



# Sampath Bank PLC (SAMP)

Rs 333.00

BUY

Financial Year (Dec)	Net Income (Rs. mn)	NPAT (Rs. mn)	EPS (Rs.)	EPS Growth %	PER (x)	P/BV	Dividend Yield %	DPS Rs.	NAV / Share	ROE
2005	4,932	854	11.28	24.51	29.53	4.21	0.6%	2.00	79.1	14%
2006	6,632	1,072	14.15	25.46	23.54	3.63	0.8%	2.50	91.7	15%
2007	7,554	1,145	15.11	6.81	22.04	2.64	0.9%	3.00	126.0	12%
2008	9,567	1,495	19.73	30.56	16.88	2.33	1.2%	4.00	142.8	14%
*2009	12,088	2,072	27.35	38.65	12.18	2.00	1.8%	6.00	166.4	16%
2010E	12,504	2,292	30.25	10.59	11.01	1.69	1.9%	6.25	196.7	15%
2011E	14,787	2,650	34.96	15.60	9.52	1.44	1.9%	6.25	231.6	15%
2012E	17,346	3,397	44.82	28.20	7.43	1.20	1.9%	6.25	276.5	16%
2013E	20,766	4,240	55.96	24.84	5.95	1.00	1.9%	6.25	332.4	17%

\* Earnings including exceptional items (Exceptional gains from a 9.3% sale in associate LankaBangla Finance Ltd and one off write off on a decline in investments, deferred tax provision and increased contribution toward staff retirement benefits following a change in accounting policy)

SAMP	
Reuters Code	SAMP.CM
Bloomberg Code	SAMP.SL
Share Price LKR	333.00
Issued Share Capital (Shares)	
Voting	75,776,390
12 mth High/Low (Rs.)	294.00 / 84.00
Market Capitalisation (Rs.mn)	25,234
Average Daily Volume (Shares)	110,060
Price Performance (%)	1 mth 6 mth 12 mth
ASPI	0.21 28.20 90.67
SAMP	(4.45) 64.85 246.88

\* Adjusted for bonus and rights issues

## Profile

>> SAMP is the third largest private bank in the country with a 7.3% share of LCB assets and a branch network of 139 centres across the island. SAMP has a 100% stake in both Sampath Surakum Ltd, a Primary Dealer in Government Securities, and Sampath Leasing and Factoring Ltd. In addition the bank has a 51% stake in S.C Securities (Pvt) Ltd, a mid sized share broking company. The bank also had a 22.86% stake in Lankabangla Finance Ltd, a listed finance company in Bangladesh also engaged in merchant banking, credit cards as well as owning a highly profitable stock broking subsidiary which has been the market leader for the last three consecutive years. The bank disposed part of its stake given the high prices commanded by the share at the Dhaka Stock Exchange in FY09. The unrealized capital gain for SAMP on its present holding of 13.55% of this investment at current market prices is Rs. 4.96bn.

>> A change in senior management announced in late 2008 included the appointment of Mr. Harris Premaratne as CEO and Mr. Ranjith Samaranayake as CFO, two senior bankers that retired from Commercial Bank of Ceylon as

Senior Deputy General Managers who played an integral role in the aggressive growth of Commercial Bank of Ceylon over the last two decades

## Financial Performance

>> The bank posted healthy earnings growth of 38.6% for FY09 assisted by wider net interest margins stemming from a favourable rate variance, improved recoveries in the 2H of FY09 and encouraging asset growth witnessed in the 4Q.

>> The bank also reported exceptional gains estimated to be Rs. 1.57bn from a sale of 9.31% of LankaBangla Finance Ltd which set off a Rs. 917mn write down in value of investments of a foreign bond transaction. In addition a one time deferred taxation provision of Rs. 200mn and a increase in expense on staff retirement benefits on account of a change in accounting policy impacted earnings negatively in FY09.

>> The total provision made on a fall in value of investment relating to a foreign bond transaction totals Rs. 1.36bn fully provided for over FY08 and FY 09. We believe a substantial portion



of this would be recovered and written back into the bank's income statement although not factored into our forecasts.

>> Despite a modest 2.4% growth in net loans and advances in FY09 in a year when the industry witnessed a modest contraction in credit growth the bank was able to post net interest income growth of 19.3% helped by actively re-pricing liabilities ahead of a steady downward revision in lending rates in FY09.

>> Foreign exchange income recorded a 19.7% increase in FY09 while other income usually driven by trade finance income was flat except for the capital gains from the sale of shares in LankaBangla Finance Ltd which pushed other income up by 48.4%

>> Non performing loans for the year end in absolute terms were just 0.2% higher in FY09 than the previous year following healthy recoveries in the 2H while the gross NPL and net NPL ratio for the year end was 7.63% and 2.79% respectively from a peak of 9.84% and 4.81% respectively in June '09.

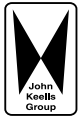
### Loan Growth and Asset Quality

>> The bank has consistently reflected sound asset quality, while recording steady loan growth in line with the sector. Much of the recent growth in advances over recent years has arisen from personal retail loans, pawning, leasing and housing loans, in line with the trend seen in the sector. Corporate loans account for approximately 60% of its loan book with consumer and SME loans accounting for approximately 30% and 10% respectively.

>> The banks loan book has however witnessed some stress in the current year with NPL's rising to 7.63% in FY09. Provision cover however should hold steady at 65% for FY09. It is our expectation that with the change in management, credit risk assessment and monitoring processes will improve in the bank and NPLs will decline incrementally over the next 2 – 3 years. A re-organization of the bank's credit granting and loan recovery mechanisms is already well underway with improvement already beginning to show. The centre has been strengthened with more specialised expertise in credit evaluation and has assumed greater responsibility for loan disbursement, while branches have been given greater responsibility for monitoring, follow up and recoveries.

>> Growth in the banks loan book was just 3.2% in FY09 as expected given the high interest rate environment and weak economic conditions stemming from sustained high inflation which has since fallen sharply over the last 9 months. Private sector credit growth was slower than anticipated in the 1H of FY10 as businesses held back on borrowings till elections and the interim budget was presented. We anticipate loan growth of 14% in FY10 and 24% 2011 onwards as the bank pursues aggressive expansion and the wider economy begins to reap the benefits of a post war era.

>> The bank is expected to open 40 new branches in FY10 and an additional 40 branches in FY11 as the bank seeks to be on par with the larger two private banks HNB and COMB. The total outlay on this expansion is expected to amount to Rs. 500mn for FY10. The bank has however made it clear that its expansion initiative would not come at the expense of credit quality and compromising on proper credit risk evaluation which is now controlled at the centre.



>> The bank has also seen significant growth in its pawning business which has a zero risk weighting for capital adequacy purposes, assisted by a decline in interest rates on pawning and an increase in Gold prices. Pawning now accounts for approximately 13% of the banks loan book at present.

## Funding and Capital

>> Low cost saving and current deposits account for 41% of the banks deposit base, with total customer deposits growing at a CAGR of 20.1% over the last five years assisted by steady branch expansion from 63 branches in 2003 to 139 at present. The bank has also successfully rolled out a series of innovative low cost deposit products which have resulted in an increase in savings deposits in the banks deposit mix. Deposit growth for FY09 was 17% and is expected to gather pace over the next few years to approximately 20% yoy post 2010 assisted by branch expansion.

>> The group's Tier 1 and Total Capital Adequacy Ratio stood at 10.64% and 13.87% respectively as at 31st December 2009, above statutory requirements of 5% and 10% respectively.

>> The bank does have real estate and quoted investments with significant unrealized gains that is expected to shore up its capital base as the bank pursues loan book expansion outpacing the sector average. Given the significant unrealized gains the bank can access, it is our view that the bank is currently not in any urgent requirement of a capital infusion.

## Net Interest Income

>> Net interest margins increased marginally to 5.6% in FY09 as liabilities were revised downwards ahead of a downward revision in lending rates sparked by a sharp decline in treasury yields earlier in the year. The bank continues to show improvements in its management of net interest margins with a narrower maturity mismatch and effective management of its asset and deposit mix. The favourable volume variance will result in positive net interest income growth of 9.8% in FY10 while increased loan growth in the next few years is expected to result in steady growth in net interest income. Net interest margins for the bank are expected to range between 4.9% - 5.0% over the next few years.

## Non Interest Income

>> SAMP has consistently pioneered the adoption of technology into banking services among local banks since its inception in 1987. These value added services along with other non-interest income revenue streams such as foreign exchange and trade finance income is expected see non-interest income continue to account for approximately a third of the banks' net income. Recurring non interest income is expected to grow at approximately 23% year on year going forward with a pick up in trade finance activity in the current year, particularly following the reduction of import duties announced on 1st June FY10.

## Operating Expenses

>> The banks' cost to income ratio was significantly lower this year given the high exceptional gains on share sales, however the cost to income ratio on recurring net income and expenses still remains in line with the sector average but higher than other established peers such as COMB and NDB. The decline in cost to income is however commendable given the fact that the bank opened 19 new branches, more than any other bank in the country, without adding significant numbers to its staff cadre. With 80 new branches to be opened in the next two years we anticipate a sharper rise in personnel and establishment expenses. The bank has also undertaken to renovate selected branches as part of its efforts to improve its offering to customers.

## Valuations

>> The sector would also benefit if the existing 20% VAT on financial services is phased out over the next few years as per representations made by the sector to the government. This would curtail current excessive effective tax rates in the banking sector amounting to 55% - 60%, permitting capital accumulation in banking to fund future assets growth.

>> The company announced on the 28th of June 2010, a stock dividend equivalent to 1 for 120.7 shares which would be followed by a share split resulting in two shares for every one currently held, subject to shareholder approval.

>> The counter currently trades at a PER of 11.01x FY10 earnings and a P/BV of 1.91x 31st March 2010 at a market price of Rs. 333/-. The counter trades at a 11.7% discount to the sector and a 23.95% discount to market. Given the banks aggressive growth plans, and its strengthened senior management; we believe the counter should trade at a significant premium to sector. We recommend BUY.

Ratio Analysis	2005	2006	2007	2008	2009	2010E	2011E	2012E	2013E
Price / Book Value	4.21	3.63	2.64	2.33	2.00	1.69	1.44	1.20	1.00
EPS	11.3	14.1	15.1	19.7	27.3	30.2	35.0	44.8	56.0
PER	29.5	23.5	22.0	16.9	12.2	11.0	9.5	7.4	6.0
EPS Growth	24.5%	25.5%	6.8%	30.6%	38.6%	10.6%	15.6%	28.2%	24.8%
DVD YLD	0.6%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%
ROE	14.3%	15.4%	12.0%	13.8%	16.4%	15.4%	15.1%	16.2%	16.8%
ROAE	16.7%	16.6%	13.9%	14.7%	17.7%	16.7%	16.3%	17.6%	18.4%
ROAA	1.1%	1.1%	1.0%	1.1%	1.5%	1.4%	1.4%	1.5%	1.6%
NIM	4.6%	4.5%	4.5%	5.1%	5.6%	4.9%	4.7%	4.7%	4.7%
Fee Income / Operating Income	32%	37%	34%	31%	35%	34%	36%	37%	39%
Cost / Income	71.2%	64.5%	70.1%	72.7%	68.2%	67.3%	68.0%	65.4%	64.1%
Cost / Income (Excl VAT)	65.0%	55.3%	61.9%	62.6%	45.9%	53.2%	53.0%	52.9%	51.2%
Cost / Average Assets	4.69%	4.45%	4.44%	5.29%	5.82%	5.21%	5.31%	5.12%	5.15%
Tier 1	10.14%	8.38%	7.58%	8.10%	10.40%				
Total Capital Adequacy	13.53%	10.82%	11.58%	11.95%	13.45%				
Loan Growth	28.4%	29.7%	23.4%	1.6%	2.4%	14.0%	23.9%	22.0%	22.0%
Asset Growth	25.4%	30.1%	21.2%	3.1%	11.1%	17.9%	17.3%	16.7%	17.3%
RWA Growth	30%	45%	23%	7%	11%	18%	17%	17%	17%
Loan/ Deposits	88.5%	90.6%	91.4%	85.9%	74.9%	72.1%	75.1%	77.9%	80.5%
Loan / Assets	64.5%	64.3%	65.5%	64.5%	59.5%	57.5%	60.8%	63.5%	66.1%
Deposit / Liabilities	78.7%	75.8%	77.2%	81.4%	86.4%	86.8%	88.0%	88.9%	89.6%
Equity / Assets	6.9%	6.1%	6.9%	7.6%	8.0%	8.0%	8.0%	8.2%	8.4%
NPL Ratio	6.19%	5.52%	7.03%	8.00%	7.63%	7.00%	6.00%	5.00%	4.25%
NPL Coverage	82.4%	82.3%	63.6%	66.5%	63.4%	67.5%	70.0%	71.0%	72.0%



Income Statement	2005	2006	2007	2008	2009	2010E	2011E	2012E	2013E
For the Year Ended 31st December	Rs. 'mn	Rs. 'mn	Rs. 'mn	Rs. 'mn	Rs. 'mn	Rs. 'mn	Rs. 'mn	Rs. 'mn	Rs. 'mn
<b>Income</b>	<b>9,135</b>	<b>12,934</b>	<b>18,081</b>	<b>23,069</b>	<b>25,560</b>	<b>24,002</b>	<b>27,864</b>	<b>32,637</b>	<b>39,180</b>
Foreign exchange profit	192	646	505	647	774	961	1,182	1,418	1,773
Fee and commission income	829	1,107	1,211	1,355	1,515	1,818	2,327	2,792	3,491
Other Income	538	677	839	963	1,926	1,463	1,851	2,213	2,754
	<b>4,932</b>	<b>6,632</b>	<b>7,554</b>	<b>9,567</b>	<b>12,088</b>	<b>12,504</b>	<b>14,787</b>	<b>17,346</b>	<b>20,766</b>
N.S.L									
<b>Net Income</b>	<b>4,932</b>	<b>6,632</b>	<b>7,554</b>	<b>9,567</b>	<b>12,088</b>	<b>12,504</b>	<b>14,787</b>	<b>17,346</b>	<b>20,766</b>
Less Operating Expenses									
Personnel Costs	1,037	1,286	1,472	2,018	2,255	2,875	3,594	4,169	4,836
Premises and Equipment expenses	907	1,101	1,328	1,666	1,773	2,128	2,554	3,013	3,556
Loan losses and Provisions	622	493	960	846	389	334	513	173	297
Other Overhead expenses	824	1,252	1,367	2,243	3,357	2,732	3,006	3,547	4,114
<b>Total Expenses</b>	<b>(3,511)</b>	<b>(4,276)</b>	<b>(5,298)</b>	<b>(6,961)</b>	<b>(8,243)</b>	<b>(8,420)</b>	<b>(10,051)</b>	<b>(11,345)</b>	<b>(13,312)</b>
<b>Profit from Operations</b>	<b>1,421</b>	<b>2,357</b>	<b>2,256</b>	<b>2,607</b>	<b>3,845</b>	<b>4,084</b>	<b>4,736</b>	<b>6,001</b>	<b>7,454</b>
Add: Share of PBT of Assoc.	18	38	128	181	160	-	-	-	-
<b>Profit before Tax</b>	<b>1,432</b>	<b>2,395</b>	<b>2,384</b>	<b>2,787</b>	<b>4,005</b>	<b>4,084</b>	<b>4,736</b>	<b>6,001</b>	<b>7,454</b>
Less: Provision for Taxation	503	1,261	1,182	1,262	1,921	1,780	2,071	2,586	3,190
<b>Profit after taxation</b>	<b>929</b>	<b>1,134</b>	<b>1,202</b>	<b>1,525</b>	<b>2,084</b>	<b>2,304</b>	<b>2,664</b>	<b>3,415</b>	<b>4,264</b>
Less: Minority Interest	74	62	57	30	11	13	15	19	23
<b>Net profit for the year</b>	<b>854</b>	<b>1,072</b>	<b>1,145</b>	<b>1,495</b>	<b>2,072</b>	<b>2,292</b>	<b>2,650</b>	<b>3,397</b>	<b>4,240</b>



Balance Sheet	2005	2006	2007	2008	2009	2010E	2011E	2012E	2013E
As at 31st December	Rs. 'mn	Rs. 'mn	Rs. 'mn	Rs. 'mn	Rs. 'mn	Rs. 'mn	Rs. 'mn	Rs. 'mn	Rs. 'mn
<b>ASSETS</b>									
Cash and short-term funds	5,848	8,820	9,108	6,924	3,403	4,035	4,787	5,680	6,743
Balances with Central Banks	5,671	6,719	7,698	6,879	7,398	12,206	14,647	10,253	9,228
Government Treasury Bills and Bonds	229	12,172	13,658	20,741	34,730	37,334	38,081	41,127	43,595
Sec.purchased under re-sale agreements	356	301	14	3	2,677	2,944	3,239	3,563	3,919
Dealing Securities	4,671	4,165	4,275	1,224	276	304	334	368	404
Investment securities	9,612	2,888	4,410	5,397	7,451	9,314	11,643	14,554	18,192
Bills of Exchange	2,557	2,390	2,772	2,658	2,875	3,277	4,064	4,958	6,049
Loans and Advances	50,092	63,446	78,467	81,429	86,102	98,157	121,714	148,491	181,159
Lease receivable within one year	1,559	2,368	3,020	3,173	2,402	2,738	3,395	4,142	5,054
Lease receivable from one to five years	2,253	5,025	6,093	4,556	2,625	2,992	3,591	4,345	5,300
	<b>82,847</b>	<b>108,294</b>	<b>129,614</b>	<b>132,983</b>	<b>149,938</b>	<b>173,302</b>	<b>205,494</b>	<b>237,480</b>	<b>279,643</b>
Investment in Assoc.	407	445	300	364	-	-	-	-	-
Interest and Fees receivables	1,291	1,442	1,750	2,325	1,854	2,133	2,452	2,820	3,243
Other Assets	760	995	1,712	1,834	1,395	4,873	3,017	6,415	7,125
Property, Plant and Equipment	2,194	2,695	4,445	4,646	4,732	5,915	7,393	8,133	8,946
<b>TOTAL ASSETS</b>	<b>87,511</b>	<b>113,884</b>	<b>137,984</b>	<b>142,279</b>	<b>158,002</b>	<b>186,235</b>	<b>218,370</b>	<b>254,861</b>	<b>298,970</b>
Financed By :									
Deposits form customers	63,786	80,787	98,864	106,892	125,573	148,687	176,737	207,821	245,303
Dividends Payable	44	18	23	32	30	69	69	69	69
Borrowings	4,184	10,248	15,573	10,743	6,362	6,680	7,014	7,365	7,733
Sec. sold under repurchase agreements	6,335	7,004	2,687	2,440	2,887	3,032	3,183	3,343	3,510
Other Liabilities	3,743	4,656	5,365	5,782	6,278	6,842	7,458	8,130	8,861
Tax Payable	235	733	632	669	584	1,921	1,780	2,071	2,586
Deferred Taxation	210	384	444	269	479	503	528	554	582
Debentures	2,491	2,734	4,433	4,514	3,102	3,506	3,962	4,477	5,058
	<b>81,028</b>	<b>106,565</b>	<b>128,022</b>	<b>131,339</b>	<b>145,295</b>	<b>171,240</b>	<b>200,731</b>	<b>233,830</b>	<b>273,702</b>
Minority Interest	488	373	413	120	95	90	86	82	78
Share Capital	689	1,582	1,582	1,582	1,582	1,582	1,582	1,582	1,582
Statutory Reserve Fund	286	338	391	422	471	471	471	471	471
Reserves	5,020	5,027	7,577	8,816	10,559	12,851	15,500	18,897	23,137
<b>Shareholders Funds</b>	<b>5,995</b>	<b>6,947</b>	<b>9,549</b>	<b>10,820</b>	<b>12,612</b>	<b>14,904</b>	<b>17,553</b>	<b>20,950</b>	<b>25,190</b>
	<b>87,511</b>	<b>113,884</b>	<b>137,984</b>	<b>142,279</b>	<b>158,002</b>	<b>186,235</b>	<b>218,370</b>	<b>254,861</b>	<b>298,970</b>

