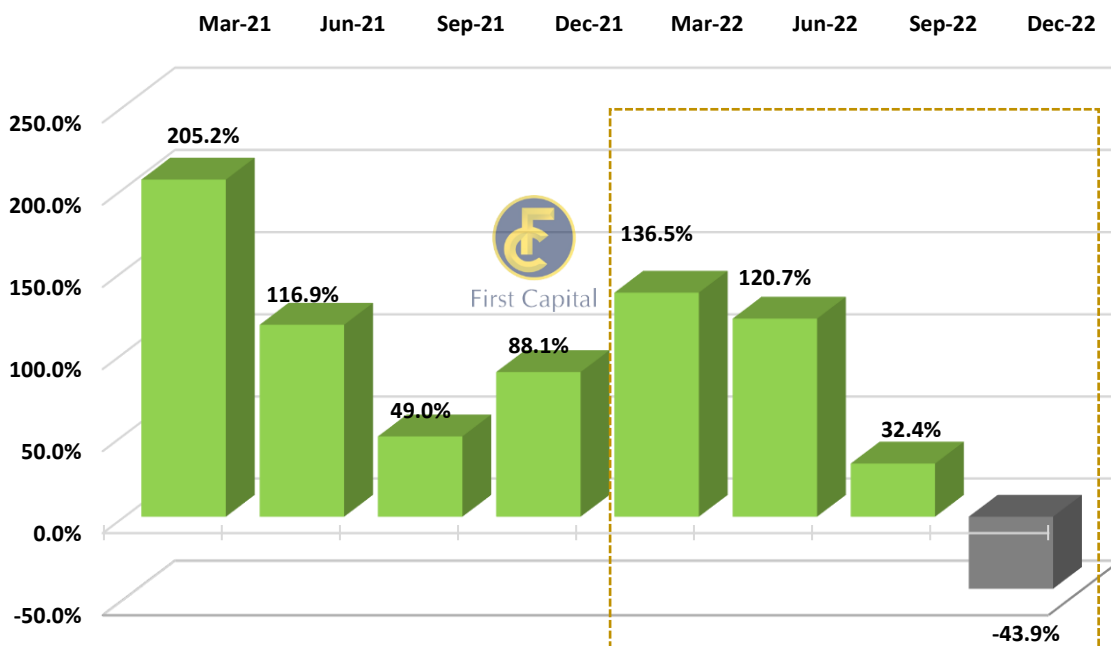




Quarterly Results Review

Quarter: Dec 2022

“Market Earnings Reports First Downturn Since 2020”



Dec 2022 quarter earnings declined by 43.9%YoY for 281 companies: Dec 2022 quarter earnings dipped by 43.9%YoY to LKR 96.4Bn owing to sluggish performance primarily in the Capital Goods (-82.6%YoY), Transportation (-87.0%YoY), Telecommunications (-226.8%YoY) and Diversified Financials (-38.9%YoY) segments. However, upbeat quarterly performance was only witnessed in the Energy (14,183.9%YoY), Banking (38.9%YoY), Food, Beverage & Tobacco (12.3%YoY) and Utilities (28.1%YoY) sectors.

Capital Goods, Transportation, Telecommunications and Diversified Financials sectors sapped the quarterly earnings: Capital Goods saw an 82.6%YoY decline largely driven by the poor performance of BRWN (-3430.4%YoY) and HAYL (-99.6%YoY) due to the significant rupee depreciation which caused a significant increase in the cost of materials resulting in higher working capital requirements, increase in market rates, foreign currency risk, and curtailed supplier credits by foreign suppliers due to the credit rating downgrade by international credit rating agencies following the economic instability of Sri Lanka. The Transportation sector recorded an 87.0%YoY decline primarily led by EXPO (-87.0%YoY) due to the reduction in operating volumes across both Air Freight & Ocean Freight products, led by the overall slowdown in global trade volumes impacted by high inventory levels, inflationary fears and the global energy crisis. Telecommunications sector also witnessed a downfall in net income by 226.8%YoY largely led by DIAL (-280.8%YoY) owing to the devaluation of the Rupee that escalated operational costs due to tariff revision of mobile, broadband and pay TV by 20%, 20% and 25% respectively with effect from September 2022, in line with the approval granted by the Telecommunication Regulatory Commission of Sri Lanka. On the other hand, Diversified Financials sector earnings dipped by 38.9%YoY mainly due to the losses made in LOLC (-41.8%YoY) as a result of a significant impairment adjustment for its fair value measurement of financial assets primarily in the financial services and manufacturing and trading segments. The lackluster performance in this sector during the quarter was also driven by an increase in corporate tax rates to 30% from 24% w.e.f. effective from October 2022.



Energy, Banking, Food, Beverage & Tobacco segments outperform: The Energy sector recorded a growth of 14,183.9%YoY to LKR12.8Bn largely driven by excellent performance of Lanka IOC which recorded an increase in earnings of 825.4%YoY to LKR8.2Bn aided by the fuel price revision formula, fall in global crude oil prices and an upward price revision of Auto Diesel by LKR 15.0 to LKR 430.0 during the month of November 2022. Banking sector witnessed a profit surge of 38.9%YoY to record LKR29.9Bn led by Commercial Bank of Ceylon which saw a significant increase in net income by 68.2%YoY to LKR8.8Bn. This was assisted by the impact of the sharp depreciation of the Rupee on foreign currency loans and advances amidst a sharp decrease in credit to the private sector. The depreciation also resulted in an increase of interest-earning assets, higher foreign currency income, increased cost of living and a rise in interest rates on Rupee deposits which resulted in the shift from low-cost funds to high-cost funds. Food, Beverage & Tobacco sector earnings were supported by improved performance in DIST (193.3%YoY) and MELS (125.3%YoY) which were aided by high food inflation.

Annexure 1 – Market Earnings Sector Summary

 First Capital <small>A Janashakti Group Company</small>	Results Update		Dec 2022			Thursday, April 20, 2023								
								Quarter Earnings LKR 'Mn					4 Qtr Trailing	
								3QFY23	3QFY22	YoY%	1QFY23	QoQ%	PER (x)	PBV (x)
4Q2022	4Q2021	YoY%	2Q2022	QoQ%										
Consumer Durables & Apparel Earnings	-3,574	2,795	-228%	3,594	-199%	17.3x	0.9x							
Retailing Sector Earnings	-1,742	4,109	-142%	1,695	-203%	77.4x	0.6x							
Consumer Services Sector Earnings	-4,930	-1,237	-298%	-6,179	20%	N/A	0.9x							
Automobiles & Components Sector Earnings	-214	230	-193%	-21	-901%	12.8x	0.8x							
Food, Beverage & Tobacco Sector Earnings	26,589	23,667	12%	45,639	-42%	4.2x	1.4x							
Food & Staples Retailing Sector Earnings	1,274	2,282	-44%	1,441	-12%	11.5x	2.0x							
Household & Personal Products Sector Earnings	-25	124	-121%	378	-107%	8.8x	1.8x							
Energy Sector Earnings	12,816	-91	14184%	11,599	10%	3.0x	1.8x							
Diversified Financials Sector Earnings	20,294	33,196	-39%	12,369	64%	6.1x	0.9x							
Banks Sector Earnings	29,944	21,554	39%	14,937	100%	4.0x	0.4x							
Insurance Sector Earnings	7,687	9,209	-17%	9,114	-16%	5.7x	1.0x							
Health Care Equipment & Services Sector Earnings	651	2,861	-77%	1,095	-41%	13.6x	1.7x							
Capital Goods Sector Earnings	5,096	29,294	-83%	21,653	-76%	4.3x	0.6x							
Commercial & Professional Services Sector Earnings	153	1,168	-87%	538	-72%	2.2x	0.8x							
Transportation Sector Earnings	2,986	23,050	-87%	8,977	-67%	5.4x	2.1x							
Materials Sector Earnings	6,744	8,087	-17%	12,580	-46%	4.2x	1.1x							
Real Estate Sector Earnings	22	2,408	-99%	3,779	-99%	4.4x	0.5x							
Software & Services	30	102	-71%	58	-49%	6.4x	1.9x							
Telecommunications Sector Earnings	-9,587	7,562	-227%	4,671	-305%	N/A	1.9x							
Utilities Sector Earnings	2,183	1,506	28%	-103	2225%	25.5x	0.9x							
Market Valuations						5.9x	0.9x							
Market Earnings - Dec 2022	96,396	171,876	-43.9%	147,816	-34.8%	281								
Market Earnings - Sep 2022	147,816	111,639	32.4%	146,907	0.5%	277								

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