



SEYLAN BANK PLC [SEYB.N0000]

DOWNGRADE TO HOLD

ENTERING THE BIG LEAGUE

Fair Value [2019E]: LKR 70.0 [+14%]

Total Return without DPS 14% [AER 19%]

With a total asset base of LKR 470.0Bn as of 2018, SEYB is at the verge of moving into D-SIB category in 2019E which is expected to increase the Tier I and Total capital requirement to 10.0% and 14.0%. We believe SEYB may undergo limitations on credit disbursements amidst the new BASEL III requirements on capital thus impacting the core business of the bank. SEYB may be further affected by higher impairment provisioning with the implementation of IFRS 9, deteriorating the existing capital base over the next 3 years to 2021E. With earnings forecast of LKR 3.6Bn in 2019E (incorporating the effect of DRL of appr. LKR 924.0Mn) coupled with a loan portfolio growth of 12% and a TP of LKR 70.0, SEYB provides a total return of 14%.

DOWNGRADE TO HOLD

P/E 31 December	2015	2016	2017	2018	2019E	2020E	2021E
Estimates (LKR 'Mn)							
Net Interest Income	11,857	13,499	15,575	17,790	18,366	20,784	23,231
Total Operating Income	16,199	17,813	21,546	23,201	23,753	25,801	28,678
Net Profit	3,855	4,013	4,817	3,137	3,623	4,129	4,608
Adjusted EPS (LKR)	10.5	11.0	13.2	8.6	9.9	11.3	12.6
YoY Growth (%)	21%	4%	20%	-35%	15%	14%	12%
Valuations							
PER (x)	5.8x	5.6x	4.7x	7.2x	6.2x	5.5x	4.9x
PBV (x)	0.8x	0.7x	0.6x	0.6x	0.6x	0.6x	0.5x
DY (%)	4.5%	5.3%	5.7%	4.1%	4.1%	4.9%	4.9%

BASEL III and IFRS to hamper loan growth

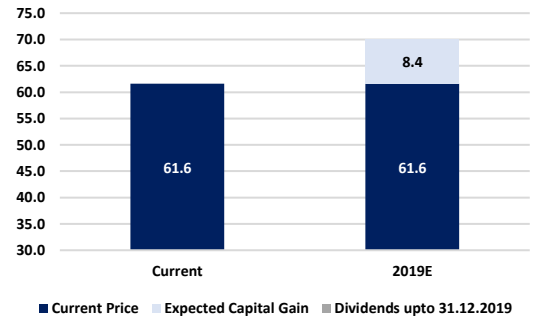
SEYB's asset base is expected to reach LKR 500.0Bn during 2019 triggering BASEL III's systematically important bank category which would require a capital infusion to comply with the capital adequacy of 10% while adoption of IFRS 9 is expected to dilute the capital base by LKR 841.0Mn annually through 2019-20E period. Issuance of 50Mn debentures to raise LKR 5.0Bn is expected to strengthen the total capital while either a rights issue or a private placement is expected to enhance the tier I capital base. Resultant to the BASEL III compliance requirements, we expect SEYB to slow down its lending portfolio growth to a CAGR of 12% over 2019-21E thereby reaching LKR 407.0Bn in 2020E contrary to a CAGR of 18% maintained over 2016-18 to reach LKR 327.0Bn (+16%YoY).

Impairment on the rise

We expect the impairment provision to normalise to around LKR 2.7Bn in 2019E owing to the impact of the higher lending portfolio growth maintained over 2016-18 period materialising with a lagging effect coupled with overly sluggish economic growth prevailed during the period. Resultant to the adoption of IFRS 9 from 01 Jan 2018, SEYB's impairment provisioning method shifted from "incurred loss model" to "expected loss model" leading to higher impairment provisioning of LKR 3.5Bn in 2018 (LKR 1.5Bn in 2017). Above industry average loan portfolio growth CAGR of 18% also contributed to the 1.3x increase in provisioning. Considerable exposure to retail and SME segments is likely to further dilute earnings.

SEYB rated HOLD

With a modest loan portfolio growth of 12% coupled with higher impairment provisioning and effect of DRL are likely to hamper earnings growth to LKR 3.6Bn in 2019E with a TP of LKR 70.0. Though at current market price of LKR 61.6, SEYB provides a total return of 14%, considering the constraint on lending portfolio growth owing to SEYB moving into D-SIB category in 2019E requiring more stringent capital requirements, we **DOWNGRADE TO HOLD**.



FIRST CAPITAL RESEARCH

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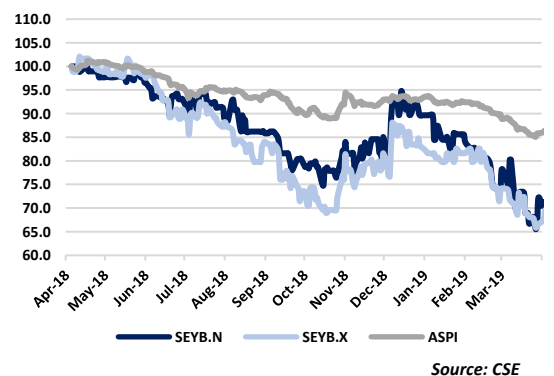
KEY DATA

	SEYB.N0000	SEYB.X0000
CSE Ticker	SEYB.N0000	SEYB.X0000
Bloomberg Ticker	SEYB SL	SEYBX SL
Share Price (LKR)	61.60	37.50
52w High (LKR)	86.50	55.70
52w Low (LKR)	57.00	35.50
Avg. Daily Volume (Shares)	25,369	41,282
Avg. Daily Turnover (LKR)	1,411,626	1,885,664
Issued Share Capital (Shares 'Mn)	184.1	182.0
Market Cap (LKR 'Mn)	11,341	6,825
Market Cap (USD 'Mn)	65	39

*1 USD = LKR 175

Price Performance (%)	1 mth	3 mths	12mths
SEYB.N	-10%	-21%	-29%
SEYB.X	-6%	-15%	-31%
ASPI	-3%	-8%	-13%

SEYB vs ASI



Minimum Return for BUY:
Buy Below [AER of 19.22% without DPS]: LKR 61.5
 SEYB categorized as 'Grade B' counter (Refer page 18 for Recommendation criteria of Grade A, B & C Stocks)

Disclosure on Shareholding:
 First Capital Group holds 72,740 shares in SEYB.X and has not traded in the share three days prior to this document and will not trade in this share for three trading days following the issue of this document.

Figure 01: Peer Comparison – Local

Company	Country	Mkt Cap (USD Mn)	P/E	P/B	ROE*	ROA*	Div Yield	Total Assets (USD Bn)
Commercial Bank of Ceylon	Sri Lanka	544.9	5.5	0.8	16.6%	1.6%	4.6%	7.4
Hatton National Bank Plc	Sri Lanka	465.4	3.7	0.7	13.9%	1.6%	3.7%	6.3
Sampath Bank Plc	Sri Lanka	298.3	4.0	0.6	15.9%	1.4%		5.2
National Trust Bank Plc	Sri Lanka	140.0	6.5	0.8	16.3%	1.3%		1.9
National Development Bank Plc	Sri Lanka	119.0	3.5	0.5	13.4%	1.1%	1.5%	2.7
DFCC Bank Plc	Sri Lanka	111.1	6.6	0.4	6.4%	0.9%	4.7%	2.1
Seylan Bank Plc	Sri Lanka	102.5	7.3	0.6	8.8%	0.7%	1.6%	2.6

Source: Bloomberg

Figure 02: Peer Comparison – Global

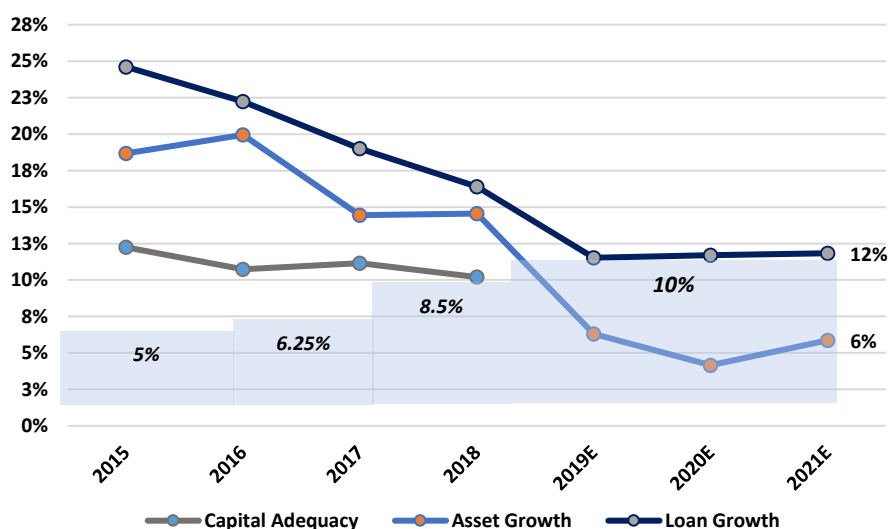
Company	Country	Mkt Cap (USD Mn)	P/E	P/B	ROE*	ROA*	Div Yield	Total Assets (USD Bn)
Seylan Bank Plc	Sri Lanka	94.2	6.5	0.6	8.8%	0.7%	1.7%	2.6
Prima Banka Slovensko	Slovakia	75.4	12.7	0.7	5.8%	0.5%		4.1
Jammu and Kashmir Bank Ltd	India	381.6	7.3	0.4	4.4%	0.3%		14.1
South Indian Bank Ltd	India	395.2	8.2	0.5	6.6%	0.4%	2.6%	12.7
Union Bank of Israel	Israel	371.7	9.3	0.5	5.7%	0.3%		11.5

Source: Bloomberg

1.0 Challenging regulatory and economic environment

Shift to DSIB status to require additional capital: SEYB with an asset base of LKR 470.0Bn is at the verge of shifting into Domestically Systematically Important Banks (D-SIB) category with an asset base of LKR 500.0Bn triggering the more stringent capital requirements of 10.0% and 14.0% compared to existing 8.5% and 12.5%. As of end 2018, SEYB held LKR 36.2Bn in the form of total equity with a total capital ratio of 13.3% whereas the requirement was 11.875%. However, when the asset base surpasses the LKR 500.0Bn mark, it is expected to be supported by enhanced capital structure, failing which bank is likely to face growth constraints on its asset base as well as the growth of the lending portfolio which accounts for nearly 70% of the total assets.

Figure 3: Higher capital adequacy to hamper asset and loan growth (2015-21E)



Source: Company annual reports & First Capital Research estimates

Figure 4: Capital raised through Rights Issue of shares (2017-18)

Bank	Amount Raised via RI LKR Bn
COMB	10.10
HNB	14.10
SAMP *	20.10
NTB	3.20
NDB	3.40

* SAMP has announced a right issue to raise LKR 12.1Bn in Mar 2019

Source: CSE

BASEL III to hamper loan growth to 12%: We expect the loan portfolio growth to curb to a CAGR of 12% over 2018-20E period in comparison to 18% CAGR maintained during 2016-18 primarily owing to the restraint on adoption of BASEL III. Loan portfolio is expected to grow by 12.0% to reach LKR 364.5Bn in 2019E.

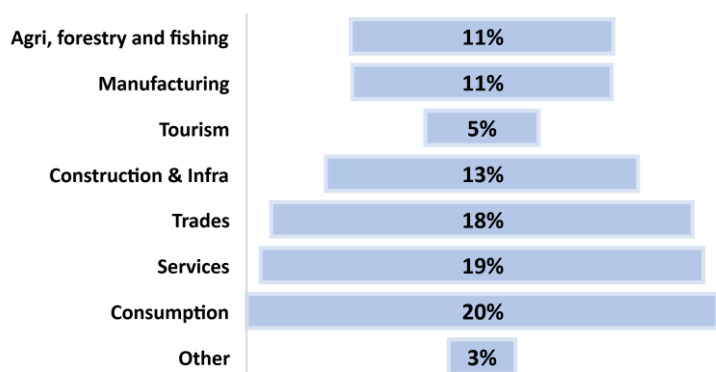
Adoption of IFRS 9 to deteriorate capital base over 2018-21E period: Initial application of the adoption of IFRS 9 is expected to dilute retained earnings w.e.f. 01.01.2018 through a period of three years to 2020. We expect the adoption of IFRS 9 to wipe out appr. LKR 841.0Mn from the retained earnings, thereby diluting the total equity until end of 2020.

Raising fresh capital to be challenging: Considering the prevailing subdued condition in the overall economy and the fact that two banks have already announced rights issues totalling to appr. LKR 15.1Bn, provides a challenging environment for SEYB to raise fresh capital. We believe SEYB would opt for either a rights issue or a private placement to enhance the capital base to satisfy the higher capital adequacy requirements.

2.0 Rising impairment

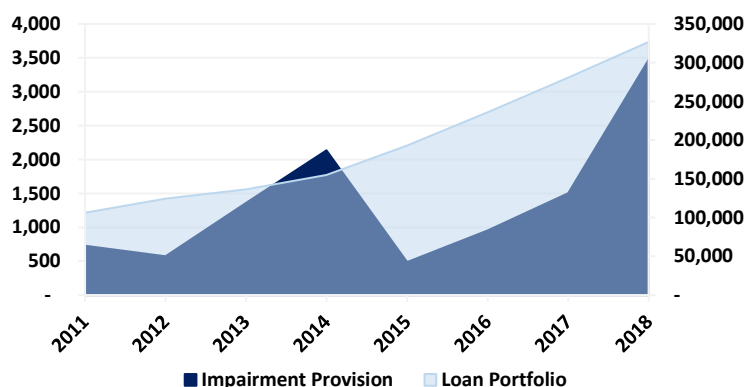
Impairment to normalise at higher levels: Adoption of IFRS 9 saw a shift in provisioning methodology from “incurred loss model” to “expected loss model” resulting in an annual impairment provision of LKR 3.5Bn in 2018. Overly sluggish economic condition prevailed during 2018 coupled with exposure to industry segments which were adversely affected during the period contributed to the 1.3x incline in impairment provisioning.

Figure 5: Loan Portfolio exposure to Industry segments (2018)



Source: Company annual reports & CBSL

Figure 6: Impairment on the rise (2011-21E)



Source: Company annual reports & CBSL

Lagging effect of the above industry average loan growth materialises: We expect an impairment provision of LKR 2.5Bn in 2019E amidst the 16% loan portfolio growth registered in 2018 when the private sector credit grew by 15%. SEYB maintained its loan portfolio growth at a CAGR of 18% over 2016-18 period above the private sector credit growth CAGR of 15% over the same period leading to an increase in impairment provisioning of LKR 1.5Bn and LKR 3.5Bn in 2017 and 2018 respectively due to the lagging effect in materialising the effect of higher loan growth.

Sluggish economic growth pushes the NPAs: 2/3 of SEYB’s lending portfolio is exposed to construction, agriculture, tourism, manufacturing and retail segments of the economy which were affected by natural, social, political and economic factors. Mirroring the sluggish activity witnessed in those industry segments, Sri Lanka’s economy recorded a below par GDP growth of 3.2% in 2018. We expect the lacklustre performance in the overall economy to be reflected in the impairment provisioning thereby normalising to around LKR 2.5Bn over the next three-year period.

3.0 Future Outlook

SEYB Earnings CAGR of 13% 2019-21E: Slowdown in loan portfolio growth owing to higher capital adequacy requirement instigating a restraint on asset growth along with the expected higher impairment provision are expected to generate earnings of LKR 3.6Bn in 2019E. With a TP of LKR 70.0, at current market price of LKR 61.6, SEYB provides a total return of 14%. **DOWNGRADE TO HOLD**

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DY (%)	4.5%	5.3%	5.7%	4.1%	4.1%	4.9%	4.9%

Return	
Target Price	70.0
Current Price	61.6
Capital Gain (LKR)	8.4
Dividends upto 31.12.2019 (LKR)	0.0
Capital Gain %	14%
Dividend Yield %	0%
Total Return %	14%
Annualized Return %	19%

Expected SEYB.N price for 2019E	
Justified PBV based target price	67.0
PER Valuation based target price	59.4
RI Valuation based target price	69.5
Average Target Price	65.3
Target Price after Rounding off	70.0

Expected SEYB.X price for 2019E	
Target Price for SEYB.X	70.0
Average 12 month discount	-40%
Target Price after Discount	42.0
Target Price after rounding off	42.0

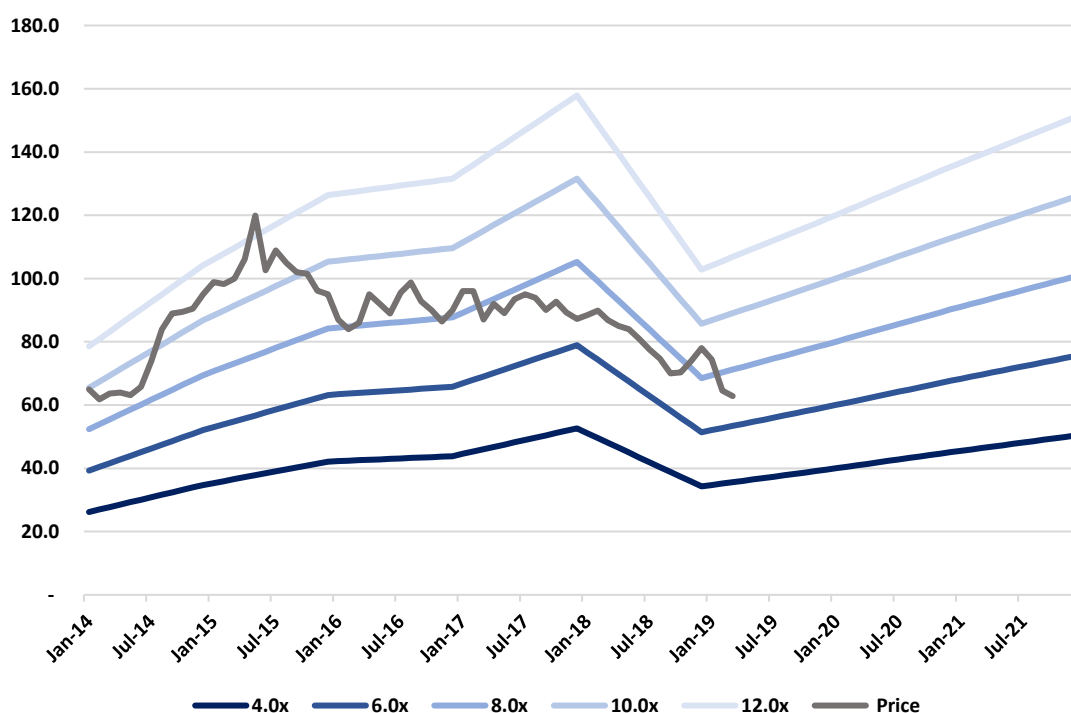
3.1 Justified PBV valuation

COE	
Rf	11.2%
Rm	18.2%
Growth %	3.0%
β	0.5
Ke=Rf+β(Rm-Rf)	14.7%

Justified PBV based Valuation	
ROAE	9.3%
Growth	3.0%
COE	12.7%
PBV	0.6
NAVPS	103.3
Target Price	67.0

3.2 PER based valuation

PER based Valuation	
2019E Earnings (LKR 'Mn)	3,623
No. of Shares ('Mn)	366.1
2019E EPS	9.9
Expected PER	6.0x
Price at 6.0x 2019E Earnings	59.4



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

3.3 Residual Income based valuation

Residual Income based Valuation	
PV of Residual Income	-11,921
No. of Shares ('Mn)	405
RI per Share	-29.5
Opening Book value per Share	99.0
Value per Share	69.5

4.0 Company Profile

Three decades and counting: Seylan Bank, incorporated in 1987 is the fifth largest privately-owned commercial bank with an asset base of LKR 470.0Bn is at the verge of moving into Domestically Systematically Important Banks category upon the value of the asset base surpassing LKR 500Bn mark. Successful issuance of debentures is expected to strengthen the tier II capital base while a rights issue or a private placement of shares is expected to enhance the tier I capital base. SEYB serves its customers spread across the island offering wide array of banking products accessible through multi-channel infrastructure consists of 170 branches, 207 ATMs, 29 CDM, 12 SME hubs while 1.65Mn number of visitors accessing the corporate web.

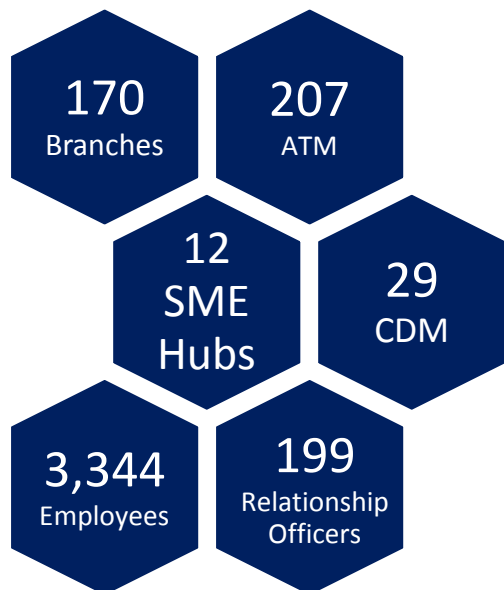
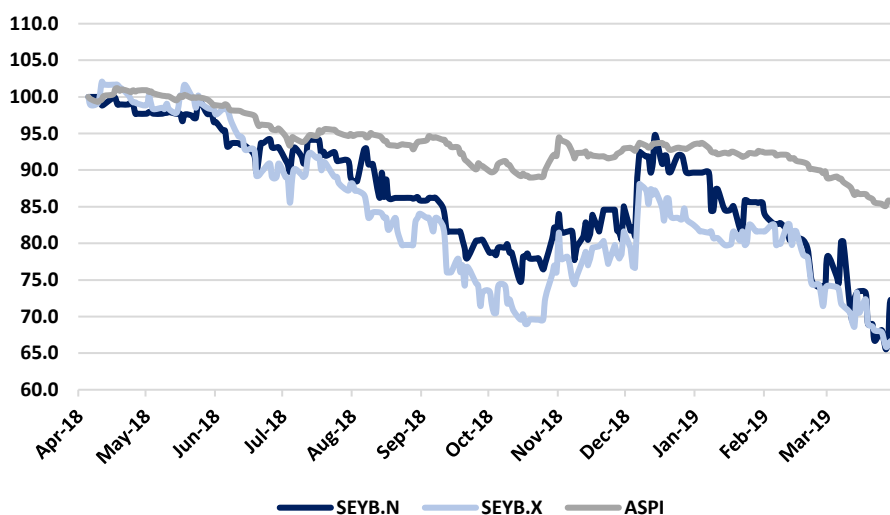


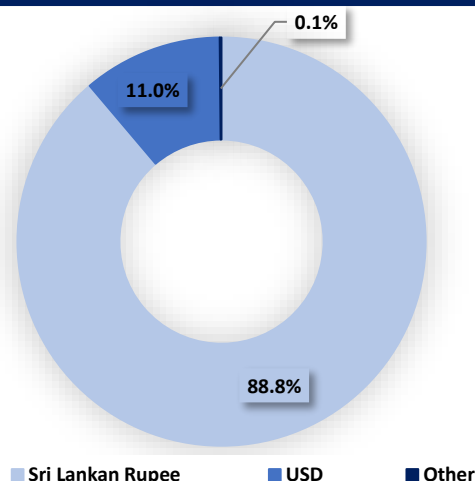
Figure 7: SEYB’s price performance vs ASPI



Source: CSE

Share Price Performance: SEYB’s share price underperformed the benchmark index during the past 12 months with SEYB.N price dipping by 29% while SEYB.X dipped by 31% in comparison to ASPI’s 13% decline over the same period.

Figure 8: SEYB’s loan book exposure to currency



Source: Company Annual Report

5.0 Licensed Commercial Banking Industry in Sri Lanka

Industry Overview: Sri Lankan Licensed Commercial Banking (LCBs) Sector comprises of 13 local banks and 13 foreign banks which together comprise of 88% banking sector asset while specialized banks (LSB) At the end of 3Q of 2018, local LCBs lead the LCB sector with a market share of 83%. The health of the financial system depends largely on local LCBs while its stability is primarily dependent on the performance and financial strength of 6 largest LCBs, consisting of two state banks and three largest domestic private commercial banks referred to as 'Systemically Important Banks'.

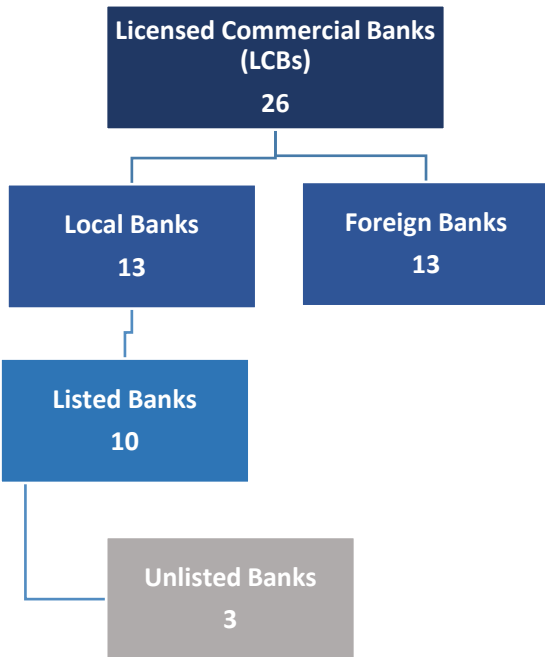
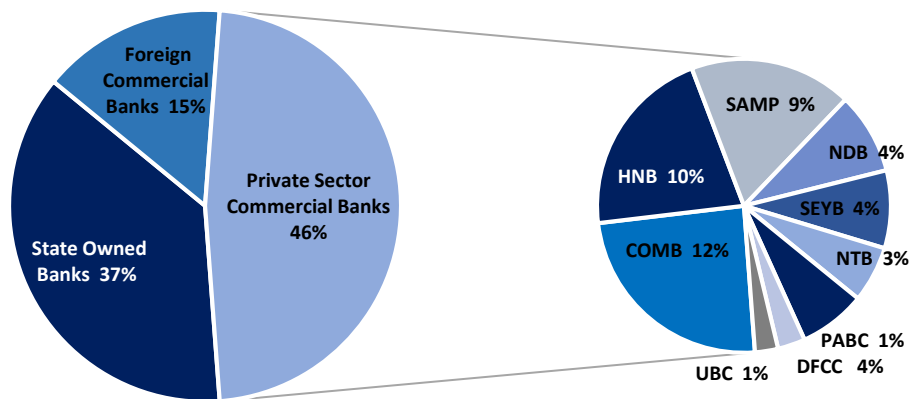


Figure 9: Distribution of Assets among LCBs



Source: Company Reports and CBSL

LCBs are expected face challenges on the macro front despite the recent growth witnessed: Sri Lankan banking sector has been growing steadily with a total asset CAGR of 17% since 2009 in the midst of challenging economic environments. LCB sector loan growth has been a good proxy for economic growth of the country while indicating a positive correlation with real GDP growth rate over last decade. LCB sector assets and deposits have grown steadily over the years while deposit remaining the major source of funding for more than 72% of total assets.

Figure 10: LCBs gross loans (%) have moved in tandem with real GDP

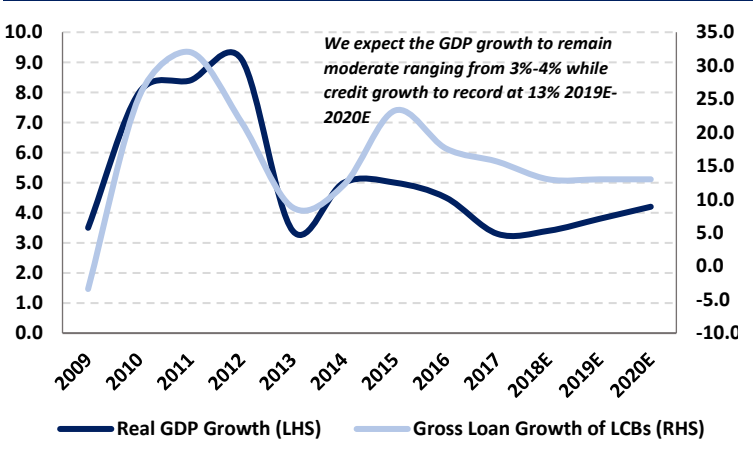
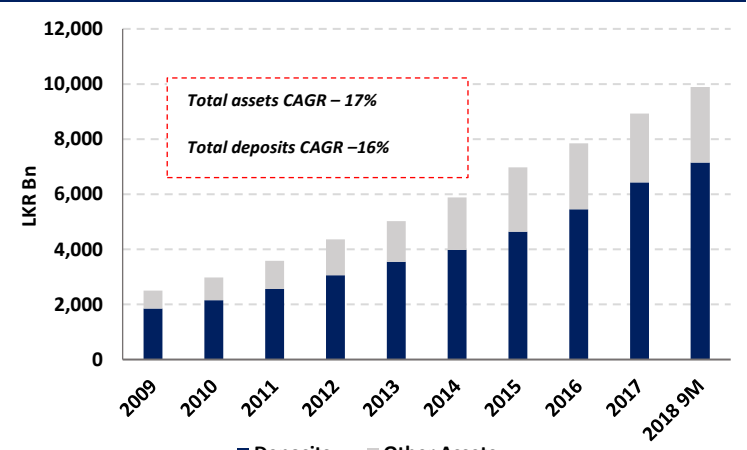


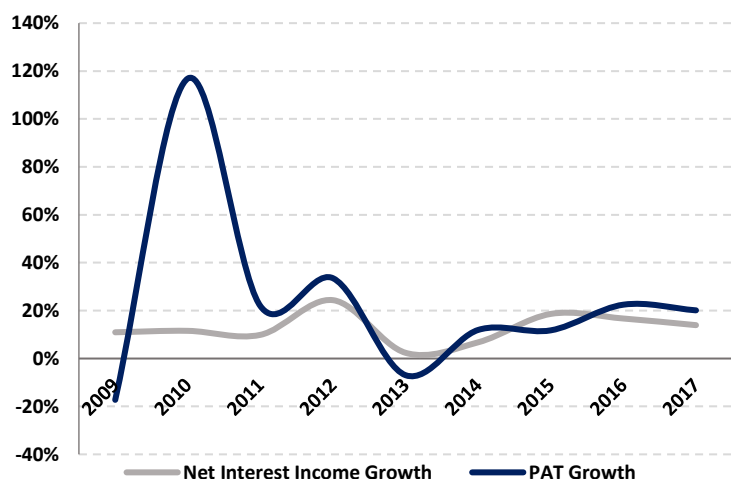
Figure 11: Total Assets and Deposits growth of LCBs sector



Modest credit growth of 14%: Going forward, we expect operating conditions for LCBs to be difficult against the challenging macroeconomic backdrop, which is expected to continue to pressure LCBs performance in the short to medium term. Sri Lanka is due to enter an election cycle. In addition, the country has large external debt-refinancing needs from 2019-2020 amidst tighter global monetary conditions, with heightened capital requirements which could dampen prospects for banks in the short to medium term. Accordingly, we expect modest 14% annual private sector credit growth for 2019E and next 2 years based on the tight macroeconomic fundamentals and capital pressure on banks, despite historical average being 15% for last 5 years.

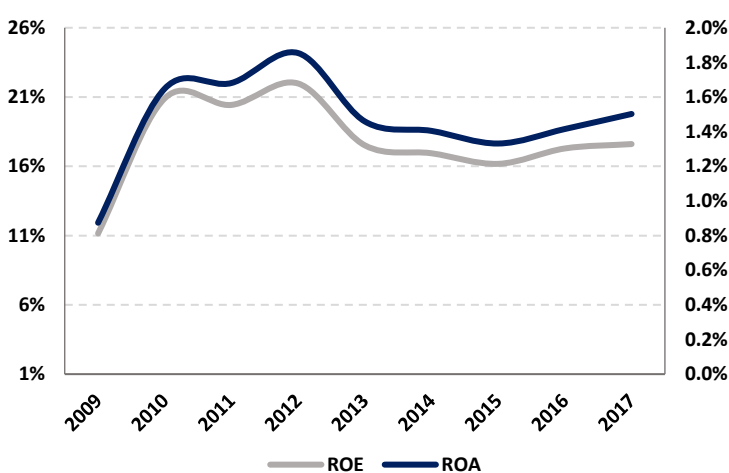
Profitability of LCBs: LCBs have been able to maintain strong profitability over the years while expanding rapidly since 2009. Albeit there was a strong growth of profitability in initial years of post war era, NIIs, PAT, ROEs and ROAs have been remaining almost stable in last 3 years due to considerable increase in the assets and capital base of the banking sector to meet the minimum regulatory requirements.

Figure 12: LCB's Net Interest Income and Profit After Tax



Source: CBSL

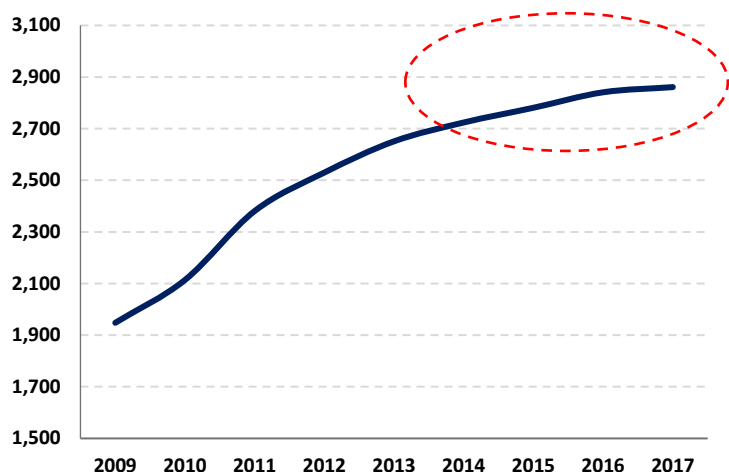
Figure 13: ROEs and ROAs of LCBs



Source: CBSL

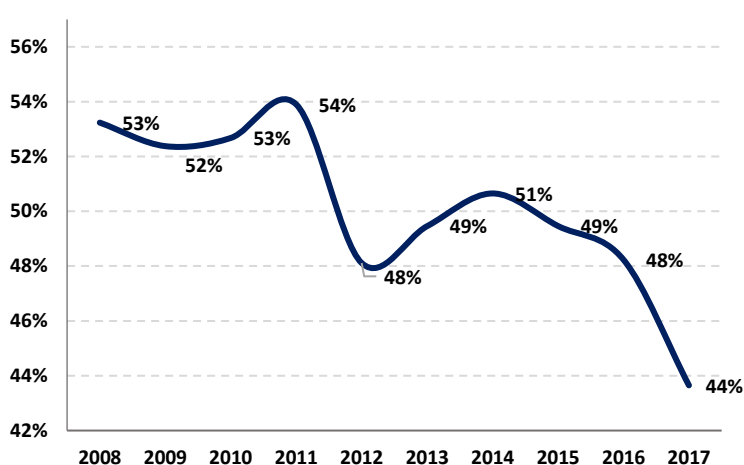
LCB's significant investment towards Digitalization is expected to improve the Cost to Income Ratio thus improving the bottom line: Previous cost structure of Sri Lankan LCBs was more than 50% of their total income and placing above the average of other Asia Pacific countries. Despite the significant branch expansion witnessed after war, which was expected to weigh on the higher cost-to-income ratio, we expect the shift towards virtual banking platform to cut down operational cost, thus bringing down the cost structure of banking sector in medium to long term.

Figure 14: Stagnant branch expansion of LCBs



Source: CBSL

Figure 15: Cost to Income ratio of LCBs is gradually declining



Source: CBSL

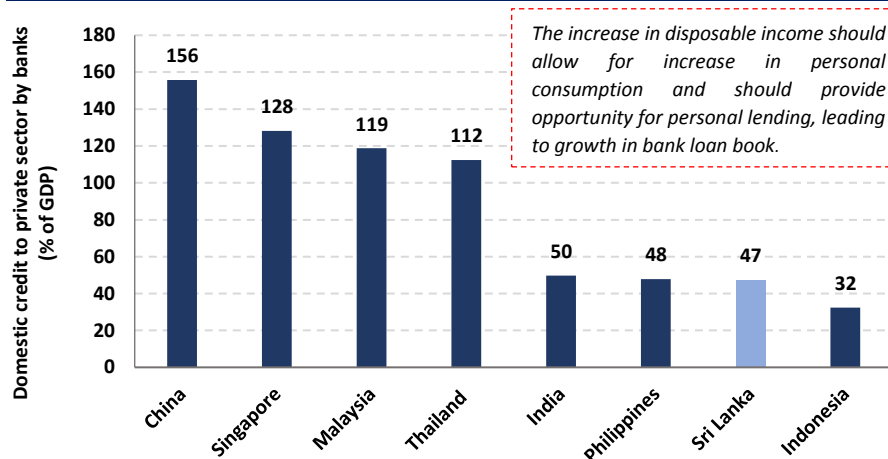
Increased Regulations to affect the LCB sector: Globally and domestically there has been an onset of increased financial sector regulation to ensure stability and soundness of banks and other financial institutions. Increased regulations are expected to create greater complexity and higher compliance costs for financial institutions, some of which may impact customers through pass-on effects.

Figure 16: Upcoming policies and regulations affecting LCBs

Regulation	Minimum Value	Timeline
Basel III: Capital Adequacy		By 01.01.2019
<u>Banks with Assets Less than Rs. 500 Bn</u>		
➤ Common Equity Tier 1 including Capital Conservation Buffer.	7.00%	
➤ Total Tier I including Capital Conservation Buffer.	8.50%	
➤ Total Capital Ratio including Capital Conservation Buffer.	12.50%	
<u>Banks with Assets above Rs. 500 Bn</u>	8.50%	
➤ Common Equity Tier 1 including Capital Conservation Buffer.	10.00%	
➤ Total Tier I including Capital Conservation Buffer.	14.00%	
➤ Total Capital Ratio including Capital Conservation Buffer.		
SLFRS 9: Financial Instruments	N/A	Adoption after 01.01.2018
Liquidity Coverage Ratio	100%	By 2019
Net Stable funding Ratio	90% and 100%	By 01.01.2019 and 01.07.201
Leverage Ratio	3%	Commencing from 01.01.201
Limitations on foreign currency borrowings	Based on capital	N/A

However, low credit penetration is expected to drive the credit growth in the long term. Despite the steady growth in credit, Sri Lanka remains comparatively underpenetrated compared to regional peers which will enable it to record a sound credit growth in the long run as country is heading towards per capita GDP of USD 4,000.

Figure 17: Despite strong credit growth, SL remains underpenetrated compared to peers in credit

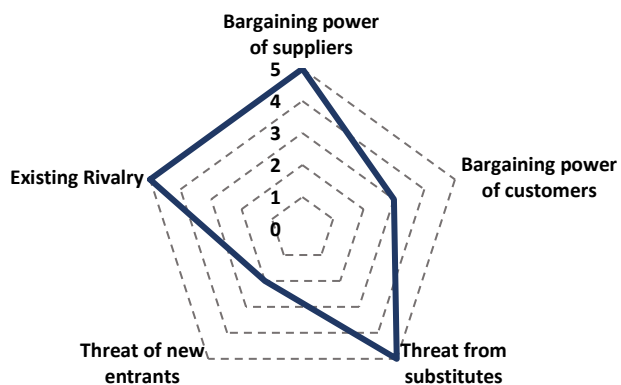


Source: World Bank

Analysis of LCB industry in Sri Lanka

Bargaining power of suppliers	<ul style="list-style-type: none"> Bargaining power of depositors are high at times of increasing interest rates. Funding institutions have high bargaining power during periods of tight liquidity. 	High
Bargaining power of customers	<ul style="list-style-type: none"> Large corporate clients have bargaining power based on their high credit worthiness. Retail and SME customers' bargaining is relatively low. 	Neutral
Threat from substitutes	<ul style="list-style-type: none"> NBFIs create a significant threat to LCBs. Equity financing and alternative financing products for borrowers. Large corporates raise capital from debentures. 	High
Threat of new entrants	<ul style="list-style-type: none"> Tight licensing requirement and regulations by CBSL create a strong entry barrier. Initial and subsequent investments are very high making industry entry difficult for new banks. 	Low
Existing Rivalry	<ul style="list-style-type: none"> Competition amongst existing banks and other NBFIs are very high due to large number of players operating in the industry compared to the size of the economy. Industry consolidation can control this competition. 	High
Based on the above factors overall LCB industry attractiveness		Low

Figure 18: Analysis of Competition in the LCB industry



Source: First Capital Research

Figure 19: Analysis of Competition in the LCB industry in terms of

Bank	Value of Assets*	Market Share
Bank of Ceylon	2,099,678	21%
Peoples Bank	1,882,320	19%
Commercial Bank	1,255,287	13%
Hatton National Bank	1,090,283	11%
Sampath Bank	925,527	9%
National Development Bank	463,073	5%
Seylan Bank	442,340	4%
DFCC Bank	380,602	4%
Nations Trust Bank	319,800	3%
Pan Asia Banking Corporation	156,378	2%
Union Bank	131,174	1%
Foreign Banks	746,935	8%
Total	9,893,397	100%

*Note- Value of assets are in LKR Mn

Source: Company Reports

6.0 Key Ratios

SEYB P/E 31 December	2015	2016	2017	2018	2019E	2020E	2021E
Capital							
Tier 1 (5%)	12.2%	10.7%	11.2%	10.2%			
Tier 2 (10%)	12.9%	13.2%	13.3%	13.3%			
Equity / Assets							
Earnings							
Return on Average Equity	14.98%	14.51%	14.88%	8.72%	9.28%	9.60%	10.01%
Return on Average Assets	1.40%	1.22%	1.25%	0.71%	0.75%	0.81%	0.86%
Avg. yield on earning assets	9.51%	10.97%	12.16%	11.94%	11.75%	11.97%	12.05%
Avg. cost of funds	5.12%	6.86%	8.25%	8.01%	8.05%	8.13%	8.31%
Net Interest Spread	4.38%	4.11%	3.91%	3.92%	3.70%	3.84%	3.74%
Net Interest Margin	5.66%	5.49%	5.33%	5.27%	4.81%	4.94%	5.01%
Efficiency							
Cost / Income	53%	55%	50%	51%	53%	53%	54%
Cost/ Core Income	35.7%	29.1%	24.9%	24.0%	24%	24%	25%
Cost / Average Assets	3.1%	3.0%	2.8%	2.7%	2.6%	2.7%	2.9%
Cost / Branch (Rs.'Mn)	54.3	58.7	65.5	69.4	73.1	78.1	87.0
Rev. / Employee (Rs.'Mn)	9.3	12.0	15.6	16.4	18.9	21.0	22.6
Asset Quality							
Asset Growth	19%	20%	14%	15%	6%	4%	6%
Deposit Growth	21%	22%	12%	16%	5%	5%	5%
Borrowings Growth	70%	-10%	53%	-2%	5%	2%	30%
Loan Growth	25%	22%	19%	16%	12%	12%	12%
Liquidity							
Loan / Deposits	86%	86%	91%	91%	97.1%	103.3%	110.0%
Loan / Total Assets	65%	66%	69%	70%	73%	78%	83%
Deposit / Liabilities	82.8%	83.3%	82.3%	82.7%	82%	83%	83%
CASA	36.3%	32.5%	31.2%	28.8%	30.5%	31.7%	33.7%

Source : Company Annual Reports and First Capital Research Estimates

7.0 Shareholding of SEYB

Top 20 shareholders - (% held)	4Q2018	3Q2018	QoQ	4Q2017	YoY
Sri Lanka Insurance Corporation Ltd	15.0%	15.0%	-	15.0%	-
Brown & Company PLC A/C No. 1	13.9%	13.9%	-	13.9%	-
Employees Provident Fund	9.9%	9.9%	-	9.9%	-
LOLC Investments Ltd	9.6%	9.6%	-	9.6%	-
National Development Bank PLC A/C No.02	8.7%	8.7%	-	8.7%	-
Bank of Ceylon No.1 Account	7.5%	7.5%	-	7.5%	-
Mr. R S Captain	6.1%	6.1%	0.1%	6.1%	0.1%
Employees Trust Fund Board	2.1%	2.1%	-	1.8%	0.3%
Mr. S E Captain	2.0%	2.0%	-	2.0%	-
Seyfest (Private) Limited	1.7%	1.7%	-	1.7%	-
Ms. L A Captain	1.4%	1.4%	0.0%	1.4%	0.0%
Sesot (Private) Limited	1.3%	1.3%	-	1.3%	-
Seybest (Private) Limited	1.2%	1.2%	-	1.2%	-
Seyshop (Private) Limited	1.2%	1.2%	-	1.2%	-
Esots (Private) Limited	1.2%	1.2%	-	1.2%	-
Ambeon Holdings PLC	1.2%	1.2%	-	0.0%	1.2%
Capital Development and Investment Company PLC A/C No. 02	1.0%	1.0%	-	1.0%	-
AIA Insurance Lanka PLC A/C No. 07	0.9%	0.9%	-	0.9%	-
N P Capital Ltd	0.6%	0.6%	0.1%	0.0%	0.6%
Mr. K R B Fernando	0.6%	0.6%	-	0.6%	-

Top 20 shareholders - (% held)	4Q2018	3Q2018	QoQ	4Q2017	YoY
LOLC Holdings PLC (Formerly known as Lanka Orix Leasing Company PLC)	43.9%	43.9%	-	43.9%	-
Employees Provident Fund	5.3%	5.3%	-	5.3%	-
Akbar Brothers Pvt Ltd A/C No 1	2.1%	2.1%	0.0%	1.9%	0.2%
J.B. Cocoshell (Pvt) Ltd	1.9%	1.9%	-	1.8%	0.1%
Deutsche Bank AG As Trustee For JB Vantage Value Equity Fund	1.9%	1.9%	-	1.9%	-
Pershing LLC S/A Averbach Grauson & Co.	1.8%	1.8%	-	1.8%	0.0%
Employees Trust Fund Board	1.6%	1.6%	-	1.2%	0.4%
Commercial Bank of Ceylon PLC/Dunamis Capital P L C	1.5%	1.5%	-	1.5%	-
Mr. E Thavagnanasooriyam & Mr. E Thawagnasundaram	1.4%	1.5%	-0.2%	1.5%	-0.2%
Merrill J Fernando & Sons (Pvt) Limited	1.1%	1.1%	-	1.1%	-
Assetline Leasing Co Ltd/Don & Don Holdings Pvt Ltd	1.1%	1.0%	0.1%	0.0%	1.1%
Mr. N. Balasingam	1.0%	1.0%	-	1.0%	-
Mr. R R Leon	0.9%	0.0%	0.9%	0.0%	0.9%
LOLC Technology Services Limited	0.9%	0.9%	-	0.9%	-
Dr. S Yaddehige	0.6%	0.6%	-	0.6%	-
Mr. R.Gautam	0.6%	0.6%	0.0%	0.5%	0.1%
SSBT- Deutsche Bank AG Singapore A/C No 01	0.5%	0.5%	-	0.5%	-
Mr. M.J. Fernando	0.5%	0.5%	-	0.5%	-
Mr. A P Somasiri	0.5%	0.5%	-	0.5%	-
Deutsche Bank Ag As Trustee For Namal Acuity Value Fund	0.5%	0.7%	-0.2%	0.7%	-0.2%

8.0 Investment Risks

Higher impairment amidst high lending growth: In spite of the moderation in lending growth falling below the private sector credit growth, we expect the impairment provision to average around LKR 2.5Bn over 2019-21E owing to the lagging effect witnessed in lending growth and NPAs. With a CAGR of 18% over 2016-18 period SEYB maintained its lending growth well above the private sector credit growth thereby achieving a loan portfolio of LKR 327Bn by end 2018. Above average loan growth along with the effect of adoption of IFRS 9 resulted in an impairment provision of LKR 3.5Bn leading to an NPL ratio of 5.98%, above the industry average of 3.4%.

Raising capital to be challenging: SEYB was successful in issuing debenture in early April 2019. However, upon the total asset value reaching the LKR 500Bn threshold, SEYB is required to enhance their capital base allowing the growth in lending portfolio as well as the asset base. We believe the bank has the option of raising capital either via issuance of rights shares or through a private placement of shares. However, considering the overly sluggish growth in the overall economy and liquidity position would pose challenges to raise fresh capital in prevailing economic environment.

Appendix I: Statement of Financial Performance

Profit & Loss Statement (LKR mn)	2015	2016	2017	2018	2019E	2020E	2021E
P/E 31st Dec							
Interest Income	24,167	33,473	43,732	49,230	53,220	57,633	62,755
Interest Expenses	-12,309	-19,974	-28,157	-31,440	-34,855	-36,849	-39,524
Net Interest Income	11,857	13,499	15,575	17,790	18,366	20,784	23,231
Fee & Other Income	4,342	4,314	5,971	5,411	5,387	5,017	5,447
Total Operating Income	16,199	17,813	21,546	23,201	23,753	25,801	28,678
Impairment (Charges)/ Reversal	489	954	1,505	3,475	2,743	2,572	2,535
Net Operating Income	15,710	16,859	20,041	19,726	21,010	23,228	26,143
Less : Operating expenses							
Staff Cost	4,222	4,642	5,229	5,817	6,439	7,114	8,275
Depreciation of PPE	1,773	2,169	743	810	704	747	732
Other Operating Expenses	2,636	2,934	4,899	5,165	5,500	5,885	6,474
Profit from operations	8,631	9,745	10,871	11,791	12,643	13,747	15,481
Operating Profit Before VAT, NBT & DRL	7,079	7,114	9,170	7,935	8,367	9,482	10,662
VAT, NBT & DRL	1,256	1,343	1,885	2,113	2,849	3,193	3,644
Profit Before Tax	5,823	5,771	7,285	5,822	5,518	6,288	7,019
Income Tax Expense	1,937	1,736	2,281	1,536	1,821	2,075	2,316
Profit for the Year	3,886	4,035	5,004	4,286	3,697	4,213	4,702
Minority Interest	31	22	187	14	74	84	94
Profit attributable to Equity Holders	3,855	4,013	4,817	4,272	3,623	4,129	4,608
EPS	9.5	9.9	11.9	10.6	9.0	10.2	11.4

Source : Company Annual Reports and First Capital Research Estimates

Appendix II: Statement of Financial Position

Balance Sheet (LKR mn) as at 31st Dec	2015	2016	2017	2018	2019E	2020E	2021E
Assets							
Cash and Cash Equivalents	7,801	8,336	8,319	12,574	12,921	6,701	-12,610
Balances with Central Bank of Sri Lanka	8,564	16,212	19,120	18,472	18,584	19,513	20,489
Placements with Banks and Finance Companies	757	334	1,455	0	1,126	1,183	1,242
Loans and Advances to Customers	193,104	236,020	280,862	326,883	364,552	407,242	455,402
Financial Assets	74,772	80,880	84,792	95,014	83,378	68,048	69,315
Property, Plant and Equipment	5,475	6,562	6,583	6,929	6,214	5,537	4,750
Other Assets	8,201	9,905	8,852	9,790	12,514	11,821	11,953
Total Assets	298,675	358,249	409,984	469,661	499,291	520,046	550,541
Liabilities							
Due to Banks	19,784	17,728	27,053	26,379	27,566	27,979	36,373
Due to Customers	224,525	273,456	307,099	357,560	375,438	394,210	413,921
Other Borrowings	18,745	28,578	29,720	37,601	42,245	41,061	39,473
Tax Liabilities	890	828	2,478	1,186	1,233	1,282	1,334
Other Liabilities	7,376	7,573	6,594	9,472	9,723	9,918	10,116
Total Liabilities	271,320	328,164	372,943	432,198	456,206	474,451	501,217
Shareholders Funds							
Stated Capital	10,530	10,530	11,228	12,026	15,026	15,026	15,026
Statutory Reserve Fund	1,187	1,388	1,609	1,769	1,954	2,164	2,400
Retained Earnings	11,376	14,305	17,697	20,419	22,090	23,483	25,967
Other Reserves	3,194	2,798	5,171	2,033	2,729	3,555	4,476
Shareholders Funds	26,288	29,020	35,705	36,247	41,798	44,228	47,869
Minority Interest	1,067	1,065	1,214	1,216	1,287	1,367	1,456
	27,355	30,085	36,919	37,463	43,085	45,595	49,325
Total Liabilities & Shareholders' Funds	298,675	358,249	409,862	469,661	499,291	520,046	550,541
NAVPS	65.0	71.7	88.3	89.6	103.3	109.3	118.3

Source : Company Annual Reports and First Capital Research Estimates

Appendix III: 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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