

Sri Lanka Earnings Update – 2Q’25

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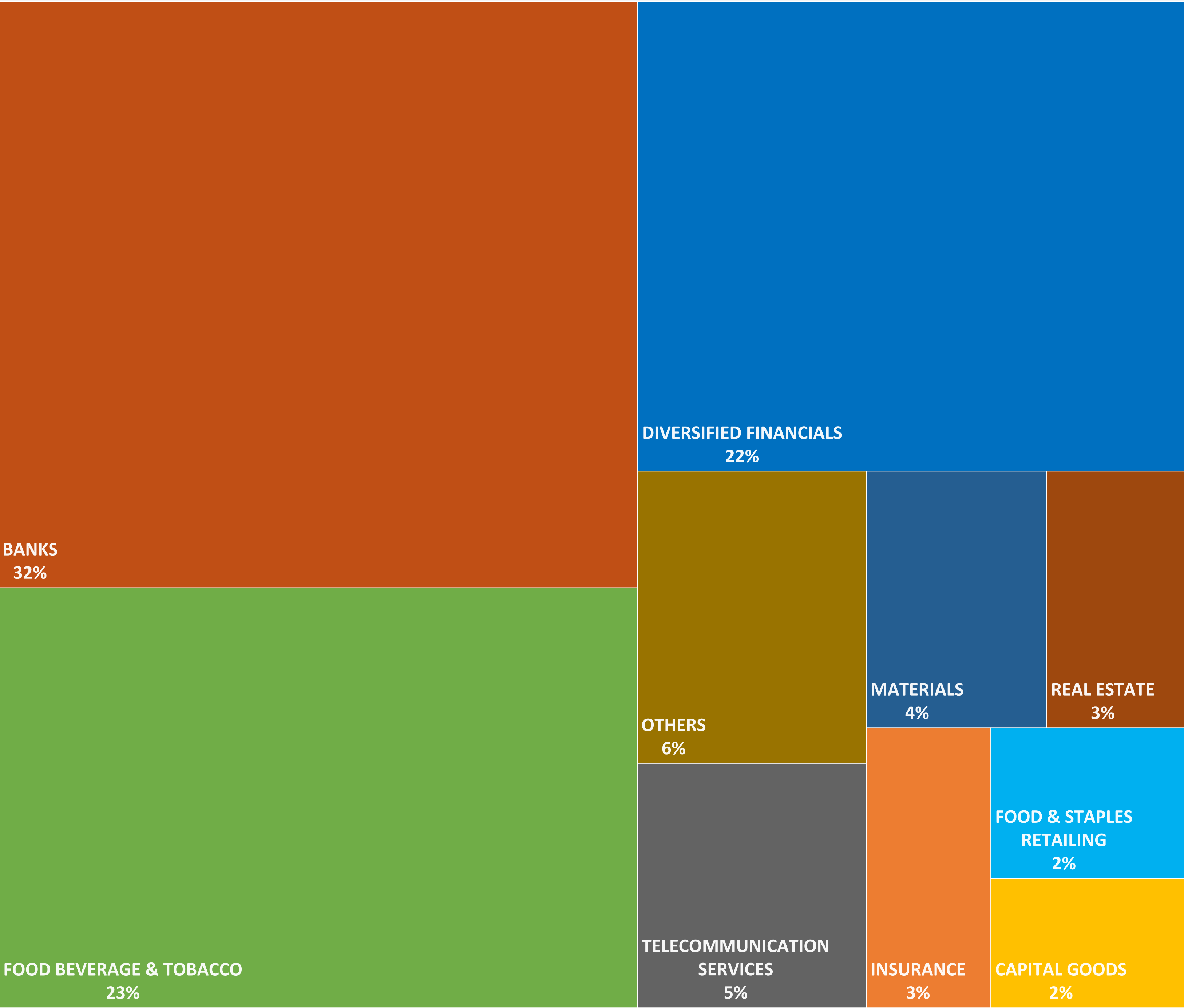
Corporate earnings rebounded strongly in 2Q’25, with profits surging over 1.5x YoY
Higher topline growth propelled by a rebound in consumer spending amidst strengthening macroeconomic indicators, reduction in finance cost, improved EBIT margins stemming from lower operating cost



- ✓ Corporate earnings continued their growth momentum for the seventh consecutive quarter, recording a strong 56% YoY increase to LKR 154Bn in 2Q’25. The performance was primarily supported by higher topline growth driven by improved consumer demand amidst strengthening macroeconomic conditions, a notable reduction in finance costs due to the low-interest rate environment, improved EBIT resulting from lower operating expenses, and reduced impairment provisions within the banking sector.
- ✓ The banking sector remained the key earnings driver in 2Q’25, contributing 32% of aggregate profits, with COMB and HNB delivering the highest earnings for the quarter. Sector profitability advanced 33% YoY to LKR 49Bn, primarily supported by lower impairment charges amid improved asset quality and declining NPL ratios, while growth in non-interest income provided an additional uplift.
- ✓ Food Beverage & Tobacco sector together with Diversified Financial sector contributed to the major share of 2Q’25 earnings, accounting to 45% (or LKR 68.9Bn).
- ✓ The real estate meanwhile witnessed a sharp resurgence, with profits doubling YoY to LKR 4.67Bn, underpinned by robust appreciation in land and condominium prices, alongside stronger demand fueled by lower interest rates and heightened investor confidence.

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Banks and Food, Beverage & Tobacco stood out as key contributors, delivering over half (55%) of the total earnings. Diversified Financials followed suit, comprising 22% of the total earnings



Source : CSE, ACS Research

Note: All extra ordinary income/expenses included

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Bourse records earnings of LKR 153Bn in 2Q’25 (+56% YoY & -16% QoQ). TTM PE ratio stands at just 9.2x.
Return on Equity improved from 13.6% to 14.3% YoY in 2Q’25

Sector	LKR Mn							
	TTM PER (x)	PBV (x)	ROE (%)	2Q2024	1Q2025	2Q2025	YOY	QOQ
Automobiles & Components	13.7	1.1	8.0	191	204	77	-60%	-63%
Banks	5.1	0.9	17.2	36,857	47,953	49,100	33%	2%
Capital Goods	13.0	1.2	8.9	1,633	28,006	3,305	102%	-88%
Consumer Services	79.3	1.3	1.7	-5,235	8,478	-2,673	-49%	-132%
Diversified Financials	6.7	1.1	17.0	20,436	32,203	33,617	64%	4%
Energy	10.9	1.0	9.1	3,458	2,516	2,005	-42%	-20%
Food Beverage & Tobacco	7.7	1.9	24.8	27,467	44,603	35,191	28%	-21%
Health Care Equipment & Servic	12.6	1.4	11.2	1,505	1,909	2,816	87%	48%
Insurance	8.5	1.1	12.5	4,902	4,213	4,563	-7%	8%
Materials	10.8	1.5	14.0	4,288	7,711	6,065	41%	-21%
Real Estate	10.2	0.9	9.0	2,294	3,632	4,679	104%	29%
Retailing	62.8	1.6	2.6	-842	-245	1,572	287%	741%
Telecommunication Services	11.1	1.8	16.2	-2,053	6,131	7,340	457%	20%
Transportation	na	12.2	na	222	380	437	97%	15%
Utilities	16.1	1.8	11.0	2,131	265	1,767	-17%	567%
Market Earnings	9.2	1.3	14.3	98,494	182,590	153,809	56%	-16%

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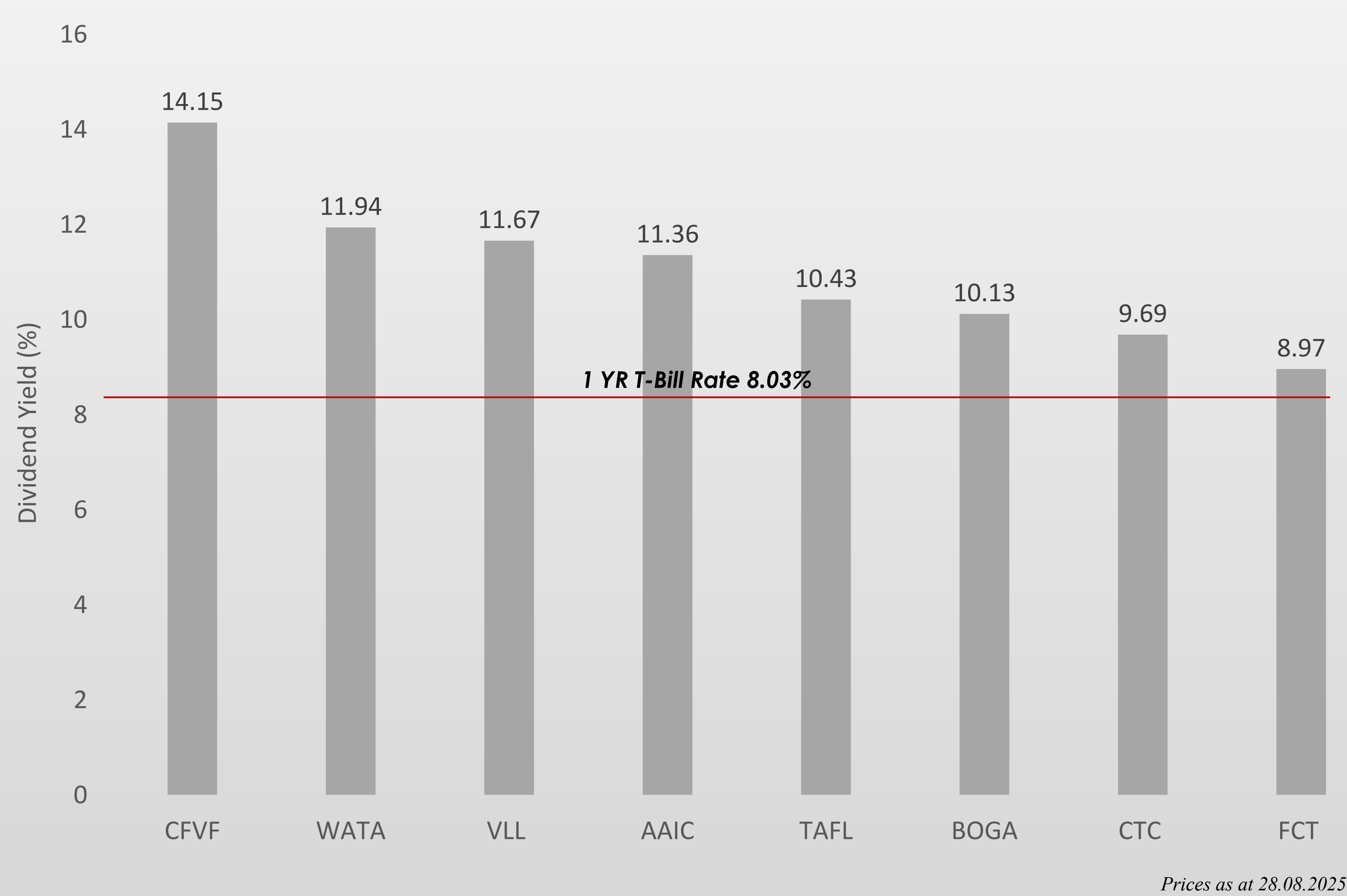
COMB, HNB, CTC, SAMP & CARS are top five contributors to 2Q’25 earnings
Top 25 contributes to 75% of 2Q’25 earnings

In Millions	2Q'24	1Q'25	2Q'25	YoY	QoQ
Commercial Bank	7,929	14,787	15,970	101%	8%
Hatton National Bank	8,570	10,698	11,743	37%	10%
Ceylon Tobacco	7,217	6,679	7,365	-2%	10%
Sampath Bank	8,074	8,925	6,703	-17%	-25%
Carson Cumberbatch	3,043	4,334	6,621	118%	53%
Bukit Darah	2,476	3,360	5,867	137%	75%
Melstar Corp.	3,730	4,488	5,237	40%	17%
LOLC Finance	3,867	8,433	5,203	35%	-38%
Dialog	(1,574)	4,131	5,066	422%	23%
Nations Trust Bank	4,250	4,085	4,708	11%	15%
LOLC Holdings	4,523	4,886	4,627	2%	-5%
Distilleries	3,742	4,081	4,250	14%	4%
Overseas Realty Ceylon Ltd	1,614	974	3,505	117%	260%
DFCC Bank	1,848	2,992	2,789	51%	-7%
Seylan Bank	2,211	2,679	2,764	25%	3%
LB Finance	2,204	3,661	2,720	23%	-26%
Central Finance	2,219	2,325	2,505	13%	8%
National Development Bank	2,608	2,041	2,448	-6%	20%
Lion Brewery	2,179	1,930	2,388	10%	24%
Lanka IOC	3,776	2,727	2,323	-38%	-15%
Sri Lanka Telecom	(479)	2,000	2,274	575%	14%
Cargills (Ceylon)	1,559	2,009	2,266	45%	13%
Commercial Credit	686	3,743	2,129	210%	-43%
First Capital	532	428	1,983	273%	363%
Vallibel One	1,488	5,822	1,943	31%	-67%

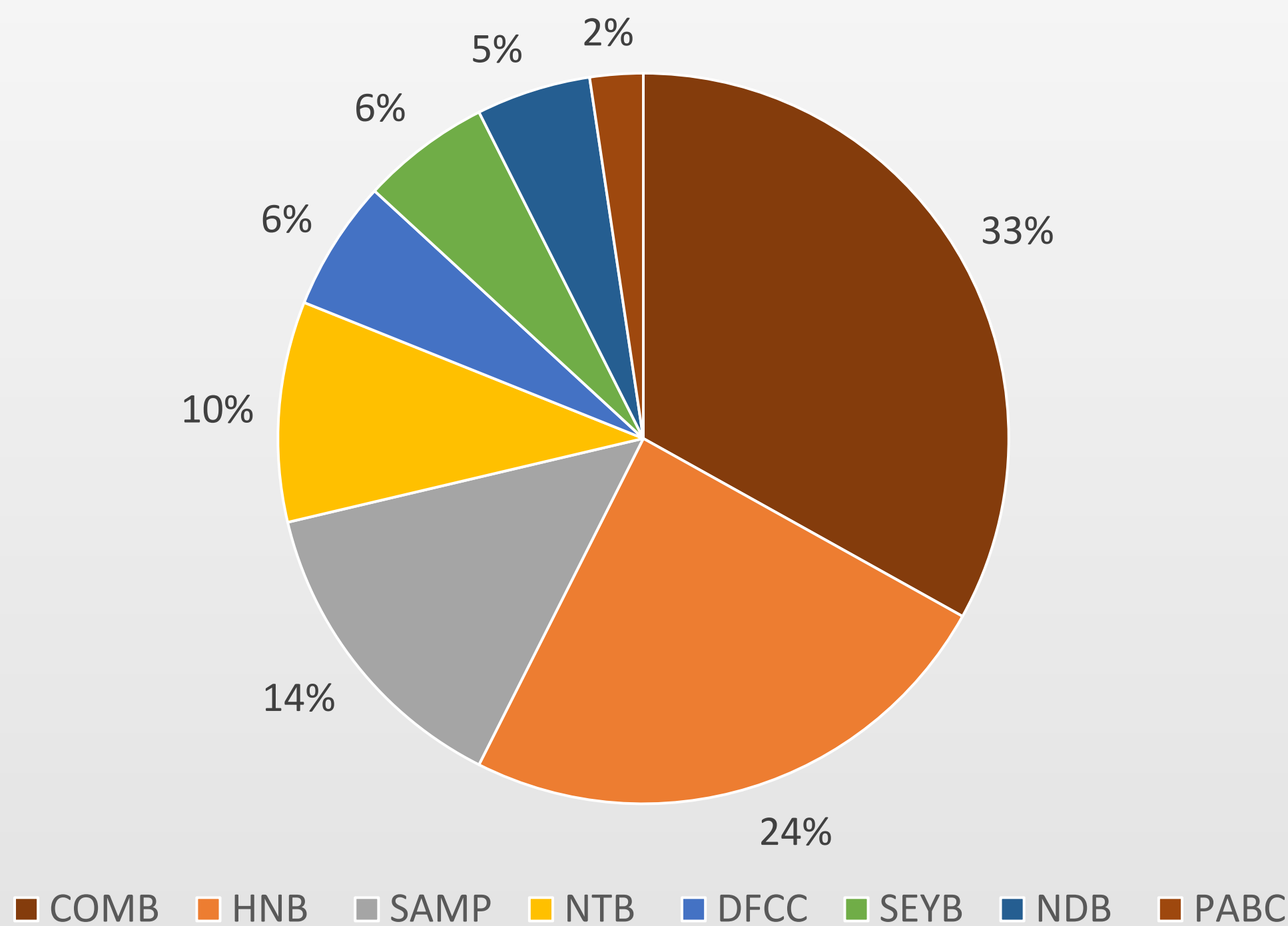
Source : CSE, ACS Research

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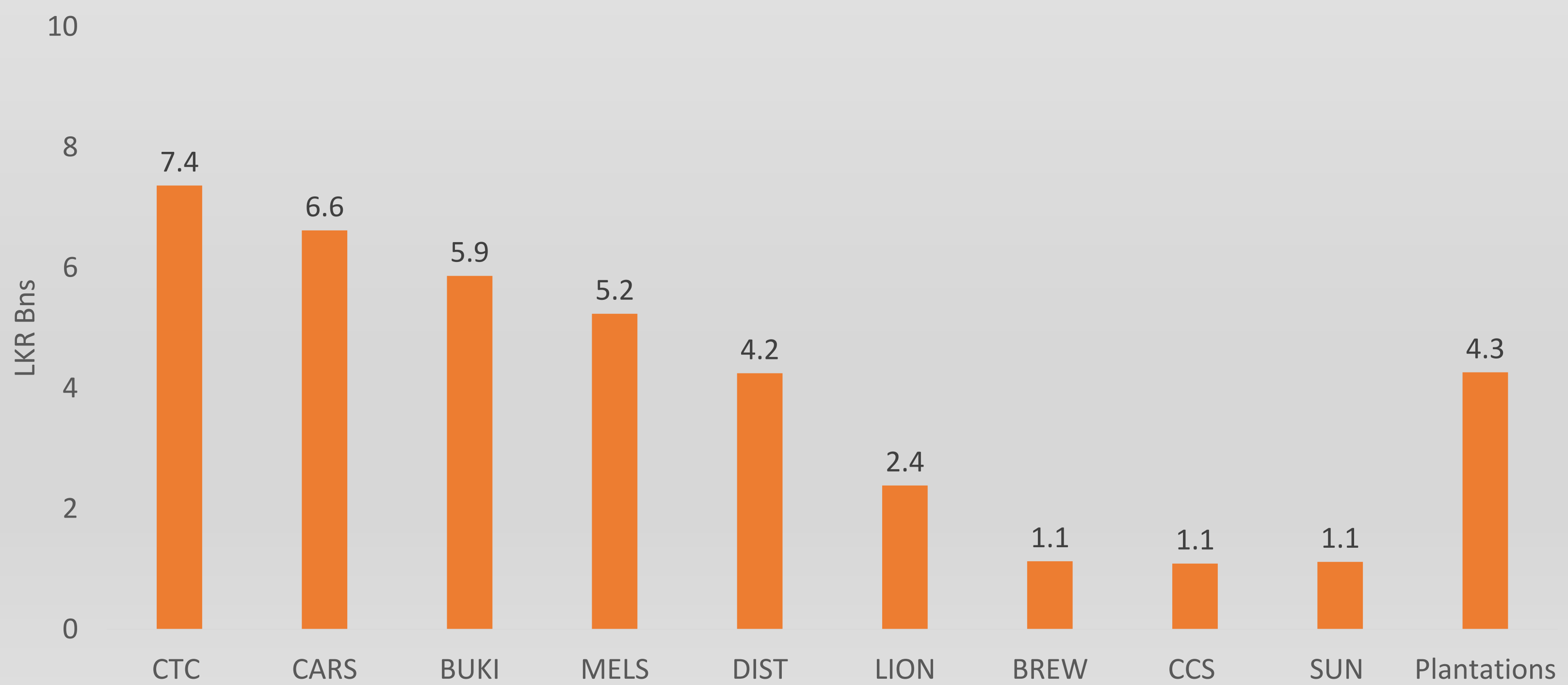
Majority of counters are offering higher dividend yields, exceeding the returns on govt securities
CFVF, WATA & VLL rank as the top 3 highest dividend yields companies



COMB, HNB, SAMP & NTB contributed to 81% of bank earnings in 2Q’25

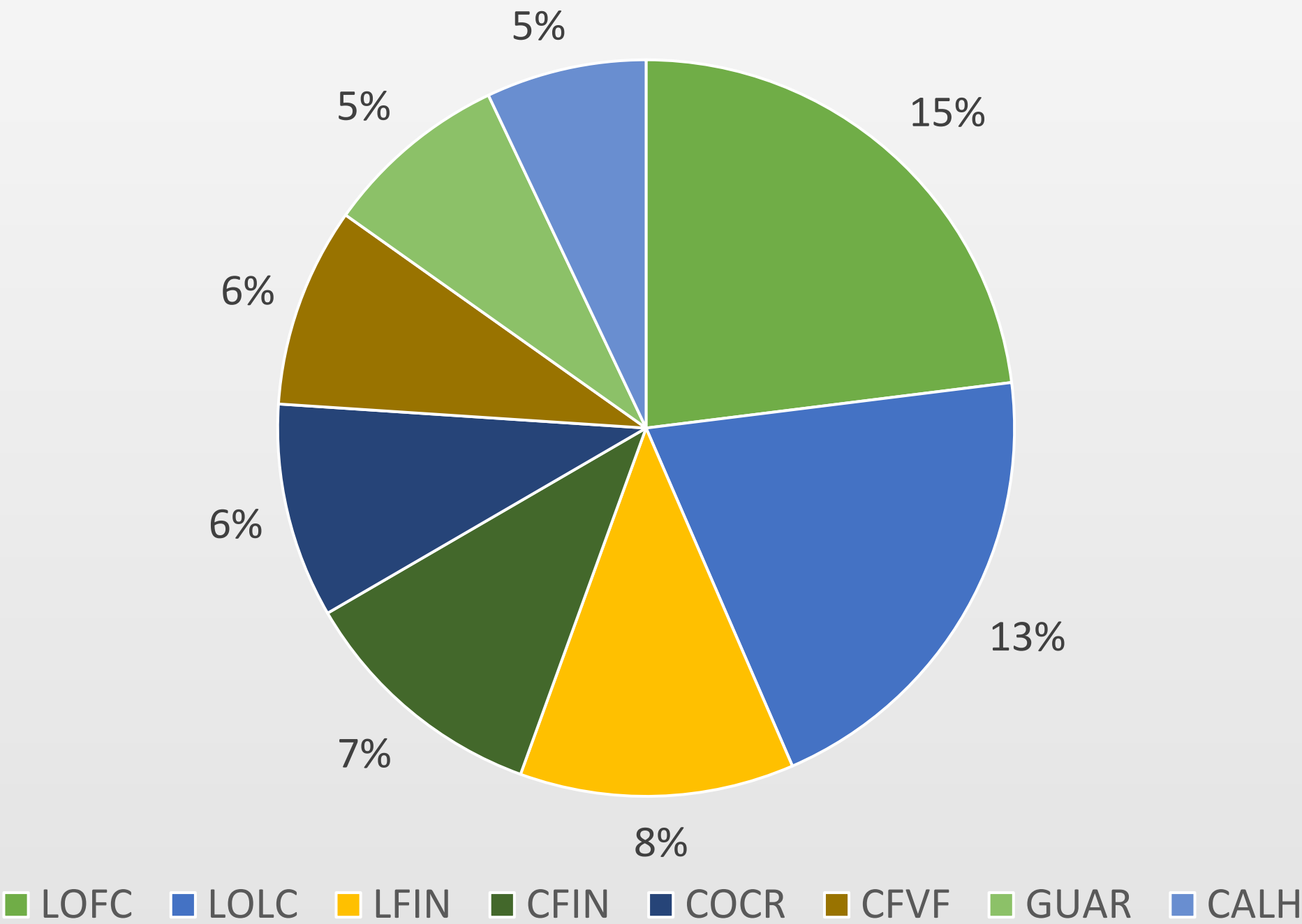


CTC, CARS, BUKI & MELS contributed to major portion of Food, Beverage & Tobacco sector earnings

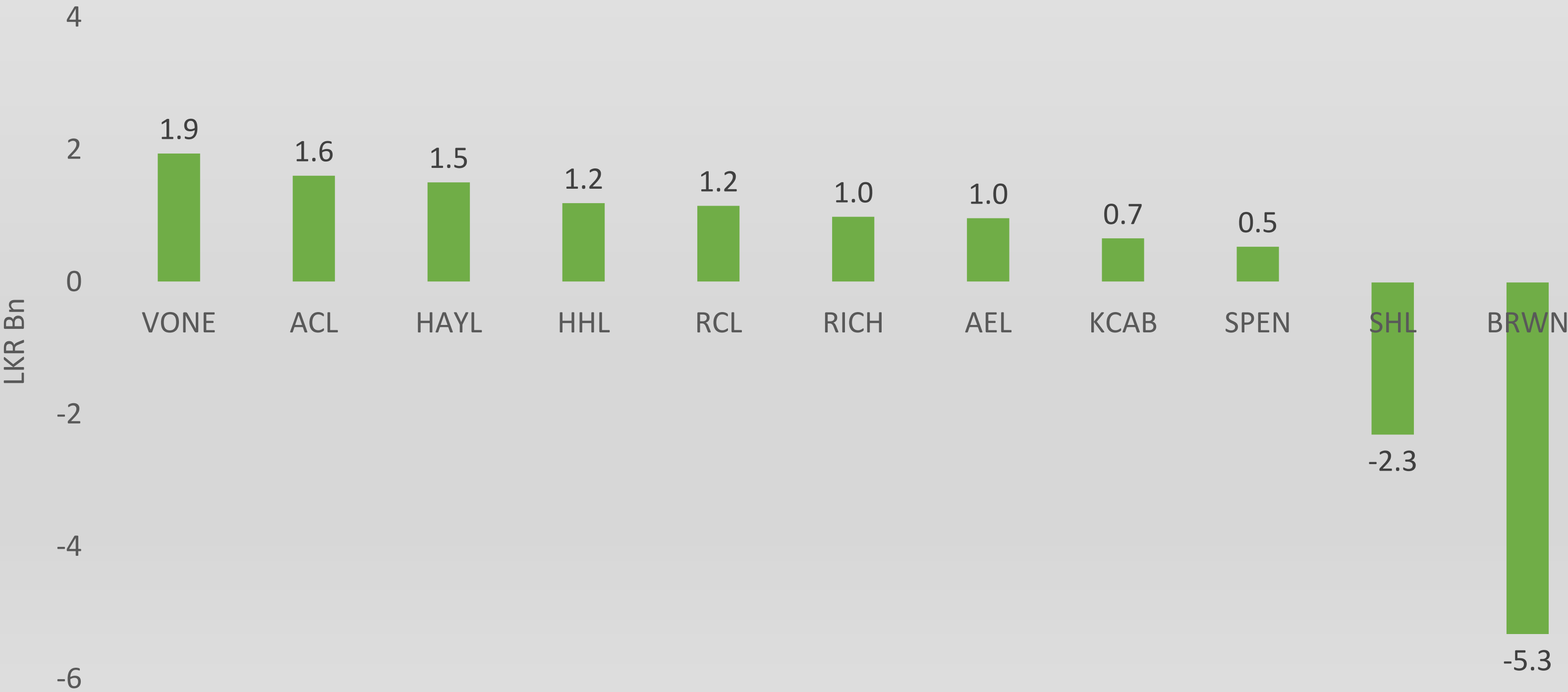


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LOFC,LOLC, LFIN & CFIN contributed to 43% of Diversified Financial sector earnings



VONE, ACL, HAYL & HHL contributed to substantial portion of Capital Goods sector earnings



OUTLOOK

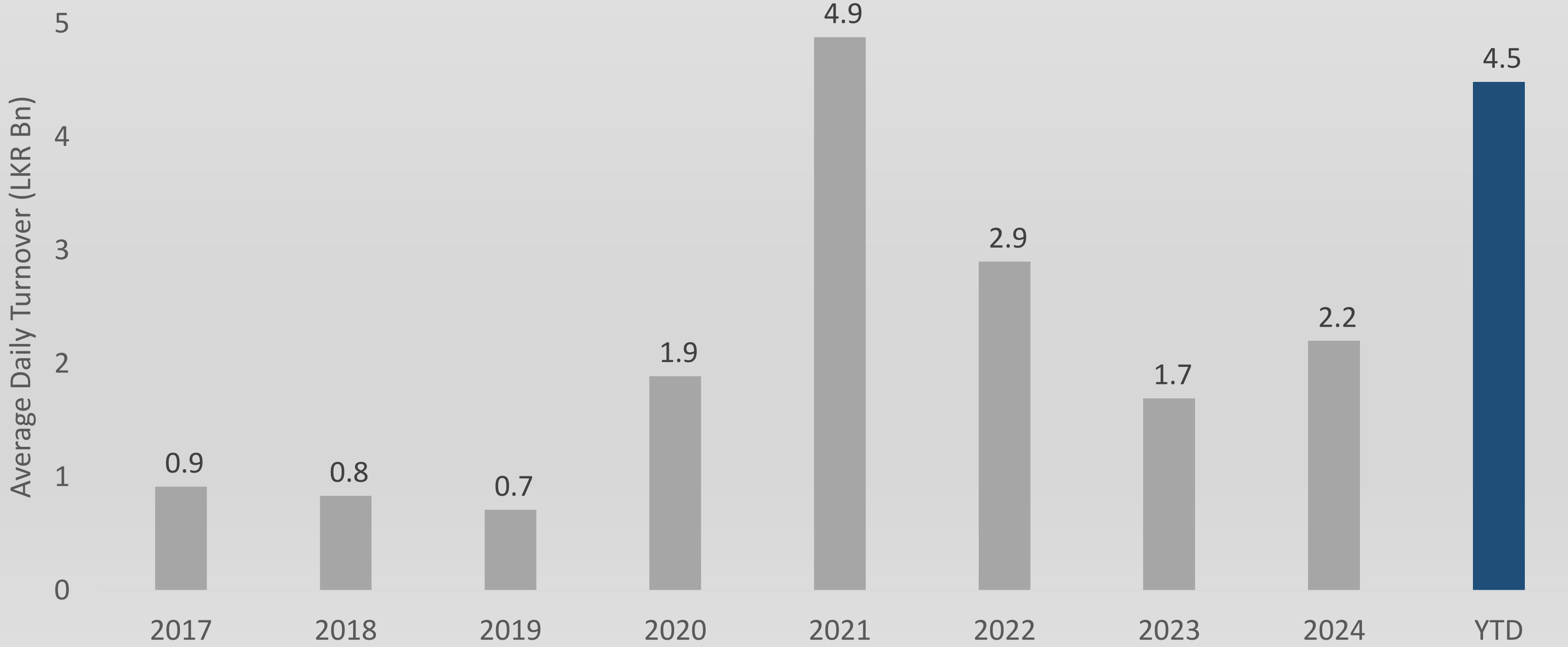
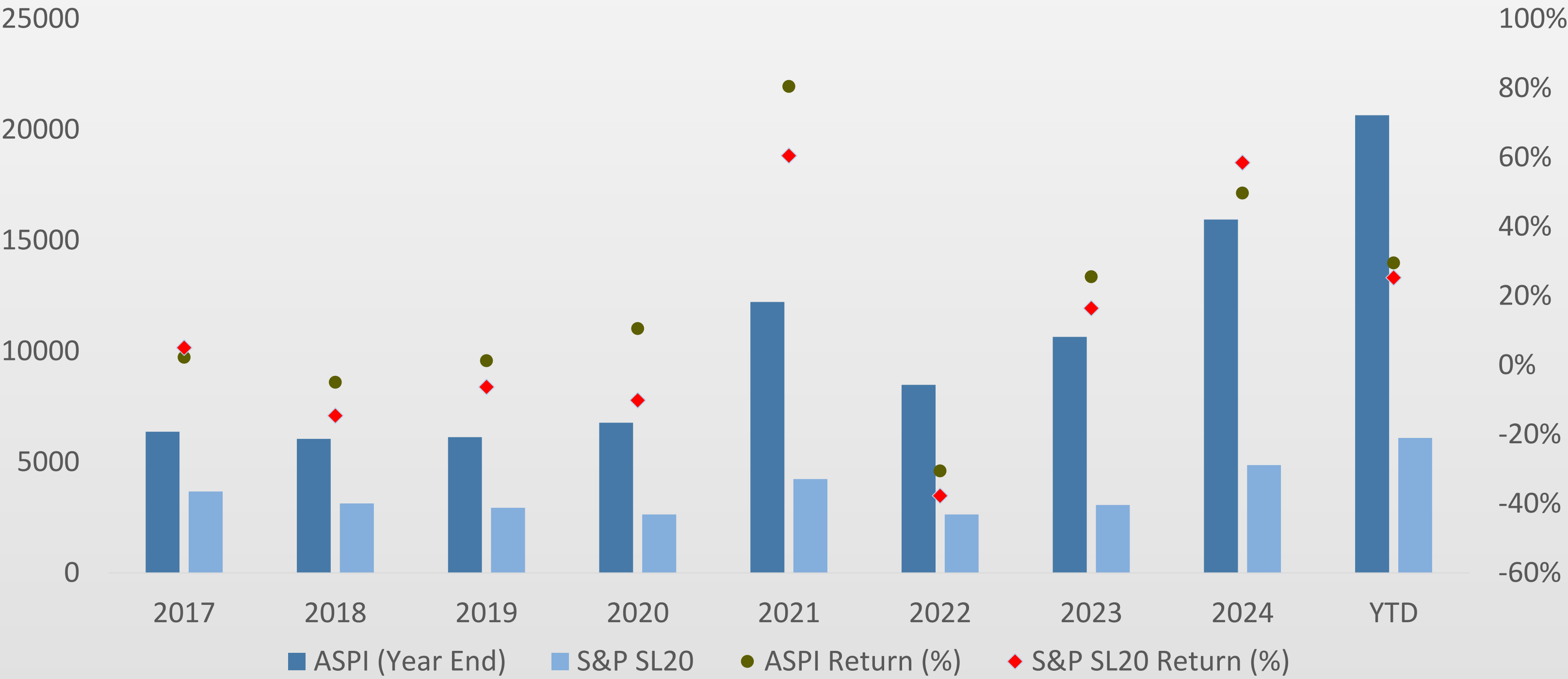
Sri Lanka’s equity market enters a renewed a growth phase

With economic reforms taking hold, a potential rating upgrade on the horizon, and equities outperforming regional peers, the CSE is poised to deliver sustained long-term growth

- ✓ Sri Lanka’s equity market has entered a renewed phase of growth, sustaining its upward trajectory for four consecutive months since May’25. The ASPI has delivered an impressive 30% YTD gain, while the S&P SL20 advanced 25%, reflecting strong and broad-based market performance. This growth trajectory is underpinned by renewed investor confidence, supported by macroeconomic stability, the successful conclusion of debt restructuring, and robust corporate earnings. Favorable tax regimes, particularly the competitive 20% US tax rate compared to regional peers, have further enhanced Sri Lanka’s relative attractiveness to investors.
- ✓ Macroeconomic indicators continue to signal improvement across all fronts, reflecting the ongoing recovery of the Sri Lankan economy and reinforcing investor optimism. The IMF’s positive assessment of Sri Lanka’s progress has validated the country’s strides in restoring economic stability, political credibility, and social resilience. This, in turn, has strengthened foreign investor confidence and positioned Sri Lanka as a potential candidate for another sovereign rating upgrade, a development that would serve as a key turning point for the CSE by unlocking greater inflows of foreign capital.
- ✓ In addition, the prevailing low-interest rate environment has made equities increasingly attractive, redirecting funds from fixed income instruments toward the stock market. Valuations further enhance the attractiveness of Sri Lankan equities. At present, the market is trading at a substantial discount of approximately 18% compared to its 10-year average P/E ratio of 11.7x, making it an attractive option for investors.
- ✓ Coupled with strong earnings growth across sectors and improving liquidity, the CSE has emerged as one of the most compelling investment opportunities in the region. With the convergence of economic reforms, favorable market conditions, and strengthening investor sentiment, Sri Lanka’s equity market is well-positioned to deliver sustained long-term growth, offering both local and foreign investors a unique opportunity to participate in the country’s recovery and expansion story.

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Building on the 49.7% surge in 2024, the ASPI has gained a further 30% this year, while the S&P SL20 advanced 25%. Turnover levels continue to remain elevated, reflecting renewed investor optimism driven by improving market sentiment and increased participation from both local and foreign investors.

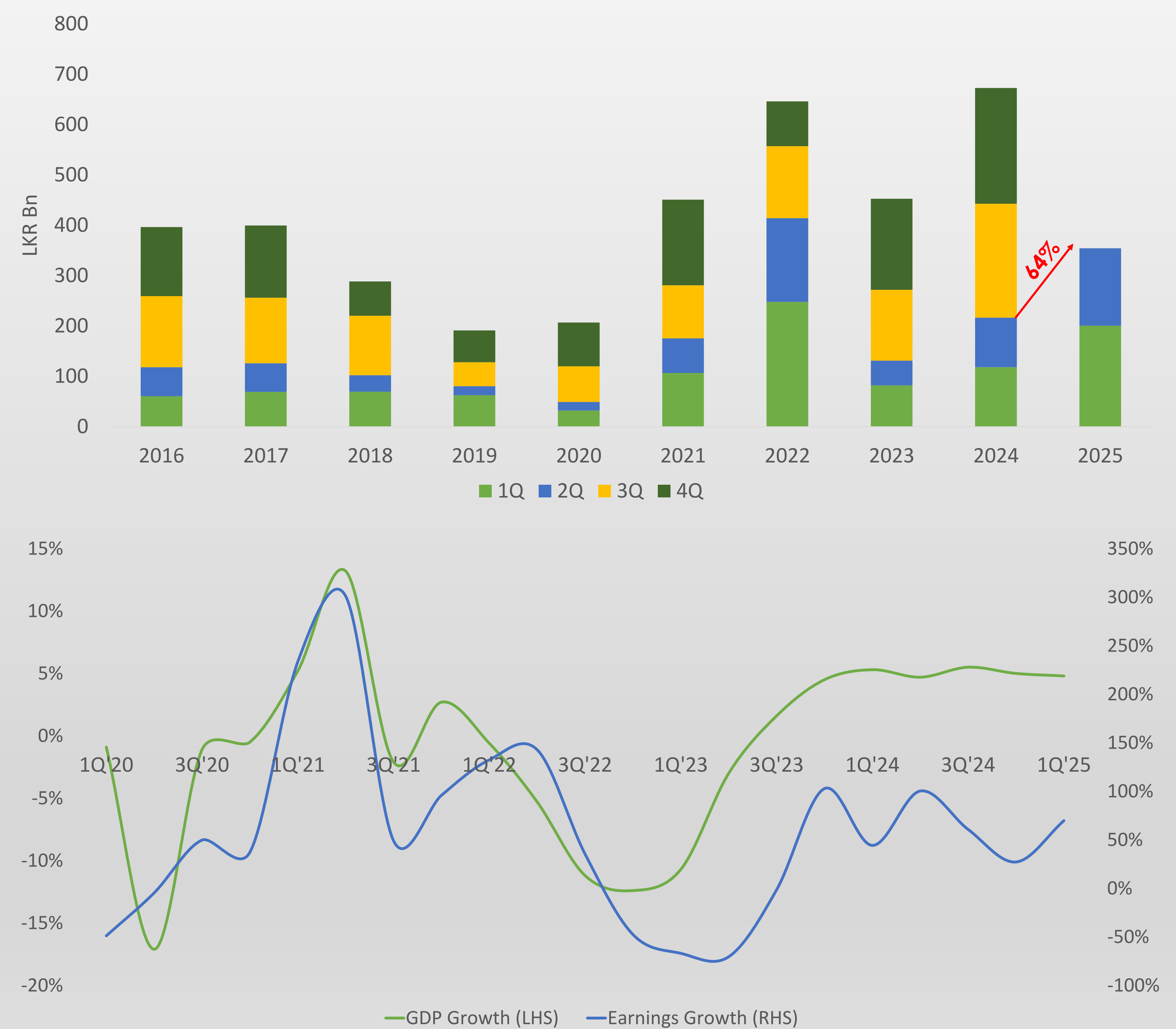


Source : CSE, ACS Research

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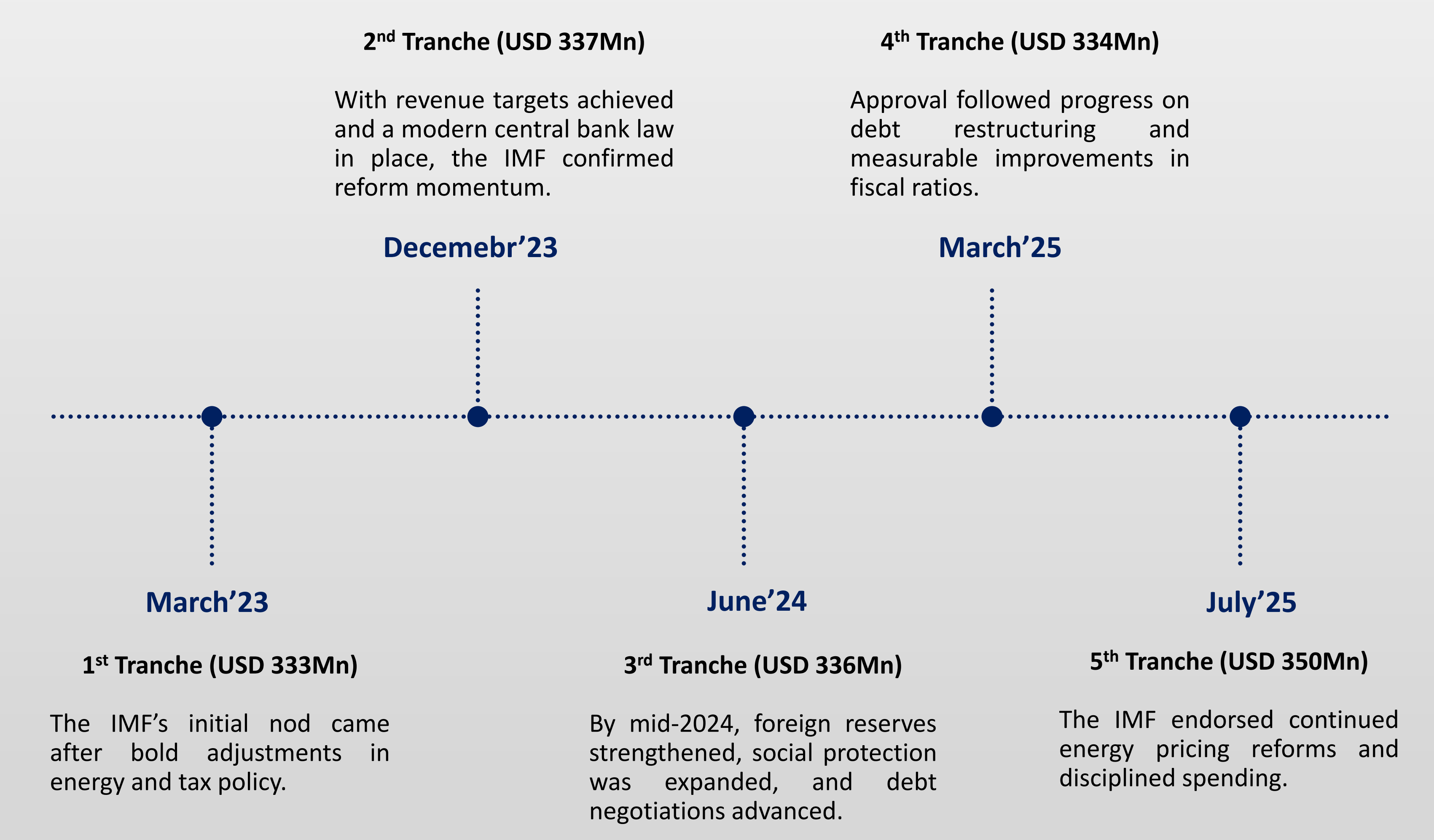
1H’25 earnings have already jumped by 64%YoY

Corporate earnings have mirrored GDP growth, continuing to gain momentum supported by a favorable macroeconomic conditions and stronger business activities continue to support profitability.



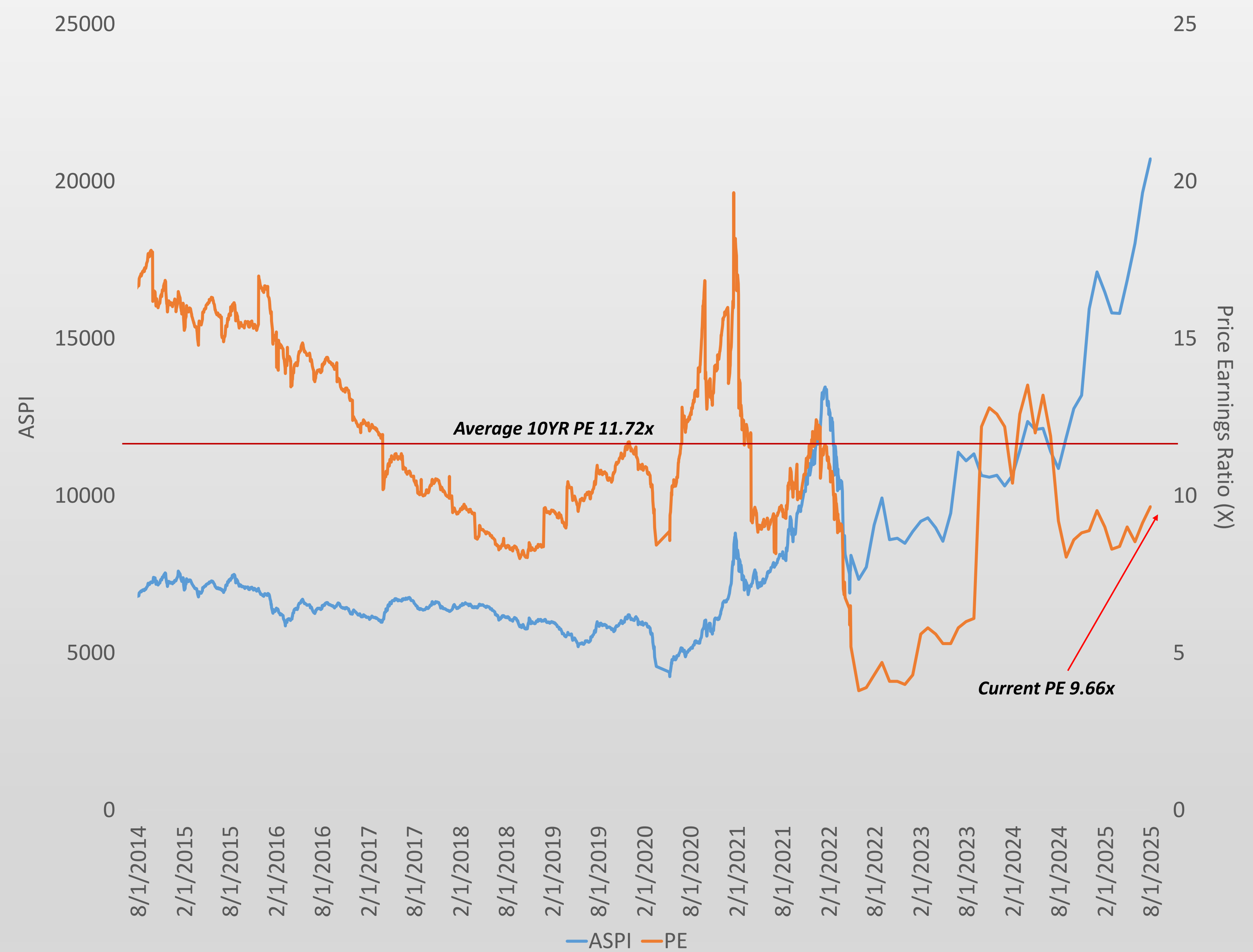
Source : CSE, ACS Research

Each tranche served as proof of the country’s progress in restoring economic stability, political and social resilience. IMF assessments continuously recognized Sri Lanka’s reform drive, highlighting achievements in fiscal consolidation, institutional strengthening, and debt restructuring, which in turn enhanced investor confidence and underscored prospects for lasting stability.



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Sri Lanka still trades at a significant 18% discount to 10 Yr average PE of 11.72x
CSE remains well-positioned for sustained growth, reflecting renewed investor confidence and a favorable macroeconomic backdrop that continues to unlock long-term value.

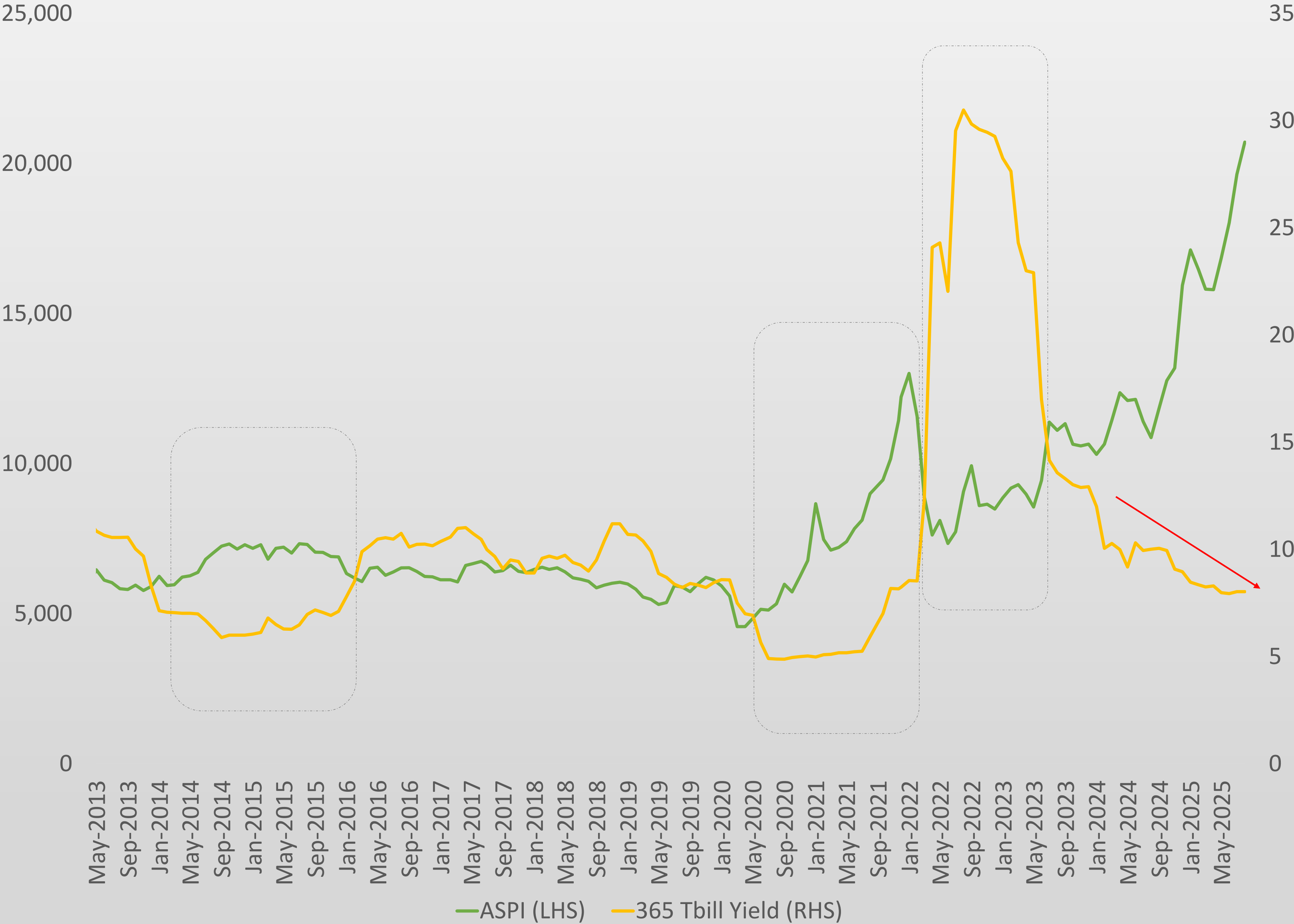


Source : CSE, ACS Research

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With interest rates trending lower, equities gain appeal over low-yielding fixed income assets

Declining interest rates have reinforced the appeal of equities, with the ASPI exhibiting a sustained inverse correlation that continues to drive capital inflows into the market.



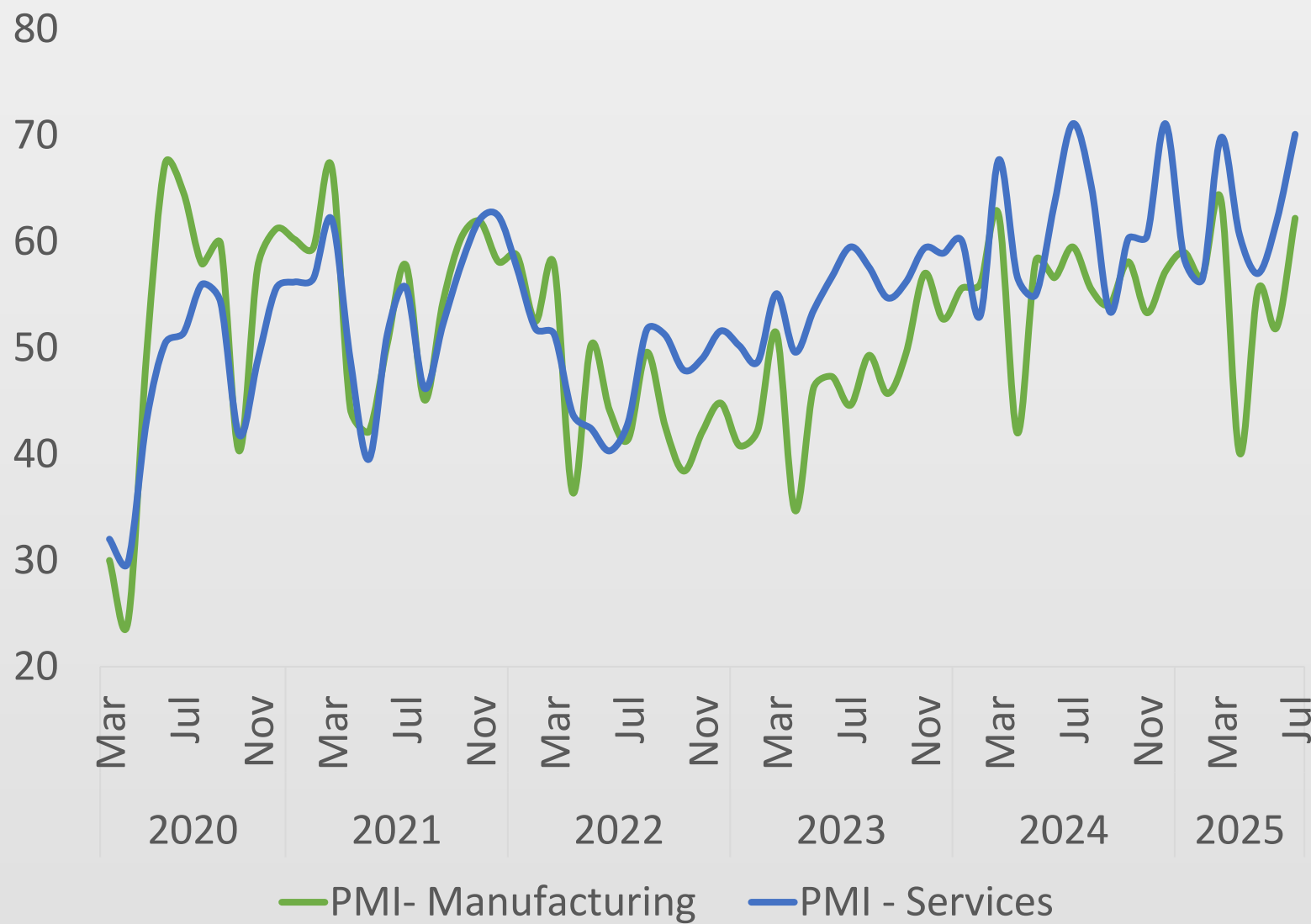
Source : CSE, ACS Research

BROAD-BASED SECTORAL
EXPANSION CONTINUES TO
DRIVE SUBSTANTIAL
EARNINGS GROWTH

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Improving macroeconomic indicators are expected to sustain and support continued corporate earnings growth. Shifts in market conditions, alongside increasing demand, are contributing to a more resilient & promising business outlook.

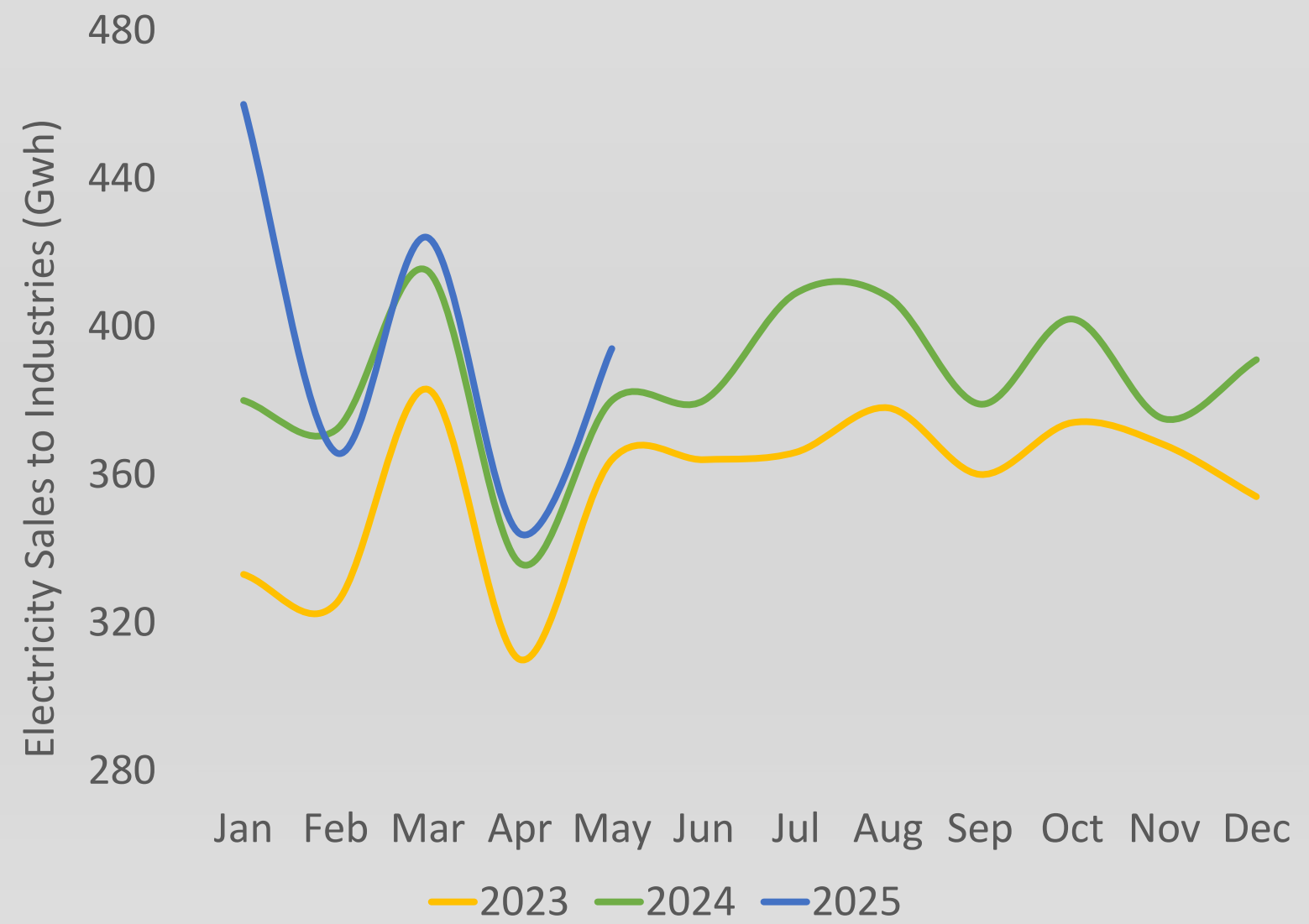
PMI for both manufacturing & services is trending upwards, indicating higher activities



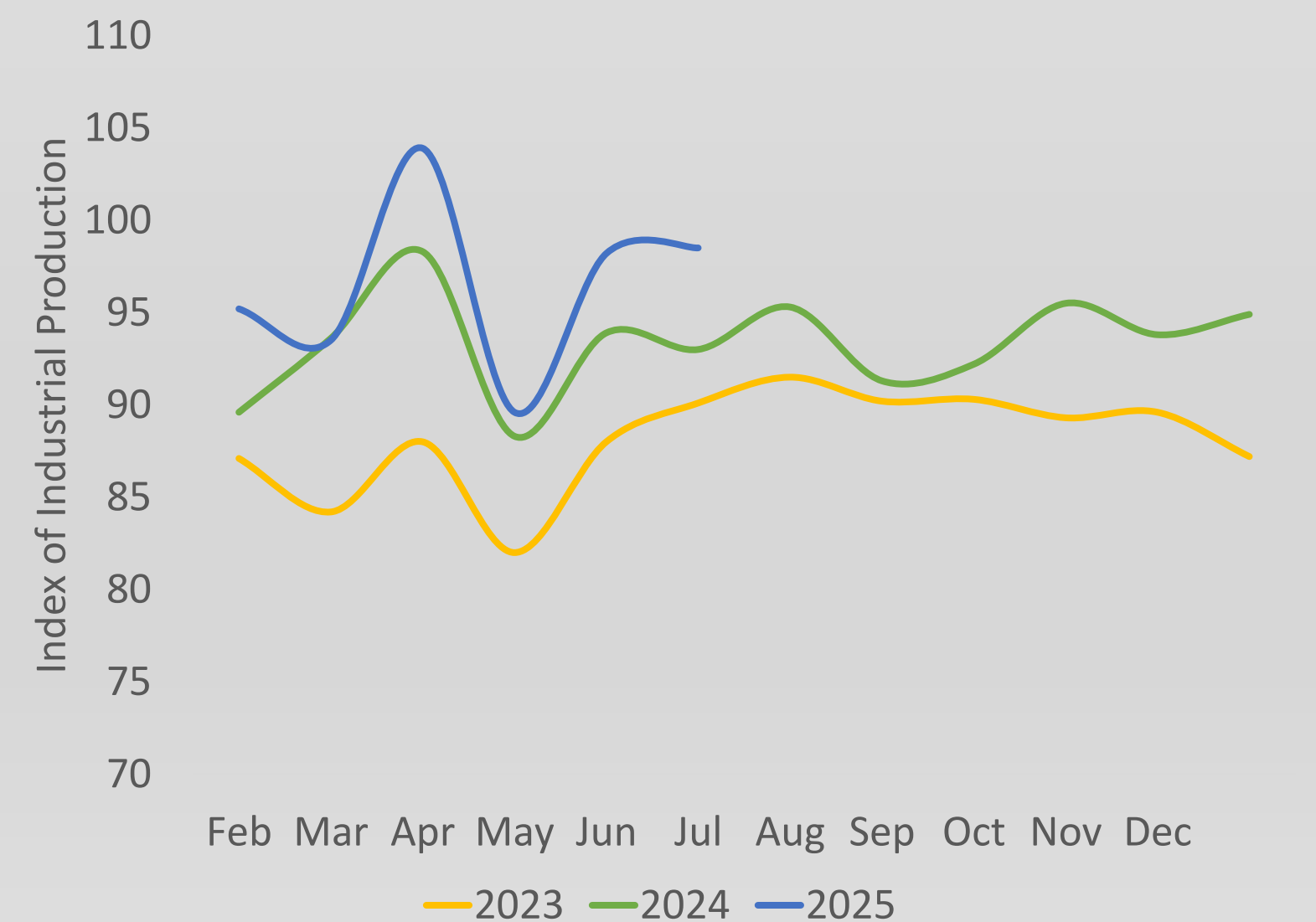
Business Confidence Index continues to be strengthened



Electricity usage is picking up, signaling an uptick in industrial production



Rising IIP reflects strengthening production activity and a rebound in consumer demand

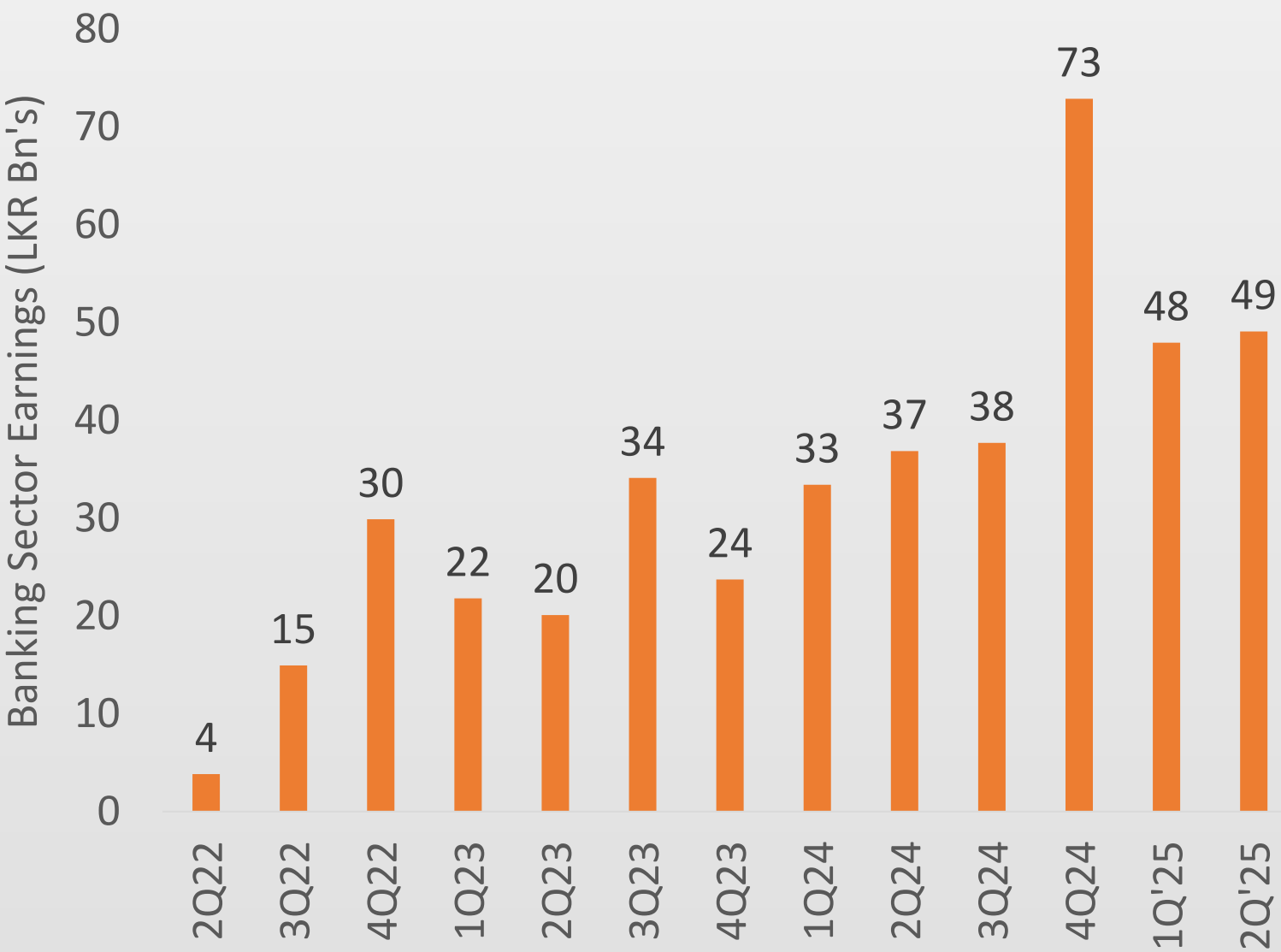


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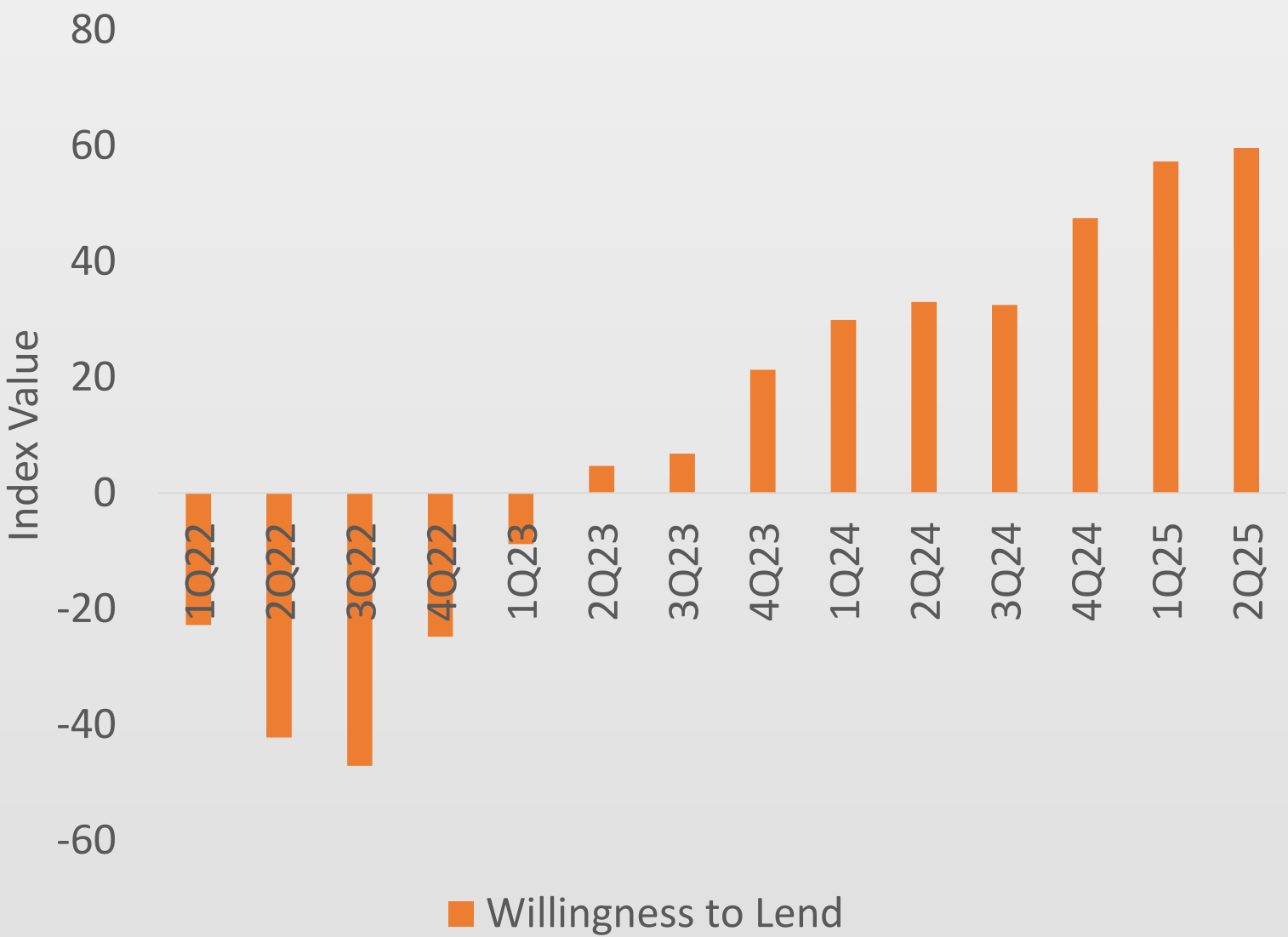
Banking sector profits surged by impressive 44%YoY in 1Q’25, led by lower impairment provisions

Resilient Banking sector looks promising, with rising credit demand and improving asset quality indicators.

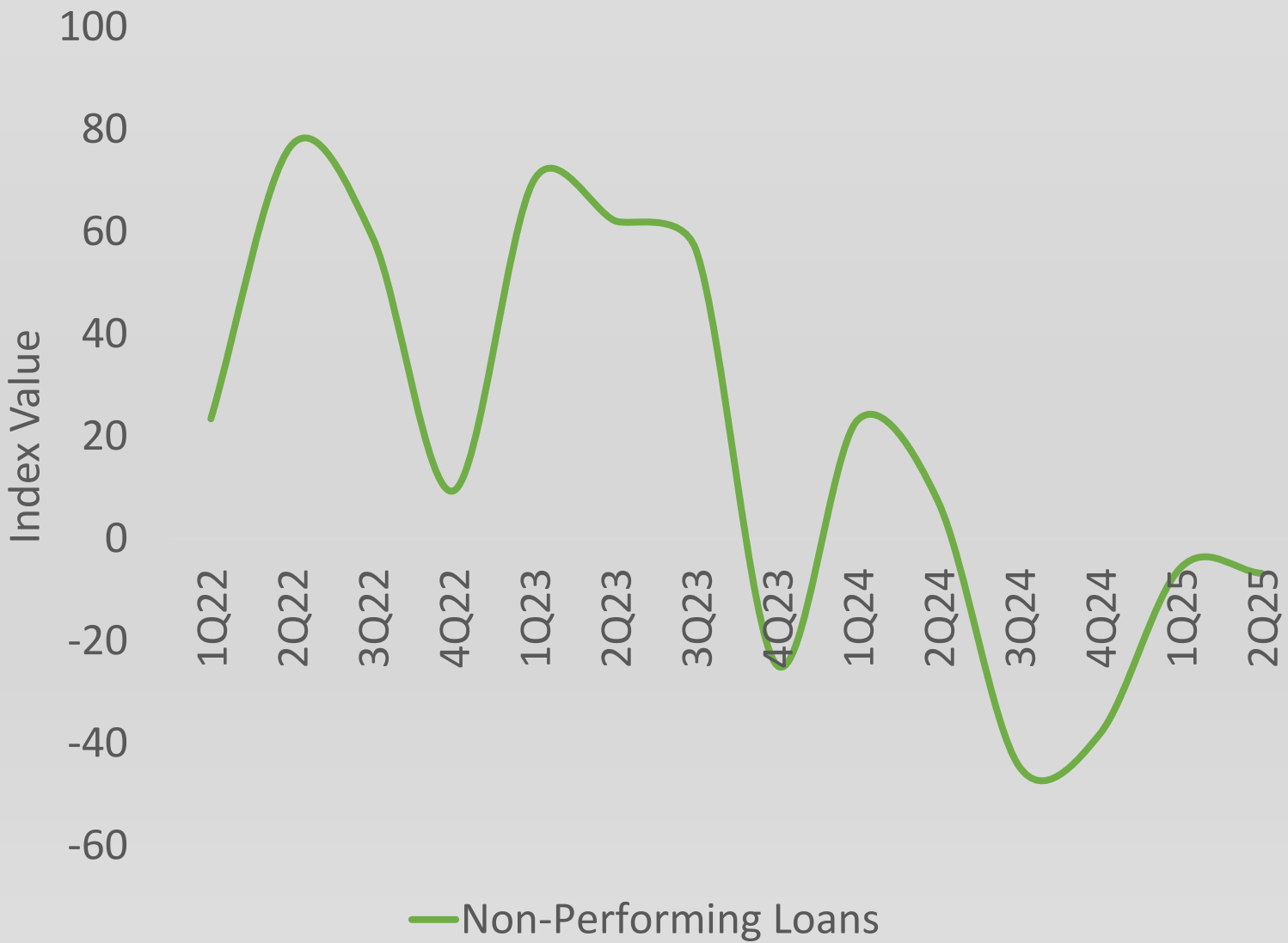
Banking sector earnings are on an upward swing



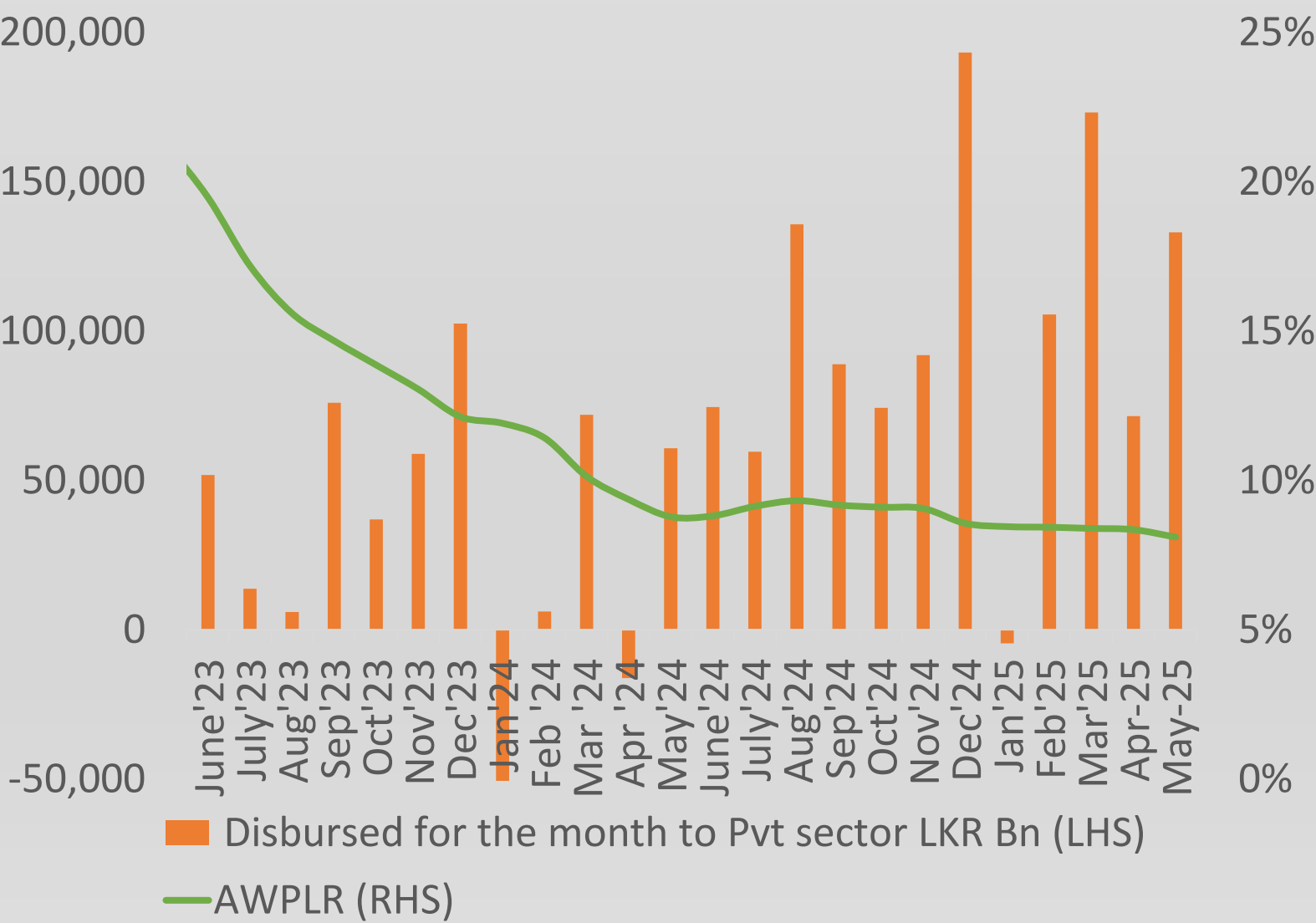
Willingness to lend is growing up, witnessing an overall improvement in economic activities



Non-performing loans are on a downward trend, supporting lower impairment charges



Pvt sector credit is surging amid low-interest rate environment

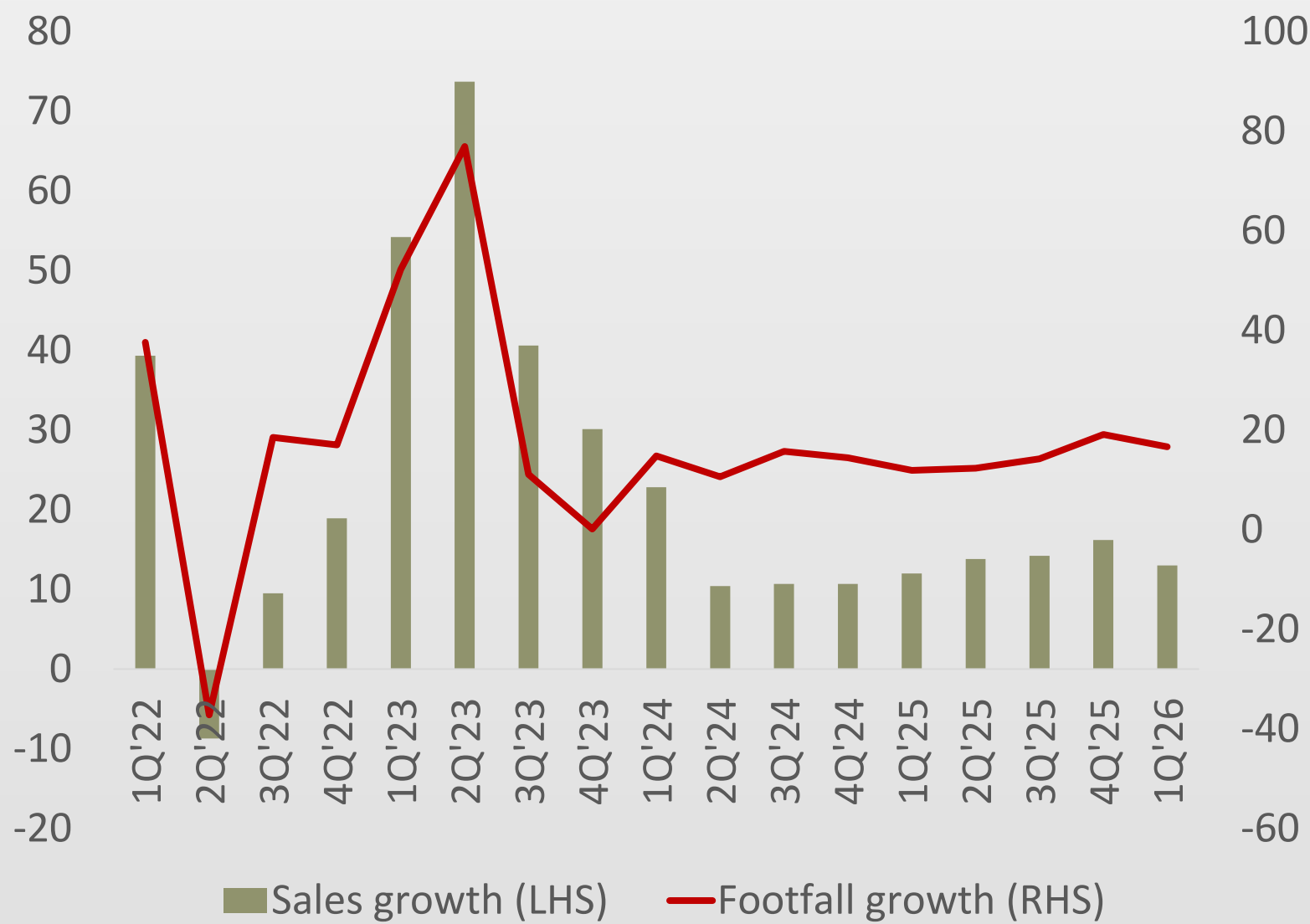


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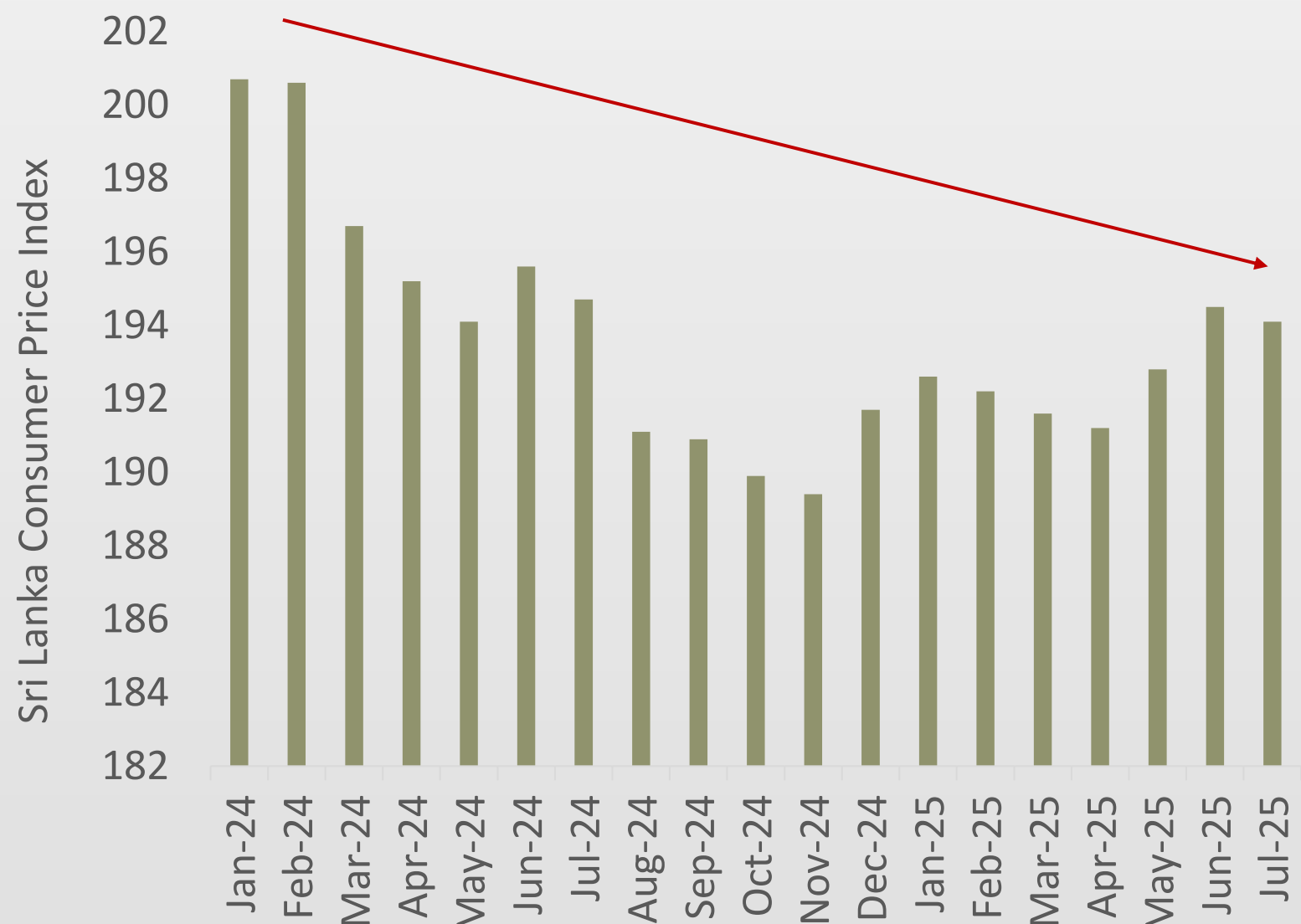
Consumer sector outlook brightens as retail activity picks up and demand gradually strengthens

Easing inflation, declining interest rates, and improved credit access enhance consumer purchasing power.

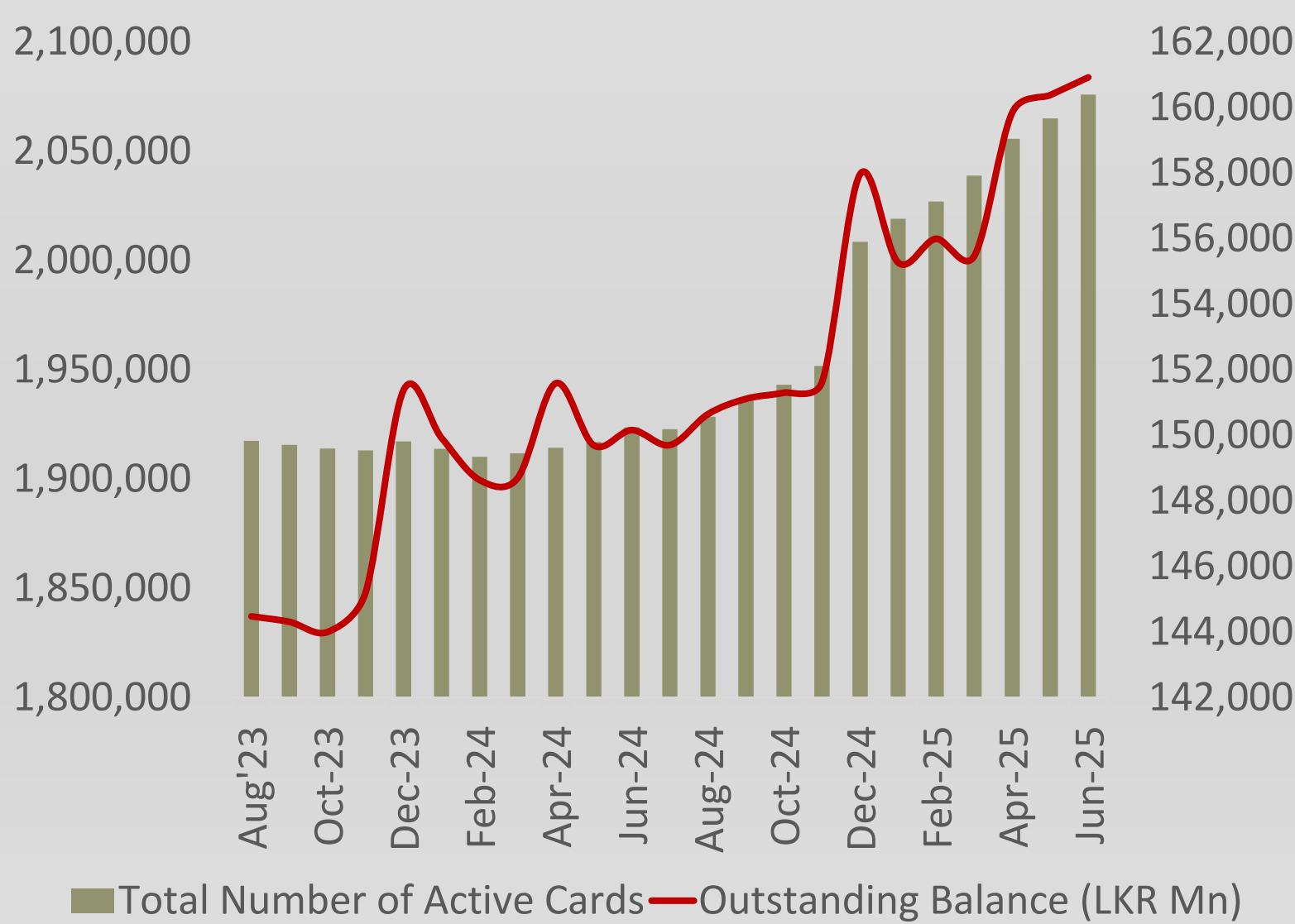
Moden retail sales up with growing footfall



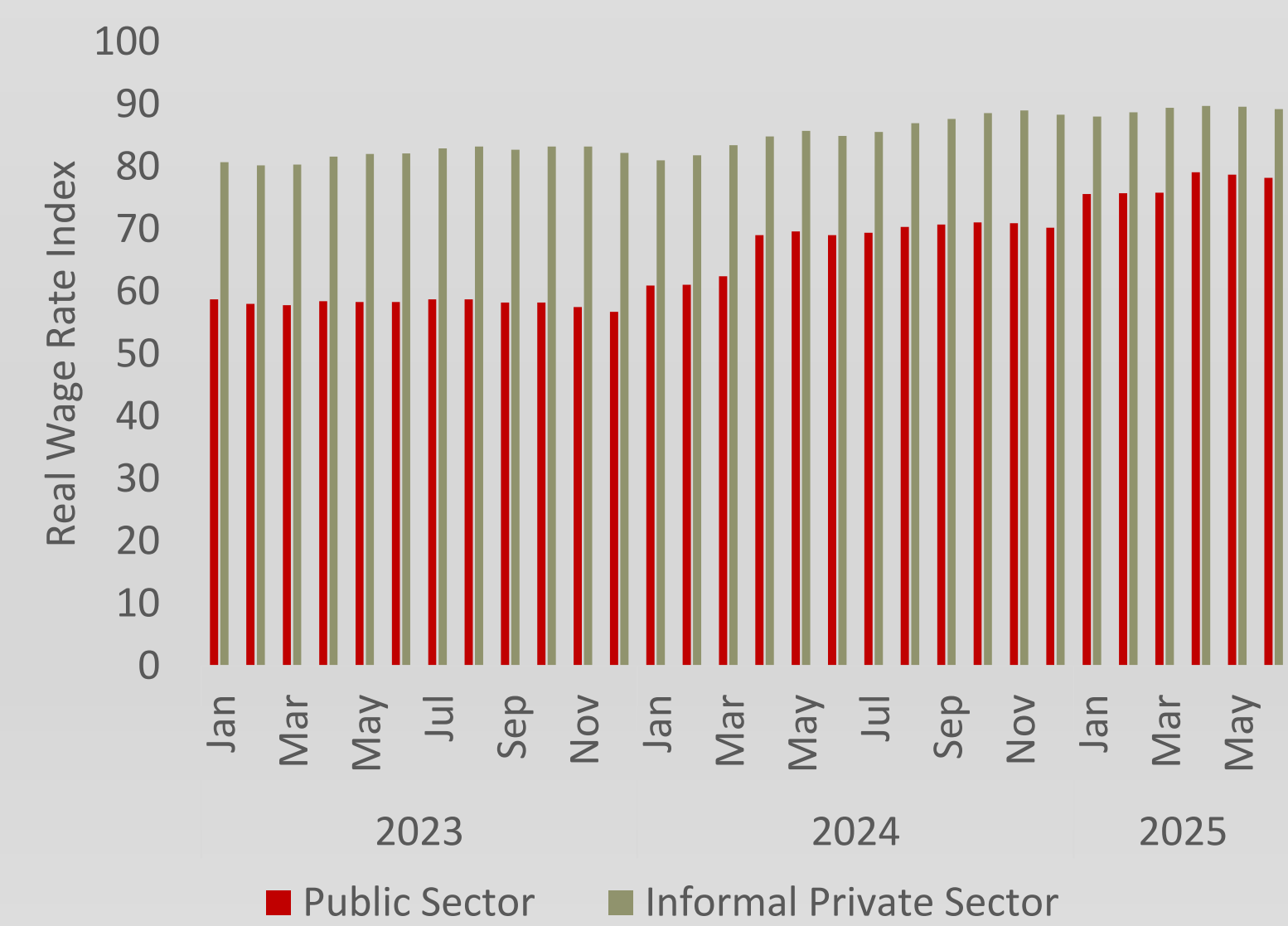
Falling CPI to boost consumer’s purchasing power



Rising credit card usage signals economic upturn



Rising wage rates to drive up expenditures



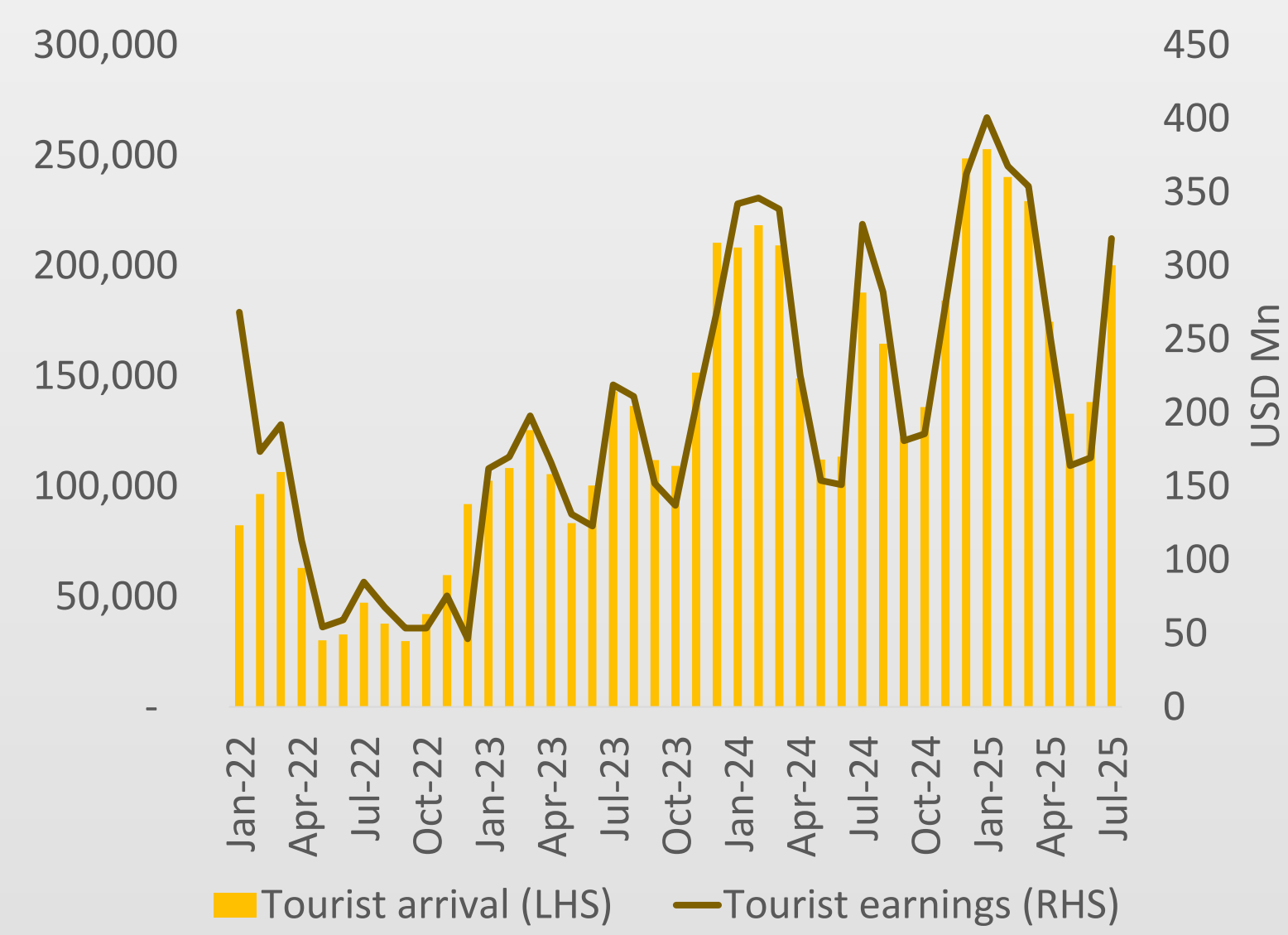
Source : CSE,CBSL,JKH Investor Presentation, ACS Research

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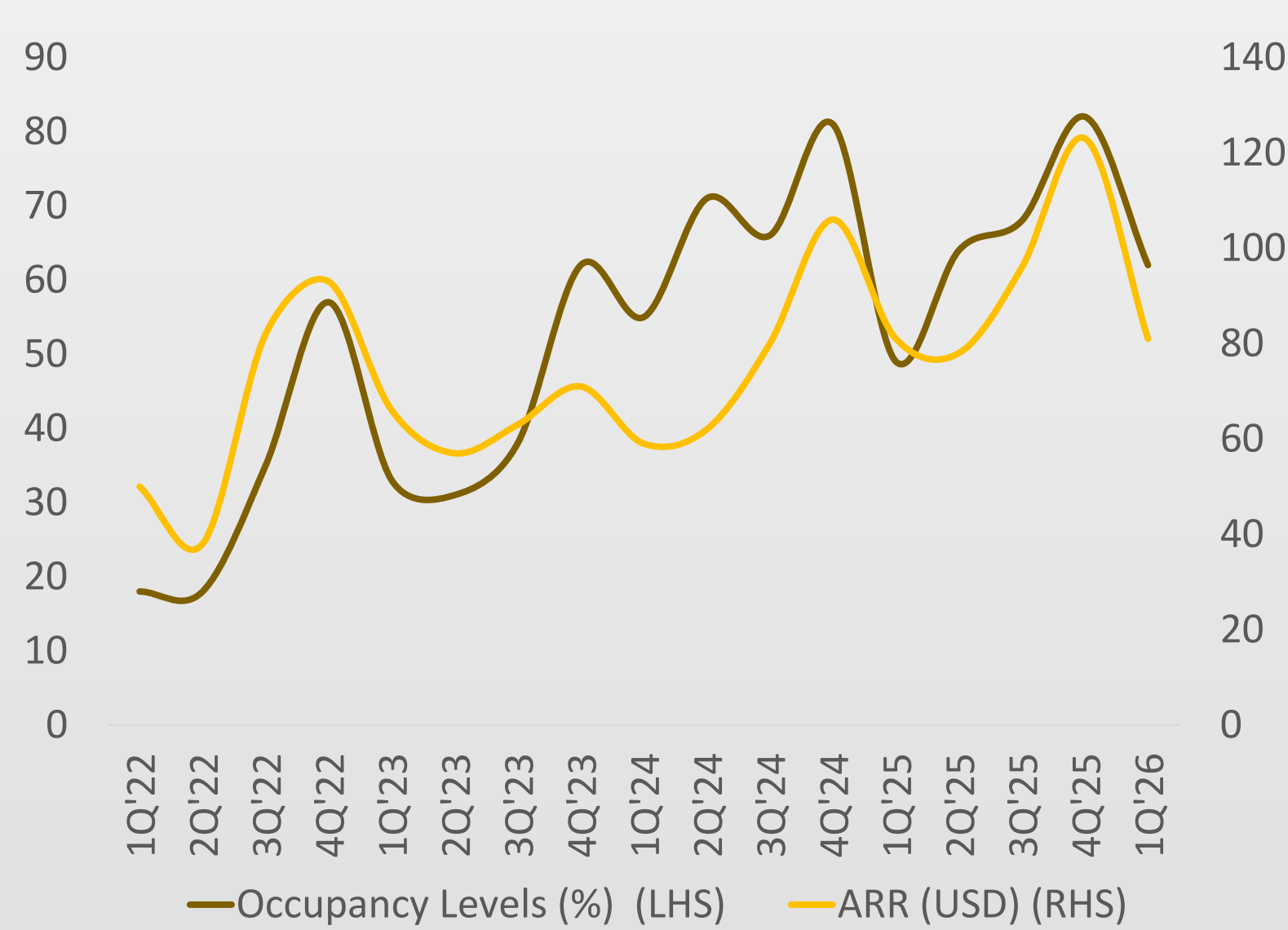
Spike in tourist arrivals to boost hotel sector earnings, fostering an optimistic outlook for the industry

Sri Lanka exceeds 1 Mn tourist arrivals to date, advancing toward the ambitious year-end target of 3 Mn visitors.

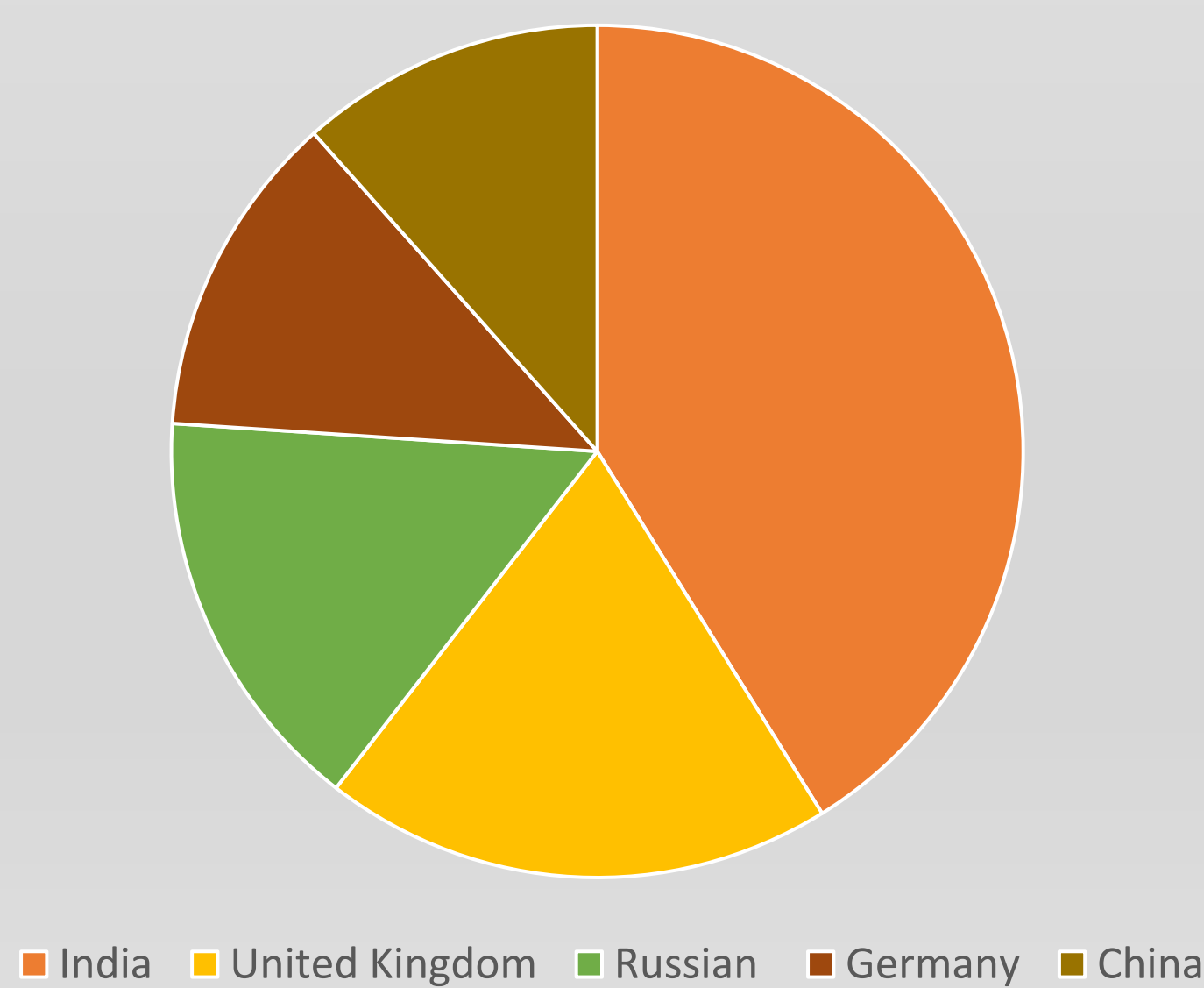
SL Tourism industry is experiencing a massive growth



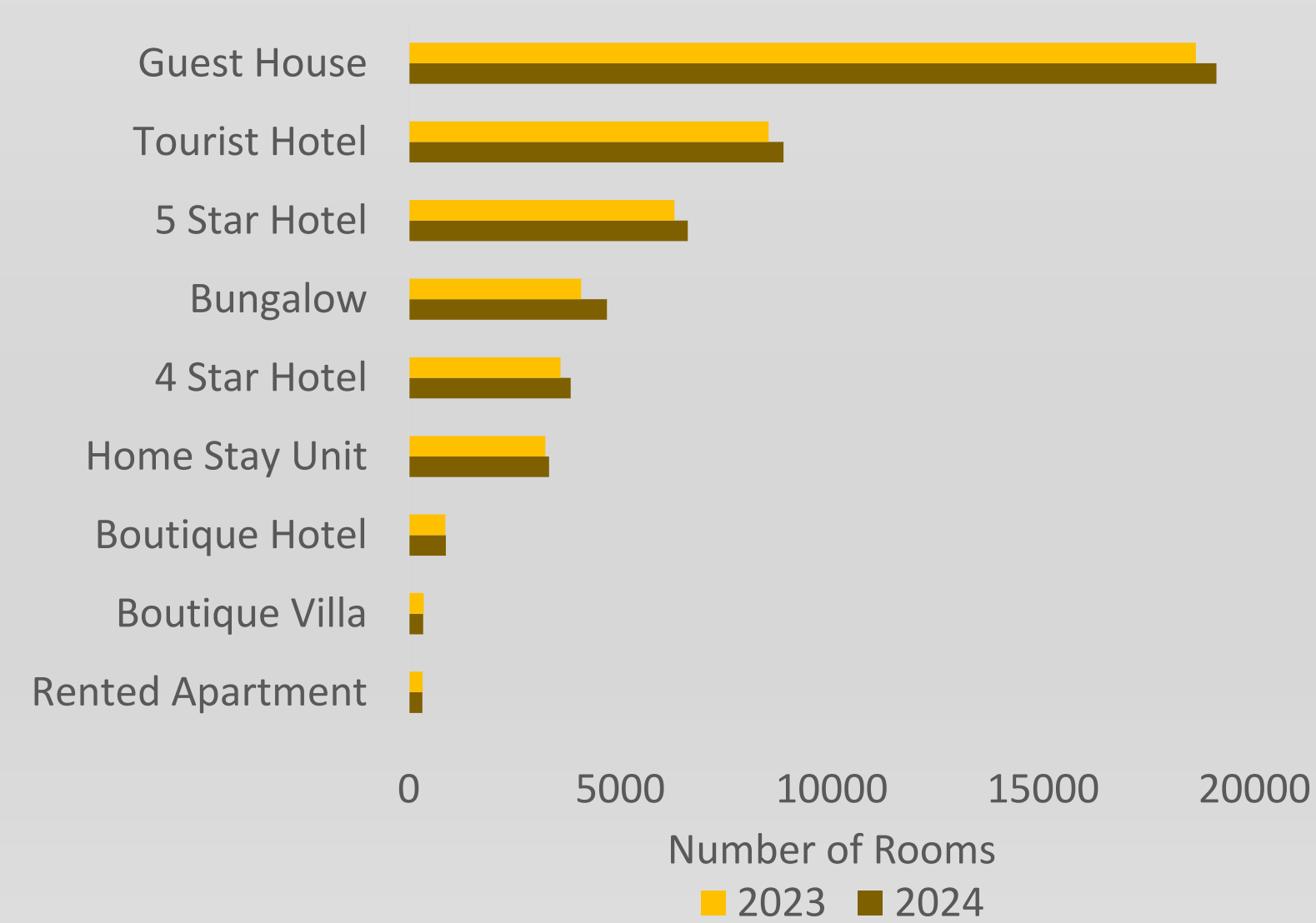
Occupancy Levels & ARR are improving steadily



India, the UK and Russia emerged as the leading source market



Rooms establishments are rising to accommodate the growing influx of tourists



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ACS Key Picks

	Ticker	Current Market Price(LKR) (28.08.2025)	PE (x)	PBV(x)	DY(%) (Trailing 12M)	ROE (%)
Market			9.66	1.40		
Banking Sector						
Hatton National Bank PLC	HNB.N	399.50	4.6	0.83	3.8	18.1
Commercial Bank of Ceylon PLC	COMB.N	193.75	4.7	1.05	4.9	22.5
Sampath Bank PLC	SAMP	146.00	5.3	0.96	6.4	18.3
Diversified Financials						
LB Finance PLC	LFIN	139.50	6.8	1.5	1.6	21.9
Central Finance Company PLC	CFIN	286.25	6.4	0.8	2.3	12.9
Consumer & Capital Goods						
John Keells Holdings PLC	JKH	23.00	75.4	1.0	0.7	1.4
Ceylon Cold Stores PLC	CCS	110.00	17.8	4.6	5.1	25.9
Distilleries Company of Sri Lanka PLC	DIST	47.00	12.8	11.3	6.4	88.3
CIC Holdings PLC	CIC.N	140.00	9.8	1.3	1.8	13.1
Hayleys PLC	HAYL	175.25	9.7	1.4	3.4	14.2
Hemas Holdings PLC	HHL	30.50	11.0	1.9	5.6	17.0
Construction						
Access Engineering PLC	AEL	61.30	10.5	1.7	3.3	16.2
Royal Ceramics Lanka PLC	RCL	46.30	9.7	1.0	3.5	10.8
Tokyo Cement Company PLC	TKYO.N	90.50	11.7	1.3	2.5	11.1
Hotels						
Aitken Spence Hotel Holdings PLC	AHUN	87.20	11.0	1.3	N/A	11.5
John Keells Hotels PLC	KHL	24.00	128.2	1.1	0.4	0.9

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