



Growth Holds, But Margins and Asset Quality Slip...

LB Finance PLC (LFIN.N0000)

Results Review – 2QFY27 (July - September 2026)

Company Summary

LB Finance PLC (LFIN) is one of Sri Lanka's largest licensed finance companies, lending through leases, gold loans and other loans. Over 10 quarters its group loan book more than doubled, from LKR 163 Bn in March 2024 to LKR 377 Bn in September 2026, helped by buying 73% of Associated Motor Finance (AMF) for LKR 4.14 Bn in 3QFY26 and merging it in on 31 July 2026. Trailing EPS rose from LKR 17.3 to LKR 27.9, with ROE at 20-24%. In 2QFY27, NII rose 38% YoY to LKR 10.30 Bn and net profit 15% to LKR 3.60 Bn (EPS LKR 6.46), but profit fell 6% QoQ as interest costs (+93%) outran interest income (+61%), fees fell 21% and impairments rose 5.1x to LKR 904 Mn.

Valuation Outlook

We rate LFIN a HOLD with a 12-month fair value of LKR 152.00 (range LKR 114-171), a 9% price upside, or about 14% total return with the 5.9% dividend yield (FY26 DPS LKR 8.20; 33% payout). We forecast FY27E EPS of LKR 26.5 and FY28E EPS of LKR 28.9 (21% ROE), with loans growing 4% a quarter in 2HFY27 and 14% in FY28, NII slipping to 10.6% of loans and credit costs near 1.0%. We value September 2027 trailing EPS (LKR 27.3) and forecast September 2027 book excluding the property revaluation (LKR 137.8), weighting LFIN's own 12-quarter average multiples (5.2x P/E, 1.14x P/BV) at 40%, peer P/E (5.6x) and justified P/BV (18.5% cost of equity, 8% growth) at 25% each, and peer P/BV (0.83x) at 10%. We would move to BUY if NPLs fall below 2% with stable margins, and to SELL if credit costs exceed 1.5% of loans.

Financial Summary

Growth has cost margin. NII fell to 11.2% of average loans in 2QFY27 from 14.9% two years earlier as LFIN leaned on bank and DFI borrowings, with rates rising since May 2026: deposits make up 56% of total funding against 81% in September 2024, and funding costs rose to about 10.5% from 9.0% a year ago. Cost/income improved to 30.6% from 33.0% a year ago, though up from 29.1% in 1QFY27. Leverage rose to 6.6x assets to equity from 4.5x, and Tier 1 and total CAR fell to 17.1% and 17.6% from 27.8% and 28.6%, still above the 10% and 14% minimums. In 1HFY27, LFIN lent a net LKR 45.9 Bn, funded by LKR 23.9 Bn of new deposits and LKR 15.9 Bn of net debt, and paid LKR 3.3 Bn in dividends and LKR 1.7 Bn for AMF minorities.

Business Risk

Asset quality is the main risk. The gross NPL ratio fell from 4.53% in December 2023 to 1.35% in March 2026, but AMF's book lifted it to 2.77%; net NPLs are still negative (-0.27%). Credit costs moved from net reversals in FY25 to about 1.0% of loans in 1HFY27, and leasing, where AMF's book sits, took LKR 1.05 Bn of 1H impairment against a LKR 193 Mn reversal a year earlier. Margins are the second risk after the May 2026 policy rate rise to 8.75%. Government securities are only 4% above the required minimum, against 2.4x a year ago. A steady 20-24% ROE, solid capital and A-(lka)/A+ ratings limit the downside.

Diversified Financials : Sector

LKR 77.57 Bn : Market Cap

LKR 179.00 – LKR 130.00 : 52 Week High and Low

21.44% : Free float

1.11x : P/BV

LKR 152.00 : 12 Month Target Price

9% : Price Upside

LKR 140.00 : Current Market Price

HOLD : Recommendation

26 October 2026 : Date

Figure 01: Key Financial Highlights

(LKR Mn)	3QFY26	4QFY26	1QFY27	2QFY27
Net interest income	7,892	9,078	10,173	10,298
Total op. income	10,097	11,944	12,093	11,868
Cost / income	30.3%	30.0%	29.1%	30.6%
Impairment charges	(622)	(976)	(841)	(904)
Profit before tax	5,110	5,938	6,153	5,809
Profit after tax	3,201	5,003	3,828	3,598

Valuation	LFIN	Valuation	LFIN
P/E (TTM)	5.0x	Div. yield (FY26)	5.9%
P/E (FY27E)	5.3x	ROE (1H ann.)	21.4%
P/BV	1.11x	Peer P/E · P/BV	5.6x · 0.83x
NAV/share	LKR 126.57	Tier 1 / CAR	17.1% / 17.6%

Figure 02: LFIN Share Price vs NAV per Share

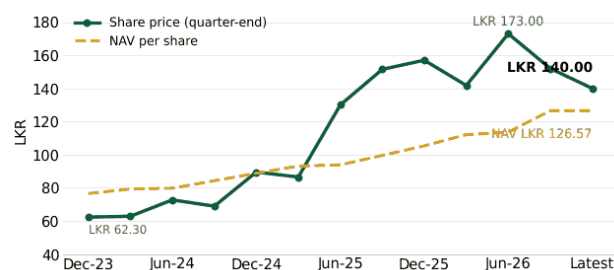
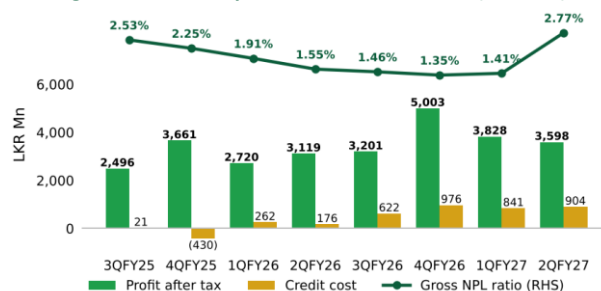


Figure 03: PAT, Impairment and NPL Ratio (LKR Mn)



Source: Company Interim Financials