NEWS ROUND UP

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Government to revise import duty on small cars and hybrid vehicles

The Government expects to revise the import duties imposed on small cars and hybrid vehicles in the near future, depending on national economic factors, Prime Minister Ranil Wickremesinghe told Parliament yesterday.

Responding to a question raised by Joint Opposition MP Bandula Gunawardana, the Prime Minister said that the minimum duty rates of Rs 1.5 million and Rs 1.25 million, for cars with an engine capacity below 1000cc and hybrid vehicles respectively, were imposed due to the increase in vehicle import expenditures having a negative impact on the balance of payment levels.

The Premier said the vehicle import expenditure had risen to $666 million within the first five months of 2018, in comparison to the $316 million in the same time period in 2017.

He noted that the expenditure for the importation of cars with engine capacities below 1000cc and hybrid vehicles had been 51.3% of the total vehicle importation cost in 2017, which has risen to 78.9% in 2018.

In addition, the Premier rejected claims by MP Gunawardana that those who had opened letters of credit to import small cars before August this year were allowed to clear their vehicles without paying the recently increased import duty.

US sanctions on Iran may cause local fuel price hike: PM

Prime Minister Ranil Wickremesinghe told Parliament yesterday that a fuel price hike was imminent, as a result of the US economic sanctions imposed on Iran.

The Premier made this statement while responding to a question raised by Joint Opposition MP Bandula Gunawardana regarding vehicle import duties.

“The US sanctions on Iran could affect Sri Lanka adversely. We don’t know whether this would result in an oil price hike, as Sri Lanka currently imports Iranian crude oil. However, we will have to be prepared to face any adverse situation,” the Prime Minister said.

He said the current trade war between China and the United Sates would also have an effect on the island.The Premier said that Sri Lanka must be prepared to face such situations caused by global developments.
(DailyFt)

CSE extends gains, foreign investors buy into John Keells

Sri Lankan shares rose for a second straight session on Thursday and posted their highest close in more than two weeks, as foreign investors continued to buy into market heavyweight John Keells Holdings after recent selloff.

The Colombo stock index closed 0.57% higher at 6,155.41, its highest close since July 25. The index has declined about 3.4% so far this year.

Turnover was 478.4 million rupees ($2.99 million) on Thursday, compared with this year’s daily average of 847.3 million rupees.

“Foreign buying in Keells helped the market gain. Other big caps also helped,” said Hussain Gani, deputy CEO at Softlogic Stockbrokers.

“The market should continue with sideway movements.”

Foreign investors bought shares worth a net 66 million rupees, after having sold a net 2.9 billion rupees worth of equities so far this year.

Shares of John Keells, which accounted for nearly a fifth of the day’s turnover, rose 2.3%, while Ceylon Tobacco Co Plc gained 1.2%.

The gain came after excess liquidity in the market put pressure on short-term interest rates.

The central bank left its key policy rates unchanged as expected on Friday, citing its goals of stabilising inflation and fostering sustainable economic growth.

Central bank Governor Indrajit Coomaraswamy said the economy was unlikely to grow more than 4% in 2018, falling short of an earlier estimate of 5%.
(DailyFt)

Rupee edges down on importer dollar demand

The rupee closed marginally weaker on Thursday on importer dollar demand, while dealers expect the local currency to stabilise around the current level in the short term.

The rupee, which hit an intraday low of 160.10 per dollar, ended at 159.95/160.10, compared with Wednesday’s close of 159.90/160.00. It hit a record low of 160.17 on 20 June and has declined 4.2% so far this year.

“There was no visible action by the central bank though they kept on checking the exchange rate on and off. There was excess rupee liquidity and short-term Treasury bill rates came down,” a currency dealer said.

“It looks like stability is coming. I don’t think there will be rapid depreciation at least in the short term.”

Currency dealers said the market had an excess liquidity of Rs. 50 billion that put pressure on the short-term interest rates without much impact on the exchange rate.

They also said the last week’s Central Bank decision on the monetary policy had little impact on the currency.

On Friday, the Central Bank left its key policy rates unchanged, saying the decision backed its goals for stabilising inflation and fostering sustainable economic growth.

Central Bank Governor Indrajit Coomaraswamy had told reporters that several emerging market currencies had more than the rupee, adding “if we reduce rates that would put further pressure on the exchange rate.”

Sri Lanka last week raised import duties on small hybrid cars by more than 50%to boost revenue and curb a sharp fall in the rupee. Coomaraswamy had said earlier that the rupee’s decline was driven mainly by external factors.

Foreign investors sold government securities worth a net Rs. 259.7 million ($ 1.63 million) in the week ended 1 August, bringing the outflow so far this year to Rs. 36.5 billion, Central Bank data showed. (DailyFt)

China stock rally steadies nerves, Russian rouble hammered

Asian share markets found support yesterday as a rally in Chinese stocks helped offset the latest escalation in the Sino-US trade war, while Russia's rouble tumbled as the United States slapped fresh sanctions on the country.

Shanghai blue chips climbed 2.7% amid talk of possible Government support for home-grown technology companies, just the latest in a series of growth boosting measures rolled out by Beijing as the trade dispute worsens.

Hopes for more Chinese infrastructure spending also underpinned industrial resources including iron ore and copper.

The gains in Chinese stocks helped MSCI's broadest index of Asia-Pacific shares outside Japan reverse early losses to nudge up 0.5%.

The relief had yet to spread to Europe with financial spreadbetters tipping London's FTSE to open eight points lower, Frankfurt's DAX 4 points down and Paris' CAC flat.

Japan's Nikkei slipped 0.2%, weighed in part by a shock slump in core machinery orders.

Shares in Mazda Motor Corp., Suzuki Motor Corp. and Yamaha Motor Co. also fell on news they conducted improper fuel economy and emissions tests on their vehicles.

Japan will try to avert steep tariffs on its car exports and fend off US demands for a free trade agreement at talks in Washington later in the session.

Early yesterday, China's state broadcaster said the country must counteract US tariffs and that Beijing had the confidence to protect its own interests as well as the means to do so.

China had already announced additional tariffs of 25% on $ 16 billion worth of US imports from fuel to autos. The tariffs will apply to billions of dollars in US gasoline, diesel and other oil products, though not crude.

The oil market took the news hard on Wednesday, suffering losses of more than 3%.

Prices steadied a little yesterday, with US crude edging up 12 cents to $ 67.08 per barrel, while Brent bounced 24 cents to $ 72.52.

In currency markets, the Russian rouble sank after Washington said it would impose fresh sanctions because it had determined that Moscow had used a nerve agent against a former Russian agent and his daughter in Britain.

There were also reports of a new US Senate bill that would impose widespread sanctions on Russia for election meddling.

The rouble duly slid to its lowest since late 2016 with the dollar buying RUB 65.74 having jumped 3.3% overnight.

The pound skidded to its lowest against the dollar and euro in almost a year as fears grew Britain might leave the EU without a deal on trade with Brussels.

Traders reported a significant increase in investors hedging against a 'no-deal' Brexit, an event which could send sterling into free fall and hurt the economy by raising trade barriers with Britain's biggest export market.

Sterling was last trading at $ 1.2881, having dropped 0.4% overnight.

The Japanese yen seemed to be catching a bid as a traditional safe-haven, with the dollar easing to JPY 110.95 after stretching as high as 111.44 on Wednesday.

The euro was relatively steady at $ 1.1610, while the dollar index was a shade firmer at 95.124.

The New Zealand dollar dropped 1.1% to a two-year trough at $ 0.6665 after the country's central bank pledged to keep rates at record lows well into 2020.

"The risk of rate moves over the next 12 months is weighted more towards cuts than hikes, and financial markets will price the risk accordingly," said Kiwibank Chief Economist Jarrod Kerr.

"The good news here is interest rates and exchange rates will remain lower for much longer, assisting growth." (DailyFt)

Bond market remains active as positive momentum continues

The secondary bond market remained active yesterday with the liquid maturities of 01.07.19, 01.03.21, 15.03.23 and 01.08.24 trading within the range of 9.02% to 9.05%, 9.47% to 9.50%, 9.77% to 9.80%, and 9.85% to 9.92%, respectively. Furthermore, activity consisting of the 01.05.19, 01.05.20, 15.12.21, 01.08.26 and 01.09.28 maturities was also witnessed at levels of 9.00% to 9.10%, 9.30% to 9.35%, 9.62%, 10.05% to 10.08%, and 10.15% to 10.20%. In the secondary bill market, January and August 2019 maturities were traded at levels of 8.60% and 9.05%, respectively.

The total secondary market Treasury bond/bill transacted volumes for 8 August was Rs. 17.90 billion.

In money markets, the net liquidity surplus remained high at Rs. 54.17 billion with overnight call money and repo rates reducing further to average 8.18% and 8.11%, respectively.

Rupee losses further

The USD/LKR rate on spot contracts were seen losing further yesterday to hit lows of Rs. 160.05 before closing marginally higher at Rs. 159.98/04 against its previous day's closing levels of Rs. 159.92/00 on the back of continued importer demand.

The total USD/LKR traded volume for 9 August was $ 92.68 million.

Some of the forward USD/LKR rates that prevailed in the market were 1 Month - 160.80/90; 3 Months - 162.40/60 and 6 Months - 164.70/90. (DailyFt)

Sunshine Holdings records 8% top line growth in 1Q despite challenging business conditions

- Consolidated revenue of Rs. 5.6 b, an increase of 8.0% YoY
- Healthcare revenue up 15.6% YoY to Rs. 2.2 b
- Strong growth in Consumer, revenue up 22.2% YoY to Rs. 1.4 b
- Agri revenue contracted by 7.2% YoY to Rs. 1.8 b
- PAT reduced to Rs. 343 m, due to subdued Agri results
- Private placement to raise Rs. 775 m with SBI Ven Holdings Ltd

Diversified Sri Lankan conglomerate Sunshine Holdings PLC has reported top line growth of 8.0% YoY to stand at Rs. 5.6 billion during the first quarter of the current financial year (1Q FY19).

The top line increase was mainly by strong performances in consumer and healthcare sectors, and despite a slight degrowth within the agribusiness sector.

Profit after tax (PAT) for the period in review declined by 38.8% to Rs. 343 million and profit margins has also reduced to 6.2% compared to last year's (1Q FY18) 10.9%, mainly due to lower profitability in the agribusiness sector and holding company's higher finance cost. Profit after tax and minority interest (PATMI) declined 21.6% YoY to Rs. 192 million with the agribusiness sector, making the largest contribution to PATMI, accounting for 50% of the total.

The group's healthcare sector emerged as the largest contributor to Sunshine's top-line performance, accounting for 40% of total revenue, where agribusiness contributed 33% and consumer 25% of the total revenue.

Recently, Sunshine announced a private placement to raise Rs. 775 million with SBI Ven Holdings Ltd., the overseas private equity firm of Japan's financial giant SBI Holdings Inc. Through this private placement, Sunshine Holdings looks to reduce its net debt and net finance cost.

The Group's Healthcare sector posted revenue growth of 15.6% YoY on the back of volume increase in the pharma sub-sector and foot fall growth in retail, represented by its rapidly-growing Healthguard Pharmacy chain, growing 13.5% YoY, among notable developments within.

The pharma sub-segment, which represents 67% of healthcare revenue, grew 15.6% YoY in 1Q FY19 due to higher sales volumes. Medical devices sub-sector grew by 16.2% YoY and the Group expects the growth of the sub-sector to be driven by the recent partnership with 3M Global Channel Services, which appointed Sunshine Healthcare as the master distributor for its products in Sri Lanka.

"In Healthcare, we expect strong growth momentum in volumes to continue into 2Q FY19. The healthcare industry is expecting another phase of price control by the regulator during 2Q FY19. Although this was announced by the Minister of Health on 1 August, no guidelines have been issued by the regulator on the same," Govindasamy commented.

The consumer sector reported revenues of Rs. 1.4 billion in 1Q FY19, up 22.2% YoY, on the back of both volume and price growth, and accounted for 25% of group revenue for the period. The domestic branded tea business within consumer sold 1 million kg of branded tea, up 8.3% YoY, driven by Sri Lanka's number one tea brand 'Watawala Tea', and their budget brand 'Ran Kahata'. PAT from the consumer segment grew by 77% YoY during 1Q FY19, mainly driven by the higher sales volumes coupled with margin expansion due to reduced tea prices during the quarter.

The Group's agribusiness sector, led by Watawala Plantations PLC and Hatton Plantations PLC, saw a revenue decline of 7.2% YoY to Rs. 1.8 billion due to unfavorable weather conditions. Palm oil volume contracted by 16.9% YoY for 1Q FY19 due to a decrease in yield and reflected a YoY revenue drop of 11.5%, despite an increase in net sale average (NSA). Tea volumes contracted by 14.3% YoY, resulting in a revenue drop of 9.8% YoY.

Particularly in the context of Sunshine's performance over the last quarter, Vish Govindasamy expressed strong confidence over the outlook of the group over the coming year. While acknowledging the continuing impact of the rupee's depreciation against the dollar, which continues to impact the margins of the Healthcare industry, he noted that the potential for further growth, supported by increased volumes to offset the reduced prices and greater attention to its growing surgical, medical devices and retail sub-sectors.

He also noted that Group's consumer business would continue to invest behind its brands to scale the domestic businesses, while expecting strong margins for 2Q with weak tea prices at the auction during the 1Q. In the agribusiness, he expects to see moderate growth in volumes for the palm oil segment while prices remain at current levels. In the tea segment, he expects profitability to be challenged due to low crop on the back of adverse weather in the Hatton and Lidula region.

On the dairy sub-sector, the total milking cows has reached 896 and the total herd to 1,374. Overall operation is steadily growing to the target of 1,000 milking cows. Nevertheless, the interim cost of feeding the whole herd will have a negative impact on agri profitability. In the renewable energy segment, construction of the third plant is underway and is expected to be commissioned by the end of August.

About Sunshine Holdings

Sunshine Holdings PLC is a diversified holding company contributing to 'nation building' by creating value in vital sectors of the Sri Lankan economy – including healthcare, agribusiness, fast moving consumer goods and renewable energy. Many of its business units are leaders in their respective sectors, have secured partnerships with top global brands and have won prestigious awards at the national as well as the regional level. The leading brands of the group include Zesta, Healthguard, Watawala Tea, Pedia Plus and Diabeta Plus. Estate Management Services Ltd. (EMS), the agri-business arm of Sunshine Holdings PLC, manages Watawala Plantations, Sri Lanka's largest palm oil producer, and Hatton Plantations, one of the largest tea producers in Sri Lanka. The company's healthcare marketing unit is the second largest in its sector nationally. Its tea sector also consists of Sri Lanka's best-selling tea brand locally. The group, which provides employment to approximately 10,000, generates over $ 138 million in revenue. (DailyFt)

Vidullanka posts excellent Q1 performance

Vidullanka Plc has reported an impressive Group turnover of Rs. 412 million and post-tax profit of Rs. 226 million for its first quarter of FY2018/19.

This is in keeping with its momentum of steady growth wherein the Group reported a topline of Rs. 974 million and a post-tax bottom line of Rs. 509 million for its financial year ended 31 March 2018. Gross profit and net profit margins stood at 82.6% and 55% for Q1 compared to the annual parameters of 74.3% and 52.2% as at FYE 2017/18. Financial gearing of 51.1% as at the end of the first quarter proved to be an improvement of over 54.3% as at FYE March 2018 reflecting efficient management of the company’s borrowings and related liabilities while the group’s strong asset base of Rs. 5.6 billion placed the company in a strong financial position.

CEO Riyaz Sangani said: “The Group continues to record exceptional performance in relation to the sound performance of the local power plants and the ‘Muvumbe’ power plant in Uganda. We look forward to another successful year with exceptional performance records. Vidullanka seeks to grow through new capacity addition by developing renewable sources in Sri Lanka as well as overseas.”

The company received all of the required overseas and local regulatory approvals and completed the acquisition of its second overseas company Timex Bukinda Hydro (U) Ltd, in Uganda during its first quarter.

Investment in the construction of the 6.5 MW Bukinda small hydropower plant is expected to commence during the latter part of 2018 and the group is poised to enjoy a greater degree of synergy in operations along with the existing Muvumbe small hydropower plant.

As a means to diversify its power generation sources, Vidullanka has its sights set on solar power generation and is in the process of constructing its first dendro power plant of 3.3 MW installed capacity in Dehiyattakandiya which is to be connected to the national grid by end-2018.

Vidullanka Plc recently welcomed Rizvi Zaheed to the Board of Directors. Zaheed brings to the table a wealth of experience spanning more than 30 years. His business acumen will undoubtedly be of immense value and an asset to the company going forward.

With over two decades of experience in renewable energy power generation, Vidullanka Plc continues to specialise in the design, construction and operation of mini hydropower plants and presently has a total combined capacity of over 27 MW with a total annual energy generation capacity of 108 GWh to the national grid. Renewable energy has become a global necessity and it remains in the company’s best interests to contribute towards diversified green energy solutions as the core of its business operations. (DailyFt)

Asia Stocks Slip Amid Trade Concern; Yen Gains: Markets Wrap

Stocks slipped in Asia and the yen climbed as investors assessed the impact of the latest tit-for-tat in the trade war as well as sanctions on Russia. China’s yuan was steady, showing further signs of stabilization after recent moves to shore up confidence.

The biggest declines were in Japan and South Korea, while trading was more muted for shares in China and Hong Kong. The dollar kept its advance against its G-10 counterparts and Treasury yields held losses ahead of the last key event for this week - a report on U.S. consumer prices. West Texas oil drifted and is poised for the longest weekly losing streak in three years. Turkey’s lira hit a fresh record low.

Geopolitical tensions between the U.S. and other countries set the tone for markets this week as China responded to the Trump administration’s latest trade war volley with additional tariffs of its own. The ruble hit a two-year low after the U.S. announced new sanctions on Russia over the March 4 nerve-agent attack on a former double agent in the U.K. Turkey’s lira plunged and bond yields climbed as a dispute over the detention of an American pastor dragged on.

Elsewhere, Tesla shares rose in post-market trading after CNBC reported that its board planned to meet with financial advisers next week to formalize a process to take the co. private and would ask CEO Elon Musk to recuse himself from the process.

Rising Rates, Trade Tensions Could Put Ceiling on Stocks, RGT's Thoele Says

RGT Wealth Advisors' Chuck Thoele discusses the market impact of trade tensions and rising interest rates.

These are the main moves in markets:
Stocks

- Japan's Topix index fell 0.6 percent as of 12:17 p.m. in Tokyo.
- The Shanghai Composite Index dropped 0.2 percent.
- Hong Kong's Hang Seng Index sank 0.5 percent.
- Australia's S&P/ASX 200 Index slid 0.1 percent.
- Futures on the S&P 500 lost 0.1 percent. The underlying gauge fell 0.1 percent Thursday.

Currencies

- The yen rose 0.1 percent to 110.93 per dollar.
- The offshore yuan gained 0.1 percent to 6.8421 per dollar.
- The Bloomberg Dollar Spot Index held its 0.5 percent advance from Thursday.
- The euro bought $1.1530.

Bonds

- The yield on 10-year Treasuries slid less than one basis point to 2.92 percent.

Commodities

- West Texas Intermediate crude fell less than 0.1 percent to $66.80 a barrel.
- Gold futures were steady at $1,212.18 an ounce.
- The Bloomberg Commodity Index edged down after losing 0.3 percent Thursday.

(Bloomberg)