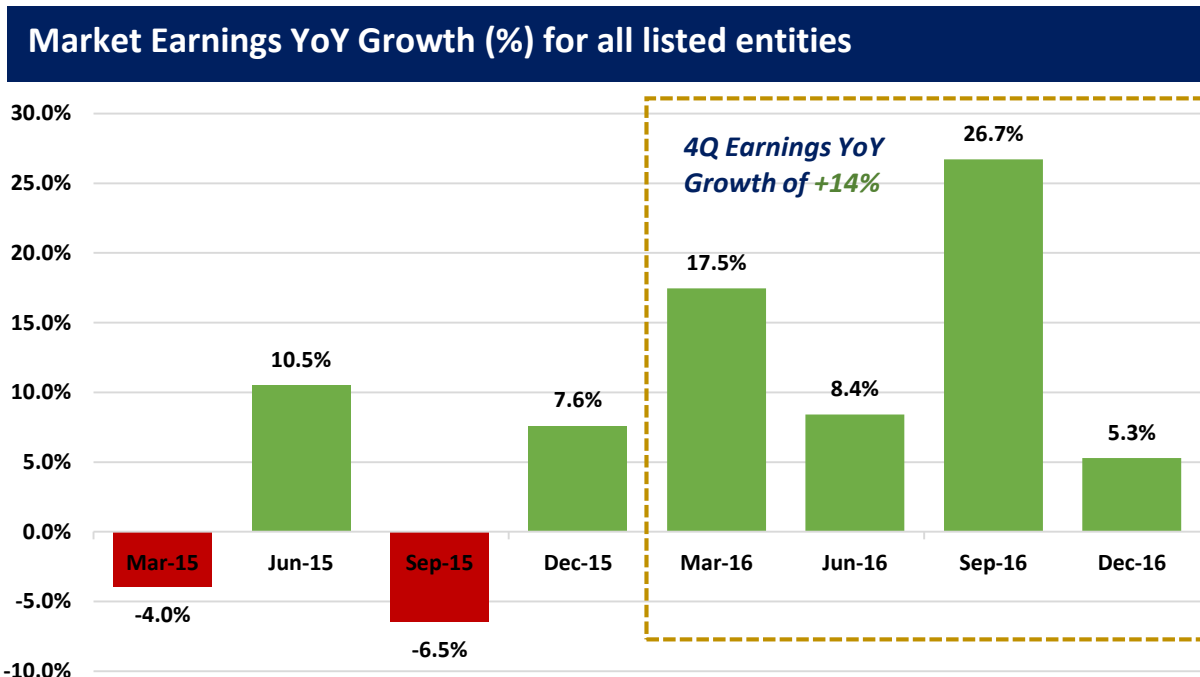




Quarterly Results Review

Quarter: December 2016

Banking Sector and Capital Goods Sector drive earnings



**Note: Adjusted for losses of DIST and one-off gains from CARS Group*

Dec Quarter earnings up by 5%YoY for 278 Companies: December quarter earnings grew 10%YoY to LKR62.2Bn and 3%QoQ for the 278 companies reported but considering all companies of the previous year earnings growth is 5.3% YoY. Dec 2016 Quarter earnings were dominated by healthy performance in Banking Sector (+20%YoY) with higher margins while Capital Goods Sector (+14%YoY) was positively affected by earnings from diversified conglomerates. However, the earnings growth was partially offset by Energy Sector (-94%YoY). Utilities Sector (-102% YoY) also saw deteriorated performance due to adverse weather conditions. Food, Beverage and Tobacco Sector (-7% YoY, adjusted) was affected by lower volumes in tea and rubber plantations despite increased prices, having adjusted for one-off losses from DIST and non-operating gains from CARS Group.

Private sector credit growth boosted banking earnings: Banks Sector continued to remain as largest contributor to earnings by achieving a profit of LKR 15.2Bn (+20%YoY) primarily driven by stronger Net Interest Margins and higher than expected private sector credit growth despite the increased taxes (VAT). Big Banks led by COMB (+26%YoY), HNB (+14%YoY) and SAMP (+67%YoY), jointly represented 72% of the sector earnings. JKH (+32% YoY) and DOCK (+93% YoY) contributed to improved performance in the Capital Goods Sector which posted a net profit of LKR 12.7Bn (+14% YoY). JKH saw strong retail segment and higher finance income with rising interest rates while DOCK experienced better margins via ship repair activities.

Energy and Utilities adversely affect earnings: Market earnings were negatively affected by Energy Sector that recorded a net profit of LKR 72Mn (-94% YoY) driven by LIOC (-71% YoY) & LGL (-170% YoY) which saw a steep dip in margins due to increased oil gas prices in the global market. Utilities Sector

posted a net loss of LKR 14Mn (-102% YoY) due to lack of rainfall affecting many hydro power plants including VLL (-111% YoY) and VPEL (-70% YoY).

One off events affect 4Q16 earnings: Market earnings were significantly affected by the losses of LKR 74Bn attributable to DIST during the quarter following share swap arrangement with MELS. In addition, 5 companies of the CARS Group (+377% YoY) – BUKI (+509% YoY), SHAL (+20,060% YoY), INDO (+21,649% YoY), SELI (-826%) and GOOD (+52,245% YoY) together recorded a total gain of LKR 12.6Bn attributable to disposal of plantation assets. After adjusting for these gains and losses the sector resulted in a profit of LKR 9.1Bn (-7% YoY, adjusted).

Appendix 1 – Sector Summary

| Company | Quarter Earnings LKR 'mn | | | | | 4 Qtr Trailing | |
|---|--------------------------|--------|-------|--------|-------|----------------|---------|
| | 3QFY17 | 3QFY16 | YoY% | 2QFY17 | QoQ% | PER (x) | PBV (x) |
| | 4Q2016 | 4Q2015 | YoY% | 3Q2016 | QoQ% | | |
| | 2H2016 | 2H2015 | YoY% | 1H2016 | HoH% | | |
| <i>Consumer Durables & Apparel Sector Earnings</i> | 841 | -666 | 226% | 960 | -12% | 10.9x | 1.2x |
| <i>Retailing Sector Earnings</i> | 1,190 | 1,722 | -31% | 1,285 | -7% | 6.0x | 0.9x |
| <i>Consumer Services Sector Earnings</i> | 1,863 | 1,758 | 6% | 2,114 | -12% | 36.7x | 1.9x |
| <i>Automobiles & Components Sector Earnings</i> | 91 | 269 | -66% | 180 | -50% | 3.3x | 1.0x |
| <i>Food, Beverage & Tobacco Sector Earnings</i> | -52,353 | 9,705 | -639% | 9,717 | -639% | N/A | 2.4x |
| <i>Food & Staples Retailing Sector Earnings</i> | 1,105 | 950 | 16% | 961 | 15% | 14.9x | 1.8x |
| <i>Household & Personal Products Sector Earnings</i> | -37 | 4 | -917% | -10 | -263% | 21.5x | 2.4x |
| <i>Energy Sector Earnings</i> | 72 | 1,148 | -94% | 1,731 | -96% | 4.8x | 0.9x |
| <i>Diversified Financials Sector Earnings</i> | 7,827 | 7,894 | -1% | 10,160 | -23% | 6.1x | 0.9x |
| <i>Banks Sector Earnings</i> | 15,159 | 12,655 | 20% | 14,656 | 3% | 7.0x | 1.0x |
| <i>Insurance Sector Earnings</i> | 5,870 | 4,377 | 34% | 1,586 | 270% | 7.4x | 1.4x |
| <i>Health Care Equipment & Services Sector Earnings</i> | 796 | 1,222 | -35% | 741 | 7% | 19.8x | 2.4x |
| <i>Pharmaceuticals, Biotechnology & Life Sciences Sector Earnings</i> | 126 | 101 | 24% | 110 | 14% | 6.6x | 0.9x |
| <i>Capital Goods Sector Earnings</i> | 12,655 | 11,104 | 14% | 6,957 | 82% | 11.8x | 1.0x |
| <i>Commercial & Professional Services Sector Earnings</i> | -126 | -27 | -366% | 55 | -327% | N/A | 0.9x |
| <i>Transportation Sector Earnings</i> | -114 | -24 | -383% | 31 | -469% | N/A | N/A |
| <i>Materials Sector Earnings</i> | 2,845 | 2,325 | 22% | 2,994 | -5% | 8.7x | 1.7x |
| <i>Real Estate Sector Earnings</i> | 1,760 | 1,324 | 33% | 1,086 | 62% | 8.2x | 0.8x |
| <i>Telecommunications Sector Earnings</i> | 1,375 | 238 | 479% | 4,676 | -71% | 10.8x | 1.2x |
| <i>Utilities Sector Earnings</i> | -14 | 779 | -102% | 153 | -109% | 23.9x | 1.8x |
| <i>Closed End Funds Sector Earnings</i> | -81 | -28 | -192% | 197 | -141% | 25.9x | 0.7x |
| Market Valuations | | | | | | 15.2x | 1.3x |
| Market Earnings - December 2016 | 850 | 56,832 | -99% | 60,342 | -99% | 278 | |
| Market Earnings - December 2016 (Adjusted) | 62,276 | 56,832 | 10% | 60,342 | 3% | 278 | |
| Market Earnings - September 2016 | 60,189 | 48,646 | 24% | 50,191 | 20% | 271 | |