

**SAMPATH BANK PLC [SAMP.N0000]****MAINTAIN BUY****CORE PERFORMANCE INTACT; LOWER IMPAIRMENT DRIVES GROWTH...**

Fair Value: 2021E - LKR 68.0 [+31%], 2022E-LKR 80.0[+54%]
Total Return with DPS: 2021E - 33% [AER 33%] 2022E – 61%[AER 28%]

*SAMP's earnings increased by 91% in the 1Q2021 to LKR 2.6Bn while the surge was led by the decline in impairment charge for 1Q due to the higher impairment provision made in the last year. NII saw a reduction with the low interest rate environment amidst moderate loan book growth of 3%YTD. Considering the strong performance in 1Q2021, we upgrade the earnings target of SAMP for 2021E to LKR 13.7Bn (+13%YoY). With the strong capital buffer, we expect SAMP's lending portfolio to grow when economic activities pick up in 2021E. We upgrade SAMP's fair value for 2021E to LKR 68.0 and 2022E at LKR 80.0 **MAINTAIN BUY**.*

LKR (Mn)	1Q2020	1Q2021	YoY	2019	2020	YoY
Earnings (LKR 'Mn)						
NII	10,831	10,239	-5%	44,764	36,827	-18%
Total Operating Income	14,955	15,771	+5%	59,141	50,066	-15%
Net Operating Income	9,751	14,191	+46%	45,391	36,866	-19%
Pre Tax Profit	3,301	6,719	+104%	16,338	11,890	-27%
Net Profit	2,676	5,103	+91%	11,668	8,443	-28%
Balance Sheet (LKR 'Mn)						
Loans	747,782	772,689	+3%	747,782	772,689	+3%
Shareholders' Equity	113,993	116,450	+2%	113,993	116,450	+2%
NAVPS	298.8	101.8	-66%	299	102	-66%

Earnings improved led by decline in impairment amidst drop in NII

SAMP recorded a 91%YoY surge in earnings owing to the significant decline in impairment despite the drop in NII (5%YoY) amidst the prevailing low interest rate environment. SAMP's credit growth amounted to 3%YTD relatively lesser compared to the private sector credit which grew only by nearly 4%. However, Net Fee and Commission income grew by 24%YoY driven by higher business volumes in loans, trade and electronic trade channel related fees. Net Other Operating Income grew by 23%, led by an increase in realized exchange income which is attributed to a 7% depreciation of LKR against the USD resulting in Total Operating Income to grow by 6%YoY to LKR 15.8Bn.

Reduced impairment boost the bottom line for 1Q2021

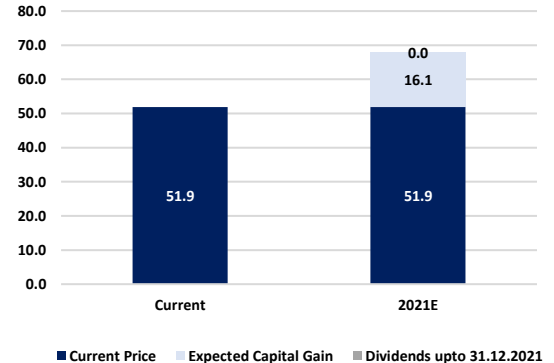
SAMP provided LKR 1.6Bn in 1Q2021 as the impairment, down by 70%YoY, relative to 1Q2020 as SAMP took steps to make additional provisions last year. SAMP saw an improvement in credit quality among the customers who did not obtain the moratorium which is reflected in the decrease of stage 3 loans by 4%. As a result, SAMP's NPA ratio decreased to 5.92% as at end 1Q2021 from 6.30% reported at 4Q2020. We have estimated an impairment of LKR 11.6Bn for SAMP in 2021E.

Well above capital ratios to boost lending portfolio

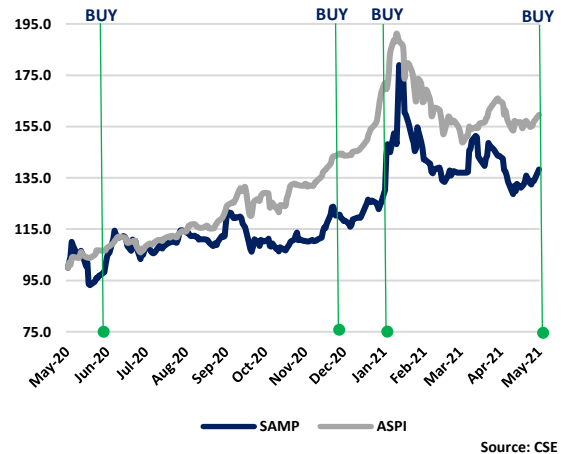
SAMP's Tier I and Total Capital Adequacy Ratios stands at 12.9% and 15.7% respectively as at 31st Mar 2021 which are well above the minimum regulatory requirement of 8.0% and 12.0%. We believe that SAMP's adequate capital buffer may enable it to sail through the tough times and help in boosting the credit growth in the near term when the economic activity recovers.

Fair Value is upgraded to LKR 68.0 for 2021E and LKR 80.0 for 2022E – MAINTAIN BUY

With upgrade of earnings for 2021E to LKR 13.7Bn, we upgrade SAMP's fair value to LKR 68.0 for 2021E implying an upside of 31% from current market price of LKR 51.9. At the current market price SAMP trades well below its current book value of LKR 101.8 with a PBV of 0.5x **MAINTAIN BUY**.

**FIRST CAPITAL RESEARCH**

Hiruni Perera +94 11 263 9864
hiruni@firstcapital.lk

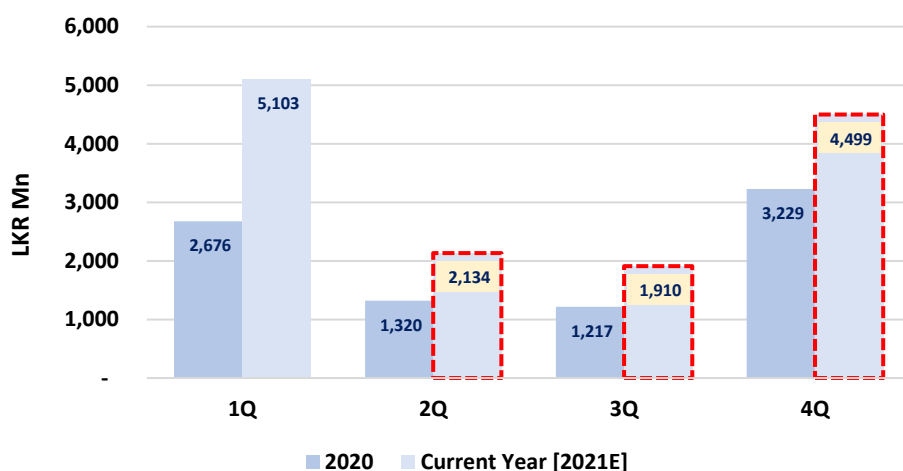
Price Movement of SAMP vs ASPI and past recommendations**Minimum Return for BUY:**

Buy Below for 2021E [AER of 10.01% with DPS]: LKR 62.1
 SAMP categorized as 'Grade A' counter

Disclosure on Shareholding:

First Capital Group hold 16,800 shares in SAMP and will not trade in this share for three trading days following the issue 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	41,994	41,324	-2%	45,904	45,714	-0%
Total Operating Income	57,457	54,506	-5%	60,720	58,290	-4%
Post Impairment Income	43,875	42,865	-2%	50,554	48,289	-4%
Pre Tax Profit	16,809	18,953	+13%	21,818	22,965	+5%
Net Profit	12,102	13,646	+13%	15,709	16,535	+5%
Adjusted EPS	10.6	11.9		13.7	14.4	
Growth YoY	44%	62%		30%	21%	
Balance Sheet Estimate						
Loans & Advances	900,996	820,205	-9%	1,017,308	941,227	-7%
Shareholders' Equity	123,711	123,076	-1%	135,548	135,244	-0%
Adjusted NAVPS	108.1	107.5		118.4	118.2	
Ratio Estimate						
ROE (%)	10.3%	11.5%		12.1%	12.8%	
PER (x)	4.6	4.4		3.6	3.6	
PBV (x)	0.5	0.5		0.4	0.4	

Valuation Table

P/E 31 December	2017	2018	2019	2020	2021E	2022E	2023E
Estimates (LKR 'Mn)							
Net Interest Income	30,297	40,872	44,764	36,827	41,324	45,714	48,812
Total Operating Income	42,473	57,233	59,141	50,066	54,506	58,290	61,584
Net Profit	12,683	12,606	11,668	8,443	13,646	16,535	18,669
Adjusted EPS (LKR)	11.1	11.0	10.2	7.4	11.9	14.4	16.3
YoY Growth (%)	34%	-1%	-7%	-28%	62%	21%	13%
Valuations							
PER (x)	4.6x	4.7x	5.0x	7.0x	4.3x	3.6x	3.2x
PBV (x)	0.9x	0.7x	0.5x	0.5x	0.5x	0.4x	0.4x
DY (%)	33.5%	7.8%	7.6%	5.4%	7.4%	9.0%	10.2%

Valuation Summary

Expected SAMP price	2021E	2022E
Justified PBV based target price	67.9	80.4
PER Valuation based target price	71.5	79.5
RI Valuation based target price	64.4	77.2
Average Target Price	68.0	79.0
Target Price after Rounding off	68.0	80.0

Return	2021E	2022E
Target Price	68.0	80.0
Current Price	51.9	51.9
Capital Gain (LKR)	16.1	28.1
Dividends upto 31st Dec (LKR)	0.0	3.8
Capital Gain %	31%	54%
Dividend Yield %	0%	7%
Total Return %	31%	61%
Annualized Return %	33%	28%

Residual Income Valuation

Residual Income based Valuation	2021E	2022E
PV of Residual Income	-40,669	-34,703
No. of Shares ('Mn)	1,144	1,144
RI per Share	-35.5	-30.3
Opening Book value per Share	100.0	107.5
Value per Share	64.4	77.2

COE	2021E	2022E
Rf	5.0%	7.0%
Rm	16.0%	17.0%
Growth %	3.0%	3.0%
β	1.04	1.04
$Ke=Rf+\beta(Rm-Rf)$	16.5%	17.4%

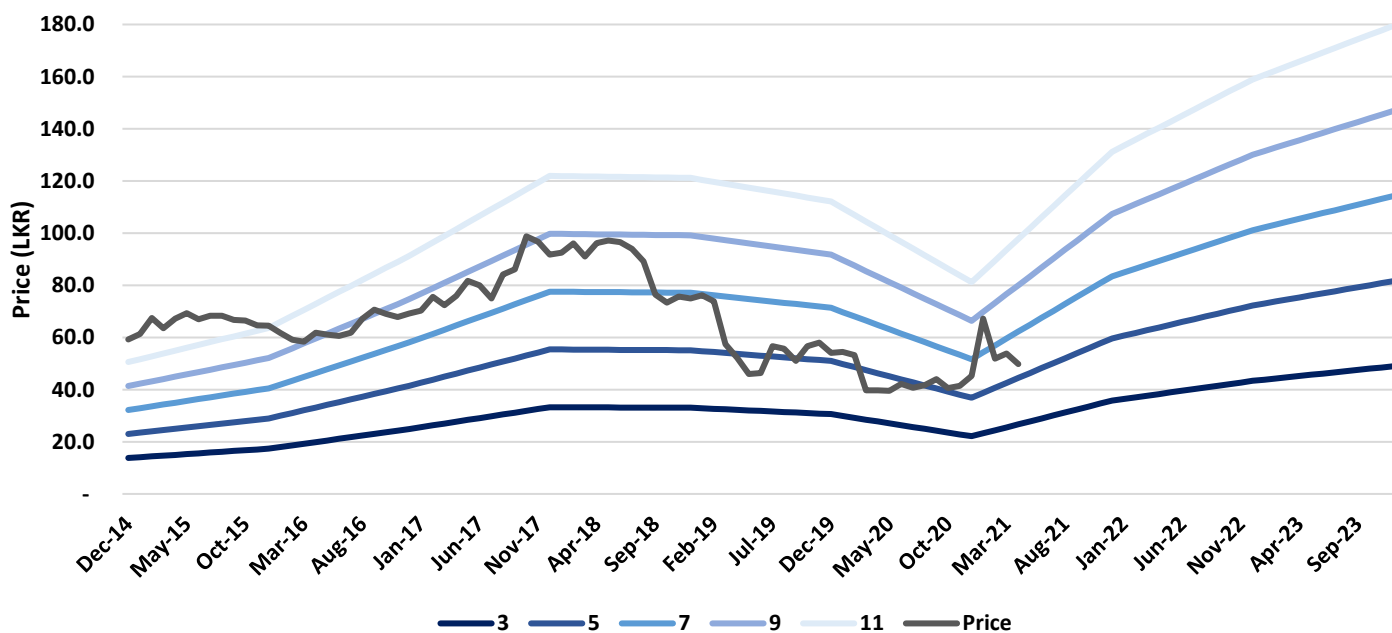
Justified PBV Valuation

Justified PBV based Valuation	2021E	2022E
ROAE	11.5%	12.8%
Growth	3.0%	3.0%
COE	16.5%	17.4%
PBV	0.63	0.68
NAVPS	107.5	118.2
Target Price	67.9	80.4

PER Valuation

PER based Valuation	2021E	2022E
Earnings (LKR 'Mn)	13,646	16,535
No. of Shares ('Mn)	1,144	1,144
EPS	11.9	14.4
Expected PER	6.0x	5.5x
Price at 6.0x Earnings	71.5	79.5

PER Chart



Appendix I: Statement of Income and Expenses

Income Statement (LKR Mn) P/E 31st December	2017	2018	2019	2020	2021E	2022E	2023E
Gross Income	97,100	121,884	125,921	109,183	126,032	146,729	172,568
Interest Income	83,909	103,833	109,855	94,647	111,659	132,867	158,537
Interest Expenses	53,612	62,960	65,092	57,820	70,335	87,153	109,725
Net Interest Income	30,297	40,872	44,764	36,827	41,324	45,714	48,812
Fee & Other Income	12,175	16,361	14,378	13,239	13,181	12,576	12,772
Total Operating Income	42,473	57,233	59,141	50,066	54,506	58,290	61,584
Impairment (Charges)/ Reversal	-2,634	-12,139	-13,751	-13,201	-11,641	-10,001	-8,960
Net Operating Income	39,839	45,094	45,391	36,866	42,865	48,289	52,624
Less : Operating expenses							
Staff Cost	8,702	9,675	10,585	11,227	11,961	12,974	14,073
Other Operating Expenses	9,318	11,149	8,790	7,836	7,412	7,072	6,748
Total Operating Expenses	18,019	20,824	21,901	21,582	19,373	20,046	20,821
Profit from operations	21,820	24,270	23,490	15,284	23,492	28,242	31,803
VAT on Financial Services & DRL	4,309	5,149	7,152	3,394	4,539	5,277	5,874
Profit Before Tax	17,510	19,121	16,338	11,890	18,953	22,965	25,929
Income Tax Expense	4,828	6,515	4,670	3,447	5,307	6,430	7,260
Profit for the Year	12,683	12,606	11,668	8,443	13,646	16,535	18,669
Minority Interest	0	0	0	0	0	0	0
Profit attributable to Equity Holders	12,683	12,606	11,668	8,443	13,646	16,535	18,669
EPS	11.1	11.0	10.2	7.4	11.9	14.4	16.3

Appendix II: Statement of Financial Position

Balance Sheet (LKR Mn) As at 31st December	2017	2018	2019	2020	2021E	2022E	2023E
Assets							
Cash and cash equivalents	22,088	19,218	17,978	29,219	31,811	39,650	43,848
Financial instruments	23,917	31,150	14,297	17,732	12,696	14,407	16,500
Loans to & Deposits with Banks	44,325	45,305	38,280	16,563	20,313	40,750	44,825
Loans and Receivables	586,371	677,538	719,047	752,438	820,205	941,227	1,092,988
Debt and other instruments	49,352	121,110	156,309	275,126	272,916	235,877	188,702
Property, plant & equipment	12,631	13,602	15,702	15,891	12,883	13,216	13,624
Other Assets	8,839	1,926	17,171	15,573	18,144	18,511	18,795
Total Assets	826,717	909,849	999,323	1,149,685	1,218,060	1,332,924	1,448,784
Liabilities							
Due to other customers	634,641	699,661	730,190	902,499	974,699	1,072,169	1,179,385
Due to banks	4,820	8,965	1,568	1,523	3,899	15,010	16,511
Debt issued and other borrowed funds	95,593	123,035	125,671	98,288	87,771	81,142	74,107
Current tax liabilities	5,631	9,682	7,835	4,793	0	0	0
Other liabilities	17,123	16,391	22,602	28,168	28,616	29,360	30,158
Total Liabilities	757,808	857,735	887,866	1,035,271	1,094,984	1,197,681	1,300,162
Shareholders Funds							
Stated Capital	16,308	32,796	47,622	49,508	49,508	49,508	49,508
Reserves	44,067	48,773	54,409	58,891	57,735	58,562	59,496
Retained earnings	8,534	8,482	9,425	6,016	15,833	27,174	39,619
Shareholders Funds	68,908	90,051	111,457	114,415	123,076	135,244	148,622
Minority Interest	0	0	0	0	0	0	0
Total Liabilities & Shareholders' Funds	826,717	947,785	999,323	1,149,685	1,218,060	1,332,924	1,448,784
NAVPS	60.2	78.7	97.4	100.0	107.5	118.2	129.9



First Capital

First Capital Holdings PLC

No.2, Deal Place,
Colombo 3

Tel: +94 11 2145 000
Fax: +94 11 2145 050

RESEARCH

Dimantha Mathew	+94 11 2639 853	Vidushika Perera	+94 11 2639 864
Atchuthan Srirangan	+94 11 2639 863		
Hiruni Perera	+94 11 2639 864		

GOVERNMENT SECURITIES SALES

Anjelo Simmons	+94 77 3031 636	Neminda Jayawardena	+94 76 6644 080
Anushka Dissanayake	+94 77 2220 021	Arun Kandasamy	+94 75 4861 506
Anushi Ranawaka	+94 77 3876 819		

CORPORATE DEBT SALES

Nethalie De Mel	+94 11 2639 854
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EQUITY SALES

CEO	Jaliya Wijeratne	+94 70 2910 042	Negombo	
			Priyanka Anuruddha	+94 70 2910 035
Colombo			Priyantha Wijesiri	+94 70 2910 036
Rasika Indra Kumara	+94 77 7072 698			
Isuru Jayawardena	+94 76 7084 953			
Nishantha Mudalige	+94 70 2910 041			
Ifadh Marikar	+94 77 9625 679			
Anushka Buddhika	+94 71 4310 600			
Thushara Pathiraja	+94 70 2910 037			
Chandika Jayawardana	+94 77 3940 070			

UNIT TRUST SALES

Kavin Karunamoorthy	+94 77 0328 060	Imali Abeygunawardena	+94 77 1764 799
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BRANCHES

Kandy	Kurunegala	Matara	Negombo
2nd Floor, No.121 Kotugodella Veediya (E L Senanayake Veediya) Kandy 20000.	Ground Floor No. 42, Mihindu Mawatha, Kurunegala 60000.	2nd Floor, E.H. Cooray Building No: 24, 1/3, Anagarika Dharmapala Mawatha, Matara 81000.	1st Floor No: 163B, Colombo Road, Negombo 11500.
Manager: Salinda Samarakoon	Manager:	Manager: Rohana Jayakody	Manager:
Tel: +94 81 2236 010	Tel: +94 37 2222 930	Tel: +94 41 2222 988	Tel: +94 31 2233 299

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