

Historical Background

John Keells Holdings (JKH) is the largest listed conglomerate in Sri Lanka with a pioneering heritage and rich history of more than 150 years and comprising multiple companies across seven industry sectors. JKH's segments include Transportation, Consumer Foods, Retail, Leisure, Property, Financial Services and Others. The Transportation segment provides an array of transportation related services, which comprise of a container terminal in the Port of Colombo, a marine bunkering business, domestic airline, joint venture/associations with shipping, logistics, and air transportation multinationals as well as travel and airlines services in Sri Lanka and the Maldives. In order to compete in the three key areas of beverages, frozen confectionery, and convenience foods, the Consumer Foods segment concentrates on producing a wide variety of soft drinks, dairy products, ice creams, and processed foods. The Retail segment focuses on modern organised retailing through a chain of supermarkets. Five-star city hotels, a lean luxury hotel, resort hotels dispersed across Sri Lanka's most popular tourist destinations, as well as destination management companies, make up the leisure category. Development of real estate, renting of commercial office space, and management of the Group's real estate. The Financial Services segment provides services including stock broking, leasing, insurance, and banking. Other segment includes information technology and plantation services. The Group of companies has made its presence felt in almost every major sphere of the economy.

Market Cap (LKR)	200.47 Bn
Outstanding Share Vol	1.38 Mn
52 Week High/Low	158.50/119
Current Market Price (LKR)	144.75
Total Assets	806,218,784,000
Net Asset Value Per Share	262.97

FINANCIAL SUMMARY

LKR (Mn)

SUMMARY	3QFY23	3QFY22	YOY%
Revenue	68,238	53,878	27%
Cost of Sales	56,204	44,570	26%
Gross Profit	12,034	9,307	29%
Finance Cost	5,302	1,728	207%
Profit Before Tax	2,914	6,240	(53%)
Profit for the Period	2,023	5,159	(61%)

EBITDA* (Rs.000)	Quarter ending 31 December		
	Q3 2022/23	Q3 2021/22	%
Transportation	1,498,535	1,395,668	7
Consumer Foods	402,382	1,004,217	(60)
Retail	2,320,385	2,274,900	2
Leisure	1,898,410	1,234,230	54
Property	(312,413)	707,472	(144)
Financial Services	2,854,989	2,110,677	35

Despite the severe domestic macroeconomic pressure, JKH has continued to report a strong performance, with most businesses witnessing a robust recovery momentum from the pandemic-related disruptions.

The Group revenue grew in 3Q to Rs. 68.24 billion, an increase of 27 per cent against the comparative period of last year. However, profit before tax (PBT) was impacted by much higher interest costs and working capital facilities in comparison to a year earlier resulting in a 53% dip in 3Q.

The performance of the group's ports business, South Asia Gateway Terminals (SAGT) remained insulated, to a certain extent, despite the macroeconomic headwinds, due to its essential nature and the ports business revenue model being predominantly driven by offshore markets and customers. Due to its USD-denominated revenue streams and subsequent translation benefits as a result of the Rupee's depreciation relative to the prior year, the Transportation industry group saw an increase in profitability. The Group's Bunkering business, Lanka Marine Services, recorded a decline in profitability due to a sharp decline in oil prices seen in the month of December 2022. Volume declines due to dampened consumer sentiments, high inflation and lower margins had an adverse effect on the profitability of the Consumer Foods businesses, however, margin pressure is anticipated to ease starting in the fourth quarter of 2022/23. A significant drop in the EBITDA of the Office Automation company compared to the third quarter of the prior year had an influence on the overall profitability in the Retail industry group. Despite the pandemic's severe effects and Sri Lanka's unstable socioeconomic situation, it is promising to see the revival in tourist arrivals, especially in light of the removal of travel advisories in key source markets and the increase of flight frequencies by a few major airlines. This resulted in the Leisure segment recording a strong performance driven by the Maldivian Resorts and Colombo Hotels segments. Since 3Q 21/22 reflected revenue and profit recognition from the handover of the residential units and commercial office floors at 'Cinnamon Life', the Property segment witnessed a significant drop in profitability for the quarter ended 31 December 2022/23.

The composition of the portfolio of businesses has aided the group to navigate in these turbulent times given the diverse nature of revenue streams.

Future Prospects

The group maintained its investment cycle despite the unprecedented circumstances over the previous three years in order to open the door for revolutionary growth in the future. These investments have persisted despite having short-term performance impacts over the past few years due to associated costs, disruptions, and gestation periods. However, over the coming years, the long-term benefits will start to translating into positive and significant improvements in performance in the group's relevant businesses.

The development of the integrated resort "Cinnamon Life" and the West Container Terminal (WCT1) at the Port of Colombo are two ongoing investments that are crucial to Sri Lanka's strategic goals, creating transformative growth for JKH especially in their transportation and leisure businesses.

Cinnamon Life

Cinnamon Life Integrated Resort is the first integrated resort in Sri Lanka and the largest private investment in the country. On completion, this project will include an 800-room, 1.4 million sq ft luxury hotel featuring 170m long corridors and a 16.5m high car park in an area of 820,045 square ft. John Keells Holdings is currently finalising arrangements with international gaming operators to operate the casino at 'Cinnamon Life', similar to the experience with integrated resorts in other Asian countries. Revenue recognition at 'Cinnamon Life' commenced during the year with the completion and commencement of the handing over of the residential and commercial units. The remainder of the project is scheduled to be launched in a phased manner, in the first half of the year 2023. Gaming clientele out of India will be a key target market for potential gaming operations planned at Cinnamon Life as an estimated 1mn+ Indian tourists travel to gaming destinations annually. As Sri Lanka is closer to India and there are no integrated resorts in India or the rest of South Asia, Cinnamon Life could be a game changer. Cinnamon Life operations is expected to bring USD 7.1mn to JKH revenues in the first year. Moreover, JKH is expected to get rent and a share of the profits of the casino, in addition to higher occupancy for its 800 room hotel and more patrons for the mall. With the convergence of all elements in the launch of the integrated resort will enable it to reach its full potential as a transformative project in South Asia, creating tourism demand making Colombo a popular tourist destination for leisure and entertainment and thereby, generate considerable foreign exchange earnings for the nation. Therefore, completion of this project will result in the generation of significant recurring cash flows for the Group making JKH attractive and profitable in the long run.

West Container Terminal

India's Adani Ports and Special Economic Zone (APSEZ) has signed an agreement with John Keells Holdings and the Sri Lanka Ports Authority (SLPA) to jointly develop the Colombo West International Container Terminal (WCT1) at the strategically advantaged Colombo Port, located amidst one of the busiest shipping routes in the world and will ensure capacity led growth and regional competitiveness of the Port of Colombo. Adani group will hold a 51% stake in the terminal and John Keells Holding will own 34%. The remaining 15% of the stake will be owned by the Sri Lanka Ports Authority.

In the first phase, an 800 meter long and 20 meter deep quay that can handle 1.6 million TEUs annually will be constructed. And when completed, this deep water terminal, with a quay length of 1,400 meters, an alongside depth of 20 meters will have an annual capacity of approximately 3.2 million TEUs, making it a prime transshipment cargo destination to handle ultra-large container carriers. The project is expected to boost WCT's container handling capacity and further consolidate Sri Lanka's locational advantage as one of the world's top strategic nodes along the busiest global transshipment routes. This partnership will multiply and accelerate the transshipment options that will become available to serve various shipping lines and other potential port customers across the South Asian waters, benefiting both, India and Sri Lanka in multiple ways. Operation of the first phase of Colombo Port's Western Container Terminal (WCT) is expected to be completed in 2024 and the full project is expected to be finished by 2025. Additionally, this Adani-led WCT operations at the Colombo Port will drive volume growth for the Lanka Marine Services bunkering unit and stabilise demand volatility. This project positions the company to benefit from the vast transshipment opportunity of the Colombo Port and solidify its growth prospects in the long-term.

As Sri Lanka carries out previously agreed measure to move forward to seal the initial IMF deal for \$2.9 billion loan, we expect the nation to restore debt sustainability and macroeconomic stability, giving way for economic recovery and growth. Additionally, when these investment benefits start to translate into significant positive performance impacts, along with the pressure on margins are anticipated to ease off with gradual tapering of inflation, a decline in global commodity prices, and a less disruptive operating environment, we believe John Keells Holdings is well-positioned to maintain above-market growth rates.

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