



# BANKING SECTOR EQUITY STRATEGY

## DOWNGRADE TO HOLD

### “Capital Adequacy On Check; Macro Woes To Provide Limited Upside on Sector”

#### Macro challenges to result in impaired profitability

First Capital Research expects banking sector to experience tough circumstances in 2022E as worsening macro-economic conditions are expected to spill over into the banking sector. Weaker economic activity, rising inflation and higher interest rates are expected to depress borrowers creating sharp deterioration in asset quality as reflected in the banking system's stage-3 loans which were high at 7.6% as at Dec-21. Moreover, sector is also expected to face added asset-quality pressure from their government securities holdings, particularly those denominated in foreign currency. Additionally, increase in VAT rate from 8.0% to 12.0% with immediate effect and corporate tax rate from 24.0%-30.0% with effect from 01<sup>st</sup> Oct-22 are expected to dampen the profitability of the sector.

#### NIMs expansion due to rising interest rates to be offset by subdued credit growth

Despite the fact that sharp rise in lending rates (AWPR surged by 1,218bps to 22.62% as at 1<sup>st</sup> Jul-22 since 08<sup>th</sup> Apr- 22 policy rates hike) leading to higher margins for banks, weak macro-economic conditions, along with the proposed series of other measures such as removal of caps imposed on credit cards, pre-arranged temporary overdrafts, and pawning facilities are expected to significantly slow down the real domestic credit growth for 2022E. Furthermore, though the sharp depreciation of LKR since Mar 2022 has resulted in significant swell in credit in rupee terms in Mar and Apr 2022 (11.07% 5M YTD) real growth in credit is expected to be marginal over the deteriorating economic conditions. Consequently, while taking into account potential settlements especially in credit cards during 2H2022E, we estimate credit growth for 2022E to hover around 13.0%-14.0%. In 2023E, we expect private sector credit growth to hover in the range of 5.0%-7.0% led by the gradual recovery in the economy in the midst of completion of debt restructuring process.

#### Constant liquidity pressure creates further risks

Post sovereign default, banks are facing extremely high liquidity risk as there is a loss of appetite in international markets for Sri Lanka which is also likely to create banks having limited access to cross-border funding. This trend is expected to persist until the sovereign's external situation stabilises, which is expected to take few months. Accordingly, rupee crunch as well as risk stemming from constrained access to foreign currency funding is expected to create a stress situation in the sector.

#### Impaired profitability to result in capital deficiencies

Impaired profitability is likely to create pressure on the capital adequacy ratios of the bank demanding capital raising in the future. Considering this impact banks have already been authorised to drawdown capital conservation buffers up to 2.5% to cope with the mark-to-market losses from the fall in prices and interest payments on sovereign bonds. Consequently, impaired profitability is likely to expose banks to capital deficiencies requiring further capital raising in the future.

#### Banking Sector Recommendation on “HOLD”

We expect, subdued economic activity, political uncertainty, and weak external and fiscal performance to hurt SL banking system thus exposing the sector to a significant risk. Hence, on the back of challenging operating conditions, banking sector is downgraded to “HOLD” although we continue to expect COMB, HNB, SAMP and NDB to have adequate capital buffer to withstand economic headwinds. **Downgrade the Banking sector to “HOLD” and MAINTAIN BUY ON COMB, HNB, SAMP and NDB** on strong capital adequacy positions, substantial future capital gains and hefty discounts below the net book value in the midst of currently low market prices.

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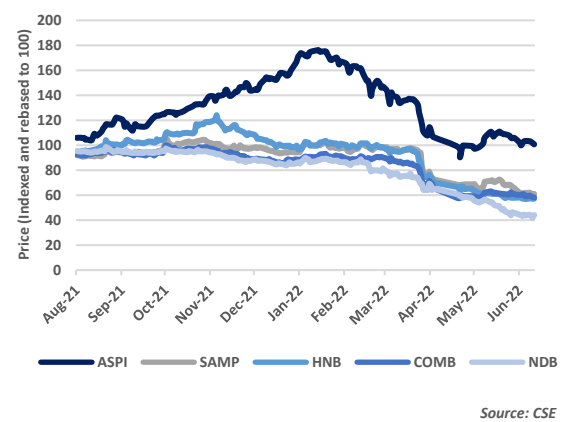
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#### Price movement of SAMP, HNB, COMB and NDB vs ASPI



#### Key Risks to consider:

A potential debt restructuring by SL which includes a haircut, reduction in the coupon or delay in the maturity period on ISBs and SLDBs may pose a significant risk on the banking sector as a result of incremental impairment and future possible liquidity issues.

#### Disclosure on Shareholding:

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

Stock	Stock	Mkt. Cap (LKR mn)	Price	Target Price	Upside (%)	PER (x)		PBV (x)	
						2022E	2023E	2022E	2023E
Commercial Bank - Voting	COMB.N	59,529	51.0	65.0	27%	2.8x	2.5x	0.3x	0.3x
Hatton National Bank - Voting	HNB.N	34,190	79.8	115.0	44%	2.4x	2.2x	0.2x	0.2x
Sampath Bank	SAMP.N	35,476	31.0	50.0	61%	2.6x	2.5x	0.3x	0.2x
National Development Bank	NDB.N	13,569	35.7	48.0	34%	2.6x	2.4x	0.2x	0.2x

#### Non-Voting Shares

Commercial Bank - Non-Voting	COMB.X	3,460	47.7	55.5	16%	2.6x	2.3x	0.3x	0.3x
Hatton National Bank - Non Voting	HNB.X	7,862	73.4	105.0	43%	2.2x	2.0x	0.2x	0.2x

## COMMERCIAL BANK OF CEYLON PLC (COMB.N)

**Fair Value: FY2022E - LKR 65.0 [+29%]**      **FY2023E - LKR 75.0 [+49%]**

*Total Return with DPS: FY2022E - 29% [AER 67%]*      *FY2023E - 50% [AER 32%]*

### COMB 1Q2022 earnings up on exchange gains

COMB reported a net earnings growth of 73.1%YoY to LKR 11.7Bn in 1Q2022. The growth witnessed in profitability was largely attributable towards the higher gains from trading, which reported a profit of LKR 23.5Bn for 1Q2022 cf. LKR 0.2Bn as a result of realized and unrealized exchange profits due to sharp depreciation of the Rupee. However, this was partly offset by the reduced capital gains from government securities in comparison with the corresponding quarter of 2021. Further, NII income for 1Q2022 also improved by 21.6%YoY with interest income up 19.4%YoY whilst interest expense increased by 19.4%YoY. Meanwhile, net operating income for 1Q2022 was up 66.3%YoY to LKR 28.3Bn benefited from lower impairment charge of LKR 6.0Bn (down 16.7%YoY). However, increased OPEX (up 23.7%YoY) and VAT charge (103.8%YoY) caused headwinds to profitability during the concerned period.

### 2022E earnings revised down to LKR 22.7Bn

Going forward, we expect COMB to report a net profit of LKR 22.7Bn (down 9.2%YoY) for 2022E, as a result of higher impairment charges (up 22.7%YoY to LKR 30.8Bn in 2022E). Meanwhile net interest income recording a growth of 7.0%YoY benefitted by relatively higher interest rates. Further, 10%YoY improvement in loan book to LKR 1.1Tn is also expected to partly offset the negative impact to bottom-line. Meanwhile, as of 2021 year-end COMB had LKR 83.9Bn worth of Sri Lanka sovereign bonds in their portfolio. With the potential debt restructuring, we expect COMB to take a possible haircut on the ISB, leading to an impairment thus causing headwinds to group profitability. Hence, net income for 2022E is expected to decline by 9.2%YoY to LKR 22.7Bn, considering the slowdown in credit growth and higher impairment charges. Considering the significant increase in risk free rate, together with the downward revision of earnings, we have revised down the fair value for 2022E to LKR 65.0 from LKR 90.0. Meanwhile, we have valued COMB.X at LKR 55.5 for 2022E and LKR 65.5 for 2023E. However, considering the sizable upside on the share coupled with the prevailing bottomed out valuations of the share, we maintain our recommendation at **BUY**.

P/E 31st December	2018	2019	2020	2021	2022E	2023E	2024E
<b>Estimates (LKR 'Mn)</b>							
Net Interest Income	45,180	47,003	48,640	64,669	69,221	65,146	71,223
Total Operating Income	64,426	66,333	74,500	91,851	99,219	96,296	105,131
<b>Net Profit: Equity Holders</b>	<b>17,735</b>	<b>17,263</b>	<b>16,940</b>	<b>24,062</b>	<b>22,683</b>	<b>26,666</b>	<b>31,012</b>
Adjusted EPS (LKR)	14.9	14.5	14.2	20.1	18.3	20.7	23.1
YoY Growth (%)	7%	-3%	-2%	42%	-9%	13%	11%
<b>Valuations</b>							
PER (x)	3.4x	3.5x	3.6x	2.5x	2.8x	2.4x	2.2x
PBV (x)	0.5x	0.5x	0.4x	0.4x	0.3x	0.3x	0.3x
DY (%)	12.9%	12.9%	12.9%	14.9%	13.5%	14.5%	16.2%
Adjusted NAVPS (LKR)	99.6	112.2	132.9	139.9	147.0	160.7	172.1
DPS (LKR)	6.5	6.5	6.5	7.5	6.8	7.3	8.2
Dividend Payout (%)	43.8%	45.0%	45.8%	37.2%	37.4%	35.4%	35.4%

## Valuation Summary

Expected COMB.N Price	2022E	2023E	Return	2022E	2023E
Justified PBV based target price	78.1	91.6	Target Price	65.0	75.0
PER Valuation based target price	73.2	82.9	Current Price	50.5	50.5
RI Valuation based target price	44.6	56.6	Capital Gain (LKR)	14.5	24.5
Average Target Price	65.3	77.0	Dividends upto 31st Dec (LKR)	0.0	1.0
Target Price after Rounding off	65.0	75.0	Capital Gain %	29%	49%
			Dividend Yield %	0%	2%
			<b>Total Return %</b>	<b>29%</b>	<b>50%</b>
			Annualized Return %	68%	32%

## Residual Income Valuation

Residual Income based Valuation	2022E	2023E	COE	2022E	2023E
PV of Residual Income	-126,946	-133,861	Rf	15.0%	15.0%
No. of Shares ('Mn)	1,240	1,286	Rm	23.0%	23.0%
RI per Share	-102.4	-104.1	Growth %	3.0%	3.0%
Opening Book Value per Share	147.0	160.7	$\beta$	0.9	0.9
Value per Share	44.6	56.6	$K_e=R_f+\beta(R_m-R_f)$	21.8%	21.8%

## Justified PBV Valuation

Justified PBV based Valuation	2022E	2023E	PER based Valuation	2022E	2023E
ROAE	13.0%	13.7%	Earnings (LKR 'Mn)	22,683	26,666
Growth	3.0%	3.0%	No. of Shares ('Mn)	1,240	1,286
COE	21.8%	21.8%	EPS	18.3	20.7
PBV	0.5	0.6	Expected PER	4.0x	4.0x
NAVPS	147.0	160.7	Price at 4.0x Earnings	73.2	82.9
Target Price	78.1	91.6			

## HATTON NATIONAL BANK PLC (HNB.N)

**Fair Value: FY2022E - LKR 115.0 [+44%]      FY2023E - LKR 130.0 [+63%]**

*Total Return with DPS: FY2022E - 44% [AER 107%]      FY2023E - 74% [AER 44%]*

### Modest earnings growth for 1Q2022 on massive impairment charges

HNB posted a marginal earnings growth of 4.4%YoY to LKR 4.9Bn in 1Q2022 cf. LKR 4.7Bn recorded in the previous comparative quarter. Feeble growth in earnings is largely accountable to the massive surge in impairment charges by 364.5%YoY to LKR 13.5Bn owing to the impairment provisioning made for sizable dollar denominated assets (aggregate exposure of c.USD 660.0Mn) to reflect the added risk surfaced on the sovereign rating downgrade by Fitch Ratings upon the suspension on normal servicing of foreign debts together with the anticipated negative impact on proposed debt restructuring. On the other hand, Net Interest Income for the quarter recorded a growth of 54.5%YoY to LKR 18.9Bn harvesting the benefit of dilated interest margins due to higher-than-expected hike in interest rates. However, we believe that the higher margins are not sustainable for a prolonged period of time given the perished demand for credit amidst the severe economic contraction.

### Favourable movement in forex rate partially absorbed the cost on deprived asset quality

Trading gains stemmed upon the steep depreciation of LKR against USD (c.49.0% for the quarter and c.79.0% YTD) delivered an exceptional growth of 507.1%YoY to LKR 7.4Bn while setting off a significant portion of losses during the quarter. Thereby, we expect HNB to record further trading gains during the 2Q2022E and thereafter to witness a partial reversal of gains during the latter part of 2022E as we expect LKR to stabilize around LKR 290.0-320.0 against USD. Moreover, despite the high interest rate regime, HNB recorded a gross loan growth of 8.7%QoQ. However, bulk of this expansion is attributable to the value enhancement that resulted in dollar denominated portion of the lending portfolio which accounts for about 12.0%-13.0%. Therefore, we believe that the real credit growth to be minimal given these discouraged times. HNB is deemed to be cautious in lending to their highly concentrated, yet highly vulnerable SME and Micro sectors, and to prioritize more on the other potential segments in the market such as Exports and IT, which has a relatively lower risk.

### Earning targets lowered on looming uncertainties in the sector

Considering the weighing uncertainties on the banking sector, we have lowered the earnings expectation of HNB to LKR 18.0Bn (-16.0% from the previous forecast) for 2022E and LKR 20.3Bn (-31.0% from the previous forecast) for 2023E. Thus, target price for HNB also lowered to LKR 115.0 for 2022E (precious TP – LKR 160.0) and LKR 130.0 for 2023E. HNB.X is valued at LKR 105.0 (after rounding off) anticipating c.10.0% discount to the voting share. Despite the seriousness of the uncertainties currently haunting the banking sector as a whole, HNB.N displays an upside potential of 44.0% at the current price which trades well below its book value. **MAINTAIN BUY**

P/E 31st December	2018	2019	2020	2021	2022E	2023E	2024E
<b>Estimates (LKR 'Mn)</b>							
Net Interest Income	53,636	56,356	50,837	56,462	57,124	65,427	82,117
Total Operating Income	75,114	76,511	72,836	84,404	98,988	100,206	118,071
<b>Net Profit: Equity Holders</b>	<b>17,636</b>	<b>14,670</b>	<b>13,095</b>	<b>19,025</b>	<b>18,005</b>	<b>20,251</b>	<b>29,436</b>
Adjusted EPS (LKR)	32.9	27.4	24.5	35.5	33.6	36.9	52.3
YoY Growth (%)	11%	-17%	-11%	45%	-5%	10%	42%
<b>Valuations</b>							
PER (x)	2.4x	2.9x	3.3x	2.2x	2.4x	2.2x	1.5x
PBV (x)	0.3x	0.3x	0.3x	0.2x	0.2x	0.2x	0.2x
Dividend Yield (%)	10.7%	10.0%	10.0%	11.3%	10.7%	9.9%	10.8%
Adjusted NAVPS (LKR)	252.3	276.7	293.3	335.9	351.5	376.7	417.5
DPS (LKR)	8.5	8.0	8.0	9.0	8.5	7.9	8.6
Dividend Payout (%)	25.8%	29.2%	32.7%	25.3%	25.4%	21.3%	16.5%

## Valuation Summary

Expected HNB.N Price	2022E	2023E
Justified PBV Based Target Price	118.3	134.1
PER Valuation Based Target Price	117.7	129.3
RI Valuation Based Target Price	108.7	130.1
Average Target Price	114.9	131.1
Target Price After Rounding Off	115.0	130.0

Return	2022E	2023E
Target Price	115.0	130.0
Current Price	79.8	79.8
Capital Gain (LKR)	35.2	50.2
Dividends upto 31st Dec (LKR)	0.0	8.5
Capital Gain %	44%	63%
Dividend Yield %	0%	11%
Total Return %	44%	74%
Annualized Return %	107%	44%

## Residual Income Valuation

Residual Income Based Valuation	2022E	2023E
PV of Residual Income	-121,687	-121,366
No. of Shares ('Mn)	536	548
RI per Share	-227.2	-221.4
Opening Book Value per Share	335.9	351.5
Value per Share	108.7	130.1

COE	2022E	2023E
Rf	15.0%	15.0%
Rm	23.0%	23.0%
Growth %	3.0%	3.0%
$\beta$	1.05	1.05
$Ke=Rf+\beta(Rm-Rf)$	23.4%	23.4%

## Justified PBV Valuation

Justified PBV Based Valuation	2022E	2023E
ROAE	9.9%	10.3%
Growth	3.0%	3.0%
COE	23.4%	23.4%
PBV	0.3	0.4
NAVPS	351.5	376.7
Value per Share	118.3	134.1

## PER Valuation

PER Based Valuation	2022E	2023E
Earnings (LKR 'Mn)	18,005	20,251
No. of Shares ('Mn)	536	548
EPS	33.6	36.9
Expected PER	3.5x	3.5x
Value per Share	117.7	129.3

## SAMPATH BANK PLC (SAMP.N)

**Fair Value: FY2022E - LKR 50.0 [+61%]**

**FY2023E - LKR 54.0 [+74%]**

Total Return with DPS: FY2022E - 61% [AER 159%]

FY2023E - 74% [AER 45%]

### Asset quality pressures impact SAMP's 1Q2022 earnings

SAMP's earnings registered a marginal decline of 4.9%YoY in the 1Q2022 to LKR 4.9Bn while the drop was mainly driven by the significant rise in impairment by 665.9%YoY to LKR 12.1Bn, increase in total operating expenses by 16.8%YoY to LKR 7.0Bn and surge in taxes (including VAT and income taxes) by 25.5%YoY to LKR 3.8Bn. However, total operating income grew by 76.5%YoY to LKR 27.8Bn owing to the growth in NII, net fee and commission income and net other operating income. Earnings for 1Q2022 were below than our expectations which was estimated at LKR 5.9Bn as a result of substantial impairment provision on loans and investments.

### Spillover effects of negative economic conditions to befall on 2022E bottom line; TP revised down

We expect SAMP to maintain a cautious approach in lending thus recording a loan book growth of 5.0%YoY for 2022E while the upward interest rates are expected to assist in enhancing NIMs in 2022E. SAMP has an exposure to government's ISB amounting to LKR 18.9Bn as at 31<sup>st</sup> Dec-21 and potential debt restructuring would require SAMP to take a capital haircut on the ISBs leading to further impairment on investments in government securities. Hence earnings for 2022E are anticipated to record a marginal decline of 3.6%YoY in the midst of restrained private sector credit growth and higher impairment provision amidst challenging economic environment. Considering the subdued performance and higher risk-free rate applicable for valuations with the rise in interest rate environment, we downgrade the fair value estimation for 2022E to LKR 50.0 from previous target price of LKR 65.0 while 2023E value is estimated at LKR 54.0. However, at the current market price of LKR 31.0, 2022E fair values imply an upside of 61.0% and the share trades well below its current book value of LKR 111.0 with a PBV of 0.3x.

### MAINTAIN BUY

P/E 31 December	2018	2019	2020	2021	2022E	2023E	2024E
<b>Estimates (LKR 'Mn)</b>							
Net Interest Income	40,872	44,764	36,827	45,518	56,590	54,953	56,899
Total Operating Income	57,233	59,141	50,066	64,399	75,854	72,954	75,283
<b>Net Profit</b>	<b>12,606</b>	<b>11,668</b>	<b>8,443</b>	<b>13,856</b>	<b>13,353</b>	<b>14,075</b>	<b>15,745</b>
Adjusted EPS (LKR)	11.0	10.2	7.4	12.1	11.7	12.3	13.8
YoY Growth (%)	-1%	-7%	-28%	64%	-4%	5%	12%
<b>Valuations</b>							
PER (x)	2.8x	3.0x	4.2x	2.6x	2.7x	2.5x	2.3x
PBV (x)	0.4x	0.3x	0.3x	0.3x	0.3x	0.2x	0.2x
DY (%)	12.9%	12.6%	8.9%	13.7%	0.0%	13.9%	15.5%
NAVPS	78.7	97.4	100.0	111.1	117.1	129.4	138.9
DPS (LKR)	4.0	3.9	2.7	4.3	0.0	4.3	4.8
Dividend Payout	36.2%	38.4%	37.3%	35.1%	0.0%	35.0%	35.0%

## Valuation Summary

Expected SAMP price	2022E	2023E
Justified PBV based target price	47.0	50.2
PER Valuation based target price	52.5	55.3
RI Valuation based target price	48.3	55.2
<b>Average Target Price</b>	<b>49.3</b>	<b>53.6</b>
<b>Target Price after Rounding off</b>	<b>50.0</b>	<b>54.0</b>

Return	2022E	2023E
Target Price	50.0	54.0
Current Price	31.0	31.0
Capital Gain (LKR)	19.0	23.0
Dividends upto 31st Dec 2022 (LKR)	0.0	0.0
Capital Gain %	61%	74%
Dividend Yield %	0%	0%
<b>Total Return %</b>	<b>61%</b>	<b>74%</b>
<b>Annualized Return %</b>	<b>159%</b>	<b>45%</b>

## Residual Income Valuation

Residual Income based Valuation	2022E	2023E
PV of Residual Income	-71,946	-70,894
No. of Shares ('Mn)	1,144	1,144
RI per Share	-62.9	-62.0
Opening Book value per Share	111.1	117.1
<b>Value per Share</b>	<b>48.3</b>	<b>55.2</b>

COE	2022E	2023E
Rf	15.0%	15.0%
Rm	23.0%	23.0%
Growth %	3.0%	3.0%
$\beta$	0.75	0.75
$Ke=Rf+\beta(Rm-Rf)$	21.0%	21.0%

## Justified PBV Valuation

Justified PBV based Valuation	2022E	2023E
ROAE	10.2%	10.0%
Growth	3.0%	3.0%
COE	21.0%	21.0%
PBV	0.40	0.39
NAVPS	117.1	129.4
<b>Target Price</b>	<b>47.0</b>	<b>50.2</b>

## PER Valuation

	2022E	2023E
Earnings (LKR 'Mn)	13,353	14,075
No. of Shares ('Mn)	1,144	1,144
EPS	11.7	12.3
Expected PER	4.5x	4.5x
<b>Price at 4.5x Earnings</b>	<b>52.5</b>	<b>55.3</b>

## NATIONAL DEVELOPMENT BANK PLC (NDB.N)

**Fair Value: FY2022E - LKR 48.0 [+34%]      FY2023E - LKR 53.0 [+48%]**

*Total Return with DPS: FY2022E - 34% [AER 80%]      FY2023E - 48% [AER 30%]*

### 1Q2021 earnings plunge amidst macro turbulences

NDB's earnings recorded at LKR 0.5Bn (-77.2%YoY) compared to LKR 2.4Bn in 1Q2021 while significant decline in profitability was mainly driven by the substantial rise in impairment by 191.2%YoY to LKR 6.4Bn as a result of impairment provision made for both foreign currency denominated government securities and loan book. However, total operating income grew by 21.0%YoY to LKR 10.3Bn owing to the growth in NII, net fee and commission income and other operating income.

### Restricted loan growth and possible impact of debt restructuring to stress pressure on earnings; fair value revised down

NDB is expected to maintain a marginal credit growth of 6.0%YoY relative to the aggressive approach of lending followed in previous years (average loan book growth for previous 5 years amounts to 18.0%) while the upward interest rates are expected to assist in enhancing NIMs in 2022E. NDB has an exposure to government's ISB amounting to LKR 28.0Bn as at 31<sup>st</sup> Dec-21 and potential debt restructuring would require NDB to take a capital haircut on the ISBs leading to further impairment on investments in government securities. Hence earnings for 2022E are anticipated to record a decline of 24.9%YoY in the midst of restrained private sector credit growth and higher impairment provision amidst challenging economic environment. Considering the subdued performance and higher risk-free rate applicable for valuations with the rise in interest rate environment, we downgrade the fair value estimation for 2022E to LKR 48.0 from previous target price of LKR 85.0 while 2023E value is estimated at LKR 53.0. However, at the current market price of LKR 35.7, 2022E fair values imply an upside of 34.0% and the share trades well below its current book value of LKR 165.9 with a PBV of 0.2x.

### MAINTAIN BUY

P/E 31 December	2018	2019	2020	2021	2022E	2023E	2024E
<b>Estimates (LKR 'Mn)</b>							
Net Interest Income	15,104	17,971	17,925	21,741	30,460	30,012	30,636
Total Operating Income	22,553	24,806	26,404	32,996	41,830	42,210	43,780
<b>Net Profit</b>	<b>5,136</b>	<b>4,776</b>	<b>5,117</b>	<b>6,904</b>	<b>5,185</b>	<b>5,704</b>	<b>7,949</b>
Adjusted EPS (LKR)	13.5	12.6	13.5	18.2	13.6	15.0	20.9
Net Profit YoY Growth (%)	47%	-7%	7%	35%	-25%	10%	39%
<b>Valuations</b>							
PER (x)	2.6x	2.8x	2.7x	2.0x	2.6x	2.4x	1.7x
PBV (x)	0.3x	0.3x	0.3x	0.2x	0.2x	0.2x	0.2x
DY (%)	22.4%	19.6%	4.2%	15.4%	0.0%	8.4%	11.7%
NAVPS	102.9	114.1	126.2	165.0	168.3	183.3	201.2
Adjusted DPS	4.7	4.3	1.0	5.5	0.0	3.0	4.2
Dividend Payout	35%	35%	7%	30%	0%	20%	20%



## Valuation Summary

Expected NDB price	2022E	2023E
Justified PBV based target price	47.8	55.6
PER Valuation based target price	47.7	52.5
RI Valuation based target price	46.5	50.6
<b>Average Target Price</b>	<b>47.4</b>	<b>52.9</b>
<b>Target Price after Rounding off</b>	<b>48.0</b>	<b>53.0</b>

Return	2022E	2023E
Target Price	48.0	53.0
Current Price	35.7	35.7
Capital Gain (LKR)	12.3	17.3
Dividends upto 31st Dec (LKR)	0.0	0.0
Capital Gain %	34%	48%
Dividend Yield %	0%	0%
<b>Total Return %</b>	<b>34%</b>	<b>48%</b>
<b>Annualized Return %</b>	<b>80%</b>	<b>30%</b>

## Residual Income Valuation

Residual Income based Valuation	2022E	2023E
PV of Residual Income	-45,044	-44,744
No. of Shares ('Mn)	380	380
RI per Share	-118.5	-117.7
Opening Book value per Share	165.0	168.3
<b>Value per Share</b>	<b>46.5</b>	<b>50.6</b>

COE	2022E	2023E
Rf	15.0%	15.0%
Rm	23.0%	23.0%
Growth %	3.0%	3.0%
$\beta$	0.78	0.78
$K_e = R_f + \beta(R_m - R_f)$	21.2%	21.2%

## Justified PBV Valuation

Justified PBV based Valuation	2022E	2023E
ROAE	8.2%	8.5%
Growth	3.0%	3.0%
COE	21.2%	21.2%
PBV	0.28	0.30
NAVPS	168.3	183.3
<b>Target Price</b>	<b>47.8</b>	<b>55.6</b>

## PER Valuation

PER based Valuation	2022E	2023E
Earnings (LKR 'Mn)	5,185	5,704
No. of Shares ('Mn)	380	380
EPS	13.6	15.0
Expected PER	3.5x	3.5x
<b>Price at 3.5x of Earnings</b>	<b>47.7</b>	<b>52.5</b>



First Capital

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