ACAP RESEARCH

UPDATE

3Q 2024/25

VALLIBEL FINANCE PLC (VFIN.N0000)

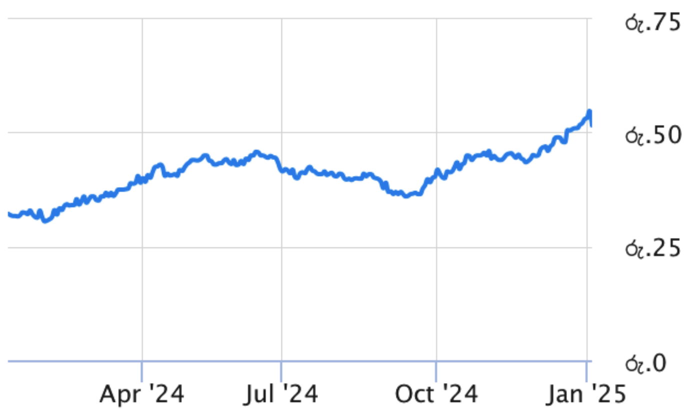
★★★

Vallibel Finance PLC (VFIN.N0000) demonstrated a mixed financial performance for the quarter ended December 31, 2024. The group achieved notable profitability growth, supported by reduced impairment charges, improved cost efficiency, and a rise in fee-based income. Strategic efforts to manage interest expenses contributed positively to net interest income, enhancing overall margins. However, revenue generation faced challenges, with a decline in interest income driven by lower lending activity and economic pressures. Operating expenses increased significantly, reflecting inflationary impacts and expansion-related costs. Liquidity management remained a concern, with cash flow under pressure despite capital-raising initiatives that strengthened the company's funding base.

EARNINGS

- **Gross Income** decreased by 2.6% to LKR 4.82 billion compared to the same quarter in 2023, reflecting weaker interest income performance amid tightening market conditions and slower loan growth, which pressured revenue generation.
- **Interest Income** declined by 6.8% to LKR 4.24 billion, driven by lower lending rates and subdued demand for credit products, highlighting the impact of macroeconomic headwinds on core business operations.
- **Interest Expense** decreased significantly by 20.8% to LKR 2.11 billion, reflecting the group's strategic focus on reducing funding costs, which improved net interest margins despite the drop in revenue.
- **Net Interest Income** rose by 13.0% to LKR 2.13 billion, supported by a sharp decline in interest expenses, demonstrating effective cost management and a stronger yield on the interest-bearing portfolio.
- **Other Operating Income** more than doubled, reaching LKR 389.2 million, driven by gains from non-core financial activities and ancillary services, partially offsetting the decline in interest-based revenue.
- **Operating Expenses** increased by 19.0% to LKR 643.3 million due to higher personnel costs and inflationary pressures on operational expenses, which elevated the cost-to-income ratio and added strain on profit margins.
- **Net Profit** surged by 51.1% to LKR 718.6 million, primarily benefiting from reduced impairment charges and disciplined cost management, despite the persistent challenge of declining interest income and rising operating costs.

PRICE CHART



VALUATION

Market Price (Jan 5, 2025)/LKR			**51.60**
Quarterly Earnings (TTM)/LKR		**YoY**	**%**
3Q 2024/25	3.05	2.01	52%
2Q 2024/25	2.80	2.09	34%
1Q 2024/25	2.10	1.66	27%
4Q 2023/24	2.95	2.28	29%
EPS - Trailing 12 Months (TTM)	**10.90**	**8.04**	**36%**
Net Assets Value (NAV)/LKR	**62.28**		
Price to Earnings (PE Ratio)	**4.73**	<8	★
Price to Book Value (PB Ratio)	**0.83**	<1	★
Price Earnings to Growth (PEG)	**0.13**	<1	★
Dividend Yield (2023/24) (%)	**3.88%**	<5%	
Dividend Payout			
FY 2023/24	2.00		

NET ASSETS

- **Total Assets** increased by 9.1% to LKR 103.4 billion, driven by strong growth in loans and receivables. This expansion highlights the group's focus on credit disbursement despite a challenging economic environment, supporting future interest income potential.
- **Loans and Receivables to Customers** surged by 20.9% to LKR 70.0 billion, reflecting increased lending activity. However, this growth comes with elevated credit risk management requirements, emphasizing the need for vigilance over asset quality.
- **Lease Rental and Hire Purchase Receivables** grew by 20.3% to LKR 12.4 billion, driven by continued demand for vehicle financing. This segment remains a core contributor to the asset base, supporting revenue diversification.
- **Cash and Cash Equivalents** decreased significantly by 30.5% to LKR 1.36 billion, reflecting liquidity constraints due to increased lending activities and regulatory deposit requirements.
- **Deposits from Customers** rose by 9.8% to LKR 64.4 billion, signaling continued customer confidence and effective deposit mobilization strategies. **Subordinated Term Debts** more than doubled to LKR 6.7 billion, reflecting capital-raising efforts to enhance the capital structure and meet regulatory capital adequacy requirements amid asset growth.
- **Total Liabilities** increased by 8.9% to LKR 88.8 billion, driven by higher customer deposits and borrowings.

CASH FLOW

- **Net Cash from Operating Activities** turned negative at LKR -1.13 billion, compared to a positive LKR 3.21 billion in the previous year, primarily due to increased outflows for loan growth and regulatory deposit requirements, straining liquidity.
- **Interest and Commission Receipts** decreased by 5.8% to LKR 13.52 billion, reflecting reduced lending activity and lower interest income amid a subdued market environment, impacting cash inflows from core operations.
- **Interest Payments** dropped by 22.8% to LKR 6.32 billion, highlighting the group's successful efforts to reduce funding costs and improve net interest margins despite broader liquidity pressures.
- **Payments to Employees and Suppliers** increased significantly by 22.9% to LKR 4.14 billion, driven by inflationary pressures and higher operational expenses, contributing to elevated cash outflows.
- **Cash Used in Investing Activities** totaled LKR 275.2 million, primarily due to continued investment in property, plant, and equipment, reflecting the group's focus on long-term capacity building despite short-term liquidity constraints.
- **Net Cash from Financing Activities** amounted to LKR 1.14 billion, supported by proceeds from new borrowings and subordinated debt, offsetting dividend payments and helping to fund asset expansion initiatives.
- **Cash and Cash Equivalents** fell sharply to LKR -215.5 million from LKR 483.6 million, indicating a significant decline in liquidity.

STATUTORY COMPLIANCE

Capital Adequacy and Statutory Compliance: Vallibel Finance PLC maintained a strong capital position as of 31st December 2024, with the **Tier 1 Capital to Risk-Weighted Assets Ratio** standing at **14.67%**, well above the regulatory minimum of **10.00%**, and the **Total Capital to Risk-Weighted Assets Ratio** at **20.47%**, exceeding the statutory requirement of **14.00%**. This robust capital adequacy indicates the group's solid financial health and ability to absorb potential risks while supporting future growth initiatives.

Additionally, the **Capital Funds to Total Deposit Liabilities Ratio** stood at **26.29%**, significantly above the mandatory threshold of **10.00%**, reflecting the company's capacity to meet depositor obligations. These compliance metrics underscore Vallibel Finance's adherence to regulatory requirements, ensuring stability and instilling confidence among stakeholders in its financial resilience.

INDICATORS

- **Net Interest Income**: The group posted a net interest income of Rs. 2.13 billion for the quarter, reflecting a YoY increase of 13.0% from Rs. 1.89 billion.
- **Interest Margin**: The net interest margin expanded to 8.45% during the quarter, compared to 7.91% YoY, representing a 0.54 percentage points improvement.
- **Customer Deposits**: Total customer deposits rose by 9.8% YoY to Rs. 64.39 billion, up from Rs. 58.64 billion, highlighting the group's strong deposit mobilization capabilities. This growth supported the expansion of the lending portfolio, which increased 20.9% YoY to Rs. 70 billion, contributing significantly to revenue growth.
- **Operating Profit Margin**: The operating profit margin improved to 29.9%, up from 23.4% YoY, marking a substantial increase of 6.5 percentage points.
- Return on Equity (ROE): The annualized ROE increased to 17.60%, compared to 16.33% YoY, reflecting a 1.27 percentage points improvement.
- **Non-Performing Loan (NPL) Ratio**: The gross NPL ratio improved to 5.6%, down from 6.5% YoY, indicating a reduction of 0.9 percentage points.
- **Net Asset Value (NAV) Per Share**: The NAV per share rose by 10.6% YoY to Rs. 62.28, up from Rs. 56.32 in the same quarter last year.
- **Earnings Per Share (EPS)**: The annualized EPS surged to Rs. 12.21, a YoY increase of 51.1% whilst EPS for the quarter ended 31st Dec 2024was Rs. 3.05

Net Interest Income	↑	13%
Interest Margin	↑	8.4%
Customer Deposit	↑	9.8%
Return on Equity	↑	17.6%
NPL Ratio	↓	5.6%
Earnings per Share	↑	Rs 3.05

FUTURE OUTLOOK

Vallibel Finance PLC's outlook appears positive, with profitability metrics such as ROE (17.60%) and EPS growth (25.8% YoY) showcasing strong earnings potential. The company's strategic focus on expanding its loan portfolio, maintaining a robust asset base, and leveraging its capital adequacy ratio (CAR at 20.47%) positions it for sustained growth amidst an improving macroeconomic environment. Despite strong revenue streams, Vallibel Finance faces notable challenges, including a declining gross income (-6.8% YoY for the quarter) and a potential slowdown in interest income recovery (-11.7% YoY). The debt-to-equity ratio, while improving, remains elevated at **119.32%**, signaling dependency on external financing. Additionally, the higher cost of operations, evidenced by increased personnel and establishment expenses (up 21.7% and 77.1% YoY, respectively), could pressure margins if unchecked. Broader concerns include reliance on non-interest income for profit stability and potential asset quality risks in a high-interest-rate environment, reflected in the gross non-performing accommodation of Rs. 3.92 billion. Addressing these issues will be crucial to sustaining performance and shareholder value. With a closing share price of Rs. 53.30, marking a YoY increase from Rs. 32.00, investor confidence remains robust, supported by a stable market valuation and a history of dividend payouts. **As at the date of this report VFIN.N0000 share was trading at Rs 51.60 per share.**

Rating Methodology

★	★	★	★	★
Price Earnings Ratio (PER)	**Price to Book Value(PBV)**	**Price Earnings to Growth (PEG)**	**Dividend Yield (DY)**	**Quarterly Growth**
Below Market PER of 8	Discount to the Book Value	PEG Ratio positive & lower than 1	DY more than 5%	Positive QoQ

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