



# JOHN KEELLS HOLDINGS PLC [JKH.N0000]

## MAINTAIN BUY

### STABLE ON MOST FRONTS...

**Fair Value: FY22E - LKR 180.0 [+33%]**

Total Return with DPS: FY21E - 35% [AER 48%]

**FY23E - LKR 210.0 [+55%]**

FY23E - 60% [AER 30%]

*JKH's earnings grew by 27%YoY in 4QFY21 mainly driven by the improved finance income and profitability in NTB despite a partial offset due to negative growth in Leisure and Property sectors. We expect a gradual rebound in consumer demand from 1QFY22 supporting a recovery in JKH earnings for FY22E. Thereby, we maintain our recurring earnings of LKR 13.8Bn (+190%YoY) for FY22E and LKR 17.5Bn (+27%YoY) for FY23E. We estimate the sum-of-the-parts fair value of LKR 180.0 for FY22E. **MAINTAIN BUY***

LKR (Mn)	4QFY20	4QFY21	YoY	FY20	FY21	YoY
<b>Earnings (LKR 'Mn)</b>						
Revenue	36,868	38,816	+5%	138,956	127,676	-8%
Gross profit	7,086	6,356	-10%	26,082	18,929	-27%
EBIT	2,623	3,037	+16%	6,789	2,552	-62%
PBT	5,339	5,720	+7%	12,403	5,445	-56%
Net Profit	3,733	4,757	+27%	9,414	4,772	-49%
<b>Balance Sheet (LKR 'Mn)</b>						
Shareholders' Equity	216,852	226,157	+4%	216,852	226,157	+4%
Borrowings	70,835	143,201	+102%	70,835	143,201	+102%
NAVPS	164.3	171.4		164.3	171.4	

#### 4QFY21 earnings up by 27% on finance income

JKH recorded earnings of LKR 4.8Bn in 4QFY21 up by +27%YoY, largely backed by LKR 4.4Bn in finance income and spike in finance sector earnings driven by NTB with higher gains from FX trading and fixed income portfolio, coupled with lower impairment charges along with a deferred tax reversal. Leisure and Property sector performed below our expectation while compensated by the Finance Services, Transport and Retail sectors performing above our expectations. Thereby, we maintain FY22E and FY23E earnings at LKR 13.8n (+190%YoY) and LKR 17.5Bn (+27%YoY) respectively.

#### Rupee depreciation and improved margins impact transport

JKH Transportation segment EBITDA jumped to LKR 1.3Bn in 4QFY21 from LKR 925.0Mn in 4QFY20 due to higher market share and improved profitability margins in bunkering business, while South Asia Gateway Terminals (SAGT) recorded a decline (-12%YoY) in TEU handling. Cost saving initiatives and increase in exchange gains on the back of rupee depreciation assisted in offsetting TEU decline in SAGT.

#### Robust performance across the retail business

Retail segment EBITDA increased to LKR 1.6Bn in 4QFY21 from LKR 1.5Bn led by the growth in CCS's retail (Keells) operations during the quarter. Revenue growth was mainly supported by a recovery in same-store sales and improved consumer sentiment during the quarter. Keells opened 8 new supermarkets during 4QFY21 increasing the total outlets to 123.

#### COVID-19 waves delay recovery

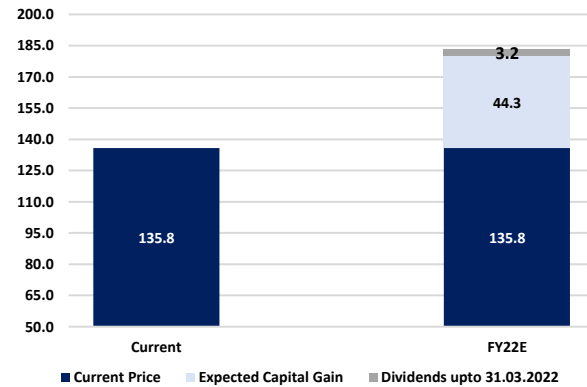
JKH's leisure segment EBITDA dipped by 96%YoY due to lower tourist arrivals in resorts and city hotels in Colombo, even though this was partially offset by the improvement in domestic tourism in 4QFY21. Despite the subdued activity in Sri Lanka, Maldivian segment recorded 53% occupancy during 4QFY21. We expect a gradual momentum of forward bookings in Maldives to improve occupancy from key source markets during the peak season.

#### Cinnamon Life & new development projects to lead earnings beyond FY22E

We expect Cinnamon Life's residential apartment and office complex to contribute to revenue and profit from 1QFY22E onwards, while on the other hand, JKH has also secured the development of West Container Terminal (WCT) in the port of Colombo with Adani Group on a BOT basis for 35 years.

#### 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 33% (including a DY of 2%) and an annualized return of 48%. **MAINTAIN BUY**



### FIRST CAPITAL RESEARCH

Atchuthan Srirangan

+94 11 263 9863

[atchuthan@firstcapital.lk](mailto:atchuthan@firstcapital.lk)

#### Price Movement of JKH vs ASPI and Past Recommendations



#### Minimum Return for BUY:

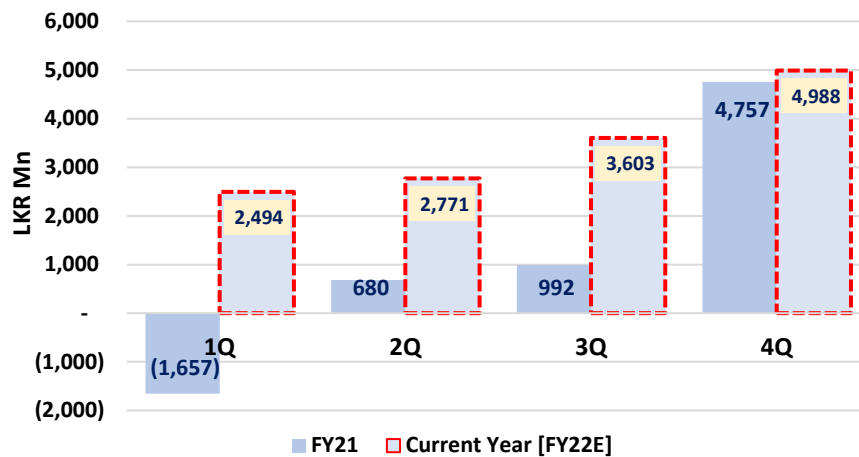
**Buy Below for FY22E [AER of 10.1% with DPS]: LKR 165.0.**  
JKH categorized as 'Grade A' counter

#### Disclosure on Shareholding:

First Capital Group or the covering analyst did not hold 1% or more of the total outstanding share capital of JKH during the five trading days prior to the issuance of this document

Source: CSE

## Quarterly Earnings



## Valuation Table

P/E 31 March	FY18	FY19	FY20	FY21E	FY22E	FY23E	FY24E
<b>Estimates (LKR 'Mn)</b>							
Revenue	121,215	135,374	138,860	127,676	209,044	235,638	272,210
EBIT	16,658	7,657	6,789	2,552	7,821	14,401	18,718
Net Profit	<b>21,021</b>	<b>15,254</b>	<b>9,414</b>	<b>4,772</b>	<b>13,856</b>	<b>17,537</b>	<b>22,121</b>
<b>Adjusted Net Profit</b>	<b>16,521</b>	<b>15,254</b>	<b>9,414</b>	<b>4,772</b>	<b>13,856</b>	<b>17,537</b>	<b>22,121</b>
Adjusted EPS (LKR)	12.5	11.6	7.1	3.6	10.5	13.3	16.8
YoY Growth (%)	2%	-8%	-38%	-49%	190%	27%	26%
<b>Valuations</b>							
PER (x)	10.8x	11.7x	19.0x	37.5x	12.9x	10.2x	8.1x
PBV (x)	0.9x	0.9x	0.8x	0.8x	0.8x	0.7x	0.7x
DY (%)	4.7%	3.4%	0.8%	1.5%	2.3%	2.9%	3.7%

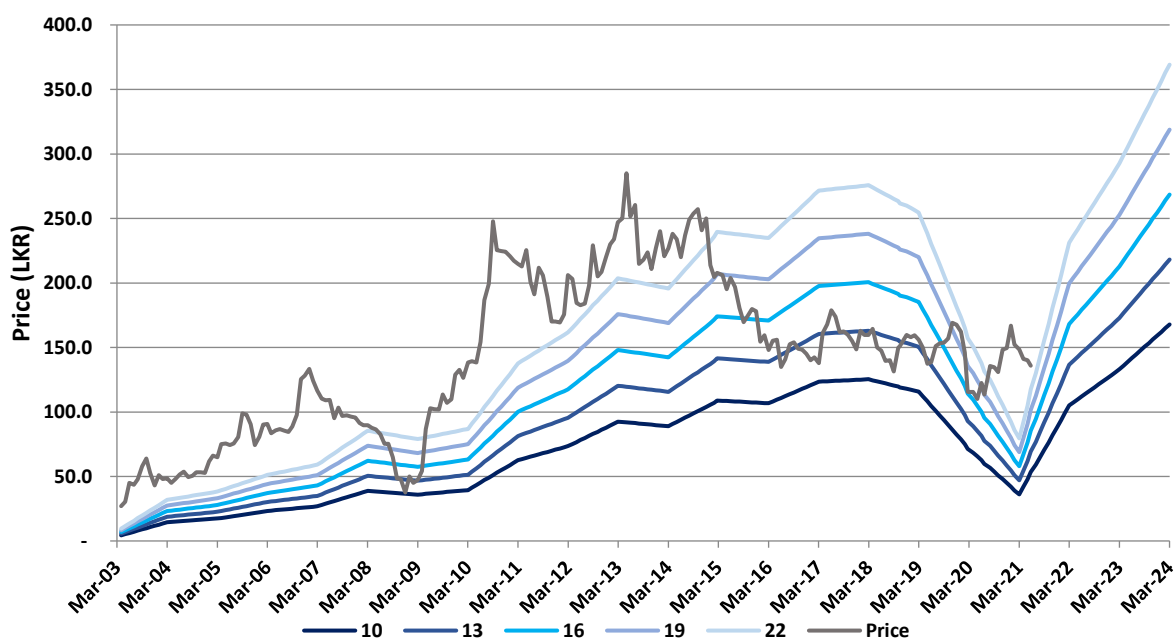
### Valuation Summary

Return	FY22E	FY23E
Target Price	180.0	210.0
Current Price	135.8	135.8
Capital Gain (LKR)	44.3	74.3
Dividend (LKR)	3.2	7.1
Capital Gain %	33%	55%
Dividend Yield %	2%	5%
<b>Total Return %</b>	<b>35%</b>	<b>60%</b>
<b>Annualized Return %</b>	<b>48%</b>	<b>30%</b>

### 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%	32,742		24.8	11%
Leisure	DCF	40/60	17%	11%	3%	30,291		31.7	14%
Property	DCF	40/60	12%	11%	3%	119,866		86.5	38%
Consumer Foods & Retail	DCF	40/60	12%	10%	3%	87,855		66.6	29%
Financial Services	Justified PBV		10%		3%		24,692	18.7	8%
Fair value before net debt								<b>228.4</b>	<b>100%</b>
Less: Debt								121.5	
Add: Cash								28.3	
Add: Short Term Investment								42.0	
<b>Fair value</b>								<b>177.3</b>	
<b>Target Price after Rounding up</b>								<b>180.0</b>	

### PER Chart



## Appendix I: Statement of Income and Expenses

Income Statement (LKR Mn)	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>P/E 31st March</b>							
<b>Revenue</b>	<b>121,215</b>	<b>135,374</b>	<b>138,860</b>	<b>127,676</b>	<b>209,044</b>	<b>235,638</b>	<b>272,210</b>
<b>EBIT by Sector</b>							
Transportation	1,009	769	1,070	864	1,233	1,354	1,490
Leisure	3,753	2,564	-969	-7,555	-985	3,518	4,981
Property	686	38	-175	41	1,365	1,804	2,676
Consumer Foods & Retail	4,378	3,327	5,641	5,833	5,503	6,827	8,445
Financial Services	7,101	2,754	1,233	1,773	1,955	2,273	2,640
Information Technology	0	0	0	0	0	0	0
Other	-268	-354	-824	-132	-1,250	-1,375	-1,513
<b>EBIT</b>	<b>16,658</b>	<b>7,657</b>	<b>6,789</b>	<b>2,552</b>	<b>7,821</b>	<b>14,401</b>	<b>18,718</b>
Finance Cost	-521	-2,722	-3,166	-4,669	-6,309	-6,822	-7,422
Finance Income	7,357	12,052	9,357	10,689	9,974	8,954	10,275
Change in fair value of inv. property	896	325	573	-253	1,500	550	550
Share of profit of Associates	3,596	4,727	4,466	4,159	4,471	5,011	5,748
Adjustments	-353	0	0	0	0	0	0
<b>PBT</b>	<b>27,634</b>	<b>18,616</b>	<b>12,404</b>	<b>5,445</b>	<b>17,456</b>	<b>22,094</b>	<b>27,869</b>
Taxation	-4,515	-2,378	-2,662	-1,494	-2,230	-2,822	-3,560
<b>Net profit for the period</b>	<b>23,120</b>	<b>16,237</b>	<b>9,741</b>	<b>3,951</b>	<b>15,226</b>	<b>19,271</b>	<b>24,309</b>
Minority Interest	-2,099	-983	-327	821	-1,370	-1,734	-2,188
<b>Profit attributable to Equity Holders</b>	<b>21,021</b>	<b>15,254</b>	<b>9,414</b>	<b>4,772</b>	<b>13,856</b>	<b>17,537</b>	<b>22,121</b>
<b>Recurring Profit</b>	<b>16,521</b>	<b>15,254</b>	<b>9,414</b>	<b>4,772</b>	<b>13,856</b>	<b>17,537</b>	<b>22,121</b>
<b>EPS</b>	<b>15.9</b>	<b>11.6</b>	<b>7.1</b>	<b>3.6</b>	<b>10.5</b>	<b>13.3</b>	<b>16.8</b>
<b>Adjusted EPS</b>	<b>12.5</b>	<b>11.6</b>	<b>7.1</b>	<b>3.6</b>	<b>10.5</b>	<b>13.3</b>	<b>16.8</b>

## Appendix II: Statement of Financial Position

Balance Sheet (LKR Mn)	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>As at 31st March</b>							
<b>Non Current Assets</b>							
Property plant and equipment	87,260	97,688	111,534	113,077	118,070	121,622	124,703
Investment Property	12,427	13,985	15,008	14,868	16,652	18,650	20,888
Other Non Current Financial Assets	32,878	35,186	40,078	62,590	65,719	66,376	67,040
Other Non Current Assets	53,771	78,528	80,485	105,669	121,520	139,748	160,710
	<b>223,687</b>	<b>268,376</b>	<b>315,894</b>	<b>370,303</b>	<b>400,532</b>	<b>429,978</b>	<b>462,670</b>
<b>Current Assets</b>							
Inventories	6,690	9,547	50,169	54,296	62,713	63,622	73,497
Trade and Other Receivables	12,273	14,421	12,186	17,457	28,582	23,564	27,221
Short Term Investments	64,386	52,757	38,458	69,263	55,410	56,518	57,649
Cash and cash equivalents	10,883	12,955	13,334	19,433	37,352	54,356	59,806
	<b>98,762</b>	<b>95,421</b>	<b>121,050</b>	<b>166,491</b>	<b>190,101</b>	<b>204,103</b>	<b>224,215</b>
<b>Total Assets</b>	<b>322,449</b>	<b>363,797</b>	<b>436,944</b>	<b>536,794</b>	<b>590,632</b>	<b>634,081</b>	<b>686,885</b>
<b>Equity and Liabilities</b>							
<b>Capital and Reserves</b>							
Ordinary shares	62,802	62,806	62,881	63,102	63,104	63,106	63,108
Reserves	137,118	141,480	153,970	163,055	172,754	185,030	200,515
Shareholders Funds	199,920	204,287	216,852	226,157	235,858	248,136	263,622
Minority Interest	24,944	26,072	26,872	16,830	18,200	19,935	22,123
	<b>224,865</b>	<b>230,359</b>	<b>243,724</b>	<b>242,987</b>	<b>254,058</b>	<b>268,071</b>	<b>285,745</b>
<b>Non - Current Liabilities</b>							
Insurance contract Liabilities	30,231	32,833	38,186	45,161	47,419	52,161	57,377
Borrowings	18,521	21,277	70,835	143,201	157,521	173,273	190,600
Other	13,985	19,685	24,529	30,927	34,019	37,421	41,163
	<b>64,708</b>	<b>75,881</b>	<b>135,894</b>	<b>222,102</b>	<b>241,773</b>	<b>265,669</b>	<b>291,954</b>
<b>Current Liabilities</b>							
Trade and other payables	16,077	19,745	23,881	35,288	57,777	65,127	75,235
Bank overdraft	6,010	20,061	17,679	11,820	24,238	24,250	24,262
	<b>32,876</b>	<b>57,557</b>	<b>57,326</b>	<b>71,705</b>	<b>94,801</b>	<b>100,342</b>	<b>109,187</b>
<b>Total liabilities</b>	<b>97,584</b>	<b>133,438</b>	<b>193,220</b>	<b>293,807</b>	<b>336,574</b>	<b>366,011</b>	<b>401,141</b>
<b>Total equity &amp; liabilities</b>	<b>322,448</b>	<b>363,797</b>	<b>436,944</b>	<b>536,794</b>	<b>590,632</b>	<b>634,081</b>	<b>686,886</b>
<b>NAVPS</b>	<b>151.7</b>	<b>155.0</b>	<b>164.5</b>	<b>171.6</b>	<b>178.9</b>	<b>188.2</b>	<b>200.0</b>



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

<b>CEO</b>	Jaliya Wijeratne	+94 70 2910 042	<b>Negombo</b>	
			Priyanka Anuruddha	+94 70 2910 035
<b>Colombo</b>			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 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.
<b>Manager: Salinda Samarakoon</b>	<b>Manager:</b>	<b>Manager: Rohana Jayakody</b>	<b>Manager:</b>
Tel: +94 81 2236 010	Tel: +94 37 2222 930	Tel: +94 41 2222 988	Tel: +94 31 2233 299

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