NEWS ROUND UP

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Contents

SCB triggers big global demand to finance SriLankan Airlines

Standard Chartered acting as the Joint Lead Manager and Joint Book Runner successfully priced a $ 175 million five-year Fixed Rate Senior Unsecured Reg S issuance for SriLankan Airlines, guaranteed by the Democratic Socialist Republic of Sri Lanka at 7.00% yield.

Standard Chartered Sri Lanka CEO Bingumal Thewarathanthri

This is the first international bond offering by a Sri Lankan Corporate since 2014 and a repeat mandate for Standard Chartered.

The bank acted as the sole book runner in SriLankan Airlines' inaugural transaction in 2014.

With multiple targets to achieve including establishing a tightly-priced issuance in a short span of time, Standard Chartered was successfully able to meet both these requirements. The quasi sovereign nature of the issuer and the Guarantee from the Government of Sri Lanka allowed SriLankan Airlines to accomplish significant price compression and attain a diversified order book with participation from 93 accounts.

Commenting on the transaction Standard Chartered Sri Lanka CEO Bingumal Thewarathanthri said: "We are proud to be part of this success and to support the national carrier in this record-setting transaction. This is a testament to our continued support to develop debt capital market products for our clients in the region. The pricing achieved for the issuance reflects the strong investor confidence in Sri Lanka and the potential for other entities to tap the international capital markets. We are committed to the development of the country and our global footprint enables us to support our clients in their growth strategy."

The transaction saw a final order book of over $ 1 billion, achieving an oversubscription ratio of 5.7x. Strategic execution timing and supportive demand allowed SriLankanAirlines to price the five-year tranche at 7.000%, a marginal premium over sovereign, strong investor participation was witnessed from institutional investors across Asia and Europe making this the largest tightening achieved from initial price guidance to final price guidance on a foreign currency bond transaction from Sri Lanka. (Daily FT)

JKH announces new ESOP

Premier blue chip John Keells Holdings PLC has announced a new Employee Share Option Plan (ESOP) amounting to 1.5% of the issued share capital of the company with 0.5% issued annual over three years.

The move is subject to shareholder approval at a General Meeting.

JKH has been implementing ESOP since 1996.

Its board of directors is of the view that maintaining a proprietary interest and a long-term commitment amongst the senior executives of the group, including its executive directors, on a continuing basis, is imperative to increasing the shareholder value in the Company.

At present under ESOP Plans 8 and 9 JKH has granted 45.7 million shares of which 26.3 million shares vested and 19.4 million unvested.

Based on the issued capital of the company, the total via new ESOP Plan of 1.50%, and 0.50% per annum would amount to 19,772,599 and 6,590,866 options to purchase 19,772,599 and 6,590,866 converted shares respectively.

However, the number of shares on offer will vary and ultimately depend on the number of shares representing the stated capital of the company on the date of the offer of each tranche of options as aforesaid.

The JKH Board decision was made on 24 May but the disclosure was last week due to an inadvertent oversight.

The stated capital of JKH as at 31 May 2019 is Rs. 62,802,173,189.52 and number of shares representing the current stated capital is 1,318,173,279 Ordinary Shares.

The granting of options under the proposed employee share option scheme is in compliance with the Listing Rules of the Colombo Stock Exchange and subject to shareholder approval, by way of a Special Resolution at a General Meeting. The issue and listing of shares issued pursuant to such scheme is subject to approval from the Exchange at the time of exercise.

The company sincerely regrets the delay in this disclosure due to an inadvertent oversight. It reiterates that ESOPs have been granted by JKH on an annual basis since 1996 and this new Plan follows the same principles of the previous ESOP Plans approved by shareholders. The company also wishes to point out that it is yet to receive shareholder approval and make any grants under the proposed ESOP Plan. (Daily FT)

Sampath Bank talking to investors to allot unsubscribed Rights

Sampath Bank is talking to potential investors to place the unsubscribed component of its Rs. 12.1 billion Rights Issue.

The Rights Issue involved 89 million shares on the basis of seven new shares for 23 existing shares at Rs. 136 each.

Sampath Bank said the number of shares allotted to shareholders and to be listed pursuant to the Rights Issue is 63.538 million shares, suggesting that 25.46 million shares worth Rs. 3.4 billion remain unsubscribed.

"The Board of Directors are discussing with a potential investor to place the balance undersubscribed shares of Rights Issue and will make a further disclosure regarding the process," the Bank said in a filing to the CSE.

"Such allocations will be made after allocating Rights to shareholders who applied for entitled and additional shares in full satisfaction of their request and at the same price (Rs. 136) per share," it added.

The Bank also said that it has not been able to allot the full entitlement of shares that certain large shareholders would have been entitled to under the Rights Issue, since the thresholds mandated by the Banking Act would have been exceeded by such full allocation, purely because of the under-subscription. The Board of Directors has therefore decided to inform such shareholders in writing that the Bank will retain the subscription funds sent with their application for Rights Shares, and if the Rights issue is not fully subscribed within a reasonable time frame, the Bank will refund the excess funds due to such shareholders, in accordance with the provisions of the CSE.

Funds raised from the Rights Issue will be utilised to improve Common Equity Tier 1 capital of the Bank under the Basel III regulations. Between January and March 2019 Sampath Bank shares traded between a high of Rs. 245 and 224 and the lowest ranged between Rs. 217.30 and Rs. 174.50. It closed March at Rs. 174.50, down from Rs. 239.10 by end January. On Friday the share closed at Rs. 138.50. (Daily FT)

Capital market must focus on insurance sector to spur growth: NITF Chief

A top industry expert last week outlined insurance as a potential sector the capital market must focus on for future growth asserting that it will be a win-win proposition.

"If insurance companies can grow bigger and enhance their participation in capital markets, there is definitely potential to increase allocation in equity from 7% to 14% which results in an additional investment of Rs. 37 billion ($ 211 million)," National Insurance Trust Fund (NITF) Chairman Manjula de Silva said last Friday.

National Insurance Trust Board Chairman Manjula de Silva – Pic by Ruwan Walpola
According to him as per insurance sector investment allocation as of 1Q 2019, allocation to equity was 7% with an investment portfolio of Rs. 508 billion. Allocation on Government Debt was 43%, Corporate debt was 21%, and deposits were 19%.

He made these remarks delivering the keynote address at the Capital Market Awards 2019 organised by CFA Society Sri Lanka.

Noting capacity of Colombo Stock Exchange (CSE) to absorb such an injection of inflows from the insurance sector is another concern as the process will have to be a very gradual, he however stressed that at current price levels; this is the best time to start.

"Insurance industry's level of participation in capital markets is still quite low due to a range of reasons such as accounting treatment and regulatory framework, poor returns from stock market, lack of suitable instruments, lack of liquidity in secondary markets, making it hard to exit, conservative outlook of fund managers and attitudes of Boards," de Silva said.

Engaging with accounting profession and regulators to look at how disincentives for long-term investment and deployment of funds into capital markets can be addressed, requesting Central Bank and Finance Ministry to ensure continuous supply of long-term risk-free instruments, facilitating the introduction of new capital market instruments such as Real Estate Investment Trusts (REITs) as well as infrastructure bonds, absorbing the services of international advisory firms to take advantage of overseas investment opportunities and educating Boards on importance of taking a long-term view on investments and risk/return trade-off were suggested by de Silva to mitigate the low equity investments in the capital market.

Pointing out that insurance penetration in Sri Lanka is as low as 1.24% of GDP, de Silva said low income level, lack of awareness or understanding, lack of trust, mismatch with potential target markets, consumerism and dependence on State for compensation were key issues that hampers the growth of the industry.

He recommended to build awareness and trust through sustained industry action, collaborate with other financial intermediaries to promote saving over spending (need for financial planning), greater attention to develop non-traditional distribution channels to reach out to target markets with high potential and partner with Government to piggyback on State-sponsored insurance schemes to improve the insurance industry size and penetration levels.

"By enhancing participation in capital market it will help insurers to boost their returns to both policyholders and shareholders as it also provides a closer match with duration of liabilities capital markets. In terms of capital markets it will increase demand for market instruments and improve market stability as well as for better corporate governance. Therefore, I would say it's not too late, let's start today," de Silva stressed. (Daily FT)

Colombo Dockyard delivers Japanese cable ship, eyes Sri Lanka dredger deal

Colombo Dockyard has delivered a submarine cable-laying ship for Japan's Kokusai Cable Ship Co. Ltd., its biggest and most sophisticated vessel, and says it wants to bid to build a dredger for a Sri Lankan government agency.

The high-technology "KDDI Cable Infinity" is meant for subsea operation and cable installation and repair works of both optical communications and power cables, the yard's managing director and chief executive D.V. Abeysinghe said.

Having delivered the first vessel of this type after a two-year period, Colombo Dockyard can now bid to build similar vessels in future, under its strategy of building more sophisticated vessels in niche markets, he told reporters.

Colombo Dockyard won the contract from Kokusai Cable Ship Co. against competition from other Asian yards including from Japan, Singapore and Malaysia, he said.

Yukihiro Fujji, who represented Kokusai Cable Ship Co. (KCS), the Japanese owner, at the delivery, said there was plenty of work for cable ships with more undersea cables being laid for both fibre optic communications and power transmission.

About 99 percent of Japan's internet traffic goes through submarine cables, said Fujji, board member and director of engineering and facility planning department of KCS, part of the big Japanese telecom operator KDDI Corporation.

Build quality, delivery time and price were factors considered in awarding the contract to Colombo Dockyard, he , told economynext.com.

The home port of KDDI Cable Infinity, which can operate globally, will be Kitakyushu, the northernmost city on Japan's southern Kyushu Island, from where it will do cable installation and repair in the Asia-Pacific region.

Abeysinghe, of Colombo Dockyard, which is majority owned by Japan's Onomichi Dockyard Company, said the yard also wants to bid for a dredger which Sri Lanka Land and Development Corporation (SLLRDC) is to buy.

SLLRDC, now renamed Sri Lanka Land and Development Corporation, wants the dredger for sea sand mining to meet growing requirements of the construction industry as sand stocks on land get depleted.

But Abeysinghe said a contract condition specifying previous building experience restricted Colombo Dockyard from bidding for the dredger deal.

"We would like this condition removed because if we don't get the first ship in any type of ship building activity, we will never gain the experience to build them."

Minister of Ports and Shipping Sagala Ratnayaka said the ministry would lobby for removal of the prior experience condition.

A Dockyard statement said ‘KDDI Cable Infinity’ is diesel electric driven, another first for the yard, with power provided by four generator sets, developing 2,300kW each, and a range of 10,000 nautical miles

The basic design and production drawings for the construction were supplied by VARD Designs, Norway, and the vessel is built to ClassNK classification society standards and meets the regulatory requirements of the Japanese government. (Daily FT)