



First Capital
A Janashakthi Group Company



SEYLAN BANK PLC [SEYB.N0000]

EQUITY | SRI LANKA | BANKS

Earnings Update | 30 SEP 2024

FIRST CAPITAL RESEARCH

Analyst:
Nethmi Fernando
nethmi@firstcapital.lk

MAINTAIN BUY

Fair value – 2024E: LKR 100.0 [+123%]

Total Return with DPS – 130% [AER 1811%]

2025E - LKR 110.0 [+146%]

2025E - 152% [AER 106%]

“OPTIMIZING PROFITS AMID ECONOMIC GROWTH”

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+94 11 263 9866

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LKR (Mn)	2Q2023	2Q2024	YoY	6M2023	6M2024	YoY
Earnings (LKR 'Mn)						
NII	9,178	9,314	+1%	20,665	18,785	-9%
Total Operating Income	11,356	11,590	+2%	24,734	23,419	-5%
Net Operating Income	8,163	10,190	+25%	15,175	20,463	+35%
Pre Tax Profit	2,510	3,599	+43%	4,184	7,371	+76%
Net Profit (equity share holders)	1,477	2,211	+50%	2,500	4,538	+82%
Balance Sheet (LKR 'Mn)						
Loans	420,595	434,413	+3%	420,595	434,413	+3%
Shareholders' Equity	59,039	66,401	+12%	59,039	66,401	+12%
NAVPS	95.9	104.5		95.9	104.2	

Bottom line surge by 49.7%YoY during 2Q2024

SEYB reported earnings of LKR 2.2Bn during 2Q2024, reflecting a substantial YoY growth of 49.7%, aligning closely with our target of LKR 2.3Bn. This improvement in profitability was primarily driven by a significant reduction in impairment charges, which fell to LKR 1.4Bn which declined by 56.1%YoY (10.0%QoQ). This reduction is attributed to a collective decrease in provisioning for loans, advances, and foreign currency-denominated bonds. Additionally, net fee and commission income increased by 9.0%YoY (3.5% QoQ), supported by higher card-related income, commissions on guarantees, and trade-related income. Conversely, net trading income declined by 86.0%YoY during this quarter. Net interest income grew by 1.5%YoY, despite a decrease in both interest income and expenses, which fell by 21.9%YoY and 33.7% YoY, respectively, due to the prevailing low interest rate environment. Net interest margins deteriorated by 87bps YoY (59bps QoQ) to 5.17%, primarily influenced by a 135bps reduction in AWPR, which stood at 8.8% at the end of Jun 2024.

CASA base to improve aligning with the economic recovery

With the anticipated economic recovery towards 2024E backed by several factors such as, the gradual revival of the tourism and manufacturing sectors, increased activity in SMEs, and improved import and export volumes we anticipate the CASA base to surge between 33.0% in 2024E, recovering from the poor CASA base of 22.0% in 2022, which improved to 30.0% in 2023.

Loan portfolio and CASA set to thrive with economic growth

Loans and advances experienced a 3.3%YoY increase, with local currency loans rising by 3.6% YoY (+0.6% QoQ). This growth indicates a normalization of economic activity and enhanced economic sentiment, which has encouraged individuals to pursue loans in the context of a lower interest rate environment. Conversely, foreign currency loans experienced a substantial increase of 15.9%YoY (+10.8%QoQ), amidst a 4.0% appreciation of the LKR during the quarter. Deposits also saw significant growth, rising by 9.9%YoY (+2.3%QoQ), driven by a 10.4%YoY increase in local currency deposits (+2.3%QoQ) and a 7.5%YoY increase in foreign currency deposits (+5.6%QoQ). Additionally, Stage 3 loans decreased to 3.5%, down from 3.9% in 1Q2024.

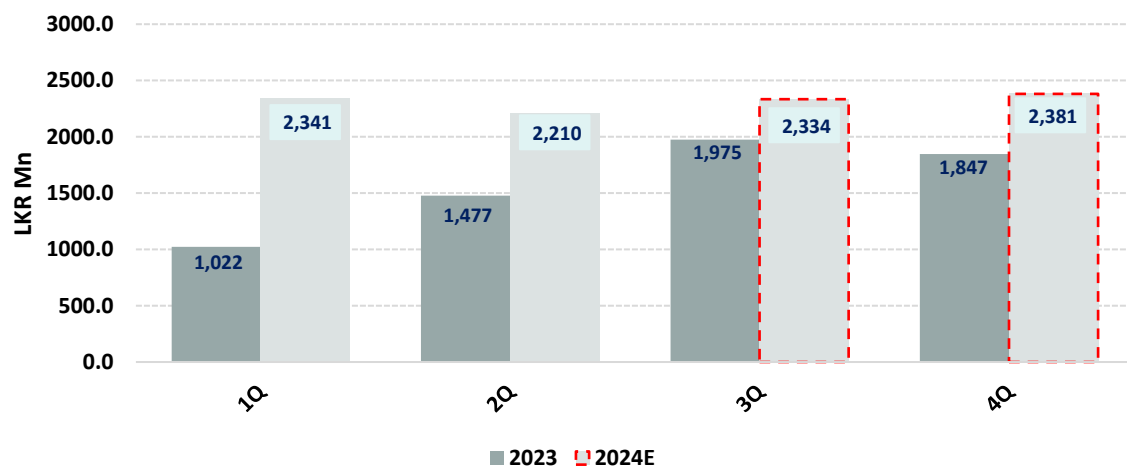
SEYB remains well capitalized above required thresholds

SEYB reported a Tier 1 and Tier 2 capital adequacy ratio of 12.86% and 16.18% respectively which is above the required rate of 8.50% and 12.50% displaying a strong and healthy capital structure influenced by the increase in profits and reserves for the year ended 31st Dec 2023. Furthermore, with the anticipated economic recovery underway, we anticipate significant growth in the bank's loan portfolio.

FV maintained for SEYB.N at LKR 100.0 and SEYB.X at 62.0 for 2024E – MAINTAIN BUY

Given the positive economic outlook supported by an FCR forecast of +2% to +3% GDP growth towards 2024E, positivity surrounding the finalization of EDR and the attractive trading multiples we find SEYB's future prospects appealing. Furthermore, with the improved business confidence, steady recovery in SMEs 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 62.0 for SEYB.X, for 2024E. Thus, we continue to maintain our recommendation on SEYB at

MAINTAIN BUY.



Estimate Revision

In LKR Mn	2024E - O	2024E - R	% Change	2025E - O	2025E - R	% Change
Earnings Estimate						
Net Interest Income	36,262	36,262	0%	37,191	37,191	0%
Total Operating Income	46,360	46,360	0%	48,630	48,630	0%
Net Operating Income	38,356	38,356	0%	40,701	40,701	0%
Pre Tax Profit	18,835	18,835	0%	15,773	15,773	0%
Net Profit	9,266	9,266	0%	10,252	10,252	0%
Adjusted EPS	15.1	15.1		16.7	16.7	
Growth YoY	47%	47%		11%	11%	
Balance Sheet Estimate						
Shareholders' Equity	70,251	70,251	0%	78,657	78,657	0%
Adjusted NAVPS	114.1	114.1		127.8	127.8	
Ratio Estimate						
ROE (%)	14.0%	14.0%		13.8%	13.8%	
PER (x)	3.0	3.0		2.7	2.7	
PBV (x)	0.4	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)	9.1x	5.9x	6.0x	4.4x	3.0x	2.7x	2.4x
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%	29%	20%	18%	16%
DY (%)	3.3%	6.7%	4.5%	6.7%	6.7%	6.7%	6.7%
NAVPS	98.2	101.1	97.3	101.4	114.1	127.8	146.7

Valuation Summary

Return	2024E	2025E
Target Price	100.0	110.0
Current Price	44.8	44.8
Capital Gain (LKR)	55.2	65.2
Dividends upto 31st Dec (LKR)	3.0	3.0
Capital Gain %	123%	146%
Dividend Yield %	7%	7%
Total Return %	130%	152%
Annualized Return %	1811%	106%

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	90.0	107.0
Average Target Price	99.0	110.5
Target Price after Rounding off	100.0	110.0

Residual Income Valuation

Residual Income based Valuation	2024E	2025E
PV of Residual Income	-6,901	-4,090
No. of Shares ('Mn)	615	615
RI per Share	-11.2	-6.6
Opening Book value per Share	101.4	114.1
Value per Share	90.0	107.0

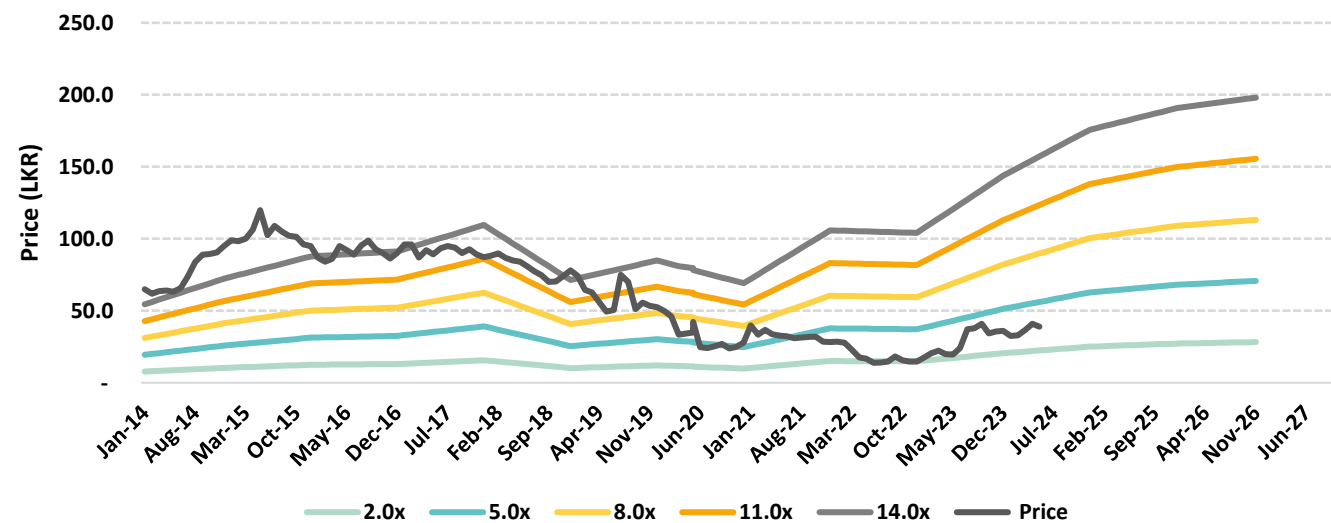
COE	2024E	2025E
Rf	10.0%	11.0%
Rm	18.0%	19.0%
Growth %	3.0%	3.0%
β	0.8	0.8
$K_e = R_f + \beta(R_m - R_f)$	16.0%	17.0%

Justified PBV Valuation

Justified PBV based Valuation	2024E	2025E
ROAE	14.0%	13.8%
Growth	3.0%	3.0%
COE	16.0%	17.0%
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



Appendix I: Statement of Income and Expenses

Income Statement (LKR Mn) P/E 31st December	2020	2021	2022	2023	2024E	2025E	2026E
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) As at 31st December	2020	2021	2022	2023	2024E	2025E	2026E
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
	52,056	55,287	57,466	63,698	71,567	79,973	91,523
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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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