

# NEWS ROUND UP

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## ***2018 National Sales Average of tea down Rs. 36.23***

The National Sales Average (NSA) for tea in 2018 at Colombo auctions has declined by Rs. 36.23 or 6% to Rs. 581.91 per kilo from an all-time high of Rs. 618.14 in 2017.

According to Forbes and Walker Tea Brokers, the NSA for High Growns for the period January-December 2018 of Rs. 571.51 was down by Rs. 29.42 per kilo.

Medium Growns too averaging Rs. 521.86 per kilo was down by Rs. 41.68 in 2018 as against the previous year. Low Growns' NSA totalling Rs. 600.79 in 2018 was down by Rs. 36.61.

Forbes and Walker said both the December month and 2018 cumulative averages show a greater decrease in USD terms compared to the corresponding period of 2017, with Sri Lankan Rupee depreciating sharply particularly in the last 4 months of 2018.

In 2018 it was \$ 3.59, a decrease of \$ 0.52 as against \$ 4.11 of 2017.

## ***Loss-making SOEs should be re-structured on 'Resultant' approach, says MTI***

Responding to the latest COPE report on State-Owned Enterprises (SOEs), Sri Lanka's leading strategy consultancy with experience in 43 countries, MTI, has opined that most of the loss-making SOEs have fundamentally-viable business models and strong consumer franchises from which they can profit.

According to MTI CEO and internationally-acclaimed Strategy Consultant Hilmy Cader, "Most of these SOEs need to focus on rationalising their business models, taking some tough business decisions including balance sheet re-structuring, competitive cost modelling, organisational re-structuring."

To this extent MTI Consulting has proposed to the Government of Sri Lanka the concept of 'Resultants,' whereby a significant part of the consultant's rewards is linked to the turnaround performance, including in some cases a share option.

With the growing political and public discussion on effectiveness and performance of SOEs and Government's increasing interest on restructuring SOEs and divesting non-strategic SOEs through listing in the stock exchange, MTI believes this would be the ideal time to go with a low-risk Resultant approach.

According to the Treasury, Sri Lanka has 245 SOEs, out of which 55 SOEs are classified as strategically important. Cumulative losses from these SOEs amongst creates an economic burden to the nation, in excess of \$ 1 billion.

However, there are many other qualitative factors which can affect these profits and losses. Most of these SOEs tend to operate as monopolies or have a restricted competition from private industries. Further, most of these SOEs enjoy hidden subsidies in a variety of forms including preferential borrowing costs, lower rents or taxes. When you incorporate all those qualitative factors, the real profitability of SOEs will be far less than mentioned.

Some of the SOEs have been able to record profits over the past few years. However the emerging global and local economic, political and social challenges can threaten the sustainability of these performances. Further, changing global dynamics will create many opportunities for these SOEs, therefore creating a need for the SOEs to be ready and competent to capture and optimise those opportunities to generate maximum value to the nation.

Some of the SOEs and Govt. institutions that benefitted from MTI advisory at some point in time between 1997 and 2018 were Bank of Ceylon, Export Development Board, Ministry of Commerce, Ministry of Finance, Ministry of Public Enterprises, National Savings Bank, People's Bank, Regional Development Bank, Sri Lanka Insurance, Sri Lanka Telecom and SriLankan Airlines.

### ***RPCs and trade unions end wages deadlock; agree to Rs. 750 daily wage***

The Planters' Association of Ceylon has announced that following negotiations between the Employers' Federation of Ceylon (EFC) and trade unions representing Regional Plantation Company (RPC) employees, an agreement was reached for a revised collective agreement.

PA Secretary General Lalith Obeyesekere said that as per the revised agreement, a daily basic wage of Rs. 700 plus a Price Share Supplement (PSS) of Rs. 50, totalling Rs. 750, is the only remuneration a worker would receive based on the plucking norm.

Additionally, a worker would be entitled to Rs. 40 for every extra kilo plucked above the norm, the existing rate of which was Rs. 28.75.

Obeyesekere stated that no attendance or productivity incentives had been included within the scope of the revised agreement, effectively capping estate workers' earnings to Rs. 750 a day plus over-kilos.

Under the previous agreement, workers were provided a basic salary of Rs. 500, in addition to an attendance incentive (AI) of Rs. 60, a Productivity Incentive (PI) of Rs. 140 and a PSS of Rs. 30, amounting to a total daily wage of Rs. 730.

Trade unions had initially demanded a daily basic wage of Rs. 1,000 with no demands on productivity and attendance incentives. In response the RPCs advanced multiple proposals aimed at providing an option for increased earnings – potentially up to and above Rs. 1,000 – through the addition of productivity-linked incentives.

Trade unions declared strike action in December in response to the industry's offer of a 20% increase on the basic wage up to Rs. 600, a 33% increase in the AI up to Rs. 80, and a 20% increase in ETF/EPF up to Rs. 90 in addition to the PI and PSS, leading to a maximum total daily wage of Rs. 940, amounting to an average increase of Rs. 3,375 per month per worker.

Such measures were aimed at raising productivity – an area which Sri Lanka lags behind global competitors. Plucking average in Sri Lanka's largest competitor nations, Kenya, stood at 60 kgs, South India at 50 kgs and Assam with 36 kgs, where the norms in those nations had been set at 40 kgs, 34 kgs and 24 kgs respectively, thereby yielding much higher productivity levels.

The legal National Minimum Wage remains at Rs. 10,000 per month or Rs. 400 per day for private sector workers. In 2016, RPC workers remained among the highest paid when compared with the tea smallholder sector and garment industry, which both provided a daily wage of Rs. 590, while average daily salaries in the tea export trade and manufacturing industry amounted to Rs. 570 and Rs. 554 respectively.

## ***New owner of Hunas Falls ups stake to 81%***

Serenity Lake Leisure Ltd., the new owner of Hunas Falls Hotels Plc, has increased its stake in the company to 81.09%.

This follows the purchase of 0.84 million shares mostly at Rs. 187 each (mandatory offer price) or below.

Among quantities bought were that of Jetwing Group, which held around a 15% stake in Hunas Falls.

On 14 January, Serenity Lake Leisure bought 3.7 million shares or 66.2% from Hayleys Group Carbotels Ltd., and Amaya Leisure for Rs. 696.3 million.

Post-acquisition, a mandatory offer is on.

Serenity Lake Leisure Ltd., is a special purpose vehicle incorporated as an investment company by TAD Lanka Holdings Ltd. and TAD Lanka Plantations Ltd.

TAD Lanka Holdings is a diversified conglomerate with interests in renewable energy, hospitality, real estate, retail, plantations, tea brokering and tea manufacturing, and IT. Its founders are the entrepreneurial trio of Toshiaki Tanaka, Atheeq Ansar and Dhanuka Samarasinghe.

## ***First SLDB issue for 2019 worth \$ 200 m goes undersubscribed***

The first-ever Sri Lanka Development Bonds (SLDBs) issue for 2019 worth \$ 200 million went undersubscribed last week.

When the issue closed, only bids amounting to \$ 181.73 million were received.

The offer included a mix of 1 year 6 months, 2 years 6 months, 3 years 3 months and 4 years 3 months tenor at fixed rate (determined through competitive bidding) and floating rate (6 month LIBOR or its successor for US Dollar + margin through competitive bidding).

Largest bids (\$129.55 million) were received for the short-term 1 year six months option. Of that bids for floating rate option was \$ 105.50 million, of which \$ 103.50 million were accepted at 3.42 weight average margin (%) over 6-month LIBOR. Central Bank also accepted \$ 24.05 m bids on fixed rate of 5.82%.

Four year 3 months floating rate option got the second highest bids (\$ 21.65 million), all of which were accepted at 3.89.

Bids received on 2 year 6 months – \$16.53 million floating at 3.33% and \$ 0.60 million fixed rate at 5.75% – were accepted as well along with \$ 13 million floating 3 years 3 months at 3.51% and \$ 0.40 million fixed rate at 3.33% being accepted.

The last SLDB of 2018 worth \$ 100 million in September too got undersubscribed with bids received being \$ 82.86 million. Of that Central Bank accepted \$ 54.40 million bids for 1 year 8 months tenor at fixed rate of 5% and \$ 25.46 million on 3 years 8 months tenor at fixed rate of 5.75%. There were no bids for 4 years 8 months tenor.

