

**JOHN KEELLS HOLDINGS PLC [JKH.N0000]****INITIATING WITH A BUY****“BLUE-CHIP READY TO UNLOCK POTENTIAL”****Fair Value: FY23E - LKR 162.2 [+35%]**

Total Return with DPS: FY23E - +36% [AER +61%]

**FY24E - LKR 169.0 [+42%]**

FY24E - 42% [AER 24%]

JKH reported a net income growth of 635.3%YoY to LKR 11.3Bn in 1QFY23, driven largely on the back of exceptional performance in group's Logistics (up 337.9%YoY), Consumer Foods (up 1,175.5%YoY), Leisure (reduced losses to LKR 47.4Mn cf. LKR 1.7Bn in 1QFY22) and Other segments (up 1,089.7%YoY). Going forward, we expect group's Logistics to grow at a 3Yr forward CAGR of 240.1% backed by growth in bunkering volumes and SAGT operations whilst Consumer Foods is expected to grow at a CAGR of 20.1% with double digit volume growth led by beverages and Frozen confectionary business. Further, with arrivals picking up and expectation of pre-pandemic arrivals by 2025E, we expect a robust recovery in Leisure segment, with growth in both occupancies and ARR at Sri Lankan city hotels & resorts and Maldivian resort segments. Therefore, considering the uptick in performance from JKH star segments we forecast a net income of LKR 27.3Bn for FY23E and LKR 30.4Bn for FY24E. With the steep decline in overall broad market and JKH share during the last few months, JKH currently trades at a 4Q trailing PE of 5.0x which is below the market trading PE of 5.2x. Hence considering the overall performance of the business, and discount offered in terms of valuations, we arrived at a fair value of LKR 162.2 for FY23E and LKR 169.0 for FY24E, and initiate the share with a recommendation of BUY.

LKR (Mn)	1QFY22	1QFY23	YoY	FY21	FY22	YoY
<b>Earnings (LKR 'Mn)</b>						
Revenue	38,799	71,516	+84%	127,676	218,075	+71%
Gross Profit	5,040	13,806	+174%	18,929	37,645	+99%
Operating Profit	276	2,952	+969%	2,552	7,308	+186%
PBT	1,310	14,801	+1030%	5,445	27,324	+402%
Net Profit	1,534	11,277	+635%	4,772	20,213	+324%
<b>Balance Sheet (LKR 'Mn)</b>						
Shareholder's Equity	227,989	349,174	+53%	226,157	311,286	+38%
Borrowings	142,363	204,797	+44%	135,377	214,379	+58%

**JKH net earnings up 635.3%YoY for 1QFY23**

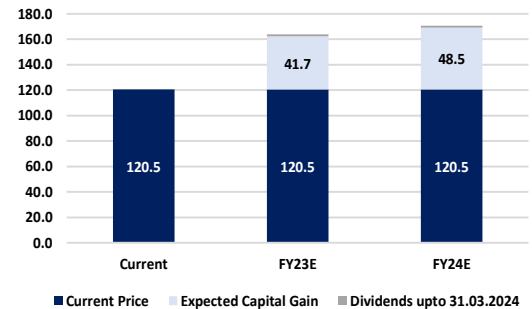
JKH posted a net income growth of 635.3%YoY to LKR 11.3Bn in 1QFY23. The growth during the quarter was largely attributable to the solid performance of the group's Logistics business (up 337.9%YoY), Consumer Foods (up 1,175.5%YoY) and Other segment (up 1,089.7%YoY). The Logistics business performance was largely driven by Lanka Marine Services (LMS), which recorded c.54.0%YoY growth in bunkering volumes and offered higher margins (EBIT margins up 776bpsYoY to 11.5%) benefited from high oil prices prevailed in the global markets. Consumer foods segment profitability was largely driven by growth in volumes at Frozen confectionery (up 31.0%YoY), Beverages (up 56%YoY) and Convenience foods (up 14%YoY) segments, which reached pre-pandemic levels. Other segment, which constitutes of group's tea brokering arm, saw substantial growth in bottom-line, benefitted by exchange gains which resulted in driving finance income by 662.7%YoY to LKR 12.6Bn. Moreover, group's leisure business reduced its net loss to LKR 47.4Mn cf. LKR 1.7Bn as Sri Lankan city hotels and resorts at Maldives recovered. Sri Lankan City Hotels reported exceptional results and reached pre-pandemic levels in MICE events whilst Maldivian resorts witnessed occupancies improving to 86.0% cf. 48.0% in 1QFY22 and ARR improving to USD 333.0/room from USD 259.0/room recorded in 1QFY22. Meanwhile, despite the growth in same store sales (up 54.2%YoY) and average food basket value (up 1.4%YoY), Retail segment posted a loss of LKR 492.5Mn (cf. a profit of LKR 296.6Mn), affected by a one-off transaction recorded with regards to segment's staff cadre. Further, due to absence of apartment sales at Cinnamon life and Tri-Zen during 1QFY23, coupled with recognition of handover apartment sales at Cinnamon Life during 1QFY22, group's property business recorded a loss of LKR 2.3Bn in 1QFY23 and caused headwinds to group profitability.

**Cinnamon Life and West Container Terminal (WCT) on track for completion**

As per the management, Cinnamon Life, which is a USD 1.0Bn investment is on track for completion during the 2HFY24. Having completed and sold 151 units from a total of 231 apartment units, and sold 115 from a total of 196 suites, JKH have completed and handed over its 2 residential towers during 1QFY22. Furthermore, the management also commented on the progress of completion of the mall and hotel at Cinnamon Life, with partial operation planned for 1HFY24E and full completion during 2HFY24E. Meanwhile, with the securing of LKR 27.1Bn funding via private placement to Fairfax Financial Holdings, construction of WCT is on track for completion FY27E. WCT which is a tripartite JV between Adani Group (51.0%), Sri Lanka Ports Authority (15.0%) and JKH (34.0%), will have capabilities to handle 3.2Mn TEUs once completed.

**JKH initiated Buy with a fair value of LKR 162.2 for FY23E and LKR 169.0 for FY24E**

JKH reported solid performance for 1QFY23 with Logistics, Consumer Services, Leisure and Other sectors outperforming the balance sectors. Going forward, taking advantage of the relatively high oil prices we expect logistics sector to continue enjoy high margins and increased profits benefitted by bunkering operations and performance of SAGT. Moreover, with the possibility of arriving at an IMF staff level agreement by August 2022 and improvement in country's political and macro picture, and aided by peak season we expect arrivals to reach 1.2Mn for 2022E, 1.6Mn by 2023E and pre-pandemic arrivals of 2.3Mn arrivals by 2024E, thus a turnaround in Sri Lanka resorts and profits by FY23E. Further, JKH performance in Consumer Foods, Retail and Financial Services sectors are expected to recover towards the 2HFY23E, as inflation tames down towards low double digit figures, and return of consumer confidence. Meanwhile, undergoing a severe forex crisis and record levels of inflation, CSE witnessed significant downtrends during the 1H2022 and plunged to PE of 5.2x from height of 11.0x. JKH currently trades at 5.0x 4Q trailing PE and 0.5x PBV. Given the positive outlook on JKH star segments, we expect a net income of LKR 27.3Bn for FY23E and LKR 30.4Bn for FY24E. Therefore, considering the steep rise in profits with continuous improvement in logistics business, recovery of leisure and near-completion of Cinnamon Life, we expect a fair value of LKR162.2 for FY23E and LKR 169.0 for FY24E. Thus we will initiate the share with a BUY.

**FIRST CAPITAL RESEARCH**

Ranjan Ranatunga

+94 11 263 9800

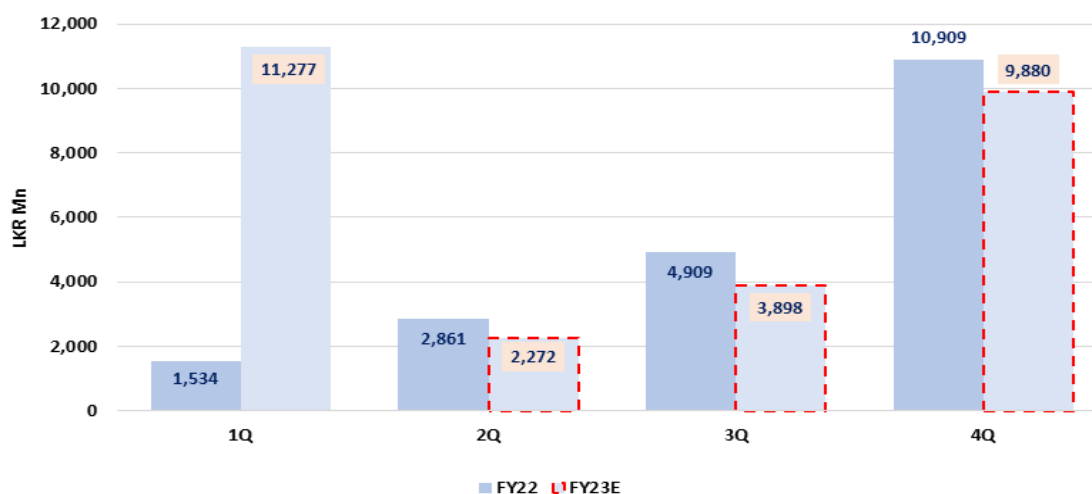
[ranjan@firstcapital.lk](mailto:ranjan@firstcapital.lk)**Price movement of JKH vs ASPI (indexed and rebased to 100)****Minimum Return for BUY:**

**Buy Below FY23E - [AER of 20% with DPS]: LKR 143.0**  
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.

## Quarterly Earnings



## Valuation Table

YE Mar/LKR Mn	FY20	FY21	FY22	FY23E	FY24E	FY25E
<b>Estimates (LKR 'Mn)</b>						
Revenue	138,956	127,676	218,075	251,015	295,237	324,926
Gross profit	26,082	18,929	37,645	40,162	48,714	55,237
EBIT	6,789	2,552	7,308	13,101	18,054	22,061
<b>Net Profit</b>	<b>9,414</b>	<b>4,772</b>	<b>20,213</b>	<b>27,326</b>	<b>30,428</b>	<b>33,058</b>
Adjusted EPS (LKR)	7.0	3.6	15.1	20.5	22.8	24.7
YoY Growth (%)	38%	-49%	324%	35%	11%	9%
<b>Valuations</b>						
PER (x)	17.0x	33.6x	7.9x	5.9x	5.3x	4.8x
PBV (x)	0.7x	0.7x	0.5x	0.5x	0.4x	0.4x
NAVPS	162.3	169.3	233.0	251.9	273.2	296.5
DY (%)	2.9%	1.3%	1.3%	1.3%	1.3%	1.3%
DPS (LKR)	3.50	1.50	1.50	1.50	1.50	1.50
Dividend Payout (%)	49.7%	42.0%	9.9%	7.3%	6.6%	6.1%

## SOTP

Segment	Valuation method	Valuation assumptions			Value in LKR Mn			Value per share FY23E	Value per share FY24E
		CoE	WACC	Growth	Firm value FY23E	Firm value FY24E	% of ownership		
Transportation	DCF	22.2%	14.5%	5.0%	55,110.5	59,380.9	90%	49,599.5	53,442.8
Consumer Foods	DCF	22.2%	14.5%	5.0%	34,615.7	36,605.1	85%	29,423.4	31,114.3
Retail	DCF	22.2%	14.5%	5.0%	76,043.4	76,188.8	85%	64,636.9	64,760.5
Leisure	DCF	23.0%	15.3%	5.0%	20,633.7	21,189.6	80%	16,507.0	16,951.7
Property	DCF	24.6%	17.5%	5.0%	46,403.4	32,339.9	95%	44,083.2	30,722.9
Financial Services	DCF	23.0%	16.6%	5.0%	14,158.2	14,917.8	60%	8,494.9	8,950.7
Other	DCF	23.0%	14.9%	5.0%	3,518.4	3,899.5	60%	2,111.1	2,339.7
Total per share								214,855.89	208,282.67
Number of shares								1,336.0	1,336.0
Value/share								160.82	155.90



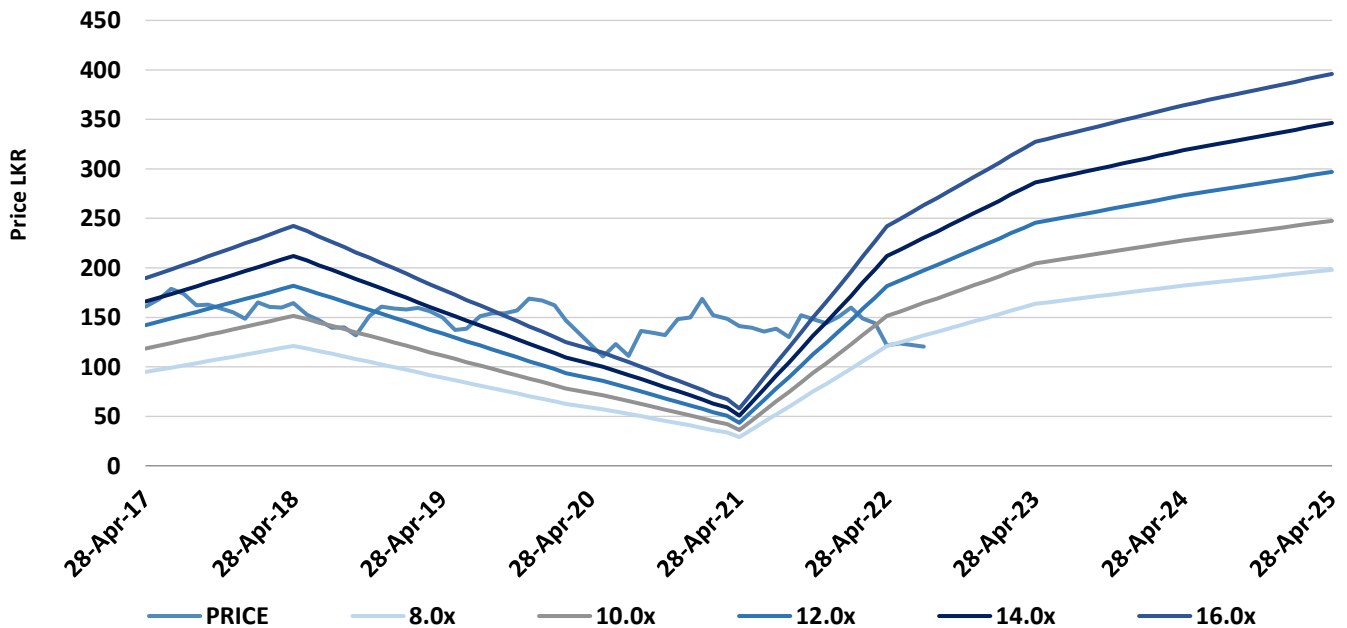
## Valuation Summary

Expected JKH Price	FY23E	FY24E	Return	FY23E	FY24E
PER Valuation based target price	163.6	182.2	Target Price	162.2	169.0
SOTP Valuation based target price	160.8	155.9	Current Price	120.0	120.0
Average Target Price	162.2	169.0	Capital Gain (LKR)	42.2	49.0
Target Price after Rounding off	162.2	169.0	Dividends upto 31 Mar (LKR)	1.5	1.5
			Capital Gain %	35%	41%
			Dividend Yield %	1%	1%
			<b>Total Return %</b>	<b>36%</b>	<b>42%</b>
			Annualized Return %	61%	24%

## PER valuation

PER based Valuation	FY23E	FY24E
Earnings (LKR 'Mn)	27,326	30,428
No. of Shares ('Mn)	1,336	1,336
EPS	20.5	22.8
Expected PER	8x	8x
Price at 8x Earnings	163.6	182.2

## PER Chart



## Appendix I: Statement of Income and Expenses

Income Statement	FY20	FY21	FY22	FY23E	FY24E	FY25E
Year ended 31st March (LKR 'Mn)						
Total revenue	138,956	127,676	218,075	251,015	295,237	324,926
Cost of sales	(112,874)	(108,747)	(180,430)	(210,853)	(246,523)	(269,688)
Gross profit	26,082	18,929	37,645	40,162	48,714	55,237
Selling and distribution expenses	(5,519)	(4,761)	(5,733)	(6,599)	(7,761)	(8,542)
Administrative expenses	(13,143)	(12,928)	(14,763)	(20,081)	(26,571)	(32,493)
Other operating expenses	(2,873)	(1,314)	(12,456)	(7,530)	(8,857)	(9,748)
<b>Results from operating activities</b>	<b>6,789</b>	<b>2,552</b>	<b>7,308</b>	<b>13,101</b>	<b>18,054</b>	<b>22,061</b>
Finance cost	(3,166)	(4,669)	(7,035)	(9,869)	(6,556)	(4,884)
Finance income	9,357	10,689	30,806	24,901	19,512	15,187
Change in insurance contract liabilities	(5,617)	(7,032)	(6,416)	(7,530)	(8,857)	(9,748)
Share of results of equity accounted investees (net of tax)	4,466	4,159	6,746	5,827	6,578	7,407
<b>Profit before tax</b>	<b>12,403</b>	<b>5,445</b>	<b>27,324</b>	<b>34,249</b>	<b>37,878</b>	<b>40,062</b>
Tax expense	(2,662)	(1,494)	(6,882)	(6,612)	(7,104)	(6,627)
Profit for the year	9,741	3,951	20,443	27,637	30,775	33,434
Attributable to:						
Equity holders of the parent	9,414	4,772	20,213	27,326	30,428	33,058
Non-controlling interests	327	(821)	230	311	346	376
	9,741	3,951	20,443	27,637	30,775	33,434
EPS	7.14	3.62	15.13	20.45	22.78	24.74

## Appendix II: Statement of Financial Position

Balance Sheet	FY20	FY21	FY22	FY23E	FY24E	FY25E
Year ended 31st March (LKR 'Mn)						
<b>ASSETS</b>						
<b>Non-current assets</b>						
Property, plant and equipment	111,534	113,077	124,348	131,556	140,307	148,589
Right-of-use assets	37,170	40,617	53,482	52,632	52,250	52,169
Lease rentals paid in advance	-	-	-	-	-	-
Investment property	15,008	14,868	30,608	30,808	31,008	31,208
Intangible assets	3,289	4,853	5,399	6,137	7,021	7,948
Investments in subsidiaries	-	-	-	-	-	-
Investments in equity accounted investees	28,329	28,630	33,866	33,866	33,866	33,866
Non-current financial assets	40,078	62,590	48,690	48,690	48,690	48,690
Deferred tax assets	902	1,089	1,554	1,554	1,554	1,554
Other non-current assets	79,583	104,580	180,920	180,920	180,920	180,920
	315,894	370,303	478,867	486,163	495,616	504,944
<b>Current assets</b>						
Inventories	50,169	54,296	36,225	42,333	49,494	54,145
Trade and other receivables	12,186	17,457	27,495	31,649	37,224	40,967
Amounts due from related parties	390	124	196	196	196	196
Other current assets	6,513	5,919	11,914	13,714	16,130	17,752
Short term investments	38,458	69,263	110,722	131,861	123,650	116,067
Cash in hand and at bank	13,334	19,433	52,377	23,314	20,947	37,503
	121,050	166,491	238,929	243,067	247,641	266,631
<b>Total assets</b>	<b>436,944</b>	<b>536,794</b>	<b>717,796</b>	<b>729,230</b>	<b>743,257</b>	<b>771,575</b>
<b>EQUITY AND LIABILITIES</b>						
<b>Equity attributable to equity holders of the parent</b>						
Stated capital	62,881	63,102	73,188	73,188	73,188	73,188
Revenue reserves	87,885	90,652	109,087	134,410	162,834	193,888
Other components of equity	66,085	72,403	129,011	129,011	129,011	129,011
	216,852	226,157	311,286	336,609	365,033	396,087
Non-controlling interest	26,872	16,830	18,805	19,116	19,462	19,838
Total equity	243,724	242,987	330,091	355,725	384,495	415,926
<b>Non-current liabilities</b>						
Insurance contract liabilities	38,186	45,161	51,349	51,349	51,349	51,349
Interest-bearing loans and borrowings	50,925	118,966	158,922	150,905	131,507	126,109
Lease liabilities	19,910	24,235	30,067	31,458	33,446	35,739
Deferred tax liabilities	8,295	7,720	12,016	12,016	12,016	12,016
Employee benefit liabilities	2,344	2,814	3,107	3,107	3,107	3,107
Non-current financial liabilities	3,620	3,661	2,414	2,414	2,414	2,414
Other non-current liabilities	12,614	19,546	220	220	220	220
	135,894	222,102	258,095	251,469	234,059	230,954
<b>Current liabilities</b>						
Trade and other payables	23,881	35,288	43,469	50,799	59,393	64,974
Amounts due to related parties	2	1	2	2	2	2
Income tax liabilities	1,748	1,988	2,619	2,619	2,619	2,619
Short term borrowings	5,804	6,904	14,833	13,000	11,500	11,000
Interest-bearing loans and borrowings	5,206	9,507	40,624	28,495	22,993	17,091
Lease liabilities	1,383	1,472	3,459	3,620	3,848	4,112
Other current financial liabilities	-	2,991	-	-	-	-
Other current liabilities	1,623	1,733	4,280	5,002	5,848	6,398
Bank overdrafts	17,679	11,820	20,322	18,500	18,500	18,500
	57,326	71,705	129,609	122,036	124,702	124,695
<b>Total equity and liabilities</b>	<b>436,944</b>	<b>536,794</b>	<b>717,796</b>	<b>729,230</b>	<b>743,257</b>	<b>771,575</b>
<b>Net Asset Value</b>	<b>162.31</b>	<b>169.28</b>	<b>232.99</b>	<b>251.95</b>	<b>273.22</b>	<b>296.47</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 865
Hiruni Perera	+94 11 2639 864	Tharusha Ashokgar	+94 11 2639 866
Ranjan Ranatunga	+94 11 2639 863	Zaeema Jihan	+94 11 2639 868

## 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

Tharusha Ekanayake	+ 94 77 7 809 154
--------------------	-------------------

## EQUITY SALES

<b>CEO</b>	Jaliya Wijeratne	+94 70 2910 042	
<b>Colombo</b>			
Rasika Indra Kumara	+94 77 7072 698	Chandika Jayawardana	+94 77 3940 070
Isuru Jayawardena	+94 76 7084 953	Anjelo LaBrooy	+94 77 7546 645
Nishantha Mudalige	+94 70 2910 041	Dillon Lowe	+94 76 616 0647
Ifadh Marikar	+94 77 9625 679	Evelyn John	+94 77 779 2452
Anushka Buddhika	+94 71 4310 600	Yudheshan Kannadasan	+94 77 415 5809
Thushara Pathiraja	+94 70 2910 037		
<b>Negombo</b>			
Priyanka Anuruddha	+94 70 2910 035	Priyantha Wijesiri	+94 70 2910 036

## UNIT TRUST SALES

Kavin Karunamoorthy	+94 77 0328 060	Imali Abeygunawardena	+94 77 1764 799
---------------------	-----------------	-----------------------	-----------------

## BRANCHES

<b>Kandy</b> CSE Branch Office, No. 88, Dalada Veediya, Kandy 20000.	<b>Kurunegala</b> No.174/B2, Negombo Road, Kurunegala. Kurunegala 60000.	<b>Matara</b> CSE Branch Office, 1st Floor, E.H.Cooray Tower, No.24, Anagarika Dharmapala Mawatha, Matara 81000.	<b>Negombo</b> Colombo Stock Exchange Negombo Branch Office, No. 72 A, 2/1, Old Chilaw Road, Negombo 11500.
<b>Manager: Salinda Samarakoon</b> Tel: +94 81 2236 010	<b>Manager:</b> Tel: +94 37 2222 930	<b>Manager: Rohana Jayakody</b> Tel: +94 41 2222 988	<b>Manager:</b> Tel: +94 31 4937 072

## Disclaimer:

This Review is prepared and issued by First Capital Holdings PLC based on information in the public domain, internally developed and other sources, believed to be correct. Although all reasonable care has been taken to ensure the contents of the Review are accurate, First Capital Holdings PLC and/or its Directors, employees, are not responsible for the accuracy, usefulness, reliability of same. First Capital Holdings PLC may act as a Broker in the investments which are the subject of this document or related investments and may have acted on or used the information contained in this document, or the research or analysis on which it is based, before its publication. First Capital Holdings PLC and/or a connected person or associated person may also have a position or be otherwise interested in the investments referred to in this document. This is not an offer to sell or buy the investments referred to in this document. This Review may contain data which are inaccurate and unreliable. You hereby waive irrevocably any rights or remedies in law or equity you have or may have against First Capital Holdings PLC with respect to the Review and agree to indemnify and hold First Capital Holdings PLC and/or its principal, their respective directors and employees harmless to the fullest extent allowed by law regarding all matters related to your use of this Review. No part of this document may be reproduced, distributed or published in whole or in part by any means to any other person for any purpose without prior permission.

## About us:

This report providing a snapshot of fixed income, equity and unit trust is composed and circulated by First Capital Holdings PLC an investment bank in Sri Lanka. The company operates in the capital market of Sri Lanka with operations in government securities - treasury bills and bonds, stock brokering and share market investments, asset management, private wealth management, retirement planning, personal financial planning, unit trust, margin trading, capital market research, trustee services, corporate finance advisory services including corporate debt structuring (debentures, trust certificates, commercial papers), valuations, restructuring, mergers and acquisitions, initial public offerings (IPOs) and project advisory. The First Capital Group consists of First Capital Treasuries PLC, First Capital Limited, First Capital Markets Limited, First Capital Asset Management Limited and First Capital Equities (Private) Limited covering Colombo, Negombo, Matara, Kandy and Kurunegala.