16th October 2023
Mauritius
Equity Research
Brokerage

Banking Report

- With a remarkable year nearly behind us, with both banks under review showcasing stellar performance, attention is now driven towards upcoming quarters as both groups seek to increase their regional footprint though different strategies.
- From a top line perspective, both banks are expected to benefit from a full financial year under elevated rates, which will prove beneficial in upcoming quarters as assets continue to reprice.
- Cost of fund should also increase in the near term as we noticed a change in components of Deposits, with a shift towards lower term deposits.
- We expect the local central bank to take more dovish stance as quickly as next year as we expect rates to drop in the second half of 2024, as the BOM would look for an early exit from its tightening cycle in order to support the local economy. The increased interventions of the fiscal side on monetary matters in the past weeks reinforced our views.
- Loan quality is expected to remain stable amid increased social measures in the last budget speech, including a monthly allowance for households with mortgages of up to Rs 5.0m to cater for rising cost of debt.
- Volume of loans on the MUR side should benefit from the renewal in of the home ownership scheme along with the various infrastructure projects undertaken this year, both from the private and public side.
- On the FCY side, strategies continue to diverge for both groups, as MCBG continues to extend its regional network through representatives' offices, SBMH seeks to increase its foothold through potential acquisitions in coming years.
- This diverging strategy should keep cost to income ratio on different trajectories, with the ratio for SBMH staying on the high side.
- Overall, we estimate the fair value of MCBG at Rs 480.00 and Rs SBMH at Rs 10.36. Given the substantial discount to FV we trigger a **BUY** recommendation on both stocks.

Key ratios (%)

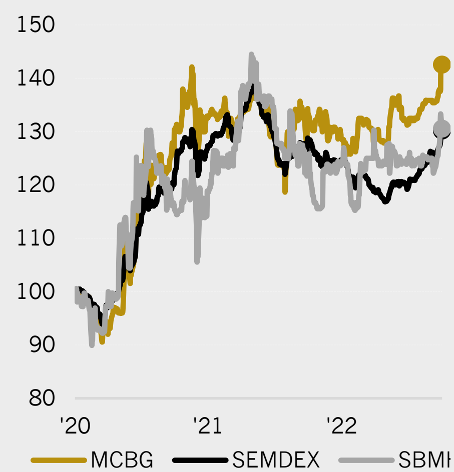
Year	FY-22	FY-23	FY-24	FY-25	FY-26
MCBG					
EPS (Rs)	40.2	57.7	68.8	79.1	86.9
DPS (Rs)	13.9	20.3	22.9	26.4	29.0
Payout Ratio (%)	35%	35%	33%	33%	33%
P/E (x)	7.7	5.4	4.9	4.2	3.9
D/Y (%)	4.5%	6.5%	6.8%	7.9%	8.6%
ROE (%)	12.8%	16.9%	17.6%	17.6%	16.9%
ROA (%)	1.4%	1.8%	1.9%	1.9%	1.8%
SBMH					
EPS (Rs)	1.4	2.0	2.1	2.3	2.5
DPS (Rs)	0.2	0.4	0.5	0.7	0.9
Payout Ratio (%)	14%	20%	25%	30%	35%
P/E (x)	3.2	2.4	2.2	2.0	1.9
D/Y (%)	4.5%	8.5%	11.2%	14.7%	18.3%
ROE (%)	13.4%	17.1%	16.5%	16.3%	15.9%
ROA (%)	1.3%	1.2%	1.2%	1.2%	1.2%

Source: Company data, Swan Securities estimates

Industry Statistics

Listed Stocks – Official Market

MCB Group Limited	MCBG.N0000
Estimated fair value (12-month period)	Rs 480.00
Upside Potential (Based on last closing price)	+44.6%
SBM Holdings Ltd	SBMH.N0000
Estimated fair value (12-month period)	Rs 10.36
Upside Potential (Based on last closing price)	+125.28%



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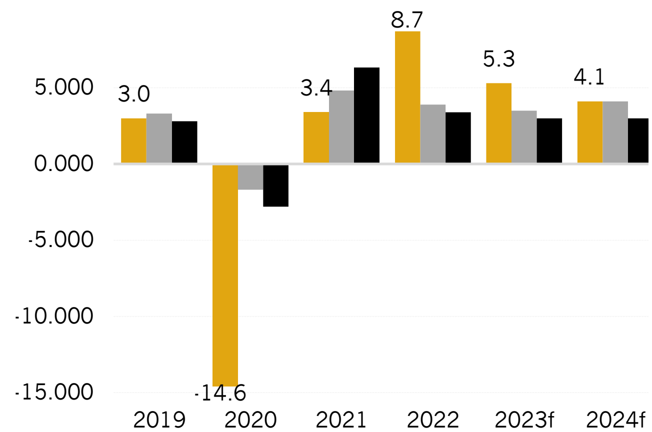
Operating Environment

Economic growth surprises, but so does inflation

The local real GDP growth, which was expected to growth by 5.0%, according to previous estimates from Statistics Mauritius, is now expected to grow by 5.30% in 2023. Strong recovery in the tourism sector, underpinned by encouraging statistics for the sector as arrivals are expected to reach 1.3m in CY 23 (Internal Forecast). The rebound in economic activity led to an increase in hiring in the past two years, leading to a fall in unemployment (6.7% in Q1 23 against 8.7% in Q2 23) as discouraged workers rejoined the workforce, leading to a higher activity rate. This coupled with the increased spending on social allowances by authorities along with various property and infrastructure projects around the Island led to helped raised the outlook, as economic growth this year will be supported by household consumption and government spending. While private investment will be mainly centered around real estate development projects, other sectors such as Manufacturing or Accommodation had declining loans outstanding. However, weakness in global trade could impact local export-oriented enterprises and overall growth in exports. Overall, the above-mentioned factors led to the Bank of Mauritius suggest that growth would range between 6.5% to 7.0% in 2023.

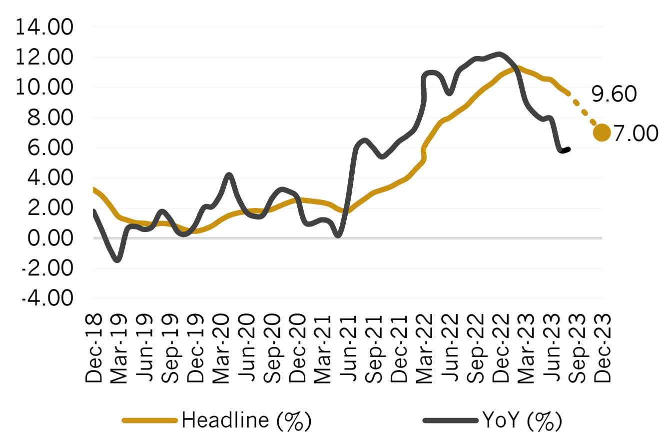
While outlook for growth has been raised, inflationary pressures persist as suggested by the latest inflation print (Aug-23) showing an increase m/m in core inflation (1 and 2) suggesting that sticky prices could be on the rise. Outlook for commodities could also spur an increase in headline inflation as seen already in advances countries. In its last post-MPC meeting, the committee also raised its forecast for headline inflation from 6.8% to 7.0%.

Figure 1: GDP Estimates (Latest and Initial Forecast)



Source: Statistics Mauritius, IMF

Figure 2: Headline inflation (Dec-18 – Dec-23)



Source: Statistics Mauritius, BOM

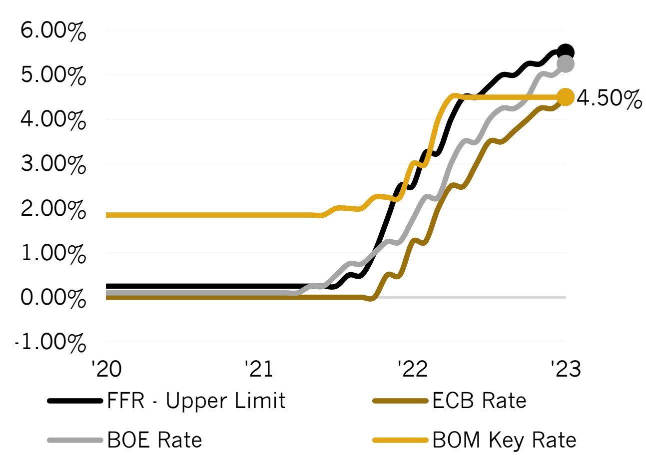
Key Rate likely to remain unchanged until next year.

The central bank seems to have little room to move at the moment as any up move in the key rate would work against the work done by the fiscal side with the social allocations, notably the monthly allowance for those who contracted a mortgage of up to Rs 5.0m.

On the other hand, a drop in the key rate could lead to further weakness in the Rupee.

Given that central banks in advanced economies seems to have arrived at the end of their tightening cycle, we expect the Key rate to remain unchanged. As inflation falls and assuming that inflation expectations also fall, the central would virtually tighten its rate as real interest rate would increase.

Figure 3: Selected Central Banks Key Interest Rates



Source: FED, ECB, BOE, BOM

Operating Environment

Although we note the intention of the central bank to introduce the idea of higher interest rates for a sustained period, through the use of the key work "normalization of interest rates" for the first time in their post meeting press meeting. A key word which has notably been used by the FED on numerous occasions.

Recent developments seem to further strengthen the image of an intertwined relationship between the monetary and the fiscal side, as the fine line between the two grows thinner.

The strong influence of the fiscal side on the monetary policy, leads us to believe that the central bank could decide to cut interest rates earlier than what they are implying. A perfect escape route would be an anticipated cut in the FED's Fund Rate as from next year.

"Members viewed that the past rate hikes are still working through the economy and that the current monetary policy stance is appropriate and supportive of economic recovery" – **Bank of Mauritius.**

"Raising interest rates at the present moment will have an impact on the inflation rate. When the cost of operation increases, businesses will raise their prices, which will lead to an increase in the inflation rate" – **Minister of Finance**

Interventions held MUR stable, however fundamentals points toward further weakness.

The USD/MUR pair remained relatively stable during the second and beginning of the third quarter of the year, thanks to timely interventions on the local foreign exchange market along with warning letters issued to commercial banks to warn about any speculative practices. During the end of the third quarter, we saw the central bank intervene more aggressively through increased frequency of intervention and lower USD/MUR rate at which they intervened – amid increasing strength of the dollar and rising commodity prices.

Over the long run however, fundamentals suggest that there is further weakness ahead as price and interest rate differentials increases.

Figure 4: Rate Differentials – 3 Months T-Bills

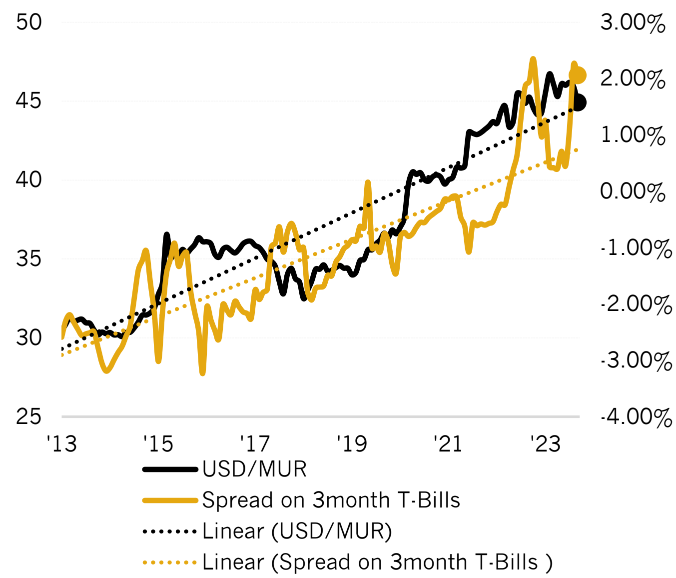
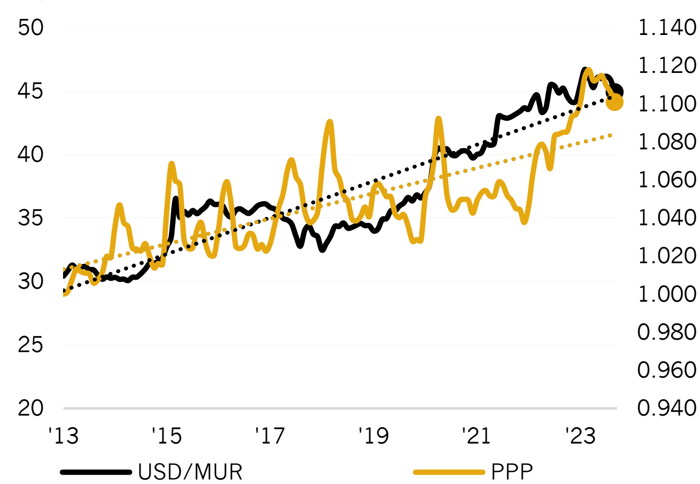


Figure 5: PPP



Operating Environment

Excess liquidity pushed short-end yields lower as BOM limits issuance of 7-day T-bills.

Earlier this year the Bank of Mauritius introduced the 7-day T-bill a one of its new policy tools as part of its new framework. The instrument, which is pegged to the Key Rate was introduced to improve anchoring of inflation expectations along with the management of excess liquidity.

Following the introduction of the instrument, we noticed a dip in the excess cash holdings of banks (figure 6) as the BOM increased the acceptance rate of bids over time, to surpass the amount of excess liquidity in the system. This benefited banks primarily, adding support to NIM on their MUR books.

However, the central bank reversed gear in July and limited the number of accepted bids to Rs 5.0bn only on average every week. While no further details were provided, this could have been made to support the loan to deposit, who fell from an approx. 51% in December 2022 to 47% in July 2023.

While the bank has not released any data on excess cash holdings of banks since March 2023, we assume that excess liquidity Increased in July. In parallel, Y/Y inflation also came down from 7.9% in June to 5.9% in July, creating downward pressure on weighted average T-Bill rate.

NIM on Rupee portfolio likely to be higher than historical levels.

Net Interest Margin (NIM) is expected to be higher than historical levels as excess liquidity is now being remunerated. However, as assets mix of banks have changed in July, shifting from Debt securities to Currency and Deposits (Figure 7) as supply of 7-day T-bills dropped (Figure 6), NIM on MUR portfolio is expected to be lower on a comparable basis in Q3 and Q4 of FY 24.

To mop up the excess liquidity following its change of hearts regarding its newly created instrument, the central bank used other monetary policy instruments, such as BOM T-Bills, which the bank did not have use since March 2023. An increase in cumulative amount under Overnight Standing Facility was also noticed in July and August. An uptick in bids submitted for GOM was also witnessed in August.

This reallocation towards other longer-term instruments should result in lower average yields on rate sensitive assets as this inflow in bills has considerably lowered the short end of the curve of the curve, with weighted average yields on T-bills falling from 4.77% in June to 3.64% in July and 3.16% in August.

Figure 6: Excess Liquidity

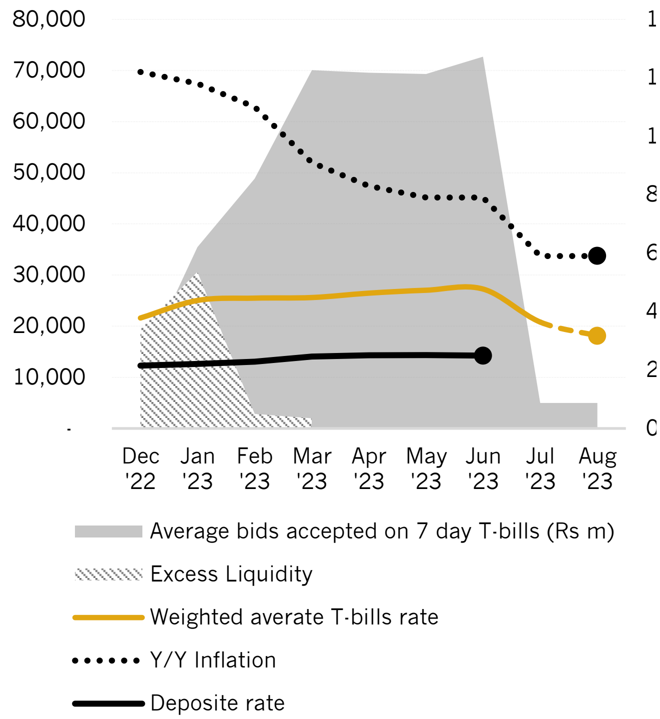
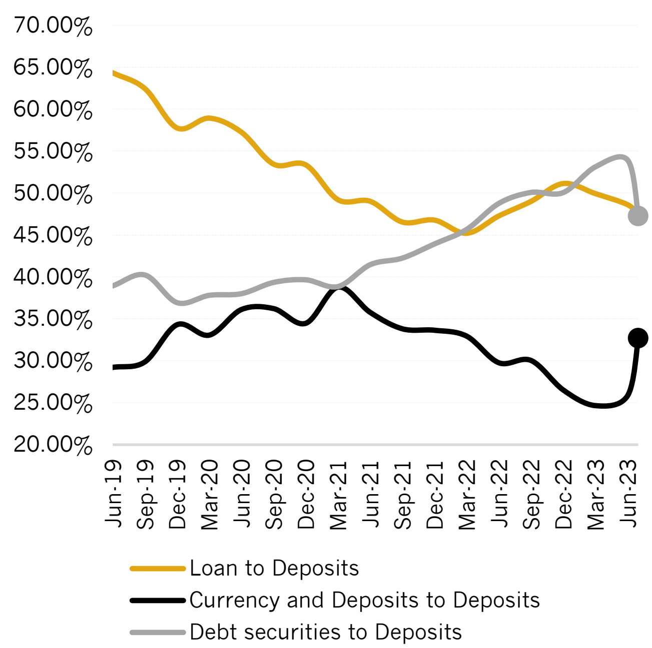


Figure 7: Rate Sensitive Assets – Mix (%)

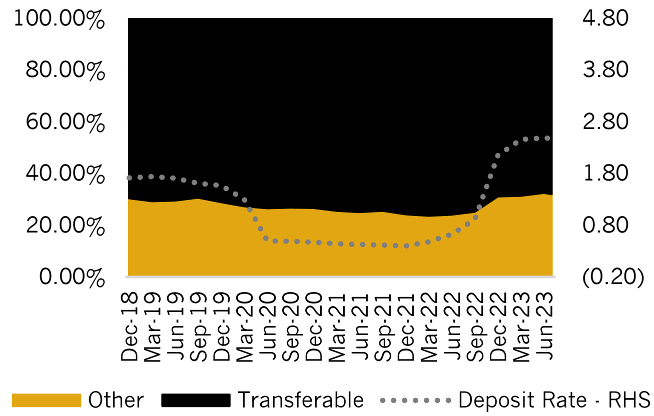


Operating Environment

The overall risk aversion witnessed in the past years from banks, as depicted by the low loans to deposits ratio, along with the change in the deposit mix between transferable deposits and other deposits, as investors are looking for yield, should create a short-term squeeze in NIM on bank's MUR books as cost of borrowing is higher.

Over the medium term we do expect to see an increase in loans to deposits up to the level it was December 2022, around 53%, as banks would probably try to expand their margin, leading at the same occasion to an increase in competition for loans.

Figure 8: Deposits – Mix (%)

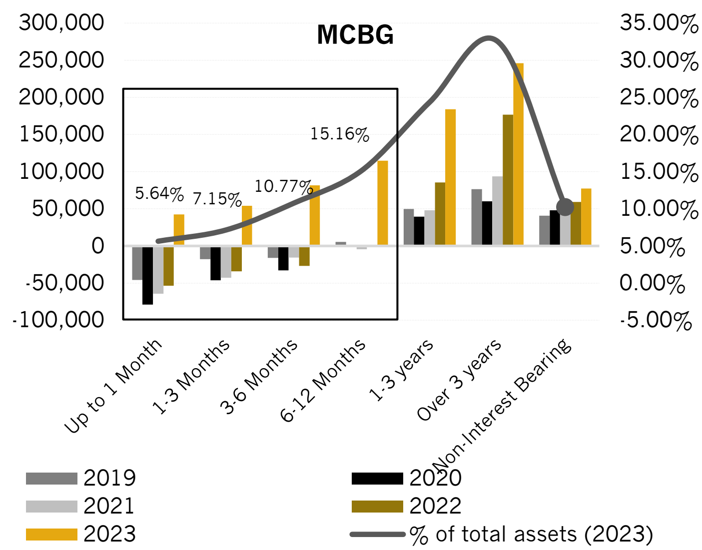


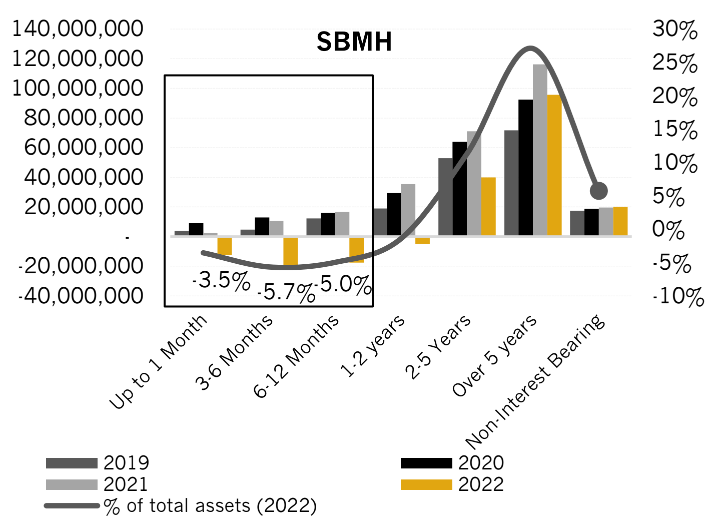
Sensitivity of the bank's assets and liabilities to changes in interest rates will determine direction of NIM

The two main banks have maintained slightly different Asset and Liability management strategies throughout the years with **MCBG** maintaining a negative cumulative repricing gap for the time buckets ranging from less than 1 Month to 6 Months, indicating that the group has a history of being liability sensitive for the mentioned timeframe. Overall cumulative repricing gap for the time bucket of 6-12 Months represented nearly 0% of rate sensitive assets, indicating that the bank has a history of having a neutral sensitivity to changes in interest rates over a one-year period. However following implementation of new framework from BOM, the majority of the non-interest bearing portion classified under "Cash and Cash Equivalents", now earning interest through overnight deposit facilities and BOM bills, was reclassified under the "up to one month" time bucket, therefore increasing the group's **asset sensitivity**.

Contrastingly, **SBMH** has a history of being asset sensitive on maturities of less than one year, represented by the positive cumulative repricing gap maintained by the group in the past years over that time period. Although we noticed a drastic change in asset and liability management as at December 2022, switching stance from asset sensitivity to liability sensitivity. We do note however a drop in non-interest bearing liabilities from Rs 143.0bn as at Dec 21 to Rs 106.0Bn as at Dec 22, while liabilities across time buckets ranging from 1 month to 2 years increased amid current high interest rate environment. This led to an increase the liability sensitivity of the bank.

Figure 9: Cumulative Repricing Gap – Banks (19-23)





However, we assume that a majority of the bank's non-interest bearing cash should have now been reclassified under the 1 month time bucket, which should make the bank asset sensitive as of June 23.

Under this new framework, both banks are now expected to remain more asset sensitive on 1 month time bucket compared to historical periods. While this remains beneficial in an environment with increasing rates, this also makes them more vulnerable to a downward move in interest rates.

Note: The cumulative repricing gap chat displayed shows the current positioning of the groups (Asset or liability sensitive) at a current point in time (As at 30 Jun). However, this positioning can change at any given time within the financial year.

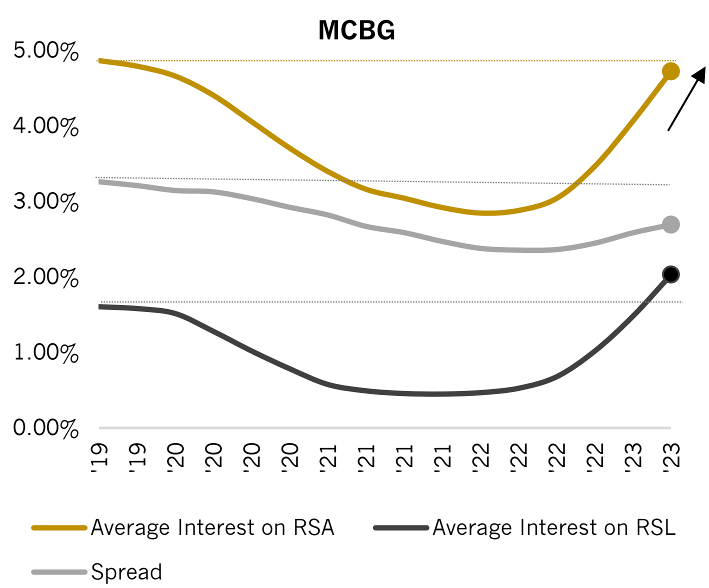
Further upside potential for the NIM's on FCY books of MCBG and SBMH

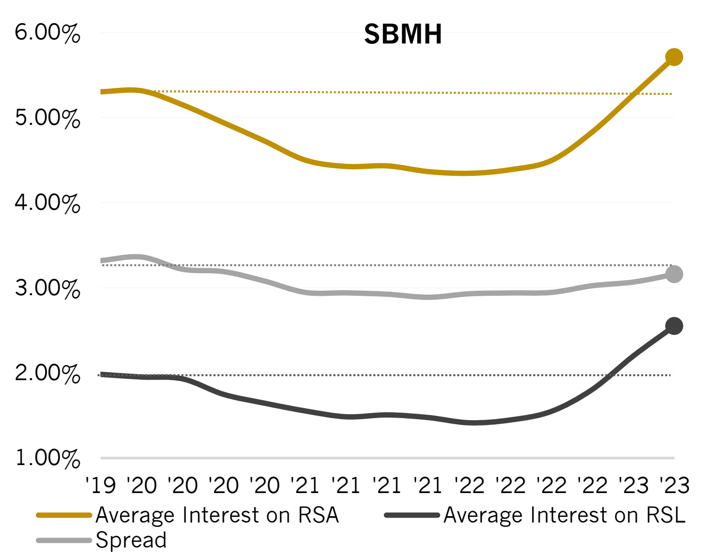
As we mentioned in the previous section on cumulative repricing gap, MCBG went from being liability sensitive as at June 22 to asset sensitive as at June 23, which could explain why average yield on RSA is still slightly below pre-pandemic level, while average yield on RSL was already above 2019 level as at June 23. We still expect to see further upside on average yields on RSA as assets continue to reprice and NIM finally close on pre-pandemic level.

With rates being above 2019 level, we expect yields on RSA for MCBG to go beyond 5% within the FY24.

The positioning of both banks (Asset or liability sensitive) will have to be monitored as at 30-Jun 24 as we expect central banks to a dovish stance and cut interest rates. At which point we would expect both banks to be liability sensitive over the 1 month to 12 months maturity bucket.

Figure 10: Yields on Rate Sensitive Assets and Liabilities





Operating Environment

Loans in MUR expected to gain support through Real estate activities, Construction and Households to some extent.

Loans in MUR recorded a negative Y/Y growth in the first half of 2021, as banks reduced noticeably reduced their exposure to loans, reallocating their funds towards Investment securities instead. In Figure 10, we note the acceleration in growth in the second half of 2021 and 2022, as government rolled out significant infrastructure projects and aimed at supporting households' access to property. As a result, loan growth on the MUR side has been mainly supported by interest rate sensitive sectors as general deleveraging trend was observed in the Manufacturing and Hospitality sectors.

Going forward, measures such as the home ownership scheme which relieves first time home owners from taxes, along with major infrastructure development from both public and private side are expected to offset the negative impact of high interest rates and keep the growth in loans above historical trend of 5.5% in the medium term, with additional support from a potential cut in rates in the second half of 2024. On the other side a change in government next year could affect fiscal spending in subsequent years.

Due to their distinctive strategies, we expect MCBs Segment B operations to continue to be the group's main growth engine, backed by higher commodity prices which should incentivize players to increase investment. More importantly, the rise in energy prices will encourage countries to fast track their energy transition agenda, resulting in a shift from Oil to Gas consumption (viewed as a transition energy).

We expect growth in loans of SBMBM (MRU) to decelerate to gradually align with GDP growth, as the Mauritian operation will be driven by other sources of revenue (Trading income). Overall growth should come from Indian and Kenya operations.

Figure 10: Loan and Deposits Y/Y growth (%)

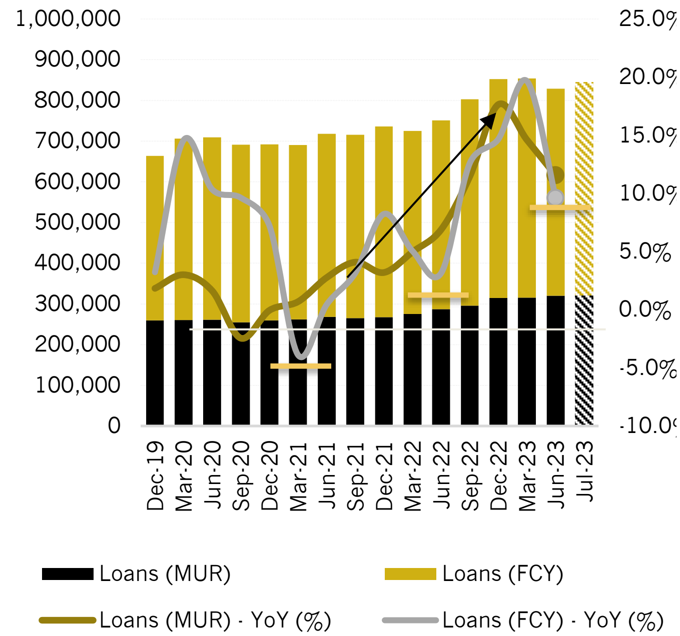


Figure 11: MCBG – Gross loans in MUR and FCY

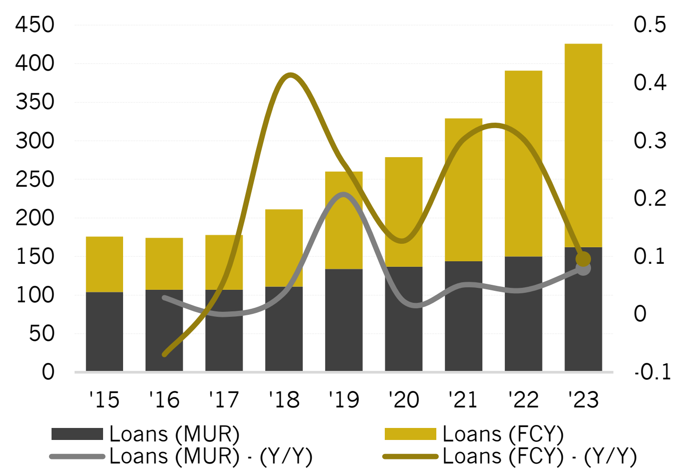
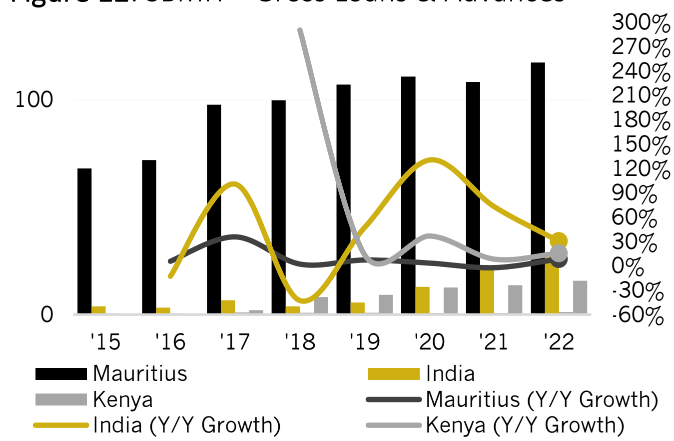


Figure 12: SBMH – Gross Loans & Advances



Operating Environment

Contribution of NII to grow in upcoming FY.

Higher price of oil per barrel is expected to spur further growth in trade finance related fees, increasing the line item's contribution to operating profits.

Similarly, increase in value of transactions at ATMs, used as a proxy for "card and other related fees" is expected to contribute positively to both groups NII segments as arrivals continue to recovery, tourism earnings and household consumption remains strong. The latter being backed by increasing social measures to support purchasing power.

Figure 13: MCBG – Trade finance fees

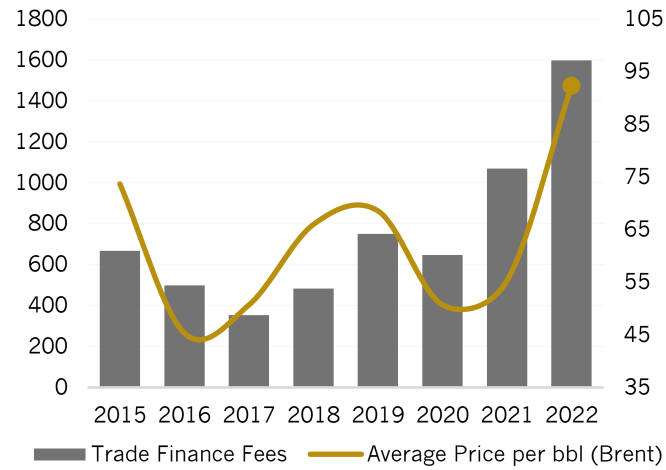
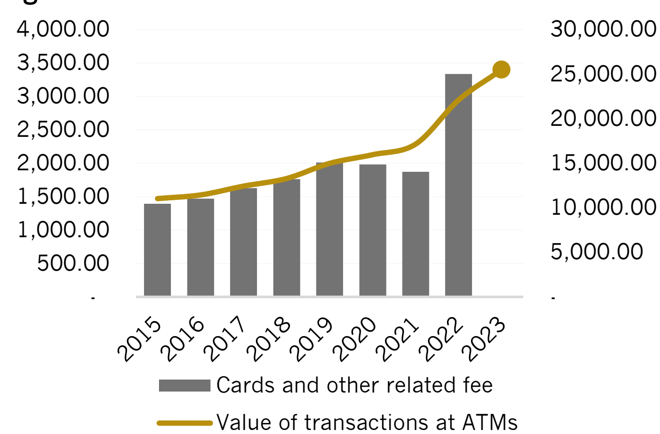


Figure 14: MCBG – Card related fees.

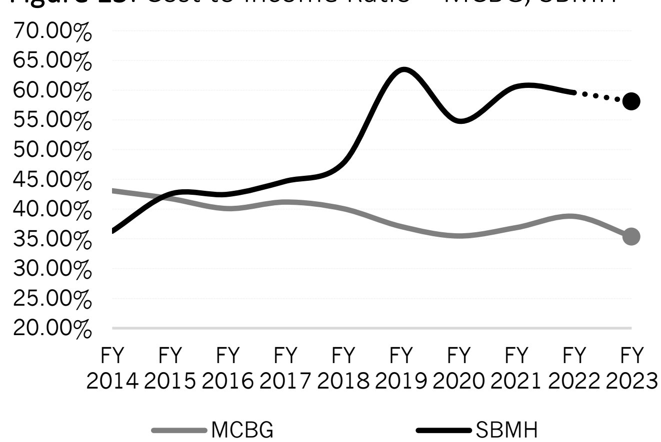


Efficiency to remain a differentiating factor.

A key differentiating factor going forward will remain the cost to income ratio, as both bank's strategies for expansion diverge. On one side MCB's initiatives to gain foothold on in the region through increase in the number of representatives offices enables them to drive revenues up while maintain their cost base relatively low.

On the other hand, we expect cost to income ratio remain elevated for SBMH as we expect management to increase their footprint in India and Kenya.

Figure 15: Cost to Income Ratio – MCBG, SBMH



Individual Sections

MCB Group Limited

- The group posted remarkable results for the year ending 2023, as top line is finally starting to reflect the current interest rates environment. We expect the yields on rate sensitive assets (RSA) to peak around the end of 2024 as we expect rates to drop.
- While the bank suffered from liabilities repricing faster than assets during last financial year, we expect the situation to reverse in the FY 25 as the group could benefit from the drop in rates, with yields on rate sensitive liabilities (RSA) dropping faster than yields on RSA.
- While higher commodities prices should translate in higher fee and commission income in the short term, over the long term, this should create an incentive for African countries to push their Energy transition agenda.
- This should continue to provide further support to gas trading activities as the commodity is considered as a transitory source of energy.
- Over the long term, funding needs for green related projects, both locally and abroad are expected to provide long-term growth to the group. Based on estimates from the IMF, Africa needs USD 190bn per year until 2030 for clean energy transition.
- Based on our model, we estimate the fair value of MCBG at Rs 482.50. Based on last closing price, this represents an upside potential of 43.07%. We therefore trigger a BUY recommendation.

Financial and valuation metrics

Year	Jun-22	Jun-23	Jun-24 (f)	Jun-25 (f)	Jun-26 (f)
EPS (MUR)	40.17	57.67	68.76	79.11	86.86
P/E(x)	7.65	5.43	4.87	4.23	3.86
Relative P/E (%)	82%	58%	52%	45%	41%
Net Interest Income (MUR m)	15,191	19,790	26,578	30,789	34,265
Operating Profit (MUR m)	11,452	16,891	20,101	23,774	26,851
Provision for credit losses (MUR m)	-3,481	-3,644	-3,386	-3,380	-3,540
Profit after tax	10,181	14,313	17,433	20,621	23,281
Book Value/Share (MUR)	324.55	366.27	411.47	481.57	578.72
ROE(%)	12.80%	16.90%	17.59%	17.65%	16.88%
ROA(%)	1.40%	1.80%	1.90%	1.91%	1.83%
DPS (MUR)	13.90	20.25	22.92	26.37	28.95
Payout Ratio(%)	34.6%	35.1%	33.3%	33.3%	33.3%
Dividend Yield (%)	4.52%	6.46%	6.84%	7.87%	8.64%

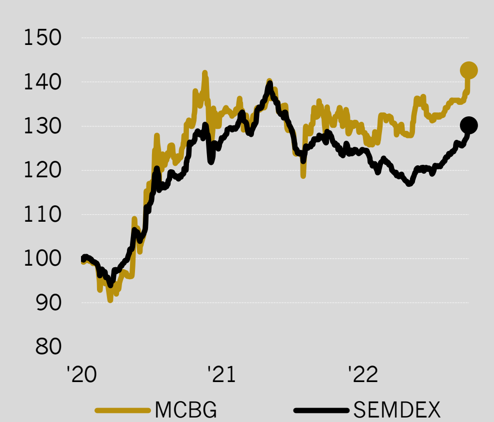
Source: Company data, Swan Securities estimates

Recommendation	**Buy**
Target Price	**Rs 480.00**
Potential Upside	**+ 44.58%**
Share Price	Rs 332.00
Market Cap	Rs 84.2bn
Av. Daily value Traded.	Rs 21.1m (USD 470.0k)
Net Foreign Purchases (YTD)	Rs (225.3m) US$ (5.0) m
Year End	30-Jun
NAV (Current)	Rs 366.27
Issued Capital YTD (Rs)	238.9 (m)
52W - High	341.00 (Sep-2023)
52W - Low	300.00 (Jan-2023)

Ticker

Security Code	MCBG.N0000
Reuters	MCBG.MZ
Bloomberg	MCBG.MP
ISIN Code	MU0424N00005

Share price performance



MCB Group Limited

Valuation

We used four different models (DDM, Economic Profit, P/E and P/B) to arrive at our fair value of Rs 478.80 for MCBG. Dividend payout is expected to remain at a stable (1/3) of attributable profits over the coming years. As explained above, upcoming FY results are expected to show above historical growth, reflecting a full financial year under elevated rates. Growth is then expected to decelerate in FY 25 on the back of the drop in interest rates.

We estimate the bank's cost of equity to range between 14.15% and 14.70%, with a midpoint of 14.43%, using the CAPM and Bond yield plus premium approach.

Based on above mentioned assumptions we estimate the fair value of MCBG to range between Rs 414.40 – Rs 562.00, with a mid-point of Rs 480.00. This would represent an upside potential of 44.6% based on last closing price of Rs 332.00 (13.10.2023).

ESTIMATED AVERAGE EQUITY VALUE

	Weight	PPS
DDM	25%	522.0
Economic Profit	25%	414.4
Price-to-Earnings	25%	562.0
Price-to-Book	25%	421.2
Estimated Equity Value per Share	**MUR**	**479.92**

Source: Swan Securities Estimates

Risks

- Economic slowdown in developed markets as witnessed in past months through slowing PMI numbers could continue to weigh on external demand for locally produced goods.
- Recent developments on the geopolitical front, through the Israel-Gaza conflict, could lead to increased volatility on the commodities front and disruptions in supply chains should the conflict spread in the region.
- A potential new government next year may be less inclined to spend, could lead to a drop in public spending along with freezing of previous infrastructure projects planned by the outgoing government.

Financials

Income Statement

Year	Jun-22	Jun-23	Jun-24	Jun-25	Jun-26
Interest income	18,455	33,924	49,228	54,509	57,118
Fee and commission income	8,584	9,673	10,655	11,982	13,146
Other income	2,804	5,396	2,804	2,804	2,804
Total revenue	**29,843**	**48,993**	**62,687**	**69,295**	**73,068**
Interest expense	-3,264	-14,134	-22,650	-23,720	-22,853
Fee and commission expense	-2,514	-3,067	-3,339	-3,800	-4,169
Non-interest expense	-9,132	-11,257	-13,211	-14,621	-15,656
Total expenses	**-14,910**	**-28,458**	**-39,201**	**-42,141**	**-42,678**
Operating profit before impairment	**14,933**	**20,535**	**23,486**	**27,154**	**30,390**
Net impairment on financial assets	-3,481	-3,644	-3,386	-3,380	-3,540
Operating profit	**11,452**	**16,891**	**20,101**	**23,774**	**26,851**
Share of results of associates	799	867	832	986	1,118
Pre-tax profit	**12,251**	**17,758**	**20,932**	**24,760**	**27,969**
Income tax expense	-2,070	-3,445	-3,500	-4,138	-4,688
Net Profit	**10,181**	**14,313**	**17,433**	**20,621**	**23,281**

Source: Company data, Swan Securities estimates

Balance Sheet

Year	Jun-22	Jun-23	Jun-24	Jun-25	Jun-26
Loans to Banks	23,375	13,780	15,616	18,739	23,077
Loans to customers	325,613	349,285	403,424	484,109	596,190
Total loans	**348,988**	**363,065**	**419,040**	**502,848**	**619,267**
Total investment securities	239,684	267,472	303,635	364,362	448,719
Cash and cash equivalents	73,294	120,570	144,854	173,825	214,069
Other Assets	66,162	78,874	91,099	109,319	134,629
Total assets	**728,128**	**829,981**	**958,628**	**1,150,354**	**1,416,684**
Deposit from banks	6,979	10,352	12,642	15,170	18,682
Deposit from customers	518,677	587,414	683,320	829,305	1,002,650
Total deposits	**525,656**	**597,766**	**695,962**	**844,475**	**1,021,332**
Other borrowed funds	94,995	87,657	97,936	126,418	155,687
Total Liabilities	**647,086**	**736,886**	**851,262**	**1,021,514**	**1,258,016**
Retained earnings	61,612	71,323	82,225	98,950	122,271
Total shareholder's equity	**77,912**	**89,763**	**103,688**	**124,780**	**154,187**
Non controlling interest	3,130	3,332	3,678	4,060	4,481
Total equity	**81,042**	**93,095**	**107,366**	**128,840**	**158,669**

Source: Company data, Swan Securities estimates

Key Ratios

Key ratios (%)

Year	Jun-22	Jun-23	Jun-24	Jun-25	Jun-26
Profitability and margins					
ROE	12.8%	16.9%	17.6%	17.6%	16.9%
ROA	1.4%	1.8%	1.9%	1.9%	1.8%
Interest Income to Avg Interest Earning Assets	2.8%	4.5%	5.7%	5.2%	4.5%
Interest Expense to Avg Interest Bearing Liabilities	0.5%	1.9%	2.7%	2.3%	1.8%
Net Spread	2.3%	2.6%	3.0%	2.9%	2.6%
NIM	2.4%	2.8%	3.2%	3.2%	3.0%
Efficiency					
Cost to income	37.9%	35.4%	36.0%	35.0%	34.0%
Staff Expense to Total Operating Income	20.7%	18.7%	18.7%	19.1%	18.9%
Asset quality					
Net impairment on financial assets/Operating profit before impairment	23.3%	17.7%	14.4%	12.4%	11.6%
Capital Adequacy					
Equity to Total Assets	11.1%	11.2%	11.2%	11.2%	11.2%
Equity to Loans & Advances	24.9%	26.7%	26.6%	26.6%	26.6%

Source: Company data, Swan Securities estimates

SBM Holdings Ltd

- After witnessing several drawbacks in the past years, notably on its Segment B portfolio along with the pandemic, results are finally showing improvements, with EPS crossing the symbolic Rs 1.00 threshold last FY to reach Rs 1.41.
- We expect EPS to reach the Rs 2.00 mark on the back of an already compelling performance for the Half year as trailing EPS is standing at Rs 1.78, supported by the current interest rate environment, increased contribution from trading income along with drop in provisioning, mitigated however by a still elevated cost to income ratio.
- Following conversation held with management earlier this year, focus areas will be abroad with the expansion of operations in Kenya and India as their projects were stalled in past financial years, notably in Kenya, due to legal issues. The bank favours a niche approach abroad and seeks to target mainly corporates. We also note that management remains open to acquisitions to increase their regional footprint.
- This expansion strategy is likely to result in a cost to income remaining on the high side in the medium term.
- Risk framework has been reviewed and enhanced.
- Given the substantial discount to fair value, we trigger a **BUY** recommendation on the stock. No discounts were applied on the valuation.

Financial and valuation metrics

Year	Dec-22	Dec-23	Dec-24	Dec-25	Dec-26
EPS (Rs)	1.41	1.99	2.11	2.30	2.46
P/E(x)	3.17	2.37	2.23	2.05	1.91
Relative P/E (%)	42%	32%	30%	27%	25%
Net Interest Income (MUR m)	8,922	11,093	12,388	12,871	13,783
Operating Income (MUR m)	5,517	6,937	7,590	8,209	8,791
Provision for credit losses (MUR m)	-1,333	-953	-1,239	-1,287	-1,378
Profit after tax	3,636	5,129	5,439	5,929	6,349
Book Value/Share (MUR)	10.52	11.61	12.77	14.05	15.45
ROE(%)	13.4%	17.1%	16.5%	16.3%	15.9%
ROA(%)	1.3%	1.2%	1.2%	1.2%	1.2%
DPS (Rs)	0.20	0.40	0.53	0.69	0.86
Payout Ratio(%)	14.20%	20.00%	25.00%	30.00%	35.00%
Dividend Yield (%)	4.5%	8.5%	11.2%	14.7%	18.3%

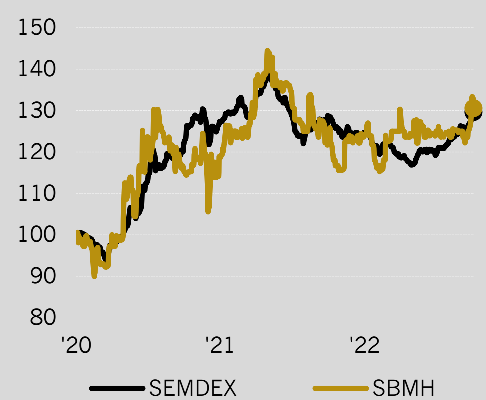
Source: Company data, Swan Securities estimates

Recommendation	**Buy**
Target Price	**Rs 10.36**
Potential Upside	**+ 125.28%**
Share Price	Rs 4.60
Market Cap	Rs 14.4bn
Av. Daily value Traded.	Rs 1.60m (USD 35.1k)
Net Foreign Sales (YTD)	Rs (52.53m) US$ (1.2) m
Year End	31-Dec
NAV (Current)	Rs 11.59
Issued Capital YTD (Rs)	238.9 (m)
52W - High	4.80 (Mar-2023)
52W - Low	4.15 (Nov-2022)

Ticker

Security Code	SBMH.N0000
Reuters	SBMH.MZ
Bloomberg	SBMH.MP
ISIN Code	MU0443N00005

Share price performance



Valuation

We used three different models (DDM, Economic Profit, P/E and P/B) to arrive at our fair value of Rs 10.57 for SBMH. We used slightly lower P/E and P/B multiples compared to peers to reflect current sentiment on the stock.

We estimate the bank's cost of equity to range between 14.17% and 14.7%, with a midpoint of 14.44%, using the CAPM and Bond yield plus premium approach.

Based on above mentioned assumptions we estimate the fair value of SBMH to range between Rs 6.71 – Rs 13.91, with a mid-point of Rs 10.36. This would represent an upside potential of 125.28% based on last closing price of Rs 4.60 (13.10.2023).

ESTIMATED AVERAGE EQUITY VALUE

	Weight	PPS
DDM	25%	6.71
Economic Profit	25%	11.36
Price-to-Earnings	25%	13.91
Price-to-Book	25%	9.47
Estimated Equity Value per Share	**MUR**	**10.36**

Source: Swan Securities Estimates

Risks

- Economic slowdown in developed markets as witnessed in past months through slowing PMI numbers could continue to weigh on external demand for locally produced goods.
- Recent developments on the geopolitical front, through the Israel-Gaza conflict, could lead to increased volatility on the commodities front and disruptions in supply chains should the conflict spread in the region.
- A potential new government next year may be less inclined to spend, could lead to a drop in public spending along with freezing of previous infrastructure projects planned by the outgoing government.

Financials

Income Statement

Year	Dec-22	Dec-23	Dec-24	Dec-25	Dec-26
Interest income	14,819	21,371	24,179	23,372	23,949
Fee and commission income	2,396	2,991	3,302	3,437	3,680
Other income	2,437	2,994	3,352	3,489	3,736
Total revenue	**19,653**	**27,357**	**30,834**	**30,297**	**31,366**
Interest expense	-5,897	-10,278	-11,791	-10,501	-10,166
Fee and commission expense	-102	-127	-140	-146	-156
Non-interest expense	-8,137	-10,015	-11,312	-11,441	-12,253
Total expenses	**-14,136**	**-20,420**	**-23,244**	**-22,088**	**-22,575**
Operating profit before impairment	**5,517**	**6,937**	**7,590**	**8,209**	**8,791**
Net impairment on financial assets	-1,333	-953	-1,239	-1,287	-1,378
Operating profit	**4,184**	**5,984**	**6,351**	**6,922**	**7,413**
Share of results of associates	0	0	0	0	0
Pre-tax profit	**4,184**	**5,984**	**6,351**	**6,922**	**7,413**
Income tax expense	-548	-855	-913	-993	-1,063
Net Profit	**3,636**	**5,129**	**5,439**	**5,929**	**6,349**

Source: Company data, Swan Securities estimates

Balance Sheet

Year	Dec-22	Dec-23	Dec-24	Dec-25	Dec-26
Loans to Banks	1,221	1,399	1,539	1,693	1,862
Loans to customers	149,995	159,881	167,075	178,946	191,521
Total loans	**151,216**	**161,280**	**168,614**	**180,639**	**193,383**
Total investment securities	151,978	167,875	184,662	203,128	223,441
Cash and cash equivalents	30,275	35,973	39,570	43,528	47,880
Other Assets	28,872	34,574	46,825	56,344	67,298
Total assets	**362,341**	**399,702**	**439,672**	**483,639**	**532,003**
Deposit from banks	3,803	2,958	3,254	3,579	3,937
Deposit from customers	293,350	323,514	355,866	391,452	430,597
Total deposits	**297,153**	**326,472**	**359,119**	**395,031**	**434,534**
Other borrowed funds	15,489	15,000	15,000	15,000	15,000
Total Liabilities	**335,172**	**369,731**	**406,704**	**447,374**	**492,111**
Total shareholder's equity	**27,170**	**29,971**	**32,968**	**36,265**	**39,891**

Source: Company data, Swan Securities estimates

Key Ratios

Key ratios (%)

Year	Dec-22	Dec-23	Dec-24	Dec-25	Dec-26
Profitability and margins					
ROE	13.4%	17.1%	16.5%	16.3%	15.9%
ROA	1.3%	1.2%	1.2%	1.2%	1.2%
Interest Income to Avg Interest Earning Assets	4.8%	6.3%	6.5%	5.7%	5.3%
Interest Expense to Avg Interest Bearing Liabilities	1.8%	2.9%	3.0%	2.4%	2.1%
Net Spread	3.0%	3.4%	3.5%	3.3%	3.2%
NIM	2.9%	3.3%	3.3%	3.1%	3.0%
Efficiency					
Cost to income	59.6%	59.1%	59.8%	58.2%	58.2%
Asset quality					
Net charge offs/Loans	0.89%	0.60%	0.74%	0.72%	0.72%
Net impairment on financial assets/Operating profit before impairment	24.2%	13.7%	16.3%	15.7%	15.7%
Capital Adequacy					
Equity to Total Assets	7.5%	7.5%	7.5%	7.5%	7.5%
Equity to Loans	18.1%	18.7%	19.7%	20.3%	20.8%

Source: Company data, Swan Securities estimates

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