



L B FINANCE PLC [LFIN.N0000]

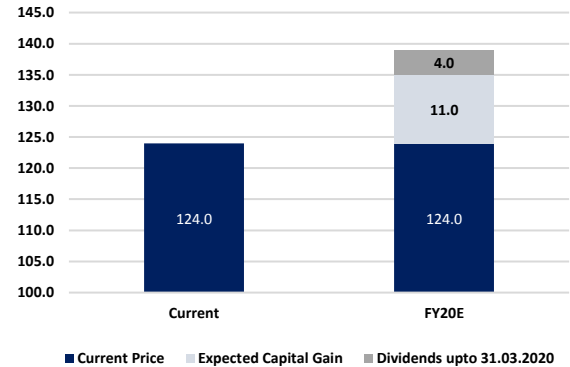
HOLD

DENTED ECONOMIC OUTLOOK TO WEIGH ON FY20E EARNINGS

Fair Value: FY20E - LKR 135.0 [+9%]

Total Return with DPS: FY20E - 12% [AER 15%]

LFIN's earnings for 4QFY19 increased by 28%YoY to LKR 1.6Bn while 12M cumulative earnings recorded a growth of 20%YoY to LKR 5.1Bn. During 4QFY19, earnings growth was mainly led by the 12%YoY increase in NII, 20%YoY growth in net fee and commission income and 80% decline in the impairment charges. We estimate earnings for FY20E to reach LKR 5.2Bn with a marginal increase (4%YoY) as a result of slowdown in lending, mainly led by lower demand for its leasing and possible higher impairment that might stem from gold loans segment under subdued economic environment. After applying a liquidity discount of 10%, LFIN's fair value for FY20E is estimated to be LKR 135.0 providing an annualized return of 15%. **HOLD**



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LKR (Mn)	4QFY18	4QFY19	YoY	FY18	FY19	YoY
Earnings (LKR 'Mn)						
Net interest income	3,388	3,799	+12%	11,897	14,468	+22%
Total operating income	3,893	4,375	+12%	13,548	16,389	+21%
Net operating income	3,602	4,313	+20%	12,877	15,402	+20%
PBT	1,917	2,243	+17%	6,472	7,773	+20%
Net Profit	1,225	1,567	+28%	4,245	5,079	+20%
Balance Sheet (LKR 'Mn)						
Shareholders' Equity	15,348	18,468	+20%	15,348	18,468	+20%
Lease Rentals & HP	62,490	66,050	+6%	62,490	66,050	+6%
Loans and Advances	39,894	47,766	+20%	39,894	47,766	+20%
NAVPS	110.8	133.3		110.8	133.3	

KEY DATA

CSE Ticker	LFIN.N0000
Bloomberg Ticker	LFIN SL
Share Price (LKR)	124.0
52w High (LKR)	128.4
52w Low (LKR)	113.3
Avg. Daily Volume (Shares)	11,473
Avg. Daily Turnover (LKR)	1,367,144
Issued Share Capital (Shares 'Mn)	139
Market Cap (LKR 'Mn)	17,176
Market Cap (USD 'Mn)	96

*1 USD = LKR 178

Total operating income growth of 12%YoY for 4QFY19 amidst healthy performance in the core business
 In 4QFY19, LFIN's total operating income increased by 12%YoY supported by interest income growth of 12%YoY to LKR 7.1Bn from LKR 6.4Bn in 4QFY18 amidst interest expense growth of 11%YoY to LKR 3.3Bn from LKR 3.0Bn in the same quarter previous year. LFIN's NIMs improved by 12bps YoY to 13.34% in 4QFY19 mainly supported by +11%YoY growth in its total lending portfolio coupled with the repricing of short-term deposit base as the adoption of new SLFRS 09 requirement and LFIN's higher exposure to gold backed lending (currently, LFIN's gold loan product holds 50% of NBFI market share) which is considered to have a higher asset quality pressure as a result of subdued economic activity levels.

Lowered impairment favours 4QFY19 earnings

LFIN's impairment charges for the 4QFY19 declined significantly by 80% to LKR 58.8 Mn due to the reversal of provisioning made in previous quarters. However, charges for the year FY19 recorded an increase of 47%YoY to LKR 986.0 Mn with NPL ratio increasing to 2.69% from 2.37% in FY18 though it remains relatively lower against the industry NPL ratio of 7.7%. We expect impairment charges to be on upward trend in FY20E attributable to the adoption of new SLFRS 09 requirement and LFIN's higher exposure to gold backed lending (currently, LFIN's gold loan product holds 50% of NBFI market share) which is considered to have a higher asset quality pressure as a result of subdued economic activity levels.

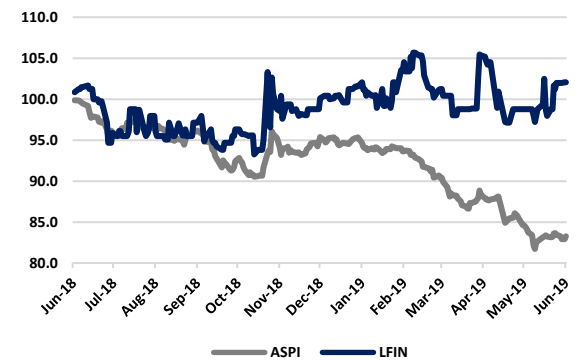
However, satisfactory capital to help grab the market share in the medium to long term

LFIN is the 3rd largest NBFI in terms of the asset base and fourth largest in terms of capital (as at 31.03.2018) with regulatory Tier 1 and total capital ratios remaining at 13.26% and 15.39%, respectively, as at end of FY19. As per new Basel III regulation by CBSL, the minimum Tier 1 and total capital ratio requirement increased to 8.00% and 12.00% for all finance companies by 01.07.2020, and then to rise to 10.00% and 14.00% by 01.07.2021, with incremental increases each year. We expect smaller finance companies to be affected by the new rule and to struggle to raise capital to comply with new regulation resulting lending market share transferring to larger finance companies similar to LFIN during the medium to long term. Accordingly, we expect LFIN's total advances to growth to be at 10% for FY20E and then to gradually rise to 13% in FY21E.

TP is at LKR 135.0 –HOLD

Earnings are expected to improve from FY21E onwards, mainly led by the growth in the lending portfolio in the midst of comfortable capital structure. However, short term slowdown in overall economy and resultant subdued demand for leasing, higher impairment and full year impact of Debt Repayment Levy are expected to hit on FY20E earnings while resulting a marginal increase in earnings of 4%YoY. Accordingly, LFIN's fair value for FY20E is estimated at LKR 135.0 with a total return of 12% (capital gain of 9% and Div yield of 3%) and an annualized return of 15% on the current market price. **HOLD**

Price Performance (%)	1 mth	3 mths	12mths
LFIN	3%	1%	2%
ASPI	-2%	-8%	-17%



Source: CSE

Minimum Return for BUY:

Buy Below [AER of 18.54% without DPS]: LKR 117.50

LFIN 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 have shares in LFIN and will not trade in this share for three trading days following the issue of this document.

Estimate Revision

In LKR Mn	FY20E - O	FY20E - R	% Change	FY21E - O	FY21E - R	% Change
Earnings Estimate						
Net Interest Income	N/A	15,921	N/A	N/A	17,833	N/A
Total Operating Income	N/A	18,033	N/A	N/A	20,191	N/A
Pre Income Tax Profit	N/A	8,077	N/A	N/A	9,041	N/A
Net Profit	N/A	5,278	N/A	N/A	5,908	N/A
Adjusted EPS	N/A	38.1		N/A	42.7	
Growth YoY	N/A	4%		N/A	12%	
Balance Sheet Estimate						
Loans and advances	N/A	52,550	N/A	N/A	59,504	N/A
Lease rentals & stock out on hire	N/A	72,665	N/A	N/A	82,281	N/A
Equity attributable to parents	N/A	22,136	N/A	N/A	26,272	N/A
Adjusted NAVPS	N/A	159.8		N/A	189.7	
Ratio Estimate						
ROE (%)	N/A	26.0%		N/A	24.4%	
PER (x)	N/A	3.3x		N/A	2.9x	
PBV (x)	N/A	0.8x		N/A	0.7x	

Valuation Table

P/E 31 March	FY16	FY17	FY18	FY19E	FY20E	FY21E	FY22E
Estimates (LKR 'Mn)							
Net Interest Income	8,655	9,798	11,897	14,468	15,921	17,833	20,356
Other Revenue	1,218	1,453	1,650	1,921	2,112	2,357	2,662
Total Operating Income	9,873	11,251	13,548	16,389	18,033	20,191	23,018
Net Profit	3,718	3,918	4,245	5,079	5,278	5,908	6,706
Adjusted EPS (LKR)	26.8	28.3	30.6	36.7	38.1	42.7	48.4
YoY Growth (%)	70%	5%	8%	20%	4%	12%	14%
Valuations							
PER (x)	4.6x	4.4x	4.0x	3.4x	3.3x	2.9x	2.6x
PBV (x)	1.64	1.37	1.12	0.93	0.8x	0.7x	0.6x
DY (%)	6.0%	7.3%	8.9%	9.7%	9.4%	10.3%	11.7%

Valuation Summary

Expected LFIN Price for FY20E		Return	FY20E
Justified PBV based target price	162.7	Target Price	135.0
PER Valuation based target price	141.0	Current Price	124.0
RI Valuation based target price	149.1	Capital Gain (LKR)	11.0
Average Target Price	150.9	Dividends upto 31.03.2020 (LKR)	4.0
Liquidity and Price volatility Discount (10%)	15.1	Capital Gain %	9%
Target Price after discount	135.8	Dividend Yield %	3%
Target Price after Rounding off	135.0	Total Return %	12%
		Annualized Return %	15%

*LFIN announced a final dividend of LKR 4.00 on 27th May 2019 for FY19 with XD date being 28th June 2019

Residual Income Valuation

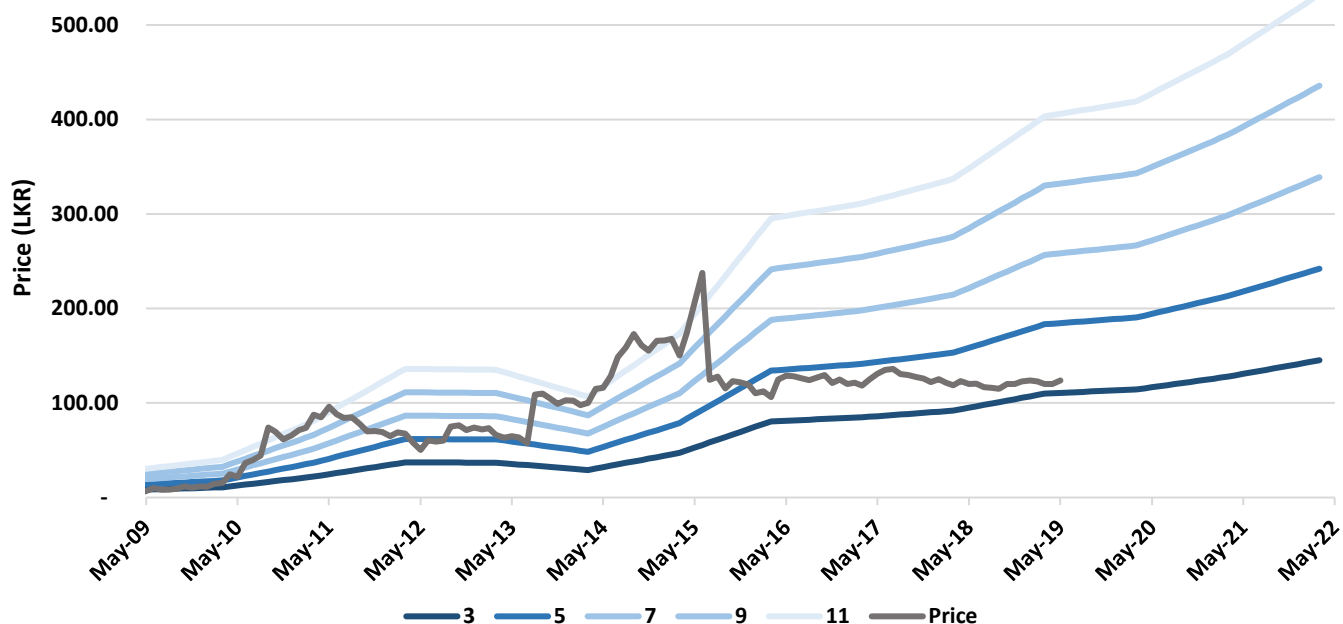
Residual Income based Valuation	
PV of Residual Income	2,191
No. of Shares ('Mn)	139
RI per Share	15.8
Opening Book value per Share	133.3
Value per Share	149.1

Justified PBV Valuation

Justified PBV based Valuation	
ROAE	26.0%
Growth	2.3%
COE	25.6%
PBV	1.02
NAVPS	159.8
Target Price	162.7

COE	
Rf	10.5%
Rm	18.5%
Growth %	2.3%
β	1.88
$Ke=Rf+\beta(Rm-Rf)$	25.6%

PER Valuation



Source: First Capital Research Estimates

PER based Valuation	
FY20E Earnings (LKR 'Mn)	5,278
No. of Shares ('Mn)	139
FY20E EPS	38.11
Expected PER	3.7x
Price at 3.7x FY20E Earnings	141.0

Appendix I: Key Ratios

LFIN							
P/E 31st Mar	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Core Capital to Risk Weighted Asset Ratio	13.39	16.12	14.69	*13.26			
Total Capital to Risk Weighted Asset Ratio	15.36	17.06	17.14	*15.39			
Return on Average Equity	40%	34%	30%	30%	26%	24%	23%
Return on Average Assets	4.89%	4.18%	3.80%	3.95%	3.66%	3.67%	3.69%
Net Interest Spread	13.51%	11.91%	12.11%	13.12%	13.10%	13.10%	13.10%
Net Interest Margin	13.55%	12.17%	12.41%	13.37%	13.31%	13.35%	13.46%
Non-Core Income / Net Income	14%	15%	14%	13%	13%	13%	13%
Cost / Income	41%	45%	43%	39%	39%	39%	40%
Cost / Average Assets	5%	5%	5%	4%	4%	4%	4%
Asset Growth	25%	22%	18%	13%	11%	12%	14%
Deposit Growth	17%	13%	21%	14%	4%	12%	11%
Borrowings Growth	53%	50%	8%	-1%	36%	9%	18%
Loan Growth	28%	25%	15%	11%	10%	13%	13%
Avg. yield on earning assets	23%	22%	24%	25%	25%	25%	25%
Avg. cost of funds	9%	10%	12%	12%	12%	12%	12%
Loan / Deposits	134%	148%	140%	137%	145%	147%	150%
Loan / Total Assets	85%	87%	85%	83%	82%	83%	83%
Deposit / Liabilities	72%	67%	69%	71%	67%	67%	66%
Equity / Assets	12%	12%	13%	14%	15%	15%	16%
Cost / Branch (Rs.'Mn)	24.3	28.5	31.9	34.4	37.4	41.0	46.0
Rev. / Employee (Rs.'Mn)	3.6	3.5	3.9	4.5	4.8	5.3	5.8
Employees	2744	3221	3441	3,618	3727	3838	3953
Branches	146	154	159	163	167	171	175
New Branches during the Year	11	8	5	4	4	4	4

* Calculated based on the new capital adequacy framework by CBSL for licensed finance companies with effect from 01/07/18

Appendix II: Statement of Financial Performance

Statement of Financial Performance (LKR Mn)	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
P/E 31st Mar							
Income	15,646	19,363	25,046	29,342	32,254	36,026	40,760
Interest Income	14,429	17,910	23,396	27,421	30,142	33,669	38,097
Interest Expenses	-5,773	-8,112	-11,498	-12,953	-14,221	-15,835	-17,742
Net Interest Income	8,655	9,798	11,897	14,468	15,921	17,833	20,356
Fee and commission income	1,169	1,209	1,505	1,787	1,964	2,194	2,483
Net trading income	1	0	0	-3	-3	-3	-3
Other operating income	48	244	146	137	151	166	182
Total Operating Income	9,873	11,251	13,548	16,389	18,033	20,191	23,018
Less: Impairment charges	-382	42	-668	-986	-1,055	-1,178	-1,333
Less: Gold loan auction losses	-29	-2	-3	-1	0	0	0
Net operating income	9,461	11,291	12,877	15,402	16,978	19,012	21,685
Less : Operating expenses	-3,543	-4,389	-5,068	-5,613	-6,252	-7,006	-8,056
Profit before tax on financial services	5,918	6,902	7,809	9,789	10,726	12,006	13,628
Less: Taxes on Financial Services	-593	-1,027	-1,337	-1,614	-1,769	-1,980	-2,247
Profit Before Tax	5,325	5,875	6,472	7,773	8,077	9,041	10,263
Income Tax Expense	-1,607	-1,957	-2,227	-2,694	-2,799	-3,133	-3,557
Profit for the Year	3,718	3,918	4,245	5,079	5,278	5,908	6,706
Profit attributable to Equity Holders	3,718	3,918	4,245	5,079	5,278	5,908	6,706
Adjusted EPS	26.8	28.3	30.6	36.7	38.1	42.7	48.4

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	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Assets							
Cash and cash equivalents	6,052	2,895	5,990	4,059	4,979	3,251	3,932
Financial investments - held for trading	11	10	10	7	7	7	7
Loans and receivables	26,449	33,489	39,894	47,766	52,550	59,504	67,289
Lease rentals receivable and stock out on hire	45,105	55,661	62,490	66,050	72,665	82,281	93,047
Financial investments - available for sale	138	118	122	90	99	112	126
Other financial assets	4,143	6,722	6,767	10,795	12,415	14,277	16,418
Other non-financial assets	539	305	816	1,073	1,180	1,298	1,428
Property, plant and equipment	2,045	3,514	4,682	6,581	7,897	9,476	11,371
Intangible assets	35	49	53	44	44	44	44
Total Assets	84,517	102,763	120,823	136,464	151,835	170,250	193,663
Liabilities							
Due to banks	14,577	23,778	22,838	24,634	34,487	37,936	45,523
Due to customers	53,380	60,402	72,946	83,243	86,481	96,620	106,958
Debt instruments issued & other borrowd funds	2,601	2,044	5,153	3,108	3,108	3,108	3,108
Other financial liabilities	1,870	2,007	1,761	1,974	2,271	2,611	3,003
Other non-financial liabilities	598	673	853	2,068	2,275	2,503	2,753
Current tax liabilities	741	691	633	1,404	796	891	1,011
Deferred tax liabilities	143	503	1,059	1,310	-	-	-
Post employment benefit liability	127	154	231	257	282	310	341
Total liabilities	74,037	90,253	105,475	117,997	129,699	143,978	162,697
Equity							
Stated capital	838	838	838	838	838	838	838
Reserves	2,671	3,412	4,276	5,270	5,270	5,270	5,270
Retained earnings	6,970	8,259	10,234	12,359	16,027	20,163	24,858
Equity attributable to equity holders	10,479	12,510	15,348	18,468	22,136	26,272	30,966
Non-controlling interest	-	-	0	-	-	-	-
Total equity	10,479	12,510	15,349	18,468	22,136	26,272	30,966
Total Liabilities & Shareholders' Funds	84,517	102,763	120,823	136,464	151,835	170,250	193,663
NAVPS	75.7	90.3	110.8	133.3	159.8	189.7	223.6

Source : Company Annual Reports and First Capital Research Estimates

Appendix IV: Top 20 Shareholders

Top 20 shareholders - (% held)	4QFY19	3QFY19	QoQ	4QFY18	YoY
Vallibel One PLC	51.8%	51.8%	-	51.8%	-
Royal Ceramics Lanka PLC	26.1%	26.1%	-	26.1%	-
Esna Holdings (Pvt) Ltd	10.2%	10.2%	-	10.2%	-
BNYM Re-Frontaura Global Frontier Fund LLC	1.7%	1.7%	-	1.7%	-
SBI Ven Holdings Pte Ltd	1.2%	1.2%	-	1.2%	-
Pershing LLC S/A Averbach Grauson & Co.	0.7%	0.4%	0.4%	0.0%	0.7%
AIA Insurance Lanka PLC A/C No. 07	0.6%	0.6%	-	0.6%	-
Sterling Holdings (Private) Limited	0.4%	0.4%	-	0.4%	-
Janashakthi Insurance PLC - Non Par	0.4%	0.4%	-	0.4%	-
Mr. K D A A Perera	0.3%	0.3%	-	0.3%	0.0%
Hatton National Bank PLC/Mr. K R E M D M B Jayasundara	0.3%	0.3%	-	0.2%	0.0%
Mr. N Udage	0.2%	0.2%	-	0.2%	0.1%
Mr. A A K Page	0.2%	0.2%	-	0.2%	-
Mr. N P De A Samaranyake	0.2%	0.2%	-	0.2%	-
People's Leasing & Finance PLC/Dr. H S D Soysa & Mrs. G Soysa	0.2%	0.2%	-	0.2%	-
Mrs. P C Cooray	0.2%	0.2%	-	0.2%	-
J B Cocoshell (Pvt) Ltd	0.1%	0.3%	-0.2%	0.2%	0.0%
DFCC Bank PLC/ Mr. W G D C Ranaweera	0.1%	0.1%	-	0.0%	0.1%
Mr. T Jeremiah	0.1%	0.1%	-	0.1%	-
Mr. P C Somadasa	0.1%	0.1%	-	0.0%	0.1%

Appendix V: Recommendation criteria

Company Category	Buy	Hold	Sell
S&P SL20 Companies	T.Bill + 5% & Above	T.Bill + 1% & Above	Below T.Bill + 1%
Rest of the Companies	T.Bill + 8% & Above	T.Bill + 3% & Above	Below T.Bill + 3%
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 March 2019: 10.54%

Company Category	Buy	Hold	Sell
S&P SL20 Companies	15.54%	11.54%	11.54%
Rest of the Companies	18.54%	13.54%	13.54%
Companies less than LKR 1Bn Market Cap	21.54%	16.54%	16.54%



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Amanda Lokugamage	+94 11 2639 868		

GOVERNMENT SECURITIES SALES

Anjelo Simmons	+94 77 3031 636	Neminda Jayawardena	+94 76 6644 080
Anushka Dissanayake	+94 77 2220 021	Arun Kandasamy	+94 75 4861 506
Anushi Ranawaka	+94 77 3876 819		

CORPORATE DEBT SALES

Sewwandi Kathriarachchi	+94 77 3461 734	Mahesh Amarasinghe	+94 77 0073 684
Nethalie De Mel	+94 11 2639 854	Dharshanie Vasanthajothy	+94 77 9159 878

EQUITY SALES

CEO	Jaliya Wijeratne	+94 70 2910 042	Negombo	
			Priyanka Anuruddha	+94 70 2910 035
Colombo			Priyantha Wijesiri	+94 70 2910 036
Damian Le Grand	+94 70 2910 032			
Nishantha Mudalige	+94 70 2910 041			
Isuru Jayawardana	+94 70 2910 034			
Ifadh Marikar	+94 77 9625 679			
Thushara Pathiraja	+94 70 2910 037			
Anushka Buddhika	+94 70 2910 030			

UNIT TRUST SALES

Kavin Karunamoorthy	+94 77 0328 060	Deepal Pathmaperuma	+94 77 9159 878
Imali Abeygunawardena	+94 77 1764 799		

BRANCHES

Kandy	Kurunegala	Matara	Negombo
2nd Floor, No.121 Kotugodella Veediya (E L Senanayake Veediya) Kandy 20000.	Ground Floor No. 42, Mihindu Mawatha, Kurunegala 60000.	2nd Floor, E.H. Cooray Building No: 24, 1/3, Anagarika Dharmapala Mawatha, Matara 81000.	1st Floor No: 163B, Colombo Road, Negombo 11500.
Manager: Salinda Samarakoon	Manager:	Manager: Rohana Jayakody	Manager:
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