

NEWS ROUND UP

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Competitive entrepreneurs cure for economic ills: PM

Competitive entrepreneurs will decide Sri Lanka's future, Prime Minister Ranil Wickremesinghe said yesterday, acknowledging that the country is in the midst of a "bad dose" of fiscal consolidation to repay debt that has hurt growth, but that prospects could be improved through exports and investment.

Speaking at the Entrepreneur of the Year awards ceremony, organised by the Federation of Chambers of Commerce and Industry (FCCISL), Wickremesinghe noted that homegrown entrepreneurs have to become more competitive to foster growth. Taking the example of China, he pointed out how private enterprise could grow in a short period of time, and called for Sri Lankans to get in touch with their entrepreneurial spirit.

"We have to work together to ensure stronger and more competitive enterprises in Sri Lanka. I went to China in 1979, there was no private enterprise; when I went to China in 1987, private enterprise was starting; today when you go to China, everyone is a private entrepreneur. We have had a culture of entrepreneurship in Sri Lanka, so we have to promote entrepreneurship.

As a Government, we can support, but it also needs ability. The ability to compete, the ability to succeed," he said. "Only by expanding entrepreneurship, and the number of entrepreneurs we have, can we attract other entrepreneurs to Sri Lanka to foster growth. That is what any successful country has done."

Touching on Sri Lanka's complex economic situation, Wickremesinghe recalled that during the past decade, investment in Sri Lanka's tradable goods had been overlooked for investment in non-tradables, largely infrastructure. This focus on infrastructure contributed to creating high levels of debt, which now have to be repaid.

"Sri Lanka's non-tradable goods has increased at the expense of non-tradable goods. To reduce debt and grow, we must get into tradable goods. But we cannot do this with our small market. We need to export, we need to look at services and other sectors. But even with you expanding, we still need foreign investment. This is why we are asking you to be more competitive. This is why we are coming out with trade adjustment packages, this is why we have Enterprise Sri Lanka, why we are having a new development finance company. All this needs to get going and have our BOI and Tourism Board to attract foreign investment. We need it."

The Prime Minister conceded that the Government has taken time to tackle the debt situation, but defended it by insisting that they had managed to stabilise the economy, and was now readying to push forward with economic expansion measures. These policies would largely need to focus on aggressive exports expansion strategies, he added.

"I thought I would mention this, as we keep forgetting that we have a big debt and we have to repay it. This is something we in the Government see every day. When Ministers go to the Treasury, they are told 'no, we need money to service the debt.' So no one can ignore it."

Much of the upcoming Budget for 2019 would concentrate on this challenge, Wickremesinghe said. He went on to say that second to debt was the salary burden of the public sector, which could not be reduced, as it would trigger large-scale unemployment which in turn would hit consumption and thereby growth.

"The Budget has about Rs. 2.2 trillion to be spent on debt servicing. This year, foreign debt alone comes to about \$6 billion, which is the largest instalment we have ever paid. So we suck that money out of the system, making it a bit more difficult for you to get credit. You know what debt is when your company is saddled with it. We are a country. Just as much as your shareholders can get annoyed, so can our

shareholders. We went through a hard time to stabilise the economy, but it retarded our development. If we did not have debt, we could have seen more growth," he said.

The Government's fiscal consolidation process is good for economic stability, Wickremesinghe said, insisting Sri Lanka could not "change doctors in the middle of treatment" and should "find treatments that fit the illness."

"The next few years will decide how we will earn funds to repay debt, how our exports grow, and how we attract investment. That means we have to spend more money on education, so we can have a more skills-oriented workforce, as well as spend more on healthcare and infrastructure," he said.

Sri Lanka slipped to the 85th position in the 2018 Global Competitiveness Index from 81st in 2017. The report, which was released in October, showed that out of 12 broader pillars, Sri Lanka had improved in terms of infrastructure, health, ICT adoption, skills, and market size; but lagged in the other factors, such as institutions, macroeconomic stability, product market, labour market, financial system, business dynamism, and innovation capability.

In South Asia, India topped by being ranked at 58th, though it has slid greatly from 40th under the old methodology last year. Bangladesh was 103rd, followed by Pakistan (107th) and Nepal (109th). (Daily FT)

Govt. nod for two LNG plants

The Government yesterday gave the green light to award the tender to set up two 300MW LNG plants in Kerawalapitiya, highly-placed Cabinet sources told Daily FT.

As per the recommendations of Power and Energy Minister Ravi Karunanayake, a contract will be awarded to Lakdhanavi Ltd. to set up a new 300MW LNG plant, while approving the Procurement Appeals Board (PAB) Recommendation to award the contract to build the Kerawalapitiya 300MW LNG plant, the bidding process of which concluded last year, to the Consortium of GCL China Windforce and RenewGen.

If the contracts are successfully awarded, this would be the first plant to be constructed after the Lakvijaya Coal Plant in Norochchola was completed almost a decade ago. The Ceylon Electricity Board (CEB) has not been able to commission any new power plants included in their Long Term Generation plants since 2013. Karunanayake proposed to the Cabinet to award the contract to set up the second 300MW LNG plant, scheduled to be commissioned in 2021, to Lakdanavi Ltd., the company which came the lowest in the bidding process for the first LNG plant, but this proposal was rejected by PAB.

A separate bidding process was not carried out for the second plant, while the bidding for the first LNG plant in Kerawalapitiya closed mid-2018 after a two-year process of repeated technical evaluations, which saw six different recommendations being given by different Technical Evaluation Committees (TEC). The decision by the final TEC to award the tender to Lakdanavi Ltd. was then contested by bidders, and the PAB recommended the tender to be awarded to GCL Windforce and RenewGen. The decision was hotly debated by the then-Cabinet, which put the matter on the back-burner until the Courts delivered a decision on the Fundamental Rights Petition filed by a consumer group on the matter.

Karunanayake sought the approval of the Cabinet this week to follow the PAB recommendation to award the tender to GCL Windforce and RenewGen, noting that no Interim Order has been issued by the Courts to hinder the work. Further, the Minister also recommended to run the proposed plants solely on LNG power from the beginning, to reduce costs.

The specification of the tender for the 300MW Kerawalapitiya Power Plant was to operate it for the first two years using diesel, and subsequently shift to LNG. However as per the Minister's recommendation, the Cabinet gave approval to award the tender, on the condition that the plants are set up and operated using LNG from the beginning, without an initial two years of operating the plant using diesel.

In justifying the award of the second contract to Lakdanavi Ltd., Minister Karunanayake noted that it will be possible to reduce cost by constructing another 300MW LNG power plant as mentioned, instead of the two proposed 165MW combined cycle dual fuel power plants in Kelanitissa, scheduled to be completed in 2023.

Pointing out that the unit electricity cost of the above proposed two power plants in Kelanitissa is Rs. 27, while the unit electricity cost of the Kelanitissa gas turbine power plant is Rs. 40-45, both of which are higher than the cost of LNG, Karunanayake informed Cabinet it would be possible to reduce cost by installing a new LNG power plant instead. However, it is not clear if a contract can be awarded sans a bidding process, as per the existing legal framework governing the electricity sector in Sri Lanka. (Daily FT)

Access Engineering ups 9-month after tax profit by 43% to Rs. 1.6b

Access Engineering PLC, the premier listed civil engineering company, has recorded an impressive Group Profit after Tax of Rs. 1.66 b in the first nine months of FY19 with a YoY increase of 43%.

Chairman Sumal Perera

Managing Director Christopher Joshua

For the quarter ended 31December 2018 the Group recorded a profit after tax of Rs. 640 m, a significant YoY growth of 124% against the third quarter of 2017/18. At the Company level after tax profit for the nine months and the quarter was recorded at Rs. 1.56 b and Rs. 542 m respectively.

Consolidated revenue for the nine months and the quarter was recorded at Rs. 21.57 b and Rs. 7.95 b respectively with corresponding YoY growth levels of 13% and 15%. At the Company level turnover recorded was Rs. 13.81 b and Rs. 5.16 b for the cumulative period and the quarter.

For the cumulative revenue the contribution of construction was 58% while the automobile segment, sale of construction related material and the property sector contributed 29%, 10% and 3% respectively. Gross profit for the quarter was recorded at Rs. 1.32 b and Rs. 938 m at Group and Company level respectively with corresponding margins of 17% and 18%. For the cumulative period gross margin was recorded at 17% and 16% at Group and Company level respectively.

As at 31December 2018, the total asset base of the company amounted to Rs. 47.96 b and Rs. 34.55 b at Group and Company level respectively. The equity attributed to the owners of the company was recorded at Rs. 22.16 b at the Group level while it was Rs. 19.15 b at Company level.

During the quarter ended 31December the Company declared an interim dividend of Rs. 0.25 per share on 30November 2018 which was paid in full on 20December 2018. The company is engaged in two real estate development projects, namely, Capital Heights Rajagiriya for the development of 242 luxury apartments and Marina Square Colombo for the development of 1,068 units. Both projects have had healthy pre-sales with interest from foreign and local buyers.

The Board of Directors of Access Engineering PLC comprises Sumal Perera (Chairman), Christopher Joshua (Managing Director), Rohana Fernando (COO), Shevantha Mendis, Dharshana Munasinghe,

Dilhan Perera, Ranjan Gomez, Professor Malik Ranasinghe, Niroshan Gunaratne and Dinesh Weerakkody. (Daily FT)

Rupee ends weaker on stock-related outflows

Sri Lanka's rupee ended weaker on Tuesday, as banks bought dollars to facilitate stock-related outflows and importer greenback demand, market sources said.

The stock market closed down as foreign investors continued selling for the second straight session on Tuesday.

The rupee closed at 178.30/40 per dollar, compared with Monday's close of 177.75/90, market sources said.

The Colombo Stock Index ended 0.51% weaker at 5,930.21 on Tuesday, its lowest close since 23 November.

Bourse fell 0.3% last week, and declined about 1% in January. The turnover was Rs. 1.1 billion Sri Lankan (\$6.18 million), well above last year's daily average of Rs. 834 million.

Foreign investors were net sellers of Rs. 261.4 million worth shares on Tuesday. They have been net sellers of Rs. 4.8 billion worth of stocks so far this year, and Rs. 18.2 billion since the political crisis began on 26 October 2018.

The local currency posted a weekly loss of 0.7% last week due to importers' demand in the latter part of the week.

It has risen 2.5% so far this year as exporters converted dollars and foreign investors purchased government securities after a statement from the International Monetary Fund (IMF) and Government's \$1 billion debt repayment boosted confidence.

Investor confidence in Sri Lanka is stabilising after the country repaid a \$1 billion sovereign bond in mid-January, the Central Bank chief said last month.

The bond market saw inflows of Rs. 11.4 billion in the week ended 6 February, recording its third straight weekly inflow, the latest Central Bank data showed.

Worries over heavy debt repayment after a 51-day political crisis that resulted in a series of credit rating downgrades dented investor sentiment as the country is struggling to repay its foreign loans.

The rupee dropped 16% in 2018, and was one of the worst-performing currencies in Asia due to heavy foreign outflows. (Daily FT)

World Bank VP arrives in Sri Lanka to support country's reform plans

The World Bank Vice President for the South Asia Region Hartwig Schafer arrived yesterday on his first visit to Sri Lanka to gain a better understanding of the country's development priorities and how the Bank can continue to support its critical reform agenda.

World Bank Vice President for the South Asia Region Hartwig Schafer

“Sri Lanka has made good progress in reducing poverty and ranks the highest in South Asia in terms of human capital development,” said Schafer. “To continue its journey towards a high middle-income country and create more quality jobs for its people, Sri Lanka needs to continue focusing on better fiscal health, boosting its competitiveness as a tourism, logistics and IT hub and managing climate change risks. The World Bank will continue to provide its best expertise to support Sri Lanka’s future growth.”

During his three-day visit, Schafer will meet President Maithripala Sirisena, Prime Minister Ranil Wickremesinghe and senior government officials including the Minister of Finance Mangala Samaraweera, State Minister of Finance Eran Wickramaratne, the Mayor of Colombo Rosy Senanayake and the Governor of the Central Bank of Sri Lanka Dr. Indrajith Coomaraswamy.

Schafer will hold discussions on Sri Lanka’s low female labour force participation, visit project sites to meet communities engaged in development work and launch the World Bank’s new Sri Lanka Development Update. He will also meet with leading representatives of the private sector and the civil society.

Before joining the South Asia Region, Schafer served as the Vice President for Global Themes and as Vice President for Operations Policy and Country Services. He led several key reforms, including the rollout of the World Bank’s new policies on procurement, environmental and social safeguards, and innovation of the Bank’s lending and knowledge instruments. Previously, Schafer served as the World Bank’s Country Director for Djibouti, Egypt, and Yemen.

IBRD and IDA portfolio commitments currently total \$ 1728.5 million (as of January) with 14 operations under implementation. Currently, nearly 60% of commitments comprised lending in the sustainable development cluster (urban, climate resilience, agriculture, environment and water) and another 36% in human development (education, health and social protection). Sri Lanka graduated from IDA at the end of IDA17 and currently receives transitional financing from IDA18 (FY18-20) amounting to \$ 407 million. (Daily FT)