NEWS ROUND UP

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Contents

JKH pre-tax profit down 5% in 2Q

Premier blue chip John Keells Holdings (JKH) yesterday reported a decline in earnings for the second quarter though bottom line was boosted by an extraordinary benefit.

Releasing interim results, JKH said Group profit before tax (PBT) at Rs. 4.69 billion in the second quarter of the financial year 2018/19 is a decrease of 5% over the Rs. 4.95 billion recorded in the previous financial year. The cumulative PBT for the first half of the financial year 2018/19 at Rs. 7.60 billion is a decrease of 16% over the PBT of Rs. 9.04 billion recorded in the same period of the previous financial year.

The Group revenue at Rs. 32.57 billion for the period under review is an increase of 10% over the Rs. 29.62 billion recorded in the previous financial year. The cumulative revenue for the first half of the financial year 2018/19 at Rs. 62.74 billion is an increase of 11% over the revenue of Rs. 56.45 billion recorded in the corresponding period of the previous financial year.

The profit attributable to equity holders in the second half at Rs. 5.10 billion is an increase of 37% over the corresponding period of the previous financial year, whilst the first six months performance at Rs. 7.28 billion is an increase of 11% over the previous year. The profit attributable to equity holders includes a recognition of a deferred tax asset at Union Assurance PLC.

The Company PBT for the second quarter of 2018/19 at Rs. 2.61 billion is an increase of 20% over the Rs. 2.18 billion recorded in the corresponding period of 2017/18. The Company PBT for the first six months of the financial year 2018/19 at Rs. 5.05 billion is a decrease of 9% over the previous financial year.

See JKH Chairman Susantha Ratnayake's review of 2Q performance on Page 2

(DailyFt)

Stock market dip persists

The decline of the Colombo stock market continued owing to negative sentiments as investors lost confidence amidst the deteriorating political scenario. Acuity Stock Brokers said the Bourse ended on a negative note as the ASPI decreased by 1.24%, or 74.88 points, to close at 5,987.21 points, while the S&P SL20 Index also decreased by 2.51%, or 79.94 points, to close at 3,110.64.

NDB Securities said indices closed in red due to price losses in counters such as John Keells Holdings, Commercial Bank and Hemas Holdings with the turnover crossing Rs. 1.3 billion.

"Crossings were witnessed in National Development Bank, John Keells Holdings, Teejay Lanka, Hatton National Bank, and Sampath Bank, accounting for 61.4% of the turnover. Retail interest was noted in Access Engineering. Furthermore, foreigners remained active, closing as net buyers mainly due to foreign buying in National Development Bank. Foreign purchases accounted for 53.5% of the turnover," NDBS said.

National Development Bank (NDB – Rs.102.7) emerged as the top contributor to turnover with Rs. 559 million (5.6 million shares), followed by John Keells Holdings (JKH-N – Rs. 145) with Rs. 305 million turnover (2.1 million shares) and Teejay Lanka (TJL – Rs. 33.5) with Rs.101 million turnover (3 million shares) (DailyFt)

CB denies irresponsible money printing

Central Bank yesterday denied reports that it was engaged in excessive printing of money.

In reference to media reports, CB said it wishes to provide the following clarification as the concepts and facts in such articles remain grossly inaccurate and misleading:

These articles suggest that the CBSL has printed a large amount of money recently to help finance the government's fiscal commitments. Usually, money printing refers to the expansion of Reserve Money (Monetary Base). Reserve Money, which was at Rs. 939.8 billion at end 2017 and at Rs. 1,010.5 billion at end September 2018, was recorded at Rs. 1,020.8 billion on 2 November 2018. This is a year-on-year growth in Reserve Money of 11.6 per cent, which is well within the CBSL projections for the year.

Meanwhile, rupee liquidity in the domestic money market has been in deficit since mid- September 2018, requiring the CBSL to conduct open market operations (OMOs) to provide adequate liquidity to the market, in addition to allowing market participants access to standing facilities at policy interest rates. In view of the large and long term shortages of liquidity in the market, the CBSL conducted longer term reverse repurchase auctions and made outright purchases of Government securities mainly from the secondary market. These are regular monetary operations with market participants, which have no relevance to the government's fiscal position or any particular political event.

As a result of such OMOs, the net book value of the Treasury bill holdings of the CBSL (gross book value of Treasury bills plus total value of reverse repos and standing lending facilities minus repos with the CBSL) was recorded at Rs. 224.4 billion on 2 November 2018. However, on a gross basis, the CBSL holdings of government securities was Rs. 67.4 billion on 2 November 2018. The fact that the growth in Reserve Money has remained subdued shows that recent OMOs have not had an undue expansionary effect on money supply in the economy.

The general public interested in gaining knowledge on monetary expansion is advised to refer to accurate technical articles that are published on the Central Bank website (e.g.: Article titled "Money Printing: Is there a Proper Control?" written by Mrs. Swarna Gunaratne, Assistant Governor, Central Bank of Sri Lanka. Available at: https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/statistics/otherpub/Article_on_Does_Central_Bank_of_Sri_Lanka_Print_Money_with_a_Proper_Control_e.pdf) without being misguided by erroneous reporting by a handful of journalists. (DailyFt)

Cargills Bank nine months' performance for 2018 reflects its growth in activity

Cargills Bank recorded a modest post-tax profit of Rs. 71 m for the nine months ended 30 September 2018. This reflects a growth of 56% over the corresponding period of last year, after discounting the one-off gain of Rs. 481 m from the disposal of its subsidiary.

Net Interest Income of Rs. 1,530 m improved by 46%, reflecting increased income from a larger loan portfolio, interest rate benefits from currency swaps and the impact of the inflow of Rs. 1 b from the disposal referred to.

Net Fee-based Income of Rs. 115 m for the nine months reflected an increase of 43%. Most of this was attributable to income from growth in the loan portfolio and to higher guarantee commissions. This income would have been substantially higher if not for the delay in the launch of credit cards.

Other income for the nine months grew 23% when the exceptional gain in 2017 is excluded, an important contributor being increased earnings on foreign exchange.

Impairment charges increased 223% from Rs. 73 m in 2017 to Rs. 237 m in 2018. Growth in the loan portfolio, non-performance by some large customers and delayed settlements on other loans contributed to this. The bank's NPA ratio increased from 3.55% at 31 December 2017 to 5.78% at 30 September 2018. This is receiving close attention; management considers the increase temporary. The bank stringently assesses credit quality and strengthens monitoring and recovery to contain NPAs at an acceptable level.

Operating expenses increased by 27% for the nine months. Higher depreciation costs and personnel expenses accounted for most of this increase. The employee head count at 30 September 2018 was 524 against 418 at 30 September 2017.

The Rs. 24.5 b loan portfolio of the bank at 30 Septmeber 2018 was 18% higher than at 31 December 2017. Credit growth was moderated by a shift in focus to secured lending, an exit from large low yielding facilities and a re-deployment of funds in the SME segment. Growth was slower than expected given the prevailing macroeconomic environment.

The bank's deposit base, at Rs. 18 b at 30 September 2018 remained flat compared to the base at 31 December 2017. Rupee denominated deposits grew by a modest Rs. 2 b, which was cancelled out by outflows in foreign currency deposits. It commenced, during the third quarter, a deposit campaign targeting six month, one year and five year deposits.

This promotion has been well received and we are seeing a steady inflow of deposits. The bank also unveiled its new 'Podihitiyo' children's savings account on World Children's Day, offering an attractive interest rates for children's savings accounts to help create a culture of savings in the community. Targeted promotions to attract deposits will continue. The bank's CASA ratio stood at 16% at 30 Sep 2018.

The Capital Adequacy Ratio of Cargills Bank continued to be well above the minimum regulatory requirement during the period. At 30 September 2018, the Tier I Capital Ratio was 32.3% and the Total Capital Adequacy Ratio was 32.7%. The bank remains focused on the need to productively deploy the capital buffer it presently carries.

The bank won three awards at the recently concluded LankaPay Technovations Awards 2018, demonstrating the success of its thrust in technological innovation and operational excellence. The event was organised by Lanka Clear Ltd. to recognise banks, non-banking financial institutions and fintechs for their excellence and commitment to digital adoption.

The bank also signed a strategic partnership agreement with Flemingo Duty Free and Supreme Paysez to roll out the Alipay mobile payment gateway in the Colombo Airport's duty free shops of Flemingo. A joint marketing arrangement is now in place for Flemingo to offer customised and targeted shopping offers to Chinese passengers using Alipay.

Expanding its remittance network, the bank recently joined RippleNet to facilitate cross-border inward remittances to Sri Lanka using Ripple's blockchain based enterprise software solution, enabling safe and secure cross-border transactions. Its customers now have more than 360 access points to collect their remittances from, and the convenience and service we provide here is unmatched.

The bank has invested in a state-of-the-art card management system which is now fully operational, with cards now being marketed. Implementation of the card management system was delayed by some months and, as such, customer acquisition was significantly lower than expected. A steady income stream from this line of business is expected in the future.

Cargills Cash, the bank's agency banking arrangement at Cargills Food City, and 'Bank in a Box' kiosk machines, have seen increased usage, and the bank will focus on this low- cost customer touch point to increase retail banking penetration.

The bank is confident that its early initiatives in the retail, SME and agri segments will develop strongly; combined with technological innovation, the future augurs well.

Fitch Ratings has affirmed a National Long-Term Rating of 'BB (lka)' with a Stable Outlook for the bank. The bank continues its preparation for a listing within the time frame stipulated by the Central Bank, and anticipates listing by 30 June 2020.
(DailyFt)

Weekly averages increase across board

The weekly Treasury bill weighted averages were seen increasing across the board yesterday, following the rejection of all bids the previous week, with the 364-day bill recording a sharp increase of 50 basis points to a 77-week high of 10.89%. The 91-day bill which was accepted after a lapse of two week's saw its weighted average increase by 17 basis points to 9.65% while the 182-day bill which was offered after two weeks recorded a weighted average of 9.99% against its previous of 9.75%. The total offered amount of Rs. 16 billion was almost fully accepted across all three maturities with a total bids to offer ratio of 1.66:1. The secondary market bond yields were seen increasing yesterday with moderate volumes being traded. The 15.07.23 maturity hit an intraday high of 11.50% in comparison to its previous day's closing levels of 11.38/45. Furthermore, trades on the 01.05.19, 15.09.19, 01.11.19, 01.03.21 and 01.10.22 maturities were witnessed at levels of 10.25%, 10.80% each, 11.10% to 11.20% and 11.50%, respectively, as well.

The total secondary market Treasury bond/bill transacted volumes for 5 November was Rs. 2.2 billion.

In the money market, 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.44.65 billion and Rs.15.00 billion respectively at weighted averages of 8.47% and 8.50% as the net liquidity shortage in the system stood at a high of Rs.70.30 billion yesterday. The overnight call money and repo rates remained mostly unchanged to average 8.47% and 8.50% respectively.

Rupee loses further

The rupee rate on spot contracts were seen losing further yesterday to close at Rs. 174.85/00 against its previous day's closing level of Rs. 174.45/55 on the back of continued buying interest from banks.

The total USD/LKR traded volume for 5 November was $ 51.70 million.

Some forward USD/LKR rates that prevailed in the market are 1 month – 175.80/10, 3 months – 177.75/15, and 6 months – 180.75/50.
(DailyFt)

Review of JKH's 2Q performance

Transportation

The Transportation industry group PBT was Rs. 1.06 billion in the second quarter of 2018/19 [2017/18 Q2: Rs. 1.07 billion]. The market share and profits of the Group's Bunkering business, Lanka Marine Services (LMS), increased as a result of a growth in volumes and improved margins. Whilst South Asia Gateway Terminals (SAGT) recorded a 12% growth in throughput over the corresponding period of the previous financial year, a decline in the volume of domestic TEUs impacted profitability. The Logistics business recorded a strong performance due to an increase in throughput. The design work and obtaining building approvals for the new 200,000 sq. ft. warehouse in Muthurajawela is ongoing, and construction is expected to commence in the fourth quarter of 2018/19.

Leisure

The Leisure industry group PBT of Rs. 453 million in the second quarter of 2018/19 is a decrease of 46% over the second quarter of the previous financial year [2017/18 Q2: Rs. 838 million]. The decline in profitability is mainly attributable to the City Hotels sector, the partial closure of "Ellaidhoo Maldives by Cinnamon" for refurbishment and the closure of "Cinnamon Hakuraa Huraa Maldives" for the reconstruction of the hotel.

Whilst the City Hotels sector maintained average room rates, profitability was impacted by a decline in occupancies, due to the increased supply of room inventory within Colombo and the lower volumes generated through the corporate segment. However, the year-on-year total number of room nights occupied in the city increased by 9% during the quarter under review, demonstrating the steady absorption of new room capacity.

Profitability in the Sri Lankan Resorts segment was impacted by a decline in occupancies, and an exchange loss on the translation of its foreign currency denominated debt arising from the depreciation of the Rupee during the quarter.

The business will however accrue the benefits of the depreciation on account of its foreign currency denominated revenue streams over the ensuing periods.

The Maldivian Resorts segment recorded an improvement in occupancies, although profitability was impacted by lower average room rates, particularly from "Ellaidhoo Maldives by Cinnamon" due to the refurbishment during the quarter. In addition, profits in the second quarter of 2017/18 included "Cinnamon Hakuraa Huraa Maldives", which is now closed, with re-construction expected to be completed in December 2019.

Despite increased activity in the informal sector, occupancies at our hotels in the Maldives remained above the industry average during the quarter under review.

Property

The Property industry group PBT of negative Rs. 14 million in the second quarter of 2018/19 is a decrease over the second quarter of the previous financial year [2017/18 Q2: Rs. 57 million]. The decline in profitability is mainly attributable to Rajawella golf course, which is currently undergoing a relaying of the fairways.

The construction of “Cinnamon Life” is progressing with encouraging momentum. The super structure of all buildings in the development is expected to be completed by April 2019. The project is slated for completion in the calendar year 2020 with the residential apartments and office complex ready for handover and occupation by early 2020. Evaluation of the tender submissions for the “Tri-Zen” residential development is currently in progress, and construction of the project is expected to commence in the ensuing quarter. In addition, the master planning of an 18-acre suburban site North of Colombo is also currently underway.

Consumer Foods

The Consumer Foods industry group PBT of Rs. 443 million in the second quarter of 2018/19 is a decrease of 40% against the second quarter of the previous financial year [2017/18 Q2: Rs. 738 million]. The decline in profitability is primarily on account of a volume decline of 31% in the carbonated soft drinks (CSD) range of the Beverages business and costs relating to the commissioning of the new ice cream factory as discussed below.

The decline in beverage volumes is due to the implementation of a sugar tax on CSD from November 2017, which resulted in substantial price increases\ across the industry. However, it is encouraging that the growth in monthly volumes within the quarter has been on an upward trend. The performance of the non-CSD product range continue to be encouraging.

The Frozen Confectionery business recorded a volume growth of 8% during the quarter under review, driven by growth in the impulse segment. Whilst the business recorded volume growth, profits were impacted by plant commissioning and start-up costs due to the gradual ramp up of production at the new manufacturing facility in Seethawaka and the depreciation and finance expense relating to the investment. The new facility will be pivotal to the long-term growth prospects of the business, given its scalability of product range and volumes and higher operational efficiencies.

During the quarter, four new impulse stick range varieties were launched.

Keells Food Products PLC recorded an increase in profitability on account of a 12% growth in volumes and a better sales mix.

Retail

The Retail industry group PBT of negative Rs. 75 million in the second quarter of 2018/19 is a decrease against the second quarter of the previous financial year [2017/18 Q2: Rs. 506 million]. The Supermarkets business PBT of negative Rs. 91 million in the second quarter of 2018/19 is a decrease against the second quarter of the previous financial year [2017/18 Q2: Rs. 381 million]. The supermarkets business continued to record a growth in customer footfall which contributed towards modest same store sales, despite the subdued macro conditions which also resulted in a contraction in average basket values. In addition to the impact of subdued consumer sentiment, PBT was impacted by the one-off re-branding and re-fitting costs of a majority of our stores which amounted to Rs. 115 million during the quarter under review. PBT was further impacted by store expansion related costs, which included a significantly higher interest expense based on the planned funding strategy, and higher depreciation as a result of the higher store count, both of which collectively accounted for Rs. 152 million during the quarter under review.

All existing outlets are expected to be re-fitted and re-branded by November 2018. The new format and offering continues to be very well received. During the quarter under review, six new outlets were opened, bringing the total store count to 88 as at 30 September 2018.

Profitability of the Office Automation business was impacted by significant exchange losses which impacted margins during the quarter under review.

Financial Services

The Financial Services industry group PBT of Rs. 484 million in the second quarter of 2018/19 is an increase of 29% over the second quarter of the previous financial year [2017/18 Q2: Rs. 376 million]. The increase in profitability was primarily due to Union Assurance PLC (UA). Nations Trust Bank PLC recorded robust loan growth during the quarter under review. With the introduction of the new tax base in terms of Section 67 of the Inland Revenue Act No. 24 of 2017, UA will have taxable income from the year ending 31 December 2018. UA will be eligible to claim its brought forward tax losses against its taxable income within a period of 6 years. Accordingly, during the quarter under review, UA recognised a deferred tax asset amounting to Rs. 1.53 billion arising from brought forward tax losses as at 31 December 2017.

Other, including Information Technology and Plantation Services

Other, including Information Technology and Plantation Services industry group recorded a PBT of Rs. 2.34 billion in the second quarter of 2018/19, this being an increase of 71% over the second quarter of the previous financial year [2017/18 Q2: Rs. 1.37 billion]. The increase in PBT is mainly attributable to the higher exchange gains recorded at the Company on its foreign currency denominated cash holdings compared to the corresponding quarter of the previous financial year. The performance of the Plantation Services sector was impacted by a decrease in tea prices during the quarter under review.

(DailyFt)

Sri Lankan govt intervenes in estate worker pay hike deadlock

Sri Lanka's newly appointed Cabinet has asked the finance ministry to find a solution to estate worker demands for higher pay without overly burdening the economy, a government spokesperson said.

"I have asked Ministers Arumugam Thondaman (Minister ofHill Country New Villages, Infrastructure and Community Development) and Suresh Vadivel (State Minister of Plantation Industries) to submit proposals to S. R.Attygalle (Treasury Secretary)," Cabinet spokesperson Mahinda Samarasinghe said.

"We want to find a solution which will support the estate workers without overly burdening the economy," he said.

Estate workers are requesting their basic daily wage be increased to 1,000 rupees.

Workers now get a basic pay of 500 rupees along with incentive payments amounting to a total daily wage of 805 rupees.

Regional plantations companies (RPCs), which are now in a deadlock with trade unions over the pay hike, are proposing the industry shift entirely to a productivity-based wage model as the only way to meet union demands to double daily basic pay to 1,000 rupees.

The RPCs would ideally like to move towards an out grower model.

During the 2017 wage negotiations, the unions had rejected a fully productivity-based wage model in favour of a semi-productivity-based arrangement. (Colombo/Nov07/2018)

(Economynext)

Stock Rally Builds as Investors Reassured on Vote: Markets Wrap

After endorsing a Republican-dominated government two years ago, investors decided they also like a divided Washington. Stocks in Asia followed a strong U.S. session overnight, spurred by the narrative that checks and balances bode well for returns.

Equities in Japan led gains, alongside solid rises in Hong Kong and South Korea, and futures indicated the positive risk appetite will flow through to European shares. Earlier, the S&P 500 Index rose more than 2 percent as investors bet a split Congress dimmed chances President Donald Trump's signature tax cuts will be reversed while reducing the possibility of major fiscal initiatives that might have pushed up interest rates. Treasury yields held gains and the dollar steadied.

"This election played out exactly like the polls were telling us, which was a reassurance," Anne Lester, managing director and portfolio manager at JPMorgan Asset Management, told Bloomberg TV in New York.

With the elections out of the way, attention turns to Thursday's Federal Reserve decision, with investors looking for any signals on the pace of policy tightening into 2019. China trade data showed a surge in exports and imports for October, months before the next round of tariff hikes in the trade war with the U.S. is set to kick in.

On Wednesday, U.S. tech stocks, which absorbed the brunt of October's sell-off, led gains as the Nasdaq 100 surged more than 3 percent. Oil steadied after sliding for eight straight days.

And these are the main moves in markets:
Stocks

- Japan's Topix index rose 1.9 percent as of the lunch break in Tokyo.
- Hong Kong's Hang Seng climbed 0.9 percent.
- The Shanghai Composite added 0.5 percent.
- Australia's S&P/ASX 200 Index advanced 0.5 percent.
- S&P 500 futures were little changed. The S&P 500 Index rose 2.1 percent Wednesday. The Nasdaq 100 surged 3.1 percent.

Currencies

- The yen ticked lower to 113.67 per dollar.
- The offshore yuan slid 0.1 percent to 6.9278 per dollar.
- The Bloomberg Dollar Spot Index was little changed.
- The euro traded flat at $1.1428.
- The pound was steady at $1.3123.

- Bonds

- The yield on 10-year Treasuries held at 3.23 percent.
- Australian 10-year bond yields rose about three basis points to 2.76 percent.

Commodities

- West Texas Intermediate crude added 0.2 percent to $61.70 a barrel.
- Gold was little changed at $1,224.43 an ounce.

(Bloomberg)