TOURISM SECTOR IN SRI LANKA

“BETTING ON A CITY-WIDE REVIVAL…”

MAINTAIN HOLD

FIRST CAPITAL RESEARCH

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EQUITY | SRI LANKA | SECTOR UPDATE
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Content

Executive summary

Overall Tourism sector recommendation - HOLD
City Hotel sub-segment - BUY

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WHY HOLD ? – The Consumer Services sector experienced a significant decline after its peak in 2018, and the subsequent challenges have reshaped the industry landscape. Travelers' preferences, demographic shifts, and the key success factors that defined performance in 2018 have all evolved, leaving counters within the sector struggling to adapt. Annualized Expected Return (AER) for the hotel sector, based on FCR's recommended counters, stands at c.16%, falling below the threshold required to justify a sector-wide upgrade. Accordingly, we maintain our **HOLD** recommendation on the broader Consumer Services sector.

Despite sector-level constraints, the outlook for city hotels is materially stronger. The emergence of gaming-linked tourism, an accelerating MICE pipeline, and upcoming urban infrastructure enhancements create a differentiated earnings trajectory for Colombo-centric hotel operators, supporting our **BUY** stance on the city-hotel subset. **FCR's sector view is anchored on three structural themes:**

1.0 The Demographic shift and earnings disconnect

Sri Lanka's 2025 arrivals are now expected to only marginally surpass the 2018 peak of 2.3Mn, falling short of the earlier 2.5Mn target. Earnings have lagged even further as per-tourist spending continues to decline. The slowdown reflects a shift toward younger, lower-spending travellers, volatility in key source markets, and stronger competition from regional destinations such as Thailand and the Maldives. A rapid expansion in room supply has also diluted margins, limiting earnings recovery despite the rebound in arrivals.

2.0 Catalyst for city tourism: Gaming and MICE

The city is entering a transformative phase with premium capacity additions, including Cinnamon Life - City of Dreams, Port City developments, and the upcoming regulatory framework under the Gambling Regulatory Authority (GRA). Global integrated-resort markets (Macau, Singapore, Manila, Vietnam) show that casino-led tourism drives premium ARR uplift, higher occupancy, and stronger city-centric tourism ecosystems. MICE arrivals have doubled to 6.3% of total arrivals in 2025, supported by the removal of MRR restrictions and event-led tourism momentum. These catalysts concentrate benefits on city hotels, positioning the segment ahead of resort-style peers.

3.0 Margin recovery and topline growth provide stable outlook for city hotels

Operating margins, deeply compressed during FY20–FY22, are normalizing with easing inflation (2025E inflation 2.1%), more predictable utility costs, and declining finance costs amid stable interest rates. City hotels' revenue has risen from LKR c.10Bn in FY22 to LKR c.25Bn in FY25, supported by recovering occupancy, improving ARR, and strong revival in F&B demand. With expected mild LKR depreciation toward LKR 310–315/USD, USD-linked revenue provides an additional uplift. Net profit margins across the sector are projected to return firmly positive by FY27E, with city hotels showing the strongest earnings momentum.

Source: SLTDA, UNWTO, First Capital Research

FCR recommendation rationale

Overseas exposure and strong local brand operators with large number of rooms (BUY)
Operators with regional diversification and strong brand platforms are better positioned for the tourism rebound as their global footprint provides earnings stability and diversified revenue streams, while proximity between regional destinations enables multi-stop travel that appeals to cost-conscious tourists. In Sri Lanka, their strategically located properties also support roundtrip itineraries and packaged offerings. Resilient international markets such as the Maldives, where occupancies remain above 70%, add further support. Their scale strengthens ARR and occupancy gains, and a mildly depreciating rupee enhances foreign-currency revenues.

AHUN, KHL, CONN | BUY

City-based hotels positioned for gaming + MICE uplift (BUY)
Hotels with operations centered in Colombo are structurally advantaged as the city evolves into a MICE and gaming hub. They sit closest to the uplift from the USD 1.2Bn investment, City of Dreams, large-scale events, and higher-spending business travelers, supported by stronger F&B activity and stabilizing costs. Case studies from Macau, Singapore, and Manila show that integrated-resort markets experience sharp gains in occupancy and ARR, materially strengthening margins, positioning Colombo's city hotels to capture similar upside. With 2024 occupancy at 53.0%, the segment holds strong medium to long term potential.

AHPL, TRAN, SERV, RENU | BUY

Struggling/coastal resort operators with weaker visibility (HOLD / SELL)
Resort-heavy operators remain constrained by softer long-haul travel, rising regional competition, and a slower recovery in high-margin leisure segments. Their limited exposure to the Colombo-centric uplift - driven by gaming and MICE - combined with weaker ARR traction and elevated operating costs, weighs on near-term rerating potential. Moreover, tourists travelling outside Colombo increasingly favour low-cost options such as hostels, and the rapid expansion of informal accommodation is likely to dilute occupancies further. With electricity tariffs, administrative costs, and other operating expenses continuing to pressure margins, recent earnings trends justify a more cautious stance on this segment.

LHL, RHTL, RPBH, SHOT, STAF | HOLD/SELL

Source: First Capital Research

FIRST CAPITAL RECOMMENDATIONS: HOTEL SECTOR

Stock	Stock Code	Share price 17.11.2025	Target Price 2026E/FY27E	52-week High	52-week Low	Capital gain (%) FY27E	Annualized return (%) FY27E	EPS FY27E	Forward PER	No.of Rooms	FCR Recommendation
		LKR	LKR	LKR	LKR			LKR	(x)		
AITKEN SPENCE HOTEL HOLDINGS PLC	AHUN.N	119.75	**155.00**	128.25	64.50	**29.4%**	**20.8%**	10.2	15.2	2,627.00	**BUY**
JOHN KEELLS HOTELS PLC	KHL.N	24.70	**32.00**	28.00	17.80	**29.6%**	**20.9%**	1.3	24.6	1,476.00	**BUY**
HAYLEYS LEISURE PLC	CONN.N	42.30	**65.00**	47.50	24.60	**53.7%**	**36.9%**	3.6	18.1	704.00	**BUY**
THE LIGHTHOUSE HOTEL PLC	LHL.N	84.30	**95.00**	98.00	52.20	**12.7%**	**9.1%**	5.9	16.1	127.00	**SELL**
THE FORTRESS RESORTS PLC	RHTL.N	33.00	**40.00**	37.50	24.00	**21.2%**	**15.1%**	2.5	16.0	53.00	**HOLD**
ROYAL PALMS BEACH HOTELS PLC	RPBH.N	75.60	**45.00**	95.00	28.30	**-40.5%**	**-31.6%**	1.3	34.6	136.00	**SELL**
SERENDIB HOTELS PLC	SHOT.N	23.10	**28.00**	27.00	16.70	**21.2%**	**15.1%**	1.3	21.5	341.00	**HOLD**
DOLPHIN HOTELS PLC	STAF.N	64.60	**70.00**	71.50	40.00	**8.4%**	**6.0%**	6.9	10.1	154.00	**SELL**
ASIAN HOTELS AND PROPERTIES PLC	AHPL.N	60.70	**80.00**	73.00	50.00	**31.8%**	**22.4%**	2.3	34.8	847.00	**BUY**
RENUKA CITY HOTEL	RENU.N	880.25	**1,145.00**	998.75	383.25	**30.1%**	**21.2%**	127.1	9.0	100.00	**BUY**
THE KINGSBURY PLC	SERV.N	20.30	**35.00**	23.80	10.90	**72.4%**	**49.0%**	1.6	21.9	229.00	**BUY**
TRANS ASIA HOTELS PLC	TRAN.N	60.50	**80.00**	69.00	37.00	**32.2%**	**22.7%**	4.0	20.0	346.00	**BUY**
TAL LANKA HOTELS PLC	TAJ.N	45.00	**50.00**	52.00	18.20	**11.1%**	**8.0%**	1.1	45.5	300.00	**HOLD**

Source: First Capital Research

Key tourism statistics

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Tourist Arrivals

2025 (Jan - Oct) : 1,890,687
2024 : 2,053,456 (+38.1%YoY)

Average Duration of Stay

2025 (Jan - Jun): 8.3
2024 : 8.4
2023 : 8.4
2022 : 9.3

Occupancy

2024 : 44.5%
2023 : 39.0%
2022 : 30.4%

Tourism Earnings

2025 (Jan - Oct) :USD 2,659.0Mn
2024: USD 3,169.0Mn (+53.2%YoY)

MICE Arrivals out of Total Arrivals

2025 (Jan - Sep) : 6.3%
2024 : 3.5%

Average Spending per day

2025 (Jan - Jun) : USD 171.7
2024 : USD 181.1 (+10.2%YoY)

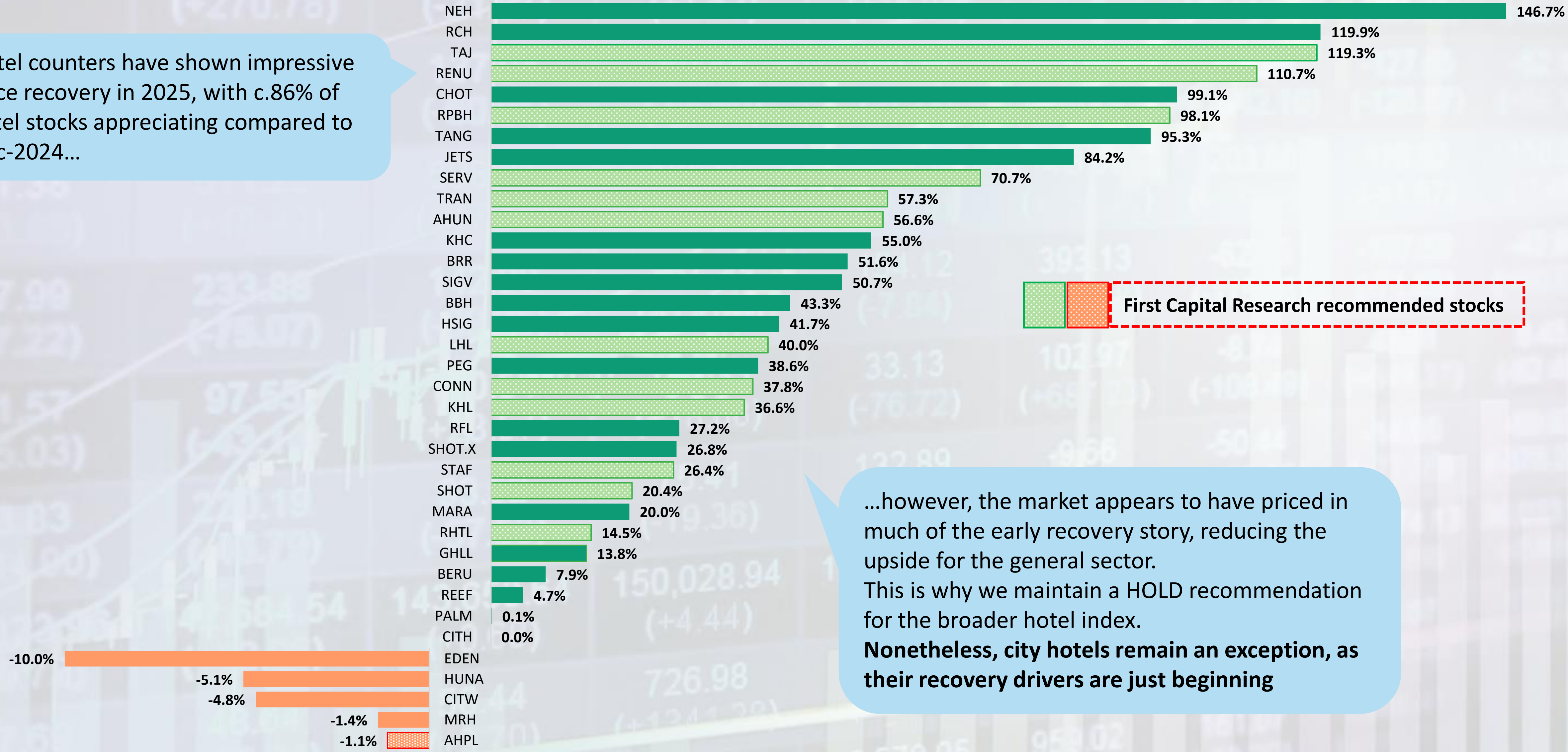
** 2025 figures have been displayed as per the latest available data. The period has been specified within brackets.*

RECAP: ASPI vs. CS index movement

As projected, tourist arrivals have continued their growth trajectory and are on track to surpass 2018 levels in 2025, however this growth has come at slower than anticipated pace. Furthermore, occupancies and supply side pressures have resulted in subpar performance of hotel counters, signaling that the market has fully realized the gains. Hence, we maintain our recommendation at **HOLD.** On a positive note, FCR anticipates positive outlook for city hotels in the wake of the transformation of Colombo to a MICE and Gaming hub in South Asia.

86% of hotel sector counters showed price appreciations relative to Dec-2024, amidst the gradual recovery of the industry

Hotel counters have shown impressive price recovery in 2025, with c.86% of hotel stocks appreciating compared to Dec-2024…



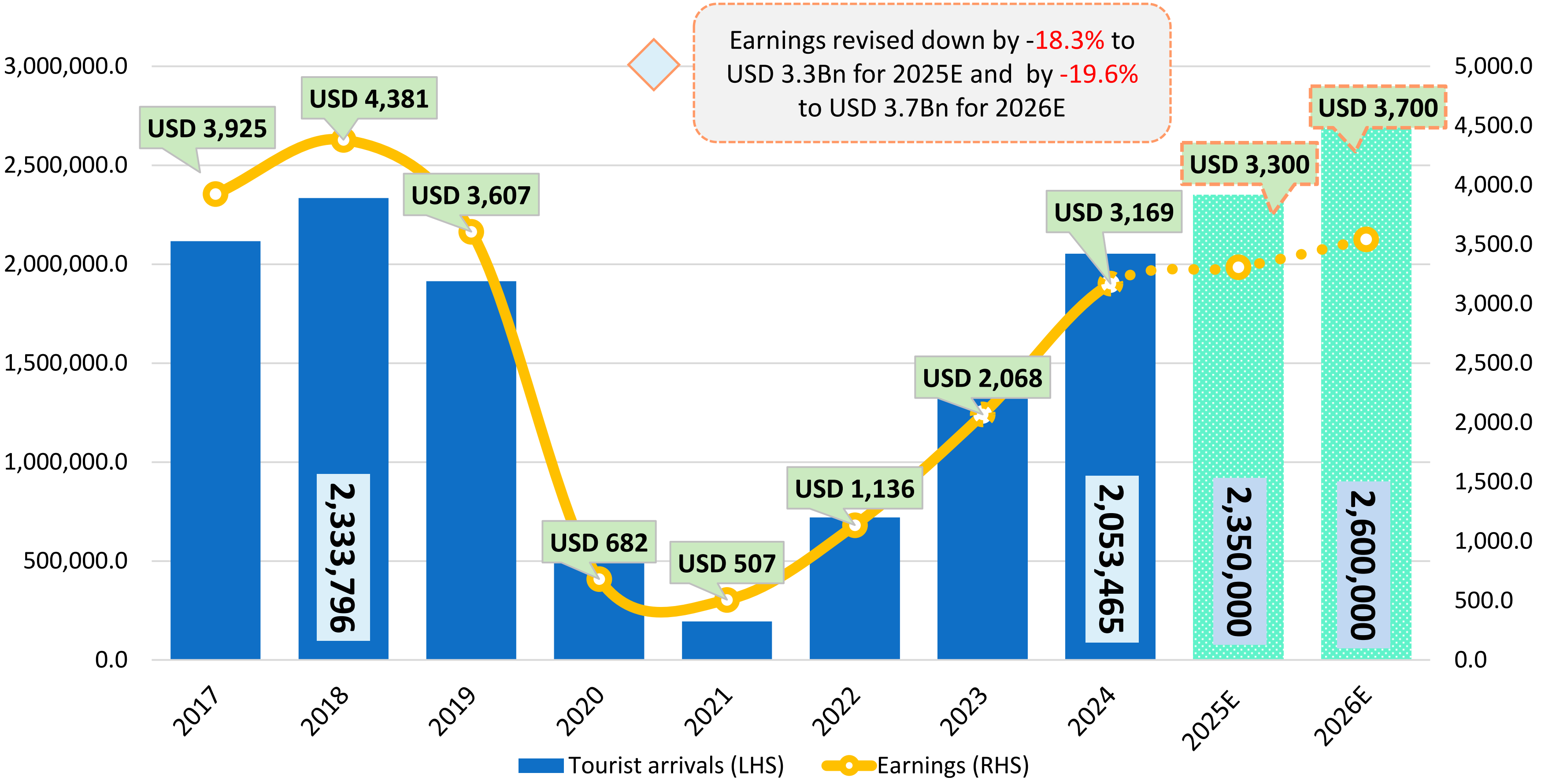
…however, the market appears to have priced in much of the early recovery story, reducing the upside for the general sector.
This is why we maintain a HOLD recommendation for the broader hotel index.
Nonetheless, city hotels remain an exception, as their recovery drivers are just beginning

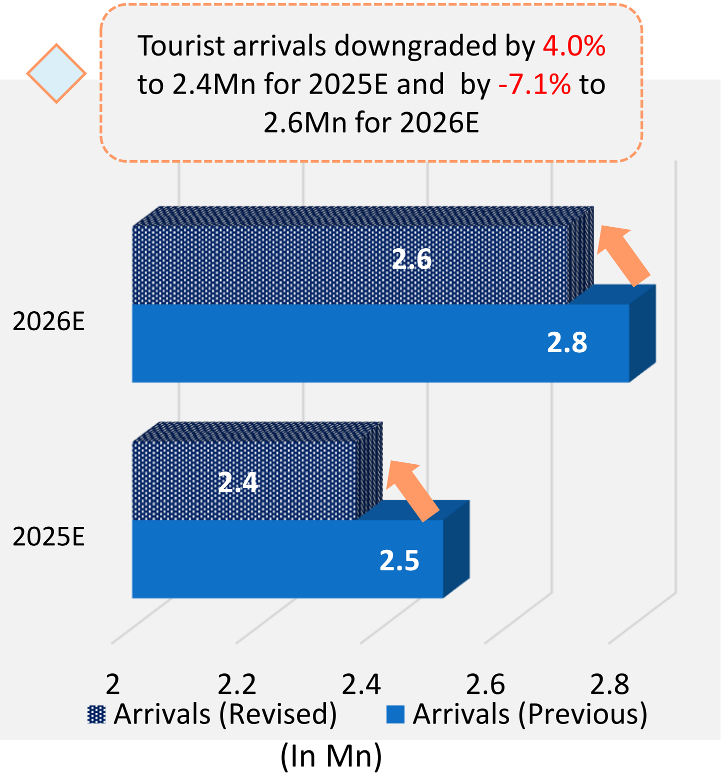
Source: CSE, First Capital Research

1.0 The Demographic Shift and Earnings Disconnect

Tourism arrivals in 2025E on track to marginally surpass the highs of 2018, however this has come at a slower pace…

Sri Lanka's tourism industry is projected to sustain its post-pandemic recovery, with arrivals in 2025 estimated at c.2.4Mn, marginally exceeding the 2018 peak of 2.3Mn, signaling a technical full rebound in visitor volumes. However, this recovery is proceeding at a slower pace than originally forecast, necessitating downward revisions in estimates. Specifically, FCR revised expected tourism earnings for 2025E down by 18.3% to c.USD 3.3Bn and for 2026E down by 22.6% to c.USD 3.7Bn. The slower earnings recovery reflects post-pandemic shifts in travel behaviour, global spending patterns, and changes in Sri Lanka's source markets and travel purposes, creating a demand profile that differs from pre-2018.



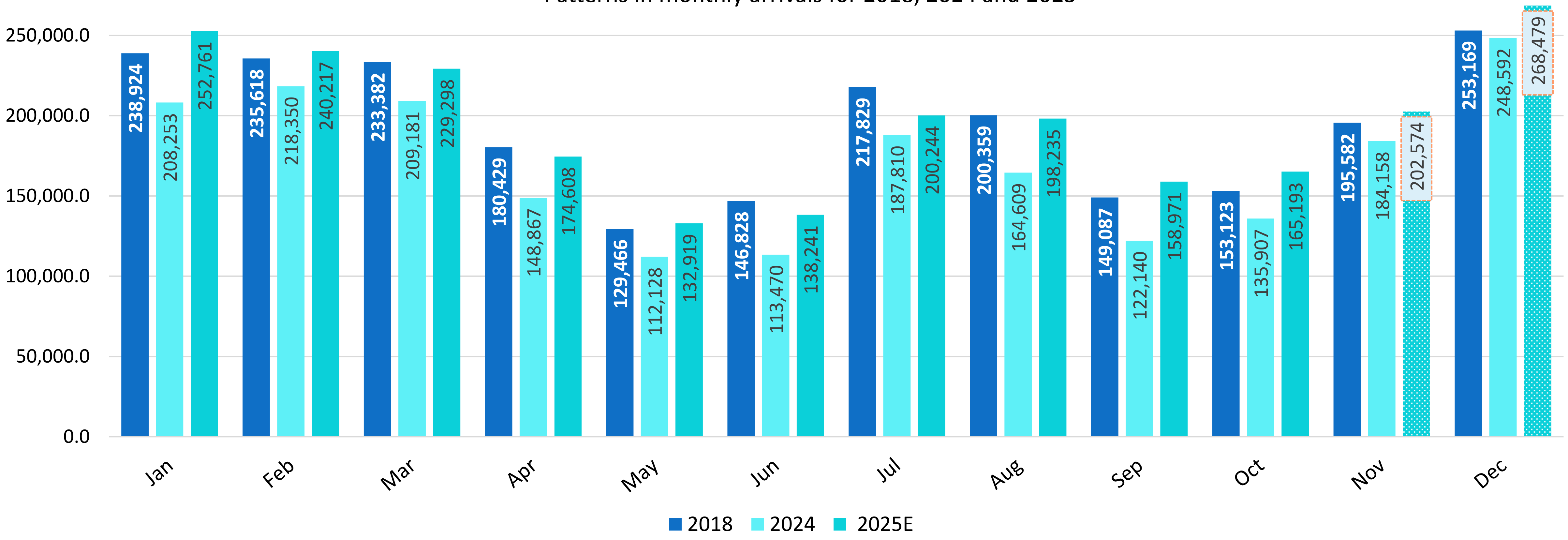


In light of arrivals coming in at a much slower pace, FCR has revised arrivals and earnings estimates for FY25E and FY26E

…which has been visible through growth in monthly arrivals patterns as well…

Tourist arrivals in 2025 have risen on a YoY basis compared to 2024, reflecting continued recovery momentum. However, arrivals still trail the 2018 peak levels in a few mid-year months. Strong performance was seen in Jan-Mar 2025, supported by regional demand from India, Russia, and China.

To reach the 2025 year-end target of over 2.3 Mn visitors, a robust Oct-Dec peak season will be crucial, as these months historically contribute nearly 35% of annual arrivals. With improving flight connectivity, enhanced marketing efforts, and increased event based tourism, FCR expects 4Q2025 arrivals to marginally surpass pre-pandemic highs, driving full year momentum.



Source: SLTDA, First Capital Research

…nonetheless, earnings growth has been relatively subpar…

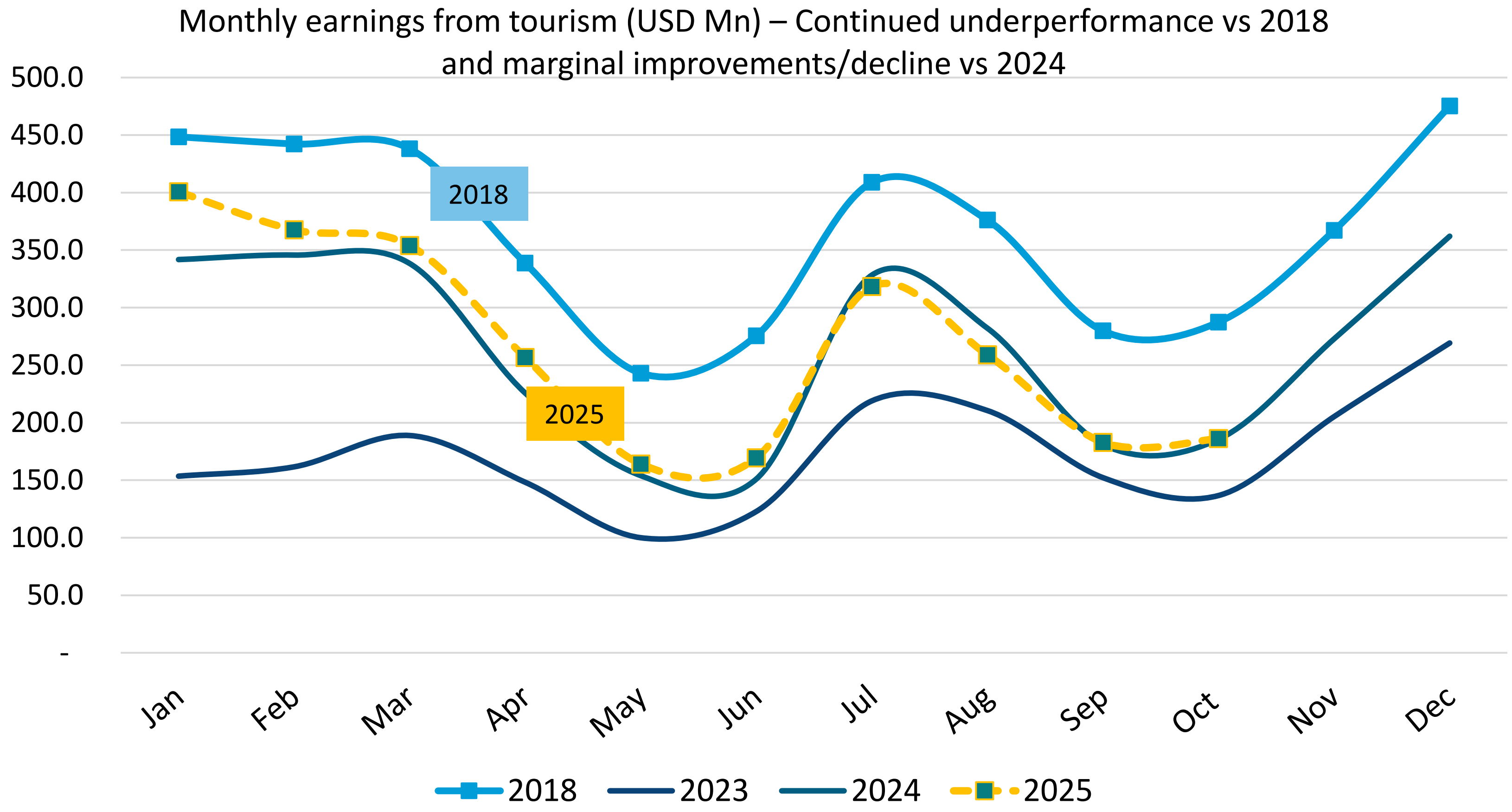
Although Sri Lanka's tourism arrivals have rebounded strongly, the corresponding earnings recovery has remained relatively subdued. Despite expectations of USD 3.3Bn in earnings for 2025E, this remains well below the 2018 peak of USD 4.4Bn

Earnings performance from Jan-Oct reflects a clear shortfall compared to previous peak years, highlighting the persistent disconnect between the recovery in tourist arrivals and the corresponding growth in tourism earnings.

Source: SLTDA, CBSL, First Capital Research

…and has recorded consecutive YoY declines each month relative to 2018…

Sri Lanka's total tourist arrivals for Jan to Oct 2025 show a marginal increment of 0.3% compared to the same period in 2018, indicating that arrival volumes have nearly returned to pre-crisis levels. However, tourism earnings have contracted by a significantly higher 24.9% over the same period. Despite arrivals in **January, February, May, September and October** 2025 exceeding those of 2018, earnings remained significantly lower, reflecting a clear disconnect between the recovery in visitor volumes and average tourist spending.



% change in 2025 vs 2018		
Month	**Arrivals**	**Earnings**
January	*+5.8%*	*-10.7%*
February	*+2.0%*	*-16.9%*
March	*-1.7%*	*-19.2%*
April	*-3.2%*	*-24.2%*
May	*+2.7%*	*-32.5%*
June	*-5.8%*	*-38.5%*
July	*-8.1%*	*-22.1%*
August	*-1.1%*	*-31.2%*
September	*+6.6%*	*-34.6%*
October	*+7.9%*	*-35.3%*
November	-	-
December	-	-

Source: SLTDA, CBSL, First Capital Research

…due to many reasons that reflect a significant shift compared to 2018

Volatile movement of top source markets

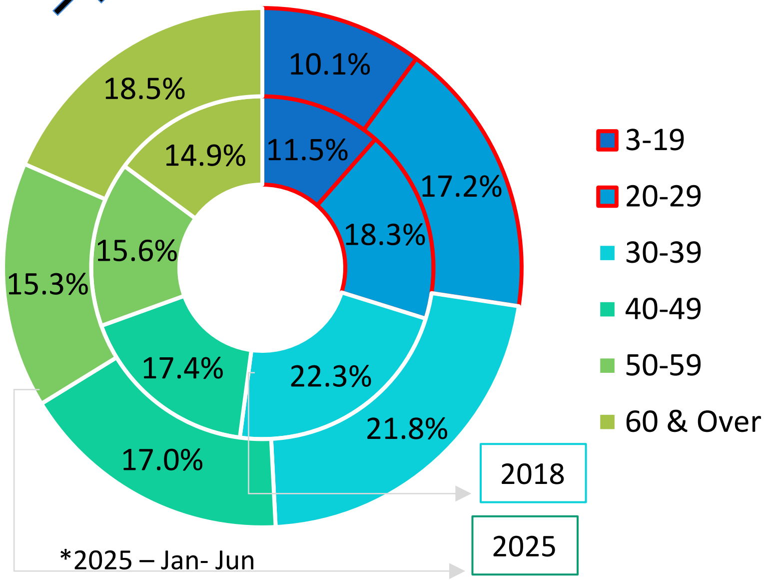
Year			Rankings		
2018	#1	#2	#3	#4	#9
2024	#1	#5	#3	#4	#2
2025*	#1	#5	#2	#4	#3

*2025 – Jan- Oct

Changes in spending patterns

- Growing shift toward wellness, Ayurveda, and spiritual retreats
- Increased preference for hostels and budget accommodation
- Higher spend on experiences (surfing, adventure, culture) over hotels
- Rising interest in eco-friendly and community-based tourism
- More independent, price-sensitive travel behaviour reducing in-hotel spending

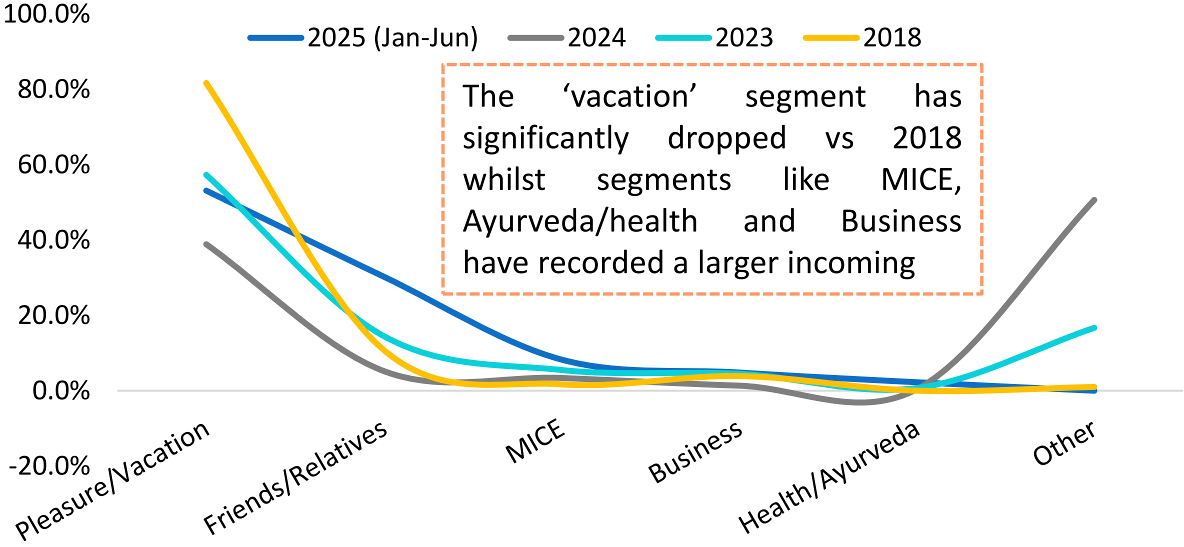
Shift in age demographics



Nearly 30% of arrivals are under 30, typically representing lower-income travelers who favour budget-friendly travel options.

Furthermore, the 60+ age bracket has also seen an increase, with preference towards wellness and spiritual tourism

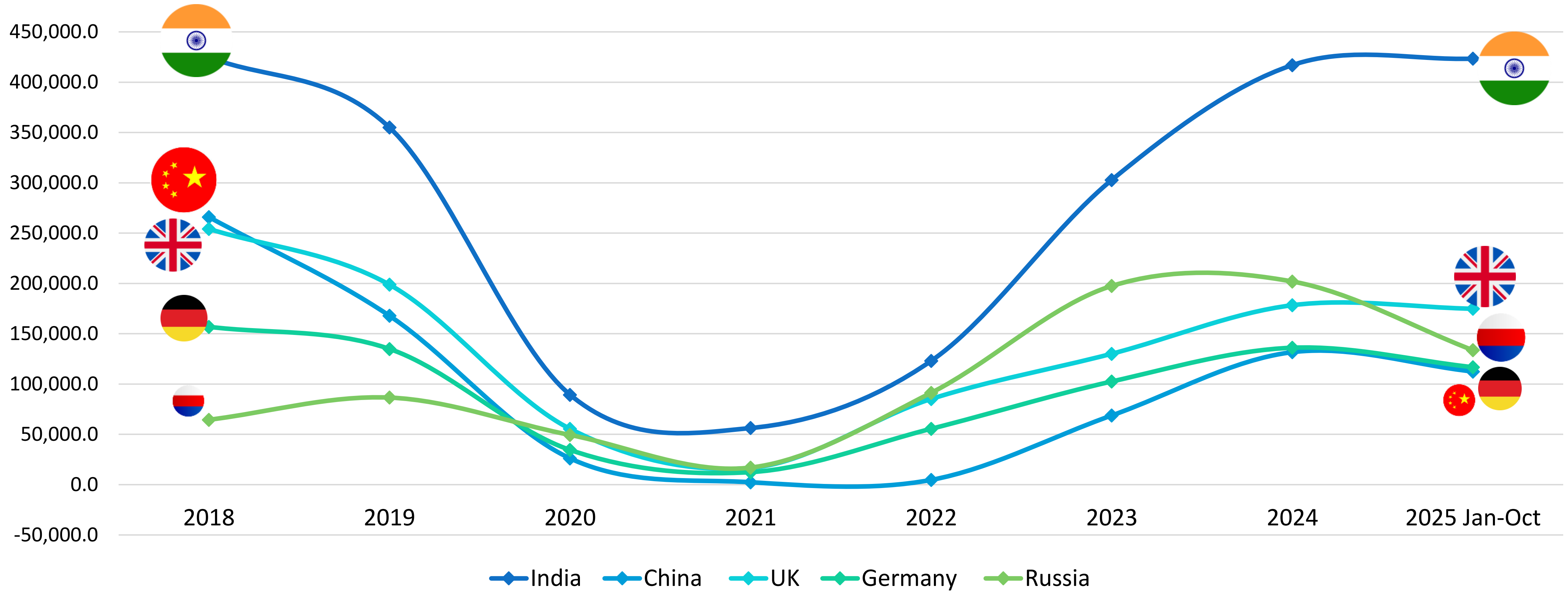
Evolving tourist preferences



The 'vacation' segment has significantly dropped vs 2018 whilst segments like MICE, Ayurveda/health and Business have recorded a larger incoming

The primary change noted has been the volatile movement of top source markets…

India has consistently remained Sri Lanka's top source market for tourist arrivals from 2018 to date, followed by the UK and Russia. However, both China and the UK have yet to rebound to their 2018 levels. The arrivals composition has notably shifted, with the Russian Federation rising from 9th place in 2018 to 2nd in 2024, before settling at 3rd place in 2025 YTD, as the UK regained momentum. Meanwhile, China, once the 2nd largest source in 2018, has dropped to 5th, with recovery still lagging. This shift highlights a changing tourist mix, a higher share of Russian and European travelers, which has altered spending patterns and preferences, despite the strong year-on-year rebound in overall arrivals.

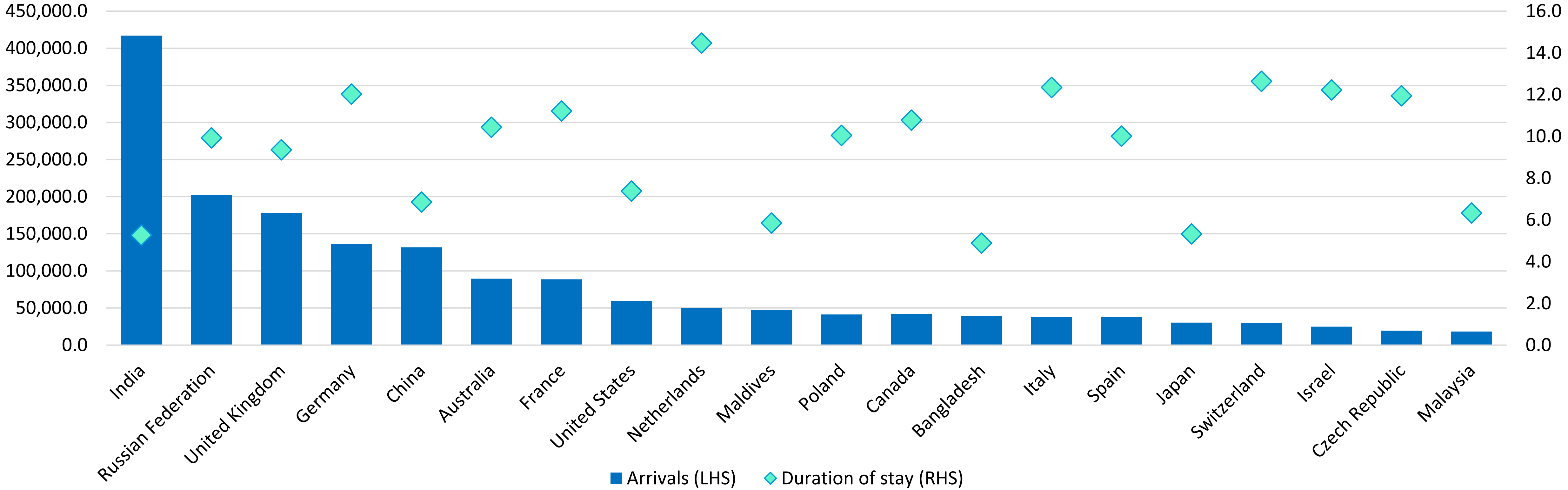


Source: SLTDA, First Capital Research

…although, dynamics reveal shorter stays among Asian tourists and longer wellness-oriented visits from European travelers…

Although Asian countries such as India and China, together account for the majority of arrivals, these markets typically record shorter stays, limiting their overall earnings contribution. China's recovery remains below 2018 levels, and even high-spending Asian tourists tend to visit for brief leisure or business trips. In contrast, European markets including Russia, Germany and the Netherlands show longer average stays, supported by growing interest in adventure, wellness, and Ayurveda tourism. The UK also maintains moderate stay durations, reflecting a mix of leisure and business travel. This highlights a key challenge for Sri Lanka, where arrivals are strong from Asia but longer-stay European segments contribute more meaningfully to occupancy and tourism value.

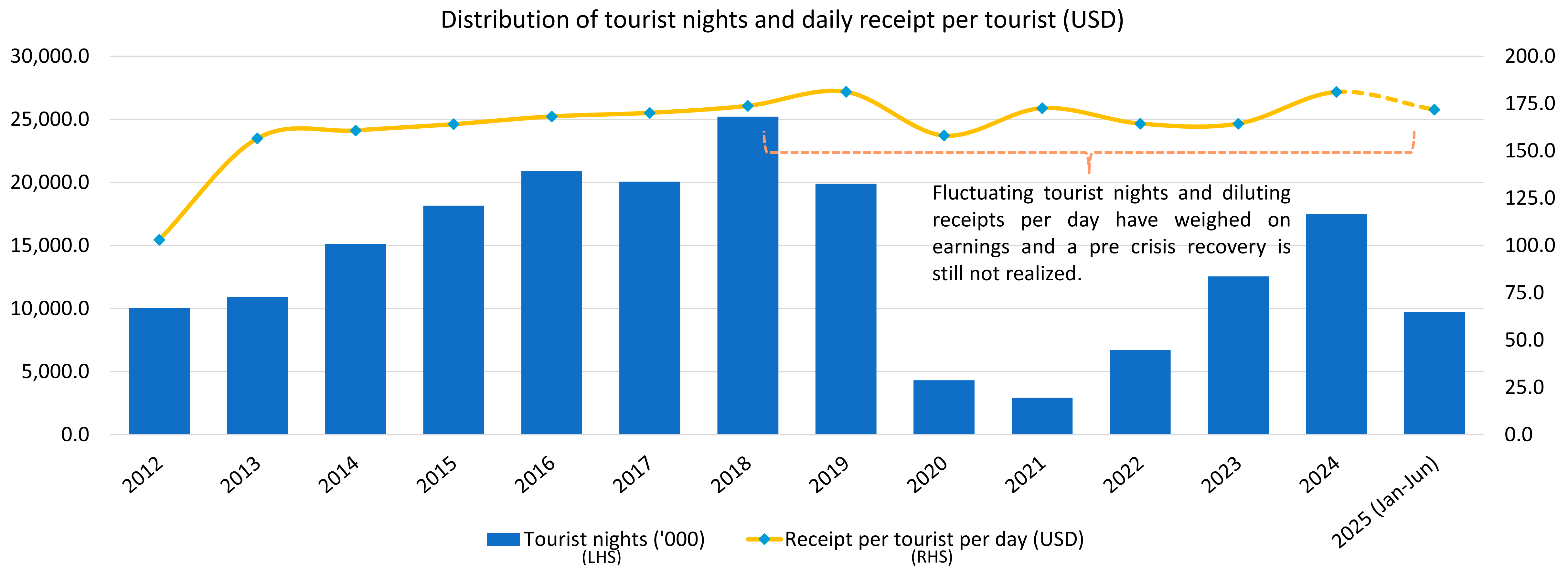
Distribution of arrivals and average duration of stay (nights) of main source markets



Source: SLTDA, First Capital Research

…leading to lower average spending patterns compared to 2018…

- Tourism performance since 2018 reflects a notable decline in both total tourist nights and per-day receipts, which together have weighed on overall earnings.
- Despite a gradual rebound in arrivals, the average length of stay and daily spending per visitor remain below 2018 levels, limiting revenue growth.
- The trend suggests a shift toward shorter, lower-spending trips, driven primarily by regional travelers and backpacker segments rather than high-yield long-haul markets.
- This spending compression underscores the need to reposition Sri Lanka toward higher-value tourism experiences and extended-stay visitor segments.



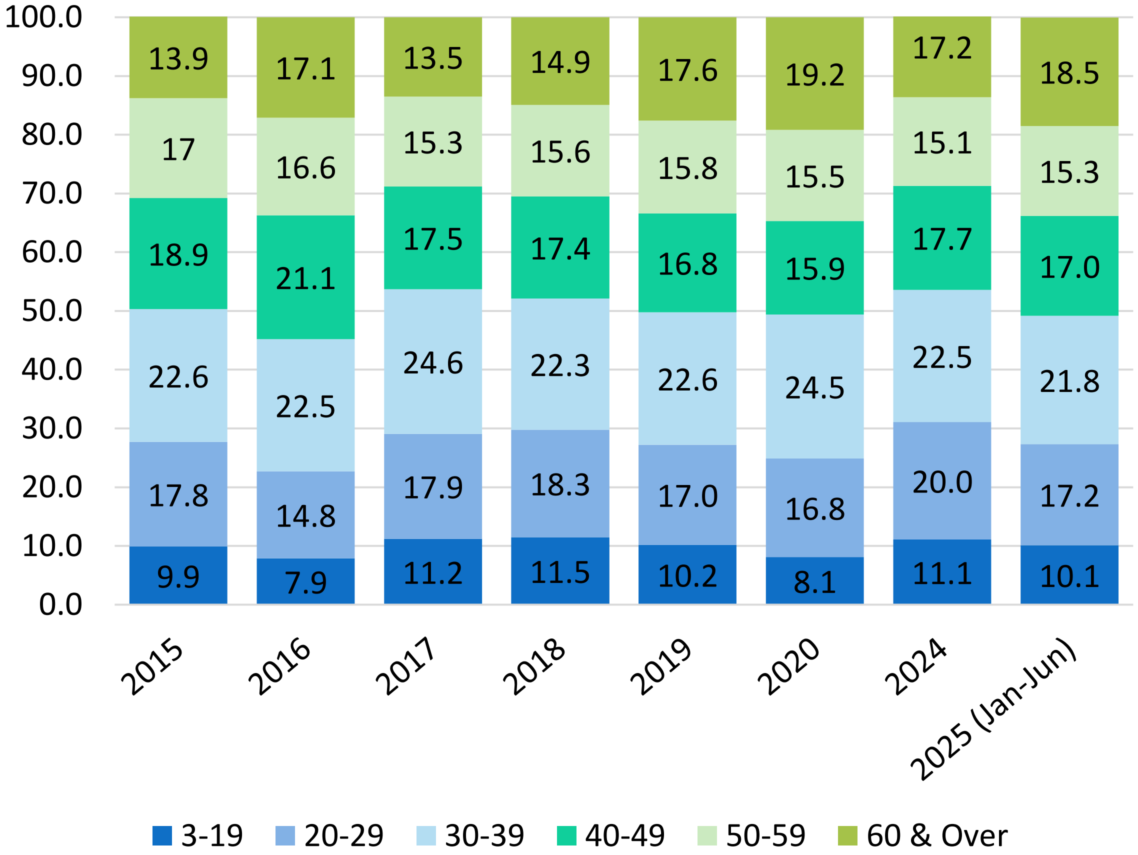
Source: SLTDA, CBSL, First Capital Research

Global press and social media exposure continue to boost Sri Lanka's image, but primarily resonate with younger travelers and backpackers…

Year	Recognition awarded
2024	Gold - "Most Desirable Island in the World" (Wanderlust Magazine Reader Travel Awards 2024)
2025	"Most Beautiful Island in the World" (Big 7 Travel)
2025	Multiple Gold Awards – South Asian Travel Awards 2025 (MICE & Wellness Tourism)
2025	Best Emerging Travel Destination - Asia, Top Eco-Friendly Destination, Outstanding Cultural Heritage Experience at Conclave Travel Awards 2025

Furthermore, Sri Lanka has continued to gain international recognition for its natural beauty, adventure offerings, cuisine, and overall destination appeal, earning accolades from globally renowned media platforms with audiences reaching millions…

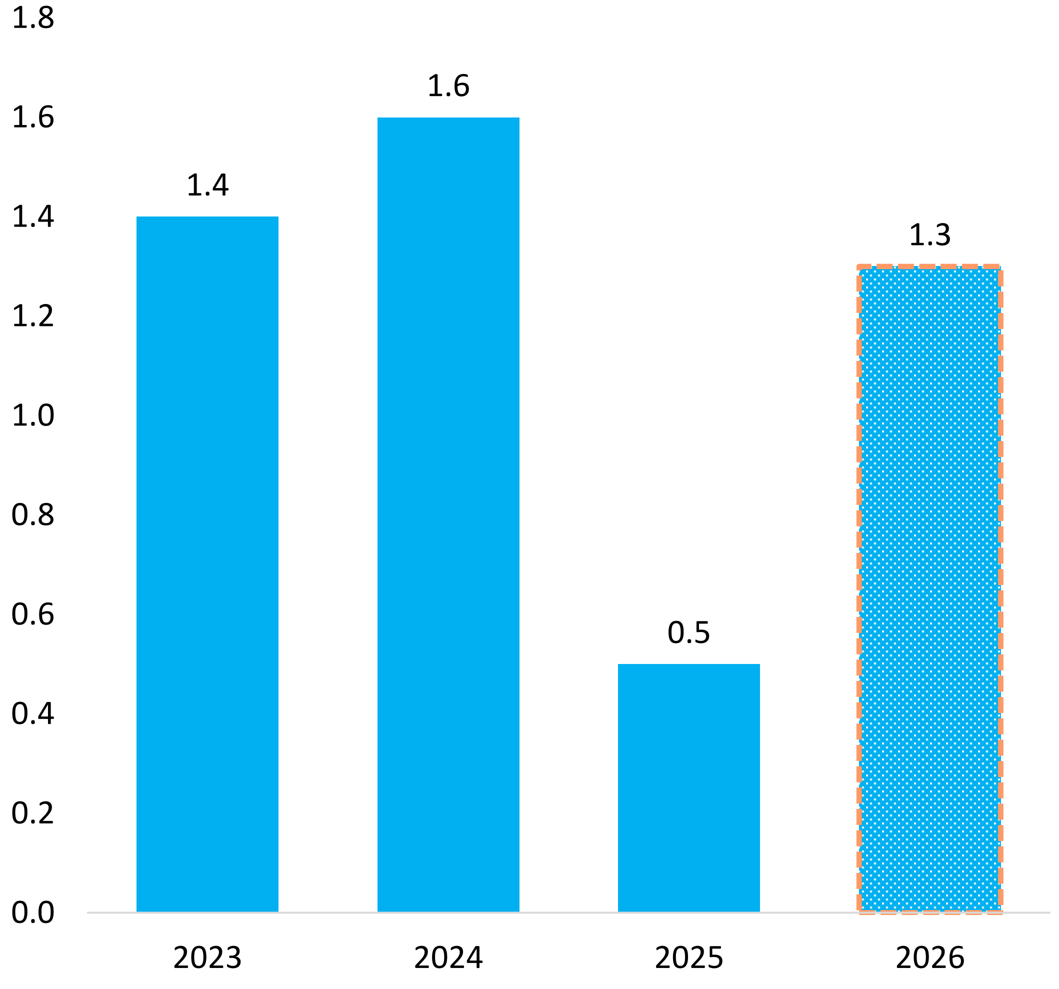
…however, the reach has not sparked increased visitors of higher age brackets such as the 40-49 and 50-59 categories, who ideally would spend more as they have higher disposable income



Source: SLTDA, CBSL, First Capital Research

…despite this coverage, the failure to launch the global marketing campaign weighs heavily whilst Budget 2026 adds optimism…

Allocations for tourism promotion under the government budget (LKR'Bn)



Repeated allocations but no rollout
Despite funding since 2023, Sri Lanka has yet to execute its Global Marketing Campaign, leaving a major weakness in international visibility.

Budget 2026 renews momentum (LKR 1.3Bn)
The new allocation signals a renewed commitment to finally activating global branding and promotional efforts after multiple delays.

Essential for moving from arrivals to value
Without sustained global promotion, rising tourist volumes are not translating into higher-spending segments or stronger sector earnings.

Aligned with infrastructure and destination upgrades
Branding efforts are now tied to airport expansions, connectivity improvements, and destination development, ensuring more cohesive execution.

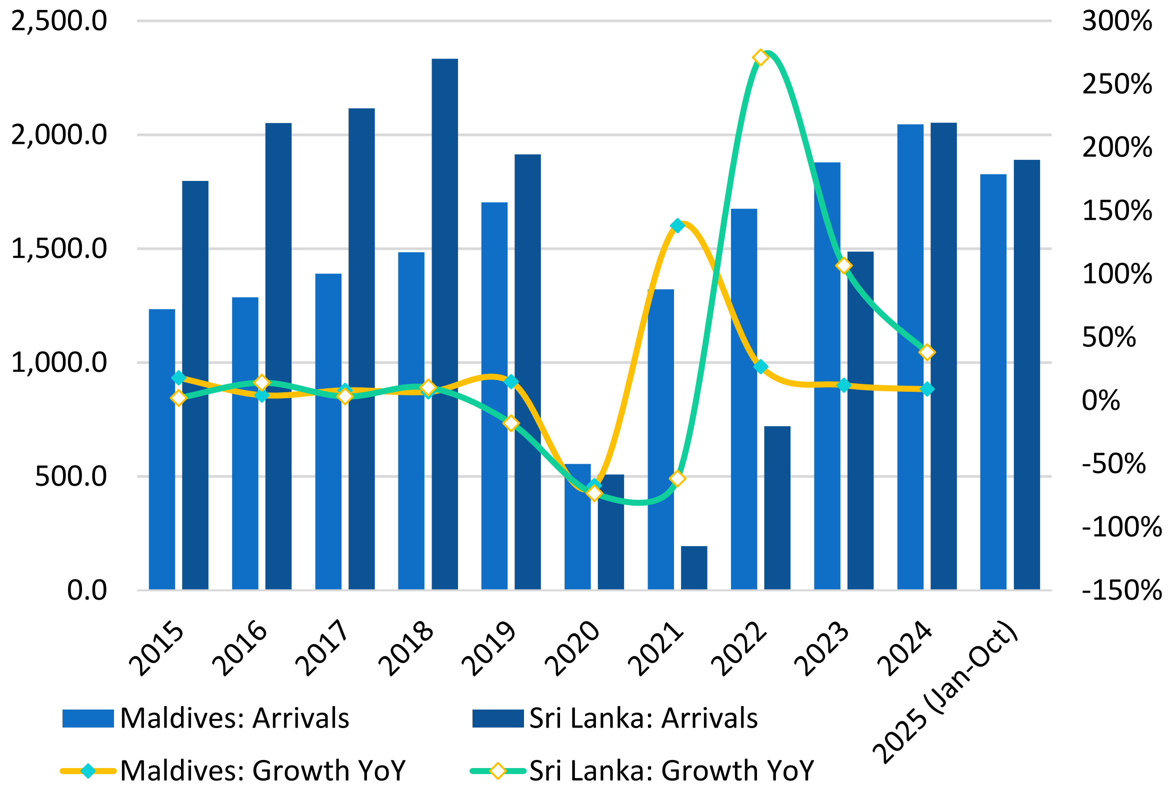
Critical to achieving long-term targets
Timely implementation is key to meeting the Government's goal of 4.0Mn arrivals and USD 8.0Bn in tourism revenue by 2030.

…however, with the rebound in tourism in Maldives, local counters with exposure to the region are poised to benefit

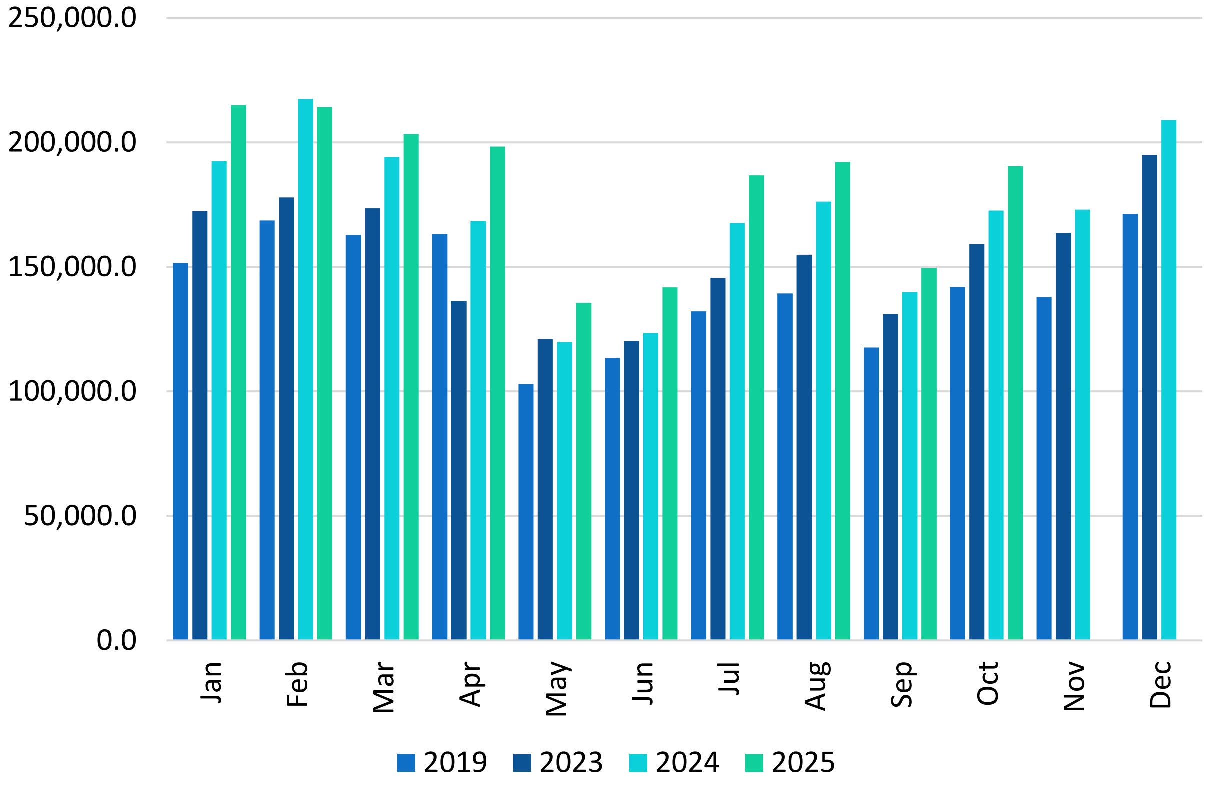
Tourist arrivals in the Maldives have shown a strong and sustained rebound, consistently outperforming Sri Lanka on both volume and YoY growth. The Maldives exceeded its pre-pandemic baseline as early as 2023, while Sri Lanka's recovery has been more gradual. The sharper Maldives rebound reflects stronger global marketing, premium positioning, and resilient demand from long-haul markets..

Monthly arrival trends in the Maldives show a strong and broad-based recovery, with 2024 and 2025 consistently surpassing pre-2019 levels. The country's ability to attract high-spending travellers during key holiday periods has kept occupancies above 70%. This strengthens the regional tourism ecosystem and offers a favourable spillover outlook for Sri Lankan hotel groups with exposure to Maldivian markets.

Maldives vs Sri Lanka arrivals and YoY growth



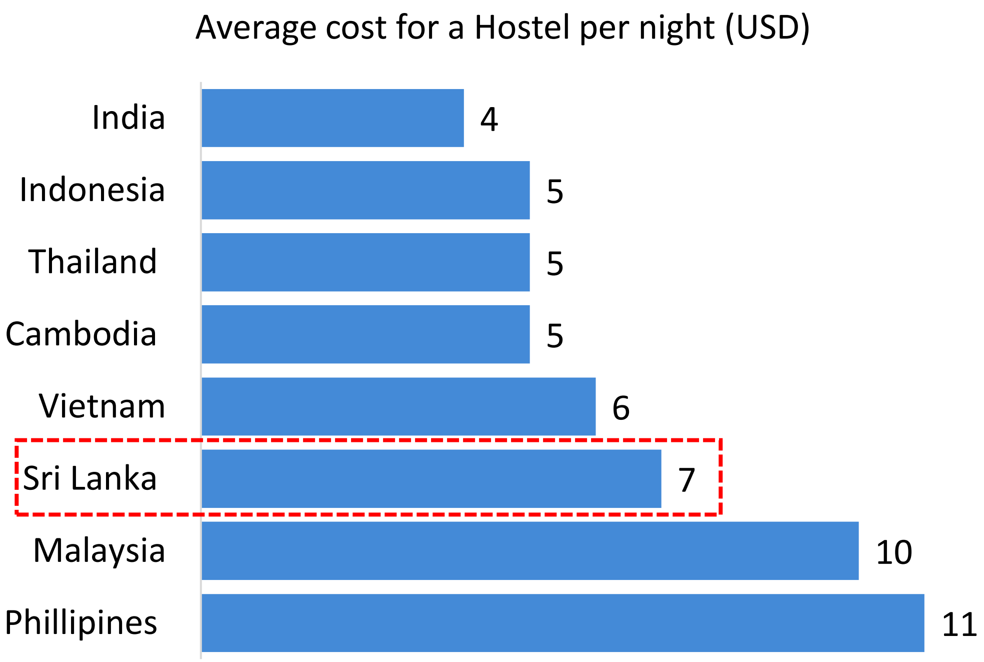
Monthly arrivals patterns in Maldives



Source: Ministry of Tourism Maldives, First Capital Research

Furthermore, Sri Lanka lags behind in terms of price competitiveness compared to regional 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.



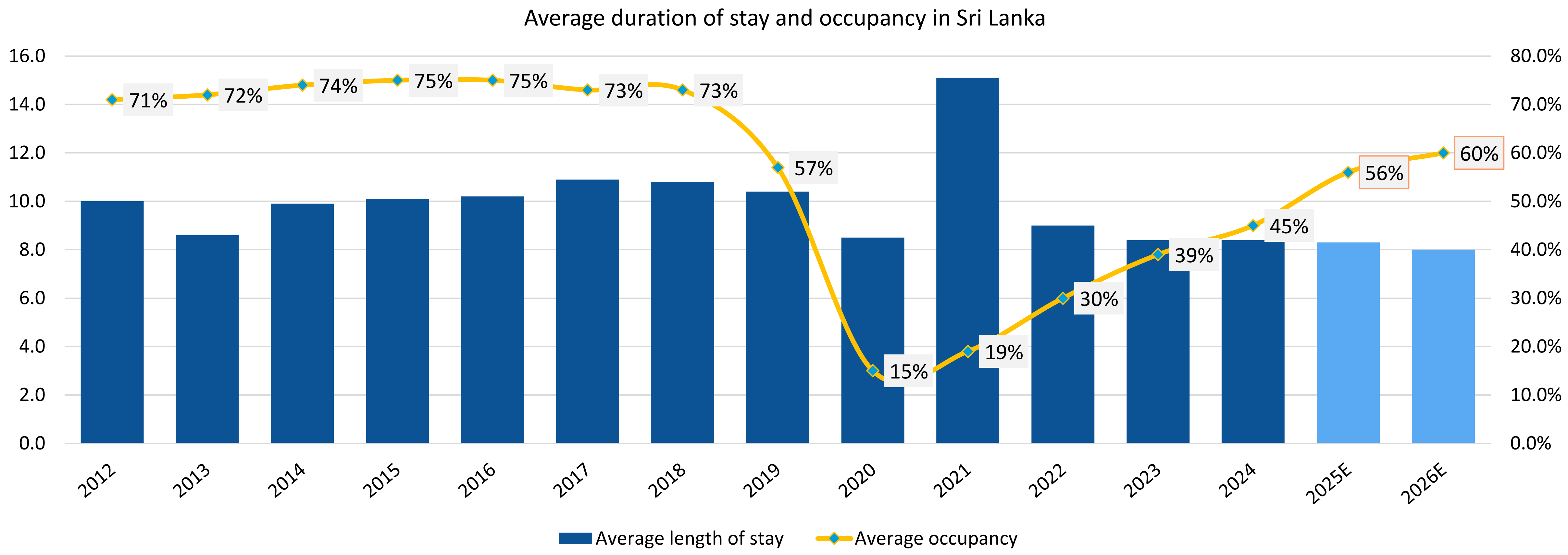
Type of Accommodation	Sri Lanka	Vietnam (Ho Chi Minh City)	Thailand (Bangkok)	Indonesia (Jakarta)	Maldives (Malé)
5 Star	125+	70+	90+	140+	750+
4 Star	85+	45+	70+	70+	545+
3 Star	50+	28+	30+	45+	350+

*all figures are in USD (cost per night)

Source: Booking.com, First Capital Research

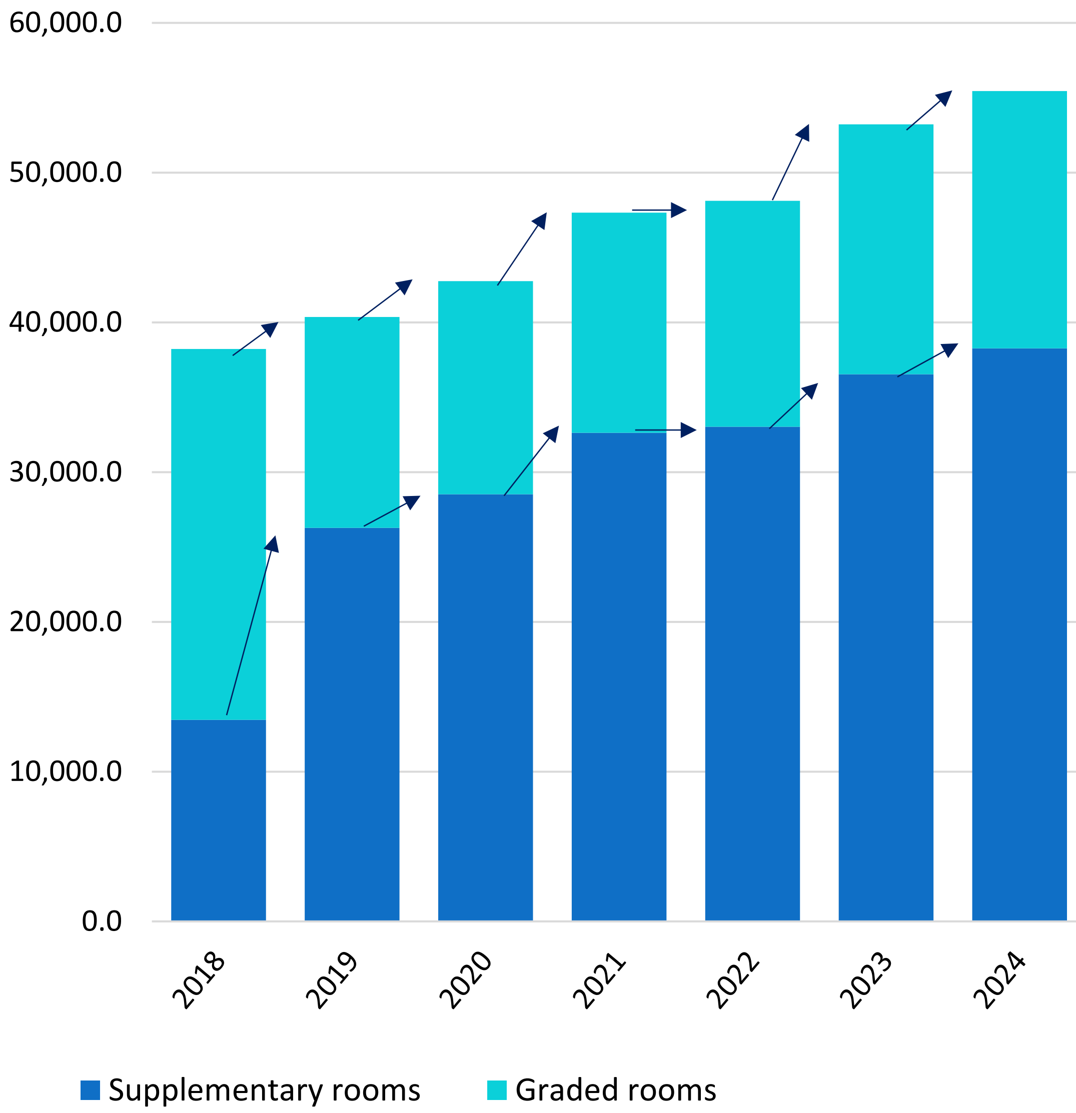
…that has further slowed occupancy rates recovery, whilst average duration of stay also remains stagnant…

Despite a gradual improvement in the average duration of stay, hotel occupancy rates in Sri Lanka remain below pre-crisis levels. The average stay, which peaked at 15.1 nights in 2021 due to limited travel options during the pandemic, is expected to normalize to around 8.5 nights in 2025E, close to long-term averages. However, overall occupancy continues to lag, reflecting uneven tourist distribution across regions and a slower rebound in high spending long haul travelers. While stay durations indicate tourists are spending more time per visit, the weaker occupancy trend underscores the need for stronger destination appeal, diversified city activities, and targeted marketing to sustain room demand.



Source: SLTDA, First Capital Research

…and the reason for diluted occupancy rates has been the increase in tourism related investments…



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.

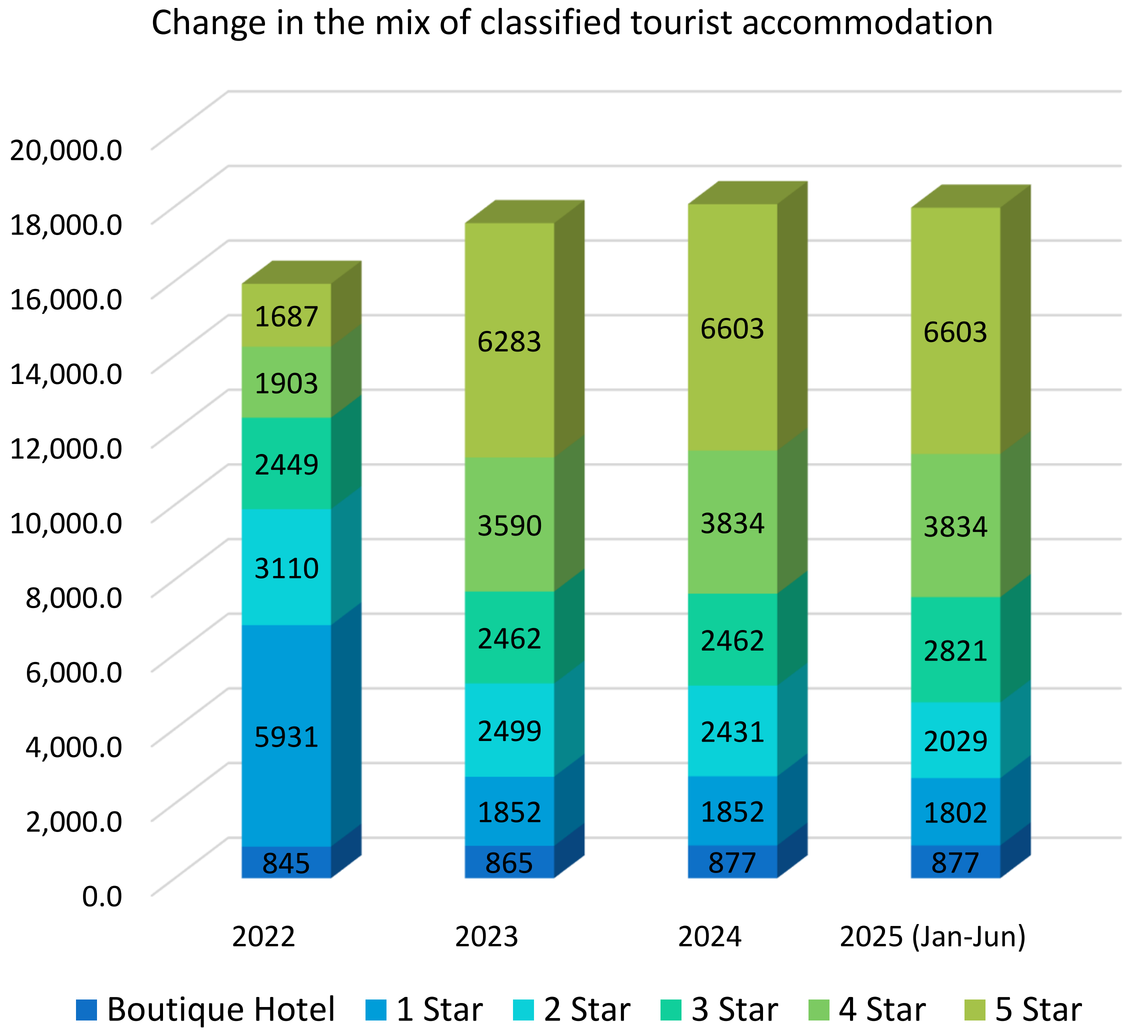
Province	2024	Growth (YoY)
Western	19,769	9%
Southern	14,122	0%
Central	8,995	2%
Uva	2,869	3%
Eastern	2,620	3%
North Central	2,424	3%
North Western	2,138	-1%
Sabaragamuwa	1,455	6%
Northern	1,063	11%

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 added 545 new rooms to the inventory, increasing the total number of rooms in SL to 55,047.
- **Furthermore, between Jan-Jun 2025, an additional 1,564 rooms were added, contributing USD 169.1 Mn in tourism-related investments. Growth in the informal accommodation segment has been even faster, intensifying the oversupply of rooms, particularly across coastal regions.**

Source: SLTDA, First Capital Research

…coupled with the change in star classification of hotels, which does not align with low spending tourists



• Shift towards higher end room supply
The accommodation mix has moved away from 1–3 star properties toward 4–5 star and boutique hotels, creating a mismatch with predominantly value-driven post-crisis tourists.

• Majority of arrivals are low-spending
India, Russia, and regional travellers dominate arrivals and prefer mid-scale rooms, while the jump in 4–5 star supply has not been met with equivalent demand, pressuring occupancy.
.

• Boutique and luxury expansions add to oversupply
New boutique and lifestyle hotels fragment premium demand, but only a small share of tourists can afford these categories, leading to under utilised high-end rooms.

• Occupancy still below 2018 despite rising arrivals
Arrivals suggest occupancy should have fully rebounded, yet only marginal gains are seen because the current supply mix does not align with the spending profile of visitors.

• Supply growth exceeds demand
Room inventory has expanded faster than actual tourist demand, especially in upper tiers, creating a structural oversupply that keeps occupancy suppressed.

Source: SLTDA, First Capital Research

2.0 Catalysts for City Tourism: Gaming and MICE

The City of Colombo is at a transformative junction, supported by new developments and infrastructural changes…

Colombo is entering a transformative phase with major developments such as Cinnamon Life - City of Dreams, Port City, and ITC Ratnadipa redefining its urban landscape. The City of Dreams, following its proven success and revenue rebound in its operations across the globe, such as Macau, Singapore, Manila and Cyprus, brings a strong international customer base that is expected to uplift Colombo's hospitality sector and support demand recovery across city hotels.

Cinnamon Life at City of Dreams

Amari Colombo

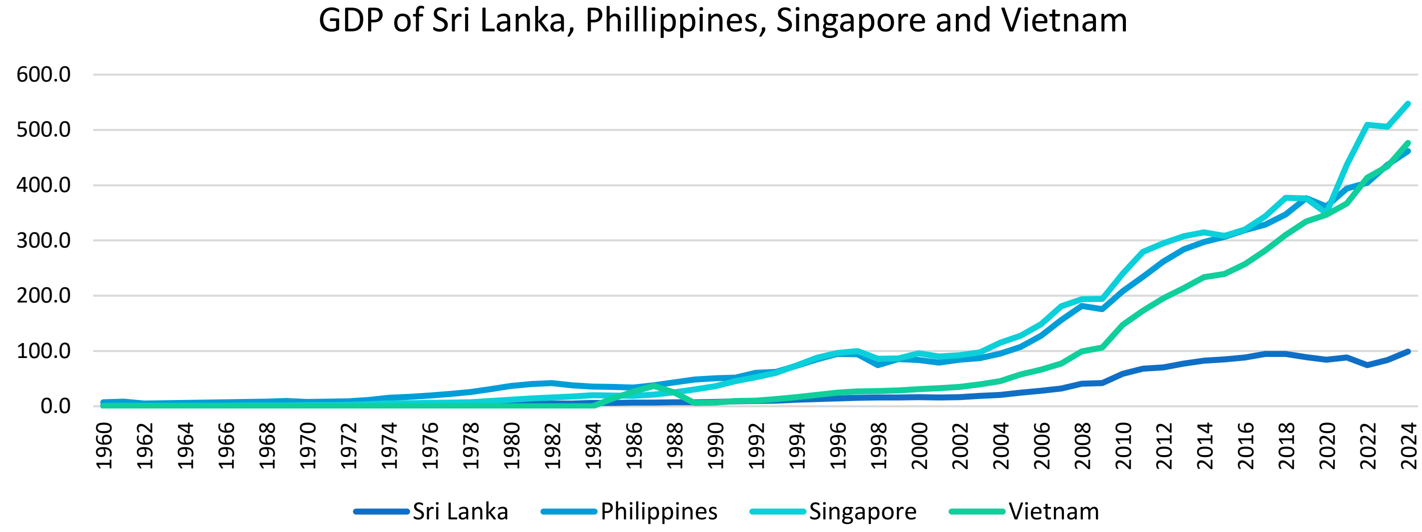
Port City Colombo

One Galle Face Mall

ITC Ratnadipa

BIA Terminal 2

In countries with strong city-oriented tourism, led by the casino and gaming segment, exponential GDP growth has been observed, driven primarily by tourism. Sri Lanka has the potential to experience similar growth with these new city developments, and the positive effects may spill over into city hotels.



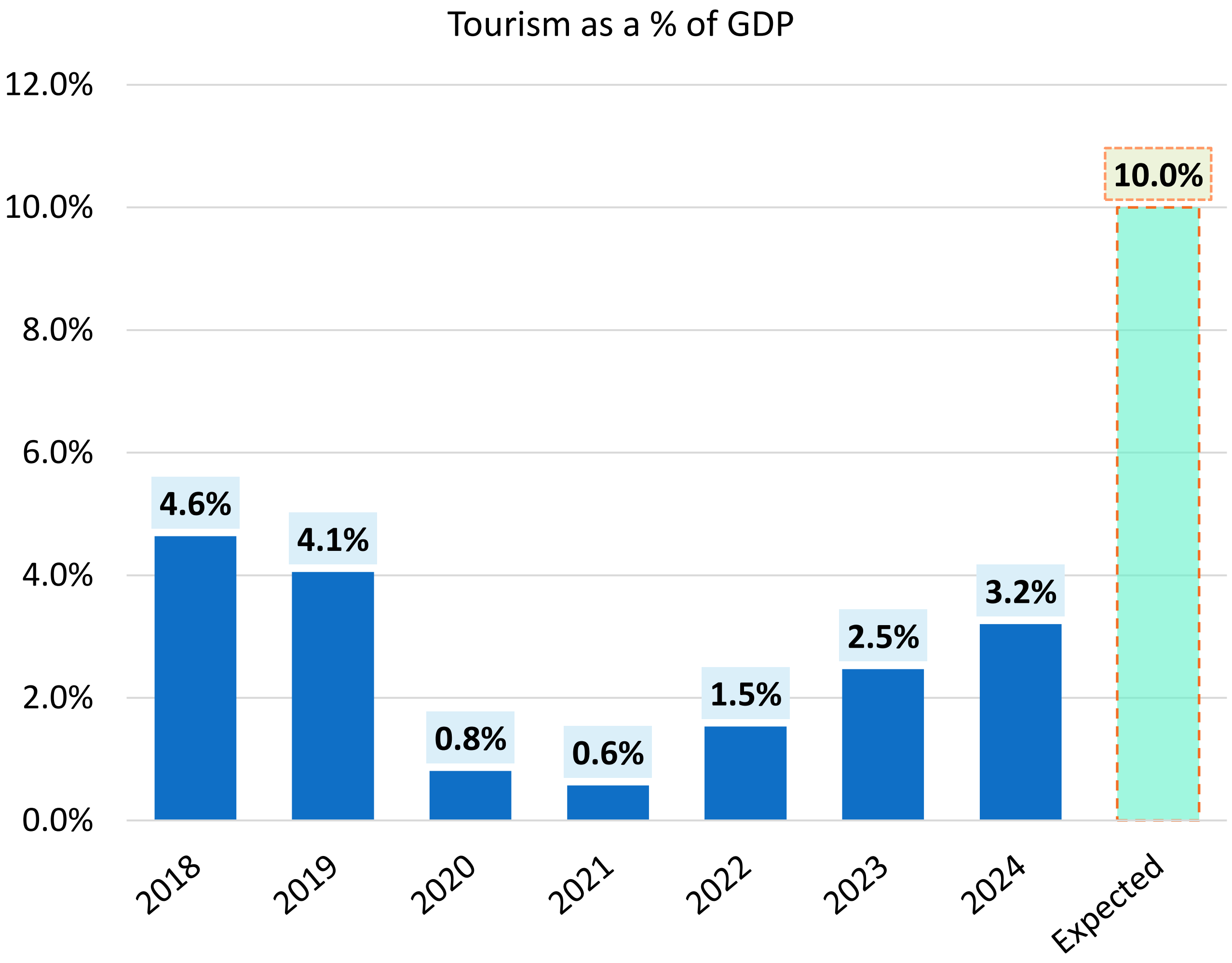
…against this backdrop, the Casino and gaming driven avenue may amp up tourism in Sri Lanka…

- Regulatory reform underway: Parliament passed the Gambling Regulatory Authority (GRA) Bill (22-Aug-2025); target for full establishment by 30-Jun-2026 to centralize licensing and oversight.

- Tax & fee changes: Cabinet approved higher casino taxes and doubled the local entry fee from USD 50 to USD 100; GGR tax to rise from 15.0% to 18.0%.

- Flagship integrated resort (IR): The USD 1.2Bn City of Dreams Sri Lanka opened in Colombo in 2025, targeting high-spend visitors from India and China and anchoring city-hotel demand.

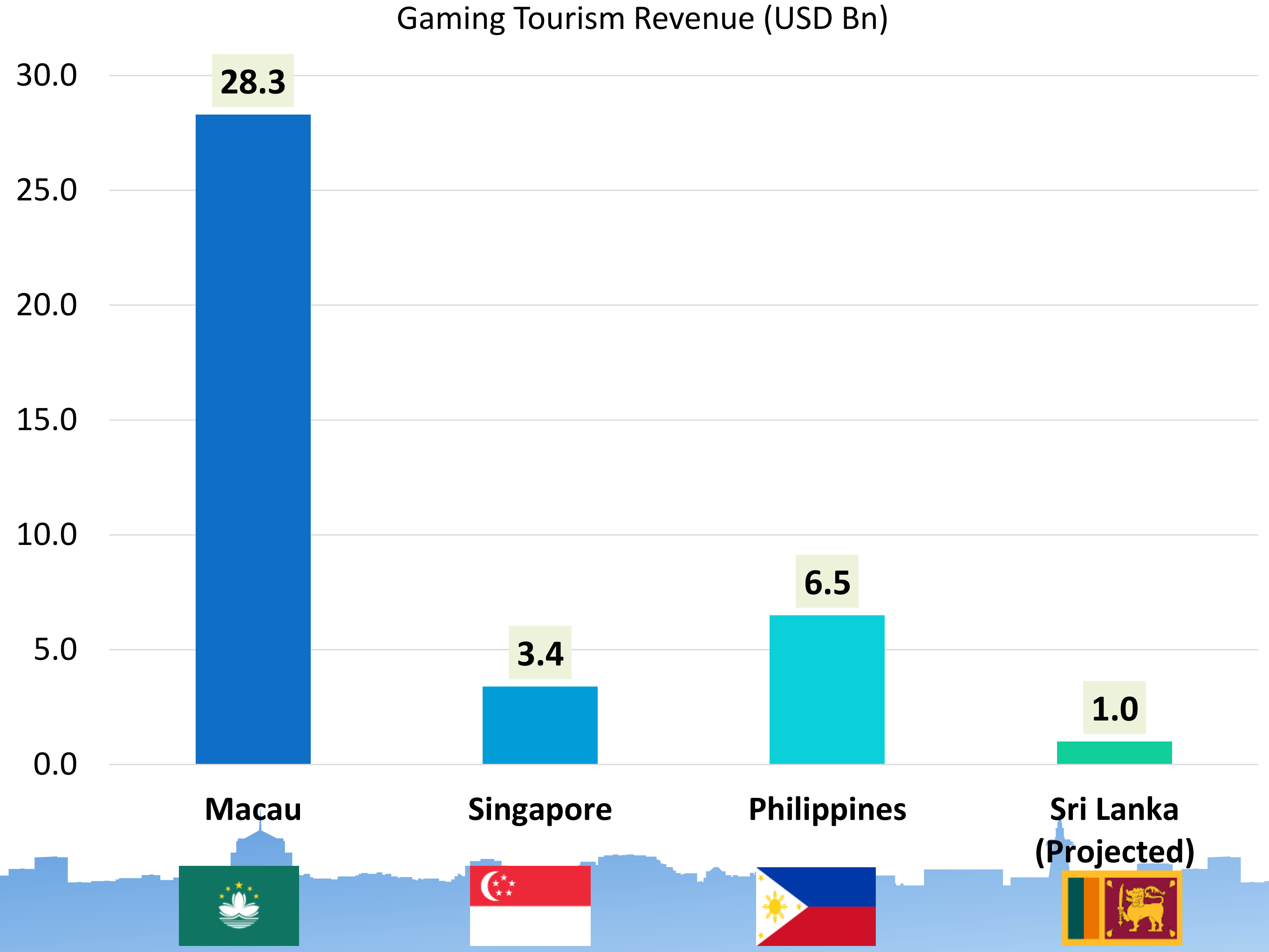
- Tourism strategy: Policy aims to lift tourism's GDP share from 3.2% toward c.10.0% by leveraging premium gaming & IR tourism alongside broader reforms (e.g., visa facilitation).



*the expected projection is based on the Government's long term target. Timeline unspecified

…which has been a lucrative form of income for multiple countries in the APAC region

- Gaming tourism has emerged as a key income driver across Asia-Pacific, contributing significantly to national GDPs and visitor spending.
- Macau leads the region with gaming revenue of USD 28.3Bn, reflecting its dominance as the global gaming hub. Philippines (Manila) follows with USD 6.5Bn, supported by its integrated resort ecosystem, while Singapore generates around USD 5.0Bn from its two major IRs which are: Marina Bay Sands and Resorts World Sentosa.
- For Sri Lanka, the segment holds strong potential, with a projected USD 1.0Bn in gaming tourism revenue, driven by planned integrated resort developments and rising regional travel connectivity.
- This underscores the untapped opportunity for Sri Lanka to position itself as an emerging gaming and entertainment destination in South Asia.

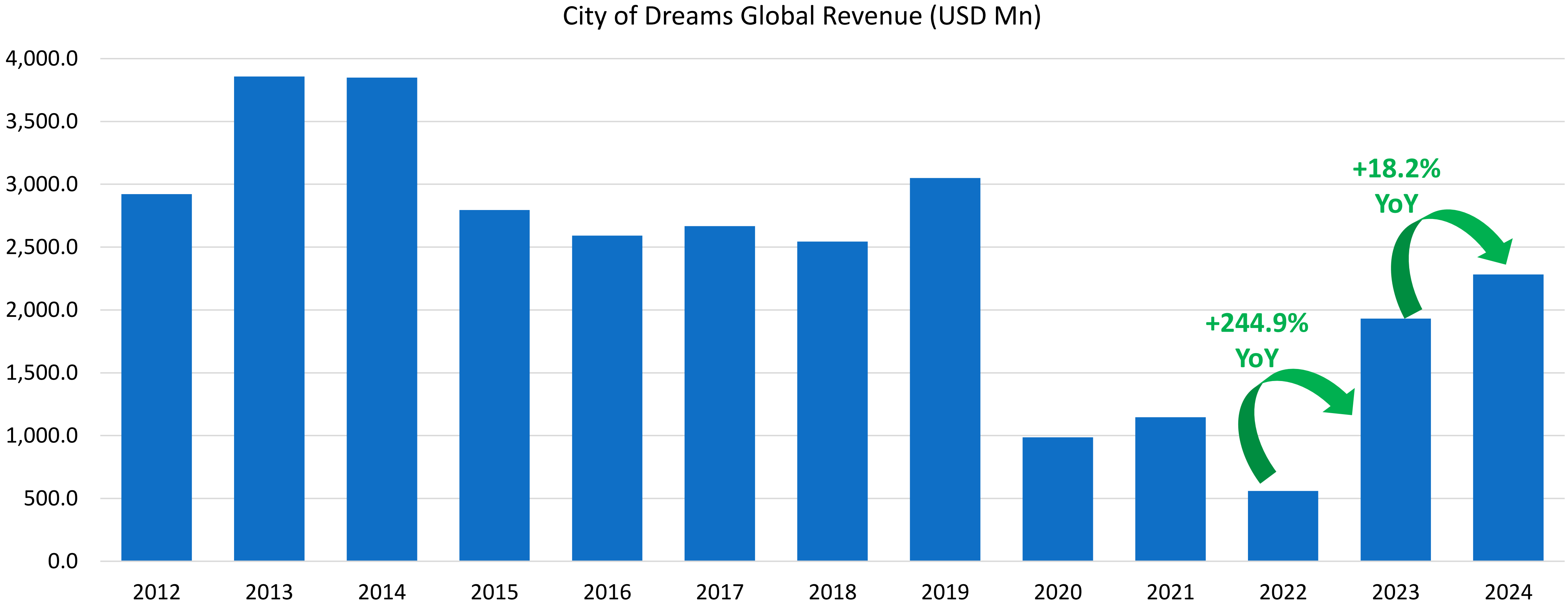


*the expected projection is based on the Government's long term target. Timeline unspecified

Source: Bloomberg, SLTDA, Reuters, First Capital Research

… and the global revenue recovery positions City of Dreams for a strong launch in Sri Lanka…

City of Dreams has demonstrated a strong global rebound in operating revenue, with Melco Resorts & Entertainment reporting total operating revenues of USD 1.3Bn in 2QFY25, up c.15%YoY. With the brand now entering Sri Lanka, its established international customer base and proven operational performance provide a credible foundation to drive inbound luxury tourism and uplift Colombo’s city-hotel segment. By leveraging this premium platform, local hotels stand to benefit from higher occupancy and ADR as the Sri Lankan market re-opens to global leisure demand.



Source: Bloomberg, First Capital Research

…thus adding a spotlight towards…

CITY HOTELS IN SRI LANKA

Cinnamon GRAND Colombo

TAJ SAMUDRA COLOMBO

RENUKA CITY HOTEL

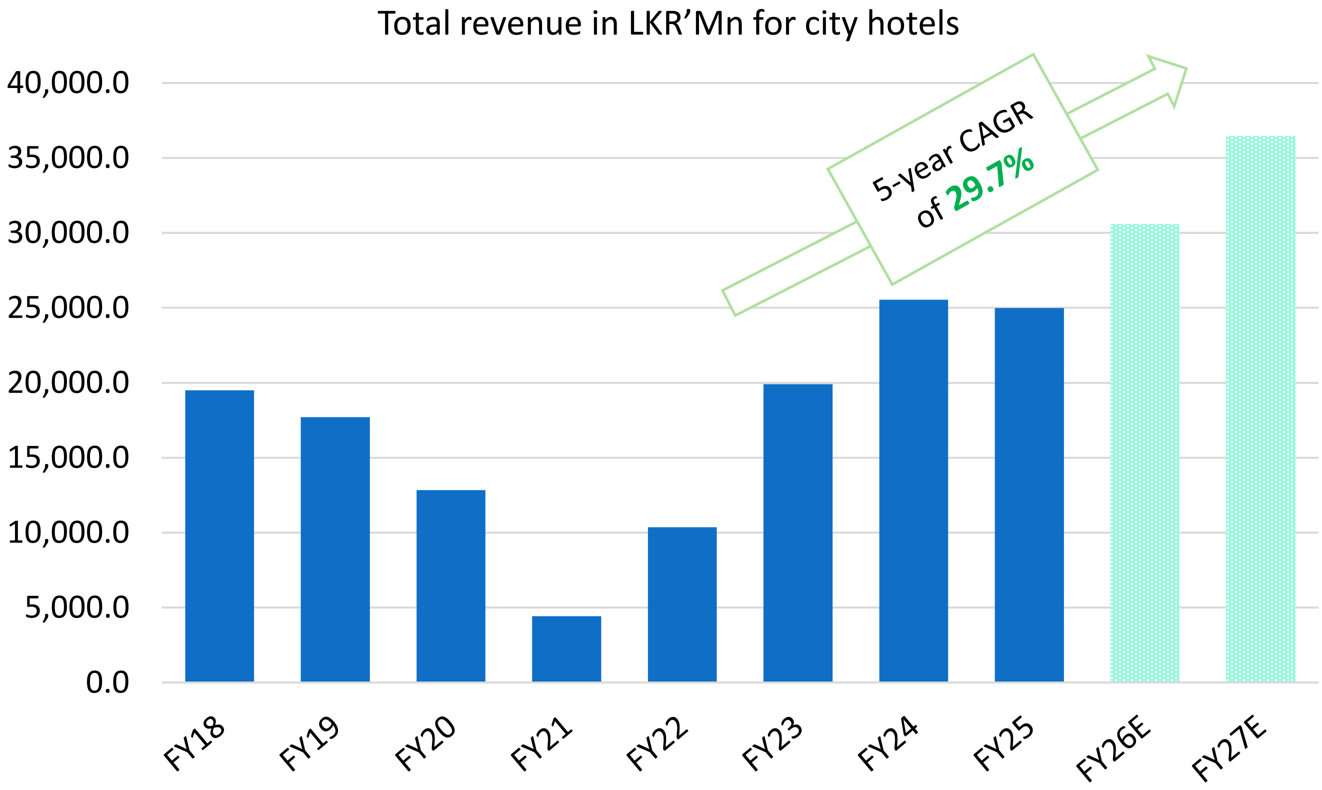
Cinnamon LAKESIDE Colombo

GALADARI COLOMBO

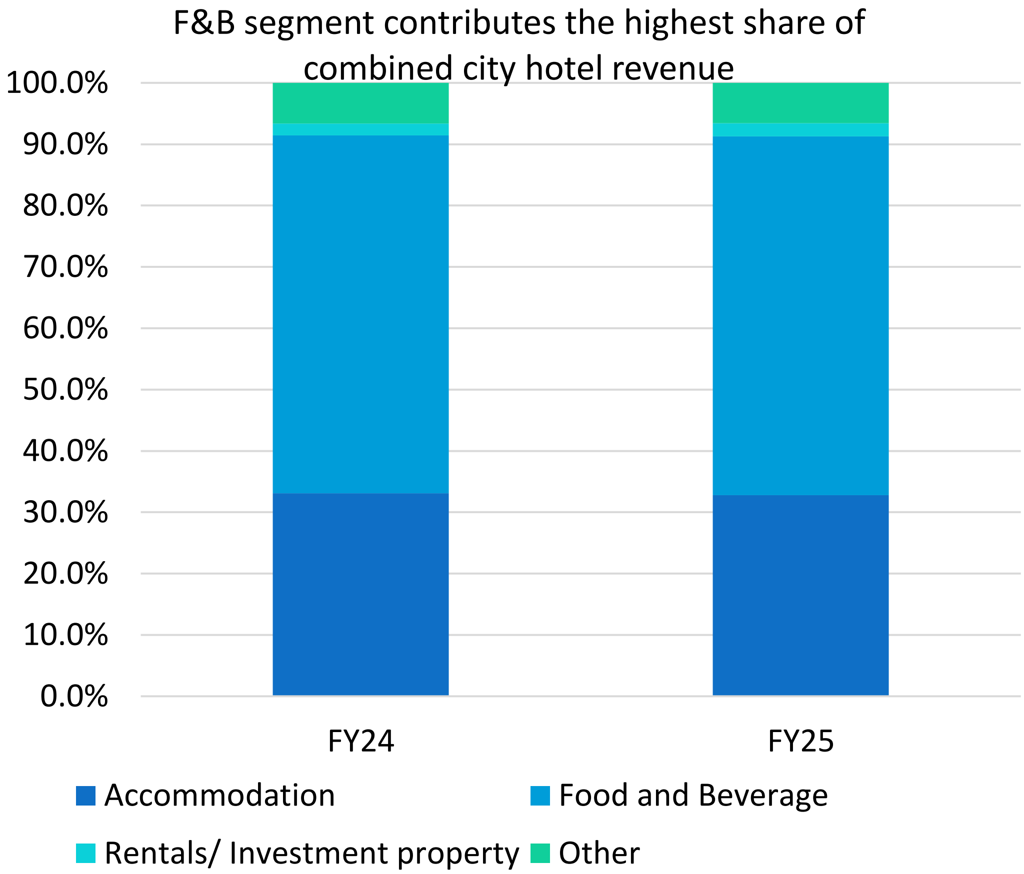
THE KINGSBURY COLOMBO-SRI LANKA

City hotels currently earn revenue through various segments which are expected to grow further…

City hotels have recorded a strong rebound, with total revenue rising from LKR 10.4Bn in FY22 to LKR 24.9Bn in FY24, and projected to surpass LKR 35.0Bn by FY27E. The revenue mix remains diversified, led by F&B (c.60.0%) and accommodation (c.30.0%), supported by steady rental and other income streams. This balanced growth highlights the sector's broad-based recovery and resilience across business and leisure segments. Furthermore, the F&B segment is the key driver of revenue and this segment is expected to contribute in a consistent proportion which boosts overall earnings



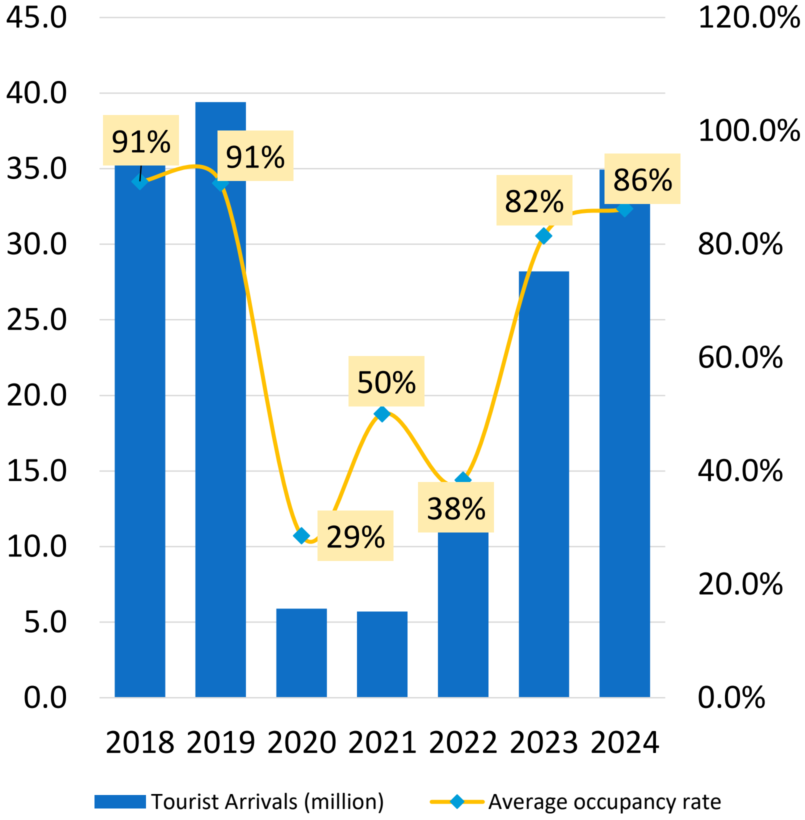
Combined revenues and forecasts of AHPL, GHLL, TAL, RENU, SERV and TRAN have been considered



Macau - The global benchmark for casino tourism

- Macau transformed into the world's largest gaming hub, contributing over 50.0% of GDP and 70.0% of government revenue (DSEC, 2024).
- Visitor arrivals grew from 35.8Mn in 2018 and is on a rebounding route as 2024 arrivals stood strong at 34.9Mn visitors.
- Gross Gaming Revenue (GGR) rose 23.9% USD 28.4Bn in 2024 (post-pandemic recovery at 60% of pre-COVID peak of 2018 where GGR stood at USD 37.6Bn).
- Average hotel occupancy recovered to 86% in 2024, supported by integrated resort expansion (Galaxy Phase 4, Wynn Palace, etc.).
- Government strategy focuses on diversification - luxury retail, MICE, and cultural tourism alongside gaming.

Arrivals vs Occupancy rate



31
Total Casinos

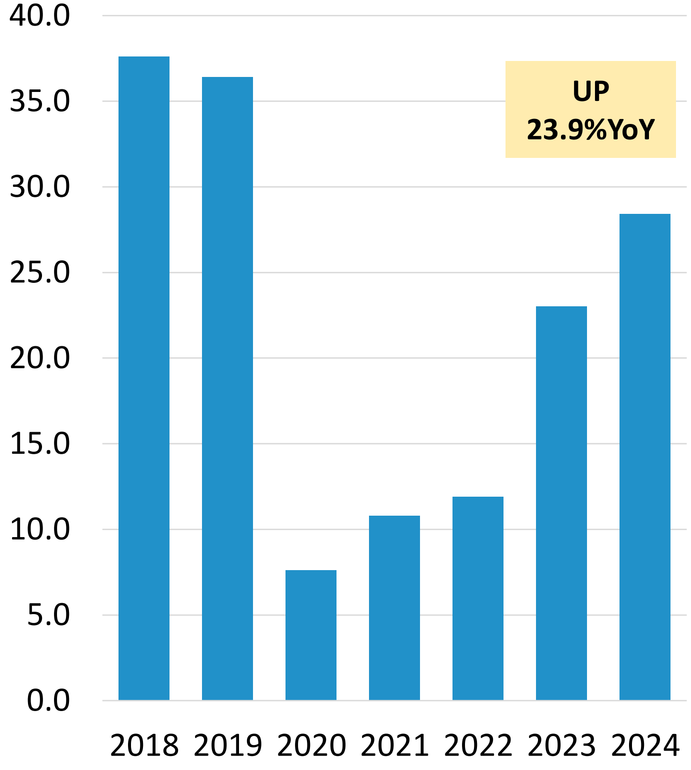
c.6000+
Gaming Tables

c.12,000+
Slot Machines

86.5%+
Occupancy

USD 150-450
Average Room Rate

Gross Gaming Revenue (USD'Bn)

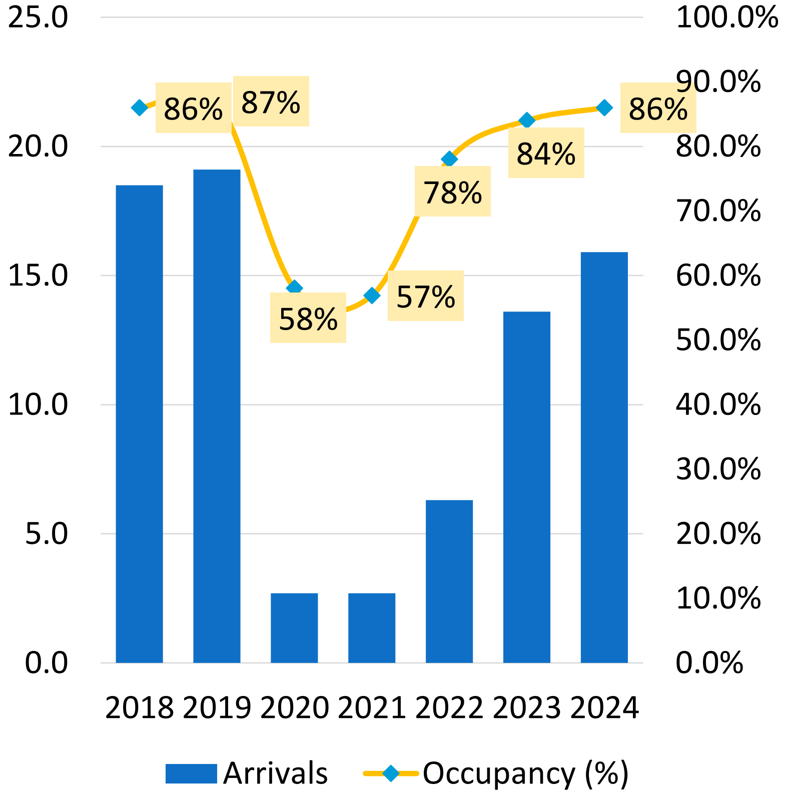


Source: Bloomberg, Government of Macao Special Administrative Region Statistics and Census Services, First Capital Research

Singapore - The integrated resort success model

- Singapore's tourism boom has been anchored by Marina Bay Sands (MBS) and Resorts World Sentosa (RWS) since their launch in 2010.
- Visitor arrivals rebounded strongly from 2.7Mn(2021) to 13.6Mn(2023) and 15.9Mn in 2024, whereas average hotel occupancy climbed from 68% (2021) to 86% (2024), reflecting strong post-pandemic recovery.
- Average Room Rate surged from SGD 221 (2018) to SGD 355 (2024), a 60% rise driven by premium segment demand (Singapore Tourism Board).
- Revenue Per Available Room (RevPAR) reached SGD 306 in 2024, surpassing pre-COVID peak by 22.0%.
- Gaming revenue estimated at USD 7.2 billion in 2025, continuing the growth trajectory.

Arrivals vs Occupancy rate



2
Integrated Resorts

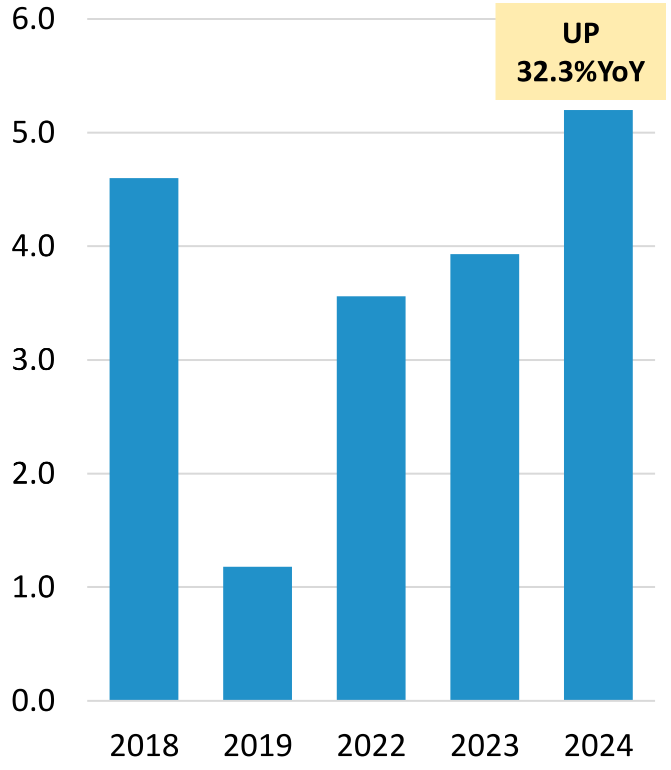
c.1050+
Gaming Tables

c.5400+
Slot Machines

85%+
Occupancy

USD 350
Average Room Rate

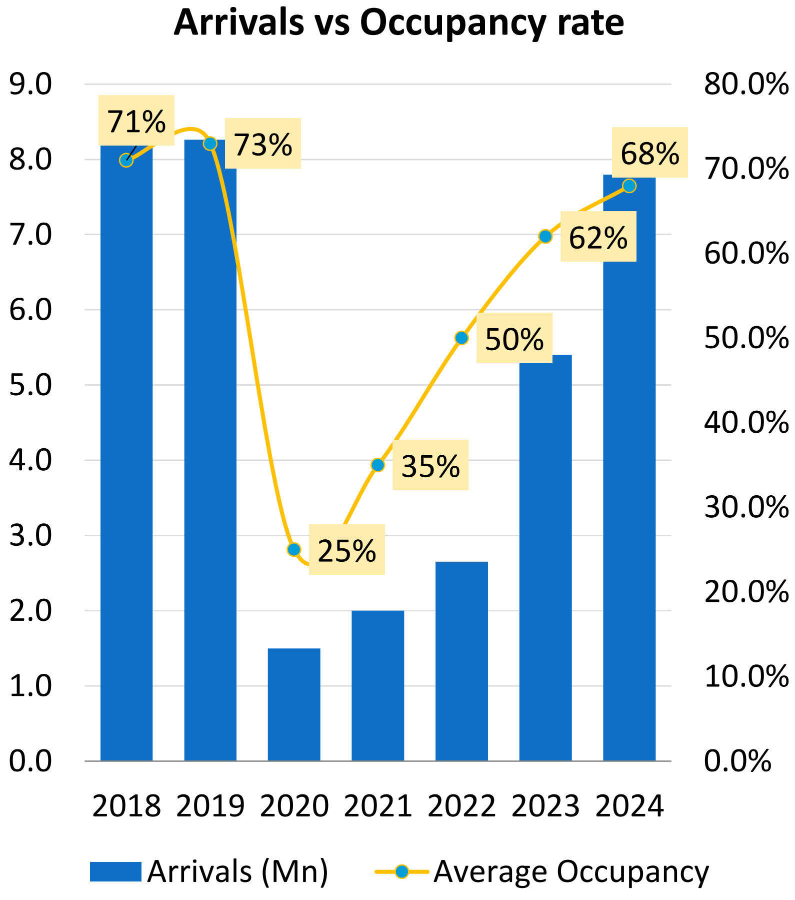
Gross Gaming Revenue USD'Bn



Source: Bloomberg, Fitch Ratings Asia Gaming outlook, First Capital Research

Manila - The rising integrated resort hub of Southeast Asia

- Tourist arrivals rose to c.5.4Mn in 2024, with hotel occupancy rebounding to 68.0% from 25.0% in 2020.
- The market hosts 4 major resort style casinos with 1,650+ tables and 9,300+ slot machines, maintaining 83%+ occupancy and c.USD 140 room rates.
- ARR grew 35% since 2021, reflecting rising premium leisure and gaming demand.
- Gaming GGR reached USD 5.1Bn in 2023, though VIP play eased c.22% YoY, signaling a shift toward mass market strength.



4 Integrated Resorts

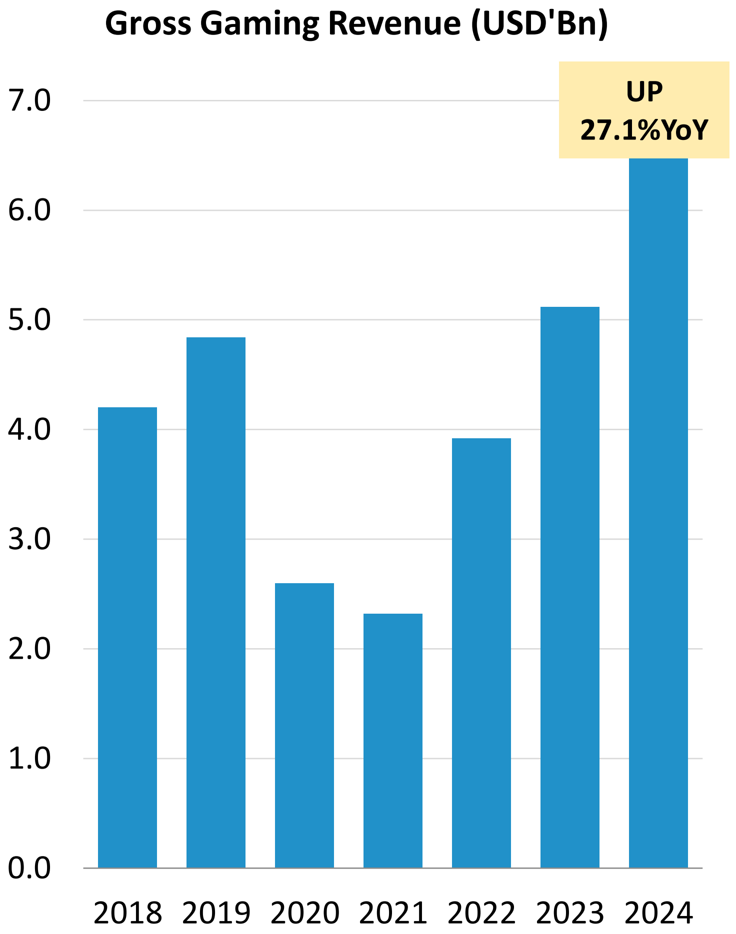
c.1650+ Gaming Tables

c.9300+ Slot Machines

83%+ Occupancy

USD 140 Average Room Rate

MELCO PAGCOR OKADA MANILA WATERFRONT MANILA HOTEL & CASINO Winford 永福 HOTEL & CASINO LAVIE RESORT & CASINO MANILA

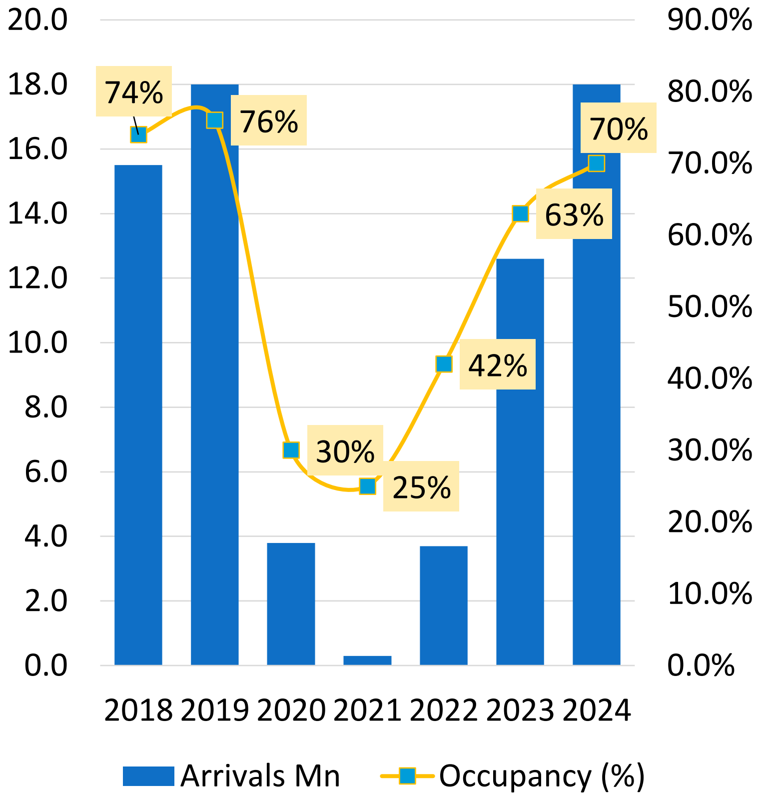


Source: Bloomberg, Fitch Ratings Asia Gaming outlook, First Capital Research

Vietnam - Controlled growth, strong regional appeal

- Tourism rebound: International arrivals rose to 17.5 Mn in 2024, as top source markets grew considerably, supported by stronger regional travel links.
- Gaming sector recovery: Casino GGR is estimated at c.USD 1.2Bn in 2024, expected to rise toward USD 1.6Bn in 2025, reflecting gradual normalization.
- Industry structure: Around 10 casinos operate with 330+ gaming tables and 1,900+ slot machines, maintaining 70%+ occupancy and an average room rate of USD 130.
- Profitability pressures: Despite growth, major operators like Corona Resort reported a USD 21.0Mn loss (1H 2025), highlighting ongoing regulatory and cost challenges.

Arrivals vs Occupancy rate



10
Total Casinos

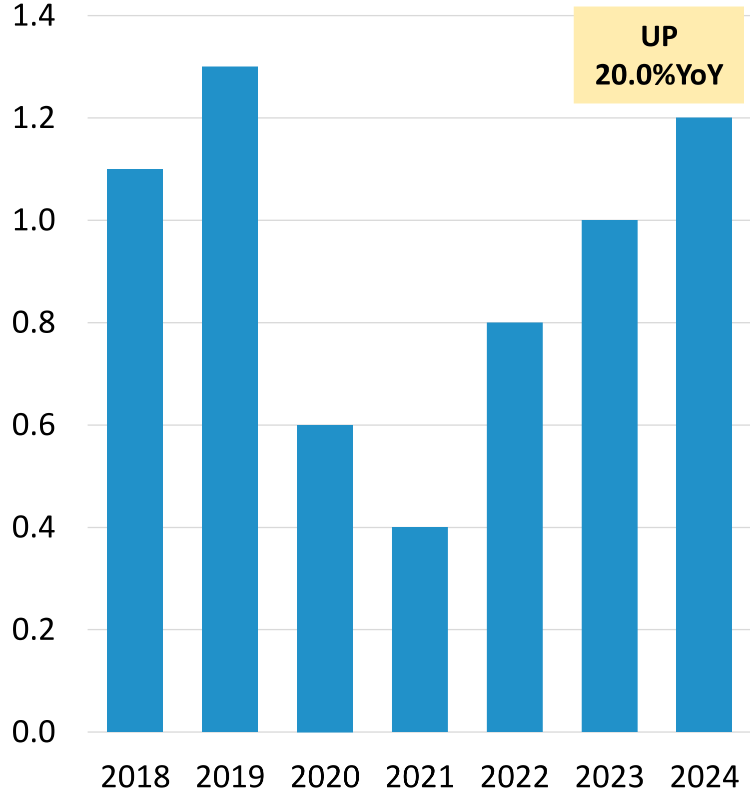
c.330+
Gaming Tables

c.1900+
Slot Machines

70%+
Occupancy

USD 130
Average Room Rate

Gross Gaming Revenue (USD'Bn)

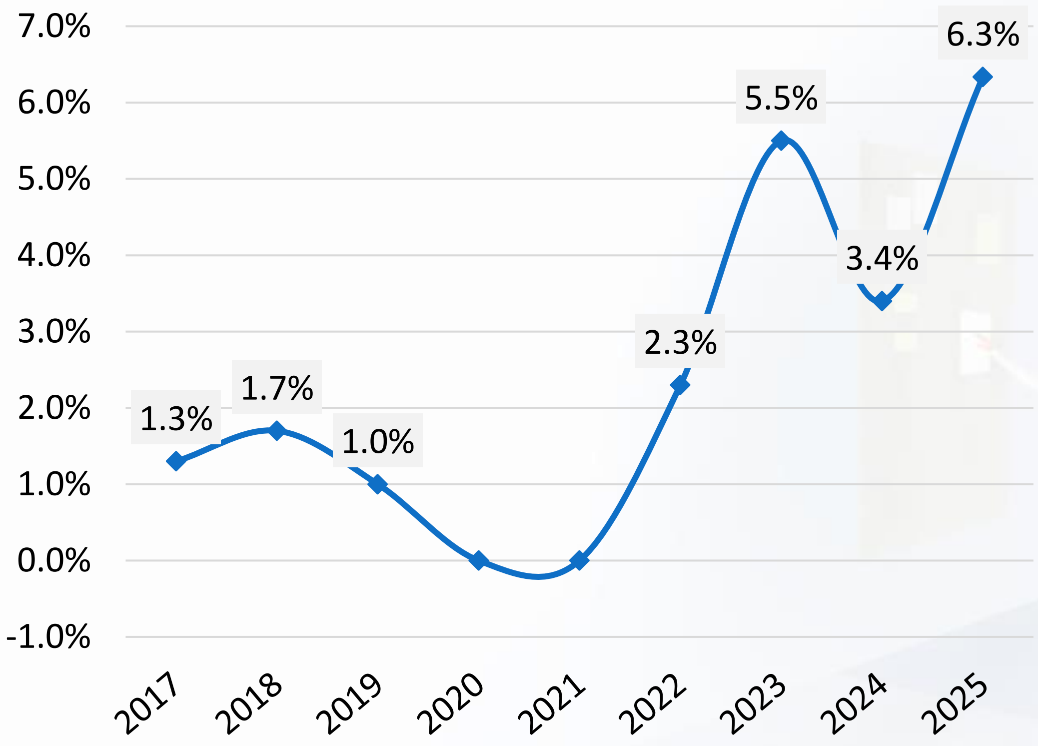


Source: Bloomberg, Fitch Ratings Asia Gaming outlook, First Capital Research

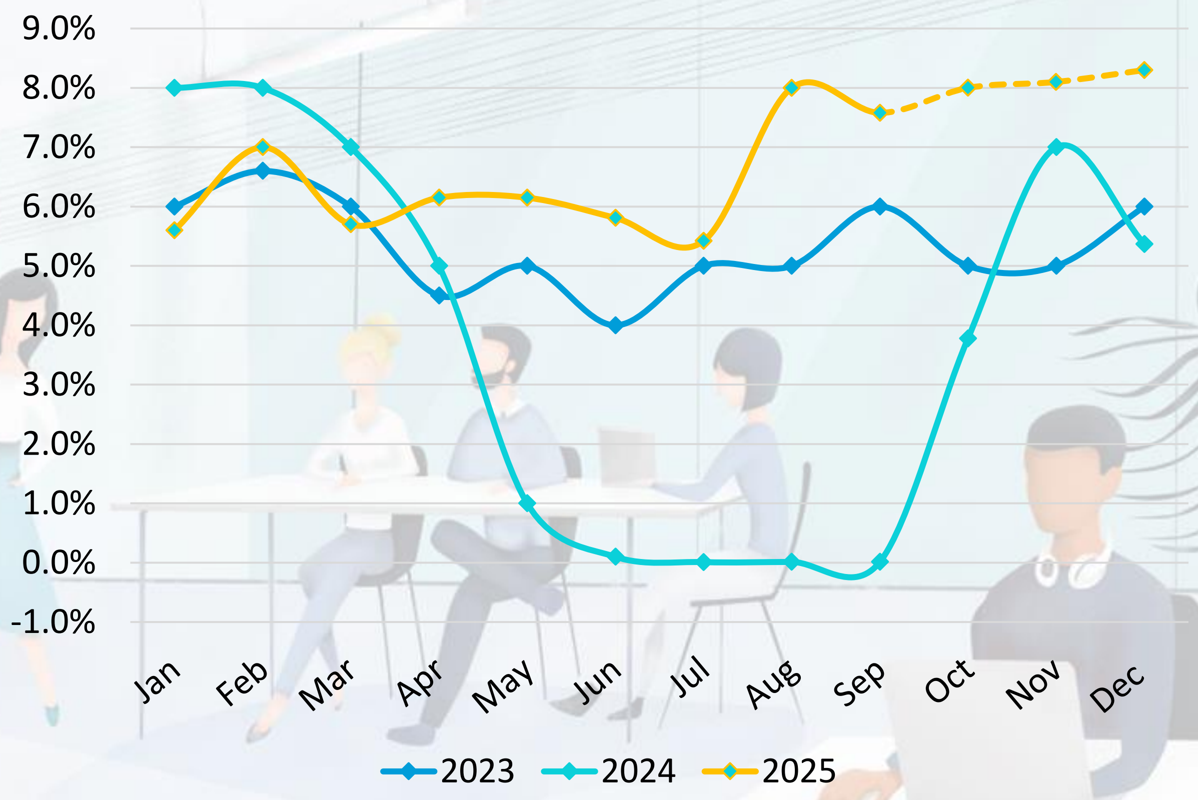
The second catalyst is the resurgence of the MICE segment with the abolishment of the MRR

MICE arrivals surged to 6.3% of total arrivals in 2025, up from 3.4% in 2024 and 5.5% in 2023, marking a strong rebound after the abolishment of the MRR. Monthly data shows consistent gains, with Q3–Q4 2025 seeing peaks around 8.0%, reflecting renewed momentum in conferences and corporate events driving city tourism growth.

MICE arrivals as a % of total



Proportion of monthly MICE arrivals



Source: SLTDA, First Capital Research

… whilst further efforts to position Sri Lanka as a premier global MICE destination add an extra boost

- **Higher value MICE travellers -** Sri Lanka's MICE segment represents a high-value tourism category, with business travellers spending three to four times more than leisure tourists due to higher expenditure on accommodation, services, logistics, and events. While the current share of MICE arrivals is still relatively modest, the segment is strategically important because of its high per-visitor yield and ability to uplift hotel RevPAR and event-driven spending.

- **Ambitious national MICE growth targets -** The Sri Lanka Convention Bureau has outlined a three-year MICE development roadmap targeting a stronger share of arrivals and higher foreign exchange earnings by 2026. Market research estimates suggest objectives of achieving roughly 10.0% of tourist arrivals and generating USD 1.3Bn to USD 1.4Bn in MICE revenue by 2026. Official communications often cite higher aspirational goals, reflecting the government's intention to elevate Sri Lanka as a competitive regional MICE hub.

- **Expanded MICE infrastructure and venues -** Colombo's event-hosting capacity has increased significantly with modernised convention and exhibition venues. Facilities such as Cinnamon Life (capable of hosting up to c.5,000 delegates across multiple indoor and outdoor spaces), BMICH, SLECC, and purpose-built hotel ballrooms have strengthened the city's ability to attract regional and global MICE events. These upgrades directly support the country's ambition to host large conferences, exhibitions, trade shows, and corporate conventions.

- **Strengthened promotion and international buyer engagement -** Promotional efforts have accelerated, with events like the Southern MICE Expo 2024 attracting over 100 international buyers and media representatives from more than a dozen countries. These platforms have enhanced Sri Lanka's visibility among global event organisers. Short-term targets for 2024 included generating around USD 550.0Mn in MICE-related earnings, supported by destination marketing, trade FAM tours, and strengthened industry partnerships

Source: First Capital Research

Additionally, the issuance of a digital nomad visa opens long-stay, professional traveler segment, boosting city hotel demand

First Capital
A Janashakthi Group Company

Sri Lanka's Digital Nomad Visa (DNV) offers a one year stay for remote professionals and families, with a USD 2,000 monthly income requirement and a USD 500 visa fee. Colombo's relatively low living costs, fast mobile data and growing co-working footprint make it one of the more cost effective bases in Asia. This widens the long-stay professional segment and can materially lift city hotel and serviced-apartment demand.

City	1BR Rent (USD)	Coworking (USD)	Mobile Data (USD/mo)	Meal (USD)	Est. Monthly Budget (USD)
Colombo	450-650	80-150	5-10	3-6	1,200-1,700
Bangkok	800-1,200	120-200	10-15	3-7	1,800-2,400
Kuala Lumpur	700-900	90-150	8-12	3-6	1,600-2,100
Ho Chi Minh City	600-900	90-150	6-10	2-5	1,400-2,000
Bali (Canggu)	700-1,100	120-180	8-12	3-6	1,700-2,300

Item	Details
Stay length	Up to 1 year (renewable)
Who's eligible	Remote workers/freelancers; spouse & dependents allowed
Minimum income	USD 2,000 per month (proof required)
Visa fee	USD 500 (covers applicant + family)
Tax note	General 183 day rule for tax residency applies

Source: Bloomberg, First Capital Research

Past challenge: Colombo city lacked activities vs peers

For years, Colombo struggled to retain tourists due to limited nightlife, urban entertainment, and shopping experiences compared with peers such as Bangkok, Kuala Lumpur, and Singapore. Most visitors treated Colombo as a short transit stop before heading to coastal or hill destinations. Since 2023, major developments such as casino tourism, waterfront upgrades, luxury retail, and event tourism have begun transforming Colombo into a multi-night urban destination, improving city hotel occupancy and average daily rates.

Bangkok (Thailand)
- Renowned for **vibrant nightlife** (Khao San Road, rooftop bars, Asiatique riverside).
- **Cultural attractions:** Grand Palace, Wat Pho, Wat Arun, all within city limits.
- **Shopping & entertainment:** Siam Paragon, MBK, ICONSIAM mega malls.
- **River tourism:** Chao Phraya dinner cruises, night markets, and luxury spas

Singapore
- **Integrated resorts:** Marina Bay Sands & Resorts World Sentosa (casinos, theaters, museums).
- **Urban attractions:** Gardens by the Bay, Singapore Flyer, Clarke Quay nightlife.
- **Events hub:** F1 Grand Prix, concerts, and exhibitions year-round.
- **Luxury retail & dining:** Orchard Road, hawker centers, Michelin-star restaurants.

Kuala Lumpur (Malaysia)
- **Shopping capital:** Pavilion KL, Suria KLCC, Bukit Bintang nightlife.
- **Iconic landmarks:** Petronas Twin Towers, Batu Caves, SkyDeck.
- **Casino tourism:** Genting Highlands (c.1 hr from KL) attracts high rollers.
- **Food & urban leisure:** Night markets, rooftop lounges, food festivals.

Manila (Philippines)
•**Entertainment City:** Integrated casino resorts (Okada, Solaire, City of Dreams).
•**Nightlife:** Makati and BGC (bars, rooftop dining).
•**Shopping:** Mall of Asia, Greenbelt, cultural tours in Intramuros.

Colombo (Sri Lanka)
- Few large scale nightlife or shopping attractions; limited high end entertainment.
- Tourists often treated Colombo as a one-night stopover before coastal or hill-country travel.
- No integrated resorts or casino-led tourism ecosystem until City of Dreams (2025).
- Urban tourism spend mostly limited to food and short sightseeing.

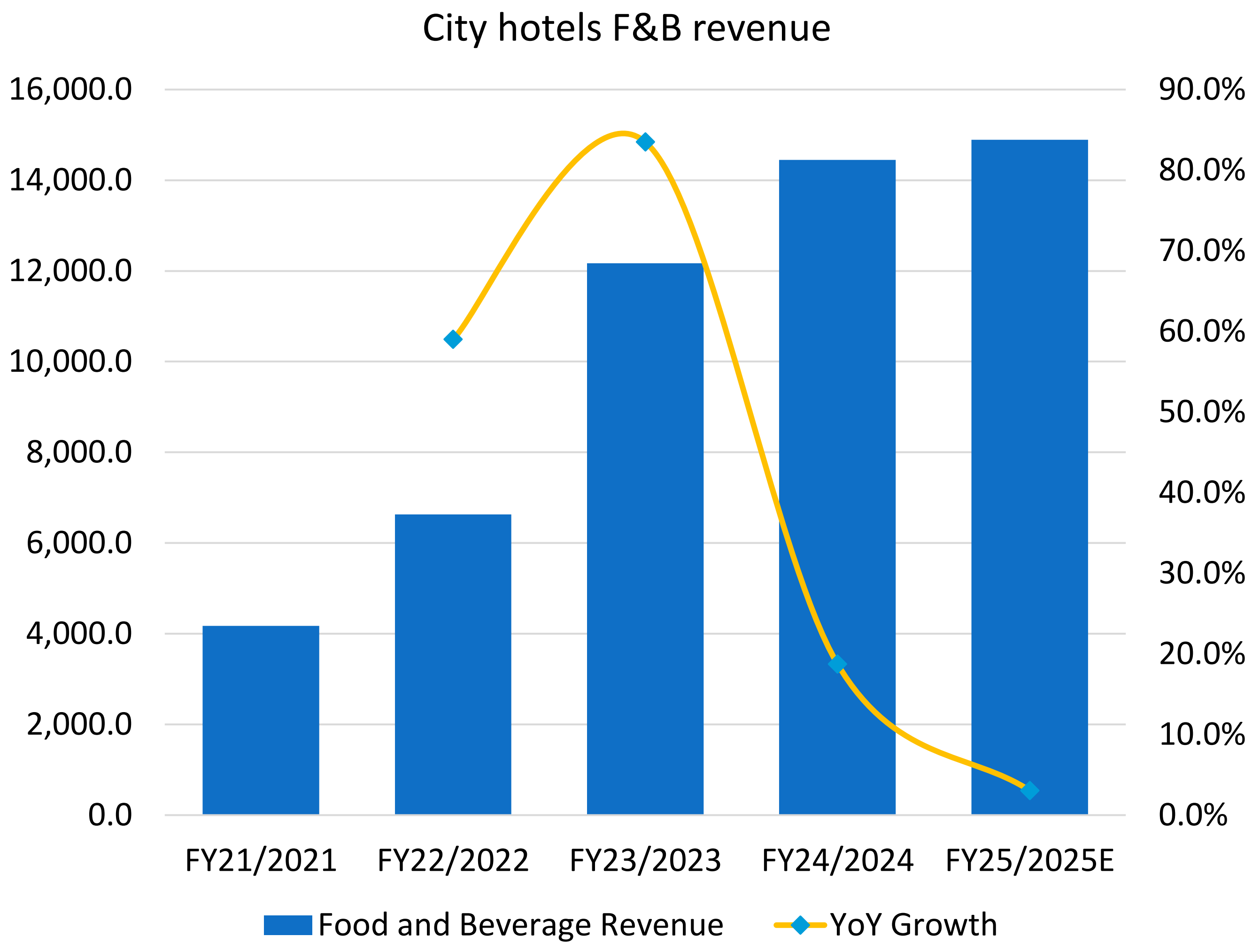
With this promising landscape, the F&B segment is also poised to register considerable growth…

- City hotels' Food & Beverage (F&B) revenue has demonstrated a strong post-pandemic recovery, reflecting the broader rebound in urban tourism and domestic event activity. Revenue has increased over 3x from FY21 to FY24, rising from approximately LKR 4.2Bn in FY21/2021 to around LKR 14.5 Bn in FY24/2024.

- The segment experienced its sharpest expansion in FY23/2023, where YoY growth peaked above 80.0%, driven by the resurgence in corporate events, weddings, and increased tourist arrivals. However, following this rapid rebound, growth momentum has begun to normalize.

- With an anticipated influx of city tourists and with increasing disposable income among locals, this segment is expected to register stronger growth in the coming years.

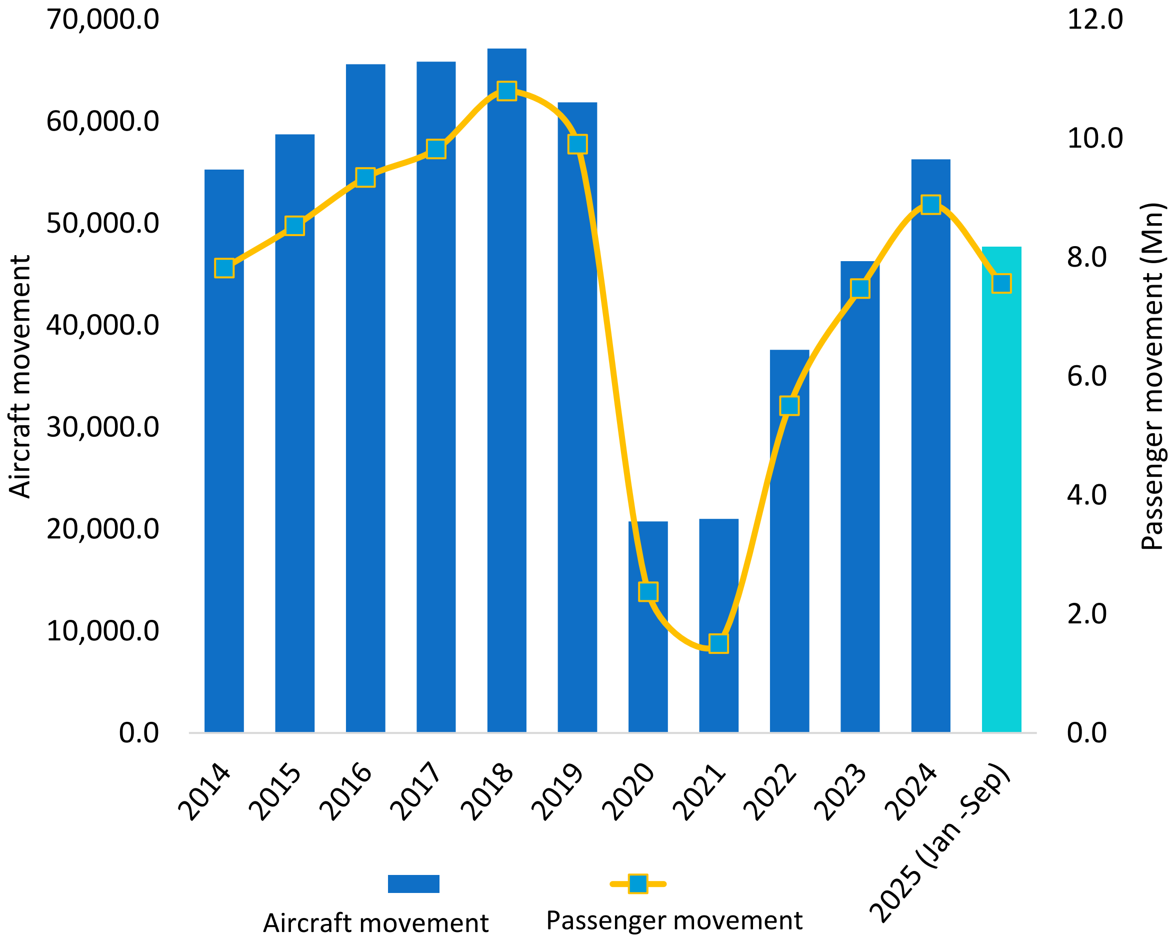
- Despite this moderation, F&B revenue levels are expected to remain structurally higher than pre-Covid periods, supported by increased average spend per guest, improved hotel occupancy, and a gradual rise in inbound business travel.



Note – 2025E figures show a drop due to the closure of GHLL which has been a contributor during prior periods

Increased air connectivity and visa free arrivals further support the city hotel boom

From January to September 2025, international passenger movements increased by 14.1%YoY, while international aircraft movements grew by 15.4%YoY.



Sri Lanka has expanded visa free entry to 40 countries, staying on par with alternative destinations in the Asian region

Source: Department of Aviation, First Capital Research

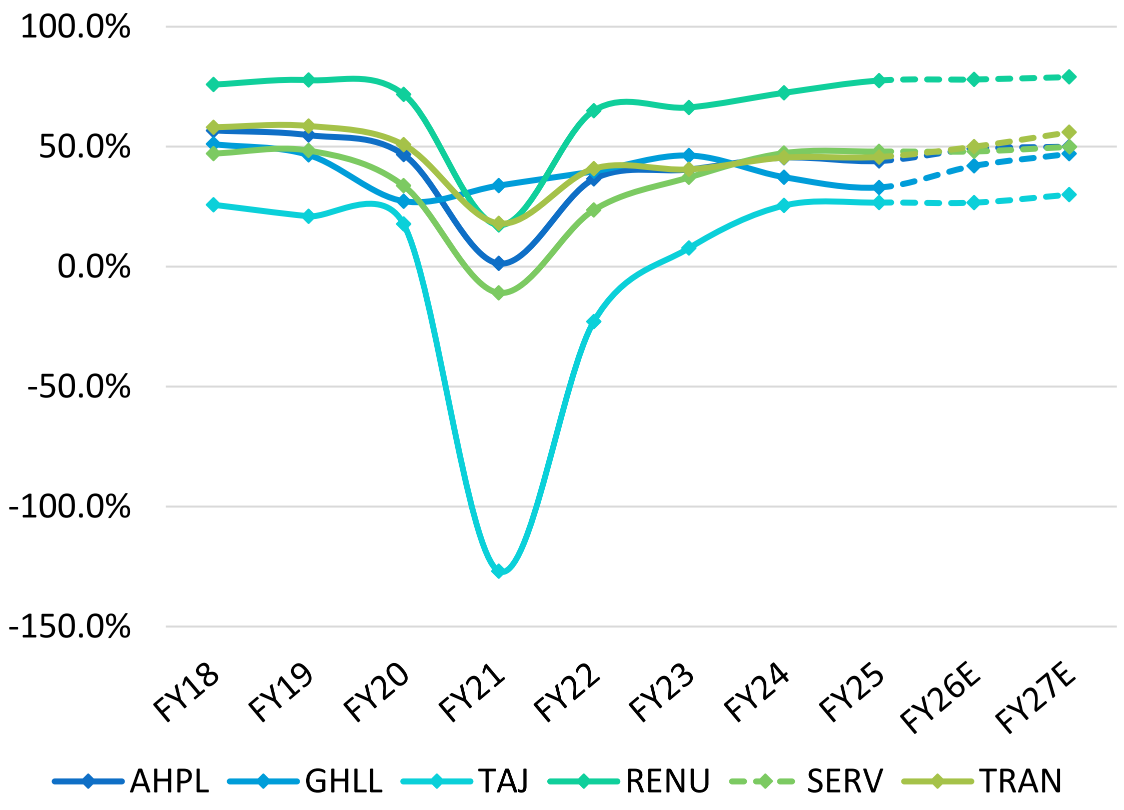
3.0 Margin Recovery and Topline Growth Provide Stable Outlook for City Hotels

Source: CSE, First Capital Research

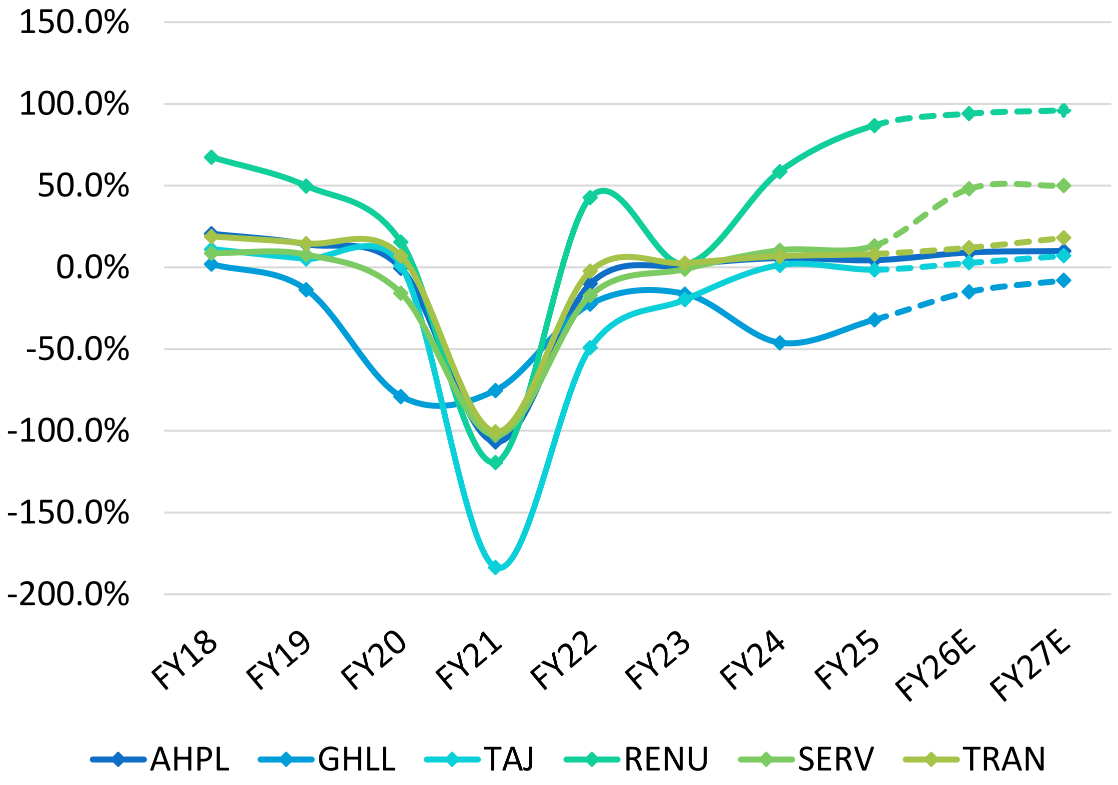
City hotel operating margins faced multiple challenges, however are on a recovery path nearing FY18 levels…

After several years of margin compression driven by weak tourist arrivals, high finance costs, and pandemic disruptions, city hotel profitability is on a clear recovery path. Gross Profit (GP) margins, which dipped sharply in FY21, have rebounded steadily as occupancy and room rates improved post FY23. Similarly, EBIT margins have turned positive and are trending toward FY18 levels, supported by higher operating leverage, stabilized cost structures, and stronger demand from business, leisure, and event travelers.

GP Margins have steadily recovered and reached normalcy



EBIT Margins are set to pick up following the rebound to pre-crisis levels

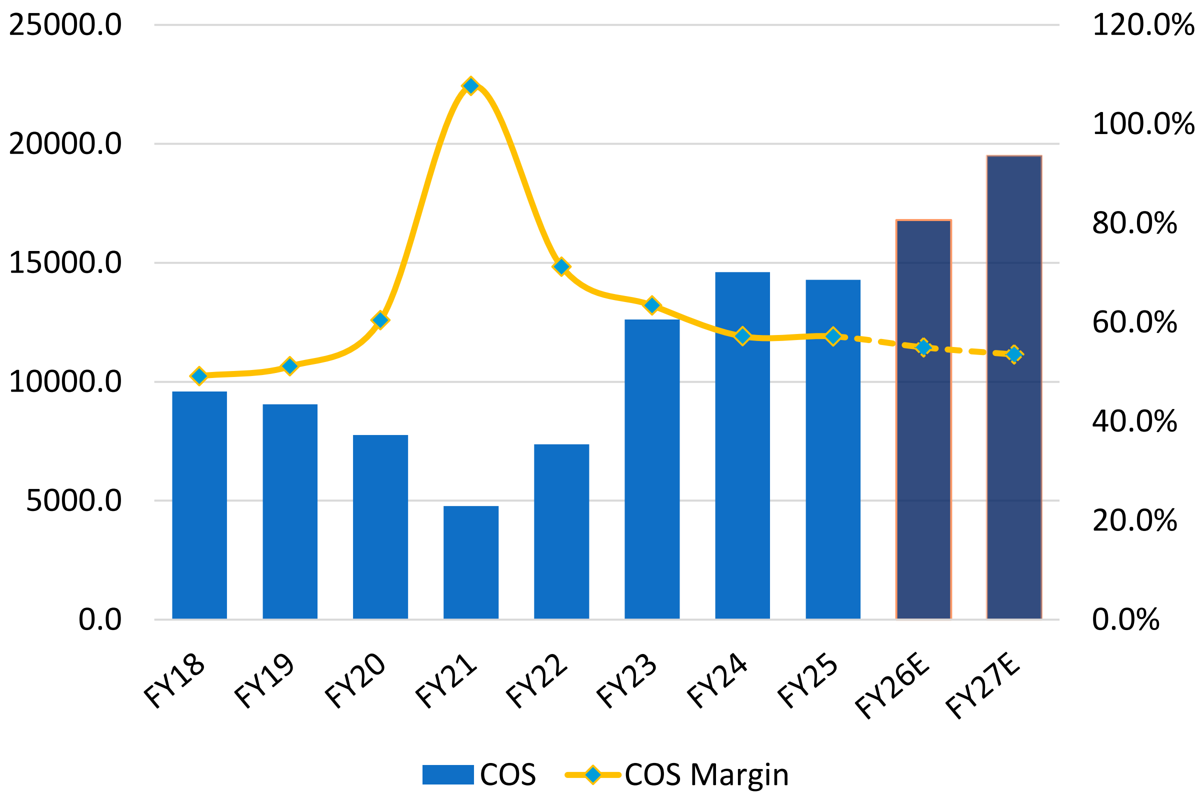


Source: CSE filings, First Capital Research

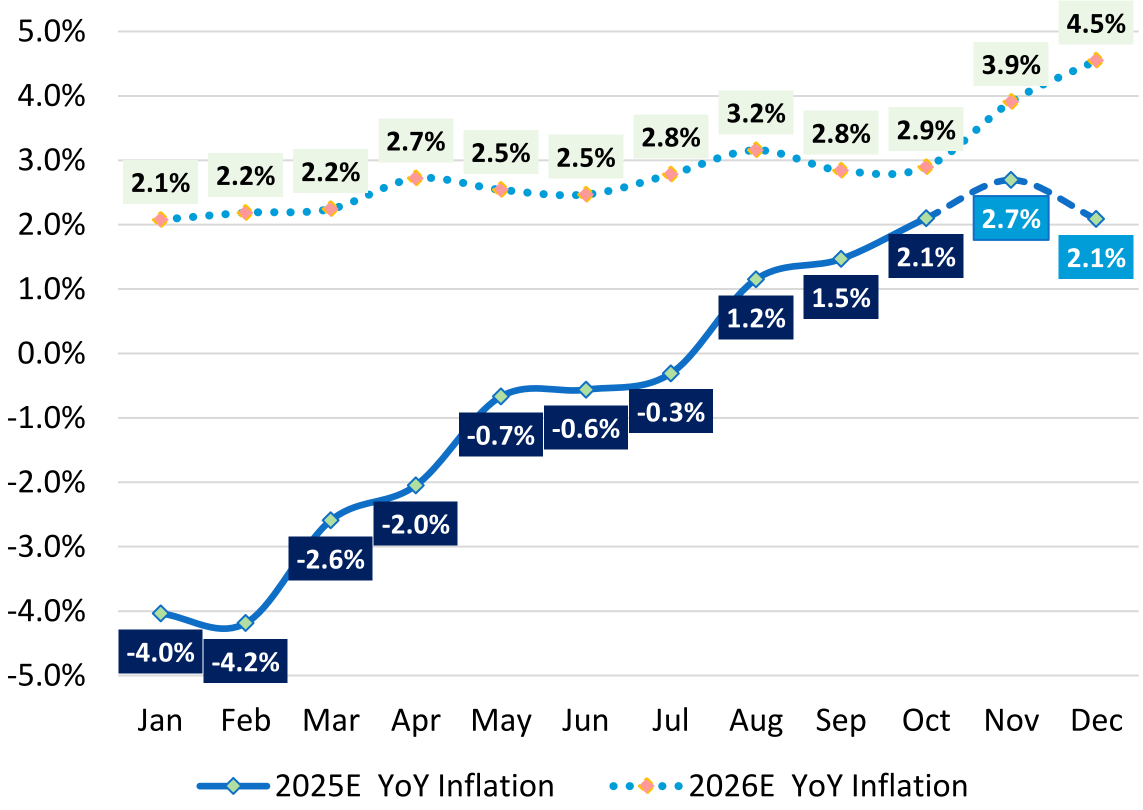
...with easing inflation and cost stabilization helping normalize hotel operating expenses...

Hotel sector cost pressures have eased considerably as inflation trends stabilized in 2024-2025, following the sharp spikes seen during the crisis years. Sri Lanka's consumer inflation, which fell to -4.2%YoY in Mar-2025, has since turned mildly positive at +1.5% by Sep-2025 and continued this trend to Oct-2025 at +2.1%, reflecting overall price normalization. This stability, combined with lower import and utility costs, has supported a steady decline in cost of sales (COS) margins, helping hotels protect profitability despite higher activity levels. The easing cost base, together with improving room rates and volumes, positions the sector for a more sustainable margin recovery through FY26-FY27E.

COS and COS Margins for hotel sector



Expected Inflation for 2025E and 2026E

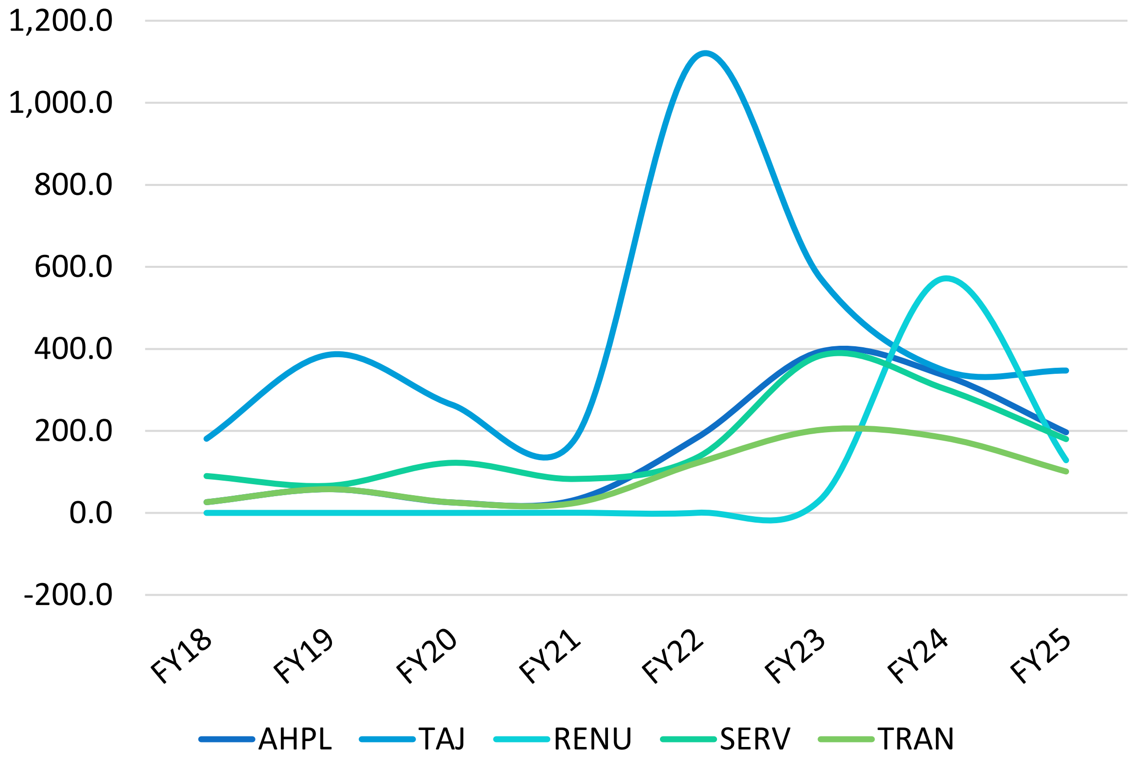


Source: CSE filings, First Capital Research

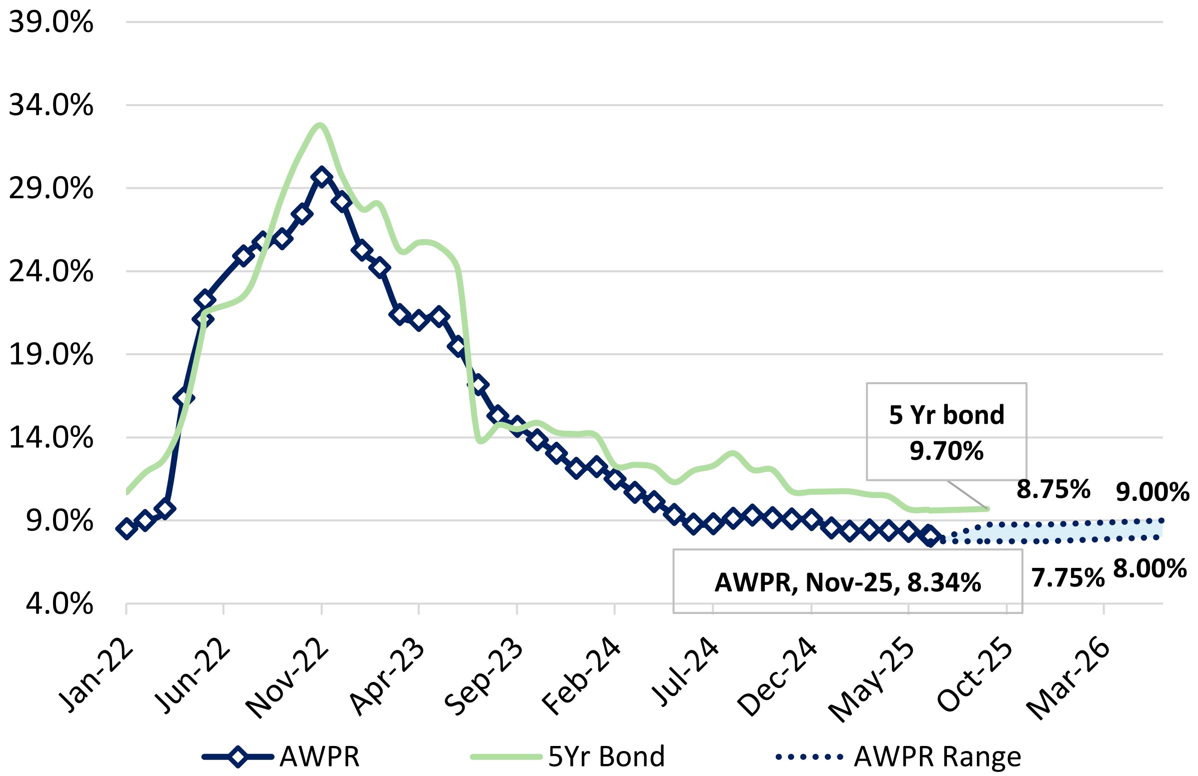
…coupled with the stable interest rate environment, gradually decreasing finance costs…

Hotel finance costs have begun to ease, supported by the ongoing decline in market interest rates and improving macroeconomic stability. Following years of elevated borrowing costs due to the high rate environment and pandemic era restructuring, most hotel operators are now experiencing a normalization of debt servicing expenses. As interest rates stabilize and refinancing occurs at lower yields, finance costs are expected to trend downward through FY26E, helping improve net margins and overall balance sheet strength across city hotels.

Declining finance cost across all hotels due to stable interest rate environment

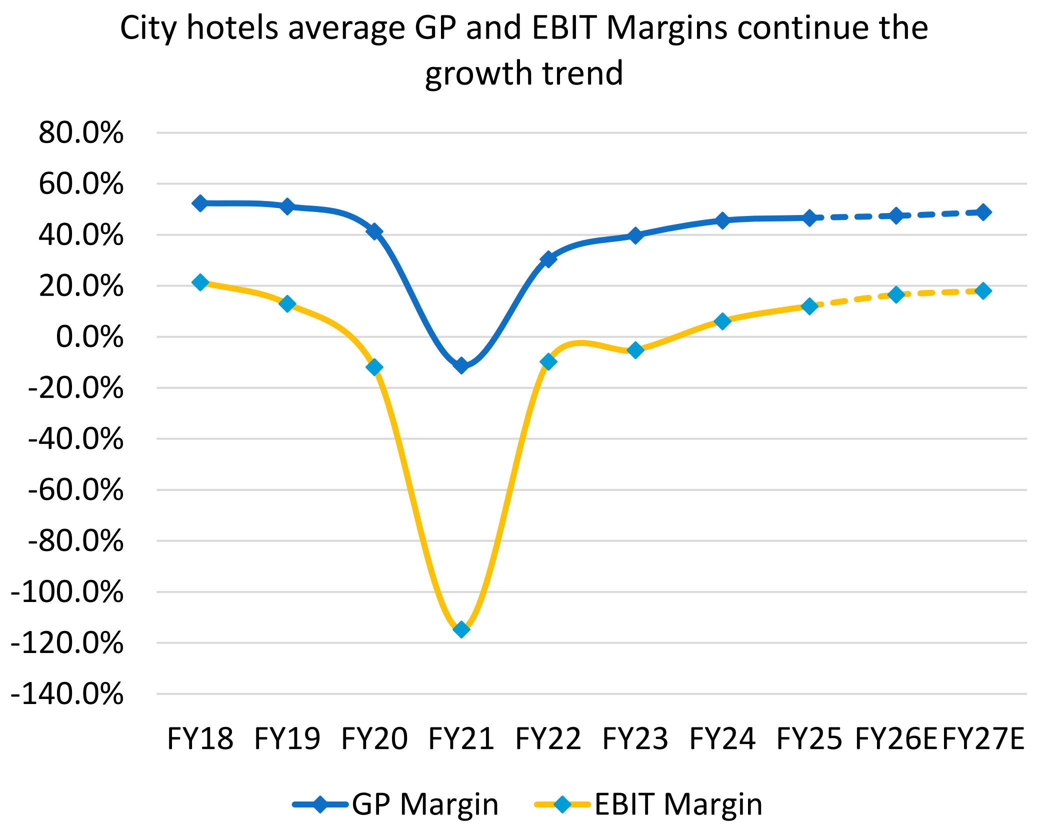


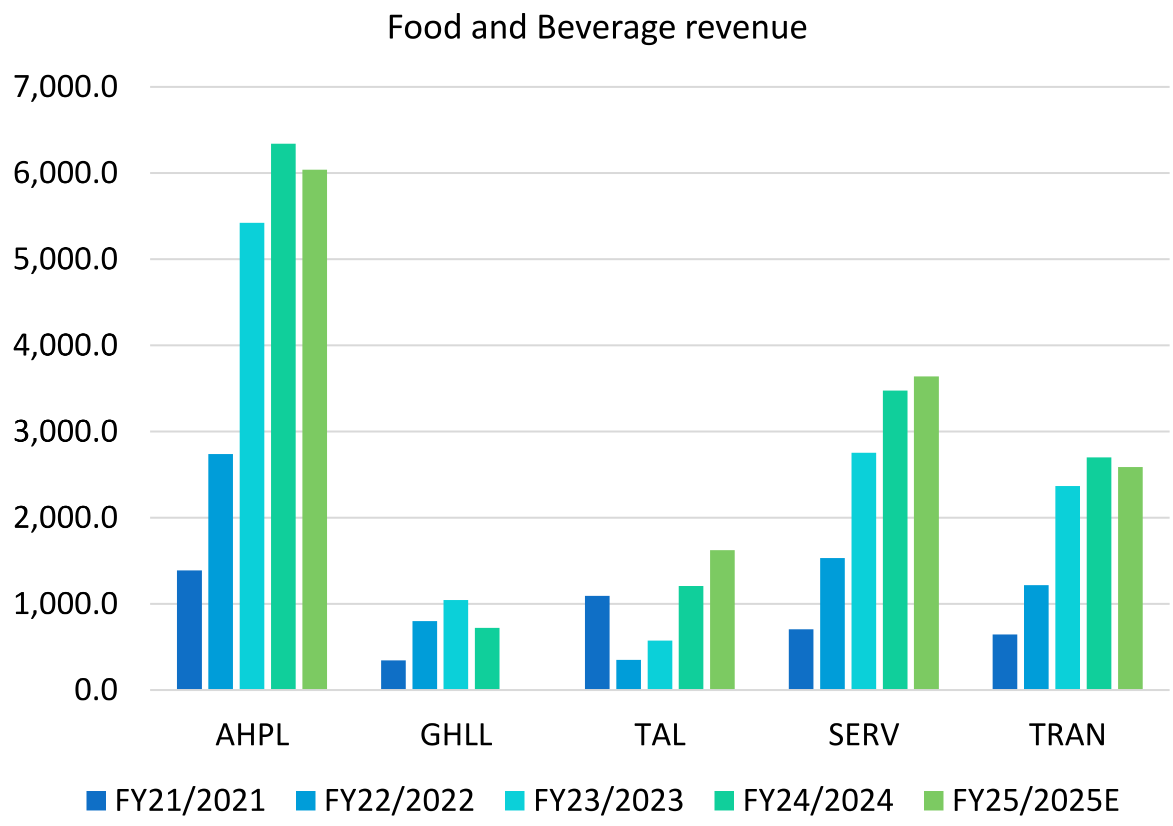
Expectations for AWPR



Nonetheless, the new revival in city tourism is expected to pave the path to recovery for hotels…

City tourism is rebounding strongly, supported by casino-led travel, MICE events, and digital nomads, driving higher occupancies and room rates across Colombo hotels. Rising topline performance has lifted gross profit margins, while improved cost efficiency is aiding EBIT recovery. The Food & Beverage segment also shows robust growth, driven by corporate events and local demand. Overall, city hotels are on track for margin normalization and stronger profitability from FY26E onward.

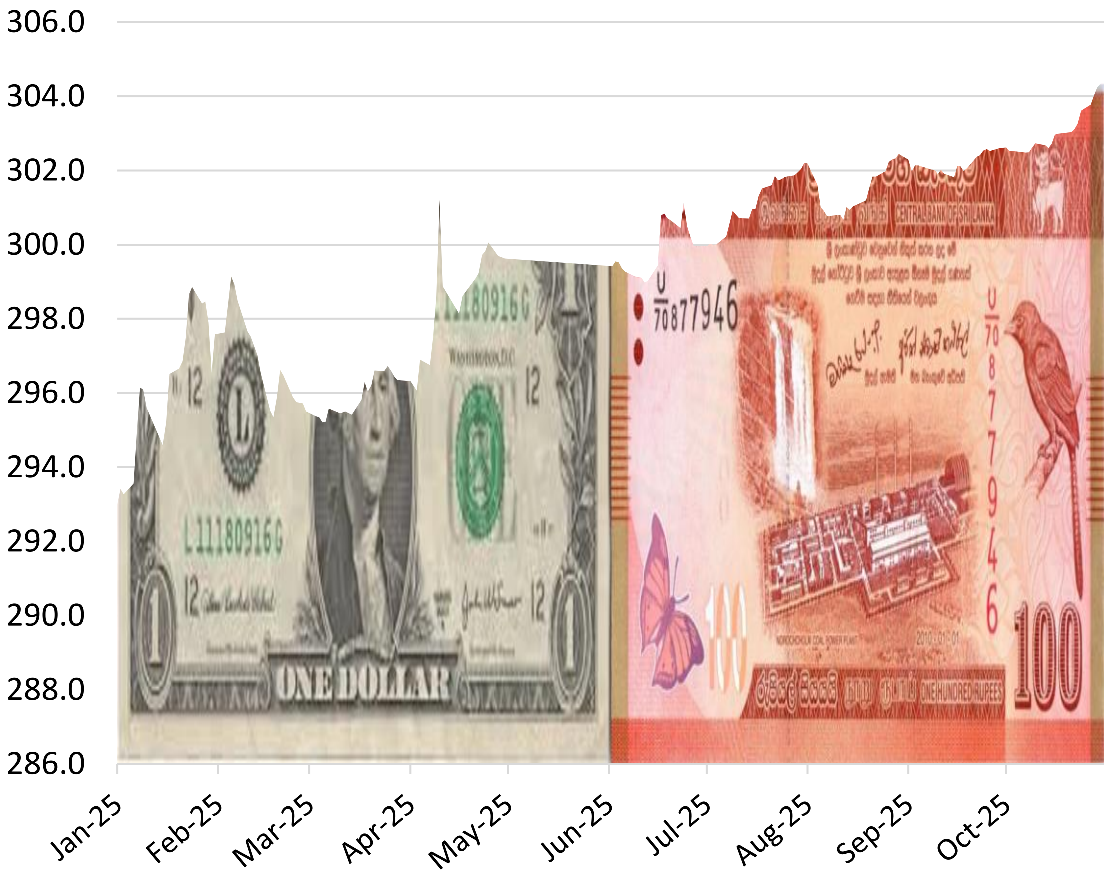




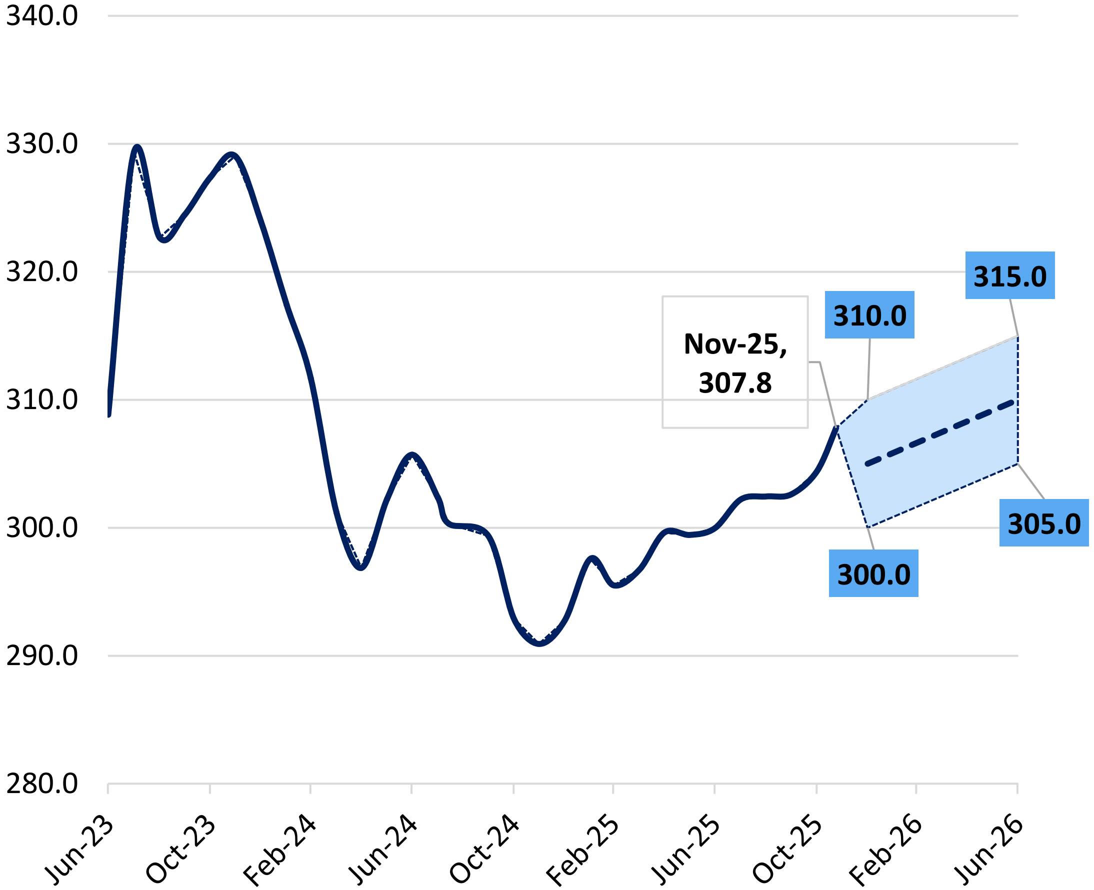
…furthermore, LKR depreciation may also amplify the relief…

A mild LKR depreciation is expected to boost hotel earnings by enhancing USD denominated revenues in rupee terms. After appreciating to around LKR 292.6/USD in late 2024, and around LKR 307.8/USD in Nov-25, the currency is expected to further depreciate to c.LKR 305–310/USD in 2025 (c.5-6% YoY). As about 60-70% of city hotel income is foreign linked, this trend improves margins and liquidity, with the LKR likely to stabilize near LKR 310-315/USD by end 2025.

LKR/USD movement in 2025



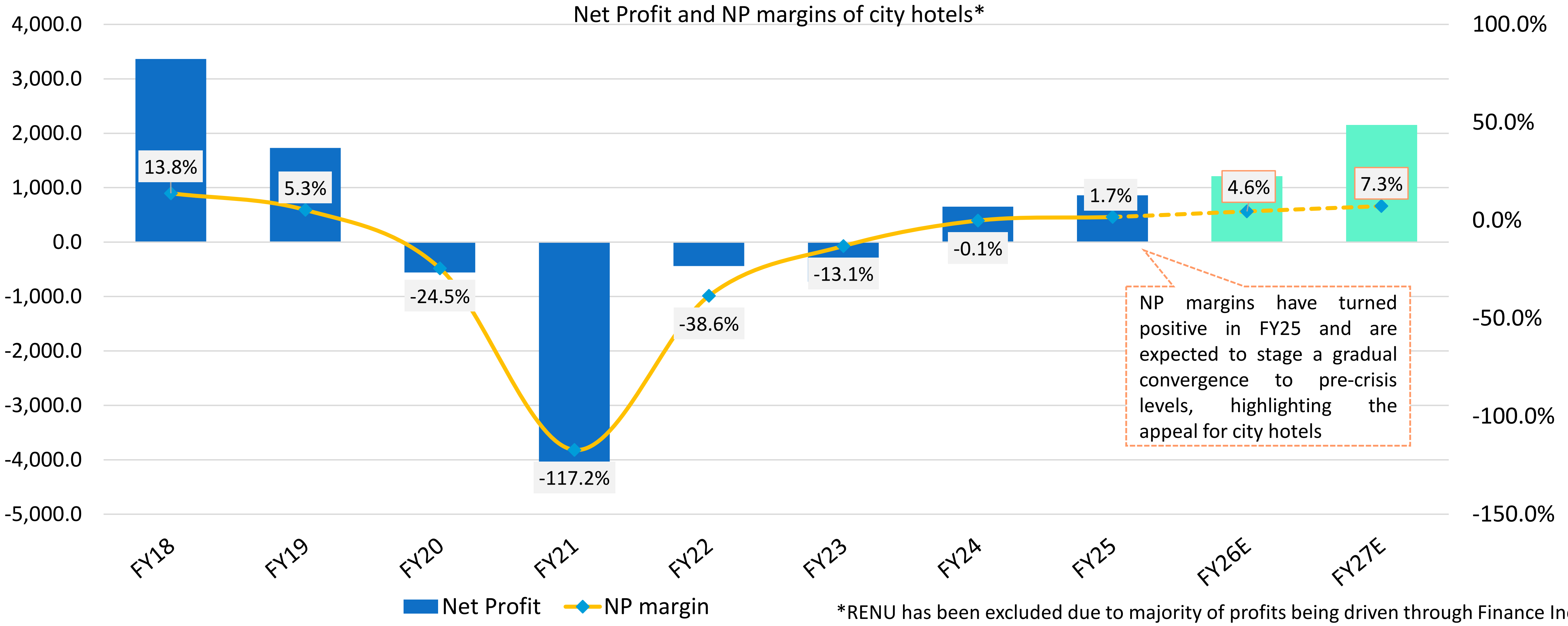
FCR expectations for LKR/USD movement



Source: CBSL, First Capital Research

…adding to the overall outlook for city hotels

After several years of losses caused by subdued arrivals and high operating costs, city hotels are returning to profitability, reflecting the sector's broader recovery. Net profits, which plunged deeply during FY21, have gradually improved since FY23, supported by rising room rates, higher occupancy, and easing finance costs. By FY27E, net profit margins are expected to turn firmly positive, nearing pre-crisis levels. This turnaround underscores stronger demand fundamentals and improved cost discipline, positioning city hotels for steady earnings growth over the medium term.

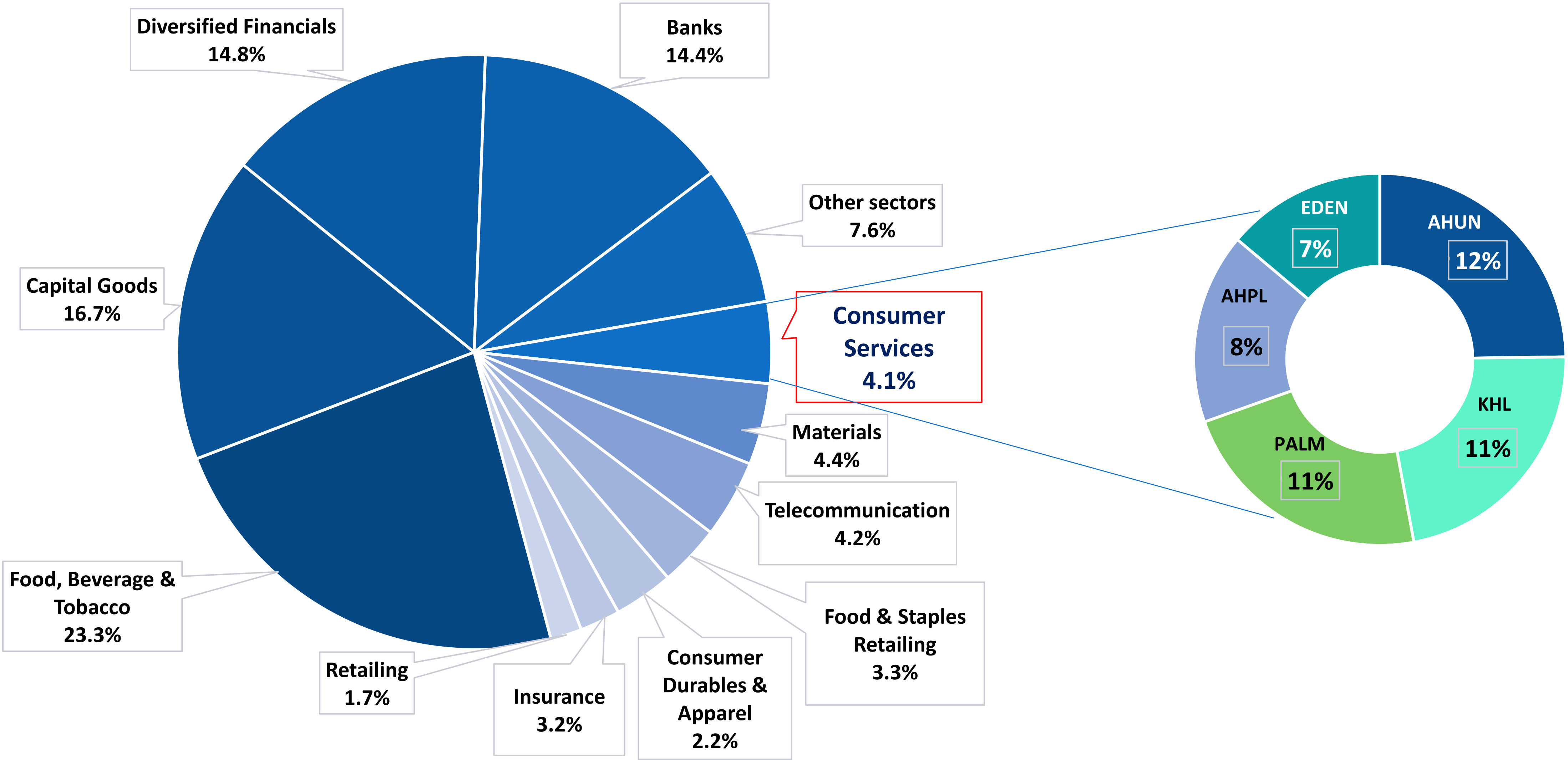


*RENU has been excluded due to majority of profits being driven through Finance Income

Valuations

Market capitalization composition – CSE

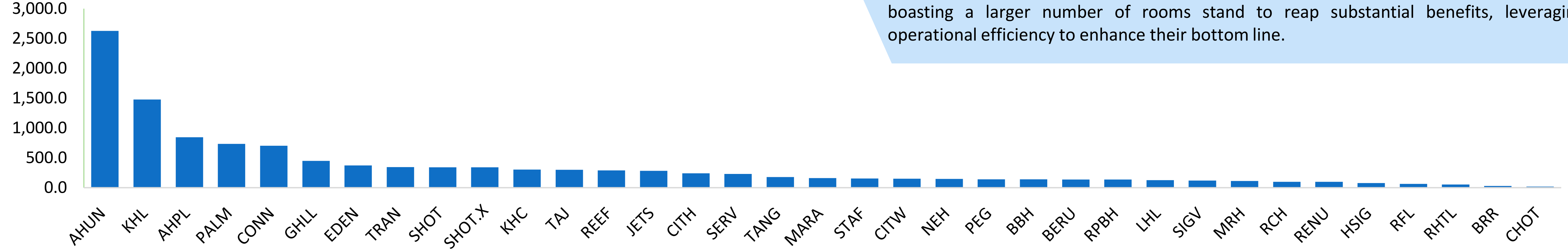
Of the total market capitalization amounting to LKR 8,220.7Bn, LKR 339.2Bn, equivalent to 4.1%, is held by Consumer Services (Hotels) sector



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

With the continuous influx of tourists, poised to reach c.2.3Mn by end 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.

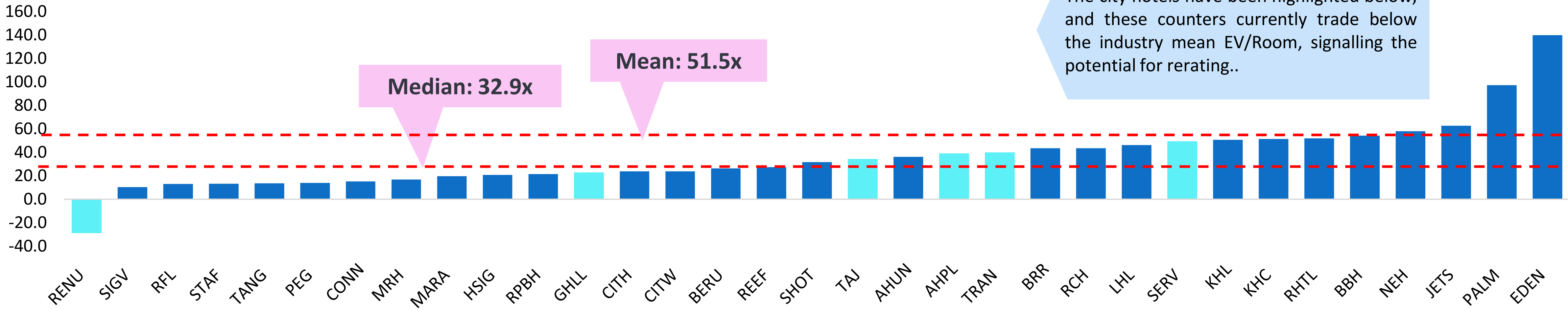
Number of rooms



Valuation disparities reflect differing recovery expectations across hotels

EV/Room

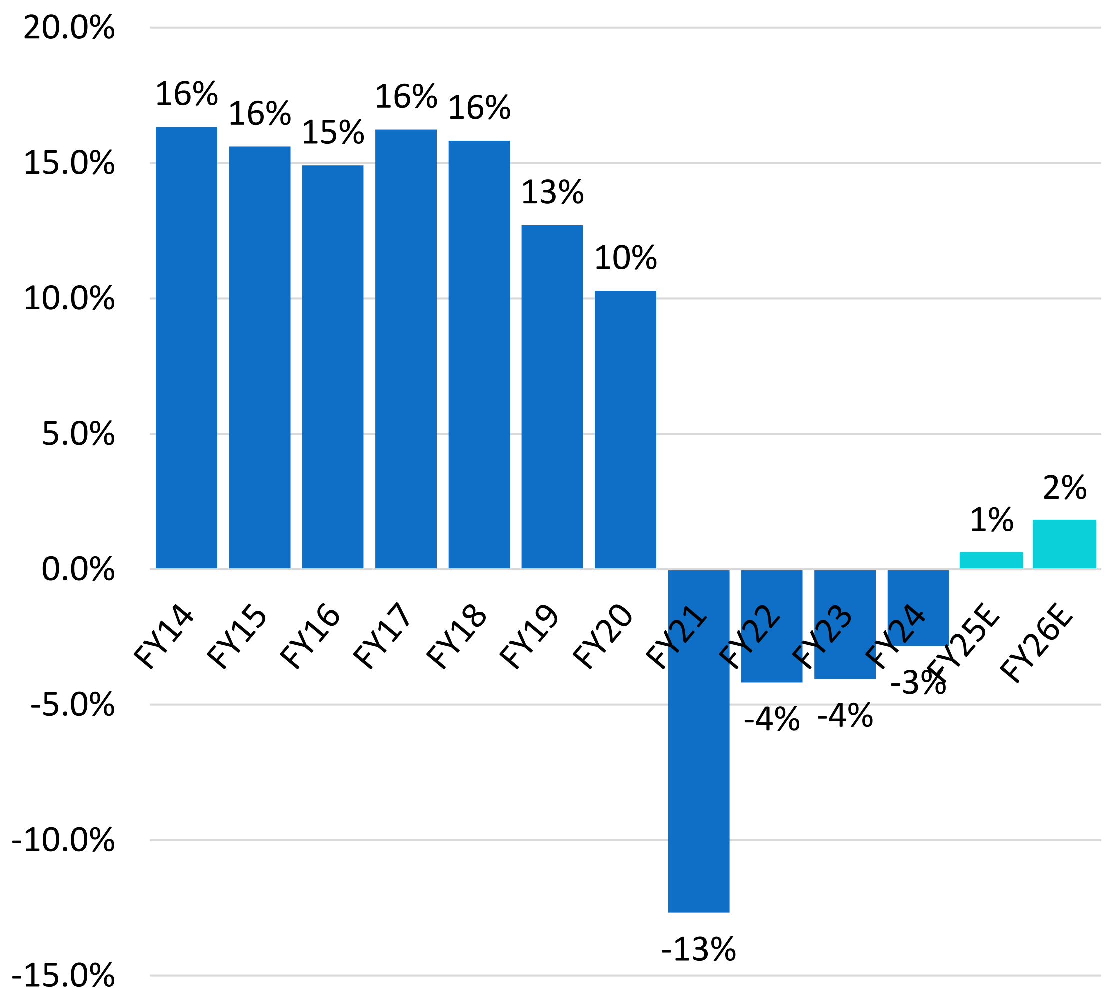
The city hotels have been highlighted below, and these counters currently trade below the industry mean EV/Room, signalling the potential for rerating..



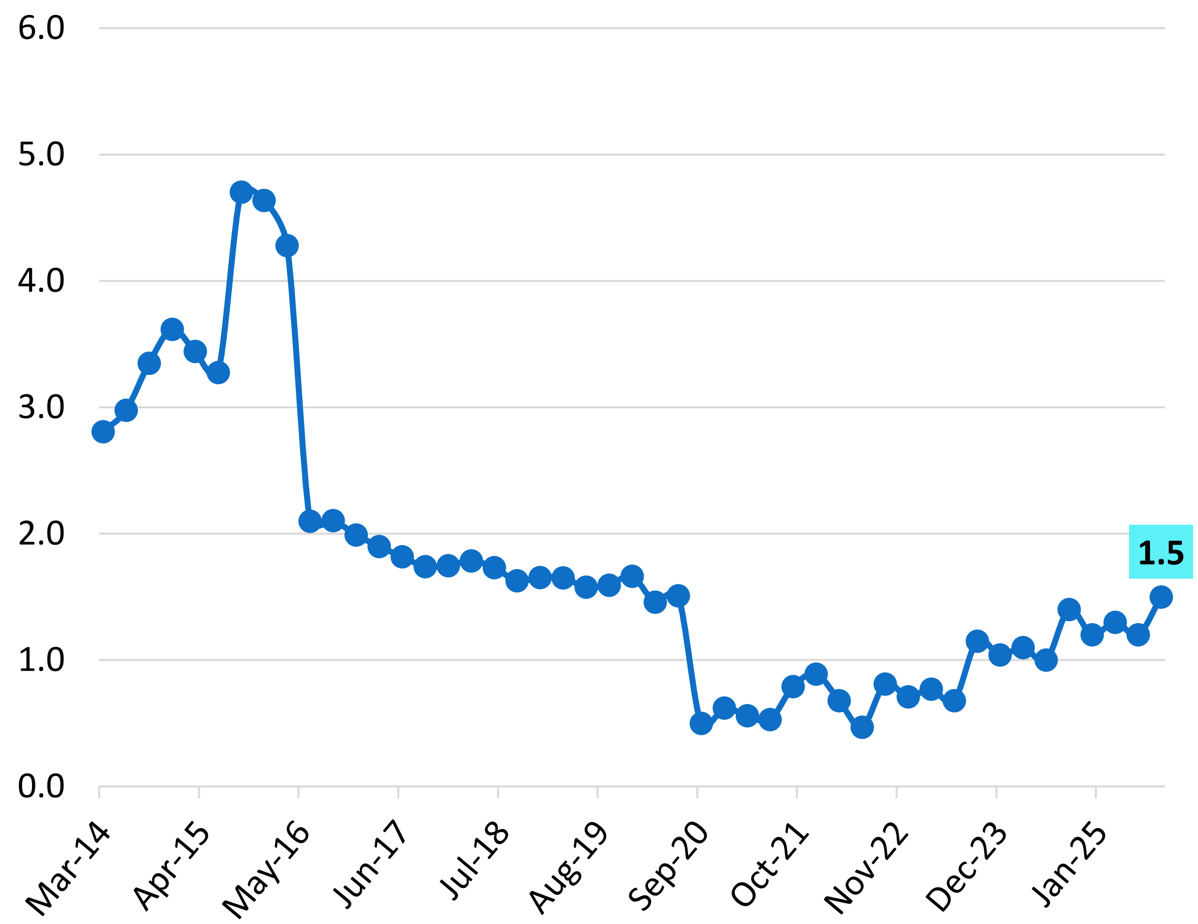
Source: Company Data, CSE, First Capital Research

Positive FY25E outlook with ROE recovery and PBV at 1.5x reflecting gradual sector re-rating

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.

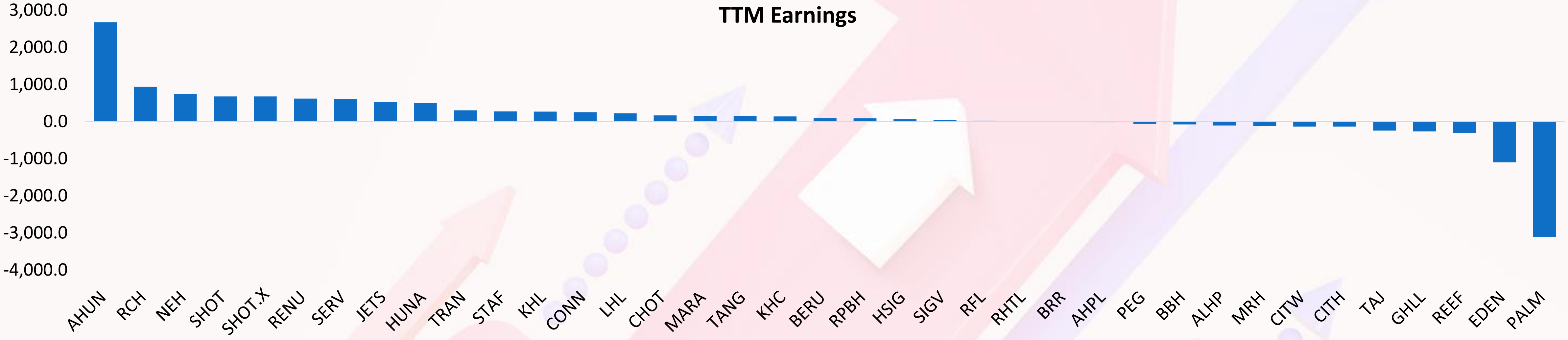


Sector PBV stands at 1.5x whilst rising costs, slow margin recovery, and uncertain demand, lead to subdued investor sentiment.

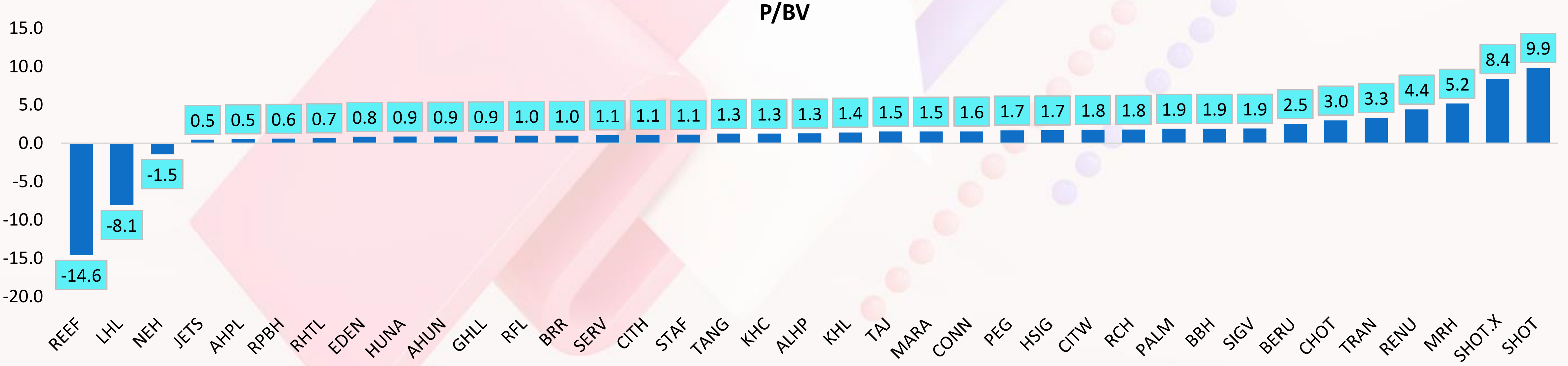


Source: CSE, First Capital Research

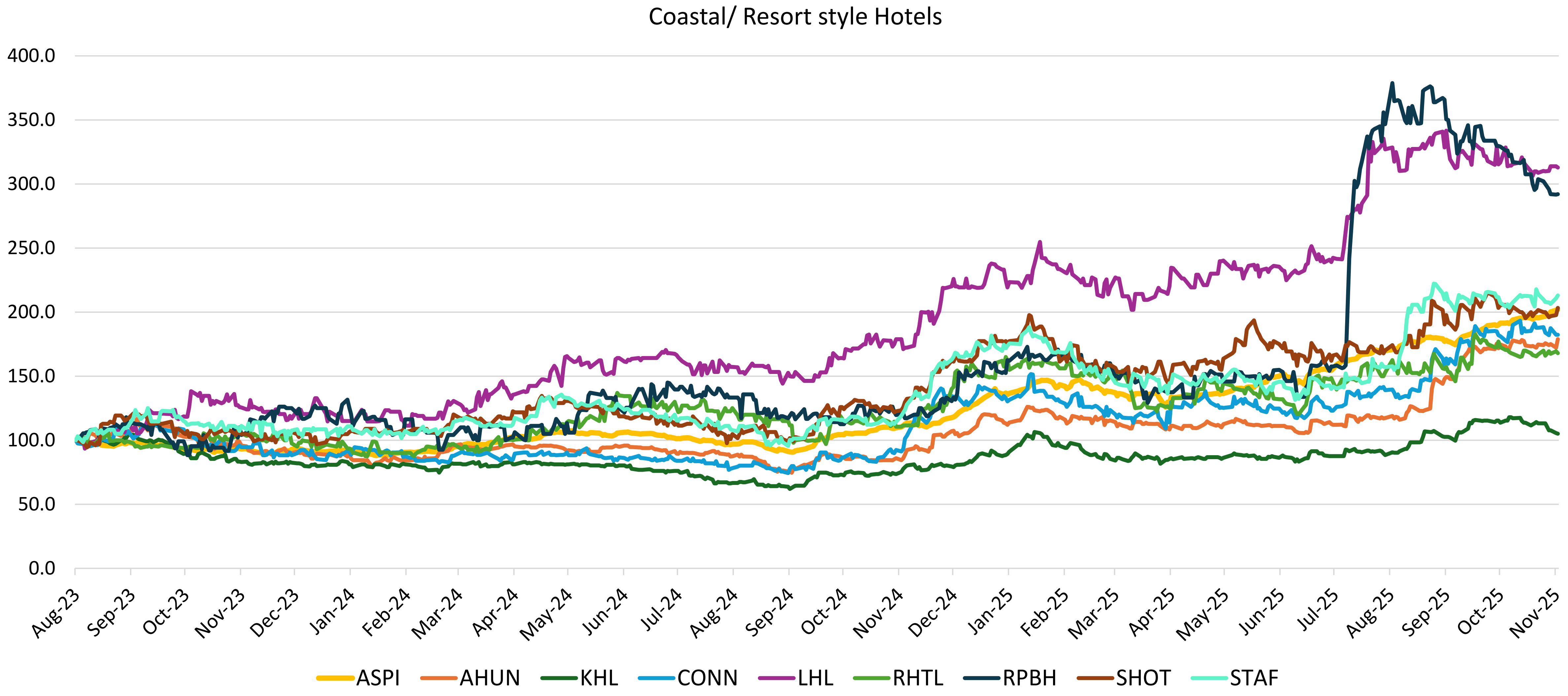
67% of listed hotels have recorded positive TTM earnings…



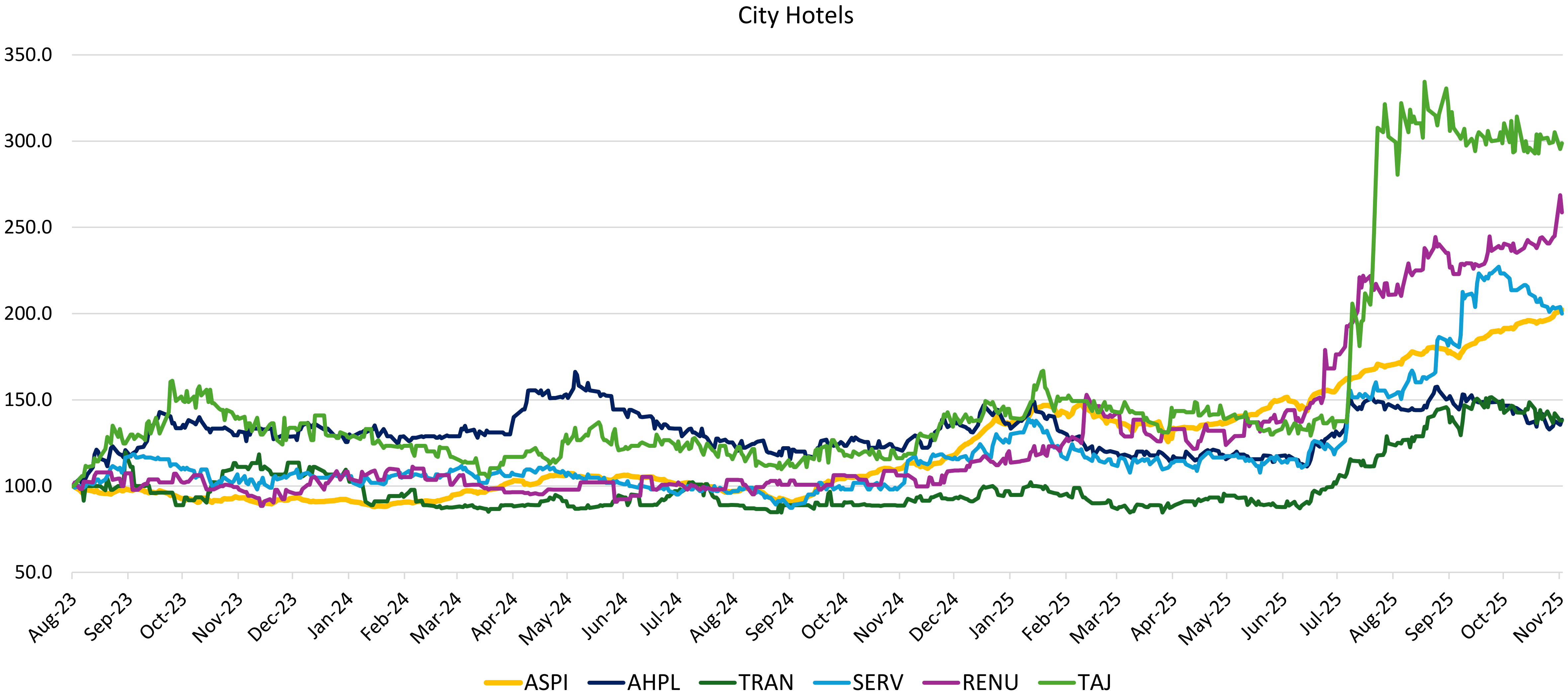
…whilst 56% of listed counters trade below the sector P/BV of 1.5x



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



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



Source: CSE, First Capital Research

ESG and Risk Analysis

Sri Lanka's tourism sector strengthens sustainability credentials through tangible ESG progress

Environmental

Category	2024-2025 Highlights
Carbon emissions	Growing adoption of solar & biomass energy in hotels; c.20% of registered resorts using renewables.
Climate resilience	No major climate disruptions; expanded mangrove reforestation & coastal protection projects.
Water management	70+ hotels implementing rainwater harvesting & greywater reuse systems.
Waste management	Zero-plastic initiatives by major hotel chains; 80% waste segregation achieved.
Biodiversity & land use	1.5 Mn mangrove saplings planted; new eco-trails & protected zones introduced.
Green infrastructure	30+ resorts now Green Globe/LEED certified; new eco-lodge standards launched.

Social

Category	2024-2025 Highlights
Employment & inclusion	Tourism employs 450,000+ people; rising female participation (c.38%).
Community-based tourism	150+ homestays under SLTDA's rural empowerment program.
Cultural preservation	New initiatives promoting indigenous tourism & crafts (Veddah, Ratnapura, Galle).
Wellness & health tourism	50+ Ayurveda & wellness resorts registered under SLTDA.
Training & education	3,000+ trainees under Tourism Skills Council; focus on ESG awareness.
Accessibility	25 major attractions now disability-inclusive (sign language, ramps, menus).

Governance

Category	2024-2025 Highlights
Sustainability certification	SLTDA finalizing National Sustainable Tourism Certification (NSTC) framework.
ESG reporting & disclosure	40+ hotels disclose ESG metrics; 10 adopt GRI-aligned standards.
Responsible marketing	Enforcement of anti–greenwashing guidelines for tour operators.
Green finance & investment	LKR 2.5 Bn in green tourism projects financed via banks & UNDP support.
Digital governance	Expansion of online licensing, permits & ticketing (SLTDA portal).
Crisis & climate preparedness	Disaster plans integrated into tourism policy; coastal zones mapped for risk.

Source: First Capital Research

SDG's supported and facilitated by Sri Lanka tourism

8 DECENT WORK AND ECONOMIC GROWTH

Tourism contributes over 10% of employment in Sri Lanka, providing livelihoods for rural and coastal communities. Initiatives in community-based tourism, female-led hotels, and SME empowerment drive inclusive growth.

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

Investments in eco-resorts, digital booking systems, and clean transport are modernizing Sri Lanka's tourism infrastructure. The SLTDA digital transformation enhances transparency and accessibility.

11 SUSTAINABLE CITIES AND COMMUNITIES

Heritage and urban tourism initiatives (e.g., Galle Fort, Kandy Cultural Triangle) preserve cultural assets. Sri Lanka promotes urban green zoning and heritage conservation through tourism revenue.

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Hotels are reducing single-use plastics, managing waste responsibly, and sourcing local, sustainable products (farm-to-table, handicrafts). Over 70 eco-certified hotels now operate sustainably.

13 CLIMATE ACTION

Tourism stakeholders are implementing mangrove restoration, low-carbon energy, and climate risk assessments. Sri Lanka targets 70% renewable energy by 2030, reducing emissions from hospitality operations.

14 LIFE BELOW WATER

Marine tourism programs protect coral reefs and coastal ecosystems (e.g., Bentota, Kalpitiya). "Reef-safe tourism" and sustainable diving certifications are expanding.

15 LIFE ON LAND

National parks and eco-lodges promote wildlife conservation and fund reforestation efforts. Hotels near Yala, Udawalawe, and Sigiriya follow biodiversity protection codes.

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

Political stability and responsible governance support tourism confidence. The SLTDA's sustainability certification ensures transparent, ethical tourism practices across operators.

Source: First Capital Research

Risk assessment

Risk factors	Impact
Increased competition: Sri Lanka has experienced heightened competition from regional competitors which have high per-visitor spend, bigger and better infrastructure and better flight connections.	High
Exchange rate volatility of the LKR: The Sri Lankan Rupee has recorded sturdy recovery as of late which could discourage tourist arrivals since the rates are higher than the economic crisis period. However, the outlook is for the LKR to depreciate until the end of the year which may support more foreign tourist arrivals especially from more price-sensitive markets like China and India. In contrast, as the rupee weakens, cost of imported goods and utilities will rise sharply.	High
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 tourist arrivals.	Medium-High
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.	Medium-High
Human resource / skills shortage: There is a gap between demand for trained hospitality workers (managers, chefs, front-office staff) and what local institutions supply. Furthermore, it can be said that the quality among the trained hospitality workers is uneven.	Medium
Higher tax and cost pressure: With increased tax burdens and operational expenses, all hotels face challenges in maintaining profitability. Moreover, the increase of the fuel, energy and utility costs across both global and local markets could affect the lower-star class hotels as they are more price sensitive and travelers may prefer options such as Airbnb.	Medium
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.	Medium
Infrastructure and capacity level limitations: Gaps in transport infrastructure (roads, internal connectivity, public transport) especially for remote or secondary destinations. This reduces ease of travel for tourists. Furthermore, over-tourism in certain hotspots (Mirissa, Arugam Bay, Sigiriya, etc.), leading to overcrowding, environmental degradation and infrastructure strain.	Medium

Source: First Capital Research

Risk assessment on the city hotels in Sri Lanka

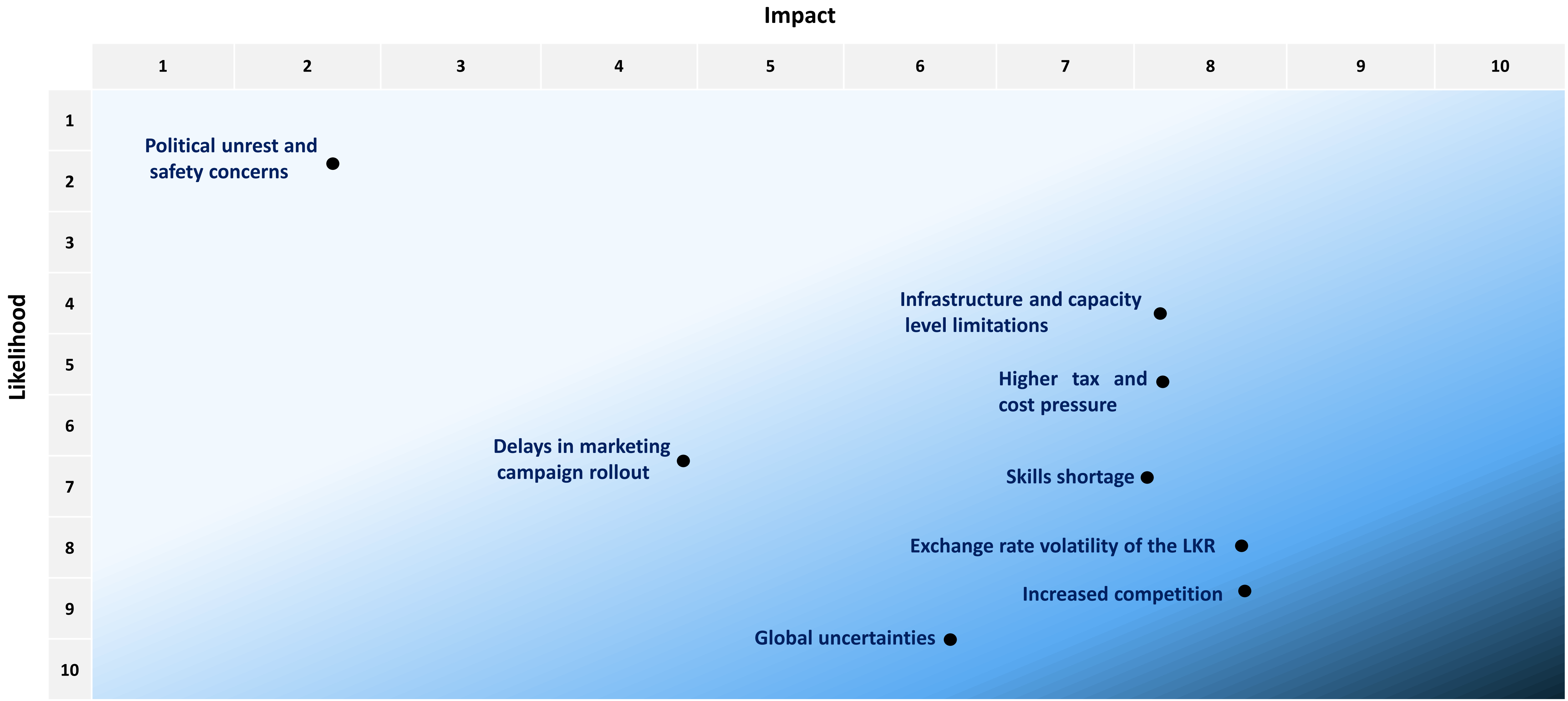
Key Risks due to the launch of the integrated resort: City of dreams Sri Lanka

Risk	Description	Impact	Likelihood
Increased competition for high-spend guests	The City of Dreams, featuring the ultra-luxury Nuwa hotel along with premium retail, dining, entertainment, and casino facilities, offers a level of luxury which will draw the high-spend guests away from other luxury city hotels.	High	High
Dependency risk / market segment shift	Hotels reliant on business or mid-tier leisure travelers may lose guests to City of Dreams, which offers extensive MICE facilities.	Medium	Medium
Labour & skills shortage	With ongoing staff shortages and high turnover, smaller city hotels may struggle to retain talent as the integrated resort attracts skilled workers with better pay and prestige.	Medium-High	High

Source: First Capital Research

Risk Heat Map

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



Source: First Capital Research

Recommendations and Earnings Updates for Individual counters

FCR valuations snapshot

VALUATIONS : HOTEL SECTOR

Stock	Stock Code	Net earnings (FY26E)	Net earnings (FY27E)	Forward PER (FY26E)	Forward PER (FY27E)	Forward PBV (FY27E)	NAVPS (FY27E)	DPS (FY27E)	DY (FY27E)	Total return (FY27E)	ROE (FY27E)	EPS FY27E	FCR Recommendation
		LKR Mn	LKR Mn	(x)	(x)	(x)	LKR	LKR	(%)	(%)	(%)	LKR	
AITKEN SPENCE HOTEL HOLDINGS PLC	AHUN.N	2,572	3,442	16.3	12.1	1.4	88.50	-	-	29.4%	11.5%	10.2	BUY
JOHN KEELLS HOTELS PLC	KHL.N	1,309	1,825	27.8	19.9	1.1	23.10	0.4	1.5%	29.6%	5.4%	1.3	BUY
HAYLEYS LEISURE PLC	CONN.N	305	388	16.8	13.6	2.3	19.90	-	-	41.8%	16.6%	3.3	BUY
THE LIGHTHOUSE HOTEL PLC	LHL.N	260	273	15.3	14.8	1.1	77.20	2.3	2.7%	9.5%	8.6%	6.7	SELL
THE FORTRESS RESORTS PLC	RHTL.N	241	277	15.6	13.6	1.5	23.10	-	-	21.2%	10.8%	2.5	HOLD
ROYAL PALMS BEACH HOTELS PLC	RPBH.N	33	74	110.2	49.2	1.3	57.70	-	-	-40.5%	2.6%	1.5	SELL
SERENDIB HOTELS PLC	SHOT.N	542	627	21.6	19.0	1.5	16.20	-	-	12.6%	8.0%	1.3	HOLD
DOLPHIN HOTELS PLC	STAF.N	363	436	11.5	9.6	0.8	82.70	-	-	8.4%	8.3%	6.9	SELL
ASIAN HOTELS AND PROPERTIES PLC	AHPL.N	567	1,039	48.2	26.3	0.9	71.40	0.7	1.1%	32.9%	3.3%	2.3	BUY
RENUKA CITY HOTEL	RENU.N	810	889	23.4	8.9	0.6	1,736.70	5.9	0.7%	35.3%	6.8%	118.4	BUY
THE KINGSBURY PLC	SERV.N	602	760	13.4	11.4	3.1	6.80	-	-	72.4%	23.2%	1.6	BUY
TRANS ASIA HOTELS PLC	TRAN.N	443	807	27.3	15.0	1.6	37.90	1.6	2.7%	34.9%	10.6%	4.0	BUY
TAL LANKA HOTELS PLC	TAJ.N	(95)	153	N/A	41.0	-3.2	-15.20	-	-	11.1%	-7.2%	1.1	HOLD

Source: First Capital Research

AITKEN SPENCE HOTEL HOLDINGS PLC

First Capital
A Janashakthi Group Company

AHUN.N0000 | **Current Price: LKR 119.75** | **Fair Value: LKR 155.00 (FY27E)** | **BUY**

AHUN is a 71.2% owned subsidiary of Aitken Spence (SPEN.N0000)
Aitken Spence Hotel Holdings is the largest room key operator chain in the country with operations in Sri Lanka (1,295rooms 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 marginal contraction in losses for 2QFY26, bringing 1HFY26 earnings up by 32.5% to a loss of LKR 973.3Mn
In 2QFY26, AHUN recorded a loss of LKR 622.2Mn representing an 11.4% reduction on a YoY basis. This was primarily due to a 72.9% increment in revenue taxes amounting to LKR 453.1Mn, despite Gross Revenue increasing by a mere 3.8%YoY to LKR 10.1Mn. Net revenue increased by 1.9% as AHUN's local and overseas hotels revenue increased by 9.1% and 6.7% respectively with the gradual rebound of the tourism industry. The topline increment in proportion to cost increment remained dull which resulted in a loss from operations of LKR 14.3Mn (vs. profit of LKR 58.2Mn in 2QFY25). Despite these headwinds, AHUN benefited from a 33.6% reduction in net finance costs which facilitated the contraction in losses.

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 2.6Bn for FY26E and LKR 3.4Bn for FY27E. Based on this outlook, we derive a fair value of LKR 155.0 per share, offering a capital gain potential of 21.6% for FY27E. Hence we recommend **BUY.**

P/E 31 March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Estimates (LKR 'Mn)								
Revenue	18,588	5,592	24,571	45,060	46,203	47,505	51,580	58,617
EBIT	1,564	-5,189	4,280	7,311	8,310	8,827	9,408	10,973
Net Profit	**-625**	**-4,669**	**624**	**-288**	**1,140**	**2,290**	**2,572**	**3,442**
Adjusted EPS (LKR)	(1.9)	(13.9)	1.8	(0.9)	3.3	6.8	7.6	10.2
YoY Growth (%)	*-180%*	*-632%*	*113%*	*150%*	*472%*	*102%*	*12%*	*34%*
Valuations								
PER (x)	*N/A*	*N/A*	*68.4x*	*N/A*	*37.0x*	*18.3x*	*16.3x*	*12.1x*
PBV (x)	*2.0x*	*2.6x*	*2.1x*	*2.0x*	*1.9x*	*1.8x*	*1.6x*	*1.4x*
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	*-3.1%*	*-29.4%*	*3.1%*	*-1.4%*	*5.3%*	*9.6%*	*9.7%*	*11.5%*

PER based Valuation	FY27E
Earnings (LKR 'Mn)	3,442
No. of Shares ('Mn)	336
EPS	10.2
Expected Average PER	15.0x
Target Price after Rounding off	**155**

Source: Company Data, CSE, First Capital Research

JOHN KEELLS HOTELS PLC

First Capital
A Janashakthi Group Company

KHL.N0000 | **Current Price: LKR 24.70** | **Fair Value: LKR 32.00 (FY27E)** | **BUY**

80.3% owned Subsidiary of Premiere John Keells Holdings (JKH.N0000)

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 trickled down to improved earnings for the quarter

KHL's revenue rose 8.4% YoY in 2QFY26 to LKR 6.8Bn. Sri Lankan resorts recorded improved occupancy of around 71.0%, by broadly maintaining 2QFY25 ARR levels by targeting local guests during the off-season. Maldivian resorts maintained 94.0% occupancy due to reduced ARR, offsetting seasonal weakness in Sri Lanka. Additionally, Net finance cost contracted by 5.1%, amplifying the relief to the bottom-line. KHL reported a contraction in losses to LKR 698.4Mn, marking an improvement of 24.0%YoY signalling improving conditions which may continue this trend further.

Sri Lanka to outperform Maldives due to the city transformation that may lead to higher occupancy and ARR

Going forward, we expect Colombo Hotels and Sri Lankan Resorts segment to gradually pick up in terms of profitability, The Maldivian Resorts segment profitability is also expected to pick up in the near-term, as arrivals growth has outperformed past trends with improving conditions and increase in arrivals. Given the steady rebound in arrivals to Sri Lanka, and KHL's vast number of rooms, we believe the company is well positioned to cater to the demand which will boost occupancy levels (c.74.0% in FY27E vs c.65.0% in FY25). FCR assumes an implied P/E of 25.0x, reflecting optimism arriving at a fair value of LKR 32.0 resulting in an AER of 20.9%. Therefore, we recommend a **BUY** rating for KHL.

P/E 31 March	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
Estimates (LKR 'Mn)								
Revenue	9,712	3,661	13,355	28,835	30,739	29,318	39,472	43,039
EBIT	-764	-4,777	-190	1,742	2,648	2,825	3,947	4,304
Net Profit	**-1,201**	**-5,096**	**-1,203**	**-321**	**-436**	**-229**	**1,309**	**1,826**
Adjusted EPS (LKR)	(0.8)	(3.5)	(0.8)	(0.2)	(0.3)	(0.2)	0.9	1.3
YoY Growth (%)	-247%	-324%	76%	44%	36%	-47%	471%	39%
Valuations								
PER (x)	*N/A*	*N/A*	*N/A*	*N/A*	*N/A*	*N/A*	*27.8x*	*19.9x*
PBV (x)	*1.3x*	*1.5x*	*1.2x*	*1.1x*	*1.2x*	*1.2x*	*1.1x*	*1.1x*
DPS	-	-	-	-	-	0.1	0.3	0.4
DY (%)	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.4%*	*1.1%*	*1.5%*
Dividend Payout	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*163.5%*	*30.0%*	*30.0%*
ROE	*-4.2%*	*-20.9%*	*-4.0%*	*-1.0%*	*-1.4%*	*-0.7%*	*4.0%*	*5.4%*

PER based Valuation	FY27E
Earnings (LKR 'Mn)	1,826
No. of Shares ('Mn)	1,456
EPS	1.3
Expected Average PER	25.0x
Target Price	**32**

Source: Company Data, CSE, First Capital Research

HAYLEYS LEISURE PLC

CONN.N0000 | **Current Price: LKR 42.30** | **Fair Value: LKR 65.00 (FY27E)** | **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 posts a 12.6%YoY increment in bottom-line for the quarter, resulting in 1HFY26 earnings surge

CONN's 2QFY26 earnings rose 12.6%YoY to LKR 197.0Mn mainly due to an increase in the topline by 10.0% to LKR 1.1Bn while simultaneously improving GP margins as well. Furthermore, a 17.3%YoY dip in net finance costs with the stabilizing macro economic landscape has contributed to the overall performance. Despite the off season for arrivals, CONN's wellness oriented ayurvedic resorts appeal to the increased arrivals from EU countries such as Netherlands. These factors have resulted in 1HFY26 earnings to soar by 375.4%YoY to LKR 148.4Mn. SERV, a key subsidiary under CONN saw an earnings surge in the quarter as well, which positively affected the earnings. As the peak season approaches, CONN is well positioned to continue this earnings trajectory going forward.

CONN to extend its profitability trajectory in FY26E and FY27E

CONN's coastal hotels and boutique hotels in Sri Lanka saw an average occupancy rate of 65.0% in 2024, marking a significant improvement from the pandemic downturn. Looking ahead, the company is well poised to benefit from its diverse locations which spand prime locations within the country, including its exposure to the city through SERV which is expected to contribute significantly going forward. We expect a profit of LKR 304.7Mn in FY26E and further improving to LKR 387.7Mn in FY27E. Furthermore, with FCR's anticipation of a city wide revival, CONN is set to register increased benefits from SERV, being a majority stake holder of the premium city hotel. Hence, FCR issues a **BUY** rating for the company with an AER of 36.9%.

P/E 31 March	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
Estimates (LKR 'Mn)								
Revenue	1,226	362	777	1,532	2,878	3,332	4,069	4,673
EBIT	-114	-583	-623	-445	144	471	590	678
Net Profit	**-266**	**-790**	**-898**	**-741**	**-113**	**160**	**305**	**388**
Adjusted EPS (LKR)	(1.6)	(6.7)	(7.7)	(6.9)	(1.0)	1.5	2.8	3.6
YoY Growth (%)	-128%	-329%	-14%	10%	85%	242%	91%	27%
Valuations								
PER (x)	*N/A*	*N/A*	*N/A*	*N/A*	*N/A*	*30.3x*	*15.9x*	*12.5x*
PBV (x)	*1.4x*	*1.7x*	*2.2x*	*3.5x*	*3.6x*	*3.2x*	*2.7x*	*2.2x*
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	*-4.8%*	*-25.2%*	*-37.6%*	*-54.1%*	*-8.4%*	*10.6%*	*16.8%*	*17.7%*

PER based Valuation	FY27E
Earnings (LKR 'Mn)	388
No. of Shares ('Mn)	108
EPS	3.6
Expected Average PER	18.0x
Target Price after Rounding off	**65**

Source: Company Data, CSE, First Capital Research

THE LIGHTHOUSE HOTEL PLC

First Capital
A Janashakthi Group Company

LHL.N0000 | **Current Price: LKR 84.30** | **Fair Value: LKR 95.00 (FY27E)** | **SELL**

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.

Stagnant topline and lower EBITDA led to YoY decline in PAT to LKR 37.0Mn for 1HFY26

LHL witnessed a mere 4.6%YoY increase in revenue to LKR 320.7Mn, however GP stood broadly stagnant due to a decline in GP margins, signalling higher cost pressures. PBT contracted by 6.1%YoY due to increased finance costs by 166.2%YoY to LKR 9.1Mn. This resulted in a contraction in earnings by 20.1%YoY to LKR 29.7Mn (vs.37.1Mn in 2QFY25). LHL's 1HFY26 earnings also followed a similar trend as it contracted by 32.7%YoY to LKR 37.0Mn which was due to added strain from a 187.2%YoY increase in net finance cost due to higher borrowings.

Mounting opex pressures and slow growth in occupancy level strain growth potential

Boutique accommodations can achieve high occupancy quickly, but Sri Lanka's stagnant average duration of stay limits the extent of this advantage. Although LHL maintains a moderate ARR, tourists increasingly prefer lower-cost alternatives that have expanded rapidly in recent years. As a result, we forecast occupancy to improve only to around 67% by FY27E, with ARR expected to record marginal gains. These trends weigh on earnings, constrain growth beyond current levels, and make it more difficult for LHL to capture guest demand as preferences continue to shift toward budget options. Hence for LHL we issue a **SELL** with a target price of LKR 95.0.

PE 31 March	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
Estimates (LKR 'Mn)								
Revenue	510	184	427	731	1,360	1,458	1,625	1,810
EBIT	-65	-175	-10	-19	301	372	382	398
Net Profit	**-96**	**-197**	**-78**	**-120**	**176**	**233**	**260**	**273**
Adjusted EPS (LKR)	(2.1)	(4.3)	(1.7)	(2.6)	3.8	5.1	5.7	5.9
YoY Growth (%)	-194%	-104%	60%	53%	247%	33%	12%	5%
Valuations								
PER (x)	*N/A*	*N/A*	*N/A*	*N/A*	*22.2x*	*16.8x*	*15.0x*	*14.3x*
PBV (x)	*1.2x*	*1.3x*	*1.2x*	*1.4x*	*1.3x*	*1.2x*	*1.2x*	*1.1x*
DPS	-	-	-	-	-	3.0	2.3	2.4
DY (%)	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*3.5%*	*2.7%*	*2.8%*
Dividend Payout	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*59.2%*	*40.0%*	*40.0%*
ROE	*-3.0%*	*-6.6%*	*-2.5%*	*-4.3%*	*6.0%*	*7.2%*	*7.7%*	*7.7%*

PER based Valuation	FY27E
Earnings (LKR 'Mn)	273
No. of Shares ('Mn)	46
EPS	5.9
Expected Average PER	16.0x
Target Price	**95**

THE FORTRESS RESORTS PLC

RHTL.N0000	Current Price: LKR 33.00	Fair Value: LKR 40.00 (FY27E)	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. Vallibel along with its affiliated entities, holds a controlling power of 53.58% in RHTL. The company's accommodations consists of 53 rooms including fortress rooms, ocean rooms, beach rooms, beach splash rooms, ocean loft suites and fortress residence suites with the average room rate at LKR 58,606 in FY24/25 (+3.7%YoY).

RHTL reported a steep drop in earnings amid challenges in filling reasonable occupancy levels

Despite the improvement in overall tourist arrivals, RHTL experienced a 12.9%YoY decline in revenue to LKR 136.8Mn in 2QFY26, reflecting lower proportion of tourists being able to afford its premium ARR. EBIT contracted by a significant 266.6% attributed to narrowing other income and increased opex due to stable inflation. Consequently, EBIT for 2QFY26 stood at a loss of LKR 55.6Mn. Reduced net finance income overtook the declining effective tax and resulted in a net loss of LKR 50.5Mn (down by a massive 1006.4%YoY). RHTL's YTD performance for the period ended 1HFY26 worsened to a loss of LKR 119.5Mn (down 2992.3%YoY).

FV estimated at LKR 38.7, with an AER of 15.1% for FY27E

While the boutique hotel model benefits from maintaining a smaller number of rooms, the projected topline increase at a 2-year CAGR of 18.4% from FY25 to FY27E and the expected earnings growth in FY27E indicate positive momentum. However, considering the current market conditions and uncertainties, we estimate a fair value of LKR 38.7 for FY26E, reflecting an AER of 15.1%. Given the moderate returns relative to the risk-free rate of 9.0%, 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	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
Estimates (LKR 'Mn)								
Revenue	489	75	349	435	921	1,006	1,195	1,411
EBIT	4	-235	7	-75	180	236	275	325
Net Profit	**27**	**-176**	**33**	**-20**	**212**	**236**	**241**	**277**
Adjusted EPS (LKR)	0.2	(1.6)	0.3	(0.2)	1.9	2.1	2.2	2.5
YoY Growth (%)	-87%	-743%	119%	160%	1170%	11%	2%	15%
Valuations								
PER (x)	*137.9x*	*N/A*	*114.0x*	*N/A*	*17.8x*	*16.0x*	*15.6x*	*13.6x*
PBV (x)	*2.1x*	*2.4x*	*2.3x*	*2.3x*	*2.1x*	*1.8x*	*1.6x*	*1.5x*
DPS	4.1	-	-	-	-	-	-	-
DY (%)	*2.9%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Dividend Payout	*405.7%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
ROE	*1.5%*	*-11.0%*	*2.0%*	*-1.2%*	*11.7%*	*11.5%*	*10.6%*	*10.8%*

PER based Valuation	FY27E
Earnings (LKR 'Mn)	277
No. of Shares ('Mn)	111
EPS	2.5
Expected Average PER	16.0x
Target Price	**40**

ROYAL PALM BEACH HOTELS PLC

First Capital
A Janashakthi Group Company

RPBH.N0000 **Current Price: LKR 75.60** **Fair Value: LKR 45.00 (FY27E)** **SELL**

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. 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 at 30th Jun 2025.

1HFY26 earnings reflect a turnaround from losses, however this stems from a significant gain in other income

RPBH's top-line recorded an increase of 7.7%YoY to LKR 180.7Mn for the quarter, however the company recorded a loss from operations of LKR 25.0Mn due to mounting operational expenditure. Net finance income rose 74.1%YoY to LKR 4.0Mn adding some relief to the bottom-line was generated through short term financial assets. The company reported a net loss of LKR 18.4Mn, reflecting a significant contraction on a YoY basis by 71.4%. The cumulative earnings for 1HFY26 reflects a turnaround from a loss of LKR 118.4Mn to a profit of LKR 2.1Mn, however this stems from the other income component that registered a 672.5%YoY growth to LKR 49.0Mn.

FCR recommends a SELL on RPBH as it currently trades at a premium in the market

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. The company has faced significant challenges which have caused a steep downturn in earnings trajectory despite improving macroeconomic conditions, highlighting operational challenges. These factors have led to earnings reaching LKR 32.5Mn and LKR 73.7Mn in FY26E and FY27E, respectively. FCR derives a fair value of LKR 45.0 assuming a forward PER of 30.0x, despite the historical average ranging at around c.14.5x, signalling that the stock is overvalued. In light of these considerations, we downgrade our recommendation to **SELL**.

P/E 31 March	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
Estimates (LKR 'Mn)								
Revenue	618	151	337	671	1,092	956	1,189	1,562
EBIT	59	-159	-44	-63	129	23	36	94
Net Profit	**69**	**-129**	**-22**	**-107**	**169**	**16**	**33**	**74**
Adjusted EPS (LKR)	1.4	(2.6)	(0.4)	(2.1)	3.4	0.3	0.7	1.5
YoY Growth (%)	-45%	-286%	83%	379%	258%	91%	105%	124%
Valuations								
PER (x)	*52.3x*	*N/A*	*N/A*	*N/A*	*21.4x*	*225.8x*	*110.2x*	*49.2x*
PBV (x)	*1.5x*	*1.5x*	*1.3x*	*1.5x*	*1.4x*	*1.3x*	*1.3x*	*1.3x*
DPS	1.0	-	-	-	-	-	-	-
DY (%)	*1.4%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Dividend Payout	*72.2%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
ROE	*2.8%*	*-5.4%*	*-0.8%*	*-4.6%*	*6.7%*	*0.6%*	*1.2%*	*2.6%*

PER based Valuation	FY27E
Earnings (LKR 'Mn)	74
No. of Shares ('Mn)	50
EPS	1.5
Expected Average PER	30.0x
Target Price	**45**

SERENDIB HOTELS PLC

First Capital
A Janashakthi Group Company

SHOT.N0000	Current Price: LKR 23.10	Fair Value: LKR 28.00 (FY27E)	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).

Thinning NP margin weighs on profitability despite topline growth

SHOT bottom-line reflected a net profit of LKR 68.4Mn for 2QFY26, marking a 13.1%YoY decrease. The topline saw an 11.0%YoY increment to LKR 785.6Mn, followed by an expansion in EBIT 19.1%YoY to LKR 159.1Mn, despite a sharp drop in other income. The company faced a 100.0%YoY increment in tax expenditure to LKR 93.2Mn, offsetting the earlier gains and causing NP to drop. Despite this, 1HFY26 profits increased 90.8%YoY to LKR 182.9Mn, mainly due to a turnaround from a net finance cost of LKR 24.6Mn to a net finance income of LKR 75.1Mn (gain of 406.0%YoY).

Cost pressures outweigh earnings growth amid diluting occupancy

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 have increased competition due to high investments in such accommodations, occupancy rates have seen a decline. FCR forecasts profits for FY26E and FY27E at LKR 541.9Mn and LKR 627.0Mn respectively. While this turnaround suggests some potential for growth, the projected AER remains limited at 15.1%, with a forward PER of 20.0x. As such, we recommend maintaining a **HOLD.**

P/E 31 March	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
Estimates (LKR 'Mn)								
Revenue	1,589	587	636	1,442	2,870	3,405	4,140	4,462
	29	-412	-233	-133	574	610	890	1,026
Net Profit	**-138**	**-456**	**-560**	**-452**	**425**	**524**	**542**	**627**
Adjusted EPS (LKR)	(0.3)	(1.0)	(1.3)	(1.0)	1.0	1.2	1.2	1.4
YoY Growth (%)	-457%	-230%	-23%	19%	194%	23%	3%	16%
Valuations								
PER (x)	*N/A*	*N/A*	*N/A*	*N/A*	*26.0x*	*21.1x*	*20.4x*	*17.6x*
PBV (x)	*4.7x*	*5.0x*	*4.0x*	*2.7x*	*2.5x*	*1.8x*	*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	*-5.9%*	*-20.8%*	*-20.3%*	*-11.1%*	*9.4%*	*8.5%*	*8.1%*	*8.6%*

PER based Valuation	FY27E
Earnings (LKR 'Mn)	627
No. of Shares ('Mn)	446
EPS	1.4
Expected Average PER	20.0x
Target Price	**28**

DOLPHIN HOTELS PLC

STAF.N0000	Current Price: LKR 64.60	Fair Value: LKR 70.00 (FY27E)	SELL

4-star inn surrounding the shores of Negombo

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

STAF posts a 31.4%YoY increase in 1HFY26 earnings

STAF recorded a revenue of LKR 370.1Mn, +13.4%YoY for 2QFY26, with gross profit rising by 9.7%YoY to LKR 231.5Mn, and operating profit improving by 8.9%YoY to LKR 58.0Mn. Net finance income dropped 74.7%YoY to LKR 7.7Mn, however, PBT increased to LKR 65.7Mn, +69.2%YoY, but profit for the period fell sharply by 89.7%YoY to LKR 8.6Mn, due to a significantly higher tax charge. For 1HFY26, revenue grew 18.9%YoY to LKR 700.6Mn, with gross profit at LKR 437.7Mn, +22.6%YoY and operating profit strengthening to LKR 96.5Mn, +73.9%YoY. Supported by a surge in net finance income to LKR 93.9. Profit for the period rose to LKR 133.3Mn, +31.4%YoY, reflecting a strong first half despite the weaker quarterly bottom line in Sep-25.

Top-line expansion due to relatively low ARR and expected surge in occupancy to result in 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. However, with the city hotel uprise, tourists may divert focus to Colombo itself which may affect occupancy rates from growing. STAF has underperformed relative to FCR expectations as seen in FY25 earnings, thereby we forecast earnings to reach LKR 363.0Mn and LKR 436.4Mn by FY26E and FY27E, respectively. This has resulted in a fair value of LKR 70.0, thus we rate STAF with a **SELL** recommendation.

P/E 31 March	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
Estimates (LKR 'Mn)								
Revenue	729	350	283	576	1,311	1,447	1,702	2,080
EBIT	47	-62	-82	-117	217	143	170	239
Net Profit	**44**	**-33**	**-25**	**-103**	**320**	**167**	**363**	**436**
Adjusted EPS (LKR)	0.7	(0.5)	(0.4)	(1.6)	5.1	2.6	5.7	6.9
YoY Growth (%)	-70%	-175%	25%	316%	411%	48%	117%	20%
Valuations								
PER (x)	*94.0x*	*-126.0x*	*-168.9x*	*-40.6x*	*13.1x*	*25.0x*	*11.5x*	*9.6x*
PBV (x)	*2.0x*	*2.0x*	*1.5x*	*1.4x*	*1.2x*	*0.9x*	*0.9x*	*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	*2.1%*	*-1.6%*	*-0.9%*	*-3.3%*	*9.4%*	*3.8%*	*7.6%*	*8.3%*

PER based Valuation	FY27E
Earnings (LKR 'Mn)	436
No. of Shares ('Mn)	63
EPS	6.9
Expected Average PER	10.0x
Target Price	**70**

ASIAN HOTELS AND PROPERTIES PLC

First Capital
A Janashakthi Group Company

AHPL.N0000 **Current Price: LKR 60.70** **Fair Value: LKR 80.00 (FY27E)** **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 Grand and Cinnamon Lakeside. AHPL also owns and operates a 56,988 square-foot shopping mall called Crescat Boulevard.

A significant contraction in losses in 2QFY26 despite thinning margins, narrows the loss for 1HFY26 as well

AHPL reported revenue of LKR 2,861.4Mn, +5.8%YoY for the 2QFY26, while gross profit edged down to LKR 1,242.3Mn, -0.7%YoY amid higher operating costs. Operating profit rose by 42.4%YoY to LKR 114.3Mn, though net finance costs increased to LKR 56.5Mn. The loss attributable to equity holders contracted by 36.0%YoY to LKR 33.9Mn, mainly due to relief from a reduction in opex. For 1HFY26, revenue reached LKR 5,148.8Mn, +6.2%YoY, with gross profit broadly stable, while operating profit fell sharply to LKR 113.0Mn, -94.2%YoY due to a weak 1Q; however, the loss for the period narrowed by 16.5%YoY to LKR 214.3Mn, reflecting an overall improvement in consolidated profitability.

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

AHPL's Sri Lankan hotels located in the heart of Colombo are on a growth trajectory with margin expansion expected due to increased occupancy amidst stable ARR. The company has navigated through prior period losses as it contracts further and a turnaround is expected in the current financial year. FCR forecasts earnings to reach LKR 566.8Mn in FY26E and LKR 1.0Bn in FY27E by considering the potential it offers as the gaming led tourism takes off. Thereby, AHPL holds significant future potential with upcoming city developments, attracting tourists who seek for a more budget friendly option than Cinnamon Life, hence, we have arrived at a FV of LKR 80.0 for FY27E with an implied PE of 35.0x. The company is also expected to continue a steady payout of dividends resulting in an AER of 22.4% (with DPS). Thus, we rate the share **BUY.**

P/E 31 March	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
Estimates (LKR 'Mn)								
Revenue	5,560	1,790	4,095	8,417	10,772	10,362	12,376	15,762
EBIT	-28	-1,913	-407	93	612	450	1,126	1,576
Net Profit	**-50**	**-1,781**	**-510**	**-278**	**-20**	**-45**	**567**	**1,039**
Adjusted EPS (LKR)	(0.1)	(4.0)	(1.2)	(0.6)	(0.0)	(0.1)	1.3	2.3
YoY Growth (%)	-106%	-3474%	71%	46%	93%	121%	1365%	83%
Valuations								
PER (x)	*N/A*	*N/A*	*N/A*	*N/A*	*N/A*	*N/A*	*48.2x*	*26.3x*
PBV (x)	*0.8x*	*0.9x*	*0.9x*	*0.9x*	*0.9x*	*0.9x*	*0.9x*	*0.9x*
DPS	1.0	-	-	-	-	0.5	0.4	0.7
DY (%)	*1.6%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.8%*	*0.6%*	*1.1%*
Dividend Payout	*N/A*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*N/A*	*30.0%*	*30.0%*
ROE	*-0.2%*	*-5.7%*	*-1.6%*	*-1.0%*	*-0.1%*	*-0.1%*	*1.8%*	*3.3%*

PER based Valuation	FY27E
Earnings (LKR 'Mn)	1,039
No. of Shares ('Mn)	443
EPS	2.3
Expected Average PER	35.0x
Target Price	**80**

RENUKA CITY HOTEL PLC

RENU.N0000 | **Current Price: LKR 880.25** | **Fair Value: LKR 1145.00 (FY27E)** | **BUY**

71.8% owned Subsidiary of Renuka Hotels PLC (RCH.N0000)

Renuka City Hotel, located in Galle Road Kollupitiya is a longstanding hotel in the city of Colombo. Offering 99 guest bedrooms at a competitive price range, RENU is an attractive option for cost-conscious city travellers. The company is owned by its parent company Renuka Hotels PLC.

Dampened EBIT reflecting tense price and service competition among city hotels

RENU posted revenue of LKR 50.5Mn, a reduction of 23.4%YoY for 2QFY26, down from the prior year's LKR 65.9Mn. Net profit surged to LKR 250.3Mn, +653.6%YoY, compared to LKR 33.23Mn in 2QFY25. These results were driven by strong other income gains despite a reduction in core revenue, reflecting a reshaped earnings base and non-operational items supporting the bottom line despite softer top-line performance. RENU derives its finance income from short term investments, investments in various financial assets and foreign currency reserve gains. With a stable interest rate environment, favourable macroeconomic conditions and depreciating rupee, this component grew significantly.

Low ARR and prime location offer attractive price point for budget conscious city travelers

RENU's prime location within the city of Colombo and proximity to key landmarks such as Port city, City of Dreams and various shopping malls increase its appeal, especially with its low price point that can attract tourists with low spending preference. Furthermore, the company generates substantial finance income from its investments, which is expected to increase under the current favorable macroeconomic conditions. As a large portion of earnings stem from non-operating income, the company also benefits from a lower effective tax rate. FCR forecasts earnings to rise 17.4% in FY26E to LKR 809.7Mn and by 9.8% in FY27E to LKR 889.4Mn. This resulted in a target price of LKR 1145.0, offering an upside of 30.1% from the current level of LKR 880.25, leaving our recommendation at **BUY.**

P/E 31 March	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
Estimates (LKR 'Mn)								
Revenue	148	16	95	128	257	262	314	373
EBIT	23	-19	41	3	151	227	295	359
Net Profit	**444**	**447**	**2,326**	**1,338**	**263**	**690**	**810**	**889**
Adjusted EPS (LKR)	63.4	63.9	332.3	191.2	37.6	98.5	115.7	127.1
YoY Growth (%)	-19%	-3474%	420%	42%	80%	162%	17%	10%
Valuations								
PER (x)	*17.9x*	*11.3x*	*13.9x*	*13.8x*	*2.6x*	*4.6x*	*23.4x*	*8.9x*
PBV (x)	*1.3x*	*1.4x*	*1.2x*	*1.1x*	*0.8x*	*0.7x*	*0.6x*	*0.6x*
DPS	-	-	-	2.0	2.0	2.0	5.8	6.4
DY (%)	*0.0%*	*0.0%*	*0.0%*	*0.2%*	*0.2%*	*0.2%*	*0.7%*	*0.7%*
Dividend Payout	*0.0%*	*0.0%*	*0.0%*	*1.0%*	*5.3%*	*2.0%*	*5.0%*	*5.0%*
ROE	*8.6%*	*8.3%*	*30.8%*	*15.1%*	*2.8%*	*6.5%*	*7.1%*	*7.2%*

PER based Valuation	FY27E
Earnings (LKR 'Mn)	889
No. of Shares ('Mn)	7
EPS	127.1
Expected Average PER	9.0x
Target Price	**1145**

Source: Company Data, CSE, First Capital Research

THE KINGSBURY PLC

SERV.N0000 **Current Price: LKR 20.30** **Fair Value: LKR 35.00 (FY27E)** **BUY**

Operating under Hayleys Leisure with 59.48% stake to Hayleys PLC (HAYL.N0000)

Located in the heart of Colombo facing Galle Face Green, Kingsbury a five-star city hotel offers its services around signature dining experiences, meeting & banqueting facilities and accommodation across 229 guest rooms. Leveraging its strong position as a leading F&B operator among Colombo's city hotels, Kingsbury remain well ahead of competitive headwinds.

Positive turnaround in EBIT, Lifting earnings up by 225.6%YoY for 6MFY26

SERV reported revenue of LKR 1,414.1Mn, +8.6%YoY for 2QFY26, with gross profit rising 15.4%YoY to LKR 721.9Mn, supported by stronger occupancy and improved margins. Operating profit increased to LKR 212.1Mn, +36.8%YoY, while net finance expenses reduced by 81.3%YoY to LKR 28.5Mn. SERV's net profit for the period surged to LKR 126.9Mn, +110.9%YoY, reflecting a strong quarterly recovery. For 1HFY26, profit for the period increased by 225.6%YoY to LKR 177.2Mn, marking a robust first-half performance driven by broad-based operational and financial gains. During this period GP and EBIT margins strengthened to 49.2% and 12.3%, respectively, reflecting SERV's operational improvement coupled with higher occupancy level.

SERV's prime location and luxury appeal position it as a key beneficiary of the infrastructural developments and Casino led tourism

FCR maintains a positive outlook on the counter, with the anticipated revival in city tourism driven by the gaming segment and rising MICE activity, positioning SERV favourably in the near term. FCR forecasts earnings of LKR 760.0Mn for FY27E and derives a target price of LKR 35.0, implying an attractive Annualized Expected Return (AER) of 49.0%, and thereby issues a **BUY** recommendation.

P/E 31 March	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
Estimates (LKR 'Mn)								
Revenue	1,844	778	2,022	3,818	5,267	5,327	6,231	7,828
EBIT	-289	-799	-346	-39	552	706	2,991	3,906
Net Profit	**-393**	**-758**	**-427**	**-552**	**264**	**551**	**602**	**760**
Adjusted EPS (LKR)	(0.8)	(1.6)	(0.9)	(1.1)	0.5	1.1	1.2	1.6
YoY Growth (%)	*-490%*	*-93%*	*44%*	*-29%*	*148%*	*109%*	*9%*	*26%*
Valuations								
PER (x)	*-13.4x*	*-23.8x*	*-18.4x*	*38.5x*	*18.4x*	*16.9x*	*13.4x*	*11.4x*
PBV (x)	*4.5x*	*6.8x*	*9.0x*	*24.0x*	*7.5x*	*5.3x*	*4.0x*	*3.1x*
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	*-17.6%*	*-51.1%*	*-37.9%*	*-130.3%*	*19.6%*	*28.8%*	*23.9%*	*23.2%*

PER based Valuation	FY27E
Earnings (LKR 'Mn)	760
No. of Shares ('Mn)	484
EPS	1.6
Expected Average PER	22.0x
Target Price	**35**

TRANS ASIA HOTELS PLC

First Capital
A Janashakthi Group Company

TRAN.N0000 | Current Price: LKR 60.50 | Fair Value: LKR 80.00 (FY27E) | BUY

Cinnamon's 5 star city hotel nestled by the Beira Lake

Trans Asia Hotels PLC owns Cinnamon Lakeside Colombo a luxury 5 star hotel in the heart of Colombo near Beira Lanke ultimately owned by the premier blue chip company John Keells Holdings PLC (92.05%). Cinnamon Lakeside features 346 rooms complemented by 2 ballrooms, 3 conference venues, boardroom suites and a one of a kind floating venue.

1HFY26 earnings mark a turnaround from losses, gaining 182.7%YoY on the back of opex reduction

TRAN reported a jump in revenue by 4.5%YoY LKR 1,236.3Mn for 2QFY26, with gross profit broadly stable at LKR 567.1Mn. Profit from operations declined by 7.4%YoY to LKR 98.3Mn, reflecting higher administrative and sales-related costs, while net finance cost improved to LKR 16.2Mn, -33.1%YoY as borrowing expenses eased. Profit for the period edged up 0.2%YoY to LKR 55.1Mn, indicating a marginally stronger quarterly bottom line. For 1HFY26, revenue increased 9.2%YoY to LKR 2,223.7Mn, supported by higher occupancy and improved pricing. The cumulative profit for the period ended 1HFY26 recovered to LKR 35.1Mn, an increase of 182.7%YoY, reflecting a strong first-half rebound driven by revenue growth, better margins, and a significant operational turnaround.

TRAN is well positioned to capture benefits with the city developments drawing more tourists

TRAN offers luxury rooms at a reasonable price point relative to most other new luxury hotels in the area, supported by its F&B segment and the improved performance of the Crescat Mall. FCR maintains an optimistic outlook on the hotel, forecasting earnings of LKR 443.1 Mn and LKR 806.6 Mn for FY26E and FY27E, respectively. The company is also expected to maintain a steady dividend payout, resulting in an AER of 22.7% with the DPS for FY27E, offering attractive returns to the market. Therefore, the share is rated **BUY.**

P/E 31 March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Estimates (LKR 'Mn)								
Revenue	2,329	811	1,817	3,569	4,462	4,466	5,517	6,531
EBIT	163	-816	-42	92	304	365	662	1,176
Net Profit	**275**	**-819**	**4**	**-97**	**173**	**230**	**443**	**807**
Adjusted EPS (LKR)	1.4	(4.1)	0.0	(0.5)	0.9	1.1	2.2	4.0
YoY Growth (%)	-42%	-3474%	101%	2478%	278%	33%	93%	82%
Valuations								
PER (x)	*44.0x*	*N/A*	*2951.2x*	*N/A*	*69.9x*	*52.6x*	*27.3x*	*15.0x*
PBV (x)	*2.2x*	*2.1x*	*2.1x*	*2.0x*	*1.9x*	*1.8x*	*1.7x*	*1.6x*
DPS	0.5	-	-	-	-	0.5	0.9	1.6
DY (%)	*0.8%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.8%*	*1.5%*	*2.7%*
Dividend Payout	*36.3%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*43.5%*	*40.0%*	*40.0%*
ROE	*4.2%*	*-14.0%*	*0.1%*	*-1.6%*	*2.7%*	*3.4%*	*6.2%*	*10.6%*

PER based Valuation	FY27E
Earnings (LKR 'Mn)	807
No. of Shares ('Mn)	200
EPS	4.0
Expected Average PER	20.0x
Target Price	**80**

TAL LANKA HOTELS PLC

TAJ.N0000 | **Current Price: LKR 45.00** | **Fair Value: LKR 50.00 (FY27E)** | **HOLD**

Luxury hotel with a prime location facing the Galle Face beach

Taj Lanka Hotels PLC is a leading hospitality company in Sri Lanka and a subsidiary of the Indian Hotels Company Limited (IHCL), the parent of the iconic Taj brand. The company owns and operates the Taj Samudra Colombo, a flagship five-star luxury property strategically located along Colombo’s Galle Face Green with a room count of 300 alongside 8 banquet halls that can accommodate upto 2000 guests.

2QFY26 earnings register a steep dip, leading 1HFY26 earnings fall 8.2%YoY

TAL Lanka Hotels PLC reported revenue of LKR 827.5Mn, -2.4%YoY, down slightly from LKR 848.1Mn, reflecting softer occupancy and event activity. The company recorded a net loss of LKR 102.0Mn compared to a net profit of LKR 7.0Mn in the prior year, driven by higher operating costs and weaker margins. For 1HFY26, revenue reached LKR 1,621.2Mn, -0.9%YoY (vs. LKR 1,635.4Mn), while the net loss stood at LKR 266.4Mn, down 8.2%YoY (vs. LKR 246.2Mn). Despite this, basic EPS slightly improved from LKR -1.76 to LKR -1.55. These results reflect lingering margin pressure, elevated finance costs and subdued event and room demand in the quarter despite near-steady top-line performance.

Short term challenges persist, however long term prospects remain positive

TAJ has faced consistent challenges however the reported losses have significantly contracted through the years. With a high level of Indian tourists visiting Sri Lanka and a resurgence of the MICE segment, the company is well positioned to grow its bottom-line. FCR forecasts a loss of LKR 95.1Mn for FY26E and a turnaround to a profit of LKR 153.3Mn in FY27E. Despite this turnaround, upside remains limited even with an optimistic forward PER of 45.0x, resulting in a fair value of LKR 50.0 for FY27E. This implies an upside of 11.1%, thus rating the share **HOLD.** However, the company holds potential to capture a vast majority of Indian travellers which may positively impact valuations beyond FY27E.

P/E 31 March	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
Estimates (LKR 'Mn)								
Revenue	2,392	484	1,147	2,361	3,728	3,472	4,156	4,961
EBIT	30	-889	-564	-465	51	-51	112	347
Net Profit	**-260**	**-1,095**	**-1,715**	**-1,291**	**96**	**-328**	**-95**	**153**
Adjusted EPS (LKR)	(1.9)	(7.8)	(12.3)	(9.2)	0.7	(2.3)	(0.7)	1.1
YoY Growth (%)	-8%	-3474%	57%	25%	107%	441%	71%	261%
Valuations								
PER (x)	*N/A*	*N/A*	*N/A*	*N/A*	*65.4x*	*N/A*	*N/A*	*41.0x*
PBV (x)	*3.3x*	*4.9x*	*47.0x*	*-4.2x*	*-4.5x*	*-3.7x*	*-3.1x*	*-3.0x*
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	*-13.7%*	*-85.8%*	*-1281.6%*	*86.8%*	*-6.9%*	*19.2%*	*4.7%*	*-7.2%*

PER based Valuation	FY27E
Earnings (LKR 'Mn)	153
No. of Shares ('Mn)	140
EPS	1.1
Expected Average PER	45.0x
Target Price	**50**

Source: Company Data, CSE, First Capital Research

Recommendation Criteria

Categorization	Company Category	Buy	Hold	Sell
Grade A	S&P SL20 Companies	T.Bill + 5% & Above	T.Bill + 1% & Above	Below T.Bill + 1%
Grade B	Rest of the Companies	T.Bill + 8% & Above	T.Bill + 3% & Above	Below T.Bill + 3%
Grade C	Companies less than LKR 1Bn Market Cap	T.Bill + 11% & Above	T.Bill + 6% & Above	Below T.Bill + 6%

Categorization	Company Category	Buy	Hold	Sell
Grade A	S&P SL20 Companies	14.00%	10.00%	10.00%
Grade B	Rest of the Companies	17.00%	12.00%	12.00%
Grade C	Companies less than LKR 1Bn Market Cap	20.00%	15.00%	15.00%

First Capital Valuation Guide

as at *17-Nov-25*

Name	Symbol	Mkt Price	Shares in Issue (Mn)	Market Cap. (Mn)	Trailing PER 4 Qtr	PBV 4 Qtr	4Q Trailing DPS (Mar-25)	DY	ROE	Earnings (LKR Mn) 4 Qtr	Book Value (LKR	NAVPS (LKR)
Consumer Services												
ASIAN HOTELS & PROPERTIES PLC	AHPL.N0000	60.7	442.8	26,876.5	N/A	0.9	0.0	0.0%	-0.1%	-21.4	30,108.0	68.0
AITKEN SPENCE HOTEL HOLDINGS PLC	AHUN.N0000	119.8	336.3	40,270.7	15.0	1.7	0.0	0.0%	11.5%	2,677.9	23,306.5	69.3
ANILANA HOTELS AND PROPERTIES LIMITED	ALHP.N0000	0.9	1,281.3	1,153.2	N/A	-1.5	0.0	0.0%	13.3%	-105.8	-794.0	-0.6
BROWNS BEACH HOTELS PLC	BBH.N0000	24.9	129.6	3,227.0	N/A	9.6	0.0	0.0%	-23.1%	-77.3	335.1	2.6
BERUWALA RESORTS	BERU.N0000	4.0	700.5	2,802.2	29.4	8.2	0.0	0.0%	27.8%	95.2	341.9	0.5
BANSEI ROYAL RESORTS HIKKADUWA LIMITED	BRR.N0000	22.9	53.7	1,230.4	103.8	4.1	0.3	1.3%	4.0%	11.9	297.2	5.5
CEYLON HOTELS CORPORATION PLC	CHOT.N0000	44.2	180.0	7,957.4	48.0	1.0	0.0	0.0%	2.2%	165.8	7,680.0	42.7
HIKKADUWA BEACH RESORT LIMITED	CITH.N0000	3.7	542.7	2,007.9	N/A	0.5	0.0	0.0%	-3.1%	-133.0	4,295.6	7.9
WASKADUWA BEACH RESORT LIMITED	CITW.N0000	2.0	936.7	1,873.4	N/A	0.9	0.0	0.0%	-6.0%	-129.6	2,145.5	2.3
AMAYA LEISURE PLC	CONN.N0000	42.3	108.0	4,568.0	18.1	3.1	0.0	0.0%	17.3%	252.0	1,453.3	13.5
EDEN HOTEL LANKA PLC	EDEN.N0000	14.1	1,584.0	22,334.4	N/A	1.1	0.0	0.0%	-5.4%	-1,098.4	20,307.2	12.8
GALADARI HOTELS (LANKA) PLC	GHLL.N0000	19.9	500.8	9,966.5	N/A	1.4	0.0	0.0%	-3.7%	-260.5	7,036.7	14.1
HOTEL SIGIRIYA PLC	HSIG.N0000	109.0	17.6	1,915.9	29.4	1.6	0.0	0.0%	5.5%	65.1	1,190.0	67.7
HUNAS HOLDINGS PLC	HUNA.N0000	22.5	849.0	19,103.2	38.3	-7.5	0.0	0.0%	-19.6%	498.5	-2,541.8	-3.0
JETWING SYMPHONY LIMITED	JETS.N0000	19.6	602.2	11,802.9	22.2	2.8	0.0	0.0%	12.5%	530.8	4,244.9	7.0
KANDY HOTELS COMPANY (1938) PLC	KHC.N0000	20.4	754.3	15,387.9	110.3	1.5	0.0	0.0%	1.4%	139.6	9,957.6	13.2
JOHN KEELLS HOTELS PLC	KHL.N0000	24.7	1,456.1	35,966.8	131.9	1.2	0.0	0.0%	0.9%	272.6	30,781.2	21.1
THE LIGHTHOUSE HOTEL PLC	LHL.N0000	84.3	46.0	3,877.8	17.4	1.2	3.0	3.6%	7.2%	222.8	3,107.8	67.6
MARAWILA RESORTS PLC	MARA.N0000	7.6	351.9	2,674.6	17.1	2.4	0.0	0.0%	14.3%	156.7	1,093.0	3.1
MAHAWELI REACH HOTELS PLC	MRH.N0000	20.5	47.1	964.9	N/A	0.6	0.0	0.0%	-7.4%	-123.2	1,655.0	35.2
THE NUWARA ELIYA HOTELS COMPANY PLC	NEH.N0000	5,105.8	2.2	11,161.4	14.8	1.7	36.5	0.7%	11.6%	753.4	6,516.4	2,980.9
PALM GARDEN HOTELS PLC	PALM.N0000	76.8	475.9	36,552.0	N/A	2.0	0.0	0.0%	-16.6%	-3,102.7	18,657.3	39.2
PEGASUS HOTELS OF CEYLON PLC	PEG.N0000	45.6	42.2	1,924.8	N/A	0.9	0.0	0.0%	-2.6%	-56.2	2,148.1	50.9
RENUKA HOTELS PLC	RCH.N0000	259.5	40.3	10,457.2	11.1	0.7	0.8	0.3%	6.0%	938.2	15,588.0	386.8
CITRUS LEISURE PLC	REEF.N0000	4.3	645.6	2,776.0	N/A	1.0	0.0	0.0%	-10.6%	-310.1	2,921.7	4.5
RENUKA CITY HOTEL PLC	RENU.N0000	880.3	7.0	6,161.8	9.9	0.6	2.0	0.2%	5.6%	619.5	11,106.2	1,586.6
RAMBODA FALLS	RFL.N0000	45.5	20.0	910.0	34.0	1.7	0.5	1.1%	5.1%	26.7	528.2	26.4
THE FORTRESS RESORTS PLC	RHTL.N0000	33.0	110.9	3,659.3	237.4	1.9	0.0	0.0%	0.8%	15.4	1,975.8	17.8
ROYAL PALMS BEACH HOTELS PLC	RPBH.N0000	75.6	50.0	3,780.0	42.6	1.4	0.0	0.0%	3.2%	88.8	2,798.7	56.0
THE KINGSBURY PLC	SERV.N0000	20.3	484.0	9,825.2	16.2	5.0	0.0	0.0%	30.9%	607.5	1,965.5	4.1
SERENDIB HOTELS PLC	SHOT.N0000	23.1	446.1	6,977.6	15.2	1.6	0.0	0.0%	10.8%	676.2	6,260.4	14.0
SERENDIB HOTELS PLC	SHOT.X0000	16.0	446.1	2,304.7	10.6	1.1	0.0	0.0%	10.8%	676.2	6,260.4	14.0
SIGIRIYA VILLAGE HOTELS PLC	SIGV.N0000	176.3	9.0	1,586.3	31.0	2.2	0.0	0.0%	7.1%	51.2	724.6	80.5
DOLPHIN HOTELS PLC	STAF.N0000	64.6	63.2	4,085.5	14.9	0.9	0.0	0.0%	6.0%	274.5	4,558.5	72.1
TAL LANKA HOTELS PLC	TAJ.N0000	45.0	171.9	7,734.0	N/A	-14.1	0.0	0.0%	43.6%	-238.9	-547.5	-3.2
TANGERINE BEACH HOTELS PLC	TANG.N0000	131.5	20.0	2,630.0	17.1	0.8	0.0	0.0%	4.6%	153.4	3,355.9	167.8
TRANS ASIA HOTELS PLC	TRAN.N0000	60.5	200.0	12,100.0	39.4	1.8	0.0	0.0%	4.5%	307.4	6,817.0	34.1
					88.4	**1.5**						

Glossary of terms

- **AER** - Annualized Expected Return
- **AHPL** - Asian Hotels and Properties PLC
- **AHUN** - Aitken Spence Hotel Holdings PLC
- **ARR** - Average Room Rate
- **ASPI** - All Share Price Index
- **AWPR** - Average Weighted Prime Lending Rate
- **BIA** - Bandaranaike International Airport
- **CONN** - Hayleys Leisure PLC
- **COS** - Cost of Sales
- **CS Index** - Consumer Services Index
- **CSE** - Colombo Stock Exchange
- **DPS** - Dividend Per Share
- **DNV** - Digital Nomad Visa
- **DY** - Dividend Yield
- **EBIT** - Earnings Before Interest and Tax
- **EPS** - Earnings Per Share
- **ESG** - Environmental, Social, and Governance
- **F&B** - Food & Beverage
- **FCR** - First Capital Research
- **FY** - Fiscal Year
- **GHLL** - Galadari Hotels (Lanka) PLC
- **GP** - Gross Profit
- **GGR** - Gross Gaming Revenue
- **GRA** - Gambling Regulatory Authority
- **IR** - Integrated Resort
- **KHL** - John Keells Hotels PLC
- **LHL** - The Lighthouse Hotel PLC
- **LKR** - Sri Lankan Rupee
- **MBS** - Marina Bay Sands
- **MICE** - Meetings, Incentives, Conferences, and Exhibitions
- **MRR** - Minimum Room Rate
- **NAVPS** - Net Asset Value Per Share
- **NP** - Net Profit
- **P/BV** - Price-to-Book Value
- **PER** - Price-to-Earnings Ratio
- **RENU** - Renuka City Hotel PLC
- **RHTL** - The Fortress Resorts PLC
- **ROE** - Return on Equity
- **RPBH** - Royal Palms Beach Hotels PLC
- **RWS** - Resorts World Sentosa
- **SDGs** - Sustainable Development Goals
- **SERV** - The Kingsbury PLC
- **SHOT** - Serendib Hotels PLC
- **SLCB** - Sri Lanka Convention Bureau
- **SLTDA** - Sri Lanka Tourism Development Authority
- **STAF** - Dolphin Hotels PLC
- **TAJ** - TAL Lanka Hotels PLC
- **TRAN** - Trans Asia Hotels PLC
- **TTM** - Trailing Twelve Months
- **UNWTO** - United Nations World Tourism Organization
- **YoY** - Year-over-Year

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