



## ASIAN HOTELS & PROPERTIES PLC

## DOWNGRADE FROM STRONG BUY TO BUY

Jul 2017

Current Price – LKR 57.0

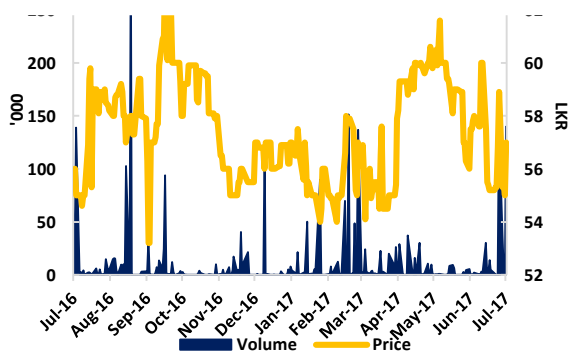
Fair Value – LKR 69.0

4QFY17 Earnings ▲ 18%YoY

### KEY DATA

Share Price (LKR)	57.00		
52w High/Low (LKR)	63.00 / 53.20		
Average Daily Volume (Shares)	10,842		
Average Daily Turnover (LKR)	619,234		
Issued Share Capital (Shares mn)	442.8		
Market Capitalisation (LKR mn)	25,238		
Price Performance (%)	1 mth	3 mths	12mths
AHPL	-1%	-2%	3%
ASPI	0%	3%	4%
<b>Major Shareholders as at 31st Mar 2017</b>			
John Keells Holdings PLC	78.56%		
Employees Provident Fund	10.22%		
Sri Lanka Insurance Corporation Ltd-Life Fund	2.27%		
Bank of Ceylon A/C Ceybank Unit Trust	2.24%		
Dr. S. Yaddheghe	0.77%		
Estimated Free Float	21.44%		

### Price – Volume Chart



Source: CSE

### Discount for Liquidity:

The fair value of AHPL has been adjusted 10% downwards to reflect the lower trading volumes of the share compared to the average trading volume of the market.

### “Intense competition to shackle earnings”

P/E 31 March	FY16	FY17	FY18E	FY19E	FY20E
Revenue (LKR mn)	8,067	9,067	9,459	9,823	10,186
YoY % Growth	0%	12%	4%	4%	4%
Net Profit (LKR mn)	1,841	2,265	2,390	2,273	2,145
EPS	4.2	5.1	5.4	5.1	4.8
YoY % Growth	5%	23%	5%	-5%	-6%
<b>Valuations</b>					
PER (x)	13.7	11.1	10.6	11.1	11.8
PBV (x)	1.1	0.8	0.8	0.7	0.7
Div Yield (%)	9.6%	7.0%	7.6%	7.2%	6.8%
NAVPS	52.6	74.8	75.9	76.9	77.9
DPS (LKR)	5.50	4.00	4.3	4.1	3.9
Div Payout	132%	78%	80%	80%	80%

LKR (Mn)	4QFY17	4QFY16	YoY	3QFY17	QoQ
Revenue	2,306	2,333	-1% <span style="color: red;">▼</span>	2,480	-7% <span style="color: red;">▼</span>
Gross Profit	1,360	1,397	-3% <span style="color: red;">▼</span>	1,441	-6% <span style="color: red;">▼</span>
Operating Profit	708	725	-2% <span style="color: red;">▼</span>	692	2% <span style="color: green;">▲</span>
PBT	1,188	948	25% <span style="color: green;">▲</span>	743	60% <span style="color: green;">▲</span>
Net Profit (Equity)	828	705	18% <span style="color: green;">▲</span>	553	50% <span style="color: green;">▲</span>

LKR (Mn)	1QFY17	2QFY17	3QFY17	4QFY17
Revenue	1,909	2,372	2,480	2,306
Gross Profit	1,087	1,426	1,441	1,360
Gross Margin	57%	60%	58%	59%
Operating Profit	419	676	692	708
Operating Margin	22%	28%	28%	31%
PBT	448	707	743	1,188
Net Profit (Equity)	339	546	553	828
Net Margin	18%	23%	22%	36%

### ANALYST CERTIFICATIONS AND REQUIRED DISCLOSURES BEGIN ON PAGE 6

### Disclosure on Shareholding:

First Capital Group and its affiliates do not hold shares in AHPL and will not trade in this share for the three trading days following the issue of this document.

### Earnings Performance

**Earnings up by 18%YoY:** AHPL 4QFY17 earnings grew by 18%YoY to LKR 828Mn against LKR 705Mn in 4QFY16 and 50%QoQ against LKR 553Mn in 3QFY17. Earnings attributable to owners for the full year FY17 was recorded at LKR 2.3Bn as against LKR 1.8Bn in FY16, up by 23%YoY supported by regained earnings of Cinnamon Lakeside after refurbishment during previous financial year.

**Marginal dip in Revenue:** Group Revenue for 4QFY17 dipped by 1%YoY to LKR 2.3Bn against 4QFY16. LKR 2Bn in 4QFY15. On QoQ basis AHPL's revenue was down by 7% as opposed to LKR 2.5Bn in 3QFY16. Revenue for the year recorded to be LKR 9Bn, against LKR 8Bn recorded in previous year. Room revenue increased by 12%YoY while revenue from food and beverage increased by 9%YoY. Rental income from investment property grew by 5%YoY.

**Cinnamon Grand average annual occupancy drops:** With significant rise in room inventory in the three-star and four-star categories, Cinnamon Grand saw a decline in room occupancy in FY17, from 76% to 72%. However group occupancy levels improved from 62% to 69% in FY17 supported by Lakeside's boost in occupancy from 43% to 64% following the refurbishment.

**Average Room Rate at Lakeside Dips:** The annual average room rate at Lakeside in US Dollar terms dipped by USD 4 to USD 128, nearly 3% from USD 132 achieved in the previous year. However depreciation of LKR against USD by 6% has affected positively on hotel's room revenue.



**GP Margin recorded at 59%:** Gross Profit for 4QFY17 dropped by 3%YoY and 6%QoQ to LKR 1.36Bn from LKR 1.4Bn in 4QFY16 and LKR 1.44Bn in 3QFY17 respectively. GP Margin for the quarter was recorded at 59%, an increase by 1% compared to 3QFY17 amidst tight cost controls.

**Operating Profits decline by 2%YoY:** Resultant to drop in gross profits and increase in admin expenses by 9%YoY operating profits for AHPL dropped to LKR 708Mn from LKR 725Mn recorded in the previous year. Operating profits for the quarter had declined amidst a noticeable 13%YoY and 12%QoQ drop in Distribution cost. Operating margin remained unchanged at 31% from 4QFY16.

**PBT increase by 25%YoY owing to increase in Fair Value of Investment Property:** PBT for 4QFY17 was recorded to be LKR 1.18Bn against LKR 948Mn in 4QFY16, up by 25%YoY. The increase is due to increase in fair value of investment property by LKR 339Mn which is accounted for in the final quarter of each financial year. Excluding revaluation gain on investment property PBT for the quarter increased by 9%YoY and 6%QoQ to LKR 789Mn.

**NP Margin at 36%:** NP Margin of equity holders for the quarter was registered at 36%. Fair value gain on investment property has led the NP Margin to improve from 30% in 4QFY16 and 22% in 3QFY17.

### Future Outlook

**Increase in competition arising from increase in room inventory:** With the surge in tourism and Sri Lanka targeting 2.5Mn tourists for 2017, room inventory is expected to increase to accommodate the increasing arrivals, which would in turn boost the competition among hotels affecting AHPL's performance. In 2016 alone the number of Hotels and Restaurants increased by 9.5% to 3,383 while total rooms in Graded Establishments and Supplementary Establishments grew by 13% to 33,871 units.

**Average Room Rates may be affected:** In order to remain competitive in the city hotel market, particularly with internationally recognized star class hotels commencing operations during FY18, AHPL may have to lower its rates. With hampered occupancies lower average room rate may create a disadvantageous condition.

**GP Margin to drop to 57%:** With intense competition created by increased room inventory AHPL may bring down its average room rates that would affect their GP Margins. GP margin for FY18E and FY19E is expected to record at c.57% and c.55% respectively.

**Earnings to reach LKR 2.3Bn in FY19E:** AHPL FY19E earnings is expected to reach LKR 2.3Bn.

### Recommendation

**Total return of 20.2% over 20 Months period:** FC recommends a BUY on AHPL.N with a fair value of LKR 69.0 [average of LKR 84.0 on DCF based and LKR 61.6 on PER based with an illiquidity discount of 5%] providing an annualized total return of 20.2%. **BUY**

### Investment risks

**Intense competition and new entrants:** AHPL may reduce its market share and lose revenue as a result of strong competition by other city hotels and potential new entrants creating an adverse impact on profitability and cash flow

**Unfavorable economic conditions:** Unfavourable changes in the economy may have an undesirable impact on tourists spending which may affect negatively on AHPL's performance.



### Valuation Summary

Expected AHPL price	FY19E
DCF Valuation based target price	84.0
PER based target price	61.6
Average Target Price	72.8
Discount for illiquidity	5%
Average Target Price with Disc.	69.1
Target price (Rounded up)	69.0

Return	FY19E
Target Price	69.0
Current Price	57.0
Capital Gain (LKR)	12.0
Dividend (LKR) FY18E	4.3
Dividend (LKR) FY19E	4.1
Capital Gain %	21%
Dividend Yield %	15%
Total Return % (20 months)	35.8%
Annualized Return %	20.2%

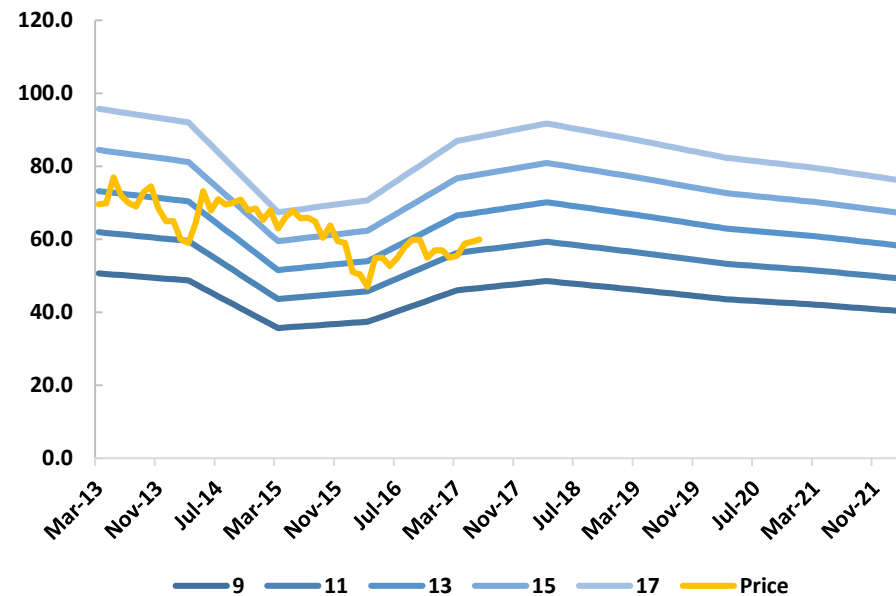
### DCF Valuation

Valuations	FY19E
NPV	36,113
(+) Cash	1,281
(-) Debt	(210)
Total Value of Equity	37,184
No. of shares	443
Value of Equity per share	84.0

COE ( $K_e$ )		WACC	
$R_f$	10%	$K_e$	17%
$R_m$	17%	$K_d$	13%
$\beta$	0.9	D/E Assumption	40 / 60
$K_e = R_f + \beta (R_m - R_f)$	17%	Terminal Growth	3%
		WACC	15%

FY19E	Terminal Growth (%)	WACC				
		13%	14%	15%	16%	17%
1%		96.8	89.3	83.0	77.9	73.4
2%		97.4	89.9	83.5	78.3	73.8
3%		98.0	90.4	84.0	78.8	74.2
4%		98.6	91.0	84.5	79.2	74.6
5%		99.2	91.5	84.9	79.6	75.0

### PER Valuation



Source: CSE and FC Research Estimates

PER based Valuation	FY19E
Earnings (LKR 'Mn)	2,273
No. of Shares ('Mn)	443
EPS	5.13
Expected Average PER	12.0x
Price at 12.0x Earnings	61.6

### Recommendation criteria

Categorization	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 19-07-2017 – 10.18%



## Annex I – Income Statement

Income Statement (LKR mn) Y/E 31st March	FY16	FY17	FY18E	FY19E	FY20E
Revenue	8,067	9,067	9,459	9,823	10,186
Cost of sales	-3,424	-3,753	-4,090	-4,438	-4,804
Gross profit	4,643	5,314	5,369	5,385	5,382
Dividend Income	0	0	0	0	0
Other operating income	77	83	87	90	93
Distribution expenses	-327	-355	-385	-419	-457
Administrative expenses	-1,916	-2,078	-2,204	-2,337	-2,463
Other operating expenses	-579	-471	-478	-485	-491
Results from operating activities	1,897	2,494	2,390	2,234	2,063
Finance cost	-47	-29	-15	-15	-15
Finance income	157	222	222	222	222
Net finance income	110	193	206	206	206
Change in Fair Value of Investment Property	225	399	399	399	399
Profit before tax	2,231	3,086	3,202	3,046	2,875
Tax expense	-209	-307	-288	-274	-259
Profit for the period	2,023	2,779	2,914	2,772	2,616
Attributable to:					
Owners of the Company	1,841	2,265	2,390	2,273	2,145
Non-Controlling Interest	182	514	525	499	471
	2,023	2,779	2,914	2,772	2,616
EPS	4.2	5.1	5.4	5.1	4.8

Source: Company Annual Reports and FC Research Estimates

## Annex II – Balance Sheet

Balance Sheet (LKR mn) As at 31st March	FY16	FY17	FY18E	FY19E	FY20E
<b>ASSETS</b>					
<b>Non Current Assets</b>					
Property, Plant and Equipment	21,291	30,396	30,245	30,061	29,894
Lease Hold Property	794	781	769	757	744
Investment Property	4,165	4,565	4,964	5,363	5,762
Intangible Assets	3	2	2	2	1
Investment in Subsidiary	0	0	0	0	0
Non Current Financial Assets	25	36	36	36	36
Other Non Current Assets	4	7	7	7	7
<b>Total Non current Assets</b>	<b>26,281</b>	<b>35,787</b>	<b>36,022</b>	<b>36,224</b>	<b>36,444</b>
<b>Current Assets</b>					
Inventories	126	149	150	152	153
Trade and Other Receivables	783	757	765	772	780
Amounts Due from Related Parties	88	108	108	108	108
Other Current Assets	122	172	172	172	172
Short Term Investments	1,199	1,584	1,600	1,616	1,632
Cash In Hand and at Bank	505	636	976	1,281	1,524
<b>Total Current Assets</b>	<b>2,822</b>	<b>3,405</b>	<b>3,770</b>	<b>4,101</b>	<b>4,369</b>
<b>Total Assets</b>	<b>29,103</b>	<b>39,192</b>	<b>39,792</b>	<b>40,325</b>	<b>40,813</b>
<b>EQUITY &amp; LIABILITIES</b>					
<b>Equity attributable to owners of the company</b>					
Stated Capital	3,345	3,345	3,345	3,345	3,345
Revenue Reserves	7,140	7,624	8,102	8,557	8,986
Other Components of Equity	12,824	22,139	22,139	22,139	22,139
	23,309	33,109	33,587	34,041	34,470
Non-Controlling Interest	3,227	3,400	3,515	3,615	3,709
<b>Total Equity</b>	<b>26,537</b>	<b>36,509</b>	<b>37,102</b>	<b>37,656</b>	<b>38,179</b>
<b>Non Current Liabilities</b>					
Interest Bearing Borrowings	360	256	174	126	78
Deferred Tax Liabilities	345	346	346	346	346
Employee Benefit Liabilities	274	306	306	306	306
<b>Total Non Current Liabilities</b>	<b>979</b>	<b>909</b>	<b>826</b>	<b>778</b>	<b>730</b>
<b>Current Liabilities</b>					
Trade and Other Payables	769	731	776	821	867
Amounts Due to Related Parties	113	94	94	94	94
Income Tax Liabilities	63	205	247	260	260
Current Portion of Borrowings	83	114	116	84	52
Other Current Liabilities	384	470	470	470	470
Bank Overdrafts	177	161	161	161	161
<b>Total Current Liabilities</b>	<b>1,588</b>	<b>1,775</b>	<b>1,863</b>	<b>1,890</b>	<b>1,903</b>
<b>Total Liabilities</b>	<b>2,567</b>	<b>2,683</b>	<b>2,690</b>	<b>2,669</b>	<b>2,633</b>
<b>Total Equity and Liabilities</b>	<b>29,103</b>	<b>39,192</b>	<b>39,792</b>	<b>40,325</b>	<b>40,813</b>

Source: Company Annual Reports and FC Research Estimates



## Annex III – Cash Flow Statement

Cashflow Statement (LKR mn)	FY16	FY17	FY18E	FY19E	FY20E
<b>Y/E 31st March</b>					
Profit before Tax	2,231	3,086	3,202	3,046	2,875
Adjustments for:					
Finance Income	-157	-222	-222	-222	-222
Dividend Income	0	0	0	0	0
Finance Cost	6	18	15	15	15
Change in Fair Value of Investment Property	-225	-399	-399	-399	-399
Depreciation of Property, Plant and Equipment	513	532	496	504	511
(Profit) / Loss on Disposal of Property, Plant & Equipment	2	0	0	0	0
(Profit) / Loss on Disposal of Intangible Assets	0	1	0	0	0
Amortisation of Leasehold Properties	12	12	12	12	12
Amortisation of Intangible Assets	1	1	1	1	1
Provision /(Reversal) for Doubtful Debts	-6	0	0	0	0
Gratuity Charge and Related Costs	47	54	0	0	0
Project Costs	0	0	0	0	0
Share Based Payment Expenses	27	27	0	0	0
Provision made on slow moving Inventory	1	1	0	0	0
Unrealised gain/loss on Foreign Exchange	42	11	0	0	0
Written off of Capital Work In Progress	0	0	0	0	0
Insurance Claim Receivables	25	2	0	0	0
	<b>2,519</b>	<b>3,124</b>	<b>3,106</b>	<b>2,957</b>	<b>2,793</b>
<b>Cash Flows from Operating Activities</b>					
Operating Profit Before Working Capital Changes	2,519	3,124	3,106	2,957	2,793
(Increase) / Decrease in Inventories	-6	-24	-1	-2	-2
(Increase) / Decrease in Trade and Other Receivables	-137	25	-8	-8	-8
(Increase) / Decrease Amounts Due from Related Parties	-21	-20	0	0	0
(Increase) / Decrease Other Current Assets	3	-50	0	0	0
Increase / (Decrease) Trade and Other Payables	86	-38	45	45	45
Increase / (Decrease) Amounts Due to Related Parties	1	-19	0	0	0
Increase / (Decrease) Other Current Liabilities	51	87	0	0	0
Cash Generated from Operations	2,495	3,086	3,142	2,993	2,829
Finance Income Received	157	222	222	222	222
Finance Cost Paid	-6	-18	-15	-15	-15
Dividend Received	0	0	0	0	0
Super Gain Tax Paid	-264	0	0	0	0
Tax Paid	-279	-162	-247	-260	-260
Gratuity Paid	-29	-48	0	0	0
<b>Net Cash Flow from Operating Activities</b>	<b>2,074</b>	<b>3,080</b>	<b>3,102</b>	<b>2,939</b>	<b>2,776</b>
<b>Cash Flows from/(used in) Investing Activities</b>					
Purchase / Transfers and Construction of Property, Plant and Equipment	-1,136	-355	-345	-320	-344
Addition to Work-in-Progress	0	0	0	0	0
Addition to Investment Property	-5	0	0	0	0
Addition to Intangible Assets	-1	-1	-1	0	0
Proceeds from Sale of Property, Plant & Equipment	10	17	0	0	0
Net Proceeds from Other Assets	-14	-14	0	0	0
<b>Net Cash flow used in Investing Activities</b>	<b>-1,146</b>	<b>-353</b>	<b>-345</b>	<b>-320</b>	<b>-344</b>
<b>Cash Flows from / (used in) Financing Activities</b>					
Dividend Paid to Equity Holders of Parent	-2,435	-1,771	-1,912	-1,818	-1,716
Dividend Paid to shareholders with non-controlling interest	-226	-340	-409	-399	-377
Repayment of Long Term Borrowings	401	-84	-80	-80	-80
<b>Net Cash Flow used in Financing Activities</b>	<b>-2,260</b>	<b>-2,195</b>	<b>-2,401</b>	<b>-2,297</b>	<b>-2,173</b>
<b>Net Increase / (Decrease) in Cash and Cash Equivalents</b>	<b>-1,332</b>	<b>532</b>	<b>356</b>	<b>322</b>	<b>259</b>
Cash and Cash Equivalents at the beginning of the year	2,859	1,527	2,059	2,415	2,736
Cash and Cash Equivalents at the end of the year	1,527	2,059	2,415	2,736	2,995
<b>Analysis of Cash and Cash Equivalents</b>					
<b>Favourable Balances</b>					
Cash and Bank	505	636	976	1,281	1,524
Short Term Investments	1,199	1,584	1,600	1,616	1,632
<b>Unfavourable Balances</b>					
Bank Overdrafts	-177	-161	-161	-161	-161
<b>Total Cash and Cash Equivalents</b>	<b>1,527</b>	<b>2,059</b>	<b>2,415</b>	<b>2,736</b>	<b>2,995</b>

## Annex III – Key ratios

	Y/E 31st Mar	FY16	FY17	FY18E	FY19E	FY20E
<b>Growth</b>	Revenue	0%	12%	4%	4%	4%
	Cost of Sales	2%	10%	9%	9%	8%
	Gross Profit	-2%	14%	1%	0%	0%
	Operating Profit	-11%	31%	-4%	-7%	-8%
	Net Profit	5%	23%	5%	-5%	-6%
<b>Margin</b>	GP Margin	58%	59%	57%	55%	53%
	OP Margin	24%	28%	25%	23%	20%
	NP Margin	23%	25%	25%	23%	21%
<b>Gearing</b>	Debt/Equity	2%	1%	1%	1%	0%
	Debt/Debt+Equity	2%	1%	1%	1%	0%

Source: Company Annual Reports and FC Research Estimates



First Capital

# FC Research

Analyst: Michelle Weerasinghe

SRI LANKA

Earnings Update

## Research Disclosure

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First Capital

# FC Research

Analyst: Michelle Weerasinghe

SRI LANKA

Earnings Update

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