

January 2024  
Sri Lanka



# Strategy Report 2024

## Navigating through uncertainty

Sri Lanka | Economy & Strategy

*“The first lesson of economics is scarcity; there is never enough of anything to fully satisfy all those who want it. The first lesson of politics is to disregard the first lesson of economics.”*

**Thomas Sowell**

Sri Lanka's elections have been famously described as auctions of non-existent resources. As the country heads for its first elections after the economic crisis in 2022, this adage becomes even more relevant. Although the country's economic recovery since the crisis has been impressive, the recovery remains fragile in the backdrop of a challenging external environment. Uncertainty on the outcome of elections and policy continuity is likely to weigh heavily on market sentiment in the current year. The primary risk factor in the aftermath of the elections is the prospect of the country once again deviating from the ongoing reform agenda, which would quickly expose the economy to another debt and balance of payments crisis given low external reserves, high debt levels, the lack of fiscal space and lack of market access.



Our previous Strategy Report published in January 2023, titled “**Never let a crisis go to waste**” anticipated a gradual recovery from the economic crisis in the pervious year. The main predictions and outcomes for 2023 were as follows:

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*Recessionary indicators for the US market*



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*Stagflationary conditions with sticky inflation/ elevated interest rates in other key export markets*



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*Economic stabilisation in Sri Lanka in response to corrective measures*



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*Core inflation in Sri Lanka to fall to single digit range by year end*



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*External current a/c surplus enabling stable/ moderate appreciation of the LKR*



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*Interest rates to fall and market to re-rate upwards with an ASPI target range between 8k to 12k points*



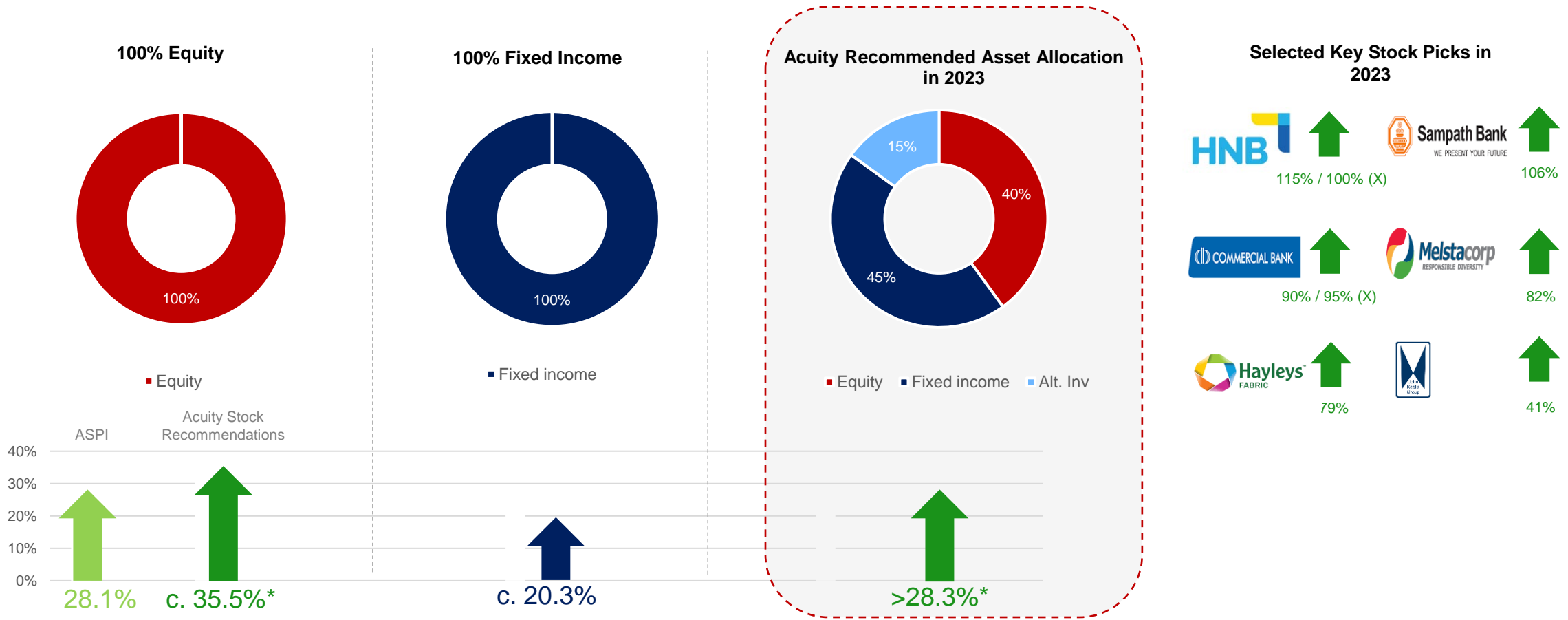
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*Banking stocks would be potentially best performers in the absence of DDO, or a favourable DDO outcome*



# Review of 2023 performance based on our asset allocation/ stock pick recommendations

In 2023, we recommended clients to gradually increase their exposure to equity to capitalize on a rerating of the market as interest rates normalized and improved prospects for selected sectors such as banking and export-oriented counters, supported by the expected economic turnaround and improving macroeconomic conditions. Our recommended stock selection outperformed the market by a wide margin.



\* We have taken the return on gold as a proxy for alternative assets. The return calculation for equity assumes that investors had invested in the portfolio of stocks recommended by us in January 2023 (plus any new recommendations/ withdrawals in 1H 2023), weighted by market cap and held until end 2023.

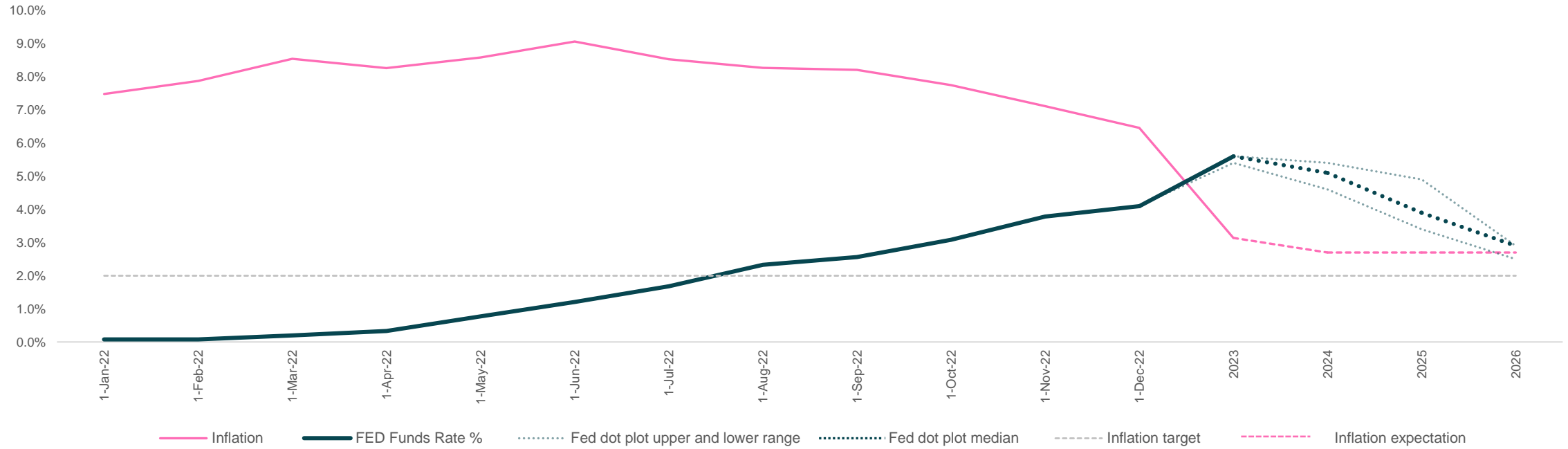


# Global Headwinds

External environment will continue to be challenging.

# Base case narrative of Fed rate cuts in 2024 could be derailed if inflation expectations remain elevated

Chart 1.1: US Inflation, Inflation Expectations and Fed Funds Rate

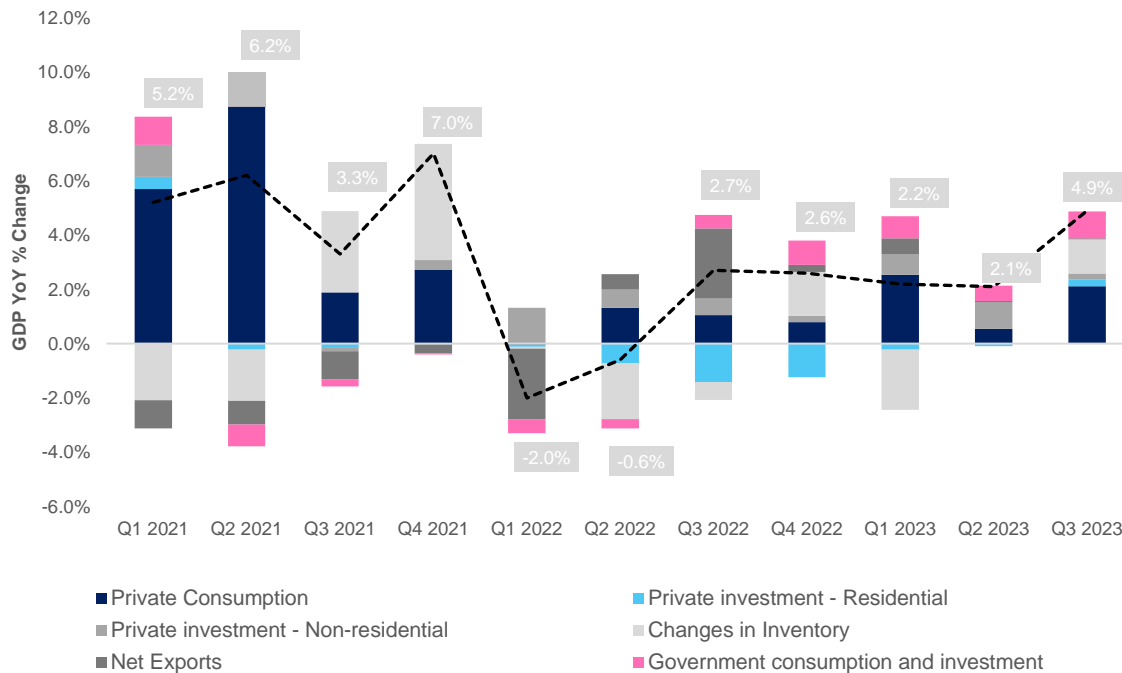


Source: Bloomberg, FRED

With dis-inflation progressing on track, the current expectation is for US policy rates to gradually decline from the current peak c. 5.5% p.a. The median Fed Dots Plot projection is for a c. 50 bps reduction in the Fed Funds Rate in 2024 and a further 120 bps reduction in 2025. However, if inflation expectations remain elevated above the Fed's target inflation rate of 2%, especially in response to potential energy price increases or goods inflation from supply chain disruptions stemming from unforeseen events, policy rates may need to remain higher for longer.

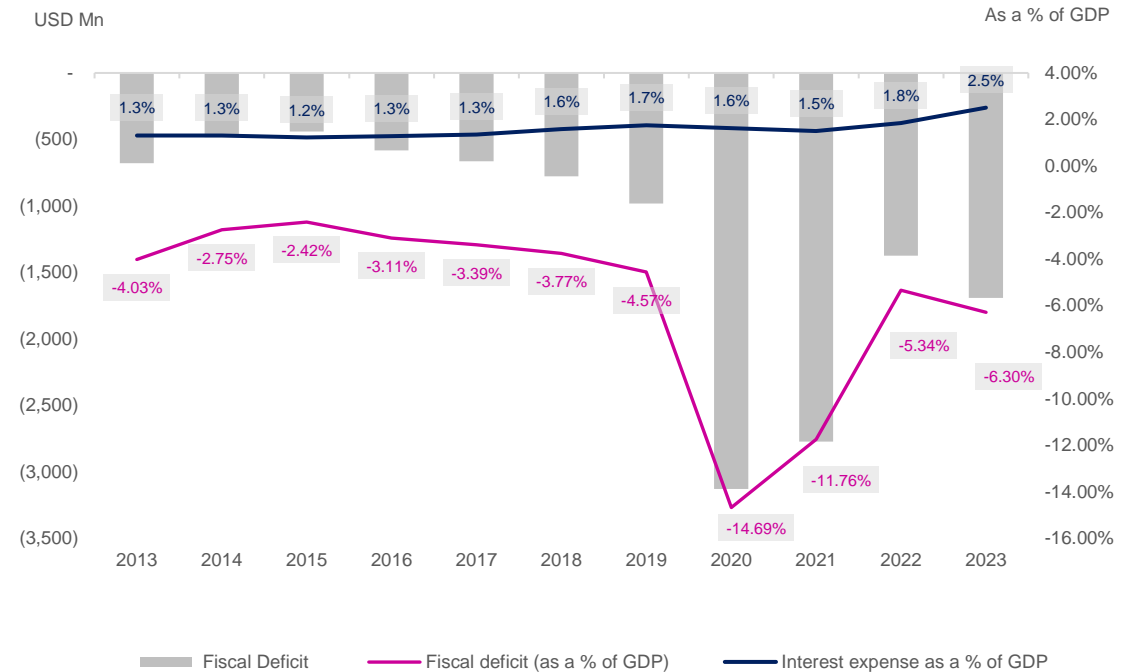
# Fiscal stimulus, coupled with bond market dynamics may keep rates higher for longer

Chart 1.2a: Composition of Quarterly US GDP Growth



Source: Bloomberg, FRED

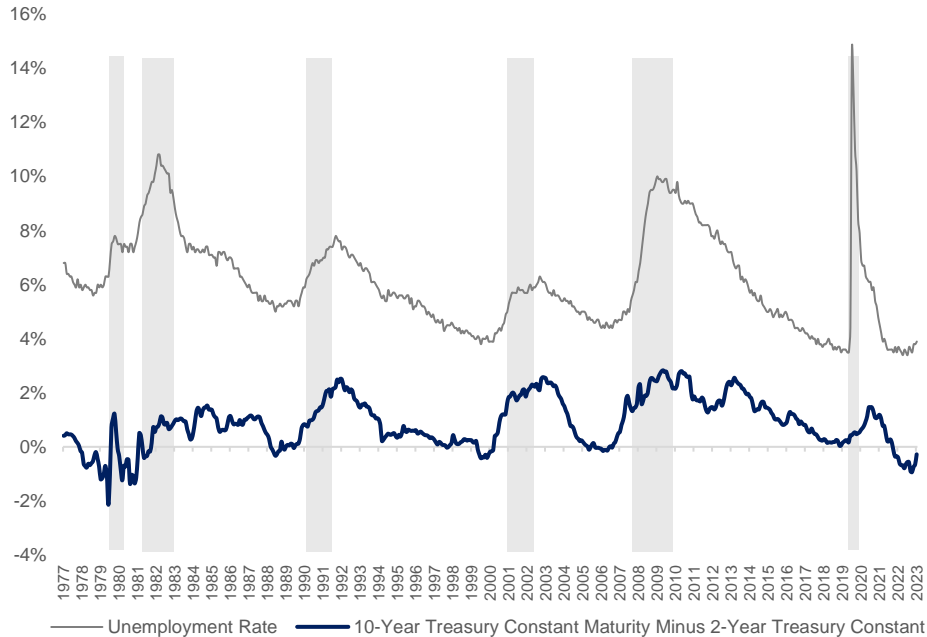
Chart 1.2b: US Fiscal Deficit and Interest Cost



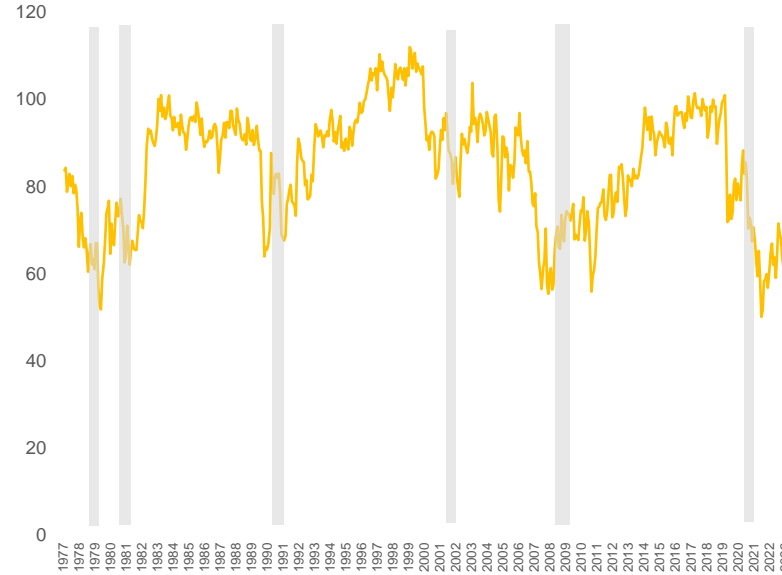
Government spending accounted for a higher contribution to US GDP growth and job creation in 2023 compared to the previous year. With the US heading into elections in the current year we would expect the fiscal stimulus to continue. Fiscal and bond market dynamics with an increasing debt stock may contribute to market interest rates remaining at higher levels whilst strong GDP growth numbers in the last few quarters including 4Q 2023 reduce the necessity for faster policy rate cuts.

# Resilient consumer sentiment supports a 'soft landing' for the US; Eurozone likely to be in recession

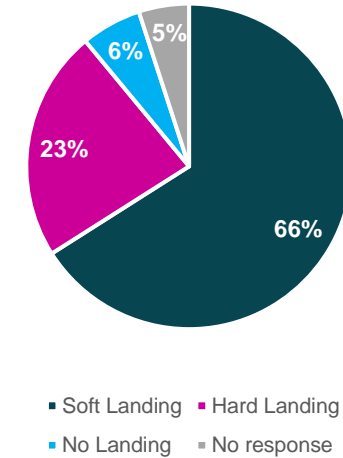
**Chart 1.3a: US Recession and Yield Curve Inversion**



**Chart 1.3b: Michigan Index of US Consumer Sentiment**



**Chart 1.3c: Bank of America Fund Managers Survey on US Economic Outlook 2024**



Source: FRED, University of Michigan, Bank of America

Yield curve inversion in the US (long term treasury rate minus short term treasury rate) has correctly predicted the last eight recessions. However, in 2023 the US economy shrugged aside recessionary indicators and higher interest rates to report robust growth numbers and a resilient jobs market, supported by rapid dis-inflation as the elevated inflation levels seen in the previous two year appeared to be largely transient. US consumer sentiment remains strong and is not consistent with the possibility of a sudden and sharp economic contraction, leading to expectations of a “soft landing” to emerge as the default expectation for the US economy in 2024. However, many key Eurozone economies which largely recorded subdued or stagnant growth in 2023 is likely to experience at least shallow recessions in 2024.

**Table 1.1: Eurozone Business Activity**

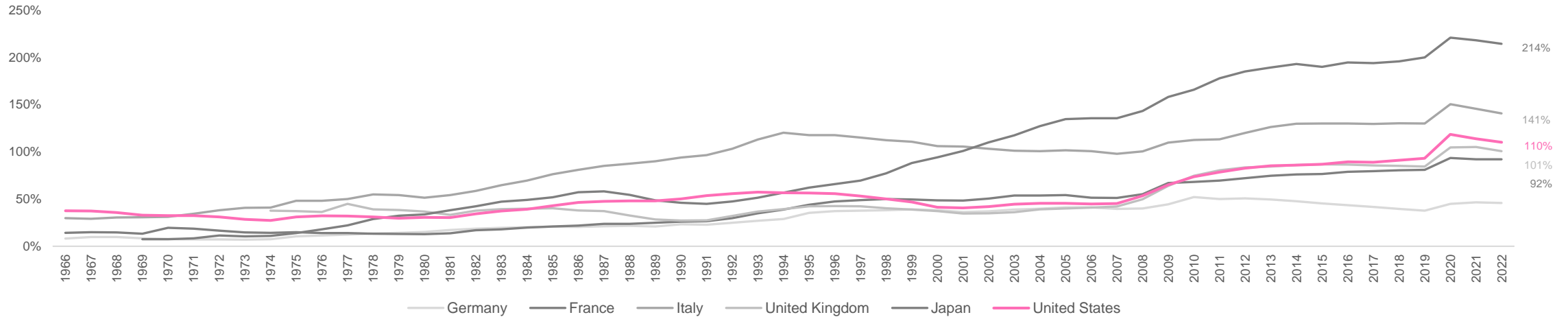
Expansion > 50 > Contraction		Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
<b>2023</b>													
Euro Zone		50.0	52.0	53.7	54.1	52.8	49.9	48.6	46.7	47.2	46.5	47.6	47.6
Germany		50.0	50.7	52.6	54.2	53.9	50.6	48.5	44.6	46.4	45.9	47.8	47.4
France		49.0	51.7	52.7	52.4	51.2	47.2	46.6	46.0	44.1	44.6	44.6	44.8
Spain		52.0	55.7	58.2	56.3	55.2	52.6	51.7	48.6	50.1	50.0	49.8	50.4
Italy		51.0	52.2	55.2	55.3	52.0	49.7	48.9	48.2	49.2	47.0	48.1	48.6

Source: Reuters



# High global debt levels and geopolitical tensions increase the possibility of financial black swan events in 2024

Chart 1.4: Central Government Debt (% of GDP)



Debt levels in most major economies remain at elevated levels, which leaves smaller buffers to absorb the continuous supply chain and geopolitical shocks that we have seen over the past few years.

**FT FINANCIAL TIMES**

**Why US strikes in Middle East are rekindling fears over oil and inflation**

Houthi attacks have sharply increased global shipping costs, raising China to Northern Europe container rates from \$1,500 to over \$4,000. While such disruptions typically have a limited

**REUTERS**

**Tesla, Volvo Car pause output as Red Sea shipping crisis deepens.**

Tesla and Volvo Car suspend production in Europe due to Red Sea shipping disruptions from U.S. and UK strikes on Yemen, raising concerns about global trade disruptions through the crucial Suez Canal.

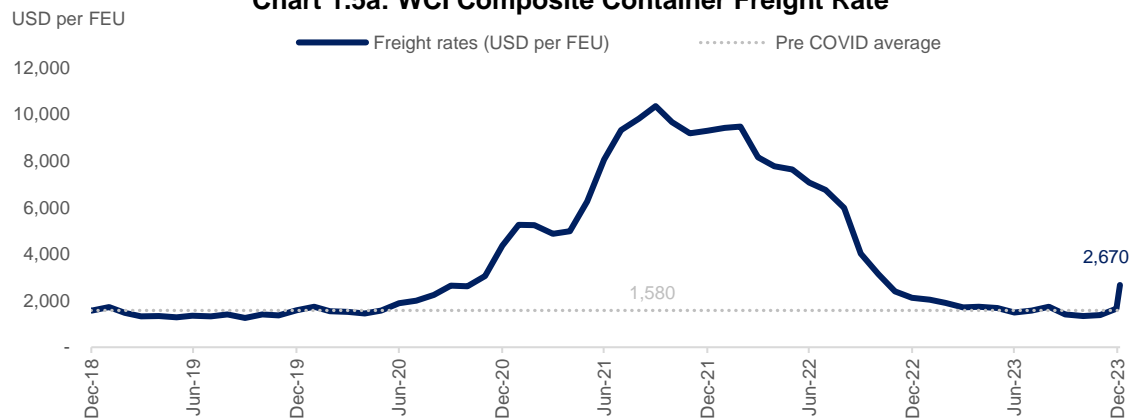
**NBC NEWS**

**Why war with China over Taiwan could ruin the global economy**

A military conflict over Taiwan would set the global economy back decades because of the crippling disruption to the supply chain of crucial semiconductors, according to the head of one of the island's leading makers of microchips.

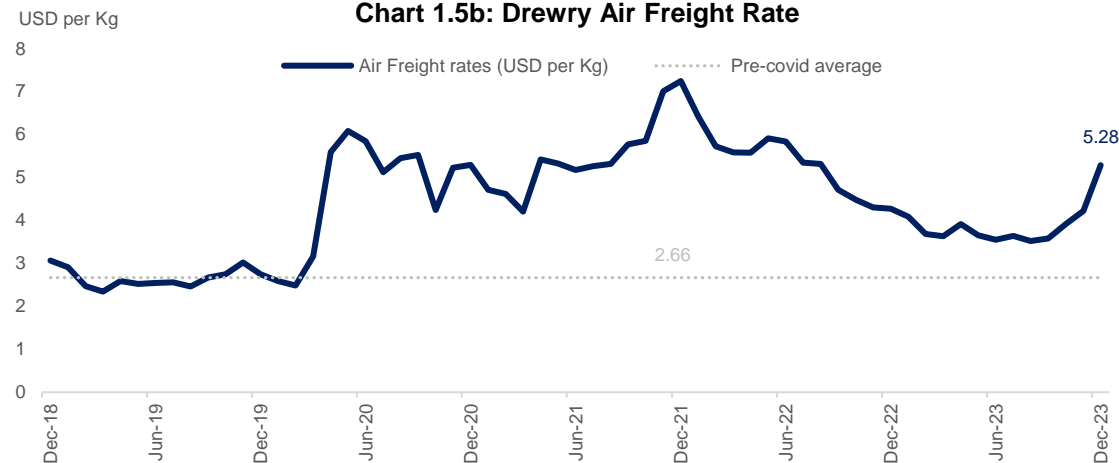
# Red sea supply chain disruption is the major known unknown in the current year


**Chart 1.5a: WCI Composite Container Freight Rate**



Source: Bloomberg

**Chart 1.5b: Drewry Air Freight Rate**





**Red Sea attacks already bigger issue for supply chain than pandemic**

A leading ocean supply chain advisory firm is warning that the disruptions to shipping from the Houthi rebel attacks in the Red Sea are already more damaging to the supply chain impact than the early Covid-19 pandemic. The vessel capacity drop is the second largest in recent years.



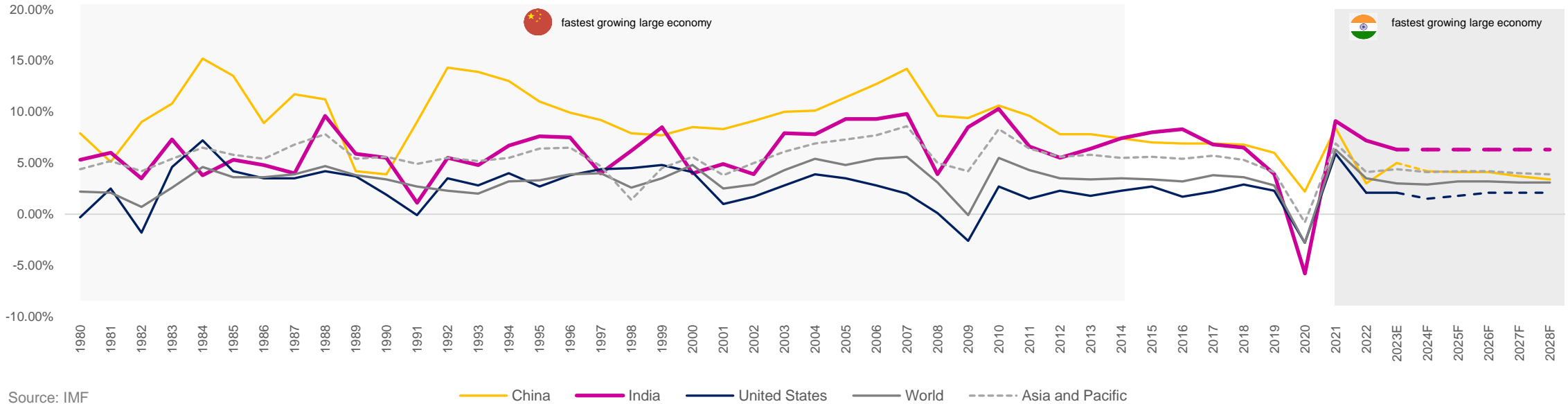

**Sri Lanka's Colombo port sees jump in traffic amid Red Sea tensions**

Sri Lanka's Colombo port has experienced a significant surge in container traffic as ships, avoiding tensions in the Red Sea caused by Houthi rebel attacks, find it a convenient transit point. The port's strategic location allows easy access to the Middle East,

The situation in the Red Sea and the wider Middle East region is a significant unknown in the current year. So far, the Red Sea shipping disruptions have played out advantageously to Sri Lanka as shipping lines have diverted more transshipment volumes to the Colombo Port as major shipping lines have rerouted their services to circumnavigate the impacted region. However, freight rates have escalated and is likely to impact all exporters from the Asian region shipping to Europe in particular. Sustained higher shipping costs could negatively impact prices and consumer sentiment in developed markets, adversely affecting the outlook for global trade.

# India's emergence as the world's fastest growing large economy presents a multi decade tailwind for Sri Lanka

Chart 1.6: IMF GDP Projections



Source: IMF

Global GDP growth is expected to remain low in 2024 despite signs of the end of monetary tightening cycles and declining inflation. Whilst advanced economies are generally expected to record low growth in 2024 on account of the lagged effects of tightening policies imposed in 2023, emerging markets and developing economies are expected to witness moderate growth. Whilst the US economy is largely expected to avoid a recession in 2024, the Eurozone will likely experience recessionary or stagnant economic conditions.

China, after a run of over 30 years as the fastest growing large economy in the world is anticipated to adjust to a lower growth trajectory on account of demographic and structural issues. India which has merged as the fastest growing large economy in the world is one of the few bright spots in the economic landscape in 2024 and going forward. India's accelerating growth trajectory will present a potential multi decade tailwind for Sri Lanka. Whilst this will present a low hanging opportunity for certain sectors of the Sri Lankan economy, such as hospitality and ports & logistics, the country will need to do more to integrate its other industries with India's supply chains.



# Sri Lankan Economy

The economy has stabilised at a lower equilibrium and the recovery remains fragile.

# The economy has stabilised at a lower level and returned to a positive growth trajectory

Chart 2.1a: Sri Lanka Nominal GDP (USD Bn)

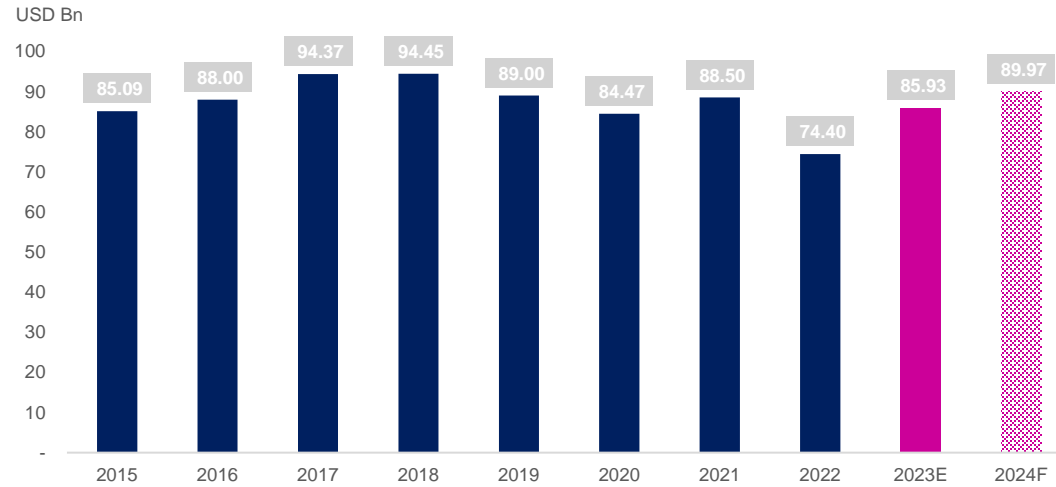
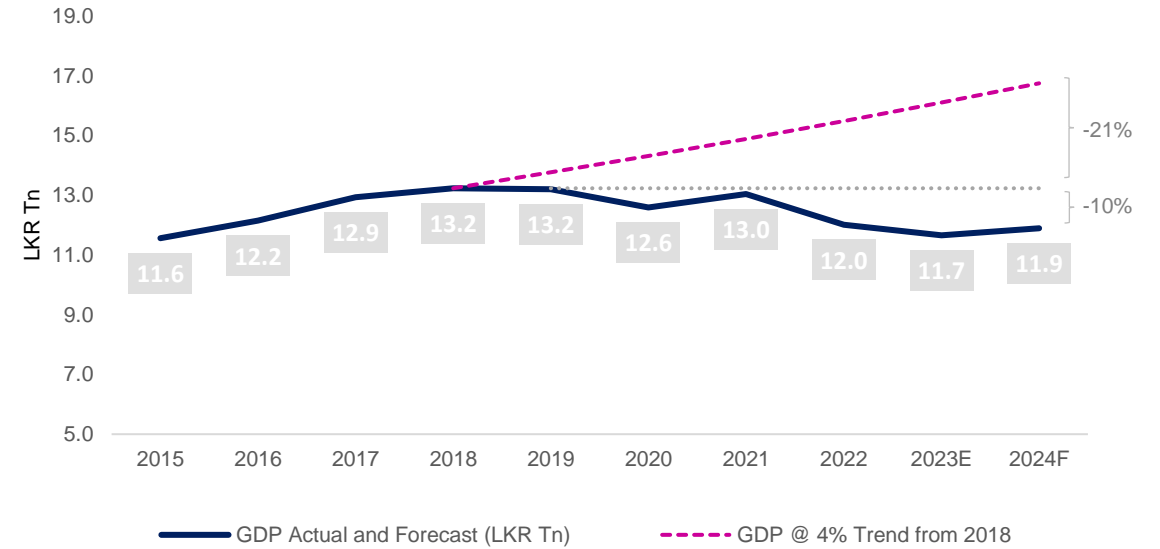
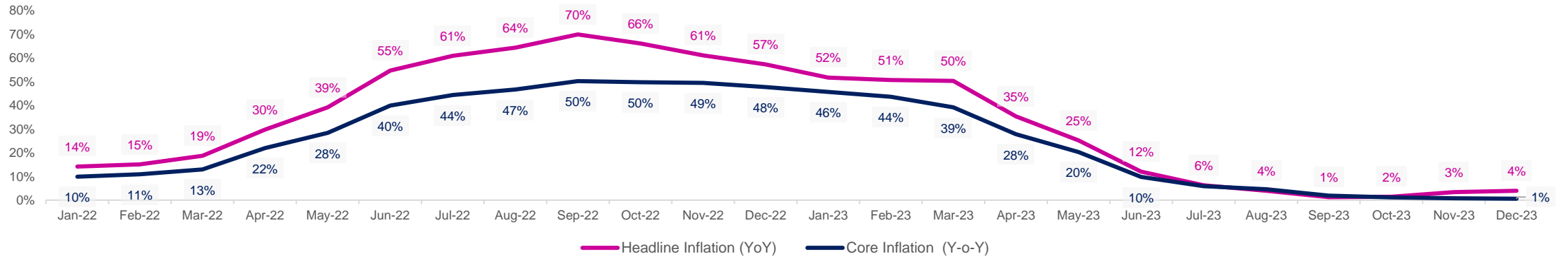


Chart 2.1b: Sri Lanka Real GDP

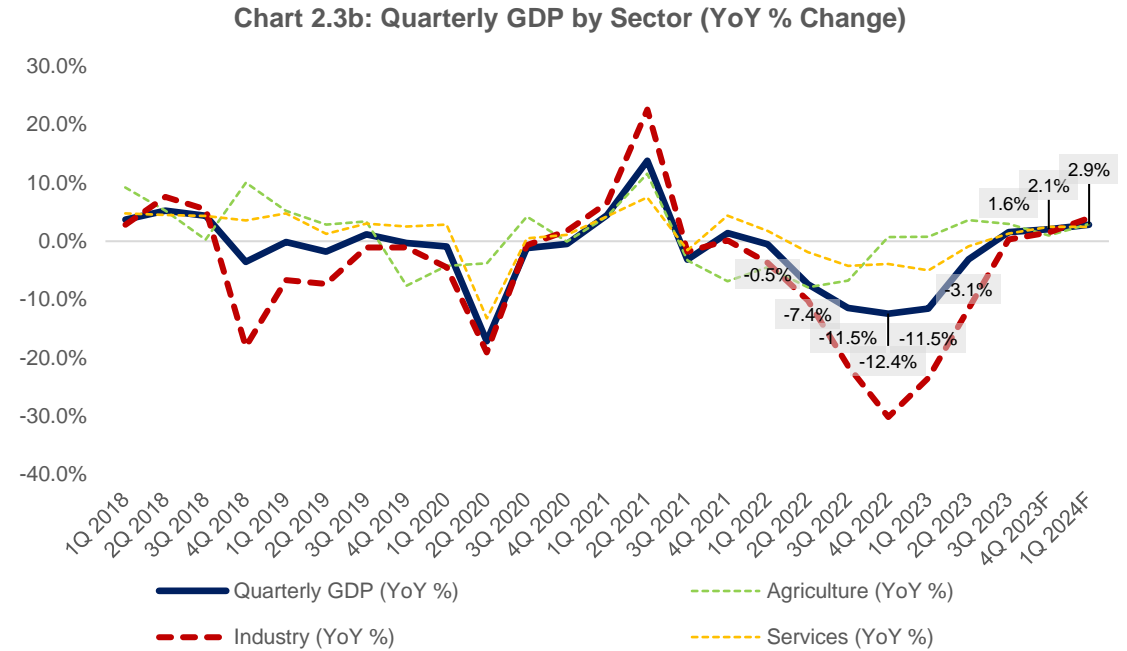
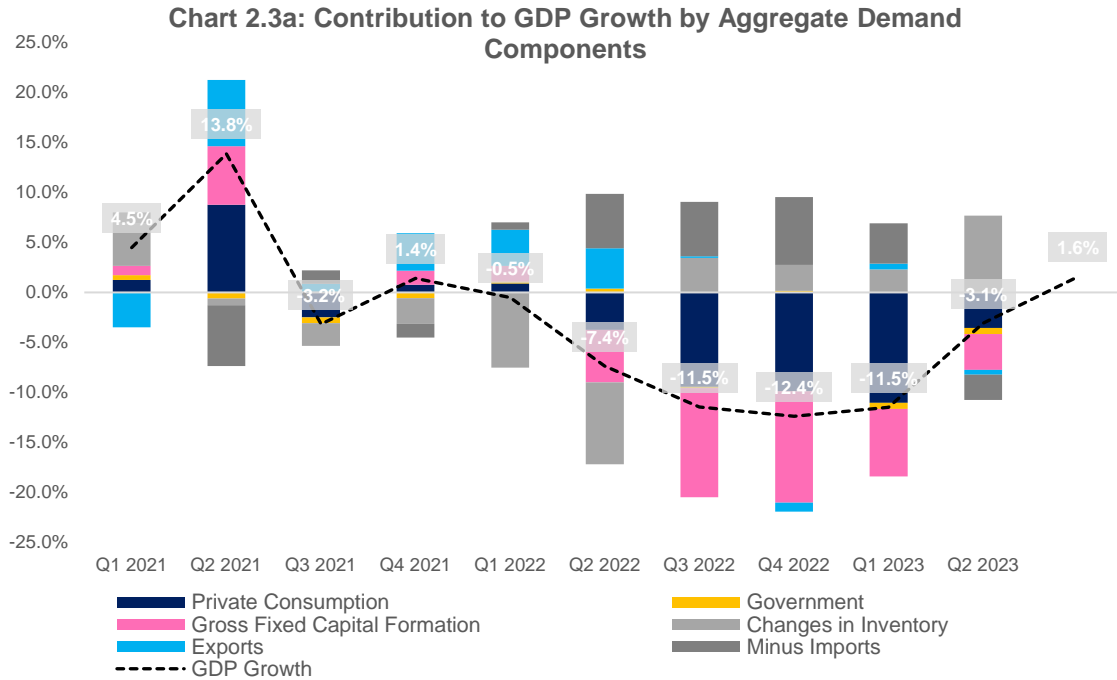


Sri Lanka’s nominal GDP in USD basis is expected to recover to c. USD 86 Bn in 2023 from a trough of USD 74 Bn in 2022. Nominal GDP is expected to increase to c. USD 90 Bn in the current year and further recover close to its previous peak of c. USD 94 Bn by 2025. However, real GDP is >10% below pre-crisis levels as at end 2023 with further significant output gaps based on the economy’s pre-covid trendline. Real GDP growth is supported by strong disinflation in 2023. We expect that although inflation would tick up with the higher VAT rates introduced from January 2024, it would fall back within target levels by the end of the year.

Chart 2.2: Sri Lanka Inflation (CCPI)



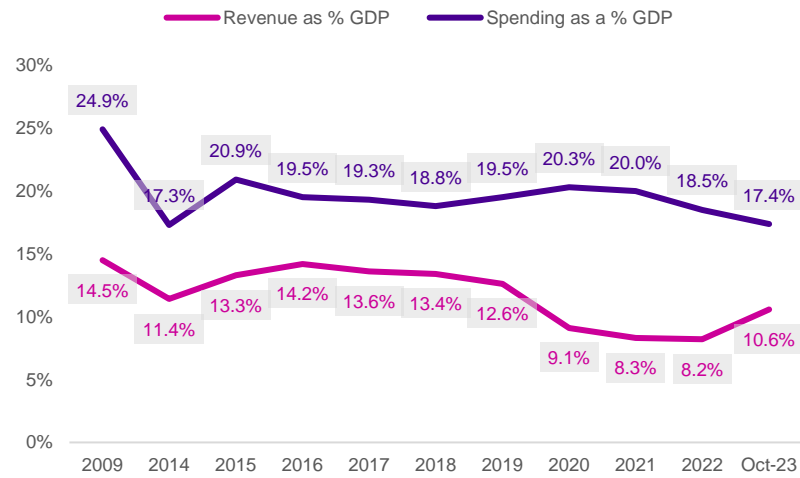
# Recovery seems to be broad-based with most sectors excl. construction now in expansionary territory



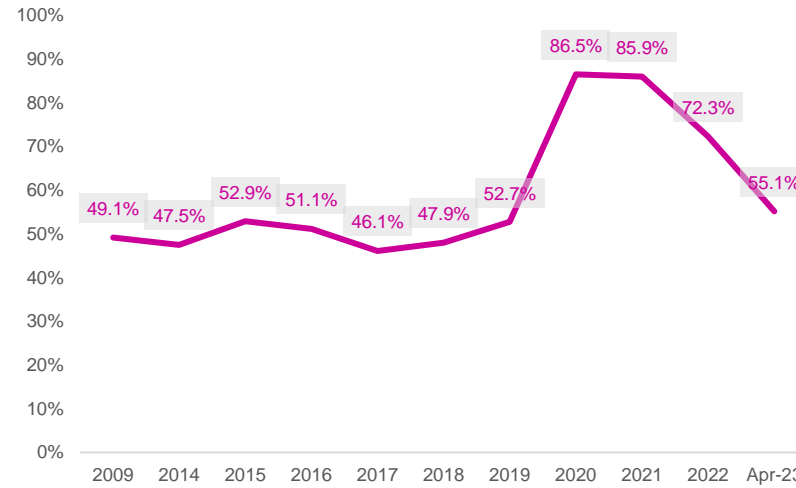
After six consecutive quarters of negative growth, Sri Lanka's real GDP posted a positive YoY growth of 1.6% in 3Q 2023. The recovery is broad-based with all sectors of the economy including the industrial sector (excluding the construction sub-sector) returning to positive growth territory. Contribution to growth based on aggregate demand components show an improving trend with smaller contractions in private consumption and investment in 3Q 2023, which is expected to continue in the coming quarters. Based on the significant negative growth in 1H 2023, the annual GDP growth number for 2023 is expected to be around -3%. We expect that GDP growth in the coming quarters will continue to gather strength and annual real GDP growth for 2024 will be in the range of 2-3%.

# However, the fiscal effort will be the main challenge that can potentially derail the recovery...

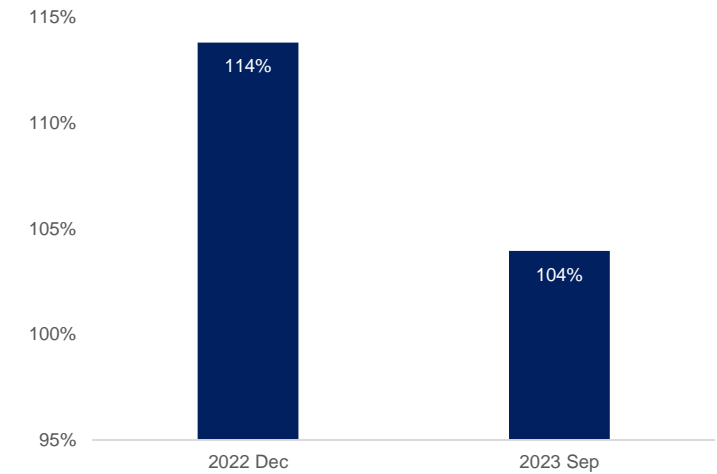
### 2.4a: Revenue and Spending as a % GDP



### 2.4b: Salaries & Pensions (% share of taxes)

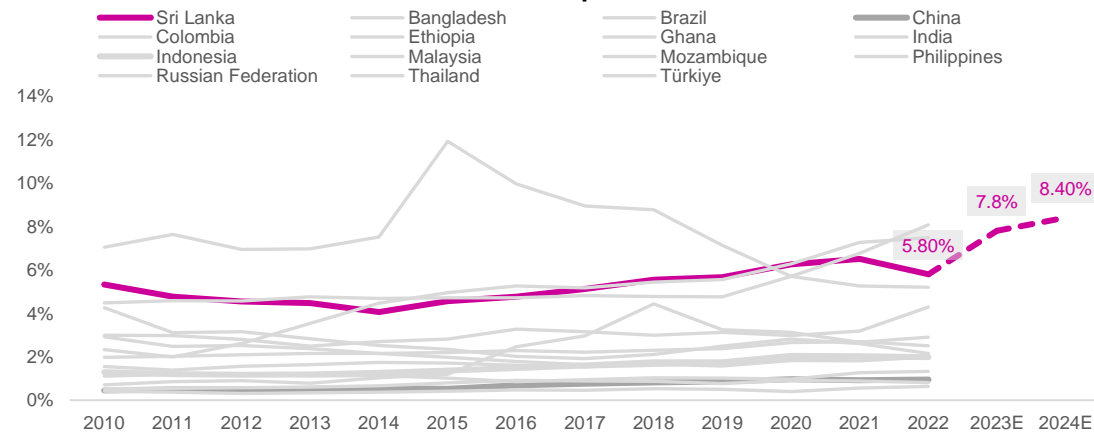


### 2.4c: Debt to GDP %

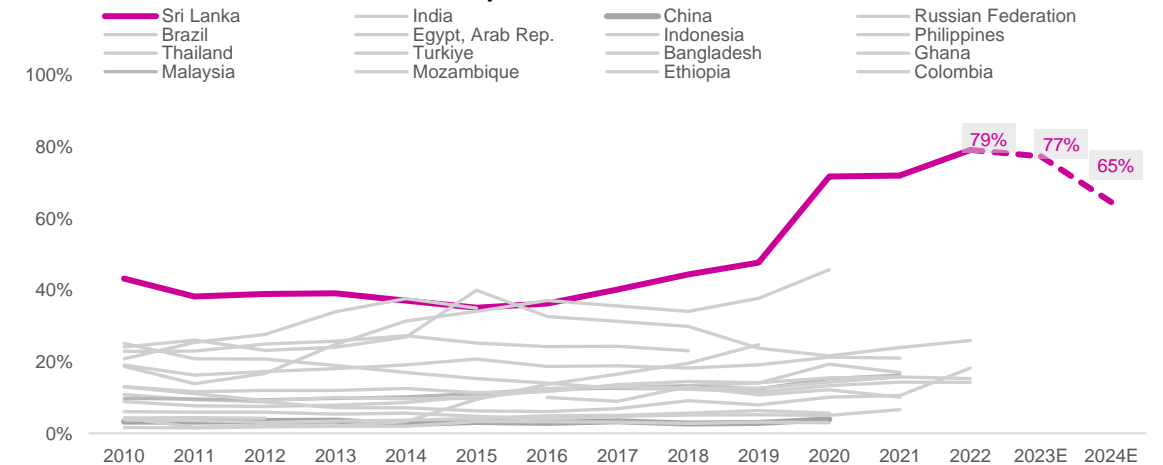


The revenue based fiscal consolidation effort since end 2022 has started to yield visible results, leading to narrower deficits and stabilization in the debt levels supported by a primary balance surplus in 2023 and favorable impact of currency appreciation. Although we're seeing significant improvements on the fiscal front, the fiscal situation is still very fragile given low revenue base, high debt stock and high interest burden. We expect interest cost/ GDP which is among the highest in the world to further increase in 2024 to c. 8% before gradually declining thereafter if fiscal targets are met.

### Chart 2.5a: Interest Expenses as a % GDP

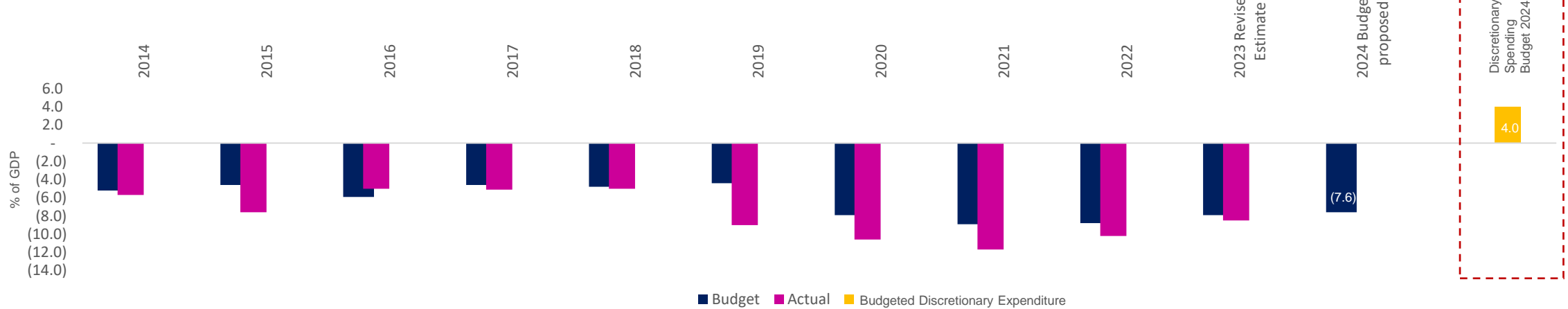


### Chart 2.5b: Interest Expense as a % of Government Revenue



# Sri Lanka's 2023 primary balance surplus a significant achievement under very difficult conditions

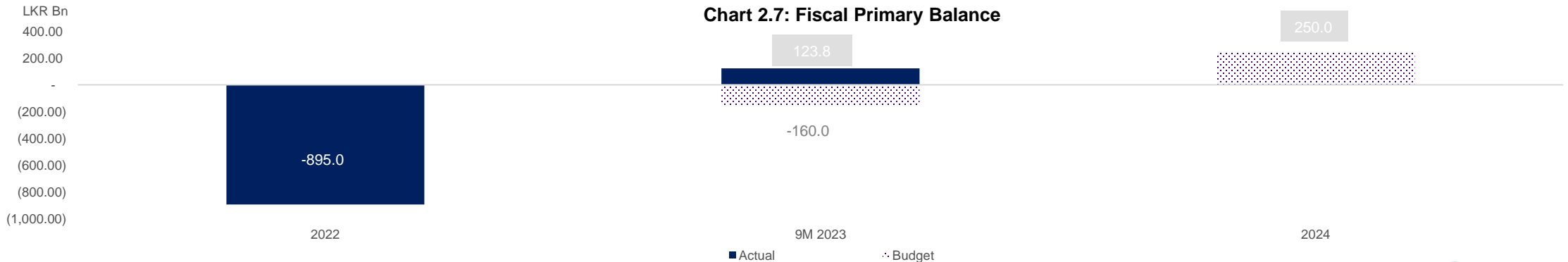
Chart 2.6: Fiscal Deficits



Sri Lanka's budgeting has historically lacked credibility based on budgeted fiscal deficits compared with actual outcomes. Since 2014, actual deficits have exceeded budgeted deficits by an average **c. -1.58% of GDP** per year, excluding the post pandemic period. When election years are excluded, actual deficits exceed budgeted deficits by an average of **c. -0.3% of GDP** per year, indicating increased fiscal slippage during election cycles. Sri Lanka's governments have historically reduced discretionary capex spending compared to budgeted levels to compensate for revenue shortfalls and keep the budget deficits closer to targeted levels.

Whilst in the past such fiscal slippage might have been more easily accommodated with higher domestic and external borrowings, with the current debt crisis there is significantly less fiscal space to absorb any slippage. **In 2023 the government commendably achieved a primary balance surplus (critical for debt sustainability) ahead of expectations and despite revenue shortfalls by controlling expenditure. We would expect similar restraint on discretionary expenditure in 2024 in the event of revenue shortfalls.**

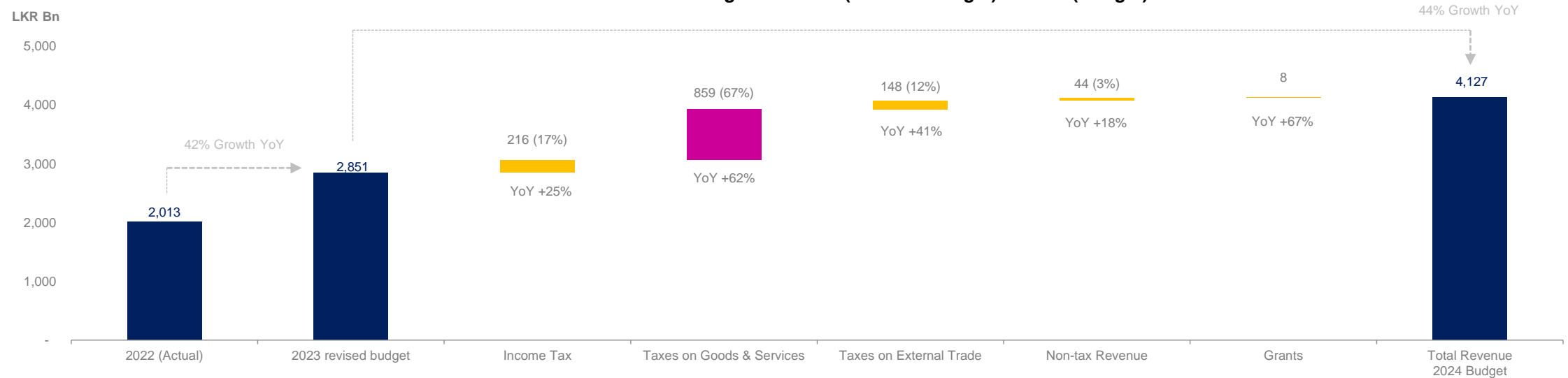
Chart 2.7: Fiscal Primary Balance



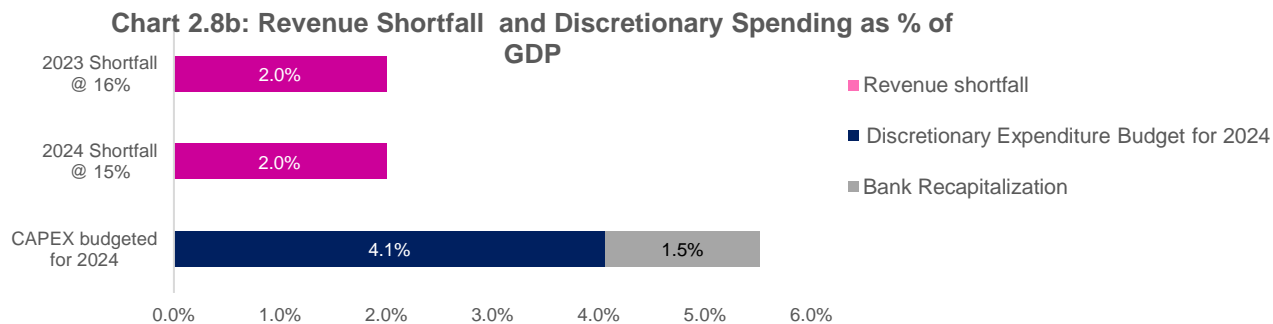


# Potential revenue shortfalls in 2024 would be manageable, if it's within the same range as before

Chart 2.8a: Revenue Bridge from 2023 (Revised Budget) to 2024 (Budget)



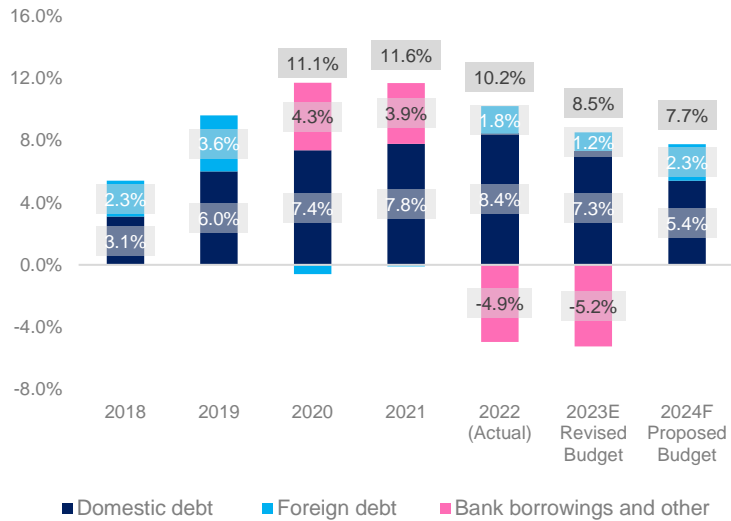
LKR Bn	2022	2023 Budget	Target Revenue Growth % YoY	2023 Revised Budget	Est. Actual Revenue Growth % YoY	Est. Revenue Shortfall in 2023 %
Total Revenue (incl Grants)	2,013	3,415	70%	2,851	> 42%	< 16.5%



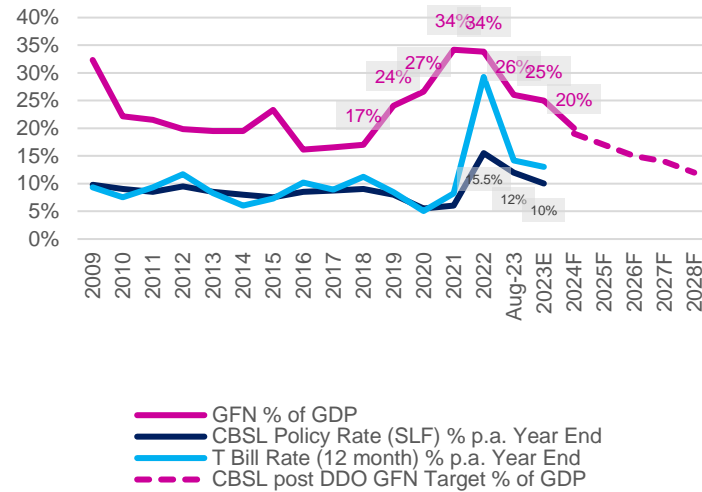
In 2023, the government budgeted revenue of LKR 3.4 Tn. As per preliminary numbers, the revenue raised in 2023 may be around LKR 3 Tn (slightly better than in the earlier revised budget of LKR 2.8 Tn). This would indicate a revenue shortfall of 12-16% (c. 2% of GDP). The budget for 2024 forecasts a revenue of LKR 4.1 Tn, mainly from higher VAT collections based on enhanced rates and lower thresholds/ exemptions. Assuming a 15% revenue shortfall in 2024, this would also equate to c. 2% of GDP. The discretionary expenditure budget of 4.1% of GDP for 2024 leaves some space to absorb potential revenue shortfalls to enable overall primary deficits targets to be met by curtailing capex expenditure.

# Lower deficit funding requirements should translate into improved liquidity and lower interest rates

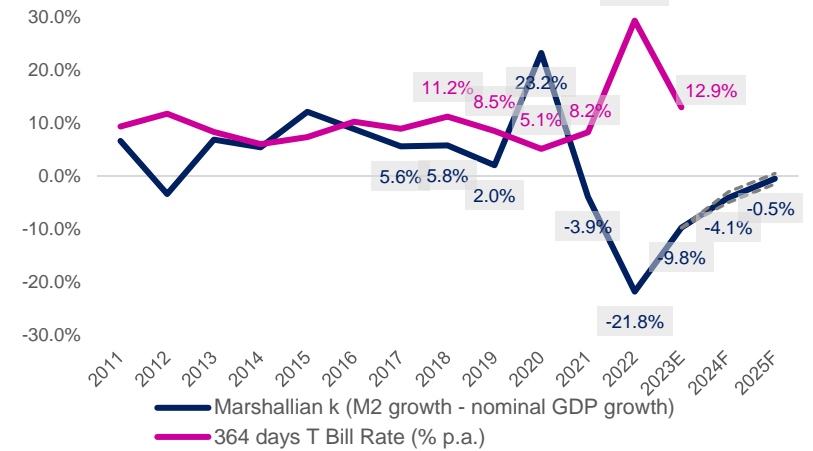
**Chart 2.9a: Deficit Financing (as % of GDP)**



**Chart 2.9b: Gross Financing Needs and Domestic Interest Rates**

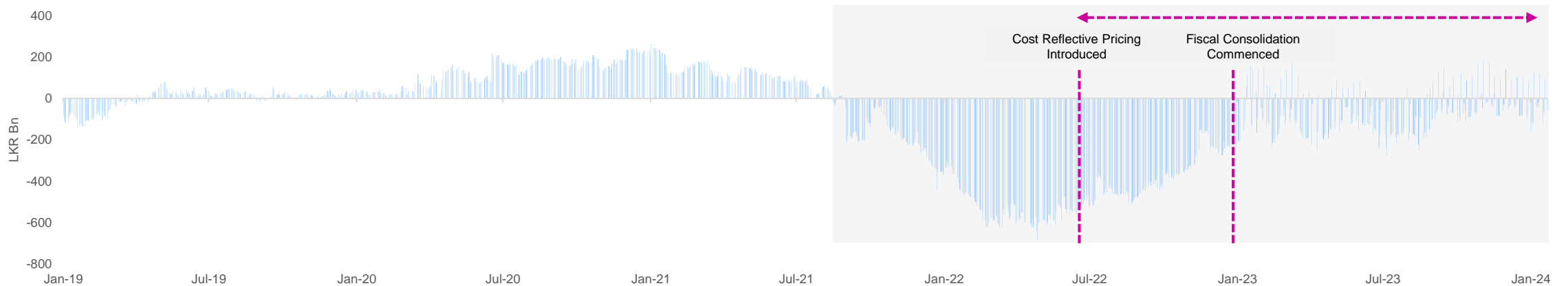


**Chart 2.9c: Marshallian k and Nominal Interest Rates**



Gradually improving fiscal dynamics and easing monetary policy cycle is reflected in measures of market liquidity and declining interest rates. If the projected GFN targets are achieved post the foreign debt restructuring and inflation stays within the targeted parameters, we would expect the domestic interest rate structure to shift downwards in the medium term compared to its historical levels in the pre-crisis period. Cost reflective pricing for fuel and electricity since mid 2022 has also contributed to reducing losses at state owned utilities and helped to improve market liquidity and alleviate financial stress on the banking sector.

**Chart 2.10: Overnight Liquidity**

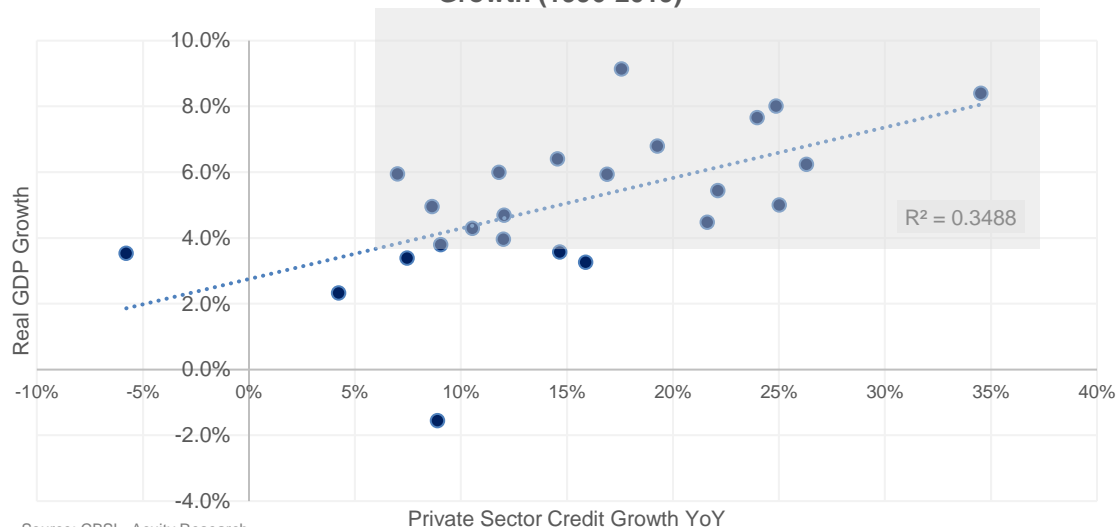


# Light DDO in 2023 exempted banks; more supportive of credit growth needed for recovery

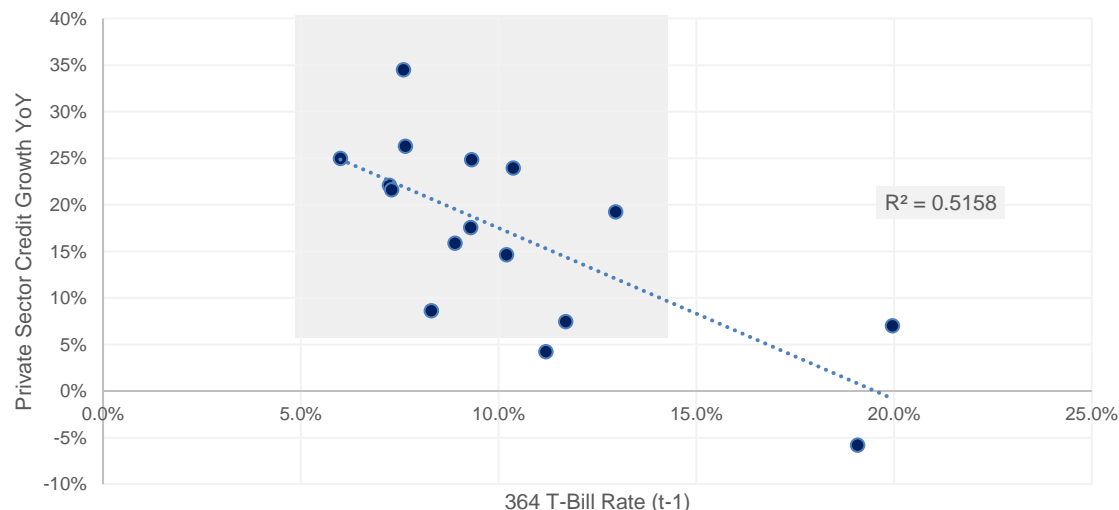
## Pros and Cons of a Light Domestic Debt Optimisation

✓	✗
Less risk of financial instability.	Less fiscal space/ buffer to meet medium term DSA targets.
Path of least resistance with fewer objections from the public/ opposition parties.	Greater reliance on foreign creditors to agree to debt relief to meet GFN/ DSA targets.
Potentially more growth friendly, higher probability of inducing credit growth if banks are less impacted by DDO.	Although CBSL policy rate is the primary tool impacting market interest rates, the less ambitious/ more gradual reduction in GFN/ GDP may keep the current high-cost interest rate structure at elevated levels for longer.
Market participants in the treasury bill/ bond market are more likely to continue to fund the government deficit. Market participants may be more reluctant to fund the government deficit after a deeper DDO treatment.	

**Chart 2.11a: GDP Growth and Private Sector Credit Growth (1996-2019)**



**Chart 2.11b: Private Sector Credit Growth and Lag of Interest Rate (2004-19)**



The lighter than expected DDO in 2023 which left the banking sector untouched will support an expansion in private sector credit growth, which has recorded negative growth over the last year as interest rates escalated and economic conditions deteriorated. In the past, private sector credit growth of min c. 7.5% per annum has been necessary to achieve positive economic growth, except in a few outlying years. Credit growth typically picks up with a 6 to 12 months lag from the commencement of a monetary policy easing cycle.

# We expect a further current account surplus in 2024, less pressure on the exchange rate

Table 2.1: Sri Lanka External Current Account

(USD Mn)	2022 Actual	IMF EFF Program Forecast 2023	Actual 3Q 2023	2024F
<b>Current Account</b>	<b>(1,453)</b>	<b>(1,184)</b>	<b>1,231</b>	<b>1,383</b>
<b>Balance on goods</b>	<b>(5,185)</b>	<b>(6,931)</b>	<b>(3,342)</b>	<b>(6,717)</b>
Credit (exports)	13,106	13,666	8,982	13,000
Debit (Imports)	(18,291)	(20,597)	(12,323)	(19,717)
Non-oil imports	-	(15,943)	(8,847)	(14,130)
Oil imports	-	(4,654)	(3,101)	(4,962)
Coal imports	-	n.a.	(375)	(625)
<b>Balance on Services</b>	<b>2,109</b>	<b>3,507</b>	<b>2,434</b>	<b>5,100</b>
Credit (exports)	3,062	5,511	3,690	7,100
Of which: Tourism	1,136		1,456	3,800
Of which: Others	1,926		2,234	3,300
Debit (Imports)	(953)	(2,004)	(1,256)	(2,000)
<b>Primary income, net</b>	<b>(1,874)</b>	<b>(1,993)</b>	<b>(1,921)</b>	<b>(3,000)</b>
<b>Secondary income, net</b>	<b>3,496</b>	<b>4,233</b>	<b>4,059</b>	<b>6,000</b>
Of which: workers' remittances (net)	3,493	4,223	4,056	6,000

Source: CBSL, IMF, Acuity Research

Most of the import contraction in 2022-23 came from a reduction in investment goods imports. Investment goods imports are a function of private sector credit growth. The time lag for recovery in credit growth allows for tourism/ remittances to normalise and generate the USD inflows required to finance higher imports, as evidenced in 2023 which saw a record external current account surplus. Coupled with continued strong performance from other services exports, we expect a continuation of external current account surpluses in 2024 with less pressure on the Fx rate despite the gradual relaxation of the import restrictions brought in during the crisis.

Chart 2.12a: Imports (USD Mn) Pre-COVID vs 2022

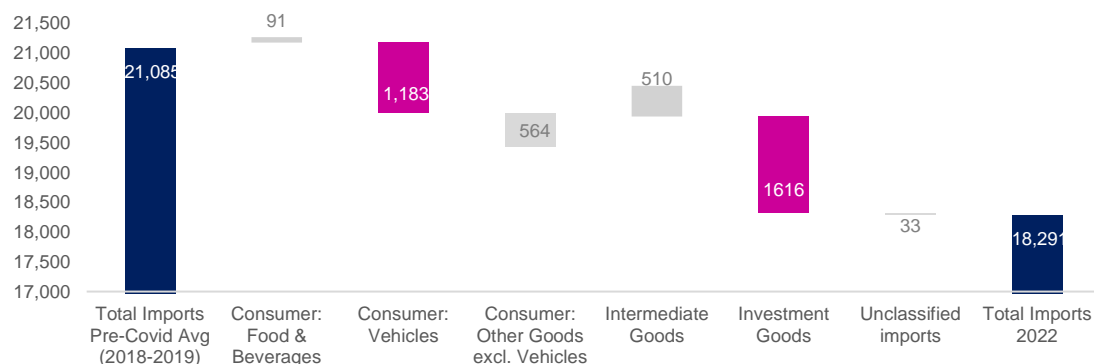
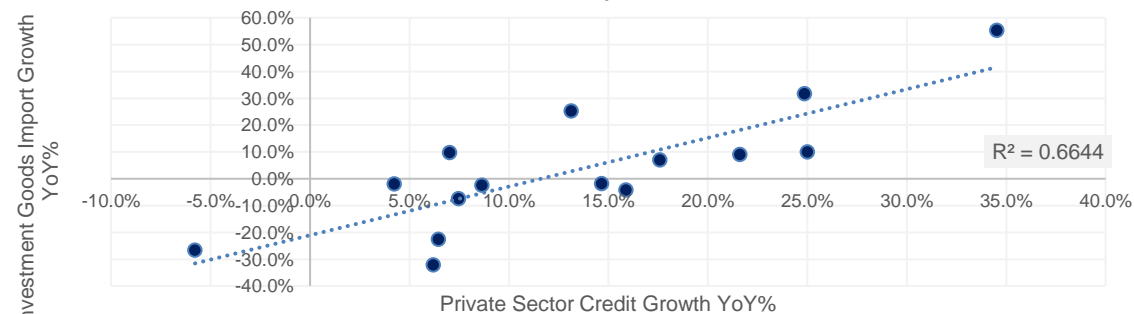


Chart 2.12b: Credit Growth & Investment Goods Import Growth (2008-2022)



# Remittances & tourism earnings will support imports/ reserve accumulation without undue pressure on the BoP

Chart 2.13a: Workers Remittances (USD Mn)

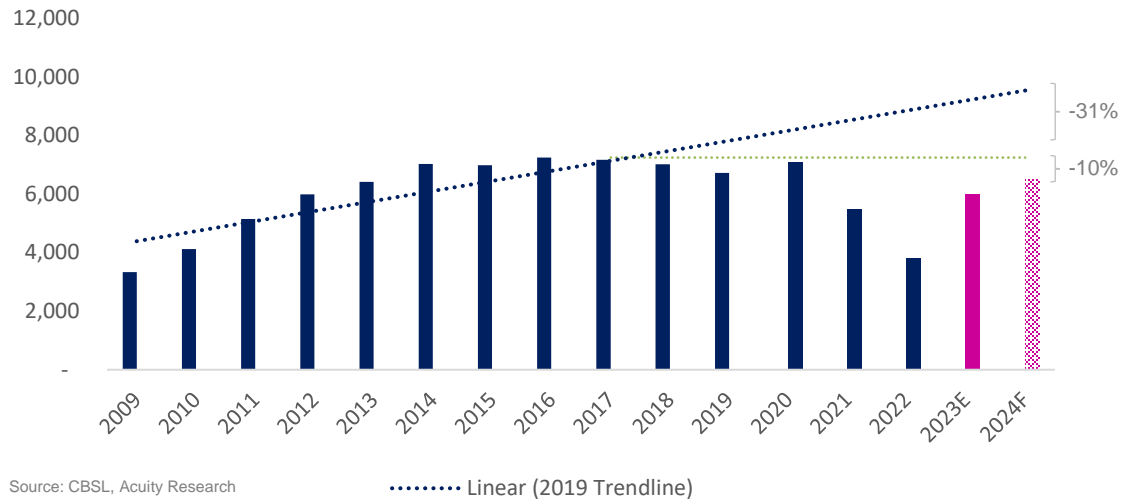
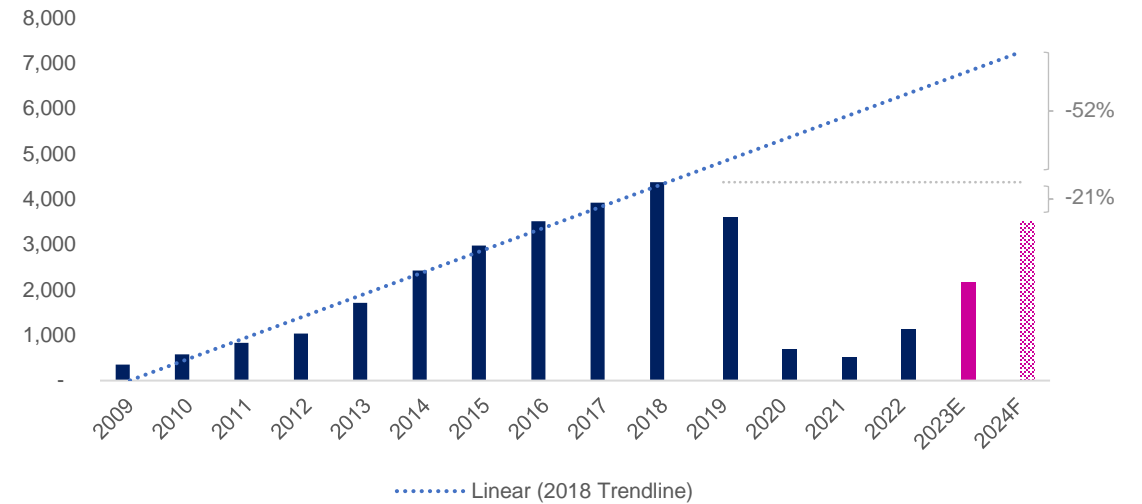
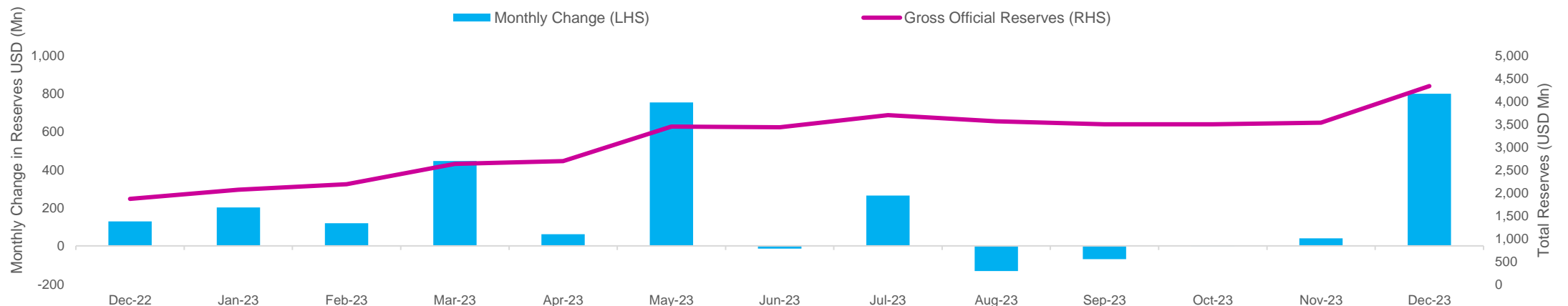


Chart 2.13b: Tourism Earnings (USD Mn)



Reserve accumulation by CBSL slowed down in 2H 2023 as commercial banks covered their open positions through purchase of USD after the DDO which saw the SLDB's converted into LKR bonds. With the comfortable external current account position, we expect that CBSL will have an easier path for reserve accumulation in the current year.

Chart 2.14: Central Bank of Sri Lanka Reserve Accumulation (USD Mn)



# If the country stays on the current path, we envisage a more stable outlook for Fx in the near term

Chart 2.15a: Industrial Exports (USD Mn)

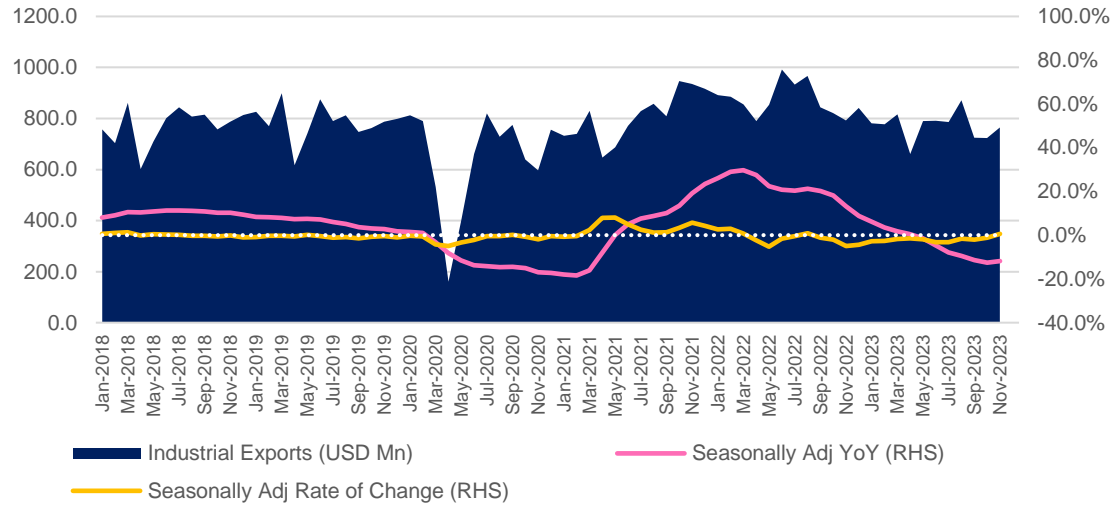
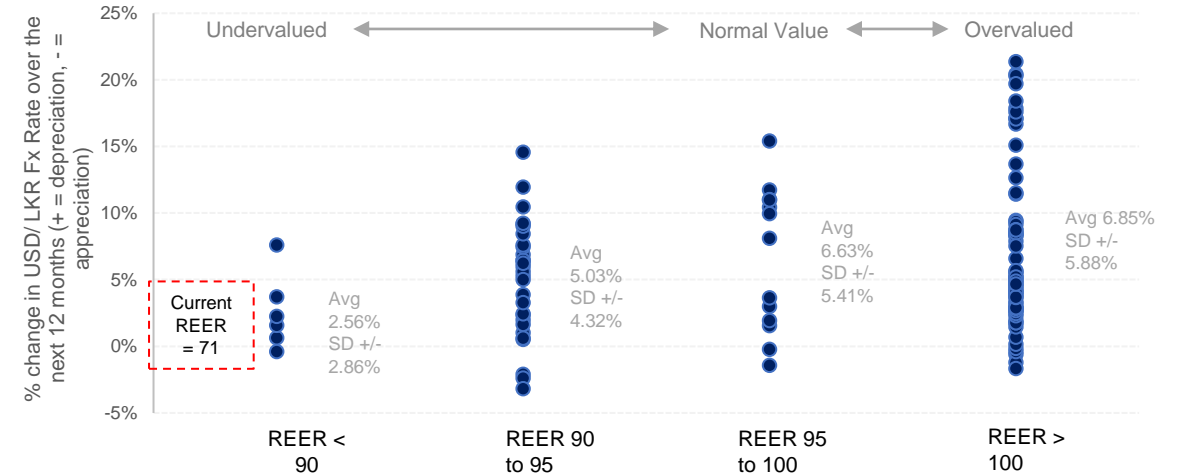


Chart 2.15b: Real Effective Exchange Rate (REER) (Jan 2011 to Dec 2020) and next 12 months % change in Fx Rate



Source: CBSL, Acuity Research

Merchandise exports show a mild recovering trend in the last few months of 2023, and we expect a gradual improvement in 2024. If the country remains on the current economic path, lower internal imbalances through fiscal consolidation coupled with more prudent/ independent monetary policy which further reduces pressure on the external current account, would anchor annual exchange rate depreciation inline with or lower than its pre-crisis historical trend in the near term. In the longer term, the external debt restructuring will determine possible external funding gaps once the interest in arrears and capital repayments commence on the restructured external debt.


# SOE and structural reforms; good things come to those who wait?

SoE restructure / reforms	Status
Parliamentary approval of the <b>new Central Banking Act</b> .	✓
Cabinet approval of a <b>comprehensive strategy to restructure the balance sheets of key SOEs</b> .	✓
Introduction of a <b>property tax, a gift and an inheritance tax</b> .	✓
<b>Call for RFPs</b> to restructure the non-core SOEs such as SLT and LHCL.	✓
Introduction of reforms making the Minister of Power and Energy responsible for <b>implementing cost-recovery based fuel (CPC) and electricity price (CEB) adjustments</b> .	✓
Introduction of <b>new laws governing SOEs</b> and <b>finalizing investors</b> via EOI process for the selected 7 SOEs.	✗
<b>Unbundling</b> of CEB and other state-owned utilities	✗
Enhanced <b>Fiscal Responsibility</b> Laws/ Parliament <b>Budget Office</b>	✗



**Regulations for SOE restructuring by early '24**

SoE policy was drafted and subsequently approved by the Cabinet, and requests for EOIs have been published for 05 of the 07 entities. In January, the remaining 02 will be published. Proposals have been received for 03 of the 05 entities. Bidders have been shortlisted for the RFP.



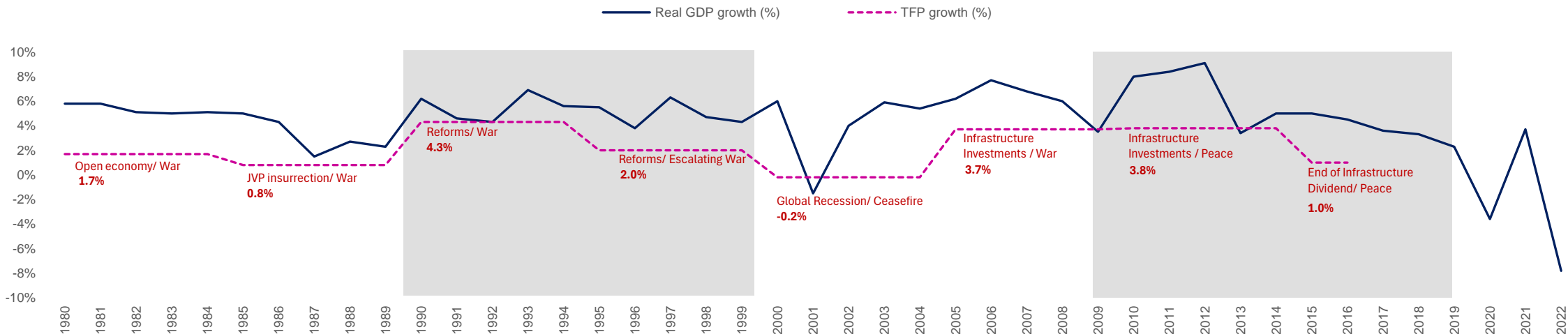
**Sri Lanka Telecom, Sri Lankan Airlines bid deadlines extended**

The deadline to submit expressions of interest (EOI) for Sri Lanka Telecom and Sri Lankan Airlines have been extended on investor requests to January 12, 2024 for SLT and January 09, 2024 for Sri Lankan Airlines.

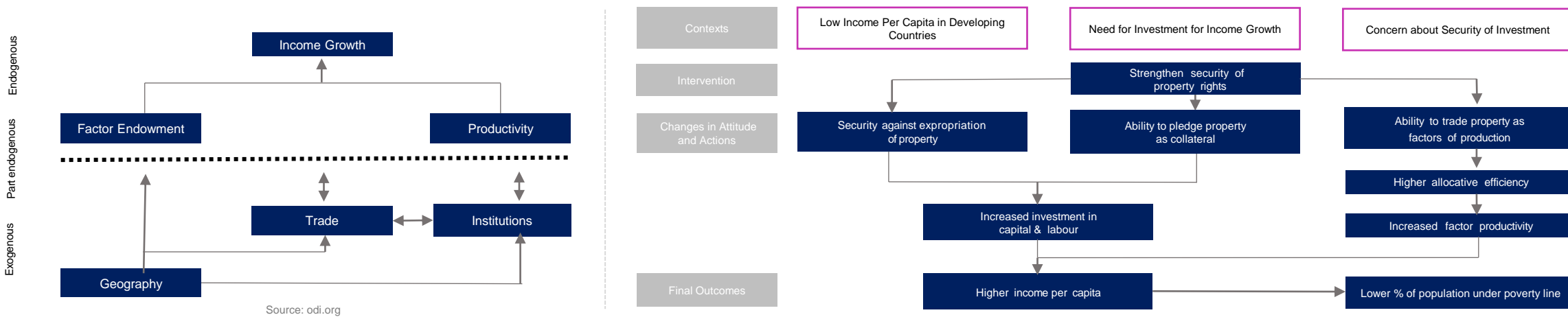
Although we have seen some tangible progress on reforms in 2023, much remains to be done especially in relation to unbundling/ privatization of SOE's and reforms to ensure fiscal responsibility. Critical reforms of SOE's including unbundling of state-owned utilities need to continue to remove structural obstacles to faster economic growth by removing inefficiencies and minimizing potential future losses which would require further budgetary allocations from the government and/ or financing from the state-owned banks. A key risk factor is that the current reform agenda will be derailed in the context of national elections due in 2024.

# Structural reform process is necessary to sustainably grow out of the debt crisis in the longer term

Chart 2.16: Real GDP Growth and Total Factor Productivity Growth %



The existence of significant output gaps will allow the economy to recover in the short term to pre-crisis levels without much difficulty if macroeconomic stability is maintained. However, medium to long term sustainable growth will largely depend on reforms to address structural weaknesses and enhance growth enabling factors. Total factor productivity growth is required for long term prosperity. It can be seen above that both real GDP growth and total factor productivity growth declined in the post-war period once the temporary stimulus from large debt funded infrastructure projects ended. In addition to fiscal and SOE reforms, the proposal to grant land rights to farmers and urban dwellers comprises a key structural reform which has potential to unlock very substantial amounts of dead capital to boost the economy.





***Ghana's recent debt deal with official creditors, though encouraging seems to treat debt sustainability as a flow problem rather than treating the stock of debt. Similar treatment in the case of Sri Lanka could result in debt/ GDP remaining at high levels which would leave only a small buffer to absorb future shocks or fiscal slippage.***



## **Ghana agrees debt restructuring deal with official creditors - finance ministry**

Ghana has secured a significant debt restructuring deal of \$5.4 billion with official creditors, including China and France, facilitating access to an additional \$600 million under its IMF bailout program.

- The **moratorium with official creditors** on debt payments runs through May 2026; the country expects to reach a deal with **Eurobond investors** to revamp its \$13 billion debt by the **end of March 2024**.
- Payments owed on **\$5.4 billion of bilateral obligations would be repaid in two tranches in 16 and 17 years time** i.e. debt payments from 2023 would be repaid in 2039 and 2040, while debt service due in 2024 would be repaid in 2040 and 2041.
- They also agreed to **exempt \$2.8 billion of bilateral obligations from debt-service payments** between 2023 and 2026

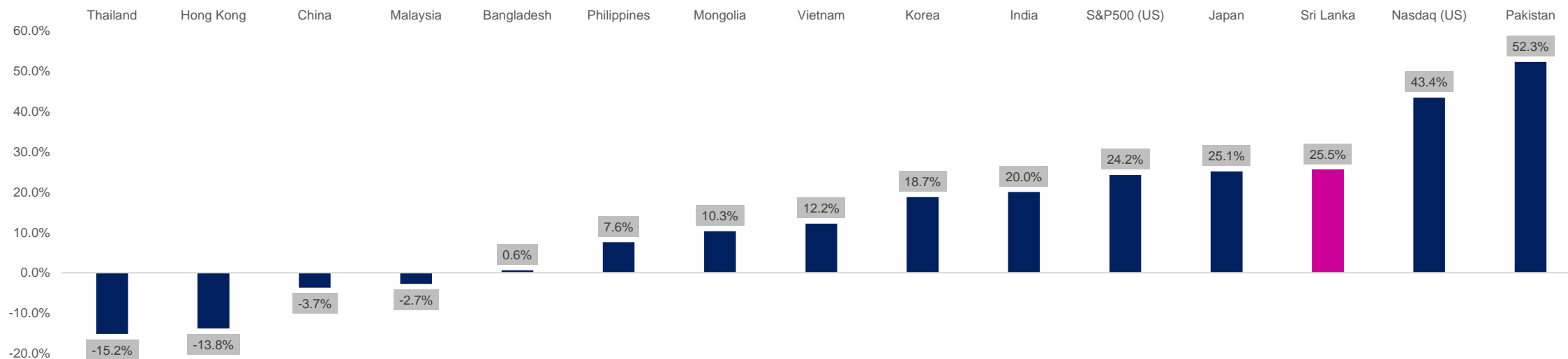
# Stock Market Outlook

Uncertainty likely to weigh heavily on sentiment; selected opportunities around fundamentally sound counters.

# CSE outperformed its peer set in 2023 with the economic turnaround and market rerating

In 2023 stock markets world over reported better results following on from 2022 which was one of the worst years on record for many equity markets. Sri Lanka's equity market performance was at the higher end of its peer set given the positive sentiments pursuant to the IMF's approval of EFF program for Sri Lanka in March 2023 and GoSL's announcement of favorable treatment for Treasury bonds held by banks and other market participants as part of the domestic debt restructuring in June 2023.

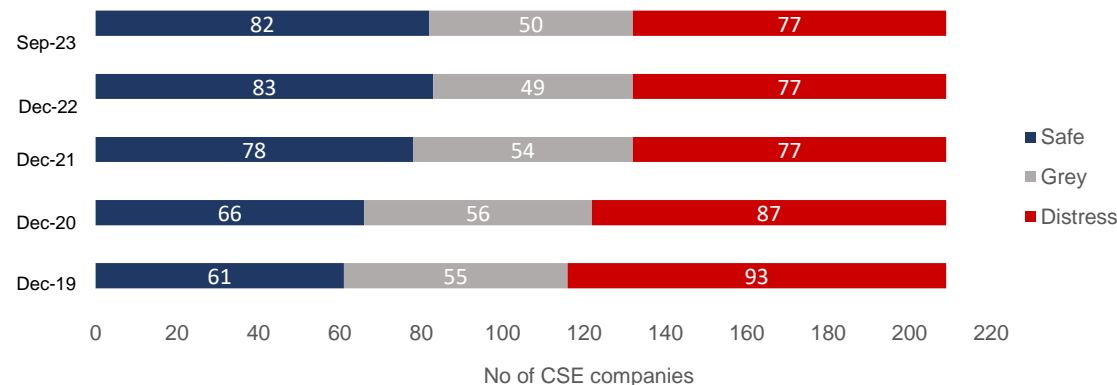
**Chart 3.1: Market Performance in 2023**



Source: Bloomberg

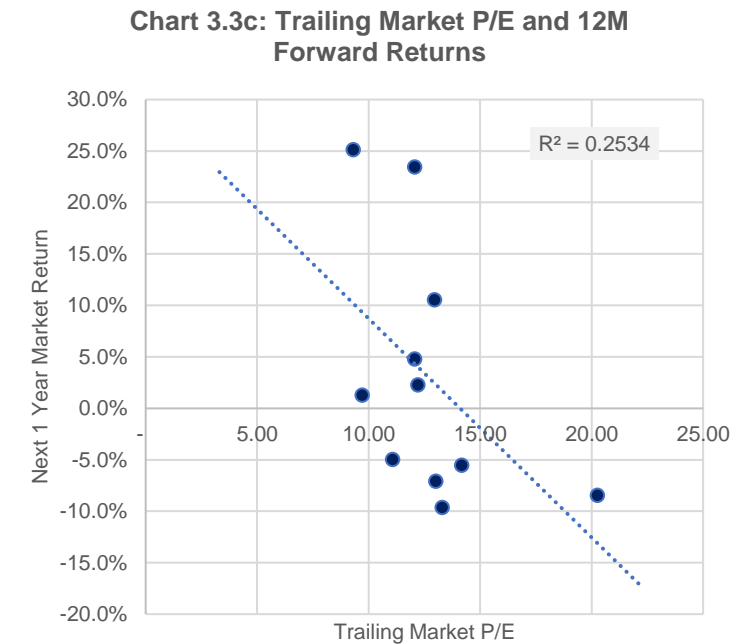
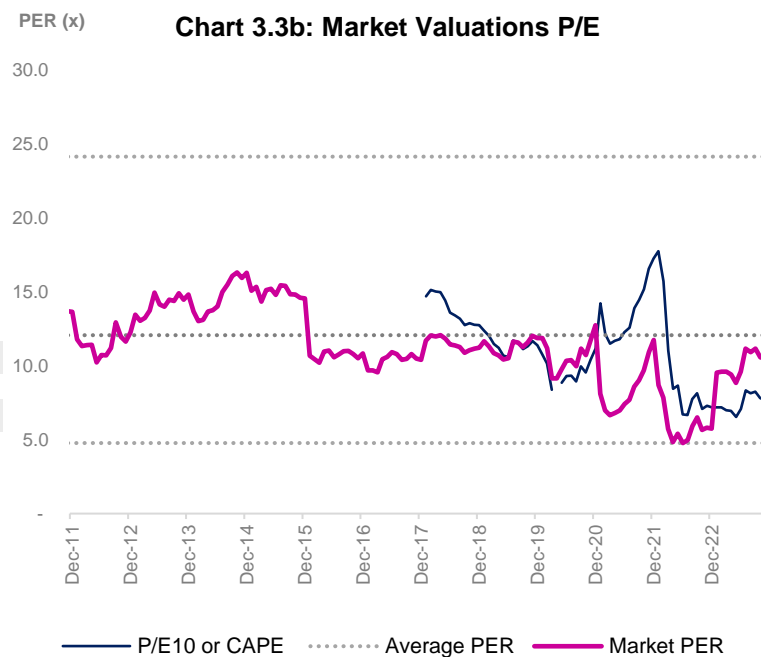
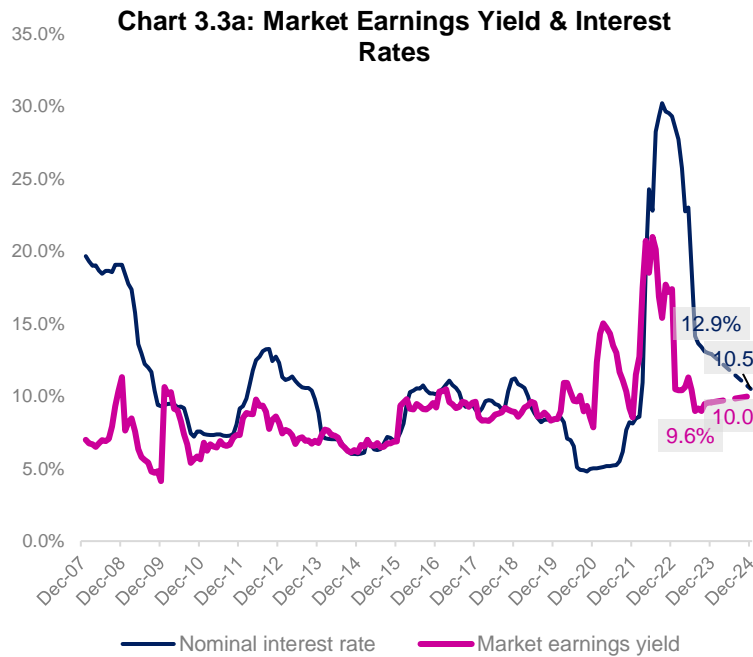
- Sri Lanka has historically had higher levels of leverage than developed markets; even some blue-chip counters highly geared by international standards.
- Improving measures of financial stress for nonfinancial companies reveals that corporates have deleveraged in the last few years.
- Financial stress will however remain elevated for a handful of entities which have very high levels of leverage relative to their cashflow generation in an elevated interest rate environment.

**Chart 3.2: Altman's Z Score of Non-Financial Companies**



# Market valuations have rerated closer to historical average; stocks picks in 2024 need to be compelling

Market valuations have closed the gap with historic average levels, and we believe that the rerating narrative is largely over. The earnings yield (the inverse of the P/E ratio) has closely tracked the prevailing market interest rates in the past. With interest rates expected to decline marginally during the year we expect the market P/E may also expand marginally to around 10-11x on a trailing basis by the end of 2024 representing an earnings yield of 9-10%. Historically, when market valuations on a trailing P/E basis are at c. 10x, which is around the current level, the next 12 months market returns (as measured by growth in ASPI) have averaged slightly below 10%. Given the limited scope for multiple expansion for the overall market in the current year, stock picks need to be compelling from a valuation and growth perspective.



Source: CSE, Acuity Research

# Earnings growth is mostly correlated with lag of monetary liquidity and nominal GDP growth

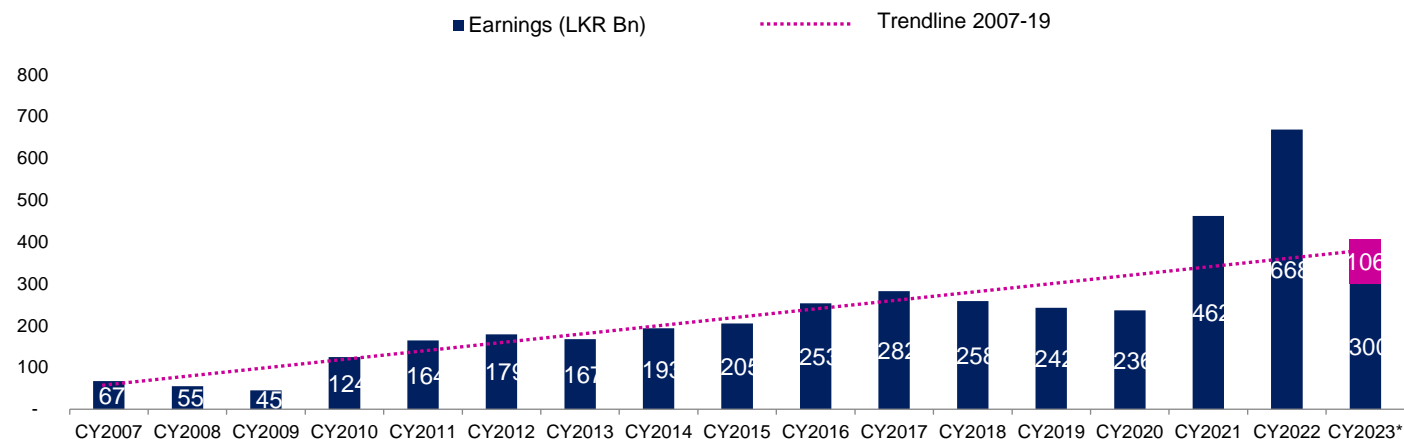
Correlation analysis of ASPI and CSE earnings growth shows the highest correlations with nominal GDP growth and with lagging financial liquidity. This is reflected in the chart below showing CSE earnings growth has closely followed its 2007 to 2019 trendline. Below trend earnings in 2019 and 2020 is explained by the Easter attack and the covid pandemic, respectively. Above trendline earnings in 2021 and 2022 despite subpar and negative GDP growth is explained by lower taxes in 2021, high nominal GDP growth in 2022 and the lagged effect of high financial liquidity in 2020 and 2021. The effect of tightening liquidity from 2H 2022 impacted earnings in 2023. The current monetary policy easing and pass through is expected to positively impact earnings in 2024 and beyond.

**Table 3.1: Correlation Matrix of ASPI Index/ Earnings Growth**

	<i>Growth in ASPI</i>	<i>Growth in CSE Earnings</i>
Growth in ASPI	1.00	
Growth in CSE Earnings	0.53	1.00
Growth in GDP at Constant Prices	0.26	-0.23
Growth in GDP at Market Prices	-0.35	0.50
Inflation	-0.38	0.46
Monetary Liquidity	0.25	-0.49
Monetary Liquidity (t-1)	0.71	0.69
Change in Fx Rate (LKR/USD)	-0.45	0.43

Monetary Liquidity = M2b growth – nominal GDP growth  
(t-1) = lag period of one year

**Chart 3.4: CSE Annual Earnings (LKR Bn)**



# We expect the market to further rerate upwards on marginally lower interest rates...

Chart 3.5: CSE Quarterly Earnings (LKR Bn) 2Q 2020 to 3Q 2023

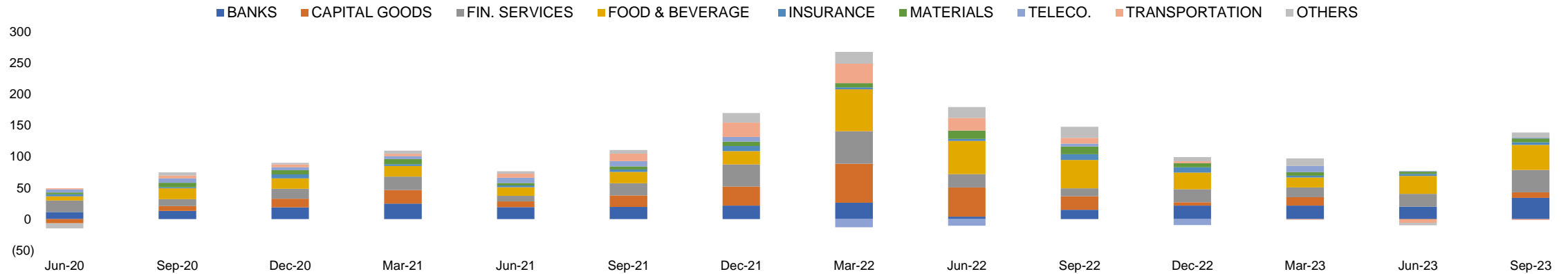
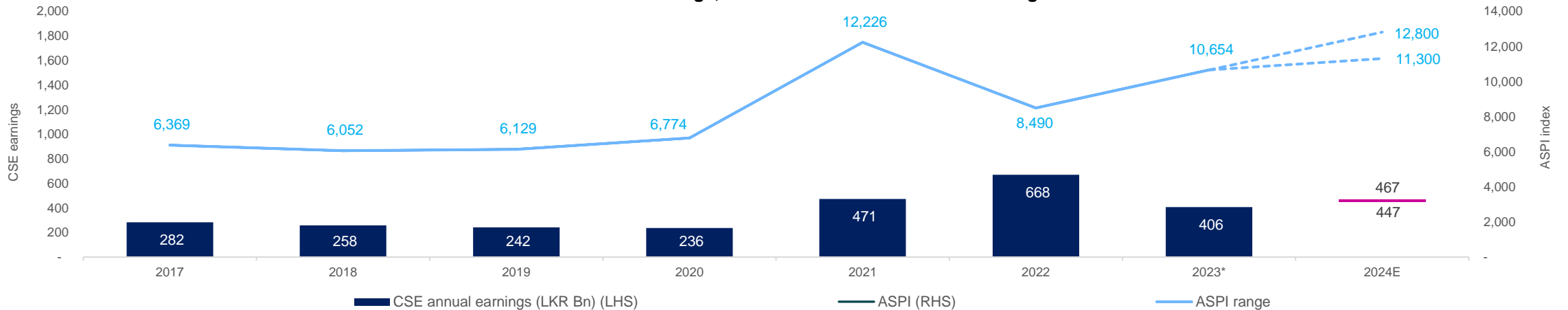


Chart 3.6: CSE Annual Earnings, ASPI Index and ASPI Forecast Range for 2024



We expect CSE market earnings growth to range between +10% and +15% for 2024. With the expectation that the market will rerate to a trailing P/E of 10 - 11x by year end on the back of a moderate fall in interest rates, our ASPI target for the end of 2024 is a range between c. 11,300 points (+6.1%) to 12,800 points (+20.1%).

# Fundamental valuations currently not compelling for foreign investors when country risk premium is factored in

Sri Lankan equity valuations on a fundamental basis are currently not appealing to foreign investors when a country risk premium (“CRP”) is factored into the required return on equity. Consequent to the external debt default, Sri Lanka’s CRP as at mid 2023 was c. 18% (based on the default spread of the Sri Lankan foreign currency government bond and US government bond as per the methodology used by Damodaran) in line with other highly debt distressed economies. When other components of the cost of equity are added, this results in a prohibitive threshold for expected return on equity of over >30%, which would exclude the vast majority of CSE listed stocks at current valuations (if we use earnings yield as a proxy for required return on equity). We estimate that the CRP has now reduced c. 10-12% based on the current trading price of ISB’s and the implied exit yield post the restructuring of the bonds. Post external debt restructuring, the CRP should gradually reduce to its historical average levels c. 4-5% in line with other frontier market peers. With a CRP of 4-5% and domestic long term risk-free rates also reducing marginally, the expected return on equity would gradually revert to c. 20%, which as a rule of thumb is the benchmark return expected by investors in frontier markets under normal conditions. With the cost of equity gradually returning to normalized levels, the number of CSE listed entities that meet hurdle rates for investment from a foreign investor perspective will continue to increase.

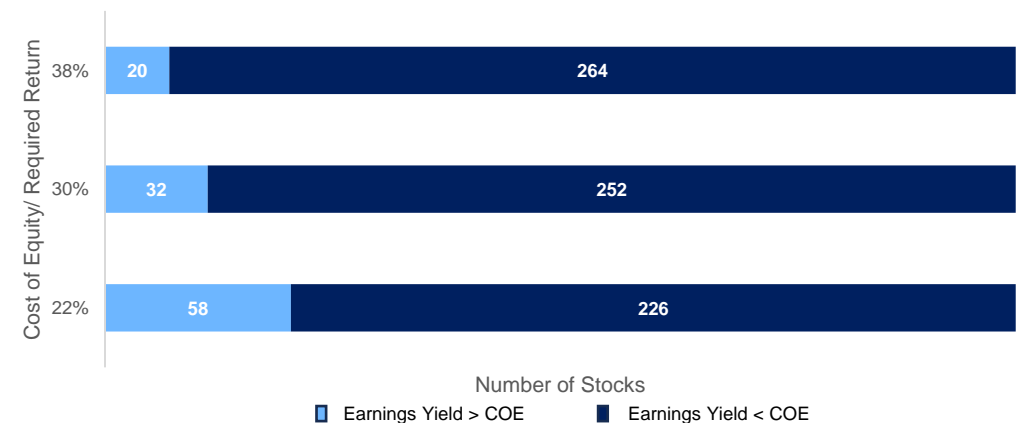
## Damodaran Country Risk Premium Adjusted Equity Risk Premium (June 2023)

Country	Country Risk Premium (CRP)	CRP + Equity Risk Premium
Singapore	0.00%	5.00%
Malaysia	1.82%	6.82%
Thailand	2.43%	7.43%
Indonesia	2.89%	7.89%
Philippines	2.89%	7.89%
India	3.33%	8.33%
Vietnam	4.57%	9.57%
Banagaldesh	6.83%	11.83%
Pakistan	15.18%	20.18%
Sri Lanka	18.21%	23.21%
Argentina	18.21%	23.21%
Ghana	18.21%	23.21%
Ukraine	18.21%	23.21%
Zambia	18.21%	23.21%
Sudan	24.82%	29.82%
Venezuela	24.82%	29.82%

## Normalising CRP post EDR will help to reset Return Expectations to Pre-crisis Levels

Country Risk Premium	Risk Free Rate	Equity Risk Premium	Cost of Equity (for Beta = 1)
18.21%	15.00%	5.00%	38.0%
10.00%	15.00%	5.00%	30.0%
5.00%	12.00%	5.00%	22.0%

Chart 3.7: Earnings Yield of CSE Stocks and Cost of Equity (COE)/ Required Return on Equity





# Sectoral Outlook

Selected sectors continue to have a positive outlook.



# Banking Sector

The worst may be over for NPA's; banking sector stocks still have more upside on valuations.

# NPA's seem to be stabilising and credit growth is expected to pick up in the current year

Chart 4.1a: Stage 3 Loans (%)

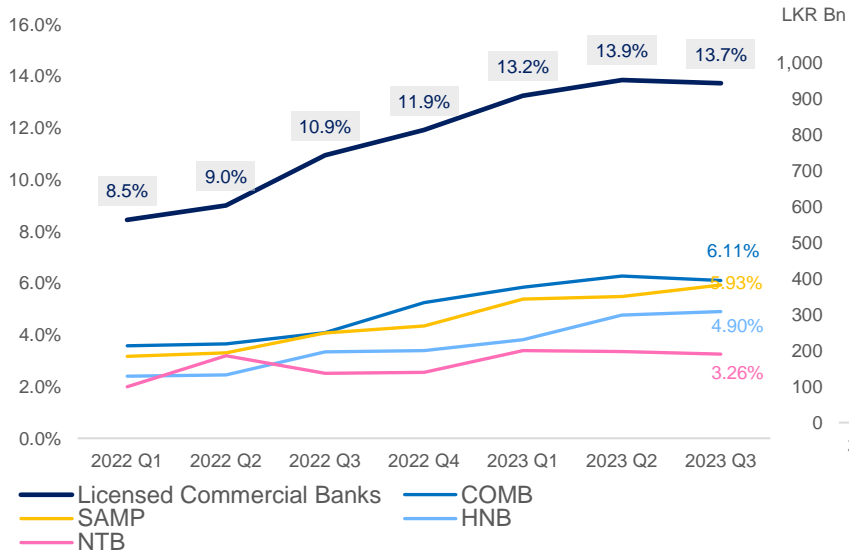


Chart 4.1b: Banking Industry Impairments

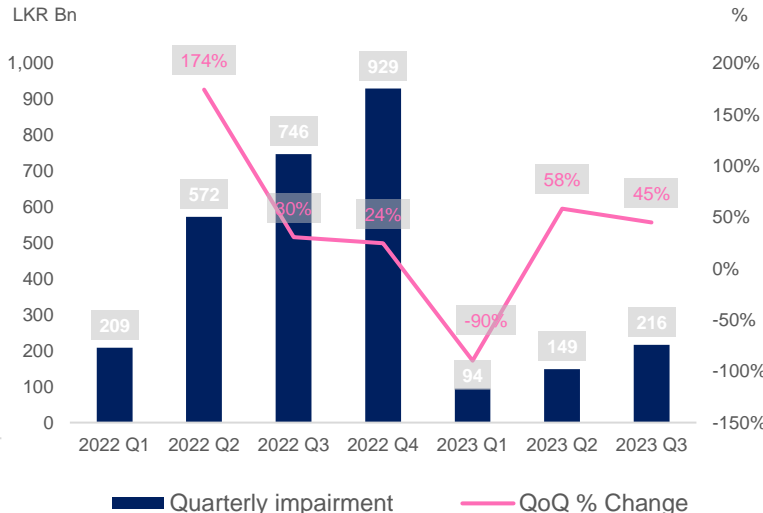
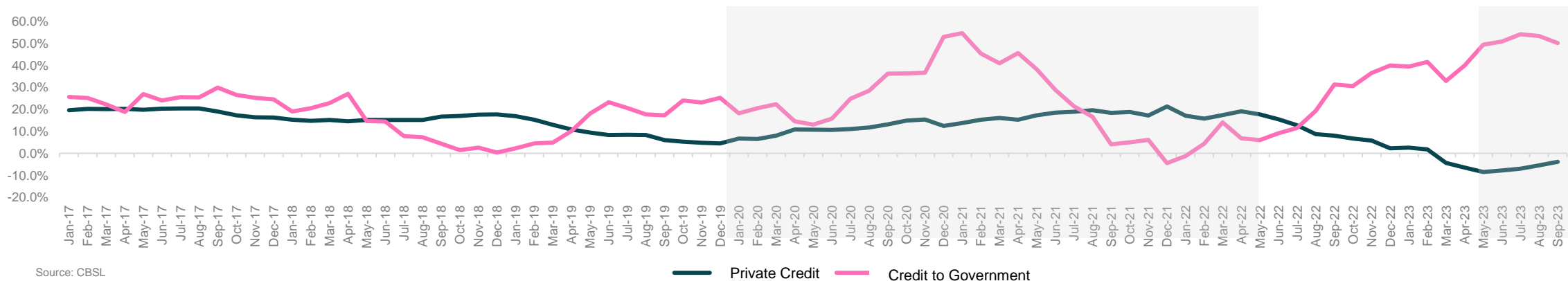


Chart 4.1c: Banking Industry: Interest Margins and Gross Loans Growth



The banking sector NPA's are expected to stabilize at current levels and taper off. NPA's of the banks within our coverage remain well below the overall industry. Interest margins are also seen to stabilize as interest costs decline and loan growth gradually picks up. We expect that growth in private sector credit will end the year with single digit YoY expansion allowing for moderate balance sheet growth for the sector. Earnings growth for banks in 2023 was driven by sharply reduced impairments from very high provisioning in the previous year in response to economic crisis/ external debt default. In the current year we expect that earnings growth will moderate as impairments normalize.

Chart 4.2: Credit to Private Sector & Government (YoY % Change)



Source: CBSL

# Banks under our coverage have sufficient buffers against potential further losses from ISB restructuring

Chart 4.3a: LCB investments in ISBs (as at 31-Dec-2022)

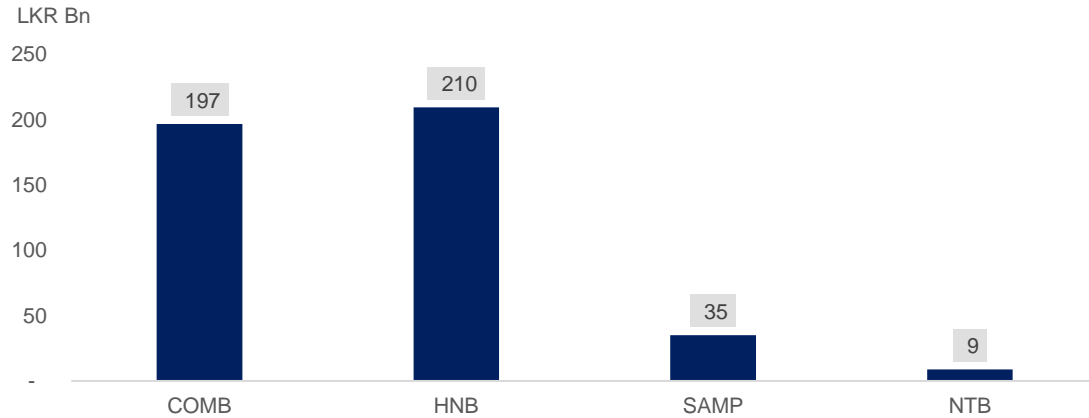
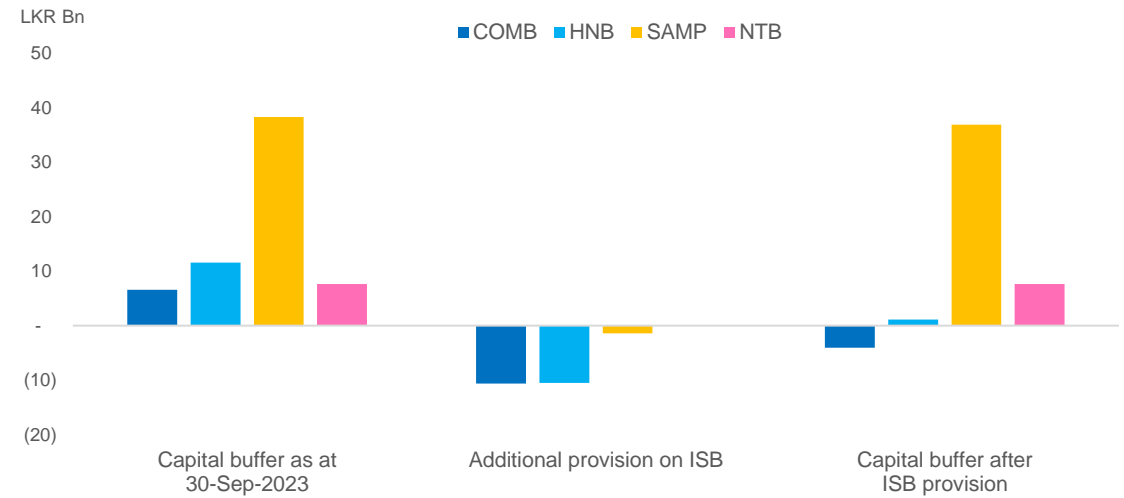
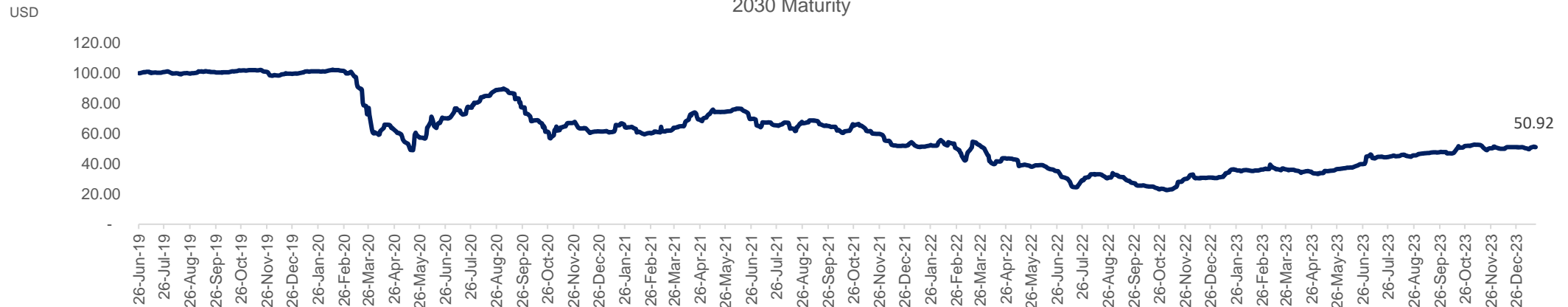


Chart 4.3b: Potential provisioning required to Capital Buffers of LCB's



Banks within our coverage have all indicated provisioning of c. 35% for their ISB exposures. With the recovery in ISB prices to over 50 cents to the \$ in response to expectations of an agreement with commercial creditors, we don't anticipate any significant additional provisioning for ISB's. We estimate that even if provisioning was increased to 40%, the banks in our coverage would be able to absorb the impact to their capital buffers.

Chart 4.4: Sri Lanka USD Sovereign Bond  
2030 Maturity



Source: Bloomberg

# Banking sector summarized performance for Q3 FY2023

Table 4.1: Summary of Banking Sector Performance in Q3 2023

Results for Q3 FY23	COMB	HNB	SAMP	NTB	BOC	SEYB	NDB	DFCC	PABC	SDB	UNION	AMANA
Net Interest Income (LKR'Mn)	23,432	27,185	19,811	8,733	23,769	10,183	9,501	8,208	2,912	2,192	1,926	1,486
Impairment Charge (LKR'Mn)	12,571	4,346	7,298	1,565	1,905	3,888	6,062	3,738	833	754	505	12
Net Profit (LKR'Mn)	6,233	8,887	5,092	3,319	10,070	1,975	3,030	3,096	317	33	95	472
EPS (LKR.)	4.75	15.85	4.34	10.39	402.80	3.21	7.59	7.43	0.72	0.20	0.09	0.16
NAVPS (LKR.)	162.70	371.77	130.10	184.73	10,808.91	100.19	190.44	165.34	49.39	86.00	17.76	5.24
Ratios												
Net Interest Margin	3.21%	6.23%	5.19%	8.13%	1.66%	5.98%	4.03%	5.45%	4.58%	5.13%	4.95%	4.50%
ROE	8.6%	13.1%	12.5%	24.3%	9.3%	10.5%	9.8%	11.7%	7.8%	1.8%	2.6%	8.1%
Trailing PER (x) (voting/ non-voting)	5.32 / 4.59	4.50 / 3.72	4.47	3.29 / 3.22		4.96 / 3.93	3.86	4.05	3.02	11.77	19.17	12.26
PBV (x) (voting/ non-voting)	0.57 / 0.49	0.49 / 0.40	0.56	0.63 / 0.62		0.53 / 0.42	0.39	0.50	0.39	0.43	0.58	0.46
Regulatory capital ratio												
Total Tier I capital ratio	11.54%	11.91%	14.37%	13.45%	12.26%	11.76%	11.06%	11.09%	15.81%	13.10%	17.47%	12.40%
<i>Minimum requirement (Tier1)</i>	8.50%	9.50%	8.50%	8.50%	10.00%	8.50%	8.50%	8.50%	8.50%	8.50%	8.50%	8.50%
<i>Capital Buffer (Tier 1)</i>	3.04%	2.41%	5.87%	4.95%	2.26%	3.26%	2.56%	2.59%	7.31%	4.60%	8.97%	3.90%
Total capital ratio	14.50%	14.73%	17.73%	15.11%	14.87%	15.29%	14.46%	13.72%	17.73%	15.26%	18.54%	15.20%
<i>Minimum requirement (Total capital)</i>	14.00%	13.50%	12.50%	12.50%	14.00%	12.50%	12.50%	12.50%	12.50%	12.50%	12.50%	12.50%

\* Banks' valuation ratios (PER and PBV) are based on CMP as of 30<sup>th</sup> November 2023.

Trailing (12 M) EPS for all banks are based on 12 month ended as at 30-September-2023.

Source : CSE

Equity Research | Sri Lanka

# Further room for banking sector valuations to rerate

Chart 4.5a: Banking Sector : TTM PER Chart

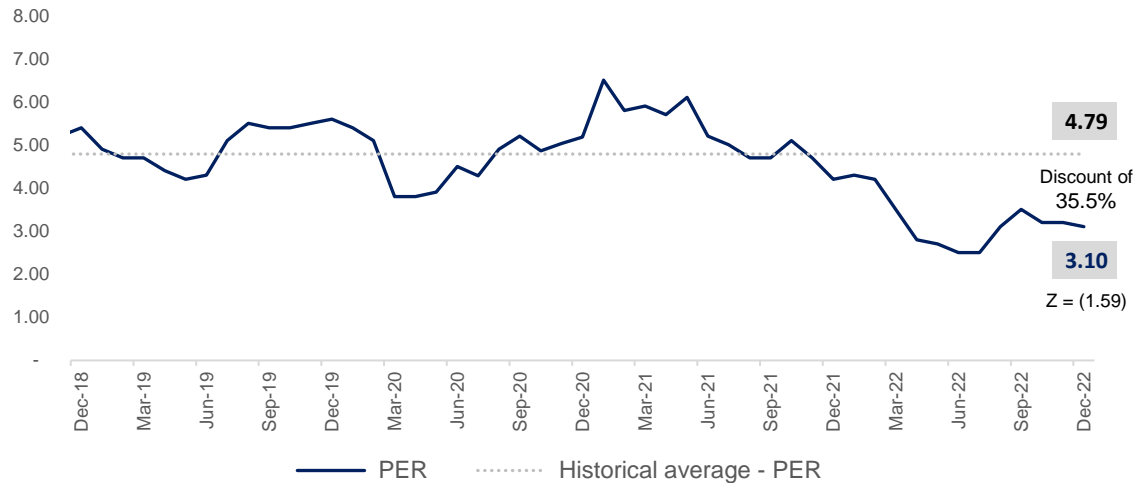
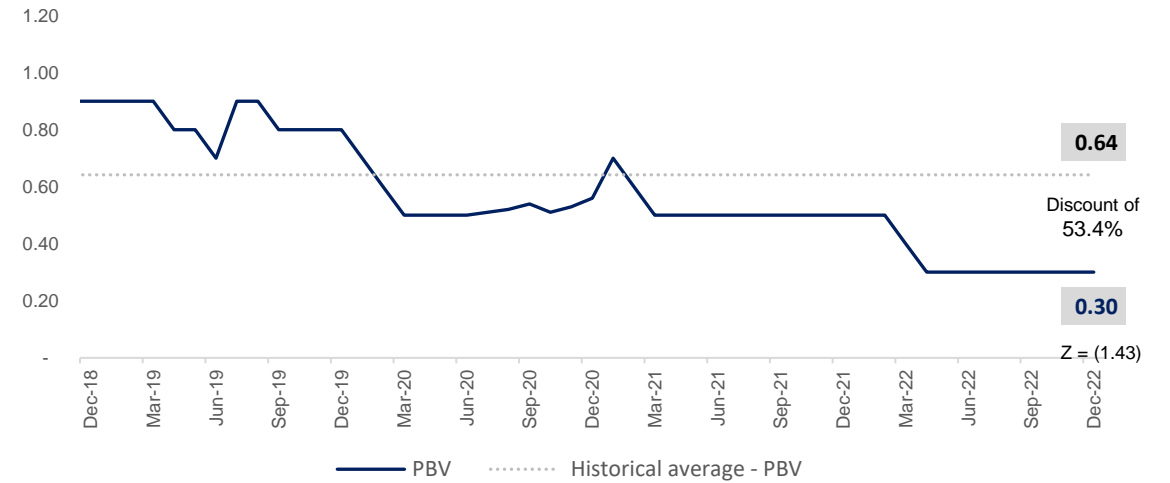


Chart 4.5b: Banking Sector : PBV Chart



Source: Bloomberg, Acuity Research

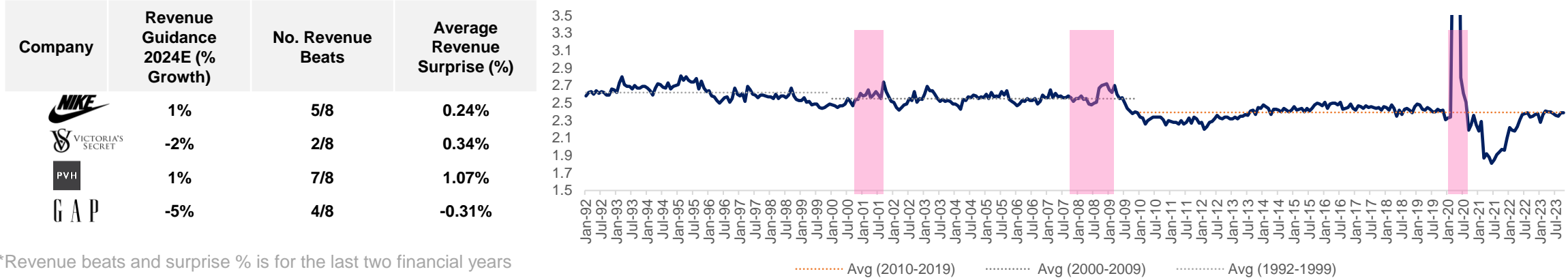
Banking stocks are still at significant discounts of c. 35% and 50% to their historical PER and PBV values respectively. Current valuations are c. 1.5 standard deviations below historical average valuations on both PER and PBV basis. Therefore, we are of the view that banking sector still has further upside for multiple expansion despite the subdued earnings growth prospects in the current year.

# Apparel & Textiles Sector

We expect a slow turnaround for the sector in the year ahead on account of external headwinds.

# Apparel & textile exports slowdown is bottoming out; slow uptick is expected amidst subdued global demand

Chart 4.6: US Retail Inventory/Sales Ratio: Clothing & Accessories Stores (Seasonally Adj)



\*Revenue beats and surprise % is for the last two financial years

External outlook remains challenging as major buyers forecast subdued demand with inventory ratios remaining at elevated levels. However, Sri Lanka remains a competitive destination for apparel sourcing and may be better positioned to weather the current supply chain disruptions. We expect that the decline in exports seen in 2023 has bottomed out and the industry will see a gradual improvement in the current year.

**NIKKEI Asia**

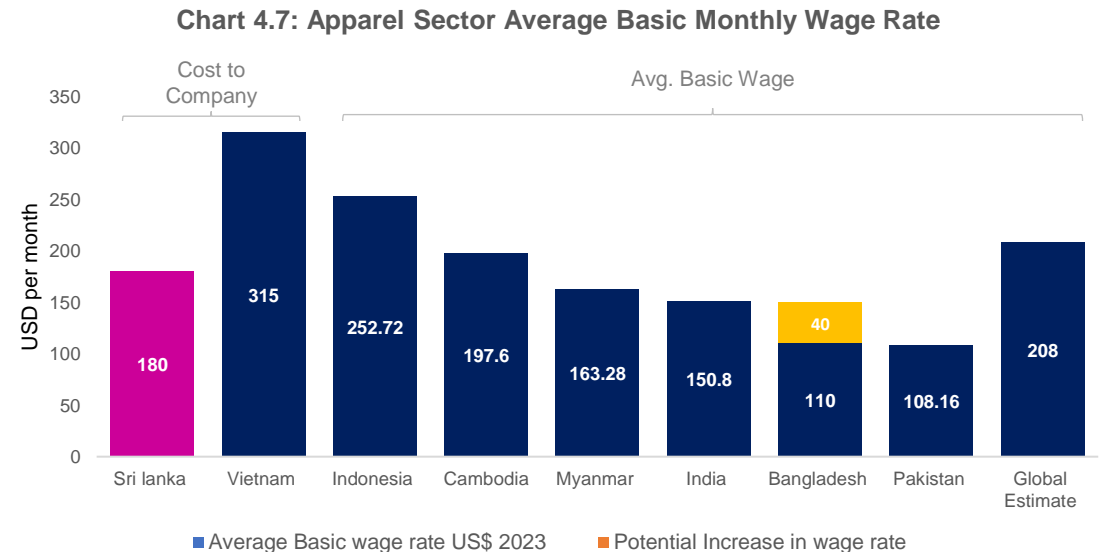
**Red Sea conflict plunges Bangladesh garment makers into the red**

Bangladesh's garment industry is experiencing significant losses because of the Red Sea conflict, with manufacturers facing order cancellations, increased shipping costs of up to 50%, and extended delivery times. The sector, already grappling with protests over wages and factory closures, is particularly vulnerable.

**NIKKEI Asia**

**Bangladesh garment industry wage fight shakes core economic pillar**

After major protests and violent clashes with police, the government last week mandated a 56% hike in the monthly minimum wage for workers making ready-made garments. In addition, some factory owners have suspended operations on their own citing the labour law, which entitles them to close



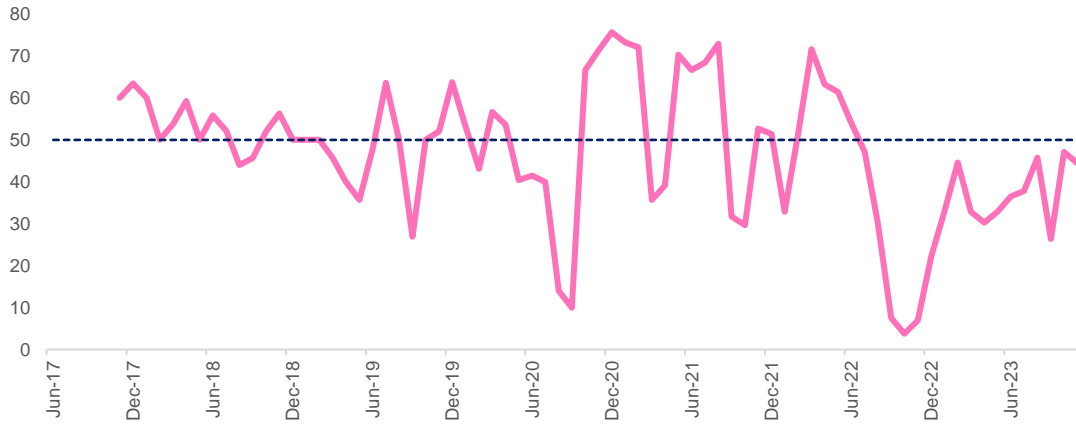
# Construction & Materials Sector

Leading indicators reveal the construction sector recovery is still lagging the turnaround in the overall economy.

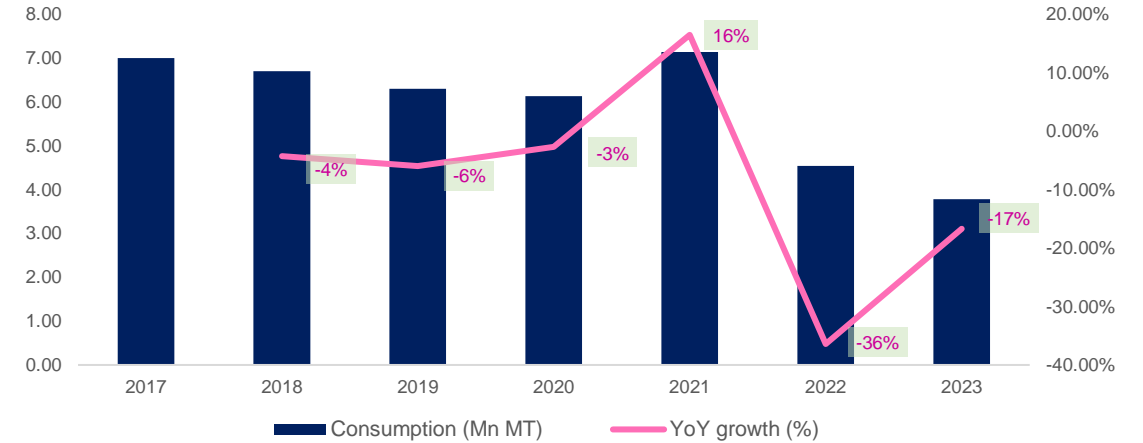


# Construction sector turnaround is lagging other sectors of the economy

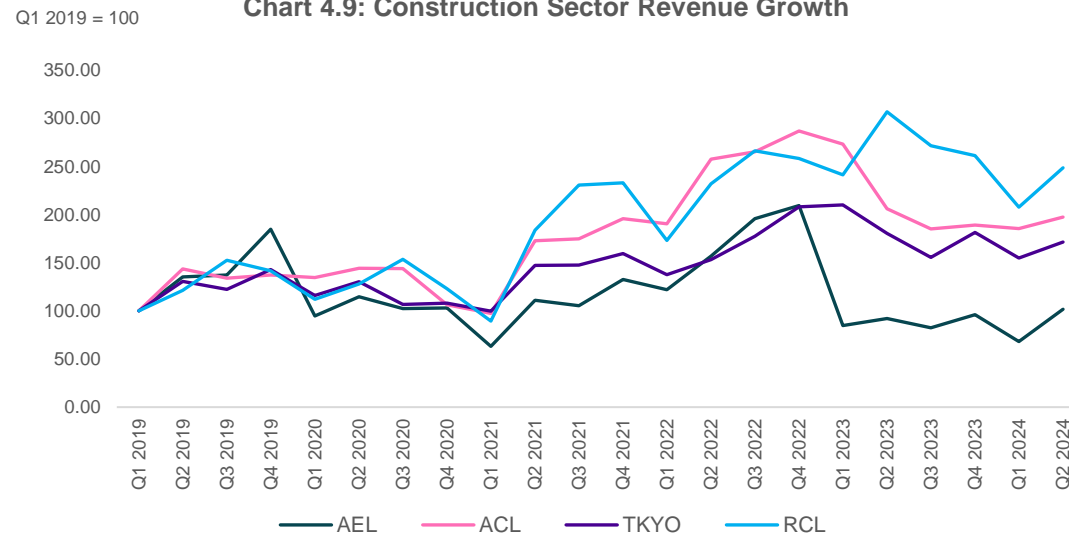
**Chart 4.8a: Construction Sector PMI**



**Chart 4.8b: Cement Consumption**



**Chart 4.9: Construction Sector Revenue Growth**



	TKYO	AEL	ACL	RCL	Market PER
<b>Company PE Ratio</b>	5.35	2.65	5.75	5.51	10.90
<b>Discount to Market PE</b>	51%	76%	47%	49%	

Construction sector leading indicators are still in contractionary territory despite some improvement. Construction and construction materials stocks are currently at a deep discount to the market. However, if the recovery in the overall construction industry takes longer than anticipated, selected stocks could become value traps in the medium term. External debt restructuring is expected to restore some bilateral foreign funding lines for certain infrastructure projects, which would contribute towards a recovery for the sector.

Source: CBSL Annual report 2022, Economynext.com

# Hospitality & Tourism Sector

Tourism numbers expected to reach pre-covid levels; profitability is however elusive for the listed hospitality sector counters.

# Flight connectivity normalising to pre-pandemic levels

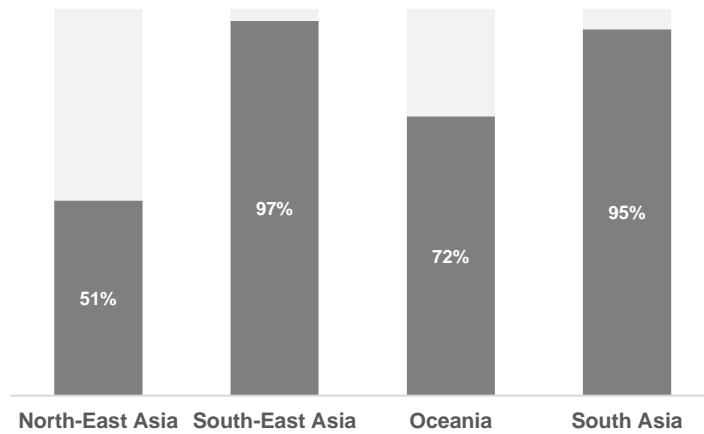
Chart 4.10: Air Connectivity/ Weekly Flight Frequency to Sri Lanka



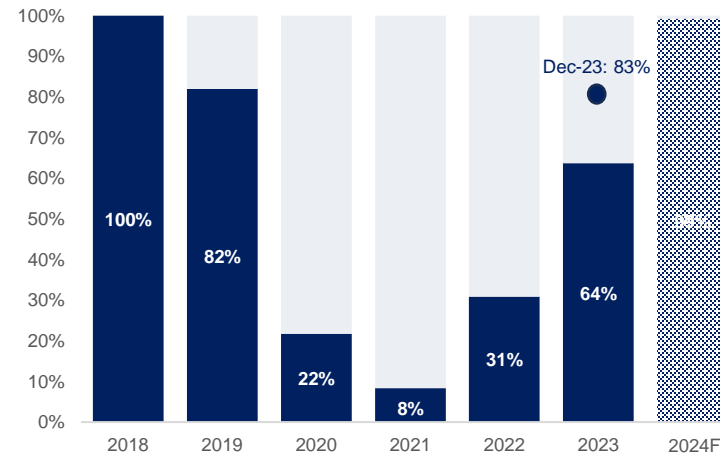
Flight connectivity is normalizing with frequencies continuing to improve, thus supporting the rebound in tourist arrivals. Flight prices although still elevated are gradually reducing to pre-pandemic levels.

# Occupancies/ ARR's are improving; however, higher costs have impacted earnings

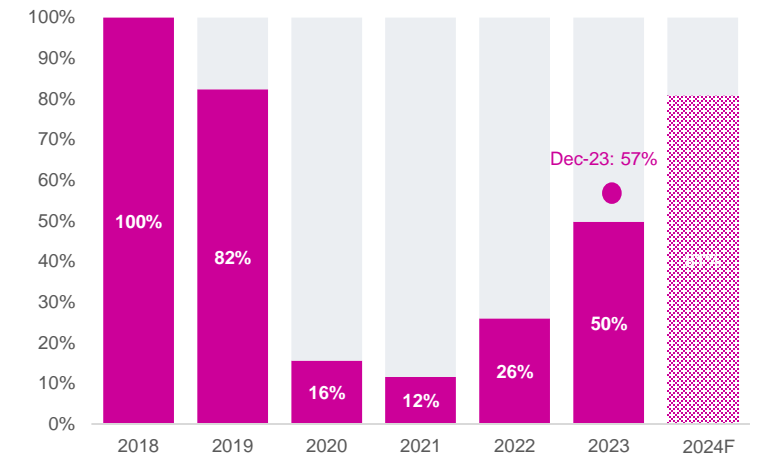
**Chart 4.11a: Global Tourism Arrivals in 2023**  
% of 2019 arrivals



**Chart 4.11b: Sri Lanka Tourists Arrivals**  
% of 2018 arrivals

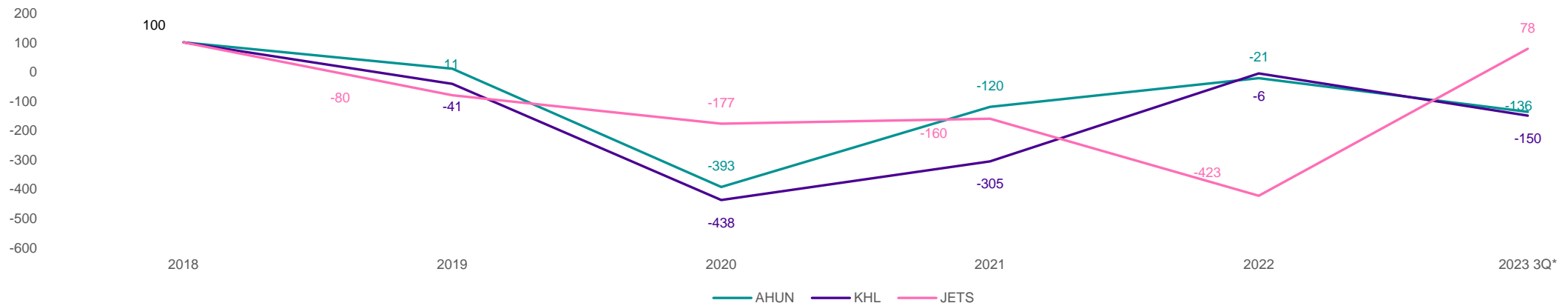


**Chart 4.11c: Sri Lanka Tourist Earnings**  
% of 2018 earnings



We expect that tourist arrivals will reach pre-pandemic levels in the current year whilst tourism earnings will recover to c. 80% of 2018 levels. Despite the recovery in the tourism sector, the earnings of the listed hospitality counters continue to lag pre-covid levels as costs have escalated thus reducing margins.

**Chart 4.12: Tourism Stocks Net Earnings Performance (2018=100)**



Source: SLTDA, CBSL Annual Reports,

\*Accumulated earnings for first 3 quarters are taken as 2023 assuming 2018 first 3 quarters as the respective base year.



# Strategy & Recommendations

# Sector and stock selection strategy for 2024

In the context of moderate economic growth and domestic demand, coupled with gradually declining interest rates significant political uncertainty heading into an election year, we believe stocks having the following characteristics would be best placed to outperform the overall market. Selective stock picking/ valuations are more important in the current year as we don't expect a significant rerating benefit for the overall market as policy interest rates are likely to have bottomed out although there is further space for market interest rates to narrow the spread above policy rates.



**High Growth:** We believe growth/ GARP stocks overall have better prospects over the longer term.



**Brands, Essential Goods and Pricing Power:** We would look for stocks with stable margins and strong brands/ differentiated offerings which allows for pricing power. Entities engaged in agriculture, food & beverages, consumer staples, healthcare and other essential services are also likely to be able to both pass on costs to the end consumers and maintain profit growth in moderate growth environment both globally and locally.



**Limited Recurring Capex Requirements:** With interest rates still at elevated levels, we prefer entities with limited recurring capex requirements as both the cost of new/ replacement capex and the cost of capital will remain high.



**Foreign Currency Revenue Streams:** Entities catering to larger addressable markets overseas with less reliance on domestic demand are best positioned to weather the current economic environment as well as providing a hedge against unexpected depreciation of the LKR.



**Moderate Financial Leverage:** We would avoid highly leveraged companies with significant LKR or foreign currency denominated debt as high interest rates will negatively impact margins.



**Banking stocks:** The banking sector which is still trading at below its historical valuations would benefit from both a market rerating and improving macro fundamentals which positively impact asset quality.

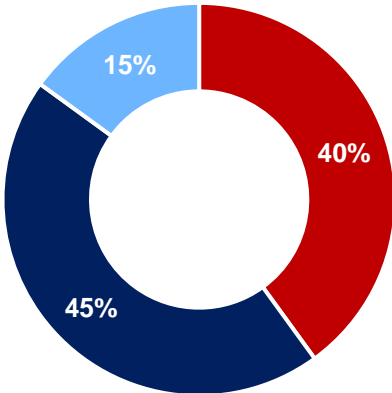


**Defensive stocks:** Selected defensive counters which are both less volatile and with moderate to high dividend yields and stable core businesses would help to preserve capital in the backdrop of high market uncertainty.

# Given elevated uncertainty, we would maintain a cautious asset allocation framework in 2024

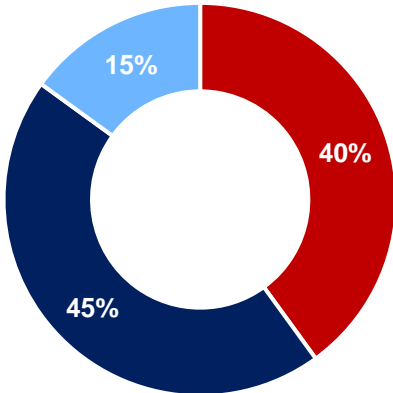
Based on the uncertain political environment and policy uncertainty which could impact macroeconomic conditions going forward, we maintain our recommendation for an asset allocation framework in line with an all-weather asset portfolio as follows.

**Acuity Recommended Portfolio Allocation  
2023**



■ Equity ■ Fixed income ■ Alt. Investments

**Acuity Recommended Portfolio Allocation  
2024**



■ Equity ■ Fixed income ■ Alt. Investments

# Acuity Stock Recommendations

	Ticker	Share Price *	Book Value per Share	Market Cap (LKR Bn)	Trailing EPS	Beta	Valuations *				Other Analysis				ASB Stock Rating	Rating Change	52W High Price	52W Low Price	Share Price Target	
							Sharpe ratio	Trailing PER (x)	PBV (x)	Sector PER (x)	Sector PBV (x)	ROE (%)	TTM EPS growth (%)							
<b>BANKS</b>											4.2	0.5								
COMMERCIAL BANK [V]	COMBN	88.00	162.70	108.8	17.48	0.57	-0.36	5.0	0.5	4.2	0.5	11%	13%	Buy	-	107.50	0.00	107.11		
COMMERCIAL BANK [NV]	COMBX	75.90	162.70	5.9	17.48	0.57	-0.36	4.3	0.5	4.2	0.5	11%	13%	Buy	-	89.00	43.00	94.75		
HNB [V]	HNB N	157.75	371.77	70.5	40.46	0.53	-0.21	3.9	0.4	4.2	0.5	11%	31%	Buy	-	203.50	83.00	242.21		
HNB [NV]	HNB X	129.25	371.77	14.6	40.46	0.53	-0.21	3.2	0.3	4.2	0.5	11%	31%	Buy	-	169.75	70.00	203.90		
SAMPATH BANK	SAMPN	68.10	130.10	79.9	16.29	0.69	-0.09	4.2	0.5	4.2	0.5	13%	63%	Buy	-	79.20	41.00	84.20		
NATIONS TRUST BANK [V]	NTB N	102.00	184.73	28.2	35.59	0.69	-0.14	2.9	0.6	4.2	0.5	19%	63%	Buy	-	125.00	0.00	123.72		
<b>CAPITAL GOODS</b>											34.6	0.7								
ACL CABLES	ACL N	67.40	102.36	16.1	13.21	2.49	0.32	5.1	0.7	34.6	0.7	13%	-59%	Hold	-	89.70	65.50			
HAYLEYS	HAYLN	73.10	104.36	54.8	2.51	1.39	0.10	29.1	0.7	34.6	0.7	2%	-93%	Buy	-	97.90	65.00	108.00		
HEMAS HOLDINGS	HHL N	68.50	65.19	40.9	7.29	0.73	0.14	9.4	1.1	34.6	0.7	11%	-11%	Hold	-	85.90	58.00			
JOHN KEELLS HOLDINGS	JKH N	181.50	243.43	251.9	4.46	0.44	-0.31	40.7	0.7	34.6	0.7	2%	-78%	Hold	-	200.00	0.00			
COLOMBO DOCKYARD	DOCKN	51.00	94.58	3.7	-131.69	0.34	-0.62	N/A	0.5	34.6	0.7	-139%	-1396%	Hold	-	68.00	48.00			
<b>CONSUMER DURABLES &amp; APPAREL</b>											N/A	1.0					Attractive			
HAYLEYS FABRIC	MGT N	38.90	25.02	16.2	0.32	1.07	0.32	120.0	1.6	N/A	1.0	1%	-97%	Buy	-	49.70	22.30	67.00		
TEEJAY LANKA	TJL N	36.00	44.10	25.8	-0.17	0.35	0.13	N/A	0.8	N/A	1.0	0%	-103%	Buy	-	40.00	28.70			
HELA APPAREL	HELAN	5.00	48.07	6.6	-5.04	N/A	-1.75	N/A	0.1	N/A	1.0	-10%	-832%	Hold	-	9.90	4.70			
<b>DIVERSIFIED FINANCIALS</b>											6.3	0.7								
CENTRAL FINANCE	CFINN	100.00	280.77	22.7	33.14	0.75	-0.24	3.0	0.4	6.3	0.7	12%	-9%	Buy	-	139.75	0.00			
<b>ENERGY</b>											2.4	0.9								
LANKA IOC	LIOCN	99.20	130.76	52.8	33.24	2.48	0.37	3.0	0.8	2.4	0.9	25%	-14%	Hold	-	213.00	94.00			
<b>FOOD, BEVERAGE &amp; TOBACCO</b>											8.5	1.4								
MELSTACORP	MELSN	81.80	93.85	95.3	9.46	1.07	-0.06	8.6	0.9	8.5	1.4	10%	-44%	Hold	-	94.00	50.10			
DISTILLERIES	DISTN	26.50	1.95	121.9	3.72	0.57	-0.07	7.1	13.6	8.5	1.4	191%	39%	Buy	-	29.00	13.10	31.00		

Source : CSE, ASB Research Analysis

\* Share price and company valuation is based on CMP as of 26<sup>th</sup> January 2024. 52W High price and low price, sector PER, & sector PBV are also as of 26<sup>th</sup> January 2024.

All figures are in LKR, unless specified.

Trailing (12 M) EPS for companies are based on 12 month ended as at 30-Sep-2023.



# Acuity Stock Recommendations

	Ticker	Share Price *	Book Value per Share	Market Cap (LKR Bn)	Trailing EPS	Beta	Valuations *				Other Analysis				ASB Stock Rating	Rating Change	52W High Price	52W Low Price	Share Price Target	
							Sharpe ratio	Trailing PER (x)	PBV (x)	Sector PER (x)	Sector PBV (x)	ROE (%)	TTM EPS growth (%)							
INSURANCE											6.9	0.8								
UNION ASSURANCE	UAL N	39.30	36.57	23.2	5.63	0.32	0.16	7.0	1.1	6.9	0.8	15%	55%	Buy	-	45.00	28.50			
HNB ASSURANCE	HASUN	53.00	60.93	8.0	5.93	0.65	0.14	8.9	0.9	6.9	0.8	10%	-61%	Hold	-	59.00	42.00			
MATERIALS											7.3	1.0								
CIC HOLDINGS [V]	CIC N	60.00	71.22	17.5	12.53	1.19	0.17	4.8	0.8	7.3	1.0	18%	-29%	Hold	-	85.00	57.80			
CIC HOLDINGS [NV]	CIC X	40.50	71.22	3.5	12.53	1.19	0.17	3.2	0.6	7.3	1.0	18%	-29%	Hold	-	59.80	39.20			
DIPPED PRODUCTS	DIPDN	26.90	45.16	16.1	5.14	0.95	0.21	5.2	0.6	7.3	1.0	11%	-62%	Hold	-	35.70	24.50			
CHEVRON	LLUBN	94.00	35.61	22.6	13.72	0.75	-0.18	6.9	2.6	7.3	1.0	39%	-21%	Hold	-	109.25	78.00			
PGP GLASS CEYLON PLC	GLASN	26.70	9.80	25.4	3.13	1.02	0.22	8.5	2.7	7.3	1.0	32%	34%	Hold	-	28.90	14.00			
HAYCARB	HAYCN	65.60	75.85	19.5	11.18	0.39	0.19	5.9	0.9	7.3	1.0	15%	-48%	Buy	-	76.50	51.80	81.82		
REAL ESTATE											N/A	0.6								
PRIME RESIDENCIES	PLR N	6.70	9.54	6.3	0.87	N/A	-0.17	7.7	0.7	N/A	0.6	9%	-80%	Hold	-	9.20	6.30			
RETAILING											N/A	1.8								
SINGER (SRI LANKA) PLC	SINSN	12.50	7.64	14.1	-1.97	1.56	1.10	N/A	1.6	N/A	1.8	-26%	-161%	Sell	-	17.50	8.80			
SOFTWARE & SERVICES											94.1	1.6								
HSENIID BUSINESS SOLUTIONS	HBS N	11.40	6.36	3.2	-0.72	N/A	0.09	N/A	1.8	94.1	1.6	-11%	-128%	Hold	-	17.40	11.00			
HOUSEHOLD & PERSONAL PRODUCTS											31.1	1.5								
B P P L HOLDINGS	BPPLN	19.60	12.30	6.0	0.48	0.95	0.09	40.5	1.6	31.1	1.5	4%	-83%	Hold	-	23.50	18.60			

Source : CSE, ASB Research Analysis

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# Glossary of Terms

<b>1H / 2H</b>	1st Half / 2 <sup>nd</sup> Half	<b>EFF</b>	Extended Fund Facility	<b>NAVPS</b>	Net Asset Value Per Share
<b>9M / 12M</b>	9 Months / 12 Months	<b>EPS</b>	Earnings Per Share	<b>NIM</b>	Net Interest Margin
<b>1Q</b>	1 <sup>st</sup> Quarter	<b>E or Est.</b>	Estimated	<b>NPA</b>	Non-Performing Advances
<b>ACL</b>	ACL Cables PLC	<b>excl.</b>	Excluding	<b>NTB</b>	Nations Trust Bank PLC
<b>Adj.</b>	Adjusted	<b>F</b>	Forecasted	<b>p.a.</b>	Per Annum
<b>AEL</b>	Access Engineering PLC	<b>FEU</b>	Forty-foot Equivalent Unit	<b>PBV</b>	Price to Book Value
<b>AHUN</b>	Aitken Spence Hotel Holdings PLC	<b>FX</b>	Foreign Exchange	<b>PER or P/E</b>	Price-to-Earnings Ratio
<b>Alt.</b>	Alternative	<b>FY</b>	Financial Year	<b>PMI</b>	Purchasing Managers' Index
<b>ASB</b>	Acuity Stockbrokers	<b>GARP</b>	Growth at a Reasonable Price	<b>QoQ</b>	Quarter on Quarter change
<b>ASPI</b>	All Share Price Index	<b>GDP</b>	Gross Domestic Product	<b>SAMP</b>	Sampath Bank PLC
<b>Avg.</b>	Average	<b>GFN</b>	Gross Financing Needs	<b>RCL</b>	Royal Ceramics Lanka PLC
<b>Bn</b>	Billion	<b>GoSL</b>	Government of Sri Lanka	<b>RFP</b>	Request for Proposal
<b>BPS or bps</b>	Basis Points	<b>HNB</b>	Hatton National Bank PLC	<b>RHS</b>	Right Hand Side
<b>c.</b>	Approximately	<b>i.e.</b>	That is	<b>ROE</b>	Return on Equity
<b>CAPE</b>	Cyclically Adjusted Price to Earnings	<b>IMF</b>	International Monetary Fund	<b>SLDBs</b>	Sri Lanka Development Bonds
<b>CBSL</b>	Central Bank of Sri Lanka	<b>incl.</b>	Including	<b>SLF</b>	Standard Lending Facility
<b>CCPI</b>	Colombo Consumer Price Index	<b>ISBs</b>	International Sovereign Bonds	<b>SLTDA</b>	Sri Lanka Tourism Development Authority
<b>CEB</b>	Ceylon Electricity Board	<b>JETS</b>	Jetwing Symphony PLC	<b>SOE</b>	State-owned Enterprise
<b>cf.</b>	Compared with	<b>K</b>	One Thousand	<b>T Bill</b>	Treasury Bill
<b>CMP</b>	Current Market Price	<b>KG</b>	Kilogram	<b>TKYO</b>	Tokyo Cement Company (Lanka) PLC
<b>COE</b>	Cost of Equity	<b>KHL</b>	John Keells Hotels PLC	<b>TFP</b>	Total Factor Productivity
<b>COMB</b>	Commercial Bank PLC	<b>LCB</b>	Licensed Commercial Bank	<b>Tn</b>	Trillion
<b>CPC</b>	Ceylon Petroleum Corporation	<b>LHS</b>	Left Hand Side	<b>TTM</b>	Trailing 12 Months
<b>CRP</b>	Country Risk Premium	<b>LKR</b>	Sri Lankan Rupee	<b>UK</b>	United Kingdom
<b>CSE</b>	Colombo Stock Exchange	<b>M2</b>	Money Supply	<b>US</b>	United States
<b>CY</b>	Calendar Year	<b>Min</b>	Minimum	<b>USD</b>	United States Dollar
<b>DDO</b>	Domestic Debt Optimization	<b>MT</b>	Metric Ton	<b>VAT</b>	Value Added Tax
<b>DSA</b>	Debt Sustainability Analysis	<b>n.a. / N/A</b>	Not Applicable / Not Available	<b>WCI</b>	World Container Index
				<b>YoY</b>	Year on Year change

### Acuity: Stock Ratings Scale

Acuity rating	Sell	Sell	Neutral	Buy	Buy
Equivalent ratings	Strong Sell	Underperform Underweight Weak Hold Reduce	Hold Maintain	Outperform Overweight Accumulate Add	Strong Buy

### Acuity: Industry View

Industry outlook	Cautious	In-Line	Attractive
	We view the performance of the industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.	We expect the performance of the industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.	We expect the performance of the industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

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