



SAMPATH BANK PLC [SAMP.N0000]

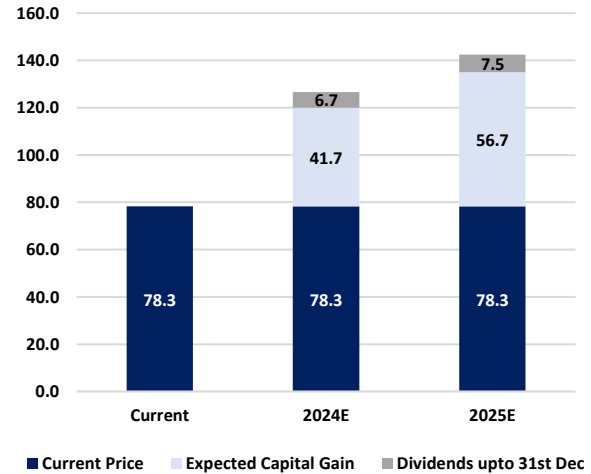
MAINTAIN BUY

“STEADY ECONOMIC REBOUND DRIVES GROWTH IN 2H2024”

Fair Value: 2024E - LKR 120.00 [+53%]
Total Return with DPS: 2024E - 62% [AER 132%]

2025E - LKR 135.00 [+72%]
2025E - 82% [AER 46%]

SAMP recorded a robust 26.0%YoY increase in net earnings, reaching LKR 3.8Bn, driven by a 14.7%YoY growth in NII and a notable reduction in impairment charges. However, a surge in the effective tax rate to 59.7% led to a QoQ decline in net earnings by 27.0%. Reflecting the economic recovery, the loan book marginally expanded by 2.6%QoQ to LKR 807.5Bn, while the deposit base improved by 5.2%QoQ to LKR 1.3Tn, with the CASA base reaching 33.6%. With a strong capital buffer, SAMP's lending portfolio is expected to grow by 6.5% in 2024E, followed by a 10.0% growth in 2025E as FCR expects GDP to record a positive turnaround of 2%-3% in 2024E. Furthermore, we anticipate a projected 53.6%YoY decline in impairment charges in 2024E, which is expected to drive a profit growth of 14.6%YoY to LKR 20.5Bn in 2024E, followed by a growth of 12.0%YoY to LKR 23.0Bn in 2025E. Given the positive sector outlook and potential re-rating, SAMP is forecasted to trade at 1.0x PBV, resulting in a fair value of LKR 135.0 for 2025E, representing a significant 72.4% upside from the current market price of LKR 78.3. **MAINTAIN BUY.**



LKR (Mn)	1Q2022	1Q2024	YoY	2022	2023	YoY
Earnings (LKR 'Mn)						
NII	18,795	21,563	+15%	76,042	75,443	-1%
Total Operating Income	21,899	22,707	+4%	114,768	95,463	-17%
Net Operating Income	15,081	18,301	+21%	51,860	75,253	+45%
Profit Before Tax	5,002	6,905	+38%	16,395	31,202	+90%
Net Profit	3,010	3,794	+26%	14,061	17,924	+27%
Balance Sheet (LKR 'Mn)						
Loans	814,846	807,473	-1%	839,977	787,356	-6%
Shareholders' Equity	134,585	156,841	+17%	135,551	157,830	+16%
NAVPS	114.8	133.7	+17%	115.6	134.6	+16%

NII expansion and impairment contraction propel strong YoY earnings growth

SAMP's net earnings rose by 26.0%YoY to LKR 3.8Bn in 1Q2024, driven by a notable growth in NII by 14.7%YoY and a significant reduction in impairment charges by 35.4%YoY. However, a spike in the effective tax rate to 59.7% led to a QoQ decline in net earnings by 27.0%. The growth in NII was primarily due to a reduction in interest expense (-12.1%YoY), outpacing the decline in interest income (-2.4%YoY). However, NIMs contracted to 5.24% as of 31st Mar 2024, with an expected further decline to 4.03% in 2024E. Net fee and commission income saw a 17.3%YoY decline to LKR 4.6Bn due to reduced income from trade-related activities, including lower commission rates for import-related transactions, decreased trade volumes, and LKR appreciation against the USD (c.7.0%YTD). However, fees generated from credit, electronic channels, cards, and remittance-related activities showed growth during the quarter. Moreover, SAMP reported a net trading loss of LKR 4.5Bn in 1Q2024, contrasting with a gain of LKR 1.7Bn in 1Q2023, primarily due to revaluation losses on forward exchange contracts. However, realized exchange gains of LKR 0.6Bn offset the turnaround, compared to the loss of LKR 4.2Bn recorded in 1Q2023.

Strong loans on a steady recovery while CASA ratio on an uptrend

SAMP's loans and advances exhibited conservative growth QoQ, with a modest uptick of 2.6% to LKR 807.5Bn driven by a 2.8%QoQ expansion in LKR-denominated loans, while foreign currency denominated loans experienced a slight decline of -1.6%QoQ, amidst LKR appreciation against the USD during the period. Notably, the LKR appreciated by 7.0% YoY and averaged LKR 313.4/USD in 1Q2024. Meanwhile, SAMP's Stage 3 impaired loans ratio decreased to 5.24% in 1Q2024, down from 5.60% in 1Q2023, as the Sri Lankan economy continued to exhibit resilience since 2H2023. Looking forward, we anticipate SAMP's loan book to expand by 6.5% in 2024E, followed by a subsequent growth of 10.0%, albeit below its 10-year average of 14.0%. On the other hand, the total deposit base witnessed a notable increase of 5.2%QoQ, reaching LKR 1.3Tn, driven by growth in local currency deposits (+6.6%QoQ). With an uptick in Demand and Savings deposits on a QoQ basis, the bank's CASA ratio improved to 33.6% during 1Q2024. We project the CASA ratio to normalize and further enhance to 40.0% from 2024E to 2026E, positioning the bank with a cost-effective source of funds compared to peers, thus widening the interest spread and bolstering its competitive edge.

FIRST CAPITAL RESEARCH

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Price Movement of SAMP vs ASPI and past recommendations



Source: CSE

Minimum Return for BUY:

Buy Below for 2024E [AER of 19.0% with DPS]: LKR 109.7
SAMP 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 SAMP during the five trading days prior to the issuance of this document.



Well above capital ratios to boost lending portfolio

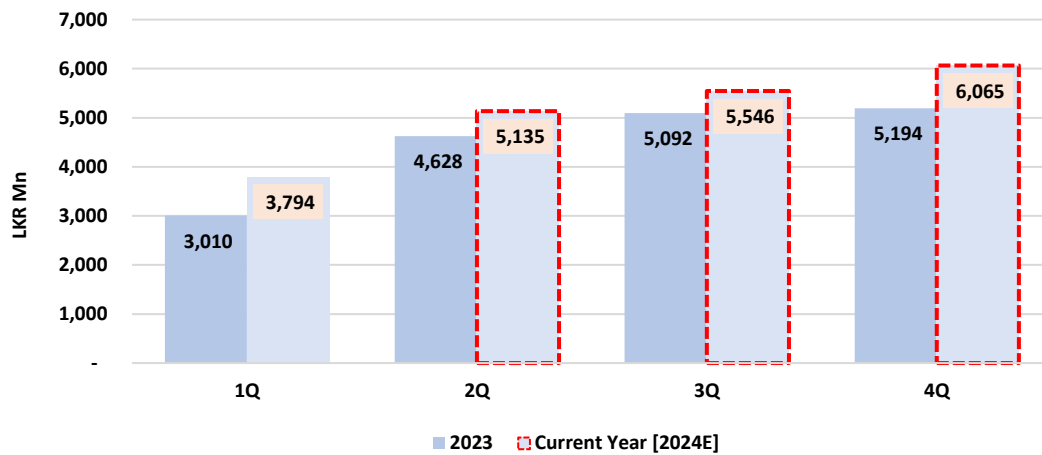
As of 31st Mar 2024, SAMP's Tier I and Total Capital adequacy ratios stand at 15.18% and 18.22%, respectively, compared to 16.35% and 19.56% recorded at the end of 2023. Despite the slight decline, both ratios remain well above the minimum regulatory requirement of 8.50% and 12.50%. The change in capital ratios during the reporting period is largely attributed to a decrease in capital resulting from the distribution of retained earnings to pay a cash dividend of LKR 6.9Bn, and an increase in risk-weighted assets stemming from loan growth during the period.

FV for 2025E derives at LKR 135.00 – MAINTAIN BUY

Given the notable 26.0%YoY recovery in SAMP earnings in 1Q2023 and the positive outlook regarding the economic and banking sector's resurgence, we maintain our earnings projection for 2024E and 2025E at LKR 20.5Bn and LKR 23.0Bn, respectively while retaining the target price of SAMP at LKR 135.0 for 2025E. Considering the current trading multiples of the SAMP share at 0.6x PBV, we perceive the share as undervalued. Therefore, we maintain our recommendation on SAMP as **MAINTAIN BUY**.



Quarterly Earnings



Estimate Revision

In LKR Mn	2024E - O	2024E - R	% Change	2025E - O	2025E - R	% Change
Earnings Estimate						
Net Interest Income	65,542	65,542	0%	79,353	79,353	0%
Total Operating Income	90,200	90,200	0%	106,400	106,400	0%
Net Operating Income	80,822	80,822	0%	91,983	91,983	0%
Profit Before Tax	34,232	34,232	0%	38,340	38,340	0%
Net Profit	20,539	20,539	0%	23,004	23,004	0%
Adjusted EPS	17.5	17.5		19.6	19.6	
Growth YoY	15%	15%		12%	12%	
Balance Sheet Estimate						
Loans & Advances	838,720	838,720	0%	922,376	922,376	0%
Shareholders' Equity	162,238	162,238	0%	172,722	172,722	0%
Adjusted NAVPS	138.3	138.3		147.3	147.3	
Ratio Estimate						
ROE (%)	13.6%	12.7%		13.3%	13.3%	
PER (x)	4.2	4.8		3.7	4.4	
PBV (x)	0.6	0.6		0.5	0.5	

Valuation Table

P/E 31 December	2019	2020	2021	2022	2023	2024E	2025E	2026E
Estimates (LKR 'Mn)								
Net Interest Income	44,764	36,827	45,518	76,042	75,443	65,542	79,353	90,106
Total Operating Income	59,141	50,066	64,399	114,768	95,463	90,200	106,400	117,594
Net Profit	11,668	8,443	13,856	14,061	17,924	20,539	23,004	28,514
Adjusted EPS (LKR)	9.9	7.2	11.8	12.0	15.3	17.5	19.6	24.3
YoY Growth (%)	-7%	-28%	64%	1%	27%	15%	12%	24%
Valuations								
PER (x)	7.9x	10.9x	6.6x	6.5x	5.1x	4.5x	4.0x	3.2x
PBV (x)	0.8x	0.8x	0.7x	0.7x	0.6x	0.6x	0.5x	0.5x
DY (%)	4.9%	3.4%	5.3%	5.7%	7.5%	8.6%	9.6%	11.9%
NAVPS	95.0	97.6	108.5	115.6	134.6	138.3	147.3	155.4
DPS (LKR)	3.8	2.7	4.1	4.5	5.9	6.7	7.5	9.3
Dividend Payout	38.4%	37.3%	35.1%	37.4%	38.3%	38.3%	38.3%	38.3%



Valuation Summary

Expected SAMP price	2024E	2025E
Justified PBV based target price	120.4	141.4
PER Valuation based target price	122.6	137.3
RI Valuation based target price	116.5	133.9
Average Target Price	119.8	137.5
Target Price after Rounding off	120.0	135.0

Return	2024E	2025E
Target Price	120.0	135.0
Current Price	78.3	78.3
Capital Gain (LKR)	41.7	56.7
Dividends upto 31st Dec (LKR)	6.7	7.5
Capital Gain %	53%	72%
Dividend Yield %	9%	10%
Total Return %	62%	82%
Annualized Return %	132%	46%

Residual Income Valuation

Residual Income based Valuation	2024E	2025E
PV of Residual Income	-21,160	-5,194
No. of Shares ('Mn)	1,173	1,173
RI per Share	-18.0	-4.4
Opening Book value per Share	134.6	138.3
Value per Share	116.5	133.9

COE	2024E	2025E
Rf	11.0%	10.0%
Rm	19.0%	18.0%
Growth %	3.0%	3.0%
β	0.80	0.75
$Ke=Rf+\beta(Rm-Rf)$	17.4%	16.0%

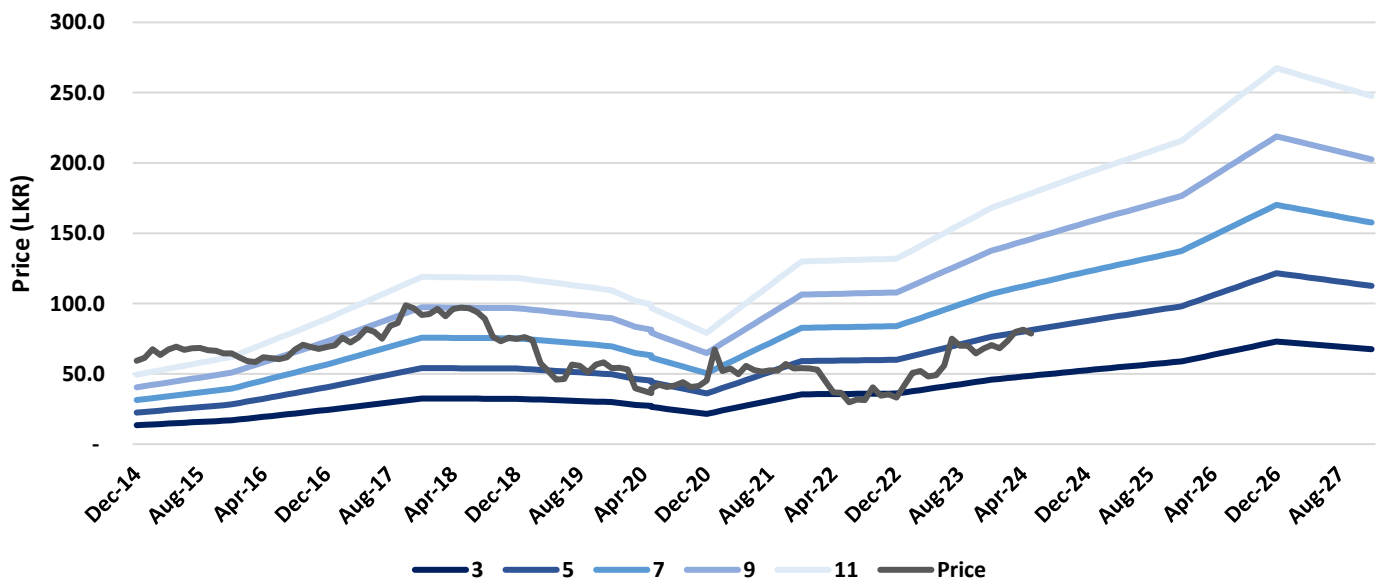
Justified PBV Valuation

Justified PBV based Valuation	2024E	2025E
ROAE	12.8%	13.7%
Growth	3.0%	3.0%
COE	17.4%	16.0%
PBV	0.9	1.0
NAVPS	138.3	147.3
Target Price	120.4	141.4

PER Valuation

PER based Valuation	2024E	2025E
Earnings (LKR 'Mn)	20,539	23,004
No. of Shares ('Mn)	1,173	1,173
EPS	17.5	19.6
Expected PER	7.0x	7.0x
Price at 7.0x Earnings	122.6	137.3

PER Chart





Appendix I: Statement of Income and Expenses

Income Statement (LKR Mn) P/E 31st December	2019	2020	2021	2022	2023	2024E	2025E	2026E
Gross Income	125,921	109,183	113,075	206,002	236,504	214,117	232,893	259,115
Interest Income	109,855	94,647	92,428	164,776	212,459	186,353	203,214	227,357
Interest Expenses	65,092	57,820	46,910	88,734	137,016	120,811	123,861	137,251
Net Interest Income	44,764	36,827	45,518	76,042	75,443	65,542	79,353	90,106
Fee & Other Income	14,378	13,239	18,881	38,726	20,020	24,658	27,047	27,489
Total Operating Income	59,141	50,066	64,399	114,768	95,463	90,200	106,400	117,594
Impairment (Charges)/ Reversal	-13,751	-13,201	-18,559	-62,908	-20,210	-9,378	-14,417	-17,423
Net Operating Income	45,391	36,866	45,840	51,860	75,253	80,822	91,983	100,172
Less : Operating expenses								
Staff Cost	10,585	11,227	10,916	13,879	15,826	17,409	18,966	20,483
Other Operating Expenses	11,316	10,354	11,803	16,010	19,140	20,671	23,354	26,857
Total Operating Expenses	21,901	21,582	22,719	29,888	34,966	38,080	42,320	47,340
Profit from operations	23,490	15,284	23,121	21,971	40,287	42,742	49,664	52,832
VAT on Financial Services & DRL	7,152	3,394	4,296	5,577	9,085	8,510	11,324	12,097
Profit Before Tax	16,338	11,890	18,825	16,395	31,202	34,232	38,340	40,735
Income Tax Expense	4,670	3,447	4,969	2,334	13,277	13,693	15,336	12,220
Profit for the Year	11,668	8,443	13,856	14,061	17,924	20,539	23,004	28,514
Minority Interest	0	0	0	0	0	0	0	0
Profit attributable to Equity Holders	11,668	8,443	13,856	14,061	17,924	20,539	23,004	28,514
EPS	9.9	7.2	11.8	12.0	15.3	17.5	19.6	24.3

Appendix II: Statement of Financial Position

Balance Sheet (LKR Mn) As at 31st December	2019	2020	2021	2022	2023	2024E	2025E	2026E
Assets								
Cash and cash equivalents	17,978	29,219	23,028	79,345	79,530	82,980	92,038	108,546
Financial instruments	14,297	17,732	10,169	15,167	5,579	4,979	5,476	7,239
Loans to & Deposits with Banks	38,280	16,563	33,614	42,506	48,205	61,747	65,541	68,849
Loans and Receivables	719,047	752,438	795,804	839,977	787,356	838,720	922,376	1,012,834
Debt and other instruments	156,309	275,126	294,667	284,238	373,900	372,242	409,467	450,413
Property, plant & equipment	15,702	15,891	16,338	19,067	19,961	20,022	22,793	21,153
Other Assets	37,711	42,716	69,013	87,020	272,845	285,670	294,582	304,100
Total Assets	999,323	1,149,685	1,242,633	1,367,320	1,587,376	1,666,361	1,812,272	1,973,135
Liabilities								
Due to other customers	730,190	902,499	994,318	1,115,156	1,276,551	1,378,675	1,516,543	1,668,197
Due to banks	1,568	42,905	31,532	15,255	17,345	13,787	15,165	16,682
Debt issued and other borrowed funds	125,671	56,906	56,474	45,779	72,961	50,245	46,582	44,082
Current tax liabilities	7,835	4,793	8,376	19,186	16,689	15,854	15,062	15,062
Other liabilities	22,602	28,168	24,748	36,392	46,000	45,561	46,199	46,836
Total Liabilities	887,866	1,035,271	1,115,447	1,231,768	1,429,545	1,504,123	1,639,551	1,790,858
Shareholders' Funds								
Stated Capital	47,622	47,622	47,622	47,622	48,741	48,741	48,741	48,741
Reserves	54,409	58,891	65,696	74,364	92,378	90,680	98,006	102,792
Retained earnings	9,425	7,901	13,867	13,565	16,712	22,817	25,975	30,744
Shareholders' Funds	111,457	114,415	127,186	135,551	157,830	162,238	172,722	182,277
Minority Interest	0	0	0	0	0	0	0	0
Total Liabilities & Shareholders' Funds	999,323	1,149,685	1,242,633	1,367,320	1,587,376	1,666,361	1,812,272	1,973,135
NAVPS	95.0	97.6	108.5	115.6	134.6	138.3	147.3	155.4



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