

Bourse sets a fresh record ending just below 9000 mark



Market sees a notable jump in turnover



150%MoM

To LKR 6.5Bn

For Aug'21

Pvt sector credit grew for the twelfth consecutive month



Equity market earnings soars significantly in 2Q'21



277%YoY

LKR 72Bn

For 2Q'21



Trade Deficit



305%YoY

To USD 652Mn



For June'21

SL receives SDR \$787Mn from IMF. Strengthens reserves through some bilateral agreements

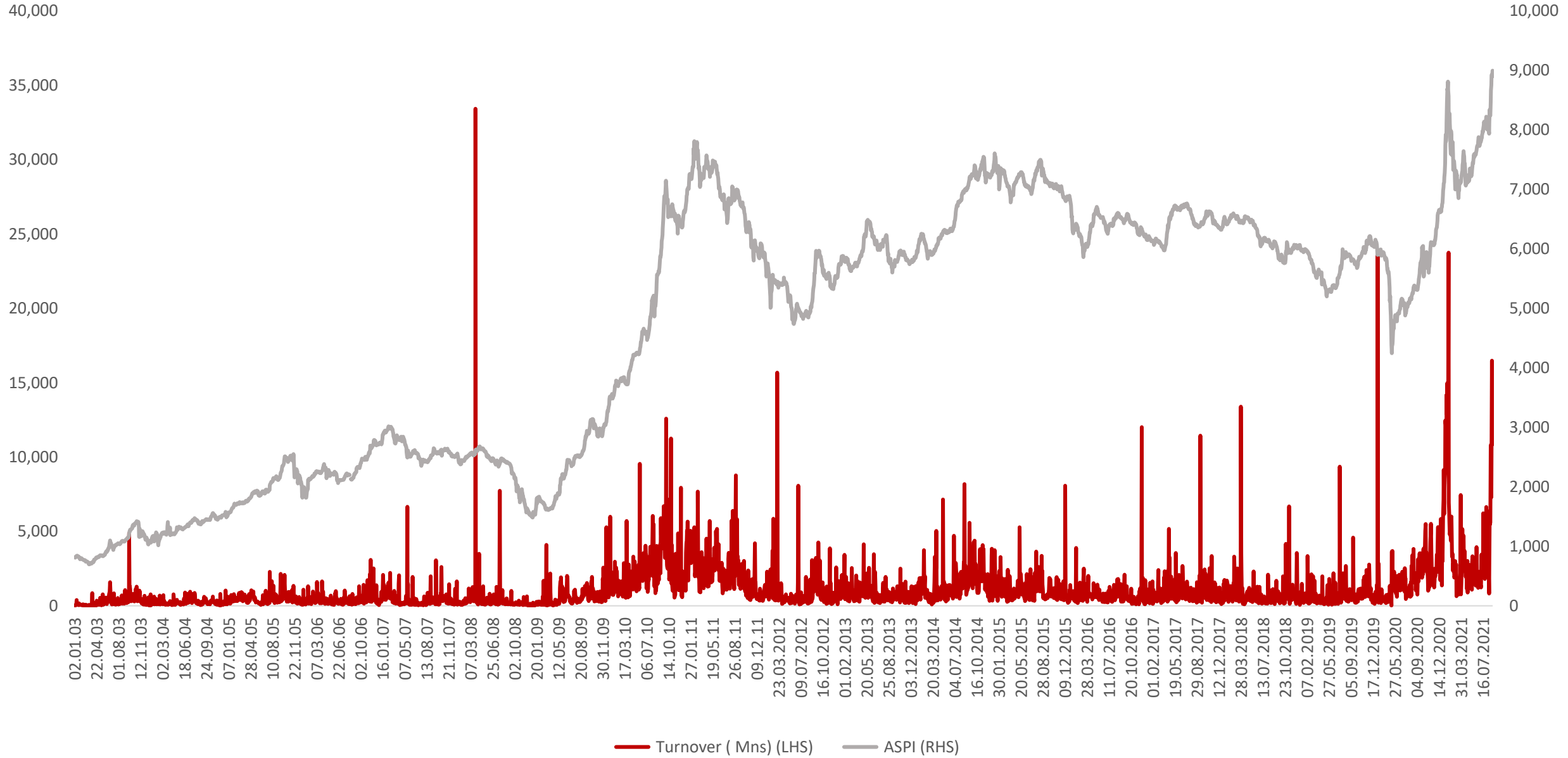


Key events for August'21

- Colombo bourse set a fresh record in the month of Aug'21, ending just below psychological mark of 9000. The main index added 877.1 points during the month amid healthy turnover, averaging at LKR 6.5Bn , a notable 150% jump from the previous month. Returns of CSE now stands at 32.8% YTD, higher than most of the regional peers.
- The push was fuelled mainly by the sharp increase in earnings reported for 2Q'21 which saw a staggering 277%YoY (-34%QoQ) jump for 2Q'21. Banking sector led the growth with a 65%YoY jump contributing to 26% of earnings while Food, Beverage & Tobacco sector followed with a 94%YoY earnings jump contributing to 17% of earnings.
- CBSL meanwhile confirmed of USD 787Mn received through Special Drawing Rights (SDR) allocation of IMF and USD 150Mn received under the swap arrangement with the Bangladesh Bank during the month which is believed to improve the dwindling reserves of the country.
- Sri Lanka also became the first in Asia to tighten policy rates since the pandemic, increasing the Standing Deposit Facility Rate (SDFR) and Standing Lending Facility Rate (SLFR) by 50bps to 5% and 6% respectively and the Statutory Reserve Ratio (SRR) by 200bps to 4% in order to tame the increasing inflation and safeguard the LKR.
- Trade deficit meanwhile widened by 305%YoY for June'21 to USD 652Mn despite export income increasing by 13%YoY and Import expenses increasing at a higher rate of 57% YoY.
- SL's budget deficit for the first six months of 2021 widened by 6.1% YoY to LKR 780Bn despite the increase in government revenue by 7.5%YoY. Worker remittance declined in July'21 by 35.0%YoY to USD 453Mn while CCPI inflation increased to 6.0% in August'21 – a 17month high.



CSE gained 877.1 points in August'21

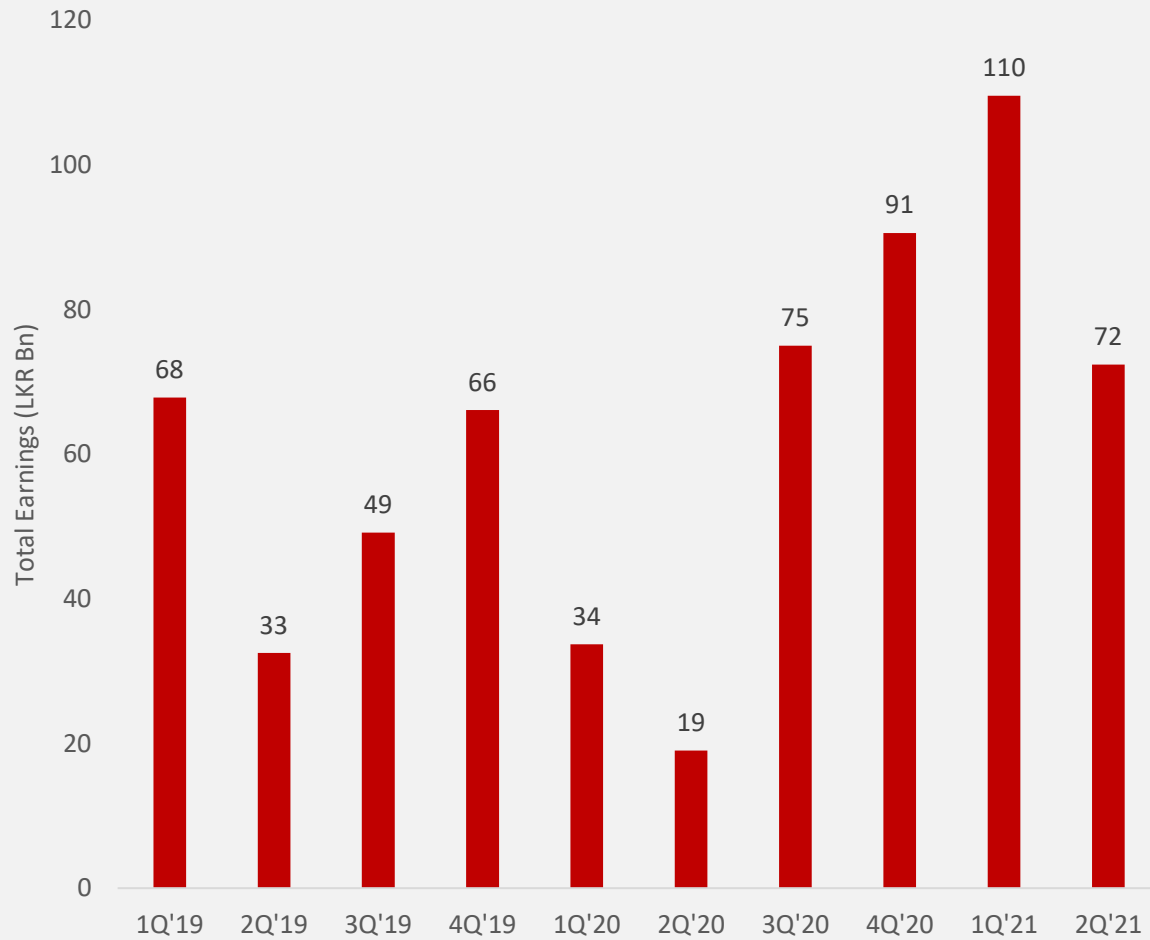


Source : CSE

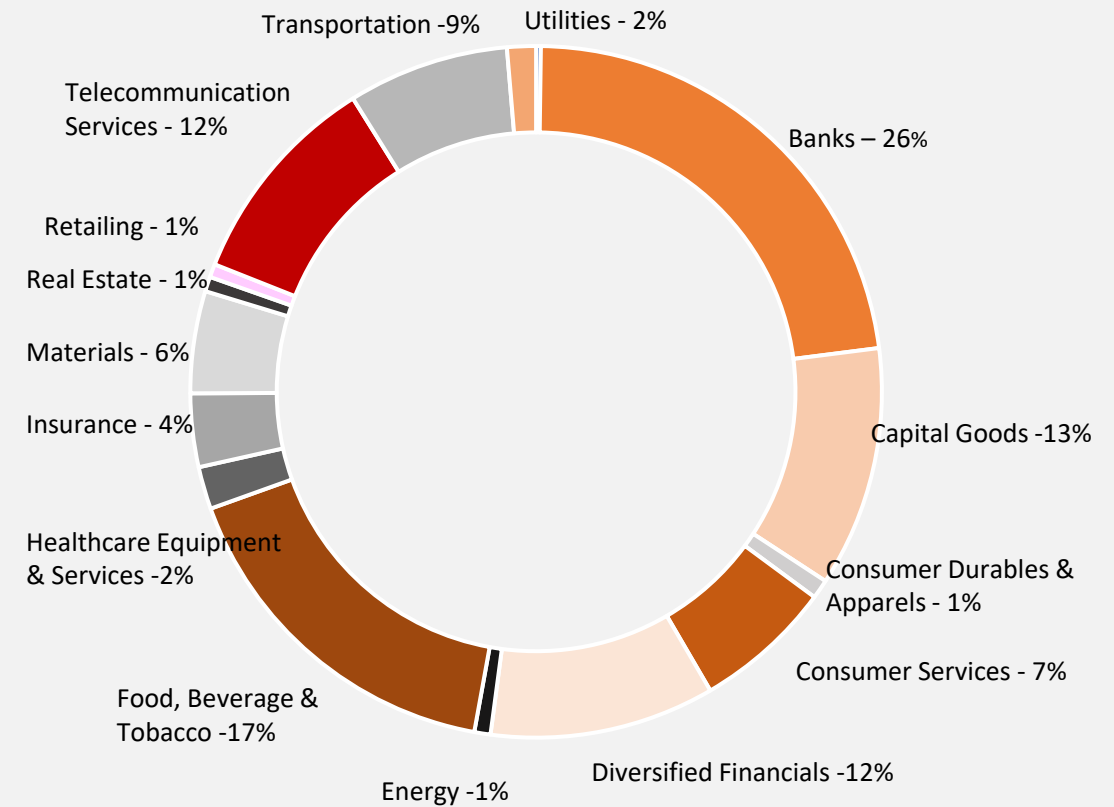


Equity market earnings for 2Q'21 soared by 277%YoY, as strict lockdown measures weighed down 2Q'20 earnings

Around 98% of the companies (258) reported earnings for 2Q'21 with an earnings upside of a staggering 277%YoY (-34%QoQ)



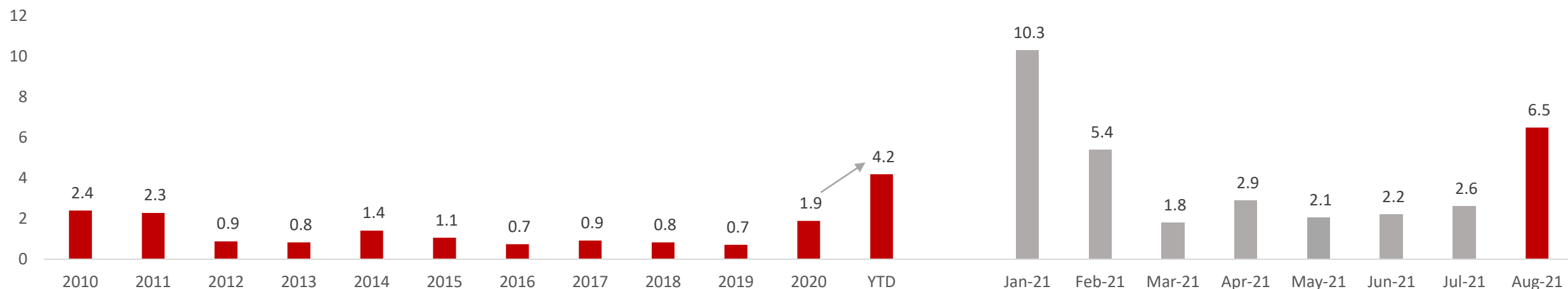
Banks accounted to 26% of earnings followed by Food, Beverage & Tobacco (17% of earnings) & Capital goods (13% of earnings)



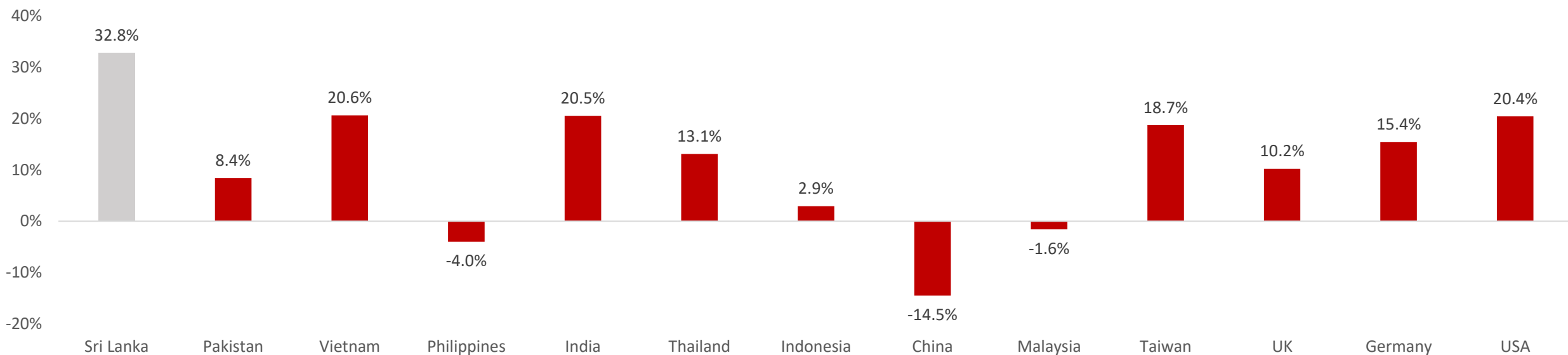
Source : CSE

Average daily turnover are still 2.2x higher than 2020

Avg YTD turnover levels now stands at LKR 4.2Bn while turnover levels jumped to LKR 6.5Bn in August'21



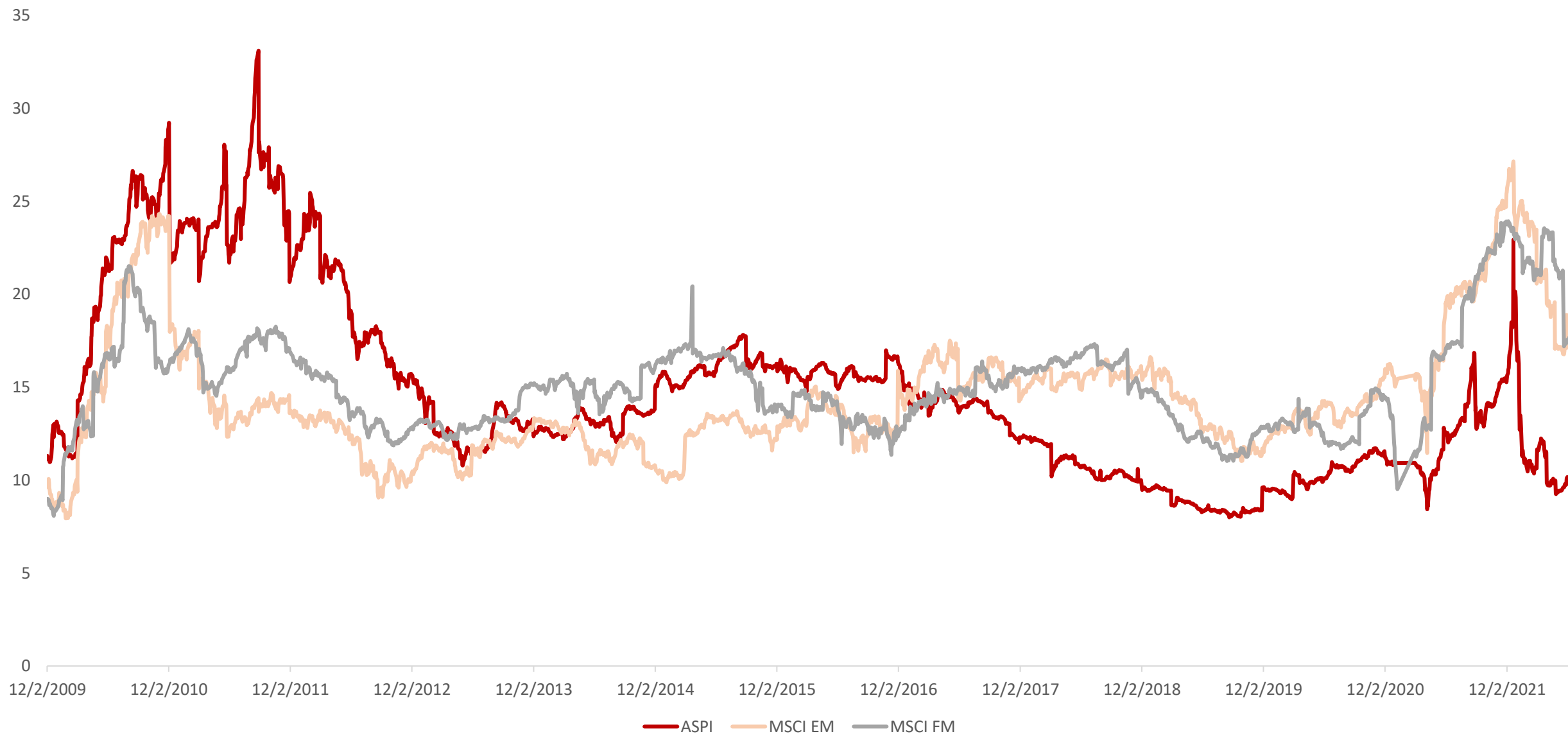
SL's YTD returns had been more superior than most of the regional peers





CSE is back at attractive valuations

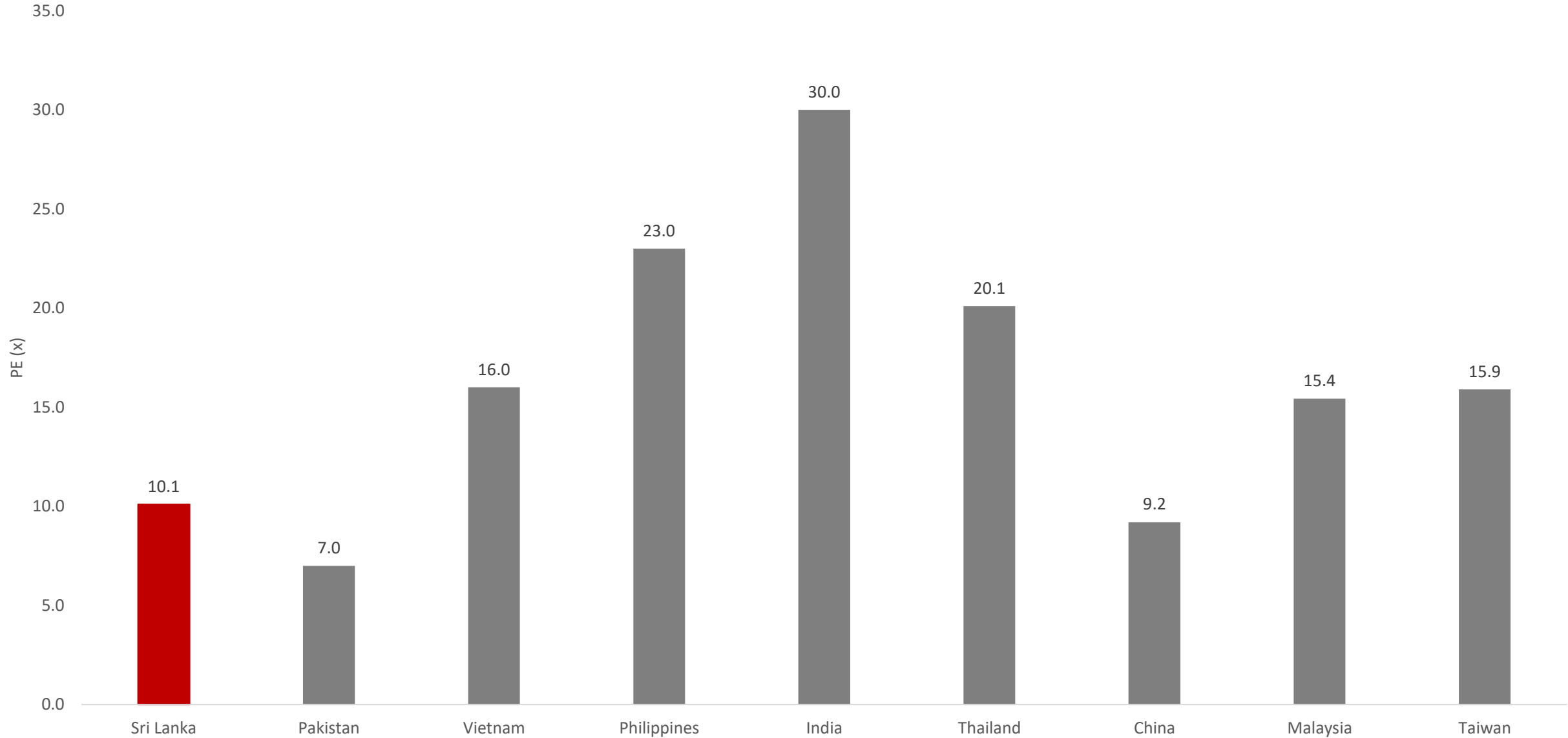
CSE currently trades at 10.1x PE, 61% discount to Emerging market and 80% discount to Frontier Market indices



Source : Bloomberg , Prices as at 31.08.2021

Sri Lanka is yet cheaper than most of the regional peers

Sri Lanka trades at a 66% discount to India, 50% discount to Thailand and 35% discount to Malaysia

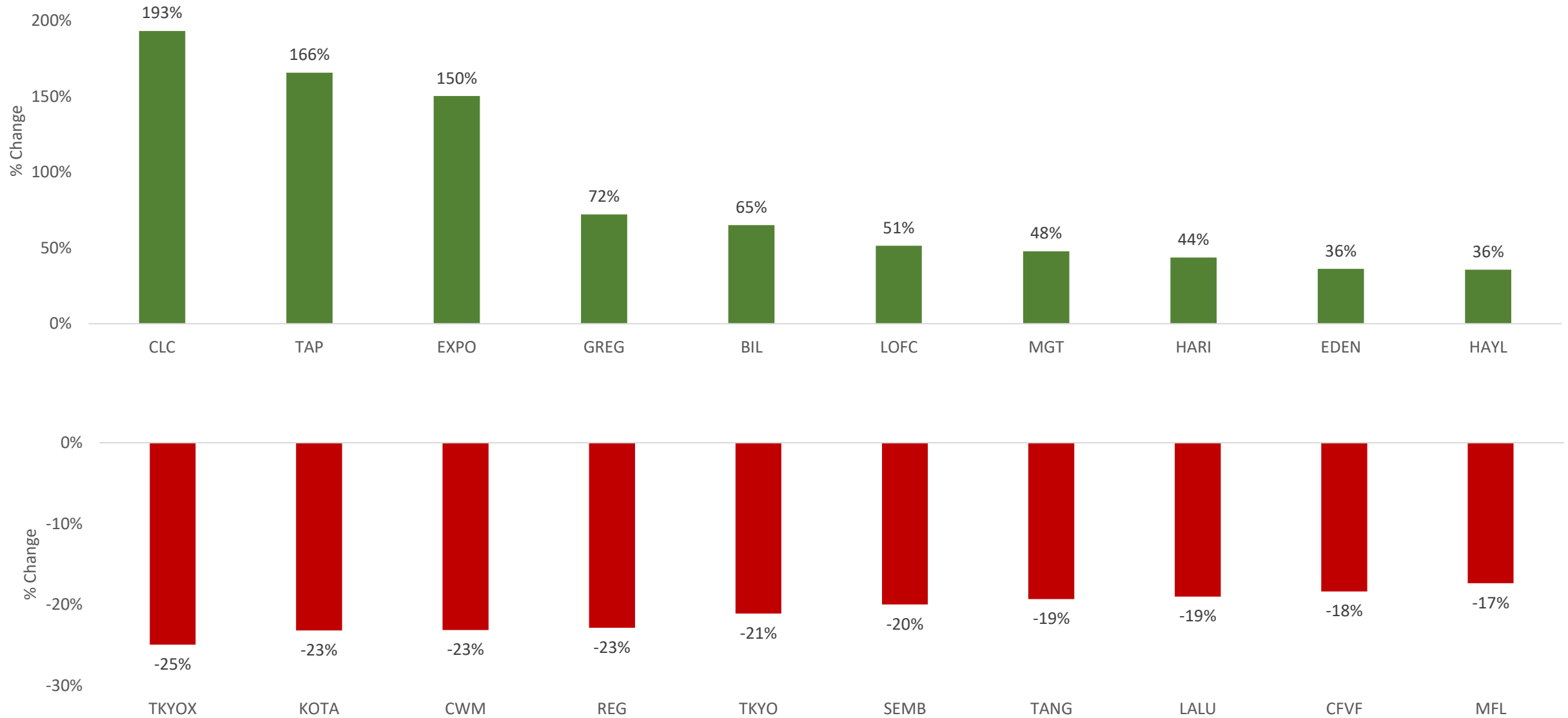


Source : Bloomberg



Top ten gainers and losers for the month

CLC ,TAP and EXPO emerged as the biggest price gainers for the month



Source CSE



Net foreign selling tops LKR 3.4Bn for the month

JKH, SUN and HHL saw heavy foreign selling for the month

Top 10 foreign purchases in value

Counter	Volume Traded	Value Traded (LKR Mn)
COLD STORES	118,844	72.17
COMM LEASE & FIN	1,414,544	31.54
LANKA WALLTILE	349,884	25.47
THREE ACRE FARMS	115,433	24.82
SAMPATH	301,327	15.79
BAIRAHA FARMS	68,956	10.05
ACL	227,962	9.83
ROYAL CERAMIC	220,649	9.05
VALLIBEL FINANCE	223,823	8.64
R I L PROPERTY	638,475	4.79

Top 10 foreign purchases by volume

Counter	Volume Traded	Value Traded (LKR Mn)
COMM LEASE & FIN	1,414,544	31.54
R I L PROPERTY	638,475	4.79
LANKA WALLTILE	349,884	25.47
SOFTLOGIC	343,570	4.05
SAMPATH	301,327	15.79
ACL	227,962	9.83
VALLIBEL FINANCE	223,823	8.64
ROYAL CERAMIC	220,649	9.05
COLD STORES	118,844	72.17
THREE ACRE FARMS	115,433	24.82

Top 10 foreign sales in value

Counter	Volume Traded	Value Traded (LKR Mn)
JKH	(10,388,940)	(1,350.56)
SUNSHINE HOLDING	(43,407,820)	(1,089.54)
HEMAS HOLDINGS	(13,450,128)	(971.10)
CARGILLS	(2,250,346)	(522.08)
TEEJAY LANKA	(11,318,413)	(451.60)
L O L C HOLDINGS	(481,282)	(284.80)
HNB[X.0000]	(1,928,395)	(240.57)
DIALOG	(10,097,006)	(110.06)
COMMERCIAL BANK	(1,228,906)	(106.91)
LOLC FINANCE	(7,160,367)	(73.75)

Top 10 foreign sales by volume

Counter	Volume Traded	Value Traded (LKR Mn)
SUNSHINE HOLDING	(43,407,820)	(1,089.54)
HEMAS HOLDINGS	(13,450,128)	(971.10)
INDUSTRIAL ASPH.	(11,655,000)	(4.66)
TEEJAY LANKA	(11,318,413)	(451.60)
JKH	(10,388,940)	(1,350.56)
DIALOG	(10,097,006)	(110.06)
LOLC FINANCE	(7,160,367)	(73.75)
CARGILLS	(2,250,346)	(522.08)
HNB[X.0000]	(1,928,395)	(240.57)
SEYLAN BANK[X.0000]	(1,753,979)	(64.90)

Source : CSE



ASPI returns stands at 32.8% YTD while S&P SL 20 returns stands at 27.5%YTD

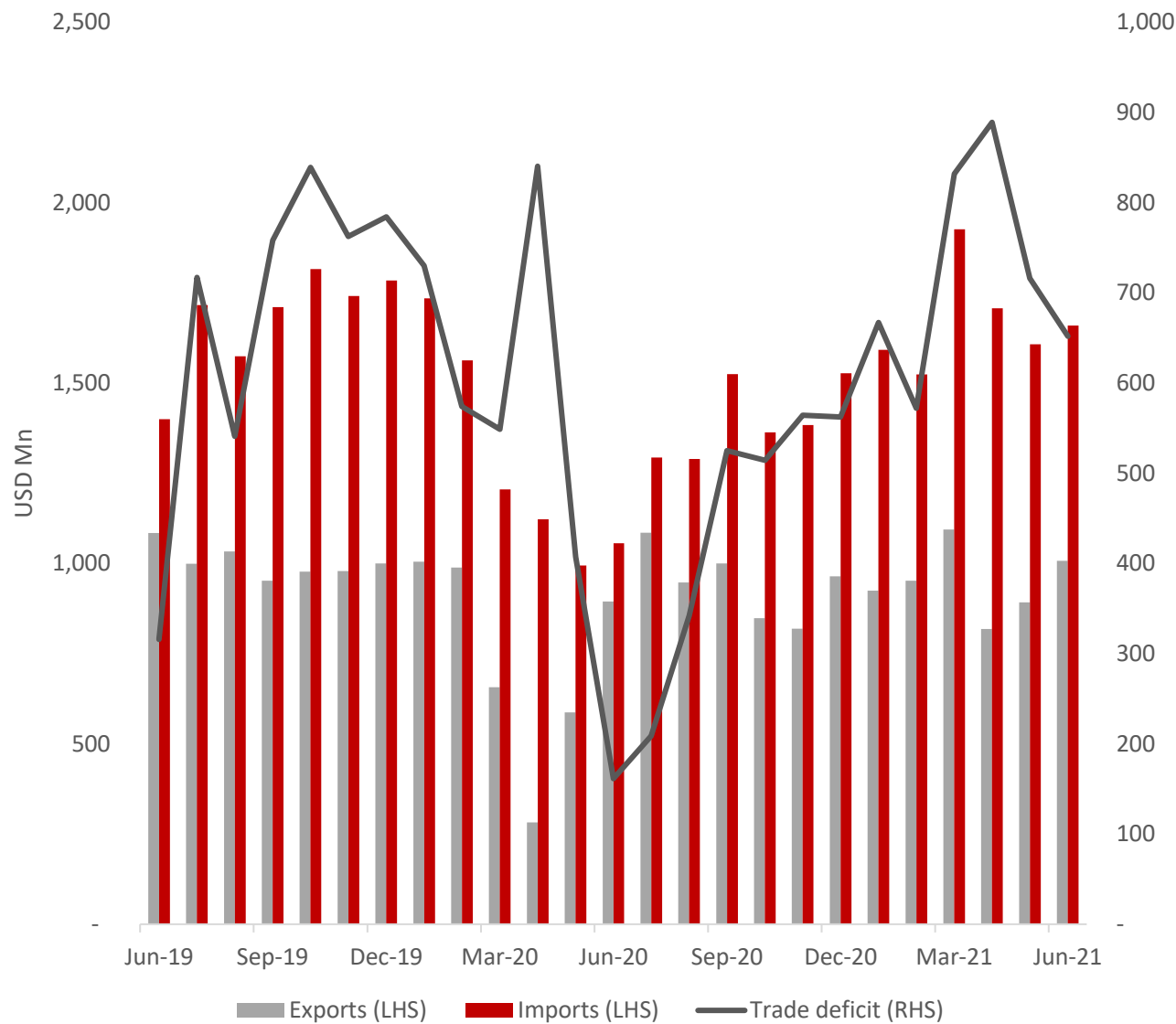
Total net foreign selling for the year tops LKR 37.9Bn

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	As at 31.08.2021
ASPI (Year End)	6635.9	6074.4	5643.0	5912.8	7299.0	6894.5	6228.3	6369.3	6052.4	6129.2	6774.2	8997.6
ASPI Return (%)	96%	-8%	-7.1%	4.8%	23.4%	-5.5%	-9.7%	2.3%	-5.0%	1.3%	10.5%	32.8%
S&P SL20			3069.0	3263.9	4089.1	3625.7	3496.4	3671.7	3135.2	2937.0	2638.1	3364.6
S&P SL20 Return (%)				6.3%	25.3%	-11.3%	-3.6%	5.0%	-14.6%	-6.3%	-10.2%	27.5%
Average Daily Turnover (LKR Mn)	2,396	2,286	884	828	1,415	1,060	737	915	834	711	1,899	4,193
YoY Growth		-5%	-61%	-6%	71%	-25%	-30%	24%	-9%	-15%	167%	121%
Avg USD =LKR	113.1	110.6	127.6	129.1	130.6	135.9	145.6	152.5	162.5	178.8	185.4	204.9
Average Daily Turnover (USD Mn)	21.2	20.7	6.9	6.4	10.8	7.8	5.1	6.0	5.1	4.0	10.2	20.5
Foreign Purchases (LKR Mn)	92,425.5	49,776.8	72,614.2	83,607.0	104,689.8	84,414.6	74,583.0	113,276.0	76,621.5	56,649.0	53,901.0	26,246.7
Foreign Sales (LKR Mn)	118,760.9	68,816.0	33,953.6	60,873.3	83,550.8	89,784.4	74,199.5	95,052.0	99,979.3	68,366.5	104,233.0	64,205.0
Net Foreign flows	(26,335.3)	(19,039.2)	38,660.7	22,733.7	21,139.0	(5,369.9)	383.5	18,224	(23,357.9)	(11,717.5)	(50,332.1)	(37,957.9)
Foreign Purchases (USD Mn)	817,491	450,184	569,077	647,564	801,852	620,969	512,246	742,793	471,401	316,776	290,660	128,102
Foreign Sales (USD Mn)	1,050,423	622,375	266,094	471,484	639,942	660,471	509,612	623,292	615,106	382,299	562,075	313,363
Net Foreign Flows (USD Mn)	(232,932)	(172,192)	302,983	176,080	161,910	(39,502)	2,634	119,498	(143,705)	(65,523)	(271,415)	(185,260)
Market Cap (LKR Bn)	2,210	2,214	2,168	2,460	3,105	2,938	2,745	2,899	2,839	2,851	2,959	4,009
Market Cap (USD Mn)	19,551	20,022	16,987	19,053	23,781	21,612	18,856	19,010	17,469	15,944	15,959	19,567
CSE - PER (Year End)	25.2	15.8	15.9	15.9	19.7	18.0	12.4	10.7	9.7	11.5	15.2	10.9

Source : CSE

Economic Indicators – August'21

Export income increased by 13%YoY while import bill jumped by 57% YoY for Jun'21. Trade deficit continued to widen in Jun'21 to USD 652Mn



- Cumulative exports grew by 29%YoY while cumulative imports increased by 31%YoY, thus increasing the trade deficit by 32%YoY to USD 4,316Mn for the first half of the year 2021.
- Textiles and Garment exports increased by 3%YoY to USD 416Mn while rubber products jumped by 41%YoY in Jun'21 as disruptions to domestic production processes due to lockdowns hindered export income last year. Industrial and Agricultural exports grew by 12%MoM and 16%MoM respectively reflecting the recovery from third wave of Covid-19 pandemic.
- Monthly fuel bill meanwhile declined by 40%YoY (a decline of 80% MoM) to USD 66Mn due to non importation of crude oil and with sufficient stocks being available. Cumulative cost of the fuel bill for the year jumped by 44%YoY to USD 1,787Mn.
- Restrictions in importing vehicles meanwhile resulted with personal vehicle imports dipping by 96%YoY in Jun'21.



Import expenses increased more than export income in Jun'21

Import bill on fuel declined by 40%YoY while export income from Textile and garments increased by 3%YoY in Jun'21

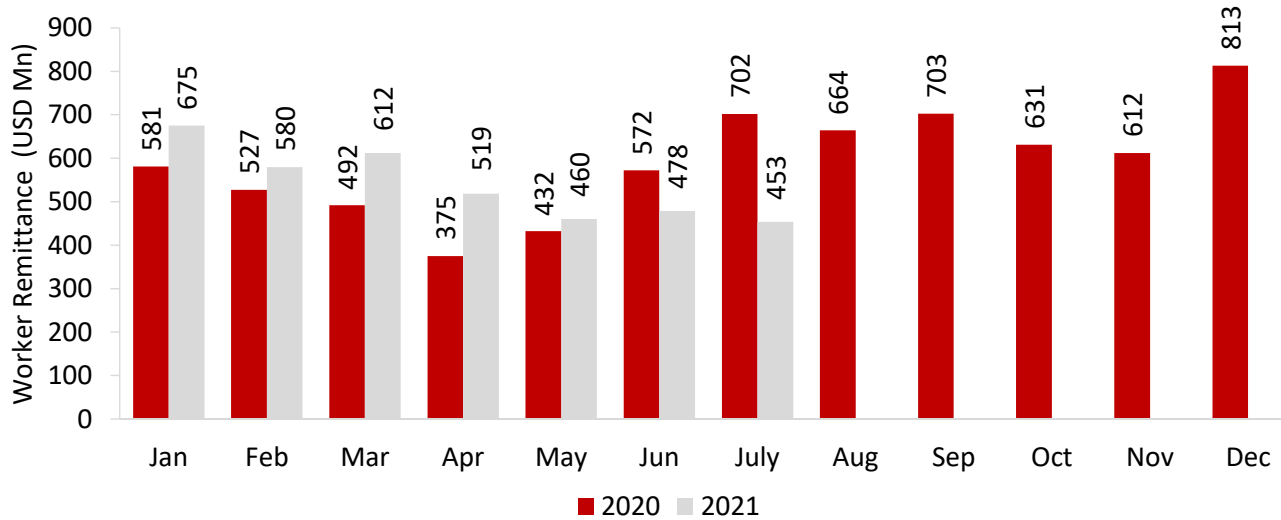
USD Mn	Jun'20	Jun'21	Variance	Jan-Jun 2020	Jan-Jun 2021	Variance	Contribution to Exports
Total Exports	894	1007	13%	4,413	5,699	29%	
Industrial Exports	661	771	17%	3,357	4,408	31%	77%
Textiles and garments	404	416	3%	1,944	2,487	28%	44%
Rubber Products	66	93	41%	336	500	49%	9%
Agricultural Exports	229	230	1%	1,039	1,259	21%	22%
Tea	115	124	8%	572	651	14%	11%

USD Mn	Jun'20	Jun'21	Variance	Jan-Jun 2020	Jan-Jun 2021	Variance	Contribution to Imports
Total Imports	1056	1659	57%	5,625	6,748	20%	
Consumer Goods	249	382	53%	1,782	1,912	7%	28%
Food and beverages	102	165	62%	787	915	16%	14%
Non-food consumer goods	147	217	48%	995	997	0%	15%
Vehicles	9	0	-96%	273	4	-98%	0%
Intermediate goods	565	839	49%	4,167	5,950	43%	88%
Fuel	110	66	-40%	1,243	1,787	44%	26%
Textiles and textile articles	176	277	58%	1,066	1,451	36%	22%
Investment goods	241	436	81%	1,715	2,147	25%	32%
Machinery and equipment	146	270	85%	990	1,367	38%	20%

USD Mn	Jun'20	Jun'21	Variance	Jan-Jun 2020	Jan-Jun 2021	Variance
Trade balance	-161	-652	305%	-3,262	-4,316	32%
Earnings from tourism	-	2	-	682	23	-97%
Workers' remittances	572	478	-16%	2,980	3,324	12%
Foreign Direct Investment	-	-	-	-	-	-
Overall Balance				-760	-1,261	66%



Jan'21-Jul'21 worker remittance increased by 3%YoY. Tourist arrival increased by 8%MoM



- Remittances during Jan'21-Jul'21 recorded a growth of 3%YoY despite some setback in July'21 (down 35%YoY). The decline is believed to be due to the disparity in rates between formal banking channels and informal channels and the uncertainties in the countries the migrants are based in due to the pandemic.



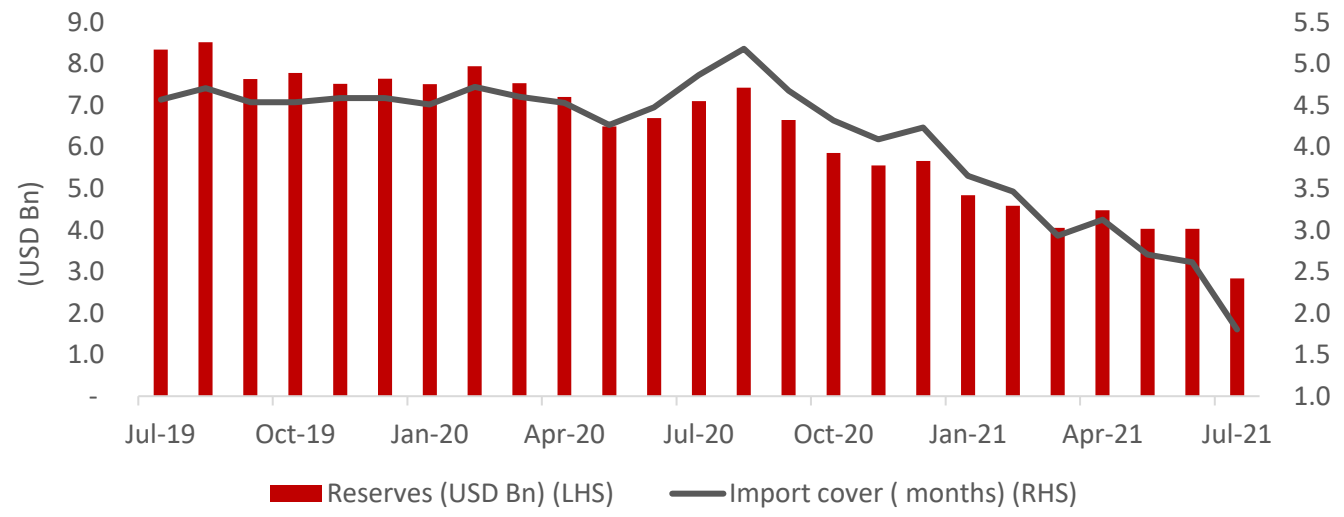
- Sri Lanka received 2,429 tourists arrived in July'21 which is a 50%MoM increase. The top tourists generating markets for the month were UK followed by Maldives and the USA. Further, in Aug'21 SL also opened up for tourists from India (biggest tourist source market of SL) after three month lapse.

Source : CBSL , SLTDA

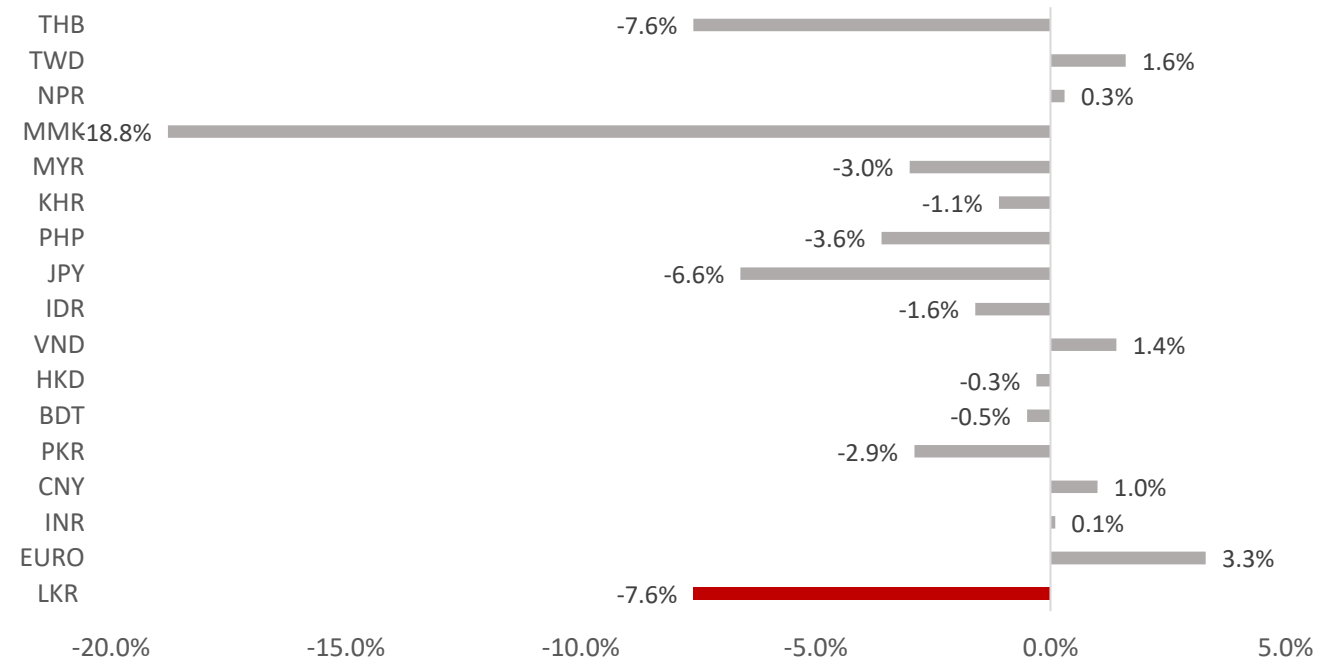


LKR/USD

Reserves declined to USD 2.8Bn in July'21 covering 1.8 months of imports, LKR depreciates by 7.6% so far



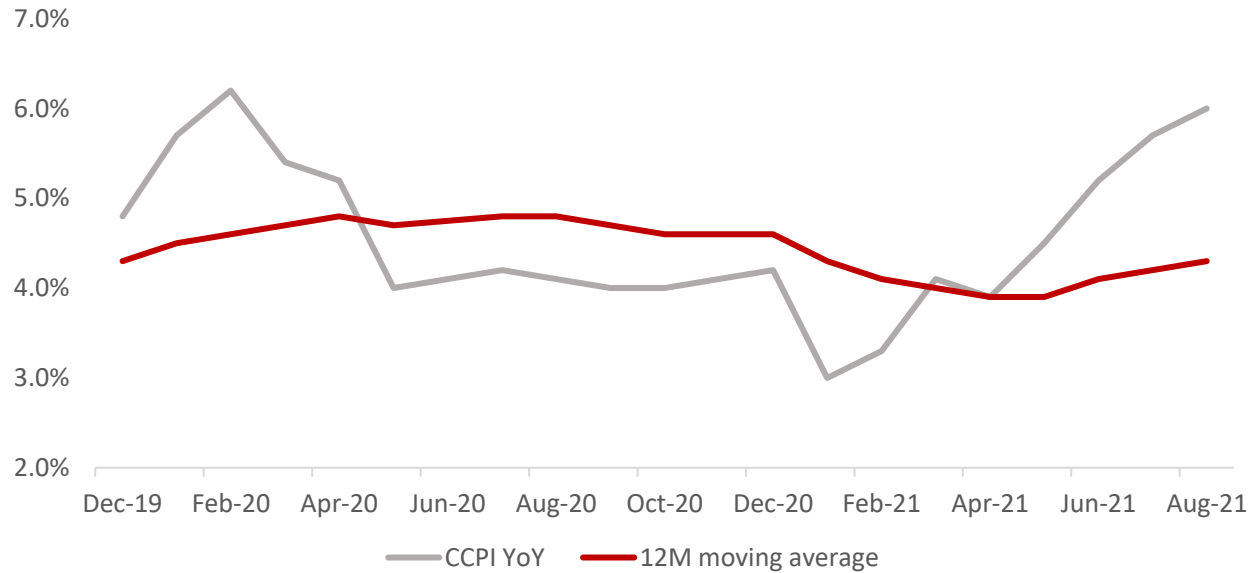
- Sri Lanka foreign reserves dropped to USD 2.83Bn in July'21 (from USD 4.02Bn in June'21) covering just 1.8 months of imports. During Aug'21 SL obtained RMB 2Bn (LKR 61.5Bn) through a term facility agreement with China and USD 150Mn (out of the USD 200Mn swap agreement) from Bangladesh to cushion the external front. SL also received USD 787Mn through IMF's special drawing rights (SDR) facility.



- LKR against USD depreciated by 7.6% for the year while Euro, Chinese Yuan and Vietnamese Dong appreciated by 3.3%, 1.0% and 1.4% respectively against USD YTD. Sri Lanka rupee however is in a serious pressure. Although SL rupee was quoted at LKR 204.00 by CBSL, hitting an all time low, the Licensed Commercial Banks are quoting least LKR 10 higher than the formal rate.

Source : CBSL, Xe Currency, Bloomberg
 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

CCPI Inflation jumped to 6.0% for the month of Aug'21 recording a 17 month high. 12 month average increased to 4.3%

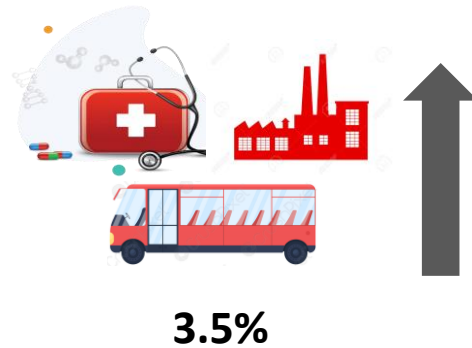


- The CCPI recorded a 0.3% monthly change with the increase in Food category and Non Food category by 0.7% and 0.1% respectively.
- Within the Food category, prices of Sea Fish (0.19%) and Fresh fruits (0.14%) increased, whereas prices of Rice (0.24%) and Coconut (0.12%) declined. Increase in Health (0.05%) and Furnishing Household Equipment and Routine Household Maintenance (0.04%) contributed largely to the value change of Non Food category.
- We expect inflation to rise further with supply chain disruptions due to the pandemic, high commodity prices and weak LKR.

Food Inflation (Y-o-Y)



Non Food Inflation (Y-o-Y)

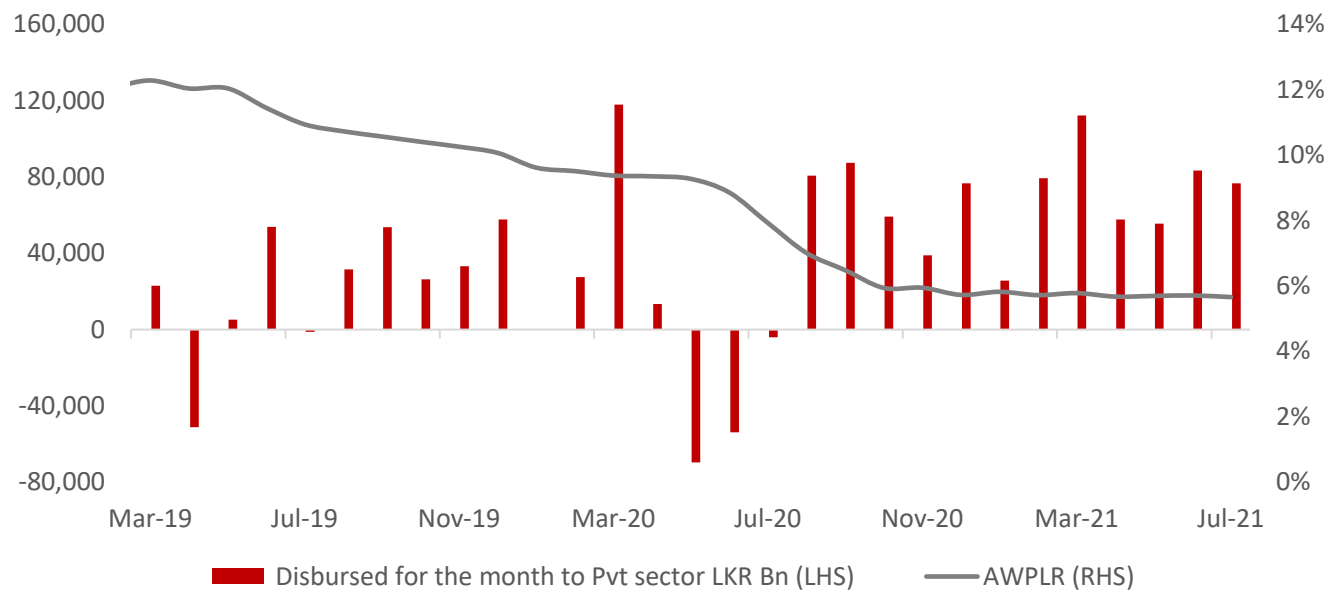


Source : CBSL , Department of Census and Statistics- Sri Lanka

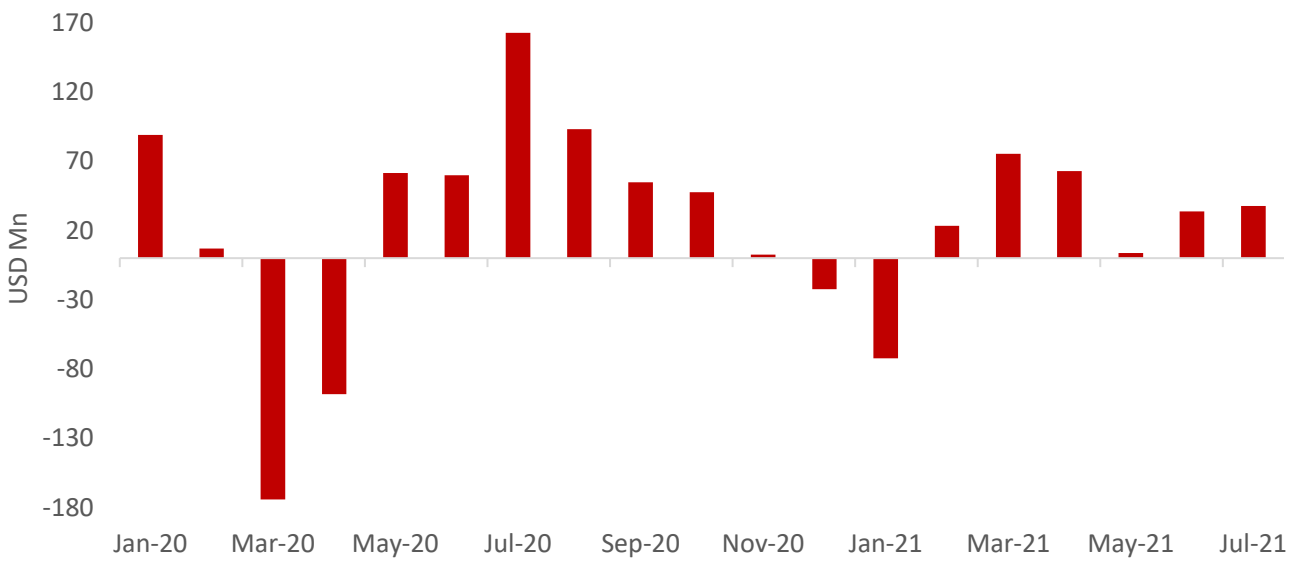


Pvt sector credit & Foreign Intervention

Private sector credit growth picks up for the twelfth consecutive month to end at 14.3% YoY in July'21



- Private sector credit growth picks up for the twelfth consecutive month to end at 14.3% YoY in July'21. Credit disbursed for the month surpasses LKR 76Bn while YTD disbursements stands at LKR 490.6Bn compared to LKR 31.1Bn disbursed for the same period last year



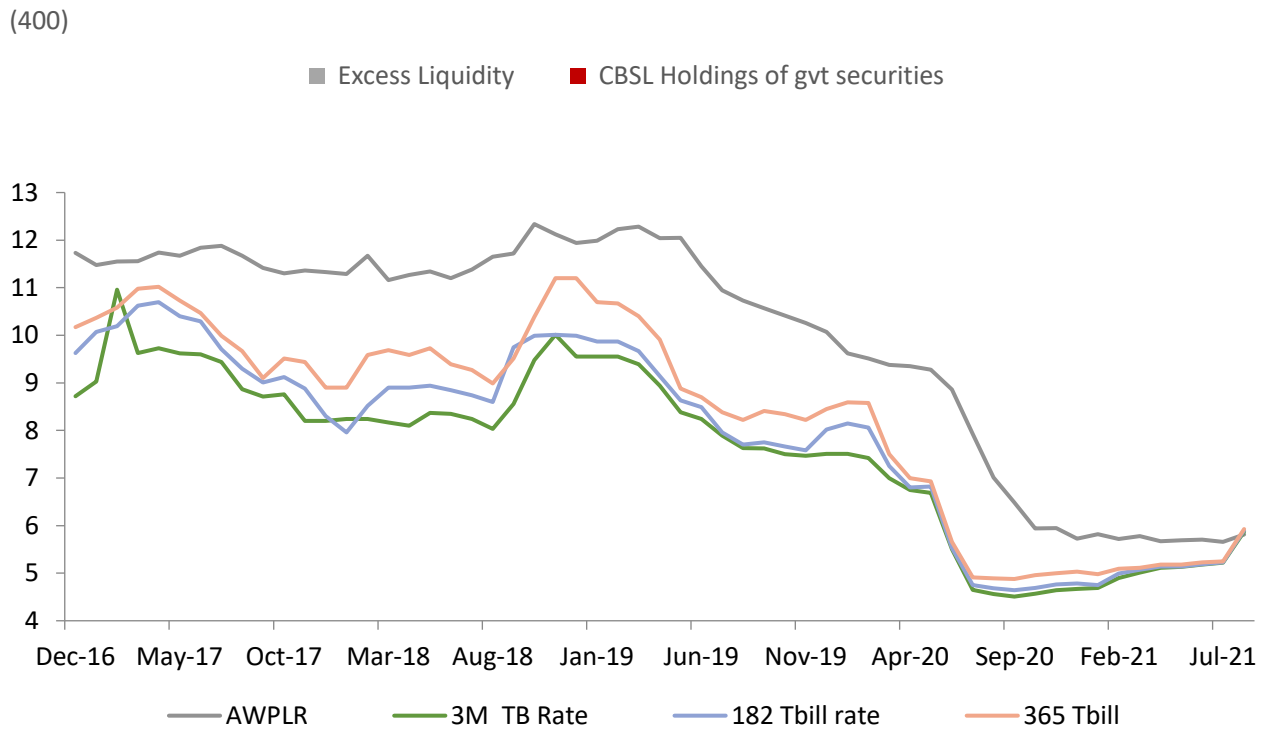
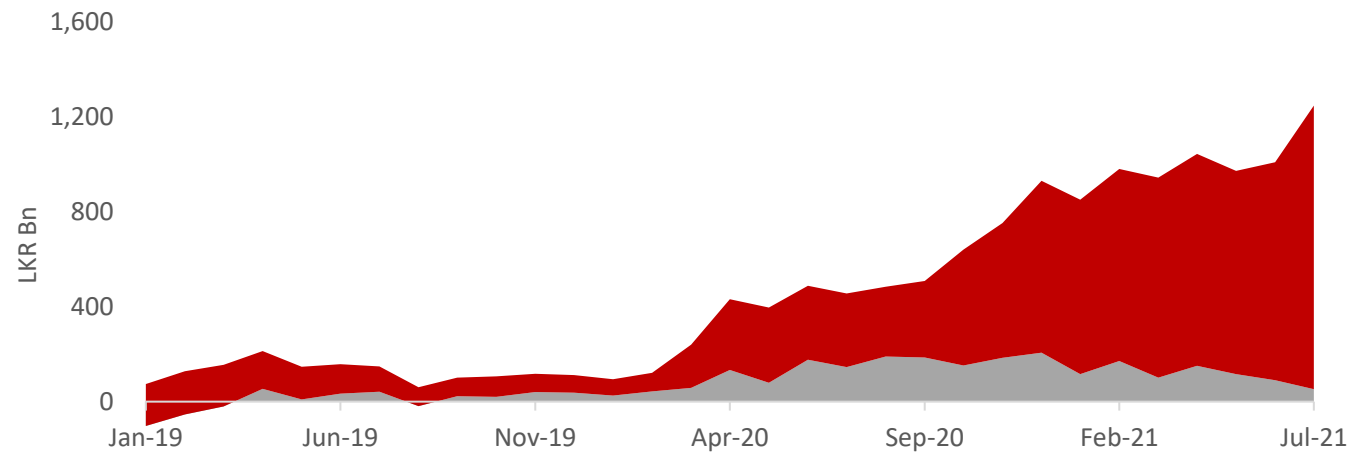
- Sri Lanka purchased dollars for the sixth consecutive month, from the domestic foreign exchange market of USD 37.65Mn in July'21.

Source : CBSL



Liquidity & Rates

SL printed money reached LKR 1.2Tn



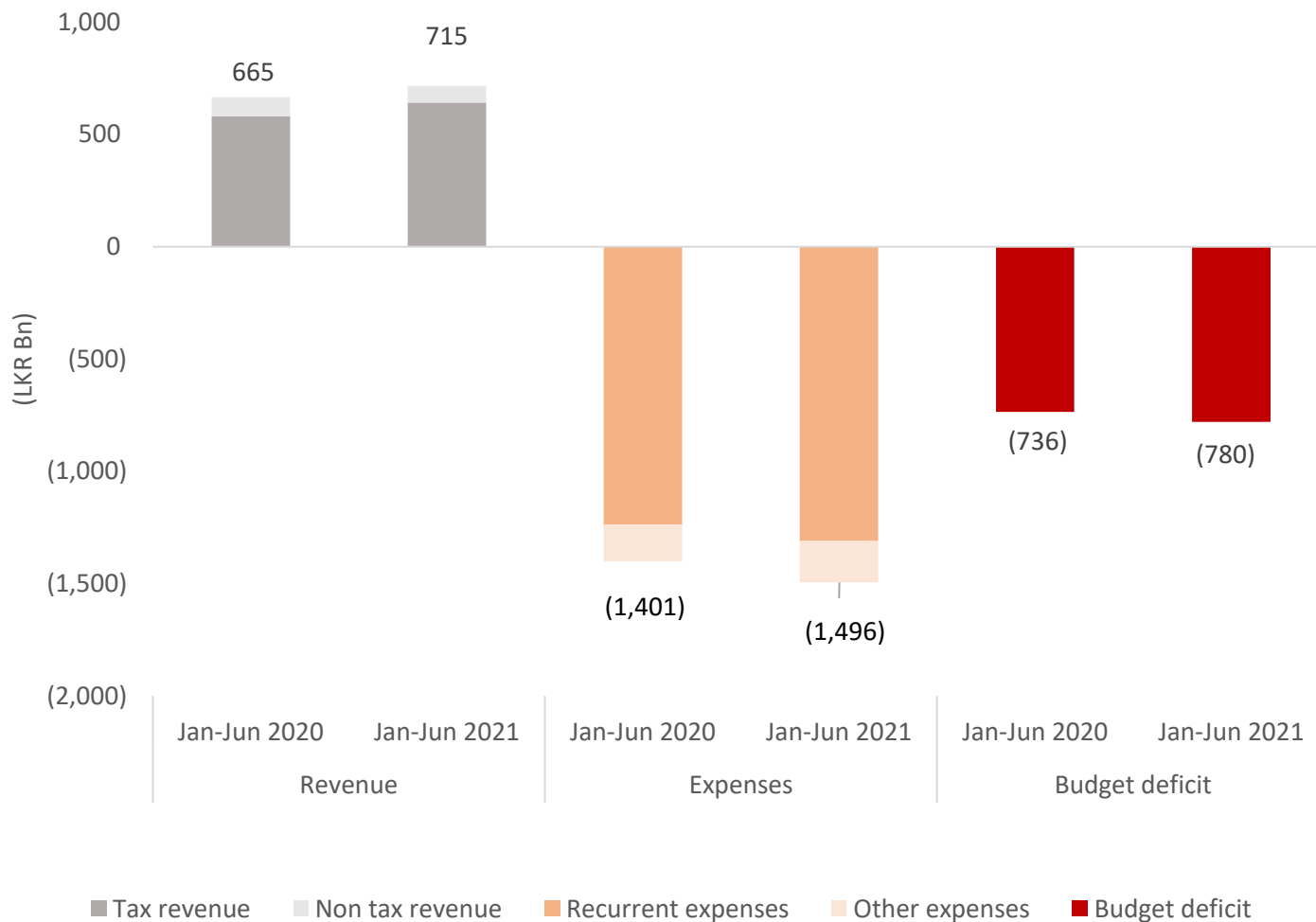
- CBSL printed around LKR 20Bn during the month of August while excess liquidity position came down to a deficit of LKR 41.0Bn for the same period.
- Sri Lanka Treasury bill rates edged up by 0.65% & 0.67% for both 91Days and 182Day to stand at 5.87% and 5.90% respectively. 1 YR bill rates meanwhile edged up by 0.68% to end at 5.93%.
- AWPLR edged up by 15bps to 5.81% by end of August to 5.81% while AWFDR slipped further by 5bps for August '21 to 5.62% .

Source : CBSL



Fiscal Position

SL's budget deficit for the first half of 2021 widened by 6%YoY to LKR 780Bn



- Government revenue for the first half of the year increased by 7.5% , with tax revenue growing by 10.4% (accounts to 89% of total revenue) while non tax revenue declining by 12.5% for the same period.
- Recurrent expenses and capital expenses increased by 5.9% YoY and 12.7% respectively. Consequently, the total expenses grew by 6.7% during Jan'21-Jun'21.
- Budget deficit thus widened by 6.1%YoY during the period to LKR 780Bn.

Disclaimer

The report has been prepared by Nations Lanka Equities (Pvt) Ltd.. The information and opinions contained herein has been compiled or arrived at based upon information obtained from sources believed to be reliable and in good faith. Such information has not been independently verified, no representation or warranty, express or implied is made as to its accuracy, completeness or correctness, reliability or suitability. All such information and opinions are subject to change without notice and are not responsible for the communication of the same. This document is for information purposes only, descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this document is not, and should not be construed as, an offer, or solicitation of an offer, to buy or sell any securities or other financial instruments. In no event will Nations Lanka Equities (Pvt) Ltd. be liable for any loss or damage including without limitation, indirect or consequential loss or damage, or any loss or damage whatsoever arising out of, or in connection with the use of this report and any reliance you place on such information is therefore strictly at your own risk.

Nations Lanka Equities (Pvt) Ltd. may, to the extent permissible by applicable law or regulation, use the above material, conclusions, research or analysis in which they are based before the material is disseminated to their customers. Not all customers will receive the material at the same time. Nations Lanka Equities (Pvt) Ltd., their respective directors, officers, representatives, employees, related persons and/or Nations Lanka Equities (Pvt) Ltd., may have a long or short position in any of the securities or other financial instruments mentioned or issuers described herein at any time and may make a purchase and/or sale, or offer to make a purchase and/or sale of any such securities or other financial instruments from time to time in the open market or otherwise, in each case either as principal or agent.

The information contained in this report is for general information purposes only. This report and its content is copyright of Nations Lanka Equities (Pvt) Ltd. and all rights reserved. This report- in whole or in part- may not, except with the written permission of Nations Lanka Equities (Pvt) Ltd. be reproduced or distributed or commercially exploited in any material form by any means whether graphic, electronic, mechanical or any means.