



JOHN KEELLS HOLDINGS: An Ecosystem Transformation Unlocking Unrealized Value

01 September 2021

ASIA SECURITIES RESEARCH

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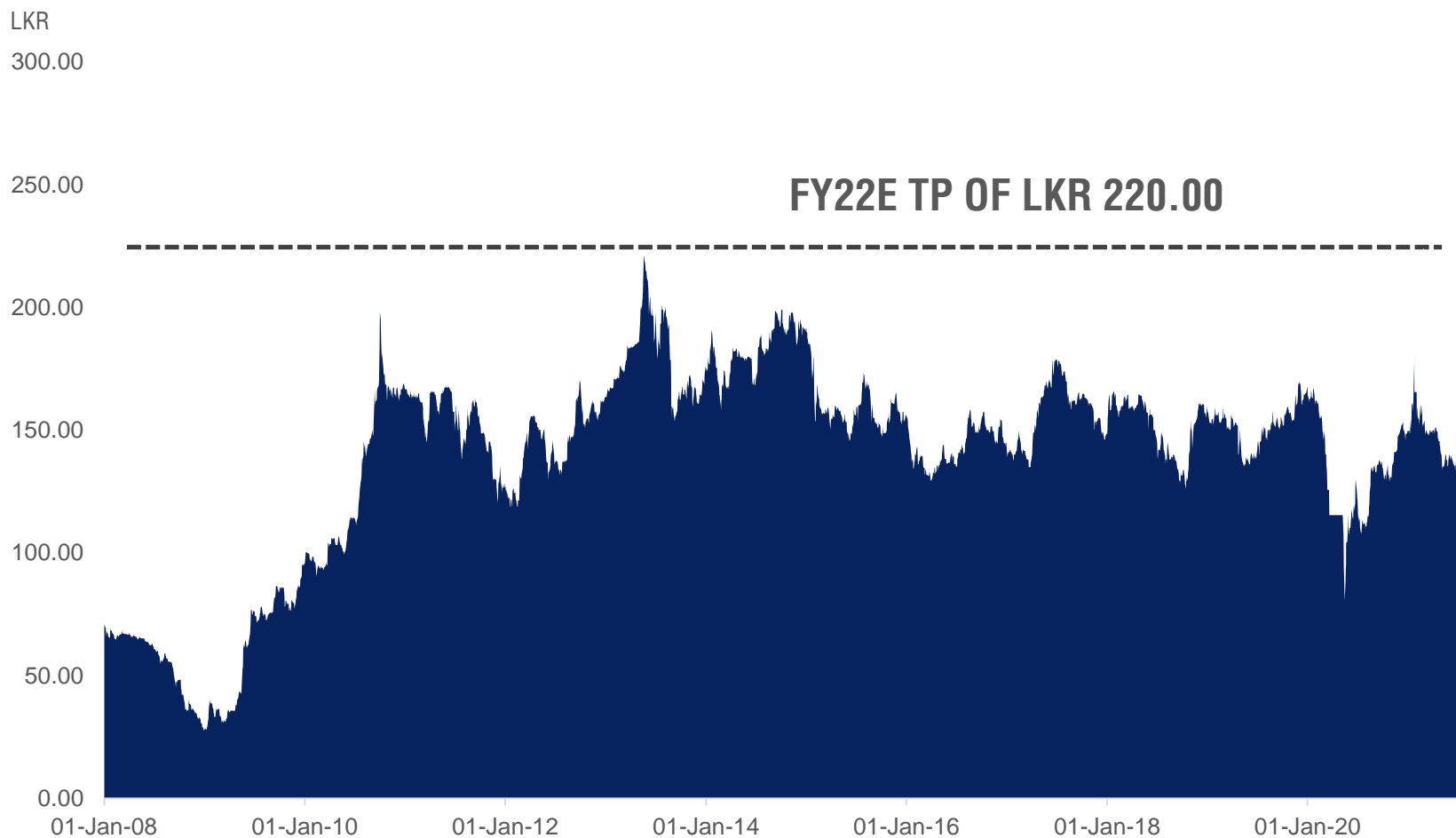
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OUR INVESTMENT THESIS ON JKH...

- We assign a BUY rating on JKH with an FY-22E TP of LKR 220.00 (upside of 69.2% and TSR of 71.5%).
- The stock price remains well below the intrinsic value of the company, and current price levels provide investors with an attractive entry point.
- Several of the company's core businesses enjoy long-term market leadership positions, and are well positioned to benefit from long-term growth in the modern retail, consumer, leisure, and financial sectors.
- Furthermore, the company's ongoing evolution towards a user-centric, data driven ecosystem will supplement and unlock incremental value across the businesses within the group. We believe JKH is one of the few Sri Lankan firms able to execute an ecosystem-based business strategy in the country.
- In our view, JKH's future stock price performance will be driven by;
 - 1) Ecosystem business strategy:** we expect JKH can expand the consumer spend wallet share of its Nexus users to 10-12% by 2025, from 5-6% currently. We arrive at a conservative valuation of LKR 80bn for Nexus, assuming that Nexus as a separate business can generate incremental revenue.
 - 2) Cinnamon Life gaming operation:** partnership with an international gaming operator will unlock the full economic potential of the Cinnamon Life project. We estimate the announcement of a gaming operation at Cinnamon Life will add a minimum of LKR 38 to the share price.
 - 3) WCT port operation with Adani:** the project positions the company to benefit from the vast transshipment opportunity of the Colombo Port and solidifies its growth prospects in the long-term.
- In conclusion, similar to premium valuation multiples assigned to ecosystem firms globally, going forward we believe investors should factor in a valuation premium to account for the vast and untapped growth runway which opens up for JKH due to its captive user ecosystem.

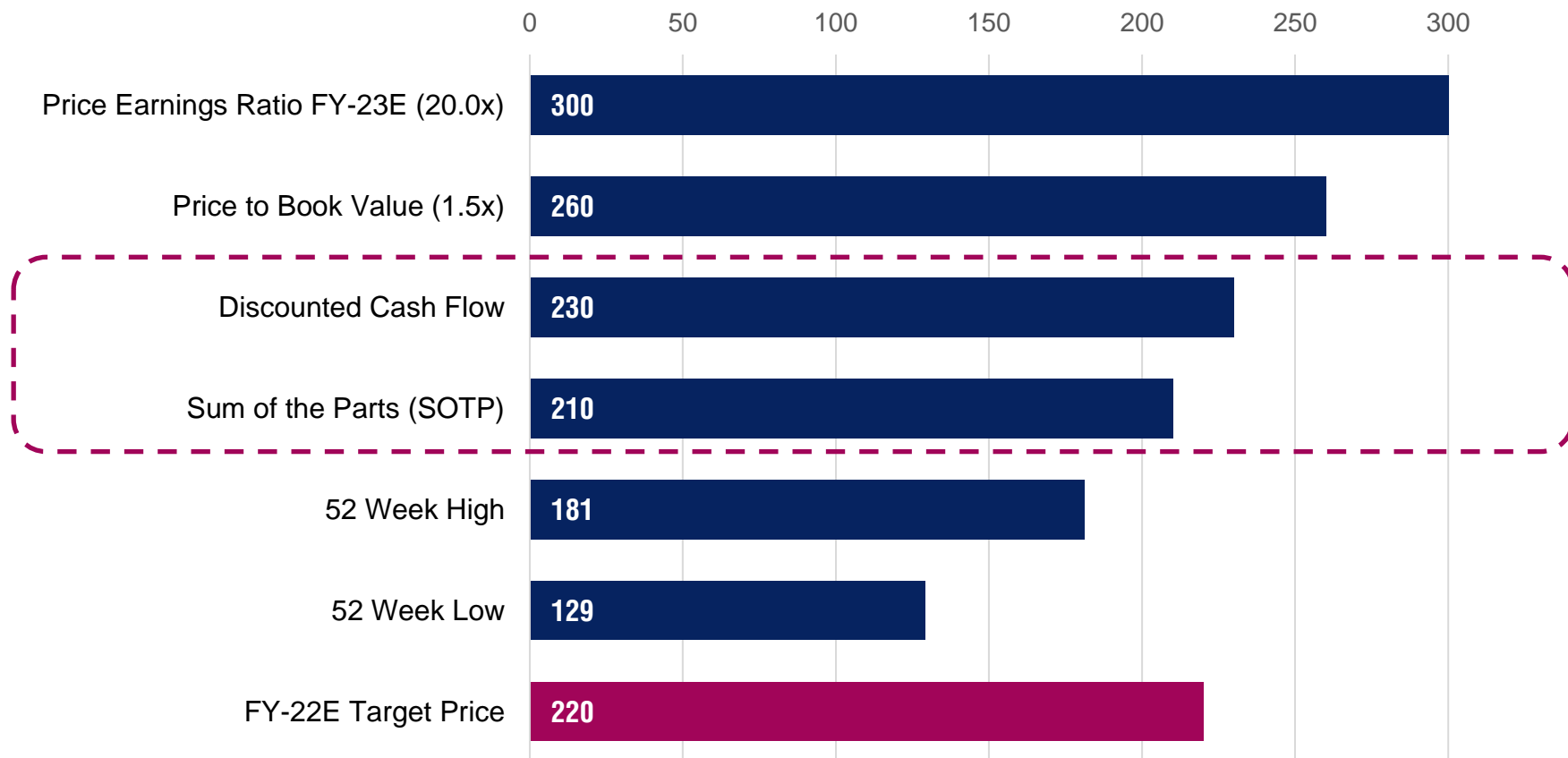
JKH SL : BUY - TP OF LKR 220.00/SHARE ; UPSIDE OF 69.2%



DERIVING A FAIR VALUE FOR JKH - VALUATIONS

We blend our DCF and SOTP derived fair values to arrive at a TP of LKR 220.00/share

LKR/share



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ROBUST CORE AND NEW PROJECTS TO DRIVE UPSIDE

RETAIL

Central distribution center completion in 3QFY22

The company is strongly positioned to benefit from the underpenetrated modern retail opportunity in the country. We expect JKH to operate 200+ Keells stores by FY-25E.

CONSUMER

Portfolio expansion to cater to evolving trends

Maintains market leading position in carbonated soft drinks, frozen confectionary and convenience foods. Will benefit from expanding consumer disposable income levels in the country.

LEISURE

Better-than-expected recovery in MV resorts

A sharp recovery on the back of pent-up travel demand will drive healthy occupancy and ARR's across the company's Leisure portfolio in Sri Lanka and Maldives from FY-23E.

PROPERTY

13.3% stake in VLDL to be acquired by Sep, 2021

Extensive land bank Including over 36 acres of developable land in central Colombo, means the company can sustain a lucrative pipeline of high ROI development projects going forward.

CINNAMON LIFE

Handover of Cinnamon Life residences started

Cinnamon Life resort operations will begin in the second half of FY-23E. We expect the planned roll out of a gaming operation will unlock the full economic potential of the project.

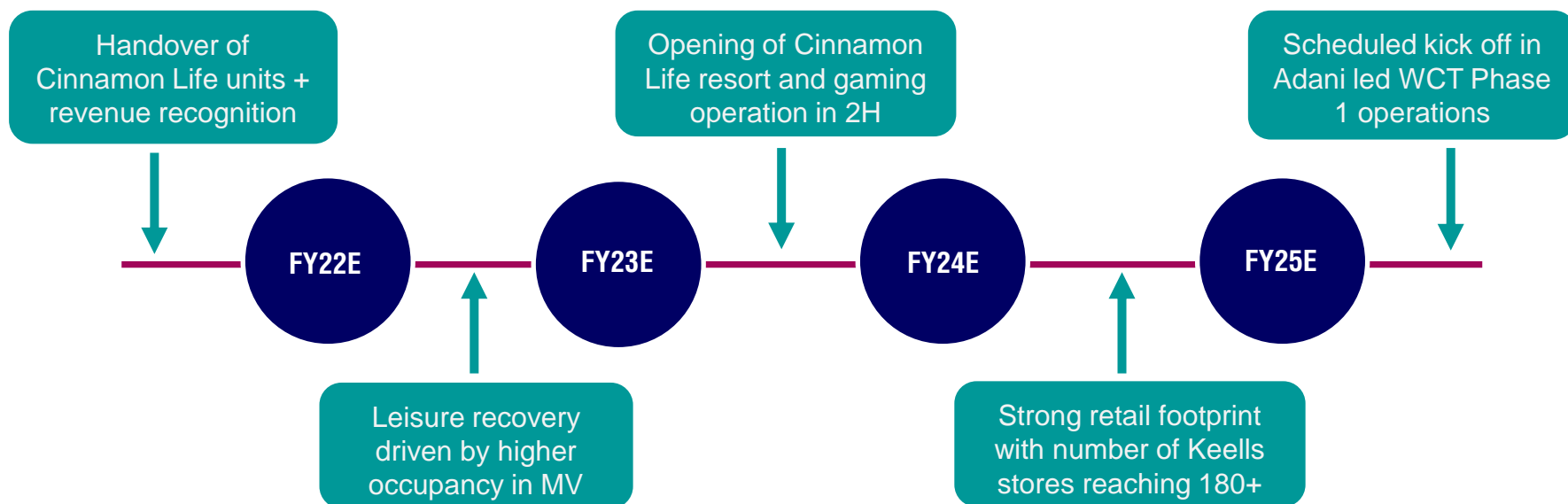
TRANSPORTATION

WCT construction expected to start in Dec 2021

JV with India's Adani Ports to develop Colombo's WCT will unlock significant transshipment opportunity originating from India. Phase 1 of operations is expected to kick off in FY-25E.

GROWTH TRAJECTORY INTACT, STRONG PIPELINE

Strong recovery in core business units and traction in new projects and investments will drive earnings momentum over the next few years



Source – Asia Securities and Company Data

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VALUATION

JKH Valuation Should Rerate To Reflect Ownership Of Large Captive User Base

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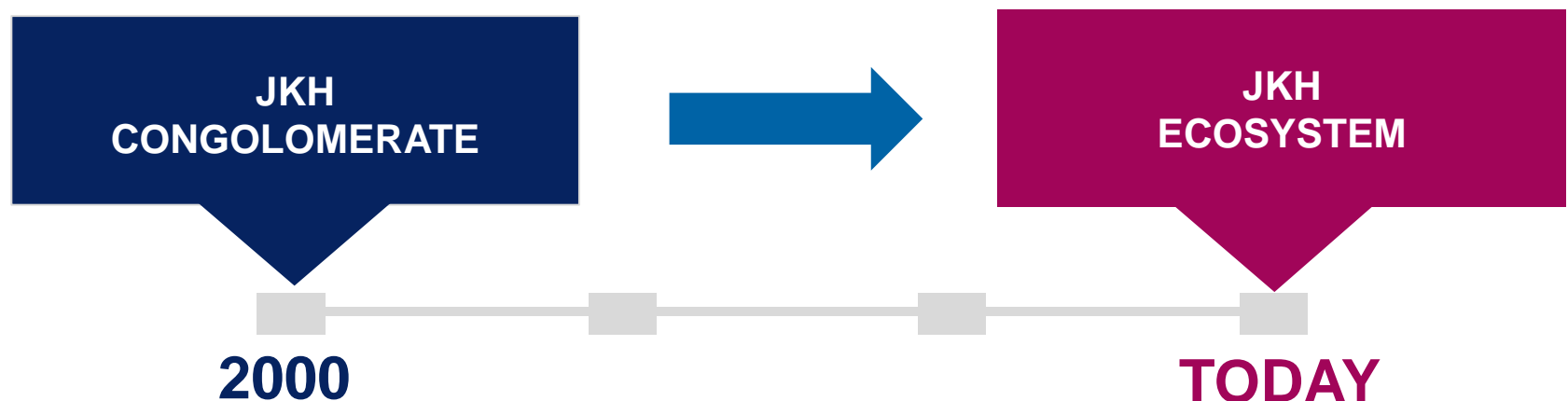
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JKH IS TRANSFORMING FROM A CONGLOMERATE TO AN ECOSYSTEM BUSINESS

- In our view, it is not prudent to look at JKH as merely a collection of separate businesses anymore.
- As illustrated in our scenario analysis for CCS discussed in this note, the standalone value of the business does not reflect the exponential value it adds as part of the overall JKH ecosystem. Similarly, other businesses in JKH (mainly consumer businesses) inherently become more valuable as part of JKH.
- Majority of the local investor community view JKH as a collection of distinct business units. In our view, this is incomplete, as it fails to account for the vast synergies and interdependencies in the JKH ecosystem.
- Going forward a key investor focus should revolve around customer unit economics when looking at JKH, given that JKH's business is predominantly consumer centric. This should account for factors like;
 - 1) How much can average revenue per user grow? this will be a function of the total available market opportunity and the company's potential penetration rate in existing markets it serves.
 - 2) Can JKH acquire new customers / keep existing customers in their businesses much more cost effectively compared to its peers?
 - 3) Potential new markets and adjacent business opportunities that can open up due to its user base.



ECOSYSTEM BUSINESS MODELS AROUND THE WORLD

TRADE AT PREMIUM VALUATIONS

In an ecosystem, the combined entity as a whole can create more value than what individual businesses can in isolation

The logo for Amazon.com, featuring the word "amazon.com" in a black sans-serif font with a curved orange arrow underneath the word "amazon".The logo for Tencent, featuring the word "Tencent" in a blue sans-serif font with a stylized blue arrow pointing upwards at the end of the word.

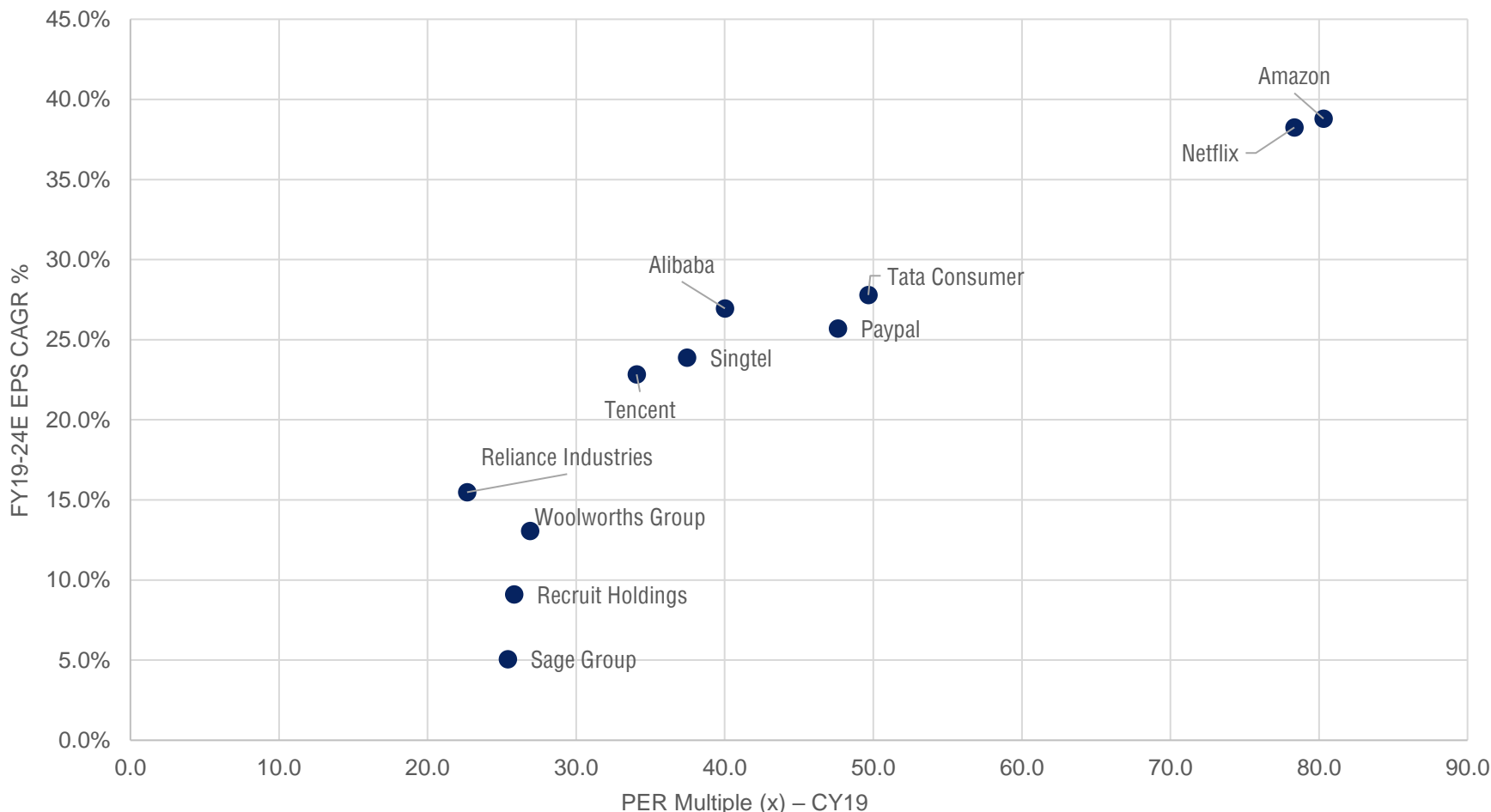
Source – Company, Asia Securities

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IN AN ECOSYSTEM MODEL, A CAPTIVE USER BASE CONFERS AN ADVANTAGE TO THE OVERALL BUSINESS

Investors worldwide have assigned valuation premiums for ecosystems that have strong core user bases...which leads to higher engagement levels within that ecosystem



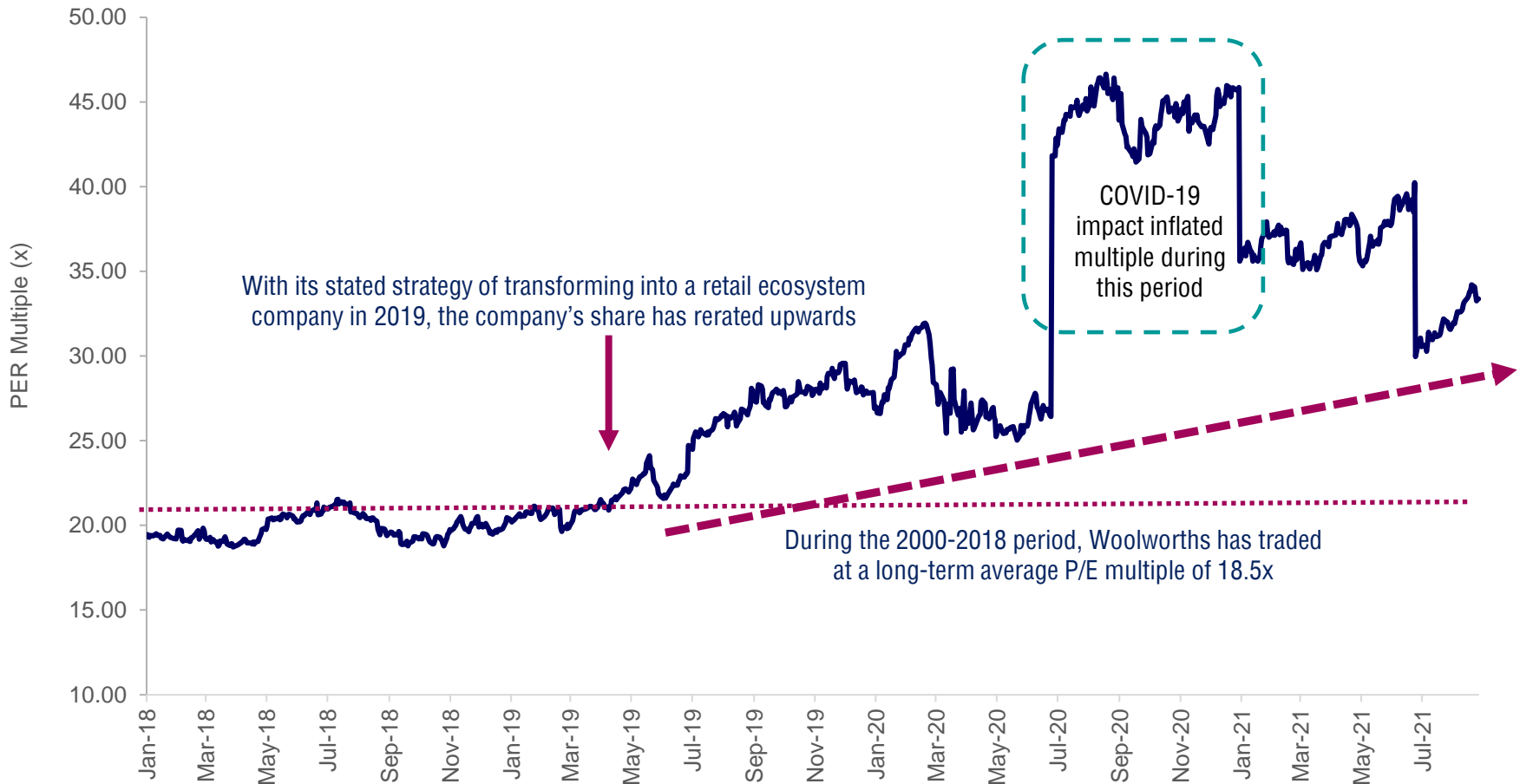
Source – Company Data, Bloomberg, Asia Securities | Note: CY19 and FY19 figures taken to exclude COVID-19 impact

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CASE STUDY: EVOLUTION OF WOOLWORTHS GROUP INTO AN ECOSYSTEM AND ITS IMPACT ON VALUATION

Australia's Woolworths Group's share has rerated in line with its evolution towards an ecosystem firm



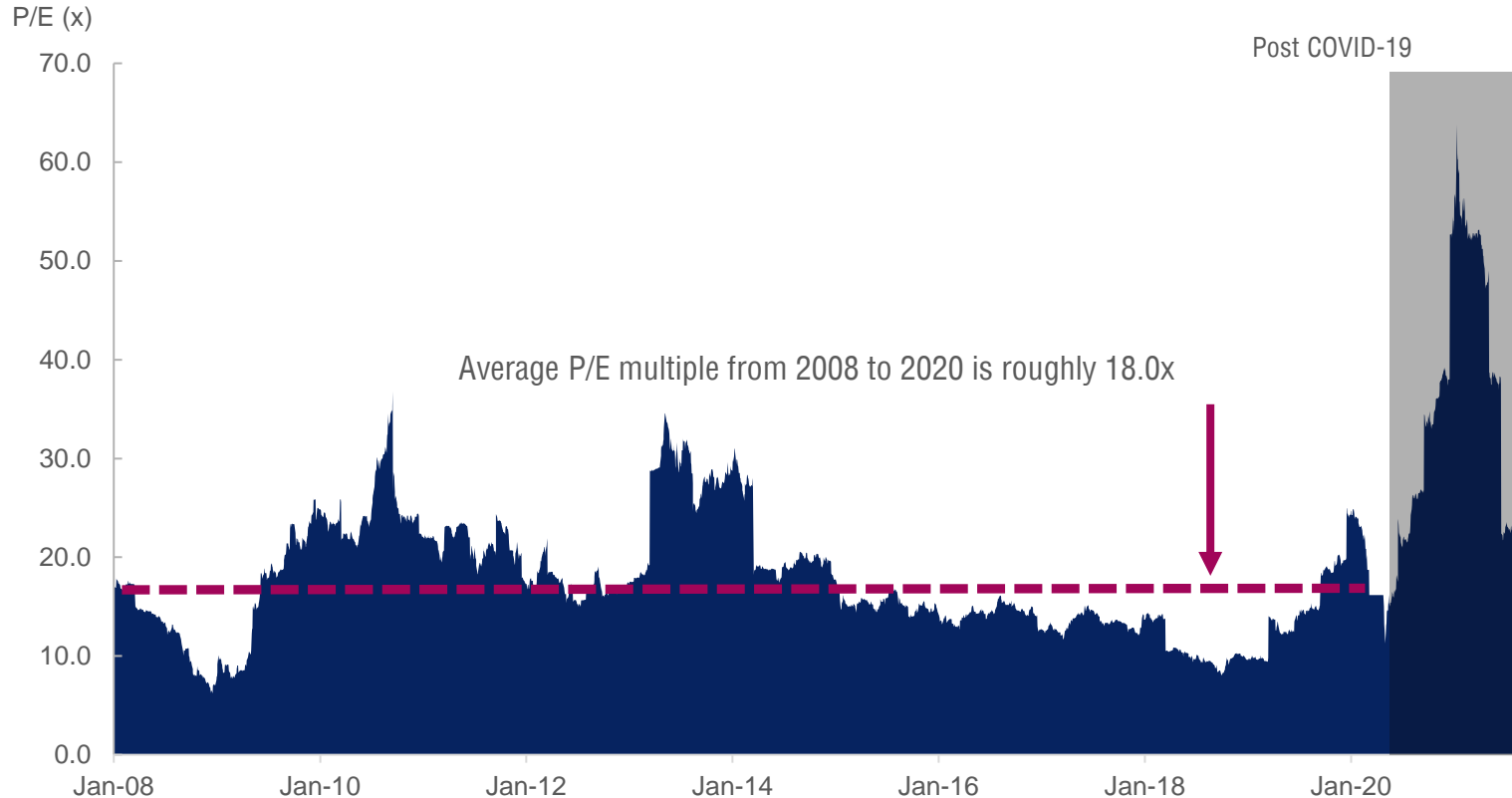
Source – Company Data, Bloomberg, Asia Securities

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FOR ECOSYSTEM BUSINESS MODELS, VALUATION SHOULD ACCOUNT FOR STRONG USER ENGAGEMENT

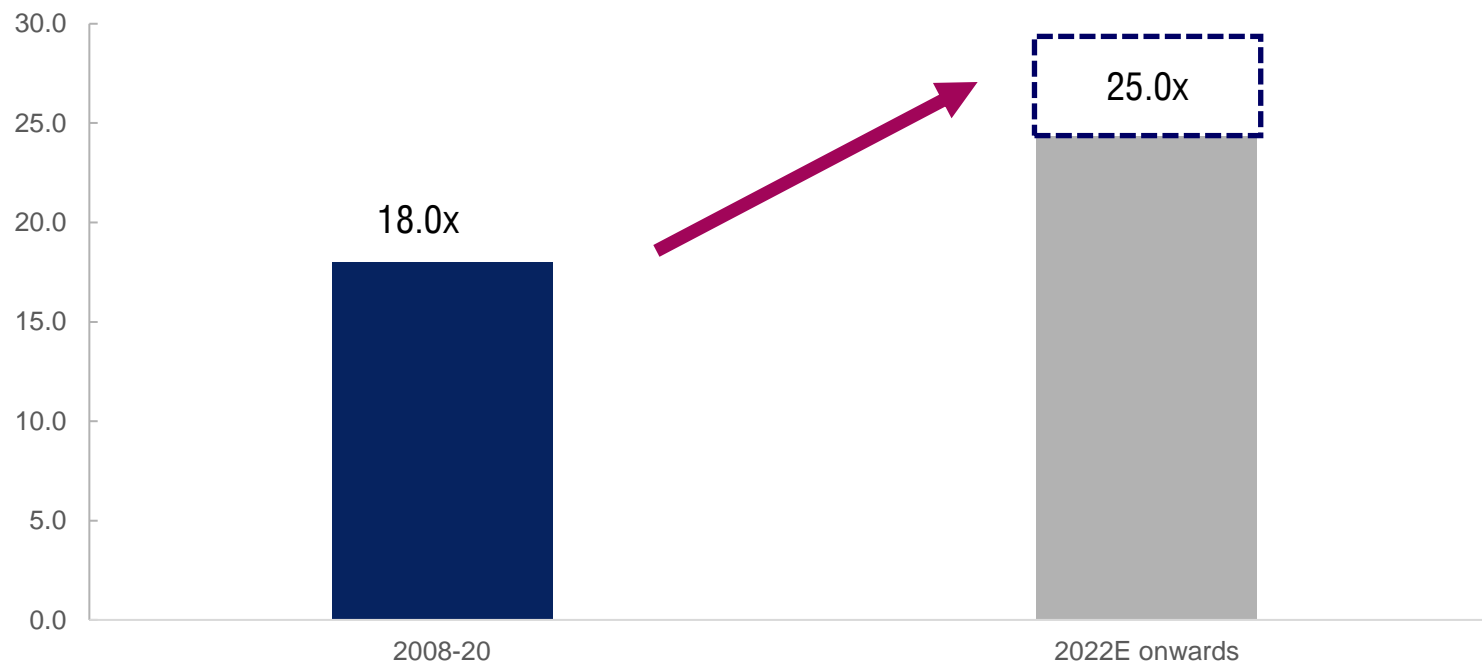
- Excluding the post COVID-19 period, JKH has traded at a long-term average P/E multiple of 18.0x.
- Similar to premium valuation multiples assigned to ecosystem firms globally, we believe investors should factor in a valuation premium for JKH to account for the vast growth runway and market opportunity which opens up across its vast ecosystem due to the ownership of its core Nexus user base.
- JKH can scale its active Nexus user base to 2.0mn+ active users within the next 3 years in our view. This gives the company an unparalleled, dominant position in the local market compared to peers.



FACTORING IN AN ECOSYSTEM PREMIUM, OUR 25.0x P/E MULTIPLE SUGGESTS AN FY23E TP OF LKR 375.00

- With OCTAVE, JKH will be well positioned to harvest material incremental value from its core users.
- The company is in a dominant position in the local market with the ability to pivot and enter new and adjacent markets using its core captive user base as a springboard.
- We assign a 25.0x P/E multiple to value JKH, which is roughly a 40% premium to its long-term historical multiple, to account for the company's large core customer loyalty base.
- **At 25.0x our current FY23E EPS estimate, we derive a TP of LKR 375.00/share for JKH.**

P/E Multiple (x)

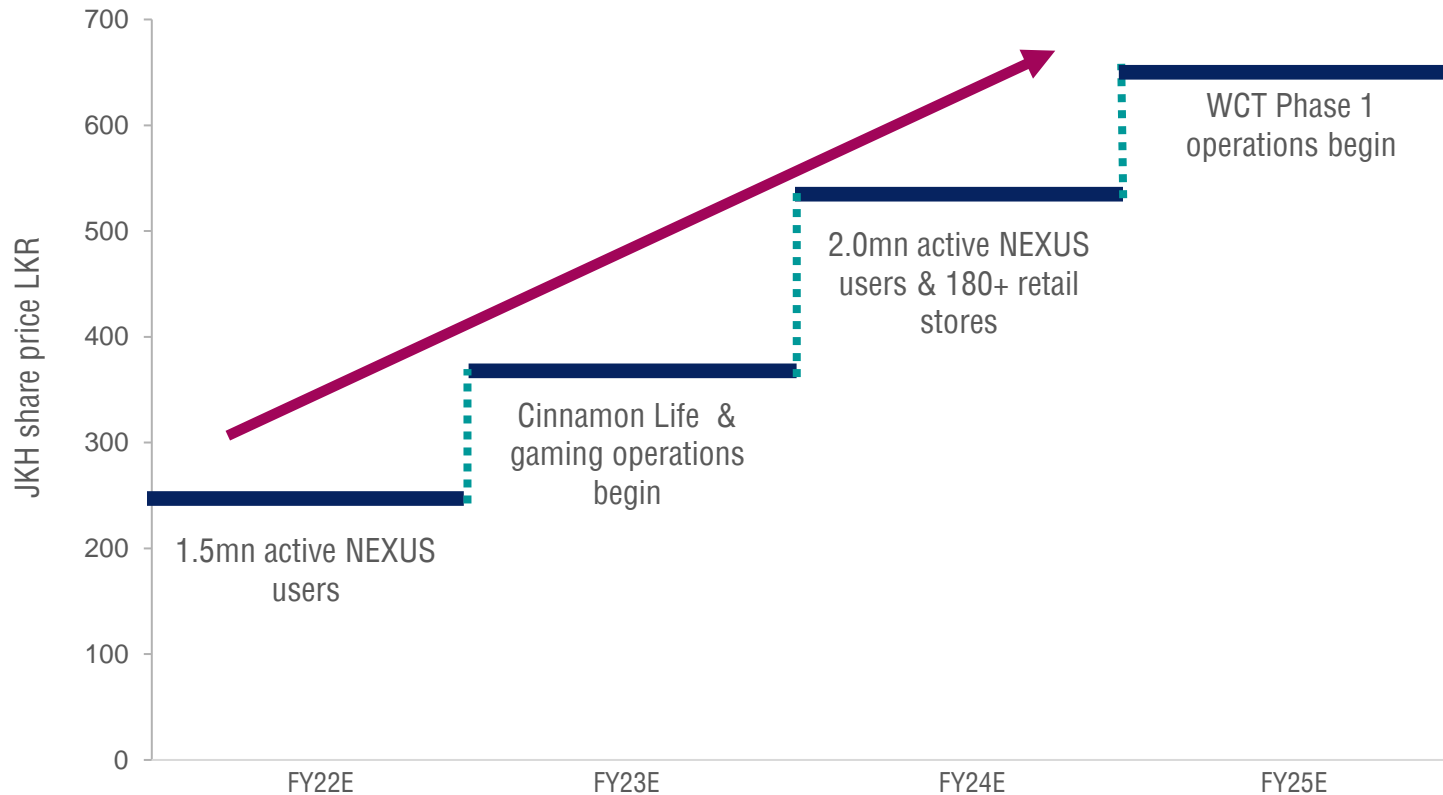


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WE SEE PATH TO LKR 500 PER SHARE BY FY24E

Our long-term 25.0x P/E multiple for JKH sees the share price climbing towards the LKR 500+ range by FY24E

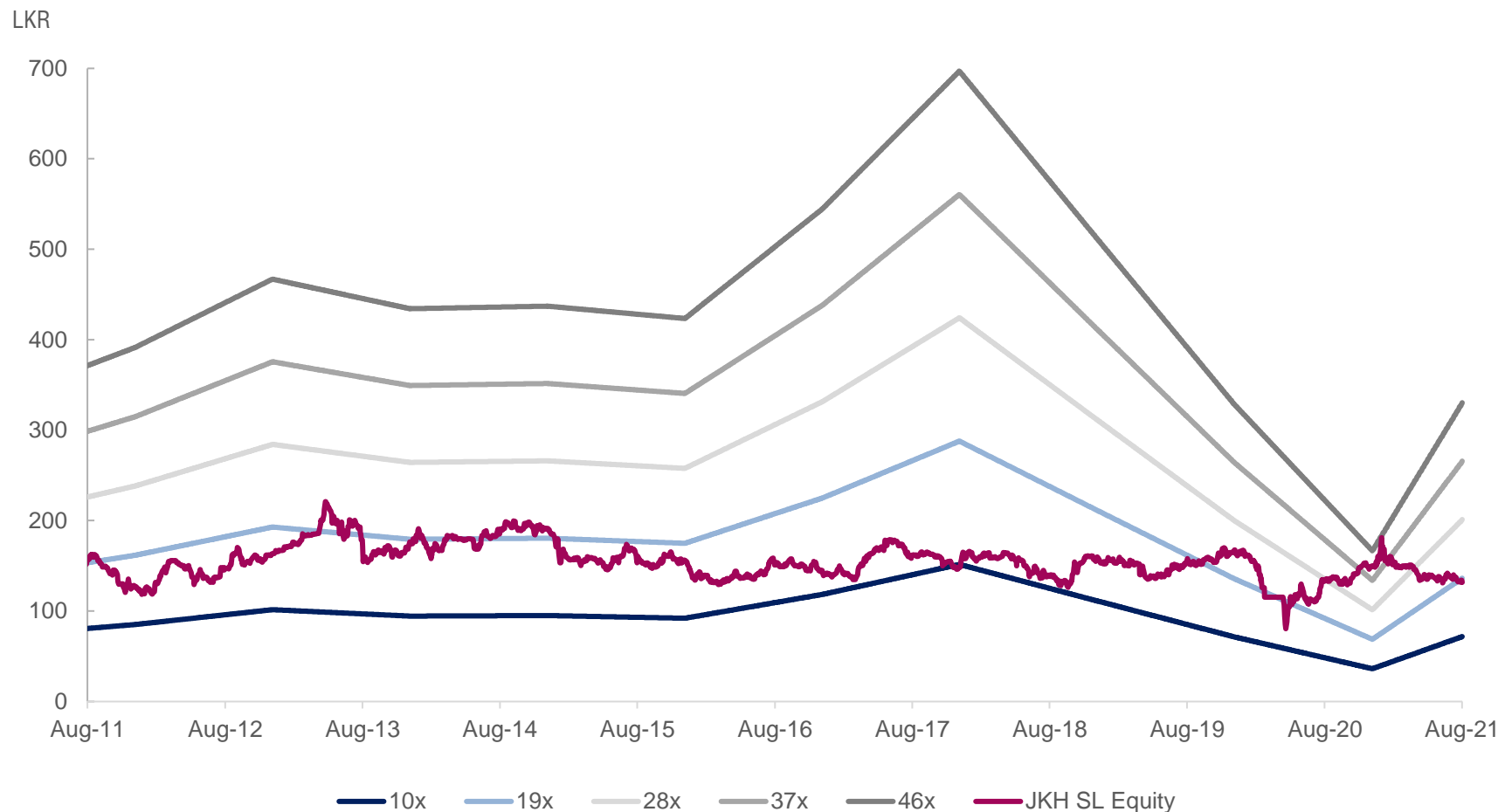


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JKH P/E BAND CHART

Based on our earnings projections for the FY22-24E period, we believe the JKH share has further room to rerate



Source – Bloomberg, Company Data and Asia Securities

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P/BV RATIO SIGNALS ATTRACTIVE BUYING OPPORTUNITY

Even at a P/BV ratio of 1.50, which is a 12% discount to long-term average P/BV ratio, JKH could be valued at LKR 260



Source – Asia Securities and Bloomberg

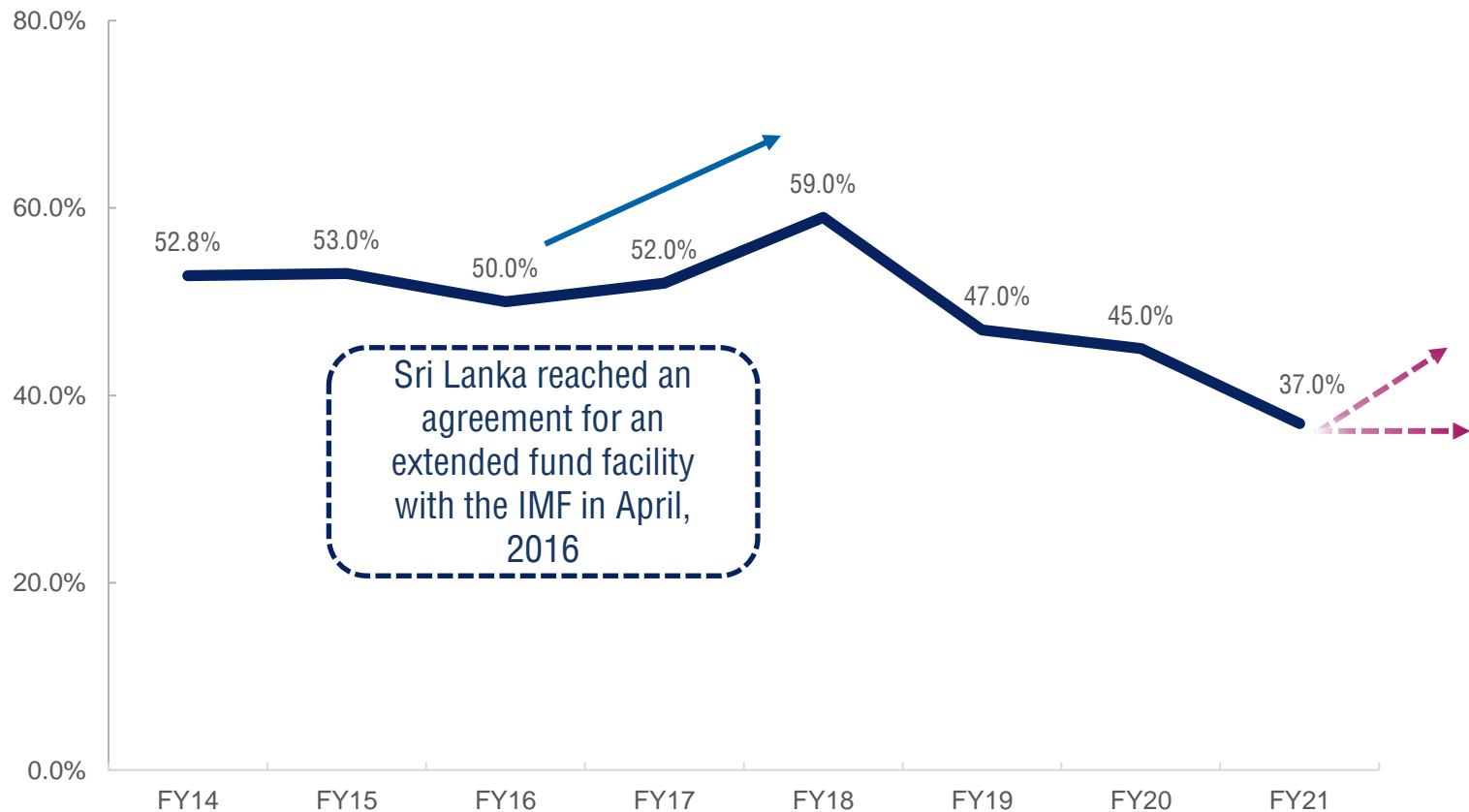
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SELLING PRESSURE ON THE STOCK TO EASE FOLLOWING POTENTIAL MOVE TOWARDS IMF PROGRAM

Similar to what transpired post IMF agreement in 2016, we expect a potential IMF deal in the near-term to stabilize foreign ownership in the JKH stock

% of foreign ownership



Source – Asia Securities and Company Data

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DISPOSAL OF LESS STRATEGIC PROPERTY HOLDINGS COULD PROVE TO BE VERY LUCRATIVE

Book value of JKH's hotel property portfolio alone is LKR 90bn at the end of FY21

- **In a hypothetical scenario**, let's assume the company decides to free up roughly LKR 45bn in capital via disposal of some of its less strategic asset holdings in the property portfolio. We look at some of the potential options the company can utilise to maximize shareholder value.

Option 1

- Share buyback at LKR 175/ share
- Reduce total share count by ~257mn
- Boost forward EPS by a minimum of 24% in our estimates

Option 2

- Special one-time dividend payout of LKR 34/share
- Assuming a share price of LKR 150 the yield on one-time payout is 23%

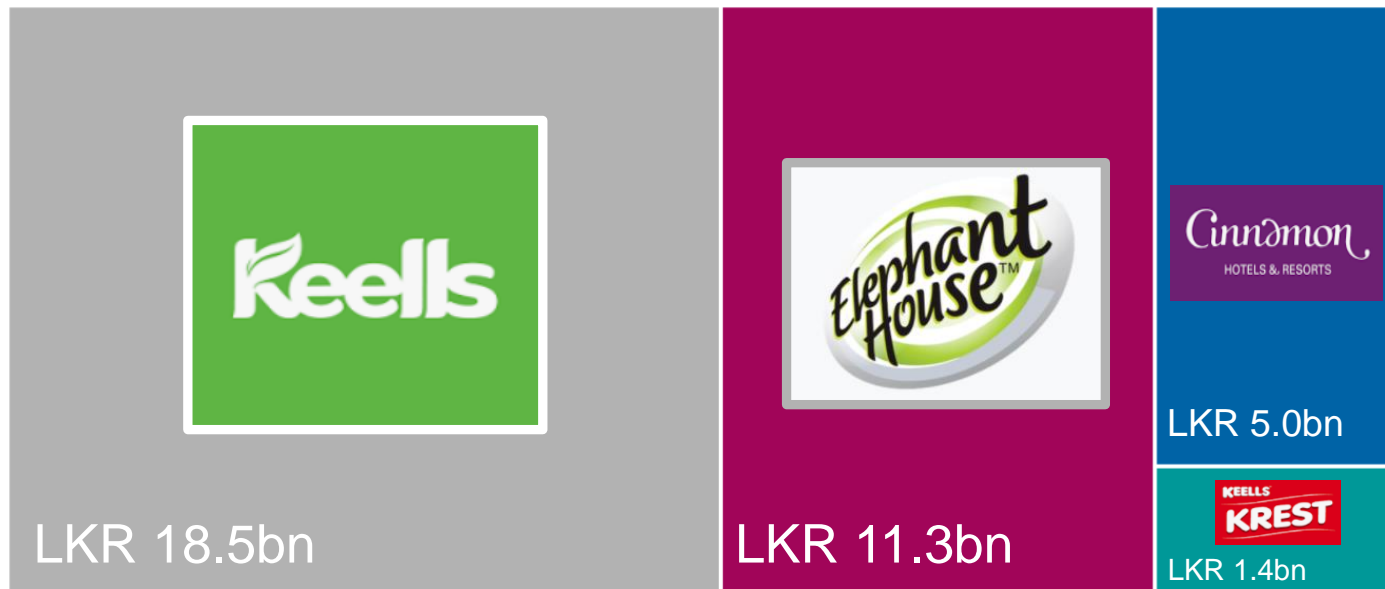
Option 3

- Combo of buyback, special dividend and debt repayment
- Growth capex on Retail and Consumer
- Further TRI-ZEN like mid-tier developments

THE INTANGIBLE GOLD MINE AND ITS VALUE...

Investors vastly underestimate the economic value attributable to JKH brands

Value of JKH brands 2020



NOTE – Data from Brand Finance (2020). Brand Finance calculates the value of brands using the Royalty Relief approach.

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Source – Brand Finance (2020). Sri Lanka 100, 2020. The Annual Report on Sri Lanka's Most Valuable and Strongest Brands.

Available at: https://brandfinance.com/wp-content/uploads/1/brand_finance_sri_lanka_100_2020_full_report.pdf



NEXUS & THE JKH ECOSYSTEM

**Nexus Base Is The Key To
Unlocking Untapped Value Of
JKH Ecosystem**

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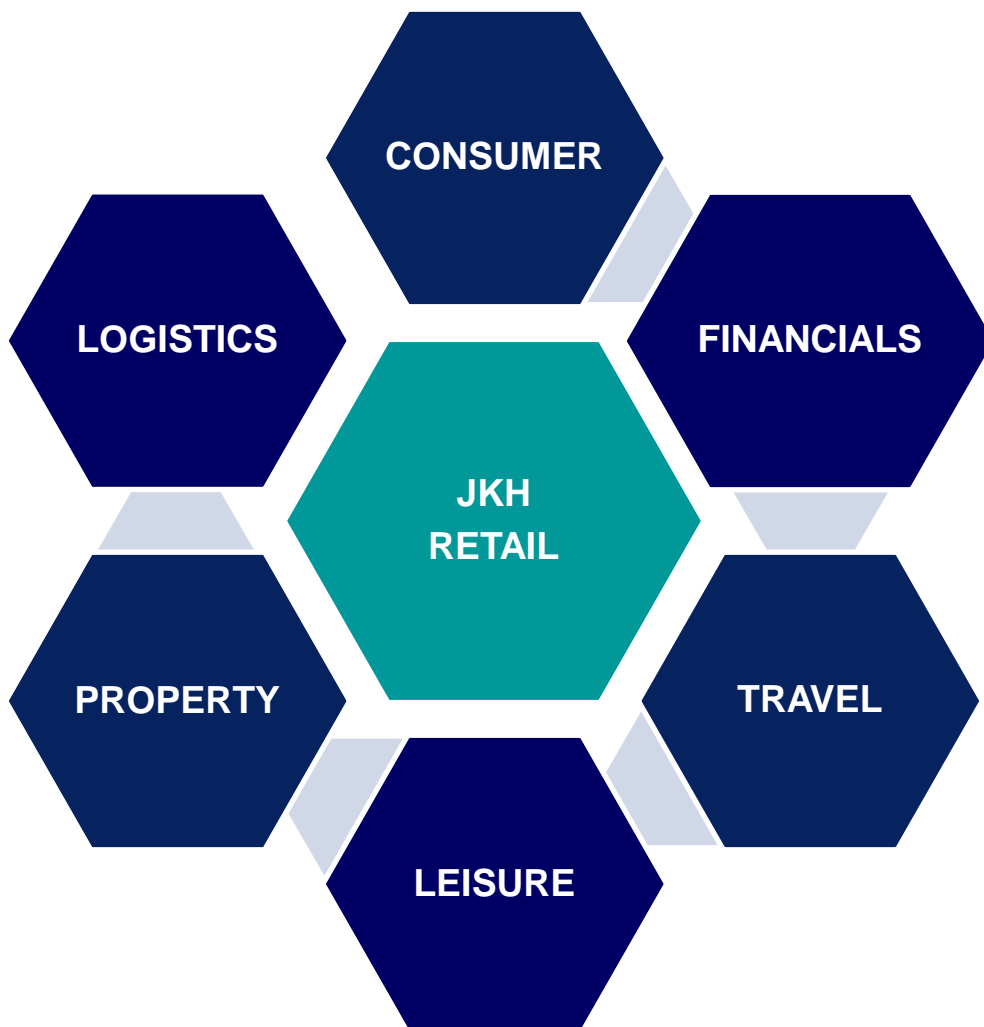
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EVOLUTION OF JKH INTO A BUSINESS ECOSYSTEM AND ITS IMPACT ON OVERALL FIRM PERFORMANCE



- The company's ongoing evolution towards a user-centric, data driven business ecosystem will supplement and unlock incremental value across the businesses within the group.
- We expect JKH can increase the consumer spend wallet share of its Nexus users to 10-12% by 2025, from 5-6% currently.
- We estimate OCTAVE induced gains to aid margin expansion in the supermarkets business, with EBIT margins growing to 9.2% in FY-24E, from 4.9% in FY-22E.
- Furthermore, based on our estimates, EBITDA per active Nexus user will grow at a CAGR of 24.3% in FY21-24E period, compared to a CAGR of 16.2% in the FY-19-22E period.
- Separately, we arrive at a conservative valuation of LKR 80bn for Nexus, assuming that Nexus as a separate business can generate incremental revenue of LKR 27,000 per user across the JKH group at a net margin of 10.0%.

JKH HAS AN UNMATCHED BUSINESS ECOSYSTEM IN THE SRI LANKAN MARKET



Source – Company Website; <https://www.keells.com/resource/our-brands/brands.pdf>

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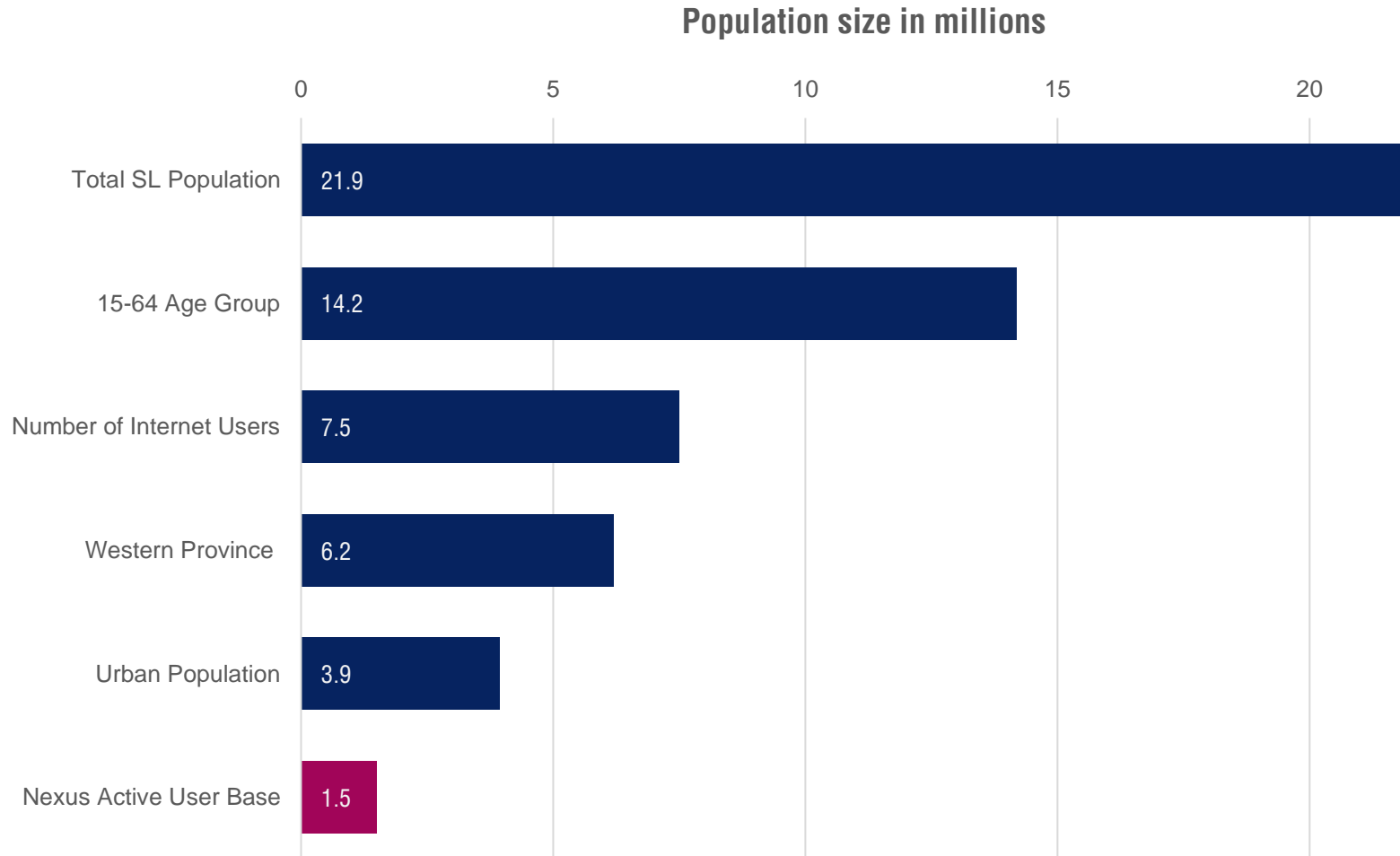
OCTAVE + NEXUS WILL UNLOCK JKH ECOSYSTEM VALUE



WHAT IS JKH'S STRATEGY: Leverage newly setup OCTAVE data innovation unit to harvest incremental customer value across its large ecosystem of products and services

- We believe investors vastly undervalue the JKH retail and consumer ecosystem
- It is one of the largest and long-standing captive consumer ecosystems in Sri Lanka
- Given its footprint across consumer, financial services, leisure, travel, transportation and property, JKH is set to harvest massive network effects from its Nexus user base

ACTIVE NEXUS MEMBERSHIP ALONE EQUATES TO 38% OF SRI LANKA'S TOTAL URBAN POPULATION



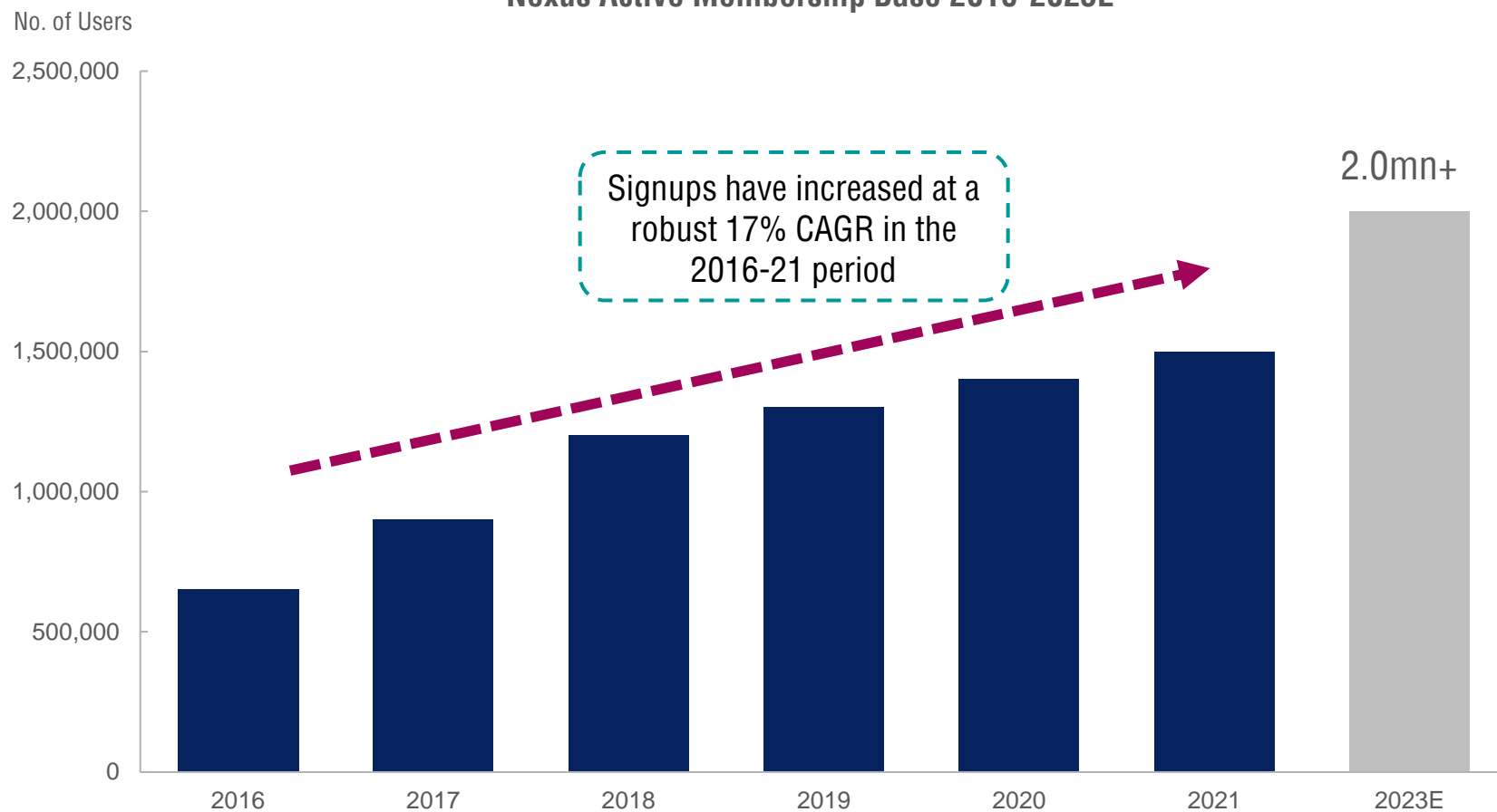
Source – World Bank, United Nations, Worldometer, Central Bank of Sri Lanka, Company Data, Asia Securities

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JKH NEXUS BASE CONTINUES TO GROW YoY...

Nexus Active Membership Base 2016-2023E

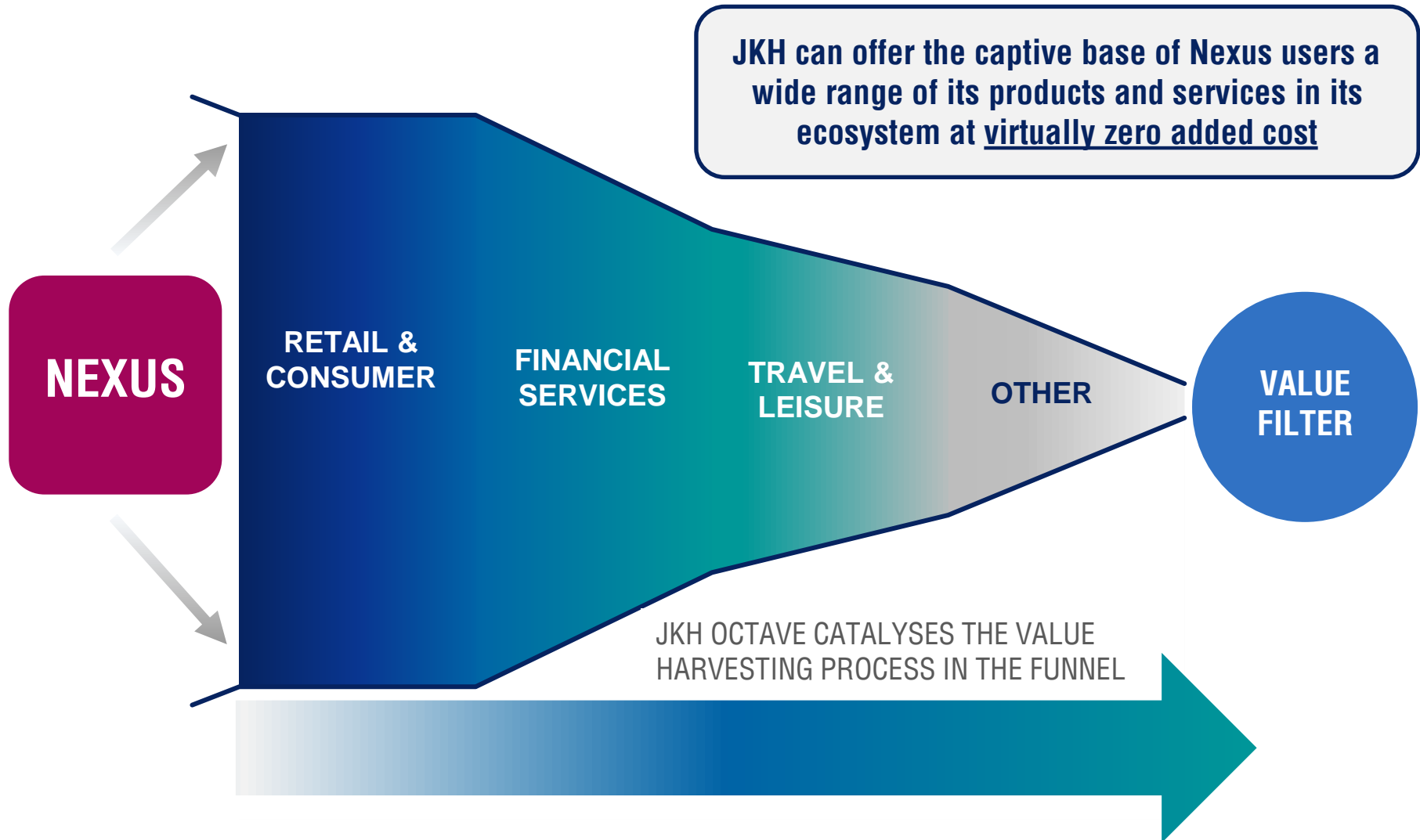


Source – Company Data and Asia Securities Estimates

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NEXUS IS ENTRY POINT TO JKH ECOSYSTEM FUNNEL



Source – Asia Securities

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HIGHER USER ENGAGEMENT WITHIN THE JKH ECOSYSTEM WILL LEAD TO NETWORK EFFECTS

JKH will aim to ring fence users within its ecosystem and begin to harvest incremental value from the user engagement

Increase the number of active users



Expand average revenue per user



Reduce customer acquisition cost



Increase the existing customer lifetime

**INVESTORS WORLDWIDE
PAY PREMIUMS FOR THE
MARKET ACCESS THAT
THE HIGH-QUALITY
CUSTOMER BASE
REPRESENTS**

Source – Based on: Rob Markey, “Are You Undervaluing Your Customers?” Harvard Business Review, Vol. 98, No. 1, January-February 2020, HBR article available at: <https://hbr.org/2020/01/are-you-undervaluing-your-customers>; Asia Securities

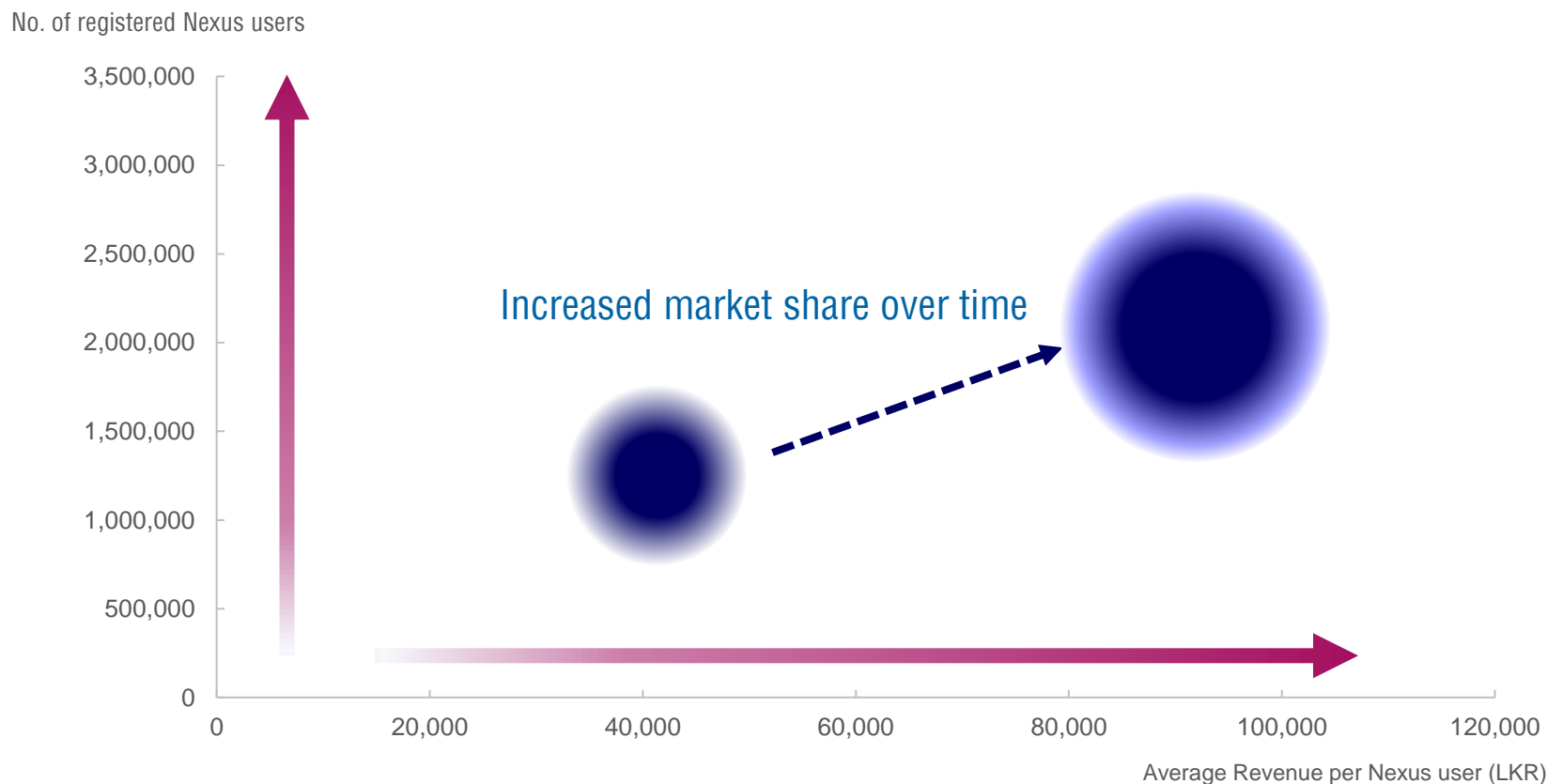
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NEXUS CAN UNLOCK STRONG GROWTH POTENTIAL...

The Nexus user loyalty base serves as a strong platform for profitable growth. This can be achieved via:

1. **Increasing revenue per user through existing products and services**
2. **Growing the number of captive Nexus users in the JKH ecosystem**
3. **Expanding market share in existing and new markets**



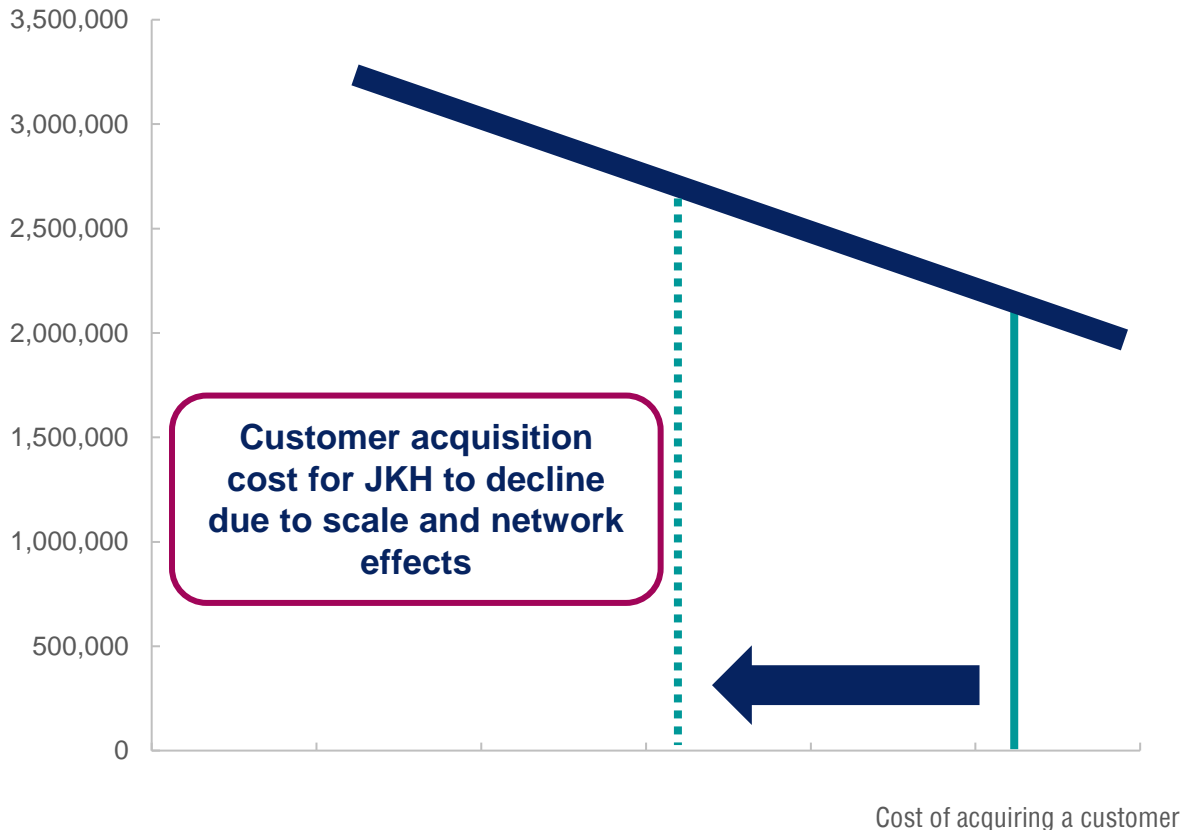
Source – Based on: Rob Markey, “Are You Undervaluing Your Customers?” Harvard Business Review, Vol. 98, No. 1, January-February 2020, HBR article available at: <https://hbr.org/2020/01/are-you-undervaluing-your-customers>; Asia Securities

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...AND LOWER NEW CUSTOMER ACQUISITION COST

Number of Nexus users



Growth in Ecosystem



Lower Friction Between Services



Cost of Acquiring New Customers To Decline With Network Effects Kicking In



LEADING TO HIGHER OPERATING MARGINS

Source – Based on: Rob Markey, “Are You Undervaluing Your Customers?” Harvard Business Review, Vol. 98, No. 1, January-February 2020, HBR article available at: <https://hbr.org/2020/01/are-you-undervaluing-your-customers>; Asia Securities

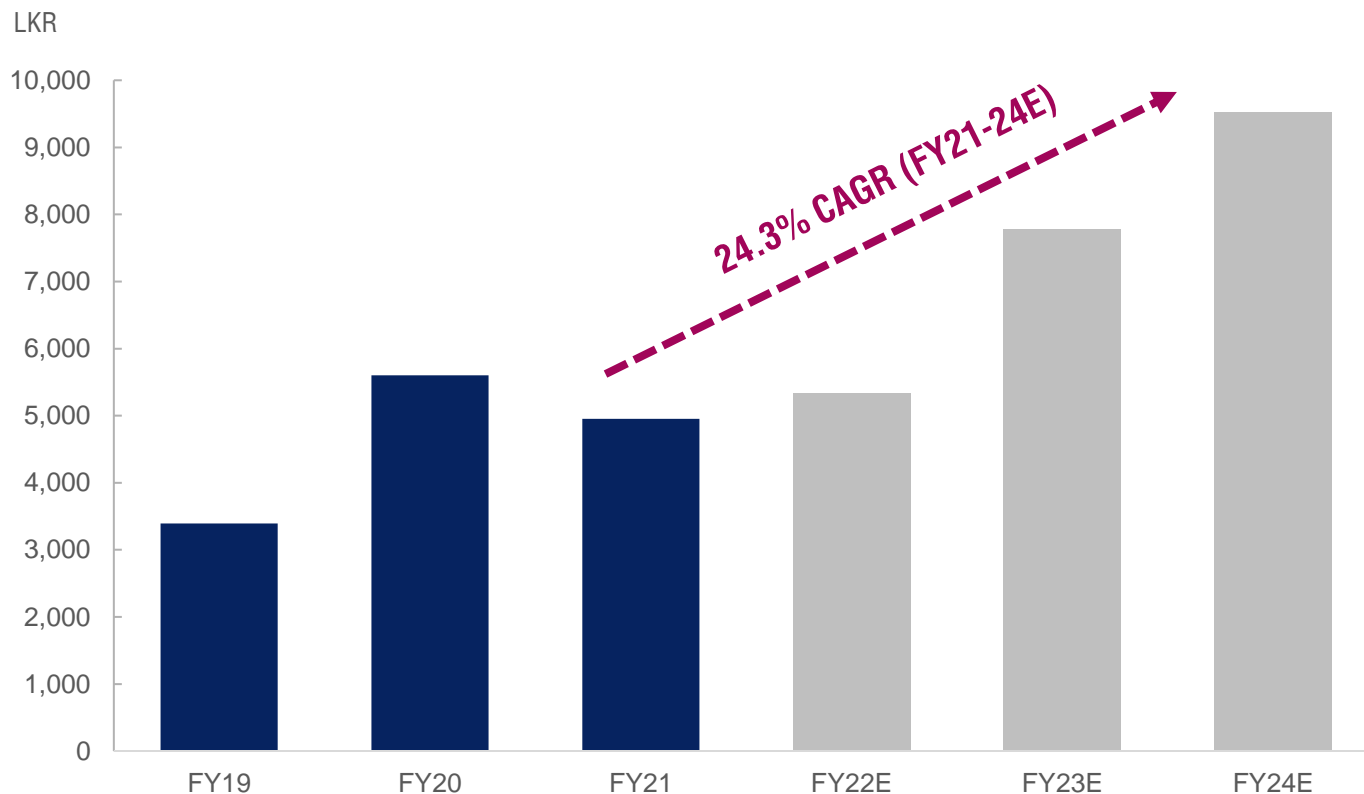
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OUR ESTIMATES FACTOR IN MATERIAL BENEFITS...

As acquisition of new customers and maintaining existing customers become more cost effective, we will begin to see that benefit filter through to EBITDA

CCS – EBITDA PER ACTIVE NEXUS USER



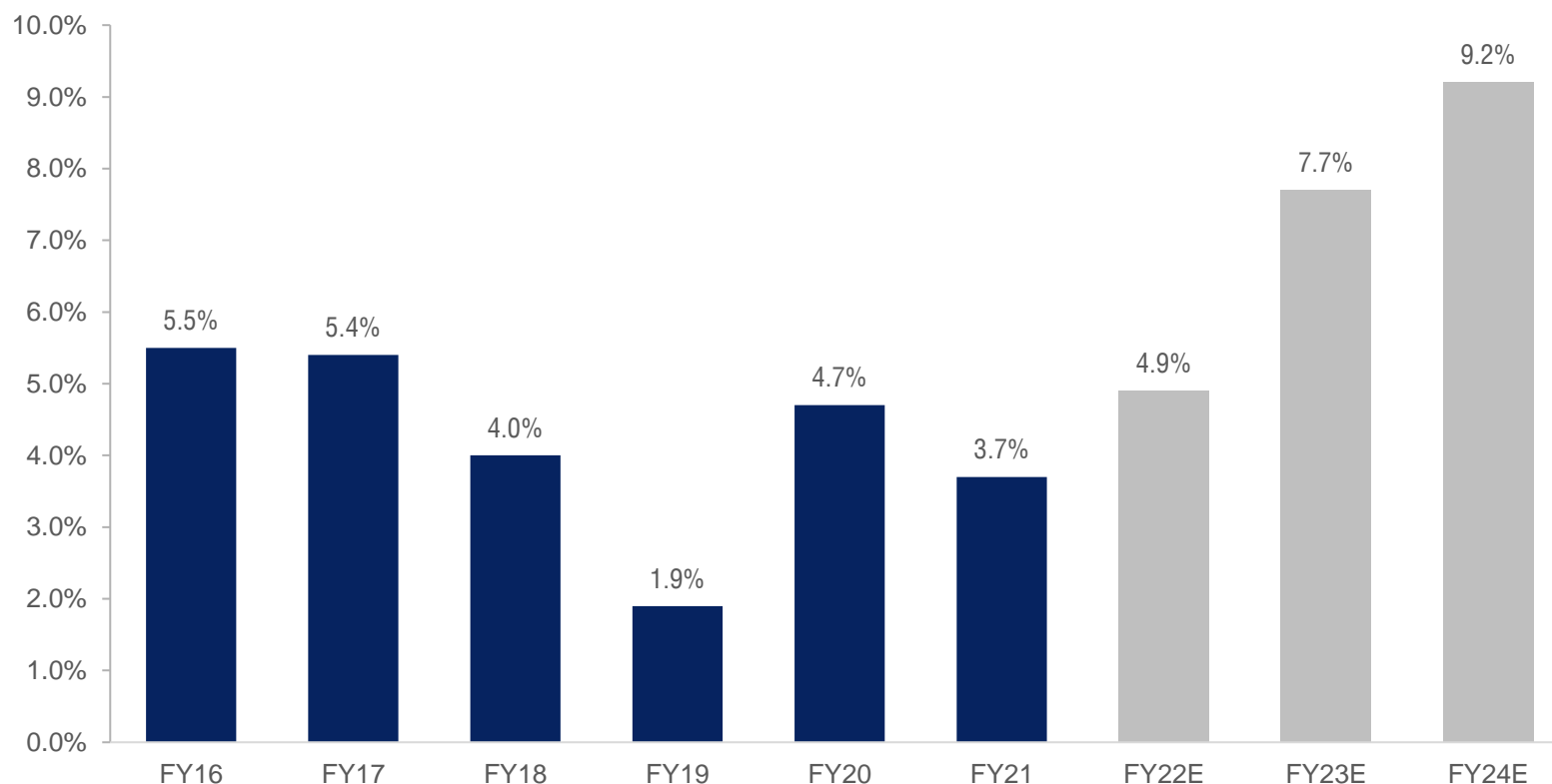
Source – Company Data and Asia Securities Estimates

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OCTAVE INDUCED GAINS A TAILWIND FOR MARGINS

We expect a material pickup in EBIT margins in the supermarkets business from FY-23E on the back of ongoing optimisation and efficiency initiatives

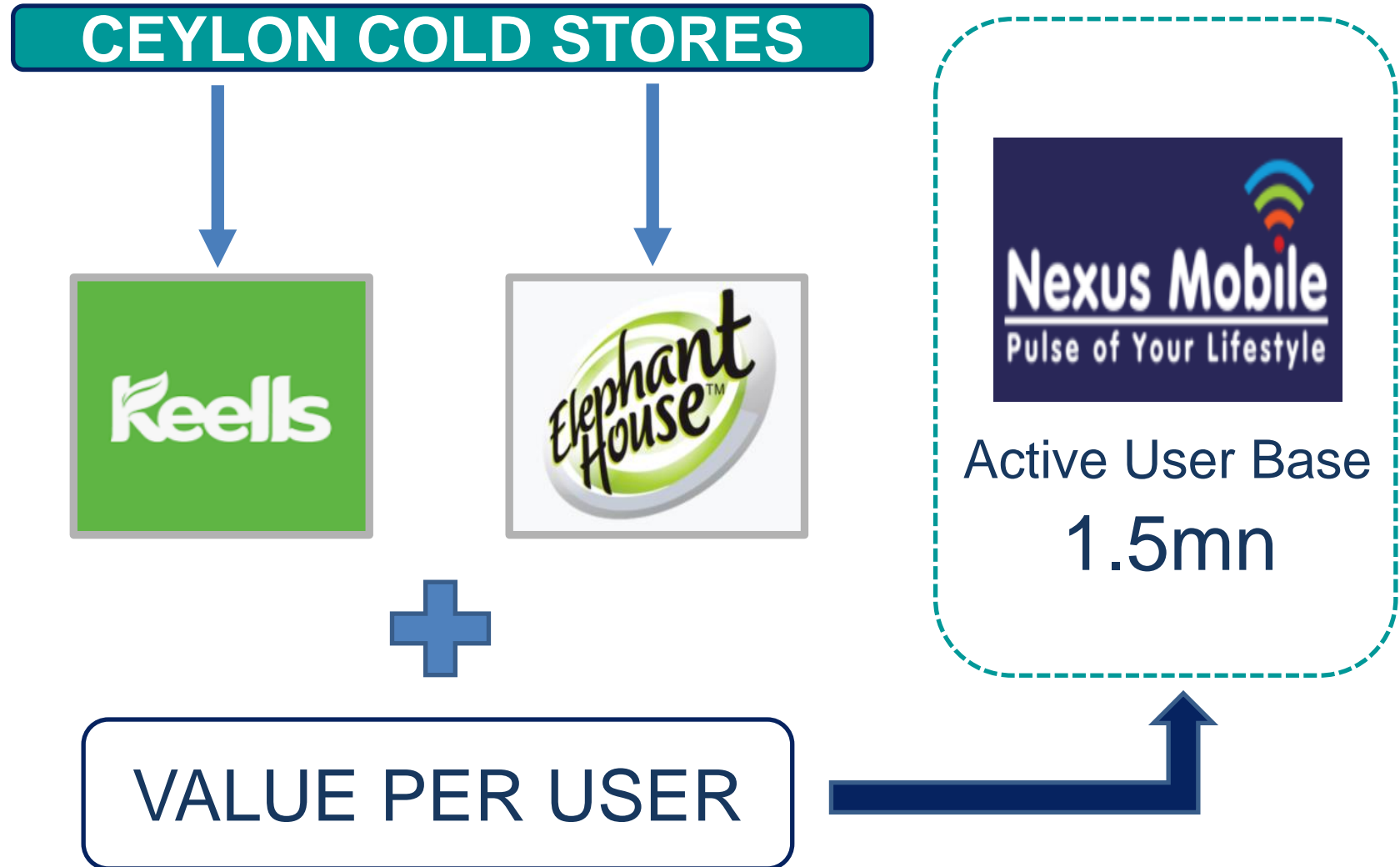


Source – Company Data, Asia Securities Estimates

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INVESTORS ARE NOT FACTORING IN OVERALL VALUE OF NEXUS USERS TO THE JKH GROUP



Source – Company Data, Asia Securities

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SCENARIO: HOW MUCH IS A NEXUS USER WORTH?

Let's assume Ceylon Cold Stores (CCS) is a publicly traded pure play retail and consumer firm that operates in isolation (i.e., no related businesses, holdings interests etc.) The company also owns and runs a successful customer loyalty program that has an active user base of ~1.5M users.

- **How much should a potential investor pay to acquire the company?**

Let's say JKH Group, a large Sri Lankan "conglomerate" with business interests in banking, insurance, consumer, travel, leisure and IT is considering acquiring CCS. How much should JKH pay to acquire CCS? The standalone value of the Nexus user base to CCS is vastly inferior to the potential value that JKH could extract from Nexus.

- **WHY?**

JKH can funnel the Nexus user base through a wide array of other products and services in its existing ecosystem to harvest incremental value, which CCS is unable to do as a standalone retailer.

- **For Example...**

If we assume simply, that the average annual revenue per Nexus user for CCS is LKR 33,000 (FY21 revenue of (LKR 55bn*0.90) /1.5mn), then the potential revenue per user for JKH from a Nexus user is vastly superior, considering the opportunities it has to cross-sell and up-sell to this captive base. For example, if JKH can on average sell a total of LKR 35,000 worth of additional products and services annually to 75% of the current Nexus base then the incremental revenue generated to JKH is LKR 40bn. At a net margin of ~10%, it would add LKR 4bn to the bottom line.

Source – Asia Securities

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SCENARIO: HOW MUCH IS A NEXUS USER WORTH?

Nexus user value won't be isolated inside CCS

How can JKH monetize Nexus?

Product Revenue

Credit card
Insurance
Travel
Holidays
Leasing
Advertising



Transaction-related revenue

Take rate on payment volume



Loan Originations

Consumer loan products



Deposit Revenue

Savings and Fixed Deposits

OCTAVE and big data capabilities will start to harness incremental value from Nexus users via increased JKH ecosystem engagement



Source – Company Data, Asia Securities

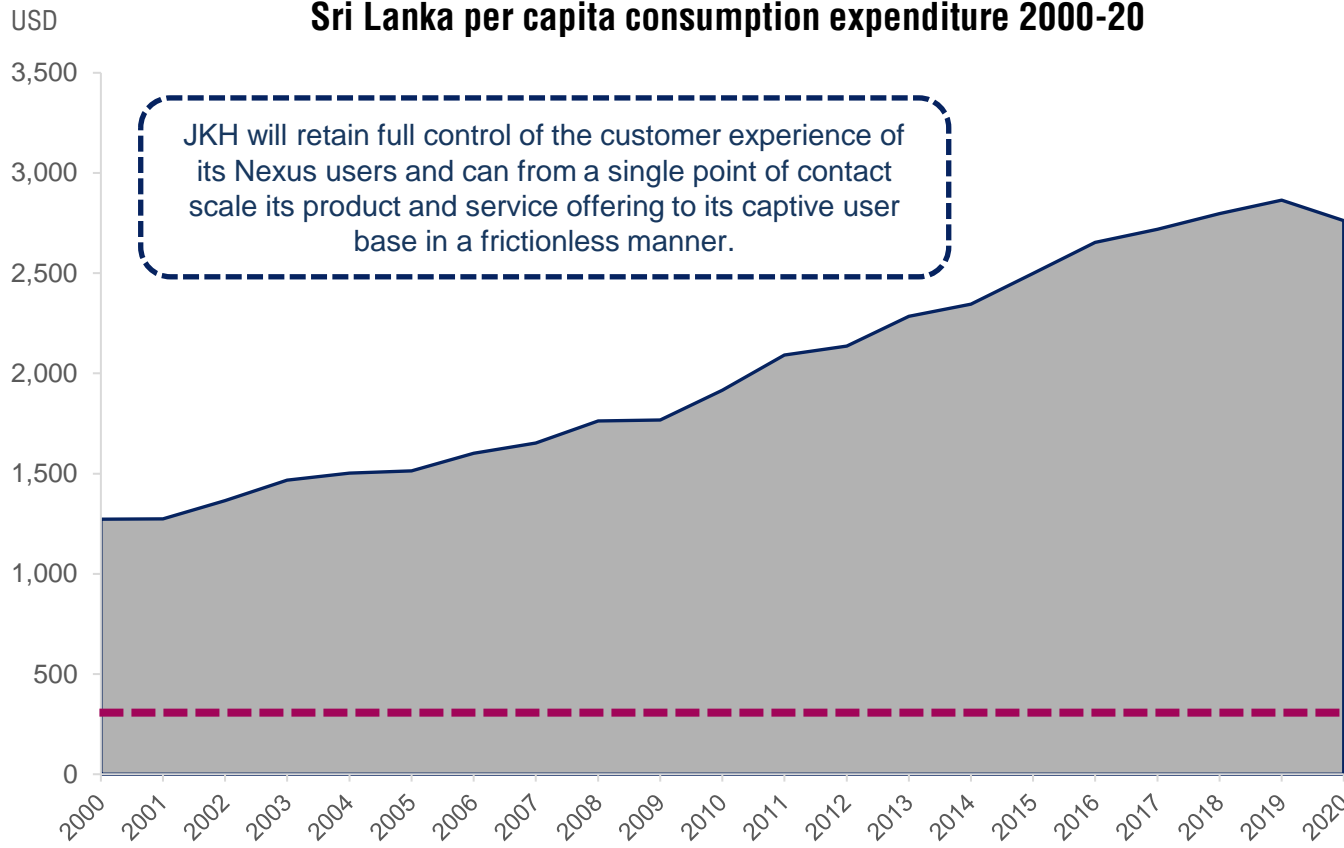
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CONSUMER WALLET SHARE IS UNDERPENETRATED

WHO CONTROLS THE CUSTOMER, CONTROLS THE MARKET

Sri Lanka per capita consumption expenditure 2000-20



We expect JKH can increase average consumer wallet share of Nexus users to at least 10-12% by 2025 from around 6% currently.

Estimated average revenue per Nexus user of around USD 170 in FY21

Source – Company Data, World Bank, Asia Securities Estimates

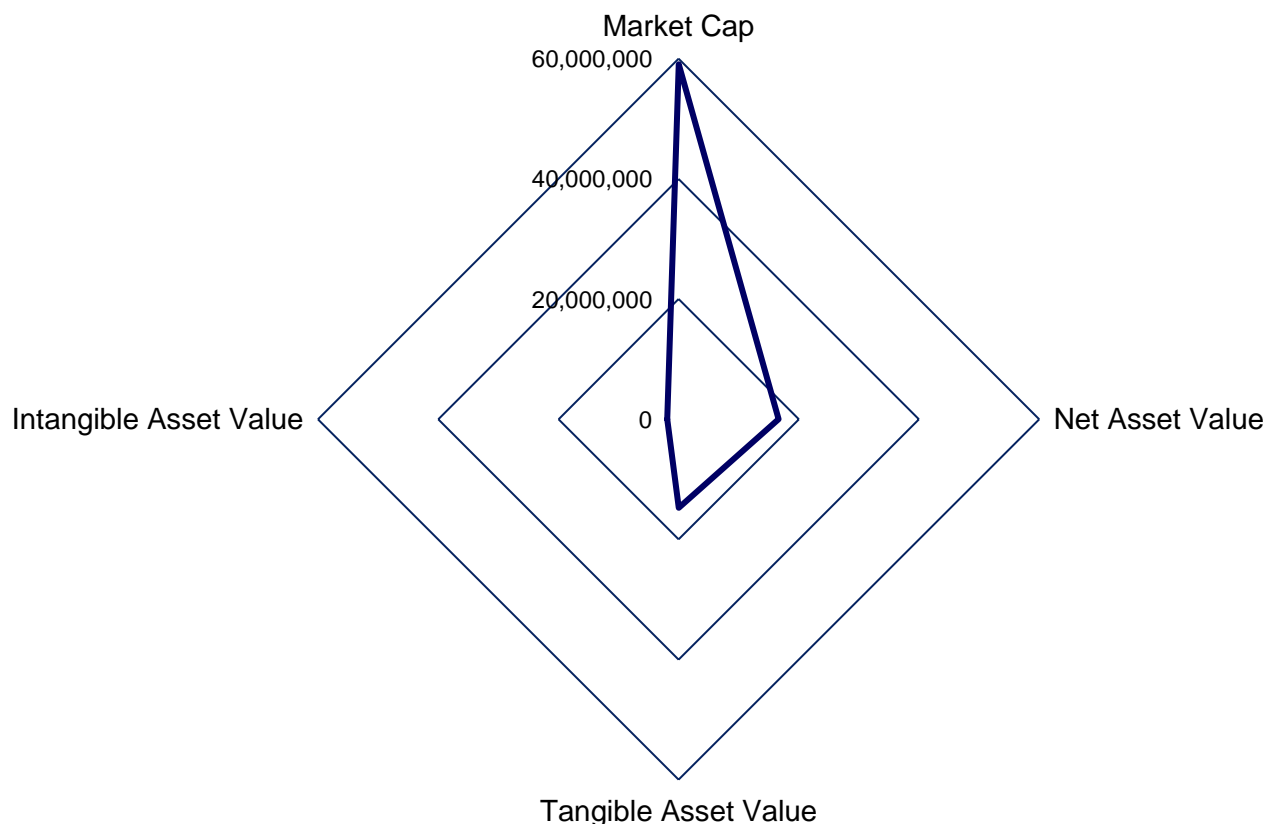
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MARKET BASED APPROACH TO VALUING NEXUS BASE

At CCS' current market cap of ~60bn LKR, the buyout price per active Nexus user will be 40,000 LKR, equivalent to 200 USD.

CCS MARKET CAP AND NET ASSET VALUE AS OF 31 MARCH 2021



Source – Company Data, Asia Securities Estimates

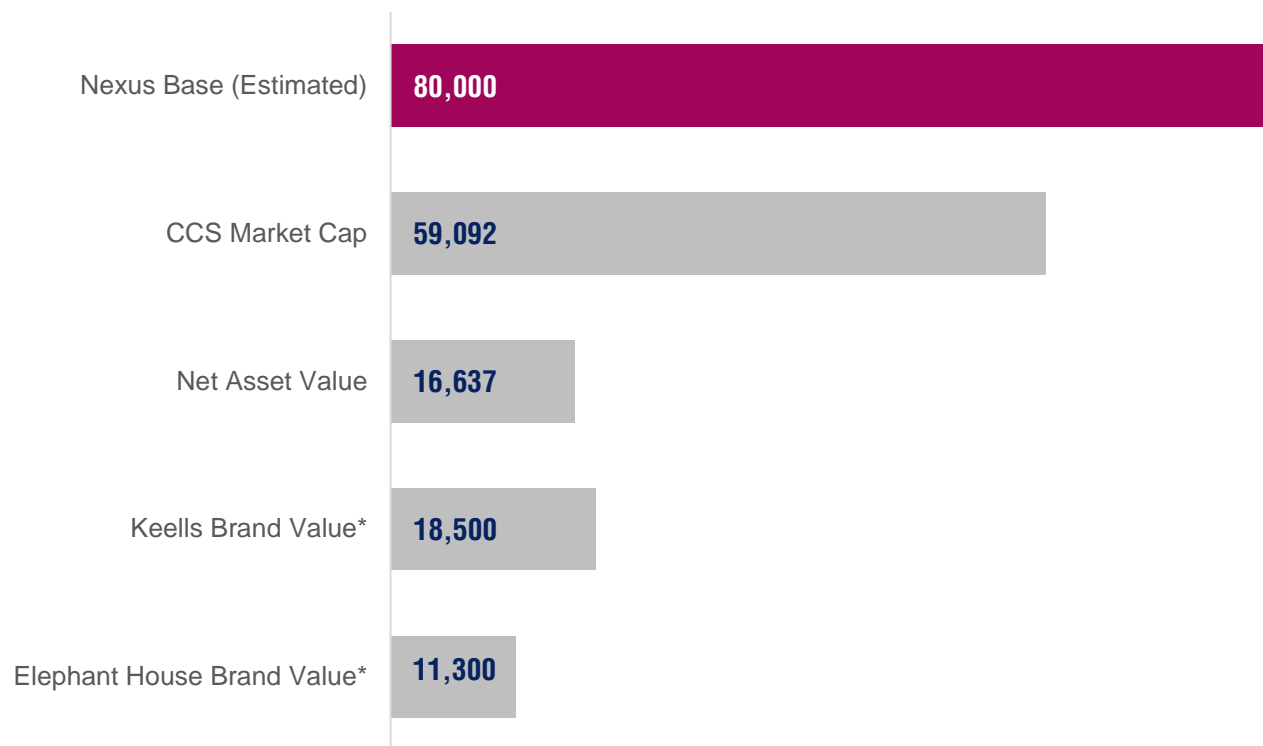
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LOOKING AT NEXUS AS A SEPARATE BUSINESS UNIT

If we assume the Nexus base can be a standalone 10% net margin business with an annual topline of LKR 40bn, then a 20.0x multiple would mean a market value of LKR 80bn for the Nexus business alone

Value in LKR (in Mn)



* Based on data from Brand Finance (2020), CCS market cap and NAV as of 31 Mar 2021

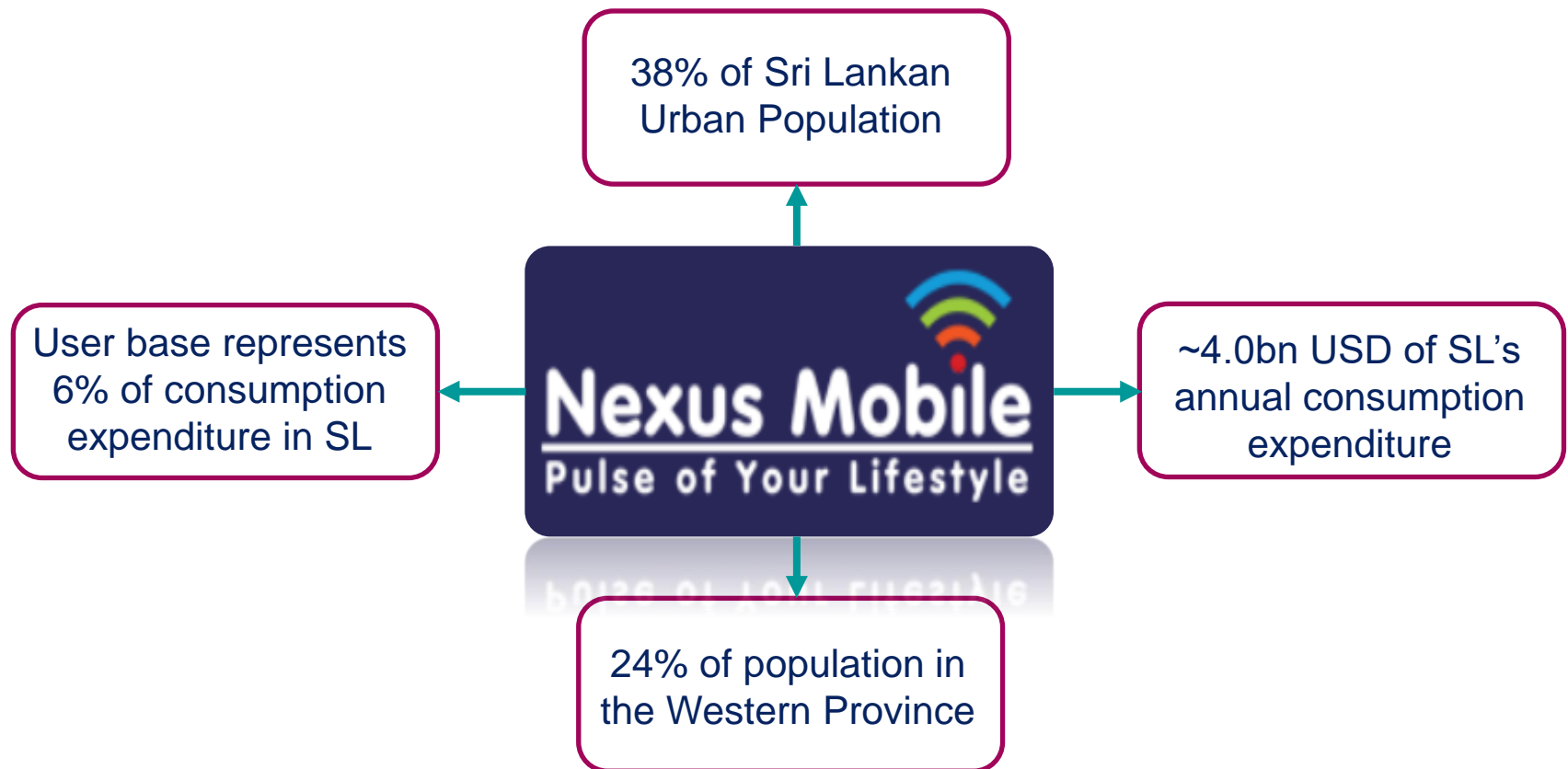
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INVESTORS SHOULD THINK, NEXUS = MARKET ACCESS

We believe the value of Nexus should be understood in terms of the implied market access it represents



NOTE: Above calculations based on current active Nexus user base of ~1.5mn users with an average estimated revenue per user of USD 170

Source – World Bank, United Nations, Worldometer, Central Bank of Sri Lanka, Company Data, Asia Securities

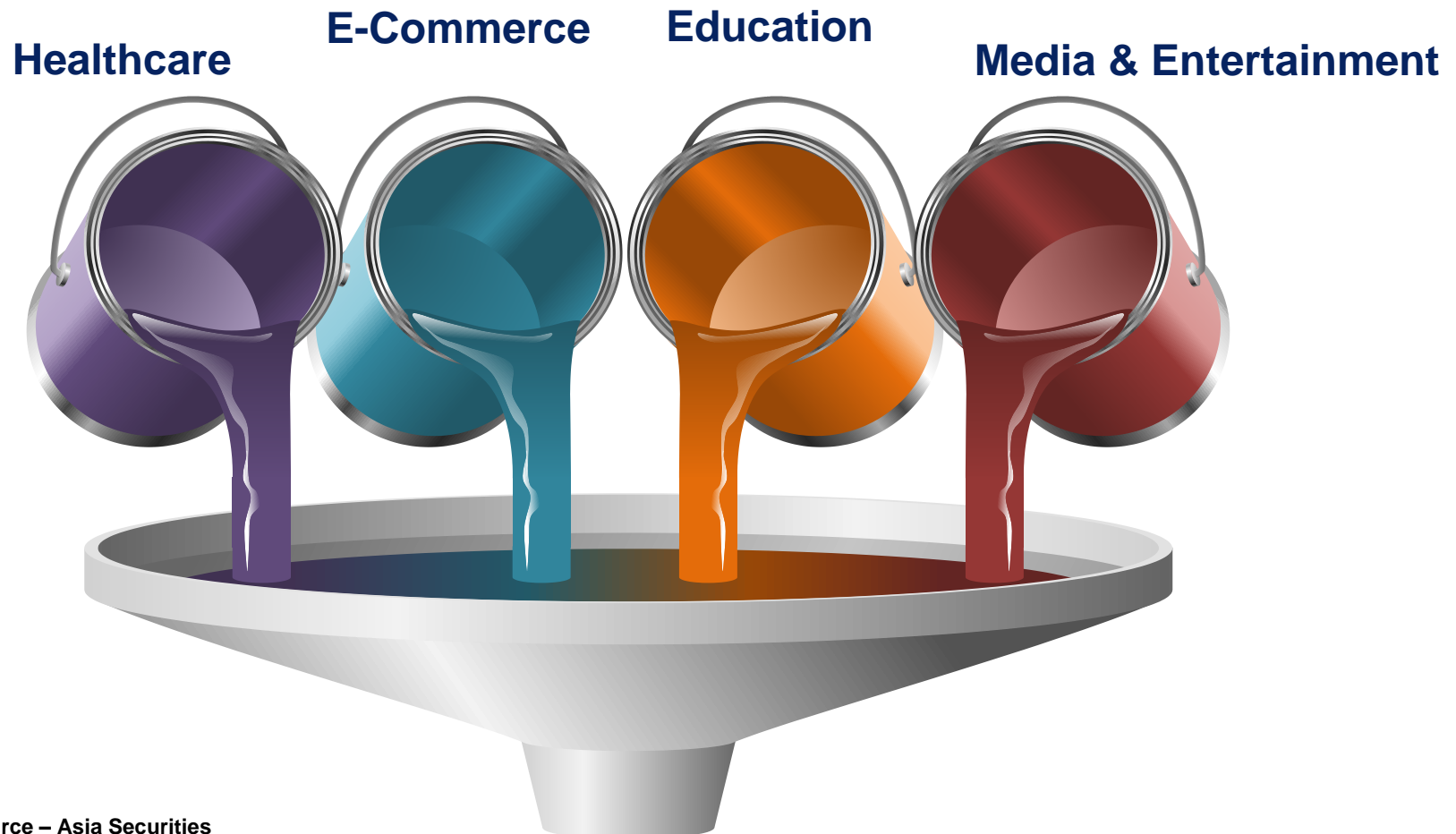
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ACQUISITIONS NEVER MADE MORE SENSE...



Similar to other ecosystems, JKH can merely plug future acquisitions and partnerships through its core user funnel to extract incremental value



Source – Asia Securities

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HOW TO THINK ABOUT ACQUISITIONS...

Integrating fast growth businesses with distinct user bases would compound the base value of the JKH ecosystem, while affording JKH the opportunity to harvest incremental value from the acquired company

Entertainment



E-Commerce



Healthcare



Source – Company Website, Asia Securities

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POTENTIAL TO BUILD FIRST SUPER APP IN SRI LANKA

A super app is a one stop all-in-one digital platform or solution that can provide customers with access to a wide variety of products and services



- Ride hailing
- Parcel delivery
- Business loans
- Travel booking
- E-wallet
- Movie ticketing



- E-Wallet
- Insurance
- Games
- Bill payment
- Investing
- Food delivery



- Chat
- Music
- Gaming
- News
- Livestreaming
- Ride hailing



- Live TV
- Music streaming
- Bill payment
- E-Wallet
- Lifestyle content
- Movies



- Customer loyalty
- Mobile Payment
- Business loans
- Data analytics
- Table ordering
- Marketing



- Ride hailing
- Food delivery
- Transport tickets
- Event booking
- Learning
- Logistics



- Ride hailing
- Parcel delivery
- Food delivery
- E-wallet
- Online shopping
- Pharma delivery



- Ride hailing
- Parcel delivery
- Grocery delivery
- Content
- E-wallet
- Movie ticketing

Source – Company Data, Rapyd - www.rapyd.net/blog/your-guide-to-understanding-super-apps-and-strategies-for-becoming-one

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CASE STUDY: TATA AND ITS SUPER APP AMBITION

India's Tata Sons has announced plans to develop a super app platform. As part of its super app ambitions, in 2021 the company has made several investments in existing digital platforms with strong user bases



Tata's strategy is to pay premium prices to acquire strong active user bases from existing businesses in order to move into fast growing new markets. In addition, the company benefits from being able to position its entire Tata ecosystem of products and services to its newly acquired customers.



Acquisition of majority stake in telemedicine firm for an undisclosed fee



Tata Digital acquired a majority stake in online grocer for around \$220mn



Investment of up to \$75mn in fitness and wellness platform

Source – Company Data, Media Releases, Asia Securities

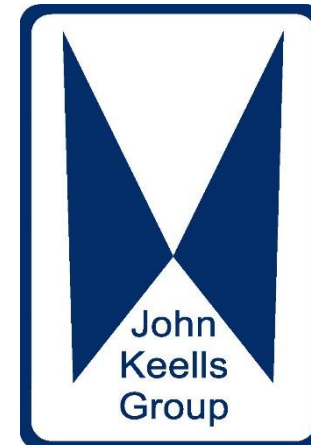
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OCTAVE ROADMAP IS SET OUT FOR THE NEXT 3 YEARS

Octave utilises existing data platforms to drive a greater degree of data-driven decision making across the group

- Launched in 2019 as a division of JKH
- 3-year engagement with a leading global consulting firm at a cost of ~USD 1mn
- Employs ~50 advanced data analytics professionals while additional hiring continues
- Knowledge transfer is to take place from global partner to Octave staff
- Has carried out work on a series of use cases in the following industry groups:
 1. Retail
 2. Financial Services
 3. Consumer Foods
- In tandem, data governance practices are being institutionalised across the industry groups



OCTAVE

Source – Company Data, Asia Securities

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STRONG AND DYNAMIC MGMT COMMITTED TO ECOSYSTEM STRATEGY MINIMISES EXECUTION RISKS

Key Management Personnel of JKH



Krishan Balendra,
Chairman / CEO



Gihan Cooray,
Deputy
Chairman/Group
Finance Director



Ramesh
Shanmuganathan,
Group Chief
Information Officer



Daminda Gamlath,
President Consumer
Foods



Charitha
Subasinghe,
President Retail



Suresh Rajendra,
President Leisure



Zafir Hashim, Head
Transportation and
Plantations



Nayana Mawilmada,
Head Property

Source – Company Data, Media Releases, Asia Securities

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OCTAVE PROJECT IMPLEMENTATION: KEY RISKS AND MITIGANTS

Risks	Mitigants
Investments required on data technologies	<ul style="list-style-type: none"> JKH's existing investments and technology platforms will facilitate Octave operations.
Ability of local staff to carry the project forward	<ul style="list-style-type: none"> Engagement with global consulting firm to facilitate knowledge transfer. Commenced independent development of use cases to develop internal capabilities. Hiring of additional data analytics professionals and expansion continues.
Legal and privacy issues governing customer data and information	<ul style="list-style-type: none"> Ongoing institutionalising of data governance practices in line with or surpassing the country's proposed legislative framework. Such practices have already been implemented across the Supermarket, Insurance and Consumer Foods businesses.
BU staff must change conventional decision making techniques	<ul style="list-style-type: none"> Continuous training is provided, while translators work closely with the staff to obtain buy-in, and create a bridge between Octave and the BUs. BU-centric approach, where data analytics staff support ideas and facilitate business needs originating from individual BUs.
Retain staff commitment to the project as full enactment will take time	<ul style="list-style-type: none"> Strong top management commitment towards the long-term success of the project. Quick wins will cement buy-in as the revenue and margin impact of using data analytics in everyday decisions becomes visible.

**BU – Business Unit*

Source – Company Data and Asia Securities

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RETAIL & CONSUMER

Retail Will Remain Central To JKH Ecosystem Strategy

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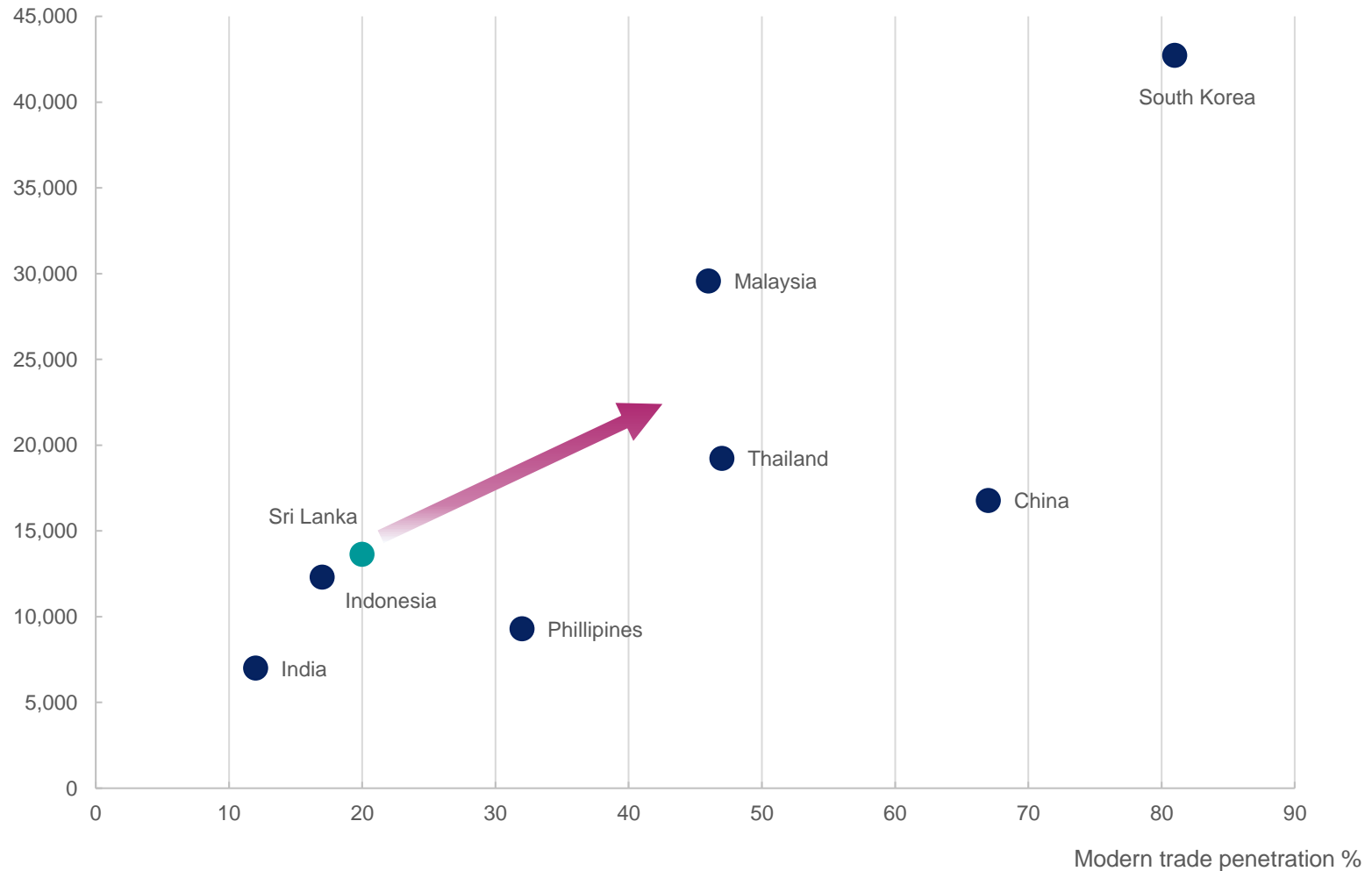
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MODERN RETAIL OPPORTUNITY IN SL STILL NASCENT

GDP/Capita adjusted for PPP



Source – World Bank, Euromonitor, McKinsey & Co. 2019, Asia Securities

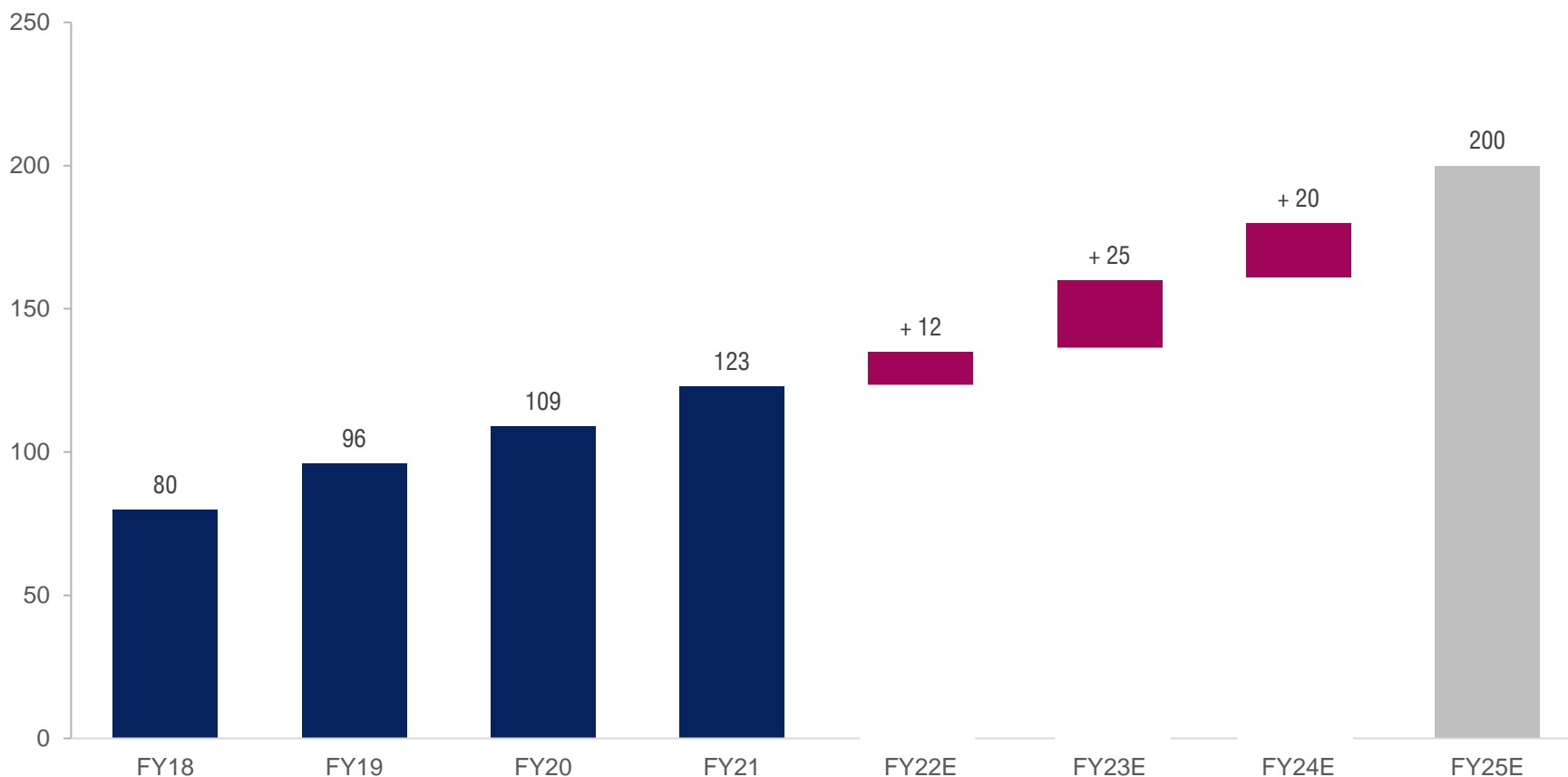
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AMPLE GROWTH RUNWAY FOR STORE EXPANSION

We expect the company to operate 200+ stores by FY25E, with the bulk of it concentrated in the Western Province

No. of stores



Source – Company Data, Asia Securities Estimates

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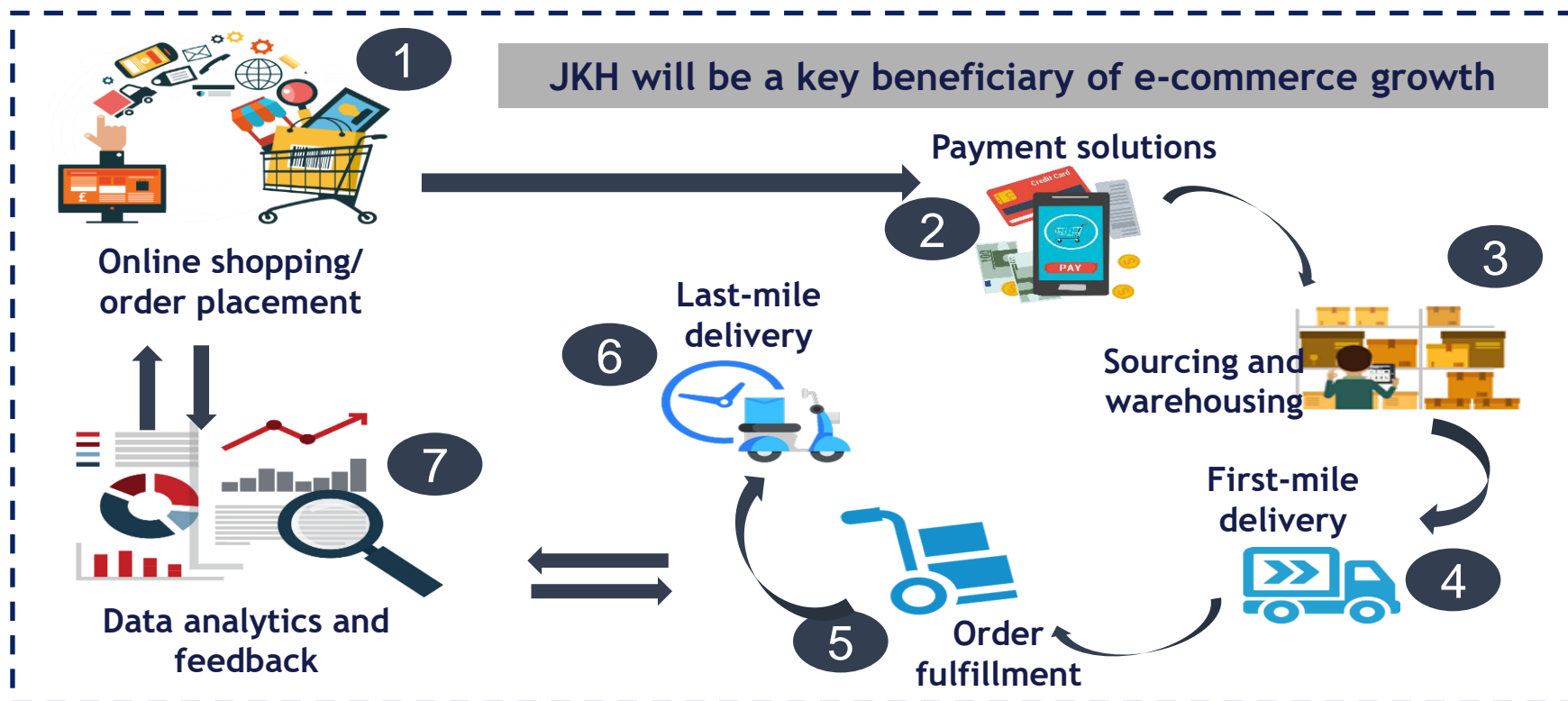
RETAIL WILL REMAIN ENTRY POINT TO NEXUS FUNNEL

- We expect JKH to add a minimum of 75 new stores during the FY2022-25E period.
- We estimate the addition of 10,000 new Nexus members on average with each new Keells store, bringing the total Nexus base to a minimum of 2.0mn users by the end of 2023.
- Higher private label volumes, central warehousing efficiencies, plus analytics driven optimisation will drive expansion of EBIT margins.



POSITIONED TO BENEFIT FROM E-COMMERCE BOOM

- We expect the online retail market opportunity in Sri Lanka to grow from roughly USD 150-200mn currently, to around USD 700mn+ by 2025.
- E-Commerce value chain plays into existing JKH strengths. The company **will be a key player in the online retail logistics services space**, leveraging its expertise in, order fulfilment, warehousing and delivery to carve out a niche. We believe the company is likely to pursue key partnerships/acquisitions in the online retail space over the coming years.

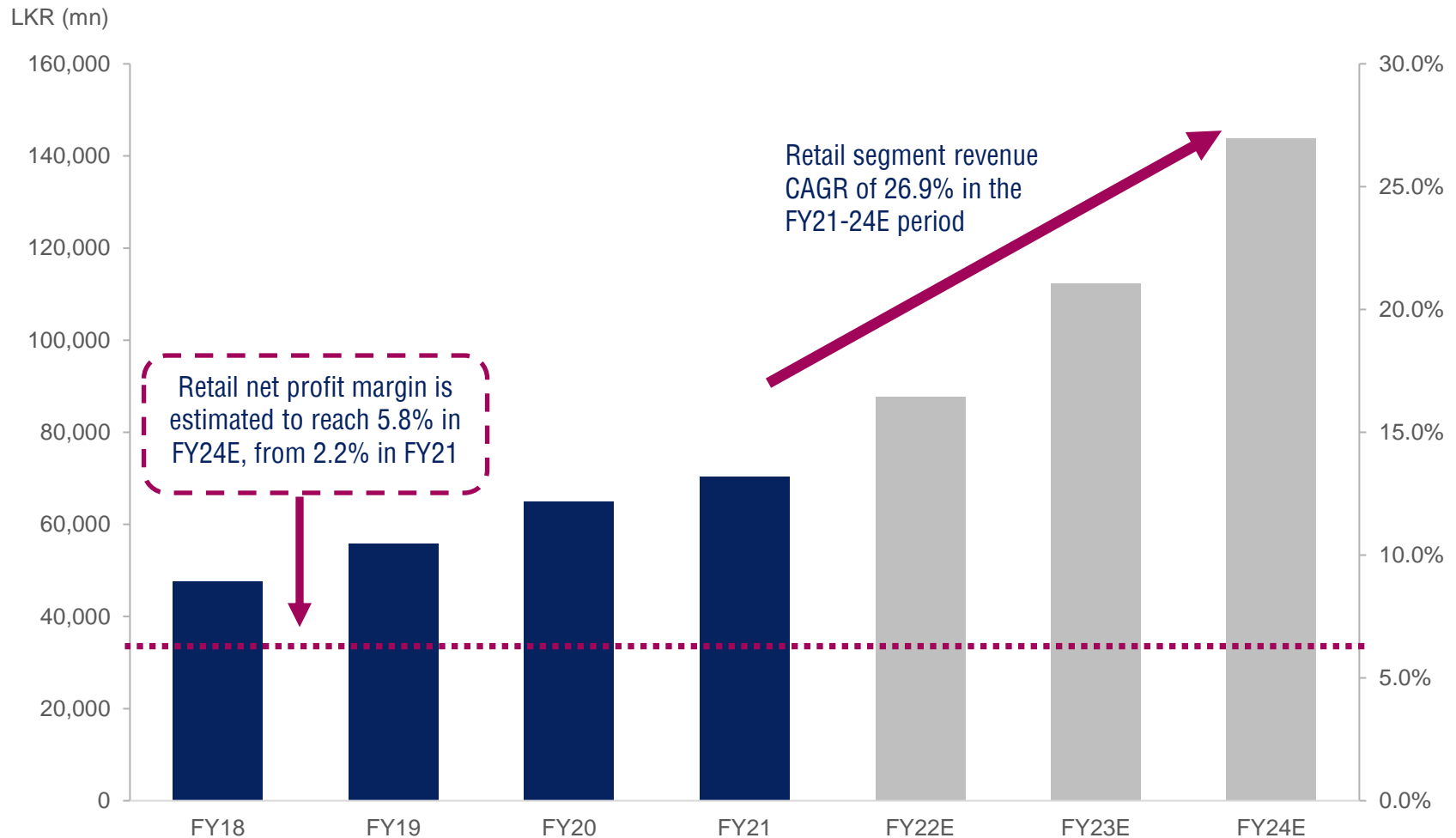


Source – Online Retailing; Is Sri Lanka Ready For A Disruption, Asia Securities, 2020

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GROUP RETAIL BUSINESS WILL MAINTAIN STRONG TOP AND BOTTOM LINE GROWTH



Source – Company Data, Asia Securities Estimates

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LEISURE AND PROPERTY

From Cinnamon Life To An Asset Light Future

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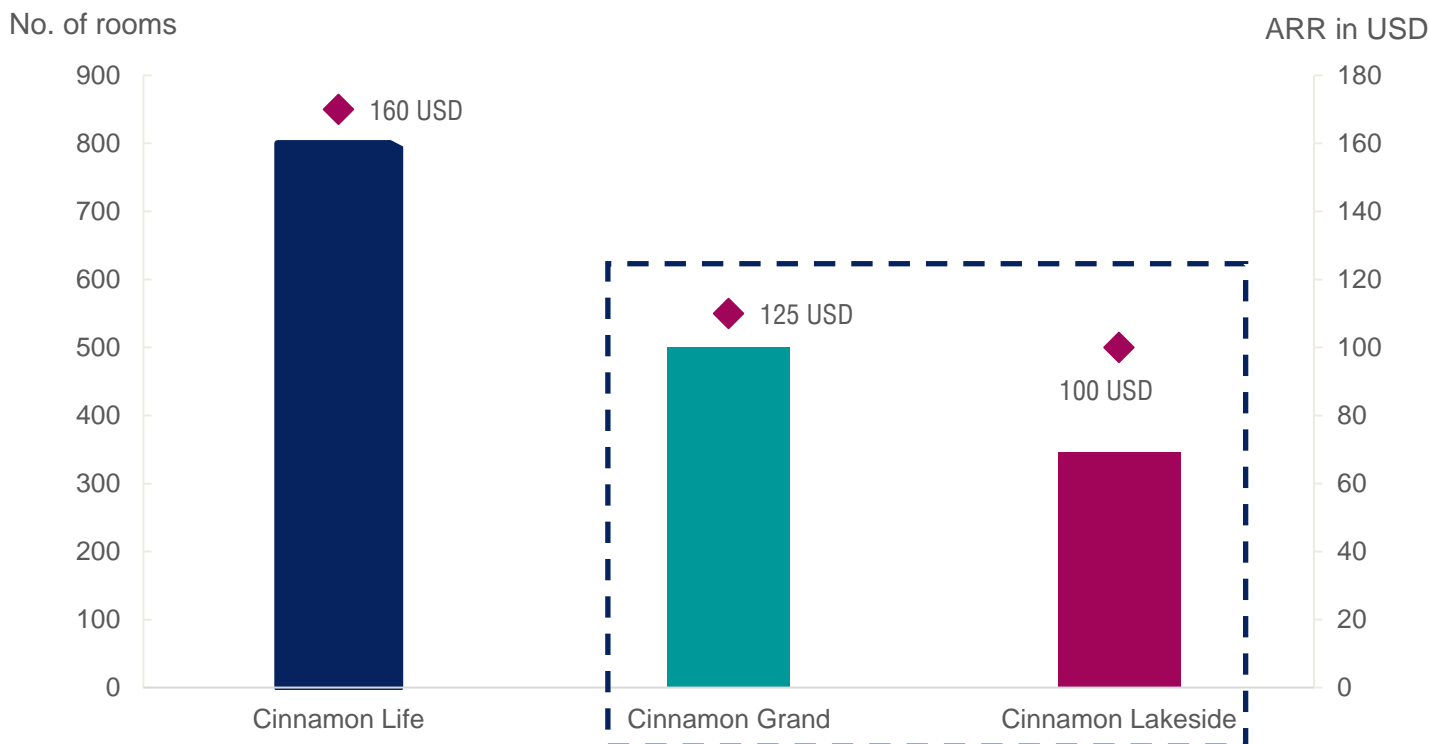
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ASSET LIGHT STRATEGY THE WAY FORWARD IN LEISURE

- As part of its long-term strategy, JKH will proactively seek ways to **unlock and reallocate capital deployed in the Leisure unit towards more Consumer-focused businesses.**
 - 1) Monetising existing land bank in Sri Lanka through joint venture operations
 - 2) Leisure expansion strategy will be centered on management-contract model
 - 3) Increasing rooms under management via leased hotel properties in the Maldives



Source – Company Data and Asia Securities Estimates

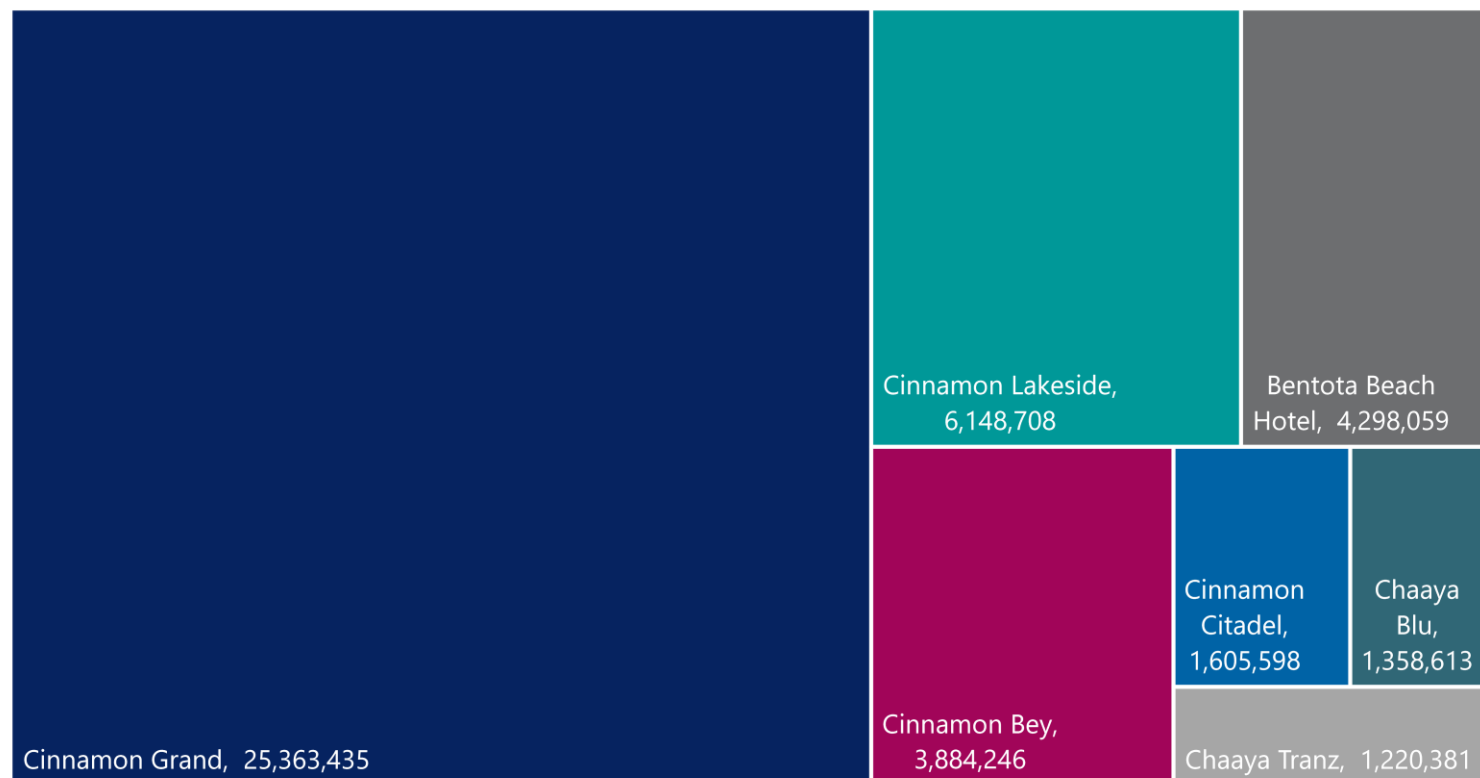
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ASSET LIGHT MODEL WILL FREE UP CAPITAL...

- In our view, once Cinnamon Life starts operations, the company may seek strategic options for its properties in Colombo as part of its stated asset-light strategy, given the material capital tied up, and to support strong overall occupation levels and ARR's.
- We expect the asset light model to boost overall return metrics and optimise capital allocation across the JKH portfolio over the long-term.

Net Book Value of key Sri Lankan hotel properties as of 31 Mar 2021 (in LKR '000s)



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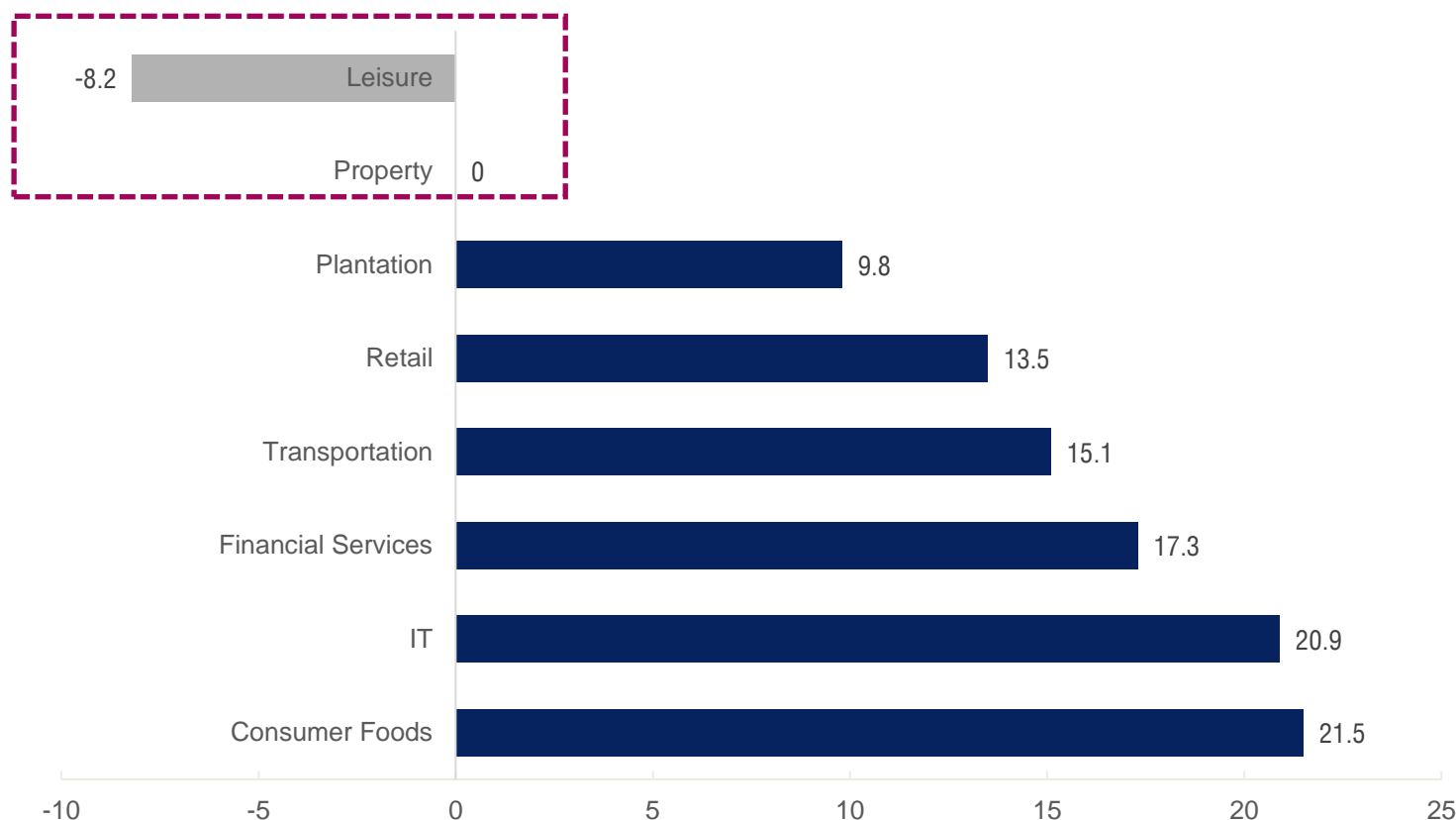
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Source – Company Data and Asia Securities

ASSET LIGHT MODEL TO BOOST OVERALL RETURNS

- In FY21, Leisure and Property (excluding Cinnamon Life) accounted for a combined 28% of the Group's effective capital employed, compared to only 8% of the total capital employed in the Retail and Consumer Food businesses.

ROCE (%) by JKH industry group for FY21



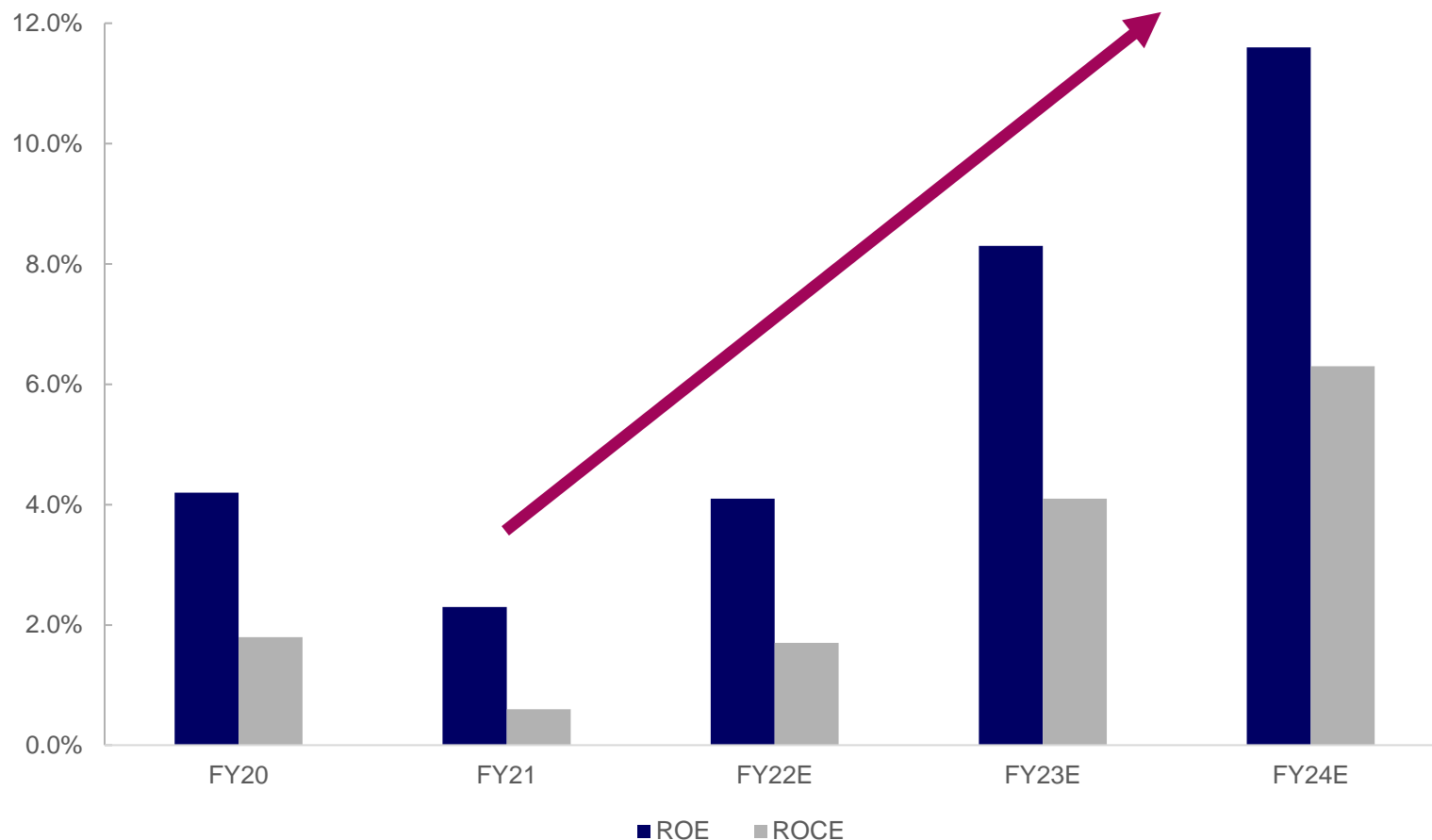
NOTE – In FY19, which excludes COVID-19 and Easter attack impact, Leisure ROCE was only 4%

Source – Company Data and Asia Securities

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JKH GROUP ROCE AND ROE TO EXPAND OVER THE COMING YEARS



Source – Company Data and Asia Securities Estimates

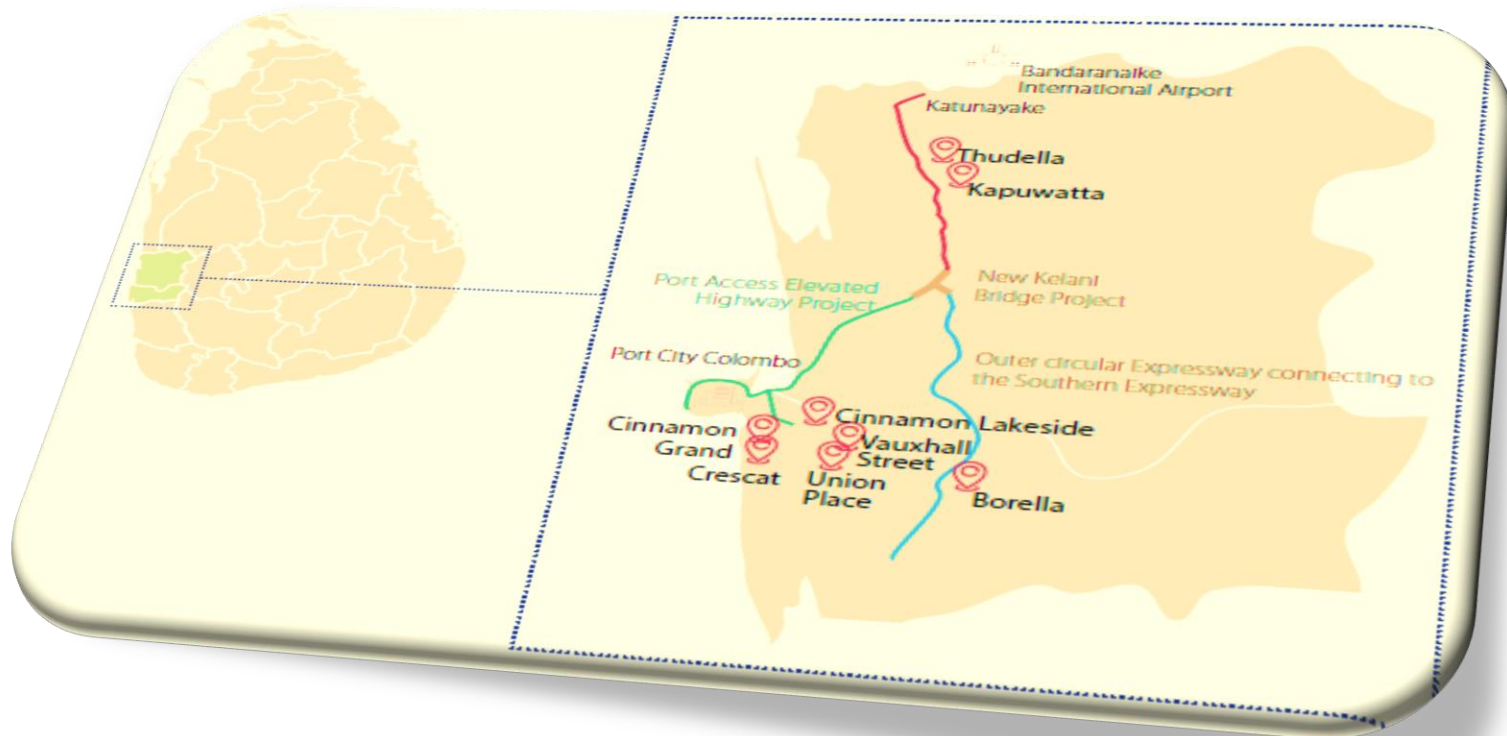
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EXTENSIVE LAND BANK IS RIPE FOR MONETISATION



- The company's extensive land bank includes over 36 acres of developable land in central Colombo. JKH is planning to develop its 9.38-acre land held under "Vauxhall Land Developments Limited" primarily as a metropolitan housing project.
- Master planning for an 18-acre land plot in Thudella is completed. This project, will be the company's first development targeting the "suburban" category.



Source – John Keells Holdings Annual Report 2019/20 and Asia Securities

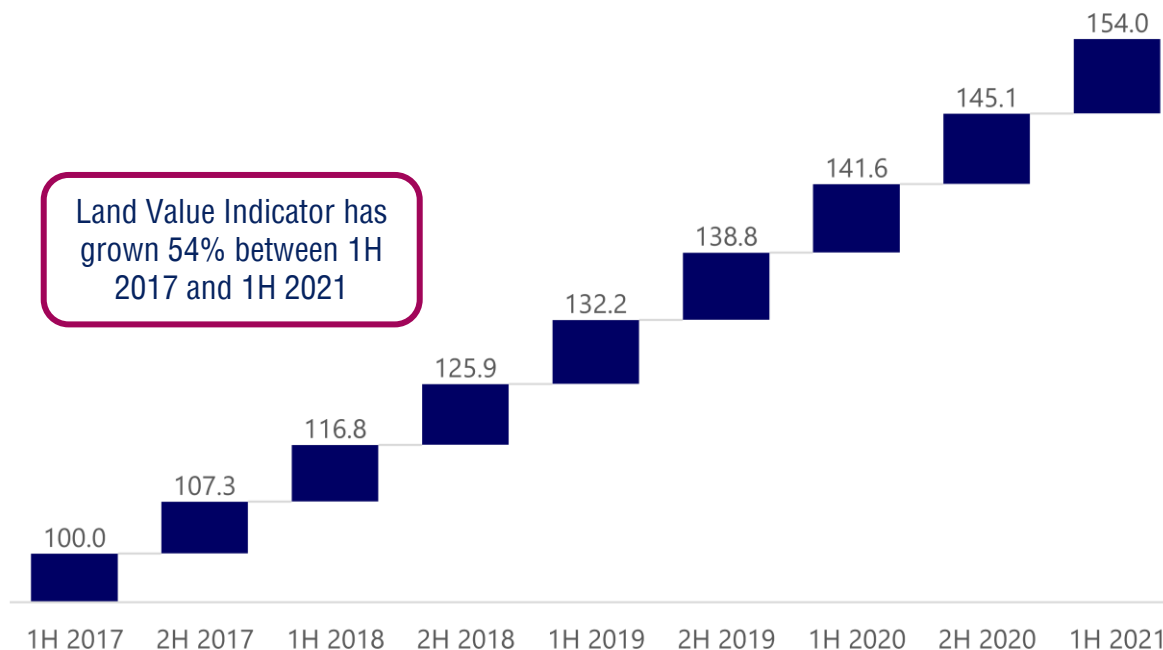
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COLOMBO LAND PRICES CONTINUE TO SOAR YOY

Existing market value of land bank is expected to inflate further from a high base

Colombo Commercial Land Value Indicator (1H 2017 = 100)



Source – Central Bank of Sri Lanka

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MALDIVES TOURIST ARRIVALS ARE STARTING TO REACH PRE-PANDEMIC LEVELS

Sharp recovery in arrivals to Maldives is a positive for JKH resorts in the region



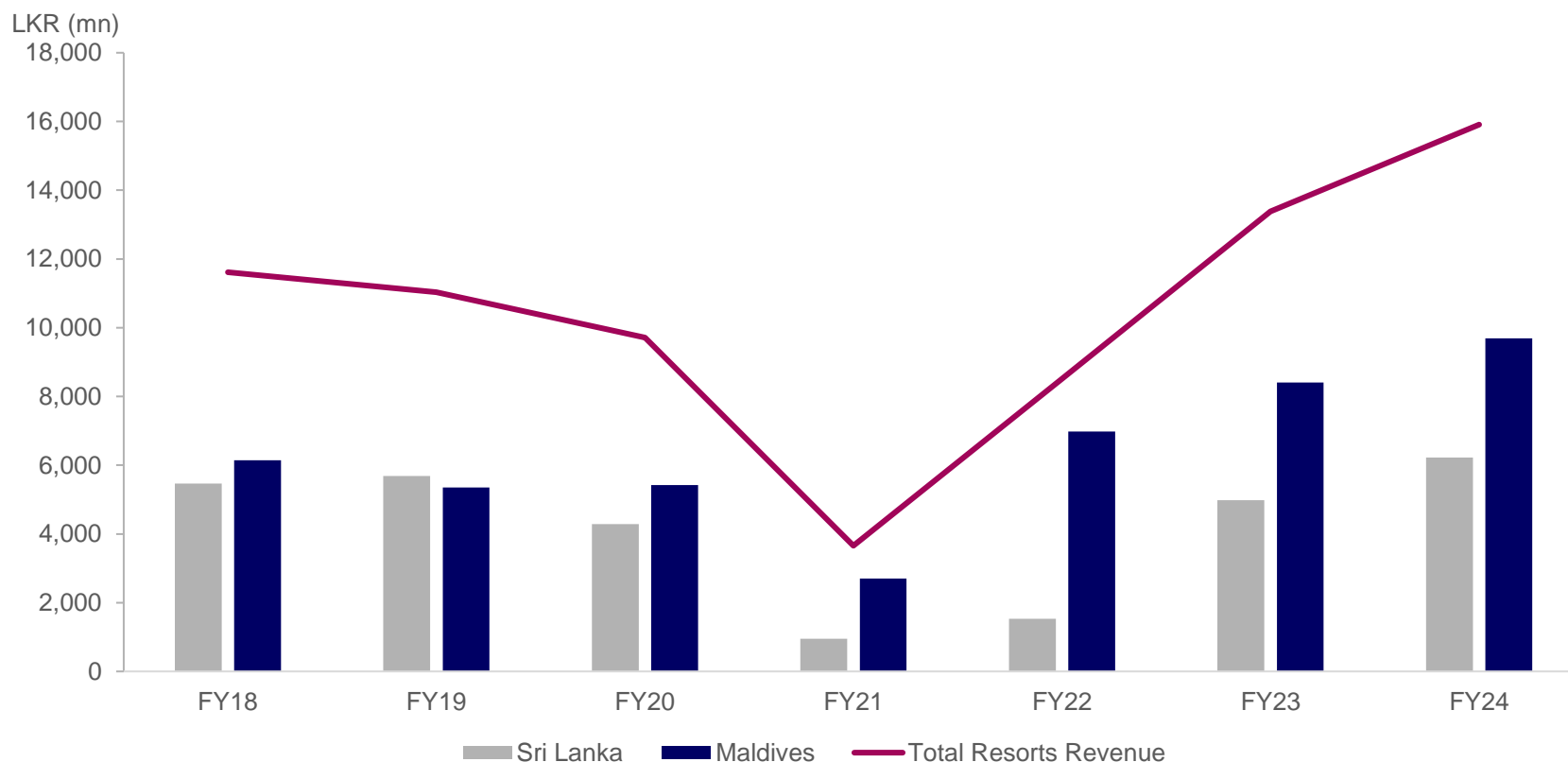
Source – Ministry of Tourism, Republic of Maldives

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MALDIVES STRENGTH TO OFFSET SLOWER RECOVERY EXPECTED IN SRI LANKAN TOURISM BUSINESS

We expect strong pent-up travel demand to benefit the Maldives operations, which will offset a weaker recovery expected in the Sri Lanka leisure business



Source – Company Data, Asia Securities Estimates

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FINANCIAL SERVICES

The most vital cog in
harvesting incremental value
from the ecosystem

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CAPTIVE FINANCIAL SERVICES UNIT CONFERS EDGE...

- Financial services will act as a key extension of the JKH ecosystem, ring fencing additional users and harvesting value from the wide array of products and services offered by JKH.
- NTB's Frimi digital banking product will function as a key focal point of the JKH ecosystem. FriMi is the market leader in the digital banking space, and we expect an increased focus on merchant acquisition in the underpenetrated SME space over the next 3-5 years.

OCTAVE will open up NTB's core banking products and services to the JKH user ecosystem with less friction and at scale



Source – Company Data, EconomyNext, and Asia Securities

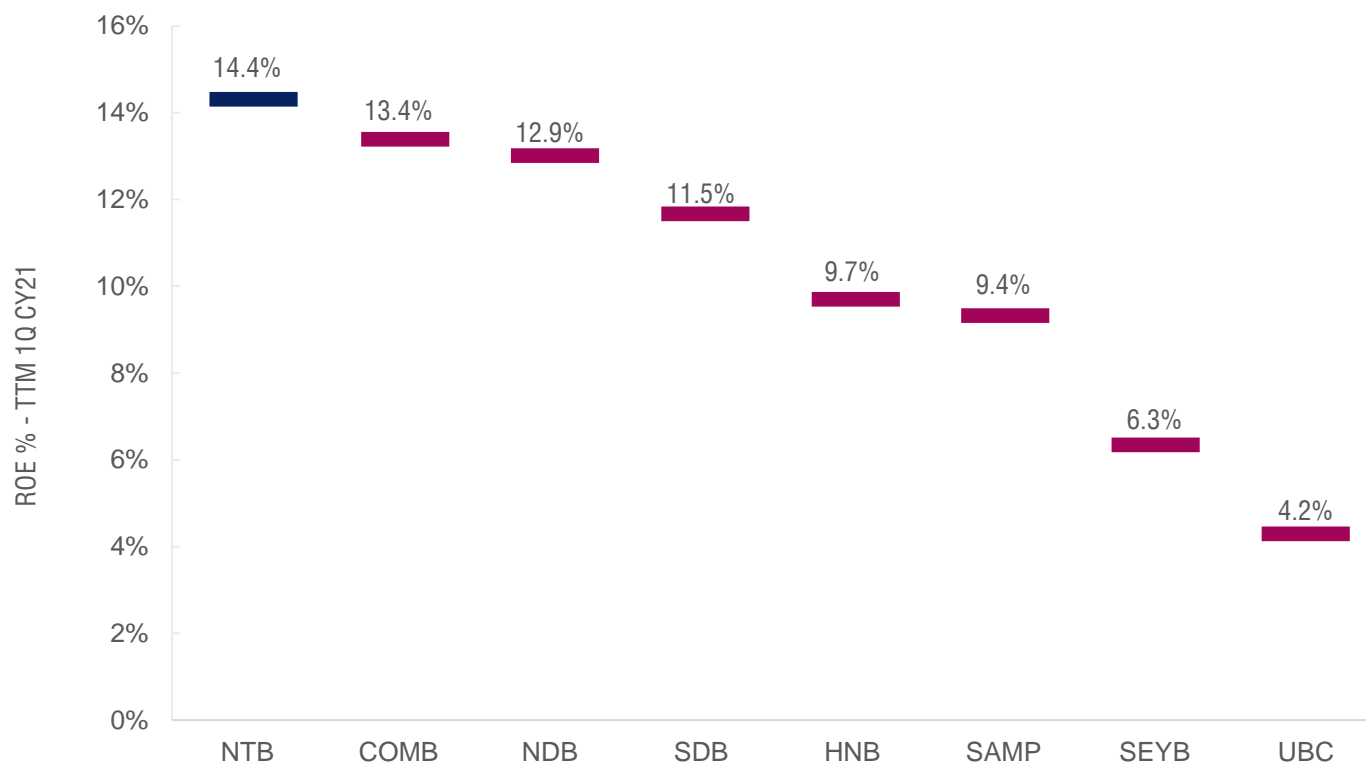
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STRUCTURAL SHIFT TO DIGITAL PLAYS INTO STRENGTHS

- Predominant focus on retail and SME banking will drive underlying growth strategy. Remains the market leader in credit cards, giving the bank strong exposure to evolving cashless trend.
- Focus on digitisation and analytics will confer NTB an edge over its financial services peers.

NTB's strong retail and SME exposure drives higher-than-peer ROE



Source – Company Data and Asia Securities

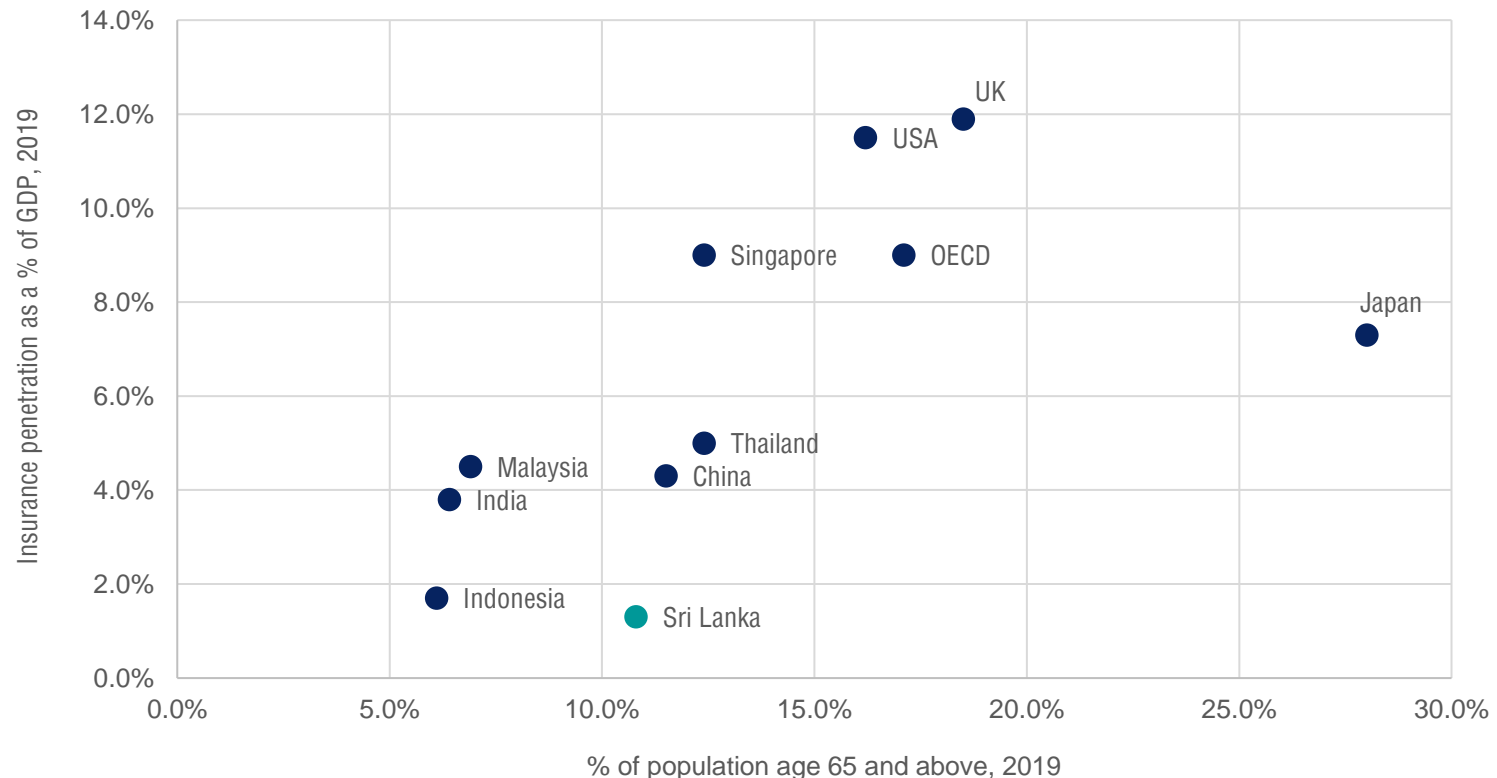
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LUCRATIVE INSURANCE OPPORTUNITY TO TAP INTO

- Low insurance penetration in the country coupled with an ageing population and resulting demographic changes will sustain strong demand for life and health insurance products.
- Strong brand equity, plus digital capabilities and JKH ecosystem benefits means Union Assurance is well positioned to benefit from long-term growth trends in the sector.

Rapidly ageing population in SL will drive demand for insurance alternatives

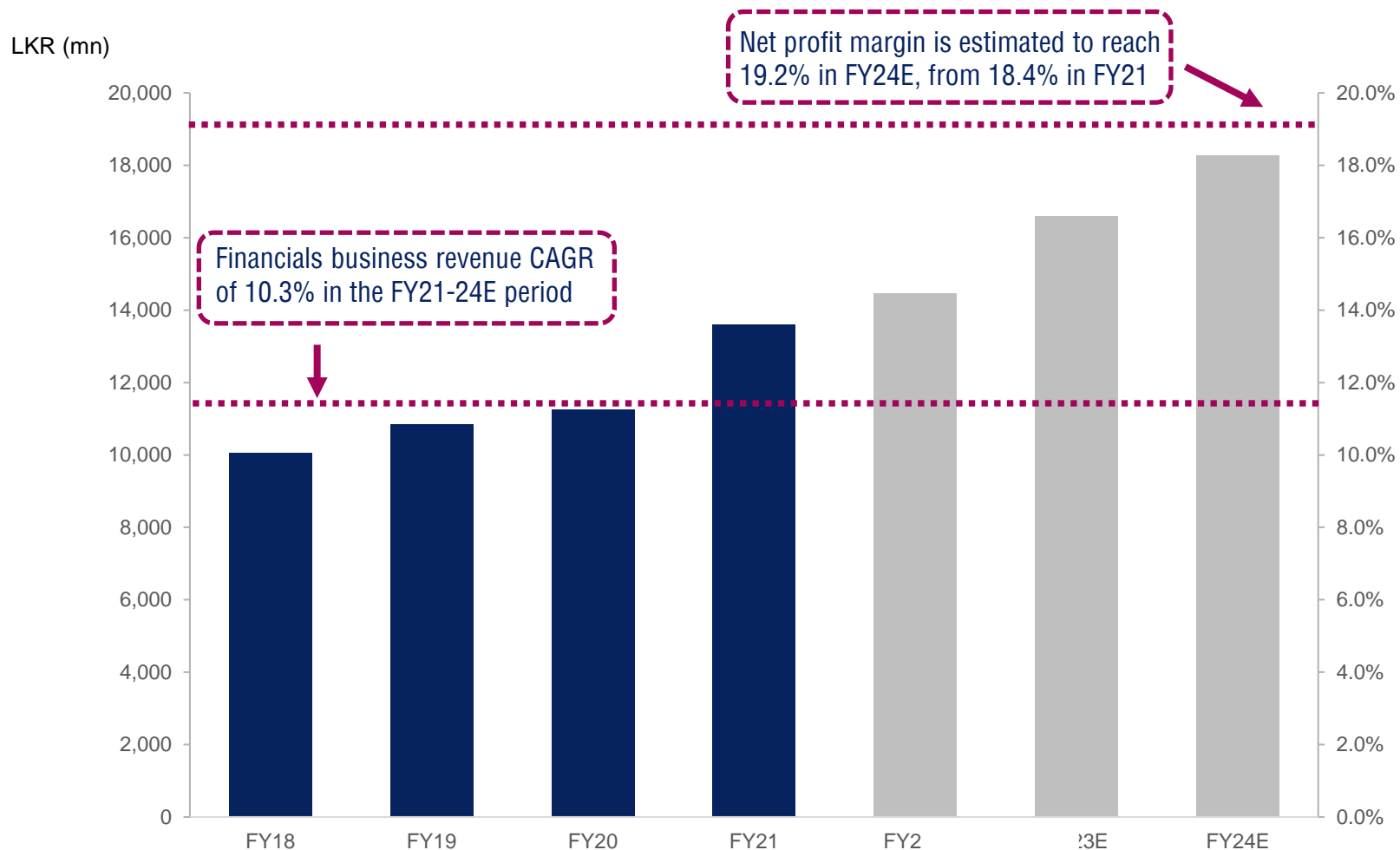


Source – World Bank, OECD, India Economic Survey 2020-21, Insurance Regulatory Commission of Sri Lanka

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FINANCIALS BUSINESS TO MAINTAIN GROWTH TRAJECTORY AT HEALTHY PROFITABILITY MARGINS



Source – Company Data, Asia Securities Estimates

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CINNAMON LIFE

Work hard, play harder, Time
for some gaming!

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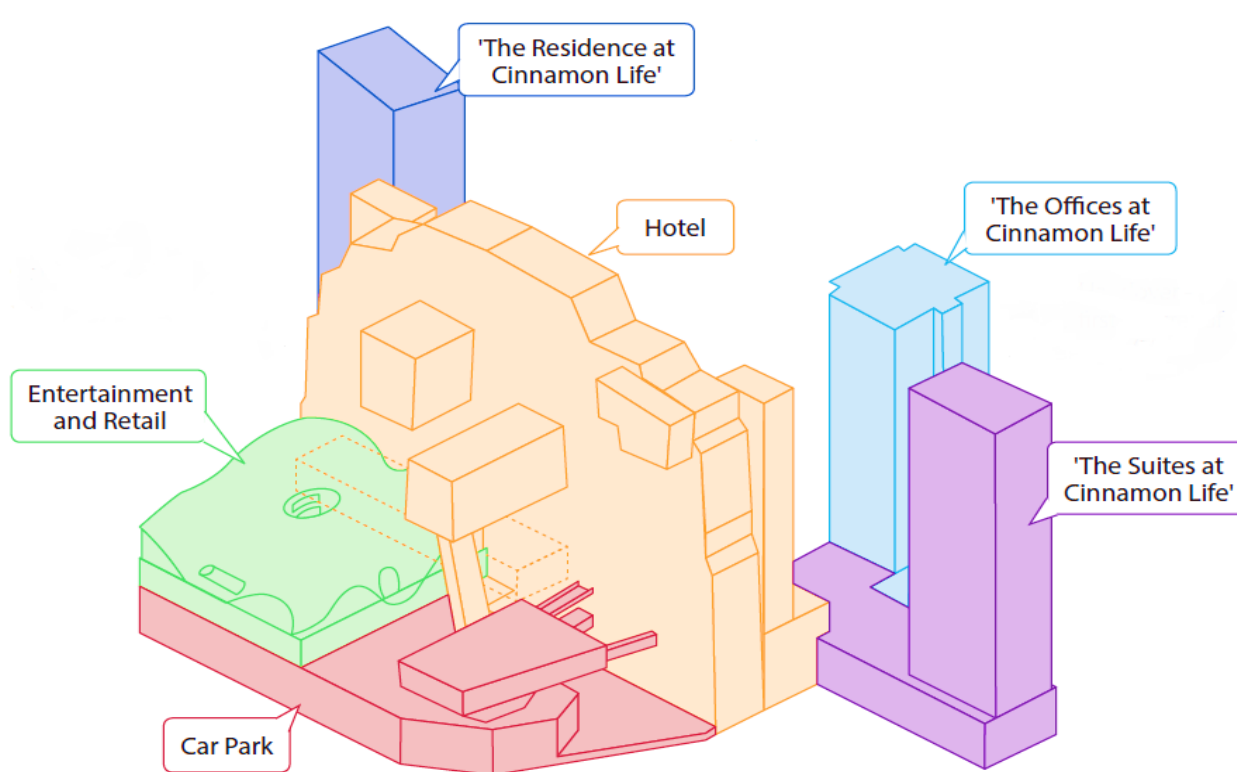
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HCL SIGN UP IS A MAJOR BOOST FOR CINNAMON LIFE

- Long-term agreement with India's HCL Technologies for the rental of 80% of Cinnamon Life office space, is a major vote of confidence on the project's viability.
- As per HCL Technologies, the company intends to employ more than 3,000 workers in SL over the next three years.
- We expect a sizable expatriate workforce to account for HCL's total headcount in SL.



- HCL's estimated workforce of 3,000+ in SL will occupy 20 floors in "The Offices."
- Positive spillover expected in terms of footfall in retail, F&B and hotel, and condominium demand.
- HCL agreement is strong validation of underlying strategy underpinning Cinnamon Life project.

Source – Company, Newswire and Asia Securities

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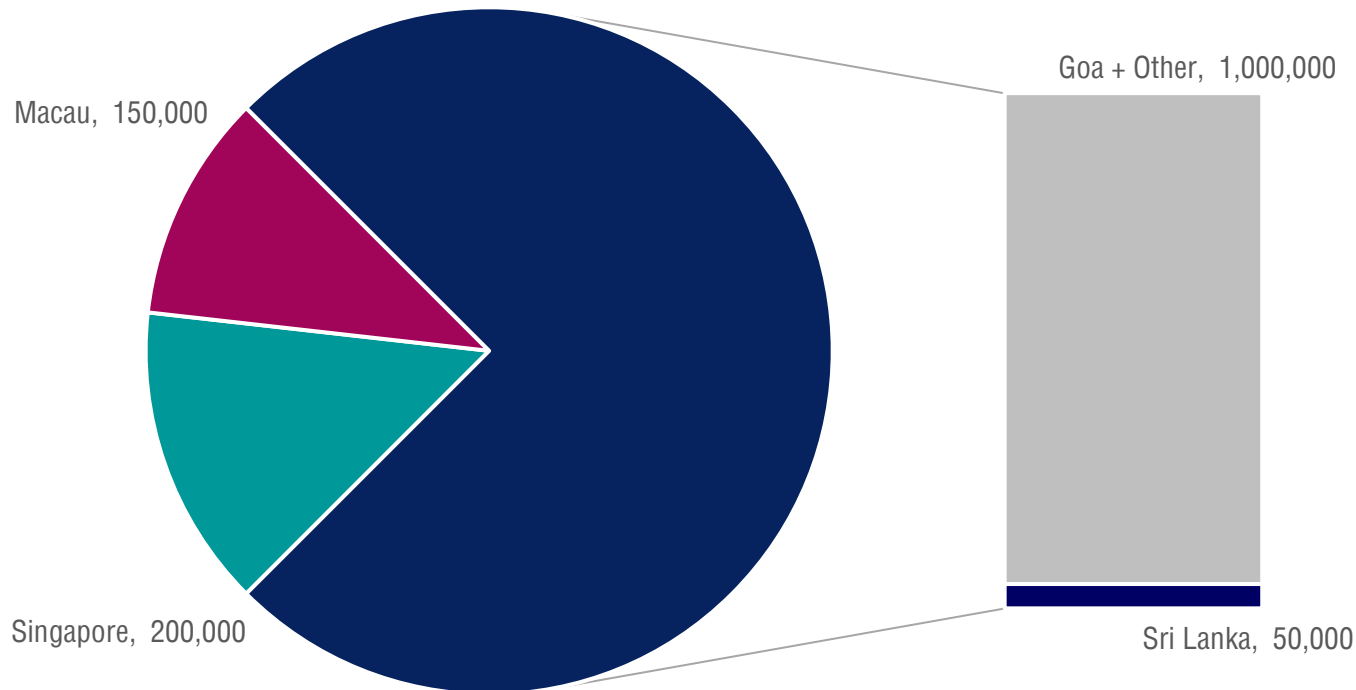
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GAMING KEY TO REALISING CINNAMON LIFE POTENTIAL



Gaming clientele out of India will be key target market for potential gaming operation planned at Cinnamon Life

An estimated 1mn+ Indian tourists travel to gaming destinations annually



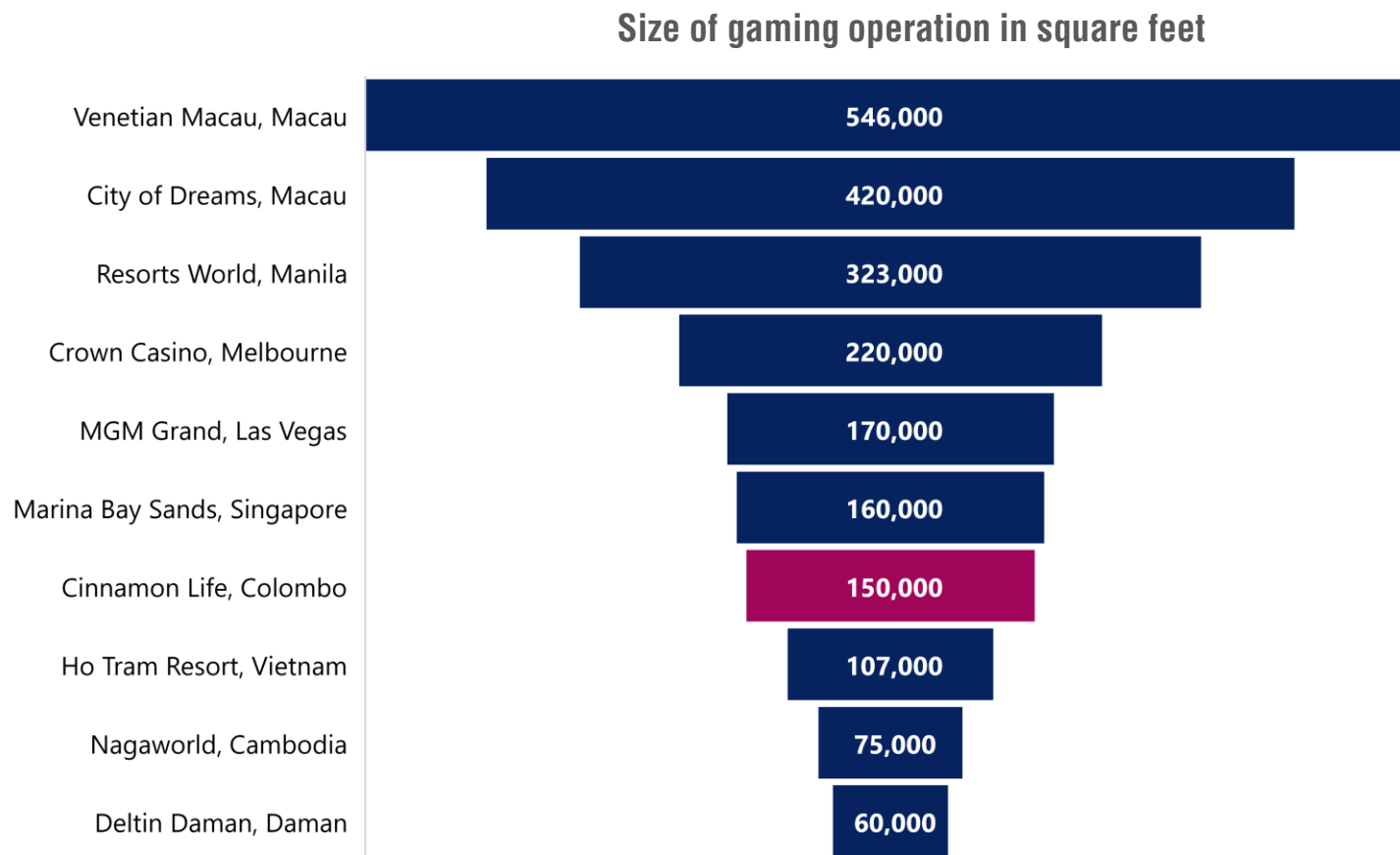
Source – Asia Securities Estimates

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ADDRESSING CAPACITY IN THE INDIAN SUBCONTINENT

- The floor space for Cinnamon Life's gaming operation will be roughly on par with Marina Bay Sands, Singapore. However, it will be ~2.5x the size of the largest casino operational in India.

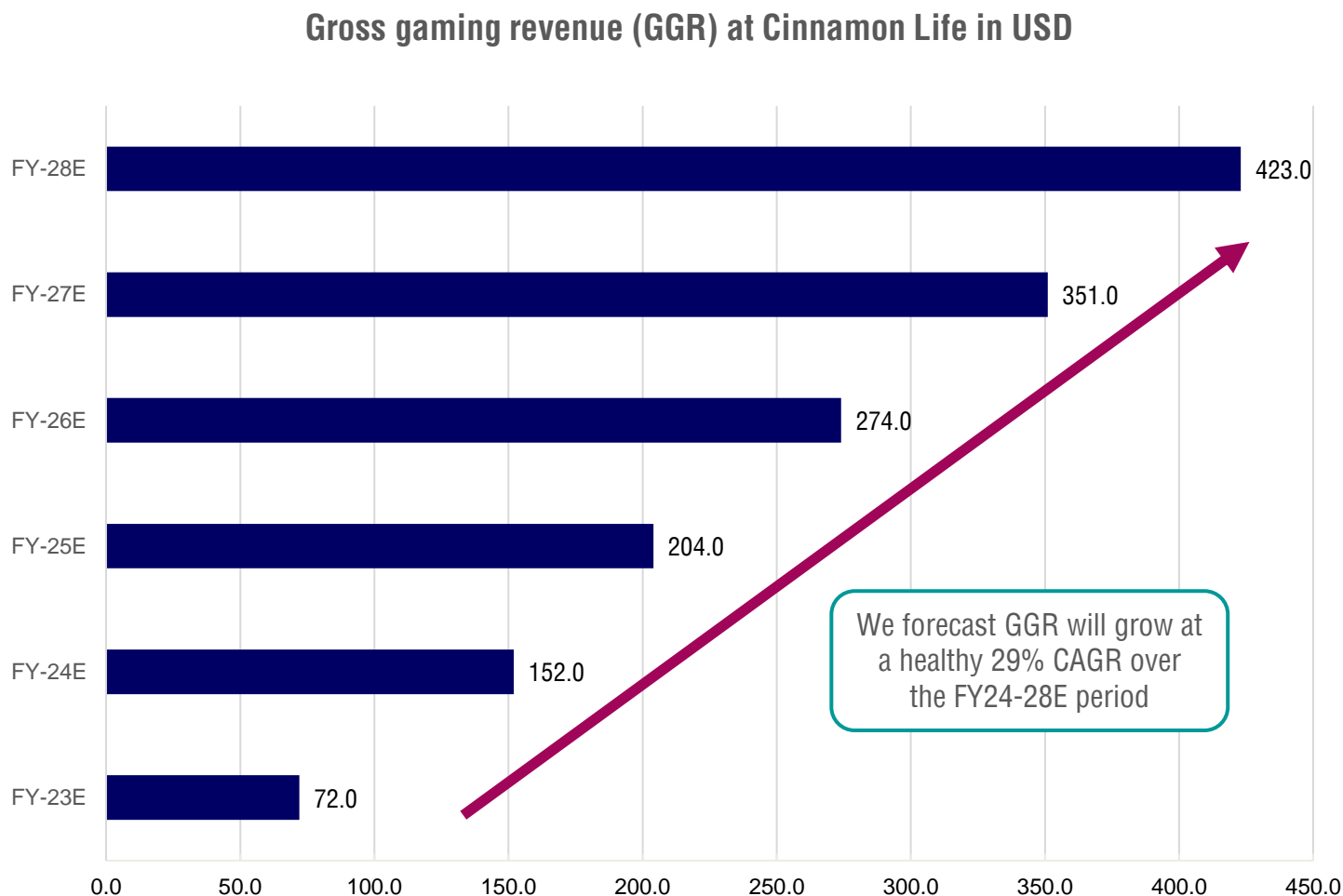


Source – World Casino Directory and Asia Securities

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GROSS GAMING REVENUE TO HIT 350MN USD BY FY-27E



Source – Asia Securities estimates

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TRANSPORTATION

Adani JV will unlock transshipment potential of Colombo Port

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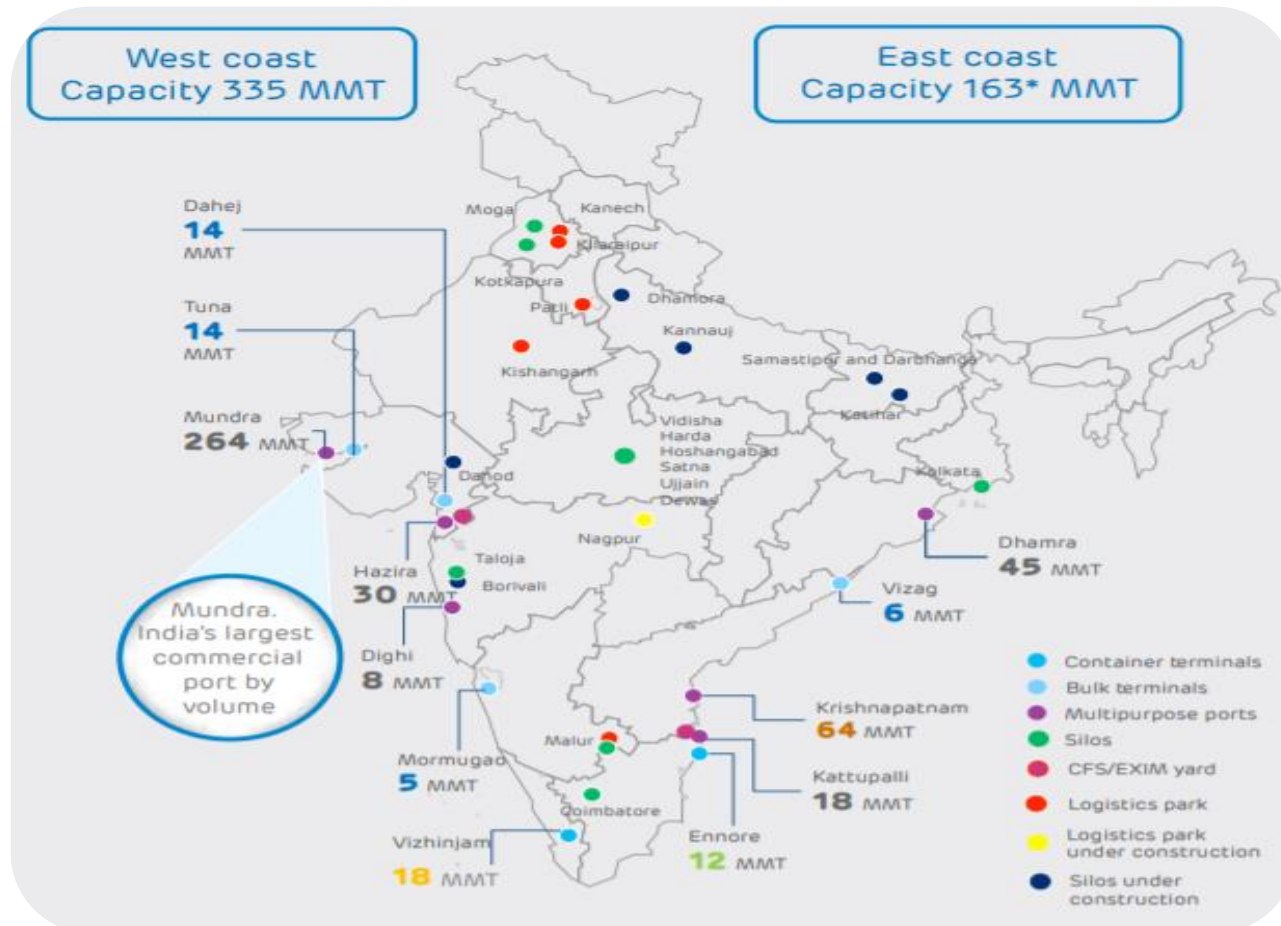
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ADANI WILL TURBOCHARGE TRANSSHIPMENT PLAY

Adani Ports alone currently account for roughly 41% of total container volumes handled in India



Source – Adani Ports and Special Economic Zone Limited, Annual Report, 2020-21

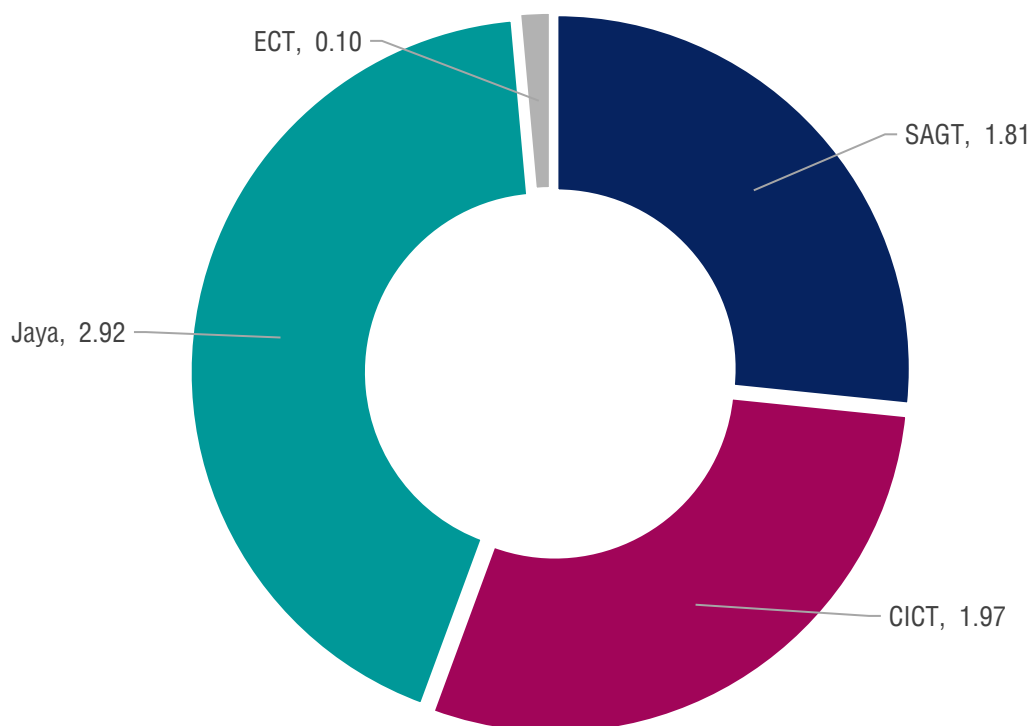
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INCREASED SHARE OF TRANSSHIPMENTS DUE TO WCT

- Colombo handles roughly 60-70% of Indian transshipment volumes, of which 45% originates from Adani Ports, underlining Adani's reliance on the Colombo transshipment node.
- Adani strategy will be to consolidate and transship a higher proportion of its volumes through the WCT, in order to benefit from favorable cost economics and efficiencies.

SAGT handled 1.81mn TEUs in FY21



West Container Terminal JV with Adani will add another 3.0mn TEUs of capacity with JKH owning 34% share of the business

Source – Company and Asia Securities Estimates

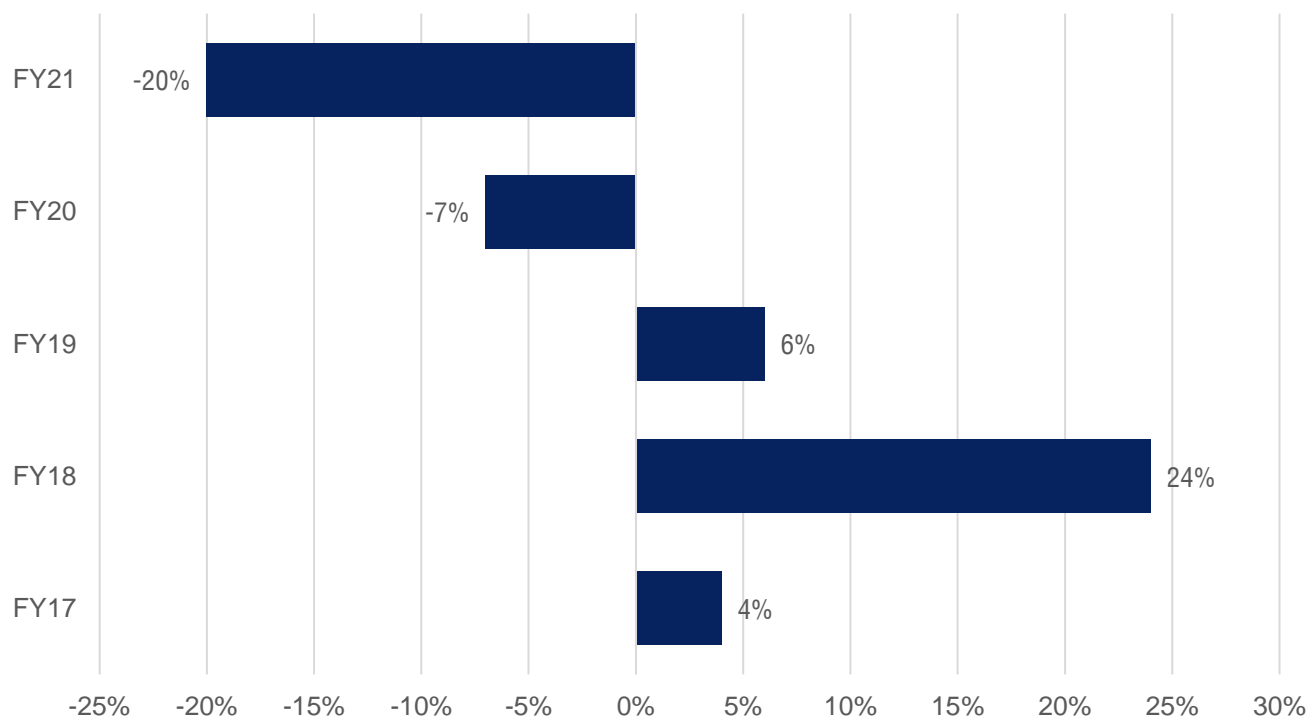
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BUNKER UNIT TO BENEFIT FROM CAPACITY ADDITIONS

- Ramping of ECT and Adani-led WCT operations at the Colombo Port will drive volume growth for the LMS bunkering unit and stabilize demand volatility.
- Commencement of bunkering operations at Hambantota Port and contract with Sinopec to supply bunker fuel will further aid volume expansion and competitiveness.

Bunker volumes have fluctuated over the past 5 years



Source – Company and Asia Securities

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OUR VIEW ON CCS, KFP, AHPL & KHL

- **BUY - CCS**
- **BUY - KFP**
- **HOLD - KHL**
- **HOLD - AHPL**

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CCS SL: CURRENT PRICES ATTRACTIVE ENTRY POINT

- We rate the stock a BUY, with a DCF derived target price of LKR 810.00/share.
- The stock is down 13.8% YTD and 9.4% YoY. We believe current price levels provide an attractive entry point to the stock. Including a FY-22E dividend LKR 16.00/share, our DCF-based target price derives a TSR of 36.0%.
- CCS continues to invest in the expansion of its store footprint in key urban locations across the Western Province, resulting in higher basket values compared to its competitor CARG.
- Market leadership position in the take-home FC business bodes well for the company, with the company well positioned to benefit from growing consumer demand.
- Key risks: 1) inflationary pressures continuing into CY22E impacting consumer demand 2) currency depreciation driving higher raw material (RM) costs (~60% of RM is imported).

Financial summary

In LKR mn	FY19	FY20	FY21	FY22E	FY23E	FY24E
Revenue	59,060	67,969	68,766	85,494	110,599	142,616
EBITDA	4,073	7,280	6,937	8,044	13,613	19,045
Recurring net profit	1,400	2,093	2,334	1,867	5,069	8,174
Diluted recurring EPS (LKR)	14.73	22.02	24.56	19.65	53.33	86.01
ROE %	9.6	13.4	14.3	11.0	28.8	43.2
P/E	41.2	27.6	24.7	30.9	11.4	7.1
BVPS	162.04	166.31	176.59	180.26	190.62	207.66
Debt/Equity	71.6	129.3	145.9	155.7	173.5	177.4
DPS	15.00	12.00	21.00	16.00	43.00	69.00
Dividend Yield	2.5	2.0	3.5	2.6	7.1	11.4
Dividend Payout	100.0	53.4	85.4	81.3	80.6	80.2

Source – Company Data and Asia Securities

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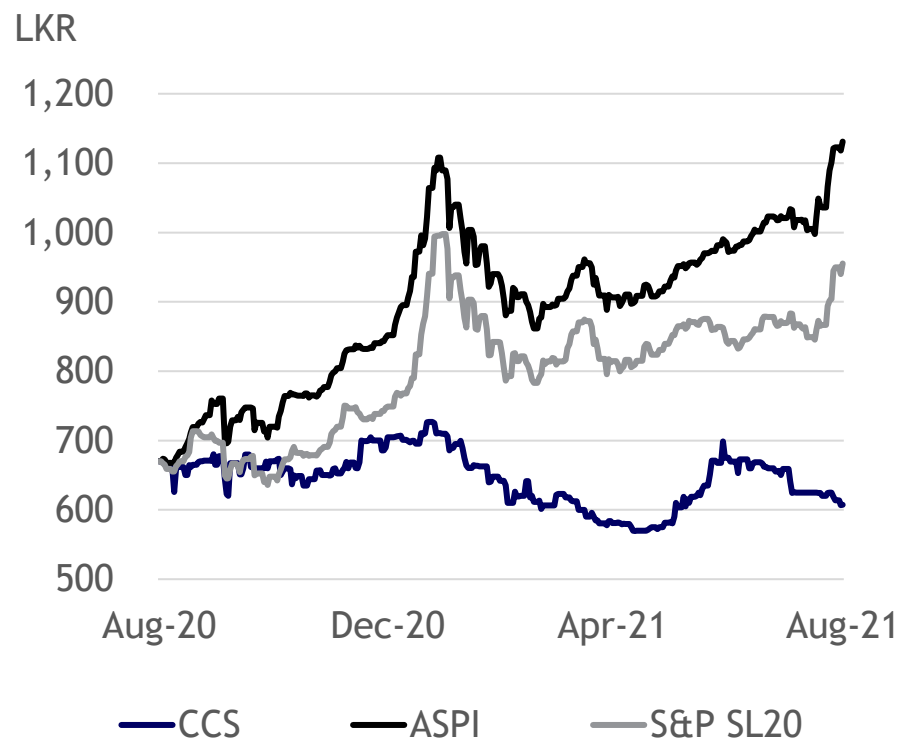


CCS SL: SHARE PRICE MOVEMENT

Price (LKR)	607.25
12-Month High	726.75
12-Month Low	569.25
Market cap (LKR mn)	57,713
Market cap (USD mn)*	268
No. of shares (mn)	95
ADT (LKR mn) - 3M	5.7
ADT (USD k) - 3M*	26.4
ADT (shares k) - 3M	9.1
Free float (%)	17.0

*- LKR converted at 215 LKR per USD

Share price movement (indexed to CCS)



Source – Bloomberg, Company Data and Asia Securities

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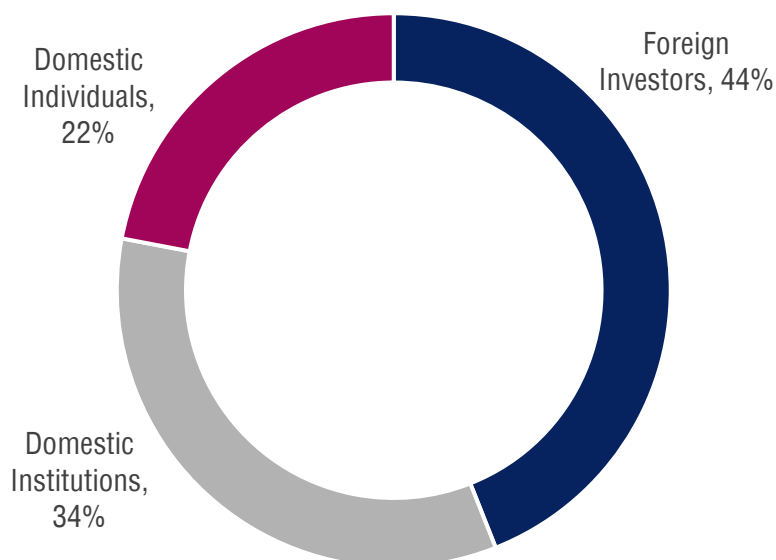
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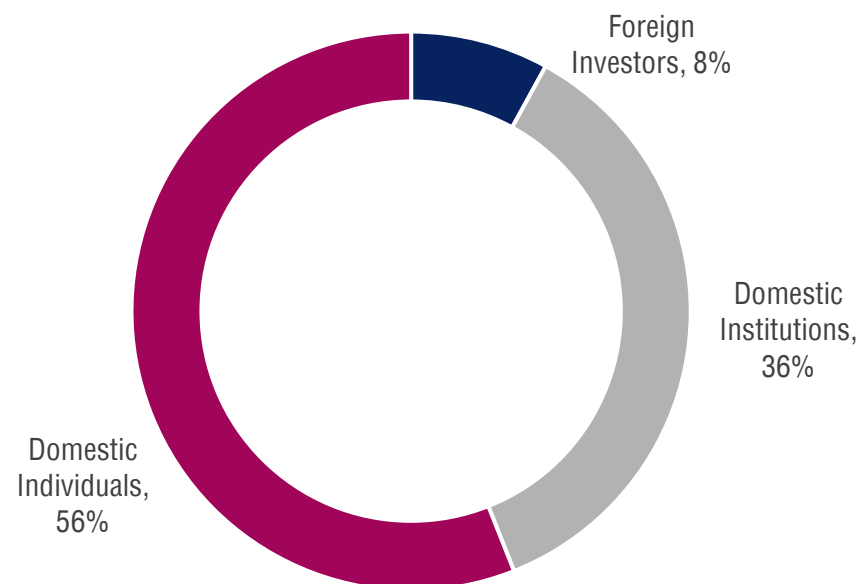
SHARE SPLIT COULD ADDRESS LIQUIDITY DEARTH

We believe a share split at current price levels would be a prudent value unlocking mechanism given retail centric evolution of the CSE

Investor Participation – 2018



Investor Participation – 2021



Source – Colombo Stock Exchange and Asia Securities

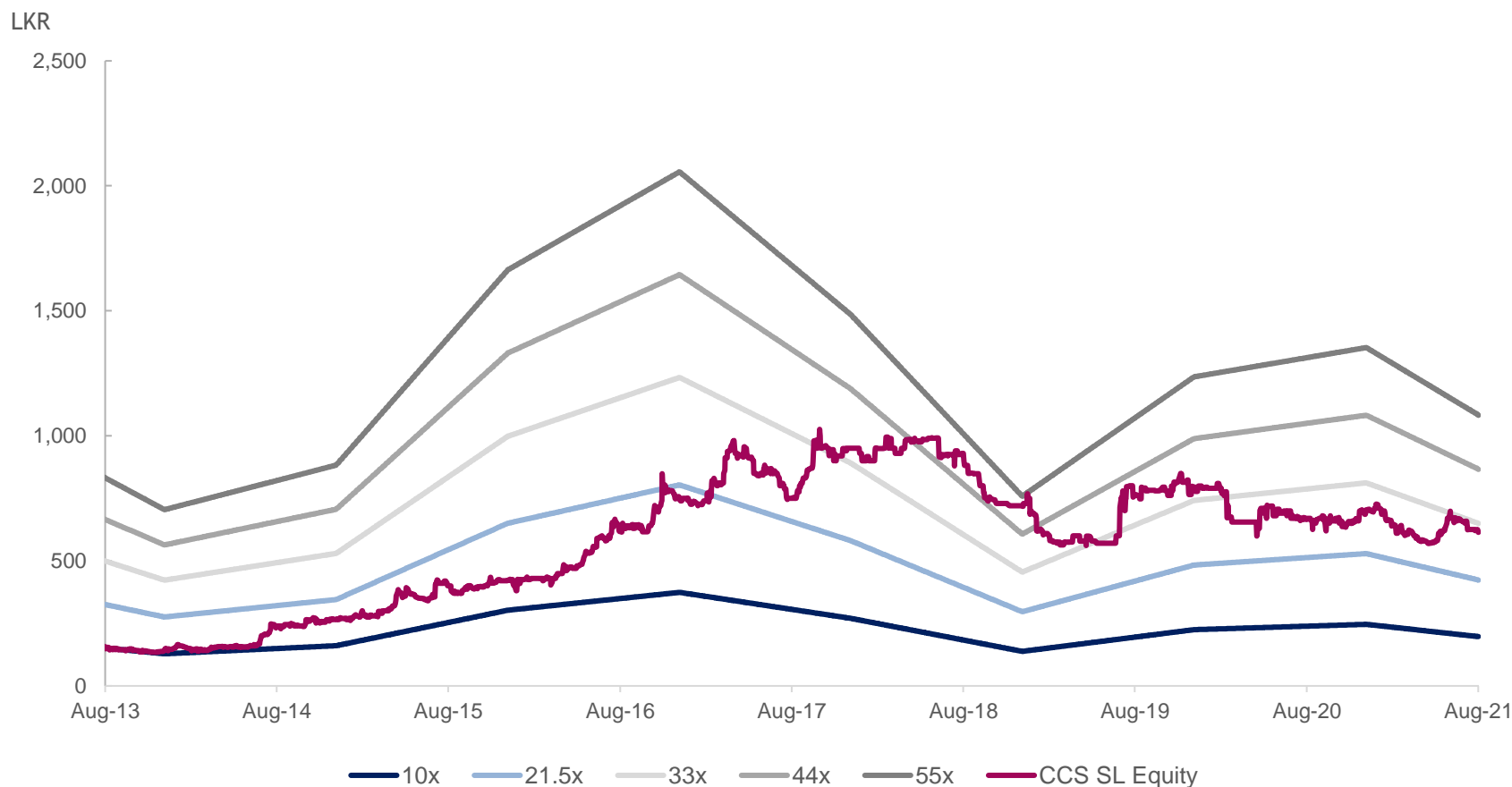
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CCS P/E BAND CHART

Based on our earnings projections for FY22E, CCS is trading at its mid band



Source – Bloomberg, Company Data and Asia Securities

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- We rate the stock a BUY, with a target price of LKR 210.00/share
- The stock is up 17.9% YTD and 66.7% YoY. Including a FY-22E dividend LKR 6.00/share, our DCF-based target price derives a TSR of 30.9%.
- Higher at-home consumption during the pandemic affected period, continues to offset volume losses experienced in the HORECA channel.
- Taking advantage of the at-home consumption trend, KFP is focused on expanding margins by increasing the sales mix towards its sausages and meatballs product lines.
- Key risks: 1) increasing raw material costs due to supply chain constraints for certain meat products 2) currency depreciation driving higher prices for imported additives

Financial summary

In LKR mn	FY19	FY20	FY21	FY22E	FY23E	FY24E
Revenue	3,430	3,591	3,651	4,022	5,002	5,997
EBITDA	471	337	488	415	715	993
Recurring net profit	267	150	321	209	445	662
Diluted recurring EPS (LKR)	10.48	5.89	12.59	8.19	17.46	25.95
ROE %	14.9	8.1	16.2	9.9	20.5	29.0
P/E	15.8	28.0	13.1	20.1	9.5	6.4
BVPS	72.4	73.6	81.4	83.6	87.1	92.0
Debt/Equity	2.1	18.7	14.4	11.9	9.4	8.3
DPS	6.00	4.00	9.50	6.00	14.00	21.00
Dividend Yield	3.6	2.4	5.8	3.6	8.5	12.7
Dividend Payout	57.3	67.9	75.5	73.2	80.2	80.9

Source – Company Data and Asia Securities

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Price (LKR)	165.00
12-Month High	175.00
12-Month Low	99.00
Market cap (LKR mn)	4,208
Market cap (USD mn)*	20
No. of shares (mn)	26
ADT (LKR mn) - 3M	0.4
ADT (USD k) - 3M*	1.9
ADT (shares k) - 3M	2.5
Free float (%)	3.7

*- LKR converted at 215 LKR per USD

Share price movement (indexed to KFP)

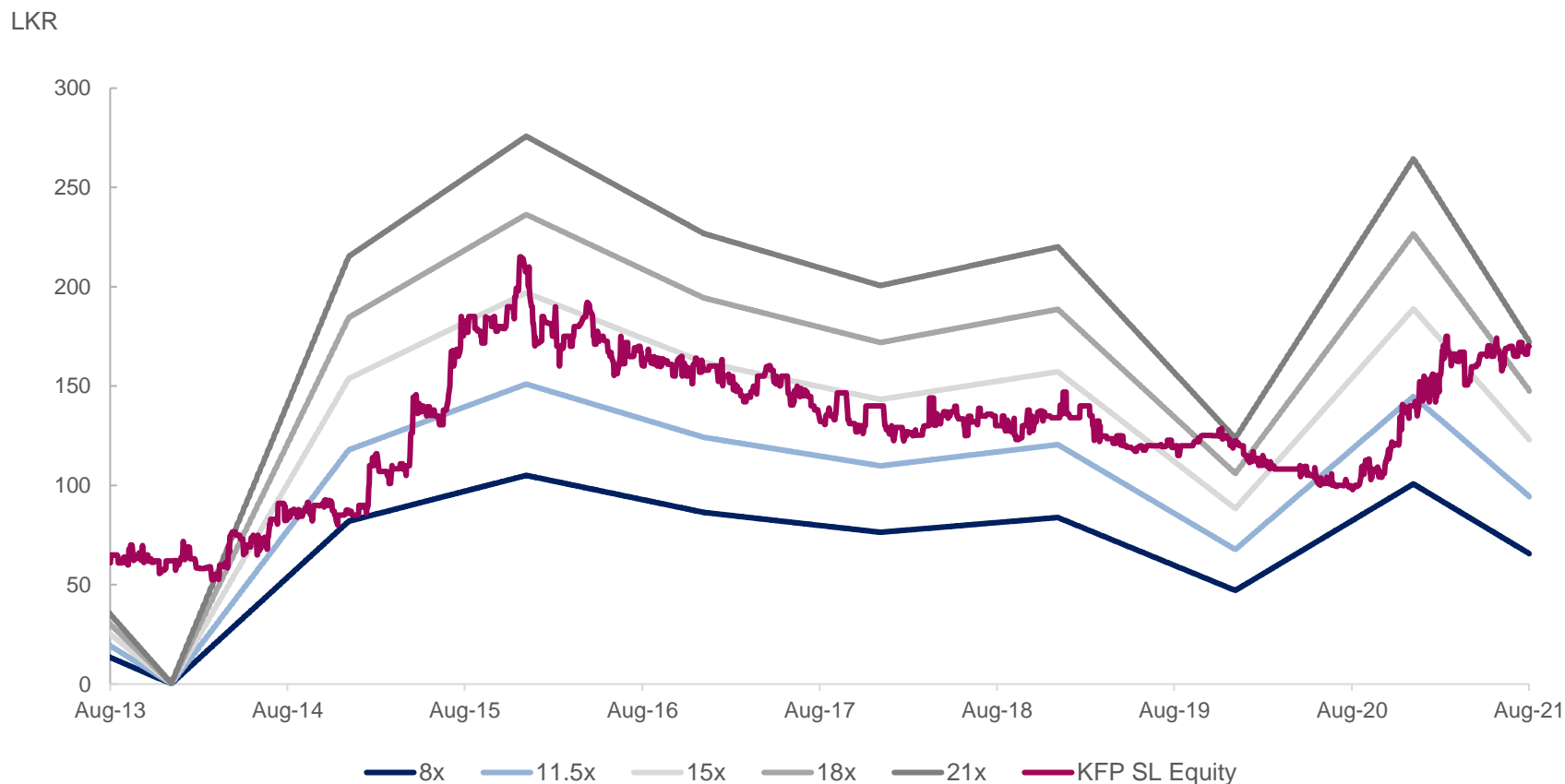


Source – Bloomberg, Company Data and Asia Securities

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Based on our earnings projections for FY22E, KFP is trading at its highest band



Source – Bloomberg, Company Data and Asia Securities

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- We rate the stock a HOLD.
- We expect Maldives operations to drive the recovery of KHL's top and bottom lines in FY-22E, as properties there benefit from higher occupancies.
- Maldives will be a key beneficiary of pent-up travel demand worldwide, going into the peak winter holiday season.
- Slower recovery expected in Sri Lanka as ongoing lockdowns and travel restrictions will likely impact occupancy levels for the remainder of the year.
- Our channel checks indicate that forward bookings for the holiday season in Sri Lanka is tracking below expectations.
- In line with our overall thesis, we believe JKH will likely look to lighten its asset base in its Leisure business, as part of its stated asset light strategy.

Financial summary

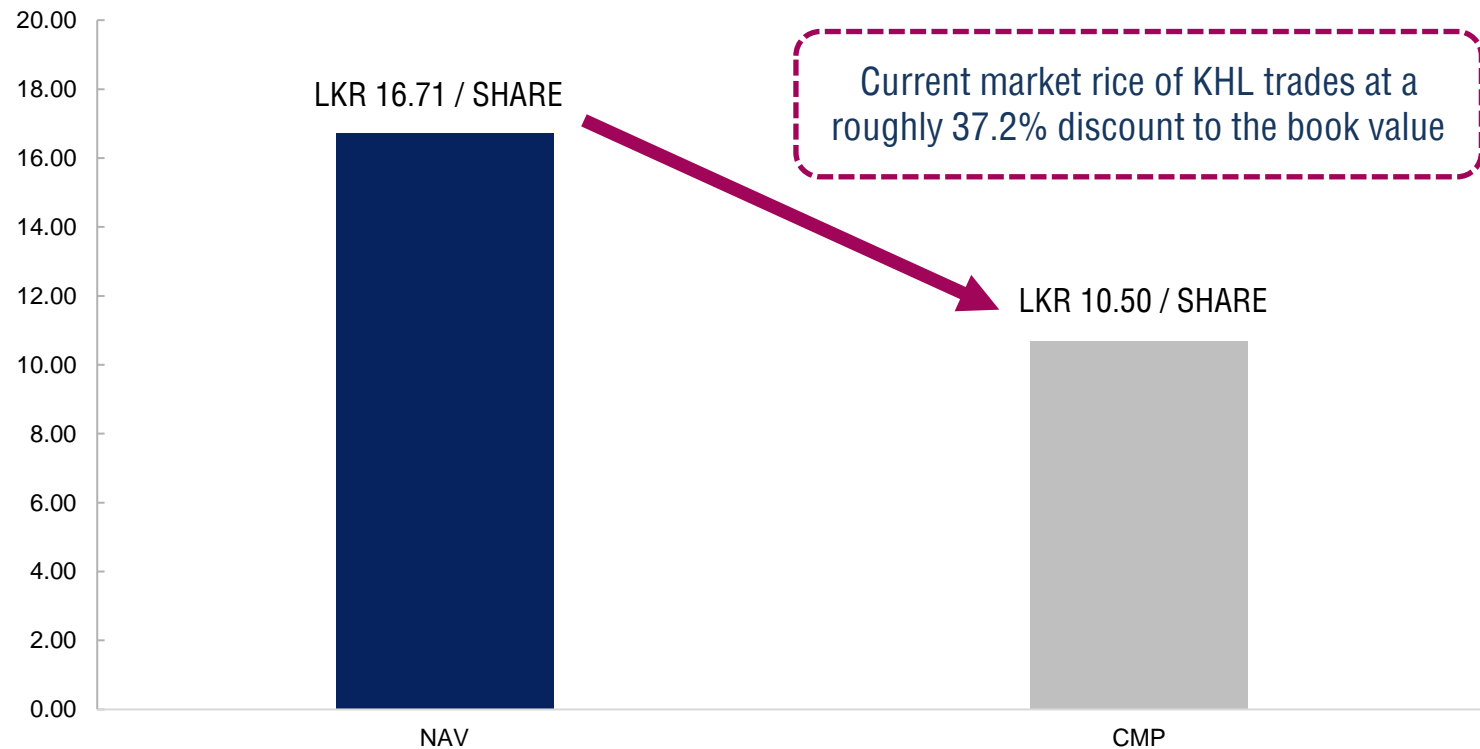
In LKR mn	FY19	FY20	FY21	FY22E	FY23E	FY24E
Revenue	11,033	9,712	3,661	8,511	13,385	15,912
EBITDA	2,992	1,844	(1,569)	681	4,015	5,410
Recurring net profit	1,221	(1,173)	(5,064)	(3,310)	(677)	288
Diluted recurring EPS (LKR)	0.84	(0.81)	(3.48)	(2.27)	(0.47)	0.20
ROE %	4.4%	-4.1%	-19.1%	-14.6%	-3.3%	1.5%
P/E	8.9	nm	nm	nm	nm	53.0
P/B	0.4	0.3	0.6	0.7	0.8	0.8
EV / EBITDA	4.6	13.5	nm	84.4	14.4	10.7
BVPS	19.8	19.7	16.7	14.4	13.6	13.3

Source – Company Data and Asia Securities

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KHL current share price trades at a significant discount to the book value of the company



NOTE: NAV = Net Asset Value as at 31 Mar 2021; CMP = Current Market Price as at 31 Aug 2021
Source – Company Data and Asia Securities

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Price (LKR)	10.50
12-Month High	12.50
12-Month Low	7.60
Market cap (LKR mn)	15,290
Market cap (USD mn)*	71
No. of shares (mn)	1,456
ADT (LKR mn) - 3M	3.2
ADT (USD k) - 3M*	14.8
ADT (shares k) - 3M	290.2
Free float (%)	6.9

*- LKR converted at 215 LKR per USD

Share price movement (indexed to KHL)



Source – Bloomberg, Company Data and Asia Securities

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AHPL SL: POST COVID-19 RECOVERY TO BE DELAYED

- We rate the stock a HOLD.
- We have revised our tourism arrivals forecast for FY-22E on a surge in COVID-19 infections in the country and city hotels are unlikely to see any near-term traction due to this.
- We expect AHPL's topline will be largely driven by its F&B business in FY-22E.
- We expect the start of operations at Cinnamon Life in FY-23E will have a negative impact on overall AHPL bookings.
- In our view, once Cinnamon Life starts operations, JKH may seek strategic options for its properties in Colombo as part of its stated asset-light strategy in Leisure, given the material capital tied up, and to support strong overall occupation levels and ARR's.

Financial summary

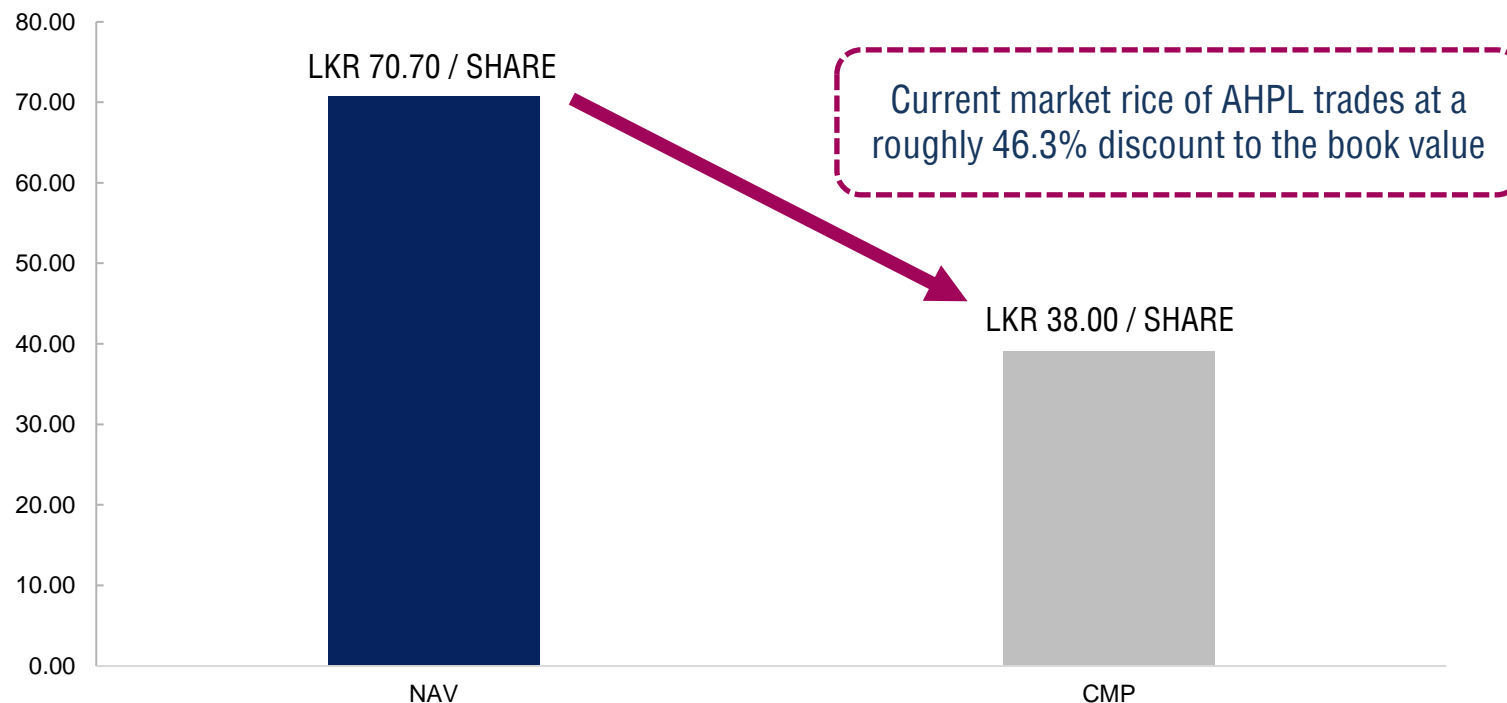
In LKR mn	FY19	FY20	FY21	FY22E	FY23E	FY24E
Revenue	7,658	5,560	1,790	2,548	5,406	8,192
EBITDA	1,670	548	(1,386)	(352)	814	2,600
Recurring net profit	811	(51)	(1,781)	(863)	97	1,626
Diluted recurring EPS (LKR)	1.83	(0.11)	(4.02)	(1.95)	0.22	3.67
ROE %	2.5%	-0.2%	-5.5%	-2.8%	0.3%	5.3%
P/E	22.9	nm	nm	nm	173.3	10.3
P/B	0.6	0.4	0.5	0.6	0.6	0.5
EV / EBITDA	9.8	19.9	nm	nm	22.3	7.0
BVPS	74.0	74.4	70.7	68.8	69.0	69.6

Source – Company Data and Asia Securities

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AHPL current share price trades at a significant discount to the book value of the company



NOTE: NAV = Net Asset Value as at 31 Mar 2021; CMP = Current Market Price as at 31 Aug 2021

Source – Company Data and Asia Securities

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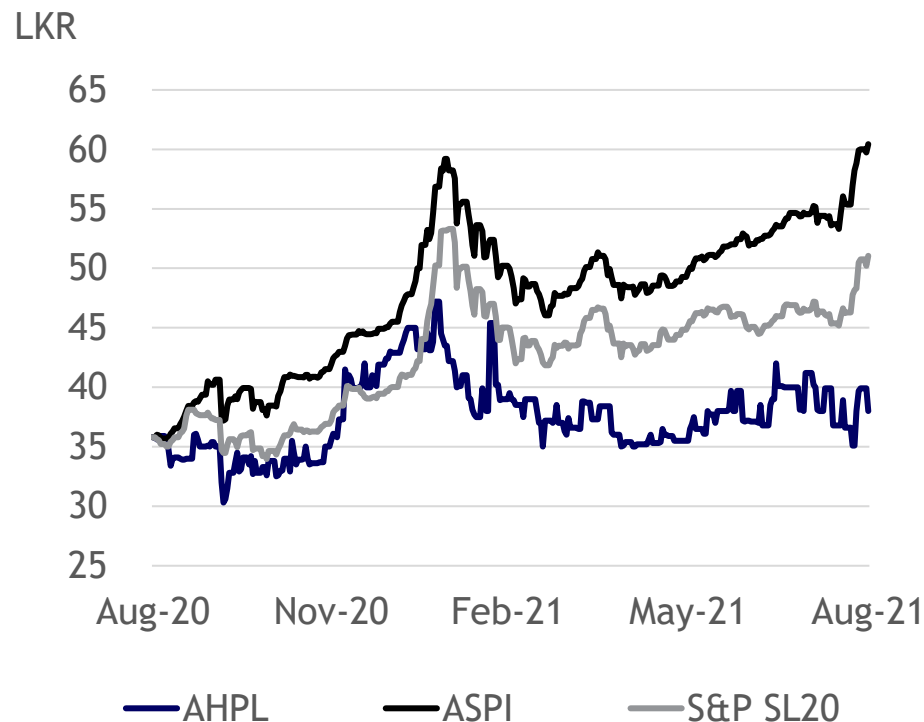
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AHPL SL: SHARE PRICE MOVEMENT

Price (LKR)	38.00
12-Month High	47.20
12-Month Low	30.30
Market cap (LKR mn)	16,825
Market cap (USD mn)*	78
No. of shares (mn)	443
ADT (LKR mn) - 3M	0.5
ADT (USD k) - 3M*	2.3
ADT (shares k) - 3M	13.2
Free float (%)	5.0

*- LKR converted at 215 LKR per USD

Share price movement (indexed to AHPL)



Source – Bloomberg, Company Data and Asia Securities

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FINANCIALS

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01 September 2021

ASIA SECURITIES RESEARCH

GROUP FINANCIAL SNAPSHOT

Group financial snapshot (In LKR mn)

	FY2019	FY2020	FY2021	FY2022E	FY2023E	FY2024E
Total revenue	135,456	138,956	127,676	187,240	232,317	282,602
Growth (%)	11.7	2.6	(8.1)	46.7	24.1	21.6
Total EBIT	6,650	6,789	2,552	8,257	19,946	30,846
Growth (%)	(32.3)	2.1	(62.4)	223.6	141.6	54.6
EBIT margin (%)	4.9	4.9	2.0	4.4	8.6	10.9
Consumer Foods						
Revenue	17,461	18,515	17,004	19,949	24,330	28,881
Growth (%)	9.2	6.0	(8.2)	17.3	22.0	18.7
EBIT	2,084	2,473	2,451	1,944	3,549	4,740
Growth (%)	(15.4)	18.7	(0.9)	(20.7)	82.5	33.6
EBIT margin (%)	11.9	13.4	14.4	9.7	14.6	16.4
Retail						
Revenue	55,847	64,900	70,400	87,669	112,309	143,907
Growth (%)	17.7	16.2	8.5	24.5	28.1	28.1
EBIT	1,243	3,168	3,382	4,884	9,153	14,070
Growth (%)	(35.1)	154.9	6.8	44.4	87.4	53.7
EBIT margin (%)	2.2	4.9	4.8	5.6	8.1	9.8
Property						
Revenue	947	826	807	22,927	19,287	15,010
Growth (%)	(34.6)	(12.7)	(2.3)	2,741.1	(15.9)	(22.2)
EBIT	37	(175)	41	3,115	4,633	5,919
Growth (%)	(74.3)	(567.6)	(123.2)	7,573.9	48.7	27.8
EBIT margin (%)	4.0	(21.2)	5.0	13.6	24.0	39.4

Source: Company data, Asia Securities

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GROUP FINANCIAL SNAPSHOT

Group financial snapshot (In LKR mn)

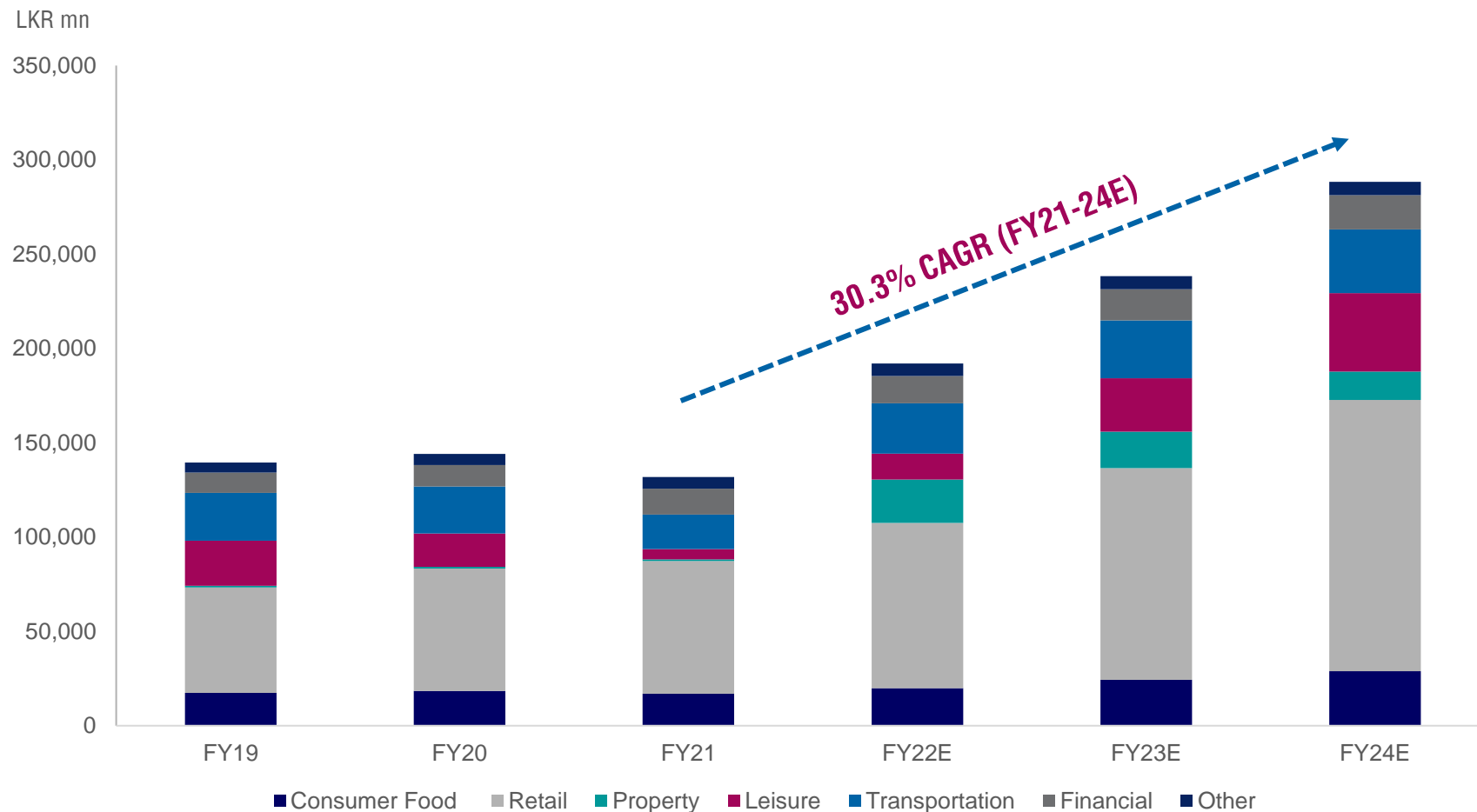
	FY2019	FY2020	FY2021	FY2022E	FY2023E	FY2024E
Leisure						
Revenue	23,886	17,635	5,412	13,754	28,286	41,540
Growth (%)	(4.7)	(26.2)	(69.3)	154.2	105.7	46.9
EBIT	2,767	(969)	(7,555)	(4,429)	599	4,237
Growth (%)	(26.3)	(135.0)	679.5	(41.4)	(113.5)	607.2
EBIT margin (%)	11.6	(5.5)	(139.6)	(32.2)	2.1	10.2
Transportation						
Revenue	25,301	25,060	18,403	26,694	30,698	33,768
Growth (%)	43.1	(1.0)	(26.6)	45.0	15.0	10.0
EBIT	769	1,070	864	1,310	1,535	1,688
Growth (%)	(23.8)	39.2	(19.3)	51.7	17.2	10.0
EBIT margin (%)	3.0	4.3	4.7	4.9	5.0	5.0
Financial						
Revenue	10,831	11,250	13,601	14,458	16,601	18,261
Growth (%)	7.7	3.9	20.9	6.3	14.8	10.0
EBIT	2,754	1,233	1,773	1,616	2,208	2,515
Growth (%)	(26.0)	(55.2)	43.7	(8.9)	36.7	13.9
EBIT margin (%)	25.4	11.0	13.0	11.2	13.3	13.8
Other (Plantations and IT Services)						
Revenue	5,322	5,920	6,315	6,624	6,804	7,003
Growth (%)	(7.7)	11.2	6.7	4.9	2.7	2.9
EBIT	(354)	(824)	(132)	(582)	(680)	(700)
Growth (%)	31.9	132.7	(84.0)	341.5	16.9	2.9
EBIT margin (%)	(6.7)	(13.9)	(2.1)	(8.8)	(10.0)	(10.0)

Source: Company data, Asia Securities

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GROUP FINANCIAL SNAPSHOT



Source – Asia Securities and Company Data

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KEY RATIOS

Key ratios

	FY2019	FY2020	FY2021	FY2022E	FY2023E	FY2024E
Revenue growth (%)	11.7	2.6	(8.1)	46.7	24.1	21.6
EBITDA growth (%)	(19.0)	22.7	(23.3)	72.5	78.8	36.1
Recurring net profit growth (%)	(8.2)	(39.7)	(43.2)	88.4	108.7	45.6
Recurring diluted EPS growth (%)	(3.4)	(39.7)	(43.2)	88.4	108.7	45.6
EBITDA margin (%)	8.3	9.9	8.3	9.7	14.0	15.6
Net margin (%)	10.8	6.4	3.9	5.1	8.5	10.2
Recurring diluted EPS (LKR)	11.11	6.70	3.81	7.18	14.99	21.83
DPS (LKR)	6.00	3.50	1.50	3.00	7.00	12.00
Tan. BVPS (LKR)	154.98	164.46	171.37	175.55	183.54	193.36
OCF (LKR mn)	(6,671)	(16,790)	2,512	14,365	36,239	38,874
Unlevered FCF (LKR mn)	(20,860)	(33,896)	(3,698)	7,363	24,066	22,653
Levered FCF (LKR mn)	(22,459)	(37,201)	(5,799)	1,486	17,750	15,997
OCF/EBITDA (%)	(59.6)	(122.2)	23.8	79.0	111.5	87.9
Unlevered FCF/EBIT (%)	(313.7)	(499.3)	(144.9)	89.2	120.7	73.4
Levered FCF/Recurring net profit (%)	(153.3)	(420.8)	(115.4)	15.7	89.8	55.6
Net debt/equity (x)	0.0	0.3	0.5	0.5	0.4	0.3
Net debt/EBITDA (x)	0.6	5.4	12.1	6.6	3.0	1.8
EBITDA/interest (x)	7.0	4.2	5.0	3.1	5.1	6.6
ROA (%)	4.6	2.8	1.7	2.7	4.7	6.4
ROE (%)	7.2	4.2	2.3	4.1	8.3	11.6
P/E (x)	11.7	19.4	34.1	18.1	8.7	6.0
EV/EBITDA (x)	15.1	12.3	16.0	9.3	5.2	3.8
P/B (x)	0.8	0.8	0.8	0.7	0.7	0.7
Dividend yield (%)	4.6	2.7	1.2	2.3	5.4	9.2
Dividend payout (%)	51.8	49.0	41.4	41.8	46.7	55.0

Source: Company data, Asia Securities

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INCOME STATEMENT

Income statement

In LKR mn	FY2019	FY2020	FY2021	FY2022E	FY2023E	FY2024E
Revenue	135,456	138,956	127,676	187,240	232,317	282,602
Operating expenses	(124,254)	(125,212)	(117,137)	(169,066)	(199,821)	(238,387)
EBITDA	11,202	13,743	10,538	18,175	32,497	44,216
Depreciation and amortization	(4,552)	(6,955)	(7,986)	(9,917)	(12,550)	(13,370)
EBIT	6,650	6,789	2,552	8,257	19,946	30,846
Interest income	9,782	7,045	8,616	10,462	12,667	15,322
Interest expense	(1,550)	(3,105)	(4,395)	(5,877)	(6,316)	(6,656)
Associate/JV income	4,727	4,466	4,159	5,393	6,286	6,358
FX gain/loss	2,127	1,961	1,642	500	500	500
Other non-operating income/expenses	(2,137)	(4,753)	(7,128)	(6,553)	(7,202)	(8,478)
Profit before tax	19,599	12,403	5,445	12,182	25,881	37,892
Income tax expenses	(3,965)	(2,662)	(1,494)	(2,109)	(4,853)	(7,267)
Profit for the year	15,634	9,741	3,951	10,074	21,029	30,625
Minority interest	(983)	(327)	821	(604)	(1,262)	(1,838)
Preferred dividends	-	-	-	-	-	-
Recurring net profit	14,651	8,840	5,026	9,469	19,767	28,788

Source: Company data, Asia Securities

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BALANCE SHEET

Balance sheet

In LKR mn	FY2019	FY2020	FY2021	FY2022E	FY2023E	FY2024E
Assets						
Non-current assets						
Property, plant and equipment	97,688	148,704	153,693	152,791	154,392	159,032
Intangible assets	3,406	3,289	4,853	6,721	8,624	10,714
Goodwill	-	-	-	-	-	-
Equity method investments	25,169	28,329	28,630	28,630	28,630	28,630
Interest earnings investments	-	-	-	-	-	-
Other investments	49,172	55,086	77,457	77,457	77,457	77,457
Other non-current assets	92,941	80,485	105,669	105,669	105,669	105,669
Total non-current assets	268,376	315,894	370,303	371,269	374,772	381,503
Current assets						
Accounts receivable	13,413	11,060	16,193	20,519	22,277	23,228
Inventories	9,547	50,169	54,296	37,055	21,898	16,328
Prepaid expenses	-	-	-	-	-	-
Other WCA	-	-	-	-	-	-
Cash and cash equivalent	47,779	26,439	44,888	43,789	56,120	62,256
Restricted cash	-	-	-	-	-	-
Short term interest earning investments	17,933	25,352	43,807	43,807	43,807	43,807
Other short term investments	-	-	-	-	-	-
Other current assets	6,750	8,029	7,307	7,307	7,307	7,307
Total current assets	95,421	121,050	166,491	152,478	151,409	152,926
Total assets	363,797	436,944	536,794	523,746	526,181	534,429

Source: Company data, Asia Securities

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BALANCE SHEET

Balance sheet

In LKR mn	FY2019	FY2020	FY2021	FY2022E	FY2023E	FY2024E
Liabilities						
Non-current liabilities						
Long term borrowings	21,277	70,835	143,201	134,201	125,201	116,201
Employee benefits	2,086	2,344	2,814	2,814	2,814	2,814
Other non-current liabilities	52,519	62,715	76,087	76,087	76,087	76,087
Total non-current liabilities	75,881	135,894	222,102	213,102	204,102	195,102
Current liabilities						
Accounts payable	18,845	22,850	34,037	25,476	27,373	32,656
Accrued expenses	-	-	-	-	-	-
Other WCL	900	1,032	1,251	1,251	1,251	1,251
Short term borrowings	33,236	30,072	29,704	28,704	27,704	26,704
Other current liabilities	4,576	3,373	6,714	6,714	6,714	6,714
Total current liabilities	57,557	57,326	71,705	62,144	63,041	67,324
Total liabilities	133,438	193,220	293,807	275,246	267,143	262,426
Equity						
Common equity	62,806	62,881	63,102	63,102	63,102	63,102
Preferred equity	-	-	-	-	-	-
Retained earnings	82,834	87,885	90,652	96,166	106,703	119,668
Other reserves	58,646	66,085	72,403	72,403	72,403	72,403
Minority interest	26,072	26,872	16,830	16,830	16,830	16,830
Total equity	230,359	243,724	242,987	248,500	259,038	272,003
Total equity and liabilities	363,797	436,944	536,794	523,746	526,181	534,429

Source: Company data, Asia Securities

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CASH FLOW STATEMENT

Cash flow statement

In LKR mn	FY2019	FY2020	FY2021	FY2022E	FY2023E	FY2024E
Cash flows from operating activities						
EBITDA	11,202	13,743	10,538	18,175	32,497	44,216
Other non-cash items	-	-	-	-	-	-
Change in working capital	(12,846)	(23,516)	(413)	4,353	15,297	9,903
Tax paid	(3,487)	(2,393)	(1,269)	(2,109)	(4,853)	(7,267)
Other	(1,540)	(4,624)	(6,344)	(6,053)	(6,702)	(7,978)
Cash generated from operating activities	(6,671)	(16,790)	2,512	14,365	36,239	38,874
Cash flows from investing activities						
Capex on PPE & intangibles	(14,412)	(17,275)	(6,315)	(7,003)	(12,173)	(16,221)
Proceeds from disposals	223	168	106	-	-	-
Net (acquisition)/disposal of subsidiaries	-	-	-	-	-	-
Net (acquisition)/disposal of EMLs	-	(243)	(321)	-	-	-
Dividends received	3,088	2,348	4,343	5,393	6,286	6,358
Interest received	12,052	7,396	9,071	10,462	12,667	15,322
Other	4,031	(9,690)	(38,413)	(3,880)	(3,880)	(3,880)
Cash used in investing activities	4,981	(17,294)	(31,530)	4,972	2,900	1,579
Cash flows from financing activities						
Issuance/(repurchase) of common shares	(11,097)	56	159	-	-	-
Issuance/(redemption) of preference shares	-	-	-	-	-	-
Drawdown/(repayment) of debt	8,705	23,637	63,689	(10,000)	(10,000)	(10,000)
Dividends paid to common shareholders	(8,186)	(4,614)	(1,978)	(3,956)	(9,230)	(15,823)
Dividends paid to preferred shareholders	-	-	-	-	-	-
Interest paid	(1,599)	(3,305)	(2,101)	(5,877)	(6,316)	(6,656)
Dividends paid to minority interest	(732)	(648)	(443)	(604)	(1,262)	(1,838)
Other	311	0	(5,999)	-	-	-
Cash from financing activities	(12,599)	15,125	53,327	(20,437)	(26,808)	(34,316)
Net increase/(decrease) in cash	(14,289)	(18,959)	24,308	(1,099)	12,331	6,136
Cash and cash equivalent at BOP	42,428	27,718	8,760	33,068	31,969	44,300
Effect of exchange movements	-	-	-	-	-	-
Cash and cash equivalent at EOP	28,139	8,760	33,068	31,969	44,300	50,436

Source: Company data, Asia Securities | EMI stands for equity method investments

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TOP 10 SHAREHOLDERS (% HELD)

Top 10 shareholders - Voting (% held)

Shareholder	Jun 2020	Mar 2021	Jun 2021	Δ YoY (pp)	Δ QoQ (pp)
Mr S E Captain	11.60	11.40	11.00	-0.60	-0.40
Citigroup Global Markets Limited Agency Trading Prop Securities A/C	10.80	10.70	10.70	-0.10	-
Melstacorp PLC	9.80	9.80	9.80	-	-
Paints & General Industries Limited	6.60	8.70	9.10	+2.50	+0.40
Schroder International Selection Fund	3.20	3.20	3.20	-	-
HWIC Asia Fund	3.00	3.00	3.00	-	-
Mr R S Captain	1.10	2.70	2.70	+1.60	-
Norges Bank Account 2	2.50	2.40	2.40	-0.10	-
Aberdeen Standard Asia Focus PLC	2.00	1.80	1.80	-0.20	-
Mr Kandiah Balendra	1.50	1.50	1.50	-	-

Source: Company data, Asia Securities

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