

**JOHN KEELLS HOLDINGS PLC [JKH.N0000]****MAINTAIN BUY****“UNLOCKING POTENTIAL”****Fair Value: FY24E - LKR 170.0 [-9%]**

Total Return with DPS: FY24E – -8% [AER -13%]

FY25E - LKR 240.0 [+28%]

FY25E - +30% [AER +18%]

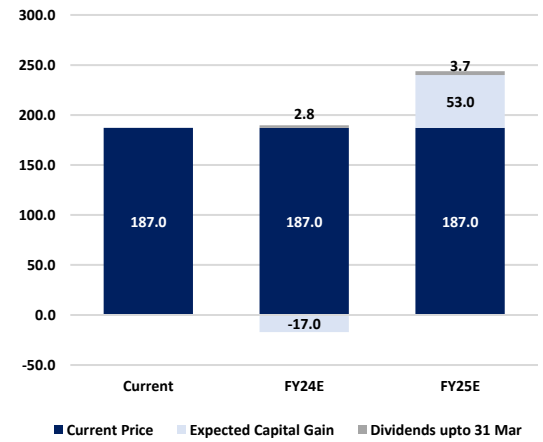
JKH 1QFY24 earnings declined by 87.0%YoY to LKR 1.5Bn whilst EBITDA declined by 30.8%YoY to LKR 9.2Bn. The poor performance during 1QFY24 was largely attributable to the normalization of margins at its Transportation segment, as global oil prices stabilized. Furthermore, Leisure sector also contributed towards the poor performance (EBITDA declined by 84.8%YoY to LKR 284.0Mn) mainly caused by the headwinds from escalated costs at both Sri Lankan and Maldivian businesses amidst the seasonal drop in occupancies. However, on the flip side, Financial Services segment continued to perform exceptionally well amidst a declining interest environment, as NTB recorded an expansion of NIMs (expanded to 7.6% in 1QFY24 cf. 6.1% in 1QFY23) whilst maintaining NPLs well below the industry average (3.4% in 1QFY24 and 4QFY23 cf. industry average of 11.3%). Looking ahead, with clear signs of recovery seen across all economic indicators, we believe JKH is well positioned to reap the benefits of economic revival given the exposure of JKH on key economic activities including, Transportation, Consumer, Leisure, and Financial Services. Furthermore, JKH is also in-line with the scheduled dates for the completion of Cinnamon Life and opening of the Hotel and the Mall in 1QFY25E whilst JKH is also progressing well into the development of the Phase 1 of West Container Terminal, which is expected to be completed and operational by 3QFY25E and the remainder terminal is expected to be completed by 3QFY26E. Moreover, as CCPI inflation tames down to 4.0% in Aug-23, we believe the cost pressures for all key industries have eased off and margins are expected improve towards the 2HFY24. Having already considered the above developments on our earnings, we have maintained our earnings at LKR 19.1Bn for FY24E and LKR 25.7Bn for FY25E. Meanwhile, with the accelerated decline in interest rates, the investor sentiment has picked up considerably ahead of our expectations. Trading at a PE of 10.1x FY25E earnings, we expect JKH to re-rate upwards and trade at its historical 5-yr average PE of 14.0x in FY25E, revising up from the previous implied PE of 12.0x. Taking into consideration the expected re-rating in FY25E, we have revised up our TP for FY25E to LKR 240.0 from LKR 210.0. Thus, we maintain our recommendation **BUY**.

LKR (Mn)	1QFY23	1QFY24	YoY	FY22	FY23	YoY
Earnings (LKR 'Mn)						
Revenue	71,516	63,778	-11%	218,075	276,640	+27%
Gross Profit	13,806	11,084	-20%	37,645	49,450	+31%
Operating Profit	2,952	1,628	-45%	7,308	12,691	+74%
PBT	14,801	1,396	-91%	27,324	22,589	-17%
Net Profit	11,277	1,467	-87%	20,213	18,174	-10%
Balance Sheet (LKR 'Mn)						
Shareholder's Equity	349,174	326,282	-7%	311,286	341,022	+10%
Borrowings	204,797	174,893	-15%	214,379	181,320	-15%
NAVPS	252	236	-7%	225	246	+10%

JKH reports poor results as profitability in key sectors affected by higher base. JKH net earnings declined by 87.0%YoY (-55.7%QoQ) to LKR 1.5Bn largely due to the higher base reported during 1QFY23 in group's Transportation and Leisure businesses. Group EBITDA declined by 30.8%YoY (-19.9%QoQ) to LKR 9.2Bn whilst group EBITDA margin contracted by 418bpsYoY (-252bpsQoQ) to 14.5% during 1QFY24. Meanwhile, JKH recorded a net finance expense of LKR 212.0Mn in 1QFY24 cf. a net finance income of LKR 11.3Bn (includes an exchange gain of LKR 10.1Bn on USD denominated cash holdings at the Holding Company). However, net finance cost recorded a steep decline compared to 4QFY23 (-89.3%QoQ), largely owing to the reduction of interest rates (average weekly AWPPL declined to 17.7% in 1QFY24 cf. 24.8% in 4QFY23 and 20.9% in 1QFY23). Meanwhile, undertaking few capital-intensive projects during highly turbulent times, JKH has successfully maintained its net debt position (excluding leases and convertible debenture) at LKR 111.9Bn (+0.8%QoQ) whilst net debt (excluding leases and convertible debenture) to equity ratio deteriorated slightly to 32.4% in 1QFY24 cf. 30.8% in 4QFY23.

Transportation business struggles as margins contract. JKH's Transportation business profits declined by 50.2%YoY to LKR 2.0Bn whilst EBITDA declined by 46.8%YoY to LKR 2.4Bn. The decline in profitability during the quarter was largely attributable to the higher base in 1QFY23 due to excellent performance of the group's bunkering business and steep depreciation of the LKR, which positively affected the USD denominated revenue streams of the business. Despite the contraction in EBITDA margins due to change of mix to lower margin transshipment volumes from Domestic volumes (recorded a mix of 10:90 between domestic and transshipment volumes in 1QFY24 cf. 13:87 in 1QFY23), SAGT terminal volumes grew by 9.1%QoQ and 1.4%YoY to 445,515TEU in 1QFY24. Meanwhile, c. 15% appreciation of the LKR/USD to LKR 310.0 also negatively affected the segmental profitability. Furthermore, compared against a higher base in 1QFY23, aided by 54.0%YoY growth in bunkering volumes and significant increase in oil prices in 1QFY23, bunkering volumes declined by 19.0% in 1QFY24. Meanwhile, according to the management the groundwork of the WCT terminal is progressing well with dredging work for both phases completed in May-23. The construction of the quay wall is currently underway and phase 1 of the terminal is expected to be completed by 3QFY25E whilst the completion of the full project is scheduled for 3QFY26E.

Consumer business recovery underway. JKH's Consumer Business net earnings declined by 82.5%YoY (-91.2%QoQ) to LKR 109.1Mn whilst sector EBITDA declined by 41.6%YoY to LKR 720.0Mn. The poor profitability during the quarter is largely due to the setback observed across all three business lines, affected by decline in disposable incomes. Furthermore, EBITDA margins also contracted by 662bpsYoY to 8.3% with volumes recording a decline across all sectors compared to 1QFY23. However, on QoQ basis, Consumer sector EBITDA reported a growth of 10.6%QoQ whilst margins grew by 67bpsQoQ to 8.3% aided by recovery in volumes across all business sectors (Frozen Confectionary volumes -10.0%YoY in 1QFY24 cf. -30.0% in 4QFY23, Beverage's volumes -3.0%YoY in 1QFY24 cf. -40.0% in 4QFY23 and Convenience Foods volumes recording a decline of 35.0%YoY in 1QFY24 cf. -48.0%YoY in 4QFY23). Going forward, we expect volumes to continue its growth trajectory boosted by recovery in disposable incomes and normalization of operating environment. Moreover, decline in global commodity prices (continuing the current trend) are also expected to bode well towards margins growth in Consumer business in the coming months.

**FIRST CAPITAL RESEARCH**

Ranjan Ranatunga

+94 11 263 9863

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 190.0
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.

Retail sector records mix results. Group’s Retail business recorded a profit of LKR 333.6Mn in 1QFY24 cf. a loss of LKR 492.5Mn whilst segment EBITDA declined by 14.3%YoY to LKR 2.0Bn. The decline in EBITDA was largely due to the contraction of margins at its Supermarket business affected by escalation of operating costs (including upward revision of electricity tariffs and higher staff expenses) and relatively slower growth in same-store sales (+22.8%YoY in 1QFY24 cf. 54.2% in 1QFY23). Meanwhile, EBITDA also declined by 8.7%QoQ whilst margin contracted by 122bpsQoQ due to slower growth in same-store sales (22.8%YoY in 1QFY24 cf. 30.1%YoY in 4QFY23) as growth in average basket value slowed down to 7.0%YoY cf. 30.0% in 4QFY23. Furthermore, same-store footfall bounced back after 3 quarters and posted the first QoQ leap and recorded at 14.8% in 1QFY24 cf. 0.1%YoY in 4QFY23. Meanwhile, with the lifting of the import ban placed on mobile phones and office equipment placed by the GoSL, group’s Office Automation business witnessed an improvement in both mobile phones and office automation sales volumes.

Off-peak occupancies take a toll on sector earnings. JKH Leisure segment increased its losses during 1QFY24 and recorded at LKR 1.4Bn cf. LKR 47.4Mn in 1QFY23 impacted by escalation of costs and raised taxes. The poor bottom-line performance stemmed largely from the sector EBITDA, which declined by 84.8%YoY to LKR 284.0Mn impacted largely due to incremental expenses at the Maldivian resort business (largely due to the delay in lowering fuel prices in-line with the global crude oil prices), of which’s EBITDA margin declined to 23.0% in 1QFY24 cf. 32.0% in 1QFY23. Furthermore, both Colombo Hotels and Sri Lankan Resorts also contributed towards the Leisure sector woes, as EBITDA Margins declined to -3.0% (0% in 1QFY23) and -18.0% (-16.0% in 1QFY23), respectively. However, on a silver lining, Leisure sector turnover improved marginally to LKR 8.7Bn in 1QFY24 aided by improvement in tourist arrivals to Sri Lanka (+129.4%YoY to 289,195 arrivals in 1QFY23), which translated to pick up in occupancies at both Colombo Hotels (49.0% in 1QFY24 cf. 33.0% in 1QFY23) and Sri Lankan Resorts segments (55.0% in 1QFY24 cf. 33.0% in 1QFY23). Moreover, slight improvement in ARR (to USD 70.0 in 1QFY23 cf. USD 68.0) at Colombo Hotels also contributed minutely to the sector turnover whilst marginal reduction in ARR by 10.7%YoY to USD 59.0 at Sri Lankan resorts off-set the benefit. Meanwhile, despite the higher arrivals (+6.3%YoY to 405,679 arrivals in 1QFY24) Maldivian Resorts segment topline declined during 1QFY24 as resort occupancies declined to 82.0% cf. 86.0% in 1QFY23, whilst +1.0%YoY gain in ARR to USD 336.0 offset the benefit of improved occupancies.

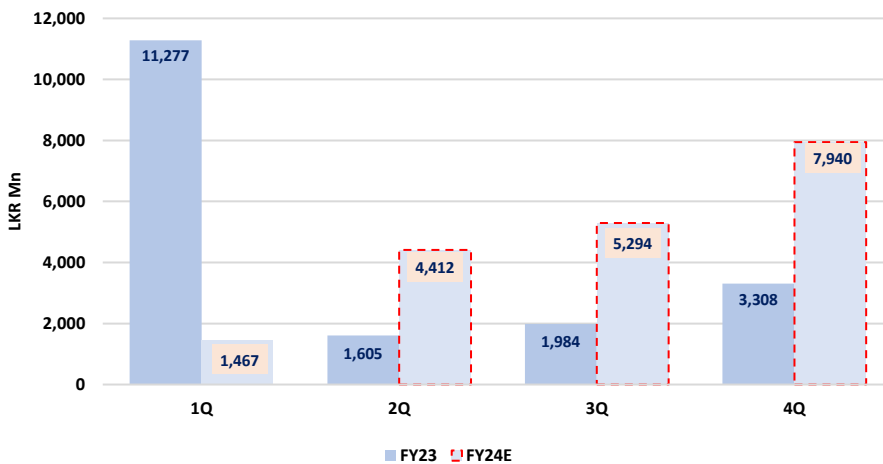
Property sector posts a marginal profit in 1QFY24. JKH Property segment posted a profit of LKR 322.7Mn cf. a loss of LKR 2.3Bn. Moreover, sector also recorded a turnaround performance in EBITDA and posted a profit of LKR 187.0Mn cf. a loss of LKR 140.0Mn. The improvement in EBITDA came in as a result of profit recognition from TRI-ZEN and rental income from the ten floors at Cinnamon Life. Meanwhile, during the quarter, 2 units of TRI-ZEN was sold, bringing down the unsold number of units to 234 (26.0% from total units), whilst there were no sales from Cinnamon Life apartment units and remaining unsold units at 161 (38.0% of total available units). Meanwhile, due to the steep price increases carried out at both Cinnamon Life and TRI-ZEN in 4QFY23 due to the imposition of 15% VAT and 2.5% Social Security Contribution Levy on unit sales, we believe apartment sales at both TRI-ZEN and Cinnamon Life will remain a challenge until 1QFY25, as disposable incomes recover in tandem with the economy.

Financial Services segment continues to drive group profitability. JKH’s Financial Services segment recorded a net profit growth of 93.9%YoY to LKR 1.5Bn whilst EBITDA was in-line and recorded a growth of 93.0%YoY to LKR 1.7Bn. Nations Trust Bank recorded a strong profitability during the quarter, driven by relatively high interest rates which enabled NTB to increase spreads and expand net interest margins to 7.6% in 1QFY24 cf. 6.1% in 1QFY23. Moreover, NTB continued to operate amongst the lowest NPLs in the industry largely due to the conservative, targeted lending strategy, which pushed Stage 3 loan ratio to 3.4% cf. 3.2% in 1QFY23, whilst industry NPL remains quite high at 11.3% in 2022. Meanwhile, Union Assurance recorded a net profit growth of 79.0%YoY to LKR 469.0Mn in 1QFY24, backed by double digit growth in Gross Written Premiums (21.0% in 1QFY24 cf. 13.0% in 1QFY23).

FY25E target price revised up to LKR 240.0. JKH currently trades at a PER of 10.1x FY25E earnings offering a discount of +38.0% to the 5-year average PE multiple of 14.0x. Therefore, taking into consideration the considerable uptick in investor sentiment, following multiple rate cuts by CBSL totaling to +450Bps, and continuous improvement in both macro and business climate, we believe the JKH share will re-rate and trade at its 5-year average PE multiple of 14.0x, re-rating upwards from our previous expectation of 12.0x PE for FY25E. Hence, considering the above, we have revised up our target price for FY25E to LKR 240.0 from LKR210.0. Therefore, we maintain our recommendation at **BUY**.



Quarterly Earnings



Estimate Revision

In LKR Mn	FY24E-O	FY24E-R	% Change	FY25E-O	FY25E-R	% Change
Earnings Estimate						
Revenue	284,459	284,501	+0%	338,882	331,024	-2%
Gross Profit	46,936	46,943	+0%	57,610	56,274	-2%
EBIT	21,383	21,032	-2%	27,990	27,666	-1%
Profit before Tax	25,745	25,645	-0%	35,167	34,843	-1%
Net Profit	19,159	19,113	-0%	25,996	25,694	-1%
Adjusted EPS	13.8	13.8		18.8	18.6	
Growth YoY	33%	5%		25%	34%	
Balance Sheet Estimate						
Shareholders' Equity	356,350	356,313	-0%	377,146	376,868	-0%
Borrowings	167,464	167,464	+0%	174,219	174,219	-0%
Adjusted NAVPS	257.3	257.3		272.3	272.1	
Ratio Estimate						
ROE (%)	5%	5%		7%	7%	
PER (x)	13.6	13.5		9.9	10.1	
PBV (x)	0.7	0.7		0.7	0.7	

Valuation Table

YE Mar/LKR Mn	FY21	FY22	FY23	FY24E	FY25E	FY26E
Estimates (LKR 'Mn)						
Revenue	127,676	218,075	276,640	284,501	331,024	385,263
Gross profit	18,929	37,645	49,450	46,943	56,274	69,347
EBIT	2,552	7,308	12,691	21,032	27,666	35,645
Net Profit	4,772	20,213	18,174	19,113	25,694	31,356
Adjusted EPS (LKR)	3.4	14.6	13.1	13.8	18.6	22.6
YoY Growth (%)	-49.3%	323.6%	-10.1%	5.2%	34.4%	22.0%
Valuations						
PER (x)	54.3x	12.8x	14.3x	13.5x	10.1x	8.3x
PBV (x)	1.1x	0.8x	0.8x	0.7x	0.7x	0.6x
Dividend Yield (%)	0.8%	0.8%	1.1%	1.5%	2.0%	2.4%
NAVPS	163.3	224.8	246.2	257.3	272.1	290.2
DPS (LKR)	1.5	1.5	2.0	2.8	3.7	4.5
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	19.2%	12.4%	5.0%	22,751.0	26,395.9	80%	18,200.8	21,116.7
Consumer Foods	DCF	19.2%	12.4%	5.0%	48,382.9	60,296.6	85%	41,125.5	51,252.1
Retail	DCF	19.2%	12.4%	5.0%	79,342.8	92,708.6	85%	67,441.3	78,802.3
Leisure	DCF	20.0%	13.2%	5.0%	95,373.7	113,808.1	80%	76,298.9	91,046.5
Property	DCF	21.6%	15.2%	5.0%	30,054.3	34,580.0	95%	28,551.6	32,851.0
Financial Services	DCF	20.0%	14.2%	5.0%	35,754.4	37,065.2	60%	21,452.7	22,239.1
Other	DCF	20.0%	12.8%	5.0%	7,884.8	9,143.0	60%	4,730.9	5,485.8
Total per share								257,801.7	302,793.6
Number of shares								1,384.9	1,384.9
Value/share								186.1	218.6

Valuation Summary

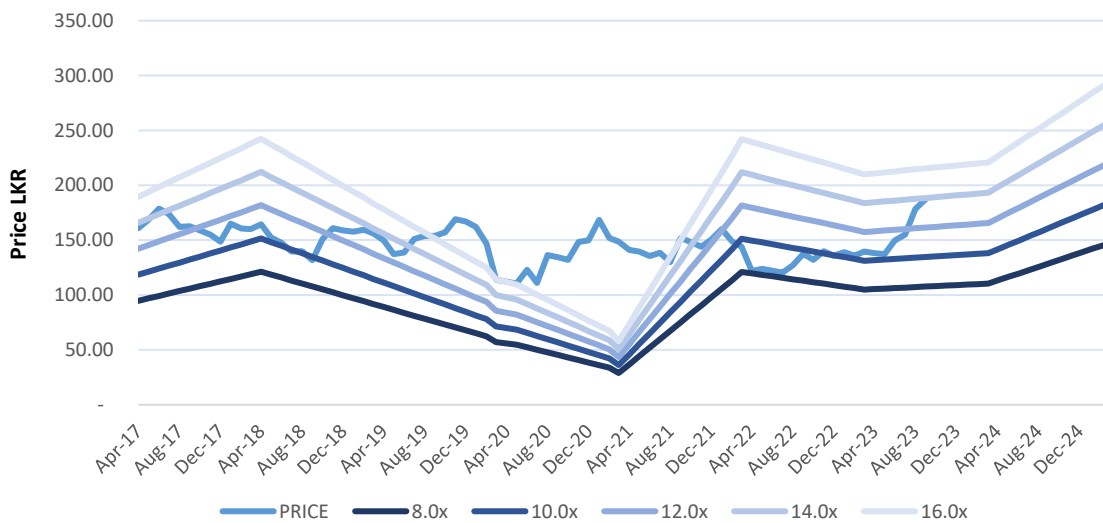
Expected JKH Price	FY24E	FY25E
PER Valuation based target price	165.6	250.5
SOTP Valuation based target price	186.1	218.6
Average Target Price	175.9	234.6
Target Price after Rounding off	170.0	240.0

Return	FY24E	FY25E
Target Price	170.0	240.0
Current Price	187.0	187.0
Capital Gain (LKR)	-17.0	53.0
Dividends upto 31 Mar (LKR)	2.8	3.7
Capital Gain %	-9%	28%
Dividend Yield %	1%	2%
Total Return %	-8%	30%
Annualized Return %	-13%	18%

PER valuation

PER based Valuation	FY24E	FY25E
Earnings (LKR 'Mn)	19,113	25,694
No. of Shares ('Mn)	1,385	1,385
EPS	13.8	18.6
Expected PER	12x	14x
Target Price	165.6	250.5

PER Chart



Appendix I: Statement of Income and Expenses

Income Statement	FY21	FY22	FY23	FY24E	FY25E	FY26E
Year ended 31st March (LKR 'Mn)						
Total revenue	127,676	218,075	276,640	284,501	331,024	385,263
Cost of sales	(108,747)	(180,430)	(227,190)	(237,558)	(274,750)	(315,916)
Gross profit	18,929	37,645	49,450	46,943	56,274	69,347
Selling and distribution expenses	(4,761)	(5,733)	(8,266)	(8,501)	(9,891)	(11,512)
Administrative expenses	(12,928)	(14,763)	(21,928)	(25,605)	(33,102)	(38,526)
Other operating expenses	(1,314)	(12,456)	(9,826)	(8,535)	(9,931)	(11,558)
Results from operating activities	2,552	7,308	12,691	21,032	27,666	35,645
Finance cost	(4,669)	(7,035)	(17,803)	(12,091)	(8,638)	(8,069)
Finance income	10,689	30,806	26,900	9,570	7,394	6,272
Change in insurance contract liabilities	(7,032)	(6,416)	(7,650)	(8,535)	(9,931)	(11,558)
Share of results of equity accounted investees (net of tax)	4,159	6,746	7,574	6,884	8,171	8,755
Profit before tax	5,445	27,324	22,589	25,645	34,843	42,854
Tax expense	(1,494)	(6,882)	(3,693)	(6,314)	(8,856)	(11,141)
Profit for the year	3,951	20,443	18,896	19,331	25,987	31,712
Attributable to:						
Equity holders of the parent	4,772	20,213	18,174	19,113	25,694	31,356
Non-controlling interests	(821)	230	722	217	292	357
	3,951	20,443	18,896	19,331	25,987	31,712
EPS	3.62	15.13	13.12	13.80	18.55	22.64

Appendix II: Statement of Financial Position

Balance Sheet	FY21	FY22	FY23	FY24E	FY25E	FY26E
Year ended 31st March (LKR 'Mn)						
ASSETS						
Non-current assets						
Property, plant and equipment	113,077	124,348	362,097	366,517	372,771	381,046
Right-of-use assets	40,617	53,482	54,185	53,608	53,503	53,915
Investment property	14,868	30,608	33,029	33,229	33,429	33,629
Intangible assets	4,853	5,399	5,793	6,384	7,084	7,912
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	566,335	573,385	583,099
Current assets						
Inventories	54,296	36,225	39,095	47,695	55,161	63,426
Trade and other receivables	17,457	27,495	21,508	35,871	41,736	48,575
Amounts due from related parties	124	196	318	318	318	318
Other current assets	5,919	11,914	14,570	15,544	18,085	21,049
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	12,473	36,369	53,613
	166,491	238,929	182,806	198,175	231,319	261,929
Total assets	536,794	717,796	744,506	764,510	804,704	845,029
EQUITY AND LIABILITIES						
Equity attributable to equity holders of the parent						
Stated capital	63,102	73,188	73,188	73,188	73,188	73,188
Revenue reserves	90,652	109,087	121,743	137,034	157,589	182,674
Other components of equity	72,403	129,011	146,091	146,091	146,091	146,091
	226,157	311,286	341,022	356,313	376,868	401,953
Non-controlling interest	16,830	18,805	19,396	19,614	19,906	20,263
Total equity	242,987	330,091	360,418	375,926	396,774	422,215
Non-current liabilities						
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	34,005	36,572	39,831
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	278,759	285,736	288,995
Current liabilities						
Trade and other payables	35,288	43,469	29,866	57,233	66,193	76,111
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	2,577	2,807
Other current liabilities	1,733	4,280	5,192	5,636	6,518	7,495
Bank overdrafts	11,820	20,322	30,049	18,500	18,500	18,501
	71,705	129,609	90,709	109,825	122,194	133,819
Total equity and liabilities	536,794	717,796	744,506	764,510	804,704	845,029
Net Asset Value	163.30	224.77	246.24	257.28	272.12	290.24



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	Tharusha Ashokgar	+94 11 2639 866
Ranjan Ranatunga	+94 11 2639 863	Zaeema Jihan	+94 11 2639 863
Vinodhini Rajapoopathy	+94 11 2639 866	Nethmi Fernando	+94 11 2639 863

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
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EQUITY SALES

CEO	Jaliya Wijeratne	+94 70 2910 042
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Colombo

Rasika Indra Kumara	+94 77 7072 698	Anjelo LaBrooy	+94 77 7546 645
Isuru Jayawardena	+94 76 7084 953	Dillon Lowe	+94 76 616 0647
Nishantha Mudalige	+94 70 2910 041	Evelyn John	+94 77 779 2452
Anushka Buddhika	+94 71 4310 600	Yudheshan Kannadasan	+94 77 415 5809
Thushara Pathiraja	+94 70 2910 037		

Negombo

Priyanka Anuruddha	+94 70 2910 035	Priyantha Wijesiri	+94 70 2910 036
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UNIT TRUST SALES

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

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

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