



First Capital
A Janashakthi Group Company

COMMERCIAL BANK

COMMERCIAL BANK OF CEYLON PLC [COMB.N0000]

EQUITY | SRI LANKA | BANKS

Earnings Update | 30 SEP 2024

FIRST CAPITAL RESEARCH

Analyst:
Ranjan Ranatunga
ranjan@firstcapital.lk

MAINTAIN BUY

Fair value – 2024E: LKR 165.0 [+65%]

Total Return with DPS – 75% [AER 807%]

2025E - LKR 190.0 [+90%]

2025E - 103% [AER 76%]

“GIANT AT A BARGAIN”

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+94 11 263 9863

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LKR (Mn)	2Q2023	2Q2024	YoY	1H2023	1H2024	YoY
Earnings (LKR 'Mn)						
NII	18,474	30,922	+67%	37,450	58,620	+57%
Total Operating Income	25,233	42,310	+68%	50,520	77,257	+53%
Net Operating Income	18,819	26,729	+42%	37,309	58,241	+56%
PBT	7,351	12,379	+68%	14,092	29,117	+107%
Net Profit	3,750	7,929	+111%	7,967	18,555	+133%
Balance Sheet (LKR 'Mn)						
Shareholder's Equity	205,805	224,831	+9%	205,805	224,831	+9%
NAVPS	123.4	134.8	+9%	123.4	134.8	+9%

COMB net earnings up YoY driven by core business growth

COMB net earnings inclined by 111.4%YoY to LKR 7.9Bn for 2Q2024 (variance of -2.5%). The growth in core business drove the profitability during the quarter, where NII increased by 67.4%YoY backed by proactive adjustments by banks on deposits, which resulted with interest expense declining by 32.7%YoY compared to the 8.0%YoY decline in interest income. Moreover, the growth was also supported by the improvement in net fee and commission income by 4.8%YoY backed by the recovery in the GDP and trade. Meanwhile, with the improvement in loan book, provision for impairments increased by 142.9%YoY to LKR 15.6Bn, partially offsetting the growth seen from core business expansion.

Gross Loan book recovery accelerates in 2Q2024

COMB gross loan book accelerated in 2Q2024 recording a growth of 3.6%QoQ to LKR 1.4Tn aided by the prevailing low-interest rate environment and improved business sentiment. Term loans emerged as the largest contributor towards the loan book expansion, recording a growth of 4.7%QoQ to LKR 821.2Bn whilst Lease rental receivables (+9.0%QoQ) and overdrafts (+2.5%QoQ) also showed steady growth. However, trade finance business declined during the quarter (-4.3%QoQ), possibly due to the appreciation of the LKR cf. the USD. Meanwhile, impairment provisioning on loans and advances inclined by 6.4%QoQ to LKR 97.3Bn as loan book expanded whilst stage 3 NPL ratio declined to 4.87% in 2Q2024 from 5.59% in 1Q2024.

COMB deposit base expanded by 2.4%QoQ to LKR 2.2Tn

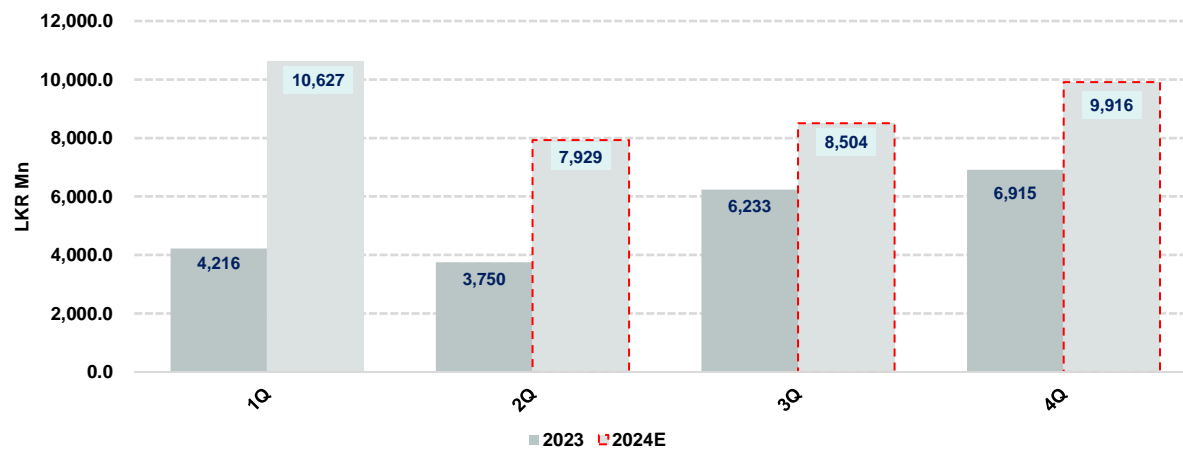
COMB deposit base expanded by 2.4%QoQ to LKR 2.2Tn in 2Q2024 driven largely by local currency deposits (+16.1%YoY and +3.7%QoQ) whilst foreign currency deposits remained stagnant at LKR 693.4Bn, affected by the LKR appreciation. Meanwhile, amidst a declining interest rate environment, COMB prudently managed its cost base and reported an improvement in CASA base to 41.4% in 2Q2024 cf. 40.9% reported in 1Q2024.

COMB announces LKR 22.5Bn rights issue to strengthen buffers

In a move to strengthen the thin buffers in terms of Tier 1 capital COMB announced a rights issue of 1 new share for every existing 5 shares held for both voting and non-voting shares at LKR 85.0 and LKR 69.0, respectively. The proposed LKR 22.5Bn rights issue is expected to strengthen the 2Q2024 reported tier 1 capital ratio of 11.661% (Regulatory Req. 10.0%). Moreover, COMB liquidity position was also strengthened as the bank raised funds few times through debentures, expecting to lift the 2Q2024 reported total capital ratio of 15.088%.

TP adjusted for new shares as recommendation maintained

Despite the poor performance of the share price (affected mostly by political uncertainty), COMB recorded a profit growth of 132.9%YoY to LKR 18.6Bn in 1H2024, performing inline with our expectations. Thus, we continue to maintain our rights adjusted target price of LKR 190.0 for 2025E offering a substantial upside of 90% to the current share price. Given the upside to our TP, we continue to rate the bank **MAINTAIN BUY**.



Estimate Revision

In LKR Mn	2024E-O	2024E-R	% Change	2025E-O	2025E-R	% Change
Earnings Estimate						
NII	106,404	106,404	0%	125,351	125,351	0%
Total Operating Income	143,186	143,186	0%	165,525	165,525	0%
Net Operating Income	122,313	122,313	0%	141,385	141,385	0%
Profit before Tax	64,194	64,194	0%	75,994	75,994	0%
Net Profit	36,976	36,976	0%	43,773	43,773	0%
Adjusted EPS	28.1	28.1		33.3	33.3	
Balance Sheet Estimate						
Shareholders' Equity	259,138	259,138	0%	293,773	293,773	0%
Adjusted NAVPS	155.4	155.4		165.4	165.4	

Valuation Table

P/E 31st December	2020	2021	2022	2023	2024E	2025E	2026E
Estimates (LKR 'Mn)							
Net Interest Income	48,640	66,416	84,665	86,415	106,404	125,351	146,909
Total Operating Income	74,500	93,598	136,637	122,070	143,186	165,525	190,965
Net Profit: Equity Holders	16,940	24,062	23,812	21,115	36,976	43,773	52,536
Adjusted EPS (LKR)	12.9	18.3	18.1	16.1	28.1	33.3	40.0
YoY Growth (%)	-2%	42%	-1%	-11%	75%	18%	20%
Valuations							
PER (x)	7.8x	5.5x	5.5x	6.2x	3.6x	3.0x	2.5x
PBV (x)	1.1x	1.0x	0.8x	0.8x	0.6x	0.6x	0.6x
DY (%)	6.5%	7.5%	4.5%	6.5%	10.4%	12.8%	15.0%
Adjusted NAVPS (LKR)	95.2	100.4	125.3	132.2	155.4	165.4	176.2
DPS (LKR)	6.5	7.5	4.5	6.5	10.4	12.8	15.0
Dividend Payout (%)	50.4%	41.0%	24.8%	40.5%	36.9%	38.5%	37.6%

Valuation Summary

Return	2024E	2025E
Target Price	165.0	190.0
Current Price	100.0	100.0
Capital Gain (LKR)	65.0	90.0
Dividends upto 31st Dec (LKR)	10.4	12.8
Capital Gain %	65%	90%
Dividend Yield %	10%	13%
Total Return %	75%	103%
Annualized Return %	807%	76%

Expected COMB.N Price	2024E	2025E
Justified PBV based target price	155.4	182.0
PER Valuation based target price	177.4	197.2
RI Valuation based target price	166.6	198.7
Average Target Price	166.5	192.6
Target Price after Rounding off	165.0	190.0

Residual Income Valuation

Residual Income based Valuation	2024E	2025E
PV of Residual Income	57,309	76,806
No. of Shares ('Mn)	1,667	1,776
RI per Share	34.4	43.3
Opening Book Value per Share	132.2	155.4
Value per Share	166.6	198.7

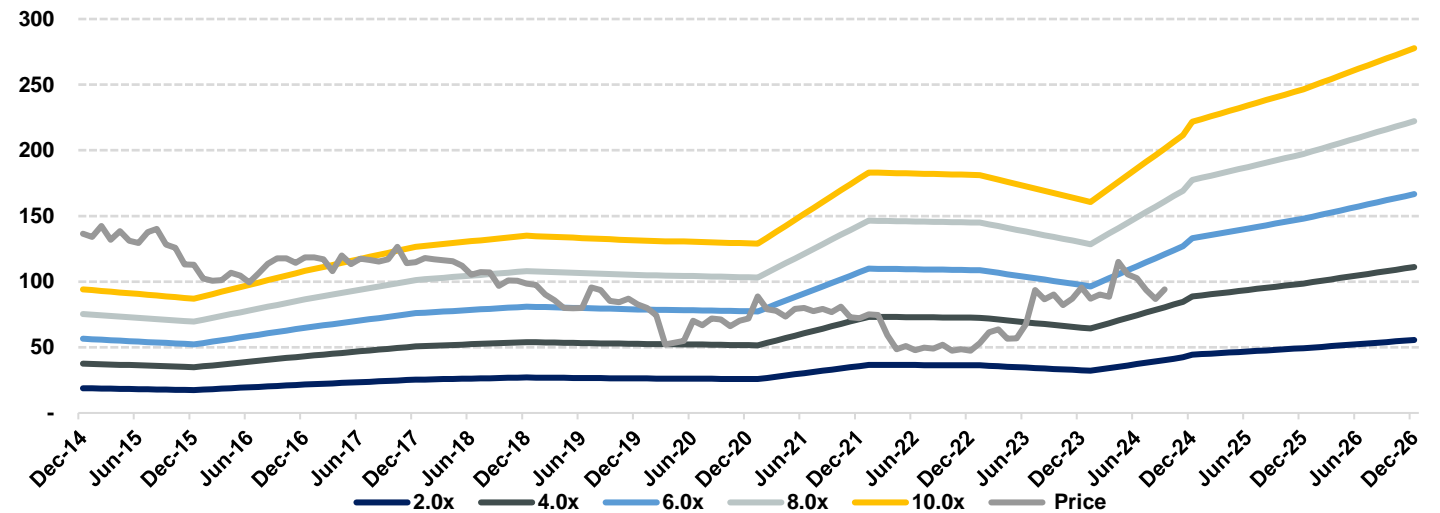
COE	2024E	2025E
Rf	11.0%	11.0%
Rm	19.0%	19.0%
Growth %	3.0%	3.0%
β	0.8	0.8
$Ke=Rf+\beta(Rm-Rf)$	17.4%	17.4%

Justified PBV Valuation

Justified PBV based Valuation	2024E	2025E
ROAE	15.4%	15.8%
Growth	3.0%	3.0%
COE	17.4%	17.4%
PBV	1.0	1.1
NAVPS	155.4	165.4
Target Price	155.4	182.0

PER Valuation

PER based Valuation	2024E	2025E
Earnings (LKR 'Mn)	36,976	43,773
No. of Shares ('Mn)	1,667	1,776
EPS	22.2	24.6
Expected PER	8.0x	8.0x
Price at 8.0x Earnings	177.4	197.2



Appendix I: Statement of Income and Expenses

Income Statement P/E 31st December	2020	2021	2022	2023	2024E	2025E	2026E
Gross Income	149,737	163,675	280,387	341,566	312,466	355,173	410,951
Interest Income	121,858	132,818	222,393	297,646	266,672	305,536	356,960
Less: Interest Expenses	73,219	66,402	137,728	211,231	160,268	180,185	210,051
Net Interest Income	48,640	66,416	84,665	86,415	106,404	125,351	146,909
Net Fee and Commission Income	9,822	12,242	20,169	22,387	23,174	24,333	25,549
Total Operating Income	74,500	93,598	136,637	122,070	143,186	165,525	190,965
Less: Impairment Charge/(Reversal) for Loans	21,420	25,140	71,924	38,895	20,873	24,140	25,821
Net Operating Income	53,081	68,458	64,712	83,175	122,313	141,385	165,144
Less : Operating Expense							
Personnel Expenses	14,993	16,799	19,788	22,825	29,207	31,620	34,137
Other Operating Expenses	11,270	12,859	16,494	21,465	25,024	28,111	31,803
Total Operating Expenses	26,263	29,658	36,282	44,290	54,232	59,731	65,940
Operating Profit before Value Added Tax (VAT)	26,818	38,801	28,430	38,885	68,082	81,654	99,204
Less: Value Added tax on Financial Services	4,531	5,845	3,921	4,961	3,892	5,664	8,000
Operating Profit after Value Added Tax (VAT)	22,287	32,955	24,509	33,924	64,190	75,990	91,204
Profit before Income Tax	22,291	32,957	24,505	33,927	64,194	75,994	91,208
Less: Income Tax Expense	7,433	8,667	106	12,027	25,678	30,398	36,483
Profit for the Year	14,858	24,290	24,399	21,900	38,516	45,597	54,725
Non-Controlling Interest	(2,082)	228	588	785	1,541	1,824	2,189
Profit Attributable to Equity Holders	16,940	24,062	23,812	21,115	36,976	43,773	52,536
Adjusted EPS	12.9	18.3	18.1	16.1	28.1	33.3	40.0

Appendix II: Statement of Financial Position

Statement of Financial Position P/E 31st December	2020	2021	2022	2023	2024E	2025E	2026E
ASSETS							
Cash and Cash Equivalents	50,817	69,335	151,109	159,702	173,101	89,622	57,985
Balances with Central Banks	115,359	56,777	78,597	62,634	77,011	95,509	107,881
Placements with Banks	16,422	12,499	96,083	81,507	73,356	66,020	59,418
Derivative Financial Instruments	2,637	3,245	8,345	7,226	6,089	6,698	7,703
Other Financial Assets Held-For-Trading	35,189	23,436	24,873	29,450	33,830	37,212	42,794
Loans and Receivables to Other Customers	909,829	1,029,584	1,155,493	1,204,866	1,378,355	1,562,832	1,740,859
Financial Investments - Available-for-sale	278,717	335,954	118,652	287,733	631,485	694,633	798,828
Property, Plant & Equipment	25,387	24,745	27,447	28,997	28,813	28,406	27,777
Intangible Assets	1,801	2,273	4,113	4,289	4,026	3,729	3,394
Other Assets	20,195	27,083	40,811	37,736	45,106	37,212	42,794
Total assets	1,762,058	1,983,491	2,499,554	2,655,612	2,861,036	3,169,754	3,630,159
LIABILITIES							
Securities Sold Under Repurchase Agreements	91,412	151,425	97,726	111,187	110,268	125,027	139,269
Due to Other Customers	1,286,616	1,472,640	1,977,744	2,147,907	2,255,302	2,480,832	2,852,957
Subordinated Term Debts	38,247	38,303	61,401	36,483	41,351	46,885	52,226
Total liabilities	1,601,547	1,813,939	2,286,581	2,430,637	2,595,854	2,868,113	3,286,787
EQUITY							
Stated Capital	52,188	54,567	58,150	62,948	94,010	105,391	118,117
Statutory Reserves	9,285	10,590	12,080	13,587	15,512	17,792	20,528
Retained Earnings	7,686	9,891	6,790	9,943	18,031	25,327	32,988
Other Reserves	89,596	92,427	131,846	133,993	131,584	145,263	161,681
Total Equity to Equity Owners of the Bank	158,755	167,475	208,865	220,471	259,138	293,773	333,314
Non-Controlling Interest	1,756	2,078	4,107	4,504	6,044	7,868	10,057
Total Equity	160,511	169,553	212,973	224,974	265,183	301,641	343,372
	1,762,058	1,983,491	2,499,554	2,655,612	2,861,036	3,169,754	3,630,159
Adjusted NAVPS	95.2	100.4	125.3	132.2	155.4	165.4	176.2



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Thank you!

*“SUCCESSFUL INVESTMENTS IS ABOUT
MANAGING RISKS”*

Contact Us

First Capital Holdings PLC

No: 02, Deal Place,
Colombo 00300,
Sri Lanka.

E: research@firstcapital.lk



Dimantha Mathew
Chief Research & Strategy Officer
T: +94 11 2639 853
E: dimantha@firstcapital.lk

Ranjan Ranatunga
Assistant Vice President – Research
T: +94 11 2639 863
E: ranjan@firstcapital.lk

Vinodhini Rajapoopathy
Assistant Manager- Research
T: +94 11 2639 866
E: vinodhini@firstcapital.lk

Tharusha Ashokgar
Senior Research Associate
T: +94 11 2639 866
E: tharushaash@firstcapital.lk

Zaeema Jihan
Senior Research Associate
T: +94 11 2639 866
E: zaheema@firstcapital.lk

Anjali Mathews
Senior Research Associate
T: +94 11 2639 866
E: anjalie@firstcapital.lk

Nethmi Fernando
Research Associate
T: +94 11 2639 866
E: nethmi@firstcapital.lk