



SEYLAN BANK PLC [SEYB.N0000]

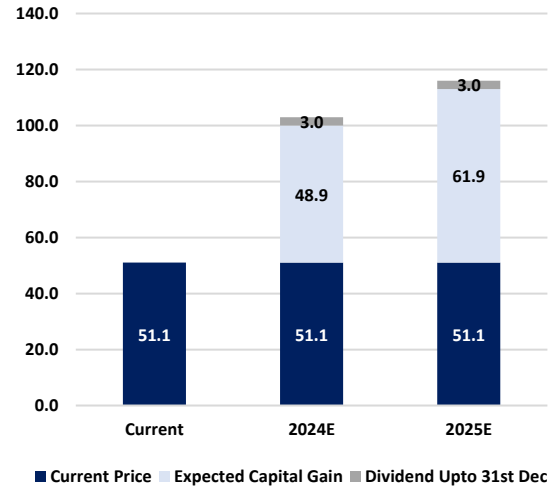
MAINTAIN BUY

“REAPING PROFITS LED BY LOWER IMPAIRMENT”

Fair Value: 2024E - LKR 100.0 [+96%]
Total Return with DPS: 2024E - 102% [AER 264%]

Fair Value: 2025E - LKR 113.0 [+121%]
Total Return with DPS: 2025E - 127% [AER 70%]

SEYB reported earnings of LKR 2.3Bn, marking a significant surge of 127.7%YoY (26.0%QoQ). The spike in the bottom line was primarily driven by the drastic decline in impairment charges during the quarter which recorded a decline of 75.6%YoY to LKR 1.6Bn. Additionally, the improvement in net fee and commission-based income and net trading income by 3.6%YoY and 352.8%YoY also contributed to the overall improvement in the bottom line. Loan book of SEYB expanded by 0.8%YoY to LKR 427.3Bn whilst the deposit base grew by 7.2%YoY to LKR 589.6Bn reflecting the broader economic recovery and business activity stabilization we forecast SEYB's loan book to further recover in 2024E accompanied by a healthy CASA ratio of 33.0% in conjunction with a healthy capital buffer. Anticipating a 52.9%YoY decrease in impairment charges, which could boost the bottom line by 44.8%YoY, we upgrade our earnings forecast for 2024E to LKR 9.3Bn from LKR 7.7Bn, and for 2025E at LKR 10.3Bn. Given the attractive discounted trading multiples that will further contribute to the recovery of the sector we anticipate SEYB to trade at 0.9x PBV, resulting in a fair value of LKR 100.0 for SEYB.N and LKR 55.0 for SEYB.X, for 2024E.



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LKR (Mn)	1Q2023	1Q2024	YoY	2022	2023	YoY
Earnings (LKR 'Mn)						
NII	11,487	9,471	-18%	40,887	40,452	-1%
Total Operating Income	13,378	11,828	-12%	51,379	49,845	-3%
Net Operating Income	7,012	10,273	+46%	24,946	32,840	+32%
Pre Tax Profit	1,675	3,772	+125%	6,797	10,269	+51%
Net Profit	1,022	2,328	+128%	4,574	6,321	+38%
Balance Sheet (LKR 'Mn)						
Loans	423,972	427,345	+1%	444,220	437,532	-2%
Shareholders' Equity	57,412	64,376	+12%	56,202	62,382	+11%
NAVPS	93.3	101.3		97.3	101.4	

Bottom line surge by 127.7%YoY during 1Q2024

SEYB earnings amounted to LKR 2.3Bn during 1Q2024 registering a substantial growth of 127.7%YoY (+26.0%QoQ), surpassing our target of LKR 1.4Bn. This improvement in profitability was mainly backed by the sizeable reduction in impairment charges during 1Q2024 which amounted to LKR 1.6Bn recording a decline of 75.6%YoY (-56.3%QoQ) stemming from the collective reduction in provisioning for both loans and advances and foreign currency denominated bonds. Subsequently, net fee and commission based income witnessed a 3.6%YoY (-12.0%QoQ) growth due to increase in card related income, commission on guarantees and income from trade. Net trading income also witnessed a 352.8%YoY (-80.3QoQ) growth increasing the net operating income by 46.5%YoY (+18.5%QoQ) consequently strengthening the profitability of the bank. Parallely, NII contracted 17.6%YoY (-1.4%QoQ) as interest income and interest expense declined by 21.4%YoY and 23.9%YoY respectively, weighing on the NIMs to record at 5.2% during 1Q2024 cf. 5.8% during 4Q2023 owing to the low interest rate environment.

Loan book and CASA anticipated to improve in line with the economy

The SEYB's loans and advances grew by 0.8%YoY (-2.3%QoQ) to LKR 427.3Bn. Foreign currency loans declined by 8.6%YoY (-9.5%QoQ) owing to the local currency appreciation by 7.0% during 1Q2024. Local currency denominated loans grew by 4.4%YoY in line with the economic revival and restabilizing business activity, despite a slight decline of 0.9%QoQ. Stage 3 loan ratio of SEYB improved to 3.9% in 1Q2024 cf. 8.1% in 1Q2023 reflecting a notable improvement. Considering the AWPLR recording lower than the 10.0% mark during May-24 we anticipate SEYB's loan book to expand by 9.0% during 2024E in line with the normalization of economic activity and declining interest rates. On the other hand, deposits grew by 7.2%YoY (-0.2%QoQ) to LKR 589.6Bn influenced by the higher demand for demand deposits and savings accounts which aided the CASA ratio to record at 28.4% during the quarter. Considering the gradual revival in SME's and import/export volumes we anticipate the CASA base to improve to 33.0% during 2024E.

Price movement of SEYB vs ASPI and past recommendations



Source: CSE

Minimum Return for BUY:

Buy Below for 2024E [AER of 21% with DPS]: LKR 93.73
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 above required thresholds

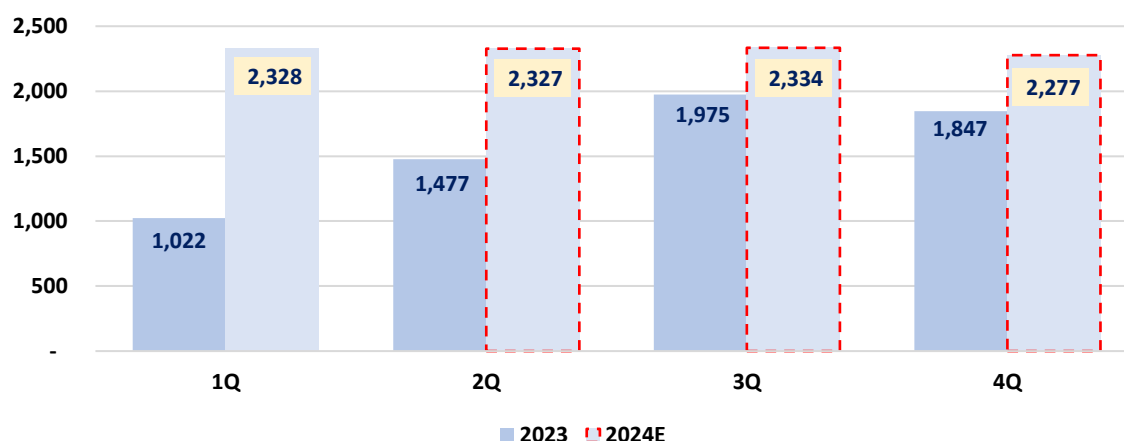
SEYB reported a Tier 1 and Tier 2 capital adequacy ratio of 13.03% and 16.17%, respectively during 1Q2024 which is above the required rate of 8.50% and 12.50% displaying a strong and healthy capital structure. On the 20th Feb-24 SEYB issued a BASEL III compliant, Tier 2 listed, rated, unsecured, subordinated redeemable debentures further strengthening the capital structure.

FV maintained for SEYB.N at LKR 100.0 and SEYB.X at 55.0 for 2024E – MAINTAIN BUY

We are optimistic about a positive future outlook, with a GDP forecast of +2.0% to +3.0% in 2024E by FCR alongside the attractive discounted trading multiples. Furthermore, with the uptrend of earnings growth backed by improved business confidence and new digitalization initiatives by the bank, we anticipate SEYB to trade at 0.9x PBV, resulting in a fair value of LKR 100.0 for SEYB.N and LKR 55.0 for SEYB.X, for 2024E. Thus, we continue to maintain our recommendation on SEYB at

MAINTAIN BUY.

Quarterly Earnings



Estimate Revision

In LKR Mn	2024E - O	2024E - R	% Change	2025E - O	2025E - R	% Change
Earnings Estimate						
Net Interest Income	37,041	36,262	-2%	37,310	37,191	-0%
Total Operating Income	47,389	46,360	-2%	48,360	48,630	+1%
Net Operating Income	35,535	38,356	+8%	37,393	40,701	+9%
Pre Tax Profit	16,014	18,835	+18%	12,895	15,773	+22%
Net Profit	7,726	9,266	+20%	8,382	10,252	+22%
Adjusted EPS	12.6	15.1		13.6	16.7	
Growth YoY	22%	47%		8%	11%	
Balance Sheet Estimate						
Shareholders' Equity	68,710	70,251	+2%	75,246	78,657	+5%
Adjusted NAVPS	111.6	114.1		122.3	127.8	
Ratio Estimate						
ROE (%)	11.8%	14.0%		11.6%	13.8%	
PER (x)	4.1	3.4		3.8	3.1	
PBV (x)	0.5	0.4		0.4	0.4	

Valuation Table

Y/E 31 December	2020	2021	2022	2023	2024E	2025E	2026E
Estimates (LKR 'Mn)							
Net Interest Income	19,811	23,904	40,887	40,452	36,262	37,191	38,148
Total Operating Income	25,723	31,729	51,379	49,845	46,360	48,630	52,379
Net Profit	3,039	4,653	4,574	6,321	9,266	10,252	11,602
Adjusted EPS (LKR)	4.9	7.6	7.4	10.3	15.1	16.7	18.9
YoY Growth (%)	-19%	53%	-2%	38%	47%	11%	13%
Valuations							
PER (x)	10.3x	6.8x	6.9x	5.0x	3.4x	3.1x	2.7x
PBV (x)	0.5x	0.5x	0.5x	0.5x	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%	29%	20%	18%	16%
DY (%)	2.9%	5.9%	3.9%	5.9%	5.9%	5.9%	5.9%
NAVPS	98.2	101.1	97.3	101.4	114.1	127.8	146.7

Valuation Summary

Expected SEYB price for	2024E	2025E
Justified PBV based target price	102.0	108.0
PER Valuation based target price	105.0	116.6
RI Valuation based target price	96.0	116.0
Average Target Price	101.0	113.5
Target Price after Rounding off	100.0	113.0

Return	2024E	2025E
Target Price	100.0	113.0
Current Price	51.1	51.1
Capital Gain (LKR)	48.9	61.9
Dividends upto 31st Dec (LKR)	3.0	3.0
Capital Gain %	96%	121%
Dividend Yield %	6%	6%
Total Return %	102%	127%
Annualized Return %	264%	70%

Residual Income Valuation

Residual Income based Valuation	2024E	2025E
PV of Residual Income	-10,769	-10,764
No. of Shares ('Mn)	615	615
RI per Share	-17.5	-11.3
Opening Book value per Share	114.1	127.8
Value per Share	96.0	116.0

COE	2024E	2025E
Rf	11.0%	10.0%
Rm	19.0%	18.0%
Growth %	3.0%	3.0%
β	0.8	0.8
Ke=Rf+β(Rm-Rf)	17.0%	16.0%

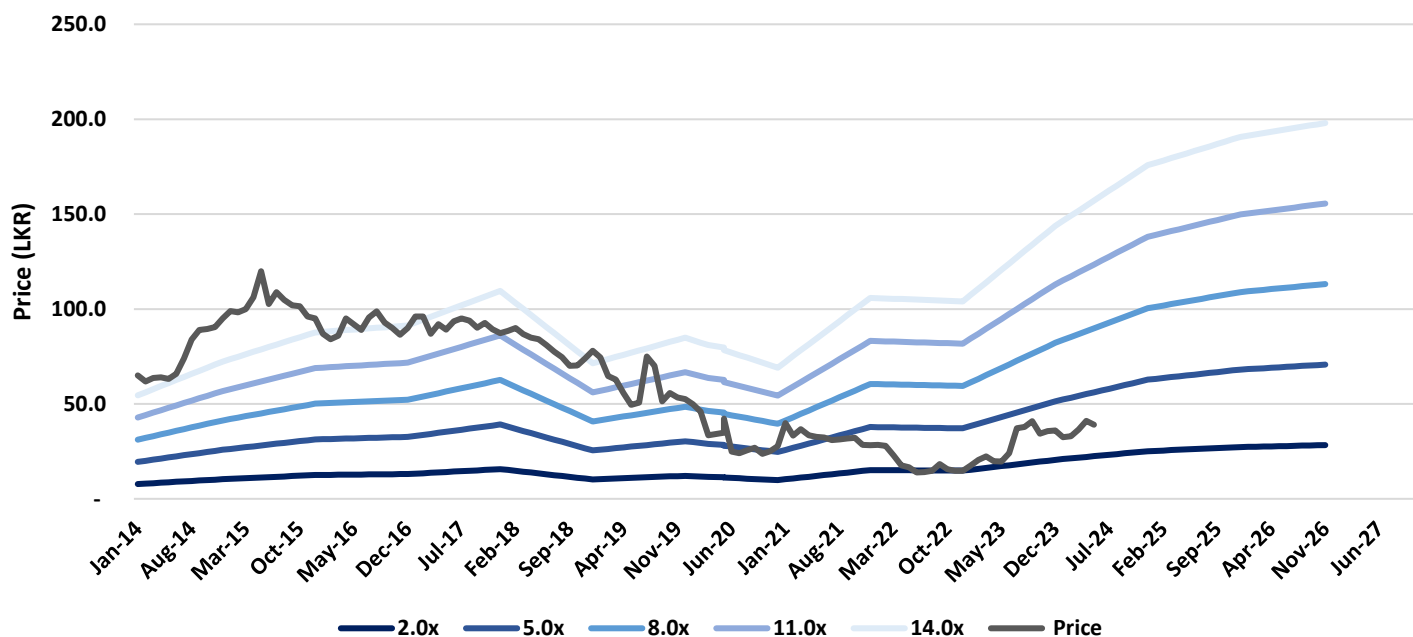
Justified PBV Valuation

Justified PBV based Valuation	2024E	2025E
ROAE	14.0%	13.8%
Growth	3.0%	3.0%
COE	17.0%	16.0%
PBV	0.9	0.9
NAVPS	114.1	127.8
Target Price	102.0	108.0

PER Valuation

PER based Valuation	2024E	2025E
Earnings (LKR 'Mn)	9,266	10,252
No. of Shares ('Mn)	615	615
EPS	15.1	16.7
Expected PER	7.0x	7.0x
Price at 7.0x Earnings	105.0	116.6

PER Chart



Appendix I: Statement of Income and Expenses

Income Statement (LKR Mn)	2020	2021	2022	2023	2024E	2025E	2026E
P/E 31st December							
Interest Income	51,112	46,781	86,106	107,168	83,958	86,487	90,069
Less : Interest Expenses	31,302	22,877	45,219	66,717	47,695	49,296	51,922
Net Interest Income	19,811	23,904	40,887	40,452	36,262	37,191	38,148
Fee & Other Income	5,912	7,826	10,492	9,393	10,098	11,439	14,231
Total Operating Income	25,723	31,729	51,379	49,845	46,360	48,630	52,379
Impairment (Charges)/ Reversal	6,993	10,422	26,433	17,005	8,004	7,930	7,820
Net Operating Income	18,730	21,308	24,946	32,840	38,356	40,701	44,558
Less : Operating expenses							
Staff Cost	7,275	6,946	8,007	9,194	9,787	10,800	11,775
Depreciation of PPE	1,486	1,479	1,416	1,348	1,317	1,404	1,491
Other Operating Expenses	4,145	4,763	5,951	8,093	8,417	8,753	9,016
Total Operating Expenses	12,906	13,188	15,375	18,635	19,521	20,957	22,282
Operating Profit Before Taxes	5,824	8,119	9,571	14,205	18,835	19,744	22,276
VAT, NBT & DRL	1,528	1,935	2,774	3,935	4,580	3,971	4,427
Profit Before Tax	4,296	6,185	6,797	10,269	14,256	15,773	17,849
Income Tax Expense	1,198	1,449	2,219	3,869	4,989	5,521	6,247
Profit for the Year	3,098	4,736	4,578	6,401	9,266	10,252	11,602
Less : Non-Controlling Interest	59	83	3	80	-	-	-
Profit attributable to Equity Holders	3,039	4,653	4,574	6,321	9,266	10,252	11,602
EPS	5.7	8.1	7.4	10.4	15.1	16.7	18.9

Appendix II: Statement of Financial Position

Balance Sheet (LKR Mn)	2020	2021	2022	2023	2024E	2025E	2026E
As at 31st December							
Assets							
Cash and Cash Equivalents	10,036	16,079	40,255	48,851	103,930	121,053	120,896
Balances with Central Bank of Sri Lanka	7,371	8,726	16,784	7,028	21,832	24,015	26,417
Placements with Banks and Finance Companies	15,688	13,507	20,120	49,907	28,057	27,506	30,316
Loans and Advances to Customers	393,766	441,977	444,220	437,532	489,147	538,936	593,732
Financial Assets	112,774	107,322	123,616	144,913	114,743	112,572	127,582
Property, Plant and Equipment	6,773	7,064	6,463	6,627	6,515	6,849	7,114
Other Assets	11,597	13,416	21,378	23,135	14,412	15,731	17,124
Total Assets	558,006	608,090	672,835	717,993	778,637	846,663	923,182
Liabilities							
Due to Banks	32,720	24,722	13,065	12,129	12,950	13,610	14,304
Due to Customers	440,303	488,653	547,316	590,698	620,233	682,257	750,482
Other Borrowings	19,649	24,287	33,569	26,847	48,938	45,541	41,248
Tax Liabilities	2,636	2,194	5,179	2,720	2,829	2,942	3,059
Other Liabilities	10,643	12,947	16,240	21,901	22,120	22,342	22,565
Total Liabilities	505,950	552,803	615,369	654,295	707,070	766,690	831,659
Shareholders Funds							
Stated Capital	17,548	18,324	19,926	20,909	20,909	20,909	20,909
Statutory Reserve Fund	2,104	2,333	2,568	2,881	3,344	3,857	4,437
Retained Earnings	25,382	29,967	31,698	35,541	40,644	46,487	55,189
Other Reserves	5,736	3,334	2,010	3,051	5,354	7,404	9,724
Shareholders Funds	50,770	53,958	56,202	62,382	70,251	78,657	90,259
Minority Interest	1,286	1,329	1,264	1,316	1,316	1,316	1,264
Total Liabilities & Shareholders' Funds	558,006	608,090	672,835	717,993	778,637	846,663	923,182
NAVPS	98.2	101.1	97.3	101.4	114.1	127.8	146.7



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