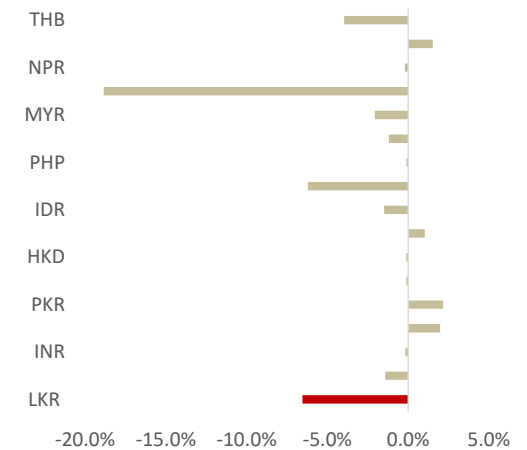


## Foreign income earners to weather the pressure of a weaker LKR

- Sri Lanka Rupee, which has been under pressure during the last few months, depreciated by 6.5%YTD against the US Dollar on the back of Sri Lanka’s challenging external debt repayment burden, low foreign currency reserves and sharp rise in government debt.
- However there has been some ease in the external front in the recent past following few disbursements of bilateral loans from China and Korea and due to bilateral currency swap agreements entered with China, India and Bangladesh.
- Although the country’s reserves ended up at USD 4,018Mn in May’21 falling from USD 4,470Mn in April ’21, Central bank is optimistic on ending the reserve position at USD 4.0-4.5Bn by end of the year.
- When compared to regional peers though, LKR has weakened relatively higher with regional peers like Pakistan Rupee, Chinese Yuan and New Taiwan Dollar seen appreciating by 2.2%, 2.0% and 1.5% respectively.
- Amid this context, few counters which are predominantly exposed for export income and other income through foreign sources should benefit immensely on the back of weaker currency in our view. We highlight LKR behavior to help counters like DIPD, HAYC, MGT, HAYL, TJL, EXPO, BPPL and REXP on top of their respective fundamental drive.

Sri Lankan currency weakened more than some of the regional peers.



Source : CBSL, Xe Currency

Note: LKR : Sri Lankan Rupee, EURO: Euro, INR: Indian Rupee, CNY:Chinese yuan, PKR:Pakistan Rupee, BDT:Bangladesh Taka , HKD:Hong Kong Dollar , VND:Vietnamese Dong , IDR:Indonesian Rupiah, JPY:Japanese Yen, PHP:Philippine Peso, KHR: Cambodian riel, MYR:Malaysian Ringgit, MMK :Myanmar Kyat , NPR:Nepalese Rupee, TWD:New Taiwan dollar, THB; Thai Bhat

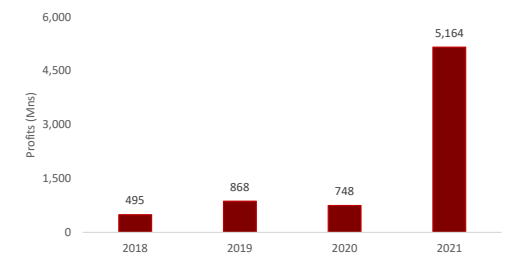
Counter	Share price	Market Cap (LKR Bns)	TTM PE (x)	PBV (x)	YTD price drop or increase	DPS	DY (%)	ROE (%)
Dipped Products (DIPD.N0000)	52.20	31.25	6.1	2.0	+52%	2.9	5.6	33

DIPD the leading global manufacturer of natural and synthetic based rubber gloves earnings are expected to be cushioned through weaker LKR with 63% of revenue been generated via EU. Moreover, continued demand for disposable gloves on the back of vaccine roll out in the world should further support DIPD while capacity expansions to also support. DIPD's main raw material-natural latex (~70% of latex requirement)-is predominantly sourced locally- that too via DIPD's subsidiary- Kelani Valley Plantations – should meanwhile have a natural hedge against the weaker LKR and continue to cushion margins with topline been adjusted to weaker LKR. The proposed GSP plus withdrawal may not impact DIPD much as majority of the orders channeled to EU is via Thailand.

#### Price Performance



#### Financial Performance



\*Prices are adjusted for the share split of 1 to 10 that came in to effect from 16.02.2021

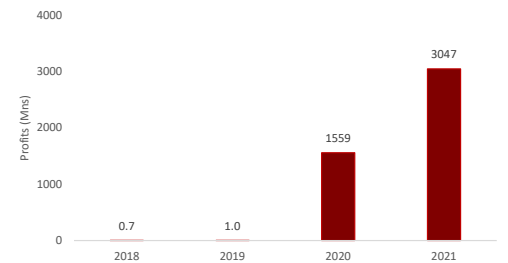
Counter	Share price	Market Cap (LKR Bns)	TTM PE (x)	PBV (x)	YTD price drop or increase	DPS	DY (%)	ROE(%)
Haycarb PLC (HAYC.N0000)	95.10	28.25	9.3	2.1	+65%	4.2	4.4	23

HAYC, one of the largest manufacturers of coconut shell activated carbon, exports 99% of its volumes to large scale consumers in USA, Europe, South/West Africa, Asia and Australia, intern cushioned via weaker LKR. The sourcing of coconut shell charcoal- HAYC's main raw material – is again a natural hedge against the LKR, benefiting the GP margins. Moreover, HAYC should continue its growth momentum due to increasing demand for clean and safe drinkable water amid rising population. Moreover, higher production volumes of gold are also believed to help activated carbon market as its one of main materials used in gold mining industry.

#### Price Performance



#### Financial Performance



\*Prices are adjusted for the share split of 1 to 10 that came in to effect from 16.02.2021

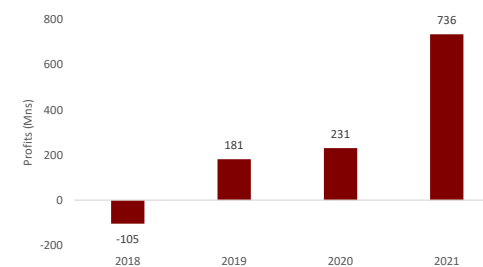
Counter	Share price	Market Cap (LKR Bns)	TTM PE (x)	PBV (x)	YTD price drop or increase	DPS	DY (%)	ROE (%)
Hayleys Fabric (MGT.N0000)	18.20	7.56	10.3	1.8	+30%	0.70	3.8	17

MGT is engaged in the manufacturing fabric for export-oriented garment industry. MGT's key markets are USA and UK accounting for 43% each, intern benefiting from weaker LKR, despite increasing cotton prices globally. Moreover, MGT's near term earnings should benefit from continued order inflows from higher margin synthetic fabric from Tier 1 clients while medium term profits should be cushioned by capacity expansions (MGT acquired a 99% stake in South Asia Textiles Limited for LKR 3.9Bn in April'1). The proposed withdrawal of GSP plus meanwhile may not have a significant impact on MGT given the excess demand stemming from the US.

### Price Performance



### Financial Performance



\*Prices are adjusted for the share split of 1 to 2 that came in to effect from 16.02.2021

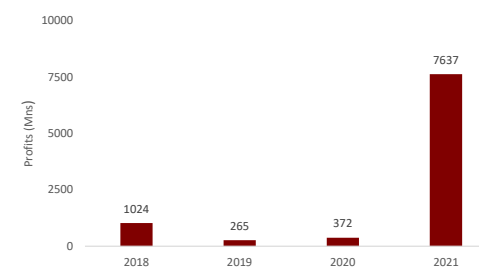
Counter	Share price	Market Cap (LKR Bns)	TTM PE (x)	PBV (x)	YTD price drop or increase	DPS	DY (%)	ROE (%)
Hayleys PLC (HAYL.N0000)	75.10	56.32	7.4	1.3	+81%	4.00	5.3	17

HAYL one of the most diversified businesses in Sri Lanka, derives 49% of its earnings through exports. The foreign earnings of HAYL accounts to 4.2% of Sri Lanka's export income (>USD 600Mn), stemming largely from its largest manufacturers of coconut-shell based activated carbon (HAYC), hand protection (DIPD), supply fabric to leading global fashion brands a (MGT) and through its largest exporter of processed fruits and vegetables segments. Thus, along with prospects of each segment HAYL is bound to have its earnings cushioned through weaker LKR too.

### Price Performance



### Financial Performance

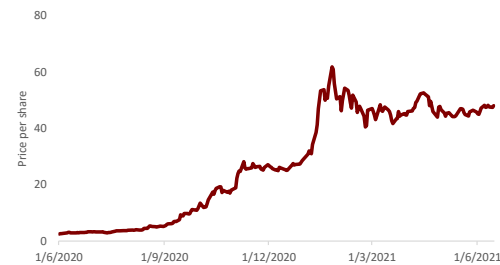


\*Prices are adjusted for the share split of 1 to 10 that came in to effect from 16.02.2021

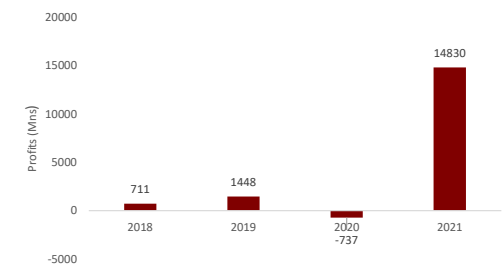
Counter	Share price	Market Cap (LKR Bns)	TTM PE (x)	PBV (x)	YTD price drop or increase	DPS	DY (%)	ROE (%)
Expo Lanka Holdings (EXPO.N000)	48.10	94.03	6.3	3.5	+56%	0.50	1.0	55

EXPO, ranked 26th largest air freight operator and the 44th largest ocean freight operator in the world functions predominantly in retail and apparel sectors in USA, contributing to 65-70% of logistics revenue. EXPO's EFL's revenue is sourced mainly outside Sri Lanka where the contribution from Sri Lanka is mere 9%. High air freight and sea freight yields which could prevail for the rest of the year, robust economic activities, particularly in apparel sector in US should support the main business while weaker LKR should provide an additional support for EXPO's bottom-line.

#### Price Performance



#### Financial Performance



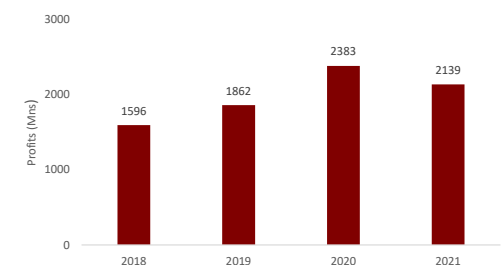
Counter	Share price	Market Cap (LKR Bns)	TTM PE (x)	PBV (x)	YTD price drop or increase	DPS	DY (%)	ROE (%)
Teejay Lanka (TJL.N0000)	38.70	27.73	13.0	1.6	+1%	2.40	6.2	12

TJL is one of the region's largest textile manufacturers with manufacturing operations in Sri Lanka and India, supplying fabric to some of the renowned international brands. Teejay counts eight leading brands as key customers, with PVH, LBrands, Calzedonia, Decathlon, M&S & Lidl as the six leading brands along with the two emerging brands - Uniqlo and Nike reaching markets across the USA, Europe and Asia. Expansions in Indian plant will continue to contribute towards Group's ambitious target of becoming a USD 300 Mn business. Although yarn prices are on the rise, the renegotiations with the clients would enable TJL to pass the cost to some extent while weaker LKR could support the bottom-line.

#### Price Performance



#### Financial Performance



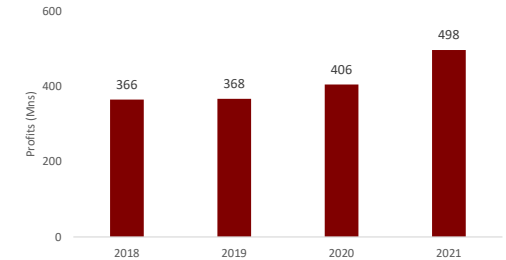
Counter	Share price	Market Cap (LKR Bns)	TTM PE (x)	PBV (x)	YTD price drop or increase	DPS	DY (%)	ROE (%)
BPPL Holdings (BPPL.N0000)	17.10	5.24	10.5	1.6	+10%	0.40	2.5	15

BPPL is the largest brush manufacturer, brush exporter and exporter of sanitary maintenance tools in Asia, accounting to 93% of revenue derived through foreign earnings. BPPL's main export market continues to be USA and Canada contributing to 75% of revenue followed by Australia & New Zealand segment and Europe and UK segment contributing to 7% each. While outlook for BPPL remains strong with a healthy pipeline of brush orders, greater use of recycled plastic materials could offset the weaker rupee which will also enable to support the topline of BPPL and help support margins.

#### Price Performance



#### Financial Performance



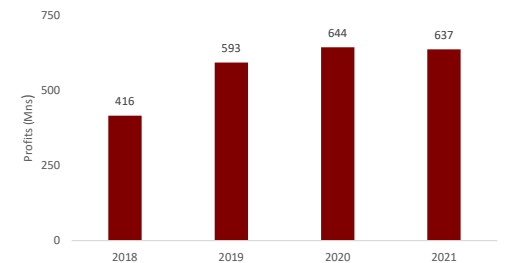
Counter	Share price	Market Cap (LKR Bns)	TTM PE (x)	PBV (x)	YTD price drop or increase	DPS	DY (%)	ROE (%)
Richard Peiris Exports (REXP.N0000)	354.00	3.95	6.2	1.7	+2%	24.75	7.0	28

REXP, a subsidiary of Richard Pieris & Company Limited (ARPICO), is engaged in manufacturing and exporting a range of rubber products to over 40 countries. REXP's foreign earnings account to 93% of company's revenue. REXP's main export market; Asia Pacific contributes to 44% of revenue whereas Europe and USA regions contributes to revenue by 32% and 19% respectively. REXP expects an increase in sales in the coming years, with the construction of a new plant and through introducing innovative products to the market. The depreciation of rupee will also support the topline of the company.

#### Price Performance



#### Financial Performance



\*DPS of DYPD, HAYC & MGT are based on FY21 earnings and adjusted for the share splits. DPS of other counters are based on FY20 earnings

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