



CARGILLS BANK LIMITED

“HIGHER RELATIVE VALUATION COMPARED TO PEERS”

IPO Price – LKR 8.00

Company Profile

Cargills Bank Limited (CBL) is a licensed commercial bank based in Sri Lanka operating in the retail, agriculture & micro finance, SME, corporate, international trade, and treasury segments. Collaborating with over 20,000 farmers through 50+ collection centers nationwide, CBL operates 24 branches in 14 districts (plans to expand to 50 by 2028), 29 mini-banking locations (plans to expand to 120 by 2028) and boasts over 500 touchpoints. With a team of over 600 employees, the bank has onboarded over 200,000 customers, with the potential to draw in additional customers from the 1.6Mn customer base of Cargills (Ceylon) PLC which currently holds a stake of 39.7% in CBL.

CBL has garnered a user base of over 40,000 across its digital banking platforms and has a total active card base exceeding 100,000. Notably, the bank has disbursed over 12,000 loans totaling more than LKR 2.5Bn to the agricultural and dairy sector.

CBL engages in agency banking where retail customers can deposit, withdraw, transfer funds, and make payments to collection accounts at 478 Cargills retail outlets nationwide. Furthermore, this service is utilized to offer collection management services for Corporate and SME Banking customers. CBL employs a hub-and-spoke model involving a single branch operating mini-locations in multiple Cargills Food City outlets, enabling the branch to tap into areas where branches are not readily available and acquire customers with minimal investment. CBL also has the approval to operate the Mobile Branch vehicle in remote locations across the country.

Future Outlook

CBL aims to achieve a net profit of LKR 1.7Bn, double its customer base, and reach an asset value of approximately LKR 130.0Bn by 2026, doubling its asset base within the next three years. Looking ahead, CBL envisions strategic expansion that includes the establishment of additional branches and mini-banking locations by 2028. CBL intends to launch a stand-alone app for banking at Cargills retail outlets for both Cargills bank and non-Cargills bank account holders and release an updated version of its mobile app in 2Q2024. Furthermore, CBL expects total customer deposits to reach LKR 168.4Bn by 2028, targeting a CASA ratio of 28.0%, enabling CBL to fund its loan growth expectations in the medium term.

The objective of this IPO issue is to comply with CBSL’s minimum capital requirement of LKR 20.0Bn by Dec 2025, where this IPO signifies phase 1 of CBL’s capital augmentation plan. After the capital raising, CBL’s capital base will increase to LKR 11.9Bn, marking the completion of phase 1 of the bank’s capital augmentation plan. Additional equity capital raisings are planned to be carried out in the future to meet the required minimum capital. As part of the capital augmentation plan, CBL plans to raise capital through the issuance of additional Tier 1 Bonds amounting to a minimum of LKR 1.5Bn in 2025, with the funds deployed for portfolio expansion and growth initiatives.

Moreover, the funds raised through the issue are expected to be utilized for the lending business within three months. The capital infusion from the IPO and expected equity raisings in line with the capital augmentation plan will further fortify CBL’s balance sheet, reducing its reliance on borrowings and client deposits in the short term. This will allow the bank to adopt a more aggressive approach to gross disbursements, as indicated by CBL’s anticipated expansion of the gross loan book from 2024 onwards.

CBL Valuation

P/E 31 December	2018	2019	2020	2021	2022	9-Months ended 30-Sep-23
Earnings (LKR 'Mn)						
Net Interest Income	2,029	2,044	1,565	1,840	3,204	2,780
Net Fee and Commission Income	158	224	249	492	862	590
Net Operating Income	2,044	1,304	1,211	1,774	2,817	3,154
Profit/(Loss) before tax	161	(887)	(887)	(369)	206	725
Profit/(Loss) for the Year	123	(667)	(744)	(277)	488	432
Basic EPS (LKR)	0.14	(0.75)	(0.84)	(0.31)	0.55	0.49
YoY % Growth		-643%	-12%	63%	276%	-11%
Valuations						
PER (x)	57.5	N/A	N/A	N/A	14.5	N/A
PBV (x)	0.64	0.68	0.73	0.76	0.73	0.62
DY (%)	-	-	-	-	-	-

Peer Group Comparison

	Share Price 08.12.23 (LKR)	EPS 2022 (LKR)	NAVPS 2022 (LKR)	P/E (x)	P/BV (x)
COMB	93.9	19.21	168.47	4.9	0.6
HNB	169.0	28.62	342.25	5.9	0.5
SAMP	72.3	12.29	118.45	5.9	0.6
NDB	69.6	7.92	177.60	8.8	0.4
NTB	107.3	22.61	152.72	4.7	0.7
SEYB	46.2	7.92	97.27	5.8	0.5
CBL-Pre IPO	8.0	0.55	11.01	14.5	0.7
Banking Sector*				4.3	0.5
Market*				11.2	0.9

*Note: as at 30th Sep 2023

Valuation outlook

Considering the FY22 EPS, CBL’s PBV stands at 0.7x, demonstrating a relatively higher valuation compared to the majority of its peers and the average PBV of 0.5x within the banking sector.

IPO Details

Issue Price	: LKR 8.00
Amount to be Raised	: LKR 500.0Mn
No. of Shares Offered (Offer for Subscription)	: 62,500,000 Ordinary Voting Shares
Issue Open Date	: December 14, 2023

Purpose of the issue

- To meet the regulatory listing requirement mandated by the CBSL.
- The IPO constitutes the 1st phase of the Capital Augmentation Plan, designed to achieve a capital target of LKR 20.0Bn by the end of CY 2025, as mandated by the CBSL.
- To utilize for lending purposes within three months.

Post IPO

Shareholders	No. Shares	%
Existing Shareholders	883,142,858.00	93.4%
IPO Shareholders	62,500,000.00	6.6%
	945,642,858.00	100.0%

Issue Allotment Structure

Applicant Category	Allocation of IPO (%)
Unit Trusts*	10.0%
Retail Individual	40.0%
Non-Retail	50.0%
	100.0%

*Unit Trust Investors should be growth or balanced unit trusts operated by managing companies. These trusts should have a minimum of 500 unit holders resident in Sri Lanka, collectively holding at least 50% of the fund.



Appendix 1 Summarized Audited Statements of Financial Position

Statement of Financial Position	2018	2019	2020	2021	2022
Year ended 31st December (LKR 'Mn)					
ASSETS					
Cash and Cash Equivalents	1,232	993	1,420	1,215	1,232
Balances with CBSL	994	1,040	444	568	1,312
Placements with Banks	-	689	-	601	-
Derivative Financial Instruments	0	0	4	3	-
Financial Assets measured at FVTPL	-	-	1,596	-	-
Financial Assets measured at Amortised Cost - Loans & Advances	23,917	27,014	29,079	40,491	35,960
Financial Assets measured at Amortised Cost - Debt & Other Instrument	524	478	436	16	1,997
Financial Assets measured at FVOCI	5,548	6,668	11,534	10,784	10,253
Property, Plant and Equipment	488	858	658	518	475
Intangible Assets	474	458	358	259	335
Deferred Tax Assets	169	367	499	638	956
Other Assets	456	574	506	675	1,232
Total Assets	33,803	39,139	46,533	55,767	53,753
LIABILITIES					
Due to banks	1,365	1,518	1,557	926	514
Derivative Financial Instruments	15	2	0	3	0
Financial Liabilities - Due to Depositors	19,903	25,043	31,998	40,182	37,803
Financial Liabilities - Due to other Borrowers	663	948	2,121	3,970	3,689
Retirement Benefit Obligation	51	44	65	81	97
Lease Liability	-	444	340	333	341
Other Liabilities	783	707	718	947	1,589
Total Liabilities	22,779	28,706	36,798	46,442	44,033
EQUITY					
Stated Capital	11,394	11,394	11,394	11,394	11,394
Statutory Reserves	32	32	32	32	57
Accumulated Losses	(375)	(1,030)	(1,773)	(2,056)	(1,598)
Other Reserves	(28)	36	80	(46)	(133)
Total Equity	11,024	10,432	9,734	9,325	9,720
Total Equity & Liabilities	33,803	39,139	46,533	55,767	53,753

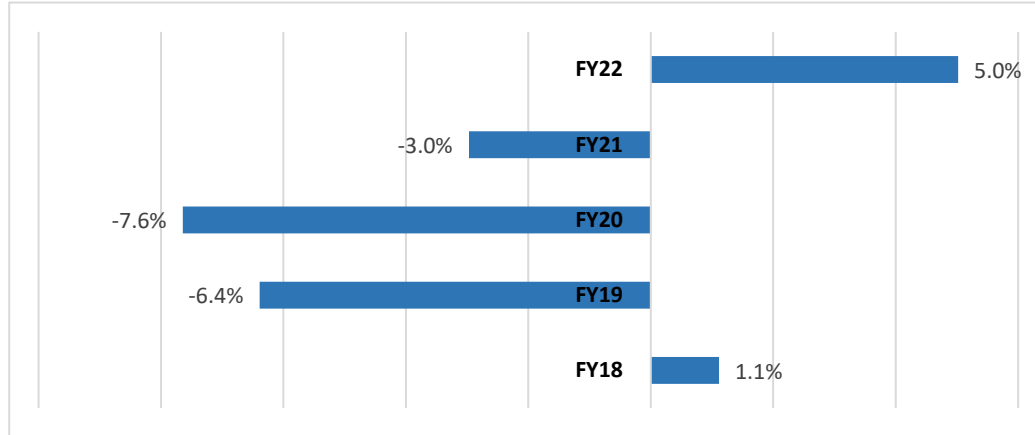
Appendix 2 Summarized Audited Income Statement

Income Statement	2018	2019	2020	2021	2022
Year ended 31st December (LKR 'Mn)					
Gross Income	4,300	4,959	4,774	4,994	9,489
Interest Income	3,904	4,391	4,118	4,100	8,002
Less: Interest expenses	(1,875)	(2,347)	(2,553)	(2,260)	(4,798)
Net Interest Income	2,029	2,044	1,565	1,840	3,204
Fee and Commission Income	226	384	457	768	1,272
Less: Fee and Commission expenses	(68)	(160)	(208)	(276)	(410)
Net Fee and Commission Income	158	224	249	492	862
Net Gain / (Losses) from Trading	(14)	14	5	(1)	1
Net Gain from derecognition of Financial Assets	18	81	121	(18)	21
Net Other Operating Income	167	90	73	146	192
Less: Impairment Losses	(314)	(1,148)	(802)	(685)	(1,463)
Net Operating Income	2,044	1,304	1,211	1,774	2,817
Less: Operating Expenses					
Personnel Costs	(744)	(873)	(799)	(843)	(915)
Depreciation and Amortization	(247)	(416)	(491)	(420)	(437)
Other Operating expenses	(717)	(902)	(808)	(774)	(1,017)
Less: Taxes on Financial Services	(175)	1	-	(106)	(241)
Profit/(Loss) before tax	161	(887)	(887)	(369)	206
Less: Income tax (expense)/Reversal	(39)	221	143	92	281
Profit/(Loss) for the Year	123	(667)	(744)	(277)	488



Appendix 3

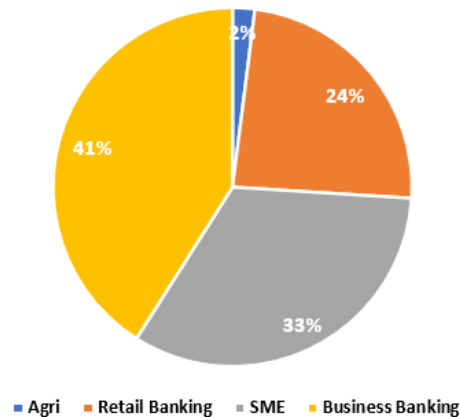
5-Year ROE Comparison



CBL's ROE rebounded positively in 2022, marking a turnaround following three consecutive years of reported losses from 2019 to 2021.

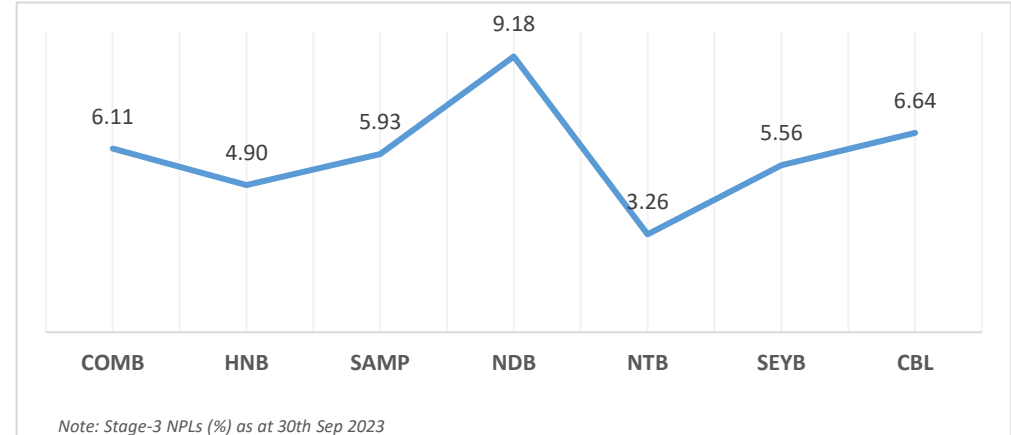
Appendix 5

Segmental Gross Loan Composition – Aug 2023



Appendix 4

Stage-3 Non-Performing Loans (%)



Note: Stage-3 NPLs (%) as at 30th Sep 2023

CBL has an NPL ratio registered at 6.6% in 3Q2023, comparatively higher compared to most of its peers, while it accounts for an impairment provisioning of 52.7%.

CBL prioritized higher asset quality over rapid expansion of the loan book to address the current market conditions and associated credit risks.

Consequently, CBL's gross loan book contracted by 7.9%YoY in 2022. Although this temporary strategy led to a slight decline in the total asset base in the short term, it is anticipated to strengthen asset quality with minimal new non-performing loans in the future.



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