EQUITY STRATEGY

First Capital Research | 11 Jan 2024

"Riding the Bull: Expecting Strong Returns in 2024"

First Capital
A Janashakthi Group Company

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Summary

First Capital ***Maintains*** Equity Exposure to 100% and reduce cash to 0%, Anticipates ASPI to Reach ***13,500*** by end-2024E

Key Indicators for 2024

- Foreseeing economic recovery
- Recovery in manufacturing segment boosts business confidence
- Declining interest rates
- Successful completion of IMF 1st review and obtained approval for 2nd tranche
- CSE trades at a discount compared to the regional peers

Risk factors

- Rise in VAT rate result in a contraction of disposable income
- Weakening consumer sentiment amidst revised tax reforms
- Political risk ahead of the 2024 election

Top Recommended sectors

- **Banking sector**
- **Tourism sector**
- **Apparel sector**
- **Food, Beverage & Tobacco and Consumer sectors**

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2023 Performance

Section 01

Stock Market Overview

The Colombo Stock Exchange concluded on a positive note in 2023 with the All Share Price Index (ASPI) rising 25.5%YoY to 10,654 fueled by a macroeconomic rebound supported by the IMF bailout, a significant slowdown in inflation, a decrease in interest rates, and a rise in foreign reserves.

Key Highlights

ASPI — 25.5%
2023: 10,654.2
2022: 8,489.7

S&P SL20 — 16.4%
2023: 3,068.4
2022: 2,635.6

DAILY AVERAGE TURNOVER — 42.9%
2023: LKR 1,696.8Mn
2022: LKR 2,972.3Mn

DAILY AVERAGE VOLUME — 44.2%
2023: 70.2
2022: 125.8

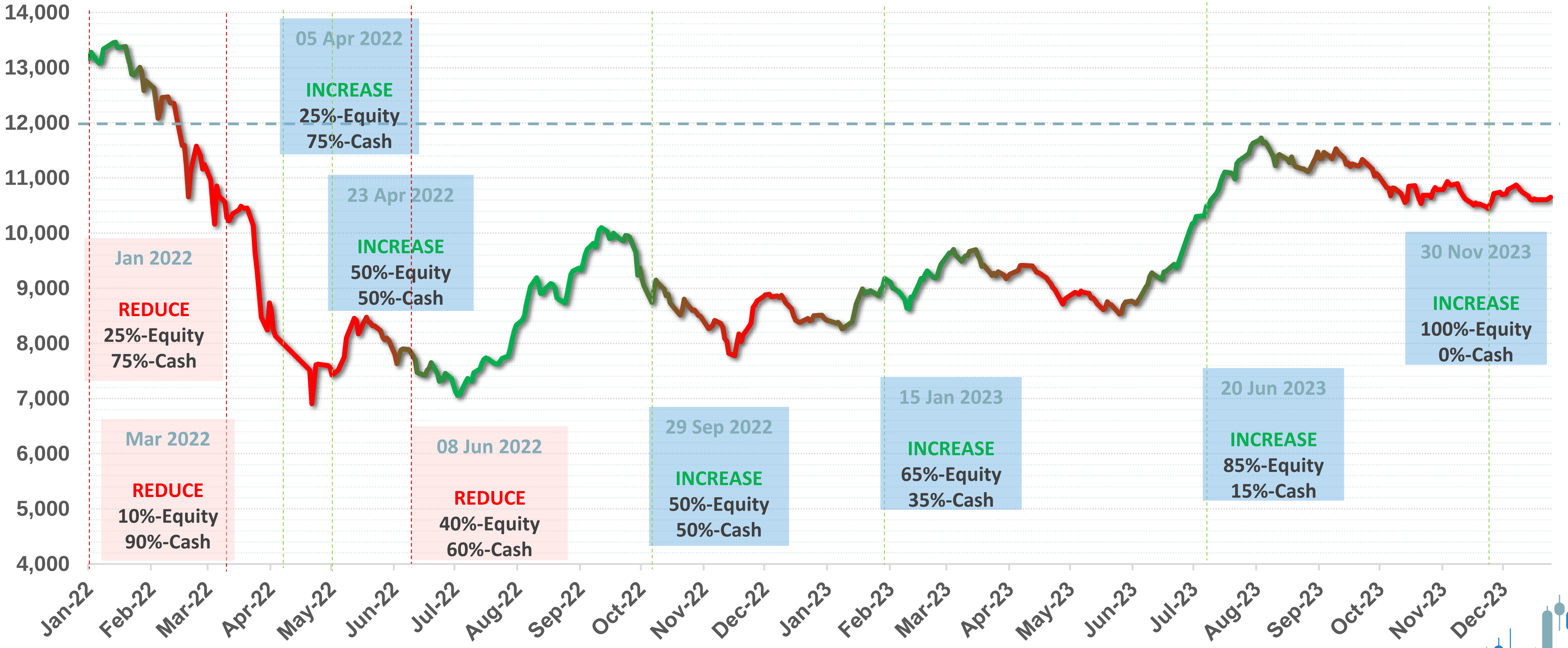
YTD NET FOREIGN FLOW — 85.8%
2023: LKR 4,347.3Mn
2022: LKR 30,633.1Mn

MARKET CAPITALIZATION — 10.5%
2023: LKR 4,248.9Bn
2022: LKR 3,847.2Bn

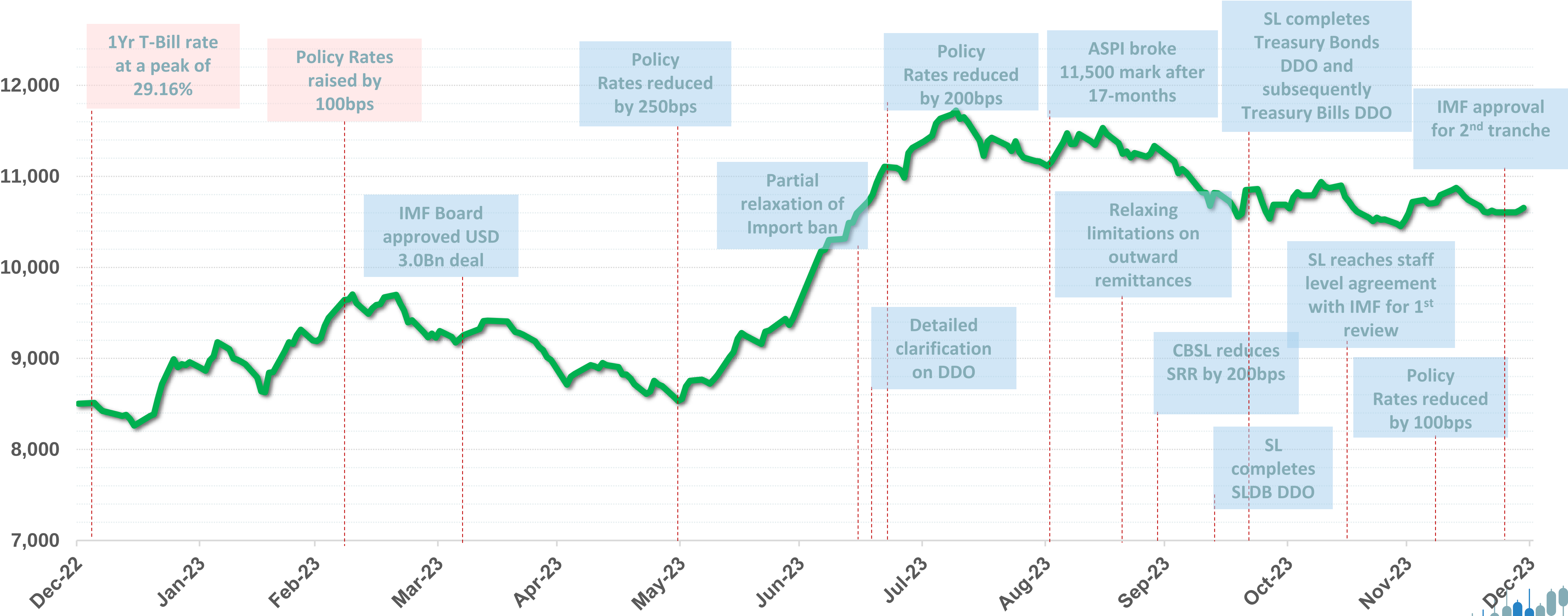
Source: CSE

Recap 30 Nov 2023

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

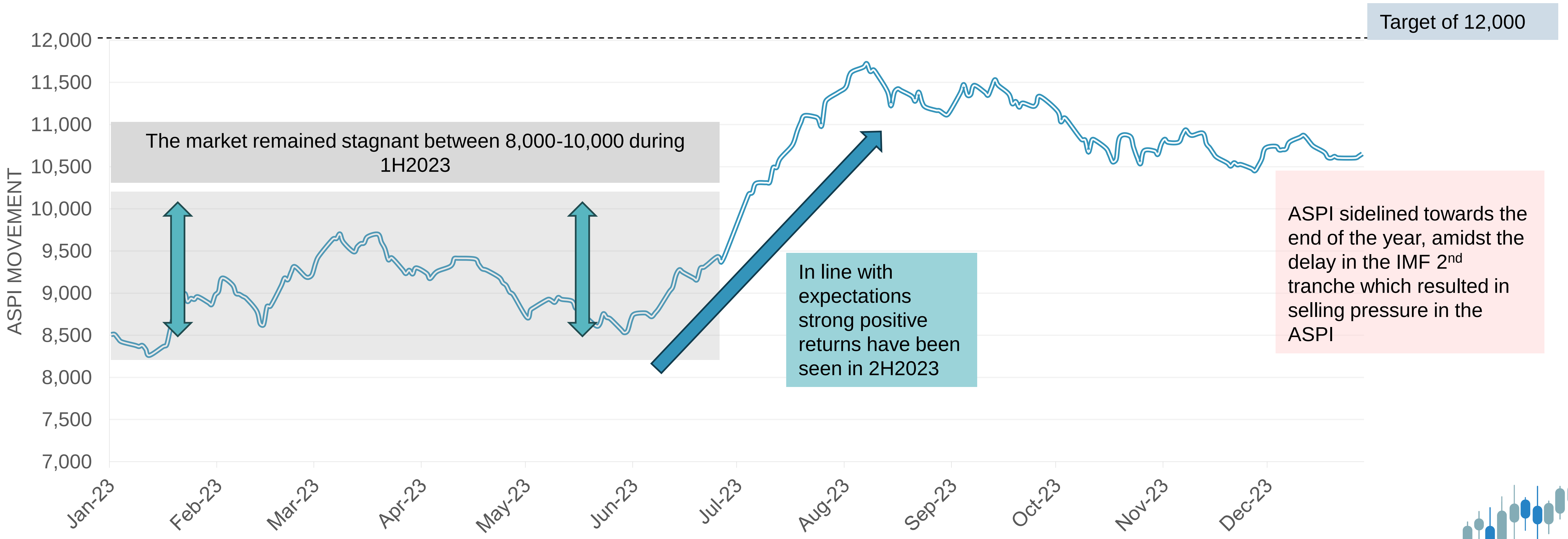


2023: ASPI performance and key highlights



Recap: *ASPI Movement Jan – Dec 2023*

First Capital Research set a target range for ASPI to be 11,000-12,000 for 2023. ASPI moves the peak range of 11,700 during the 2H2023 and falls amidst the delay in finalizing the IMF 1st review.



2023:
From Cautious Beginnings to Confident Horizons

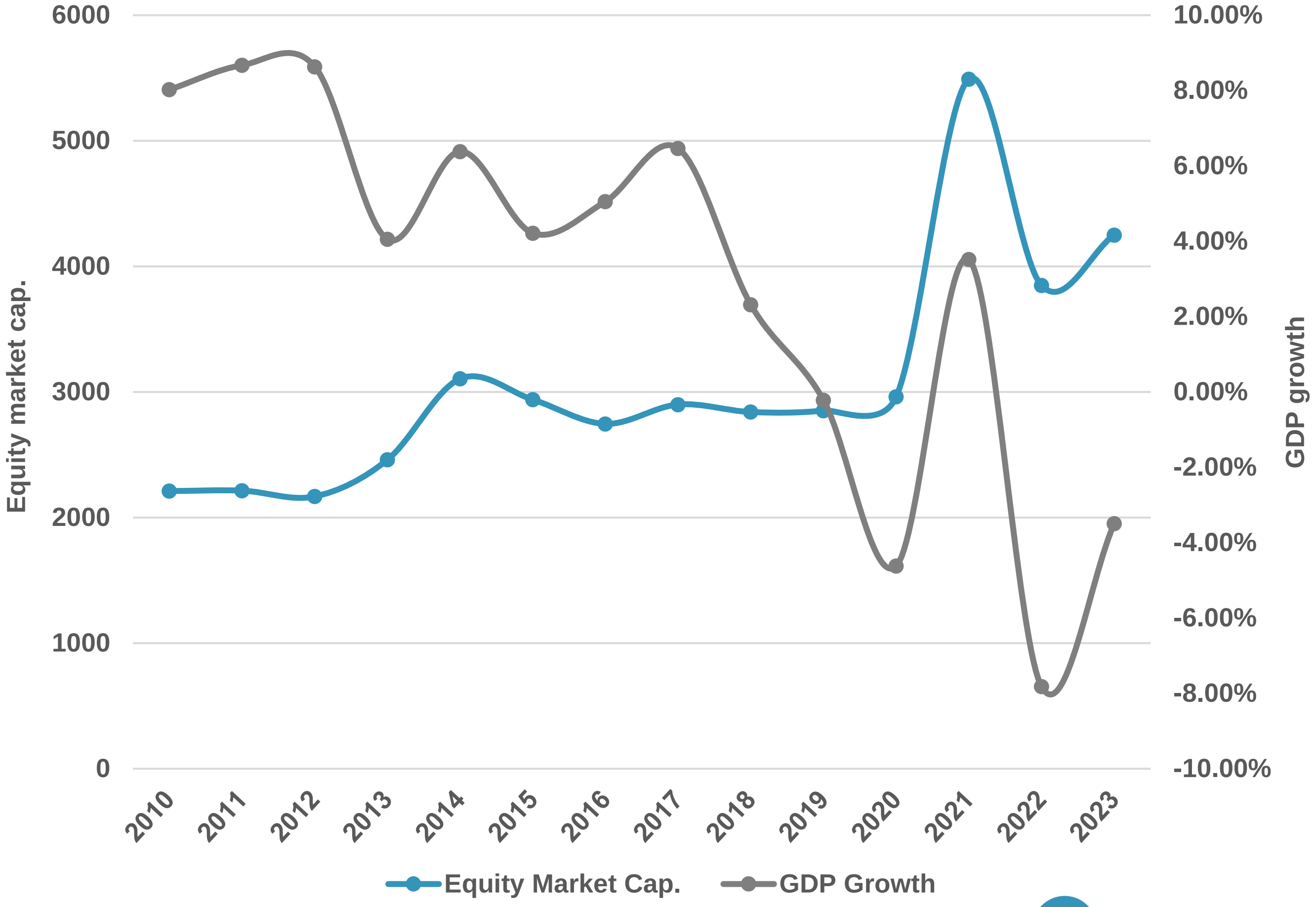
- In the face of a promising market outlook amidst easing external conditions, Sri Lanka's equity market commenced the year cautiously, with First Capital Research upgrading equity exposure to 65%, reducing a 35% cash position.
- As valuations improved and market interest rates experienced a significant decline, coupled with YTD currency appreciation, equity exposure targets were upgraded, as outlined in Slide 6.
- Despite a market upswing, reaching over 11,700 close to the 2023 target of 12,000, setbacks ensued due to delays in finalizing the IMF 2nd tranche. Selling pressure prompted investors to adopt a cautious stance, keeping the market stagnant between 10,000 to 10,500.
- Following the successful completion of the IMF's first review towards the year-end, investor confidence witnessed a boost. However, the market remained subdued between 10,000 to 10,500, influenced by factors such as revisions in electricity and fuel prices, coupled with weak consumer sentiment due to tax reforms.

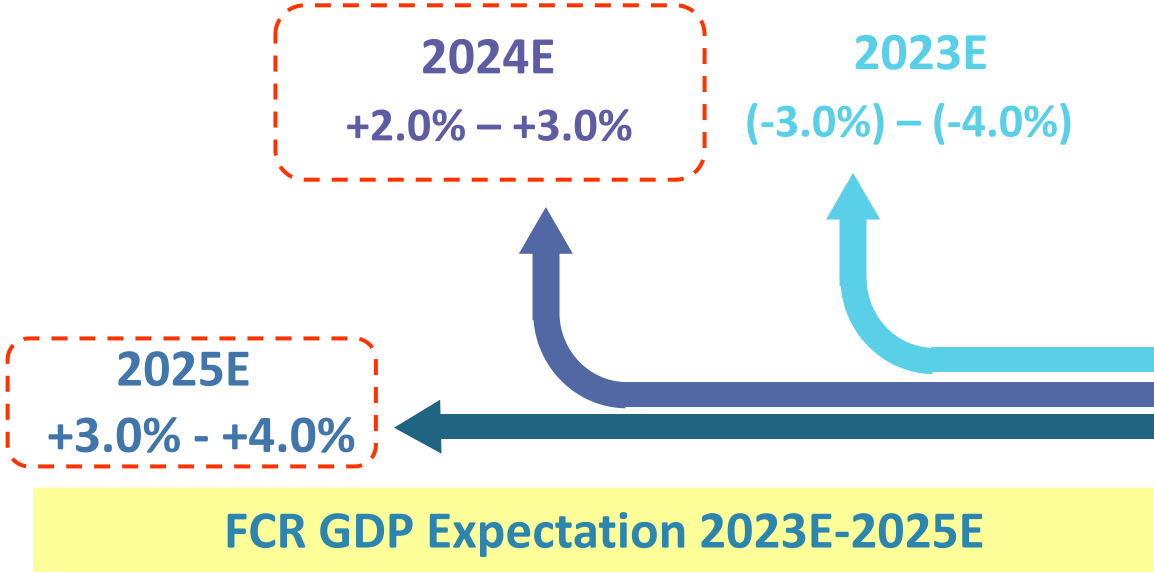
Key Indicators support improvement in investor confidence

Section 02

Foreseeing market resurgence in line with the anticipated GDP turnaround from 2H2023

During 3Q2023, GDP exhibited a moderate YoY growth of 1.6%, marking a notable turnaround from the contraction experienced since 1Q2022, supported by the sizable decline in interest rates, YTD appreciation in the exchange rate and relaxation of import restrictions. With the equity market mirroring the trajectory of GDP growth, we anticipate a corresponding rebound in the overall market in line with our GDP projections.

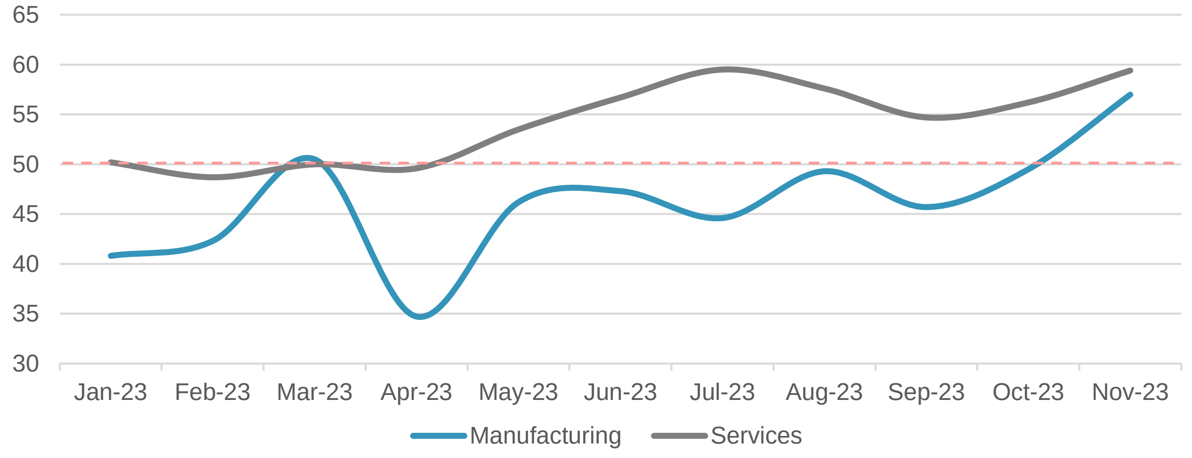




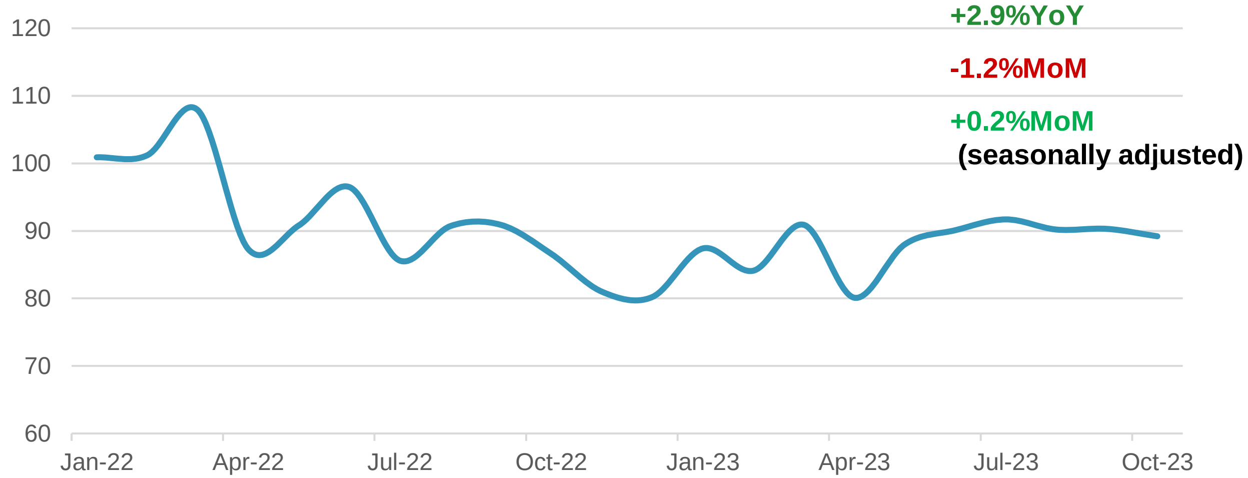
Source: CSE, CBSL and First Capital Research

Recovery in manufacturing segment indicates business confidence returning to normalcy

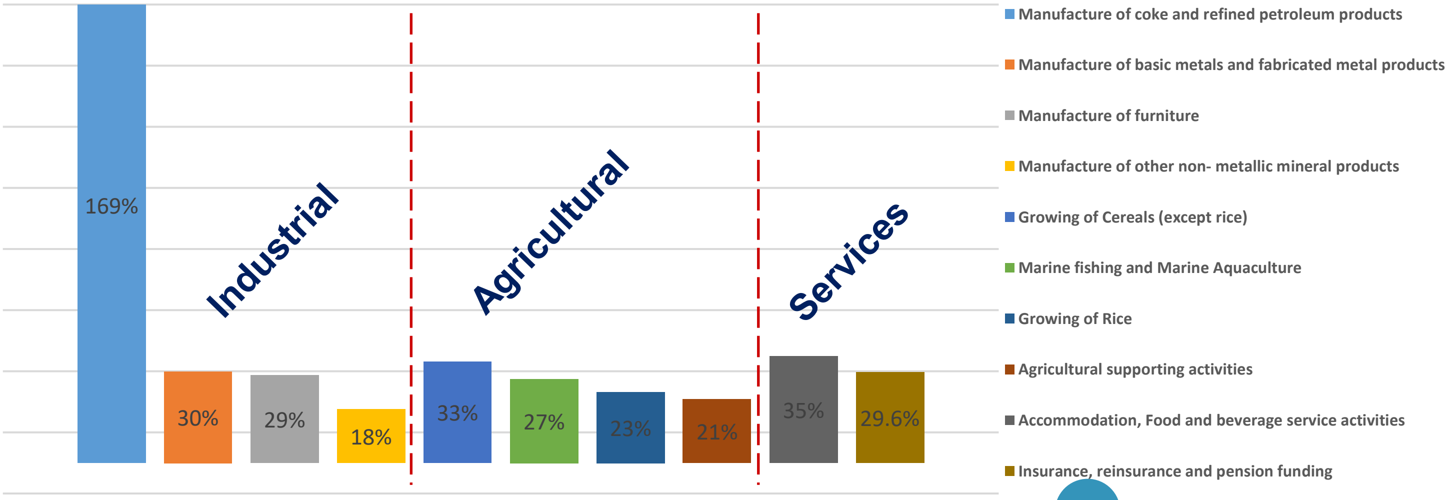
Manufacturing Purchasing Manager Index (PMI) exceeded the neutral threshold after Oct 2023 driven by increased new orders and production



Index of Industrial Production (IIP) indicated a 2.9%YoY increase in the volume of industrial production



Top positive contributors to GDP YoY for 3Q2023 at constant prices



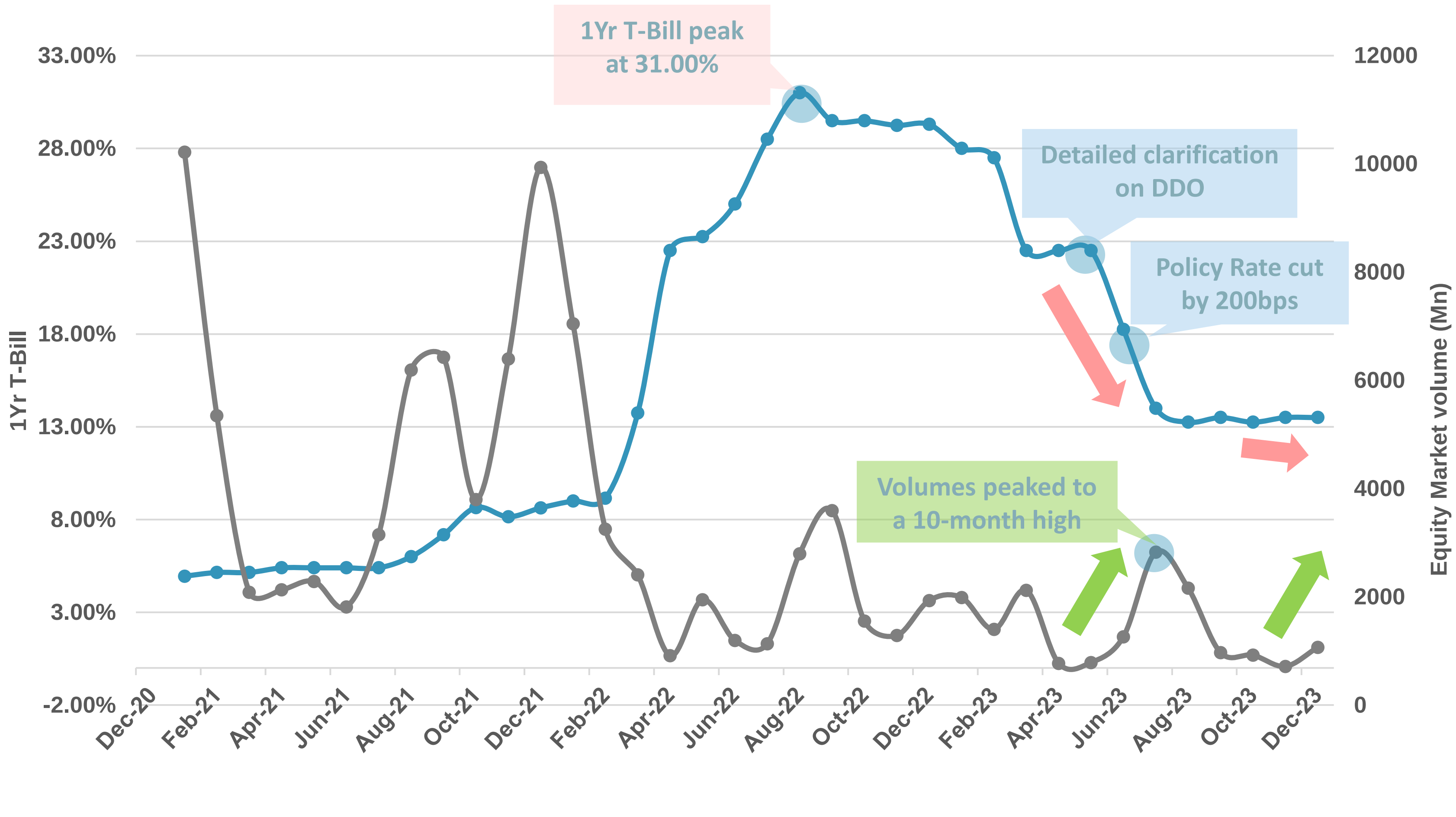
- **Sectorial Growth Amid Economic Changes:** In 3Q2023, as interest rates deepened alongside inflation, the Agricultural, Industrial, and Services sectors recorded positive growth rates of 3.0%, 0.3%, and 1.3%, respectively.

- **Industrial Sector's Prominent Role:** The Industrial sector emerged as the primary contributor to GDP, with the manufacture of coke and refined petroleum products leading the positive impact to the economy.

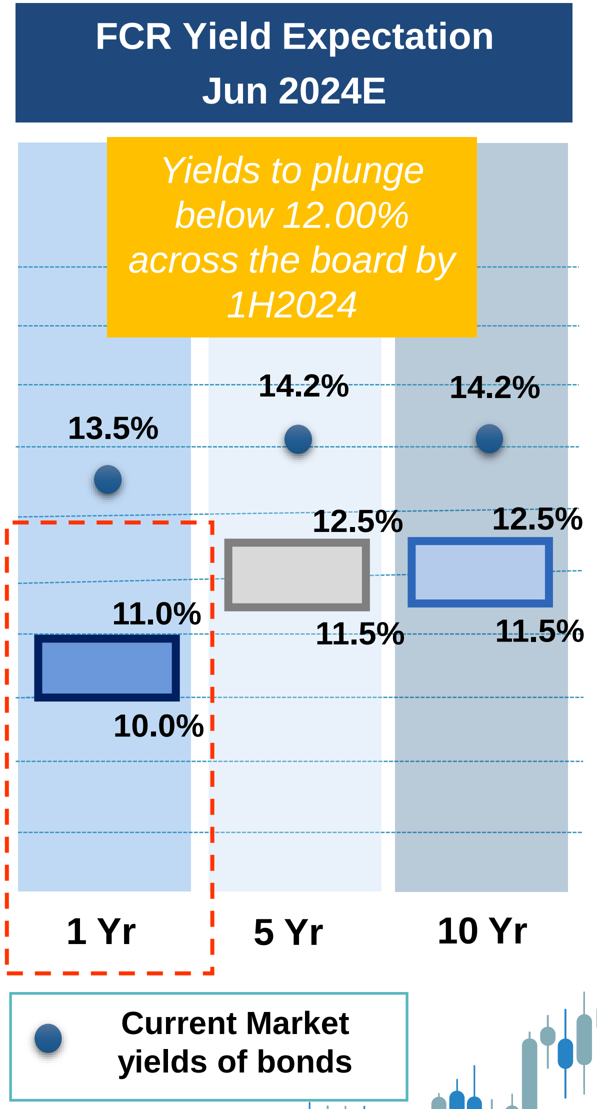
- **Positive Outlook for Manufacturing:** The overall outlook for manufacturing activities is positive, driven by the gradual economic recovery, however, concerns persist regarding consumption patterns amid a rise in the VAT rate.

Source: DCS, CBSL

The expected decline in interest rates below 12% is poised to drive a liquidity shift from Fixed income to Equity



Source: CSE, First Capital Research



“Meanwhile, the budget 2024 also offered investors a comfort with much anticipated capital gains tax on banks and primary dealers, been left out. This is expected to offer an additional boost to the investor sentiment, amid the improvement in earnings, which is also expected to further aid the investor sentiment in the coming period.”

Equity Market continues to maintain tax free status!!

IMF successfully concluded the 1st review and provided approval for the 2nd tranche

The IMF timeline has consistently aligned with the projections made by First Capital Research, and as expected, the approval for the 2nd tranche occurred in early Dec 2023

Sep 2022

Sri Lanka successfully reaches a staff level agreement with the IMF

Jan-Feb 2023

Completing Pre- conditions

Mar 2023

IMF Board level agreement

Mar 2023

Receiving the 1st tranche of IMF Funds

Apr-Sep 2023

Debt restructuring discussions

Dec 2023

Approval for 2nd Tranche from IMF

FCR Projected Timeline for **2024**

01
Feb 2024
Complete Bondholder negotiation

02
Apr / May 2024
IMF 2nd review meeting

03
May 2024
3rd Tranche from IMF

04
May 2024
Implementation of External Debt Restructuring after clearing legal barriers

05
Jun 2024
Rating upgrade

06
Aug / Sep 2024
Presidential election

07
Aug 2024
IMF 3rd review meeting

08
Sep 2024
4th Tranche from IMF

09
Dec 2024 / Jan 2025
General election

Government surpasses 2023 revenue targets while navigating the IMF timeline with assurance

LKR 'Bn	2023 Revised Budget	2023 Actual		2024 Budget
Total Revenue & Grants	2,851	**3,115**	**Budget Exceeded**	**4,127**
Tax Revenue	2,596	**2,752**	**Budget Exceeded**	**3,820**
Non-Tax Revenue	243	**363**	**Budget Exceeded**	**287**
Total Expenditure	5,253	**5,252**	**In-line**	**6,978**

Government revenue has exceeded the revised budget target, reaching LKR 3,115Bn at the end 2023, attributed to the implementation of tax reforms throughout the year. Also, the Balance of Payments (BOP) has recorded a surplus after nearly two and a half decades as result of a substantial inflow of worker remittances and an increase in earnings from tourism.

Concurrently, our outlook for the 2024 budget is optimistic, bolstered by a strategic tax hike designed to underpin revenue growth. As a result, we maintain confidence in the viability of adhering to the International Monetary Fund (IMF) timeline, foreseeing a sustainable trajectory in 2024

Source: CBSL, DCS

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.

- In the 1st review, IMF called for swift completion of the Memorandum of Understanding with official creditors and emphasized the need to reach agreements with commercial creditors before the completion of the 2nd review.

- 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

…however, bondholder negotiations await

- From 2010 to 2021, Sri Lanka's external debt stock attributed to International Sovereign Bonds (ISBs) witnessed a threefold increase, rising from 12.0% to 36.0%, whilst in 2021, ISBs accounted for a 70.0% of the government's annual interest payments.

- Given that the bondholder group represents a substantial USD 12.0Bn of outstanding bonds, its swift resolution is deemed imperative for the timely progression of the IMF 2nd review.

REUTERS®

Asian Markets

Sri Lanka bondholders raise concerns over debt deal transparency

By **Karin Strohecker** and **Libby George**

December 1, 2023 8:43 PM GMT+5:30 · Updated a month ago

Aa

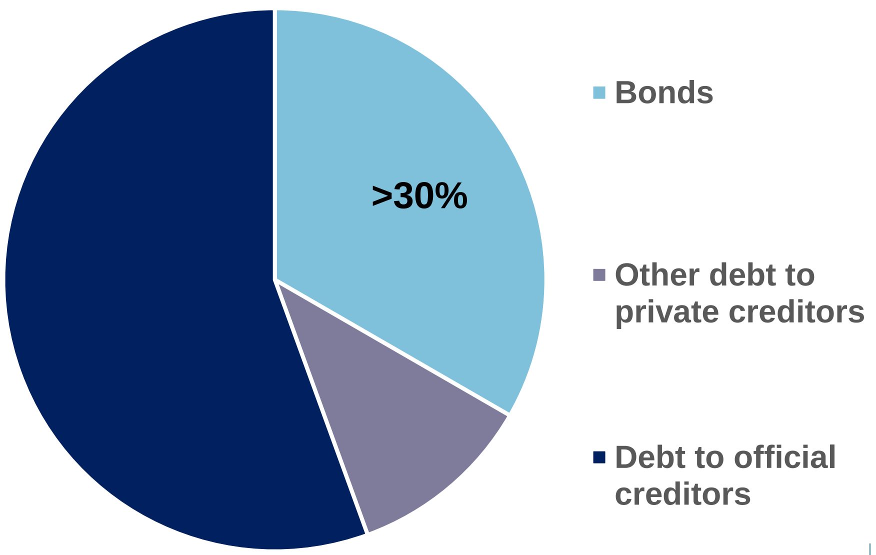
LONDON, Dec 1 (Reuters) - A group of creditors holding Sri Lanka's international bonds said on Friday it welcomed the country's debt restructuring agreement with official creditors, though it said a lack of transparency on deals struck so far was regrettable.

Bondholders may agree to proposed 30% haircut

the morning

03 Oct 2023 I BY Imesh Ranasinghe

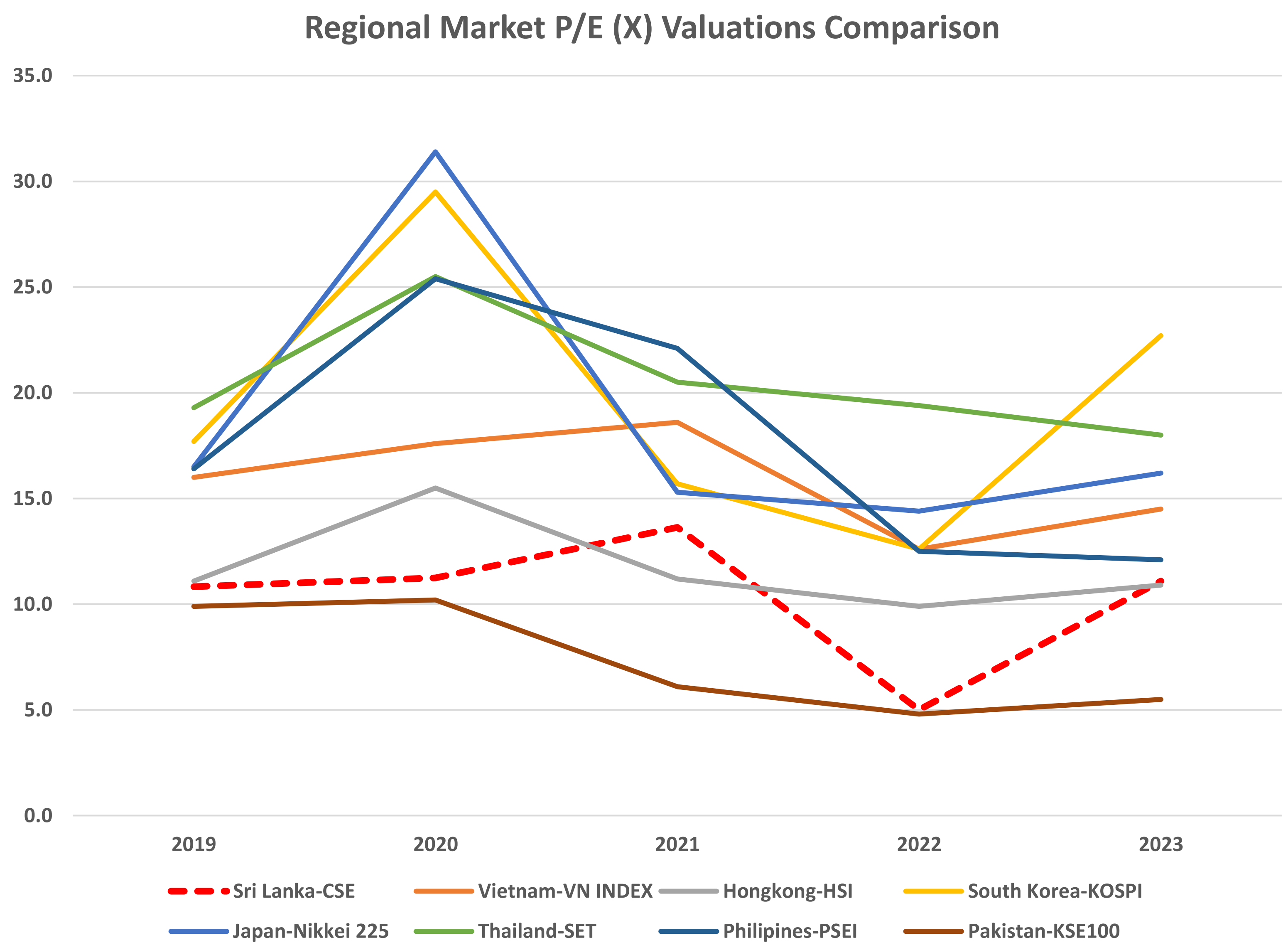
ISBs Debt outstanding surpasses 30% as of 2021



Source: Reuters

CSE trades at a steep discount compared to the regional peers, unleashing upside potential

The Colombo Stock Exchange (CSE) is currently trading at 11.1x P/E, notably below its regional peers. Looking ahead, there is an anticipation of market earnings recovering amid improved economic conditions and heightened business confidence. This optimism is viewed as a potential catalyst for a P/E re-rating, particularly considering the projected 2024E earnings growth of +37.0%YoY.



Source: CSE, Bloomberg

Key risks posing threats to upside potential

Section 03

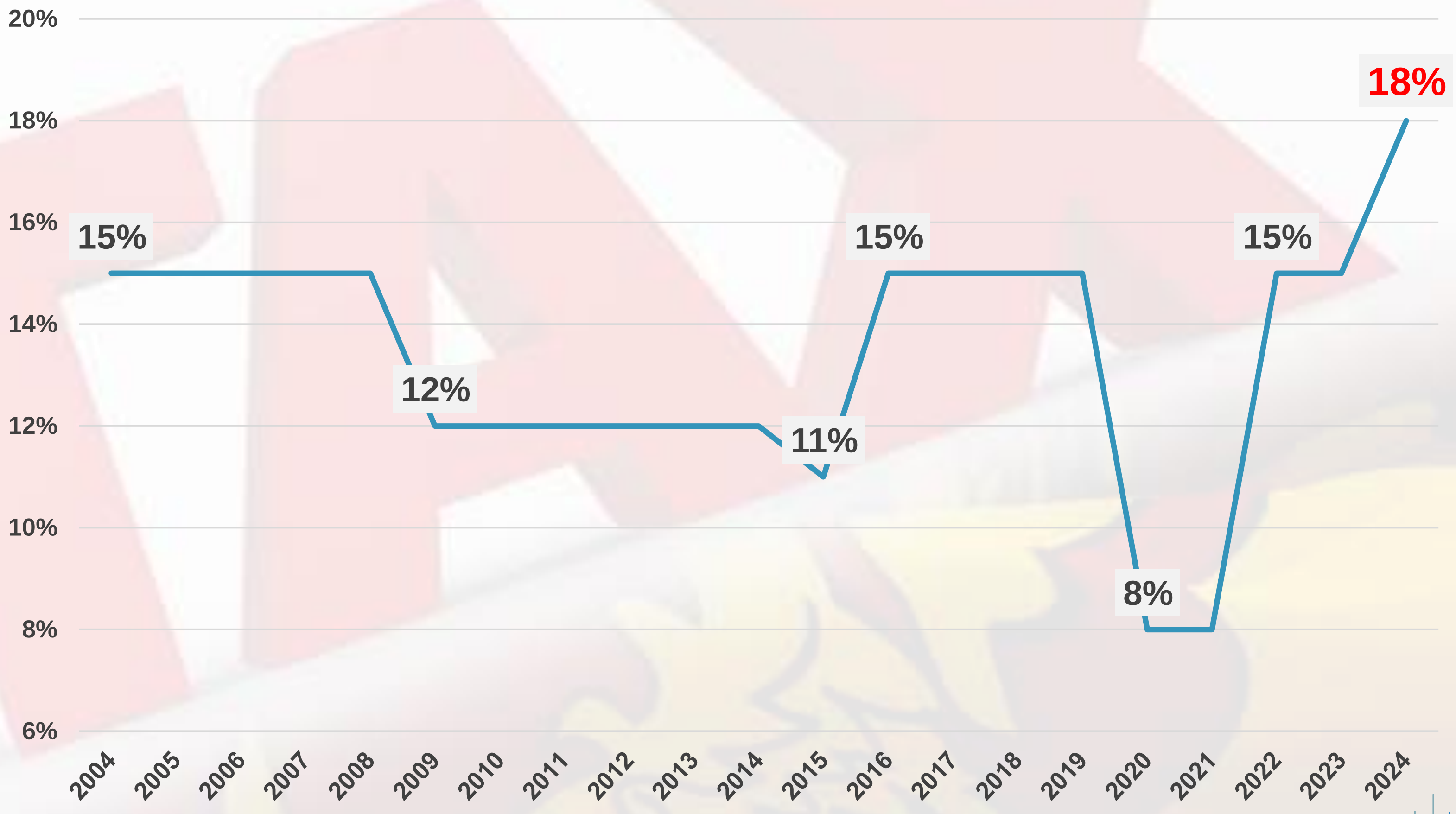
Tax hit: Rise in VAT rate result in a contraction of disposable income, which in turn, narrowed down consumer buying patterns

- To achieve the 2024 IMF tax revenue target of LKR 4.2Tn, the government enacted tax reforms, elevating the VAT rate from 15% to 18%, effective from 1st Jan 2024, reaching its highest level in two decades. This reform also involved reducing the VAT threshold to LKR 60.0Mn and eliminating VAT exemptions on 97 items out of 138 goods.

- Consequently, adjustments in prices of essential items, including electricity, fuel, gas, and food, have sparked concerns about potential social unrest due to a projected decline in disposable income.

- This presents a challenging scenario where the positive effects of wage hike may be counteracted by the additional tax burden, potentially affecting overall consumer spending patterns.

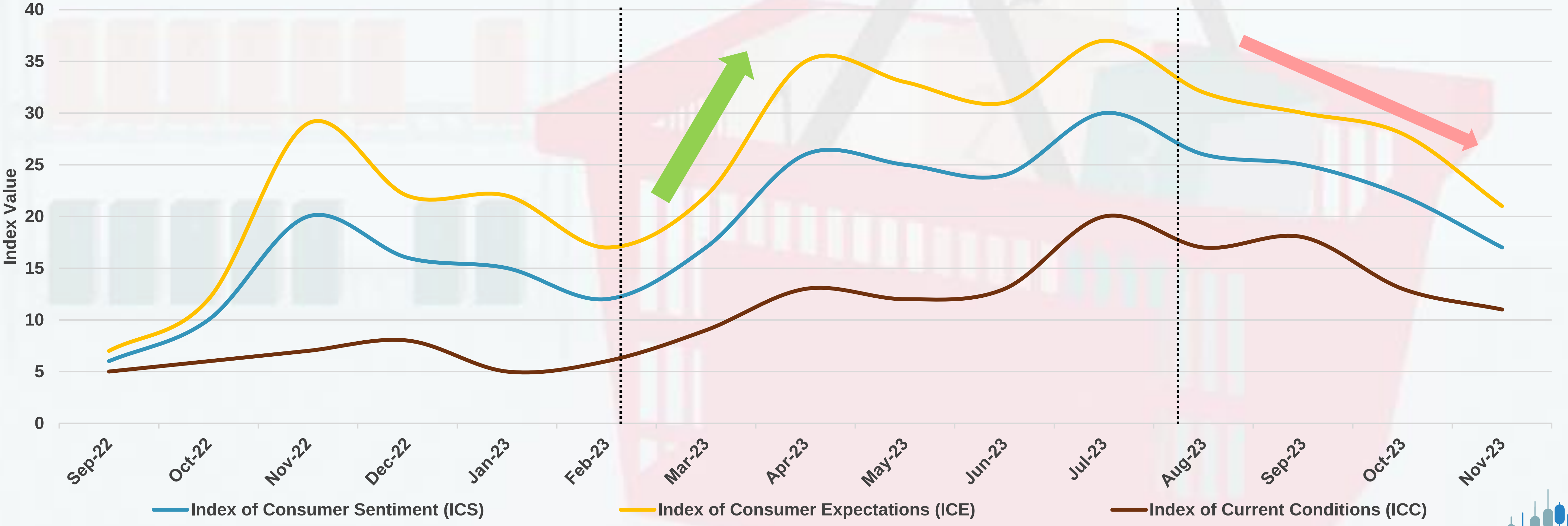
Standard VAT rate reaches 20Yr high of 18% in Sri Lanka



Source: CBSL

Weakening consumer sentiment: Consumer confidence remains deeply pessimistic about current conditions

With concerns on inflation, consumer spending has narrowed down to essential items, reflecting a cautious approach towards discretionary expenditures.



Source: IHP

Political risk: As 2024E elections approach, the looming political uncertainty has the potential to induce market volatility

Sri Lanka's election-year budget straddles line between IMF and voters

2024 plan praised for 'sticking to reform,' criticized for apparent contradictions

2024 the election year

Saturday, 25 November 2023 00:00 - - 559

It's certain now that 2024 will be a year of election in Sri Lanka with both the presidential and parliamentary polls slated for next year. Coincidentally there are several other countries including India where parliamentary elections will be held next year while the US presidential election is scheduled for November 2024.

Political and Electoral Uncertainty in Sri Lanka Ahead of the 2024 Elections

Wickremesinghe wants to keep his job; the SLPP wants to mount a comeback. Sri Lanka voters seem to want radical change.

Election year 2024 and the crisis of political parties

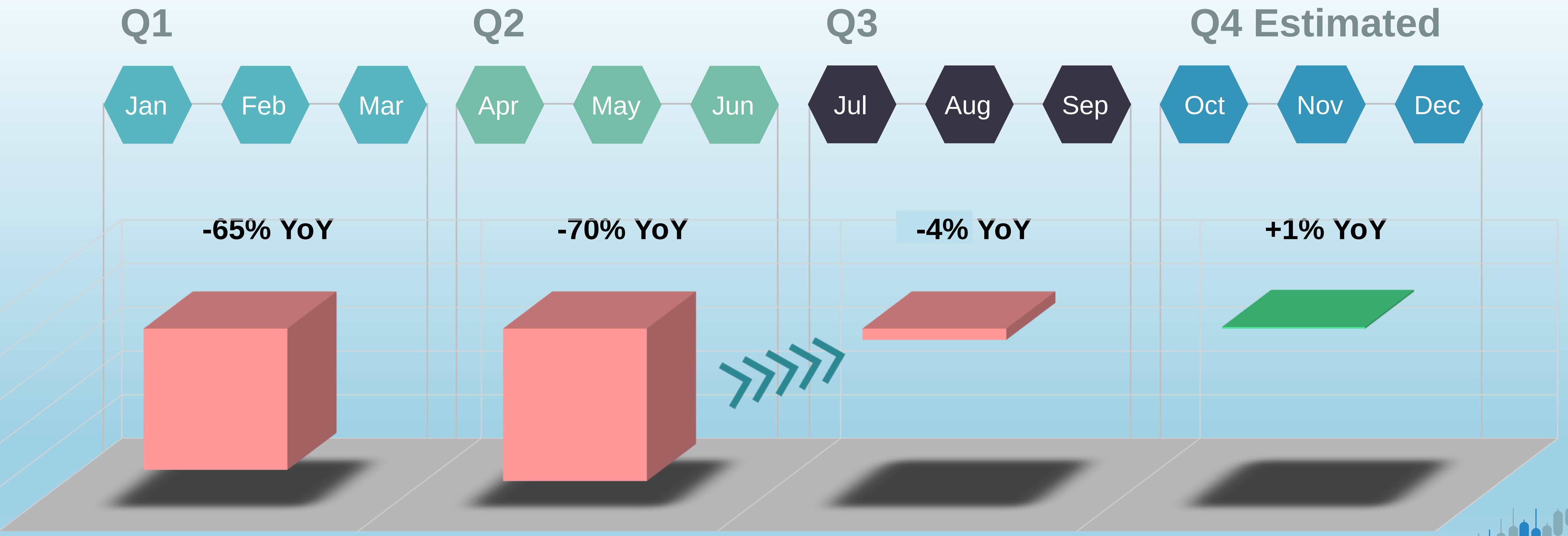
First Capital

ASPI to reach 13,500 in 2024

Section 04

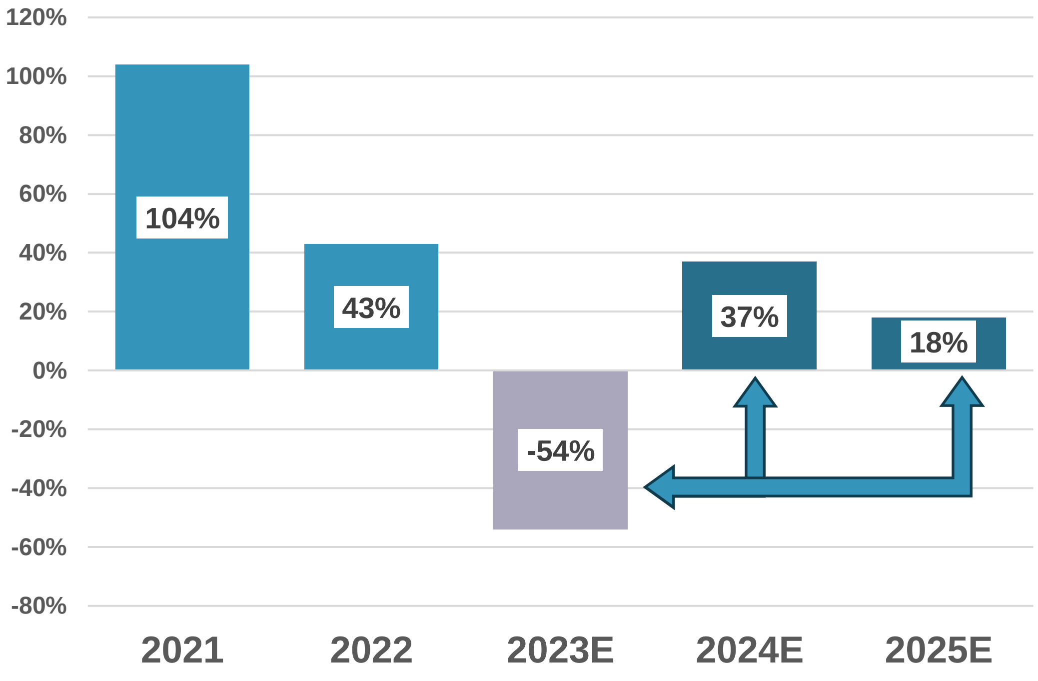
Market earnings to recover from 4Q2023 onwards...

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

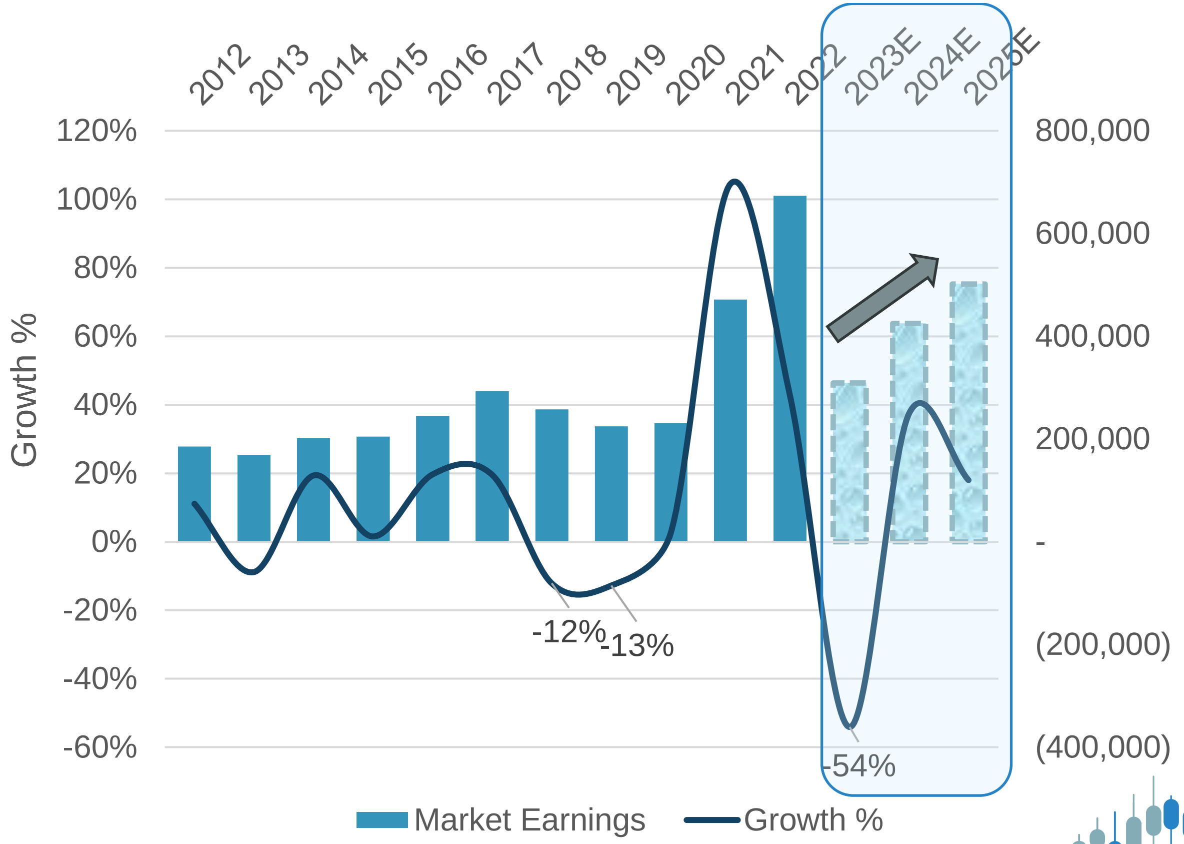


…however, market earnings for 2024E in absolute terms was tamed down amidst the steep drop in 2023 earnings

Market Earnings falls sharply beyond expectations in 2023

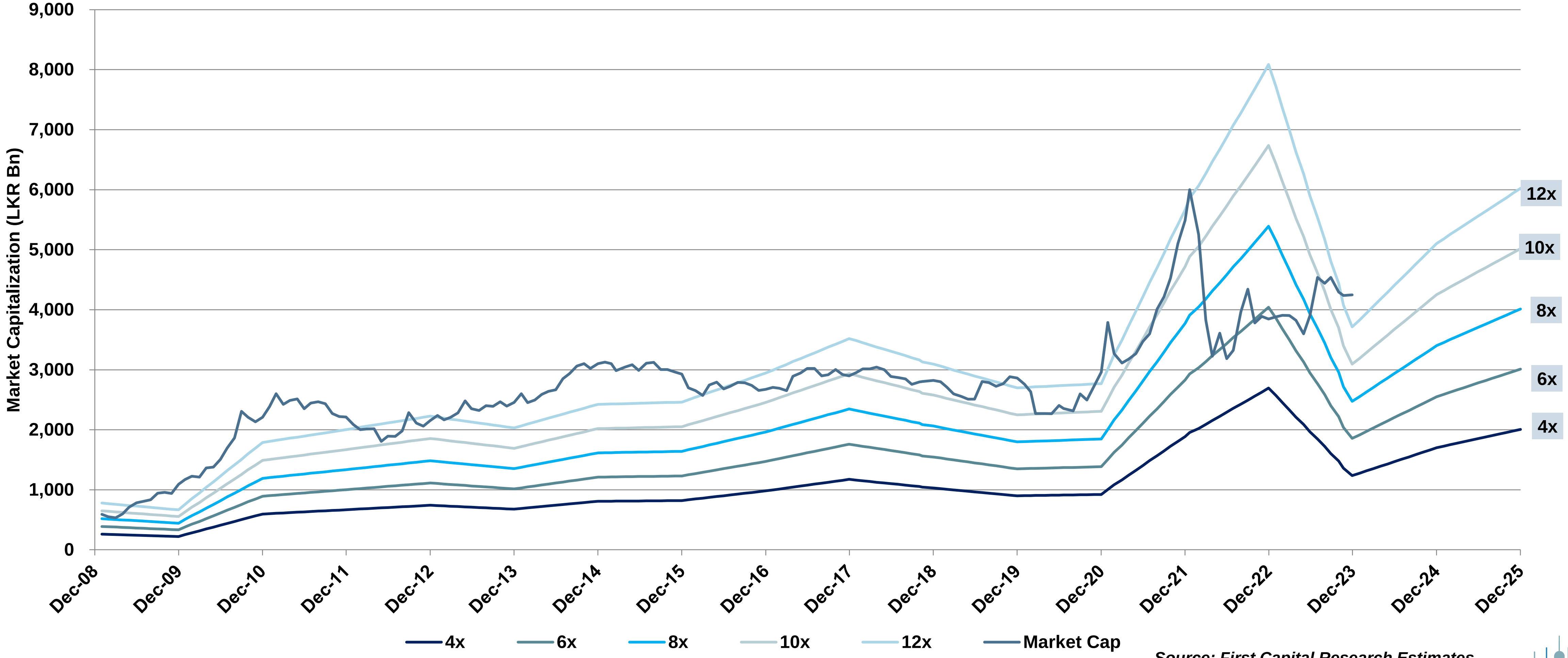


Market Earnings bottom out in 2023 and to recover afterwards



First Capital
A Janashakthi Group Company

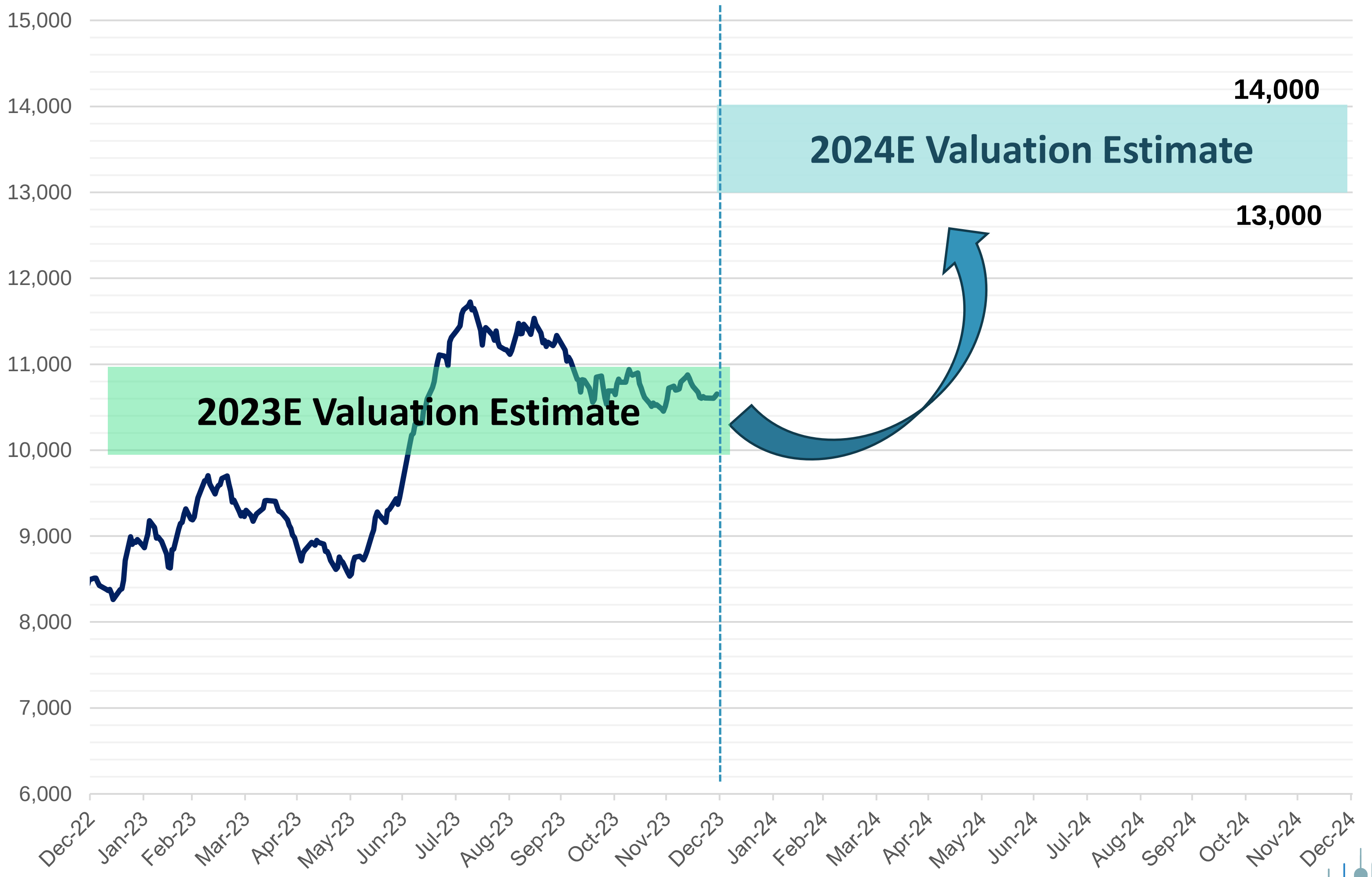
…pushing the PER to 12x on 2023E earnings



Source: First Capital Research Estimates

ASPI Dec-24 target maintained at 13,500

First Capital maintains ASPI 2024E fair value range of 13,000-14,000 owing to the anticipated moderate recovery in earnings on the back of tax revisions.



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

Portfolio

Dive into Equity: Seize Opportunities

Buy Buy Buy

IMF's Positive Review: *The IMF successfully concluded the first review of Sri Lanka's 48-month Extended Fund Facility (EFF) in Dec 2023, allowing for the disbursement of around USD 337.0Mn under the 2nd tranche. According to the IMF, the program's performance at the end of June was deemed satisfactory, with all indicative targets met, except for tax revenues, which fell short by nearly 8%.*

Debt Restructuring Progress: *Positive negotiations are underway with bilateral creditors and bondholder groups, with significant progress in discussions on External debt restructuring. Restructuring terms have been received from China's EXIM Bank and the Paris Club, and current negotiations are focused on private creditors.*

Interest Rate Dynamics: *Amidst the alleviation of macroeconomic uncertainties, there is a noticeable resurgence in business confidence. Concurrently, economic activity has experienced a surge, driven by credit growth, bolstered by the continued descent of interest rates which is expected to drop below 12.0% in 1H2024E.*

Market Outlook: *The substantial decline in interest rates stands as a key catalyst, poised to prompt a market re-rating. This shift is anticipated to drive a notable liquidity transition from fixed income to equity, potentially resulting in a market range of 13,000-14,000 for 2024E.*

First Capital *Maintains* Equity Exposure to 100% retaining cash to 0%

Recommendation for Funds allocated for purely Equity investments

	Previous		New
Equity Investments	100%	⟷	100%
Cash	0%	⟷	0%

*First Capital Research assumes that investors have separately allocated funds for equities, and our recommendation is to fully utilize 100% of the allocated funds for equity investments.

- *With the completion of the external debt restructuring process and progress in the SoE reforms, 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.*
- *Amid the improving economic indicators and the potential developments, Equity Market warrants a higher exposure to benefit from the potentially gradual growth in returns in 2024E.*
- *Out of the funds **purely allocated for equity** we have been advising on investing in the equity market, emphasizing the potential for substantial upside. However, it's crucial to note that all investments carry inherent risks, and we encourage regular reviews of portfolio in light of evolving market conditions and individual circumstances.*

Top Picks in 2024

Section 05

Stock	Stock Code	11-Jan-24	PE	PBV	DY	52-Week High	52-Week Low	Target Price 2024E/FY25E
		LKR						
Commercial Bank PLC - Voting	COMB.N0000	95.50	5.5	0.6	0.0%	107.50	50.10	170.00
Hatton National Bank PLC - Voting	HNB.N0000	169.00	4.2	0.5	0.0%	203.50	75.20	315.00
Sampath Bank PLC	SAMP.N0000	70.50	4.3	0.5	4.9%	79.20	33.00	120.00
Nations Trust Bank PLC	NTB.N0000	105.75	3.0	0.6	0.0%	125.00	45.80	185.00
Chevron Lubricants Lanka	LLUB.N0000	93.90	6.8	2.6	7.5%	109.25	78.00	160.00
Teejay Lanka	TJL.N0000	36.50	N/A	0.8	2.1%	40.00	28.70	50.00
Hayleys Fabric	MGT.N0000	40.80	125.9	1.6	1.5%	49.70	20.00	65.00
Hayleys	HAYL.N0000	74.50	29.6	0.7	7.2%	97.90	63.50	175.00
HNB Assurance	HASU.N0000	53.70	9.1	0.9	6.8%	59.00	42.00	80.00
Ceylon Tobacco Company	CTC.N0000	1,012.50	7.4	19.0	14.9%	1,040.00	598.00	1,500.00
Hemas Holdings	HHL.N0000	69.20	9.5	1.1	3.4%	85.90	51.00	95.00
Ceylon Cold Stores	CCS.N0000	42.50	17.8	2.1	4.1%	53.00	32.00	65.00
Aitken Spence Hotel	AHUN.N0000	63.00	N/A	1.1	0.0%	90.00	48.00	105.00
John Keells Hotels	KHL.N0000	18.90	N/A	0.9	0.0%	24.70	15.60	35.00
Hayleys Leisure	CONN.N0000	21.60	N/A	1.9	0.0%	28.00	19.10	40.00
Asian Hotels & Properties PLC	AHPL.N0000	59.00	N/A	0.9	0.0%	64.50	32.10	86.00

*First Capital Research's top recommended stocks are chosen based on the potential return and the liquidity of the stocks

COMMERCIAL BANK OF CEYLON PLC

COMB.N0000 Current Price: LKR 96.90 Fair Value: LKR 170.0 (2024E)

COMB to deliver the next chapter in banking

With a history of +100 years of banking in Sri Lanka, COMB is the largest private bank in Sri Lanka, operating with an asset base of +2.5Tn and network of 271 branches and 957 ATMs spread across the country. Moreover, COMB is also the largest lender to Sri Lanka's SME sector and is a leader in digital innovation in the country's Banking sector. Furthermore, COMB's overseas operations encompass Bangladesh, where the Bank operates 20 outlets; Myanmar, where it has a Microfinance company in Nay Pyi Taw; and the Maldives, where the Bank has a fully-fledged Tier I Bank with a majority stake.

COMB earnings is expected to grow at a 10.6% between 2022-26E

Recovering from a poor 1H2023, COMB bounced back and delivered excellent performance during 3Q2023, posting a net profit growth of 66.2%QoQ to LKR 6.2Bn. The strong performance during 3Q2023 was largely driven by the expansion in the net interest income (by 26.8%QoQ to LKR 23.4Bn as NIMs expanded to 3.21% cf. 3.01% recorded in 2Q2023) and the reversal of losses from trading govt. securities. Moreover, COMB gross loan book for 3Q2023 expanded by 4.3%QoQ to LKR 1.1Tn, above the banking system gross loan growth of 1.8%QoQ with term loans (+4.5%QoQ), overdraft facilities (+8.3%QoQ), Trade Finance (7.6%QoQ) and Pawning facilities (19.8%QoQ) showing remarkable growth. Meanwhile, COMB deposit base also improved during the concerned quarter by 4.1%QoQ to LKR 2.0Tn whilst CASA base stood at 39.08% during 3Q2023, slightly declining from 39.39% reported during 2Q2023.

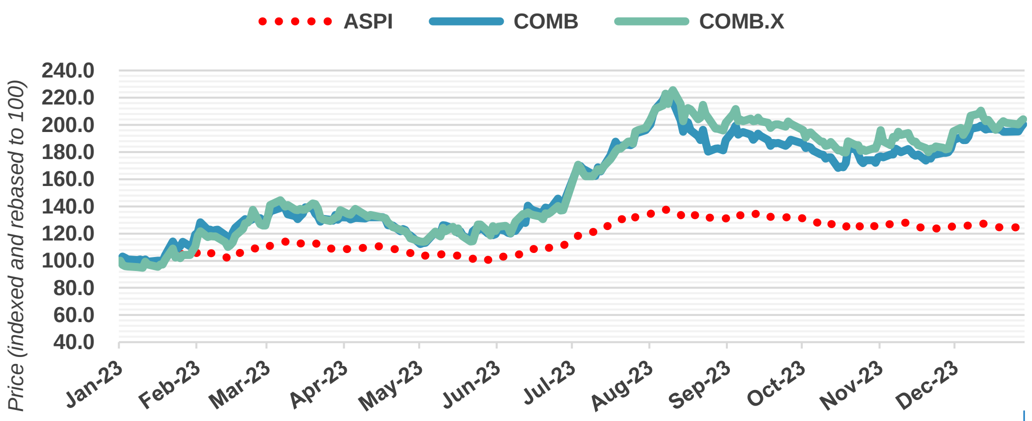
COMB remains adequately capitalized

COMB Tier 1 capital remains adequately capitalized at 11.569% cf. a minimum required of 10.000% whilst Total Capital Ratio also remained at 14.446% cf. regulatory directed 14.000% during 3Q2023. Meanwhile, on 12th December 2023, COMB raised LKR 12.0Bn via BASEL III compliant, Tier 2 listed rated unsecured subordinate debenture, which was oversubscribed.

TP maintained for COMB.N at LKR 170.0 2024E - MAINTAIN BUY

Taking into consideration the major recovery in COMB earnings during 3Q2023 whilst remaining optimistic on the recovery of the economy and the banking sector, we continue to maintain our target price of COMB.N at LKR 170.0 and COMB.X at LKR 150.0. Thus, we continue maintain our recommendation on COMB share at MAINTAIN BUY.

P/E 31st December	2020	2021	2022	2023E	2024E	2025E
Estimates (LKR 'Mn)						
Net Interest Income	48,640	66,416	84,665	82,155	78,241	84,602
Total Operating Income	74,500	93,598	136,637	119,818	111,493	119,694
Net Profit: Equity Holders	**16,940**	**24,062**	**23,812**	**22,146**	**28,476**	**32,407**
Adjusted EPS (LKR)	12.9	18.3	18.1	16.9	21.7	24.7
YoY Growth (%)	-2%	42%	-1%	-7%	29%	14%
Valuations						
PER (x)	7.5x	5.3x	5.3x	5.7x	4.5x	3.9x
PBV (x)	0.8x	0.8x	0.6x	0.6x	0.6x	0.5x
DY (%)	6.7%	7.7%	4.6%	6.3%	7.6%	8.1%
Adjusted NAVPS (LKR)	120.8	127.4	158.9	167.1	175.5	186.1
DPS (LKR)	6.5	7.5	4.5	6.1	7.4	7.9
Dividend Payout (%)	50.4%	41.0%	24.8%	36.3%	34.1%	32.0%



HATTON NATIONAL BANK PLC

HNB.N0000/HNB.X0000 Current Price: LKR 169.0/133.5 Fair Value: LKR 315.0/LKR 240.0 (2024E)

Downward interest rate cycle to fuel loan growth and narrow NIMs

HNB demonstrated a 10-year average loan growth of 13.1% marginally below the banking sector's average growth rate of 13.5%. For 9M2023, HNB's loan book contracted by 4.8% to LKR 965.8Bn primarily due to LKR appreciation and higher interest rates. However, we anticipate HNB's loan book to expand by 7.5% in 2024E, below its historical average, as there is potential for interest rates to further decrease, considering the 10-year average of the AWPLR at 11.24%. Furthermore, as lending rates are gradually adjusting downwards and the spread is narrowing, we anticipate a contraction in NIMs, projecting it to reach 5.3% in 2024E (c.f. 7.8% in 2022). Additionally, the bank's CASA ratio is forecasted to reach 40.0% in 2024E, providing the bank with a stable source of funds to underpin future lending expansion.

Impairment reduction to boost the bottom-line

HNB has increased its provisions to 45.0% due to significant impairment provisioning for dollar-denominated assets linked to investments in ISBs. However, in 3Q2023, HNB displayed a 78.9%YoY reduction in total impairment charges amidst industry-wide concerns about credit quality. As HNB expects the SME and micro segments to drive economic growth, there might be a slight element of risk, and the reduction in impairment is expected to be relatively moderate when compared to other banks. Looking ahead, impairments will be influenced by loan loss provisioning considering the prevailing economic conditions including tax increases that might impact consumer purchasing power.

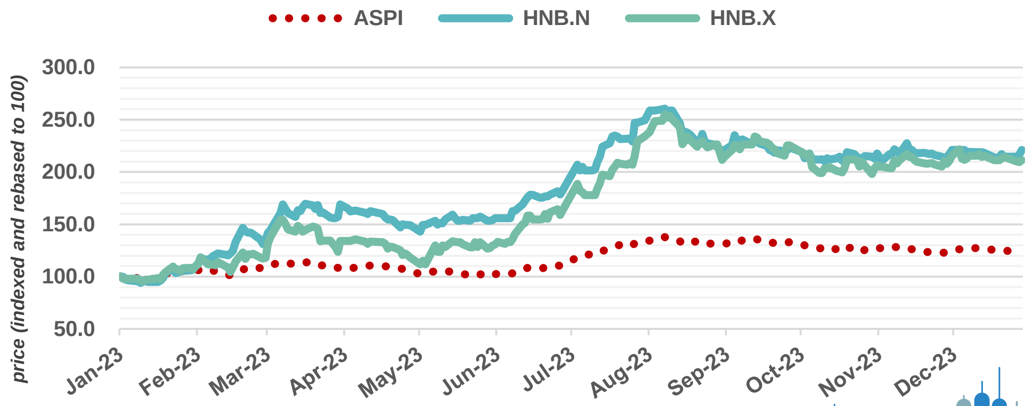
Expanding revenue stream through fee-based income

In 2022, HNB's net fee and commission demonstrated a 10Yr CAGR growth of 15.5%, surpassing the industry's average growth rate of 38.6% and a 7.3% growth in 9M2023. Looking ahead, the easing of import restrictions and an expansion of economic activities is poised to stimulate activities in cards, remittances, trade and digital platforms, which can potentially increase HNB's fee-based income.

FV for 2024E derives at LKR 315.0 for HNB.N and LKR 240.0 for HNB.X

Based on HNB's strong loan book, positive sector outlook and the possibility of a potential re-rating, we revise the FV for 2024E to LKR 315.0 for HNB.N, with HNB.X FV estimated at LKR 240.0. **MAINTAIN BUY**

P/E 31st December	2020	2021	2022	2023E	2024E	2025E
Estimates (LKR 'Mn)						
Net Interest Income	50,837	56,462	111,567	117,209	91,029	100,309
Total Operating Income	72,074	84,404	160,875	148,336	133,920	145,293
Net Profit: Equity Holders	**13,095**	**19,025**	**15,329**	**25,734**	**27,887**	**30,341**
Adjusted EPS (LKR)	23.4	34.0	27.4	46.0	49.8	54.2
YoY Growth (%)	-11%	45%	-19%	68%	8%	9%
Valuations						
PER (x)	7.0x	4.8x	6.0x	3.6x	3.3x	3.0x
PBV (x)	0.6x	0.5x	0.5x	0.5x	0.4x	0.4x
Dividend Yield (%)	4.9%	5.5%	2.9%	2.5%	4.7%	6.0%
Adjusted NAVPS (LKR)	293.3	335.9	342.2	353.5	371.5	388.4
DPS (LKR)	8.0	9.0	4.8	4.1	7.8	10.0
Dividend Payout (%)	34.2%	26.5%	17.5%	8.9%	15.7%	18.4%



SAMPATH BANK PLC

SAMP.N0000 | Current Price: LKR 70.70 | Fair Value: LKR 120.00 (2024E)

Persistent loan book growth to aid by further decline in interest rates

SAMP stands as the third-largest private bank in Sri Lanka with an extensive network of 229 branches throughout the country. Notably, it boasts the largest agent banking network in the nation and takes pride in its industry-leading digital presence. With total assets worth LKR 1.4Tn, SAMP contributed approximately 8.1% to the Banking Sector's loans and advances in 2022. SAMP’s loan book exhibited a YTD degrowth of 7.3%, a relatively modest decline compared to the private sector credit, which contracted by nearly 3.3%. Looking ahead, we expect SAMP's loan book to grow at 10% in 2024, below its 10-year average of 14.0%, as interest rates still have room to ease (AWPLR 10-year average: 11.24%). With 40% of SAMP's loans tied to the Trade, Manufacturing, and Tourism sectors in 2022 (compared to 37% in 2021), gradual growth is likely in line with these sectors' recovery.

Impairment reduction paves the way for profitability growth

In 9M2023, SAMP saw a significant 70.5%YoY decrease in total impairment charges due to proactive provisioning made in 9H2022 amid external uncertainties. Going forward, we expect SAMP impairment provisions to reduce, largely on the back of the pickup in tourism sector (SAMP has the highest exposure to tourism), which is expected to enable timely repayments and thus resulting in a possible reduction in impairment provisions in the coming years.

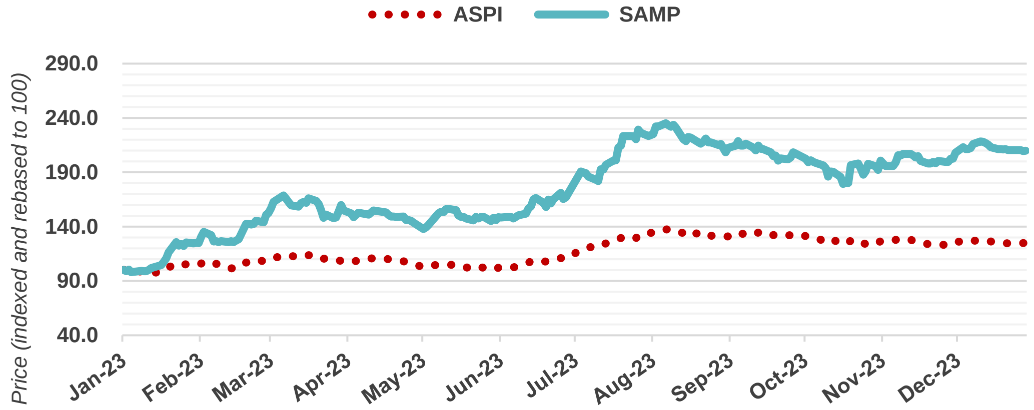
Well above capital ratios to boost lending portfolio

SAMP’s Tier I and Total Capital Adequacy Ratios stand at 14.74% and 17.97%, respectively as of 30th Sep 2023 which are well above the minimum regulatory requirement of 8.5% and 12.5%. We believe that SAMP’s adequate capital buffer may enable it to sail through the tough times and help boost credit growth in the near term as the economic activity recovery.

FV for 2024E derives at LKR 120.00 – MAINTAIN BUY

Anticipating a positive sector outlook and a potential re-rating, we expect SAMP to trade at a 1.0x PBV, resulting in a fair value of LKR 120.0 for 2024E, which represents a substantial 63.7% upside from the current market price of LKR 73.30. MAINTAIN BUY

P/E 31 December	2019	2020	2021	2022	2023E	2024E	2025E
Estimates (LKR 'Mn)							
Net Interest Income	44,764	36,827	45,518	76,042	71,629	66,503	74,774
Total Operating Income	59,141	50,066	64,399	114,768	94,806	91,453	101,015
Net Profit	**11,668**	**8,443**	**13,856**	**14,061**	**18,328**	**20,524**	**22,980**
Adjusted EPS (LKR)	9.9	7.2	11.8	12.0	15.6	17.5	19.6
YoY Growth (%)	-7%	-28%	64%	1%	30%	12%	12%
Valuations							
PER (x)	7.1x	9.8x	6.0x	5.9x	4.5x	4.0x	3.6x
PBV (x)	0.7x	0.7x	0.7x	0.6x	0.6x	0.5x	0.5x
DY (%)	5.4%	3.8%	5.9%	6.3%	8.2%	9.2%	10.3%
NAVPS	95.0	97.6	108.5	115.6	121.1	128.6	136.9
DPS (LKR)	3.8	2.7	4.1	4.5	5.8	6.5	7.3
Dividend Payout	38.4%	37.3%	35.1%	37.4%	37.0%	37.0%	37.0%



NATIONS TRUST BANK PLC

NTB.N0000 / NTB.X000 Current Price: LKR 105.75/121.50 Fair Value: LKR 185.0/ LKR 175.0 (2024E)

Strategically fuelling loan book expansion

NTB exhibited a 6.3%YTD increase in its loan book during the 9M2023 while on a QoQ basis the book expanded by 8.3% to LKR 256.3Bn. Notably, NTB strategically augmented its lending focus on the Corporate and Commercial segment, constituting 72% of the total portfolio, while Consumer loans comprised only 29% as of Sep-23. This allocation has effectively minimized the risk of loan defaults, positioning NTB with one of the sector's lowest NPL ratios. Looking ahead, NTB's loan book is poised for further expansion, driven by a reviving economy and anticipated declines in lending rates. The bank's emphasis on the Export segment, value-added manufacturers, and service providers will be pivotal in shaping its lending strategy. Concurrently, NTB's deposit base experienced a 5.9%YTD expansion, while registering a 5.0%QoQ increase.

Comfortably capitalized to steer through the period ahead

As of Sep-23, NTB maintains a robust financial standing, boasting Tier I and Total Capital Adequacy Ratios of 13.95% and 15.61%, respectively. These figures significantly surpass the minimum regulatory requirements of 8.5% and 12.5%. Hence, we believe that NTB's significant capital buffer places it in a favorable position to navigate challenges and potentially fuel credit expansion in the near term amid ongoing economic recovery.

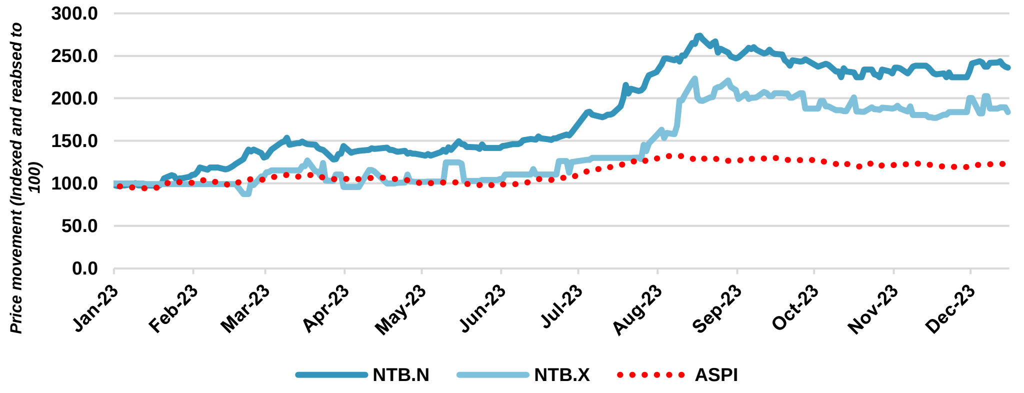
Earnings flow strong amidst reduced impairments and skyrocketing trading income

NTB registered an earning of LKR 3.3Bn in 3Q2023 demonstrating a 28.1%YoY improvement while it remained broadly stable on a QoQ basis (-0.2%). However, on the flip side, during the 3Q2023, NTB managed to reverse trading losses of previous two quarters while recording an impressive 289.9%YoY surge to LKR 2.7Bn, significantly bolstering bottom-line growth. Meanwhile, impairment charge for the quarter reduced by 54.3%YoY attributed by the decline in the impairment to stage 3 loan ratio to 50.9% compared to 51.5% in Sep-22.

FV for 2024E estimated at LKR 185.0 for NTB.N and LKR 175.0 for NTB.X

Looking ahead, the outlook for NTB appears optimistic, driven by the gradual recovery in economic activities and an increasing demand for credit amidst a declining interest rate environment. Given the Bank's robust performance, we revise the fair value for 2024E to LKR 185.0 (from LKR 175.0) for NTB.N, with NTB.X fair value estimated at LKR 175.0 (from LKR 170.0) amidst current discounted trading multiples.

P/E 31 December	*2019*	*2020*	*2021*	*2022*	*2023E*	*2024E*	*2025E*
Estimates (LKR 'Mn)							
Net Interest Income	16,134	13,672	14,078	29,301	31,777	35,735	37,632
Total Operating Income	22,552	21,241	23,269	38,867	40,651	44,825	47,639
Net Profit	**3,714**	**4,055**	**6,694**	**7,228**	**12,305**	**15,661**	**17,348**
Adjusted EPS (LKR)	11.6	12.7	20.9	22.6	38.5	49.0	54.3
YoY Growth (%)	0%	9%	65%	8%	70%	27%	11%
Valuations							
PER (x)	*9.0x*	*8.3x*	*5.0x*	*4.6x*	*2.7x*	*2.1x*	*1.9x*
PBV (x)	*1.1x*	*1.0x*	*0.8x*	*0.7x*	*0.6x*	*0.5x*	*0.4x*
DY (%)	*1.7%*	*1.9%*	*1.7%*	*3.0%*	*2.9%*	*3.7%*	*4.1%*
NAVPS	*98.3*	*109.9*	*125.7*	*144.1*	*186.6*	*231.7*	*281.7*
DPS (LKR)	*1.83*	*2.04*	*1.78*	*3.11*	*3.08*	*3.92*	*4.34*
Payout ratio	*15.7%*	*16.1%*	*8.5%*	*13.7%*	*8.0%*	*8.0%*	*8.0%*



CHEVRON LUBRICANTS LANKA PLC

LLUB.N0000 | Current Price: LKR 91.90 | Fair Value: LKR 160.0 (2024E)

Largest manufacturer of lubricants in Sri Lanka

Chevron Lubricants is the largest manufacturer and leading retailers of lubricants in Sri Lanka with a market share of +40%. Moreover, backed by its Multinational parent, Chevron, LLUB is also amongst the leading dividend yielding shares listed on the Colombo bourse.

LLUB net profit up 13.6%QoQ to LKR 902.6Mn

LLUB net profit for 3Q2023 improved by 13.6%QoQ to LKR 902.6Mn backed by double-digit growth in turnover (+15.4%QoQ) and expansion in gross profit margins (+176bpsQoQ to 32.1%). Moreover, LLUB operating profit also showcased resilient performance during 3Q2023 aided by strong topline performance, whilst relatively slower escalation of operating expenses (+5.8%QoQ) caused headwinds to the QoQ performance. Meanwhile, in-line with our expectations, GoSL completely relaxed the fuel quota system from 1st Sep 2023, offering a further boost to the depressed lubricant consumption, which is expected to aid volume growth in the period ahead (expected to grow at a 3Yr FWD CAGR of 11.1%).

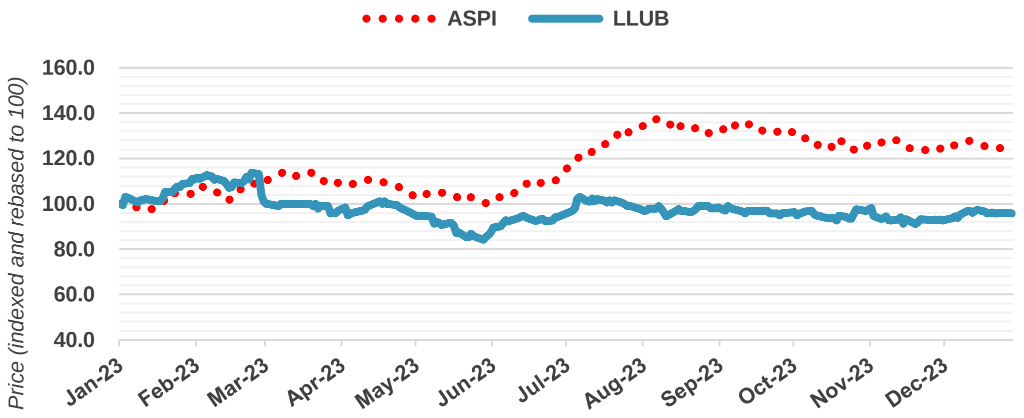
LLUB dividends on track to achieve a payout of 40.0%

Resuming its payouts (since the last payment in Nov-22), LLUB announced its first interim dividend of LKR 2.0/share in Jul-23. Adding to that, LLUB also announced its second interim dividend of LKR 4.0/share on 25th Oct 2023, with a payout of 50.3%. Having already achieved our 2023E dividend of LKR 6.2/share and already paid out 50% of their profits, taking a conservative approach we maintain our dividend payout target of 40% for 2023E. However, with expectations that payout may improve to 60% in 2024E, we forecast a DPS of LKR 11.60/share, offering a dividend yield of 13.2%.

TP maintained for 2024E at LKR 160.0

Despite the underperformance of the LLUB share, affected due to the reduced dividend policy, stagnant lubricant market, and poor performance of the CSE, we maintain our TP at LKR 160.0 for 2024E. However, with a clear pickup in economic activity, together with the improvement in disposable incomes on the backdrop of taming down inflation, we expect overall lubricant volumes to grow at a mid-single digit CAGR between 2022-2025E period. Lifting of import restrictions placed on vehicle imports, coupled with a growth in economy remains key catalyst towards expected volume growth.

YE Dec/LKR Mn	2020	2021	2022	2023E	2024E	2025E
Estimates (LKR 'Mn)						
Revenue	11,637	16,866	24,575	22,086	26,465	31,962
Gross profit	4,617	6,178	10,287	9,276	11,248	13,744
EBIT	3,036	4,363	7,496	6,524	7,553	8,802
Net Profit	**2,226**	**3,926**	**3,666**	**3,706**	**4,639**	**5,814**
Adjusted EPS (LKR)	9.3	16.4	15.3	15.4	19.3	24.2
YoY Growth (%)	6.0%	76.4%	-6.6%	1.1%	25.2%	25.3%
Valuations						
PER (x)	9.9x	5.6x	6.0x	6.0x	4.8x	3.8x
PBV (x)	5.3x	4.4x	3.6x	2.6x	2.2x	1.9x
DPS	9.0	13.0	5.0	6.2	11.6	19.4
DY (%)	9.8%	14.1%	5.4%	6.7%	12.6%	21.1%
Dividend Payout (%)	97.0%	79.5%	32.7%	40.0%	60.0%	80.0%
NAVPS	17.4	20.8	25.7	34.9	42.7	47.5



TEEJAY LANKA PLC

TJL.N0000 | Current Price: LKR 36.00 | Fair Value: LKR 50.0 (FY25E)

2QFY24 breaks three consecutive quarters of top-line decline

In 2QFY24, TJL observed a 11.1%QoQ increase in revenue, reaching LKR 15.5Bn, marking a reversal from 3 consecutive quarters of top-line decline. However, on a YoY basis, revenue experienced a substantial 37.2% decrease in LKR terms. The QoQ surge in top-line growth was largely attributed to increased sales, particularly driven by increased demand for high-end margin products, which were predominantly generated from gradually accumulating volumes throughout the quarter. Notably, the USD-denominated revenue also saw a sharp decline of 28.2%YoY, totaling USD 49.7Mn. TJL operated below capacity at 65.0% during 2QFY24 cf. 60.0% capacity in 1QFY24 and aims to enhance its capacity utilization rates to expand its margins. We anticipate that TJL's margins may improve in the forthcoming quarters with increased sales supported by the anticipated global decline in headline inflation from 8.7% in 2022 to 5.2% in 2024, attributed to lower commodity prices, as indicated by the IMF.

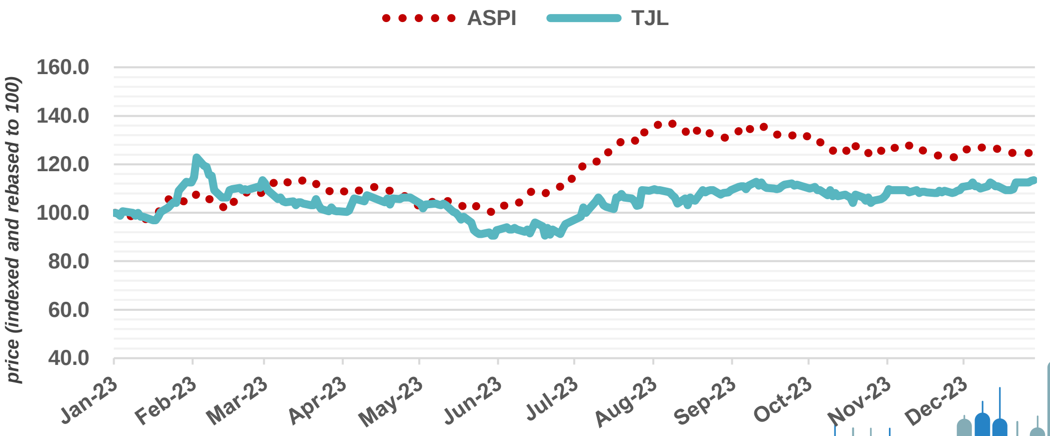
GP margin surges amidst stable cotton prices and optimized inventories

In terms of the GP margin, TJL witnessed a significant uptick of 1014bpsQoQ, with the margin settling at 12.2% in 2QFY24. This was attributed to effective utilization of previously idle inventories and factors including stable cotton prices, reduced wastage, and operational cost improvements also boosted the GP margin during this period. With the decline in yarn prices and the concurrent reductions in furnace oil and energy prices, TJL anticipates to achieve higher margins of around 9.0%-10.0% in Q4. Furthermore, once their plants are fully optimized, they expect margins to reach 11.0%-12.0%. However, TJL is expecting a positive trend in the upcoming quarters as there is an emergence of demand volatility, and we expect the GP margin to stabilize at 10.0% in FY24E. Looking ahead to FY25E, we envisage the GP margin to be stagnant, hovering around the same level.

FV for FY25E maintained at LKR 50.0

In light of TJL's expansion strategies and a resurgence in consumer demand, we have upgraded TJL's earnings forecast for FY25E at LKR 2.4Bn. Hence, on the back of higher than anticipated earnings growth, we are maintaining our FV at LKR 50.0 for FY25E. **MAINTAIN BUY**

P/E 31 March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Estimates (LKR 'Mn)							
Revenue	33,277	31,780	49,588	84,037	62,202	67,480	73,189
Gross profit	4,229	3,790	4,578	6,843	6,220	6,748	7,319
EBIT	2,728	2,441	2,573	3,295	3,483	3,846	4,172
Net Profit	**2,384**	**2,140**	**2,531**	**2,127**	**2,214**	**2,415**	**2,599**
Adjusted EPS (LKR)	3.3	3.0	3.5	3.0	3.1	3.4	3.6
YoY Growth (%)	28%	-10%	18%	-16%	4%	9%	8%
Valuations							
PER (x)	*10.4x*	*11.6x*	*9.8x*	*11.7x*	*11.2x*	*10.3x*	*9.5x*
PBV (x)	*1.6x*	*1.4x*	*0.9x*	*0.8x*	*0.8x*	*0.7x*	*0.7x*
DY (%)	*6.9%*	*4.8%*	*5.8%*	*4.3%*	*4.5%*	*5.8%*	*6.3%*
NAVPS	*21.8*	*24.8*	*39.4*	*44.7*	*46.1*	*47.4*	*48.9*
DPS (LKR)	*2.4*	*1.7*	*2.0*	*1.5*	*1.5*	*2.0*	*2.2*
Dividend Payout	*72%*	*55%*	*57%*	*51%*	*50%*	*60%*	*60%*



HAYLEYS FABRIC PLC

MGT.N0000 — Current Price: LKR 40.50 — Fair Value: LKR 65.0 (FY25E)

MGT earnings on a continuous spike amidst margin expansion

MGT continued to experience higher profits for the second quarter, with earnings improving by 85.5%YoY to LKR 930.3Mn (USD Earnings; +109.7%YoY, -1.5%QoQ) while remaining broadly stable relative to the previous quarter as the company reaped the benefits of high pricing coupled with a moderate improvement in volumes. Additionally, the cost of sales in USD remained relatively stable compared to the previous year, with a slight 2.7% decrease, resulting in a substantial 687bps increase in GP margin. MGT has transitioned from low margin products to average-high margin products while INNO brand dominated MGT sales as a niche supplier of fashion-forward fabric while it accounts to over 90% of overall sales. FCR is optimistic about the continuous improvement in margins, foreseeing a boost as demand rebounds and order books fill up. The projected gross profit margin for FY24E is expected to reach 15.0%, surpassing the 12.8% recorded in FY23.

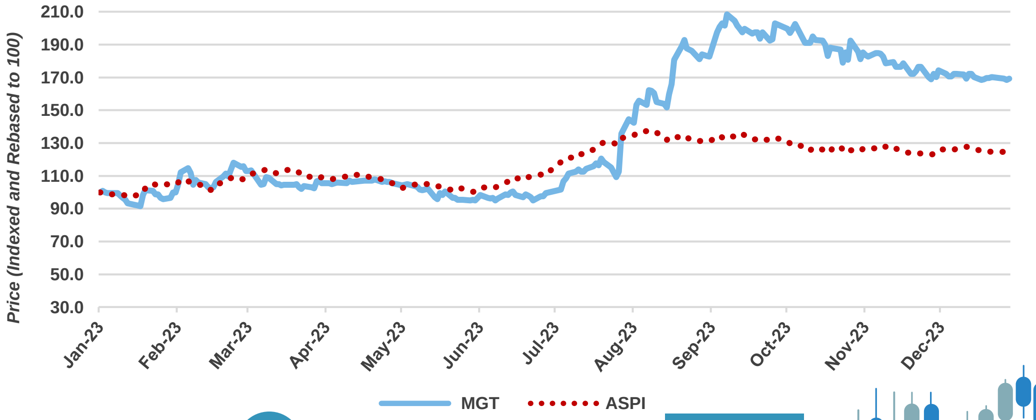
Global demand indicates signs of recovery

On the global stage, the US markets are witnessing positive changes in consumer buying behavior, particularly during the last holiday season shopping. Major brands like NIKE are diversifying their investment strategies by increasing focus on wholesale, complementing their direct-to-consumer approach. Deloitte, a leading global financial advisory firm, anticipated a 3.5%-4.6% increase in US holiday retail sales for 2023. Moreover, according to e-commerce protection provider Signifyd, it is anticipated that 2023 holiday apparel sales in the United States will experience a 9% growth, marking a substantial increase compared to the 2.2% growth observed in 2022. Meanwhile, brands such as Intimissimi and Uniqlo aims at scaling up in the USA with expansions planned for 2024.

FV estimated at LKR 65.0 for FY25E

Looking ahead, we anticipate that MGT is well-positioned to experience higher sales volumes as global demand improves. Furthermore, the company's strategic focus on margin expansion will likely enhance its earning potential. As a result, we have raised our earnings target for FY24E to LKR 3.4Bn (previously LKR 2.6Bn), and our FY25E earnings expectations remain broadly steady at LKR 3.9Bn. Hence, target price for FY24E is revised to LKR 55.0 and FY25E target price is maintained at LKR 65.0.

P/E 31 March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Estimates (LKR 'Mn)							
Revenue	12,225	14,769	31,653	60,949	65,198	73,423	83,945
Gross Profit	1,585	2,019	4,122	7,826	9,780	10,500	10,913
EBIT	450	890	1,756	4,199	5,724	6,215	6,334
Net Profit	**231**	**736**	**2,692**	**414**	**3,356**	**3,871**	**4,280**
Adjusted EPS (LKR)	0.6	1.8	6.5	1.0	8.1	9.3	10.3
YoY Growth (%)	28%	218%	266%	-85%	710%	15%	11%
Valuations							
PER (x)	*72.7x*	*22.9x*	*6.2x*	*40.6x*	*5.0x*	*4.3x*	*3.9x*
PBV (x)	*4.7x*	*4.0x*	*1.8x*	*1.8x*	*1.4x*	*1.2x*	*1.0x*
DY (%)	*1%*	*3%*	*5%*	*6%*	*6%*	*7%*	*8%*
NAVPS	*8.5*	*10.2*	*21.9*	*22.8*	*28.5*	*35.0*	*42.2*
DPS	*0.6*	*1.1*	*2.1*	*2.5*	*2.4*	*2.8*	*3.1*
Dividend Payout	*107.7%*	*59.3%*	*32.4%*	*250.6%*	*30.0%*	*30.0%*	*30.0%*



CEYLON TOBACCO COMPANY PLC

CTC.N0000 | Current Price: LKR 993.50 | Fair Value: LKR 1,500.0 (2024E)

Deflated operating expenditure further boost earnings to record at LKR 6.9Bn

CTC earnings for 3Q2023 was recorded at LKR 6.9Bn highest quarterly earnings recorded yet, registering a 4.6%YoY and 10.0%QoQ growth. However, the top line of CTC recorded a degrowth of -5.0%YoY, -18.3%QoQ during 3Q2023 mainly influenced by the steep revision of prices which impacted the economically marginalized individuals gradually transform towards the cheaper and irregulated illicit market, which adversely affected the demand. Net Revenue during the 3Q2023 was recorded at LKR 13.2Bn recording an uptick of 2.4%YoY. On a noteworthy observance, raw material cost of CTC had a significant contraction during 3Q2023 which recorded only LKR 655.0Mn which resulted in a decline of 34.8%YoY, (-30.2%QoQ) influenced by the lower inflationary pressure and economic recovery perception which also uplifted the bottom line. On the bright side resulted by the peak tourism season high margin products such as Dunhill and Benson and Hedges may contribute mainly to the top line as the source markets improve, we estimate earnings target for 2024E at LKR 32.1Bn.

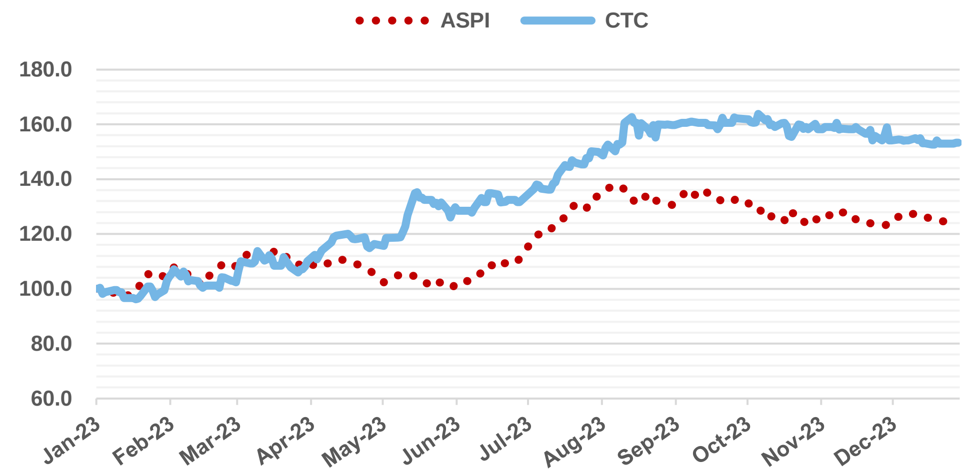
Volumes diminish due to elevated prices; yet resurgence in the horizon

As the tax led price gap between the legal and illegal cigarette markets continue to expand, it has yet again adversely affected the volumes of CTC decline during 3Q2023 caused by multiple price revisions during Jul and Oct -23 which led the illicit market to be increasingly appealing. However, taking into consideration of the faster than expected decline in inflation which may strengthen purchasing power along with the positive GDP growth expected towards 2024E (+2.0% to +3.0%) by FCR, we anticipate volumes to grow by 6.0% during 2024E.

TP for 2024E at LKR at 1,500.0 - MAINTAIN BUY

Taking into consideration the outstanding performance of CTC over the years alongside, the expected economic recovery and the strong numbers of tourists arrivals which has surpassed the 100,000 mark for the 7th consecutive month in Dec-23 since Jun-23 we maintain our target price for 2024E at LKR 1,500.0. Moreover, with the expected economic resurgence expected towards the 1H2024 we expect earnings target for 2024E at LKR 32.1Bn. **MAINTAIN BUY**.

P/E 31 December	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Estimates (LKR 'Mn)							
Net Revenue	35,524	32,073	33,615	44,272	54,173	69,451	79,210
Operating profit	27,058	24,671	26,128	33,196	42,442	56,238	65,127
Net Profit	**17,260**	**15,578**	**16,146**	**20,469**	**27,209**	**32,097**	**39,871**
EPS (LKR)	92.1	83.2	86.2	109.3	145.2	186.5	212.8
YoY Growth (%)	2%	-10%	4%	27%	33%	28%	14%
Valuations							
PER (x)	8.9x	9.9x	9.5x	7.5x	5.6x	4.4x	3.9x
PBV (x)	33.2x	33.4x	17.1x	8.8x	6.7x	5.8x	5.1x
DY (%)	11.2%	10.1%	6.5%	10.9%	14.2%	20.5%	23.4%
NAVPS	24.7	24.6	48.0	93.4	122.4	141.1	162.4
DPS (LKR)	92.1	82.9	53.0	89.0	116.2	167.9	191.6
Div Payout	100%	100%	61%	81%	80%	90%	90%



HEMAS HOLDINGS PLC

HHL.N0000 | Current Price: LKR 68.90 | Fair Value: LKR 95.0 (FY25E)

Sri Lanka local manufacturers set to fill essential medicine shortages

In 2QFY24, healthcare segment profit margins faced pressure due to a 16% reduction in the MRP of 60 essential drugs, aligned with an exchange rate of LKR 295.0 per dollar, without subsequent adjustments for adverse exchange rate movements. However, the opportunity to strengthen local pharma manufacturing arises as imported medicines remain pricier than locally manufactured drugs. Despite challenges, there was a slowdown in volume contraction in the private market, driven by increased traction in essential categories. Notably, the Homagama factory surpassed 50% capacity utilization, achieving breakeven through third-party contract manufacturing for the global player 'Sitagliptin.' The group plans to accelerate contract manufacturing, expand into export markets, and explore opportunities for expanding hospital operations, anticipating growth and improved healthcare segment performance.

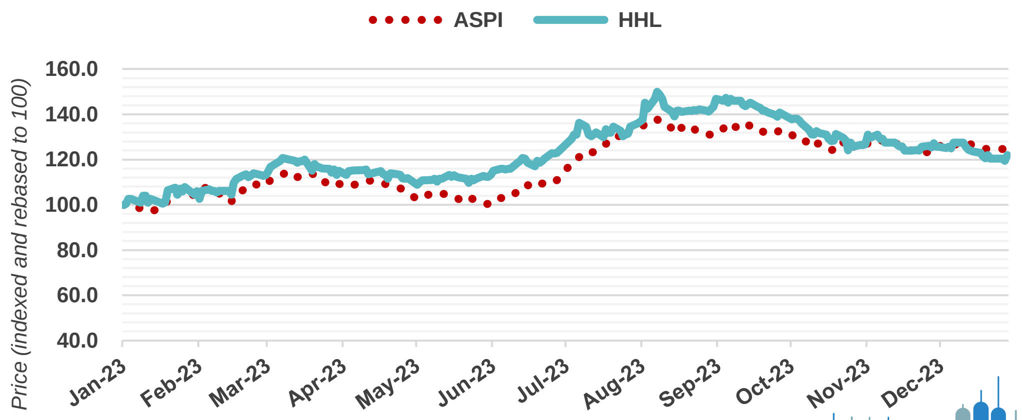
Increased focus on new product launches and international business to drive top-line

HHL's Consumer segment saw robust YoY earnings growth of 67.3% to LKR 1.0Bn, driven by a 22.0%YoY growth in EBIT. The EBIT margin expanded to 12.8% due to a decline in raw material costs and currency appreciation. Despite a 13.9%YoY revenue increase to LKR 11.5Bn, overall volume faced a slowdown, influenced by increased tariffs on electricity and tax reforms impacting consumer spending. On a positive note, the focus on new product launches in the beauty segment under the 'Prasara' and 'Vivya' brands resulted in robust volume growth. Despite challenges in Bangladesh, ‘Kumarika’ and ‘Eva’ achieved double-digit volume growth, supported by value-for-money product ranges, and the new 'Kolombo' range gained traction. The learning segment, comprising Atlas and Innovate, contributed over 20.0% to Consumer brands' total revenue. However, challenges may arise for new entrants with the import ban relaxation. HHL looks to focus on developing its international business, particularly in Asian, Gulf, and East African regions, and expanding the export portfolio within HPC and Learning segments.

We maintain our rating of MAINTAIN BUY on HHL

Considering the defensive nature of the key main segments of HHL (Healthcare and Consumer segment) and the improvement in capacity utilization and increased traction of the exports and international businesses, we broadly maintain the earnings target for FY24E at LKR 5.6Bn and FY25E at LKR 6.7Bn. Accordingly, FV for FY25E is maintained at LKR 95.0. **MAINTAIN BUY**

P/E 31 March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Estimates (LKR 'Mn)							
Revenue	60,043	64,501	78,831	113,940	121,494	131,723	143,295
Gross Profit	19,148	19,417	21,850	31,793	34,140	37,804	41,842
EBIT	3,532	6,061	6,783	10,963	13,315	15,050	16,012
Net Profit	**1,236**	**3,253**	**4,249**	**4,269**	**5,623**	**6,742**	**7,450**
Adjusted EPS (LKR)	2.1	5.5	7.1	7.2	9.4	11.3	12.5
YoY Growth (%)	-63%	163%	31%	0%	32%	20%	10%
Valuations							
PER (x)	33.3x	12.6x	9.7x	9.6x	7.3x	6.1x	5.5x
PBV (x)	1.5x	1.3x	1.2x	1.1x	1.0x	0.9x	0.8x
DY (%)	0.0%	2.7%	7.0%	3.4%	4.8%	5.7%	6.3%
NAVPS	46.8	53.5	59.7	64.4	70.5	77.9	86.0
DPS (LKR)	-	1.9	4.9	2.4	3.3	4.0	4.4
Dividend Payout	N/A	33.9%	68.1%	32.8%	35.0%	35.0%	35.0%



CEYLON COLD STORES PLC

CCS.N0000 Current Price: LKR 42.40 Fair Value: LKR 65.0 (FY25E)

Margin expansion in the Manufacturing segments amidst easing raw material prices

CCS manufacturing segment achieved robust bottom-line growth of 49.7%YoY to LKR 595.1Mn, driven by improved EBIT margins in Beverages (CSD) and Frozen Confectionery (FC) businesses due to lower raw material prices. Despite a volume decline of 2.0% in FC, Beverages reported a 5.0% growth. The segment's outlook is anchored in projected beverage volume increases, supported by economic normalization and a resurgence in tourist arrivals. The FC business strategically shifts towards higher-margin impulse products, and an expected ASP revision due to a sugar tariff in 1Q2024 is anticipated to uphold profit margins.

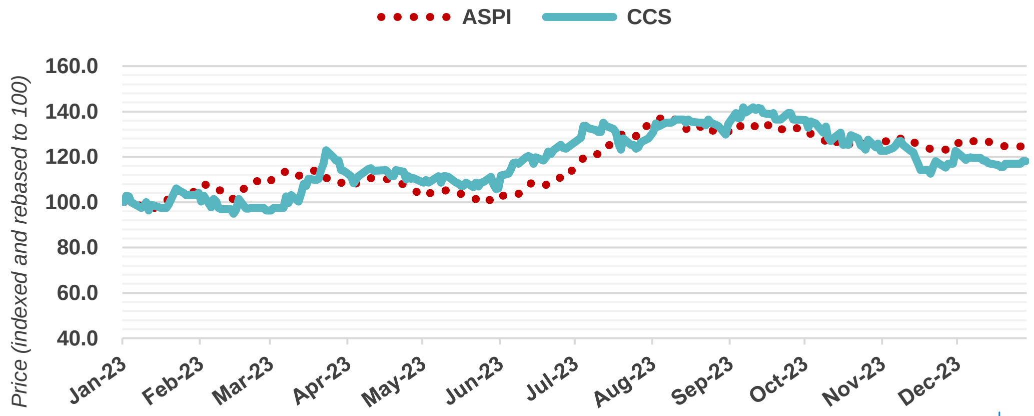
Gradual recovery in consumer sentiment expected to drive footfall

In 2QFY24, CCS Retail reported a 9.7%YoY revenue growth to LKR 27.3Bn, driven by a robust 10.4% increase in Same Store Sales fueled by a 10.6% rise in customer footfall. Despite a slight decline of 0.2% in Average Basket Value, sustained footfall growth is attributed to changing consumer buying patterns amid a steep decline in inflation. EBIT margin slightly decreased to 3.5% due to higher operating costs, including an electricity tariff hike. The retail segment's profitability saw a substantial 686.3%YoY growth to reach LKR 200.5Mn, supported by the easing of the AWPLR to 14.7% in Sep 2023. Looking ahead, CCS Retail aims to capitalize on import ban relaxations and a 9.8%YTD LKR appreciation against the USD, potentially boosting consumer counts through improved product availability. Expectations include a CAGR of 5.2% in top-line growth from FY23-FY26E, driven by sustained improvements in Same Store Sales and incremental revenue from new store openings. Gradual EBIT margin expansion is anticipated, fueled by enhanced consumer spending and increased penetration of private label products.

Fair Value maintained at LKR 65.0 for FY25E – MAINTAIN BUY

In line with First Capital Research's projection of an economic recovery from the 2H2023E, we foresee a gradual resurgence in both the retail and manufacturing businesses. This revival is expected to drive volumes, enhance margins, and increase consumer footfall, fueled by the expansion of private sector consumption. Despite the reported earnings outperforming our 2QFY24 forecast, we are maintaining our earnings targets for FY24E and FY25E at LKR 2.2Bn and LKR 3.0Bn, respectively. As a result, our FV projection remains steady at LKR 55.0 for FY24E and LKR 65.0 for FY25E. **MAINTAIN BUY**

P/E 31 March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Estimates (LKR 'Mn)							
Revenue	**69,055**	**68,766**	**84,543**	**126,149**	**136,270**	**142,156**	**148,760**
Gross profit	8,443	7,651	9,136	12,749	14,036	14,926	16,066
EBIT	4,786	4,112	4,744	6,185	6,736	7,685	8,561
Net Profit	2,135	2,338	2,068	2,513	2,204	3,023	3,743
Adjusted EPS (LKR)	**2.2**	**2.5**	**2.2**	**2.6**	**2.3**	**3.2**	**3.9**
YoY Growth (%)	*63%*	*10%*	*-12%*	*21%*	*-12%*	*37%*	*24%*
Valuations							
PER (x)	**18.9**	**17.2**	**19.5**	**16.0**	**18.3**	**13.3**	**10.8**
PBV (x)	**2.5**	**2.4**	**2.2**	**2.1**	**2.0**	**1.9**	**1.7**
DY (%)	***2.8%***	***4.0%***	***2.7%***	***3.1%***	***2.7%***	***3.8%***	***4.6%***
NAVPS	16.6	17.7	19.1	20.1	21.2	22.8	24.8
DPS	1.2	1.7	1.1	1.3	1.2	1.6	2.0
Dividend Payout	*53%*	*69%*	*52%*	*49%*	*50%*	*50%*	*50%*



AITKEN SPENCE HOTEL HOLDINGS PLC

AHUN.N0000 | Current Price: LKR 63.10 | Fair Value: LKR 105.0 (FY25E)

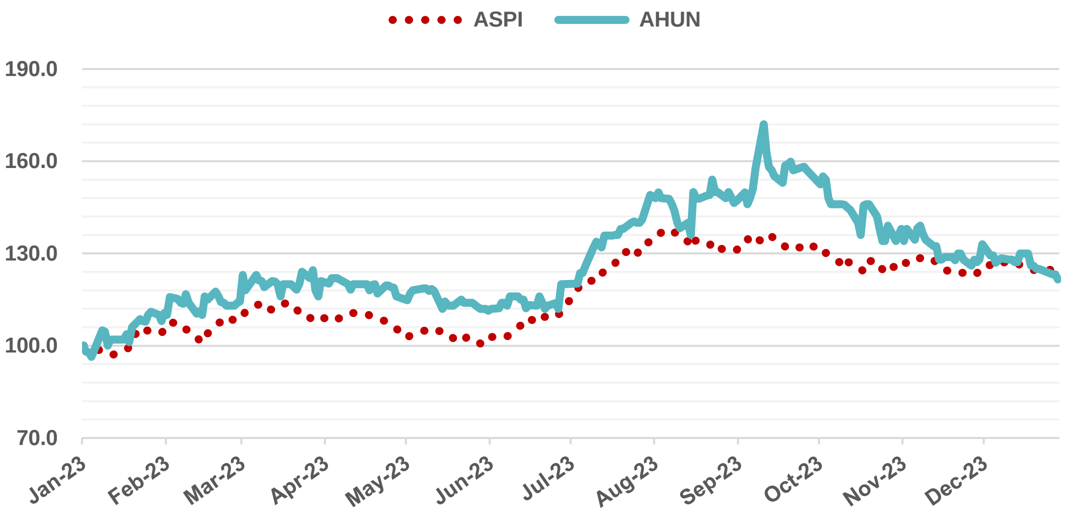
Consistent YoY rebound in arrivals brings in new hope for AHUN

The total number of tourist arrivals in Sri Lanka grew consistently from 2H2022 amidst the easing down of the economic crisis. Accordingly, 2023 started off the year on a positive note and recorded more than 100,000 arrivals each in the first four months and further continued to remain in that position recording over 200,000 arrivals in Dec-23. Meanwhile, with the resumption of multiple airlines and cruise tourism, along with increased promotions, including MICE tourism, with tourist arrivals in Sri Lanka surpassing 1.0Mn after three years in 2023 and as expected we maintain our arrivals for 2024E at 1.9Mn and Earnings at USD 3.0Bn.

AHUN records a loss of LKR 1.0Bn in 2QFY24

Despite the gradual recovery in both Sri Lankan and South Asian and Middle East segments, AHUN reported a net loss of LKR 1.0Bn in 2QFY24 amidst the net operating loss of LKR 6.2Mn in 2QFY24. However, the exceptional number of tourists arrivals during 2H2023 improved the bottom line of AHUN on a QoQ basis registering a 27.4%QoQ decline in losses compared to 1QFY23. Generating over 85.5% of revenue from outside Sri Lanka, AHUN is expected to benefit from relatively faster recovery in tourism in peer countries. Taking into consideration the expected economic recovery and the looming tourists arrivals along with the global economic recovery, we anticipate earnings to soar for FY24 at 1.7Bn and for FY25 at LKR 2.4Bn with a Target Price of LKR 80.0 FOR FY24E and LKR 105.0 for FY25E respectively. **MAINTAIN BUY.**

P/E 31 March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Estimates (LKR 'Mn)								
Revenue	19,055	18,588	5,592	24,571	45,060	51,098	58,944	71,662
EBIT	2,735	1,564	-5,189	4,280	7,311	8,527	8,646	12,614
Net Profit	**811**	**-625**	**-4,669**	**624**	**-288**	**1,685**	**2,360**	**4,567**
Adjusted EPS (LKR)	2.4	(1.9)	(13.9)	1.9	(0.9)	5.0	7.0	13.6
YoY Growth (%)		-180%	-632%	113%	146%	685%	40%	93%
Valuations								
PER (x)	*33.6x*	*N/A*	*N/A*	*42.9x*	*N/A*	*15.9x*	*11.3x*	*5.9x*
PBV (x)	*1.3x*	*1.3x*	*1.7x*	*1.3x*	*1.3x*	*1.2x*	*1.1x*	*1.0x*
DPS	1.0	-	-	-	-	1.0	2.5	5.4
DY (%)	*1.3%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*1.3%*	*3.1%*	*6.8%*
Dividend Payout	*42.3%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*20.0%*	*35.0%*	*40.0%*
ROE	*3.7%*	*-3.1%*	*-29.4%*	*3.1%*	*-1.4%*	*7.5%*	*9.9%*	*17.1%*



JOHN KEELLS HOTELS PLC

KHL.N0000 | Current Price: LKR 19.00 | Fair Value: LKR 35.0 (FY25E)

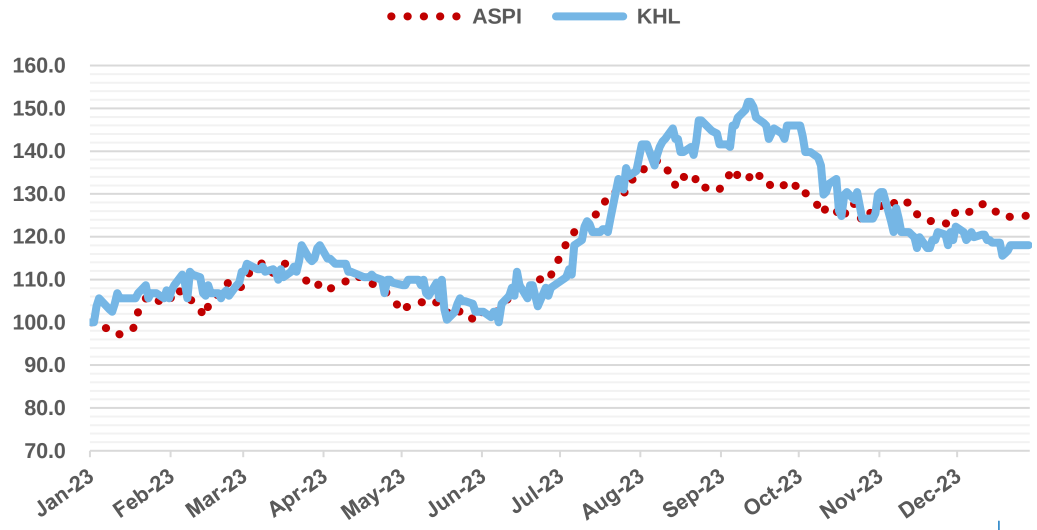
Topline drop by 7.0%YoY in 2QFY24 hampers profitability

KHL attained to decrease losses in 2QFY24 compared to 1QFY24, recording a loss of LKR 916.6Mn, influenced by the increasing tourists arrivals and the gradual resurgence in the country. However, the poor bottom-line performance stemmed largely from drop in top-line, which declined by 7.0%YoY to LKR 6.5Bn. Meanwhile, with the rise in costs, GP margins hampered by 385.8%, to 57.0% in 2QFY24 largely due to incremental expenses. Despite the interest rate reduction, net finance cost remained elevated and recorded at LKR 706.9Mn, which further hampered the profitability growth.

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

Maldives segment contributed over 70% 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 pre-pandemic levels. On a silver lining, the prospects for the Sri Lankan Resorts segment remain positive as the recovery in the segment grows faster than anticipated which translated to pick up in occupancies at Sri Lankan Resorts segments. Considering the potential outlook, we expect KHL to reverse losses and to record profit of LKR 3.4Bn in FY25E surpassing the prepandemic earnings with a target price for FY24E at LKR 26.0 and LKR 35.0 for FY25E. **MAINTAIN BUY**

P/E 31 March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Estimates (LKR 'Mn)								
Revenue	11,033	9,712	3,661	13,355	28,835	34,921	42,647	61,599
EBIT	1,087	-764	-4,777	-190	1,742	3,667	6,056	9,240
Net Profit	**817**	**-1,201**	**-5,096**	**-1,203**	**-321**	**1,693**	**3,395**	**5,700**
Adjusted EPS (LKR)	0.6	(0.8)	(3.5)	(0.8)	(0.2)	1.2	2.3	3.9
YoY Growth (%)		-247%	-324%	76%	44%	427.6%	100.5%	67.9%
Valuations								
PER (x)	*41.7x*	*N/A*	*N/A*	*N/A*	*N/A*	*20.1x*	*10.0x*	*6.0x*
PBV (x)	*1.2x*	*1.2x*	*1.4x*	*1.1x*	*1.0x*	*1.0x*	*0.9x*	*0.8x*
DPS	0.2	-	-	-	-	0.2	0.4	0.8
DY (%)	*0.6%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.7%*	*1.8%*	*3.3%*
Dividend Payout	*26.7%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*15.0%*	*18.0%*	*20.0%*
ROE	*2.8%*	*-4.2%*	*-20.9%*	*-4.0%*	*-1.0%*	*5.0%*	*9.2%*	*13.8%*



HAYLEYS LEISURE PLC

CONN.N0000 | Current Price: LKR 21.0 | Fair Value: LKR 40.0 (FY25E)

Poised to experience a swift recovery, driven by improved occupancies.

CONN faced significant challenges in 2021 and 2022 due to the adverse impact of the pandemic, resulting in a sharp decline in tourist arrivals. However, as we transitioned into 2023, there was a surprisingly rapid recovery in the tourism industry. The economy also began to rebound from the global pandemic and the economic downturn, influenced by effective government strategies and various promotional initiatives. The 2QFY24 continued to indicate a gradual recovery for CONN from its previous lows. Notably, the company's exposure to the Maldives, which has experienced a remarkable recovery, has reached pre-pandemic levels. Additionally, CONN's presence in the coastal segment of Sri Lanka and its boutique hotels further contribute to the positive outlook. Considering these factors, we anticipate that CONN will achieve occupancy levels of 70% in FY24E.

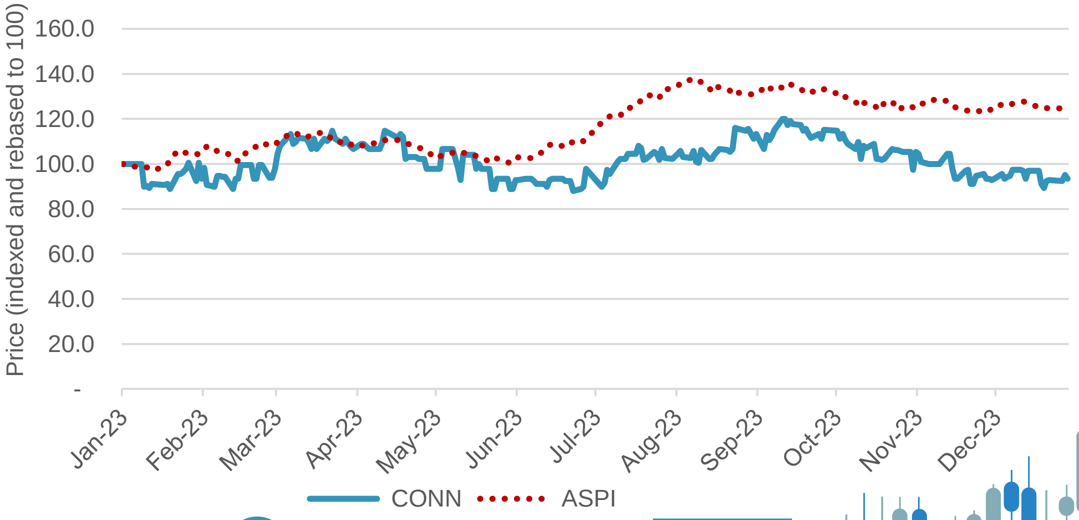
Heavy tax burden challenges bottom-line

CONN reported a PBT of LKR 11.4Mn for 2QFY24 supported by strong topline performance amidst the upsurge in tourist arrivals. However, the company bore a sizeable tax burden during the quarter amounting to LKR 15.7Mn resulting in a loss of LKR 4.3Mn. Nevertheless, the loss has significantly inched down on a both YoY (+97.7%) and QoQ (+96.8%) basis. With tourist arrivals now having peaked and further improvement expected, CONN is expected to report earnings of LKR 316.0Mn for FY24E.

FV estimated at LKR 40.0 for FY25E

With the rapid resurgence of arrivals, we expect Average Room Rates (ARR) to increase, boosting margins in the coming years. Therefore, considering the company's potential and the sector's outlook, we expect an earnings target of LKR 316.0Mn for FY24E and LKR 481.0Mn for FY25E. Hence, we recommend a BUY rating for the company.

P/E 31 March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Estimates (LKR 'Mn)							
Revenue	1,226	362	777	1,532	2,391	2,789	3,427
EBIT	-114	-583	-623	-445	586	683	994
Net Profit	**-266**	**-790**	**-898**	**-824**	**316**	**481**	**749**
Adjusted EPS (LKR)	(1.6)	(6.7)	(7.7)	(7.6)	2.9	4.5	6.9
YoY Growth (%)	-128%	-329%	-14%	0%	138%	52%	56%
Valuations							
PER (x)	*N/A*	*N/A*	*N/A*	*N/A*	*8.7x*	*5.8x*	*3.7x*
PBV (x)	*0.8x*	*1.0x*	*1.3x*	*2.0x*	*1.7x*	*1.4x*	*1.1x*
DPS	-	-	-	-	0.4	1.3	2.1
DY (%)	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*1.7%*	*5.2%*	*8.1%*
Dividend Payout	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*15.0%*	*30.0%*	*30.0%*
ROE	*-4.8%*	*-25.2%*	*-37.6%*	*-60.2%*	*19.3%*	*24.3%*	*30.0%*



ASIAN HOTELS AND PROPERTIES PLC

AHPL.N0000 — Current Price: LKR 58.00 — Fair Value: LKR 86.00 (FY25E)

Anticipated tourism recovery expected to boost AHPL's occupancy

Sri Lanka experienced a noteworthy tourism rebound, hosting 1.48Mn tourists in 2023, surpassing the 1.0 million mark after three years, marking an impressive 106.6%YoY growth compared to 2022. The surge is attributed to increased arrivals from key markets, including India, Russia, the UK, and Germany, driven by winter season demand, enhanced air connectivity, cruise transportation, and favorable economic conditions. Ongoing efforts in promoting and developing Sri Lanka's tourism sector paint a promising future for AHPL, potentially driving ARR and helping achieve pre-pandemic level occupancy.

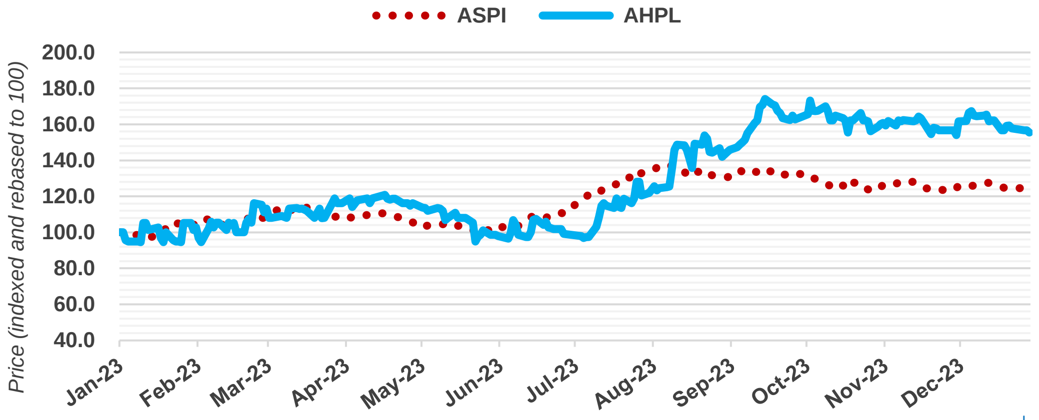
Profitability turns around amidst tourism influx

AHPL's city hotels segment, featuring 847 rooms and two 5-star properties under the flagship brand (Cinnamon), also includes the ownership of Crescat Boulevard, a 56,988 sq.ft shopping mall. With a surge in tourist arrivals, AHPL achieved a remarkable 57.9%YoY growth in its top-line, reaching LKR 2.7Bn in 2QFY24. The corresponding 205.0%YoY increase in net operating income, totaling LKR 193.3Mn, had a positive impact on profitability, resulting in a turnaround of LKR 48.8Mn

We maintain our rating of MAINTAIN BUY on AHPL

With the surge in arrivals, AHPL's occupancy rates spiked to an impressive 52% in FY23, accompanied by a rise in Average Room Rates (ARR) due to the depreciation of the LKR. As travel restrictions eased and consumer spending shifted from discretionary items to services, coupled with strong banquet sales that reached pre-pandemic levels in 3QFY23, we anticipate AHPL to reverse previous losses and project profitability of LKR 1,6Bn for FY24E and LKR 2.5Bn 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 86.0 for FY25E. Thus, we rate the share **BUY**

P/E 31 March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Estimates (LKR 'Mn)							
Revenue	5,560	1,790	4,095	8,417	14,980	19,129	23,130
EBIT	-28	-1,913	-407	93	2,996	4,208	6,014
Net Profit	**-50**	**-1,781**	**-510**	**-278**	**1,577**	**2,536**	**3,681**
Adjusted EPS (LKR)	(0.1)	(4.0)	(1.2)	(0.6)	3.6	5.7	8.3
YoY Growth (%)	-106%	-3474%	71%	46%	668%	61%	45%
Valuations							
PER (x)	*N/A*	*N/A*	*N/A*	*N/A*	*16.3x*	*10.1x*	*7.0x*
PBV (x)	*0.8x*	*0.8x*	*0.8x*	*0.9x*	*0.9x*	*0.8x*	*0.8x*
DPS	1.0	-	-	-	1.8	3.4	5.8
DY (%)	*1.7%*	*0.0%*	*0.0%*	*0.0%*	*3.1%*	*5.9%*	*10.0%*
Dividend Payout	*-888.6%*	*0.0%*	*0.0%*	*0.0%*	*50.0%*	*60.0%*	*70.0%*
ROE	*-0.2%*	*-5.7%*	*-1.6%*	*-1.0%*	*5.3%*	*8.3%*	*11.6%*



Thank You

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