



SEYLAN BANK PLC [SEYB.N0000]

MAINTAIN BUY

“BUILDING CREDIT QUALITY FOR SUSTAINED GROWTH”

Fair Value: 2025E - LKR 120.0 [+20%]

Total Return with DPS: 2025E - 23% [AER 121%]

2026E - LKR 150.0 [+50%]

2026E - 53% [AER 40%]

SEYB posted a strong 25.0% YoY increase in net profit for 2Q25, reaching LKR 2.8Bn and lifting 1H25 earnings to LKR 5.4Bn. This was achieved despite a 1% dip in NII, driven by declining market interest rates, partly offset by 13.7% YoY loan growth and a 17.0% YoY surge in Net Fee and Commission Income, supported by recovering trade, remittances, and card activity. A sharp 83.6% YoY drop in impairment charges (to LKR 229.2Mn) further bolstered profitability. FCR has revised SEYB's 2025E and 2026E earnings forecasts upward to LKR 12.2Bn and LKR 14.3 Bn, respectively, owing to favorable macro conditions and continued credit appetite. The Bank maintained a CASA ratio of 30%, while an LKR 15.0Bn Tier 2 Debenture issuance in Jul-25 reinforced capital buffers. Asset quality remained resilient, with the Impaired Loan Ratio improving to 1.76% and Stage 3 coverage at 81.82%. Capital ratios were healthy (CET1 and Tier 1 at 13.14%; Total Capital at 16.85%), underscoring prudent risk management and robust investor confidence. Consequently, the fair value estimate for 2025E has been revised to LKR 120.0 (SEYB.X: LKR 85.0) while that of 2026E has been revised to LKR 150.0 (SEYB.X: LKR 115.0), denoting a 121% and 40% AER for 2025E and 2026E respectively.

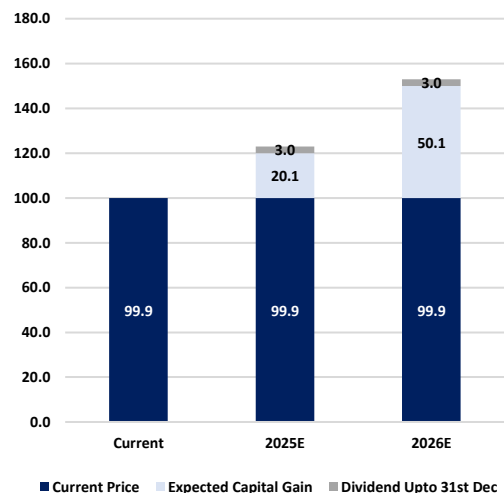
LKR (Mn)	2Q2024	2Q2025	YoY	6M2024	6M2025	YoY
Earnings (LKR 'Mn)						
NII	9,314	9,269	-0.5%	18,785	17,951	-4%
Total Operating Income	11,590	11,967	+3%	23,419	23,220	-1%
Net Operating Income	10,190	11,738	+15%	20,463	22,729	+11%
Pre Tax Profit	3,599	4,315	+20%	7,371	8,467	+15%
Net Profit (equity share holders)	2,211	2,764	+25%	4,538	5,443	+20%
Balance Sheet (LKR 'Mn)						
Loans	434,413	494,035	+14%	434,413	494,035	+14%
Shareholders' Equity	66,401	77,542	+17%	66,401	77,542	+17%
NAVPS	104.5	122.0		104.5	122.0	

Bottom line surge by 25.0% YoY during 2Q2025

SEYB recorded a robust 25.0% YoY expansion in its bottom line for 2Q25. Consequently, the Bank's Net Profits surged to LKR 2.8Bn during the quarter, elevating its earnings for 1H25 to LKR 5.5Bn. This performance was achieved despite a marginal 1% contraction in NII, as prevailing market interest rates trended downward throughout the quarter. Nonetheless, this margin compression was partially offset by a 13.7% YoY expansion in loans during 2Q25. Furthermore, a principal driver of the enhanced profitability was the significant uptick in Net Fee and Commission Income. The resurgence of the real economy fueled growth in fee income from cards, remittances, trade finance, and other financial services, resulting in a notable 17.0% YoY increase in Net Fee and Commission Income in 2Q25. A further catalyst underpinning SEYB's impressive bottom line was the substantial decline in impairment charges. Impairment allocations contracted sharply by 83.6% YoY during the quarter, falling to LKR 229.2Mn from LKR 1.4Bn recorded in 2Q24. Against this backdrop, FCR has revised SEYB's recurring earnings forecast for 2025E upwards to LKR 12.2Bn (from LKR 10.3Bn), implying a projected annual growth of 81%. The outlook for 2026E has similarly been upgraded to LKR 14.3Bn (from LKR 11.6Bn), reflecting an annual growth forecast of 18%.

SEYB leverages economic tailwinds to boost loan book

SEYB delivered a solid YoY loan book expansion of 13.7% during the quarter, which helped cushion the impact of margin compression caused by the decline in market interest rates. The Average Weighted Lending Rate fell to 11.6% in Jun-25 from 12.5% a year earlier, with the easing trend reinforced by the CBSL's 25bps policy rate cut in May-25. Lower borrowing costs spurred credit demand, while improved international trade activity, particularly following the resumption of restricted imports, further supported loan growth in 2Q25. SEYB appears to have strategically captured these tailwinds. FCR expects the macro-financial environment to remain favorable, with interest rates stabilizing through 2025E and into 2026E, alongside ongoing economic recovery. Against this backdrop, SEYB is forecast to post loan growth of 9% in 2025E and 11% in 2026E, supported by stronger private sector credit appetite and improved sentiment. The Bank also sustained a CASA ratio of 30% and bolstered its capital base with a successful LKR 15Bn Basel III-compliant Tier 2 Debenture issuance in July 2025. These developments are expected to limit volatility in NIM and NII, while reinforcing earnings visibility and supporting resilience through the current rate cycle.



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Price movement of SEYB vs ASPI and past recommendations



Source: CSE

Minimum Return for BUY:

Buy Below for 2025E [AER of 17% with DPS]: LKR 115.66
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.

Proactive provisioning sharpens SEYB’s risk resilience

The Bank reported an impairment charge of LKR 491Mn for 1H 2025, reflecting a significant decline of 83.4% compared to LKR 2,956Mn in the same period of 2024. This notable reduction reflects an improving credit environment, alongside the Bank’s proactive approach to provisioning. Impairment allowances continue to be prudently assessed, taking into account shifts in both global and domestic macroeconomic conditions, evolving customer risk profiles, and the overall credit quality of the loan portfolio. As a result, asset quality metrics remain sound, with the Impaired Loan Ratio improving to 1.76% from 2.10% a year earlier. The Stage 3 Provision Cover stood at a robust 81.82% by end Jun-25, placing the Bank among the strongest in the industry in terms of loss absorption capacity.

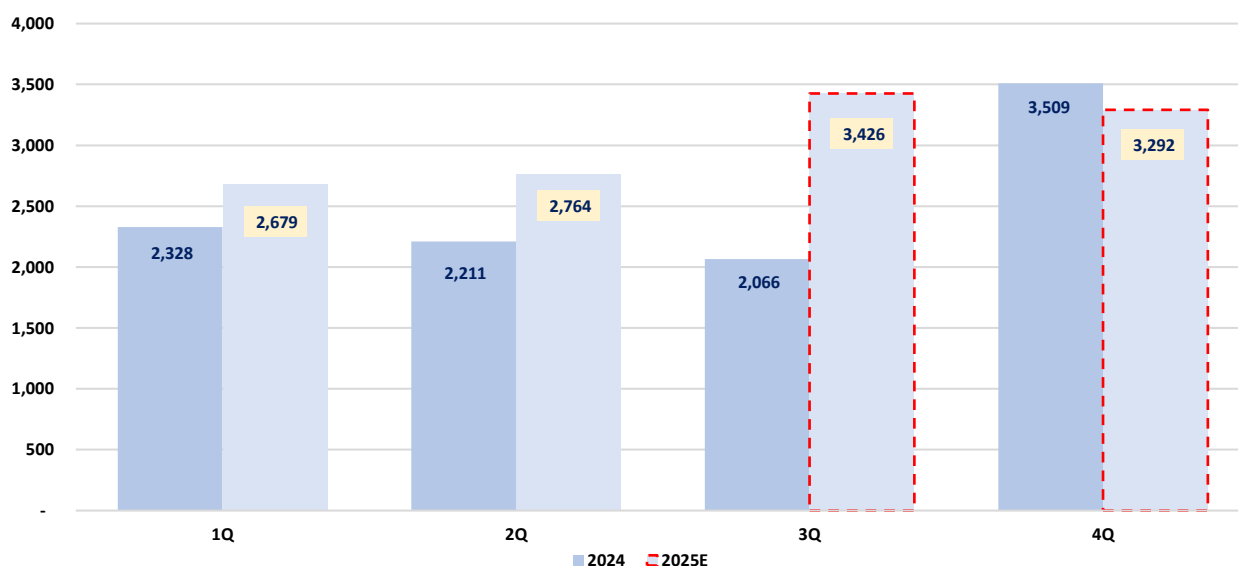
Robust capital buffers reinforce Bank’s strong position

Key financial ratios and indicators remained sound in 2Q25, reflecting a strong capital position and prudent balance sheet management. The Bank’s capital adequacy ratios remained comfortably above regulatory thresholds, with both the Common Equity Tier 1 Capital Ratio and Total Tier 1 Capital Ratio at 13.14%, while the Total Capital Ratio stood at 16.85%. Further strengthening its capital buffers, the Bank successfully raised LKR 15Bn through a Basel III-compliant Tier 2 issuance comprising listed, rated, unsecured, subordinated, redeemable debentures with tenors of 5 and 10 years in July 2025. The issue was fully oversubscribed on the same day, underscoring investor confidence in the Bank’s capital strength and long-term credit profile.

FV revised to LKR 150.0 for SEYB.N and LKR 115.0 for SEYB.X in 2026E – MAINTAIN BUY

Driven by SEYB’s strong 25.0% YoY net profit growth in 2Q25 and upward earnings revisions (+81% for 2025E, +18% for 2026E), the bank’s outlook remains compelling. Robust fee income growth and improved asset quality position SEYB well to capitalize on favorable macro conditions and sustained credit demand. The revised 2026E fair value is LKR 150.0 for SEYB.N and LKR 115.0 for SEYB.X, reflecting significant upside driven by improving fundamentals and disciplined risk management. Thus, we continue to maintain our recommendation on SEYB at **MAINTAIN BUY**.

Quarterly Earnings



Estimate Revision

In LKR Mn	2025E - O	2025E - R	% Change	2026E - O	2026E - R	% Change
Earnings Estimate						
Net Interest Income	37,191	38,732	+4%	38,148	43,417	+14%
Total Operating Income	48,630	49,589	+2%	52,379	56,355	+8%
Net Operating Income	40,701	47,916	+18%	44,558	53,266	+20%
Pre Tax Profit	19,744	26,261	+33%	22,276	22,962	+3%
Net Profit	10,252	12,160	+19%	11,602	14,316	+23%
Adjusted EPS	16.7	19.1		18.9	22.5	
Growth YoY	11%	81%		13%	18%	
Balance Sheet Estimate						
Shareholders' Equity	78,657	81,142	+3%	90,259	91,879	+2%
Adjusted NAVPS	121.0	127.7		143.7	144.5	
Ratio Estimate						
ROE (%)	13.8%	15.8%		13.7%	16.5%	
PER (x)	2.7	5.4		2.4	4.6	
PBV (x)	0.4	0.8		0.4	0.7	

Valuation Table

Y/E 31 December	2021	2022	2023	2024	2025E	2026E	2027E
Estimates (LKR 'Mn)							
Net Interest Income	23,904	40,887	40,452	37,090	38,732	43,417	50,028
Total Operating Income	31,729	51,379	49,845	44,132	49,589	56,355	63,203
Net Profit	4,653	4,574	6,321	10,113	12,160	14,316	17,062
Net Recurring Profits	4,653	4,574	6,321	6,710	12,160	14,316	17,062
Adjusted EPS (LKR)	7.3	7.2	9.9	10.6	19.1	22.5	26.8
YoY Growth (%)	53%	-2%	38%	6%	81%	18%	19%
Valuations							
PER (x)	14.1x	14.3x	10.4x	9.8x	5.4x	4.6x	3.8x
PBV (x)	1.0x	1.1x	1.0x	0.9x	0.8x	0.7x	0.6x
DPS (LKR)	3.0	2.0	3.0	3.5	3.0	3.0	3.5
Dividend Payout	21%	25%	29%	22%	25%	25%	25%
DY (%)	2.9%	1.9%	2.9%	3.9%	2.9%	2.9%	3.4%
NAVPS	101.1	97.3	101.4	114.2	127.7	144.5	164.7

Ratio Analysis

		2021	2022	2023	2024	2025E	2026E	2027E
Growth	Asset	9.0%	10.6%	6.7%	8.6%	7.4%	8.0%	9.0%
	Deposit	11.0%	12.0%	8.1%	9.3%	7.0%	7.5%	9.0%
	Net Loans	13.8%	5.3%	1.4%	9.0%	9.0%	11.0%	8.0%
Profitability	Return on Equity	8.9%	8.3%	10.7%	15.0%	15.8%	16.5%	17.4%
	Return on Average Assets	0.8%	0.7%	0.9%	1.4%	1.5%	1.6%	1.8%
	Net Interest Spread	4.1%	6.7%	6.3%	5.1%	4.7%	5.0%	5.2%
	Net Interest Margin	5.0%	8.4%	8.2%	7.1%	6.7%	6.8%	7.2%
Funding & Liquidity	Loan/ Deposits	90.4%	81.2%	74.0%	71.6%	80.6%	83.0%	82.3%
	Loan/ Assets	72.7%	66.0%	60.9%	59.3%	66.6%	68.3%	67.7%
	Deposit/ Liabilities	88.4%	88.9%	90.4%	91.6%	91.8%	91.9%	92.3%
	CASA	35.4%	23.8%	25.1%	25.1%	31.0%	33.0%	29.0%

Valuation Summary

Expected SEYB price for	2025E	2026E
Justified PBV based target price	116.0	139.0
PER Valuation based target price	128.2	153.2
RI Valuation based target price	127.0	144.0
Average Target Price	123.7	145.4
Target Price after Rounding off	120.0	150.0

Return	2025E	2026E
Target Price	120.0	150.0
Current Price	99.9	99.9
Capital Gain (LKR)	20.1	50.1
Dividends upto 31st Dec (LKR)	3.0	3.0
Capital Gain %	20%	50%
Dividend Yield %	3%	3%
Total Return %	23%	53%
Annualized Return %	121%	40%

Residual Income Valuation

Residual Income based Valuation	2025E	2026E
PV of Residual Income	-7,514	-12,821
No. of Shares ('Mn)	635,647	635,647
RI per Share	-0.01	-0.04
Opening Book value per Share	127.7	144.5
Value per Share	127.0	144.0

COE	2025E	2026E
Rf	9%	9%
Rm	17%	17%
Growth %	3%	3%
β	1.0	1.0
$Ke=Rf+\beta(Rm-Rf)$	17%	17%

Justified PBV Valuation

Justified PBV based Valuation	2025E	2026E
ROAE	15.8%	16.5%
Growth	3%	3%
COE	17%	17%
PBV	0.9	1.0
NAVPS	127.7	144.5
Target Price	116.0	139.0

PER Valuation

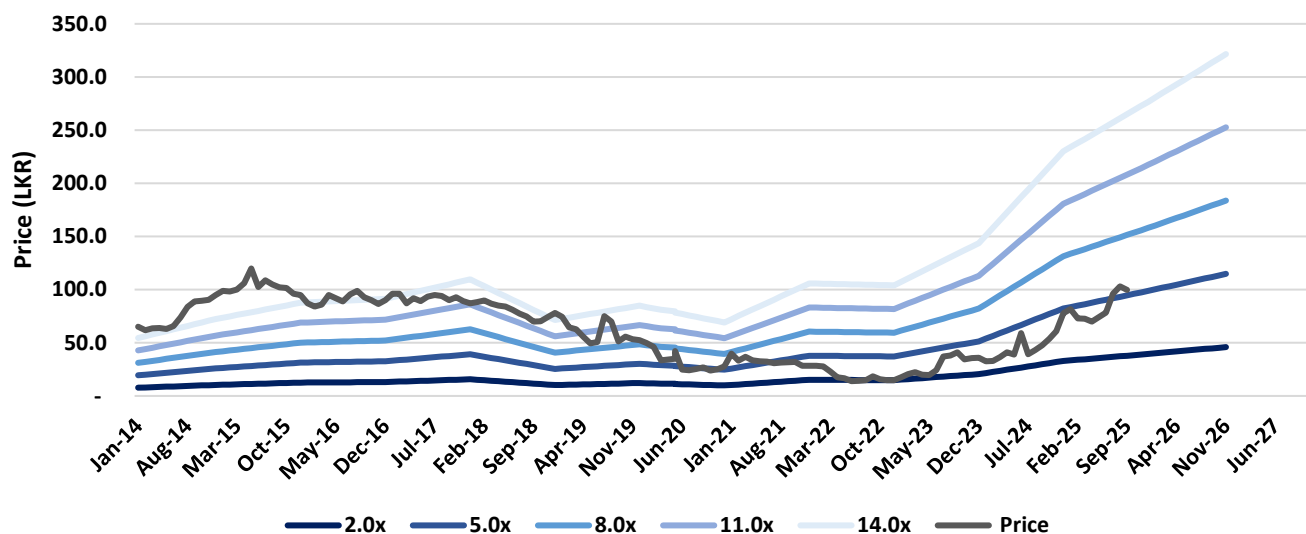
PER based Valuation	2025E	2026E
Earnings (LKR 'Mn)	12,160	14,316
No. of Shares ('Mn)	636	636
EPS	19.1	22.5
Expected PER	7x	7x
Price at 7.0x Earnings	128.2	153.2

Recommendation Criteria

Categorization	Company Category	Buy	Hold	Sell
Grade A	S&P SL20 Companies	T.Bill + 5% & Above	T.Bill + 1% & Above	Below T.Bill + 1%
Grade B	Rest of the Companies	T.Bill + 8% & Above	T.Bill + 3% & Above	Below T.Bill + 3%
Grade C	Companies less than LKR 1Bn Market Cap	T.Bill + 11% & Above	T.Bill + 6% & Above	Below T.Bill + 6%

Categorization	Company Category	Buy	Hold	Sell
Grade A	S&P SL20 Companies	14.00%	10.00%	10.00%
Grade B	Rest of the Companies	17.00%	12.00%	12.00%
Grade C	Companies less than LKR 1Bn Market Cap	20.00%	15.00%	15.00%

PER Chart



Appendix I: Statement of Income and Expenses

Income Statement (LKR Mn)	2021	2022	2023	2024	2025E	2026E	2027E
P/E 31st December							
Interest Income	46,781	86,106	107,168	84,363	87,254	95,285	106,347
Less : Interest Expenses	22,877	45,219	66,717	47,273	48,522	51,867	56,319
Net Interest Income	23,904	40,887	40,452	37,090	38,732	43,417	50,028
Fee & Other Income	7,826	10,492	9,393	7,042	10,857	12,938	13,176
Total Operating Income	31,729	51,379	49,845	44,132	49,589	56,355	63,203
Impairment (Charges)/ Reversal	10,422	26,433	17,005	1,749	1,672	3,089	3,336
Net Operating Income	21,308	24,946	32,840	42,382	47,916	53,266	59,867
Less : Operating expenses							
Staff Cost	6,946	8,007	9,194	10,242	11,061	11,725	12,545
Depreciation of PPE	1,479	1,416	1,348	1,366	975	961	790
Other Operating Expenses	4,763	5,951	8,093	9,161	9,619	10,004	10,404
Total Operating Expenses	13,188	15,375	18,635	20,768	21,655	22,690	23,740
Operating Profit Before Taxes	8,119	9,571	14,205	21,614	26,261	30,576	36,127
VAT, NBT & DRL	1,935	2,774	3,935	5,379	6,718	7,614	8,761
Profit Before Tax	6,185	6,797	10,269	16,235	19,543	22,962	27,366
Income Tax Expense	1,449	2,219	3,869	6,082	7,322	8,603	10,252
Profit for the Year	4,736	4,578	6,401	10,153	12,222	14,360	17,114
Less : Non-Controlling Interest	83	3	80	39	61	43	51
Profit attributable to Equity Holders	4,653	4,574	6,321	10,113	12,160	14,316	17,062
EPS	7.6	7.4	9.9	15.9	19.1	22.5	26.8

Appendix II: Statement of Financial Position

Balance Sheet (LKR Mn)	2021	2022	2023	2024	2025E	2026E	2027E
As at 31st December							
Assets							
Cash and Cash Equivalents	16,079	40,255	48,322	17,384	48,026	30,766	52,779
Balances with Central Bank of Sri Lanka	8,726	16,784	7,028	8,719	27,407	29,462	28,546
Placements with Banks and Finance Companies	13,507	20,120	50,436	71,627	51,963	63,364	69,065
Loans and Advances to Customers	441,977	444,220	437,532	462,951	557,494	617,865	667,294
Financial Assets	107,322	123,616	144,913	192,931	128,037	137,640	141,918
Property, Plant and Equipment	7,064	6,463	6,627	7,923	7,528	7,152	6,952
Other Assets	13,416	21,378	23,135	18,531	17,002	18,420	19,679
Total Assets	608,090	672,835	717,993	780,067	837,457	904,722	986,286
Liabilities							
Due to Banks	24,722	13,065	12,129	8,143	8,618	9,125	9,587
Due to Customers	488,653	547,316	591,623	646,817	692,095	744,002	810,962
Other Borrowings	24,287	33,569	26,847	26,614	27,925	31,317	31,813
Tax Liabilities	2,194	7,434	2,720	1,980	2,167	2,230	2,296
Other Liabilities	12,947	13,985	20,977	22,838	23,066	23,297	23,530
Total Liabilities	552,803	615,369	654,295	706,391	753,870	809,971	878,187
Shareholders Funds							
Stated Capital	18,324	19,926	20,909	21,693	21,693	21,693	21,693
Statutory Reserve Fund	2,333	2,568	2,881	3,384	3,995	4,569	5,082
Retained Earnings	29,967	31,698	35,541	42,361	49,654	58,671	69,590
Other Reserves	3,334	2,010	3,051	5,167	5,800	6,945	8,310
Shareholders Funds	53,958	56,202	62,382	72,605	81,142	91,879	104,676
Minority Interest	1,329	1,264	1,316	1,071	2,444	1,264	1,316
	55,287	57,466	63,698	73,676	83,586	93,144	105,992
Total Liabilities & Shareholders' Funds	608,090	672,835	717,993	780,067	837,457	903,114	984,179
NAVPS	101.1	97.3	101.4	114.2	127.7	144.5	164.7



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