

BUZZING

STOCK

Centurion Bank of Punjab Ltd.

CMP – Rs.41

Analyst

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Key Stock Data

Sensex	14431
Nifty	4264
Sector	Banks - Private
Bloomberg	CBOP@IN
Reuters	CENB.BO
No. of shares (m)	1,478
Market Cap (Rs m)	62,833
Market Cap (US\$ m)	45,443
52-week H/L	Rs.47/19

Shareholding Pattern (%)

Promoters	0.00
Mutual Funds	8.01
FII's	34.22
Corporate Bodies	44.01
Pubic & Others	13.77

Update

The issue of CBoP and LKB merger is still hanging fire after their respective boards first approved the merger at an EGM on September 30, 2006. The scheme of amalgamation drawn and approved by the respective banks expired on April 30 this year. A shareholder of the bank approached the Kerala High Court challenging the resolutions adopted at the banks' AGM. The case will now be heard on June 29.

There are varying legal opinions on the issue. The roadblock in the merger is not significant and the issue involved is probably less technical and involving more of human expertise given the nature of stiff opposition it has faced from the LKB worker's union and the Kerala chief minister V S Achuthanandan. It would be a matter of time before the merger happens. However, CBoP will have a task on hand convincing that the merger is to the benefit of both banks' stakeholders.

Strong performance in FY07

CBoP registered a strong growth across all parameters in FY07. Strong growth of 63% YoY in balance sheet was followed by strong earnings and profitability on the income side. Though margins saw a large dip declining from 5.1% in 4QFY06 to 4.4% in 4QFY07, the change was marginal for the full year. The NIM was 4.61% in FY07 against 4.79% in FY06. The dip in 4QFY07 was largely on account of a sharp movement in cost of deposits from 5.5% in FY06 to 6.3% in FY07 largely towards the end of the year. However, an 89% YoY increase in other income (Rs.4,054m in FY07) has made up for the marginally lower margins. The bank's profit at operating level therefore increased to Rs.2,692m in FY07, a 144% change on YoY basis.

CBoP also improved its C/I ratio significantly. It has dipped from 76.2% in 4QFY06 to 66.9% in 4QFY07. The C/I ratio for FY07 was at 72.4%, a decline of 9.6% over FY06. The bank has also done well in improving its NPL's which have shown a steep decline again to 2.78% from 4.63% in FY06. The NNPA's have shown a marginal increase of 13bps to 1.26%.

Going forward...

There remain multiple growth drivers in CBoP as the bank concentrates on balance sheet growth through organic and inorganic route, strengthening its retail and SME businesses while enhancing its wealth management business. The bank's productivity is also on the rise as its cost to income ratio improves and new branches add more business to the balance sheet. CBoP has balanced the asset side well with the increased cost pressure put by the funds. The balance sheet drivers have not weighed down on the banks earnings.

All in all, we believe the growth momentum in CBoP should sustain over the next two-three year period. Moderation can happen only if the bank does not grow in network or if the existing branch network remains under exploited which we think will not be the case.

Valuation

On current valuations, the bank's share trades at 4.6x its FY07 BV Rs.8.75 and 48.9x the FY07 EPS Rs.0.82.

Financial Snapshot

Centurion Bank of Punjab Ltd.							Ratios (%)			
	Rs.m			Ratios (%)						
	Q4FY07	Q4FY06	Chng (%)	FY07	FY06	Chng (%)		FY06	FY05	Chng (%)
Interest Income	3,957	2,247	76.1	12,685	8,032	57.9	CD	67.5	57.2	18.0
Interest expended	2,309	1,095	110.8	6,990	4,044	72.8	CAR	12.5	21.4	(41.5)
NII	1,648	1,152	43.1	5,696	3,988	42.8	NIM	4.8	-	-
Other Income	1,470	1,450	1.4	4,054	2,767	46.5	RoA	0.9	0.6	39.1
Net Income	3,118	2,602	19.8	9,750	6,755	44.3	RoE	4.8	7.7	(38.3)
Operating expenses	2,086	1,507	38.4	7,058	5,028	40.4				
Payments to employees	610	437	39.5	2,213	1,424	55.4				
Other expenses	1,476	1,070	38.0	4,845	3,604	34.4				
Operating income	1,033	1,096	(5.7)	2,692	1,726	55.9				
Provisions and contg.	563	825	(31.8)	856	856	0.0				
NPA provisions	0	0	-	0	0	-				
Other provisions	563	825	-	856	856	-				
PBT	470	271	73.6	1,836	871	110.9				
Taxes	190	10	1,744.7	622	(8)	(8,392.0)				
PAT	280	260	7.5	1,214	878	38.2				

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