NEWS ROUND UP

Friday, November 02, 2018

Contents

Nations Trust Bank records resilient performance

The Bank closed the nine months ending 30 September 2018 with a post-tax profit of Rs. 2,918 million with standing multiple challenges as witnessed across the industry with increasing non-performing loans, tightening of liquidity and moderating credit growth which particularly hindered the performance for the quarter. The Bank realigned its resources in a timely manner during the quarter with absolute focus on managing impairment provisions and bottom line growth whilst consolidating growth in selective portfolios.

Net interest income increased by 31% mainly attributable to growth in volumes (up by 26%) as NIMs stabilised and remained on par with the previous period. Interest income recorded a faster growth of 24% resulting from the increased growth in loan volumes and effective pricing of the loan book. Interest expense growth was lower at 19% due to the higher drop in cost of funds in comparison to the previous period. Nevertheless, the Bank noted a gradual rise in its cost of funds with the increasing interest rate environment which prevailed during the third quarter of 2018.

Non fund based income recorded a moderate growth of 16% with trade finance, syndication based facility fees and bancassurance fees contributing to a larger portion of the increase. Net trading losses dropped significantly during the period under review as customer and trading FX reported a higher growth rate coupled with the drop in the SWAP book and the resultant forward premiums.

Impairment charges for the current year increased as some portfolios of the loan book experienced cash flow stresses, which were also seen at an industry level. Bank NPL ratio stood at 3.71% from 2.29% reported in December 2017, mirroring industry trends.

Expenses recorded a growth of 19% which is partly due to investments made in technology, branding and people related skills development and employment engagement activities. Bank expenses pertaining directly to business volume growth were well managed at 10%. Notable increases are also seen in regulatory expenses. On the digital front, the Bank has undertaken a number of initiatives to improve efficiencies thereby re-engineering the opex model with the digitalising of branch processes, automation of operational processes through Robotic process automations and enhancing the digital footprint across the Bank; all of which have made a considerable impact in generating operational efficiencies. With the Bank reporting a higher growth in revenue of 29%, the operational efficiencies resulted in the Cost: Income ratio decreasing to 47% from 51% reported in the previous period.

Loans and advances recorded a growth of 18% primarily driven by corporate lending. Deposits recorded a growth of 18% with fixed deposits growing by 25% while CASA recorded a subdued growth of 1%. Furthermore, the Bank continued to diversify its funding base by securing a $ 50 million funding line from FMO in August 2018.

Commenting on the results and achievements, CEO/Executive Director Renuka Fernando stated “Our continuous improvement in financial performance demonstrates our core capabilities in steering the Bank during testing times. Managing impairment has been a key area of focus for us during the past few months whereby we have reorganised our collection shops and hope to keep a close watch in the upcoming months and will continue to focus until the stress on selective portfolios stabilise. Our digital transformation journey and investments in business transformational technology will continue to be pivotal strategic focus areas for us in the ensuing months. With the operating environment going through a turbulent phase, we remain focused in achieving our goals set for the year.” (Dailyft)

Jetwing Symphony posts 286% EBIT growth in 2Q

Jetwing Symphony PLC (JETS), the investment arm of Jetwing, has recorded a revenue of Rs. 520 million for the quarter ended 30 September 2018.

Revenue for the first half of FY19 reached Rs. 819 million, an increase of 26% compared to the corresponding period for FY18.

The group reported a significant 286% EBIT growth (QoQ) with all operational properties declaring positive EBIT figures. EBIT growth was primarily fuelled by an increase in the ARR across all operating hotels with Jetwing Kaduruketha reporting the largest increase of 82% (QoQ). This is in line with the Group's positioning of Jetwing Kaduruketha as a leading luxury eco-resort in Sri Lanka. Jetwing Surf and Jetwing Kaduruketha recorded profits for the quarter while the other properties performed below breakeven, primarily due to foreign exchange losses with the significant depreciation of the Rupee against the US Dollar.

All hotels have effectively controlled operational costs resulting in an operational profit before depreciation and finance costs of Rs. 194 million; an 81% increase from Q2 FY18. The group recorded a net loss of Rs. 81 million which was mainly due to foreign exchange losses amounting to Rs. 83 million for the quarter. Jetwing Surf, the Group's newest venture recorded profit after tax of Rs. 6 million for the quarter ended 30th September 2018 despite being in operation for less than a year, further cementing Jetwing's position as a celebrated hospitality provider.

Jetwing Symphony Chairman Hiran Cooray commented, "We are extremely pleased with our team's contribution to the strong performance for this quarter for Jetwing Symphony. The team's ability to permeate the flavour of Sri Lankan hospitality enabled us to achieve significant growth, surpassing many milestones. With Sri Lanka's destination marketing campaign to be launched shortly, we are confident in the long term growth prospect of the tourism industry in Sri Lanka, and we believe that we are well positioned to reap the benefits from the next growth wave in tourism. With an ever expanding portfolio and a focus on new initiatives for regional expansion, we believe that the Symphony group is firmly rooted in a foundation set for multi-dimensional growth."
(Dailyft)

Amãna Bank's 9-month PAT grows by 61%

Amãna Bank continued its strong profit momentum for the year, as its Profit After Tax for the nine months ending 30 September grew significantly by 61% YoY to reach Rs. 429.9 million from Rs. 266.8 million recorded a year ago.

The Profit Before Tax for the same period grew by 50% YoY to reach Rs. 597.1 million compared to the Rs. 397 million recorded in the corresponding period of 2017.

Supported by a consistent profitability trend over the past few years, the bank, for the first time in its relatively short history, paid an interim dividend of seven cents per share, totalling Rs. 175.1 million during the last quarter.

With its banking activities primarily revolving on Retail and SME banking, Amãna Bank's Financing Income recorded a 23.6% YoY growth to reach Rs. 4.95 billion from the Rs. 4.0 billion recorded in 2017. Net Financing Income grew to Rs 2.40 billion from Rs. 1.96 billion, reflecting a 22.7% YoY growth. The bank continued to maintain a healthy Financing Margin of 4.4% compared to 4.2% at end-2017. Complementing the strong momentum of growth in core banking, the bank's Net Fee and Commission Income reported a commendable YoY growth of 28.2%. Despite the increase in impairment charge on advances and considering only a 9.6% overall increase in operating expenses, the bank was successful in

achieving an impressive 38.1% YoY growth in Operating Profit before all Taxes to close the third quarter with a cumulative amount of Rs. 937.3 million.

Despite the overall tightness of liquidity in the market, Amãna Bank's Customer Deposits grew by 14.3% for the nine months to close at Rs. 58.20 billion owing to the growing acceptance of the bank's people-friendly non-interest-based banking model.

The bank's Customer Advances also showcased a strong 15.4% increase to close at Rs. 49.52 billion, reflecting a healthy utilisation of funds. As a result, the bank's Total Assets grew by Rs. 9.6 billion (15.2%) to close the quarter at Rs. 73.17 billion. Due to prevailing general market conditions, the bank's Gross Non-Performing Advances Ratio increased to 2.78% from 1.89% at end-2017, which is below the Industry Gross Non Performing ratio of 3.1% as at June 2018. The bank's Net Non-Performing Advances Ratio stood at a healthy 1.18%.

Commenting on the bank's performance to date, its Chief Executive Officer Mohamed Azmeer said: "It is noteworthy to reflect on our continuous profitability achievements, which have been very encouraging. Looking back in retrospect at our five-year strategic plan, the success we have achieved and sustained thus far is a result of the longstanding confidence placed in us by our valued customers, determined shareholders and devoted staff, for which we are humbly grateful. I am confident this momentum will further grow during the latter part of the year, making it one of the most successful in the recent past."

Amãna Bank Plc is a standalone institution licensed by the Central Bank of Sri Lanka and listed on the Colombo Stock Exchange with Jeddah-based IDB Group being the principal shareholder having a 29.97% stake in the bank.

The IDB Group is a 'AAA' rated multilateral development financial institution with an authorised capital base of over $ 150 billion which has a membership of 57 countries. Fitch Ratings in June 2018 affirmed Amãna Bank's National Long-Term Rating of BB(lka) while revising its outlook to Positive from Stable. Amãna Bank does not have any subsidiaries, associates or affiliated institutions representing it.

(Dailyft)

Bond yields continue to decline

The secondary bond market remained active yesterday as yields continued to decrease on the back of buying interest amidst continued foreign selling. Yields on the liquid maturities of 15.09.19, 01.05.20, three 2021's (i.e. 01.03.21, 15.10.21 and 15.12.21) and three 2023's (i.e. 15.03.23, 15.05.23 and 15.07.23) dipped to intraday lows of 10.50%, 10.75%, 10.90%, 10.95% each, 11.25%, 11.30% and 11.28%, respectively, against its previous day's closing levels of 10.65/75, 10.90/00, 11.00/15, 11.10/30, 11.15/30, 11.30/38, 11.35/45 and 11.30/40. However, profit taking at these levels curtailed the downward movement any further for the day.

In addition, yields on the 01.07.22 and 15.06.27 maturities were seen declining to lows of 11.25% and 11.40% as well. Meanwhile, in secondary market bills, durations centring October were seen trading at level of 10.45% to 10.50%.

The total secondary market Treasury bond/bill transacted volume for 31 October was Rs. 6.15 billion.

In the money market, the overnight call money rate remained mostly unchanged to average 8.45% as the OMO Department of Central Bank was seen infusing liquidity by way of an overnight and a seven-day term repo auction for successful amounts of Rs. 19.95 billion and Rs. 22.30 billion respectively at weighted averages of 8.47% and 8.50%. In addition, an amount of Rs. 2 billion was injected for 14 days

at a weighted average rate of 8.48%, valued today as the net liquidity shortage in the system increased to Rs. 54.02 billion yesterday.

Rupee appreciates

The rupee rate on spot contracts was seen appreciating for the first time since 12 October to close the day at Rs.174.00/40 against its previous day's closing level of Rs.175.60/80 on the back of selling interest by banks.

The total USD/LKR traded volume for 31 October was $ 57.70 million.

Some of the forward USD/LKR rates that prevailed in the market were 1 month – 175.00/50, 3 months – 177.00/50, and 6 months – 179.90/50. (Dailyft)

Teejay 6-month net profit up 20% to Rs. 705 m despite challenges

Teejay Lanka PLC, Sri Lanka's only multinational textile manufacturer, has reported sales of Rs 14.4 billion and profit after tax of Rs. 704.8 million at Group level for the six months ending 30th September 2018, rewflecting healthy growth of 25% and 20% respectively for the period.

Group profit before tax improved by 15% to Rs. 848.6 million, the weft knit fabric specialist with manufacturing operations in Sri Lanka and India said in a filing with the Colombo Stock Exchange (CSE).

Revenue in the second quarter of 2018-19 was up 25% to Rs. 7.6 billion, profit before tax grew 11% to Rs. 500.2 million and net profit increased by 15% cent to Rs. 425.5 million over the corresponding three months of the previous year, the company said.

Teejay Lanka Chairman Bill Lam said this was the fourth consecutive quarter of revenue and net profit growth for the company in the face of stiff challenges, and was made possible by expanded capacity in the Group and a strong order book arising from the GSP facilities that it enjoys.

He disclosed that although margins were impacted by raw material and utility cost increases in the second quarter, Teejay had been able to improve its gross margin to 11.3% from 10.2% in the corresponding quarter as a result of better loading and an improved mix, with its USA and EU business units increasing sales volumes.

Consequently, gross profit for the Group at Rs. 859 million for the second quarter and Rs. 1.5 billion for the six months, reflected growth of 15% YoY after absorbing higher utility and raw material costs and the depreciation of the rupee, Lam said.

The Teejay Group has a carried forward cash balance of Rs. 3.4 billion at the end of the quarter reviewed despite a dividend payment of Rs. 632 million. "The increase in working capital was driven by inventories to support expanded capacity and a strong order book in the coming quarters which have historically been the Group's peak months," Lam said.

Looking ahead, he said cotton price volatility is expected to ease out towards the end third quarter while utility costs and the prices of dyes and chemicals are projected to increase. Amidst these challenges, the Group is gearing up for its peak quarters with the GSP benefit, an anticipated surge in EU business, a strengthened customer portfolio, plans to bring in more business and fully exploit its expansion in India in the second half of the financial year.

One of the region's largest textile manufacturers, Teejay supplies fabric to some of the best international brands across the world. Teejay Lanka PLC is a public quoted company with 39 per cent

public ownership. The company is backed by Sri Lanka's largest apparel exporter, Brandix Lanka which has a 33% stake and Pacific Textiles of Hong Kong which owns 28% of the company. An ISO 9001:2015, ISO 14001:2015 and OHSAS 18001:2007 compliant company and the first in the industry to develop green fabric, Teejay has been listed on the Colombo Stock Exchange (CSE) since 2011 and was included in the S&P Top 20 Index in Sri Lanka last year.

The company has also been named among the Forbes '200 Best under a Billion in Asia' and been recognised as the 'International Textile Firm of the Year' and the 'International Dyer and Finisher' by World Textile Institute, London.
(Dailyft)

A tough road ahead for India's battered rupee: Reuters poll

: There will be little respite for the bruised Indian rupee over the coming year, depressed by an escalating US-China trade war and rising domestic political risks ahead of a general election, a Reuters poll showed.

Investors have generally shunned emerging market assets this year, made riskier by the international trade tensions and the increasing attractiveness of dollar yields thanks to the US Federal Reserve's steady pace of rate increases.

That, and a widening current account deficit due to higher global crude oil prices and capital outflows, has pushed the rupee down almost 16 percent this year, regularly setting all-time lows. It's one of the worst performing Asian currency this year.

"The Indian rupee reflects emerging market concerns and is facing significant depreciation pressure," noted Tuuli McCully, head of Asia-Pacific economics at Scotiabank.

"In addition to the twin-deficit position, political uncertainty in India will remain high over the coming months due to four state elections that will be held by the end of January 2019, followed by general elections in April-May 2019; accordingly, we remain bearish on the INR over the medium-term."

The poll of about 40 foreign exchange strategists taken Oct 26-31 showed the rupee was expected to gain slightly to 72.5 per dollar in 12 months from about 73.95 on Wednesday.

But the predicted outlook for the currency will still leave it much weaker than where it started 2018 around 63.80.

The latest consensus was only slightly better compared to the previous month, and more than one quarter of strategists with a year-ahead view predicting the currency to hit a new record low by then.

The recent life-time low for the rupee was 74.485 per dollar on October 11.

In a month, nearly one-fifth of respondents expect the currency to hit a new record low.

That is likely driven by worries about growing policy disagreements between the Reserve Bank of India (RBI) and the government after deputy governor Viral Acharya warned that undermining the central bank's independence could be "potentially catastrophic."

The Economic Times newspaper reported the government had invoked never-before-used powers to issue directions to the central bank governor on matters "of public interest," related to support for the financial sector and small companies.

The rupee hit 74 on the dollar on Wednesday after television channels reported RBI Governor Urjit Patel may resign due to the spat with the government.

That will put further pressure on the currency, which has lurched lower since the RBI unexpectedly left rates on hold at its Oct 5 meeting when many thought it would raise them, in part to prop up the weak currency.

"We have altered our forecasts considerably after the RBI's decision to keep its policy rates on hold in October, which, in our view, is a policy error," said Hugo Erken, senior economist at Rabobank.

"We hold on to our view that the INR will return to its fundamental value of approximately 68/69 against the US dollar, but the trajectory towards this value will take much longer and be more painful than we initially anticipated."

Most Asian currencies are forecast to gain against the dollar in a year, though the Chinese yuan is expected to have a bumpy ride in that period. (Dailyft)

Asia starts new month up on strong Wall Street after brutal Oct.

Asian stocks rose on Thursday as bruised investor sentiment got some relief from another robust Wall Street session, while the pound rallied on a report Britain has secured a deal that would give its financial services firms continued access to European markets after Brexit.

MSCI's broadest index of Asia-Pacific shares outside Japan rose 0.9 percent, adding to modest gains the previous day, though this came after a brutal October month.

The index had fallen 10.2 percent in October, it worst monthly performance since August 2015, as factors ranging from Sino-US trade tensions to worries about global economic growth, higher US interest rates and company earnings spurred volatility in global markets.

There were tentative signs of the gloom slowly beginning to lift, led by a rebound in beaten-down US shares.

Wall Street rose for a second day on Wednesday as strong company results and bargain hunting of beaten-down technology and internet favourites lifted spirits.

The improved mood filtered down to Asia. Hong Kong's Hang Seng rose 1.5 percent and the Shanghai Composite Index climbed 1.2 percent.

Australian stocks also advanced 0.5 percent while South Korea's KOSPI put on 1 percent. Japan's Nikkei bucked the trend and slipped 0.5 percent following two days of big gains.

"What we are seeing is the equity markets trying to rebound after bottoming out. Corporate earnings in the US and Japanese markets have been relatively strong on the whole, which means there are plenty of bargain hunting opportunities," said Soichiro Monji, senior economist at Daiwa SB Investments in Tokyo.

"The ongoing rebound has further room to go. The US-China trade conflict will continue popping up as a market factor going forward, but the worst fears appear to have subsided for now, at least through the US midterm elections."

The pound surged 0.65 percent to $1.2850 after the Times reported that British Prime Minister Theresa May had sealed a deal with Brussels that would give British financial services companies continued access to European markets after Brexit.

The bounce lifted the pound – dented recently on worries over whether Britain could secure an orderly exit from the European Union – further away from a 2-1/2-month low struck on Tuesday.

Sterling's rally nudged the dollar off its recent peak. An index which measures the US currency's strength against a basket of six major currencies was down 0.25 percent at 96.899.

The dollar index had spiked to a 16-month high of 97.20 overnight on a ADP national employment report which showed that US private sector payrolls increased by the most in eight months in October.

The greenback has recently enjoyed a boost from robust economic reports, including data last week which showed the US economy slowed less than expected in the third quarter.

The euro rose 0.25 percent to $1.1336, given a reprieve after retreating to $1.1302 on Wednesday, its lowest since mid-August.

The single currency has been weighed by less-than-stellar economic news from the euro zone region. The Australian dollar advanced 0.55 percent to $0.7112 after strong domestic trade data helped offset some of the concerns about slowing growth in China - Australia's biggest trading partner.

China's yuan strengthened a touch to 6.9680 per dollar in onshore trade, but still not far off a decade low at 6.9780 hit the previous day on trade tensions and slowing Chinese growth.

The People's Bank of China on Wednesday said it will issue bills in Hong Kong for the first time, which would allow it to absorb excess yuan liquidity in the onshore and guide market expectations.

In commodities, US crude futures were down 0.3 percent at $65.11 per barrel and Brent crude lost 0.37 percent to $74.76 per barrel.

The two benchmarks remained on the back foot after falling more than $10 from a four-year peak reached early in October as the global market tumult last month was seen hurting demand for fuel.
(Dailyft)

Rupee rebounds from record low; stocks hit near 2-month high

The rupee traded at a record low yesterday but closed firmer due to Central Bank dollar sales.

Stocks hit a nearly two-month closing high, but foreign investors continue to exit even after newly-appointed Prime Minister Mahinda Rajapaksa's attempts to resolve the political crisis.

The rupee traded at a record low of 175.65 per dollar, hit in the previous session.

The rupee ended at 174.00/40 per dollar yesterday, compared with previous close of 175.60/176.00. The rupee has dropped 0.5% since the political crisis unfolded. The rupee weakened 3.7% in October after a 4.7% drop in September against the dollar.

It dropped 13.4% so far this year.

Sri Lankan opposition leader Mahinda Rajapaksa was appointed Prime Minister last week after President Sirisena dismissed the incumbent in a surprise move that threatens political turmoil in the South Asian country.

The appointment of Mahinda Rajapaksa as Prime Minister prompted protests and a demand for Parliament to be called, to allow lawmakers to choose their leader. The return of Rajapaksa, a former President who crushed a decades-old Tamil insurgency, has stoked fears of fresh political and ethnic division in the island nation of 21 million mostly Sinhalese Buddhists, with Tamil and Muslim minorities.

The Colombo stock index jumped 2.7% to 6,114.13, slipping from its highest close since 7 September. The Bourse rose 4.9% since Friday, but fell 1.5% last month and slipped 4.01% so far this year.

Analysts said retail investors, who have stayed away from the market during a number of investigations against market manipulation that allegedly occurred under the previous government, actively bargain-hunted after the President's announcement.

Data from the Central Bank showed that foreign investors sold government securities worth a net Rs. 3.9 billion ($ 22.40 million) in the week ended 23 October. Sri Lanka has seen a net outflow of Rs. 89.8 billion in securities so far this year.

Stock market turnover was Rs. 1.5 billion ($ 8.62 million) yesterday, twice this year's daily average of Rs. 792.7 million. Foreign investors were net sellers of shares worth Rs. 572 million yesterday, extending the year-to-date net foreign outflow to Rs. 13.4 billion worth of equities.

Shares in conglomerate John Keells Holdings Plc ended 3.1% higher, while Distilleries Co of Sri Lanka Plc closed 5.0% firmer. (Dailyft)

Asia Stocks Set for Biggest Weekly Gain Since 2016: Markets Wrap

Asian stocks extended their rebound from a rough October, and headed for the biggest weekly rally since July 2016, amid hopes for trade talks and China stimulus. Sentiment proved resilient to underwhelming news from Apple Inc. that hit Nasdaq futures.

Hong Kong and Korean stocks led the advance Friday, taking gains on the MSCI Asia Pacific Index to almost 4 percent for the week. The advance came after a phone call between Presidents Donald Trump and Xi Jinping showed the door is still open for U.S.-China trade talks. Australian equities slipped while Japanese shares posted modest gains. Ten-year Treasury yields edged higher ahead of Friday's key U.S. jobs report and the dollar steadied. The offshore yuan was little changed after its overnight surge.

Prospects for easing tensions between leaders of the world's two largest economies are helping round out a week that's seen appetite for risk assets return following the October rout in equities. Doubts remain, though, on the capacity of earnings to deliver. Apple's disappointing forecast for the key holiday period suggested weaker-than-expected demand for the company's pricier new iPhones. Its shares tumbled more than 6 percent in after-hours trading.

"Positive comments from President Trump over U.S.-China trade tension are cheering the market in the short term," said Tai Hui, chief market strategist for Asia Pacific at JPMorgan Asset Management in Hong Kong. "While we are still cautious over a full resolution of recent tensions in the medium term, resumption of dialogue between Washington and Beijing would be good enough to investors for now."

Elsewhere, oil prices extended losses after tumbling again in New York Thursday. In Europe, the pound edged down after Thursday's biggest gain since April 2017, which was driven by signals of faster interest-rate hikes and hopes for a Brexit deal.
Sentiment Is Issue for Chinese Equities, Says JPMorgan's Ulrich

Jing Ulrich, Asia-Pacific vice chairman at JPMorgan, discusses Chinese equities and her outlook for the economy.

Here's the key scheduled event to come on Friday:

- The final U.S. jobs report before next Tuesday's congressional elections may show that hiring improved and that the unemployment rate held at a 48-year low.

And these are the main moves in markets:
Stocks

- Japan's Topix index rose 0.7 percent as of 10:32 a.m. in Tokyo.
- Australia's S&P/ASX 200 slid 0.2 percent.
- South Korea's Kospi index surged 2.4 percent.
- The Shanghai Composite rose 1.7 percent earlier.
- The Hang Seng Index rose 2.7 percent earlier.
- Futures on the S&P 500 Index fell 0.2 percent after the underlying gauge increased 1.1 percent Thursday, capping a three-day surge of almost 4 percent. Nasdaq 100 futures declined 0.9 percent.

Currencies

- The yen slipped 0.1 percent to 112.78 per dollar.
- The offshore yuan was little changed at 6.9180 per dollar after advancing more than 0.8 percent Thursday.
- The Bloomberg Dollar Spot Index rose 0.1 percent.
- The euro traded at $1.1397.

Bonds

- The yield on 10-year Treasuries rose one basis point to 3.14 percent, extending gains for the week.
- Australian 10-year yields advanced about 3 basis points, to 2.67 percent.

Commodities

- West Texas Intermediate crude slid 0.2 percent to $63.40 a barrel.
- Gold was flat at $1,233.34 an ounce, little changed on the week.
  (Bloomberg)