

Sampath Bank PLC [SAMP.N: LKR 65.80]
Sound provisioning and capital buffer to act as catalysts. Economic recovery to support the strong retail book.

Recommendation: BUY

Target Price: LKR 99.00

Sector: Banking

Sampath Bank- third largest private commercial bank that accounts for ~ 10% of the total loan book of commercial banks in Sri Lanka operates with a total asset base of LKR 1.46Tn and a branch network of 229. SAMP's 2Q'23 profits grew by 84% YoY to LKR 4.6Bn resulting in 1H'23 profits growing by 4% YoY to LKR 7.6Bn. Loan book contracted by 3% YTD while impairments reduced significantly due to conservative provisioning in 2022. Net interest income jumped by 7% YoY to LKR 35.4Bn in 1H'23 supported by higher AWPLR while net fee and commission income grew by 12% YOY to LKR 10.0Bn in 1H'23 driven by trade related operations. Appreciation of LKR meanwhile brought down the exchange gains, however 74%YoY decline in impairment provisions negated the impact. We believe SAMP to be one of the top picks due to many reasons such as to its high provision coverage, likely low impairments, strong capital buffer, solid retail loan book which could see an immediate uptick on the back of an economic recovery.

SAMP maintains high provision cover and records a drastic drop in impairments: By the end of 2022, SAMP accounted to USD 121Mn worth of SLDB's and USD 99Mn worth of ISB's where SAMP has made provisions for a 45% haircut for ISB. However based on GOSL proposed option we think SAMP would accept a 30% haircut on the USD repayment option which has no grace period, 6 YR maturity for a fixed interest rate of 4% that could also prompt for a further reversal in ISB provisioning. SAMP also reversed LKR 1.4Bn provision already recognized against SLDB's in 2H'23 after reviewing all three options provided in the recently announced Domestic Debt Optimization Program (DDO) that opted the bank to exchange the holdings in SLDBs to local currency denominated treasury bonds.

SAMP's provision cover also stands out compared to the rest of the banks, at 54.2% (COMB 39.7 %, HNB 51.4%, NDB 33.98%) and compared to the average industry norms (45.9%). Therefore, we think additional provisioning may not be required despite a slow uptick in stage 3 loans which could likely continue till end of 2023. On the other hand SAMP's closest peers had to set aside a significant portion of provisions for foreign denominated assets when SAMP managed to increase its provision on other loans especially due to its relatively low exposure to foreign currency denominated assets (SAMP's SLDB & ISB exposure on total assets stands at 5.8% as of 2022 cf. COMB 9%, HNB – 13.4%, NDB 9.1%).

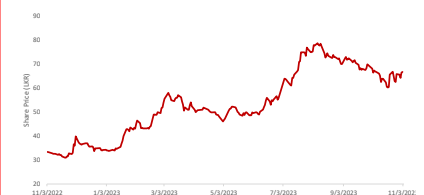
SAMP's exposure to retail segment to act as a catalyst: SAMP's high retail loan segment should also see a jump start in our view when Sri Lankan economy takes a transit into a path of recovery by 2H'23, thus aiding to carry the flag as the fastest-growing bank in the industry (SAMP was the youngest bank in Sri Lanka to surpass LKR 1 Tn in assets, in 33+years since inception). We view private sector credit which slowed down due to high rates, hyperinflation conditions and economic downturn to reverse its course (private sector credit growth picked up from June'23 after 12 month of consecutive declines) and drive up with the help of both ongoing and prospective economic reforms in place. Of the main segments of private sector credit, personal loan segment is the one which usually shows a sharp recovery specially on the back of an economic regain where SAMP is have a very strong footing (SAMP retail loans in 2022 accounts to 22% cf. COMB 12%, HNB 20%, NTB 21%, NDB 11%)

Key Statistics

Market Cap (LKR Bn)	78.3
Market Cap (USD Mn)	238.1
Issued Quantity (Mn)	1,172.7
Current Trading Range	66.80 - 67.50
52 week Low/High	31.00/78.80
YTD Low/High	33.80/78.80
Valuation	
Market PE (x)	11.2
Market PBV (x)	1.0
TTM PE (x)	5.5
PBV (x)	0.6
Bloomberg Ticker	SAMP SL
GICS Industry Group	Banks

Main shareholders as at 30.06.2023

Vallibel One PLC	14.95%
Ayenka Holdings (Pvt) Limited	9.97%
Employees' Provident Fund	9.97%
Phantom Investments (Pvt) Limited	8.94%
Mr Y S H I Silva	8.20%

Share Price Performance


Sampath Bank PLC [SAMP.N: LKR 65.80]
Sound provisioning and capital buffer to act as catalysts. Economic recovery to support the strong retail book.

Recommendation: BUY

Target Price: LKR 99.00

Sector: Banking

SAMP's exposure to retail segment to act as a catalyst: SAMP's high retail loan segment should also see a jump start in our view when Sri Lankan economy takes a transit into a path of recovery by 2H'23, thus aiding to carry the flag as the fastest-growing bank in the industry (SAMP was the youngest bank in Sri Lanka to surpass LKR 1 Tn in assets, in 33+years since inception). We view private sector credit which slowed down due to high rates, hyperinflation conditions and economic downturn to reverse its course (private sector credit growth picked up from June'23 after 12 month of consecutive declines) and drive up with the help of both ongoing and prospective economic reforms in place. Of the main segments of private sector credit, personal loan segment is the one which usually shows a sharp recovery specially on the back of an economic regain where SAMP is have a very strong footing (SAMP retail loans in 2022 accounts to 22% cf. COMB 12%, HNB 20%, NTB 21%, NDB 11%)

Consistent investments in technology and process efficiencies that assisted SAMP to be the most efficient bank in the industry, is expected to see further cost efficiencies due to its persistent digitalization and process automation efforts.

Strong capital buffer to support the equity: Sampath's latest capital adequacy ratios improved further in 1H 2023 from the figures reported in the previous quarter in addition to being well above the regulatory minimum requirements. As at 30th June 2023, Sampath Bank's Tier 1 and total capital ratios stood at 13.89% and 17.36% , comfortably over minimum capital requirement (8.5% & 12.5% respectively) that will also enable SAMP to comfortably maintain tier 01 ratio without additional equity raising in the near future in our view.

Average PBV multiple indicates BUY: Based on SAMP's (i) higher provisioning (ii) higher loan retail loan book which would enable SAMP to grow its loan book on the back of an economic recovery (iii) strong capital buffer (iv) lower impairments, we forecast SAMP's bottom-line reaching LKR 18.8 Bn by FY2023E (up 34.2%YoY), resulting in an EPS of LKR 16.1. Beyond FY2023E, we estimate a forward EPS of LKR 17.8, a 11%YoY rise in profits to LKR 20.8Bn. SAMP currently trades at 0.6x levels PBV, much below than the book value. We believe that banking sector should be re-rated given that many concerns that were clouding the sector is now largely resolved (worries over DDO, impairments, nonperforming loans etc.). Banking sector should see a sharp uptick in its profits along with the anticipated economic recovery which would kick in from 2-3Q'23. Therefore, on a conservative approach SAMP should least trade at LKR 99.00 (+50% upside to the current market price of LKR 65.80) on an implied PBV of 0.8x on FY23 book value. Thus we recommend SAMP strong BUY.

YE Dec	FY2019	FY2020	FY2021	FY2022	FY2023E	FY2024E
Net Profit (LKR mn)	11,668	8,442	13,856	14,061	18,863	20,858
YoY growth (%)	-7.4%	-27.6%	64.1%	1.5%	34.2%	10.6%
EPS (LKR)	9.9	7.2	11.8	12.0	16.1	17.8
DPS (LKR)	11.8	2.8	4.3	4.6	6.1	6.8
BVPS (LKR)	95.0	97.6	108.5	115.6	124.7	135.0
Dividend Payout	34.2%	38.2%	36.0%	38.4%	35.0%	35.0%
ROE (%)	11.6%	7.5%	11.5%	10.7%	13.4%	13.7%
PER (x)	6.6	9.2	5.6	5.5	4.1	3.7
PBV (x)	0.7	0.7	0.6	0.6	0.5	0.5
ROE (%)	11.6%	7.5%	11.5%	10.7%	13.4%	13.7%
Div Yield (%)	17.9%	4.2%	6.5%	7.0%	9.3%	10.3%

Sampath Bank PLC [SAMP.N: LKR 65.80]
Sound provisioning and capital buffer to act as catalysts. Economic recovery to support the strong retail book.
Recommendation: BUY
Target Price: LKR 99.00
Sector: Banking
Summary Financials

FY Dec	2016	2017	2018	2019	2020	2021	2022	2023E	2024E
Income Statement (LKR Mn)									
Net Interest Income	23,955	30,297	40,872	44,764	36,827	45,518	76,042	81,749	67,904
Total Non-Interest Income	10,001	12,175	16,361	14,378	13,239	18,881	38,726	15,503	30,404
Total Operating Income	33,957	42,473	57,233	59,141	50,066	64,399	114,768	97,253	98,308
Impairment charges	1,535	2,634	12,139	13,751	13,201	18,559	62,908	24,157	19,725
Total Operating Expenses	16,266	18,019	20,824	21,901	21,582	22,719	29,888	34,789	37,283
Profit Before Tax	16,156	21,820	24,270	23,490	15,284	23,121	21,971	38,307	41,299
Profit for the Year	9,496	12,683	12,606	11,668	8,442	13,856	14,061	18,863	20,858
Balance Sheet (LKR Mn)									
Net Loans & Advances	472,755	586,371	675,894	719,047	752,438	795,804	839,977	831,843	889,936
<i>Y-o-Y Growth</i>	22%	24%	15%	6%	5%	6%	6%	-1%	7%
Property, Plant & Equipment	10,709	12,631	13,602	15,702	15,891	16,338	19,067	20,021	22,023
Total Assets	680,099	826,717	947,785	999,323	1,149,685	1,242,633	1,367,320	1,452,166	1,578,696
Due to Other Customers	512,550	634,641	699,661	730,190	902,499	994,289	1,115,156	1,182,065	1,288,451
<i>Y-o-Y Growth</i>	26%	24%	10%	4%	24%	10%	12%	6%	9%
Total Equity Attributable to Equity Holders	49,742	68,908	90,051	111,457	114,415	127,186	135,551	146,213	158,371
Net Asset Value per Share	42.4	58.8	76.8	95.0	97.6	108.5	115.6	124.7	135.0
Ratios									
<i>Banking Ratios</i>									
Net Interest Margin	3.9%	4.0%	4.6%	4.6%	3.4%	3.8%	5.8%	5.8%	4.5%
Non-Interest Income/Banking Income	29.5%	28.7%	28.6%	24.3%	26.4%	29.3%	33.7%	15.9%	30.9%
Fee & Commission Income/Banking Income	19.8%	19.8%	17.9%	17.6%	17.9%	19.4%	17.6%	22.8%	27.1%
Cost to Income Ratio (Inc Provisions)	52.4%	48.6%	57.6%	60.3%	69.5%	64.1%	80.9%	60.6%	58.0%
Impairment/Gross Loans	0.3%	0.4%	1.7%	1.8%	1.7%	2.2%	6.6%	2.5%	1.9%
Operating Profit Margin	47.6%	51.4%	42.4%	39.7%	30.5%	35.9%	19.1%	39.4%	42.0%
Net Profit Margin	28.0%	29.9%	22.0%	19.7%	16.9%	21.5%	12.3%	19.4%	21.2%
ROAA (After Tax)	1.6%	1.7%	1.4%	1.2%	0.8%	1.2%	1.1%	1.3%	1.4%
ROE (Average Equity)	21.4%	21.4%	15.9%	11.6%	7.5%	11.5%	10.7%	13.4%	13.7%
Loans to Deposit Ratio	92.2%	92.4%	96.6%	98.5%	83.4%	80.0%	75.3%	70.4%	69.1%
Tax Burden	41.2%	41.9%	48.1%	50.3%	44.8%	40.1%	36.0%	50.8%	49.5%
CASA	38.5%	34.5%	33.1%	34.5%	38.5%	44.9%	32.3%	31.0%	36.0%
EPS	8.1	10.8	10.7	9.9	7.2	11.8	12.0	16.1	17.8
DPS	18.8	17.2	16.3	11.8	2.8	4.3	4.6	6.1	6.8
<i>Valuation</i>									
PBV (x)	1.6	1.1	0.9	0.7	0.7	0.6	0.6	0.5	0.5
PER (x)	8.1	6.1	6.1	6.6	9.2	5.6	5.5	4.1	3.7
Dividend Yield	28.5%	26.1%	24.7%	17.8%	4.2%	6.4%	7.0%	9.3%	10.3%

Source: Company Annual Reports & NLE Research

Sampath Bank PLC [SAMP.N: LKR 65.80]**Sound provisioning and capital buffer to act as catalysts. Economic recovery to support the strong retail book.**

Recommendation: BUY

Target Price: LKR 99.00

Sector: Banking

Disclaimer

The report has been prepared by Nations Lanka Equities (Pvt) Ltd. The information and opinions contained herein has been compiled or arrived at based upon information obtained from sources believed to be reliable and in good faith. Such information has not been independently verified, no representation or warranty, express or implied is made as to its accuracy, completeness or correctness, reliability or suitability. All such information and opinions are subject to change without notice and are not responsible for the communication of the same. This document is for information purposes only, descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this document is not, and should not be construed as, an offer, or solicitation of an offer, to buy or sell any securities or other financial instruments. In no event will Nations Lanka Equities (Pvt) Ltd. be liable for any loss or damage including without limitation, indirect or consequential loss or damage, or any loss or damage whatsoever arising out of, or in connection with the use of this report and any reliance you place on such information is therefore strictly at your own risk.

Nations Lanka Equities (Pvt) Ltd. may, to the extent permissible by applicable law or regulation, use the above material, conclusions, research or analysis in which they are based before the material is disseminated to their customers. Not all customers will receive the material at the same time. Nations Lanka Equities (Pvt) Ltd., their respective directors, officers, representatives, employees, related persons and/or Nations Lanka Equities (Pvt) Ltd., may have a long or short position in any of the securities or other financial instruments mentioned or issuers described herein at any time and may make a purchase and/or sale, or offer to make a purchase and/or sale of any such securities or other financial instruments from time to time in the open market or otherwise, in each case either as principal or agent.

The information contained in this report is for general information purposes only. This report and its content are copyright of Nations Lanka Equities (Pvt) Ltd. and all rights reserved. This report- in whole or in part- may not, except with the written permission of Nations Lanka Equities (Pvt) Ltd. be reproduced or distributed or commercially exploited in any material form by any means whether graphic, electronic, mechanical or any means.