



Asian Hotels & Properties PLC [AHPL.N0000]

STRONG BUY

June 2016

Current Price – LKR 53.2

Fair Value – LKR 73.2

4QFY16 Earnings ↑ 42%YoY

KEY DATA			
Share Price (LKR)	53.20		
52w High/Low (LKR)	69.00 / 46.50		
Average Daily Volume (Shares)	19,970		
Average Daily Turnover (LKR)	1,041,620		
Issued Share Capital (Shares mn)	442.8		
Market Capitalisation (LKR mn)	23,556		
Price Performance (%)	1 mth	3 mths	12mths
AHPL	-1%	16%	-18%
ASPI	-1%	8%	-8%
Major Shareholders as at 31st Mar 2016			
John Keells Holdings PLC	78.56%		
Employees Provident Fund	9.84%		
Sri Lanka Insurance Corporation Ltd-Life Fund	2.27%		
Bank of Ceylon A/C Ceybank Unit Trust	2.19%		
Dr. S. Yaddehige	0.77%		
Estimated Free Float	21.44%		

P/E 31 December	FY15	FY16	FY17E	FY18E	FY19E
Revenue (LKR mn)	8,081	8,067	9,505	10,331	11,060
YoY % Growth	-2%	0%	18%	9%	7%
Net Profit (LKR mn)	1,757	1,967	2,500	2,887	3,182
EPS (LKR)	4.0	4.4	5.6	6.5	7.2
YoY % Growth	-27%	12%	27%	15%	10%
Valuations					
PER (x)	13.4	12.0	9.4	8.2	7.4
PBV (x)	1.0	1.0	1.0	1.0	1.0
Div Yield (%)	7.5%	10.3%	9.6%	11.0%	12.2%
NAVPS	54.29	52.64	53.2	53.9	54.6
DPS (LKR)	4.00	5.50	5.1	5.9	6.5
Div Payout	101%	124%	90%	90%	90%

LKR (Mn)	4QFY16	4QFY15	YoY	3QFY16	QoQ
Revenue	2,333	2,018	16% ↑	2,168	8% ↑
Gross Profit	1,397	1,216	15% ↑	1,254	11% ↑
Operating profit	725	607	19% ↑	512	42% ↑
PBT	948	685	38% ↑	547	73% ↑
Net Profit	879	621	42% ↑	504	75% ↑

LKR (Mn)	1QFY16	2QFY16	3QFY16	4QFY16
Revenue	1,673	1,892	2,168	2,333
Gross Profit	920	1,071	1,254	1,397
Operating profit	290	370	512	725
PBT	336	402	547	948
Net Profit	284	356	504	879

Earnings Performance

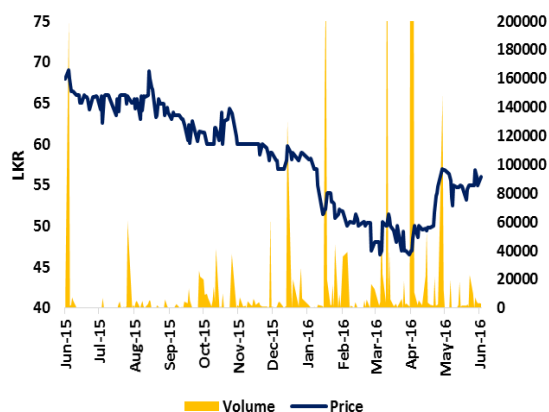
Earnings up 42%YoY: AHPL 4QFY16 earnings grew by 42%YoY to LKR 879Mn against LKR 621Mn in 4QFY15 and 75%QoQ against LKR 504Mn in 3QFY16 following the reopening of Cinnamon Lakeside after the refurbishment. Earnings for the full year FY16 was recorded as LKR 2.02Bn as against LKR 2.09Bn in FY15, marginally down by 3% affected by partial closure of Cinnamon Lakeside for essential enhancements and upgrades during the first seven months of the year.

Lakeside Avg. annual occupancy low on partial closure: Cinnamon Grand achieved an average year round occupancy of 76%, generating room revenue of LKR 2.61Bn and Cinnamon Lakeside generated LKR 1Bn from room sales with an average 43% occupancy due to the partial closure resulting in dip in overall occupancy of both hotels at 62% compared to previous year's 66%. Average Room Rate (ARR) depicted a growth of 3% during the year with Cinnamon Grand's ARR reported as LKR 18,885 and Cinnamon Lakeside LKR 18,569.

Commendable Revenue Growth Group Revenue for 4QFY16 improved by 16%YoY to LKR 2.3Bn, against LKR 2Bn in 4QFY15. On QoQ basis AHPL's revenue was up by 8% as opposed to LKR 2.2Bn in 3QFY15. Revenue for the year recorded to be LKR 8Bn, stable from the previous year owing to the partial closure of Cinnamon Lakeside. However, the group recorded a 2% growth in revenue from its restaurants and banquet spaces. Property sector dipped in terms of revenue of LKR 392Mn during the year as against LKR 417Mn in FY15.

Operating Expenses drop result in Margin expansion rise: AHPL's 4QFY16 operating expenses dipped to LKR 112Mn as opposed to LKR 127Mn the previous year resulting in an increase in Operating

Price-Volume Chart





Profit Margin for the period to 31% from 30% in 2015 despite Gross Profit Margin recording at 60%, stable from the previous year. Net Profit Margin for 4QFY16 was recorded as 38% as opposed to 31% recorded in the previous year while Net Profit Margin for the year dropped by 1% to 25% in FY16.

Future Outlook

AHPL return to be at 47%: FC Research expect AHPL earnings to record at LKR 2.5Bn in FY17E on the back of increase in revenue, owing to improved occupancy levels especially in Cinnamon Lakeside as will have a full year of operations compared to FY16's partial closure. We further expect a NP margins to increase to c.26% from 24% in FY16. AHPL fair value is rounds up to LKR 73.2 [LKR 73.0 DCF based and LKR 73.4 PER based] providing a total return of +47% (capital gain of +37% and dividend yield of +10%) at current market price of LKR 53.2. **STRONG BUY**

Boom in tourism: FC Research expect a 15%YoY growth in tourist arrivals for 2016 reaching a target of 2Mn by end December while Sri Lanka Tourism Board fixed a target of 2.2Mn visitors for 2016 with an annual growth of 22%, which may increase country's total tourism revenue. This is expected to reflect positively on AHPL's performance.

Competition by emerging City Hotels: With setting up of tourism targets, Sri Lanka has witnessed increase in room inventory as well with the growth in boutique hotels, guest houses and home stays over the past few years but has not directly affected AHPL as they were catering to a different clientele. However, FC Research expects stiff competition for AHPL given the expected growth in the five-star city hotels out of which some are branded international chains setting up in Sri Lanka offering direct competition to AHPL occupancy and ARR partly in FY18E and but primarily in FY19E and beyond.

Income Statement

Income Statement (LKR '000)	FY15	FY16E	FY17E	FY18E	FY19E
Y/E 31st March					
Revenue	8,081	8,067	9,505	10,331	11,060
Results from operating activities	2,596	2,210	3,148	3,655	4,048
Net finance income	-274	-203	-159	-177	-196
Change in Fair Value of Investment Property	49	351	130	130	130
Profit before tax	2,371	2,358	3,119	3,608	3,982
Tax expense	-264	-209	-389	-455	-506
Profit for the period	2,107	2,149	2,730	3,153	3,476
Minority Interest	-330	-182	-231	-266	-294
Net Profit	1,777	1,967	2,500	2,887	3,182

Source: Company Annual Reports and FC Research Estimates

Disclaimer on Shareholding:

First Capital Equities (Pvt) Ltd and any of its affiliates do not hold shares in AHPL and will not trade in this share for the seven trading days following the issue of this document.



Valuation

Expected AHPL price for FY17E		Return	
DCF Valuation based target price	73.0	Target Price	73.2
PER based target price	73.4	Current Price	53.2
Average Target Price	73.2	Capital Gain (LKR)	20.0
		Dividend FY17E (LKR)	5.1
		Capital Gain %	38%
		Dividend Yield %	10%
		Total Return %	47%

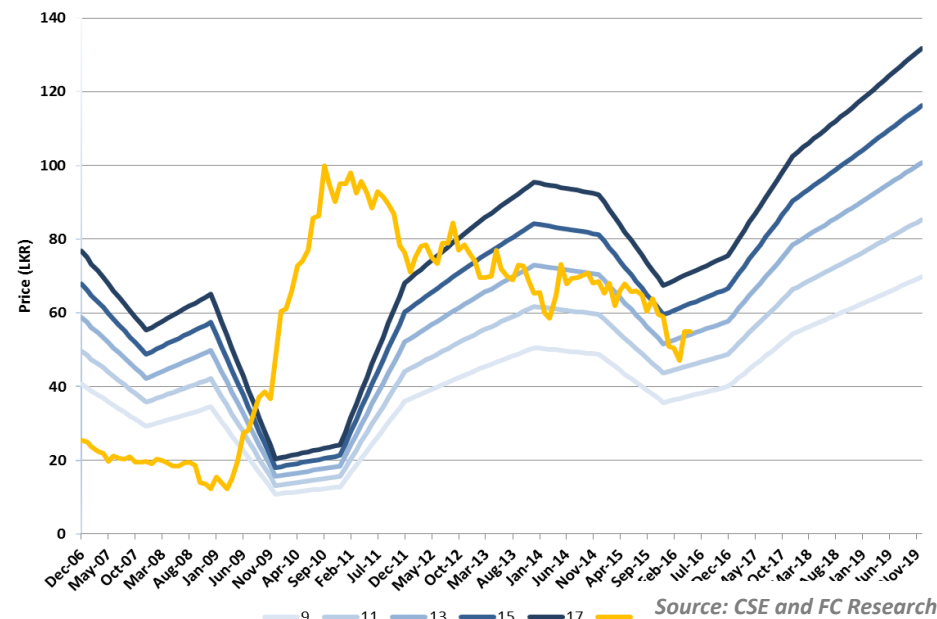
Discounted Cash flow Valuation

COE (K_e)		WACC	
R_f	10%	K_e	16%
R_m	17%	K_d	9%
β	0.8	D/E	2/98
$K_e = R_f + \beta (R_m - R_f)$	16%	Terminal Growth (%)	3%
		WACC	16%

Valuations	FY17E
NPV	32,244
(+) Cash	510
(-) Debt	(443)
Total Value of Equity	32,311
No. of shares	443
Value of Equity per share	73

Terminal Growth (%)		WACC				
		14%	15%	16%	17%	18%
1%		75	70	66	62	59
2%		80	74	69	65	61
3%		85	78	73	68	64
4%		91	84	77	72	67
5%		99	90	82	76	71

PE Band Graph



PER based Valuation

PER based Valuation	
FY17E Earnings (LKR 'Mn)	2,500
No. of Shares ('Mn)	443
FY17E EPS	5.65
Expected Average PER	13.0x
Price at 13.0x FY17E Earnings	73.4

Recommendation Criteria

Category	Company Category	Strong Buy	Buy	Hold	Sell
Grade A	S&P SL20 Companies	T.Bill + 10% & Above	T.Bill + 5% & Above	T.Bill + 1% & Above	Below T.Bill + 1%
Grade B	Rest of the Companies	T.Bill + 13% & Above	T.Bill + 8% & Above	T.Bill + 3% & Above	Below T.Bill + 3%
Grade C	Companies less than LKR 1Bn Market Cap	T.Bill + 16% & Above	T.Bill + 11% & Above	T.Bill + 6% & Above	Below T.Bill + 6%

*1 Year T Bill rate as of 29-06-2016 - 10.55%