



First Capital

EQUITY STRATEGY

"ASPI 2021 **UPGRADED TO 7,000-7,500**"

Jan 2021

FIRST CAPITAL RESEARCH

**Analyst: Dimantha Mathew
Atchuthan Srirangan**



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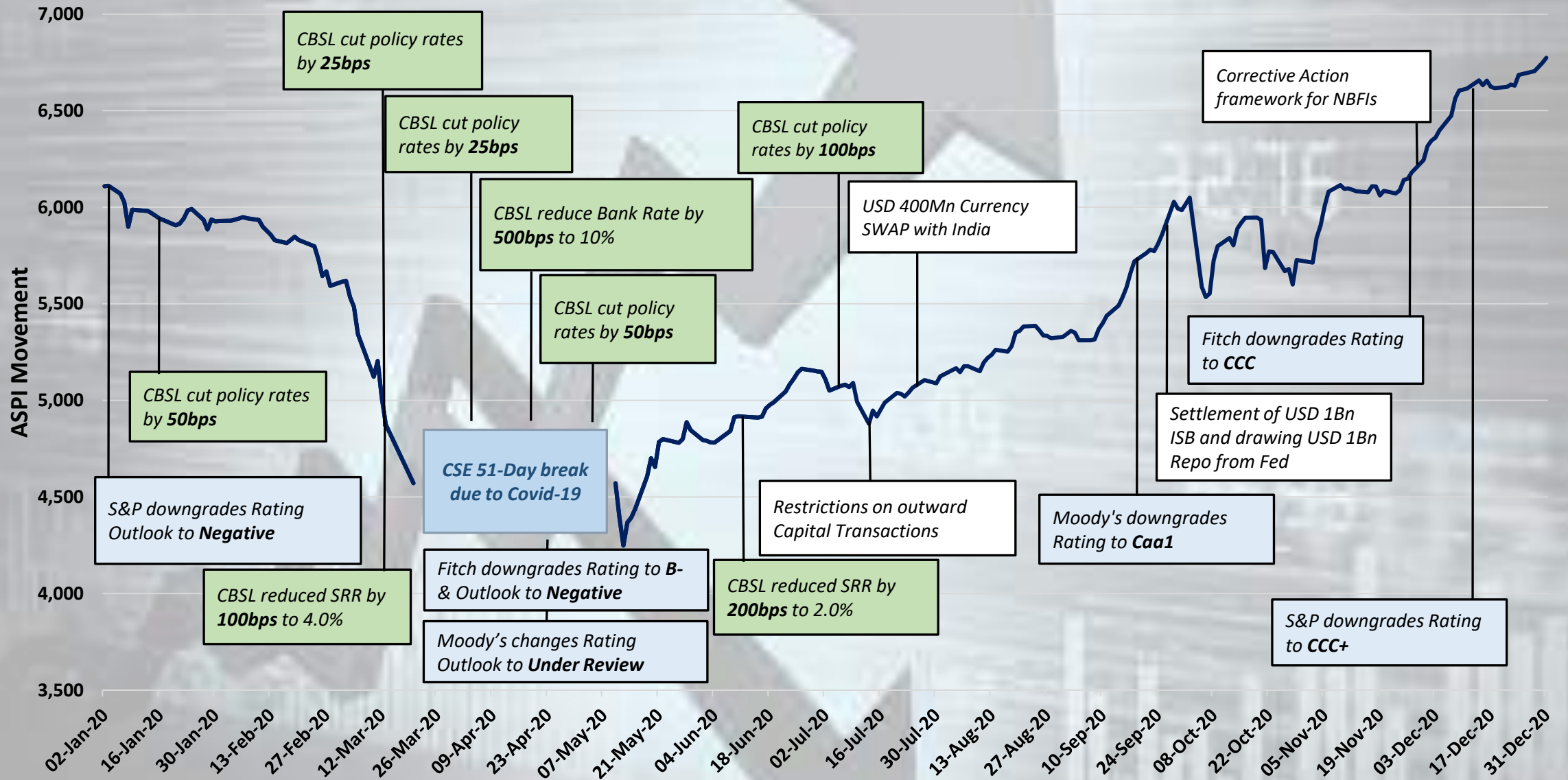
02 Market Earnings recover *faster* than anticipated

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1.0

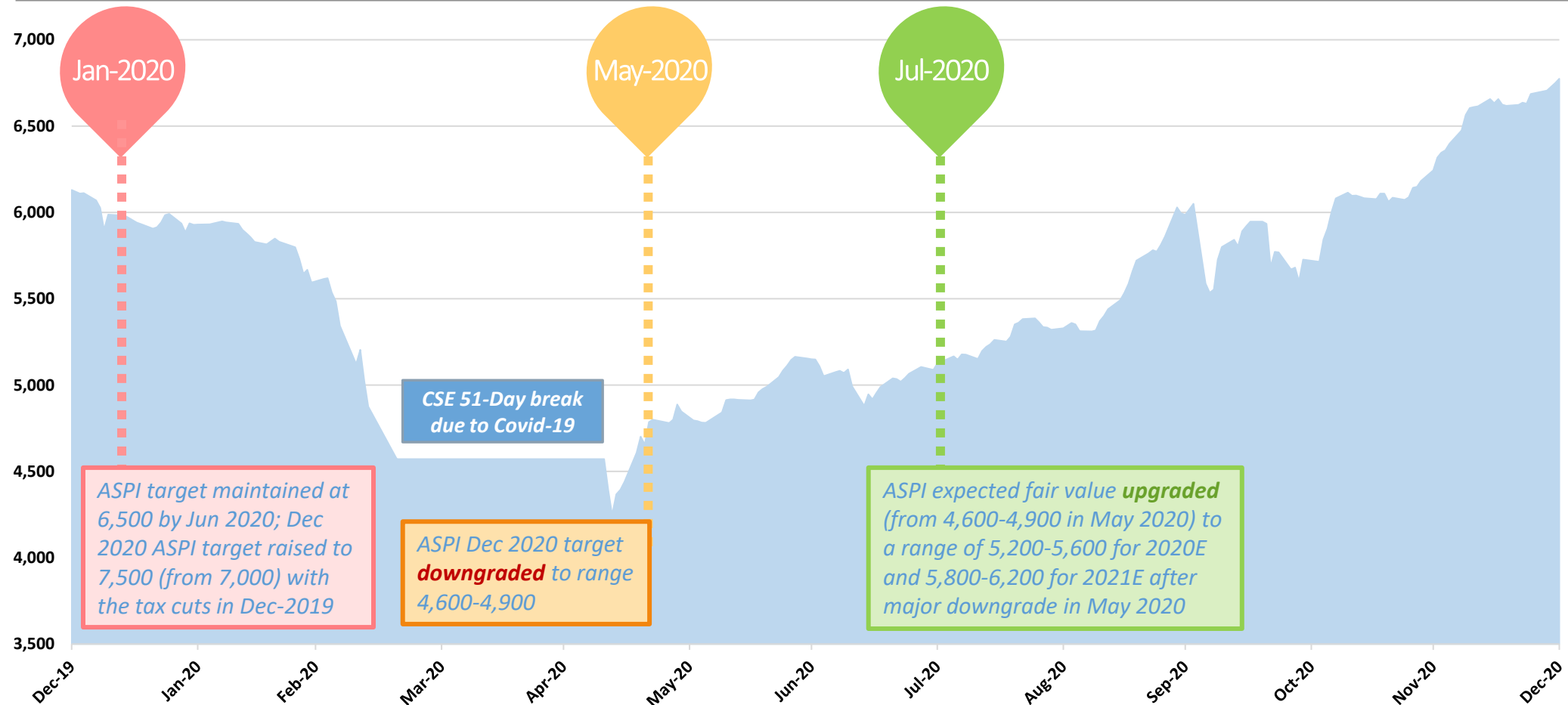
Recap of 2020



Source: CBSL, CSE, First Capital Research

Jan 2020 & Post Covid-19 Equity Re cap: Accuracy Mixed

ASPI initial (Jan) target for year end was 6,500, revised post Covid-19 to 4,600-4,900 in May and upgraded to 5,200-5,600 in Jul 2020



First Capital Top Recommendations outperforms market



FIRST CAPITAL 2020 TOP RECOMMENDATIONS

Stock	31.12.2019 Price	New Recommendations afterwards	Fair Value FY22	Fair value - Return %	Price as at 31.12.2020	Return YTD
John Keells Holdings	167.60		180.00	7%	149.60	-11%
Commercial Bank of Ceylon	95.00		100.00	5%	80.90	-15%
Hatton National Bank	172.20		160.00	-7%	126.50	-27%
Sampath Bank	162.40		155.00	-5%	135.60	-17%
Dialog	12.30		14.00	14%	12.40	1%
Hayley's Fabric	17.90		33.00	84%	27.80	55%
Teejay Lanka	40.80		41.00	0%	38.00	-7%
Lion Brewery	602.00		650.00	8%	585.00	-3%
Ceylon Tobacco Company	1,100.30		1,160.00	5%	1,028.90	-6%
Nestle Lanka	1,299.80		1,500.00	15%	1,275.00	-2%
Ceylon Cold Stores	795.00		870.00	9%	704.60	-11%
Watawala Plantations		30.00	58.00	93%	Fair Value	93%
Elpitiya Plantations		19.40	46.00	137%	Fair Value	137%
Namunukula Plantations		86.50	190.00	120%	Fair Value	120%
Hemas Holdings		60.00	100.00	67%	99.90	67%
Tokyo Cement		36.00	86.00	139%	76.20	112%
Average Return				43%		30.4%
ASI				6,129.20	6,774.22	10.5%

All Fair Values were revised post COVID-19

	Top Recommendations Return	ASPI Return	Out- Performance
2014	58%	23%	152%
2015	18%	-6%	400%
2016	5%	-10%	150%
2017	6%	2%	178%
2018	-22%	-3%	-633%
2019	8%	1%	700%
2020	30%	11%	173%

Track
Record over
the past 7
Years

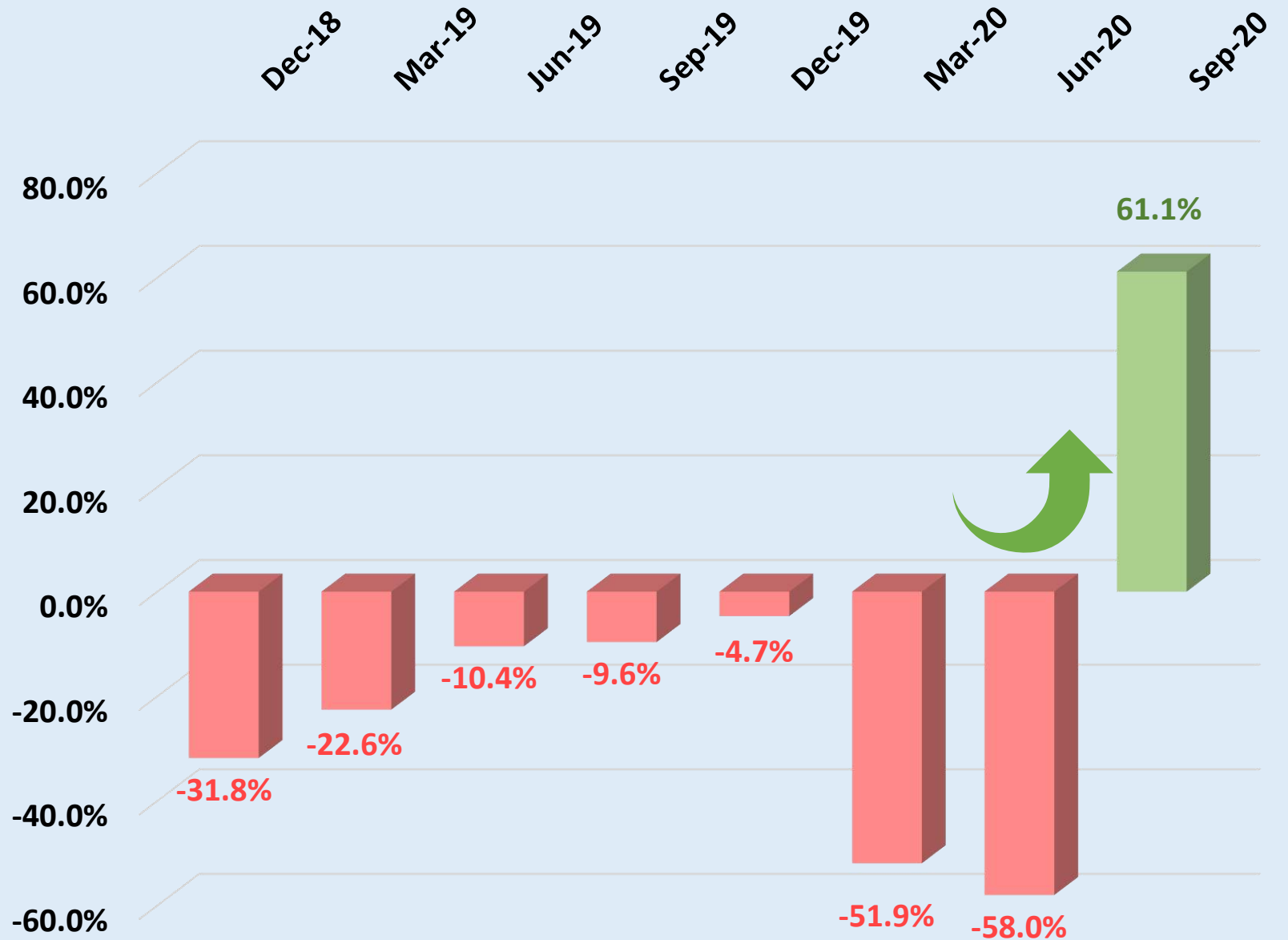


Recovery

2.0

Market Earnings
recover **faster** than
anticipated

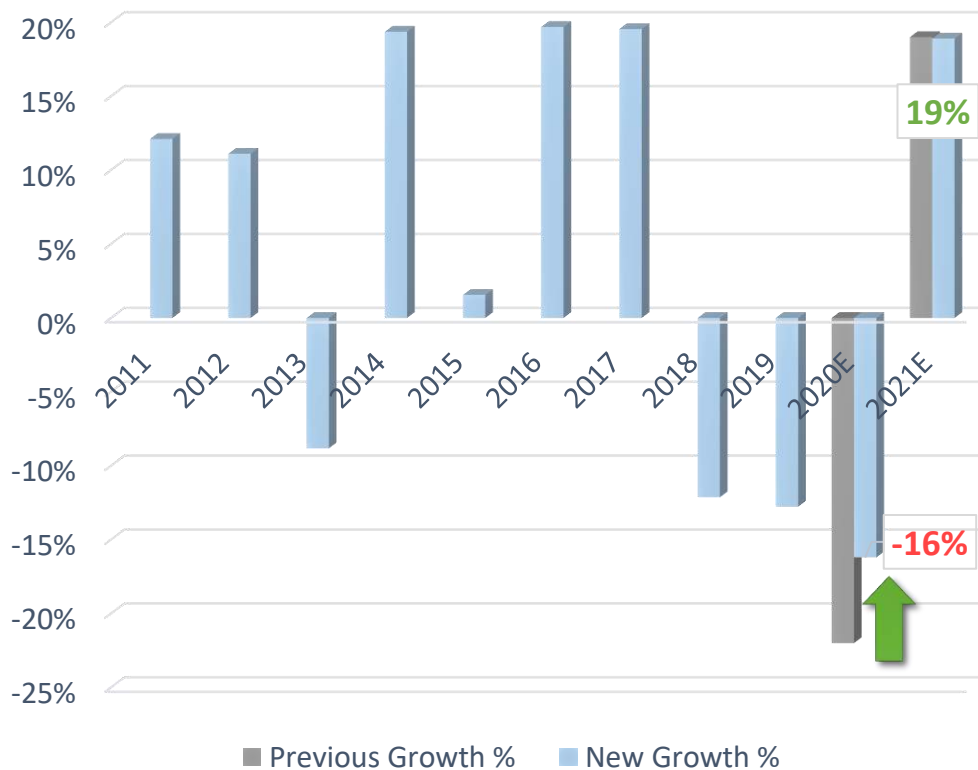
With the steep spike in 3Q2020 earnings



Source: CSE, First Capital Research

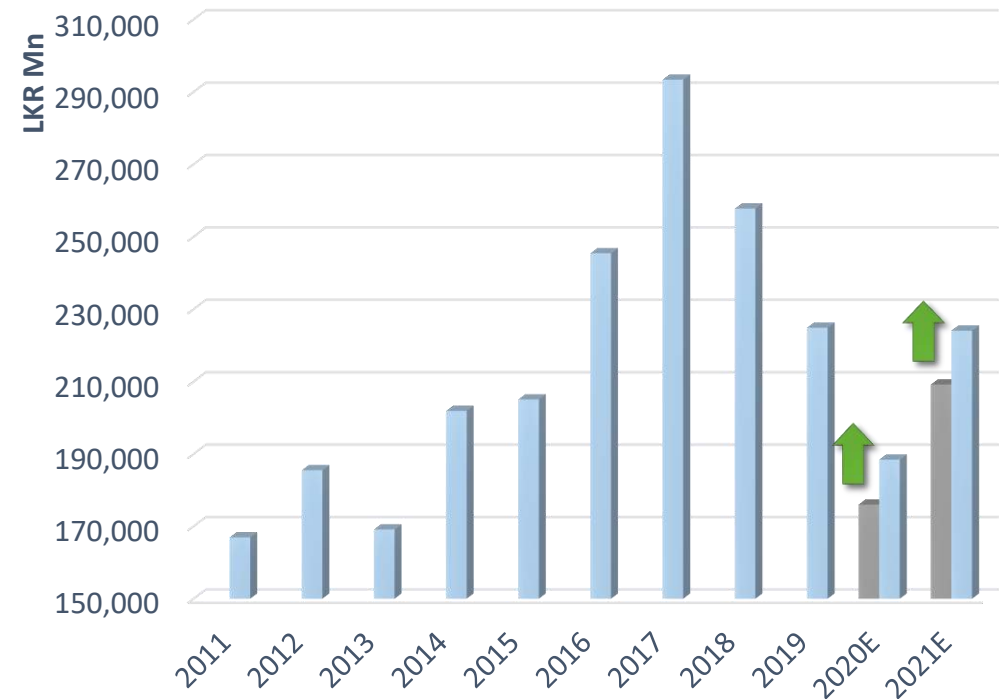
...we revise our Market Earnings forecast upwards despite a partial lockdown in 4Q2020

4Q2020 adjusted upwards...



Source: CSE, First Capital Research

...pushing 2021E Market Earnings closer towards 2019



Source: CSE, First Capital Research

Earnings Outlook Upgraded

Earnings recover faster than anticipated

The earnings dip in the 1Q and 2Q was quite steep, but 3Q2020 has shot up amidst the strong recovery in Food and Beverage, Capital Goods, Transportation and Material sectors. The 3rd quarter had some support with part of the Jun 2020 orders being produced and delivered in the Sep 2020 quarter boosting some company earnings. However, genuine recovery was witnessed in the Food and Beverage sector while selected companies in the Capital Goods and Transportation sectors had a major benefit with a spike in demand for their products and services due to Covid-19.

Potential rise in Consumer Demand

We are unlikely to witness any pressure on banking rates during 1H2021 as well, supported by the 6 month lag effect between Government Securities and bank interest rates. The extended period of lower interest rates would have a favourable impact towards consumers. We expect a rise in consumer demand during 1H2021 to positively influence earnings.

Earnings decline **upgraded to -16% from -22% for 2020E and growth of +19% for 2021E**

With the improved earnings outlook, we upgrade overall earnings expectations for 2020E improving to -16% on the back of stronger than expected outlook. Nevertheless, earnings growth expectations are maintained at +19% for 2021E. Despite growth for 2021E being similar with upgrade of 2020E earnings absolute earnings for 2021E improves closer towards 2019 indicating strong recovery for companies.

An illustration featuring a businessman in a blue suit and red tie riding a white bull. The background is a gradient of green. A white line graph with an upward trend is visible, along with several white papers falling from the top left. The text is overlaid on a dark blue rectangular area.

3.0

ASPI to reach
7,000-7,500

Market returns likely to be stronger in 1H2021 with an ASPI target of 7,000-7,500 for 2021E

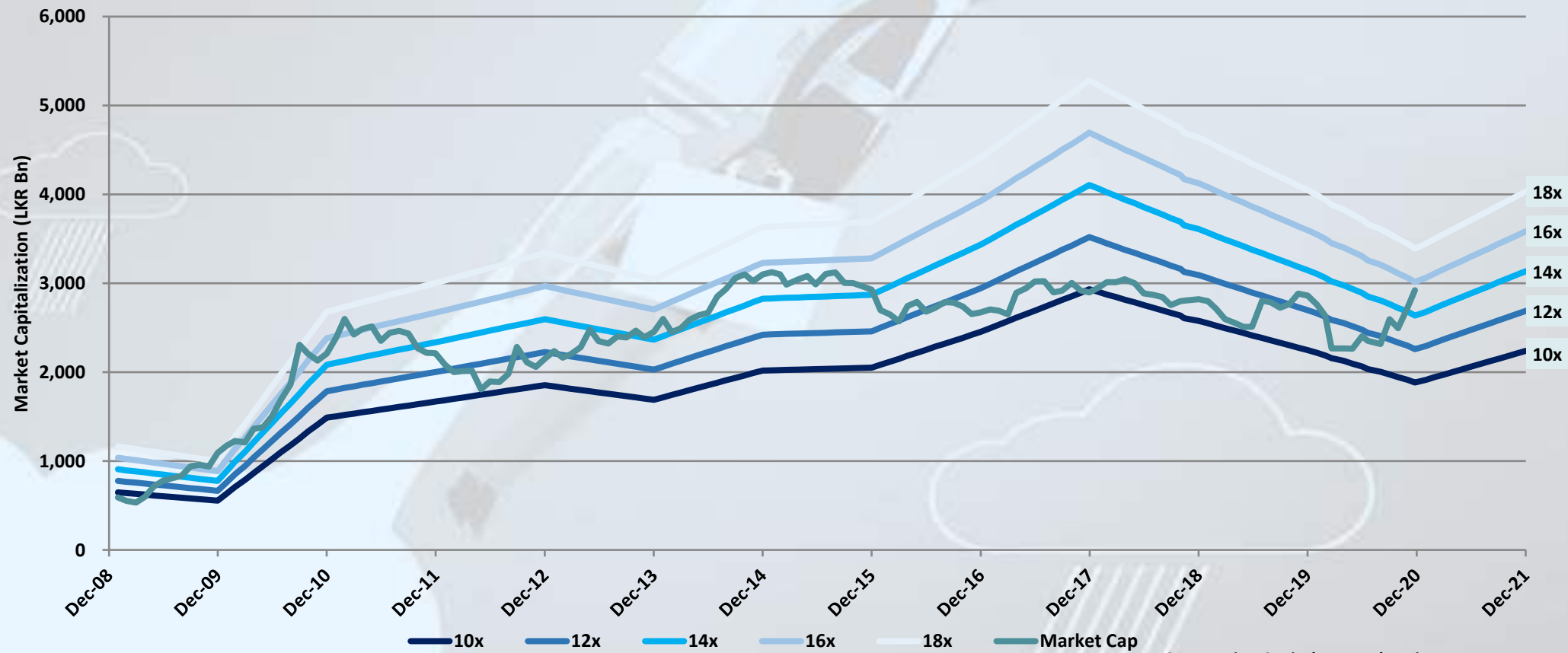
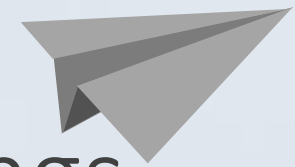
Extended period of Low FI yields attracts equity investments

The current period of lower yields in Fixed Income has become a major deterrent for investors to reinvest in Fixed Income related instruments. Thereby, most investors are on the look out for alternative investment products. In Sri Lanka, the primary alternatives available are investments in equity and real estate while unit trusts are also slowly gaining popularity. Due to the lower FI yields there is a major shift towards stock market investments. With positive local investor sentiment and inflow of fresh funds continuing into the market, local investor participation has increased to over 95% driving the market.

Market Return of 11% for 2021E with possible shocks towards 2H2021

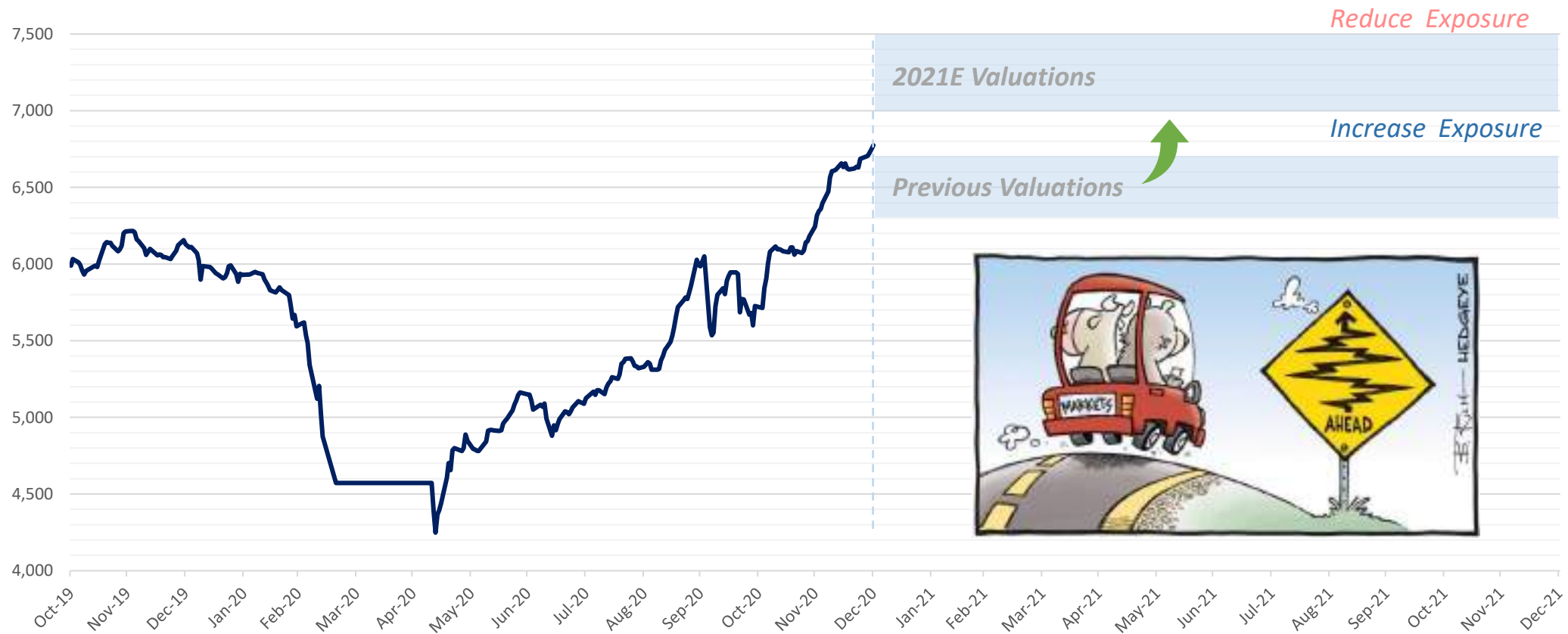
Despite the temporary lockdown in early Oct 2020, business activity is expected to continue its upward trajectory amidst the lower interest rates prevailing in the market. We expect credit growth to gradually improve activating consumer demand in the market. As indicated in Slide 10, we have upgraded our 2020E earnings amidst the stronger than expected recovery has automatically pushed our earnings expectations for 2021E as well. Supported by the strong earnings growth especially in 1H2021, we expect the ASPI to provide a market return of c.11% to reach a range of 7,000-7,500 indicating forward PER of 14.0x-14.5x 2021E earnings. However, a possible steep depreciation in the currency may dampen sentiment from 2Q2021 onwards. It is likely to have an adverse impact on banking rates towards 2H2021 with potential increase in banking rates by about 200bps during 2H2021.

ASPI to provide a market return of c.11% to reach a range of 7,000-7,500 indicating forward PER of 14.0x-14.5x 2021E earnings



Source: First Capital Research Estimates

ASPI expected fair value *upgraded* from 5,800-6,200 to a range of **7,000-7,500** for 2021E



Source: CSE, First Capital Research

TOP RECOMMENDATIONS for 2021



Stock	Stock Code	Price as at 31.12.2020	Fair Value CY21E/FY22E	Fair Value pro-rated to 31.12.2021	Upside for 2021
		LKR	LKR	LKR	
John Keells Holdings	JKH.N0000	149.60	180.00	175.00	17%
Commercial Bank of Ceylon	COMB.N0000	80.90	100.00	100.00	24%
Hatton National Bank	HNB.N0000	126.50	160.00	160.00	26%
Sampath Bank	SAMP.N0000	135.60	155.00	155.00	14%
NDB Bank	NDB.N0000	78.10	95.00	95.00	22%
Melstacorp	MELS.N0000	52.00	65.00	60.00	15%
Dialog	DIAL.N0000	12.40	14.00	14.00	13%
Hayley's Fabric	MGT.N0000	27.80	33.00	31.50	13%
Tokyo Cement	TKYO.N0000	76.20	86.00	81.50	7%
Hemas Holdings	HHL.N0000	99.90	110.00	105.00	5%
Ceylon Tobacco Company	CTC.N0000	1,028.90	1,160.00	1,160.00	13%
Nestle Lanka	NEST.N0000	1,275.00	1,500.00	1,500.00	18%
Ceylon Cold Stores	CCS.N0000	704.60	870.00	825.00	17%

Average Return			16%
ASI	6,774.22	7,250.00	7%

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Contact Us

First Capital Holdings PLC

No: 02, Deal Place,
Colombo 00300,
Sri Lanka.

E: research@firstcapital.lk



First Capital



Dimantha Mathew

Head of Research

T: +94 11 2639 853

E: dimantha@firstcapital.lk



Atchuthan Srirangan

Assistant Manager – Research

T: +94 11 2639 863

E: atchuthan@firstcapital.lk



Hiruni Perera

Assistant Manager- Research

T: +94 11 2639 864

E: hiruni@firstcapital.lk



Nisansala Kuruppumudali

Research Analyst

T: +94 11 2639 866

E: nisansalat@firstcapital.lk



Thank You

“Successful Investment Is About Managing Risk...”