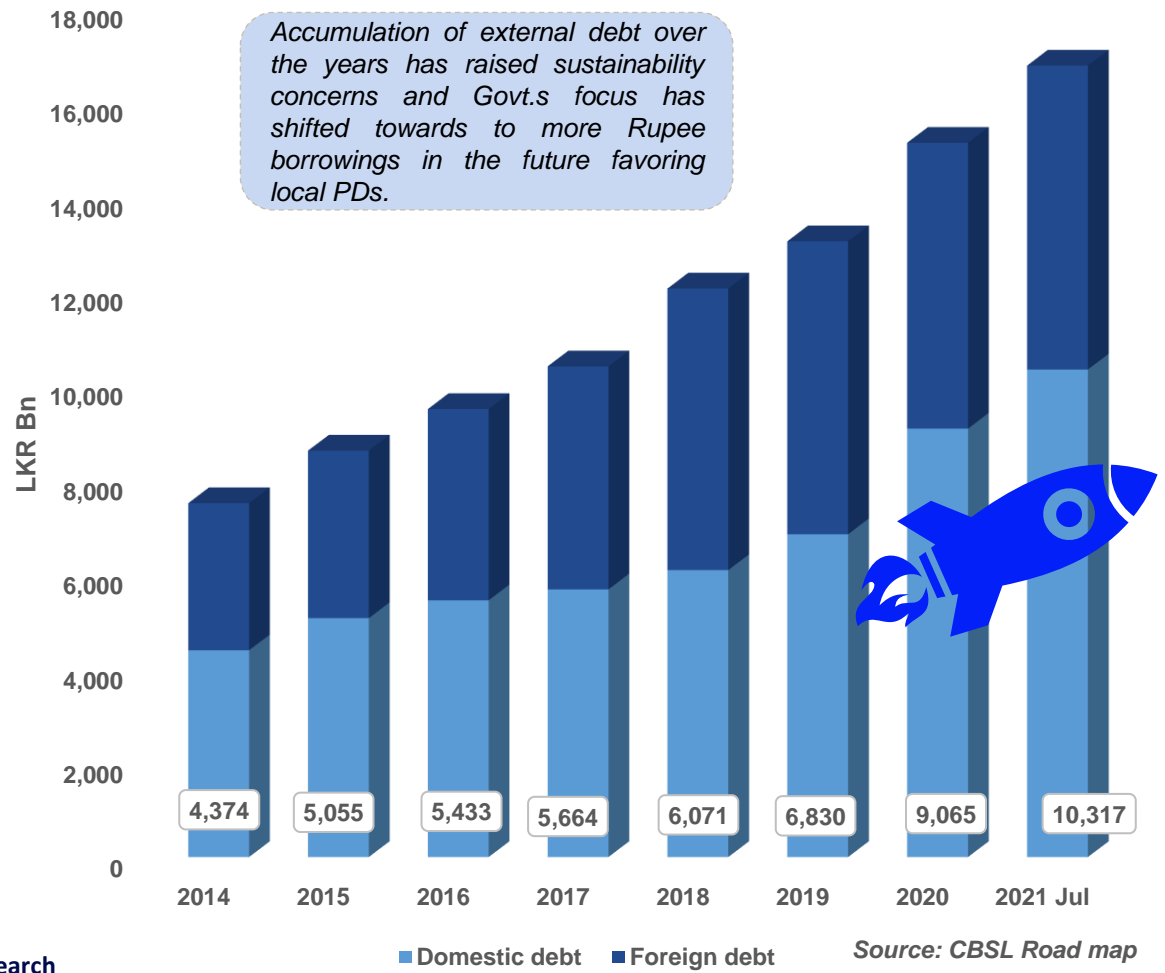
...and augurs well with gov't's increased LKR borrowing

Govt. bills and bonds CAGR of 13% over 10 Yr

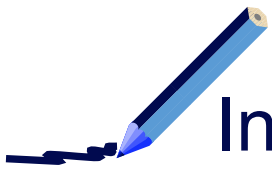


Widening value in outstanding Govt. T-bills and T-bonds over the previous 10 years reflects the growth in the industry for PDs.

Majority of Govt. debt comprises of "Domestic"



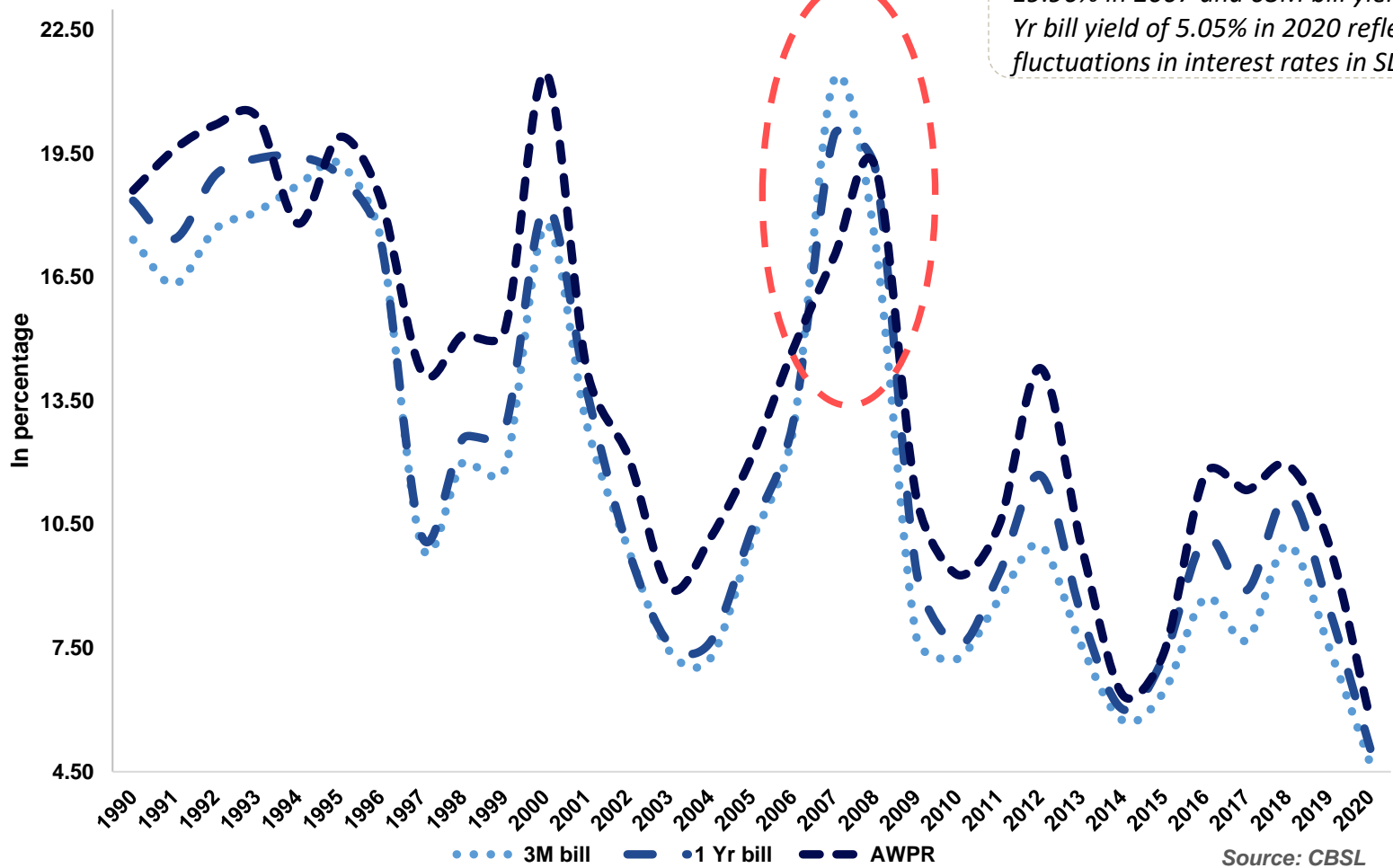
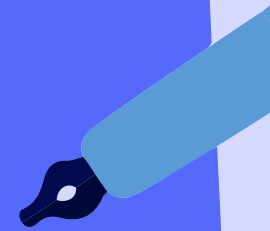
Accumulation of external debt over the years has raised sustainability concerns and Govt.s focus has shifted towards to more Rupee borrowings in the future favoring local PDs.

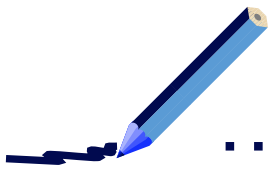


Interest rate volatility make abundant occasion for gains...

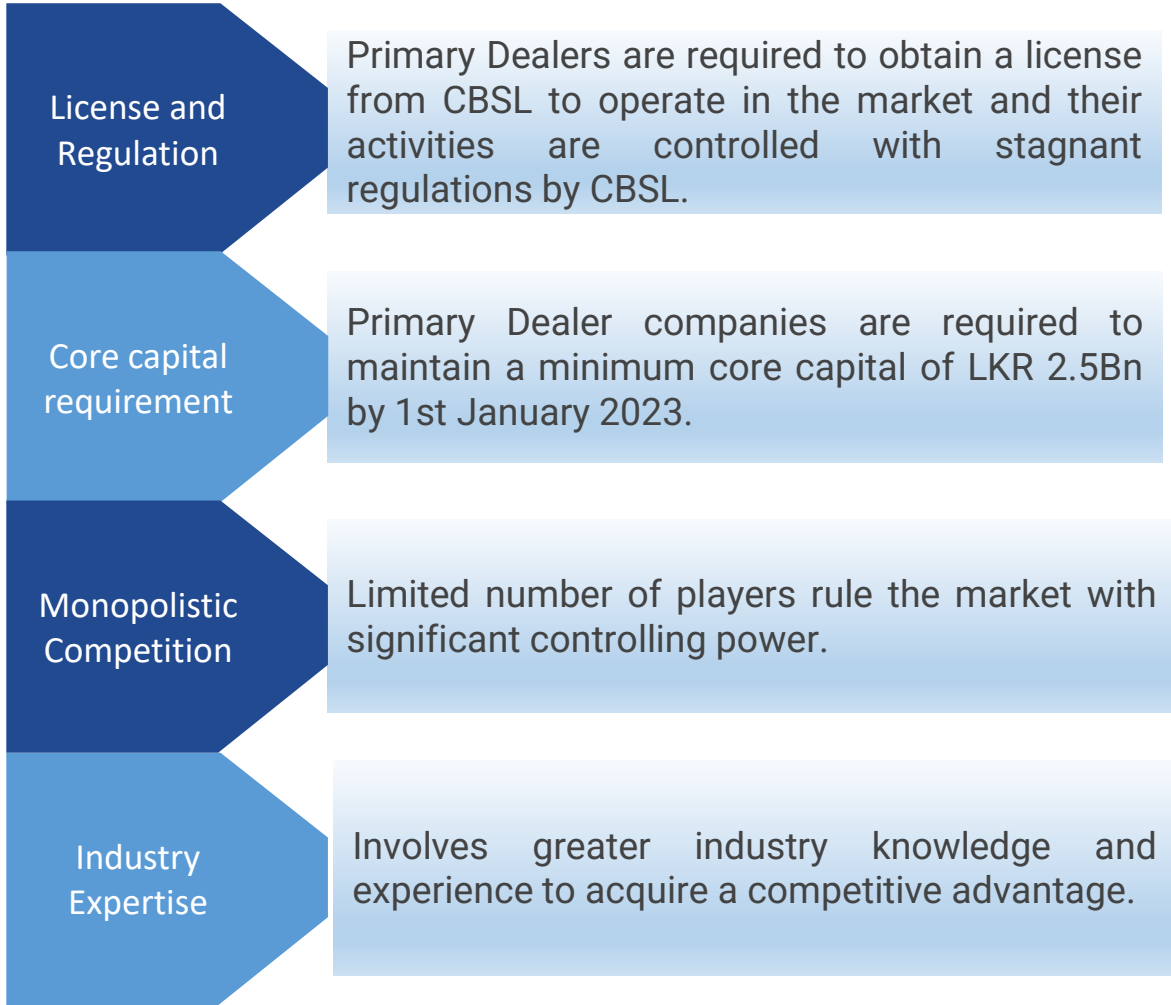
03M bill yield of 21.30% and 01 Yr bill yield of 19.96% in 2007 and 03M bill yield of 4.69% and 01 Yr bill yield of 5.05% in 2020 reflects the significant fluctuations in interest rates in SL.

Sri Lanka has witnessed significant fluctuations in interest rates from its history and this offers a greater opportunity for PDs to make trading gains with an accurate forecasts.



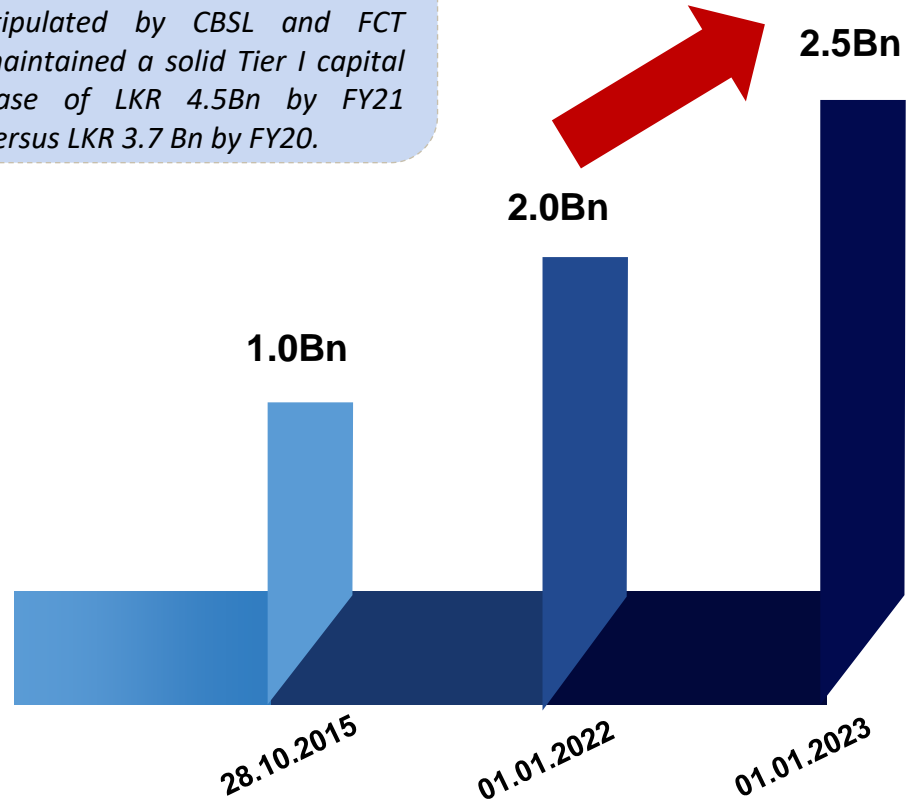


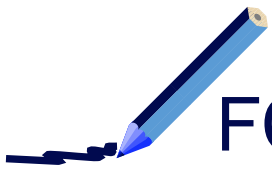
...while entry barriers create opportunity for existing players



Minimum core capital requirement for PDs

All Primary Dealer companies are required to maintain the core capital requirements stipulated by CBSL and FCT maintained a solid Tier I capital base of LKR 4.5Bn by FY21 versus LKR 3.7 Bn by FY20.





FCT is placed with the highest rating amongst non-bank PDs



Bank PDs

AA-(Outlook Stable) by Fitch



AA-(Outlook Stable) by Fitch



AA-(Outlook stable) by Fitch



A (Outlook stable) by Fitch



AA- (Outlook stable) by Fitch

Non-bank PDs



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A (Outlook Stable) by ICRA



A- (Outlook Stable) by ICRA



N/A



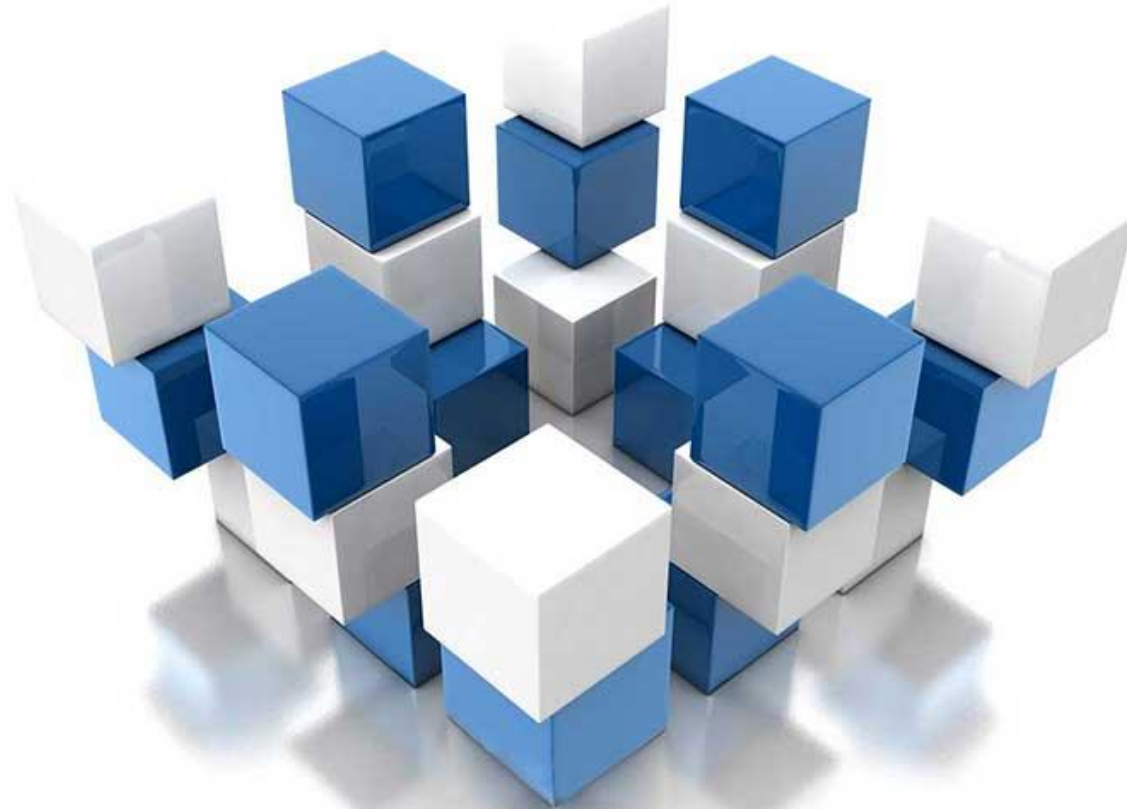
N/A



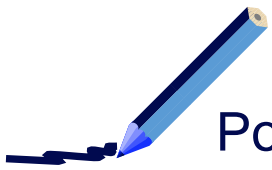
N/A

Currently there are 10 Primary Dealers, 5 standalone PDS and 5 banks with primary dealer units or subsidiaries. Considering the high barriers to entry, FCT is in a distinctive position as a non-bank primary dealer.

FCT also has the only Non-banking PD with the highest credit rating of [SL] 'A' with a stable outlook by ICRA Lanka

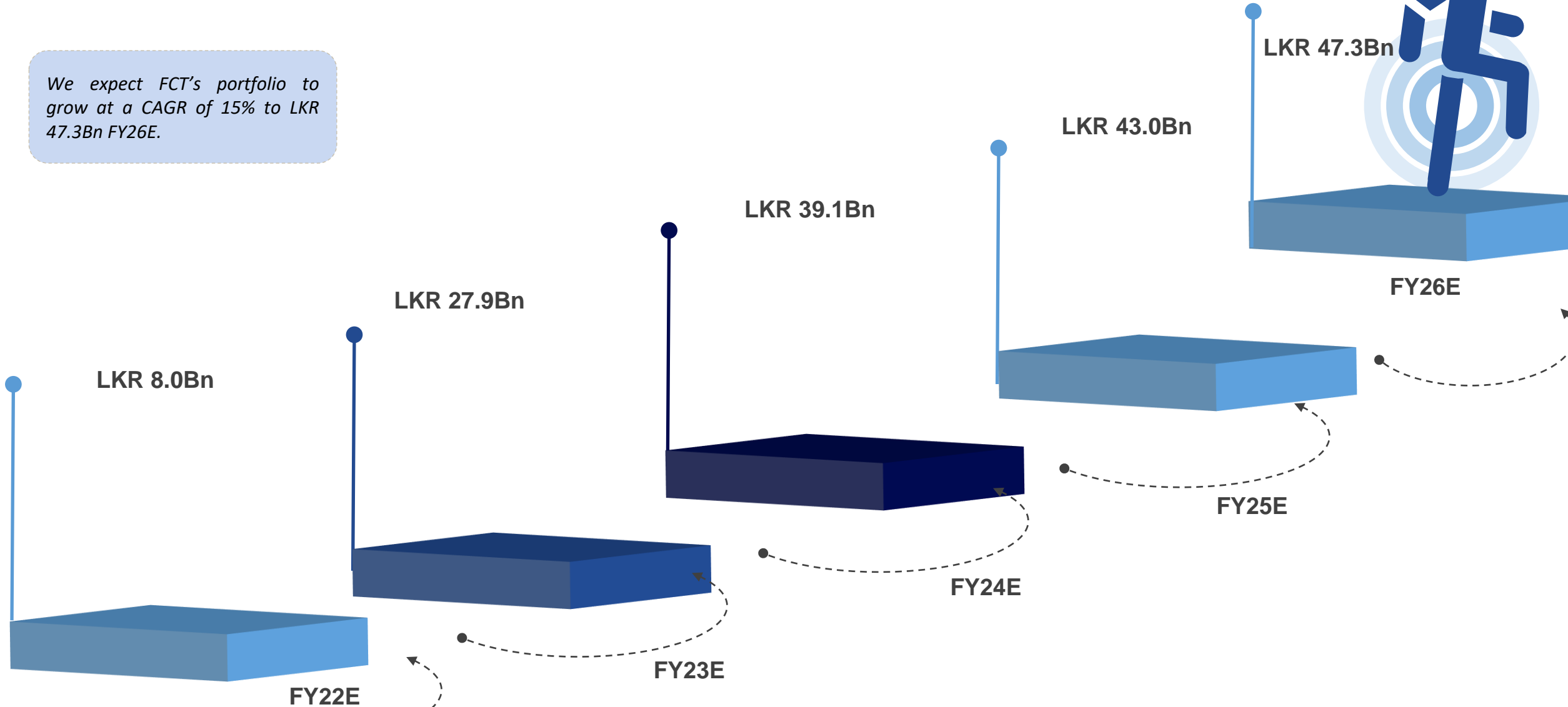


3.3 Earnings growth is expected to be driven by portfolio growth

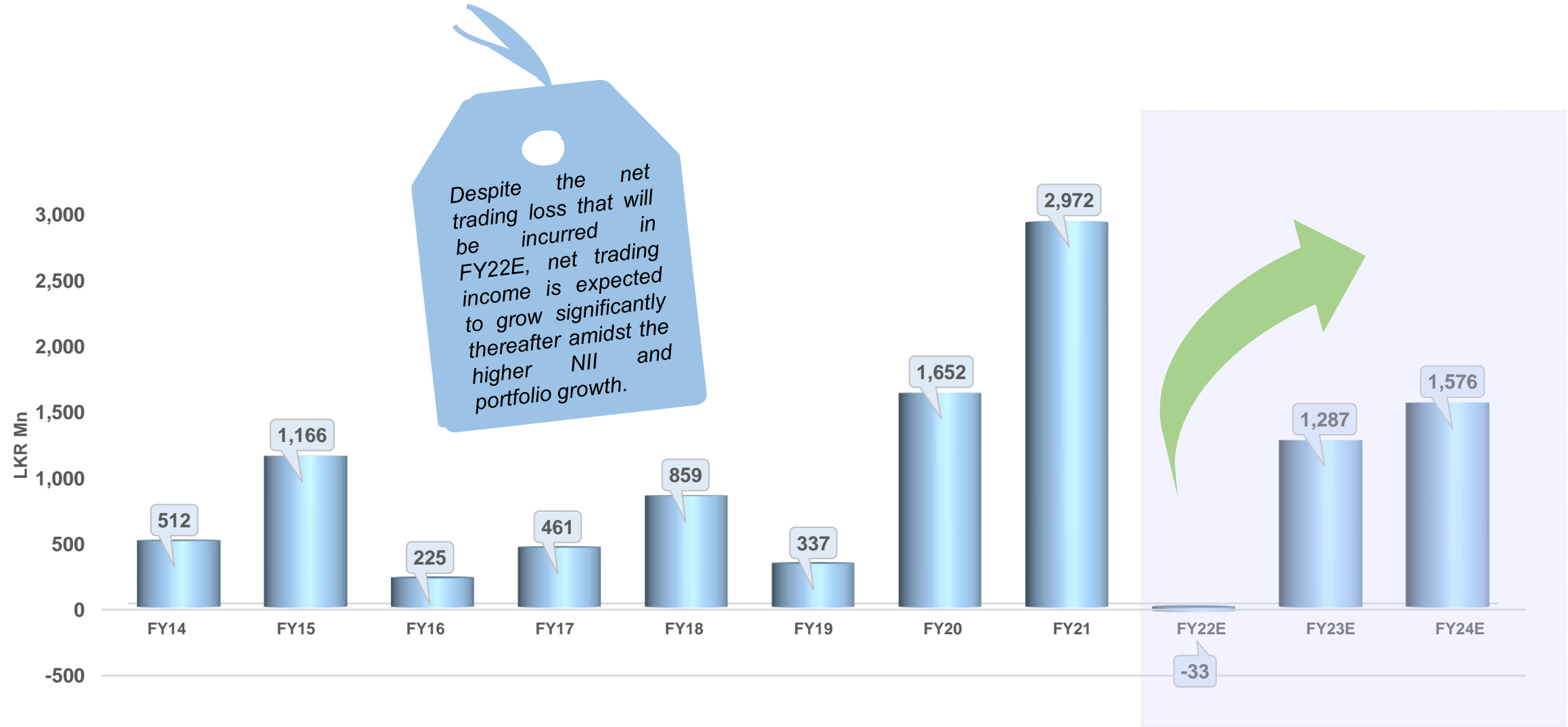


Portfolio is expected to grow at CAGR of 15% to LKR 47.3 Bn from FY23 - FY26E...

We expect FCT's portfolio to grow at a CAGR of 15% to LKR 47.3Bn FY26E.



...generating a net trading income of LKR 1.3Bn and LKR 1.6Bn FY23E and FY24E...



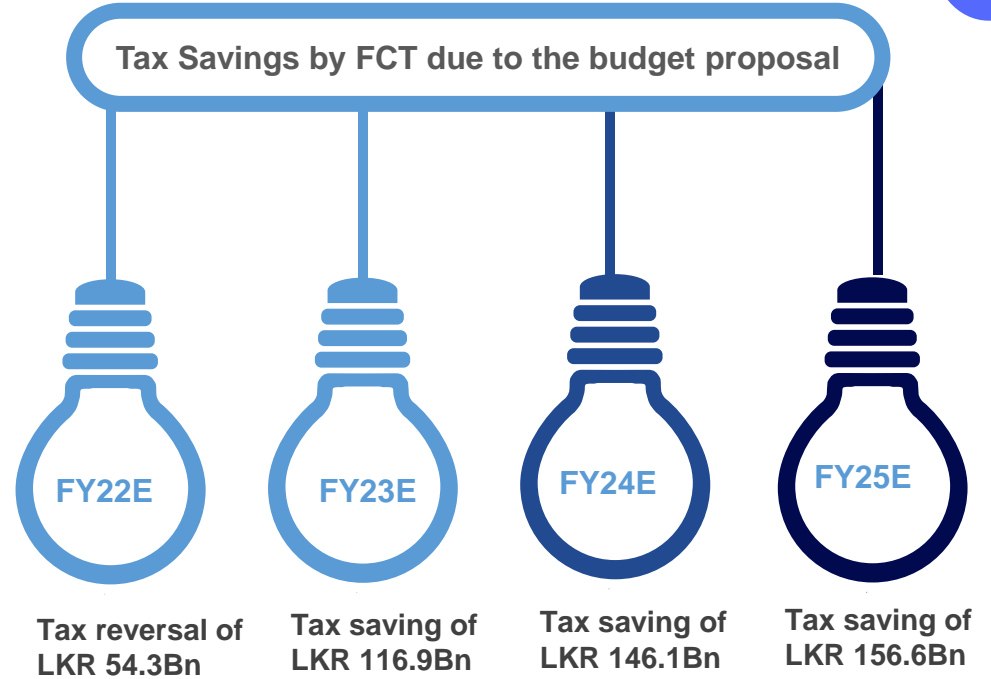
Source: First Capital Research Estimates

...while tax savings that will be generated with the listing is also expected to benefit...



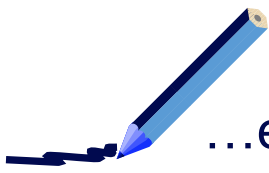
50% reduction on the income tax payable (other than on Capital Gains) by a company, which lists its shares in the CSE on or after 1st Jan 2021 but prior to 31st Dec 2021, for the year of assessment FY22.

Furthermore, gains and profits of such company (other than Capital Gains) shall be taxed at the rate of 14% for subsequent 3 years of assessment (i.e. FY23, FY24 and FY25).



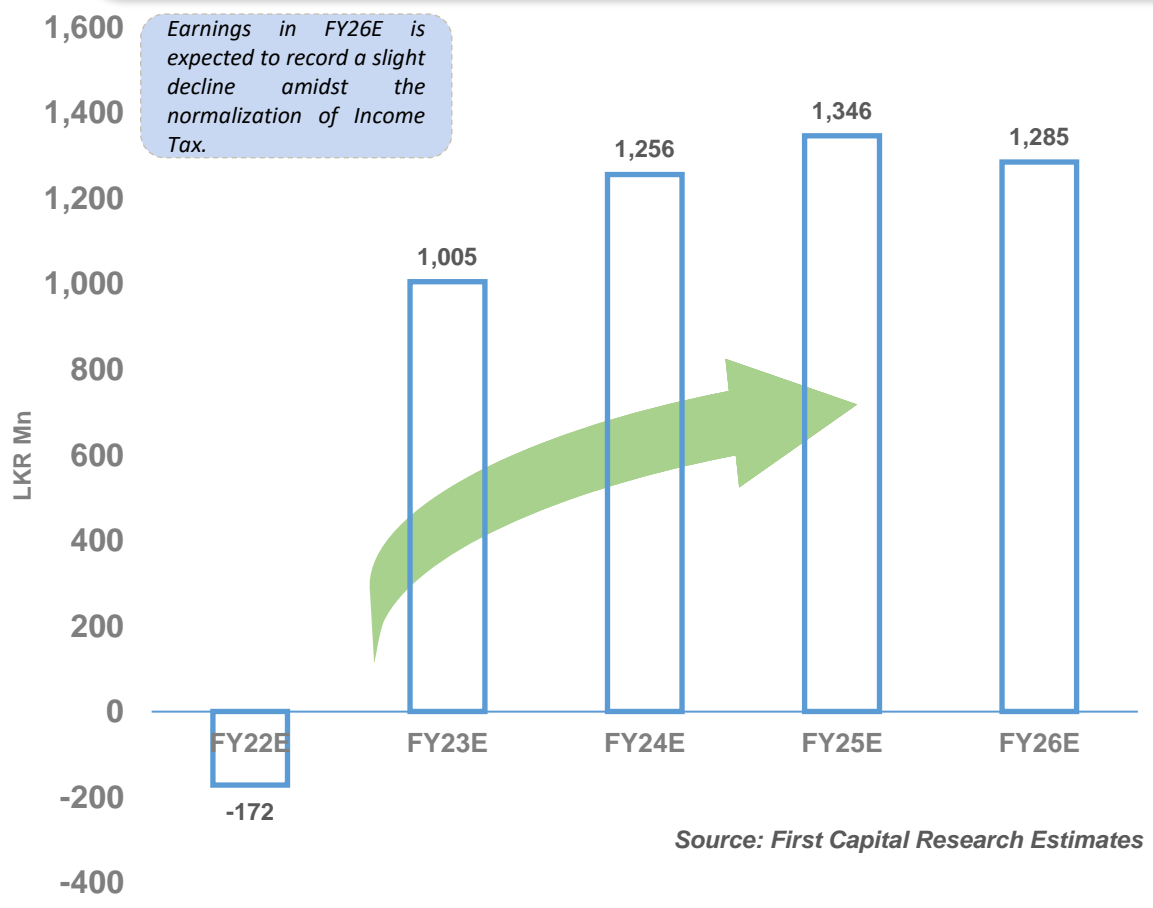
FCT is expected to significantly benefit from the above-mentioned budget proposal resulting in a significant tax savings. Tax savings are expected to boost earnings from FY23E-FY25E.

Source: First Capital Research Estimates



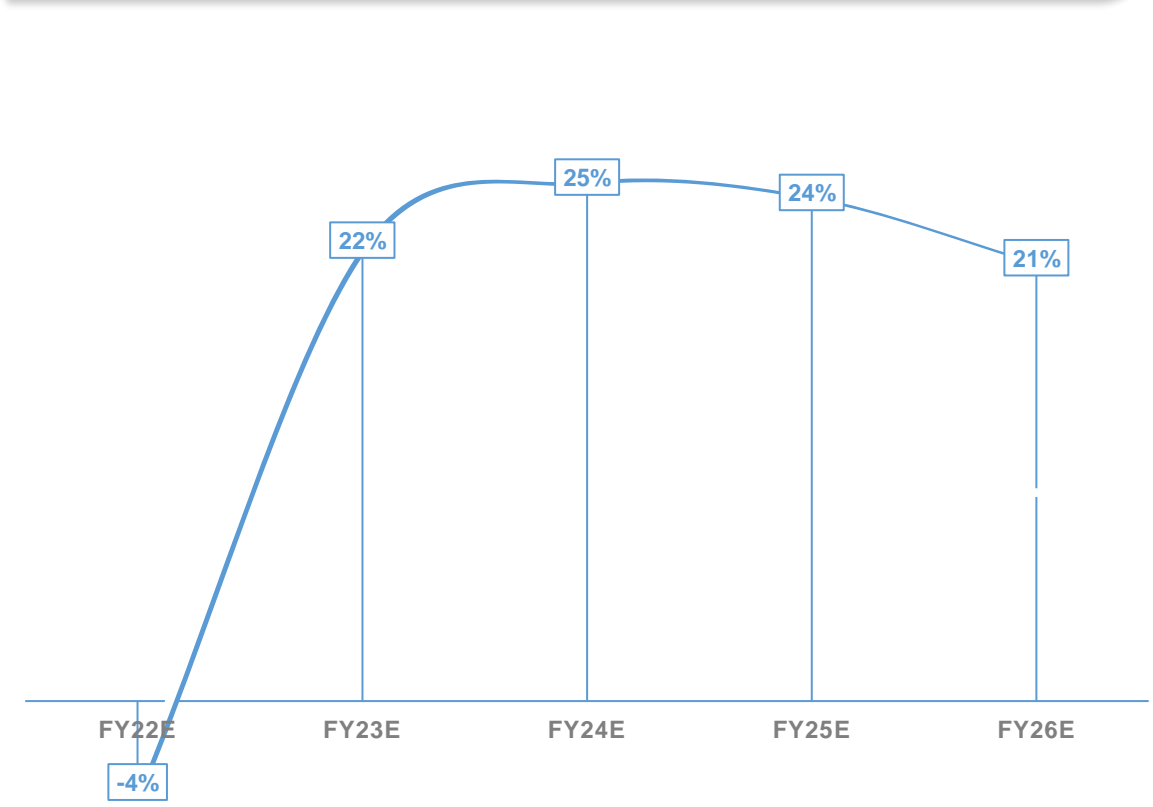
...earnings CAGR of 8.5% from FY23E-FY26E and average ROE of 23%...

Earnings are expected to grow at a CAGR of 8.5% from FY23E-FY26E



Source: First Capital Research Estimates

ROEs are expected to maintain at an average of 23% during FY23E-FY26E



Source: First Capital Research Estimates



3.4 Solid company strategy to drive the future growth

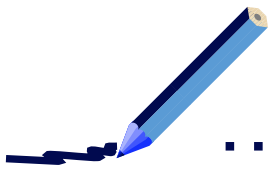


Ongoing digital transformation...

Breaking barriers in the non-bank financial services space, First Capital Group is the first in Sri Lanka to offer a fully integrated digital account opening process for Unit Trusts and Government Securities clients.

Revolutionized the industry with First Capital Online Customer Portal's self-signup and digital onboarding facility that accommodates non-face-to-face account openings

First Capital Group is at the forefront of digital transformation and is committed to developing digital services to further enrich the customer experience.



...and solid research to forecast macro variables...

First Capital

EQUITY | EXCHANGE RATE
EVENT UPDATE | 19 APR 2021

RUPEE STRENGTHENING TO BE SHORT LIVED
BUY ON WEAKNESS [HAYL, HAYC, DIPD, MGT, TJL, EXPO]

EVENT UPDATE

Rupee appreciates with CDB loan: Sri Lankan Rupee appreciated 5.0% against the US Dollar over the last 2 market days reversing the continuous accelerated depreciation witnessed in Jan-Apr 2021. On 12th Apr LKR recorded a historical low of LKR 201:1 USD. Ministry of Finance (MoF) reported on 12th Apr that Govt of Sri Lanka entered into a loan agreement with the China Development Bank (CDB) for USD 500Mn and MoF expected the funds to be disbursed during the same week. Following the announcement, the market registered a steep appreciation with mid-rate today (19th) recording at LKR 190.9.

Reserves fall to lowest since 2009: Sri Lanka's Foreign reserves

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LKR appreciates 5.0%

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LIVE WEBINAR

MID-YEAR OUTLOOK 2021
SRI LANKA

Fiscal Weakness Threatens Bumpy Recovery; Hints IMF

MODERATED BY

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Founding Chair of LIRNEasia
- DESHAL DE SILVA**
Director Research, Verité Research
- CHANDRIEN DE SILVA**
Senior Portfolio Manager, LVL Energy Fund
- RIZMIN RAJ**
Chief Financial Officer, WindForce
- DILSHAN WIRASEKERA**
Director/CEO, First Capital

FIRST CAPITAL EQUITY FORUM
Life Insurance and Port City

Presenting the First Capital research report on the Life Insurance Sector followed by a panel discussion on the Life Insurance Sector and a dialogue on the Colombo Port City Economic Commission Act.

- Harshanee Deshapriya**
Analyst Officer
- Ittikar Ahamed**
Managing Director, Sottologic Life Insurance PLC
- Prakash Schaffter**
Executive Chairman, Janashakti Insurance PLC
- Dilshan Wirasekera**
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"ASPI SURPASSES FAIR VALUE; REDUCE EQUITY EXPOS

Increase Cash

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VACCINATION DRIVE TO REVIVE TOURISM

COVID-19

13 Aug 2021 |

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...is expected to support its performance first strategy

Rewarding and recognizing staffs is a major component behind the success of promise to deliver
#PerformanceFirst

Continuing to uphold its brand promise of “Performance First”, First Capital Group is committed to delivering greater value to all its stakeholders as it embarks on the next phase of its growth story as a formidable financial solutions provider in Sri Lanka.

Certified as a Great Workplace, by Great Place to Work® Sri Lanka. It is a testament to our commitment to fostering a work environment that gives people opportunities to achieve greatness.





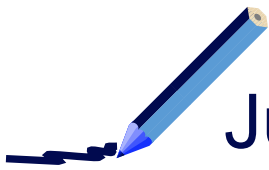
4. Valuation

Valuation yields TP of LKR 47.5 for FY23E with a 22% AER

Expected FCT price	FY23E
Justified PBV based target price	43.7
PER Valuation based target price	49.0
RI Valuation based target price	49.7
Average Target Price	47.5
Target Price after Rounding off	47.5

Return	FY23E
Target Price	47.5
Current Price	39.0
Capital Gain (LKR)	8.5
Dividends upto 31st Mar (LKR)	3.9
Capital Gain %	22%
Dividend Yield %	10%
Total Return %	31%
Annualized Return %	22%

P/E 31st Mar	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Estimates (LKR 'Mn)							
Net Trading Income	859	337	1,652	2,972	-33	1,287	1,576
Total Operating Income	998	269	2,015	2,793	6	1,469	1,797
Net Profit	1,671	96	1,208	1,837	-172	1,005	1,256
Adjusted EPS (LKR)	10.9	0.6	7.8	11.9	(1.1)	6.5	8.2
YoY Growth (%)	386%	-94%	1160%	52%	-109%	685%	25%
Valuations							
PER (x)	3.6x	62.6x	5.0x	3.3x	N/A	6.0x	4.8x
PBV (x)	1.9x	1.9x	1.6x	1.3x	1.4x	1.3x	1.1x
DY (%)	3.3%	0.0%	13.2%	8.6%	0.0%	10.0%	12.6%

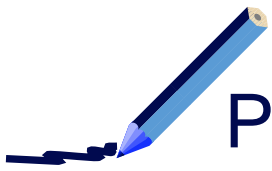


Justified PBV and Residual Income based valuation

Justified PBV based Valuation	FY23E
ROAE	22%
Growth	3%
COE	16%
PBV	142%
NAVPS	30.9
Target Price	43.7

COE	FY23E
Rf	10%
Rm	18%
Growth %	3%
β	0.81
$Ke=Rf+\beta(Rm-Rf)$	16%

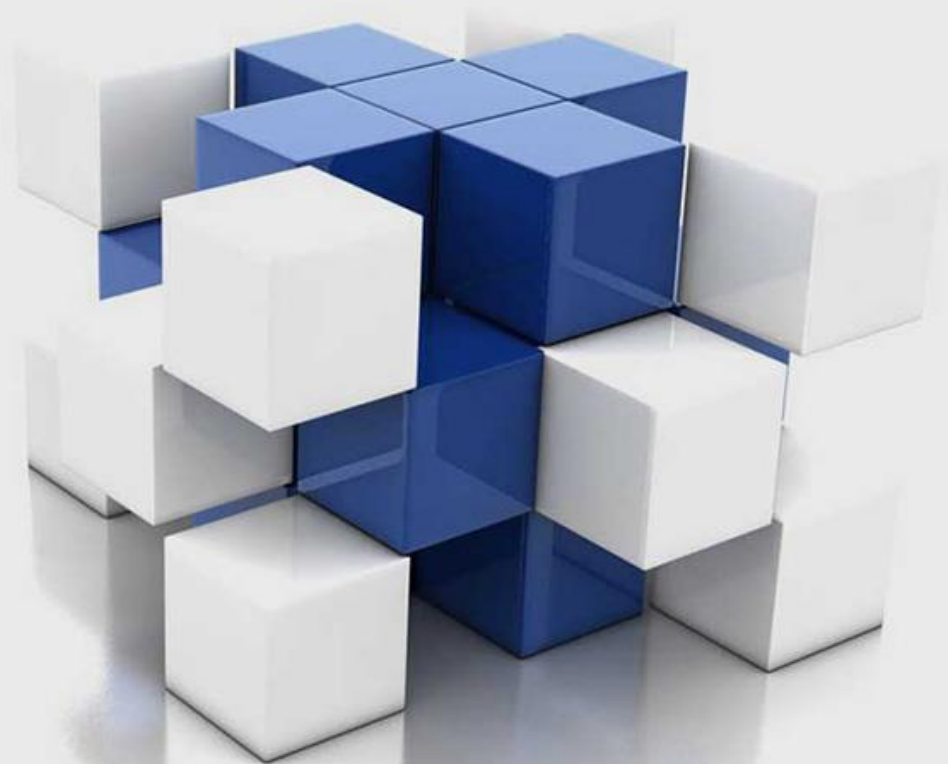
Residual Income based Valuation	FY23E
PV of Residual Income	3,300
No. of Shares ('Mn)	154
RI per Share	21
Opening Book value per Share	28.2
Value per Share	49.7



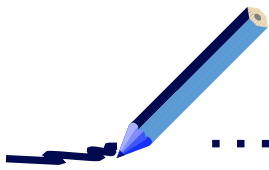
PER Based valuation

PER based Valuation	FY23E
Earnings (LKR 'Mn)	1,005
No. of Shares ('Mn)	154
EPS	6.5
Expected PER	7.5x
Price at 7.5x Earnings	49.0

Despite the Diversified Financials sector average PE of 23.7x we have used 7.5x on a conservative note.



5. Appendices



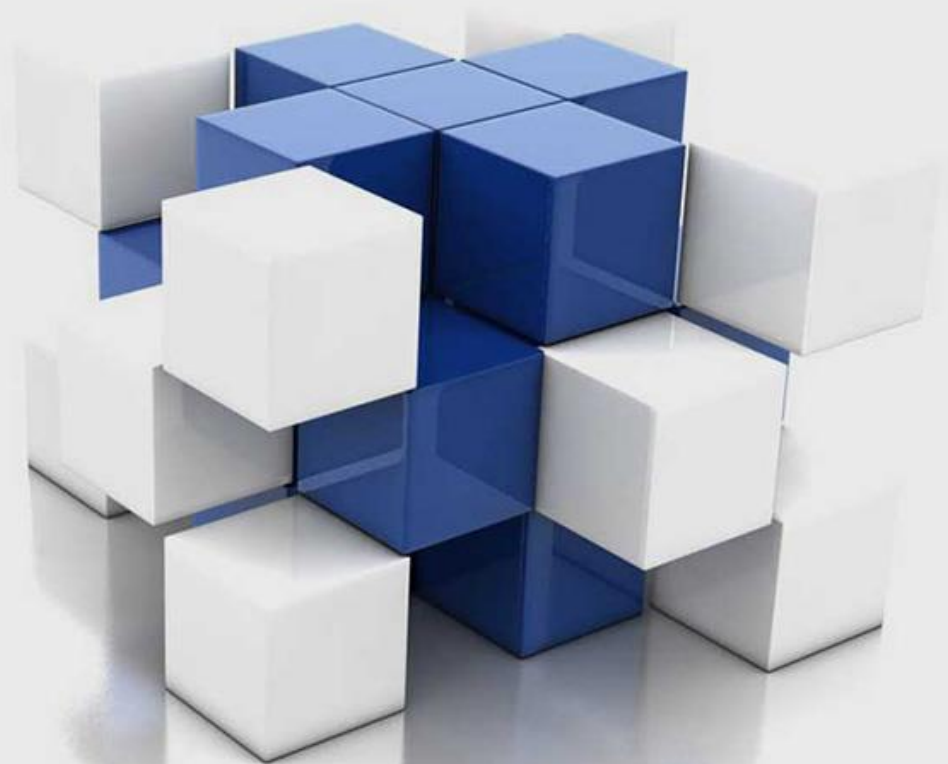
...Income Statement

Income Statement (LKR Mn)	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
P/E 31st Mar								
Income	2,536	2,510	2,672	3,708	4,294	608	3,357	4,779
Direct Expenses	-2,075	-1,651	-2,335	-2,056	-1,323	-641	-2,070	-3,203
Net Trading Income	461	859	337	1,652	2,972	-33	1,287	1,576
Other Income/Exchange gain	4	0	8	1	207	109	115	120
Net gain/ (loss) on Fair Valuation of Financial assets	25	139	-76	363	-386	-70	67	101
Total Net trading Income before expenses	489	998	269	2,015	2,793	6	1,469	1,797
Operating Expenses								
Personnel Expenses	-65	-102	-74	-200	-324	-142	-206	-237
Premises, Equipment and Estab. Expenses	-51	-44	-32	-34	-34	-48	-48	-48
Other Operating Expenses	-30	-29	-25	-30	-37	-42	-46	-51
Finance cost	0	0	0	0	0	0	0	0
Profit before Tax	344	823	137	1,752	2,397	-226	1,169	1,461
Income Tax expense	0	847	-42	-544	-560	54	-164	-204
Profit for the Year	344	1,671	96	1,208	1,837	-172	1,005	1,256
EPS	2.2	10.9	0.6	7.8	11.9	(1.1)	6.5	8.2

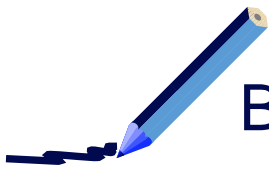


...Balance Sheet

Balance Sheet (LKR Mn)	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
As at 31st Mar								
Assets								
Cash at Banks and in Hand	14	3	2	8	147	72	176	260
Derivative Financial Instruments	24	48	3	3	2	0	0	0
Financial Assets recognised through profit or loss	15,384	23,376	29,533	36,212	23,085	7,977	27,919	39,087
Financial Assets - at Amortised cost	6,370	969	1,864	794	2,158	4,781	3,324	2,625
Financial Assets - FVOCI	1	1	0	0	0	0	0	0
Receivable from Related Companies	0	5	12	0	0	0	0	0
Taxes Receivable	12	12	1	1	0	0	0	0
Deferred tax asset	0	848	806	262	5	5	5	5
Other Assets	131	239	98	94	316	316	316	316
Property, Plant and Equipment and Right of use	3	1	1	7	10	10	10	10
Intangible Assets	1	0	1	1	1	1	1	1
Total Assets	21,940	25,503	32,323	37,383	25,724	13,162	31,752	42,305
Liabilities								
Bank Overdraft	0	3	7	0	0	0	0	0
Derivative Financial Instruments	2	22	3	3	1	1	1	1
Securities sold under Repurchase Agreements	19,677	21,692	27,483	32,183	19,330	6,940	25,128	35,179
Short term borrowings	0	0	991	0	0	0	0	0
Creditors and Other Payables	18	10	91	227	336	336	336	336
Payable to Related Companies	1	42	1	20	19	19	19	19
Taxes Payable	61	81	0	440	741	741	741	741
Borrowing on Listed Debentures	510	511	511	758	759	759	759	759
Retirement Benefit Obligations	9	11	11	14	20	20	20	20
Total liabilities	20,279	22,371	29,098	33,645	21,206	8,816	27,003	37,054
Equity								
Stated Capital	257	257	257	257	257	257	257	257
Risk Reserve	906	1,073	1,082	1,203	1,387	1,387	1,387	1,387
Retained Earnings	499	1,802	1,887	2,280	2,877	2,705	3,107	3,610
Fair Valuation Reserve	0	0	-1	-2	-2	-2	-2	-2
Total equity	1,661	3,131	3,225	3,737	4,518	4,346	4,748	5,251
Total equity and liabilities	21,940	25,503	32,323	37,383	25,724	13,162	31,752	42,305



6. Director Profiles



Board is comprised with veterans with wider industry experience



Nishan Fernando

CHAIRMAN

Nishan Fernando is a Fellow Chartered Accountant and a Chartered Global Management Accountant with Associate Membership of the Chartered Institute of Management Accountants, UK. He holds a master's degree in Business Administration from the Postgraduate Institute of Management, University of Sri Jayewardenepura, and is a graduate of the Sri Lanka Institute of Directors.



Dinesh Schaffter

MANAGING DIRECTOR

Dinesh Schaffter is a Member of the Chartered Institute of Management Accountants (CIMA), UK and holds a bachelor's degree in Law (LL.B.) and an executive master's degree in Business Administration (MBA) from INSEAD, France.



Dilshan Wirasekara

DIRECTOR/CEO

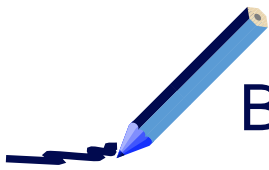
Dilshan Wirasekara is an Alumnus of INSEAD having successfully completed his Executive Professional Education at INSEAD Business School in Fontainebleau, France. He is also an Alumnus of AOTS, Tokyo, Japan.



Prakash Schaffter

DIRECTOR

Prakash Schaffter is a graduate of Cambridge University and has over three decades of managerial and financial experience in both Sri Lanka and the United Kingdom. Prakash currently serves as the Deputy Chairman of Janashakthi Limited, the parent company of First Capital Holdings PLC.



Board is comprised with veterans with wider industry experience



Ramesh Schaffter

DIRECTOR

Ramesh Schaffter is a Fellow Member and former Council Member of the Chartered Institute of Management Accountants, Sri Lanka and an Associate Member of the Chartered Institute of Marketing. Ramesh currently serves as Managing Director / Group Chief Executive Officer of Janashakthi Limited, the parent company of First Capital Holdings PLC



Minette Perera

MANAGING DIRECTOR

Minette Perera is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka, the Chartered Institute of Management Accountants of UK and the Association of Chartered Certified Accountants of UK. She has over 40 years working experience as a qualified accountant having worked in leading local and international companies as an Executive Director.



Chandana De Silva

DIRECTOR

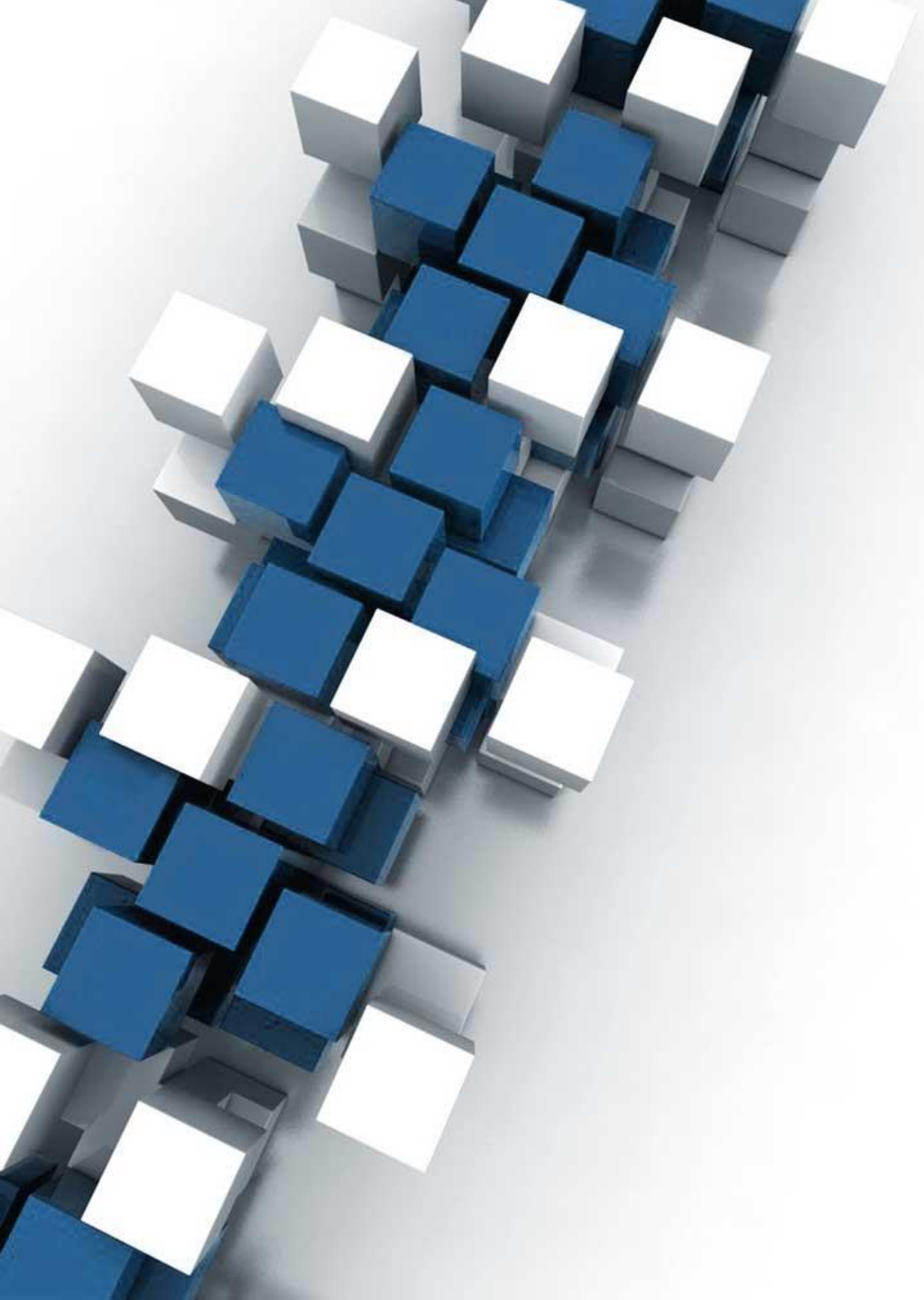
Chandana de Silva is a Fellow of the Institute of Chartered Accountants in England and Wales and in Sri Lanka. He holds a Bachelor of Science in Mathematics and Management from the University of London, UK.



Nishan de Mel

DIRECTOR

Nishan de Mel is an economist with extensive academic, policy and private sector experience. He holds Masters and Doctoral degrees in Economics from the University of Oxford, UK and a Bachelor of Arts degree in Economics from Harvard University, USA.



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THANK YOU

“Successful Investment Is About Managing Risk...”

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