

# NEWS ROUND UP

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## ***Corporate earnings up despite tough times***

Earnings of listed companies have been up 4% in the Second Quarter and 11% for the 12 months despite challenging times.

According to broking firm CTCLSA, market earnings in 2Q2018 grew +4% by Rs. 50.25 billion as against Rs. 48.236 billion a year earlier. However the 2Q2018 figure is lower compared with the Rs. 74.69 billion achieved in 1Q and Rs. 79.6 billion posted in 4Q of 2017.

In 2Q2018, earnings were driven by the Banks Finance and Insurance (BFI), Beverage Food and Tobacco (BFT), Telecommunications (TEL) and Power and Energy (PE) sectors. "Earnings growth was however somewhat offset by weak earnings in Diversified Holdings (DH), Manufacturing (MAN) and Plantations (PLN), and losses in the Hotels & Travel and Construction & Engineering (CE) sectors," CTCLSA said.

Banks Finance and Insurance firms saw their earnings gain 22% YoY (59% of 2Q2018 total earnings, 29% of total market cap), driven by Licensed Commercial Banks (LCBs) and Insurance Companies on account of improved core banking and insurance income.

The Beverage Food and Tobacco sector saw a +26% YoY gain in earnings (18% of 2Q2018 total earnings, 26% of total market cap), driven by strong growth demonstrated by sector

The telecommunications sector reported a +33% YoY gain (9% of 2Q2018 total earnings, 5% of total market cap), driven by revenue growth witnessed with the removal of the telco data levy.

According to the Trailing Twelve Months (TTM), market earnings increased +11% YoY to Rs. 251.7 billion largely due to strong earnings in Banks Finance and Insurance, Beverage Food and Tobacco, Telecoms and Diversified Holdings despite the losses in the Construction and Engineering and Manufacturing sectors.

CTCLSA also said the Colombo Stock Exchange (CSE) had witnessed a market decline, with the All Share Index (ASPI) falling -6% in 2018YTD (as at 30 August 2018).

In terms of sector index performance, the BFT sector witnessed positive movement, increasing +7% YTD, whilst the CE, MAN, PLN and PE sector indexes declined -39% YTD, -25% YTD, -24% YTD and -11% YTD respectively.

Current TTM market PER stands at 10.5X and CTCLSA forecasts forward market PER at 9.6X by end-2018, supported by YoY total. (DailyFt)

## ***Indian Rupee hits record low of 71 per dollar***

The rupee fell to a record 71 per dollar in opening trade on Friday, tracking weakness in almost all other Asian peers as the latest round of US-China trade tensions dulled investor risk appetite and gave a boost to the dollar.

The partially convertible rupee was trading at 70.93/94 per dollar, compared with its previous close of 70.74. It touched 71 per dollar in opening deals before recovering slightly on the back of dollar sales by State-run banks.

Traders said the Reserve Bank of India was likely sporadically selling dollars through State-run banks to prevent a sudden sharp fall but traders do not expect any major intervention as the fall has been in line with fundamentals.

(DailyFt)

## **Gihan Cooray appointed new NTB Chairman**

Gihan Cooray has been appointed as the Chairman of Nations Trust Bank (NTB), effective from 1 December.

This follows the retirement of former Chairman Krishan Balendra, having served nine years on the Board in compliance with the Direction of Rules of Corporate Governance for Commercial Banks issued by the Central Bank. Cooray is, at present, the Group Finance Director of John Keells Holdings, and will be the Deputy Chairman/Group Finance Director from 1 January 2019. (DailyFt)

## **ComBank's ex-MD joins DFCC Board**

Former Managing Director of Commercial Bank PLC J. Durairatnam has been appointed to the Board of DFCC Bank PLC.

Durairatnam holds a B.Sc. from the University of Peradeniya and an Executive Diploma from the University of Colombo.

He possesses extensive experience in banking, having been with Commercial Bank for 36 years. He served as a Commercial Bank Director from April 2012 to 16 July 2014, and as the Managing Director from 17 July 2014 until his retirement on 26 July 2018. He has served in several other senior management positions at Commercial Bank, including as the Chief Operating Officer, Deputy General Manager – International, Assistant General Manager – International, and Head of Imports. His experience covers all aspects of international trade, off-shore banking, credit and operations.

Along with this appointment, the DFCC Bank Board comprises of Chairman C. R. Jansz, Executive Director/CEO L. H. A. L. Silva, P. M. B. Fernando, T. Dhamarajah, S. R. Thambyayah, K. P. Cooray, V. J. Seneviratne, L. K. A. H. Fernando, N. K. G. K. Nemmawatta, and J. Durairatnam. (DailyFt)

## **Bond market gathers momentum during week**

The bond market opened the week ending 31 August on a bearish note, but reversed to a positive note towards the latter part of the week on the back of local and foreign buying interest as yields dipped across the yield curve.

The liquid maturities of 01.05.20, three 2021's (i.e. 01.03.21, 01.05.21 and 15.12.21), 15.07.23 and 01.08.24 were seen dipping to weekly lows of 9.30%, 9.50%, each, 9.60%, 9.91% and 10.01%, respectively, against its previous weeks closing levels of 9.25/35, 9.50/56, 9.52/58, 9.67/75, 9.95/99 and 10.08/12. Furthermore, buying interest on the long end of the curve saw yields on the two 2028's (i.e. 15.03.28 and 01.09.28) and 15.05.30 dip as well to weekly lows of 10.22%, 10.24% and 10.28%, respectively, against its last week closings of 10.30/40, 10.30/45 and 10.40/70. The positive sentiment was supported by the decrease in weighted averages at the weekly Treasury bill auction, where the 182- and 364-day maturities recorded drops of 6 and 1 basis points, respectively, to 8.03% and 8.99%. However, inflation for the month of August was seen increasing further to 5.9% on the basis of its point-to-point against its previous month 5.4%, while its annualised average remained steady at 5.6%. The foreign holding in rupee bonds recorded an inflow for the first time in 18 weeks to the tune of Rs. 578 million for the week ending 29 August. The daily secondary market Treasury bond/bill transacted volume through the first four days of the week averaged Rs. 7.33 billion

In money markets, the overnight call money and repo rates increased marginally to average at 7.84% and 7.83%, respectively, as the net surplus liquidity in the system fluctuated from a low of Rs. 6.58 billion to a high of Rs. 28.24 billion during the week. The Open Market Operations (OMO) Department

drained out liquidity during the week on an overnight basis at weighted averages ranging from 7.56% to 7.95% in addition to mopping up liquidity on a permanent basis by way of term repo auctions at weighted averages ranging from 7.65% to 7.99% for durations ranging from two days to seven days.

Rupee depreciates

In the Forex market, the rupee's downward trend continued throughout the week as the USD/LKR rate on spot contracts were seen closing the week at Rs. 161.45/50 against its previous weeks closing level of Rs. 160.85/00 on the back of importer demand.

The daily USD/LKR average traded volume for the first four days of the week stood at \$ 60.14 million.

Some of the forward dollar rates that prevailed in the market were 1 month - 162.20/40, 3 months - 163.80/00, and 6 months - 166.20/40. (DailyFt)

### ***Indian giant ITC optimistic of SL's demand for luxury apartments, tourism***

- Invests \$ 300-400 m in integrated venture comprising 50-floor The Sapphire Residences with 132 luxury private residences and 30-floor five star hotel with 352 rooms opposite Galle Face
- Venture to have South Asia's first ever 54-metre sky bridge connecting the two buildings Says Colombo and SL are primed with best growth potential in South Asia
- We are bullish on SL despite the negative press; SL a paradise island and modern hub set for growth
- Insists best time to invest as real estate still cheap
- Average size of each apartment is 5,000 sq.ft plus; 4-bedroom residences priced between \$ 2.5 m and \$ 3.2 m; 2-bedroom apartments \$ 1.4 m upwards
- Two master penthouses of 19,000 sq.ft each to cost \$ 10 m

India's diversified giant ITC Group on Friday expressed growing optimism on Sri Lanka unveiling its first ever overseas project, the luxurious The Sapphire Residences and the ITC One five star hotel opposite Galle Face Green with an investment of between \$ 300 million and \$ 400 million.

The Sapphire Residences consists of 132 spacious and luxurious private residences on a 50-floor tower and the ITC One Hotel is housed on a 30-floor tower offering 352 five star luxury rooms.

The towers are designed in an innovative triangular plan to maximise the uninterrupted views from each apartment across the Indian Ocean and the Beira Lake.

Connecting the buildings at the 19th and 21st floors is a 54-metre-long sky bridge, South Asia's first ever and likely to be a real feat of engineering and an iconic monument. The hotel will include a helipad, the only one being built in the vicinity at present. The project, which is housed on nearly six acres, is scheduled to be completed by 2020.

"Despite what the press says, we are bullish on Sri Lanka. We believe Sri Lanka has one of the best potentials to grow," ITC Group's WelcomeHotels Lanka Managing Director Arun Pathak told journalists. He also dismissed concerns over an apparent flood of luxury apartments in the city.

"We will be offering 132 apartments but there is appetite for more given the pent-up demand post-war and ongoing initiatives to make Colombo a vibrant commercial and logistics hub," he added.

According to an ITC official, it is time to invest in Sri Lanka as real estate is still cheap compared to other cities in the region.

Sotheby's International Realty Sri Lanka Sales and Marketing Director Charles Phillpot echoed the same sentiments.

"To me Sri Lanka is a paradise island that is set to grow by becoming a modern hub connecting the rest of the world," he said, adding that yield on luxury apartments was very attractive with rental yield up 9% and return on investment a high 17%.

The average size of the apartments at The Sapphire Residences is around \$ 5,000 sq.ft. and will have 67 four-bedroom units (priced between \$ 2.5 million and 3.2 million each), 30 five-bedroom units, 18 three-bedroom units and 11 two-bedroom units (priced at \$ 1.4 million upwards). It will also have four penthouses (9,000 sq.ft. each) and two master penthouses each spanning 19,000 sq.ft. and priced at \$ 10 million upwards.

Pathak and Phillpot said they expect the majority of buyers to be Sri Lankans including expats apart from foreigners. The website [www.sapphireresidences.lk](http://www.sapphireresidences.lk) went live on Friday.

Set to redefine uber-luxury vertical residential living in the Indian Ocean region, the extensive mixed-use development also includes a private Residents' Club offering over 40,000 sq. ft. of leisure amenities for the exclusive use of homeowners and their guests.

Destined to become a globally recognised landmark for the city, the iconic design was the brainchild of a world-class international team lead by US architectural firm Gensler, which created the two distinctive parallel towers connected by a sky bridge, with the residential interiors by London-based YOO working with Philippe Starck in Paris and landscaping by BuregaFarnell in Singapore.

ITC Hotels has developed and operates more than 100 hotels in over 70 destinations across India whilst diversified Group with interests in FMCG, Paperboards and Packaging, Agri Business and T, has a turnover of over \$ 10 billion and boasts of a market capitalisation of \$ 50 billion. (DailyFt)

## ***Stocks Decline Across Asia; Dollar Edges Higher: Markets Wrap***

Asian stocks declined, while the dollar built on its recent rally as investors assessed the outlook for trade and whether turmoil in some emerging markets can be contained. The pound retreated as U.K. Prime Minister Theresa May ruled out a second Brexit vote.

Stocks slipped in Japan, China and Hong Kong, while U.K. equity futures signaled a muted start for trading in London. The S&P 500 closed flat Friday as gains in consumer shares offset losses in energy stocks, while Treasuries posted a modest decline. U.S. markets are closed for Labor Day on Monday. Indonesia's rupiah slid to a fresh 20-year low on concern the nation's trade deficit makes the currency vulnerable amid the selloff in emerging-market assets.

With U.S. stocks reaching a fresh all-time high in August and the Federal Reserve set to raise interest rates again later this month, investors are hoping the global economy can withstand shocks from trade restrictions. Emerging markets remain under pressure, with Argentina and Turkey the latest epicenters for crises denting sentiment.

"I don't buy the ideas that valuations are cheap in these markets" Chris Weston, Head of Research at Pepperstone Financial Pty Ltd., told Bloomberg TV from Melbourne. "My view is to continue trading on the trends -- staying bearish on emerging markets. We need to see a perception of the U.S. dollar going lower and clarity that the trade tensions are coming to some sort of a close. I don't think we're there yet."

Elsewhere, West Texas crude was trading around \$70 a barrel. The Canadian dollar slipped after Nafta talks stalled.

Fed Pause Would Be 'Massive Relief' for Emerging Markets, Baring Asset Says

Khiem Do, co-head of Asian multi-asset strategy at Baring Asset Management talks about emerging markets.

Source: Bloomberg

Here are some key events coming up this week:

- Bank of England governor Mark Carney testifies on the August inflation report and policy decision.
- Executives from Facebook, Twitter and Google testify on social media, Russia meddling.
- U.S. employment report for August is due Friday.

These are the main moves in markets:

Stocks

- The MSCI Asia Pacific Index fell 0.7 percent as of 11:17 a.m. in Hong Kong.
- Topix index declined 0.6 percent.
- The Shanghai Composite index dropped 0.9 percent.
- Hong Kong's Hang Seng slid 0.9 percent.
- South Korea's Kospi index fell 0.5 percent.
- Australia's S&P/ASX 200 Index was little changed.

Currencies

- The Japanese yen was steady at 110.93 per dollar.
- The offshore yuan slid less than 0.1 percent to 6.8484 per dollar.
- The euro fell less than 0.1 percent to \$1.1597.
- The Bloomberg Dollar Spot Index rose 0.1 percent to 1,183.25.
- The pound slid 0.3 percent to \$1.2925.

Bonds

- The yield on 10-year Treasuries closed Friday at 2.86 percent.
- Australia's 10-year yield fell two basis points to 2.50 percent.

## Commodities

- West Texas Intermediate crude fell 0.3 percent to \$69.62 a barrel.
- Gold fell 0.4 percent to \$1,198.94 an ounce.  
(Bloomberg)