

**SAMPATH BANK PLC [SAMP.N0000]****MAINTAIN BUY****NII GROWTH PERKS UP 4Q2021 EARNINGS!!!****Fair Value: 2022E - LKR 65.0 [+21%]****Total Return with DPS: 2022E - 29% [AER 36%]**

SAMP's bottom line surged by 25.7%YoY in the 4Q2021 to LKR 4.1Bn while the surge was attributed to the rise in Total Operating Income by 49.7%YoY to LKR 18.4Bn despite the significant increase in impairment by 608.2%YoY to LKR 7.4Bn. Total Operating Income was led by the improvement in NII, Net Fee and Commission and Net Other Operating Income. Earnings for 4Q2021 were broadly in line with our expectations which was estimated at LKR 4.2Bn resulting in earnings for 2021 also in accordance with First Capital Research estimate of LKR 14.0Bn relative to actual earnings of LKR 13.9Bn. With the strong capital buffer, we believe that SAMP has the capacity to grow its lending book with the gradual resumption of economic activities while margins to enhance amidst the potential rise in interest rates. Considering the fact that performance for 4Q2021 is in line with our expectations, we broadly maintain earnings for 2022E although the fair value is marginally downgraded to LKR 65.0 from LKR 70.0 considering the higher risk-free rate applicable for valuations, with the potential rise in interest rates. **MAINTAIN BUY**

| LKR (Mn) | 4Q2020 | 4Q2021 | YoY | 2020 | 2021 | YoY |
|--------------------------------|---------|---------|------|---------|---------|------|
| Earnings (LKR 'Mn) | | | | | | |
| NII | 8,648 | 13,027 | +51% | 36,827 | 45,518 | +24% |
| Total Operating Income | 12,262 | 18,354 | +50% | 50,066 | 64,399 | +29% |
| Net Operating Income | 11,219 | 10,966 | -2% | 36,866 | 45,840 | +24% |
| Pre Tax Profit | 4,583 | 5,339 | +16% | 11,890 | 18,825 | +58% |
| Net Profit | 3,229 | 4,058 | +26% | 8,443 | 13,856 | +64% |
| Balance Sheet (LKR 'Mn) | | | | | | |
| Loans | 752,438 | 795,804 | +6% | 752,438 | 795,804 | +6% |
| Shareholders' Equity | 114,415 | 127,186 | +11% | 114,415 | 127,186 | +11% |
| NAVPS | 100.0 | 111.1 | +11% | 100.0 | 111.1 | +11% |

Earnings improved by 25.7%YoY led by growth in total operating income despite the rise in impairment

SAMP registered a 25.7%YoY surge in earnings with the improvement in Total Operating Income by 49.7%YoY to LKR 18.4Bn despite the rise in impairment by 608.2%YoY to LKR 7.4Bn. SAMP's Net interest income for 4Q2021 was LKR 13.0Bn reflecting an increase of 50.6%YoY, led by the decrease recorded in interest expenses as a result of strong improvement in CASA and owing to a growth in interest income by 10.5%YoY to LKR 24.4Bn. Net fee and commission income, comprising fees related to loans and advances, credit cards, trade and electronic channels, increased by 49.5%YoY to LKR 3.9Bn while the growth was driven by a strong increase in fee-based revenues generated from trade related transactions, the sizable improvement in credit card business volumes and higher volumes of online transactions made through bank's digital products in 2021 compared to last year. Net Other Operating Income grew by 51.9%YoY backed by the increase in realised exchange income stemming from the depreciation of the LKR against the USD reported during 4Q2021. We estimate NII to grow by 14.7%YoY and 12.9%YoY to LKR 52.2Bn and to LKR 58.9Bn for 2022E and 2023E respectively.

Impairment rose by 608.2%YoY for 4Q2021 as a result of provisioning made considering the severity of the pandemic impact

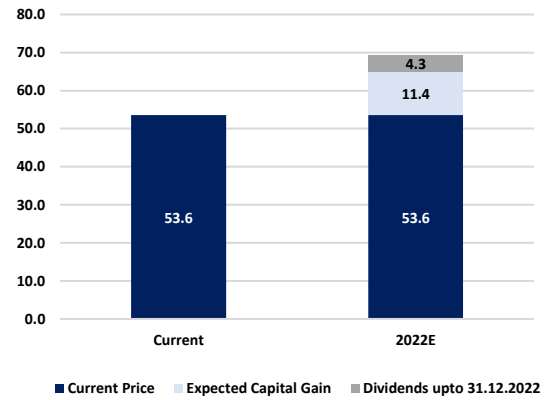
Credit granted for 2021 amounted to LKR 43.4Bn with a 5.8%YTD growth although loan book growth was relatively lesser compared to the private sector credit (which grew by 13.1% during 2021) as a result of SAMP's conservative nature in lending. SAMP provided LKR 7.4Bn in 4Q2021 as the impairment, up by 608.2%YoY, relative to 3Q2020 considering a continuous extension of the moratoriums and the prolonged impact of the pandemic to the economy. As a means of factoring the long-term impact of COVID-19 on the client's ability to repay loans, SAMP reassessed the risk profiles of its customers in order to determine if they should be moved to lifetime expected credit losses (Stage 2) from the 12-month expected credit losses (Stage 1) under collective impairment. Based on this assessment, customers were transferred to stage 2 in circumstances where their business models appeared to be affected by the prolonged economic consequences brought on by the pandemic. In addition, SAMP also increased the loan loss provision for moratorium loans classified under Stage 1 and Stage 2 as an allowance for overlay in order to capture potential non-payment of loans upon the expiry of moratoriums. Accordingly, impairment for 2021 was LKR 18.6Bn up by 40.6%YoY slightly higher than our estimate of LKR 16.7Bn. SAMP also increased the impairment provision against the foreign currency denominated government instruments. Considering the impact of the pandemic, expiry of moratoriums in 2022E and macro uncertainties we have estimated an impairment of LKR 15.0Bn which is an increase of 42.6% compared to the previous forecast for 2022E.

Well above capital ratios to boost lending portfolio when the economic activities improve

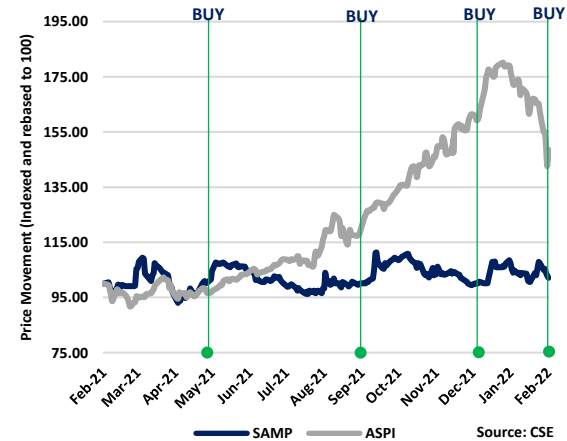
With the boost in profitability, SAMP's Tier I and Total Capital Adequacy Ratios improved to 14.1% and 17.0% as at 31st Dec 2021 which are well above the minimum regulatory requirement of 8.0% and 12.0%. We believe that SAMP's adequate capital buffer may enable it to sail through the tough times and help in boosting the credit growth in the near term when the economic activity recovers to a greater extent.

Fair Value is marginally downgraded to LKR 65.0 for 2022E – MAINTAIN BUY

We have broadly maintained the earnings for 2022E in-line with our previous forecast while earnings for 2023E have been upgraded by 11.3% to LKR 23.2Bn considering the rise in interest rate environment and gradual recovery in economic activities. At the current market price of LKR 53.6, 2022E fair values imply an upside of 21.0% and the share trades well below its current book value of LKR 111.1 with a PBV of 0.5x **MAINTAIN BUY**.

**FIRST CAPITAL RESEARCH**

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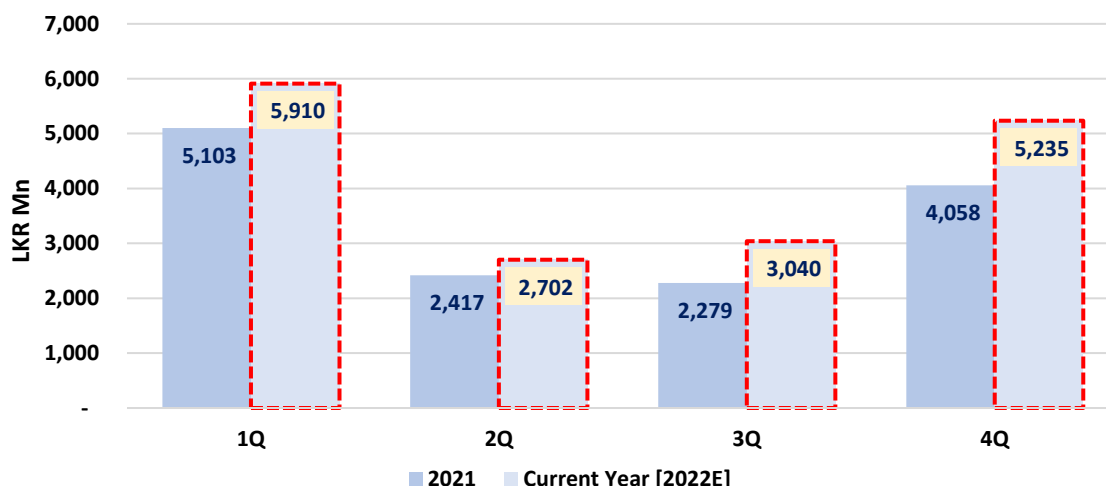
Price movement of SAMP vs ASPI (Indexed and rebased to 100)**Minimum Return for BUY:**

Buy Below for 2022E [AER of 15.0% with DPS]: LKR 61.7
SAMP 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 SAMP during the five trading days prior to the issuance of this document.

Quarterly Earnings



Estimate Revision

| In LKR Mn | 2022E - O | 2022E - R | % Change | 2023E - O | 2023E - R | % Change |
|-------------------------------|--------------|--------------|----------|--------------|--------------|----------|
| Earnings Estimate | | | | | | |
| Net Interest Income | 49,539 | 52,191 | +5% | 54,152 | 58,937 | +9% |
| Total Operating Income | 64,647 | 71,407 | +10% | 69,721 | 76,891 | +10% |
| Post Impairment Income | 54,099 | 56,358 | +4% | 60,611 | 65,867 | +9% |
| Pre Tax Profit | 23,183 | 22,219 | -4% | 28,990 | 30,581 | +5% |
| Net Profit | 16,691 | 16,887 | +1% | 20,873 | 23,241 | +11% |
| Adjusted EPS | 14.6 | 14.8 | | 18.2 | 20.3 | |
| Growth YoY | 20% | 22% | | | 38% | |
| Balance Sheet Estimate | | | | | | |
| Loans & Advances | 874,501 | 848,800 | -3% | 978,596 | 929,639 | -5% |
| Shareholders' Equity | 132,642 | 137,590 | +4% | 148,174 | 154,904 | +5% |
| Adjusted NAVPS | 115.9 | 120.2 | | 129.5 | 135.4 | |
| Ratio Estimate | | | | | | |
| ROE (%) | 13.2% | 12.8% | | 14.9% | 15.9% | |
| PER (x) | 3.7 | 3.6 | | 3.0 | 2.6 | |
| PBV (x) | 0.5 | 0.4 | | 0.4 | 0.4 | |

Valuation Table

| P/E 31 December | 2018 | 2019 | 2020 | 2021 | 2022E | 2023E | 2024E |
|----------------------------|---------------|---------------|--------------|---------------|---------------|---------------|---------------|
| Estimates (LKR 'Mn) | | | | | | | |
| Net Interest Income | 40,872 | 44,764 | 36,827 | 45,518 | 52,191 | 58,937 | 64,586 |
| Total Operating Income | 57,233 | 59,141 | 50,066 | 64,399 | 71,407 | 76,891 | 82,877 |
| Net Profit | 12,606 | 11,668 | 8,443 | 13,856 | 16,887 | 23,241 | 26,911 |
| Adjusted EPS (LKR) | 11.0 | 10.2 | 7.4 | 12.1 | 14.8 | 20.3 | 23.5 |
| YoY Growth (%) | -1% | -7% | -28% | 64% | 22% | 38% | 16% |
| Valuations | | | | | | | |
| PER (x) | 4.9x | 5.3x | 7.3x | 4.4x | 3.6x | 2.6x | 2.3x |
| PBV (x) | 0.7x | 0.6x | 0.5x | 0.5x | 0.4x | 0.4x | 0.4x |
| DY (%) | 7.4% | 7.3% | 5.1% | 7.9% | 9.7% | 13.3% | 15.4% |
| NAVPS | 78.7 | 97.4 | 98.3 | 111.1 | 120.2 | 135.4 | 151.7 |
| DPS (LKR) | 4.0 | 3.9 | 2.7 | 4.3 | 5.2 | 7.1 | 8.3 |
| Dividend Payout | 36.2% | 38.4% | 37.3% | 35.1% | 35.1% | 35.1% | 35.1% |

Valuation Summary

| Expected SAMP price | 2022E |
|--|-------------|
| Justified PBV based target price | 59.2 |
| PER Valuation based target price | 66.4 |
| RI Valuation based target price | 65.7 |
| Average Target Price | 63.8 |
| Target Price after Rounding off | 65.0 |

| Return | 2022E |
|------------------------------------|------------|
| Target Price | 65.0 |
| Current Price | 53.6 |
| Capital Gain (LKR) | 11.4 |
| Dividends upto 31st Dec 2022 (LKR) | 4.3 |
| Capital Gain % | 21% |
| Dividend Yield % | 8% |
| Total Return % | 29% |
| Annualized Return % | 36% |

Residual Income Valuation

| Residual Income based Valuation | 2022E |
|---------------------------------|-------------|
| PV of Residual Income | -51,953 |
| No. of Shares ('Mn) | 1,144 |
| RI per Share | -45.4 |
| Opening Book value per Share | 111.1 |
| Value per Share | 65.7 |

| COE | 2022E |
|----------------------|-------|
| Rf | 10.0% |
| Rm | 18.0% |
| Growth % | 3.0% |
| β | 1.60 |
| $Ke=Rf+\beta(Rm-Rf)$ | 22.8% |

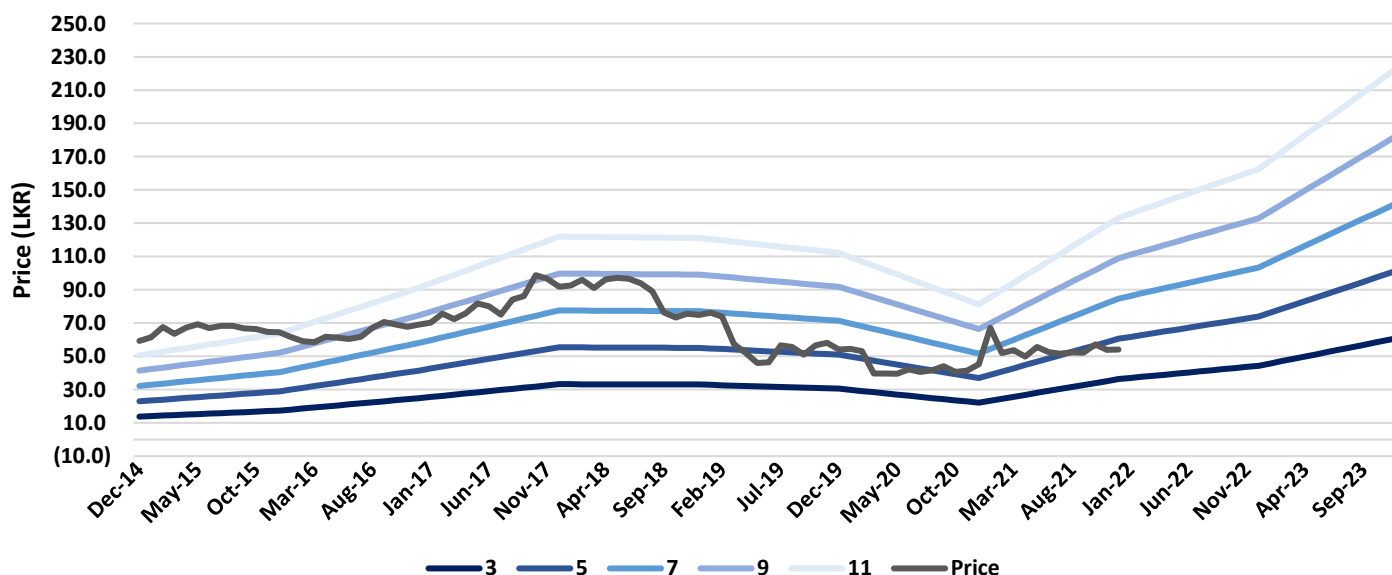
Justified PBV Valuation

| Justified PBV based Valuation | 2022E |
|-------------------------------|-------------|
| ROAE | 12.8% |
| Growth | 3.0% |
| COE | 22.8% |
| PBV | 0.49 |
| NAVPS | 120.2 |
| Target Price | 59.2 |

PER Valuation

| | 2022E |
|-------------------------------|-------------|
| Earnings (LKR 'Mn) | 16,887 |
| No. of Shares ('Mn) | 1,144 |
| EPS | 14.8 |
| Expected PER | 4.5x |
| Price at 4.5x Earnings | 66.4 |

PER Chart



Appendix I: Statement of Income and Expenses

| Income Statement (LKR Mn) P/E 31st December | 2018 | 2019 | 2020 | 2021 | 2022E | 2023E | 2024E |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Gross Income | 121,884 | 125,921 | 109,183 | 112,676 | 136,896 | 149,236 | 164,348 |
| Interest Income | 103,833 | 109,855 | 94,647 | 92,428 | 116,427 | 129,841 | 144,373 |
| Interest Expenses | 62,960 | 65,092 | 57,820 | 46,910 | 64,236 | 70,905 | 79,787 |
| Net Interest Income | 40,872 | 44,764 | 36,827 | 45,518 | 52,191 | 58,937 | 64,586 |
| Fee & Other Income | 16,361 | 14,378 | 13,239 | 18,881 | 19,217 | 17,954 | 18,292 |
| Total Operating Income | 57,233 | 59,141 | 50,066 | 64,399 | 71,407 | 76,891 | 82,877 |
| Impairment (Charges)/ Reversal | -12,139 | -13,751 | -13,201 | -18,559 | -15,049 | -11,023 | -10,307 |
| Net Operating Income | 45,094 | 45,391 | 36,866 | 45,840 | 56,358 | 65,867 | 72,570 |
| Less : Operating expenses | | | | | | | |
| Staff Cost | 9,675 | 10,585 | 11,227 | 10,916 | 14,371 | 15,588 | 16,908 |
| Other Operating Expenses | 11,149 | 11,316 | 10,354 | 11,803 | 11,736 | 11,551 | 11,021 |
| Total Operating Expenses | 20,824 | 21,901 | 21,582 | 22,719 | 26,107 | 27,139 | 27,929 |
| Profit from operations | 24,270 | 23,490 | 15,284 | 23,121 | 30,251 | 38,728 | 44,641 |
| VAT on Financial Services & DRL | 5,149 | 7,152 | 3,394 | 4,296 | 8,032 | 8,147 | 9,232 |
| Profit Before Tax | 19,121 | 16,338 | 11,890 | 18,825 | 22,219 | 30,581 | 35,409 |
| Income Tax Expense | 6,515 | 4,670 | 3,447 | 4,969 | 5,333 | 7,339 | 8,498 |
| Profit for the Year | 12,606 | 11,668 | 8,443 | 13,856 | 16,887 | 23,241 | 26,911 |
| Minority Interest | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Profit attributable to Equity Holders | 12,606 | 11,668 | 8,443 | 13,856 | 16,887 | 23,241 | 26,911 |
| EPS | 11.0 | 10.2 | 7.4 | 12.1 | 14.8 | 20.3 | 23.5 |

Appendix II: Statement of Financial Position

| Balance Sheet (LKR Mn) As at 31st December | 2018 | 2019 | 2020 | 2021 | 2022E | 2023E | 2024E |
|--|----------------|----------------|------------------|------------------|------------------|------------------|------------------|
| Assets | | | | | | | |
| Cash and cash equivalents | 19,218 | 17,978 | 29,219 | 23,028 | 47,764 | 86,521 | 78,419 |
| Financial instruments | 31,150 | 14,297 | 17,732 | 10,169 | 7,943 | 8,718 | 10,228 |
| Loans to & Deposits with Banks | 45,305 | 38,280 | 16,563 | 33,614 | 39,552 | 42,565 | 46,325 |
| Loans and Receivables | 677,538 | 719,047 | 752,438 | 795,804 | 848,800 | 929,639 | 1,020,379 |
| Debt and other instruments | 121,110 | 156,309 | 275,126 | 294,667 | 311,420 | 307,125 | 350,831 |
| Property, plant & equipment | 13,602 | 15,702 | 15,891 | 16,338 | 14,890 | 15,444 | 16,090 |
| Other Assets | 12,345 | 17,171 | 15,573 | 22,977 | 23,725 | 24,082 | 24,385 |
| Total Assets | 947,785 | 999,323 | 1,149,685 | 1,242,633 | 1,340,130 | 1,460,129 | 1,592,695 |
| Liabilities | | | | | | | |
| Due to other customers | 699,661 | 730,190 | 902,499 | 994,318 | 1,073,863 | 1,181,249 | 1,299,374 |
| Due to banks | 8,965 | 1,568 | 1,523 | 31,532 | 15,034 | 16,537 | 18,191 |
| Debt issued and other borrowed funds | 123,035 | 125,671 | 98,288 | 56,474 | 82,690 | 75,613 | 68,604 |
| Current tax liabilities | 9,682 | 7,835 | 4,793 | 8,376 | 0 | 0 | 0 |
| Other liabilities | 16,391 | 22,602 | 28,168 | 24,748 | 30,953 | 31,826 | 32,868 |
| Total Liabilities | 857,735 | 887,866 | 1,035,271 | 1,115,447 | 1,202,541 | 1,305,225 | 1,419,038 |
| Shareholders' Funds | | | | | | | |
| Stated Capital | 32,796 | 47,622 | 47,622 | 47,622 | 47,622 | 47,622 | 47,622 |
| Reserves | 48,773 | 54,409 | 58,891 | 65,696 | 64,922 | 66,084 | 66,084 |
| Retained earnings | 8,482 | 9,425 | 7,901 | 13,867 | 25,045 | 41,198 | 59,951 |
| Shareholders' Funds | 90,051 | 111,457 | 114,415 | 127,186 | 137,590 | 154,904 | 173,657 |
| Minority Interest | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 90,051 | 111,457 | 114,415 | 127,186 | 137,590 | 154,904 | 173,657 |
| Total Liabilities & Shareholders' Funds | 947,785 | 999,323 | 1,149,685 | 1,242,633 | 1,340,130 | 1,460,129 | 1,592,695 |
| NAVPS | 78.7 | 97.4 | 100.0 | 111.1 | 120.2 | 135.4 | 151.7 |



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CORPORATE DEBT SALES

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EQUITY SALES

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| Anushka Buddhika | +94 71 4310 600 | | | |
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UNIT TRUST SALES

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