

# ACS CAPITAL

(PVT) LTD.

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Member of the Colombo Stock Exchange

# Outlook 2026

# Economic Outlook

Sri Lanka's economic growth is expected to moderate but remain resilient at around 4.0%-4.5% YoY in 2026, following the strong recovery recorded in 2024/25. While near-term growth may be temporarily disrupted by Cyclone Ditwah, particularly affecting agriculture and tourism in early 2026, increased government-led rehabilitation and reconstruction spending, supported by LKR 500bn in cash allocations and LKR 1.2tn in capital expenditure, is expected to underpin a strong recovery in construction and related sectors. Manufacturing activity may face short-term setbacks due to damage to plants and equipment; however, swift restoration efforts are likely to drive a rebound by 1Q26. In parallel, low interest rates and improving private sector credit growth are expected to support domestic demand and investment activity.

*SL economy to grow by 4.0%-4.5% mainly led by increased government led rehabilitation and reconstruction spending*

On the external front, Sri Lanka is expected to maintain a current account surplus for the fourth consecutive year, supported by sustained inflows from tourism and workers' remittances. Tourist arrivals are projected to reach 2.7 million in 2026E, with tourism earnings expected to exceed USD 3.5bn, while remittances are forecast at around USD 8.6bn. Despite a widening trade deficit driven by higher imports of investment and intermediate goods, these inflows are expected to continue providing a strong buffer to the balance of payments. As a result, official reserves are projected to rise to USD 8.9bn in 2026E, supported by current account surpluses, multilateral funding (IMF, ADB, World Bank), capital inflows, and continued FX purchases by the CBSL. The LKR is expected to depreciate moderately by around 3%–5%, reflecting reserve accumulation and elevated import demand.

*Sri Lanka to maintain external current account surplus for the fourth consecutive year*

Inflation is expected to remain well contained, with average inflation projected at 4.5%–5.0% in 2026E, below the CBSL’s medium-term target. This provides room for the central bank to maintain a broadly accommodative monetary stance, although risks remain from potential electricity tariff revisions, geopolitical tensions, exchange rate volatility, and supply-side pressures. Interest rates are therefore expected to remain broadly stable, with a mild easing bias if price stability is sustained.

*Inflation to remain well contained, rates to remain broadly stable/lower*

Private sector credit is expected to remain a key growth driver in 2026, expanding by around 20% YoY, supported by strong liquidity conditions, low interest rates, and reduced government borrowing. The continued shift of financial resources from the public to the private sector is expected to support business expansion, particularly in construction, manufacturing, trade, and services.

*Sri Lanka to maintain primary surplus despite higher spending on capital*

On the fiscal front, the government is expected to continue adhering to IMF programme parameters, with revenue projected to reach LKR 5.3tn (around 15% of GDP) in 2026. Although capital spending will remain elevated due to reconstruction efforts, actual disbursements are expected to fall short of budgeted allocations. As a result, Sri Lanka is likely to maintain a primary surplus in 2026, albeit lower than initially targeted, supporting fiscal sustainability and investor confidence.

Moreover, we believe continued adherence to the IMF-supported reform agenda remains critical for sustaining Sri Lanka’s economic progress. Structural reforms to strengthen revenue, improve public sector efficiency, and reduce reliance on debt are essential to preserve stability, enhance investor confidence, and support long-term growth.

*Structural reforms, key for long term growth*

# 2026 CSE poised to trade in the 27,500–28,700 range

*Construction , Tourism, Banking , Consumer sectors to benefit*

The Colombo Stock Exchange is expected to sustain its earnings growth momentum in 2026, supported by improving economic activity, low interest rates, and strong private sector credit growth. Despite the recent rally, the CSE continues to trade at a meaningful discount to regional frontier and emerging market peers, suggesting further scope for valuation re-rating. We expect broad market earnings to grow by 12%–15% in 2026, alongside a modest expansion in market multiples to 12.0x–12.5x PE (from the current ~11.5x), implying an index range of 27,900–28,700 and a potential return of 23%–27% for the year. This would mark the fourth consecutive year of positive market returns, reflecting strengthening investor confidence in Sri Lanka’s macroeconomic recovery. Additionally, a potential sovereign credit outlook upgrade or country re-rating, together with continued political stability through 2026, could act as positive catalysts though delays in reform momentum, less supportive global conditions, and bouts of currency or policy uncertainty could remain as key downside risks.

From a sectoral perspective, we remain constructive on construction, given its significant contribution to GDP (~7%), strong spillover effects across the economy, the recommencement of stalled projects, and post-Cyclone Ditwah reconstruction activity. The Construction PMI reaching record levels above 66 points, alongside stable raw material prices and supportive macro conditions, should drive sector earnings. Tourism is another key beneficiary, with recovering source markets, improving air connectivity, visa-free access, and potential policy initiatives to attract higher-spending visitors supporting medium-term growth. We are also bullish on the banking sector, underpinned by low valuations and strong scope for loan book expansion in line with economic growth. Meanwhile, the consumer sector should benefit from rising disposable incomes, stable inflation, and improved tourism-driven demand.

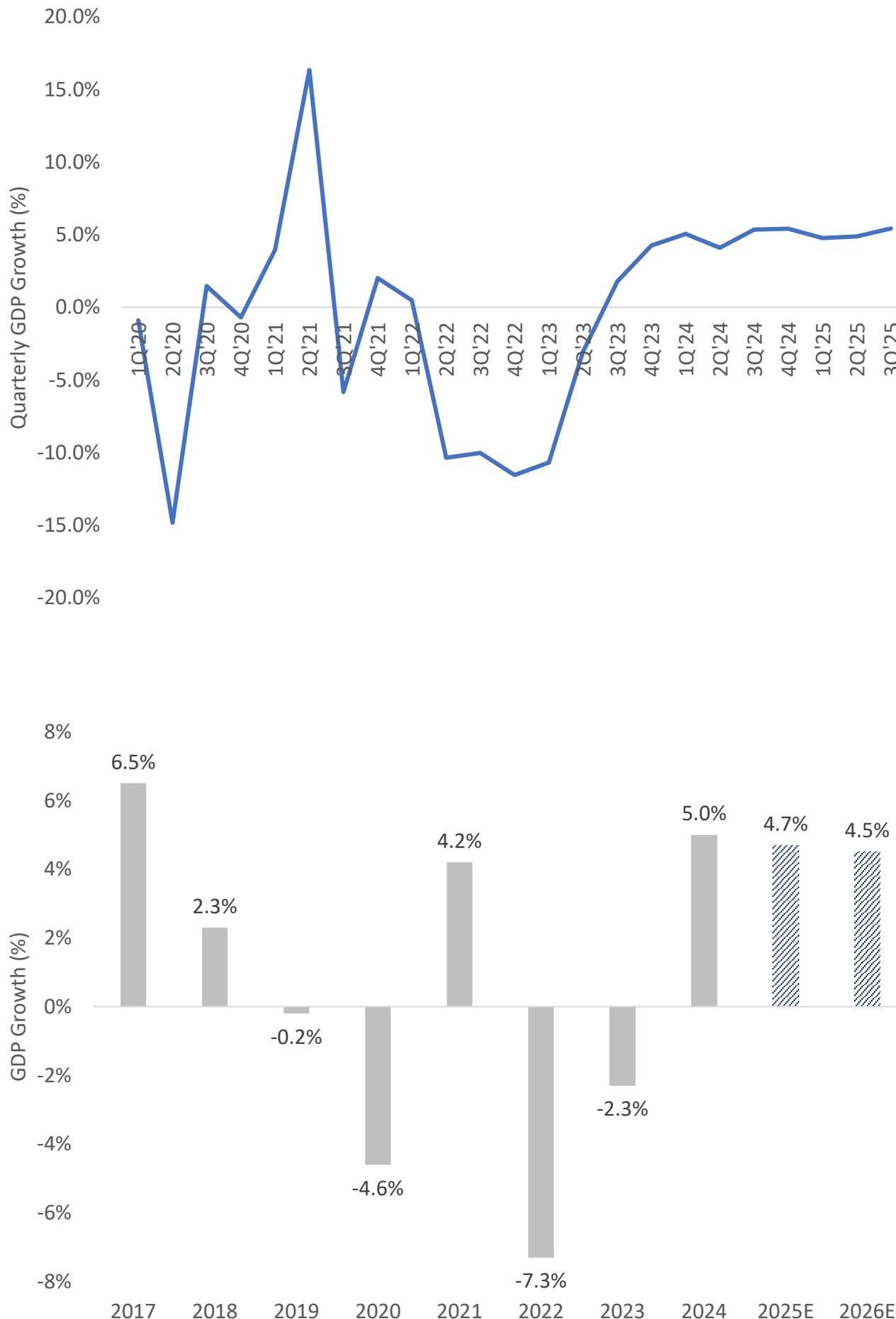
*Sri Lanka’s potential sovereign credit outlook upgrade could serve as a sweetener for the CSE, providing scope for the market to trade at higher valuation multiples.*

*The CSE could potentially deliver returns of 23%–27% for the fourth consecutive year, underpinned by projected earnings growth of 12%–15% and a forward valuation of 12.0x–12.5x PE.*



# Sri Lanka Sustains Economic Growth with 5% Expansion in 9M'25

Credit expansion, external stability , construction and manufacturing sectors drove growth

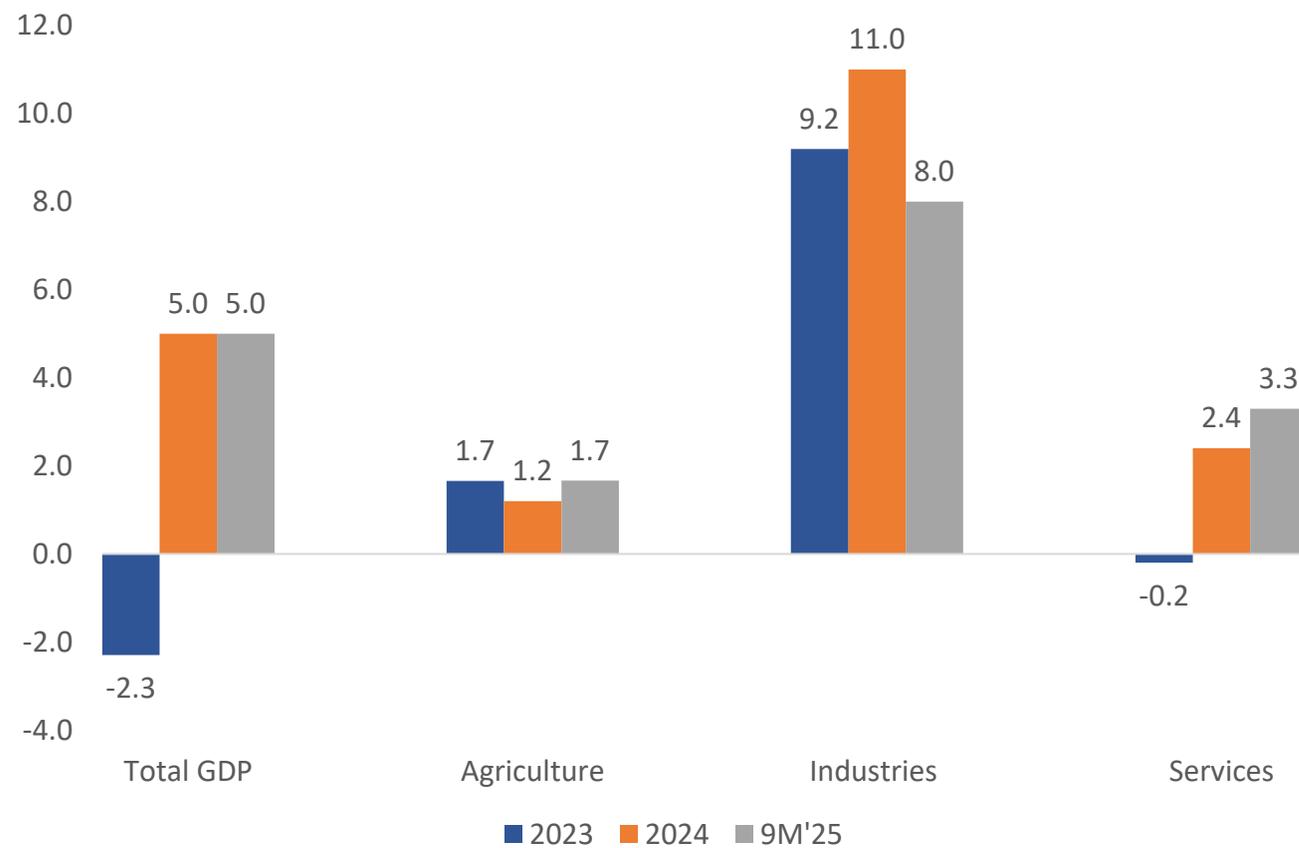


- The Sri Lankan economy recorded a steady GDP growth of around 5.4% YoY in 3Q'25, reflecting continued macroeconomic stabilization and contributing to 5.0% YoY GDP growth for the first 9 months of 2025. The agricultural sector depicts a moderate growth of 3.6% YoY and the industry sector expanded by 8.1% YoY in 3Q'25. While the service sector, which represents the largest share of GDP of 52% grew by 3.5% YoY during 3Q'25 driven most by insurance and financial services.
- A continued easing of monetary conditions supported a gradual recovery in domestic credit, with private sector activity showing steady improvement. Growth momentum was reinforced by higher investment and intermediate goods imports, aiding the expansion of key sectors such as construction (up 10.5% YoY for 9M'25 contributing to 7.4% of GDP) and manufacturing (+6.4% YoY for 9M'25 contributing to 17.5% of total GDP). Meanwhile, sustained inflows from tourism and worker remittances helped maintain external sector stability, supporting foreign exchange reserves and preserving relative stability in the rupee during the year.



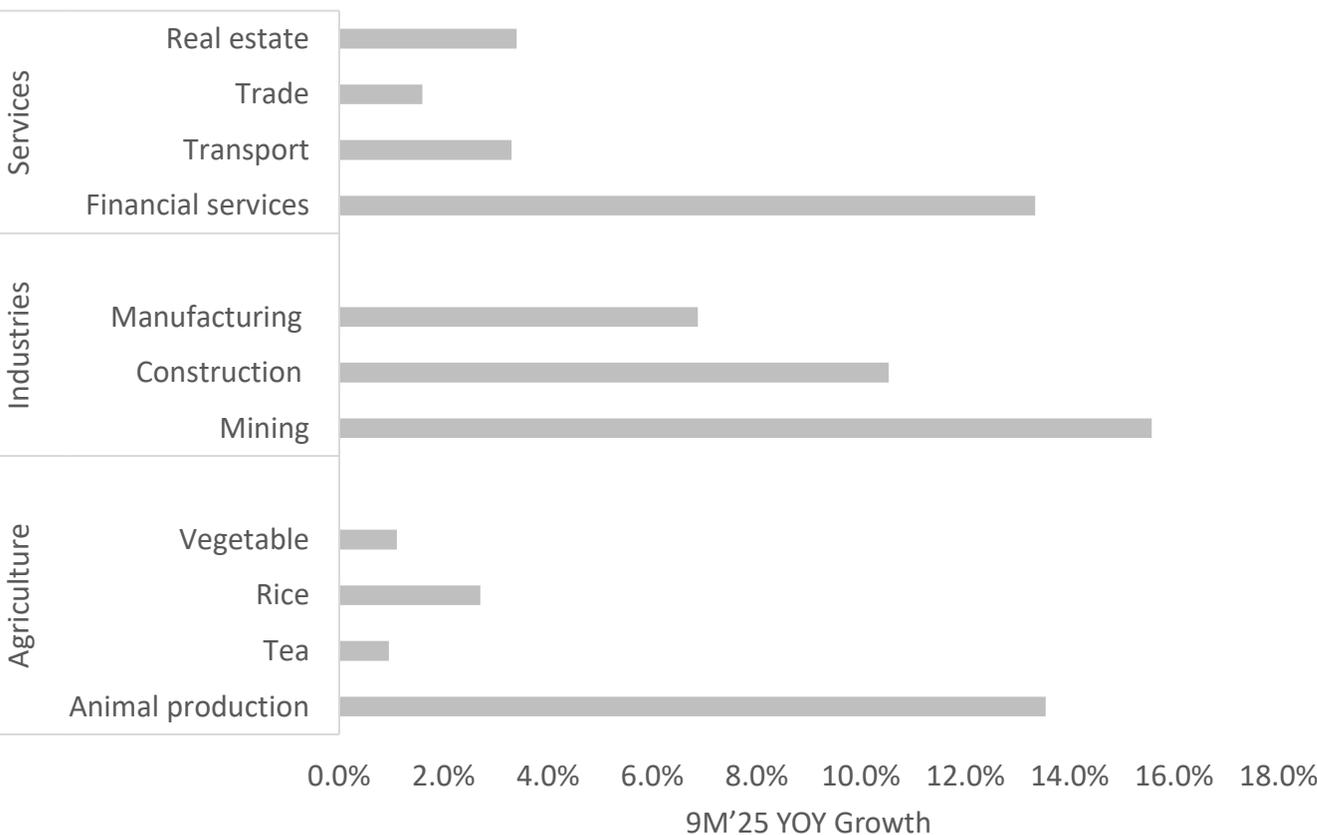
# Resilient Growth Outlook for 2026 Despite Near-Term Shocks

Policy support and reconstruction to push growth towards 4.0%-4.5% levels in 2026E



- Economic growth in 2026 is expected to moderate but remain resilient at 4.6%-5% YoY, despite weather-related disruptions from Cyclone Ditwah weighing on agricultural output and near-term tourism activity, particularly in 1Q26. However, increased government-led rehabilitation spending, supported by LKR 500bn in cash allocations and LKR 1.2tn in capital expenditure, is likely to underpin a strong recovery in construction and related sectors. While manufacturing output may face temporary setbacks due to damage to plants and equipment, swift restoration efforts are expected to drive a rebound by 1Q26. In parallel, government transfers to affected households should support consumer demand, while sustain low interest rates and improve credit growth are expected to further reinforce domestic economic activity.

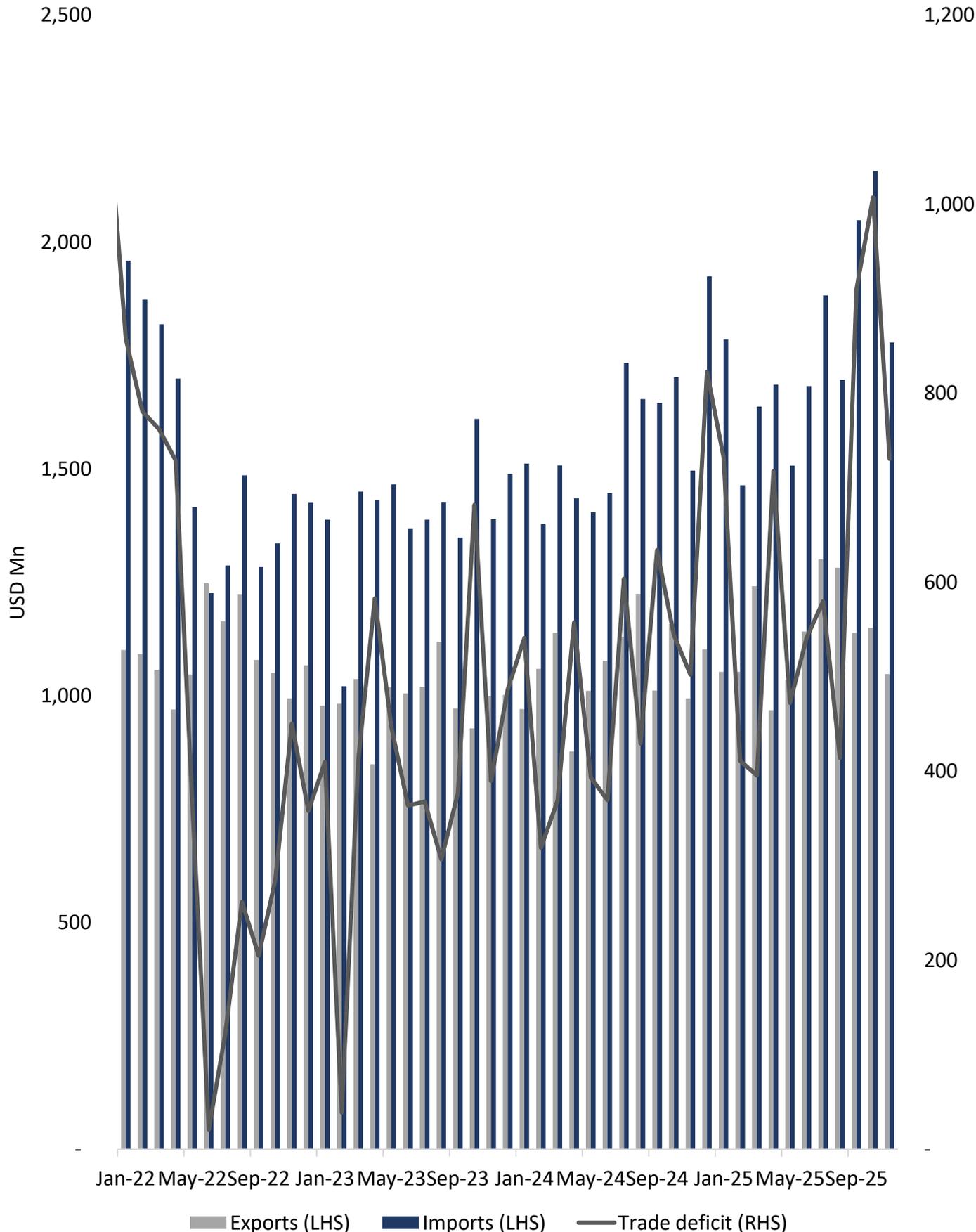
- With macroeconomic stability largely restored following the economic crisis, it is critical that the government maintains momentum on the IMF-supported reform agenda to sustainably improve Sri Lanka's growth trajectory. After severe contractions in 2022 and 2023 (-7.3% and -2.3%, respectively), the return to positive growth in 2024/25 underscores the importance of continued fiscal discipline, expenditure rationalisation, and enhanced revenue mobilisation. Sustained commitment to structural reforms and reduced reliance on debt will be key to preserving stability, strengthening investor confidence, and supporting medium-term economic growth.





# Export income recorded a growth of 5.0% YoY in Jan–Nov 2025

Export income to reach USD 14.6Bn in 2026E, and trade deficit likely to touch USD 9.3Bn



- During Jan-Nov'25, cumulative export income grew by 6.4% YoY to USD 12.42 Bn while cumulative imports also surged by 14.2% YoY to USD 19.32 Bn. Consequently, the cumulative trade deficit widened by 19%YoY to USD 6.9 Bn during the same period. .
- Meanwhile, industrial exports soared by 4.8%YoY to USD 9.5Bn, primarily driven by the increase in textile and garments exports by 5.0%YoY to USD 4.8Bn (constituted half of industrial exports) and substantial surge in Food, beverages and tobacco exports by 39.7%YoY to USD 829.5Mn. Further, agricultural exports grew by 12.3%YoY to USD 2.5Bn, mainly led by 7.4%YoY increase in tea exports to USD 1.4Bn and coconut exports also increased notably by 39.1% YoY to USD 529.2Mn.
- On the other hand, intermediate goods imports depict the highest contribution to total imports by USD 10.7Bn (led by fuel) and consumer and investment goods imports increased by 60.0%YoY to USD 4.9Bn and 20.5% YoY to USD 3.7Bn respectively. Further vehicles imports plummeted by 2078% YoY to USD 1365.8Mn.
- We estimate export income to hover around USD 14.6Bn for 2026E, largely driven by moderate increase in apparel sector while import expenses to expand (10%-11%) to around USD 24.0Bn, driven by investment goods, despite some consolation expected from lower vehicle and fuel imports. Trade deficit thus expected to hover around USD 9.3Bn, around USD 1.4Bn higher than 2025 levels.



# Sri Lanka current account to be positive for the 4th consecutive year

Remittances and tourism inflows to support external account

USD Mn	Nov'24	Nov'25	Variance	Jan - Nov 2024	Jan - Nov 2025	Variance	Contribution to Exports
<b>Total Exports</b>	<b>994</b>	<b>1,048</b>	<b>5%</b>	<b>11,670</b>	<b>12,419</b>	<b>6.4%</b>	
<b>Industrial Exports</b>	763	807	6%	9,105	9,542	5%	77%
Textiles and garments	398	390	-2%	4,613	4,842	5%	39%
Rubber Products	75	74	-2%	897	840	-6%	7%
<b>Agricultural Exports</b>	228	239	5%	2,518	2,827	12%	23%
Tea	118	112	-5%	1,304	1,401	7%	11%

USD Mn	Nov'24	Nov'25	Variance	Jan - Nov 2024	Jan - Nov 2025	Variance	Contribution to Imports
<b>Total Imports</b>	<b>1,496</b>	<b>1,779</b>	<b>19%</b>	<b>16,917</b>	<b>19,325</b>	<b>14%</b>	
<b>Consumer Goods</b>	320	522	63%	3,068	4,908	60%	25%
Food and beverages	164	157	-4%	1,672	1,925	15%	10%
<b>Non-food consumer goods</b>	156	365	134%	1,396	2,984	114%	15%
Medical and pharmaceuticals	58	53	-7%	515	597	16%	3%
Personal vehicles	5	228	4848%	63	1,366	2078%	7%
<b>Intermediate goods</b>	920	952	3%	10,790	10,731	-1%	56%
Fuel	311	333	7%	3,920	3,652	-7%	19%
Textiles and textile articles	242	203	-16%	2,595	2,498	-4%	13%
<b>Investment goods</b>	256	304	19%	3,052	3,673	20%	19%
Machinery and equipment	168	168	0%	2,073	2,271	10%	12%

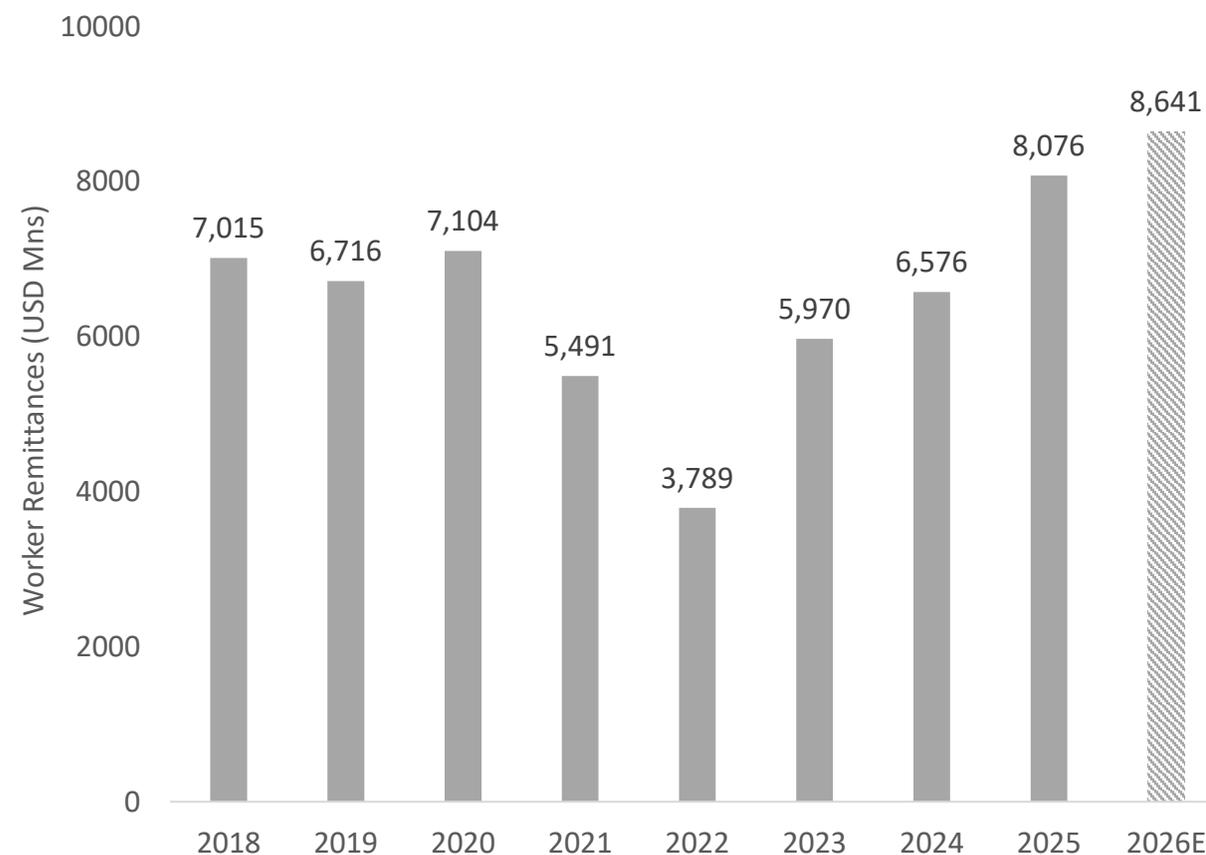
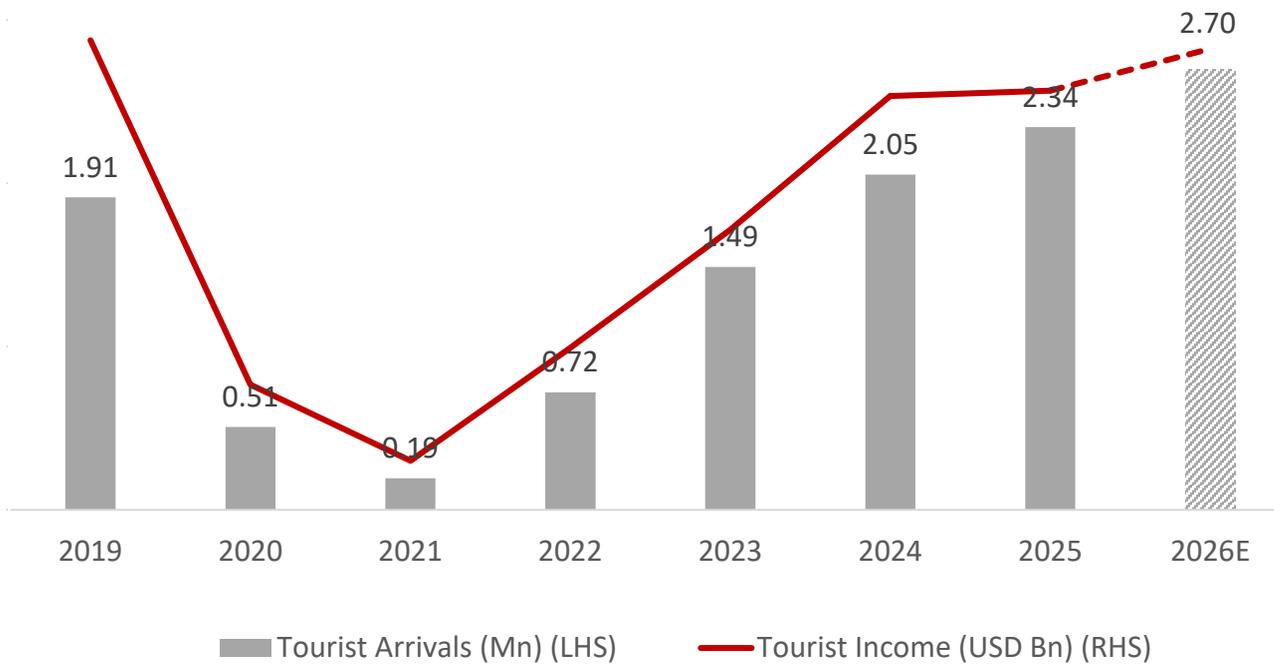
  

USD Mn	Nov'24	Nov'25	Variance	Jan - Nov 2024	Jan - Nov 2025	Variance
Trade balance	-502	-731	45%	-5247	-6,906	32%
Earnings from tourism	186	252	36%	2,807	2,911	4%
Workers' remittances	588	673	15%	5,962	7,197	21%
<b>Current Account Balance</b>	<b>166.7</b>	<b>81.7</b>	<b>-51%</b>	<b>1,715</b>	<b>1,678</b>	<b>-2%</b>



# Tourism Sector Reaches Multi-Year Highs Amid Strong Demand

Tourist arrivals to reach 2.7mn and remittances to cross 8.5Bn mark in 2026E

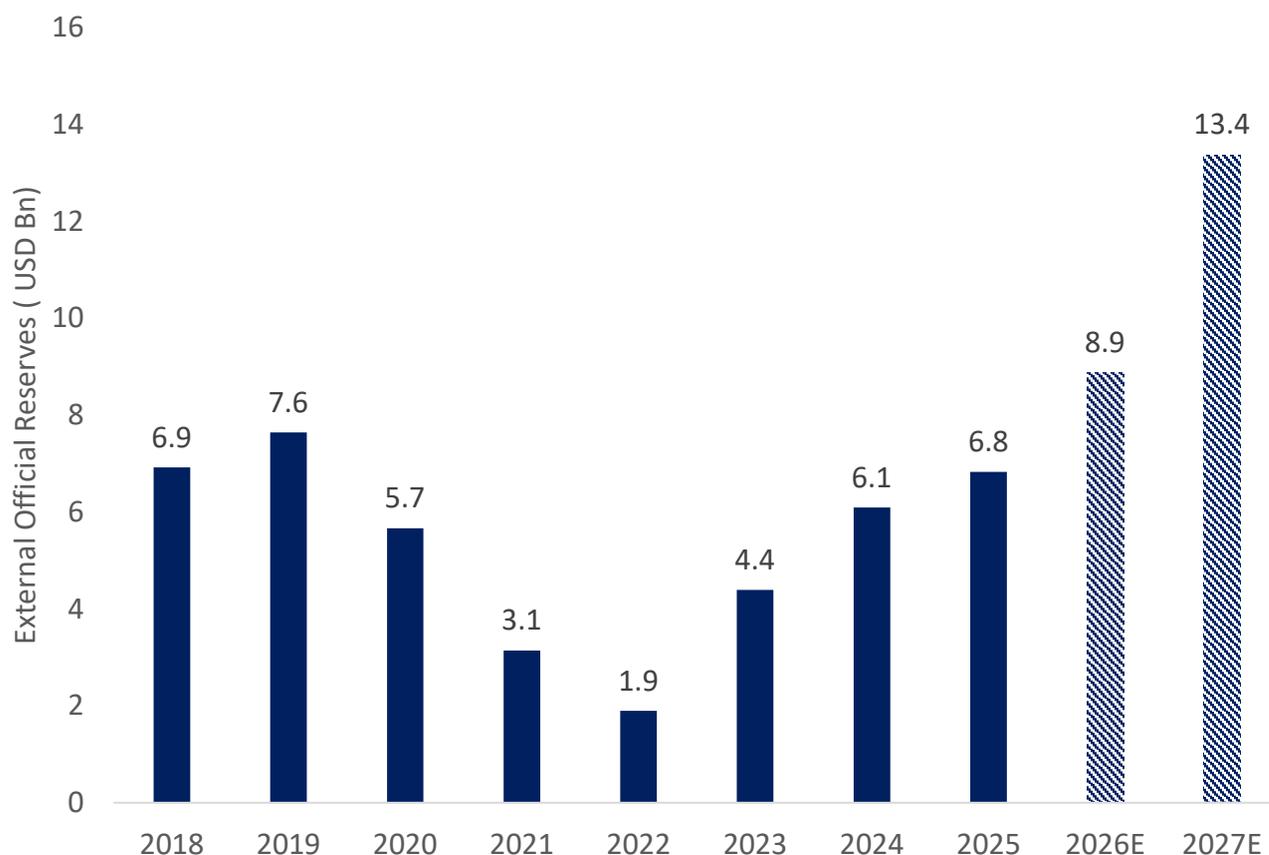


- For the year 2025, Sri Lanka’s tourism industry sustained strong growth momentum, with total arrivals reaching 2.34Mn visitors, surpassing the 2024 annual figure and marking the highest level since 2018. This robust performance was underpinned by consistent monthly inflows, with India remaining the dominant source market, followed by the UK, Russia, Germany, and China, reflecting broad-based international demand. However, tourism earnings grew at a more subdued pace, increasing by just 6% YoY to USD 2.28bn. Looking ahead, we expect arrivals to reach 2.7Mn and earnings to exceed USD 3.5bn in 2026E, supported by improved yield per tourist, a higher share of long-haul and premium travelers, expanded airline connectivity, amid capacity additions and improved destination positioning.
- Workers’ remittances surged by 23% YoY to USD 8.07bn in 2025, up from USD 6.6bn in 2024. Remittance inflows are expected to remain strong in 2026E, reaching approximately USD 8.6bn, supported by continued labour migration to the Middle East and East Asia, despite a slower pace of new departures amid improved domestic economic stability. Together with robust tourism earnings, this is expected to support a current account surplus for the fourth consecutive year, notwithstanding elevated import demand.

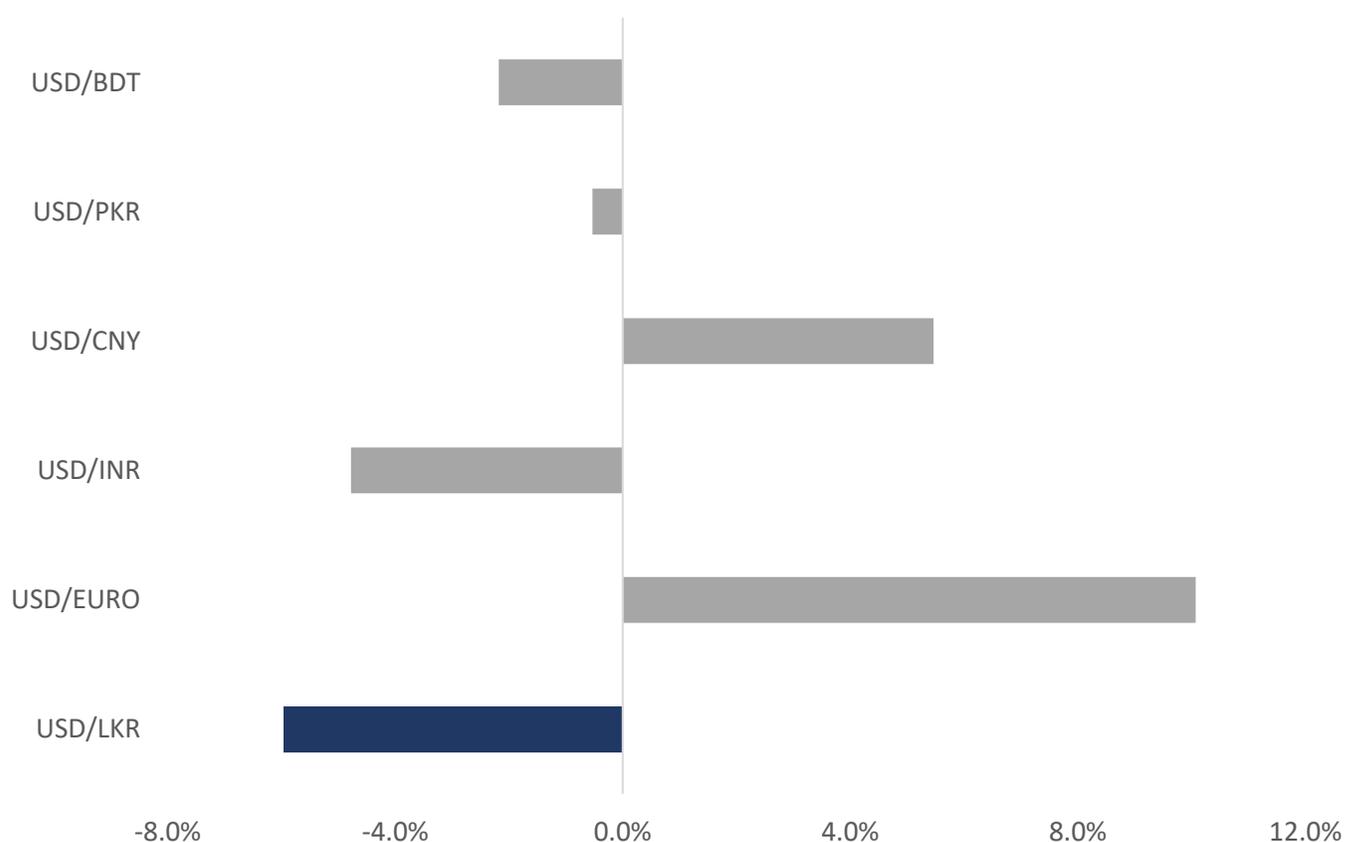


# Multilateral & bilateral funding & current account to support reserve target

*LKR/USD to weaken by around 3%-5% amid reserve accumulation*



- Sri Lanka's Gross Official Reserves ended at USD 6.8Bn for 2025 comfortably covering around 3.5 months' worth of imports. IMF's estimates for reserves for 2026E stands USD 8.9Bn and USD 13.4Bn for 2026E and 2027E respectively. We think CBSL will manage to achieve these targets supported by positive current account surpluses, multilateral and bilateral sources (IMF, ADB and World Bank), potential improvement in capital inflows ( through FDI's, project loans ) and CBSL's continuous FX purchases ( Sri Lanka purchased USD 2.8Bn and USD 1.75Bn of FX in 2024 and 2025 respectively)

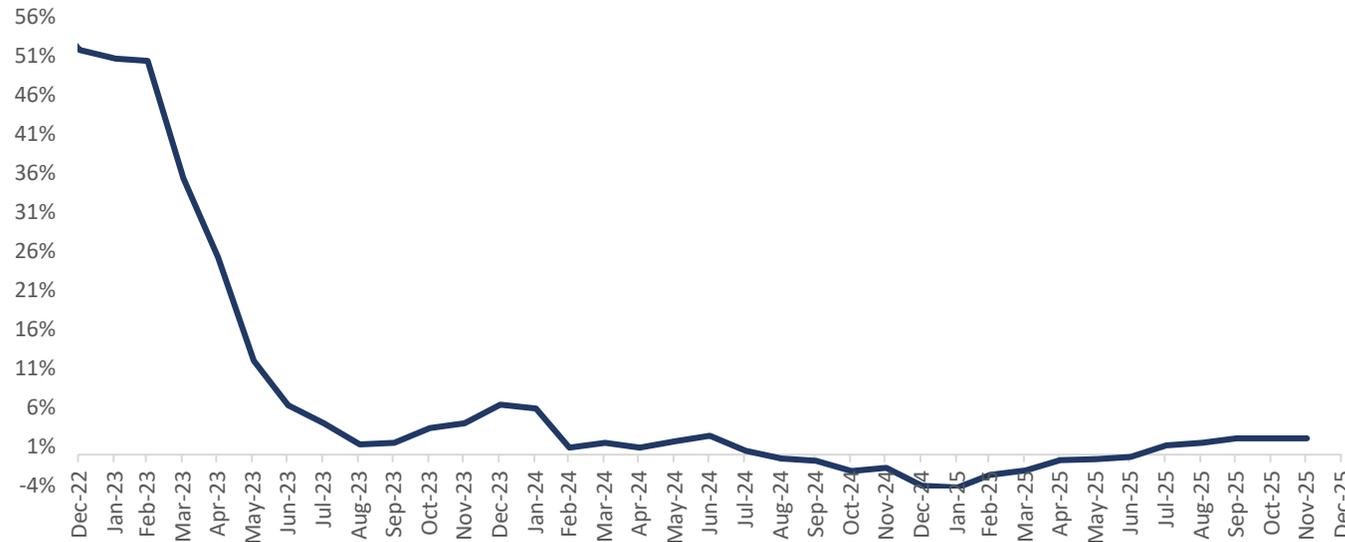


- LKR depreciated by 6% against USD for 2025 while official exchange rate of EURO, and CNY against USD appreciated by 10.1%, and 5.5% YTD respectively. While the BDT, PKR, INR and LKR depreciated by 2.2%, 0.5%, 4.8% and 6.0% YTD against USD. We expect the LKR/USD to see moderate pressure amid high import bill, higher loan payment and reserve accumulation to meet the targets. We thus expect the LKR/USD to hover around LKR 320-325 around 3%-5% depreciation .



# CCPI inflation remained stable at 2.1% YoY in 2025

Average inflation to remain below CBSL target of 5% in 2026E

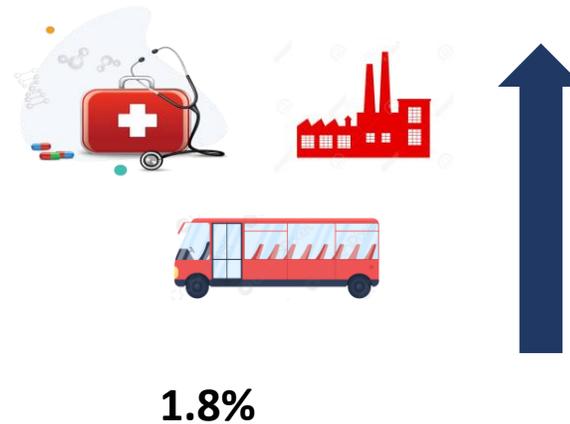


- CCPI headline inflation stood at 2.1% year-on-year in December 2025, unchanged from November 2025. The food inflation remained unchanged at 3.0% YoY, same rate recorded in November 2025, while non-food inflation surged to 1.8% YoY (from 1.7% YoY in Nov'25).

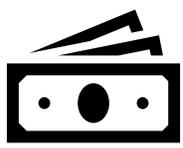
- For the month of December 2025, on Y-on-Y basis, contribution to inflation by food commodities was 0.97%. The contribution of Non-Food items was 1.18%. This was mainly due to price increases in groups of 'Education' (0.27%), 'Restaurants and Hotels' (0.26%), 'Health' (0.19%), 'Furnishing Household Equipment and Routine Household Maintenance' (0.12%), 'Clothing and Footwear' (0.11%), 'Alcoholic beverages Tobacco and Narcotics' (0.10%), 'Miscellaneous Goods and Services' (0.08%), 'Housing, Water, Electricity, Gas and Other Fuels' (0.05%), 'Recreation and Culture' (0.03%) and 'Communication' (0.01%). However, price decrease was reported for the group of 'Transport' (0.03%).

Food Inflation (Y-o-Y)

Non-Food Inflation (Y-o-Y)

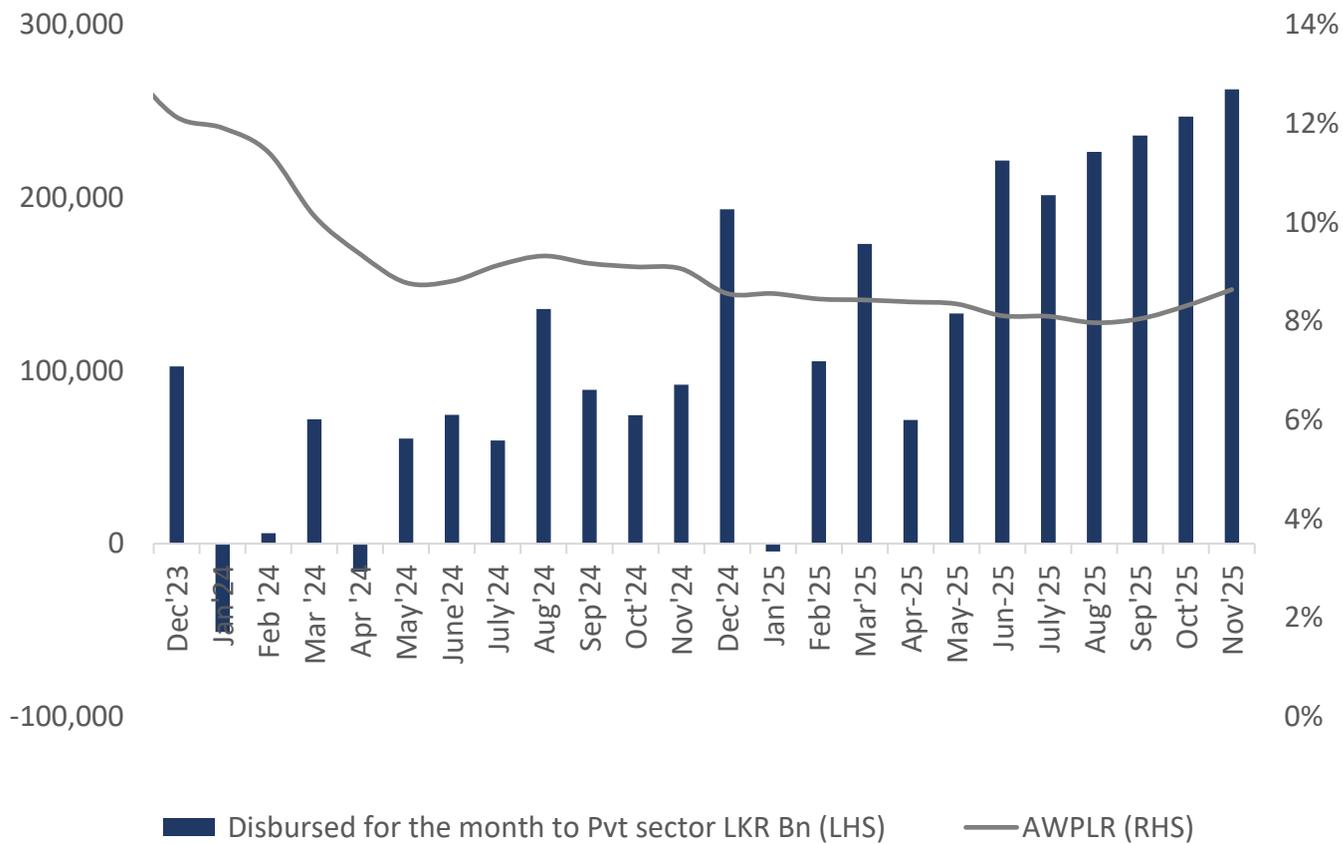


- We estimate the average inflation to hover around 4.5%-5% by end of 2026E, well below the CBSL's target of 5%

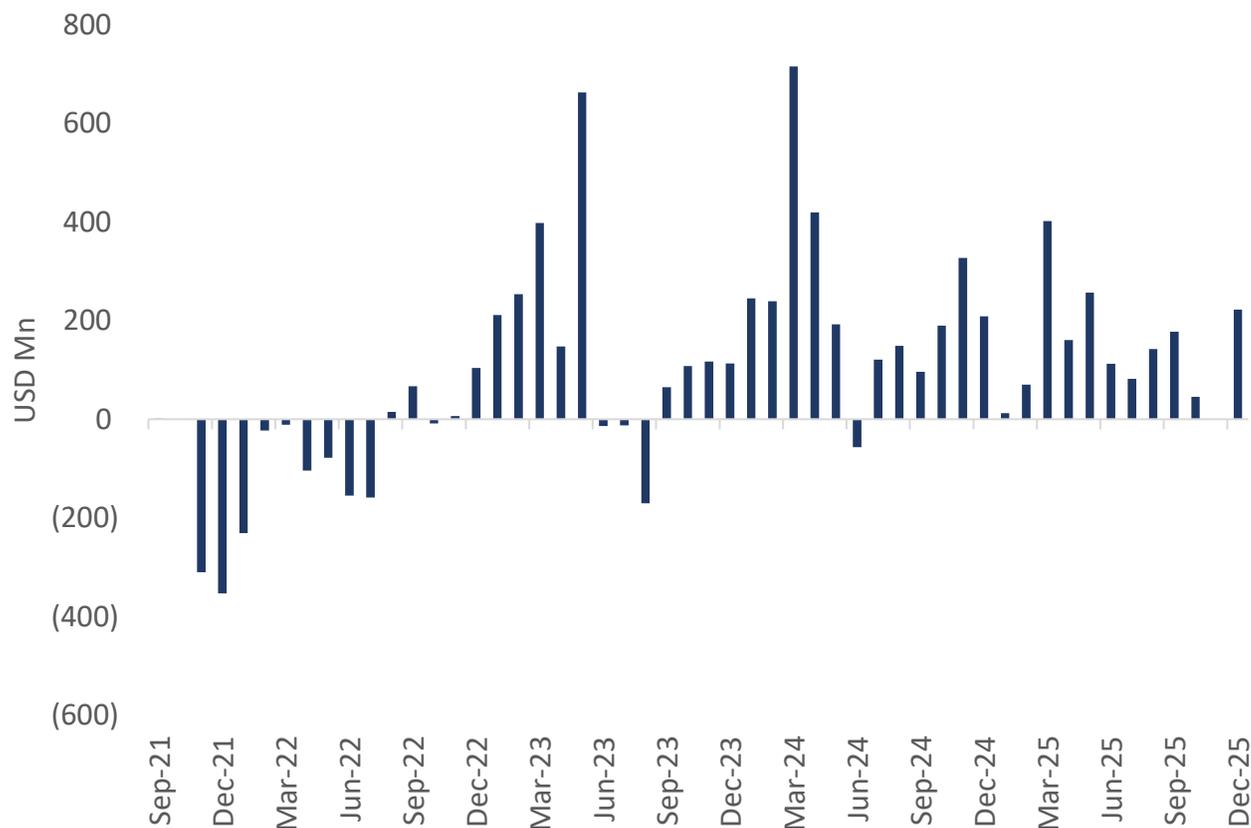


# Private sector credit is picking up amid low-interest rate climate

Credit to private sector has room to grow close to 20%YoY in 2026E



- Private sector credit expanded by approximately 26% YoY in 2025, increasing by over LKR 2tn to reach LKR 10.2Tn. Monthly credit disbursements averaged around LKR 176bn during the year, a sharp rise from LKR 65bn recorded in 2024. We expect credit growth to sustain its momentum, supported by a low-interest rate environment and further facilitated by reduced government borrowing, which inturns creates additional space for private sector lending. We thus estimate private sector credit to pick up by 20%YoY in 2026E.

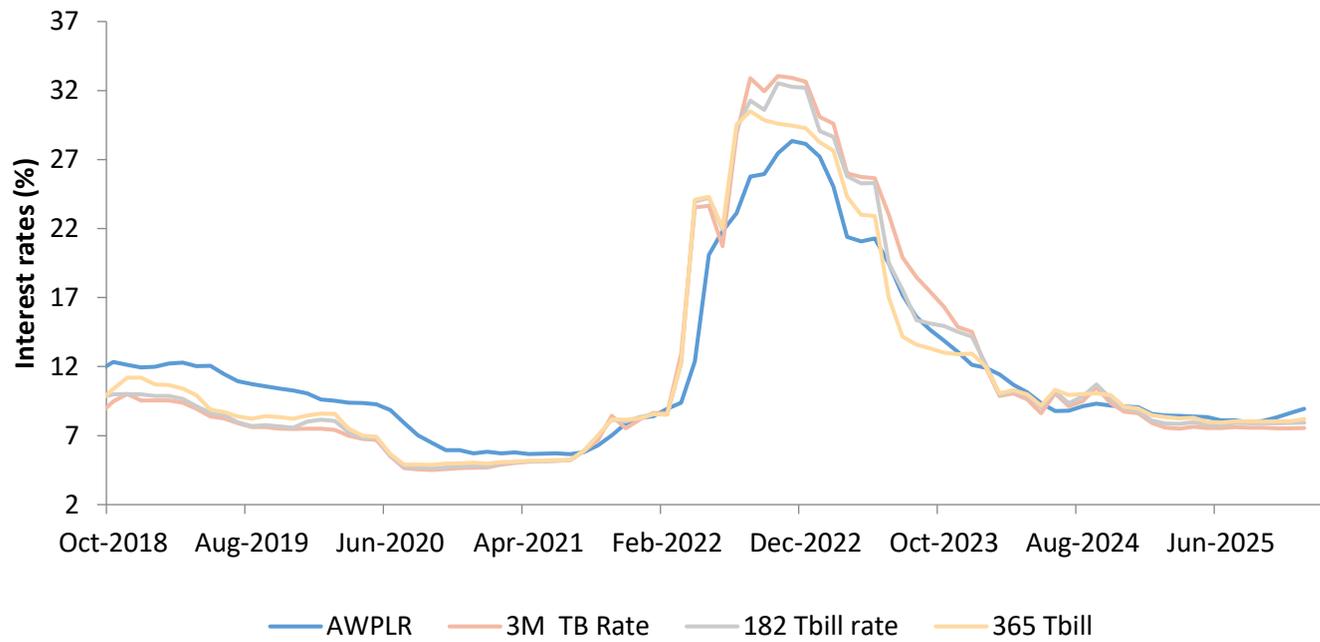


- Sri Lanka was a net purchaser of dollars up to USD 1.75Bn 2025 where CBSL has been a net purchaser for the past 18 months. We believe CBSL will continue to accumulate FX as part of efforts to strengthen reserve adequacy and support debt sustainability.



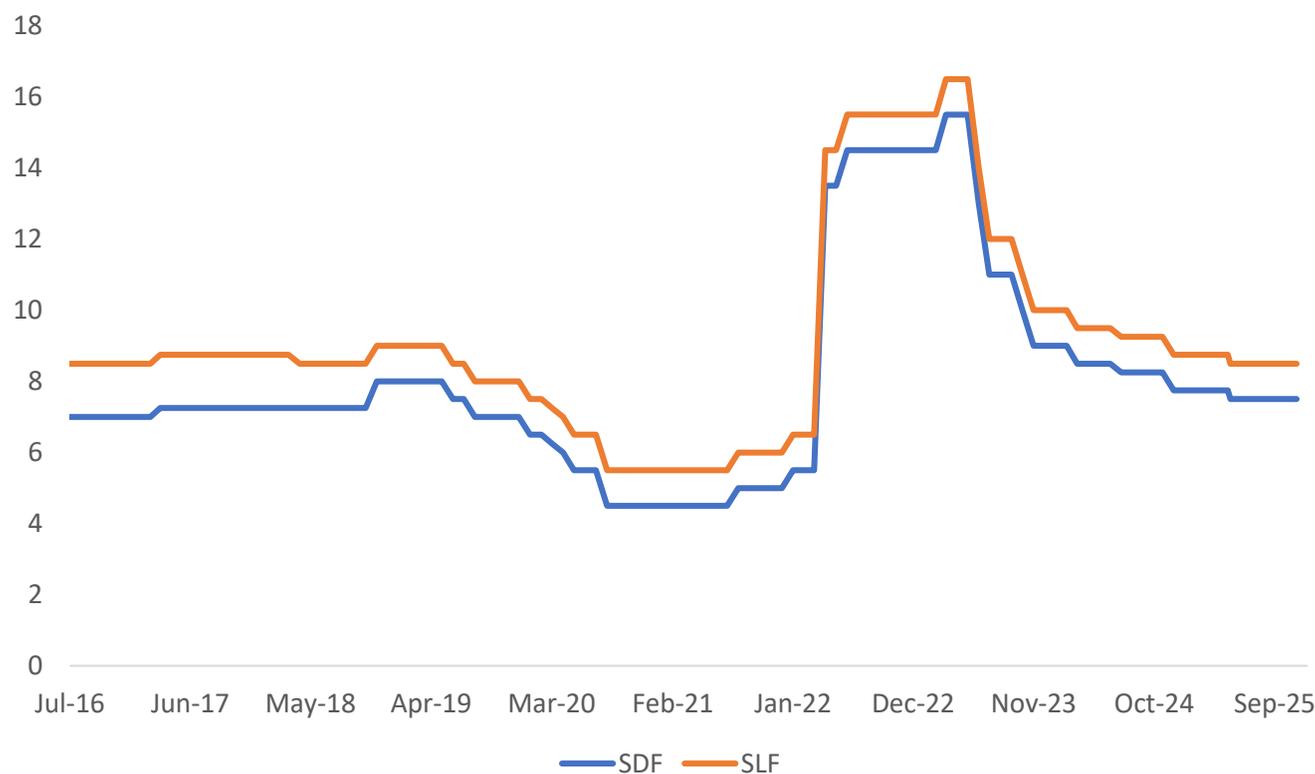
# Rates to remain broadly stable

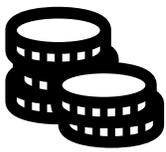
Scope for further monetary easing if inflation remains stable



- SL T bill rates dropped by 107bps, 82bps and 77 bps for 3M bill, 6M bill and 1YR T-bills respectively specially with 50bps rate cut taking place for the year 125bps cut in 2024 and 675bps cut in 2023. AWPLR ended broadly at 8.94% by the year end after dropping to less than 8% in Aug'25

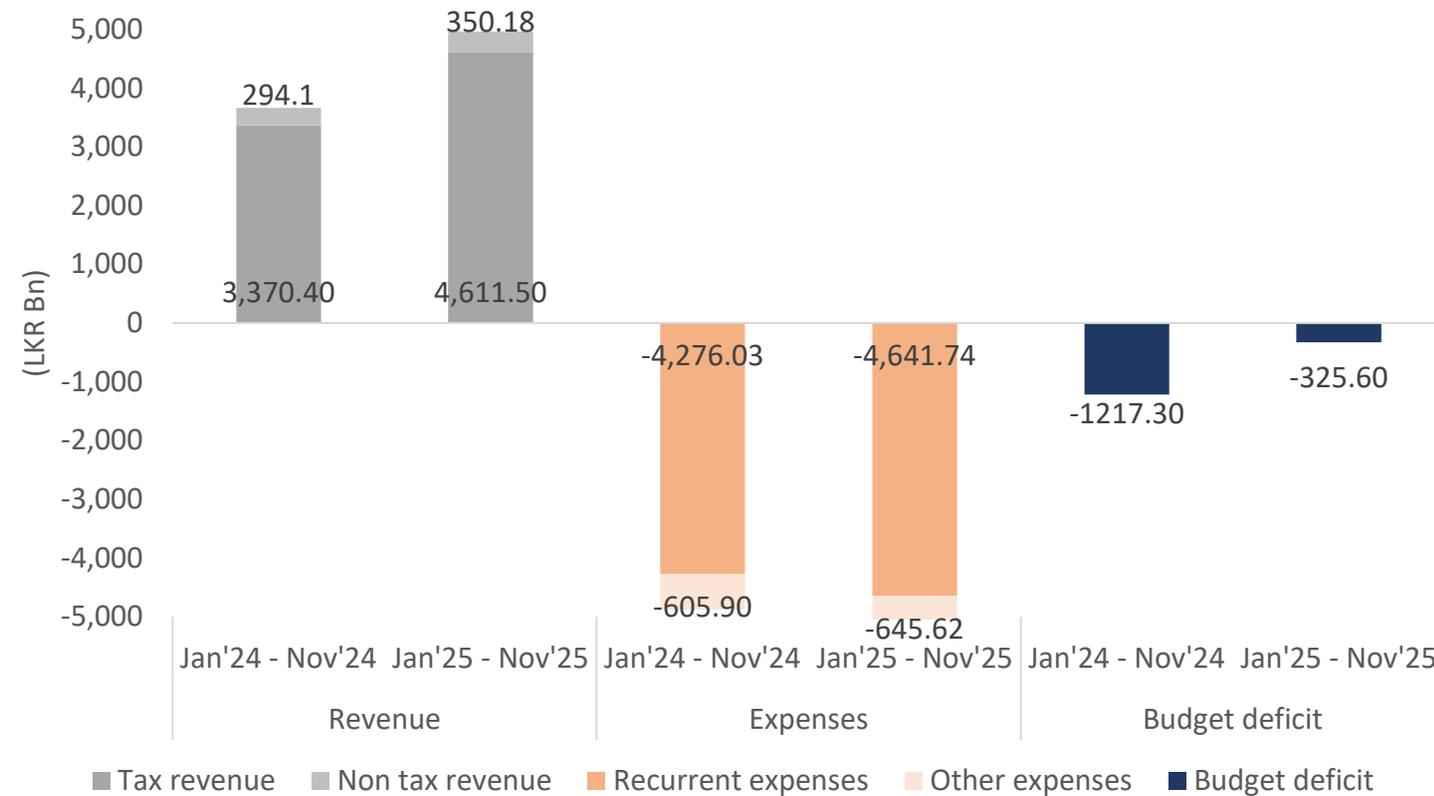
- We expect the interest rates to remain broadly stable or edge down a bit (i) due to positive GDP growth of 4%-5% (ii) inflation hovering below 5% target level (iii) primary account surplus which would reduce the burden of the government to get extra debt. However we remain cautious on the developments of the potential electricity tariff adjustments, geopolitical risks, exchange rate volatility, and related cost-push inflation—where there is a scope for a higher inflation to also trickle-down prolonging of easing cycle





# Government revenue surged by 35% YoY to LKR 4.9Tn in Jan-Nov'25

Primary balance to achieve a surplus despite high reconstruction efforts



- Government revenue increased by 35.47% YoY to LKR 4.9Tn during Jan'25 - Nov'25. This growth was primarily driven by a strong rise in tax revenue, which expanded by 36.83% YoY to LKR 4.6Tn, while non-tax revenue increased by 19.28% YoY to LKR 280Bn. Further, Recurrent expenditure rose by 8.53% YoY to LKR 4.6Tn, while capital and lending minus repayments increased by 6.61% YoY to LKR 645.6Bn. As a result of the significant improvement in revenue performance relative to expenditure growth, the budget deficit narrowed sharply by 73.29% YoY to LKR 325.6Bn over the same period.

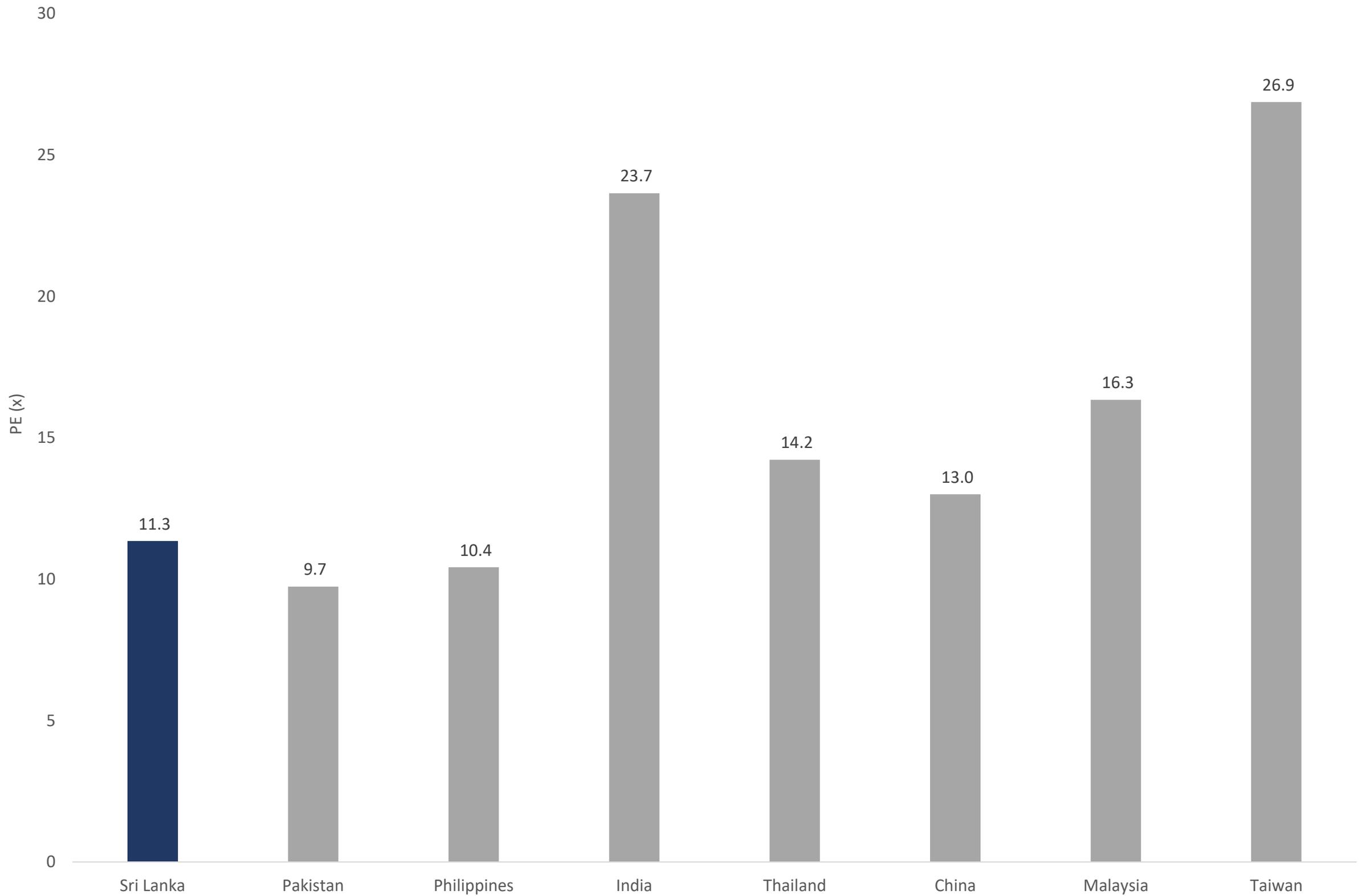
- On the fiscal front, we expect the government to continue adhering to the IMF programme parameters. Revenue collection is projected to meet the 2026E target of LKR 5.3tn, equivalent to approximately 15% of GDP. On the expenditure side, capital spending is likely to be elevated due to post-Cyclone Ditwah rehabilitation and reconstruction efforts. However, despite the additional allocation of LKR 500bn alongside the budgeted LKR 1.4tn in capital expenditure, we expect actual disbursements to fall short of allocations. As a result, Sri Lanka is likely to record a primary surplus in 2026, albeit lower than the level initially targeted in the November 2025 budget.

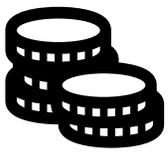
# Equity Outlook



# CSE valuations remain well below 15YR average PE

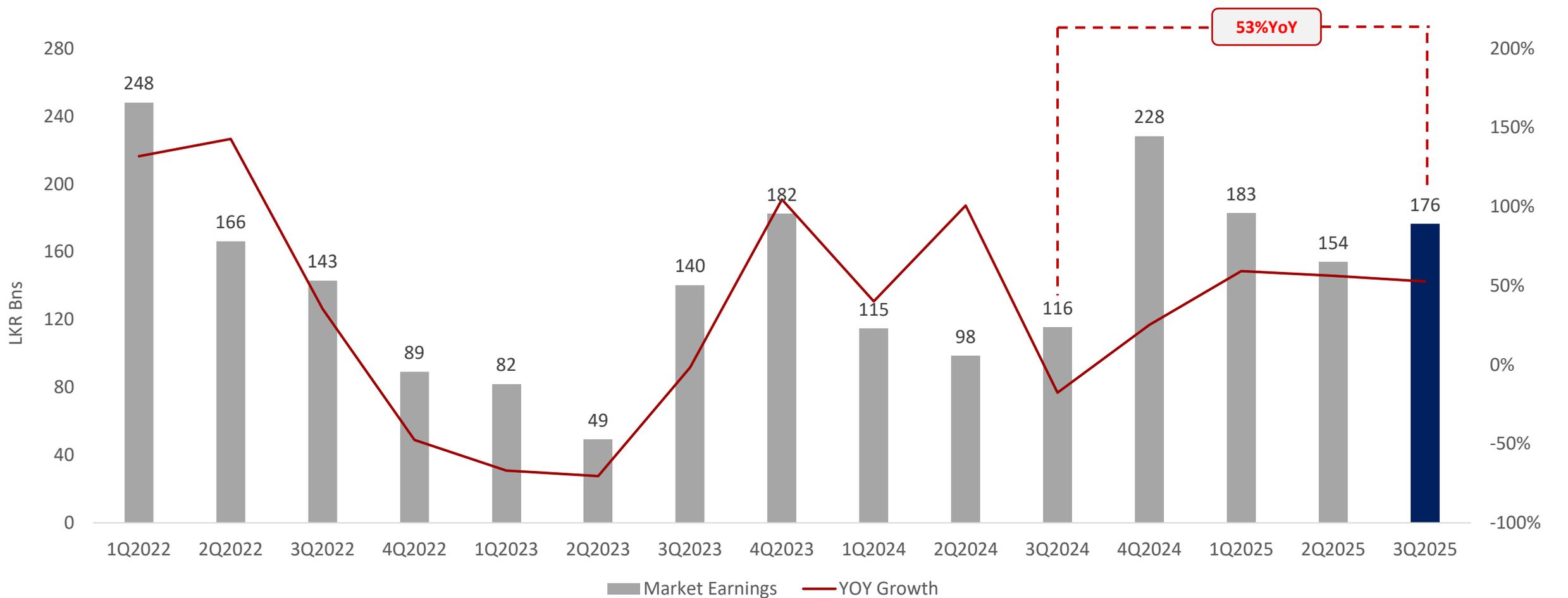
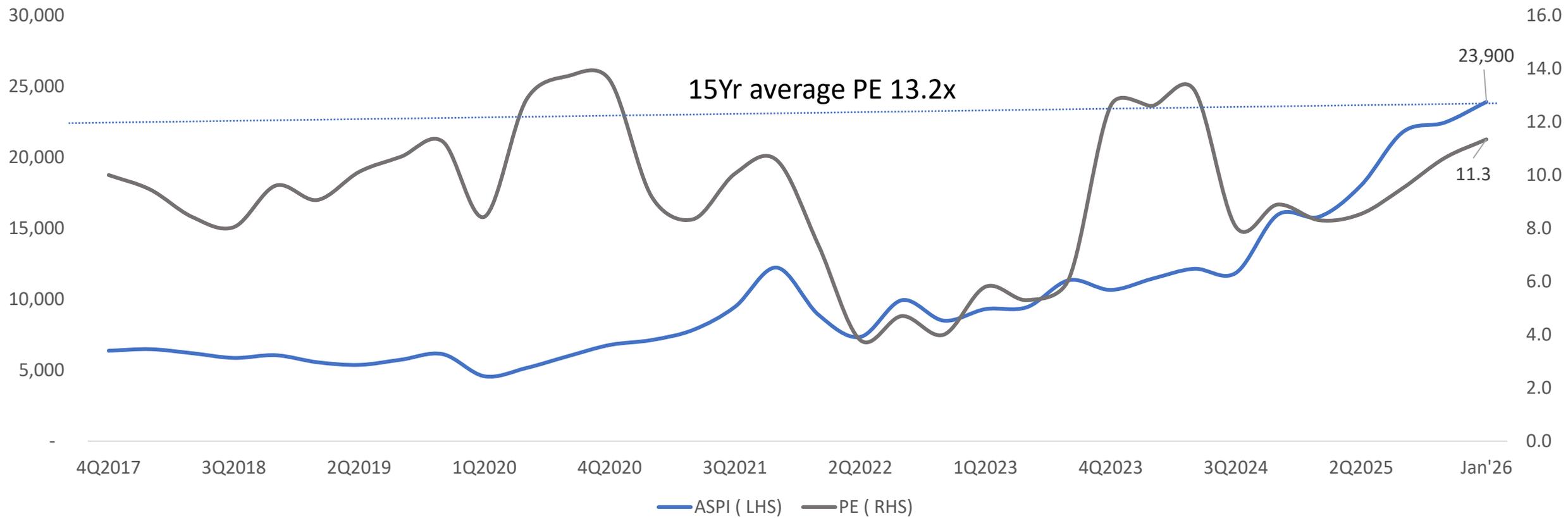
*Sri Lanka is still cheaper than most of its regional peers*

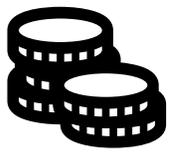




# CSE target range of 27,900–28,700 on 12%–15% earnings growth.

PE expected to range between 12.0x–12.5x by 2026E.





## KEY PICKS

Construction , Tourism , Banks , Consumer and Diversified sectors to benefit

	Ticker	Current Market Price(LKR) (29.01.2026)	PE (x)	PBV(x)	DY(%) (Trailing 12M)	ROE (%)
<b>Market</b>			<b>11.6</b>	<b>1.5</b>		
<b>Construction Sector</b>						
Tokyo Cement Company (Lanka) PLC	TKYO	110.5	14.6	1.6	2.0	10.9
Royal Ceramics Lanka PLC	RCL	52.5	10.5	5.0	3.0	11.0
Access Engineering PLC	AEL	72.0	11.8	1.9	2.8	16.3
<b>Tourism</b>						
Aitken Spence Hotel Holdings PLC	AHUN	115.0	14.0	1.7	na	12.1
John Keells Hotels PLC	KHL	21.5	34.6	1.0	0.5	2.8
<b>Banks</b>						
Commercial Bank PLC	COMB	227.7	5.2	1.17	4.2	22.5
Hatton National Bank PLC	HNB	427.7	4.5	0.84	3.5	18.6
Sampath Bank PLC	SAMP	155.2	5.6	0.9	6.0	17.8
Nations Trust PLC	NTB	343.0	5.8	1.2	1.9	20.9



# KEY PICKS

Construction , Tourism , Banks , Consumer and Diversified sectors to benefit

	Ticker	Current Market Price(LKR) (29.01.2026)	PE (x)	PBV(x)	DY(%) (Trailing 12M)	ROE (%)
<b>Diversified</b>						
Melstacorp PLC	MELS	185.0	11.6	1.4	3.5	12.3
John Keells Holdings PLC	JKH	22.7	43.1	1.0	1.1	2.3
Aitken Spence PLC	SPEN	159.7	11.9	0.8	2.5	7.1
Hayleys PLC	HAYL	244.2	12.9	1.9	2.5	14.4
Hemas Holdings PLC	HHL	34.8	11.8	2.0	2.7	17.4
CIC Holdings PLC	CIC	36.8	12.2	1.7	6.8	13.7
<b>Consumer &amp; other</b>						
Ceylon Cold Stores PLC	CCS	115.0	17.4	4.5	4.9	25.8
Chevron Lubricants Lanka PLC	LLUB	194.2	11.5	5.1	8.8	44.7

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