

**JOHN KEELLS HOLDINGS PLC [JKH.N0000]****MAINTAIN BUY****STRATEGY SPUR THE UPRISING****Fair Value [FY19E]: LKR 210.0 [+57%]****Total Return with DPS 61% [AER of 144%]**

JKH's earnings decreased by 23%YoY in the 1QFY19 falling below our expectation, mainly due to lacklustre performance in key segments; Retail, Consumer and Leisure recording a decline in earnings offsetting the growth in Transport and Financial Services sectors. We maintain recurring earnings growth at 11%YoY for FY19E on the back of long term investments generating earnings and thereby maintain TP at LKR 210.0. Maintain BUY.

LKR (Mn)	1QFY18	1QFY19	YoY	FY17	FY18	YoY
Earnings (LKR 'Mn)						
Revenue	26,822	30,163	+12%	106,273	121,215	+14%
Gross profit	6,706	5,591	-17%	31,115	29,283	-6%
EBIT	2,145	683	-68%	14,374	11,462	-20%
PBT	4,088	2,909	-29%	22,888	27,634	+21%
Net Profit	2,833	2,186	-23%	16,275	21,021	+29%
Balance Sheet (LKR 'Mn)						
Shareholders' Equity	179,933	200,322	+11%	178,635	199,920	+12%
Short Term Investments	43,605	56,598	+30%	41,692	64,386	+54%
NAVPS	129.7	144.4		128.8	144.1	

1QFY19 earnings down by 23%YoY on consumer demand crash and losses in hotels

JKH recorded earnings of LKR 2.2Bn in 1QFY19 down by 23%YoY, mainly due to decline in earnings in Leisure leading to lower profitability in city hotels and impairment loss on closure of the hotel for re-construction. We estimated the 1Q earnings to be LKR 2.6Bn (-10%) which fell below our expectation due to consumption demand crash and losses in hotels. Consumer food and retail sector performed below expectations while compensated by the Transport and Finance sector performing above expectations. Thereby we maintain FY19E and FY20E earnings at LKR 18Bn (+11%YoY) and LKR 27Bn (+45%YoY).

Lower occupancy and refurbishment affect Leisure sector

JKH leisure segment EBIT dipped by 381%YoY due to loss of LKR 317Mn from LKR 112Mn profit led by the lower occupancy in city hotels and a non-cash impact of LKR 202Mn which was recorded at "Cinnamon Hakuraa Huraa Maldives" because of an impairment loss on non-financial assets arising from the closure of the hotel for re-construction. In addition, "Ellaidhoo Maldives by Cinnamon" is partially closed for on-going refurbishment.

Weak consumer sentiment and decline volume hit Consumer Food and Retail segment

Consumer segment EBIT dropped to LKR 316Mn in 1QFY19 from LKR 610Mn in 1QFY18 due to the 37% decline in volume of the beverage business on the back of implementation of a sugar tax resulting in a substantial increase in price across the industry. Retail segment EBIT dropped 37%YoY to LKR 300Mn from LKR 474Mn by depressed basket values due to weak consumer sentiment and store expansion related costs. During 1QFY19 two new stores were opened while 20 new store branding initiatives are underway. Rebranding of the existing stores are expected to conclude by 3QFY19E.

Finance sector strong contributor to JKH bottom-line

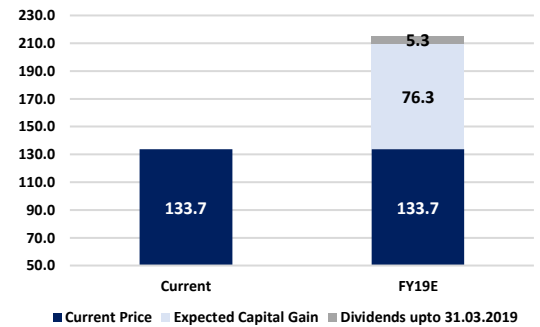
JKH financial segment profit increased by 131%YoY primarily driven by 13%YoY growth of Gross written premium in UAL and NTB's steady loan growth boosted sector performance above our estimates.

Cinnamon Life & new property projects to lead earnings beyond FY19

We expect Cinnamon Life's residential space construction to be completed by end FY20. As at 30th June 2018, 62% of the floor area of the apartment segment has been sold. JKH's investment pipeline exceeds USD 600Mn over the next 2 years, while the realization of benefit from these investments is expected from FY20E and beyond. Around USD 160Mn of these investments are funded through internal cash.

We maintain BUY on JKH on the back of Waterfront project

On the back of long term earnings generating investment we maintain earnings for FY19E and thereby we maintain TP at LKR 210.0. Maintain BUY.

**FIRST CAPITAL RESEARCH**

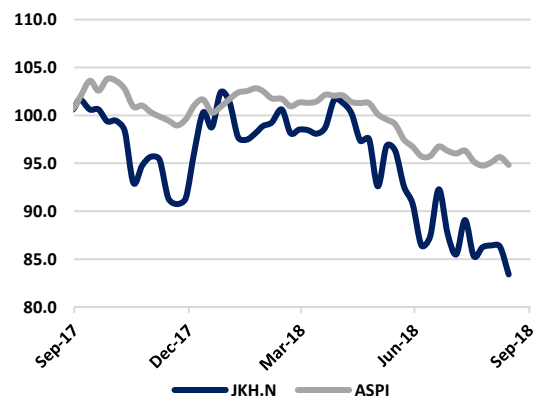
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CSE Ticker	JKH.N0000
Bloomberg Ticker	JKH SL
Share Price (LKR)	133.70
52w High (LKR)	165.90
52w Low (LKR)	133.70
Avg. Daily Volume (Shares)	490,843
Avg. Daily Turnover (LKR)	69,981,571
Issued Share Capital (Shares 'Mn)	1,375
Market Cap (LKR 'Mn)	183,774
Market Cap (USD 'Mn)	1,141
*1 USD = LKR 163	

Price Performance (%)	1 mth	3 mths	12mths
JKH	-5%	-14%	-17%
ASPI	-1%	-5%	-5%

**Minimum Return for BUY:****Buy Below [AER of 15% with DPS]: LKR 196.0**

JKH categorized as 'Grade A' counter (Refer page 08 for Recommendation criteria of Grade A, B & C Stocks)

Disclosure on Shareholding:

First Capital Group hold 210,000 shares in JKH and will not trade in this share for three trading days following the issue of this document.



Estimate Revision

In LKR Mn	FY19E - O	FY19E - R	% Change	FY20E - O	FY20E - R	% Change
Earnings Estimate						
Revenue	138,139	138,139	0%	177,502	177,502	0%
EBIT	14,587	14,587	0%	25,680	25,680	0%
PBT	25,458	25,458	0%	36,984	36,984	0%
Net profit	20,151	20,151	0%	29,275	29,275	0%
Profit to Equity Holders	18,337	18,337	0%	26,640	26,640	0%
Adjusted EPS	13.3	13.3		19.4	19.4	
Growth YoY	11%	11%		45%	45%	
Balance Sheet Estimate						
Shareholders' Equity	210,923	210,923	0%	229,570	229,570	0%
Short Term Investments	70,825	70,825	0%	74,366	74,366	0%
Adjusted NAVPS	153.5	153.5		160.7	167.0	
Ratio Estimate						
PER (x)	10.0	10.0		6.9	6.9	
PBV (x)	1.2	1.1		1.0	1.0	
Div Yield (%)	4%	4%		4%	4%	

Valuation Table

P/E 31 December	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Estimates (LKR 'Mn)							
Revenue	91,852	93,709	106,273	121,215	138,139	177,502	192,303
EBIT	10,303	10,233	12,339	16,889	14,587	25,680	21,200
Net Profit	14,349	14,070	16,275	21,021	18,337	26,640	23,717
Adjusted Net Profit	14,349	14,070	16,275	16,521	18,337	26,640	23,717
Adjusted EPS (LKR)	10.4	10.2	11.8	12.0	13.3	19.4	17.3
YoY Growth (%)	-1%	-2%	16%	2%	11%	45%	-11%
Valuations							
PER (x)	12.8x	13.1x	11.3x	11.1x	10.0x	6.9x	7.7x
PBV (x)	1.7x	1.9x	1.7x	1.2x	1.1x	1.0x	0.9x
DY (%)	1.9%	4.4%	4.0%	4.5%	4.0%	4.3%	3.9%

Valuation Summary

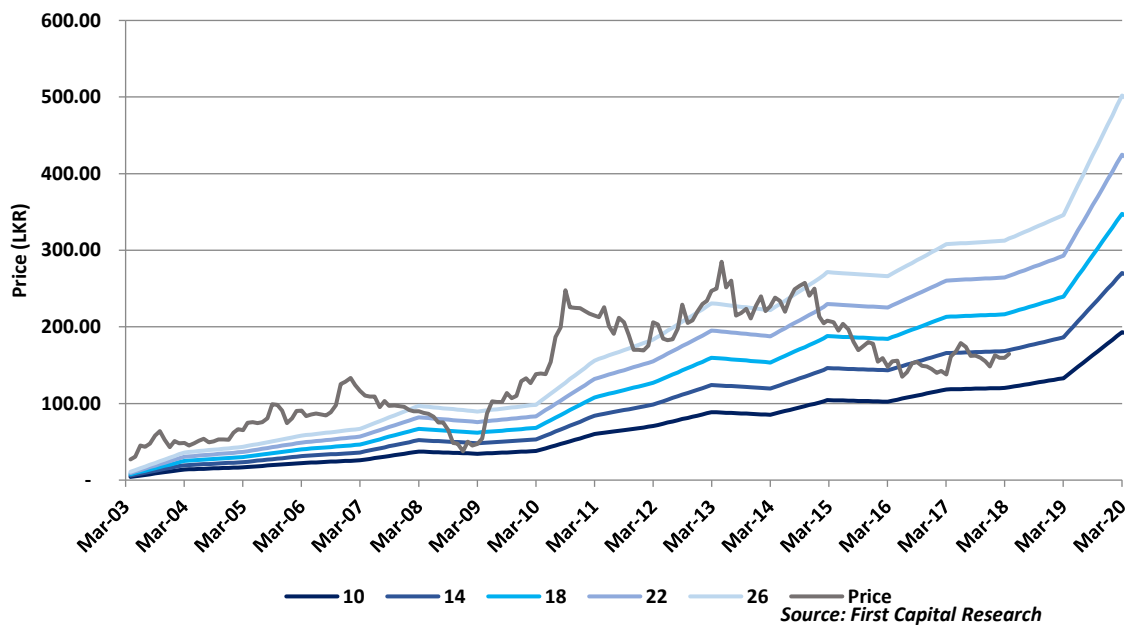
Return	
Target Price	210.0
Current Price	133.7
Capital Gain (LKR)	76.3
Dividends upto 31.03.2019 (LKR)	5.3
Capital Gain %	57%
Dividend Yield %	4%
Total Return %	61%
Annualized Return %	144%



SOTP Valuation

Segment	Valuation method	Valuation assumptions				Value in LKR Mn		Value per share	% of total
		D/E	CoE	WACC	Growth	Firm value	Equity		
Transportation	DCF	48/52	18%	12%	3%	18,030		13.0	8%
Leisure	DCF	40/60	17%	15%	3%	68,412		30.2	18%
Property	DCF	40/60	18%	16%	3%	40,660		29.3	17%
Consumer Foods & Retail	DCF	40/60	18%	13%	3%	124,110		89.5	53%
Financial Services	Justified PBV		16%		3%		7,533	5.4	3%
Information Technology	PBV						1,484	1.1	1%
Fair value before net debt								168.5	100%
Less: Debt								13.4	
Add: Cash								1.3	
Add: Short Term Investment								51.1	
Fair value								207.5	
Target Price after Rounding up								210.0	

PER Valuation





Appendix I: Statement of Income & Expenses

Income Statement (LKR Mn) Y/E 31st March	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Revenue	91,852	93,709	106,273	121,215	138,139	177,502	192,303
EBIT by Sector							
Transportation	304	560	2,652	1,009	865	952	1,048
Leisure	5,426	5,028	5,714	3,753	5,541	6,207	7,435
Property	1,528	1,620	541	686	330	9,273	1,877
Consumer Foods & Retail	2,487	4,322	5,147	3,970	6,532	7,796	9,282
Financial Services	973	717	935	7,101	1,237	1,442	1,680
Information Technology	353	-334	-572	654	427	470	517
Other	-768	-1,681	-2,078	-282	-344	-460	-640
EBIT	10,303	10,303	12,339	16,889	14,587	25,680	21,200
Finance Cost	-668	-392	-419	-521	-403	-282	-198
Finance Income	4,696	5,549	6,717	7,357	6,761	6,534	6,860
Change in fair value of inv. pro	49	263	484	896	1,000	1,200	1,500
Share of profit of Associates	2,778	2,781	3,303	3,596	4,156	4,560	4,341
Adjustments	1,400	763	464	-584	-643	-707	-778
PBT	18,557	19,198	22,888	27,634	25,458	36,984	32,926
Taxation	-2,812	-3,406	-4,771	-4,515	-5,307	-7,709	-6,864
Net profit for the period	15,746	15,792	18,117	23,120	20,151	29,275	26,063
Minority Interest	-1,397	-1,722	-1,842	-2,099	-1,814	-2,635	-2,346
Profit attributable to Equity Holders	14,349	14,070	16,275	21,021	18,337	26,640	23,717
Recurring Profit	14,349	14,070	16,275	16,521	18,337	26,640	23,717
EPS	10.4	10.2	11.8	15.3	13.3	19.4	17.3
Adjusted EPS	10.4	10.2	11.8	12.0	13.3	19.4	17.3

Source : Company Annual Reports and First Capital Research Estimates



Appendix II: Statement of Financial Position

Balance Sheet (LKR Mn)	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
As at 31st March							
Non current assets							
Property plant and equipment	49,563	52,736	64,396	87,260	88,328	89,324	90,337
Investment Property	4,609	4,878	5,366	12,427	13,918	15,589	17,459
Intangible Assets	2,719	2,338	2,118	2,010	2,010	2,010	2,010
Other Investments	16,345	16,950	17,719	22,335	26,491	31,051	35,392
Other Non Current Financial Assets	19,709	22,635	27,667	32,878	33,207	34,867	35,216
Other Non Current Assets	34,648	46,575	41,836	53,731	56,418	56,982	65,530
	127,593	146,113	172,308	223,647	237,714	247,164	263,284
Current Assets							
Inventories	5,589	4,665	5,606	6,690	7,624	9,796	10,613
Trade and Other Receivables	10,270	9,999	11,687	12,273	13,987	17,973	19,471
Amounts due from related parties	185	133	112	140	140	140	140
Other Current Assets	2,398	2,303	3,265	4,390	4,390	4,390	4,390
Short Term Investments	67,541	72,635	79,174	64,386	70,825	74,366	78,084
Cash and cash equivalents	4,511	5,127	5,119	10,883	1,800	11,077	14,294
	90,493	94,863	104,964	98,762	98,765	117,742	126,992
Total Assets	218,086	240,976	277,272	322,409	336,479	364,906	390,277
Equity and Liabilities							
Capital and reserves							
Ordinary shares	50,703	58,702	62,790	62,802	62,802	62,802	62,803
Reserves	87,095	96,280	115,845	137,118	148,120	166,768	183,370
Shareholders Funds	137,798	154,982	178,635	199,920	210,923	229,570	246,173
Minority Interest	12,279	13,499	15,696	24,944	26,758	29,393	31,738
	150,077	168,480	194,330	224,865	237,681	258,963	277,912
Non - current liabilities							
Insurance contract Liabilities	23,932	27,205	31,700	30,231	34,765	39,980	45,977
Borrowings	4,900	13,707	14,203	18,521	12,965	9,075	6,353
Employee benefit liabilities	1,495	1,661	1,880	1,971	1,971	1,971	1,971
Other	2,511	5,986	7,109	13,985	15,383	16,922	18,614
	32,837	48,559	54,892	64,708	65,085	67,948	72,915
Current liabilities							
Trade and other payables	11,267	12,755	14,136	16,077	18,322	23,543	25,506
Amounts due to related parties	26	29	10	5	5	5	5
Current tax liabilities	1,592	1,873	2,395	2,079	2,079	2,079	2,079
Borrowings	17,082	3,813	4,299	5,191	3,634	2,544	1,781
Other	3,252	2,235	2,944	3,513	3,513	3,513	3,513
Bank overdraft	1,952	3,230	4,264	6,010	6,010	6,010	6,010
	35,172	23,936	28,049	32,876	33,563	37,694	38,894
Total liabilities	68,009	72,495	82,941	97,584	98,648	105,642	111,809
Total equity & liabilities	218,086	240,975	277,272	322,448	336,329	364,606	389,721
NAVPS	100.3	112.8	130.0	145.4	153.5	167.0	179.1

Source : Company Annual Reports and First Capital Research Estimates



Appendix III: Statement of Cash flow

Cashflow Statement (LKR Y/E 31st March	FY15	FY16	FY17	FY18E	FY19E	FY20E	FY21E
Profit before tax	18,557	19,198	22,888	27,634	25,458	36,984	32,926
Adjustments	-7,170	-4,621	-8,639	-10,405	-6,431	-6,657	-6,763
Net Change in Working Capital	1,750	-27	-467	-10,202	261	2,352	-2,861
Operating Activities							
Interest Received	7,414	8,118	9,536	11,069	6,761	6,534	6,860
Interest Paid	-655	-956	-303	-521	-403	-282	-198
Dividend Received	2,397	2,588	2,854	2,943	0	0	0
Tax Paid	-1,294	-2,520	-4,631	-4,204	-5,307	-7,709	-6,864
Gratuity Paid	-144	-171	-219	-302	0	0	1
Cash from operations	20,855	20,513	21,020	16,012	20,339	31,221	23,102
Investing activities							
Net PPE, Intangible Assets and In	-3,185	-5,358	-7,107	-14,935	-6,491	-6,670	-6,870
Acquisition and Increased stakes	-113	-53	-44	-3,512	0	0	0
Net other Non Current investment	2,043	-4,155	-10,519	1,807	0	0	0
Cash from investments	-1,255	-9,567	-17,670	-16,640	-6,491	-6,670	-6,870
Financing Activities							
Proceeds from New Share Issue	954	7,999	4,088	9	0	0	1
Net proceeds from loans & borro	-1,519	-5,989	416	4,785	-7,114	-4,980	-3,486
Dividends	-3,476	-8,038	-7,280	-8,325	-7,335	-7,992	-7,115
Other	-796	-1,690	-1,329	-1,056	0	0	1
Cash from financing	-4,838	-7,717	-4,105	-4,587	-14,449	-12,971	-10,599
Net cash during the year	14,762	3,229	-755	-5,216	-601	11,579	5,634
Net cash at beginning	30,408	45,169	48,398	47,643	42,427	41,826	53,405
Net cash at end	45,169	48,398	47,643	42,427	41,826	53,405	59,039
Cash of Balance Sheet	4,511	5,127	5,119	10,883	1,800	11,077	14,294
Short Term Investments	42,611	47,213	51,463	41,851	46,036	48,338	50,755
Bank O/D	-1,952	-3,230	-4,264	-6,010	-6,010	-6,010	-6,010
Net cash from Cashflow	45,169	48,398	47,643	42,427	41,826	53,405	59,039

Source : Company Annual Reports and First Capital Research Estimates



Appendix IV: Top 20 Shareholders

Top 20 shareholders - (% held)	1QFY19	4QFY18	QoQ	1QFY18	YoY
Mr S E Captain	10.3%	10.1%	0.2%	10.0%	0.3%
Broga Hill Investment Ltd	10.2%	10.2%	-	10.2%	-
Paints & General Industries Ltd	6.3%	6.0%	0.3%	6.5%	-0.2%
Schroder International Selection Fund	6.2%	6.2%	-	4.4%	1.8%
Melstacorp PLC	3.5%	3.5%	-	3.6%	-0.1%
HWIC Asia Fund	2.6%	2.6%	-	2.5%	0.1%
Northern Trust Co S/A Edgbaston Asian Equity Trust	2.0%	1.8%	0.2%	1.0%	1.0%
Lux-Aberdeen Global Asia Pacific Equity Fund	1.9%	1.9%	-	2.3%	-0.4%
Lux-Aberdeen Global-Asian Smaller Companies Fund	1.7%	2.0%	-0.3%	2.2%	-0.5%
Aberdeen Institutional Commingled Funds LLC	1.5%	1.9%	-0.4%	2.1%	-0.6%
Citibank Newyork S/A Norges Bank Account	1.4%	0.9%	0.5%	0.0%	1.4%
Mr K. Balendra	1.4%	1.4%	-	1.4%	-
Employees Trust Fund	1.4%	1.5%	-0.1%	1.6%	-0.2%
BBH Luxfidelity Fund-Pacific	1.4%	1.4%	-	1.1%	0.3%
First State Investments ICVC	1.1%	1.1%	-	1.1%	-
London- Edinburgh Dragon Trust PLC	1.1%	1.1%	-	1.3%	-0.2%
Lux-Aberdeen Global - Emerging Markets Smaller Companies Fund	1.0%	1.5%	-0.5%	1.7%	-0.7%
Deutsche Bank AG-London	1.0%	1.1%	-0.1%	0.0%	1.0%
Mrs S. A. J. De Fonseka	0.9%	0.9%	-	0.9%	-
Mrs C. S. De Fonseka	0.9%	0.9%	-	0.9%	-



Appendix V: 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%

Weighted Average 1-year T-bill rate during Jun 2018: 9.46%

Categorization	Company Category	Buy	Hold	Sell
Grade A	S&P SL20 Companies	14.46%	10.46%	10.46%
Grade B	Rest of the Companies	17.46%	12.46%	12.46%
Grade C	Companies less than LKR 1Bn Market Cap	20.46%	15.46%	15.46%



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