DIGITAL MOBILITY SOLUTIONS LANKA PLC [PKME.N0000]

MAINTAIN BUY

"MOBILITY FORWARD, SHAREHOLDER VALUE UPWARD"

Fair Value: FY27E - LKR 200.0 [+19%]

Total Return with DPS: FY27E - 23% [AER 70%]

FY28E - LKR 240.0 [+42%]

FY28E - 49% [AER 33%]

PKME reported another quarter with YoY earnings growth, registering record high bottom-line and topline levels during 2QFY27. During the quarter, earnings reached LKR 783.9Mn/+52.5%YoY, bringing the 1HFY27 earnings to LKR 1.4Bn/+48.9%YoY. The company exceeded FCR earnings forecast for 2QFY27, underpinned by the revival from curtailed fuel supply and normalization in supply side/availability of drivers in the platform, compared to the preceding quarter. Moreover, higher revenue growth of +36.6%YoY was supported by the increase in average monthly unique consumers, which exceeded the 2.0Mn mark for the first time by the end-2QFY27. Total platform movements also rose by 36.7%YoY, bringing the Gross Billing Value (GBV) to c.LKR 28.0Bn, amid price adjustments. As volumes scaled up, EBIT increased by 48.2%YoY to LKR 1.0Bn, attributing an EBIT margin of 36.3%. Increase in net finance income further aided the PBT to move up to LKR 1.1Bn, followed by the surge in net profits. 2QFY27 and 1HFY27 marked an EPS of LKR 2.3/share and LKR 4.2/share respectively. Building on the favourable performance, PKME Board of Directors approved an interim dividend of LKR 2.75/share for FY27, of which payment is due on 25th November 2026. As the company progresses to 2HFY27E, FCR expects PKME will leverage on its capability to capture more demand and increase the monthly unique customer base, while generating higher GBV. However, maintaining sound supply base on the platform will remain a key contributing factor to the company's growth. We reiterate our BUY recommendation on PKME, while we revise up our previous earnings forecasts by +21.5% to LKR 3.4Bn and +29.3% to LKR 5.3Bn, with revised target prices of LKR 200.0/share and LKR 240.0/share and AER of 69.6% and 33.0% for FY27E and FY27E respectively. MAINTAIN BUY

LKR (Mn)	2QFY26	2QFY27	YoY	1HFY26	1HFY27	YoY
Earnings (LKR 'Mn)						
Revenue	2,102	2,871	+37%	3,898	5,383	+38%
Operating Profit	704	1,043	+48%	1,306	1,876	+44%
PBT	731	1,134	+55%	1,360	2,041	+50%
Net Profit	514	784	+53%	950	1,415	+49%
Balance Sheet (LKR 'Mn)						
Shareholders' Equity	3,103	4,453	+43%	3,103	4,453	+43%
Borrowings	423	319	-25%	423	319	-25%
NAVPS	9.3	13.3		9.3	13.3	

Earnings up by 52.5%YoY and 48.9%YoY in 2QFY27 and 1HFY27 respectively

PKME reported earnings of LKR 783.9Mn (+52.5%YoY) in 2QFY27, surpassing FCR estimate by 16.4%. This brought 1HFY27 earnings to LKR 1.4Bn (+48.9%YoY). The revenue amounted to LKR 2.9Bn/+36.6%YoY and LKR 5.4Bn/+38.1%YoY in 2QFY27 and 1HFY27 respectively. This quarter marked PKME's highest bottom-line and topline in an unprecedented move. Both GBV and the monthly unique consumers on platform increased, registering c.LKR 28.0Bn/+38.0%YoY and reaching a new high of c.2.1Mn (+37.8%YoY) respectively. Ride-hailing vertical continued to account for highest GBV (c.84.0% of total), followed by Delivery (c.16.0%) and Other (c. 0.1%). Ride-hailing concentration towards the Western Province further softened to around 73.0%, compared to 75.0% in 1QFY27, indicating continued regional expansion. Improvement in topline was supported by higher user numbers and platform movements, while revenue margin rebounded to 10.1% from 9.9% in the preceding quarter, due to lower customer incentives and normalization of demand. This lifted the operating profit by 48.2%YoY to LKR 1.0Bn, assigning an EBIT margin of 36.3% (+29bps YoY). Net profit margin stood at 27.3%/+286bps YoY and 26.3%/+190bps YoY in 2QFY27 and 1HFY27 respectively.

PKME continues to broaden its horizons beyond ride-hailing

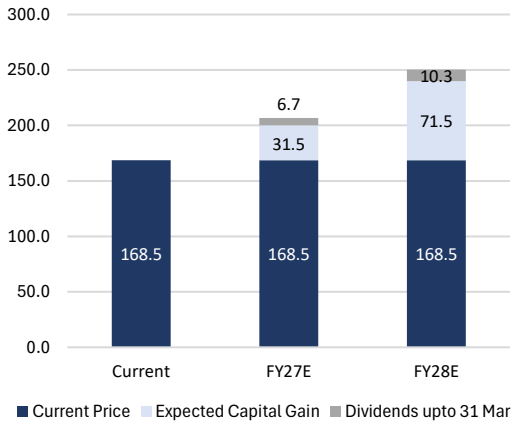
Although ride-hailing accounted for approximately 84.0% of GBV in 2QFY27, the platform continued to expand the contribution from other verticals to total GBV. Delivery vertical's GBV grew by c.40.0%YoY, as the business focused on broadening platform selection, upgrading UI/UX, and optimizing unit economies. Trucks category particularly saw an improvement in unit economies, while the attraction of SMEs remains as a key focus area. PKME Flash category expanded its geographical footprint, alongside offering bespoke products to corporate customers. PKME Events category was rebranded in early Aug-2026 as PKME Explore, while Colombo Connect project was launched in partnership with Colombo Lotus Tower. The objective of the project was to connect all dining, entertainment, transport, culture, and retail arms into a single experience. The business aims to roll out this initiative in other cities as well. Moreover, PKME is to introduce a new product category to strengthen the 4-wheel offering on its platform in near future. Amid the competition from other players and recent developments in public transportation sector, PKME has been able to resiliently grow its unique customer base and platform movements. On the outlook, we expect volatility in take rates due to rising inflationary pressures and consequent incentives. However, we believe that PKME has sufficient space to penetrate the user base across Sri Lanka, as they are still capturing around 3.3% of addressable market share. Hence, we expect PKME to grow its customer base by approximately 40.0%-37.0%YoY in FY27E and FY28E.

Operating margin expansion fueled by volume led operating leverage

During 2QFY27, operating profit surged by 48.2%YoY to LKR 1.0Bn, bringing the cumulative operating profit for 1HFY27 to LKR 1.9Bn. Higher volumes predominantly contributed to the growth in revenue, while operating expenses benefited from lower IT subscriptions, reversal of one-off disputed IT subscription costs, and ease in currency depreciation compared to 1QFY27. With that, EBIT margin stood at 36.3%, while operating leverage reverted to positive trajectory, marking a higher level of 176.4%. With our revised EBIT forecast, EBIT margins are projected to hover between 40.0% - 46.0%, with >+100.0% operating leverage in FY27E and FY28E.

Target prices upgraded based on revised earnings forecast; MAINTAIN BUY

As we revise our earnings forecasts to LKR 3.4Bn and LKR 5.3Bn, our target prices are uplifted to LKR 200.0/share and LKR 240.0/share with an expected ROE of 77.1% and 89.2% for FY27E and FY28E respectively. On TTM basis, PKME's EV/EBITDA multiple stands at 11.8x, while the forward EV/EBITDA multiples stand at 9.2x and 6.0x for FY27E and FY28E, based on FCR forecast. More prudently, we have assigned implied EV/EBITDA multiples of 12.0x for FY27E and 10.0x for FY28E. Expected total annualized returns for FY27E and FY28E are 69.6% and 33.0% respectively, well above our minimum return threshold of 18.0%. **MAINTAIN BUY.**

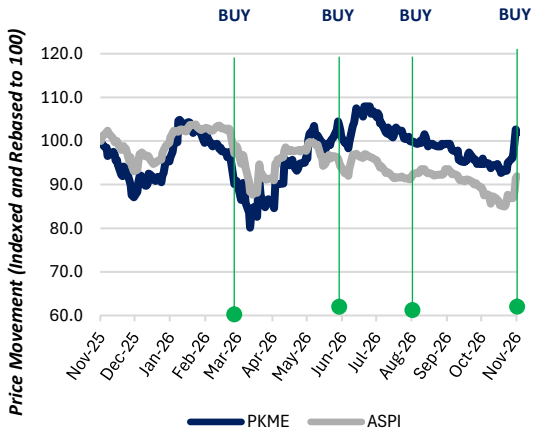


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Price Movement of PKME vs ASPI (Indexed and rebased to 100)



Source: CSE

Minimum Return for BUY:

Buy Below for FY28E [AER of 18.0% with DPS]: LKR 198.9 *PKME categorized as 'Grade B' counter.*

Disclosure on Shareholding:

First Capital Group or the covering analyst did not hold 1% or more of the total outstanding share capital of PKME during the five trading days prior to the issuance of this document.

Key risks associated with our recommendation

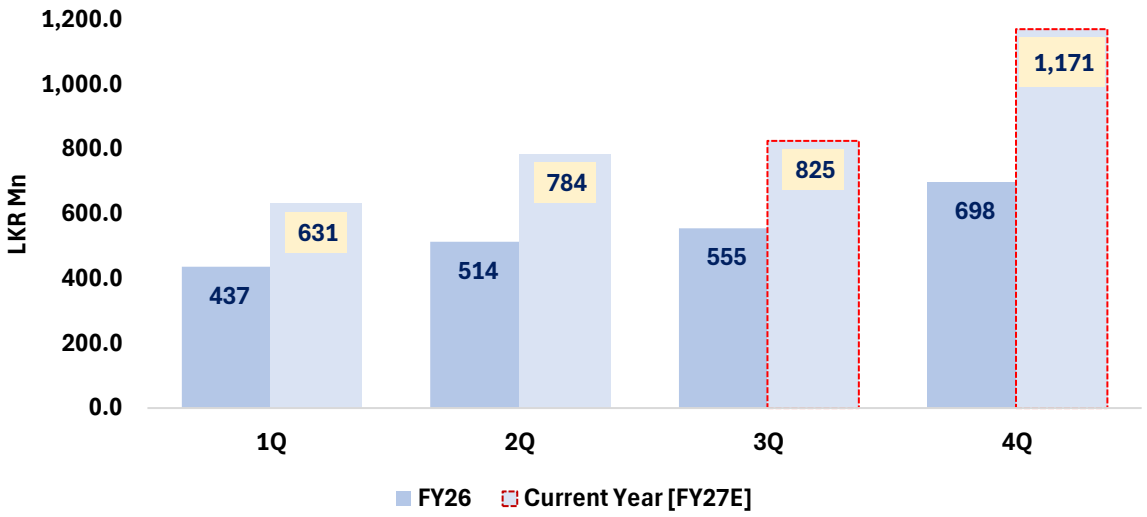
Downside risks

- Increase in fuel prices can lead to demand shortages
- Lower disposable income could lower the volumes
- Pressure from competitor pricing strategies
- Threat of cyber-attacks to the platform

Upside risks

- Adoption of Artificial Intelligence could facilitate new market opportunities
- Shift in consumer preference towards digital mobility helps to expand business verticals

Quarterly Earnings



Estimate Revision

In LKR Mn	FY27E - O	FY27E - R	% Change	FY28E - O	FY28E - R	% Change
Earnings Estimate						
Revenue	10,432	11,689	+12.0%	13,543	16,016	+18.3%
EBIT	3,850	4,714	+22.4%	5,684	7,407	+30.3%
Profit before tax	4,009	4,873	+21.5%	5,864	7,582	+29.3%
Net Profit	2,806	3,411	+21.5%	4,105	5,307	+29.3%
Adjusted EPS	8.4	10.2	+21.5%	12.3	15.9	+29.3%
Growth YoY	*27.3%*	*54.8%*		*46.3%*	*55.6%*	
Balance Sheet Estimate						
Shareholders' Equity	4,952	5,023	+1.4%	6,512	6,881	+5.7%
Borrowings	399	399	0.0%	439	479	+9.1%
NAVPS	**14.9**	**15.0**		**19.5**	**20.6**	
Ratio Estimate						
ROE (%)	***63.9%***	***77.1%***		***71.6%***	***89.2%***	
PER (x)	**18.9**	**16.5**		**12.9**	**10.6**	
PBV (x)	**10.7**	**11.2**		**8.1**	**8.2**	

Valuation Table

P/E 31 March	FY23	FY24	FY25	FY26	FY27E	FY28E	FY29E
Estimates (LKR 'Mn)							
Revenue	**1,964**	**3,919**	**5,835**	**8,682**	**11,689**	**16,016**	**21,855**
EBIT	15	925	1,603	3,054	4,714	7,407	10,709
Net Profit	**130**	**679**	**1,170**	**2,204**	**3,411**	**5,307**	**7,626**
Adjusted EPS (LKR)	**0.4**	**2.0**	**3.5**	**6.6**	**10.2**	**15.9**	**22.8**
YoY Growth (%)	*183.0%*	*420.8%*	*72.2%*	*88.3%*	*54.8%*	*55.6%*	*43.7%*
Valuations							
PER (x)	**431.2x**	**82.8x**	**48.1x**	**25.5x**	**16.5x**	**10.6x**	**7.4x**
PBV (x)	**53.5x**	**32.2x**	**21.8x**	**14.7x**	**11.2x**	**8.2x**	**5.9x**
DY (%)	***0.0%***	***0.0%***	***1.4%***	***2.6%***	***3.9%***	***6.1%***	***8.8%***
NAVPS	*3.1*	*5.2*	*7.7*	*11.5*	*15.0*	*20.6*	*28.6*
DPS	*-*	*-*	*2.3*	*4.3*	*6.7*	*10.3*	*14.9*
Dividend Payout	*0.0%*	*0.0%*	*65.5%*	*65.0%*	*65.0%*	*65.0%*	*65.0%*

Ratio Analysis

		FY23	FY24	FY25	FY26	FY27E	FY28E	FY29E
Growth	Revenue	51.6%	99.6%	48.9%	48.8%	34.6%	37.0%	36.5%
	EBIT	109.0%	6251.8%	73.3%	90.5%	54.4%	57.1%	44.6%
	Net Profit	183.0%	420.8%	72.2%	88.3%	54.8%	55.6%	43.7%
Profitability	EBIT Margin	0.7%	23.6%	27.5%	35.2%	40.3%	46.3%	49.0%
	NP Margin	6.6%	17.3%	20.1%	25.4%	29.2%	33.1%	34.9%
	Return on Equity	13.4%	48.5%	54.0%	68.7%	77.1%	89.2%	92.8%
Liquidity	Current Ratio	1.4x	1.8x	2.1x	2.4x	3.2x	3.1x	3.2x
	Quick Ratio	1.4x	1.8x	2.1x	2.4x	3.1x	3.1x	3.2x
Activity	Inventory Days	3.0	10.4	2.7	2.1	2.6	2.2	1.8
	Accounts Payable Days	111.2	1077.5	286.3	251.1	109.5	109.5	109.5
	Accounts Receivable Days	39.3	37.3	30.0	18.2	43.8	29.2	25.6
Gearing	Debt/Equity	0.3x	0.1x	0.1x	0.1x	0.1x	0.1x	0.1x
	Debt/Debt+Equity	0.2x	0.1x	0.1x	0.1x	0.1x	0.1x	0.1x
	Debt/Total assets	0.2x	0.1x	0.1x	0.1x	0.1x	0.1x	0.0x

Valuation Summary

Expected PKME Price	FY27E	FY28E
EV/EBITDA Valuation based target price	205.5	261.2
DCF Valuation based target price	201.4	228.5
Average Target Price	203.4	244.9
Target Price after Rounding-off	200.0	240.0

Return	FY27E	FY28E
Target Price	200.0	240.0
Current Price	168.5	168.5
Capital Gain (LKR)	31.5	71.5
Dividends up to 31st March	6.7	10.3
Capital Gain %	19%	42%
Dividend Yield %	4%	6%
Total Return %	23%	49%
Annualized Return %	70%	33%

Discounted Cash Flow Valuation

DCF based Valuation	FY27E	FY28E
Enterprise Value	66,250	74,549
Debt (-)	(399)	(479)
Cash (+)	1,373	2,196
Total Value of Equity	67,224	76,267
No. of Shares (Mn)	334	334
Target Price	201.4	228.5

COE	FY27E	FY28E
Rf	10%	10%
Rm	18%	18%
Growth %	3%	3%
β	0.7	0.7
Ke = Rf + β(Rm-Rf)	16%	16%

WACC	FY27E	FY28E
Ke	16%	16%
Kd	9%	9%
D/E Assumption	10:90	10:90
Terminal Growth (%)	3%	3%
WACC	15%	15%

EV/EBITDA based Valuation

EV/EBITDA based Valuation	FY27E	FY28E
EBITDA (LKR 'Mn)	5,798	8,893
Enterprise Value (LKR 'Mn)	69,572	88,928
(-) Net Debt	(974)	(1,717)
Total Equity Value	68,598	87,211
Implied EV/EBITDA	12.0	10.0
No. of Shares (Mn)	334	334
Target Price	205.5	261.2

Recommendation Criteria

Categorization	Company Category	Buy	Hold	Sell
Grade A	S&P SL20 Companies	T.Bill + 5% & Above	T.Bill + 1% & Above	Below T.Bill + 1%
Grade B	Rest of the Companies	T.Bill + 8% & Above	T.Bill + 3% & Above	Below T.Bill + 3%
Grade C	Companies less than LKR 1Bn Market Cap	T.Bill + 11% & Above	T.Bill + 6% & Above	Below T.Bill + 6%

Categorization	Company Category	Buy	Hold	Sell
Grade A	S&P SL20 Companies	15.00%	11.00%	11.00%
Grade B	Rest of the Companies	18.00%	13.00%	13.00%
Grade C	Companies less than LKR 1Bn Market Cap	21.00%	16.00%	16.00%

PER Chart



Appendix I: Statement of Income and Expenses

Income Statement (LKR Mn) Year ended 31st March	FY23	FY24	FY25	FY26	FY27E	FY28E	FY29E
Net Application Usage Income	3,170	4,119	6,852	10,186	14,255	19,532	26,653
(-) VAT Payments	(1,206)	(201)	(1,017)	(1,503)	(2,566)	(3,516)	(4,797)
Revenue from contracts with customers	**1,964**	**3,918**	**5,835**	**8,682**	**11,689**	**16,016**	**21,855**
Other Income	23	127	79	44	164	224	306
Operating Expenses	(900)	(1,371)	(1,719)	(2,239)	(2,805)	(3,684)	(5,027)
Admin Expenses	(883)	(1,428)	(2,205)	(2,919)	(3,317)	(3,756)	(4,240)
Selling and Distribution Expenses	(189)	(322)	(387)	(514)	(1,017)	(1,393)	(2,186)
Profit from Operations	**15**	**925**	**1,603**	**3,054**	**4,714**	**7,407**	**10,709**
Finance Cost	(49)	(42)	(42)	(47)	(55)	(71)	(95)
Finance Income	107	121	122	183	214	245	280
Net finance income/(expense)	**58**	**79**	**80**	**137**	**159**	**174**	**186**
Share of loss from Associate Company	(4)	(11)	-	-	-	-	-
Profit Before Taxation	**69**	**993**	**1,683**	**3,190**	**4,873**	**7,582**	**10,895**
Income Tax Expense/Reversal	61	(314)	(513)	(987)	(1,462)	(2,275)	(3,268)
Net Profit for the Year	**130**	**679**	**1,170**	**2,204**	**3,411**	**5,307**	**7,626**
Adjusted EPS	**0.4**	**2.0**	**3.5**	**6.6**	**10.2**	**15.9**	**22.8**

Appendix II: Statement of Financial Position

Statement of Financial Position (LKR Mn) As at 31st March	FY23	FY24	FY25	FY26	FY27E	FY28E	FY29E
ASSETS							
Property, Plant and Equipment	23	132	202	238	325	540	767
Intangible Assets	706	959	1,176	1,406	1,930	3,033	4,260
Right of Use Assets	10	159	291	312	348	428	548
Inventories	10	6	7	9	18	21	24
Trade and Other Receivables	211	401	479	432	1,403	1,281	1,530
Other Investments	644	718	778	1,225	1,335	1,455	1,586
Cash and Bank Balances	47	445	1,091	2,145	1,373	2,196	3,412
Total Assets	**1,752**	**2,821**	**4,024**	**5,766**	**6,732**	**8,954**	**12,127**
EQUITY & LIABILITIES							
Equity							
Stated Capital	1,526	1,555	1,573	1,573	1,573	1,573	1,573
Retained Earnings	(499)	177	1,013	2,227	3,420	5,278	7,947
Employee Share Option Plan	24	17	-	30	30	30	30
Total Equity	**1,051**	**1,749**	**2,586**	**3,829**	**5,023**	**6,881**	**9,550**
Non-Current Liabilities							
Defined Benefit Obligations	39	58	75	85	85	85	85
Deferred Tax Liability	-	2	12	4	4	4	4
Lease Liabilities	1	142	248	254	311	373	467
Total Non-Current Liabilities	**40**	**201**	**334**	**343**	**400**	**462**	**556**
Current Liabilities							
Interest Bearing Loans and Borrowings	260	5	-	-	-	-	-
Trade and Other Payables	368	593	798	1,034	770	1,055	1,439
Tax Payable	23	238	234	451	451	451	451
Lease Liabilities	11	35	71	109	88	105	132
Total Current Liabilities	**661**	**871**	**1,104**	**1,594**	**1,308**	**1,611**	**2,022**
Total Liabilities	**701**	**1,072**	**1,438**	**1,936**	**1,708**	**2,073**	**2,577**
Total Equity and Liabilities	**1,752**	**2,821**	**4,024**	**5,766**	**6,732**	**8,954**	**12,127**
Adjusted NAVPS	**3.1**	**5.2**	**7.7**	**11.5**	**15.0**	**20.6**	**28.6**

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