

**JOHN KEELLS HOLDINGS PLC [JKH.N0000]****MAINTAIN BUY****“STRAPPING ON FOR THE NEXT BIG LEAP”****Fair Value: FY24E - LKR 170.0 [+8%]**

Total Return with DPS: FY24E - +9% [AER +13%]

**FY25E - LKR 210.0 [+33%]**

FY25E - +35% [AER +19%]

JKH 4QFY23 earnings declined by 69.7%YoY to LKR 3.3Bn, affected by the higher base in 4QFY22 due to recognition of LKR 18.6Bn (LKR 9.5Bn in 4QFY23) in exchange gains. Recurring EBITDA excluding Cinnamon Life for 4QFY23 also declined by 20.5%YoY to LKR 11.6Bn caused by decline in profitability in Transportation (-39.0%YoY), Consumer Foods - 65.5%YoY, Retail (-8.7%YoY) and Property (-91.3%YoY) segments. However, on the flip-side Leisure and Financial Services businesses continued to perform well during 4QFY23 on the back of strong tourist arrivals and high interest rates, respectively. Going forward, we expect a recovery across all segments of the company (excluding Property) aided by the overall pick up in the economy. Furthermore, Group's Leisure business is expected to benefit from increased arrivals to Maldives and Sri Lanka (expected to reach 2.5Mn arrivals in 2025E), downward revision of electricity tariffs (revised down by 26.3%) and re-introduction of the minimum room rates for Colombo hotels (ARR for 5-star category revised up to USD 130.0/night from USD 60/night). Moreover, the targeted opening of the Cinnamon Life Hotel and Mall in 1QFY25E is also expected to bode well for the JKH Leisure business in the coming years. Furthermore, notable growth in profits is expected from Consumer and Retail segments as disposable incomes and favorable global commodity prices are expected aid margin improvement in the coming quarters. Therefore, taking into consideration the bright outlook for JKH together with the improved investor sentiment upon the completion of DDR, we believe the current PER multiple of 8.3x FY25E earnings is deeply undervalued for JKH, thus we believe the share should reiterate and trade at its 5-yr average PER multiple of 14.0x. Moreover, assigning an equal weightage as PER, we have valued JKH on a SOTP method and arrived at a target price of LKR 210.0 for FY25E, thus we maintain our recommendation **BUY**.

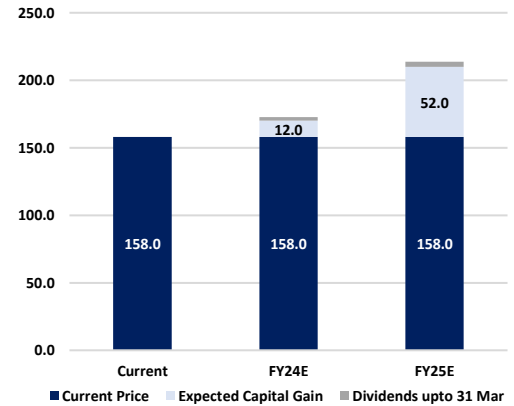
LKR (Mn)	4QFY22	4QFY23	YoY	FY22	FY23	YoY
<b>Earnings (LKR 'Mn)</b>						
Revenue	76,129	67,820	-11%	218,075	276,640	+27%
Gross Profit	16,142	12,925	-20%	37,645	49,450	+31%
Operating Profit	(188)	3,823	+2138%	7,308	12,691	+74%
PBT	16,940	2,310	-86%	27,324	22,589	-17%
Net Profit	10,909	3,308	-70%	20,213	18,174	-10%
<b>Balance Sheet (LKR 'Mn)</b>						
Shareholder's Equity	311,286	341,022	+10%	311,286	341,022	+10%
Borrowings	214,379	181,320	-15%	214,379	181,320	-15%
NAVPS	225	246	+10%	225	246	+10%

**JKH remain resilient, despite challenging times.** JKH reported a decline in net income of 69.7%YoY to LKR 3.3Bn in 4QFY23, backed by the higher base in the last comparative period, created through exchange gains of LKR 18.6Bn (cf. LKR 9.5Bn in 4QFY23). Despite the poor bottom-line, profitability at the core business improved as JKH posted an EBIT of LKR 3.8Bn for 4QFY23 (+2,138.4%YoY and +25.7%QoQ). The growth in EBIT was largely driven by the exceptional performance in Retail and Financial Services subsegments whilst Transportation, Consumer, Leisure and Property sectors continued to struggle.

**Recovery of Retail in progress.** Retail segment posts a profit of LKR 1.3Bn in 4QFY23 cf. a loss of LKR 2.9bn in 4QFY22 whilst the recurring EBITDA posted a marginal decline of 8.7%YoY to LKR 2.2Bn owing to the poor performance of the Office Automation business, which posed multiple challenges due to imports ban prevailed during the quarter. However, since Jun-23 GoSL has lifted the imported ban on several items including electronics and mobile phones. With economic recovery in the horizon (FCR expects positive GDP growth from 4Q2023E) together with the improvement in disposable income, the volumes in the Office Automation business are expected to recover in the coming months. Meanwhile, contributing positively to the recurring EBITDA, the Supermarket business posted a marginal growth during 4QFY23 aided by the growth in same store sales (+30.1%YoY cf. 18.9%YoY in 4QFY22) driven by growth in ABV (+30.0%YoY cf. 1.6%YoY in 4QFY22). However, supermarket profitability was negatively affected by the cost escalations due to imposition of social security contribution levy and electricity tariff increases, etc.

**Financial Services thrive under higher interest rates.** Group Financial Services business post a net income growth of 73.0%YoY to LKR 1.7Bn in 4QFY23 whilst the recurring EBITDA improved by 63.6%YoY to LKR 1.9Bn. The growth in profitability during the quarter was driven by the positive performance of both Union Assurance and Nations Trust Bank. Union Assurance recorded a net income growth of 105.6%YoY to LKR 444.6Mn in 1Q2023 whilst GWP reported a growth of 4.9%YoY to LKR 4.2Bn. Meanwhile, Nations Trust Bank also recorded a net income growth of 77.1%YoY to LKR 2.8Bn as net interest income grew by 89.7%YoY to LKR 8.9Bn aided by expansion in net interest margin to 8.0% in 1Q2023 cf. 4.8% in 1Q2022. Furthermore, in a high interest rate background, NTB successfully managed to maintain its Stage 3 NPL ratio at 3.4%.

**Transportation sector struggle continues, yet outlook remains a tad brighter.** Group's Transportation segment recorded a decline in recurrent EBITDA of 39.0%YoY to LKR 1.5Bn. The poor performance during the quarter can be largely attributable to the declining performance of the bunkering business (volumes remained flat YoY, yet improved from -8.0%YoY in 3QFY23), which saw substantial profits during 4QFY22 due to significantly higher oil prices and margins. Meanwhile, handling volumes at the SAGT terminal continue to remain depressed as volumes declined by 10.7%YoY to 408,261 TEUs. However, with the lifting of import ban on several items, we believe SAGT will benefit from higher domestic transshipment volumes, which have remained unchanged from 3QFY23. Meanwhile, dredging work at both phases of the WCT terminal is near complete as of May-23 whilst the contract for the quay wall construction was awarded in Oct-22. The phase 1 of the terminal is slated to be operational by 3QFY25E whilst the remainder terminal is expected to be completed by 3QFY26E.

**FIRST CAPITAL RESEARCH**

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

**Buy Below FY25E - [AER of 17% with DPS]: LKR 163.0**  
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.



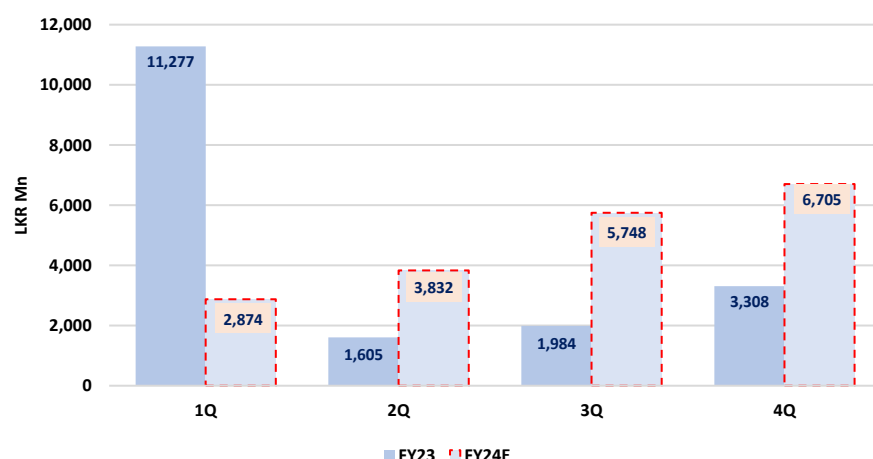
**Leisure Sector continue to recover.** JKH Leisure business recorded a recurring EBITDA growth of 18.0%YoY to LKR 3.8Bn supported by the Maldivian Resorts segment, which witnessed occupancy levels unchanged at 89.0%, whilst ARR dipped marginally by 1.7%YoY to USD 416.0/room (+11.8%QoQ). Maldivian Resort EBITDA improved on a QoQ basis by +900bps to 40.0% cf. 31.0% in 3QFY23. Meanwhile, both Sri Lankan resorts and Colombo Hotels segments continued to recover as segment EBITDA margins grew 4,400bpsQoQ to 33.0% and 200bpsQoQ to 14.0%, respectively. The QoQ growth in EBITDA margins at the Sri Lankan resorts was driven by improvements in both occupancies (62.0%YoY in 4QFY23 cf. 38.0% in 3QFY23) and ARR (+12.7%QoQ to USD 71.0). Colombo Hotels EBITDA margin improvement was largely driven by the improvement in occupancies (stood at 62.0% in 4QFY23 cf. 43.0% in 3QFY23 and 52.0% in 4QFY22) whilst ARR declined by 3.1%QoQ to USD 63.0. Going forward we expect margins at the both Sri Lankan resorts and Colombo Hotels to expand aided by 26.3% reduction of electricity tariff whilst the Colombo hotels segment is also expected to benefit via the re-introduction of the minimum room rate (revised up to USD 130.0/night from current USD 60.0/night for 5-star hotel category), which will come to effect from 1<sup>st</sup> August 2023. Meanwhile, the management continued to reiterate that the Cinnamon Life project is in-line with the target to complete and commission in 1QFY25E. Furthermore, the management have also indicated that the selection of the international casino operator for Cinnamon Life is also at its final stages and JKH is expected to receive a rental income once the Hotel is operational in 1QFY25E.

**One-off deferred tax charge reversal, keep Consumer segment afloat.** JKH's Consumer Foods business bottom-line grew by 26.5%YoY to LKR 1.2Bn in 4QFY23 aided mainly by a deferred tax charge reversal of LKR 992.0Mn. However, Consumer Foods sector continued to hurt from double digit volume decline across all businesses (Frozen confectionary -30.0%YoY, Beverages -40.0%YoY, Convenience Foods -48.0%YoY) as recurring EBITDA posted a decline of 65.5%YoY to LKR 540.0Mn. Going forward, we are expecting a recovery in this sector as disposable incomes improve aided by taming down inflation (recorded 12.0% in Jun-23 and expects to decline to mid-single digit by Sep-23) and pick up of the economy in 4Q2023E. Furthermore, margins are expected to improve in the coming quarters aided by the decline in global prices of key raw materials including White Refined Sugar and Skimmed Milk Powder (-9.1%QoQ to USD 2,579.0/MT).

**Property Segment remain depressed in 4QFY23.** JKH's Property segment recurring EBITDA declined by 91.3%YoY to LKR 466.0Mn largely due to the higher base as 4QFY22 EBITDA comprised of the recognition of LKR 4.0Bn from the handover of the residential apartment units and commercial floors at Cinnamon Life. Meanwhile, no apartments were sold of the remaining 161 units at the Cinnamon Life whilst only 1 unit was sold at Tri-Zen (236 units remain unsold) during 4QFY23, with residential unit sales affected by contraction in disposable incomes amidst steep price increases carried out due to the imposition of 15% VAT and 2.5% Social Security Contribution Levy on unit sales. Meanwhile, commenting on the future direction of the segment, the management indicated that the company will be looking at developing projects on the Colombo suburbs.

**FY25E LKR 210.0 Target Price and recommendation BUY maintained.** JKH currently trades at a PER of 8.3x FY25E earnings offering a discount of +40.0% to the 5-year average PE multiple of 14.0x. Given that JKH have strategically placed itself on key business segments of Sri Lanka, we believe JKH will be an exciting prospect in the coming months. Therefore, taking in to account the recovery of key segments including Consumer Foods, Retail, Leisure, Transportation and Financial Services, we believe that the current discounted trading multiples for JKH is unwarranted. Moreover, backed by the SOTP valuation and considering the future CF of the business, we have arrived at a FY25E target price of LKR 210.0. Thus, we maintain our recommendation **BUY**.

## Quarterly Earnings



## Estimate Revision

In LKR Mn	FY24E-O	FY24E-R	% Change	FY25E-O	FY25E-R	% Change
<b>Earnings Estimate</b>						
Revenue	301,801	284,459	-6%	357,195	338,882	-5%
Gross Profit	49,797	46,936	-6%	60,723	57,610	-5%
EBIT	23,800	21,383	-10%	31,911	27,990	-12%
Profit before Tax	35,637	25,745	-28%	45,177	35,167	-22%
Net Profit	27,064	19,159	-29%	33,778	25,996	-23%
Adjusted EPS	19.5	13.8		25.3	18.8	
Growth YoY	33%	5%		25%	36%	
<b>Balance Sheet Estimate</b>						
Shareholders' Equity	343,748	356,350	+4%	364,015	377,146	+4%
Borrowings	184,100	167,464	-9%	189,100	174,219	-8%
<b>Adjusted NAVPS</b>	<b>248.2</b>	<b>257.3</b>		<b>262.8</b>	<b>272.3</b>	
<b>Ratio Estimate</b>						
<b>ROE (%)</b>	<b>8%</b>	<b>5%</b>		<b>10%</b>	<b>7%</b>	
<b>PER (x)</b>	<b>8.1</b>	<b>11.4</b>		<b>6.3</b>	<b>8.4</b>	
<b>PBV (x)</b>	<b>0.6</b>	<b>0.6</b>		<b>0.6</b>	<b>0.6</b>	

## Valuation Table

YE Mar/LKR Mn	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Estimates (LKR 'Mn)</b>						
Revenue	127,676	218,075	276,640	284,459	338,882	393,389
Gross profit	18,929	37,645	49,450	46,936	57,610	70,810
EBIT	2,552	7,308	12,691	21,383	27,990	35,997
<b>Net Profit</b>	<b>4,772</b>	<b>20,213</b>	<b>18,174</b>	<b>19,159</b>	<b>25,996</b>	<b>31,682</b>
Adjusted EPS (LKR)	3.4	14.6	13.1	13.8	18.8	22.9
YoY Growth (%)	-49.3%	323.6%	-10.1%	5.4%	35.7%	21.9%
<b>Valuations</b>						
PER (x)	45.9x	10.8x	12.0x	11.4x	8.4x	6.9x
PBV (x)	1.0x	0.7x	0.6x	0.6x	0.6x	0.5x
Dividend Yield (%)	0.9%	0.9%	1.3%	1.8%	2.4%	2.9%
NAVPS	163.3	224.8	246.2	257.3	272.3	290.6
DPS (LKR)	1.5	1.5	2.0	2.8	3.8	4.6
Dividend Payout	43.5%	10.3%	15.2%	20.0%	20.0%	20.0%

## SOTP

Segment	Valuation method	Valuation assumptions			Value in LKR Mn			Value per share FY24E	Value per share FY25E
		CoE	WACC	Growth	Firm value FY24E	Firm value FY25E	% of ownership		
Transportation	DCF	22.2%	13.9%	5.0%	23,721.0	29,213.8	80%	18,976.8	23,371.1
Consumer Foods	DCF	22.2%	13.9%	5.0%	58,889.1	74,337.5	85%	50,055.7	63,186.9
Retail	DCF	22.2%	13.9%	5.0%	63,594.8	73,401.0	85%	54,055.6	62,390.8
Leisure	DCF	23.0%	14.7%	5.0%	93,534.8	118,112.1	80%	74,827.9	94,489.7
Property	DCF	24.6%	17.0%	5.0%	25,953.8	33,977.9	95%	24,656.1	32,279.0
Financial Services	DCF	23.0%	16.0%	5.0%	30,874.3	34,886.9	60%	18,524.6	20,932.2
Other	DCF	23.0%	14.3%	5.0%	6,613.8	8,574.3	60%	3,968.3	5,144.6
Total per share								245,064.9	301,794.2
Number of shares								1,384.9	1,384.9
Value/share								177.0	217.9

## Valuation Summary

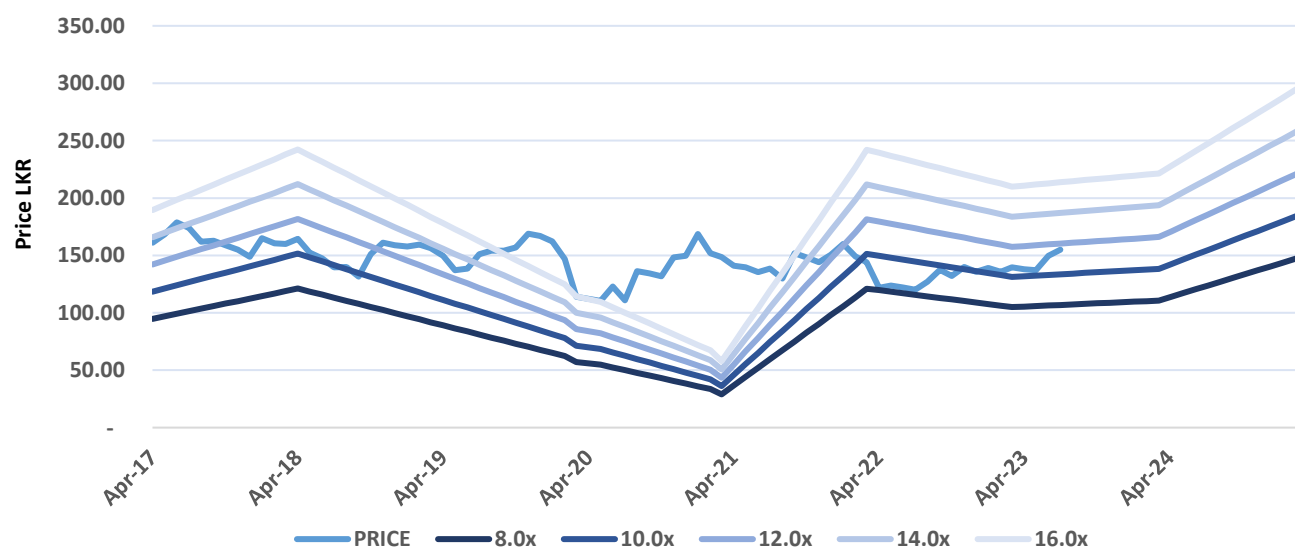
Expected JKH Price	FY24E	FY25E
PER Valuation based target price	177.2	193.7
SOTP Valuation based target price	177.0	217.9
Average Target Price	177.1	205.8
Target Price after Rounding off	170.0	210.0

Return	FY24E	FY25E
Target Price	170.0	210.0
Current Price	158.0	158.0
Capital Gain (LKR)	12.0	52.0
Dividends upto 31 Mar (LKR)	2.8	3.8
Capital Gain %	8%	33%
Dividend Yield %	2%	2%
Total Return %	9%	35%
Annualized Return %	13%	19%

## PER valuation

PER based Valuation	FY24E	FY25E
Earnings (LKR 'Mn)	18,174	19,159
No. of Shares ('Mn)	1,385	1,385
EPS	13.1	13.8
Expected PER	14x	14x
Price at 14x Earnings	177.2	193.7

## PER Chart



## Appendix I: Statement of Income and Expenses

Income Statement	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Year ended 31st March (LKR 'Mn)</b>						
Total revenue	127,676	218,075	276,640	284,459	338,882	393,389
Cost of sales	(108,747)	(180,430)	(227,190)	(237,523)	(281,272)	(322,579)
Gross profit	18,929	37,645	49,450	46,936	57,610	70,810
Selling and distribution expenses	(4,761)	(5,733)	(8,266)	(8,500)	(10,126)	(11,755)
Administrative expenses	(12,928)	(14,763)	(21,928)	(25,601)	(33,888)	(39,339)
Other operating expenses	(1,314)	(12,456)	(9,826)	(8,534)	(10,166)	(11,802)
<b>Results from operating activities</b>	<b>2,552</b>	<b>7,308</b>	<b>12,691</b>	<b>21,383</b>	<b>27,990</b>	<b>35,997</b>
Finance cost	(4,669)	(7,035)	(17,803)	(12,091)	(8,638)	(8,069)
Finance income	10,689	30,806	26,900	9,518	7,394	6,272
Change in insurance contract liabilities	(7,032)	(6,416)	(7,650)	(8,534)	(10,166)	(11,802)
Share of results of equity accounted investees (net of tax)	4,159	6,746	7,574	6,685	8,171	8,755
<b>Profit before tax</b>	<b>5,445</b>	<b>27,324</b>	<b>22,589</b>	<b>25,745</b>	<b>35,167</b>	<b>43,205</b>
Tax expense	(1,494)	(6,882)	(3,693)	(6,368)	(8,876)	(11,163)
Profit for the year	3,951	20,443	18,896	19,377	26,291	32,043
Attributable to:						
Equity holders of the parent	4,772	20,213	18,174	19,159	25,996	31,682
Non-controlling interests	(821)	230	722	218	296	360
	3,951	20,443	18,896	19,377	26,291	32,043
EPS	3.62	15.13	13.12	13.83	18.77	22.88

## Appendix II: Statement of Financial Position

Balance Sheet	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Year ended 31st March (LKR 'Mn)</b>						
<b>ASSETS</b>						
<b>Non-current assets</b>						
Property, plant and equipment	113,077	124,348	362,097	366,517	372,840	381,176
Right-of-use assets	40,617	53,482	54,185	53,608	53,577	54,060
Investment property	14,868	30,608	33,029	33,229	33,429	33,629
Intangible assets	4,853	5,399	5,793	6,384	7,118	7,979
Investments in equity accounted investees	28,630	33,866	38,486	38,486	38,486	38,486
Non-current financial assets	62,590	48,690	63,957	63,957	63,957	63,957
Deferred tax assets	1,089	1,554	2,582	2,582	2,582	2,582
Other non-current assets	104,580	180,920	1,571	1,571	1,571	1,571
	370,303	478,867	561,701	566,334	573,561	583,441
<b>Current assets</b>						
Inventories	54,296	36,225	39,095	47,687	56,471	64,764
Trade and other receivables	17,457	27,495	21,508	35,865	42,727	49,599
Amounts due from related parties	124	196	318	318	318	318
Other current assets	5,919	11,914	14,570	15,541	18,515	21,493
Short term investments	69,263	110,722	82,222	86,276	79,649	74,948
Cash in hand and at bank	19,433	52,377	25,093	12,516	35,613	53,053
	166,491	238,929	182,806	198,204	233,293	264,175
<b>Total assets</b>	<b>536,794</b>	<b>717,796</b>	<b>744,506</b>	<b>764,538</b>	<b>806,854</b>	<b>847,616</b>
<b>EQUITY AND LIABILITIES</b>						
<b>Equity attributable to equity holders of the parent</b>						
Stated capital	63,102	73,188	73,188	73,188	73,188	73,188
Revenue reserves	90,652	109,087	121,743	137,071	157,867	183,213
Other components of equity	72,403	129,011	146,091	146,091	146,091	146,091
	226,157	311,286	341,022	356,350	377,146	402,492
Non-controlling interest	16,830	18,805	19,396	19,614	19,910	20,270
Total equity	242,987	330,091	360,418	375,964	397,056	422,762
<b>Non-current liabilities</b>						
Insurance contract liabilities	45,161	51,349	58,907	58,907	58,907	58,907
Interest-bearing loans and borrowings	118,966	158,922	159,779	143,206	147,616	147,616
Lease liabilities	24,235	30,067	32,052	34,004	36,705	40,090
Deferred tax liabilities	7,720	12,016	19,688	19,688	19,688	19,688
Employee benefit liabilities	2,814	3,107	2,560	2,560	2,560	2,560
Non-current financial liabilities	3,661	2,414	20,107	20,107	20,107	20,107
Other non-current liabilities	19,546	220	286	286	286	286
	222,102	258,095	293,379	278,758	285,869	289,254
<b>Current liabilities</b>						
Trade and other payables	35,288	43,469	29,866	57,224	67,764	77,716
Amounts due to related parties	1	2	4	4	4	4
Income tax liabilities	1,988	2,619	1,799	1,799	1,799	1,799
Short term borrowings	6,904	14,833	8,702	11,478	12,334	12,334
Interest-bearing loans and borrowings	9,507	40,624	12,839	12,780	14,269	14,769
Lease liabilities	1,472	3,459	2,259	2,396	2,587	2,825
Other current liabilities	1,733	4,280	5,192	5,635	6,673	7,653
Bank overdrafts	11,820	20,322	30,049	18,500	18,500	18,501
	71,705	129,609	90,709	109,816	123,929	135,600
<b>Total equity and liabilities</b>	<b>536,794</b>	<b>717,796</b>	<b>744,506</b>	<b>764,538</b>	<b>806,854</b>	<b>847,616</b>
<b>Net Asset Value</b>	<b>163.30</b>	<b>224.77</b>	<b>246.24</b>	<b>257.31</b>	<b>272.32</b>	<b>290.63</b>



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