



First Capital

INBOUND TOURISM TO RETRIEVE



First Capital Research

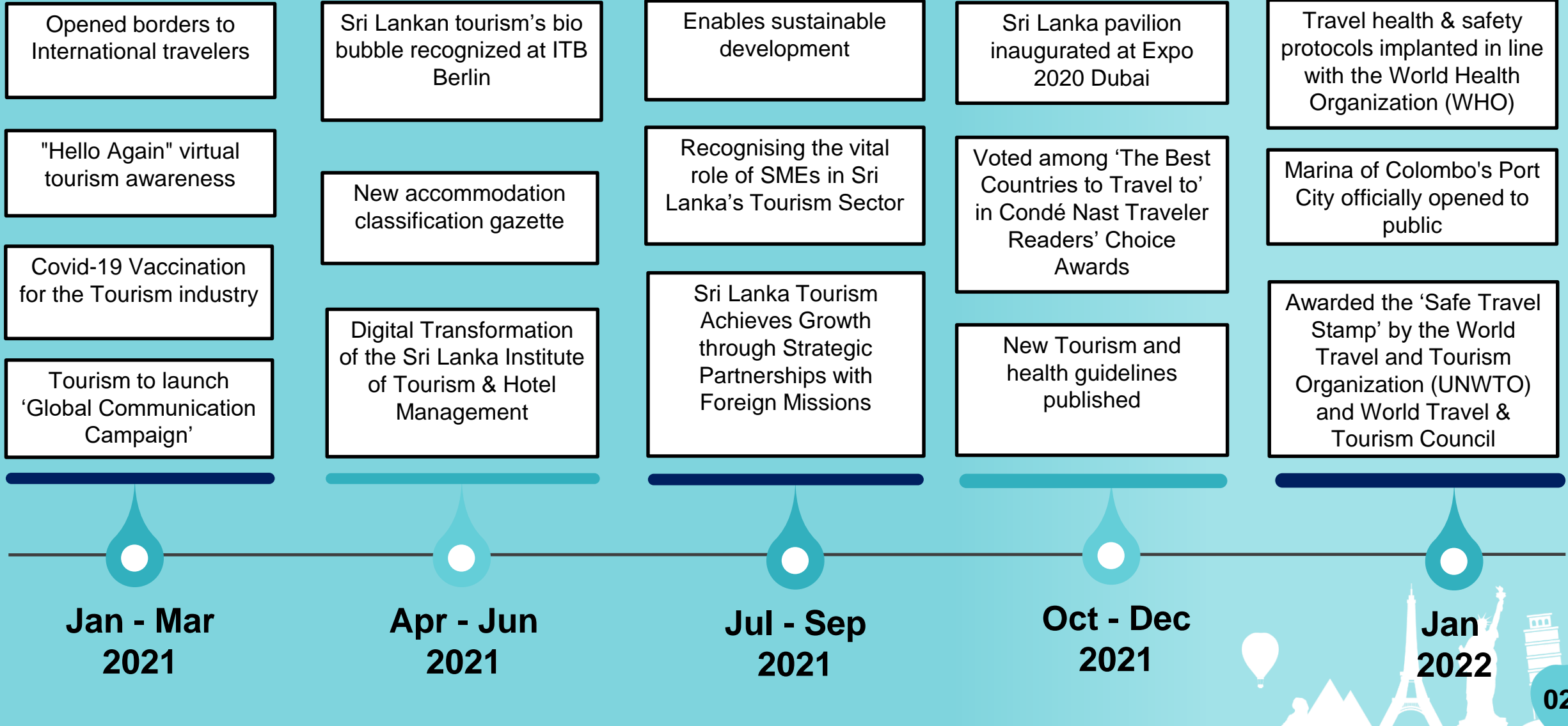
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Tourism Sector in Sri Lanka

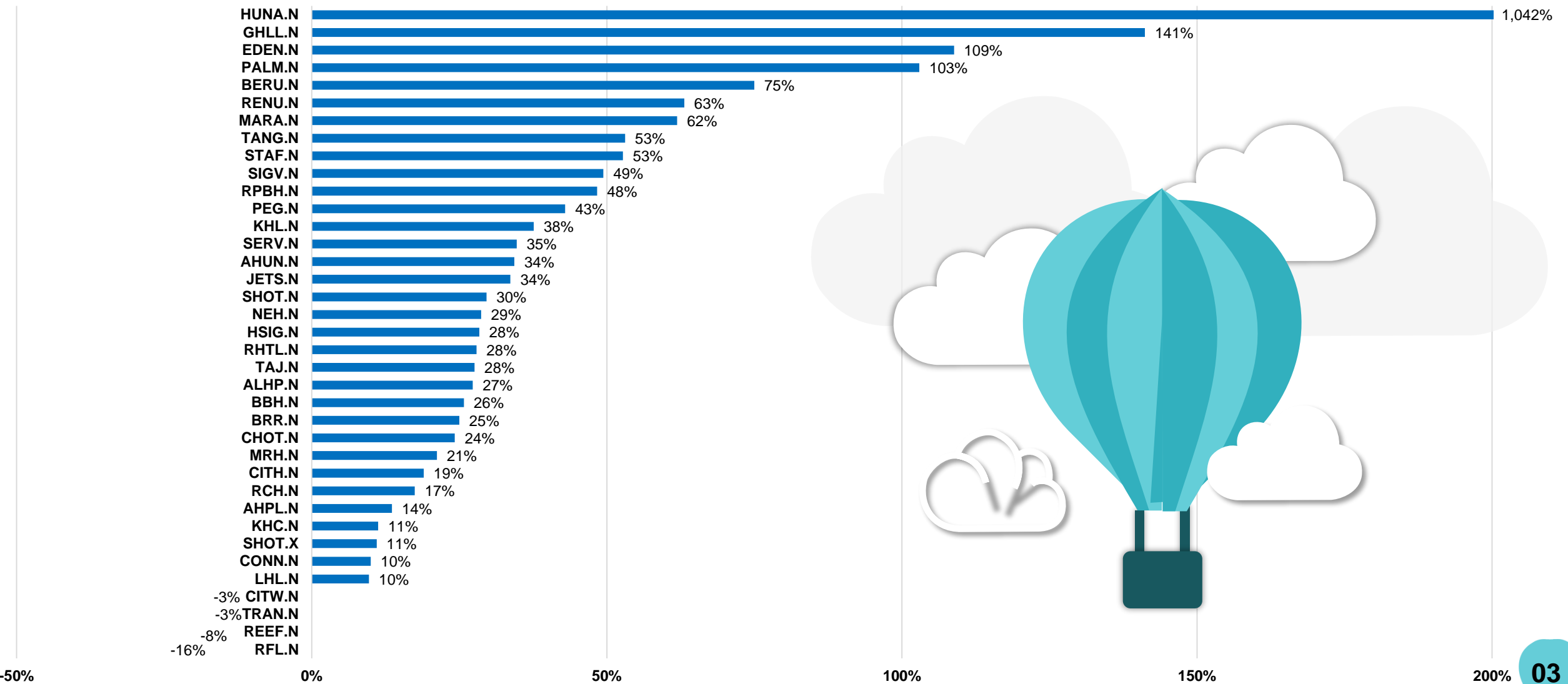
EQUITY | SRI LANKA | SECTOR REPORT

FEB 2022

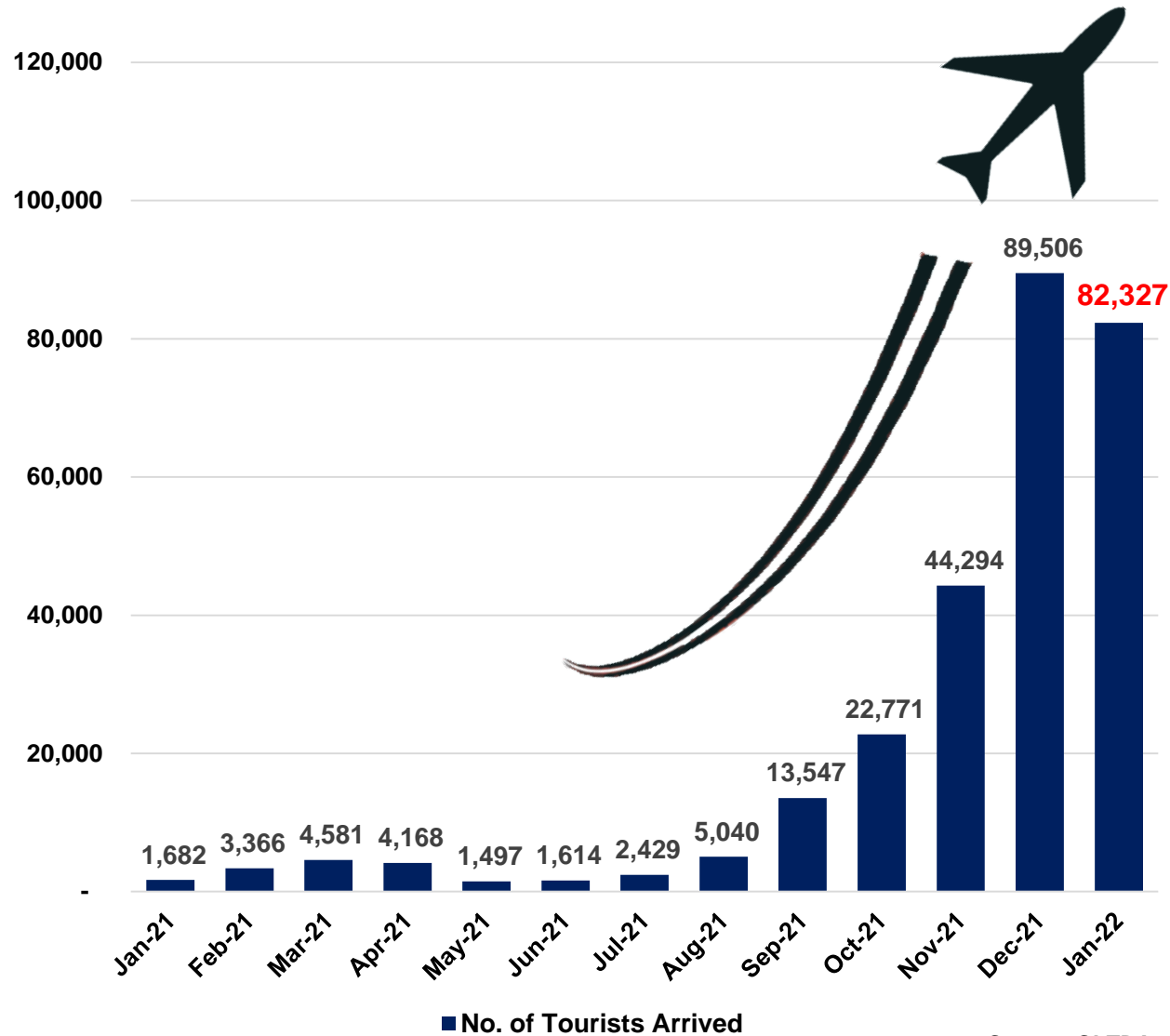
2021/ 2022 Tourism Highlights



90% of the Hotel sector counters appreciated since pandemic with increased no. of tourist arrivals



Inbound tourism started rising from 2H2021...



Source: SLTDA

The total number of international tourist arrivals during Dec 2021 was recorded at 89,506 (+101.6%MoM).

Total of 82,327 tourists arrived in Jan 2022 which declined by -8.0% compared to Dec 2021 amidst closure of borders in Europe countries.

The increase in tourist arrivals has been boosted by the increased connectivity by international airlines. Four international airlines resumed their operations to Colombo in November 2021 including, France, Russia, Switzerland and Singapore.

...mainly from European and Asia Pacific region

Dec- 21

Jan- 22

| | | |
|--------|------------------|--------|
| 10,793 | Russia | 13,478 |
| 23,566 | India | 11,751 |
| 3,562 | Ukraine | 7,774 |
| 8,493 | UK | 7,442 |
| 5,875 | Germany | 5,339 |
| 3,021 | France | 3,616 |
| 1,379 | Poland | 3,185 |
| 2,896 | Maldives | 2,401 |
| 3,129 | Australia | 2,814 |

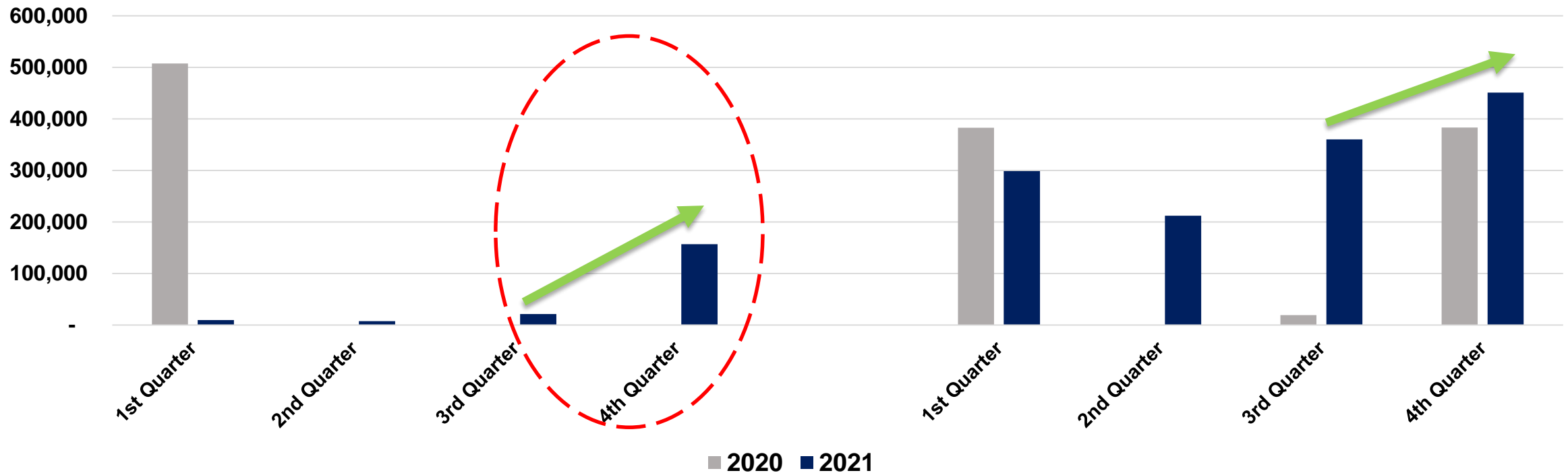


Russia, India, Ukraine, UK and Germany are Sri Lanka's Top five international tourist generating markets in Jan 2022. Russia tops the table of the largest source of tourist traffic to Sri Lanka with 16.4% in Jan- 22 (Dec 12.1%). India and Ukraine accounted for 14.3% (Dec 26.3%) and 9.4% (Dec 4.0%) of the total traffic respectively. In addition, commencement of direct flights from Russia to Sri Lanka boosted the number of tourists inflows during the period.

Source: SLTDA

Sri Lanka follows the same growth pattern of tourism as Maldives in 2021

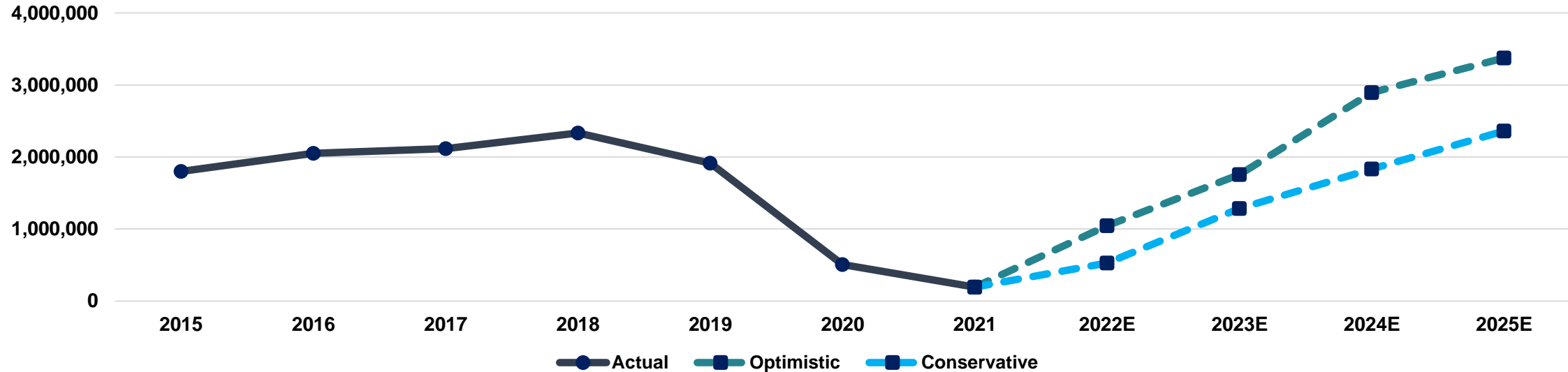
International Tourist Arrival: Sri Lanka Vs Maldives



SRI LANKA

MALDIVES

Sri Lanka Tourism Development Authority (SLTDA) expects a healthy level of growth in the upcoming years



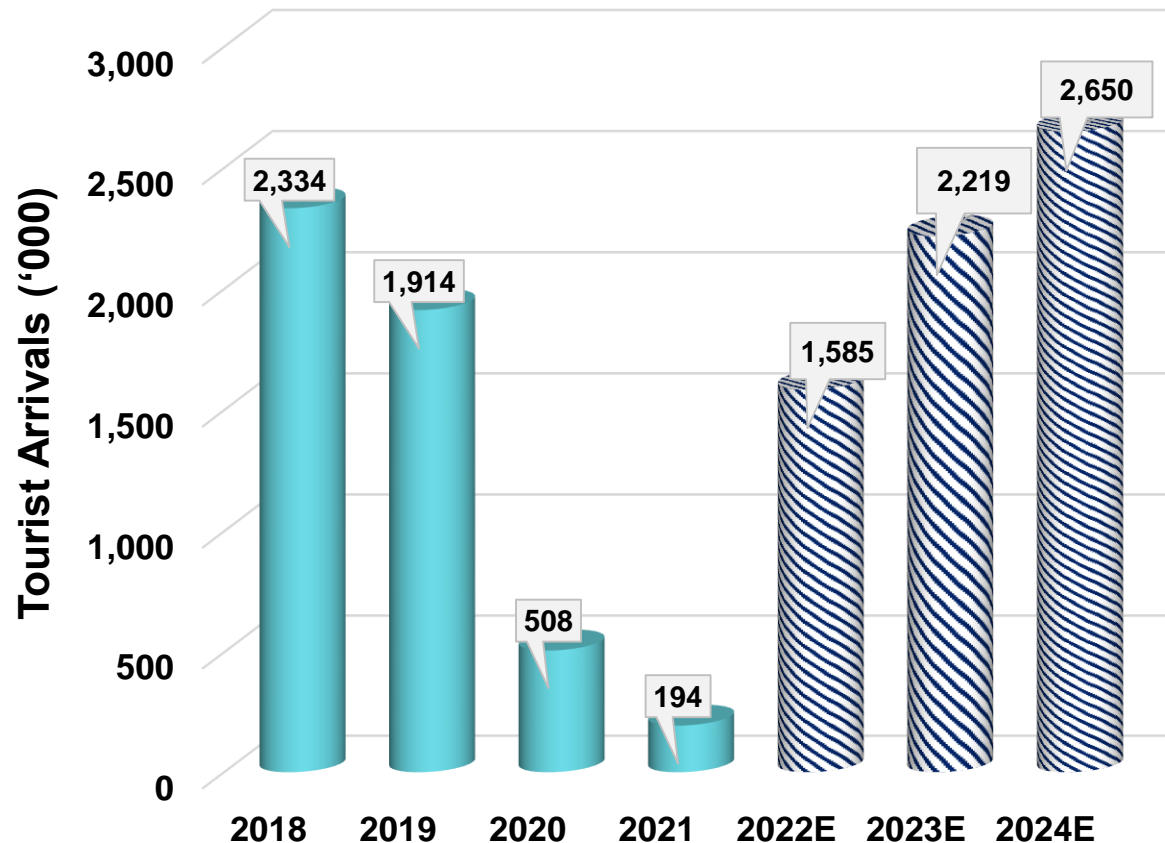
Source: SLTDA

Easing of border restrictions, increased roll out of COVID-19 vaccine programs, the gradual containment of the pandemic are the factors that influenced the growth in tourist arrivals in Sri Lanka.

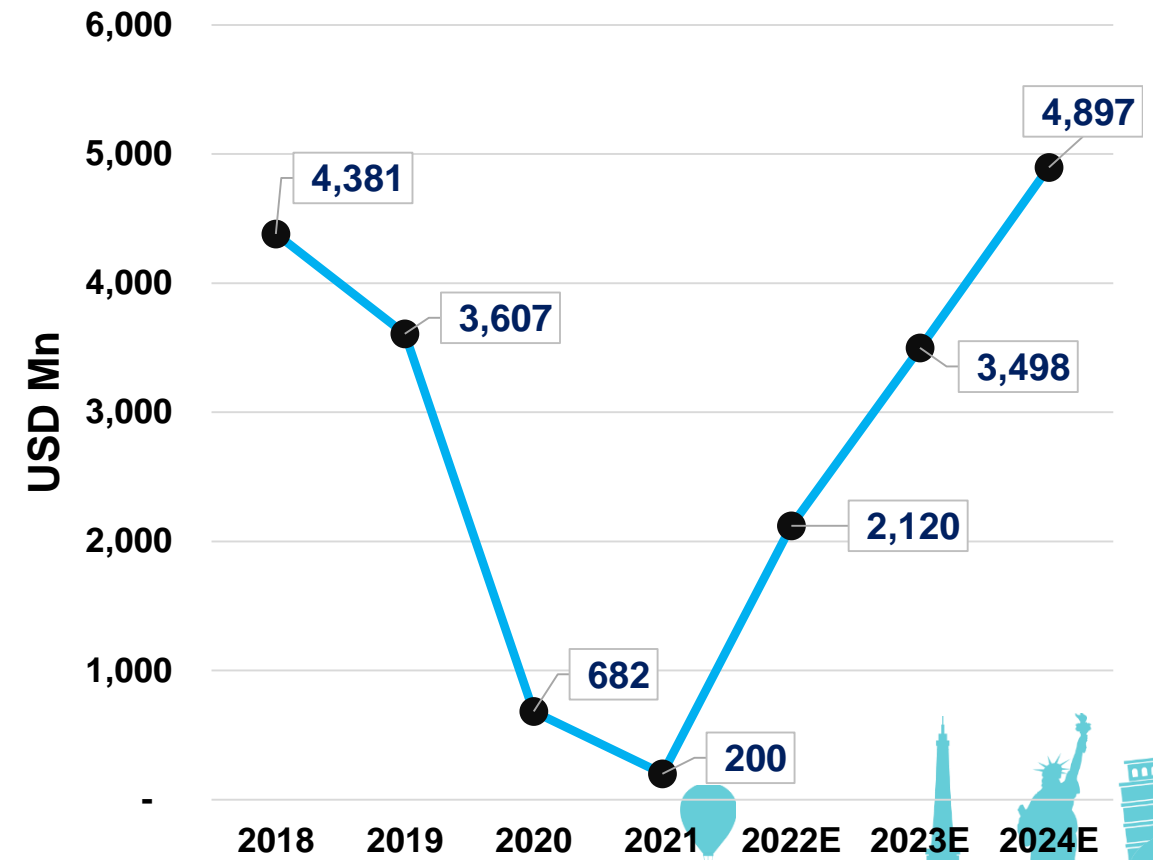
However, the future trend of tourism remains uncertain amidst the evolving nature of the pandemic. Several cancellations can be seen particularly from European countries and India following the resurgence of the Covid-19 Omicron variant. Therefore, protracted recovery is anticipated and do not expect the inbound tourism to exceed the pre-pandemic level at least until 2024.

We expect the increased roll-out of the Covid-19 vaccine to support the continuing recovery

Tourism to recover to pre-pandemic by 2024E...



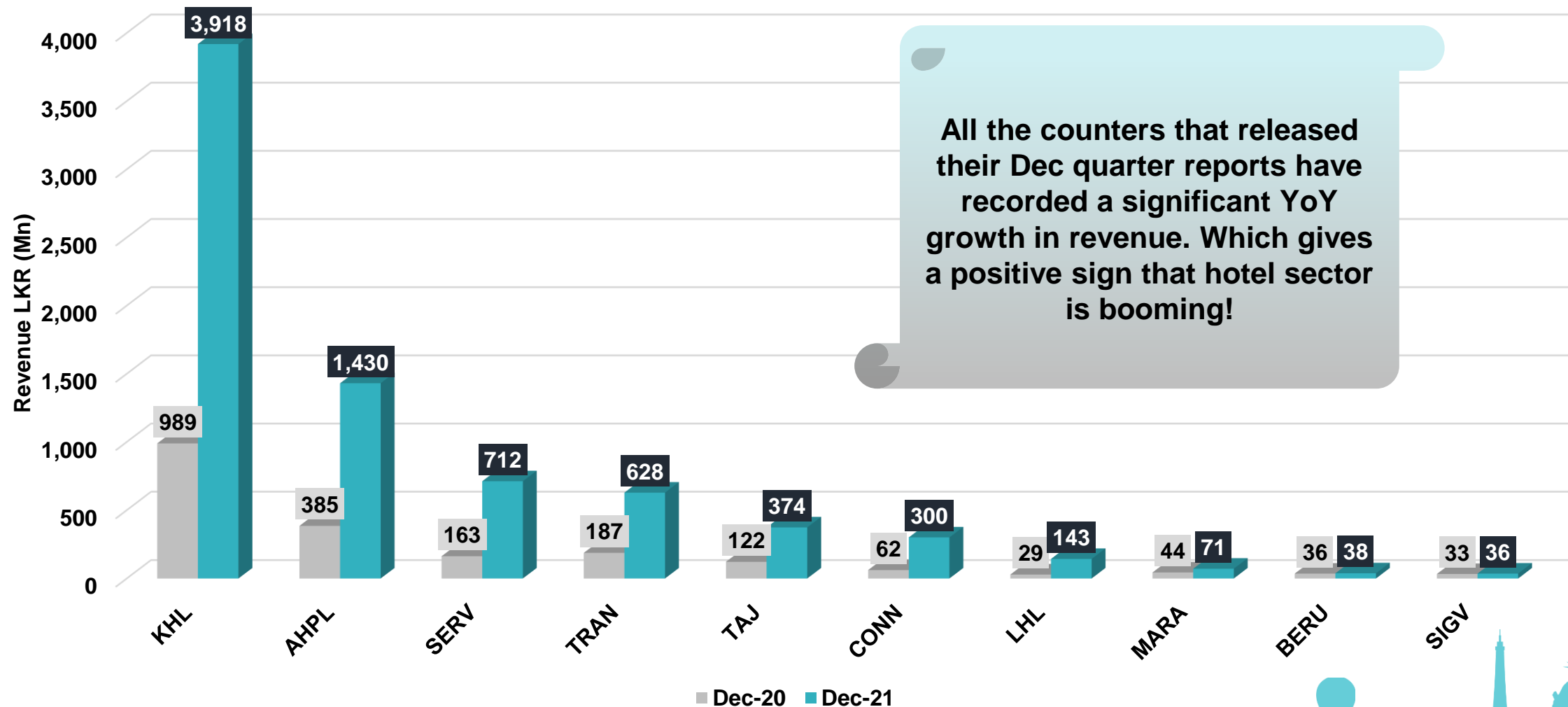
... recording nearly USD 4.9Bn by 2024E



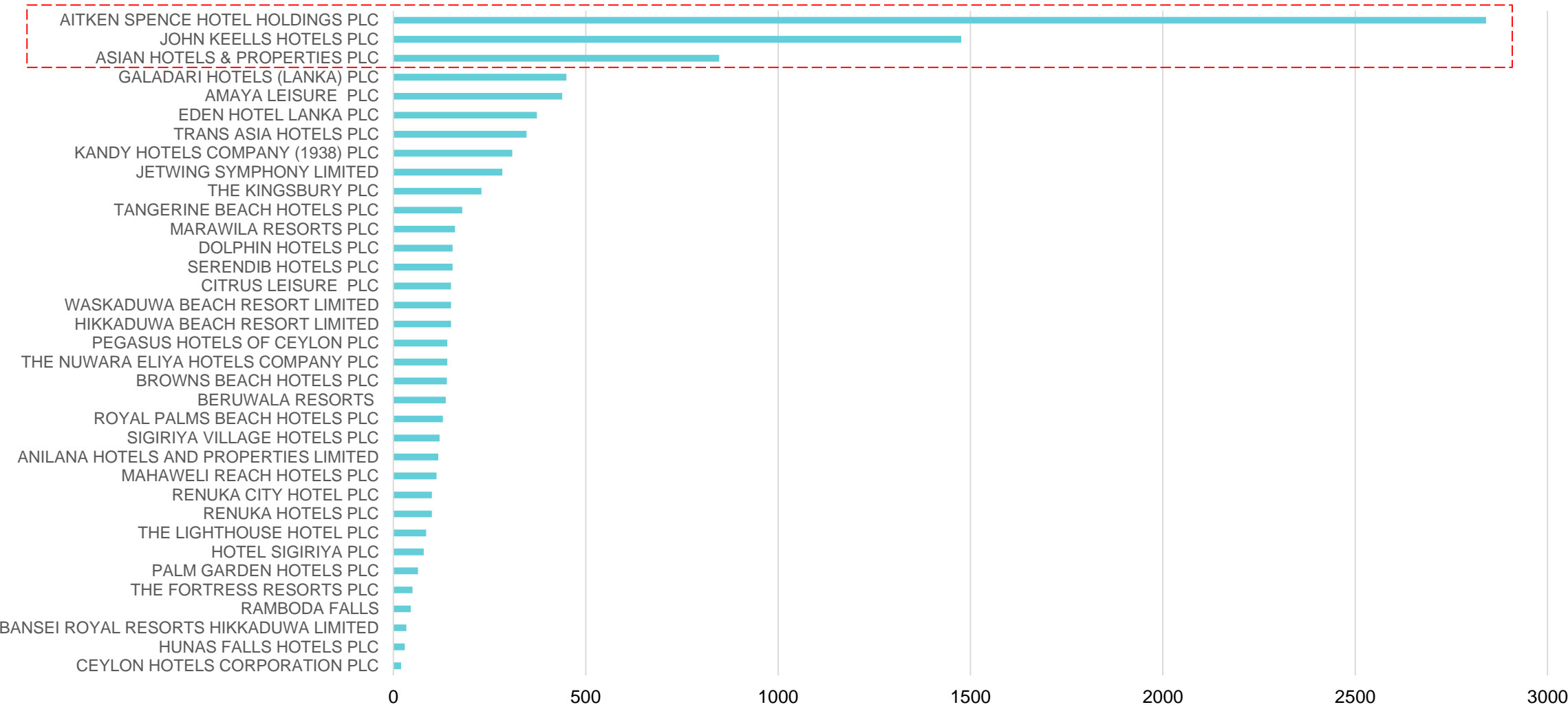
**Hotel sector counters
may continue to offer
further upside**



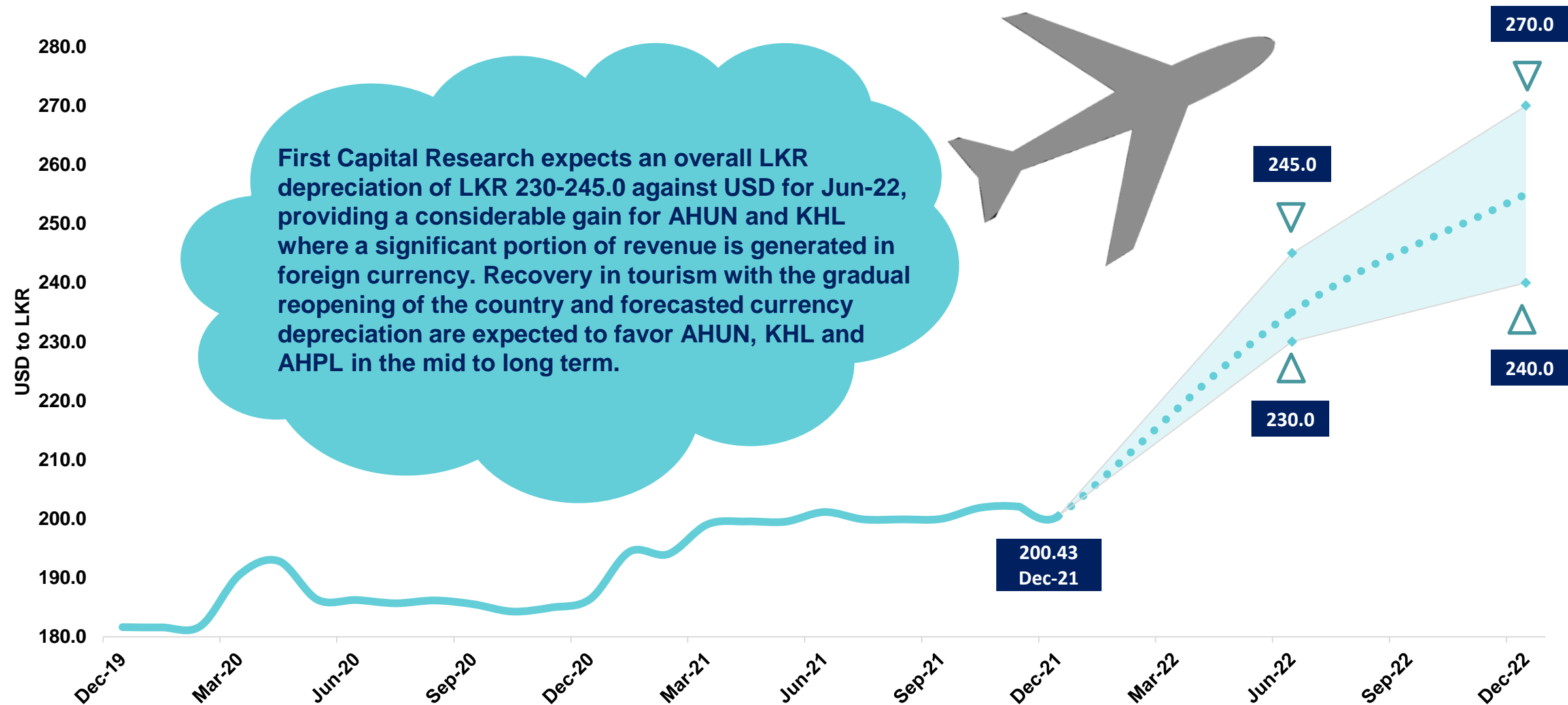
Revenue started to surge for the counters



AHUN, KHL and AHPL has the largest no.of hotel rooms under management, possibly to have a greater potential to upgrade performance

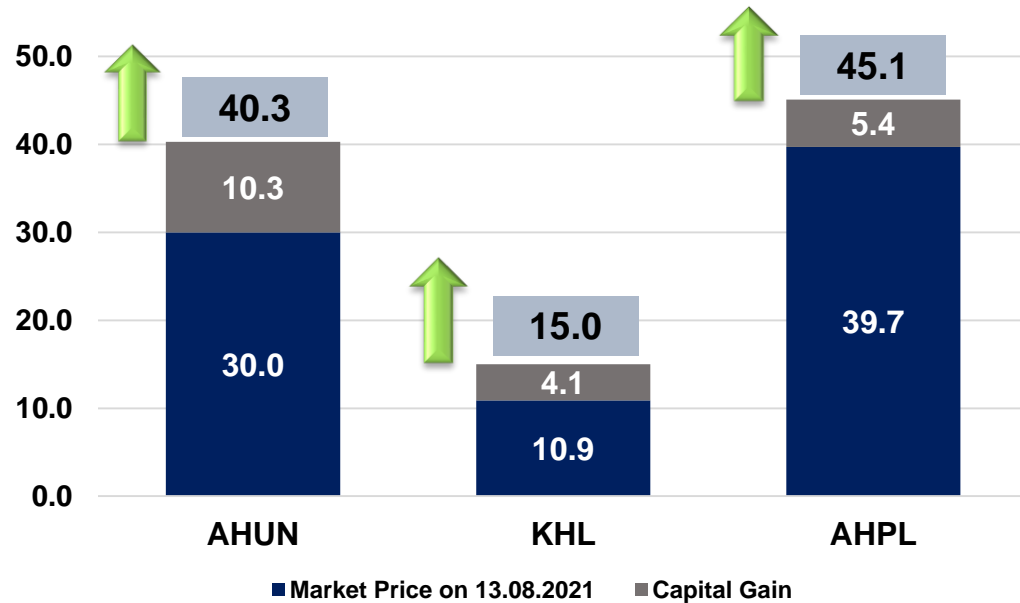


Potential currency depreciation to support Hotel sector counters



Source: CBSL, First Capital Research

Our trading picks recorded a notable performance growth during 2H2021 and expect to continue the momentum



Future outlook:

With the surge in tourism and our target of 1.6Mn tourists for 2022 with the expected growth of 717.0%YoY, we expect a massive surge in earnings for AHUN, KHL, AHPL in the upcoming quarters as these counters occupied with large number of rooms. Also, as the only listed counters with Maldives exposure, AHUN and KHL are well-positioned to take advantage of the increased demand in the Maldives.

AHUN is one of the listed companies in Maldives which has nearly 750 rooms exposure to Maldives. With that, AHUN is to gain greater advantage with the improved inflows of tourism since Maldives is one of the first tourist destinations to re-open borders with no mandatory quarantine requirement. Therefore, AHUN is expected to be a key benefiter due to its market leadership in terms of number of rooms and also due to the geographical diversification in terms of hotel locations.

KHL was on a journey to upgrade all its hotels and to bring it under the Cinnamon Brand. The latest addition during FY21 was Cinnamon Bentota Beach which was reconstructed. Group commenced refurbishment of Hikka Trans by Cinnamon which will be re-opened by 2QFY22 while construction of Cinnamon Red Kandy, which was halted, was recommenced in 2021 and is planned to be completed by 2HFY23. In the Maldives segment, 3 hotels were reconstructed / refurbished in FY19 & FY20 while the 4th resort, Cinnamon Velifushi Maldives has now been added.

AHPL is also in the process of bringing Cinnamon Colombo hotels and resorts under single operating structure. It is expected that the unified organisational structure may result in greater operational synergies and financial efficiencies across all hotels. Moreover, Cinnamon Grand remains the preferred venue for corporate events, weddings and celebrations with a reputation for excellence in service and cuisine. With the innovative packages and the opening of 'Plates', Cinnamon Grand's 24-hour international cuisine restaurant in January 2021 increased the dining capacity while expanding the offering for guests.

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THANK YOU

“Successful Investment Is About Managing Risk...”

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