



First Capital
A Janashakti Group Company

LB FINANCE PLC [LFIN.N0000]

MAINTAIN BUY

“NEW WHEELS, NEW HIGHS: VALUATION SET TO SHIFT GEARS”

Fair Value: FY26E - LKR 145.0 [+7%]

Total Return with DPS: FY26E - 13% [AER 20%]

FY27E - LKR 180.0 [+32%]

FY27E - 40% [AER 22%]

LFIN delivered a solid performance in 1QFY26, with earnings rising 23.5%YoY to LKR 2.7Bn, driven by a 15.5%YoY increase in Net Interest Income (NII) to LKR 6.9Bn. Strong growth in fee and commission income (+79.3%YoY) also supported topline performance, offsetting declines in trading and other operating income. While NIM contracted to 3.2% due to lower interest rates, credit expansion remained strong. Growth in loan book was particularly evident in gold loans and leasing, which underpinned the 30.7%YoY increase to LKR 223.7Bn. Asset quality improved, with the Non-Performing Loans (NPL) ratio down to 1.91%. Deposits rose 15.8%YoY, while capital buffers remained strong (Tier 1: 25.53%). FCR forecasts earnings to reach LKR 13.5Bn in FY26E (+24.2%YoY) and LKR 17.2Bn in FY27E (+27.6%YoY), supported by easing rates, asset quality gains, and loan growth driven by new vehicle registrations. Despite expected NIM moderation, ROE is set to improve by 130bps in FY26E to 24.0% and a further 188bps in FY27E to 25.9%. Based on our valuation derived from three different approaches, we arrive at a target price of LKR 180.0 for FY27E, implying a total annualized return of 22.4%. We expect LFIN to trade at 1.4x forward book value in FY27E, supported by its industry-leading ROE profile. **MAINTAIN BUY**

LKR (Mn)	1QFY25	1QFY26	YoY	FY24	FY25	YoY
Earnings (LKR 'Mn)						
Net interest income	5,989	6,917	+15%	24,642	25,418	+3%
Total operating income	6,897	8,447	+22%	28,175	30,373	+8%
Net operating income	6,790	8,185	+21%	27,905	30,634	+10%
PBT	3,531	4,392	+24%	15,334	16,413	+7%
Net Profit	2,202	2,720	+24%	9,707	10,862	+12%
Balance Sheet (LKR 'Mn)						
Shareholders' Equity	44,196	51,988	+18%	43,911	51,590	+17%
Loans and Advances	171,090	223,681	+31%	162,522	199,271	+23%
NAVPS	79.8	93.8		79.3	93.1	

LFIN posts a 23.5%YoY surge in earnings in 1QFY26

LFIN delivered a strong performance in 1QFY26, reporting earnings of LKR 2.7Bn, a 23.5%YoY growth. The growth in earnings was primarily driven by a 15.5%YoY increase in NII, which rose to LKR 6.9Bn. The increase in NII was supported by a 10.0%YoY rise in interest income, which offset a modest 2.3%YoY increase in interest expenses. However, the NIM declined to 3.2%, compared to 3.3% in 4QFY25 and 3.6% in 1QFY25. The contraction in NIM was mainly due to the lower interest rate environment and pressure from the borrowing costs. Fee and commission income showed robust growth, surging 79.3%YoY to LKR 1.5Bn, driven by an expanding online customer base and increased transaction volumes. In contrast, net trading income and other operating income declined sharply by 67.6%YoY and 51.0%YoY, respectively. On the cost side, impairment charges rose significantly by 145.1%YoY, while personnel expenses increased by 13.3%YoY. Despite these challenges, LFIN maintained strong earnings momentum and delivered a resilient performance for the quarter.

30.7%YoY growth in the loan book, driven by an increase in new vehicle registrations

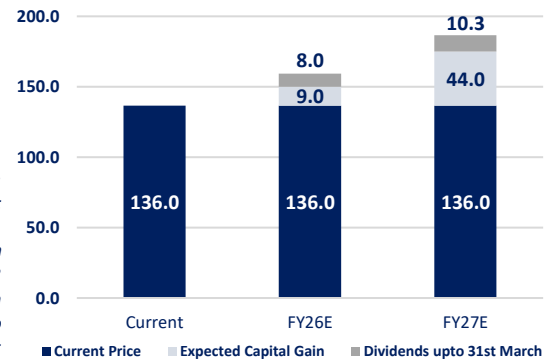
LFIN's loan book saw a strong expansion of 30.7%YoY (12.2%QoQ), reaching LKR 223.7Bn in 1QFY26. The growth was primarily fueled by the solid performance of its gold loan and leasing portfolios. The uptick in credit growth was supported by a decline in interest rates, with the Average Weighted Lending Rate (AWLR) easing to 11.60% at the end of 1QFY26 from 11.93% in 4QFY25, along with a broad-based recovery in economic activity. Additionally, the removal of the vehicle import ban and rising gold prices further contributed to the expansion of the loan portfolio. Asset quality also continued to improve, with the NPL ratio declining to 1.91% in 1QFY26, down from 3.3% in 1QFY25 and 2.25% in 4QFY25. FCR projects LFIN's loan book to grow by 42.6%YoY in FY26E and by 14.0%YoY in FY27E, driven by a 226.1% increase in new vehicle registrations, as forecasted by FCR, along with a continued rise in gold prices. LFIN's extensive branch network and strategic focus on the SUV segment are likely to further support loan growth. However, LFIN's exposure to the electric vehicle (EV) segment could face pressure following the reduction of the 90% loan-to-value (LTV) cap for EVs.

Deposit base grows 15.8%YoY, while capital adequacy remains comfortably above regulatory thresholds

LFIN's deposit base rose by 15.8%YoY to LKR 145.4Bn in 1QFY26, supported by broad-based growth across fixed deposit products and strong renewal of higher-maturity instruments. Looking ahead we expect LFIN's deposit base grow 19.0%YoY in FY27E. As of 30th June 2025, the company reported a Tier 1 Capital Ratio of 25.53% and a Total Capital Ratio of 26.43%, despite an increase in risk-weighted assets. Both ratios remain comfortably above the regulatory minimum requirements of 10.00% and 14.00%, respectively.

With a new target of 180.0 for FY27E, FCR forecasts a total annualized return of 22.4%

FCR expects LFIN's earnings to grow by 24.2%YoY to LKR 13.5Bn in FY26E and by 27.6%YoY to LKR 17.2Bn in FY27E, driven by strong loan book growth supported by a lower interest rate environment and the recovery in vehicle imports. However, by FY27E, FCR anticipates a gradual moderation in NIMs, reflecting LFIN's relatively higher reliance on deposit funding compared to banks. A sustained reduction in new impairment charges is expected to remain a key driver of profitability, backed by LFIN's balanced exposure to gold loans and leasing portfolios. This positive earnings trajectory is also likely to reinforce the company's capital adequacy position. Consequently, ROE is set to improve by 130bps in FY26E to 24.0% and a further 188bps in FY27E to 25.9% according to FCR's projections. Given LFIN's solid fundamentals and favourable outlook, we maintain a positive view on the stock and reaffirm our bullish stance. Based on our valuation derived from three different approaches, we arrive at a target price of LKR 180.0 for FY27E, implying a total annualized return of 22.4%. We expect LFIN to trade at 1.4x forward book value in FY27E, supported by its industry-leading ROE profile. **MAINTAIN BUY**



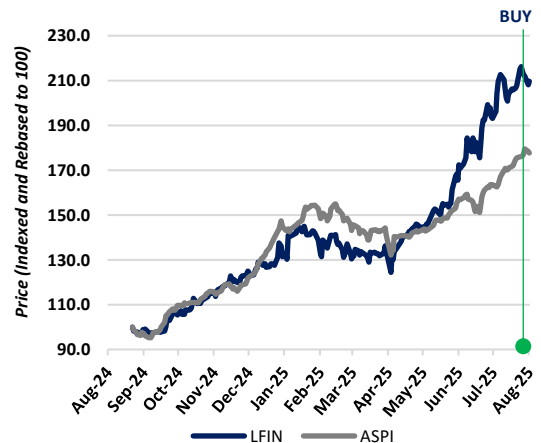
FIRST CAPITAL RESEARCH

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Price Movement of LFIN vs ASPI (Indexed and Rebased to 100)



Source: CSE

Minimum Return for BUY:

Buy Below FY27E - [AER of 22% with DPS]: LKR 144.6
LFIN.N categorized as 'Grade B' counter

Disclosure on Shareholding:

First Capital Group or the covering analyst did not hold 1% or more of the total outstanding share capital of LFIN during the five trading days prior to the issuance of this document.

Key risks associated with our recommendation

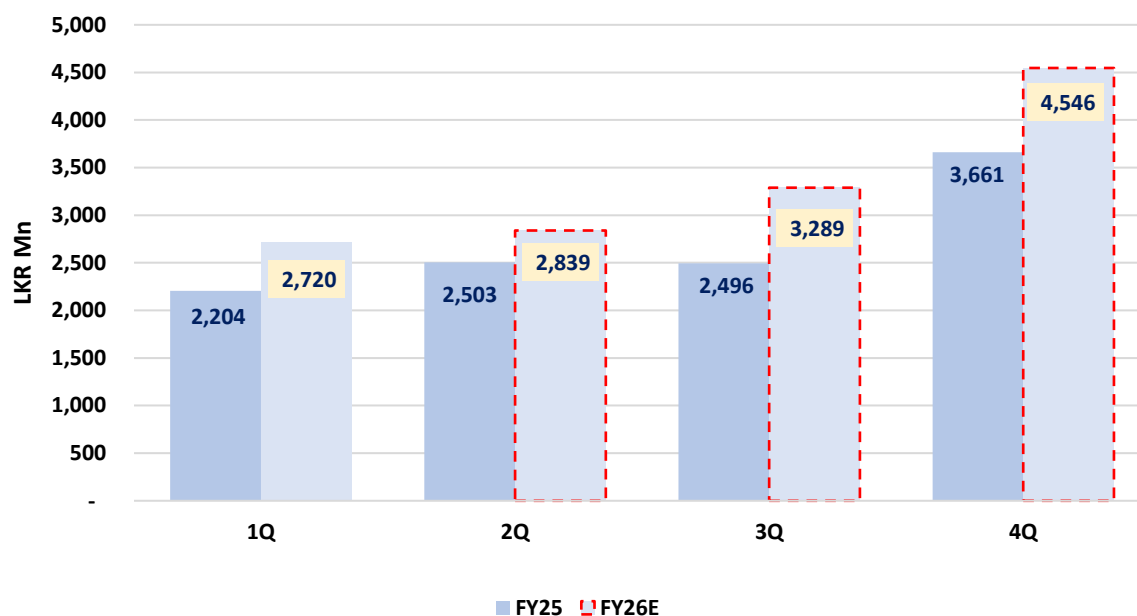
Downside risks

- Interest and exchange rate risk
- Regulatory risk
- Lower LTV ratio may dampen the loan growth

Upside risks

- Greater than anticipated demand for vehicles
- Increase in gold prices due to global economic uncertainty
- Further easing of CBSL's monetary policy stance

Quarterly Earnings



Valuation Table

P/E 31 March	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Estimates (LKR 'Mn)							
Net Interest Income	18,643	19,310	24,642	25,418	33,854	43,050	49,505
Other Revenue	2,651	3,160	3,533	4,954	6,462	8,576	9,883
Total Operating Income	21,295	22,469	28,175	30,373	40,316	51,626	59,388
Net Profit	8,476	8,553	9,707	10,862	13,493	17,215	19,793
Adjusted EPS (LKR)	15.3	15.4	17.5	19.6	24.4	31.1	35.7
YoY Growth (%)	25%	1%	13%	12%	24%	28%	15%
Valuations							
PER (x)	8.9x	8.8x	7.8x	6.9x	5.6x	4.4x	3.8x
PBV (x)	2.3x	2.0x	2.0x	1.5x	1.2x	1.2x	0.9x
DY (%)	3.7%	3.7%	3.7%	4.8%	5.9%	7.5%	8.7%
Adjusted NAVPS (LKR)	60.0	69.2	79.3	93.1	109.4	130.2	154.2
DPS	5.0	5.0	5.8	6.5	8.0	10.3	11.8
Dividend Payout (%)	32.0%	32.7%	33.3%	33.3%	33.0%	33.0%	33.0%

Valuation Summary

Expected LFIN Price	FY26E	FY27E
Justified PBV based target price	142.9	185.2
PER Valuation based target price	146.1	186.4
RI Valuation based target price	150.9	175.0
Average Target Price	146.6	182.2
Target Price after Rounding off	145.0	180.0

Return	FY26E	FY27E
Target Price	145.0	180.0
Current Price	136.0	136.0
Capital Gain (LKR)	9.0	44.0
Dividends upto 31st March (LKR)	8.0	10.3
Capital Gain %	7%	32%
Dividend Yield %	6%	8%
Total Return %	13%	40%
Annualized Return %	20%	22%

Residual Income Valuation

Residual Income based Valuation	FY26E	FY27E
PV of Residual Income	32,003	36,325
No. of Shares ('Mn)	554	554
RI per Share	57.8	65.6
Opening Book value per Share	93.1	109.4
Value per Share	150.9	175.0

COE	FY26E	FY27E
Rf	10%	10%
Rm	18%	18%
Growth %	3%	3%
β	1.1	1.1
$K_e = R_f + \beta(R_m - R_f)$	19%	19%

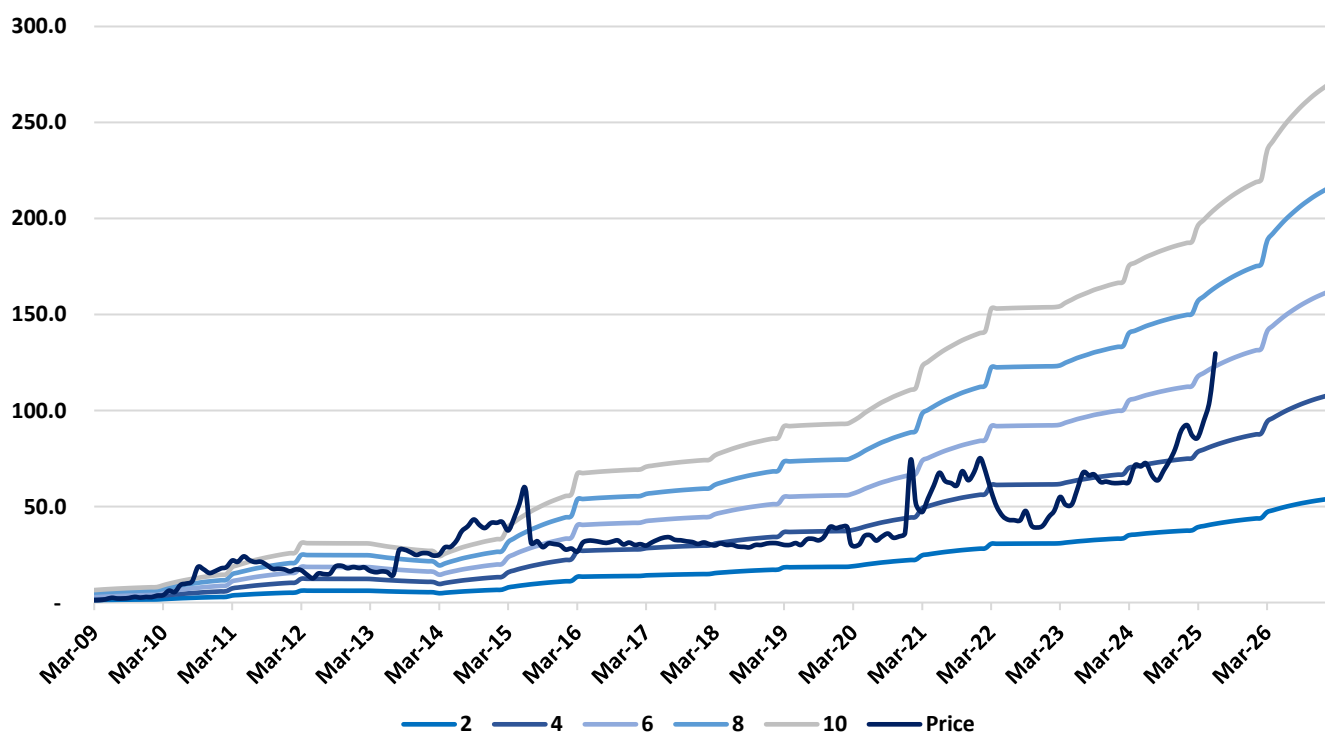
Justified PBV Valuation

Justified PBV based Valuation	FY26E	FY27E
ROAE	24.0%	25.9%
Growth	3.0%	3.0%
COE	19.1%	19.1%
PBV	1.3	1.4
NAVPS	109.4	130.2
Target Price	142.9	185.2

PER Valuation

PER based Valuation	FY26E	FY27E
Earnings (LKR 'Mn)	13,493	17,215
No. of Shares ('Mn)	554	554
EPS	24.4	31.1
Expected PER	6.0x	6.0x
Price at 6.0x Earnings	146.1	186.4

PER Chart



Appendix I: Statement of Income and Expenses

Statement of Financial Performance (LKR Mn)	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
P/E 31st Mar							
Income	30,157	43,133	49,636	47,156	62,095	83,111	96,182
Interest Income	27,506	39,974	46,103	42,202	55,632	74,535	86,299
Interest Expenses	-8,863	-20,664	-21,461	-16,784	-21,778	-31,485	-36,794
Net Interest Income	18,643	19,310	24,642	25,418	33,854	43,050	49,505
Fee and commission income	2,475	2,986	3,217	4,643	6,120	8,199	9,493
Net trading income	2	-2	142	101	111	122	110
Other operating income	174	176	174	210	231	255	280
Total Operating Income	21,295	22,469	28,175	30,373	40,316	51,626	59,388
Less: Impairment charges	-1,112	-519	-270	261	-1,947	-2,609	-3,020
Less: Gold loan auction losses	0	0	0	0	0	0	0
Net operating income	20,183	21,950	27,905	30,634	38,369	49,017	56,367
Less : Operating expenses	-6,325	-7,430	-8,940	-10,038	-13,506	-17,295	-19,895
Profit before tax on financial services	13,858	14,521	18,965	20,596	24,863	31,722	36,472
Less: Taxes on Financial Services	-2,137	-2,678	-3,630	-4,183	-4,475	-5,710	-6,565
Profit Before Tax	11,721	11,843	15,334	16,413	20,388	26,012	29,907
Income Tax Expense	-3,245	-3,290	-5,627	-5,551	-6,895	-8,797	-10,115
Profit for the Year	8,476	8,553	9,707	10,862	13,493	17,215	19,793
Profit attributable to Equity Holders	8,476	8,553	9,707	10,862	13,493	17,215	19,793
Adjusted EPS	15.3	15.4	17.5	19.6	24.4	31.1	35.7

Appendix II: Statement of Financial Position

Statement of Financial Position (LKR Mn)	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
as at 31st Mar							
Assets							
Cash and cash equivalents	14,634	4,681	7,651	9,075	2,329	22,846	32,797
Financial investments - held for trading	13	11	1,923	718	1,024	1,168	1,319
Loans and receivables	93,897	146,372	162,522	199,271	284,088	323,861	365,963
Lease rentals receivable and stock out on hire	41,640	-	-	-	-	-	-
Financial investments - available for sale	86	117	119	165	235	268	303
Other financial assets	5,656	21,711	20,443	21,189	21,189	21,189	21,189
Other non-financial assets	501	552	496	480	528	581	639
Property, plant and equipment	8,449	8,667	9,034	9,752	10,239	10,751	11,289
Intangible assets	131	135	23	67	101	151	227
Total Assets	165,078	183,018	203,148	241,984	321,152	382,403	435,504
Liabilities							
Due to banks	26,862	19,393	21,956	37,800	49,140	51,597	54,176
Due to customers	89,479	114,248	123,035	138,824	167,683	199,543	235,461
Debt instruments issued & other borrowed funds	8,565	3,882	5,491	5,005	32,805	46,805	46,805
Other financial liabilities	3,343	3,283	3,816	4,305	4,736	5,210	5,730
Other non-financial liabilities	1,182	1,155	1,591	1,719	3,782	4,160	4,576
Current tax liabilities	1,875	2,262	2,776	2,189	1,769	2,257	2,595
Deferred tax liabilities	111	-	-	-	-	-	-
Post employment benefit liability	324	368	475	552	607	668	735
Total liabilities	131,741	144,590	159,140	190,394	260,522	310,239	350,078
Equity							
Stated capital	838	838	838	838	838	838	838
Reserves	24,086	28,795	33,976	41,119	50,159	61,693	74,954
Retained earnings	8,307	8,691	9,097	9,633	9,633	9,633	9,633
Equity attributable to equity holders	33,231	38,324	43,911	51,590	60,630	72,164	85,425
Non-controlling interest	106	104	97	-	-	-	-
Total equity	33,337	38,428	44,008	51,590	60,630	72,164	85,425
Total Liabilities & Shareholders' Funds	165,078	183,018	203,148	241,984	321,152	382,403	435,504
NAVPS	60.0	69.2	79.3	93.1	109.4	130.2	154.2



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