

**EXPOLANKA HOLDINGS PLC [EXPO.N0000]****VALUATION NOTE****HIGH FREIGHT RATES, CAPACITY SHORTAGE TO LINGER****Fair Value: FY22E - LKR 57.0, FY23E - LKR 51.0 [Range of LKR 46.0-56.0]****Expo profit momentum continues in Q4, despite higher Admin**

EXPO 4QFY21 reported earnings of LKR 3.9Bn (1,006%YoY) compared to (LKR -362Mn) made in 4QFY20. Revenue surge was mainly driven by the increase volumes from existing and new customers whilst yields continued to remain stable in the face of elevated freight rates.

High Air and Sea freight demand persisting in international freight

The International Air Transport Association (IATA) forecasts air cargo demand for FY22E to rise by +13.0% from last year and be +2.8% above the 2019 level. The Global PMI, a leading indicator for airfreight tonnage, indicates that more manufactured goods are likely to be moved by air during the 2QFY22. The sticking point is the limited number of international passenger flights as travel remains muted over COVID concerns. Long-haul routes typically use widebody aircraft that collectively carry more than 50% of global air freight volumes. But international travel demand through Mar 21 was 88% below pre-crisis levels, with little improvement from Dec 20.

Rates shoot higher

Shipping rates are steadily climbing with demand outstripping supply, China and Hong Kong markets are leading the way on price strength, while other markets are more dynamic. In some cases, prices are even higher than during the PPE rush in Spring 2020, when air cargo capacity worldwide contracted more than 40%. As at Apr 21, shipments from China/Hong Kong to the U.S. jumped to 60% from Mar 21 to USD 8.56 per kilo, according to the TAC Index. Prices are up 8% versus last year and 153% versus 2019. The Hong Kong rate is USD 8.65/kilo compared to USD 4.91/kilo on Feb 21 and is approaching the highest level, seen last year of USD 8.81 in May 2020.

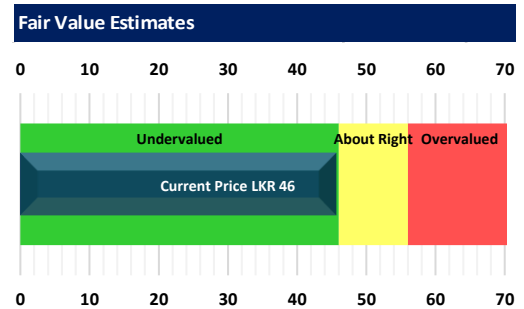
Impact to EXPO

Contrary to our earlier expectations, surge in demand was stronger than expected and has not met with sufficient supply of capacity for a prolonged period. The underlying causes are complex and include changing trade patterns and imbalances, capacity management by carriers at the beginning of the crisis and ongoing COVID-19 related delays in transport connection points. We expect EXPO may continue to experience strong growth in earnings throughout FY22E similar to last 9 months of FY21.

FIRST CAPITAL RESEARCH

Atchuthan Srirangan

+94 11 263 9863

atchuthan@firstcapital.lk

P/E 31 March	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Estimates (LKR 'Mn)							
Revenue	77,533	95,455	103,246	218,735	226,234	237,400	242,162
Gross Profit	13,726	18,100	19,183	38,431	44,116	43,207	43,589
EBIT	1,820	3,203	621	16,831	18,719	14,177	11,425
Net Profit	711	1,448	(737)	14,830	15,201	11,496	9,370
Adjusted EPS (LKR)	0.4	0.7	(0.4)	7.6	7.8	5.9	4.8
YoY Growth (%)	-26%	104%	-151%	1913%	2%	-24%	-19%
Valuations							
PER (x)	129.3x	63.5x	-124.7x	6.2x	6.0x	8.0x	9.8x
PBV (x)	7.2x	6.6x	7.1x	3.3x	2.2x	1.7x	1.5x
DY (%)	0.3%	0.3%	0.3%	1.1%	1.1%	1.1%	1.1%



First Capital

First Capital Holdings PLC

No.2, Deal Place,
Colombo 3

Tel: +94 11 2145 000
Fax: +94 11 2145 050

RESEARCH

Dimantha Mathew	+94 11 2639 853	Vidushika Perera	+94 11 2639 864
Atchuthan Srirangan	+94 11 2639 863		
Hiruni Perera	+94 11 2639 864		

GOVERNMENT SECURITIES SALES

Anjelo Simmons	+94 77 3031 636	Neminda Jayawardena	+94 76 6644 080
Anushka Dissanayake	+94 77 2220 021	Arun Kandasamy	+94 75 4861 506
Anushi Ranawaka	+94 77 3876 819		

CORPORATE DEBT SALES

Nethalie De Mel	+94 11 2639 854
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EQUITY SALES

CEO	Jaliya Wijeratne	+94 70 2910 042	Negombo	
			Priyanka Anuruddha	+94 70 2910 035
Colombo			Priyantha Wijesiri	+94 70 2910 036
Rasika Indra Kumara	+94 77 7072 698			
Isuru Jayawardena	+94 76 7084 953			
Nishantha Mudalige	+94 70 2910 041			
Ifadh Marikar	+94 77 9625 679			
Anushka Buddhika	+94 71 4310 600			
Thushara Pathiraja	+94 70 2910 037			
Chandika Jayawardana	+94 77 3940 070			

UNIT TRUST SALES

Kavin Karuna moorthy	+94 77 0328 060	Imali Abeygunawardena	+94 77 1764 799
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BRANCHES

Kandy	Kurunegala	Matara	Negombo
2nd Floor, No.121 Kotugodella Veediya (E L Senanayake Veediya) Kandy 20000.	Ground Floor No. 42, Mihindu Mawatha, Kurunegala 60000.	2nd Floor, E.H. Cooray Building No: 24, 1/3, Anagarika Dharmapala Mawatha, Matara 81000.	1st Floor No: 163B, Colombo Road, Negombo 11500.
Manager: Salinda Samarakoon	Manager:	Manager: Rohana Jayakody	Manager:
Tel: +94 81 2236 010	Tel: +94 37 2222 930	Tel: +94 41 2222 988	Tel: +94 31 2233 299

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