

EXPOLANKA PLC

CSE : EXPO.N0000



First Capital
A Janashakthi Group Company

OFFER TO DELIST

DELISTING : LKR 185.00

MAR 2024

FIRST CAPITAL RESEARCH

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EXPOLANKA HOLDINGS PLC

Background to the offer

- ❑ The Board of Directors of Expolanka proposed to delist the ordinary voting shares from the official list of CSE at the board meeting held on the 1st of March 2024, considering a request from the company's principal shareholder and resolved to initiate the process of delisting.
- ❑ As part of this process, arrangements have been made with SG Holdings Global Pte Ltd, the company's majority shareholder, to purchase shares from any shareholder who wish to sell their holdings in the company. The **purchase price offered is LKR 185.00 per share.**



Reasoning for the Delisting Proposal



The challenging worldwide economic conditions and associated geopolitical conflicts have adversely affected the groups expansion efforts. These challenges have significantly impacted the company's recent financial performance, leading to periods of earnings instability.



Despite the recent fluctuations in earnings, EXPO parent company intends for EXPO to concentrate on core business expansion and international activities. Consequently, Expolanka Holdings may increasingly require capital from foreign sources due to its international operations, leading to higher leverage and foreign exchange risks for local minority shareholders, affecting their wealth.



Considering the need for stability in operations and the associated high leverage and forex risks, the board approved the proposal to delist Expolanka Holdings' shares from the Colombo Stock Exchange, pending shareholder approval and regulatory clearance.

About EXPO

Expolanka Holdings PLC, also known as EXPO, is a well-respected conglomerate headquartered in Sri Lanka, acknowledged for its extensive involvement in logistics, leisure, and investment sectors.

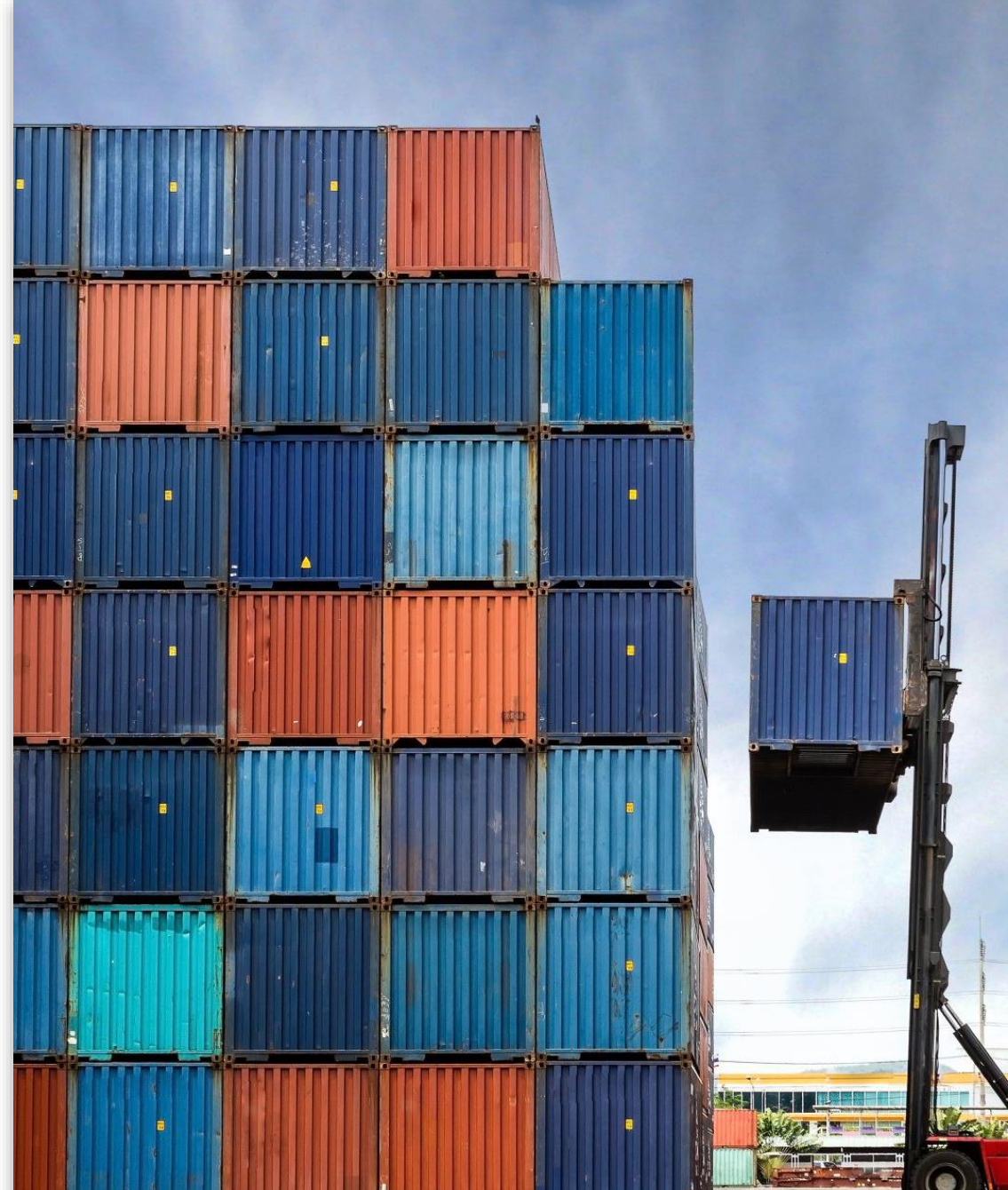
Established in 1978, the Group has significantly broadened its international presence, now spanning over 39 countries across four continents. A substantial 92.0% of its revenue comes from global markets.

Established as a publicly listed entity in 2011, the company has operated as a subsidiary of SG Holdings since 2014, enabling expansion into additional countries. EXPO oversees a network comprising 17 direct subsidiaries and 73 indirect subsidiaries in total.



EXPO's diminishing earnings, the root cause of downward price trajectory

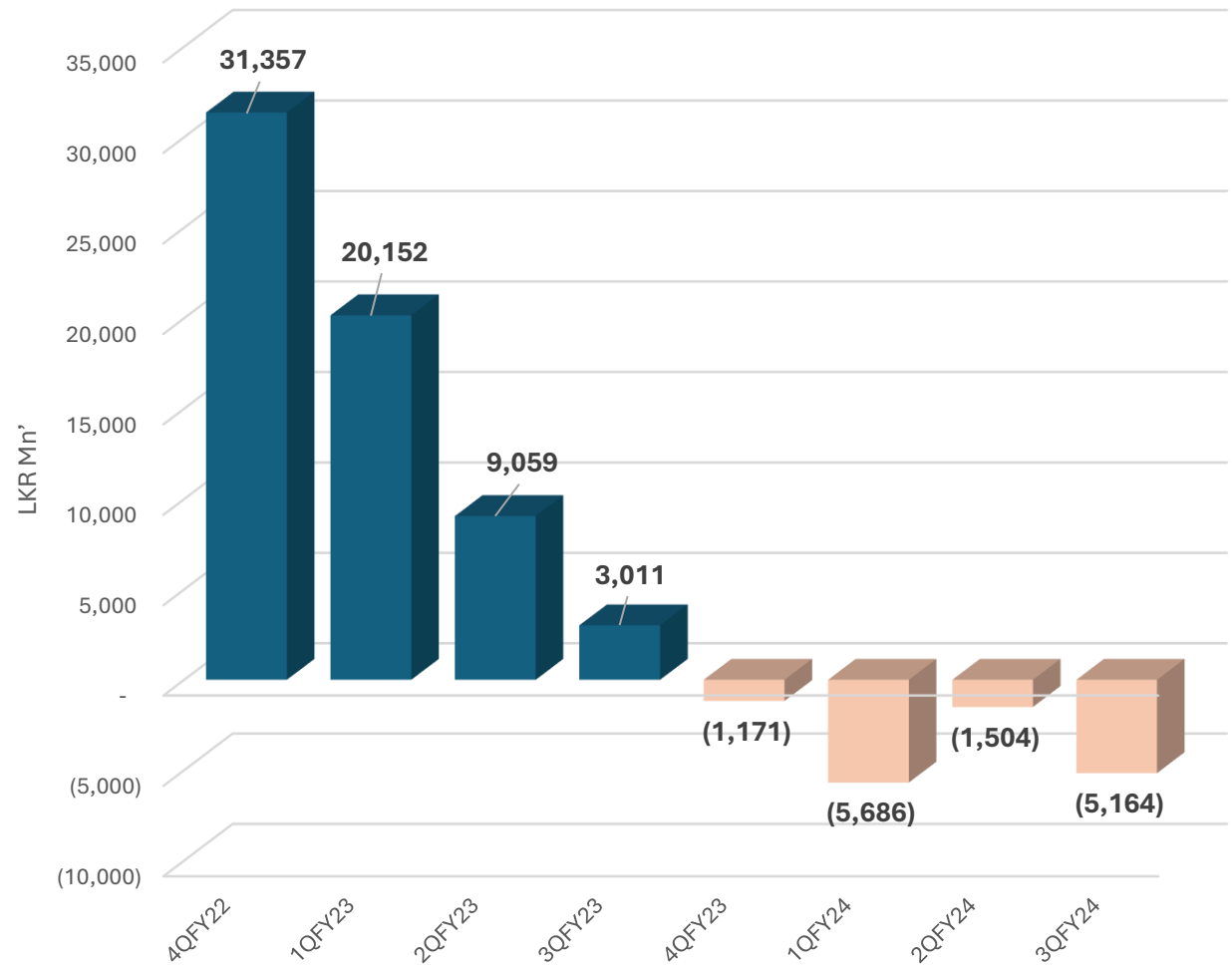
- ❑ EXPO share price peaked during 2022 to LKR 405.0/share largely backed by the significant rise in global freight rates that touched an all-time high of USD 11,108.0/40ft container in Sep-21.
- ❑ However, since the normalization of freight rates to pre-covid levels (USD 1,280.0/40ft container between Sep-21 to Dec-23 period), EXPO share price plummeted to LKR 90.0/share. Moreover, decline in 9MFY24 profitability to post a loss of LKR 12.4Bn amidst normalized freight rates and decline in gross profit margins, was also a cause towards the decline in EXPO share price.
- ❑ With the rise in freight rates during 2024 (+139.8%YTD to USD 3,069.8/40ft container) aided largely by the prevailing Red Sea Crisis, we expect EXPO profitability to improve during 4QFY24. Moreover, with the expectation that global trade will normalize in 2025E (in-line with the expectations of multilateral agencies), we expect the EXPO net profit to reach LKR 2.4Bn in FY25E.



Quarterly earnings in steep losses

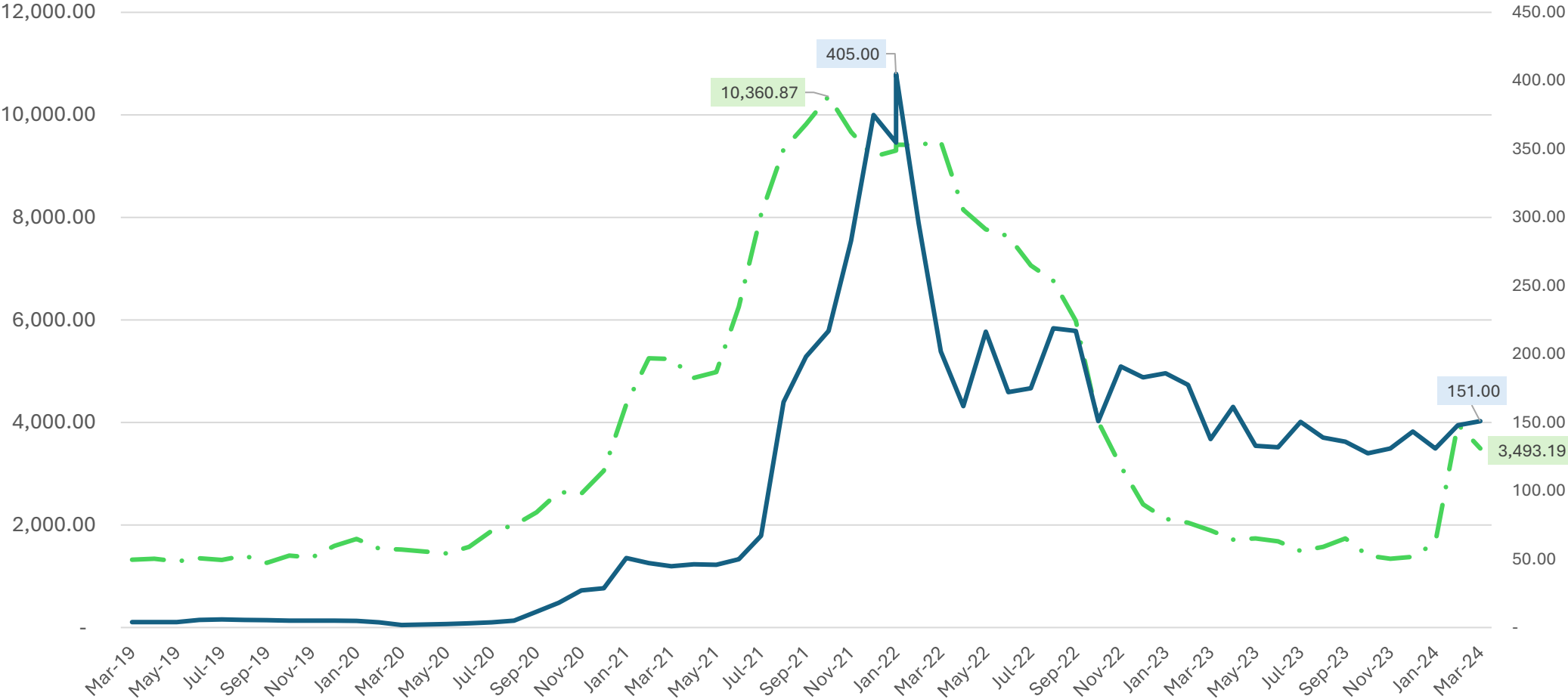
Expolanka Holdings PLC has faced four quarters of consecutive losses since 4QFY23, with earnings declining due to factors like tighter monetary policies, inflation, geopolitical tensions, trade protectionism, and high energy prices. These uncertainties have led to reduced consumer spending and low demand conditions.

Despite a slight increase in volume observed in recent quarters, overall demand remains sluggish in the logistics sector. Tight labour markets and ongoing inflation has negatively impacted customers and are expected to exert pressure on margins for EXPO's freight forwarding business.



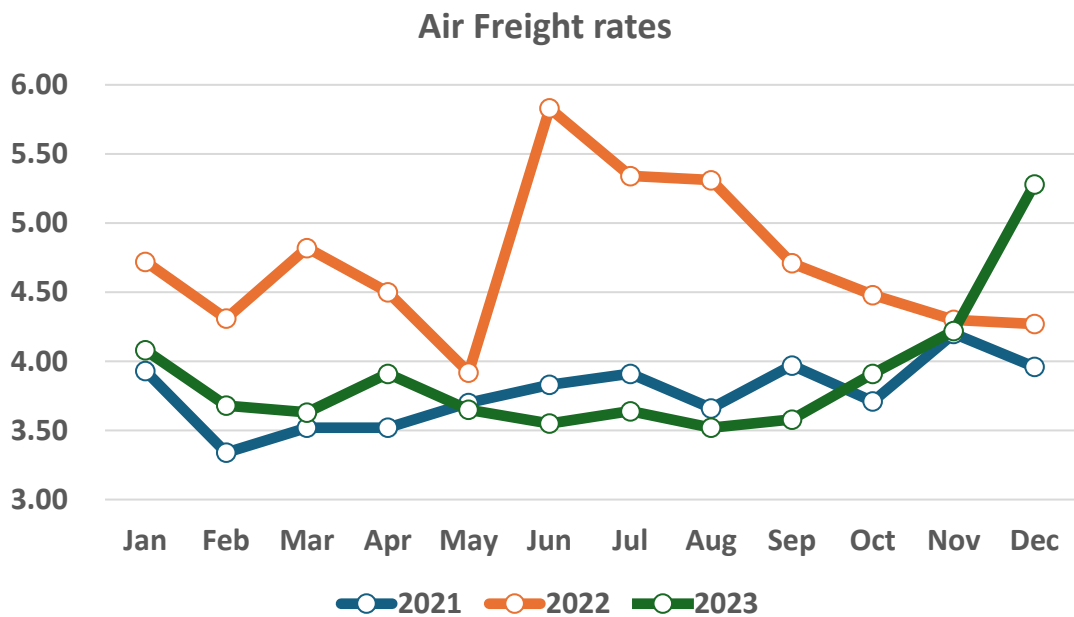
Source: CSE/ First Capital Research

EXPO share price climbs and falls with Freight Rates



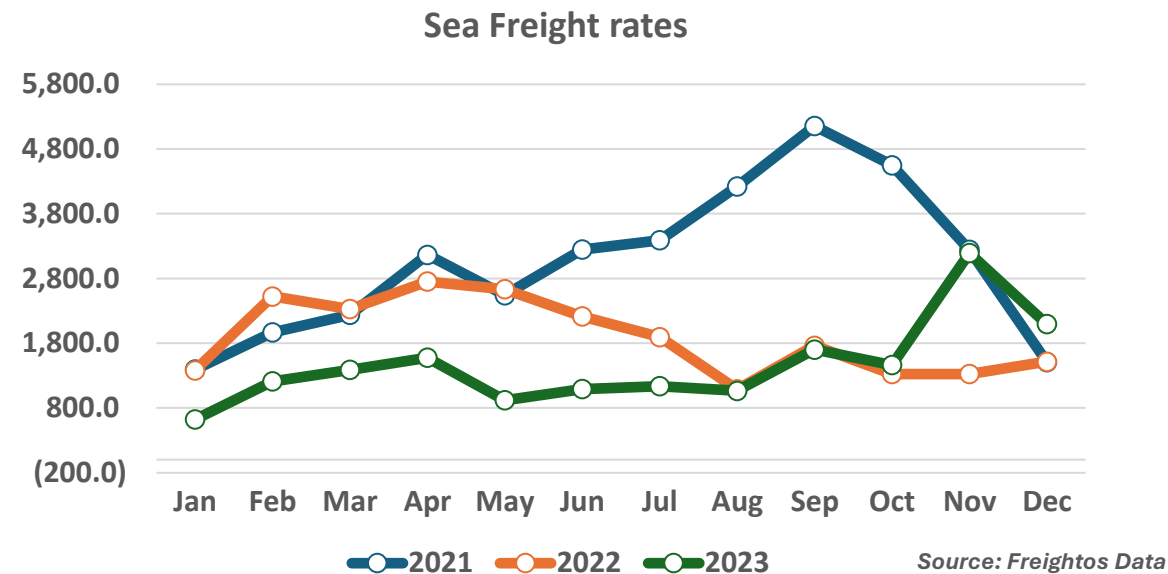
Source: CSE/ First Capital Research

EXPO's performance can be directly impacted by demand and supply conditions in the global freight industry...



Air Freight rates to remain competitive

Following the post-Covid recovery, tourism and air travel have resumed normal operations, consequently driving an upsurge in global air cargo capacity. This buildup in capacity has led to a normalization of air freight rates. Looking ahead, the air freight market is anticipated to remain competitive, with potential impacts from seasonal demand fluctuations and energy price fluctuations shaping its trajectory.



Sea Freight rates surge higher

Recent attacks on commercial ships in the Red Sea by the Iranian-backed Houthi militia have compelled companies to face higher insurance rates or reroute shipments around Africa, resulting in increased costs and delays. This could potentially impact companies' profit margins and lead to higher prices for consumers although, Over the long term, ocean freight rates are expected to normalize.

Recent Strategic Acquisitions And Expansions

More recently Expolanka went through a massive expansion drive aligning with the company's core business to expand globally, which will make majority of the company's operations international. This expansion criteria will grant the company to access more cost effective sources of capital funding.



Acquisition of Trans American Customhouse Brokers LLC and its related companies

(Expected to gain a broader customer base in the US, Canada and Mexico)



Acquisition of TT Aviation Handling Services (Private) Limited

(Expected to gain a broader customer base in India)



Acquisition of Locher Evers International Inc

(Expected to gain a broader customer base in Canada)



Acquisition of EFL Global Projects Private Limited

(Broaden the presence in India and Sri Lanka)



Acquisition of Gabo Companies

(To Expand the quality of services within Sri Lanka)



OKI-DOKI International expansion

(Expected to strengthen the presence within Sri Lanka and Indonesia)

Recommendation

Accept Offer; Substantial Premium

| Y/E 31 March | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E | FY26E |
|----------------------------|--------------|---------------|---------------|---------------|-----------------|--------------|--------------|
| Estimates (LKR 'Mn) | | | | | | | |
| Revenue | 103,246 | 218,735 | 694,157 | 546,401 | 272,032 | 275,047 | 314,281 |
| Operating profit | 621 | 16,831 | 86,653 | 39,516 | (9,557) | 7,057 | 14,001 |
| Net Profit | (737) | 14,830 | 72,743 | 30,938 | (14,100) | 2,376 | 8,643 |
| EPS (LKR) | (0.2) | 7.6 | 37.2 | 15.8 | (7.2) | 1.2 | 4.4 |
| YoY Growth (%) | -130% | -3486% | 391% | -57% | -146% | -117% | 264% |
| Valuations | | | | | | | |
| PER (x) | N/A | 19.8x | 4.0x | 9.5x | N/A | 123.8x | 34.0x |
| PBV (x) | 23.3x | 10.8x | 2.4x | 2.0x | 2.2x | 2.2x | 2.1x |
| DY (%) | 0% | 0% | 1% | 5% | 0% | 0% | 1% |
| NAVPS | 6.5 | 13.9 | 63.4 | 76.2 | 69.0 | 69.6 | 71.8 |
| DPS (LKR) | - | 0.5 | 1.2 | 8.2 | - | 0.6 | 2.2 |
| Div Payout | 0% | 7% | 3% | 52% | 0% | 50% | 50% |

Taking into consideration of the poor performance during 9MFY24 period, we have arrived at a net loss of LKR 14.1Bn in FY24E. However, with an expectations of a recovery in global economy and trade in 2025E, we have arrived at a net profit of LKR 2.4Bn for FY25E.

Thus, valuing the share using a DCF and EV/EBIT method, we arrived at a target price of LKR 109.0 and LKR 60.6, respectively for FY25E. Therefore, given the attractive upside to the offer price, **we recommend investor to accept the offer price of LKR 185.00.**

| | |
|------------------------------|-----------------|
| DCF Based Share Price | FY25E |
| Enterprise Value | 158,688 |
| (-) Debt | (24,957) |
| (+) Cash | 79,415 |
| Total Value of equity | 213,147 |
| No. of shares | 1,955 |
| Target Price | 109.0 |

| | |
|----------------------------------|----------------|
| EV/EBIT Based Share Price | FY25E |
| EBITDA | 7,057 |
| EV/EBITDA | 16.8 |
| Enterprise Value | 118,556 |
| No. of shares | 1,955 |
| Target Price | 60.6 |

Appendix

Appendix 1:

Income Statement

| Income Statement (LKR Mn) | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E | FY26E |
|---|-----------------|-----------------|------------------|------------------|-------------------|-----------------|-----------------|
| P/E 31st March | | | | | | | |
| Revenue from contracts with customers | 103,245.7 | 218,735.3 | 694,157.4 | 546,400.9 | 272,031.6 | 275,047.3 | 314,281.2 |
| Cost of sales | (84,063.0) | (180,304.4) | (572,249.3) | (441,132.0) | (217,847.9) | (221,478.4) | (253,167.4) |
| Gross profit | 19,182.7 | 38,430.9 | 121,908.2 | 105,268.8 | 54,183.7 | 53,568.9 | 61,113.8 |
| Other operating income and gains | 421.2 | 330.0 | 7,474.9 | 3,791.5 | 1,693.1 | 1,759.7 | 2,009.4 |
| Selling and distribution expenses | (1,216.4) | (1,432.6) | (2,796.8) | (5,633.9) | (5,440.6) | (5,469.7) | (6,251.3) |
| Administrative expenses | (17,766.2) | (20,497.7) | (39,932.9) | (63,910.4) | (59,993.1) | (42,802.0) | (42,870.5) |
| Operating profit | 621.2 | 16,830.6 | 86,653.4 | 39,516.1 | (9,557.0) | 7,056.9 | 14,001.4 |
| Finance costs | (455.3) | (367.3) | (1,262.7) | (1,759.7) | (828.3) | (852.5) | (990.0) |
| Finance income | 83.0 | 59.3 | 88.0 | 702.8 | 268.3 | 276.7 | 322.8 |
| Equity accounted investees (net of tax) | 31.1 | 62.3 | 116.4 | 56.4 | - | - | - |
| Profit before tax | 280.1 | 16,584.9 | 85,595.0 | 38,515.6 | (10,116.9) | 6,481.2 | 13,334.2 |
| Income tax expense | (718.0) | (1,704.9) | (12,803.2) | (7,465.4) | (4,033.7) | (4,096.8) | (4,659.8) |
| Profit for the year | (437.9) | 14,880.0 | 72,791.7 | 31,050.2 | (14,150.6) | 2,384.4 | 8,674.4 |
| Attributable to: | | | | | | | |
| Equity holders of the parent | (736.6) | 14,830.2 | 72,742.5 | 30,938.1 | (14,099.5) | 2,375.8 | 8,643.1 |
| Non-controlling interest | 298.6 | 49.8 | 49.2 | 112.0 | (51.1) | 8.6 | 31.3 |
| | (437.9) | 14,880.0 | 72,791.7 | 31,050.2 | (14,150.6) | 2,384.4 | 8,674.4 |
| EPS | (0.2) | 7.6 | 37.2 | 15.8 | (7.2) | 1.2 | 4.4 |

Appendix 2: Statement of Financial Position

| Balance Sheet (LKR Mn) | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E | FY26E |
|---|-----------------|-----------------|------------------|------------------|------------------|------------------|------------------|
| P/E 31st March | | | | | | | |
| ASSETS | | | | | | | |
| Non-current assets | | | | | | | |
| Property, plant and equipment | 3,405.4 | 3,413.3 | 5,750.8 | 9,894.5 | 11,063.5 | 12,068.6 | 13,220.1 |
| Right of use assets | 3,022.9 | 3,717.7 | 10,837.1 | 14,525.0 | 14,525.0 | 14,525.0 | 14,525.0 |
| Intangible assets | 677.0 | 1,039.4 | 3,835.1 | 36,313.0 | 37,112.3 | 37,915.3 | 38,865.8 |
| Investments in subsidiaries | - | - | - | - | - | - | - |
| Investment in an associate and joint ventures | 164.3 | 288.2 | 392.2 | 409.7 | 409.7 | 409.7 | 409.7 |
| Other financial assets | 2.6 | 12.7 | 18.9 | 19.7 | 19.7 | 19.7 | 19.7 |
| Deferred income tax assets | 146.8 | 170.3 | 347.8 | 447.1 | 447.1 | 447.1 | 447.1 |
| Prepayments and other assets | 309.0 | - | - | - | - | - | - |
| | 7,727.9 | 8,641.6 | 21,182.0 | 61,609.0 | 63,577.2 | 65,385.4 | 67,487.4 |
| Current assets | | | | | | | |
| Inventories | 152.5 | 148.9 | 291.6 | 264.6 | 435.7 | 443.0 | 506.3 |
| Trade and other receivables | 18,416.0 | 49,223.8 | 213,106.5 | 67,958.8 | 40,804.7 | 35,756.1 | 34,570.9 |
| Prepayments and other assets | 1,677.9 | 1,869.2 | 14,258.8 | 7,769.9 | 7,616.9 | 7,701.3 | 8,799.9 |
| Other financial assets | 159.6 | 342.8 | 226.0 | 336.5 | 336.5 | 336.5 | 336.5 |
| Income tax recoverable | 458.0 | 347.4 | 4,096.6 | 5,268.4 | 5,268.4 | 5,268.4 | 5,268.4 |
| Cash and cash equivalents | 7,156.0 | 7,610.8 | 43,192.9 | 77,781.8 | 71,640.5 | 79,415.4 | 92,195.0 |
| | 28,020.1 | 59,542.7 | 275,172.4 | 159,379.9 | 126,102.7 | 128,920.7 | 141,676.9 |
| Assets held for sale | 274.9 | - | - | - | - | - | - |
| Total assets | 36,022.8 | 68,184.3 | 296,354.4 | 220,988.9 | 189,679.9 | 194,306.0 | 209,164.3 |
| EQUITY AND LIABILITIES | | | | | | | |
| Stated capital | 4,098.0 | 4,098.0 | 4,098.0 | 4,098.0 | 4,098.0 | 4,098.0 | 4,098.0 |
| Reserves | 940.6 | 1,614.5 | 27,986.1 | 37,986.3 | 37,986.3 | 37,986.3 | 37,986.3 |
| Retained earnings | 7,600.5 | 21,436.7 | 91,847.7 | 106,851.3 | 92,751.7 | 93,939.6 | 98,261.2 |
| Equity attributable to equity holders of parent | 12,639.0 | 27,149.2 | 123,931.8 | 148,935.6 | 134,836.0 | 136,023.9 | 140,345.5 |
| Non-controlling interest | 191.5 | 231.4 | 422.1 | 693.1 | 642.0 | 650.6 | 681.9 |
| Total equity | 12,830.5 | 27,380.6 | 124,353.9 | 149,628.7 | 135,478.1 | 136,674.6 | 141,027.4 |
| Non-current liabilities | | | | | | | |
| Financing and lease payables | 5,469.0 | 5,532.8 | 15,134.6 | 16,794.6 | 8,361.4 | 8,454.1 | 9,660.0 |
| Deferred income tax liabilities | 0.7 | 20.9 | 18.4 | 94.6 | 94.6 | 94.6 | 94.6 |
| Retirement benefit obligation | 617.0 | 764.5 | 929.8 | 1,068.4 | 1,068.4 | 1,068.4 | 1,068.4 |
| | 6,086.7 | 6,318.2 | 16,082.8 | 17,957.6 | 9,524.4 | 9,617.1 | 10,823.0 |
| Current liabilities | | | | | | | |
| Financing and lease payables | 6,727.0 | 12,854.6 | 76,997.0 | 15,062.2 | 13,601.6 | 16,502.8 | 21,999.7 |
| Trade and other payables | 10,196.5 | 20,791.1 | 64,995.6 | 33,406.2 | 26,141.8 | 26,577.4 | 30,380.1 |
| Income tax liabilities | 182.1 | 839.7 | 13,925.1 | 4,934.1 | 4,934.1 | 4,934.1 | 4,934.1 |
| | 17,105.6 | 34,485.5 | 155,917.7 | 53,402.5 | 44,677.4 | 48,014.4 | 57,313.9 |
| Total equity and liabilities | 36,022.8 | 68,184.3 | 296,354.4 | 220,988.9 | 189,679.9 | 194,306.0 | 209,164.4 |
| Net assets per share | 6.5 | 13.9 | 63.4 | 76.2 | 69.0 | 69.6 | 71.8 |

Thank you!

*"SUCCESSFUL INVESTMENTS IS ABOUT
MANAGING RISKS"*

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