



SC Securities (Pvt) Ltd | Subsidiary of Sampath Bank PLC

Commercial Bank of Ceylon PLC

100
YEARS

 COMMERCIAL BANK

A hundred year legacy with resilient performance

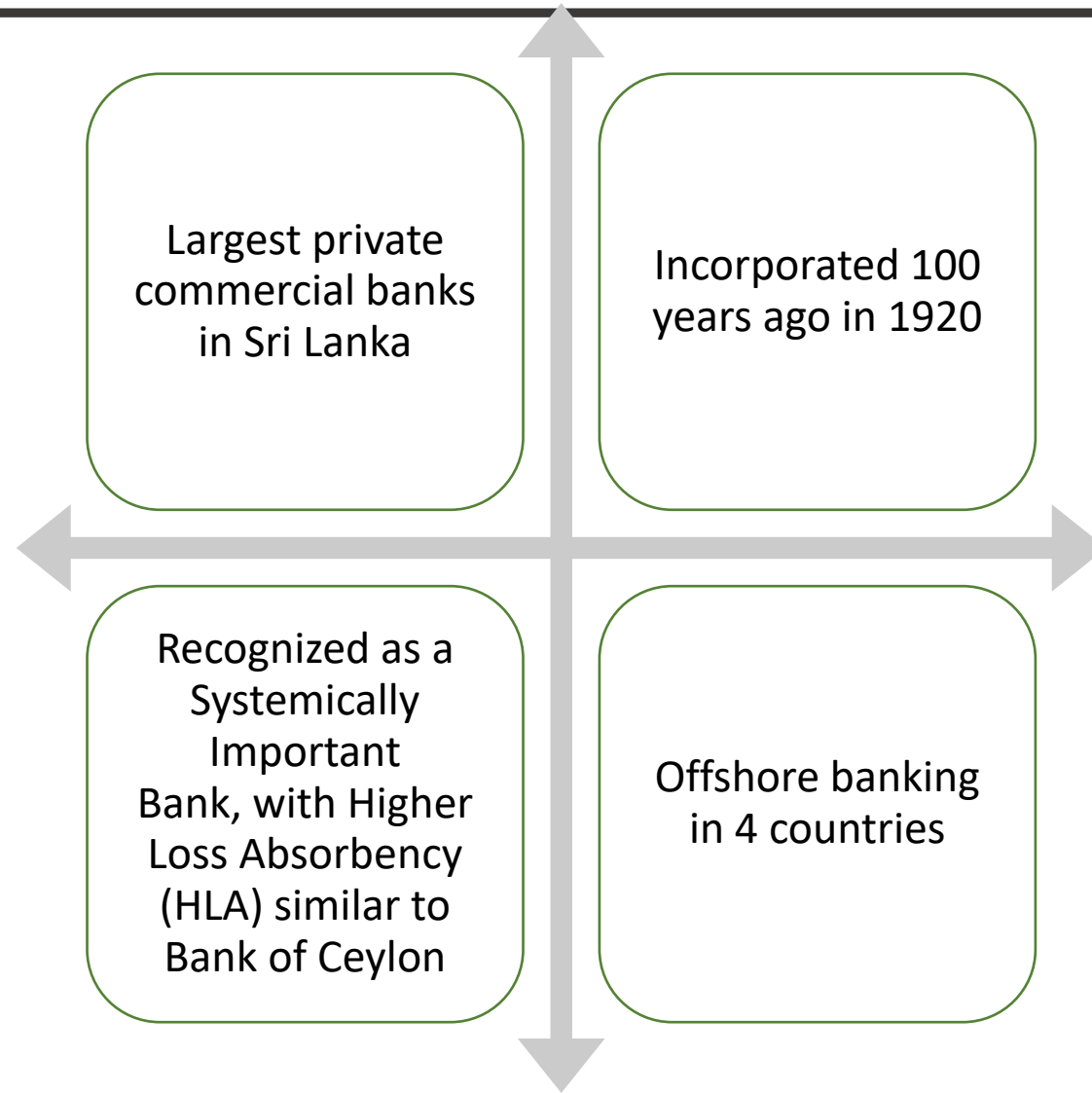
18th January 2021

Earnings Review: STRONG BUY

Price LKR. 84.30 | Target Price LKR. 110.20

Upside +31%

About Commercial Bank



Industry Position : NUMBER 01

Financial Perspectives

	Total Assets 30-Sep-2020	Net Profit FY2019	Market Cap: 13-Jan-2021
Value (LKR)	1,663 billion	17.2 billion	95 billion
Rank (among PCBs)	1	1	1

Other Perspectives

As at 31 st Dec 2019	Branches	ATMs	Customers
Number of :	287	865	~ 3.5 million
Rank (among PCBs)	1	1	1

Case for Investment



- **Trading at a discount:** Based on 2021E earnings COMB voting share is trading at PE and PBV multiples of 4.97x and 0.63x and which are below the market and sector multiples.



- **12M target price yields 31% upside:** 12M target: Voting LKR 110.20 | Nonvoting LKR 96.80



- **Bank is well capitalized:** Bank is in line with Basel III capital requirements.
 - Tier 1 capital 12.16% (minimum requirement 2020: 9.00%)
 - Total capital 15.95% (minimum requirement 2020: 13.00%)



- **Process efficiencies to improve profitability:** IT has improved the efficient use of the cost base; thus CIR is set to decline for all banks.

Case for Investment



- **Historically low level of Statutory Reserve Ratio (SRR)** : CBSL reduced the SRR by 200bps to 2% with effect from 16th June 2020. These additional funds can generate more interest income.



- **Lower Income Tax from 2020**: Reduction in Income Tax rate from **28% to 24%** from 01st April 2020, will increase the distributable profits.



- **Removal of Debt Repayment Levy and NBT**: Banks are no longer subject to **2% NBT** (w.e.f. 01st Dec 2019), and **7% DRL** (w.e.f. 01st Jan 2020). Significant savings are expected from 2020.



- **CASA ratio to improve**: CASA ratio can improve in the medium term since reduction in market interest rates generally cause a shift from term deposits to CASA.



Operational Overview



Investor's Guide

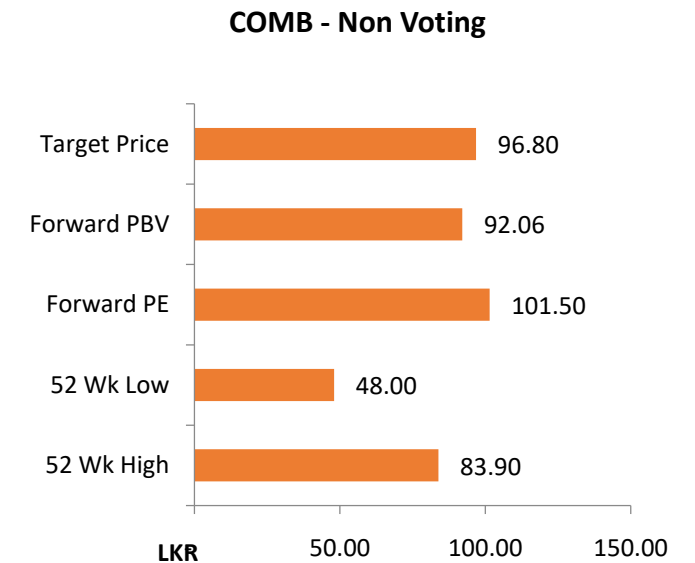
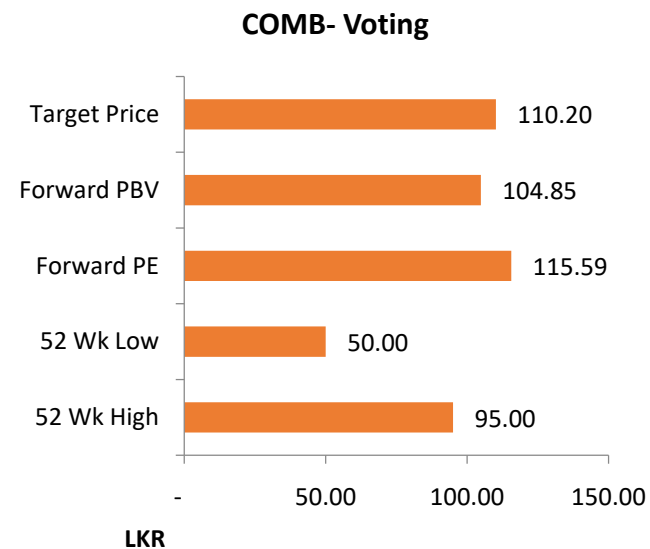
YE 31st December	2017	2018	2019	2020F	2021F
Net Profit (LKR.Mn)	16,606	17,735	17,263	15,304	20,787
+/- Growth	14%	7%	-3%	-11%	36%
EPS (LKR)	16.68	17.55	16.80	13.11	16.51
PE (x) - COMB.N	8.14	6.55	5.65	6.43	5.11
PE (x) - COMB.X	6.30	5.41	4.94	5.68	4.51
NAV (LKR)	108.45	118.13	130.83	123.58	131.06
PBV (x) - COMB.N	1.25	0.97	0.73	0.68	0.64
PBV (x) - COMB.X	0.97	0.80	0.63	0.60	0.57
Dividend/Share (LKR)	6.50	6.50	6.50	6.50	6.50
Dividend Yield (%) COMB.N	4.8%	5.7%	6.8%	7.7%	7.7%
Dividend Yield (%) - COMB.X	6.2%	6.8%	7.8%	8.7%	8.7%
ROE (%)	17.8%	15.6%	13.6%	11.0%	13.4%
ROA (%)	1.5%	1.4%	1.3%	1.0%	1.2%
Share Price COMB.N- (LKR)	135.80	115.00	95.00	84.30	84.30
Share Price COMB.X - (LKR)	105.00	95.00	83.00	74.50	74.50

Source: COMB Financials, SC Securities

Blended valuation yields a 34.4% upside. Recommendation: **STRONG BUY**

- A blended valuation approach was implemented. We looked at forward sector PE and PBV multiples and applied it to COMB's FY21E profit figure and FY21E NAVPS.
- Our approach yielded us a target price of LKR 110.20 which gives a 31% upside. Therefore, we recommend a BUY over medium to long term investment horizon.

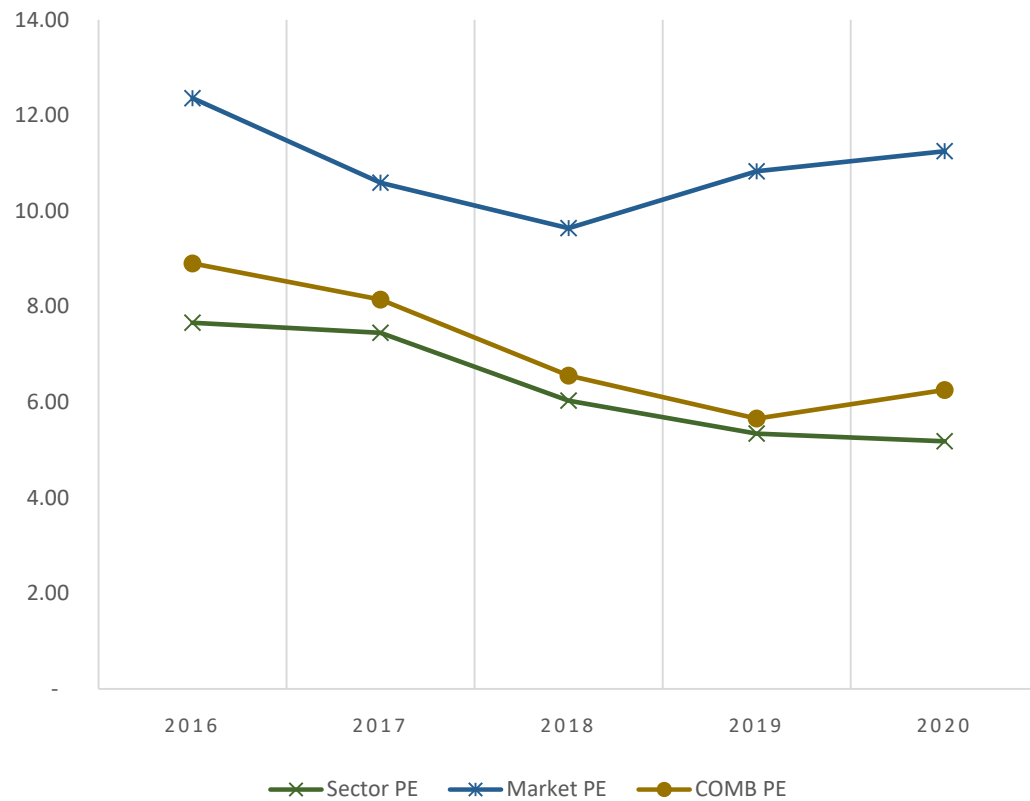
COMB - Voting	FY21E values
EPS (LKR)	16.51
NAVPS (LKR)	131.06
PER (x) - Target	7.00
PBV (x) – Target	0.80
PE based valuation (LKR)	115.59
PBV based valuation (LKR)	104.85
Blended Valuation (LKR)	110.20
Upside	31%



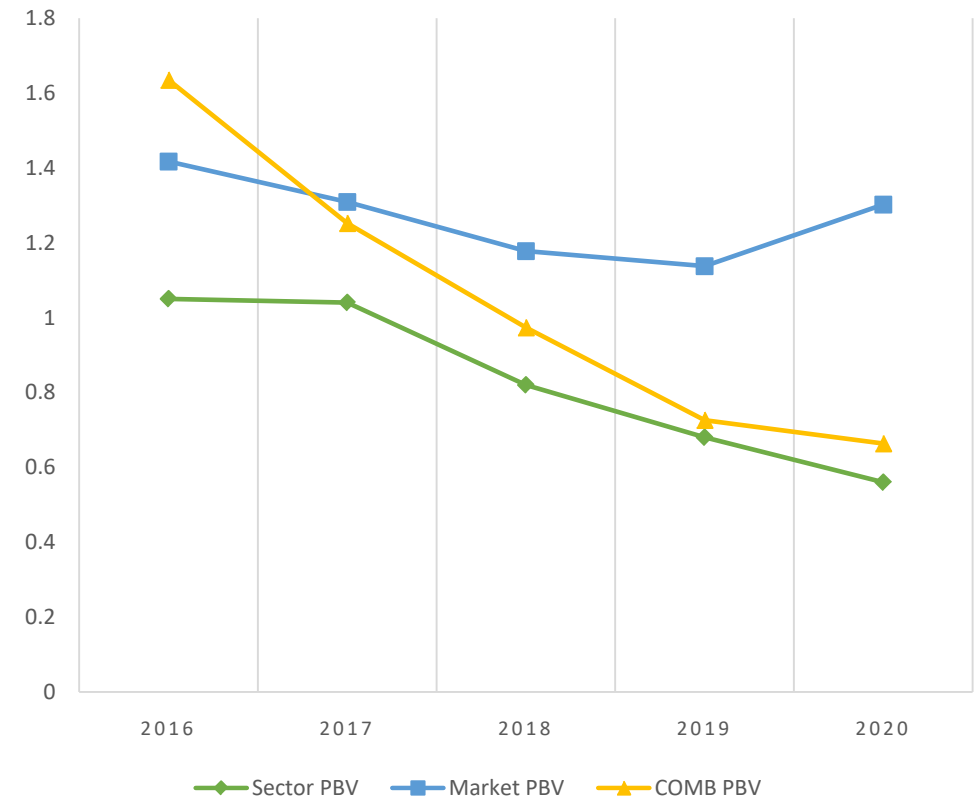
Source: COMB Financials, SC Securities

Historical Price Multiples

PE MULTIPLES



PBV MULTIPLES

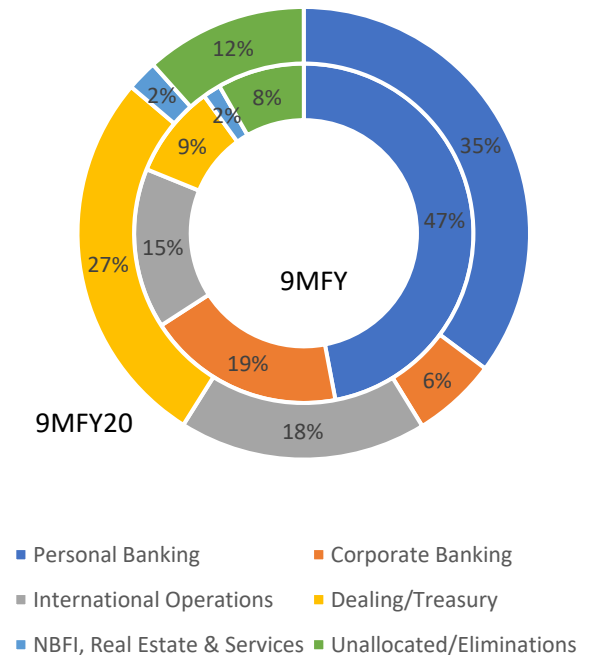


Source: CSE, SC Securities

9M Operating income up 11.84% amidst the impact of Covid-19 pandemic

- 9MFY20 interest income contracted 4.4% YoY to LKR 93 billion compared to corresponding period of FY19 due to modification losses on interest concessions granted as pandemic relief to borrowers.
- Interest expense declined 7.7% YoY to LKR 56 billion compared to the previous financial year, resulting a net interest income of LKR 36.8 billion ; 1% up compared to 9MFY2019.
- Net fee and commission income dampen by 12% YoY to LKR 6.8 billion as a result of the restrictions placed on imports, removal of certain charges and low volume of foreign card transactions.
- Gains from govt. securities FOREX trading activities enabled COMB to mitigate severity of the impact of the pandemic, however bottom line of declined by 2.9% YoY, due to higher impairment provisioning.

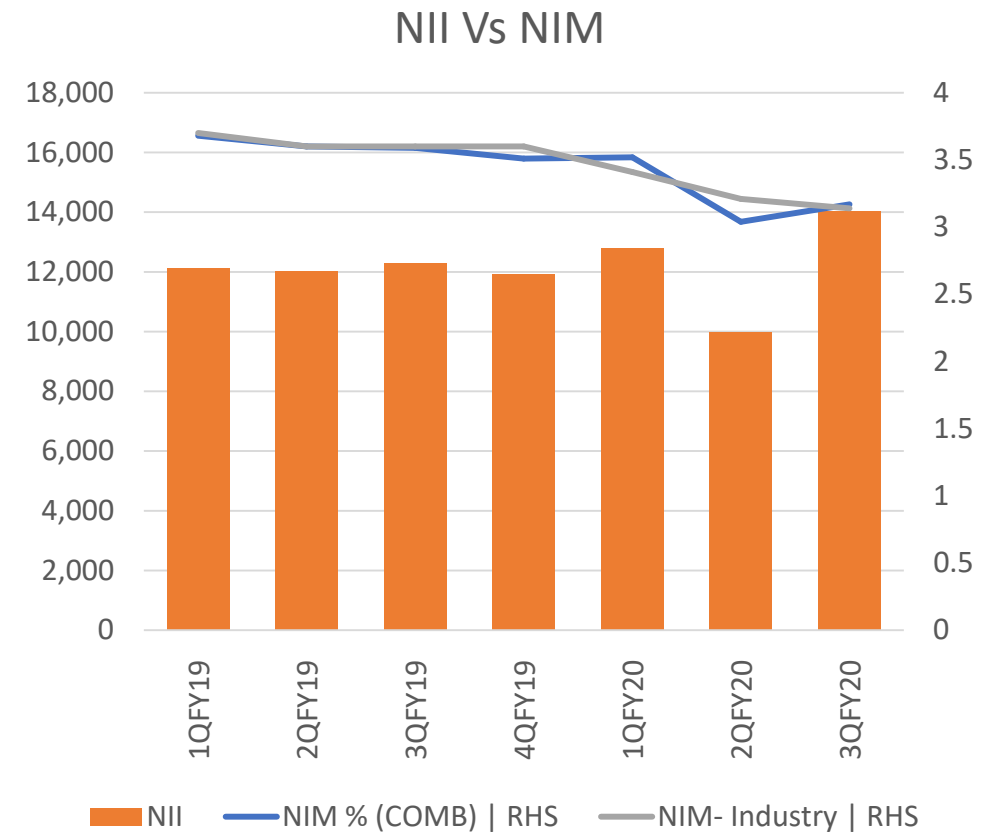
Segmental Net Operating Income



Source: COMB Financials

3Q Profit down with higher impairment charges

- NII increased by 14% YoY to reach LKR 14 billion with lower interest expenses. The monetary easing adopted post pandemic has led to a 400 basis points (bps) drop in AWPLR since the beginning of the year.
- Net operating income declined by 13% YoY due to the higher impairment charges where group increased its impairment charges to LKR 7.4 billion during 3Q2020 compared to LKR 3 billion reported in 3QFY19.
- 3Q profit stood at LKR 5.2 billion witnessing 17% YoY decline compared to the 3QFY19.





Future Outlook



Future Outlook

- We expect a decline of 12% YoY in NII during FY20 on the back of lackluster economic environment and lower interest rate regime.
- During October 2020, COMB completed landmark private equity placement with IFC, where COMB received new capital worth of LKR 9.22 Bn with newly issued 115million shares which will increase COMB's Tier1ratio is above 13% well ahead the minimum capital requirement.
- We expect a strong credit growth in FY21 with improved investor confidence and low interest rate environment; thus we expect loan book to grow by 9% YoY in FY21.
- Budget 2021 introduced 50% treasury guarantee on tourism related moratoriums, thus reduced risk exposure.

Future Outlook

- Interest and capital gains earned by LCBs through Sri Lanka International Sovereign Bonds were made tax free subject to a minimum investment of USD 100mn (budget 2021).
- CBSL during 1H2020 issued an directive preventing LCB's paying any cash dividend during 2020. Thus, we expect the dividend payment to be only in the form of scrip dividend.
- We have estimated net profit of LKR 15.3 Bn, with a profit decline of 11% YoY in FY20 with low interest rate regime and recover bottom line in FY21 with 36% YoY growth underpinned by loan growth.

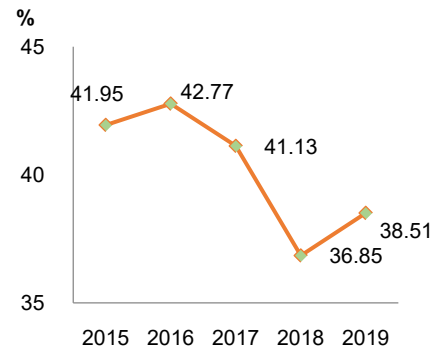


Appendix

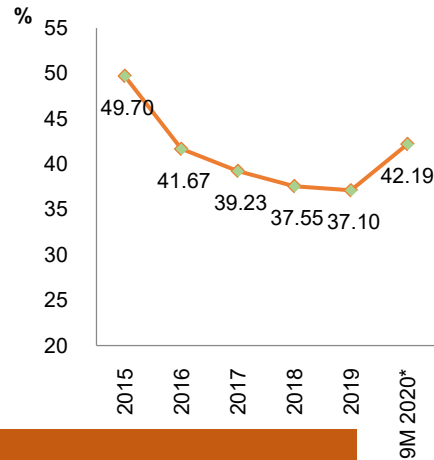


Financial Performance Dashboard

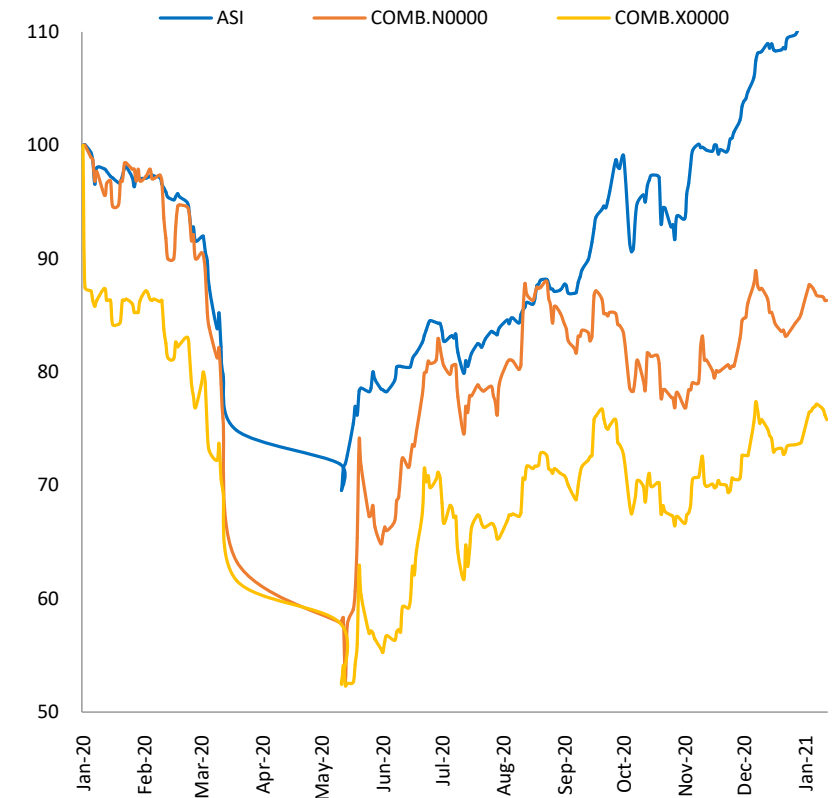
Cost to Income Ratio



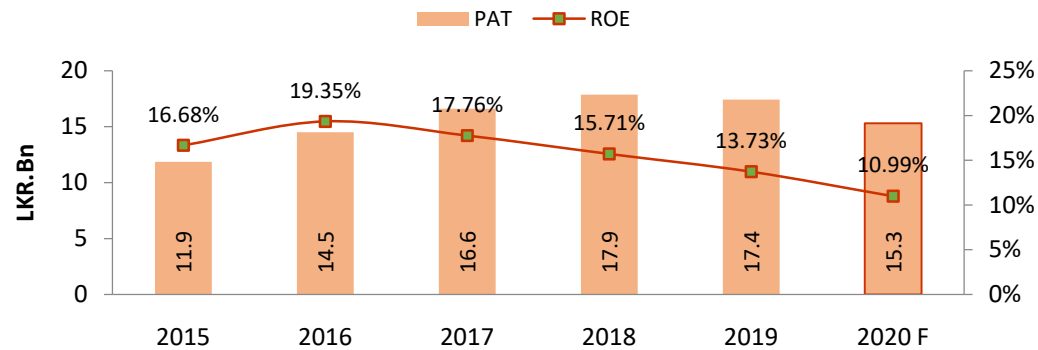
CASA



Relative Stock Performance

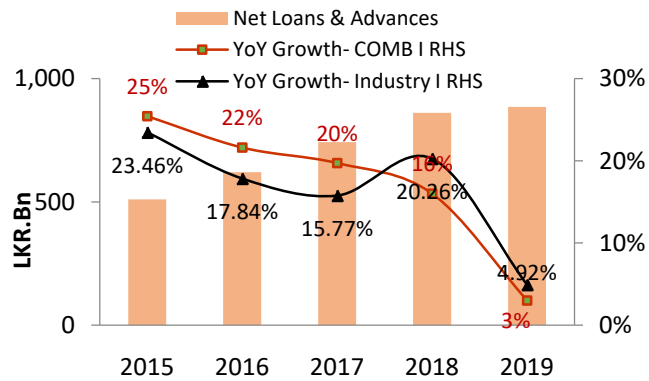


PAT Vs ROE

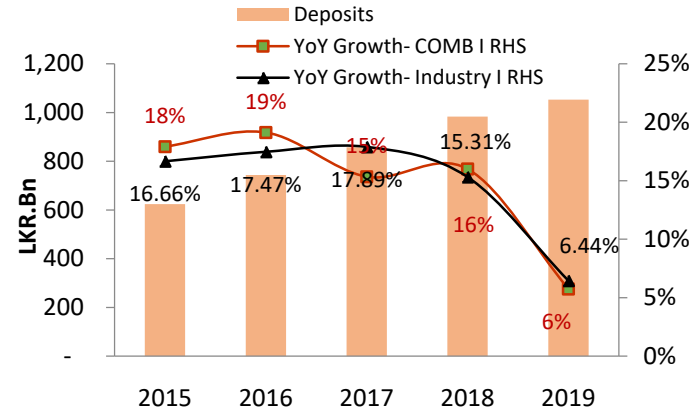


Financial Performance Dashboard

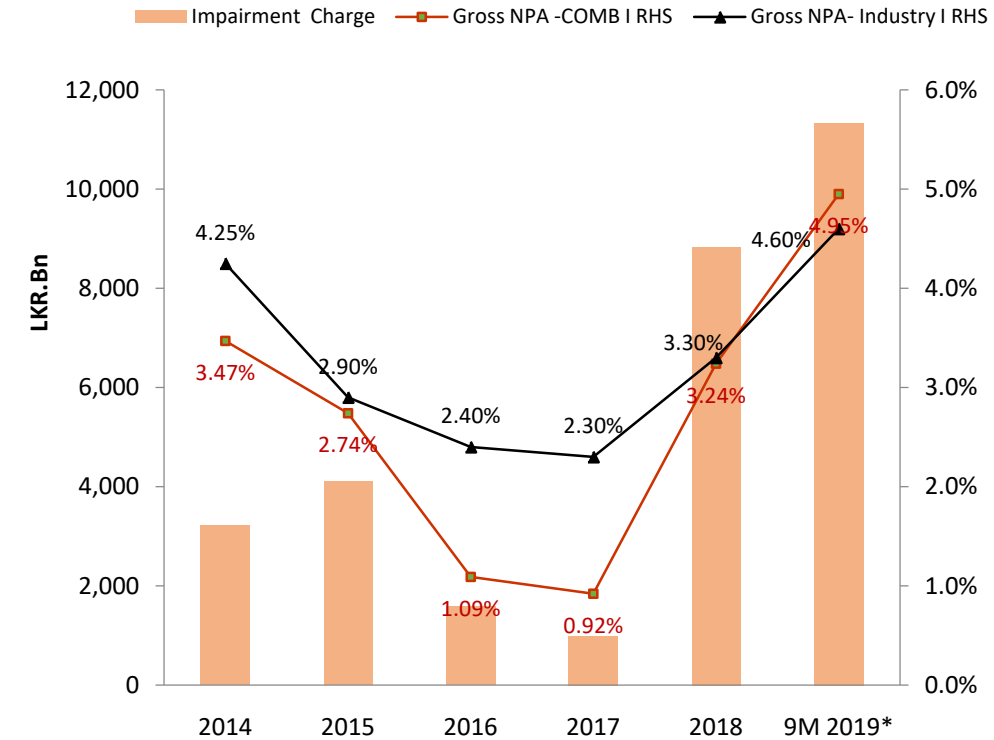
Net Loans & Advances



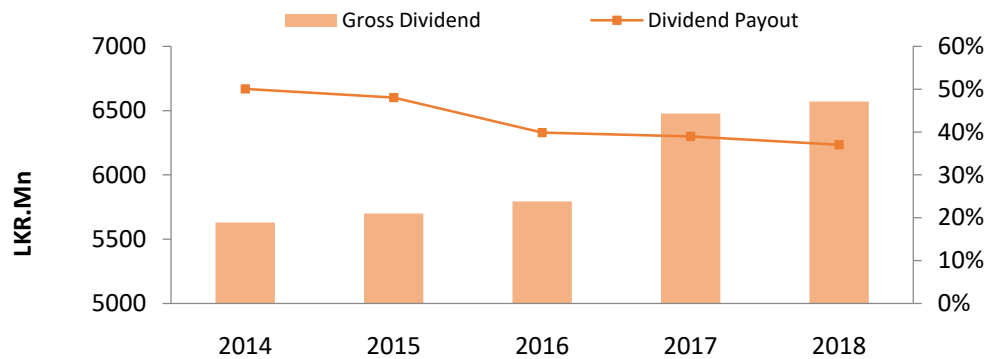
Deposits



Impairment Charge Vs Gross NPA

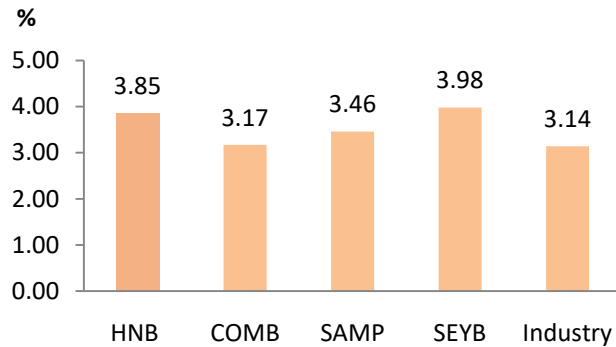


Gross Dividend Vs Dividend Payout

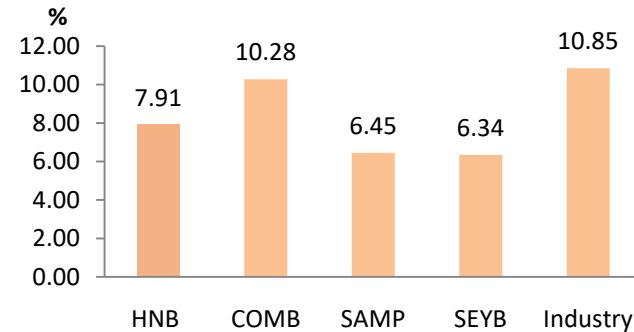


Peer Comparison – Key Ratios

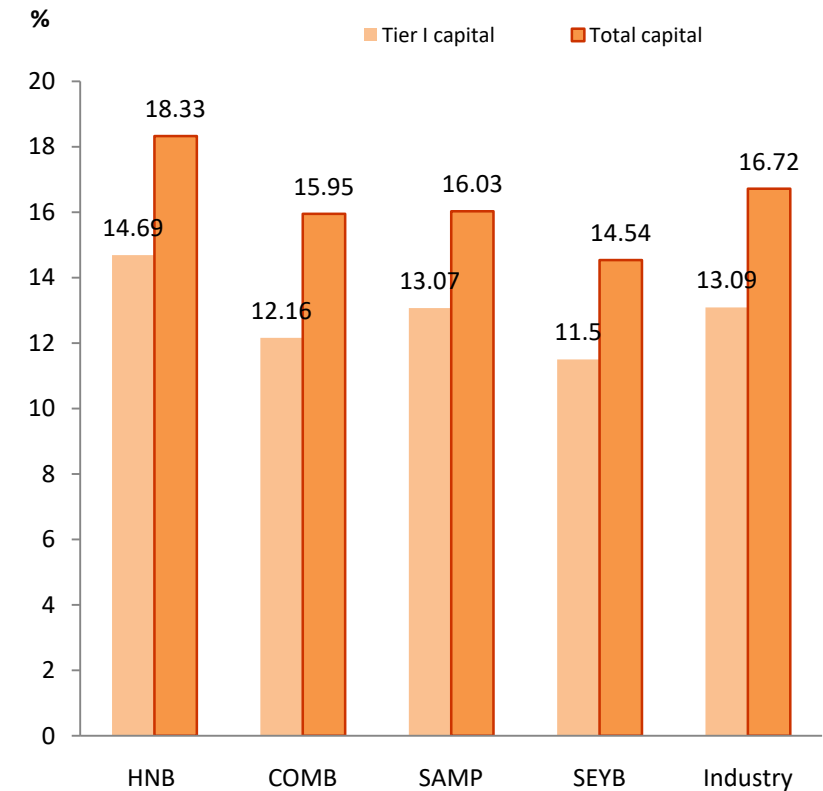
Net Interest Margin



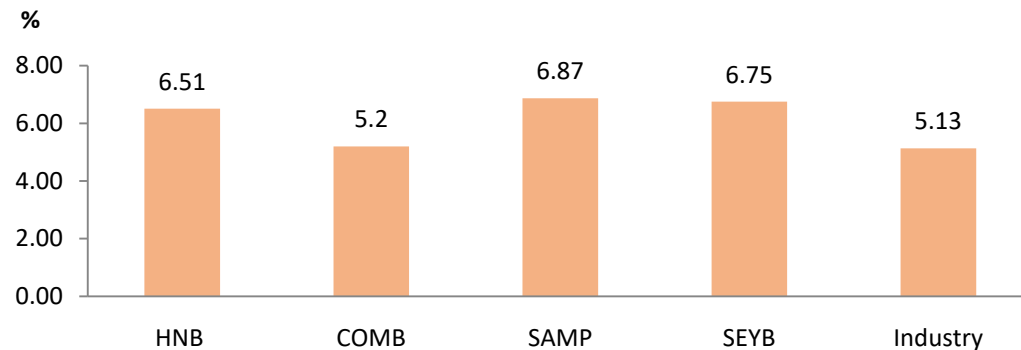
ROE



Capital Adequacy Ratios



Gross NPL Ratio



Financials: Condensed Income Statement

Year Ended 31st December	2017	2018	2019	2020 F	2021 F
Net interest income	39,567	45,618	48,356	47,248	56,253
Net fee and commission income	8,924	10,634	10,752	9,451	9,665
Total operating income	49,537	64,864	67,687	72,944	74,600
Net operating income after impairment charge	48,548	56,032	56,355	51,414	61,682
Operating Expenses	20,374	23,887	26,125	27,523	29,305
Operating profit before value added tax (VAT)	28,174	32,145	30,230	23,892	32,377
Value Added Tax (VAT) on Financial Services	4,897	6,052	7,256	3,584	4,857
Operating profit after value added tax (VAT)	23,277	26,093	22,974	20,308	27,521
Share of profits of associates, net of tax	4	6	10	12	14
Profit before income tax	23,281	26,100	22,984	20,320	27,535
Income Tax Expense	6,654	8,236	5,564	4,877	6,608
Profit for the Year	16,627	17,864	17,420	15,443	20,927
Profit attributable to Equity holders of the Bank	16,606	17,735	17,263	15,304	20,787
Profit attributable to Non-controlling interests	21	128	157	139	139
Profit for the Year	16,627	17,863	17,420	15,443	20,927

Financials (Interim Performance)

LKR Mn	2QFY20	3QFY20	9MFY20	9MFY19
Net interest income	9,984	14,029	36,796	36,424
Net fee and commission income	1,641	2,672	6,760	7,679
Total Operating income	15,589	20,381	55,818	49,465
Less: Impairment charge/(reversal) for loans and other losses	2,608	7,472	16,733	8,545
Net operating income	12,982	12,909	39,085	41,362
Operating Expenses	6,239	6,647	19,633	19,150
Operating profit before value added tax (VAT)	6,743	6,262	19,452	22,211
VAT on Financial Services, DRL& NBT	1,064	987	3,060	5,476
Operating profit after VAT,NBT &DRL	2,861	4,557	11,696	14,454
Share of profit of associates (net of income tax)	0	3	2	10
Profit before income tax	5,679	5,277	16,394	16,745
Income Tax Expense	2,046	1,550	5,219	5,227
Profit for the Year	3,633	3,728	11,175	11,518
Profit attributable to Equity holders of the Bank	3,609	3,693	11,067	11,398
Profit attributable to Non-controlling interests	24	35	108	120
Profit for the Year	3,609	3,693	11,067	11,398

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