

**SAMPATH BANK PLC [SAMP.N0000]****MAINTAIN BUY****“IMPAIRMENT CONTRACTION SPARKS PAT GROWTH”****Fair Value: 2024E - LKR 120.00 [+64%]**

Total Return with DPS: 2024E - 73% [AER 68%]

SAMP demonstrated exceptional results for 3Q2023 with earnings improved by 1509.7%YoY to LKR 5.1Bn. The steep decline in impairment charge of 64.6%YoY coupled with the improvement in Net Fee and Commission Income and Other Operating Income has largely contributed towards the outstanding results of the quarter which offset the 11.1%YoY decline in NII. Despite a 7.3%YTD decrease in the loan book to LKR 778.7Bn for 9M2023, the bank is poised for positive growth in its lending portfolio, fueled by increased credit demand from both corporates and individuals in the midst of a declining interest rate environment. Considering the robust performance, we upgraded the earnings target of SAMP for 2024E to LKR 20.5Bn (+12.0%YoY). With the strong capital buffer, we expect SAMP's lending portfolio to grow when economic activities pick up in 2024E. Anticipating a positive sector outlook and a potential re-rating, we expect SAMP to trade at a 1.0x PBV, resulting in a fair value of LKR 120.0 for 2024E, which represents a substantial 63.7% upside from the current market price of LKR 73.30. **MAINTAIN BUY.**

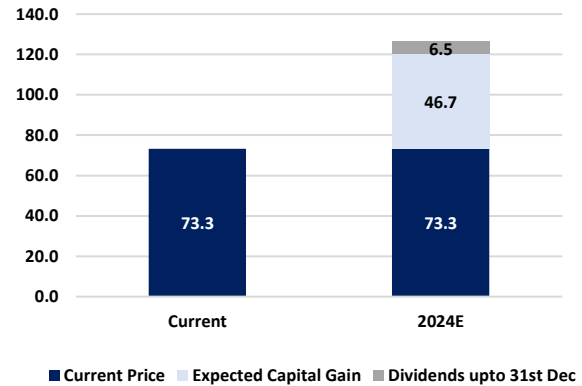
LKR (Mn)	3Q2022	3Q2023	YoY	9M2022	9M2023	YoY
Earnings (LKR 'Mn)						
NII	22,288	19,811	-11%	55,301	55,238	-0%
Total Operating Income	29,096	28,103	-3%	85,031	70,633	-17%
Net Operating Income	8,475	20,805	+145%	35,840	56,135	+57%
Profit Before Tax	567	9,413	+1560%	10,207	22,844	+124%
Net Profit	316	5,092	+1510%	7,686	12,730	+66%
Balance Sheet (LKR 'Mn)						
Loans	888,054	778,664	-12%	888,054	778,664	-12%
Shareholders' Equity	127,770	152,574	+19%	127,770	152,574	+19%
NAVPS	111.7	130.1	+17%	111.7	130.1	+17%

Earnings soar over LKR 5.0Bn amidst impairment decline

SAMP recorded a robust 1509.7%YoY (+10.0%QoQ) growth in earnings to LKR 5.1Bn in 3Q2023 owing to the significant decline in impairment charges (64.6%YoY), offsetting the decline in NII by 11.1%YoY in the prevailing low-interest-rate environment. Notably, proactive provisioning in 2022 amid external uncertainties contributed to the steep decline in impairment charges for 3Q2023. Going forward, we expect SAMP impairment provisions to reduce, largely on the back of the pickup in the tourism sector (SAMP has the highest exposure to tourism), which is expected to enable timely repayments and thus result in a possible reduction in impairment provisions in the coming years. Additionally, Net Fee and Commission income marginally grew by 3.9%YoY driven by a pickup in business volumes in credit, trade and electronic trade channel-related fees.

Persistent loan book growth to aid by further decline in interest rates

SAMP's total deposit base has witnessed a notable increase of LKR 110.0Bn to LKR 1,225.2Bn YTD, despite LKR appreciation. Accordingly, the bank's CASA ratio for 9M2023 has marginally improved to 33.8%, compared to 32.7% in 2022. We expect the CASA ratio to normalize and further improve to 38%-40% from 2023E-2026E and is expected to provide a cost-effective source of funds compared to peers. On the other hand, SAMP's loan book exhibited a YTD degrowth of 7.3%, a relatively modest decline compared to the private sector credit, which contracted by nearly 3.3%. Looking ahead, we expect SAMP's loan book to grow at 10% in 2024, below its 10-year average of 14.0%, as interest rates still have room to ease (AWPLR 10-year average: 11.24%). With 40% of SAMP's loans tied to the Trade, Manufacturing, and Tourism sectors in 2022 (compared to 37% in 2021), gradual growth is likely in line with these sectors' recovery.

**FIRST CAPITAL RESEARCH**

Tharusha Ashokgar +94 11 263 9866
tharushaash@firstcapital.lk

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

Buy Below for 2024E [AER of 19.0% with DPS]: LKR 105.3
 SAMP categorized as 'Grade A' counter

Disclosure on Shareholding:

First Capital Group do not hold shares in SAMP and will not trade in this share for three trading days following the issue of this document.

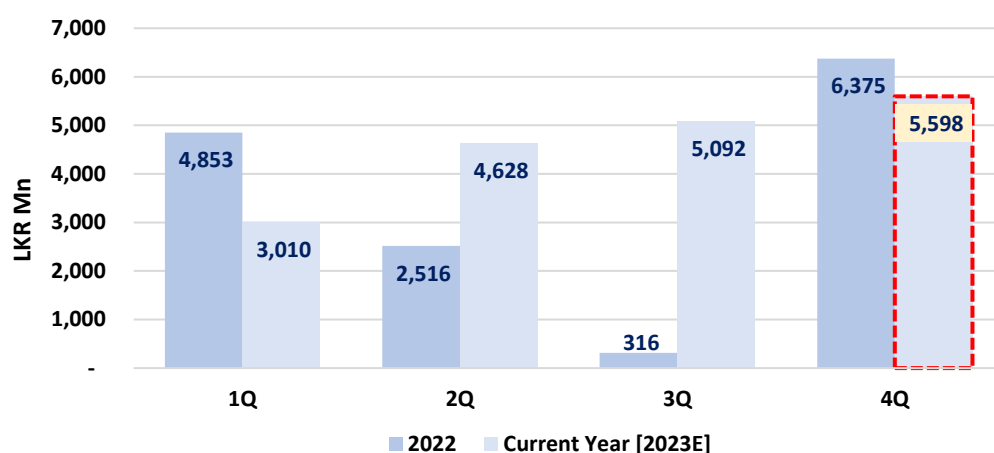
Well above capital ratios to boost lending portfolio

SAMP’s Tier I and Total Capital Adequacy Ratios stand at 14.74% and 17.97%, respectively as of 30th Sep 2023 which are well above the minimum regulatory requirement of 8.5% and 12.5%. We believe that SAMP’s adequate capital buffer may enable it to sail through the tough times and help boost credit growth in the near term as the economic activity recovery.

FV for 2024E derives at LKR 120.00 – MAINTAIN BUY

Anticipating a positive sector outlook and a potential re-rating, we expect SAMP to trade at a 1.0x PBV, resulting in a fair value of LKR 120.0 for 2024E, which represents a substantial 63.7% upside from the current market price of LKR 73.30. **MAINTAIN BUY.**

Quarterly Earnings



Estimate Revision

In LKR Mn	2023E - O	2023E - R	% Change	2024E - O	2024E - R	% Change
Earnings Estimate						
Net Interest Income	67,846	71,629	+6%	68,061	66,503	-2%
Total Operating Income	92,606	94,806	+2%	92,623	91,453	-1%
Net Operating Income	69,618	75,288	+8%	79,013	83,327	+5%
Profit Before Tax	25,869	30,546	+18%	28,409	34,207	+20%
Net Profit	15,521	18,328	+18%	17,046	20,524	+20%
Adjusted EPS	13.2	15.6		14.5	17.5	
Growth YoY	20%	1%			12%	
Balance Sheet Estimate						
Loans & Advances	836,051	801,396	-4%	919,656	886,673	-4%
Shareholders' Equity	139,689	142,004	+2%	145,821	150,802	+3%
Adjusted NAVPS	119.1	121.1		124.3	128.6	
Ratio Estimate						
ROE (%)	11.1%	12.9%		11.7%	13.6%	
PER (x)	5.5	4.7		5.0	4.2	
PBV (x)	0.6	0.6		0.6	0.6	

Valuation Table

P/E 31 December	2019	2020	2021	2022	2023E	2024E	2025E
Estimates (LKR 'Mn)							
Net Interest Income	44,764	36,827	45,518	76,042	71,629	66,503	74,774
Total Operating Income	59,141	50,066	64,399	114,768	94,806	91,453	101,015
Net Profit	11,668	8,443	13,856	14,061	18,328	20,524	22,980
Adjusted EPS (LKR)	9.9	7.2	11.8	12.0	15.6	17.5	19.6
YoY Growth (%)	-7%	-28%	64%	1%	30%	12%	12%
Valuations							
PER (x)	7.4x	10.2x	6.2x	6.1x	4.7x	4.2x	3.7x
PBV (x)	0.8x	0.8x	0.7x	0.6x	0.6x	0.6x	0.5x
DY (%)	5.2%	3.7%	5.7%	6.1%	7.9%	8.8%	9.9%
NAVPS	95.0	97.6	108.5	115.6	121.1	128.6	136.9
DPS (LKR)	3.8	2.7	4.1	4.5	5.8	6.5	7.3
Dividend Payout	38.4%	37.3%	35.1%	37.4%	37.0%	37.0%	37.0%

Valuation Summary

Expected SAMP price	2024E
Justified PBV based target price	122.2
PER Valuation based target price	109.4
RI Valuation based target price	116.9
Average Target Price	123.6
Target Price after Rounding off	120.0

Return	2024E
Target Price	120.0
Current Price	73.3
Capital Gain (LKR)	46.7
Dividends upto 31st Dec (LKR)	6.5
Capital Gain %	64%
Dividend Yield %	9%
Total Return %	73%
Annualized Return %	68%

Residual Income Valuation

Residual Income based Valuation	2024E
PV of Residual Income	-4,884
No. of Shares ('Mn)	1,173
RI per Share	-4.2
Opening Book value per Share	121.1
Value per Share	116.9

COE	2024E
Rf	11.0%
Rm	19.0%
Growth %	3.0%
β	0.80
$Ke=Rf+\beta(Rm-Rf)$	17.4%

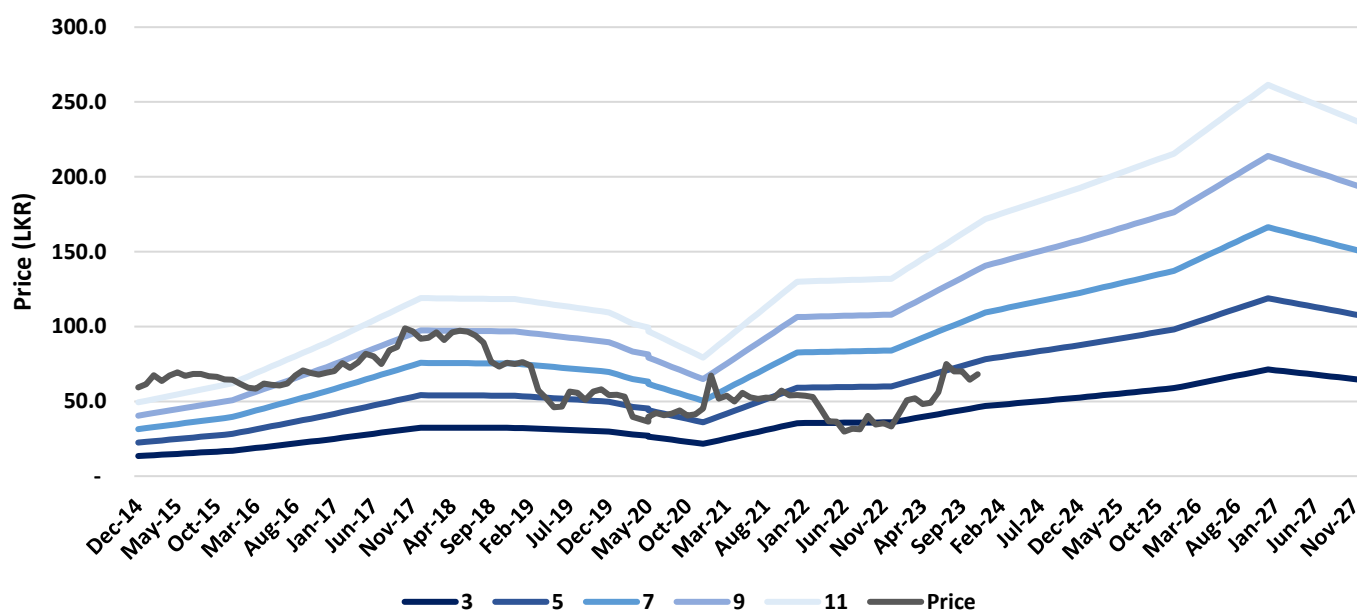
Justified PBV Valuation

Justified PBV based Valuation	2024E
ROAE	14.0%
Growth	3.0%
COE	17.4%
PBV	0.95
NAVPS	128.6
Target Price	122.2

PER Valuation

PER based Valuation	2024E
Earnings (LKR 'Mn)	18,328
No. of Shares ('Mn)	1,173
EPS	15.6
Expected PER	7.0x
Price at 7.0x Earnings	109.4

PER Chart



Appendix I: Statement of Income and Expenses

Income Statement (LKR Mn) P/E 31st December	2019	2020	2021	2022	2023E	2024E	2025E
Gross Income	125,921	109,183	113,075	206,002	233,246	215,572	232,596
Interest Income	109,855	94,647	92,428	164,776	208,865	189,126	204,580
Interest Expenses	65,092	57,820	46,910	88,734	137,237	122,623	129,805
Net Interest Income	44,764	36,827	45,518	76,042	71,629	66,503	74,774
Fee & Other Income	14,378	13,239	18,881	38,726	23,177	24,950	26,241
Total Operating Income	59,141	50,066	64,399	114,768	94,806	91,453	101,015
Impairment (Charges)/ Reversal	-13,751	-13,201	-18,559	-62,908	-19,519	-8,126	-7,500
Net Operating Income	45,391	36,866	45,840	51,860	75,288	83,327	93,515
Less : Operating expenses							
Staff Cost	10,585	11,227	10,916	13,879	16,377	17,919	20,784
Other Operating Expenses	11,316	10,354	11,803	16,010	18,411	20,145	22,757
Total Operating Expenses	21,901	21,582	22,719	29,888	34,788	38,063	43,540
Profit from operations	23,490	15,284	23,121	21,971	40,500	45,264	49,975
VAT on Financial Services & DRL	7,152	3,394	4,296	5,577	9,953	11,057	11,675
Profit Before Tax	16,338	11,890	18,825	16,395	30,546	34,207	38,299
Income Tax Expense	4,670	3,447	4,969	2,334	12,218	13,683	15,320
Profit for the Year	11,668	8,443	13,856	14,061	18,328	20,524	22,980
Minority Interest	0	0	0	0	0	0	0
Profit attributable to Equity Holders	11,668	8,443	13,856	14,061	18,328	20,524	22,980
EPS	9.9	7.2	11.8	12.0	15.6	17.5	19.6

Appendix II: Statement of Financial Position

Balance Sheet (LKR Mn) As at 31st December	2019	2020	2021	2022	2023E	2024E	2025E
Assets							
Cash and cash equivalents	17,978	29,219	23,028	79,345	74,783	60,779	61,570
Financial instruments	14,297	17,732	10,169	15,167	12,520	13,723	15,255
Loans to & Deposits with Banks	38,280	16,563	33,614	42,506	72,061	61,595	60,900
Loans and Receivables	719,047	752,438	795,804	839,977	801,396	886,673	992,190
Debt and other instruments	156,309	275,126	294,667	284,238	331,201	357,697	393,467
Property, plant & equipment	15,702	15,891	16,338	19,067	18,028	22,672	25,343
Other Assets	37,711	42,716	69,013	87,020	206,178	208,378	210,668
Total Assets	999,323	1,149,685	1,242,633	1,367,320	1,516,168	1,611,517	1,759,394
Liabilities							
Due to other customers	730,190	902,499	994,318	1,115,156	1,226,671	1,324,805	1,457,286
Due to banks	1,568	42,905	31,532	15,255	18,400	19,872	21,859
Debt issued and other borrowed funds	125,671	56,906	56,474	45,779	73,950	61,255	65,047
Current tax liabilities	7,835	4,793	8,376	19,186	18,227	17,316	16,450
Other liabilities	22,602	28,168	24,748	36,392	36,916	37,467	38,212
Total Liabilities	887,866	1,035,271	1,115,447	1,231,768	1,374,164	1,460,715	1,598,853
Shareholders' Funds							
Stated Capital	47,622	47,622	47,622	47,622	48,741	48,741	48,741
Reserves	54,409	58,891	65,696	74,364	77,315	83,035	89,327
Retained earnings	9,425	7,901	13,867	13,565	15,947	19,026	22,473
Shareholders' Funds	111,457	114,415	127,186	135,551	142,004	150,802	160,541
Minority Interest	0	0	0	0	0	0	0
	111,457	114,415	127,186	135,551	142,004	150,802	160,541
Total Liabilities & Shareholders' Funds	999,323	1,149,685	1,242,633	1,367,320	1,516,168	1,611,517	1,759,394
NAVPS	95.0	97.6	108.5	115.6	121.1	128.6	136.9



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	Tharusha Ashokgar	+94 11 2639 866
Ranjan Ranatunga	+94 11 2639 863	Zaeema Jihan	+94 11 2639 866
Vinodhini Rajapoopathy	+94 11 2639 866	Nethmi Fernando	+94 11 2639 866

GOVERNMENT SECURITIES SALES

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

CORPORATE DEBT SALES

Tharusha Ekanayake	+ 94 77 7 809 154
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EQUITY SALES

CEO	Jaliya Wijeratne	+94 70 2910 042		
Colombo				
Rasika Indra Kumara	+94 77 7072 698	Anjelo LaBrooy	+94 77 7546 645	
Isuru Jayawardena	+94 76 7084 953	Dillon Lowe	+94 76 616 0647	
Nishantha Mudalige	+94 70 2910 041	Evelyn John	+94 77 779 2452	
Anushka Buddhika	+94 71 4310 600	Yudheshan Kannadasan	+94 77 415 5809	
Thushara Pathiraja	+94 70 2910 037			
Negombo				
Priyanka Anuruddha	+94 70 2910 035	Priyantha Wijesiri	+94 70 2910 036	

UNIT TRUST SALES

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

Kandy	Kurunegala	Matara	Negombo
CSE Branch Office, No. 88, Dalada Veediya, Kandy 20000.	No.174/B2, Negombo Road, Kurunegala. Kurunegala 60000.	CSE Branch Office, 1st Floor, E.H.Cooray Tower, No.24, Anagarika Dharmapala Mawatha, Matara 81000.	Colombo Stock Exchange Negombo Branch Office, No. 72 A, 2/1, Old Chilaw 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 4937 072

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