

ACS KEY PICKS



CSE positioned for growth amid economic resilience and renewed investor confidence

Equity markets poised for continued revival

We anticipate the Colombo Stock Exchange (CSE) will benefit from reduced risk premiums following external debt restructuring and greater economic stability, leading to a convergence with emerging market valuations. The restructuring underscores strengthened fiscal discipline and improved access to concessional financing, contributing to an upgrade in the country's credit rating. As a result, we expect foreign investors to renew their focus on Sri Lanka, with foreign institutional investors—who have remained relatively inactive in recent years—likely to increase their allocations, signaling growing confidence in the market.

Sri Lankan equities are poised for growth, driven by reduced risk premiums, credit rating upgrades, and renewed foreign investor interest, supported by global liquidity and easing US monetary policy.

Global liquidity and risk appetite is expected to follow along with US's accommodative monetary policy, prompting investors to allocate capital to emerging markets. Sri Lankan equities could benefit from such conditions, as reduced global yields to draw foreign inflows into underweighted markets like Sri Lanka.

The CSE is set to gain from increased local investor participation, driven by low fixed income returns, attractive valuations below 10x earnings, and tax exemptions on capital gains amid a stable economic outlook.

The CSE is poised to benefit further as improved local investor participation drives activity. Local investors are expected to return to equities due to low fixed income returns and compelling valuations, with the CSE still trading below 10x earnings. This shift is supported by a favorable economic outlook, characterized by record-low inflation and reduced political uncertainties. Additionally, tax exemptions on capital gains enhance the appeal, fostering greater local participation and bolstering market momentum in our view.



Economic recovery fuels sector -wide growth opportunities

Anticipated growth expected across key industries

We anticipate that lower inflation, stable exchange rates, rising consumer demand, and low interest rates to significantly boost corporate profitability, particularly in consumer-focused and import-driven sectors. The ongoing economic recovery is expected to create broad-based benefits across industries, with some sectors standing out for their potential to outperform.

In the banking sector, profitability is likely to surge due to provision reversals, a more favorable economic environment, increased loan disbursements, and improved loan quality, reflected in lower non-performing loan (NPL) ratios. The finance sector is set to gain from the relaxation of vehicle import restrictions, which is expected to stimulate demand in ancillary industries such as lubricants, spare parts, and energy.

*Key areas like Banking,
Finance, Leisure,
consumer,
Manufacturing ,
Diversified segments to
benefit*

The tourism and leisure sector stands to benefit from a rise in tourist arrivals, driven by improved global travel sentiment and Sri Lanka's enhanced appeal as a destination. Concurrently, the construction sector is poised for recovery, supported by improved private sector credit growth from low interest rates and bolstered by fresh investments from both government initiatives and foreign direct investments (FDIs).

Increased domestic demand is expected to drive growth in manufacturing and consumer goods, while a potential easing of global monetary policies could further enhance export demand, providing a significant boost to export-oriented businesses



SL Equities: Positioned for strong growth and value creation

ASPI expected to reach 19,300, with a PE ratio of 12-12.5x, driven by earnings growth of 15-20%.

Diversified conglomerates are well-positioned to capitalize on these trends, benefiting from robust local and international demand. Additionally, improved import volumes are likely to support growth in ports and shipping, further fueling economic activity and enhancing overall demand across multiple sectors.

This combination of sector-specific drivers and a broader economic recovery highlights the potential for sustained growth and value creation in Sri Lanka's equity market, with earnings projected to grow by at least 15%-20% YoY in 2025E.

Sri Lankan equities are attractively valued, trading below 10x earnings. With anticipated earnings growth of 15%-20% in 2025E and a valuation re-rating to 12.0x-12.5x, we project the ASPI to surpass 19,300 in 2025E, delivering over 20% upside and outperforming fixed-income and other asset classes.

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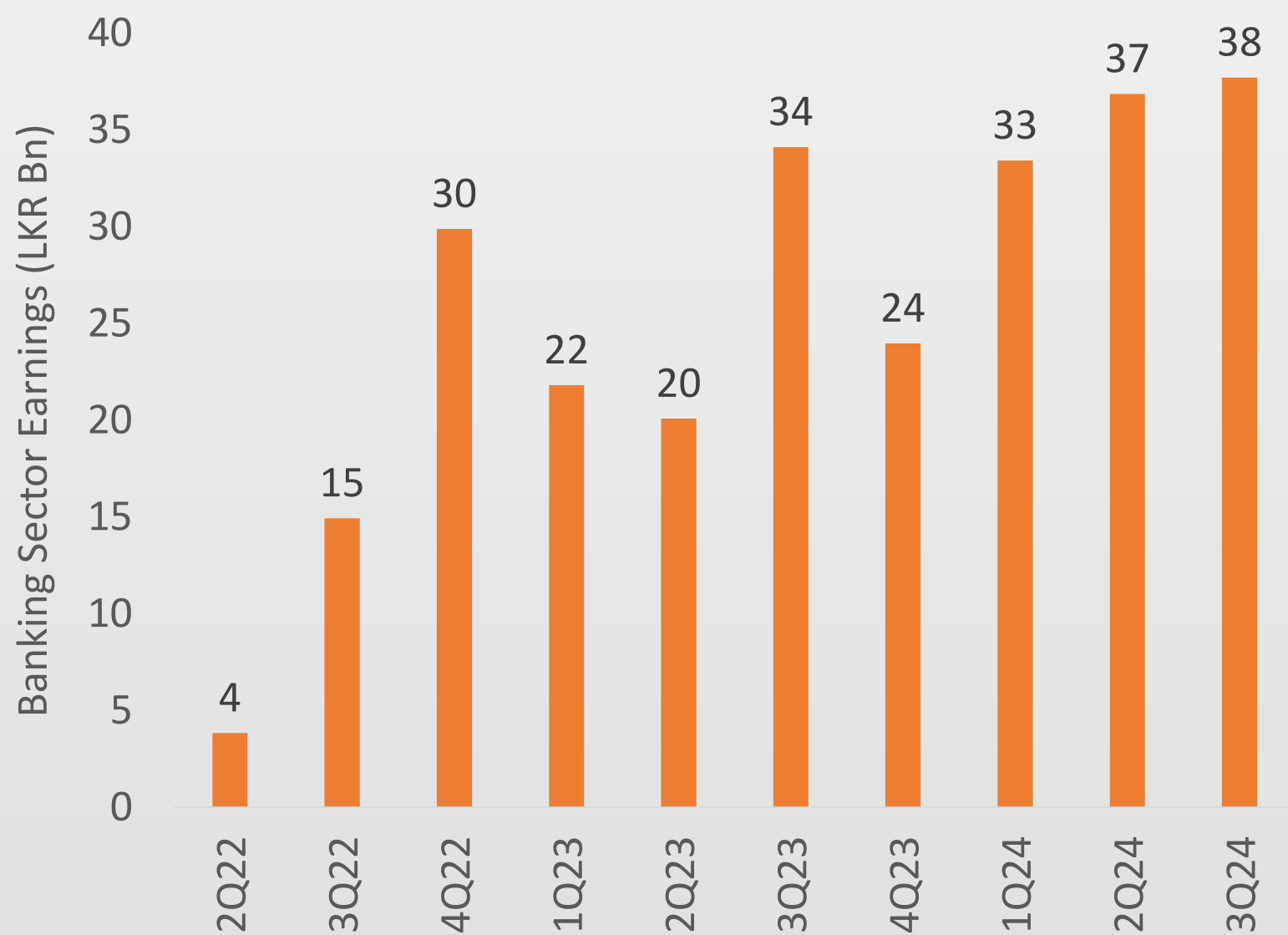
ALL INDICES ARE SHOWING
A POSITIVE ASCENT,
REFLECTING A ROBUST
AND PROMISING OUTLOOK
FOR BUSINESSES



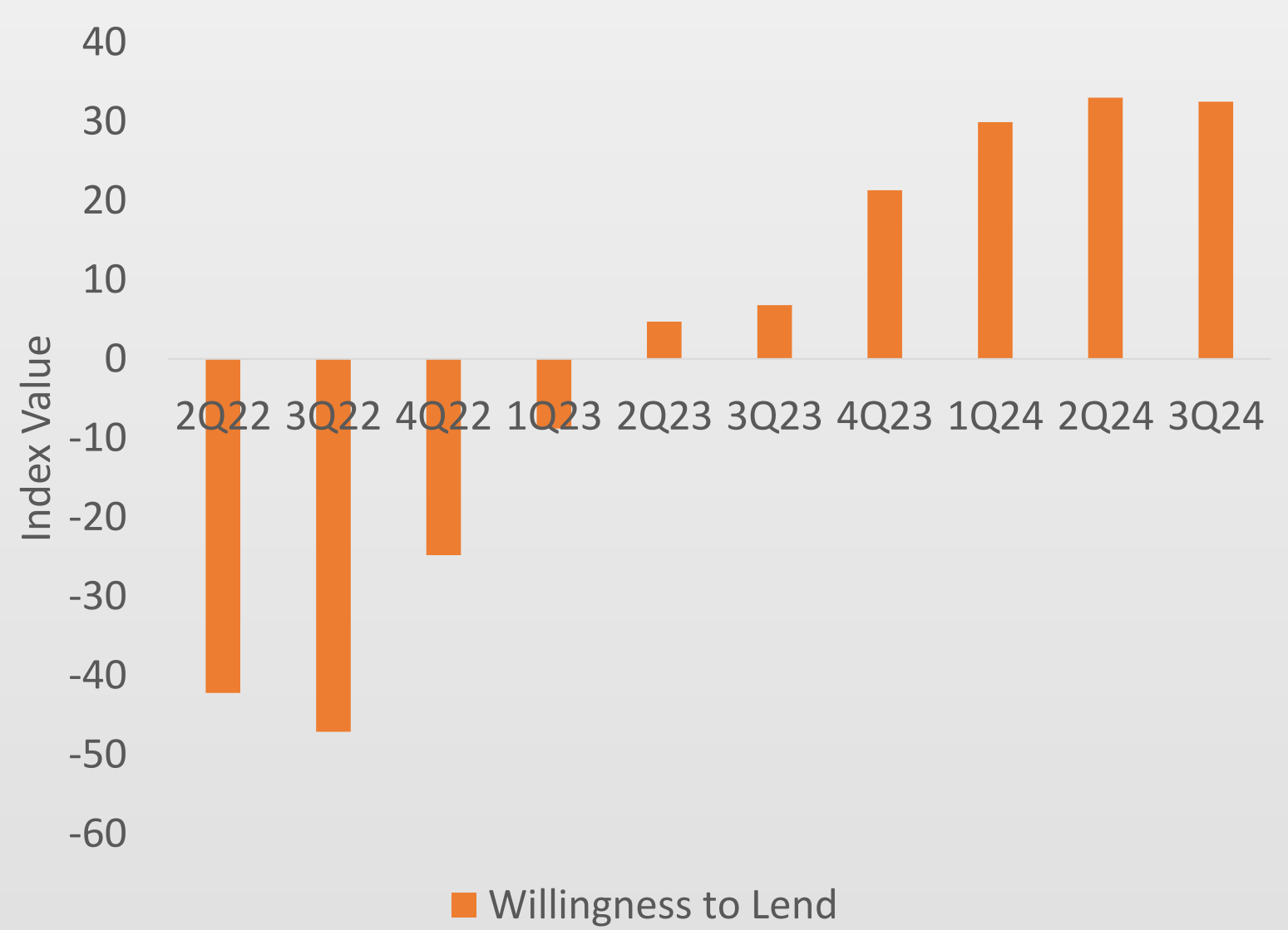
Banking sector appears promising, potential for impairment reversal with the completion ISB restructuring

Banking sector remains undervalued

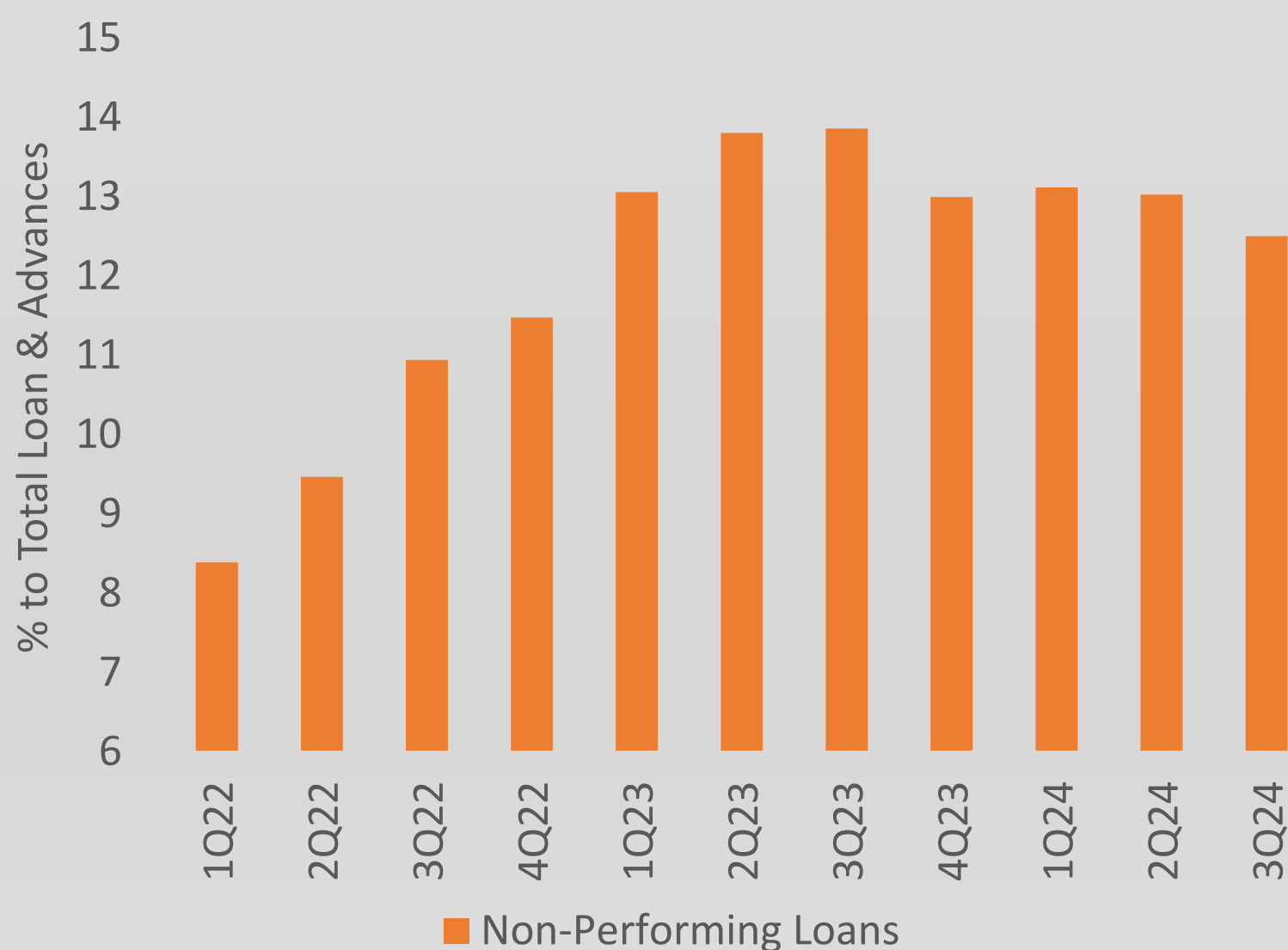
Banking sector earnings are on an upward swing



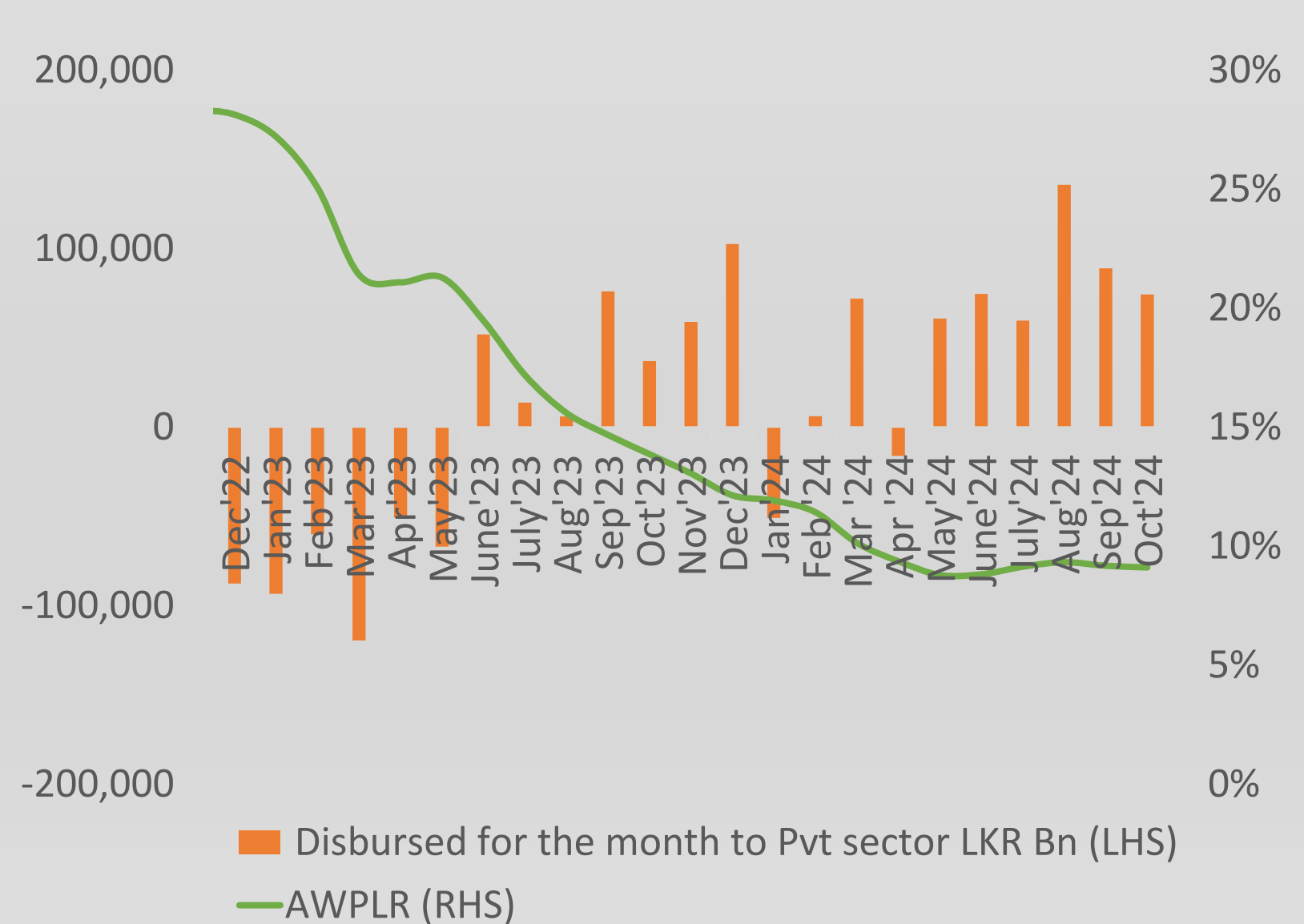
Willingness to lend is picking up, witnessing an overall improvement in economic activities



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



Pvt sector credit is surging amid low-interest rate environment

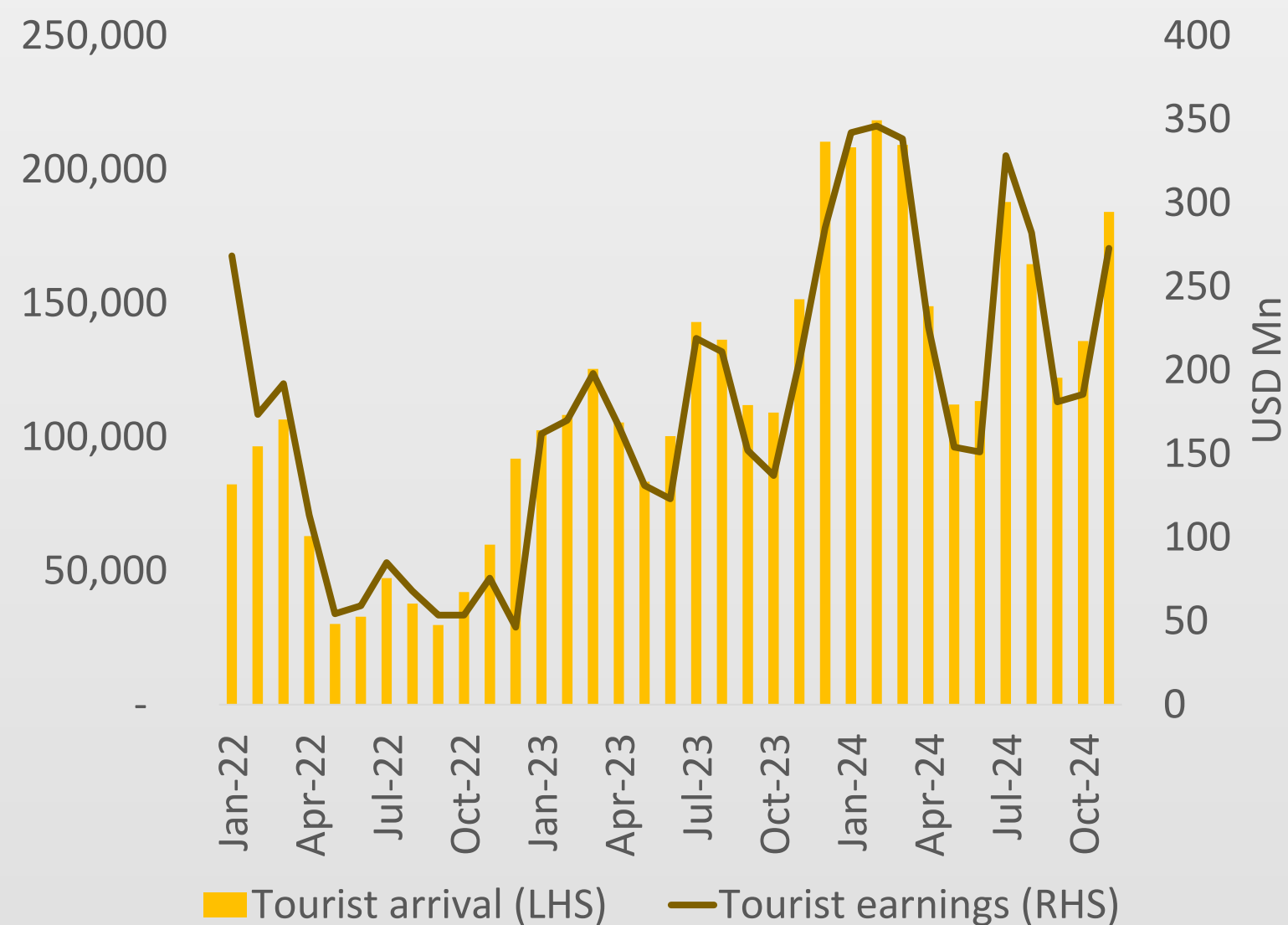




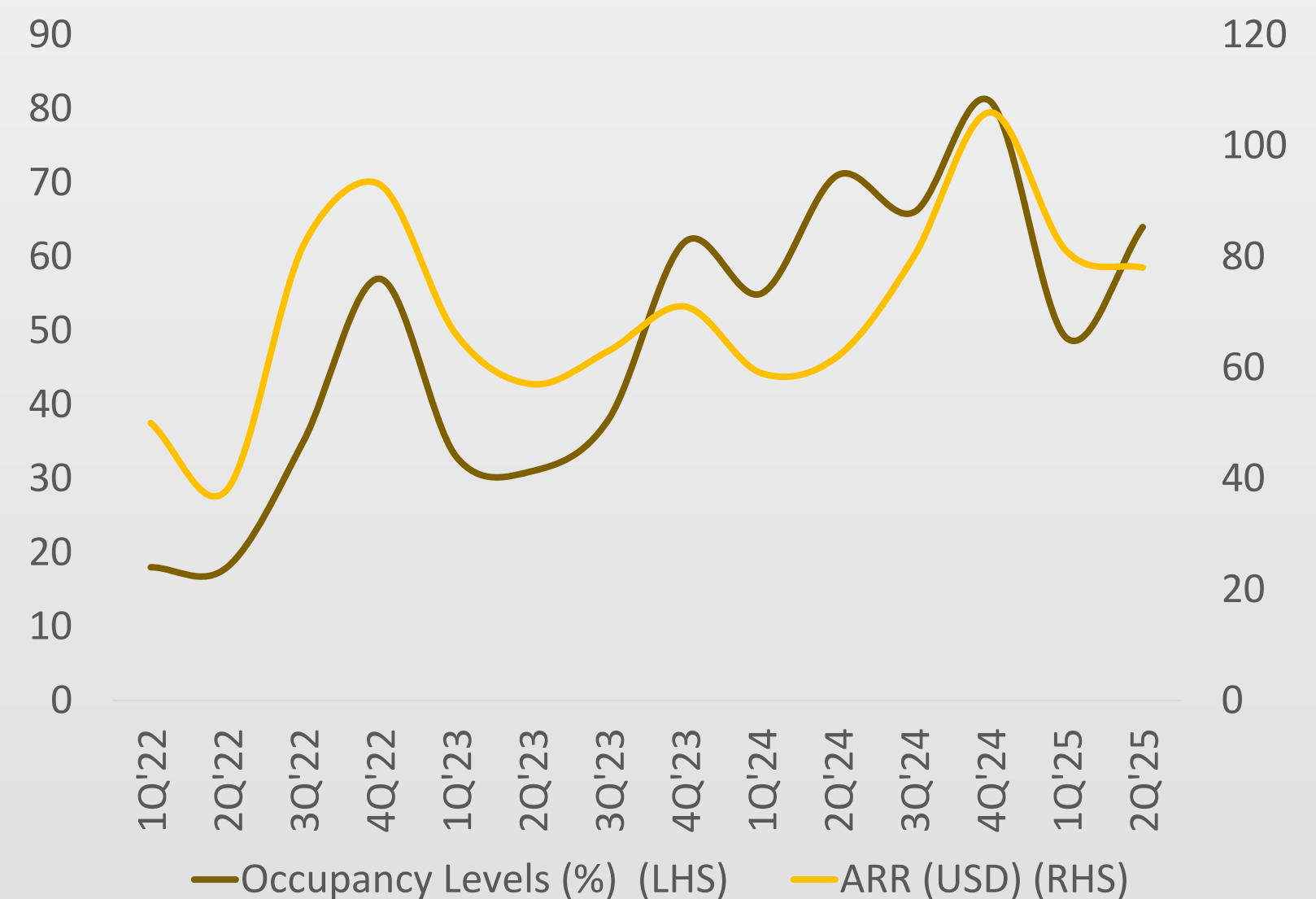
Spike in tourist arrivals to boost hotel sector earnings, fostering an optimistic outlook for the industry

SL is well positioned to welcome 3Mn arrivals in 2025

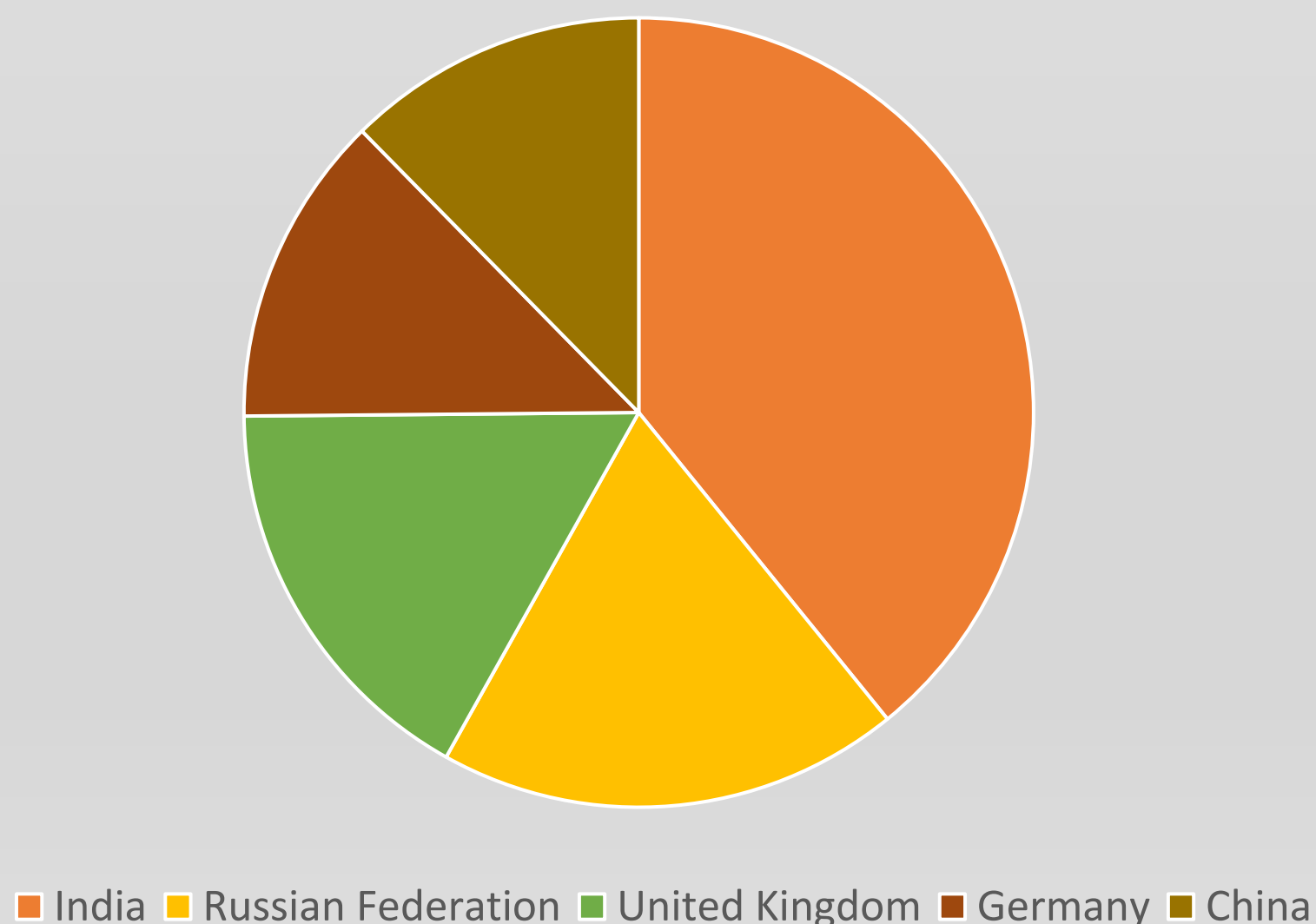
SL Tourism industry is experiencing a massive growth



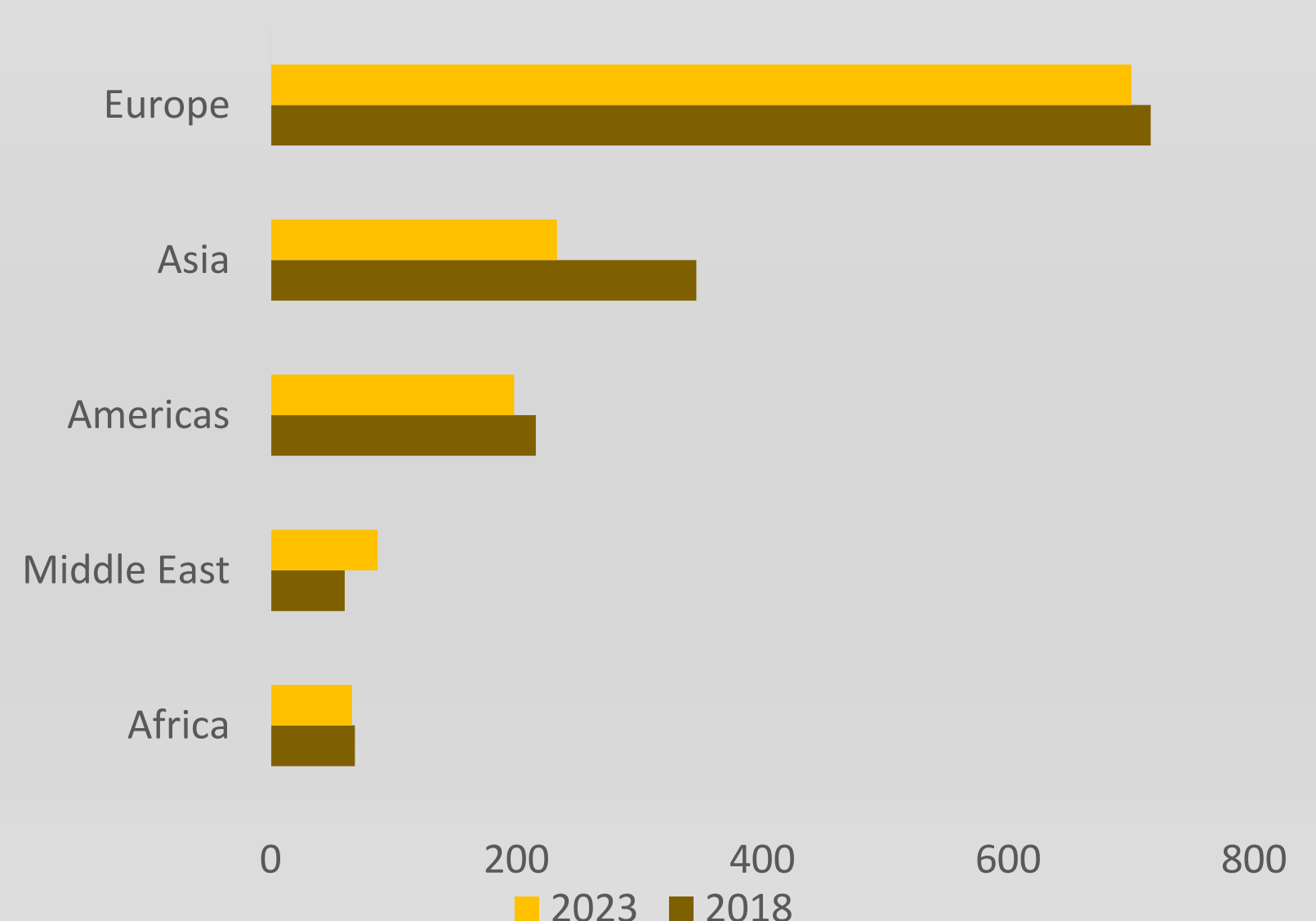
Occupancy Levels & ARR are improving steadily



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



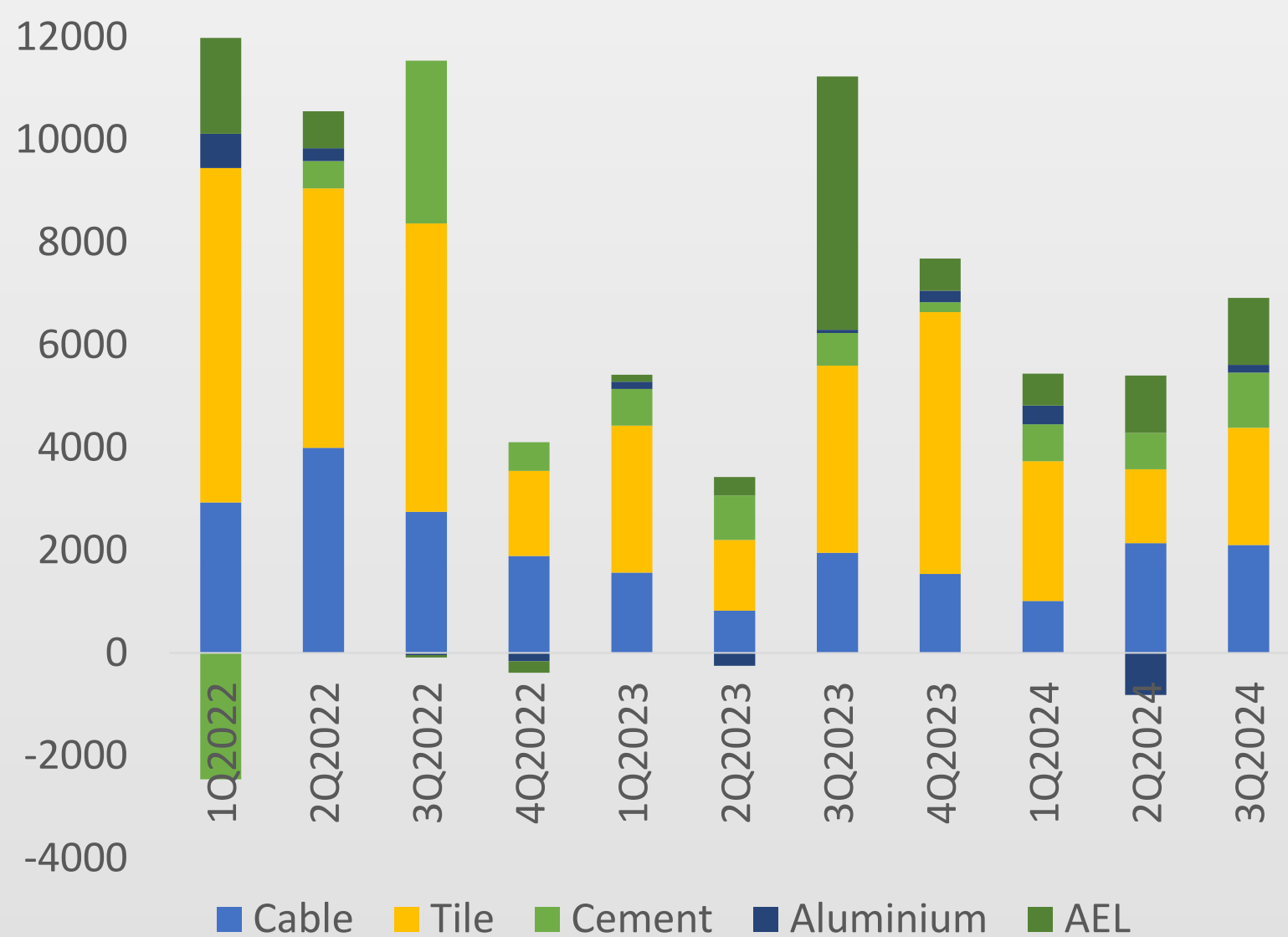
International Tourist arrivals near pre-pandemic levels



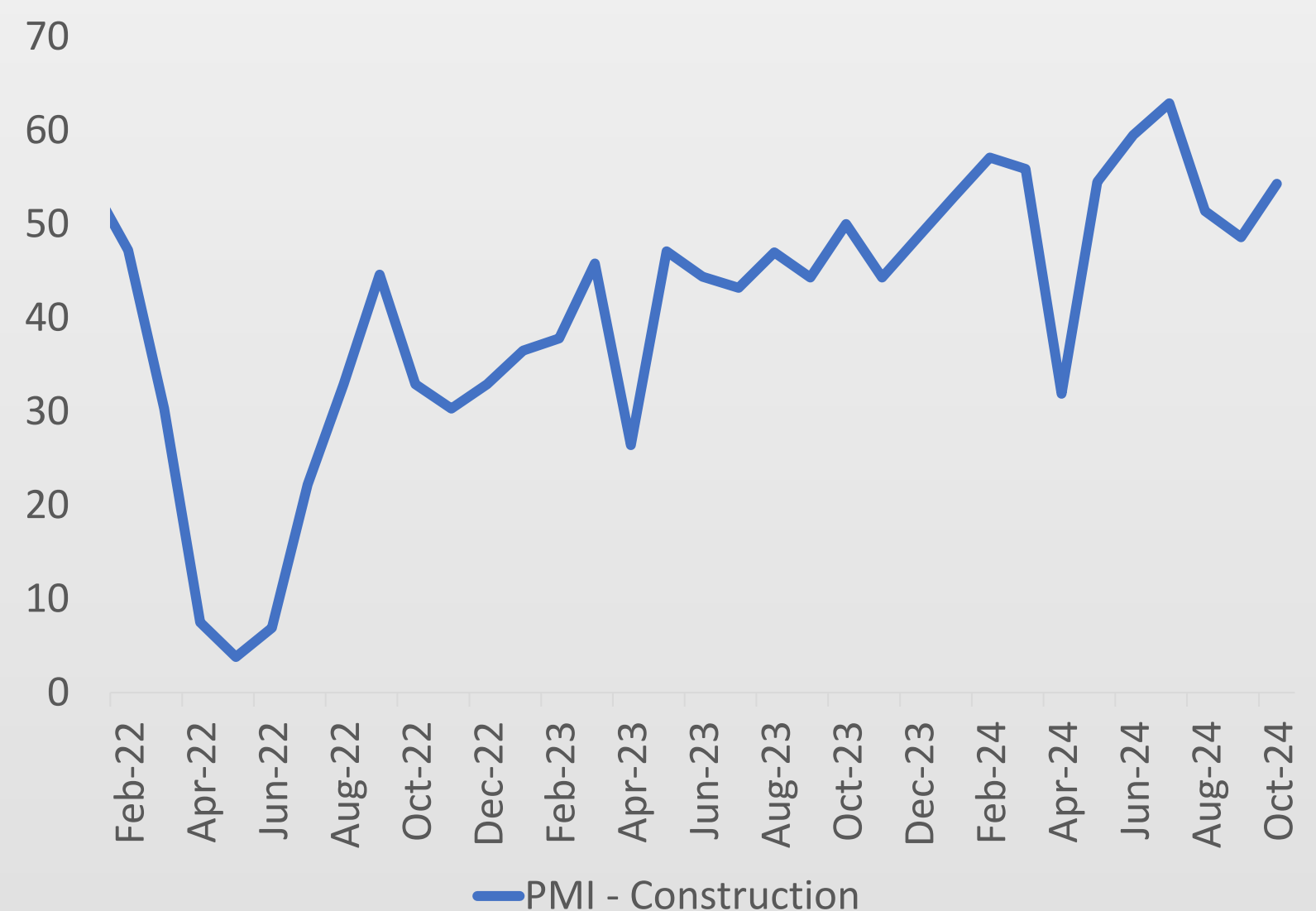


Construction sector shows strong potential, as many projects resume following the completion of debt restructuring and economic growth
Sector earnings demonstrate a steady and sustained recovery

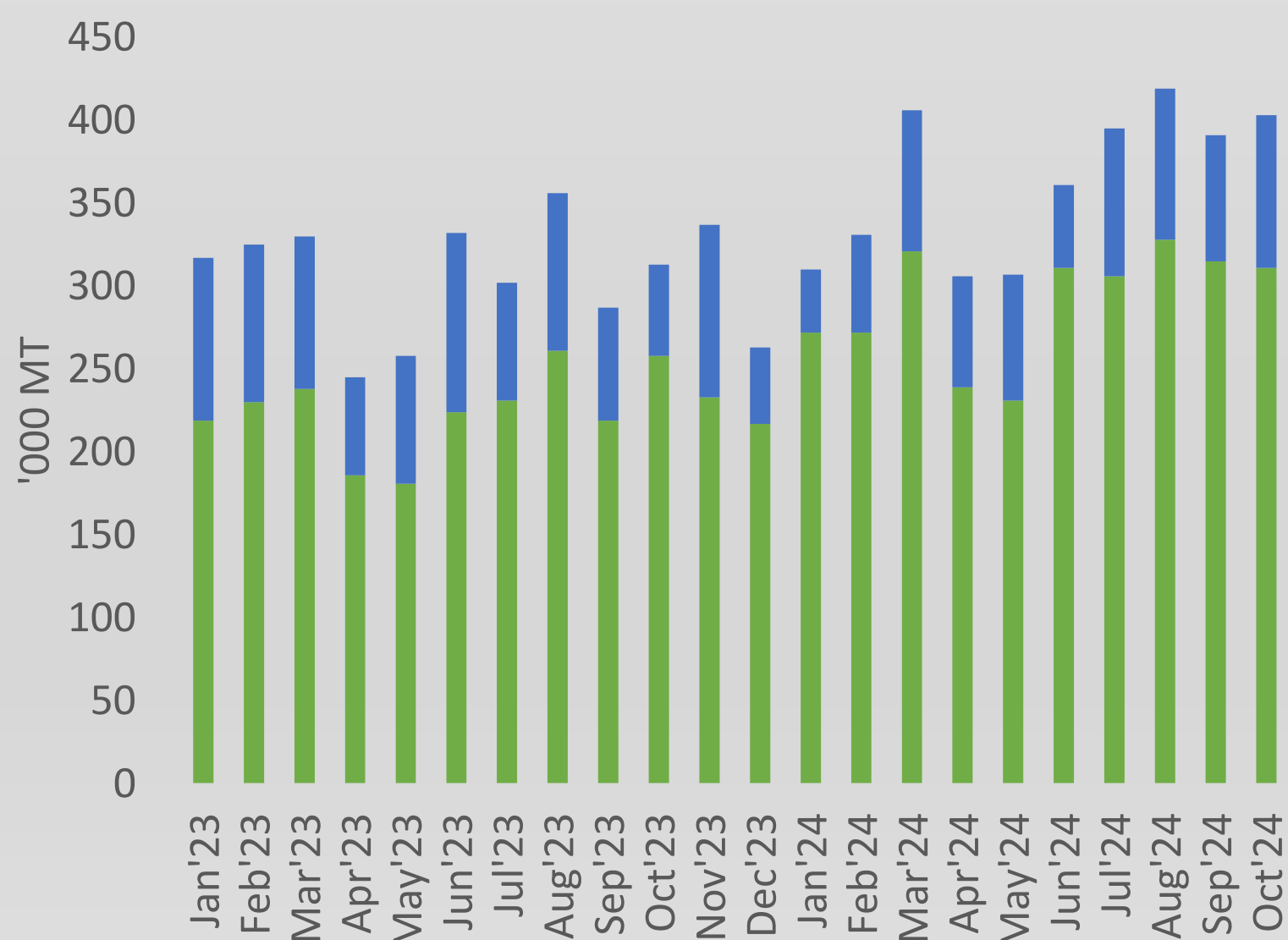
Construction Sector Earnings are showing positive growth



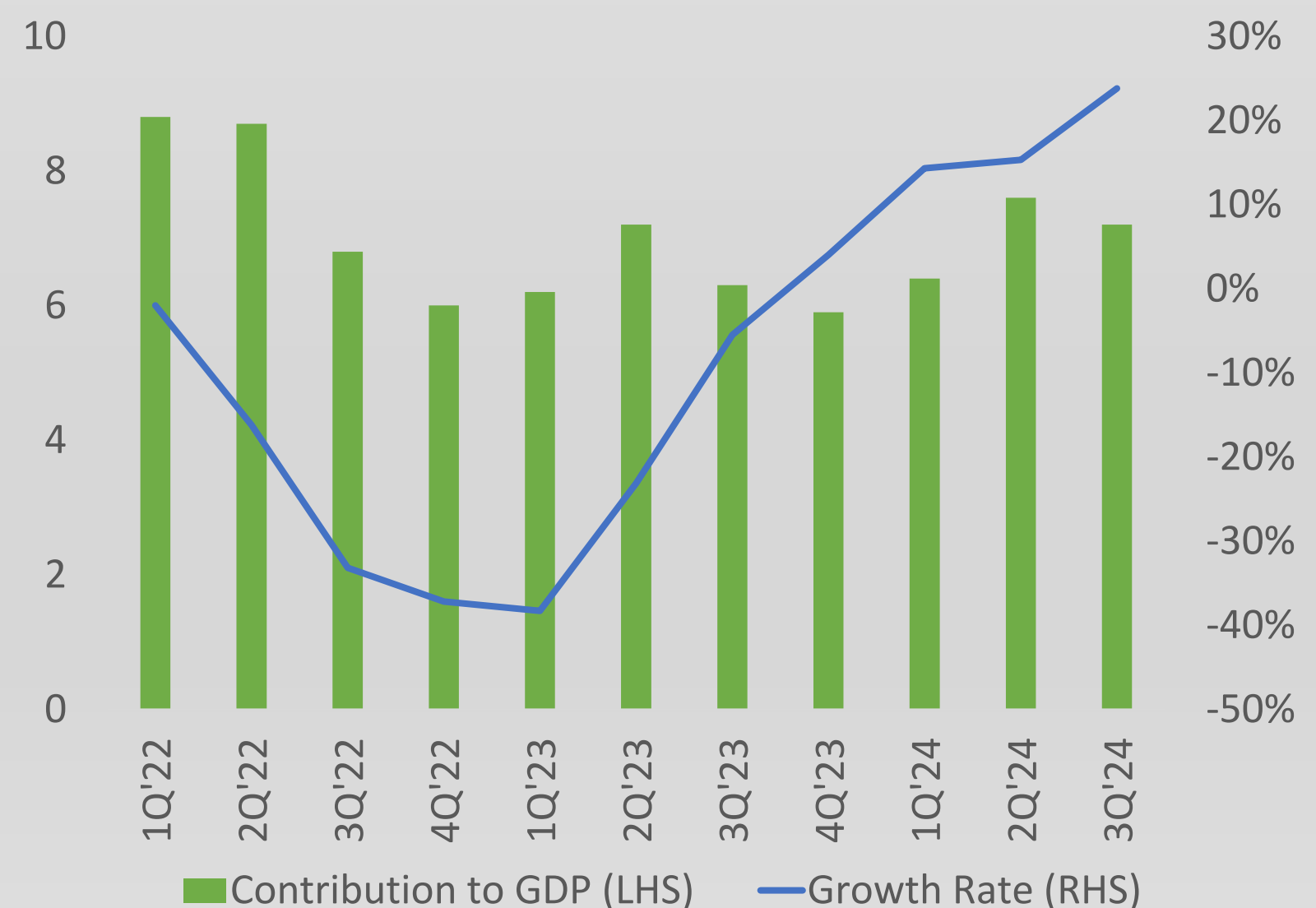
PMI for Construction continues to grow, signaling an expansion in sector activity levels



Higher cement production and imports, implicates strong economic recovery



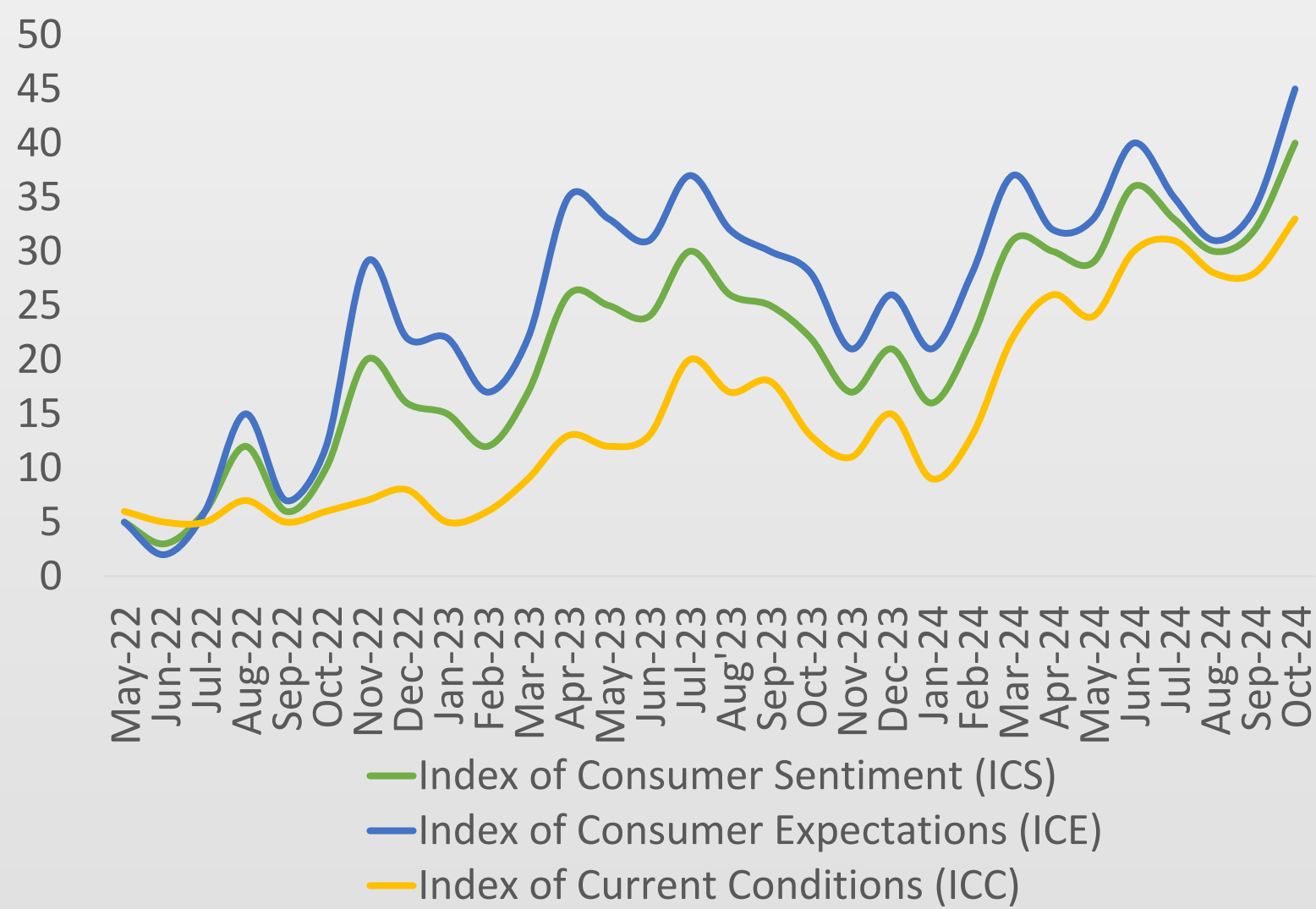
Construction sector contribution to GDP is on the rise



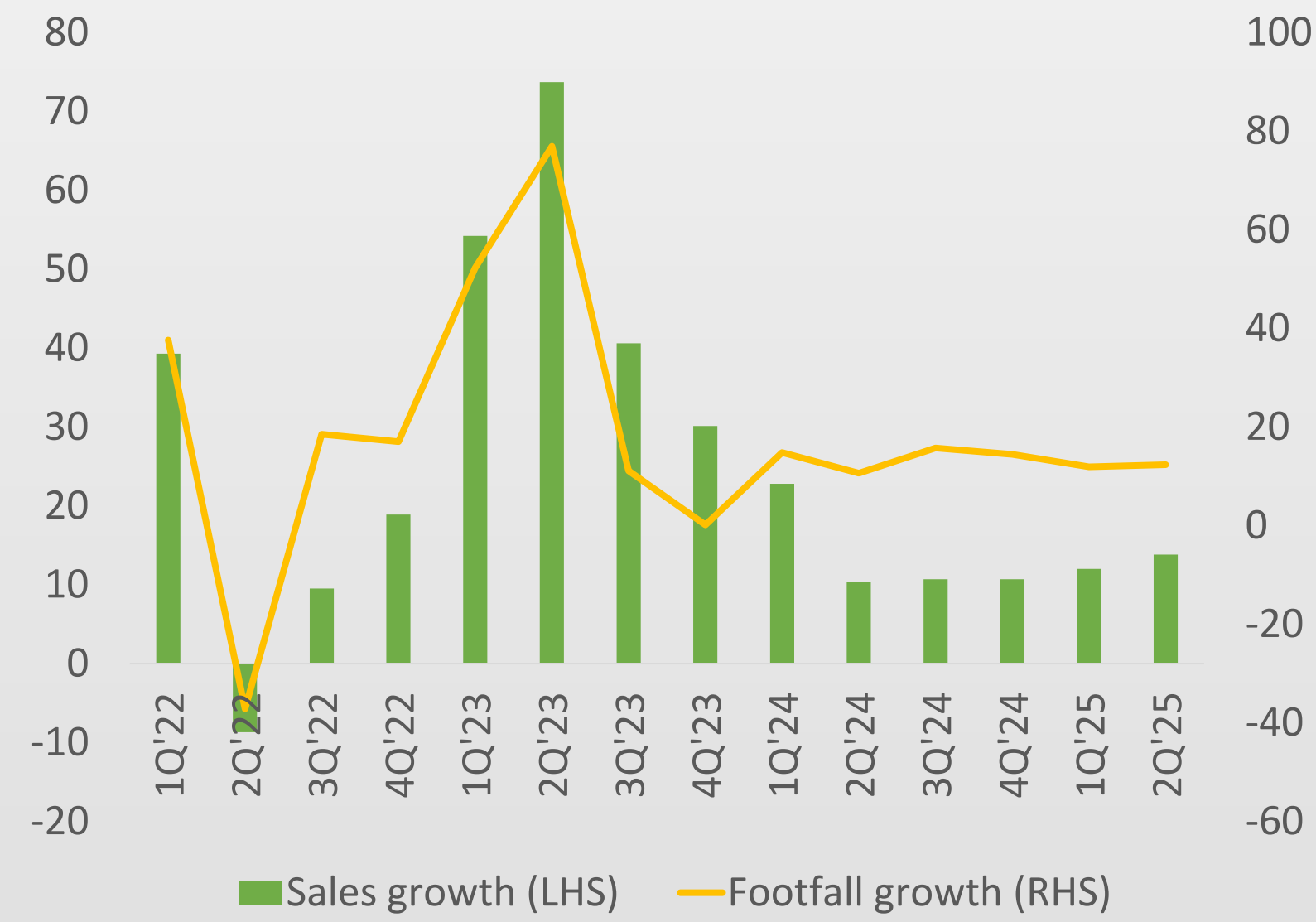


Low inflation, lower taxes, rising wage rates and declining interest rates to enhance consumer sentiment
Upbeat consumer demand to drive up company topline and margins

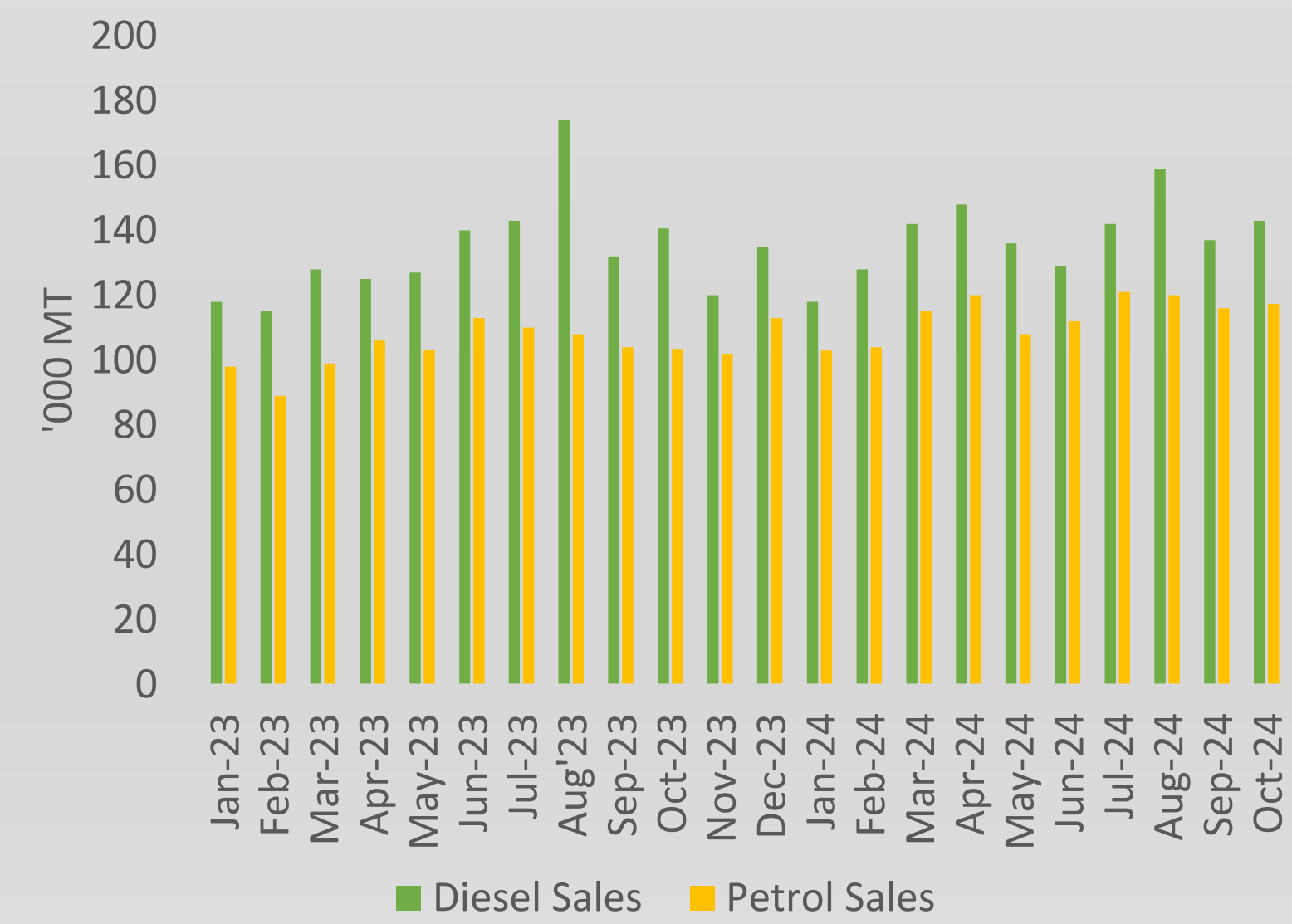
Consumer Confidence is on the rise, reinforcing the consumer demand.



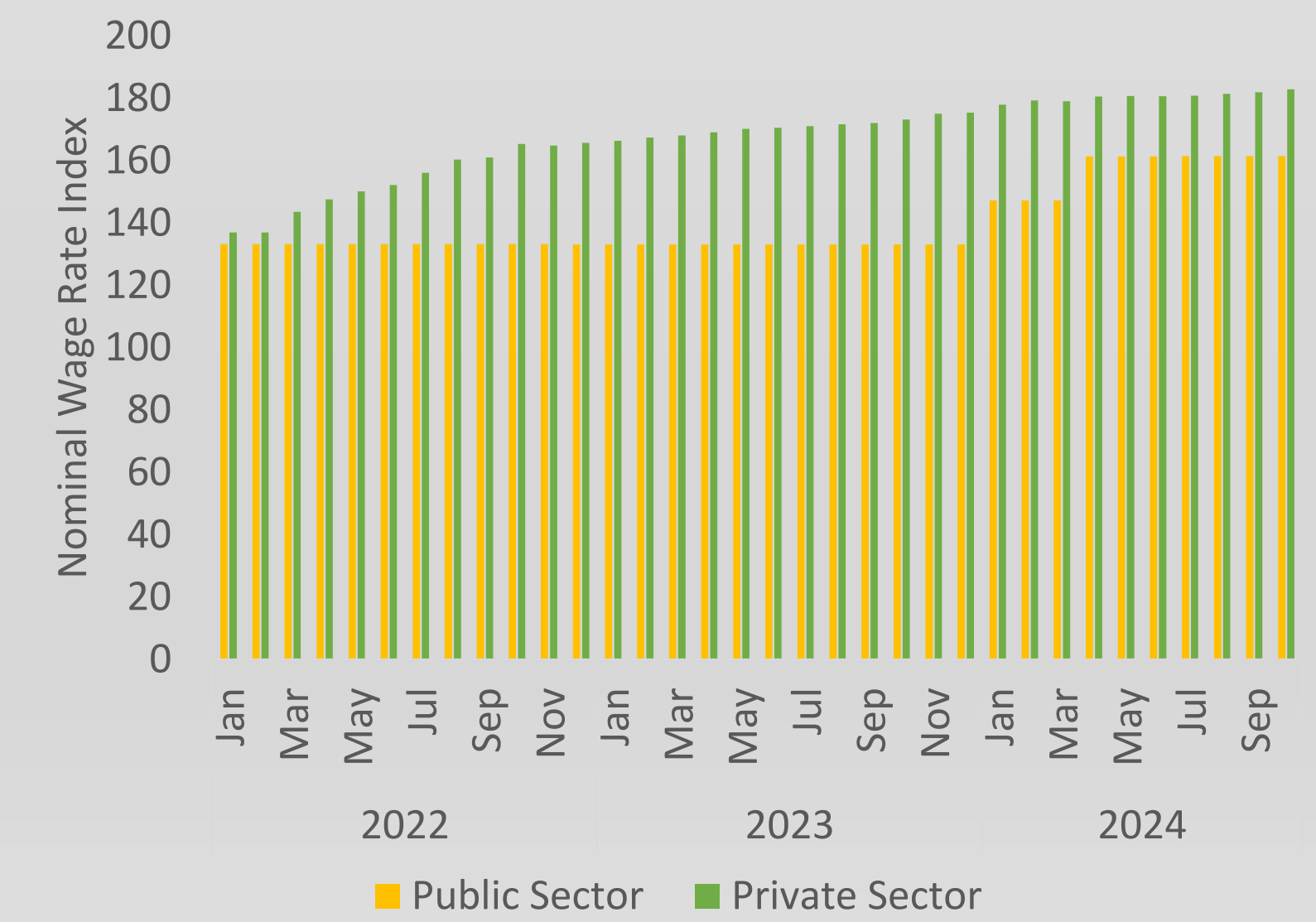
Modern retail sales up with growing footfall



Demand for fuel is gradually picking up



Rising wage rates to drive up consumer's purchasing power



	Ticker	Current Market Price(LKR) (08.01.25)	PE (x)	PBV(x)	DY(%) (Trailing 12M)	ROE (%)
Market			8.91	1.18		
Banking Sector						
Hatton National Bank PLC	HNB.N	310.75	6.5	0.74	2.6	11.4
Commercial Bank of Ceylon PLC	COMB.N	140.50	6.0	0.88	4.6	14.8
Sampath Bank PLC	SAMP	115.50	5.6	0.81	5.1	14.5
Nations Trust Bank PLC	NTB.N	178.75	4.1	0.81	2.8	19.7
Seylan Bank PLC	SEYB.N	80.00	6.0	0.75	3.1	12.4
Energy & Lubricant						
Lanka Ioc PLC	LIOC	129.00	5.4	0.9	3.9	16.5
Chevron Lubricants Lanka PLC	LLUB	152.75	9.4	4.6	9.8	49.4
Leisure						
Asian Hotels and Properties PLC	AHPL	61.40	N/A	0.9	N/A	N/A
John Keells Hotels PLC	KHL	20.60	N/A	1.0	N/A	N/A
Aitken Spence Hotel Holdings PLC	AHUN	80.40	12.7	1.4	N/A	10.7

Prices as at 08.01.2025

					<div>ACS CAPITAL</div> <div>(PVT) LTD.</div> <div>Member of the Colombo Stock Exchange</div>	
	Ticker	Current Market Price(LKR) (08.01.25)	PE (x)	PBV(x)	DY(%) (Trailing 12M)	ROE (%)
Construction						
Tokyo Cement Company PLC	TKYO.N	71.50	11.7	1.1	2.8	9.4
Royal Ceramics Lanka PLC	RCL	41.10	6.9	1.0	7.1	14.4
Access Engineering PLC	AEL	33.90	9.2	0.9	7.4	9.8
ACL Cables PLC	ACL	120.75	7.4	1.0	1.0	13.6
Consumer & Capital Goods						
Ceylon Cold Stores PLC	CCS	81.50	16.3	3.4	5.2	21.1
Hemas Holdings PLC	HHL	106.75	10.2	1.4	3.7	14.2
John Keells Holdings PLC	JKH	23.90	36.4	1.1	4.4	3.0
Distilleries Company PLC	DIST	39.00	12.3	11.7	6.2	95.7
Lion Brewary Ceylon PLC	LION	1,201.75	11.0	3.1	2.5	28.0
Ceylon Tobacco Company PLC	CTC	1,375.00	8.5	23.6	11.8	277.0
Sunshine Holdings PLC	SUN	95.60	11.5	2.4	3.7	20.6
Diversified Financials						
People’s Leasing & Finance PLC	PLC	17.70	8.8	0.8	4.0	9.2
L B Finance PLC	LFIN	91.80	5.1	1.1	6.3	21.4

Prices as at 08.01.2025

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