

# INITIATION COVERAGE BUY

Fair Value - FY27E (LKR) 200.0 [+29.6%]  
Total Return with DPS (%) 41.0% [AER 22.0%]

## KEY DATA

Share Price (LKR)	145.75
52w High (LKR)	165.0
52w Low (LKR)	60.0
Issued Share Capital (Shares 'Mn)	333.3
Market Cap (LKR 'Bn)	46.7
Market Cap (USD 'Mn)	151.4
Free Float	48.4%

## FIRST CAPITAL RESEARCH

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## DIGITAL MOBILITY SOLUTIONS LANKA PLC

CSE: PKME.N0000 | Bloomberg: PKME SL

EQUITY | SRI LANKA | TRANSPORTATION

*“Unlocking Tomorrow’s Mobility...”*

**\*\*Please refer page 26 for an important disclaimer**

# INVESTMENT SUMMARY

**Shaping future through technology:** Digital Mobility Solutions Lanka PLC (PKME.N0000) is a homegrown technology company in Sri Lanka, focused on providing tailored solutions to Sri Lanka's transport and logistics ecosystem. PKME's major business verticals include Ride-hailing and Delivery, where the business expanded into Events and Courier services during 2QFY26. Currently, the platform connects over 1.3Mn unique users, 100,000 independent drivers and 4,500 independent merchants across its service verticals.

**Initiating coverage with the recommendation to BUY:** FCR initiates the coverage of PKME with a BUY recommendation, after arriving at a fair value target of LKR 200.0 for FY27E, deriving a potential annualized total return of 22.0% (DY 3.8%) from an equally weighted DCF and EV/EBITDA based valuation methodologies. FCR believes PKME's unique selling propositions, market leadership in ride-hailing, along with its innovation driven expansions would position the company for a strong 3-year revenue CAGR of 34.2%. The cost-effective business model will further enhance its margin expansion prospects. FCR expects PKME to record higher bottom-line of LKR 3.4Bn in FY27E. Expansion into rural/suburbs where demand is yet untapped, movement into new product verticals, as well as the growth in internet penetration among Sri Lankans will further enhance PKME's growth prospects. Consequently, ROE could rise significantly to 75.7% by FY27E, with the company potentially trading at an implied EV/EBITDA multiple of 13.4x, driving the share price towards our target price. Therefore, our BUY recommendation is backed by three main stallion points:

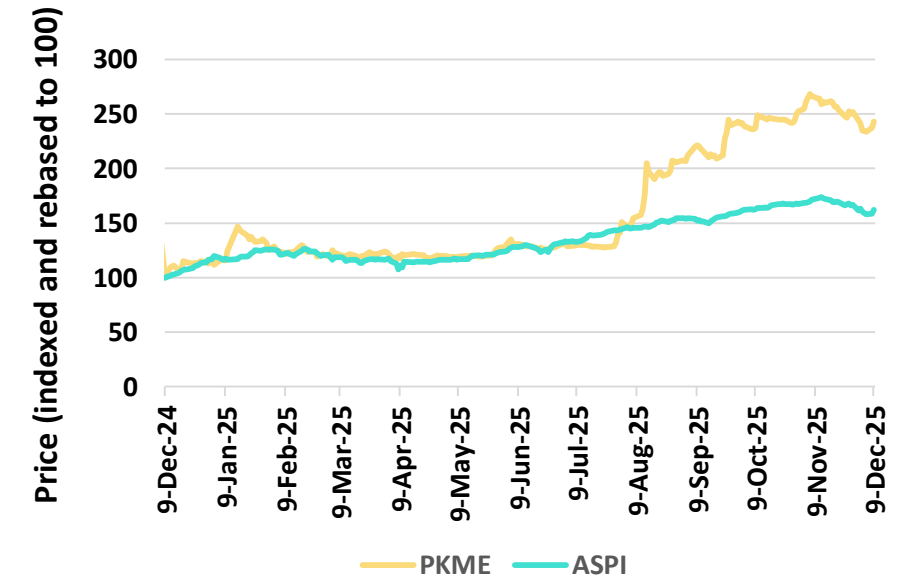
- 1) **Gross Billing Value (GBV) generated through PKME platform to rise, due to the expected growth in unique customer base and app usage:** FCR expects PKME's GBV to rise at a 3-year CAGR of 48.0% by FY28E, supported by the projected growth in unique consumer base at a 3-year CAGR of 38.0% by FY28E. Rise in PKME's unique consumer base will be largely supported by PKME's expansion into untapped markets with high demand and increasing digital penetration in the country.
- 2) **Ability to reach untapped demand through a larger supplier base and deliver value through core value propositions:** PKME's distinctive market positioning is shaped by its unique value propositions; localization, convenience and availability. PKME ensures availability of supply on app, through attracting higher no. of drivers to the platform.
- 3) **Anticipated margin expansion due to the cost-effective business model:** PKME operates on a SaaS Model, hosted by Google Cloud Services. This enables PKME to increase capacity, at a lower cost per ride. Therefore, the company's revenue per ride exceeds the cost, supporting the margin expansion.

# KEY FINANCIALS AND STOCK PERFORMANCE

P/E 31st March	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E	FY29E
<b>Estimates (LKR 'Mn)</b>								
Net Revenue	1,295	1,964	3,919	5,835	7,642	10,506	14,105	18,035
Adjusted EBIT	(162)	15	925	1,603	2,986	4,738	7,762	10,496
Adjusted net profit	(157)	130	679	1,170	2,153	3,387	5,513	7,437
Adjusted EPS (LKR)	(0.5)	0.4	2.0	3.5	6.5	10.2	16.5	22.3
YoY Growth (%)	180.6	183.0	420.8	72.2	84.0	57.3	62.8	34.9
<b>Valuations</b>								
PER (x)	N/A	372.4	71.5	41.5	22.6	14.3	8.8	6.5
PBV (x)	53.9	46.2	27.8	18.8	13.3	9.2	6.3	4.4
DPS	N/A	N/A	N/A	2.3	3.2	5.3	9.1	12.7
DY (%)	N/A	N/A	N/A	1.5	2.3	3.8	6.5	9.1
Dividend Payout (%)	N/A	N/A	N/A	24.2	50.0	52.0	55.0	57.0
NAVPS	2.7	3.2	5.2	7.8	11.0	15.9	23.3	32.9

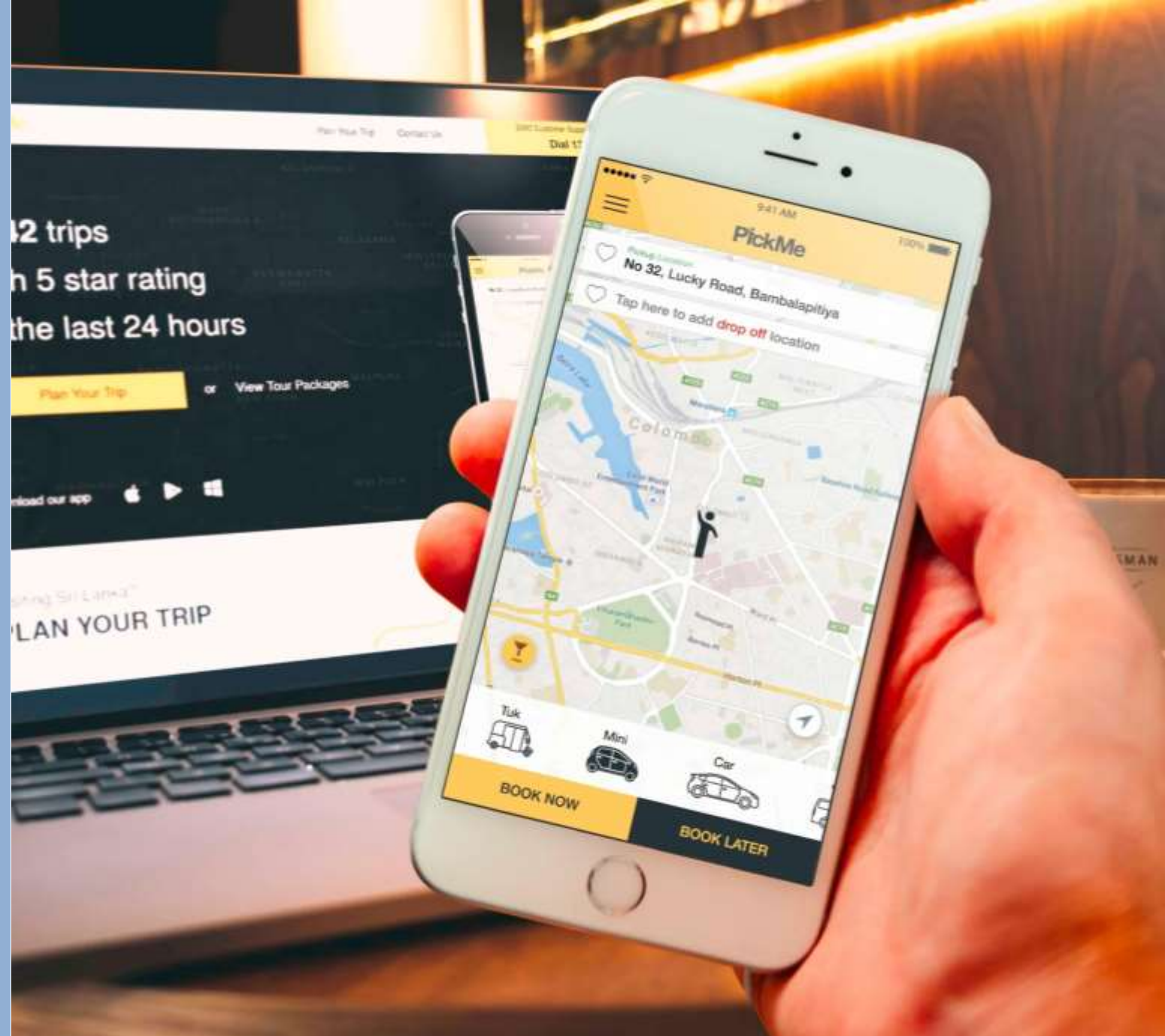
Price Performance (%)	1 mth	3 mths	12mths
PKME	-8.0%	10.2%	135.8%
ASPI	-6.2%	5.4%	60.6%

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







# COMPANY OVERVIEW AT A GLANCE




PKME is a technological company, that specializes in developing mobility-related software, to connect people, products and services in real time. Publicly traded on the CSE since 2024, PKME’s core focus is to strategically diversify its offerings, and cater to a digital-first population. Currently, PKME is the second most popular local mobile app in Sri Lanka.




Ride-Hailing



Delivery



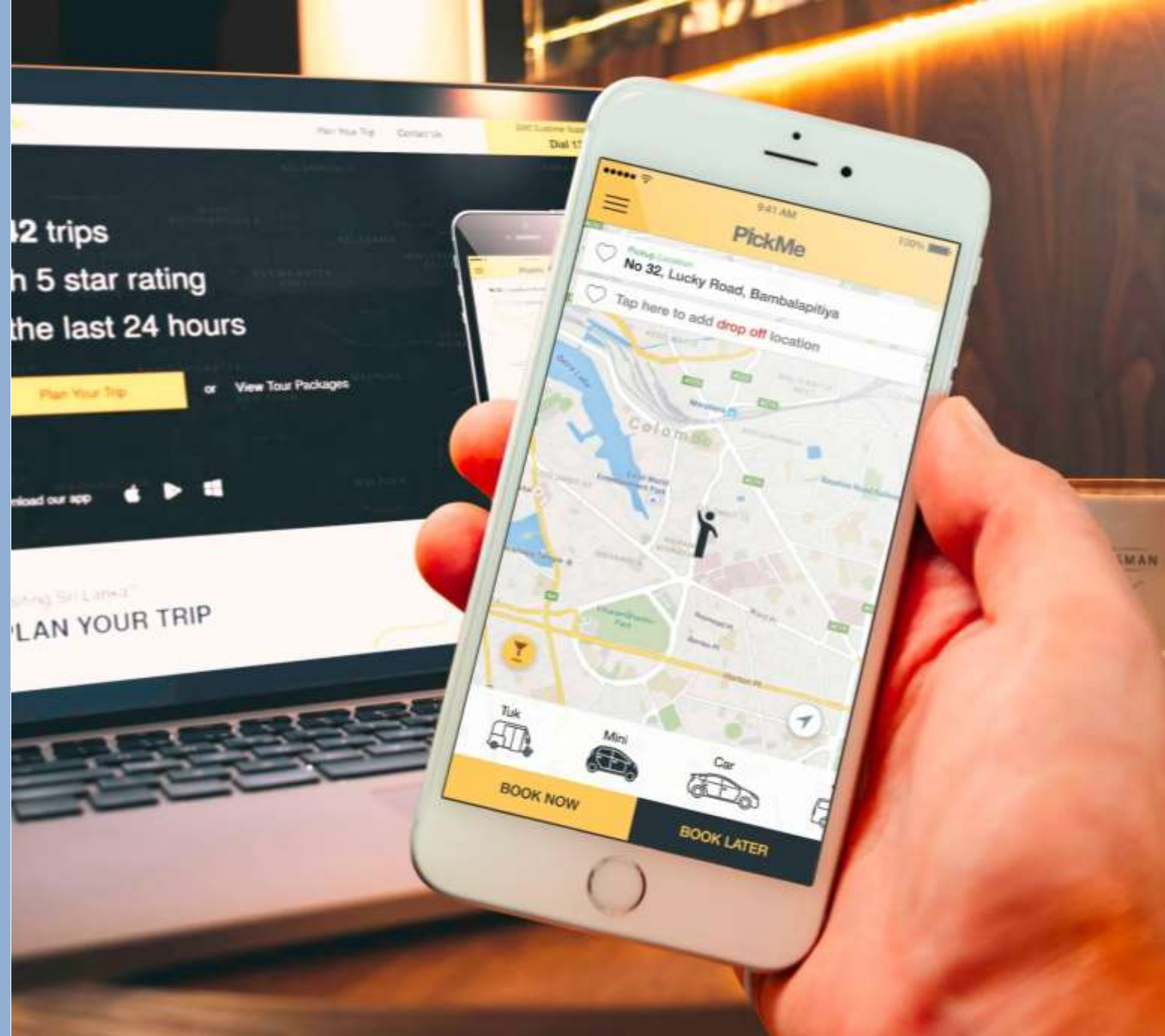
Event ticket booking



Courier Services

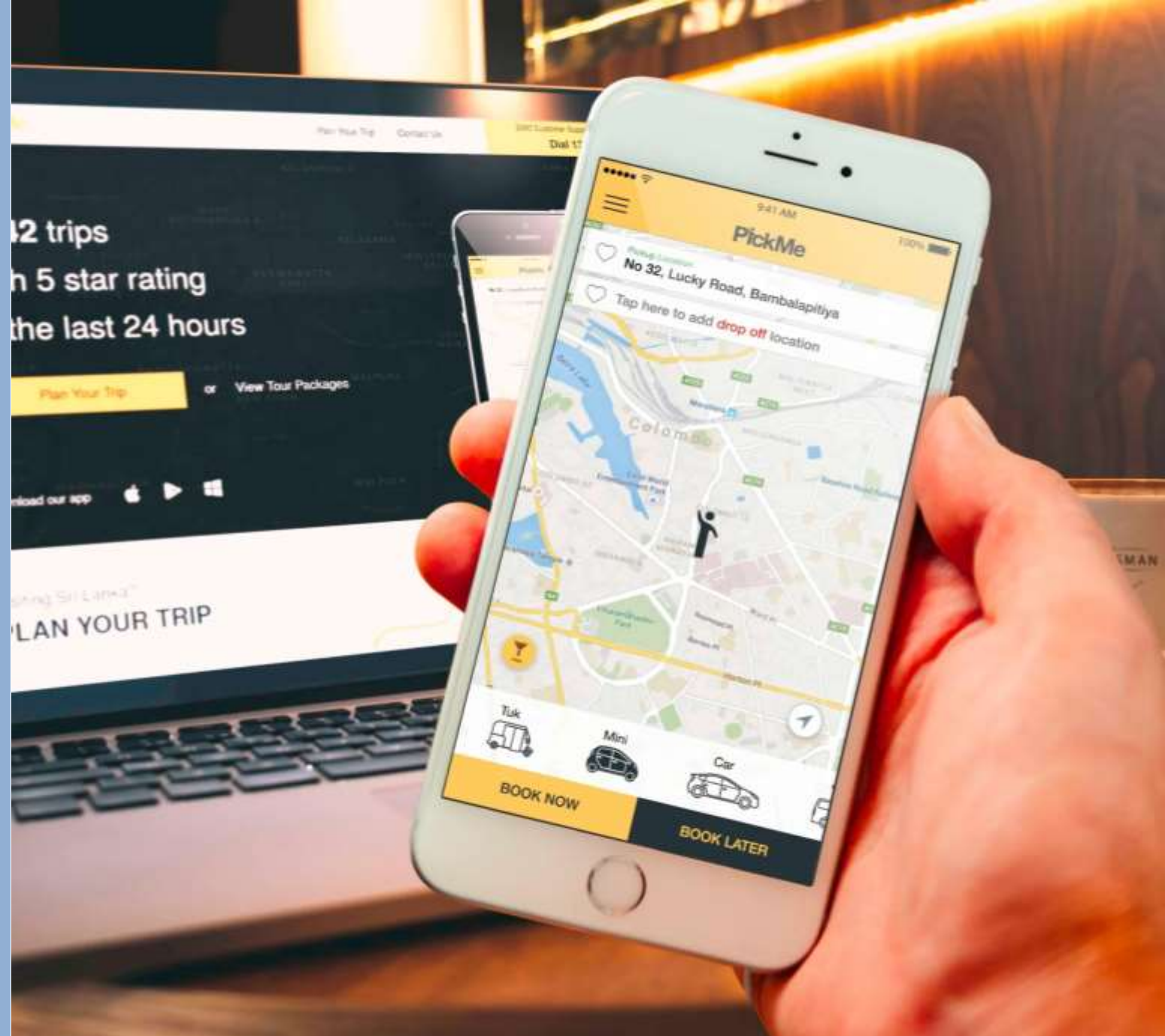
Current performance v IPO promises	
IPO promise	Achievement
Improve brand name and image	PKME is positioned as a leading mobility solutions partner in Sri Lanka. The ride-hailing segment accounts for 65.0%-70.0% of market share, whereas food delivery segment accounts for 40.0%-45.0% of market share. Net revenue has grown at a 5-year CAGR of 39.2% by FY25.
Create liquidity for the company shares	PKME shares are currently trading at a TTM PER of 29.3x, where the market is currently trading at a PER of 10.6x.
Introduce new technology backed solutions	Apart from ride-hailing, food delivery and marketplace, PKME has expanded its product portfolio into event ticket booking, and courier services. The company is planning to connect with other seamless opportunities in future.
Regional expansion	PKME has expanded its market presence to suburbs, apart from urban townships. During FY25, 19.0% of trip volumes have been generated from rural areas. It is further expanding to suburbs, depending on the demand in such areas.

# INVESTMENT THESIS



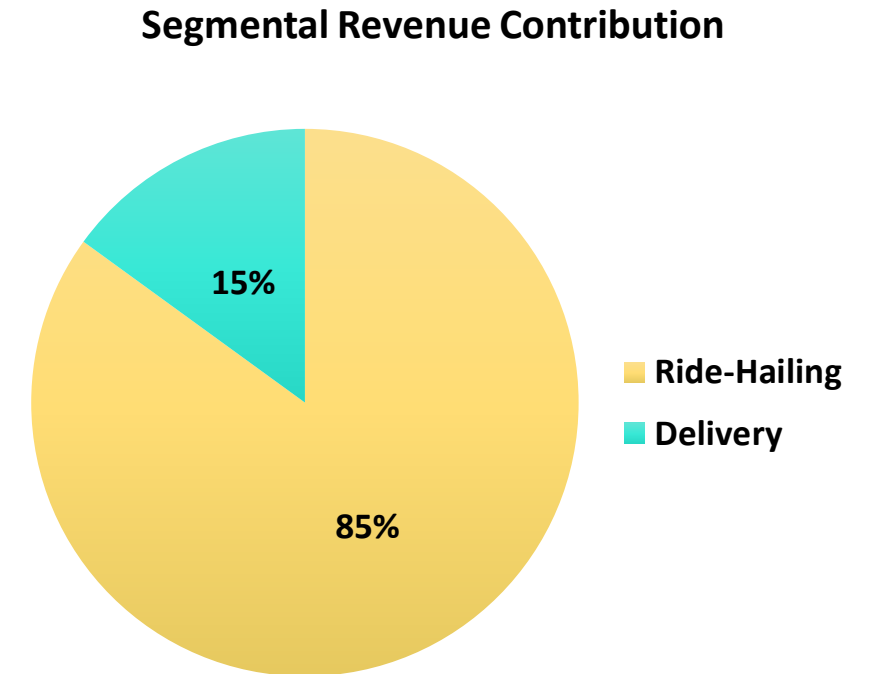
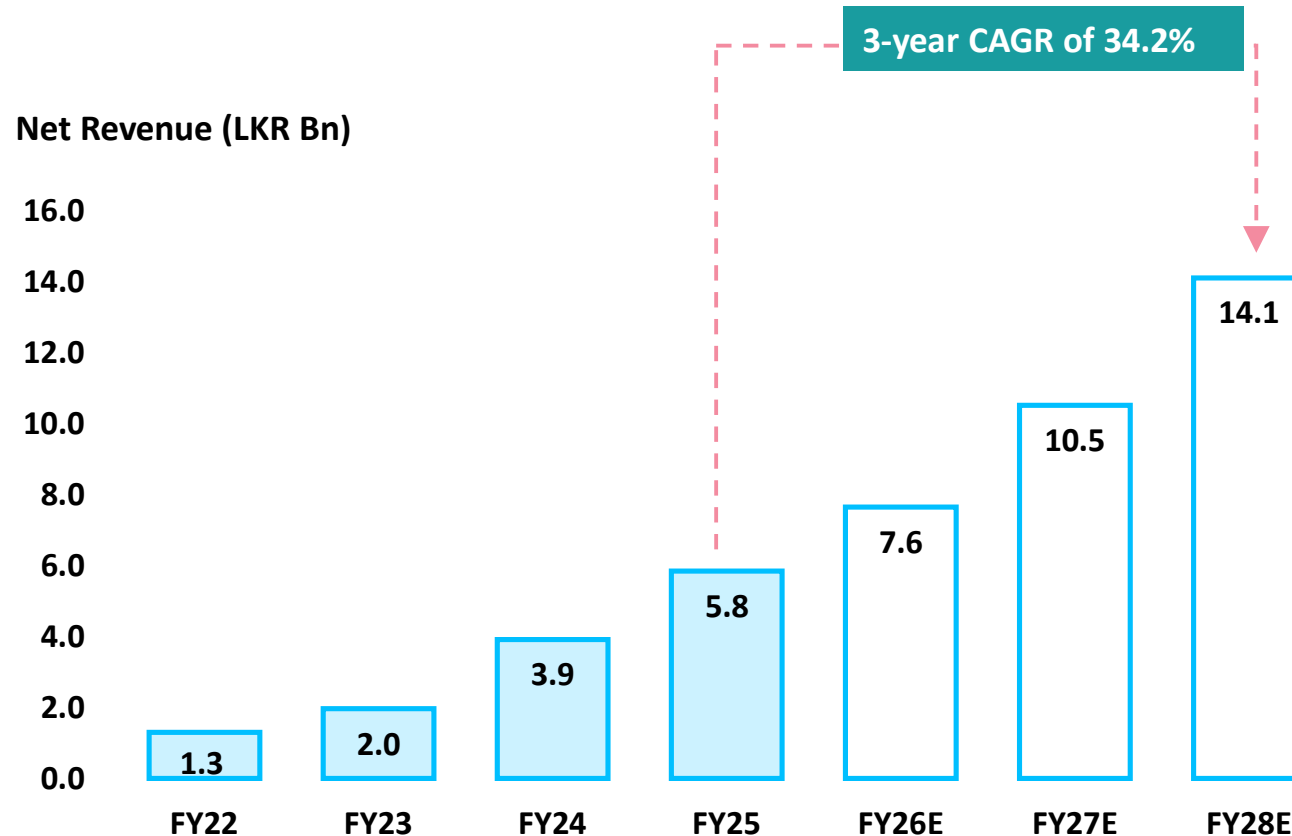


**FCR forecasts PKME's net revenue to grow at a 3-year CAGR of 34.2% through FY25 to FY28E, largely supported by the growth momentum in Gross Billing Value (GBV)**



## FCR expects PKME's net revenue to grow at a 3-year CAGR of 34.2%, to reach LKR 14.1Bn by FY28E, as the platform earns higher revenue from connected mobility solutions.

PKME provides convenient Ride-Hailing and Delivery services across Sri Lanka, through its app. The Ride-Hailing segment accounts for ~65%-70% of market share, whereas the Food Delivery segment accounts for ~40%-45% of market share. As innovation sits at the heart of PKME, it is committing to evolve as a one-stop solution for all mobility needs. Thereby, PKME unlocks opportunities, which will increase the app usage. Owing to its distinctive positioning and growth potential, FCR expects PKME to reach its net revenue of LKR 14.1Bn by FY28E.





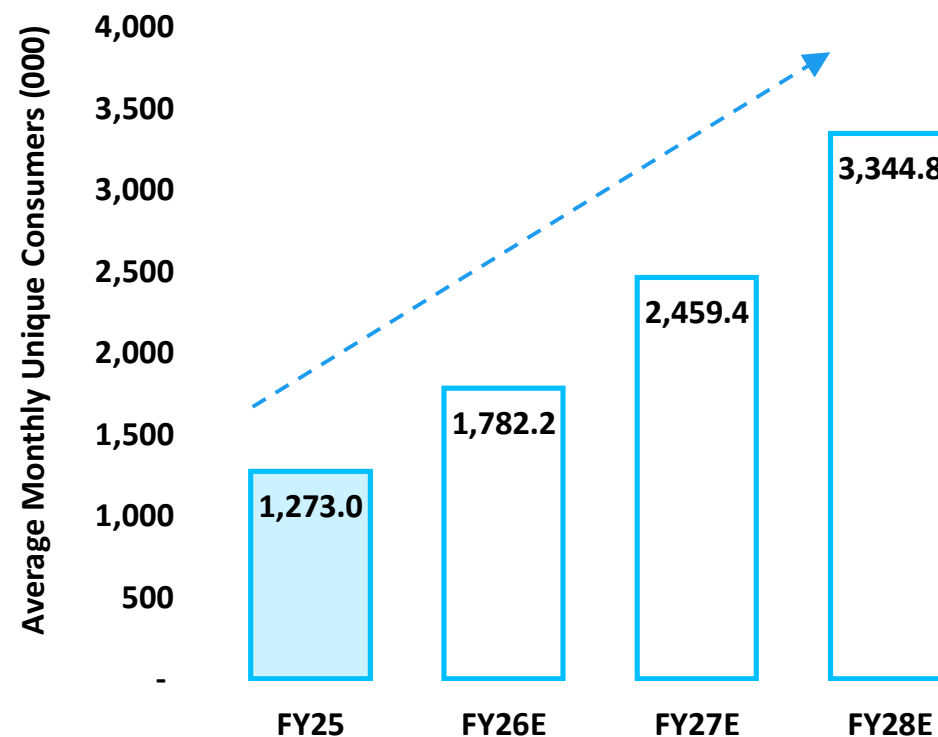
# Increase in GBV will predominantly be supported by the projected growth in monthly unique consumer base from 1.3Mn in FY25 to 3.3Mn by FY28E.....

## Gross Billing Value (GBV)

Total amount paid by the consumers for PKME transactions

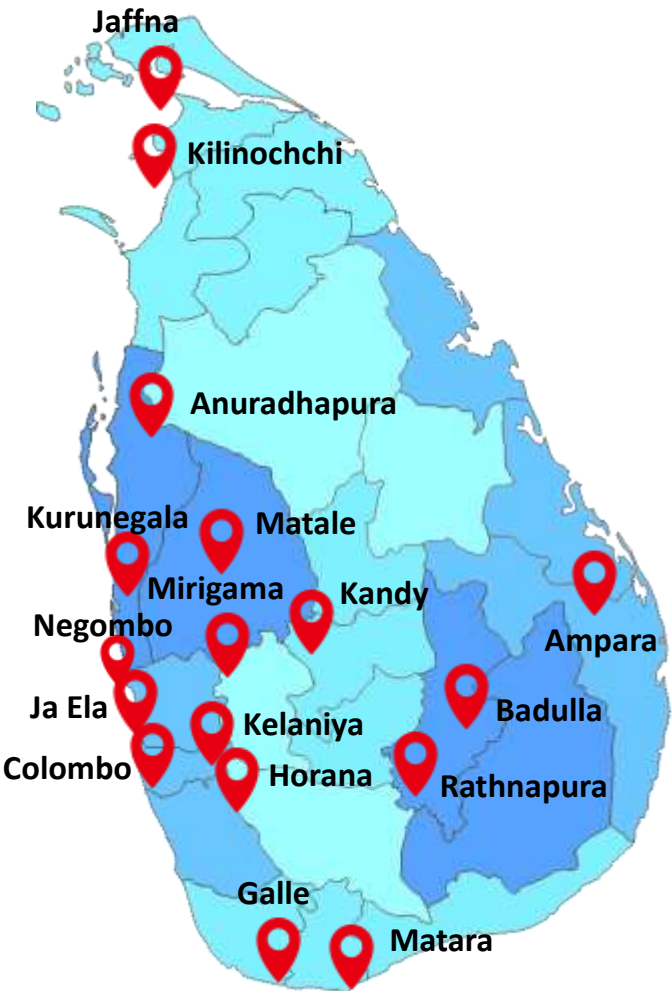
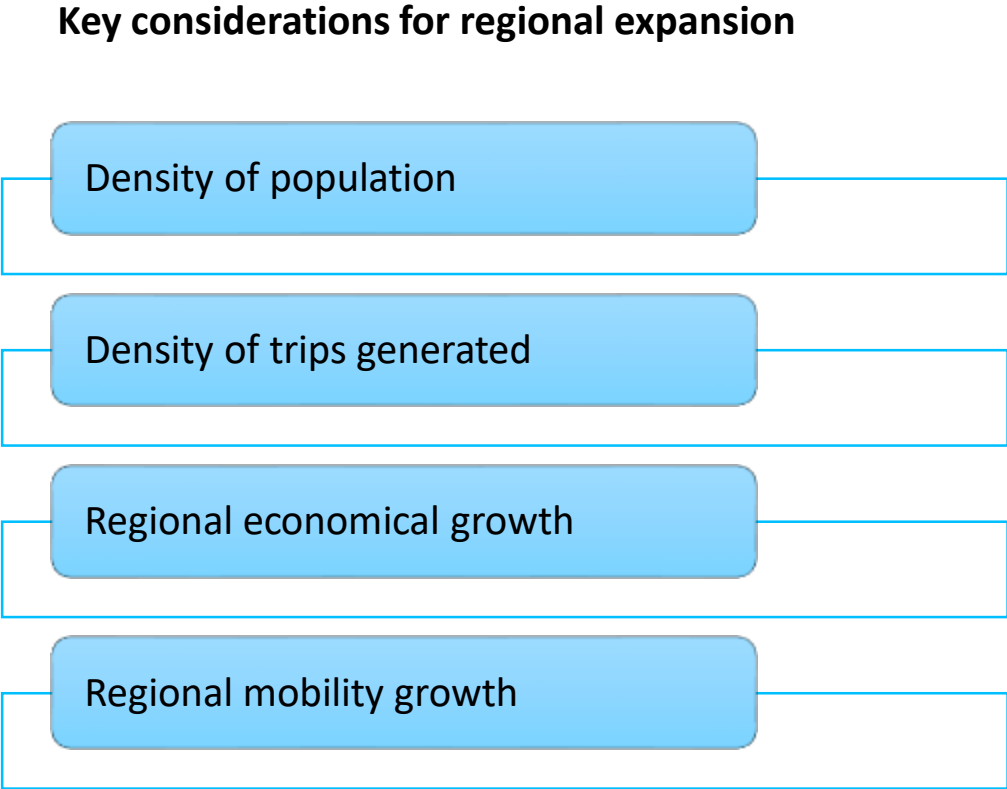
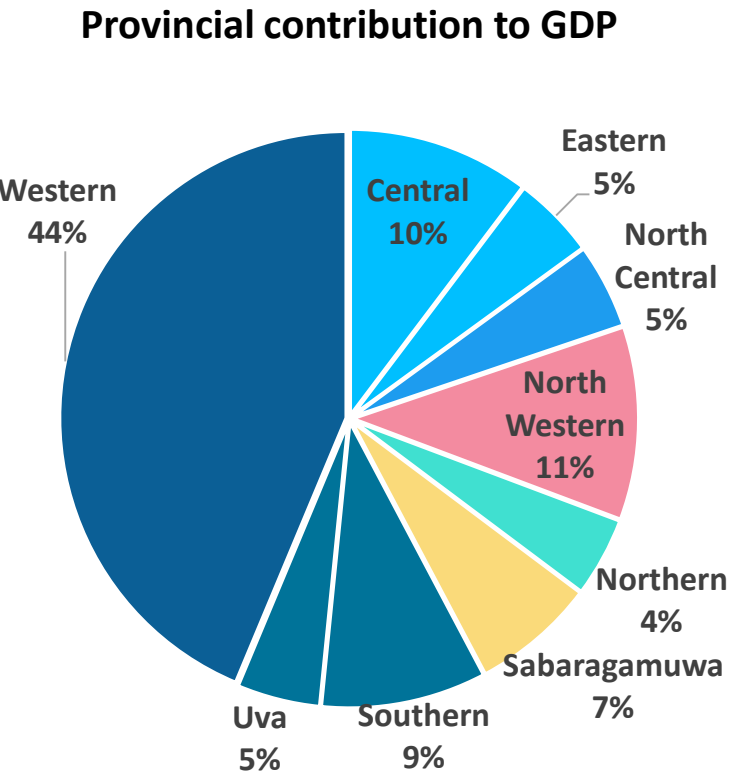
FCR expects the GBV growth to be primarily driven by the rise in unique consumer base. Given the consumers value convenience over traditional mobility solutions, and the availability of supply, FCR expects the usage of app per user will increase at a faster rate than the no. of PKME users. Thereby, FCR projects PKME's unique consumer base to reach 3.3Mn by FY28E.

3-year CAGR of 48.0%



# .....due to the expansion of ride-hailing and delivery services to targeted growth zones outside Colombo, where demand is unmet....

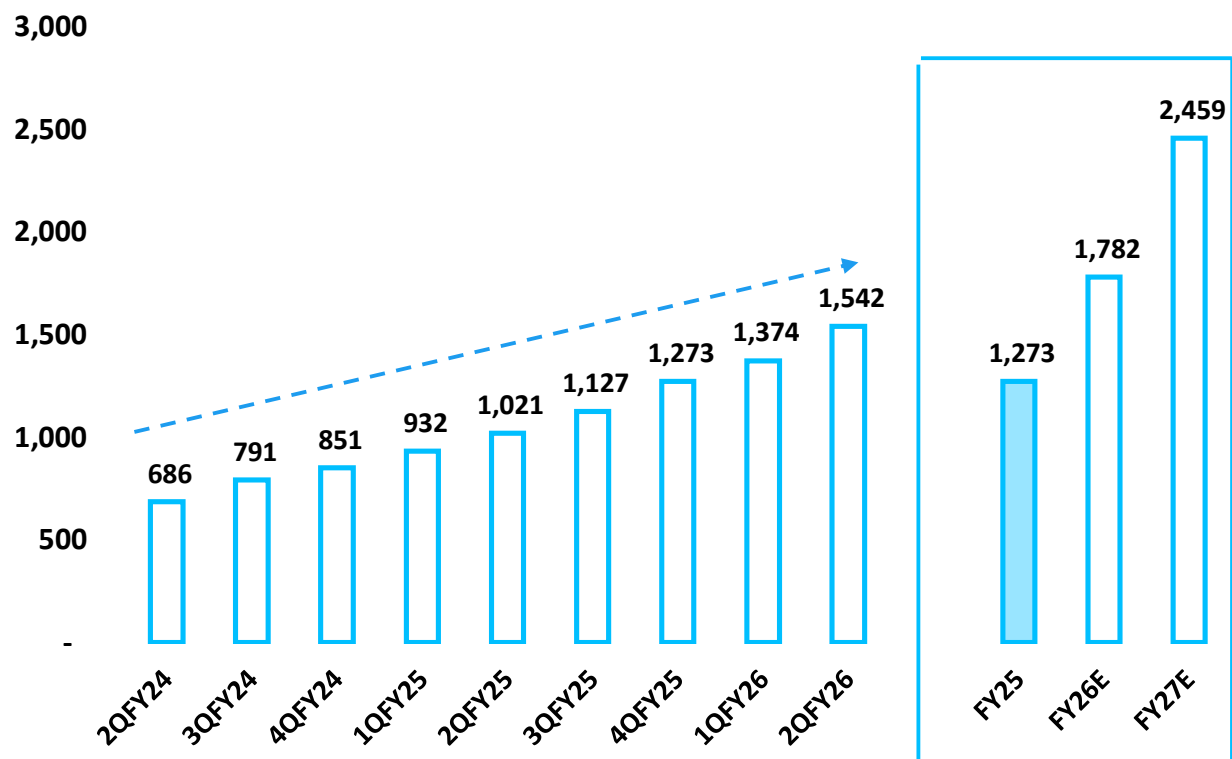
During FY25, PKME expanded to Jaffna, Rathnapura, Nuwara Eliya, Puttalam and Anuradhapura, increasing the volume contribution by suburbs to 19.0%. FCR projects the recent cyclone effect will significantly hinder PKME’s rural expansion, nevertheless there is potential to expand into townships where there is unmet demand.



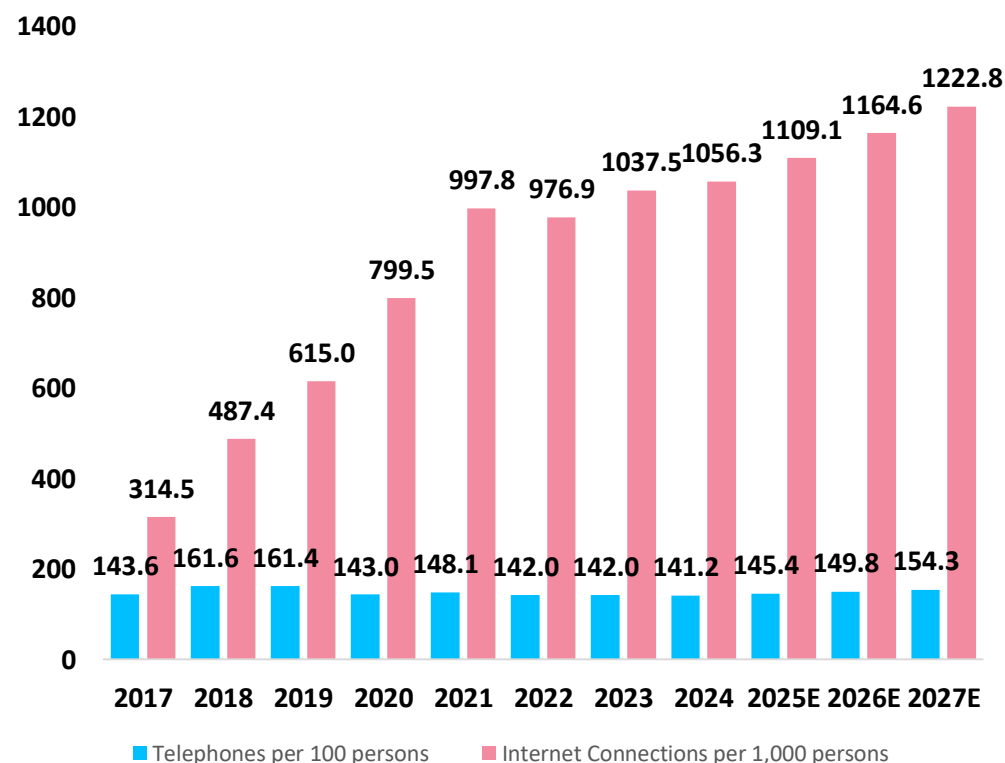
## .....and higher digital penetration of the country.

Sri Lanka's digital penetration is rapidly expanding, with internet connections and telephone connections exceeding one per capita. Internet connections have grown at a 3-year CAGR of 2.0% during 2021-2024. FCR expects the internet connections will grow at a 3-year CAGR of 5.0% by 2027E. With the increased rate of adoption and use of internet nationwide, and the government initiatives on digital payment options, FCR believes PKME has potential to capture higher no. of consumers. Moreover, internet usage in urban areas is 45.0%, whereas it is 35.0% in rural areas. Hence, there is significant scope for digital penetration within the market.

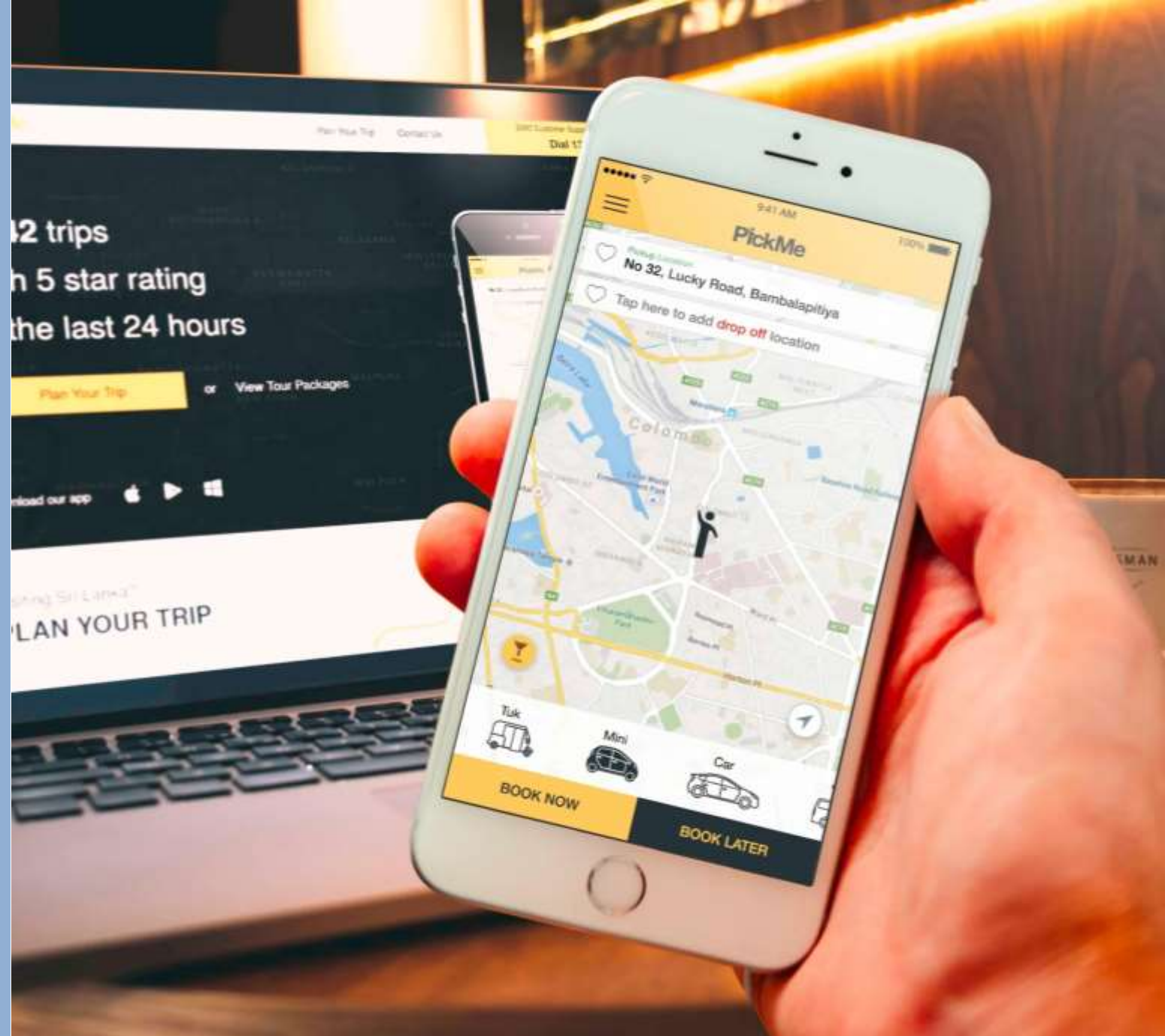
**PKME unique consumer base (000)**



**Internet Penetration/Telephone Density in Sri Lanka**



PKME's core values  
function as key unique  
selling propositions





## Localized support and convenience make the platform more attractive to users....

PKME's distinctive market positioning is largely attributed to the localization embedded in the services. It differentiates PKME from the competitors and generates recurring income to the platform. Moreover, consumers highly value the convenience in using the app. Since PKME has expanded into new product verticals, such as 'Events' (booking tickets for events via PKME app) and Courier Services, consumers find it as a one-stop solution for mobility needs. It is convenient for passengers and drivers to get call center support, as PKME is a homegrown Sri Lankan app. Call center actively provides technical support, as well as handles inquiries. Additionally, PKME has enabled smoother fund transferability to both passengers and drivers.



## ....while PKME aligns supply with demand, to reduce wait time....

PKME expands its supply base through actively encouraging new driver registrations. Monthly new driver registrations on the app amounts to 15,000-16,000. The app tracks instances where demand exceeds supply and capitalizes on market opportunities by offering incentives to drivers. Additionally, drivers can bid for a higher price, on top of the charge for the ride. Due to strong incentives, drivers find it attractive to register their vehicle on the PKME platform.

**Weekly incentives – Monday to Friday and during weekends**

**Daily incentives – During peak demand days of high-traffic months**

**Hourly incentives – During peak hours of the day**



Increased availability of suppliers to reduce passenger wait time

**PKME's Right-to-Use payment framework includes competitive pricing, strengthening its market position.**

**Per ride charge from the driver to PKME platform**



Bikes 8%



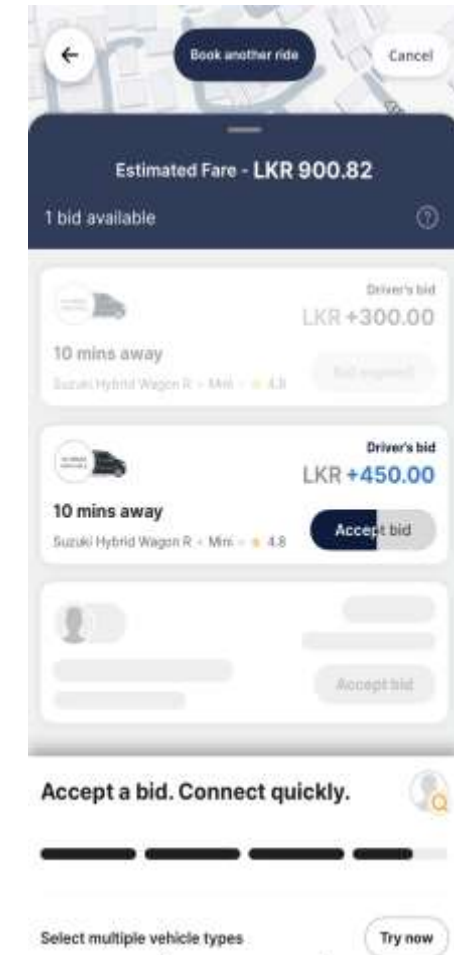
Tuks 12%



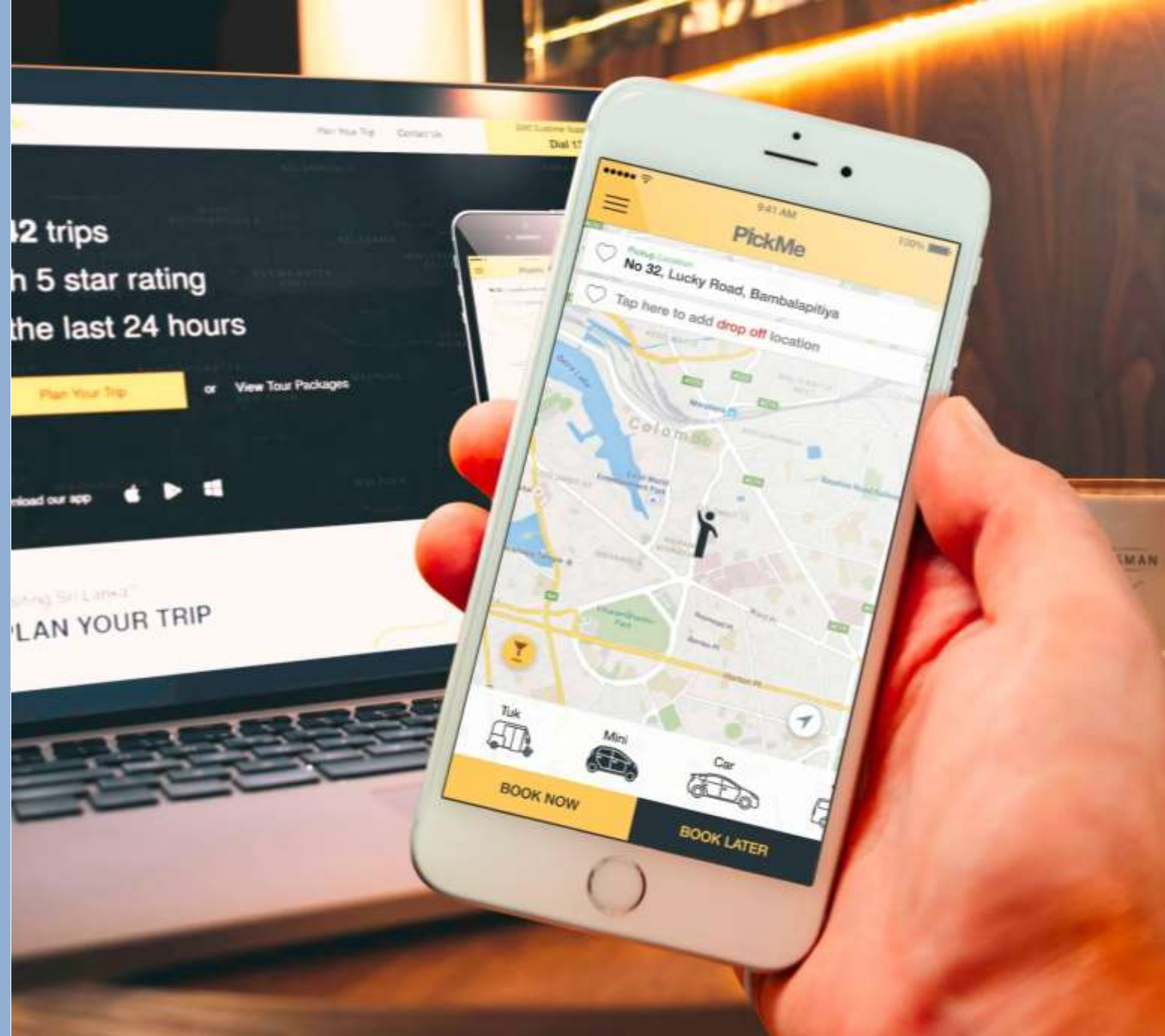
Cars 20%



Vans 15%



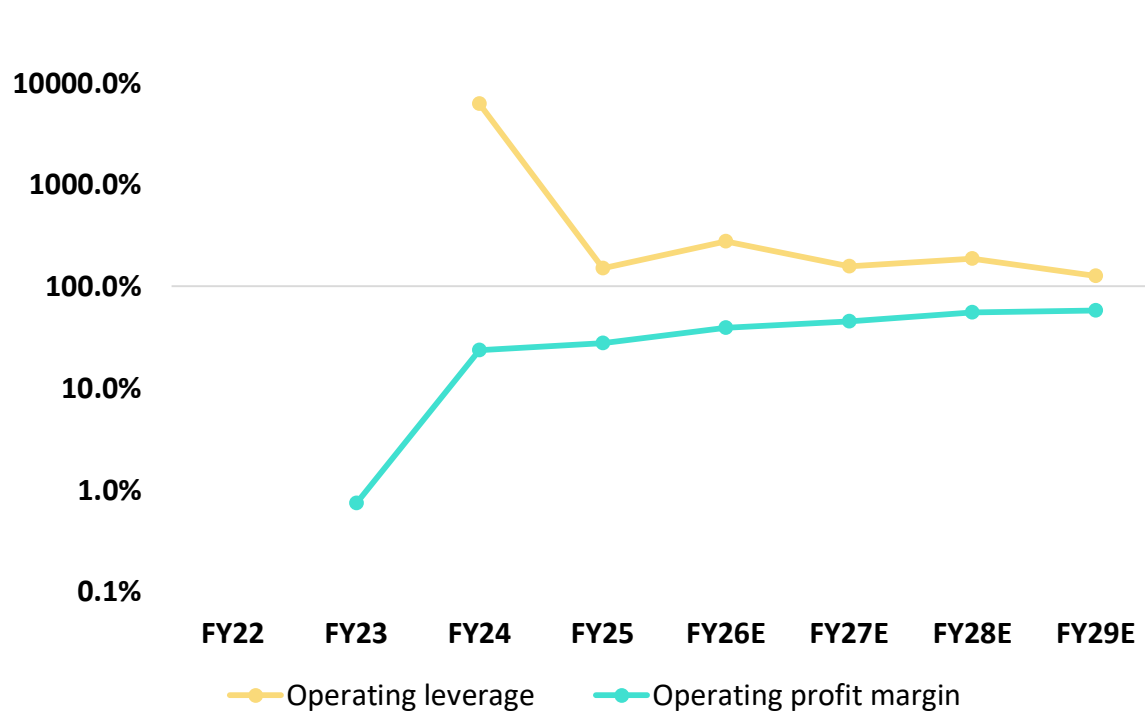
FCR expects PKME's EBIT margins to expand by 276bps by FY28E and operating leverage will continue to be >100.0%, enabled by its business model



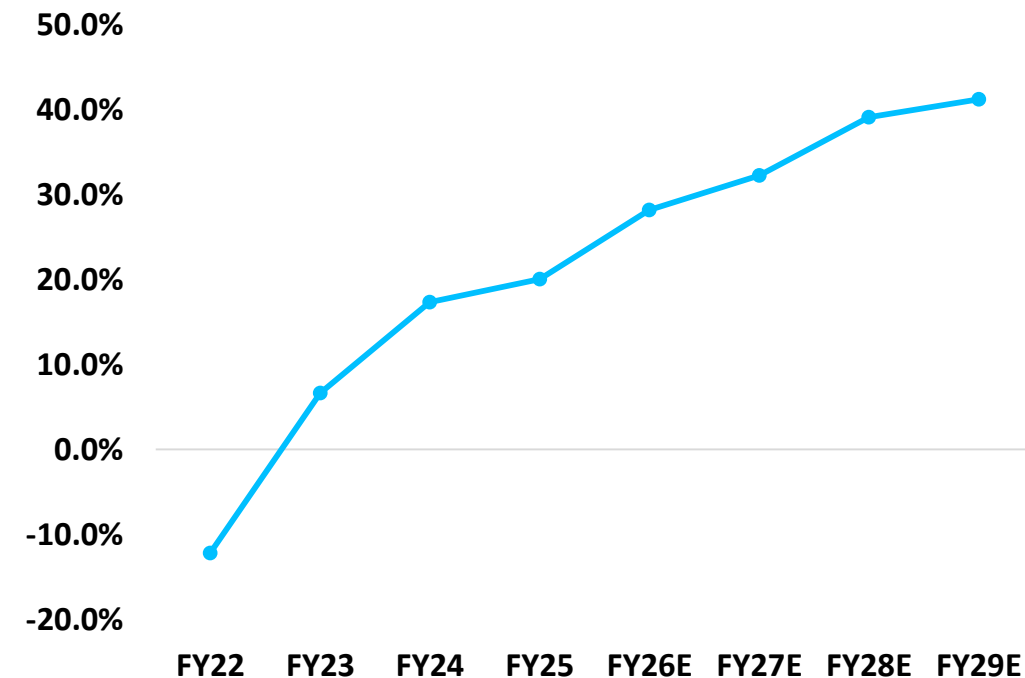
## PKME’s cost efficient business model enables capacity boosting at reduced cost.

PKME platform operates on SaaS (Software as a Service) model, which enhances the efficiency and scalability. SaaS model enables PKME to improve capacity, at larger economies of scale. The business ensures that cost per ride born by PKME is lower, when the capacity is upgraded. Thereby, revenue per ride will be higher than the cost. This will support the margin expansion of PKME and maintains higher operating leverage. Moreover, value-added products such as PKME Food, Courier Services and Events will further strengthen profit margins. FCR projects PKME’s operating profit margins to expand at a 3-year CAGR of 276bps to reach 55.0% by FY28E, and operating leverage to remain >100% throughout the forecasted period (FY26E-FY29E). Moreover, FCR expects PKME’s bottom line to grow at a 3-year CAGR of 67.6% by FY28E.

**Operating Profit Margin v Operating Leverage**

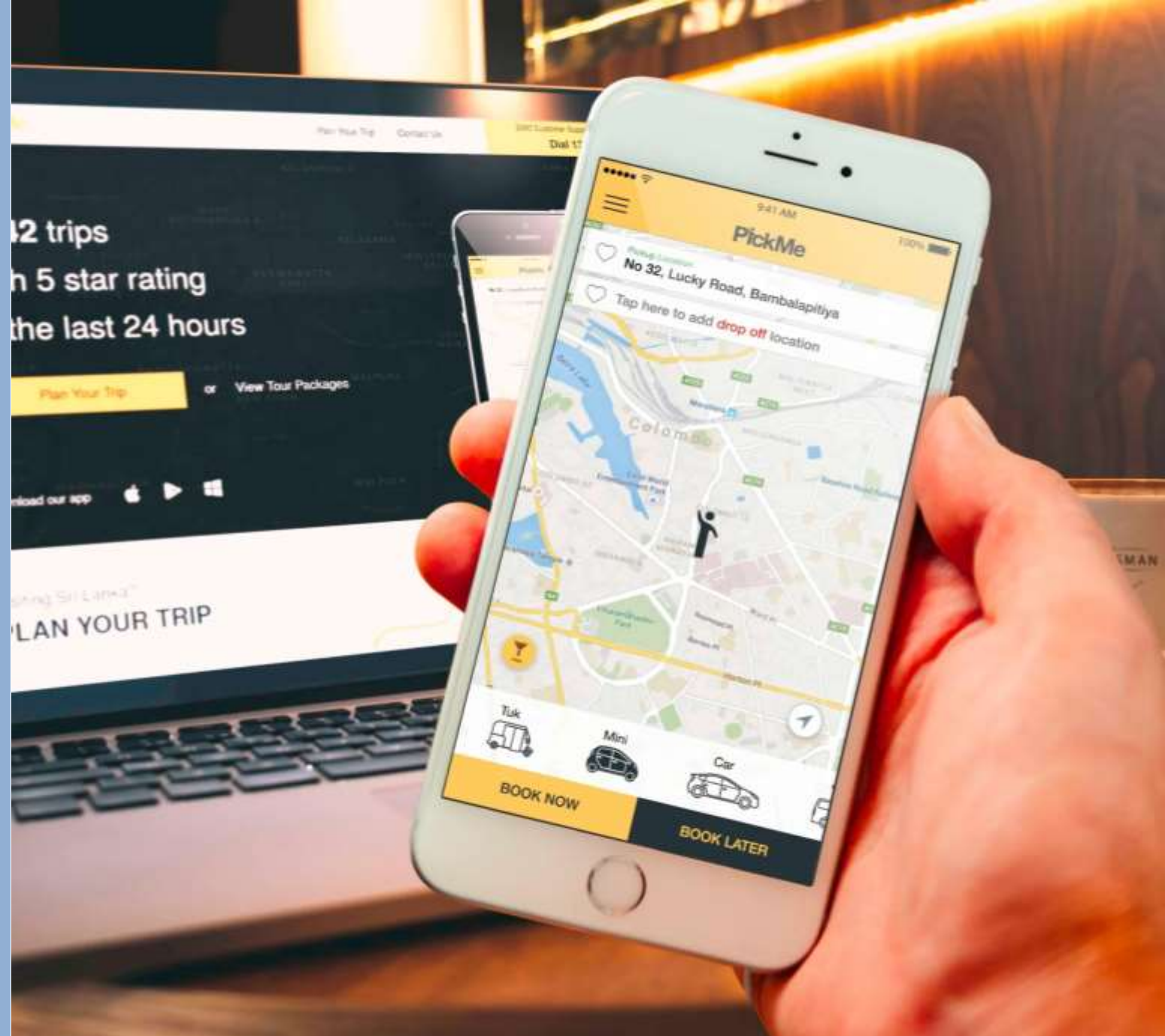


**Net Profit Margin**





# VALUATIONS

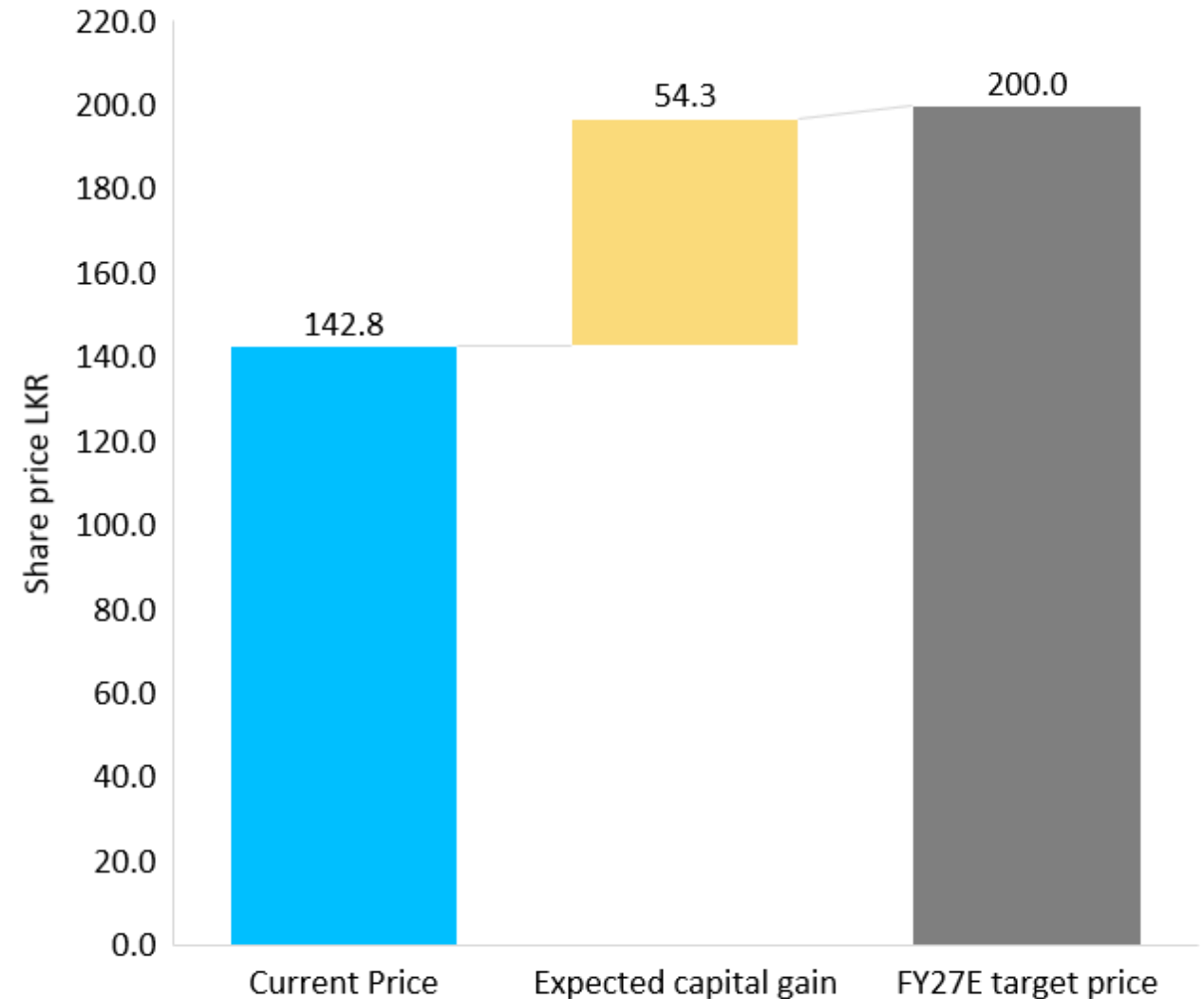


# FCR recommends a BUY for PKME, with a fair value target of LKR 200.0 for FY27E, derived from an equally weighted DCF and EV/EBITDA-based valuation methodologies

## Valuation Summary

Expected PKME price	FY26E	FY27E
EV/EBITDA Valuation based target price	139.7	215.6
DCF Valuation based target price	168.0	188.9
Average Target Price	153.8	202.3
Price after Rounding-off	155.0	200.0

Return	FY26E	FY27E
Target Price	155.0	200.0
Current Price	145.75	145.75
Capital Gain (LKR)	9	54
Dividends up to 31st March	3	5
Capital Gain %	6%	37%
Dividend Yield %	2%	4%
Total Return %	9%	41%
Annualized Return %	59%	22%



# DCF Valuation: WACC Assumptions

FCR forecasts PKME's DCF based fair value target to be LKR 190.0 for FY27E. WACC is calculated under the assumptions that terminal growth rate would be 3% and Debt/Equity composition would be 10/90.

## DCF based valuation

DCF based valuation	FY26E	FY27E
Enterprise Value	54,686	60,888
(-) Debt	-351	-386
(+) Cash	1,649	2,474
Total Value of Equity	55,984	62,976
No. of Shares (Mn)	333	333
Target Price	168.0	190.0

## WACC Assumptions

WACC	FY26E	FY27E
Cost of equity (Ke)	14.6%	14.6%
After tax cost of debt (Kd)	9%	9%
D/E Assumption	10/90	10/90
Terminal growth %	3%	3%
WACC	14.1%	14.1%

Cost of equity	FY26E	FY27E
Risk free rate (Rf)	9.0%	9.0%
Expected market return (Rm)	17.0%	17.0%
Growth %	3.0%	3.0%
Unlevered Beta ( $\beta$ )	0.70	0.70
$Ke = Rf + \beta(Rm - Rf)$	15.0%	15.0%

## EV/EBITDA based Valuation

EV/EBITDA based valuation	FY26E	FY27E
EBITDA (LKR 'Mn)	3,573	5,525
Enterprise Value (LKR 'Mn)	47,863	73,957
(-) Net debt	-1,298	-2,088
Total Value of Equity	46,565	71,869
Implied EV/EBITDA	13.39	13.39
No. of Shares (Mn)	333	333
Target Price	140.0	215.0

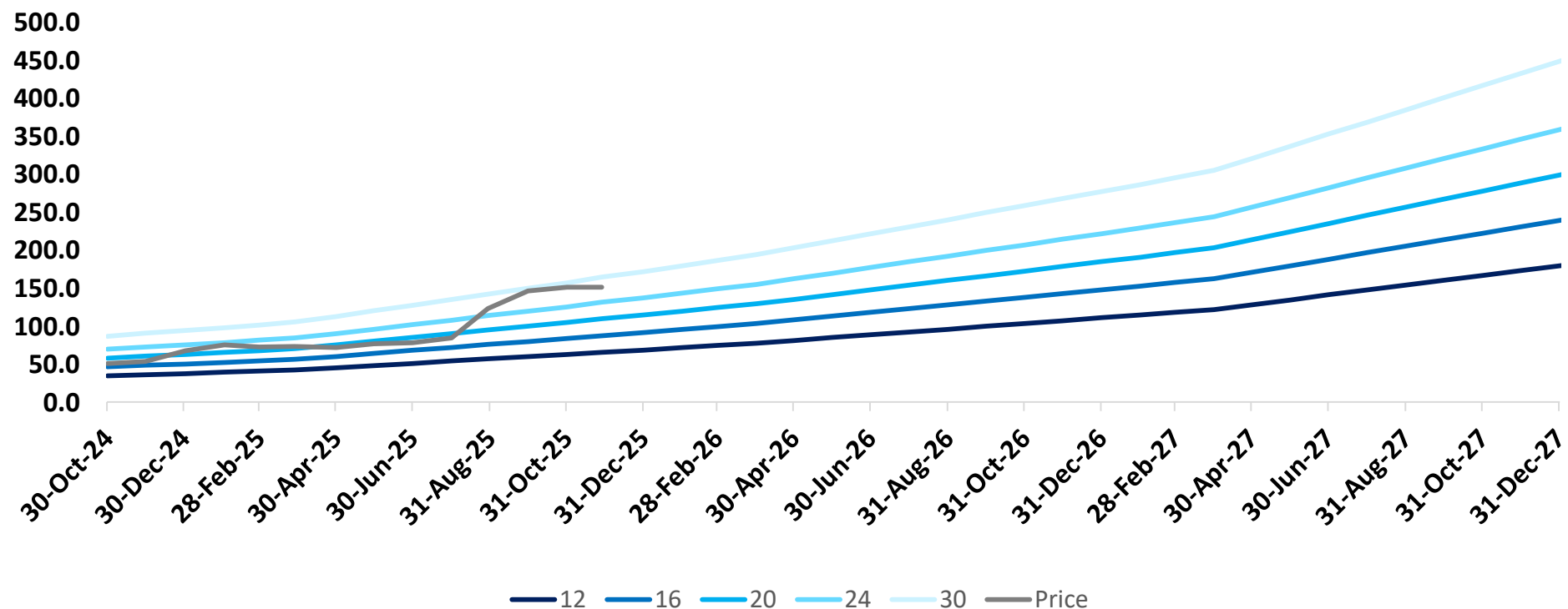
FCR forecasts PKME's EV/EBITDA based fair value target to be LKR 215.0 for FY27E. When arriving at the implied EV/EBITDA multiple, EV/EBITDA of listed close peers were considered. As PKME does not have comparable local peers, Uber Technologies Inc. (19.1x) and Grab Holdings Ltd. (28.1x) was selected. In comparison to PKME's EV/EBITDA multiple of 12.7x, Grab Holdings Ltd. was an outlier. Thereby, the average EV/EBITDA of Uber Technologies Inc. and PKME (15.9x) was discounted at 16%, accounting for Sri Lanka's country risk premium. Hence, the implied EV/EBITDA multiple was 13.4x.

Company	Market Cap (LKR Mn)	P/E (x)	EV/EBIT	EV/EBITDA	EV/Revenue	PBV (x)
Uber Technologies Inc.	63,322,010,748.0	23.7	25.4	19.1	3.5	8.9
Grab Holdings Ltd.	7,533,114,762.0	63.3	65.7	28.1	4.8	3.8
PKME	46,748.6	41.5	28.4	12.7	6.4	18.8
Average	23,618,390,752.9	42.8	39.8	20.0	4.9	10.5

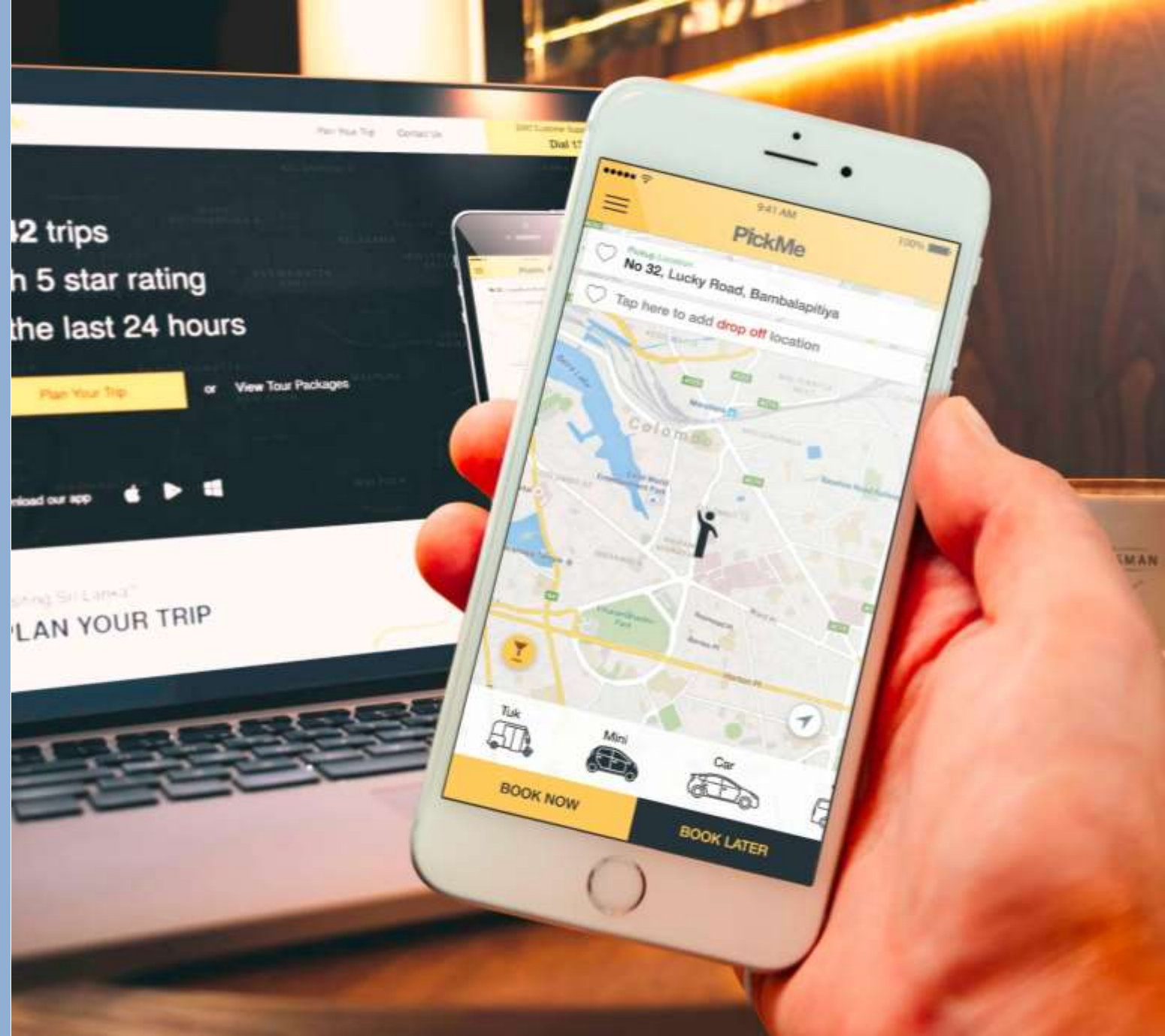


## PE band chart

PKME is currently trading at a TTM PER of 29.3x, well above the Transportation sector TTM PER of 17.7x, due to higher earnings growth.



# RISK ANALYSIS



# Risk Matrix

We have identified both downside and upside risks related to PKME, including operational and macro-economic factors. Our financial forecasts and valuations are based on conservative assumptions, taking into account the likelihood and potential impact of these risks. In doing so, we have adjusted our assumptions with appropriate premiums and discounts. The identified risks have been incorporated into a risk matrix, reflecting their likelihood and impact and further details on both downside and upside risks will be provided in the next two slides.

		LIKELIHOOD			
		LOW	MEDIUM	HIGH	VERY HIGH
IMPACT	LOW				
	MEDIUM	DOR7 – Natural disasters	DOR6– Lower vehicle registrations in the country	UPR1 – AI adoption DOR3 – Peer pressure	
	HIGH		DOR2 – Platform outages DOR5 – Increase in inflation UPR2 – Shift in consumer preferences towards digital mobility	DOR1 – Threat of cyber attacks	
	VERY HIGH		DOR4 – Increase in fuel prices		

## Downside Risks

Code	Risk	Financial and valuation impact	Likelihood	Impact
DOR 1	Threat of cyber attacks	As PKME app collects a large pool of user and driver data, it has to be well managed, in compliance with the Data Protection Act. In an event of cyber attack, it can take the app temporarily offline, prevent riders from booking rides or orders, stop drivers from receiving trip requests and interrupt payments and GPS tracking. Moreover, personal data can be leaked or sold unknowingly. This can create customer frustration and trust damages, as well as loss of daily revenue.	High	High
DOR 2	Platform outages	PKME's services are hosted by the Google Cloud Services. There could be instances of services outages on the platform. Similar to cyber attacks, this can create customer frustration and loss of daily revenue to the platform.	Medium	High
DOR 3	Competitive pressure from competitors	PKME is vulnerable to the threat from new entrants into the market. In an event of a new entrant competing with lower prices, PKME will face pricing pressure and loss of customers, as well as curtail the margins of PKME. However, local ride-hailing market is an oligopoly, where PKME is positioned as a leading player. Therefore, it will create challenges for a third entrant to capture the market.	High	Medium
DOR 4	Increase in fuel prices	Increase in fuel prices can create less demand for ride-hailing services. Since PKME generates a larger revenue portion from ride-hailing segment, this can create a huge revenue loss to PKME.	Medium	Very High



## Downside Risks cont...

Code	Risk	Financial and valuation impact	Likelihood	Impact
DOR 5	Increase in inflation	Increase in inflation will create a ripple effect to the performance of PKME. On one hand, consumers will prudently assess the cheaper mobility solutions, such as public transport. Thereby, it can create loss of customers and revenue. On the other hand, the drivers might need more incentives, which will increase PKME's costs and narrow the margins.	Medium	High
DOR 6	Lower vehicle registrations in the country	Currently, the vehicle registrations are increasing, due to the release of import restrictions by the government and lower interest environment. However, the pent-up demand is slowing down, where it can reach lower vehicle registrations. In such event, PKME will have a lower supply base to expand into new regions. This will decrease the revenue of the company.	Medium	Medium
DOR 7	Natural Disasters	Natural disasters such as the recent cyclone effect will hinder the expansion of services, as well as limit the usage of app, consequently creating adverse impact on revenue.	Low	Medium

## Upside Risks

Code	Risk	Financial and valuation impact	Likelihood	Impact
UPR 1	AI adoption	PKME will benefit from adopting AI into the platform, as it can track larger data sets and identify new market opportunities. Moreover, it will help reduce passenger wait time, by identifying the demand gaps correctly.	High	Medium
UPR 2	Shift in consumer preferences towards digital mobility	As consumers value convenience, there can be a shift of preference towards digital mobility solutions provided by PKME. This can create new market opportunities, as well as ease expansion.	Medium	High

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*"SUCCESSFUL INVESTMENTS IS ABOUT  
MANAGING RISKS"*



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