



First Capital
A Janashakthi Group Company

VACCINATION DRIVE TO REVIVE TOURISM

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First Capital Research

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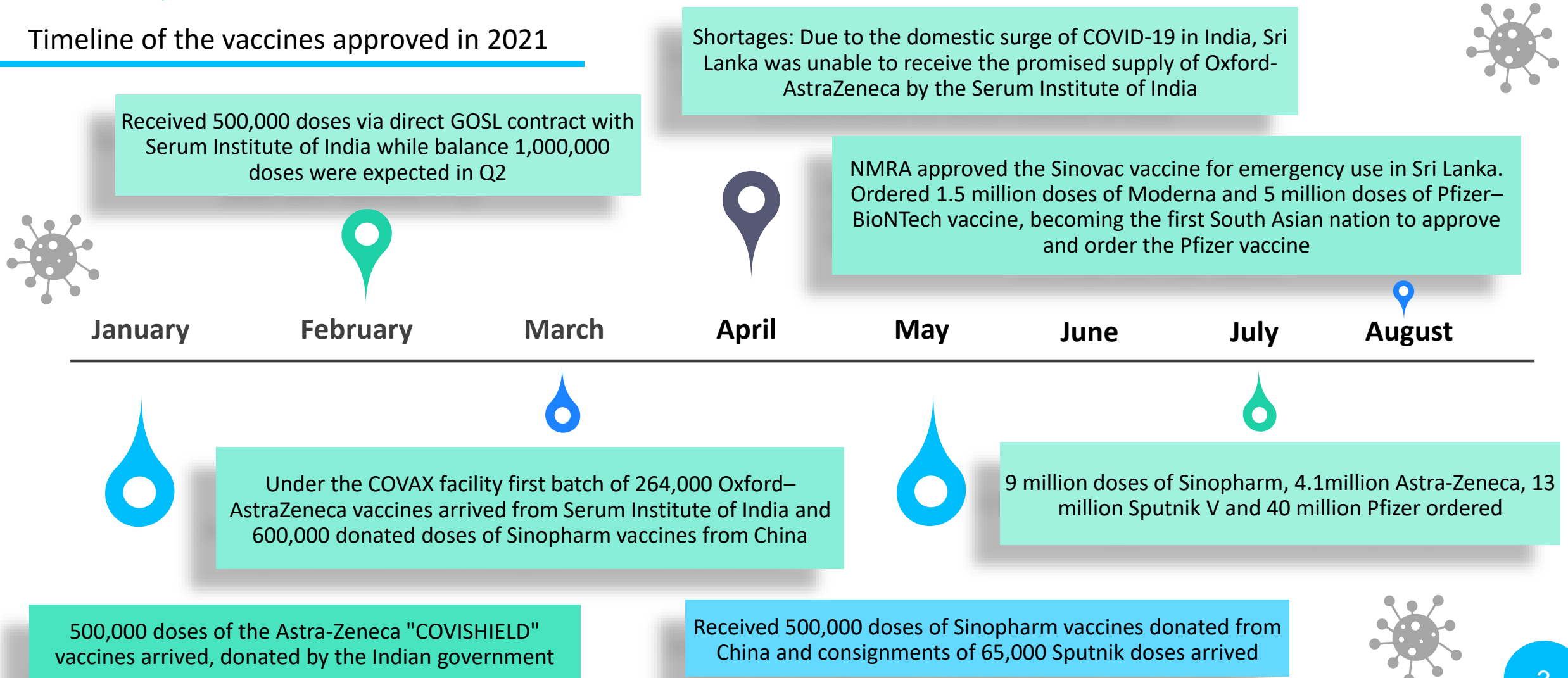
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Accelerated Vaccination Drive



With the rise of COVID-19 3rd wave and shortage in vaccines, SL accelerates the vaccine ordering process...

Timeline of the vaccines approved in 2021



...by signing vaccine purchase contracts with several pharmaceutical companies which were at the forefront of COVID-19 vaccine development...

Current Vaccine stock

Stocks on order

Oxford–AstraZeneca

Sputnik V

Pfizer–BioNTech

Sinopharm

Moderna

Sinovac

Approved



Deployed



Manufacturer

Serum Institute of India



Gamaleya Research Institute



Pfizer, BioNTech



Sinopharm Group



Moderna



Sinovac Biotech Ltd





...and also drawing up a comprehensive response plan to the COVID-19 pandemic in order to build resilience & readiness for the future

Government's revival plan

- Sri Lanka to vaccinate 100% of Over-30 population of the Western Province in Jul 2021
- Sri Lanka plans to vaccinate 13Mn (All Island Over-30) by the end of Sep 2021
- Mobile vaccination service to be implemented for people confined to their homes
- Sri Lanka exempts fully vaccinated travelers from quarantine as vaccination drive gains steam
- 18-30 year individuals to be vaccinated after 30+ completes
- Discussions are underway regarding the vaccination of children between 12-18 years with the Pfizer vaccine



Most vaccines are authorized for all age groups above 18 but varies in effectiveness while SINOPHARM is the vaccine that SL has received largest amount in quantity

	Effectiveness	Authorised	Dosing	Possible side effects
Sinovac	49.6 - 50.7%	18 - 60 Years old	2 Doses (3 Weeks between the shots)	Pain at the injection site, Headache, Numbness
Moderna	94.10%	Over 18 Years old	2 Doses (4 Weeks between the shots)	Pain, Swelling, Redness at the injection site, Chills or shivers, Headache, Fatigue
Johnson & Johnson	66.90%	Over 18 Years old	1 Dose	Pain at the injection site, Headache, Fever, Muscle pain, Fatigue, Nausea
Sinopharm	79.30%	18 - 60 Years old	2 Doses (3 - 4 Weeks between the shots)	Pain, Swelling, Redness at the injection site, Muscle pain, Rash, Fever
AstraZeneca	70.4 - 82.4%	Over 18 Years old	2 Doses (4 - 12 Weeks between the shots)	Pain at the injection site, Chills or shivers, Fever, Headache, Fatigue, Muscle pain, Thrombosis
pfizer - BioNtech	81.8 - 95%	Over 16 Years old	2 Doses (3 Weeks between the shots)	Pain, Swelling, Redness at the injection site, Chills or shivers, Headache, Fatigue
Sputnik V	91.1 - 91.5%	Over 18 Years old	2 Doses (3 Weeks between the shots)	Pain, Swelling, Redness at the injection site, Chills or shivers, Headache, Rash, Fatigue
Novavax	89.30%	Over 18 Years old	2 Doses (3 Weeks between the shots)	Pain at the injection site, Headache, Fever, Fatigue, nausea, Swollen lymph nodes



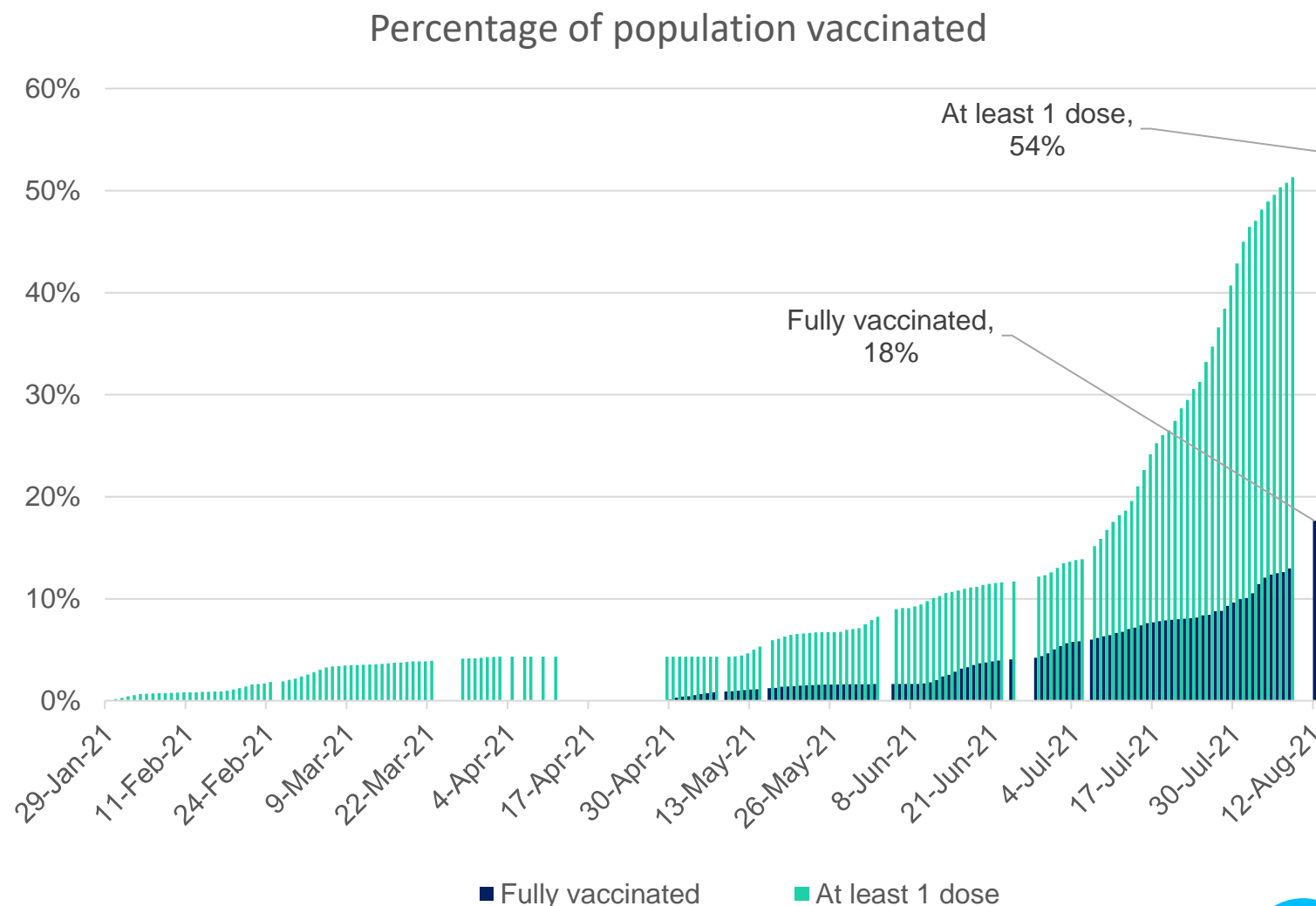
Current State Of Vaccine Deployment In The Country

- As of August 17th, Sri Lanka has administered at least **15,310,726** doses of COVID vaccines so far. Assuming every person needs 2 doses, that's enough to have vaccinated about **35.1%** of the country's population.
- Sri Lanka recorded the first, **highest single-day** COVID-19 vaccinations on the **13th of July**.

Priority Groups:

- ✓ Front line health workers
- ✓ Front line military and police
- ✓ Above 60
- ✓ International travelers and outbound migrants/workers/students, other vulnerable, cleaning, ports, essential, immune compromised
- ✓ Working population 50-59 with comorbidities
- ✓ Working population 40-49 with comorbidities
- ✓ Working population 30-39 with comorbidities
- ✓ Working population 50-59 without comorbidities
- ✓ Working population 40-49 without comorbidities
- ✓ Working population 35-39 without comorbidities

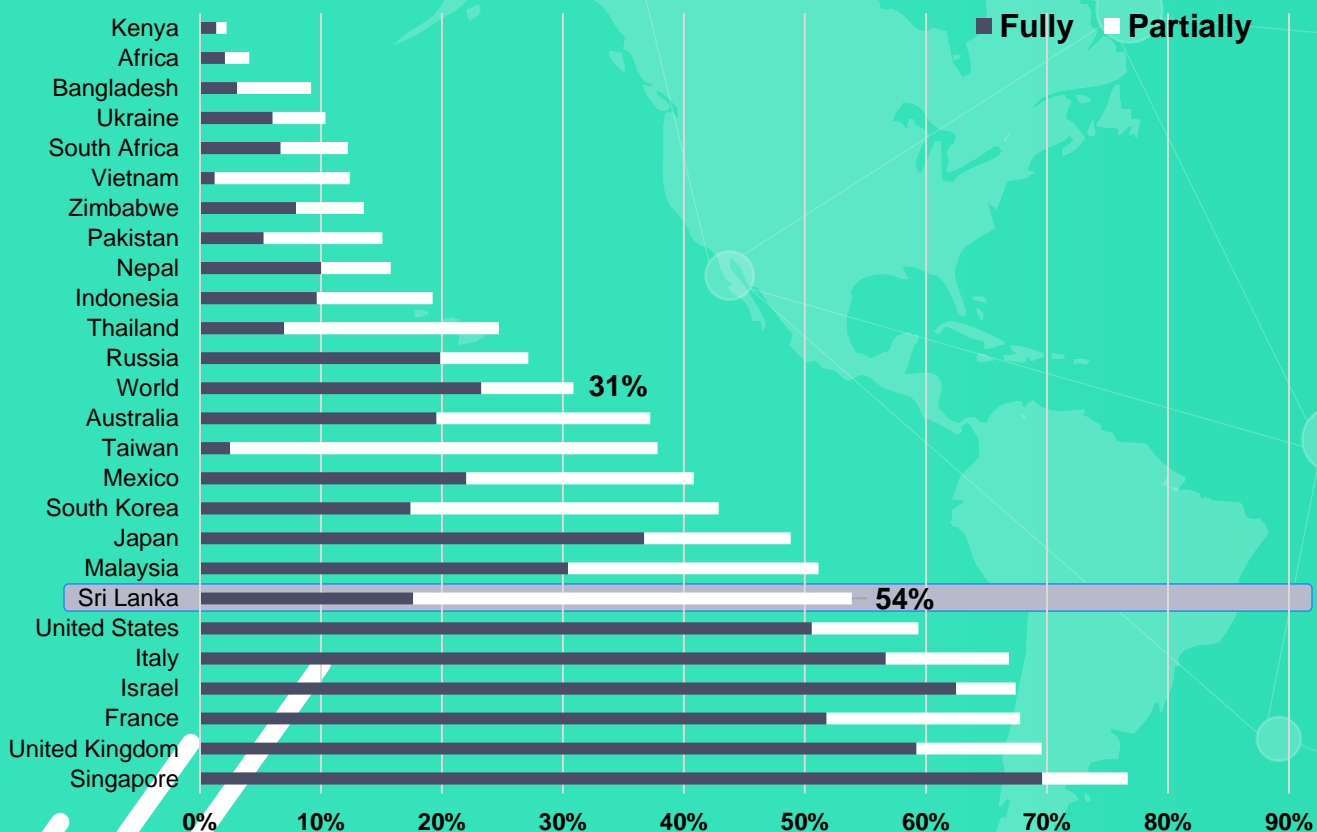
Sri Lanka accelerates vaccination drive...



...reaching 50% of the population who have received at least 1 dose...

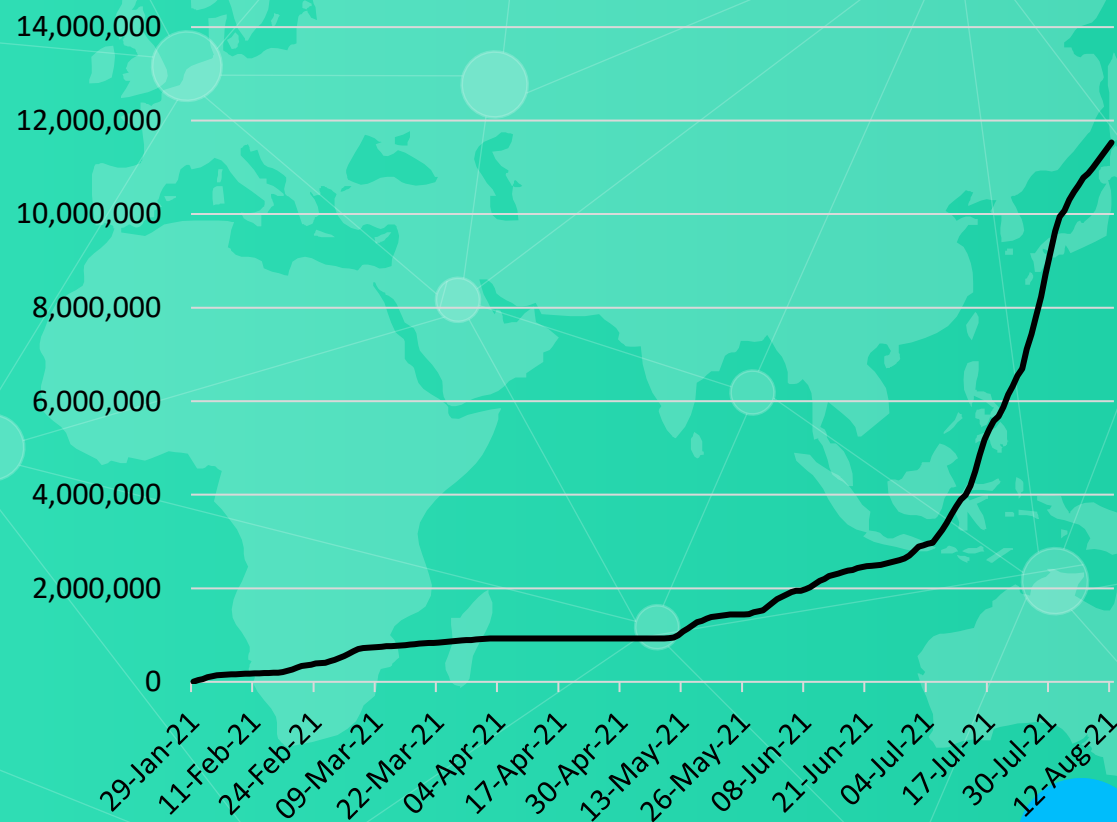
Among the countries with the most vaccinations

Share of people vaccinated, Aug 12, 2021



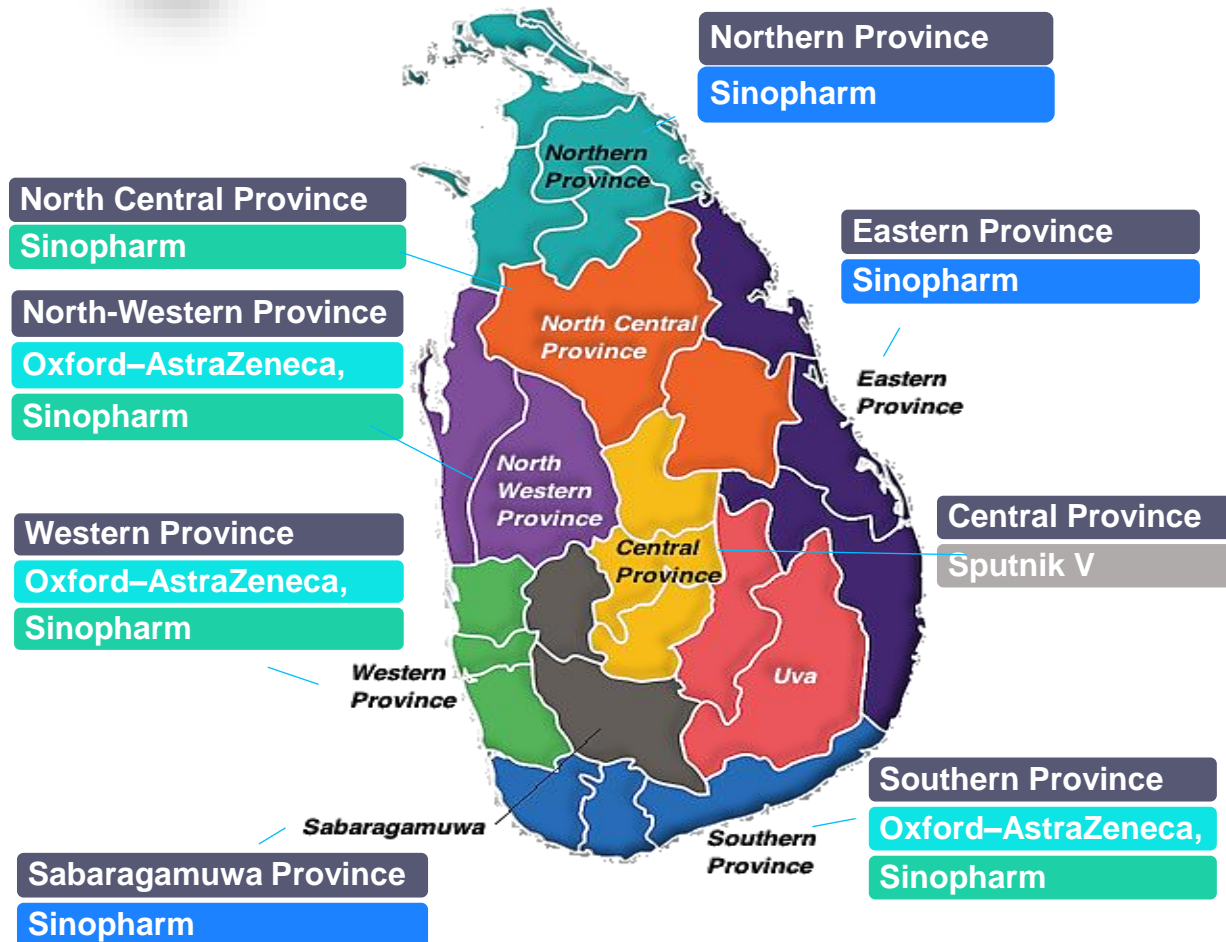
Rapid Vaccination Drive in SL

No. of people vaccinated in SL with at least 1 dose



...establishing strategies to prioritize the distribution of the most promising vaccines for the prevention of COVID-19...

Geographical:



Special Groups:

Medical professionals
and front-line workers:

Oxford–AstraZeneca

Students travelling
overseas for studies:

Pfizer–BioNTech

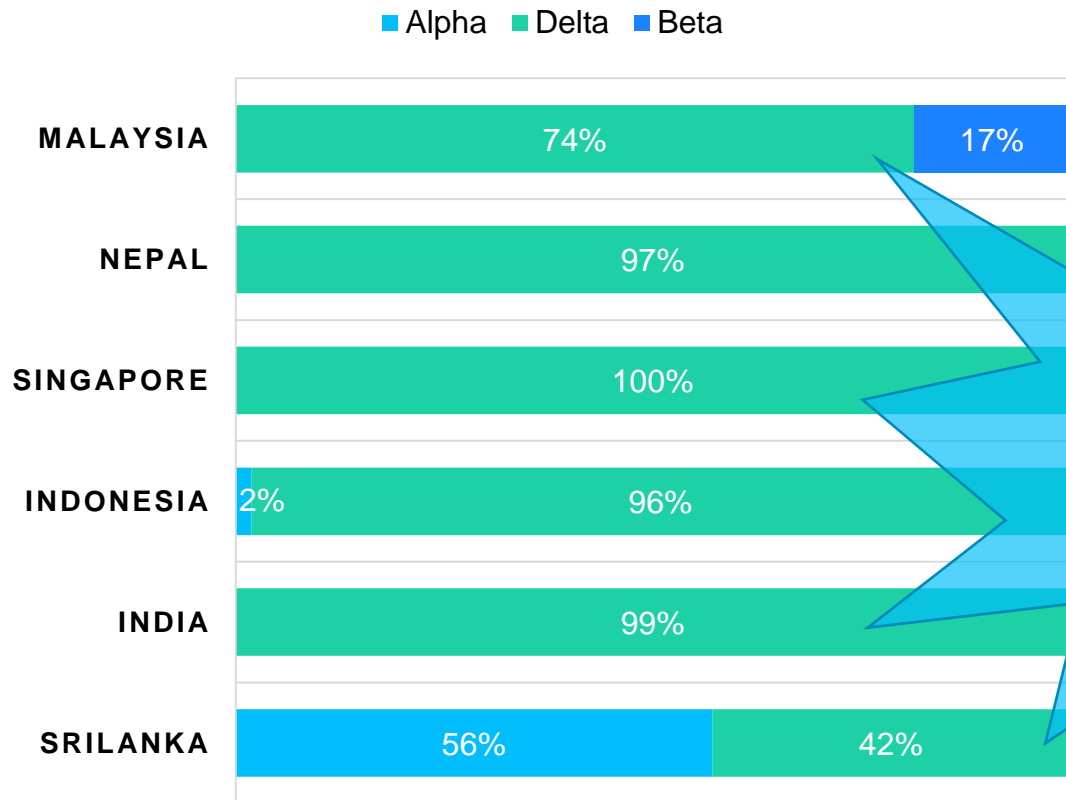
Fishermen in
Mannar:

Pfizer–BioNTech

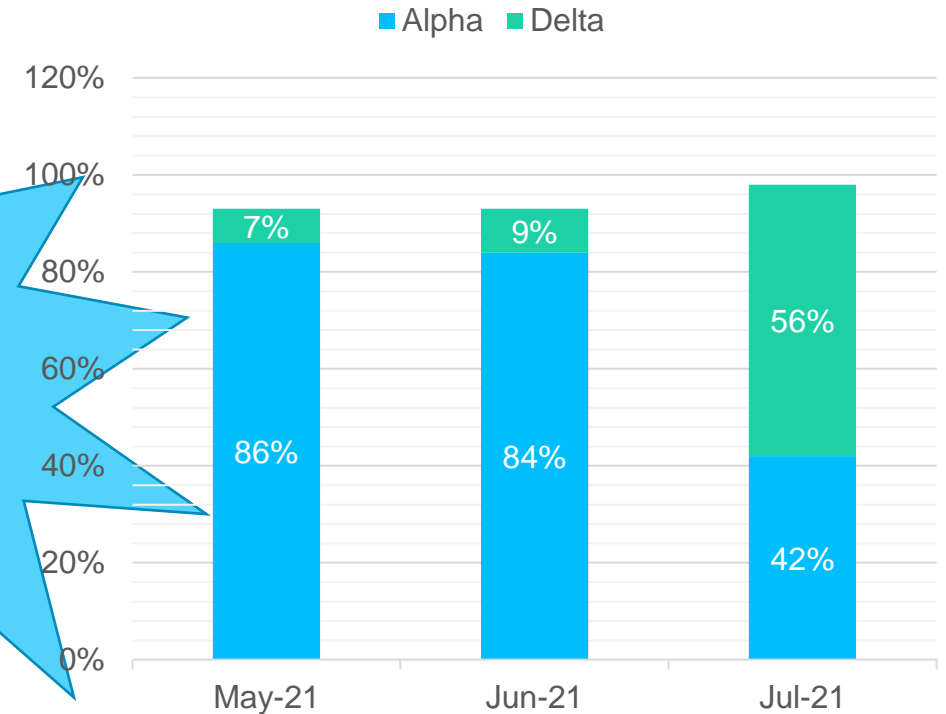
...BUT COVID's New Delta Variant stands in the way!!!

Delta variant dominates in Asian countries...

...with an ultra fast spread in Sri Lanka as well



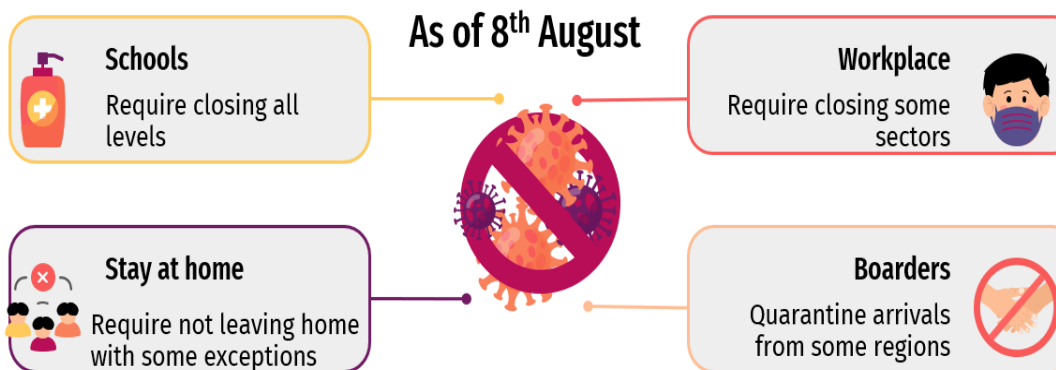
As of 31st July 2021, delta variant has been evolving to dominate Sri Lanka worsening the spread of the virus. The variant is roughly **2 ½ times** more infectious than original strain



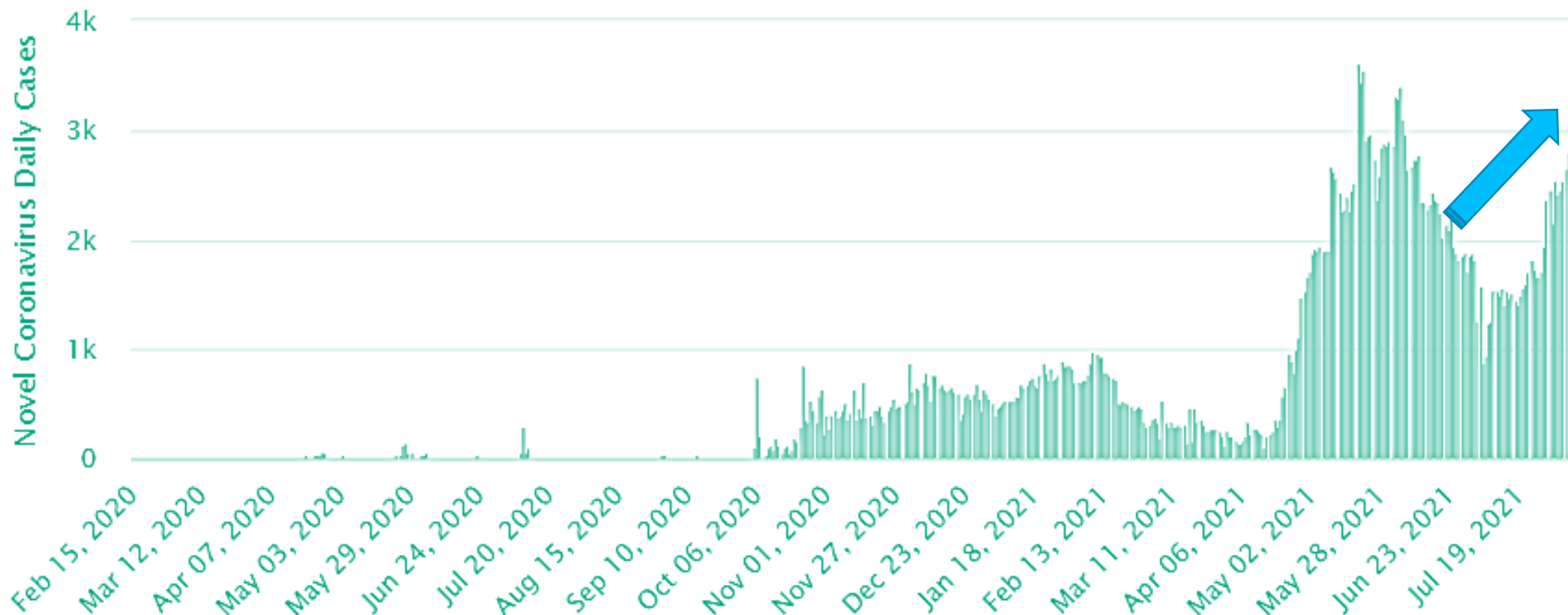


Daily COVID-19 Cases

COVID-19



...showcasing a possible 4th wave even before a recovery from the 3rd wave



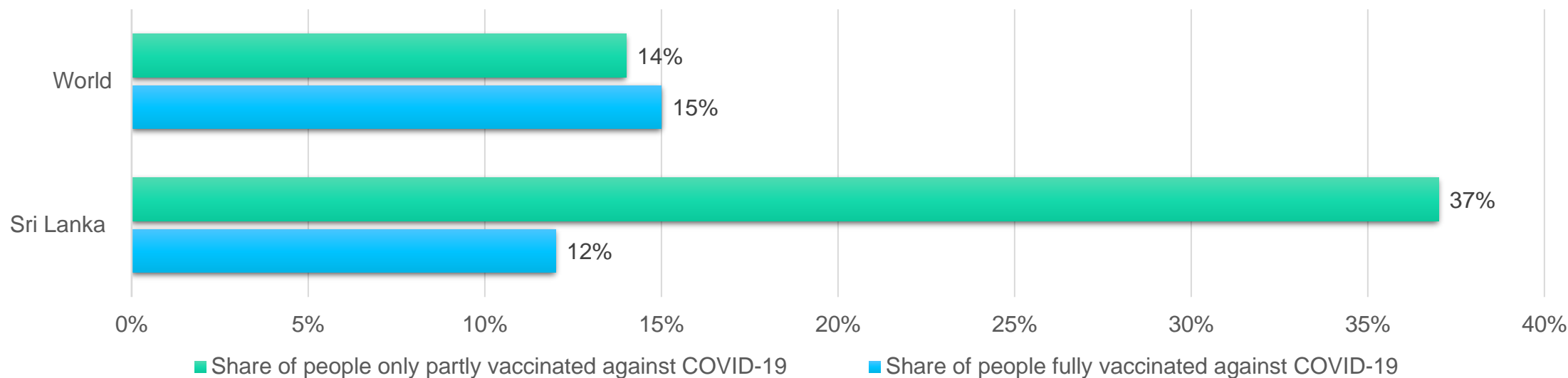
However, we believe the accelerated vaccination may support the gradual opening up of the economy and recovery in tourism **towards 4Q2021** despite the recent surge in cases due to the COVID Delta variant

Vaccination Progress

Data as of 15th Aug 21

	Covishield	Sinopharm	Sputnik - V	Pfizer	Moderna	TOTAL
1st dose	1,293,631	9,379,926	159,081	252,229	765,441	11,850,308
2nd dose	871,432	3,614,645	14,517	26,908		4,527,502
TOTAL	2,165,063	12,994,571	173,598	279,137	765,441	16,377,810

Share of people vaccinated fully and partly against COVID-19, Aug 4, 2021



2

Tourism Revival



Maldives becomes the BEST case study for Sri Lanka in relation to opening up for TOURISM



In International Tourism, Maldives marked itself as the biggest success story...

By EASING RESTRICTIONS AND OPENING THE ECONOMY FOR TOURISM : MALDIVES

Maldives Marketing & Public Relations Corporation (MMPRC) hosted a virtual press conference on 15th of July to discuss:

- Reopening of borders for all nationalities in Maldives.
- Launch of the “Rediscover Maldives...the sunny side of life” campaign.

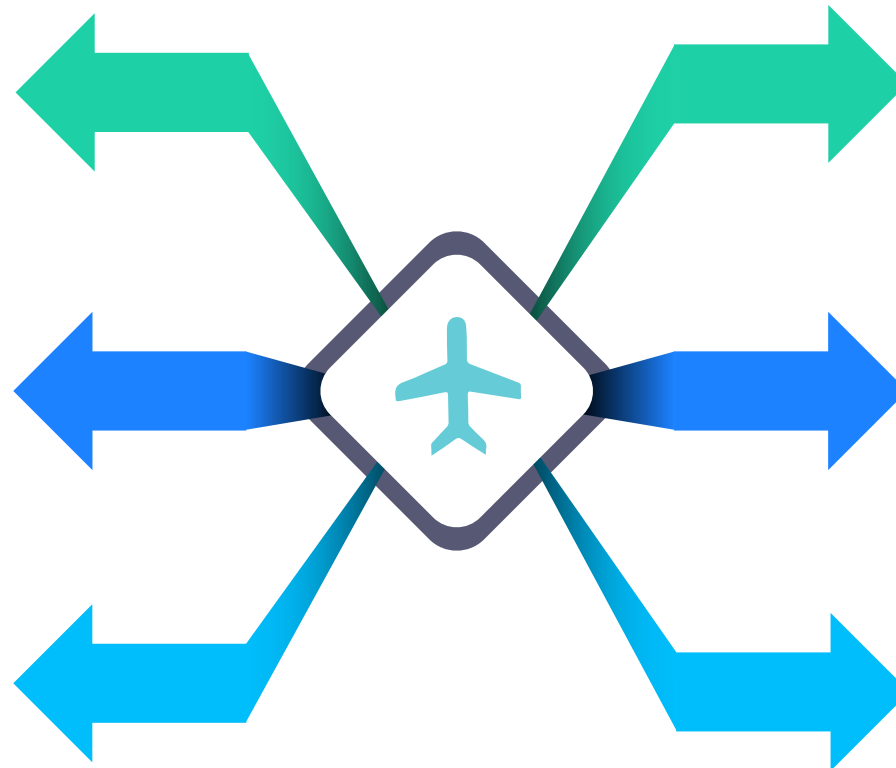
Top international media from 21 countries including the main source markets such as,

China, Italy, India, Germany, Russia, UK, France, Saudi Arabia and Japan,

participated in this live conference with almost 300 attendees in total.

After almost four months since the suspension of on-arrival tourist visas,

Maldives tourism industry reopened with enhanced precautionary measures against COVID-19.



Due to the controlled proposal,

- No mandatory quarantine upon arrival was needed.
- Proof of negative test for coronavirus required.
- No new visa requirements or additional fees to pay.

However, there was a need,

to book their entire stay in one registered establishment, creating a controlled secure environment among tourists.

The resorts and hotels were responsible to adhere to the guidelines accordingly.

Resorts, hotels and liveaboards located on uninhabited islands resumed operations from 15th Jul 2020 whereas hotels and guest houses located on inhabited islands are allowed to open from 1st Aug 2020

A total of 40 resorts are in operation following the reopening of borders.

...in comparison, the Sri Lankan government responded...

By EASING RESTRICTIONS AND OPENING THE ECONOMY : SRI LANKA

Safety Protocol Guidelines

SL Ministry of Health published safety protocol guidelines to be followed by the Tourism industry stakeholders and visitors.

Consultation with Stakeholders

After a thorough assessment of the situation and multiple consultations with all relevant stakeholders and health professionals, it was adopted and implemented by the Sri Lankan Tourism industry

Opening up Borders

Borders opened for all incoming tourists, aiming for a smooth transition in operations in the midst of this "post pandemic new normal"

Removal of Controls

As the death toll remained under control and vaccine programs were efficiently operating;

- No limit on min. days to stay for incoming tourists
- 'Quarantine free' visitor experience offered where the visitors are permitted to enjoy all facilities of their respective hotel

Bio Bubble Concept

The only requirement put in place for the safety of the traveller, tourism stakeholders and Sri Lankan community is;

- The need for the travellers to stay at a 'Safe and Secure' certified, Level 1 hotel or hotels in the initial 14 days of their stay.

This ensures the creation of a bio bubble for safety. The respective hotels and accommodation providers along with the travel agents and tour operators are entrusted to ensure visitors don't break this bubble of safety.

..with key milestones for 2020 – 2021 ACHIEVED!!!

2020

2021

MAY - JUN

JUL - SEP

OCT - DEC

JAN - MAR

APR - JUN

JUL - SEP

OCT - ONWARDS

Operational
Guidelines for
post Covid-19
tourism

Tourism entry
protocols

Domestic tourism
resumes

Relief measures
for sector

Roadmap and
multi-partner
programme

Tourism app initial
version

List of health
guideline
compliant
accommodation

Tourism
Development
Strategy 2021 –
2024 launched

SMEs support
programme

Tourist Police
upgraded

Tourist Satellite
Account

Online and
practical
upskilling courses
for staff

A fully developed
Visit Sri Lanka
app launched

Amended
Tourism Act

Provincial centres
for
coordinated
tourism services

Wellness tourism
standards and
guidelines

Global
promotional
campaign
launched

New
accommodation
classification
gazette

New online
hospitality training
programmes for
upskilling workforce

New legal and
institutional
structures

Eco-and-nature
based tourism
guidelines

New curricular
for SLITHM
available

Country
dashboard to
monitor source
markets

SME-focused
sustainability/
green financing
package launched

Contactless/
online ticketing
for tourism sites

New destinations
launched

New tourism
itineraries with
diversified cultural
and natural sites

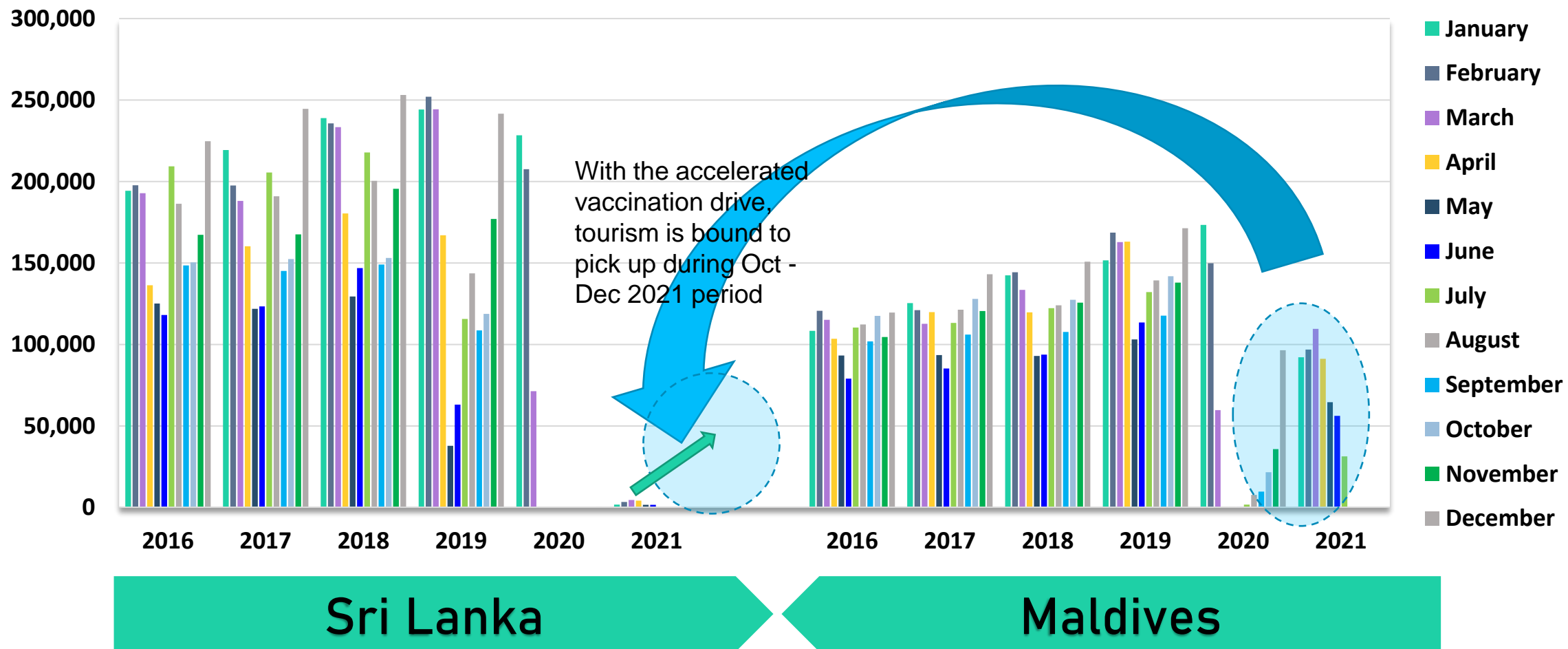
Guidelines and
minimum standards
for eco-and-nature
based tourism

Growth in new
market segments
(wellness, nature,
marine etc.)

Outreach
programme for
more women
and youth in
hospitality.

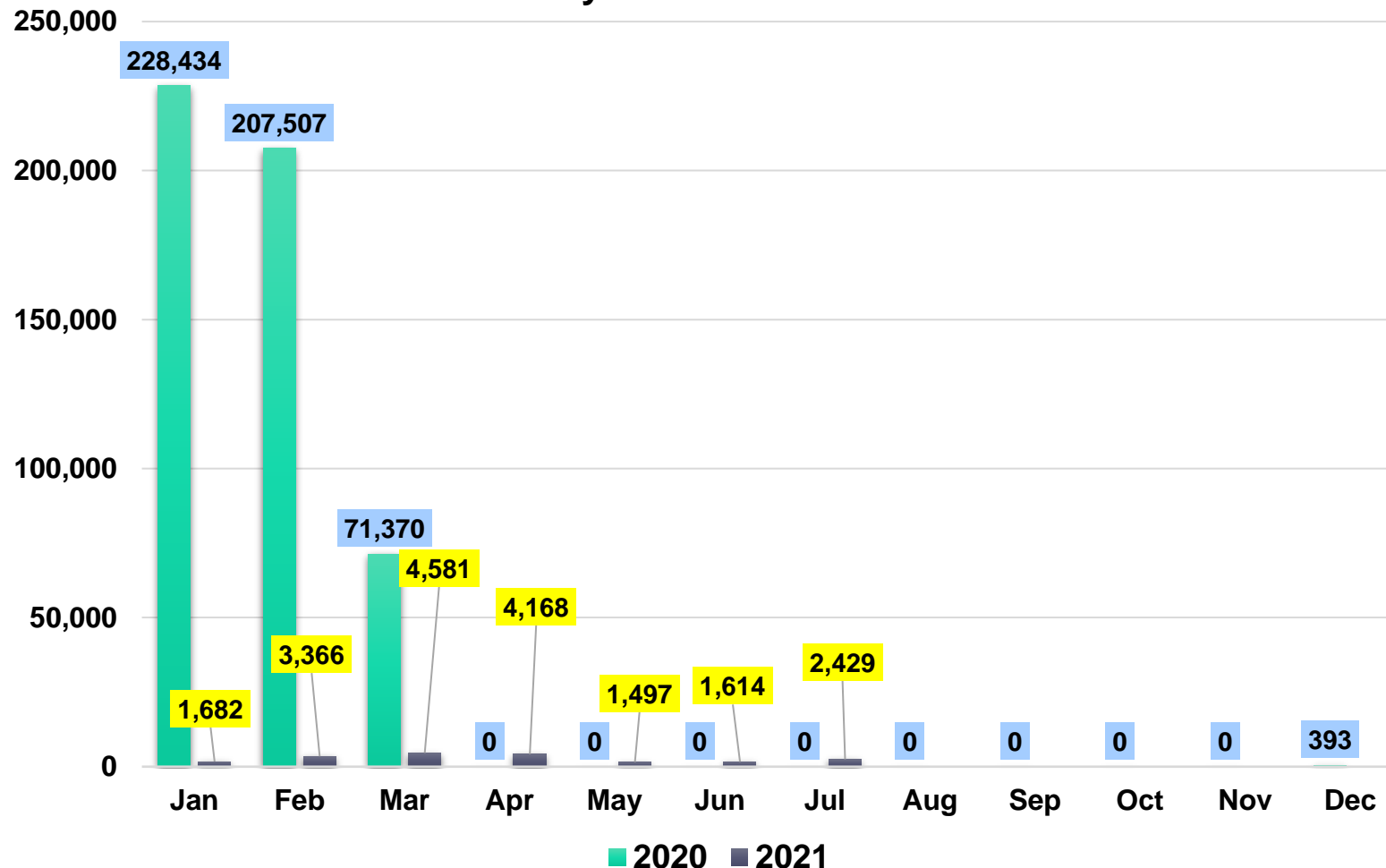
SL aims to replicate a similar growth in tourist arrivals in comparison to the Maldives

International Tourist Arrivals: Maldives vs Sri Lanka



However, the current 4th wave may deter tourism recovery in the short-term during Aug to Sep 2021 period

Monthly Tourist Arrivals in SL



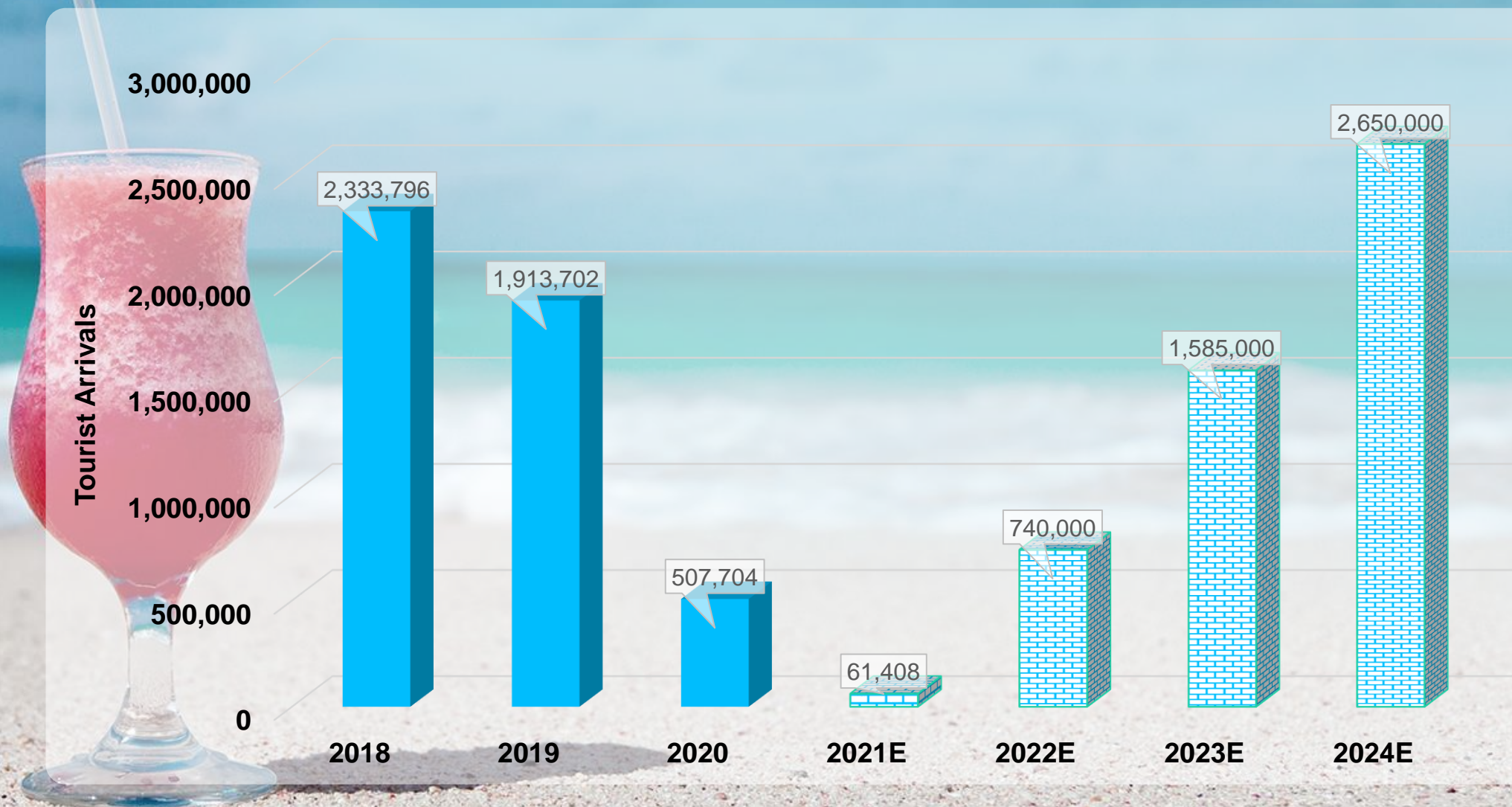
Total arrivals this year recorded at 16,908, down from 507,704 in previous year

Sri Lanka reopened for tourism from June 2021

Visitors from Europe became the largest source of tourists to Sri Lanka with 69.7% of total arrivals in June, while Asia Pacific accounted 17 percent of total arrivals

France was the largest source of tourist traffic to Sri Lanka in the month of June with 40.5% of total traffic, followed by China (10.9 %), Germany (8.5%), UK (7.5%) and US (7.3%)

We expect the continued vaccination to drive optimism about a “gradual return to normalcy” from 4Q2021 onwards...

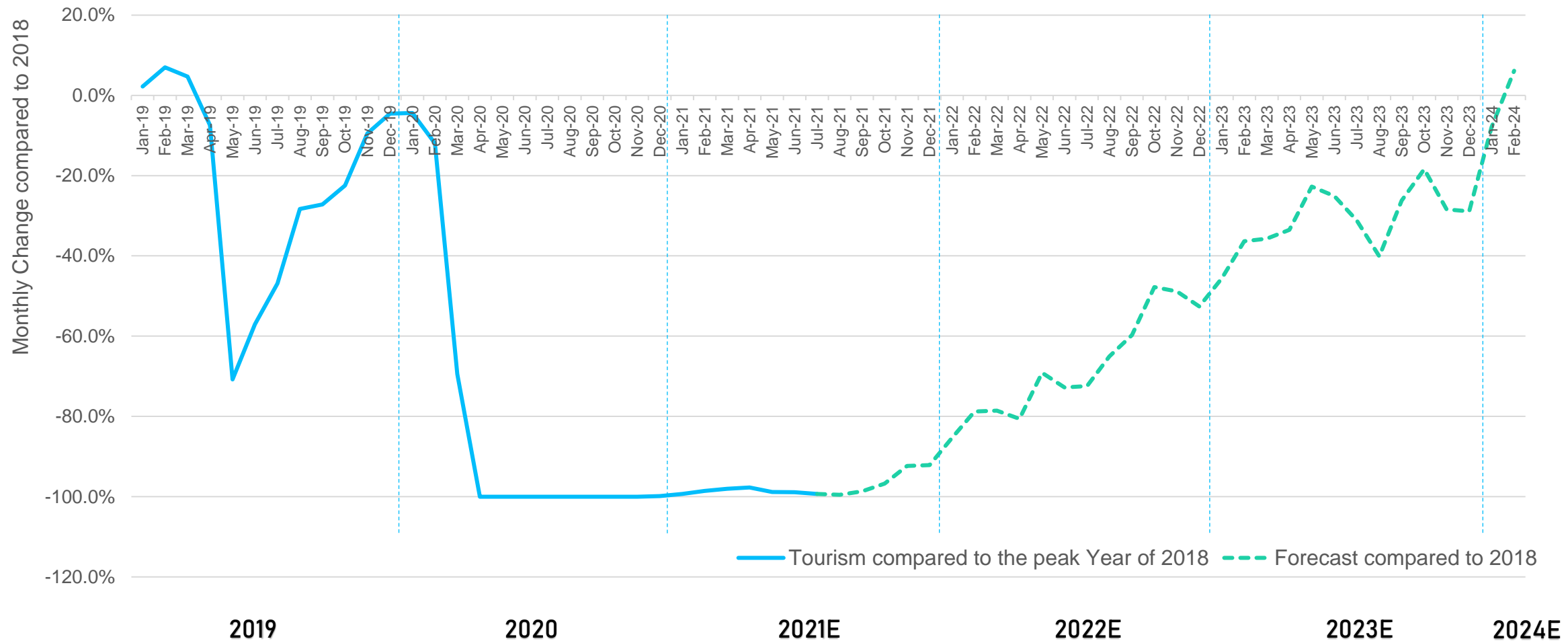


Source: SLTDA, First Capital Research Expectations

...leading to a complete recovery by 2024

A gradual recovery in tourism is forecasted, potentially returning 2018 peak levels by 2024

Tourism Recovery compared to the peak year of 2018



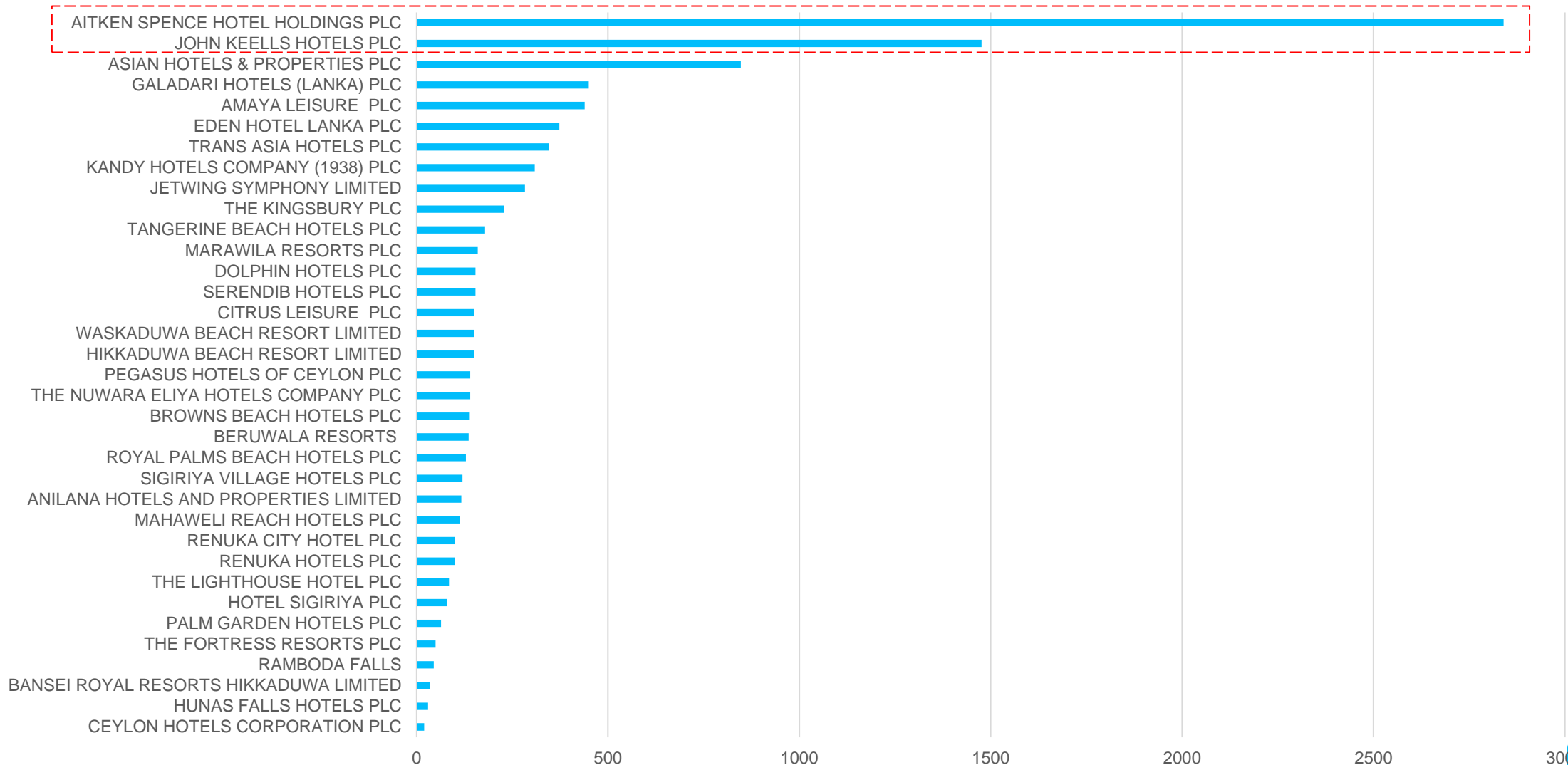


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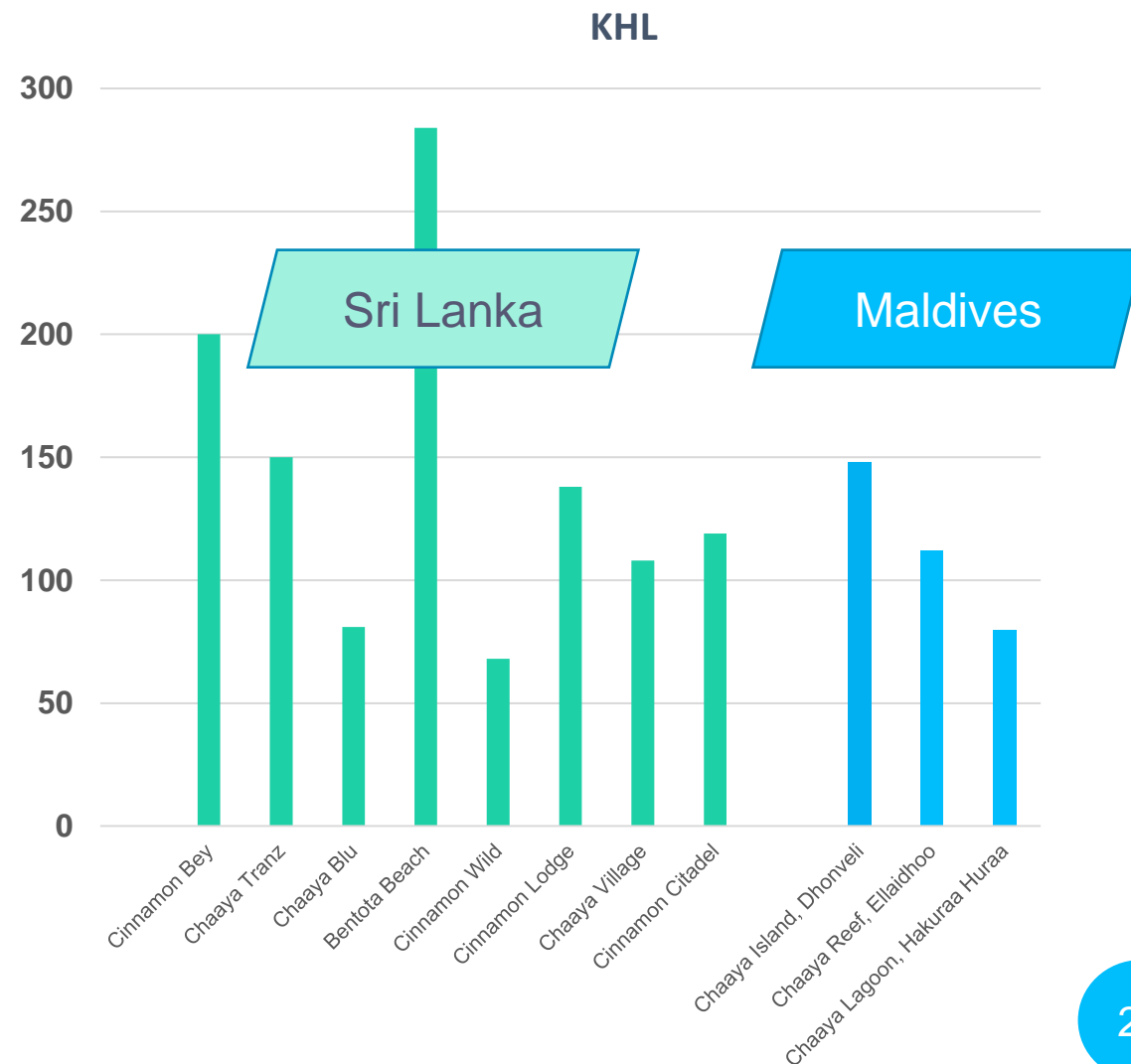
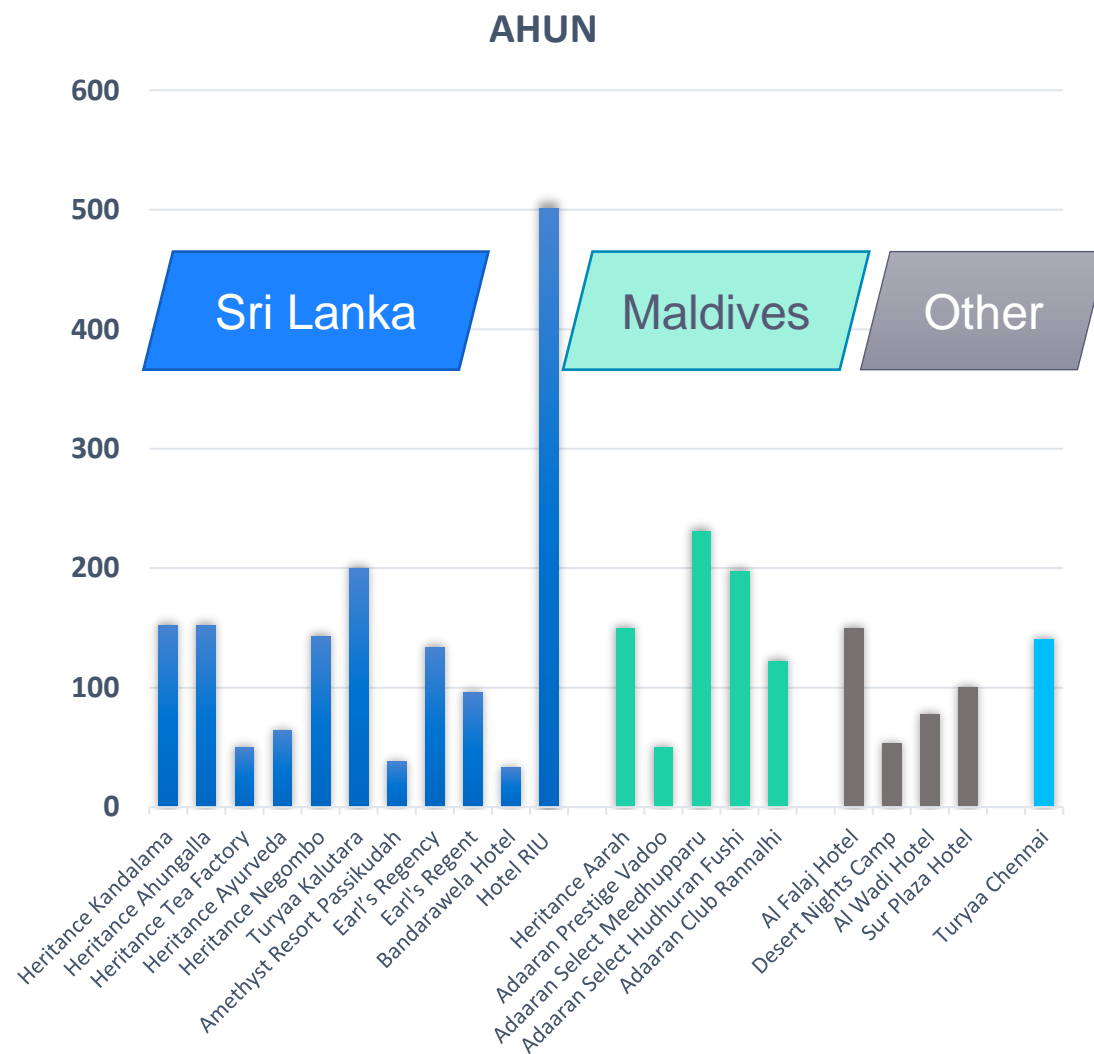


Trading Picks

KHL and AHUN has the largest number of hotel rooms under management, possibly having the biggest potential benefit from a pick in tourism



SL Hotel rooms are spread across the country while also having the ability to benefit from the already successful Maldivian tourism



AHUN [AITKEN SPENCE HOTEL HOLDINGS PLC]

AHUN.N0000

Current Price: LKR 30.0

TRADING BUY

Spearheading the hospitality sector in SL

Market leadership in hospitality sector to benefit from revival in tourism

AHUN is the largest hospitality company in Sri Lanka by the number of hotel rooms as of July 2021. According to the UNWTO's expanded scenarios for 2021-2024, it is predicted that international tourism may approximately take two and a half to four years to recover its pre-pandemic status. Sri Lanka reopened for tourism from January 2021. Tourist arrivals in 2021, compared to the first seven months of the last year, recorded a 96.7% decline YTD. Once the tourism is picked up, 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.

Early opening of Maldives to favor AHUN due to its significant presence in Maldives

Maldives is positioned to benefit from the early opening of its borders and travel bubbles with selected markets. AHUN has a significant presence in Maldives with a total room number of 750 accounting for 2% of 38,394 resort beds in Maldives. Accordingly, as one of the largest international hotel chain operators, AHUN is expected to benefit from its presence in Maldives.

Strong liquidity position despite refurbishments carried out during FY21

During FY21, AHUN made use of the opportunity presented by low occupancy levels to complete several key refurbishment/development projects, which would otherwise have required a temporary closure of the hotels. Accordingly, AHUN invested approximately LKR 44.0Mn in 3 projects namely; refurbishment of kitchen at Tea Factory, structural renovations at the lobby in Heritance Ahungalla and renovations in Heritance Ayurveda Mahagedara. Despite the above refurbishments and challenging economic conditions, AHUN has a strong liquidity position with a cash balance of LKR 1.5Bn which is expected to support future refurbishments and investments.

Currency depreciation to be a sweetener for revenue growth

First Capital Research expects an overall LKR depreciation of c.12% for 2021E, LKR c.210.0 against USD, by the end of the year, providing a considerable gain for AHUN where a significant portion of revenue is generated in foreign currency. Recovery in tourism with the gradual reopening of the country and forecasted currency depreciation are expected to favor AHUN in the mid to long term.

TRADING BUY

Looking beyond short term, once the tourism picks up, AHUN is expected to be a key benefiter due its market leadership in terms of number of rooms. **TRADING BUY**

P/E 31 March	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Estimates (LKR 'Mn)							
Revenue	17,770	19,055	18,588	5,592	19,185	23,784	29,654
Profit Before tax	2,190	1,904	(433)	(7,607)	363	1,765	3,325
Net Profit	1,169	811	(625)	(4,669)	201	977	1,841
Adjusted EPS (LKR)	3.5	2.4	(1.9)	(13.9)	0.6	2.9	5.5
Net Profit YoY Growth (%)	73%	-31%	-177%	647%	-104%	386%	88%
Valuations							
PER (x)	8.6	12.4	N/A	N/A	50.2	10.3	5.5
PBV (x)	0.5	0.5	0.5	0.6	0.6	0.6	0.5
DY (%)	4.2%	3.3%	0.0%	0.0%	0.0%	0.0%	0.0%
Adjusted DPS	1.25	1.00	-	-	-	-	-

Company Profile

Aitken Spence Hotel Holdings PLC, a subsidiary of Aitken Spence PLC is pioneering in the tourism industry. Under two premium brands, Heritance Hotels and Resorts and Adaaran Resorts and Spa, AHUN operates a chain of 22 hotels & resorts in Sri Lanka, India, Oman, and Maldives.

Aitken Spence chain offers exotic properties such as the award-winning eco-friendly Heritance Kandalama, which is located near two UNESCO world heritage sites, and the Desert Nights Camp in Oman, which is recognized as one of the world's top 10 desert getaways.



KHL [JOHN KEELLS HOTELS PLC]

KHL.N0000

Current Price: LKR 10.9

TRADING BUY

New look in refurbished hotels to lure new tourists post COVID

All hotels refurbished and upgraded to “Cinnamon” Brand

KHL was on a journey to upgrade all its hotels and to bring its under the Cinnamon Brand. Most Sri Lankan hotels were refurbished over the last 3 years. Taking advantage of the low occupancy group embarked on the path to refurbish and upgrade the rest of the hotel chain as well. 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.

Currency depreciation to benefit KHL

Maldives was opened for tourism in Jul 2020 while Sri Lanka was opened in Jan 2021. Maldives resorts of KHL are already experiencing a sizable influx of tourists with a stable recovery outlook. However, Sri Lanka is likely to have a bit of a delay due to COVID's Delta variant. However, with the accelerated vaccination program we believe the recovery to take place 4Q2021 onwards. First Capital Research expects an LKR depreciation of c.12% which would be a major beneficiary for the dollar income group.

Hotel property expansions on the cards

Further on the longer term, KHL plans to expand the Cinnamon brand's footprint further, across Sri Lanka utilizing its existing land bank. KHL's target areas of expansion are the Southern and Eastern coasts of Sri Lanka while in terms of a model KHL prefers an asset light investment strategy.

TRADING BUY

Considering the large hotel room capacity in Sri Lanka and Maldives KHL is likely to be a key beneficiary on the road to tourism recovery. **TRADING BUY**

P/E 31 March	FY18	FY19	FY20	FY21E	FY22E	FY23E	FY24E
Estimates (LKR 'Mn)							
Revenue	11,614	11,033	9,712	3,661	8,419	10,777	14,548
EBIT	1,324	1,087	-764	-4,777	-3,031	-647	4,801
Net Profit	1,119	817	-1,201	-5,096	-2,879	-776	3,265
Adjusted EPS (LKR)	0.8	0.6	(0.8)	(3.5)	(2.0)	(0.5)	2.2
YoY Growth (%)	-63%	-16%	-78%	-221%	533%	286%	148%
Valuations							
PER (x)	14.2x	19.4x	N/A	N/A	N/A	N/A	4.9x
PBV (x)	0.6x	0.6x	0.6x	0.7x	0.7x	0.8x	0.7x
DY (%)	3.7%	1.4%	0.0%	0.0%	0.0%	1.8%	3.7%

Company Profile

John Keells Hotels PLC is a subsidiary of John Keells Holdings PLC with a stake of 80% and currently operates as the resort hotel conglomerate of JKH. KHL was incorporated in 1979 and listed in the Colombo Stock Exchange in 2004.

The KHL group currently operates 12 luxury resort and hotel properties with 8 properties in Sri Lanka and 4 properties in Maldives accounting for a total room inventory of 1476 under the brand of “Cinnamon Hotels and Resorts”.



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THANK YOU

*“Successful Investment Is
About Managing Risk...”*