EQUITY STRATEGY

First Capital Research | November 2026

First Capital
A Janashakthi Group Company



"The Recovery Bridge: From Resilience to Growth"

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Executive Summary

ASPI found a floor below 20,000 in late October, before a post-midterm rebound:

After regaining momentum in Aug–Sep 2026, the ASPI fell to a low of 19,640.6 on 26 October (down 13.2% YTD), weighed down by US–Iran hostilities, Brent crude trading above USD 108.0/BBL and the 100bps OPR hike in May. Participation thinned, with daily turnover dropping to LKR 680.3Mn on 19 October. The index has since rebounded, gaining more than 1,500 points to close at 21,239.7 on 6 November.

Oil prices retreat as geopolitical risks ease, with macro headwinds set to peak in 4Q2026:

Brent crude and WTI have eased to USD 95.7/BBL and USD 88.4/BBL respectively, down 12.5% and 10.5% from 20 October, converging towards Goldman Sachs' year-end forecasts of USD 90.0/BBL and USD 81.0/BBL. Higher fuel costs, El Niño-related risks to food supply and falling real wages lifted inflation to 8.3% in October 2026, while GDP growth eased to 4.2%YoY in 2Q2026. However, PMIs remain above the neutral threshold and the BCI points to a pickup in 3Q2026. FCR expects inflation to peak in November 2026 and moderate towards the CBSL's 5.0% target in 2027E, creating room for a 50bps policy rate cut in 1H2027E.

Earnings growth to bottom out in 2026E before accelerating in 2027E:

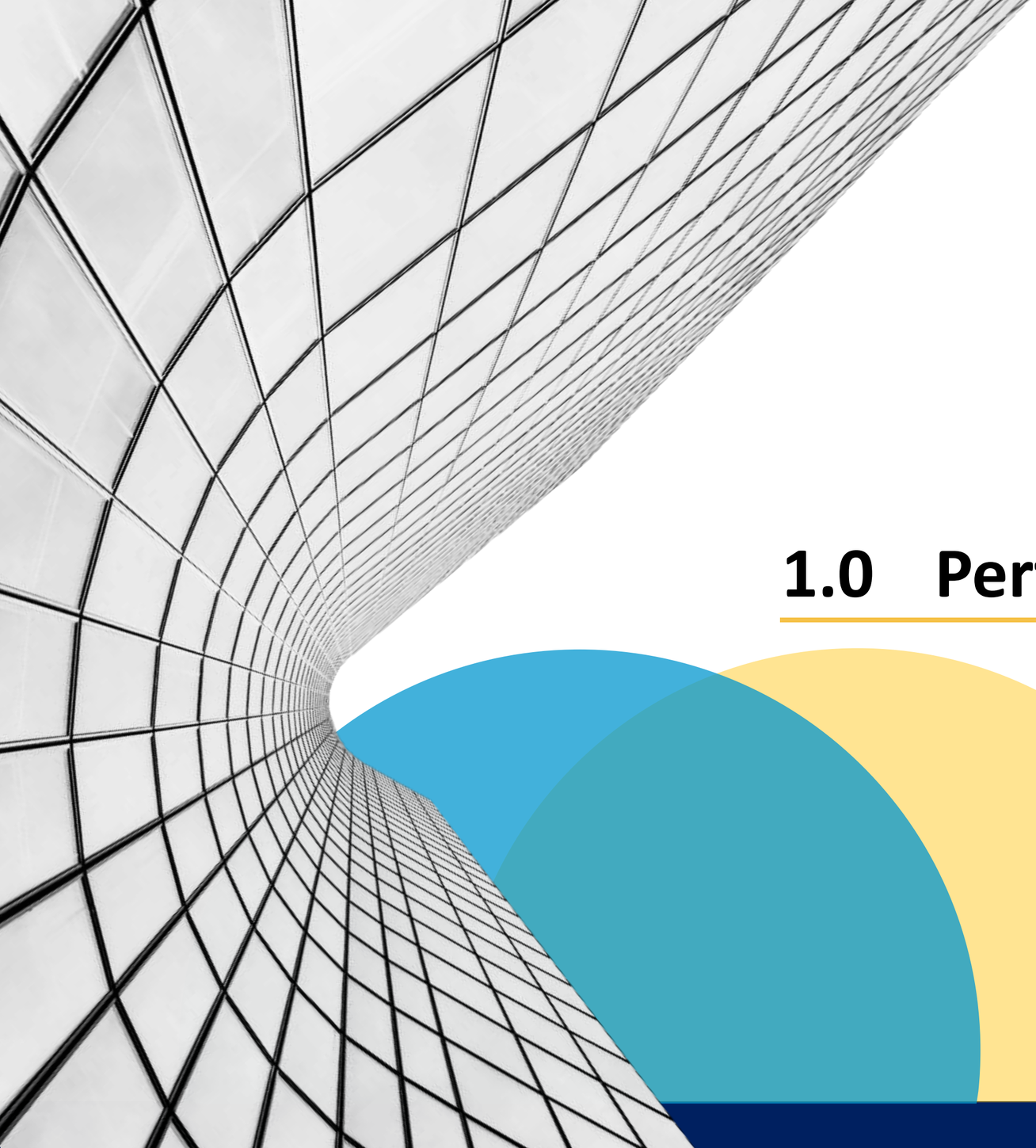
Following 25.5% growth in 2025 and an 8.0%YoY decline in 1H2026, FCR maintains its 2026E corporate earnings growth forecast at 8.2%. Growth is expected to accelerate to 14.0% in 2027E, supported by lower oil prices, increased government capital spending, a potential rate cut and Budget initiatives aimed at reviving consumer demand.

FCR maintains its 2026E base case and 2027E target of 24,500:

With the ASPI back within our 2026E base-case range of 20,000–21,000 (9.0x PER), we expect the index to consolidate at these levels for the rest of 2026E, while a renewed escalation in geopolitical tensions could de-rate the market towards 18,000–19,000 (8.0x PER). In 2027E, we expect an earnings-led re-rating towards the 10-year average PER of 10.0x, implying 24,000–25,000, with scope to reach 26,000–27,000 (12.0x PER) should the recovery outperform.

Equity exposure raised to 70% to position for the 2027E recovery:

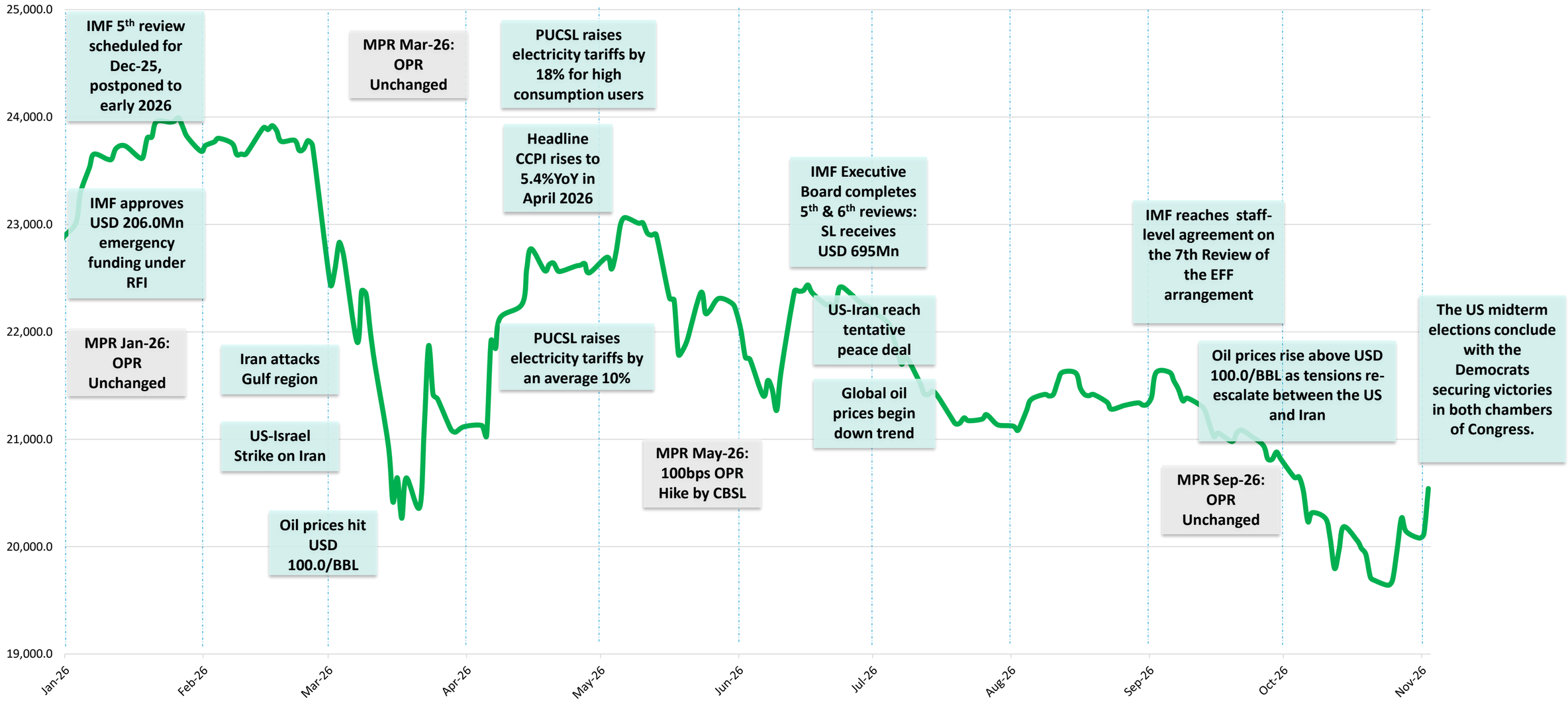
With the market bottom likely established, oil prices retreating, inflation nearing its peak and valuations attractive (10.4x PER, a 38.5% discount to the regional peer average), FCR raises its recommended equity allocation to 70% (from 50%) and reduces cash to 30% (from 50%), favouring phased accumulation of fundamentally strong counters ahead of the anticipated 2027E recovery.



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1.0 Performance of the CSE

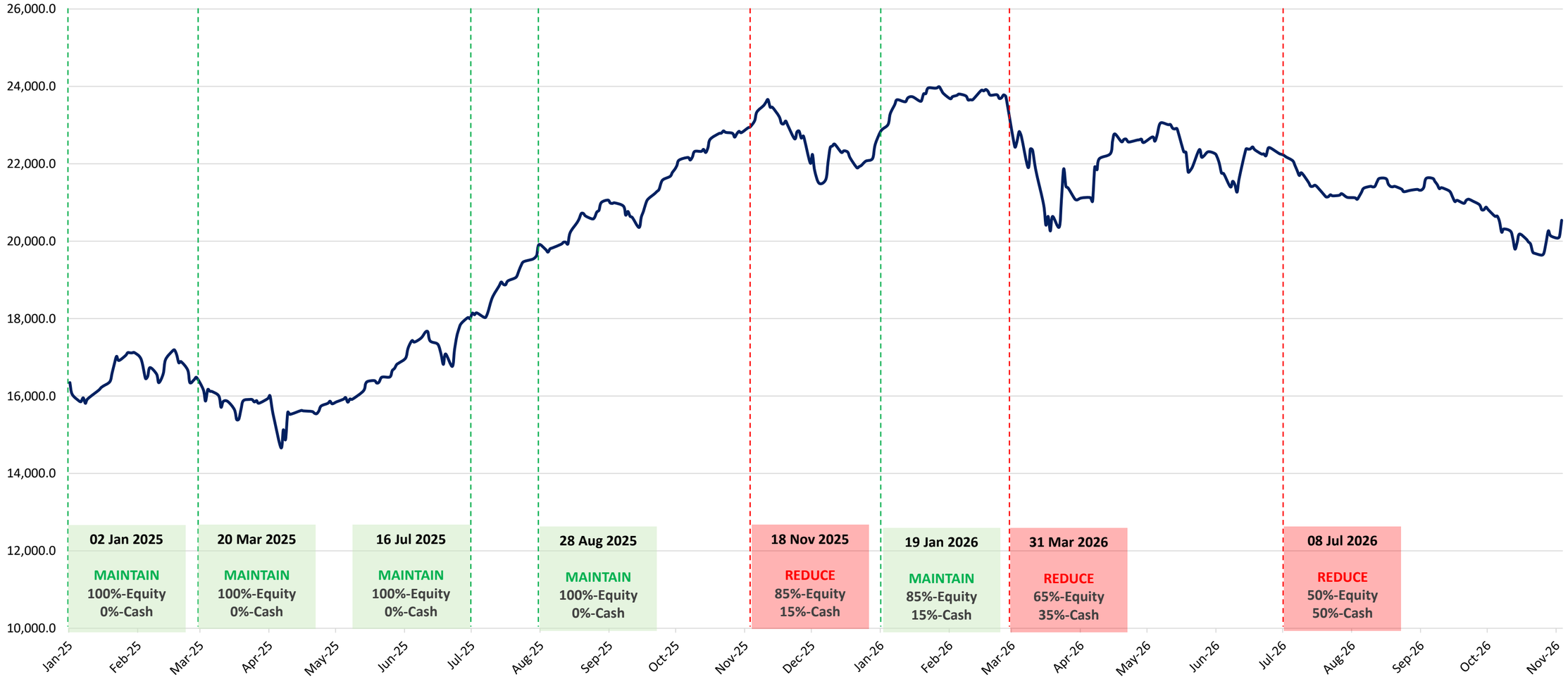
ASPI performance and key highlights



Source: CSE & First Capital Research

Recap: 08 Jul 2026

First Capital ***Reduces*** Equity Exposure to 50% & Increases Cash to 50%



Source: CSE & First Capital Research

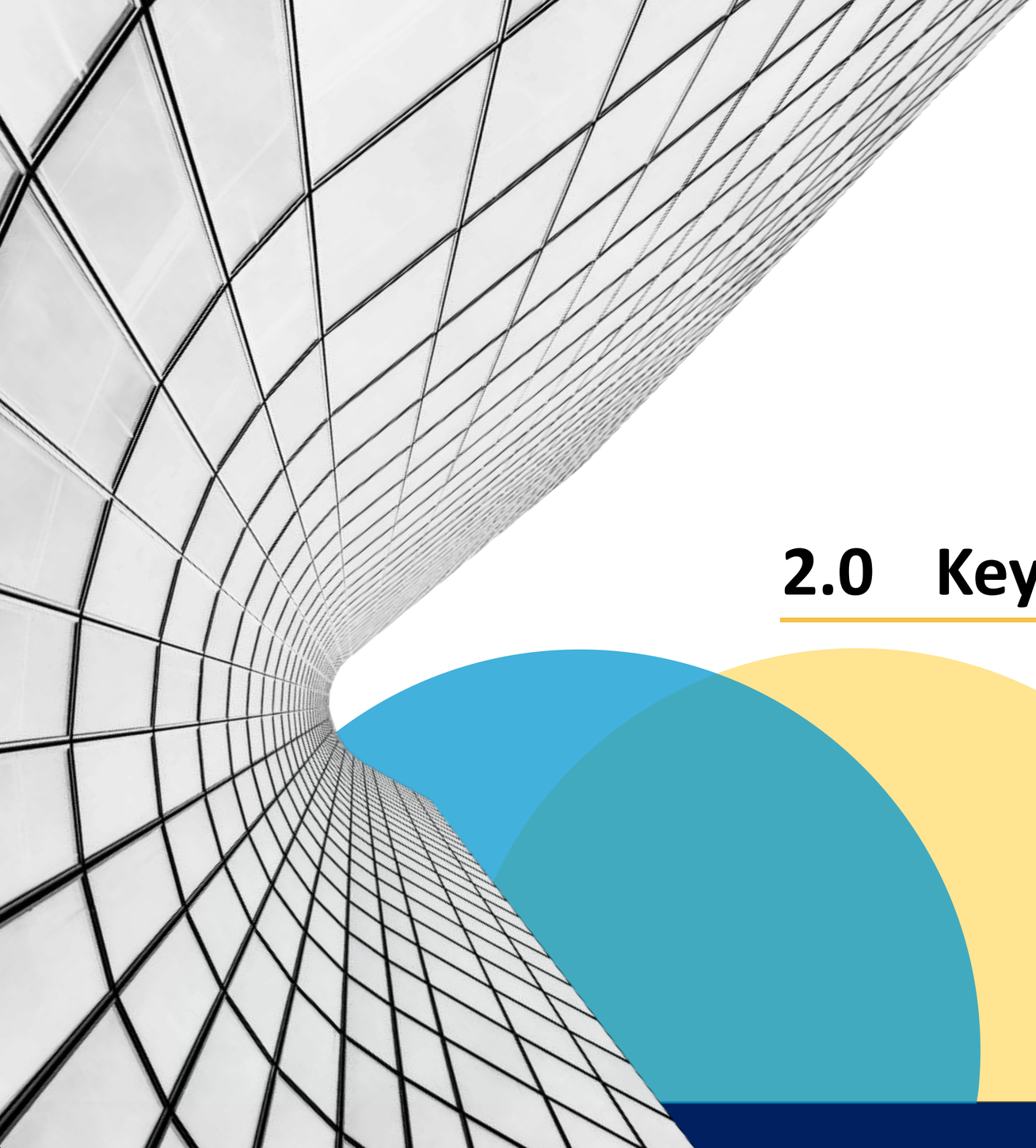
ASPI trends lower on the oil shock, then rebounds post-midterms

- After regaining momentum during Aug-Sep 2026, the ASPI has reversed course, trending lower in recent weeks amid heightened volatility and renewed macroeconomic and geopolitical uncertainty.
- Escalating geopolitical tensions, including continued hostilities involving the US and Iran, Houthi attacks on Saudi Arabia, and supply disruptions in the Gulf attributed to Hurricane Isaias, have kept global oil prices elevated, weighing on market sentiment given Sri Lanka's exposure to imported energy costs.
- The 100bps increase in the Overnight Policy Rate (OPR) announced on 26 May, in response to rising inflationary pressures, has also added to concerns over borrowing costs and the broader economic outlook.
- However, following the conclusion of the US midterm elections, in which the Democrats secured victories in both chambers of Congress, the market staged a strong rally, recovering more than 1,500 points from its late-October low to close at 21,239.7 on 6 November 2026.
- Despite near-term pressures, we believe the ASPI may be approaching a market bottom. Notably, during the peak of the 2022 economic crisis, the index's price-to-earnings ratio (PER) did not fall below approximately 6.0x, providing a historical valuation benchmark for the current market.



Source: CSE & First Capital Research

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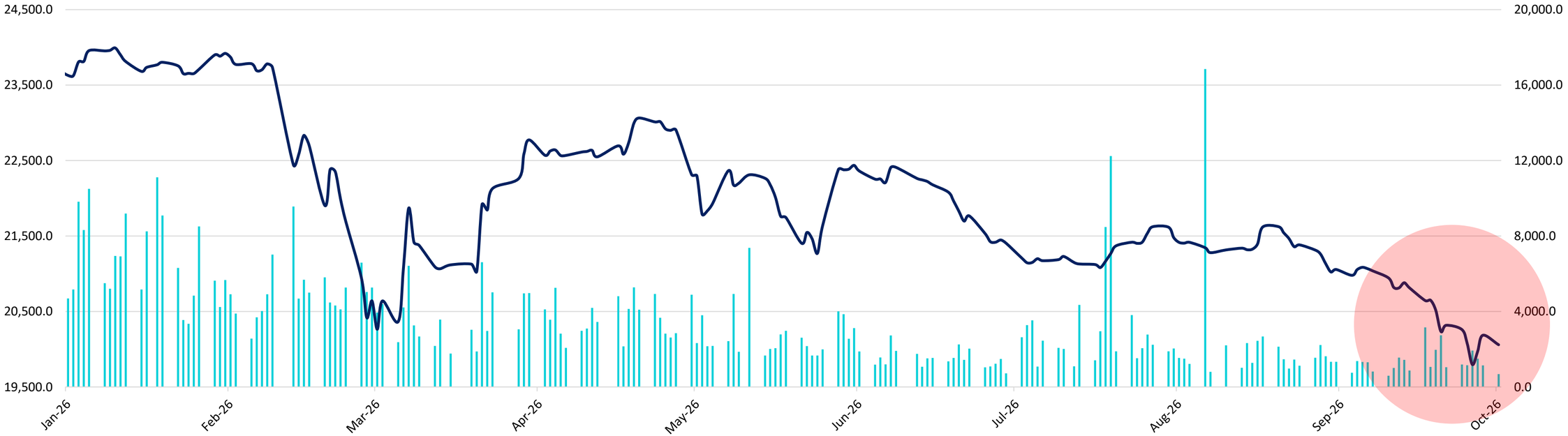


2.0 Key Drivers for Equity

The CSE came under selling pressure, falling 13.2% YTD to its late-October low…

The Colombo Bourse has remained on a downward trajectory since late September, with the ASPI falling to a recent low of 19,640.6 on 26 October. Market activity has also moderated considerably, with daily turnover declining to LKR 666.3Mn on 26 October, reflecting subdued investor participation. The correction also drove the ASPI towards the 19,000–20,000 range, bringing it close to FCR's previously projected worst-case scenario. Investor sentiment has been weighed down by escalating geopolitical tensions in the Middle East and rising global oil prices, which have heightened concerns over external economic uncertainties and prompted a more cautious investment stance. Meanwhile, adverse weather conditions locally have raised concerns over potential food inflationary pressures, further dampening investor confidence and contributing to the recent market weakness.

Starting end-Sep, the ASPI has been on a declining trend, recording turnover levels below LKR 2.0Bn

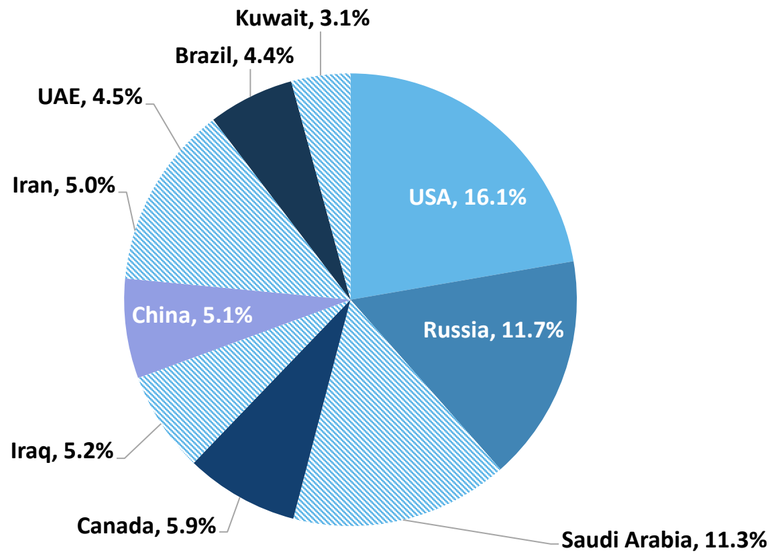


Source: CBSL, CSE, First Capital Research

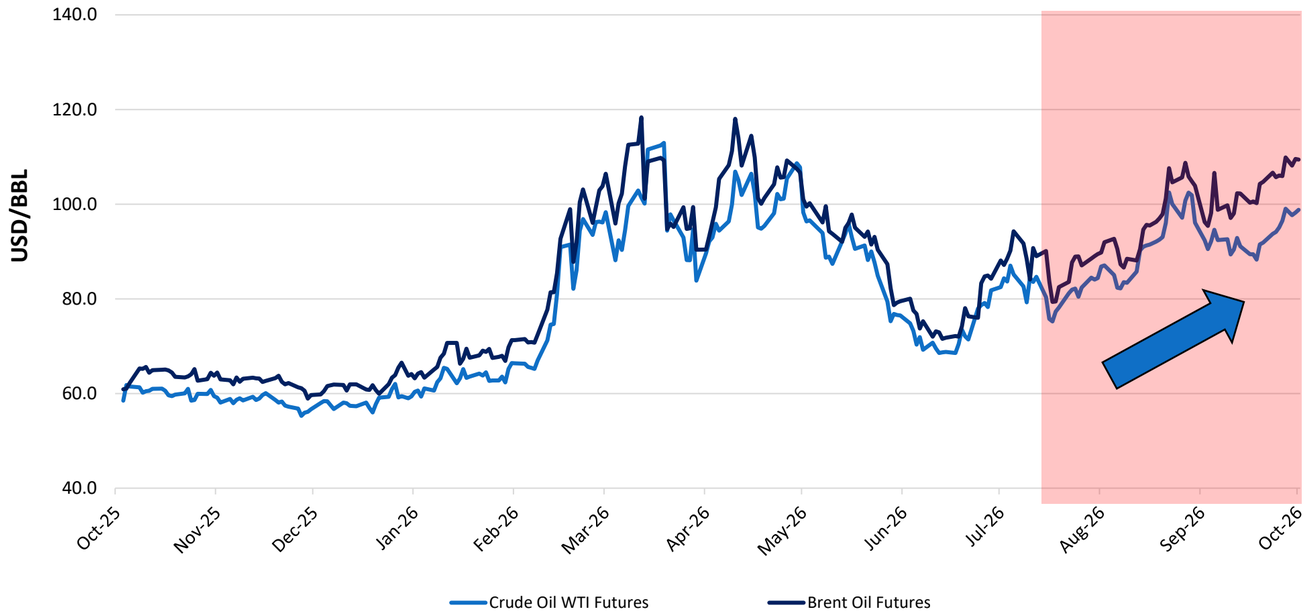
…as global oil prices rose amid heightened geopolitical tensions…

Global oil markets remain volatile amid escalating geopolitical tensions in the Middle East, particularly the ongoing US-Iran conflict and disruptions to shipping through the Strait of Hormuz, which handles approximately one-fifth of global oil consumption. The escalation of hostilities since Feb-Mar 2026 has heightened supply concerns, while limited progress in Russia-Ukraine ceasefire negotiations has added to market uncertainty. Recent attacks on Saudi infrastructure and weather-related disruptions to US Gulf of Mexico production have further tightened supply, keeping oil prices elevated and sensitive to geopolitical developments. As of 23 October 2026, Brent crude rose to about USD 117.0/BBL reflecting the persistent supply risks.

The Middle East region accounted for nearly 30.0% of Global Crude Oil Production in 2025…



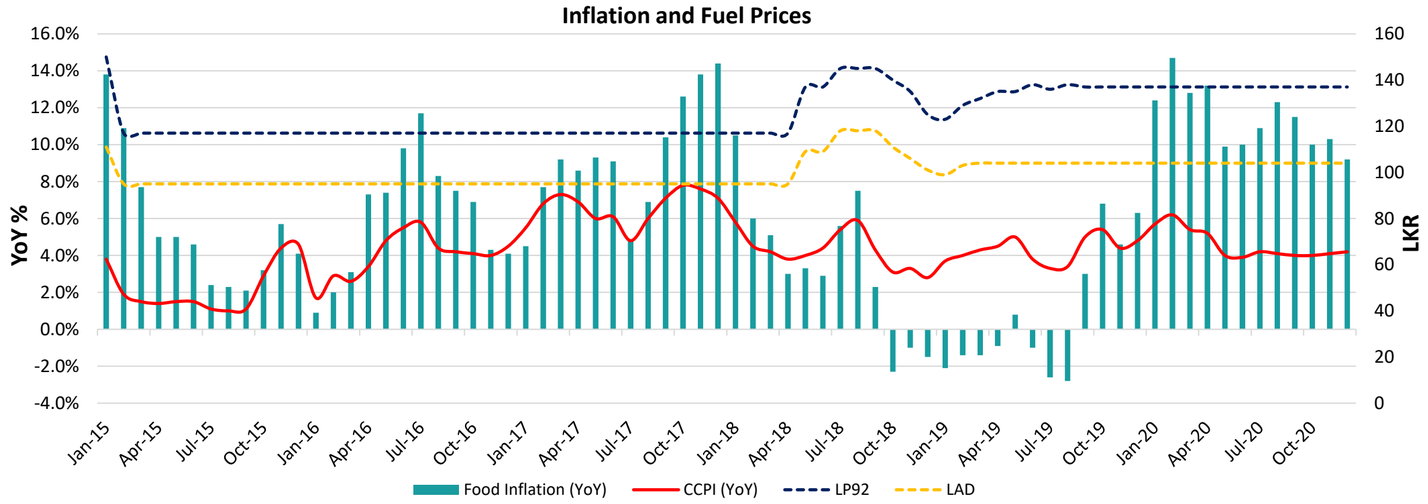
Brent Crude continues to remain above USD 100 amid ongoing geopolitical tensions…



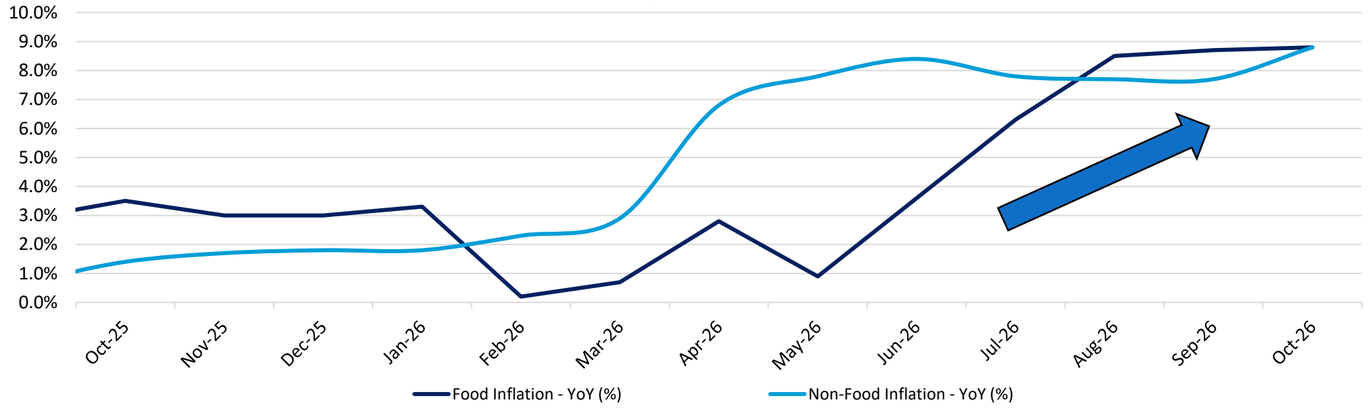
Source: CBSL, Investopedia, First Capital Research

…while adverse weather and a looming El Niño threaten food supply, keeping inflation elevated…

During the 2015–2017 El Niño cycle, supply shortfall drove food prices higher, lifting headline CCPI from around 2.0% to 8.0% over 24 months.



While Non-Food Inflation has been rising amid higher fuel prices, Food Inflation has also continued on an upward trend



Sri Lanka's agriculture sector remains vulnerable to adverse weather, with a looming El Niño posing a significant risk to domestic food supply. During the 2015–2017 El Niño cycle, paddy production fell by around 50% from peak levels, triggering a surge in rice imports and pushing headline CCPI inflation from approximately 2.0% to 8.0% over 24 months. A similar episode could drive food inflation up by 10.0–12.0%YoY in a severe scenario through 2026–2027, or 5.0–7.0%YoY under a moderate scenario, while increasing import dependence and pressure on the external sector. Against this backdrop, headline inflation was recorded at 8.3% in October 2026, as rising fuel costs and persistent food price pressures continue to drive the upward trend.

Source: CBSL, DCS, First Capital Research

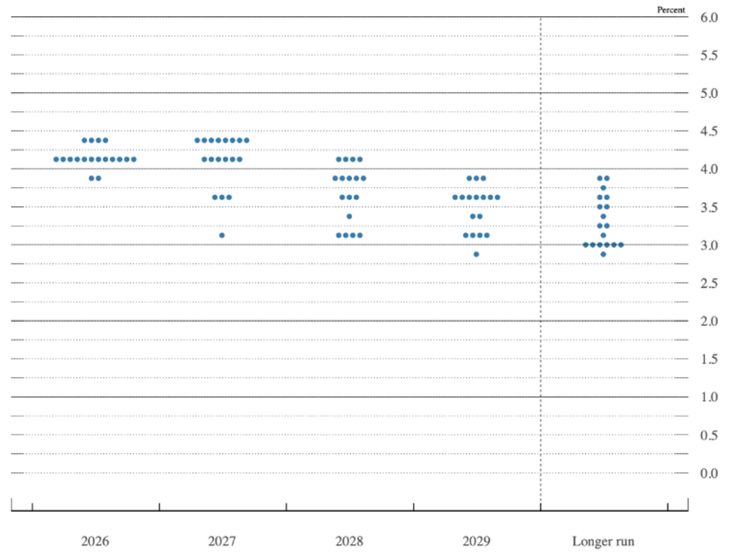
...heightening concerns over further monetary tightening...

Recent policy decisions by major central banks reflect a cautious approach towards monetary easing, with some opting for further rate increases while others maintain existing policy rates amid persistent inflationary pressures, elevated energy costs and geopolitical uncertainties. Of particular significance is the possibility of further monetary tightening by the US Federal Reserve, with an additional rate hike still under consideration. Such a move could strengthen the US dollar, exert pressure on emerging market currencies and influence global interest rate expectations. For Sri Lanka, these external developments, coupled with domestic inflation remaining elevated at 8.3%YoY in October 2026, reinforce the case for maintaining a cautious monetary policy stance. The prospect of further US rate increases could also constrain the scope for domestic monetary easing, particularly amid potential exchange rate pressures and broader external vulnerabilities. Consequently, investor sentiment towards the domestic interest rate outlook is likely to remain cautious, with close attention on both global monetary policy developments and the trajectory of domestic inflation.

Monetary Authority	First Policy Meeting after the Iran War	Decision
Reserve Bank of India	07 October	Raised rates by +25bp to 5.5%; first hike since 2023, driven by accelerating inflation and a weakening currency
Federal Reserve Bank (US)	28 October	Held rates; assessing the effect of September's hike, despite Middle East energy prices pushing inflation higher; December hike still possible
Bank of Canada	28 October	Raised rates by +25bp to 2.5%; first hike since July 2023, with the aim of containing the spillover of high fuel prices into broader inflation; signaled further tightening may follow
European Central Bank	29 October	Held rates; weighing rising energy prices and upside inflation risks against weakening growth prospects, while monitoring potential second-round effects.
Bank of Japan	30 October	Held rates; signalled further tightening as underlying inflation reaches the 2% target, supported by wage growth and persistent labour shortages.

The latest Fed dot plot lifts the 2026 rate projection to 4.1%

Figure 2. FOMC participants' assessments of appropriate monetary policy: Midpoint of target range or target level for the federal funds rate

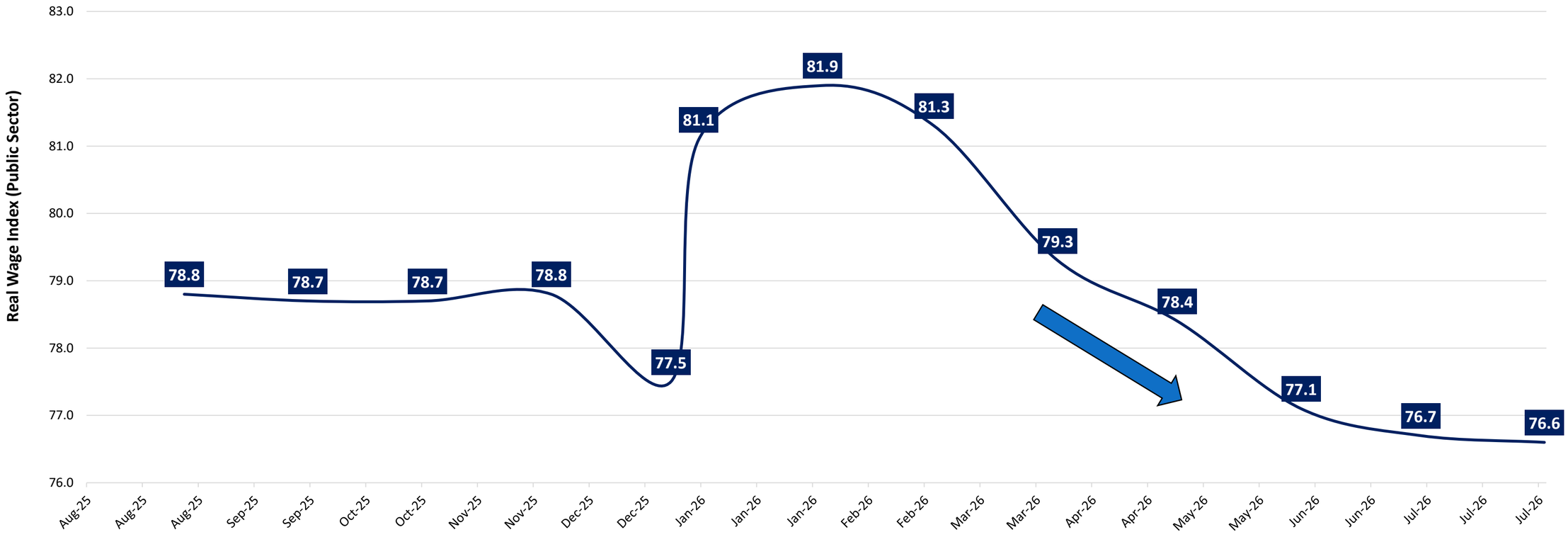


Source: Respective Central Bank Websites, First Capital Research

...squeezing household purchasing power and spending...

With rising inflation, elevated energy prices, and a tighter monetary environment, consumers continue to face increasing pressure on their disposable incomes, leading to a gradual erosion of purchasing power. Higher costs of essential goods and services, coupled with elevated borrowing costs, could further constrain household budgets and limit discretionary spending.

Rising prices drive down real wages, in turn constraining demand

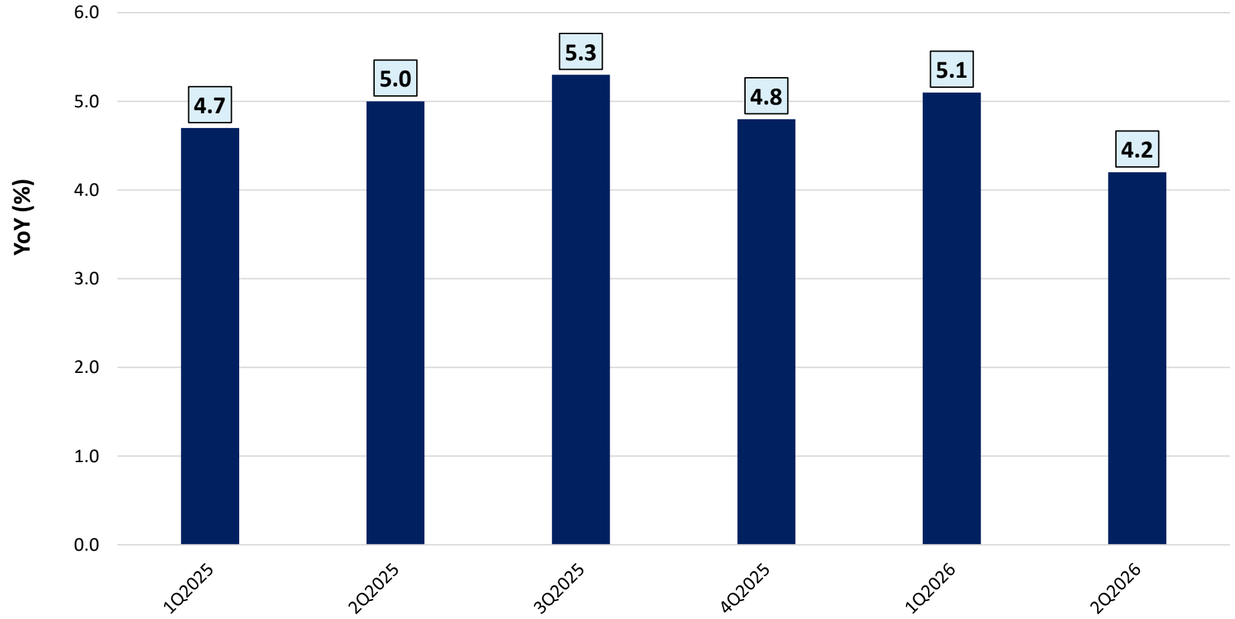


Source: CBSL, First Capital Research

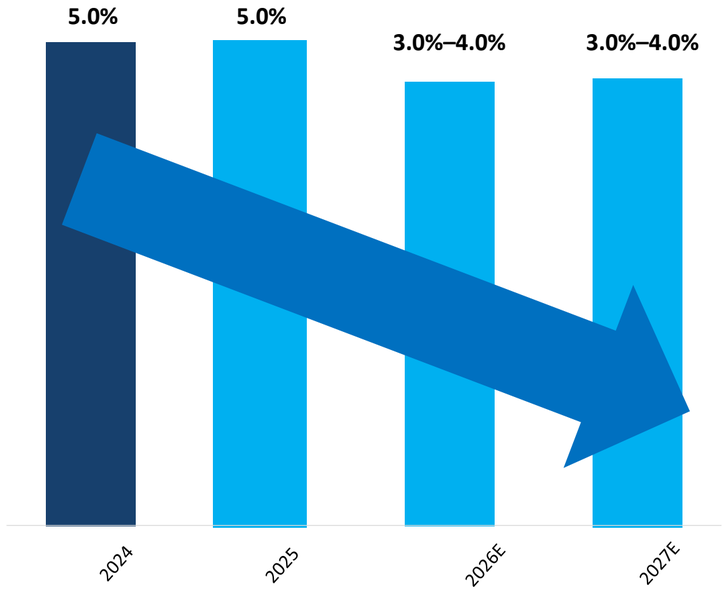
…and fuelling concerns of slowing growth, as GDP eased to 4.2% in 2Q2026

Sri Lanka's GDP growth moderated to 4.2%YoY in 2Q2026, following stronger growth in the preceding quarters. Rising living costs and elevated energy prices are likely to weigh on household purchasing power and constrain consumer spending, while subdued government capital expenditure could further dampen overall economic activity. Furthermore, the slower pace of structural reforms, particularly those aimed at stimulating economic growth and attracting investment, may weigh on the economy's growth momentum and limit its ability to sustain a stronger recovery. Against this backdrop, FCR expects a modest GDP growth of about 3.0%-4.0% for both 2026E and 2027E.

GDP growth eased to 4.2%YoY, after recording stronger growth in previous quarters



FCR's GDP Growth Expectations

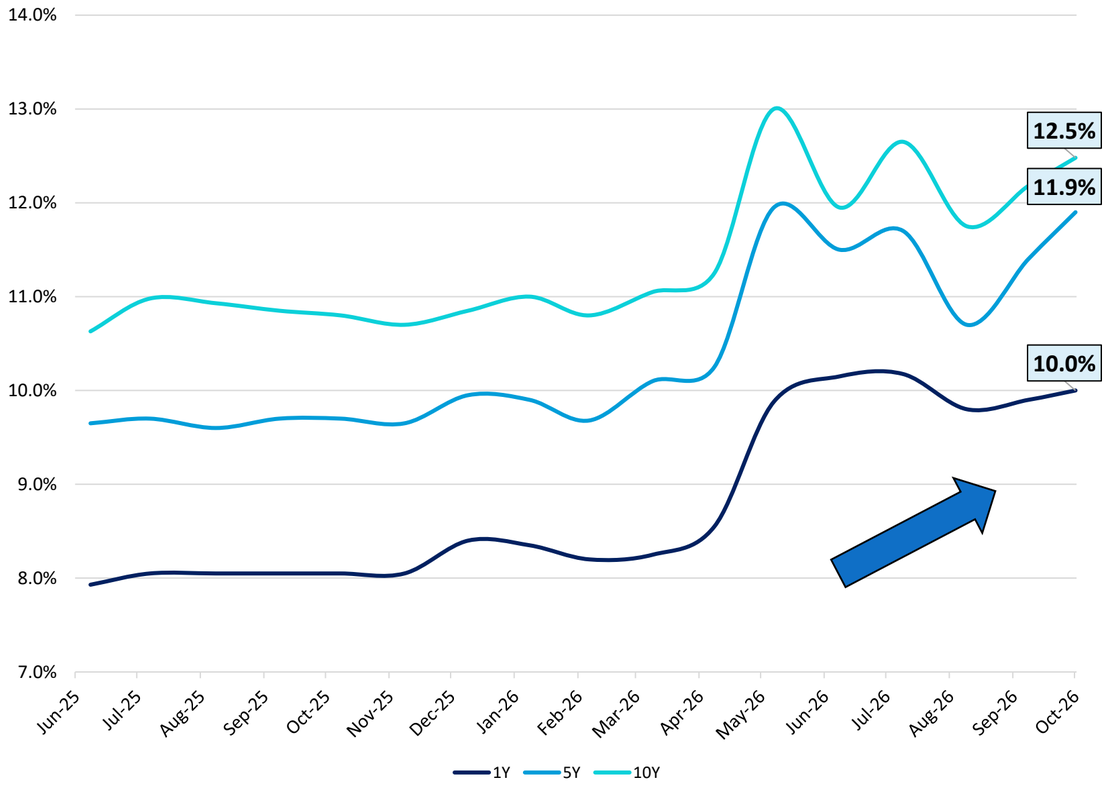


Source: CBSL, DCS, First Capital Research

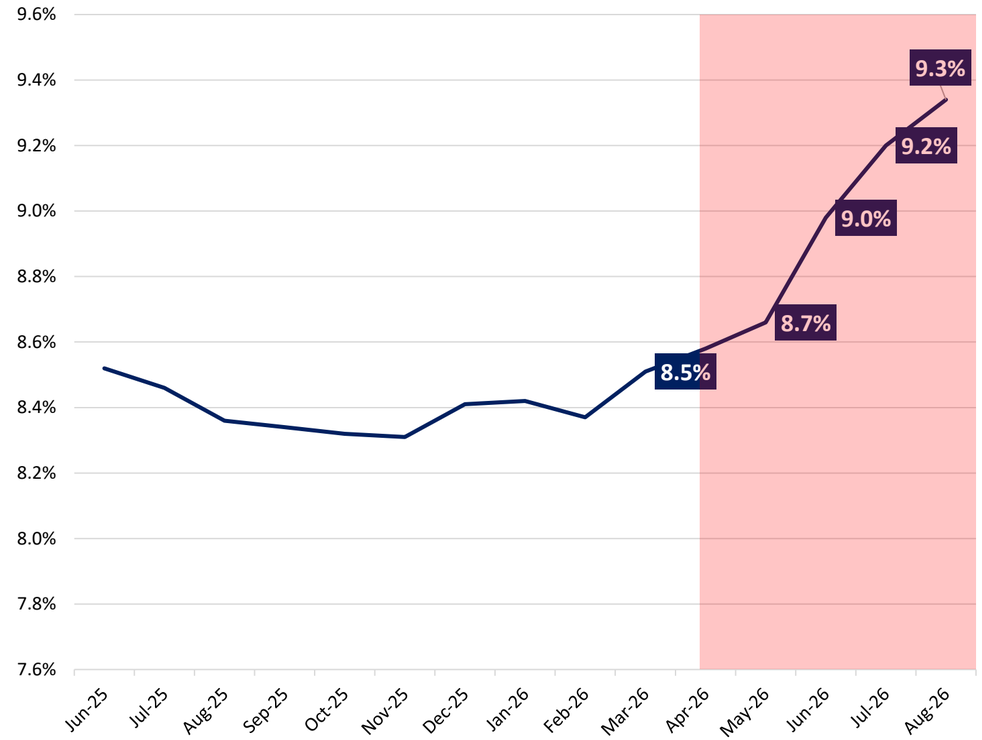
Meanwhile, higher yields on government securities drew investors towards fixed income

As the spillover effects of geopolitical tensions became increasingly evident and the monetary tightening cycle commenced with a 100bps policy rate hike in May 2026, investors increasingly shifted capital towards safer, higher-yielding fixed-income assets. In Sri Lanka, government securities gained appeal as rising interest rates offered more attractive yields alongside relatively lower risk compared to equities. This shift in investor preference was further reinforced by heightened volatility in the equity market, prompting greater interest in government securities as an alternative investment avenue.

Although a moderate dip was witnessed during Aug-Sep, the yield curve has broadly remained elevated



Meanwhile, fixed deposit rates also continue to remain higher

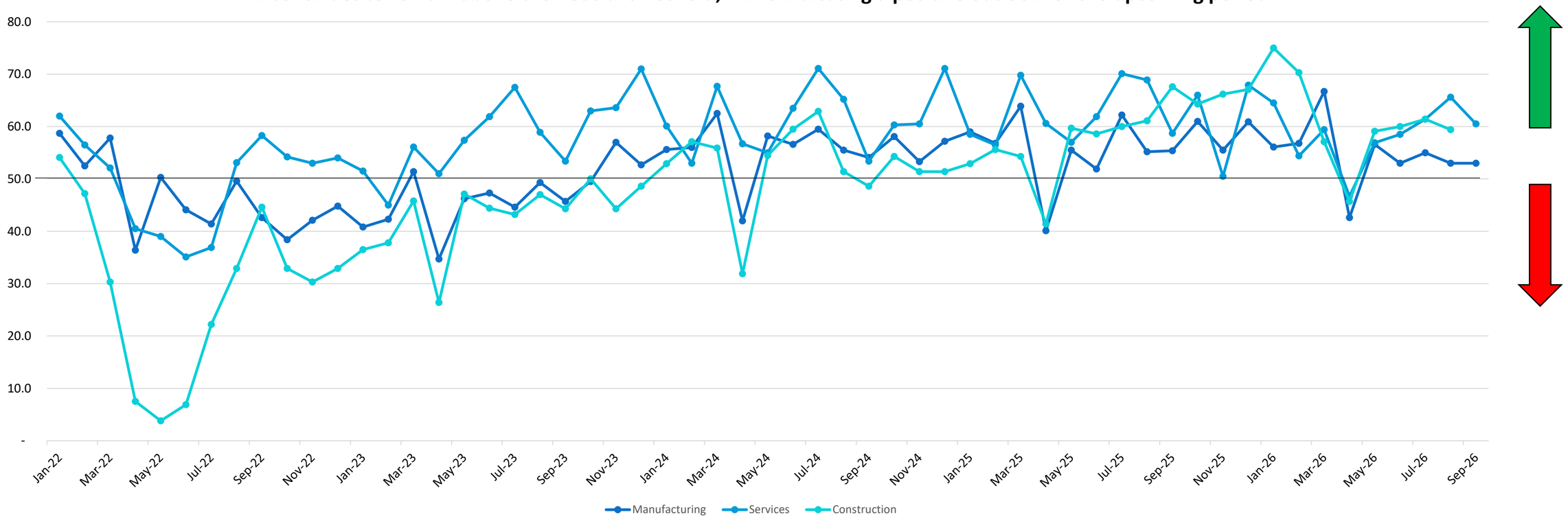


Source: CBSL, First Capital Research

Nevertheless, leading indicators are already turning, with PMIs pointing to expanding activity into the festive season…

The Purchasing Managers' Index (PMI) has remained above the neutral threshold in recent months. The outlook for manufacturing activity over the next three months also remains positive, largely reflecting optimism about seasonal demand towards the year-end. Meanwhile, expectations for business activity over the same period continued to improve, supported by favourable macroeconomic conditions, rising tourist arrivals, and the approaching festive season.

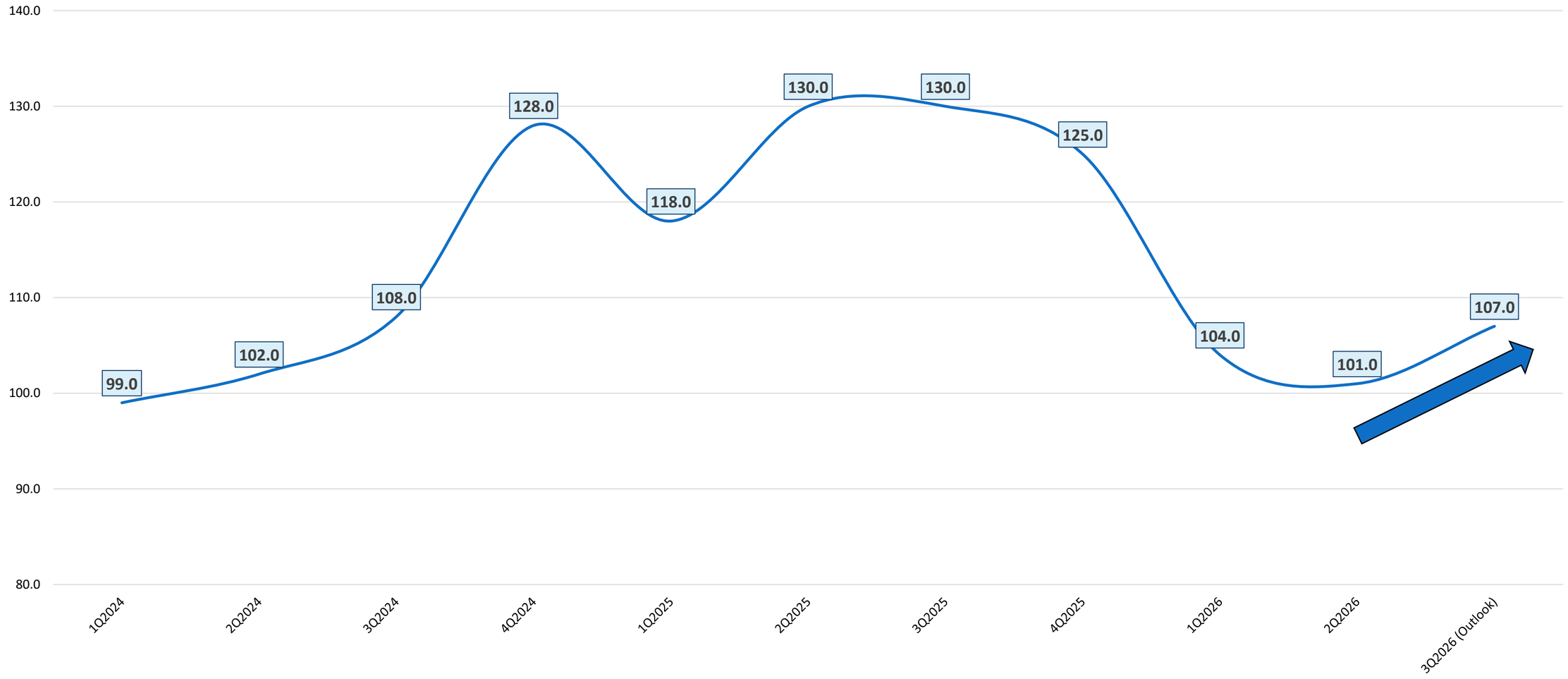
PMI continues to remain above the neutral threshold, while indicating a positive outlook for the upcoming period



Source: CBSL, First Capital Research

…while the Business Condition Index points to a recovery in sales and demand

The Business Condition Index points to an improvement in business activity, with demand and sales volumes projected to expand YoY in 3Q2026, driven primarily by the Industry and Services sectors. Reflecting this strengthening demand outlook, capacity utilisation is also expected to increase during the quarter.

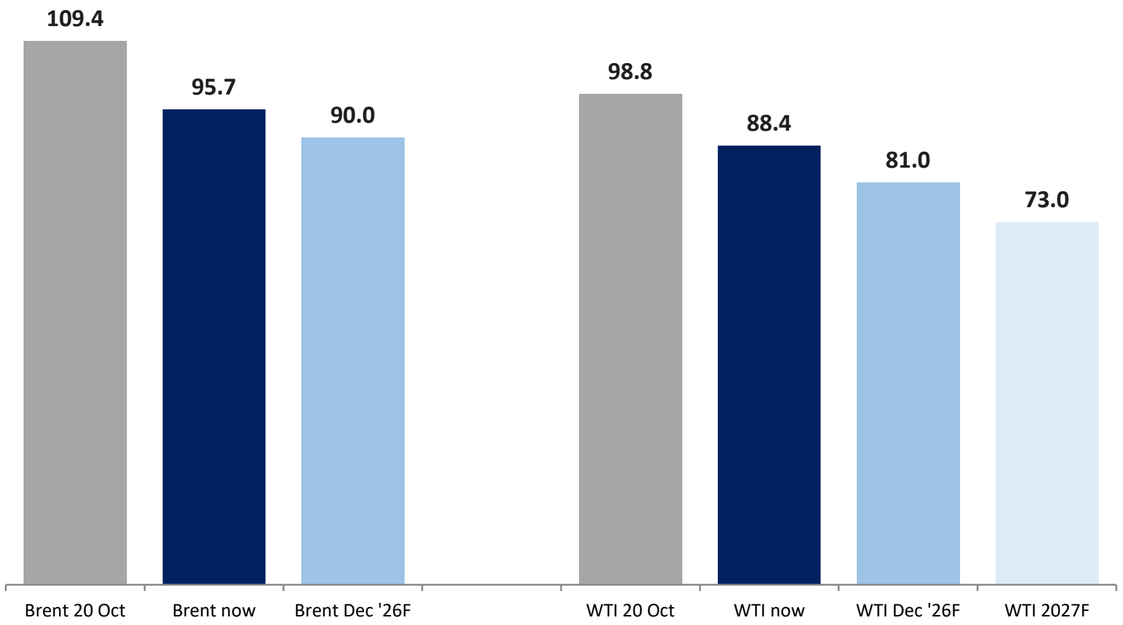


Source: CBSL, First Capital Research

Moreover, with the Israeli elections and US midterms concluded, oil prices are already retreating from their highs…

With the Israeli and US midterm elections now concluded, easing geopolitical uncertainty has contributed to a decline in oil prices, with Brent crude falling to USD 95.7/BBL and WTI to USD 88.4/BBL, from USD 109.4/BBL and USD 98.8/BBL, respectively, on 20 October. Goldman Sachs expects Brent to ease further towards USD 90.0/BBL and WTI to around USD 81.0/BBL by end-2026, although both are expected to remain above pre-war levels. Further downward pressure on prices could emerge from an anticipated global oil supply surplus of approximately 3.7 MMBbl/d in 2027, as projected by the EIA, driven by stronger US and non-OPEC production, softer demand and an expected increase in UAE output. The resulting excess supply could help ease market tightness and provide further support for lower oil prices.

Oil prices have retreated sharply, closing in on Goldman Sachs' year-end forecasts (USD/BBL)



BRENT CRUDE

USD 95.7/BBL

▼ 12.5% since 20 Oct

USD 5.7 above GS Dec '26F

WTI CRUDE

USD 88.4/BBL

▼ 10.5% since 20 Oct

USD 7.4 above GS Dec '26F

Base case needs: prices fall

- ✓ Mideast exports keep recovering
- ✓ Iran deal reopens Hormuz
- ✓ Israeli vote (27 Oct) eases tensions
- ✓ Midterms (3 Nov) keep Iran talks alive
- ✓ Russia–Ukraine truce holds
- ✓ US stays out of Houthi fight

Upside risks: prices rise

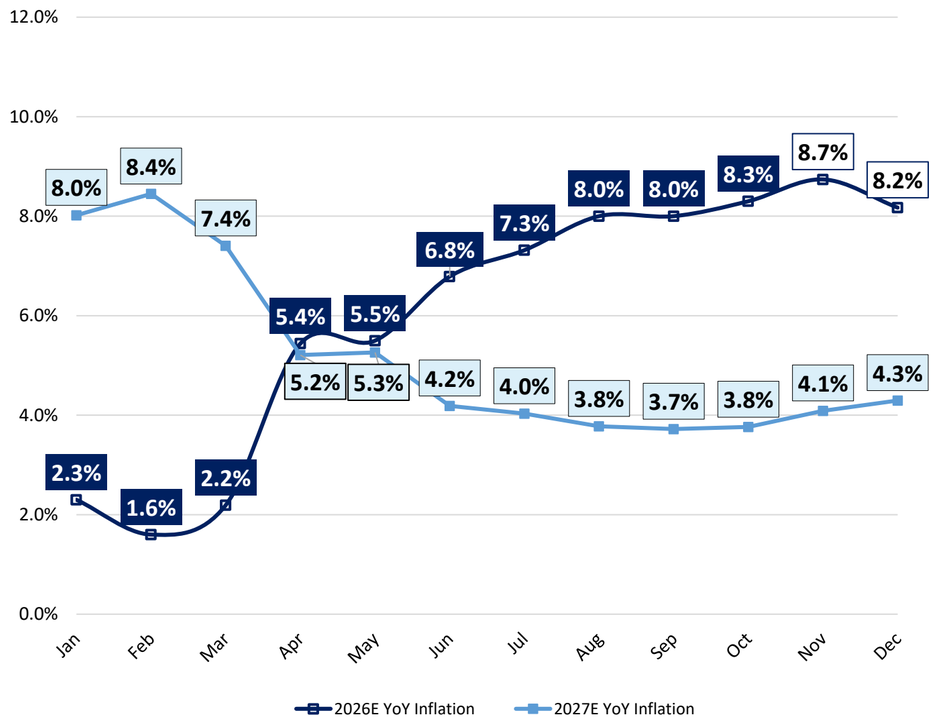
- ! US joins Saudi strikes
- ! Houthis hit Saudi oil sites
- ! Hawkish outcome in Israeli vote (27 Oct)
- ! Midterms (3 Nov) harden US Iran policy
- ! Talks with Iran stay stalled
- ! Isaias hits Gulf output harder

Source: CBSL, Bloomberg, First Capital Research

…which should steer inflation towards the 5.0% target, creating scope for a rate cut in 1H2027E…

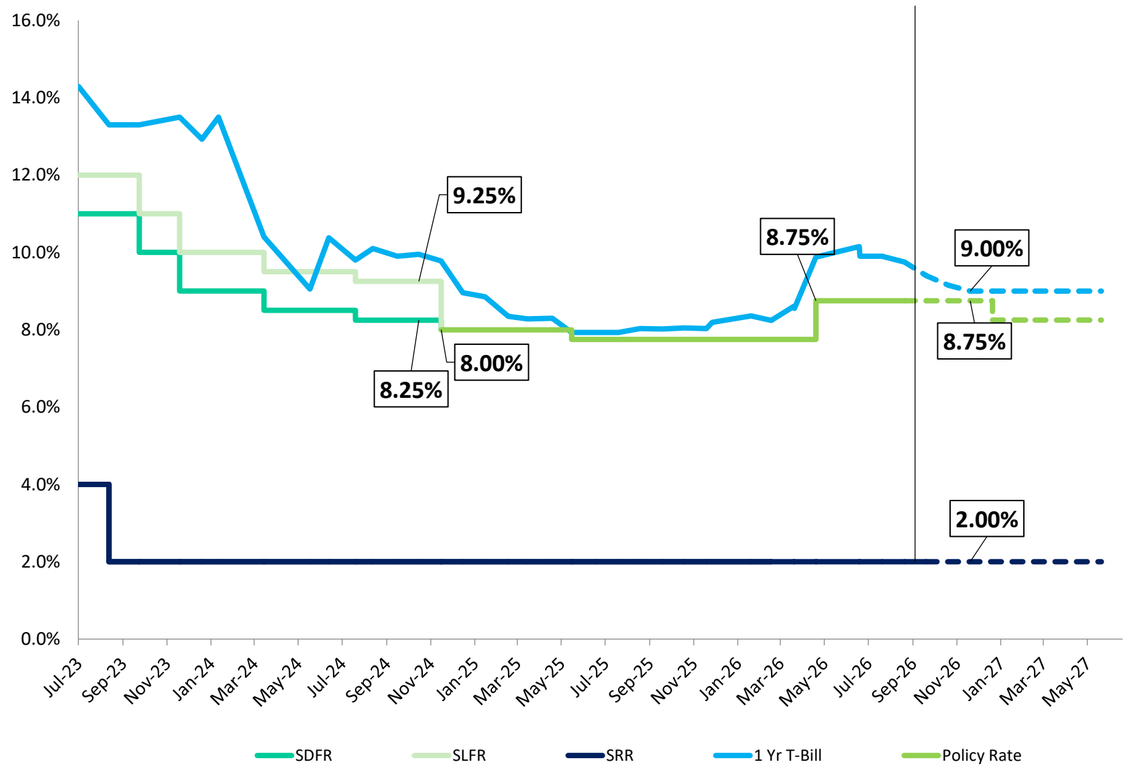
Moderating GDP growth, easing inflationary pressures on the back of lower oil prices, improving liquidity conditions, and subdued domestic demand are expected to create room for monetary easing in 2027E. Inflation is expected to moderate towards the CBSL's 5.0% target, in line with FCR's projections, supported by a higher base effect, alongside easing demand-side pressures. Assuming a sustained ceasefire and contained global oil prices, the CBSL could initiate a 50bps policy rate cut during 1H2027E. Lower borrowing costs are expected to stimulate credit demand and investment, supporting a recovery in economic activity and a subsequent rebound in corporate earnings.

Inflation is expected to moderate towards the CBSL's 5.0% target in 2027E…



…paving the way for rate cuts in 1H2027E

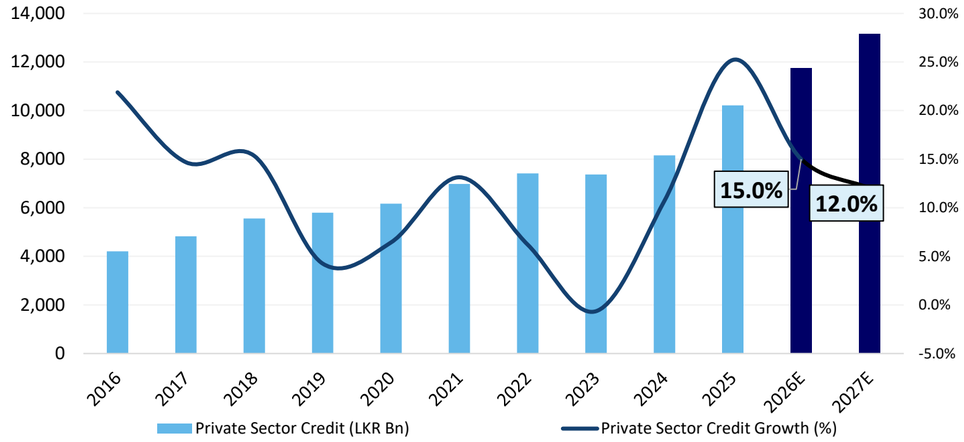
Forecast



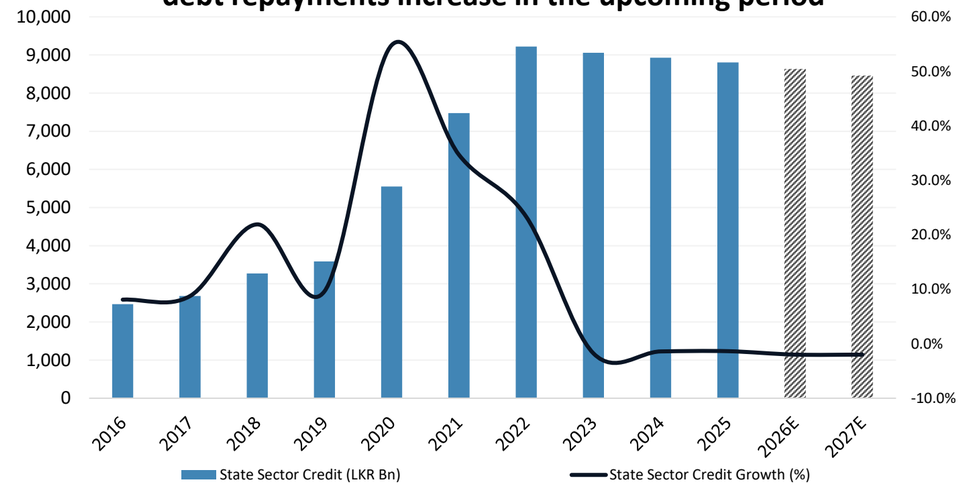
Source: CBSL, DCS, First Capital Research

...supporting private credit growth...

Private sector loan growth to remain robust, albeit at a more measured pace



Public sector loan growth to decline gradually in the near term as debt repayments increase in the upcoming period



Private sector credit expanded by 24.5%YoY in August 2026, reflecting continued strength in bank lending. However, on a MoM basis, credit extended to the state declined by LKR 89.4Bn, while private sector credit increased by approximately LKR 105.7Bn, resulting in a relatively modest net expansion of LKR 16.3Bn in total credit. Meanwhile, surplus market liquidity stood at LKR 384.9Bn as of 23 October 2026, according to the latest CBSL data, indicating ample liquidity in the banking system and, at present, limited upward pressure on market interest rates.

Looking ahead, private sector credit growth is expected to remain supported by the gradual easing of interest rates, moderating inflation, a recovery in consumer spending and improving economic confidence. These factors could sustain credit demand into 2027E, although growth is likely to moderate from current elevated levels.

FCR expects private sector loan growth to remain robust, albeit at a more measured pace, reaching approximately 15.0%YoY in 2026E before moderating to around 12.0%YoY in 2027E.

Source: CBSL, First Capital Research

...while Budget initiatives could further lift consumer demand and benefit select sectors...





With the National Budget scheduled for November 2026, expectations are centred on easing cost-of-living pressures, reducing the tax burden and addressing broader priorities such as employment, healthcare and infrastructure development. Deputy Minister of Finance and Planning, Dr. Anil Jayantha Fernando, indicated that the government plans to allocate LKR 2.0Tn towards capital expenditure and introduce legislation to facilitate SOE restructuring. While tax reforms remain under consideration, the government has emphasised the need to safeguard revenue targets, with potential scope for reductions in indirect taxes. President Anura Kumara Dissanayake has also signalled further tax cuts in the upcoming Budget. These measures, alongside greater digitalisation and public-sector efficiency, could create fiscal space for targeted support. Overall, tax relief could improve household disposable incomes and affordability, supporting a recovery in consumer spending, while higher capital expenditure could provide an additional boost through employment and income generation. Meanwhile, an expanding pipeline of infrastructure projects could provide a positive impetus to the construction, building materials, logistics and selected industrial sectors.

Sectors that may benefit from a steady infrastructure pipeline include;

Construction

Materials

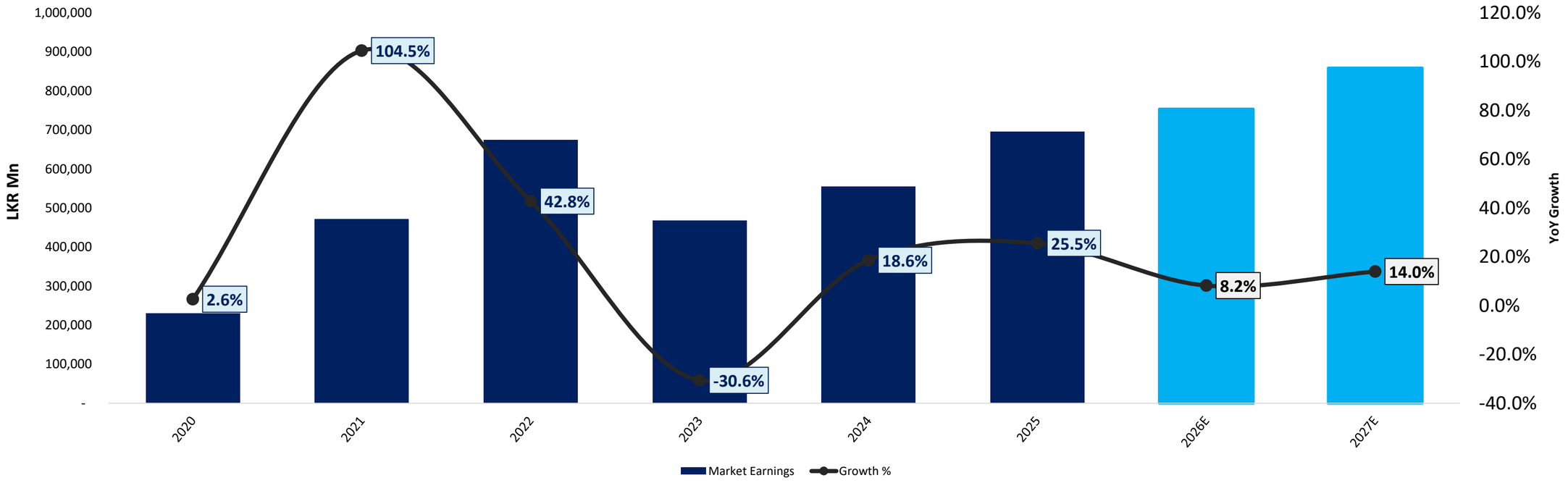
Logistics

Source: Newswire, The Morning, First Capital Research

…driving a rebound in corporate earnings growth in 2027E…

Market earnings grew by 25.5%YoY in 2025, broadly in line with FCR's forecast of 25.0%. Looking ahead, FCR expects earnings growth to moderate significantly to 8.2% in 2026E, as the economic spillovers from prevailing geopolitical instability weigh on corporate performance. This outlook is supported by first-half 2026 earnings, which declined by 8.0%YoY, reflecting a 20.0%YoY contraction in 1Q2026, partially offset by a 10.0%YoY recovery in 2Q2026. FCR maintains its 2027E earnings growth forecast at 14.0%, as the bulk of the macroeconomic impact from ongoing geopolitical tensions is expected to materialise in 2026E. Relatively lower oil prices, increased government spending to revive domestic demand, and a potential policy rate cut to ease corporate financing costs are expected to support an earnings recovery in 2027E.

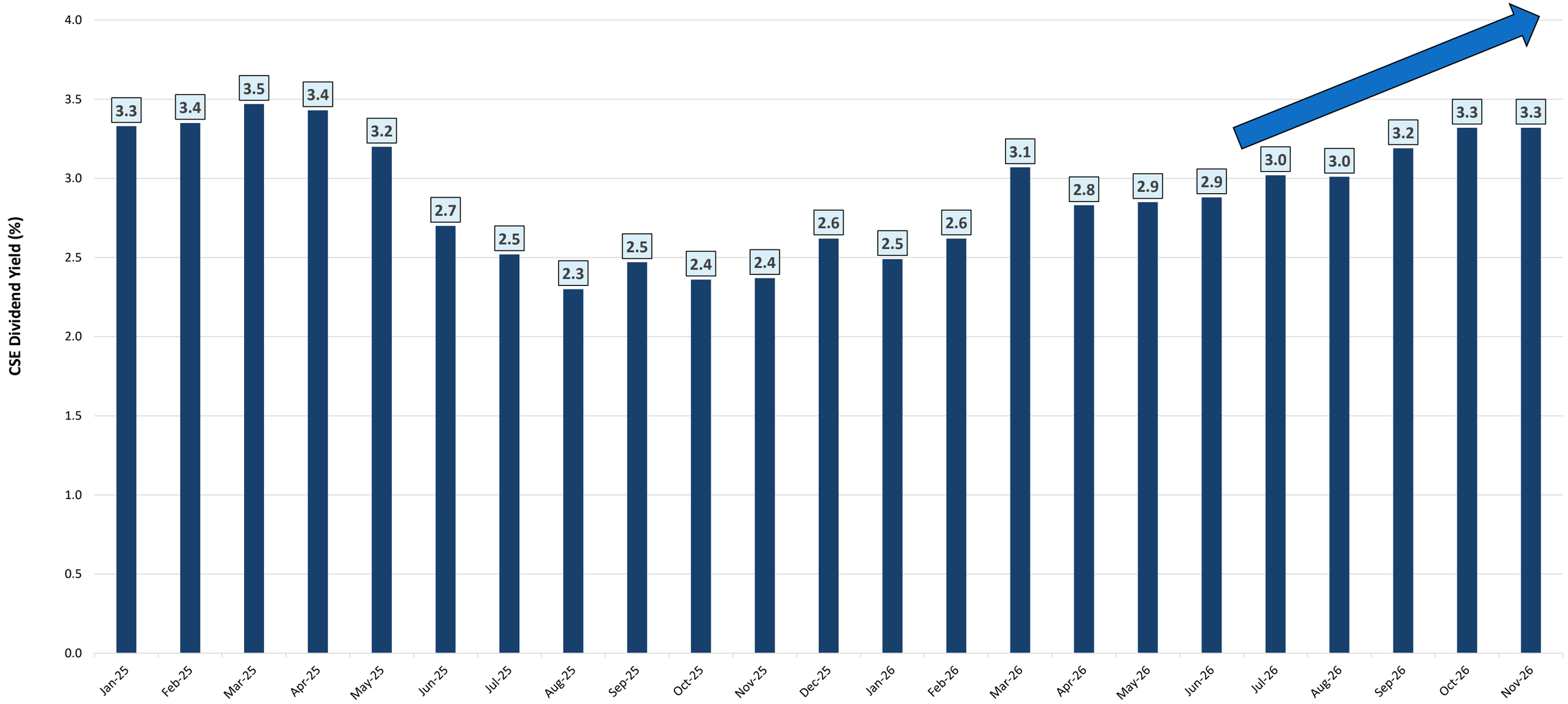
Corporate earnings growth to moderate in 2026E before accelerating in 2027E



Source: CBSL, CSE, First Capital Research

…while lifting dividend income and shareholder returns

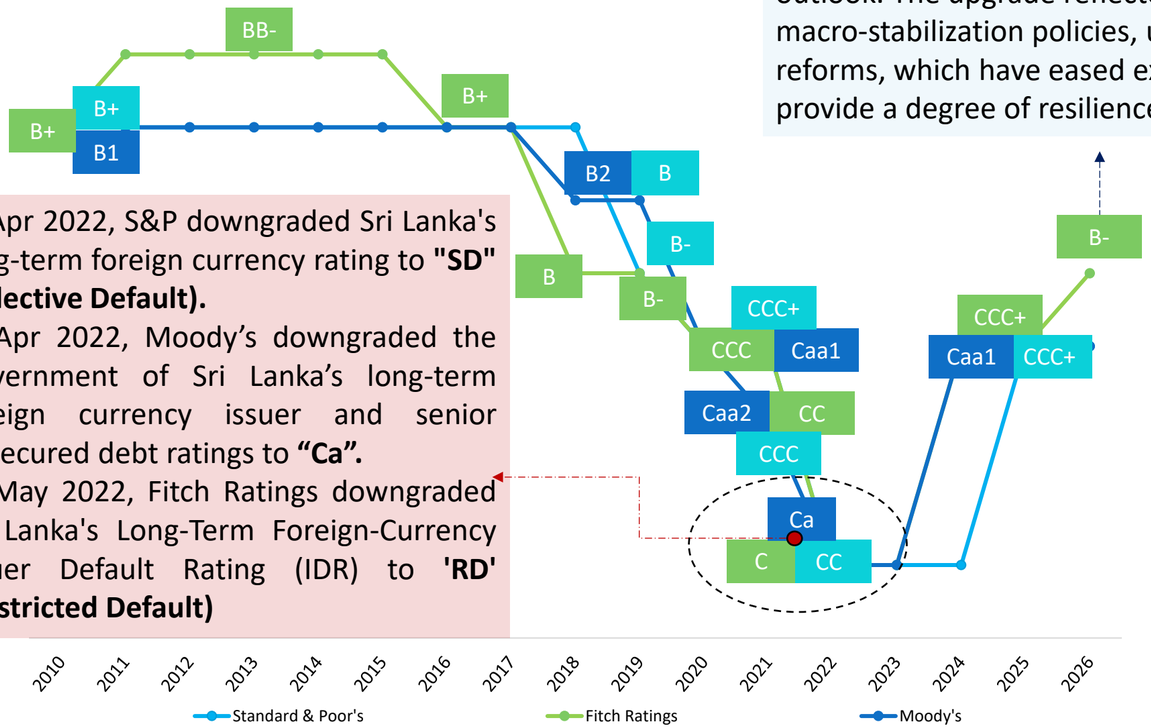
Alongside the anticipated growth in corporate earnings, shareholder returns are also expected to improve, supported by an increase in dividend yields



Source: CBSL, CSE, First Capital Research

Concurrently, Sri Lanka’s upgrade to B- and continued progress with the IMF…

In Sep 2026, Fitch upgraded Sri Lanka's Long-Term Issuer Default Ratings (IDRs) to 'B-' from 'CCC+’, with a Stable outlook. The upgrade reflected the implementation of macro-stabilization policies, underpinned by structural reforms, which have eased external financing risks and provide a degree of resilience to shocks.



- In Apr 2022, S&P downgraded Sri Lanka's long-term foreign currency rating to **"SD" (Selective Default).**
- In Apr 2022, Moody’s downgraded the Government of Sri Lanka’s long-term foreign currency issuer and senior unsecured debt ratings to **“Ca”.**
- In May 2022, Fitch Ratings downgraded Sri Lanka's Long-Term Foreign-Currency Issuer Default Rating (IDR) to **'RD' (Restricted Default)**

- Meanwhile, continued progress under the IMF-supported reform program reinforces transparency and strengthens investor confidence.
- In October 2026, IMF staff and the Sri Lankan authorities reached a staff-level agreement on the economic policies required to complete the Seventh Review of Sri Lanka’s reform program under the Extended Fund Facility (EFF). Subject to approval by the IMF Executive Board, Sri Lanka will gain access to approximately USD 345.0Mn in financing.
- The IMF has commended Sri Lanka’s strong macroeconomic recovery, citing robust fiscal performance, a doubling of revenue-to-GDP ratios, and 11 consecutive quarters of positive economic growth. These achievements mark significant progress as the country approaches the final months of its current IMF-supported program.

Source: Moody’s, S&P, Fitch, First Capital Research

…together with a more stable currency outlook…

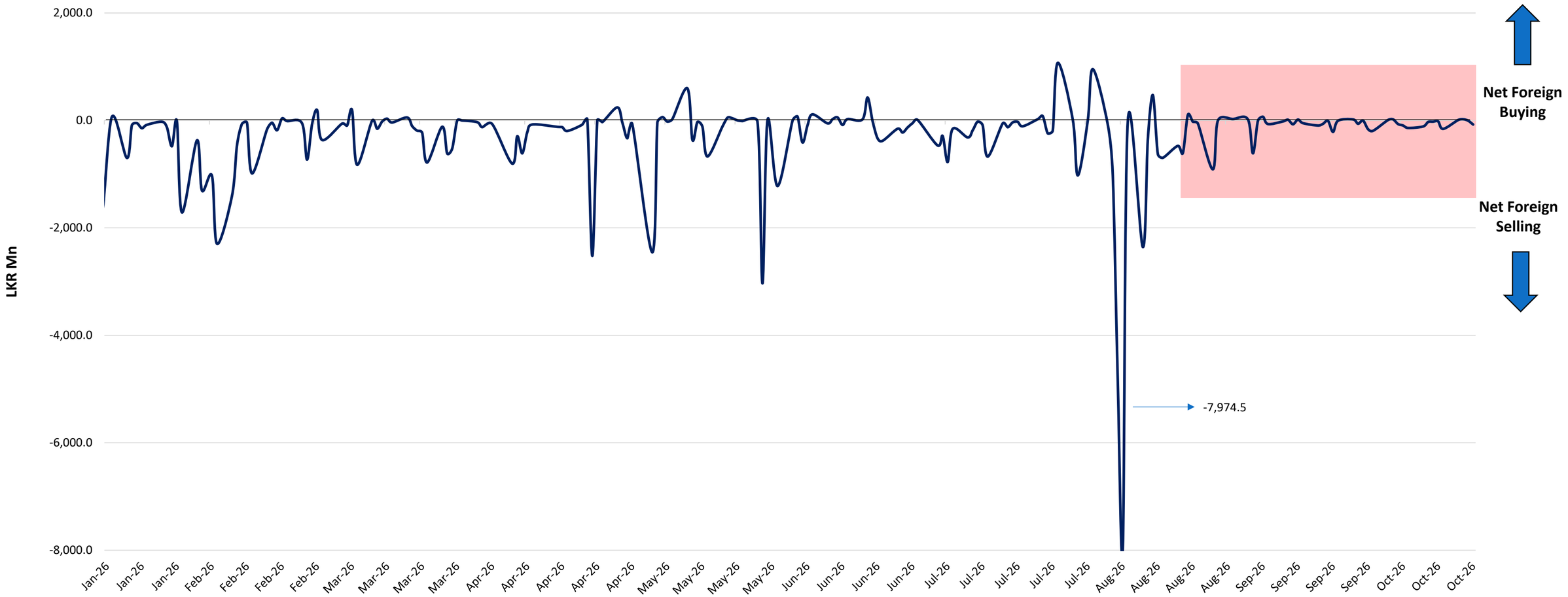


The LKR has depreciated by approximately 7.5% since the escalation of the US–Israel military offensive against Iran in late February 2026, amid heightened geopolitical uncertainty. While the deterioration in Sri Lanka's external position has contributed to the downward pressure on the currency, increased market speculation has further amplified the depreciating trend. However, the CBSL's return to a net FX seller position in April 2026, following an absence of over 20 months, alongside the policy rate hike in May 2026, has helped temper import demand and support exchange rate stability. Consequently, the LKR has recorded a marginal appreciation from its July 2026 low. These policy interventions are also expected to strengthen investor confidence in the economy and lower the risk premium demanded by foreign investors, thereby supporting capital inflows into Sri Lanka. Against this backdrop, FCR maintains its LKR target within the range of 325.0–335.0 in 4Q2026E and 335.0–345.0 in 1H2027E.

Source: CBSL, First Capital Research

...are likely to lift investor confidence and help bring back foreign investors...

Net foreign selling has moderated from the elevated levels observed earlier in the year, suggesting a gradual return of foreign investors to the market and a renewed willingness to maintain their positions



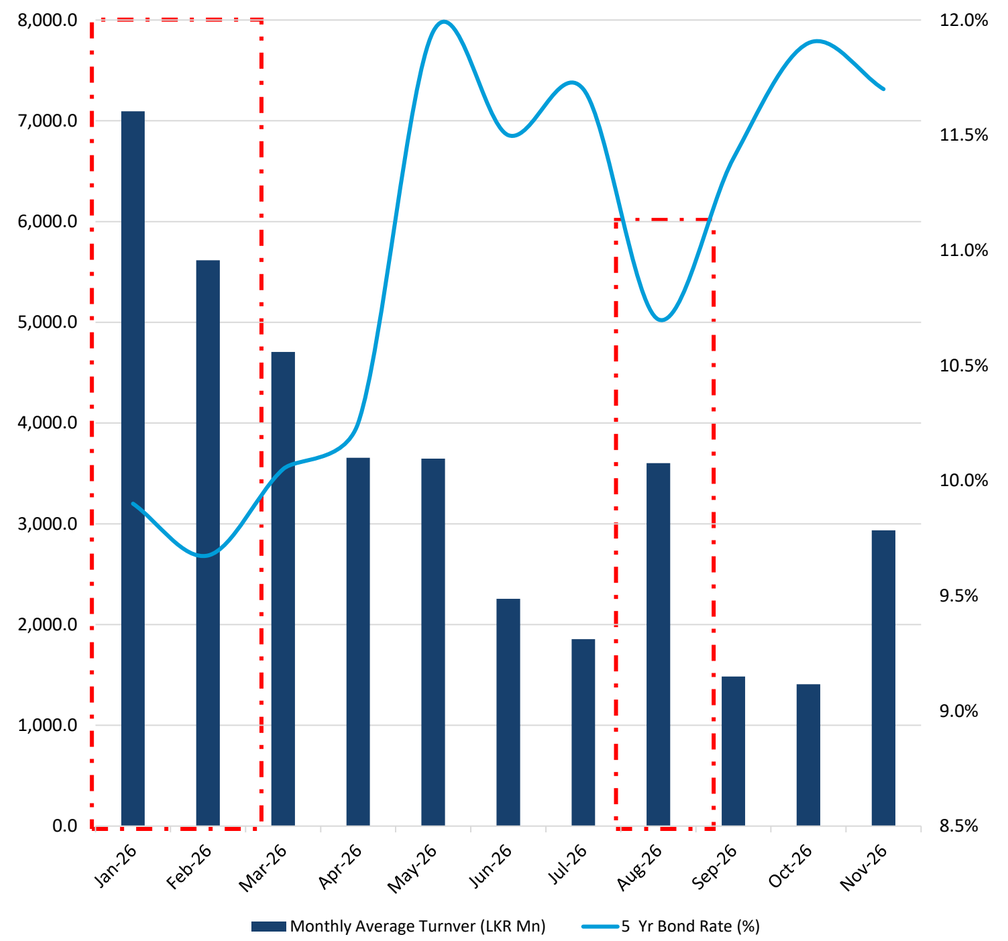
Source: CBSL, First Capital Research

…supporting equity inflows as fixed income returns ease

Fixed income yields are likely to taper down in the near term…

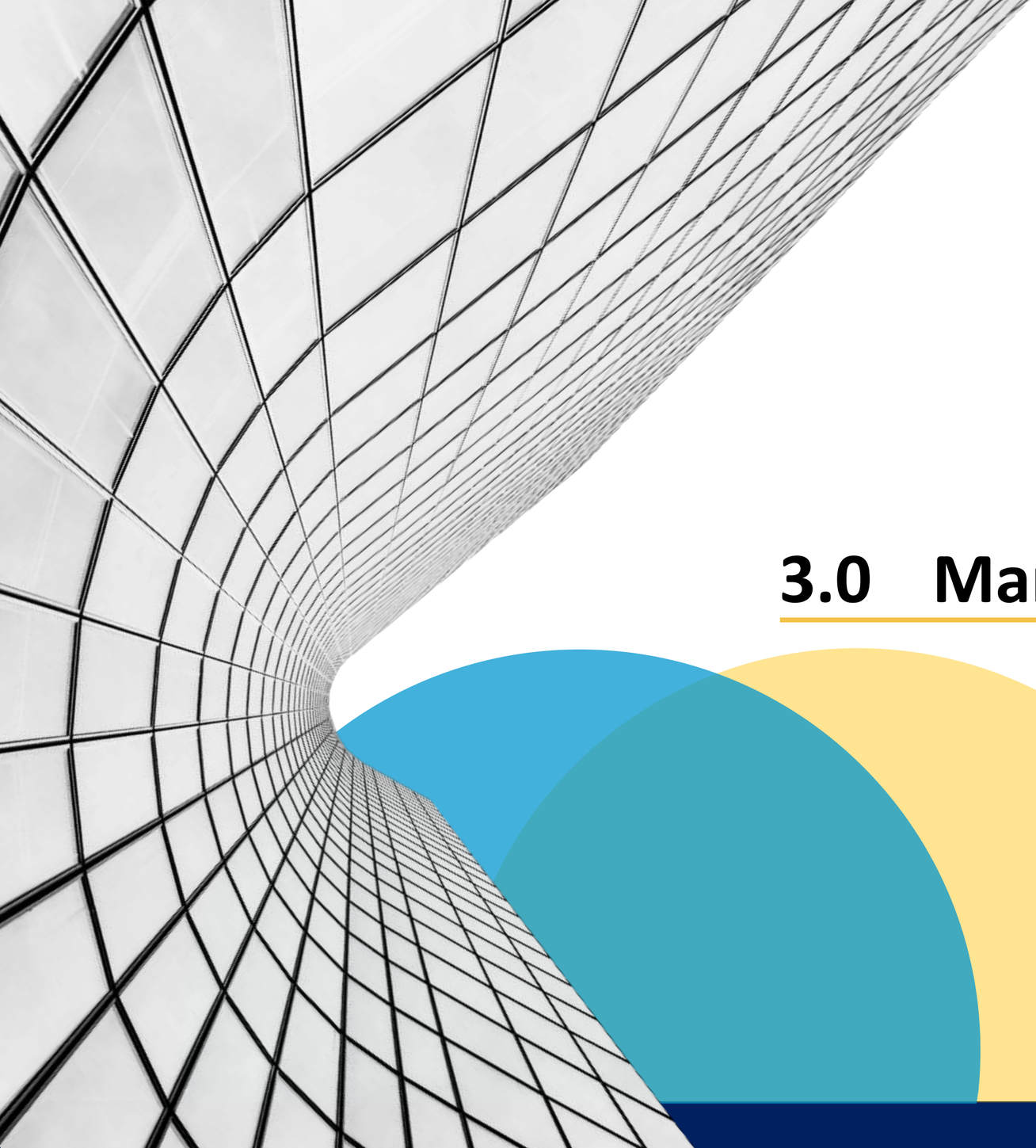
- **Easing geopolitical tensions:** Lower global oil prices are expected to moderate imported inflationary pressures, improving the domestic inflation outlook.
- **Improving external sector position:** A stronger current account position, supported by improved external trade dynamics and lower energy import costs, is expected to strengthen external sector stability, reduce external vulnerabilities and lower sovereign risk premiums.
- **Fiscal consolidation:** Improved fiscal discipline and a more sustainable government financing position could ease domestic borrowing requirements and reduce pressure on yields.
- **Potential monetary easing:** The possibility of a policy rate cut in 1H2027E to support economic growth, amid moderating inflation, could further reinforce the downward trajectory in yields.

…encouraging a gradual shift in investor allocations towards equities. As seen below, at lower yields, the equity market turnover has remained at elevated levels



Source: CBSL, First Capital Research

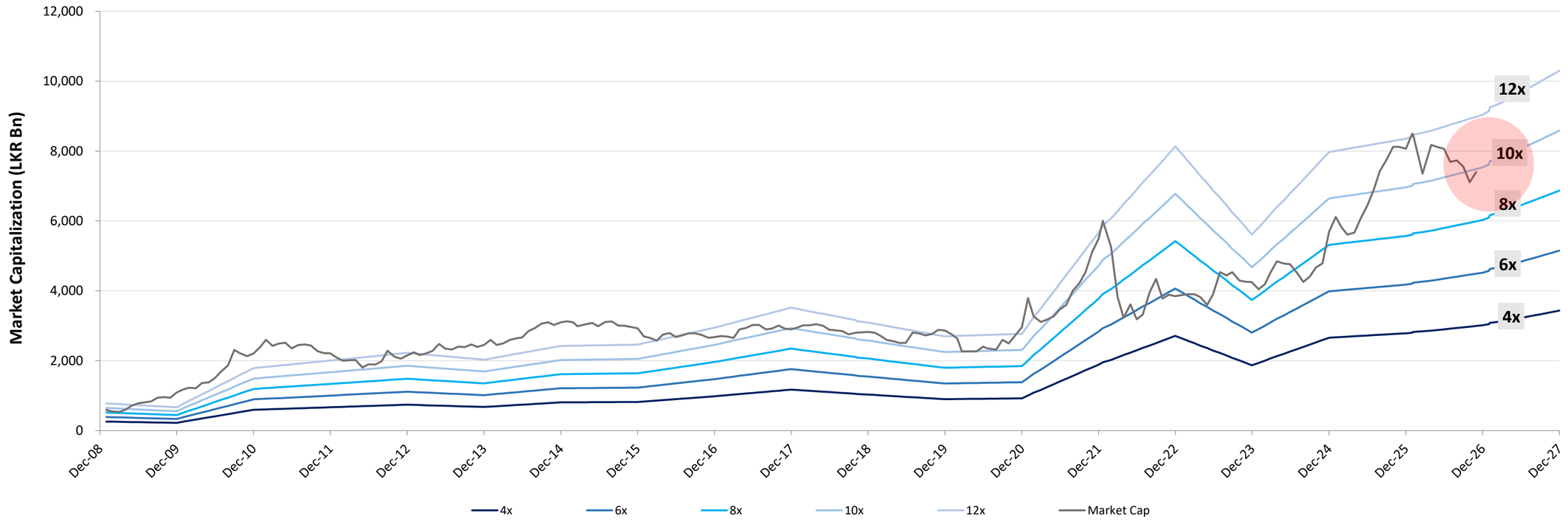
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3.0 Market Valuations

ASPI appears to have bottomed, offering an attractive entry point

The ASPI has retreated in recent weeks, falling below the 20,000 mark to a low of 19,640.6 (down 13.2% YTD) in late October before recovering to 21,239.7 on 6 November. Historical valuations provide a useful reference point in assessing the potential downside from current levels. Notably, during the height of the economic crisis in 2022, when the economy faced severe macroeconomic stress, policy rates approached 15.0% and T-bill yields exceeded 30.0%, the ASPI's PER bottomed at approximately 6.0x. In contrast, the current interest rate environment is considerably more accommodative, with the OPR and T-bill yields both at approximately 8.75%. This divergence in macroeconomic and monetary conditions suggests that the current market correction should be assessed against a fundamentally stronger backdrop than that prevailing during the 2022 crisis. Accordingly, while further volatility cannot be ruled out, the historical valuation trough, coupled with relatively lower interest rates and improved macroeconomic conditions, suggests that the potential for significant further downside may be relatively contained.



Source: CSE, First Capital Research

The ASPI also remains attractively valued relative to regional peers

10.4x ASPI PER – a 38.5% discount to the regional peer average of 16.9x

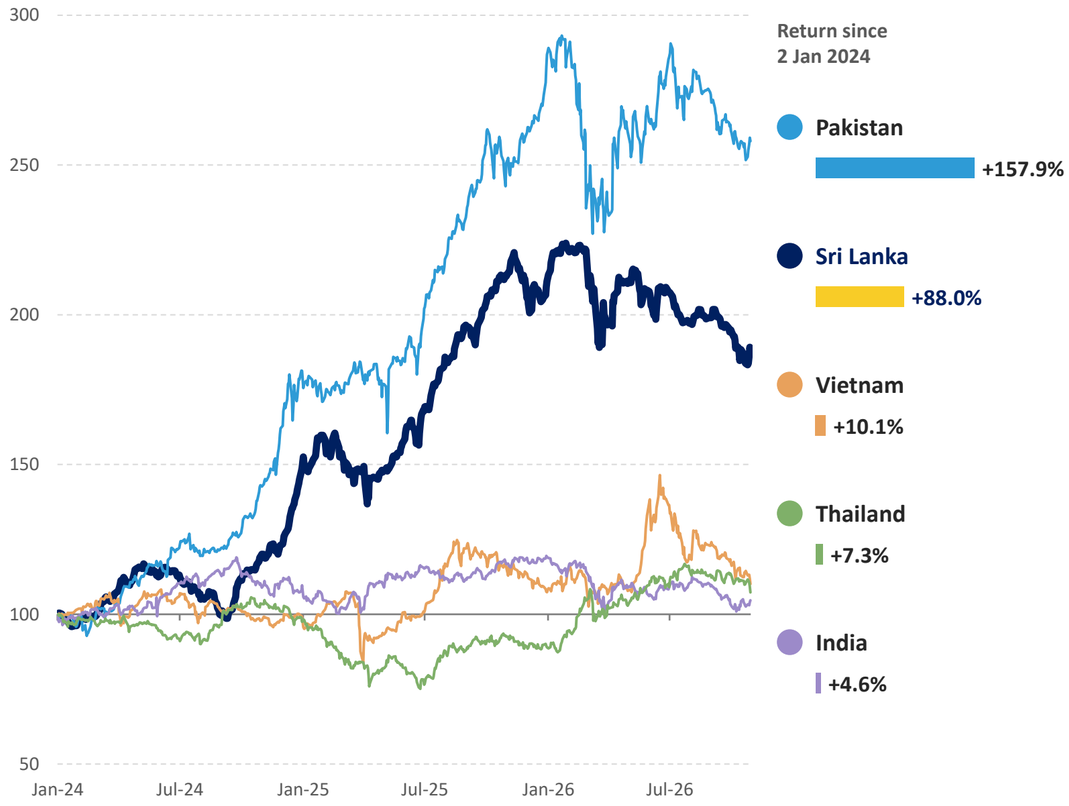
1.2x ASPI PBV – the lowest in the peer group (peer average: 1.8x)

+88.0% ASPI return since Jan-24, second only to Pakistan's KSE100 (+157.9%)

Market		Last close	Mkt cap (USD Bn)	PER (x)	PBV (x)
CSE COLOMBO STOCK EXCHANGE	**Sri Lanka** CSEALL	**21,239.7**	**21.3**	**10.9**	**1.3**
PSX PAKISTAN STOCK EXCHANGE LIMITED	**Pakistan** KSE100	166,409.3	57.0	**7.1**	**1.2**
SET The Stock Exchange of Thailand	**Thailand** SETI	1,518.6	575.9	**15.1**	**1.4**
Nifty50	**India** NIFTY 50	23,053.1	4,760.0	**19.3**	**2.8**
HANOI STOCK EXCHANGE SỞ GIAO DỊCH CHỨNG KHOÁN HÀ NỘI	**Vietnam** VHINDEX	252.7	17.6	**12.9**	**1.4**
				Peer avg 16.9x	**Peer avg 1.8x**

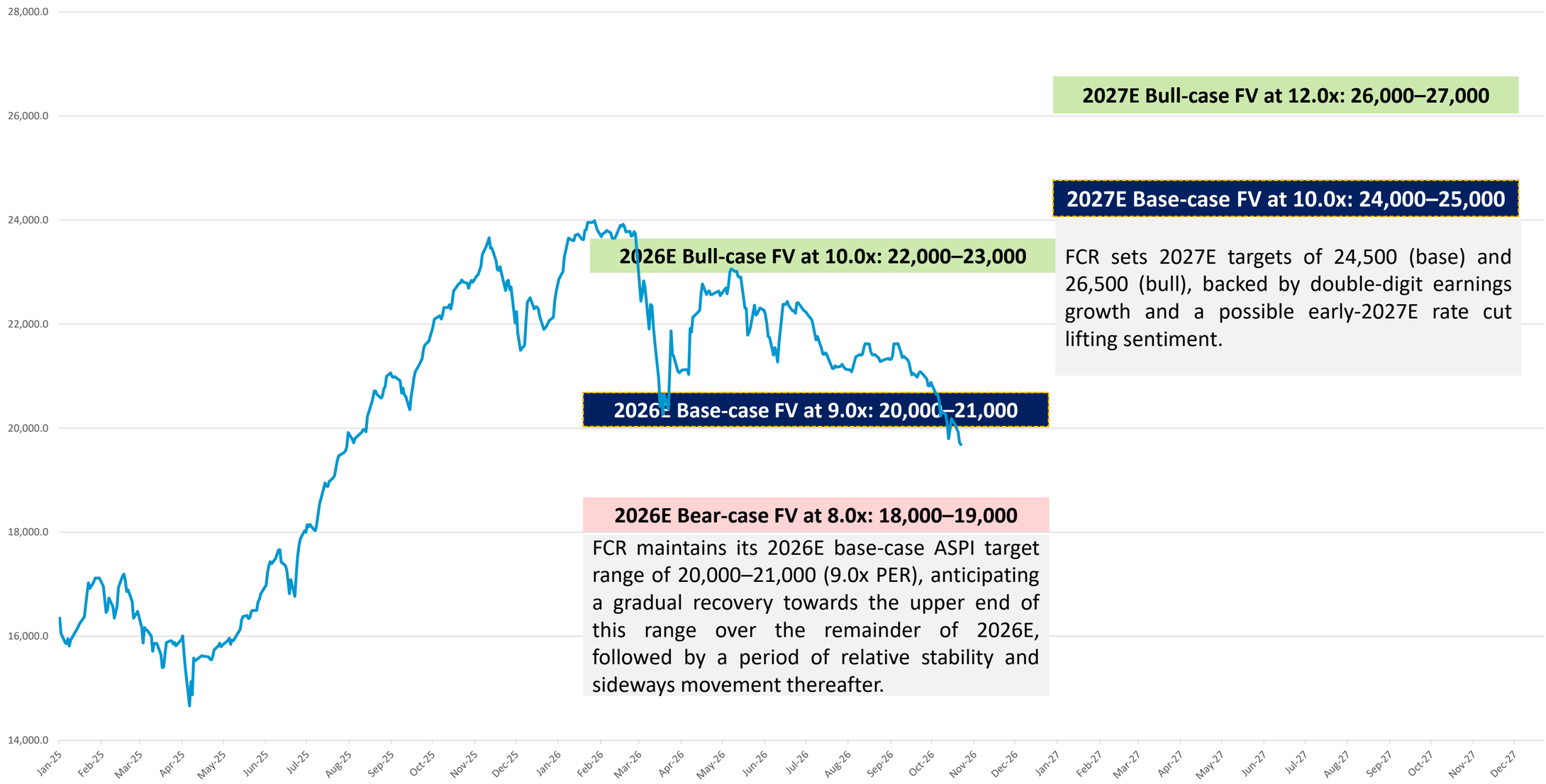
Prices as at 30 Oct 2026; peer average excludes Sri Lanka

Price performance | indexed, 2 Jan 2024 = 100



Source: CSE, Bloomberg, First Capital Research

FCR’s 2027E outlook: 24,500 base, 26,500 bull



2027E Bull-case FV at 12.0x: 26,000–27,000

2027E Base-case FV at 10.0x: 24,000–25,000

FCR sets 2027E targets of 24,500 (base) and 26,500 (bull), backed by double-digit earnings growth and a possible early-2027E rate cut lifting sentiment.

2026E Bull-case FV at 10.0x: 22,000–23,000

2026E Base-case FV at 9.0x: 20,000–21,000

2026E Bear-case FV at 8.0x: 18,000–19,000

FCR maintains its 2026E base-case ASPI target range of 20,000–21,000 (9.0x PER), anticipating a gradual recovery towards the upper end of this range over the remainder of 2026E, followed by a period of relative stability and sideways movement thereafter.

Source: CSE, First Capital Research

Rebound under way: 2026E base case of 20,000–21,000, bull case in sight

Market Bottom Potentially Established

The ASPI declined towards 19,600 amid escalating geopolitical tensions, with oil surging to USD 117.0/BBL. We believe the correction has largely priced in prevailing uncertainties, with attractive valuations presenting an accumulation opportunity ahead of the anticipated recovery.

Easing Macro Pressures Support Recovery

Brent easing to USD 95.7/BBL and WTI to USD 88.4/BBL should ease inflationary pressures and concerns over further tightening, supporting operating margins and household purchasing power, while declining yields could encourage a reallocation of funds towards equities.

Markets Anticipating Future Monetary Easing

Equity markets tend to price in policy shifts ahead of implementation. With easing inflation strengthening prospects for monetary easing in 2027E, investors positioning ahead of the cycle could benefit from attractive entry valuations and a subsequent re-rating.

Early Signs of Renewed Confidence

The ASPI's rebound from its October low of ~19,600 to above 20,500, alongside improving turnover and broader buying interest, signals recovering investor confidence. Investors on the sidelines risk missing the initial phase of the rebound.

FCR RECOMMENDATION | 2026E

Opportunity to Increase Equity Exposure

With the balance of risks improving and multiple catalysts emerging, we believe current market weakness presents a favourable opportunity to progressively increase equity exposure, rather than await further confirmation of the recovery.

20,000–21,000

2026E base-case ASPI forecast | 9.0x PER

Recommended allocation

Equity 70%	Cash 30%

Equity raised from 50% through phased accumulation of fundamentally strong, attractively valued counters; 30% cash buffer retained for market volatility.

Source: CSE, First Capital Research

The next leg up: ASPI targets 24,000–25,000 in 2027E, with upside to 27,000

2027E BASE CASE

24,000–25,000

Re-rating towards the market's 10-year average valuation of **10.0x PER**, up from the 2026E base case of 20,000–21,000, supported by forecast earnings growth of **14.0%** in 2027E

2027E BULL CASE

26,000–27,000

12.0x PER



Corporate Earnings to Drive Re-Rating

FCR remains optimistic on the 2027E outlook, maintaining its base-case ASPI target of 24,000–25,000. Moderating inflation should ease operating costs, restore household purchasing power and stimulate consumer demand, strengthening corporate revenues and profitability margins.



Monetary Easing to Stimulate Growth

With inflation expected to moderate towards the CBSL's 5.0% target during 2027E, we anticipate potential policy rate cuts during 1H2027E to revive moderating growth. Lower rates should reduce financing costs, stimulate private sector credit demand and encourage investment.



Declining Yields to Attract Equity Inflows

Declining government security yields should reduce the relative attractiveness of fixed income, encouraging a gradual shift towards equities. Improving confidence and participation should strengthen liquidity, while lower lending rates could stimulate margin trading.



Growth-Focused Budget to Boost Earnings

The anticipated growth-focused National Budget 2027E, with approximately LKR 2.0Tn allocated to capital expenditure alongside potential personal income tax relief, should support consumption, infrastructure and private sector activity, underpinning our 14.0% earnings growth forecast.



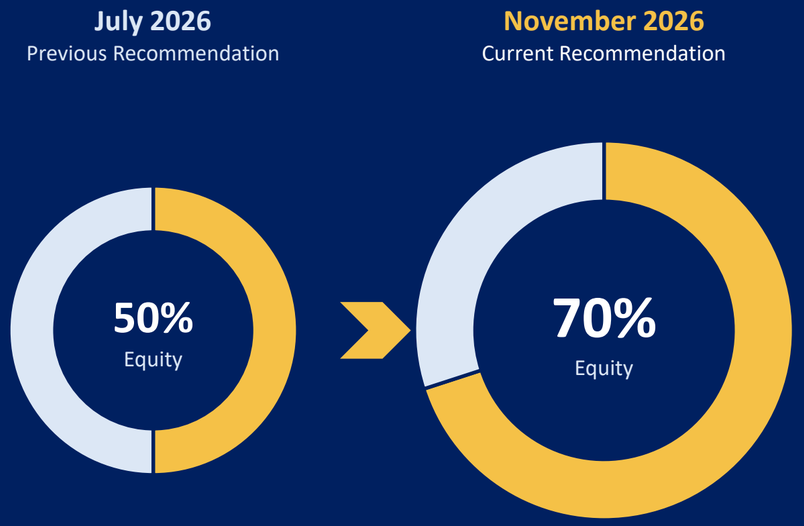
Rating Upgrades Could Unlock Bull Case

Further sovereign rating upgrades towards pre-pandemic and pre-crisis levels of B+, alongside critical structural reforms and sustained growth above 5.0% annually, could revive foreign portfolio inflows. **Under such a scenario, we see potential for the ASPI to reach FCR's bull-case range of 26,000–27,000 (12.0x PER).**

Source: CSE, First Capital Research

Equity exposure upgraded to 70%, cash holdings reduced to 30%

Recommendation for Funds allocated purely for Equity investments



Equity	50% → **70%**
Cash	50% → **30%**

November 2026: Approach to Equity Investments during 2026E

Market Bottom Signals Buying Opportunity

With the ASPI potentially bottoming around 19,600, easing oil prices, moderating inflation and reduced rate hike expectations support a recovery. Accordingly, **FCR upgrades equity exposure from 50% to 70%, reducing cash to 30%,** capitalising on attractive valuations.

Positioning Ahead of the 2027E Re-Rating

We anticipate a recovery during the remainder of 2026E, followed by an earnings-led **re-rating towards 24,000–25,000 in 2027E, with upside to 27,000.** Investors are encouraged to accumulate ahead of anticipated monetary easing and earnings recovery to capture potential upside.

Disciplined Accumulation Amid Risks

Despite improving prospects, geopolitical uncertainties and oil price volatility remain key risks. We recommend phased accumulation of fundamentally strong equities while **retaining a 30% cash buffer** for potential market corrections.

Sectors to keep on the radar for 2026E

Banking

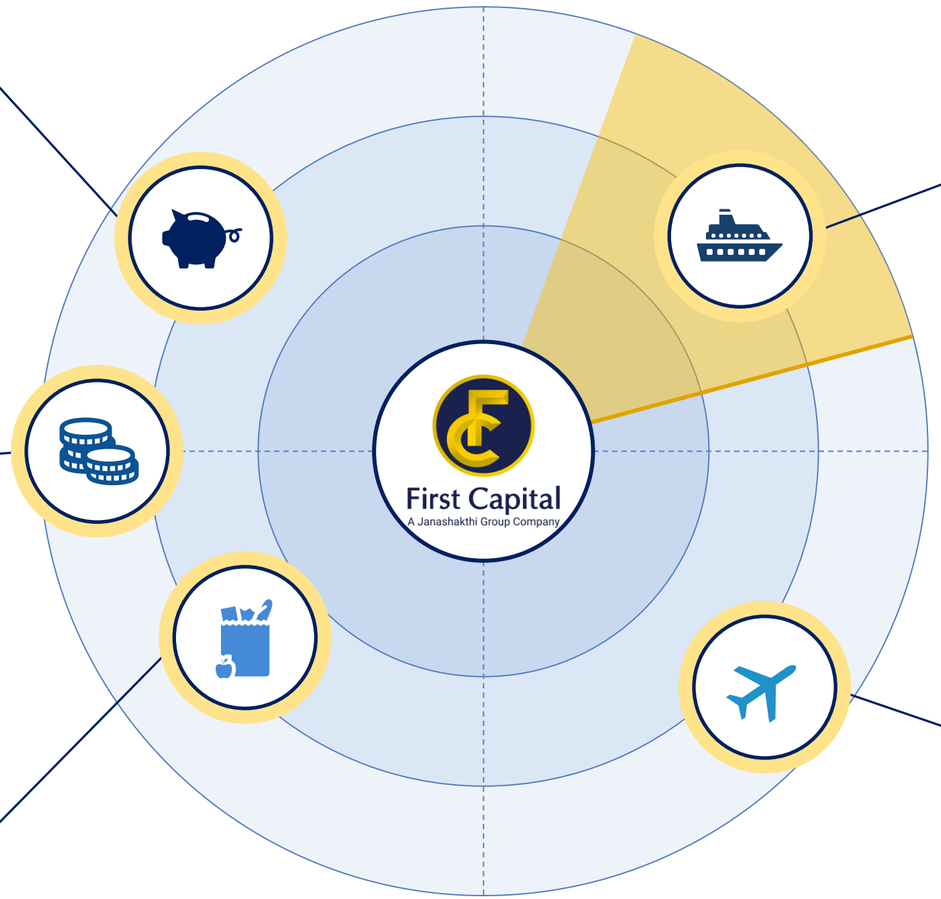
Despite the 100bps OPR hike and an expected moderation in private sector credit growth to 15.0%YoY, banking sector earnings are expected to remain resilient, supported by gradual NIM expansion as lending rates reprice faster than funding costs. Moreover, disciplined lending amid slower credit growth is expected to support asset quality and contain credit costs, underpinning the banking sector's resilience.

Diversified Financials

Despite recent policy tightening, diversified financials are expected to remain resilient as structural demand for leasing and gold-backed lending, together with disciplined asset-liability management and prudent underwriting, support spreads, asset quality and earnings growth despite a softer credit environment.

Consumer Segment

While higher inflation and financing costs are expected to weigh on discretionary spending, the broader consumer sector is likely to remain resilient. Consumer staples should continue to benefit from relatively stable demand, while companies with strong brands, pricing power and disciplined cost management are expected to preserve margins and support earnings resilience.



FCR SECTOR RADAR | 2026E

Export Sector

The export sector is expected to remain well supported by a weaker LKR, which should bolster LKR-denominated revenues. While the benefit is likely to be partly offset by higher imported input costs, exporters with greater domestic value addition and diversified end markets are expected to remain especially resilient.

Tourism Sector

Peak season and rising tourist arrivals support the near-term outlook. City hotels are expected to remain particularly resilient, supported by business travel and diversified source markets.

Source: First Capital Research

First Capital Top Recommendations for 2026

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FIRST CAPITAL 2026 TOP RECOMMENDATIONS — 20-Oct-26

Stock	Stock Code	Market Price LKR	PER	PBV	DY	52-Week High LKR	52-Week Low LKR	Target Price 2027E/FY28E LKR	Fair Value - Return (%)	Recommendation
John Keells Holdings PLC	JKH.N0000	19.10	36.4x	0.8x	1.0%	23.40	17.80	36.00	88%	BUY
Commercial Bank PLC	COMB.N0000	202.50	5.6x	1.0x	3.7%	235.25	170.00	260.00	28%	BUY
Hatton National Bank PLC	HNB.N0000	379.75	4.6x	0.7x	3.9%	460.00	377.00	510.00	34%	BUY
National Development Bank PLC	NDB.N0000	110.00	4.0x	0.5x	4.5%	159.00	104.50	190.00	73%	BUY
Sampath Bank PLC	SAMP.N0000	139.75	5.0x	0.8x	6.7%	167.00	135.00	180.00	29%	BUY
Seylan Bank PLC	SEYB.N0000	95.90	5.0x	0.7x	3.6%	118.00	95.00	150.00	56%	BUY
Nation's Trust Bank PLC	NTB.N0000	305.00	5.3x	1.0x	1.1%	356.00	265.00	460.00	51%	BUY
LB Finance PLC	LFIN.N0000	152.75	6.7x	1.5x	4.3%	179.00	130.00	250.00	64%	BUY
Commercial Credit and Finance PLC	COCR.N0000	96.90	3.1x	0.9x	6.2%	154.75	96.50	210.00	117%	BUY
Hayleys PLC	HAYL.N0000	225.50	13.0x	1.7x	2.5%	260.00	177.25	300.00	33%	BUY
Ceylon Cold Stores	CCS.N0000	118.50	18.0x	4.6x	4.8%	144.50	98.00	165.00	39%	HOLD
Dipped Products PLC	DIPD.N0000	57.40	8.3x	1.0x	3.6%	74.50	48.90	80.00	39%	BUY
Vallibel One PLC	VONE.N0000	89.60	7.6x	0.9x	3.3%	115.00	87.00	150.00	67%	BUY
Royal Ceramics Lanka PLC	RCL.N0000	46.50	8.6x	1.0x	3.4%	54.00	39.70	80.00	72%	BUY
Digital Mobility Solutions Lanka PLC	PKME.N0000	153.25	27.2x	16.5x	2.0%	175.25	127.25	220.00	44%	BUY
Hayleys Fabric PLC	MGT.N0000	26.50	11.2x	0.9x	4.1%	45.50	26.10	46.00	74%	BUY
Teejay Lanka PLC	TJL.N0000	30.00	28.7x	0.7x	7.8%	43.40	27.00	50.00	67%	BUY
Asian Hotels and Properties PLC	AHPL.N0000	46.40	136.7x	0.7x	1.1%	69.90	45.60	80.00**	72%**	BUY**
The Kingsbury PLC	SERV.N0000	13.90	10.2x	3.1x	0.0%	23.80	13.50	35.00**	152%**	BUY**

*First Capital Research's top recommended stocks are chosen based on the potential return and the liquidity of the stocks
*JKH has been adjusted for the share sub division in the ratio 1:10
**Under Review

Thank you!

"SUCCESSFUL INVESTING IS ABOUT MANAGING RISKS"



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