



Recommendation: BUY

Target price - LKR 23.00

Sector- Consumer Services

**KHL earnings to rebound with returning of tourists**

YE Mar/(LKR Mn)	FY18	FY19	FY20	FY21	FY22	FY23E	FY23E
Net Profit	1,119	817	(1,201)	(5,120)	(1,217)	1,388	3,535
YoY Growth (%)		-27.0%	-247.1%	-526.2%	-76.2%	14.1%	154.7%
EPS (LKR)	0.8	0.6	(0.8)	(3.5)	(0.8)	1.0	2.4
DPS (LKR)	0.4	0.2	-	-	-	-	-
BVPS (LKR)	18.0	19.8	19.7	16.7	20.6	24.5	24.6
<b>Ratios (%)</b>							
Debt to Equity	21.1%	19.9%	46.2%	74.0%	82.2%	66.4%	64.4%
Dividend payout	52.1%	26.7%	0.0%	0.0%	0.0%	0.0%	0.0%
ROE (%)	4.1%	2.8%	-4.5%	-18.8%	-3.7%	3.9%	9.9%
<b>Investor Ratios (%)</b>							
PE (x)	22.4	30.7	(20.8)	(4.9)	(20.6)	18.0	7.1
PBV (x)	1.0	0.9	0.9	1.0	0.8	0.7	0.7
DY(%)	2.3%	0.9%	0.0%	0.0%	0.0%	0.0%	0.0%

Prices as at 25.01.2023

**Key Statistics**

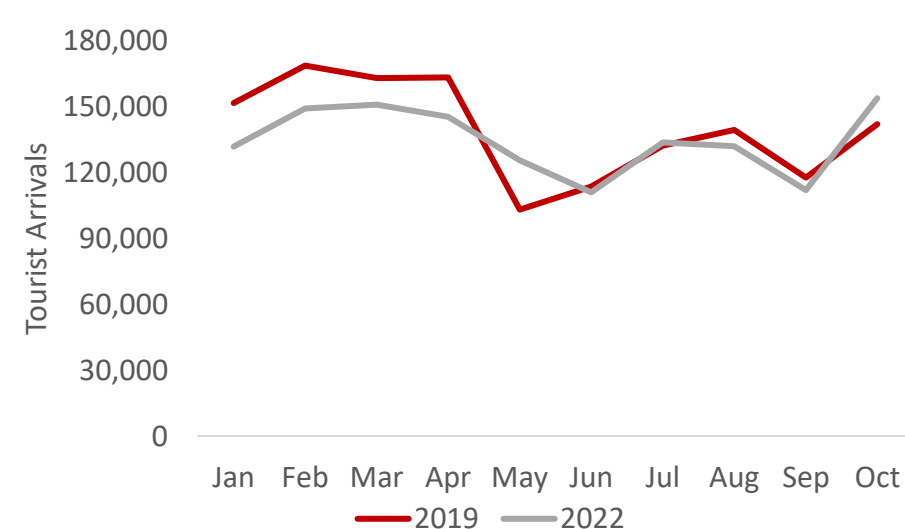
Market Cap (LKR Bn)	24.9
Market Cap (USD Mn)	67.1
Issued Quantity (Mn)	1,456.1
Current Trading Range	17.00 - 17.10
52 week Low/High	9.50/20.00
YTD Low/High	16.10/17.40

**Valuation**

Market PE (x)	5.0
Market PBV (x)	0.9
PE (x)	N/A
PBV (x)	0.8
Bloomberg Ticker	JKHL SL
GICS Industry Group	Consumer Services

**Main Shareholders as at 30.09.2022**

John Keells Holdings PLC	80.32%
Employees Provident Fund	5.39%
Sri Lanka Insurance Corporation Ltd. - Life Fund	3.68%
Citibank New York S/A Norges Bank account 2	1.55%
Mrs. J. M. Blackler	0.45%

**Price Performance****Tourists' arrivals are now at pre-pandemic levels in Maldives**

John Keells Hotels PLC (KHL), subsidiary of John Keells Holdings (JKH), Sri Lanka's premier diversified company, is one of Sri Lanka's largest hotel operators. Of the 12 resorts operated across Sri Lanka and the Maldives, eight resorts are strategically located in tourists' destinations in Sri Lanka accounting to 1022 room keys while Maldives operates under four resort properties holding 454 rooms. KHL's topline increased to LKR 12.3Bn in 1H'23, a 214%YoY jump compared to the corresponding period last year while losses narrowed down to LKR 1.3Bn from 2.06Bn for the same period. The jump was helped mainly by the stellar performance recorded in Maldives segment which saw their ARR's edging from USD 262 to USD 316 in 2Q'23 and occupancies hovering over 85%. Sri Lanka operations too saw a gradual increase in occupancy levels (31% from 18%), however was seen falling on QoQ basis due to economic and political unrest clouding over tourism segment.

We are bullish on KHL due to strong positive signals shown in both Sri Lanka and Maldives. Sri Lanka saw a major recovery in tourists' arrivals in the recent past specially after relaxation of travel advisories and macro economic stability that was seen compared to June/Sep period 2022 where political unrest and economic hardships were at its peak. Total number of tourists arrived into the country during Sep - Dec 2022 jumped by 6% compared to arrivals of 211,000 during April to September while Jan'23 has already recorded 72,000+ arrivals. Sri Lanka's steep depreciation of LKR against USD has also made travelling more affordable trickling down to more spending. With Sri Lanka targeting over +1.5Mn arrival and USD 5Bn income, supported further by Chinese arrivals (Chinese accounted to 11% of arrivals pre pandemic) we could expect second largest resort umbrella, KHL to benefit both in terms of arrivals and occupancy levels.

Maldives arrivals meanwhile were supported by both traditional and new source markets and reached the target arrivals of 1.6Mn tourists in 2022 which is close to 1.7Mn tourists' arrivals in pre pandemic times. The numbers were recorded despite not having much Chinese arrivals where Maldives welcomed a total of 284,029 Chinese tourist in 2019. Maldives has already started the year on a high note specially with arrivals increasing by 22.8 %YoY by 22nd Jan and Chinese already securing top ten tourists' markets. Maldives currently accounts for >80% of the KHL's topline, whilst lucrative arrivals and weaker currency should place KHL at a naturally favorable position.

We thus expect both the Maldives and Sri Lanka performances to continue to benefit from the sharp rupee depreciation coupled with pent-up demand for tourism resulting in exponential growth earnings. Furthermore, with the prospect of reaching an agreement with the IMF to alleviate some of the country's worsening conditions and re-establish some forex flows to purchase much-needed essentials, which as a result, should improve overall sentiment in the country, thus help boost tourist arrivals to Sri Lanka. Hence, we estimate KHL's profits to stand at LKR 1.3 Bn by FY23 from a loss of LKR 1.2 Bn in FY22 owing to both KHL'S Maldives hotels and resorts and gradual recovery in Sri Lanka. Based on the replacement cost valuation method, KHL should trade at LKR 23.00, a 35% upside to the current market price. Thus, we maintain our recommendation BUY.