

EQUITY STRATEGY

First Capital Research | 30 Nov 2023



First Capital
A Janashakthi Group Company

“Robust returns and bullish sentiments in 2H2023”

Analysts:
Dimantha Mathew
dimantha@firstcapital.lk

Ranjan Ranatunga
ranjan@firstcapital.lk

Vinodhini Rajapoopathy
vinodhini@firstcapital.lk

A close-up photograph of a person's arm wearing a black blood pressure cuff. A hand is shown adjusting the cuff. The cuff has a white arrow pointing left and the text 'INDEX' and 'OK'. The person is wearing a dark blue long-sleeved shirt with a small American flag patch and the letters 'CO' visible.

Table of Contents

01 2023 Performance

02 Key Indicators for 2023-24

Key support for the improvement in investor confidence

03 ASPI to reach 12,000 in 2023, 13,500 in 2024

04 Top Picks

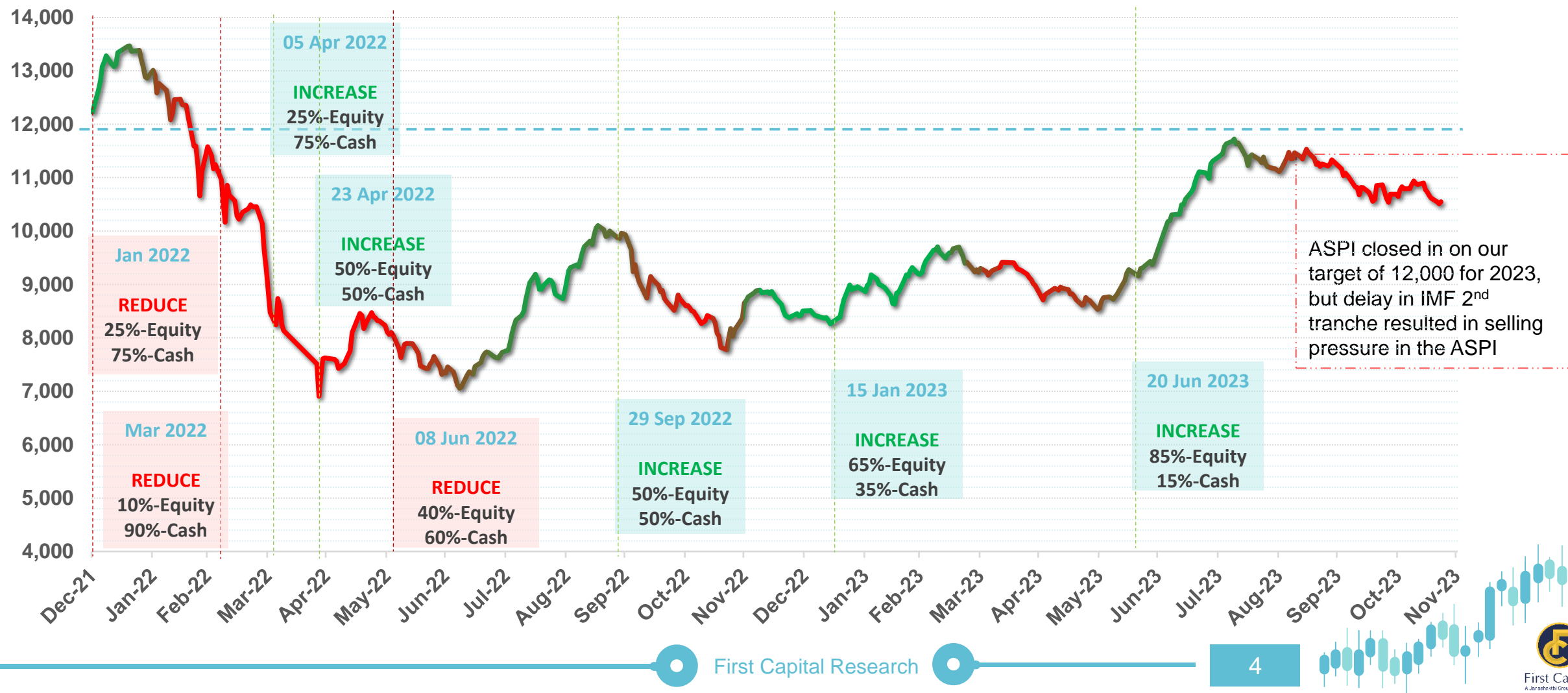


2023 Performance

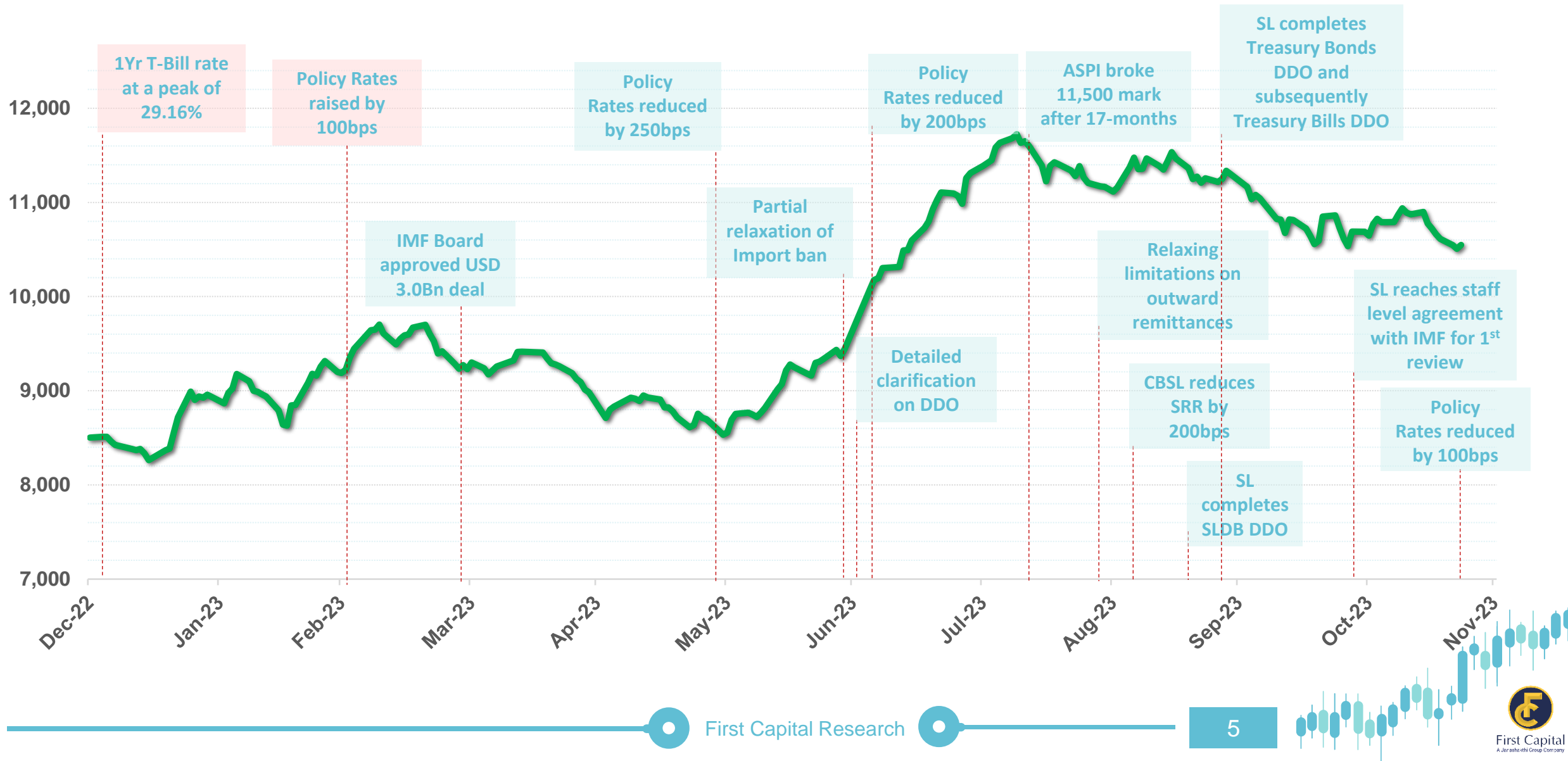
Section 01

Recap 20 Jun 2023

First Capital *Upgrades* Equity Exposure to 85% reducing cash to 15%

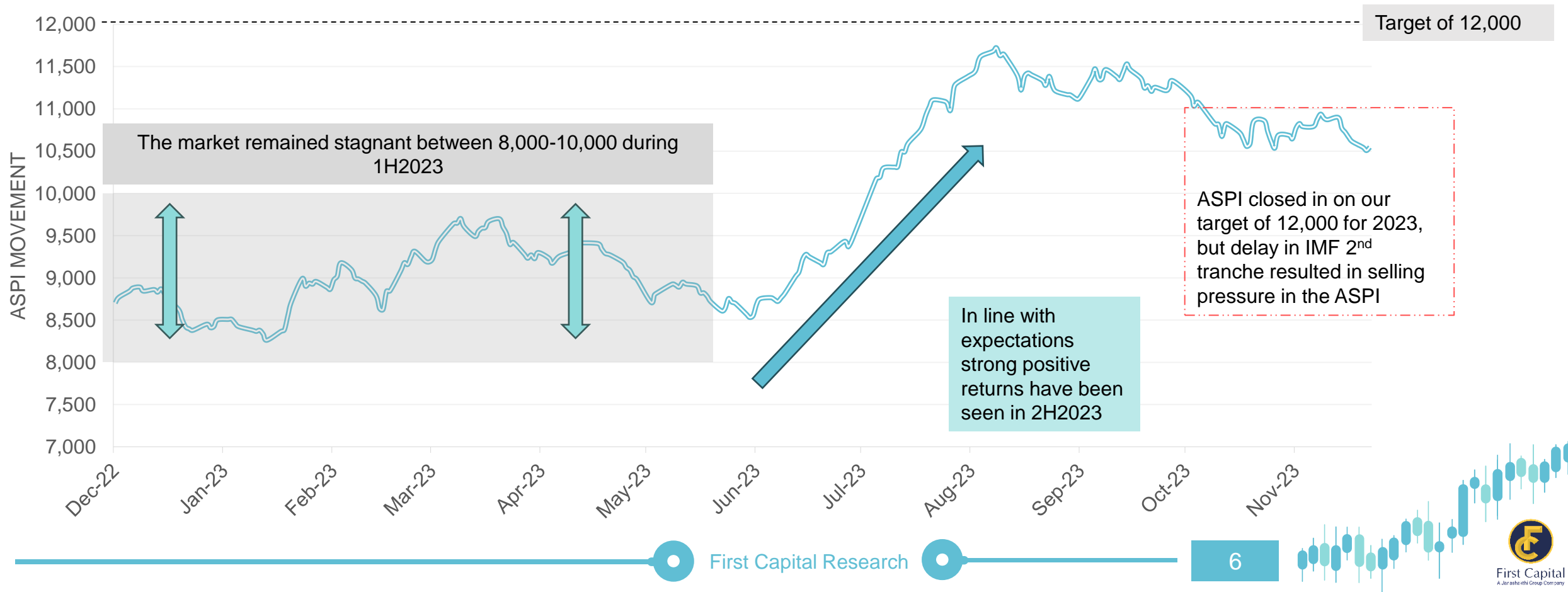


Outlook for 2023 has been volatile but up trending



Recap: ASPI Movement Jan – Nov 2023

First Capital Research set a target range for ASPI to be 11,000-12,000 for 2023. However, potentially strong returns are expected towards the 2H2023. Thereby in line with our expectations, due to weak earnings and new taxes, the market remained stagnant during 1H2023 while clarity on DDO, decline in interest rates and expected recovery in economic activity has resulted in positive returns in 2H2023.



Market uptrend halted by delay in IMF 2nd tranche

- Since our last update, the All Share Price Index observed an upward trend during Jun-Sep 2023, reaching a high of 11,700 just below our target on 12,000 for 2023.
- Weak corporate earnings initiated the slowdown in the market but delay in the 2nd tranche of the IMF triggered selling pressure pushing the ASPI towards the 10,500 mark.
- With the delay in the IMF 2nd tranche, the Government Security yields reversed towards the 15% mark halting the transfer of funds towards the equity market.
- The announcement of the completion of the creditor assurances saw a slight uptick in the market, which may turn to a strong buying interest if the country manages to achieve the 2nd tranche which will be a major confidence booster.





Key Indicators support improvement in investor confidence

Section 02

“

Political outlook may stay stable for the next 6-8 months until SL gets closer towards the Presidential elections

”





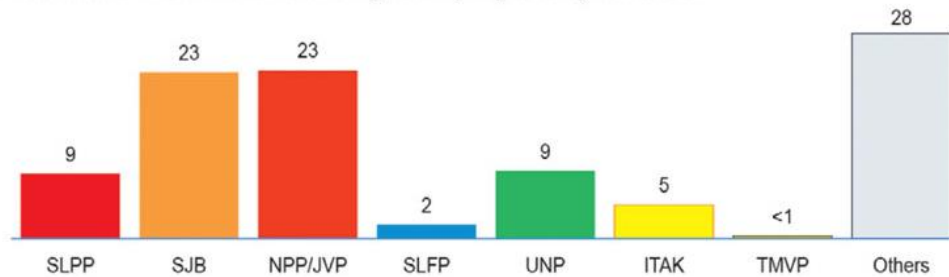
Dr. Indrajit
Coomaraswamy

“One thing I must say is this time around if we allow the elections to distract us from the path of stabilisation and recovery, and then sustained growth, the crisis that will hit us will be worse than anything that we’ve had in the past,” cautioned Dr. Coomaraswamy.

He highlighted the upcoming elections as among the numerous risks that could potentially hinder Sri Lanka’s path to recovery. Additionally, he pointed out other significant risks, including climate-related challenges and rising geopolitical tensions, which underscore the need for a more transparent and cautious approach to external relations.

GENERAL ELECTION VOTING INTENTION, JUNE 2023 (% likely voters)

If there was a General Election today, which party would you vote for?



Institute for Health Policy Sri Lanka Opinion Tracker Survey MRP

Estimates based on 506 interviews conducted in Jun. 2023, and 11,926 interviews conducted from 1 Oct. 2021-20 Jul. 2023. Estimates are derived from a MRP model and are associated with a margin of error assessed as 1-3%.



FT Daily FT

Election year 2024 and the crisis of political parties

The proper pathway for Sri Lanka lies with either Sajith or Anura, and policy-wise, in a triangulation or eclectic fusion of these three...

1 month ago

Ada Derana

Presidential election likely in 2024 - Saman Ratnapriya

The Director General of Trade Unions to the President, Saman Ratnapriya has revealed that a presidential election is likely to be held next...

Jul 10, 2023

Newsfirst.lk

UNP says Presidential Election will be held by June 2024

COLOMBO (News 1st): The United National Party said a Presidential Election will be held by June 2024. Speaking at the Colombo North Bala...

1 month ago



manifold.markets

<https://manifold.markets> › DanMan314 › who-will-wi...

Who will win the 2024 Sri Lankan presidential election?

From Wikipedia: **Presidential elections** are scheduled to be held in **Sri Lanka** before September **2024**, according to the constitution Resolves to the person the ...



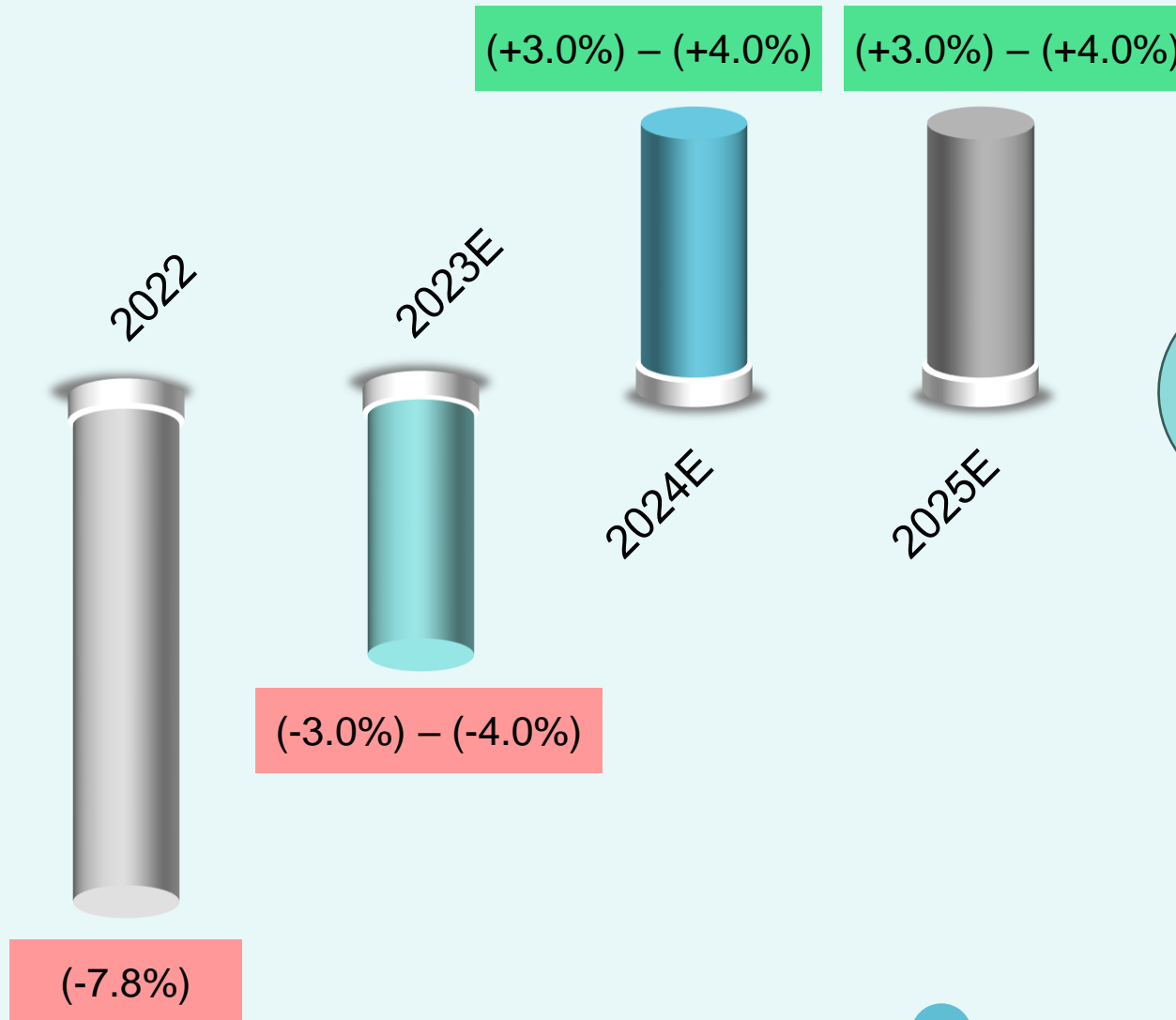
The Sunday Times, Sri Lanka

<https://www.sundaytimes.lk> › business-times › econom...

Economy cornered with elections round the corner!

Aug 27, 2023 — Sri Lankan political setting. Provincial Council **elections** four years, while local government **elections** too have delayed ...

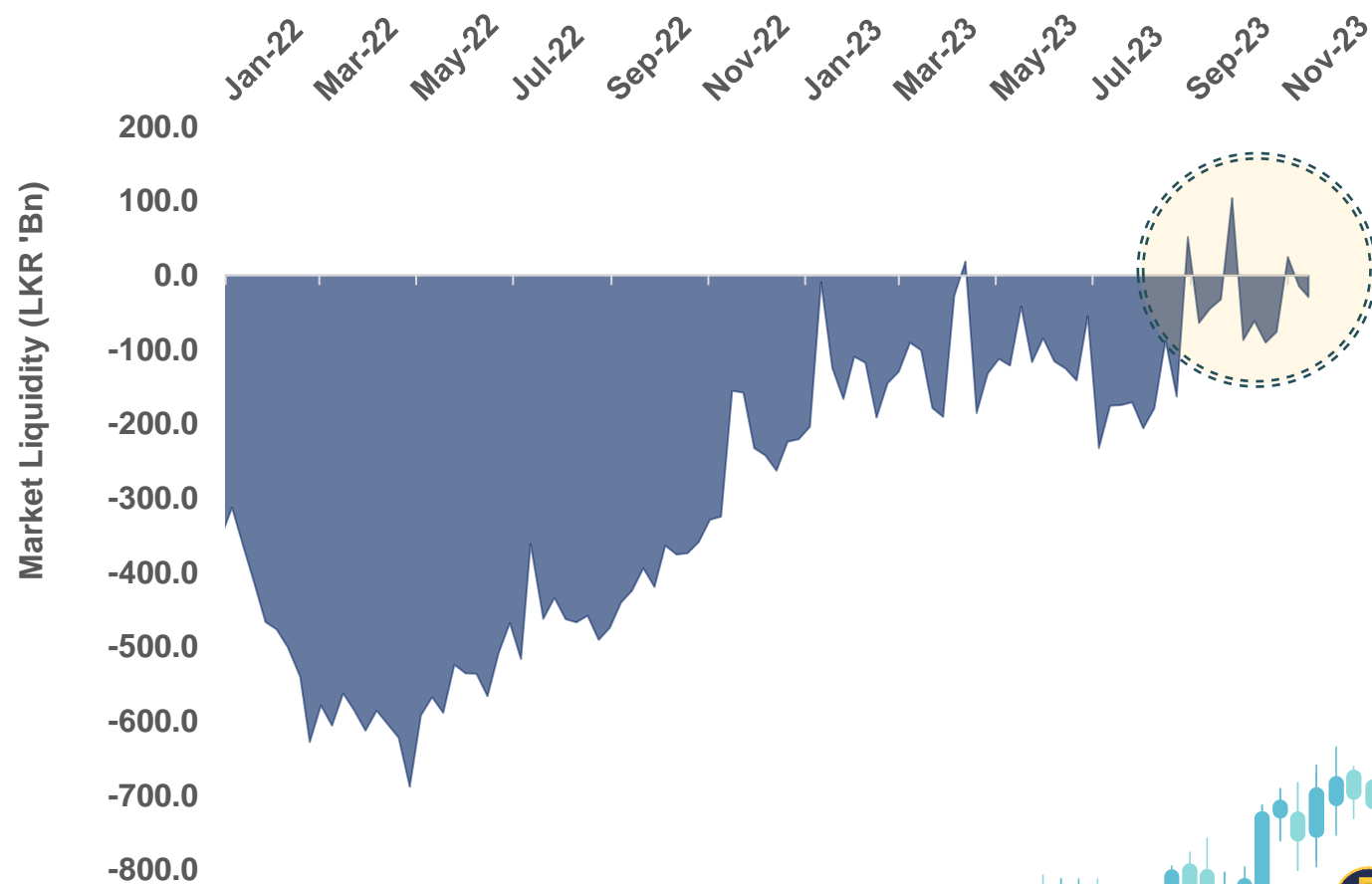
Economy to revert to growth from 4Q2023 onwards



Supported by the sizable decline in interest rates, YTD appreciation in the exchange rate and relaxation of import restrictions, we expect economy to revert to positive territory from 4Q2023 onwards with GDP growth for 2024E and 2025E likely to reach +3.0 -+4.0%

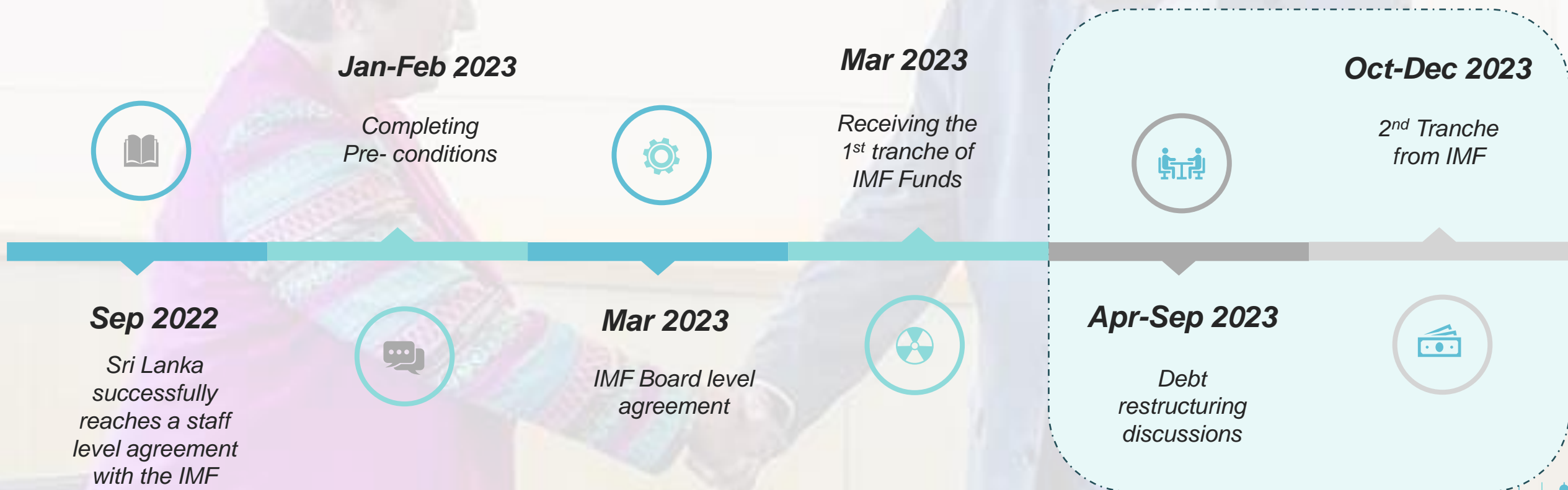


■ Liquidity significantly improves, but remains low and volatile



External Debt Restructuring and SOE Restructuring remains key for 2nd tranche

We maintain our original timeline *targeting Dec-2023* for Sri Lanka to receive the 2nd tranche from the IMF



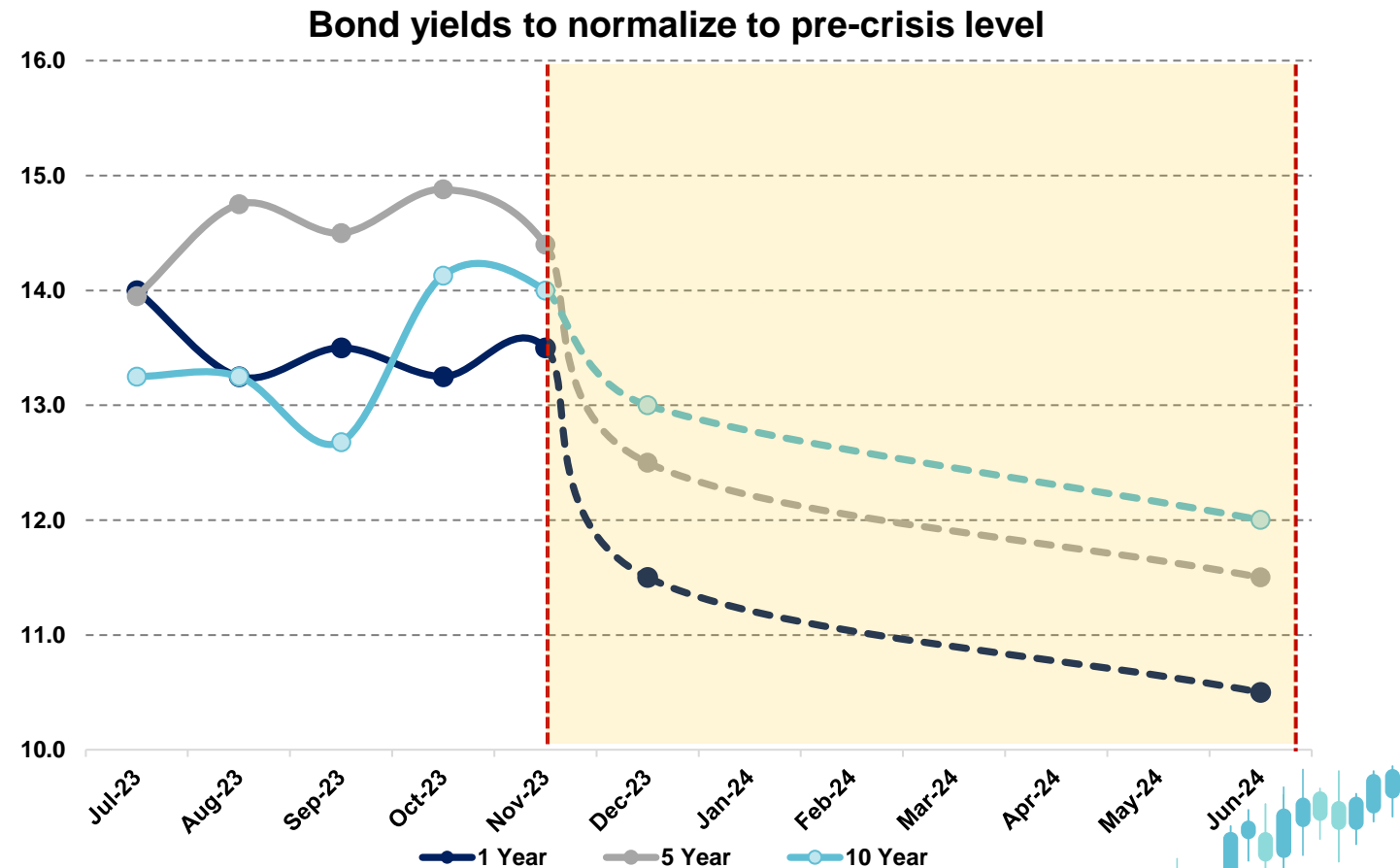
Official Creditors Confirm Debt Deal

- ❑ Official Creditor Committee (OCC), co-chaired by India, Japan and France (as the chair of the Paris Club) has confirmed its in-principle agreement on the proposed financial terms for restructuring Sri Lanka's debt, aligning with the parameters outlined in the IMF program.
- ❑ This confirms that all official creditors have agreed to the restructuring of Sri Lanka's debt, representing a significant milestone in addressing Sri Lanka's economic crisis and restoring macroeconomic stability.
- ❑ This paves the way for the IMF Executive Board to consider the first review of Sri Lanka's Extended Fund Facility (EFF) program, leading to the approval of the second tranche of the loan anticipated in December. Subsequently, this would enable further financial support from the World Bank and the Asian Development Bank (ADB).
- ❑ The OCC expects to finalize this agreement in the upcoming weeks through a Memorandum of Understanding with the Sri Lankan authorities. Additionally, the OCC expects ongoing collaboration between the Sri Lankan authorities and its private creditors to swiftly reach an agreement with terms at least as favorable as those proposed by the OCC.

Official creditor Committee comprising of Japan, India and France reaches an agreement on USD 5.9Bn of outstanding debt. Similar deal expected with remaining official bilateral creditors



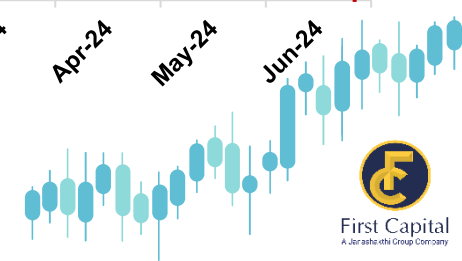
Interest rates to fall steeply supporting equity market



Source: First Capital Research



15



First Capital
A Jorache Group Company

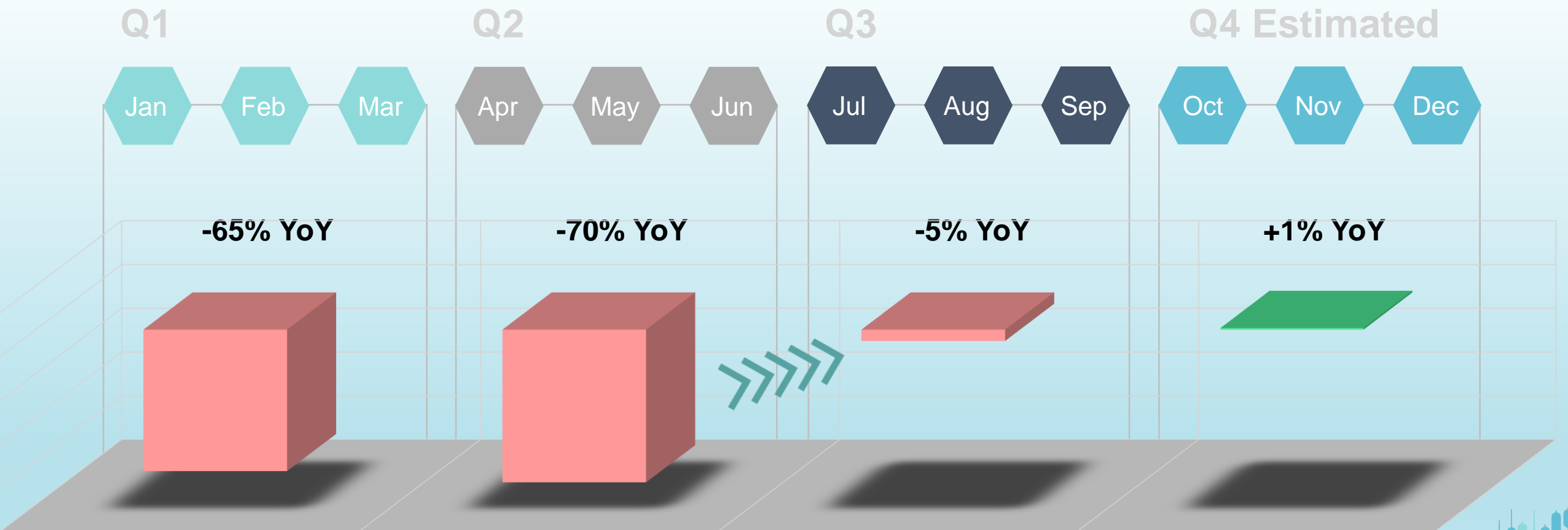


ASPI to reach 12,000 in 2023, 13,500 in 2024

Section 03

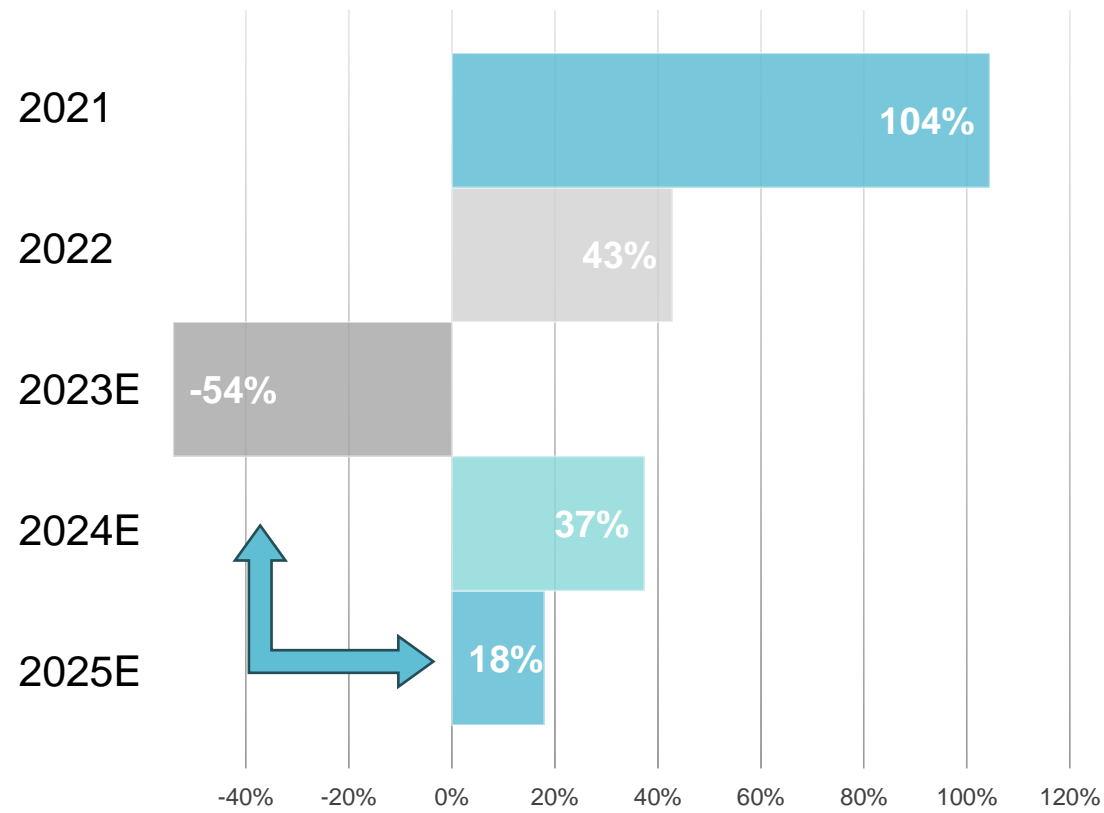
Market earnings to recover from 4Q2023 onwards...

Earnings dip in 1Q & 2Q 2023 was far worse than expectations

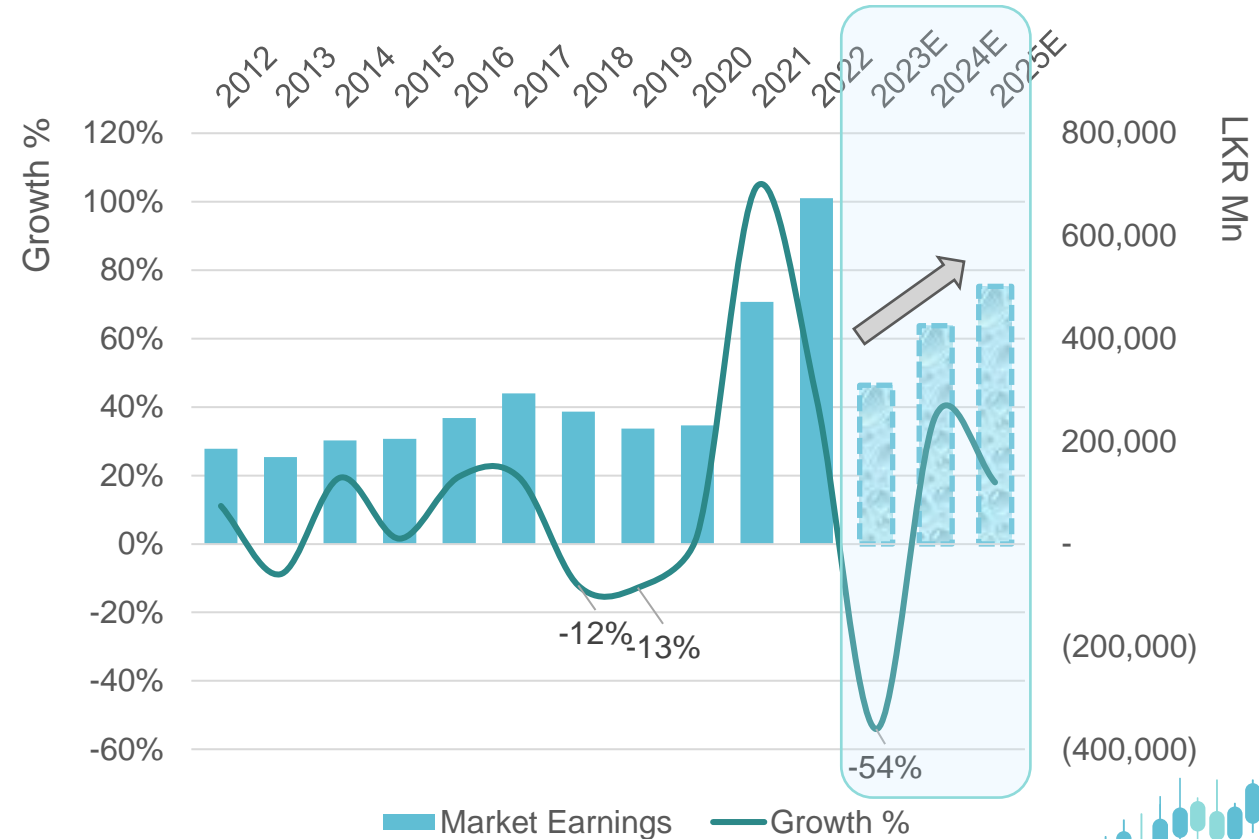


...however, market earnings for 2024E in absolute terms was tamed down amidst the steep drop in 2023 earnings

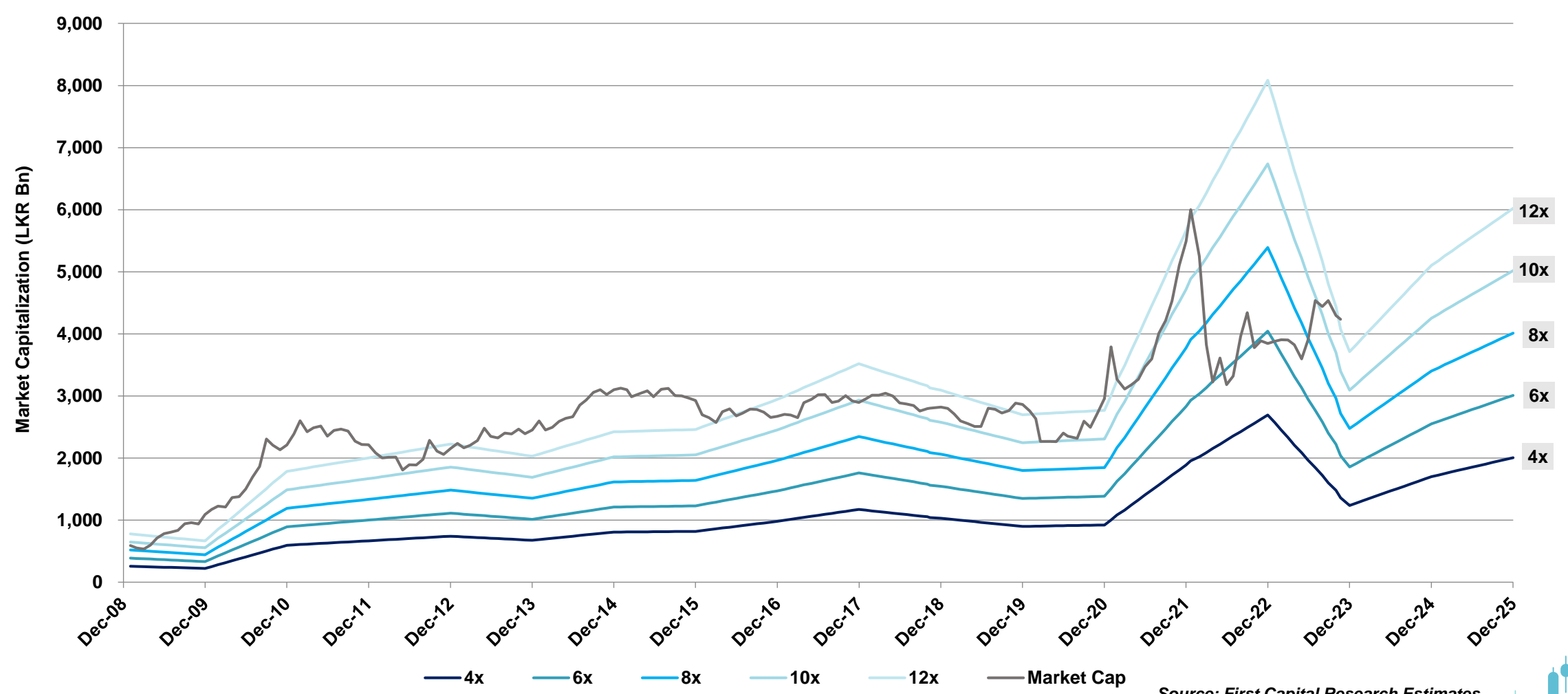
Market Earnings falls sharply beyond expectations in 2023



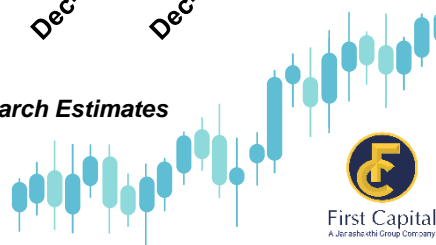
Market Earnings bottom out in 2023 and recover



...pushing the PER to 12x on 2023E earnings

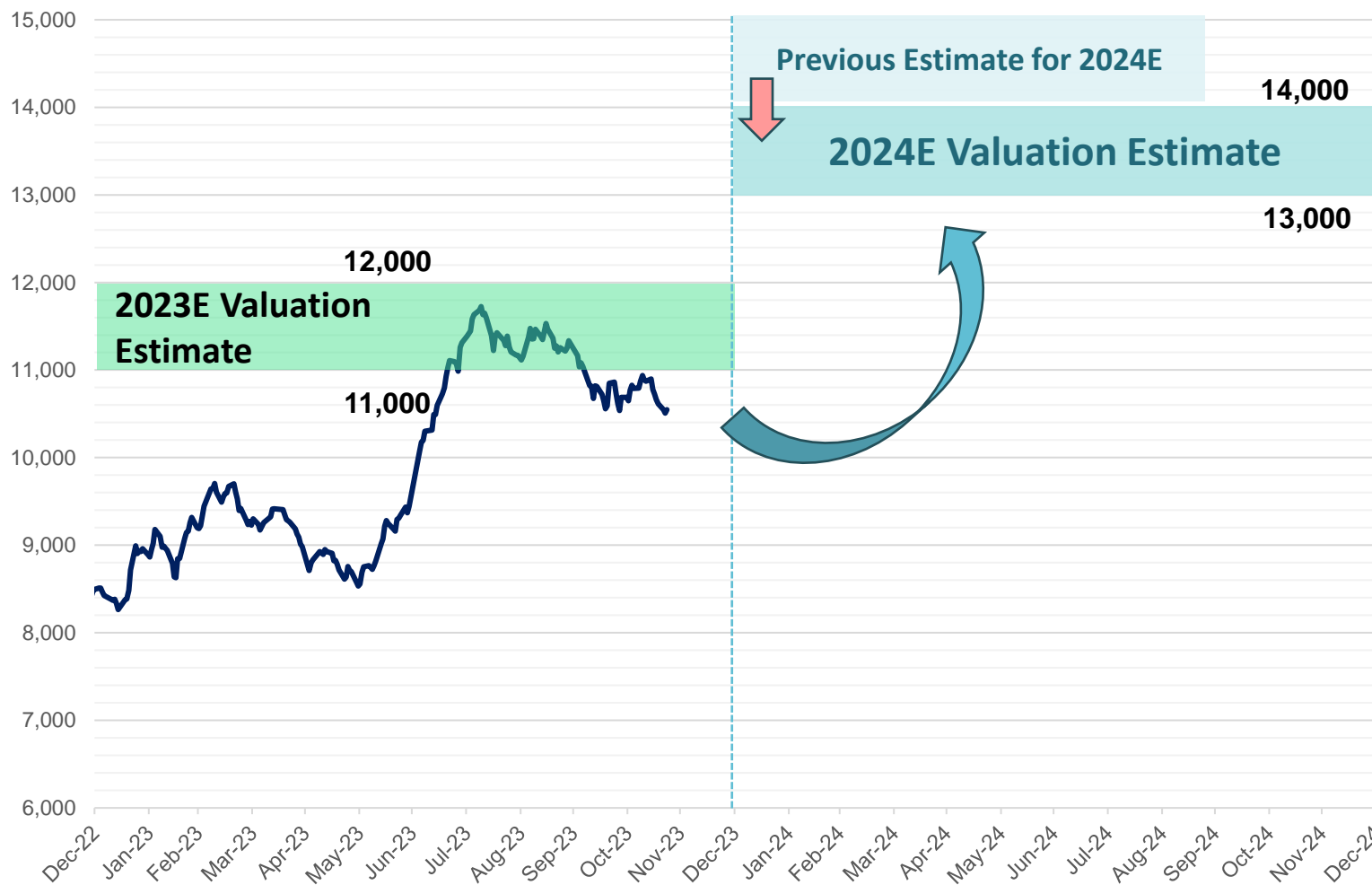


Source: First Capital Research Estimates



ASPI Dec-23 target maintained at 12,000, but Dec-24 lowered to 13,500

First Capital maintains ASPI 2023E fair value range of **11,000-12,000** with the market re-rating but, lowers target for 2024E to **13,000-14,000** range due to steeper than anticipated earnings decline in 2023E and slower than expected earnings recovery pace.



Market to re-rate with the completion of External Debt Restructuring

Portfolio

AGGRESSIVELY ACCUMULATE

Buy Buy Buy

Negotiations with Bi-lateral partners and Bondholder groups are progressing on a positive manner with the IMF Board meeting up on 6th Dec to discuss on Sri Lanka.

The potential successful completion of the external debt restructuring, progress on reform on SOEs, 2nd tranche of the IMF are key areas to build investor confidence and lead to a plunge in yields of Government Securities which are currently stagnant around 14-15% range.

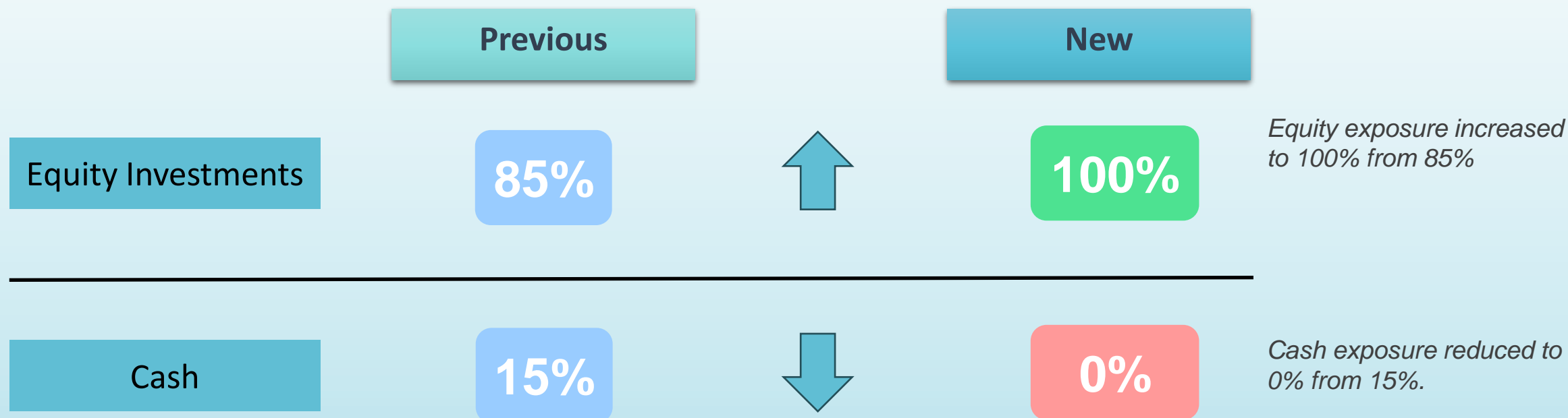
The decline in interest rates is a major catalyst to re-rate the market potentially leading to 11,000-12,000 range for 2023E and 13,000-14,000 range for 2024E.

The target for 2024E has been lowered with the earnings dip in 1H2023 falling below our expectations leading to a likely slower recovery in earnings. Further possible political risk with early elections has also lower expectations for 2024E.



First Capital *Upgrades* Equity Exposure to 100% reducing cash to 0%

Recommendation for Funds allocated for purely Equity investments


















- Out of the funds purely allocated for equity we have been advising on investing the funds partially in equity and balance to retain cash due to the high interest rates, weak corporate earnings and slow recovery process in the economy.
- However, with the completion of the external debt restructuring process and progress in the SoE reforms provides the ability to obtain the 2nd tranche of the IMF. With the completion of the debt restructuring, Sri Lanka's debt is likely to be classified as sustainable improving confidence and pushing yields down. Thereby, in relation to the equity allocated funds, we recommend to be fully invested.



Top Picks in 2023

Section 04

Stock				Stock Code	29-Nov-23	PE	PBV	DY	52-Week High	52-Week Low	Target Price 2024E/FY25E
				LKR							
	John Keells Holdings	JKH.N0000	186.50			41.8	0.8	1.1%	200.00	134.50	240.00
	Commercial Bank PLC - Voting	COMB.N0000	85.70			4.9	0.5	5.3%	107.50	50.00	170.00
	Hatton National Bank PLC - Voting	HNB.N0000	164.00			4.1	0.4	4.0%	203.50	75.00	310.00
	Sampath Bank PLC	SAMP.N0000	67.60			4.1	0.5	6.3%	79.20	33.00	120.00
	Chevron Lubricants Lanka	LLUB.N0000	88.30			6.4	2.5	5.7%	109.25	78.00	160.00
	Teejay Lanka	TJL.N0000	34.80			N/A	0.8	4.3%	40.00	28.70	50.00
	Hayleys Fabric	MGT.N0000	40.70			125.6	1.6	6.1%	49.70	20.00	65.00
	Hayleys	HAYL.N0000	75.00			29.8	0.7	5.3%	97.90	63.50	175.00
	HNB Assurance	HASU.N0000	51.60			8.7	0.8	6.2%	59.00	39.50	80.00
	Ceylon Tobacco Company	CTC.N0000	965.75			7.1	18.1	9.2%	1,060.00	598.00	1,500.00
	Ceylon Cold Stores	CCS.N0000	42.00			17.6	2.1	3.1%	53.00	32.00	65.00
	Aitken Spence Hotel	AHUN.N0000	64.00			N/A	1.1	0.0%	90.00	48.00	105.00
	John Keells Hotels	KHL.N0000	19.40			N/A	0.9	0.0%	24.70	15.60	35.00
	Hayleys Leisure	CONN.N0000	21.00			N/A	1.8	0.0%	28.00	19.00	40.00
	Asian Hotels & Properties PLC	AHPL.N0000	59.80			N/A	0.9	0.0%	64.50	32.10	86.00

Thank You

“SUCCESSFUL INVESTMENTS IS ABOUT MANAGING RISKS”

Contact Us

First Capital Holdings PLC

No: 02, Deal Place,
Colombo 00300,
Sri Lanka.

E: research@firstcapital.lk



Dimantha Mathew

Head of Research

T: +94 11 2639 853

E: dimantha@firstcapital.lk

Ranjan Ranatunga

Assistant Vice President- Research

T: +94 11 2639 863

E: ranjan@firstcapital.lk

Vinodhini Rajapoopathy

Assistant Manager- Research

T: +94 11 2639 866

E: vinodhini@firstcapital.lk

Tharusha Ashokgar

Senior Associate - Research

T: +94 11 2639 866

E: tharushaash@firstcapital.lk

Zaeema Jihan

Senior Associate - Research

T: +94 11 2639 868

E: zaheema@firstcapital.lk

Nethmi Fernando

Associate - Research

T: +94 11 2639 868

E: nethmi@firstcapital.lk