



RUPEE STRENGTHENING TO BE SHORT LIVED

BUY ON WEAKNESS [HAYL, HAYC, DIPD, MGT, TJL, EXPO]

EVENT UPDATE

Rupee appreciates with CDB loan: Sri Lankan Rupee appreciated 5.0% against the US Dollar over the last 2 market days reversing the continuous accelerated depreciation witnessed in Jan-Apr 2021. On 12th Apr LKR recorded a historical low of LKR 201:1 USD. Ministry of Finance (MoF) reported on 12th Apr that Govt of Sri Lanka entered into a loan agreement with the China Development Bank (CDB) for USD 500Mn and MoF expected the funds to be disbursed during the same week. Following the announcement, the market registered a steep appreciation with mid-rate today (19th) recording at LKR 190.9.

Reserves fall to lowest since 2009: Sri Lanka's Foreign reserves dropped to USD 4.1Bn in Mar 2021, the lowest since Aug 2009, on the back of over USD 4.0Bn outstanding debt payment during Apr-Dec 2021 period. The total foreign debt repayment (capital and interest) for 2021 was USD 6.0Bn.

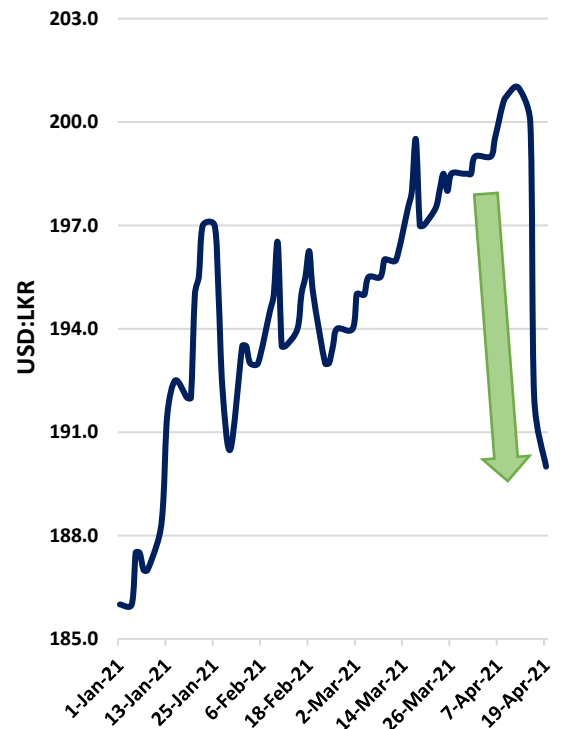
Rupee appreciation likely to be short-lived: Considering Sri Lanka's depleting foreign reserve position, high foreign currency debt repayment requirement and limited funding sources available in the market is expected to further increase depreciation pressure for the currency during 2Q and 3Q. We maintain our exchange rate target for 1H2021 at LKR 196.0-202.0 with 2021 year-end target at LKR 205.0-215.0 as mentioned in our "Investment Strategy 2021 – Jan 2021".

Buy into Dollar Income counters on weakness: We believe the temporary appreciation in USD-LKR, may adversely impact earnings of export companies (HAYL, HAYC, DIPD, MGT, TJL, EXPO) in the short term. However, considering the potential future currency pressure, we expect an overall depreciation of c.12% for the rupee providing a significant gain for companies with foreign currency revenue. **BUY ON WEAKNESS [HAYL, HAYC, DIPD, MGT, TJL, EXPO].**

FIRST CAPITAL RESEARCH

Atchuthan Srirangan +94 11 263 9863
atchuthan@firstcapital.lk

LKR appreciates 5.0%



Source: Bloomberg



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			

UNIT TRUST SALES

Kavin Karunamoorthy	+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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