

SRI LANKA

National Budget 2016

Sri Lanka – Third Wave of Reforms
22 November 2015

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National Budget 2016

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Executive Summary

- ❑ The National Budget Proposals 2016 can be termed as a reformist agenda. Being used to budget speeches that were extremely populist, or included implausible / regressive proposals, the proposals presented on 20 November 2015, though falling short of being 'revolutionary' as promised in the lead up, look to adequately address the short term risks in the economy, whilst setting Sri Lanka up for the long run
- ❑ The proposals look to instill confidence amongst the investment community. Overall, the proposals appear to have taken note of comments made by a range of stakeholders, whilst comprising a more medium to long term planning perspective
- ❑ Whilst state intervention is likely to remain, or return, in some industries, there seems to be better distinction being made between essential and non-essential involvement; thereby exiting some industries and/or projects. Removal of some exemptions and protectionist measures is a positive. Unlike in many previous years, the proposals do not appear to favour one segment of the labour force over another
- ❑ The GoSL forecasts the fiscal deficit for 2016E to decline to 5.9% of GDP (Rs.740bn), against a deficit of 6.0% (Rs.675bn) targeted for 2015E (surpassing previous target of 4.4%, or Rs.499bn)
- ❑ Total revenue and grants to rise at a staggering +39% YoY to Rs.2,047bn in 2016E. GoSL estimates total expenditure to increase +29% YoY to Rs.2,787bn in 2016E, with Public Investment to rise +68% YoY to Rs.868bn
- ❑ We are of the view there is likely to be some shortfall in revenue and overshoot on expenditure. However, we expect some scaling back in public expenditure in such a scenario. Accordingly 2016E fiscal deficit forecast at 6.0% of GDP (i.e. Rs.754bn)
- ❑ In the following pages, we have highlighted the key proposals of the Budget, including the potential impact on key sectors and selected listed companies
- ❑ It should be noted that the proposals laid out in the budget are not officially finalized by the GoSL, with information also limited in some instances, until the release of gazettes, and thereby the details on some of the proposals could be altered in the weeks ahead

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KEY GOSL REVENUE TAX PROPOSALS

CORPORATE TAX

Proposal

- Limit rate structure to only two tax rates, standard rate of 15% with the higher rate of 30%. The Higher rate of 30% is applicable for the profits and income of Betting and Gaming, Liquor, Tobacco, Banking and Finance including Insurance and Leasing, Trading activities other than manufacturing or providing of services
- Apply standard rate of 15% to all other sectors : w.e.f. 1 Apr 2016

Impact Analysis – Revenue loss of Rs.6bn to the GoSL

- Whilst measures taken to change the corporate tax structure is a positive development, reducing the already low direct tax component within the total tax revenue to remain a near term challenge in reducing income disparity

PAYE TAX

Proposal

- Increase PAYE tax free allowance to Rs.2.4mn from Rs.750,000 p.a.
- Set the applicable tax rate (above the tax free threshold) at 15%

Impact Analysis

- Expected to increase the disposable income levels of the low to middle income categories

NATION BUILDING TAX (NBT)

Proposal

- Increase NBT to 4% from 2%, whilst removing current exemptions on the Telecom service, Supply of electricity, Lubricants : w.e.f. 1 Jan 2016

Impact Analysis - Revenue increase of Rs.90bn to the GoSL

- Proposal is likely to be negative, given that majority of companies are likely to pass on the impact to the end consumer resulting in increased near term price pressures

VALUE ADDED TAX (VAT)

Proposal

- Revise current single rate to three bands
- 0% : export of goods and provision of services for offshore FX payments
- Standard rate of 8% : manufacturing or import of goods
- 12.5% : higher rate for Service sector - w.e.f. 1 Jan 2016

Impact Analysis – Revenue loss of Rs.25bn to the GoSL

- Higher service sector indirect taxes are likely to result in an inflationary impact whilst low / exempted manufacturing and export sector charges to result in economic efficiency

Two corporate income tax rates

PAYE tax simplified

NBT increased to 4%

Largest GoSL revenue proposal

Three bands for VAT

Export and manufacturing sectors favoured

Banking sector effective taxes to increase ~5.5% for 2016E

LCB leasing exposure as % of Advances - as at 30 Sep 2015

LCB	
COMB	6.9%
HNB	8.0%
SAMP	7.2%
SEYB	8.1%
NDB	7.2%
DFCC	8.6%
NTB	25.1%
PABC	9.1%
UBC	9.3%

Source : Respective Company Interims

COMB – Commercial Bank of Ceylon
HNB – Hatton National Bank
SAMP – Sampath Bank
SEYB – Seylan Bank
NDB – National Development Bank
DFCC – DFCC Bank
NTB – Nations Trust Bank
PABC – Pan Asia Banking Corporation
UBC – Union Bank of Colombo

Banking sector earnings to have an estimated -10% downgrade for 2016E

BANKING SECTOR

Proposal

- **Increase corporate taxes to 30% (from 28%): w.e.f. 1 Apr 2016**
- **Increase Financial VAT to 12.5% (from 11%): w.e.f. 1 Jan 2016**
- **Increase NBT to 4% (from 2%): w.e.f. 1 Jan 2016**
- **The revised corporate tax of 30% is applicable to banking and financial services and also to insurance and the leasing industries**

Impact Analysis

- Revised taxes are expected to increase the effective tax rate of the banking sector by ~5.5% resulting in its 2016E forecast ROEs reducing (refer table below) by ~150 bps (assuming no attempt at passing on indirect taxes)

Proposal

- **Cease engaging in leasing business: w.e.f. 1 Jun 2016**

Impact Analysis

- Excluding Licensed Banks from leasing business to have a negative impact on the banking sector as leasing plays an important role in sector top line growth and spreads. However, the proposal may have a limited impact as banks such as **COMB** and **SAMP** are expected to continue leasing through their subsidiary finance companies
- Whilst it is challenging to assess the direct negative ROE impact from this proposal (as our forecasts assumed tapering of the leasing portfolio w.e.f. 2016, on account of GoSL's revised vehicle import duty structures)
- Maintaining sector high spreads (esp. for Banks like **NTB** with ~25% leasing from total advances) will be a challenge going forward, as thrust alternative sectors such as SMEs comes with a different (generally high) risk profile

Proposal

- **Remove stamp duty of 1.5% on local usage of credit cards**
- **Increase stamp duty to 2.5% (from 1.5%) for foreign purchases**

Impact Analysis

- Proposal to be positive with transaction volumes likely to increase for LCBs on account of slightly increased disposable income

2016E CT CLSA Estimates	COMB	HNB	SAMP	SEYB	NDB	NTB
Net Profit : NP (Rs mn)^	12,831	12,283	7367.1	4,567	4,417	3,165
EPS (Rs.)^	14.5	30.4	42.8	13.2	26.7	13.7
EPS growth (%)^	7.4	20.7	14.8	15.2	33.8	24.5
ROE (%)^	17.4	15.7	17.7	15.8	14.5	19.2
NP (Rs mn)*	11,641	11,138	6,744	4,144	3,963	2,861
EPS (Rs.)*	13.2	27.5	39.1	12.0	24.0	12.4
EPS growth (%)*	-2.6	9.4	5.1	4.5	20.0	12.5
ROE (%)*	15.9	14.3	16.3	14.4	13.0	17.5

^2016E forecast earnings

*2016E forecast earnings after adjusting the overall tax impact (assuming all proposed taxes will be legislated)

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BANKING SECTOR

Proposal

- Lend at least 10% of bank's loan portfolio to Agriculture, 5% to SMEs and 5% to women & youth
- Limit pawning exposure to 5%

Impact Analysis

- Proposal on minimum lending requirement to be neutral as majority of Banks comply with requirements
- Whilst the Pawning exposure of the private banks are already within the stipulated 5% or less, the Government owned banks are further required to reduce their respective exposure levels in the near term to comply with the pawning exposure limit
- Pawning Exposures of GoSL Banks: **Bank Of Ceylon (BOC)**: 7% as at 30 Sep 2015, **People's Bank (PB)**: 14% as at 30 Jun 2015

Proposal

- Merge Licensed Specialized Banks (LSBs);
- HDFC Bank and State Mortgage and Investment Bank (SMIB) to create a much stronger "National Housing Bank"
- Lankaputhra Development Bank to be merged with Regional Development Bank (RDB) to create the "Lanka Enterprise Development Bank"
- Sri Lanka Savings Bank to merge with National Savings Bank (NSB)
- Link the Divinaguma Bank to NSB, for the protection of the Divinaguma fund ensuring its professional management
- Encourage voluntary mergers of banks (LCBs and LSBs)

Impact Analysis

- Proposal to merge LSBs to result in positive synergies that will likely enable merged entities to leverage on their increased balance sheet size
- Proposal to merge LCBs and LSBs voluntarily however, is unlikely to result in positive synergy as the GoSL emphasizes a zero staff retrenchment merger process. As a result we do not expect this proposal to materialize, unless it is facilitated by the GoSL or via the regulatory bodies with a synergetic approach to merging entities

Proposal

- Impose charges on cash (deposit) withdrawals
- Fee structure : Less than Rs.1mn : no charge, between Rs.1mn and Rs.10mn : 2%, above Rs.10mn: 3%

Impact Analysis

- Above proposal is likely to encourage the general public to invest in non savings financial assets in the medium term

Minimum lending requirements and limits for Banks

LCBs reduced their pawning exposure with gold prices falling 28% YoY in 2013

LCB Pawning Exposure As % of Total Advances

LCB	2013 [^]	2015 [*]
BOC	16.9%	7.0%
PB	25.5%	14.1%~
COMB	1.6%	0.5%
HNB	12.7%	3.6%
SAMP	19.4%	4.2%
SEYB	10.0%	4.9%
DFCC	3.3%	0.9%
NDB	1.6%	0.1%
NTB	3.0%	0.6%
PABC	6.4%	1.9%
UBC	9.9%	1.0%

Source : Respective Company Interims

* as at 30 September 2015

~ as at 30 June 2015

^ as at 31 December 2013

LSB mergers to result in better economic efficiency in the medium term

Charges on cash withdrawals > Rs.1mn

Financial hub
to benefit from Sri Lanka's
geographical positioning

EXIM bank to be the apex
of sustainable growth for
Sri Lanka in the medium to
long term

Banking sector cost to
income ratios are expected
to deteriorate slightly in
the medium term

BANKING SECTOR
<div> <div>Proposal</div> <ul style="list-style-type: none"> Establish a Colombo International Financial Centre (CIFC): w.e.f. 1 Apr 2016 - specific zone in line with the Dubai International Financial Centre Construct a 300,000 sqft facility in D. R. Wijewardena MW, Colombo, consisting a commercial court for resolution of commercial disputes National Payment council has been revived to improve and enhance the financial systems of the country </div> <div> <div>Impact Analysis</div> <ul style="list-style-type: none"> To be positive in positioning Sri Lanka as a boutique financial hub in the medium to long term However, amending necessary infrastructure such as physical, digital, regulatory and human capital via a focused strategy backed by the GoSL is required in order to operate a high standard financial center </div>
<div> <div>Proposal</div> <ul style="list-style-type: none"> Set up an Export Import Bank (EXIM Bank), with an initial capital of Rs.25bn, jointly held by the GoSL and the industry: w.e.f. 1 Apr 2016 Allocate Rs.50mn as seed capital being the contribution of the GoSL. Also envisaged to list this company in the CSE </div> <div> <div>Impact Analysis</div> <ul style="list-style-type: none"> Proposal to benefit Sri Lanka from an economic point of view. With industry participants also expected to jointly hold ownership of the proposed EXIM bank, we expect the banking sector to benefit in growing its market share (in trade finance) amid increased exports to GDP in the medium term. Relatively large trade financiers like COMB and HNB may further benefit on account of the proposed initiative </div>
<div> <div>Proposal</div> <ul style="list-style-type: none"> Expand individual bank branch network by 15% by opening branches in lagging regions with at least 6 employees per branch </div> <div> <div>Impact Analysis</div> <ul style="list-style-type: none"> Whilst there is no time line mentioned for the above populist proposal, we however do not expect a material deterioration in sector efficiency (i.e. a material rise in sector cost to income ratios), since we believe the GoSL will allow the banks to open the proposed new branches within a reasonable time frame whilst preserving economic efficiency </div>

FINANCE SECTOR

Proposal

- **Cease Leasing businesses from LCBs - w.e.f. 01 Jun 2016**

Impact Analysis

- Likely positive impact for Licensed Finance Companies (LFCs) which faced stiff competition from LCBs who significantly expanded their leasing exposure and competed on price (with access to lower cost funds)

Proposal

- **Provide 100% guarantee on deposits of all the registered finance companies (by CBSL) - w.e.f end Jan 2016 (current deposit guarantee is 50%)**

Impact Analysis

- Due to government guarantee, depositors may likely shift their savings from LCBs to LFCs who offer higher deposit rates

Proposal

- **CBSL to issue directions that will restrict the ability of financial institutions to grant unlimited amounts of expensive credit to borrowers**

Impact Analysis

- Possibly targeting recent explosive growth in microfinance type of lending by certain LFCs
- Possible cap on loan and leasing disbursements to restrict the ability to further expand interest spreads

Proposal

- **Revise excise duties for certain categories of motor vehicles resulting in increase the values**

Impact Analysis

- With auto financing being a major portion of LFCs business, high asset growth witnessed in recent quarters (amid record high new vehicle registrations) not expected to continue, due to expected slowdown in local vehicle market

Annualized Funding Cost of Major LCBs and LFCs – 2Q16/3Q2015 (%)

CDB	LFC	9.8
CFIN	LFC	8.7
COCR	LFC	11.0
COMB	LCB	4.9
HNB	LCB	4.7
LFIN	LFC	9.0
LOFC	LFC	9.2
NDB	LCB	5.6
NTB	LCB	5.3
PLC	LFC	8.6
SAMP	LCB	5.0

Leasing and HP Portfolio Growth Leading LFCs and LCBs

	FY12	FY15	CAGR (%)
CDB	9,942	22,865	32.0
CFIN	41,705	56,552	10.7
COCR	3,449	19,191	77.2
COMB	22,961	27,263	5.9
HNB	26,435	27,989	1.9
LFIN	24,807	34,754	11.9
LOFC	13,720	13,301	-1.0
NDB	5,475	13,013	33.5
NTB	19,383	27,584	12.5
PLC	93,989	85,232	-3.2
SAMP	9,530	19,467	26.9

Source : Respective Company Interims

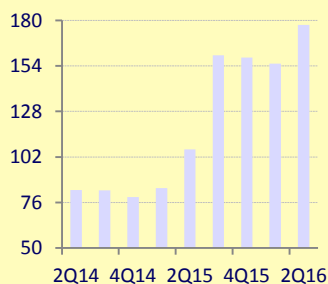
Fixed Deposit Rates (%)

	Dec-14	Apr-15	Oct-15
CFIN	7.3	7.3	8.0
COMB	5.5	6.5	6.5
HNB	6.0	6.5	6.5
LFIN	7.5	8.0	10.2
LOFC	7.5	8.0	10.0
NDB	6.0	6.8	7.5
NTB	5.5	6.0	6.5
PLC	6.5	8.0	7.5
SAMP	5.0	5.5	6.5

Source : CT CLSA

CDB – Citizens Development Business Finance
CFIN – Central Finance Company
COCR – Commercial Credit and Finance
LFIN – LB Finance
LOFC – Lanka Orix Finance
PLC – People's Leasing & Finance

Sri Lanka New Vehicle Registrations ('000)



Source : Department of Motor Traffic

ITOL increased and a fee of Rs.50k to be charged per tower

TELECOMMUNICATION

Proposal

- **International Telecommunication Operator Levy (ITOL) will be increased from US\$0.09 to US\$0.12 per minute : w.e.f. 1 Jan 2016**
- **An annual fee of Rs.50,000 per tower to be imposed : w.e.f. 1 Jan 2016**

Impact Analysis

- Whilst international termination revenue provides an average margin of around 60% for telcos such as **Dialog Axiata (DIAL)**, increased ITOL is expected to hamper international termination revenue (~18% of total revenue for **DIAL**) which is already on the decline, amid increased Voice Over Internet Protocol (VOIP) tool usage (such as Viber, Skype and Whatsapp)
- Increased tower fee of Rs.50,000 is however likely to result in a marginal negative impact for the sector as we estimate the fee impact on bottom-line to be below 2% of net profit (for PAT positive market players)

HEALTHCARE

Proposal

- **Establish pharmaceutical zones as PPPs**
- **Allocated ~Rs.25bn for public healthcare expenditure**

Impact Analysis

- As indicated by the President's manifesto, a key focus area for development
- Improvement in the public healthcare system will likely pose a greater threat to private hospitals
 - Refurbishment of Sri Jayewardenepura Hospital - Rs.1.5bn
- Pharmaceutical zones will encourage the local pharma manufacturers to set up their own plants – listed **CIC Holdings (CIC)**, **J.L Morison Sons and Jones (Ceylon) (MORI)** and **Sunshine Holdings (SUN)** likely to participate
- A buy-back arrangement will be agreed upon to purchase the government requirement of the respective pharmaceutical items manufactured and they will also be encouraged to access markets on their own

GoSL to increase public spending on Healthcare significantly

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TOBACCO & ALCOHOL

Proposal

- **Implement a corporate income tax of 30%**
- **Impose a surtax at the rate of 25% of income tax liability w.e.f 01 Apr 2016, which were earlier subject to income tax of 40%**
 - **Revenue proposal to raise additional Rs.2bn**

Impact Analysis

- Combined ETR of 37.5% for tobacco and alcohol (from current ~40%)
- Subsequent to the consolidation of excise duties in Oct 2014, VAT and NBT were removed for tobacco and alcohol manufacturers
- Excise duties on cigarettes and alcohol were increased w.e.f 03 Oct 2015; gazetted without being proposed in the Budget as has been the norm in recent years. Consequently, cigarette and alcohol players increased prices of most varieties of their products w.e.f 03 Oct 2015

Impact Analysis – Tobacco

- Legal local monopoly **Ceylon Tobacco Company (CTC)** raised prices of its cigarette sticks >84mm Rs.2.00 - 3.00 per stick subsequent to the excise duty revision, amounting to Rs.2.14 per stick; to be factored in 4Q2015E
- The excise duty led price revision was slightly higher than anticipated, which may result in a near term slowdown in volumes

Proposal

- **Increase customs duty on beedi leaves**
- **Increase customs duty on beedi as a finished product**
- **Increase beedi manufacturing license fee from Rs.1,500 to Rs.5,000**

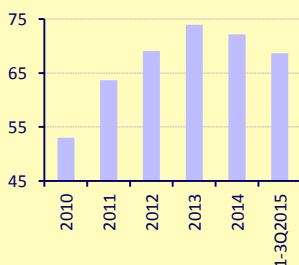
Impact Analysis – Tobacco

- The higher taxation on beedi is positive for CTC; cigarette volumes -20% during 2011-2014 amid demand shift to cheaper substitute – beedi. Volumes recovered +15% in 2015YTD amid improved consumer sentiment
 - Consequently, total Government levies paid by CTC +51% YoY to Rs.68.8bn in 1-3Q2015
- Significant price disparity between beedi (Rs.2 per stick) and cigarettes (closest equivalent at Rs.10 per stick) due to materially lower taxation
- Taxation on beedi was just ~10%, on import duty of beedi leaves, vs. ~75% per cigarette stick. Therefore, despite the recent surge in beedi volumes, the contribution to GoSL revenue remained negligible
- There seems to have been a restructuring of the excise duties on cigarettes in the latest Budget – we do not anticipate a material impact for CTC – we seek further clarification from management

Excise duties revised for tobacco and alcohol on 03 Oct 2015

JPGL - 85% of CTC's sales mix - raised up by Rs.3 per stick to Rs.33

CTC: Government Levies (Rs bn)



TOBACCO & ALCOHOL

Proposal

- Increase import duty on foreign liquor and imported ethanol, w.e.f 21 Nov 2015. Revenue proposal to raise additional Rs.16bn
- Curtail illicit liquor circulation and collect further Rs.100bn revenue
 - Label every tax-paid liquor bottle with a fool proof sticker
 - Increase the annual manufacturing license fee of Rs.150mn and impose a single annual fee instead of the per bottle license fee
 - Amend Excise Ordinance to make provisions to collect a minimum excise duty of Rs.250mn per month from manufacturers

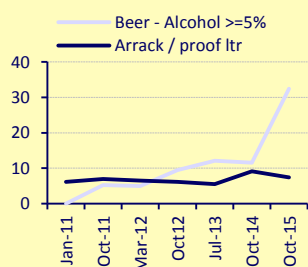
Impact Analysis – Alcohol

- **Distilleries Co. of Sri Lanka (DIST)**, holding ~70% legal arrack market share, raised prices of most varieties by ~Rs.60 (+6%) per 750ml bottle w.e.f 03 Oct 2015 subsequent to the excise duty revision, including for “Extra Special” to Rs.1,040 (~90% of DIST’s sales mix)
- Subsequent to a further excise duty revision and an import duty hike of ethanol in the Budget 2016, DIST is expected to increase product prices again shortly (increased twice in Oct 2014 as well). The Ministry of Finance stated that the price of arrack would increase by Rs.120 to Rs.150
- The possible return of Pelwatte Sugar Industries (SUGA) by the GoSL, to provide some relief by enabling higher sourcing of ethanol locally
- **Lion Brewery (Ceylon) (LION)**, commanding ~85% beer market position, increased strong beer 500ml can by Rs.50 to Rs.230 (+28%) w.e.f 03 Oct 2015. Strong beer with an alcohol content of 8.8% accounts for ~90% of LION’s sales mix
- We await to see if LION will increase prices again, subsequent to the further upward revision in excise duties in the Budget 2016. The Ministry of Finance stated that the price of beer would increase by Rs.30 to 40
- The +32% sharp excise duty increase in Oct 2015 on beer largely narrowed the pricing gap between hard alcohol and strong beer. Consequently, LION reported of a -27% MoM decline in volumes in Oct 2015
- Meanwhile, a potential additional increase on hard alcohol prices to soften the negative volume impact for the local beer industry, depending on the price increases the two sectors decide to implement
- Strong recovery in hard alcohol sales volumes, up over 10% in 2015YTD, amid improved consumer demand and cracking down of the illicit alcohol market, resulted in an increase in GoSL levies earned
- Given GoSL’s temperance program and that tobacco and liquor are not captured in the inflation basket, excise duty increases on tobacco and liquor is one of the GoSL’s most popular mechanisms to raise revenue; combined accounting for ~13% of total GoSL revenue

New Government taken firm stance on illicit alcohol market

Additional price increase expected in the hard alcohol space

Excise Duty Revisions on Alcoholic Beverages (Var %)



Source : Ministry of Finance & Planning

Tobacco and liquor combined account for ~13% of GoSL revenue

MOTOR VEHICLES

- **Introduce a simple unit rate of excise duty for the vehicles on the basis of cubic centimeters (cc), while duties on the percentage basis on certain vehicles also to be revised**
Consequently, price of certain categories of Motor Cars, Dual Purpose Vehicles and Heavy Vehicles were increased w.e.f 21 Nov 2015 – price of most Hybrid vehicles were also increased

Impact Analysis

- Total vehicle market to face a near-term slowdown, negatively impacting the vehicle importers and LFCs, who finance majority of vehicle imports

PLANTATION

Proposal

- **All Regional Plantation Companies (RPCs) to be listed in the CSE**

Impact Analysis

- Increase the total market cap of the CSE
- However, this is likely to be a time consuming proposal as all RPCs are currently struggling with volatile global commodity prices and high maintenance costs

Proposal

- **Relax restrictions on the usage of RPC land in the cultivation of different crops**
- **Leases of RPCs that commit long term investment for replanting and modernizing will be extended for 50 years**
- **Two year tax exemption period will be granted for companies engaged in tea and rubber plantation**

Impact Analysis

- RPCs to shift their plantations from traditional tea & rubber to more high yield plantations such as oil palm
- Earnings to be slightly improved from tax exemptions – however, some companies are not liable for taxes due to operating losses

FISHERIES

- **Special Commodity Levy (SCL) on the import of fish to be increased to Rs.50 per Kg (from previous Rs.35 per Kg)**
- **Continued efforts to lift the EU fish export ban**

Impact Analysis

- Reduce fishery imports which currently amount to ~US\$150mn p.a and improve local fish exports. Positive impacts for listed companies such as **Tess Agro (TESS)** who engage in fish exports

Revisions of vehicle excise duties to increase vehicle prices

All RPCs to be listed

Relaxed restrictions on the usage of RPC land

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Import duties on construction related materials / machinery to be removed

CONSTRUCTION

Proposal

- Expansion of road network and Central expressways – allocated Rs.15bn
- Continue with the tax exemption on the income generated outside of Sri Lanka
- Remove import duties on cranes and concrete mixers
- Remove the Construction Industry Guarantee Fund Levy
- Introduce a Payment Guarantee Security Act
- Increase corporate income tax to 15% from the current concessionary rate of 12%

Impact Analysis

- Encourage higher participation of construction sector companies in public infrastructure projects and collaborating more closely with the GoSL
- Likely revival in the overall construction sector, subsequent to the slowdown witnessed in 2015YTD mainly amid political related uncertainty
- Encourage small and medium scale contractors and to create an improved level playing field
- Payment Guarantee Security Act which will provide adequate cover in recovering payments
- Listed players **Access Engineering (AEL)** and **MTD Walkers (KAPI)**, will likely benefit from these proposals whilst **Alumex (ALUM)** and **Tokyo Cement Company (Lanka)** to have an indirect benefit
- Currently construction sector contribution to GDP stands at ~7% and it is expected to increase in the near to medium term - ~Rs.658bn expenditure
- Negative impact from higher taxation with increased cash outflow, deteriorating net margins to however be partly compensated for by the above proposals

Proposal

- Remove tiles, ceramic, and sanitary ware, from the negative list of the Board of Investment (BOI)

Impact Analysis

- Likely to result in increased imports to the country with the reduced import tariffs - local market will face increased competition whilst listed players such as **Royal Ceramics (RCL)**, **Lanka Ceramic (TILE)**, **Lanka Tiles (TILE)**, **Lanka Walltiles (LWL)** will likely be negatively impacted

Tiles, ceramic and sanitary ware removed from BOI negative list

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CONSTRUCTION AND ENGINEERING/POWER AND ENERGY

Proposal

- Liberalize the bitumen market so as to enable the expeditious rehabilitation and construction of roads and expressways
- Encourage the private sector to engage in deep sea bunkering
- Encourage ship building, ship breaking and ship repair activities – allocate government land in Hambantota and Trincomalee

Impact Analysis

- Listed bitumen manufacturers **Lanka IOC (LIOC)** and **Industrial Asphalts Ceylon (ASPH)** likely to face increased competition in bitumen and bunkering (LIOC only) operations
- Listed ship builder / repairer **Colombo Dockyard (DOCK)**, **MTD Walkers (KAPI)** may witness the entrant of regional ship builders, who may set up operations given Sri Lanka's strategic location

Encourage ship building, breaking and repair activities

Regional ship builders may set up operations

LUBRICANT MARKET

Proposal

- Liberalize the lubricant market
- Remove lubricants from Board Of Investments negative list
- Remove Nation Building Tax (NBT) exemption for lubricants w.e.f 01 January 2016

Impact Analysis

- Possible entry of new players with the issuance of new licenses – regulator had previously capped issuance at existing 13 licenses. Likelihood of new entrants in the short term is however low, given the limited scope for growth in the local market
- **Chevron Lubricants Lanka (LLUB)** anticipated to marginally benefit from the proposed tax changes, with the decline in corporate income tax slightly more than fully compensating the 4% NBT impact

Lubricant Market to be liberalized

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PROPERTY

Proposal

- Remove the restriction on transfer of land for certain identified investments - w.e.f 01 Jan 2016
- Remove the tax on leasing of lands from current standard rate of 15% and concessionary rate of 7.5% - w.e.f 01 Jan 2016
- Replace the Strategic Development Project Act (SDA) with the New Investment Act

Impact Analysis

- Impact for listed companies was anyway expected to be limited, given that the big ticket projects had already received exemptions under the SDA, which would prevail. Further, even some smaller scale projects were likely to receive exemptions on a case by case basis
- Nevertheless, the new proposals would improve investor confidence to attract foreign investments, which was previously negatively impacted by the restrictions and retrospective taxes proposed in the Land Alienation Act
- Clear any confusions over lease taxes and payments of the same and would attract further investment flows to the country
- Proposal to introduce new resident visa for foreigners (at a fee of US\$1mn for a period of 3 years and US\$5mn for permanent residence) would encourage foreigners to purchase property / apartments in Sri Lanka
- Potential beneficiaries in the listed space would be **John Keells Holdings (JKH)** and **Overseas Realty (OSEA)**

RETAIL TRADE

Proposal

- Exclude the wholesale and retail trade from VAT (other than by a manufacturer)
- Increase corporate income tax from 28% to 30% - other than manufacturing and providing services

Impact Analysis

- Removal of VAT is considered positive for the retail industry, which was negatively affected by the “deemed VAT”, where the companies involved had to pay VAT on 75% of turnover, regardless of its composition
- Currently NBT payable by retailers is “2% of 50% liable” (assumed as 50% of retail turnover). However, it is yet unclear if the proposed 4% NBT would be on total turnover or continue to be on 50% of turnover
 - If the base is increased to include total turnover, the cost incurred would be higher than the benefit from the VAT removal
- On the assumption that the increased NBT will continue to be chargeable on 50% of turnover, likely beneficiaries would be **Cargills Ceylon (CARG)**, **Ceylon Cold Stores (CCS)**, **Richard Pieris And Company (RICH)** and holding companies such as **JKH** and **C T Holdings (CTHR)**

*Remove Land Lease tax
for foreigners*

*Residential VISA for
foreigners to help grow
property development
industry*

*Removal of VAT for
retail and wholesale
trade*

Milk powder MRP last revised down Rs.61 to Rs.325 in Jan 2015

Local liquid milk prices revised +17% in Aug 2015

Implementation of reduction in milk powder MRP unclear

DAIRY

Proposal

- Reduce the MRP of domestically manufactured milk powder by Rs.30 from Rs.325 to Rs.295 per 400g
- Encourage commercial scale dairy farming on a Public Private Partnership (PPP) arrangement
- Reduce import taxes on machinery and equipment related to the dairy industry

Impact Analysis

- Only **Nestle Lanka (NEST)**, state owned Milk Industries of Lanka Company (MILCO) and unlisted Pelwatte Dairy produce milk powder locally
- The reduction in product prices may possibly encourage a switch to local milk powder, though Fonterra Brands Lanka (Pvt) Ltd dominates the milk powder segment (only imports)
- Nevertheless, the reduction in MRP will add further pressure on the already low margin segment, particularly on the back of the +17% price hike in local fresh liquid milk in Aug 2015
- The implementation is yet unclear as locally produced milk powder does not fall under the Consumer Affairs Authority (CAA). State-owned MILCO may take the initiative in the price cut though its market presence and distribution in milk powder segment is relatively limited
- Further details required on how the Rs.30 per 400g packet subsidy would be distributed to producers
- Developing the local dairy sector and reducing dependence on milk imports – ~US\$400mn expenditure – remains be a key goal

National Budget 2016

Sri Lanka – Third Wave of Reforms

*Remove share
transaction levy of
0.3%*

*Rs.79bn of debenture
issues in 2015YTD*

*Government will
remove restrictions
on Global Logistics
Companies*

CAPITAL MARKETS

Proposal

- Increase market cap to Rs.50bn (from current Rs.21bn)
- Complete CSE demutualization during 2016
- Remove share transaction levy of 0.3%
- Exempt income from dividends on investments made by foreigners in listed shares from income tax
- Provide a two year tax concession for companies listing in the CSE
- Provide a three year tax concession for local companies listing in foreign exchanges (such as London, Singapore, Hong Kong, Mumbai)
- Create a new SME board on the CSE
- Waive off the income tax and withholding tax applicable to the corporate debt securities market
- Examine other bond markets as Chinese Yuan and Sukuk bonds
- Implement a commodity exchange regulated by the SEC (for tea, rubber, coconut etc.)

Impact Analysis

- The removal of the share transaction levy from both the buyer and seller on each transaction to likely increase market activity
- The regulator seems keen to improve overall market participation, also via the use of better technology and lower trading costs
- Lack of new substantial proposals to encourage new listings may continue to be a hindrance to improving overall equity market liquidity
- Potential listings of stakes of state-owned enterprises (SOEs) to be a key catalyst to boost market liquidity
- Tax concessions for the debt market to attract further issues; record high Rs.79bn raised via debentures in 2015YTD (vs. Rs.62bn in 2014)

LOGISTICS

Proposal

- Remove restrictions on Global Logistics Companies
- Issue regulation to stipulate designated areas for logistics hub and these areas will be strictly outside the BOI zones
- Liberalize entry into international freight forwarding

Impact Analysis

- Possible increase in competition for companies engaged in logistics operations such as **Aitken Spence (SPEN)**, **John Keells Holdings (JKH)**, **Expolanka Holdings (EXPO)** with opening up of the industry to new foreign operators
- International players may explore opportunities given Sri Lanka's geographic proximity and resultant potential as a transshipment hub

National Budget 2016

Sri Lanka – Third Wave of Reforms

TOURISM

Proposal

- Provide tax benefits in line with the triple deduction made available for hospitality skill development
- Grant a 50% tax holiday for five years for companies incorporated specifically to engage in Meeting, Incentives, Conferences and Exhibitions (MICE) activities - allocated Rs.3bn
- Build a convention hall with at least 7,000 seating capacity in Colombo
- Mandatory registration of all hotels under the Tourism Development Authority by 1 June 2016

Impact Analysis

- Proposal aiming to develop Sri Lanka as a tourism hub to attract more arrivals, with a target of 4.5mn arrivals by 2020 (from current 1.8mn)
- City hotels likely to be benefitted in the long term due to increased arrivals for MICE events, particularly listed conglomerate, **John Keells Holdings (JKH)**, leading player in the Colombo city hotel space together with **The Kingsbury (SERV)**, **Tal Lanka Hotels (TAJ)**, **Galadari Hotels (Lanka) (GHLL)**
- New convention hall will be built in collaboration with the private sector
- Integrated Resort (IR) of **JKH** may potentially lose its competitive advantage with the proposed new convention hall

Proposal

- Remove the Tourism Development Levy (TDL) of 2.5%
- Increase corporate income tax to 15% from the current concessionary rate of 12%
- Increase Value Added Tax (VAT) for services to 12.5% from current 11%

Impact Analysis

- Overall marginal negative impact anticipated, amid the benefits from the removal of the TDL being insufficient to compensate for the upward revision in other taxes (corporate, NBT and VAT)

Rs.3bn allocated to encourage MICE facilities

JKH's IR to potentially lose competitive advantage

National Budget 2016

Sri Lanka – Third Wave of Reforms

BETTING AND GAMING

Proposal

- Remove the present entry fee of US\$100 per person
- Increase the annual levy for carrying on the business of casino from Rs.200mn to Rs.400mn
- Reduce the annual levy for carrying on the business of playing ruddyino from Rs.200mn to Rs.5mn
- Make directors and shareholders personally liable for non-payment or any act which is done to avoid payment of Casino Industry Levy (one off) introduced in the interim budget
- Implement a corporate income tax of 30%
- Impose a surtax at the rate of 25% of income tax liability, for those operations which were earlier subject to an income tax rate of 40%
 - All proposals applicable w.e.f. 01 Jan 2016 apart from tax rates which will be effective from 01 Apr 2016

Impact Analysis

- The removal of the entry fee would be positive for tourism development within Colombo. The removal for both foreigners and locals was however unanticipated, given the general practice in the region to charge from the residents of the country whilst foreigner are exempted
 - Eg. Singapore casinos (Marina Bay Sands and Resort World Sentosa) charges an entry levy of US\$100 for all Singapore citizens and permanent residents seeking admission to casinos
- The increase in gaming levies to further increase GoSL revenue; GoSL collected Rs.815mn from the Betting and Gaming Levy in 2014
- Some relief to be provided from the reduction of the effective tax rate to an estimated 37.5% (from the current 40.0%)
- It is however not yet clear whether gaming establishments would be liable to make the NBT payment of 4% as they are currently already charged a 10% Gross Gaming Revenue (GGR) levy
- No impact seen for listed players. However, overall proposals seen as positive for GoSL and Sri Lanka tourism. Further proposals expected in the medium term to better regulate the industry

*Increase casino
operating levy*

*Surtax of 25% -
however effective tax
rate lowered*

Sri Lanka – Third Wave of Reforms

Incentives and funding facilities to encourage MSMEs

Streamline micro finance businesses

Immediate cash flow solution for farmers

MICRO, SMALL and MEDIUM ENTERPRISES (MSMEs)

Proposal

- **Initiate a venture capital approach to provide equity financing facilities to SMEs – also reduce Corporate Income Tax by 50% for Venture Capital Firms for a period of five years – w.e.f 01 Apr 2016**
- **Construction of mini-industrial parks (incubators to assist MSMEs) - tax rate for these investments will be reduced by 50% for a period of three years from the year in which the profit is generated**
- **Implement a MSMEs Credit Guarantee Scheme – 75% of the principal amount if in default of the total facility will be guaranteed**

Impact Analysis

- Strategy formalization and tax incentives to boost the MSME sector – increase private sector investments in the medium term
- Reduced risk profile and increased financing requirements to create opportunities for LCBs and LFCs to participate in SME sector

Proposal

- **Establish regulatory authorities to streamline Micro Finance Business - all Micro Financing Agencies to be registered**

Impact Analysis

- Likely reduction of informal micro lending facilities, providing more opportunity to LFCs and LCBs
- Encourage banks and finance companies to increase exposure in currently informal micro finance segment

AGRICULTURE

Proposal

- **Remove import duties pertaining to import of agriculture machinery and equipment**
- **Provide unutilized or underutilized government land to develop seeds and plants for agriculture**
- **Eliminate post-harvest losses (which amounts to 30-40% of crop) via systematic warehousing methods**

Impact Analysis

- Increase the local agricultural production and reduce import requirement

Proposal

- **Solution for immediate cash flow issues of the farmer – ability to use the warehouse receipts to claim up to 50% crop value from the bank**

Impact Analysis

- Possible increase in the overall agriculture sector lending in the market, given minimum sector lending requirements applicable for LCBs. Further, relatively high cash flows in the sector to increase consumer demand, with farmers being a major consumer segment of the country

National Budget 2016

Sri Lanka – Third Wave of Reforms

Labor laws to attract
BPO and KPOs

LABOUR MARKET

Proposal

- Amend labour laws to attract BPO and KPO business. Increase female labour force participation which is currently at 35% (vs. 65% male)
- Establish an employment council to ensure minimum wages

Impact Analysis

- BPO and KPO are a key for country's export oriented growth. Sri Lanka has the necessary skills and infrastructure to attract such investments
- Increase in the female participation in the labor force would improve the disposable income and hence more spending power
- Regulation in minimum wages could increase cost of production in companies. However it would also increase the disposable income and spending power of working population

EDUCATION

Proposal

- Facilitate education with continuous teacher training, accommodation, upgrading primary schools, providing facilities to secondary schools, implement a project to improve the facilities and the quality of neglected schools, attuning the vocational training strategy and establish Mahapola University

Impact Analysis

- Education initiatives to increase labor productivity in the medium term to long term
- Training provided in the SME sector is likely to improve the necessary skills in the SME personnel which would contribute to future economic growth

Establish Mahapola
University

National Budget 2016

Sri Lanka – Third Wave of Reforms

SOEs to bring under a Government owned holding company

STATE OWNED ENTERPRISES

Proposal

- **Bring SOEs under a Government owned holding company**
 - **The shares of these enterprises will be passed onto a Public Wealth Trust (PWT) to be managed by a diverse board**
 - **Key SOEs will be evaluated based on Key Performance Indicators (KPIs)**
- **Amalgamate EPF and ETF once a consensus has been reached between the government and the trade unions**

Impact Analysis

- We believe the restructuring would result in better management and reduce political intervention as SOEs would be centrally managed
- Management of the SOEs would be more transparent as they would be answerable to the parliament
- Since SOEs will be evaluated on KPIs it would increase the efficiencies and hence potentially reduce the significant losses incurred in past few years, which would be favorable to the government fiscal deficit

Proposal

- **Restructure Sri Lankan Airlines with professional management**
- **Revitalize Lak Sathosa through debt restructuring**

Impact Analysis

- The restructuring would enable these SOEs to reduce the heavy debt outstanding and hence heavy interests payments which would eventually reduce the tax burden on the general public
- Lak Sathosa currently has ~308 outlets across country. Restructuring is likely to create competition for **Cargills Ceylon (CARG)** and **Ceylon Cold Stores (CCS)**

Proposal

- **Streamline the GOSL's investment portfolio. Exit partially or fully from non-strategic investments in Lanka Hospitals (LHCL), Hotel Developers (HDEV), Hyatt Residencies, Waters Edge by listing in the CSE during 2016**

Impact Analysis

- Divestments would be positive for investor environment and improve market liquidity

Restructure Sri Lankan Airlines and Lak Sathosa

STATE OWNED ENTERPRISES

Proposal

- **Establish a Special Purpose Vehicle (SPV) for the Southern Expressway and the Katunayake Expressway**
 - Invite Private investors into the SPV with a guaranteed minimum return
- **Provide legislative backing to broaden and strengthen the Public Utilities Commission of Sri Lanka to include the National Water Supply and Drainage Board and the Ceylon Petroleum Corporation whilst enabling a more cost reflective transparent pricing mechanism**

Impact Analysis

- SPV is likely to accelerate the infrastructure development initiatives.
- Likely to reduce the debt cost burden of these SOEs
- Global oil fuel price formula expected to be implemented

POWER AND ENERGY

Proposal

- **Encourage the Ceylon Electricity Board to partner with the private sector to harness on non-renewable energy**

Impact Analysis

- This would reduce dependence on high cost thermal power
- Reduce expenditure on oil imports (~24% of total import bills, up +6.7% YoY in 2014, down 48.1% YTD2015, down -42.3% YoY in 2015E)
- This would potentially reduce the cost of electricity over the long term

SOE reforms to improve cost management

Electricity cost to reduce in the long term

National Budget 2016

Sri Lanka – Third Wave of Reforms

FISCAL ANALYSIS

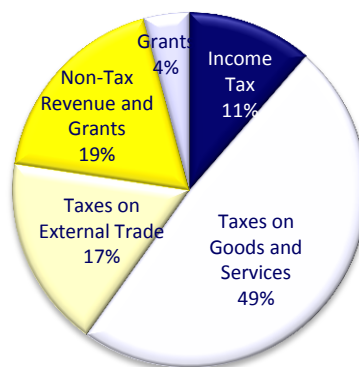
The Government of Sri Lanka (GoSL) announced that the fiscal deficit for 2015E would be 6.0% of GDP at Rs.675bn (surpassing the previous target of 4.4% of -Rs.499bn), largely attributable to lower than anticipated revenue, in both tax and non-tax avenues. Meanwhile, GoSL expenditure on goods and services shot up during 2015, whilst capital expenditure, which was cut down in previous years to meet deficit targets, was maintained

The GoSL has adopted a policy direction in the 2016E Budget aiming at skills development, enhancement of healthcare and exports, infrastructure development whilst introducing tax reforms for corporates and individuals. GoSL's emphasis on facilitating manufacturing, construction and export oriented businesses would boost domestic production and private sector investment

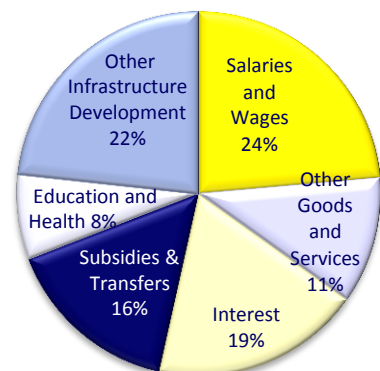
The GoSL forecasts the fiscal deficit for 2016E to decline to 5.9% of GDP (i.e Rs.740bn)

- **Total revenue and grants to rise at a staggering +39% YoY to Rs.2,047bn in 2016E**, with indirect consumer taxes expected to be the main contributor, rising +26% YoY to Rs.993bn (49% of total revenue)

Composition of GoSL Total Revenue 2016E



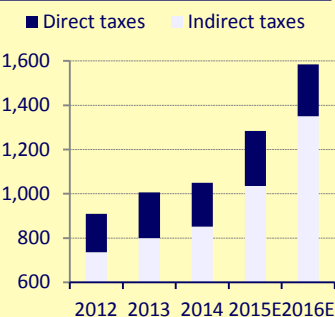
Composition of GoSL Expenditure 2016E



Source : Ministry of Finance & Planning

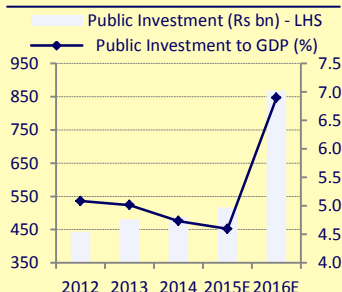
- Tax revenue is expected to rise +23% YoY to Rs.1,584bn, whilst non-tax revenue is expected to increase to Rs.378bn (vs. Rs.126bn)
- Major revenue raising proposals include Rs.90bn from the revision of NBT, revision/introduction of fees and charges of Rs.75bn (exact breakdown of fee however not disclosed), revision of PAL amounting to Rs.30bn, motor vehicle excise duty changes of Rs.20bn, introduction of emission fee for motor vehicles of Rs.18bn and duty revisions for liquor of Rs.16bn
- We however anticipate that the GoSL would miss its revenue targets - Taxes on external trade especially to be impacted, with increased charges lowering demand below anticipated levels

Sri Lanka: Tax Revenue (Rs bn)

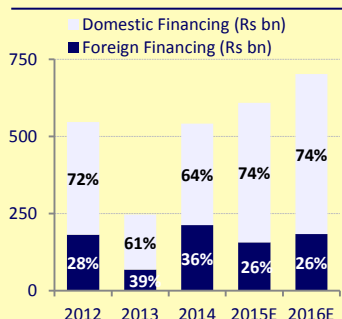


Sri Lanka – Third Wave of Reforms

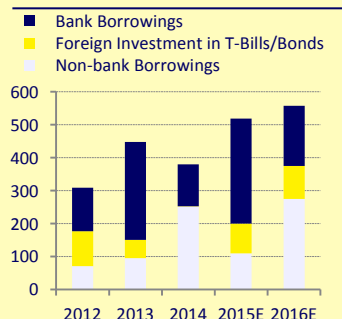
Public Investment (Rs bn)



Financing of GoSL Deficit



Local Borrowings (Rs bn)

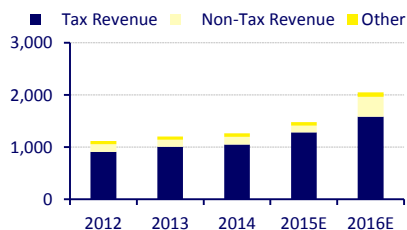


Source : Ministry of Finance & Planning

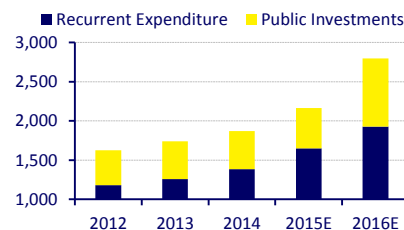
GoSL estimates total expenditure to increase +29% YoY to Rs.2,787bn in 2016E

- Recurrent expenditure to rise +17% YoY to Rs.1,928bn, whilst Public Investment is expected to rise +68% YoY to Rs.868bn with major recurrent expenditure increases were seen on salaries & wages (by Rs.280bn) and for other goods and services (by Rs.150bn)
- Meanwhile public investment is expected to grow +68% YoY to Rs.868bn. Increase in expenditure for education and health would be Rs.112bn and increase in other infrastructure development would be Rs.239bn
- The GoSL is anticipated to slightly overshoot its slated expenditure targets on account of higher salaries & wages and safety nets introduced. However, the GoSL may cut down some public expenditure, which is well above prior years to reach deficit targets, as witnessed in previous years

GoSL Revenue (Rs bn)



GoSL Expenditure (Rs bn)



- Consequently, we forecast 2016E fiscal deficit at 6.0% of GDP (i.e Rs.754bn),** with no major deviation from overall deficit target. Public investments are expected to be scaled back, compensating for the anticipated shortfall in revenue
- GoSL forecasts the budget deficit to be funded 26:74 by foreign: local borrowings in 2016E,** with higher domestic borrowings to help reducing outflows from the country. With significant changes in the tax structure and higher income expectations, the GoSL will have to strengthen the administration and collection mechanism in achieving revenue targets, which would be vital in funding increased spending
- Given that most tax increases are indirect, with additional costs expected to be passed on to consumers, inflation levels expected to pickup from current lows. Consequently, the overall boost in consumer spending, which was witnessed throughout 2015, is expected to slowdown. Meanwhile, the reduced bank borrowing expectations from the GoSL would lower the crowding out of funds available for private investments
- The GoSL further expects to achieve a budget deficit target of 3.5% by 2020E and direct to indirect tax composition of 60%:40% (from current 85%:15%). Whilst near term challenges remain, proper implementation of the proposals would revitalize sustainable economic growth

National Budget 2016

Sri Lanka – Third Wave of Reforms

Summary of Budget (Rs bn)

	2012	2013	2014	2015P	2016E	2016*	%YoY
Total Revenue & Grants	1,118	1,204	1,264	1,478	2,047	1,955	38.5
Total Revenue	1,102	1,188	1,254	1,468	2,032	1,940	38.4
Tax Revenue	909.0	1,006.0	1,050	1,284	1,584	1,520	23.4
Income Tax	173	206	198	249	233	220	-6.4
Taxes on Goods and Services	520	572	616	786	993	950	26.3
Taxes on External Services	217	228	236	248	358	350	44.4
Non Tax Revenue	143	132	145	126	378	350	>+100.0
Provincial Councils Revenue and Grants	50	51	59	58	70	70	20.7
Grants	16	16	9	10	15	15	50.0
Total Expenditure	1,607	1,720	1,855	2,153	2,787	2,709	29
Recurrent Expenditure	1,181	1,256	1,382	1,648	1,928	1,938	17
Salaries & Wages	386	432	486	615	658	658	7
Other Goods & Services	135	104	141	163	313	320	92
Interest	408	444	436	492	520	540	6
Subsidies & Transfers	251	276	318	378	437	420	16
Public Investment	444	481	487	517	868	780	68
Education & Health	46	56	78	98	210	180	>+100.0
Other Infrastructure Development	398	425	408	419	658	600	57
Other	-18	-17	-14	-12	-9	-9	-25

REVENUE (DEFICIT)/SURPLUS	-80	-68	-128	-180	104	2	>+100.0
BUDGET (DEFICIT)/SURPLUS	-489	-516	-591	-675	-740	-754	9.6

Total Financing	489	516	591	675	740		9.6
Total Foreign Financing	181	68	212	156	183		17.3
Foreign Borrowings-Gross	365	179	329	453	519		14.6
Project and Programme Loans	235	187	246	258	309		19.8
Foreign Commercial	130	-8	83	195	210		7.7
Debt Repayment	-184	-111	-118	-297	-336		13.1
Total Domestic Financing	308	448	380	519	557		7.3
Non-Bank Borrowings	71	95	252	110	275		>+100.0
Foreign Investments in T-Bills and T-Bonds	106	56	1	90	100		11.1
Bank Borrowings	132	297	127	319	182		-42.9

As a % of GDP

Revenue & Grants	12.8	12.6	12.3	13.1	16.4	15.7	12.8
Revenue	12.6	12.4	12.2	13.0	16.3	15.5	12.6
Tax	10.4	10.5	10.2	11.4	12.7	12.2	10.4
Expenditure	18.4	17.9	18.0	19.1	22.3	21.7	18.4
Current Expenditure	13.5	13.1	13.4	14.6	15.4	15.5	13.5
Public Investment	5.1	5.0	4.7	4.6	6.9	6.9	5.1

REVENUE (DEFICIT)/SURPLUS	(0.9)	(0.7)	(1.2)	(1.6)	0.8	0.0	2.4
BUDGET (DEFICIT)/SURPLUS	(5.6)	(5.4)	(5.7)	(6.0)	(5.9)	(6.0)	0.1

* CT CLSA Securities Estimates

National Budget 2016

Sri Lanka – Third Wave of Reforms

Impact for select companies from fiscal proposals

Company	Code	NBT	VAT	Corporate Income Tax	Effective Tax Rate (2014/FY15)	Other	Overall Impact
Beverage, Food & Tobacco							
Ceylon Tobacco Company	CTC	N/A	N/A	30%	40.9%	Surtax of 25% on tax liability income in place of 40% income tax Excise duty revision w.e.f 03 Oct 2015	Neutral - Positive
Distilleries Co. of Sri Lanka	DIST	N/A	N/A	30%	28.7%	Surtax of 25% on tax liability income in place of 40% income tax Import duty revision on ethanol Excise duty revisions in Oct and Nov 2015	Negative
Nestle Lanka	NEST	2% to 4%	11% to 8%	28% to 15%	20.5%	Reduction in MRP of milk powder : GoSL to subsidise reduction	Positive
Lion Brewery	LION	N/A	N/A	30%	36.5%	Surtax of 25% on tax liability income in place of 40% income tax Excise duty revisions in Oct and Nov 2015	Negative
Cargills	CARG	1% to 2%*	Removed	Retail – 28% to 30% Manufacturing - 28% to 15%	31.2%		Positive
Banking							
Commercial Bank of Ceylon	COMB				39.4%		Negative
DFCC Bank	DFCC				31.8%		Negative
Hatton National Bank	HNB				35.9%	The cessation of leases by Banks to impact companies, especially NTB (with leasing portfolio at 25% loan book) Encouraging SME lending is viewed as positive	Negative
National Development Bank	NDB	2% to 4%	11% to 12.5%	28% to 30%	35.7%		Negative
Nations Trust Bank	NTB				44.5%		Negative
Sampath Bank	SAMP				40.4%		Negative
Seylan Bank	SEYB				46.1%		Negative
Finance							
Central Finance	CFIN	2% to 4%	11% to 12.5%	28% to 30%	25.0%	LCBs cease engaging in leasing	Neutral - Positive
People's Leasing & Finance	PLC				34.5%	Possible intervention by CBSL on lending rates	Neutral - Positive

*Retail segment only: Retailers have to pay 2% NBT on 50% of turnover (1% of total turnover). However the budget does not mention whether this limit will be removed. Assumed the same limit will be kept in place and retailers will pay 4% NBT on 50% of turnover (2% on total turnover)

National Budget 2016

Sri Lanka – Third Wave of Reforms

Impact for select companies from fiscal proposals

Company	Code	NBT	VAT	Corporate Income Tax	Effective Tax Rate (2014/FY15)	Other	Overall Impact
Hotels							
Aitken Spence Hotel Holdings	AHUN				13.6%		Negative
Asian Hotels & Properties	AHPL	2% to 4%	11% to 12.5%	12% to 15%	11.2%		Negative
John Keells Hotels	KHL				14.7%		Negative
Manufacturing							
Chevron Lubricants Lanka	LLUB	0% to 4%	11% to 8%	28% to 15%	25.8%	Liberalization of lubricant market to possibly increase competition	Neutral - Positive
Textured Jersey Lanka	TJL	N/A	N/A	12% to 15% **	2.2%	0% VAT for exports	Positive
Power & Energy							
Lanka IOC	LIOC	2% to 4%	11% to 8%	28% to 15%	16.2%	Liberalization of lubricant and bitumen market to possibly increase competition	Neutral - Negative
Construction							
Access Engineering	AEL	2% to 4%	N/A	12% to 15%	14.4%	Removal of the import duties on cranes and concrete mixers Introduce a Payment Guarantee Security Act	Positive
Tokyo Cement Lanka	TKYO	2% to 4%	11% to 12.5%	12% to 15%	8.6%		Positive
Diversified							
Aitken Spence	SPEN	2% to 4%	11% to 12.5%	Varies^	14.5%	Possible entry of new players into logistics sphere	Negative
Hemas Holdings	HHL	2% to 4%	11% to 8%	28% to 15%	25.3%		Neutral to Positive
John Keells Holdings	JKH	2% to 4%	Varies^	Varies^	17.5%	More tax concessions to Mixed development projects	Neutral to Positive
Softlogic Holdings	SHL	2% to 4%	11% to 12.5%	Varies^	19.8%		Negative
Healthcare							
Asiri Hospital Holdings	ASIR	2% to 4%	11% to 12.5%	12% to 15%	9.2%		Negative
Telco							
Dialog Axiata	DIAL	0% to 4%	N/A	N/A	16.8%	International Telecommunication Operator Levy increased from 0.09US\$ to 0.12US\$. Annual tower fee of Rs.50,000 per tower for ~2,000 towers (1,800 ground based and rest roof top based)	Negative

**Was expected to be taxed at 12% concessionary rate for 5 years, subsequent to end of 15 year tax holiday on Sep 2016

^ Tax number is changed according to different sectors/segments

Note - It should be noted that the proposals laid out in the budget are not officially finalized by the GoSL, with information also limited in some instances, until the release of gazettes, and thereby the details on some of the proposals could be altered in the weeks ahead

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