



First Capital
A Janashakthi Group Company

LB FINANCE PLC [LFIN.N0000]

MAINTAIN BUY

“AMF MERGER SET TO CATALYZE MULTIPLE RERATING”

Fair Value: FY26E - LKR 175.0 [+7%]

Total Return with DPS: FY26E - 12% [AER 29%]

FY27E - LKR 230.0 [+40%]

FY27E - 47% [AER 31%]

LFIN delivered a strong performance in 2QFY26, reporting earnings of LKR 3.1Bn, up 24.5%YoY and surpassing our forecast by 9.9%. The growth in earnings was primarily supported by a 14.0%YoY increase in net interest income NII, which rose to LKR 7.4Bn and growth in fee and commission income by 57.0%YoY. Looking ahead, FCR projects LFIN's loan book to grow by 54.2%YoY in FY26E and 14.0%YoY in FY27E, driven by a 226.1%YoY surge in new vehicle registrations in 2025E on pent-up demand and a stable interest rate outlook. Vehicle registrations are expected to normalize with a 31.2%YoY decline in 2026E. The AMF acquisition is expected to add about LKR 25.0Bn to the loan book in FY27E, leveraging AMF's strength in two-wheeler and three-wheeler financing. We also expect the deposit base to expand by 19.0%YoY in FY27E, supported by investor confidence and competitive deposit products. Therefore, we have upgraded LFIN's earnings by 4.1% for FY26E and 8.6% for FY27E, with earnings forecasts estimated at LKR 14.0Bn and LKR 18.7Bn, respectively. The revision mainly reflects the benefits from the AMF merger, expected to complete by 31st Mar-27 per CBSL guidance. Consequently, we forecast ROE to rise to 24.9% in FY26E (from 23.0%) and 26.7% in FY27E (from 24.5%). Stronger returns are expected to support a re-rating, with LFIN likely to trade at a PER of 7.0x in FY26E and FY27E and a PBV of 1.3x and 1.5x, for FY26E and FY27E, respectively. Therefore, we revised our target price to LKR 175.0/share for FY26E (from LKR 145.0) and LKR 230.0/share for FY27E (from LKR 180.0), maintaining our recommendation as BUY with an expected total annualized return of 31.0% for FY27E, well above the minimum thresholds. **MAINTAIN BUY**

LKR (Mn)	2QFY25	2QFY26	YoY	1HFY25	1HFY26	YoY
Earnings (LKR 'Mn)						
Net interest income	6,500	7,442	+14%	12,489	14,358	+15%
Total operating income	7,683	9,379	+22%	14,580	17,826	+22%
Net operating income	7,642	9,203	+20%	14,433	17,388	+20%
PBT	4,039	5,000	+24%	7,571	9,392	+24%
Profit attributable to equity holders	2,503	3,119	+25%	4,705	5,839	+24%
Balance Sheet (LKR 'Mn)						
Shareholders' Equity	46,676	55,143	+18%	46,676	55,143	+18%
Loans and Advances	179,667	254,200	+41%	179,667	254,200	+41%
NAVPS	84.2	99.5		84.2	99.5	

LFIN posts a 24.6%YoY surge in earnings in 2QFY26

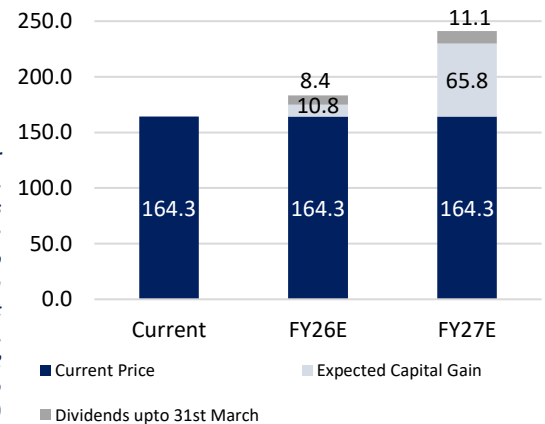
LFIN posted a robust performance in 2QFY26, recording earnings of LKR 3.1Bn, up 24.5%YoY and marginally surpassing our estimates by 9.9%. The earnings growth was primarily supported by a 14.5%YoY increase in NII, which rose to LKR 7.4Bn. The improvement in NII was driven by a 17.5%YoY rise in interest income, which more than offset the 22.3%YoY increase in interest expenses. Fee and commission income exhibited strong growth, surging 57.0%YoY to LKR 1.8Bn, supported by an expanding online customer base and increased transaction volumes. Meanwhile, net trading income and other operating income grew sharply by 31.1%YoY and over 100%YoY, respectively. On the cost front, impairment charges increased significantly by 331.4%YoY, while personnel expenses rose 12.6%YoY.

The full acquisition of AMF by LFIN may expand its market footprint and diversify its business portfolio

Following the approval granted by the Governing Board of the CBSL, communicated via letter dated 26th Sep-25, LFIN has received authorization to acquire 65.60% of the issued shares of Associated Motor Finance Company PLC (AMF). Accordingly, the Voluntary Offer made by LFIN to the shareholders of AMF through the offer dated 27th Oct-25 has been converted into a Mandatory Offer, in accordance with the takeovers and mergers code, effective 29th Oct-25. As per CBSL guidance, the merger process is expected to be completed by 31st Mar-27. The acquisition is structured at a transaction price of LKR 50.0 per share for 113.Mn shares. AMF, with a network of 12 branches, supported by 85 marketing officers and 99 recovery officers, has established a strong presence in the three-wheeler and two-wheeler financing markets. FCR believes LFIN can capitalize on AMF's expertise and dealer relationships to penetrate the two- and three-wheeler financing segments, diversifying its portfolio into a new market niche. AMF's Tier I (16.06%) and Tier II (16.05%) capital adequacy ratios are comfortably above the regulatory thresholds, reflecting a sound capital position to facilitate the loan growth.

FY27E loan book to grow 14.0%YoY, led by rising vehicle demand and acquisition of AMF

LFIN's loan book recorded a strong expansion of 41.5%YoY (13.6%QoQ), reaching LKR 254.2Bn in 2QFY26. The growth was primarily driven by the robust performance of the gold loan and leasing portfolios. The acceleration in credit growth was supported by the decline in market interest rates, with the Average Weighted Prime Rate (AWPR) easing to 8.05% at the end of 2QFY26 from 8.11% in 1QFY26, alongside a broad-based recovery in economic activity. Additionally, the continued increase in vehicle imports, particularly SUVs and EVs, together with rising gold prices, further contributed to the expansion of the loan portfolio. Asset quality also improved, with the NPL ratio declining to 1.55% in 2QFY26, compared to 2.86% in 1QFY26 and 1.91% in 2QFY25. Looking ahead, FCR projects LFIN's loan book to grow by 54.2%YoY in FY26E and 14.0%YoY in FY27E, supported by a 226.1%YoY surge in new vehicle registrations in 2025E driven by pent-up demand, alongside expectations of a stable interest rate environment. However, new vehicle registrations are expected to record a 31.2%YoY decline in 2026E as the pent-up demand normalizes. Meanwhile, the growth outlook remains supported by the continued increase in gold prices. In addition, we expect the acquisition of AMF to expand the loan portfolio by approximately LKR 25.0Bn in FY27E, as AMF specializes in the two-wheeler and three-wheeler segments.



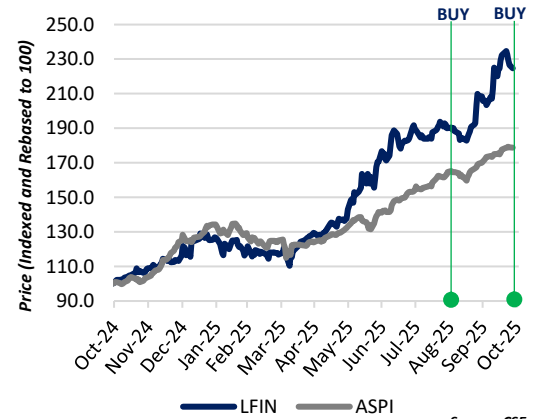
FIRST CAPITAL RESEARCH

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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 14% with DPS]: LKR 199.9
LFIN.N categorized as 'Grade A' 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
- Removal of SSCL

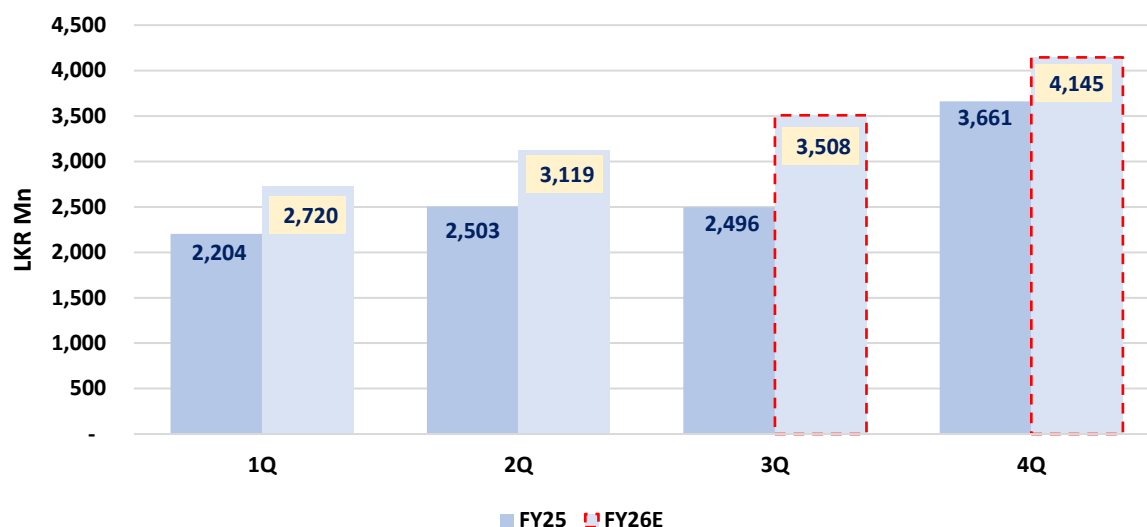
Deposit base grows 19.2%YoY, while capital adequacy remains comfortably above regulatory thresholds

LFIN's deposit base expanded by 19.2%YoY to LKR 152.3Bn in 2QFY26, driven by broad-based growth across fixed deposit products and strong renewals of longer-tenor instruments. Looking ahead, we expect the deposit base to grow by 19.0%YoY in FY27E, supported by sustained investor confidence and competitive deposit offerings. As of 30th Sep-25, the company reported a Tier 1 Capital Ratio of 22.74% and a Total Capital Ratio of 23.66%, despite an increase in risk-weighted assets. However, both ratios moderated slightly compared to the previous quarter, though they remain well above the regulatory thresholds of 10.00% and 14.00%, respectively. To further reinforce its capital adequacy in light of increasing loan growth, LFIN announced an LKR 20.0Bn debenture issue on 03rd Oct-25.

Target prices revised upward; MAINTAIN BUY

We revised our earnings forecasts for LFIN, upgrading FY26E earnings by 4.1% and FY27E earnings by 8.6%, bringing projected earnings to LKR 14.0Bn for FY26E and LKR 18.7Bn for FY27E. The upward revision is primarily driven by the AMF acquisition, which is expected to reach full merger completion by 31st Mar-27, in line with CBSL guidance. Following the earnings upgrade, we anticipate LFIN's ROE to improve to 24.9% in FY26E (from 23.0% previously) and to 26.7% in FY27E (from 24.5% previously). These stronger return metrics are likely to support a re-rating in valuation multiples, with LFIN expected to trade at a PER of 7.0x in both FY26E and FY27E, and PBV of 1.3x and 1.5x, respectively for FY26E and FY27E. Consequently, we revised our target price for LFIN to LKR 175.0/share for FY26E (previously LKR 145.0/share) and LKR 230.0/share for FY27E (previously LKR 180.0/share). We therefore maintain our recommendation as BUY for LFIN, reflecting an expected total annualized return of 31.0% for FY27E, which is above the minimum thresholds. **MAINTAIN BUY**

Quarterly Earnings



Estimate Revision

In LKR Mn	FY26E - O	FY26E - R	% Change	FY27E - O	FY27E - R	% Change
Earnings Estimate						
Net Interest Income	33,854	34,889	3.1%	43,050	46,368	7.7%
Total Operating Income	40,316	42,229	4.7%	51,626	56,423	9.3%
Pre Income Tax Profit	20,388	21,115	3.6%	26,012	28,122	8.1%
Net Profit	13,493	14,042	4.1%	17,215	18,701	8.6%
Adjusted EPS	24.4	25.3	4.1%	31.1	33.8	8.6%
Growth YoY	24%	29%		28%	33%	
Balance Sheet Estimate						
Financial Assets at Amortised Cost - Loans and Receivables	284,088	307,298	8.2%	323,861	350,319	8.2%
Equity attributable to parents	60,630	60,998	0.6%	72,164	73,528	1.9%
Adjusted NAVPS	109.4	110.1		130.2	132.7	
Ratio Estimate						
ROE (%)	23.0%	24.9%		24.5%	27.8%	
PER (x)	5.6x	6.5x		4.4x	4.9x	
PBV (x)	1.2x	1.5x		1.2x	1.5x	

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	34,889	46,368	52,876
Other Revenue	2,651	3,160	3,533	4,954	7,340	10,054	11,596
Total Operating Income	21,295	22,469	28,175	30,373	42,229	56,423	64,472
Net Profit	8,476	8,553	9,707	10,862	14,042	18,701	21,342
Adjusted EPS (LKR)	15.3	15.4	17.5	19.6	25.3	33.8	38.5
YoY Growth (%)	25%	1%	13%	12%	29%	33%	14%
Valuations							
PER (x)	10.7x	10.6x	9.4x	8.4x	6.5x	4.9x	4.3x
PBV (x)	2.7x	2.4x	2.4x	1.8x	1.5x	1.5x	1.0x
DY (%)	3.0%	3.0%	3.0%	4.0%	5.1%	6.8%	7.7%
Adjusted NAVPS (LKR)	60.0	69.2	79.3	93.1	110.1	132.7	158.5
DPS	5.0	5.0	5.8	6.5	8.4	11.1	12.7
Dividend Payout (%)	32.0%	32.7%	33.3%	33.3%	33.0%	33.0%	33.0%

Ratio Analysis

		FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Growth	Asset	17.1%	10.9%	11.0%	19.1%	48.2%	11.5%	14.0%
	Deposit	4.1%	27.7%	7.7%	12.8%	33.4%	19.0%	18.0%
	Loan	18.0%	8.0%	11.0%	22.6%	54.2%	14.0%	13.0%
Profitability	Return on Average Equity	27.5%	23.9%	23.6%	22.7%	24.9%	27.8%	26.5%
	Return on Average Assets	5.5%	4.9%	5.0%	4.9%	4.7%	4.9%	5.0%
	Net Interest Spread	12.6%	14.9%	13.2%	13.0%	13.0%	12.5%	12.5%
	Net Interest Margin	13.7%	15.9%	14.0%	13.8%	14.1%	14.2%	14.5%
Funding & liquidity	Loan / Deposits	151.5%	128.1%	132.1%	143.5%	166.0%	159.0%	152.2%
	Loan / Total Assets	82.1%	80.0%	80.0%	82.3%	85.7%	87.6%	86.9%
	Deposit / Liabilities	67.9%	79.0%	77.3%	72.9%	62.2%	67.5%	70.7%

Valuation Summary

Expected LFIN Price	FY26E	FY27E
Justified PBV based target price	148.6	208.2
PER Valuation based target price	177.4	236.3
RI Valuation based target price	200.8	233.6
Average Target Price	175.6	226.0
Target Price after Rounding off	175.0	230.0

Return	FY26E	FY27E
Target Price	175.0	230.0
Current Price	164.3	164.3
Capital Gain (LKR)	10.8	65.8
Dividends upto 31st March (LKR)	8.4	11.1
Capital Gain %	7%	40%
Dividend Yield %	5%	7%
Total Return %	12%	47%
Annualized Return %	29%	31%

Residual Income Valuation

Residual Income based Valuation	FY26E	FY27E
PV of Residual Income	59,691	68,452
No. of Shares ('Mn)	554	554
RI per Share	107.7	123.5
Opening Book value per Share	93.1	110.1
Value per Share	200.8	233.6

COE	FY26E	FY27E
Rf	9%	9%
Rm	18%	18%
Growth %	3%	3%
β	1.1	1.1
$Ke=Rf+\beta(Rm-Rf)$	19%	19%

Justified PBV Valuation

Justified PBV based Valuation	FY26E	FY27E
ROAE	24.9%	27.8%
Growth	3.0%	3.0%
COE	19.3%	19.3%
PBV	1.3	1.5
NAVPS	110.1	132.7
Target Price	148.6	202.4

PER Valuation

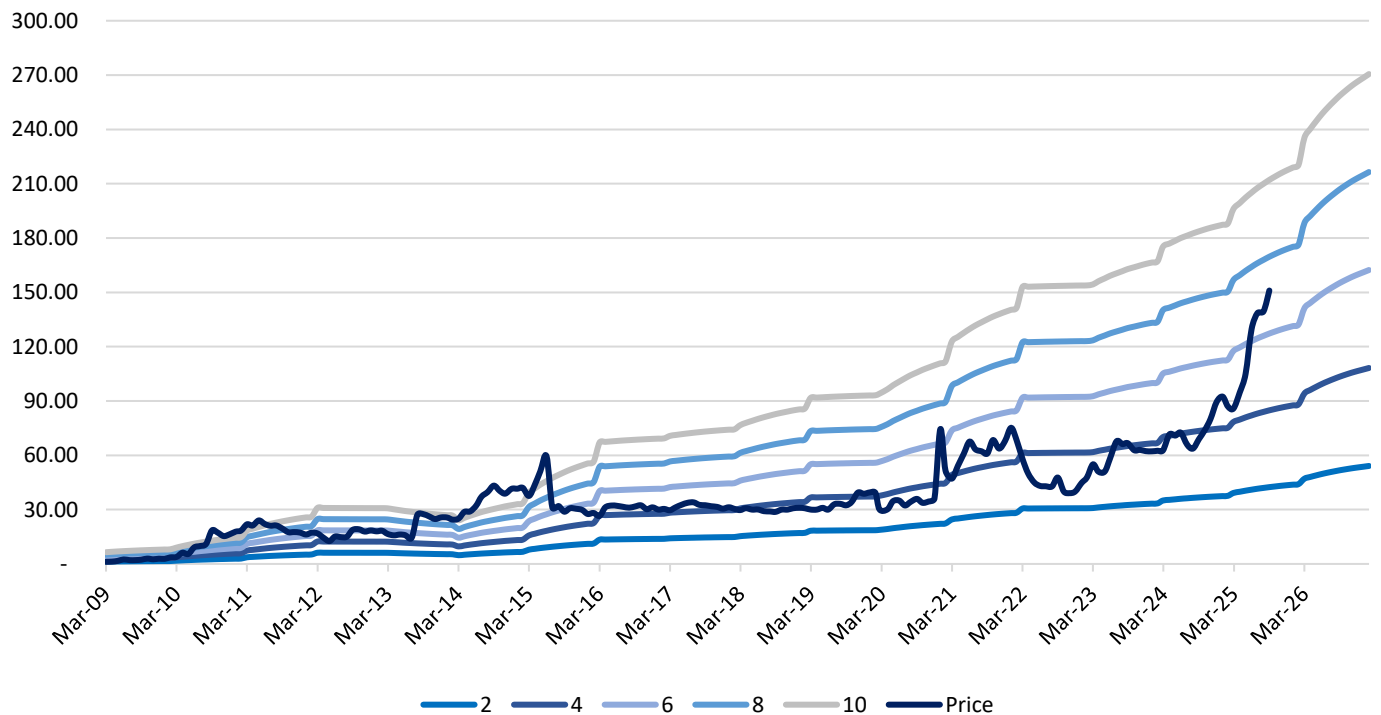
PER based Valuation	FY26E	FY27E
Earnings (LKR 'Mn)	14,042	18,701
No. of Shares ('Mn)	554	554
EPS	25.3	33.8
Expected PER	7.0x	7.0x
Price at 7.0x Earnings	177.4	236.3

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

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	65,650	90,701	104,975
Interest Income	27,506	39,974	46,103	42,202	58,310	80,646	93,379
Interest Expenses	-8,863	-20,664	-21,461	-16,784	-23,421	-34,278	-40,503
Net Interest Income	18,643	19,310	24,642	25,418	34,889	46,368	52,876
Fee and commission income	2,475	2,986	3,217	4,643	6,997	9,678	11,206
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	42,229	56,423	64,472
Less: Impairment charges	-1,112	-519	-270	261	-2,332	-3,226	-3,735
Less: Gold loan auction losses	0	0	0	0	0	0	0
Net operating income	20,183	21,950	27,905	30,634	39,897	53,197	60,737
Less : Operating expenses	-6,325	-7,430	-8,940	-10,038	-14,147	-18,902	-21,598
Profit before tax on financial services	13,858	14,521	18,965	20,596	25,750	34,295	39,139
Less: Taxes on Financial Services	-2,137	-2,678	-3,630	-4,183	-4,635	-6,173	-7,045
Profit Before Tax	11,721	11,843	15,334	16,413	21,115	28,122	32,094
Income Tax Expense	-3,245	-3,290	-5,627	-5,551	-7,074	-9,421	-10,751
Profit for the Year	8,476	8,553	9,707	10,862	14,042	18,701	21,342
Profit attributable to Equity Holders	8,476	8,553	9,707	10,862	14,042	18,701	21,342
Adjusted EPS	15.3	15.4	17.5	19.6	25.3	33.8	38.5

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	13,402	8,052	15,556
Financial investments - held for trading	13	11	1,923	718	4,239	5,298	7,153
Loans and receivables	93,897	146,372	162,522	199,271	307,298	350,319	395,861
Lease rentals receivable and stock out on hire	41,640	-	-	-	-	-	-
Financial investments - available for sale	86	117	119	165	314	408	448
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	12,287	12,901
Intangible assets	131	135	23	67	101	151	227
Total Assets	165,078	183,018	203,148	241,984	358,728	399,874	455,752
Liabilities							
Due to banks	26,862	19,393	21,956	37,800	71,819	63,201	56,881
Due to customers	89,479	114,248	123,035	138,824	185,166	220,347	260,010
Debt instruments issued & other borrowed funds	8,565	3,882	5,491	5,005	29,805	25,805	21,805
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	8,698	20,005
Current tax liabilities	1,875	2,262	2,776	2,189	1,815	2,417	2,758
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	297,730	326,346	367,925
Equity							
Stated capital	838	838	838	838	838	838	838
Reserves	24,086	28,795	33,976	41,119	50,527	63,056	77,356
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	60,998	73,528	87,827
Non-controlling interest	106	104	97	-	-	-	-
Total equity	33,337	38,428	44,008	51,590	60,998	73,528	87,827
Total Liabilities & Shareholders' Funds	165,078	183,018	203,148	241,984	358,728	399,874	455,752
NAVPS	60.0	69.2	79.3	93.1	110.1	132.7	158.5



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