

SRI LANKA

Outlook

2016

Towards Sustainable Growth

January 2016

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CT CLSA SECURITIES (PVT) LTD

A Member of the Colombo Stock Exchange

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Sri Lankan market declined in 2015, with net foreign outflows

- ASI and S&P SL20 declined -6% and -11% respectively in 2015 (vs. +23% and +25% respectively in 2014); largely due to weak investor sentiment, amid uncertainty in economic and policy direction, subsequent to changes in the local political landscape, exacerbated by volatility in global markets and outflows from emerging markets
- Several of the sweeping proposals implemented by the coalition Government in the two budgets, in Jan and Nov 2015, coupled with volatility in the local interest rate environment and depreciation of the currency impacted investor confidence
- Foreigners were net sellers in 2015, for the first time since 2011, with a net outflow of -Rs.4.3bn (vs. an inflow of Rs.22.1bn in 2014). Foreign participation of total market turnover however increased to 35% in 2015 (vs. 28% in 2014)
- Despite closing on a negative note, intra year gains were witnessed amid positive quarterly earnings (4Q2014: +12% YoY, 1Q2015: +3% YoY, 2Q2015: +14% YoY) and a policy rate cut in May 2015

Economy to be driven by focusing on sustainable growth drivers

- The Sri Lankan economy is forecast to report ~6% real GDP growth for 2016E (compared to a forecast of 5.5% for 2015E). The 2016E fiscal proposals to stimulate manufacturing, export and construction sectors are expected to be key catalysts for sustainable economic growth in the medium term
- Fiscal deficit to GDP is forecast at 5.9% in 2016E, and is forecast to reduce to 3.5% by 2020E according to Government's medium term macro fiscal framework
- Credit growth and private sector participation in economic activity will likely continue during 2016E, however with an anticipated tighter monetary policy during 2016E in order to avoid negative real interest rates in the economy during 2Q2016E and /or 3Q2016E
- General price levels likely to be under pressure in 2016, amid proposed policies to increase Government revenue especially via pass on taxes (such as NBT) whilst measures implemented to reduce liquidity in the money market to contain price pressures to an extent in the near term
- GoSL initiatives on export development and curtailment of imports to ease pressure on Balance of Payments (BoP) in the medium term

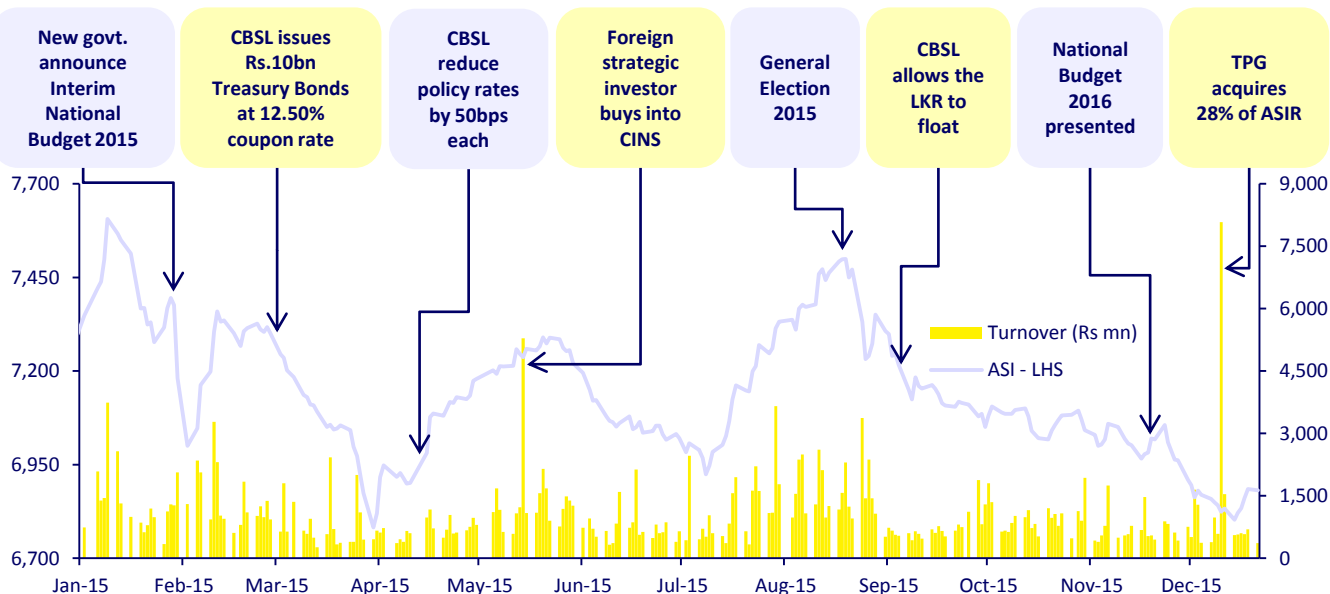
Improved prospects for most Asian frontier markets

- MSCI FM Index slumped -18% in 2015, broadly in line with MSCI EM index's decline of -16% (vs. +3% and -5% respectively in 2014)
- Signs pointing to a recovery in emerging markets coupled with improved valuations consequent the correction may encourage investors to revisit emerging markets. Some of these funds may also flow into frontier markets, as investors seek diversification opportunities
- Prospects for most Asian frontier economies, including Sri Lanka are brighter than its counterparts in the Middle East and Africa, as net commodity importers.
- Further, amongst frontier markets, whilst Sri Lanka rates low in scale and liquidity, it offers relative stability and steady growth. Further, the Sri Lankan market is not as closely correlated with global emerging markets and thereby remains relatively insulated

Short term market volatility may offer a decent entry for longer term investment mandates

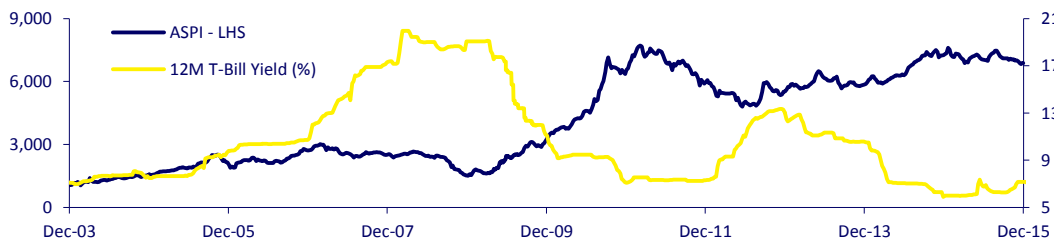
- Forward market valuation of ~13x for 2016E appears fair, in view of modest earnings growth of +6% YoY, factoring in the impact of the recently proposed tax measures
- Government's reform and growth oriented policy framework to build a stronger socio-economic foundation for the medium term, with greater focus on public-private partnerships. Successful and timely execution together with consistent policies remain critical
- Efforts to strengthen diplomatic relations and create a more conducive business operating environment to attract investment; key to realise the full potential of the Government's initiatives
- Increase in rates on the back of fiscal tightening measures and high global market volatility to result in a near term market slowdown. Provincial local elections, anticipated to be held in May 2016, another factor to potentially weigh down
- Short term market volatility may offer a decent entry for longer term investment mandates. Whilst economic and political changes take front stage in Sri Lanka, prudent stock selection is the key to achieving superior risk adjusted returns that out-perform the broader market

Key Events - 2015



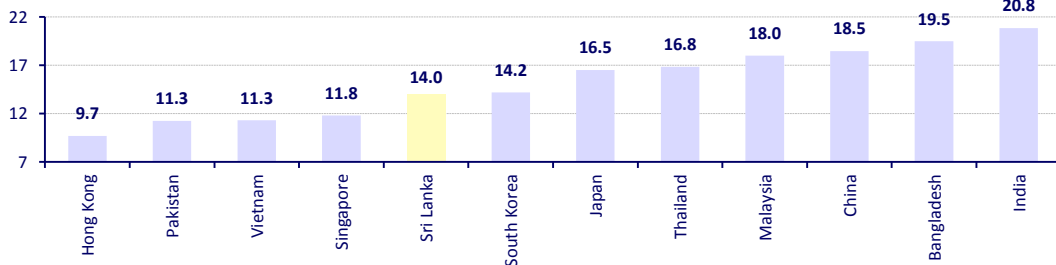
T-Bill yields increased 111bps in 2015, amid pick up in demand for credit

ASI vs. T-Bill



Sri Lankan market seems relatively attractively valued vs. regional peers

Regional Market PER (X) Comparison



Note: As at 31 Dec 2015

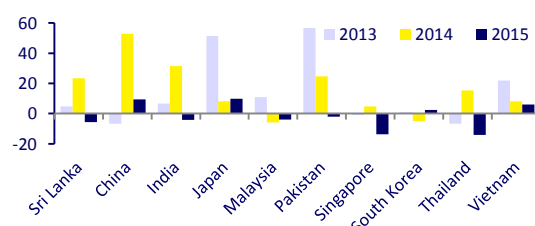
Source : Bloomberg

Sri Lankan market remains well below 2009-10 high levels

Sri Lanka Market TTM PER (X)



Regional Market Performance (%)



Source : Bloomberg

Colombo bourse declined in 2015, subsequent to two consecutive years of gains

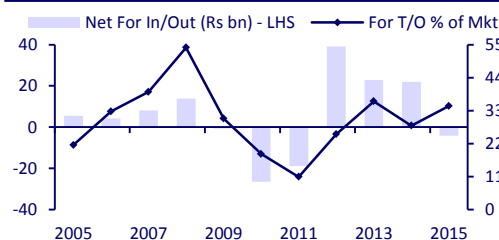
Summary Market Performance

	2009	2010	2011	2012	2013	2014	2015
All Share Price Index	3,386	6,636	6,074	5,643	5,913	7,299	6,895
% YoY	125.3	96.0	-8.5	-7.1	4.8	23.4	-5.5
Milanka Price Index / S&P SL20 *	3,849	7,061	5,229 *	3,085 *	3,264	4,089	3,626
% YoY	136.0	83.4	-25.9	-2.1	5.8	25.3	-11.3
Turnover (US\$ mn)	1,237.4	5,067.0	4,948.6	1,691.9	1,560.9	2,610.1	1,862.1
Average Daily Turnover (US\$ mn)	5.2	21.2	20.7	7.0	6.4	10.8	7.8
Foreign Purchases (US\$ mn)	365.6	820.5	451.1	572.9	653.1	810.5	628.6
Foreign Sales (US\$ mn)	349.7	1,056.2	623.4	268.4	474.1	641.6	660.2
Net Foreign Inflow/(Outflow) (US\$ mn)	16.0	-235.7	-172.3	304.5	179.0	169.0	-31.5
Market Trailing PE (X) **	16.6	25.2	15.8	15.9	16.1	16.9	18.0
Dividend Yield %	3.0	1.2	1.8	2.4	2.9	2.8	2.2
Market PBV (X) **	1.7	3.0	2.0	2.1	2.0	2.2	2.0
Market Cap (Rs bn)	1,092	2,210	2,214	2,168	2,460	3,105	2,938
Market Cap (US\$ mn)	9,547	19,968	19,463	17,054	18,821	23,522	20,367

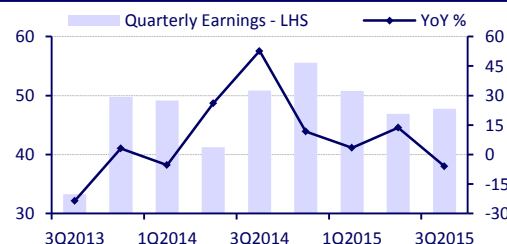
* S&P SL20 launched in June 2012 ** As per CSE

Net foreign outflow in 2015, subsequent to three consecutive years of net foreign inflows

Foreign Investor Participation

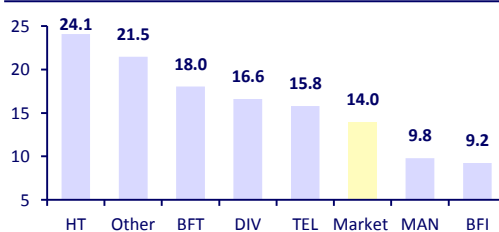


Quarterly Market Earnings and YoY Growth

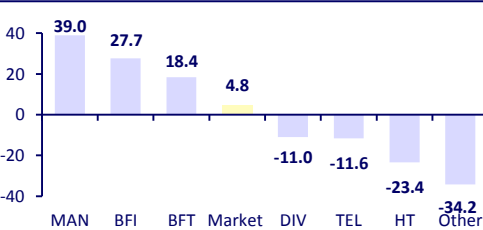


BFI sector continues to trade below market multiples, suggesting possible room for multiple expansion

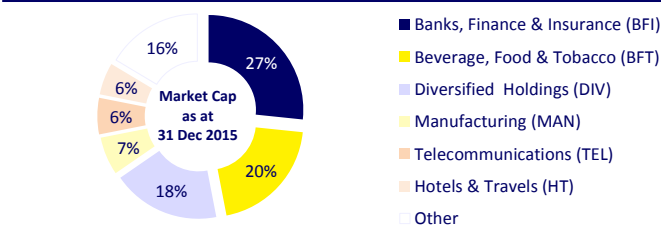
Sectoral TTM PER (X)



Sectoral TTM EPS Growth (%)



Sectoral Market Cap & TTM Earnings Composition (%)



BFI, BFT and DIV sectors continue to dominate total market cap and earnings

* Other - Chemicals and Pharmaceuticals, Construction and Engineering, Footwear and Textiles, Health Care, Information Technology, Investment Trusts, Land and Property, Motor, Oil Palms, Plantations, Power & Energy, Services, Stores and Supplies, Trading. All valuations and market data are as at 31 Dec 2015

Performance of Top 30 Listed Companies – 2015

Company Name	MPS (Rs) 31 Dec 2015	Indexed Shares (mn)	Mkt Cap (Rs bn)	Est. Free Float %	Est. Free Float Adj. Mkt Cap (Rs bn)	Price Movement Absolute YoY (%)	Price Movement Index Rel (%)	Shares Traded (No.)
John Keells Holdings	178.5	1,189.4	212.3	98.6	209.3	-18.4	-12.9	189,396,524
Ceylon Tobacco Company	995.0	187.3	186.4	15.9	29.6	-6.1	-0.6	2,389,225
Commercial Bank of Ceylon *	140.5	820.5	122.2	80.8	98.7	-17.8	-12.3	117,372,662
Nestle Lanka	2,098.0	53.7	112.7	9.2	10.4	-0.3	5.2	738,061
Dialog Axiata	10.7	8,143.8	87.1	14.7	12.8	-19.5	-14.0	471,175,620
Sri Lanka Telecom	47.0	1,804.9	84.8	5.5	4.7	-6.9	-1.4	2,062,507
Hatton National Bank *	212.0	324.4	83.3	72.2	60.1	8.7	14.2	34,919,628
Distilleries Company of Sri Lanka	246.0	300.0	73.8	41.6	30.7	16.9	22.4	28,628,316
Carson Cumberbatch	345.0	196.4	67.8	14.4	9.8	-21.6	-16.1	302,259
Hemas Holdings	92.9	572.5	53.2	29.2	15.5	38.9	44.4	30,774,682
Bukit Darah	517.0	102.0	52.7	23.0	12.1	-27.7	-22.2	120,567
Lion Brewery Ceylon	600.0	80.0	48.0	15.1	7.2	-8.3	-2.8	1,323,790
DFCC Bank	168.9	265.1	44.8	73.4	32.9	-22.9	-17.4	12,362,030
Lanka Orix Leasing Company	91.5	475.2	43.5	15.5	6.7	4.0	9.5	7,002,670
Sampath Bank	250.0	172.3	43.1	85.0	36.6	6.4	11.9	26,898,512
Cargills (Ceylon)	189.0	224.0	42.3	18.7	7.9	23.5	29.0	3,749,427
Chevron Lubricants Lanka	345.0	120.0	41.4	49.0	20.3	-13.5	-8.0	7,255,712
Ceylon Cold Stores	420.0	95.0	39.9	18.7	7.5	58.5	64.0	1,753,881
Aitken Spence	98.0	406.0	39.8	57.0	22.7	-5.3	0.2	28,528,660
People's Leasing and Finance	22.0	1,579.9	34.8	24.9	8.7	-10.2	-4.7	194,152,457
Ceylinco Insurance *	1,410.1	20.0	33.3	57.8	19.3	2.2	7.7	3,607,491
National Development Bank	196.0	165.2	32.4	66.7	21.6	-21.6	-16.1	15,963,879
Asiri Hospital Holdings	24.0	1,137.5	27.3	30.8	8.4	11.1	16.6	418,434,378
Central Finance Company	250.0	104.9	26.2	64.9	17.0	0.0	5.5	4,332,634
Asian Hotels & Properties	59.0	442.8	26.1	21.4	5.6	-13.9	-8.4	1,676,522
Commercial Leasing & Finance	4.1	6,377.7	26.1	1.1	0.3	-10.9	-5.4	2,918,794
C T Holdings	141.0	183.1	25.8	29.4	7.6	-1.4	4.1	4,728,347
Textured Jersey Lanka	35.6	660.8	23.5	40.5	9.5	72.8	78.3	272,881,473
Vallibel One	21.6	1,086.6	23.5	19.6	4.6	-10.0	-4.5	36,024,260
Access Engineering	23.2	1,000.0	23.2	32.5	7.5	-28.4	-22.9	250,402,871

* Voting Share

Note: Warrants have not been included in Market Cap

Top 10 Gainers and Losers – 2015

Top Gainers					Top Losers				
Company	Code	% YoY	Shares Traded (mn)	Turnover (Rs mn)	Company	Code	% YoY	Shares Traded (mn)	Turnover (Rs mn)
Bimpuh Finance	BLI	+200.5	6.8	537.2	Ceylon Leather Products-W14	CLPL-W0014	-96.4	16.4	29.9
Keells Food Products	KFP	+146.5	1.2	176.3	Citrus Leisure - W19	REEF-W19	-92.9	59.2	30.0
Three Acre Farms	TAFL	+141.2	12.6	1,246.5	PC Pharma	PCP	-64.3	87.4	79.2
Regnis(Lanka)	REG	+135.8	8.3	987.2	Entrust Securities	ESL	-58.6	7.3	285.2
Kalamazoo Systems	KZOO	+121.7	0.0	57.6	Central Investments & Finance	CIFL	-56.3	100.3	92.0
Ceylon Grain Elevators	GRAN	+121.5	34.0	2,607.3	Ascot Holdings	ASCO	-54.2	3.7	172.6
Serendib Land	SLND	+111.0	0.0	4.3	Anilana Hotels And Prop Lim	ALHP	-50.0	133.1	638.2
Lanka Aluminium Industries	LALU	+95.1	3.6	315.1	John Keells Holdings-W23	JKH-W23	-49.2	28.9	1,167.7
Richard Pieris Exports	REXP	+88.0	3.3	724.9	First Capital Holdings	CFVF	-46.8	15.2	579.2
Convenience Foods (Lanka)	SOY	+80.2	0.6	181.9	Kalptiya Beach Resort	CITK	-44.9	11.8	42.1

* Share prices adjusted for capital issues (if any)

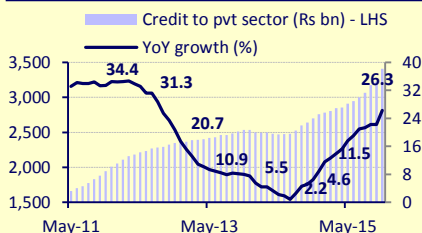
Top 5 Gainers and Losers (S&P SL20) – 2015

Top Gainers					Top Losers				
Company	Code	% YoY	Shares Traded (mn)	Turnover (Rs mn)	Company	Code	% YoY	Shares Traded (mn)	Turnover (Rs mn)
Ceylon Cold Stores	CCS	+58.5	1.8	635.1	Access Engineering	AEL	-28.4	250.4	6,294.7
Hemas Holdings	HHL	+38.9	30.8	2,625.4	DFCC Bank	DFCC	-22.9	12.4	2,458.8
Cargills (Ceylon)	CARG	+23.5	3.7	610.4	National Development Bank	NDB	-21.6	16.0	3,917.8
Distilleries Company of Sri Lanka	DIST	+16.9	28.6	7,424.1	Dialog Axiata	DIAL	-19.5	471.2	5,308.2
Asiri Hospital Holdings	ASIR	+11.1	418.4	9,917.8	John Keells Holdings	JKH-N	-18.4	189.4	36,761.0

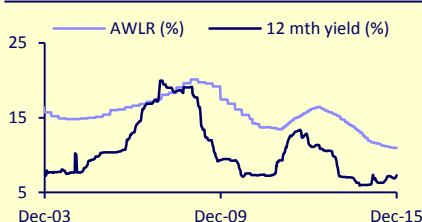
* Share prices adjusted for capital issues (if any)

Note: Effective from 18 Dec 2015, Bukit Darah (BUKI), Carson Cumberbatch (CARS), Lion Brewery Ceylon (LION) and Sri Lanka Telecom (SLTL) were removed from the official list of S&P SL20 and replaced with Asiri Hospital Holdings (ASIR), Ceylinco Insurance (CINS), Ceylon Cold Stores (CCS) and Hemas Holdings (HHL)

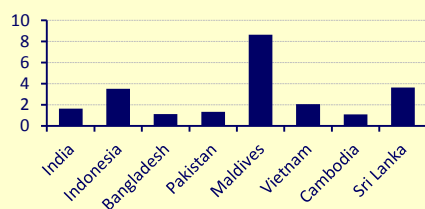
Private Sector Credit Growth



AWLR and 12 month Treasury Yield

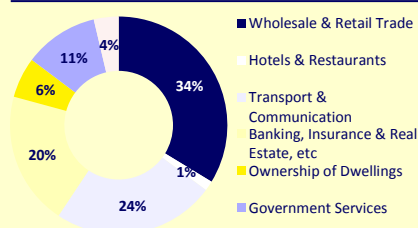


Regional Per Capita GDP (US\$ '000) - 2014

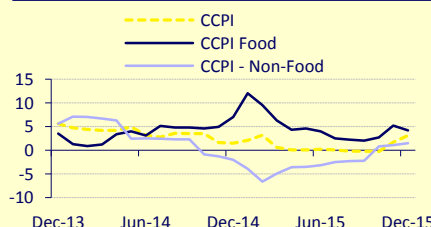


Source: World Bank

Services Sector 2014 Composition



Point to Point Inflation (%)



Key Features of CCPI vs. NCPI

Feature	NCPI	CCPI
Base year	2013	2006/07
Area covered	All provinces	Colombo
Avg. monthly consumption expenditure (Rs)	32,143	27,972
Major groups	12	10
Total no. of items	407	373
Food Weightage (%)	44	41

Interest Rates

- Credit growth to continue in 2016E, however at a slower pace compared to 2015, on account of forecast decline in vehicle import financing on a YoY basis
- CBSL switched to monetary tightening in Dec 2015 (ending its soft monetary policy that was adopted in Dec 2012) by increasing the Statutory Reserve Requirement (SRR) for banks
- Private credit growth generally impacts interest rates (AWPLR and benchmark treasury yields) with a forward lag. As a result, interest rates are expected to pick-up in 2016E
- However, if the authorities continue to keep policy interest rates stable in the near term, real rates would likely enter into the negative territory in 2Q2016E. Thus we expect the CBSL to increase policy interest rates by at least 50bps during 2016E to avoid negative real rates amid forecast higher inflationary pressures in 2016E
- Private credit growth to increase ~20% YoY for 2015E whilst 2016E growth is expected at ~18% YoY, off a higher base
- We forecast 12 month Treasury yields to rise ~150bps during 2016E and then remain broadly stable in 2017E

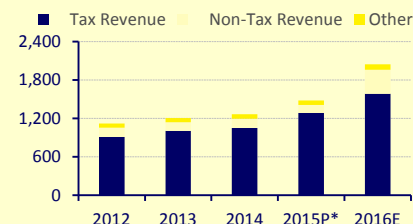
Gross Domestic Product

- Economic growth forecast at 6.0% for 2016E and 6.3% for 2017E vs. 2011-2014 average of 6.4% (2010 base - In July 2015, the Department of Census and Statistics (DCS) announced that GDP would be rebased from 2002 to 2010, in order to better reflect changes that occurred in the structure of production, consumption and prices during the last decade
- Growth to continue, to be driven by wholesale and retail and financial service activities under the services sector (61% of GDP)
- Import expenditure to be curtailed in the short term by faster currency depreciation, while GoSL measures to boost export earnings and likely reimplement of GSP+ are expected to drive exports in 2016E
- Rising worker remittance inflows (US\$7.0bn in 2014) to boost rural economy
- Output from the Factory Industry subsector (16% of GDP in 2014) expected to rise - depreciating LKR to improve Sri Lanka's export competitiveness
- Output of key components (paddy, tea and rubber) remain dependent upon weather conditions - increases in government-guaranteed prices for several agricultural products to boost production

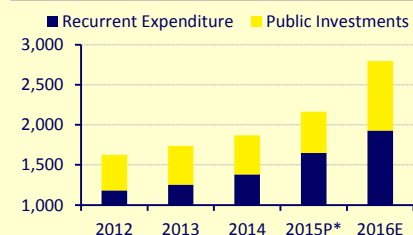
Inflation

- Inflation (Colombo Consumer Price Index - CCPI) to rebound yet remain relatively subdued at 4-5% in 2016E (vs. an annual average inflation of 0.9% in 2015), primarily due to the base effect
- In Nov 2015, the GoSL released the National Consumer Price Index (NCPI; base year 2013). NCPI point to point recorded at 4.8% for Nov 2015 and annual average inflation estimated at 3.7%
- Higher inflation to be driven by strong credit growth (+20% in 2015) and domestic consumption, amid higher wages and lower personal taxes.
- Higher indirect taxes such as NBT are expected to be passed on to consumers incurring additional costs
- Upward pressure from higher import inflation due to weaker currency, though partly mitigated by prevailing low global commodity prices
- Recent fiscal tightening measures to curtail any significant economic overheating. Overall boost in consumer spending witnessed in 2015, largely due to cheap credit, is expected to slowdown
- Higher weightage for food under NCPI (44% vs. 41% previously), which is susceptible to weather patterns and supply side shocks

GoSL Revenue (Rs bn)

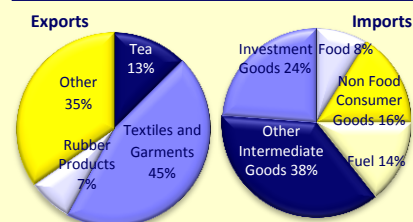


GoSL Expenditure (Rs bn)

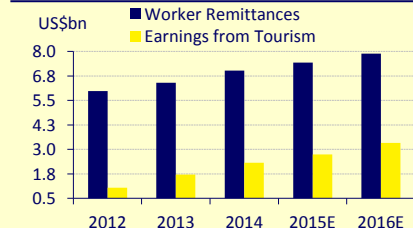


* Provisional

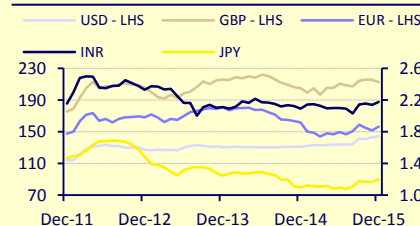
Export and Import Composition Jan – Sep 2015



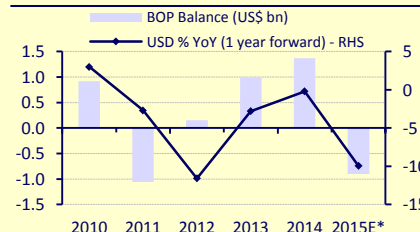
Foreign Remittance and Tourism Earnings



LKR vs. Currencies of Major Trading Partners



BOP balance and currency depreciation



* Currency movement is actual

Source: Central Bank of Sri Lanka, Ministry of Finance, CT CLSA

Fiscal Policy

- GoSL forecasts 2016E budget deficit at 5.9% of GDP, (vs. expected 6.0% in 2015P and 5.7% in 2014)
- Initial key revenue raising proposals include Rs.90bn from the revision of NBT, revision/introduction of fees and charges of Rs.75bn, revision of Ports and Aviation Levy (PAL) amounting to Rs.30bn, motor vehicle excise duty changes of Rs.20bn
- Whilst tax revenue remains the largest source of revenue, the majority consists of indirect taxes (66% of total revenue)
- Recurrent expenditure is projected to rise +17% YoY to Rs.1,928bn, whilst public investment growth is expected at +68% YoY to Rs.868bn for 2016E
- GoSL will likely miss revenue targets and recurrent expenditure targets, on account of the changes that took place before the final budget vote, amid public pressure on initial proposals
- GoSL to likely cut back on public investments to control overall budget deficit. The budget deficit is forecast to be funded 26:74 by net foreign : local sources in 2016E
- The Prime Minister meanwhile mentioned that GoSL would seek IMF funding as a standby option to bridge any deficits – however, IMF assistance is expected to be offered along with fiscal consolidation conditions

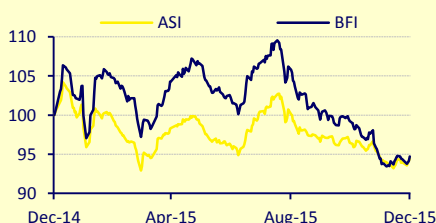
External Sector

- Export earnings forecast to grow +15% YoY (off a low base) to US\$13.2bn in 2016E (16% of GDP vs. 14% of GDP in 2014)
 - Textiles & garments and tea expected to account for 45% and 12% of total export earnings respectively in 2016E
- Import expenditure forecast to grow +8% YoY to US\$21.3bn in 2016E (26% of GDP vs. 25% in 2014)
 - Intermediate, consumer and investment goods expected to account for 57%, 23% and 20% of import earnings in 2016E
- Expenditure on petroleum imports expected to be 15-17% in the near term (vs. 22-28% in 2010-13) amid subdued crude oil prices
- Trade deficit estimated to remain unchanged YoY at -US\$8.3bn in 2015E and to fall -2% YoY to -US\$8.1bn in 2016E (~10% of GDP for both years), largely due to anticipated fall in vehicle imports
- Tourism earnings and workers remittance expected at US\$3.2bn (4% of GDP) and US\$7.9bn (10% of GDP) for 2016E
- BoP expected at -US\$900mn (-1.1% of GDP) in 2015E and US\$200mn (0.2% of GDP) in 2016E

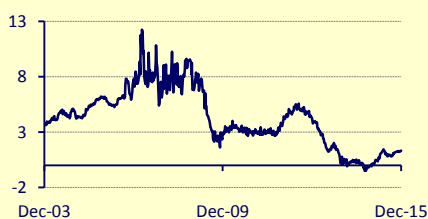
Exchange Rate

- LKR was allowed to “freely float” w.e.f. 04 Sep 2015, which resulted in the LKR depreciating 2.1% on the same day to Rs.137.5/US\$
- The Sri Lankan exchange-rate was previously under a managed system, where exchange rates were allowed to fluctuate, however, with interventions from the CBSL to avoid large fluctuations
- The Rupee is currently at its lowest ever recorded level against the US\$ at ~Rs.144/US\$ (-10% in 2015) and is expected to stabilize at Rs.149/US\$ by end 2016E (-4% YoY), depreciating to Rs.153/US\$ (-3% YoY) by end 2017E
- Gross official reserves were at ~US\$7.3bn as at 30 Nov 2015; down from ~US\$8.2bn as at end 2014, exerting further pressure on the exchange rate
- However the exchange rate pressure would be partly mitigated amid export development and import control initiatives
- The LKR is expected to remain relatively stable or improve against EUR and JPY amid monetary easing of their respective Central Banks

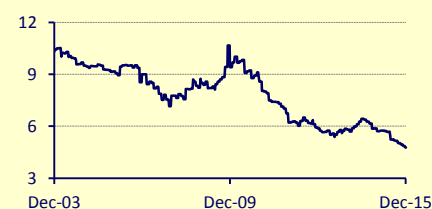
BFI Sector Relative Performance (%)



Banking Sector - Prime Spreads (%)

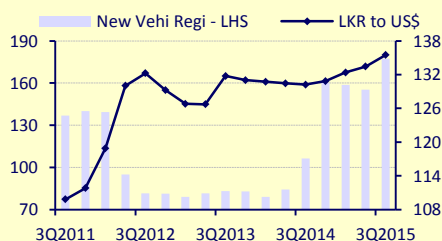


Banking Sector - Spreads (%)



Source: CBSL

Sri Lanka Vehicle Registrations ('000) and Average LKR to US\$ (Rs)



Source: Department of Motor Traffic and CBSL

Banking

- Banking sector of Sri Lanka is expected to undergo another challenging year in 2016E with the authorities expected to tighten credit expansion, and also due to increased effective tax rates (ETR increased by 5.5% in the 2016 National Budget) for the sector
- Whilst the top line growth of the sector was driven by growth in leasing, mortgage financing and Micro, Small and Medium Enterprises (MSME) loans during 2015, the sector's 2016E growth is expected to be limited to mortgage and MSME financing owing to Government of Sri Lanka's (GoSL) policy to discourage vehicle imports to the country in order to protect the external value of the LKR
- With the overall price levels anticipated to increase in 2016E amid an expected tighter monetary environment, we expect overall sector delinquency rates to increase with potential rise in interest rates. A significant proportion of Non Performing Advances (NPAs) are expected to materialize from the Micro finance related facilities amid possible short term cash flow difficulties
- On account of rising interest rate expectations, Net Interest Margins (NIM) and overall spreads of the sector are expected to increase slightly amid improved prime spreads in 2016E. Current And Savings Accounts (CASA) balances are expected to deteriorate to an extent with the widening rate differential between savings and term deposits during 2016E
- Although we forecast sector ROEs to decline during 2016E compared to 2015E on account of increased taxes for the sector, with majority of the banks trading at its book value in a rising interest rate environment, we believe strategic investors (local and foreign) are likely to take significant positions in the sector given weaker external demand in 2016E

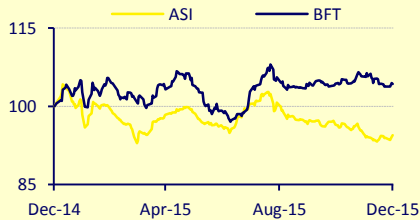
Finance

- Tax revisions imposed in the 2016 National Budget to increase ETR (similar to Banks)
- Slowdown in local vehicle market to have a negative impact on future disbursements
 - GoSL imposed several regulatory changes, including an upward revision of import tariffs to curb vehicle imports to combat external pressure. Anticipated currency depreciation to also increase vehicle prices
- Sector Net Interest Spreads (NIS) to come under pressure due to expected rising interest rate environment, as finance companies generally borrow short term variable rates and lend long term fixed rates

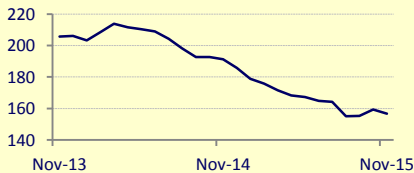
Insurance

- Slowdown in local vehicle market to have a negative impact on the growth in Non-Life Insurance segment
 - Non-Life Insurance comprise ~55% of local insurance industry (of which motor comprise ~63%)
- Life Insurance segment is anticipated to witness growth in the coming years, amid low penetration levels and growth in per capita GDP

BFT Sector Relative Performance (%)

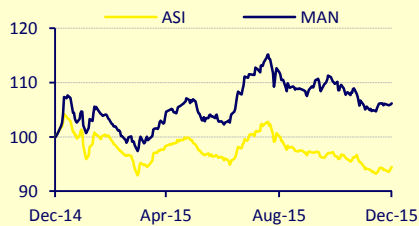


FAO Food Price Index

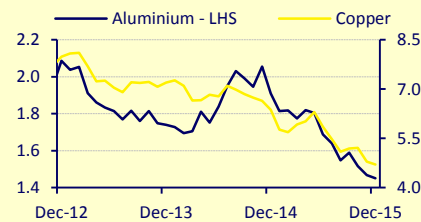


Source : Food and Agriculture Organisation of the United Nations

Manufac. Sector Relative Performance (%)



Average Aluminium and Copper Prices (US\$ 000/MT)



Source: London Metal Exchange

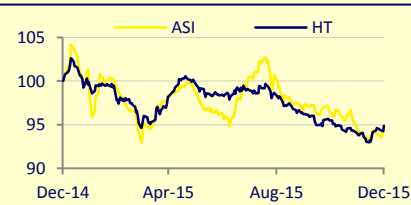
Beverage, Food & Tobacco

- Strong momentum of high spending seen in 2015, on the back of an increase in disposable income subsequent to sweeping relief measures, is expected to broadly continue in the near term
- Whilst the momentum may slow in 1H2016E, it will be to a lower extent than previously anticipated, particularly given that the National Budget 2016 included further proposals to improve disposable income
- Companies expected to take a more active role in selectively passing on cost hikes, mainly led by weaker currency and higher Nation Building Tax (NBT), to consumers
- Currency impact to be partly mitigated by prevailing low commodity prices, which may however witness a pick up from current lows, thereby likely pressuring margins

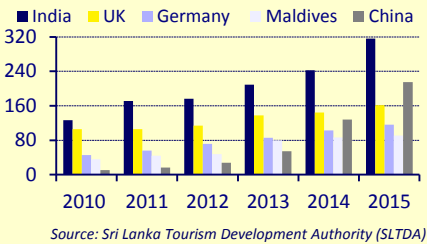
Manufacturing

- Overall sector to benefit from prevalent soft commodity prices in the global market
- Tax revisions imposed by the National Budget 2016 to be broadly positive for sector
 - Corporate Income Tax and Value Added Tax (VAT) to be reduced to 15% and 8% respectively (from current average of ~28% and ~11%). However, increase of NBT and Port and Aviation Levy (PAL) to 4% and 7.5% (from current 2% and 5%) to negate the said benefits to an extent
- Anticipated rebound in construction activities to increase demand for construction related manufacturing companies (ie: Tile/Ceramic, Wiring Cable, Cement, etc.)
- While export related manufacturing companies are likely to benefit from anticipated currency depreciation, companies which are heavily depend on imported raw materials to witness pressure on margin
- Companies with high leverage levels to have a negative impact from possible increase in interest rates

Leisure Sector Relative Performance (%)

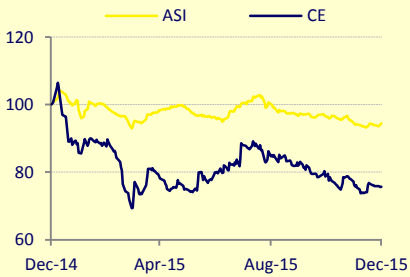


Arrivals by Top 5 Destinations
(No. of persons 000's)



Source: Sri Lanka Tourism Development Authority (SLTDA)

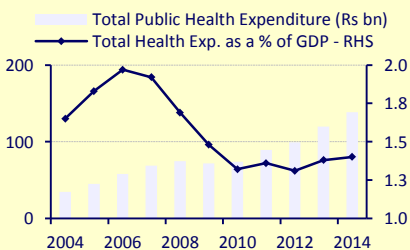
Construction Sector Relative Performance (%)



Healthcare Sector Relative Performance (%)



Public Health Expenditure



Leisure

- Tourist arrivals forecast to rise +19% YoY to 2.2mn persons in 2016E (vs. GoSL forecast of 2.5mn persons)
- Near term city hotel occupancy to be under pressure with the addition of 1,005 five star rooms within 2016E, via the opening of Sheraton, Grand Hyatt and Movenpick
- The expanding number of smaller accommodation providers such as boutique hotels remains a concern for the formal sector, which are exerting pressure on occupancy in star hotels, despite record high tourist arrivals
- Increase of concessionary corporate income tax rate from 12% to 15% to negatively impact sector earnings
- Outlook for Maldives tourism positive amid recovery in arrival numbers subsequent to lifting of state of emergency declared in 4Q2015 – augurs well for resorts with Maldivian exposure
- Depreciation of the LKR to positively impact the sector, resulting in translation gains and making Sri Lanka more affordable as a destination

Construction and Engineering

- Sector expected to rebound in 2016E, amid recommencement of large scale GoSL led infrastructure projects, e.g. Colombo port city project, Central Expressway
- GoSL however expected to adopt a more cautious approach towards investments resulting lower margins
 - Private sector players which have exposure and expertise to leisure and property development are expected to be key beneficiaries
- Tax revisions imposed by the National Budget 2016 to be broadly negative - Corporate Income Tax increased to 15% from the current 12%
 - However, removal of import duties on construction related machinery and tax exemptions for overseas businesses to likely negate the said impact

Healthcare

- Demand for private health services has increased due to improvement in income levels and increased prevalence of Non-Communicable Diseases (NCDs)
- National Budget 2016 made significant allocations for public healthcare expenditure, ~3% of GDP in the medium term from 1.4% in 2014 which will likely pose a greater threat to private hospitals
- Private healthcare providers may look to strengthen their competitive position through capacity expansion within Colombo or extending the geographical reach outside the capital Colombo
- Inorganic growth opportunities persist in the sector, which certain healthcare providers may also look to for expansions

Year Ended 31 st December	2010	2011	2012	2013	2014	2015E	2016E
Gross Domestic Product (US\$ bn)	56.7	65.3	68.4	74.3	78.6	79.8	77.2
GDP Growth (%)	N/A	12.6	21.0	9.8	7.3	5.5	6.0
Per Capita GDP (US\$)	2,759	3,129	3,367	3,627	3,782	3,835	3,746
Headline Inflation (%) - Point to Point	6.8	4.9	9.2	4.7	2.1	2.8*	5.5
Annual Average Inflation (%) - Point to Point	6.2	6.7	7.6	6.9	3.3	0.9*	4.7
Year end 12 Month T-Bill Yield (%)	7.6	9.3	11.7	8.3	6.0	7.3*	8.8
Year end 5 yr T-Bond Yield (%)	8.8	8.6	14.2	10.6	8.9	9.8*	11.2
Average Weighted Prime Lending Rate (%) at year end	9.3	10.8	14.4	10.1	6.3	7.5*	9.1
Average Weighted Lending Rate (%) at year end	14.8	13.4	16.0	15.2	11.9	11.0*	13.2
Imports (US\$ bn)	13.5	20.3	19.2	18.0	19.4	19.8	22.0
Exports (US\$ bn)	8.6	10.6	9.8	10.4	11.1	11.5	13.2
Trade Deficit (US\$ bn)	-4.8	-9.7	-9.4	-7.6	-8.3	-9.2	-8.8
Trade Deficit as a % of GDP	-8.5	-14.9	-13.7	-11.3	-11.1	-11.5	-11.1
Current Account Deficit (US\$ bn)	-1.1	-4.6	-4.0	-2.5	-2.0	-2.4	-1.3
Current Account Deficit as a % of GDP	-2.2	-7.8	-6.7	-3.8	-2.7	-3.0	-2.6
Worker Remittances (US\$ bn)	4.1	5.1	6.0	6.4	7.0	7.4	7.9
Balance of Payments (US\$ bn)	0.9	-1.1	0.2	1.0	1.4	-0.9	0.2
Balance of Payments as a % of GDP	1.6	-1.7	0.3	1.3	1.8	-1.1	0.3
Tourist Arrivals ('000)	654	856	1,006	1,275	1,527	1,798*	2,189
Revenue from Tourism (US\$ bn)	0.6	0.8	1.0	1.7	2.4	2.7	3.2
Foreign Reserves (US\$ bn)	7.2	6.7	7.1	7.5	8.2	7.3**	N/A
Average Exchange Rate (Rs/US\$)	113.1	110.6	127.6	129.1	131.0	135.6*	146.6

**Data available till 30 November 2015

^Data available till 30 September 2015

^^GoSL Provisional estimates

*2015 Actual figure

Note: CT CLSA Research estimates unless otherwise stated

Sources : Central Bank of Sri Lanka (CBSL), Department of Census and Statistics (DCS) and Ministry of Finance & Planning

Year Ended 31 st December	2010	2011	2012	2013	2014	2015E	2016E
Year End Exchange Rate (Rs / US\$)	111.0	113.9	127.2	130.8	131.1	144.1*	149.0
Total Outstanding Govt Debt (Rs bn)	4,590	5,133	6,000	6,793	7,391	N/A	N/A
Total Domestic Debt (Rs bn)	2,566	2,804	3,233	3,833	4,278	N/A	N/A
Total Foreign Debt (Rs bn)	2,025	2,329	2,767	2,960	3,113	N/A	N/A
Government Debt as a % of GDP	72.9	69.0	69.0	69.9	71.7	75.1	72.0
Fiscal-Current Account Deficit (Rs bn)	-119.8	-57.0	-79.6	-67.7	-127.7	-180.0^^	2.0
Fiscal-Current Account Deficit as a % of GDP	-2.1	-1.1	-1.4	-0.8	-1.3	-1.6^^	0.0
Overall Budget Deficit (Rs bn)	-446.0	-450.2	-489.0	-516.1	-591.2	-675.0^^	-754.0
Overall Budget Deficit as a % of GDP	-8.0	-6.9	-6.5	-5.9	-6.0	-6.0^^	-6.0
Consumption as a % of GDP	80.7	84.6	83.1	80.0	78.9	81.0	80.5
Private	65.2	69.8	69.6	66.9	65.4	67.0	66.6
Government	15.6	14.8	13.5	13.1	13.5	14.0	13.9
Savings as a % of GDP	19.3	15.4	16.9	20.0	21.1	19.0	19.5
Private Investment as a % of GDP	21.4	23.7	20.6	22.7	22.9	20.6	21.2
Government Investment as a % of GDP	6.2	6.3	6.9	6.9	6.8	N/A	N/A
Defence Expenditure as a % of GDP	3.4	3.2	1.9	2.4	2.6	N/A	N/A
Colombo Port Volumes ('000 TEUs)	4,137	4,263	4,187	4,306	4,908	3,888^	N/A
Domestic ('000 TEUs)	932	1,047	1,020	1,032	1,127	903^	N/A
Transshipment ('000 TEUs)	3,096	3,124	3,065	3,208	3,700	2928^	N/A
Labour Force (mn)	8.1	8.6	8.5	8.8	8.8	9.0	9.1
Employed (mn)	7.7	8.2	8.1	8.4	8.4	8.6	8.6
Unemployed (mn)	0.4	0.4	0.3	0.4	0.4	0.5	0.5
Unemployment Rate (%)	4.9	4.2	4.0	4.4	4.3	5.0	5.1

**Data available till 30 November 2015
^Data available till 30 September 2015
^^GoSL Provisional estimates
*2015 Actual figure

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Commercial Bank of Ceylon	COMB	15
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*** All data derived from respective company financials published in the CSE and CT CLSA Research estimates unless otherwise stated ***

All valuations and market data are as at 31 Dec 2015

DISCLAIMER These companies are not necessarily suitable investments for all investors and the updates do not constitute a complete analysis. Note that all comments are time sensitive. Please consult a professional investment advisor before investing.

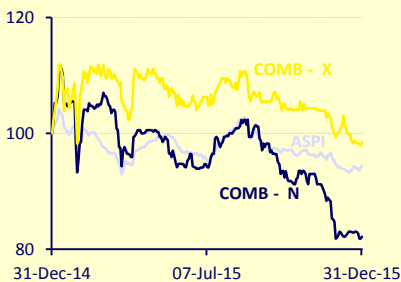
Company	Rec.	Price	Year	Net Profit			EPS			PER			EPS Growth			PEG		
				2014/15	2015/16E	2016/17E	2014/15	2015/16E	2016/17E	2014/15	2015/16E	2016/17E	2014/15	2015/16E	2016/17E	2014/15	2015/16E	2016/17E
				Rs	Rs mn	Rs mn	Rs	Rs	Rs	X	X	X	%	%	%	X	X	X
Commercial Bank - Vot.	BUY	140.5	Dec	11,239	11,827	11,641	13.0	13.5	13.2	13.2	10.4	10.7	6.6	3.9	-2.6	2.0	2.7	N/A
Commercial Bank - Non Vot.	BUY	123.1	Dec	11,239	11,827	11,641	13.0	13.5	13.2	9.6	9.1	9.4	6.6	3.9	-2.6	1.5	2.3	N/A
Hatton National Bank - Vot.	BUY	212.0	Dec	8,931	9,950	10,753	22.3	24.6	26.6	8.7	8.6	8.0	26.7	10.4	8.1	0.3	0.8	1.0
Hatton National Bank - Non Vot.	BUY	177.9	Dec	8,931	9,950	10,753	22.3	24.6	26.6	6.9	7.2	6.7	26.7	10.4	8.1	0.3	0.7	0.8
Sampath Bank	BUY	250.0	Dec	5,263	6,415	6,758	30.5	37.2	39.2	7.5	6.7	6.4	44.7	21.9	5.4	0.2	0.3	1.2
Ceylon Tobacco Company	BUY	995.0	Dec	8,619	10,557	11,875	46.0	56.4	63.4	23.0	17.7	15.7	-5.7	22.5	12.5	N/A	0.8	1.3
Distilleries Co. of Sri Lanka	BUY	246.0	Mar	7,373	7,618	8,953	24.6	25.4	29.8	9.8	9.7	8.2	12.4	3.3	17.5	0.8	2.9	0.5
Access Engineering	BUY	23.2	Mar	2,519	2,508	2,836	2.5	2.5	2.8	9.0	9.3	8.2	-11.1	-0.4	13.1	N/A	N/A	0.6
Hemas Holdings	MT	92.9	Mar	1,944	2,279	2,892	3.8	4.0	5.1	19.7	23.2	18.4	8.6	6.0	26.4	2.3	3.9	0.7
John Keells Holdings	MT	178.5	Mar	13,037	13,530	14,366	11.5	11.9	12.6	15.1	15.0	14.2	8.5	3.1	6.2	1.8	4.9	2.3
Chevron Lubricants Lanka	MT	345.0	Dec	2,747	3,076	3,321	22.9	25.6	27.7	17.4	13.5	12.5	21.2	12.0	8.0	0.8	1.1	1.6
Textured Jersey Lanka	BUY	35.6	Mar	1,332	1,757	1,997	2.0	2.6	2.9	11.9	13.6	12.4	14.8	29.3	9.8	0.8	0.5	1.3
Tokyo Cement Comp (Lanka) - Vot.	BUY	49.0	Mar	1,782	1,831	1,950	5.3	5.5	5.8	10.3	8.9	8.4	-16.9	2.7	6.5	N/A	3.3	1.3
Tokyo Cement Comp (Lanka) - Non Vot.	BUY	39.5	Mar	1,782	1,831	1,950	5.3	5.5	5.8	7.0	7.2	6.8	-16.9	2.7	6.5	N/A	2.7	1.0
Dialog Axiata	BUY	10.7	Dec	5,872	6,062	7,959	0.7	0.7	1.0	18.4	14.4	10.9	12.7	3.2	31.3	1.5	4.5	0.3

Company	DPS			Div Yield		Net Debt : Equity		SHF	BVPS	PBV		ROE		Share Performance					
	2014/15	2015/16E	2016/17E	2015/16E	2016/17E	Sep-15	Sep-15	2015/16E	2015/16E	2015/16E	2016/17E	2015/16E	2016/17E	Mkt Cap	Shares in Issue	3mth	6mth	12mth	YTD
	Rs	Rs	Rs	%	%	Rs mn	%	Rs mn	Rs	X	X	%	%	US\$ mn	mn	%	%	%	%
Commercial Bank - Vot.	6.2	7.1	7.9	5.1	5.6	N/A	31.4	69,877	79.8	1.8	1.6	16.8	15.9	846	820	-11.6	-12.7	-17.8	-17.8
Commercial Bank - Non Vot.	6.2	7.1	7.9	5.8	6.4	N/A	31.4	69,877	79.8	1.5	1.4	16.8	15.9	846	56	-6.4	-6.7	-1.6	-1.6
Hatton National Bank - Vot.	8.7	9.5	11.0	4.5	5.2	N/A	20.1	72,244	178.7	1.2	1.0	14.2	13.9	575	323	-0.9	-1.9	8.7	8.7
Hatton National Bank - Non Vot.	8.7	9.5	11.0	5.3	6.2	N/A	20.1	72,244	178.7	1.0	0.9	14.2	13.9	575	81	1.6	3.1	16.3	16.3
Sampath Bank	11.2	13.0	13.7	5.2	5.5	N/A	17.3	39,036	226.5	1.1	1.0	17.4	16.3	299	172	-3.1	-3.8	6.4	6.4
Ceylon Tobacco Company	39.5	42.4	63.3	4.3	6.4	-18,022	-243.1	2,697	14.4	69.1	68.8	320.1	439.3	1,292	187	3.6	9.3	-6.1	-6.1
Distilleries Co. of Sri Lanka	3.3	3.5	4.0	1.4	1.6	5,201	7.9	65,802	219.3	1.1	1.0	10.9	12.8	512	300	-10.4	-11.5	16.9	16.9
Access Engineering	0.6	0.6	0.7	2.7	3.0	-3,293	-18.5	18,180	18.2	1.3	1.1	15.3	15.5	161	1,000	-4.9	-2.9	-28.4	-28.4
Hemas Holdings	1.1	1.2	1.3	1.3	1.4	-4,164	-18.4	20,742	36.2	2.6	2.3	10.7	11.1	369	573	9.3	13.3	38.9	38.9
John Keells Holdings	3.1	7.0	3.5	3.9	2.0	-50,538	-32.1	141,421	122.3	1.5	1.4	9.9	9.8	1,401	1,132	5.2	-12.5	-28.6	-28.6
Chevron Lubricants Lanka	20.0	23.0	24.9	6.7	7.2	-2,821	-45.9	4,722	39.4	8.8	8.2	63.0	71.2	287	120	-6.8	-6.6	-13.5	-13.5
Textured Jersey Lanka	1.3	1.6	1.8	4.5	5.2	-976	-11.3	7,667	11.4	3.1	3.0	23.9	24.9	163	659	13.4	24.5	72.8	72.8
Tokyo Cement Comp (Lanka) - Vot.	1.2	1.2	1.3	2.5	2.6	4,117	38.9	11,410	34.1	1.4	1.3	17.1	16.0	106	223	-2.0	0.0	-24.5	-24.5
Tokyo Cement Comp (Lanka) - Non Vot.	1.2	1.2	1.3	3.1	3.3	4,117	38.9	11,410	34.1	1.2	1.0	17.1	16.0	106	111	-2.0	2.1	-16.0	-16.0
Dialog Axiata	0.1	0.3	0.4	2.8	3.3	17,979	39.3	45,773	5.6	1.9	1.7	13.4	16.5	604	8,144	-2.7	0.9	-19.5	-19.5

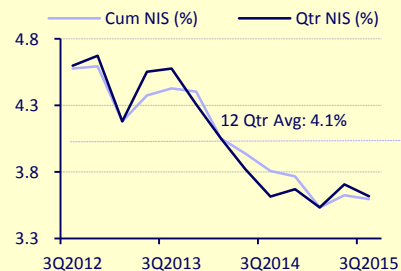
Key Trading Info	Vot	Non-Vot
Market Cap. (US\$ mn)	799.8	48.1
Shares in Issue (mn)	820.3	56.3
Est. Free Float (%)	80.9	100.0
3M Average Daily Vol	530,747	26,916
3M Avg Daily To (US\$)	557,994	24,350
12M High / Low (Rs)	191 / 140	140/123
12M/ 3M Price Chg (%)	-18.6/-12.1	-4.2/-7.1

Top 5 Voting Shareholders – 30 Sep 2015	%
DFCC Bank A/C 1	14.8
Employees Provident Fund	9.7
Mr. Y. S. H. I. K. Silva	9.2
Sri Lanka Insurance Corp Ltd - Life Fund	5.0
International Finance Corporation	4.5

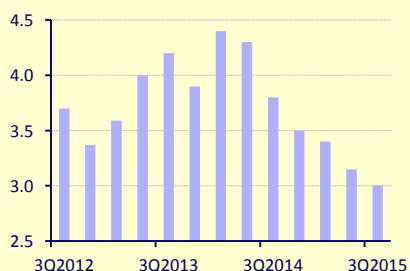
Relative Share Price Movement (%)



COMB: Net Interest Spread (%)



COMB : Gross NPA Ratio (%)



Commercial Bank of Ceylon (COMB) is the largest listed Licensed Commercial Bank (LCB) in Sri Lanka with 266 branches, ~600 ATMs and 4,951 employees. COMB accounts for an estimated deposits market share of 14% in the LCB market space whilst its advances portfolio comprised 40% Corporate loans, 40% Retail and 20% SME loans. COMB remains the only private bank to own bank branches in a foreign country

Investment Case

- Deposits, Advances and EPS grew at 5-year CAGRs (2009-2014) of 17.7%, 23.7% and 18.3% respectively. Advances and Deposits are expected to grow at 2-year CAGRs of 16.5% in 2015E and 2016E
- COMB's sector low funding cost (4.8% in 1-3Q2015), sector low recurring Cost to Income Ratio (CIR of ~42.0%), Group Expense Ratio of ~8.0%, Net Interest Spreads (NIS) of ~3.8% in the medium term, relatively dispersed distribution network and improving delinquency rates (gross NPA % as at 30 Sep 2015 stood at 3.0% vs. ~4 - 5% overall sector NPAs) are expected to result in ROEs of ~16% in the short to medium term
- COMB's Bangladesh operation is forecast to increase its contribution from ~10% in 2015E to ~12% in 2016E as we expect credit growth in the Bangladeshi economy to pick up during 2016E
- The Bank ventured into Maldives recently, it is also expected to venture into new markets such as Cambodia in near term
- Relatively high Current And Savings Account (CASA) ratio of ~50.0% (as at 30 Sep 2015) coupled with majority of loans being contracted under floating interest rates to likely increase COMB's spreads amid expected high interest rates in 2016E
- Increased exposure into high yield SME segment to likely increase COMB's spreads in the near term
- COMB's Licensed Finance Company (LFC) subsidiary, Indra Finance Limited (IFL) to enable the bank in benefiting from auto financing in the short to medium term
- COMB's superior share liquidity partly justifies its premium to sector book multiples

Potential Challenges and Concerns

- COMB's relatively faster penetration into SME segment is likely to increase NPA pressures in the near term on account of expected monetary tightening in 2016E
- Mediocre near term EPS growth expectations remains a strong concern
- Potential uptick in interest rates to increase fixed income trading losses

COMB: Valuation Ratios

Year to 31 December	2012	2013	2014	2015E	2016E
Net Profit (Rs mn)	10,056	10,564	11,239	11,827	11,641
Earnings per Share (Rs)	11.8	12.2	13.0	13.5	13.2
Earnings per Share Growth (%)	18.8	5.0	6.4	3.9	-2.6
Price / Earnings Ratio - Voting (X)	8.7	9.6	13.2	10.4	10.7
Price / Earnings Ratio - Non voting (X)	8.0	7.6	9.5	9.1	9.4
Gross Dividends per Share (Rs)	6.4	6.5	6.2	7.1	7.9
Net Book Value per Share (Rs)	62.2	72.4	81.4	79.8	86.9
Price / Book Value - Voting (X)	1.7	1.7	2.1	1.8	1.6
Price / Book Value - Non voting (X)	1.5	1.3	1.5	1.5	1.4
Return on Equity (%)	20.6	18.5	16.9	16.8	15.9
Market Price per Share : Voting (Rs)	103.0	120.0	171.0	140.5	140.5
Market Price per Share : Non voting (Rs)	94.5	94.0	124.0	123.1	123.1
Net Interest Spread (%)	4.6	4.4	3.7	3.7	3.8

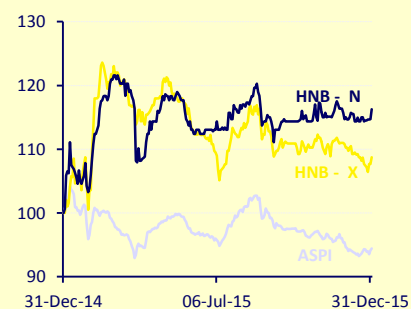
Note: Valuations are based on recurring EPS, Adj. for Capital Issues (if any); Historic Ratios are based on Y/E MPS
2015E valuations adjusted for Super Gain Tax (SGT) payment impact of Rs.2.6bn and MTM losses amounting to Rs.6.4bn

Key Trading Info	Vot	Non-Vot
Market Cap. (US\$ mn)	475.3	100.2
Shares in Issue (mn)	323.1	81.2
Est. Free Float (%)	71.9	100
3M Average Daily Vol	123,609	44,252
3M Avg Daily To (US\$)	185,688	54,462
12M High / Low (Rs)	241 / 195	186 / 154
12M/ 3M Price Chg (%)	16.3/2.4	9.0/-1.2

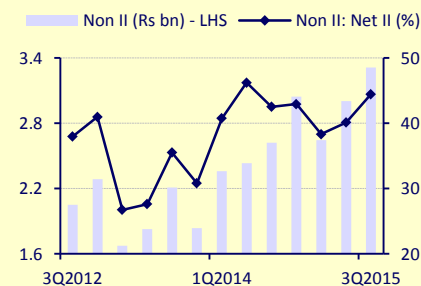
Top 5 Voting Shareholders – 30 Sep 2015	%
Sri Lanka Insurance Corporation Ltd	14.7
Employees Provident Fund	9.8
Milford Exports (Ceylon) Ltd ^	8.0
Mr. Sohli Edelji Captain	7.3
Stassen Exports Ltd ^	6.9

^Mr. H. Jayawardene connected parties: Total voting rights limited to 10% of the Bank w.e.f. 15 Mar 2012

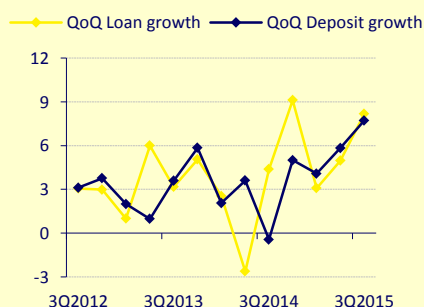
Relative Share Price Movement (%)



HNB : Non II and Non II : Net II ratio



HNB : QoQ Loans & Deposits Growth (%)



Hatton National Bank (HNB) is the second largest privately owned Licensed Commercial Bank (LCB) in Sri Lanka after privately held listed Commercial Bank of Ceylon (COMB), with 249 branches and 4,302 employees. With a total assets market share of 10%, HNB provides full scale banking services with business focus centered on SME and Micro Finance

Investment Case

- Deposits, Advances and EPS grew at 5-year CAGRs (2009-2014) of 14.8%, 19.2% and 14.8% respectively. Advances and Deposits are expected to grow at 2-year CAGRs of 19.5% and 19.0% respectively in 2015E and 2016E
- Despite increased effective taxes on the sector (proposed via the 2016E fiscal budget) HNB's recent initiatives to increase its Non Interest Income (fees and commission income) significance to its overall income and focused deposit mobilization strategy, to contain its group ROE at ~14% levels in the medium term
- Bank is likely to benefit from the relatively high demand for credit in the near term, especially with regard to growth in its SME book
- HNB's recent focus to reduce its long outstanding NPAs (NPA stood at 3.0% as at 30 Sep 2015 vs. 4.5% for sector), whilst maintaining above average near term spreads to positively contribute to its high single digit EPS growth expectations
- Gold backed pawning loans accounted for 3.6% of loan book as at 30 Sep 2015, which is expected to reduce NPAs whilst increasing ROE sustainability in the short to medium term
- Voting share trades at a discount to the sector on PBV multiples of 1.2X for 2016E
- Planned expansion in Myanmar to act as a near term share catalyst

Potential Challenges and Concerns

- HNB's relatively faster penetration into SME segment is likely to increase NPA pressures in the medium term on account of expected monetary tightening
- Possible reduction in disposable income levels of the economy amid signs of price pressures may result in lower than expected deposit growth
 - Would also limit HNB's medium term growth through reduced leverage levels
- Underwriting income from motor related insurance via HNB's 60% owned insurance subsidiary HNB Assurance ((HASU), accounts for ~5% of HNB's group net profit) to come under pressure with anticipated lower vehicle imports amid recent vehicle duty hikes and weaker LKR
- Cessation of high yielding leases by banks from Jun 2016, as directed by GoSL in its National Budget 2016 to decrease returns

HNB: Valuation Ratios

Year to 31 December	2012	2013	2014	2015E	2016E
Net Profit (Rs mn)	8,111	7,039	8,931	9,950	10,753
Earnings per Share (Rs)	21.2	17.6	21.7	24.6	26.6
Earnings per Share Growth (%)	28.1	-16.8	23.5	13.2	8.1
Price / Earnings Ratio - Voting (X)	7.0	8.6	9.0	8.6	8.0
Price / Earnings Ratio - Non voting (X)	5.3	6.9	7.0	7.2	6.7
Gross Dividends per Share (Rs)	8.5	8.5	8.7	9.5	11.0
Net Book Value per Share (Rs)	128.1	144.1	151.3	166.4	182.0
Price / Book Value - Voting (X)	1.2	1.1	1.3	1.3	1.2
Price / Book Value - Non voting (X)	0.9	0.8	1.0	1.1	1.0
Return on Equity (%)	18.1	13.2	14.2	14.2	13.9
Market Price per Share : Voting (Rs)	148.0	152.0	195	212.0	212.0
Market Price per Share : Non voting (Rs)	112.5	122.0	153	177.9	177.9
Net Interest Spread (%)	5.1	5.3	4.5	4.6	4.9

Note: Valuations are based on recurring EPS, Adj. for Capital Issues (if any); Historic Ratios are based on Y/E MPS
2015E valuations adjusted for Super Gain Tax (SGT) payment impact of Rs.1,760mn

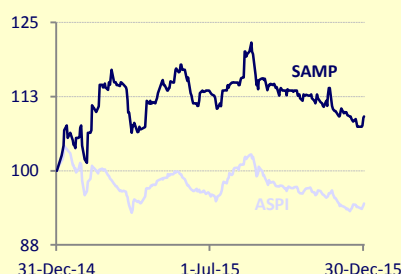
Key Trading Information

Shares in Issue (mn)	172.3
Market Cap (US\$ mn)	296.8
Estimated Free Float (%)	73.6
3M Avg Daily Volume	52,492
3M Avg Daily Turnover (US\$)	91,860
12M High / Low (Rs)	279.9 / 228.7
3M / 12M Price Chg (%)	-4.0 / 9.2

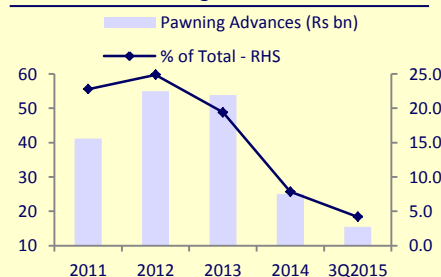
Top 5 Shareholders – 30 Sep 2015

	%
Vallibel One PLC	15.0
Mr. Y S H I Silva	10.0
Employees Provident Fund	10.0
Rosewood (Pvt) Ltd - A/C No.01	6.8
Matthews Asia Growth Fund	4.6

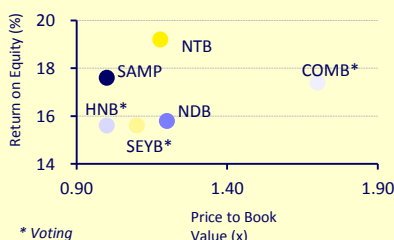
Relative Share Price Movement (%)



Movement in Pawning Advances



ROE and PBV - Selected LCBs 2015E



Sampath Bank (SAMP) is the third largest private Licensed Commercial Banks (LCB) and fifth largest LCB in Sri Lanka, and has grown swiftly since incorporation in 1986 (accounting for a market share of 9% of total LCB deposits as at 31 Dec 2014). SAMP provides a full range of banking services in Sri Lanka through its 223 branches and staff cadre of ~4,000

Investment Case

- Advances growth expected at +18% in 2015E and +13% in 2016E (vs. +16% in 2014), amid the pickup in private sector credit growth
- Net Interest Margin (NIM) expected to increase amid with expected rise in interest rates
- Improved Current And Savings Account (CASA) ratio of ~48% as at 30 Sep 2015 (vs. 46.2% and 33.3% as at 31 Dec 2013 and 31 Dec 2014 respectively), following branch expansion to aid in improving margins
 - SAMP's CASA ratio also stands above listed LCB average CASA ratio of 41.2%
- Gross Non Performing Advances (GNPA) ratio stood at a sector low 1.7% as at 30 Sep 2015, supported by SAMP's centralized credit approval model
- Pawning advances fell to 4% of total advances portfolio as at 30 Sep 2015 from 8% as at 31 Dec 2014 and 19% as at 31 Dec 2013 – expected to be at similar levels going forward
- SAMP's Cost to Income Ratio (CIR) of 50-52% is expected to improve in the medium term, amid anticipated lower operating expenses with relatively lower branch openings
- Weak currency to supplement trading income in the near term, further strengthening non core income
- Minimal intervention from the GoSL compared to other larger listed LCBs with no GoSL appointees to the Director Board
- Trades at discount to the market and sector, with attractive ROEs

Potential Challenges and Concerns

- Tier I capital ratio of 8.0% as at 30 Sep 2015 is one of the lowest amongst the sector and a further deterioration would lead to a possible capital raising – however, SAMP has not considered recent quarterly profits for Tier I calculation
- Potential uptick in interest rates to reduce fixed income trading income and other comprehensive income in the near term impacting book multiples
- Cessation of high yielding leases by banks from Jun 2016, as directed by GoSL in its National Budget 2016 to decrease returns (leasing consisted of 7% of SAMP's gross loans as at 30 Sep 2015)
- Inward remittance business, which is under pressure due to economic concerns in source markets, to be further affected by stiff competition with competitors providing attractive offers to gain business

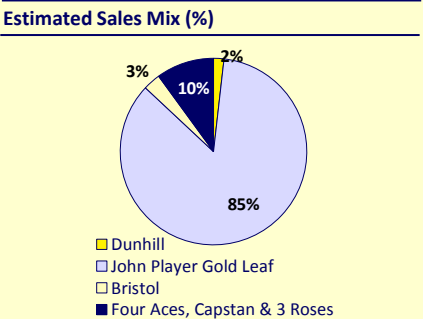
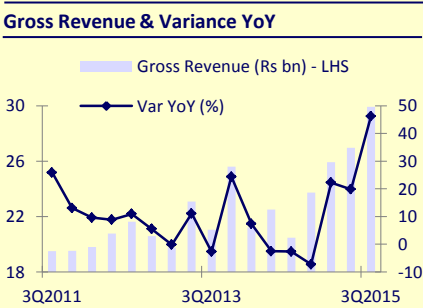
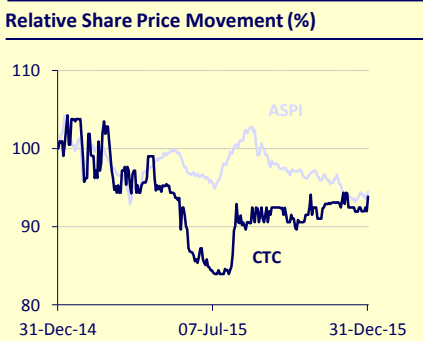
SAMP: Valuation Ratios

Year to 31 December	2012	2013	2014	2015E	2016E
Net Profit (Rs mn)	5,437	3,635	5,263	6,415	6,758
Earnings Per Share (Rs)	32.6	21.1	30.5	37.2	39.2
Earnings Per Share Growth (%)	47.8	-35.3	44.7	21.9	5.4
Price / Earnings Ratio (X)	6.0	7.9	7.5	6.7	6.4
Gross Dividends per Share (Rs)	12.0	8.0	11.2	13.0	13.7
Gross Dividends Yield (Rs)	6.2	4.8	4.9	5.2	5.5
Net Book Value per Share (Rs)	166.6	183.9	200.3	226.5	253.8
Price / Book Value (X)	1.2	0.9	1.1	1.1	1.0
Return on Equity (%)	21.5	12.2	15.9	17.4	16.3
Market Price per Share (Rs)	194.9	167.5	229.0	250.0	250.0
Net Interest Spread (%)	4.4	4.9	4.3	4.0	4.1

Note: Valuations are based on recurring EPS, Adj. for Capital Issues (if any); Historic Ratios are based on Y/E MPS
2015E valuations adjusted for Super Gain Tax (SGT) payment impact of Rs.783mn

Key Trading Information	
Shares in Issue (mn)	187.3
Market Cap (US\$ mn)	1,292.1
Estimated Free Float (%)	15.9
3M Avg Daily Volume	13,187
3M Avg Daily Turnover (US\$)	90,314
12M High / Low (Rs)	1,124.0 / 881.0
3M / 12M Price Chg (%)	3.6 / -6.1

Top 5 Shareholders – 30 Sep 2015		%
BAT Holdings (Sri Lanka) BV		84.1
FTR Holdings SA		8.3
Pershing LLL SA Averbach Grauson & Co.		0.9
Wasatch Frontier		0.7
State Street London		0.3



Source : CTC & CT CLSA

Ceylon Tobacco Company (CTC), an 84% owned subsidiary of British American Tobacco (BAT), is the sole legal producer and distributor of cigarettes in Sri Lanka, selling approx. 3.5bn sticks per annum. In the BAT group, Sri Lanka has the distinction of being one of the few countries with a fully-integrated operation

Investment Case

- Legal monopoly, operating a single product business, generating ROEs of over 100%
- Recovery in volumes, +13% YoY in 1-3Q2015, subsequent to contracting for the past three consecutive years, amid improved consumer sentiment and purchasing power
- Higher import duties on tendu leaves used for rolling beedi – cheaper tobacco substitute - to benefit cigarette volumes, though the beedi market remains highly fragmented
- Optimizing brand mix by revamping the mid-range “value for money” category to limit consumer downgrading and the premium range (2% of sales) to further enhance margins
- Enjoys amongst the highest EBIT margins within the BAT group (~70%), given CTC’s lean operational model and continued productivity enhancement measures
- Amongst the top dividend plays on the CSE again with forecast dividend yields >6%
 - Expected to return to historic ~100% dividend payout, subsequent to one-off SGT payment (Rs.3.8bn – Rs.20 per share), amid robust FCF generation and negligible capex requirements
- Strong balance sheet; net cash position of Rs.18.0bn as at 30 Sep 2015 (inclusive of Rs.3.1bn of reserves accumulated for SGT liability)
- Defensive share trades at a discount to its recent historic levels and to most regional tobacco peers
 - Share price though still down -30% from its record high of Rs.1,400.5 in Aug 2013

Potential Challenges and Concerns

- Overall limitations for volume growth in the local tobacco market to potentially impact sustainability of profit growth over the long term
- Vulnerable to higher taxation and firmer regulation, such as implementation of 80% graphical health warnings, spearheaded by current President Sirisena, though pricing remains the most powerful deterrent for smoking
- Recent significant increase of product prices at close proximity, a combined +17% in Oct 2015 and Jan 2016, to slowdown the recovery in volumes witnessed in 2015
- Relatively illiquid share with a free float of under 8%

CTC: Valuation Ratios

Year to 31 December	2012	2013	2014	2015E	2016E
Net Revenue (Rs mn)	19,202	21,618	21,739	26,148	28,220
Net Profit (Rs mn)	8,175	9,140	8,619	10,557	11,875
Earnings per Share (Rs)	43.6	48.8	46.0	56.4	63.4
Earnings per Share Growth (%)	24.5	11.8	-5.7	22.5	12.5
Price / Earnings Ratio (X)	19.0	24.4	23.0	17.7	15.7
Price / Earnings Growth Ratio (X)	0.8	2.1	N/A	0.8	1.3
Gross Dividend per Share (Rs)	43.6	48.8	39.5	41.5	63.3
Gross Dividend Yield (%)	5.3	4.1	3.7	4.2	6.4
Return on Equity (%)	221.8	225.4	209.9	311.5	411.6
Net Book Value per Share (Rs)	20.3	23.0	20.8	15.4	15.4
Market Price per Share	830.0	1,188.9	1,060.0	995.0	995.0

Note: Valuations are based on recurring EPS, Adj. for Capital Issues (If any); Historic Ratios are based on Y/E MPS
2015E Book value adjusted for Super Gain Tax (SGT) liability of Rs.3.8bn

Key Trading Information

Shares in Issue (mn)	300.0
Market Cap (US\$ mn)	511.6
Estimated Free Float (%)	41.6
3M Avg Daily Volume	94,653
3M Avg Daily Turnover (US\$)	179,933
12M High / Low (Rs)	320.0 / 208.5
3M / 12M Price Chg (%)	-10.4 / 16.9

Top 5 Shareholders – 30 Sep 2015

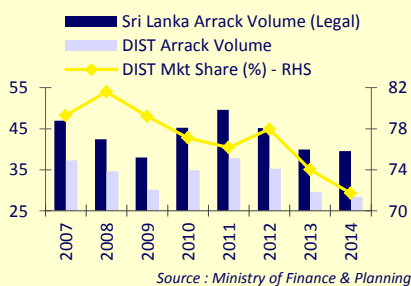
	%
Milford Exports (Ceylon) (Pvt) Ltd*	41.5
Lanka Milk Food (CWE) Ltd*	12.7
Mr. Muzaffar Ali Yaseen	7.5
Mrs. L.E.M. Yaseen	4.4
Melstacorp Ltd*	2.9

*Related Party / Director

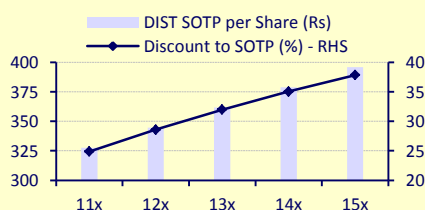
Relative Share Price Movement (%)



Arrack Volumes (Proof Litres mn)



Sensitivity Analysis to Bev. Sector Multiples



Distilleries Company of Sri Lanka (DIST), the local market leader in (legal) hard alcohol (~60% market share), manufactures arrack and foreign liquor brands and imports other liquor types. The group also has exposure to finance, telco, power and plantations, and to tourism and logistics via 43% owned listed associate, Aitken Spence (SPEN)

Investment Case

- Dominant market position maintained in core arrack beverage sector (~70% market share), given highly recognized local brand and superior distribution network
- Strong recovery in volumes, up ~10% in 2015 (after contracting for the past three years) amid firmer stance on the illicit market and improved disposable income levels
- Product portfolio development, mainly in the mid-range segment consisting of locally produced foreign liquors (~10% of sales mix), to support growth and margins
- Recent significant excise duty revisions of >70% on "strong" beer (alcohol content of ~8.8%) resulted in largely narrowing the pricing gap between hard alcohol and beer
- Upgraded plant at a Rs.6bn investment in May 2015 to enhance efficiencies and capacity
- Strong FCF generation and balance sheet (8% net debt : equity, 2.0x net debt : EBITDA)
- Actively expanding presence in fast growing financial (insurance and LFC) services sector
- Possible return from GoSL or compensation for Pelwatte Sugar (SUGA) and payment of profits generated from Sri Lanka Insurance Corporation (SLIC) under DIST management
- Share trades at a discount to both food & beverage and conglomerate peers and at 32% discount to its estimate sum-of-the-parts (SOTP) value of Rs.362

Potential Challenges and Concerns

- Higher regulation and taxation, given President's vision of a temperance program and urgent need to collect GoSL revenue to meet the widening fiscal deficit
 - Excise duties for arrack increased +25% in 2015 (in Oct and Nov), which may result in a near term slowdown of the growth in volumes
- Stiff competition in both legal and illicit hard alcohol markets. Though likely to a lesser extent prior to the excise duty hikes, competition from the strong beer market to prevail
- Value of DIST's core business clouded by potential over diversification (with modest returns) with the group's long term strategy still seeming rather opaque
- Potential listing of subsidiary Melstacorp, which was to be the key catalyst in unlocking DIST's value in the medium term, appears to be delayed, amid various challenges
- A turnaround in operations unlikely for DIST's fully owned CDMA operator Lanka Bell, with sector requiring high investment to stay afloat

DIST: Valuation Ratios

Year to 31 March	2013	2014	2015	2016E	2017E
Net Revenue (Rs mn)	28,766	29,241	29,250	33,100	36,033
Net Profit (Rs mn)	5,916	6,562	7,373	7,618	8,953
Earnings per Share (Rs)	19.7	21.9	24.6	25.4	29.8
Earnings per Share Growth (%)	6.9	10.9	12.4	3.3	17.5
Price / Earnings Ratio (X)	9.3	9.3	9.8	9.7	8.2
Price / Earnings Growth Ratio (X)	1.4	0.9	0.8	2.9	0.5
Gross Dividend per Share (Rs)	3.0	3.3	3.3	3.5	4.0
Gross Dividend Yield (%)	1.6	1.6	1.4	1.4	1.6
Net Book Value per Share (Rs)	159.9	180.3	203.5	218.8	244.6
Return on Equity (%)	14.0	12.9	12.8	12.0	12.9
Market Price per Share	183.0	203.0	240.5	246.0	246.0

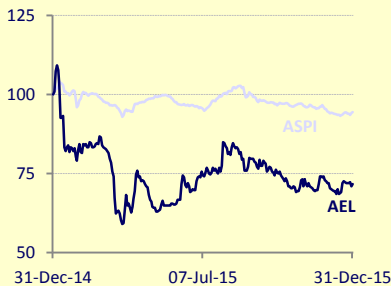
Note: Valuations are based on recurring EPS, Adj. for Capital Issues (if any); Historic Ratios are based on Y/E MPS
2016E book value adjusted for Super Gain Tax (SGT) liability of Rs.2.0bn

Key Trading Information	
Shares in Issue (mn)	1,000.0
Market Cap (US\$ mn)	160.8
Estimated Free Float (%)	32.5
3M Avg Daily Volume	1,263,505
3M Avg Daily Turnover (US\$)	200,549
12M High / Low (Rs)	36.1 / 18.5
3M / 12M Price Chg (%)	-10.1 / -28.4

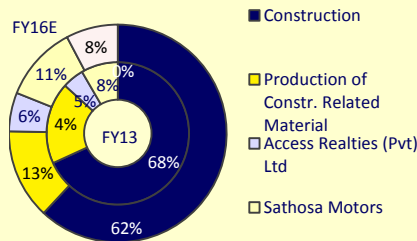
Top 5 Shareholders – 30 Sep 2015	%
Mr. S J S Perera^	25.0
Mr. R J S Gomez^	12.0
Mr. J C Joshua^	10.0
Mrs. R M N Joshua	7.0
Mr. S J S Perera^	4.7

^ Directors

Relative Share Price Movement (%)

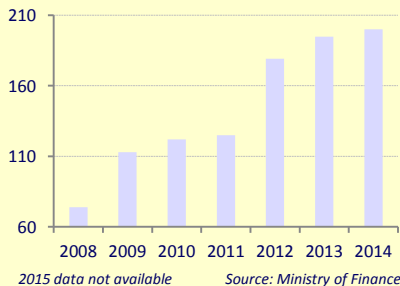


Sectoral Profit After Tax (PAT) (Rs mn)



*Access Projects; engage in aluminium and ceiling work - acquired in FY15

Sri Lanka Expenditure on Roads (Rs bn)



2015 data not available

Source: Ministry of Finance

Access Engineering (AEL) is a leading player in the Sri Lankan engineering and construction industry, primarily focusing on roads and building construction. The group also has exposure to the motor industry through 84% owned listed subsidiary Sathosa Motors (SMOT), and develops high rises through fully owned Access Realities (Pvt) Ltd

Investment Case

- Major beneficiary of post conflict infrastructure boom; Revenue and EPS increased at 5-yr CAGRs (FY10-FY15) of 39% and 20% respectively
 - Despite political related slowdown in 2015, the construction sector is expected to pick up in the medium term with recommencement of GoSL led infrastructure projects
- Strong track record and relationships with international principal contractors provide a competitive advantage in obtaining subcontracts
- Strategic expansion through backward integration, leading to several key materials being sourced from own plants, thus efficiently controlling the supply chain
- Over Rs.3bn invested in capacity building during FY12-FY15, to sufficiently cater to confirmed orders over the medium term
- Access Projects (Pvt) Ltd, engaged in aluminium and ceiling work - the only manufacturer of metal ceiling panels in Sri Lanka to be a key contributor to group PAT (~10% in FY16E)
- Expanding operations overseas; secured road development projects in East Africa together with Joint Venture (JV) partner, China Merchant Holdings
- Engaged in harbour and marine work largely in JV with Chinese associate of ZPMC
- Recently added property development sector to complement its core operations, by purchasing land bank in Malabe, a suburb of Colombo

Potential Challenges and Concerns

- Heavily dependent on GoSL led mega infrastructure projects (~70% of order book); vulnerable to risks of payment delays
 - Raised Rs.5bn via a debenture issue in Nov 2015 to partly finance two ongoing projects; Access Tower 2 (Rs.2.6bn) and Urban Regeneration Project of Urban Development Authority (Rs.2.4bn)
- Investor perception of favoured relationship with previous President and regime; winning new GoSL projects may be challenging as a result of increased competition and scrutiny
- Negative Impact from higher corporate taxation with increased cash outflow for construction sector (15%) as proposed in National Budget 2016 (vs. previous concessionary rate of 12%)
- SMOT likely to witness a slowdown in the medium term despite the expansion of product portfolio, due to the high interest rates on easing facilities and depreciation of LKR
 - SMOT entered luxury motor segment in FY14 through a JV to distribute Land Rover; SMOT contributed ~11% to group PAT in FY15

AEL: Valuation Ratios

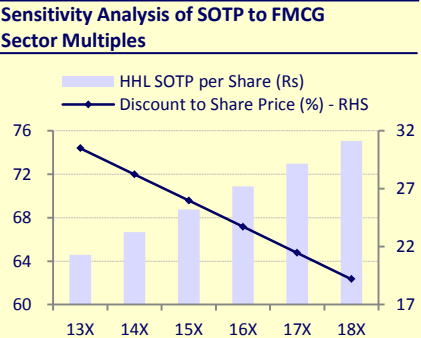
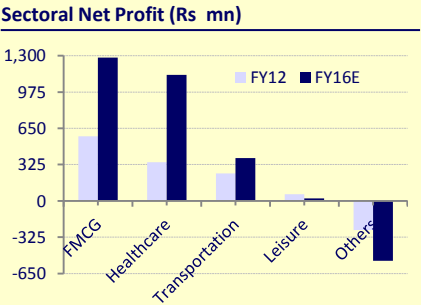
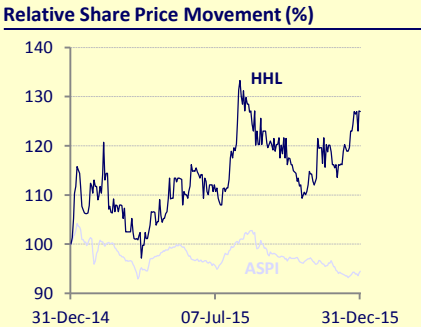
Year to 31 March	2013	2014	2015	2016E	2017E
Net Revenue (Rs mn)	13,900	16,386	16,427	17,864	19,385
Net Profit (Rs mn)	2,378	2,832	2,519	2,508	2,836
Earnings per Share (Rs)	2.4	2.8	2.5	2.5	2.8
Earnings per Share Growth (%)	30.0	19.1	-11.1	-0.4	13.1
Price / Earnings Ratio (X)	8.4	8.0	9.0	9.3	8.2
Price / Earnings Growth (X)	0.3	0.4	N/A	N/A	0.6
Gross Dividends per Share (Rs)	0.5	0.8	0.6	0.6	0.7
Gross Dividend yield	2.5	3.3	2.8	2.7	3.1
Net Book Value per Share (Rs)	12.5	14.9	16.3	18.2	20.3
Return on Equity (%)	24.7	22.3	17.2	15.3	15.5
Market Price per Share (Rs)	19.9	22.6	22.6	23.2	23.2

Note: Valuations are based on recurring EPS, Adj. for Capital Issues (if any); Historic Ratios are based on Y/E MPS
FY16E Book Value adjusted for Super Gains Tax (SGT) liability of Rs.554mn

Key Trading Information	
Shares in Issue (mn)	572.5
Market Cap (US\$ mn)	354.1
Estimated Free Float (%)	35.4
3M Avg Daily Volume	68,088
3M Avg Daily Turnover (US\$)	40,530
12M High / Low (Rs)	99.8 / 70.0
3M / 12M Price Chg (%)	9.3 / 25.0

Top 5 Shareholders – 30 Sep 2015		%
A Z Holdings (Pvt) Ltd *		15.9
Saraz Investments (Pvt) Ltd *		15.1
Blueberry Investments (Pvt) Ltd *		15.0
Amagroup (Pvt) Limited *		15.0
Franklin Templeton Investment Funds		9.9

* Related Party Entities



Hemas Holdings (HHL) is a conglomerate with interests in Fast Moving Consumer Goods (FMCG), Healthcare, Transportation and Leisure sectors. HHL has a dominant presence in the country's FMCG (~25% market share) and is the market leader in Pharmaceutical segment (~22% market share)

Investment Case

- Second largest player in the country's Personal Care market after Unilever; FMCG sector is the single largest contributor to Net Profit (NP) (~50% during FY11 - FY15)
- FMCG business in Bangladesh (~10% of sector revenue) continues to contribute positively to sector top line; exposure is mainly through value added hair oil segment
- Healthcare is an integral part of the group; ~45% contribution to NP in FY15 - to increase with improved performance in hospital segment (three hospitals with 205 beds launched since 2008 at a total investment of ~Rs.4.0bn)
- Funds raised from the rights issue (US\$31mn via 1:9 rights at Rs.72) to be utilized to pursue strategic investment opportunities in the Healthcare and Personal care sectors
 - HHL announced its interest in pursuing the strategic investment opportunity in the listed healthcare provider, The Lanka Hospital Corporation (LHCL) – GoSL in National Budget 2016 indicated that it will sell their stake in LHCL
- Growing presence in Leisure sector, with support of partner, Minor International (MINT), which has a 20% stake in HHL's 57% owned 3-4 star hotel arm Serendib Hotels (SHOT)
 - 150 room, five star Anantara Tangalle commenced operations recently whilst another five star resort of 140 rooms will be operational in 1H16E, bringing the total room strength to 706 rooms at a total investment of US\$100mn
 - SHOT's major shareholders, i.e. HHL and MINT, restructuring the multiple Sri Lankan hotels, likely focusing on reducing high minority interest in the sector (~50% in FY15)
- Potential to spin off FMCG and Pharmaceuticals sectors to unlock share value

Potential Challenges and Concerns

- Significant investment targeted at Leisure sector - despite record tourist arrivals to Sri Lanka, sector returns depressed due to increased competition in the star class hotels
- Capital intensive hospital segment yet to deliver reasonable returns
- FMCG sector competition increasing with growing threat from P&G and Indian FMCG players; innovation and constant new product development vital to maintain market share
- Share is trading above estimated break up Sum-Of-The-Parts valuation (SOTP) of Rs.68.8 per share, with core FMCG sector valued at 15x earnings

HHL: Valuation Ratios

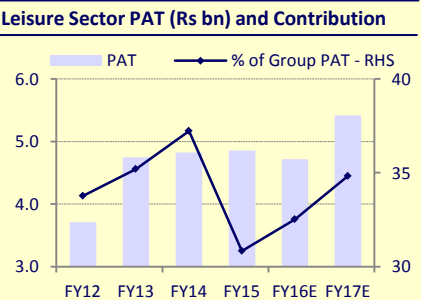
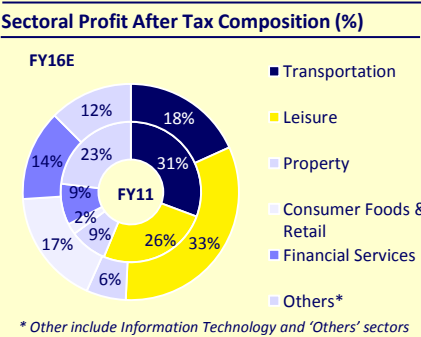
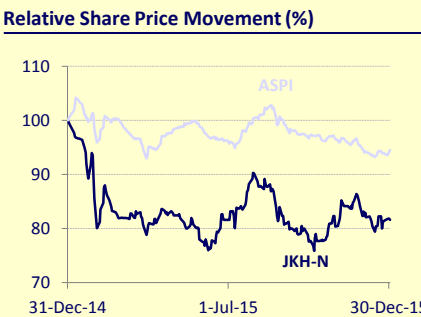
Year to 31 March	2013	2014	2015	2016E	2017E
Net Revenue (Rs mn)	26,098	27,259	32,497	37,037	42,180
Net Profit (Rs mn)	1,660	1,789	1,944	2,279	2,892
Earnings per Share (Rs)	3.2	3.5	3.8	4.0	5.1
Earnings per Share Growth (%)	37.3	7.8	8.6	6.0	26.4
Price / Earnings Ratio (X)	8.3	10.7	19.7	23.2	18.4
Price / Earnings Growth (X)	0.2	1.4	2.3	3.9	0.7
Gross Dividends per Share (Rs)	0.8	1.0	1.1	1.2	1.3
Gross Dividend yield	2.8	2.7	1.5	1.3	1.4
Net Book Value per Share (Rs)	23.6	27.8	30.4	36.2	40.0
Return on Equity (%)	14.5	13.5	13.0	10.7	11.1
Market Price per Share (Rs)	26.6	37.2	74.5	92.9	92.9

Note: Valuations are based on recurring EPS, FY16E and FY17E number of shares adjusted for 1:9 rights issue; Historic Ratios are based on Y/E MPS
FY16E Book Value adjusted for Super Gains Tax (SGT) liability of Rs.627mn

Key Trading Information	
Shares in Issue (mn)	1,140.1
Market Cap (US\$ mn)	1,471.0
Estimated Free Float (%)	98.6
3M Avg Daily Volume	741,480
3M Avg Daily Turnover (US\$)	911,551
12M High / Low (Rs)	219.0 / 166.0
3M / 12M Price Chg (%)	5.2 / -18.4

Top 5 Shareholders – 30 Sep 2015		%
Mr. S E Captain		10.5
Broga Hill Investments Ltd *		10.4
Paints & General Industries Ltd ^		8.0
Melstacorp (Pvt) Ltd		3.7
Schroder International Selection Fund		3.4

*^Related party of Mr. S.E. Captain
Owned by Khazanah Nasional Berhad



Sri Lanka's largest listed company, accounting for ~8% of total market capitalisation, **John Keells Holdings (JKH)** is a conglomerate with interests in transportation, leisure, property, financial services, consumer foods & retail (CF&R) and information technology. It is also the local market's most liquid share, contributing ~15% to average daily market turnover in 2015

Investment Case

- Operates over 2,000 four star plus city and resort hotel rooms in Sri Lanka and 340 four star plus hotel rooms in the Maldives, accounting for 31% of PAT in FY15 – more properties expected to be added to the portfolio over the next five years
- Leading player in local real estate sector, given its expertise and proven track record, coupled with a large land bank (unused and underutilized land bank of ~60 acres)
- Major presence in carbonated soft drink, processed meat, ice cream and supermarket businesses in Sri Lanka
- Growing presence in banking and insurance sectors; may explore inorganic growth options in both banking and insurance sectors
- Strong balance sheet with a net cash position of Rs.50.5bn as at 30 Sep 2015; known for its skill and track record in M&A activities, with potential to undertake big ticket projects
- Group has ventured into US\$820mn Integrated Resort (IR) project, which is set to be completed by 2018, and is the largest private sector investment in Sri Lanka - JKH is believed to have invested ~25-30% of total project cost to date
 - To be benefited by concessions granted to Meetings, incentives, conferences, and exhibitions (MICE) tourism by National Budget 2016
- No controlling shareholder, however share owning management has regularly switched focus into growth areas in the past, successfully managing its portfolio of businesses

Potential Challenges and Concerns

- IR project returns expected to be significantly lower than originally anticipated, subsequent to the GoSL restricting large scale casino operations in Jan 2015 – yet continuing on same scale
- City and resort hotels under pressure with increased number of hotels and emergence of increased boutique properties benefiting from new class of travelers, despite the record high arrivals
- Key transportation sector facing increased competition – the sector however acts as a cash cow supporting other businesses
- Property development to witness added pressure from a range of upmarket residential development projects entering prime Colombo

JKH: Valuation Ratios					
Year to 31 March	2013	2014	2015	2016E	2017E
Net Revenue (Rs mn)	85,408	86,706	91,582	105,838	112,634
Net Profit (Rs mn)	10,551	11,532	13,037	13,530	14,366
Earnings Per Share (Rs)	10.8	10.6	11.5	11.9	12.6
Earnings Per Share Growth (%)	29.3	-1.5	8.5	3.1	6.2
Price / Earnings Ratio (X)	19.5	18.8	15.1	15.0	14.2
Price / Earnings Growth (X)	0.7	N/A	1.8	4.9	2.3
Gross Dividends per Share (Rs)	3.1	3.1	3.1	7.0*	3.5
Gross Dividend Yield (%)	1.5	1.5	1.8	3.9	2.0
Net Book Value per Share (Rs)	91.7	108.6	117.0	119.9	129.0
Return on Equity (%)	13.1	10.8	10.2	10.1	10.1
Market Price per Share (Rs)	209.9	199.1	174.2	178.5	178.5

*Note: Valuations are based on recurring EPS, Adj. for Capital Issues. Historic Ratios are based on Period End MPS
FY16E valuations adjusted for Super Gain Tax (SGT) payment of Rs.1,340mn
50mn warrants to be converted in Nov 2016 at Rs.171 per warrant
* Include special dividend of Rs.3.5*

Key Trading Information

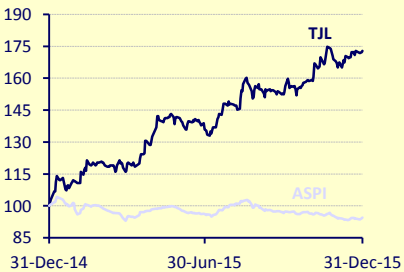
Shares in Issue (mn) *	660.8
Market Cap (US\$ mn)	163.1
Est. Free Float (%)	40.5
3M Avg Daily Volume	512,139
3M Avg Daily TO (US\$)	119,313
12M High / Low (Rs)	36.3 / 20.2
3M / 12M Price Ch (%)	13.4 / 72.8

* Before issuance of new shares via swap in Nov 2015

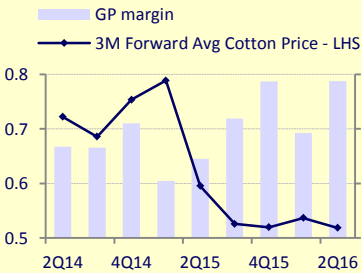
Top 5 Shareholders – 30 Sep 2015

	%
Brandix Lanka Ltd	29.8
Pacific Textured Jersey Holdings Ltd	29.7
First State Asia Pacific Fund	7.1
Navis Yield Fund	2.1
Melstacorp Ltd	1.9

Relative Share Price Movement (%)



GP Margin (%) & Forward Average Cotton Price (US\$/lb)



Global Peer Valuations (FY15E)

Company Name	PER (X)	ROE (%)	DY (%)
TJL	13.6	23.9	4.5
Pacific Textiles Holdings (HK)	14.3	28.9	7.1
Texwinca Holdings (HK)	10.7	12.8	9.0
Toyobo Company (Japan)	12.9	5.4	2.0
Luthai Textile (China)	8.9	15.3	4.8
Luolai Home Textile (China)	22.4	17.5	1.8

Source: Bloomberg

Textured Jersey Lanka (TJL) is one of Sri Lanka’s largest fabric manufacturers, specialised in weft knit fabrics, with a current yarn capacity of ~12mn kg per annum. The company operates as a JV collaboration between Pacific Textiles Holdings, one of the largest fabric producers in the world, and Brandix Lanka, a leading apparel exporter in Sri Lanka

Investment Case

- JV partners’ technical expertise ensures efficiency in production process and marketing, enabling TJL to efficiently cater to the rapidly evolving dynamics of the fashion industry
- Recent inorganic expansion to elevate the company to next level of earnings, largely via increased production volumes; the fabric manufacturing subsidiary, Ocean India Pvt Ltd (OCI) and printing subsidiary, Quenby Lanka Prints (Pvt) Ltd (QBL)
 - As per initial consolidated earnings, new entities are on track to achieve >20% ROEs
 - TJL is also expected to enter Synthetic/Polyester fabric manufacturing, which enjoys robust local and regional demand
- Significant upside potential in fast growing knit fabric industry, with Sri Lanka importing the majority of its knitted fabric requirement
- Further opportunities expected from likely re-implementation of GSP+ in mid FY17E (however most of these positives already priced in)
- Net beneficiary of LKR depreciation, with 100% revenue and ~80% of cost being in US\$
- Strong net cash positive balance sheet enables TJL to leverage as necessary for strategic investments and maintain ~60% dividend payout, supported by high free cash generation
- Subsequent to recent price appreciations, share continues to trade at reasonable medium term valuations, amid double digit earnings growth expectations, strong ROEs and relatively attractive dividend yields

Potential Challenges and Concerns

- Intense competition with larger low cost producers in the Asian region, with other local producers also recently revamping operations
- Sluggish economic growth in the euro zone, a key export destination of TJL
- Integration risk of the new entity and requirement of further investments to increase OCI’s efficiency to TJL’s current levels - TJL likely to consider debt funding
- Possible over dependency on 4-5 key customers with high bargaining power over TJL
- Vulnerable to extreme cotton price fluctuations, although cost can usually be passed down to customers with a lag

TJL: Valuation Ratios

Year to 31 March	2013	2014	2015	2016E	2017E
Net Revenue (Rs mn)	10,951	12,725	13,678	17,134	22,173
Net Profit (Rs mn)	1,016	1,153	1,332	1,757	1,997
Earnings per Share (Rs)	1.6	1.8	2.0	2.6	2.9
Earnings per Share Growth (%)	53.5	13.5	14.8	29.3	9.8
Price / Earnings Ratio (X)	6.4	9.0	11.9	13.6	12.4
Price / Earnings Growth (X)	0.1	0.7	0.8	0.5	1.3
Gross Dividend per Share (Rs)	1.2	1.3	1.3	1.6	1.8
Gross Dividend Yield (%)	12.5	8.2	5.4	4.5	5.2
Net Book Value per Share (Rs)	8.8	9.7	10.7	11.4	12.1
Price to Book Value (X)	1.1	1.6	2.2	3.1	3.0
Return on Equity (%)	18.1	19.0	19.9	23.9	24.9
Market Price per Share (Rs)	9.9	15.8	24.0	35.6	35.6
GP Margin (%)	11.6	11.4	11.9	12.7	12.5

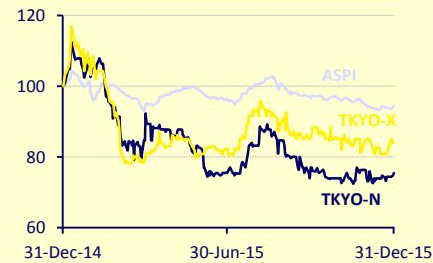
Note: Valuations are based on recurring EPS, Adj. for Capital Issues (if any); Historic Ratios are based on Y/E MPS

Key Trading Information	Vot	Non-Vot
Shares in Issue (mn)	222.8	111.4
Market Cap (US\$ mn)	82.8	31.9
Est. Free Float (%)	31.0	100.0
3M Avg Daily Volume	41,016	61,236
3M Avg Daily TO (US\$)	13,940	16,854
12M High / Low (Rs)	75.0 / 46.7	57.7 / 35.7
3M / 12M Price Ch (%)	-1.4 / -24.8	-4.5 / -17.0

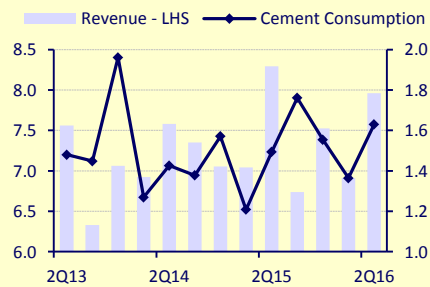
Top 5 Voting Shareholders – 30 Sep 2015	%
St. Anthony's Consolidated (Pvt) Ltd *	27.5
Nippon Coke & Engineering Co Ltd	21.4
South Asian Investment (Pvt) Ltd *	20.1
Wasatch Frontier Emerging Small Countries Fund	5.2
Capital City Holdings (Pvt) Ltd *	3.0

* Related Party Entities

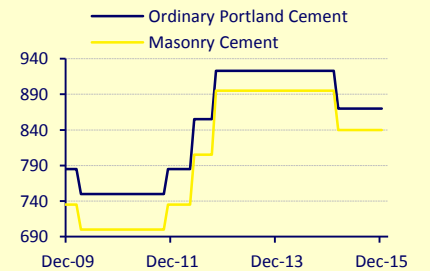
Relative Share Price Movement (%)



TKYO Revenue (Rs bn) and SL Cement Consumption (mn, MT)



Sri Lanka Regulated Cement Prices (Rs per 50kg bag)



Source: CBSL and Consumer Affairs Authority

Tokyo Cement Company (Lanka) (TKYO), the market leader in Sri Lanka's cement industry (est. market share of 35%), is a JV between Japan's Nippon Coke and Engineering Company Ltd and Sri Lanka's St. Anthony's Consolidated Ltd. TKYO is the only active listed cement manufacturer in Sri Lanka, with an annual blending and import capacity of ~2mn MT

Investment Case

- Poised to be a major beneficiary of the likely rebound in the local construction industry
 - Large scale construction projects which were stalled for re-evaluation by newly appointed government to re-commence by early FY17E
- Self-sufficiency in energy, ownership of a vessel fleet, sound distribution network and strong brand equity places TKYO at a major advantage over its peers
- Ongoing US\$50mn capacity expansion to be effectively utilised for potential demand hike
 - TKYO's annual capacity to be increased by 1mn MT via a new plant by FY17E -current plant utilization is 80-85%, the maximum utilization of such plants
 - Production plant for value added products, new renewable energy plant, jetty expansion and acquisition of two new ships also comes under the expansion plan
 - Expansion project expected to be funded by 60:40, Debt:Equity mix - TKYO's net debt to equity ratio stood at 39% as at 30 Sep 2015
- High potential in ready mix space, as the only cement manufacturer with exposure to the specific segment
- Shares currently trade at a discount to regional industry peers at forward PERs of 7-9X

Potential Challenges and Concerns

- Exposed to risk of changes in retail pricing, regulated by the GoSL using a pricing formula; retail accounts for 55% of TKYO's current sales mix, while balance 45% is bulk
 - Regulated price of cement reduced by ~6% in Feb 2015
- Currency depreciation to have a negative impact on margins, due to TKYO's high dependence on imported raw materials (~80% of COS) – exchange rate risk not hedged
- Vulnerable to fluctuations in import duties and global raw material price changes
- Imported cement (~68% of national consumption; including imports of TKYO and Holcim) has been a growing threat to local cement manufacturers, exacerbated by the removal of general custom duty of 7.5% per MT applicable for all cement imports in Jan 2015

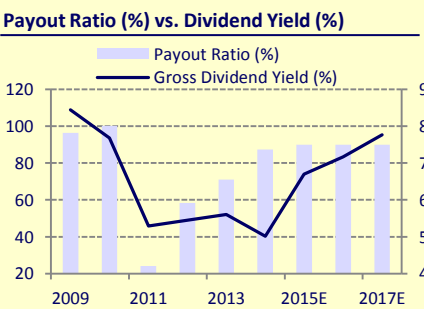
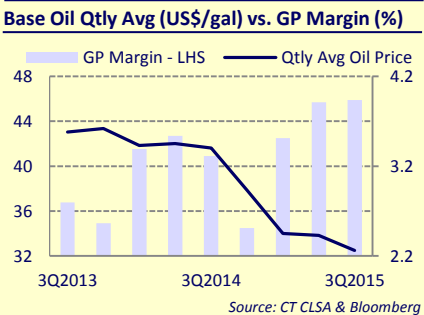
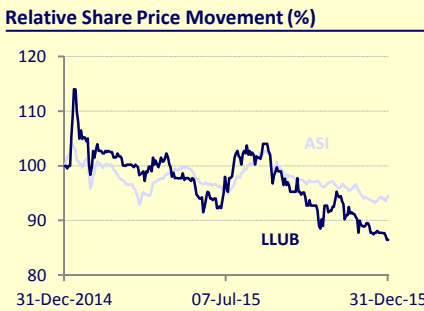
TKYO: Valuation Ratios

Year to 31 March	2013	2014	2015	2016E	2017E
Net Revenue (Rs mn)	27,296	28,908	29,599	30,455	35,885
Net Profit (Rs mn)	886	2,145	1,782	1,831	1,950
Earnings per Share (Rs)	2.7	6.4	5.3	5.5	5.8
Earnings per Share Growth (%)	-24.6	142.2	-16.9	2.7	6.5
Price / Earnings Ratio - Vot (X)	8.1	6.5	10.3	8.9	8.4
Price / Earnings Ratio - Non-Vot (X)	6.1	5.5	7.0	7.2	6.8
Gross Dividend per Share (Rs)	1.0	1.5	1.2	1.2	1.3
Gross Dividend Yield - Vot (%)	4.7	3.6	2.1	2.5	2.6
Gross Dividend Yield - Non-Vot (%)	6.1	4.2	3.1	3.1	3.3
Net Book Value per Share (Rs)	21.5	27.0	29.9	34.1	38.7
Return on Equity (%)	12.7	26.5	18.8	17.1	16.0
Market Price per Share - Vot (Rs)	21.4	36.0	54.9	49.0	49.0
Market Price per Share - Non-Vot (Rs)	16.3	29.0	37.3	39.5	39.5
GP Margin (%)	19.4	25.0	20.7	19.9	20.4

Note: Valuations are based on recurring EPS, Adj. for Capital Issues (if any); Historic Ratios are based on Y/E MPS
FY16E valuations adjusted for Super Gain Tax (SGT) payment of Rs.106mn

Key Trading Information	
Shares in Issue (mn)	120.0
Market Cap (US\$ mn)	287.0
Estimated Free Float (%)	49.0
3M Avg Daily Volume	12,147
3M Avg Daily Turnover (US\$)	109,881
12M High / Low (Rs)	460.0 / 342.1
3M / 12M Price Chg (%)	-6.8 / -13.5

Top 5 Shareholders – 30 Sep 2015		%
Chevron Ceylon Ltd		51.0
Wasatch Frontier		5.3
Citigroup Global Markets		2.5
Blackrock Frontiers		1.9
Aberdeen Institutional		1.6



Chevron Lubricants Lanka (LLUB), a 51% owned subsidiary of Chevron Ceylon Ltd., is the market leader in Sri Lanka’s lubricants market (retail segment comprises ~75% of sales, with the balance being industrial), with an estimated market share of ~50%. LLUB also exports to Bangladesh and the Maldives (~7% of total revenue)

Investment Case

- Market leader offering a highly recognized global brand, commanding strong brand equity, especially in the premium segment (~52% of total sales mix); aggressive branding efforts, superior distribution network and changing consumer profile to result in growth of premium segment
- Record high GP margin of 44.7% in 1-3Q2015 due to soft global oil prices, product premiumisation, and new blending plant efficiencies
- LLUB remains one of only three players with local blending facilities, thereby enjoying a ~13% tax benefit over players who import finished products
- Strong YoY growth in vehicle registrations not yet fully reflected in retail segment volumes as LLUB caters largely to secondary vehicle maintenance, post warranty period (total vehicle registrations grew +67% during 3Q2015)
- Plans to increase exposure to export markets, particularly Bangladesh, which though challenging and competitive, is a potentially fast growing market
- At an expected 90% payout for 2016E and 2017E, LLUB offers above market average gross dividend yields of >7% (current 12 month treasury bill yield at 7.3%)

Potential Challenges and Concerns

- LLUB’s market share eroded from ~80% to ~49% during 2007–2014, mainly in the non-premium segment, recovering marginally during 2015 to 50%
- High industry competition; 13 players in a slow growing market of ~54mn litres in total (total lubricants market contracted ~7% over 2011-2014)
 - Competition led by Indian Oil Corporation subsidiary Lanka IOC (LIOC) and state-owned Ceypetco may force LLUB to sacrifice margins to maintain market share
 - The 2016 National Budget proposed liberalisation of the lubricant market – threat of new entrants however remains low , given existing presence of all major brands
- Vulnerable to weakening currency, given nearly 100% of raw materials are imported
- The switch from thermal power to less lubricant-intensive hydro power has terminally reduced demand from the power segment; previously accounted for ~10% of volumes

LLUB: Valuation Ratios					
Year to 31 December	2012	2013	2014	2015E	2016E
Net Revenue (Rs mn)	14,428	11,197	11,520	11,352	12,138
Net Profit (Rs mn)	2,266	2,532	2,747	3,076	3,321
Earnings per Share (Rs)	18.9	21.1	22.9	25.6	27.7
Earnings per Share Growth (%)	-49.5	11.7	8.5	12.0	8.0
Price / Earnings Ratio (X)	10.7	12.7	17.4	13.5	12.5
PEG Ratio (X)	-0.2	1.1	2.1	1.1	1.6
Gross Dividend per Share (Rs)	11.0	15.0	20.0	23.0	24.9
Dividend Payout Ratio (%)	58.3	71.1	87.4	90.0	90.0
Gross Dividend Yield (%)	5.4	5.6	5.0	6.7	7.2
Return on Equity (%)	71.5	62.3	57.8	61.6	67.7
Net Book Value per Share (Rs)	34.4	40.3	43.3	39.3	41.4
Market Price per Share (Rs)	202.0	267.5	399.0	344.9	344.9
GP Margin (%)	26.4	36.8	40.0	44.3	40.7

Note: Valuations are based on recurring EPS, Adj. for Capital Issues (if any); Historic Ratios are based on Y/E MPS
2015E valuations adjusted for Super Gain Tax (SGT) payment impact of Rs.847mn

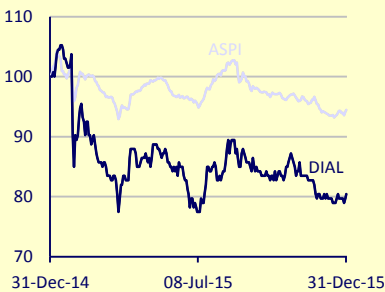
Key Trading Information

Shares in Issue (mn)	8,143.8
Market Cap (US\$ mn)	604.7
Estimated Free Float (%)	16.7
3M Average Daily Volume	2,254,095
3M Average Daily T/O (US\$)	172,555
12M High / Low (Rs)	14.0 / 10.3
3M / 12M Price Change (%)	-2.7 / -19.5

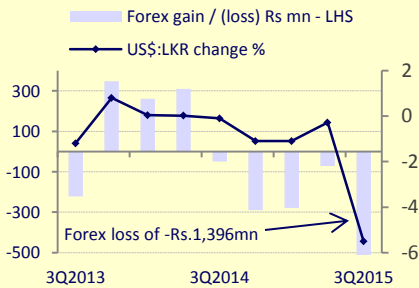
Top 5 Shareholders – 30 Sep 2015

	%
Axiata Investments (Labuan) Ltd	83.3
Employees Provident Fund	2.2
Genesis Smaller Companies	2.1
Wasatch Em Small Countries Fund	1.3
First State Indian Subcontinent Fund	1.1

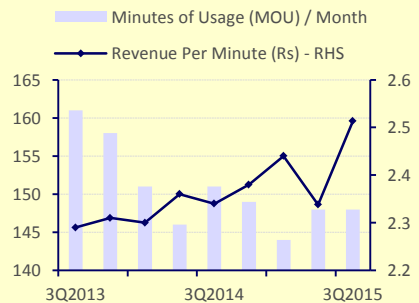
Relative Share Price Movement (%)



LKR:US\$ Change vs. DIAL's Forex (Loss) / Gains



DIAL : MOU and RPM



Dialog Axiata (DIAL), an 83% owned subsidiary of the Malaysian Axiata Group, is Sri Lanka's leading mobile telco (accounting for an estimated SIM market share of 41%), and also has a strong presence in broadband, tele-infrastructure, Pay TV and CDMA (Code Division Multiple Access)

Investment Case

- Focused marketing and innovative value added services to mitigate negative implications of saturated mobile segment (penetration at 100% with five operators); Average Revenue Per User (ARPU) to remain steady at ~Rs.365 – Rs.370 (US\$2.6) per month levels amid increased Revenue Per Minute (RPM) levels
 - RPM increased owing to withdrawal of free talk time given to pre-paid users during 3Q2015 (pre paid subscribers account for around 90% of DIAL's subscriber base)
- Accounts for a 41% SIM market share in the core Mobile segment (#1: with significantly higher revenue share) and 77% and 34% market shares in the under-penetrated Pay TV (DTV:#1) and Broadband (#2) segments respectively
- DIAL recently signed an investment agreement amounting to US\$175mn for development of ICT infrastructure. This encompasses, expansion of 3G and 4G high speed broadband services, development of fibre optic transmission network, international telecommunications network and digital satellite television infrastructure, expansion of digital services portfolio spanning ventures and initiatives in digital payment & commerce
- Robust growth potential in subsidiaries DTV and Dialog Broadband (DBN), with current penetration levels for Pay TV and Broadband at 17% and 18% of households respectively
- Industry consolidation may reduce intense price competition, with #3 (Etisalat), #4 (Airtel) and #5 (Hutch) mobile players speculated to be up for sale
- Data cost savings expected from DIAL's recent investment in Bay of Bengal Consortium to land a high capacity submarine cable in Sri Lanka at a cost of US\$30mn
- Strong near term EPS growth coupled by relatively low enterprise multiples (compared to the region) to re-rate the share up in the near term

Potential Challenges and Concerns

- US\$ debt (of US\$140mn) is susceptible to translation risk, resulting in volatility in quarterly earnings, although partially hedged by DIAL's US\$ revenue
- Government controlled Mobitel plays a significant role in the Sri Lankan mobile space and is expected to remain a strong competitor of DIAL
- Threats from Voice Over Internet Protocol (VOIP) providers to threaten the international termination revenue in the near term

DIAL: Valuation Ratios

Year to 31 December	2012	2013	2014	2015E	2016E
Revenue (Rs mn)	56,346	63,298	67,286	72,668	77,029
Net Profit (Rs mn)	6,021	5,194	5,872	6,062	7,959*
Earnings per Share (Rs)	0.7	0.6	0.7	0.7	1.0
Earnings per Share Growth (%)	15.8	-13.7	13.1	3.2	31.3
Price / Earnings Ratio (X)	11.2	14.1	18.4	14.4	10.9
Price Earnings / Growth (X)	0.7	N/A	1.4	4.5	0.3
Gross Dividend Yield (%)	3.6	3.3	1.0	2.8	3.3
EV / EBITDA (X)	4.5	5.0	6.1	4.6	4.2
Return on Equity (%)	17	15.1	13.9	13.3	16.2
Market Price per Share (Rs)	8.3	9.0	13.3	10.7	10.7

Note: Valuations and ratios on a recurring basis; 2015E equity adjusted for one off taxes amounting to Rs.2bn
* Assumes all 2016E fiscal proposals on the telco sector will be legislated in due course

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