



COMMERCIAL CREDIT AND FINANCE PLC [COCR.N0000]

RE-INITIATING WITH HOLD

CHANGE IN PRODUCT MIX EASE THE ASSET QUALITY WOES...

Fair Value: [FY20E] - LKR 35.0 [+40%]

Total Return with DPS: 43% [AER 39%]

COCR's earnings improved by 19%YoY to LKR 807.8Mn in 3QFY19 while 9M cumulative earnings posted an increase of 6%YoY to LKR 1.9Bn, being supported by lower impairment provision. With the company's shift towards low yielding (yet low risky) asset backed lending, compared to high yielding and high-risky micro and SME sectors, NII recorded a marginal increase of +1%YoY in 3QFY19 amidst lower spreads. Impairment charges witnessed a significant decline of -45%YoY, as the shift in portfolio improved the asset quality. We estimate profits for FY19E and FY20E to be LKR 2.5Bn (-2%YoY) and LKR 2.6Bn (+5%YoY) respectively. Despite FY20E TP of LKR 35.0 suggesting a BUY, we recommend a HOLD on a conservative stance, considering the fact that the significant decline in impairment is contrary to the NBFIs industry trend of high NPLs under challenging market conditions. Our rating may be reviewed if persistent profitability is witnessed in the next quarter with consistent improvement in asset quality.

REINITIATING WITH HOLD

LKR (Mn)	3QFY18	3QFY19	YoY	9MFY18	9MFY19	YoY
Earnings (LKR 'Mn)						
Net interest income	3,104	3,148	1%	8,810	9,562	+9%
Total operating income	3,569	3,649	+2%	10,143	11,027	+9%
Impairment	827	453	-45%	2,423	2,603	+7%
Net operating income	2,742	3,196	+17%	7,720	8,424	+9%
PBT	1,028	1,185	+15%	2,684	2,631	-2%
Net Profit	678	808	+19%	1,781	1,889	+6%
Balance Sheet (LKR 'Mn)						
Shareholders' Equity	12,279	12,410	+1%	12,279	12,410	+1%
Loans and Advances	35,893	26,907	-25%	35,893	26,907	-25%
Lease rentals receivable & Stock out on hire	35,416	42,519	+20%	35,416	42,519	+20%
NAVPS	38.6	39.0		38.6	39.0	

3QFY19 earnings improved on the back of significant dip in impairment

COCR's earnings for 3QFY19 witnessed a rise of 19%YoY as a result of significant decline in impairment by 45%YoY given the company's increased exposure towards asset backed lending such as leasing. COCR reorganized the composition of their total loan portfolio to comprise 80% asset backed products relative to the 50% composition witnessed previously. This business strategy was reflected through COCR's loan portfolio which recorded a de-growth of 25% during 9MFY19 with the leasing business recording a growth of 11% during the same period.

Stagnant NII due to shifted focus towards leasing & gold loans from Micro and SME segment

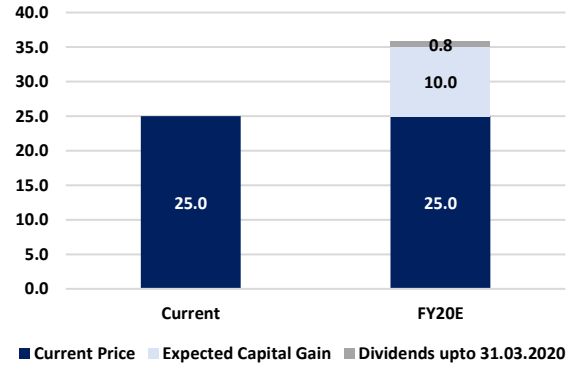
Interest income for the quarter remained flat recording LKR 5.6Bn due to relatively lower yield generated from leasing segment vis-a-vis the higher yield generated from microfinance and SME while interest expense for 3QFY19 witnessed a slight dip of -2%YoY led by the marginal decline in deposit base during the period. This resulted in a marginal increase in NII for the quarter with an upside of only +1%YoY.

Adequately capitalized at present; however, company might require fresh capital infusion over the next 3 years

COCR's tier 1 and tier 2 capital adequacy ratios are comfortable at 9.53% and 11.00% respectively as of Dec-18. However, we expect COCR to cross the asset base of LKR 100.0Bn during FY21E and may need to raise additional equity capital over the next 3 years if the desired profit growth is not achieved.

TP at LKR 35.0 – Re-Initiating with Hold

COCR is expected to grow with further focus on leasing and other asset backed lending; while microfinance and unsecured loan share in the overall portfolio is expected to reduce from the current levels to about 10% over the next 1-2 years while providing some support to the asset quality profile, reducing its delinquencies. However, we expect earnings to remain almost flat (-2%YoY) in FY19E recording LKR 2.5Bn (considering thin NII and impact of DRL) and to gradually improve to LKR 2.6Bn (+5%YoY) in FY20E led by relatively lower impairment. Accordingly, despite FY20E TP of LKR 35.0 suggesting a BUY, we recommend a HOLD on a conservative stance, considering the fact that the significant decline in impairment is contrary to the NBFIs industry trend of high NPLs under challenging market conditions. Our rating may be reviewed if persistent profitability is witnessed in the next quarter with consistent improvement in asset quality. **REINITIATING WITH HOLD**



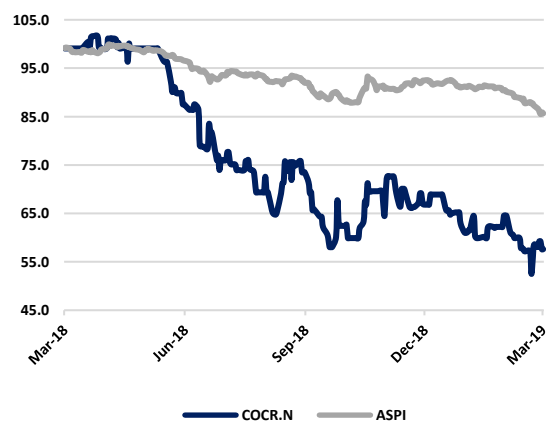
FIRST CAPITAL RESEARCH

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KEY DATA	
CSE Ticker	COCR.N0000
Bloomberg Ticker	COCR SL
Share Price (LKR)	25.0
52w High (LKR)	44.1
52w Low (LKR)	22.8
Avg. Daily Volume (Shares)	5,912
Avg. Daily Turnover (LKR)	216,881
Issued Share Capital (Shares 'Mn)	318
Market Cap (LKR 'Mn)	7,952
Market Cap (USD 'Mn)	45
*1 USD = LKR 178	

Price Performance (%)	1 mth	3 mths	12mths
COCR	-11%	-14%	-42%
ASPI	-5%	-7%	-14%



Source: CSE

Minimum Return for BUY:
Buy Below [AER of 19.22% with DPS]: LKR 29.60
 COCR categorized as 'Grade B' counter (Refer page 08 for Recommendation criteria of Grade A, B & C Stocks)

Disclosure on Shareholding:
 First Capital Group do not hold shares in COCR and will not trade in this share for three trading days following the issue of this document.

Estimate Revision

In LKR Mn	FY19E - O	FY19E - R	% Change	FY20E - O	FY20E - R	% Change
Earnings Estimate						
Net Interest Income	N/A	11,989	-	N/A	12,238	-
Total Operating Income	N/A	13,917	-	N/A	14,417	-
Net Operating Income	N/A	11,085	-	N/A	13,226	-
Pre Tax Profit	N/A	3,482	-	N/A	3,660	-
Net Profit	N/A	2,501	-	N/A	2,630	-
Adjusted EPS	N/A	7.9	-	N/A	8.3	-
Growth YoY	N/A	-2%		N/A	5%	
Balance Sheet Estimate						
Loans & Advances	N/A	32,938	-	N/A	31,793	-
Lease & Stock out on hire	N/A	45,494	-	N/A	50,685	-
Shareholders' Equity	N/A	13,041	-	N/A	15,408	-
Adjusted NAVPS	N/A	41.0		N/A	48.4	
Ratio Estimate						
ROE (%)	N/A	21.0%		N/A	18.5%	
PER (x)	N/A	3.2		N/A	3.0	
PBV (x)	N/A	0.6		N/A	0.5	

Valuation Table

P/E 31 March	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Estimates (LKR 'Mn)							
Net Interest Income	7,255	10,212	11,931	11,952	11,989	12,238	13,414
Total Operating Income	8,285	11,571	13,762	14,100	13,917	14,417	15,984
Net Profit	2,192	2,318	3,115	2,541	2,501	2,630	3,368
Adjusted EPS (LKR)	6.9	7.3	9.8	8.0	7.9	8.3	10.6
YoY Growth (%)	-83%	6%	34%	-18%	-2%	5%	28%
Valuations							
PER (x)	3.6x	3.4x	2.6x	3.1x	3.2x	3.0x	2.4x
PBV (x)	1.3x	1.0x	0.7x	0.7x	0.6x	0.5x	0.4x
DY (%)	6.0%	4.0%	6.0%	4.0%	3.0%	3.3%	4.2%

Valuation Summary

Expected COCR Price for FY20E	
Justified PBV based target price	44.2
PER Valuation based target price	38.0
RI Valuation based target price	37.7
Average Target Price	40.0
Liquidity and Price Volatility Discount (10%)	-4.0
Target Price after Discount	36.0
Target Price	35.0

Return		FY20E
Target Price		35.0
Current Price		25.0
Capital Gain (LKR)		10.0
Dividends upto 31.03.2020 (LKR)		0.8
Capital Gain %		40%
Dividend Yield %		3%
Total Return %		43%
Annualized Return %		39%

Residual Income Valuation

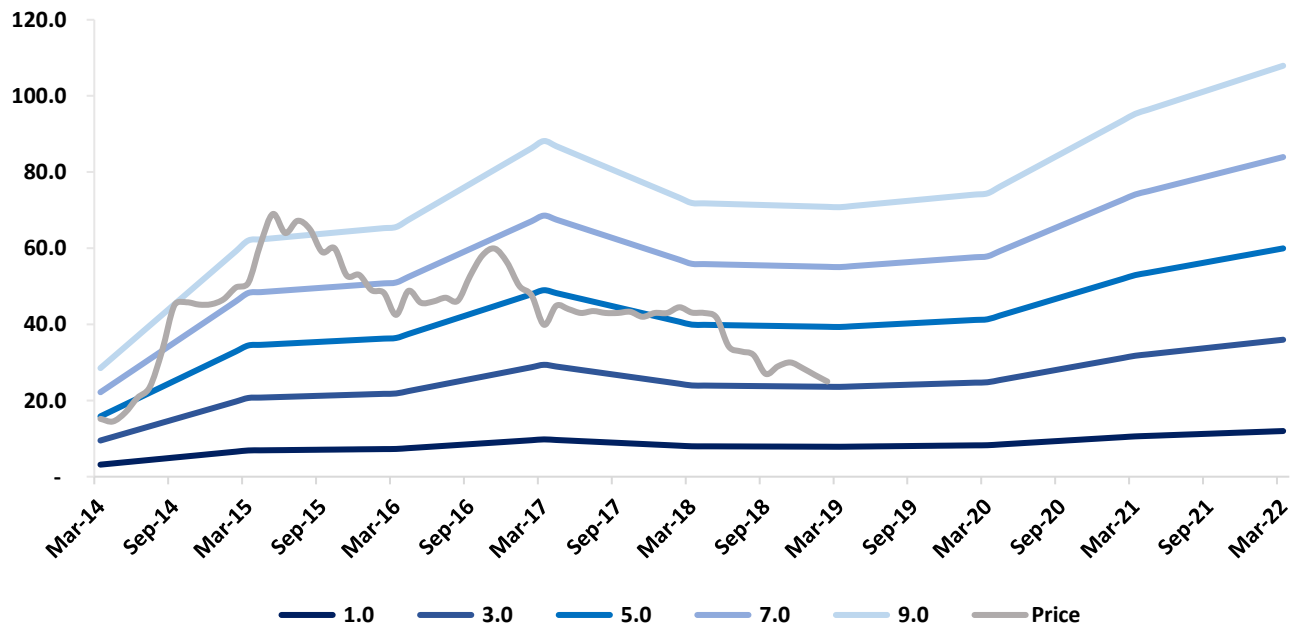
Residual Income based Valuation	
PV of Residual Income	-1,064
No. of Shares ('Mn)	318
RI per Share	-3.3
Opening Book value per Share	41.0
Value per Share	37.7

Justified PBV Valuation

Justified PBV based Valuation	
ROAE	18.5%
Growth	2.5%
COE	20.0%
PBV	0.9
NAVPS	48.4
Target Price	44.2

COE	
Rf	11.2%
Rm	19.2%
Growth %	2.5%
β	1.10
$Ke=Rf+\beta(Rm-Rf)$	20.0%

PER Valuation



Source : CSE, Company Annual Reports and First Capital Research Estimates

PER based Valuation	
FY20E Earnings (LKR 'Mn)	2,630
No. of Shares ('Mn)	318
FY20E EPS	8.27
Expected PER	4.6x
Price at 4.6x FY20E Earnings	38.0

Appendix I: Key Ratios

COCR	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
P/E 31 March							
Capital							
Tier 1 (5%)	11.50%	11.50%	12.45%				
Tier 2 (10%)	12.20%	13.90%	13.73%				
Return on Average Equity	47%	33%	33%	24%	21%	18%	20%
Return on Average Assets	5%	4%	4%	3%	3%	3%	3%
Net Interest Spread	17%	16%	15%	14%	13%	12%	12%
Net Interest Margin	19%	18%	17%	16%	15%	14%	15%
Cost / Income	46%	44%	42%	42%	43%	50%	50%
Cost / Average Assets	8%	8%	7%	7%	7%	7%	8%
Asset Growth	87%	23%	18%	3%	7%	4%	6%
Deposit Growth	89%	17%	8%	2%	0%	1%	1%
Borrowings Growth	52%	66%	44%	-4%	32%	0%	7%
Loan Growth	69%	18%	11%	-12%	-2%	-3%	-3%
Lease Growth	119%	39%	25%	14%	19%	11%	11%
Avg. yield on earning assets	28%	28%	28%	28%	27%	26%	26%
Avg. cost of funds	11%	11%	12%	14%	14%	14%	14%
Loan / Deposits	111%	121%	131%	129%	140%	146%	154%
Loan / Deposits+Debt	66%	64%	66%	57%	51%	49%	47%
Loan / Borrowings	58%	56%	55%	48%	43%	42%	40%
Deposit / Borrowings	87%	82%	78%	79%	74%	74%	73%
Loan / Total Assets	82%	84%	84%	82%	83%	84%	84%
Deposit / Liabilities	81%	78%	73%	72%	69%	68%	67%
Equity / Assets	10%	11%	12%	12%	14%	16%	18%
Cost / Branch (Rs.'Mn)	33	42	48	50	50	55	57
Rev. / Employee (Rs.'Mn)	2.5	3.4	4.1	4.3	4.2	4.1	4.3
Employees	3,334	3,413	3,385	3,304	3,332	3,549	3,710
Branches	118	122	121	118	119	130	140

Source: Company Annual Reports and First Capital Research Estimates

Appendix II: Statement of Financial Performance

Statement of Financial Performance (LKR Mn)	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
P/E 31st Mar							
Gross Income							
Interest Income	11,472	16,418	19,927	21,725	22,240	22,865	24,177
Interest Expenses	4,217	6,206	7,997	9,773	10,251	10,626	10,763
Net Interest Income	7,255	10,212	11,931	11,952	11,989	12,238	13,414
Fee & Other Income	1,029	1,359	1,831	2,148	1,928	2,179	2,570
Total Operating Income	8,285	11,571	13,762	14,100	13,917	14,417	15,984
Impairment (Charges)/ Reversal	882	2,845	2,898	3,271	2,793	1,150	390
Pawning auction losses	519	62	35	0	-	-	-
Losses from disposal of repossessed vehicles	25	29	8	18	39	41	44
Net Operating Income	6,859	8,635	10,822	10,811	11,085	13,226	15,550
Less : Operating expenses							
Staff Cost	2,390	3,111	3,388	3,296	3,657	4,674	5,374
Depreciation of PPE	110	180	240	321	329	401	389
Other Operating Expenses	1,351	1,823	2,128	2,314	1,997	2,140	2,261
Total operating expenses	3,850	5,115	5,756	5,930	5,983	7,215	8,024
Profit from operations	3,008	3,520	5,066	4,880	5,102	6,011	7,526
VAT on Financial Services + Debt repayment levy	372	491	831	1,011	1,620	2,351	2,838
Operating profit after value added tax (VAT)	2,636	3,029	4,234	3,869	3,482	3,660	4,688
Share of loss of an associate (net of tax)	1	2	0	0	0	0	0
Profit Before Tax	2,635	3,027	4,234	3,869	3,481	3,660	4,687
Income Tax Expense	442	705	1,118	1,327	975	1,025	1,313
Profit for the Year	2,194	2,322	3,117	2,542	2,506	2,635	3,375
Minority Interest	1	5	1	1	5	5	7
Profit attributable to Equity Holders	2,192	2,318	3,115	2,541	2,501	2,630	3,368
EPS	6.9	7.3	9.8	8.0	7.9	8.3	10.6

Source : Company Annual Reports and First Capital Research Estimates

Appendix III: Statement of Financial Position

Statement of Financial Position (LKR Mn) as at 31st Mar	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Assets							
Cash and cash equivalents	2,514	1,155	1,947	1,747	2,654	1,575	1,733
Reverse repurchase agreements	1,514	1,983	2,061	2,302	2,807	3,385	3,970
Financial instruments	1,771	2,446	2,632	2,893	2,919	2,934	2,949
Balances with banks & financial institutions	1,071	1,301	1,518	2,014	1,460	1,467	1,475
Loans and receivables	28,980	34,276	38,199	33,600	32,938	31,793	30,853
Lease rentals receivable & Stock out on hire	19,150	26,692	33,482	38,310	45,494	50,685	56,467
Investment in subs and associates	52	216	-	-	-	-	-
Property, plant & equipment	1,212	1,421	1,574	1,812	1,494	1,218	952
Other Assets	2,762	3,005	4,308	5,320	4,825	4,878	4,942
Total Assets	59,027	72,494	85,721	87,999	94,590	97,936	103,340
Liabilities							
Due to banks	5,882	7,148	11,956	11,875	11,228	11,285	12,603
Due to customers	43,231	50,381	54,637	55,859	56,138	56,425	56,713
Debt securities issued	591	3,596	3,482	2,972	8,365	8,365	8,365
Other financial liabilities	2,589	2,057	2,594	3,040	2,306	2,226	2,160
Tax liabilities	444	94	1,785	2,769	3,323	3,988	4,785
Other liabilities	320	1,203	571	700	183	234	269
Total Liabilities	53,057	64,480	75,025	77,215	81,542	82,522	84,894
Shareholders Funds							
Stated Capital	2,151	2,151	2,151	2,151	2,151	2,151	2,151
Statutory reserve fund	1,281	1,756	2,386	2,888	3,364	3,863	4,503
Retained earnings	2,522	4,088	6,155	5,739	7,527	9,394	11,785
Shareholders Funds	5,954	7,994	10,692	10,779	13,041	15,408	18,439
Non - controlling interest	15	20	4	5	7	7	7
	5,970	8,014	10,696	10,784	13,048	15,415	18,446
Total Liabilities & Shareholders' Funds	59,027	72,494	85,721	87,999	94,590	97,936	103,340
NAVPS	18.7	25.1	33.6	33.9	41.0	48.4	58.0

Source : Company Annual Reports and First Capital Research Estimates

Appendix IV: Top 20 Shareholders

Top 20 shareholders - (% held)	3QFY19	2QFY19	QoQ	3QFY18	YoY
B G INVESTMENTS (PVT) LIMITED	41.7%	41.7%	-	41.7%	-
GROUP LEASE HOLDINGS PTE LTD	30.0%	30.0%	-	30.0%	-
LANKA ORIX FINANCE PLC/B.G.INVESTMENTS (PVT) LTD	8.4%	8.4%	-	8.4%	-
CREATION INVESTMENTS SRI LANKA,LLC	6.4%	6.4%	-	6.4%	-
CREATION INVESTMENTS SL1 LLC	2.3%	2.3%	-	1.4%	0.8%
MR. G.G. HEMACHANDRA (DECEASED)	2.3%	2.3%	-	0.5%	1.8%
DR. E. FERNANDO	2.0%	2.0%	-	2.5%	-0.5%
PEOPLE'S LEASING & FINANCE PLC /MS.S.N.EGODAGE	1.6%	1.3%	0.3%	1.3%	0.3%
CEYLINCO LIFE INSURANCE LIMITED ACCOUNT NO.1	1.3%	1.3%	-	1.3%	-
MRS. H.H.J. HEWAGE	0.6%	0.6%	-	0.6%	-
MR. T.K. HEMACHANDRA	0.5%	0.5%	-	2.3%	-1.8%
COMMERCIAL BANK OF CEYLON PLC/DUNAMIS CAPITAL PLC	0.5%	0.5%	-	0.5%	-
MR. S.K. SEMAGE	0.2%	0.2%	-	0.2%	-
PEOPLE'S LEASING & FINANCE PLC/BG INVESTMENTS (PVT	0.2%	0.2%	-	0.2%	-
DFCC BANK PLC/P.S.R.CASIE CHITTY	0.1%	0.1%	-	0.1%	-
MRS. L.S.SEMAGE	0.1%	0.1%	-	0.0%	0.1%
CODE-GEN INTERNATIONAL PVT LTD	0.1%	0.1%	-	0.1%	-
MR. N.A. PEIRIS	0.1%	0.1%	-	0.1%	0.0%
MR. D.K. GUNARATNE	0.1%	0.1%	-	0.0%	0.1%
Mr.DT SEMAGE	0.0%	0.0%	0.0%	0.0%	0.0%

Appendix V: 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%

Weighted Average 1-year T-bill rate during Dec 2018: 11.22%

Categorization	Company Category	Buy	Hold	Sell
Grade A	S&P SL20 Companies	16.22%	12.22%	12.22%
Grade B	Rest of the Companies	19.22%	14.22%	14.22%
Grade C	Companies less than LKR 1Bn Market Cap	22.22%	17.22%	17.22%



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Anushka Dissanayake	+94 77 2220 021	Arun Kandasamy	+94 75 4861 506
Anushi Ranawaka	+94 77 3876 819		

CORPORATE DEBT SALES

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Nethalie De Mel	+94 11 2639 854	Dharshanie Vasanthajothy	+94 77 9159 878

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Colombo			Priyantha Wijesiri	+94 70 2910 036
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Thushara Pathiraja		+94 70 2910 037		
Anushka Buddhika		+94 70 2910 030		
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BRANCHES

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Disclaimer:

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