



LB FINANCE PLC [LFIN.N0000]

MAINTAIN BUY

“CAPITAL AND PORTFOLIO DISCIPLINE DRIVE 3QFY26 EARNINGS”

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

FY27E - LKR 230.0 [+41%]

Total Return with DPS: FY26E - 12% [AER 144%]

FY27E - 47% [AER 41%]

LFIN recorded a noteworthy performance in 2QFY26, with earnings rising 28.2% to LKR 3.2Bn, though results were 9.6% below our estimates. The earnings expansion was underpinned by a 21.0%YoY increase in net interest income to LKR 7.9Bn, complemented by a strong 87.7%YoY growth in fee-based income to LKR 2.0Bn. Looking ahead, FCR projects LFIN's loan book to expand by 14.0% YoY in FY27E, driven by a more balanced portfolio mix. Gold loans are expected to grow 21.1%YoY, increasing its contribution to 45.0% of the total loan book from 41.5% in FY25, as vehicle imports gradually normalize. The deposit base is forecast to grow 19.0%YoY in FY27E, supported by sustained investor confidence and competitive deposit offerings. Deposits are expected to account for c.57.5% of total funding by FY27E, broadly in line with historical levels, while borrowings are projected to remain stable at around 16.5%. Our earnings forecasts remain unchanged, with LFIN expected to generate LKR 14.4Bn in FY26E and LKR 18.7Bn in FY27E, implying 33.2% YoY growth. Accordingly, ROE is anticipated to improve to 24.9% in FY26E and 27.8% in FY27E. We expect LFIN to trade at a PER of 7.0x both in FY26E and FY27E, with PBVs of 1.6x and 1.8x, respectively. Consequently, our target prices remain unchanged at LKR 175.0 per share for FY26E and LKR 230.0 per share for FY27E. We reiterate our BUY recommendation, reflecting an expected annualized return of 41.0% for FY27E, comfortably above our minimum return thresholds.

LKR (Mn)	3QFY25	3QFY26	YoY	9MFY25	9MFY26	YoY
Earnings (LKR 'Mn)						
Net interest income	6,523	7,892	+21%	18,987	22,250	+17%
Total operating income	7,626	10,097	+32%	22,206	27,923	+26%
Net operating income	7,604	9,476	+25%	22,037	26,864	+22%
PBT	4,027	5,110	+27%	11,598	14,518	+25%
Profit attributable to equity holders	2,496	3,190	+28%	7,199	9,029	+25%
Balance Sheet (LKR 'Mn)						
Shareholders' Equity	49,192	58,353	+19%	49,192	58,353	+19%
Loans and Advances	187,124	301,800	+61%	187,124	301,800	+61%
NAVPS	88.8	105.3		88.8	105.3	

LFIN posts a 28.2% surge in earnings in 3QFY26

LFIN delivered a strong performance in 2QFY26, posting earnings of LKR 3.2Bn, up 28.2%YoY, although earnings came in 9.6% below our estimates. Earnings growth was driven primarily by a 21.0%YoY increase in NII to LKR 7.9Bn, alongside a sharp 87.7%YoY rise in fee-based income to LKR 2.0Bn. The expansion in NII was supported by a 31.1%YoY growth in interest income due to an increase in leasing and gold loan portfolio, which more than offset a 47.0%YoY increase in interest expenses, stemming from a shift in the funding mix toward higher debt. Fee and commission income recorded robust growth, underpinned by an expanding online customer base and higher transaction volumes, reflecting LFIN's leadership in digital innovation. Other operating income also surged, increasing by >100%YoY. On the cost side, impairment charges rose sharply by >1,000%YoY, while operating expenses increased 21.5% YoY, partially offsetting the growth momentum.

FY27E loan book to grow by 14.0%YoY supported by a balanced portfolio

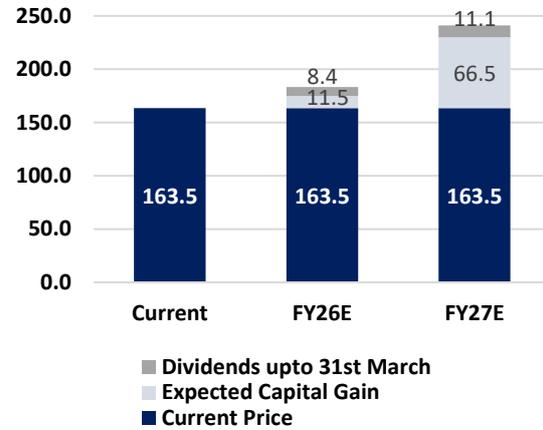
LFIN's loan book expanded strongly by 61.3%YoY (18.7%QoQ) to LKR 301.8Bn in 3QFY26. Growth was primarily driven by robust performance in the gold loan and leasing portfolios, despite a slowdown in vehicle imports and registrations, particularly during Nov-25 and Dec-25. Rising gold prices further supported the expansion of the lending portfolio. Asset quality improved during the quarter, with the NPL ratio declining to 1.46% in 3QFY26, compared to 1.55% in 2QFY26 and 2.86% in 3QFY25. Looking ahead, FCR expects LFIN's loan book to grow by 14.0%YoY in FY27E, supported by a more balanced portfolio. FCR forecasts gold loans to grow 21.1%YoY, accounting for 45.0% of the total loan book increasing from 41.5% in FY25, while vehicle imports normalize. Additionally, the acquisition of AMF is expected to expand the loan portfolio by approximately LKR 25.0Bn in FY27E. As AMF specializes in the two-wheeler and three-wheeler segments, we estimate LFIN could gain an incremental 1.0% market share, lifting its total market share to 14.0% by FY27E. FCR expects NII to reach LKR 46.4Bn (32.9%YoY), with the AMF acquisition contributing approximately LKR 1.2Bn to LFIN's bottom line.

Deposit base grows 31.8%YoY, while capital adequacy remains comfortably above regulatory thresholds

LFIN's deposit base expanded by 31.8%YoY to LKR 174.7Bn in 3QFY26, driven by broad-based growth across fixed deposit products and strong renewals of longer-tenor instruments amidst increase in market interest rates. Looking ahead, we expect the deposit base to grow by 19.0%YoY in FY27E, supported by sustained investor confidence and competitive deposit offerings. Furthermore, the CBSL directive on maximum interest rates payable on deposits and debt instruments of finance companies, effective 12th Jan-26, may further strengthen deposit mobilization. As of 31st Dec-25, the company reported a Tier 1 Capital Ratio of 19.93% and a Total Capital Ratio of 19.86%, 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. FCR expects the deposit base to account for approximately 57.5% of total funding by FY27E, in line with historical patterns, while borrowings are projected to remain around 16.5% of total funding.

FY27E target price remains at LKR 230.0/share; AER of 41.0%: MAINTAIN BUY

Our unrevised earnings forecasts for LFIN, for FY27E earnings at LKR 18.7Bn for FY27E (33.2%YoY). FCR anticipates LFIN's ROE to improve to 24.9% in FY26E and to 27.8% in FY27E. FCR expects LFIN to maintain superior asset quality and capital buffers well above regulatory requirements. Consequently, LFIN may trade at a PER of 7.0x both in FY26E and FY27E, and PBV of 1.6x and 1.8x, respectively for FY26E and FY27E. Accordingly, our unrevised target prices for LFIN remain at LKR 175.0/share for FY26E and LKR 230.0/share for FY27E. We therefore maintain our recommendation as BUY for LFIN, reflecting an expected total annualized return of 41.0% for FY27E, which is above the minimum thresholds. **MAINTAIN BUY**



FIRST CAPITAL RESEARCH

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



Minimum Return for BUY:

Buy Below FY27E - [AER of 14% with DPS]: LKR 208.0
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

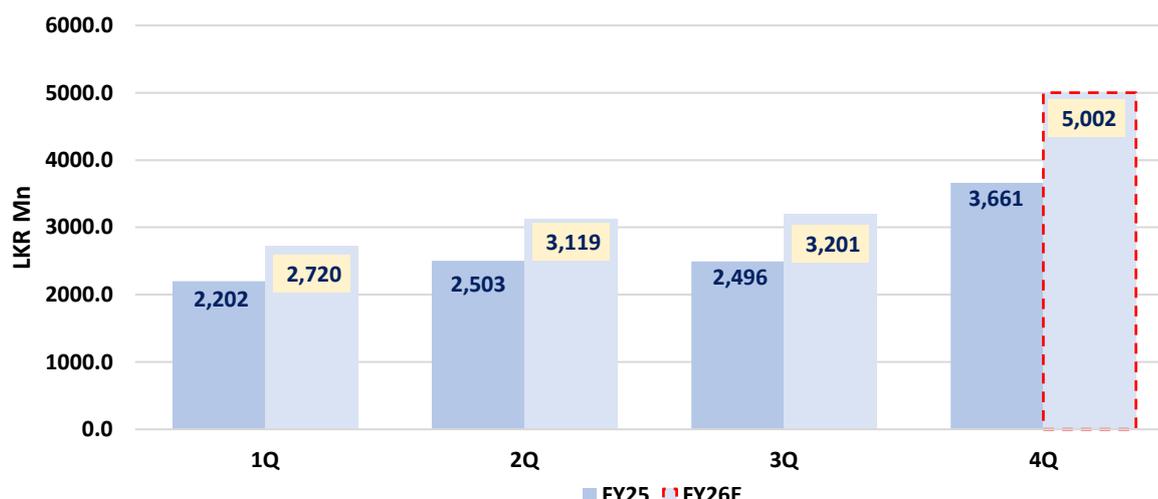
Downside risks

- Interest and exchange rate risk
- Regulatory risk
- Lower LTV ratio may dampen the loan growth
- Greater than anticipated slowdown in vehicle imports.

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
- Greater than anticipated digital penetration of LFIN's CIM app.

Quarterly Earnings



Estimate Revision

In LKR Mn	FY26E - O	FY26E - R	% Change	FY27E - O	FY27E - R	% Change
Earnings Estimate						
Net Interest Income	34,889	34,889	0.0%	46,368	46,368	0.0%
Total Operating Income	42,229	42,229	0.0%	56,423	56,423	0.0%
Pre Income Tax Profit	21,115	21,115	0.0%	28,122	28,122	0.0%
Net Profit	14,042	14,042	0.0%	18,701	18,701	0.0%
Adjusted EPS	25.3	25.3	0.0%	33.8	33.8	0.0%
Growth YoY	29%	29%		33%	33%	
Balance Sheet Estimate						
Financial Assets at Amortised Cost - Loans and Receivables	307,298	307,298	0.0%	350,319	350,319	0.0%
Equity attributable to parents	60,998	60,998	0.0%	73,528	73,528	0.0%
Adjusted NAVPS	110.1	110.1		132.7	132.7	
Ratio Estimate						
ROE (%)	24.9%	24.9%		27.8%	27.8%	
PER (x)	6.5x	6.5x		4.9x	4.9x	
PBV (x)	1.5x	1.5x		1.5x	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	52,679
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	64,274
Net Profit	8,476	8,553	9,707	10,862	14,042	18,701	21,271
Adjusted EPS (LKR)	15.3	15.4	17.5	19.6	25.3	33.8	38.4
YoY Growth (%)	25%	1%	13%	12%	29%	33%	14%
Valuations							
PER (x)	10.8x	10.7x	9.4x	8.4x	6.5x	4.9x	4.3x
PBV (x)	2.8x	2.4x	2.4x	1.8x	1.5x	1.5x	1.0x
DY (%)	3.0%	3.0%	3.0%	3.9%	5.1%	6.8%	7.7%
Adjusted NAVPS (LKR)	60.0	69.2	79.3	93.1	110.1	132.7	158.4
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%	14.7%
	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%	26.4%
	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%	14.1%	14.3%
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%	86.3%
	Deposit / Liabilities	67.9%	79.0%	77.3%	72.9%	62.2%	67.5%	70.1%

Valuation Summary

Expected LFIN Price	FY26E	FY27E
Justified PBV based target price	177.6	242.0
PER Valuation based target price	177.4	236.3
RI Valuation based target price	179.7	202.8
Average Target Price	178.3	227.0
Target Price after Rounding off	175.0	230.0

Return	FY26E	FY27E
Target Price	175.0	230.0
Current Price	163.5	163.5
Capital Gain (LKR)	11.5	66.5
Dividends upto 31st March (LKR)	8.4	11.1
Capital Gain %	7%	41%
Dividend Yield %	5%	7%
Total Return %	12%	47%
Annualized Return %	144%	41%

Residual Income Valuation

Residual Income based Valuation	FY26E	FY27E
PV of Residual Income	47,990	51,390
No. of Shares ('Mn)	554	554
RI per Share	86.6	92.8
Opening Book value per Share	93.1	110.1
Value per Share	179.7	202.8

COE	FY26E	FY27E
Rf	9%	9%
Rm	17%	17%
Growth %	3%	3%
β	1.0	1.0
Ke=Rf+β(Rm-Rf)	17%	17%

Justified PBV Valuation

Justified PBV based Valuation	FY26E	FY27E
ROAE	24.9%	27.8%
Growth	3.0%	3.0%
COE	16.6%	16.6%
PBV	1.6	1.8
NAVPS	110.1	132.7
Target Price	177.6	242.0

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

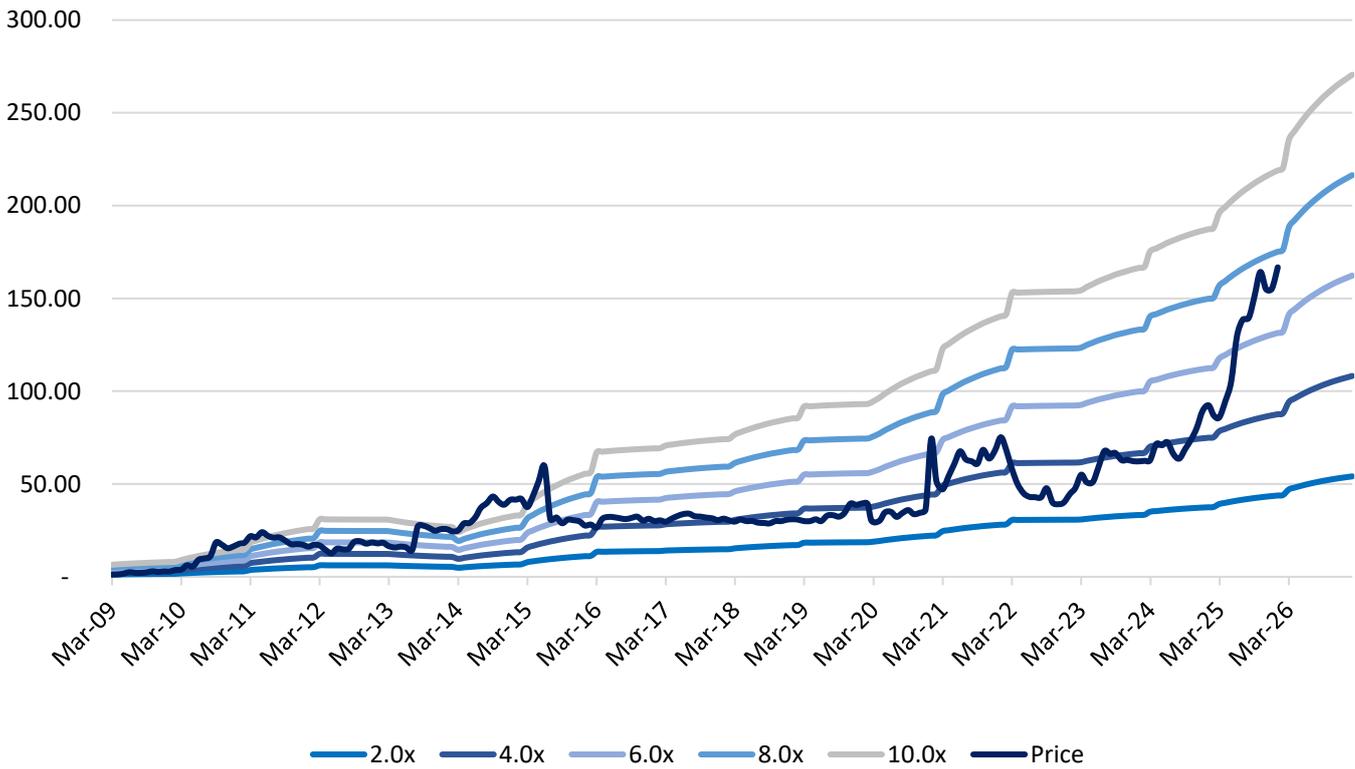


Recommendation Criteria

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	30,157.4	43,133.4	49,635.8	47,156.3	65,650.3	90,700.8	104,975.1
Interest Income	27,506.1	39,973.6	46,102.5	42,201.9	58,310.4	80,646.4	93,379.5
Interest Expenses	(8,862.7)	(20,664.0)	(21,460.6)	(16,783.7)	(23,421.0)	(34,278.3)	(40,700.6)
Net Interest Income	18,643.4	19,309.6	24,641.9	25,418.2	34,889.4	46,368.1	52,678.9
Fee and commission income	2,475.1	2,986.4	3,217.5	4,642.9	6,997.3	9,677.6	11,205.5
Net trading income	2.4	(2.1)	141.6	101.1	111.2	122.3	110.1
Other operating income	173.8	175.6	174.2	210.3	231.4	254.5	280.0
Total Operating Income	21,294.7	22,469.5	28,175.1	30,372.6	42,229.3	56,422.5	64,274.5
Less: Impairment charges	(1,111.8)	(519.1)	(270.1)	261.0	(2,332.4)	(3,225.9)	(3,735.2)
Less: Gold loan auction losses	-	-	-	-	-	-	-
Net operating income	20,182.9	21,950.4	27,905.0	30,633.6	39,896.9	53,196.7	60,539.3
Less : operating expenses	(6,325.4)	(7,429.7)	(8,940.4)	(10,037.7)	(14,146.8)	(18,901.5)	(21,532.0)
Profit before tax on financial services	13,857.5	14,520.7	18,964.7	20,595.9	25,750.1	34,295.1	39,007.4
Less: Taxes on Financial Services	(2,136.6)	(2,677.6)	(3,630.2)	(4,183.2)	(4,635.0)	(6,173.1)	(7,021.3)
Profit Before Tax	11,721.0	11,843.1	15,334.4	16,412.7	21,115.1	28,122.0	31,986.0
Income Tax Expense	(3,244.9)	(3,290.2)	(5,627.4)	(5,550.7)	(7,073.5)	(9,420.9)	(10,715.3)
Profit for the Year	8,476.0	8,552.9	9,707.0	10,861.9	14,041.5	18,701.1	21,270.7
Profit attributable to Equity Holders	8,476.0	8,552.9	9,707.0	10,861.9	14,041.5	18,701.1	21,270.7
Adjusted EPS	15.3	15.4	17.5	19.6	25.3	33.8	38.4

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	14,634.1	4,681.0	7,651.3	9,074.7	13,402.5	8,052.0	18,658.4
Financial investments - held for trading	13.2	10.7	1,923.0	718.4	4,238.6	5,298.2	7,152.6
Loans and receivables	135,537.4	146,371.6	162,521.7	199,271.0	307,297.5	350,319.2	395,860.7
Property, plant and equipment	8,448.9	8,667.2	9,034.1	9,751.6	10,239.2	12,287.0	12,901.3
Other assets	6,444.6	23,287.7	22,017.8	23,168.6	23,550.2	23,917.1	24,281.5
Total Assets	165,078.3	183,018.1	203,147.9	241,984.4	358,727.9	399,873.6	458,854.5
Liabilities							
Due to banks	26,861.9	19,392.5	21,955.9	37,799.7	71,819.4	63,201.1	60,041.1
Due to customers	89,478.5	114,248.3	123,034.5	138,823.9	185,165.6	220,347.1	260,009.6
Debt instruments issued & other borrowed funds	8,564.6	3,882.0	5,491.4	5,005.4	29,805.4	25,805.4	21,805.4
Other financial liabilities	3,343.4	3,283.1	3,815.9	4,305.4	4,735.9	5,209.5	5,730.5
Other non-financial liabilities	1,182.3	1,154.7	1,591.4	1,719.0	3,781.7	8,698.0	20,005.4
Other liabilities	2,310.4	2,629.5	3,250.8	2,740.9	2,421.9	3,084.7	3,483.6
Total liabilities	131,741.2	144,590.1	159,139.9	190,394.3	297,730.0	326,345.8	371,075.5
Equity							
Stated capital	838.3	838.3	838.3	838.3	838.3	838.3	838.3
Reserves	24,085.8	28,794.7	33,975.5	41,118.7	50,526.5	63,056.3	77,307.7
Retained earnings	8,307.3	8,691.1	9,097.4	9,633.2	9,633.2	9,633.2	9,633.2
Equity attributable to equity holders	33,231.4	38,324.1	43,911.3	51,590.1	60,998.0	73,527.7	87,779.1
Non-controlling interest	105.7	103.9	96.7	-	-	-	-
Total equity	33,337.1	38,428.0	44,008.0	51,590.1	60,998.0	73,527.7	87,779.1
Total Liabilities & Shareholders' Funds	165,078.3	183,018.1	203,147.9	241,984.4	358,727.9	399,873.6	458,854.5
NAVPS	60.0	69.2	79.3	93.1	110.1	132.7	158.4



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