NEWS ROUND UP

Friday, March 08, 2019

Contents

Orders for bond sale top $ 3 b

- Fin. Min says amount will be limited by VoA guidelines
- Funds for $500m debt repayment in April, shore up reserves
- Bond launched just days after Budget, IMF extension

The Sri Lankan Government has launched its first International Sovereign Bond (ISB) for 2019 and is expected to accept at least $2.5 billion, which will largely be used for debt repayment.

Sri Lanka launched the sale of US dollar-denominated bonds on Thursday and orders topped $3 billion, according to a term sheet seen by Reuters, the newswire reported.

Finance Ministry Secretary Dr. R.H.S. Samaratunga told reporters that the amount that could be accepted was limited by the Vote on Account (VoA) that was passed by Parliament in December, after the constitutional crisis. The VoA has a lower threshold than a Budget, explained Dr. Samaratunga.

The Government is expected to raise about $2.5 billion, according to a top Finance Ministry official.

Even though Cabinet in January gave approval to raise up to $ 2 billion through foreign commercial borrowings, and a further $ 3 billion via Sri Lanka Development Bonds (SLDBs), these could only be utilised after Budget 2019 is passed in April, the Treasury Secretary said.

“We are currently working under the guidelines set by the Vote on Account. Once the Budget is passed, we will borrow more,” Dr. Samaratunga, said acknowledging that payments worth $ 500 million would have to be made in April. In 2019, Sri Lanka has to repay $5.9 billion in debt, with $2.6 billion earmarked for the first quarter.

Following the $ 500 million in April, the remaining payments would likely be smaller, according to the Finance Ministry.

Sri Lanka is offering indicative coupons of 7.20% on the five-year bonds and 8.20% on the 10-year bonds, according to the term sheet. Standard & Poor’s and Fitch said they had assigned “B” ratings to the bonds. Last month, Sri Lanka raised its borrowing limit for dollar-denominated bonds to $3 billion, according to Reuters.

The bond was launched just days after the International Monetary Fund (IMF) extended its $1.5 billion Extended Fund Facility (EFF) program with the Sri Lankan Government by one year, and the Government presented its Budget for 2019.

The proposed Budget boosted spending on state employees, pensioners and the armed forces, and promised many rural infrastructure projects to woo voters before two elections.

Proceeds from the bond sale will be used “for expenditure sanctioned by the Parliament of Sri Lanka for 2019,” the term sheet said.

All three major rating agencies downgraded Sri Lanka’s debt after President Maithripala Sirisena sacked his Prime Minister in October and replaced him with pro-China former President Mahinda Rajapaksa, though that decision was later reversed.

BOC International, Citigroup, Deutsche Bank, HSBC, JPMorgan, SMBC Nikko and Standard Chartered Bank are joint bookrunners for the bond sale.
(DailyFt)

AIA Sri Lanka ups 2018 revenue by 6% to Rs. 18.2 b

The Board of Directors of AIA Insurance Lanka PLC announced the financial results of the Company and its subsidiary for the year ended 31 December 2018.

Consolidated revenue grew by 6% to Rs. 18,232 million during the financial year 2018, from the figure reported for financial year 2017, driven by the growth in Gross Written Premium.

Gross Written Premium (GWP) of the life insurance business, grew by 11% to a record Rs. 12,739 million, driven by growth in regular premium business and a favourable shift in persistency. There was continued improvements in customer engagement and premium collection, that resulted in a 22% growth in premium collection from these initiatives.

Conventional life business GWP grew by 12%, with growth from both the agency and bancassurance channels.

Investment income dropped by 3%,due to impact on government bond values from the abolishing of national Withholding Tax credits (NTC) effective from 1April 2018 with the enactment of the Inland Revenue Act 2017.

Consolidated profit after tax decreased from Rs. 13,442 reported in 2017to Rs. 4,111millionin 2018. The profit after tax for 2018 includes the transfer of life business surplus for the year, being Rs. 1,157 million and the creation of a deferred tax asset of Rs. 2,537 million arising from the tax regime change for life insurers with the enactment of the Inland Revenue Act 2017, which introduced a surplus based tax basis replacing the previous I-E tax basis.

The consolidated profit after tax for 2017 includes the transfer of life business for the year and the transfer of the Risk Based Capital one-off surplus in line with the Direction #16 issued by the Insurance Regulatory Commission of Sri Lanka.

AIA Sri Lanka Chief Executive Officer Pankaj Banerjee said:"2018 was characterised by continued transformation at AIA Sri Lanka aimed at laying a strong foundation for sustained growth, driven by our brand promise of helping customers live healthier, longer, better lives. In 2018, AIA Sri Lanka demonstrated great resilience and discipline to deliver a robust performance amidst a challenging external environment marked by slowdown in consumer demand, relatively low economic growth and continued uncertainty in the socio-economic front.

"Against the backdrop of the economic challenges during the year, AIA Sri Lanka remained focused on executing our strategy and launched several key initiatives including the launch of a full-time professional agency outfit of Premier Agency Circle (PAC). We continued to enhance our customer offering with market leading and needs based new pension and health solutions with the introduction of Smart Pension and HealthProtector. We also launched a top-tiered customer program 'AIA First Class' for our premier customers.

"We strengthened our bancassurance platform with continued strong growth through our strategic partnerships with DFCC Bank and NDB Bank, while also commencing development of our digital sales system.Our investments in strengthening our brand visibility also resulted in sizeable enhancement in our brand recognition parameters with Total Brand Awareness growing to 86% by the end of the year. These are all testimony of AIA Group's firm commitment to the Sri Lankan business where we continue to invest in transformational initiatives, and look forward to achieving further success in the years to come."

AIA Sri Lanka Chairman William Lisle said:"I am pleased to see AIA Sri Lanka's resilience in the face of adversity and appreciate the initiatives launched in 2018 and also the progress made. I remain confident of the long-term growth potential of the Sri Lankan market, and we remain committed to continuously focusing on executing our strategy for making steady progress towards our goal of becoming the pre-eminent life insurer in Sri Lanka and help its people live healthier, longer, better lives."
(DailyFt)

Fitch rates Sri Lanka's USD Bonds 'B(EXP)'

Fitch Ratings has assigned Sri Lanka's upcoming US dollar-denominated bonds an expected rating of 'B(EXP)'.

The expected rating is in line with Sri Lanka's Long-Term Foreign-Currency Issuer Default Rating (IDR) of 'B' with a Stable Outlook.

The rating would be sensitive to any changes in Sri Lanka's Long-Term Foreign Currency IDR. Fitch downgraded Sri Lanka's Long-Term Foreign-And-Local-Currency IDRs to 'B' from 'B+', with a Stable Outlook, on 3 December 2018.

Secondary market bond yields decline on launch of sovereign dollar bond

Yesterday's launch of the five and ten year sovereign dollar bond issue resulted in the secondary market bond yields decreasing across the yield curve.

The liquid maturities consisting of the 2021s (i.e. 01.08.21 and 15.12.21), 15.03.23, 01.08.26, 2027s (i.e. 15.01.27 and 15.06.27) and 01.05.29 hit intraday lows of 10.60% each, 10.75%, 10.93%, 10.98%, 11.05% and 11.23% respectively, in comparison to the previous day's closing levels of 10.72/78, 10.75/80, 10.90/95, 11.12/20, 11.17/22, 11.20/25 and 11.32/37. Furthermore, trades were also witnessed of the 15.10.21, 15.07.23 and 15.03.25 at levels of 10.65%, 10.70% to 10.92% and 11.05% to 11.13% respectively. In the secondary bill market, the latest 364 day maturity was seen trading at a low of 10.49%.

The total secondary market Treasury bond/bill transacted volumes for 6 March was Rs. 9.3 billion.

In the money market, the OMO Department of the Central Bank was seen infusing liquidity for durations of one and seven days, for amounts of Rs. 20 billion and Rs. 5 billion at a weighted average yield of 9 %, as the overnight net liquidity shortfall stood at Rs. 40.12 billion. The overnight call money and repo rates averaged 8.91% and 8.93% respectively.

Rupee loses marginally

The USD/LKR rate was seen depreciating marginally yesterday to close the day at Rs. 178.45/55 against its previous day's closing level of Rs. 178.30/45 on the back of buying interest.

The total USD/LKR traded volume for the 6 March was $ 81.50 million.

Some of the forward USD/LKR rates that prevailed in the market were one month - 179.40/60; three months - 181.20/50 and six months - 184.20/50.
(DailyFt)

Union Assurance records encouraging performance in 2018

Union Assurance PLC (UA) recorded an encouraging 11% growth in Gross Written Premiums (GWP) in a challenging operating environment. Profit after tax in 2018 was Rs. 3.2 billion against Rs. 7.3 billion recorded in 2017. The Rs. 7.3 billion profit after tax in 2017 includes the one-off surplus transfer of Rs. 3.4 billion. For the year 2018, surplus transfer from the Life fund amounted to Rs. 1.1 billion. Rs. 882 million was generated from the shareholder investment portfolio and Rs. 150 million was accounted as UA's share of profits from the general insurance business from Fairfirst Insurance Ltd.

Total other revenue recorded a 1% degrowth. This is mainly due to increase in unrealised losses stemming from equities. The investment environment was impacted by various external and internal pressures in 2018. These factors caused volatility in equity and fixed income asset classes.

Net insurance benefits and claims paid increased by 9% mainly due to increase in maturity and surrender payouts. Maturity payouts are in line with UA'S contractual obligations and surrender payments increased due to the challenging economic environment. Underwriting and net acquisition cost increased by 12% to Rs. 2.1 billion due to increase in GWP and changes in incentive structure. Other operating, administrative and selling expenses increased by 41% as we invested in strengthening the brand and distribution channels.

With the implementation of the surplus based income tax in accordance with the New Inland Revenue bill, the Company recognised a deferred tax asset amounting to Rs. 1.6 billion and notional tax credit amounting to Rs. 541 million. The deferred tax asset and notional tax credits will be utilised against future income tax liabilities.

As a result of the above life fund increased by 14% to Rs. 30.6 billion by year end and maintains a healthy capital adequacy ratio indicates the financial strength of the business.

During the year, UA strengthened distribution and operational capabilities. Several initiatives were undertaken to transform agency channel. In the bancassurance channel, we migrated our distribution agreements with Nations Trust Bank and Union Bank from an open architecture model to strategic, exclusive partnerships. These partnerships enable us to synergise the capabilities of both organisations to provide unique product and service solutions to untapped market segments.

UA invested Rs. 800 million to upgrade the core IT system which went live in August 2018. The new platform improves the efficacy of new product development, underwriting, policy administration, claims serving, billing, collection, payments and regulatory reporting.

UA continues to garner national and regional recognition for many facets of its business. As a result of strong top and bottom-line track record, UA was listed in the Forbes Asia 'Best Under A Billion' list in August 2018. UA became the only Sri Lankan company to be part of this prestigious list comprised of 200 public companies in the Asia Pacific region. UA also become the only Life Insurance Company in Sri Lanka to be recognised as the 'Most Trusted Life Insurance Company in Asia' at Asia's Most Trusted Brand Awards 2018.

UA was adjudged joint winners in the Finance and Insurance sector for 10th consecutive year at the sustainability awards conducted by the Association of Chartered Certified Accountants (ACCA). The company's reporting practices were also recognised by the Institute of Chartered Accountants of Sri

Lanka, with the 2017 annual report receiving a silver award in the insurance category and a gold award for corporate social responsibility reporting. In addition, for the demonstrated excellence in business practices, UA secured a Gold Award for Excellence in Corporate Governance, 2nd Runner-up in the Extra-Large Category and was placed Joint winners in the Insurance Category at the National Business Excellence Awards 2018.

The company was recognised as a 'Great Place to Work' for the sixth consecutive year by the Great Place to Work Institute highlighting UA a work place that is conducive to growth and personal development.

UA has a strong brand, reputation for good governance, a professional team and performance driven culture. These aspects combined with our financial strength and customer focus, position UA to deliver sustainable value to all stakeholders in the years to come. (DailyFt)

MAC Holdings acquires 50% equity of Finlays Linehaul Express

MAC Holdings Ltd., a diversified group of companies which pioneers and is recognised as a market leader in global logistics, yesterday announced it acquired a 50% equity stake in Finlays Linehaul Express Ltd. from Finlays Colombo Ltd.

Launched in August 2008 as a joint venture between Finlays Colombo Ltd. and Linehaul Express (LINEX), Hong Kong based Logistics Company, Finlays Linehaul Express operates as the exclusive General Sales Agent for the wholesale courier operations of Cathay Pacific and Dragon Air.

With this acquisition, MAC will expand their capability in delivering on their forte of 'one stop shop' freight and logistics provider. The courier service offering enabled through this acquisition will provide enhanced value addition to the clientele of MAC.

LINEX, the Joint Venture Partner of Finlays Linehaul Express, is the largest wholesale airport-to-airport express services provider in the world with a portfolio of Customs Brokerage, Airport to Door Services and Airport to Airport Services.

This new partnership is geared to bring innovative and new solutions to the market and has already harnessed the e-commerce portfolio of LINEX as enhanced offering to the Sri Lankan market. The company's fully comprehensive, global e-Commerce logistics solutions provide cost-effective and reliable solutions facilitating e-commerce transactions.

The hybrid channels of LINEX leverages the group's strengths in line haul services into the destination country and is able to inject directly into the cross-borders mail systems. Hence, a full range of cost effective parcel and post services will be available to the Sri Lankan market with these offerings.

Commenting on MAC's acquisition of the equity stake held by Finlays Colombo, Lenton Group CEO and Chairman Morty Langslow stated that LINEX was looking forward to working closely with the new JV partner to bring innovative and timely services to the Sri Lankan Market.

Finlays Sri Lanka CEO and Country Head Gihan Jayasinghe stated: "This sale forms part of a strategic divestment process currently underway at Finlays Colombo to enable the company to better focus and grow its core tea-related businesses. We have had a wonderful and memorable partnership with the Lenton Group for the past 10 years and are confident that MAC together with the local team will continue to offer high quality and world class services to our numerous customers."

Further, MAC Chairman and Managing Director Andre Fernando said: “We are delighted to partner with the Lenton Group to enhance the services offered to our customers and excited with the opportunities presented with the expansion of logistics requirements of the Sri Lankan and regional markets.”
(DailyFt)

Stock Slide Extends to Asia Amid Growth Worries: Markets Wrap

Stocks in Asia tracked declines in the U.S. after a European Central Bank cut to economic forecasts reignited concern on global growth and sent global bond yields lower. The euro fell to the lowest since 2017.

Chinese shares bore the brunt of losses, though stocks in Sydney, Hong Kong and Tokyo all retreated. Technology megacaps led the S&P 500 Index to a fourth day of losses and the gauge closed just below its closely watched 200-day moving average that has provided support in the past. Australian bonds tracked gains in Treasuries and bunds, while the dollar steadied after gaining for a seventh day. The yen ticked higher.
Dovish ECB drives yields lower across the euro zone

The U.S. jobs report on Friday will provide the next clues on the health of global growth after ECB President Mario Draghi delivered fresh stimulus as he downgraded the outlook for the region’s economy. The move came during a week that’s seen China cut its goal for economic expansion, the Bank of Canada dial back its expectations for policy tightening and the Organisation for Economic Co-operation and Development lowering its global outlook.

“All these different variables are beginning to come together to paint a more dismal outlook for global growth,” Lindsey Piegza, chief economist at Stifel Nicolaus & Co., told Bloomberg TV from Minneapolis. “We saw the ECB wake up to the acknowledgement of a weaker growth and inflation profile in Europe, but this is sending a broad-based signal that contagion may be coming to the U.S.”
JPMorgan AM Australia CEO Says 'Cautiously Constructive' on Markets

Rachel Farrell, chief executive officer of JPMorgan Asset Management Australia, discusses the outlook for markets.

Elsewhere, the pound was steady after the European Union was said to make a new offer to the U.K. in an attempt to break the Brexit impasse. Oil was little changed above $56 a barrel in New York.

Here are some key events coming up:

- The U.S. jobs report Friday may show hiring moderated in February. Nonfarm payrolls may have increased by 180,000 while the jobless rate fell to 3.9 percent, according to estimates.
- The House of Commons votes on U.K. Prime Minister Theresa May’s revised Brexit deal on Tuesday, 20 days before Britain is scheduled to leave the EU. A similar measure was resoundingly defeated in January.

These are the latest moves in markets:
Stocks

- Japan’s Topix index fell 1.2 percent as of 10:30 a.m. in Tokyo.
- The Shanghai Composite slumped 2.2 percent.
- Hong Kong’s Hang Seng lost 1.3 percent.
- South Korea’s Kospi index lost 1 percent.
- The S&P 500 Index fell 0.8 percent. Futures dipped 0.2 percent.
- Euro Stoxx 50 futures lost 0.3 percent.

Currencies

- The yen rose 0.1 percent to 111.46 per dollar.
- The offshore yuan was flat at 6.7357 per dollar.
- The Bloomberg Dollar Spot Index remained near the highest in 10 weeks.
- The euro was at $1.1192 after sinking 1 percent.
- The British pound held at $1.3088.

Bonds

- The yield on 10-year Treasuries held at 2.64 percent after Thursday five basis point slide.
- Australia's 10-year bond yield fell five basis points to 2.04 percent.

Commodities

- West Texas Intermediate crude slipped 0.6 percent to $56.34 a barrel.
- Gold was steady at $1,286.62 an ounce

(Bloomberg)