# NEWS ROUND UP

*Monday, February 25, 2019*

## Contents

## *CB puts ISBs first in quest for debt repayment funds*

- After yields fall, CB focuses on sovereign bonds
- Will look to swaps and other options to fill gaps after ISBs
- People's Bank of China offers $1.5b in swap arrangement

The Central Bank has 'recalibrated' its strategy to raise funds to repay debt, prioritising International Sovereign Bonds (ISBs)over bilateral arrangements, but the secondary options include a $1.5 billion swap arrangement with People's Bank of China.

Central Bank Governor Dr. Indrajit Coomaraswamy explained that the decision to return to the market was motivated by yields reducing significantly in January, largely motivated by the Government's signal to continue with the International Monetary Fund (IMF) program and repayment of the $ 1 billion SBI in January. The Central Bank will have to raise $ 5.9 billion to repay debt in 2019 with $ 2.6 billion to be repaid in the first quarter. An additional $ 500 million payment is also due in April.

"We are in radio silence mode at the moment so I can't say very much. But the background of our thinking was that earlier, the yields on our bonds spiked sharply after 26 October 2018, so for a while it didn't seem an attractive option to go down the route of dollar-denominated ISBs, and we were looking at other options.

But now those yields have come down and they are slightly lower than they were on 26 October 2018, so we have recalibrated our strategy and given priority to going for an ISB first. We will see how much money we can raise at reasonable cost and after that we will look at what other borrowing we would have to do to meet the financing gap that remains," he said.

The Central Bank is finalising administrative and legal proceedings to access $ 400 million swap arrangement with Reserve Bank of India (RBI). Dr. Coomaraswamy also said they favoured ISBs over swaps as it would be longer term money. The RBI swaps would need to be rolled over every three months, but an SBI would be for a five- or ten-year tenure. The Governor, however, did not give an indication of how much the Government would attempt to raise.

Last month, Cabinet gave permission for the Central Bank to raise up to $ 2 billion in ISBs. The Central Bank has also said it will go to the market to raise panda and samurai bonds but these would come after the ISBs. The Central Bank has also been offered $ 1.5 billion in swaps from People's Bank of China and a second swap is also possible from the Central Bank of Qatar.

"Everything is still on the table, including the panda bond, the samurai bond, and possible term loans," the Governor said.

Nonetheless Dr. Coomaraswamy said panda and samurai will take time as it would be the first time such bonds would be issued by the Central Bank while SBIs have been more frequent. A $ 300 million loan from the State Bank of China would also likely take longer as negotiations have to be ironed out.

"We want to raise everything as early as possible so we will keep moving. The great advantage about SBI is its maturity.We can get five or ten years.Things have improved on the SBI front, so that has given us a window, and then we will move to fill the gap. Given our debt dynamics, that is more attractive." (Dailyft)

## *Policy rates remain unchanged*

The Central Bank was seen holding its policy rates steady at 8% and 9% at its first monetary policy announcement for the year 2019, released last Friday. However, in order to ease the prevailing liquidity shortfall in the system, it was seen reducing its Statutory Reserve Ratio (SRR) applicable for all licensed commercial banks by a further 100 basis points to 5% from its previous 6%. The previous change was at its November 2018 announcement where the SRR was reduced by 150 basis points.

The secondary bond market gathered momentum during the week, as yields decreased on the back of fresh buying interest to reflect a parallel shift down for the first-time in three weeks. The yields of the liquid maturities of two 2021's (i.e. 01.08.21 and 15.12.21), 15.12.23, 01.08.26 and two 2027's (i.e. 15.01.27 and 15.06.27) were seen declining to intraweek low of 10.80%, 10.83%, 11.02%, 11.20%, 11.27% and 11.25% respectively against its previous weeks closing level of 11/07, 11/10, 11.10/20, 11.33/40, 11.38/45 and 11.41/45. In the secondary bill market, considerable buying interest following the SRR cut saw yields dip on November 2018 and January to February maturities to change hands within the range of 10.35% to 10.65%.

The positive momentum in the secondary bond market was despite the foreign holding in rupee bonds turning negative for the first time in five weeks recording an outflow of Rs. 1.45 billion for the week ending 20 February. The daily secondary market Treasury bond/bill transacted volume for the first three days of the week averaged Rs. 6.98 billion.

In money markets, the overnight call money and repo rates remained mostly unchanged to average at 8.98% and 9%, respectively, during the week, as the Open Market Operations (OMO) Department was seen injecting liquidity throughout the week on an overnight basis at weighted average ranging from 8.92% to 8.97%. In addition, it injected a further Rs. 27.4 billion by way of a seven-day reverse repo auctions at weighted averages ranging from 8.92% to 8.96%. The total outstanding market liquidity shortfall stood at 117.35 billion.

Rupee fluctuates during the week

The USD/LKR rate on spot contracts were seen trading within the range of Rs. 178.85 to Rs.180 during the week before closing the week lower at Rs. 179.55/65 against its previous week's closing levels of Rs. 178.70/80.

The daily USD/LKR average traded volume for the three days of the week stood at $ 58.19 million. Some of the forward dollar rates that prevailed in the market were 1 month – 180.40/60, 3 months – 182.30/60, and 6 months – 185.10/40. (Dailyft)

## *Overseas Realty ups 2018 profit by 54% to Rs. 4.9 b*

Overseas Realty (Ceylon) PLC has concluded a successful financial year recording a Group Revenue of Rs. 6,792 million, an increase of 57% over last year. The Group Profit After Tax grew by 54% to Rs. 4,883 million, compared to the previous year.

The Company Revenue of Rs. 2.3 billion, was 10% higher than last year due mainly to higher rental rates and healthy occupancy levels maintained during the year.

The Company has commenced a comprehensive refurbishing and upgrading program to the common facilities of the building with the intention of continuing to provide a superior service to owners, occupants and visitors. It is a strong testament to the Company's dedication and commitment to excellence in providing quality office space.

Further Mireka Homes recorded a revenue of Rs. 4.1 billion compared to Rs. 1.9 billion in 2017 due mainly to increased revenue recognised from Havelock City Phase 3 apartment sales. Consequently the Group Revenue and Profit Before Tax grew by 57%and 32% respectively.

Phase 3 consisting of 304 units with 80% construction completed by end 2018, is 62% pre-sold and the construction is expected to be finished by September 2019. On the other hand, Phase 4 which was launched to market in August 2018 was 28% completed by end 2018 with 16% pre-sold and is expected to be finished in October 2020.

The Havelock City Commercial Development comprises a 50 storeyed Office Tower and a Shopping Mall built to International Standards which will be an iconic landmark in the vicinity.

The on-time completion of the piling works paved the way to commence the construction of the Super Structure on target with completion expected by April 2021. Pre-leasing of retail space has already begun.

Overseas Realty (Ceylon) PLC Chairman S.P. Tao commented, "Sri Lanka is evolving as one of the leading destinations in the region, with office, commercial, tourism and service sectors expected to grow over the next decade. Political stability, economic growth and business confidence are key ingredients for the property sector to prosper in any country. I believe your Company is well positioned to be a direct beneficiary of the long-term prospects for Sri Lanka. Whilst we have recorded steady growth up to 2018, the Company will endeavour to explore property related opportunities to enhance shareholder value."

The Group Net Asset Value per Share as at 31 December 2018 stood at Rs. 32.26 and the Earnings per Share for the period was Rs. 3.93.

The Directors have recommended a first and final dividend of Rs. 1.25 per ordinary share for the financial year ended 31 December 2018. (Dailyft)

## *Sri Lanka may have to push IMF budget targets to 2020 or beyond*

Sri Lanka may have to renegotiate a more realistic budget deficit target for 2019 and beyond under a 1.5 billion dollar balance of payments relief program with the International Monetary Fund, an economist said.

"The consolidation is slower than the IMF forecast," Standard Chartered Bank South Asia Economist Saurav Anand said at a media briefing.

Sri Lanka was expected to reach a budget deficit of 3.6 percent in 2019 under the last staff level agreement between the state and the IMF.

"This may be pushed to 2020 or beyond," Anand said.

An IMF team is currently in Colombo to discuss the next staff-level agreement.

The staff-level agreement was supposed to be finalized in October, but a political crisis engineered by President Sirisena and Former President Mahinda Rajapaksa halted the proceedings.

"There will be a compromise," he said, expecting the talks between the state and IMF to end positively.

He said Sri Lanka will have to set a more realistic budget target.

Sri Lanka may extend the IMF program as well, he said.

Anand said despite 2019 being an election year, the government cannot afford to be loose with its fiscal or monetary policy, as there is little room in the economy with a peak in foreign debt repayment over the next four years, and high repayments from 2024-2027.

Despite low growth, fiscal and monetary policy will have to be kept tight, he said.

Standard Chartered is expecting Sri Lanka's growth to be 4.2 percent in 2019, up from 3-3.5 percent in 2018.

Growth is expected to go up to 4.5 percent in 2020, Anand said.

He said growth is still low, and Sri Lanka is likely to face a tough year.

Anand said Sri Lanka must increase growth to manage debt by reducing the debt to gross domestic product ratio. (Colombo/Feb25/2019) (Dailyft)

## *Commercial Bank ends 2018 with a solid performance*

- Pays Rs. 14 billion or 45% of profit as taxes to Government
- Migration to SLFRS. 9 costs Rs. 5 billion in equity
- Loan book and deposits both grow by over Rs. 100 billion for 3rd consecutive year
- Gross income increases by 21% to Rs. 138 billion

The Commercial Bank of Ceylon PLC has reported an operating profit of Rs. 31.6 billion for the year ended 31st December 2018, reflecting a growth of 12.8% before taxes on financial services, in a financial performance Sri Lanka’s benchmark private bank describes as a “perfect example of progress under duress.”

Profit before income tax improved by 10.4% to Rs. 25.6 billion, a lower rate of growth attributable to the introduction of the Debt Repayment Levy (DRL) effective 1 October 2018, the bank said.

Profit after tax at Rs. 17.5 billion represented an increase of 5.8% principally due to the substantially higher income taxes the bank was required to pay under the new tax regime introduced by the Government in the year under review, which took away most of the tax concessions previously enjoyed by the banking industry.

Commercial Bank paid a total of Rs. 14.3 billion in taxes (income tax, taxes on financial services including DRL of Rs. 650 million and crop insurance levy) to the Government in respect of 2018, approximately 45% of its profit.

The comparative figure for the preceding year was Rs. 11.7 billion or 41% of profit.

Commenting on these results, Commercial Bank Chairman Dharma Dheerasinghe said: “The bank turned in a robust performance in all key sectors while staying on plan and within budget in spite of an environment that was continually in flux.”

He pointed out that higher impairment provisioning on account of non-performing advances, volatile and escalating interest rates and depreciating domestic currency had worked against growth in 2018, while decelerating economic activity had exerted a domino effect, adversely impacting business expansion.

The bank’s Managing Director/CEO S. Renganathan noted that “Profit retention remains paramount for banks, given the ever-increasing capital requirements arising from Basel III implementation and higher impairment provisioning due to SLFRS. 9 adoption. Yet the regime of taxes imposed on banks has a significant impact thereon.”

SLFRS. 9: “Financial Instruments” which became effective from 1st January 2018 for annual financial results, replaced the “incurred loss” method for providing impairment under LKAS 39: “Financial Instruments: Recognition and Measurement” with the more forward-looking “expected credit loss” model which requires banks to exercise judgement on how changes in economic factors may affect expected credit loss. SLFRS. 9 also requires financial assets to be classified based on the business model and cash flow characteristics of banks.

In the implementation of the migration from LKAS 39 to SLFRS. 9, CA Sri Lanka granted companies the option of preparing their interim financial statements up to the 3rd quarter of 2018 in conformity with LKAS 39. However, as the full year results were required to be in conformity with SLFRS. 9, the bank’s figures of the 4th quarter reflect the impact of the difference between the full year’s numbers under SLFRS. 9 and the 9-month numbers under LKAS 39. The comparative information for 2017 is reported under LKAS 39 and hence is not comparable with the information presented for 2018.

The permitted adjustment on account of the “Day 1” impact of the migration to SLFRS. 9 was adjusted against the bank’s retained earnings brought forward to 2018, resulting in net assets reducing by Rs. 5.3 billion, the bank disclosed.

Commercial Bank’s Operating Profit before impairment charges improved by a noteworthy 30.6% to Rs. 63.7 billion for the year reviewed. Impairment charges, provided for the first time under SLFRS. 9, rose to Rs. 8.6 billion, from Rs. 677 million provided in 2017 under LKAS 39.

Total assets of the bank grew by Rs. 160 billion or 14 % at a monthly average of Rs. 13.3 billion to Rs. 1.3 trillion as at 31st December 2018.

Net loans and advances to customers increased by Rs. 123.7 billion or 16.8% over the 12 months of 2018 to stand at Rs. 861.1 billion at the end of the year reviewed, recording an average increase of more than Rs. 10 billion per month. This was the fourth successive time that Commercial Bank increased its loan book by more than Rs. 100 billion in a year.

The bank’s deposits portfolio recorded a growth of 15.6% or Rs. 132.9 billion to Rs. 983 billion as at 31st December 2018, reflecting average monthly growth of over Rs. 11 billion. This was the third successive year in which the bank’s deposits grew by more than Rs. 100 billion.

Commercial Bank’s gross income for the year grew by 20.7% to Rs. 138 billion, with total interest income improving by 14% to Rs. 117.5 billion mainly due to the growth in the bank’s loan book. Interest expenses grew by a lower 13.3% to Rs. 72.5 billion through timely re-pricing of liabilities amidst a shift from low cost funds to high cost time deposits. Consequently, net interest income increased by 15.2% to Rs. 44.9 billion.

Total other income comprising fees and commission income, exchange profit, net gains or losses on trading and net gains or losses on de-recognition of financial assets, grew by an impressive 92.1% to Rs. 18.7 billion, mainly due to a significant increase in exchange profit resulting from a substantial increase in the Treasury's trading volumes and exchange income derived from a 16.4% depreciation of the rupee against the US dollar, the sharpest depreciation in the past decade.

The bank's net fees and commission income of Rs. 10.2 billion for 2018 recorded a commendable increase of 18% over 2017 due to increased income from trade-related activities and growth in card services.

However, the bank recorded a loss from trading of Rs. 3 billion as against a gain of Rs. 234 million in 2017 mainly due to losses incurred on certain FX Swap transactions that matured during the year. As a result, the bank's total operating income of Rs. 63.687 billion reflected lower but healthy growth of 30.6%.

The increased impairment charges necessitated by SLFRS. 9 resulted in net operating income improving by a more modest 14.6% to Rs. 55.1 billion. Total operating expenses increased by 17.1% to Rs. 23.5 billion mainly due to increased personnel costs following salary increases granted under a Collective Agreement effective from the beginning of 2018 to non-executive staff and salary increments granted to executive staff.

In other key indicators, the bank's net assets value per share stood at Rs. 117.15 at the end of the year, an increase of Rs. 9.60 or 8.9% since December 2017. Return on assets (after tax) and return on equity at end of 2018 stood at 1.43% and 15.56% respectively, mainly due to the lower rate of growth of profit after tax consequent to the increased impairment charges under SLFRS. 9 and increased taxes. The bank's interest margin for 2018 improved to 3.7% from 3.6% in the previous year.

In terms of Capital Adequacy Ratios, the bank's Total Tier 1 capital ratio (with capital buffers) at 11.338% as at 31st December 2018 was well above the 8.875% required under Basel III. The Total Capital Ratio of 15.603% at the end of the year was also comfortably above the Basel III requirement of 12.875%.

At Group level, Commercial Bank, its subsidiaries and associates reported a profit before income tax of Rs. 26.1 billion for the year ended December 31, 2018, an improvement of 12.1%. Profit after tax for the year grew by 7.4% to Rs. 17.9 billion.

The only Sri Lankan bank to be ranked among the world's top 1000 banks for eight years consecutively, Commercial Bank operates a network of 266 branches and 830 ATMs in Sri Lanka. The bank has won multiple international and local awards in 2016 and 2017 and over 40 international and local awards in 2018.

Commercial Bank's overseas operations encompass Bangladesh, where the it operates 19 outlets; Myanmar, where it has a representative office in Yangon and a microfinance company in Nay PyiTaw; and the Maldives, where it has a fully-fledged Tier I bank with a majority stake. (Dailyft)

## *2018 SLT Group profits up 25% to Rs. 4.95 b*

Sri Lanka Telecom PLC (SLT) said the Group posted a revenue of Rs. 81.44 billion during the year under review with impressive growth of 7.53%. The growth was reported in all the segments, however it was largely driven by enterprise and carrier-related businesses, FTTH, IP TV and data-related services together with mobile operations. Understanding the worldwide trends, the Group is now more focusing on data-related products.

During the year under review the Group reported Rs. 36.64 billion Gross Profit with 12.66% Year-on-Year growth. Net Profit after Tax of the Group for the year 2018 was reported at Rs. 4.95 billion with an impressive growth of 25.58% compared to the previous year. Owing to the better management of operating costs coupled with decent growth in revenue, the Group has been able to record this strong growth of profit despite the negative impact of Rs. 1.81 billion recorded due to FOREX losses. The Group EBITDA margin was reported at 31.38 % compared to 28.00 % in the previous year.

SLT Group Chairman Kumarasinghe Sirisena said: “It is a testament to the Group’s leading telecommunication service provider status as well as the public’s faith in the Group that despite challenges, Sri Lanka Telecom is able to go from strength to strength each year. I am confident that the coming year too will see a substantial growth as SLT has laid the groundwork for a sustainable future, especially through its strategic transformational journey into a Digital Service Provider.”

At company level, Rs. 47.39 billion revenue was reported during the year under review. As explained above the FTTH, IP TV and data-related services together with carrier-related and enterprise businesses have largely driven revenues to this level.

The company Gross Profit was reported at Rs. 19.13 billion with year-on-year growth of 6.00%. Exhibiting a year-on-year growth of 33.47 %, company Net Profit after Tax reached to the level of Rs. 1.91 billion. Profit was largely impacted by the Rs. 1.20 billion FOREX losses.

However, the growth of revenue and better management of operating costs have boosted profits. The company has taken initiatives to mitigate any future FOREX losses using hedging strategies. Revenue growth coupled with marginal cost escalations, the company EBITDA margin reached 28.40% from 25.55% from the year before. “As a strong Group of Companies however we need to be ready and knowledgeable to steer through challenging market conditions and managing our resources to maximise our capacity. I am proud that SLT is a resilient Group. Our numbers speaks volumes,” said SLT CEO Kiththi Perera. Chief Operating Officer Priyantha Fernandez said: “Our island-wide reach has been strengthened by restructuring operations. Our digital transformation and IT diversification has enriched digital-based products and services to increase customer experience and customer satisfaction. We strategically focus on operational excellence in all segments with the customer at the forefront.”
(Dailyft)

## *Stocks Gain in Asia, Yuan Rises on Trade Optimism: Markets Wrap*

Asian stocks climbed with U.S. futures and the yuan rose after U.S. President Donald Trump postponed the date for boosting tariffs on Chinese imports, in the latest sign of progress in bilateral trade talks.

Chinese shares led the region higher after Trump said he will delay the March 1 deadline. Equities in Japan, whose economy has been hit by the trade war, also jumped, though rallies fizzled in South Korea and Australia. A gain in U.S. futures also faded after China’s state-run Xinhua news agency published a commentary saying talks will be harder at the final stage. The yuan and Australia’s dollar also pared advances. Treasuries recouped a modest loss.
China's yuan has climbed since mid February amid trade optimism

The official delay from the U.S. may give fresh impetus to extend a global rally in equities that was being tested amid an uncertain future on global trade and forecasts for weakening economic growth. Also in focus this week will be the Humphrey-Hawkins hearing from Federal Reserve Chairman Jerome Powell, where investors will get the latest read on policy.

“This is a sigh of relief,” Ben Emons, managing director for global macro strategy at Medley Global Advisors, told Bloomberg TV. “Markets will still keep a level of caution, but this news is encouraging.”

Trump said the talks were productive. “The U.S. has made substantial progress in our trade talks with China on important structural issues including intellectual property protection, technology transfer, agriculture, services, currency, and many other issues,” he said in a Twitter posting on Sunday evening.

Trade discussions had been extended over the weekend after Treasury Secretary Steven Mnuchin said the two sides agreed on a yuan currency provision, though four people familiar with the matter said no deal had been reached.

Read how emerging markets are beholden to the yuan’s fate as trade deadline looms

Elsewhere, oil held around $57 a barrel. Crude may rally further as OPEC cuts and sanctions on Iran and Venezuela create a shortage of heavy crude, Vitol Chief Executive Officer Russell Hardy said. The pound edged higher as U.K. Prime Minister Theresa May pushed back the deadline for Parliament to vote on her Brexit deal, in a gamble she hopes will buy more time for negotiations but which risks inflaming the revolt against her. The New Zealand dollar rose as jobs data topped estimates.

Here are some key events coming up:

- Fed Chairman Jerome Powell delivers semiannual testimony on monetary policy and the state of the economy over two days to House and Senate committees.
- U.K. Prime Minister Theresa May updates the House of Commons on Brexit talks as the March 29 deadline nears for Britain to leave the EU. Lawmakers will vote on Feb. 27.
- President Donald Trump and North Korea leader Kim Jong Un are expected to meet for a second summit beginning on Tuesday.
- Thursday brings fourth quarter U.S. GDP.

And these are the main moves in markets:
Stocks

- The MSCI Asia Pacific Index rose 0.5 percent as of 10:53 a.m. in Hong Kong.
- Japan’s Topix index gained 0.9 percent by the lunch break.
- The Hang Seng gauge was little changed after rising as much as 0.7 percent.
- The Shanghai Composite added 2.3 percent.
- S&P 500 Index futures rose 0.2 percent.
- Australia’s S&P/ASX 200 Index was flat
- Euro Stoxx 50 futures climbed 0.2 percent.

Currencies

- The yen was little changed at 110.62 per dollar.
- The offshore yuan rose 0.3 percent to 6.6873 per dollar.
- The euro was at $1.1341.
- The British pound was at $1.3069.
- The Aussie gained 0.2 percent to 71.40 U.S. cents.

Bonds

- The yield on 10-year Treasuries was little changed at 2.66 percent.
- Australia’s 10-year bond yield held at about 2.07 percent.

Commodities

- West Texas Intermediate crude dipped 0.2 percent to $57.17 a barrel.
- Gold was steady at $1,331.41.

(Bloomberg))