

**SEYLAN BANK PLC [SEYB.N0000]****MAINTAIN BUY****“EARNINGS SPARK POSITIVE OUTLOOK”****Fair Value: 2024E - LKR 96.00 [+51%]**

Total Return with DPS: 2024E - 120% [AER 113%]

SEYB illustrated a remarkable performance during 3Q2023 as Net earnings recorded an uptick of 89.8%YoY to LKR 2.0Bn during 3Q2023 (4.5Bn – 9M2023) broadly in line with our target, mainly resulted by the improved Net fee and commission based income which increased by 7.4%YoY. Furthermore, impairment expenditure displayed a notable decrease of 48.0%YoY on the back of decreased interest rates which subsequently offset the adverse effect from the contracted NII by 9.1%YoY. Along with a strong capital structure maintained above required levels, potential growth in the loan book as the businesses expand, coupled with the revival of the economy expected towards 2024, we broadly maintain our earnings target for 2024E at LKR 7.1Bn. Furthermore, with the optimistic outlook on the banking sector we maintain our target price for SEYB.N at LKR 96.0 and SEYB.X at LKR 60.0, respectively. **MAINTAIN BUY**

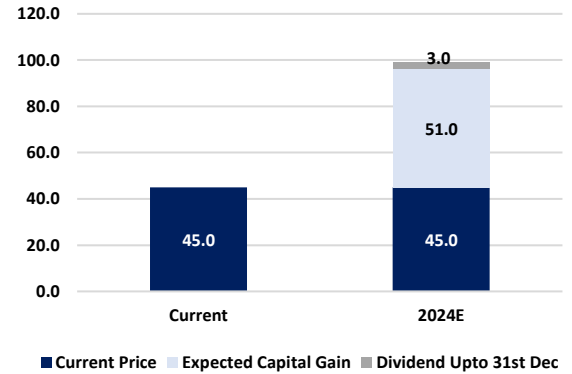
LKR (Mn)	3Q2022	3Q2023	YoY	9M2022	9M2023	YoY
Earnings (LKR 'Mn)						
NII	11,202	10,183	-9%	28,260	30,848	+9%
Total Operating Income	13,596	12,885	-5%	35,441	37,618	+6%
Net Operating Income	6,123	8,997	+47%	16,604	24,171	+46%
Pre Tax Profit	1,626	3,101	+91%	3,718	7,285	+96%
Net Profit	1,040	1,975	+90%	2,495	4,474	+79%
Balance Sheet (LKR 'Mn)						
Loans	444,220	411,840	-7%	444,220	411,840	-7%
Shareholders' Equity	56,202	61,661	+10%	56,202	61,661	+10%
NAVPS	97.3	100.2		97.3	100.2	

Net earnings up by 89.8%YoY to LKR 2.0Bn during 3Q2023

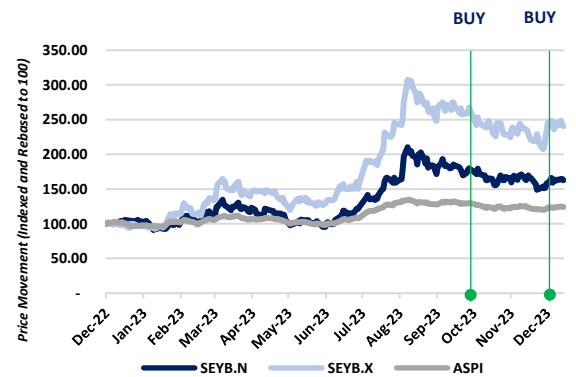
SEYB experienced an upsurge in Net earnings, witnessing an 89.8%YoY increase (+33.7%QoQ) to LKR 2.0Bn during 3Q2023. This notable growth was mainly attributed by various positive factors, including a robust 7.4%YoY (7.3%QoQ) expansion in Net fee and commission based income. This was primarily driven by increased revenue from debit and credit card transactions, as well as commissions from trade and income derived from remittances. The substantial reduction in impairment charges further contributed positively to the strong earnings performance, recording a 48.0%YoY decline. This reduction in impairment charges were mainly resulted by the reduction in provisioning for foreign currency denominated bonds which recorded at LKR 1.5Bn for 9M2023 (2022: LKR 5.0Bn), alongside the reduction in provisioning for personal loans and advances which recorded at LKR 12.0Bn as at 9M2023 (2022:LKR 13.2Bn), coupled with the expected economic growth outlook in the future. However, notably the bank is poised to make provisions to account for changes in the macroeconomic landscape and to ensure the ongoing assessment of credit risk and the quality of both customer's and the bank's loan portfolio by taking a prudent approach in the future.

NII curtails by 9.1%YoY whilst OPEX hikes by 25.2%YoY

NII demonstrated a noteworthy 10.9%QoQ growth amidst the low interest rate environment but recorded a decline of 9.1%YoY on the back of the faster growth in interest expenses compared to interest income during 3Q2023, influenced by the faster repricing effect on loans compared to deposits as rates declined. Moreover, Net operating income also experienced a growth of 10.2%QoQ during 3Q2023 (46.9%YoY), mainly backed by the increased net trading income by 91.6%QoQ coupled with the growth in net interest, fee and commission based income by 10.4%QoQ. However, Operating expenses increased by 25.2%YoY (0.5%QoQ) mainly driven by the upsurge in personal expenses that were incurred as relief allowances to absorb high cost of living and taxes along with cross currency payments which were incurred.

**FIRST CAPITAL RESEARCH**

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Source: CSE

Minimum Return for BUY:

Buy Below for 2024E [AER of 22.0% with DPS]: LKR 99.2
SEYB categorized as 'Grade B' counter

Disclosure on Shareholding:

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

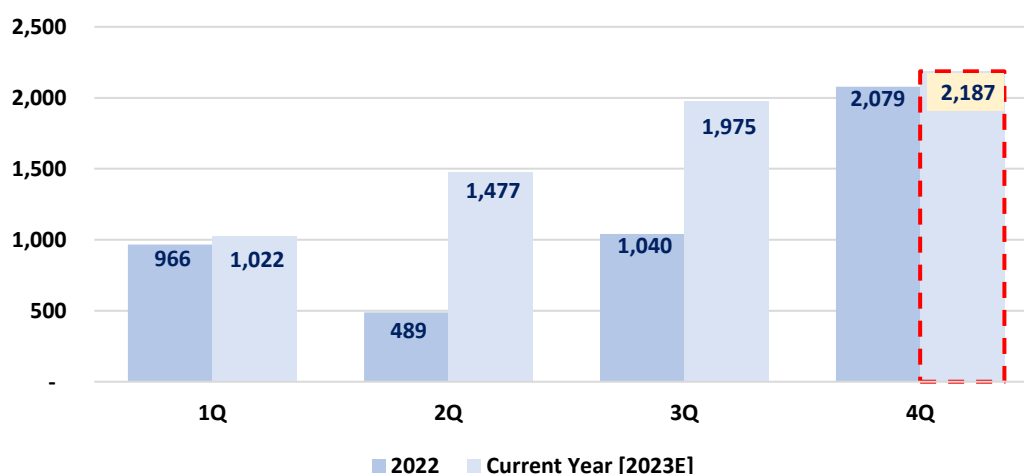
SEYB remains well capitalized along with a positive loan book growth ahead

SEYB reported a Tier 1 and Tier 2 capital adequacy ratio of 12.05% and 15.57% respectively which is above the required rate of 8.50% and 12.50% displaying a strong and healthy capital structure. Moreover, as a result of the future economic resurgence expected to take off during 2024 we may see a steady growth by approximately 13.0% (3Q2023: +7.3%YoY) in the loan book of SEYB anticipated to be contributed by the SME, Tourism and Manufacturing sectors, along with the anticipated improvement in import and export volumes. However, recovering from the poor CASA base of 23.8% in 2022 we expect the CASA ratio to surge between 32.0% - 33.0% in 2024.

FV maintained for SEYB.N at LKR 96.0 and SEYB.X at 60.0 for 2024E – MAINTAIN BUY

We are optimistic about a positive outlook, driven by the anticipated economic revival gaining momentum in 2024 alongside the expected favorable GDP growth, which is likely to contribute to the continued recovery of the banking sector. We anticipate SEYB to trade at 0.9x PBV, resulting in a fair value of LKR 96.0 for SEYB.N and LKR 60.0 for SEYB.X, for 2024E. Thus, we continue to maintain our recommendation on SEYB at **MAINTAIN BUY**.

Quarterly Earnings



Estimate Revision

In LKR Mn	2023E - O	2023E - R	% Change	2024E - O	2024E - R	% Change
Earnings Estimate						
Net Interest Income	43,178	42,479	-2%	33,194	33,303	+0%
Total Operating Income	51,129	51,565	+1%	27,026	7,861	-71%
Net Operating Income	30,605	32,774	+7%	23,748	32,934	+39%
Pre Tax Profit	9,948	10,392	+4%	6,624	10,632	+61%
Net Profit	6,665	6,661	-0.1%	7,082	7,123	+1%
Adjusted EPS	11.5	10.8		12.3	11.7	
Growth YoY	15%	-19%		6%	53%	
Balance Sheet Estimate						
Loans & Advances	435,577	437,310	+0.40%	505,087	505,087	0.00%
Shareholders' Equity	62,990	62,986	-0.01%	68,339	68,263	-0.11%
Adjusted NAVPS	109.0	102.3		118.3	110.9	
Ratio Estimate						
ROE (%)	9.5%	10.9%		10.5%	10.9%	
PER (x)	4.0	4.2		3.7	3.9	
PBV (x)	0.4	0.4		0.4	0.4	

Valuation Table

Y/E 31 December	2020	2021	2022	2023E	2024E	2025E	2026E
Estimates (LKR 'Mn)							
Net Interest Income	19,811	23,904	40,887	42,479	33,303	35,957	39,704
Total Operating Income	25,723	31,729	51,381	51,565	43,242	46,801	51,549
Net Profit	3,039	4,653	4,574	6,661	7,123	7,177	7,450
Adjusted EPS (LKR)	4.9	7.6	7.4	10.8	11.6	11.7	12.1
YoY Growth (%)	-19%	53%	-2%	46%	7%	1%	4%
Valuations							
PER (x)	9.1x	6.0x	6.1x	4.2x	3.9x	3.9x	3.7x
PBV (x)	0.5x	0.4x	0.5x	0.4x	0.4x	0.4x	0.3x
DPS (LKR)	1.5	3.0	2.0	3.0	3.0	3.0	3.0
Dividend Payout	21%	21%	25%	28%	26%	26%	25%
DY (%)	3.3%	6.7%	4.4%	6.7%	6.7%	6.7%	6.7%
NAVPS	98.2	101.1	97.3	102.3	110.9	119.6	131.7

Valuation Summary

Expected SEYB price for	2024E
Justified PBV based target price	99.0
PER Valuation based target price	86.0
RI Valuation based target price	101.0
Average Target Price	95.3
Target Price after Rounding off	96.0

Return	2024E
Target Price	96.0
Current Price	45.0
Capital Gain (LKR)	51.0
Dividends upto 31st Dec (LKR)	3.0
Capital Gain %	113%
Dividend Yield %	7%
Total Return %	120%
Annualized Return %	113%

Residual Income Valuation

Residual Income based Valuation	2024E
PV of Residual Income	-5,733
No. of Shares ('Mn)	615,449
RI per Share	-9.3
Opening Book value per Share	110.9
Value per Share	101.0

COE	2024E
Rf	11.0%
Rm	19.0%
Growth %	3.0%
β	0.8
$Ke=Rf+\beta(Rm-Rf)$	17.0%

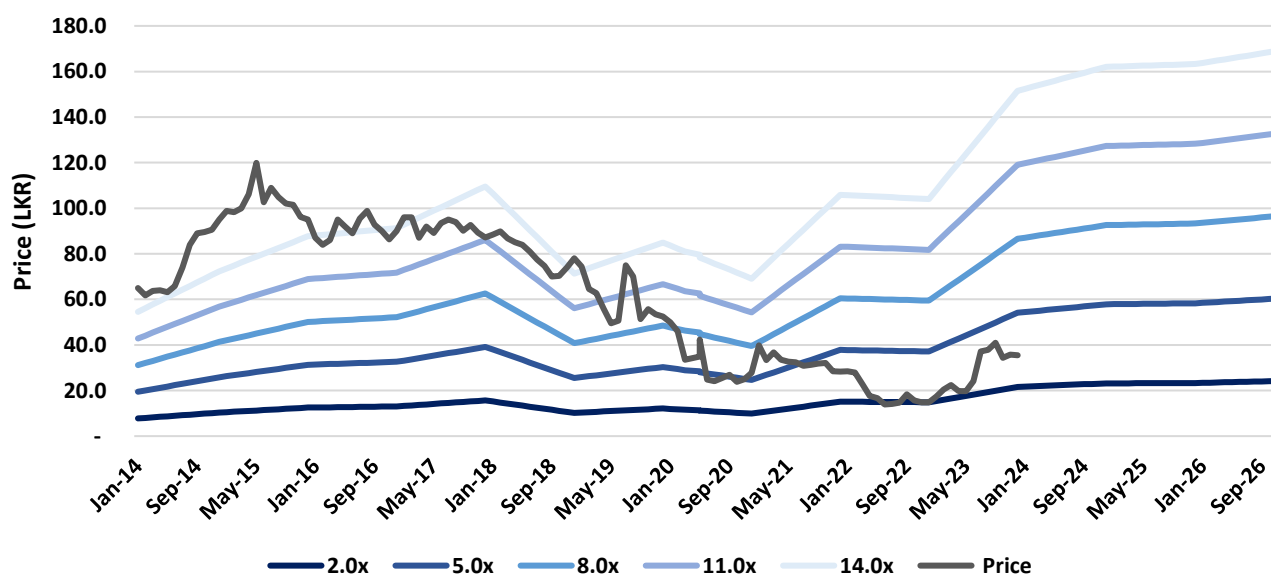
Justified PBV Valuation

Justified PBV based Valuation	2024E
ROAE	10.9%
Growth	3.0%
COE	17.8%
PBV	0.9
NAVPS	110.9
Target Price	99.0

PER Valuation

PER based Valuation	2024E
Earnings (LKR 'Mn)	7,123
No. of Shares ('Mn)	615
EPS	11.57
Expected PER	7.5x
Price at 7.5x Earnings	86.0

PER Chart



Appendix I: Statement of Income and Expenses

Income Statement (LKR Mn)	2020	2021	2022	2023E	2024E	2025E
P/E 31st December						
Interest Income	51,112	46,781	86,106	112,806	76,701	82,626
Interest Expenses	-31,302	-22,877	-45,219	-70,327	-43,398	-46,669
Net Interest Income	19,811	23,904	40,887	42,479	33,303	35,957
Fee & Other Income	5,912	7,826	10,494	9,086	9,939	10,844
Total Operating Income	25,723	31,729	51,381	51,565	43,242	46,801
Impairment (Charges)/ Reversal	6,993	10,422	26,433	18,791	10,308	12,122
Net Operating Income	18,730	21,308	24,948	32,774	32,934	34,679
Less : Operating expenses						
Staff Cost	7,275	6,946	8,007	9,933	9,787	10,800
Depreciation of PPE	1,486	1,479	1,416	1,375	1,024	1,092
Other Operating Expenses	4,145	4,763	5,954	8,038	8,439	8,861
Total Operating Expenses	12,906	13,188	15,378	19,345	19,251	20,753
Operating Profit Before Taxes	5,824	8,119	9,571	13,429	13,683	13,926
VAT, NBT & DRL	1,528	1,935	2,774	3,037	3,051	3,214
Profit Before Tax	4,296	6,185	6,797	10,392	10,632	10,711
Income Tax Expense	1,198	1,449	2,219	3,731	3,508	3,535
Profit for the Year	3,098	4,736	4,578	6,661	7,123	7,177
EPS	5.7	8.1	7.4	10.8	11.6	11.7

Appendix II: Statement of Financial Position

Balance Sheet (LKR Mn)	2020	2021	2022	2023E	2024E	2025E
As at 31st December						
Assets						
Cash and Cash Equivalents	10,036	16,079	40,255	59,885	51,618	79,654
Balances with Central Bank of Sri Lanka	7,371	8,726	16,784	19,458	20,431	22,474
Placements with Banks and Finance Companies	15,688	13,507	20,120	30,447	26,271	25,765
Loans and Advances to Customers	393,766	441,977	444,220	437,310	505,087	565,120
Financial Assets	112,774	107,322	123,616	135,433	107,379	76,617
Property, Plant and Equipment	6,773	7,064	6,463	6,160	6,808	7,454
Other Assets	11,597	13,416	21,378	13,045	14,834	16,434
Total Assets	558,006	608,090	672,835	701,739	732,427	793,518
Liabilities						
Due to Banks	32,720	24,722	13,065	13,098	13,636	14,330
Due to Customers	440,303	488,653	547,316	552,789	580,428	638,471
Other Borrowings	19,649	24,287	33,569	52,610	49,576	46,327
Tax Liabilities	2,636	2,194	5,179	2,590	2,693	2,801
Other Liabilities	10,643	12,947	16,240	16,402	16,566	16,732
Total Liabilities	505,950	552,803	615,369	637,488	662,900	718,661
Shareholders Funds						
Stated Capital	17,548	18,324	19,926	21,669	21,669	21,669
Statutory Reserve Fund	2,104	2,333	2,568	2,901	3,257	3,616
Retained Earnings	25,382	29,967	31,698	34,847	38,343	41,880
Other Reserves	5,736	3,334	2,010	3,568	4,993	6,428
Shareholders Funds	50,770	53,958	56,202	62,986	68,263	73,593
Minority Interest	1,286	1,329	1,264	1,264	1,264	1,264
	52,056	55,287	57,466	64,251	69,527	74,858
Total Liabilities & Shareholders' Funds	558,006	608,090	672,835	701,739	732,427	793,518
NAVPS	98.2	101.1	97.3	102.3	110.9	119.6



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