



First Capital
A Janashakthi Group Company

COMMERCIAL BANK OF CEYLON PLC [COMB.N0000]

MAINTAIN BUY

“PROMISING SIGNS FOR THE FUTURE”

Fair Value: 2024E - LKR 170.0 [+79%]

Total Return with DPS: 2024E - 87% [AER 81%]

COMB earnings up 66.2%QoQ to LKR 6.2Bn backed by the expansion of NIMs and trading gains reported from govt. securities. Furthermore, as expected the loan book expanded by 4.3%QoQ to surpass LKR 1.1Tn whilst the deposit base also improved by 4.1%QoQ to LKR 2.0Tn whilst the CASA base continued to decline to 39.08% during 3Q2023. Going forward, we expect the turnaround performance to continue as the economic activity rebounds amidst a declining interest rate environment. Further, bank NPLs are also expected to continue its recovery whilst reducing its pressure on the bottom-line as well against regulatory capital requirement thresholds. Taking into consideration the outlook, and the current discounted trading multiples of the COMB share, we continue to maintain our COMB.N target price at LKR 170.0 and COMB.X target price at LKR 150.0 for 2024E. **MAINTAIN BUY.**

LKR (Mn)	3Q2022	3Q2023	YoY	9M2022	9M2023	YoY
Earnings (LKR 'Mn)						
NII	22,101	23,432	+6%	62,814	60,882	-3%
Total Operating Income	34,605	35,930	+4%	103,837	86,450	-17%
Net Operating Income	17,552	23,359	+33%	51,566	60,668	+18%
PBT	8,660	10,939	+26%	22,036	25,031	+14%
Net Profit	6,096	6,233	+2%	15,037	14,200	-6%
Balance Sheet (LKR 'Mn)						
Shareholder's Equity	200,371	213,808	+7%	200,371	213,808	+7%
Loans	1,159,105	1,148,277	-1%	1,159,105	1,148,277	-1%
NAVPS	162	163	+1%	162	163	+1%

Quarterly earnings inclined by 66.2%QoQ to LKR 6.2Bn

COMB bounced back and delivered a strong performance during 3Q2023 of LKR 6.2Bn, after reporting two quarters of QoQ decline during the 1H2023. The upbeat performance during the quarter was largely attributable to the expansion in the net interest income and the reversal of losses from trading govt. securities. Operating in a declining interest rate environment during 3Q2023, COMB managed to expand its net interest income by 26.8%QoQ to LKR 23.4Bn as NIMs expanded to 3.21% cf. 3.01% recorded in 2Q2023. Furthermore, taking advantage of the declining yields, COMB reported a gain of LKR 3.4Bn on its trading portfolio cf. a loss of LKR 6.6Bn reported in 2Q2023. Meanwhile, Impairment charges of LKR12.6Bn (+96.0%QoQ) continued to be a concern towards profitability whilst the stagnant operating expenses (+0.8%QoQ) offered comfort.

Impairment charges near doubles to LKR 12.6Bn

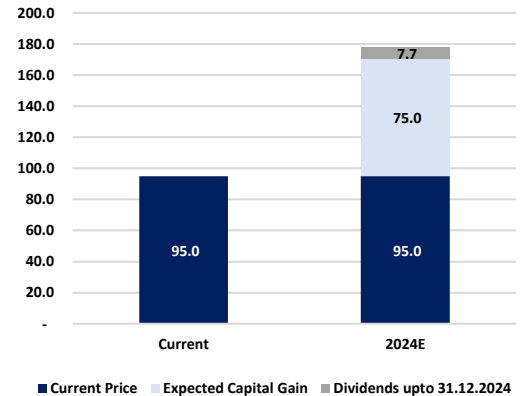
The surge in impairments during 3Q2023 was largely due to the extended provisioning of LKR 13.5Bn (cf. LKR 4.5Bn in 2Q2023) to support ISB buffers whilst impairment charge on personal banking continued to reverse for the second consecutive quarter by LKR 932.7Mn. Furthermore, recovery in activity was also evident with the decline in stage 3 impaired loans by 17bpsQoQ to 6.11%, after advancing for five consecutive quarters and peaking at 6.28% in 2Q2023. However, stage 3 impairment to stage 3 loans ratio edged up slightly by 15bpsQoQ to 39.85%.

Loan book expands by 4.3%QoQ; deposits grow by 4.1%QoQ during 3Q2023

COMB gross loan book for 3Q2023 expanded by 4.3%QoQ to LKR 1.1Tn, above the banking system gross loan growth of 1.8%QoQ. The growth in gross loans during the period was largely due to the growth in term loans (+4.5%QoQ) whilst the overdraft facilities (+8.3%QoQ), as well as Trade Finance (7.6%QoQ) and Pawning facilities (19.8%QoQ). Meanwhile, COMB deposit base also improved during the concerned quarter by 4.1%QoQ to LKR 2.0Tn, as prevailing rates and depreciation of the LKR cf. USD also contributed towards the growth. COMB CASA base stood at 39.08% during 3Q2023, slightly declining from 39.39% reported during 2Q2023.

COMB remains adequately capitalized

COMB Tier 1 capital remains adequately capitalized at 11.569% cf. a minimum required of 10.000% whilst Total Capital Ratio also remained at 14.446% cf. regulatory directed 14.000% during 3Q2023. Meanwhile, on 12th December 2023, COMB raised LKR 12.0Bn via BASEL III compliant, Tier 2 listed rated unsecured subordinate debenture, which was oversubscribed.

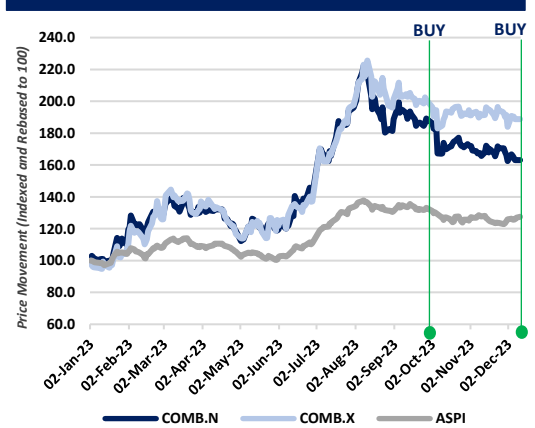


FIRST CAPITAL RESEARCH

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Price Movement of COMB vs ASPI (Indexed and Rebased to 100)



Source: CSE

Minimum Return for BUY:

Buy Below 2024E - [AER of 19% with DPS]: LKR 148.0
COMB.N categorized as 'Grade A' counter

Disclosure on Shareholding:

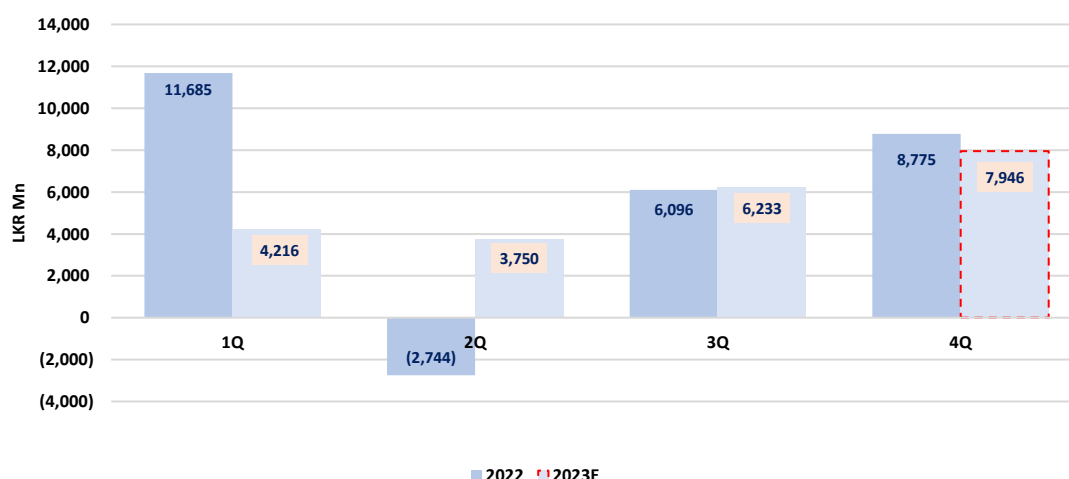
First Capital Group or the covering analyst did not hold 1% or more of the total outstanding share capital of COMB during the five trading days prior to the issuance of this document.



TP maintained for COMB.N at LKR 170.0 and COMB.X at LKR 150.0 for 2024E - MAINTAIN BUY

Taking into consideration the major recovery in COMB earning during 3Q2023 whilst remaining optimistic on the recovery of the economy and the banking sector, we continue to maintain our target price of COMB.N at LKR 170.0 and COMB.X at LKR 150.0. Looking at the current trading multiples of the COMB shares, we believe the share is significantly undervalued and presents an opportunity to double the returns. Thus, we continue maintain our recommendation on COMB share at **MAINTAIN BUY**.

Quarterly Earnings



Estimate Revision

In LKR Mn	2023-O	2023-R	% Change	2024-O	2024-R	% Change
Earnings Estimate						
NII	71,157	82,155	+15%	78,354	78,241	-0%
Total Operating Income	102,197	119,818	+17%	113,319	111,493	-2%
Net Operating Income	76,306	84,780	+11%	90,811	95,137	+5%
Profit before Tax	18,127	38,448	+112%	42,072	49,438	+18%
Net Profit	17,946	22,146	+23%	24,991	28,476	+14%
Adjusted EPS	14.0	16.9		18.6	21.7	
Balance Sheet Estimate						
Shareholders' Equity	215,134	220,672	+3%	236,281	246,832	+4%
Loans	1,229,970	1,216,885	-1%	1,374,557	1,331,377	-3%
Adjusted NAVPS	167.3	167.1		175.9	175.5	

Valuation Table

P/E 31st December	2020	2021	2022	2023E	2024E	2025E
Estimates (LKR 'Mn)						
Net Interest Income	48,640	66,416	84,665	82,155	78,241	84,602
Total Operating Income	74,500	93,598	136,637	119,818	111,493	119,694
Net Profit: Equity Holders	16,940	24,062	23,812	22,146	28,476	32,407
Adjusted EPS (LKR)	12.9	18.3	18.1	16.9	21.7	24.7
YoY Growth (%)	-2%	42%	-1%	-7%	29%	14%
Valuations						
PER (x)	7.4x	5.2x	5.2x	5.6x	4.4x	3.9x
PBV (x)	0.8x	0.7x	0.6x	0.6x	0.5x	0.5x
DY (%)	6.8%	7.9%	4.7%	6.4%	7.8%	8.3%
Adjusted NAVPS (LKR)	120.8	127.4	158.9	167.1	175.5	186.1
DPS (LKR)	6.5	7.5	4.5	6.1	7.4	7.9
Dividend Payout (%)	50.4%	41.0%	24.8%	36.3%	34.1%	32.0%

Valuation Summary

Expected COMB.N Price	2024E
Justified PBV based target price	175.5
PER Valuation based target price	172.5
RI Valuation based target price	156.2
Average Target Price	168.1
Target Price after Rounding off	170.0

Return	2024E
Target Price	170.0
Current Price	95.0
Capital Gain (LKR)	75.0
Dividends upto 31st Dec (LKR)	7.4
Capital Gain %	79%
Dividend Yield %	8%
Total Return %	87%
Annualized Return %	81%

Residual Income Valuation

Residual Income based Valuation	2024E
PV of Residual Income	-14,444
No. of Shares ('Mn)	1,320
RI per Share	-10.9
Opening Book Value per Share	167.1
Value per Share	156.2

COE	2024E
Rf	11.0%
Rm	19.0%
Growth %	3.0%
β	0.8
$Ke=Rf+\beta(Rm-Rf)$	17.4%

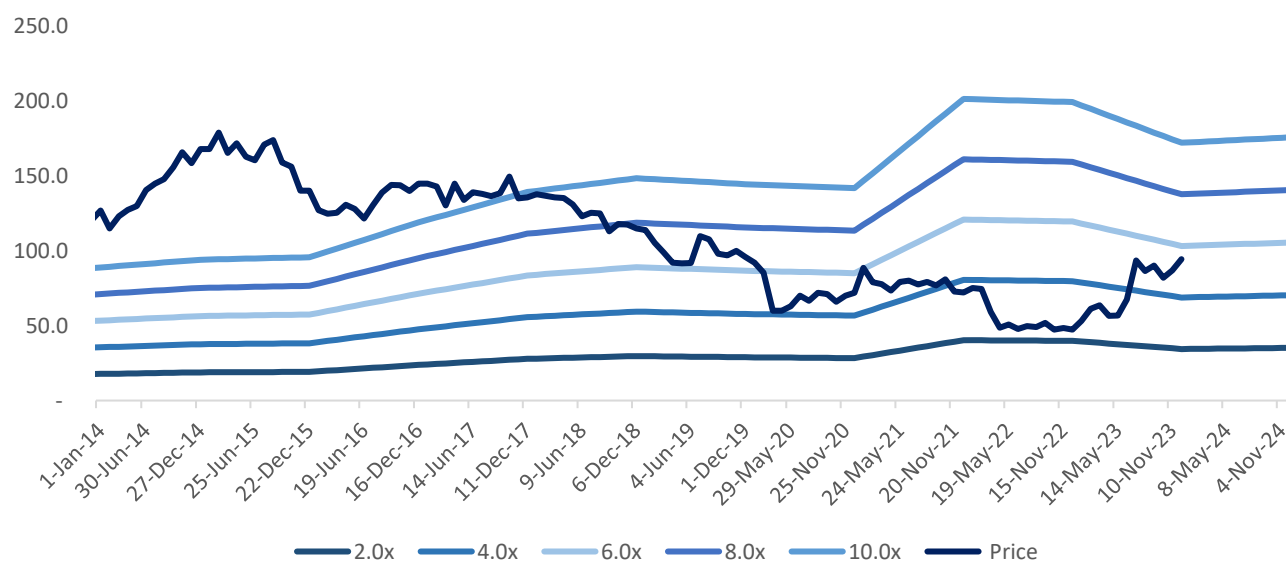
Justified PBV Valuation

Justified PBV based Valuation	2024E
ROAE	10.3%
Growth	3.0%
COE	17.4%
PBV	1.0
NAVPS	175.5
Target Price	175.5

PER Valuation

PER based Valuation	2024E
Earnings (LKR 'Mn)	28,476
No. of Shares ('Mn)	1,320
EPS	21.6
Expected PER	8.0x
Price at 8.0x Earnings	172.5

PER Chart



Appendix I: Statement of Income and Expenses

Income Statement P/E 31st December	2020	2021	2022	2023E	2024E	2025E
Gross Income	149,737	163,675	280,387	341,016	280,574	296,380
Interest Income	121,858	132,818	222,393	295,220	238,467	251,990
Less: Interest Expenses	73,219	66,402	137,728	213,065	160,226	167,389
Net Interest Income	48,640	66,416	84,665	82,155	78,241	84,602
Net Fee and Commission Income	9,822	12,242	20,169	21,988	22,771	23,909
Total Operating Income	74,500	93,598	136,637	119,818	111,493	119,694
Less: Impairment Charge/(Reversal) for Loans	21,420	25,140	71,924	35,038	16,356	16,408
Net Operating Income	53,081	68,458	64,712	84,780	95,137	103,285
Less : Operating Expense						
Personnel Expenses	14,993	16,799	19,788	22,714	23,099	22,239
Other Operating Expenses	11,270	12,859	16,494	18,306	19,584	20,659
Total Operating Expenses	26,263	29,658	36,282	41,020	42,683	42,898
Operating Profit before Value Added Tax (VAT)	26,818	38,801	28,430	43,760	52,454	60,387
Less: Value Added tax on Financial Services	4,531	5,845	3,921	5,318	3,022	4,131
Operating Profit after Value Added Tax (VAT)	22,287	32,955	24,509	38,442	49,432	56,256
Profit before Income Tax	22,291	32,957	24,505	38,448	49,438	56,263
Less: Income Tax Expense	7,433	8,667	106	15,379	19,775	22,505
Profit for the Year	14,858	24,290	24,399	23,069	29,663	33,758
Non-Controlling Interest	(2,082)	228	588	923	1,187	1,350
Profit Attributable to Equity Holders	16,940	24,062	23,812	22,146	28,476	32,407
Adjusted EPS	12.9	18.3	18.1	16.9	21.7	24.7

Appendix II: Statement of Financial Position

Statement of Financial Position P/E 31st December	2020	2021	2022	2023E	2024E	2025E
ASSETS						
Cash and Cash Equivalents	50,817	69,335	151,109	284,127	261,776	157,537
Balances with Central Banks	115,359	56,777	78,597	66,401	76,076	84,769
Placements with Banks	16,422	12,499	96,083	52,846	47,561	42,805
Derivative Financial Instruments	2,637	3,245	8,345	8,410	5,663	5,748
Other Financial Assets Held-For-Trading	35,189	23,436	24,873	31,149	31,461	31,933
Loans and Receivables to Other Customers	909,829	1,029,584	1,155,493	1,216,885	1,331,377	1,430,115
Financial Investments - Available-for-sale	278,717	335,954	118,652	622,989	587,271	596,080
Property, Plant & Equipment	25,387	24,745	27,447	27,998	28,289	28,321
Intangible Assets	1,801	2,273	4,113	4,905	5,204	5,535
Other Assets	20,195	27,083	40,811	62,299	41,948	31,933
Total assets	1,762,058	1,983,491	2,499,554	2,639,224	2,678,183	2,768,076
LIABILITIES						
Securities Sold Under Repurchase Agreements	91,412	151,425	97,726	121,689	106,510	114,409
Due to Other Customers	1,286,616	1,472,640	1,977,744	2,076,631	2,097,397	2,128,858
Subordinated Term Debts	38,247	38,303	61,401	39,549	39,941	42,903
Total liabilities	1,601,547	1,813,939	2,286,581	2,413,521	2,425,134	2,481,799
EQUITY						
Stated Capital	52,188	54,567	58,150	64,804	73,386	82,983
Statutory Reserves	9,285	10,590	12,080	13,233	14,716	16,404
Retained Earnings	7,686	9,891	6,790	8,174	17,370	27,835
Other Reserves	89,596	92,427	131,846	134,461	141,360	151,487
Total Equity to Equity Owners of the Bank	158,755	167,475	208,865	220,672	246,832	278,710
Non-Controlling Interest	1,756	2,078	4,107	5,030	6,217	7,567
Total Equity	160,511	169,553	212,973	225,703	253,049	286,277
	1,762,058	1,983,491	2,499,554	2,639,224	2,678,183	2,768,076
Adjusted NAVPS	120.8	127.4	158.9	167.1	175.5	186.1



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