# NEWS ROUND UP

*Tuesday, july 24, 2018*

## Contents

## *Cabinet paper capping microfinance interest rates to be presented today*

Finance Minister Mangala Samaraweera will present a Cabinet paper today that would limit interest rates of microfinance loans to 30% as the latest effort by the Government to reduce indebtedness in the country.

Samaraweera is also expected to include the details of how debt created by microfinance loans would be absorbed by the Government in 12 districts, primarily in the North and North Central Provinces, Finance Ministry sources confirmed. Over the weekend, the Government announced plans to pay microfinance loans of less than Rs. 100,000 that is expected to amount to around Rs. 1 billion.

State Minister of Finance Eran Wickramaratne told Daily FT that the Government expects to gradually expand the program to other areas of the country.

"We will go to the East as well, but for this moment, it will only be North and North Central provinces. I am fully conscious of the situation as there are more women-headed households in the East," the Minister said.

"We are going to take in the smaller debts and write off some of those payments in the North and the North Central Provinces initially. The program will be rolled out under the guidance of the Central Bank under the existing financial system," he added.

Explaining the decision to intervene, the Minister said that the Government is particularly concerned about the situation in the North due to the high number of women-headed households that have been caught in the debt trap.

"What happened in the North is a little different. Some institutions may be registered, and some may not be registered with the regulatory authorities as they are running as microfinance agencies. Some have given loans at exorbitant interest rates, and probably not really understood the projects and they are unable to collect it," he said.

Wickramaratne further explained that the situation in the North differs from the rest of the country as they are a post-war community, recovering from the conflict, which may have put significant strains on their ability to effectively function regarding the economic commitments they under took.

"There may be a lesson for everyone here. There needs to be more studies done on the matter."

Acknowledging the limitations and need for intervention at different levels, Wickramaratne said that a host of agencies, including funding institutions, non-government organisations and Government bodies, will be working on programs to increase the earning capacity of the communities affected by the debt trap.

"I don't think the Government alone can solve the situation. It needs markets, hand-holding and mentoring. The Government will look at the financing of it," he said. (Dailyft)

## *June inflation at 2.5%*

June inflation reached 2.5%, slightly ahead of the 2.1% posted in May, the Census and Statistics Department said yesterday, pointing out that Sri Lanka's inflation has remained below 3% over the last four months. Issuing the National Consumer Price Index (NCPI) for the month of June 2018, Census and Statistics Department Director General Dr. Amara Satharasinghe said that the Year on Year inflation based on NCPI has been compiled as 2.5%. The inflation reported for the month of May 2018 was 2.1%.

Contributions to the inflation in June 2018 from food group and non-food group are 0.26% and 2.26% respectively, whilst contributions of these two groups to the inflation in June 2017 were 3.9% and 2.4% respectively, resulting in headline inflation of 6.3%.

When compared to month on month changes, NCPI in June 2018 has increased to 126.5 from 124.3 reported in May 2018. This shows an increase of 2.2 index points that is 1.8% points in June 2018 as compared to May 2018. This month on month change was contributed by increases of expenditure value of food items by 1.55% and non-food items by 0.26% respectively.

The increases in expenditure value of food items were reported for vegetables, fresh fish, green chilies, potatoes, big onions, eggs, milk powder, dried fish, ginger and chicken. However, decreases in expenditure value of food items were reported for coconuts, banana, limes, rice, sugar, pineapple, gram and mangoes.

The increases in expenditure value of non-food items in June 2018, compared to the previous month, was due to the expenditure value increases in groups of 'Transport', 'Restaurants & Hotels', 'Miscellaneous Goods and Services' and 'Furnishings, Household equipment and Routing household maintenance.' In the 'Transport' group expenditure value increase was mainly due to increases in fuel prices (petrol & diesel) and bus fare.

However, decrease in expenditure value was reported for the group of 'Alcoholic beverages, Tobacco and Narcotics' compared to the preceding month. Meanwhile, the expenditure value of 'Health', 'Recreation & Culture' and 'Education' groups remained unchanged during the month. (Dailyft)

## *Shares edge lower from 3-week high in dull trade*

Shares ended weaker yesterday, slipping from the last session's three-week closing high, but foreign buying prevented steeper losses.

The Colombo stock index ended 0.1% weaker at 6,184.68, edging lower from its highest close since 29 June hit on Friday. The bourse rose 0.86% last week, but has fallen 2.9% year to date.

Turnover was Rs. 238.4 million ($ 1.5 million) in the session, less than a quarter of this year's daily average of Rs. 877.6 million.

"The selling pressure was absorbed by foreign buying, which is a good sign," said First Capital Holdings Head of Research Dimantha Mathew.

Foreign investors bought equities net worth Rs. 98.1 million yesterday, but they have been net sellers of stocks worth Rs. 2.5 billion so far this year.

A downward revision in economic growth estimate by the Central Bank has hurt sentiment, analysts have said.

Economic growth in 2018 is likely to be between 4% and 4.5%, falling short of an earlier estimate of 5%, Central Bank Governor Indrajit Coomaraswamy said earlier this month.

Shares in Ceylon Tobacco Company PLC fell 1.6%, while Distillers Company of Sri Lanka PLC ended 1.9% weaker and conglomerate John Keels Holdings PLC ended 0.7% down. (Dailyft)

## *Rupee firms as exporters, foreign banks sell dollar*

The Sri Lankan rupee ended firmer yesterday as exporters and some foreign banks sold the dollar, surpassing importer demand for the US currency, traders said.

The rupee traded at 159.90 early in the session and closed at 159.45/65 per dollar, compared with Friday's close of 159.90/160.05. It has declined 3.9% so far this year and hit a record low of 160.17 on 20 June.

Chinese President Xi Jinping has offered Sri Lanka a fresh grant of CNY 2 billion ($ 295 million), as Beijing looks to expand its influence in the country.

"There was (dollar) demand, but foreign banks were on the selling side today. Maybe after the news of the Chinese grant, they are selling," said a currency dealer, asking not to be named.

Sri Lanka's Central Bank Governor Indrajit Coomaraswamy had said earlier that the rupee's decline was driven mainly by factors outside of Sri Lanka and that emerging-market currencies were under pressure.

The Central Bank is concerned that dollar hoarding and market manipulation are exacerbating the rupee's weakness and has the tools to correct any misalignment in the exchange rate, Coomaraswamy told Reuters.

The International Monetary Fund said last month that Sri Lanka's economy remained vulnerable to adverse shocks due to a sizeable public debt and large refinancing needs.

Foreign investors sold government securities worth a net Rs. 1.98 billion ($ 12.4 million) in the week ended 18 July, bringing the outflows so far this year to Rs. 31.6 billion, Central Bank data showed.
(Dailyft)

## *China's Xi offers fresh $ 295 m grant to Sri Lanka*

Chinese President Xi Jinping has offered Sri Lanka a fresh grant of CNY 2 billion ($ 295 million) as Beijing tries to expand its influence in the country.

President Maithripala Sirisena, a partner in Beijing's multi-country Belt and Road infrastructure push, made the announcement on Saturday at a ceremony to mark the start of construction of a Chinese-funded kidney hospital in Polonnaruwa, 230km from Colombo.

"When the Chinese Ambassador visited my house to fix the date for this ceremony, he said that Chinese President Xi Jinping sent me another gift," Sirisena told the gathering.

"He has gifted CNY 2 billion to be utilised for any project I wish. I'm going to hand over a proposal to the Chinese Ambassador to build houses in all the electorates in the country," he added.

Reuters could not immediately contact officials from the Chinese Embassy in Sri Lanka for comment.

The grant offer comes at a time when a Chinese firm is facing heavy criticism for allegedly financing the last election campaign of former President Mahinda Rajapaksa.

Last month, the New York Times reported that China Harbour Engineering Company Ltd. (CHEC) gave $ 7.6 million for Rajapaksa's re-election bid, which he lost to Sirisena in early 2015.

Rajapaksa, the Chinese Embassy in Colombo and State-owned CHEC have all denied the allegation, but Sirisena's Coalition Government held a Parliament debate last Thursday over the report and called for an investigation into the alleged funding.

Sirisena had, at the start of his term, suspended most of the Chinese-backed infrastructure projects started under Rajapaksa over suspected corruption, overpricing and for flouting government procedures.

But more than a year later, the Sirisena Government allowed Chinese projects to resume after a few changes in some of them.

China was among the first countries that stepped in to help the reconstruction of Sri Lanka after the 26-year-long Civil War ended in 2009.

Many of Beijing's projects, backed by loans from the Chinese Government and initiated by the Rajapaksa Government, have faced opposition in Sri Lanka amid concerns raised by the United States, India and Japan that China might use Sri Lanka as a military base.

The 2014 docking of a Chinese navy submarine in Colombo raised an alarm in New Delhi, prompting Indian Prime Minister Narendra Modi to boost ties with Sri Lanka and claw back influence in the Indian Ocean region.

Both the Sri Lankan Government and Chinese Embassy in Colombo have denied any plans to use a southern port now handled by a Chinese firm for military purpose. (Dailyft)

## *NDB poised for exceptional growth: The Group CEO provides insights*

NDB commenced its operations as a premier development financing institution [DFI] in 1979, nearly four decades ago. This was a time that Sri Lanka was going through a rapid transformation and a new scale of economic development. NDB was instrumental in financially empowering a large number of mega development projects in the country, and also funded a host of SMEs in varied sectors, a key segment in the country's economic development. Over the years, it has evolved and broadened its operations to serve a larger customer base of the country. The key turnaround point in the Bank's recent history is becoming a fully-fledged commercial bank in 2005. Through the years, NDB has also expanded its services to the capital market activities, through the robust capital market subsidiaries, including private equity management.

We are firmly based on a set of very strong corporate values, which are upheld by our employees, such as integrity, excellence in our service, sincerity, accountability and creativity, which are also closely associated with our brand. As an institution which is a custodian of public funds, we conduct ourselves with the highest level of ethical standards, professionalism and are fully compliant with the regulations that govern us. I think a combination of all this and the strong drive for business excellence has put us up in this position.

Q: NDB made several headlines right through 2018, for various awards and accolades that it won. In which areas have the Bank excelled to receive such a large number of awards?

We are highly motivated by the external endorsements that were bestowed upon us during the year. Being recognised as the Best Bank in Sri Lanka by the prestigious, USA based Global Finance publication tops them all. In addition to this, a number of regional as well as UK based awards have recognised NDB in a host of core business performance areas, such as retail banking, SME banking, project financing, financial inclusion endeavours, competence in syndicated loans, corporate debt deals and corporate customer solutions. Two of our retail banking products, Dream Maker personal loans and NDB Good Life credit card were also recognised as the best in their respective categories.

Our marketing initiatives and investor relations initiatives have also been recognised with awards presented by awarding bodies dedicated to these disciplines.

NDB's capital market cluster companies were also the proud recipient of many awards, including NDB Investment Bank being recognised as Sri Lanka's Best Investment Bank by the Euromoney Magazine for the seventh consecutive year.

In consideration of the fact that NDB is the only financial services group of its kind in Sri Lanka, and also the excellence NDB has shown in both banking operations as well as capital market solutions, we were also recognised as the Best Financial Group in Sri Lanka, by the Global Banking & Finance Review of UK.

These awards are an affirmation of our commitment for excellence in brining better solutions to our customers and empowering them and also our nation in development.

Q: What is NDB's current market position?

Today, NDB is a fully fledged commercial bank in Sri Lanka. It caters to the retail mass market as well as the retail high-net worth clients, with a robust product portfolio in both assets and liabilities.

Although NDB ceased to become a "development bank" as per definition, our mission in supporting and empowering the country's development continues. We cater to corporate, middle market, SME as well as micro scale businesses. We are also a most sought after lender in the project financing sphere, given our expertise in this area.

Apart from that, our positioning in the industry goes beyond the scope of a commercial banking entity. NDB Group is the only financial services group in the country, who offers services in a host of capital market activities such as full service investment banking, securities trading and advisory, wealth management and private equity placements, in addition to commercial banking services. So all in all, we are a unique 'one-stop' financial solutions provider, may it be in banking or capital market services, bringing ultimate convenience to our customers.

Q: How has NDB Bank's performance been in the recent past? How well have you performed in 2018 so far?

NDB has made great strides in its performance over the years. We have made considerable improvement in our profitability and balance sheet indicators, especially considering the fact that we have been functioning as a commercial banking entity for just over 10 years, compared to our much more mature peer banks.

At a Group level, we have a balance sheet in excess of Rs. 400 billion. Over the past five years, the Bank's total assets have grown at a CAGR of 18%, whilst loans to customers also have grown at a similar rate. Customer deposits have grown in excess of 20% over the five years. We are glad to have sustained such consistent growth over the past. We've also increased our profitability levels over the years. As per our financial results for the FY 2017, we are a Rs. 4 billion post tax profit banking institution.

Furthermore, we have been maintaining a host of KPIs at very healthy levels. Our non-performing loan ratio, which was 2.46% as per the latest published financial information for the first quarter ended 31 March 2018, has been consistently lower than the industry average. Our cost to income ratio has also been well managed.

Stemming from the fact that our organisation was a DFI, there have been few structural mismatches in our model compared to our mature peers. Lower Current Account and Savings Account [CASA] base and high loans to deposits ratio are a few to name. However, we are pleased to note that NDB has made vast

improvements in these ratios, in a short span of 12 plus years, and come to level playing fields with its peers and is improving day by day.

During the 2017 financial year, we recorded exceptional growth rates, many of which were well ahead of the industry. Out total assets grew by 15% to reach Rs. 383 billion. Our loan book grew by an impressive 20%, ahead of the industry growth rate of 16%. This growth translated to a quantum of Rs. 46 billion in loans. Customer deposits grew exponentially, at 34% YoY versus the industry growth rate of 17.5%. This growth translated to a quantum growth of Rs. 70 billion. This was the highest YoY deposits growth rate we achieved over the past five years. Within overall deposits the CASA base also grew by an impressive 25%, higher than the industry CASA growth.

In terms of profitability, our profit after tax [PAT] at the bank level soared by 37% to Rs. 4.4 billion. Cost to income ratio was 45.5%, an improvement from prior year's 49%.

In terms of our performance for 2018 so far, we have continued the upbeat in our performance. As was reflected in our financial results for Q1 2018, we had an exceptional opening quarter for 2018. PAT at the Bank level grew by an impressive 35% to RS. 1.6 billion, compared to Q1 of 2017. Group PAS followed a similar trend, and grew by an encouraging 56% to Rs. 1.2 billion.

The indications given by the Q1 results are promising, for yet another successful year in 2018.

Q: What specific market competencies does the NDB Group enjoy in the Sri Lanka's banking and capital markets sphere?

Our retail banking offerings in both assets and liabilities are truly lifestyle solutions. Our full spectrum of products and services cater to the financial needs of any individual, in whichever stage of life they may be in. During 2017, we further strengthened our deposits offering with three new products, namely NDB Savings Planner, NDB Araliya and NDB Achara. Savings Planner is dedicated to smart savers with preference for savings plans, whilst the other two are dedicated to aspiring women and senior citizens in the country. We also relaunched our children's savings account, with a host of new benefits. NDB Dream Maker is the most sought after personal loan product in the industry. We also have speedy and smart solutions in leasing, housing, credit cards, etc.

We also enjoy unmatched competence in SME financing, which has been a part of our mandate at the inception of the Bank way back in 1979. Since then to date, we have perfected our assistance to this sector, not only via financial assistance, but also via a host of non-financial assistance.

NDB's corporate banking solutions are renowned in the industry for the timely and customer-friendly solutions. Corporate banking is a prime contributor in the Bank's loan growth with a full spectrum of service including cash management.

Project financing is yet another very strong competence of NDB. We are proud to have been with some of the major development projects of the country right through our operations spanning four decades. Even today, we are a stakeholder in the major infrastructural and other development projects that are unfolding in Colombo as well as in other parts of the country.

We also enjoy specific competence on the renewable energy sector in the country. We are proud to be one of the banks to fund the first ever wind power projects and waste-to-energy projects in Sri Lanka. Our Project & Infrastructure Unit has also expanded its services to cross-border jurisdictions and pioneered funding renewable energy projects in the African continent, through offshore companies with Sri Lankan origin.

The newest addition to our product portfolio is NDB Business Banking. This is a dedicated proposition to empower the businesses in the SME and middle market segments with the mission to assist them in taking their businesses to the next level of growth.

The capital market subsidiaries of NDB have also firmly established themselves in the industry. Our investment banking arm, NDBIB is the market leader for debt and equity capital raising and mergers and acquisitions. Our wealth management arm, NDB Wealth Management is Sri Lanka's largest private fund manager with close to Rs. 100 billion funds under management with over 8,000 customers.

Q: Please tell us about your presence in the country.

Our reach to customers has also increased significantly. NDB's network which stood at 22 branches when we converted to a commercial banking entity in 2005 has now reached 107, spread across the country with fully-fledged branches. A notable point about our network is that approximately 50% of the branches have been added on to the network over the past five years, hence with considerable potential in reaching out to more clients. Our reach is also strengthened by an on and off site network of 129 ATMs and cash recycle machines.

Our virtual presence is also quite strong, presented via a host of digitally enabled platforms. On-line banking, mobile banking enabled on both smart phones and feature phones, branchless banking and cash recycle machines are few to name. We have strengthened our dedicated Digital Financial Services [DFS] Unit by hiring skilled and experienced staff, to enhance and improve our digital solutions, and stay abreast with the latest technology available in our industry.

We have our presence in the South Asian region as well, in Bangladesh, with an investment banking arm under the name, NDB Capital Limited Bangladesh. This entity has greater growth prospects in the backdrop of high economic growth recorded in Bangladesh.

Q: What is the Bank's current strategy that has propelled the Bank forward?

We are presently on a very ambitious organic growth strategy. Dubbed as Transformation 2020, this strategy aims to transform NDB to a systemically important bank in the country by 2020, with a total assets base exceeding Rs. 500 billion, as defined by the Basel III guidelines. The strategy was developed with the professional input of the IFC, a part of the World Bank Group. It involves improvements in a large range of business processes as well as support services within the Bank, with a bid to increase business volumes, profitability and customer services.

This transformational strategic process can be described as the most structured and coordinated strategy program in the Bank. The strategy has led to a new organisational culture and transformation in the mindset of Team NDB, aligning them towards the strategy, and ensuring their understanding and acceptance of the ambitious growth journey the Bank has embarked on.

Q: Does the Bank have any inorganic growth plans? Could you outline your company's/group's future plans especially in regard to expansion?

Whilst we move forward on organic growth, we most certainly are open for inorganic growth opportunities as well. Consolidation can bring in a host of benefits to the industry also. Given the implications of recent developments affecting the banking sector such as Basel III guidelines, implementation of IFRS 9 and new tax laws in operation, banks and financial institutions are facing large capital requirements. Consolidation could prove as an effective solution in enabling certain entities to be compliant in these capital requirements.

We would look at inorganic growth options, provided such consolidation enhances the value to the shareholders and other stakeholders and complements our growth model.

Q: What is NDB's approach to capital management and infusion of new capital to support the growth of the business?

As a financial services institution, capital is of utmost important to us. As we have now entered a rapid growth mode, we are required to maintain a healthy capital level to support this growth. Historically, and to date, NDB has been soundly capitalised, with our capital ratios well above the regulator mandated levels.

In times of need, we have resorted to raising capital via feasible modes, such as debenture issuances, as seen in 2013 and 2015. Recently, we also made intimations of raising equity capital to support the Bank's growth. Accordingly, we have now announced our plans to raise equity capital via a Rights Issue of Rs. 6.2 billion.

Furthermore, we fund the balance sheet and loan book growth via timely institutional funding. In June 2018, the Bank obtained a loan of up to $75 million from Commerzbank Aktikengsellschaft Germany. The funds will be mobilised in NDB's general banking business, without restrictions on any specific sector.

The Bank also entered in to an agreement with the IFC, for a loan up to $ 50 million, equivalent to a fixed rupee facility of $ 8 billion, for the purpose of lending to borrowers, especially in the climate smart agriculture sector.

Q: What are the challenges that the Bank faces, as a relatively young commercial bank?

As I mentioned earlier, our commercial banking operations have been in operation for just over thirteen years. Attracting low cost funds, especially CASA remains one of the key challenges that we face. We have made vast improvements in this regard, having improved the CASA base from almost zero to mid-20% in just 10 years. Our strategy places key emphasis in improving the CASA base. What is noteworthy is that, in the challenge in improving CASA, also comes the upside of further enhancing our interest margins and profitability.

The scale of balance sheet, compared to much mature peers is also one area we are working on. The current strategy pursued by the Bank will propel us to be amongst the systemically important banks and place us on a better footing in terms of capturing scale advantages from 2020 onwards.

Q: How strong is your core management team, and the Group management team, in steering your organisation through this internal growth phase, amidst external challenges?

We have one of the best corporate management teams, with members who are industry savvy, and carry to their credit, the right fusion of professional qualifications and years of experience. They are competent in motivating our staff and guiding them towards delivering results. During the recent past, the organisation saw some structural changes, to recalibrate its business model to cater to developing industry trends. We had some seasoned hands coming in to the Bank, to bring in added versatility to the corporate management team.

For example we saw new appointees in the positions of the Group Chief Financial Officer, Vice President Human Resources and Vice President IT. We also strengthened our corporate management team with a new Vice President position for Business Banking, which is now a key business segment within the Bank's overall business focus. This position was occupied by one of our own in grown talents, who is an expert in SME financing. A head of digital financial services was also appointed at the Assistant Vice

President level, considering the significance of digital aspects in today's banking and its contribution in our surge forward.

The function of Marketing was broadened to Marketing & Customer Experience, now under the leadership of a Vice President, in recognition of the importance of our customer–centric growth model.

We will also be on-boarding a Chief Operating Officer very soon, another seasoned hand in the industry, to overlook all the operational aspects which is the backbone of the Bank, such that we could focus on business development.

I think with these changes in the corporate management team, the transition of which has happened in a gratifyingly short period, we are ready to take NDB to the next level.

Apart from these changes to the top management team, we carried out a host of organisational change management initiatives encompassing the total NDB Team. These initiatives ensured that all of the NDB members are aware and aligned towards the Bank's overall strategic objectives as set out in the Transformation 2020 strategy, and are further united under the Bank's new culture identity "One NDB" in achieving them.

Similar change management and synergy development initiatives are presently underway at the NDB Group companies, in the capital markets cluster; such that we can harness all financial services under one umbrella to provide a seamless and full spectrum of services to our customers.

Q: What are the growth prospects for NDB for beyond 2020? How will NDB achieve them?

We have already strategised our growth trajectory to be pursued for the next five years, once we complete our mission set out by the current strategy of Transformation 2020. We will focus on taking NDB to greater heights, from the Rs. 500 billion+, systemically important institution that it will be by 2020. We will well embed the wider technological and customer demographic changes in to our strategy as they unfold, to stay relevant and competitive in the fast evolving market space.

Delivering on digitally enable banking solutions will be at the core of our strategy and growth mode. Digital financial services [DFS] are undergoing rapid development, and some of our regional peers are now using Artificial Intelligence to serve their customers. DFS offers limitless possibilities. The upside for a mid-sized bank like NDB is that our scale of operations better allows us to embrace and embed these DFS initiatives towards an optimum business model, as opposed to larger institutions, where such conversions would be more challenging and time-consuming.

The unwavering strength of our shareholders has been a key constituent of our success over the years. We look forward to their continued support as NDB forges ahead in the industry and enters new leagues. NDB is blessed with a team of best in class, skilled, trained and qualified employees, who have made every success of the Bank possible. Our loyal customer base is our biggest strength and our commitment is for their success and prosperity.

Our gratitude goes out to all stakeholders who support us in our growth journey. (Dailyft)

## *Fitch rates Singer Sri Lanka's Rs. 1.5 b debenture 'A- (EXP)'*

Fitch Ratings has assigned Singer (Sri Lanka) PLC's (A-(lka)/Stable) proposed senior unsecured redeemable debenture issue of up to Rs. 1.5 billion an expected National Long-Term Rating of 'A-(lka)(EXP)'.

The debenture is to be issued at a fixed rate with a tenor of three years. Proceeds will be used to refinance debt.

The proposed debenture is rated at the same level as Singer's National Long-Term Rating, as it ranks equally with its other senior unsecured obligations. The final rating is subject to the receipt of final documents conforming to information already received.

Recovery in sales volume: Fitch expects demand for consumer durables to pick up in the medium-term as consumers adjust to higher costs, supported by an earnings recovery in the agricultural sector, continued low personal taxes and stable interest rates. Singer's consumer electronics and home appliance revenue growth slowed to 1% in 2017 on weak demand, after two years of double-digit growth, due to higher indirect taxes and a prolonged drought that affected the livelihood of a significant proportion of Sri Lanka's population. Fitch believes Singer was able to better respond to the weak demand compared with peers due to its defensive product portfolio and strong brand presence.

Growth in IT, digital media: Fitch expects Singer's IT and mobile segments to be key growth drivers in the medium term, aided by Sri Lanka's increasing smartphone penetration and short replacement cycles compared with most other consumer durables. Singer is the country's largest smartphone retailer and exclusive agent for Huawei, Sri Lanka's second-largest smartphone brand. Singer's IT and digital media revenue has increased at a CAGR of 57% over the past five years. Fitch expects it to maintain its market leadership for the next three years, with the renewal of its contract with Huawei.

EBITDAR margins to stabilise: Fitch expects Singer's EBITDAR margin to improve by around 50bp-60bp from the current level of 9.1%, to stabilise at around 9.5% from 2019, on better sales volume and cost pass-through to customers. Singer's EBITDAR margin contracted by almost 150bp in 2017 due to lower sales as well as higher indirect taxes and sales costs. The margin contraction was seen across most product segments, as weak demand compelled the company to absorb a majority of the tax increases and cost escalations to sustain top-line growth.

Leverage to improve: Fitch expects Singer's leverage to improve meaningfully from 2019 amid the recovery in the operating environment and better margin, but headroom under the current rating will remain low due to high capex, dividend payments and working capital investments, which may limit debt pay down. Higher inventory build-up amid sluggish demand, coupled with lower profitability in 2017, saw leverage worsen to 5.5x, compared with 4.3x at end-2016.

No extraordinary support from parent: Fitch will continue to rate Singer on its financial strength due to weak-to-moderate linkages between Singer and its new 81% parent, Hayleys PLC, under Fitch's Parent and Subsidiary Rating Linkage Criteria, as well as the size of Singer's balance sheet and significant debt at end-2017. Hayleys acquired a controlling stake in Singer in 2017. Fitch does not expect additional pressure for higher dividend payments from Hayleys, as Singer's average dividend payout, at around 60% of after-tax profit, is already high on average compared to most corporates.

Low dependence of Singer Finance: Fitch does not believe Singer will be called upon for an additional capital infusion to Singer Finance (Lanka) PLC (BBB(lka)/Stable) due to the 80%-owned finance subsidiary's strong capitalisation, which is well above the regulatory minimum, better-than-peer asset

quality and strong funding profile. Singer's last equity infusion of Rs. 550 million was in 2017 to support the subsidiary's new credit card business.

(Dailyft)

## *Asia Stocks Gain; Yuan Slides to Lowest in a Year: Markets Wrap*

Asian stocks climbed Tuesday as rising yields boost financial shares. The yuan tumbled to the lowest against the dollar in more than a year on further signs of a shift by China toward monetary expansion.

Equities gained across the region, with the steepest advances in China and Hong Kong as Chinese assets came into focus after the government unveiled a package measures to boost domestic demand amid simmering trade tensions that threaten to worsen an economic slowdown. The yuan slid about 0.4 percent a day after a record injection of funding for banks. China's benchmark 10-year bond yield jumped to a four-week high.

A Chinese Foreign Ministry spokesman said Monday that the yuan is "determined by the market," after the Trump administration criticized the recent weakening in the yuan's exchange rate.

"We think it's counterproductive for China and others to try and use currency actively as a tool in a trade war," Johan Jooste, chief investment officer at Bank of Singapore, said in a Bloomberg Television interview. "In the short run, they are probably quite happy to allow some depreciation to occur -- it might soften the blow -- but longer term what you will have is a series of competitive devaluations and you are back to where you started."

Financial stocks as a group were among the biggest gainers on the MSCI Asia Pacific Index on rising bond yields. Ten-year Treasury yields held around the highest in more than a month after speculation arose that the Bank of Japan may consider fine-tuning its stimulus programs -- reminding traders that the direction of major central banks is toward rolling back quantitative easing.
Yuan Usage in Trade War Would Be Counterproductive for China, Jooste Says

Johan Jooste, chief investment officer at Bank of Singapore.
Source: Bloomberg

Separately, Google parent Alphabet -- a target of European regulators' ire -- saw its shares climb in after-market trading, after reporting rising revenue from advertising.

Elsewhere, crude oil held below $68 a barrel in New York and gold declined.

Here are some key events coming up this week:

- Earnings season continues with the following tech companies among those reporting: Facebook, AT&T, Amazon.com, Twitter, Advanced Micro Devices, Qualcomm and Intel. They are joined by global financial giants Deutsche Bank, UBS, Nomura and Visa. Others include Halliburton, Michelin, Boeing, Lockheed, Nissan and Shell.
- Pakistan holds national elections Wednesday.
- European Central Bank's policy decision Thursday.
- U.S. gross domestic product probably increased by about 4 percent at an annualized rate in the second quarter, the most since 2014, economists forecast ahead of Friday's data.

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These are the main moves in markets:

Stocks

- Japan's Topix index was up 0.7 percent as of the lunch break in Tokyo.
- Australia's S&P/ASX 200 Index climbed 0.6 percent.
- Hong Kong's Hang Seng Index rose 1.3 percent.
- The Shanghai Composite Index was up 1.5 percent.
- Kospi Index gained 0.3 percent.
- S&P 500 Index futures ticked up 0.2 percent.
- The MSCI Asia Pacific Index gained 0.6 percent.

Currencies

- The Japanese yen rose 0.1 percent to 111.25 per dollar.
- The offshore yuan fell 0.4 percent to 6.8336 per dollar.
- The euro traded at $1.1688.
- Bloomberg Dollar Spot Index was steady.

Bonds

- The yield on 10-year Treasuries held at 2.95 percent after the biggest two-day jump since February.
- Australian 10-year government bond yields rose about 5 basis points, to 2.72 percent.
- China's 10-year bond yield rose about 4 basis points to 3.56 percent.

Commodities

- West Texas Intermediate crude lost 0.3 percent to $67.71 a barrel.
- Gold fell 0.2 percent to $1,222.62 an ounce.
  (Bloomberg)