



First Capital
A Janashakthi Group Company



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சம்பத் வங்கி
SampathBank

SAMPATH BANK PLC [SAMP.N0000]

EQUITY | SRI LANKA | BANKS

Earnings Update | 30 SEP 2024

FIRST CAPITAL RESEARCH

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MAINTAIN BUY

Fair value – 2024E: LKR 120.0 [+71%]

Total Return with DPS – 82% [AER 556%]

2025E - LKR 135.0 [+93%]

2025E - 104% [AER 72%]

“REACHING NEW HEIGHTS THROUGH SUSTAINABLE GROWTH”

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LKR (Mn)	2Q2023	2Q2024	YoY	1H2023	1H2024	YoY
Earnings (LKR 'Mn)						
NII	16,632	21,842	+31%	35,427	43,405	+23%
Total Operating Income	20,631	28,686	+39%	42,530	51,393	+21%
Net Operating Income	20,249	26,942	+33%	35,330	45,243	+28%
Profit Before Tax	8,428	12,810	+52%	13,430	19,715	+47%
Net Profit	4,628	8,074	+74%	7,638	11,867	+55%
Balance Sheet (LKR 'Mn)						
Loans	810,840	821,943	+1%	810,840	821,943	+1%
Shareholders' Equity	141,061	163,279	+16%	141,061	163,279	+16%
NAVPS	120.3	139.2	+16%	120.3	139.2	+16%

However, income from trade-related activities fell due to lower commission rates on import transactions amidst a 7.2%YTD appreciation of the LKR. SAMP has proactively provisioned for anticipated losses and contingencies related to the ISB restructuring, and no additional provisions are expected. With an improved economic environment, FCR projects a 24.5%YoY growth in net earnings for 2024E, followed by a 10.3%YoY increase in 2025E.

Declining interest rates fuel growth in local currency loan book

With In 1H2024, SAMP's gross loan book continued to expand, increasing by 4.4%YTD (+1.8%QoQ) to LKR 821.9Bn. The growth was driven by a 4.7%YTD rise in LKR-denominated loans, while foreign currency loans experienced a slight decline of 1.5%YTD, reflecting the 7.2%YTD appreciation of the LKR against the USD. The expansion in the local currency loan book was largely fueled by the reduction in interest rates, with the AWLR decreasing from 12.13% in 4Q2023 to 8.78% at the end of 2Q2024. The rate reduction is expected to spur private sector credit growth and GDP expansion in 2H2024. SAMP's Stage 3 impaired loans ratio improved to 5.70% in 2Q2024, down from 5.87% in 4Q2023, as the Sri Lankan economy showed resilience since 2H2023. Looking ahead, we expect SAMP's loan book to grow by 6.5% in 2024E, with a further increase of 10.0% in 2025E. In addition, the total deposit base saw a significant rise of 7.0%YTD, reaching LKR 1.4Tn, driven by a 11.1%YTD growth in local currency deposits. The uptick in Demand and Savings deposits improved the bank's CASA ratio to 33.4% during 1H2024, up from 31.3% in 1H2023. We anticipate the CASA ratio will further enhance to 40.0% between 2024E and 2026E, positioning the bank with a cost-effective funding base compared to peers.

Robust 74.5%YoY earnings growth in 2Q2024, driven by strong NII expansion

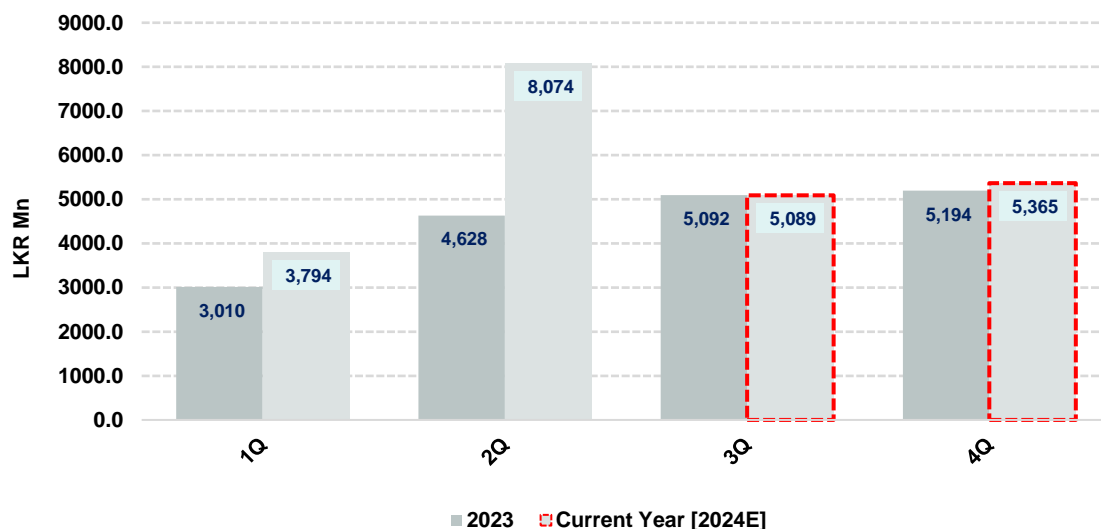
Loans SAMP reported a remarkable 74.5%YoY increase in earnings (+112.8%QoQ), reaching LKR 8.1Bn in 2Q2024. The substantial growth was largely driven by a 31.3%YoY rise in NII and a significant turnaround in Net Trading Income, which surged to LKR 2.2Bn from a loss of LKR 3.1Mn in 1Q2024. Additionally, the QoQ earnings growth was supported by a notable reduction in impairment charges, which decreased from LKR 4.4Bn in 1Q2024 to LKR 1.7Bn in 2Q2024. The increase in NII was primarily due to a 26.1% YoY reduction in interest expenses, which offset an 8.0% YoY decline in interest income, resulting in an expansion of NIM's to 5.18% as of 30th Jun 2024. However, with the AWPLR decreasing to 9.13% in Aug 2024, we project a decline in NIMs, anticipating a year-end figure of 4.22%. Net Fee and Commission Income saw a marginal YoY growth of 2.5%, reaching LKR 5.5Bn, driven by increased credit, electronic, card, and remittance-related activities.

Well above capital ratios to boost lending portfolio

As of 30th Jun 2024, SAMP's Tier I and Total Capital Adequacy Ratios are 16.67% and 19.77%, respectively, significantly exceeding the minimum regulatory requirements of 8.50% and 12.50%. The strong capital buffer positions SAMP well to navigate challenging periods and supports its ability to drive credit growth in the near term, particularly as economic activities are expected to recover.

FV for 2025E estimated at LKR 135.00 – MAINTAIN BUY

Given After exceeding our 2Q2024 earnings estimates, primarily due to NIMs expansion, we have revised our forecasts upward. For 2024E, we now project earnings of LKR 22.3Bn, up from our previous estimate of LKR 20.5Bn. Similarly, our 2025E earnings estimate has been increased to LKR 24.6Bn, from LKR 23.0Bn. Despite the earnings revision, we are maintaining our target price for SAMP at LKR 135.0 for 2025E. Given the favorable outlook for the bank and the current trading multiples, with SAMP shares trading at 0.5x PBV, we believe the stock is undervalued. This, coupled with the positive momentum and strong financial performance, reinforces our bullish stance on SAMP. **MAINTAIN BUY.**



Estimate Revision

In LKR Mn	2024E - O	2024E - R	% Change	2025E - O	2025E - R	% Change
Earnings Estimate						
Net Interest Income	65,542	68,648	+5%	79,353	82,027	+3%
Total Operating Income	90,200	93,661	+4%	106,400	109,643	+3%
Net Operating Income	80,822	84,283	+4%	91,983	95,226	+4%
Profit Before Tax	34,232	37,203	+9%	38,340	41,047	+7%
Net Profit	20,539	22,322	+9%	23,004	24,628	+7%
Adjusted EPS	17.5	19.0		19.6	21.0	
Growth YoY	15%	25%		12%	10%	
Balance Sheet Estimate						
Loans & Advances	838,720	838,720	0%	922,376	922,376	0%
Shareholders' Equity	162,238	162,768	+0%	172,722	173,475	+0%
Adjusted NAVPS	138.3	138.8		147.3	147.9	
Ratio Estimate						
ROE (%)	12.7%	13.7%		13.3%	14.2%	
PER (x)	4.8	3.7		4.4	3.3	
PBV (x)	0.6	0.5		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	68,648	82,027	90,106
Total Operating Income	59,141	50,066	64,399	114,768	95,463	93,661	109,643	118,029
Net Profit	11,668	8,443	13,856	14,061	17,924	22,322	24,628	28,769
Adjusted EPS (LKR)	9.9	7.2	11.8	12.0	15.3	19.0	21.0	24.5
YoY Growth (%)	-7%	-28%	64%	1%	27%	25%	10%	17%
Valuations								
PER (x)	7.0x	9.7x	5.9x	5.8x	4.6x	3.7x	3.3x	2.9x
PBV (x)	0.7x	0.7x	0.6x	0.6x	0.5x	0.5x	0.5x	0.4x
DY (%)	5.5%	3.8%	5.9%	6.4%	8.4%	10.4%	11.5%	13.4%
NAVPS	95.0	97.6	108.5	115.6	134.6	138.8	147.9	156.1
DPS (LKR)	3.8	2.7	4.1	4.5	5.9	7.3	8.0	9.4
Dividend Payout	38.4%	37.3%	35.1%	37.4%	38.3%	38.3%	38.3%	38.3%

Valuation Summary

Return	2024E	2025E
Target Price	120.0	135.0
Current Price	70.0	70.0
Capital Gain (LKR)	50.0	65.0
Dividends upto 31st Dec (LKR)	7.3	8.0
Capital Gain %	71%	93%
Dividend Yield %	10%	11%
Total Return %	82%	104%
Annualized Return %	556%	72%

Expected SAMP price	2024E	2025E
Justified PBV based target price	120.8	142.0
PER Valuation based target price	114.2	126.0
RI Valuation based target price	121.6	134.9
Average Target Price	118.9	134.3
Target Price after Rounding off	120.0	135.0

Residual Income Valuation

Residual Income based Valuation	2024E	2025E
PV of Residual Income	-15,178	-4,617
No. of Shares ('Mn)	1,173	1,173
RI per Share	-12.9	-3.9
Opening Book value per Share	134.6	138.8
Value per Share	121.6	134.9

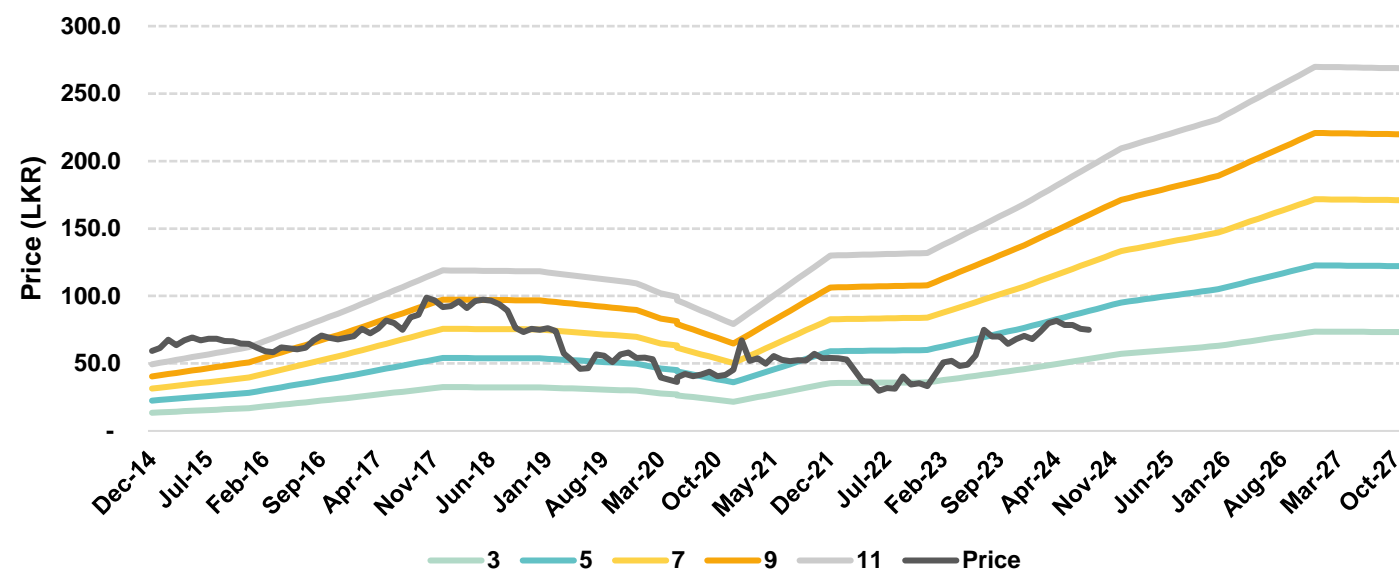
COE	2024E	2025E
Rf	10.0%	11.0%
Rm	18.0%	19.0%
Growth %	3.0%	3.0%
β	0.88	0.88
$Ke=Rf+\beta(Rm-Rf)$	17.0%	18.0%

Justified PBV Valuation

Justified PBV based Valuation	2024E	2025E
ROAE	13.9%	14.6%
Growth	3.0%	3.0%
COE	17.0%	18.0%
PBV	0.9	1.0
NAVPS	138.8	147.9
Target Price	120.8	142.0

PER Valuation

PER based Valuation	2024E	2025E
Earnings (LKR 'Mn)	22,322	24,628
No. of Shares ('Mn)	1,173	1,173
EPS	19.0	21.0
Expected PER	6.0x	6.0x
Price at 6.0x Earnings	114.2	126.0



Appendix I: Statement of Income and Expenses

Income Statement (LKR Mn) P/E 31st December	2020	2021	2022	2023	2024E	2025E	2026E
Gross Income	109,183	113,075	206,002	236,504	217,613	236,195	259,640
Interest Income	94,647	92,428	164,776	212,459	189,459	205,888	227,357
Interest Expenses	57,820	46,910	88,734	137,016	120,811	123,861	137,251
Net Interest Income	36,827	45,518	76,042	75,443	68,648	82,027	90,106
Fee & Other Income	13,239	18,881	38,726	20,020	25,013	27,616	27,924
Total Operating Income	50,066	64,399	114,768	95,463	93,661	109,643	118,029
Impairment (Charges)/ Reversal	-13,201	-18,559	-62,908	-20,210	-9,378	-14,417	-17,423
Net Operating Income	36,866	45,840	51,860	75,253	84,283	95,226	100,607
Less : Operating expenses							
Staff Cost	11,227	10,916	13,879	15,826	17,409	18,966	20,483
Other Operating Expenses	10,354	11,803	16,010	19,140	20,671	23,354	26,857
Total Operating Expenses	21,582	22,719	29,888	34,966	38,080	42,320	47,340
Profit from operations	15,284	23,121	21,971	40,287	46,203	52,906	53,267
VAT on Financial Services & DRL	3,394	4,296	5,577	9,085	9,000	11,859	12,169
Profit Before Tax	11,890	18,825	16,395	31,202	37,203	41,047	41,098
Income Tax Expense	3,447	4,969	2,334	13,277	14,881	16,419	12,329
Profit for the Year	8,443	13,856	14,061	17,924	22,322	24,628	28,769
Minority Interest	0	0	0	0	0	0	0
Profit attributable to Equity Holders	8,443	13,856	14,061	17,924	22,322	24,628	28,769
EPS	7.2	11.8	12.0	15.3	19.0	21.0	24.5

Appendix II: Statement of Financial Position

Balance Sheet (LKR Mn) As at 31st December	2020	2021	2022	2023	2024E	2025E	2026E
Assets							
Cash and cash equivalents	29,219	23,028	79,345	79,530	83,510	92,791	109,342
Financial instruments	17,732	10,169	15,167	5,579	4,979	5,476	7,239
Loans to & Deposits with Banks	16,563	33,614	42,506	48,205	61,747	65,541	68,849
Loans and Receivables	752,438	795,804	839,977	787,356	838,720	922,376	1,012,834
Debt and other instruments	275,126	294,667	284,238	373,900	372,242	409,467	450,413
Property, plant & equipment	15,891	16,338	19,067	19,961	20,022	22,793	21,153
Other Assets	42,716	69,013	87,020	272,845	285,670	294,582	304,100
Total Assets	1,149,685	1,242,633	1,367,320	1,587,376	1,666,891	1,813,025	1,973,931
Liabilities							
Due to other customers	902,499	994,318	1,115,156	1,276,551	1,378,675	1,516,543	1,668,197
Due to banks	42,905	31,532	15,255	17,345	13,787	15,165	16,682
Debt issued and other borrowed funds	56,906	56,474	45,779	72,961	50,245	46,582	44,082
Current tax liabilities	4,793	8,376	19,186	16,689	15,854	15,062	15,062
Other liabilities	28,168	24,748	36,392	46,000	45,561	46,199	46,836
Total Liabilities	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	48,741	48,741	48,741	48,741
Reserves	58,891	65,696	74,364	92,378	90,680	98,006	102,792
Retained earnings	7,901	13,867	13,565	16,712	23,347	26,728	31,540
Shareholders' Funds	114,415	127,186	135,551	157,830	162,768	173,475	183,073
Minority Interest	0	0	0	0	0	0	0
	114,415	127,186	135,551	157,830	162,768	173,475	183,073
Total Liabilities & Shareholders' Funds	1,149,685	1,242,633	1,367,320	1,587,376	1,666,891	1,813,025	1,973,931
NAVPS	97.6	108.5	115.6	134.6	138.8	147.9	156.1



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Thank you!

*“SUCCESSFUL INVESTMENTS IS ABOUT
MANAGING RISKS”*

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