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NEWS ROUND UP

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Contents

Bourse ends at 7-month high on stability hopes after polls

Shares closed at their highest level in seven months in a truncated session on Monday on hopes that political stability after the 17 August parliamentary elections would help boost investor sentiment, brokers said.

Sri Lankans went to the polls on Monday to elect a new parliament in what amounts to a referendum on ex-president Mahinda Rajapaksa's comeback bid, with the reformist alliance that swept him from power seeking a stronger mandate.

The trading time was reduced to half from the usual five hours due to the election.

The main stock index ended up 0.4% at 7,492.04, the highest close since 16 January.

The day's turnover stood at Rs. 1.17 billion ($ 8.74 million) on Monday, in line with this year's daily average of Rs. 1.13 billion.

Foreign investors were net buyers of a net Rs. 4.79 million worth of equities on Monday. But they have offloaded a net Rs. 1.08 billion worth of shares so far this year.

"Heavy retail interest was there. The whole market was dominated by retail investors on the hopes of strong earnings and a stable government after the elections," said Dimantha Mathew, a research manager at First Capital Equities Ltd.

"We expect the market to be very positive after the elections."

Shares in Sri Lanka Telecom Plc jumped 3.59%, while Ceylon Theaters Plc rose 7.80%, pushing the index higher.

Rupee falls as state bank raises dollar peg

Reuters: The Sri Lankan rupee fell on Monday, declining for a third session in four, as a state-run bank raised the currency's peg against the dollar by 10 cents to allow the exchange rate to depreciate to 134.00, dealers said.

They expect the central bank, which has so far this year directed the market through the state-run bank, to let the currency remain weaker after Monday's parliament elections due to importer dollar demand and global trend.

Sri Lankans went to the polls on Monday to elect a new parliament in what amounts to a referendum on ex-president Mahinda Rajapaksa's comeback bid, with the reformist alliance that swept him from power seeking a stronger mandate.

Analysts said the rupee may fall to 137 levels in the short term if the central bank allows it to depreciate, in line with the weakening seen in other global currencies against the dollar.

Dealers said there was heavy importer dollar demand with some booking forwards. Exporters also expect the rupee to depreciate further, they added.

"There was huge importer demand and no exporter (dollar) sales," a currency dealer said, asking not to be named.

Central Bank officials were not immediately available for comment.

The currency has fallen 0.37% since 5 August as the state-owned bank raised the currency's peg against the dollar by 50 cents on four occasions, allowing the exchange rate to fall.(DailyFT)

Rupee continues depreciating trend

The deprecating trend in the rupee continued yesterday as well, as the USD/LKR rate on spot contracts was lowered by a further 10 cents to Rs. 134.00. The total USD/LKR traded volume for 14 August was $ 78.97 million.07-1

Some of the forward USD/LKR rates that prevailed in the market were one month – 134.56/66; three months – 135.86/96 and six months – 137.58/68.

In secondary market bond trading, a very limited amount of activity was witnessed on the 1 July 2019 and 1 May 2020 maturities within the range of 8.14% to 8.17% and 8.38% to 8.40% respectively yesterday as yields on the rest of the yield curve remained broadly steady.

In money markets, Overnight call money and repo rates increased marginally yesterday to trade within the range of 6.10% to 6.30% and 6.00% to 6.25% respectively. (DailyFT)

Softlogic Holdings 1Q Group after tax profit up 35% to Rs. 304 m

Softlogic Holdings Plc has reported a profit of Rs. 304.2 million in the first quarter of FY16 up by 35% over the corresponding period of the previous financial year.

Net profit attributable to ordinary equity holders was Rs. 83.6 million, up by 105% from the first quarter of the previous year.

Group revenue increased 62.1% to Rs. 13.0 b as opposed to Rs. 8.0 b reported in the comparative quarter. Retail sector pulled in the reins to lead in Group turnover with a contribution of 33.4% post-ODEL consolidation.

ICT sector, with Samsung's handset applications added to the sector's product range, emerged second in revenue contribution with 29.0% followed by Healthcare Services (17.1%), Financial Services (16.6%), Automobiles (2.2%) and Leisure (1.0%).

Consolidated Gross Profit increased a strong 47.5% to reach Rs. 4.3 b during the first three months of the financial 03-2year (Rs. 2.9 b reported last year). Increasing activity levels led the operational expenses to increase by 44.1% to Rs. 3.1 b during the quarter. However, a decline in operation cost margins were noted from 26.6% in 1QFY15 to 23.7% in 1QFY16 following synergy benefits and stringent cost discipline measures. Distribution costs increased to Rs. 654.8 m (up 55.9%) while administration costs increased 41.2% to Rs. 2.4 b for the period under review.

Finance Income registered a decline of 28.8% to Rs. 301.1 m during the quarter. The drop was primarily due to a decline in unrealised fair value gains of the investment portfolio (fixed and equity) of Asian

Alliance Insurance PLC triggered by a more stable interest rate regime (Treasury bond investments) and equity market performance during 1QFY16.

Finance expenses increased 28.8% to Rs. 805.9 m during the first quarter of the financial year. Nonetheless, finance cost to turnover for the quarter decreased from 7.8% in the comparable period to 6.2% due to lower interest rates and unlocking cash flows from enhanced activities.

Other Operating Income which registered a gain of 79.8% to Rs. 193.9 m chiefly composed of fees received for new loans processed at Softlogic Finance PLC. This is a veritable new source of sustainable income line for the company.

Strong operational performance following consolidation of ODEL PLC and commendable performance at ICT boosted the Group operating profits by 59.4% to Rs. 1.4 b for the quarter. Consequently, the Group PBT rose by 59.7% to Rs. 470.9 m.

With the Group's growth being rapid and the acquisitions making good commercial sense at this point in time, the returns to Group, due to strong synergy and depth, is likely to witness the multiplier effect in growth in the upcoming periods.

Following is the sectoral review of Softlogic Holdings Plc performance by Chairman Ashok Pathirage in the interim results statement.

Information & Communication Technology

Revenues at ICT cluster more than doubled to Rs. 3.8 b during the quarter (Versus Rs. 1.8 b in1QFY15). Softlogic Communication Ltd., the telco-company of Softlogic, proved to be the top contributor with exceptional performance from 'Microsoft' followed by Softlogic Distribution Ltd., which mirrored the robust growth in the 'Samsung' mobile phone division.

The telco sector's success also relates to its successful strategy in fully utilising the strong retail network coupled with an ambitious sales team delivering targets. IT business continued its growth levels supported by its B2B business line.

This segment's Operating Profit for the period was Rs. 256.1 m (up 37.6%) taking sector PBT to Rs.177.2 m (up 52.6%). ICT sector PAT increased 49.5% to Rs.131.4 m for the quarter.

Retail

Retail sector emerged to be the top contributor for the first time making up 33.4% of Group turnover and registering 110.8% growth to Rs. 4.4 b during the period. This year-on-year growth was due to consolidation of ODEL PLC's financials during 1QFY16. Consumer Durables and Branded Apparel operations contributed equally with noteworthy increase in footfall coupled with the entrance of new brands and store expansions.

Consumer Electronics showroom network as of today stands with 208 stores island wide, the last being opened in Yakkalamulla in Galle. This segment targets 250 stores by 31st March 2016. The Branded Apparel Division continued to focus in acquiring top international fashion brands for Sri Lanka as it introduced 'Pepe Jeans', leading denim and casual wear brand from Tommy Hilfiger.

The exclusive store for this renowned casual clothing line was opened at Liberty Plaza and it will also be available in all ODEL and Galleria outlets. Crocs, leading casual footwear retailer, was added to its portfolio in June with the flagship store at Liberty Plaza. It opened two other exclusive stores for Giordano and International watch store at Liberty Plaza.

Strong synergies emerged following ODEL acquisition with notable operational cost savings and a better sales platform. The first major initiative for ODEL is the development of a megamall adjoining the ODEL flagship store at Alexander Place, Colombo 7. The mall structure would be of 400,000 sq.ft with car park amenities. Blocher Blocher Partners of Germany, a globally renowned expert in architecture and design, have been contracted for the mall development.

The mall would not only retail its own brands but also rent out space to external retailers, cinemas, restaurants and other service providers. Operating profit improved immensely to Rs. 357.1 m (versus Rs. 118.2 m in 1QFY15) during 1QFY16.

Operating profit margin improved to 8.2% in 1QFY16 from 5.7% in the comparative quarter despite new companies being added to the sector. Consequently, Operating profit contribution to the consolidated number improved to 24.9% from 13.1% in the previous year. Sector's finance cost increased 125.5% to Rs. 272.0 m primarily due to ODEL's acquisition cost.

Healthcare Services

Healthcare Services continued to operate steadily during the quarter with a 17.7% contribution to topline after registering a modest growth of 10.0% to Rs. 2.3 b. Operating Profit witnessed a marginal decline to Rs. 521.7 m for 1QFY16 concluding sector PAT at Rs. 345.1 m during the quarter.

It is progressing on the pre-construction schedule for Asiri Kandy Hospital. It targets to commence construction in October 2015. Construction of the laboratory and administrative building and the facelift process of Asiri Hospital Holdings in Kirula Road would be completed by mid-2016.

Financial Services

Financial Services segment witnessed a 9.5% growth in topline to Rs. 2.1 b during 1QFY16 with its contribution to the Group revenue constituting 16.6%. Operating profit of the sector recorded more than a two-fold growth to Rs. 330.7 m (105.3 m in 1QFY15) for the quarter under review. Despite a decline in the insurance company's investment gains for the year, the sector's PBT achieved manifold growth to Rs. 89.8 m (Versus Rs. 14.4 m in 1QFY15).

Both the Life and Non-Life business of Asian Alliance Insurance PLC performed within expectations to record a revenue growth of 28.9% with GWP of Rs. 1.5 b. The Life operation recorded a GWP growth of 39.8% well ahead of the industry to Rs. 1.0 b for the quarter and ranked fifth in the industry. General Insurance revenue for the year was Rs. 429.2 m, which grew 4% compared with the previous year.

Robust performance at Softlogic Finance PLC led the company to register a 12.1% income growth to Rs. 986.0 m during the quarter. A notable improvement in net interest income margin was witnessed during the quarter to 43% from 35% with the repricing of deposits following the decline in interest rates.

Change in product mix from Leasing and Hire Purchase to working capital loans to SMEs led the growth of the company while fresh revenue was sourced in other operating income segment.

Consequently, Softlogic Finance PLC's assets rose to Rs. 21.6 b (Rs. 17.6 b as at 30June 2014) while Customer Deposits improved to Rs. 13.0 b (Rs. 9.7 b as at 30June 2014) and thus Customer Advances grew by 37.6% to Rs 17.2 b. PAT of the company grew to Rs. 55.0 mfor the quarter as against Rs. 5.2 m in 1QFY15.

Automobile

Automobile sector registered better revenue of Rs. 296.8 m (Rs. 134.4 m in 1QFY15) during the quarter. This was primarily derived from its 3SFord facility and restructuring of its sales team. The re-launch of its bus range – 'King Long' also added to the sales driver.

Leisure

Centara Ceysands Resorts & Spa has done well and performed better than most competitors new in the industry having contributed Rs. 131.3 m to the sector's quarterly topline. The first quarter is generally off-peak season and from the bookings ahead, potential for strong upside in the coming months is assured.

The structure of the 24-storeyed building of Movenpick City Hotel was completed in September 2014. It is now at an advanced stage of completion of MEP, aluminium/glazing and architectural works. It is well on schedule to complete by latter part of 2015. The interior fit-out is expected to be completed by December 2015. Following the process of testing and commissioning, the hotel would open its doors to external guests in April 2016.

Future outlook

Softlogic was recognised as Sri Lanka's second most valuable brand conglomerate in April 2015 by Brands Finance with many other subsidiaries including ODEL PLC, Asiri Hospital Holdings PLC, Softlogic Finance PLC, Nokia, Samsung and Panasonic being amongst the others which received recognition in their relevant categories.

With the Group's growth being rapid and the acquisitions making good commercial sense at this point in time, the returns to Group, due to strong synergy and depth, is likely to witness the multiplier effect in growth in the upcoming periods. (DailyFT)

Revenue and room inventory up, momentum continues for Citrus Leisure with 50 rooms added

1Q FY2016 revenue up considerably, gross profit margin also improved

Citrus Leisure PLC recorded a revenue increase of over 200% in 1Q FY2016 compared to 1Q FY2015 as Waskaduwa Beach Resort contributed 100 million to the top line, accounting for 62% of total revenue.

Waskaduwa Beach Resort, the largest in the Citrus chain, began commercial operations in June 2014; the addition of its 150 rooms brought the Group's total room inventory to 240. Despite being new on the tourism landscape, Waskaduwa recorded a satisfactory level of occupancy of 44% while Hikkaduwa achieved an impressive 62% occupancy during the quarter under review which is normally considered the off-season in the tourism calendar.

Gross profit margin improved to 69% in 1Q FY2016 from 67% in 1Q FY2015 largely due to higher GP margin achieved by Waskaduwa at 71%. The management expects GP margin to further improve in the future with the anticipated higher level of occupancy at Waskaduwa in line with the annual seasonal increase in the expected tourist arrivals. (DailyFT)