



First Capital
A Janashakthi Group Company

TOURISM SECTOR IN SRI LANKA

“RISING POTENTIAL, RESILIENT CHALLENGES...”

DOWNGRADED TO HOLD

FIRST CAPITAL RESEARCH

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EQUITY | SRI LANKA | SECTOR UPDATE REPORT
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****Please refer page 53 for an important disclaimer**

Contents

- Executive summary.....04
- Key tourism stats.....05
- Recap of CS index vs ASPI movement06
- Capital gains.....07
- Roadmap of key highlights in the sector08
- 1. Tourism sector reaches new highs, but growth to slow down.....09-19
 - 1.1 Tourist arrivals surpassed the 2.0Mn mark in 2024, and is expected to exceed pre-pandemic levels by 2025E.....10
 - 1.2 ..indicating promising recovery of the tourism sector in 2025.....11
 - 1.3 ...with increased connectivity..12
 - 1.4 ...and VISA free status.....13
 - 1.5 ...while India-Maldives tension adds an extra boost.....14
 - 1.6 However, occupancy rates lag despite recovery in stay duration.....15
 - 1.7 Increased tourism sector investment may have resulted in over supply of accommodation.....16
 - 1.8 ..and relatively highly priced accommodations in Sri Lanka compared to peers.....17
 - 1.9 ...contributing to overall cost born by tourists.....18
 - 1.10 Moreover, change in arrivals from Russia, overtaking previous top source markets may have also caused the dip in occupancies.....19
- 2. Margins lag amid rising costs and slow recovery.....20-26
 - 2.1 Hotel operating margins remains challenged failing to reach FY18 heights.....21
 - 2.2 ...as inflation pushes key raw material costs up.....22

Contents cont'd...

2.3 whilst upward electricity tariff revisions and revised corporate taxes..	23
2.4 ...coupled with increase in finance costs, pushes the costs of corporates up.....	24
2.5 Margin recovery expected to remain slow with expected LKR depreciation.....	25
2.6 ...and a possible spike in inflation pushes hotel breakeven higher.....	26
3. Valuations.....	27-33
3.1 Market capitalization composition – CSE.....	29
3.2 No. of rooms and enterprise value per room.....	30
3.3 Market recognizes sector challenges as seen through ROE and PBV ..	31
3.4 Price Movement of FCR recommendations vs ASPI (Indexed and rebased to 100).....	32
3.5 FCR recommendations – hotel sector.....	33
3.6 Valuations table – hotel sector	34
• Risk analysis and matrix.....	34-35
• FCR recommended hotel snippets.....	36-44
• Appendices	45-52
• Disclaimer.....	53

Executive summary

Tourist arrivals expected to exceed pre-pandemic levels by 2025E, however the growth rate is anticipated to slow down

- Sri Lanka's tourism sector has demonstrated a robust recovery in 2024, surpassing initial targets and setting the stage for continued growth. The country welcomed approximately 2.1Mn tourists in 2024, a 38.0% increase compared to the same period in 2023, 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. Growth is primarily driven by increased connectivity, visa-free entry for key markets, and geopolitical tensions between India and the Maldives, which have redirected tourists to Sri Lanka. However, despite the rise in arrivals, hotel occupancy rates remain subdued due to oversupply and relatively high accommodation costs compared to regional competitors. Additionally, a shift in tourist demographics, with Russia emerging as a top source market, has contributed to the uneven occupancy trends. Underpinned by the release of the residual pent-up demand and the robust rebound of the Asian markets, the World Travel and Tourism Council (WTTC) has projected a record breaking year for travel and leisure, with tourism estimated to contribute an all-time high of USD 11.1Tn to the global economy in 2024, however Sri Lankan hotels performance denoted subdued performance despite the favourable conditions.

Profitability dampened by rising costs and unsatisfactory occupancies, with margins failing to reach 2018 levels

- On the contrary, the Sri Lankan hotel sector has faced significant challenges due to the country's recent economic crisis, characterized by soaring inflation rates and operational hurdles, contributing to the struggle to rebound to 2018 levels. In Aug-22, Sri Lanka's annual inflation rate surged to 70.2%, marking one of the highest levels in decades, and hotels haven't recovered from this as yet. This sharp increase led to substantial rises in the costs of goods and services, directly impacting hotel operations. Hotels grappled with increased expenses for essentials such as food, utilities, and maintenance. Additionally, fuel shortages and power outages further disrupted services, making it challenging for hotels to maintain standard operations. A full recovery from the after-effects of this crisis is yet to be realized..

Hotel counters bull run has reached its' peak, affecting valuations for FY26E

- From a valuation perspective, key industry metrics such as EV per room and ROE will be crucial in assessing the long-term sustainability of the sector's recovery. While the outlook for tourism remains positive, cost pressures and pricing dynamics will determine the profitability and attractiveness of investments in Sri Lanka's hospitality industry.

Key tourism statistics

01. Tourist Arrivals

2024 : 2,053,456
(+38.1%YoY)

02. Tourism Earnings

2024: USD 3,169.0Mn
(+53.2%YoY)

03. Average spending per tourist (per day)

2024 : USD 181.1
(+10.2%YoY)



04. MICE arrivals out of total arrivals

2024 : 8.0%
2023 : 5.5%

05. Occupancy

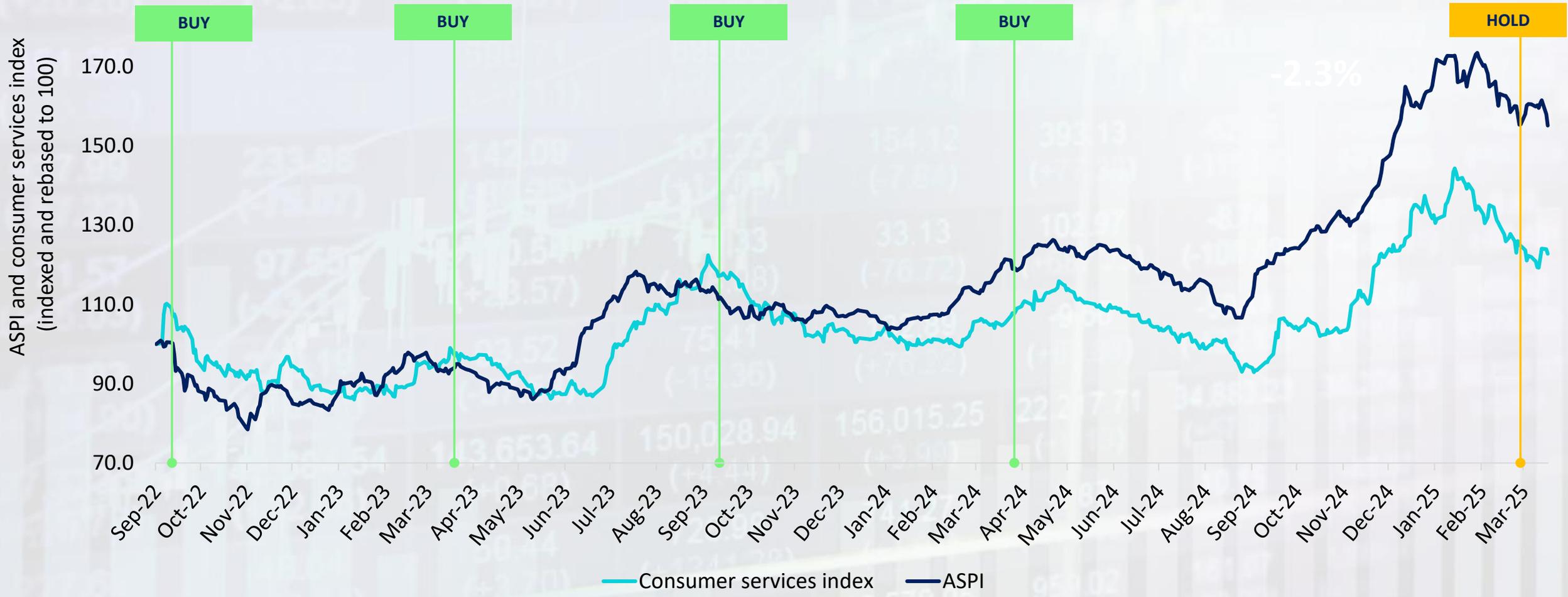
2024 : 60.0%
2023 : 39.0%
2022 : 30.4%

06. Average Duration of Stay (Nights)

2024 : 8.4
2023 : 8.4
2022 : 9.3

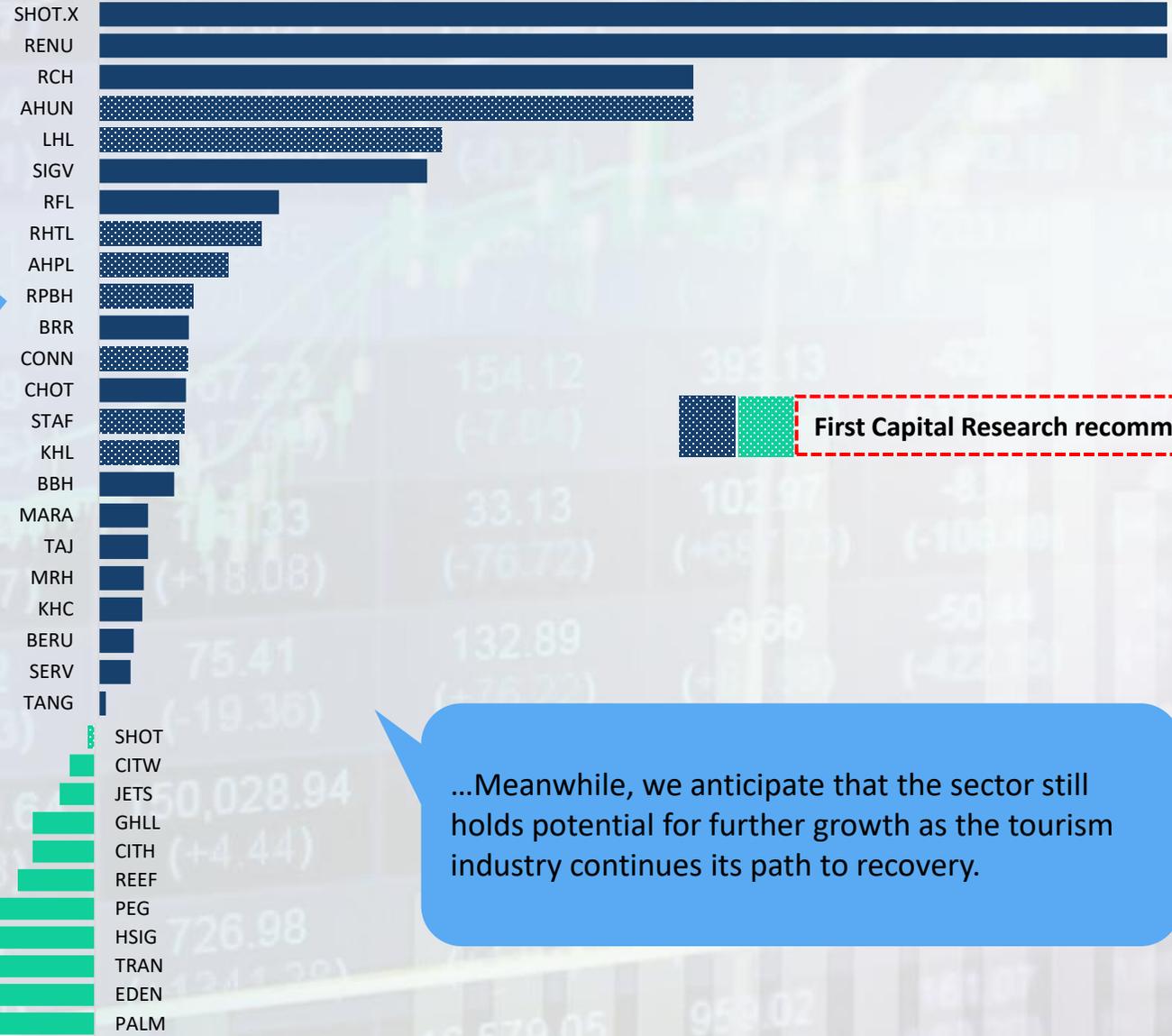
RECAP: ASPI vs. CS index movement

As projected, tourist arrivals have consistently exceeded expectations during 2024, however occupancies and supply side pressures have resulted in subpar performance of hotel counters, signaling that the market has fully realized the gains . Hence, we downgrade our recommendation to **HOLD**.



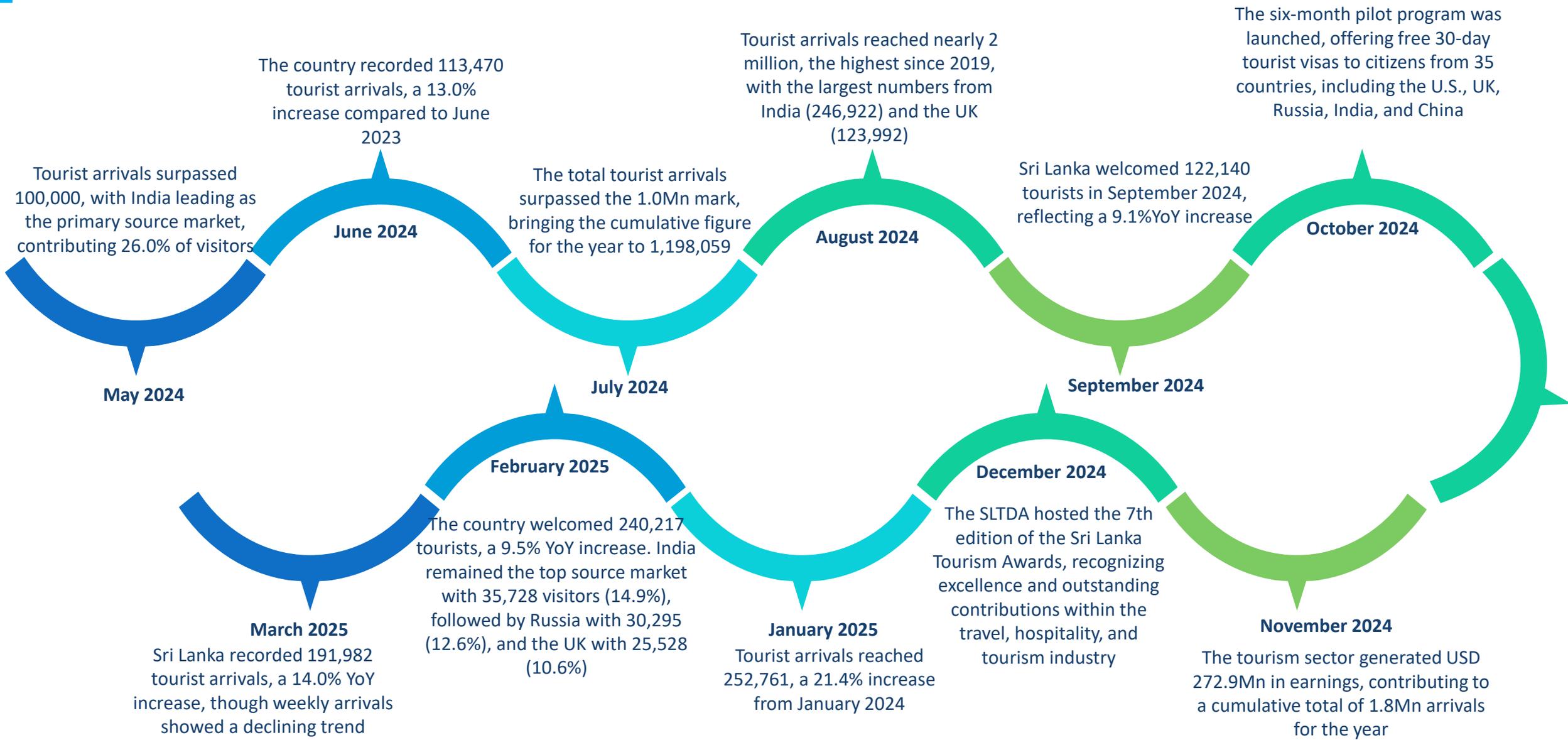
67.6% of hotel sector counters showed price appreciations relative to Sep-22, amidst the steady recovery of the industry

The hotels sector counters have been reaping significant benefits from the growth in tourist arrivals. Consequently, the share prices of over 70.0% of the hotels listed in the CSE have witnessed a rise compared to FCR's initiation of coverage in 2022 and the dull performance as of late reflects the market realizing the challenges associated with the sector...



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

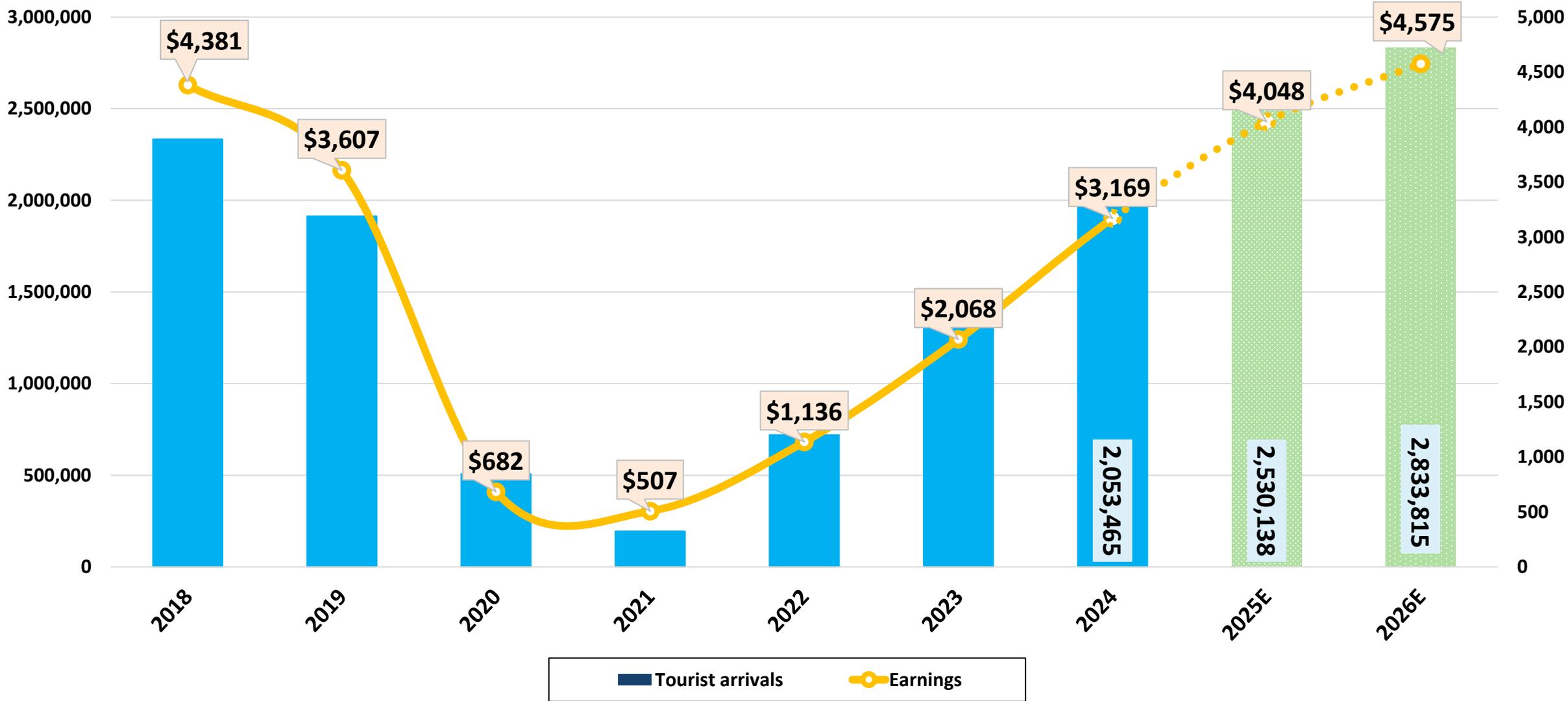
YTD Roadmap of key highlights in the sector





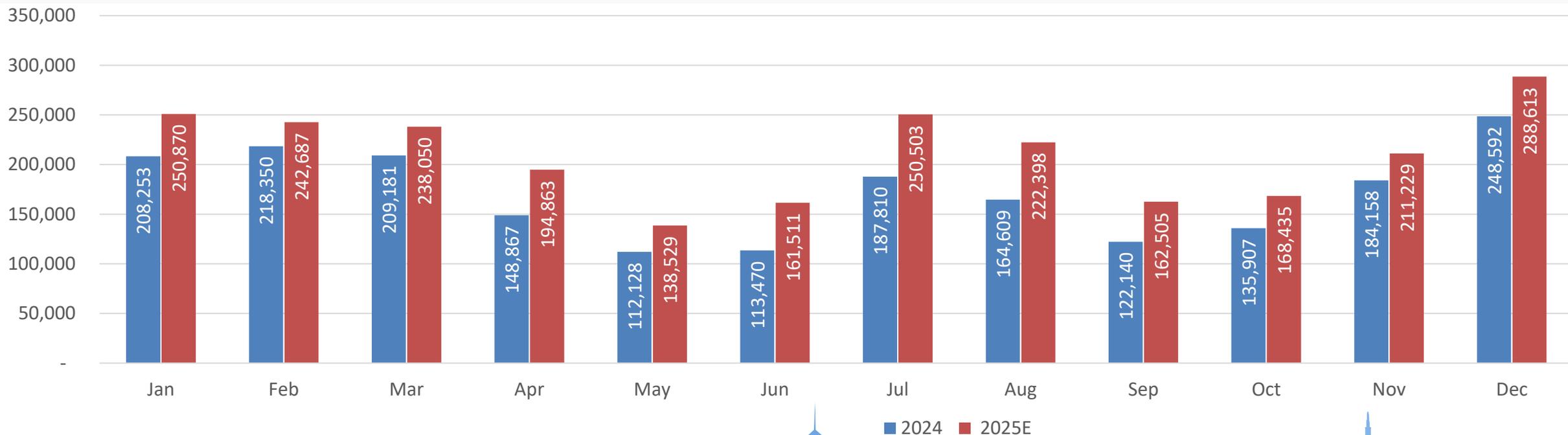
1.0 Tourism sector reaches new highs, but growth to slow down

Tourist arrivals surpassed the 2.0Mn mark in 2024, and is expected to exceed pre-pandemic levels by 2025E...



...indicating promising recovery of the tourism sector in 2025

- Due to a YoY recovery trend from various source markets, positive momentum has been built up. 2025 is anticipated to deliver the best results in terms of arrivals leading to an expansion in the consumer services sector.
- We project the year 2025 to culminate with around 2.5Mn arrivals, with a YoY increase each month.



India

2024: 416,974 (37.7%YoY)
2018: 424,887



Russia

2024: 201,920 (2.2%YoY)
2018: 64,497



UK

2024: 178,339 (37.1%YoY)
2018: 254,176



Germany

2024: 136,084 (32.7%YoY)
2018: 156,888

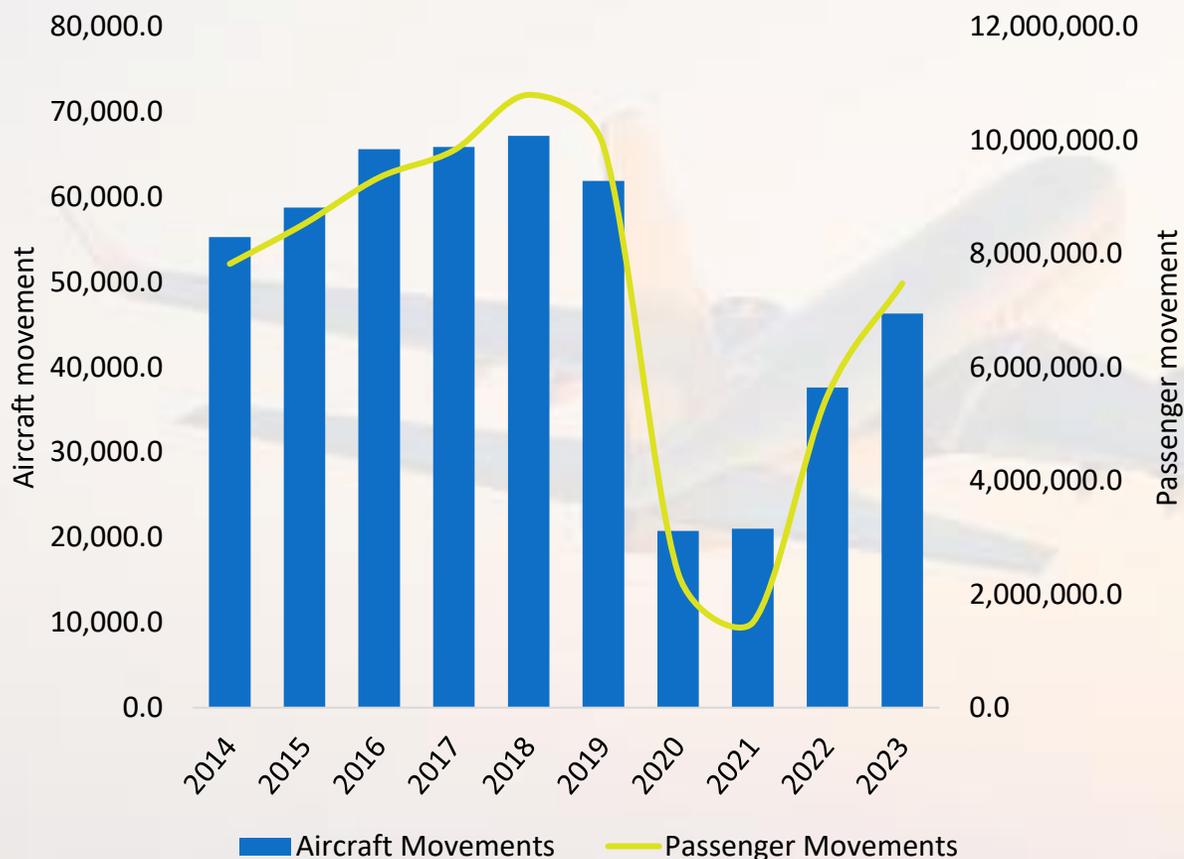


China

2024: 131,681 (91.4%YoY)
2018: 265,965

...with increased connectivity...

Sri Lanka's air connectivity has rebounded strongly post-pandemic, with notable growth in both passenger and aircraft movements, reflecting a positive outlook for tourism and economic recovery. In 2024, passenger traffic surged to approximately 8.9Mn, an 18.0% YoY increase, highlighting renewed confidence in travel to the country.



- ❑ **Cathay Pacific** enhances winter schedule with additional flights from Colombo and increases flight frequency between Colombo and Hong Kong.
- ❑ Swiss Airline **'Eidelweiss'** resumes scheduled seasonal flights to Sri Lanka.
- ❑ **'SkyUp Airlines'**, the Ukrainian charter and low-cost carrier, is set to commence operations to Sri Lanka, further boosting tourism.
- ❑ China's **'Chongqing Airlines'** is expected to resume its services to Colombo from 8th January 2025, with three weekly flights.
- ❑ Uzbekistan's **'Centrum Air'** to launch new weekly flights from Tashkent to Colombo.
- ❑ **'Jetstar Asia'** launches Singapore to Colombo service.
- ❑ **'Air China'** to begin daily flights to Sri Lanka
- ❑ **'Air India', 'Singapore Airlines'** expands Codeshare network with 51 new destinations
- ❑ Sri Lanka welcomes **'Air Astana'**, offering four weekly flights between Kazakhstan and Colombo, to boost Russian arrivals further.
- ❑ **'Enter Air'** begins charter flights connecting Poland and Sri Lanka.

...and VISA free status...



Sri Lanka

The free visa is valid for 30 days.

This pilot program runs for six months, from 1st Oct-24, to 31st Mar-25.

The initiative is designed to attract more tourists by simplifying the entry process and eliminating the standard visa fee, which was typically around \$50.

The countries included are :

Australia, Austria, Bahrain, Belarus, Belgium, Canada, China, Czech Republic, Denmark, France, Germany, India, Indonesia, Iran, Israel, Italy, Japan, Kazakhstan, Malaysia, Nepal, Netherlands, New Zealand, Oman, Poland, Qatar, Russia, Saudi Arabia, South Korea, Spain, Sweden, Switzerland, Thailand, United Arab Emirates, United Kingdom, United States.



Indonesia

13 countries including Singapore, Thailand, Vietnam, Malaysia and Hong Kong.



Thailand

93 countries including Sri Lanka, China, India, Russia, Germany and United Kingdom.



Malaysia

All EU countries, United Kingdom, Russia, Australia, China, India and the United States of America.



Singapore

All countries excluding India, Russia and 36 others.



Vietnam

25 countries including Germany, France, Russia, Malaysia, United Kingdom, Singapore etc.

...while India-Maldives tension adds an extra boost

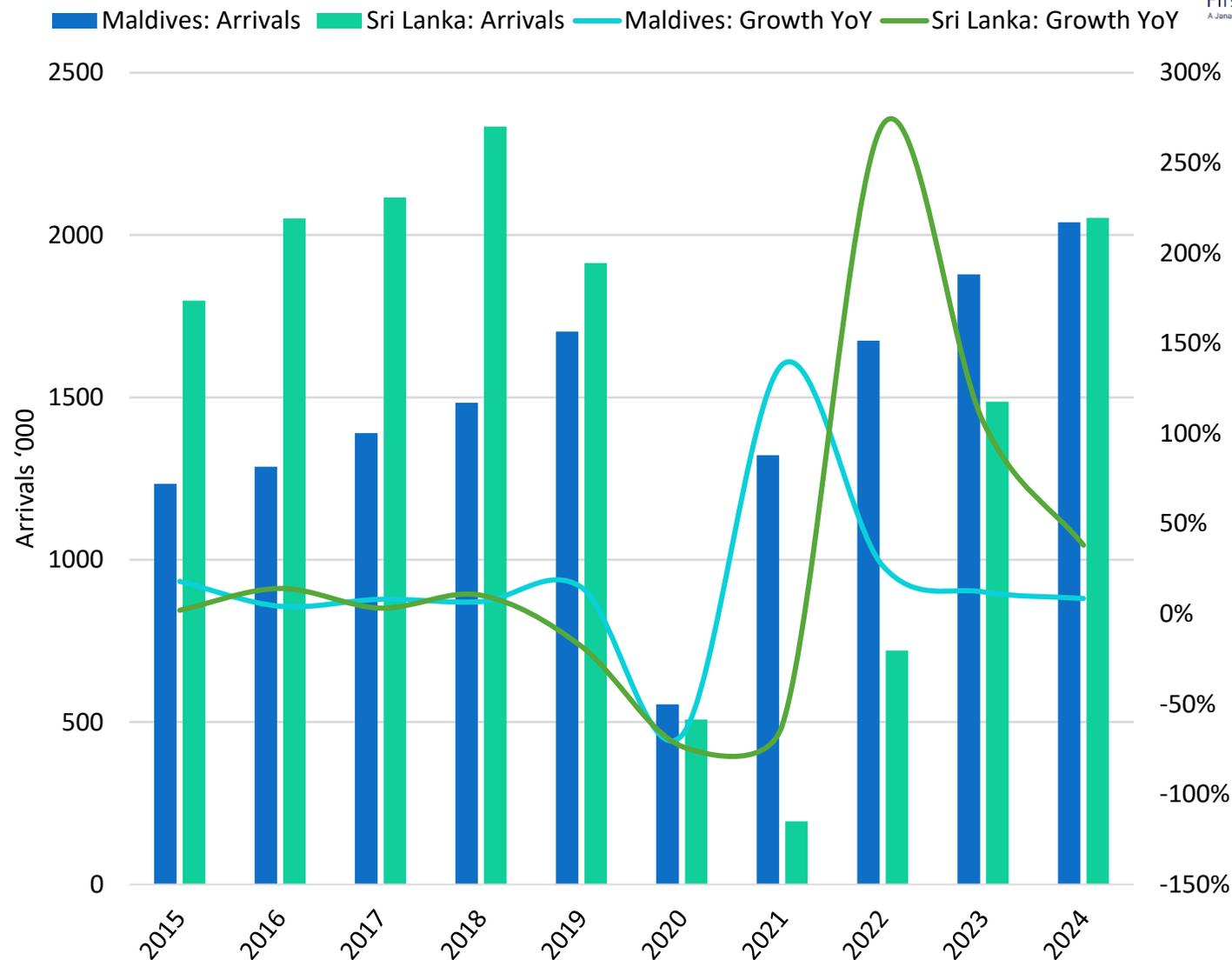
In 2024, diplomatic tensions between India and the Maldives led to a significant decline in Indian tourist arrivals to the Maldives, impacting its tourism sector. This situation presented an opportunity for Sri Lanka to attract more Indian travelers as Sri Lanka was perceived as an alternative destination.

Impact on the Maldives:

- **Decline in Indian Tourists:** Indian tourist arrivals to the Maldives decreased by approximately 42.0% in the first four months of 2024 compared to the same period in 2023.
- **Shift in Tourist Demographics:** China surpassed India as the leading source of tourists to the Maldives in early 2024.

Impact on Sri Lanka:

- **Increase in Indian Tourists:** Sri Lanka experienced a surge in Indian tourist arrivals, with numbers more than doubling from 13,759 in January 2023 to 34,399 in Jan-24.
- **Overall Tourism Growth:** This influx contributed to Sri Lanka surpassing the Maldives in total tourist arrivals for the first time in several years.

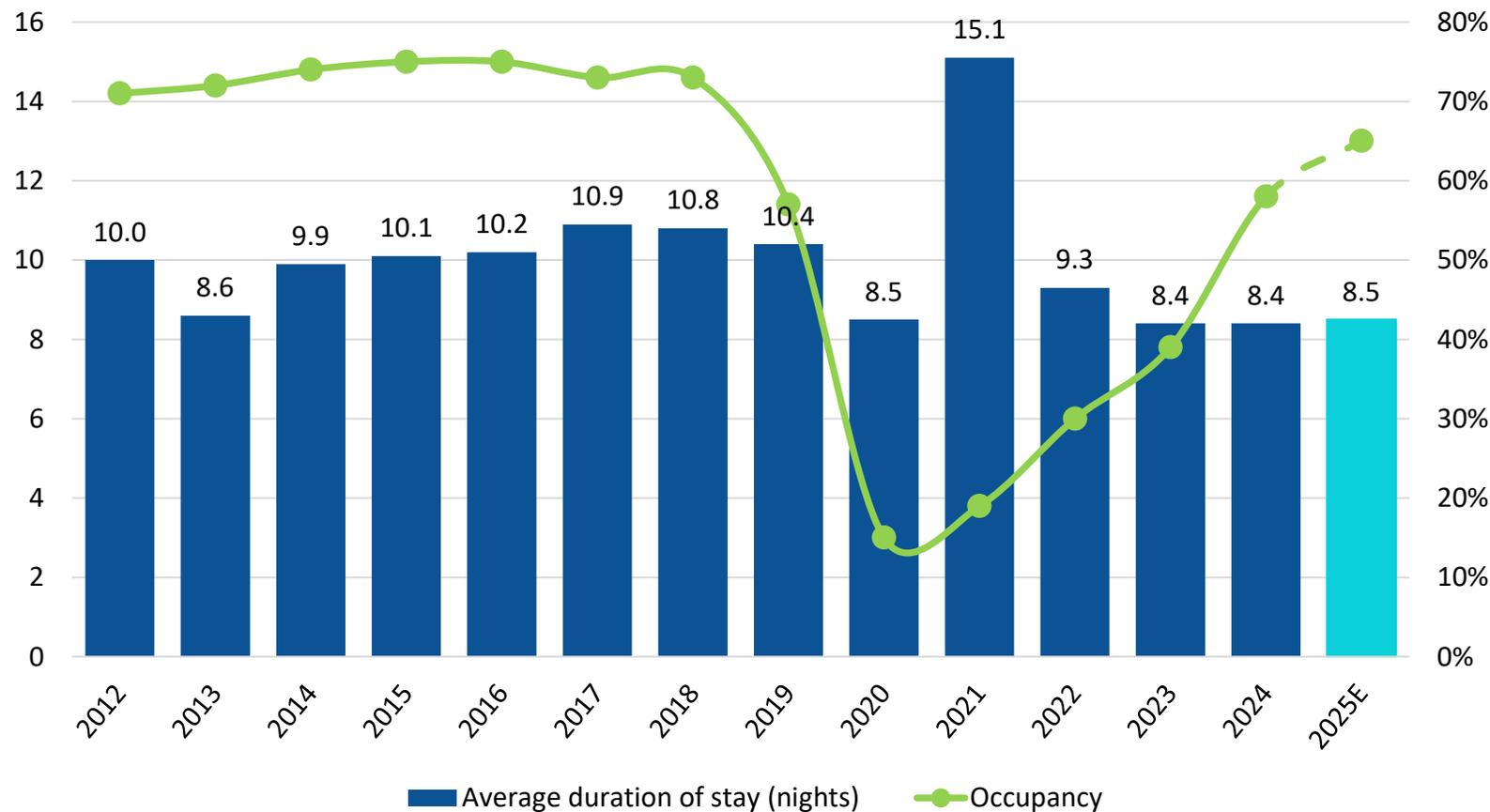


**Maldives has surpassed Sri Lanka in terms of arrivals, since 2020. However, 2024 saw a marginal reversal, with Sri Lanka slightly outperforming the Maldives.*

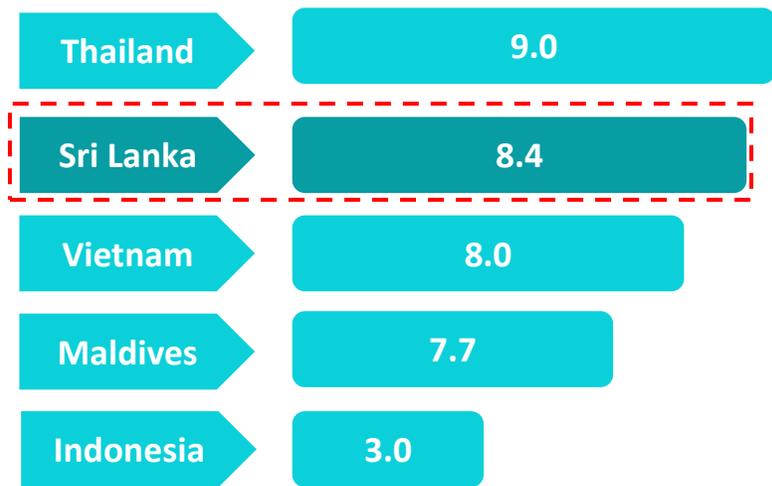
However, occupancy rates lag despite recovery in stay duration

While the average duration of stay (Nights) in Sri Lanka remains comparable to regional peers, there has been a marginal contraction compared to 2022, and occupancy rates remain below expectations. 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.

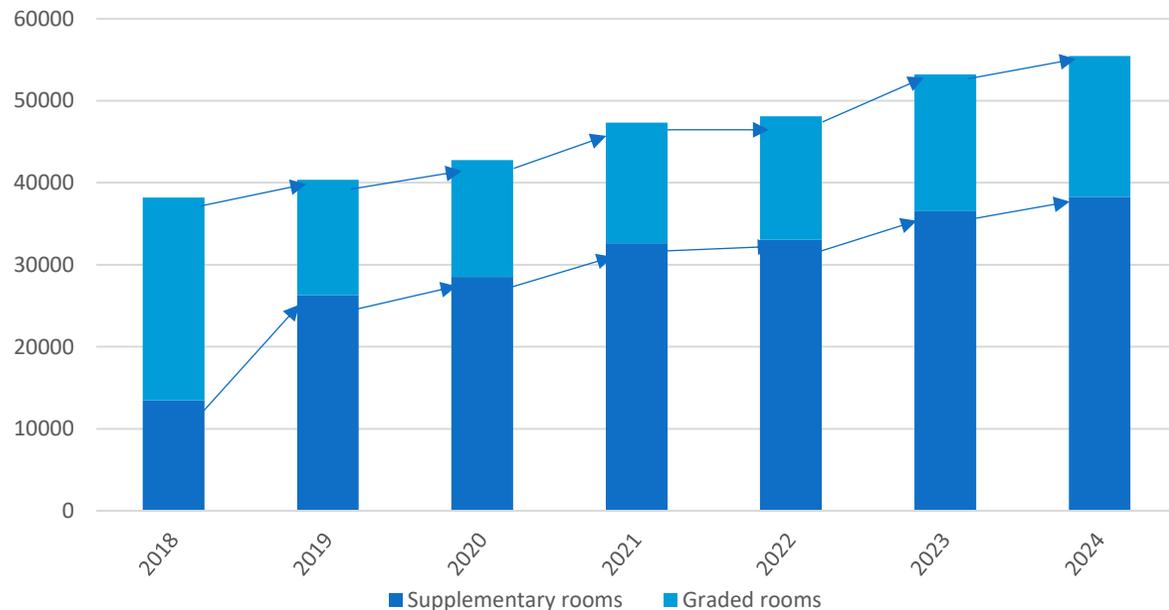
Average duration of stay and occupancy in Sri Lanka



Average length of stay: Comparison of Regional Peers



Increased tourism sector investments may have resulted in an over supply of accommodation...



Mix of Classified Tourist hotel rooms



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.

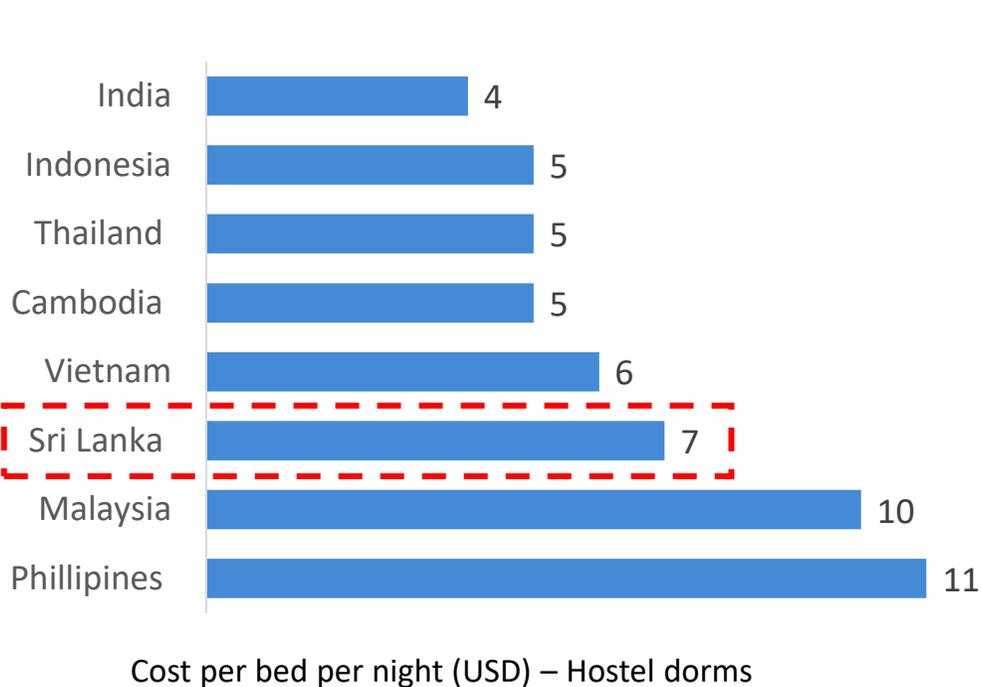
Province	2024	Growth (YoY)
Western	19,769	9%
Southern	14,122	0%
Central	8,995	2%
Uva	2,869	3%
Eastern	2,620	3%
North Central	2,424	3%
North Western	2,138	-1%
Sabaragamuwa	1,455	6%
Northern	1,063	11%

Investment projects

- Investment in the sector skyrocketed by 361.9%YoY to USD 170.1Mn in 2023 (2022: USD 36.8Mn), followed by a 4.1% YoY increase in 2024 and the gap between arrivals and occupancies suggest a mismatch between demand and supply leading to conclude that there may be an oversupply in accommodation that does not cater to tourists' preferences.
- The approved investment projects in 2024 are expected to add 545 new rooms to the inventory, increasing the total number of rooms in SL to 55,047.

...and relatively highly priced accommodations in Sri Lanka compared to peers...

Tourists' preferences and spending patterns have shifted significantly, with many now prioritizing experiences, food, and recreation over traditional accommodation expenses. As a result, travelers are seeking more affordable lodging options, such as hostels, to allocate more of their budget toward enriching activities. While Sri Lanka remains competitive in the tourism market, it has begun to lose its edge to regional peers like Thailand and Vietnam, which offer lower-cost hostel accommodations.



					
Type of Accommodation	Sri Lanka	Vietnam (Ho Chi Minh City)	Thailand (Bangkok)	Indonesia (Jakarta)	Maldives (Malé)
5 Star	127+	70+	90+	170+	750+
4 Star	85+	45+	70+	70+	545+
3 Star	50+	28+	30+	45+	350+

...contributing to overall cost born by tourists

Average Room Rate (ARR USD)

Type of Accommodation	Sri Lanka	Vietnam (Ho Chi Minh City)	Thailand (Bangkok)	Indonesia (Jakarta)	Maldives (Malé)
5 Star	127+	70+	90+	170+	750+
4 Star	85+	45+	70+	70+	545+
3 Star	50+	28+	30+	45+	350+

Flight fare (USD)

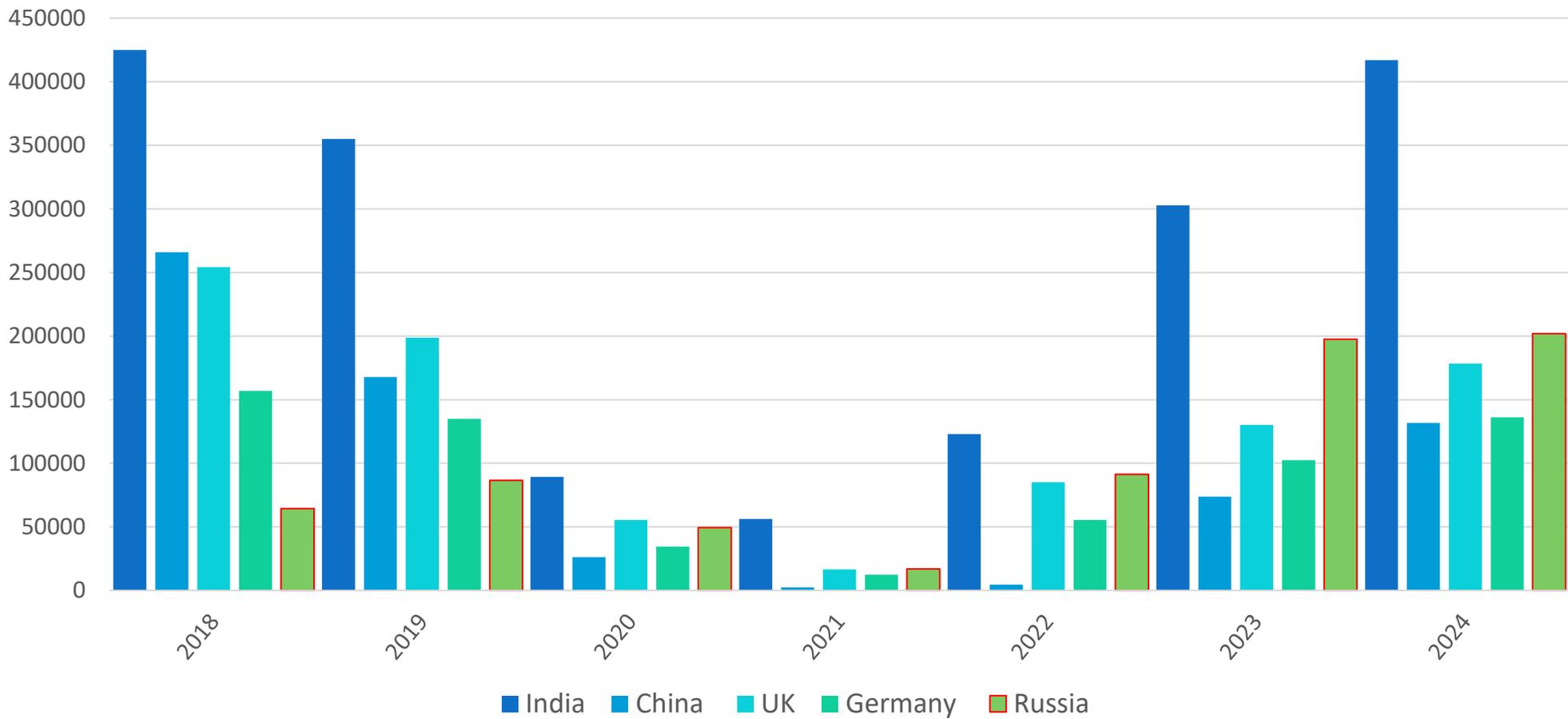
Source Market	Sri Lanka (Colombo)	Vietnam (Ho Chi Minh City)	Thailand (Bangkok)	Indonesia (Jakarta)	Maldives (Malé)
India	168.0	226.0	247.0	300.0	295.0
Russia	755.0	527.0	523.0	1150.0	615.0
United Kingdom	1,000.0	950.0	1,100.0	1,000.0	1,250.0
China	550.0	350.0	170.0	300.0	950.0

Gasoline Price (USD Per liter)

	Sri Lanka	Vietnam	Thailand	Indonesia	Maldives
Gasoline	1.25	0.79	1.33	0.83	0.91

Moreover, change in arrivals from Russia, overtaking previous top source markets may have also caused the dip in occupancies

- India has remained as the top source market in terms of arrivals from 2018 to date, followed by the UK, however both source markets have not rebounded to 2018 levels. The arrivals trend has changed as of late, with second highest source market being the Russian Federation, pushing UK down the list, accompanied by Germany and China.
- Increased influx of Russian and European tourists have shifted spending patterns and preferences compared to 2018, despite robust YoY arrivals uptick.

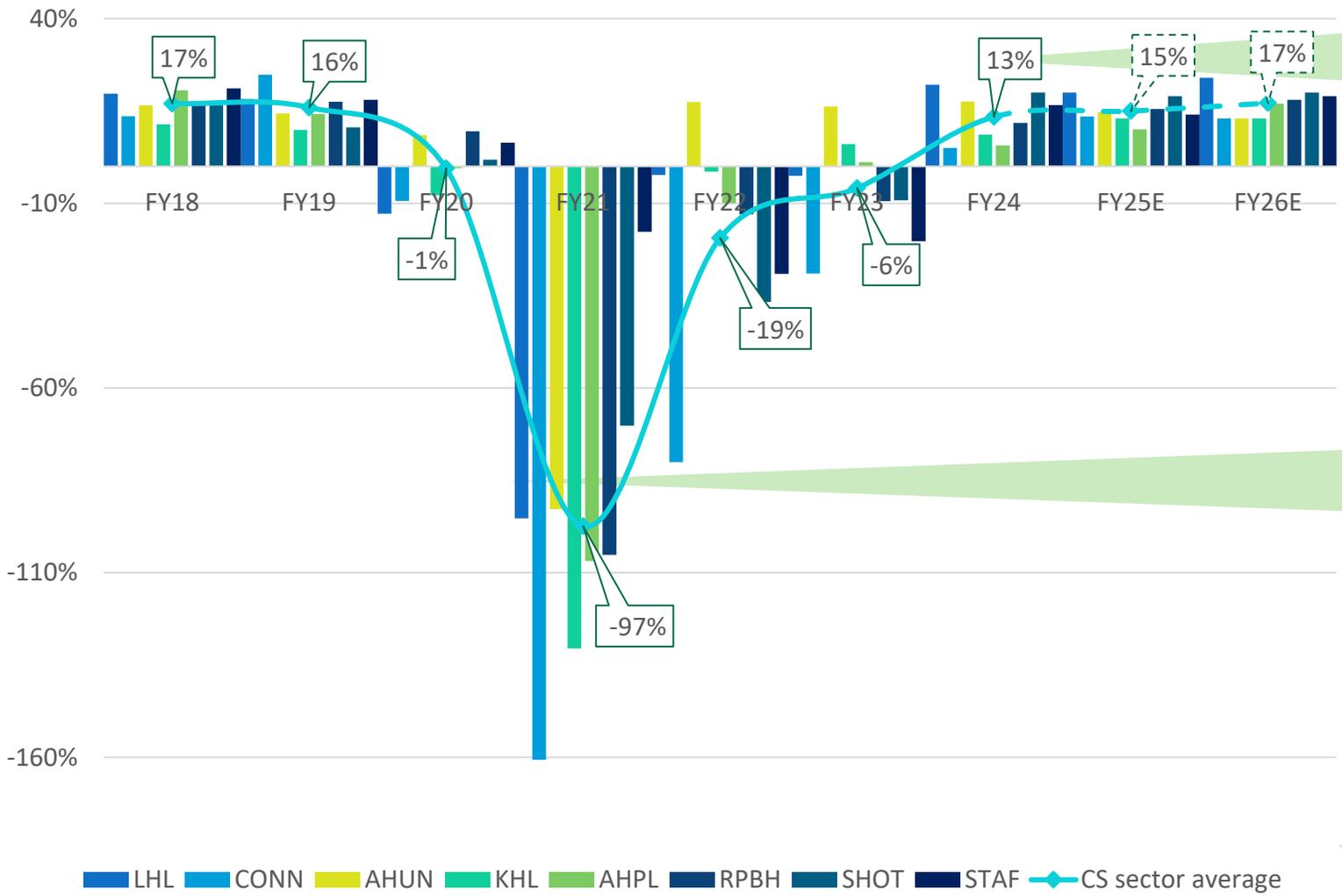


	% growth relative to 2018
India	-1.9%
UK	-29.8%
China	-50.5%
Germany	+86.7%
Russia	+213.1%



2.0 Margins lag amid rising costs and slow recovery

Hotel operating margins remain challenged failing to reach FY18 heights...



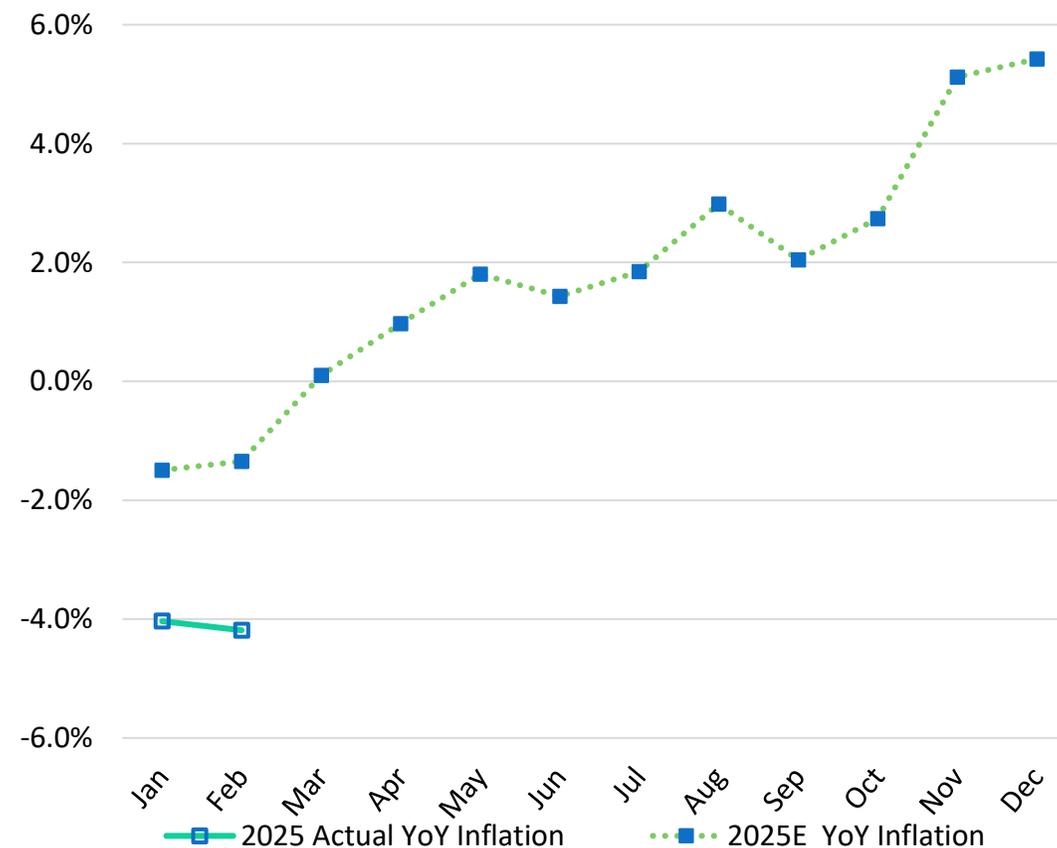
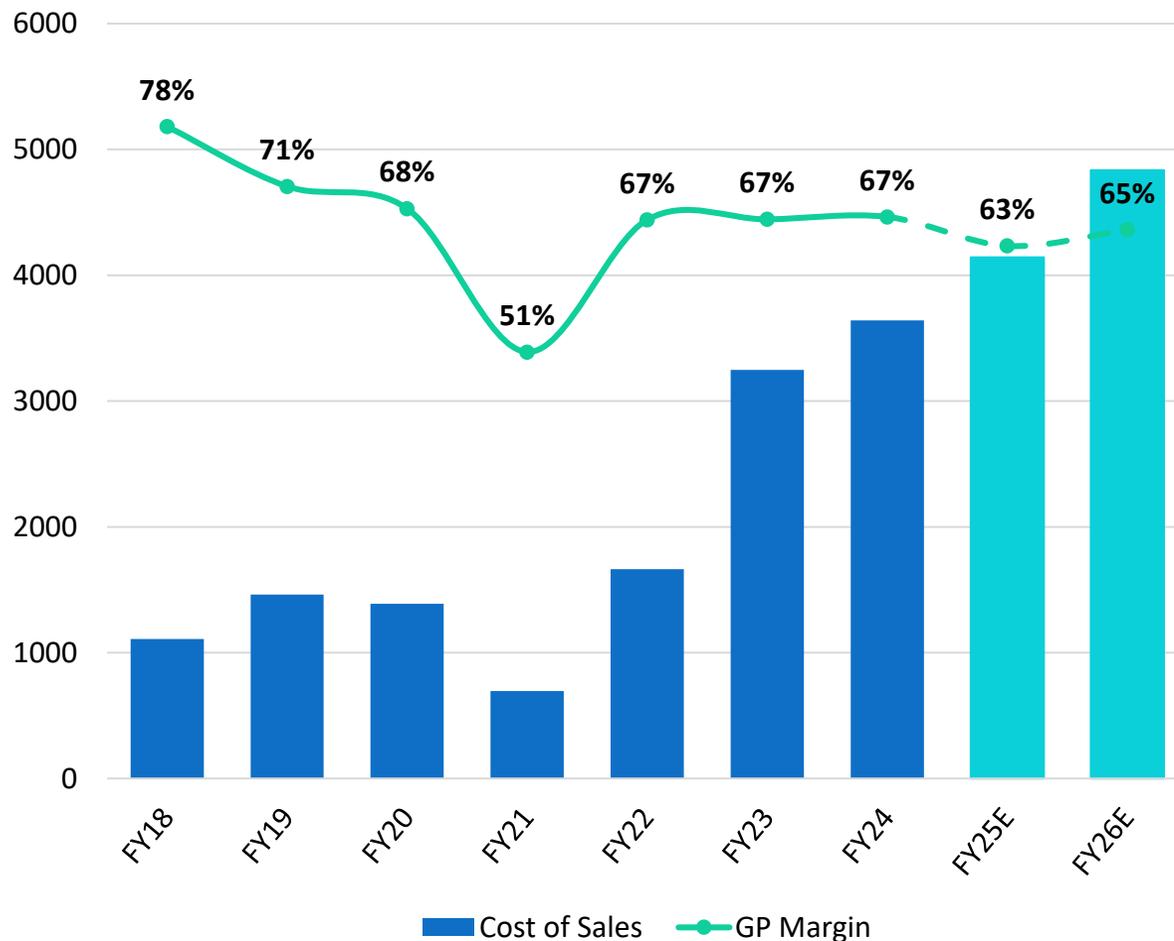
EBIT margins have not reached FY18 levels despite increase in arrivals, however we expect a gradual reconvergence as macroeconomic conditions improve.

Steep margin drop was noted during the Covid-19 period, followed by gradual recovery as arrivals and occupancies began to rebound.

With the sharp depreciation of the Sri Lankan rupee, raw material prices and cost of imports for consumer services shot up, followed by rise in inflation, electricity prices which contributed to overall decline in operating profits for hotels. A full recovery to prior period peaks is still due, contributing for the lackluster performance of hotel counters as of late.

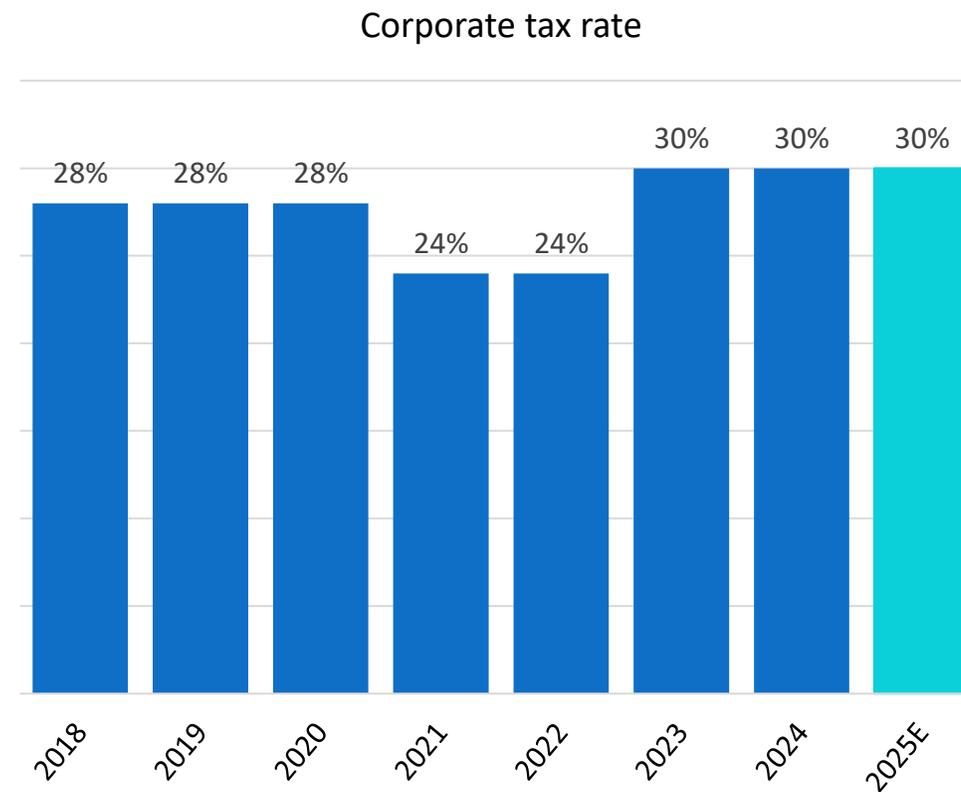
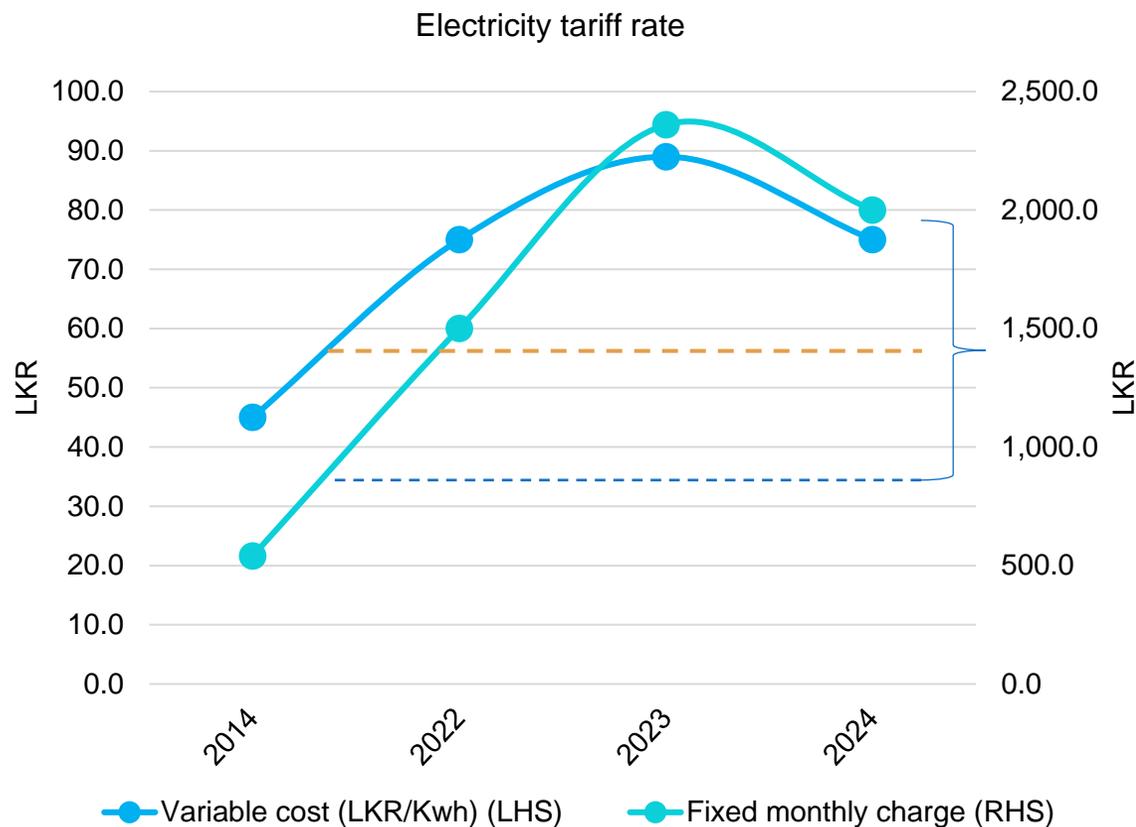
...as inflation pushes key raw material costs up...

- While inflation has stabilized during recent times with the rapid macroeconomic recovery, raw material costs have shot up considerably relative to the FY18 period. This has inherently increased the cost of sales for the consumer services sector, despite revenue increment which has led to lags in GP margins reaching pre-pandemic highs, slowing down bottom-line resurgence.



Source: Dept. Census and Statistics, First Capital Research

whilst upward electricity tariff revisions and revised corporate taxes...

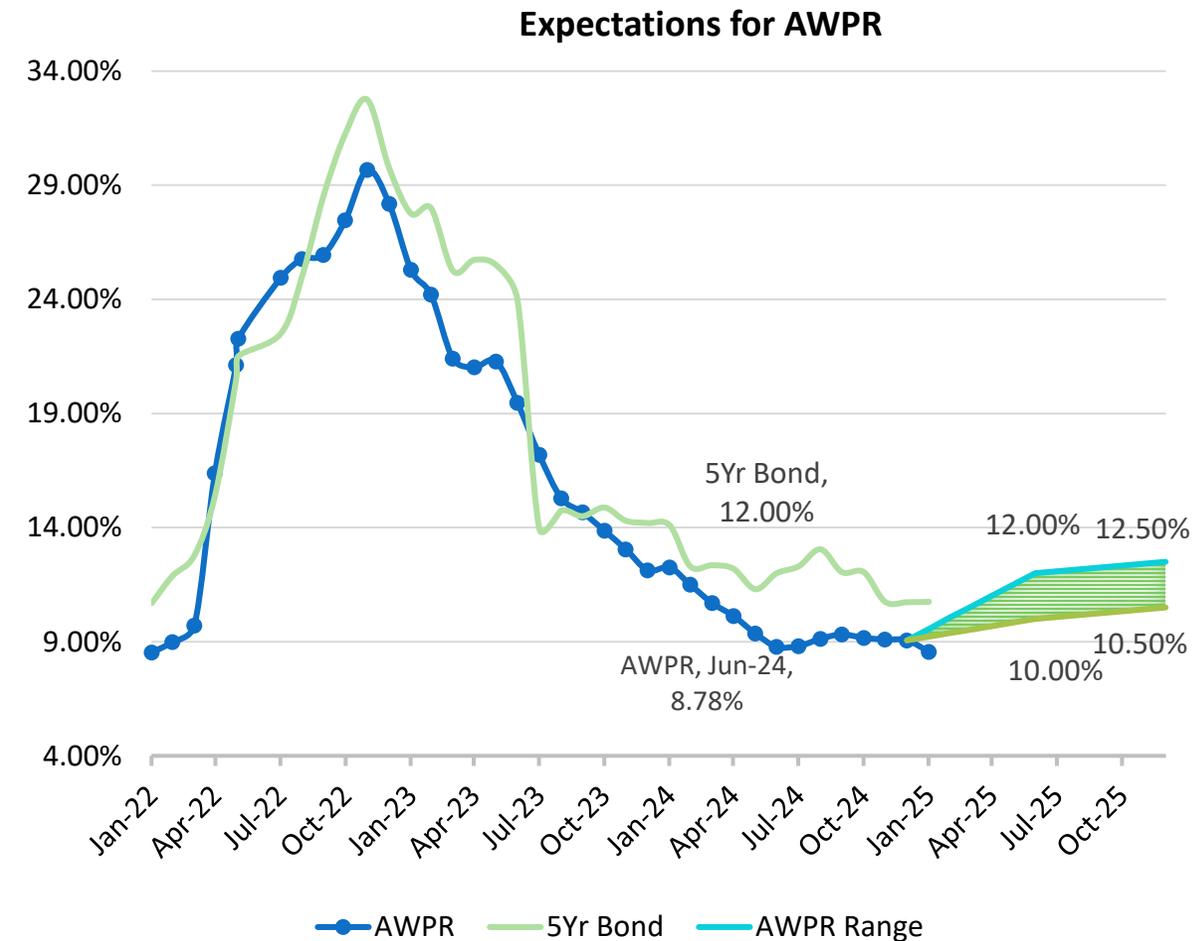
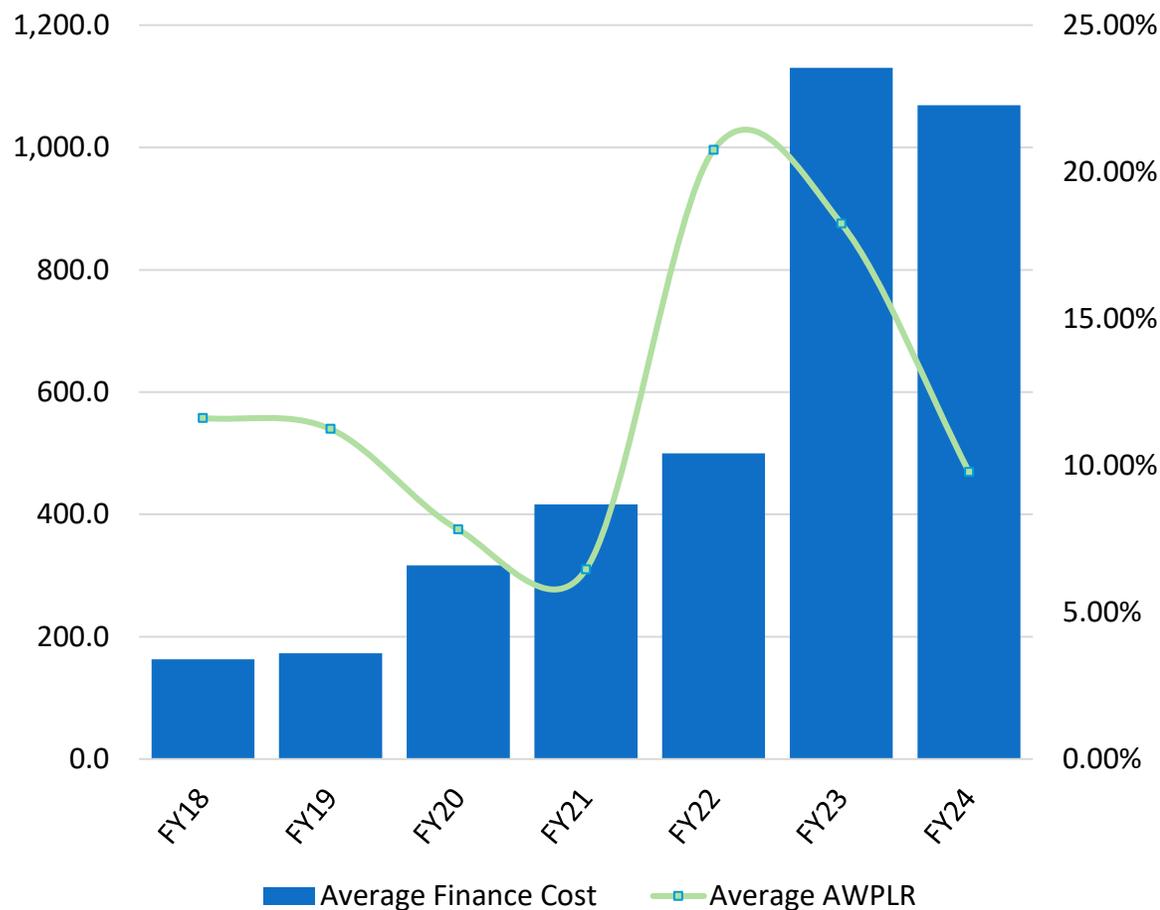


The electricity tariff rates have risen through the years, increasing overhead costs and exerting pressure on the CS sector. Recent tariff revisions have eased this pressure, with aims to boost sector growth, however, costs still remain high relative to FY18

The corporate tax hike from 24.0% to 30.0% has tightened hotel margins, adding to rising costs. Higher taxes and expenses force price hikes, risking competitiveness compared to regional peers

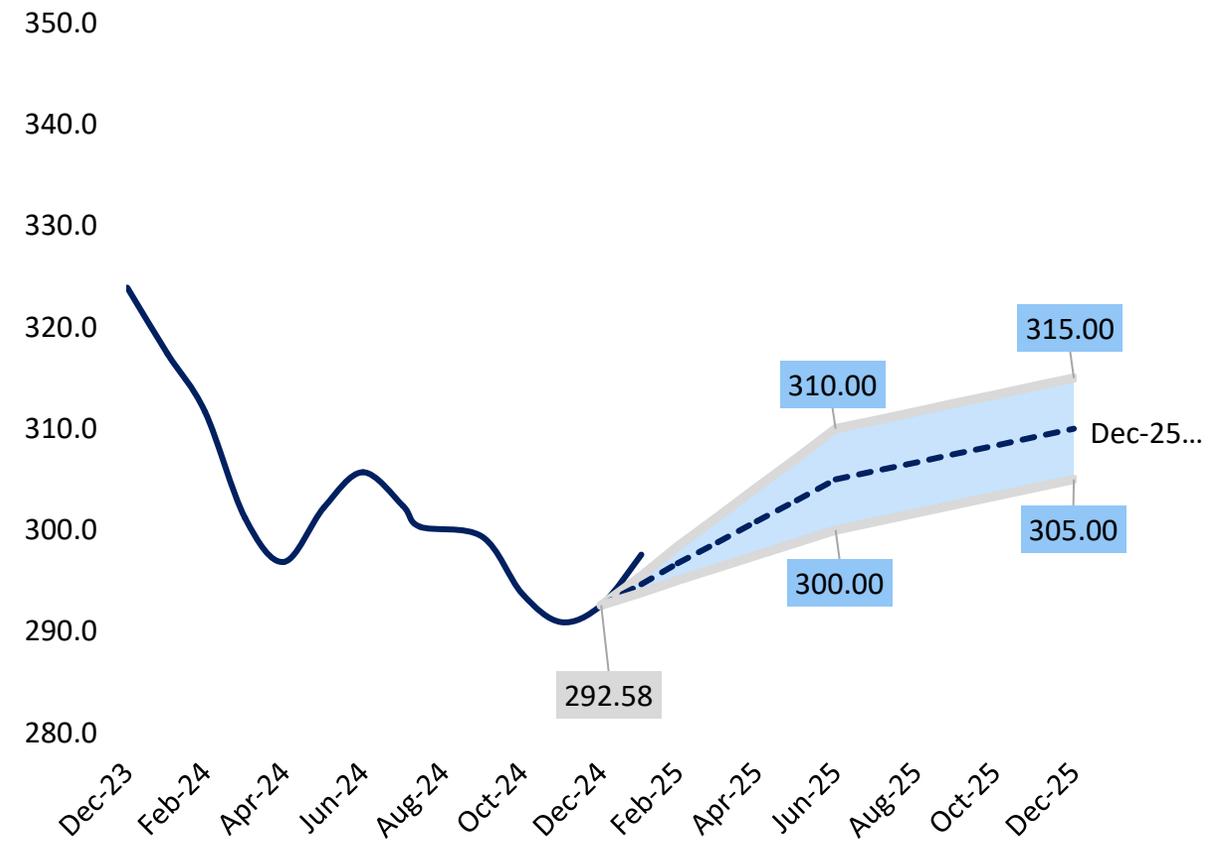
...coupled with increase in finance costs, pushes the costs of corporates up

- Despite declining interest rates, businesses continue to face higher operating costs, limiting bottom-line growth. The forecasted AWPR stabilization between 10.00% – 12.50% by late 2025 suggests a more predictable financing environment, but cost pressures remain a challenge for corporate profitability.



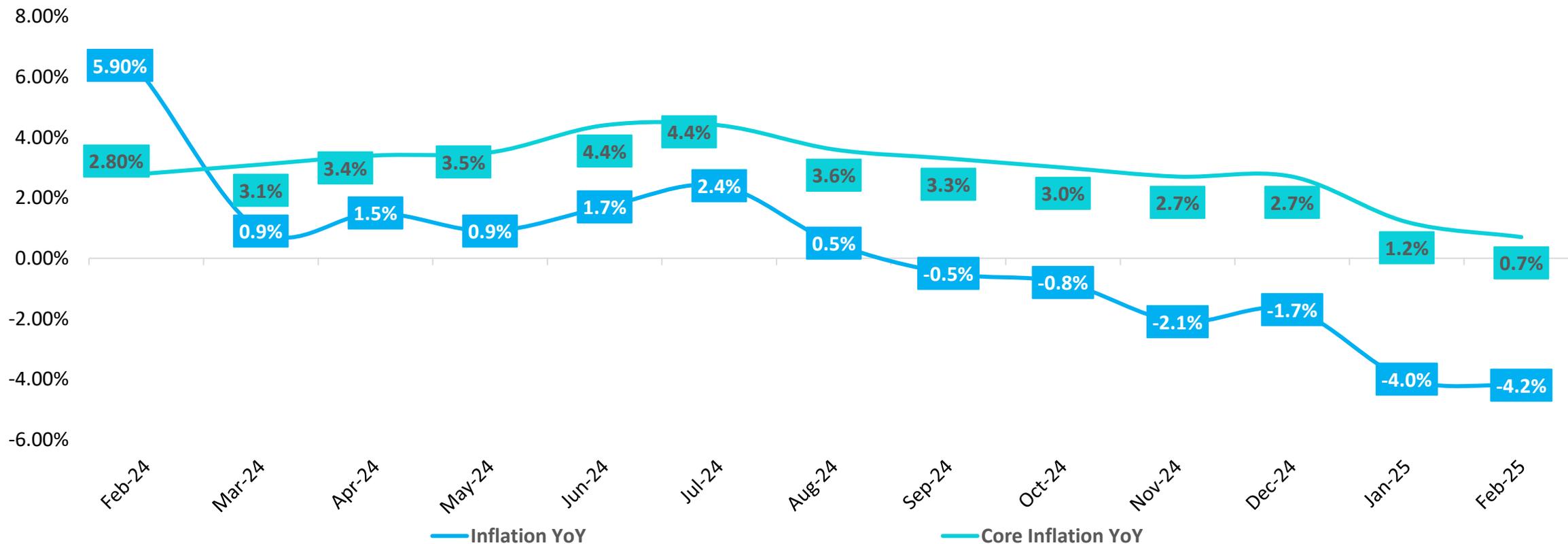
Margin recovery expected to remain slow with expected LKR depreciation

- The depreciation of the Sri Lankan Rupee (LKR) has driven hotel operational costs up by 68.0% in 2023, with energy expenses rising 85.0%, forcing small and medium hotels to suspend operations, while larger and well-established accommodations took a hit in terms of profitability. While tourism earnings surged 17.2% to \$400.7Mn in Jan-25, rising operational expenses continues to hinder the swift recovery of hotel profit margins.



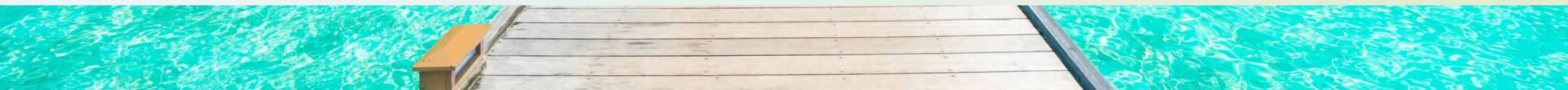
...and a possible spike in inflation pushes hotel breakeven higher

- The Sri Lankan hotel sector has faced significant challenges due to the country's recent economic crisis, characterized by soaring inflation rates and operational hurdles. In Aug-22, Sri Lanka's annual inflation rate surged to over 70.0%, marking one of the highest levels in decades, and hotels haven't recovered from this as yet.
- This sharp increase led to substantial rises in the costs of goods and services, directly impacting hotel operations. Hotels grappled with increased expenses for essentials such as food, utilities, and maintenance. Additionally, fuel shortages and power outages further disrupted services, making it challenging for hotels to maintain standard operations.



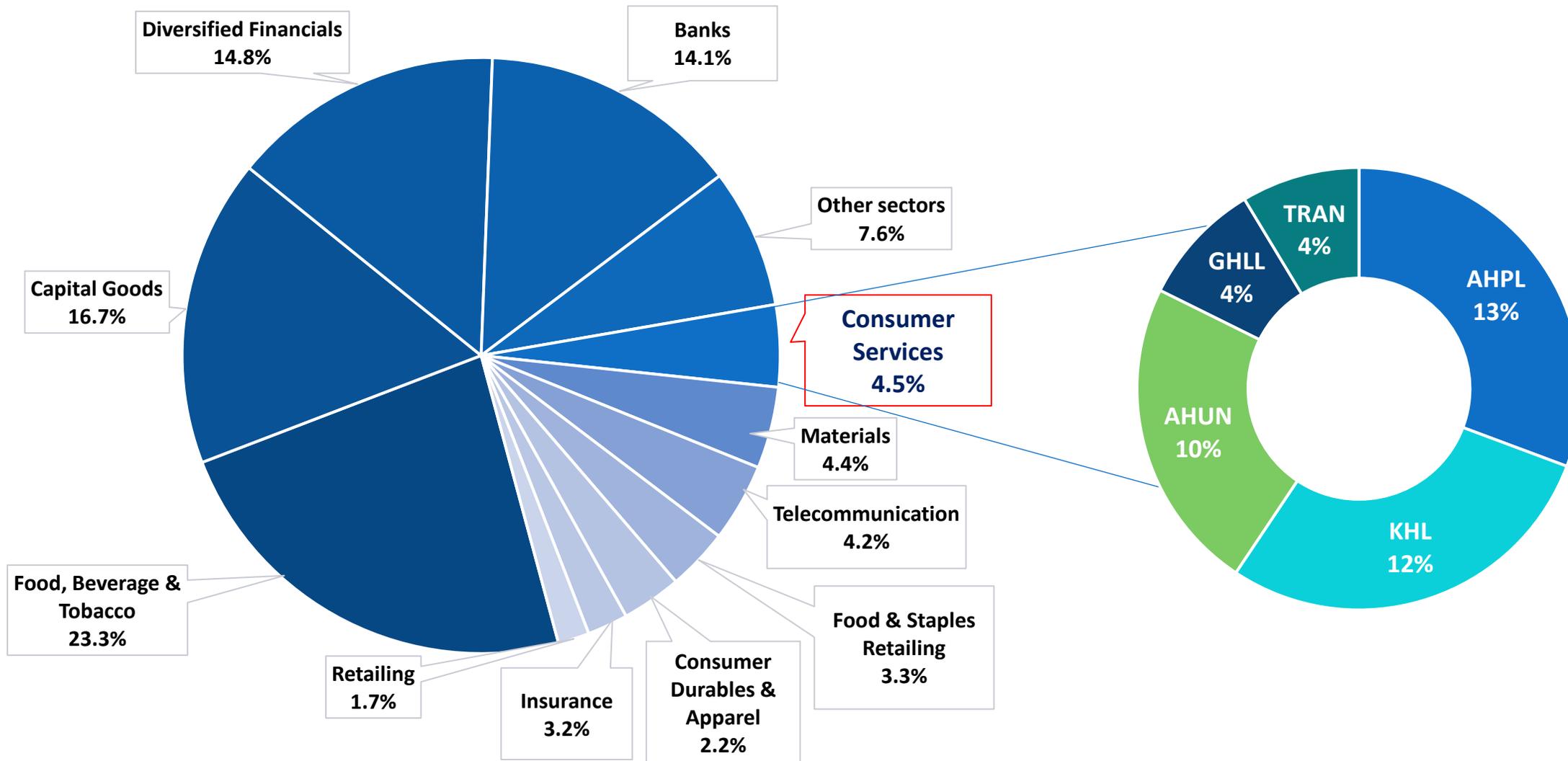


3.0 Valuations

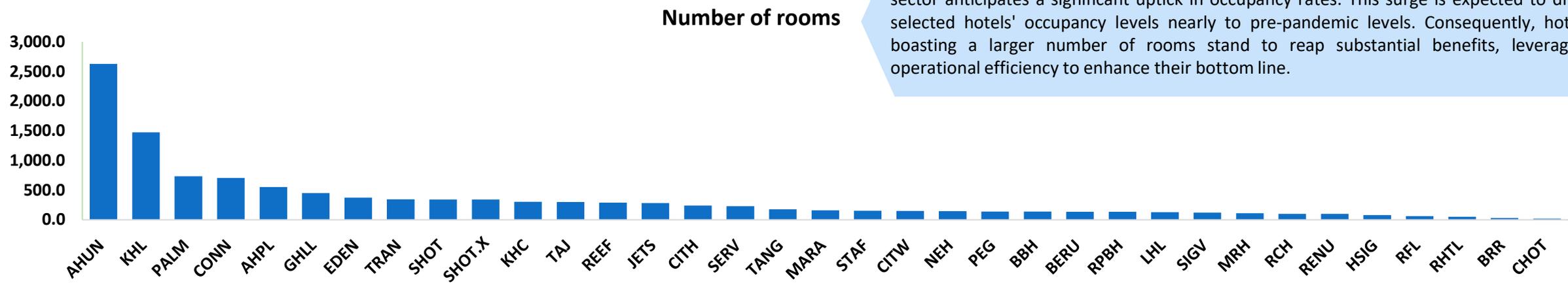


Market capitalization composition – CSE

Of the total market capitalization amounting to LKR 5,610.6Bn, LKR 252.7Bn, equivalent to 4.5%, is held by Consumer Services (Hotels) sector

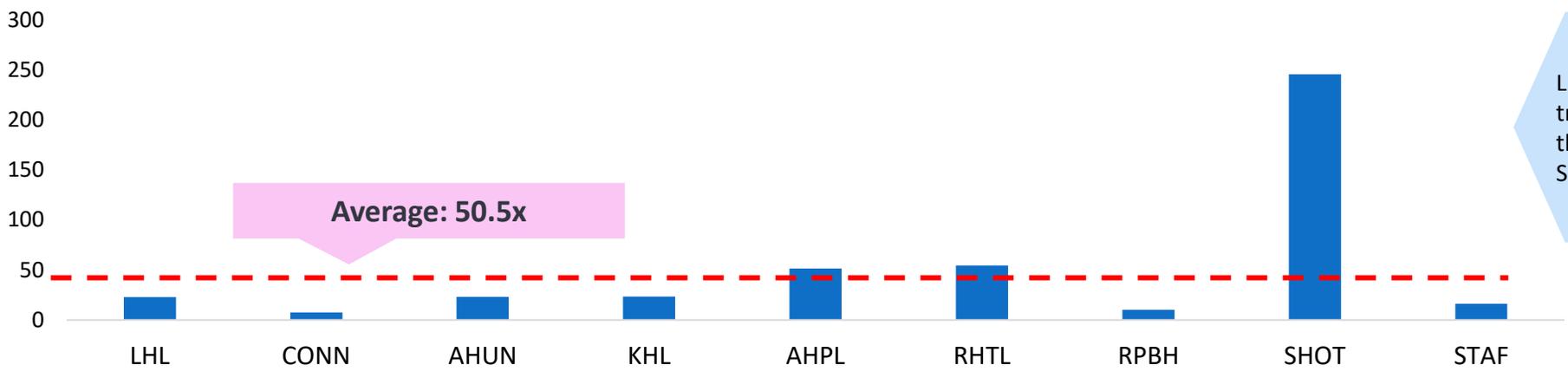


AHUN, KHL, and AHPL, with the largest number of rooms, have significant potential for performance upgrades



With the continuous influx of tourists, poised to surpass 2.5Mn arrivals by 2025, the hotels sector anticipates a significant uptick in occupancy rates. This surge is expected to drive selected hotels' occupancy levels nearly to pre-pandemic levels. Consequently, hotels boasting a larger number of rooms stand to reap substantial benefits, leveraging operational efficiency to enhance their bottom line.

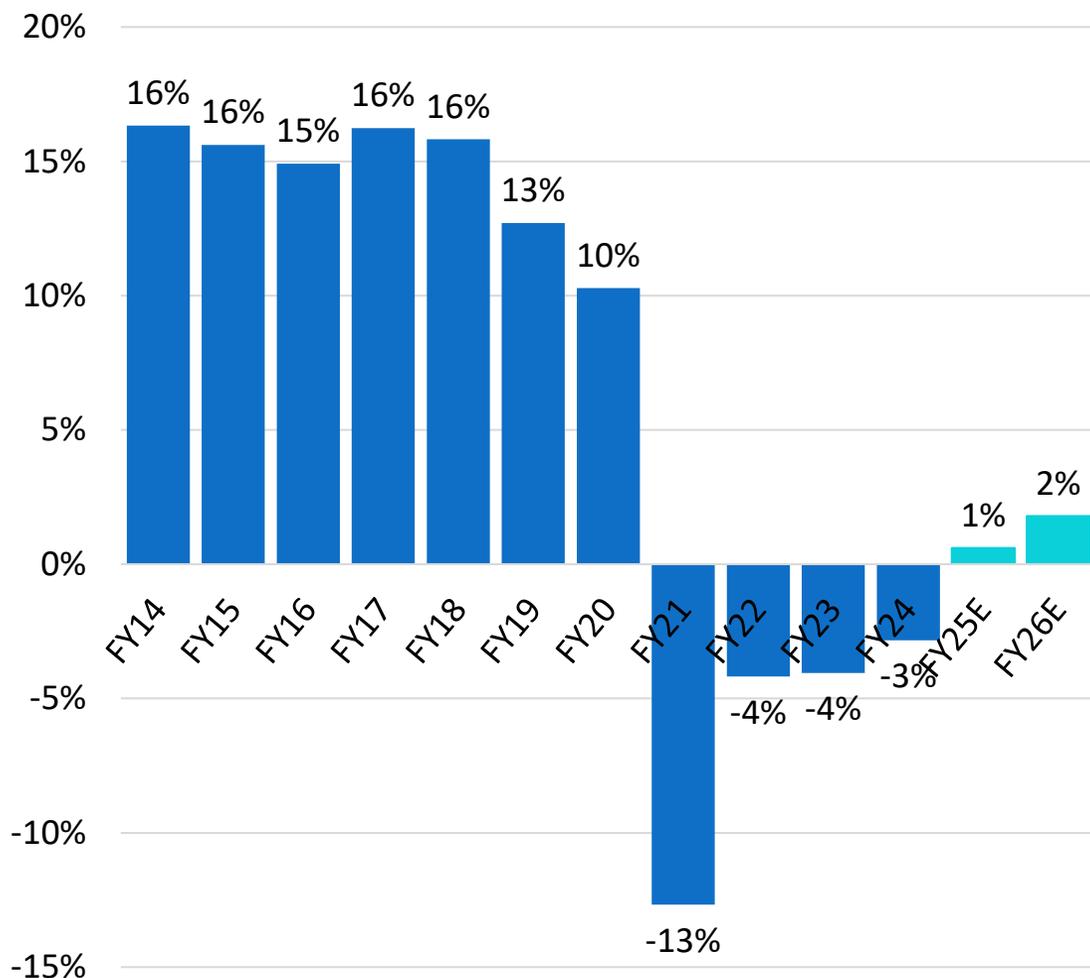
Most large-scale hotels are overvalued relative to the industry Enterprise value per room



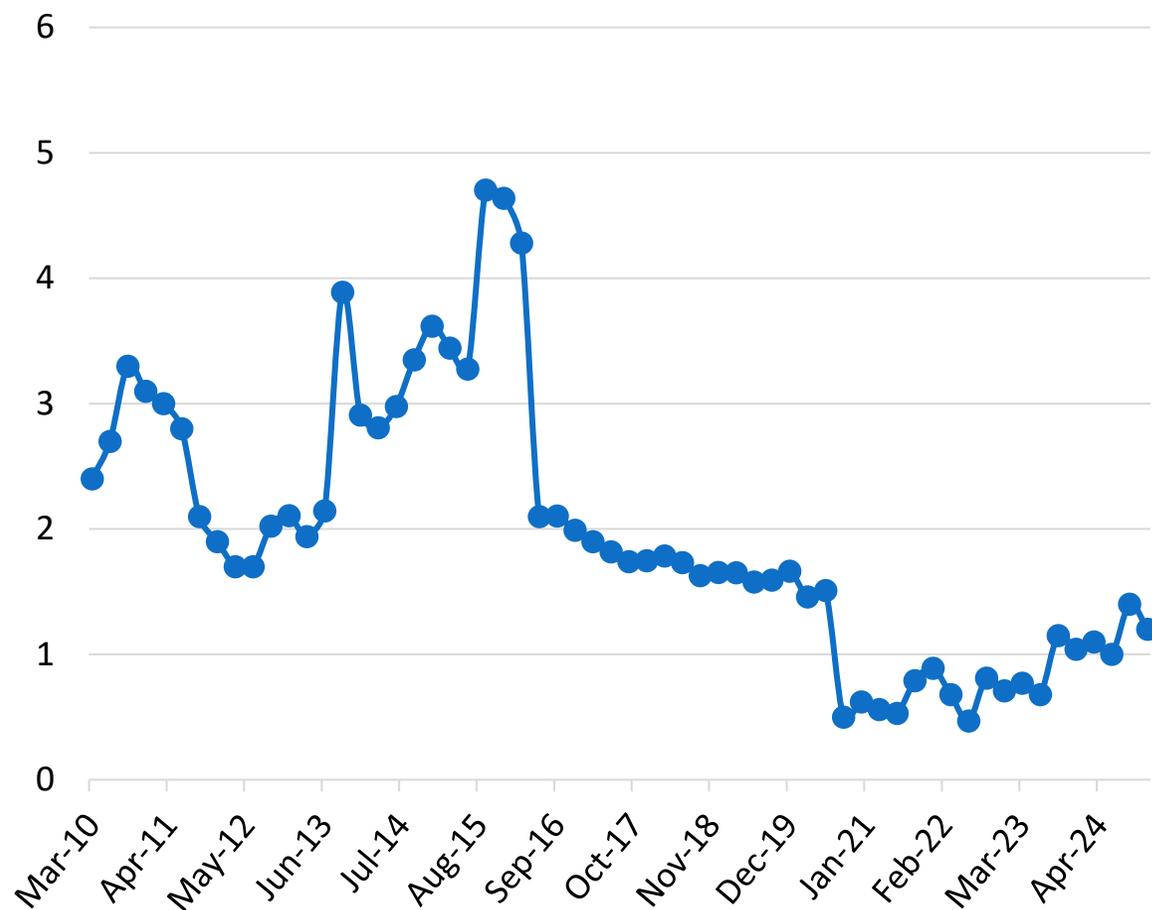
LHL, CONN, AHUN, KHL, RPBH and STAF are trading at a discount while dominant players in the sector such as AHPL followed by RHTL and SHOT are trading above the industry average.

Market recognizes sector challenges as seen through ROE and PBV

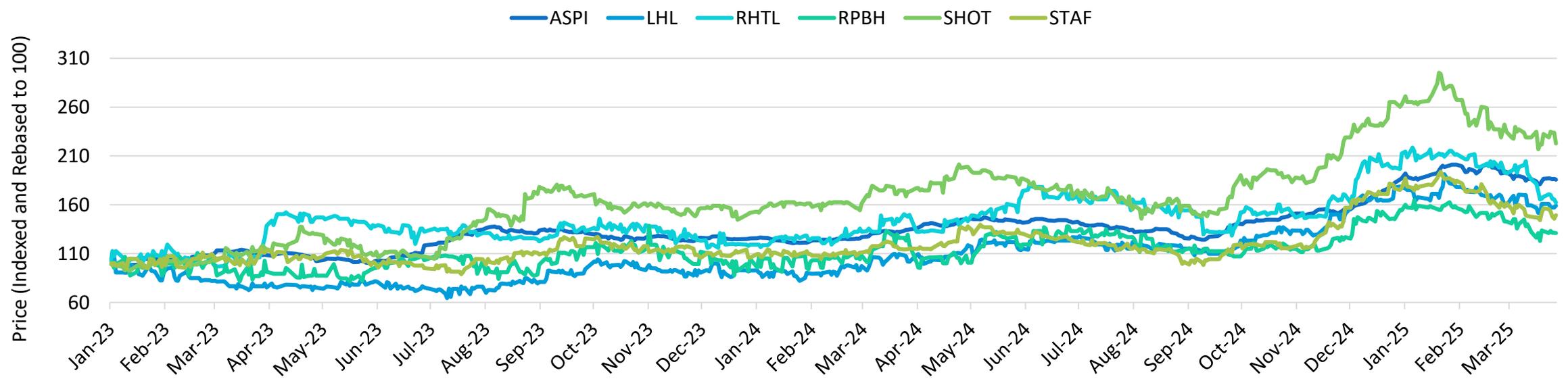
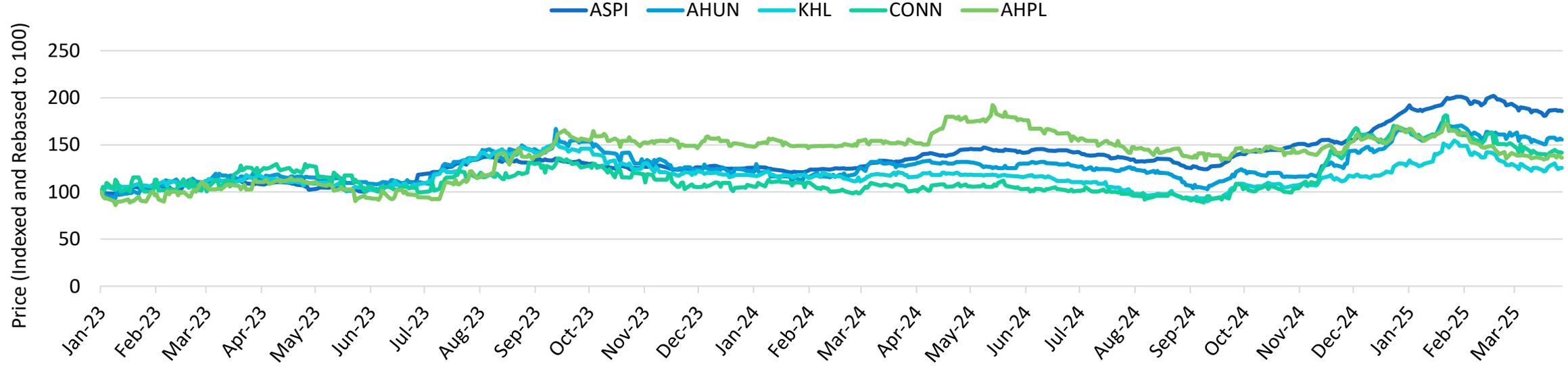
Positive returns expected in FY25E across the sector are anticipated to contribute to the sector's ROE turning positive, however has not yet rebounded to FY18 levels.



Sector PBV stands at 1.2x whilst rising costs, slow margin recovery, and uncertain demand, lead to subdued investor sentiment.



Price movement of FCR recommendations vs ASPI (indexed and rebased to 100)



FCR recommendations: hotel sector



FIRST CAPITAL RECOMMENDATIONS: HOTEL SECTOR

Stock	Stock Code	Share price	Target Price	52-week	52-week	Capital gain	Total return	Annualized	EPS	Forward	No.of	FCR
		27.03.2025	2025E/FY26E	High	Low	(%) FY26E	(%) FY26E	return (%)	FY26E	PER	Rooms	
		LKR	LKR	LKR	LKR			FY26E	LKR	(x)		Recommendation
 AITKEN SPENCE HOTEL HOLDINGS PLC	AHUN.N	80.70	98.00	92.00	53.00	21.4%	22.9%	25.1%	5.8	13.9	2,629.00	BUY
 JOHN KEELLS HOTELS PLC	KHL.N	20.20	22.00	20.70	19.90	8.9%	8.9%	9.7%	1.1	18.4	1,476.00	HOLD
 HAYLEYS LEISURE PLC	CONN.N	28.30	40.00	29.40	28.10	41.3%	41.3%	45.6%	2.6	10.9	703.00	BUY
 THE LIGHTHOUSE HOTEL PLC	LHL.N	57.40	72.00	59.30	56.80	25.4%	25.4%	27.9%	5.2	11.0	127.00	BUY
 THE FORTRESS RESORTS PLC	RHTL.N	25.00	29.00	26.90	24.90	16.0%	16.8%	18.4%	2.4	10.4	53.00	HOLD
 ROYAL PALMS BEACH HOTELS PLC	RPBH.N	33.10	38.00	33.70	32.60	14.8%	16.9%	18.5%	12.5	2.6	136.00	HOLD
 SERENDIB HOTELS PLC	SHOT.N	19.40	23.00	19.40	18.50	18.6%	18.6%	20.3%	1.4	13.9	341.00	HOLD
 DOLPHIN HOTELS PLC	STAF.N	44.60	55.00	46.70	44.50	23.3%	25.1%	27.6%	4.5	9.9	154.00	HOLD
 ASIAN HOTELS AND PROPERTIES PLC	AHPL.N	53.60	54.00	55.00	53.20	0.7%	0.7%	0.8%	4.3	12.5	550.00	HOLD

Valuations table: hotel sector

VALUATIONS : HOTEL SECTOR														
Stock	Stock Code	Net earnings	Net earnings	Forward	Forward	Forward	NAVPS	DPS	DY	Total return	ROE	EPS	FCR Recommendation	
		(FY25E)	(FY26E)	PER	PER	PBV	(FY26E)	(FY26E)	(FY26E)	(FY26E)	(FY26E)	(FY26E)		
		LKR Mn	LKR Mn	(x)	(x)	(x)	LKR	LKR	(%)	(%)	(%)	LKR		
 AITKEN SPENCE HOTEL HOLDINGS PLC	AHUN.N	1,288.0	1,946.2	20.9	13.8	1.1	73.10	-	-	23.0%	7.9%	5.8	BUY	
 JOHN KEELLS HOTELS PLC	KHL.N	(538.9)	1,622.5	-	17.9	0.9	22.20	-	-	11.4%	5.0%	1.1	HOLD	
 HAYLEYS LEISURE PLC	CONN.N	154.0	286.0	25.3	13.6	2.2	16.50	-	-	40.4%	17.9%	2.7	BUY	
 THE LIGHTHOUSE HOTEL PLC	LHL.N	203.6	237.7	13.0	11.1	0.8	73.70	-	-	26.0%	7.0%	5.2	BUY	
 THE FORTRESS RESORTS PLC	RHTL.N	196.2	269.7	14.5	10.6	1.2	20.60	-	-	13.6%	11.8%	2.4	HOLD	
 ROYAL PALMS BEACH HOTELS PLC	RPBH.N	176.0	253.0	17.5	13.4	0.6	54.80	-	-	11.9%	4.6%	2.5	HOLD	
 SERENDIB HOTELS PLC	SHOT.N	533.0	627.7	16.3	13.9	1.5	11.40	-	-	15.4%	10.8%	1.4	HOLD	
 DOLPHIN HOTELS PLC	STAF.N	287.4	391.4	10.3	7.6	0.8	61.90	-	-	16.3%	10.0%	6.2	HOLD	
 ASIAN HOTELS AND PROPERTIES PLC	AHPL.N	109.7	950.8	217.9	25.1	0.8	69.40	-	-	1.1%	3.1%	2.2	HOLD	

Risk assessment

Risk factors	Impact
<p>Increased competition: 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>	<p>High</p>
<p>Exchange rate volatility of the LKR: The Sri Lankan rupee has recorded robust recovery as of late and this may discourage tourists due to holidays in Sri Lanka being more expensive compared to the economic crisis period. The medium-term outlook is for the LKR to depreciate, particularly with the newly imposed tariffs by the US, which then could help contain this risk. However, this poses another threat to hotels as costs increase due to raw material imports, negatively impacting profitability.</p>	<p>High</p>
<p>Delays in marketing campaign rollout: Sri Lanka's budget for 2025 has allocated a sum of LKR 500Mn for tourism promotional campaigns and the delays related to implementing a campaign have led to opportunity costs in terms of capturing potential arrivals.</p>	<p>Medium-High</p>
<p>Global uncertainties: 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>	<p>Medium-High</p>
<p>Slow growth in infrastructure developments: 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. Airport capacity limitations also have an impact on being able to cater to a high number of arrivals.</p>	<p>Medium - High</p>
<p>Impact of higher tax and cost structure on hotels: 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. This could also affect lower-star class hotels as they are more price sensitive and travelers may prefer options such as Airbnb.</p>	<p>Medium</p>
<p>Increase in operational expenses: Hotels have been burdened by increased costs which have significantly reduced margins and profitability and resulted in losses for many hotels during recent quarters. This hinders growth, refurbishment and expansion plans.</p>	<p>Medium</p>
<p>Safety concerns and unrest: The recent Arugam Bay threat and political regime changes have brought on a sense of unrest and concern among foreigners. This slowed down arrivals during the month of October as travel warnings were issued from many countries, but has since calmed down and rebounded to normalcy.</p>	<p>Low</p>

Risk matrix

The identified risks have been incorporated into a risk matrix, reflecting their likelihood and impact

		LIKELIHOOD			
		LOW	MEDIUM	HIGH	VERY HIGH
IMPACT	LOW	Political unrest and safety concerns.			
	MEDIUM		Delays in marketing and promotional campaign rollout.	Slow growth in infrastructure developments (airport capacity).	
	HIGH		Increased operating expenses and impact of high tax and cost structure.	Increased global competition from regional peers. Exchange rate volatility of the LKR (with the newly imposed US tariffs).	
	VERY HIGH			Global uncertainties and geo-political tensions.	

AITKEN SPENCE HOTEL HOLDINGS PLC

AHUN.N0000

Current Price: LKR 80.00

Fair Value: LKR 98.4 (FY26E)

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 (1,295 rooms in 8 properties & 116 rooms in 1 managed properties), Maldives (745 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 YoY contraction in losses during the 3QFY25

In 3QFY25, AHUN recorded a profit of LKR 1.1Bn, which was an increase of 27.8%YoY due to increased arrivals in the peak season as well as improvement in the Maldivian segment. This allowed the loss for the 9-month period ended in Dec-24 to contract by a significant 76.2%YoY. AHUN's Sri Lankan operations, improved by a substantial 85.7% while its' Middle Eastern and South Asian segment improved by a drastic 228.4%, in terms of profitability during 9MFY25. The EBIT for the period remained stagnant with a marginal rise followed by reduced net finance cost, leading to overall positive performance this quarter.

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 1.3Bn for FY25E and LKR 1.9Bn for FY26E. Based on this outlook, we derive a fair value of LKR 98.4 per share, offering a capital gain potential of 23.0% for FY26E. Hence we recommend **BUY**.

P/E 31 March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Estimates (LKR 'Mn)								
Revenue	19,055	18,588	5,592	24,571	45,060	47,259	49,621	59,958
EBIT	2,735	1,564	-5,189	4,280	7,311	8,310	7,294	7,795
Net Profit	811	-625	-4,669	624	-288	1,140	1,288	1,946
Adjusted EPS (LKR)	2.4	(1.9)	(13.9)	1.9	(0.9)	3.4	3.8	5.8
YoY Growth (%)		-180%	-632%	113%	146%	496%	13%	51%
Valuations								
PER (x)	33.8x	N/A	N/A	43.1x	N/A	23.6x	20.9x	13.8x
PBV (x)	1.3x	1.3x	1.7x	1.4x	1.3x	1.3x	1.2x	1.1x
DPS	1.0	-	-	-	-	-	-	-
DY (%)	1.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Dividend Payout	42.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
ROE	3.7%	-3.1%	-29.4%	3.1%	-1.4%	5.3%	5.7%	7.9%

PER based Valuation	FY26E
Earnings (LKR 'Mn)	1,946
No. of Shares ('Mn)	336
EPS	5.8
Expected Average PER	17.0x
Target Price after Rounding off	98

JOHN KEELLS HOTELS PLC

KHL.N0000

Current Price: LKR 20.0

Fair Value: LKR 22.3 (FY26E)

HOLD

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, whilst finance costs hampered profit growth

KHL reported a turnaround and recorded a earnings of LKR 346.9Mn (+3909.0%YoY) driven by the Sri Lankan Hotels (Colombo Hotels) and the resorts segments which reported a growth in occupancies during the 3QFY25 compared to 57.0% and 66.0% occupancies which reported same period last year. As a result of increased tourist arrivals and occupancies surpassing the 60.0% mark, coupled with a significant improvement in ARR, KHL successfully captured a larger share of tourists during the peak season. The Sri Lankan segment reported a contraction in EBIT of 18.3%YoY. On the other hand, Maldivian Resorts segment witnessed a marginal 0.04% improvement in EBIT YoY, despite the drop in occupancies, largely attributable to the change in arrivals mix.

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

Going forward, we expect Colombo Hotels and Sri Lankan Resorts segment to gradually pick up in terms of 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. We recommend **HOLD** with a fair value of LKR 22.3 for FY26E.

P/E 31 March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Estimates (LKR 'Mn)								
Revenue	11,033	9,712	3,661	13,355	28,835	30,739	30,259	38,498
EBIT	1,087	-764	-4,777	-190	1,742	2,648	1,513	4,235
Net Profit	817	-1,201	-5,096	-1,203	-321	-436	-539	1,622
Adjusted EPS (LKR)	0.6	(0.8)	(3.5)	(0.8)	(0.2)	(0.3)	(0.4)	1.1
YoY Growth (%)		-247%	-324%	76%	44%	36%	23%	201%
Valuations								
PER (x)	35.7x	N/A	N/A	N/A	N/A	N/A	N/A	17.9x
PBV (x)	1.0x	1.0x	1.2x	1.0x	0.9x	0.9x	1.0x	0.9x
DPS	0.2	-	-	-	-	-	-	-
DY (%)	0.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Dividend Payout	26.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
ROE	2.8%	-4.2%	-20.9%	-4.0%	-1.0%	-1.4%	-1.8%	5.0%

PER based Valuation	FY26E
Earnings (LKR 'Mn)	1,622
No. of Shares ('Mn)	1,456
EPS	1.1
Expected Average PER	20
Target Price	22

HAYLEYS LEISURE PLC

CONN.N0000

Current Price: LKR 28.3

Fair Value: LKR 39.7 (FY26E)

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 witnessed a robust turnaround in profitability to LKR 32.7Mn for the 9MFY25 (9MFY24: loss of LKR 282.1Mn)

CONN's shift in profitability was brought on by a YoY top-line surge of 19.7%YoY to reach LKR 786.3Mn in 3QFY25, propelled by the recovery in tourist arrivals. Additionally, other income surged by 206.3% and net finance cost reduced by 20.9%, further contributing to the positive performance. The company reported a strong financial performance in the this quarter whereas 3QFY25 ended with a reduced net loss of LKR 0.2Mn, a significant reduction of losses by 100.0%YoY, showcasing the company's path to recovery since the crisis.

CONN to extend its profitability trajectory in FY25E and FY26E

CONN's coastal hotels and boutique hotels in Sri Lanka saw an average occupancy rate of 65.0% 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 154.4Mn in FY25E and further improving to LKR 286.0Mn in FY26E. Hence, we recommend a **BUY** rating for the company with an upside of 39.7%.

P/E 31 March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Estimates (LKR 'Mn)								
Revenue	1,644	1,226	362	777	1,532	2,878	3,399	4,613
EBIT	408	-114	-583	-623	-445	144	459	600
Net Profit	300	-266	-790	-898	-741	-113	154	286
Adjusted EPS (LKR)	5.6	(1.6)	(6.7)	(7.7)	(6.9)	(1.0)	1.4	2.6
YoY Growth (%)		-128%	-329%	-14%	10%	85%	237%	86%
Valuations								
PER (x)	6.5x	N/A	N/A	N/A	N/A	N/A	25.3x	13.6x
PBV (x)	1.1x	1.1x	1.4x	1.8x	2.8x	2.9x	2.6x	2.2x
DPS	1.8	-	-	-	-	-	-	-
DY (%)	4.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Dividend Payout	31.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
ROE	16.2%	-4.8%	-25.2%	-37.6%	-54.1%	-8.4%	10.3%	16.0%

PER based Valuation	FY26E
Earnings (LKR 'Mn)	286
No. of Shares ('Mn)	108
EPS	2.6
Expected Average PER	15.0x
Target Price after Rounding off	40

THE LIGHTHOUSE HOTEL PLC

LHL.N0000

Current Price: LKR 57.4

Fair Value: LKR 72.3 (FY26E)

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 86.0% growth in the top-line resulted in a noteworthy bottom-line expansion in FY24

In 3QFY25, LHL experienced stationary top-line growth of 1.1%YoY to LKR 361.6Mn, primarily fueled by the uptick in tourist arrivals. This robust revenue expansion translated into a noteworthy bottom-line improvement, with LHL reporting a net profit of LKR 58.4Mn, marking a substantial 10.0%YoY growth from the net profit of LKR 53.3Mn recorded in 3QFY24. However, administrative expenses continued their upward trajectory, increasing 8.0%YoY to LKR 169.3Mn in 3QFY25. Additionally, there was a noteworthy reduction in finance costs, decreasing by 64.1%YoY to LKR 3.7Mn from LKR 9.7Mn last year.

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 reasonable 68.0% enhancement in occupancy rates in FY26E, with ARR projected to exhibit a 2-year revenue CAGR of 6.5% from FY24 to FY26E. This favorable trend is expected to significantly bolster the bottom-line. 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	FY24	FY25E	FY26E
Estimates (LKR 'Mn)								
Revenue	850	510	184	427	731	1,360	1,600	1,814
EBIT	155	-65	-175	-10	-19	301	320	363
Net Profit	103	-96	-197	-78	-120	176	204	238
Adjusted EPS (LKR)	2.2	(2.1)	(4.3)	(1.7)	(2.6)	3.8	4.4	5.2
YoY Growth (%)		-194%	-104%	60%	53%	247%	16%	17%
Valuations								
PER (x)	25.7x	N/A	N/A	N/A	N/A	15.0x	13.0x	11.1x
PBV (x)	0.9x	0.8x	0.9x	0.8x	1.0x	0.9x	0.8x	0.8x
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%	6.0%	6.5%	7.0%

PER based Valuation	FY26E
Earnings (LKR 'Mn)	238
No. of Shares ('Mn)	46
EPS	5.2
Expected Average PER	14.0x
Target Price	72

THE FORTRESS RESORTS PLC

RHTL.N0000

Current Price: LKR 25.7

Fair Value: LKR 29.2 (FY26E)

HOLD

Exclusive luxury resort catering to discerning travellers seeking premium experiences

The Fortress Resorts PLC, is a luxury boutique hotel in Galle, Sri Lanka which has invested in its subsidiary, La Fortress (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 56,520 (+18.6%YoY).

RHTL's 3QFY25: strong turnaround with robust earnings and revenue growth amid challenges

RHTL's 3QFY25 results demonstrate a YoY contraction in profits by 19.5%YoY to LKR 72.1Mn from a profit of LKR 89.6Mn in 3QFY24. Revenue increased by 12.9%YoY, driven by improved operational performance and potentially better market conditions compared to the previous year. An 11.0% uptick in administrative expenses to LKR 118.6Mn, coupled with increased net finance cost dampened RHTL's steady performance.

FV estimated at LKR 29.2, offering an upside potential of 13.6% for FY26E.

While the boutique hotel model benefits from maintaining a smaller number of rooms, the projected topline increase at a 2-year CAGR of 27.0% from FY24 to FY26E and the expected earnings growth in FY26E indicate positive momentum. However, considering the current market conditions and uncertainties, we estimate a fair value of LKR 29.2 for FY26E, reflecting an upside of 13.6%. Given the moderate returns relative to the risk-free rate of 11.0%, and the potential upside amid a mixed outlook for the industry with uncertain growth prospects, we maintain our recommendation at **HOLD**.

P/E 31 March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Estimates (LKR 'Mn)								
Revenue	788	489	75	349	435	921	1,279	1,475
EBIT	206	4	-235	7	-75	180	192	295
Net Profit	210	27	-176	33	-20	212	196	270
Adjusted EPS (LKR)	1.9	0.2	(1.6)	0.3	(0.2)	1.9	1.8	2.4
YoY Growth (%)		-87%	-743%	119%	160%	1170%	8%	37%
Valuations								
PER (x)	13.6x	104.3x	N/A	86.2x	N/A	13.4x	14.5x	10.6x
PBV (x)	1.5x	1.6x	1.8x	1.7x	1.8x	1.6x	1.4x	1.2x
DPS	0.5	4.1	-	-	-	-	-	-
DY (%)	3.9%	3.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Dividend Payout	52.9%	405.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
ROE	11.3%	1.5%	-11.0%	2.0%	-1.2%	11.7%	9.8%	11.8%

PER based Valuation	FY26E
Earnings (LKR 'Mn)	270
No. of Shares ('Mn)	111
EPS	2.4
Expected Average PER	12.0x
Target Price	29

ROYAL PALM BEACH HOTELS PLC

RPBH.N0000

Current Price: LKR 33.6

Fair Value: LKR 37.6 (FY26E)

HOLD

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 31st Mar 2023.

Topline takes a negative turn coupled with steep downturn in the bottom-line

In 3QFY25, RPBH reported a net loss of LKR 4.3Mn, a sharp deterioration of compared to the net profit of 84.9Mn in 3QFY24. This negative outcome was primarily driven by a significant 42.6% decrease in other income. Additionally, RPBH experienced a notable 18.2%YoY decline in revenue, dropping to LKR 254.7Mn from LKR 311.4Mn in 3QFY24.

Moderate recovery ahead: maintaining a HOLD on RPBH amid gradual market rebound

We project a moderate increase in RPBH's occupancy levels in the coming quarters, in line with the anticipated recovery in the tourism sector. While tourism arrivals are gradually improving, particularly from Germany and the UK, it is important to highlight that these markets have not yet returned to FY18 levels. UK travellers, who typically spend more time in coastal regions, are showing a slow but steady return. We expect occupancy rates to reach 68.0% in FY26E, gradually approaching pre-pandemic levels. RPBH's strategic location near Colombo, along with its appeal for coastal destinations, should provide a degree of stability in performance. As a result, we forecast RPBH's earnings to reach LKR 125.3Mn in FY26E, reflecting a moderate upside potential of 11.9%. In light of these considerations, we recommend maintaining a **HOLD**.

P/E 31 March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Estimates (LKR 'Mn)								
Revenue	755	618	151	337	671	1,092	1,115	1,286
EBIT	132	59	-159	-44	-63	129	100	141
Net Profit	127	69	-129	-22	-107	169	96	125
Adjusted EPS (LKR)	2.5	1.4	(2.6)	(0.4)	(2.1)	3.4	1.9	2.5
YoY Growth (%)		-45%	-286%	83%	379%	258%	43%	31%
Valuations								
PER (x)	13.2x	24.2x	N/A	N/A	N/A	9.9x	17.5x	13.4x
PBV (x)	0.7x	0.7x	0.7x	0.6x	0.7x	0.7x	0.6x	0.6x
DPS	1.0	1.0	-	-	-	-	-	-
DY (%)	3.0%	3.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Dividend Payout	39.4%	72.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
ROE	5.1%	2.8%	-5.4%	-0.8%	-4.6%	6.7%	3.7%	4.6%

PER based Valuation	FY26E
Earnings (LKR 'Mn)	125
No. of Shares ('Mn)	50
EPS	12.5
Expected Average PER	15.0x
Target Price	38

SERENDIB HOTELS PLC

SHOT.N0000

Current Price: LKR 19.5

Fair Value: LKR 22.5 (FY26E)

HOLD

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 341 rooms offered in the range of standard, villas, suite, deluxe rooms and superior rooms with average room rate at LKR 35, 972 (+5%YoY).

SHOT sees significant profit growth driven by topline expansion and improved margins

SHOT achieved a profit of LKR 219.8Mn in 3QFY25, representing an increase from LKR 162.5Mn in 3QFY24. This uptick is mainly due to the topline expansion by 128.3%YoY to LKR 899.2Mn and net finance income of LKR 6.1Mn by 91.7%YoY. In 3QFY25, the gross profit margin surged to 71.9%, amidst increased costs allowing earnings to soar over 100.0% to LKR 251.3Mn in 3QFY25.

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

We anticipate a gradual recovery in earnings, supported by an increase in tourist arrivals and higher occupancy rates in the latter months of FY25/26, particularly across various locations. As boutique hotels align with current tourist preferences, competition is high as investments in accommodations grow, adding to SHOT's competition. FCR forecasts profits for FY25E and FY26E at LKR 533.0Mn and LKR 627.7Mn respectively, signalling positive progress. While this turnaround suggests some potential for growth, the projected upside remains moderate at 15.4%. As such, we recommend maintaining a **HOLD**.

P/E 31 March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Estimates (LKR 'Mn)								
Revenue	2,039	1,589	587	636	1,442	2,870	3,140	3,545
EBIT	215	29	-412	-233	-133	574	597	709
Net Profit	39	-138	-456	-560	-452	560	533	628
Adjusted EPS (LKR)	0.1	(0.3)	(1.0)	(1.3)	(1.0)	1.3	1.2	1.4
YoY Growth (%)		-457%	-230%	-23%	19%	224%	5%	18%
Valuations								
PER (x)	224.6x	N/A	N/A	N/A	N/A	15.5x	16.3x	13.9x
PBV (x)	3.4x	3.7x	4.0x	3.1x	2.1x	1.9x	1.7x	1.5x
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%	12.1%	10.3%	10.8%

PER based Valuation	FY26E
Earnings (LKR 'Mn)	628
No. of Shares ('Mn)	446
EPS	1.4
Expected Average PER	16.0x
Target Price	23

DOLPHIN HOTELS PLC

STAF.N0000

Current Price: LKR 46.9

Fair Value: LKR 54.5 (FY26E)

HOLD

4-star inn surrounding the shores of Negombo

Club hotel dolphin located in Waikkal, Negombo surrounds the Negombo coastal line and is a smaller 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

In 9MFY25, STAF reported a PAT of LKR 148.3Mn, reflecting a 7.4% YoY increase compared to 9MFY24. This substantial growth was driven by a strong revenue performance of LKR 984.1Mn, which saw a notable YoY expansion of 24.6%. The growth was largely fuelled by the resurgence of the tourism sector, supported by the company's strategic initiatives. However, the company experienced a significant decline in net finance income, which dropped by 79.0%. Nevertheless, the GP margin stood strong at 62.9% in 9MFY25, while the NP margin reached 15.1% in 9MFY25.

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 travellers seeking accommodation during the final days of their vacations, facilitating swift room occupancy as STAF has a smaller number of rooms. As a result, we anticipate a rise in occupancy to 70.0% in FY26E. However, revenue growth remains subdued at 2.1% due to lower than expected occupancy levels, with profits reaching LKR 390.7Mn by FY26E due to high competition and relatively higher ARR, the hotel is expected to face operational hurdles, which affects overall returns to shareholders, thus we downgrade our recommendation to **HOLD**.

P/E 31 March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Estimates (LKR 'Mn)								
Revenue	953	729	350	283	576	1,311	1,832	2,213
EBIT	172	47	-62	-82	-117	217	256	420
Net Profit	147	44	-33	-25	-103	320	287	391
Adjusted EPS (LKR)	2.3	0.7	(0.5)	(0.4)	(1.6)	5.1	4.5	6.2
YoY Growth (%)		-70%	-175%	25%	316%	411%	10%	36%
Valuations								
PER (x)	20.1x	66.7x	-89.4x	-119.9x	-28.8x	9.3x	10.3x	7.6x
PBV (x)	1.4x	1.4x	1.4x	1.1x	1.0x	0.9x	0.8x	0.8x
DPS	-	-	-	-	-	-	0.9	1.9
DY (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	1.9%	4.0%
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%	9.4%	7.9%	10.0%

PER based Valuation	FY26E
Earnings (LKR 'Mn)	287
No. of Shares ('Mn)	63
EPS	4.5
Expected Average PER	12.0x
Target Price	55

ASIAN HOTELS AND PROPERTIES PLC

AHPL.N0000

Current Price: LKR 54.0

Fair Value: LKR 53.7 (FY26E)

HOLD

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 Grand and Cinnamon Lakeside. AHPL also owns and operates a 56,988 square-foot shopping mall called Crescat Boulevard.

Earnings substantially contracted by 208.3%YoY driven by increased operating expenses

AHPL experienced a contraction in its top-line YoY in 3QFY25, coupled with increased net OPEX which contracted overall profitability. On a more positive note, the net finance cost for the 9MFY25 period saw a significant reduction from LKR 265.3Mn to LKR 141.4Mn, attributed to the reduction in the AWPLR. AHPL's dull performance this quarter was due to reduced MICE arrivals.

The anticipated tourism recovery, along with the casino and port city, could steer price-conscious tourists toward AHPL

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. However, AHPL's profitability is dampened by previously accumulated losses and a turnaround is anticipated during FY25 leading to a profit of LKR 110.0Mn for FY25E and LKR 951.0Mn for FY26E. The rebound of MICE tourism has not translated to occupancies as yet, reflecting AHPL's lackluster performance. However, AHPL holds significant future potential with upcoming city developments, attracting tourists who seek for a more budget friendly option than Cinnamon Life towards AHPL, hence, we have arrived at a FV of LKR 53.7 for FY25E with an implied PE of 25.0x. Thus, we rate the share **HOLD**.

P/E 31 March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Estimates (LKR 'Mn)								
Revenue	7,658	5,560	1,790	4,095	8,417	10,772	9,898	12,385
EBIT	1,083	-28	-1,913	-407	93	612	396	1,858
Net Profit	811	-50	-1,781	-510	-278	-20	110	951
Adjusted EPS (LKR)	1.8	(0.1)	(4.0)	(1.2)	(0.6)	(0.0)	0.2	2.1
YoY Growth (%)		-106%	-3474%	71%	46%	93%	640%	767%
Valuations								
PER (x)	29.5x	N/A	N/A	N/A	N/A	N/A	217.9x	25.1x
PBV (x)	0.7x	0.7x	0.8x	0.8x	0.8x	0.8x	0.8x	0.8x
DPS	1.5	1.0	-	-	-	-	-	0.6
DY (%)	2.8%	1.9%	0.0%	0.0%	0.0%	0.0%	0.0%	1.2%
Dividend Payout	81.9%	-888.6%	0.0%	0.0%	0.0%	0.0%	0.0%	30.0%
ROE	2.5%	-0.2%	-5.7%	-1.6%	-1.0%	-0.1%	0.4%	3.1%

PER based Valuation	FY26E
Earnings (LKR 'Mn)	951
No. of Shares ('Mn)	443
EPS	4.3
Expected Average PER	25.0x
Target Price	54



Appendices



First Capital Valuation Guide - Hotel Sector

Name	Symbol	Mkt Price	Shares in Issue (Mn)	Market Cap. (Mn)	Trailing PER 4 Qtr	PBV 4 Qtr	4Q Trailing DPS (Sep-24)	DY	ROE	as at 28-Mar-25		
										Earnings (LKR Mn) 4 Qtr	Book Value (LKR)	NAVPS (LKR)
Consumer Services												
ASIAN HOTELS & PROPERTIES PLC	AHPL.N0000	53.0	442.8	23,467.1	N/A	0.8	0.0	0.0%	-0.6%	-191.7	30,432.3	68.7
AITKEN SPENCE HOTEL HOLDINGS PLC	AHUN.N0000	80.1	336.3	26,936.8	11.4	1.3	0.0	0.0%	11.3%	2,359.1	20,961.1	62.3
ANILANA HOTELS AND PROPERTIES LIMITED	ALHP.N0000	0.9	1,281.3	1,153.2	N/A	0.7	0.0	0.0%	-13.7%	-223.7	1,631.4	1.3
BROWNS BEACH HOTELS PLC	BBH.N0000	18.8	129.6	2,436.5	N/A	-2.7	0.0	0.0%	30.3%	-270.7	-893.2	-6.9
BERUWALA RESORTS	BERU.N0000	3.7	700.5	2,592.0	15.4	14.7	0.0	0.0%	95.6%	168.4	176.2	0.3
BANSEI ROYAL RESORTS HIKKADUWA LIMITED	BRR.N0000	17.3	53.7	929.5	43.3	3.2	0.3	1.7%	7.4%	21.4	289.9	5.4
CEYLON HOTELS CORPORATION PLC	CHOT.N0000	22.5	180.0	4,050.7	364.3	0.6	0.0	0.0%	0.2%	11.1	7,034.1	39.1
HIKKADUWA BEACH RESORT LIMITED	CITH.N0000	3.3	542.7	1,790.8	N/A	0.4	0.0	0.0%	-3.0%	-125.5	4,249.1	7.8
WASKADUWA BEACH RESORT LIMITED	CITW.N0000	2.0	936.7	1,873.4	N/A	0.9	0.0	0.0%	-10.6%	-221.3	2,095.1	2.2
AMAYA LEISURE PLC	CONN.N0000	28.2	108.0	3,045.3	17.8	2.2	0.0	0.0%	12.4%	170.8	1,376.3	12.7
EDEN HOTEL LANKA PLC	EDEN.N0000	13.5	1,584.0	21,384.0	N/A	1.5	0.0	0.0%	-23.9%	-3,414.3	14,295.4	9.0
GALADARI HOTELS (LANKA) PLC	GHLL.N0000	16.9	500.8	8,464.0	N/A	1.0	0.0	0.0%	-0.2%	-20.0	8,553.3	17.1
HOTEL SIGIRIYA PLC	HSIG.N0000	76.8	17.6	1,349.9	7.9	1.3	0.0	0.0%	16.1%	171.3	1,063.1	60.5
HUNAS HOLDINGS PLC	HUNA.N0000	23.9	849.0	20,291.8	N/A	10.8	0.0	0.0%	-23.9%	-448.6	1,880.0	2.2
JETWING SYMPHONY LIMITED	JETS.N0000	11.5	602.2	6,925.2	11.7	1.9	0.0	0.0%	16.1%	592.4	3,675.5	6.1
KANDY HOTELS COMPANY (1938) PLC	KHC.N0000	11.5	754.3	8,674.6	N/A	0.9	0.0	0.0%	-0.1%	-5.9	9,152.4	12.1
JOHN KEELLS HOTELS PLC	KHL.N0000	20.2	1,456.1	29,414.2	N/A	1.0	0.0	0.0%	-1.4%	-404.4	29,588.2	20.3
THE LIGHTHOUSE HOTEL PLC	LHL.N0000	58.1	46.0	2,672.6	11.7	0.9	3.0	5.2%	7.9%	228.9	2,905.6	63.2
MARAWILA RESORTS PLC	MARA.N0000	6.8	351.9	2,393.1	13.8	2.7	0.0	0.0%	19.5%	173.0	887.4	2.5
MAHAWELI REACH HOTELS PLC	MRH.N0000	20.0	47.1	941.3	N/A	0.5	0.0	0.0%	-9.6%	-169.7	1,771.8	37.6
THE NUWARA ELIYA HOTELS COMPANY PLC	NEH.N0000	2,185.8	2.2	4,778.1	7.5	0.8	36.5	1.7%	11.3%	636.8	5,642.8	2,581.3
PALM GARDEN HOTELS PLC	PALM.N0000	63.5	475.9	30,222.0	N/A	2.2	0.0	0.0%	-50.4%	-6,915.2	13,729.2	28.8
PEGASUS HOTELS OF CEYLON PLC	PEG.N0000	34.5	42.2	1,456.3	N/A	0.7	0.0	0.0%	-2.9%	-63.6	2,185.2	51.8
RENUKA HOTELS PLC	RCH.N0000	125.8	40.3	5,067.4	8.6	0.3	0.5	0.4%	4.0%	586.2	14,538.5	360.8
CITRUS LEISURE PLC	REEF.N0000	3.9	645.6	2,517.8	N/A	0.8	0.0	0.0%	-6.4%	-192.1	2,990.8	4.6
RENUKA CITY HOTEL PLC	RENU.N0000	475.5	7.0	3,328.5	42.0	0.3	2.0	0.4%	0.8%	79.3	10,486.7	1,498.1
RAMBODA FALLS	RFL.N0000	28.0	20.0	560.0	25.6	1.1	0.5	1.8%	4.3%	21.9	508.3	25.4
THE FORTRESS RESORTS PLC	RHTL.N0000	24.5	110.9	2,716.7	13.1	1.4	0.0	0.0%	11.0%	207.0	1,883.6	17.0
ROYAL PALMS BEACH HOTELS PLC	RPBH.N0000	33.0	50.0	1,650.0	176.0	0.7	0.0	0.0%	0.4%	9.4	2,399.7	48.0
THE KINGSBURY PLC	SERV.N0000	11.9	484.0	5,759.6	22.8	3.7	0.0	0.0%	16.4%	252.1	1,536.8	3.2
SERENDIB HOTELS PLC	SHOT.N0000	18.5	446.1	5,588.1	14.7	1.7	0.0	0.0%	11.7%	562.9	4,823.6	10.8
SERENDIB HOTELS PLC	SHOT.X0000	11.7	446.1	1,685.3	9.3	1.1	0.0	0.0%	11.7%	562.9	4,823.6	10.8
SIGIRIYA VILLAGE HOTELS PLC	SIGV.N0000	88.0	9.0	792.0	20.6	1.1	0.0	0.0%	5.5%	38.5	702.4	78.0
DOLPHIN HOTELS PLC	STAF.N0000	45.7	63.2	2,890.2	8.8	0.8	0.0	0.0%	9.3%	330.2	3,552.6	56.2
TAL LANKA HOTELS PLC	TAJ.N0000	20.9	139.6	2,918.4	N/A	-1.8	0.0	0.0%	2.0%	-32.6	-1,607.0	-11.5
TANGERINE BEACH HOTELS PLC	TANG.N0000	70.0	20.0	1,400.0	32.4	0.5	0.0	0.0%	1.5%	43.2	2,849.9	142.5
TRANS ASIA HOTELS PLC	TRAN.N0000	39.5	200.0	7,900.0	34.5	1.2	0.0	0.0%	3.4%	229.1	6,760.8	33.8
						N/A	1.2					

New developments in the heart of Colombo redefine Luxury Tourism and pave the path moving forward



Cinnamon Life at City of Dreams

This integrated resort opened its doors in October 2024, featuring luxury rooms and 20 restaurants. Conferencing capacity (~5,000 pax), 800 guest room hotel, 7 specialty restaurants (~1,300 pax) and entertainment facilities including a casino.



Amari Colombo

ONYX Hospitality Group has celebrated the grand opening of Amari Colombo, marking a significant addition to Sri Lanka's hospitality landscape. This launch coincides with the peak tourist season, aiming to attract both international and local guests.



Port City Colombo

Port City Colombo is a cutting-edge urban development offering luxury hotels, shopping districts, convention centers, marinas, and green spaces, designed to be a vibrant tourism and business hub in Sri Lanka.

- **MTS Globe and H.O.T. Tourism Sri Lanka:** A strategic partnership has been established to drive growth and enhance global exposure for Sri Lanka's hotel industry. This collaboration aims to leverage MTS Globe's extensive travel network to boost tourism and hotel occupancy rates in Sri Lanka.

...however, infrastructure developments are crucial to cater to increased levels of arrivals...



A critical bottleneck that stands in the way of the tourism revival is Sri Lanka's inability to cater to the projected boom in arrivals.

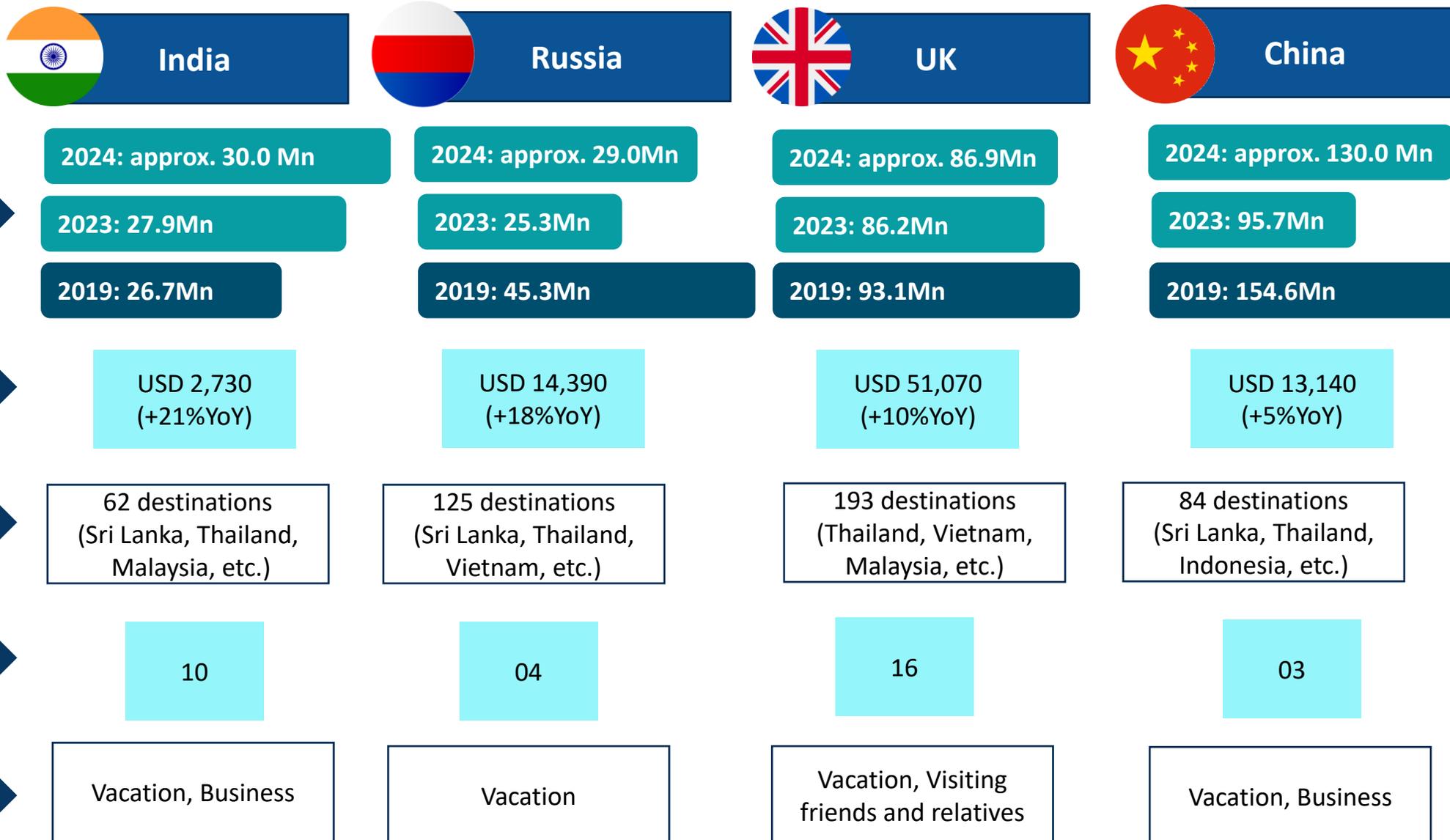
The Bandaranaike International Airport (BIA) is undergoing a significant expansion to accommodate increasing passenger traffic and enhance its facilities. Key Components of the Expansion:

Terminal 2 Construction: A new multi-level terminal building covering approximately 180,000 square meters is being constructed. This terminal will feature separate levels for arrivals and departures, two new piers, and a connecting link to the existing terminal. The design emphasizes environmentally friendly initiatives and incorporates advanced Japanese technology.

Increased Capacity: Upon completion, Terminal 2 is expected to handle an additional nine million passengers annually, effectively increasing BIA's total passenger handling capacity to 15 million per year.

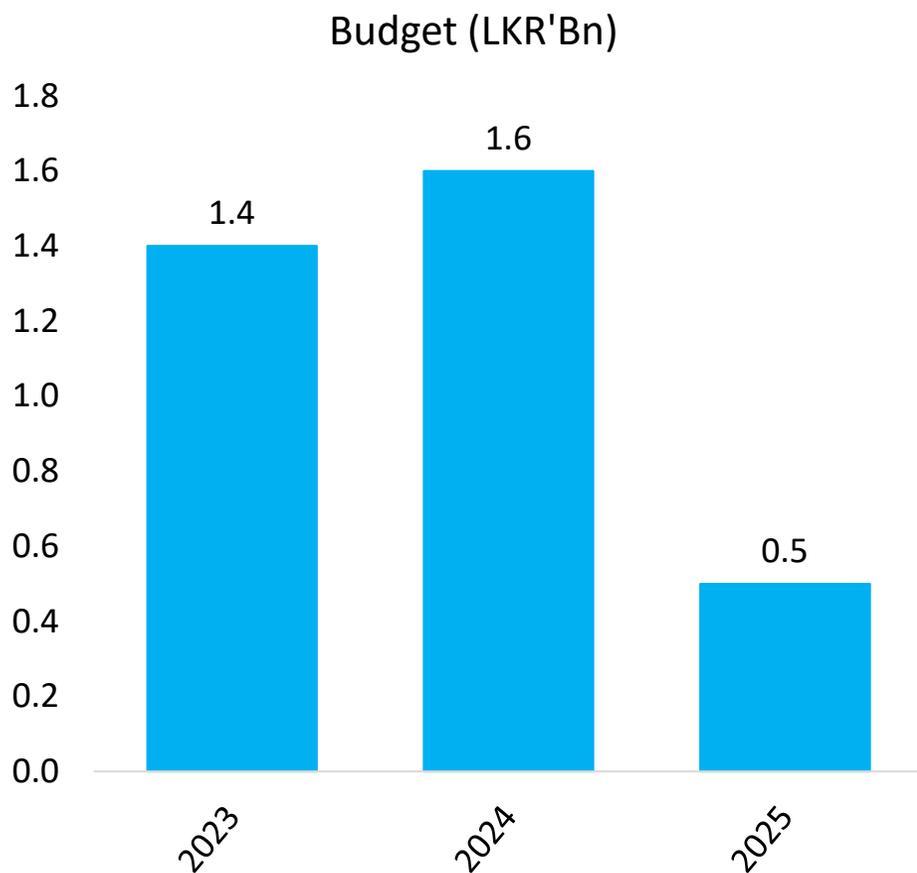
Project Timeline: The expansion project, funded by the Japan International Cooperation Agency (JICA), resumed in July 2024 after a temporary suspension. The project is slated for completion by the end of 2027.

Opportunity for Sri Lanka's tourism sector to increase focus on key source markets as they are on track to rebound to pre-pandemic levels



Delays in marketing campaign rollout threatens possible shortcoming in arrivals targets

Sri Lanka's tourism industry is at risk due to delays in rolling out critical marketing campaigns. The 2025 marketing budget has dropped significantly compared to previous years, potentially weakening Sri Lanka's global presence.



Campaign delays to risk tourism targets

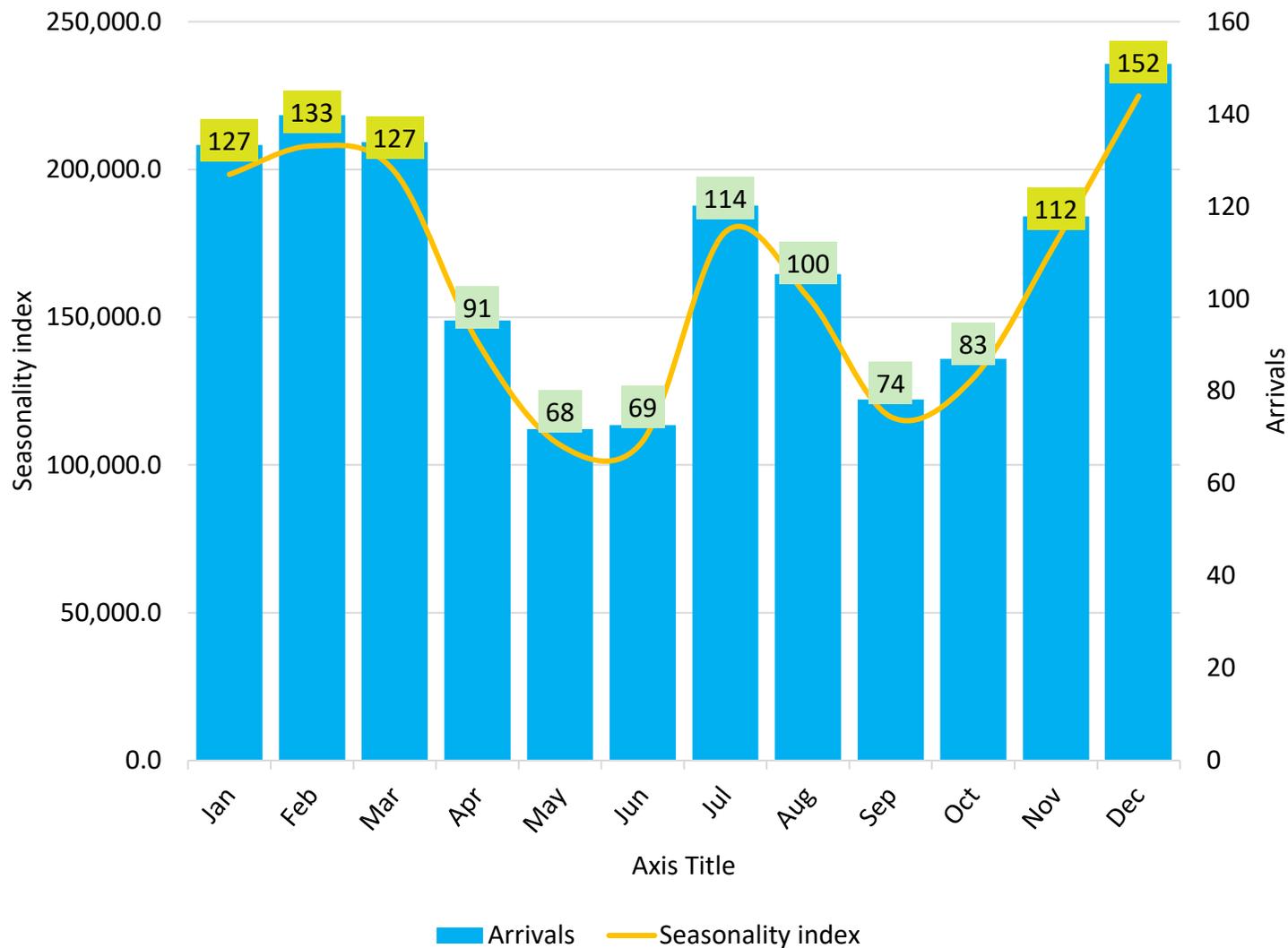
19 Mar 2025 | By Nethmi Rajawasam



The implications of the marketing campaign delay include –

- **Lower International Visibility:** Reduced spending may limit promotional efforts in key markets, affecting visitor inflows.
- **Missed Arrival Targets:** Sri Lanka may struggle to achieve its ambitious tourism growth projections.
- **Revenue and Sector Growth at Risk:** Fewer tourists could impact hotel occupancy, airline traffic, and overall sector profitability.

Diverting focus on peak season can bolster arrivals and occupancies further



The peak tourist season, spans from November to March, with the seasonality index indicating the highest influx of visitors during this time. This aligns with the reported tourist arrivals for December, which totaled 248,592— the highest single-month figure of the year

Focusing on seasonal marketing and promotional campaigns and capitalizing on the peak tourist season may allow hotels to register higher margins and offset past losses.

City hotels may anticipate promising returns as strategic plans to position Sri Lanka as a premier global MICE destination are underway

- Sri Lanka is actively developing its MICE (Meetings, Incentives, Conferences, and Exhibitions) tourism sector to compete globally, with MICE travelers accounting for an estimated 8–15% of tourist arrivals. These travelers significantly contribute to the economy, spending three times more than leisure tourists on accommodations, services, and transportation.
- MICE tourism also reduces seasonality by ensuring year-round business events, thereby boosting hotel occupancy and diversifying the country's tourism offerings. Key target markets for Sri Lanka's MICE tourism include India, China, the UK, and the Middle East.
- The Sri Lanka Convention Bureau (SLCB) aims to enhance MICE offerings by adopting strategies from competitive markets like Thailand and Singapore. Investments in infrastructure, including modern venues such as BMICH, SLECC, Cinnamon Grand Colombo, and Waters Edge, enable the country to host large-scale events for thousands of participants. The recently opened Cinnamon Life, further highlights the growth of MICE tourism with its capacity for 5,000 guests across 11 venues.
- Colombo, positioned as a commercial hub in South Asia, hosts a wide range of events, including conferences, trade shows, and workshops. Improved air connectivity and promotional campaigns are boosting Sri Lanka's post-pandemic appeal as a top MICE destination. Additionally, many MICE visitors extend their stays, contributing to leisure tourism by exploring the country's natural and cultural attractions.
- The SLCB has outlined a three-year MICE blueprint (2024–2026), aligning with Sri Lanka's 10-year Tourism Masterplan. The goal is to achieve USD 1.36 billion in MICE earnings and capture 10% of tourist arrivals by 2026. The target for 2024 alone is USD 550 million, supported by initiatives like the Southern MICE Expo 2024, which showcased the country's offerings to 100 international buyers and media from 17 countries.

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A Janashakthi Group Company

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*“SUCCESSFUL INVESTMENTS IS ABOUT
MANAGING RISKS”*

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