



First Capital  
A Janashakthi Group Company

# TOURISM SECTOR IN SRI LANKA

## “Travel Boom with Rising Trends”

First Capital Research

EQUITY | SRI LANKA | SECTOR UPDATE REPORT

Tharusha Ashokgar +94 11 263 9866  
tharushaash@firstcapital.lk

26 APR 2024



# Executive Summary

## **Tourist arrivals projected to surpass 2.0Mn in 2024E, Expected to exceed pre-pandemic levels by 2025E**

- 2024 commenced on a positive note, witnessing over 200,000 arrivals within the first three months. However, as the winter season draws to a close, a temporary slowdown is anticipated, with expectations of a gradual pickup starting from July. Hence, we project the year to culminate with 2.1Mn arrivals, generating a revenue of USD 3.0Bn. By 2025E, tourist arrivals are forecasted to reach 2.5Mn, indicating a gradual resurgence beyond pre-pandemic levels.

## **Opportunity for Sri Lanka's tourism sector to increase focus on key source markets as they have yet to regain pre-pandemic outbound tourism levels**

- Sri Lanka's primary source markets, such as India, Russia, the UK, and China, are still striving to attain pre-pandemic outbound tourism levels presents an opportunity for the Sri Lankan tourism sector to focus efforts on regaining its presence in these key markets. Additionally, the depreciation of the Sri Lankan Rupee (LKR) has become a significant factor, making holidays in Sri Lanka more financially feasible compared to pre-pandemic times.

## **MICE tourism takes a hit losing the market to regional peers amidst MRR implementation**

- The Minimum Room Rate (MRR) has hindered the growth of Colombo hotel occupancy rates and potential to discourage many MICE (Meetings, Incentives, Conferences, and Exhibitions) groups from choosing Sri Lanka due to the comparatively higher MRR of Colombo city hotels compared to regional peers.

## **Top Recommendations for the sector**

- Overseas exposure: AHUN, KHL, CONN
- Coastal and Boutique hotels: LHL, RHTL, RPBH, SHOT, STAF
- City hotels: AHPL

# Sri Lanka Tourism Key Statistics

## 01. Tourist Arrivals

\*2024YTD : 718,315  
(+84.3%YoY)

## 02. Tourism Earnings

\*2024YTD : USD 1,025.9Mn  
(+103.0%YoY)

## 03. Average spending per tourist

2023 : USD 1,390.4  
(-11.9%YoY)



## 04. MICE arrivals out of total arrivals

2024YTD : 7.7%  
2023 : 5.5%

## 05. Occupancy

\*2023 : 42.0%  
2022 : 30.4%

## 06. Average Duration of Stay (Nights)

2023 : 8.4  
2022 : 9.3

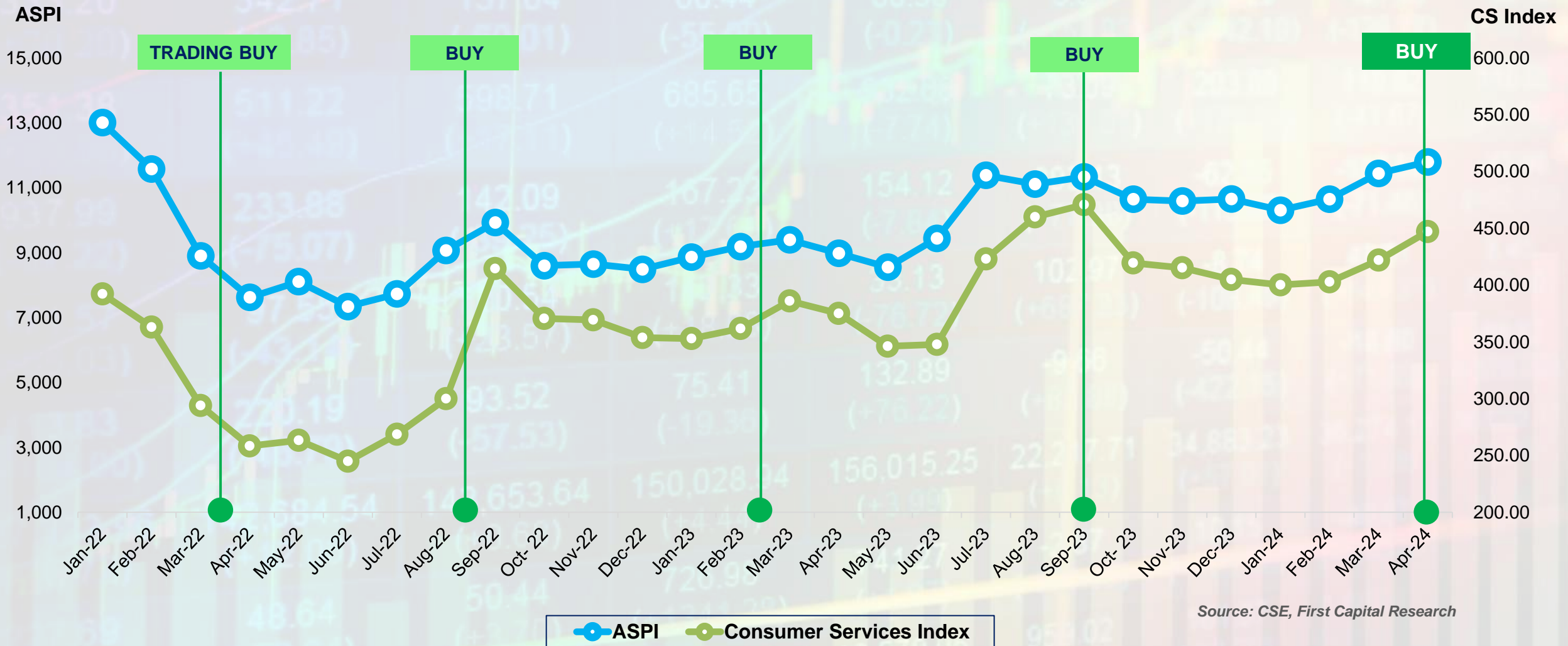
\*Tourist arrivals – Jan- 15<sup>th</sup> Apr 2024

\*Earnings – Jan-Mar 2023

\*Jan-May 2023 Occupancy rate

# RECAP:

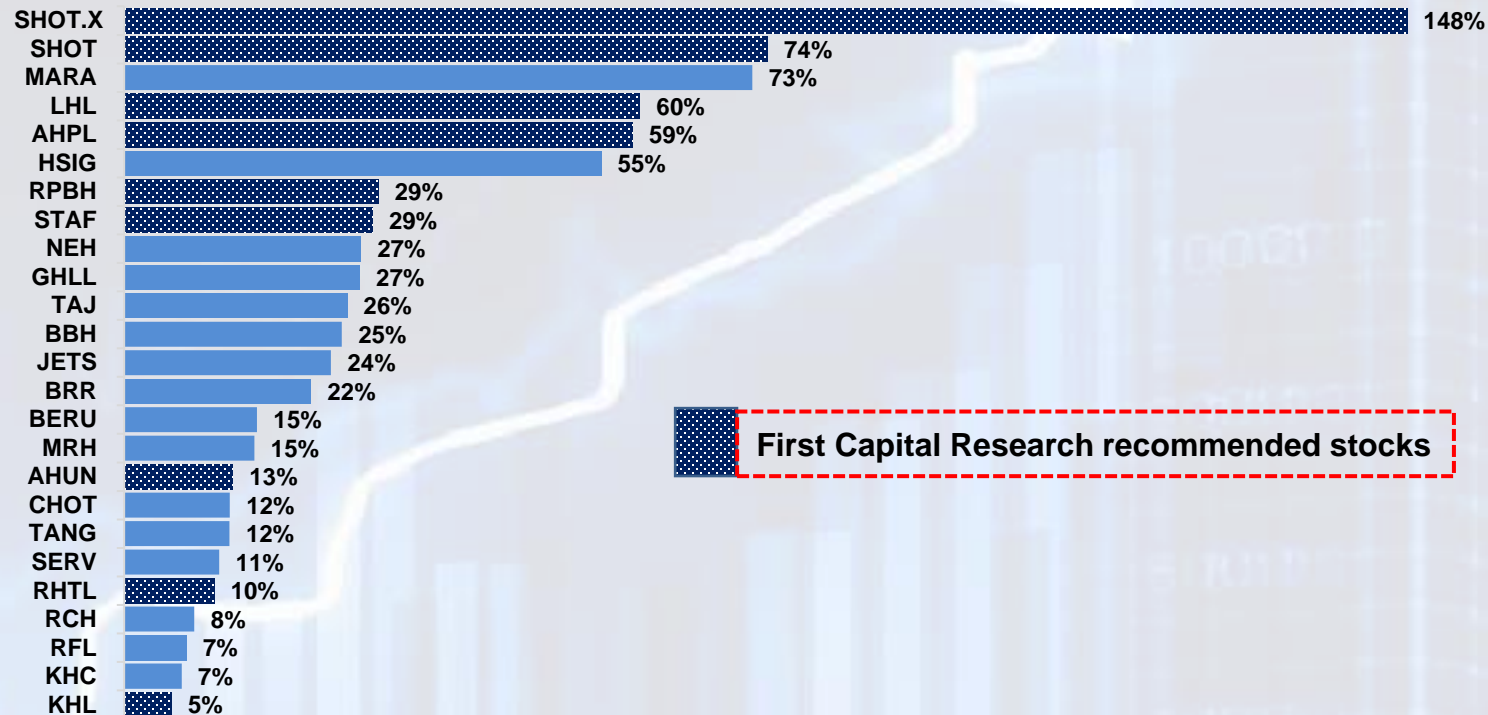
As projected, tourist arrivals have consistently exceeded expectations since the fourth quarter of 2023, signaling a robust recovery trajectory for the Hotels and Tourism sector. This trend underscores a promising outlook for the industry. Hence, we maintain our recommendation at **BUY**



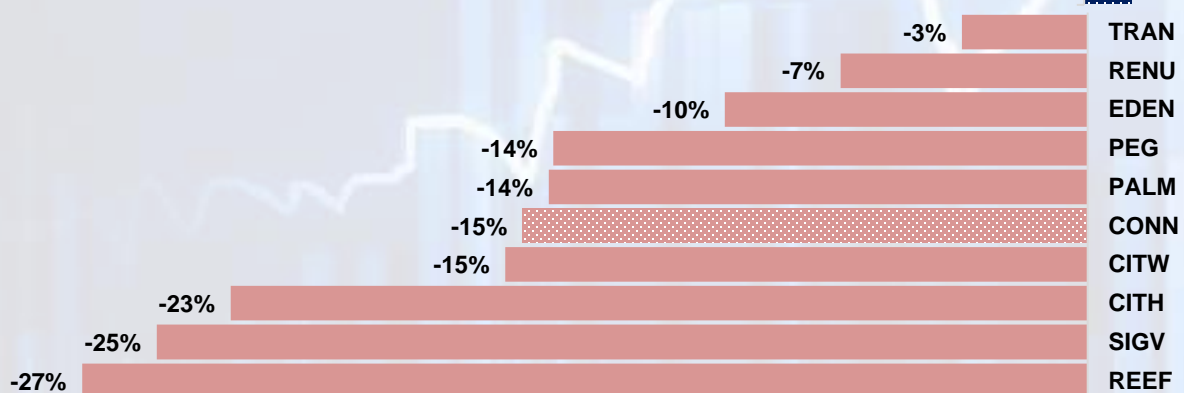
Source: CSE, First Capital Research

# Majority of hotel sector counters register YoY gains amidst tourism boom and economic recovery

The hotels sector counters are reaping significant benefits from the consistent growth in tourist arrivals since the 2H2023. Consequently, the share prices of over 70% of the hotels listed in the CSE have witnessed a YoY rise...



First Capital Research recommended stocks



...Meanwhile, we anticipate that the sector still holds potential for further growth as the tourism industry continues its path to recovery.

Source: CSE, First Capital Research



# 2024 industry developments driving arrival growth

## Promoting Sri Lanka tourism

Sri Lanka Tourism Promotion event in Melbourne draws Australian dignitaries and enthusiasts

TOURISM

After Nas Daily success, Sri Lanka tourism focuses more on influencer marketing

BUSINESS

Push to attract tourists to SL as a prime destination

## Property refurbishment

BUSINESS

Infused with Sri Lankan Heritage

Hilton Colombo unveils refurbished rooms and suites

Galadari Colombo kicks off multi-million dollar renovation

1000 vehicles to be imported for Tourism Sector under two categories

## Airlines resumption and Travel ease

UK's revised travel advisory boosts confidence in Sri Lankan tourism

BUSINESS

Thai Airways back to Colombo after 4 years

March 18, 2024 1:06 am • 0 comment

Hong Kong's Cathay Pacific resumes flights to Sri Lanka

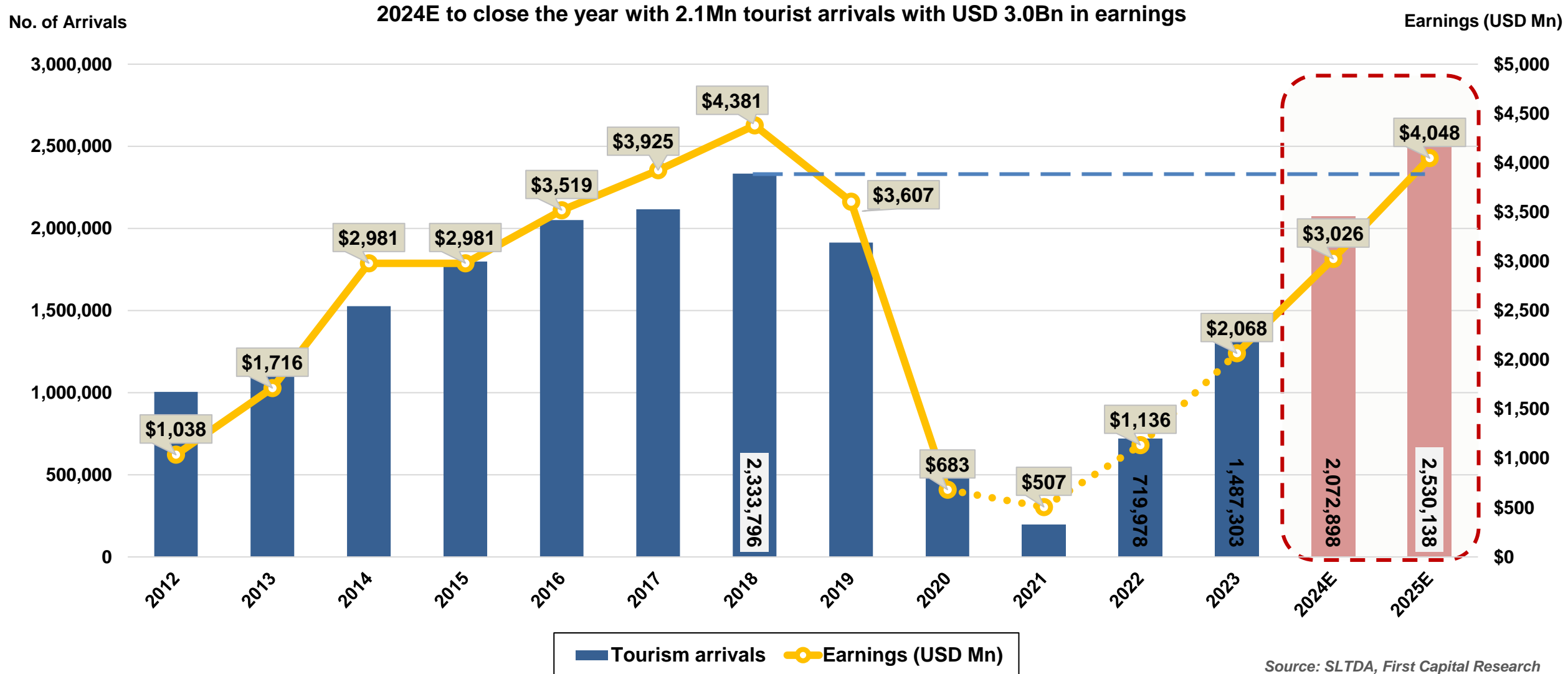
Feb 3, 2024

78

0



# Tourist arrivals projected to surpass 2.0Mn in 2024E, expected to exceed pre-pandemic levels by 2025E

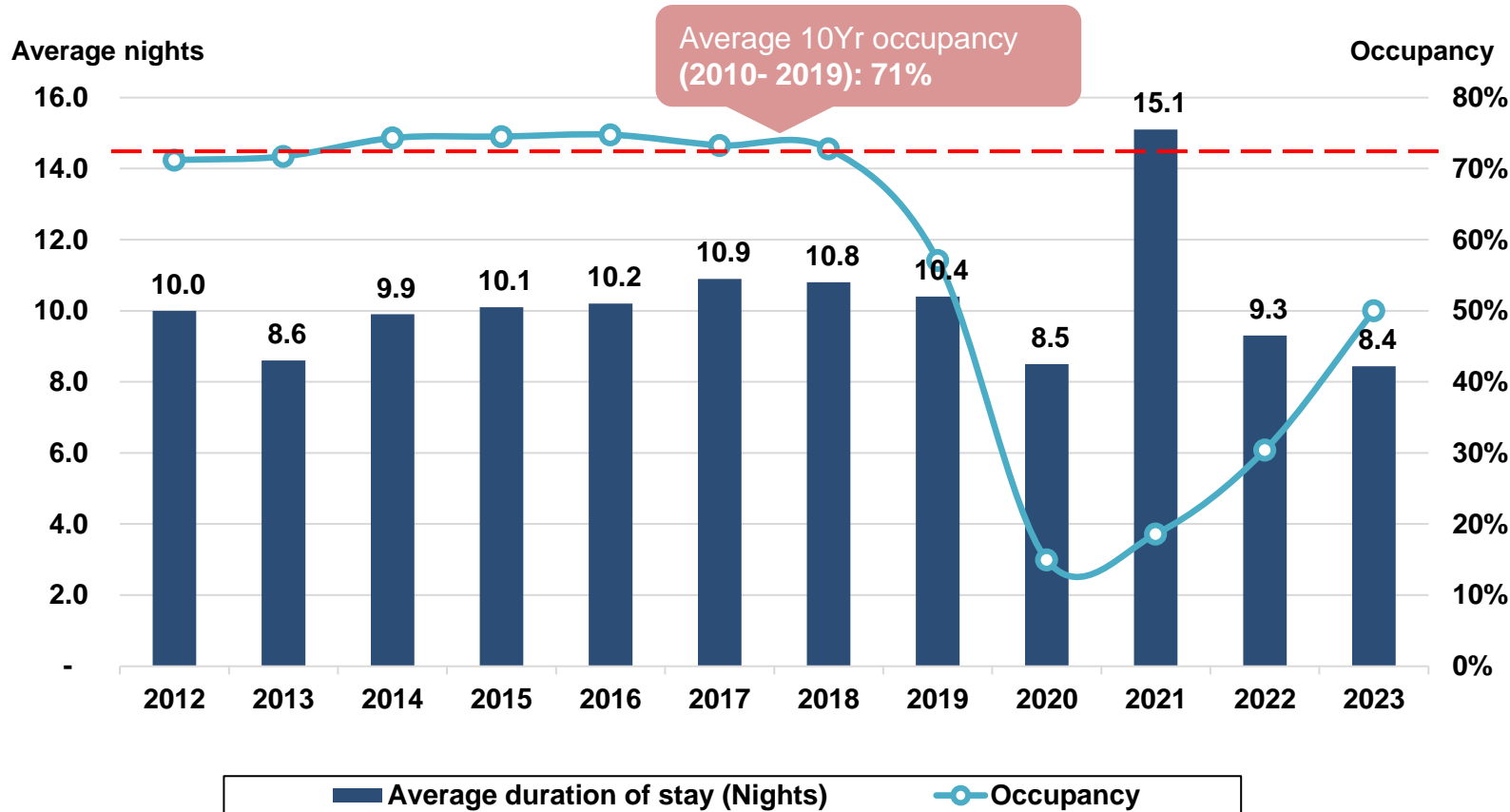


Source: SLTDA, First Capital Research

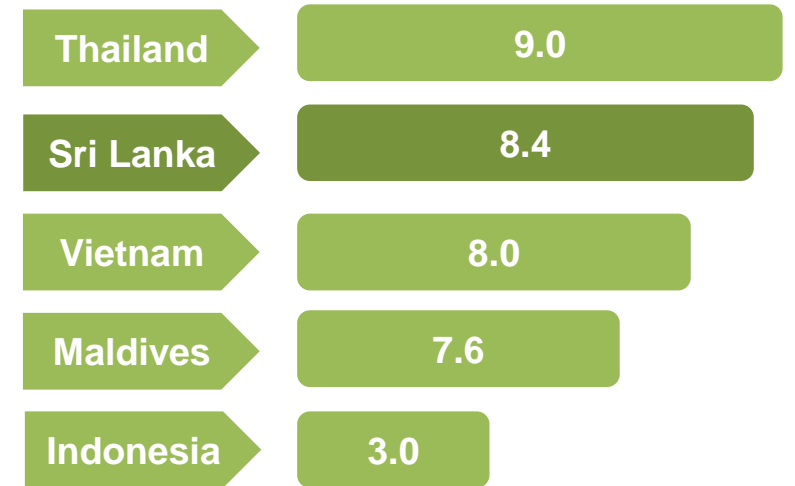
# The average length of tourist stays keeps pace with peers, driving occupancy rates...

While the average duration of stay (Nights) in Sri Lanka remains comparable to regional peers, there has been a marginal contraction compared to 2022. This trend underscores the need for robust further development initiatives to enhance the country's tourism offerings and prolong visitor stays, thereby maximizing economic benefits

Average duration of stay and Occupancy rate



Average length of stay: Comparison of Regional Peers

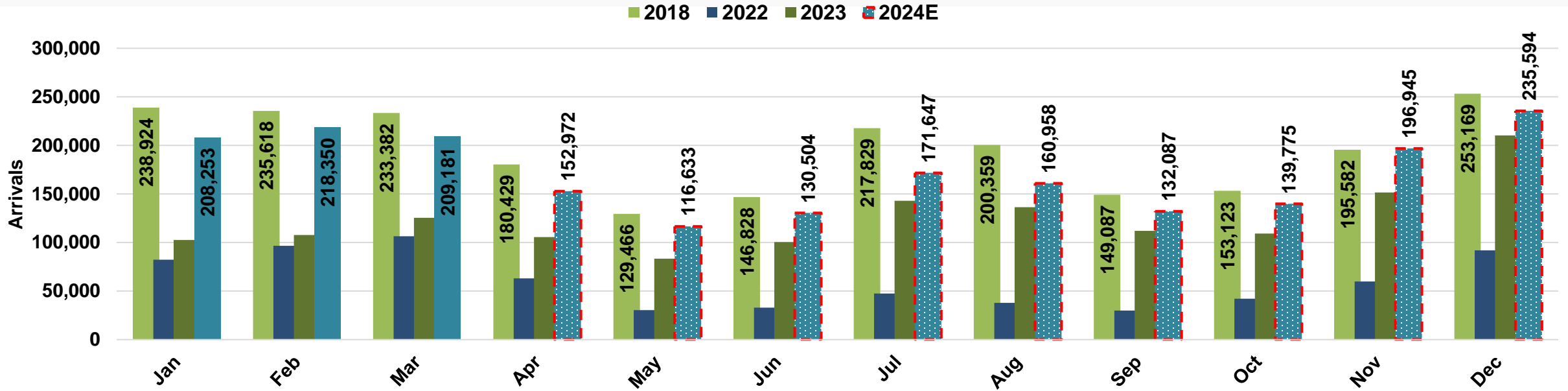


Source: SLTDA, UNTWO, First Capital Research



# ...indicating promising recovery of the tourism sector in 2024

- The year 2024 commenced on a positive trajectory, with Sri Lanka welcoming more than 200,000 arrivals for the first three consecutive months. However, with the winter season drawing to a close, a slowdown in tourist arrivals is anticipated in the upcoming period. Based on the historical trend, potential pickup is forecasted for Jul 2024.
- Meanwhile, a YoY recovery trend is evident from various source markets, reflecting positive momentum. However, there's a notable gradual pickup in Chinese arrivals during the year, accounting for 6.2% of the total arrivals in the 1Q2024.



Source: SLTDA, First Capital Research

## Top 5 Source Markets (1Q2024 vs 1Q2018 Arrivals)



# Opportunity for Sri Lanka's tourism sector to increase focus on key source markets as they have yet to regain pre-pandemic outbound tourism levels



India



China



Russia



UK

Outbound tourism (Mn)

2022: 21.6Mn

2019: 26.7Mn

2022: 95.7Mn

2019: 154.6Mn

2022: 22.5Mn

2019: 45.3Mn

2022: 71.0Mn

2019: 93.1Mn

GDP per capita (2024 estimate)

USD 2,730 (+21%YoY)

USD 13,140 (+5%YoY)

USD 14,390 (+18%YoY)

USD 51,070 (+10%YoY)

Countries offer Visa free travel

62 destinations (Sri Lanka, Thailand, Malaysia, etc.)

84 destinations (Sri Lanka, Thailand, Indonesia, etc.)

125 destinations (Sri Lanka, Thailand, Vietnam, etc.)

193 destinations (Thailand, Vietnam, Malaysia, etc.)

No. of airlines operating to/from SL

10

03

04

16

Main purpose of visit to SL

Vacation, Business

Vacation, Business

Vacation

Vacation, Visiting friends and relatives

Source: IMF First Capital Research

# Sri Lanka surges ahead of Maldives in arrival growth



Tourist arrivals in Sri Lanka have consistently lagged behind those of the Maldives over the past four years. However, the YTD figures for 2024 indicate a significant shift, with Sri Lanka surpassing the Maldives in tourist arrivals. This surge can be attributed to a notable increase in Indian travellers visiting Sri Lanka.

The spike in Indian arrivals to Sri Lanka follows a diplomatic row between India and the Maldives, leading to a boycott of Maldives by many Indian tourists. Consequently, Sri Lanka's tourism sector appears to be benefiting greatly as a preferred destination for Indian travelers due to its proximity and attractions.

Amid declining Indian travelers, the Maldives has successfully attracted Chinese tourists, who now dominate its source market. Chinese travelers are known for their higher spending habits, ranking first globally in tourism expenditure even during the pandemic. This shift highlights the Maldives' adaptability and the lucrative opportunity in catering to Chinese tourists' preferences.

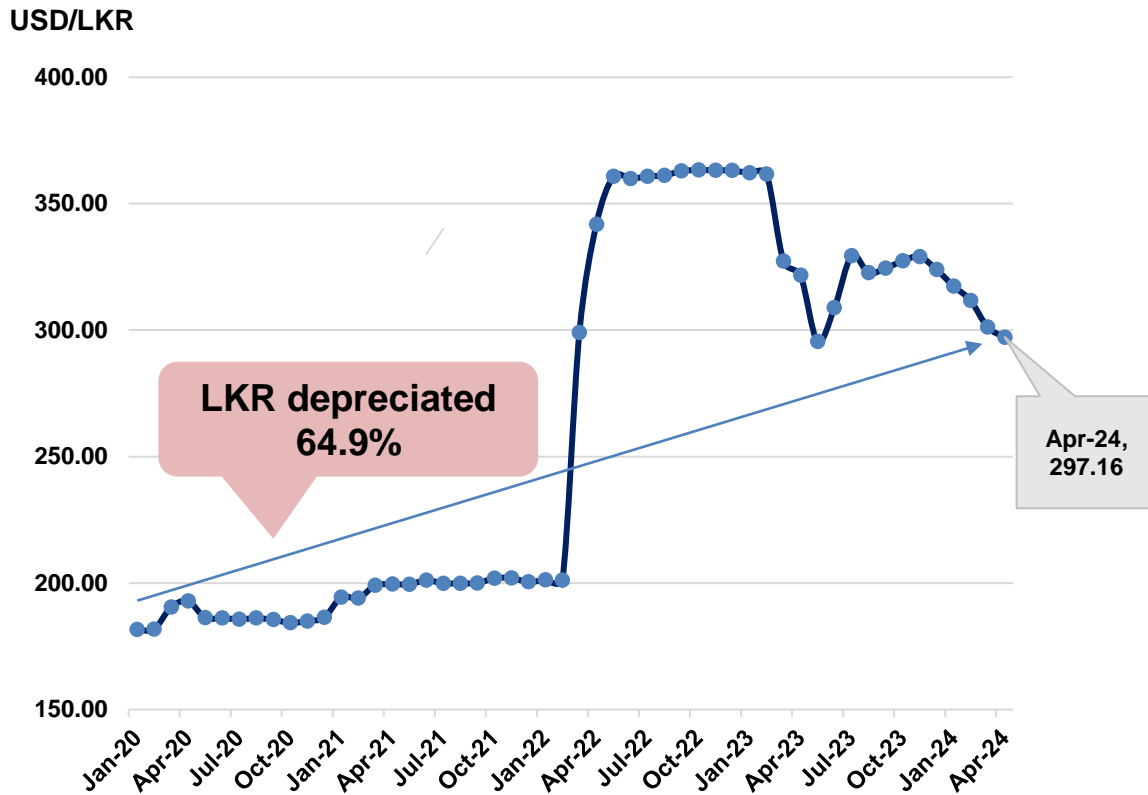
Source: SLTDA, Ministry of Tourism Maldives, First Capital Research

\*2024YTD – Jan – 15<sup>th</sup> Apr 2024



# Depreciation of LKR has made SL holidays affordable compared to pre-pandemic levels

LKR has depreciated over 60% compared to pre-pandemic times, which made the cost of living in SL more affordable for international travelers.



Source: CBSL, First Capital Research

## Sri Lanka tops list of affordable destinations for Digital Nomads

Rank	Countries	Cost of living (rent, food, transport and utility bills) per month	
		GBP	USD
1	Sri Lanka	£491.00	\$624.00
2	Argentina	£573.00	\$728.00
3	Colombia & North Macedonia	£578.00	\$734.00
4	Indonesia	£591.00	\$751.00
5	Malaysia	£649.00	\$824.00
6	Brazil	£677.00	\$860.00
7	Ecuador	£694.00	\$882.00
8	South Africa	£738.00	\$937.00

Among the 50 countries offering digital nomad visas, Sri Lanka stands out as the best value for money, boasting an average monthly cost of living at USD 624.0. This represents a 14% savings in disposable income compared to the second most affordable country on the list

Source: CBSL, Flamingo app, First Capital Research

# MRR implementation may hinder growth of City hotels in the medium term...

- The MRR, initially enforced for Colombo city hotels from 1 October 2023 to 31 March 2024, is now poised for extension, serving to ensure fair competition and to reposition the country as a high-end holiday destination to boost foreign earnings.
- Arguments have surfaced suggesting that the implementation of the minimum room rate has hindered the growth of Colombo hotel occupancy rates and deterred numerous MICE groups from choosing Sri Lanka due to the comparatively higher MRR of Colombo city hotels compared to regional peers.
- City hotels in Colombo are losing occupancy to Negombo hotels due to the latter's significant discounts on room rates. Travellers, who typically spend two nights in either city before embarking on round trips, prioritize affordability over luxury for their short stays. This trend underscores the importance of cost-consciousness in travellers' lodging decisions during the visits.

## Average Room Rate (ARR USD) -City Hotels

Type of Accommodation	Sri Lanka (Colombo: Prior to MRR)	Sri Lanka (Colombo: MRR)	Vietnam (Ho Chi Minh City)	Thailand (Bangkok)	Indonesia (Jakarta)	Malaysia (Kuala Lumpur)
5 Star	70+	100+	120+	90+	110+	85+
4 Star	50+	75+	65+	60+	60+	60+
3 Star	35+	50+	40+	40+	45+	30+

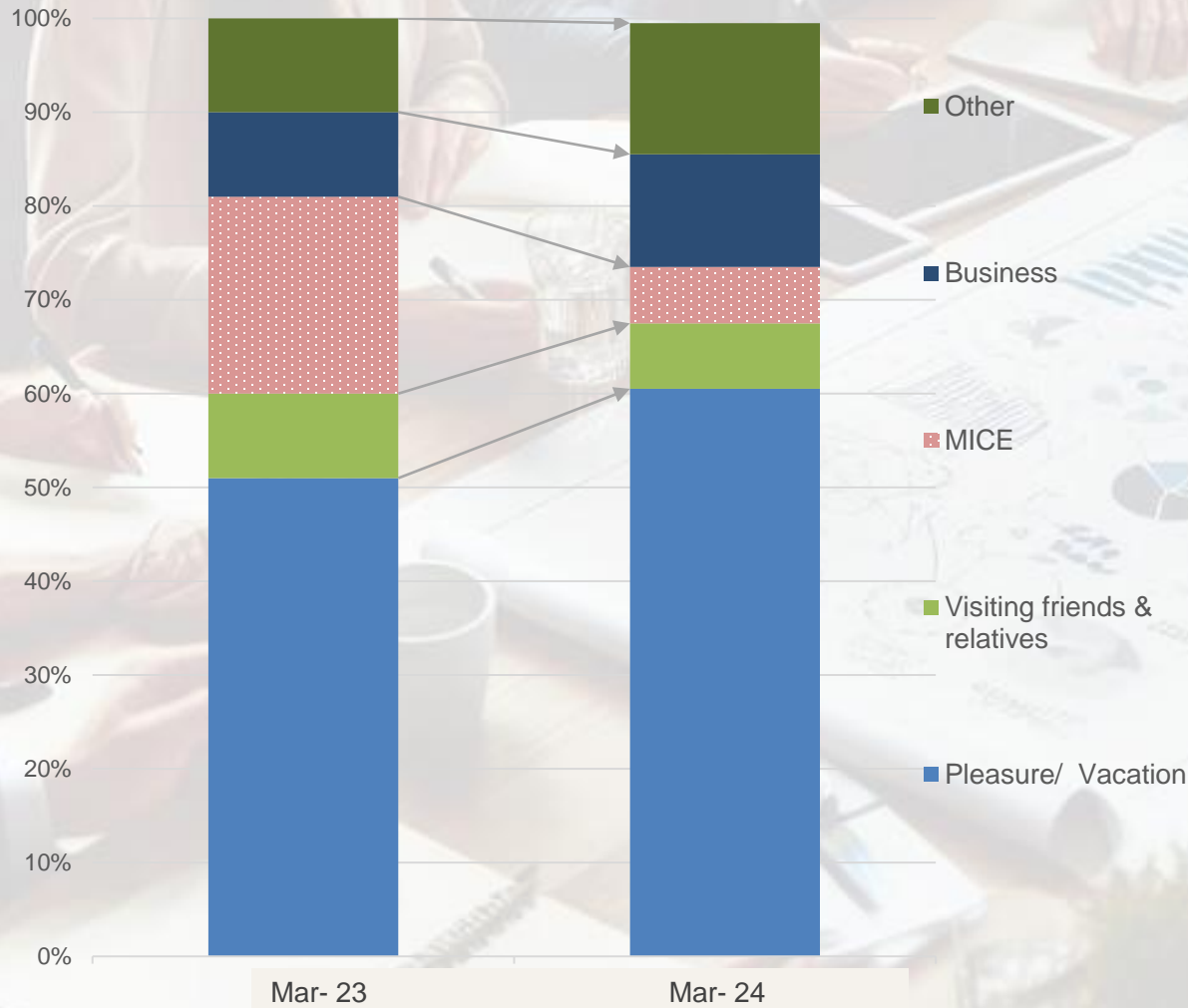
## Average Room Rate (ARR USD) -Regional comparison

Type of Accommodation	Sri Lanka (Colombo MRR)	Negombo	Dambulla	Nuwara Eliya	Yala	Galle
5 Star	100+	75+	80+	125+	150+	100+
4 Star	75+	50+	40+	75+	100+	70+
3 Star	50+	30+	30+	50+	50+	35+

Source: booking.com, First Capital Research

# ...as MICE tourism takes a hit losing the market to regional peers...

MICE tourism from India contracted on a YoY basis



- The implementation of the MRR is likely to disproportionately affect specific segments of the tourism industry, particularly the MICE (Meetings, Incentives, Conventions, and Exhibitions) sector, which is one of the fastest-growing segments in tourism.
- MICE tourism tends to be concentrated in urban areas due to the presence of extensive infrastructure supporting such events. Leading destinations for MICE tourism in Asia include cities like Singapore, Bangkok, Kuala Lumpur, and Mumbai, where there is ample infrastructure and facilities to accommodate large-scale events
- Given the bulk nature of bookings, the higher Minimum Room Rate (MRR) in Colombo compared to regional competitors may deter MICE groups from choosing Sri Lanka as their destination, potentially impacting the growth and development of this lucrative tourism segment.

Source: SLTDA



# ...however, potential city developments may elevate Sri Lanka as premier destination



***Cinnamon Life Integrated Resort***

- Expected to open in 2H2024E
- Conferencing capacity (~5,000 pax), 800 guest room hotel, 7 specialty restaurants (~1,300 pax) and entertainment facilities including Casino



***ITC Ratnadipa Colombo***

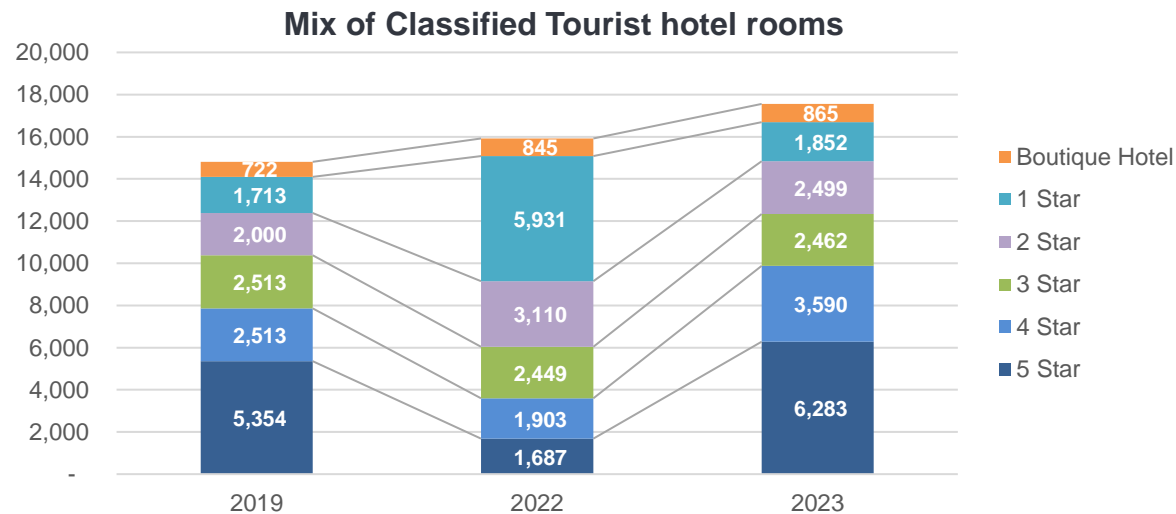
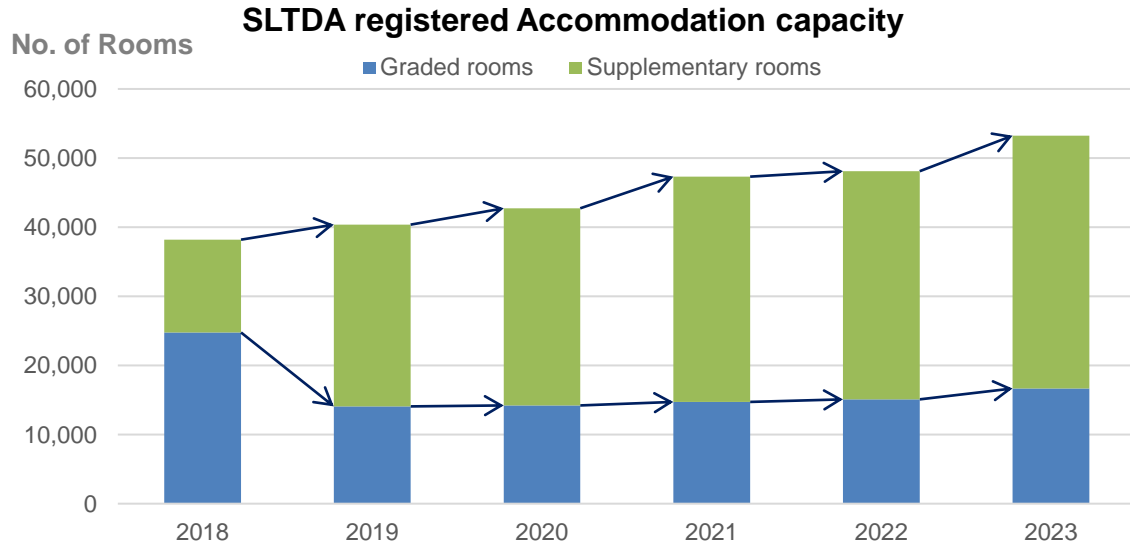
- Commenced operations in Apr 2024
- The landmark hotel is their first project outside India for ITC with the investment of USD 300.0Mn to feature about 352 rooms



***Port City Colombo***

- Cinnamon Life Integrated Resort and ITC Ratnadipa, classified as Tier 1 hotels, will command premium pricing above USD 170.0 per room, reflecting their super-luxury status
- Tier 2 hotels, such as Cinnamon Grand, Taj etc, typically offer rooms in the range of USD 100.0 to USD 130.0
- With the introduction of these luxury hotels, there may not be a significant impact on existing 5-star city hotels in Colombo, as they cater to different segments of the market with varying price points and amenities

# Increased tourism sector investment signals strong investor confidence



## Accommodation Capacity

- The concentration of classified tourist hotels in the Western, Central, and Southern provinces highlights uneven development in tourism-related infrastructure and tourist destinations.

Province	2023	Growth (YoY)
Western	18,095	8%
Southern	14,144	13%
Central	8,816	10%
Uva	2,793	21%
Eastern	2,552	-1%
North Central	2,353	9%
North Western	2,149	14%
Sabaragamuwa	1,372	34%
Northern	955	22%

## Investment Projects

- Investment in the sector skyrocketed by 361.9%YoY to USD 170.1Mn in 2023 (2022: USD 36.8Mn), propelled by heightened investor confidence, buoyed by favorable economic conditions that encouraged the resumption of construction activities.
- The approved investment projects in 2023 are expected to add 1,273 new rooms to the inventory, increasing the total number of rooms in SL to 54,502.

Source: SLTDA, First Capital Research

# Risk Assessment

Risk factors	Impact
<p><b>Increased competition:</b> As global markets began to open up, Sri Lanka experienced a substantial increase in competition from other destinations. The greater choice available to tourists resulted in heightened competition for Sri Lanka's tourism sector</p>	High
<p><b>Retaining skilled talent pools:</b> The economic crisis in Sri Lanka has led to a notable surge in economic migration, resulting in a significant depletion of the country's talent pools</p>	High
<p><b>Increase in Visa fee:</b> While Sri Lanka extends visa-free travel to only eight countries, notably including India, China, and Thailand to encourage arrivals, it has concurrently raised visa fees for other nations. The increase from USD 50.0 to USD 75.0, coupled with the transition to a global processing company possibly imposing an additional USD 18.5 charge, poses a significant risk. This adjustment may prompt travelers to explore alternative destinations offering visa-free entry and similar vacation experiences</p>	Medium
<p><b>Slow growth in infrastructure developments:</b> Limited investments in tourism-related infrastructure and promotional activities could result in Sri Lanka falling behind its regional peers, which offer better facilities for similar costs</p>	High
<p><b>Impact of higher tax and cost structure on hotels:</b> With increased tax burdens and operational expenses, hotels face challenges in maintaining profitability. This could deter investment in the hospitality sector and hinder its growth</p>	Medium
<p><b>Global uncertainties:</b> Geo-political tensions and global recessionary pressures may dampen travel sentiment, leading to a preference for domestic trips or visits to neighboring countries over foreign travel. Concerns about living costs and economic stability could prompt travelers to opt for more cost-effective and familiar destination</p>	Medium - High
<p><b>MRR implementation:</b> The implementation of the MRR for star hotels in Colombo has significantly affected smaller star hotels. Lower-star class accommodations are experiencing reduced demand, as customers, particularly those who are price-sensitive, seek alternatives such as homestays or hostel</p>	Medium

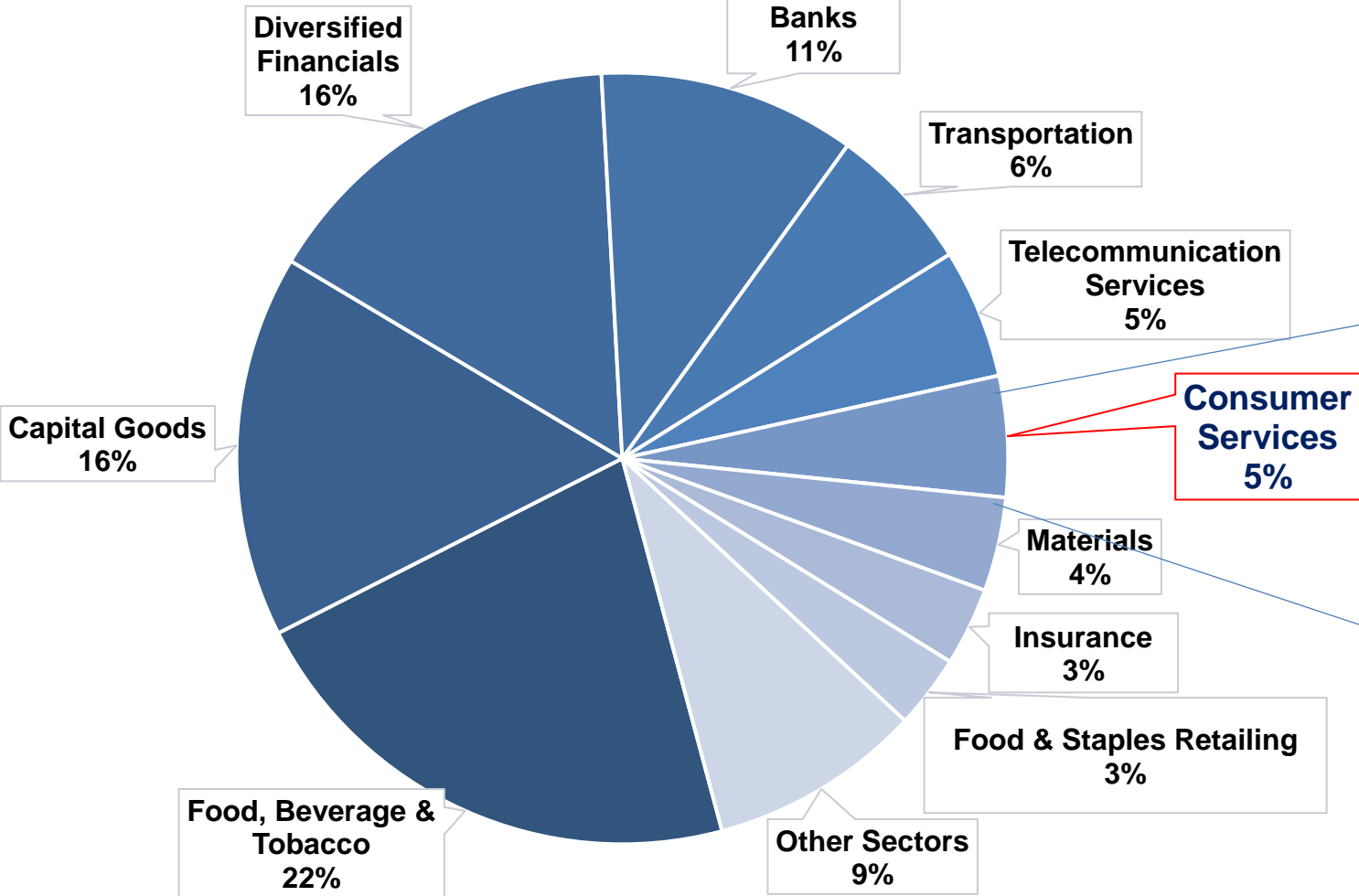




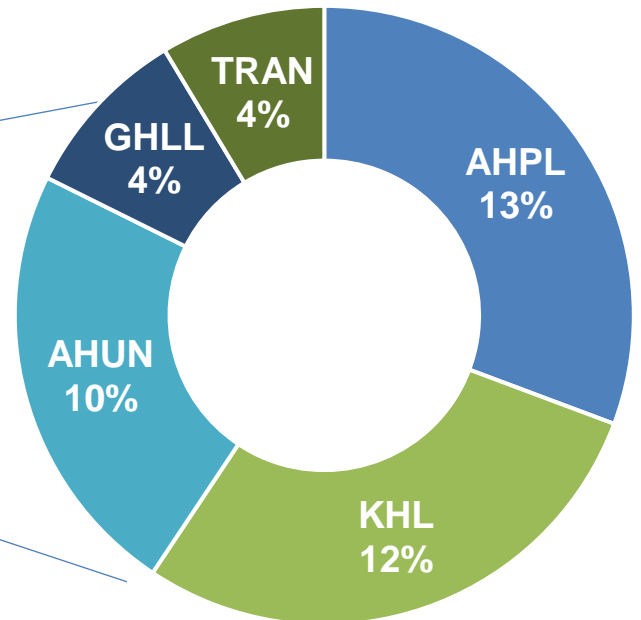
**VALUATION**

# Market capitalization composition – CSE

Of the total market capitalization amounting to LKR 4,764.6Bn, LKR 241.6Bn, equivalent to 5%, is held by Consumer Services (Hotels) sector

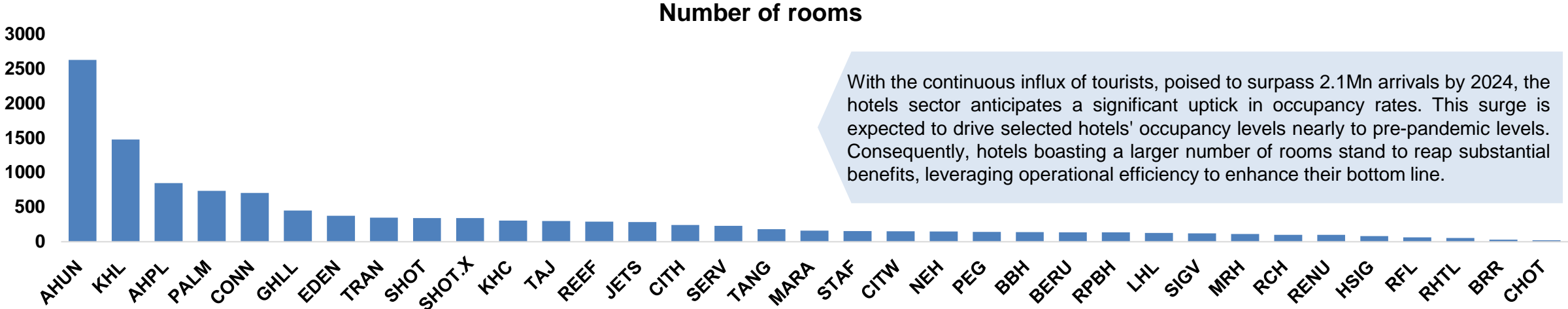


Top 5 counters leading market capitalization in Consumer Services sector



Source: CSE

# AHUN, KHL, and AHPL, with the largest number of rooms, have significant potential for performance upgrades

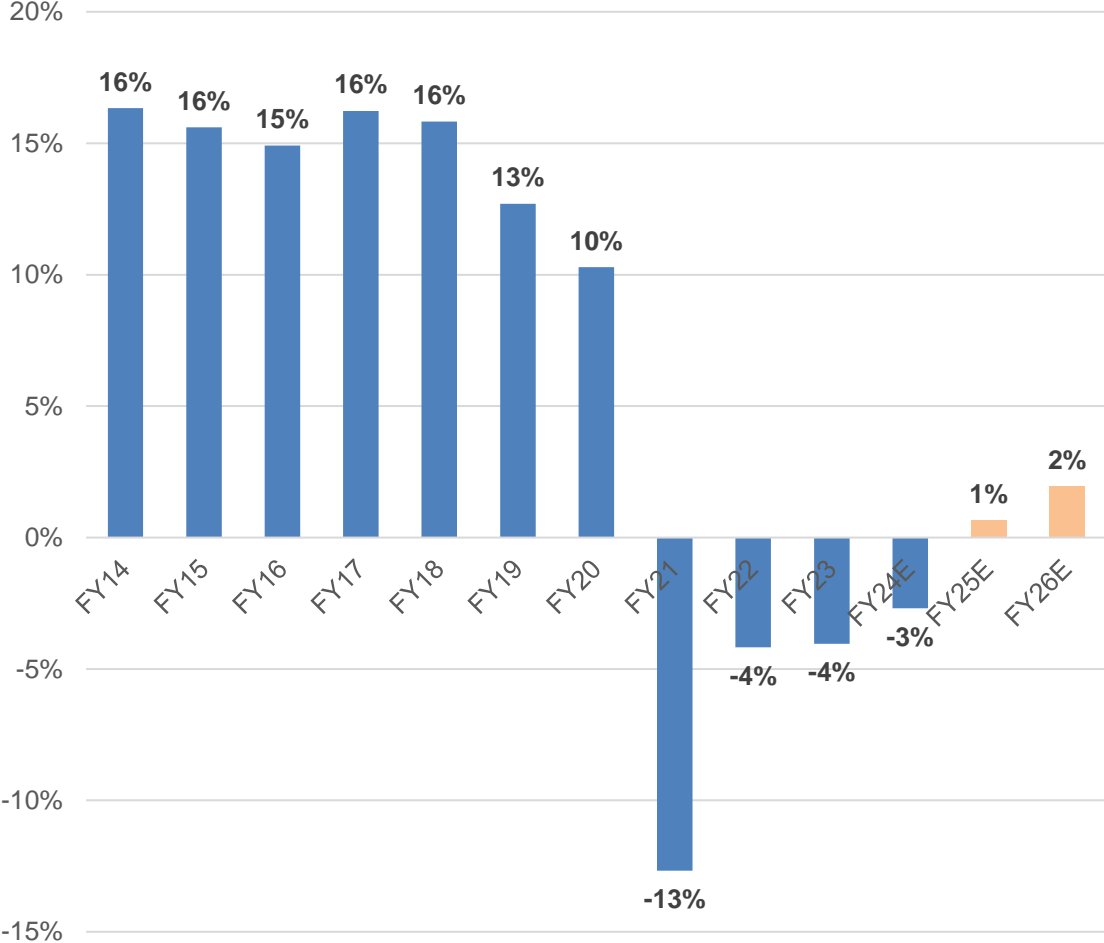


# 70% of the Hotels are trading at a discount to the industry Price to Book value

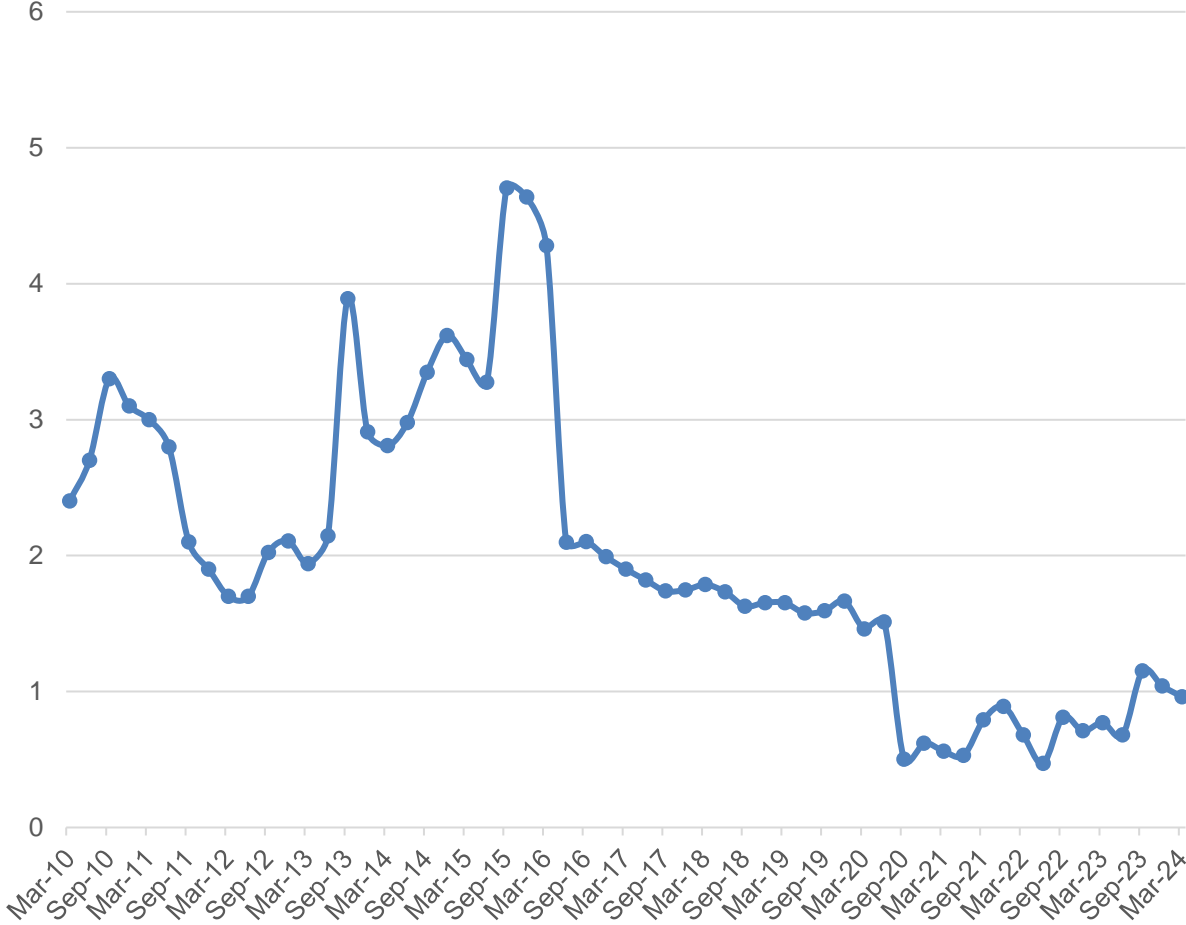


# Trading multiples remain attractive for the Hotel sector, while we anticipate an improvement in ROE and the realization of positive returns in FY25E

Positive returns expected in FY25E across the sector are anticipated to contribute to the sector's ROE turning positive



Sector PBV stands at 1.0x significantly discount to near 10-year average of 1.8x



Source: CSE, First Capital Research



# FCR Recommendations: Hotel Sector



## FIRST CAPITAL RECOMMENDATIONS: HOTEL SECTOR

Stock	Stock Code	Share price 24.04.2024	Target Price 2024E/FY25E	52-week High	52-week Low	Capital gain (%) FY25E	Total return (%) FY25E	Annualized return (%) FY25E	EPS FY25E	Forward PER	No. of Rooms	FCR Recommendation
		LKR	LKR	LKR	LKR				LKR	(x)		
AITKEN SPENCE HOTEL HOLDINGS PLC	AHUN.N	67.00	<b>90.00</b>	90.00	55.00	<b>34.3%</b>	<b>36.1%</b>	<b>39.8%</b>	5.8	11.6	2,627.00	<b>BUY</b>
JOHN KEELLS HOTELS PLC	KHL.N	19.20	<b>27.00</b>	24.70	15.60	<b>40.6%</b>	<b>40.6%</b>	<b>44.8%</b>	1.7	11.5	1,476.00	<b>BUY</b>
HAYLEYS LEISURE PLC	CONN.N	21.10	<b>30.00</b>	28.00	19.10	<b>42.2%</b>	<b>42.2%</b>	<b>46.6%</b>	2.7	8.0	704.00	<b>BUY</b>
THE LIGHTHOUSE HOTEL PLC	LHL.N	45.20	<b>55.00</b>	46.80	23.50	<b>21.7%</b>	<b>21.7%</b>	<b>23.8%</b>	5.1	8.8	127.00	<b>BUY</b>
THE FORTRESS RESORTS PLC	RHTL.N	25.40	<b>30.00</b>	26.70	17.30	<b>18.1%</b>	<b>18.9%</b>	<b>20.7%</b>	1.9	13.2	53.00	<b>BUY</b>
ROYAL PALMS BEACH HOTELS PLC	RPBH.N	33.00	<b>45.00</b>	36.90	20.20	<b>36.4%</b>	<b>38.5%</b>	<b>42.4%</b>	3.5	9.4	136.00	<b>BUY</b>
SERENDIB HOTELS PLC	SHOT.N	16.40	<b>20.00</b>	16.90	8.40	<b>22.0%</b>	<b>22.0%</b>	<b>24.1%</b>	1.3	12.8	341.00	<b>BUY</b>
DOLPHIN HOTELS PLC	STAF.N	41.20	<b>50.00</b>	42.40	27.20	<b>21.4%</b>	<b>23.3%</b>	<b>25.6%</b>	4.2	9.8	154.00	<b>BUY</b>
ASIAN HOTELS AND PROPERTIES PLC	AHPL.N	68.30	<b>86.00</b>	71.00	32.10	<b>25.9%</b>	<b>25.9%</b>	<b>28.4%</b>	5.7	12.0	847.00	<b>BUY</b>

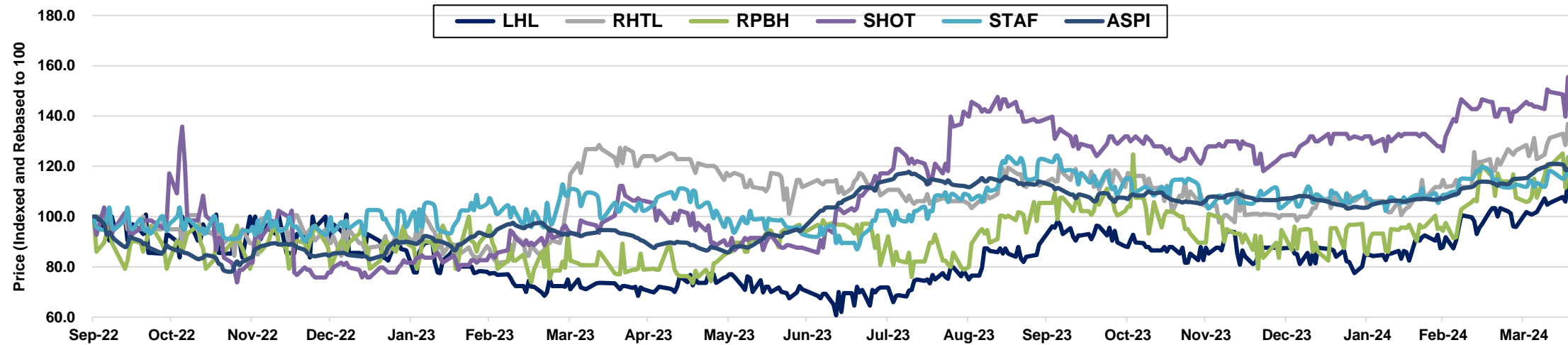
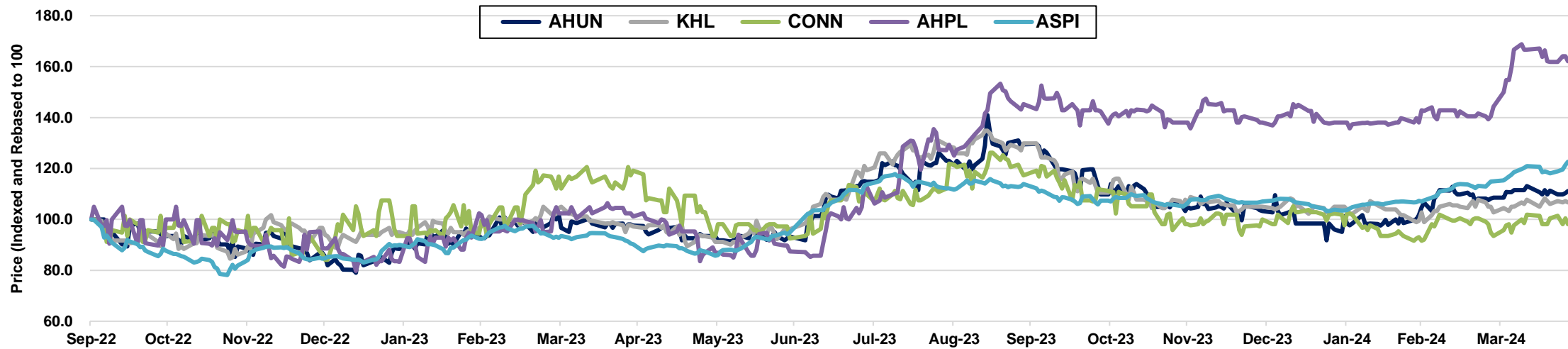
Source: Bloomberg, First Capital Research



## VALUATIONS : HOTEL SECTOR

First Capital A Janasarakathi Group Company	Stock	Stock Code	Net earnings (FY25E)	Net earnings (FY26E)	Forward PER (FY25E)	Forward PER (FY26E)	Forward PBV (FY25E)	NAVPS (FY25E)	DPS (FY25E)	DY (FY25E)	Total return (FY25E)	ROE (FY25E)
			LKR Mn	LKR Mn	(x)	(x)	(x)	LKR	LKR	(%)	(%)	(%)
	AITKEN SPENCE HOTEL HOLDINGS PLC	AHUN.N	1,935.0	2,564.0	11.6	8.8	1.0	67.10	1.2	1.7%	36.1%	8.6%
	JOHN KEELLS HOTELS PLC	KHL.N	2,441.0	3,118.0	11.5	9.0	0.8	23.10	-	-	40.6%	7.3%
	HAYLEYS LEISURE PLC	CONN.N	286.0	405.0	8.0	5.6	1.4	14.80	-	-	42.2%	17.9%
	THE LIGHTHOUSE HOTEL PLC	LHL.N	235.0	379.0	8.8	5.5	0.7	68.50	-	-	21.7%	7.5%
	THE FORTRESS RESORTS PLC	RHTL.N	214.0	291.0	13.2	9.7	14.0	17.80	0.2	1.5%	18.9%	10.9%
	ROYAL PALMS BEACH HOTELS PLC	RPBH.N	176.0	253.0	9.4	6.5	0.6	52.00	0.7	2.1%	38.5%	6.8%
	SERENDIB HOTELS PLC	SHOT.N	573.0	679.0	12.8	10.8	1.4	11.40	-	-	22.0%	11.3%
	DOLPHIN HOTELS PLC	STAF.N	267.0	377.0	9.8	6.9	0.7	55.40	0.8	2.1%	23.3%	7.6%
	ASIAN HOTELS AND PROPERTIES PLC	AHPL.N	2,530.0	3,226.0	12.0	9.4	0.9	72.60	-	-	25.9%	7.9%

# Price Movement of FCR recommendations vs ASPI (Indexed and rebased to 100)



# AITKEN SPENCE HOTEL HOLDINGS PLC

**AHUN.N0000**

**Current Price: LKR 67.00**

**Fair Value: LKR 90.00 (FY25E)**

**BUY**

**AHUN is a 71.2% owned subsidiary of Aitken Spence (SPEN.N0000)**

It is the largest room key operator in the country with operations in Sri Lanka (1,295rooms in 8 properties & 116 rooms in 1 managed properties), Maldives (735 rooms in 5 properties), Oman (150 rooms in 1 owned property and 191 rooms in 2 managed properties) and India (140 rooms in 1 owned property).

**AHUN recorded a profit of LKR 830.3Mn in 3QFY24, after 6 quarters of losses**

In the 3QFY24, AHUN reversed its trajectory from consecutive losses to a notable profit of LKR 830.3Mn, driven by a substantial increase in revenue at its Sri Lankan property, which surged by 94.6%YoY to LKR 3.4Bn. However, the South Asian and Middle East sector saw a marginal decline of 2.2%YoY during the same period. Moreover, AHUN capitalized on easing cost pressures due to declining inflation and interest rates, resulting in a significant improvement in EBIT margin by 684bps to 22.8%.

**The robust recovery anticipated in the tourism industry is expected to provide a significant boost to AHUN, which holds a large No.of rooms .**

With over 75.0% of its revenue sourced from outside Sri Lanka and a significant presence in the country, AHUN is poised for accelerated earnings recovery driven by operational efficiency, compared to its peers. Leveraging the anticipated economic resurgence and impending influx of tourists, alongside global recovery trends, we forecast AHUN's earnings to soar to LKR 1.9Bn for FY25E. Based on this outlook, we derive a fair value of LKR 92.0 per share, offering a substantial capital gain potential of 37.3% for FY25E. **BUY**

P/E 31 March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Estimates (LKR 'Mn)</b>								
Revenue	19,055	18,588	5,592	24,571	45,060	50,312	58,029	70,562
EBIT	2,735	1,564	-5,189	4,280	7,311	5,427	8,512	8,970
Net Profit	<b>811</b>	<b>-625</b>	<b>-4,669</b>	<b>624</b>	<b>-288</b>	<b>-29</b>	<b>1,935</b>	<b>2,564</b>
Adjusted EPS (LKR)	2.4	(1.9)	(13.9)	1.9	(0.9)	(0.1)	5.8	7.6
YoY Growth (%)		-180%	-632%	113%	146%	90%	6754%	33%
<b>Valuations</b>								
PER (x)	28.3x	N/A	N/A	36.1x	N/A	N/A	11.6x	8.8x
PBV (x)	1.1x	1.1x	1.4x	1.1x	1.1x	1.1x	1.0x	0.9x
DPS	1.0	-	-	-	-	-	1.2	1.5
DY (%)	1.5%	0.0%	0.0%	0.0%	0.0%	0.0%	1.7%	2.3%
Dividend Payout	42.3%	0.0%	0.0%	0.0%	0.0%	0.0%	20.0%	20.0%
ROE	3.7%	-3.1%	-29.4%	3.1%	-1.4%	-0.1%	8.6%	10.4%

PER based Valuation	FY25E
Earnings (LKR 'Mn)	1,935
No. of Shares ('Mn)	336
EPS	5.8
Expected Average PER	16.0x
<b>Target Price after Rounding off</b>	<b>90</b>



# JOHN KEELLS HOTELS PLC

**KHL.N0000**

**Current Price: LKR 19.20**

**Fair Value: LKR 27.00 (FY25E)**

**BUY**

## 80.3% owned Subsidiary of Premiere John Keells Holdings

John Keells Hotels PLC stands as one of Sri Lanka's premier hotel operators, boasting a robust portfolio encompassing 12 resorts spread across both Sri Lanka and the Maldives. In total, the company manages 1,476 hotel rooms, with 1,022 rooms located in Sri Lanka and 454 rooms in the Maldives. All of John Keells Hotels' properties operate under the renowned Cinnamon brand. Notably, during the fiscal year 2021, the company expanded its portfolio with the addition of Cinnamon Bentota Beach, a luxury-focused resort designed to cater to the upscale market segment. Within the Maldives segment, the company's offerings include four hotels comprising a total of 454 rooms, targeting discerning upper and luxury tourists

## Positive turnaround in EBIT to LKR 859.9Mn, whilst tax expenses hampered profit growth

KHL reported a turnaround and recorded a PBT of LKR 109.8Mn (+136.0%YoY) driven by the Sri Lankan Hotels(Colombo Hotels) and the Resorts segments which reported a growth in occupancies of 57% and 66% during the 3QFY24. As a result of occupancies surpassing 60% mark, together with the significant improvement in ARR, Sri Lankan resorts turned around its performance as EBIT margin improved to 7.2% cf. -23.5% 3QFY24. On the other hand, Maldivian Resorts segment witnessed flat performance in EBIT Margin at 11.9% because of the drop in occupancies (88% in 3QFY24 cf. 91% in 3QFY23), largely attributable to the change in arrivals mix whilst the translation impact from the appreciation of the LKR (c. 13%YoY in 3QFY24) also added woes to the profitability during the concerned quarter. Despite the group recording a positive PBT growth, tax expenses hampered the net profit growth to LKR 8.2Mn.

## Sri Lanka to outperform Maldives arrivals given the change in arrivals mix

Going forward, we expect Colombo Hotels and Sri Lankan Resorts segment to continue its exceptional performance and lead the profitability whilst the reduction in electricity tariffs and fuel prices are also expected to bode well towards further improvement in EBIT margins. However, Maldivian Resorts segment profitability is expected to remain challenged during the near-term, due to increased competition from the informal segment amidst the change in arrivals mix from traditional markets. **BUY**

P/E 31 March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Estimates (LKR 'Mn)</b>								
Revenue	11,033	9,712	3,661	13,355	28,835	34,384	41,991	56,860
EBIT	1,087	-764	-4,777	-190	1,742	1,032	6,089	6,539
Net Profit	<b>817</b>	<b>-1,201</b>	<b>-5,096</b>	<b>-1,203</b>	<b>-321</b>	<b>-1,371</b>	<b>2,441</b>	<b>3,118</b>
Adjusted EPS (LKR)	0.6	(0.8)	(3.5)	(0.8)	(0.2)	(0.9)	1.7	2.1
YoY Growth (%)		-247%	-324%	76%	44%	327.2%	78.1%	27.7%
<b>Valuations</b>								
PER (x)	34.2x	N/A	N/A	N/A	N/A	N/A	11.5x	9.0x
PBV (x)	1.0x	1.0x	1.1x	0.9x	0.9x	0.9x	0.8x	0.8x
DPS	0.2	-	-	-	-	-	-	0.4
DY (%)	0.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	2.2%
Dividend Payout	26.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	20.0%
ROE	2.8%	-4.2%	-20.9%	-4.0%	-1.0%	-4.4%	7.3%	8.6%

PER based Valuation	FY25E
Earnings (LKR 'Mn)	2,441
No. of Shares ('Mn)	1,456
EPS	1.7
Expected Average PER	16.0x
<b>Target Price</b>	<b>27</b>

# HAYLEYS LEISURE PLC

**CONN.N0000**

**Current Price: LKR 21.10**

**Fair Value: LKR 30.00 (FY25E)**

**BUY**

**CONN is 43.2% owned subsidiary of export conglomerate Hayleys (HAYL.N)**

Hayleys Leisure PLC's hotels, resorts, and boutiques consists of 10 properties with 704 rooms, of which 09 are scattered across the resplendent island of Sri Lanka and the other, a luxurious resort in the Maldives.

**CONN net loss reduced to LKR 123.6Mn in 3QFY24 (3QFY23: loss of LKR 193.3Mn)**

CONN experienced significant top-line growth, surging by 77.0%YoY to reach LKR 656.9Mn in the 3QFY24, propelled by a robust recovery in tourist arrivals. However, this growth dampened by a notable increase of 53.0% in administrative expenses. The closure of the Maldivian property for refurbishments during the 3QFY24 further hindered profitability growth. Nonetheless, there was a silver lining with a decrease in finance costs to LKR 95.2Mn, attributed to the decline in the AWPLR which partially offset the losses.

**CONN to witness a turnaround in profitability in FY25E**

CONN's coastal hotels and boutique hotels in Sri Lanka saw an average occupancy rate of 65% in 2023, marking a significant improvement from the pandemic downturn. However, the Amaya Kuda Rah resort in the Maldives was heavily impacted by the Maldives-India conflict, leading to a shift in the mix of tourist arrivals and putting pressure on occupancy rates for resorts in the region. Looking ahead, the Sri Lankan segment is expected to be the primary driver of the group's profitability and we expect a turnaround from losses to a profit of LKR 286.4Mn in FY25E. Hence, we recommend a **BUY** rating for the company.

P/E 31 March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Estimates (LKR 'Mn)</b>								
Revenue	1,644	1,226	362	777	1,532	2,710	3,877	5,261
EBIT	408	-114	-583	-623	-445	54	434	552
Net Profit	<b>300</b>	<b>-266</b>	<b>-790</b>	<b>-898</b>	<b>-824</b>	<b>-56</b>	<b>286</b>	<b>405</b>
Adjusted EPS (LKR)	5.6	(1.6)	(6.7)	(7.7)	(7.6)	(0.5)	2.7	3.7
YoY Growth (%)		-128%	-329%	-14%	0%	93%	611%	41%
<b>Valuations</b>								
PER (x)	3.8x	N/A	N/A	N/A	N/A	N/A	8.0x	5.6x
PBV (x)	0.6x	0.6x	0.8x	1.0x	1.7x	1.7x	1.4x	1.2x
DPS	1.8	-	-	-	-	-	-	0.9
DY (%)	8.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	4.4%
Dividend Payout	31.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	25.0%
ROE	16.2%	-4.8%	-25.2%	-37.6%	-60.2%	-4.3%	17.9%	21.3%

PER based Valuation	FY25E
Earnings (LKR 'Mn)	286
No. of Shares ('Mn)	108
EPS	2.7
Expected Average PER	12.0x
<b>Target Price after Rounding off</b>	<b>30</b>

# THE LIGHTHOUSE HOTEL PLC

**LHL.N0000**

**Current Price: LKR 45.20**

**Fair Value: LKR 55.00 (FY25E)**

**BUY**

## Leading boutique resort targeting luxury market

The Lighthouse Hotel PLC (LHL) operates three unique properties along the southern coast of Sri Lanka. Jetwing Lighthouse, the iconic resort of LHL, is one of the renowned architect Geoffrey Bawa's finest masterpieces overlooking the coastline of Galle and operated with Jetwing's legendary hospitality with 127 rooms. Alongside Jetwing Lighthouse, it also operates a boutique hotel, Jetwing Kurulubedda, with two private dwellings and four rooms, and the trendy, easy-going, select-service Hotel J in Unawatuna.

## Over 80.0% growth in the top-line resulted in a noteworthy bottom-line expansion in 3QFY24

In 3QFY24, LHL experienced exceptional top-line growth, surging by 83.3%YoY to LKR 357.7Mn, primarily fueled by a significant uptick in tourist arrivals. This robust revenue expansion translated into a noteworthy bottom-line improvement, with LHL reporting a net profit of LKR 53.3Mn, marking a substantial 293.1%YoY growth from the net loss of LKR 27.6Mn recorded in 3QFY23. However, administrative expenses continued their upward trajectory, escalating by a 47.9%YoY to LKR 156.6Mn. On a positive note, other income and gains experienced a remarkable surge of 656.0%YoY, reaching LKR 1.4Mn. Additionally, there was a noteworthy reduction in finance costs, decreasing by 56.0%YoY to LKR 9.6Mn from LKR 22.0Mn.

## Earnings surge due to moderate ARR coupled with increasing occupancy rates

Boutique accommodations possess the advantage of swiftly achieving high occupancy rates, coupled with an increasing average duration of guest stays in Sri Lanka, while LHL is maintaining moderate ARR. Consequently, we forecast a substantial 65% enhancement in occupancy rates in FY25E, with ARR projected to exhibit a steady 3-year CAGR of 4.3% from FY24 to FY26E. This favorable trend is expected to significantly bolster the bottom-line, driving a 3-year CAGR of 39.2% in earnings. Such promising dynamics underscore the investment appeal of boutique accommodation ventures. Hence for LHL we issue a **BUY**.

PE 31 March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Estimates (LKR 'Mn)</b>								
Revenue	850	510	184	427	731	1,247	1,489	1,767
EBIT	155	-65	-175	-10	-19	249	357	530
Net Profit	<b>103</b>	<b>-96</b>	<b>-197</b>	<b>-78</b>	<b>-120</b>	<b>140</b>	<b>235</b>	<b>379</b>
Adjusted EPS (LKR)	2.2	(2.1)	(4.3)	(1.7)	(2.6)	3.0	5.1	8.2
YoY Growth (%)		-194%	-104%	60%	53%	217%	68%	61%
<b>Valuations</b>								
PER (x)	20.3x	N/A	N/A	N/A	N/A	14.8x	8.8x	5.5x
PBV (x)	0.7x	0.7x	0.7x	0.7x	0.7x	0.7x	0.7x	0.6x
DPS	-	-	-	-	-	-	-	-
DY (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Dividend Payout	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
ROE	3.5%	-3.0%	-6.6%	-2.5%	-4.3%	4.8%	7.5%	10.7%

PER based Valuation	FY25E
Earnings (LKR 'Mn)	235
No. of Shares ('Mn)	46
EPS	5.1
Expected Average PER	11.0x
<b>Target Price</b>	<b>55</b>

# THE FORTRESS RESORTS PLC

**RHTL.N0000**

**Current Price: LKR 25.40**

**Fair Value: LKR 30.00 (FY25E)**

**BUY**

## Highly attractive resort targeting upper class tourists

The Fortress Resorts PLC, is a luxury boutique hotel in Galle, Sri Lanka which has invested in its subsidiary, La Forteresse (Pvt) Ltd. which provides lodging, food, beverage and other hospitality industry related activities. The company's accommodations consists of 53 rooms including fortress room, ocean room, beach room, beach splash room, ocean loft suites and fortress residence suites with the average room rate at LKR 68,824 (+43%YoY).

## Robust topline expansion and with improving margins fueled by heightened tourist arrivals in late December in 2023

RHTL's 3QFY24 results demonstrate an exceptional turnaround, with earnings surging by over 405.0%YoY to LKR 89.6Mn from a loss of LKR 29.3Mn in 3QFY23. Revenue soared impressively by 164.0%YoY, reaching LKR 253.8Mn, fueled by heightened tourist arrivals. Despite facing challenges, notably a 29.8%YoY increase in operating costs to LKR 122.9Mn, RHTL showcased resilience, delivering solid performance. This resilience was further underscored by significant improvements in GP margins, up by 1716bps to 69.5% in 3QFY24 from 52.3% in 3QFY23, and net NP margins, which turned positive to 35.0% in 3QFY24 from -30.5% in 3QFY23.

## FV estimated at LKR 30.0, provides an annualized return of 20.7% for FY25E

With the tourism industry poised for growth and RHTL's strategic partnership with SLTDA for targeted promotions in the UK and Europe, coupled with increasing occupancy levels nearing pre-pandemic levels, RHTL operating as a boutique hotel, anticipates a promising trajectory as boutique hotels are with the smaller number of rooms. Projected topline expansion at a 3-year CAGR of 13.0% from FY24E to FY26E, alongside a staggering earnings surge in FY25E, supports our estimated FV of LKR 30.0 for FY25E, offering an annualized return of 20.7%. Considering the remarkable returns compared to the risk-free rate of 10.13%, we maintain our recommendation at **BUY**.

P/E 31 March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Estimates (LKR 'Mn)</b>								
Revenue	788	489	75	349	435	786	954	1,133
EBIT	206	4	-235	7	-75	59	143	227
Net Profit	<b>210</b>	<b>27</b>	<b>-176</b>	<b>33</b>	<b>-20</b>	<b>149</b>	<b>214</b>	<b>291</b>
Adjusted EPS (LKR)	1.9	0.2	(1.6)	0.3	(0.2)	1.3	1.9	2.6
YoY Growth (%)		-87%	-743%	119%	160%	849%	44%	36%
<b>Valuations</b>								
PER (x)	13.4x	103.1x	N/A	85.2x	N/A	19.0x	13.2x	9.7x
PBV (x)	1.5x	1.6x	1.8x	1.7x	1.8x	1.6x	1.4x	1.2x
DPS	0.5	4.1	-	-	-	-	0.2	0.3
DY (%)	3.9%	3.9%	0.0%	0.0%	0.0%	0.0%	1.5%	3.1%
Dividend Payout	52.9%	405.7%	0.0%	0.0%	0.0%	0.0%	20.0%	30.0%
ROE	11.3%	1.5%	-11.0%	2.0%	-1.2%	8.5%	10.9%	12.9%

PER based Valuation	FY25E
Earnings (LKR 'Mn)	214
No. of Shares ('Mn)	111
EPS	1.9
Expected Average PER	16.0x
<b>Target Price</b>	<b>30</b>



# ROYAL PALM BEACH HOTELS PLC

**RPBH.N0000**

**Current Price: LKR 33.00**

**Fair Value: LKR 45.00 (FY25E)**

**BUY**

## *Coastal indulgence in the south of Colombo*

Royal Palms Beach Hotels is located in Kalutara, the south of Colombo with exposure to the coastal region. During the pandemic the hotel was able to generate revenue by acting as a brief isolation hotel, with minimum risk to the workers and visitors. The hotel has 136 rooms in a range of suits such as deluxe, heritage, executive, Rajasthan royal, royal and penthouse. Revenue mainly stems from rooms and food & beverage sales with average room rate at LKR 33, 879 (+51%YoY). 28.41% stake of the hotel lies with Tangerine Beach Hotels PLC as of 31<sup>st</sup> Mar 2023.

## *Topline takes a positive turn coupled with margin expansions as tourist arrivals improve*

In 3QFY24, RPBH reported a notable turnaround, recording a net profit of LKR 84.9Mn, a stark improvement from the net loss in 3QFY23. This positive outcome was primarily driven by enhanced topline performance and tax reversals. RPHS experienced a significant boost in revenue of 89.9%YoY to LKR 311.3Mn, compared to LKR 163.9Mn in 3QFY23, attributed to the rebound in tourist arrivals. Additionally, the GP margin surged by 111bps to 71.8% in 3QFY24, up from 60.7% in 3QFY23. Operating costs rose to LKR 147.5Mn, marking an 11.1%YoY increase from LKR 132.8Mn in 3QFY23, partly due to a moderate inflationary environment.

## *RPBH's bottom-line to increase at a 3-year CAGR of 30.4% with the robust recovery of the tourism sector*

Anticipating a robust recovery in the tourism sector, we forecast a substantial increase in RPBH's occupancy levels in the forthcoming quarters. With tourism arrivals on an upward trajectory with main source for RPBH are Germany and UK while UK travelers are tend to spend more days on costal area, we project occupancy rates to surge to 75% in FY25E, steadily approaching pre-pandemic levels by FY26E. Moreover, RPBH's strategic positioning near Colombo, along with its appeal for coastal destinations, is primed to enhance its bottom-line performance, boasting a promising 3-year CAGR of 30.4%. As a result, we anticipate RPBH's earnings to escalate to LKR 176.0Mn in FY25E with a potential total return of 51%, reinforcing our recommendation to maintain a **BUY**.

P/E 31 March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Estimates (LKR 'Mn)</b>								
Revenue	755	618	151	337	671	1,013	1,408	1,859
EBIT	132	59	-159	-44	-63	122	218	335
Net Profit	<b>127</b>	<b>69</b>	<b>-129</b>	<b>-22</b>	<b>-107</b>	<b>114</b>	<b>176</b>	<b>253</b>
Adjusted EPS (LKR)	2.5	1.4	(2.6)	(0.4)	(2.1)	2.3	3.5	5.1
YoY Growth (%)		-45%	-286%	83%	379%	207%	54%	44%
<b>Valuations</b>								
PER (x)	13.0x	23.8x	N/A	N/A	N/A	14.5x	9.4x	6.5x
PBV (x)	0.7x	0.7x	0.7x	0.6x	0.7x	0.7x	0.6x	0.6x
DPS	1.0	1.0	-	-	-	-	0.7	1.8
DY (%)	3.0%	3.0%	0.0%	0.0%	0.0%	0.0%	2.1%	5.4%
Dividend Payout	39.4%	72.2%	0.0%	0.0%	0.0%	0.0%	20.0%	35.0%
ROE	5.1%	2.8%	-5.4%	-0.8%	-4.6%	4.6%	6.8%	9.1%

PER based Valuation	FY25E
Earnings (LKR 'Mn)	176
No. of Shares ('Mn)	50
EPS	3.5
Expected Average PER	13.0x
<b>Target Price</b>	<b>45</b>

# SERENDIB HOTELS PLC

**SHOT.N0000**

**Current Price: LKR 16.40**

**Fair Value: LKR 20.00 (FY25E)**

**BUY**

## Manifold destinations to offer

Serendib Hotels PLC is one of the leading hotel groups in Sri Lanka which encompasses its offerings in key attractions of the country such as beach, jungle and lagoon. Avani Bentota resort, Club Hotel Dolphin and Hotel Sigiriya are other prominent hotels owned by SHOT. SHOT also owns a line of boutique hotels such as Lantern boutique hotel, Ubuntu beach villa and Reveal beach house. Revenue of SHOT is predominantly based on accommodation, food & beverage charges and other hotel operations. The hotel currently consists of 361 rooms offered in the range of standard, villas, suite, deluxe rooms and superior rooms with average room rate at LKR 35, 972 (+5%YoY).

## Topline expansion and positive net finance income cause tailwinds to bottom-line in 3QFY24

SHOT enjoyed a profit of LKR 197.2Mn in 3QFY24 compared to a higher loss of LKR 232.7Mn in 3QFY23 and LKR 115.7Mn in 3QFY22. This uptick is mainly due to the topline expansion by 128.3%YoY to LKR 809.6Mn (cf. LKR 354.6 in 3QFY23) and net finance income of LKR 3.1Mn by 101.8%YoY. In 3QFY24, the gross profit margin surged to 72.0%, marking a significant increase of 1153bps compared to the same period in 3QFY23.. With that earnings received a positive boost over 100.0% to LKR 197.2Mn in 3QFY24.

## Diverse destination offerings to unlock the topline and stabilization of the bottom-line of SHOT

Anticipating a recovery in earnings driven by an upswing in tourist arrivals, resulting in increased occupancy rates in late months of FY23/24, particularly across diverse locations. We project occupancy levels to reach approximately 73% in FY25E, accompanied by a robust 27.8%YoY expansion in revenue in FY25. Transitioning from operational losses to profits in FY24E and FY25E, forecasted at LKR 338.0Mn and LKR 685.0Mn respectively, demonstrates positive momentum. This turnaround is expected to fuel a 3-year CAGR of 16.3% in earnings, offering compelling investment potential with a annualized return on 24.1%. **BUY.**

P/E 31 March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Estimates (LKR 'Mn)</b>								
Revenue	2,039	1,589	587	636	1,442	2,821	3,603	4,082
EBIT	215	29	-412	-233	-133	338	685	816
Net Profit	<b>39</b>	<b>-138</b>	<b>-456</b>	<b>-560</b>	<b>-452</b>	<b>431</b>	<b>573</b>	<b>679</b>
Adjusted EPS (LKR)	0.1	(0.3)	(1.0)	(1.3)	(1.0)	1.0	1.3	1.5
YoY Growth (%)		-457%	-230%	-23%	19%	195%	33%	19%
<b>Valuations</b>								
PER (x)	188.9x	N/A	N/A	N/A	N/A	17.0x	12.8x	10.8x
PBV (x)	2.9x	3.1x	3.3x	2.6x	1.8x	1.6x	1.4x	1.3x
DPS	-	-	-	-	-	-	-	-
DY (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Dividend Payout	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
ROE	1.5%	-5.9%	-20.8%	-20.3%	-11.1%	9.6%	11.3%	11.8%

PER based Valuation	FY25E
Earnings (LKR 'Mn)	573
No. of Shares ('Mn)	446
EPS	1.3
Expected Average PER	16.0x
<b>Target Price</b>	<b>20</b>

**STAF.N0000**

**Current Price: LKR 41.20**

**Fair Value: LKR 50.00 (FY25E)**

**BUY**

#### **4-star inn surrounding the shores of Negombo**

Club hotel dolphin located in Waikkal, Negombo surrounds the Negombo coastal line and is in close proximity to the Katunayake international airport which makes the hotel an ideal location for tourists on a short vacation. STAF is a subsidiary of SHOT which owns 65.18% stake of the hotel. The hotel consists of 154 rooms in the range of superior poolside terrace, sea view room, superior room, seaside villa, sea view villa and junior suite with average room rate at LKR 35, 909(+5%YoY).

#### **Significant uptick in topline growth cause increase in GP and NP margins of the company**

Inn 3QFY24, STAF reported a PAT of LKR 83.9Mn, marking an impressive 329.0%YoY increase compared to 3QFY23. This substantial growth was supported by a robust revenue of LKR 386.4Mn, demonstrating a noteworthy 175.3%YoY expansion driven by the resurgence of the tourism sector with company strategies. However, the company experienced a significant decrease in other operating income and gains, declining by 158.8% to a loss of LKR 12.9Mn. Despite moderate inflation, STAF saw a 78.6%YoY increase in other operating expenses, amounting to LKR 202.5Mn. Nevertheless, the GP margin stood strong at 70.6% in 3QFY24, representing a notable improvement of 2157bps from 3QFY23, while the NP margin reached 21.7%, with a slight increment of 780bps.

#### **Top-line expansion due to relatively low ARR cause bottom-line improvement**

The hotel's strategic proximity to the international airport positions it as an ideal choice for travelers seeking accommodation during the final days of their vacations, facilitating swift room occupancy as STAF has less number of rooms. As a result, we anticipate a rise in occupancy to 72% in FY25E. This trajectory is projected to drive revenue growth at a 3-year CAGR of 6.7%, with earnings expected to surge by 33.0%YoY in FY25E, reaching LKR 267.0Mn, aided by stabilized operational profits. Despite facing competition and maintaining relatively lower ARR, the hotel is poised to attract guests rapidly, leveraging the support of its parent company; SHOT and with a total return of 23.3% we maintain our recommendation as **BUY**.

P/E 31 March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY25E
<b>Estimates (LKR 'Mn)</b>								
Revenue	953	729	350	283	576	1,352	1,663	2,022
EBIT	172	47	-62	-82	-117	135	233	384
Net Profit	<b>147</b>	<b>44</b>	<b>-33</b>	<b>-25</b>	<b>-103</b>	<b>200</b>	<b>267</b>	<b>377</b>
Adjusted EPS (LKR)	2.3	0.7	(0.5)	(0.4)	(1.6)	3.2	4.2	6.0
YoY Growth (%)		-70%	-175%	25%	316%	295%	33%	41%
<b>Valuations</b>								
PER (x)	17.7x	58.6x	-78.6x	-105.3x	-25.3x	13.0x	9.8x	6.9x
PBV (x)	1.3x	1.2x	1.2x	0.9x	0.8x	0.8x	0.7x	0.7x
DPS	-	-	-	-	-	-	0.8	1.8
DY (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	2.1%	4.3%
Dividend Payout	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	20.0%	30.0%
ROE	7.2%	2.1%	-1.6%	-0.9%	-3.3%	6.1%	7.6%	10.0%

<b>PER based Valuation</b>	<b>FY25E</b>
Earnings (LKR 'Mn)	267
No. of Shares ('Mn)	63
EPS	4.2
Expected Average PER	12.0x
<b>Target Price</b>	<b>50</b>

# ASIAN HOTELS AND PROPERTIES PLC

**AHPL.N0000**

**Current Price: LKR 68.30**

**Fair Value: LKR 86.00 (FY25E)**

**BUY**

*Asian Hotels and Properties is a 78.6% owned subsidiary of premiere blue-chip John Keells Holdings (JKH.N0000)*

AHPL, a prominent city hotel operator, manages a total of 847 rooms across its properties. Among its portfolio are two prestigious 5-star properties under the flagship brand of Cinnamon: Cinnamon Life and Cinnamon Lakeside. AHPL also owns and operates a 56,988 square-foot shopping mall called Crescat Boulevard.

**Earnings substantially expanded by 667.0%YoY driven by EBIT margin expansion to 10.4%**

AHPL experienced a robust growth in its top-line, recording a 19.0%YoY increase to LKR 3.0Bn in 3QFY24, attributed to the rise in tourist arrivals since the 2H2023. This uptick in arrivals boosted occupancy rates to an average of 70% during 4Q2023, coupled with inflation moderation, leading to a substantial spike in EBIT margins by 445bps to 10.4% from 6.0%. Additionally, a steep decline in the AWPLR contributed to a 32.0% reduction in finance costs, resulting in a sharp 667.0%YoY rise in profitability to LKR 113.5Mn.

**Anticipated tourism recovery and a revised Minimum Room Rate are expected to boost AHPL's earnings**

In the 1Q2024, tourist arrivals in Sri Lanka exceeded those in the Maldives, marking a significant shift attributed to Indian tourists boycotting Maldives vacations following the India-Maldives conflict. This prompted Indian travelers to seek alternative destinations, benefiting Sri Lanka, known for its affordability as a travel destination. As a result, we anticipate AHPL to reverse previous losses and project profitability of LKR 726.0Mn for FY24E and LKR 2,530.0Mn 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
<b>Estimates (LKR 'Mn)</b>							
Revenue	5,560	1,790	4,095	8,417	13,628	17,303	22,442
EBIT	-28	-1,913	-407	93	1,635	4,326	5,386
Net Profit	-50	-1,781	-510	-278	726	2,530	3,226
Adjusted EPS (LKR)	(0.1)	(4.0)	(1.2)	(0.6)	1.6	5.7	7.3
YoY Growth (%)	-106%	-3474%	71%	46%	362%	248%	27%
<b>Valuations</b>							
PER (x)	N/A	N/A	N/A	N/A	41.6x	12.0x	9.4x
PBV (x)	0.9x	1.0x	1.0x	1.0x	1.0x	0.9x	0.9x
DPS	1.0	-	-	-	-	-	2.5
DY (%)	1.5%	0.0%	0.0%	0.0%	0.0%	0.0%	3.7%
Dividend Payout	-888.6%	0.0%	0.0%	0.0%	0.0%	0.0%	35.0%
ROE	-0.2%	-5.7%	-1.6%	-1.0%	2.5%	7.9%	9.4%

PER based Valuation	FY25E
Earnings (LKR 'Mn)	2,530
No. of Shares ('Mn)	443
EPS	5.7
Expected Average PER	15.0x
<b>Target Price</b>	<b>86</b>



# First Capital Valuation Guide: Hotel Sector

Name	Symbol	Mkt Price (LKR) 22.04.2024	Shares in Issue (Mn)	Market Cap. (LKR Mn)	Trailing PER (X) 4 Qtr	PBV (X) 4 Qtr	Trailing EPS	NAVPS (LKR)	No. of rooms	EV per room
<b>Consumer Services</b>										
ASIAN HOTELS AND PROPERTIES PLC	AHPL.N0000	68.00	442.8	30,109	N/A	1.0	-0.9	65.0	847	39.8
AITKEN SPENCE HOTEL HOLDINGS PLC	AHUN.N0000	67.00	336.3	22,531	N/A	1.2	-3.7	57.6	2627	35.1
BROWNS BEACH HOTELS PLC	BBH.N0000	15.70	129.6	2,035	N/A	N/A	-9.4	-4.8	139	46.3
BERUWALA RESORTS PLC	BERU.N0000	1.40	600.0	840	N/A	N/A	-0.1	-0.3	136	11.5
BANSEI ROYAL RESORTS HIKKADUWA PLC	BRR.N0000	12.90	53.7	693	24.2	2.5	0.5	5.3	30	23.1
CEYLON HOTELS CORPORATION PLC	CHOT.N0000	20.70	180.0	3,727	5.8	0.5	3.6	40.9	20	302.5
HIKKADUWA BEACH RESORT PLC	CITH.N0000	4.10	284.9	1,168	N/A	0.3	-3.8	11.9	240	24.4
WASKADUWA BEACH RESORT PLC	CITW.N0000	2.20	559.9	1,232	N/A	0.8	-1.3	2.7	150	27.6
HAYLEYS LEISURE PLC	CONN.N0000	21.70	108.0	2,343	N/A	2.1	-6.1	10.4	704	7.0
EDEN HOTEL LANKA PLC	EDEN.N0000	14.60	528.0	7,709	N/A	1.2	-8.2	11.9	373	96.5
GALADARI HOTELS (LANKA) PLC	GHLL.N0000	17.70	500.8	8,865	212.3	1.0	0.1	17.3	450	14.9
HOTEL SIGIRIYA PLC	HSIG.N0000	50.50	17.6	888	53.2	1.0	0.9	50.7	79	6.4
HUNAS FALLS HOTELS PLC	HUNA.N0000	27.60	843.8	23,288	N/A	11.0	-0.5	2.5	33	39.5
JETWING SYMPHONY LIMITED	JETS.N0000	9.00	602.2	5,420	N/A	1.8	-0.5	5.1	283	33.7
THE KANDY HOTELS COMPANY (1938) PLC	KHC.N0000	8.00	754.3	6,034	N/A	0.7	-0.1	12.2	305	27.5
JOHN KEELLS HOTELS PLC	KHL.N0000	19.30	1456.1	28,104	N/A	0.9	-0.6	20.8	1476	58.9
THE LIGHTHOUSE HOTEL PLC	LHL.N0000	42.90	46.0	1,973	N/A	0.7	-2.2	61.6	127	15.7
MARAWILA RESORTS PLC	MARA.N0000	3.60	351.9	1,267	N/A	0.1	-0.1	43.7	160	9.9
MAHAWELI REACH HOTELS PLC	MRH.N0000	13.60	47.1	640	N/A	6.5	-4.4	2.1	112	8.7
THE NUWARA ELIYA HOTELS COMPANY PLC	NEH.N0000	1851.25	2.2	4,047	30.7	0.8	60.3	2,288.2	147	16.0
PALM GARDEN HOTELS PLC	PALM.N0000	50.10	43.3	2,168	N/A	1.1	-118.7	44.0	735	42.8
PEGASUS HOTELS OF CEYLON PLC	PEG.N0000	24.20	33.8	817	N/A	0.5	-3.6	45.8	140	9.7
RENUKA HOTELS LTD	RCH.N0000	83.80	40.3	3,377	11.1	0.3	7.6	286.9	100	46.8
CITRUS LEISURE PLC	REEF.N0000	4.60	267.2	1,229	N/A	0.7	-4.1	6.2	290	24.5
RENUKA CITY HOTELS PLC.	RENU.N0000	358.00	7.0	2,506	N/A	0.3	-73.8	1,414.1	100	13.3
RAMBODA FALLS PLC	RFL.N0000	30.20	20.0	604	49.6	1.2	0.6	25.2	63	8.8
THE FORTRESS RESORTS PLC	RHTL.N0000	25.00	110.9	2,772	N/A	1.6	-0.6	15.2	53	36.6
ROYAL PALMS BEACH HOTELS PLC	RPBH.N0000	31.50	50.0	1,575	N/A	0.7	-3.3	47.7	136	8.4
THE KINGSBURY PLC	SERV.N0000	11.30	484.0	5,469	N/A	9.0	-0.3	1.3	229	34.9
SERENDIB HOTELS PLC	SHOT.N0000	15.50	446.1	6,915	N/A	1.6	-0.1	9.6	341	19.3
SERENDIB HOTELS PLC	SHOT.X0000	10.20	446.1	4,550	N/A	1.1	-0.1	9.6	341	19.3
SIGIRIYA VILLAGE HOTELS PLC	SIGV.N0000	45.30	9.0	408	N/A	1.0	-14.6	45.1	120	7.2
DOLPHIN HOTELS PLC	STAF.N0000	37.40	63.2	2,365	N/A	0.7	-1.1	51.0	154	13.2
TAJ LANKA HOTELS PLC	TAJ.N0000	19.50	139.6	2,723	N/A	N/A	-1.6	-13.1	300	24.2
TANGERINE BEACH HOTELS PLC	TANG.N0000	62.90	20.0	1,258	N/A	0.4	-12.8	142.2	179	5.1
TRANS ASIA HOTELS PLC	TRAN.N0000	42.30	200.0	8,460	N/A	1.4	-0.5	29.9	346	32.6
<b>Consumer Services Sector</b>					<b>N/A</b>	<b>1.6</b>				
<b>Market Valuations</b>					<b>10.5</b>	<b>1.0</b>				

# DISCLAIMER

This Review is prepared and issued by First Capital Holdings PLC based on information in the public domain, internally developed and other sources, believed to be correct. Although all reasonable care has been taken to ensure the contents of the Review are accurate, First Capital Holdings PLC and/or its Directors, employees, are not responsible for the accuracy, usefulness, reliability of same. First Capital Holdings PLC may act as a Broker in the investments which are the subject of this document or related investments and may have acted on or used the information contained in this document, or the research or analysis on which it is based, before its publication. First Capital Holdings PLC and/or a connected person or associated person may also have a position or be otherwise interested in the investments referred to in this document. This is not an offer to sell or buy the investments referred to in this document. This Review may contain data which are inaccurate and unreliable. You hereby waive irrevocably any rights or remedies in law or equity you have or may have against First Capital Holdings PLC with respect to the Review and agree to indemnify and hold First Capital Holdings PLC and/or its principal, their respective directors and employees harmless to the fullest extent allowed by law regarding all matters related to your use of this Review. No part of this document may be reproduced, distributed or published in whole or in part by any means to any other person for any purpose without prior permission. Get a modern PowerPoint Presentation that is beautifully designed.

# 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](mailto:research@firstcapital.lk)



**Dimantha Mathew**  
Chief Research & Strategy Officer  
T: +94 11 2639 853  
E: [dimantha@firstcapital.lk](mailto:dimantha@firstcapital.lk)

**Ranjan Ranatunga**  
Assistant Vice President – Research  
T: +94 11 2639 863  
E: [ranjan@firstcapital.lk](mailto:ranjan@firstcapital.lk)

**Vinodhini Rajapoopathy**  
Assistant Manager- Research  
T: +94 11 2639 866  
E: [vinodhini@firstcapital.lk](mailto:vinodhini@firstcapital.lk)

**Tharusha Ashokgar**  
Senior Research Associate  
T: +94 11 2639 866  
E: [tharushaash@firstcapital.lk](mailto:tharushaash@firstcapital.lk)

**Zaeema Jihan**  
Senior Research Associate  
T: +94 11 2639 868  
E: [zaheema@firstcapital.lk](mailto:zaheema@firstcapital.lk)

**Anjali Mathews**  
Senior Research Associate  
T: +94 11 2639 868  
E: [anjalie@firstcapital.lk](mailto:anjalie@firstcapital.lk)

**Nethmi Fernando**  
Research Associate  
T: +94 11 2639 866  
E: [nethmi@firstcapital.lk](mailto:nethmi@firstcapital.lk)