



First Capital
A Janashakthi Group Company

TRAVEL RESURGENCE: TOURISM ON THE UPSWING

First Capital Research

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Tourism Sector in Sri Lanka

EQUITY | SRI LANKA | SECTOR UPDATE REPORT

MAR 2023

Sri Lanka Tourism Sector Highlights

Tourist Arrivals

2022: 719,978
(+>100%YoY)

Tourism Earnings

2022: USD 1.1Bn
(+>100%YoY)

Average spending per day by a tourist

2022: USD 190.0
(2018: USD 173.8)

MICE arrivals out of total arrivals

Feb 2023: 6.6%
(Feb 2022: 0.6%)

Occupancy

*2022E: 55%-65%
(2020: 18.6%)

Average Duration of Stay (Nights)

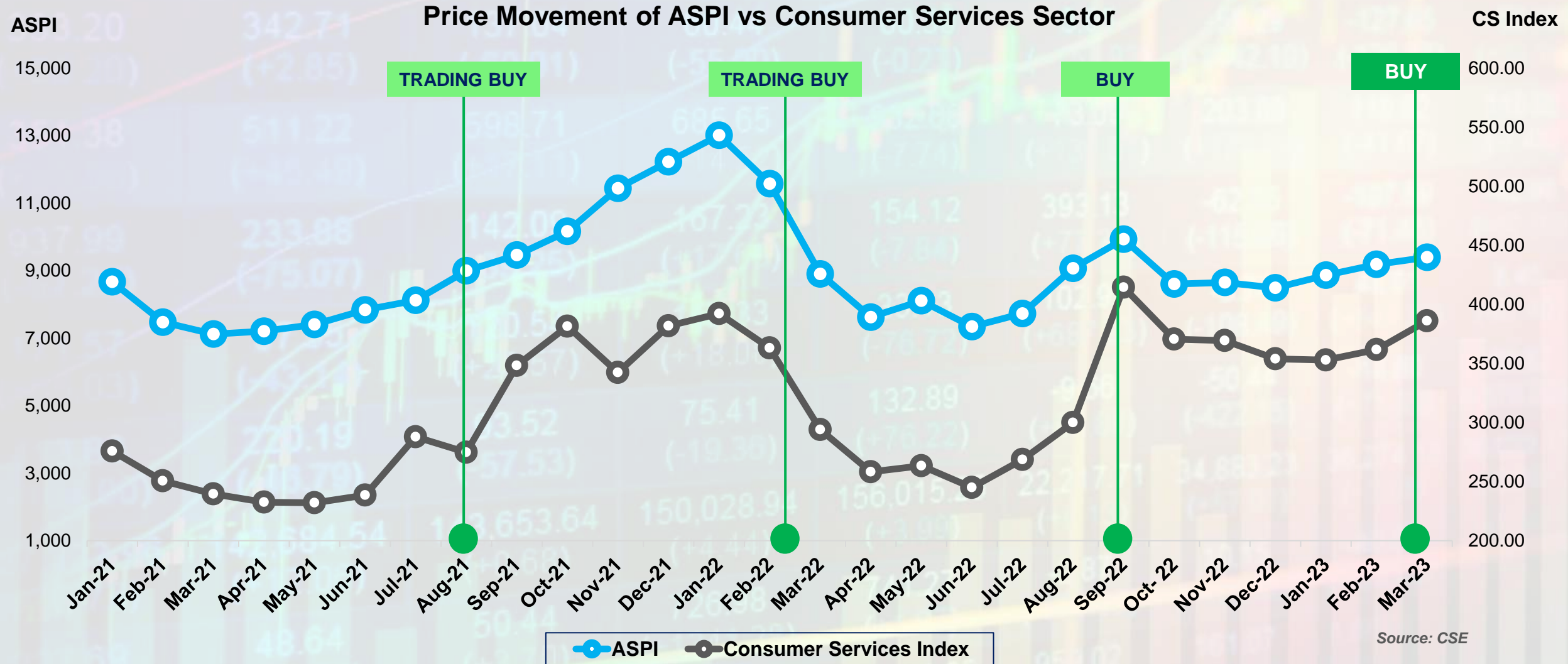
2021: 15.1
(2018: 10.8)



*2022 Occupancy rate is an average estimated value

RECAP:

As anticipated, tourist arrivals have continued to surge since the 2H2022, indicating a promising recovery for the industry. Hence, considering the positive outlook ahead for the Hotels and Tourism industry, we maintain our recommendation to **BUY**

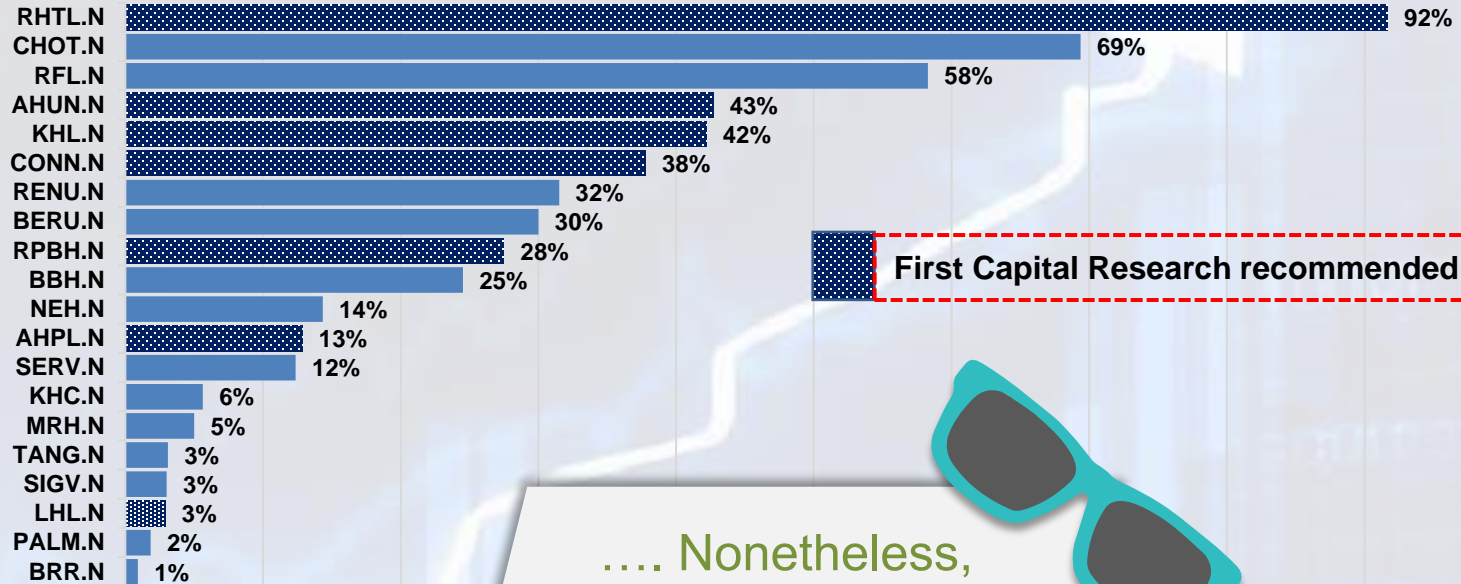


Source: CSE

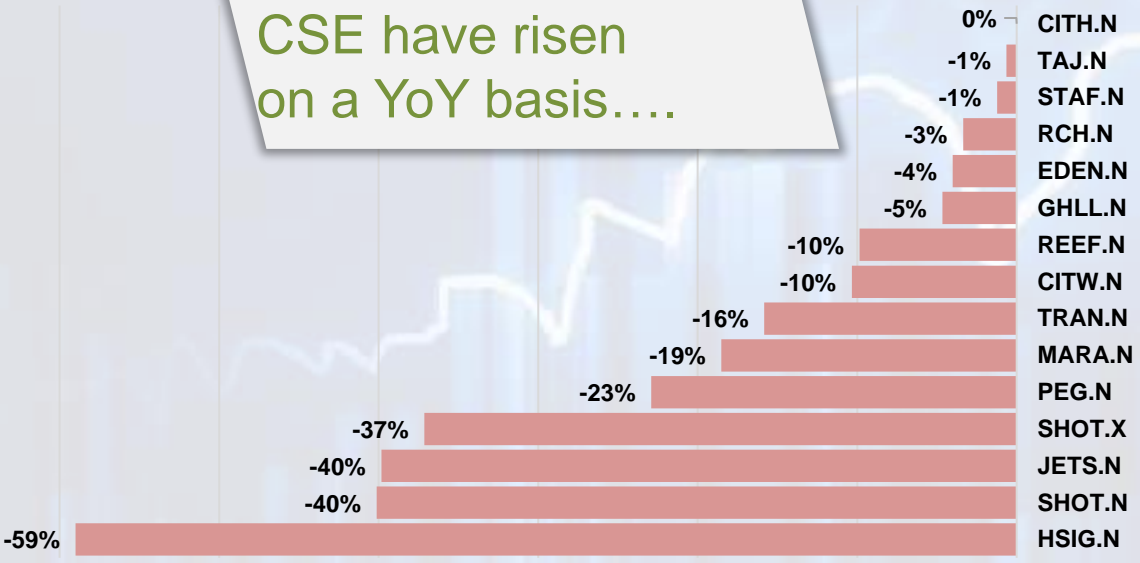
Over 55% of the Hotel sector counters appreciated on a YoY basis amidst the gradual recovery of the sector



Since the Sri Lanka's (SL) worst economic crisis in Mar 2022, the share prices of nearly 55% of the hotels listed in CSE have risen on a YoY basis....



First Capital Research recommended stocks



.... Nonetheless, we anticipate that there is still potential for these shares to provide further returns as the tourism industry continues its path to recovery.



Source: CSE

Sri Lanka's Tourism Revival Set to Soar in 2023

MICE EXPO 2023 begins to promote Sri Lanka as a leading destination for MICE tourism

March 14, 2023 at 9:18 PM

   NEWSWIRE



Harin tells world Sri Lanka Tourism is booming with confidence

Monday, 13 March 2023 00:28  -  - 337

- **Speaking at world's leading travel and trade show ITB in Germany, says Sri Lanka is not a bucket list country, but a destination impossible not to love**

ECONOMY

Sri Lanka promoting MICE tourism to meet 12-pct of 2023 target

By **ROSHANI FERNANDO**

Wednesday March 15, 2023 1:10 pm

Jaffna-Chennai direct flights resume post-pandemic

Tuesday, 13 December 2022 01:27  -  - 454

China Eastern Airlines to operate six flights weekly from China

Monday, March 13, 2023 - 01:00

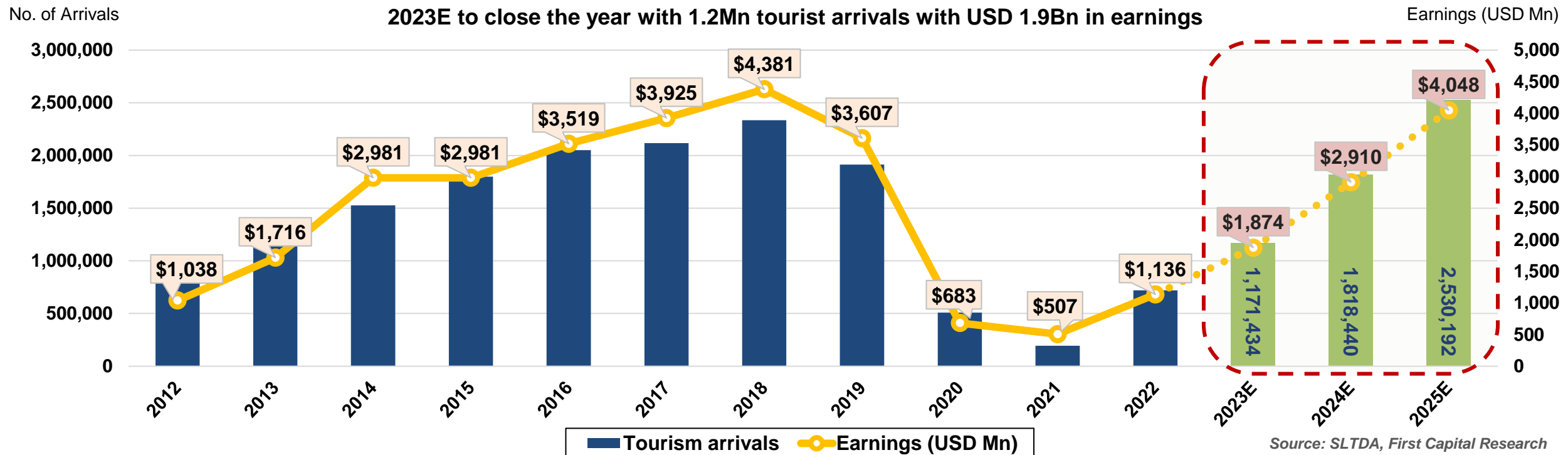
Business

Print Edition



Consistent YoY rebound in arrivals brings in new hope for the country...

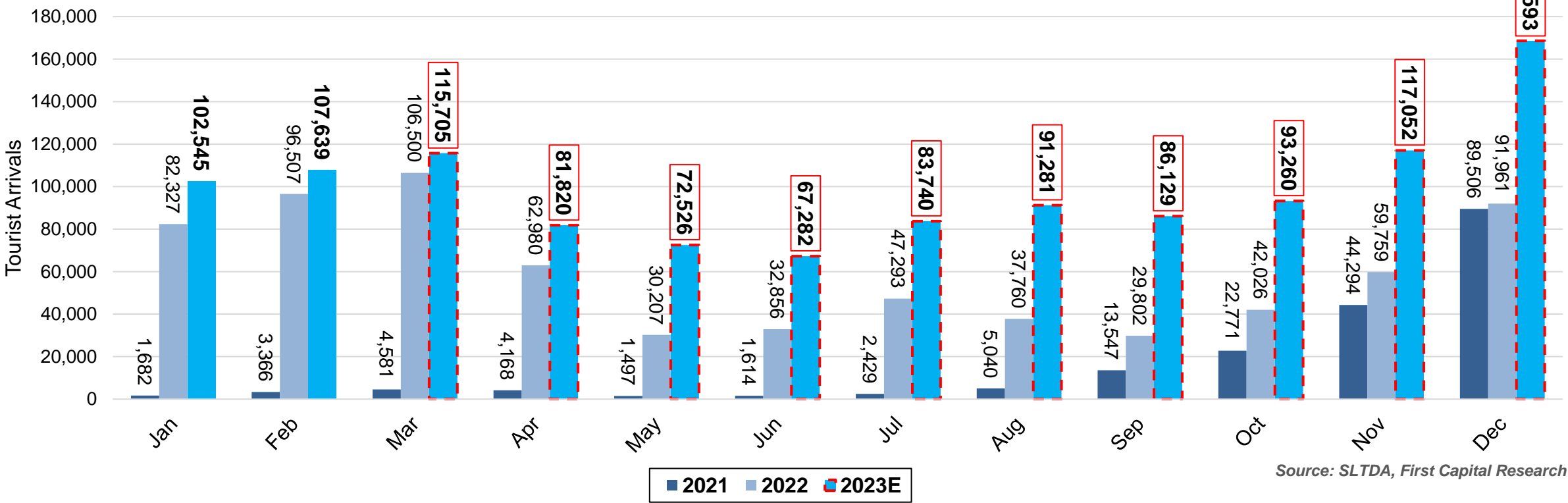
The Sri Lankan tourism industry has been one of the first to gradually recover following consecutive blows from the 2019 Easter attack, the Covid-19 pandemic, and the worst economic crisis in decades. As the Sri Lankan economic crisis eased to a certain level in Aug 2022, the majority of European countries, including Switzerland, France, UK, Sweden, and Norway, have relaxed their advisories on travel to Sri Lanka. As a result, with the resumption of multiple airlines and cruise tourism, along with increased promotions, including MICE tourism, we anticipate tourist arrivals in Sri Lanka to surpass 1.0Mn in 2023E with a target of 1.2Mn in arrivals and USD 1.9Bn in earnings.



...indicating promising recovery of the tourism sector...

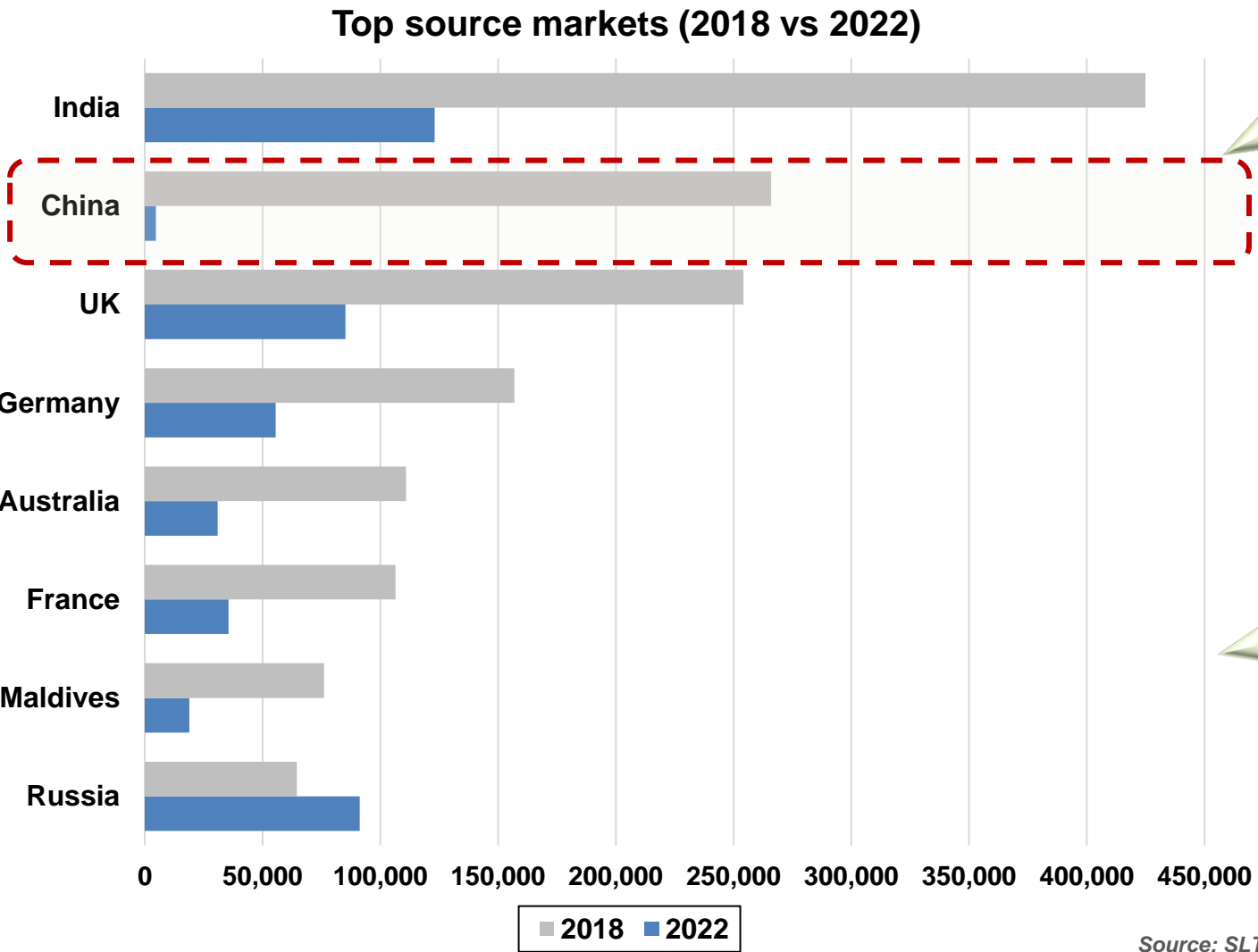
The total number of tourist arrivals in Sri Lanka grew consistently from 2H2022 amidst the easing down of the economic crisis with the immediate implementation of necessary measures by the government in order to obtain the IMF fund. This has boosted the travel confidence among the tourists. Accordingly, 2023 started off the year on a positive note and recorded more than 100,000 arrivals each in the first two months. We expect the trend to persist until Mar 2023 considering the seasonality of tourists and expect the arrivals to stabilize in the upcoming months. (Tourists arrivals from 1st to 26th March – 105,714, accordingly, YTD arrivals surpassed 300,000 in 2023).

Monthly Tourist Arrivals recovering on a YoY basis (2021-2023E)



Source: SLTDA, First Capital Research

...while resumption of Chinese outbound tourism to further boost arrivals



Source: SLTDA

China accounted for **11.4%** of the total tourists to Sri Lanka in **2018** and remained the top source market next to India.

Meanwhile, with China reopening outbound tourism, we anticipate a further boost to the tourist arrivals to SL starting from Apr 2023, and expect Sri Lankan Airlines to commence flights to Shanghai, Beijing, and Guangzhou to and from Colombo thrice a week. Hence, we expect similar number of Chinese arrivals in the short to medium term compared to pre pandemic level.

India, Russia, UK and other European countries remains the top source market in 2022 and in 1Q2023 amidst the increase in flight frequencies to Sri Lanka and the significant devaluation of LKR against USD which made accommodation and other expenses to become more affordable for international travelers.



Sri Lankan Airlines
 Frequency per week:
 2019: 192
 2023: 208



Air India
 Frequency per week:
 2019: 14
 2023: 10



Emirates
 Frequency per week:
 2019: 28
 2023: 27



Air Asia
 Frequency per week:
 2019: 7
 2023: 7



China Eastern
 Frequency per week:
 2019: 4
 2023: 4



Singapore Airlines
 Frequency per week:
 2019: 14
 2023: 4



Etihad
 Frequency per week:
 2019: 14
 2023: 6



Gulf Air
 Frequency per week:
 2019: 7
 2023: 14



IndiGo
 Frequency per week:
 2019: 7
 2023: 14



Malaysian Airlines
 Frequency per week:
 2019: 7
 2023: 5



Oman Air
 Frequency per week:
 2019: 14
 2023: 7



Qatar Airways
 Frequency per week:
 2019: 35
 2023: 23



Fits Air (Sri Lanka)
 Frequency per week:
 2019: N/A
 2023: 4



Air France
 Frequency per week:
 2019: N/A
 2023: 3



Edelweiss Air
 Frequency per week:
 2019: N/A
 2023: 1

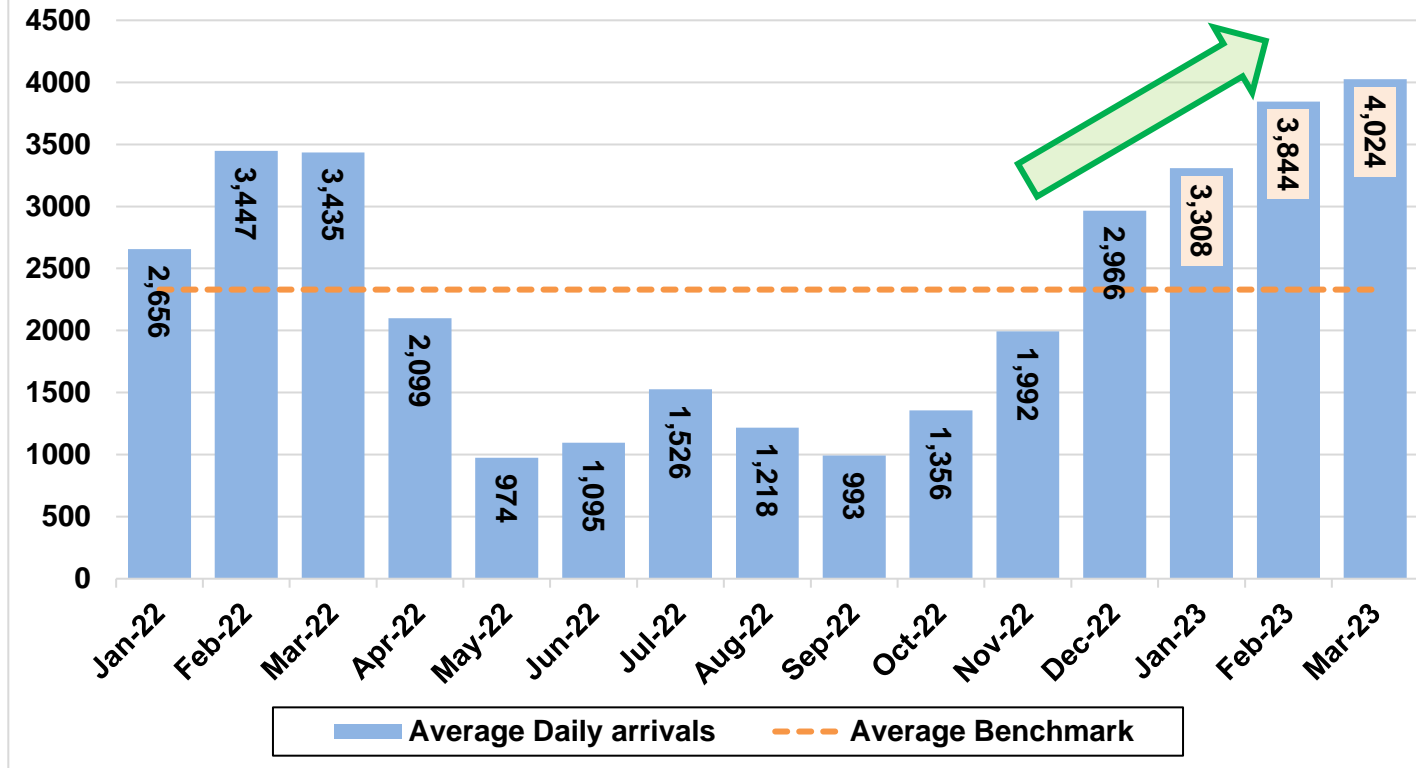
*The Airlines listed above are only the direct flights to Sri Lanka and does not include code-share flights
 Source: compiled based on internal aviation database, and figures maybe subject to change*

Source: Extract from JKH IR, Daily ft

Flight frequencies to Sri Lanka rebound to near pre-pandemic levels

First Capital Research being optimistic on SL tourism target of 2023..

Average Daily Tourist Arrivals



First Capital Research expects Mar 2023 arrivals to surpass 110,000, as the month already recorded 105,715 tourists from 1st to 26th Mar amidst the increase in Chinese tourists, rise in MICE tourism and the arrival of 250 athletes from France to participate in the adventure trail Raid Amazonas 2023.

Raid Amazonas' help create more awareness of Sri Lanka as an adventure travel hotspot in France and other European countries. This may draw the attention of adventure seekers towards Sri Lanka, encouraging them to visit.

As SL welcomed the first group of Chinese tourists for 2023 on 1st Mar, China has moved up to the 9th position in SL's list of top tourist arrivals source markets.

Source: SLTDA

Top 5 Source Markets to SL (YTD Arrivals contribution)

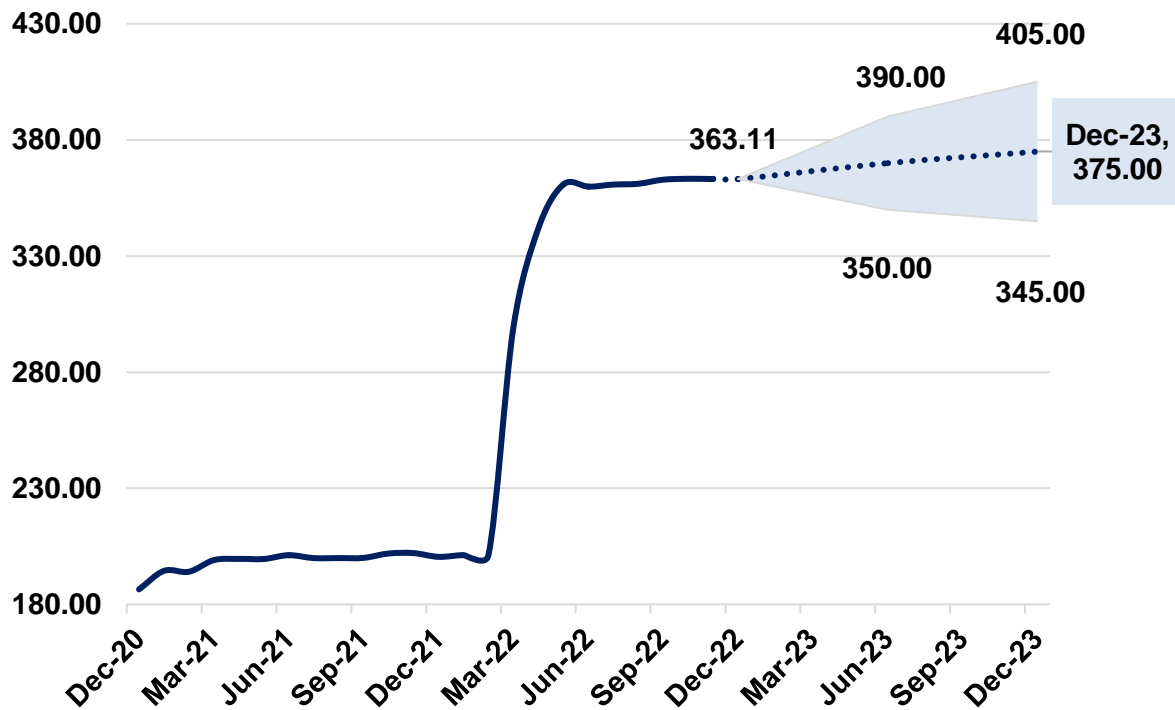


... as depreciation of LKR has made SL holidays affordable compared to pre-pandemic levels

LKR has depreciated over 90% compared to pre-pandemic times, which made the cost of living in SL more affordable for international travelers.

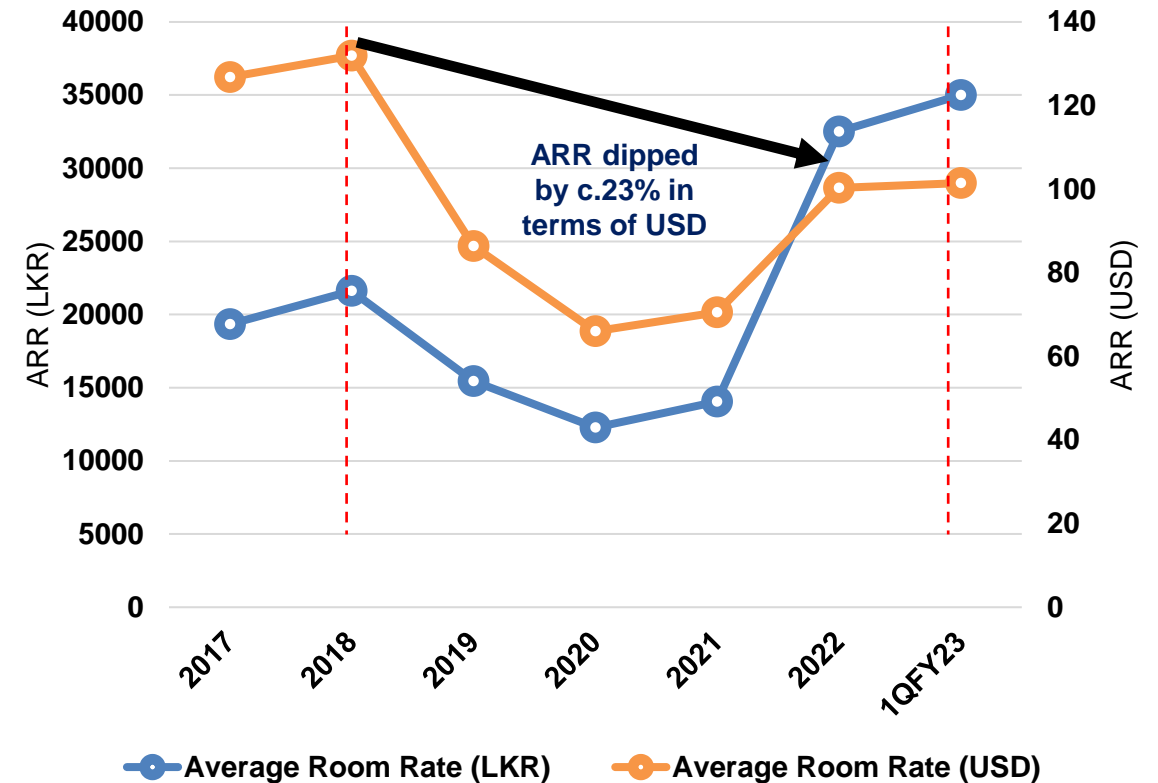
Despite an increase in local prices, the accommodation and other travel costs has significantly dipped by c.25% from pre-pandemic level rates in terms of USD as a result of LKR devaluation which would be an encouraging factor for tourists to visit Sri Lanka.

First Capital Research expectation on USD/LKR movement



Source: CBSL, First Capital Research

Average room rate comparison



Source: CBSL, First Capital Research

Sri Lanka emerging as a top MICE destination

In 2021, Sri Lanka's tourism authorities focused their attention more on MICE tourism with the intention of making Sri Lanka a top MICE tourism destination as MICE tourists pay 3x the amount of leisure tourism

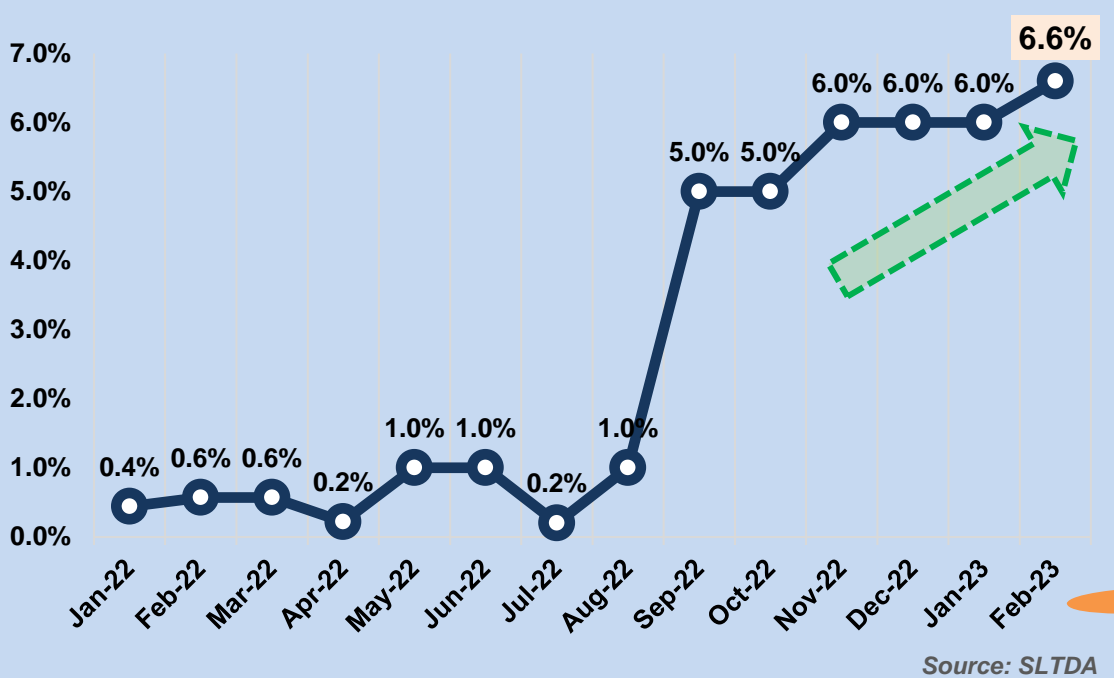
SL's main MICE tourism market is India which organized multiple conferences (Tata Tiscon and V institute of India) within the first three months of 2023 which brought in over 500 arrivals. Also, some of the other major events are yet to be hosted in the upcoming period which may further boost arrivals

SL hosted the first-ever MICE Expo in mid-Mar 2023 positioning the country as a year-round business destination and welcomed over 150 tourism industry stakeholders from across the world

Moreover, Bangladesh, Pakistan, Germany, the Middle East, Saudi, Doha, Dubai, and UK are the other key source markets for SL MICE at the moment which would bring in high profile MICE events

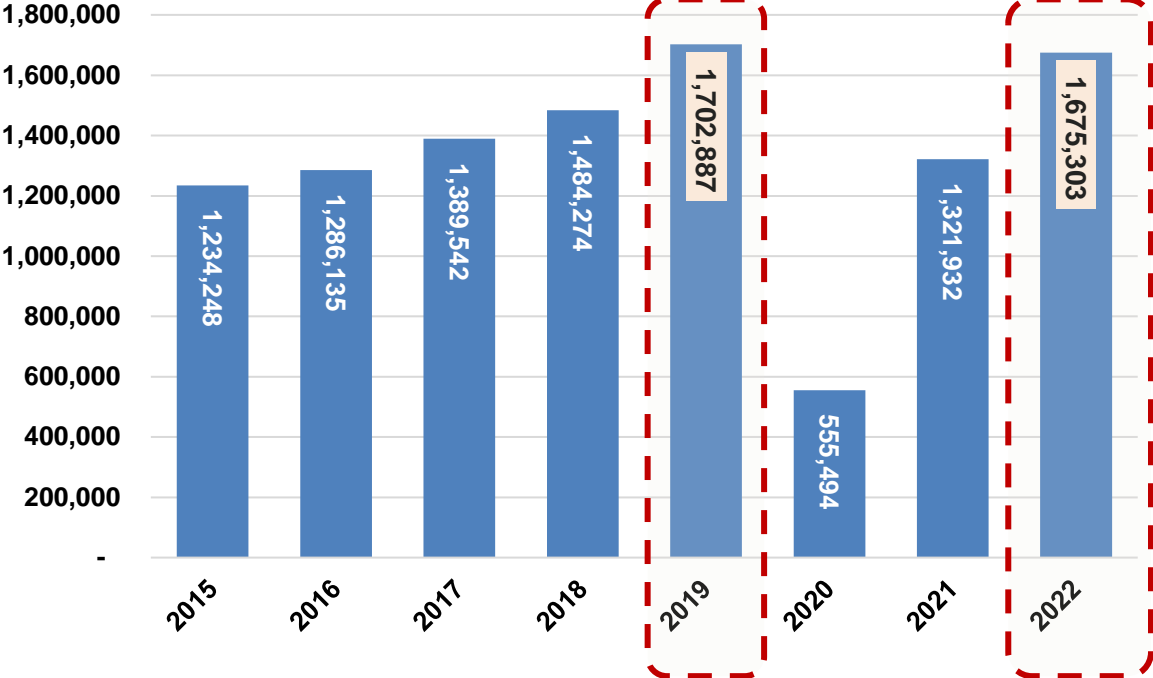
World-class infrastructure from hotels and many in-progress developments, such as Cinnamon Life, ITC Hotels and Port City Colombo, is also slated to open more doors to growth and investment in the future

SL expect to fill nearly 12% of the total tourist arrivals target in 2023 through MICE tourism which may bring in USD 300.0Mn by the end of 2023



Counters that are exposed to Maldives are to largely benefit

Tourist arrivals in Maldives has surpassed the pre-pandemic levels in 2022



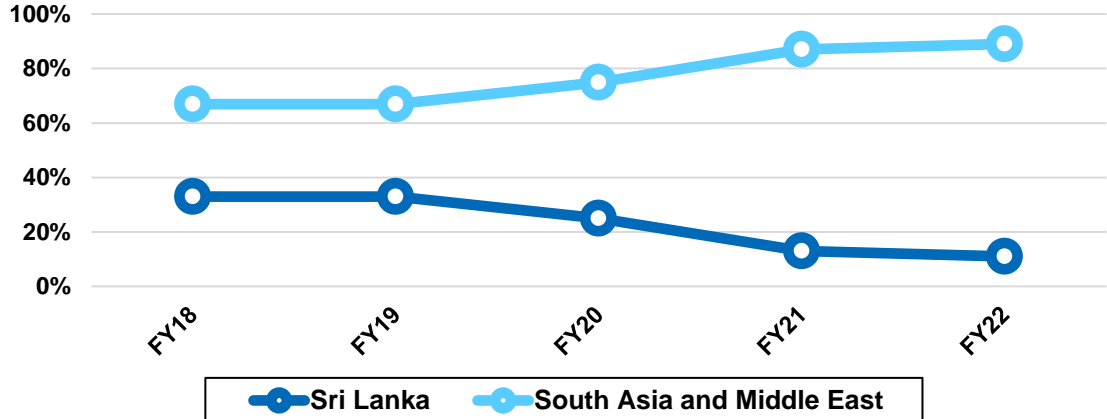
Source: Ministry of Tourism Maldives

Maldives experienced a robust growth in tourist arrivals during 2022 which almost reached the pre-pandemic levels. The government's efforts to promote the country as a popular tourist destination, along with the development of new resorts and attractions, have contributed to this growth.

Meanwhile, First Capital Research expects LKR appreciation against the green back is limited in the future once the economy opens for imports, which may benefit AHUN, KHL and CONN that are exposed to foreign markets.

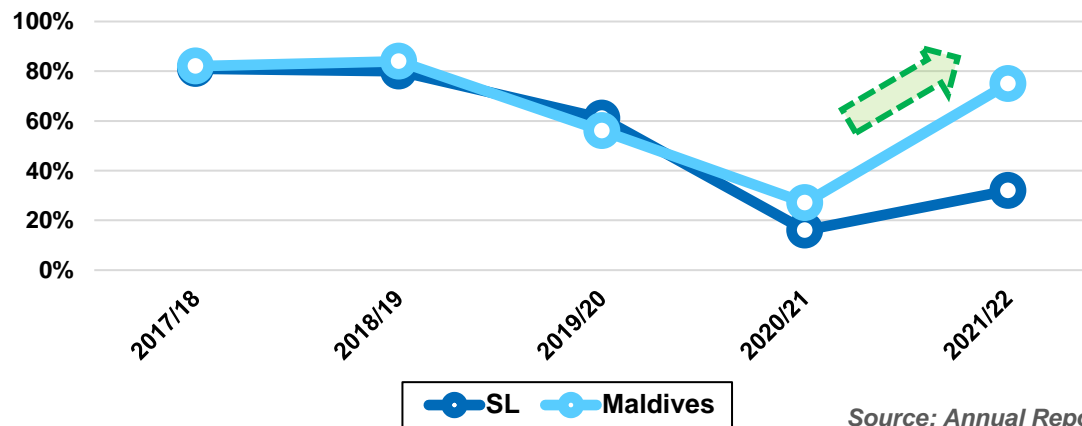
Nearly 90% of AHUN's total revenue is derived outside Sri Lanka, which shows continuous recovery...

AHUN's Revenue contribution (%)



...while occupancy rate of KHL's Maldives and SL hotels witnessed sharp upturn

KHL Occupancy rate (%)



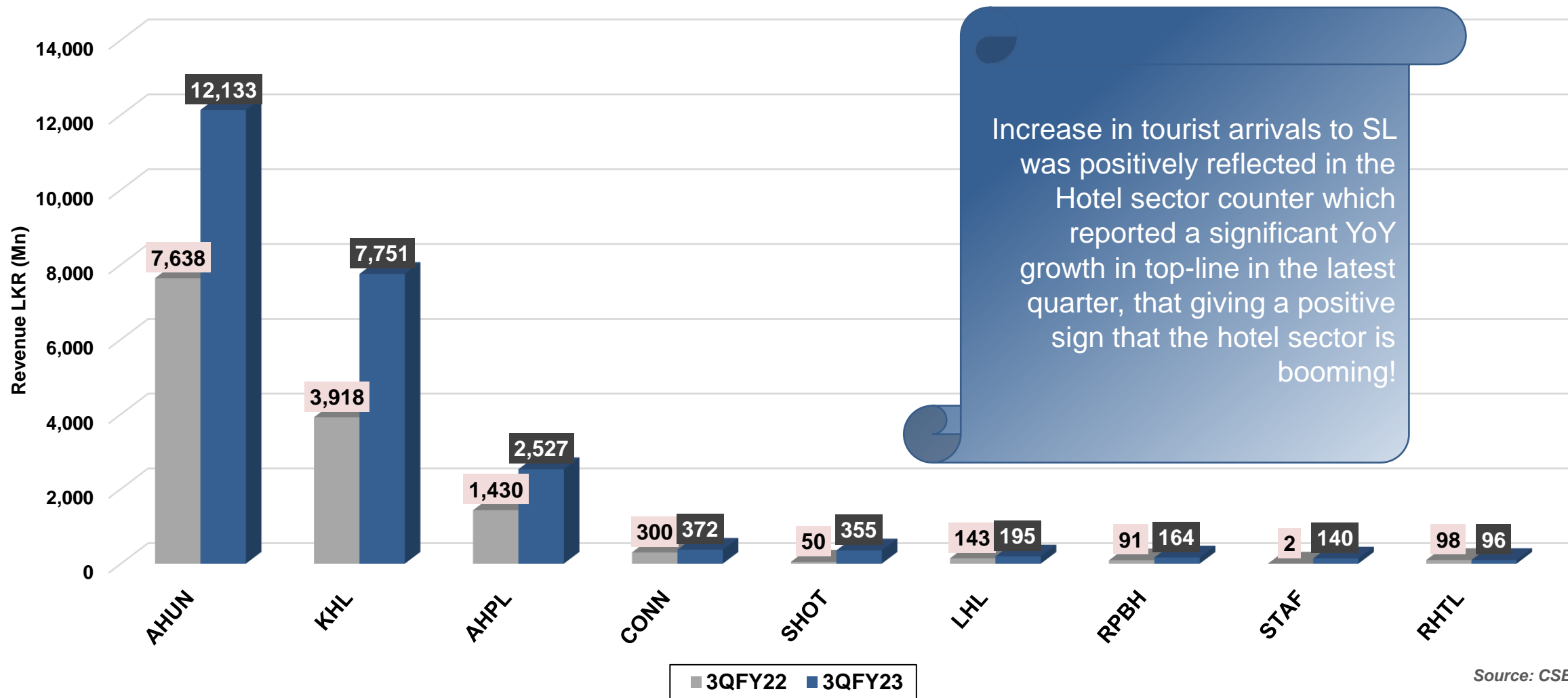
Source: Annual Report



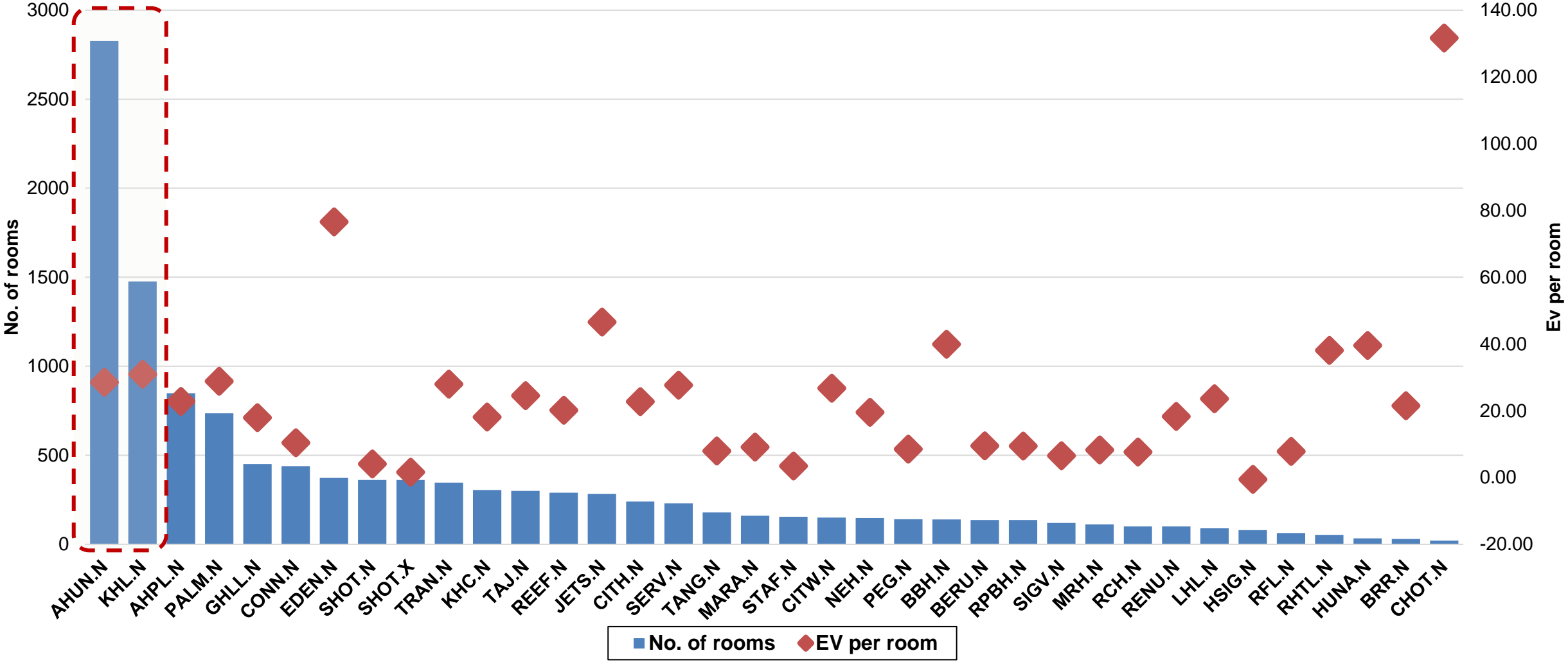
**Hotel sector counters
may continue to offer
further upside**

Robust tourist arrivals and spending boost industry top-line

Majority of the Hotels reported healthy top-line growth during the quarter












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



Note: Lower Enterprise value (EV) per room indicates higher revenue earning capability of each room

FCR Recommendations: Hotel Sector

FIRST CAPITAL RECOMMENDATIONS: HOTEL SECTOR												
Stock	Stock Code	Share price 21.03.2023	Target Price 2024E/FY24E	52-week High	52-week Low	Capital gain (%)	Annualized return (%)	EPS FY24E	Forward PER	No. of Rooms	EV per room	FCR Recommendation
		LKR	LKR	LKR	LKR			LKR	(x)			
 AITKEN SPENCE HOTEL HOLDINGS PLC	AHUN.N	59.50	80.00	67.00	28.00	34.5%	33.3%	5.6	10.6	2,826.00	28.48	BUY
 JOHN KEELLS HOTELS PLC	KHL.N	18.20	26.00	19.90	9.70	42.9%	41.4%	1.3	13.8	1,476.00	30.88	BUY
 HAYLEYS LEISURE PLC	CONN.N	24.80	32.00	25.50	12.60	29.0%	28.1%	3.2	7.8	439.00	10.39	HOLD
 THE LIGHTHOUSE HOTEL PLC	LHL.N	28.30	46.00	42.30	14.60	62.5%	60.3%	2.6	11.0	90.00	23.57	BUY
 THE FORTRESS RESORTS PLC	RHTL.N	23.00	25.00	23.00	9.60	8.7%	8.4%	1.6	14.6	53.00	38.06	SELL
 ROYAL PALMS BEACH HOTELS PLC	RPBH.N	25.50	35.00	28.00	16.00	37.3%	36.0%	2.3	11.0	136.00	9.41	BUY
 SERENDIB HOTELS PLC	SHOT.N	9.40	12.50	19.80	7.50	33.0%	31.9%	0.6	14.7	361.00	4.02	BUY
 DOLPHIN HOTELS PLC	STAF.N	32.00	45.00	38.00	21.00	40.6%	39.2%	4.4	7.3	154.00	3.42	BUY
 ASIAN HOTELS AND PROPERTIES PLC	AHPL.N	43.00	55.00	47.00	27.00	27.9%	27.0%	3.6	12.0	847.00	22.78	HOLD

AITKEN SPENCE HOTEL HOLDINGS PLC

AHUN.N0000

Current Price: LKR 59.50

Fair Value: LKR 80.00 (FY24E)

BUY

AHUN is a 74.5% owned subsidiary of Aitken Spence (SPEN.N0000)

It is the largest room key operator in the country with operations in Sri Lanka (1,300 rooms in 8 properties & 236 rooms in 3 managed properties), Maldives (734 rooms in 5 properties), Oman (150 rooms in 1 owned property and 266 rooms in 3 managed properties) and India (140 rooms in 1 owned property).

AHUN recorded a net loss of LKR 258.7Mn in 3QFY23 cf. a profit of LKR 781.8Mn in 3QFY22

Despite a strong topline performance (up 58.9%YoY to LKR 12.1Bn) driven by recovery in both Sri Lankan and South Asian and Middle East segments, AHUN reported a net loss of LKR 258.7Mn in 3QFY23 amidst the significant rise in the net operating cost by 88.2%YoY to LKR 9.9Bn cf. LKR 5.3Bn in 3QFY22. Accordingly, operating profits fell by 12.2%YoY to LKR 1.9Bn during the quarter. In the midst of high interest rate environment, finance cost of AHUN witnessed a steep rise of 198.0%YoY to LKR 1.6Bn which hampered the profit growth of AHUN.

Relatively faster recovery in South Asian and Middle East Sector to aid AHUN in outperforming peers

Generating over 90.0% of revenue from outside Sri Lanka, AHUN is expected to benefit from relatively faster recovery in tourism in peer countries. Further, having Rupee depreciated 80% cf. the USD, we believe LKR may stabilize at LKR 340.0 to LKR 400.00 levels in FY24E. Taking in to consideration the future outlook of AHUN, we expect net income of LKR 1.9Bn in FY24E. **BUY**

P/E 31 March	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Estimates (LKR 'Mn)							
Revenue	19,055	18,588	5,592	24,027	42,047	50,672	60,503
EBIT	2,735	1,564	-5,189	4,280	2,102	8,361	9,075
Net Profit	811	-625	-4,669	624	-1,068	1,889	2,806
Adjusted EPS (LKR)	2.4	(1.9)	(13.9)	1.9	(3.2)	5.6	8.3
YoY Growth (%)		-180%	-632%	113%	271%	277%	49%
Valuations							
PER (x)	25.1x	N/A	N/A	32.1x	-18.7x	10.6x	7.1x
PBV (x)	0.9x	1.0x	1.3x	1.0x	1.1x	1.0x	0.9x
DPS	1.0	-	-	-	-	2.2	3.3
DY (%)	1.7%	0.0%	0.0%	0.0%	0.0%	3.8%	5.6%
Dividend Payout	42.3%	0.0%	0.0%	0.0%	0.0%	40.0%	40.0%
ROE	3.7%	-3.1%	-29.4%	3.1%	-5.7%	9.5%	13.0%

AHUN traded at an average PER of **14.0x** during the past 8Yr period, as a result, we believe AHUN should re-iterate and trade at historic average of 14.0x. Hence we have arrived at a FV of LKR **80.00** for **FY24E**. **BUY**

JOHN KEELLS HOTELS PLC

KHL.N0000

Current Price: LKR 18.20

Fair Value: LKR 26.00 (FY24E)

BUY

80.3% owned Subsidiary of Premiere John Keells Holdings

John Keells Hotels PLC is one of Sri Lanka's largest hotel operators, with a portfolio of 12 resorts across Sri Lanka (1,022 rooms) and Maldives (454 rooms) holding 1,476 hotel rooms in total. All of KHL hotels are under the brand of Cinnamon and the latest addition during FY21 was Cinnamon Bentota Beach which was reconstructed targeting the luxury market. Group reopened Hikka Tranz by Cinnamon in FY22 while construction of Cinnamon Red Kandy, which was halted, was recommenced in 2021 and was planned to be completed by 1QFY24E. Under the Maldives segment, 4 star hotels were reconstructed / refurbished in FY20 & FY21 with the total of 454 rooms targeting the upper and luxury tourists.

Topline rose by 97.8%YoY for 3QFY23 as a result of notable increase in tourist arrivals

KHL earned a net profit of LKR 242.1Mn during 3QFY23 cf. net loss of LKR 121.6Mn in 3QFY22 due to the significant increase in revenue by 97.8%YoY to LKR 7.8Bn amidst the notable increase in tourist arrivals during the quarter although GP margin fell by 234bps to 59.8% amidst the steep rise in costs. Despite an increase in topline, net operating costs and finance costs have significantly increased by 91.5%YoY and 136.0%YoY, respectively amidst the hike in inflation and interest rates during the period. Segmental revenue attributable to Sri Lanka recorded a notable increase by 85.1%YoY to LKR 1.5Bn while revenue from Maldives surged by 101.4%YoY to LKR 6.3Bn due to the speedy recovery of tourism in Maldives.

Tourist arrivals in Maldives surpassed pre-pandemic levels which benefits higher occupancy

Maldives segment contributed for 80.6% of the group's revenue and we expect the contribution of this segment towards the profitability to grow over the coming years due to the speedy recovery of tourism in Maldives which already surpassed the prepandemic level. Despite the macro-economic challenges in the short-term, the prospects for the Sri Lankan Resorts segment remain positive in the medium-term. As a result, we believe the average occupancy rates of KHL's Maldives and SL hotels to witness a sharp upturn to 60% in FY24E. Considering the potential outlook, We expect KHL to record profit in FY24E at LKR 1.9Bn surpassing the prepandemic earnings. **BUY**

P/E 31 March	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Estimates (LKR 'Mn)							
Revenue	11,033	9,712	3,661	13,355	25,968	34,005	39,990
EBIT	1,087	-764	-4,777	-190	-260	3,060	5,998
Net Profit	817	-1,201	-5,096	-1,203	-935	1,920	4,433
Adjusted EPS (LKR)	0.6	(0.8)	(3.5)	(0.8)	(0.6)	1.3	3.0
YoY Growth (%)		-247%	-324%	76%	43.8%	105.3%	131.0%
Valuations							
PER (x)	32.4x	N/A	N/A	N/A	-28.3x	13.8x	6.0x
PBV (x)	0.9x	0.9x	1.1x	0.9x	0.9x	0.9x	0.8x
DPS	0.2	-	-	-	-	0.3	0.6
DY (%)	0.8%	0.0%	0.0%	0.0%	0.0%	1.4%	3.3%
Dividend Payout	26.7%	0.0%	0.0%	0.0%	0.0%	20.0%	20.0%
ROE	2.8%	-4.2%	-20.9%	-4.0%	-3.2%	6.3%	13.0%

KHL traded at an average PER of **20.0x** during the past 8Yr period, as a result, we believe KHL should re-iterate and trade at historic average of 20.0x. Hence we have arrived at a FV of LKR **26.0** for **FY24E**. **BUY**

HAYLEYS LEISURE PLC

CONN.N0000

Current Price: LKR 24.80

Fair Value: LKR 32.00 (FY24E)

HOLD

CONN is 64.6% owned subsidiary of export conglomerate Hayleys (HAYL.N)

CONN operates with a total room count of 371, scattered across 9 hotels, resorts and boutique hotels in Sri Lanka and 1 luxurious resort in Maldives.

CONN net loss increased to LKR 193.3Mn in 3QFY23 (3QFY22: loss of LKR 81.4Mn)

Increased losses during the quarter was largely on the back of increased finance expenses, which inclined by 417.7%YoY to LKR 145.1Mn. However, group topline for 3QFY23 grew by 23.8%YoY to LKR 372.1Mn whilst gross margin improved to 50.0% from 45.6% in 3QFY23.

CONN to witness faster recovery benefitted by occupancies

CONN underwent a challenging period in 2021, where performance was severely affected due to poor occupancies and ARR as a result of poor arrivals to the country and travel restrictions, which affected local travel. However, given that CONN's exposure to Maldives, coastal segment of Sri Lanka and boutique style hotels, which is identified as the fastest recovering segments, we believe CONN is perfectly placed to take advantage of recovering arrivals. Thus, we expect CONN occupancies to hit 65% during FY24E. Moreover, as a result of various promotions carried out last year, CONN ARR and margins were significantly benefited. However, as occupancies recover we expect ARR to notably improve from previous year, thus benefitting margins in the coming years. Therefore considering the potential for the company as well as the sector, we have forecasted a net profit of LKR 344.9Mn for FY24E (better than FY19 profits of LKR 299.7Mn). Hence, we rate the company **HOLD**.

P/E 31 March	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Estimates (LKR 'Mn)							
Revenue	1,644	1,226	362	777	1,405	2,682	3,168
EBIT	408	-114	-583	-623	-492	590	602
Net Profit	300	-266	-790	-898	-669	345	432
Adjusted EPS (LKR)	5.6	(1.6)	(6.7)	(7.7)	(6.2)	3.2	4.0
YoY Growth (%)		-128%	-329%	-14%	19%	152%	25%
Valuations							
PER (x)	4.5x	N/A	N/A	N/A	-4.0x	7.8x	6.2x
PBV (x)	0.7x	0.8x	0.9x	1.2x	1.8x	1.6x	1.5x
DPS	1.8	-	-	-	-	1.9	2.4
DY (%)	7.1%	0.0%	0.0%	0.0%	0.0%	7.7%	9.7%
Dividend Payout	31.5%	0.0%	0.0%	0.0%	0.0%	60.0%	60.0%
ROE	16.2%	-4.8%	-25.2%	-37.6%	-43.7%	20.7%	23.5%

CONN traded at an average PER of **10.0x** during the past 7Yr period, as a result, we believe CONN should re-iterate and trade at historic average of 10.0x. Hence we have arrived at a FV of LKR **32.0** for **FY24E**. **HOLD**

THE LIGHTHOUSE HOTEL PLC

LHL.N0000

Current Price: LKR 28.30

Fair Value: LKR 46.00 (FY24E)

BUY

Leading boutique resort targeting luxury market

The Lighthouse Hotel PLC (LHL) operates three unique properties along the southern coast of Sri Lanka. Jetwing Lighthouse, the iconic resort of LHL, is one of the renowned architect Geoffrey Bawa's finest masterpieces overlooking the coastline of Galle and operated with Jetwing's legendary hospitality with 90 rooms. Alongside Jetwing Lighthouse, it also operates a boutique hotel, Jetwing Kurulubedda, with two private dwellings and four rooms, and the trendy, easy-going, select-service Hotel J in Unawatuna.

Rise in operating cost led to a net loss for the period

LHL's top-line grew by 36.6%YoY to LKR 195.2Mn on the back of an increase in tourist arrivals for the winter season. Despite a growth in revenue, LHL reported a net loss of LKR 27.6Mn in 3QFY23 compared to a profit of LKR 4.0Mn in 3QFY22 amidst the steep rise in admin expenses and finance costs by 57.0% and 317.0%, respectively. Moreover, increase in tax rates from 14% to 30% further impacted the bottom line.

Occupancy to fill at a faster pace while demanding higher ARR

The global tourism industry has already seen a strong comeback in 2022, given widespread vaccination rollouts across the globe and easing of international travel restrictions in many countries. Despite the ongoing challenges, the government of Sri Lanka continues to focus on the tourism industry as a key driver to revive the economy. Moreover, boutique in general has high capacity to fill up the occupancy rate at a faster pace demanding high ARR. As a result, we expect occupancies to improve further and hover between 40%-50%, whilst ARR is expected grow at a 3Yr forward CAGR of 7.6% between FY22-FY25E. Moreover, with the return back to profits and turnaround in operations, we expect LHL to recommence its dividend strategy, with a 60% payout and a dividend yield of 5.5% for FY24E. Given the positive outlook ahead, we expect LHL's to report a net profit of LKR 118.6Mn in FY24E. **BUY**

PE 31 March	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Estimates (LKR 'Mn)							
Revenue	850	510	184	427	595	803	1,072
EBIT	155	-65	-175	-10	-12	233	354
Net Profit	103	-96	-197	-78	-75	119	236
Adjusted EPS (LKR)	2.2	(2.1)	(4.3)	(1.7)	(1.6)	2.6	5.1
YoY Growth (%)		-194%	-104%	60%	4%	259%	99%
Valuations							
PER (x)	12.7x	N/A	N/A	N/A	-17.4x	11.0x	5.5x
PBV (x)	0.4x	0.4x	0.4x	0.4x	0.4x	0.4x	0.4x
DPS	-	-	-	-	-	1.5	3.1
DY (%)	0.0%	0.0%	0.0%	0.0%	0.0%	5.5%	10.9%
Dividend Payout	0.0%	0.0%	0.0%	0.0%	0.0%	60.0%	60.0%
ROE	3.5%	-3.0%	-6.6%	-2.5%	-2.4%	3.8%	7.4%

LHL traded at an average PER of **18.0x** during the past 7Yr period, as a result, we believe LHL should re-iterate and trade at historic average of 18.0x. Hence we have arrived at a FV of LKR **46.0** for **FY24E**. **BUY**

THE FORTRESS RESORTS PLC

RHTL.N0000

Current Price: LKR 23.00

Fair Value: LKR 25.00 (FY24E)

SELL

Highly attractive resort targeting upper class tourists

The Fortress Resorts PLC, is a luxury boutique hotel in Galle, Sri Lanka which has invested in its subsidiary, La Forteresse (Pvt) Ltd. which provides lodging, food, beverage and other hospitality industry related activities. The company's accommodations consists of 53 rooms including fortress room, ocean room, beach room, beach splash room, ocean loft suites and fortress residence suites with the average room rate at LKR 44,000 (+139%YoY).

Bottom line deteriorated and recorded a loss in 3QFY23 amidst multiple catalysts

RHTL reported a net loss of LKR 29.3Mn in 3QFY23 illustrating a steep decline by over 100% cf. a profit of LKR 2.5Mn recorded in 3QFY22. The hotel's revenue was at LKR 96.2Mn indicating a degrowth of 2.0%YoY. Despite an increase in arrivals to the country, the hotel displayed underperformance amidst multiple challenges as the operating cost has significantly rose by 36.2%YoY to LKR 94.7Mn. Meanwhile, with the steep plunge in Debt-to-Equity ratio from 5.7% to 0.5%, finance cost dropped by 41.0%YoY to LKR 1.8Mn during the quarter.

FV estimated at LKR 25.0, provides an ARR of 8.4%, below T-Bill return

Considering the positive outlook ahead in the tourism industry, we have estimated a FV of LKR 25.00 for FY24E which provides a capital gain of 8.7% and an annual return of 8.5%. However, considering the return of RHTL which is significantly lower compared to the risk-free return of 21.0%, we have downgraded the stock to **SELL**.

P/E 31 March	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Estimates (LKR 'Mn)							
Revenue	788	489	75	349	396	693	848
EBIT	206	4	-235	7	-71	194	272
Net Profit	210	27	-176	33	-38	175	237
Adjusted EPS (LKR)	1.9	0.2	(1.6)	0.3	(0.3)	1.6	2.1
YoY Growth (%)		-87%	-743%	119%	216%	557%	35%
Valuations							
PER (x)	12.2x	93.3x	N/A	77.1x	-66.6x	14.6x	10.8x
PBV (x)	1.4x	1.4x	1.6x	1.6x	1.6x	1.4x	1.3x
DPS	0.5	4.1	-	-	-	0.4	0.4
DY (%)	4.3%	4.3%	0.0%	0.0%	0.0%	2.7%	3.7%
Dividend Payout	52.9%	405.7%	0.0%	0.0%	0.0%	40.0%	40.0%
ROE	11.3%	1.5%	-11.0%	2.0%	-2.4%	9.9%	11.9%

RHTL traded at an average PER of **15.0x** during the past 8Yr period, as a result, we believe RHTL should re-iterate and trade at historic average of 15.0x. Hence we have arrived at a FV of LKR **25.0** for **FY24E**. **SELL**

ROYAL PALMS BEACH HOTELS PLC

RPBH.N0000

Current Price: LKR 25.50

Fair Value: LKR 35.00 (FY24E)

BUY

Coastal indulgence in the south of Colombo

Royal Palms Beach Hotels is located in Kalutara, the south of Colombo with exposure to the coastal region. During the pandemic the hotel was able to generate revenue by acting as a brief isolation hotel, with minimum risk to the workers and visitors. The hotel has 136 rooms in a range of suits such as deluxe, heritage, executive, rajasthan royal, royal and penthouse. Revenue mainly stems from rooms and food & beverage sales. 28.41% stake of the hotel lies with Tangerine Beach Hotels PLC as at 30th Jun 2022.

Turnover takes a positive turn as tourist arrivals improve

RPBH recorded a loss of LKR 127.9Mn in 3QFY23 amidst the steep increase in tax rate from 14% to 30% w.e.f 31st Oct 2022. With the revamp in tourist arrivals compared to scarcely low levels of FY22, RPBH revenue witnessed a sharp upswing. As a result, revenue surged by 80.0%YoY to LKR 163.9Mn (cf. LKR 91.0Mn in 3QFY22). Meanwhile, GP margin surged by 309bps for 3QFY23 to 60.7% (cf. 57.6% in 3QFY22). Furthermore, operating cost for 3QFY23 also escalated in midst of a high inflationary environment to LKR 139.1Mn (+59.9%YoY cf. LKR 87.0Mn in 3QFY22).

Location-specific advantage and upswing in arrivals to favour RPBH

We expect occupancy levels of RPBH to significantly improve in the future given the positive developments on the tourism front with reviving arrivals. Accordingly, we estimate occupancy to improve to 60% in FY24E, respectively while it is expected to gradually return to pre-pandemic levels in FY25E. Furthermore, location-specific advantage of RPBH considering its close proximity to the Colombo city and large attraction for coastal areas too shall favour in expanding the bottom-line of RPBH. Further, RPBH is also expected to benefit from its net cash position in the backdrop of relatively high interest rates. As a result, we estimate earnings of RPBH to improve to LKR 115.7Mn in FY24E. **BUY**

P/E 31 March	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Estimates (LKR 'Mn)							
Revenue	755	618	151	337	531	849	1,144
EBIT	132	59	-159	-44	-255	119	263
Net Profit	127	69	-129	-22	-186	116	230
Adjusted EPS (LKR)	2.5	1.4	(2.6)	(0.4)	(3.7)	2.3	4.6
YoY Growth (%)		-45%	-286%	83%	732%	162%	99%
Valuations							
PER (x)	10.0x	18.4x	N/A	N/A	-6.9x	11.0x	5.5x
PBV (x)	0.5x	0.5x	0.5x	0.5x	0.5x	0.5x	0.5x
DPS	1.0	1.0	-	-	-	1.7	3.5
DY (%)	3.9%	3.9%	0.0%	0.0%	0.0%	6.8%	13.6%
Dividend Payout	39.4%	72.2%	0.0%	0.0%	0.0%	75.0%	75.0%
ROE	5.1%	2.8%	-5.4%	-0.8%	-7.4%	4.6%	8.9%

RPBH traded at an average PER of **15.0x** during the past 8Yr period, as a result, we believe RHTL should re-iterate and trade at historic average of 15.0x. Hence we have arrived at a FV of LKR **35.0** for **FY24E**. **BUY**

SERENDIB HOTELS PLC

SHOT.N0000

Current Price: LKR 9.40

Fair Value: LKR12.50 (FY24E)

BUY

Manifold destinations to offer

Serendib Hotels PLC is one of the leading hotel groups in Sri Lanka which encompasses its offerings in key attractions of the country such as beach, jungle and lagoon. Avani Bentota resort, Club Hotel Dolphin and Hotel Sigiriya are other prominent hotels owned by SHOT. SHOT also owns a line of boutique hotels such as Lantern boutique hotel, Ubuntu beach villa and Reveal beach house. Revenue of SHOT is predominantly based on accommodation, food & beverage charges and other hotel operations. The hotel currently consists of 361 rooms offered in the range of standard, villas, suite, deluxe rooms and superior rooms. SHOT is a subsidiary of Eden Hotel Lanka PLC, which owns 56.85% of stake as at Jun-2022.

Heavy finance cost and COS cause headwinds to profits in 3QFY23

SHOT suffered a higher loss of LKR 240.6Mn in 3QFY23 compared to the same quarter last year which recorded a loss of LKR 115.7Mn. Despite the negative outcome in earnings, revenue of SHOT grew by 608.7%YoY to LKR 354.6Mn (cf. LKR 50.0Mn in 3QFY22). However, GP margin deteriorated by 1,309bps to 60.6% on the back of escalated cost of sales which mounted to LKR 139.9Mn (cf. LKR 13.2Mn in 3QFY22). Although, the other operating income and gains recorded a massive jump by over 100%YoY to LKR 23.7Mn (cf. LKR 0.7Mn), earnings were negatively impacted as net finance cost surged to LKR 176.6Mn in 3QFY23 amidst high interest rates.

Diverse destination offerings to unlock growth

We expect earnings to recover in the future as tourist arrivals improve resulting in higher occupancy levels and diverse locations to play a major role in uplifting earnings. Hence, we expect occupancy levels to improve to nearly 60% in FY24E. Hence, we estimate the loss to reverse in FY24E and record an earnings of LKR 286.2Mn (+143.2%YoY). **BUY**

P/E 31 March	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Estimates (LKR 'Mn)							
Revenue	2,039	1,589	587	636	1,273	2,758	3,801
EBIT	215	29	-412	-233	-178	717	836
Net Profit	39	-138	-456	-560	-663	286	383
Adjusted EPS (LKR)	0.1	(0.3)	(1.0)	(1.3)	(1.5)	0.6	0.9
YoY Growth (%)		-457%	-230%	-23%	18%	143%	34%
Valuations							
PER (x)	108.3x	N/A	N/A	N/A	N/A	14.7x	10.9x
PBV (x)	1.6x	1.8x	1.9x	1.5x	2.0x	1.8x	1.5x
DPS	-	-	-	-	-	-	-
DY (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Dividend Payout	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
ROE	1.5%	-5.9%	-20.8%	-20.3%	-31.6%	12.0%	13.8%

SHOT traded at an average PER of **19.5x** during the past 8Yr period, as a result, we believe SHOT should re-iterate and trade at historic average of 17.0x. Hence we have arrived at a FV of LKR **12.50** for **FY24E**. **BUY**

DOLPHIN HOTELS PLC

STAF.N0000

Current Price: LKR 32.00

Fair Value: LKR 45.00 (FY24E)

BUY

4-star inn surrounding the shores of Negombo

Club hotel dolphin located in Waikkal, Negombo surrounds the Negombo coastal line and is in close proximity to the Katunayake international airport which makes the hotel an ideal location for tourists on a short vacation. STAF is a subsidiary of SHOT which owns 65.18% stake of the hotel. The hotel consists of 154 rooms in the range of superior poolside terrace, sea view room, superior room, seaside villa, sea view villa and junior suite.

Bottom line growth of 203.0%YoY aided by the turnover

STAF earned PAT of LKR 19.5Mn illustrating an exponential increase of over 100%YoY cf. a loss of LKR 63.2Mn recorded in 3QFY22. The hotel's revenue was at LKR 140.3Mn indicating a dramatic growth of over 1,000%YoY, while EPS also improved to LKR 0.31. However, amidst high inflation, other operating expense of STAF gradually rose by 131.9%YoY to LKR 40.7Mn while net finance income improved to LKR 41.9Mn cf. LKR 7.8Mn in 3QFY22, which positively impacted the earnings.

Positive outlook as industry sees growth

With the steady recovery in global tourism as the pandemic has subsided we expect occupancy levels of STAF to climb up while domestic tourism is also expected to improve with fuel availability and holiday seasons coming up leading to a positive outlook for STAF. Furthermore, the hotel's location being in close proximity to the international airport makes the hotel an apt stay for the last days of vacations indicating fast occupancy of rooms. Thus, we estimate occupancy to improve to 65% in FY24E. Therefore, earnings is expected to surge by 497.1% in FY24E to LKR 139.0Mn. Despite relatively low ARR as a result of heavy competition from hotels in the same location we expect rooms to fill up fast with the benefit of the parent company SHOT. **BUY**

P/E 31 March	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Estimates (LKR 'Mn)							
Revenue	953	729	350	283	509	674	839
EBIT	172	47	-62	-82	-97	142	268
Net Profit	147	44	-33	-25	-35	139	255
Adjusted EPS (LKR)	4.7	1.4	(1.0)	(0.8)	(1.1)	4.4	8.1
YoY Growth (%)		-70%	-175%	25%	42%	495%	84%
Valuations							
PER (x)	6.9x	22.8x	N/A	N/A	-28.8x	7.3x	4.0x
PBV (x)	0.5x	0.5x	0.5x	0.4x	0.4x	0.4x	0.4x
DPS	-	-	-	-	(0.9)	3.5	6.5
DY (%)	0.0%	0.0%	0.0%	0.0%	-2.8%	11.0%	20.2%
Dividend Payout	0.0%	0.0%	0.0%	0.0%	80.0%	80.0%	80.0%
ROE	7.2%	2.1%	-1.6%	-0.9%	-1.3%	4.9%	8.9%

STAF traded at an average PER of **10.0x** during the past 8Yr period, as a result, we believe STAF should re-iterate and trade at historic average of 9.0x. Hence we have arrived at a FV of LKR **45.00** for **FY24E**. **BUY**

ASIAN HOTELS AND PROPERTIES PLC

AHPL.N0000

Current Price: LKR 43.00

Fair Value: LKR 55.00 (FY24E)

HOLD

Asian Hotels and Properties is a 78.6% owned subsidiary of premiere blue-chip John Keells Holdings (JKH.N0000)

AHPL comprises of the city hotels segment with 847 rooms and owns two 5-star properties under the flagship brand of (Cinnamon) and 56,988sq.ft shopping mall, Crescat Boulevard.

AHPL recorded a profit of LKR 14.8Mn in 3QFY23 compared to a loss of LKR 39.0Mn in 3QFY22

The profit growth during the quarter is largely attributable to the solid topline performance, which grew by 77.0%YoY to LKR 2.5Bn backed by growth in occupancies amidst the rise in tourist arrivals to the country. However, the steep rise in inflation and the hike in tax rate from 14% to 30% hampered the profit growth during the quarter. Meanwhile, net finance cost also escalated by 295.0%YoY to LKR 112.4Mn amidst the significant rise in cost of borrowings.

Recovery in tourism expected to boost AHPL earnings

Hit by the Easter bomb attacks and the pandemic starting from 2019, tourist arrivals slumped to historic lows during FY21 and FY22 periods. As a results occupancies at AHPL fell 32% and 23% from near 50% levels seen during FY19 whilst ARR almost halved. With the ease of travel restrictions, shift in spending from consumer discretionary to services and growing banquet sales (reached pre-pandemic volumes during 3QFY23), we expect AHPL to record a net income of LKR 1,588.0Mn for FY24E and LKR 2,452.0Mn for FY25E. Having traded at an average PER multiple of 15.0x during the past 8Yr period, we believe AHPL should re-iterate and trade at a historic average. Hence, we have arrived at a FV of LKR 55.0. Thus, we rate the share **HOLD**

P/E 31 March	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Estimates (LKR 'Mn)							
Revenue	7,658	5,560	1,790	4,095	8,574	17,965	19,807
EBIT	1,083	-28	-1,913	-407	171	3,234	4,357
Net Profit	811	-50	-1,781	-510	-151	1,588	2,452
Adjusted EPS (LKR)	1.8	(0.1)	(4.0)	(1.2)	(0.3)	3.6	5.5
YoY Growth (%)		-106%	-3474%	71%	70%	1153%	54%
Valuations							
PER (x)	23.5x	N/A	N/A	N/A	-126.2x	12.0x	7.8x
PBV (x)	0.6x	0.6x	0.6x	0.6x	0.6x	0.6x	0.6x
DPS	1.5	1.0	-	-	-	2.9	4.4
DY (%)	3.5%	2.3%	0.0%	0.0%	0.0%	6.7%	10.3%
Dividend Payout	81.9%	-888.6%	0.0%	0.0%	0.0%	80.0%	80.0%
ROE	2.5%	-0.2%	-5.7%	-1.6%	-0.5%	5.0%	7.6%

AHPL traded at an average PER of **15.0x** during the past 8Yr period, as a result, we believe AHPL should re-iterate and trade at historic average of 15.0x. Hence we have arrived at a FV of LKR **55.00** for **FY24E**. **HOLD**



First Capital
A Janashakti Group Company

First Capital Valuation Guide: Hotel Sector

Name	Symbol	Mkt Price (LKR) 21.03.2023	Shares in Issue (Mn)	Market Cap. (LKR Mn)	Trailing PER (X) 4 Qtr	PBV (X) 4 Qtr	Trailing EPS	NAVPS (LKR)	No. of rooms	EV per room
Consumer Services										
ASIAN HOTELS AND PROPERTIES PLC	AHPL.N	43.00	442.8	19,039	N/A	0.6	-0.4	70.4	847	22.8
AITKEN SPENCE HOTEL HOLDINGS PLC	AHUN.N	59.50	336.3	20,009	N/A	1.0	-0.7	62.0	2826	28.5
BROWNS BEACH HOTELS PLC	BBH.N	12.70	129.6	1,646	N/A	4.3	-4.0	2.9	139	39.9
BERUWALA RESORTS PLC	BERU.N	1.30	600.0	780	N/A	58.9	-0.4	0.0	136	9.4
BANSEI ROYAL RESORTS HIKKADUWA PLC	BRR.N	11.10	53.7	596	34.4	2.2	0.3	5.1	30	21.5
CEYLON HOTELS CORPORATION PLC	CHOT.N	18.80	180.0	3,385	3.7	0.4	5.1	43.2	20	131.7
HIKKADUWA BEACH RESORT PLC	CITH.N	5.30	284.9	1,510	N/A	0.3	-2.3	15.4	240	22.7
WASKADUWA BEACH RESORT PLC	CITW.N	2.60	559.9	1,456	N/A	0.7	-1.1	3.6	150	26.7
HAYLEYS LEISURE PLC	CONN.N	24.80	108.0	2,678	N/A	1.7	-8.8	15.0	439	10.4
EDEN HOTEL LANKA PLC	EDEN.N	16.70	528.0	8,818	N/A	0.6	-9.4	27.7	373	76.6
GALADARI HOTELS (LANKA) PLC	GHLL.N	14.30	500.8	7,162	562.3	0.9	0.0	16.8	450	17.9
HOTEL SIGIRIYA PLC	HSIG.N	32.60	17.6	573	N/A	0.7	-2.1	47.5	79	-0.6
HUNAS FALLS HOTELS PLC	HUNA.N	27.00	843.8	22,781	N/A	5.2	-0.3	5.2	33	39.5
JETWING SYMPHONY LIMITED	JETS.N	7.10	502.2	3,566	N/A	1.2	-3.1	5.8	283	46.5
THE KANDY HOTELS COMPANY (1938) PLC	KHC.N	7.50	577.5	4,331	N/A	0.6	-0.1	13.4	305	18.1
JOHN KEELLS HOTELS PLC	KHL.N	18.20	1456.1	26,502	N/A	0.8	0.0	22.0	1476	30.9
THE LIGHTHOUSE HOTEL PLC	LHL.N	28.30	46.0	1,302	N/A	0.5	-2.3	60.5	90	23.6
MARAWILA RESORTS PLC	MARA.N	2.20	228.0	502	N/A	0.7	-1.5	3.1	160	9.1
MAHAWELI REACH HOTELS PLC	MRH.N	12.60	47.1	593	N/A	0.9	-3.8	13.8	112	8.2
THE NUWARA ELIYA HOTELS COMPANY PLC	NEH.N	1490.00	2.2	3,257	44.6	0.7	33.4	2,074.0	147	19.5
PALM GARDEN HOTELS PLC	PALM.N	61.10	43.3	2,644	N/A	0.3	-95.8	213.1	735	28.8
PEGASUS HOTELS OF CEYLON PLC	PEG.N	33.30	33.8	1,124	N/A	0.6	-3.0	56.4	140	8.5
RENUKA HOTELS LTD	RCH.N	77.50	40.3	3,123	0.9	0.3	89.5	247.2	100	7.6
CITRUS LEISURE PLC	REEF.N	6.40	267.2	1,710	N/A	0.6	-2.7	10.1	290	20.1
RENUKA CITY HOTELS PLC.	RENU.N	383.00	7.0	2,681	0.6	0.3	597.1	1,346.2	100	18.3
RAMBODA FALLS PLC	RFL.N	27.70	20.0	554	N/A	1.0	-0.1	28.6	63	7.8
THE FORTRESS RESORTS PLC	RHTL.N	23.00	110.9	2,550	32.6	1.6	0.7	14.3	53	38.1
ROYAL PALMS BEACH HOTELS PLC	RPBH.N	25.50	50.0	1,275	N/A	0.6	-1.9	45.3	136	9.4
THE KINGSBURY PLC	SERV.N	10.00	484.0	4,840	N/A	6.4	-0.6	1.6	229	27.6
SERENDIB HOTELS PLC	SHOT.N	9.40	446.1	4,193	N/A	1.0	-1.4	9.4	361	4.0
SERENDIB HOTELS PLC	SHOT.X	6.60	446.1	2,944	N/A	0.7	-1.4	9.4	361	1.6
SIGIRIYA VILLAGE HOTELS PLC	SIGV.N	61.80	9.0	556	N/A	1.1	-10.4	55.8	120	6.5
DOLPHIN HOTELS PLC	STAF.N	32.00	63.2	2,024	N/A	0.6	-0.1	53.5	154	3.4
TAJ LANKA HOTELS PLC	TAJ.N	15.50	139.6	2,164	N/A	-1.7	-18.1	-9.3	300	24.5
TANGERINE BEACH HOTELS PLC	TANG.N	56.60	20.0	1,132	N/A	0.4	-9.0	142.9	179	7.9
TRANS ASIA HOTELS PLC	TRAN.N	45.20	200.0	9,040	N/A	1.7	-0.6	27.3	346	28.0
Consumer Services Sector					N/A	0.8				
Market Valuations					5.7	0.9				

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