

Corporation Bank Ltd.

CMP Rs 455

P/E 5.1x FY11e



PRICE TARGET Rs 632/- (18 Months)

Index Details

Sensex	17,169
Nifty	5,123
Bank Nifty	9,327
Industry	Banking

Script Details

Mkt. Cap (Rs in crore)	6,525
Book Value (Rs)	341
Eq. Shares O/S (crore)	14.34
52 week H/L	494/155
Dividend Yield (%)	1.8
Face Value	10

BSE Code	532179
NSE Code	CORPBANK

Shareholding patt. (30th Sept. 09)

Shareholders	%Holding
Central/State Govt.	57.2
Mutual Funds	6.9
Insurance company	27.6
FII	3.7
Non-Institutional	4.6
Total	100.0

Corporation Bank Vs Sensex

Price Vs Sensex Chart

Period: 28/11/2008 - 26/11/2009



Corporation Bank is one of the major banks of south India with a diversified business mix of 133,456 crore and 100% network connectivity of its core banking. Recently it was ranked as the Best Bank by Asset Quality by the Business Today – KPMG study and has also won awards for the “Use of technology for financial inclusion”

Key Highlights

Robust credit growth and operational efficiencies to boost profitability

Corporation Bank's projected credit growth at 20-22% over the period FY2010-2011 is superior to the projected industry growth of 16-18%. This coupled with its superior operational efficiencies in terms of costs should help the bank boost its profitability.

Bank's asset quality and capital adequacy is the highest amongst peers

Prudent lending and conservative provisioning policies have helped the Bank maintain high asset quality despite its large exposure to the retail and SME sectors. Its gross and net NPLs at 1.18% and 0.29% are one of the lowest whereas its capital adequacy of 18.2% is the highest in the industry. Though restructured loans are up substantially from 0.3% to 2.1%, they are still one of the lowest amongst peers. We further forecast that the worst case stress impact (assuming 100% write off) of these restructured loans at only 18% of FY2011 book value.

Fee income continues to remain buoyant

Corporation Bank's fee based income continues to demonstrate robust growth at a time when most public and private banks have seen a slowdown. This growth in fee income is from its core lending business and hence we do not expect any slowdown in the fee receipts over the period FY2010-2011.

Valuation and Recommendation

We are initiating coverage with a BUY recommendation on Corporation Bank and assign a price objective of Rs 632 for FY2011, based on our blended valuation methodology, representing an upside of 39% from current levels over a 18-month horizon. At the CMP of Rs 455, the stock is trading at 1.0x Adj BV and a forward PE multiple of 5.1x for FY2011 respectively.

Key Financials

Y/E March,(Rs.in crore)	FY09	FY10 E	FY11 E
Net Interest Income	1691.0	1912.0	2405.0
Non Interest Income	1107.0	1307.0	1548.0
PAT	893.0	975.0	1277.0
EPS (Rs.)	62.2	67.9	89.0
Adj.BV (Rs)	323.2	377.6	454.6
P/E (x)	7.3	6.7	5.1
P/Adj.BV (x)	1.4	1.2	1.0
RoA (%)	1.3	1.2	1.3
RoE (%)	18.2	17.0	18.7

Valuation

As per our blended valuation methodology, we assign a BUY recommendation on Corporation Bank with a price objective of Rs. 632 representing an upside of 39% from CMP of Rs. 455, over a 18-month horizon. The stock is trading at 1.0x Adj BV and a forward PE multiple of 5.1x for FY2011 respectively.

We have used three methods to value Corporation Bank

- Historical trading multiples [PE and P/Adj Book Value]
- Gordon Growth Model [Formula : $P/Adj.BV = (RoE - g) / (CoE - g)$]
- Interest Rate Method [Formula : $P/Adj. BV = RoE / \text{Interest earned on loan book}$]

Further we have assigned weights of 2x to the historical trading multiples method, 1x to the Gordon Growth Model method and 1x to the Interest rate method and taken a weighted average of the sum to arrive at a blended valuation.

Historical Trading Multiples method:

In this method, we value Corporation Bank on the basis of average of the last 3 to 4 years median P/E and P/Adj. BV multiples and assume the lower of the two values.

	FY10 E	FY11 E
EPS	67.9	89.0
Adj .BV	378.0	455.0
Average PE	6.9	6.9
Average P/Adj BV	1.1	1.1
Price of Stock		
P/E method	472.0	618.0
P/Adj. BV	397.0	477.0

Gorden Growth Model:

As per the underlying assumptions and assigning a discount of 20% (due to uncertain market conditions) to its derived P/ABV multiple of 1.6 x, the Gordon growth model yields a fair value of **Rs.587** for FY10 and **Rs.797** for FY11.

	FY10E	FY11E
Assumptions:		
Credit growth (%)	18.3	21.6
Deposits growth (%)	19.0	21.3
Cost of Equity (CoE) (%)	10.7	10.7
Return on equity (RoE) (%)	17.0	18.7
Perpetual Growth (g)	4.0	4.0
P/Adj.BV. (x)	1.9	2.2
Adj. BV	377.6	454.6
Price(Rs.)	734.0	996.0
20% Discounted to fair value(Rs.)	587.0	797.0