

JOHN KEELLS HOLDINGS PLC [JKH.N0000]

MAINTAIN BUY

RETURN OF THE GIANT...

Fair Value: FY22E - LKR 180.0 [+22%]
Total Return with DPS: FY22E - 27% [AER 20%]

JKH's earnings declined by 70.0%YoY in 2QFY21 mainly driven by increase in 'change in insurance contract liabilities' (36%YoY) in UAL and largely weakened performance of the Leisure segment. EBITDA dropped by 18%YoY led by negative growth in Leisure, Property and Transportation. We expect gradual recovery in consumer demand from 4QFY21 and recovery in tourism segment to support a recover in JKH earnings for FY22, thereby, we maintain our recurring earnings of LKR 14.6Bn (+95%YoY) for FY22E. We estimate sum-of-the-parts fair value of LKR 180.0 for FY22E.

LKR (Mn)	2QFY20	2QFY21	YoY	6MFY20	6MFY21	YoY
Earnings (LKR 'Mn)						
Revenue	30,919	28,676	-7%	60,223	48,015	-20%
Gross profit	6,101	5,235	-14%	11,327	7,151	-37%
EBIT	1,243	877	-29%	1,694	(1,039)	-161%
PBT	2,598	636	-76%	2,193	1,613	-26%
Net Profit	2,290	680	-70%	3,284	(978)	-130%
Balance Sheet (LKR 'Mn)						
Shareholders' Equity	214,247	216,852	+1%	214,247	216,852	+1%
Short Term Investments	11,958	13,334	+12%	11,958	13,334	+12%
NAVPS	162.5	164.5		162.5	164.5	

2QFY21 earnings down by 70%YoY on leisure segment and insurance liabilities

JKH recorded earnings of LKR 680Mn in 2QFY21 down by -70%YoY, largely backed by LKR 2.5Bn change in insurance contract liabilities in Union Assurance. Leisure and transportation were well below our expectation while being compensated by the Consumer foods, Retail and Financial services performing above our expectations. Thereby, we maintain FY21E and FY22E earnings at LKR 7.5Bn (-20%) and LKR 14.6Bn (+95%) respectively.

Pandemic wipe out hopes from Easter Sunday attack recovery

JKH leisure segment EBITDA dipped by 1163%YoY to a loss of LKR 1.1Bn due to the decline in occupancies as a result of the outbreak of COVID-19 in Sri Lanka. Airport in Sri Lanka remains closed for foreign arrivals further hindering earning in 3QFY21, although portion of the hit maybe covered up by resumption of limited domestic travel. Despite muted activity in Sri Lanka, Maldives opened airport for leisure and business from Jul 2020, we expect a gradual uptrend in tourist arrivals to improve occupancy in the peak season due to relaxation of air travel in the key source markets.

Retail segments recover, accelerating adoption of phygital retailing

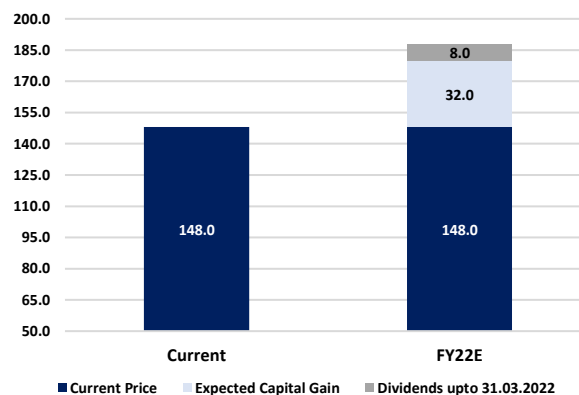
Retail segment EBITDA increased to LKR 1.37Bn in 2QFY20 from LKR 1.0Bn led by growth in CCS's retail (Keells) operation during the quarter. Revenue growth was mainly supported by a notable contribution from new outlets and strong growth in customer footfall. Keells opened 6 new supermarkets during 2QFY21 increasing the total outlets to 115 while we expect 6 more stores to be opened in FY21E.

Cinnamon Life & new development projects to lead earnings beyond FY21E

We expect Cinnamon Life's residential apartment and office complex construction to be completed by end FY21E. The handover of the residential and office tower will commence on a staggered basis from 4QFY21E onwards. However, revenue from the pre-sale would only be recognised post commencement of operations.

We MAINTAIN BUY on JKH on the back of Cinnamon Life

We estimate sum-of-the-parts fair value of LKR 180.0 for FY22E with a total return of 27% (including a DY of 5%) and annualized return of 20%. **MAINTAIN BUY.**



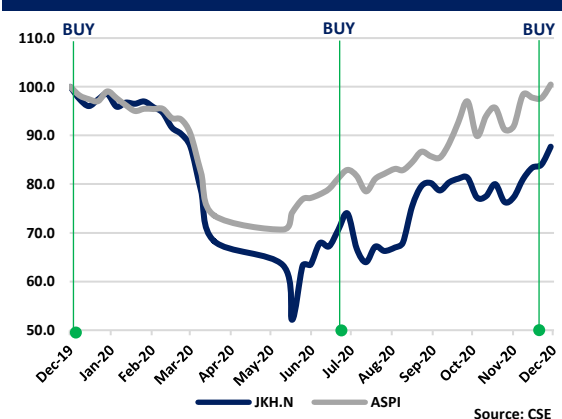
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Price Movement of JKH vs ASPI and Past Recommendations



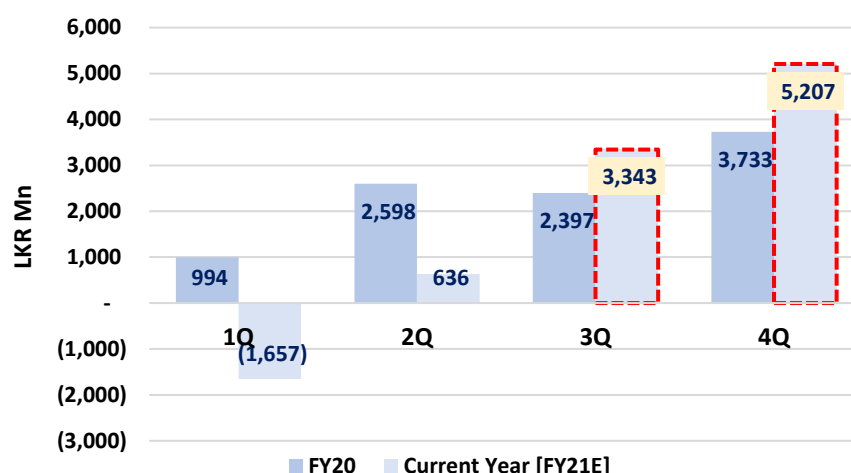
Minimum Return for BUY:

Buy Below for FY22E [AER of 10% with DPS]: LKR 165.0
JKH categorized as 'Grade A' counter

Disclosure on Shareholding:

First Capital Group holds 129,527 shares in JKH and will not trade in this share for three trading days following the issue of this document.

Quarterly Earnings



Estimate Revision

In LKR Mn	FY21E - O	FY21E - R	% Change	FY22E - O	FY22E - R	% Change
Earnings Estimate						
Revenue	156,884	156,884	0%	210,341	210,341	0%
EBIT	4,854	4,854	0%	12,967	12,967	0%
PBT	11,375	11,375	0%	18,485	18,485	0%
Net profit	9,922	9,922	0%	16,124	16,124	0%
Profit to Equity Holders	7,529	7,529	0%	14,673	14,673	0%
Adjusted EPS	5.7	5.7		11.1	11.1	
Growth YoY	-20%	-20%		95%	95%	
Balance Sheet Estimate						
Shareholders' Equity	222,048	222,048	0%	232,321	232,321	0%
Short Term Investments	19,229	19,229	0%	15,383	15,383	0%
Adjusted NAVPS	168.5	168.5		176.2	176.2	
Ratio Estimate						
PER (x)	25.9	25.9		13.3	13.3	
PBV (x)	0.9	0.9		0.8	0.8	
Div Yield (%)	1%	1%		3%	3%	

Valuation Table

P/E 31 March	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Estimates (LKR 'Mn)							
Revenue	106,273	121,215	135,374	140,043	156,884	210,341	240,525
EBIT	12,339	16,658	7,657	6,789	4,854	12,967	16,137
Net Profit	16,275	21,021	15,254	9,414	7,529	14,673	16,668
Adjusted Net Profit	16,275	16,521	15,254	9,414	7,529	14,673	16,668
Adjusted EPS (LKR)	12.3	12.5	11.6	7.1	5.7	11.1	12.6
YoY Growth (%)	16%	2%	-8%	-38%	-20%	95%	14%
Valuations							
PER (x)	12.0x	11.8x	12.8x	20.7x	25.9x	13.3x	11.7x
PBV (x)	1.1x	1.0x	1.0x	0.9x	0.9x	0.8x	0.8x
DY (%)	3.7%	4.3%	3.1%	0.7%	1.2%	2.3%	2.6%

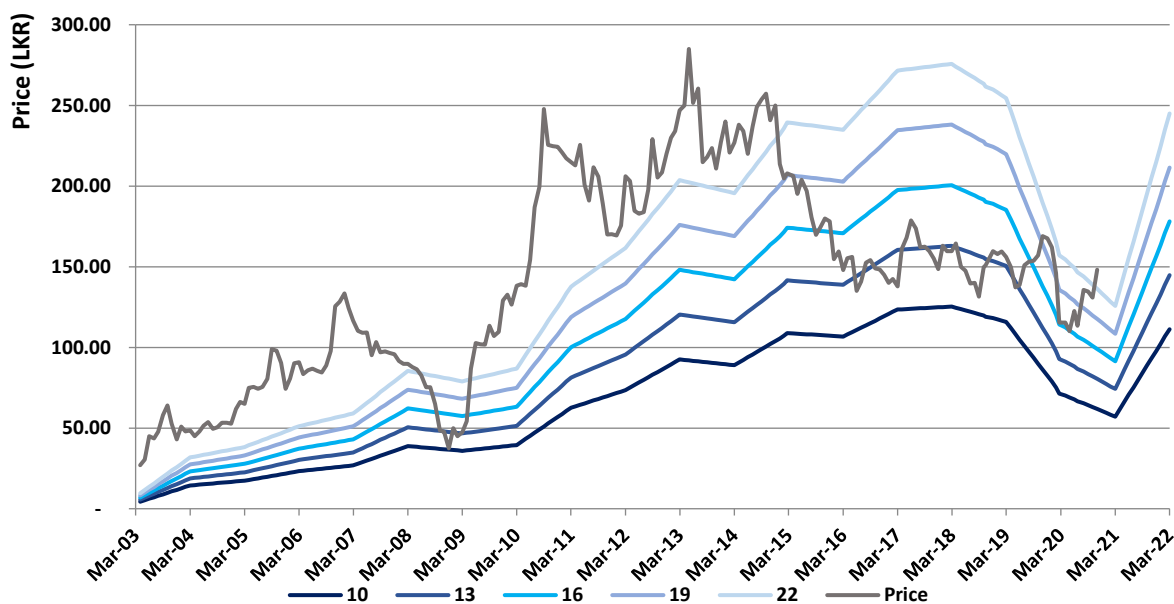
Valuation Summary

Return	
Target Price	180.0
Current Price	148.0
Capital Gain (LKR)	32.0
Dividends upto 31.03.2022 (LKR)	8.0
Capital Gain %	22%
Dividend Yield %	5%
Total Return %	27%
Annualized Return %	20%

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	12%	10%	3%	28,552		21.7	11%
Leisure	DCF	40/60	17%	15%	3%	65,027		31.7	16%
Property	DCF	40/60	12%	11%	3%	99,848		72.0	37%
Consumer Foods & Retail	DCF	40/60	12%	10%	3%	77,506		58.8	30%
Financial Services	Justified PBV		10%		3%		13,764	10.4	5%
Fair value before net debt								194.6	100%
Less: Debt								48.7	
Add: Cash								3.9	
Add: Short Term Investment								29.2	
Fair value								179.0	
Target Price after Rounding up								180.0	

PER Chart



Appendix I: Statement of Income and Expenses

Income Statement (LKR Mn)	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
P/E 31st March							
Revenue	106,273	121,215	135,374	140,043	156,884	210,341	240,525
EBIT by Sector							
Transportation	2,652	1,009	769	1,070	1,123	1,233	1,354
Leisure	5,714	3,753	2,564	-969	-3,019	3,768	4,433
Property	541	686	38	-175	1,845	1,797	2,668
Consumer Foods & Retail	5,147	4,378	3,327	5,641	4,200	5,503	6,827
Financial Services	935	7,101	2,754	1,233	1,681	1,955	2,273
Information Technology	-572	0	0	0	0	0	0
Other	-2,078	-268	-354	-824	-977	-1,289	-1,418
EBIT	12,339	16,658	7,657	6,789	4,854	12,967	16,137
Finance Cost	-419	-521	-2,722	-3,166	-3,396	-3,568	-3,806
Finance Income	6,717	7,357	12,052	9,357	4,327	3,115	3,107
Change in fair value of inv. property	484	896	325	573	1,250	1,500	550
Share of profit of Associates	3,303	3,596	4,727	4,466	4,341	4,471	5,011
Adjustments	464	-353	0	0	0	0	0
PBT	22,888	27,634	18,616	12,403	11,375	18,485	20,999
Taxation	-4,771	-4,515	-2,378	-2,662	-1,453	-2,361	-2,683
Net profit for the period	18,117	23,120	16,237	9,741	9,922	16,124	18,317
Minority Interest	-1,842	-2,099	-983	-327	-893	-1,451	-1,648
Profit attributable to Equity Holders	16,275	21,021	15,254	9,414	7,529	14,673	16,668
Recurring Profit	16,275	16,521	15,254	9,414	7,529	14,673	16,668
EPS	12.3	15.9	11.6	7.1	5.7	11.1	12.6
Adjusted EPS	12.3	12.5	11.6	7.1	5.7	11.1	12.6

Appendix II: Statement of Financial Position

Balance Sheet (LKR Mn)	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
As at 31st March							
Non Current Assets							
Property plant and equipment	64,396	87,260	97,688	111,534	111,632	111,695	110,539
Investment Property	5,366	12,427	13,985	15,008	16,809	18,826	21,085
Other Non Current Financial Assets	27,667	32,878	35,186	40,078	40,479	40,884	41,293
Other Non Current Assets	41,836	53,771	78,528	80,485	92,558	106,442	122,408
	172,308	223,687	268,376	315,894	334,608	355,447	377,937
Current Assets							
Inventories	5,606	6,690	9,547	50,169	54,909	73,619	84,184
Trade and Other Receivables	11,687	12,273	14,421	12,186	13,652	18,304	20,930
Short Term Investments	79,174	64,386	52,757	38,458	19,229	15,383	15,691
Cash and cash equivalents	5,119	10,883	12,955	13,334	19,568	14,870	11,697
	104,964	98,762	95,421	121,050	114,261	129,079	139,405
Total Assets	277,272	322,449	363,797	436,944	448,868	484,526	517,342
Equity and Liabilities							
Capital and Reserves							
Ordinary shares	62,790	62,802	62,806	62,806	62,807	62,809	62,811
Reserves	115,845	137,118	141,480	153,970	159,241	169,511	181,179
Shareholders Funds	178,635	199,920	204,287	216,777	222,048	232,321	243,990
Minority Interest	15,696	24,944	26,072	26,872	27,765	29,216	30,865
	194,330	224,865	230,359	243,649	249,813	261,537	274,855
Non - Current Liabilities							
Insurance contract Liabilities	31,700	30,231	32,833	38,186	42,004	46,205	50,825
Borrowings	14,203	18,521	21,277	70,835	77,919	85,711	94,282
Other	7,109	13,985	19,685	24,529	26,982	29,680	32,648
	54,892	64,708	75,881	135,894	149,249	163,939	180,099
Current Liabilities							
Trade and other payables	14,136	16,077	19,745	23,881	26,753	35,870	41,017
Bank overdraft	4,264	6,010	20,061	17,679	11,006	13,736	13,748
	28,049	32,876	57,557	57,326	49,806	59,050	62,388
Total liabilities	82,941	97,584	133,438	193,220	199,055	222,990	242,487
Total equity & liabilities	277,272	322,448	363,797	436,869	448,868	484,526	517,342
NAVPS	135.5	151.7	155.0	164.5	168.5	176.2	185.1



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