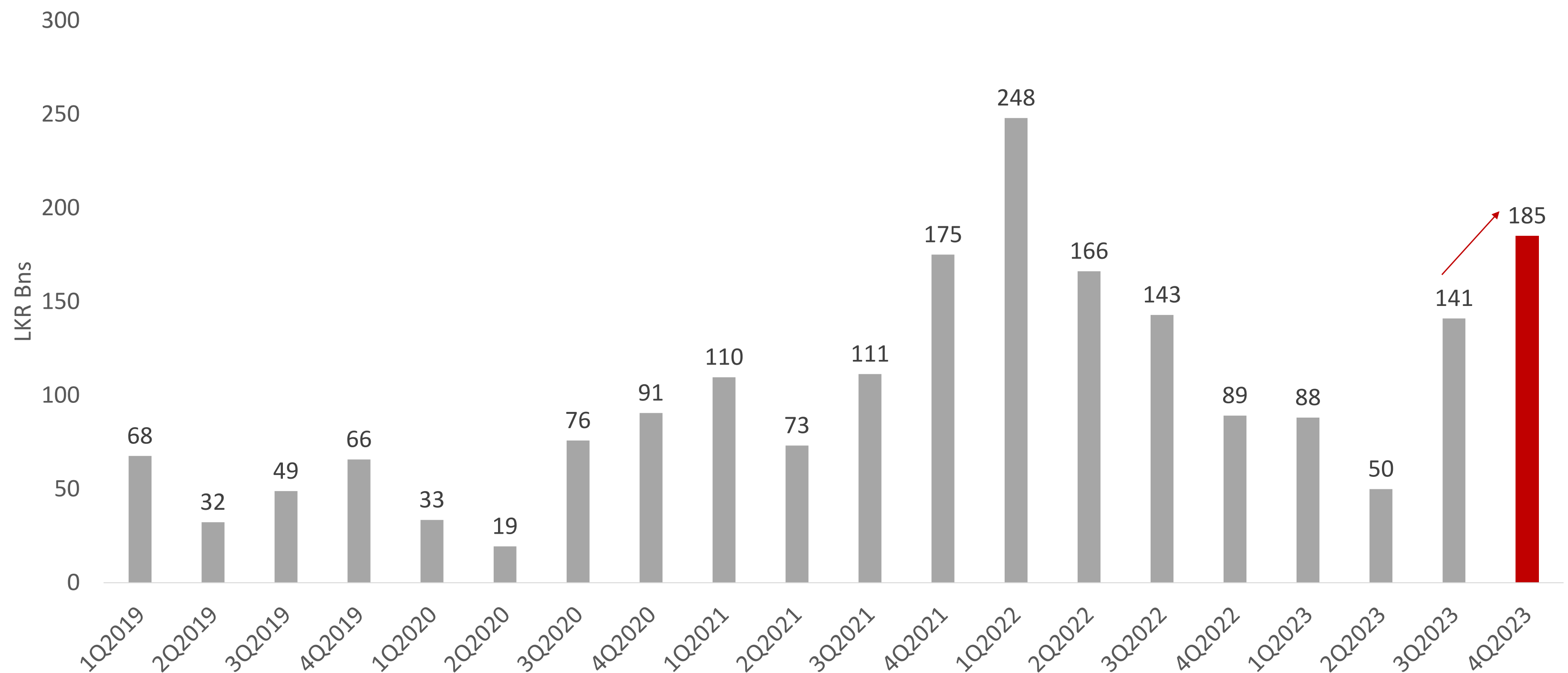


Sri Lanka Earnings Update – 4Q'23

Corporate earnings bounce back stronger in 4Q’23 with profits soaring by over 2.0x YoY

Lower finance costs, Lower impairment provisions & improved macro conditions helped cushion profits

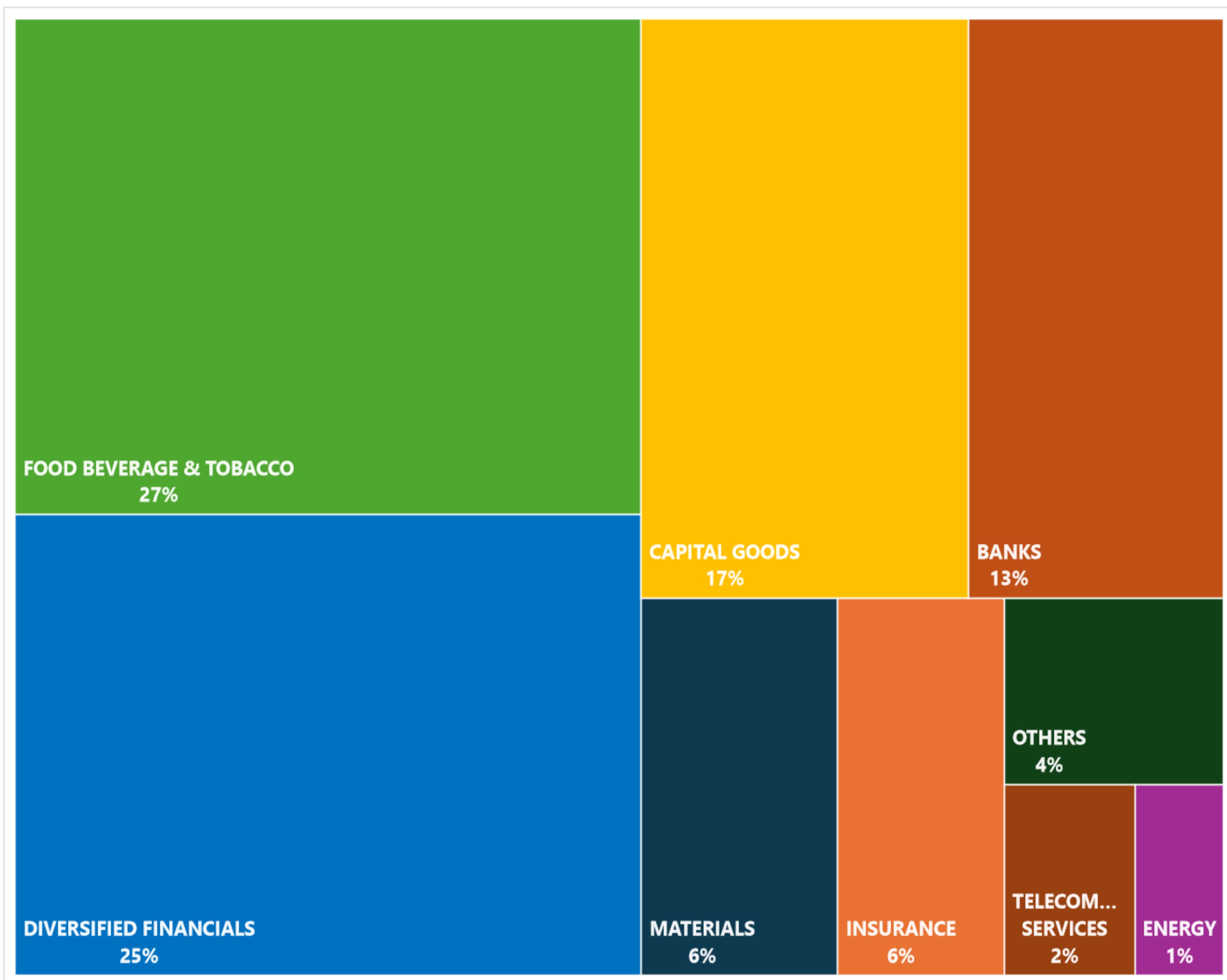


- ✓ *Corporate earnings bounced back stronger with profits soaring by over 31% QoQ (108%YoY) to LKR 185Bn in 4Q’23.*
- ✓ *Lower finance costs resulting from declining interest rates, lower impairments, and improved macro conditions positively contributed to bottom-lines of corporates.*
- ✓ *Food Beverage & Tobacco sector and the Diversified Financial sector contributed to the lion share of 4Q’23 earnings, accounting to a staggering 52% (LKR 97.2Bn).*
- ✓ *Capital goods sector that contributed to 17% of earnings saw its profits soaring to LKR 30.7Bn (from a loss of 2.6Bn in the corresponding quarter last year) specially aided by pick up in consumer demand in diversified sector.*

Source : CSE,NLE Research

Note: All extra ordinary income/expenses included

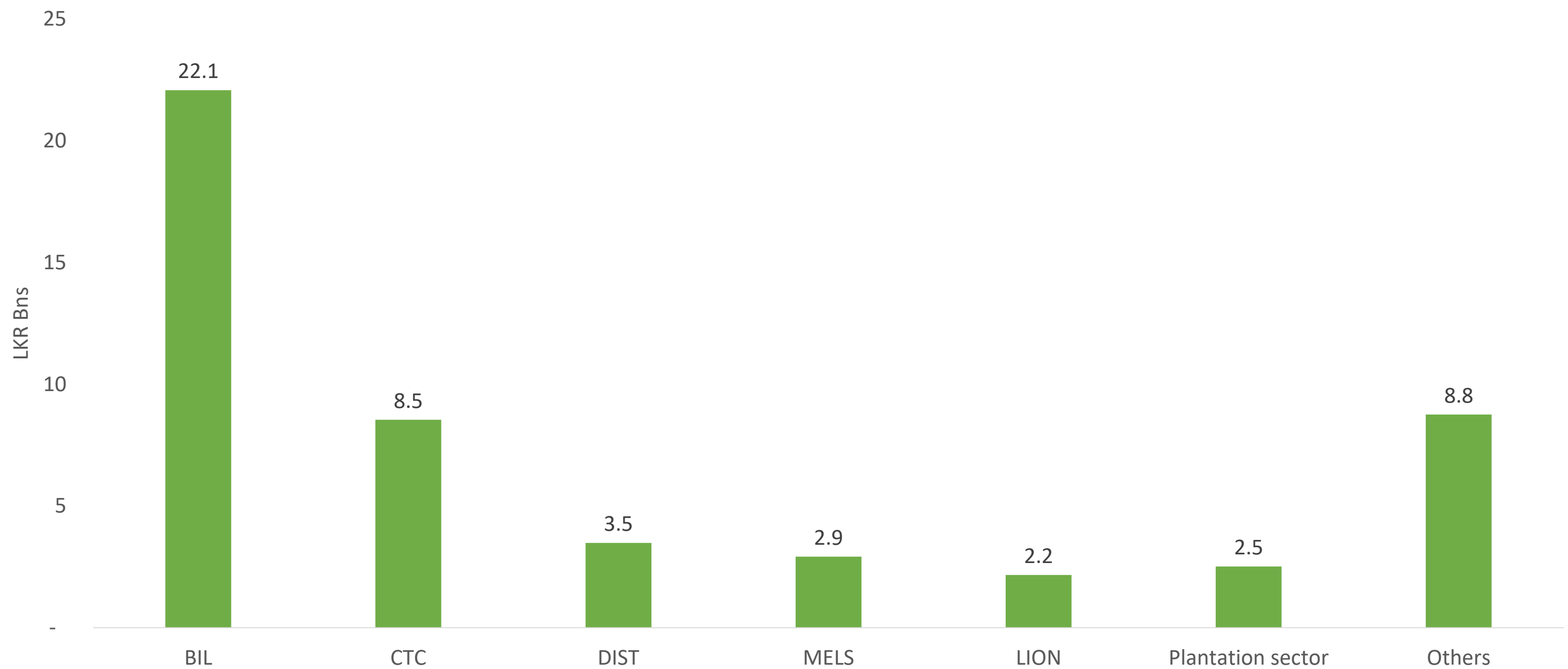
Food & Bev and Diversified Financials contributed to over 52% of the total earnings
Capital Goods and Banking Sector followed suit



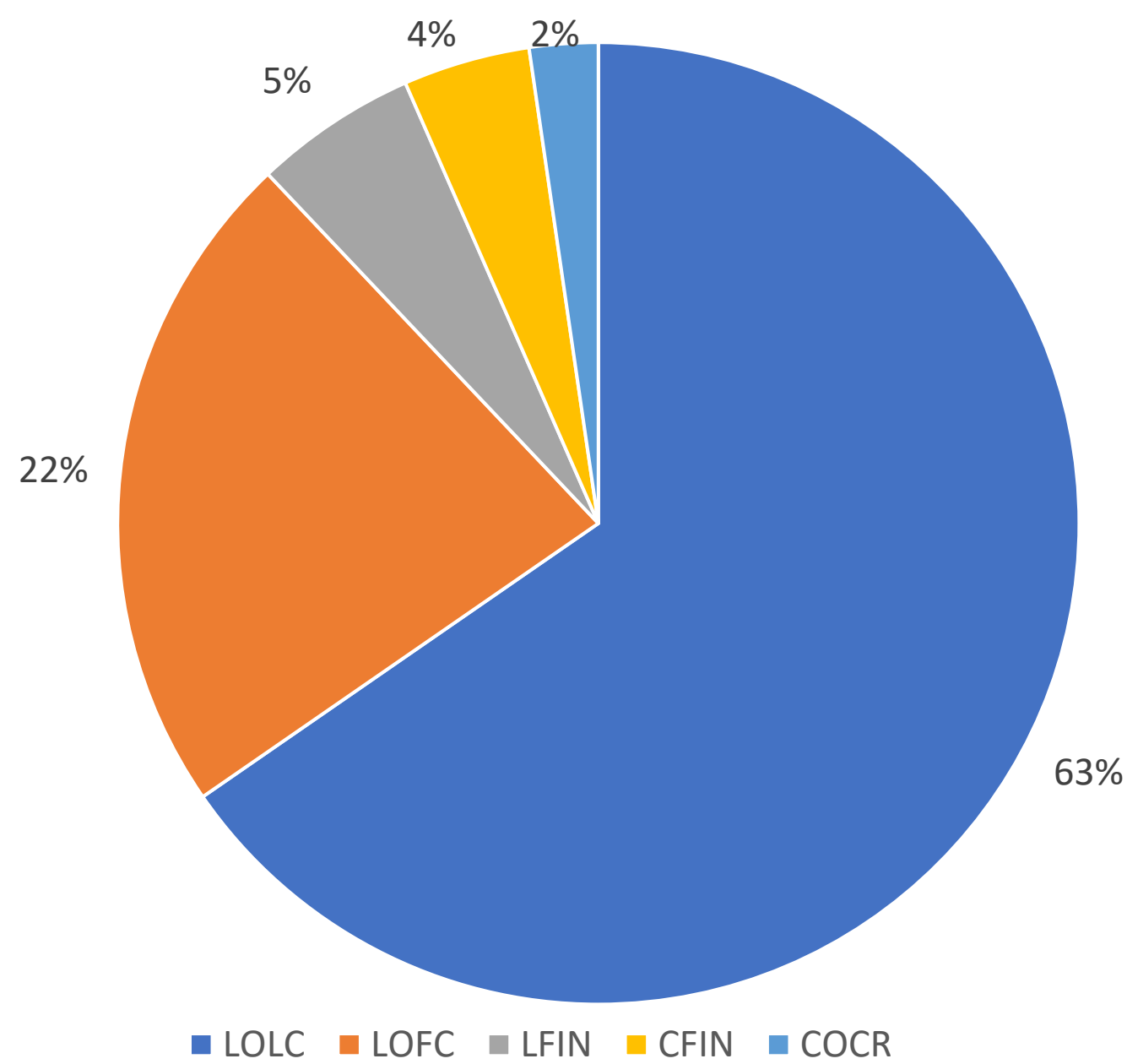
Source : CSE,NLE Research

Note: All extra ordinary income/expenses included

BIL, CTC, DIST, MELS & LION contributed to major portion of Food, Beverage & Tobacco sector earnings



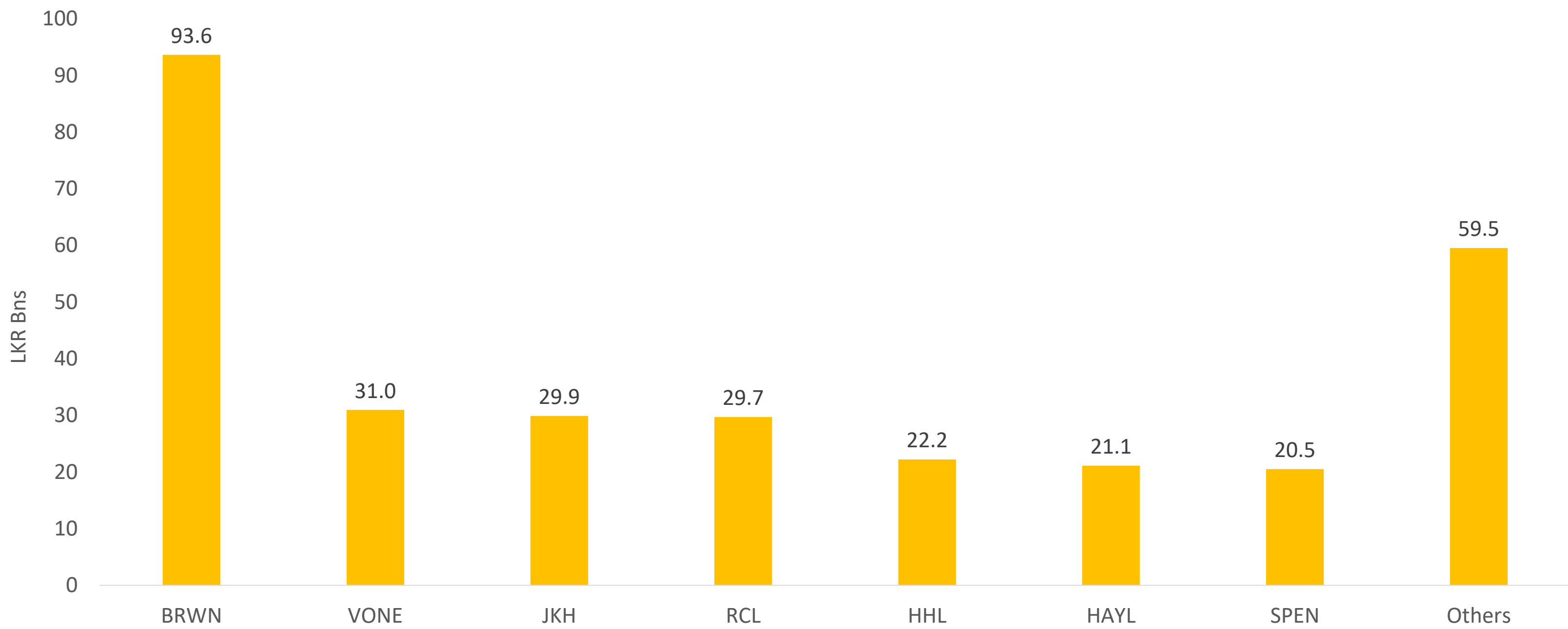
LOLC, LOFC, LFIN contributed to 90% of diversified financial sector (Finance companies)



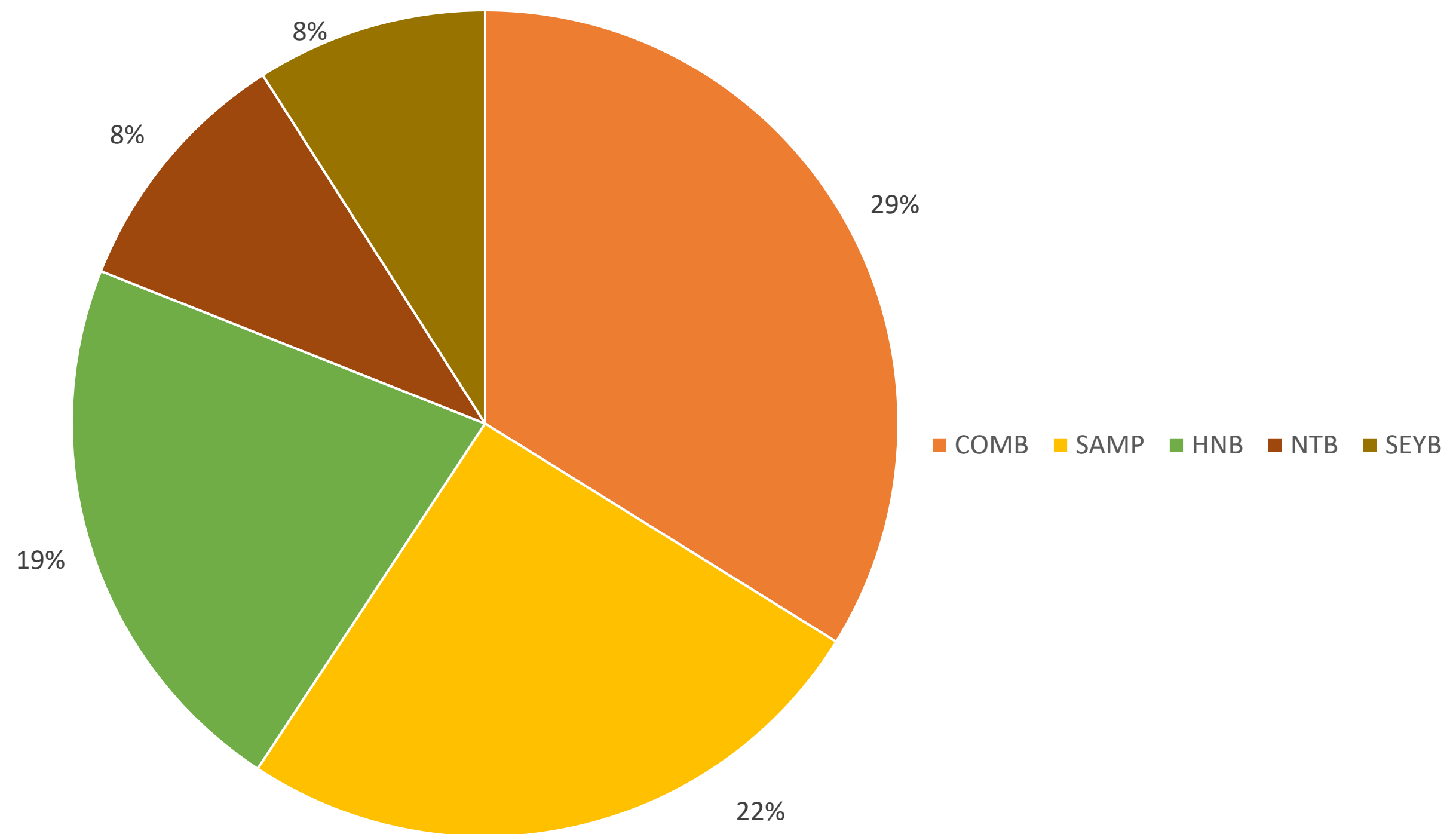
Source : CSE,NLE Research

Note: All extra ordinary income/expenses included

BRWN,VONE,JKH,RCL,HHL,HAYL & SPEN contributed to 80% of capital goods earnings in 4Q’23



COMB, SAMP & HNB contributed to 70% of banks earnings in 4Q’23



Source : CSE,NLE Research

Note: All extra ordinary income/expenses included

Bourse records earnings of LKR 185Bn in 4Q’23 (+31%QoQ & 107% YoY) TTM PE ratio stands at just 9.3x.
Return on Equity improved to 9.7%.

Sector	TTM PER			4Q2022	3Q2023	4Q2023	QoQ
	(X)	PBV (X)	ROE (%)				
Automobiles & Components	4.9	0.8	15.9	(214)	267	305	14%
Banks	4.4	0.5	10.6	29,885	34,117	23,969	-30%
Insurance	6.3	0.9	14.8	8,336	5,391	10,183	89%
Diversified Financials	5.0	0.7	14.6	20,605	35,645	46,821	31%
Capital Goods	25.4	0.8	3.0	(2,654)	5,922	30,753	419%
Consumer Services	na	1.0	na	(5,067)	(4,099)	(143)	-97%
Energy	4.0	1.0	24.3	12,728	6,043	2,730	-55%
Food Beverage & Tobacco	7.3	1.3	18.3	26,296	39,556	50,448	28%
Health Care Equipment & Service	17.2	1.3	7.7	651	1,383	1,867	35%
Materials	6.1	0.9	15.4	7,067	5,936	12,017	102%
Real Estate	7.4	0.5	6.2	(666)	7	2,415	36690%
Retailing	na	0.5	na	(1,187)	(1,468)	1,148	-22%
Software & Services	na	1.7	na	30	(15)	(45)	199%
Telecommunication Services	15.7	1.6	10.5	(9,587)	1,519	4,048	167%
Transformation	na	2.3	na	2,986	(1,504)	(5,148)	242%
Market	9.3	0.9	9.7	89,174	141,019	185,065	31%

Source : CSE,NLE Research

LOLC , BIL , LOFC , BRWN and CTC are top five contributors to 4Q'23 earnings

Top 25 contributes to 81% of 4Q'23 earnings

In Millions	4Q'22	3Q'23	4Q'23	QoQ	YoY
LOLC Holdings	5,349	(1,220)	29,402	2310%	450%
Browns Investments	(4,459)	7,114	22,080	210%	395%
LOLC Finance	7,696	3,301	10,146	207%	32%
Brown & Company	(5,564)	2,624	9,363	257%	68%
Ceylon Tobacco	6,360	6,872	8,539	24%	34%
CIC Holdings	2,093	891	7,237	712%	246%
Commercial Bank	8,775	6,233	6,915	11%	-21%
Dialog	(8,291)	3,063	5,267	72%	-36%
Sampath Bank	6,375	5,092	5,194	2%	-19%
Ceylinco Insurance	3,649	1,872	5,188	177%	42%
Hatton National Bank	4,314	8,874	4,440	-50%	3%
Distilleries	5,460	2,865	3,481	22%	-36%
Vallibel One	1,574	2,387	3,096	30%	97%
Lanka IOC	8,233	5,059	3,015	-40%	-63%
John Keells Holdings	1,984	(574)	2,990	421%	51%
Royal Ceramics	1,153	1,858	2,969	60%	157%
Melstar Corp.	4,997	1,534	2,916	90%	-42%
LB Finance	1,756	2,346	2,467	5%	40%
Union Assurance	1,970	435	2,410	454%	22%
Hemas Holdings	980	1,220	2,220	82%	127%
Lion Brewery	2,068	2,498	2,162	-13%	5%
Hayleys	19	40	2,111	5236%	11137%
Aitken Spence	399	742	2,052	177%	414%
Nations Trust Bank	1,937	3,319	2,033	-39%	5%
Central Finance	1,566	2,047	1,919	-6%	23%

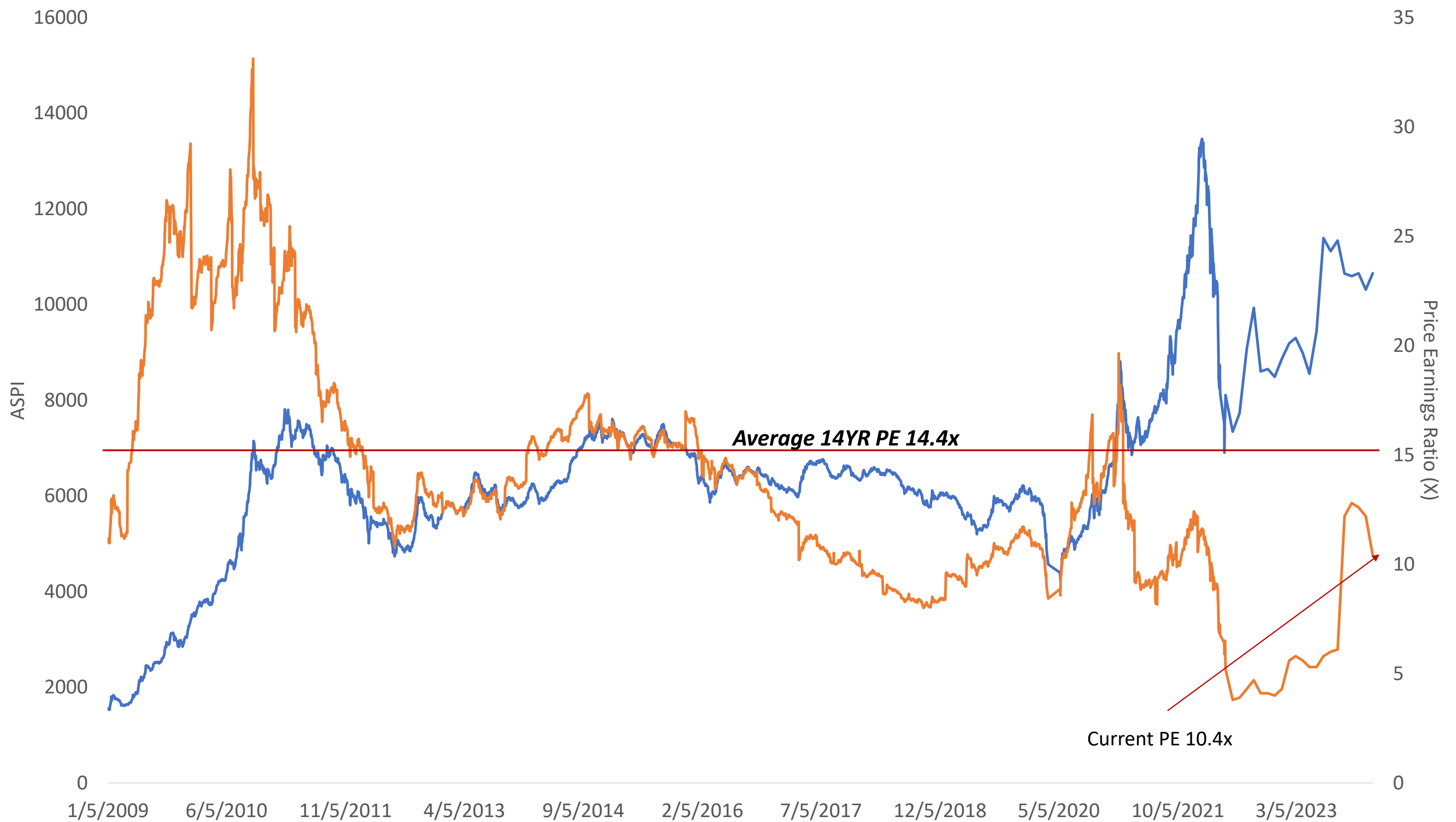
Source : CSE,NLE Research

OUTLOOK

Sri Lanka – Earnings Update – 4Q'23

Sri Lanka still trades at a significant 38% discount to 14 Yr average PE of 14.4x

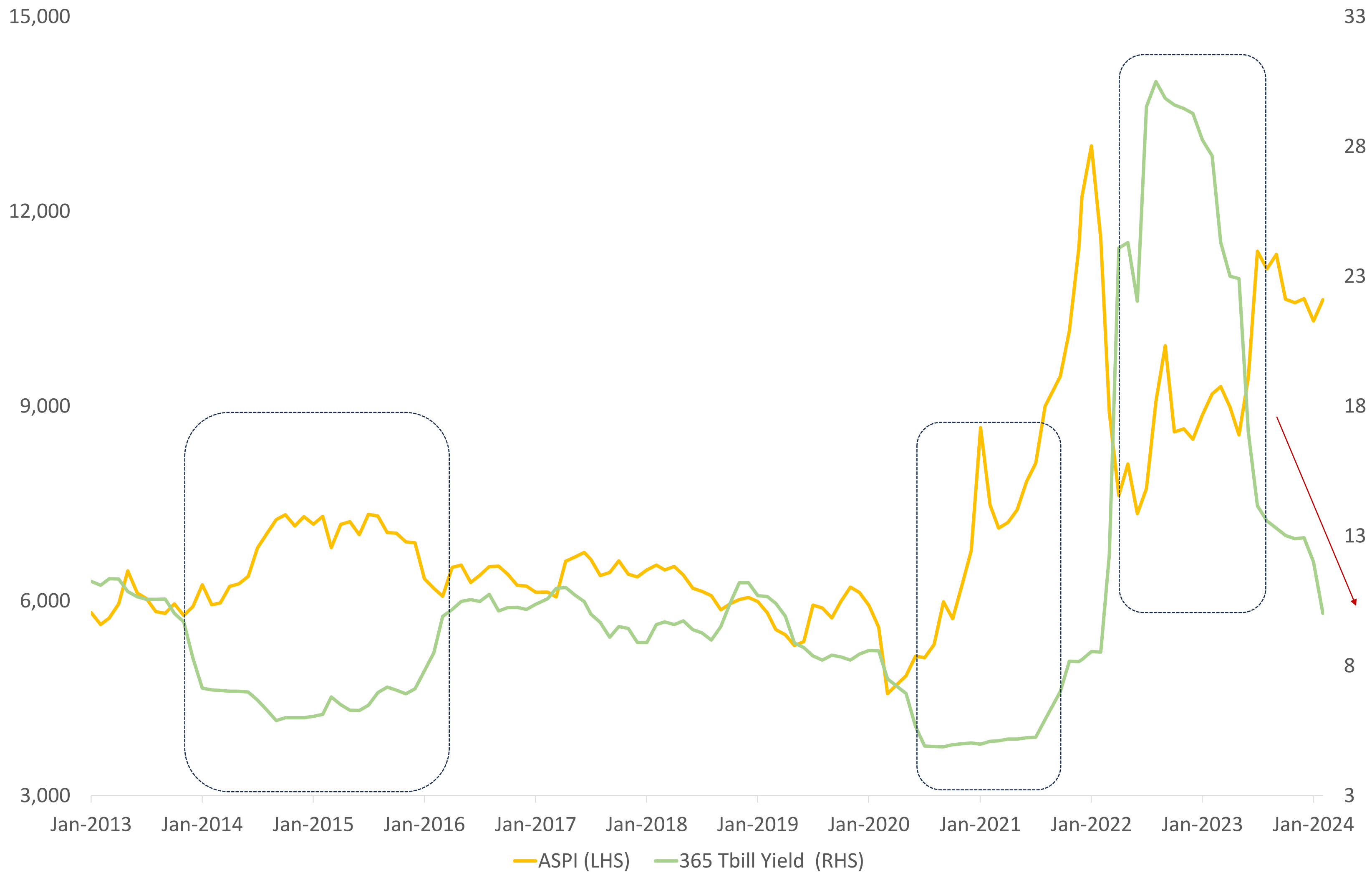
Sri Lanka showcases value specially given that earnings are expected to grow



Source : CSE, Bloomberg, NLE Research

Lower rates to benefit equities, specially with fixed income securities now yielding lower returns

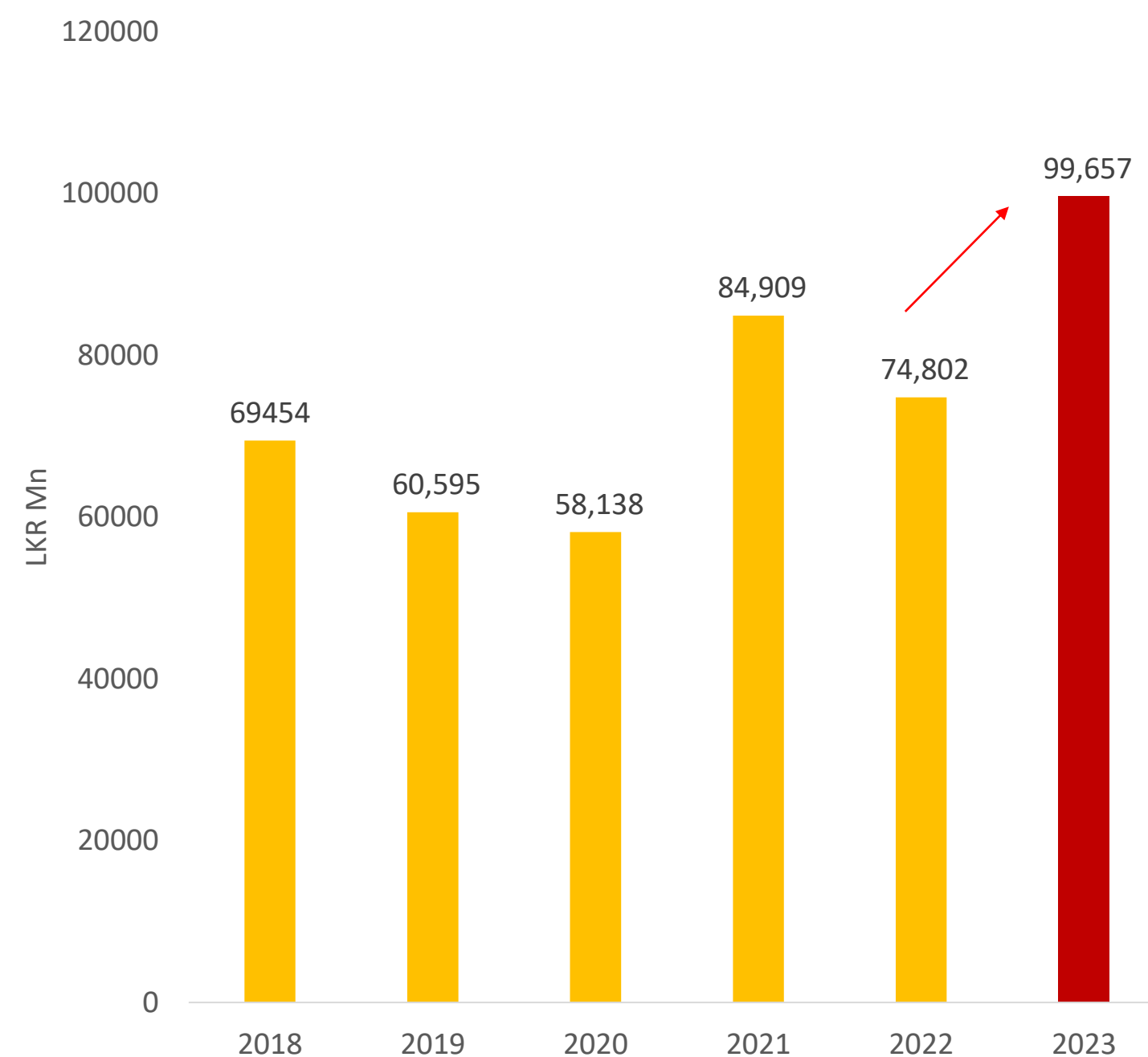
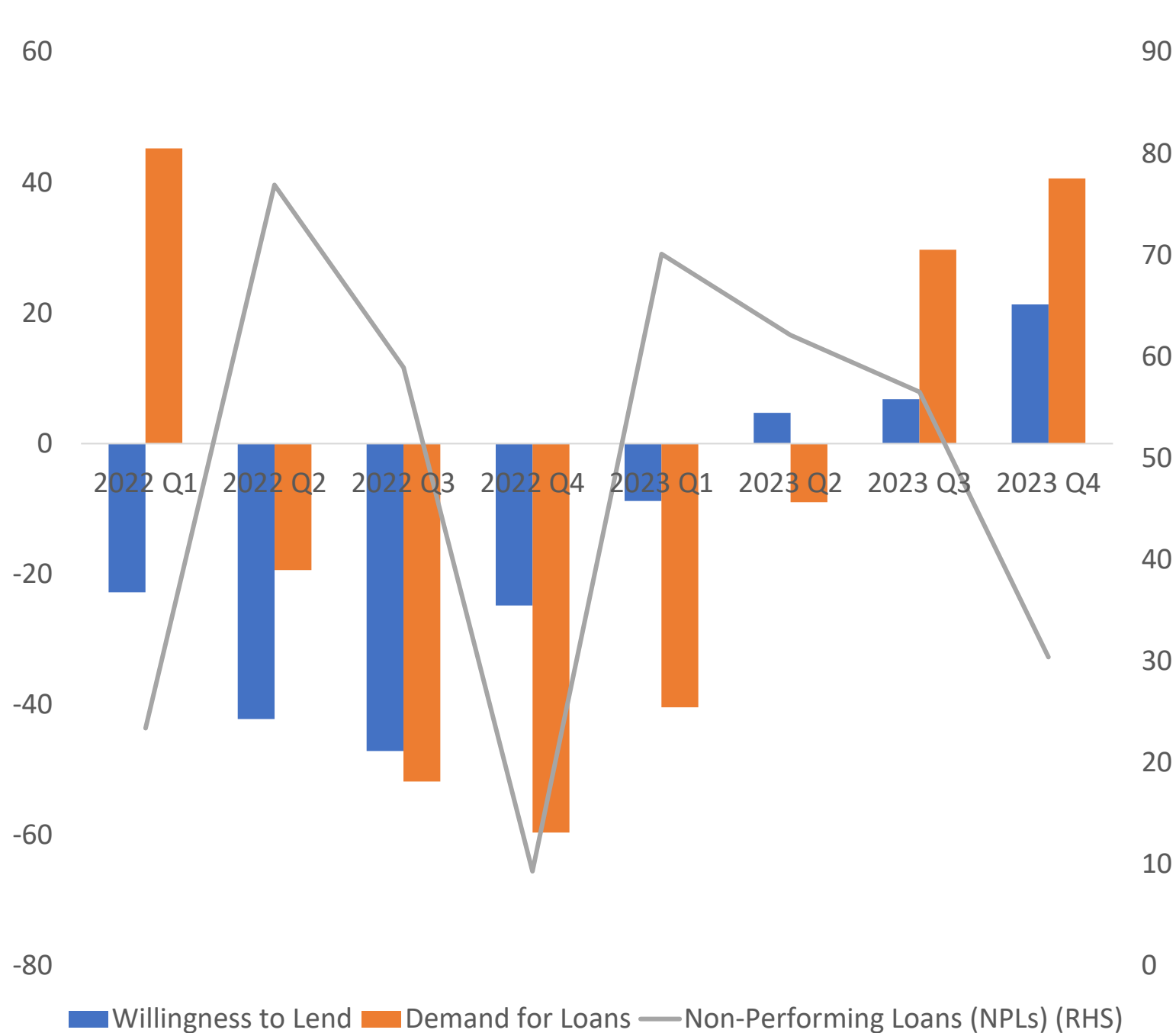
Short term T bill rates have already fallen to single digits, giving impetus to allocate funds from fixed income to equities



Source : CSE, CBSL & NLE Research

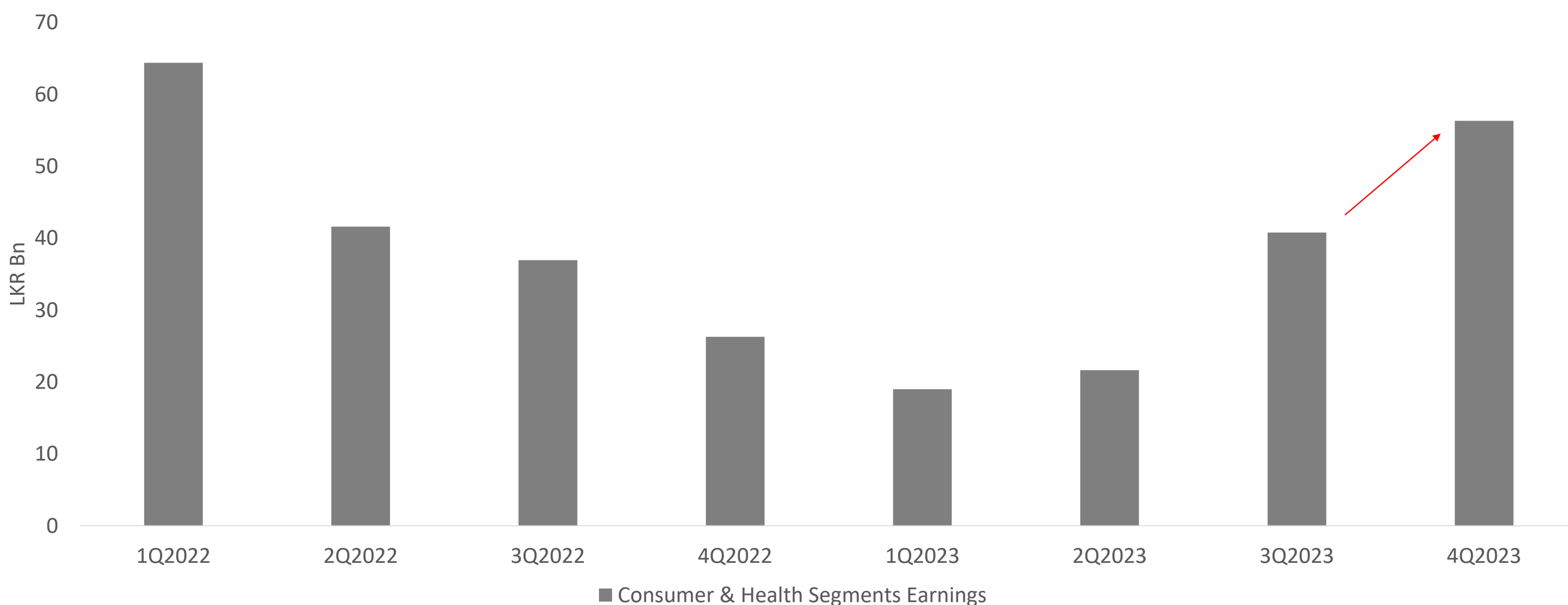
Banking sector looks promising with appetite to lend improving, NPL’s have started to plateau

Banking sector profits have bounced back to pre covid times. Sector trades less than half the book value indicating value



Profits exposed to consumer & health segments are also picking up

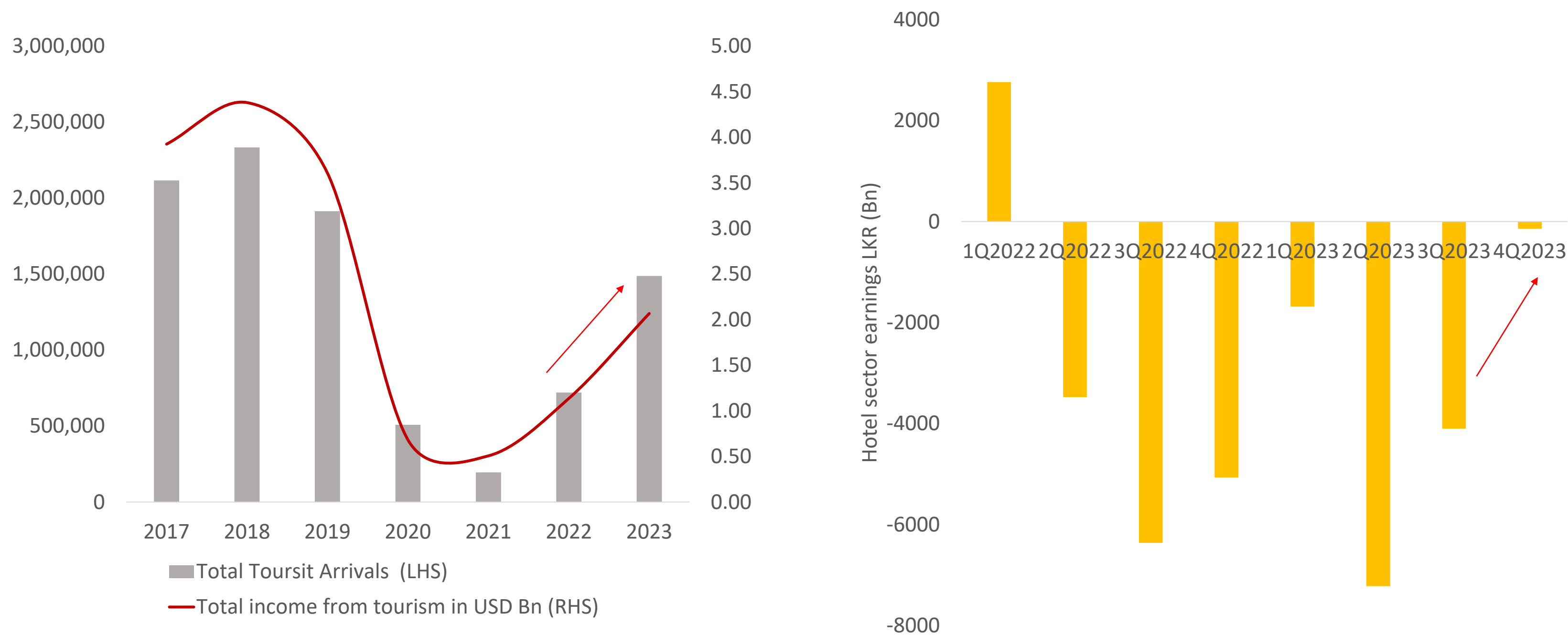
Demand to pickup with higher disposable income stemming from higher wages, lower rates & lower energy prices. Profits to be further cushioned by lower commodity prices



Source : CSE, NLE Research
Note: Counters included are

CTHL, CARG, TESS, LION, CCS, CTC, DIST, BREW, TSML, LAMB, CTEA, Poultry segment, SOL, RAL, COCO, HARI, HVA, KFP, RWSL, BUKI, HHL, SUN, CIC

Spike in tourism sector arrivals clearly reflects in hotel sector earnings with losses narrowing down significantly
 Earnings should jump even further with arrivals recovering to pre covid levels



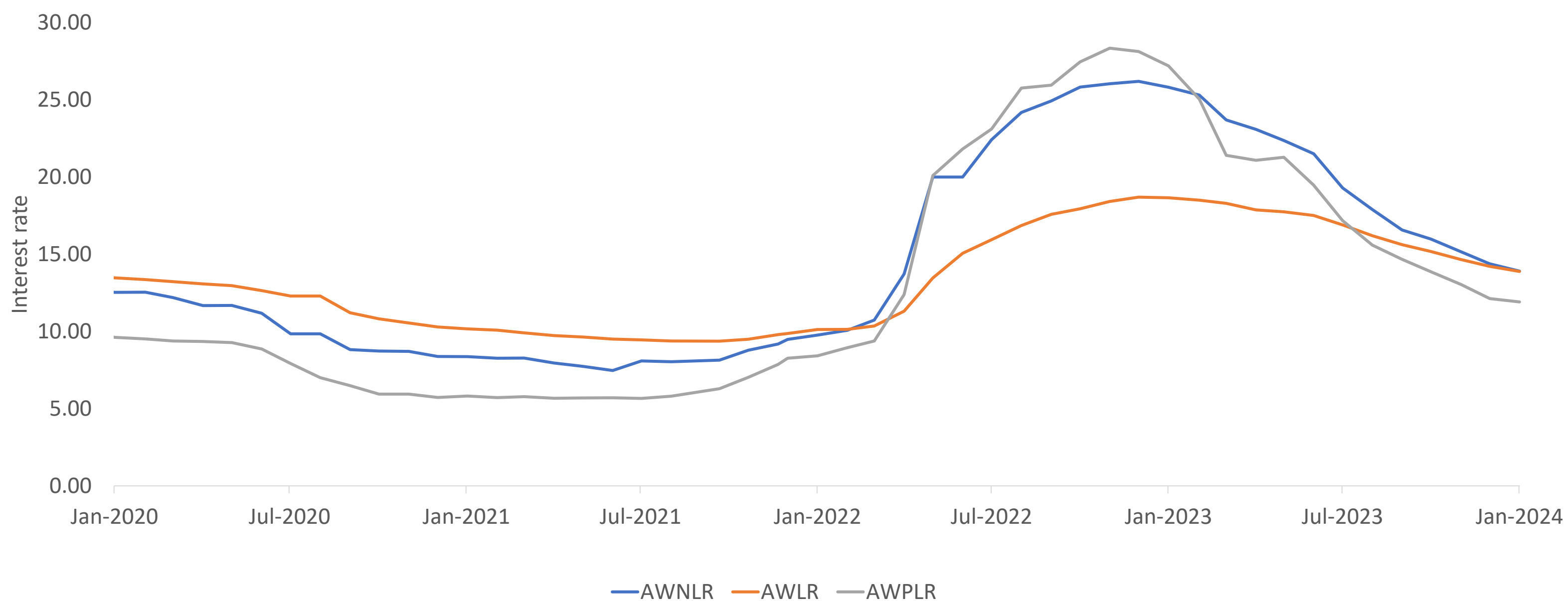
Apparel sector is expected to see a near term volume pick with consumer demand picking up
 Demand from key export markets to improve with inventory levels depleting along with Fed started cutting rates



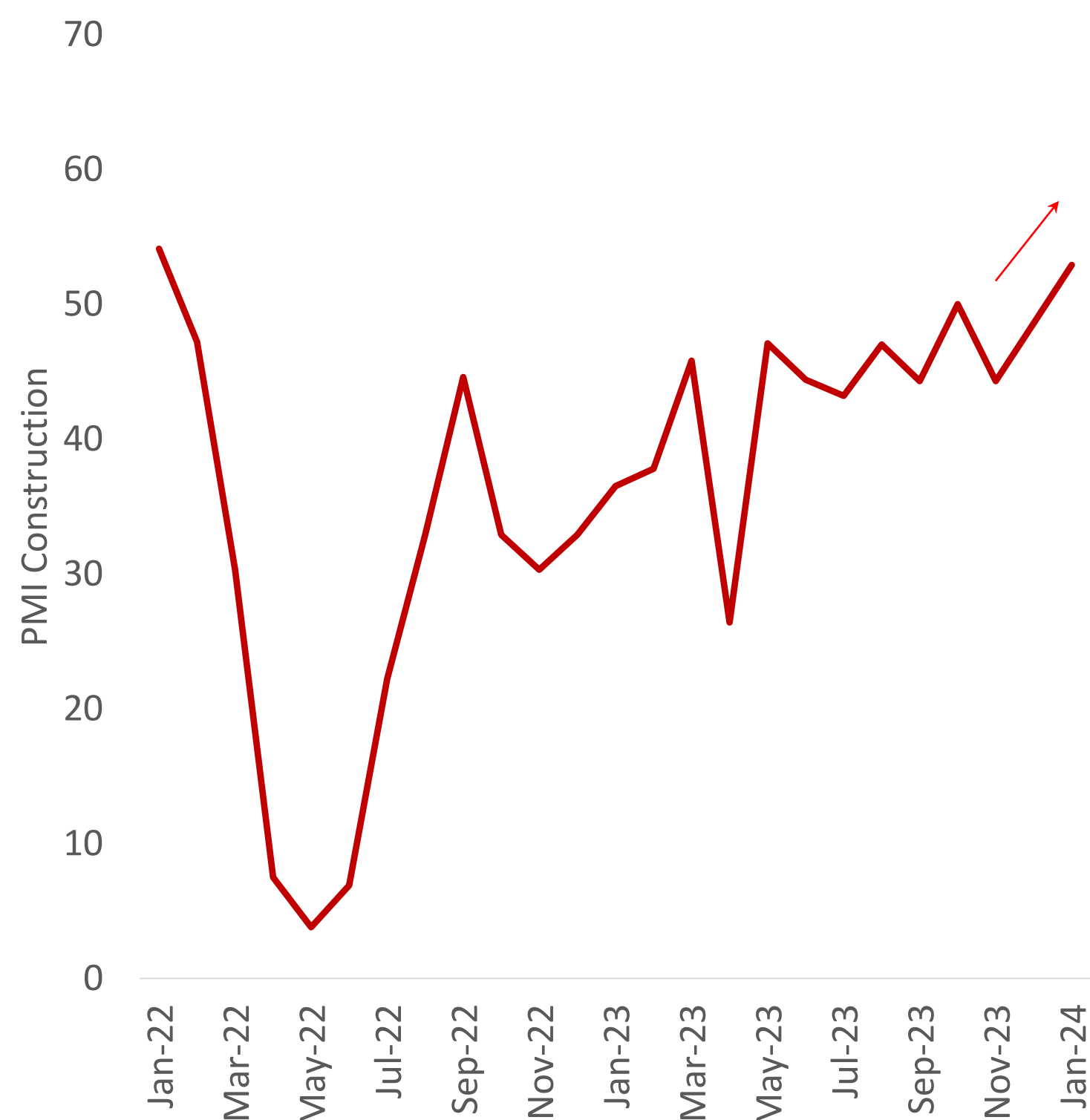
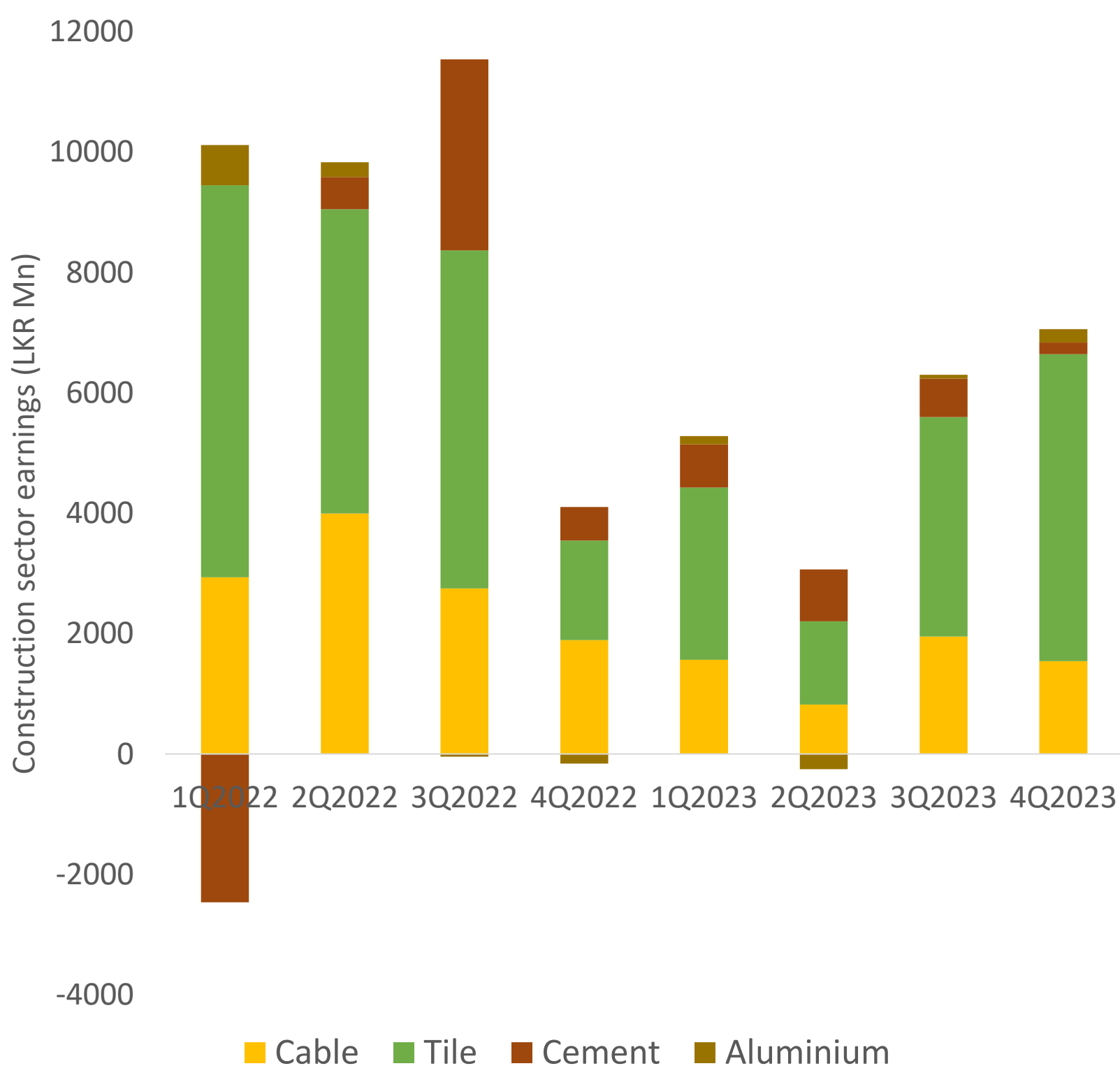
Source : CSE,NLE Research
 Note: Earnings of TJL and MGT were taken into consideration

Highly geared companies should see their finance cost halving, with interest rates falling

Reduced finance cost, repayments of loans and increase in borrowing capacity to help improve counters with high gearing



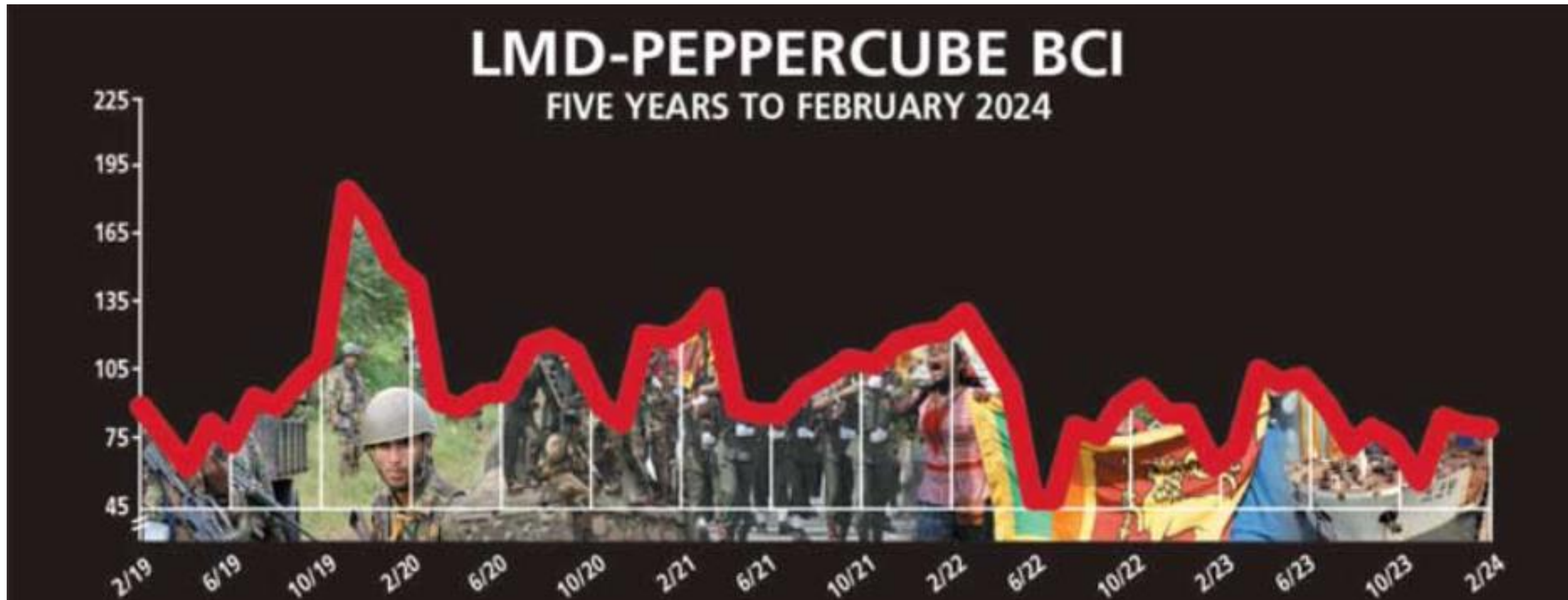
Construction sector saw an uptick in Jan'24, 1st time since Jan'22. Lower interest rates & Commodity prices to help Outlook is positive due to increased project opportunities and with recommencement of suspended projects



Source : CSE, NLE Research

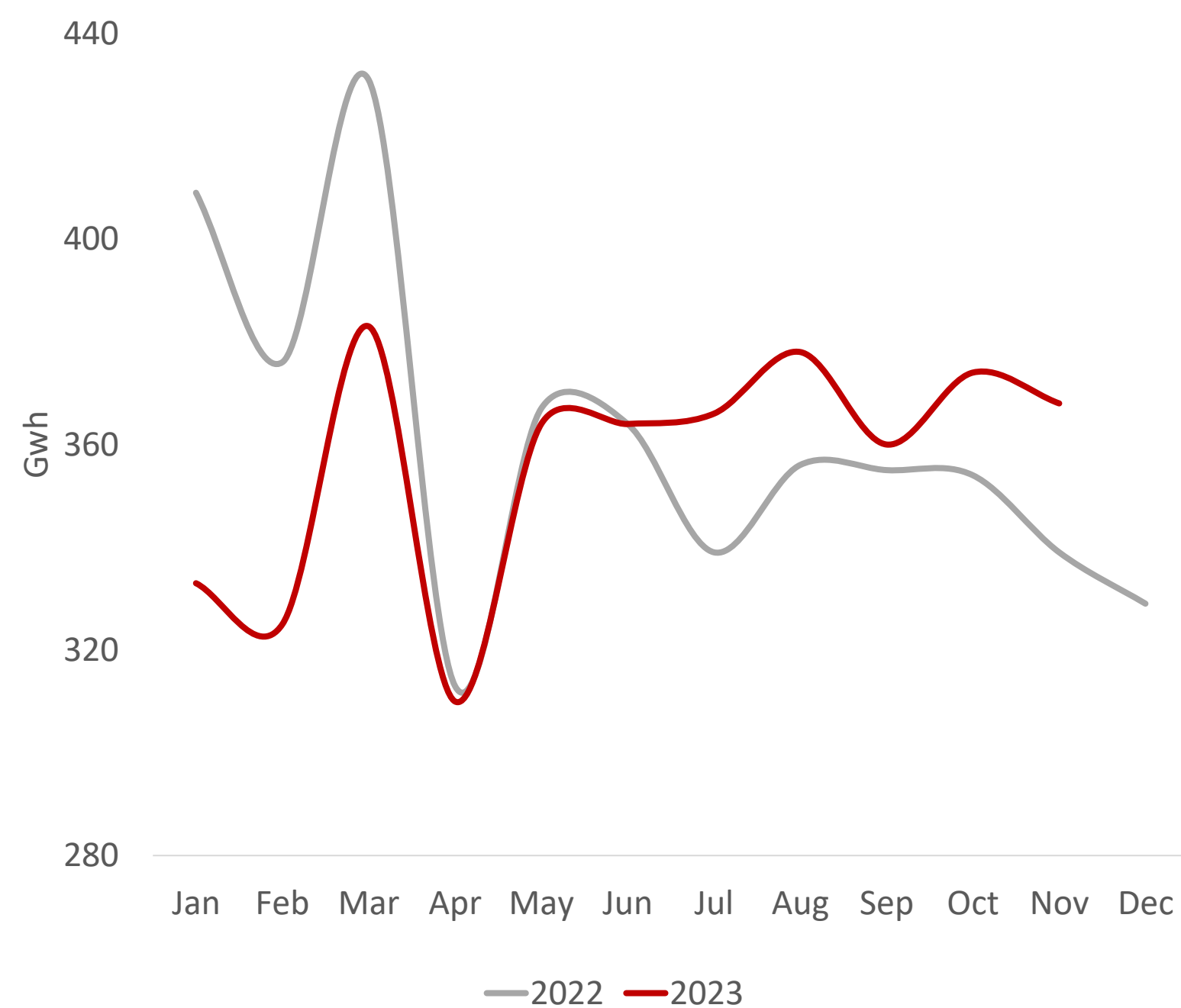
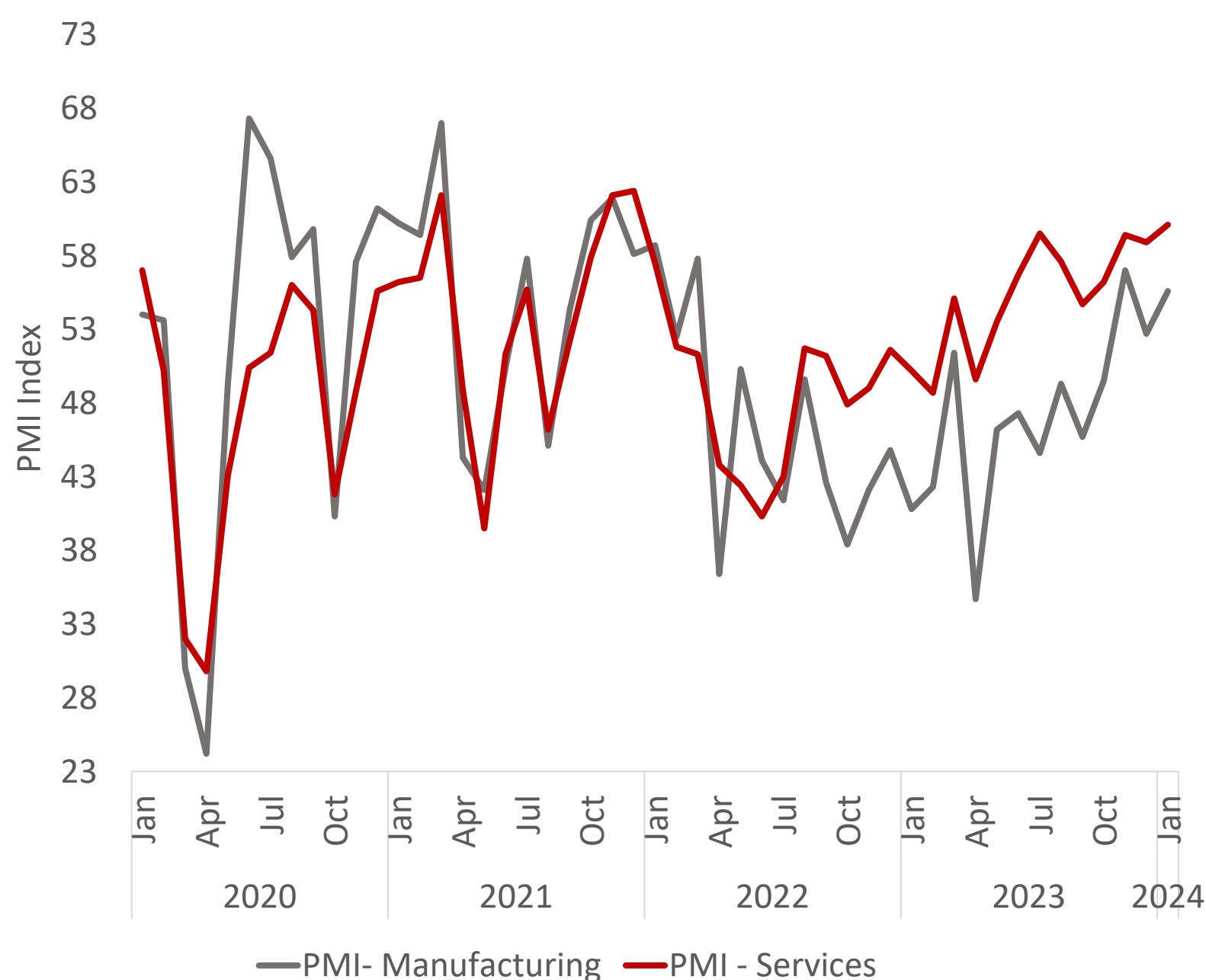
Business confidence index regains back

Optimism on the economy & investment climate to help cushion company profits overall



Both manufacturing & services indices continued to expand, signaling an economic uptrend

Electricity usage (industrywide) is on an upward trajectory indicating a pickup in economic activities



Source : CSE,NLE Research, Daily FT

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