NEWS ROUND UP

Monday,Augest 13th, 2018

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Sri Lanka's Hayleys group to sell assets to reduce debt

Sri Lanka's Hayleys Plc, a diversified group, is planning to sell some of its assets to settle debts taken to fuel an aggressive expansion drive and focus on high return businesses, officials said.

Hayleys borrowed heavily over the past year to buy the country’s largest consumer durable retailer Singer Plc for 12.5 billion rupees. It also acquired Sri Lanka Shipping Company Ltd for 4.9 billion rupees to become the country’s largest ship owner with 22 vessels.

"Yes, we are overleveraged, but we are not worried," Executive Director Sarath Ganegoda told reporters.

He said that Hayleys will examine it balance sheet to identify assets that are not generating adequate returns on investment, and sell them.

"We are likely to liquidate some assets. We’re now looking at the return on assets, which we didn’t look closely at before," he said.

Hayleys group ROA fell to 1.58 percent in the year to March 2018 down from 3.88 percent a year earlier. Return on capital employed (ROCE) fell to 7.48 percent from 9.41 percent.

In the June 2018 quarter, shareholders of the parent lost money. Hayleys last reported double digit returns on shareholder funds in 2005 at 10 percent.

Analysts say in the 1980s and 1990s, nominal returns may also have been helped by high inflation and currency depreciation, though the group had a practice of revaluing assets to calculate ROCE as well as tax holidays as it had a focus on exports.

Hayley's stock price had fallen from 296 rupees to about 200 rupees in the 12-months to June 2018.

Ganegoda said that Hayleys, in its 140 year history has acquired many assets, some of which don’t have their true value shown on the balance sheet.

The group’s acquisition drive is over for the foreseeable future, and will consolidate its businesses in the 16 industries Hayleys is now in, he said.

"We are looking to be number one in every sector we get into," Chairman Mohan Pandithage said.

Pandithage said they group was targeting a billion dollar revenue in 2020, but had already achieved it after acquiring Singer Sri Lanka.

Some of the more recent industries Hayleys entered into, such as leisure and renewable energy, are putting temporary pressure according to Ganegoda.

“They are cash heavy and are putting temporary pressure on our liquidity,” he said.

These sectors are expected to drive long-term growth and stability, Ganegoda said.

Hayleys’ more traditional businesses in agriculture and manufacturing will help in the short-term profitability, liquidity and debt repayment capacities, he said.

He said that Hayleys is looking to reduce its debt to EBITDA (earnings before insurance, taxes, depreciation and amortization) ratio to 3x.

At the end of the last financial year in March 2018, the ratio was at 6x according to company data. For the 4 previous years leading back to 2014 the group had maintained a 3x debt to EBITDA ratio.

By the end of the June 2018 quarter, Hayleys had 35 billion rupees in long-term borrowings, compared to 20.5 billion rupees in the June 2017 quarter before the latest round of acquisitions.

Short-term borrowings in June 2018 increased to 43.1 billion rupees from 23.5 billion rupees a year earlier.

The current portion of long-term borrowings increased to 23.9 billion rupees from 4.5 billion rupees a year earlier.(EconomyNext)

Sri Lanka adds new regulation to credit access of tourism business

Sri Lanka's central bank has directed finance companies not to give loans to borrowers in tourism related businesses unless they have a license, Sri Lanka Tourism Development Authority said.

The central bank has written to the Finance Houses Association Sri Lanka saying it is mandatory for all tourism related businesses to register with the Sri Lanka Tourism Development Authority under Tourism Act No 38 of 2005.

"The SLTDA has also had discussions with the Central Bank to ensure that the commercial banks too consider the SLTDA license as a pre-requisite for granting loans to tourism related businesses," the regulator said.

The requirement to get registration for getting loans will add yet another barrier to getting access to credit for small businesses in particular.

The mounting regulations under the current United National Party led administration comes as the country is trying to improve ease of doing business and reduce time and steps in starting and running businesses.

Sri Lanka had earlier gazetted a set of state-mandated requirements for graded hotels in an era where booking engines were making facilities transparent.

However the tourism regulator said it had also launched Online Tourism Business Licensing System (OTBLS) to make it easier for entrepreneurs to get past the regulatory barrier. (EconomyNext)

Duty reduction for cars if Sri Lanka's trade balance improves

The government is considering duty reductions for small hybrid cars as well as mid-size sedans after the country’s trade balance and foreign reserves improve later this year, authoritative official sources said yesterday.

Finance Minister Mangala Samaraweera sharply raised taxes on small hybrid cars following Central Bank of Sri Lanka pressure to put the brakes on the top-selling Japanese Kei cars -- the smallest street-legal vehicle category -- that have out-paced even trishaw sales this year.

Both Samaraweera and Central Bank Governor Indrajit Coomaraswamy have maintained that the higher tax slapped from August 1 was not intended to raise more revenue, but to discourage imports, save foreign exchange and ease pressure on the rupee.

Analysts have pointed out that problems of the rupee, which started shortly after are the central bank was set up in 1951, are due to liquidity injections (printing money) made by the monetary authority to keep interest rates down.

Sri Lanka's trade deficit will widen as the economy picks up, more foreign investments come in, tourism earnings go up and the government borrows abroad to fund domestic spending even if money is not printed, analysts say.

Prime Minister Ranil Wickremesinghe told parliament last week that the small car taxes were a temporary measure and he hoped the trade balance would improve by the end of the year.

“Car duties can be brought back to what they were before August 1 or even reduced further, especially for the mid-size cars below 1,500 cc category,” an official source said.

He said the 2019 budget could have more measures to buttress Minister Samarawera’s “green, clean” vehicle policy of encouraging electric and hybrid vehicles.

Moves to discourage diesel use are also expected with a total ban on the import of diesel powered vehicles for private use.

Urban Development minister Champika Ranawaka had a similar ban on highly polluting two-stroke gasoline engines when he was tin charge of the Environmental portfolio.

He resisted he powerful three-wheel importer and taxi lobby and banned all two-stroke engine vehicles, including motorcycles to reduce pollution on Sri Lankan roads. The ban went into effect 10 years ago.

Neighbouring countries have banned the use of diesel for public transport and carried out a successful program to convert diesel vehicles to much cleaner LNG. New Delhi also bans diesel cars over 10 years entering main cities as a means of tackling pollution.

“There would be a re-think on the use of diesel,” the official source said adding that a complete re-think of the country’s energy policy should be undertaken.

- Prices remain stable -

Despite the duty on a small Suzuki Wagon R going up by as much as 425,000 rupees, there was no marked increase in retail prices at local car dealerships in the past week. Several dealers with large fleets of cars in stock took out advertisements last Sunday saying that they were still selling at the old price.

“This is a very price sensitive segment of the market. If we raise the price, we will not be able to move our stocks,” a dealer at Mount Lavinia said adding that he did not notice a spike in demand even at the old price.

Car sales on internet portals also showed that there had been no upward adjustment of prices as demand remained sluggish. Dealers had imported large fleets of cars anticipating a tax increase in November.

The Central Bank of Sri Lanka officials said there was a foreign exchange outflow of 195 million dollars to import cars below 1,000 cc engine capacity in the first five months of this year, dramatically up from 26 million dollars spent in the corresponding period last year.

The mid-sized cars below 1,500 cc also saw a rapid increase going from 20 million dollars in 2017 to 73 million dollars this year.

Gasoline powered Sports Utility Vehicles (SUV) also saw a surge this year. Imports of the high-end SUVs cost 8.8 million dollars this year, compared to just 2.6 million dollars spent last year. (EconomyNext)

Sri Lanka fresh coconut prices fall steeply at auctions

Sri Lanka's fresh coconut prices have started to fall sharply at auctions, with many desiccated coconut and oil mills which halted production when prices peaked earlier in the year, yet to resume work, industry officials said.

Average price for 1,000 nuts which hit 64,156 rupees in January 2018 had fallen to 45,162 by July.

Retail prices of a coconut are around 60 rupees a nut in August down from 85 rupees in January.

In August farmgate prices had shown signs of edging lower, with the sellers withdrawing most of the volumes offered at the weekly auction in Colombo amid weak demand.

Average auction prices were around 37,000 rupees per 1,000 nuts in early 2017 when a drought cut production leading to steep rises in prices.

This led to many desiccated coconut mills losing international buyers to other Asian nations, who then halted production.

Now coconut prices in the Philippines have also since fallen, industry officials said. Though there is no free import and export of fresh coconut, international prices percolate to Sri Lanka through the desiccated coconut market.

Trends in palm oil prices also have an impact on coconut.

Most Sri Lankan desiccated coconut mills are still out of business, which was the key cause of weaker prices, though production has also not recovered substantially.

At least one coconut milk powder brand cut prices recently, which may increase the demand for fresh coconuts.

Coconut oil mills had also stopped production as prices rose. Yea-to-date oil production was down by about two thirds, industry officials said.

If fresh coconut prices fall further, both oil and DC mills are likely to resume production, leading to greater demand. (EconomyNext)

How a currency meltdown in Turkey threatens Europe

Worries over a fragile Turkish economy and the risk of contagion in Europe unnerved investors on Friday and sent the lira to a record low against the US dollar.

The Turkish currency plummeted as much as 17% against the dollar, reflecting a range of concerns, including tensions with the United States and the unwillingness of Turkish authorities to raise interest rates.

President Donald Trump, who imposed sanctions on senior Turkish officials earlier this month for their role in the detention of an American pastor, upped the stakes on Friday with a promise to increase metals tariffs on Turkey.

Turkish President Recep Tayyip Erdogan was defiant.

"Don't forget this: if they have dollars, we have our people, justice and God," he said. "We will come out of the economic war successfully."

The rhetoric did little to calm markets. The lira, which has dropped almost 40% against the dollar this year, resumed its slide as Erdogan spoke.

Rodrigo Catril, a senior currency strategist at National Australia Bank in Sydney, said investors are increasingly worried about rising inflation and the ability of the country's central bank — whose independence has been questioned by investors — to do anything about it.

The central bank has been under pressure from Erdogan, who was re-elected in June, to keep interest rates low despite inflation that topped 15% in July.

It went against market expectations and left policy unchanged at its more recent meeting. That may have pleased Erdogan, but economists say the central bank is now likely to be forced to take emergency action.

"There are reasons to think that emergency interest rate hikes during the current currency crisis might only provide fleeting relief," said William Jackson, chief emerging markets economist at Capital Economics.

"It's not clear that Turkey will be able to step back from the brink this time around," he added.

The government has already slashed its growth forecast for this year to 4% from 5.5%, but economists warn the slump will be much worse if confidence is not restored quickly.

"A recession and a debt crisis that would force Turkey to implement capital controls and ask for an [International Monetary Fund] bailout cannot be ruled out anymore," said Carsten Hesse, European economist at Berenberg.

Erdogan appears determined to fight. On Friday, he urged the Turkish people to exchange dollars and euros for lira in order to defend the currency.

Yet other forces were working against the lira. Trump said in a tweet on Friday that he would hike taxes on metal from Turkey.

"I have just authorized a doubling of Tariffs on Steel and Aluminum with respect to Turkey as their currency, the Turkish Lira, slides rapidly downward against our very strong Dollar! Aluminum will now be 20% and Steel 50%. Our relations with Turkey are not good at this time!" he said.

It was not immediately clear when the tariff hikes would be imposed. (CNN)

Russia plans to sell more US holdings in response to sanctions

Finance Minister Anton Siluanov told Russian state television network Russia One on Sunday that Russia will continue decreasing holdings of Treasuries in response to sanctions.

Between March and May, Russia's holdings plummeted by $81 billion, representing 84% of its total US debt holdings.

The most recent round of American sanctions on Russia came in response to the poisoning of former Russian spy Sergei Skripal and his daughter in the UK earlier this year.

The sanctions were imposed by the State Department under a chemical and biological warfare law and would go into effect around August 22.

On Thursday, Russian President Vladimir Putin's spokesperson Dmitry Peskov said that Russia "does not have anything to do with the use of chemical weapons" and that the sanctions were "unacceptable" and "illegal."

Foreign Ministry spokesperson Maria Zakharova said that Russia "will work on retaliatory measures" in response to the sanctions.

Siluanov said Sunday that Russia is also considering moving away from the US dollar for international trade, calling it an unreliable tool for payments.

"I do not rule it out," Siluanov said. "We have significantly reduced our investment in US assets. In fact, the dollar, which is considered to be the international currency, becomes a risky tool for payments."

However, Siluanov also said that Russia has no plans to close American companies in Russia.

"We do not plan at the moment any restrictions, closures, for example, take, and shut down McDonald's: these companies employ our citizens."

Russia's decisions to dump US debt isn't expected to have a big impact on the Treasury market because it is not a leading creditor of the United States.

Even at Russia's recent peak of $105.7 billion in November 2017, it ranked as the 15th biggest foreign holder of US debt. China owns about $1.2 trillion -- or roughly 10 times as much as Russia.

"It's not particularly alarming," Guy LeBas, chief fixed income strategist at Janney Capital said last month.

Eugene Chausovsky, senior Eurasia analyst at consulting firm Stratfor, agreed that Russia's move away from US debt "is not a huge deal."

"If we had this kind of sell-off from China, this would be a completely different picture," he said last month.

But the Russia situation underscores long-running concerns that a major US creditor could threaten to hurt America by dumping debt. Those worries have been heightened by America's soaring federal budget deficit and the ongoing trade war with China.

Analysts question the logic behind this worry. China would struggle to unload that much debt at once -- and its own portfolio would dramatically lose value during such a fire sale.

"The idea of weaponizing foreign-exchange holdings for an economic attack on the United States is just as likely to hurt the weaponeer," said Janney's LeBas.

The bigger risk is that China or another country weans itself off US debt by slowing its purchases and waiting for existing Treasuries to mature.

"Gradualism could have a long-term impact on the United States. But that would be a patient policy that would not reveal itself easily," said David Kotok, chairman of Cumberland Advisors. (CNN)