

15<sup>th</sup> October 2008

**Commercial Bank  
of Ceylon Ltd**

*Upgrading Voting Shares to Trading Buy*

**Recommendation**  
Voting –Trading Buy  
Non-Voting –Buy

**Ticker**  
Voting -COMB.N  
Non-Voting-COMB.X

**Share Price\***  
Voting-Rs.90.25  
Non-Voting-Rs.62.75

**Market Cap\***  
Voting-Rs.21.28Bn  
Non-Voting-Rs.1.01Bn

**52 Week High\***  
Voting-Rs.150.00  
Non-Voting-Rs.89.50

**52 Week Low\***  
Voting-Rs.90.25  
Non-Voting-Rs.61.00

**ASPI\***  
1,983.58  
**MPI\***  
2,194.59

\*CSE DATA as at  
13<sup>th</sup> October 2008

- ◆ At a price of RS90.25 we are upgrading Commercial Bank Voting Shares to a Trading Buy from the HOLD recommendation we issued in August.
- ◆ On the 27<sup>th</sup> of December 2007 at a price of Rs146.50, we issued a SELL recommendation on the Voting Shares of Commercial Bank.
- ◆ With the counter sharply underperforming the market, it's valuations have improved significantly.
- ◆ We are recommending a Trading Buy on the voting shares as we still feel the higher yields and the deep discount on the Non Voting Share make the Non Voting Share the preferred choice for exposure to Commercial Bank for long term investors.
- ◆ However given the sharper fall in the voting share, in a market rally the voting share may rise faster and as such may offer better opportunity for short term trading gains than the non voting share.



**Valuation up date**

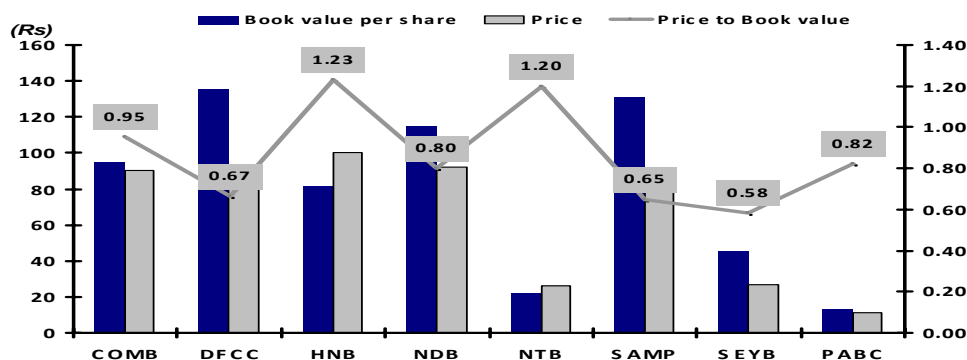
**Dividend Based Valuation**

- For the financial year of 2007 Commercial Bank’s dividend payout ratio was 45.62% and dividend per share was Rs. 7.00 for the year ended 2006 COMB dividend payout ratio was 45%.
- Commercial Bank over the past few years has been able to provide reasonable dividend payout ratio to its share holders while maintaining a strong growth rate.
- Considering the factors above, it would be rational to assume that Commercial Bank would maintain a dividend payout ratio in the range of 44% and 45%.
- Based on that assumption the twelve month forward DDM based valuation for the COMB non-voting share is **Rs.75.62**.
- This valuation is based on a very conservative assumption of 12% terminal growth rate and a discount factor of 24%.

Discount Factor	Terminal Growth Rate				
	8%	10%	12%	15%	18%
	18%	84.25	90.59	99.05	118.79
20%	77.13	82.77	90.29	107.84	142.93
23%	67.92	72.67	79.00	93.76	123.28
24%	65.19	69.68	75.65	89.60	117.50
25%	62.61	66.85	72.50	85.69	112.06

<b><u>Gain</u></b>	<b>COMB.N</b>	<b>COMB.X</b>
Current Share price	90.25	62.75
DDM Value	75.65	75.65
Dividend-2008 (excluding 1 <sup>st</sup> Interim)	6.75	6.75
	<b>82.40</b>	<b>82.40</b>
Gain %	<b>-9%</b>	<b>31%</b>

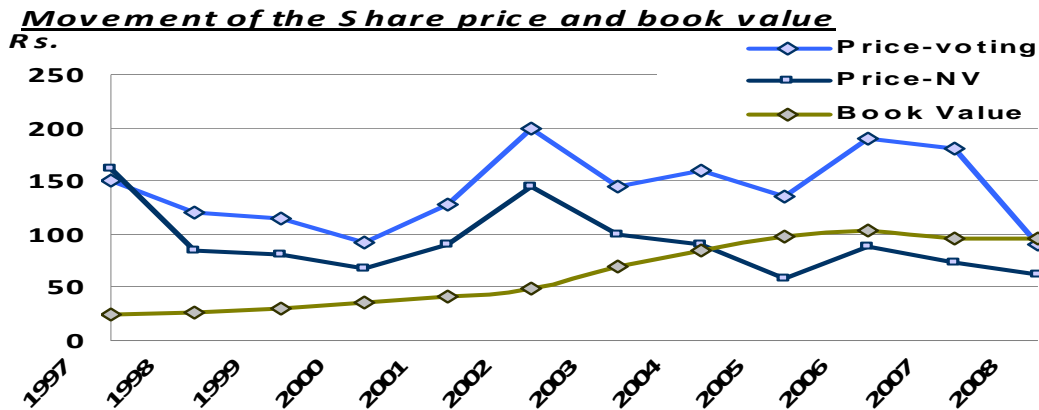
**Price to book value of Commercial Bank**



At current market conditions except for HNB and NTB all the other listed banks in the CSE is trading below the book value of the respective bank. Historically Commercial Bank Voting shares have



traded at a premium to the book value. However with the recent down turn in the market the Commercial Bank Voting shares are currently trading at a discount to its book value for the first time in more than ten years.



Considering the fact that Commercial Bank has the largest Asset, Deposit and Loan base among the listed banks, the fact that it has the highest Return On Capital among the other listed banks, Considering the asset quality of the bank, considering the capital adequacy of the bank and considering the competitive position it enjoys among the other listed banks in CSE it is reasonable to expect that Commercial Bank Voting share would have an upward adjustment in its share price.

However the degree of upward adjustment of the share price would be positively correlated with the overall market performance. We are positive about the Sri Lankan market performance but the global economic performance would impact the performance for Sri Lankan equity market. *Please refer our report "Sri Lanka a clear relative safe heaven, we remain Sri Lanka Bulls" published on 12<sup>th</sup> October 2008.*



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