Sri Lanka: 2021 Equity Outlook

Zero In On The Recovery

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16 December 2020

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2021 EQUITY OUTLOOK – KEY TAKEAWAYS

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- Colombo All Share Price Index (ASPI) recovered all losses since bottoming out in May (+56.7% since May, +8.6% YTD). A Manufacturing-drive led the gains; opportunities remain in large caps that are yet to pickup
- Negative interest rates is the key catalyst; equities will remain the preferred asset class in 2021 amidst a low interest rate environment
- We forecast ASPI to reach 7,400-7,600 in 2021 with local investors continuing to carry the mantle
- Global investors would look to rebalance portfolios towards Emerging Markets (EM) amidst weaker USD, stronger EM economic recovery due to better management of the pandemic & cheap valuations
- However, macro concerns, specifically around foreign debt repayment outlook as publicised by recent rating agency actions may see to latent fund flows into Sri Lanka
- Risk-on sentiment with vaccine deployment and global recovery will favour equities in 2021; however, local management of vaccine deployment will be critical in mitigating related risks to the equity market
- Sector Pick – We see the strongest potential in the Consumer and Manufacturing sectors for 2021
- We recommend rotation towards "COVID recovery" beneficiary stocks. Our key picks for 2021 are weighted towards consumer sector and also cyclical stocks that look attractive in a path to recovery:

  - **JKH SL**
  - **HHL SL**
  - **CCS SL**
  - **TKYO SL**
  - **RCL SL**
  - **SAMP SL**
  - **COMB SL**
  - **HNB SL**
  - **AAIC SL**
  - **AEL SL**

- We also include three banks in our key picks given the extremely weak valuations which discount the medium-term pick up with the economy gradually improving

2021 MACRO OUTLOOK – WEIGHING IN THE FACTORS

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- While we have a positive view on the growth trajectory from 2021 onwards, we see the below areas as the key positives and concerns

Positives	Concerns
✓ Greater political and policy certainty	✗ Risk of prolonged impact of COVID-19 in the case of any health policy missteps, while other nations recover
✓ Emphasis on domestically driven growth	✗ Debt repayments of ~USD 4.5bn/year from 2021- 2023
✓ Low lending rates and high liquidity to drive credit	✗ Low credit ratings amidst debt repayment pressure
✓ Low direct tax environment to stimulate consumption	✗ Less room to raise foreign debt
✓ A more deliberate focus on attracting and executing investments driven by FDIs including launch of Port City-related and Hambantota Port zone-related investments	✗ Lag effect of food production amidst import restrictions
✓ Improving business and consumer confidence	✗ High fiscal deficit which requires increasing govt revenue
✓ Opening of airports to drive tourism	

THE KEY UPSIDE AND DOWNSIDE RISKS…

UPSIDE RISKS

- Stable political environment paving the way for increased USD fund flow
- Higher number of IPOs with concessions givens for new listings
- Fiscal stimulus combined with improved consumer sentiment, driving higher-than-expected household spending
- A credit rating upgrade leading to improved foreign flows into the country

DOWNSIDE RISKS

- A sharp increase in interest rates amidst inflationary pressure
- Slower-than expected recovery in credit growth
- Weather disruptions adding a significant pressure on supply-push inflation and worsen agri-sector incomes
- Any misalignment of policy between the executive and the legislature

KEY MACRO FORECASTS

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Key indicators	2016	2017	2018	2019	2020E	2021E	2022E	2023E
Real GDP growth (%)	4.5	3.6	3.3	2.3	(5.9)*	5.4	5.1	5.3
Headline inflation (%)	4.0	7.1	2.8	4.8	4.3	5.7	6.0	6.1
12M moving average (%)	4.0	6.6	4.3	4.3	4.5	6.2	6.2	6.0
Core inflation (%)	4.4	4.3	3.1	4.8	4.0	5.6	5.5	5.1
LKR/USD	149.80	152.85	182.75	181.63	186.00	189.00	192.00	196.00
Depreciation (%)	4.0	2.0	19.6	(0.6)	2.4	1.6	1.6	2.1
Unemployment (%)	4.4	4.2	4.4	4.8	7.5	6.0	5.7	5.0
12M government bond yield (%)	10.20	8.90	11.20	8.45	5.00	5.50	6.00	6.80
12M moving average (%)	9.93	10.05	9.75	9.22	4.20	4.70	5.20	5.80
Fiscal balance (% of GDP)	(5.4)	(5.5)	(5.3)	(6.8)	(9.8)	(11.3)	(10.5)	(9.2)
Trade balance (% of GDP)	(10.9)	(10.9)	(11.6)	(9.5)	(7.6)	(7.9)	(8.2)	(8.9)
Current balance (% of GDP)	(2.1)	(2.6)	(3.2)	(2.2)	(3.0)	(3.1)	(2.9)	(3.0)
FX reserves (months of imports)	3.7	4.0	3.7	4.6	4.3	4.0	4.5	4.7
Debt/GDP (%)	78.2	77.4	83.4	86.8	97.0	98.0	92.0	87.0
Foreign debt (% of total debt)	33.7	35.5	41.2	42.6	43.5	43.0	43.8	43.0

Source: CBSL, MoF, DoCS, Asia Securities | *- Forecasts have been updated following 2Q & 3Q GDP releases as of 15th December

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December 2020

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Sector Overview

Sector	Period	P/E (x)	EV/EBITDA (x)	P/B (x)	Div Yld (%)	ROE (%)	ROA (%)	ND/E* (%)	Outlook
Banks	CY21E	4.0	na	0.5	7.4	11.7	1.2	na	Positive
Telecommunications	CY21E	7.7	3.1	1.1	4.1	11.1	5.4	47.9	Neutral
Alcoholic Beverages	FY22E	9.4	5.8	5.1	3.7	41.5	22.2	(17.5)	Positive
FMCGR	FY22E	12.4	7.1	7.3	5.7	53.4	18.2	32.7	Positive
Conglomerates	FY22E	9.6	6.0	0.9	3.0	7.7	4.3	25.2	Neutral
Construction	FY22E	3.7	3.8	1.0	5.4	17.6	10.4	11.9	Positive
Manufacturing	FY22E	6.6	5.5	1.5	4.1	15.1	8.7	12.6	Positive
Healthcare	FY22E	12.3	8.1	2.2	4.1	14.7	9.1	63.8	Neutral
Leisure	FY22E	nm	15.8	0.7	0.4	(1.9)	0.8	87.8	Neutral
Insurance	CY21E	5.1	na	0.9	3.0	16.0	4.9	na	Positive
NBFI	FY22E	3.2	na	0.6	4.0	16.2	3.3	na	Neutral
Energy	FY22E	9.8	9.5	2.1	5.8	16.3	7.8	105.7	Neutral

Source: Bloomberg, Asia Securities | * - Bank dividend yields include cash and scrip dividends

Sector Summary (1/3)

BANKS - POSITIVE

Click here for detailed sector outlook

The sector trades at 0.5x CY21E BV with an ROE of 11.7%. The valuation overhang is largely due to the uncertainty caused by COVID 19 on the already-stressed balance sheets of the banks. We expect credit demand to pick up in 2021, as the lockdowns gradually ease, and the prospect of a vaccine improving sentiment. In addition, the continued low rate environment and the corporate taxes, coupled with the focus on local manufacturing would lead to better growth, while sectors such as construction will gradually recover from the tight credit conditions. Along with this, the cost of risk should trend lower in 2021, and supported by maintained tax cuts, we expect earnings to mark a growth along with an improvement in ROE.

INSURANCE – POSITIVE

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With an ROE of 16.0%, the Insurance sector is currently trading at 0.9x our CY21E BV; a ~33.4% discount to the five-year trading average. We see low interest rates and insurance tax deductible allowance of LKR 1.2mn p.a, as strong incentives for Life insurance demand to see robust growth going into 2021E. To this end, we see AAIC as the main beneficiary, with its stronger position in the larger ticket size market. Life will also see a regulatory increase in the rate used to calculate Life contract liabilities, temporarily which will see to normalizing allocations to the life fund. With vehicle import restrictions looking to be extended to mid-2021, General GWP will remain challenged. Investment yields to stabilise in CY21 before recovering in 2H.

TELECOMMUNICATIONS – NEUTRAL

Click here for detailed sector outlook

The two telco players trade at 7.7x CY21E PE and 3.1x EV/EBITDA. Data usage has been strong, especially with the lockdowns inducing more sticky usage with e-commerce, e-learning and streaming media services. We believe this trend would continue in CY21E, backed by continued lower consumer taxes and higher disposable income. Higher network utilization, coupled with the roll-back of concessions offered during COVID-19 would support better profitability but will be offset to some extent by the falling away of the one-off cost savings seen in CY20 (e.g., marketing spend). We expect to see higher capex by both players as mobile network portability would come into effect and initial 5G capex would start.

CONGLOMERATES – NEUTRAL

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The sector is trading at 9.6x our FY22E EPS, ~42.0% below its five-year trading average. Hit on multiple fronts since April 2019, we expect the sector to see a meaningful recovery only post 1H FY22E, given the sector-wide exposure to leisure. From our coverage, our key pick is HHL. With >90% of the topline being derived from the Healthcare and Consumer businesses, with minimal exposure to the leisure sector, HHL has seen a faster recover compared to its peers. We are also positive on JKH with the GoSL making encouraging moves towards opening the airports for tourism in 2021, which we believe will lead to a recovery in earnings.

Sector Summary (2/3)

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FMCGR - POSITIVE

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The sector is trading at 12.4x our FY22E EPS, ~48.4% below its five-year trading average, generating an ROE of 53.4% in FY22E, the highest in our coverage. The inflated trading multiples and lower ROEs compared to historical returns are as a result of the sector losses / low profits seen throughout the past year. Going into CY21E, with no significant incentives by the government, we expect demand and spending to be driven by a gradual recovery in economic activity and income levels normalizing. Counters exposed to food retailing will continue to benefit as consumers remain more focused on spending on food and essentials and as such, the key pick from our coverage continue to be CCS with its exposure to food retailing.

CONSTRUCTION – POSITIVE

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With a strong recovery expected, we see our current forward multiple of 3.7x FY22E P/E (~64.0% discount to the five-year average) to be undervalued. Following a hiatus of three years, the construction sector is set to take off in 2021 with several elements lining up to spark growth. The main trigger comes from low interest rates that will drive a residential sector thrust. On the supply side, we see a stable LKR to be a key positive for the construction sector that largely relies on imported raw materials. However, commodities such as Copper and Aluminium are strengthening on the back of a recovery in industrial activity. We expect the cement industry to see the first signs of a pickup, making TKYO one of our key picks.

MANUFACTURING – POSITIVE

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Despite a doomsday picture being painted around the Apparel sector following the lockdowns, the sector has shown resilience through the pandemic and is set to grow strongly in 2021. With better management of the pandemic, SL has become a preferred destination for US brands amidst vendor consolidation programs. Upcoming capacity expansions to accommodate this leads to our positive view on the sector. We are also positive on the export names DIPD and HAYC, who we believe will continue to benefit from pandemic driven demand for most of 2021. We believe our current forward multiple of 6.6x FY22E EPS (~48.0% discount to the 5-year average) is not justified given the earnings potential from the incremental capacity.

ALCOHOLIC BEVERAGES – POSITIVE

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Looking towards to a stronger than expected recovery, the sector is trading at 9.4x our FY22E EPS, a ~40.0% discount to its five-year trading average. The absence of an excise duty increase through the 2021 budget remains a key positive for stable demand going forward while the proposed Special Goods & Services Tax could lead to less volatile duty changes. This would also result in stabilising demand migration from the legal market to the illegal market. We are positive on DIST for FY22E, as the absence of a duty increase will help it maintain demand, couple with margin expansion from local sourcing.

Sector Summary (3/3)

HEALTHCARE - NEUTRAL

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The sector is trading at 12.3x FY22E EPS, a ~46.2% discount to the five-year trading average. Fear of exposure to potentially undetected COVID-19 patients will continue to impact OPD footfall. Hospitals with a strong position in elective surgeries, such as ASIR, will continue to see sustainable occupancies. However, those dependent more on communicable diseases care occupancies, will continue to see low demand as regular hand washing, and masks have reduced the incidents of such diseases. We remain long-term positive on ASIR as Kandy hospital turns an operating profit and IVF centre enters operation in FY22E.

LEISURE – NEUTRAL

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With the expectation of an ROE of -1.9% for FY22E, the Leisure Sector is trading at a significant premium to historic in anticipation of a tourism bounce back on news of allowing tourist entry from January 2021. However, hoteliers believe that a mandatory 2-week quarantine, restrictions on movement and mode of transport will hinder demand for short-holiday goers; key segment for listed larger properties. Maldives is seeing noteworthy recovery in arrivals benefiting from long-stays, although recovery is not uniform. Source dynamics have shifted to more towards Indian, Russian and Middle Eastern markets; a trend from which AHUN is benefitting. KHL, who is stronger in the European market will see lagged recovery on second wave impact.

ENERGY – NEUTRAL

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We believe the low valuations in the Energy sector are justified given the regulated and uncertain environment. While valuations are currently above the historic range, we believe the discounted forward multiple is justified given uncertainty in retail pricing for LIOC and LGL. The Energy sector is trading at 9.8x FY22E EPS, which is at a ~43.0% discount to the five-year trading average. A key risk we see is in a strengthening of energy prices with vaccine deployment and normalization in 2021. We are positive on the Renewable Energy (not under ASEC coverage) with government concessions towards the sector in the 2021 budget.

NON-BANK FINANCIAL INSTITUTIONS – NEUTRAL

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The sector trades at 0.5x FY22E BV with an ROE of 9.4%. The lower than historical valuation is largely due to the uncertainty caused by COVID 19, and its impact on asset quality. While expect credit demand to pick up in 2021 helping loan demand, we expect lease demand to remain muted amidst import controls. This, combined with the core capita requirement of LKR 2.5bn by December 2021 will add pressure on the smaller cap NBFIs. While we perceive the consolidation push as a positive for the sector, we maintain our Neutral view on the sector based on 1) pressure on asset quality, 2) higher core capital requirement and 3) low vehicle lease demand.

KEY PICKS

ASIA SECURITIES RECOMMENDED PORTFOLIO

December 2020

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Asia Securities Portfolio Returned 67.4% In CY20 vs. 55.7% ASPI*

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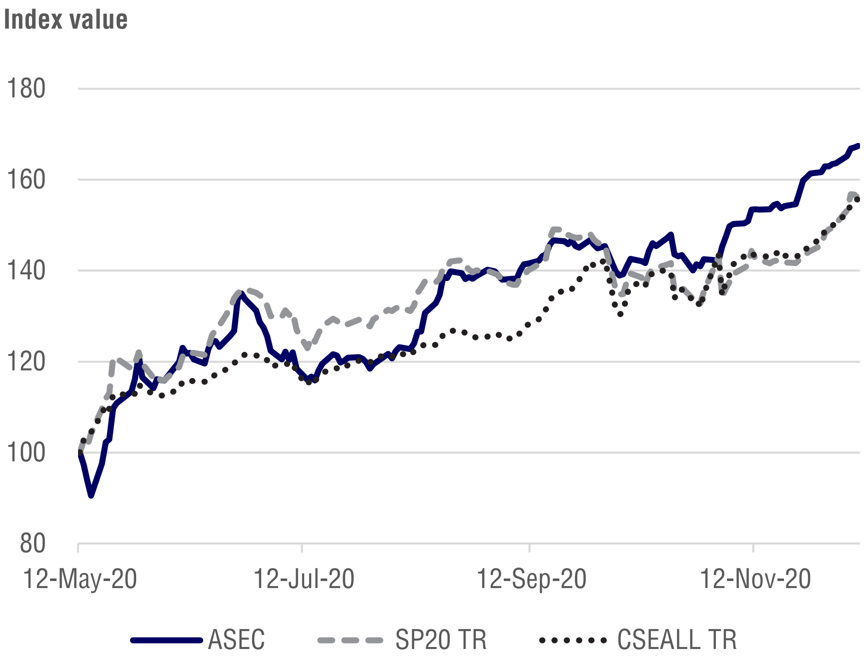
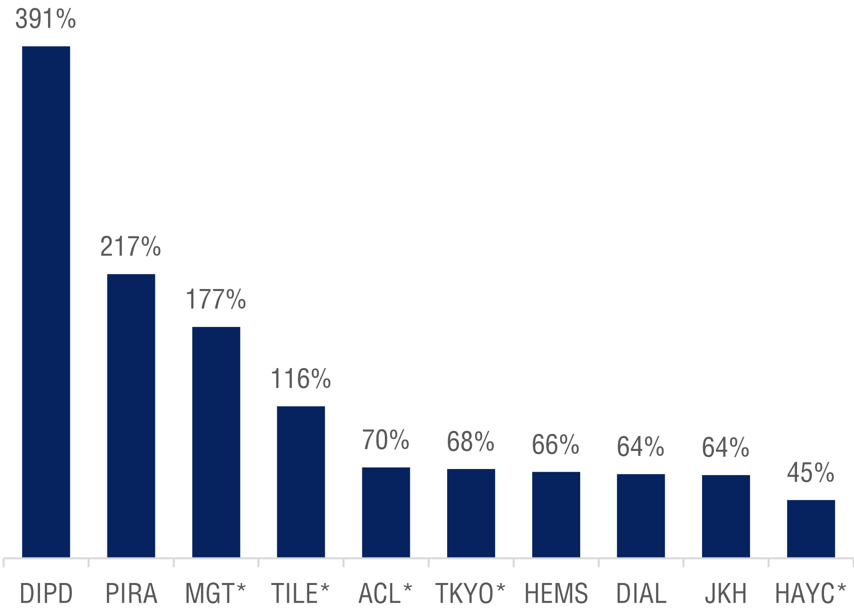
- ASEC portfolio beat the ASPI by ~1,200bps in the May 2020 – December 2020 period. Our allocation is liquidity-weighted, thus some of the strong performing mid-cap companies had a lower weight in the portfolio returns calculation
- From our recommendations in April 2020 strategy publication, DIPD (+391%), and PIRA (+217%) saw the strongest total return (albeit low weight in the portfolio), while JKH (+64%) and HHL (+66%) were the main winners from large caps
- In addition, our key manufacturing recommendations such as MGT (+177%), TILE (+116%), TKYO (+68%), have been added to the portfolio from the date of the recommendations were published





Source: Bloomberg, Asia Securities | * Returns are calculated from the day ASEC BUY recommendations were issued

We Recommend Rotation Towards "COVID Recovery" Beneficiary Stocks; Top Picks 2021 Is Overweight Consumer-related Stocks

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- For the top picks we have selected the counters that offer the highest value, given the strongest fundamental story
- As highlighted in our main equity strategy and macro-outlook, we are bullish on the consumer-related names
- While the growth in the overall market should support all players, we pick stocks that are best positioned to take advantage of the current conditions
- We also include three banks in our key picks given the extremely weak valuations which discount the medium-term pick up with economy gradually improving
- Dividend play – we recommend players in the tile sector as a strong dividend play. To this regard, we recommend exposure to RCL, while TILE and LWL also come out as strong dividend plays. We expect the protection extended towards domestic manufacturers to continue to help the tile sector that has been long plagued by import competition.

Ticker	Market cap		CY21E / FY22E				Target price (LKR)	TSR %
	LKR bn	USD mn	P/E (x)	P/B (x)	Div. Yield (%)	ROE (%)		
JKH	200	1,074	18.5	0.9	3.9	5.1	175.00	19.0
HHL	57	304	10.5	1.7	1.8	17.2	130.00	38.2
CCS	64	340	23.6	3.6	2.2	15.8	1,010.00	53.3
TKYO	25	136	4.4	1.0	5.0	25.7	120.00	86.3
RCL	17	92	3.3	0.5	9.0	17.5	235.00	60.0
AAIC	14	73	5.9	1.4	4.1	26.2	45.00	27.7
SAMP	52	277	5.9	0.5	7.0	8.2	175.00	36.2
COMB	96	489	5.6	0.6	7.8	11.7	100.00	28.3
HNB	64	285	4.7	0.4	5.8	9.1	165.00	32.9
AEL	25	134	10.4	1.0	4.0	10.3	34.00	40.0

Source: Asia Securities | Priced as at end 11 Dec 2020

Source: Bloomberg, Asia Securities | * Priced as at end 11 December 2020

EQUITY STRATEGY

Lean onto Cyclicals

December 2020

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Sri Lanka Equities Recover All Losses In An Unprecedented Year…

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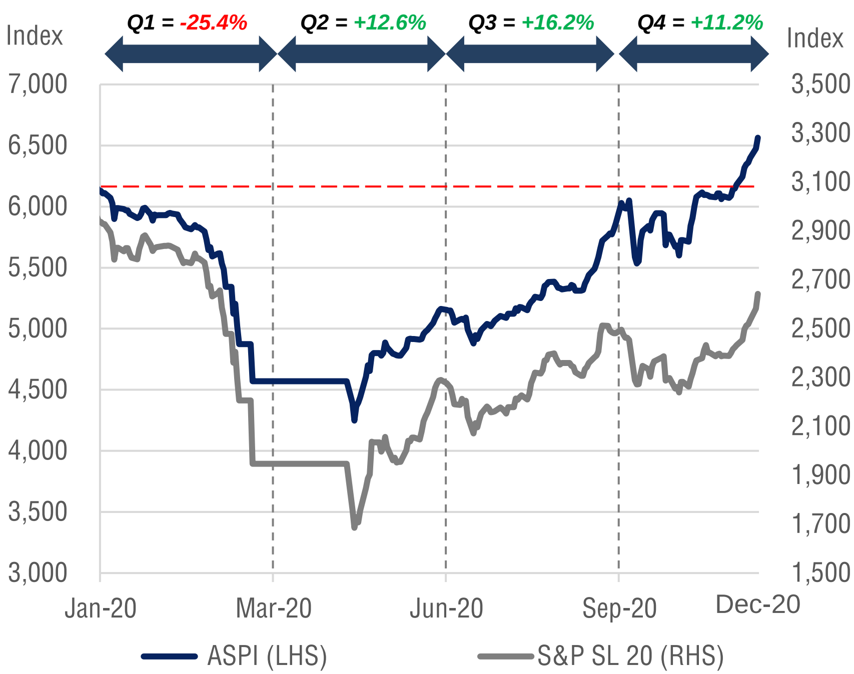
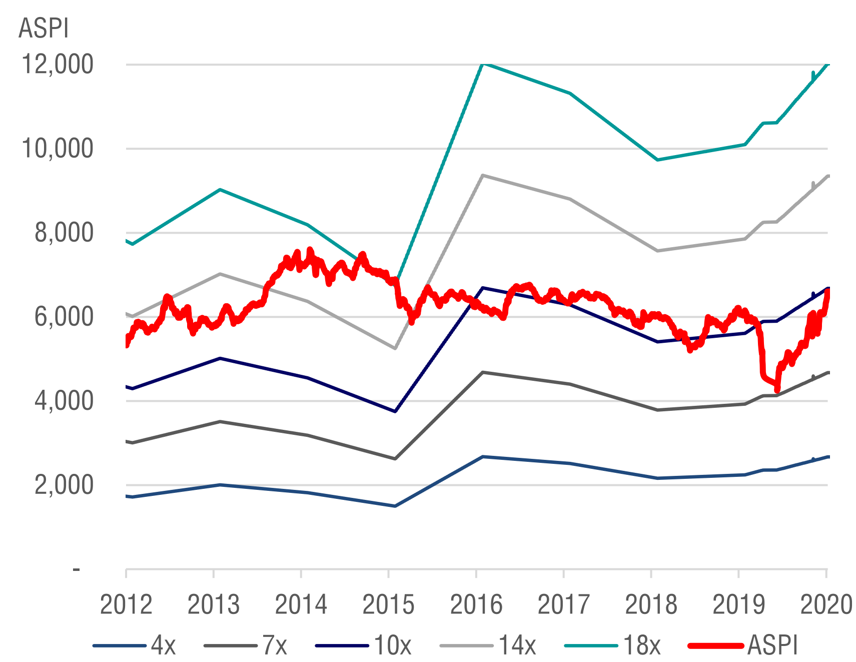
ASPI has recovered all losses since bottoming out in May…



…but still trades at the mid range of the historic PE band



- ASPI picked up 56.7% while S&P SL20 marked a 56.3% uptick (as of 14-Dec) since bottoming out in mid May
- Local retail trading has been strong since May 2020, while institutional players have also been taking positions amidst cheap valuations
- Retail investors have been carrying the mantle as foreign institutional investors have been on exit mode in 2020 as funds are being allocated towards lower-risk-developed equity markets and safe-haven assets such as gold

Source – Bloomberg, Asia Securities

…Supported By A Manufacturing Drive; Large Caps Yet To See A Pickup

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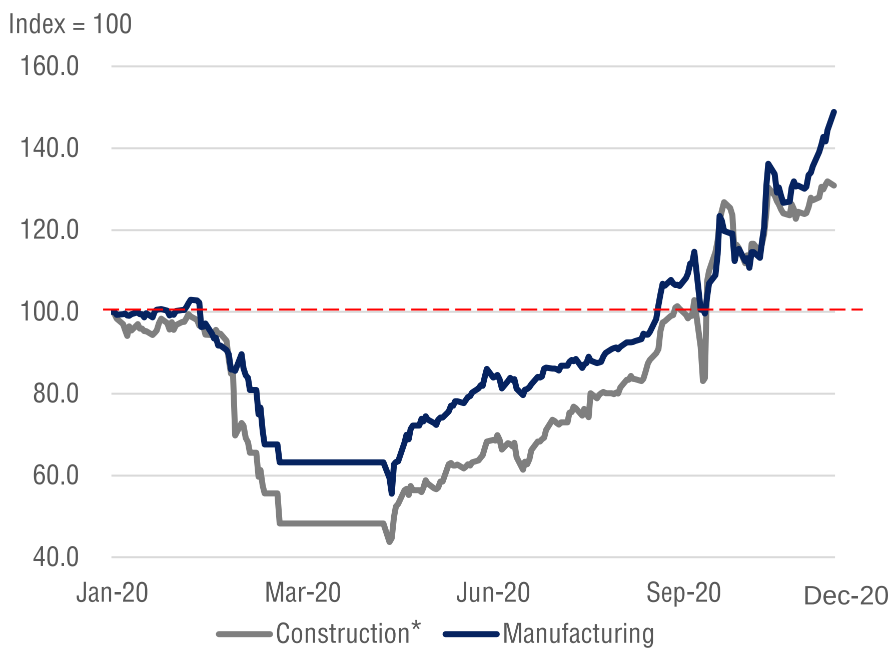
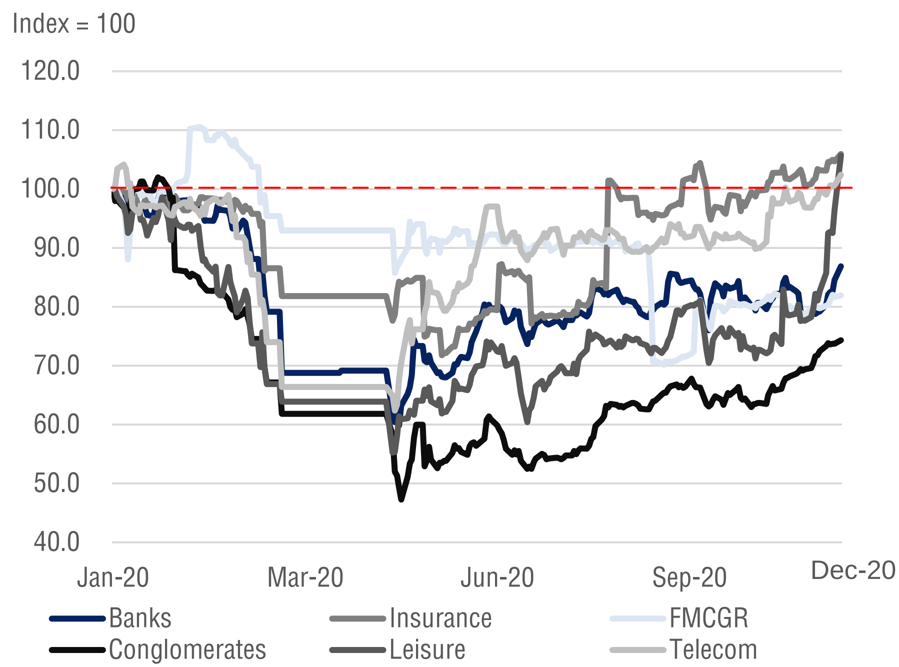
A manufacturing-driven drive led the market outperformance…



…while several large-cap sectors are yet to see a major pickup



- We expect the manufacturing drive to continue in the light of strong protection extended towards domestic players in the 2021 budget
- Off the large-caps we are positive on the Consumer sector which will see earnings growth synchronized with economic recovery and household spending
- We expect impairments to remain and overhand on Banks earnings in the near-term, however to see a recovery from 2Q CY21E onwards

Source – Bloomberg, Asia Securities Note: * - includes Construction-related manufacturers

A Negative Real Interest Rate Environment Will Continue To Provide Strong Impetus For Equities

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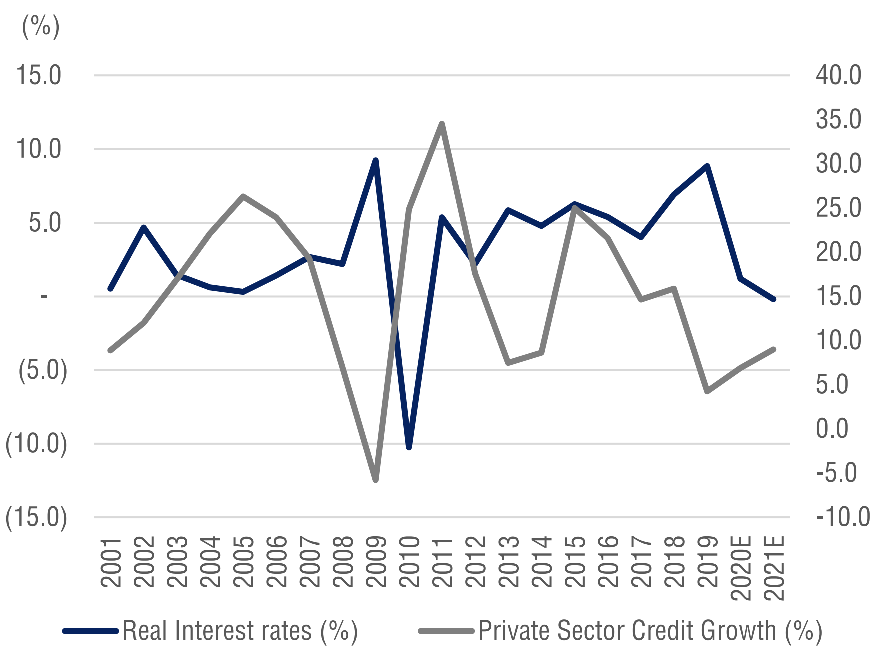
We expect real interest rates to turn negative in 2021E…



…continuing to support the equity markets

With our expectations of a low interest rate environment to persist till 1H 2021, we expect indices to continue to see gains, mainly on trading by local investors

Source – CBSL, Bloomberg, Asia Securities

Local Investors Will Continue To Carry The Mantle With Rates Remaining Low

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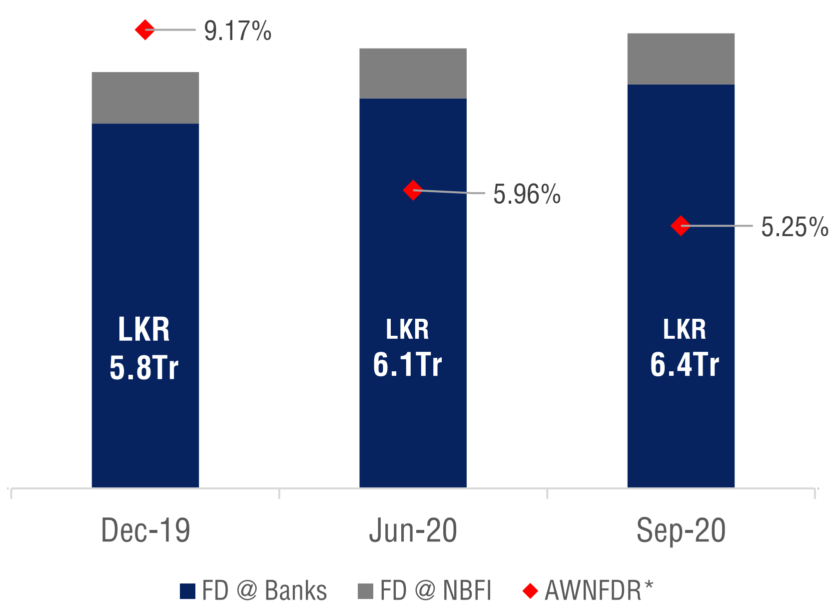
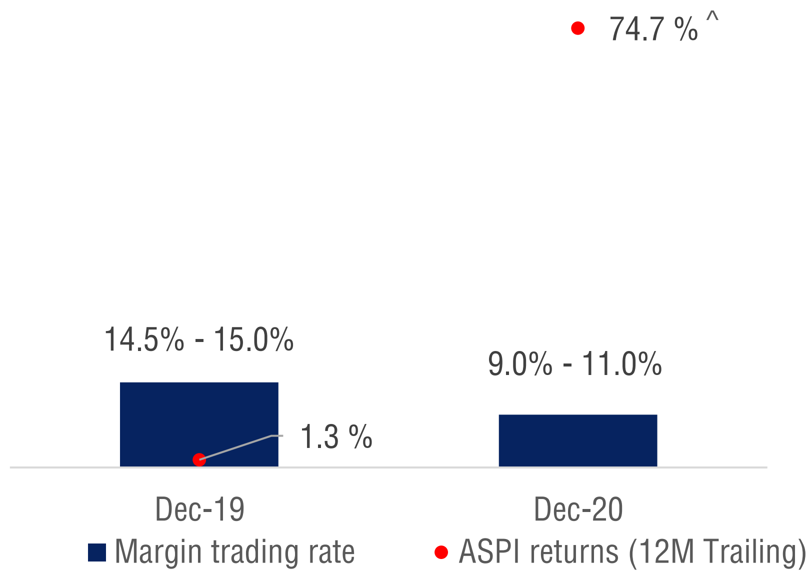
Low interest rates have reduced fixed income and reduced margin borrowing costs

Deposit rates ~400bps – Lower return on fixed income



Margin borrowing cost ~400bps to 550bps



Average FD rates have dropped ~400bps YTD; equity returns outstrip margin trading costs

Source – CBSL, Banks, Asia Securities
***AWNFDR = Average Weighted New FD Rate**
^ - Annualised May – Dec ASPI returns

How Long Will The Low Interest Rate Environment Last Though?

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Low rates is used as an avenue to offer concessions to businesses, and reduces the Government’s borrowing cost amidst soft credit demand and benign inflation

The CBSL continued with its monetary policy loosening in 2020, with policy rates being cut 250bps so far. Bank lending rates have also moved down ~440bps YTD and AWPLR now stands at 5.7%.

The key question is **how long will the low rates last?**

- ✓ On our estimates, low rates will persist in 2021, and see a gradual uptick from 2H 2021 onwards as 1) import controls are relaxed, 2) non-food inflation increases and 3) currency shows signs of pressure
- ✓ Firstly, the Government would use low rates to pass on benefits to COVID-hit businesses. Limited fiscal space to offer concessions is a major driver of this.
- ✓ Soft credit growth and excess market liquidity in 2020 also support our view that rates could be maintained at current levels.
- ✓ Secondly, the government borrowing requirement would increase in 2021 until tax collections gradually increase. Low treasury bond rates is a cheaper source of financing for the government.
- ✓ Thirdly, we see low pressure on exchange rates in 1H 2021 given the import controls and soft commodity prices. Overall exerting less pressure on interest rates.
- ✓ In addition, our expectations of inflation between the Central Bank’s threshold of 4.0% - 6.0% support the view that rates would remain lower than the 5-yr historical average of 10.3%.

Low interest rates have historically driven strong equity markets, given 1) re-allocation of funds to equities from fixed income, 2) lower cost of margin borrowing and 3) lower interest cost helping to uplift company profits.

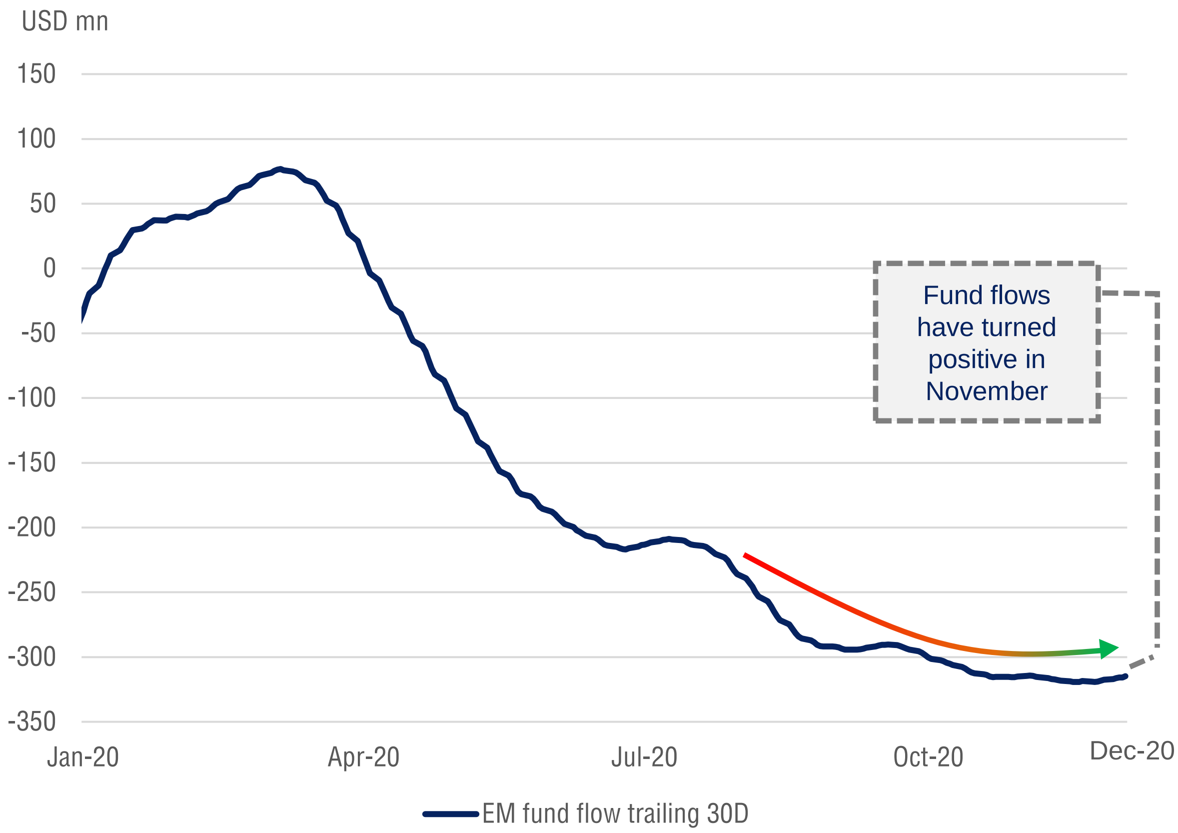
Fixed deposit interest rates have dropped ~400bps by end 2020 and will remain low through 2021.

Margin borrowing rates have dropped ~400bps in Jan-Dec period, further reducing trading costs.

The non-financial sector companies in our coverage would see ~110bps lift in PBT in FY21E/CY20E due to low finance costs

Emerging Markets May Be Ready For Prime Time In 2021

Better management of the COVID-19 pandemic and a weak USD will drive asset allocation towards EMs



Source: Bloomberg, Asia Securities

We see factors setting up EMs to take off again in 2021, breaking a trend of fund flows moving away from EMs since 2010. These include:

1. **Weaker USD in medium-term** – A weakening USD will push investors to rebalance their portfolios and spur capital flows into EMs. With lower currency risk, we see cheaper EM valuations being more appealing and rewarding for investors.
2. **Faster growth than DMs –** Bloomberg consensus point at EMs growing (real GDP) at a faster 5.0% in 2021E, compared to 4.0% for DMs. (2022E; EMs – 5.1%, DMs – 3.1%). One of the main reasons for a faster EM recovery is better management of the pandemic. With stronger growth prospects and low currency risks, we see EMs being in a "sweet spot" in 2021.
3. **Lower valuations –** EMs have underperformed the S&P 500 over the last decade. However, EM earnings expectations have been on the rise with hopes of a faster recovery.
4. **Low interest rates –** As it is still a struggle to find yield in government bonds amidst low interest rates, a risk-on approach with global recovery will drive funds to faster growing EM economies.
5. **Trade –** The election of Joe Biden represents a return to more predictable US politics. An easing of trade tensions between US and China can further aid recovery in the Asian Markets.

EMs Have Been Lagging DM Performance Since 2010, But The Trend Is About To Break…

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- Since 2010, the US economy has seen 1) superior growth, 2) a strengthening dollar and 3) strong yields…
- …as a result, fund flow were seen allocated more towards the US and other DMs over the past decade
- However, given 1) a budget deficit in the US and 2) lower interest rates, we expect a rebalancing of portfolios towards EMs; with fallen yields, we see reduced support for the USD. Coupled with a risk-on approach in 2021, we see this as being key factors behind a pickup in fund flows to EMs

Source – Bloomberg, Asia Securities

Vaccine Development

Large scale global distribution of the vaccine to start from September 2021

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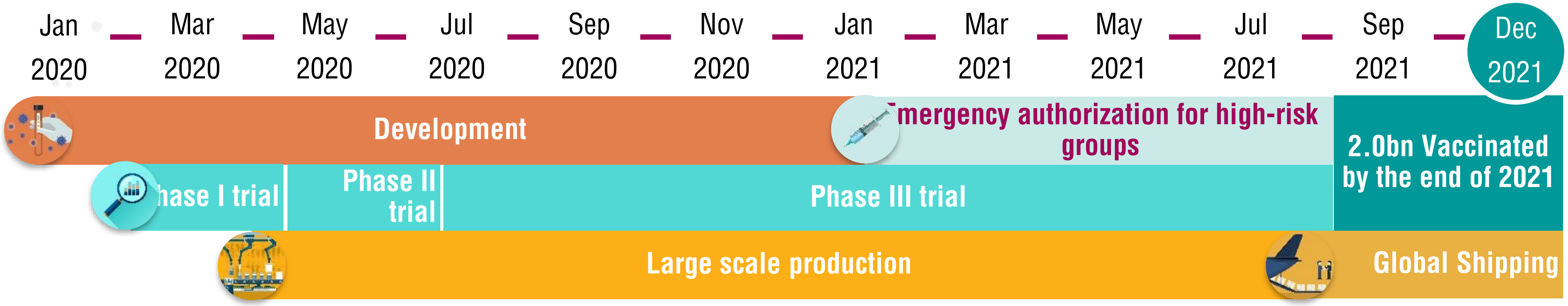


- From December 2020 we see major markets such as North America and Europe, begin to administer Pfizer's vaccine to high-risk groups.
- However, given storage limitations with Pfizer (-70 Co), remaining markets will have to depend on other vaccines; so far Moderna has applied for emergency authorization in the US while AstraZeneca is in the final stages of its clinal trials.
- While early bidders for vaccines will see high-risk groups receive their vaccines over the first half of 2021, those countries depending on the WHO's COVAX distribution program will see first doses coming through mid-2021
- Worldwide shipping of the vaccine is expected to begin September 2021 and the WHO expects ~2.0bn people to be vaccinated by the end of 2021
- Sri Lanka will receive its first shipment under COVAX, sufficient to vaccinate 20.0% of the population. It is expected that governments have their procedures and protocols in place by then, key of which is identifying qualifying candidates for the first round of doses.
- Despite global upside from vaccines, how Sri Lanka manages COVID-19 locally on testing, deployment levels and prioritisation of vaccine will play a critical role in mitigating any COVID-related risk to equity markets in 2021

We believe that Asia will be less dependent on the vaccine to establish normalcy in 2021, as containment and revival of economic activity is already underway, especially in China. Europe and North America will look to gradually lift requirements such as social distancing and ban on public gatherings from September 2021, as it is the expectation that most of its high-risk population will be vaccinated by then.

Source: The WHO, Media reports, Asia Securities

Global Investors Flock Towards Safety In 2020, But "Risk-On" In 2021 Is Likely; Cyclical Stocks Look More Attractive

ASIA SECURITIES
INTEGRITY I INSIGHT I INNOVATION

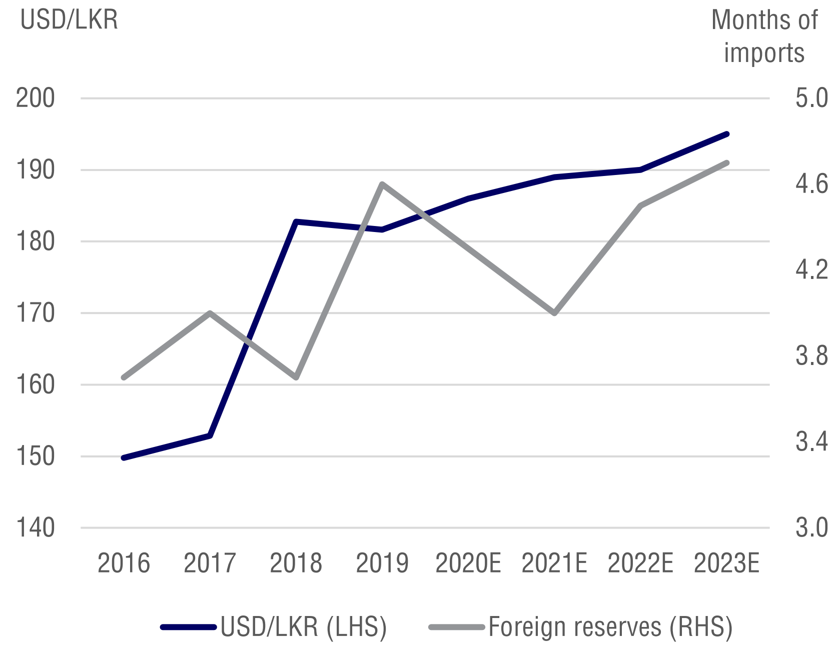
- With vaccine deployment and hopes of a global recovery in 2021, we see investors taking a more risk-on approach with improved market conditions in 2021; a positive for fund flows into emerging equity markets
- In the current context, business cycle sensitive stocks now look more attractive in a path back to economic normality
- This is seen in the US, where US industrial companies (cyclical stocks) have seen a pickup vs. the utilities companies (defensive stocks)
- On the other hand. Copper (an industrial commodity) is outperforming Gold (safe commodity) since April as more news surrounding the vaccine and hopes of normality in 2021 return

Source: Bloomberg, Asia Securities

Weak USD Lowers Currency Risk To EM Investments; We Expect The LKR To Remain Stable In The Medium-term

The USD has weakened significantly since the pandemic

We do not expect a sharp pickup in the LKR to 2023E



- We forecast the USD/LKR to reach ~186.00 in 2020E, (-2.4% YoY), 188.00 in 2021E (-1.1% YoY) and 195.00 in 2022 (-3.7% YoY)
- We expect rising US budget deficits and a near-zero interest rate regime in the near-term to maintain a soft USD
- With greater focus on import substitution outlined in the 2021 budget, along with continued controls, we expect pressure on the LKR to ease to some extent

Source – Bloomberg, CBSL, Asia Securities

Global Recovery Will Drive Risk-on Approach; Cheaper EM Valuations Will Be More Appealing

ASIA SECURITIES
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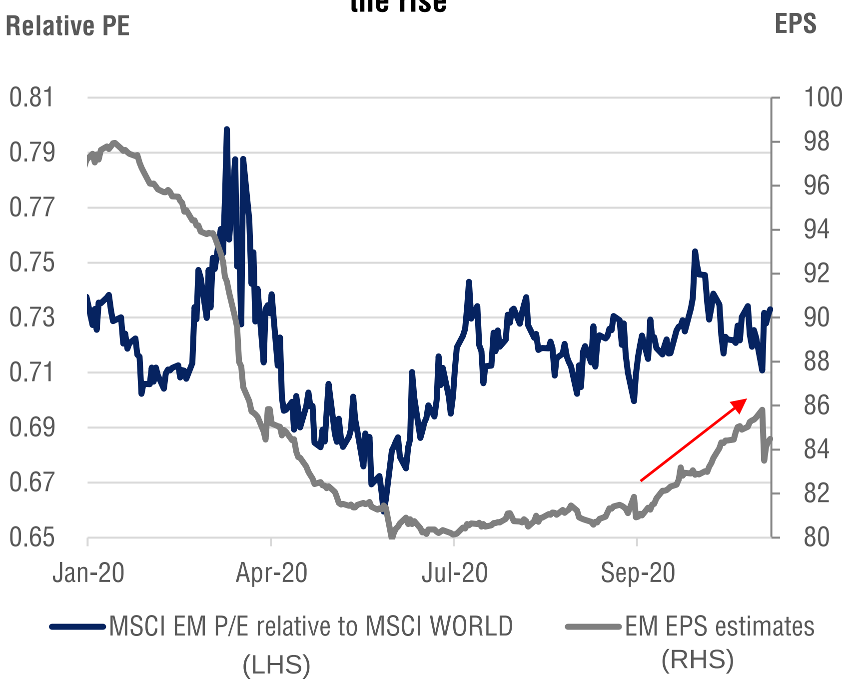
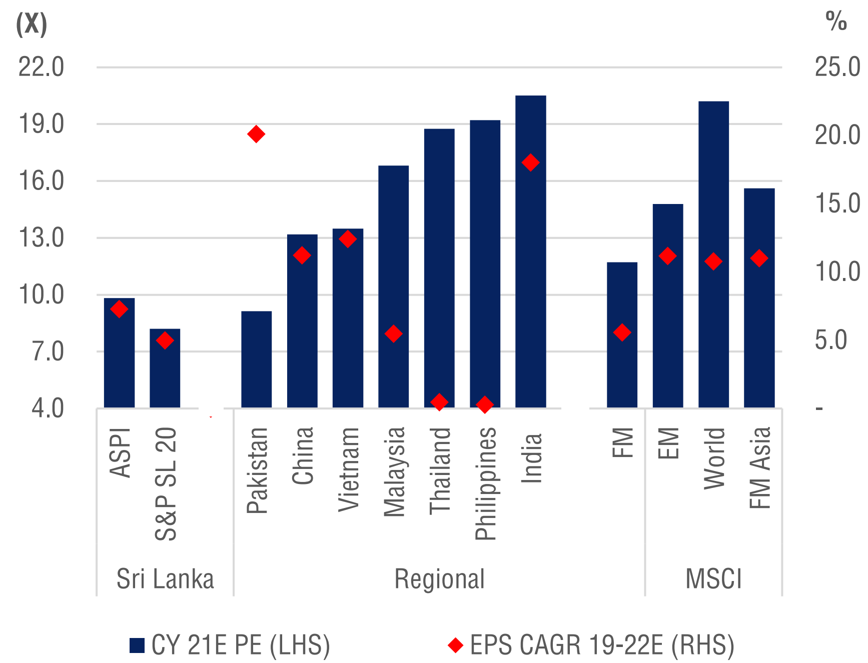
EMs remain undervalued while earnings expectations are on the rise



SL attractively priced compared to regional and EM benchmarks



EM earnings recovery is line with DM recovery: however, cheaper valuations will make EM equities more attractive

Source – Bloomberg, Asia Securities

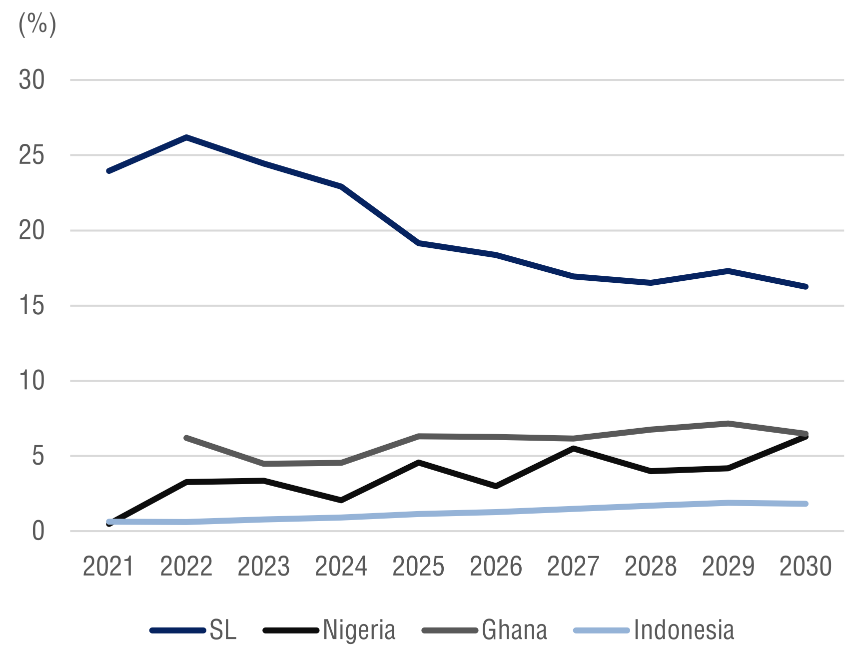
However, Sri Lanka Will See Latent Flows Compared To Peers Due To Risks

ASIA SECURITIES
INTEGRITY I INSIGHT I INNOVATION

Recent downgrades have SL trailing in regional credit ratings…

Country	Fitch	S&P	Moody's
Malaysia	BBB+	A-	A3
Thailand	BBB+	BBB+	Baa1
Indonesia	BBB	BBB	Baa2
Philippines	BBB	BBB+	Baa2
India	BBB-	BBB-	Baa3
Vietnam	BB	BB	Ba3
Pakistan	B-	B-	B3
Bangladesh	BB-	BB-	Ba3
Sri Lanka	CCC	CCC+	Caa1

…while the SL ISB yields trade at a significant premium compared to previously "B" rated peers



A credit rating upgrade in 2021 is a key upside risk we see to improved fund flows into Sri Lanka

Source: Bloomberg, Asia Securities

Strong Economic Fundamentals Key To Improving Fund Flow In 2021

- We expect equities to remain the preferred asset class in 2021 amidst dovish sentiments by the CBSL, leading to stable, low market interest rates through to 1H 2021. However, we see a higher probability of a tighter monetary policy from 2H 2021 to curb inflationary pressure, Despite this, we expect equities to remain the more attractive asset class as rates will be recovering from a low.
- While we expect fund flow into EMs to improve in 2021, we expect SL equities to see a very gradual improvement in foreign fund flows on the back of the risks mentioned earlier. With policy risk now subsiding and election-related volatility behind us, the focus is now turned towards economic fundamentals
- The ASPI currently trades at 9.6x CY21E PE based on our estimates, vs. 9.8x average for the past 3 years. While a significant re-rating has taken place, we argue that large-cap sectors remain undervalued in the context of an economic recovery. As such, we believe the ASPI would see a further upward re-rating
- An upward credit re-rating, could lead to a higher than anticipated re-rating. However, given the 2021 budget which focuses on higher expenditure amidst minimal changes to the revenue base show a low probability of an upward rerating in 1H 2021.

Upside risks:

- Fiscal stimulus and incentives targeted at the public sector workers to promote growth combined with improved consumer sentiment, driving higher-than-expected household spending
- Stable policy environment through 2020, paving the way for increased USD fund flow

Downside risks:

- Repayment pressure, specially from 2022 onwards amidst a low credit rating profile
- Pressure on the fiscal balance amidst higher government expenditure
- Weather disruptions adding a significant pressure on supply-push inflation and worsen agri-sector incomes
- Longer term impact on import controls, leading to higher inflation

Source: CBSL, Asia Securities

We Forecast ASPI To Reach 7,400-7,600 In 2021; Low Interest Rates And Earnings Growth Will Be Key Catalysts

ASIA SECURITIES
INTEGRITY I INSIGHT I INNOVATION

- We forecast the ASPI to reach 7,400-7,600 in 2021 on the back of 1) Low interest rates, 2) improvement in earnings (coming from a lower base) and 3) large caps seeing gains with earnings improvements and improvement in foreign fund flows.
    - The key upside risks: 1) No increase in interest rates in 2H CY21E and 2) a credit rating upgrade which will improve foreign fund flows into SL
    - The key downside risks: 1) a fall in reserves following repayments in July '21 and 2) a sharp increase in interest rates
- The first half of 2020 posed major earnings headwinds for all sectors on the back of the pandemic and related lockdowns. However, certain sectors saw a strong earnings recovery in 3Q CY20 under a (somewhat) normalised environment following the lifting of the lockdowns; an encouraging sign of what is to come in 2021 with vaccine deployment on the cards
- From a sector perspective, Banks earnings continue to impacted by higher impairment charges on the back of weak credit quality and credit rating downgrades, while Conglomerates are impacted by the leisure sector coming to a standstill and muted consumer spending. On the other hand, the mid-cap Manufacturing sector bounced back posting historic highs in 3Q CY20 on the back of higher protection for domestic players, which we expect to continue in the medium-term.
- The outlook for 2021 is positive (barring unforeseen events), where we expect a strong growth in earnings:
    - With a growth-centered 2021 budget, we expect the support extended to protect domestic manufacturers to continue to help drive strong earnings from the sector in 2021.
    - With the 2021 budget also extending support to agriculture (27% of labor force) we expect this to add strong impetus to stimulating HH consumption, especially in generally trade. Once the disposable incomes improve, spending would be directed towards consumer durables.
    - With vaccine deployment, we expect the Leisure sector to begin its recovery with the gradual opening on the airports in 2021, the overhang on Conglomerates' earnings should fade in 2H CY21E.
    - Banks would see better earnings through higher credit growth and tapering down impairments, albeit skewed towards 2H CY21
- Overall, we see the negative overhangs clearing significantly in CY21E, which would lead to a ~30.0% YoY growth in corporate earnings (coming from a low base in CY20E), on our estimates.

Source: Asia Securities

Consumer Sector Recovery To Be Led By Food Retailing

ASIA SECURITIES
INTEGRITY I INSIGHT I INNOVATION

Pace of recovery

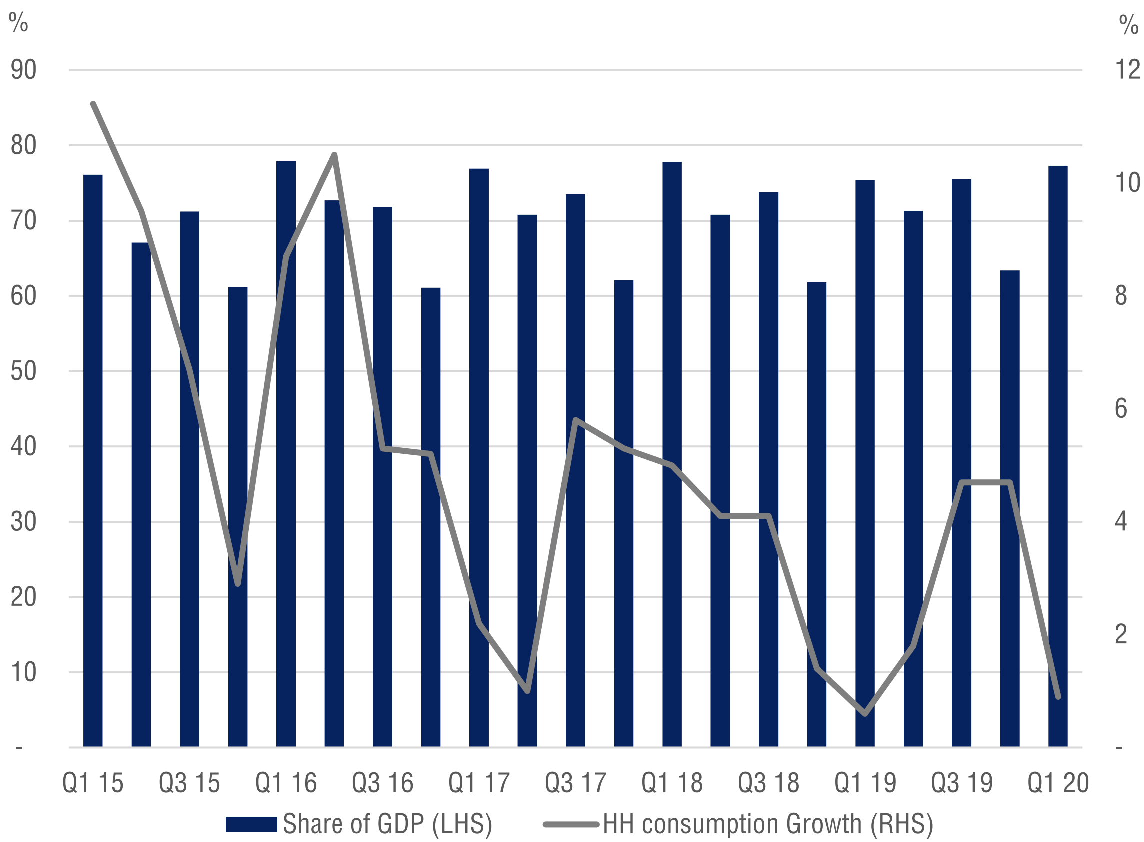
Sectors affected	Counters affected
Clothing, shoes and accessories	Expect muted demand till the next selling season in March/April with some pick in the mid-tier range in the short-term **Counters - SHL**
Consumer durables and electronics	Durables and electronics are already seeing a demand rebound with the sub-sector ripe for a replacement cycle **Counters – SHL, SINS**
Alcoholic beverages & tobacco	Consumption is driven by habit. With no price increases in Nov 2020, we expect stable demand with low levels of migration to the illicit/illegal market **Counters - DIST, LION, CTC, MELS**
Food – non essential	While there will be a short-term boost during end CY20, we expect a meaningful demand recovery as income levels recover, with consumers more confident to spend on additional goods **Counters – CCS, NEST, CARG, KFP, JKH**
Personal care and home care	Given current focus on hygiene, we expect demand for essential personal care products to remain strong as it has been since April/May, with some lag in demand for non-essentials **Counters - HHL**
Food – essential	Sector continued to perform well since the initial lockdowns in March with consumers mostly focused on spending on essential foods. In CY20E, we expect footfall to drive growth with basket values normalising **Counters - CCS, CARG**

Source – Company data | Data includes revenues of companies under our main and shadow coverage

Low Rates And Low Consumption Taxes To Help Boost Consumption

ASIA SECURITIES
INTEGRITY I INSIGHT I INNOVATION

Household (HH) consumption (~70% of GDP) hovers well below potential



Along with economic recovery, we expect to see an improvement in household consumption in 2021. We expect GDP growth to see a strong pick up in 2021 mainly driven by;

- The current low-rate environment combined with minimal changes to consumption taxes
- Better agriculture harvest – especially paddy – leading to an increase in HH consumption
- Strong support for domestically driven growth, leading to higher economic momentum

Downside risk: The fiscal measures could lead to the economy overheating unless monetary tightening is implemented by mid 2021E

Source: DoCS, Asia Securities

DETAILED SECTOR OUTLOOK

December 2020

ASIA SECURITIES RESEARCH

Back to TOC

FMCG & RETAIL SECTOR - POSITIVE

A slow but steady recovery

ASIA SECURITIES
INTEGRITY I INSIGHT I INNOVATION

THESIS

- Sector to see a steady recovery, supported by a gradual recovery in economic activity and income levels which, in our view, is more sustainable
- Counters exposed to food retailing will continue to benefit with consumer spending focused on essential foods…
- ...followed by demand for home & personal care and non-essential foods
- Durables and electronics are already seeing a demand rebound with the sub-sector ripe for a replacement cycle
- In clothing & accessories, we expect muted demand till the next selling season in March/April with some pick in the mid-tier range in the short-term
- Counters invested in production capacity, product development and store expansion during CY18/CY19 will benefit from the demand recovery
- Counters invested in robust e-commerce platforms will also benefit from consumers switching to online purchases under the prevailing pandemic conditions
- We expect sector earnings to be up 1.9% YoY in FY21E and up 18.8% YoY in FY22E
- CCS continues to be our top pick. The stock is down 17.0% YTD and down 19.0% YoY and is currently trading ~36.0% below its 3-yr trading average
- At CTC, we do expect further price recovery, as it trades ~15.0% below its 3-yr trading average. Similar to alcohol, the absence of an excise duty hike through the 2021 budget remains a key positive for stable demand
- Our key concern for NEST continues to be increased competition from local players

UPSIDE RISKS

- ✓ Faster than expected recovery in economic activities, particularly a leisure sector recovery which will help local consumption
- ✓ Stable currency aiding companies who import raw materials
- ✓ Import controls to aid demand for local products

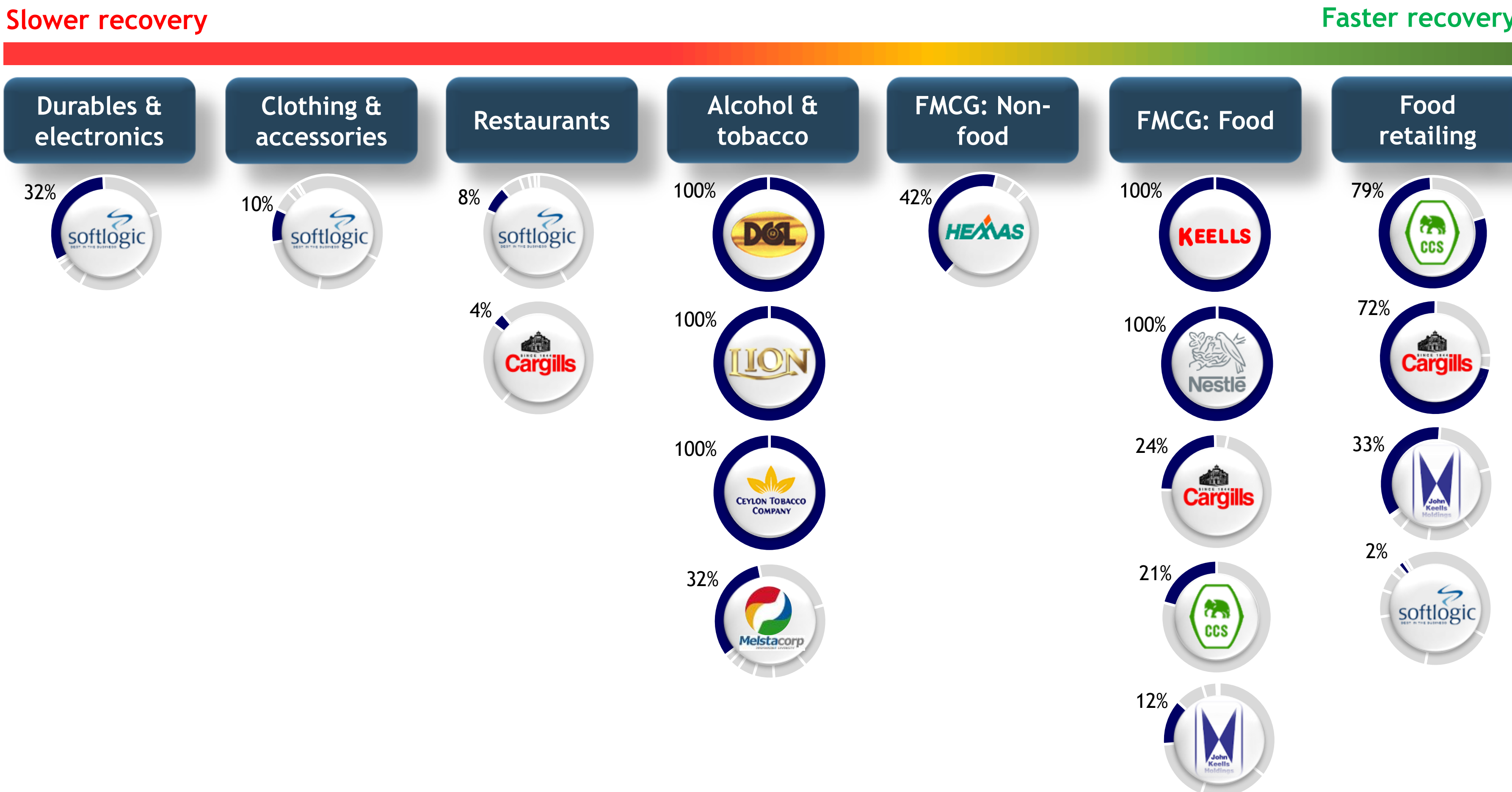
DOWNSIDE RISKS

- Further localised lockdowns due to the pandemic could result in demand disruptions
- Further disruptions to supply chain due to pandemic escalation resulting in higher food inflation
- The newly proposed Special Goods & Services Tax resulting in a higher tax base for CTC
- Ban of single use plastic and polythene by 01 Jan 2021, will increase costs to switch to substitute packaging in the short-run
- Accelerated depreciation of the LKR, driving up raw material costs

Source: Asia Securities

Counters Exposed To Food And Essential FMCG To See A Faster Earnings Recovery

ASIA SECURITIES
INTEGRITY I INSIGHT I INNOVATION



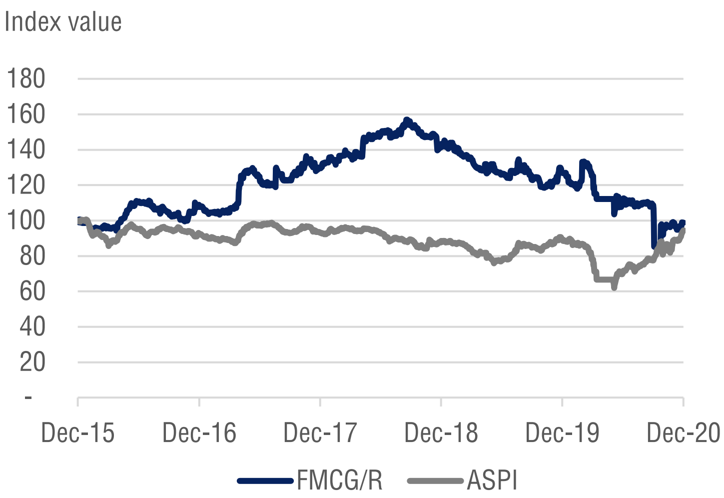
Source – Company data | Data includes revenues of companies under our main and shadow coverage

FMCG & RETAIL SECTOR - VALUATIONS

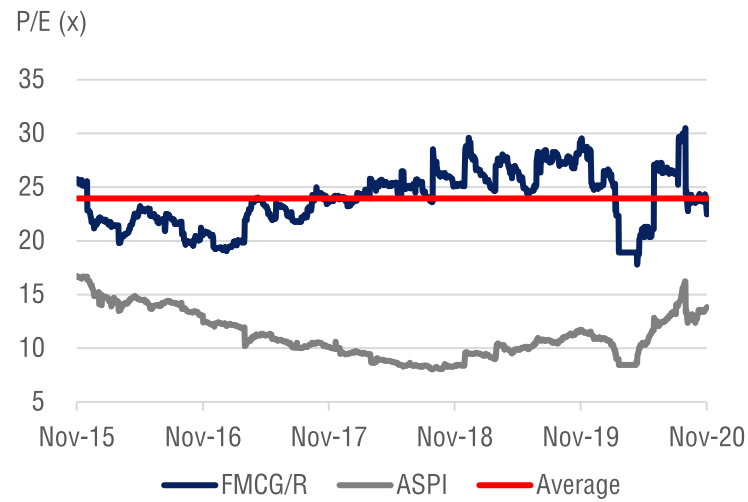
The sector is trading at 12.4x FY22E EPS, a 48.4% discount to the five-year trading average

ASIA SECURITIES
INTEGRITY I INSIGHT I INNOVATION

Sector vs ASPI



Sector P/E trading vs ASPI



Ticker	Market cap		CY21E / FY22E				Target price (LKR)	TSR %
	LKR bn	USD mn	P/E (x)	P/B (x)	Div. Yield (%)	ROE (%)		
CCS	64	340	23.6	3.6	2.2	15.8	1,010.00*	+53.3
CTC	188	1,005	9.3	15.1	8.5	195.0	1,250.00	+32.0
NEST	65	347	20.8	9.8	3.9	49.2	1,020.00	-11.7%
CARG	51	276	13.9	2.4	3.0	18.3	NR	nm
KFP	3	19	22.6	1.9	4.4	8.2	NR	nm

Source: Asia Securities, Bloomberg | Priced as at end 11 Dec 2020 | Note: * indicates CY21E / FY22E target price

CONSTRUCTION & MATERIAL SECTOR - POSITIVE

Foundation set for growth in 2021

Back to Sector Summary

ASIA SECURITIES
INTEGRITY I INSIGHT I INNOVATION

THESIS

- Construction sector is set to take off in 2021
- Residential sector will be the first to pick up given its close link to low interest rates and recovery in consumer spending
- Announced lending cap on mortgage-backed housing loans of 7.0% will further help residential demand and apartment sales
- Infrastructure – We expect road and expressway development projects to continue, albeit at a slower pace given the fiscal constrains
- We expect the Projects segment (Hotels and apartments) to remain slow in 2021 until the current supply is absorbed.
- Construction-related material manufacturers to see large benefits on the back of increased protection from imports…
- …thereby helping to increase capacity utilisation and enjoy higher scale benefits
- Protection extended in the budget to domestic manufacturers will encourage capacity expansions & new entrants
- VAT exemptions extended in the 2021 budget will provide access to more profitable BOI projects to local players
- Stronger performance (as seen in 2Q FY21) amidst higher protection will ease working capital pressure and help to pay down debt…
- …coupled with lower interest rates, we see lower finance costs also helping bottom line growth in 2021
- We expect 22.5% earnings growth in FY22E

UPSIDE RISKS

- ✓ A further cut in interest rates which will lead to stronger residential demand and interest cost savings
- ✓ Less fiscal pressure amidst stronger growth in 2021 which can lead to increased infrastructure expenditure
- ✓ Expediting Port City construction for which local players will now have access to amidst lower VAT
- ✓ GoSL paying down its dues to the Construction sector, thereby unclogging the current liquidity crunch
- ✓ Lifting of import controls that are currently impeding certain Construction activity in the Projects segment e.g. fittings for apartment projects

DOWNSIDE RISKS

- Sooner-than-expected increase in interest rates amidst inflationary pressure in 2021
- Pressure on GoSL revenue collections in 2021, which could lead to tighter government expenditure
- Localised lockdowns impacting construction activity
- A removal of import controls on construction related material
- Pullouts/Cancellation of bilaterally funded projects
- Raw materials constrains locally amidst higher utilisation on the back of increased protection from imports

Source: Asia Securities

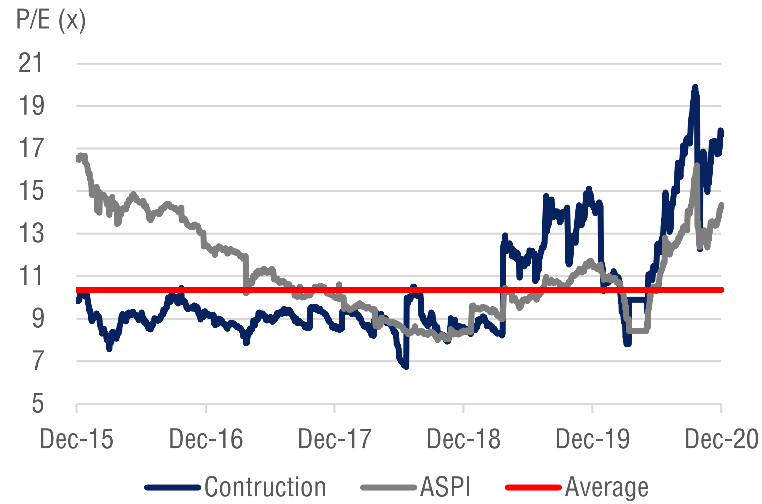
CONSTRUCTION & MATERIAL SECTOR - VALUATIONS

The sector is trading at 3.7x FY22E EPS, a ~64.0% discount to the five-year trading average

ASIA SECURITIES
INTEGRITY I INSIGHT I INNOVATION

Sector vs ASPI

Sector P/E trading vs ASPI



Ticker	Market cap		CY21E / FY22E				Target price (LKR)	TSR %
	LKR bn	USD mn	P/E (x)	P/B (x)	Div. Yield (%)	ROE (%)		
TKYO	25	136	4.4	1.0	5.0	25.7	120.00*	+86.3
ACL	9	46	5.7	0.6	3.6	11.5	82.00	+17.3
AEL	25	134	10.4	1.0	4.0	10.3	34.00*	+40.0
TILE	7	35	3.9	0.7	8.1	17.9	163.00	+38.9
RCL	17	92	3.3	0.5	9.0	17.5	235.00*	+60.0
PARQ	2	12	3.2	0.7	6.5	25.1	110.00	+35.6
ALUM	6	32	7.0	2.1	9.6	31.4	27.50	+46.5

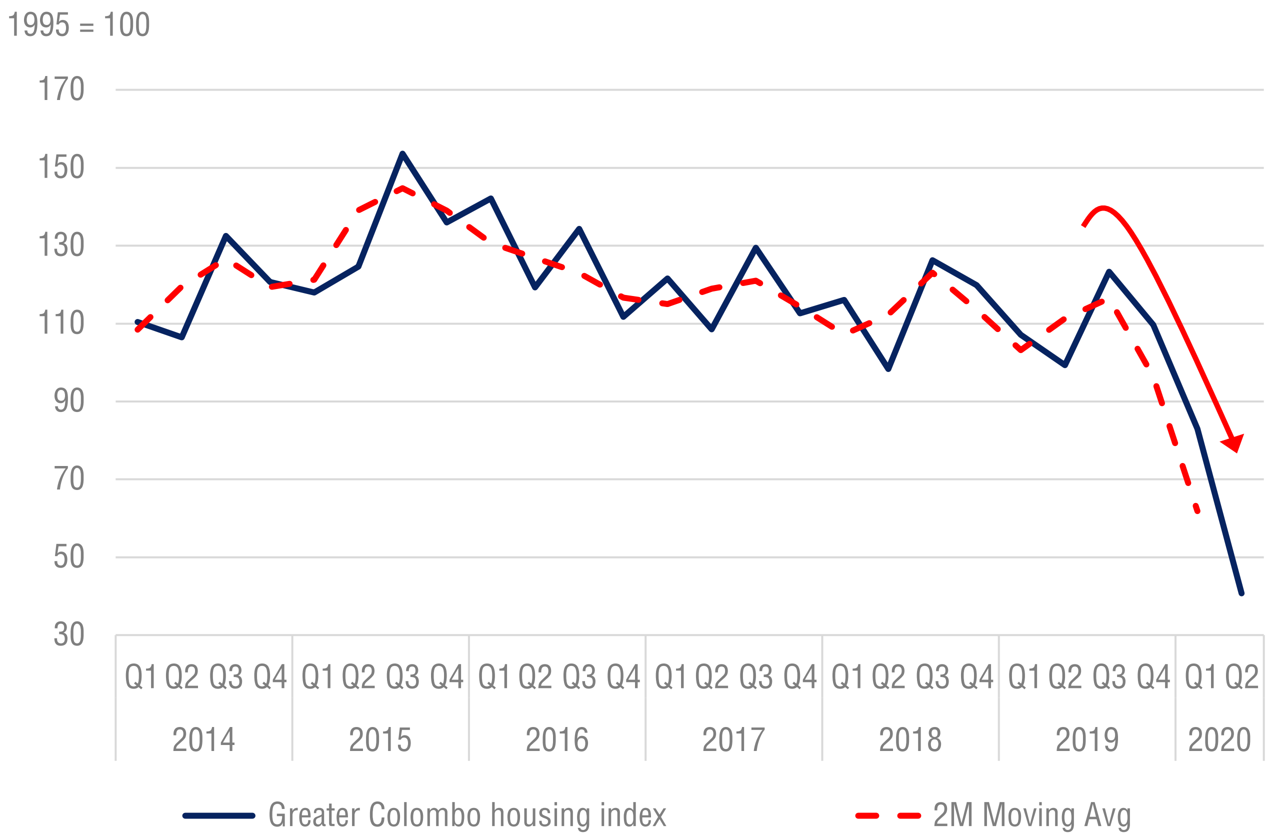
Source: Asia Securities, Bloomberg | Priced as at end 11 Dec 2020 | Note: * indicates CY21E / FY22E target price

CONSTRUCTION & MATERIAL SECTOR

Pent-up housing demand will drive strong residential sector demand in 2021

ASIA SECURITIES
INTEGRITY I INSIGHT I INNOVATION

Housing approvals take a sharp dip amidst lockdowns in 2Q



The residential market saw a significant slowdown in 2020 despite low interest rates as the COVID-19 pandemic took grip

We believe this has led to pent up demand in the residential sector, which we expect to be unlocked with a low interest rate environment and easing of lockdowns

We note that weekly AWPLR has declined by ~440bps YTD in 2020 (the weekly AWPLR is currently at 5.7X%).

As a result, housing loan rates have continued to trend downwards falling below rates seen in 2014, where the housing market saw a boom.

We expect the low interest rate environment to be in play until 1H 2021

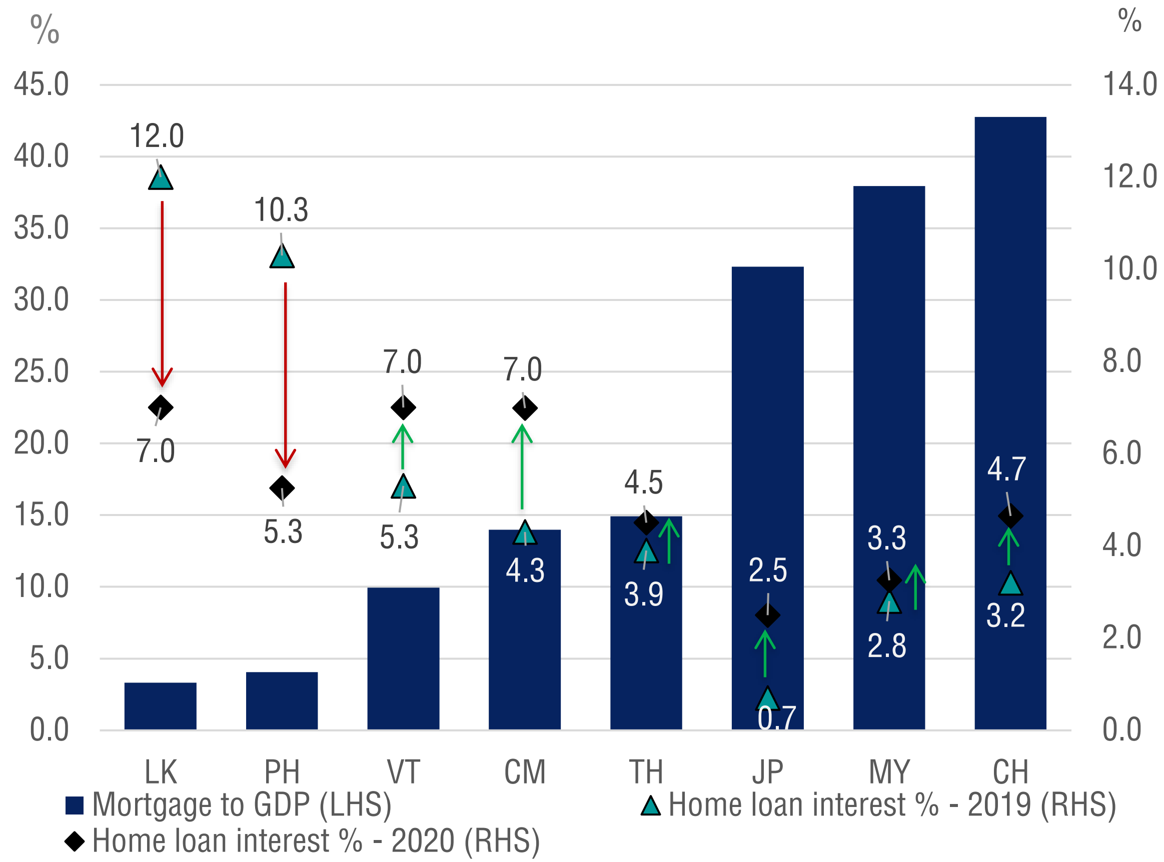
Source: CBSL, Asia Securities

CONSTRUCTION & MATERIAL SECTOR

7.0% lending cap on mortgage-backed housing loans will further help residential demand and apartment sales

- Sri Lanka's cost of debt which remained regionally high in 2019 has now become more competitive with the sharp cuts in interest rates in 2020
- The effect of a high CoD is reflected in the low mortgage to GDP ratio of 3 3% when compared regionally
- With the GoSL implementing a 7.0% lending cap on mortgage-backed housing, we expect an improvement in 2021
- We also expect improved sales in apartments in 2021

We expect an improvement in SL's mortgage to GDP ratio in 2021

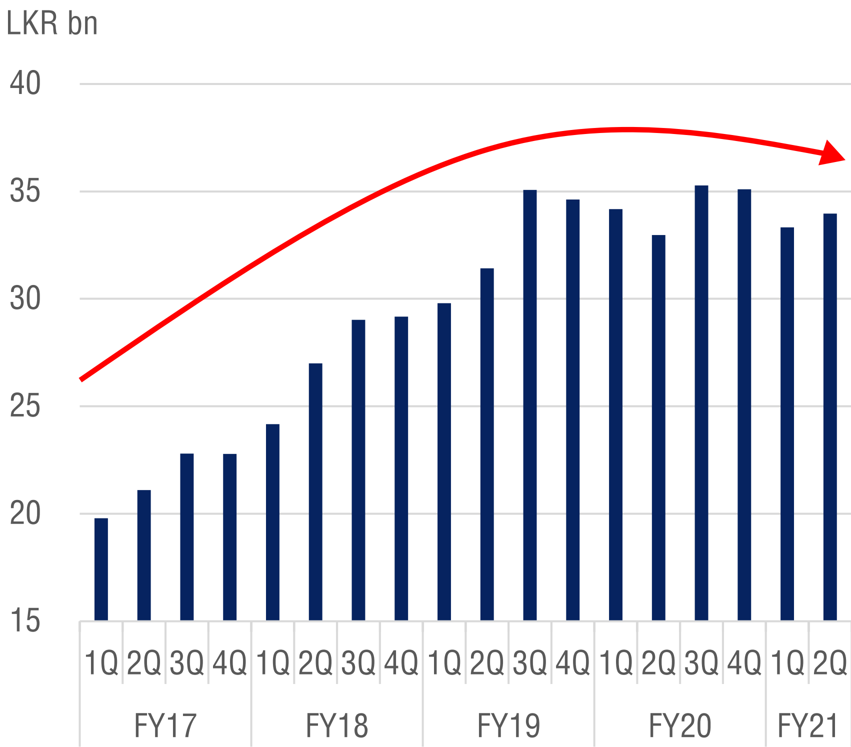


Source - Central Banks of respective countries, Asia Securities

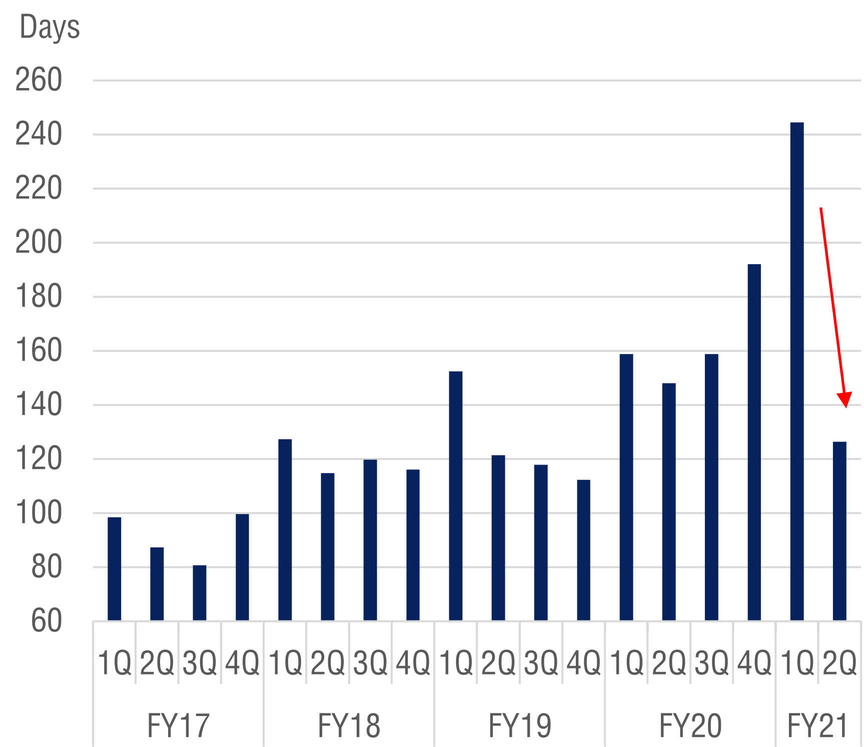
CONSTRUCTION & MATERIAL SECTOR

We expect working capital days to improve going forward

Sector receivables are starting to plateau…



…while net working capital days improve in 2Q FY21



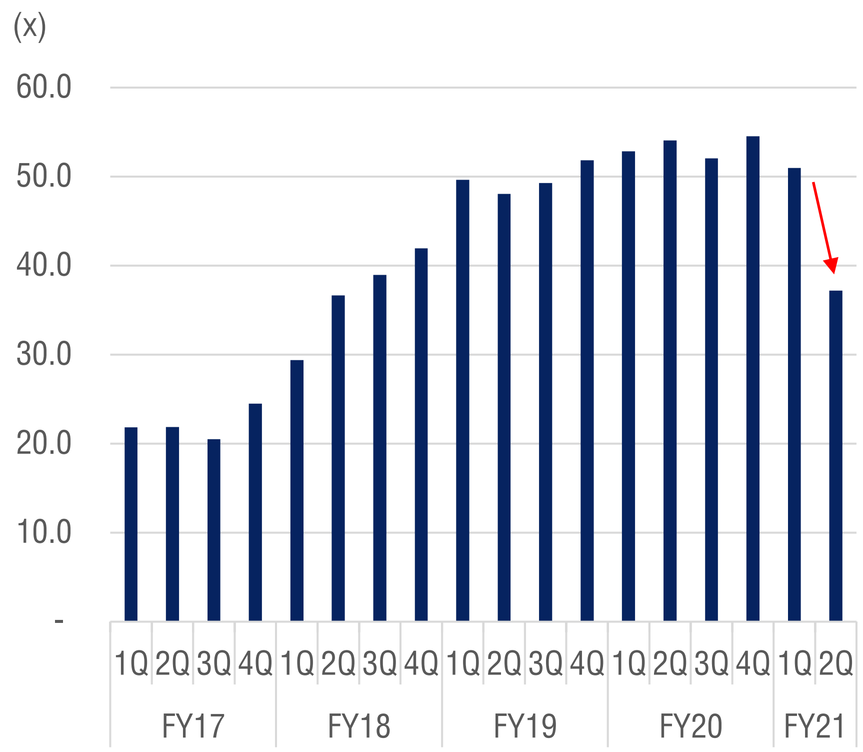
Source: Asia Securities

CONSTRUCTION & MATERIAL SECTOR

With strong performances we expect the sector to pay down debts

Short-term debt fell in 2Q FY21…

…leading to lower leverage (Net Debt/Equity)



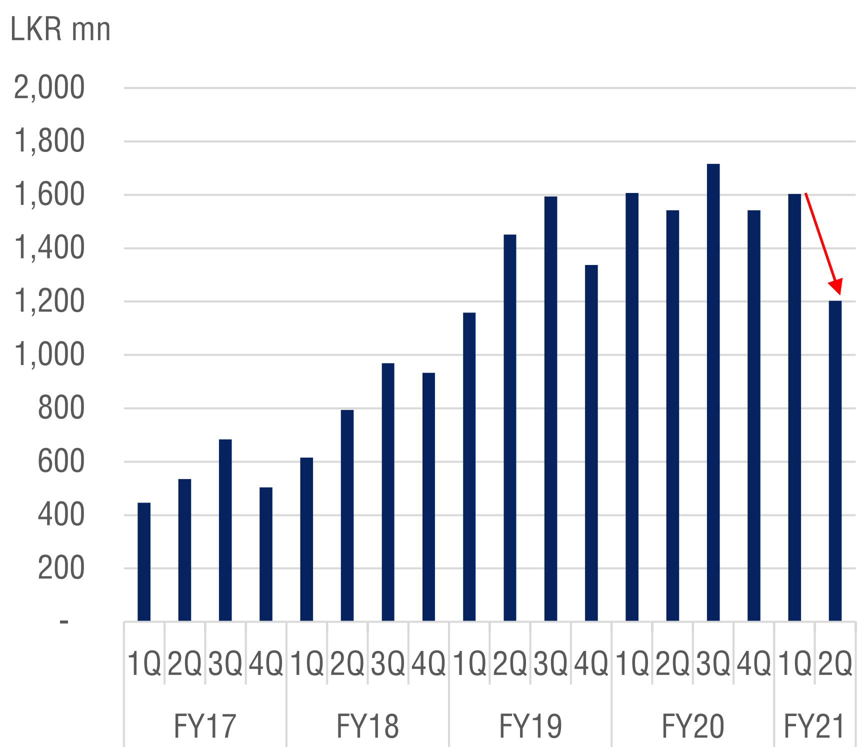
Source: Asia Securities

CONSTRUCTION & MATERIAL SECTOR

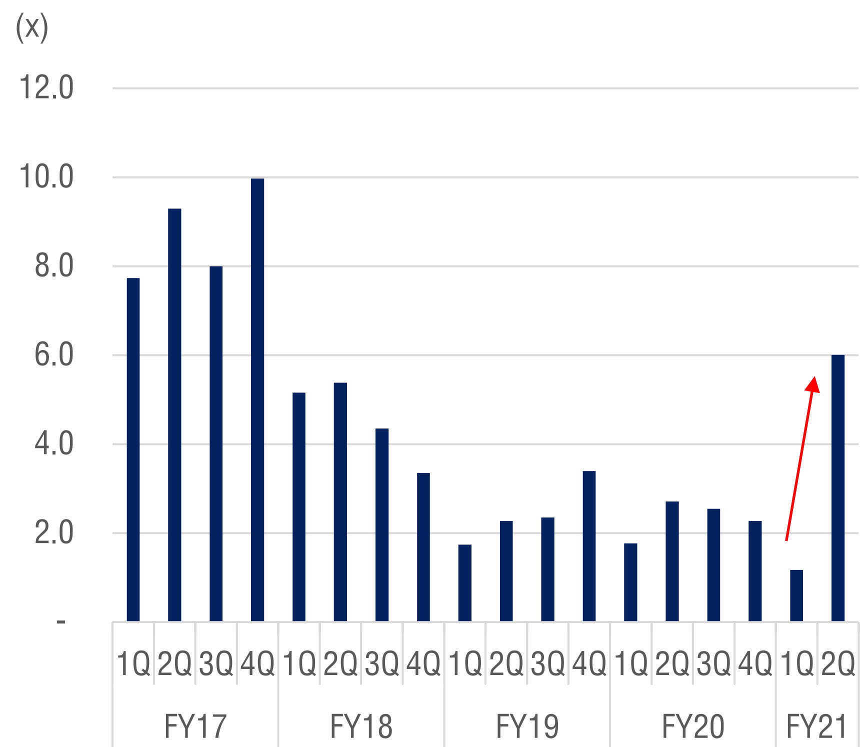
Interest cost fall on lower interest rates and paydown of debt

ASIA SECURITIES
INTEGRITY I INSIGHT I INNOVATION

Interest costs saw a sharp fall in 2Q FY21…



…while interest coverage (EBITDA/interest) also improved



Source: Asia Securities

Back to Sector Summary

MANUFACTURING SECTOR - POSITIVE

Capacity expansions support demand story

ASIA SECURITIES

INTEGRITY I INSIGHT I INNOVATION

THESIS

- Textile names to see earnings on an upward trajectory
- Vendor consolidation and focus on "verticality" has seen local apparel players sourcing more from local fabric mills
- Tier 1 customers such as Nike have increased exposure to Sri Lanka as a result
- With earnings recovering by 2Q FY21, MGT and TJL are bringing back capex plans that were frozen earlier
- Capacity expansions will help a step up in earnings in FY22E
- SL's synthetic capacity will see an expansion in 2021; a higher margin segment (than cotton) which will also drive earnings
- GLAS to see improved volumes on the back of a consumer recovery
- For DIPD, Second COVID-19 wave in the US and Europe, amidst a glove shortage, will secure earning for 2H FY21E.
- Thereafter, we still see demand remaining robust on the back of replenishing stocks, continuous PCR testing and vaccine administration.
- This comes on top of a growing demand for industrial gloves, as China industrial activity remains healthy.
- We see earnings beginning to normalise from 2H FY22E.
- HAYC will face a 2021 with Gold prices losing steam, although remaining above 2019 levels, sufficient to sustain healthy growth in demand
- Long term story remains anchored on global warming led themes and a lucrative engineering projects in the pipeline.

UPSIDE RISKS

- ✓ Subdued raw material costs amidst slow global activity
- ✓ China trade wars benefitting the SL apparel sector
- ✓ Stronger end-markets with the vaccine which will drive stronger demand for SL's export sector
- ✓ A stable LKR in 2021

DOWNSIDE RISKS

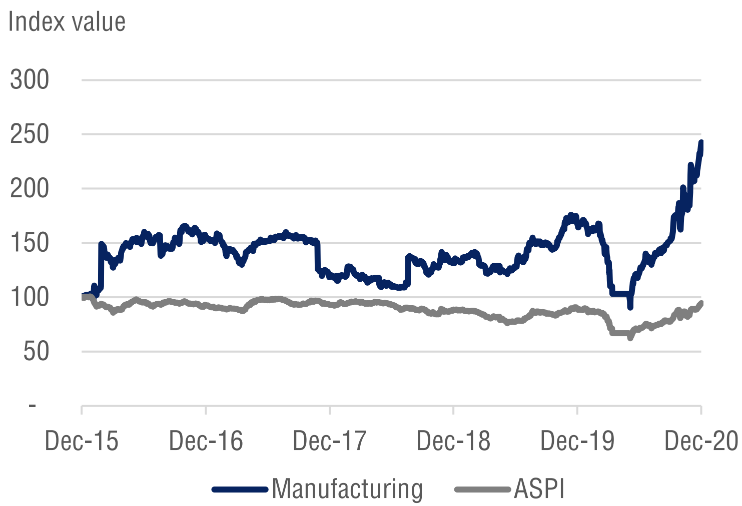
- A sharp depreciation in the LKR as most of the raw materials are imported
- Increase in raw material costs
- Easing of US and China trade wars following the US elections which can lead to a shift back in capacity to China
- DIPD now securing raw materials to meet order book
- Gold prices slipping to below 2019 levels

Source: Asia Securities

MANUFACTURING SECTOR - VALUATIONS

The sector is trading at 6.6x FY22E EPS, a ~48.0% discount to the five-year trading average

Sector vs ASPI



Sector P/E trading vs ASPI

Ticker	Market cap		CY21E / FY22E				Target price (LKR)	TSR %
	LKR bn	USD mn	P/E (x)	P/B (x)	Div. Yield (%)	ROE (%)		
DIPD	20	105	8.4	1.2	3.7	15.5	560.00	+81.8
HAYC	16	87	7.8	1.2	3.7	16.5	720.00	+38.6
TJL	27	146	10.4	1.5	4.9	15.0	38.00	+1.3
MGT	5	29	7.1	1.3	6.9	18.7	32.00	+29.2
GLAS	9	48	20.2	1.7	2.5	8.6	10.00	+10.1

Source: Asia Securities, Bloomberg | Priced as at end 11 Dec 2020 | Note: * indicates CY21E / FY22E target price

Back to Sector Summary

BANKING SECTOR - POSITIVE

Cyclical exposure recommended – rerating potential in 2H along with a measured recovery in asset quality and earnings

ASIA SECURITIES
INTEGRITY I INSIGHT I INNOVATION

THESIS

- **Valuations over-discount short-term headwinds**
  - The sector currently trades at ~0.5x BV CY21E with an ROE of 11.7% (vs 8.7% in CY20)
  - The discount is mainly due to the impact of weak asset quality on banks' capitalisation
  - However, even in a stressed scenario, (20.0% of the loans under moratoriums impaired), we see the large diversified banks trading at 0.7x BV: a rare opportunity for investors
- **Credit quality to gradually improve in 2H CY21**
  - Reasons for NPL spike in 2018-20 were mainly transitory, and with better growth, we expect NPL stock to drop in 2H CY21
  - However, moratoriums mask the actual credit quality which could lead to high impairments in 1H CY21, but would gradually drop thereafter
- **Pick-up in economic activity and policy stability to drive loan growth**
  - We expect private sector credit growth to pickup to ~8.0% in CY21E from ~5.0% in CY20E
  - Assumptions that drive our view; COVID conditions receding from 2Q CY21, local manufacturers getting a boost, policy certainty on taxes and continued loose monetary policy
- **NIMs to stabilise at lower levels**
  - Given that deposits have largely repriced for most banks, we expect NIMs to gradually stabilise after 4Q, albeit at low levels
  - Tax cut to 24% should further aid in improving the bottom line

UPSIDE RISKS

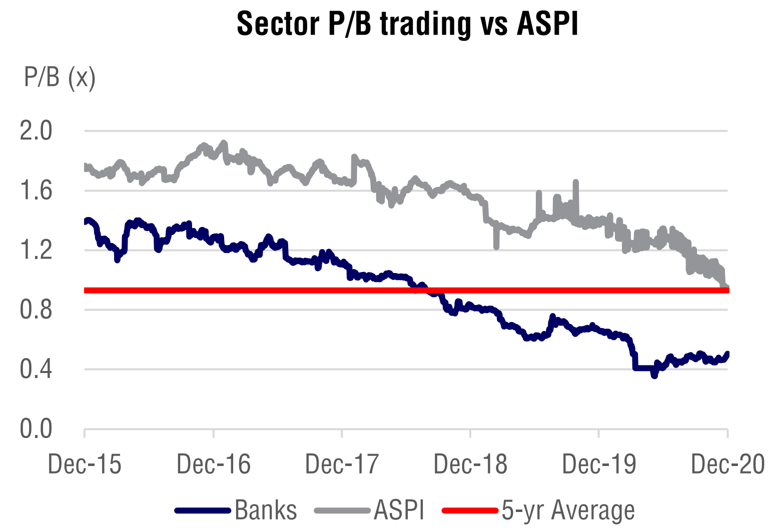
- ✓ Gradual opening of economy and pent-up demand leading to strong credit growth from 1Q CY21E onwards
- ✓ Sectors such as Construction and Agri which drove credit quality issues to see strong growth from supportive policies
- ✓ Tourism sector marking a faster-than-expected recovery with the new measures announced and local tourism picking up
- ✓ Banks benefiting more from ISB mispricing, leading to trading gains – supporting the bottom line and ROE. With taxes on ISB capital gains removed, this would directly support ROE

DOWNSIDE RISKS

- Protracted recovery in construction, tourism and trading sectors, leading to low credit growth through CY21
- Further credit rating downgrades increasing impairment charges and cost of foreign funding for banks
- Import restrictions and fee and rate caps, especially on retail products (credit cards, mortgages) sustained for longer
- Spike in loan losses in CY21 driving an erosion of capital leading to further fund raising through rights issuances
- Higher Government sector borrowing crowding out private sector borrowing

BANKING SECTOR - VALUATIONS

The sector is trading at 0.5x CY21E BV, a ~44.4% discount to the five-year trading average



Ticker	Market cap		CY21E				Target price (LKR)	TSR %
	LKR bn	USD mn	P/E (x)	P/B (x)	Div. Yield (%)	ROE (%)		
COMB	96	489	5.6	0.6	7.8	11.7	100.00	+28.3
HNB	64	285	4.7	0.4	5.8	9.1	165.00	+32.9
SAMP	52	277	5.9	0.5	7.0	8.2	175.00	+36.2
NDB	19	102	3.4	0.4	7.3	11.8	85.00	+11.2
SEYB	21	110	6.0	0.5	3.3	7.8	50.00	+12.0
NTB	18	97	5.6	0.5	3.4	9.0	UR	+11.3
UBC	13	72	20.7	0.8	1.2	3.7	UR	-14.3
SDB	5	28	3.7	0.5	9.8	13.5	72.00	+35.0
DFCC	20	109	7.4	0.4	4.5	5.5	78.40	+21.5

Source: Asia Securities, Bloomberg | Priced as at end 11 Dec 2020 | Note: * indicates CY21E / FY22E target price

Back to Sector Summary

CONGLOMERATE SECTOR - NEUTRAL

A few star players amidst a slow recovery environment

ASIA SECURITIES
INTEGRITY I INSIGHT I INNOVATION

THESIS

- Conglomerates accounted for ~22% of the CSE's market capitalization and ~28% of trade volumes YTD in 2020
- The counters provide exposure to multiple sectors and is generally more liquid than a collection of individual counters to similar sectors
- Since April 2019, the sector has been hit on multiple fronts. Counters with a heavy exposure to Leisure, non-essential consumer goods and durables were some of the worst hit
- Overall, we expect the conglomerate sector earnings to see a meaningful recovery only from mid-FY22E (Sep 2021 onwards)
- Counters exposed to food retail and essential FMCG products, will see a faster bounce-back in earnings…
- …while counters with significant exposure to the leisure sector and non-essential consumer products, will see a lag in recovery
- Counters with a strong balance sheet will also continue to benefit in this slow recovery environment
- Our key pick from the sector is HHL. Its strong footing in the Healthcare and Consumer businesses (>~90% of group topline), and low exposure to a volatile Leisure business, has resulted in a faster earnings recovery compared to peers
- We expect JKH to see earnings recovery through its exposure to Consumer, Logistics, Financial Services and recognition of Cinnamon Life earnings from 4Q FY21E onwards

UPSIDE RISKS

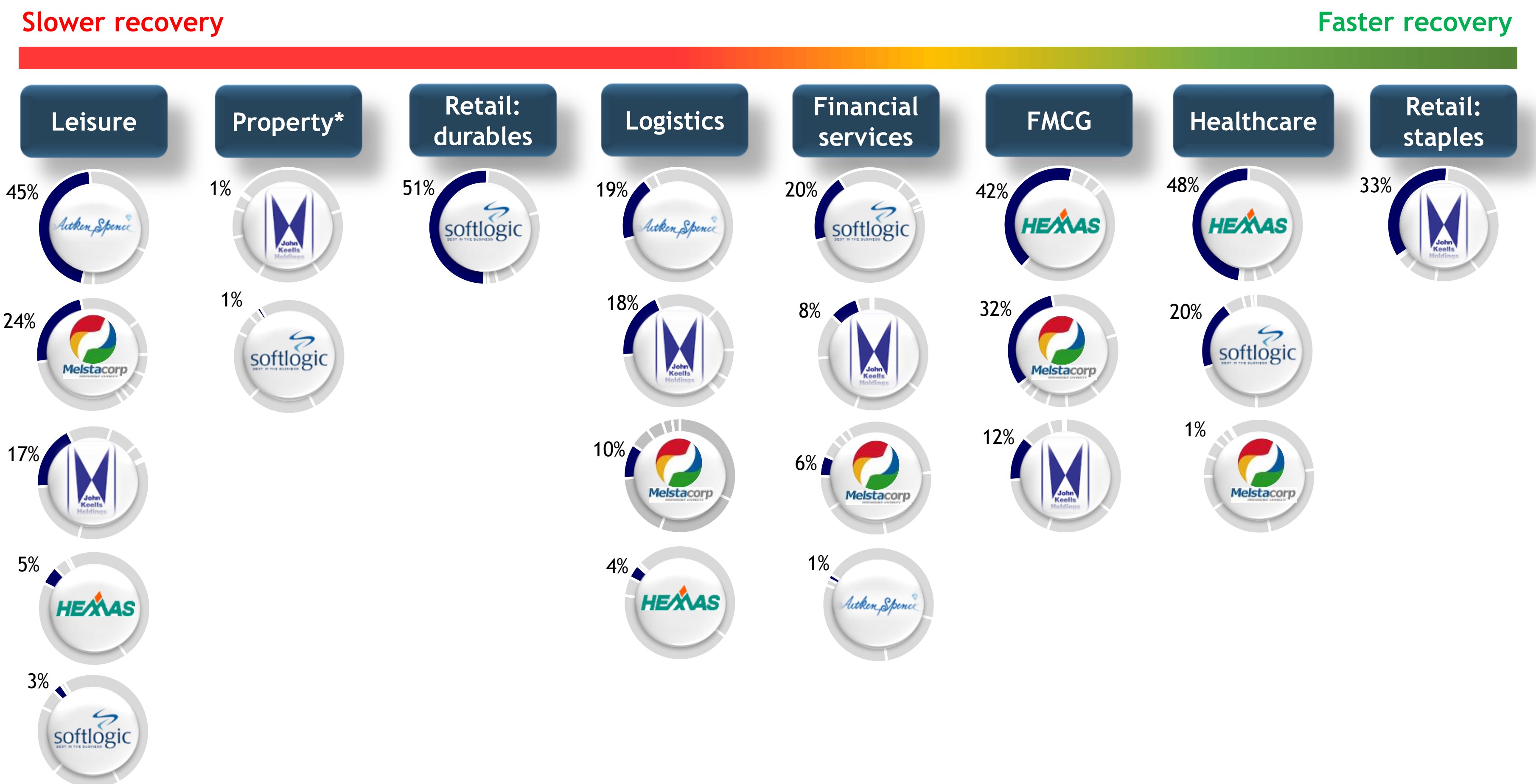
- ✓ Faster than expected recovery in economic activities, to help local consumption
- ✓ Stable currency
- ✓ A pickup in demand for residential and commercial space
- ✓ Faster than expected recovery in global and regional trade
- ✓ For HHL;
  - Sooner-than-expected re-opening of schools
  - Faster than expected recovery in profitability in Bangladesh operations

DOWNSIDE RISKS

- Further localised lockdowns due to the pandemic could result in lower local consumption, slowing down construction projects, and delaying recovery of the leisure sector
- Accelerated depreciation of the LKR, driving up raw material costs
- Sooner-than-expected increase in interest rates amidst inflationary pressure in 2021, impacting highly leveraged counters

Source: Asia Securities

Extent of exposure to key sectors determines time to recovery for Conglomerates



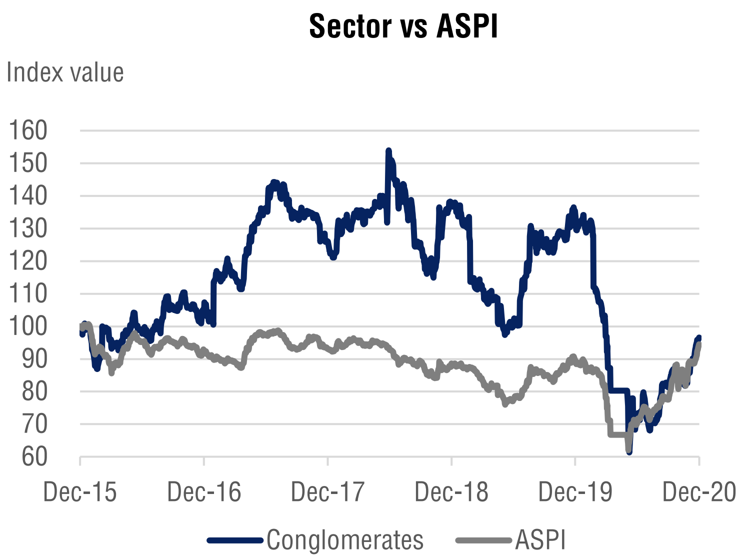
Source – Company data | Data includes revenues of conglomerates under our main and shadow coverage

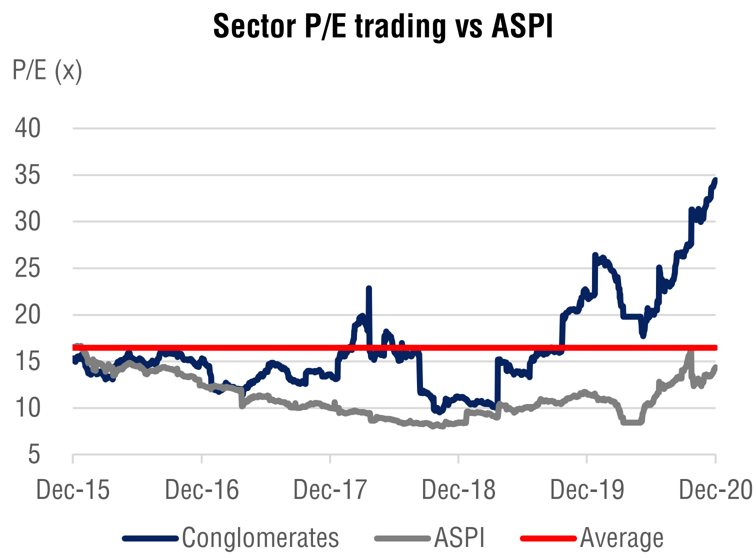
Note: * Property – While the segment accounts for around 1% of revenues in both JKH and SHL, there are significant investments tied up in ongoing projects (JKH – Cinnamon Life and Tri-Zen | SHL – Odel Mall)

CONGLOMERATE SECTOR - VALUATIONS

The sector is trading at 9.6x FY22E EPS, a 41.9% discount to the five-year trading average

ASIA SECURITIES
INTEGRITY I INSIGHT I INNOVATION





Ticker	Market cap		CY21E / FY22E				Target price (LKR)	TSR %
	LKR bn	USD mn	P/E (x)	P/B (x)	Div. Yield (%)	ROE (%)		
JKH	200	1,074	18.5	0.9	3.9	5.1	175.00*	+19.0
HHL	57	304	10.5	1.7	1.8	17.2	130.00*	+38.2
SHL	15	82	117.3	1.3	3.9	1.1	NR	nm
MELS	55	297	7.5	0.6	4.2	8.4	NR	nm
SPEN	25	134	6.2	0.5	2.0	7.6	NR	nm

Source: Asia Securities, Bloomberg | Priced as at end 11 Dec 2020 | Note: * indicates CY21E / FY22E target price

ALCOHOL BEVERAGE SECTOR - POSITIVE

A ‘fizzy’ year ahead

Back to Sector Summary

ASIA SECURITIES
INTEGRITY I INSIGHT I INNOVATION

THESIS

- The absence of an excise duty increase in the 2021 budget remains a key positive for stable demand
- Absence of a price increase will also result in less demand migration to the illicit/illegal market
- In the mid-term, recovery in economic activity to regular levels will provide a boost to demand conditions, as consumers will see stable income levels
- The government proposed to replace the various number of taxes being charged on liquor production, with one single Special Goods & Services Tax (SGST)
- We expect this new tax to result in less ad-hoc duty increases going forward
- The 2021 budget also proposed to increase local ethanol production over the long-run to aid the local industry and also reduce import costs
- This in particular, will result in stronger margins for arrack manufacturers
- With minimal disruption to the sector at this point, we expect sector earnings to be up 9.0% YoY FY21E, and up ~27.0% YoY in FY22E
- In FY21E, we expect the strongest recovery to come from DIST as the absence of a duty increase will help it maintain demand, coupled with margin expansion from local sourcing
- In FY22E, growth will be led by LION, fuelled by a recovery in the leisure sector

UPSIDE RISKS

- ✓ Recovery in economic activity to regular levels to result in stable income and stable demand
- ✓ Introduction of a Special Goods & Services Tax, reduces the risk of ad-hoc tax increases and reduces the pricing disparity between the legal and illegal market
- ✓ Proposal to increase ethanol production in the country could lead to lower cost of production for arrack manufactures

DOWNSIDE RISKS

- Further localised lockdowns due to the pandemic could result in demand disruptions
- The newly proposed Special Goods & Services Tax resulting in a higher tax base for the manufacturers

Source: Asia Securities

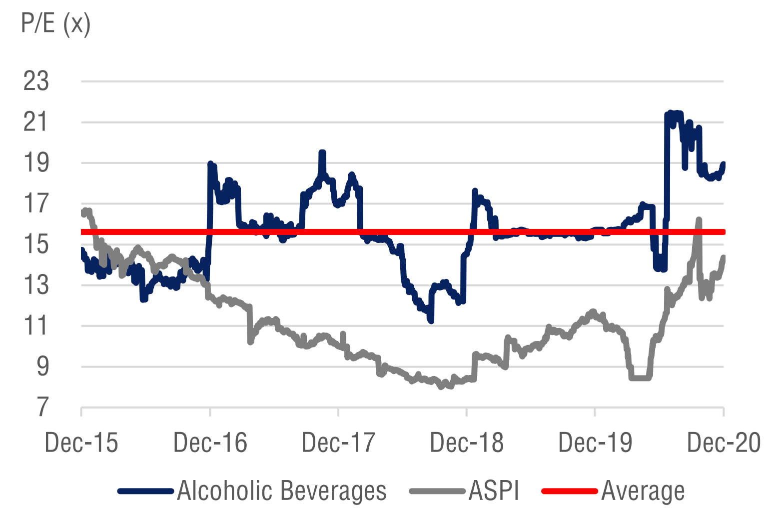
ALCOHOL BEVERAGE SECTOR - VALUATIONS

The sector is trading at 9.4x FY22E EPS, a 39.8% discount to the five-year trading average

ASIA SECURITIES
INTEGRITY I INSIGHT I INNOVATION

Sector vs ASPI*

Sector P/E trading vs ASPI



Ticker	Market cap		CY21E / FY22E				Target price (LKR)	TSR %
	LKR bn	USD mn	P/E (x)	P/B (x)	Div. Yield (%)	ROE (%)		
DIST	97	520	11.0	7.1	4.7	73.2	26.00	+27.00
LION	44	236	10.7	2.1	1.5	21.4	700.00	+28.7

Source: Asia Securities, Bloomberg | Priced as at end 11 Dec 2020 | Note: * - The dip in the index is mainly due to the relisting of DIST at a lower free float

Back to Sector Summary

INSURANCE SECTOR - POSITIVE

Key growth catalysts in place for Life; General to remain under pressure

ASIA SECURITIES
INTEGRITY I INSIGHT I INNOVATION

THESIS

- Insurance, took a tough hit in 2020, almost entirely dependent on renewals for growth …
- … and a sharp drop in rates leading to larger allocations to the life fund as well as a contraction in investment yields.
- However, we see low interest rate regime and insurance tax deductible allowance increased to LKR 1.2mn p.a…
- …as strong incentives for Life insurance demand to see robust growth going in 2021E
- To this end, we see AAIC as the main beneficiary, with its stronger position in the larger ticket size market.
- Life will also see regulatory increase in the rate used to calculate Life contract liabilities, temporarily,...
- …this should see to normalizing allocations to the life fund, in quarters to come.
- For GI GWP growth will remain challenged as vehicle import restrictions are extended until mid-2021.
- Unlike in 2020, weakness comes alongside a pick-up in claims, due to normalizing mobility.
- That said, a stronger recovery in 4Q, driven by pent up demand and possible tax breaks on spare parts would ease claims expenses

UPSIDE RISKS

- ✓ Stronger/sooner pick-up in rates leading to higher investment income for both General and Life…
- ✓ …and lower life fund allocations from the PnL, in the Life fund business
- ✓ Stronger than anticipated pick-up in credit growth driving demand for bancassurance products (single premium products)

DOWNSIDE RISKS

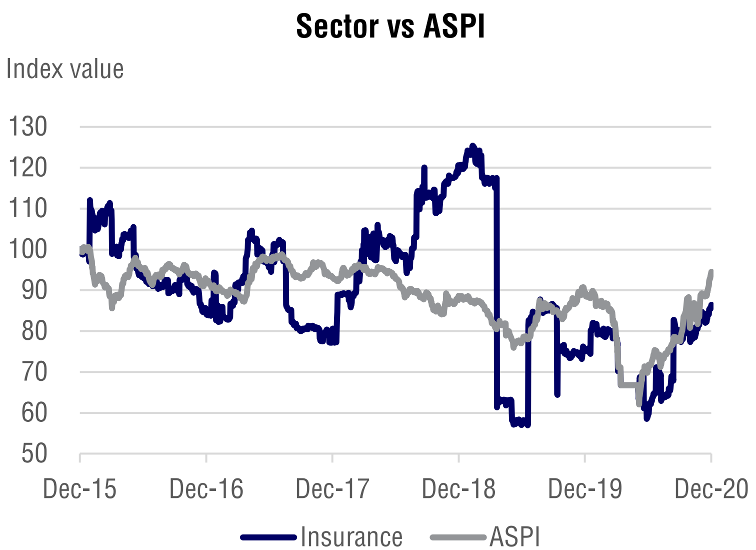
- Lag in recovery of rates, leading to continued pressure on investment yields
- Potential authorization of COVID-19 patients to receive treatment in private hospitals, could add pressure on claims
- A further drop in rates adding pressure on yields and capital adequacy for smaller players

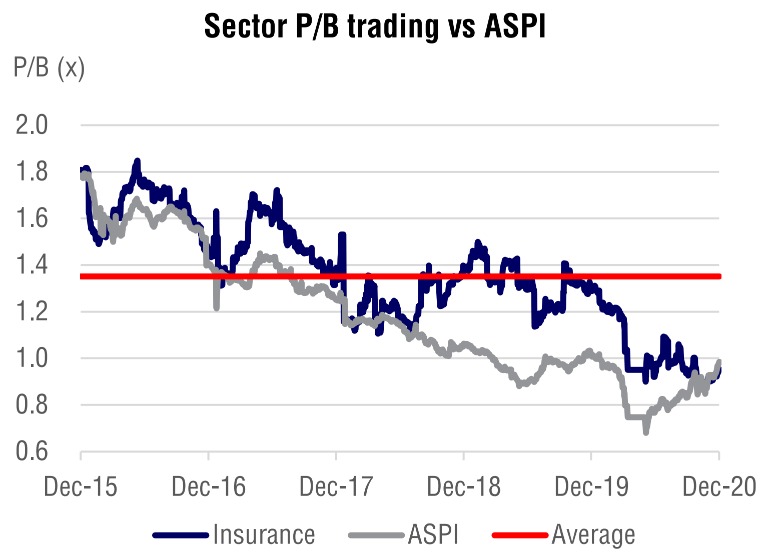
Source: Asia Securities

INSURANCE SECTOR - VALUATIONS

The sector is trading at 0.9x FY21E EPS, a ~33.4% discount to the five-year trading average

ASIA SECURITIES
INTEGRITY I INSIGHT I INNOVATION





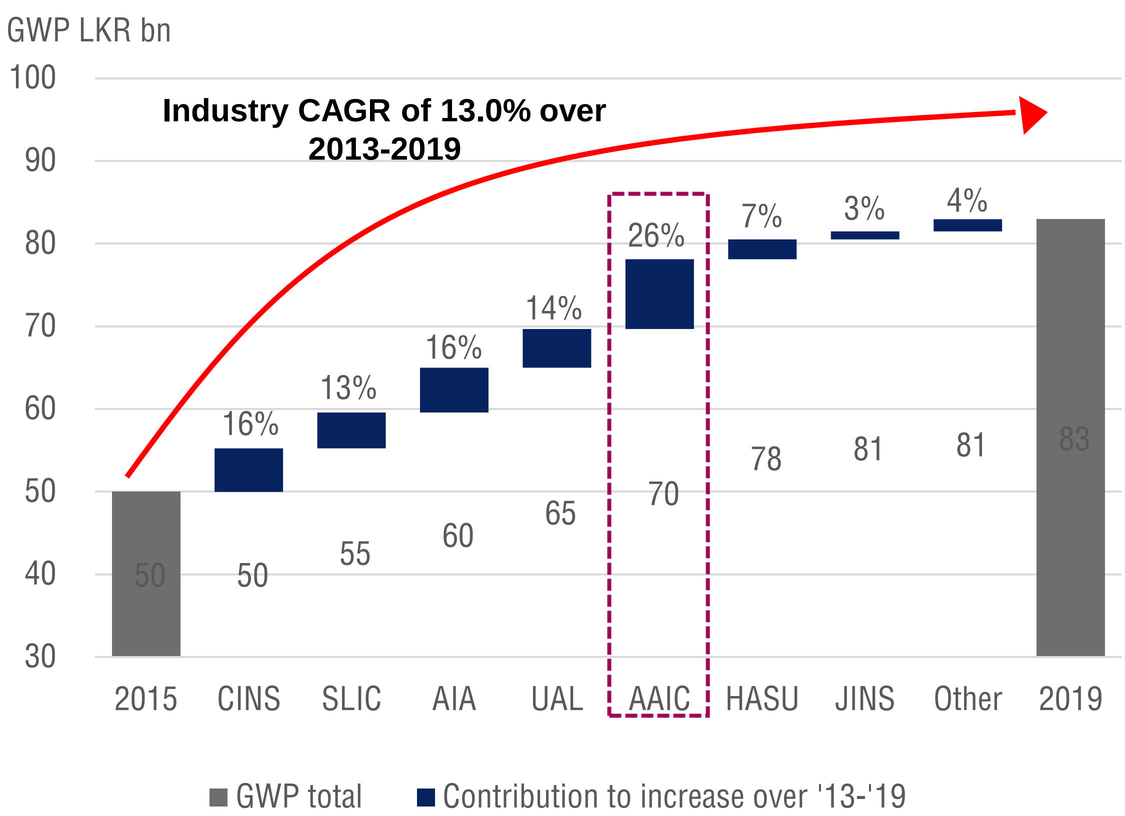
Ticker	Market cap		CY21E / FY22E				Target price (LKR)	TSR %
	LKR bn	USD mn	P/E (x)	P/B (x)	Div. Yield (%)	ROE (%)		
AAIC	14	73	5.9	1.4	4.1	26.2	45.00*	+27.7
HASU	9	49	6.8	1.1	4.6	16.6	60.70	+4.4
PINS	6	30	7.2	1.1	4.4	15.8	28.40	-22.5
CINS	43	229	5.2	0.8	2.2	15.5	NR	nm

Source: Asia Securities, Bloomberg | Priced as at end 11 Dec 2020 | Note: * indicates CY21E / FY22E target price

INSURANCE SECTOR

Classifying Life premiums as tax-deductible the key catalyst for growth

AAIC remains the strongest contributor to industry growth, accounting for 26.0% of total over 2013-2019



- Sri Lanka's Life GWP growth has largely depended on distribution channel strategy …
- ....best equipped to tap an under penetrated market
- However, the classification of premium cost as a tax deductible, allowed up to LKR 1.2mn p.a. serves as far greater catalyst for growth.
- We note that, in markets like India, insurance is used more as tax reduction tool than risk management.
- As such, we expect Life GWP in the next 5 years to far exceed the 13.0% p.a. growth it has experienced in the last 6-years.
- That said, this is a policy catalyst only applicable to high-income earners (i.e. LKR 250k> monthly income)
- We expect **AAIC** to be the largest beneficiary from this trend, as a player more strongly positioned in the high-income market.

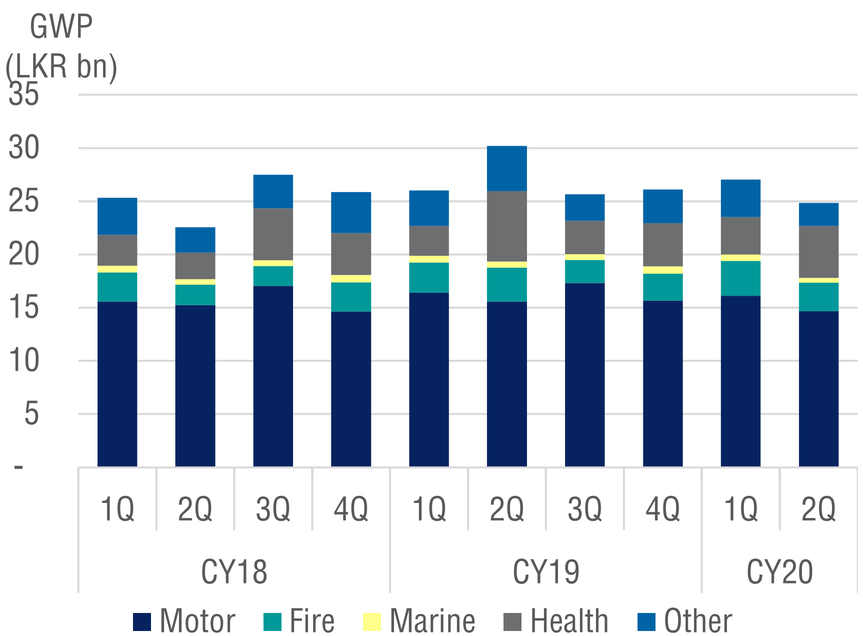
Source: Company reports

INSURANCE SECTOR

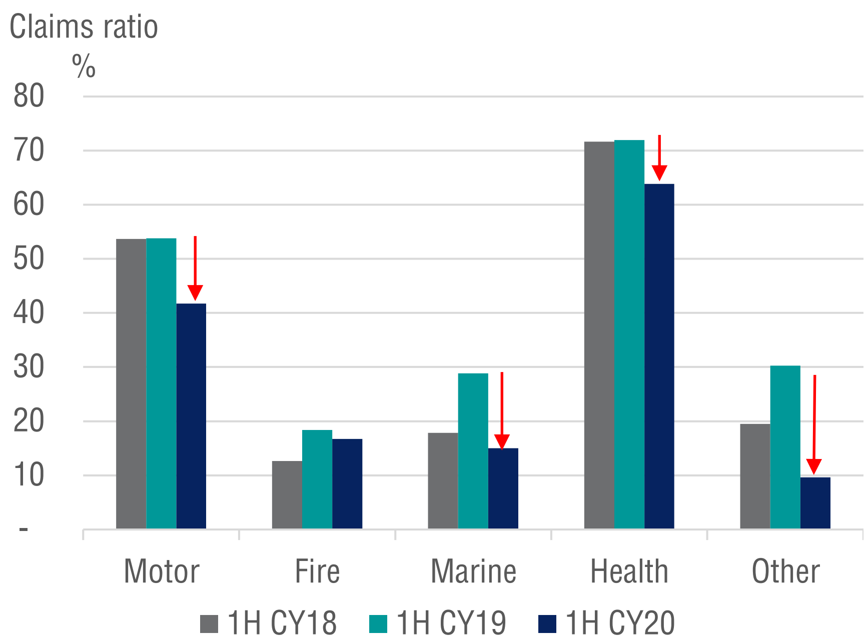
General to face tougher operating conditions going into 2021

ASIA SECURITIES
INTEGRITY I INSIGHT I INNOVATION

In CY20, GWP declined by LKR 4.3nm …



… which was offset by LKR 7.8bn savings in claims



Going into CY21E, we are looking at normalizing claims coming alongside continued weaker GWP, on import restrictions. As such, we expect CY21E performance to be muted

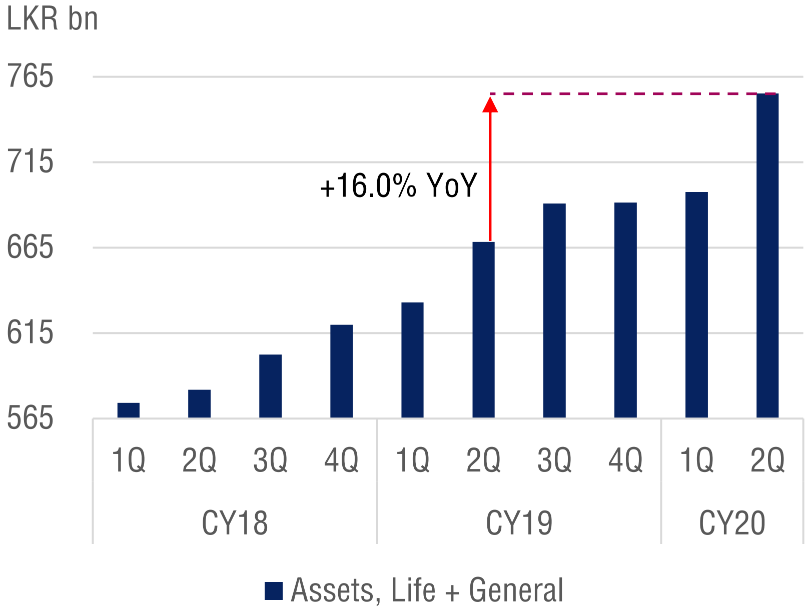
Source: IRCSL, Asia Securities

INSURANCE SECTOR

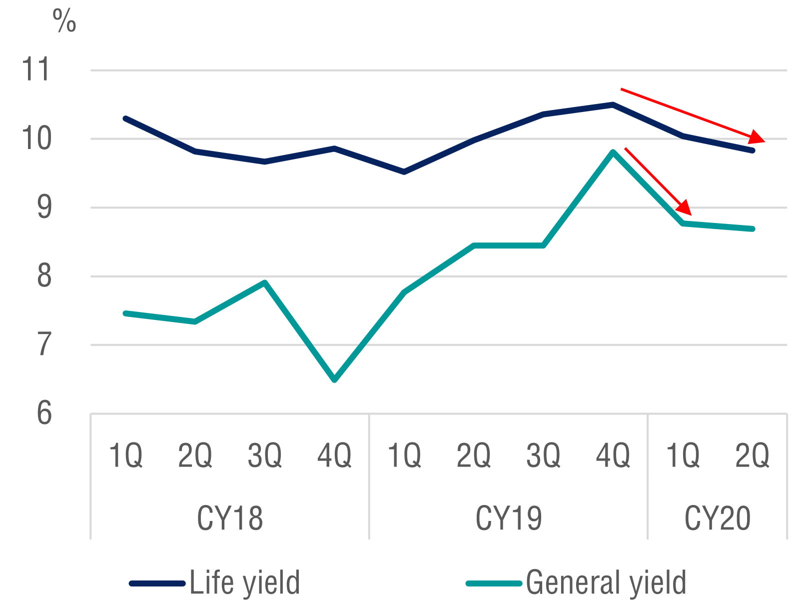
We expect yields to pick-up from 2H CY21E on upward pressure on rates

ASIA SECURITIES
INTEGRITY I INSIGHT I INNOVATION

Industry assets picked-up by LKR 75bn YoY largely on M-to-M revaluation gains



General saw a sharper drop in yields, compared to Life, due to its higher exposure to short-term treasury securities



We expect stabilising yields in 1H CY21E but a gradual pick-up from 2H onwards, on expected of upward pressure on rates. Alongside, we expect to see a correction in the financial assets, masked by GWP growth.

Source: IRCSL, Asia Securities

Back to Sector Summary

HEALTHCARE SECTOR - NEUTRAL

Recovery delayed until COVID-19 concerns subside

ASIA SECURITIES
INTEGRITY I INSIGHT I INNOVATION

THESIS

- Fear of exposure to potentially undetected COVID-19 patients will continue to impact OPD footfall.
- Hospitals with a strong position in elective surgeries, such as ASIR, will continue to see sustainable occupancies.
- However, those dependent more on communicable diseases care occupancies, will continue to see low demand…
- …as regular hand-washing and masks have reduced the incidence of such diseases.
- We also note that hospitals such as LHCL which depend on medical tourism will also continue to see an impact
- LHCL sees a larger volumes of PCR testing as it is supplementing GoSL capacity requirement, at higher margins.
- In LHCL's case alone, this is somewhat compensating for lost OPD/occupancy income, although not to a significant extent.
- It remains to be seen in private hospitals will partake in the distribution of a COVID-19 vaccine …
- … even if they do, we don't see it being a significant contribution to earnings, at this point in time
- GoSL is currently considering if patients should be given the choice to opt to receive treatment at a private hospital, at own cost.
- However, it is unclear if one facility will be dedicated for paid patients or if all hospitals will be allowed to admit COVID-19 cases.
- We continue favor ASIR as it will go into FY22E with an operationally profitable Kandy hospital and opening of the IVF centre

UPSIDE RISKS

- ✓ Faster than expected recovery in local outbreak, leading to a faster recovery in OPD footfall
- ✓ If GoSL decides to allocate the dedicated and isolated facility for paid COVID-19 patients, we see no further impact to private hospital foot fall or occupancy.

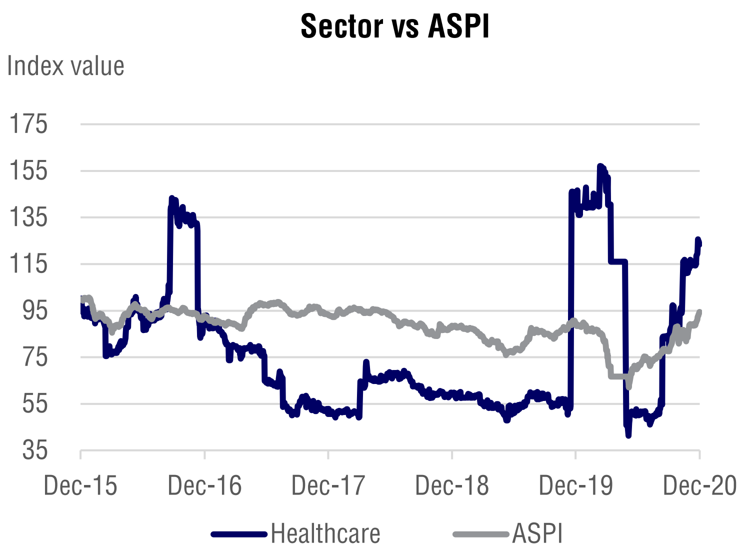
DOWNSIDE RISKS

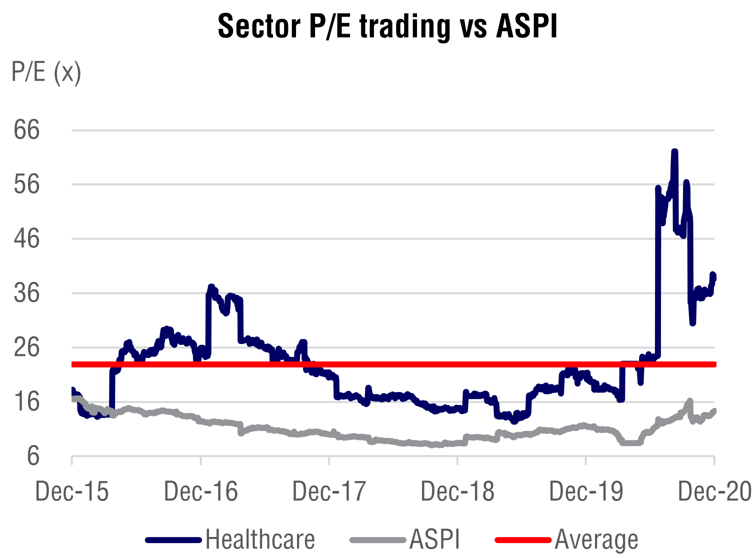
- If GoSL authorizes private healthcare treatment and all hospitals take it up …
- …we expect to see further reluctance from the general public to visit large hospitals resulting in a push back to elective surgeries and further drop in OPD foot fall.
- We don't believe COVID-19 admissions will be sufficient to be sufficient to offset impact to other inpatient care.
- Increased Incidence of COVID-19 positive staff members leading to disruption in operations

Source: Asia Securities

HEALTHCARE SECTOR - VALUATIONS

The sector is trading at 12.3x FY21E EPS, a ~46.2% discount to the five-year trading average





Ticker	Market cap		CY21E / FY22E				Target price (LKR)	TSR %
	LKR bn	USD mn	P/E (x)	P/B (x)	Div. Yield (%)	ROE (%)		
ASIR	30	161	14.7	2.8	3.8	18.5	32.00	+23.5
LHCL	10	54	18.1	1.5	4.4	0.1	47.00	+8.9

Source: Asia Securities, Bloomberg | Priced as at end 11 Dec 2020 | Note: * indicates CY21E / FY22E target price

Back to Sector Summary

TELECOMMUNICATIONS SECTOR - NEUTRAL

Structural growth in data continues; falling away of concessions in CY21 positive for earnings development

ASIA SECURITIES
INTEGRITY I INSIGHT I INNOVATION

THESIS

- **Data usage continues trajectory; COVID-19 induced trends are positive**
  - The structural upward trend in data usage continues, driven by expanding 4G coverage
  - In addition, trends such as online shopping, online media streaming services and e-learning products have seen a pickup, on the back of continued lockdowns
  - The immediate surge in usage will normalise once activity levels return to normal, but we expect the usage to stabilise at a higher level
  - For DIAL, we expect data usage to increase to 7.5GB/month and better network utilisation to improve profitability per GB.
- **Many concessions which were initiated in CY20E would be rolled back in CY21E, supporting earnings recovery**
- **Mobile number portability and 5G adoption to drive up capex spend for DIAL and SLTL**
  - Mobile number portability (MNP) will most likely be implemented in 2H CY21, and we expect both players to invest further in network expansion
  - In addition, with 5G commercial rollout also likely taking place in 2H CY21, we expect both players to start investing but do not expect a large earnings contribution in CY21E.
- **Sector trading below historical average. Rerating potential on improving profitability**
  - We expect sector earnings to be up 10.0% YoY for CY21E, and believe that this impact is yet to be reflected in valuations

UPSIDE RISKS

- ✓ Work-from home, online shopping and e-learning schemes to drive up stronger and sticky data usage through CY21E
- ✓ Stronger conversion towards 4G with more Government support for network expansion, especially in small rural areas
- ✓ Recovery of receivables starting from early CY21E, leading to unwinding bad-debt provisions
- ✓ Pricing pressure, especially on data to stabilise with the take up of more bundled products

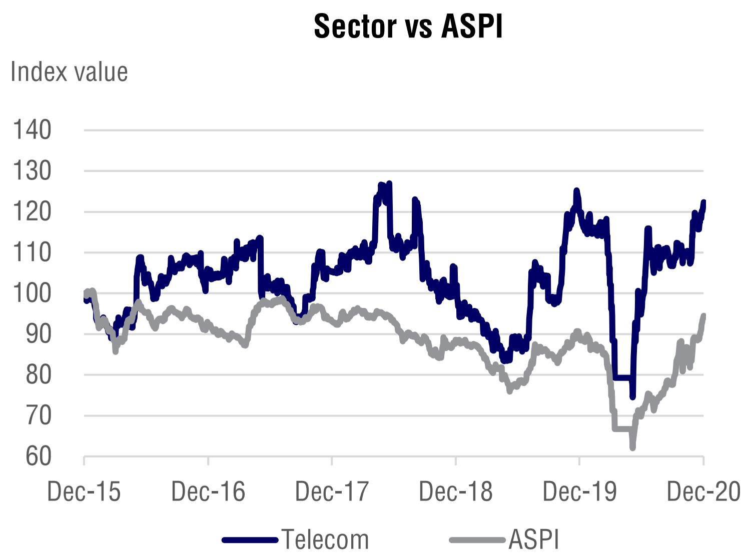
DOWNSIDE RISKS

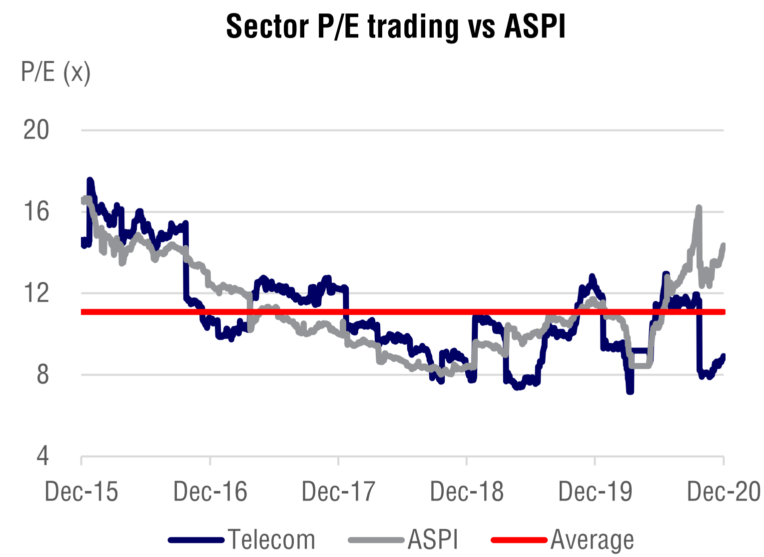
- A prolonged economic recovery could delay the receivables collection process and increased bad debt provisions
- Data usage stagnating with a return to pre-COVID conditions
- MNP could lead to higher churn initially, leading to a drop in profitability for the two large players

TELECOMMUNICATIONS SECTOR - VALUATIONS

The sector is trading at 7.7x CY21E EPS, a ~30.6% discount to the five-year trading average

ASIA SECURITIES
INTEGRITY I INSIGHT I INNOVATION





Ticker	Market cap		CY21E				Target price (LKR)	TSR %
	LKR bn	USD mn	P/E (x)	P/B (x)	Div. Yield (%)	ROE (%)		
DIAL	101	543	8.4	1.3	4.8	14.3	13.50	+13.2
SLTL	62	330	9.3	0.8	3.2	8.2	NR	nm

Source: Asia Securities, Bloomberg | Priced as at end 11 Dec 2020 | Note: * indicates CY21E / FY22E target price

Back to Sector Summary

LEISURE SECTOR - NEUTRAL

Airport entry the first step of a very long road to recovery

ASIA SECURITIES
INTEGRITY I INSIGHT I INNOVATION

THESIS

- We remain neutral on Sri Lanka's leisure recovery in 2021
- Tourists allowed to enter the country from January is a positive but won't be material until the latter end of 2021, in our view.
- Total arrivals are still capped at 300/day and repatriations will account for bulk of capacity, at least until March/April 2021
- Even once the arrival caps at BIA are lifted, hoteliers believe that a mandatory 2-week quarantine, restrictions on movement and mode of transport..
- …will hinder demand for short-holiday goers; key segment for listed larger properties.
- Factoring a gradual easing in travel restrictions into SL from 3Q 2021 onwards, we forecast ~630,000 arrivals for 2021E weighted largely towards 4Q CY21.
- With an average duration of 17-days, we forecast USD 1.8-2.0bn in tourism earnings for 2021E (vs. USD 3.5bn in 2019)
- Maldives is seeing a noteworthy recovery in arrivals benefiting from its uniquely isolating geological setting and minimal restrictions to movement.
- That said, industry occupancies are far below usual peak season levels.
- Source dynamics have shifted to more towards Indian, Russian and Middle Eastern markets; a trend AHUN is benefitting from.
- KHL, who is stronger in the European market will see lagged recovery on second wave impact.

UPSIDE RISKS

- ✓ Quicker than expected results from the vaccine distribution seeing to a faster than expected recovery in travel sentiment
- ✓ Faster than expected lift to daily arrivals caps and (or) mandatory quarantine protocols
- ✓ Greater than expected recovery in capacity flying into SL

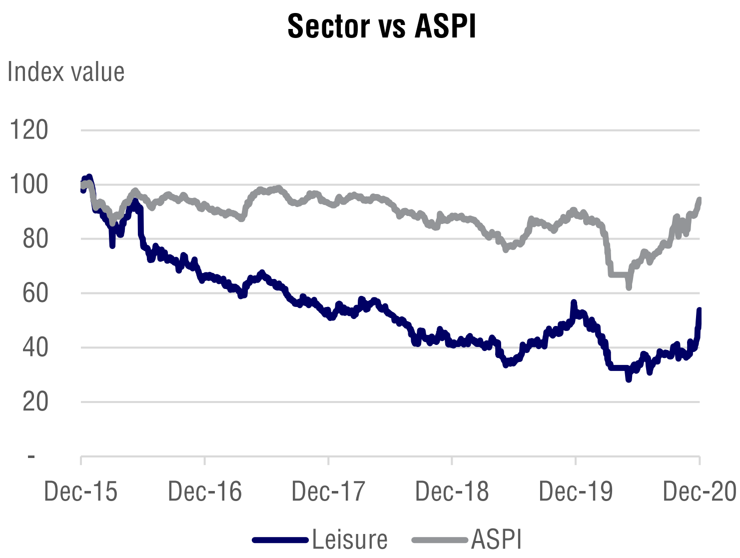
DOWNSIDE RISKS

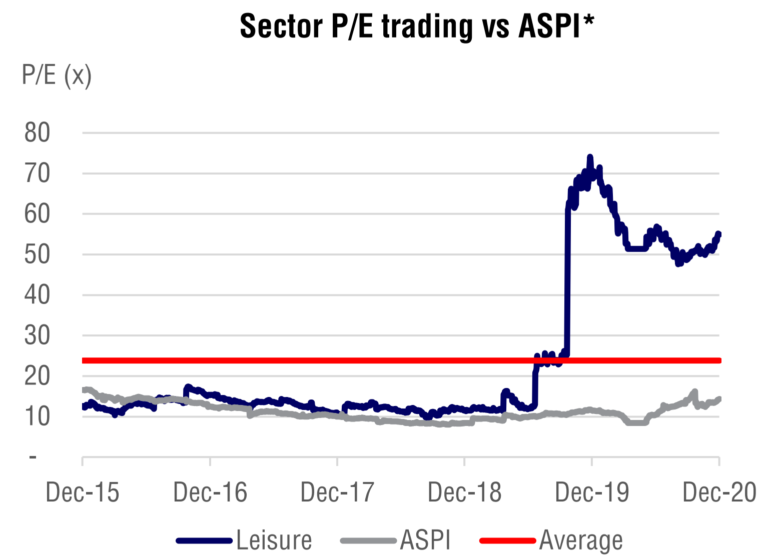
- Faster than expected pick-up in oil prices adding pressure on airline ticket prices
- Unsuccessful results from the vaccine, leading to recurring outbreaks.
- Current outbreak discouraging tourist arrivals even with airports open

Source: Asia Securities

LEISURE SECTOR - VALUATIONS

Sector trading at a significant premium to historic levels in anticipation of a tourism bounce back





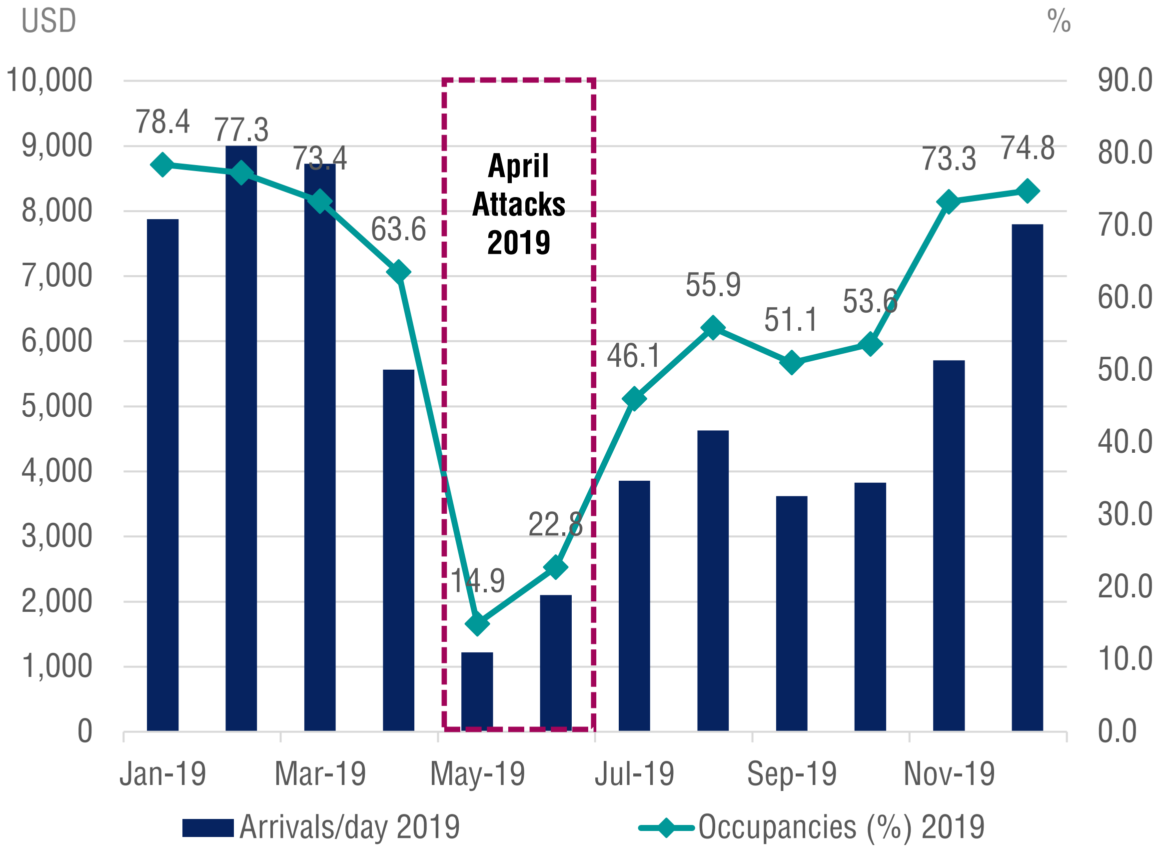
Ticker	Market cap		CY21E / FY22E				Target price (LKR)	TSR %
	LKR bn	USD mn	P/E (x)	P/B (x)	Div. Yield (%)	ROE (%)		
AHUN	11	57	18.4	0.6	1.6	3.4	NR	nm
KHL	17	89	nm	0.7	-	(3.7)	7.00	-38.6
AHPL	18	95	nm	0.6	-	(0.6)	NR	nm

Source: Asia Securities, Bloomberg | Priced as at end 11 Dec 2020 | Note - P/E for Dec 2019 and after excludes AHPL due to negative earnings*

LEISURE SECTOR

Occupancies to remain unsustainable until arrivals hit at least 2,000/day

Tourist arrivals need to reach at least 2,000/day to see sustainable occupancies



- We do acknowledge that there is pent up demand for long duration stay rather than volume of arrivals.
- However, listed larger properties don't benefit from long-term tourists
- For KHL and AHUN to see meaning recovery, there needs to be a significant recovery in the fortnight/tour group segment.
- Until 2-week mandatory protocol is in place, KHL does not expect to see recovery in its tourist bookings.
- There is also the choice to be made between locals only or foreigners only.
- We believe that high-end properties not frequented by locals will be made foreigners only (i.e. Bentota for KHL) …
- …while Habarana and Yala and Citadel will remain locals only.
- We don't expect SL to hit 2,000/day arrivals until December 2021
- We will bring forward the recovery timeline if GoSL allows vaccinated tourists to skip the mandatory quarantine period.

Source: News reports

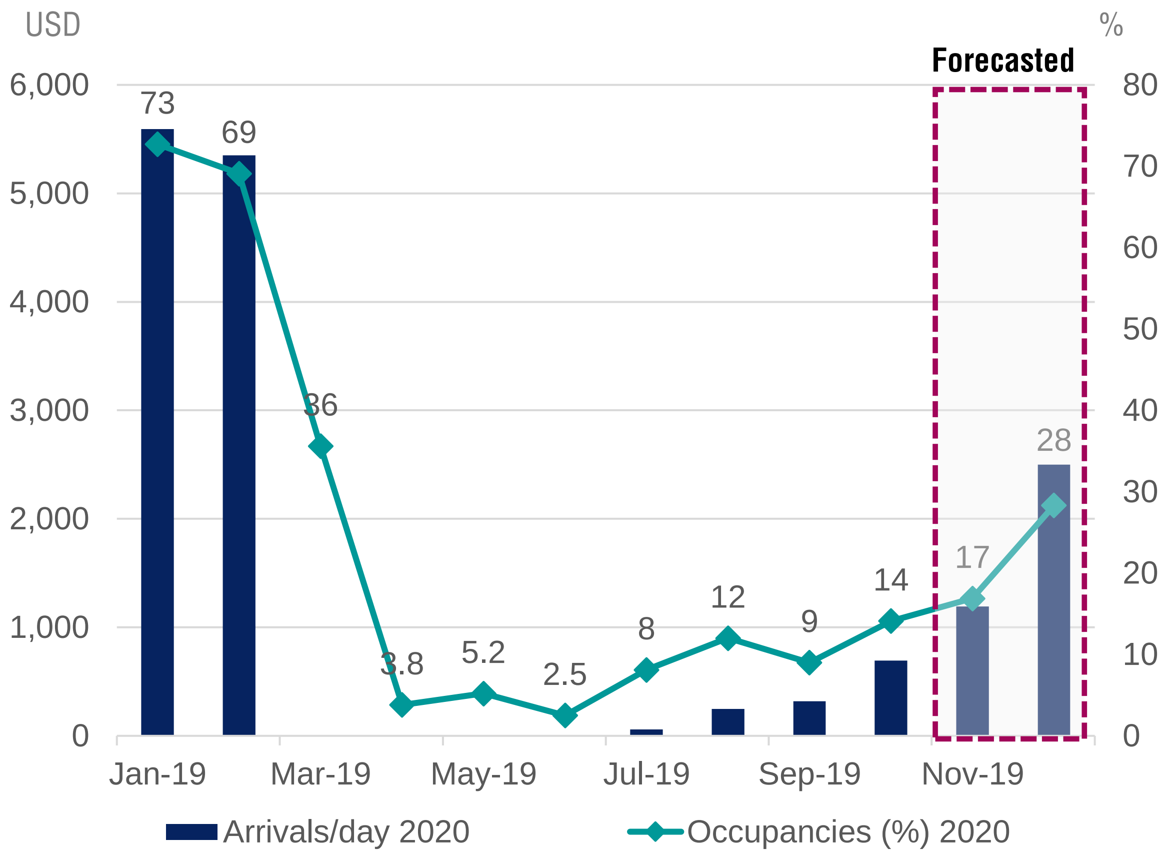
LEISURE SECTOR

Maldives to see stronger recovery in 2021 on pent-up demand

ASIA SECURITIES
INTEGRITY I INSIGHT I INNOVATION

- Since opening airports in July 2020, Maldives reached 2,000 daily arrivals by end November.
- From December onwards we expected a stronger recovery …
- We emphasize that being an archipelago makes Maldives an attractive destination for post-covid travelers seeking isolation
- As such, we expect Maldives to potentially reach ~20.0% below normal arrivals, by March …
- …and make a full recovery, in terms of arrivals numbers, by winter 2021/22

Arrivals on strong recovery path, although still significantly below pre-COVID levels

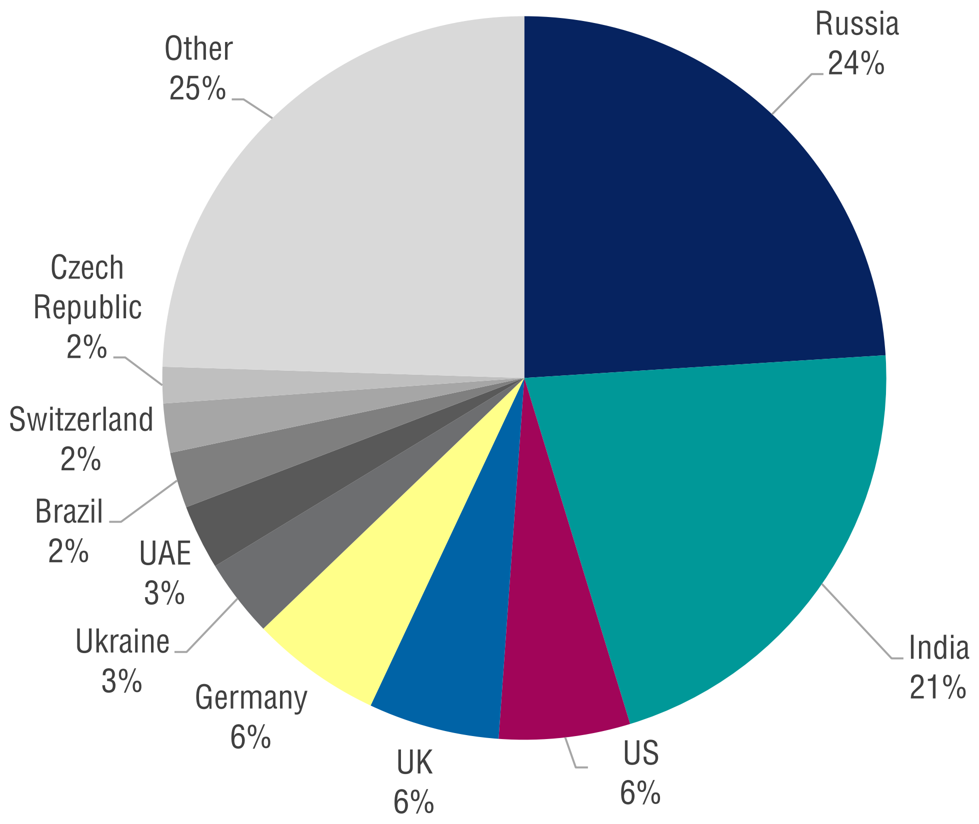


Source – SLTDA

LEISURE SECTOR

In Maldives, brands with a stronger promotional presence in India and Russia to see faster recovery …

India and Russia to be key source markets with Europe to lag



- While Maldives is seeing a strong recovery, the experience is not uniform across all properties
- Our channel checks confirm that, KHL targeted the Europe market for winter 2020/21 promotions…
- … a slow-to-recover source market amidst a second pandemic wave
- AHUN on the other hand is benefitting from a strong recovery from India, Russia and the Middle East.
- Channel checks confirm that unlike KHL, AHUN focused its promotional efforts on India, Russia and the Middle East.
- As such, we expect AHUN to show stronger recovery from the Maldives.
- KHL's Maldives recovery is likely to lag, alongside slowing recovery in Europe; particularly the UK market

Source: News reports

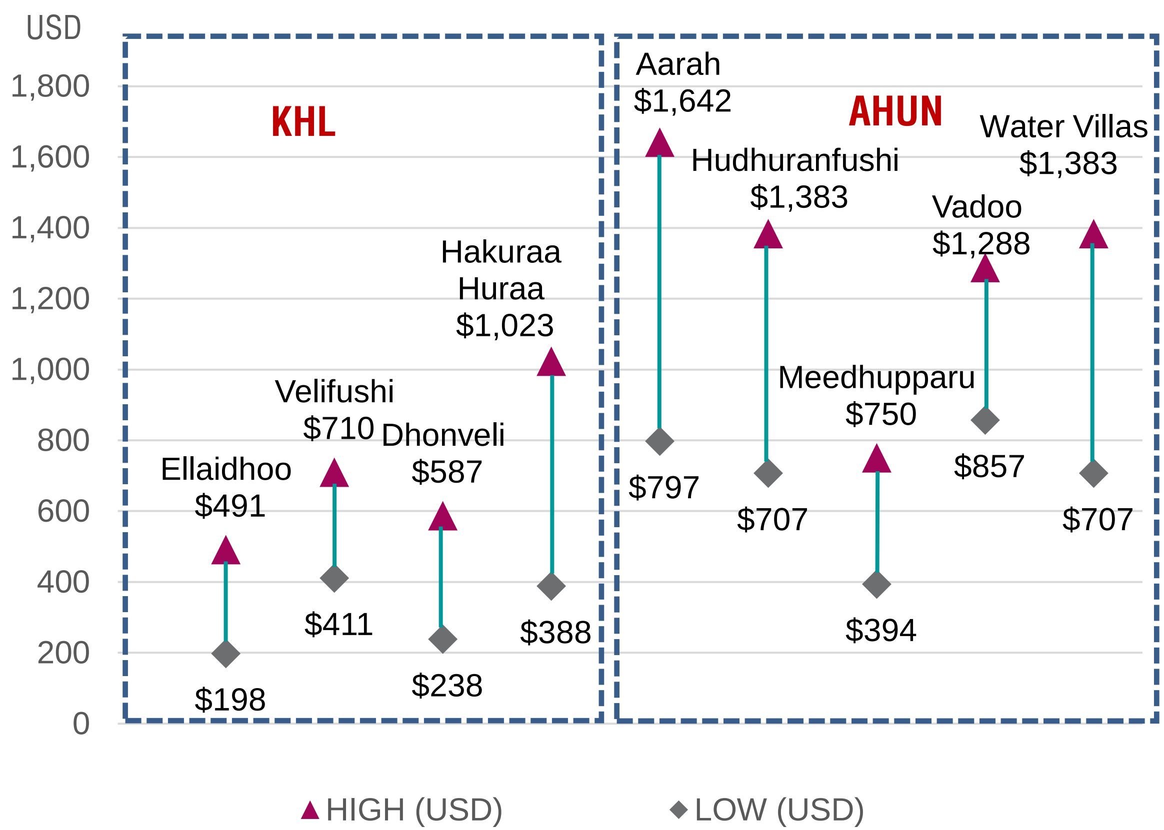
LEISURE SECTOR

… AHUN the stronger contender compared to KHL, in the Maldives market

ASIA SECURITIES
INTEGRITY I INSIGHT I INNOVATION

- The difference in source market exposure is quite broad between KHL and AHUN.
- Management confirms that a large part of the booking volumes are for the mid-range hotels Dhonveli and Ellaidhoo ...
- …confirming that ARR bounce back will be lagged for KHL.
- On the other hand, AHUN, benefitting from its strong exposure to the Indian market …
- ..is seeing much stronger ARRs, compared to KHL.
- We expect AHUN to see stronger ARR recovery in FY21E …
- .. and for KHL to see a delayed recovery going into 1H FY22E.

We expect AHUN to record better ARRs in Maldives than KHL*



Source – Google, company management I *Chart depicts the price range for each property for January 2021

Back to Sector Summary

ENERGY SECTOR - NEUTRAL

Positive for renewable energy; profitability will be impacted for regulated sub-sectors

ASIA SECURITIES
INTEGRITY I INSIGHT I INNOVATION

THESIS

- We maintain a neutral view on the local energy sector for 2021
- With the pricing formula being abolished, we expect the GoSL to keep auto fuel and LPG prices unchanged in a bid to keep cost of living under check
- We expect bunkering business to be impacted by price competition from India, which is lowering its bunker fuel costs to stimulate demand in a low demand environment
- We expect the lubricant players to see healthy earnings in 1H CY21 on the back of a 10-15.0% price increase, low base oil prices and a stable LKR…
- …nevertheless, stiff competition in the lubricant market will remain a threat with our channel checks indicating entry of new players into the market
- We are positive on the renewable energy sector, where we see the GoSL directing its focus to in the medium to long-term
- With the concessions provided for renewable energy, we expect increased investments in the renewable energy sector over the next 3-5 years
- It will also reduce overall energy costs of the country in the long-run

UPSIDE RISKS

- ✓ An increase in LPG/auto fuel prices will help profitability
- ✓ A fall in global energy prices
- ✓ Stronger focus on renewable energy sector will help players such as VLL, VPEL, HPWR, PAP, LPL, LVEF

DOWNSIDE RISKS

- Given the regulated nature, maintaining auto fuel and LPG prices amidst rising global prices can be detrimental to profitability
- Delays in implementing renewable energy plans
- Entry of new players into lubricant market

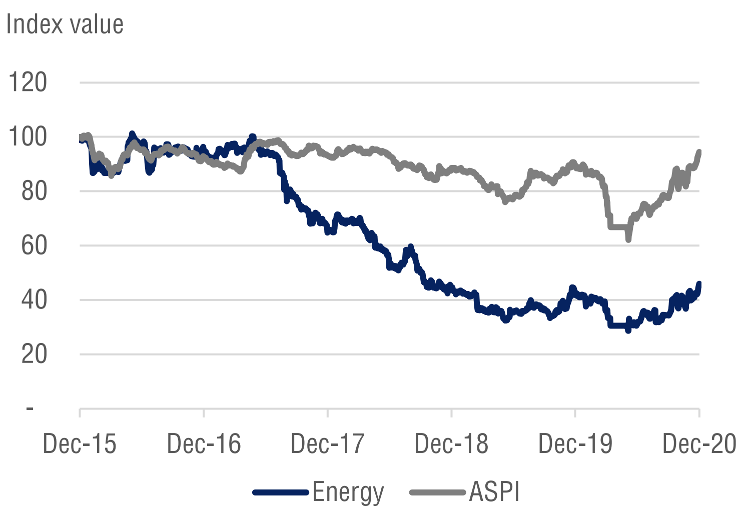
Source: Asia Securities

ENERGY - VALUATIONS

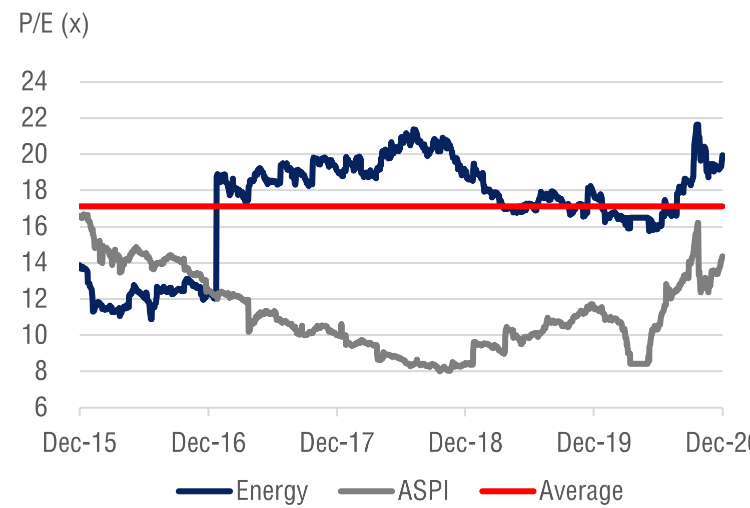
The sector is trading at 9.8x FY22E EPS, a ~43.0% discount to the five-year trading average

ASIA SECURITIES
INTEGRITY I INSIGHT I INNOVATION

Sector vs ASPI



Sector P/E trading vs ASPI



Ticker	Market cap		CY21E / FY22E				Target price (LKR)	TSR %
	LKR bn	USD mn	P/E (x)	P/B (x)	Div. Yield (%)	ROE (%)		
LLUB	26	139	11.0	6.0	9.2	54.2	100.00	+0.6
LGL	9	46	14.4	7.2	2.0	63.8	NR	nm
LIOC	12	66	12.2	0.7	3.2	5.7	NR	nm

Source: Asia Securities, Bloomberg | Priced as at end 11 Dec 2020 | Note: * indicates CY21E / FY22E target price

Back to Sector Summary

NBFI - NEUTRAL

Cautious Lending and Focus on Asset Quality Key Themes for 2021

ASIA SECURITIES
INTEGRITY I INSIGHT I INNOVATION

THESIS

- **Short-term headwinds justify valuations**
  - The sector currently trades at ~0.6x BV FY21E with an ROE of 10.9%
  - This is mainly due to the COVID-19 related headwinds affecting the sector, combined with the on-going import controls on vehicles
  - Slow growth in net advances, leading to a muted loan book is a key factor for the sector
  - Against this backdrop, we expect NBFIs to remain cautious on disbursements in the near term
- **Bottom line and asset quality may see pressure**
  - The low interest rate environment is likely to exert pressure on NIMs in FY22E
  - This combined with our expectation of impairment charges higher than the 5-yr historical average is a concern for the NBFIs
  - While we expect the government's focus towards supporting the SME sector a positive for NBFIs, we believe this loan demand may be mostly absorbed by banks
- **NIMs to stabilise at lower levels**
  - While deposits have largely repriced, we expect NIMs to face pressure amidst low net advance growth

UPSIDE RISKS

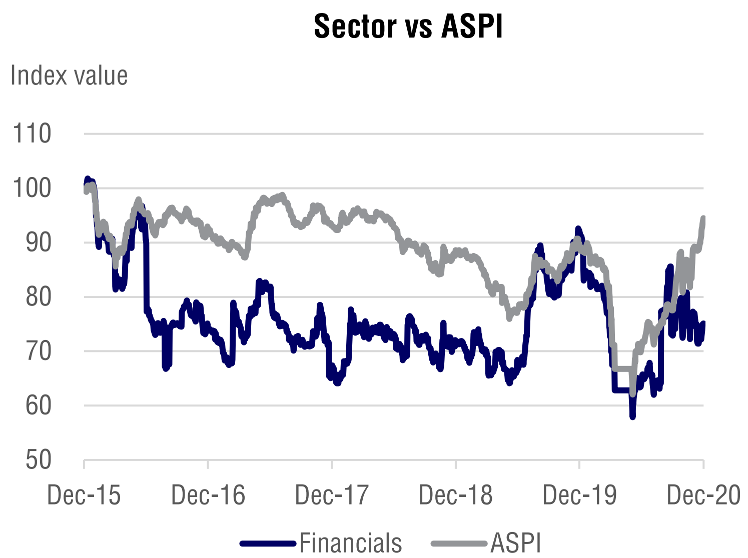
- ✓ Tighter regulations outlined in the 2021 Budget will help credibility in the overall sector
- ✓ Higher economic activity will lead to increased loan demand
- ✓ NBFIs exposed to gold loans will likely see higher demand for gold loans
- ✓ Government's assistance towards the SME sector will have a positive impact on NBFIs

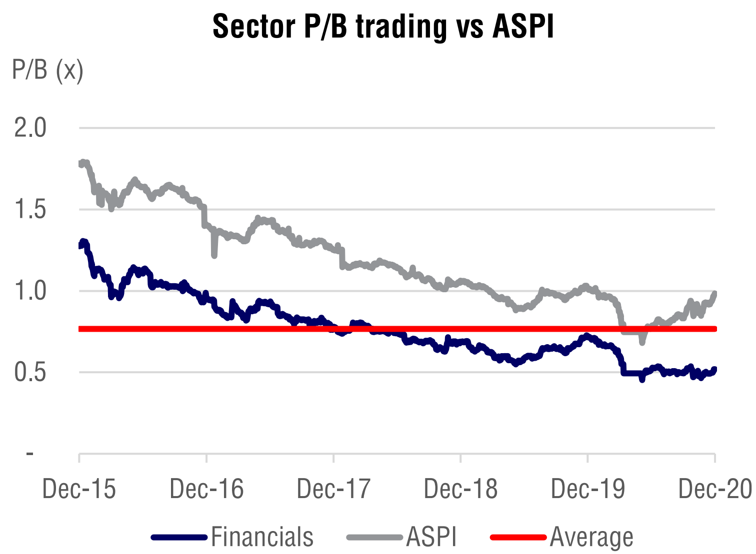
DOWNSIDE RISKS

- Prolonged import controls on vehicles, leading to low demand for vehicle lease demand (leases account for over 80.0% of net advances within our coverage universe)
- Core capital requirement of LKR 2.5bn by December 2021
- Low net advance growth momentum
- Asset quality and NIM pressure
- Overall consolidation pressure on larger NBFIs a key concern

NBFI SECTOR - VALUATIONS

The sector is trading at 0.5x FY22E BV





Ticker	Market cap		CY21E / FY22E				Target price (LKR)	TSR %
	LKR bn	USD mn	P/E (x)	P/B (x)	Div. Yield (%)	ROE (%)		
PLC	22	118	7.0	0.6	3.7	8.9	12.20	-7.8
LFIN	21	111	4.4	0.7	6.7	16.8	140.00	-0.6
CFIN	19	103	5.3	0.4	2.3	7.4	90.00	+7.6
CDB	6	30	4.8	0.7	4.3	12.7	NR	-21.9
COCR	8	41	5.6	0.5	3.1	8.6	NR	-27.7

Source: Asia Securities, Bloomberg | Priced as at end 11 Dec 2020 | Note: * indicates CY21E / FY22E target price

Back to Sector Summary

LOGISTICS SECTOR - NEUTRAL

Local logistics demand to bounce back; air freight to remain strong through 2021E

ASIA SECURITIES
INTEGRITY I INSIGHT I INNOVATION

THESIS

- Our coverage of the sector currently only includes EXPO. However, there is also indirect exposure to the sector through JKH, HHL, SPEN and HAYL
  - JKH – bunkering, terminal operations, integrated logistics
  - HHL – integrated logistics, shipping agency
  - SPEN – port management, integrated logistics
  - HAYL – integrated logistics, bunkering
- The World Trade Organization now expects global merchandise trade volumes to be down just 9.2% YoY in CY20E and up 7.2% in CY21E
- Global trade volume recover has been driven not only by COVID related PPE/medicine supplies, but also due resumption of demand for consumer products
- Counters exposed to and invested in integrated logistics will see a faster recovery driven by a bounce back in local consumer demand
- Counters exposed to freight forwarding, and in particular catering to air freight, will see strong earnings on the back of 1) high air freight rates and 2) recovery in consumer demand
- With the distribution of the vaccine, we expect air freight rates to remain at current levels or higher, in the short-term
- Terminal and bunkering operations are seeing a recovery, yet are heavily tied to global and regional trading activities
- We expect terminal operations at the Colombo port to remain constrained in the near term due to running at near capacity

UPSIDE RISKS

- ✓ Local 3PL operations to benefit from bounce back in local demand
- ✓ Stronger than expected recovery in global trade
- ✓ Distribution of the vaccine and low air cargo supply to maintain high air-freight rates
- ✓ Announcement of new logistics projects in Hambantota, opened for local operators
- ✓ Announcement of plans to open and operate ECT

DOWNSIDE RISKS

- Slower than expected recovery in global trade in CY21E
- Sudden dip in air freight rates with leisure travel resuming
- Indian bunker fuel providers continuing to offer bunker fuel at lower costs, impacting demand for Sri Lanka

Source: Asia Securities

Asia Securities Key Picks – Investment Thesis

December 2020

ASIA SECURITIES RESEARCH

Back to TOC

Further Upside Still Warranted; Cinnamon Life Earnings From 4Q FY21E Onwards

ASIA SECURITIES
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- We rate the stock a BUY with a FY22E target price of LKR 175.00/share for JKH (+7.4 to old, +19.0% TSR)
- Better than expected earnings from Retail, Consumer and Financial Services, resulted in 2Q earnings beating our estimate, while also offsetting the notable loss in Leisure
- Strong earnings from Consumer & Retail and earnings recognition from Cinnamon Life from 4Q FY21E onwards will offset the losses from Leisure in 2H FY21E and in early FY22E
- We believe the long-term investment case for the stock remains intact due to;
  - Being a leading player in the consumer, retail and logistics sectors
  - Substantial investments in place across the group
  - A strong capital structure
- Risks: 1) further escalation of the pandemic resulting in localized lockdowns, 2) inflationary pressures in CY21E resulting in lower spending, 3) tourist arrivals picking up towards mid 1H-FY22E

Financial summary

In LKR mn	FY18	FY19	FY20	FY21E	FY22E	FY23E
Revenue	121,215	135,456	140,043	115,055	161,819	165,324
EBITDA	13,835	11,202	12,802	10,193	24,010	24,250
Recurring net profit	15,959	14,651	8,508	3,065	10,851	9,775
Diluted recurring EPS (LKR)	12.11	11.11	6.45	2.32	8.23	7.42
ROE (%)	8.4	7.2	4.0	1.4	5.1	4.5
P/E (x)	12.6	13.7	23.6	65.4	18.5	20.5
EV/EBITDA (x)	14.6	18.1	15.8	19.9	8.4	8.4
P/B (x)	1.0	1.0	0.9	0.9	0.9	0.9

Strong Growth Story Leaves Room For Further Upside

- We rate the stock a BUY with a FY22E target price of FY22E LKR 130.00/share for HHL (+23.8 to old, +38.2% TSR)
- As such, we believe current price levels continue to provide an apt entry point to the stock
- We continue to reiterate our investment thesis for HEMS;
  - HEMS's strong footing in the Healthcare and Consumer businesses has resulted in a faster earnings recovery compared to its peers
  - Its exit from the volatile Leisure business results in increased cash reserves, which will be diverted to pay down debt drawn for the MORI plant. It also enables HEMS to focus on less asset heavy and higher return generating businesses
  - Strong cash position to result in a further dividend payment of LKR 1.35/share for FY21E (LKR 1.75 FY22E)
  - Recovery in local consumer spending, continued demand for hygiene related products, and import restrictions bodes well for HEMS's local home and personal care business
  - Market leadership in pharma distribution and low volatility in FX to result in stable Healthcare margins
- Risks: 1) further escalation of the pandemic resulting in localized lockdowns, 2) slower than expected recovery in the Bangladesh operations, 3) inflationary pressures in CY21E resulting in lower spending

Financial summary

In LKR mn	FY18	FY19	FY20	FY21E	FY22E	FY23E
Revenue	49,874	64,082	61,632	63,451	72,993	81,475
EBITDA	4,327	5,463	3,988	5,935	7,805	9,004
Recurring net profit	2,649	3,156	1,539	3,651	5,390	6,493
Diluted recurring EPS (LKR)	4.44	5.29	2.58	6.13	9.04	10.89
ROE (%)	11.2	12.4	5.8	13.1	17.2	17.9
P/E (x)	21.4	18.0	36.9	15.6	10.5	8.7
EV/EBITDA (x)	11.5	9.3	11.6	8.1	6.4	5.7
P/B (x)	2.3	2.2	2.1	1.9	1.7	1.5

In The Forefront Of The Consumer Demand Recovery

ASIA SECURITIES
INTEGRITY I INSIGHT I INNOVATION

- We roll over our valuations to FY22E with a TP of LKR 1,010/share for CCS (+9.8 to old, +53.3% TSR)
- The stock is down ~16.0% YTD and down 18.0% YoY, while trading at a ~36.0% discount to our FY22E EPS estimate
- Its exposure to food retailing bodes well for CCS with consumer spending focused on essential foods
- That said, CCS has continued to benefit from demand for its frozen confectionary (FC) and beverage products
    - Its market leadership in the take-home FC category bodes well for CCS, with the category growing +20.0% YoY since mid-2Q FY21E
- CCS continues to invest in store spaces within key urban locations across the Western Province and outside, resulting in a higher basket value compared to its key competitor CARG
- Risks: 1) further escalation of the pandemic resulting in localized lockdowns, 2) possible ban on PET bottles resulting in a short-term impact on costs, 3) inflationary pressures in CY21E resulting in lower spending, 4) raw material price increases

Financial summary

In LKR mn	FY18	FY19	FY20	FY21E	FY22E	FY23E
Revenue	50,942	59,060	69,055	72,295	84,553	98,699
EBITDA	4,565	3,958	7,280	7,402	8,834	10,790
Recurring net profit	2,546	1,285	2,093	2,073	2,692	3,410
Diluted recurring EPS (LKR)	26.79	13.52	22.02	21.81	28.32	35.88
ROE (%)	18.9	8.8	13.4	12.9	15.8	18.2
P/E (x)	24.9	49.4	30.3	30.6	23.6	18.6
EV/EBITDA (x)	16.6	19.2	10.4	10.3	8.6	7.0
P/B (x)	4.6	4.1	4.0	3.9	3.6	3.2

An Environment To Thrive

- We rate the stock a BUY with a FY22E TP for TKYO.N of LKR 120.00/share (+20.0 to old, +86.3% TSR) and TKYO.X at 104.00/share (+88.6 TSR).
- Stricter import controls on finished cement benefits local cement manufacturers immensely; having consolidated this market share, TKYO's market share has improved to ~40.0% (from ~34.0%)
- With no restrictions on clinker imports, manufacturers benefit from 1) improve plant utilisation, 2) not have to pay CESS applicable on bulk cement imports and 3) reduce distribution costs as coastal shipments cost less.
- Our expectation of low interest rates will help spark construction in the residential sector (bagged cement); the 7.0% mortgage cap will also favour TKYO
- TKYO looks to add an additional 1mn MT/annum in capacity over the next 18-24 months leading to a step up in earnings
- We do not see new players entering the market at this point being a large threat to TKYO's performance
- Key risks:
  - LKR depreciation
  - A cut in retail prices/ delays in implementing a price hike in times where the LKR depreciates

Financial summary

In LKR mn	FY18	FY19	FY20	FY21E	FY22E	FY23E
Revenue	35,633	38,496	35,758	41,598	46,093	49,663
EBITDA	4,554	3,538	6,002	8,761	9,913	10,640
Recurring net profit	2,124	(232)	2,302	5,040	6,002	6,608
Diluted recurring EPS (LKR)	5.77	(1.26)	5.74	12.57	14.97	16.48
ROE (%)	14.3	(1.5)	14.3	26.4	25.7	23.4
P/E (x)	12.5	nm	11.5	5.3	4.4	4.0
EV/EBITDA (x)	9.0	12.5	7.1	4.7	4.2	3.9
P/B (x)	1.7	1.8	1.5	1.3	1.0	0.9

Import Controls And Residential Thrust To Drive Strong Medium-term Performance

- We rate RCL a BUY with a FY22E target price of LKR 235.00/share (+11.9 to old, +60.0% TSR),
- Housing loan rates, which have now fallen below the 2014 lows will be a key catalyst to the recovery in the residential market in 2020
- Our channel checks indicate that ~90.0% of sales in the floor tile segment came from residential demand.
- The ban on importing tiles and tile accessories will benefit local tile manufacturers, particularly RCL. Cheaper imported tiles, largely from China and India, accounted for 48.5% of total market share in 2019 (falling from 60.0% in 2017).
- Our channel checks indicate a sharp increase in footfall at tile showrooms as reflected by the 2Q performance
- We expect the ban on importing sanitaryware also would go onto help earnings in 3Q FY21E
- With an increase in rubber and tea prices, we expect a strong results also coming out of the Plantation segment
- Key Risk –
  - An increase in interest rates which would lead to a slowdown in the residential market
  - Removal of protection on imports
  - Sudden and sharp depreciation of the LKR given that 65.0% of raw materials are sourced from abroad

Financial summary

In LKR mn	FY18	FY19	FY20	FY21E	FY22E	FY23E
Revenue	29,090	31,499	31,554	42,707	46,264	48,353
EBITDA	7,045	6,349	6,557	9,335	10,130	10,572
Recurring net profit	2,901	2,642	2,587	4,601	5,275	5,590
Diluted recurring EPS (LKR)	26.19	23.85	23.35	41.53	47.62	50.46
ROE (%)	15.3	12.2	10.8	17.2	17.5	16.5
P/E (x)	6.2	6.8	7.0	3.7	3.3	3.2
EV/EBITDA (x)	5.2	6.4	6.6	4.6	4.2	4.0
P/B (x)	0.9	0.8	0.7	0.6	0.5	0.5

Tier 2 Capital Injection And Favourable Tax Policy To Boost Growth

- We set a TP of LKR 45.00/share (+27.7% upside)
- Exposure to relatively high-income segment places AAIC in a strong position to benefit from the favourable tax deduction policy; compared to peers
- Going forward; growth to be driven through First year premiums rather than group which is healthier for claims in the long-run.
- Tier II capital injection of USD 30mn to bolster aggressive growth agenda, without compromising capital requirements
- The stock currently trades at 1.3x CY21E BV (vs. 1.2x peers)
- Risks:
    - Claims ratio to pick up in the short-run as the business matures – natural progression in the lifetime of an insurer
    - higher exposure to short-tenure investments, which makes the portfolio more sensitive to interest rate fluctuations

Financial summary

In LKR mn	FY18	FY19	FY20	FY21E	FY22E	FY23E
Life GWP	7,531	10,006	12,531	14,973	17,968	22,460
General GWP	-	-	-	-	-	-
Recurring net profit	1,107	1,084	1,912	1,628	2,334	2,964
Recurring diluted EPS (LKR)	2.95	2.89	5.10	4.34	6.22	7.90
Tangible BVPS (LKR)	8.22	15.66	19.79	21.43	26.15	32.06
ROE (%)	43.8	24.2	28.8	21.1	26.2	27.2
P/E (x)	12.3	12.6	7.1	8.4	5.9	4.6
P/B (x)	4.4	2.3	1.8	1.7	1.4	1.1

Private Placement Boosts Capital Base – Valuation Attractive

ASIA SECURITIES
INTEGRITY I INSIGHT I INNOVATION

- We rate COMB BUY with a increased CY21E TP of LKR 100.00/share (+5.3% to old TP; +20.5% upside; +28.3% TSR), while upgrading COMBX to LKR 83.00/share (+7.1% to old; +15.3% upside; +24.3% TSR)
- Expected multiple rerating in CY21E is the main criteria for the TP upgrade, which in our view comes on the back of better earnings potential and a possible relaxation of CBSL's rules on cash dividend payments
- The private placement has boosted COMB's capital base, with a wider buffer compared to the regulatory minimum
- COMB's strong ties with the top-tier SMEs and corporates would continue to drive profitable business from CY21E onwards, and we expect loan growth to improve to 7.0% in CY21E and 10.0% in CY22E
- Stress tests indicate that even a 20% impairment coming from the second round of moratoriums lead to a P/BV of 0.8x CY21E BV
- Key downside risks
    - Prolonged economic recovery in CY21E which could weigh on banks' ability to maintain profitability in CY21E
    - Extended moratoriums (beyond CY20E) could strain the top line

Financial summary

In LKR mn	CY17	CY18	CY19	CY20E	CY21E	CY22E
Net interest income	39,567	45,618	48,356	49,335	56,387	61,350
Pre-impairment income	29,130	40,978	41,561	45,381	44,204	47,924
Recurring net profit	16,606	17,735	17,263	15,118	18,406	21,309
Gross loans and advances	761,094	898,719	931,495	957,577	1,024,607	1,127,068
Recurring diluted EPS (LKR)	16.66	17.55	16.80	13.47	14.84	16.56
ROE (%)	17.8	15.6	13.6	10.6	11.7	12.6
P/E (x)	8.0	7.2	4.9	6.2	5.6	5.0
P/B (x)	0.8	0.7	0.6	0.7	0.6	0.6

Improving NPL Profile Not Captured In Valuations

- We rate HNB BUY with an upgraded TP of LKR 165.00 (+17.9% to old TP; +27.1% upside; +32.9% TSR) and upgrade HNB NV TP to LKR 130.00/share (+14.0% to old TP; +28.6% upside; +36.0% TSR)
- The key positive for HNB is its resolution of ~25.0% of its NPL stock with the repayment from a state-owned entity – this strengthens its asset quality to higher-than-industry standards
- HNB has one of the highest net interest margins (NIMs) within our coverage (Q3 CY20: 3.85%) which helps maintain profitability even amidst high impairments
- While NIMs would continue to narrow slightly, we believe HNB's strong top line and reducing impairments to support a pickup in ROE in CY21E
- Key downside risks
  - Extended moratoriums could lead to top line weakness
  - Exposure to USD-denominated government securities could lead to impairment charges and/or capital losses

Financial summary

In LKR mn	CY17	CY18	CY19	CY20E	CY21E	CY22E
Net interest income	45,461	53,636	56,356	50,926	55,966	59,489
Pre-impairment income	32,289	42,790	40,083	35,150	37,629	40,159
Recurring net profit	16,228	17,636	14,670	11,542	14,484	16,812
Gross loans and advances	666,768	794,715	802,707	822,775	872,141	959,355
Recurring diluted EPS (LKR)	33.22	35.80	29.32	22.83	27.78	31.23
ROE (%)	15.2	13.8	10.5	7.7	9.1	10.0
P/E (x)	3.9	3.6	4.4	5.7	4.7	4.2
P/B (x)	0.5	0.5	0.5	0.4	0.4	0.4

Sampath Bank

Steady Fundamentals Masked By Short-term Headwinds

ASIA SECURITIES
INTEGRITY I INSIGHT I INNOVATION

- We rate SAMP BUY with an upgraded TP of LKR 175.00/share (+22.4% to old TP; +29.2% upside; +36.2% TSR)
- Our upgrade is largely driven by an expectation of a multiple expansion, while the fundamental improvement story for CY21E is intact
- SAMP's provisioning strategy has been strong in the past few years which provides us comfort that asset quality is correctly reflected in the balance sheet
- Assuming a further 20.0% impairment on additional moratoriums (vs. current rate of 2.0%) SAMP trades at 0.7x CY21E BV
- Similar to the industry, we expect earnings to recover in 2H CY21E, with credit growth improving, impairment charges gradually receding and NIMs bottoming out
- Key risks
  - A protracted recovery in tourism and trade sectors could drive a longer stagnation in earnings
  - Higher impairment booking dissuading foreign investors, capping multiple expansion

Financial summary

In LKR mn	CY17	CY18	CY19	CY20E	CY21E	CY22E
Net interest income	30,297	40,872	44,764	37,904	40,533	45,640
Pre-impairment income	24,453	36,409	37,241	28,200	28,049	32,636
Recurring net profit	12,683	12,606	11,668	7,342	9,075	14,317
Gross loans and advances	595,687	697,772	751,078	796,143	859,834	963,014
Recurring diluted EPS (LKR)	33.25	33.05	34.36	19.25	22.96	34.81
ROE (%)	21.4	15.9	11.6	6.6	8.2	12.6
P/E (x)	2.3	2.9	3.9	7.0	5.9	3.9
P/B (x)	0.4	0.4	0.5	0.5	0.5	0.5

Lucrative Projects To Drive Medium-term Earnings

- We rate AEL a BUY with a FY22E target price of LKR 34.00/share (+30.8 to old, +40.0% TSR)
- The committed and signed order book of ~LKR 40.0bn mitigates risk of a GoSL spending slowdown
- AEL will benefit from GoSL preference to local construction firms with higher local value addition
- Tax applicable on the construction industry being reduced from 28.0% to 14.0%, The construction segment accounts for majority of group profits (for ~70.0% in FY20)
- Lucrative projects in FY22E to aid margin expansion; 1) Camso Loadstar warehousing project (USD 3.5mn/annum rental for a 10-year lease period) and 2) Airport piling project – LKR 3.1bn worth (largest piling project to reach AEL)
- Property development will be a key medium-term growth driver with ongoing projects Capital Heights luxury apartments and Habour Village
- Key risks
  - Vehicle Import bans not being lifted on commercial vehicles in 2021 (AEL are the distributors of Isuzu)
  - Cancellation of foreign funded projects
  - Delays in payments amidst fiscal consolidation efforts leading to interest cost accruing on bank-funded projects

Financial summary

In LKR mn	FY18	FY19	FY20	FY21E	FY22E	FY23E
Revenue	26,056	32,277	24,023	22,745	26,690	28,972
EBITDA	3,374	4,892	3,087	3,668	4,870	5,566
Recurring net profit	204	2,150	1,278	1,530	2,399	3,208
Diluted recurring EPS (LKR)	2.51	2.15	1.52	1.53	2.40	3.21
ROE (%)	1.0	10.2	5.9	6.9	10.3	12.8
P/E (x)	115.2	10.9	18.4	16.3	10.4	7.3
EV/EBITDA (x)	5.4	3.3	5.7	4.8	3.6	3.1
P/B (x)	1.1	1.1	1.1	1.0	1.0	0.9

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	LKR bn	USD mn						FY21 E	FY22 E		FY21 E	FY22 E	FY21 E	FY22 E	FY21 E	FY22 E	FY21 E	FY22 E
Conglomerates																		
HHL	57	304	429	95.30	130.00	+38.2	BUY	15.5	10.5	2.6	1.9	1.7	1.8	1.8	13.1	17.2	6.7	8.8
JKH	200	1,074	1,018	152.00	175.00	+19.0	BUY	65.5	18.5	13.7	0.9	0.9	3.9	3.9	1.4	5.1	1.6	3.4
SHL	15	82	19	12.90	NR	nm	NR	nm	117.3	nm	1.3	1.3	3.9	3.9	(12.5)	1.1	(6.5)	3.0
MELS	55	297	289	47.60	NR	nm	NR	21.0	7.5	0.6	0.6	0.6	-	4.2	3.1	8.4	1.7	4.3
SPEN	25	134	84	61.40	NR	nm	NR	32.0	6.2	1.0	0.5	0.5	2.0	2.0	1.5	7.6	2.2	4.4

FMCG/R																		
CARG	51	276	38	200.00	NR	nm	NR	19.3	13.9	0.9	2.7	2.4	3.0	3.0	14.5	18.3	6.3	6.8
CCS	64	340	68	668.30	1,010.00	+53.3	BUY	30.6	23.6	1.7	3.9	3.6	2.2	2.2	12.9	15.8	7.5	8.2
KFP	3	19	7	136.60	NR	nm	NR	25.2	22.6	-2.3	1.8	1.9	4.4	4.4	7.3	8.2	3.3	3.8
NEST	65	347	8	1,204.90	1,020.00	-11.7	HOLD	22.3	20.8	2.2	10.7	9.8	3.7	3.9	50.2	49.2	18.0	19.2
CTC	188	1,005	77	1,001.40	1,250.00	+32.0	BUY	11.0	9.3	1.0	22.8	15.1	7.2	8.5	266.1	195.0	60.9	63.7

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BBG Ticker	Market cap		ADV (USD k)	CMP (LKR)	Target Price (LKR)	TSR (%)	Rec	P/E (x)		PEG	P/B (x)		D/Y (%)		ROE (x)		ROA (x)	
	LKR bn	USD mn						CY20E	CY21E	PEG	CY20E	CY21E	CY20E	CY21E	CY20E	CY21E	CY20E	CY21E
Banks																		
SAMP	52	277	337	135.40	175.00	+36.2	BUY	7.0	5.9	16.2	0.5	0.5	6.6	7.0	6.6	8.2	0.7	0.8
HNB	64	285	418	129.80	165.00	+32.9	BUY	5.7	4.7	2.7	0.4	0.4	5.4	5.8	7.7	9.1	0.9	1.1
COMB	96	489	349	83.00	100.00	+28.3	BUY	6.2	5.6	-12.9	0.7	0.6	7.2	7.8	10.6	11.7	1.0	1.1
SEYB	21	110	57	46.00	50.00	+12.0	HOLD	7.7	6.0	10.8	0.5	0.5	3.3	3.3	6.3	7.8	0.6	0.7
NDB	19	102	121	81.80	85.00	+11.2	HOLD	3.6	3.4	0.6	0.4	0.4	7.3	7.3	11.0	11.8	0.9	1.0
NTB	18	97	46	62.00	UR	nm	UR	6.3	5.6	1.3	0.5	0.5	3.2	3.4	8.6	9.0	0.9	0.9
UBC	13	72	68	12.40	UR	nm	UR	23.4	20.7	12.3	0.8	0.8	1.0	1.2	3.3	3.7	0.4	0.5
SDB	5	28	39	56.30	72.00	+35.0	BUY	4.1	3.7	0.1	0.5	0.5	7.1	9.8	9.9	13.5	0.7	1.0
DFCC	20	109	155	66.20	78.40	+21.5	BUY	8.0	7.4	1.6	0.4	0.4	3.0	4.5	5.1	5.5	0.6	0.6

Manufacturing																		
MGT	5	29	333	26.00	32.00	+29.2	BUY	8.0	7.1	0.1	1.4	1.3	6.2	6.9	18.1	18.7	8.3	8.2
TJL	27	146	88	38.80	38.00	+1.3	HOLD	13.6	10.4	1.4	1.6	1.5	3.4	4.9	12.2	15.0	7.5	9.2
GLAS	9	48	404	9.50	10.00	+10.1	HOLD	10.4	20.2	0.6	1.8	1.7	4.8	2.5	17.7	8.6	10.6	6.0
HAYC	16	87	175	544.80	720.00	+38.6	BUY	4.6	7.8	0.2	1.4	1.2	6.4	3.7	33.2	16.5	19.1	11.2
DIPD	20	105	589	327.30	560.00	+81.8	BUY	3.8	8.4	0.3	1.4	1.2	10.7	3.7	40.9	15.5	18.6	8.0

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Asia Securities Coverage Universe

BBG Ticker	Market cap LKR bn	Market cap USD mn	ADV (USD k)	CMP (LKR)	Target Price (LKR)	TSR (%)	Rec	P/E (x) FY21E	P/E (x) FY22E	PEG	P/B (x) FY21E	P/B (x) FY22E	D/Y (%) FY21E	D/Y (%) FY22E	ROE (x) FY21E	ROE (x) FY22E	ROA (x) FY21E	ROA (x) FY22E
Alcoholic Beverages																		
LION	44	236	62	550.10	700.00	+28.7	BUY	14.8	10.7	1.4	2.5	2.1	1.5	1.5	18.3	21.4	9.7	12.1
DIST	97	520	69	21.10	26.00	+27.0	BUY	13.4	11.0	0.6	9.3	7.1	3.8	4.7	83.5	73.2	35.2	39.2
Construction																		
TKYO	25	136	421	66.20	120.00	+86.3	BUY	5.3	4.4	0.1	1.3	1.0	4.5	5.0	26.4	25.7	15.8	16.9
ACL	9	46	212	71.60	82.00	+17.3	BUY	7.0	5.7	0.3	0.7	0.6	2.8	3.6	10.4	11.5	6.9	7.7
AEL	25	134	284	25.00	34.00	+40.0	BUY	16.3	10.4	0.6	1.1	1.0	3.0	4.0	6.9	10.3	4.7	6.2
TILE	7	35	39	124.20	163.00	+38.9	BUY	4.5	3.9	0.1	0.7	0.7	7.6	8.1	17.6	17.9	11.5	12.1
RCL	17	92	283	155.60	235.00	+60.0	BUY	3.7	3.3	0.1	0.6	0.5	8.4	9.0	17.2	17.5	9.0	9.5
PARQ	2	12	76	84.80	110.00	+35.6	BUY	3.8	3.2	0.1	0.9	0.7	5.9	6.5	25.6	25.1	13.8	14.2
ALUM	6	32	102	19.80	27.50	+46.5	BUY	9.4	7.0	0.2	2.3	2.1	7.6	9.6	25.5	31.4	12.5	14.3
Energy																		
LLUB	26	139	147	108.40	100.00	+0.6	HOLD	10.9	11.0	3.1	5.9	6.0	8.3	9.2	56.3	54.2	38.8	38.1
LGL	9	46	19	25.50	NR	nm	NR	nm	14.4	nm	12.8	7.2	-	2.0	(8.8)	63.8	4.2	6.1
LIOC	12	66	97	23.20	NR	nm	NR	nm	12.2	nm	0.7	0.7	-	3.2	(10.3)	5.7	(3.8)	4.5
Telecommunications																		
DIAL	101	543	111	12.40	13.50	+13.2	HOLD	9.2	8.4	10.1	1.4	1.3	4.4	4.8	14.2	14.3	7.7	8.2
SLTL	62	330	10	34.10	NR	nm	NR	10.2	9.3	0.8	0.8	0.8	3.2	3.2	8.0	8.2	3.5	3.6

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Asia Securities Coverage Universe

BBG Ticker	Market cap		ADV (USD k)	CMP (LKR)	Target Price (LKR)	TSR (%)	Rec	P/E (x)		PEG	P/B (x)		D/Y (%)		ROE (x)		ROA (x)	
	LKR bn	USD mn						FY20E	FY21E		FY20E	FY21E	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Insurance																		
CINS	43	229	8	1,850.50	NR	+10.0	NR	6.2	5.2	1.6	0.9	0.8	1.9	2.2	14.4	15.5	4.2	4.5
PINS	6	30	30	28.40	NR	-22.5	NR	5.1	7.2	0.3	1.2	1.1	-	4.4	26.7	15.8	11.0	7.2
AAIC	14	73	94	36.40	45.00	+27.7	BUY	8.4	5.9	0.5	1.7	1.4	-	4.1	21.1	26.2	6.5	7.6
HASU	9	49	31	60.70	63.40	+4.4	HOLD	9.6	6.8	0.6	1.2	1.1	-	4.6	13.2	16.6	3.4	4.3
JINS	7	37	17	30.40	UR	-32.2	UR	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm

Non-Bank Financial Institutions																		
PLC	22	118	56	13.50	12.20	-7.8	HOLD	8.0	7.0	1.3	0.7	0.6	1.9	3.7	8.2	8.9	1.5	1.7
LFIN	21	111	25	148.90	140.00	-0.6	HOLD	5.0	4.4	5.5	0.8	0.7	5.4	6.7	16.6	16.8	4.1	4.6
CFIN	19	103	52	85.50	90.00	+7.6	HOLD	6.3	5.3	1.9	0.4	0.4	2.3	2.3	6.6	7.4	2.6	3.1
CDB	6	30	2	93.90	NR	-21.9	NR	5.7	4.8	(0.6)	0.6	0.7	3.2	4.3	10.0	12.7	1.7	1.9
COCR	8	41	4	24.20	NR	-27.7	NR	5.9	5.6	(0.8)	0.5	0.5	2.1	3.1	8.7	8.6	1.5	1.5

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BBG Ticker	Market cap		ADV (USD k)	CMP (LKR)	Target Price (LKR)	TSR (%)	Rec	P/E (x)		PEG	P/B (x)		D/Y (%)		ROE (x)		ROA (x)	
	LKR bn	USD mn						FY20E	FY21E		FY20E	FY21E	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Healthcare																		
ASIR	30	161	40	26.40	32.00	+23.5	BUY	23.6	14.7	0.5	3.0	2.8	2.3	3.8	12.4	18.5	8.0	10.1
LHCL	10	54	7	45.00	47.00	+8.9	HOLD	24.7	18.1	32.4	1.5	1.5	4.4	4.4	0.1	0.1	0.0	0.1
Leisure																		
AHUN	11	57	16	31.70	NR	-36.9	NR	nm	18.4	nm	0.6	0.6	-	1.6	(20.9)	3.4	(2.2)	2.5
KHL	17	89	28	11.40	7.00	-38.6	SELL	nm	nm	nm	0.7	0.7	-	-	(16.8)	(3.7)	(6.0)	(0.3)
AHPL	18	95	5	39.90	NR	-27.3	NR	nm	nm	nm	0.6	0.6	-	-	(3.4)	(0.6)	(2.6)	0.4
Property																		
RIL	7	38	210	8.90	NR	-32.6	NR	nm	222.5	nm	0.4	0.4	-	-	0.2	1.0	(2.8)	1.1
Logistics																		
EXPO	51	272	1,982	26.00	UR	-76.3	UR	14.2	29.5	0.2	3.2	2.9	0.6	0.6	25.1	10.4	10.0	5.0

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