

COMMERCIAL BANK OF CEYLON PLC - Debenture Issue 2016 –



Corporate Profile

Commercial Bank of Ceylon PLC was incorporated in 1969 and its core business is conventional commercial banking. It provides various banking products and services in Sri Lanka, Bangladesh & Maldives. The company offers current & savings accounts, fixed & call deposits, money market accounts, treasury bonds and bills, pensions plans, and credit and debit cards. It also provides loan products, loans against trust receipts, micro financing and factoring services. In addition, the company offers letters of guarantee, letters of credit, and guarantees; bill discounting, export bill purchase, draft purchase etc. It operates through 246 branches and 621 ATMs in Sri Lanka; and 18 branches and 19 ATMs in Bangladesh. Group consists of few subsidiaries, namely Commercial Development Company PLC, ONEzero Co. Limited, Commex Sri Lanka S.R.L. – Italy, Serendib Finance Limited & Commercial Bank of Maldives (Pvt) Limited.

ISSUE AT A GLANCE				
Issuer	Commercial Bank of Ceylon PLC			
Instrument	Listed, Rated, Unsecured, Subordinated, Redeemable Debentures			
Issue Rating	AA- (Ika) by Fitch Ratings Lanka Limited			
Issuer Rating	AA (Ika)/Stable by Fitch Ratings Lanka Limited			
Trustees to the Issue	Deutsche Bank AG, Colombo Branch			
Number of Debentures to be Issued	An initial Issue of Fifty Million (50,000,000) Listed, Rated, Unsecured, Subordinated, Redeemable Debentures with an option to issue up to a further Twenty Million (20,000,000) of the said Debentures (at the discretion of the Bank, in the event of an over subscription of the initial Issue of 50,000,000 Debentures).			
Total Value of the Issue	Sri Lankan Rupees Five Billion (LKR 5,000,000,000/-) with an option to issue up to a further Sri Lankan Rupees Two Billion (LKR 2,000,000,000/-) at the discretion of the Bank in the event of an oversubscription of the initial LKR 5,000,000,000/-			
Par/ Issue Value of a Debenture	LKR 100/-			
Interest Rate	Type	Interest rate	AER	Redemption
	Type A	Fixed interest rate of 12.00% (Payable semi-annually)	12.36%	60 months (5 years)
	Type B	Fixed interest rate of 12.25% (Payable semi-annually)	12.63%	120 months (10 years)
Issue Opening Date	October 24, 2016			
Issue Closing Date	November 10, 2016 However, the subscription list will be closed on an earlier date with notification to the CSE on the occurrence of any of the following events: – The maximum of 70,000,000 Debentures being fully subscribed; or – The Board of Directors of the Bank deciding to close the Issue upon the initial Issue of 50,000,000 Debentures becoming fully subscribed.			

	In the event the Board of Directors of the Bank decides to exercise the option to further issue up to 20,000,000 Debentures but subsequently decides to close the subscription list upon part of the further Issue of 20,000,000 Debentures becoming subscribed, such decision is to be notified to the CSE on the day such decision is made and the subscription list will be closed on the following Market Day.
Minimum Subscription	The minimum subscription per application is Rupees Ten Thousand (LKR 10,000/-) or One Hundred (100) Debentures. Applications in excess of the minimum subscription shall be in multiples of Rupees Ten Thousand (LKR 10,000/-) or One Hundred (100) Debentures
Listing	The Debentures will be listed on the Colombo Stock Exchange.

Objectives of the Issue

- The entire quantum of funds raised through the Debenture Issue will be utilised to finance expansion by increasing the lending portfolio of the Bank within 12 months from the Date of Allotment. The Bank will obtain Board Investment Committee approval to invest the Debenture Issue funds in Treasury Bills and/or Treasury Bonds until utilised for the above stated objective.
- Subordinated funds raised through the Debenture Issue are expected to further improve the Capital Adequacy of the Bank's Balance Sheet by increasing its Tier II Capital base thus strengthening its Total Eligible Capital. This improvement will materialise subsequent to allotment of the Debentures.

Capital Adequacy Ratio (CAR) of the Bank and Effect of Proposed Debenture Issue on the CAR

(Figures in Rupees Millions)

	As at 30th June 2016	Adjusted position With the New Debenture Issue – LKR 5Bn	Adjusted position With the New Debenture Issue – LKR 7Bn
Total Eligible Capital	92,751	97,751	99,751
Total Capital – Minimum requirement 10%	15.43%	16.26%	16.60%

- The Debenture Issue will reduce maturity gaps in the Bank's Balance Sheet as and when the proceeds from the Debentures are utilised as depicted under Objective (a).

Risks Related To Achieving The Objectives Of The Issue

In case the funds raised through the Debenture Issue are not utilised to meet the above stated objective, due to any unforeseen change in the business environment, the Bank will continue to hold the funds in Treasury Bills and/or Treasury Bonds as the case may be.

Considering the loan book growth experienced by the Bank it is unlikely that the funds raised through the Debenture Issue will not be utilised for the stated purpose during the stipulated time period. Even if the funds raised through the Debenture Issue are not utilised for expansion, it is expected that the other objectives of the Debenture Issue (such as improving the Capital Adequacy Ratio and reducing maturity gaps in the Balance Sheet) will be achieved.

Unsecured, Subordinated, Redeemable Debentures do not carry a charge on a specific asset of the Bank and are redeemable only at the expiry of the maturity period.

Taxes With Regard To Interest Payment on Listed Debentures

As per the Section 9 (o) of the Inland Revenue Act No. 10 of 2006 as amended by Section 4 of the Inland Revenue (Amendment) Act No. 18 of 2013 with effect from April 1, 2013 the interest income arising to any person from any investment made on or after January 1, 2013 in any Corporate Debt Security, quoted in any Stock Exchange licensed by the SEC is exempt from income tax.

Furthermore, as per the Section 13 (Amendment) of the Inland Revenue Act No. 10 of 2006 as amended by Section 5 of the Inland Revenue (Amendment) Act No. 18 of 2013 with effect from April 1, 2013, profits and income arising to any person from any investment made on or after January 1, 2013 in any Corporate Debt Security, quoted in any Stock Exchange licensed by the SEC also has been exempted from income tax.

Investors are advised to obtain clarifications in this regard from their tax advisors.

Procedure for Application

- All applicants should indicate their CDS account number.
- Applicants should apply only for one Type of Debentures (i.e. either Type A Debentures or Type B Debentures) under one Application Form. In the event an Applicant wishes to apply for more than one Type of Debentures, separate Application Forms should be used.
- Payment should be made separately in respect of each application either by Cheques, Bank Drafts, Bank Guarantees drawn upon any licensed commercial bank operating in Sri Lanka or RTGS transfer through any licensed commercial bank operating in Sri Lanka, as the case may be, subject to the following:
 - ❖ Payments for Application values below Sri Lanka Rupees One Hundred Million (LKR 100,000,000/-) should be supported by a Bank draft/cheque drawn upon any licensed commercial bank operating in Sri Lanka. Cheques or Bank Drafts should be payable to “**Commercial Bank of Ceylon PLC – Debenture Issue 2016**” crossed “Account Payee Only” and must be honoured on the first presentation.
 - ❖ Payments for Application values above and inclusive of Sri Lanka Rupees One Hundred Million (LKR 100,000,000/-) should be supported by either
 - ✓ Bank guarantee issued by a licensed commercial bank; or
 - ✓ Multiple bank drafts/cheques drawn upon any licensed commercial bank operating in Sri Lanka, each of which should be for a value less than LKR 100,000,000/-.
 - ✓ RTGS transfer with value on the date of the Issue Opening Date.
 - ❖ Multiple cheques or RTGS will not be accepted for Application values **below** LKR 100 Mn.
 - ❖ Remittance of Funds for the investments in Debentures and the payment for Debentures by **Non-Residents** should be made only out of funds received as inward remittances or available to the credit of “Securities Investment Account” (SIA) of the Non-Residents opened and maintained in a licensed commercial bank in Sri Lanka in accordance with directions given by the Controller of Exchange in that regard to licensed commercial banks as per the Government Gazette (Extraordinary) No. 1864/39 dated May 28, 2014. An endorsement by way of a letter by the licensed commercial bank in Sri Lanka in which the Applicant maintains the SIA, should be attached to the Application Form to the effect that such payment through bank draft/Bank Guarantee has been made out of the funds available in the SIA.

Long Term Instruments and their corresponding interest rates

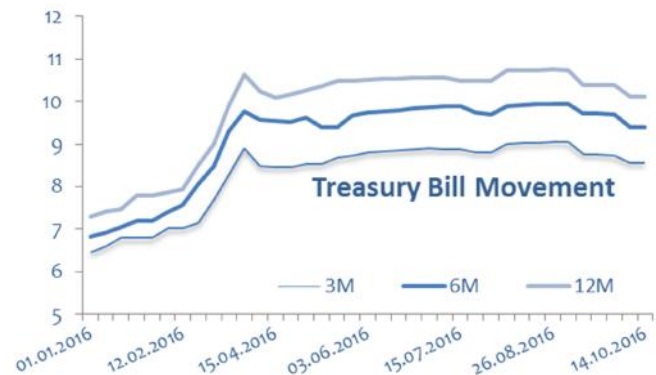
Treasury Bond			
Date	Rate	AER	Maturity
03 rd Oct 16	10.61%	10.89%	4 Years
1 st Sep 16	11.76%	12.11%	5 Years
03 rd Oct 16	10.96%	11.26%	8 Years
03 rd Oct 16	11.06%	11.37%	10 Years

5 Year Fixd Deposit Rates (~ AER)		
BANK	Rate	With effect from
NDB	11.35%	17 th Oct 2016
Sampath	8.45%	11 th Oct 2016
HNB	10.55%	08 th Sep 2016
DFCC	11.00%	26 th Sep 2016

Central Bank's Policy Rates	
Description	Rate (PA)
Standing Deposit Facility (SDF)	7.00 %.
Standing Lending Facility (SLF)	8.50 %.
Bank Rate	15.00 %.
Statutory Reserve Ratio (SRR)	7.50 %.

Recent Debenture Issues		
Company	Issue Rating	Rate
SFIN- 2016 Mar	BBB (Fitch)	12.00% (4Y)
CDB-2016 May	BBB (ICRA)	12.75% (5Y)
SAMP - 2016 Jun	A+ (Fitch)	12.75% (5Y)
SEYB- 2016 Jul	BBB+(Fitch)	13.00% (5Y)
SEYB- 2016 Jul	BBB+(Fitch)	13.75% (7Y)

Treasury Bill Rates (182 Days)	
Date	Rate (PA)
05 th Oct 2016	9.39
28 th Sep 2016	9.39
21 st Sep 2016	9.69



Sri Lanka 5-Year Bond Yield Overview



Financial Information of the Group

OPERATING RESULTS	2011	2012	2013	2014	2015
Year Ended 31st December	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn
Gross Income	45,860	63,395	73,736	72,753	77,868
Profit Before Taxation	10,897	14,295	14,510	15,736	17,143
Taxation	-3,014	-4,197	-4,065	-4,556	-5,240
Profit After Taxation	7,883	10,098	10,445	11,180	11,903
Other Comprehensive Income, Net of Income Tax	-188	1291	1788	2,064	-5,871
Total Comprehensive Income	7,694	11,390	12,234	13,244	6,032
Deposits	323,755	390,612	451,153	529,361	624,102
Borrowings and Debentures	12,680	5,870	24,992	36,360	42,118
Loans & Receivables (Net)	286,894	337,876	353,608	405,982	508,716
Total Assets	441,329	511,743	605,987	795,610	879,805

Performance Indicators		2011	2012	2013	2014	2015
Return on Average Assets	%	1.94	2.12	1.87	1.60	1.42
Return On Average Equity	%	20.28	20.96	18.40	17.01	16.90
Income Growth	%	10.45	38.24	16.31	(1.33)	7.03
Dividend Cover	Times	1.61	1.86	1.89	1.99	2.09
Property, Plant and Equipments to Shareholder's Funds	%	19.31	16.73	14.65	14.85	14.94
Total Assets to Shareholder's Funds	Times	9.92	9.73	9.94	11.28	12.51
Total Deposit Liabilities to Capital (Equity)	Times	7.38	7.43	7.40	7.51	8.87
Capital Funds to Liabilities (Including Contingent Liabilities)	%	6.92	7.12	7.25	6.54	5.29
Liquid Assets to Liabilities	%	26.35	25.79	34.05	33.11	27.72

Challenges Ahead

The Bank utilises a pool of funds, mainly raised through deposits, to finance loan disbursements. The Bank has achieved a net deposit growth of LKR 60 Bn. for the 6 months ending August 2016 with an average deposit mobilisation of LKR 10 Bn. per month. Therefore, dependency on Debenture proceeds to enhance the lending portfolio of the Bank is relatively small.

As in the normal course of business, the Bank intends to utilise the proceeds raised from the Debenture Issue as part of its funding sources to disburse advances to increase its diversified lending portfolio which is focused on market segments such as tourism, exports, construction, manufacturing and trading as well as to retail, consumption and housing, amongst other market segments.

The Bank has recorded a loan book growth of LKR 7 Bn. on average per month for the 6 months ending August 2016 and expects primarily to disburse the Debenture proceeds to the market segments with approximate values being, Construction – LKR 1 Bn., Exports – LKR 1.5 Bn., Tourism – LKR 1 Bn. and Manufacturing & Trading –LKR 2.0 Bn. with funds distributed to other sectors if there is insufficient demand from the identified market segments.

Since the proposed Debenture Issue is to raise up to Rs. 7 Billion and as there is a demand for credit there is no specific challenge that may lead to non-achievement of the objectives of the Issue. However, if the Bank is unable to lend these funds within the 12 months from the date of allotment due to subdued credit growth, the funds that would be raised would be invested in Government Securities at zero default risk.

Analysis for Investment

The Type A debentures of Commercial Bank will generate an Annual Equivalent Rate of 12.36 % and is for tenure of Five Years. The Type B debentures of Commercial Bank will generate an Annual Equivalent Rate of 12.63 % which is having a maturity of Ten Years.

The AER for 5-year period fixed deposits with interest paid annually of four selected leading high credit worthy banks in Sri Lanka (such as NDB, Sampath, HNB, and DFCC) range between 8.45% to 11.35%. The 5-year Treasury bond will yield an AER of 12.11% and the 10-year Treasury bond will yield an AER of 11.37% .

In terms of risk levels, Treasury Bonds and Bills are the least risky in comparison to Commercial Banks as they are government gilt edged securities. The selected Commercial Banks are rated high by the various credit rating agencies and thus have a low risk level.

Commercial Bank debentures are Listed Unsecured Subordinated Redeemable Debentures. Rated “AA- (Ika)” by Fitch Ratings Lanka Limited and are redeemable at the time of maturity. Listed Debentures are tradable on the secondary market but are fairly illiquid in the present context.

The decision to invest is based on the expected risk-return profile of the investor.

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