NEWS ROUND UP

Monday, November 26, 2018

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Parallel shift upwards of yield curve

The secondary bond market yield curve recorded a parallel shift upwards during the shortened trading week ending 23 November 2018 on the back of foreign and local selling interest. Yields were seen edging up despite the weekly weighted averages decreasing as the country rating downgrade by Moody's led to sentiment turning bearish during the week. Activity centred on the short end to the belly end of the curve as yields on the 01.05.20, 01.03.21, 15.12.21 and 15.06.27 maturities were seen increasing to weekly highs of 11.61%, 11.85%, 12.00% and 12.45% respectively against its previous weeks closings of 11.25/45, 11.57/60, 11.60/80 and 12.25/30.

The reduction in the foreign holding of Rupee bonds was witnessed for a 12th consecutive week recording an outflow of Rs. 6.05 billion for the week ending 21 November 2018.

The daily secondary market Treasury bond/bill transacted volume for the first two days of the week averaged Rs. 4.08 billion. In the money market, liquidity was seen improving during the week as the average net shortfall improved to Rs. 67.04 billion against its previous week of Rs. 83.57 billion. The OMO (Open Market Operation) Department of the Central Bank of Sri Lanka injected liquidity throughout the week on an overnight and term basis for periods of 7 to 14 days at weighted averages ranging from 8.53% to 8.60% and 8.64% to 8.77% respectively. The overnight call money and repo rates averaged at 8.97% and 8.95% respectively for the week.

Rupee hits fresh low

The rupee on spot contracts closed the week considerably lower at Rs. 179.50/00 in comparison to its previous weeks closing levels of Rs. 176.50/65 subsequent to hitting a fresh low of Rs. 179.75 on the back of Moody's rating action coupled with importer demand and buying interest by banks. The daily USD/LKR average traded volume for the first two days of the week stood at $ 140.02 million. Some of the forward dollar rates that prevailed in the market were one month – 179.90/10; three months – 182.45/65 and six months – 185.50/70. (Dailyft)

Janashakthi Insurance announces new Chairman, Board Members

Janashakthi Insurance PLC announced the appointment of renowned business leader Prakash Schaffter as its Executive Chairman. Schaffter, who has three decades of experience in the Insurance industry, had led Janashakthi as its Managing Director since 2006.

This announcement comes with the addition of two new board members, Nathan Sivagananathan and Avindra Rodrigo. These appointments, which are subject to regulatory approval, came as Husein Esufally and Anushya Coomaraswamy stepped down from their roles of Chairman and Director of the Board respectively.

Esufally took on the mantle as the Chairman of Janashakthi Insurance PLC in 2016. He was a key driver of the Company's post-segregation strategy, and played an important role in the acquisition of AIA General. He was instrumental in bringing specialised focus to the Life and General Insurance categories, with the appointment of dedicated Chief Executive Officers to head each business. He also saw the Company through the recent divestment of Janashakthi General Insurance Limited, one of the largest transactions in not only the Insurance industry, but the entire corporate sector.

As a member of the Board of Directors of Janashakthi Insurance PLC since 2006, Coomaraswamy has been known for her technical expertise in Finance and Accounting, as well as her strategic contribution and leadership to the Board Audit Committee and the Related Party Transactions Review Committee.

"While we bid adieu to Mr. Esufally and Ms. Coomaraswamy, we thank them for their leadership, support and guidance to the Janashakthi business. Their experience and contribution have helped place

Janashakthi well on our journey of becoming one of the key players in the Life Insurance industry. I am pleased to welcome Mr. Nathan Sivagananathan and Mr. Avindra Rodrigo to the Board of Directors of Janashakthi Insurance, and I am confident that their expertise will add greatly to the strategic growth journey of our Life Insurance business," said Janashakthi Insurance PLC Chairman Prakash Schaffter.

In addition to the three decades of invaluable industry experience which Schaffter brings in, the Company believes that the diverse experience and skills of the new appointees to the Board will strengthen its efforts of building a specialised Life Insurance business.

Under Schaffter's leadership, the Company became the country's third largest insurer, acquired AIA's General Insurance business, and most recently engaged in the divestment of Janashakthi's Non-Life segment. He has led the discussion on regulatory changes, including the segregation of Life and Non-Life segments through several industry-related committees. He holds a Bachelor's degree from the University of London and an MBA from the University of Cambridge, in addition to being one of the youngest Fellow Members of the Chartered Insurance Institute.

Sivagananathan is currently the Chief Growth Officer of MAS Holdings and Board Director of MAS Capital. A 2015 Eisenhower Fellow and 2018 Kauffman Fellow, he has been a supporter of local entrepreneurship and small businesses, as well as an active angel investor in the country. He holds a BSc in Engineering Management from the University of Hertfordshire and has completed the General Management Program at Harvard University.

Rodrigo, who is a leading counsel and an active practitioner in commercial and corporate litigation as well as arbitration and alternative dispute resolution, has a wealth of experience in the areas of Banking Law, Finance, Insurance, Construction and Telecommunications Law. Receiving his LLB (Hons) from the University of Warwick, England, he has appeared in numerous actions arising out of Insurance Contracts, representing either the Insurer or the Assured.

With the new additions, the Board of Directors of Janashakthi Insurance PLC comprises of: Prakash Schaffter, Executive Chairman; Jude Fernando, Chief Executive Officer; Ramesh Schaffter; Manjula Mathews; Eardley Perera; Nathan Sivagananathan and Avindra Rodrigo.
(Dailyft)

Fitch affirms Sri Lanka Telecom at 'B+'/'AAA'

Fitch Ratings has affirmed Sri Lanka Telecom PLC's (SLT) Long-Term Foreign- and Local-Currency Issuer Default Ratings (IDRs) at 'B+' and its National Long-Term Rating at 'AAA(lka)'.

The Outlook is Stable. They have also affirmed the 'AAA(lka)' national rating on the company's Rs. 7 billion debt program. SLT's senior unsecured debt of up to Rs. 7 billion is rated at the same level as its National Long-Term Rating as the debentures rank equally with other senior unsecured obligations.

SLT's IDRs are constrained by Sri Lanka's IDRs (B+/Stable), per Fitch's Government-Related Entities Rating Criteria, as the state holds a majority stake in SLT directly and indirectly, and exercises significant influence on its operating and financial profile.

SLT's second-biggest shareholder, Malaysia's Usaha Tegas Sdn. Bhd. with 44.9%, has no special provisions in its shareholder agreement that would dilute the Government's significant influence over SLT.

SLT's standalone credit profile, assessed by Fitch at 'BB', is stronger than that of its owner, reflecting the company's market-leading position in fixed-line services and second-largest position in mobile, along with its ownership of an extensive optical-fibre network.

The standalone profile is also underpinned by its mid-single-digit percentage growth prospects, moderate estimated 2018 FFO adjusted net leverage of 1.7x and stable operating EBITDAR margin.

Key rating drivers are as follows:

Strong State linkages: Fitch sees SLT's status, ownership and control by the Sri Lankan sovereign as 'Strong'. The State's ownership of SLT gives it significant influence over the company's operating and financial policies. Fitch views the support track record and expectations for the likelihood of state support for SLT as 'Strong', given its strategic importance in expanding the country's fibre infrastructure. Historically, SLT has not required tangible financial support due to its strong financial profile.

State's incentive to support: Fitch sees the socio-political implications of a default by SLT as 'Moderate' due to the presence of three other privately owned telcos. However, it could affect the fixed-line market because SLT acts as a policy company to invest in fibre networks across the island to support the government's vision of fibre-based internet for all households. Fitch also sees the financial implications of a default as 'Strong' as a financial default by SLT may have a strong impact on the availability and cost of financing options for other government-related entities.

High Capex, Negative FCF: Fitch expects SLT to have negative free cash flow (FCF) during 2019-2020 (estimated 2018 negative FCF of Rs. billion-Rs. 3 billion) as cash flow from operations may be insufficient to fund large capex plans to expand the fibre infrastructure and 4G mobile networks. SLT's 2019 capex will likely remain high, around 28%-30% of revenue, as it aims to complete its 4G population coverage to around 95% by end-2019.

Fitch expects SLT to continue to invest in expanding fibre coverage as it targets to connect about one million homes by 2020-2021 from an existing 70,000 homes currently. Typically, SLT would need to lay fibre for at least two million homes to get half of the households connected.

Fitch expect SLT's fibre investments to have low returns due to the country's low broadband tariffs. Dividends are likely to remain around Rs. 1.6 billion-Rs. 1.8 billion in the next two to three years.

Data drives growth: Barring any tax shocks, Fitch expects revenue to grow by a mid-single-digit percentage during 2019-2020, driven by data and fixed-broadband growth. Fitch expects 4G smartphone penetration to improve from the current 25% with the proliferation of cheaper Chinese phones. Revenue rose strongly by 6.5% in the first nine months of 2018, driven by fixed-broadband and mobile usage after a temporary usage slump in 2017 due to higher taxes on voice and data. Fitch expects the Government's recent announcement on the removal of floor rates for voice call charges to have a limited impact on growth.

Industry consolidation, M&A risk: Fitch believes the recently announced merger between Hutchison Telecommunications Lanka Ltd. and Etisalat Lanka Ltd. is likely to relieve some competitive pressures that have undermined telecom companies' revenue and EBITDA growth in recent years. The merger is pending regulatory approval. Industry consolidation is likely to provide some relief from pricing pressure, especially in the data segment where telcos have not been able to fully capture the strong growth in data traffic.

SLT's National Long-Term Rating could come under pressure if it were to carry out a debt-funded acquisition of the smallest telco – Bharti Airtel Ltd.'s (BBB-/Stable) Sri Lankan subsidiary, Airtel Lanka. However, any rating action will be based on the acquisition price, funding structure, and the financial and operating profile of the combined entity.

Stable sector outlook: Fitch's outlook for the Sri Lankan telco sector is stable as Fitch expects the mean net leverage for SLT and mobile market leader, Dialog Axiata PLC (AAA(lka)/Stable), to remain stable at around 1.4x in 2019. Fitch expects the sector's cash generation to improve, driven by higher mobile and broadband data usage, which however, will be insufficient to fund the large capex requirement, leading to negative FCF. Fitch also expects average operating EBITDAR margins to remain stable at around 34% (2018 estimate: 34%), driven by improving economies of scale in the data and home broadband segment, offsetting the negative impact of the changing revenue mix.

Derivation summary is as follows:

SLT's standalone rating reflects its moderate financial profile and strong market position in the fixed-line industry segment and second-largest position in the mobile market. SLT has lower exposure to the crowded mobile market and more diverse service platforms than Dialog. However, Dialog has a larger revenue base and better operating EBITDAR margin than SLT while SLT's forecast FFO adjusted net leverage and FCF profile are worse than that of Dialog.

SLT has a larger operating scale and a wider EBITDAR margin than Hemas Holdings PLC (AA-(lka)/Stable), which is a diversified conglomerate with exposure to pharmaceuticals, fast-moving consumer goods, leisure and transport. Hemas is the largest private retail pharmaceutical distributor in the country and the second-largest home care and personal care manufacturer. Hemas's FFO adjusted net leverage is likely to be better than SLT's over the medium term.

Fitch's key assumptions within its rating case for the issuer

- Revenue to grow by mid-single-digit percentage, driven by fixed-broadband and mobile data services in 2018-2019.
- Capex/revenue to remain high at around 28%-30% as SLT expands it fibre and 3G/4G networks.
- Operating EBITDAR margin to remain stable at around 29%-30%.
- Effective tax rate of 28%.
- Dividend payout of Rs. 1.6 billion-Rs. 1.8 billion.

Developments that may, individually or collectively, lead to Positive rating action:

- An upgrade in Sri Lanka's IDRs would result in corresponding action on SLT's IDRs;
- A weakening of links between SLT and the sovereign could result in SLT's Local-Currency IDR being upgraded above Sri Lanka's Local-Currency IDR. However, SLT's Foreign-Currency IDR will remain constrained by Sri Lanka's Country Ceiling of 'B+'
- There is no scope for a national rating upgrade as SLT is at the highest rating on the Sri Lankan scale.

Developments that may, individually or collectively, lead to Negative rating action:

- A downgrade of Sri Lanka's IDRs would result in corresponding action on SLT's IDRs;
- A debt-funded acquisition of a smaller operator could threaten SLT's National Long-Term Rating, depending on the acquisition price and the financial profile of the combined entity.

(Dailyft)

Stock Slump Wanes in Asia; Oil Prices Edge Higher: Markets Wrap

Stocks began the last week of November on a positive footing, with most Asian benchmarks higher and U.S. equity futures advancing after last week's tumble. Oil prices also made a run at stabilizing, with West Texas crude putting some distance from the $50 a barrel mark.

Shares advanced from Tokyo and Seoul to Hong Kong, while Australian equities declined. Most groups in the MSCI Asia Pacific Index were higher, led by technology -- the sector that's been pounded in the U.S. for most of the past eight weeks. Among key variables for investors this week will be Federal Reserve speeches and policy-meeting minutes that may give clues on the outlook into 2019, and a key sit-down between Presidents Xi Jinping and Donald Trump weeks ahead of the next scheduled escalation in tariff hikes. The yen dipped along with Treasuries, while China's yuan held steady.

With bond traders having reduced expectations for the pace of U.S. monetary policy tightening, Fed Chairman Jerome Powell has the opportunity of shedding light on prospects for a 2019 pause in a speech this week. Stocks, meantime, have been coping with waves of investor concern about the peak of the corporate-earnings cycle, which have also hit credit markets.

"The market will be looking for potentially some signs of dovish overtures coming through," from the Fed this week, John Lockton, head of investment strategy in Sydney at Wilsons Advisory & Stockbroking, told Bloomberg TV. On trade, investors "are looking for a pathway. I am not sure we are going to see a detailed agreement. A pathway to success, a pathway to an outcome will be highly supportive of equities globally," he said.
Chinese Markets May Rally Into Year End, Says Julius Baer's Matthews

Mark Matthews, head of Asia research at Julius Baer, discusses what could possibly come from the Trump-Xi meeting.
Elsewhere, bitcoin extended its recent tumble to below $4,000 following the worst week ever for cryptocurrencies. Drops in oil, copper and other industrial raw materials dragged the Bloomberg Commodity Index to its biggest weekly decline since February on Friday. The pound remains in focus, though traded flat, after European Union leaders agreed to the Brexit deal from U.K. Prime Minister Theresa May. The New Zealand dollar slipped after retail sales data missed estimates.
Coming Up

- Presidents Donald Trump and Xi Jinping plan to meet at the G-20 summit in Argentina that kicks off on Friday.
- Federal Reserve Vice Chairman Richard Clarida speaks in New York on Tuesday and Chairman Jerome Powell addresses the New York Economic Club on Wednesday.
- Thursday sees the release of the minutes from the Federal Open Market Committee's November meeting.
- European Central Bank President Mario Draghi will address the European Parliament's committee for economic and monetary affairs on Monday.

These are the main moves in markets:
Stocks

- Japan's Topix index rose 0.4 percent as of 12:40 p.m. in Tokyo.
- Hong Kong's Hang Seng Index added 1.8 percent.
- Australia's S&P/ASX 200 Index fell 0.6 percent.
- South Korea's Kospi index rose 1.1 percent.
- S&P 500 futures rose 0.5 percent. The S&P 500 fell 3.8 percent last week.
- The MSCI Asia Pacific Index gained 0.4 percent.

Currencies

- The yen fell 0.2 percent to 113.24 per dollar.
- The offshore yuan held at 6.9404 per dollar.
- The Bloomberg Dollar Spot Index was flat.

- The euro was little changed at $1.1336.
- The pound slipped 0.1 percent to $1.2808.
- The kiwi fell as much as 0.4 percent before paring the drop to trade at 67.85 U.S. cents.

Bonds

- The yield on 10-year Treasuries ticked higher to 3.05 percent.
- Australia's 10-year bond yield fell one basis point to 2.64 percent.

Commodities

- West Texas Intermediate crude gained 0.7 percent to $50.78 a barrel after sinking 7.7 percent on Friday.
- Gold was steady at $1,223.34 an ounce.

(Bloomberg)