



# Pan Asia Banking Corporation PLC

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*Pioneer Promoter of Green  
Banking with 25 years of Excellence*

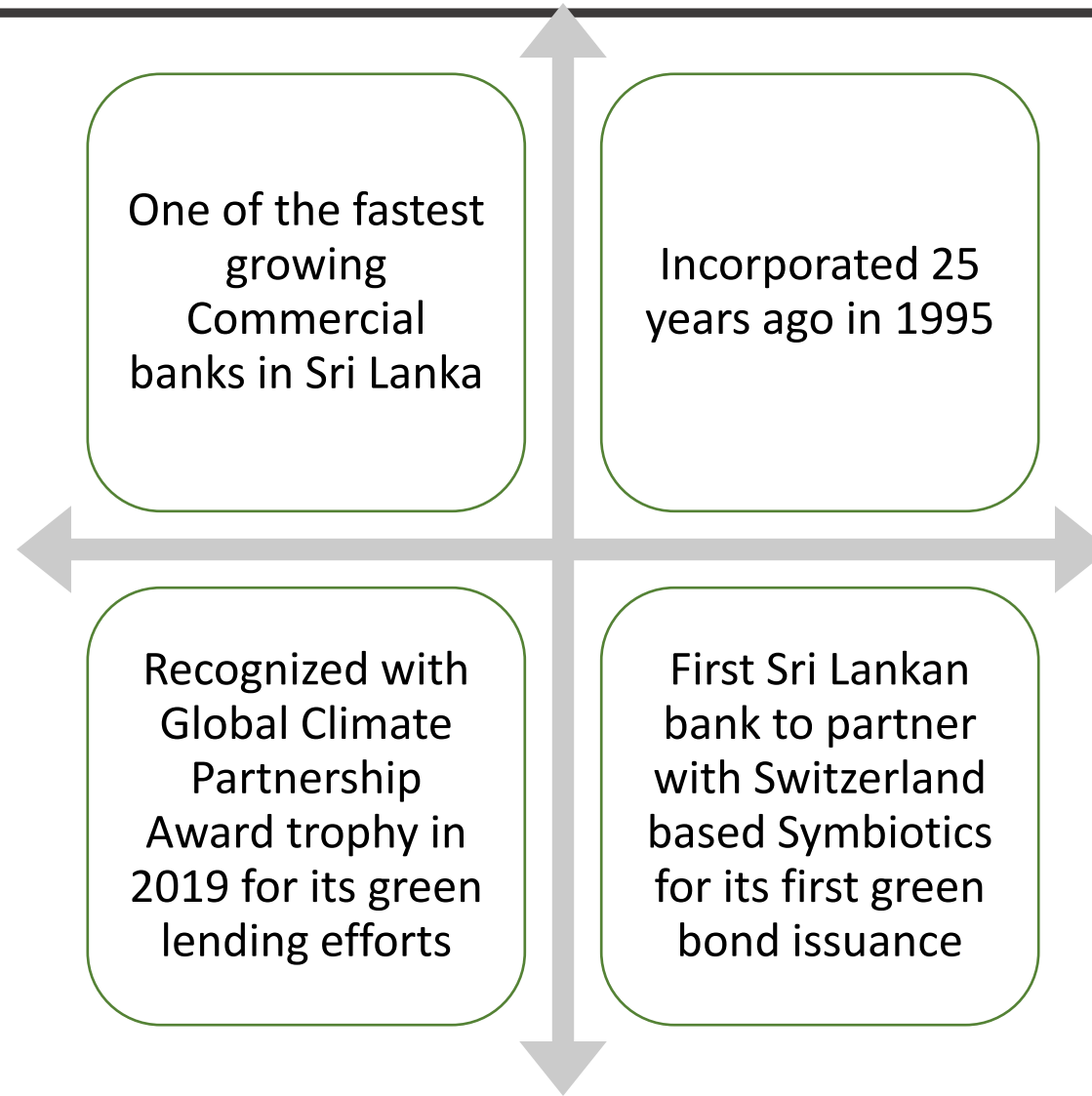


**Earnings Review: STRONG BUY**

Price LKR 17.40 | Target Price LKR 28.40

**Upside +63.3%**

# About Pan Asia Bank



# Case for Investment



- **12M target price yields 63.3% upside:** 12M target: LKR 28.40



- **Bank is well capitalized:** Bank is in line with Basel III capital requirements.
  - Tier 1 capital 12.87% (minimum requirement : 8.5%)
  - Total capital 14.31% (minimum requirement : 12.5%)



- **Strong commitments towards green financing:** First Sri Lankan bank to partner with Switzerland based Symbiotics for its first green bond issuance.



- **Relatively high ROE:** Compared to peers and the banking industry PABC is generating a relatively high ROE

# Case for Investment



- **Historically low level of Statutory Reserve Ratio (SRR)** : CBSL reduced the SRR by 200bps to 2% with effect from 16<sup>th</sup> 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 01<sup>st</sup> 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. 01<sup>st</sup> Dec 2019), and **7% DRL** (w.e.f. 01<sup>st</sup> Jan 2020). Significant savings are expected from 2020. (During FY2019 PABC paid LKR.445 mn as DRL and NBT)



- **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

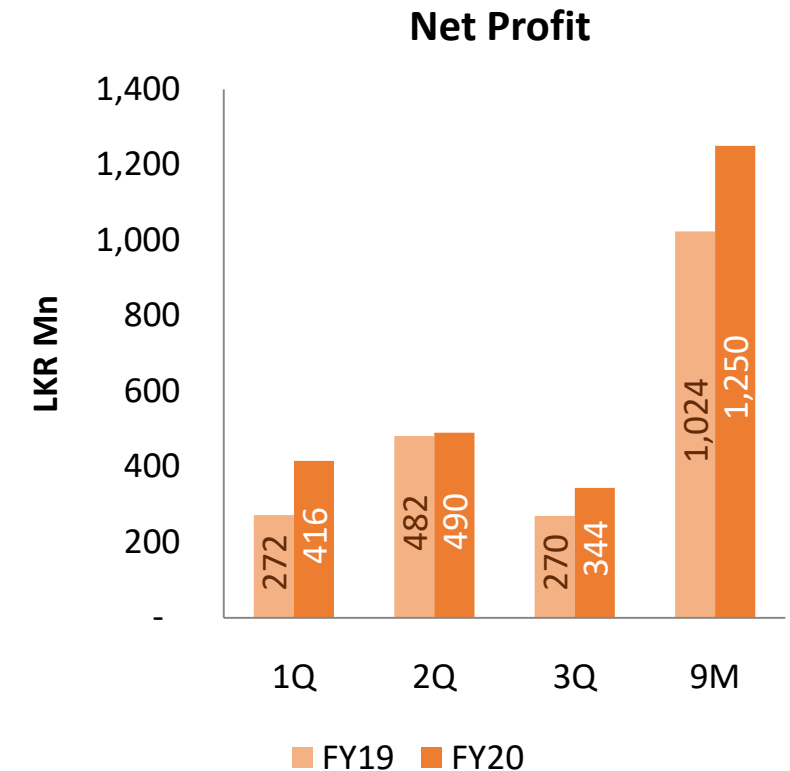


# Financials (Interim Performance)

LKR Mn	1QFY20	2QFY20	3QFY20	9MFY20	9MFY19
Net interest income	1,910	1,830,	1,703	5,443	4,659
Net fee and commission income	363	192	334	939	1167
Total Operating income	2,432	2,236	2,226	6,894	6,445
Less: Impairment charge/(reversal) for loans and other losses	529	146	554	1,229	1,155
Net operating income	1,903	2,089	1,673	5,665	5,290
Operating profit before value added tax (VAT)	812	986	553	2,351	1,971
VAT on Financial Services	160	205	121	486	707
Profit before income tax	652	781	432	1,865	1,264
Income Tax Expense	236	291	88	615	241
Profit for the Year	416	490	344	1,250	1,024

# 9M Operating income up 6.97% with improved NII

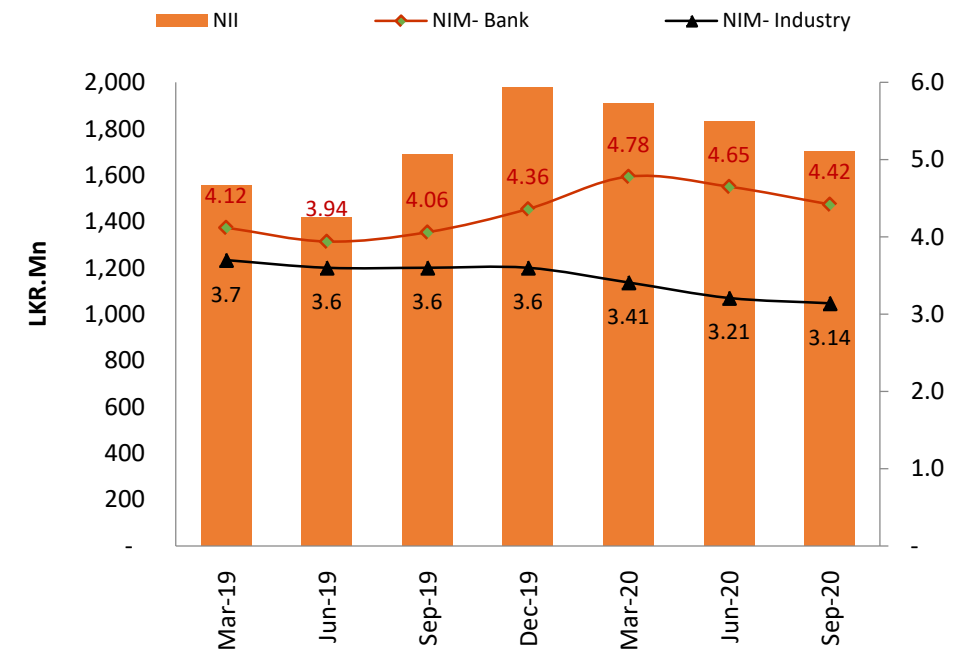
- 9MFY20 interest income contracted 1% YoY to LKR 14.3 billion compared to corresponding period of FY19 .
- Interest expense declined 9% YoY to LKR 8.9 billion compared to the previous financial year, resulting a net interest income of LKR 5.4 billion ; 17% up compared to 9MFY2019.
- Net fee and commission income dampen by 20% YoY to LKR 939 million as a result of the restrictions placed on imports, removal of certain charges and low volume of foreign card transactions.
- Operating profits increase with improved net interest income despite the higher impairment charges.
- Bottom line of PABC for the 9MFY20 is up by 22% YoY to reach LKR 1.2 billion with savings on taxes on financial services.



Source: PABC Financials

# 3Q Profit up despite the increase in impairment charges

- NII increased by 1% YoY to reach LKR 1.7 billion with lower interest expenses resulted from monetary easing in post pandemic period.
- Net operating income declined by 14% YoY due to the higher impairment charges where group increased its impairment charges to LKR 0.5 billion during 3Q2020 compared to LKR 0.3 billion reported in 3QFY19.
- 3Q profit stood at LKR 3.4 billion witnessing 28% YoY growth compared to the 3QFY19.



Source: PABC Financials



# Financials: Condensed Income Statement

Year Ended 31st December	2017	2018	2019	2020 F	2021 F
Net interest income	4,706	6,518	6,635	7,896	8,909
Net fee and commission income	1,312	1,520	1,545	1,345	1,412
Total Operating income	6,679	8,927	9,065	10,169	11,531
Net operating income after impairment charge	6,184	6,909	7,928	8,098	9,428
Operating Expenses	3,732	4,309	4,526	4,377	5,450
Operating profit before value added tax (VAT)	2,452	2,601	3,403	3,721	3,978
Value Added Tax (VAT) on Financial Services	576	691	1,089	819	796
Operating profit after value added tax (VAT)	1,875	1,910	2,314	2,902	3,182
Income Tax Expense	485	368	564	929	764
Profit for the Year	1,391	1,542	1,751	1,973	2,418
Profit attributable to Equity holders of the Bank	1,391	1,542	1,751	1,973	2,418

# Investor's Guide

YE 31st December	2017	2018	2019	2020F	2021F
Net Profit (LKR.Mn)	1,391	1,542	1,751	1,973	2,418
+/- Growth	11%	11%	14%	13%	23%
EPS (LKR)	3.31	3.48	3.96	4.46	5.46
PE (x)	4.75	4.25	3.24	3.90	3.18
NAV (LKR)	25.38	25.41	30.12	34.58	40.04
PBV (x)	0.62	0.58	0.43	0.50	0.43
ROE (%)	13.0%	13.7%	13.1%	12.9%	13.6%
ROA (%)	1.0%	1.0%	1.1%	1.2%	1.4%
Share Price (LKR)	15.70	14.80	12.80	17.40	17.40

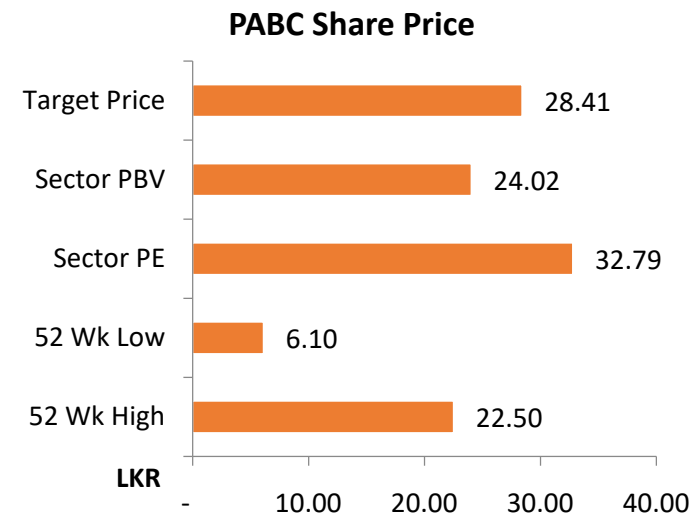
Source: PABC Financials, SC Securities

# Blended valuation yields a 63.3% upside.

## Recommendation: **STRONG BUY**

- A blended valuation approach was implemented. We looked at forward sector PE and PBV multiples and applied it to PABC's FY21E profit figure and FY21E NAVPS.
- Our approach yielded us a target price of LKR 28.4 which gives a 63.3% upside. Therefore, we recommend a BUY over a medium to long term investment horizon.

PABC .N0000	FY21E values
EPS (LKR)	5.46
NAVPS (LKR)	40.04
PER multiple	6.00
PBV multiple	0.60
PE based valuation (LKR)	32.79
PBV based valuation (LKR)	24.02
<b>Blended Valuation (LKR)</b>	<b>28.41</b>
<b>Upside</b>	<b>63.3%</b>



Source: PABC Financials, SC Securities



# Future Outlook



# Future Outlook

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- We expect 19% YoY growth in NII during FY20 subject to the expected reduction in interest expenses despite the economic slow down caused by the coronavirus outbreak.
- Impairment provisioning is expected to grow up with the repayment deferrals and new credit facilities offered at concessionary rates.
- We expect a growth in credit offerings for FY21 with improved investor confidence and low interest rate environment; thus we expect loan book to grow by 3% YoY in FY21.
- Budget 2021 introduced 50% treasury guarantee on tourism related moratoriums, thus reduced risk exposure.

# Future Outlook

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- 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).
- We have estimated net profit of LKR 2.4 Bn in FY21 with a profit growth of 23% YoY with low interest rate regime underpinned by loan growth.



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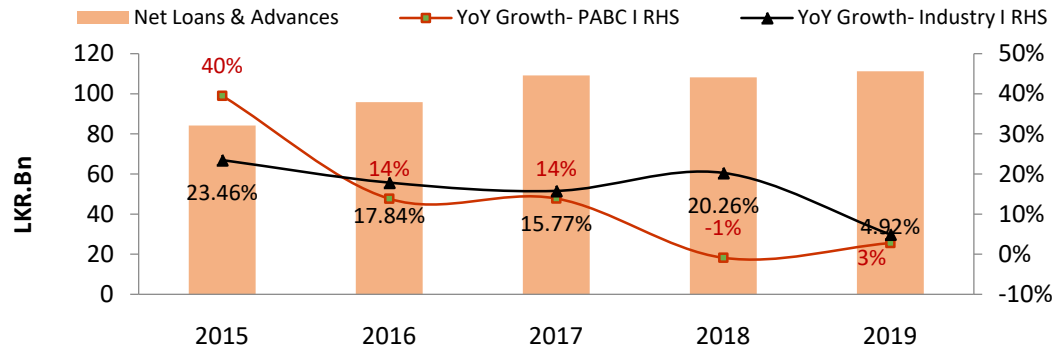
# Appendix



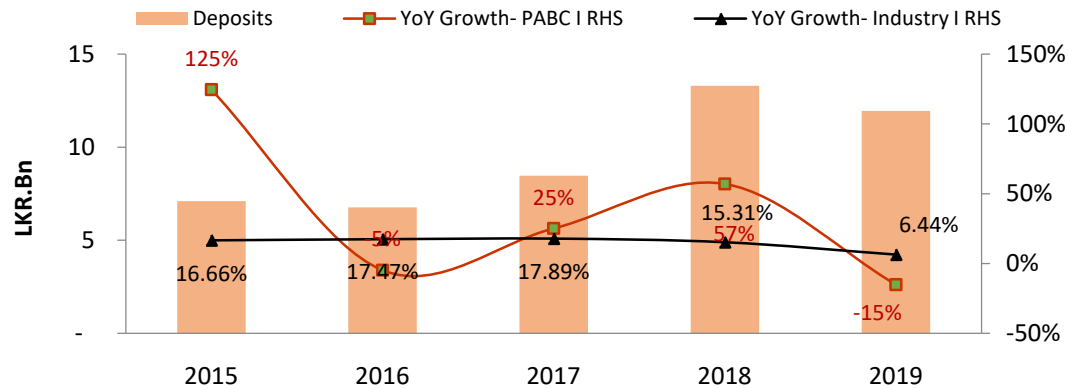
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# Financial Performance Dashboard

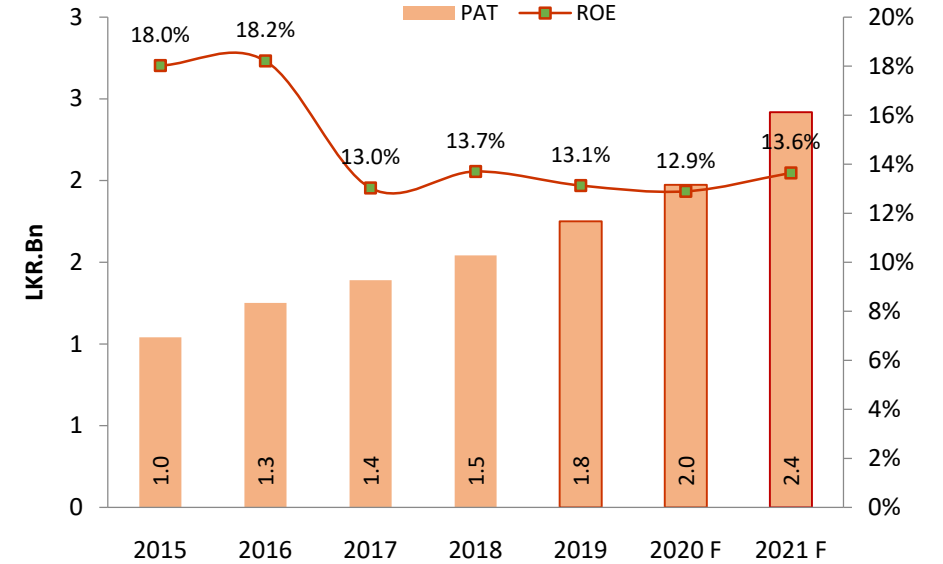
## Net Loans & Advances



## Deposits



## PAT Vs ROE

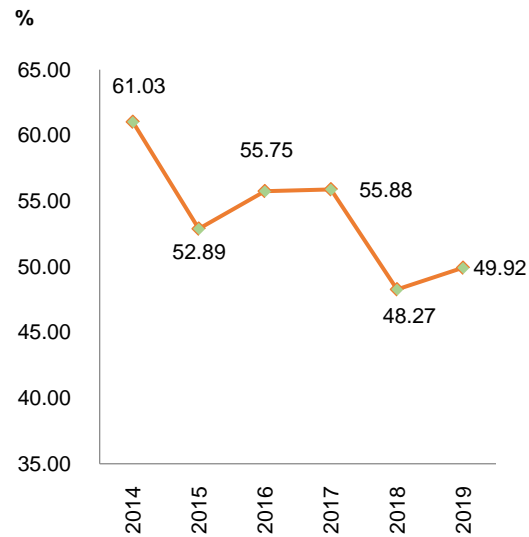


Source: PABC Financials, CBSL, SC Securities

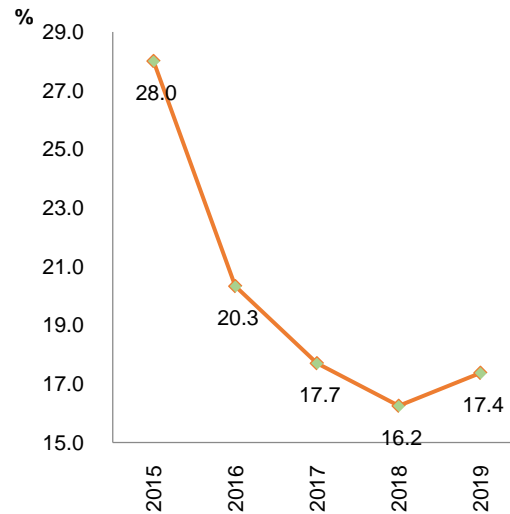


# Financial Performance Dashboard

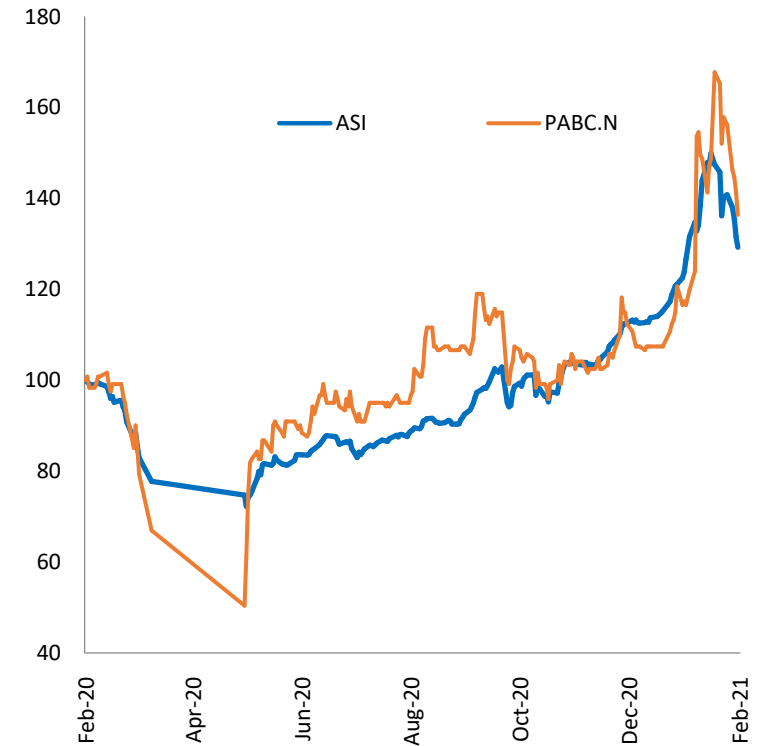
## Cost to Income



## CASA

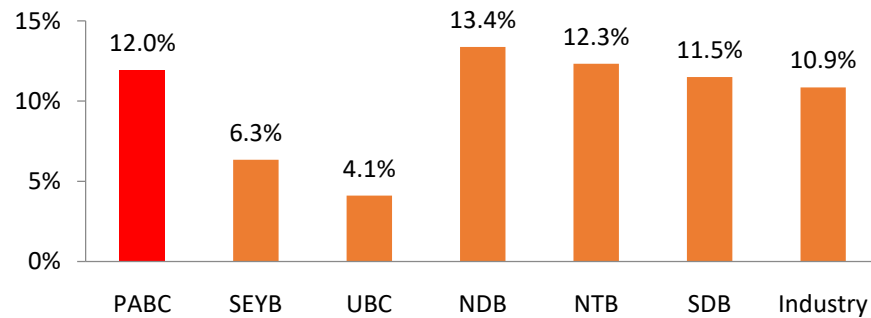


## Relative Stock Performance

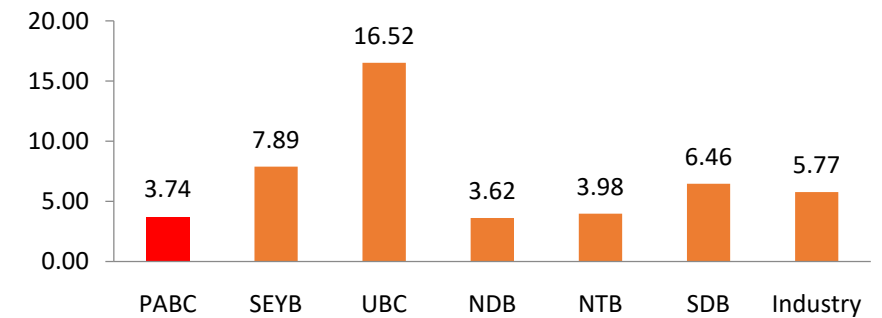


# Peer Comparison – Key Ratios

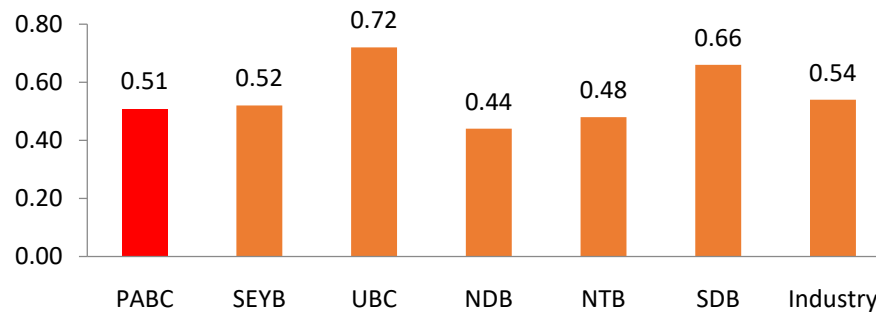
## ROE



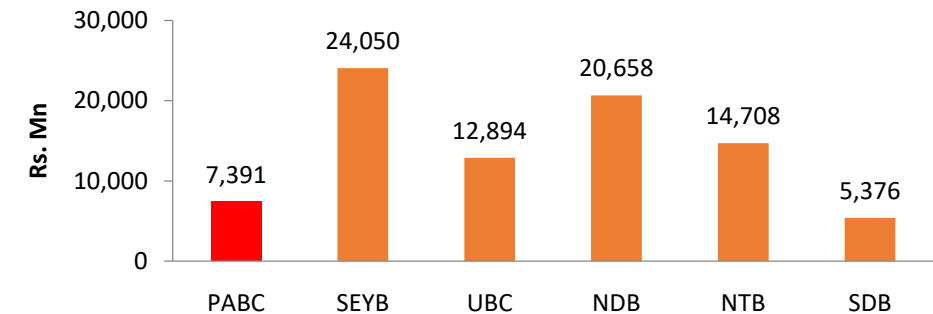
## PE (X) 4QT



## PBV (X)



## Market Capitalization



Source: PABC, SEYB, UBC, NDB, NTB, SDB Financials, CBSL – Updated as of 30.09.2020

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