



# JOHN KEELLS HOLDINGS PLC [JKH.N0000]

**MAINTAIN BUY**

**READY. SET. GO**

**Fair Value [FY19E]: LKR 210.0 [+35%]**

**Buy Below [AER of 15%]: LKR 190.0**

*JKH's earnings grew 100% in the 4QFY18 mainly driven by a one-off gain in insurance while EBIT saw -11% amidst negative growth in transportation and CF&R. We maintain recurring earnings growth at 12% for FY19E and thereby maintain TP at LKR 210.0. Maintain BUY.*

LKR (Mn)	4QFY17	4QFY18	YoY	FY17	FY18	YoY
<b>Earnings (LKR 'Mn)</b>						
Revenue	29,848	33,553	+12%	106,273	121,215	+14%
Gross profit	8,425	8,567	+2%	31,115	29,283	-6%
EBIT	4,741	4,203	-11%	14,374	11,462	-20%
PBT	7,408	12,767	+72%	22,888	27,634	+21%
Net Profit	4,986	9,966	+100%	16,275	21,021	+29%
<b>Balance Sheet (LKR 'Mn)</b>						
Shareholders' Equity	178,635	199,920	+12%	178,635	199,920	+12%
Short Term Investments	79,174	64,386	-19%	79,174	64,386	-19%
NAVPS	144.1	128.8		144.1	128.8	

### 4QFY18 earnings up by 100%YoY on insurance gain

JKH recorded earnings of LKR 9.9Bn in 4QFY18 up by 100%YoY, largely backed by one-off gains from the accounting policy change in UAL. Excluding the one-off gain, we estimate the normalized 4Q earnings to be LKR 5.4Bn (+10%) which is broadly in-line with our expectations. Transportation and retail sector performed below expectations while compensated by the Finance sector (excluding the gains) performing slightly above expectations. Thereby we maintain FY19E and FY20E earnings at LKR 18Bn (+11%) and LKR 27Bn (+45%).

### One-off in Insurance boost Finance sector

JKH financial segment EBIT jumped to LKR 5.9Bn in 4QFY18 from LKR 170Mn in 4QFY17 due to an annual life insurance surplus of LKR 1.1Bn and one-off surplus of LKR 3.4Bn in UAL. One off surplus ascends due to a policy change across the industry in keeping with international standard for computation of insurance contract liabilities. However, a healthy performance in NTB (earnings +30%YoY) boosted sector earnings marginally above our estimates.

### Declined Volume and Sugar Tax impacted CF&R

CF&R segment EBIT dipped by 17%YoY to LKR 944.1Mn from LKR 1.1Bn primarily on account of the decline in profitability of the consumer goods sector and to lesser extent the retail sector. The Beverage and Frozen recorded a decline in volumes as a result of continued tapering of demand arising from subdued consumer spending. The volume decline in the Beverage business was further exacerbated by the implementation of a sugar tax from Nov 2017, which resulted in substantial price increase across the industry partly impacting volumes as well.

### Transportation impacted by impairment

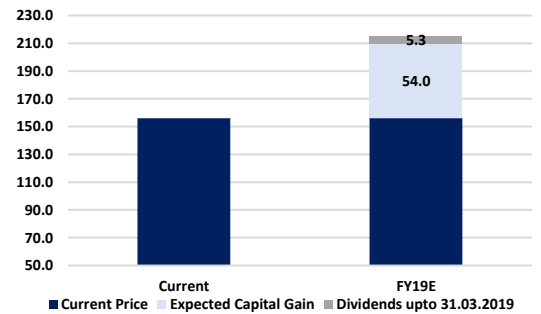
Transport EBIT plunged by 80%YoY impacted by an impairment provision for the doubtful debt. SAGT saw c.8%YoY growth in TEU volumes to 479,535 in 4QFY18

### Cinnamon Life & new property projects to lead earnings beyond FY19

We expect Cinnamon Life's residential space construction to be completed by end FY20. As at 31<sup>st</sup> March 2018, 60% of the floor area of the apartment segment has been sold. However, revenue from the pre-sale would only be recognised post commencement of operation. JKH's investment pipeline exceeding US\$ 600Mn over next 2 years, the realization of benefit from these investments is expected to accumulate from FY20 and beyond. Around USD 160Mn of these investments are funded through internal cash.

### We maintain BUY on JKH on the back of Waterfront project

Earnings are broadly in line with our expectations as we maintain earnings for FY19E and thereby we maintain TP at LKR 210.0. Maintain BUY.



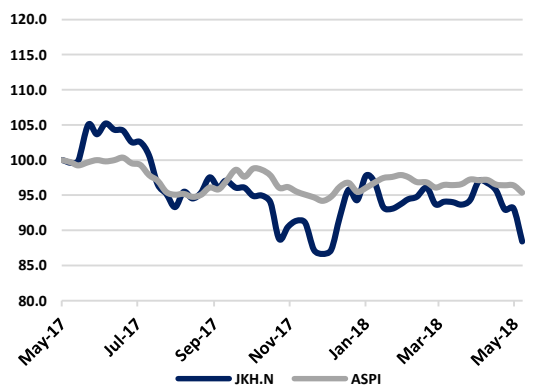
### FIRST CAPITAL RESEARCH

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KEY DATA	
CSE Ticker	JKH.N0000
Bloomberg Ticker	JKH SL
Share Price (LKR)	156.00
52w High (LKR)	178.90
52w Low (LKR)	146.20
Avg. Daily Volume (Shares)	498,010
Avg. Daily Turnover (LKR)	81,128,453
Issued Share Capital (Shares 'Mn)	1,375
Market Cap (LKR 'Mn)	214,426
Market Cap (USD 'Mn)	1,366

\*1 USD = LKR 157

Price Performance (%)	1 mth	3 mths	12mths
JKH	-2%	-1%	-7%
ASPI	-1%	-2%	-4%



### Disclosure on Shareholding:

First Capital Group hold 210,000 shares in JKH and will not trade in this share for three trading days following the issue of this document.



**Estimate Revision**

In LKR Mn	FY19E - O	FY19E - R	% Change	FY20E - O	FY20E - R	% Change
<b>Earnings Estimate</b>						
Revenue	139,667	138,052	-1%	179,079	177,310	-1%
EBIT	14,165	14,574	+3%	25,435	25,651	+1%
PBT	25,236	25,393	+1%	37,049	36,845	-1%
Net profit	19,976	20,100	+1%	29,326	29,164	-1%
Profit to Equity Holders	18,178	18,291	+1%	26,687	26,540	-1%
Adjusted EPS	13.2	13.3		19.3	19.3	
Growth YoY	18%	11%		47%	45%	
<b>Balance Sheet Estimate</b>						
Shareholders' Equity	202,151	210,894	+4%	220,832	229	+4%
Short Term Investments	81,565	70,825	-13%	79,934	74,366	-7%
<b>Adjusted NAVPS</b>	<b>147.1</b>	<b>153.4</b>		<b>160.7</b>	<b>166.9</b>	
<b>Ratio Estimate</b>						
<b>PER (x)</b>	<b>14.1</b>	<b>11.7</b>		<b>12.0</b>	<b>11.7</b>	
<b>PBV (x)</b>	<b>1.2</b>	<b>1.3</b>		<b>1.1</b>	<b>1.3</b>	
<b>Div Yield (%)</b>	<b>2%</b>	<b>3%</b>		<b>3%</b>	<b>3%</b>	

**Valuation Table**

P/E 31 December	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
<b>Estimates (LKR 'Mn)</b>							
Revenue	91,852	91,852	93,709	106,273	121,215	138,052	191,985
EBIT	10,303	10,303	10,233	12,339	16,889	14,574	25,651
Net Profit	<b>14,349</b>	<b>14,070</b>	<b>16,275</b>	<b>21,021</b>	<b>18,291</b>	<b>26,540</b>	<b>23,683</b>
<b>Adjusted Net Profit</b>	<b>14,349</b>	<b>14,070</b>	<b>16,275</b>	<b>16,521</b>	<b>18,291</b>	<b>26,540</b>	<b>23,683</b>
Adjusted EPS (LKR)	10.4	10.2	11.8	12.0	13.3	19.3	17.2
YoY Growth (%)	-1%	-2%	16%	2%	11%	45%	-11%
<b>Valuations</b>							
<b>PER (x)</b>	<b>14.9x</b>	<b>15.2x</b>	<b>13.2x</b>	<b>13.0x</b>	<b>11.7x</b>	<b>8.1x</b>	<b>9.1x</b>
<b>PBV (x)</b>	<b>2.0x</b>	<b>2.2x</b>	<b>2.0x</b>	<b>1.4x</b>	<b>1.3x</b>	<b>1.2x</b>	<b>1.0x</b>
<b>DY (%)</b>	<b>1.6%</b>	<b>3.7%</b>	<b>3.4%</b>	<b>3.9%</b>	<b>3.4%</b>	<b>3.7%</b>	<b>3.3%</b>

**Valuation Summary**

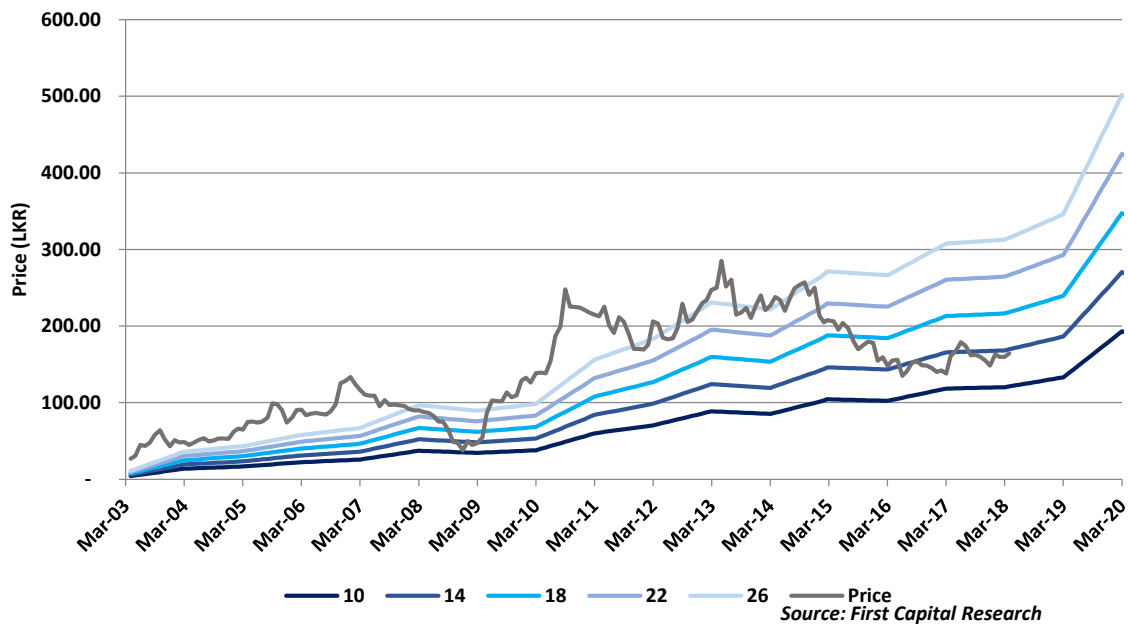
<b>Return</b>	
Target Price	<b>210.0</b>
Current Price	<b>156.0</b>
Capital Gain (LKR)	<b>54.0</b>
Dividends upto 31.03.2019 (LKR)	<b>5.3</b>
Capital Gain %	<b>35%</b>
Dividend Yield %	<b>3%</b>
<b>Total Return %</b>	<b>38%</b>
<b>Annualized Return %</b>	<b>47%</b>



**SOTP Valuation**

Segment	Valuation method	Valuation assumptions				Value in LKR Mn		Value per share	% of total
		D/E	CoE	WACC	Growth	Firm value	Equity		
Transportation	DCF	48/52	18%	12%	3%	17,502		12.6	7%
Leisure	DCF	40/60	17%	15%	3%	68,405		30.2	18%
Property	DCF	40/60	18%	16%	3%	41,155		29.7	17%
Consumer Foods & Retail	DCF	40/60	18%	12%	3%	126,124		91.0	53%
Financial Services	Justified PBV		15%		3%		7,745	5.6	3%
Information Technology	PBV						1,484	1.1	1%
Fair value before net debt								<b>170.1</b>	<b>100%</b>
Less: Debt								13.4	
Add: Cash								1.3	
Add: Short Term Investment								51.1	
<b>Fair value</b>								<b>209.1</b>	

**PER Valuation**





Appendix I: Statement of Income & Expenses

<b>Income Statement (LKR Y/E 31st March</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18E</b>	<b>FY19E</b>	<b>FY20E</b>	<b>FY21E</b>
<b>Revenue</b>	<b>91,852</b>	<b>93,709</b>	<b>106,273</b>	<b>121,215</b>	<b>138,052</b>	<b>177,310</b>	<b>191,985</b>
<b>EBIT by Sector</b>							
Transportation	304	560	2,652	1,009	852	923	1,001
Leisure	5,426	5,028	5,714	3,753	5,541	6,207	7,435
Property	1,528	1,620	541	686	330	9,273	1,877
Consumer Foods & Retail	2,487	4,322	5,147	3,970	6,532	7,796	9,282
Financial Services	973	717	935	7,101	1,237	1,442	1,680
Information Technology	353	-334	-572	654	427	470	517
Other	-768	-1,681	-2,078	-282	-344	-460	-640
<b>EBIT</b>	<b>10,303</b>	<b>10,303</b>	<b>12,339</b>	<b>16,889</b>	<b>14,574</b>	<b>25,651</b>	<b>21,152</b>
Finance Cost	-668	-392	-419	-521	-403	-282	-198
Finance Income	4,696	5,549	6,717	7,357	6,761	6,534	6,860
Change in fair value of inv. pro	49	263	484	896	1,000	1,200	1,500
Share of profit of Associates	2,778	2,781	3,303	3,596	4,104	4,450	4,341
Adjustments	1,400	763	464	-584	-643	-707	-778
<b>PBT</b>	<b>18,557</b>	<b>19,198</b>	<b>22,888</b>	<b>27,634</b>	<b>25,393</b>	<b>36,845</b>	<b>32,879</b>
Taxation	-2,812	-3,406	-4,771	-4,515	-5,293	-7,680	-6,854
<b>Net profit for the period</b>	<b>15,746</b>	<b>15,792</b>	<b>18,117</b>	<b>23,120</b>	<b>20,100</b>	<b>29,164</b>	<b>26,025</b>
Minority Interest	-1,397	-1,722	-1,842	-2,099	-1,809	-2,625	-2,342
<b>Profit attributable to Equity Hold</b>	<b>14,349</b>	<b>14,070</b>	<b>16,275</b>	<b>21,021</b>	<b>18,291</b>	<b>26,540</b>	<b>23,683</b>
<b>Recurring profit</b>	<b>14,349</b>	<b>14,070</b>	<b>16,275</b>	<b>16,521</b>	<b>18,291</b>	<b>26,540</b>	<b>23,683</b>
<b>EPS</b>	<b>10.4</b>	<b>10.2</b>	<b>11.8</b>	<b>15.3</b>	<b>13.3</b>	<b>19.3</b>	<b>17.2</b>
<b>Adjusted EPS</b>	<b>10.4</b>	<b>10.2</b>	<b>11.8</b>	<b>12.0</b>	<b>13.3</b>	<b>19.3</b>	<b>17.2</b>

Source : Company Annual Reports and First Capital Research Estimates



**Appendix II: Statement of Financial Position**

<b>Balance Sheet (LKR mn)</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18E</b>	<b>FY19E</b>	<b>FY20E</b>	<b>FY21E</b>
<b>As at 31st March</b>							
<b>Non current assets</b>							
Property plant and equipment	49,563	52,736	64,396	87,260	88,328	89,324	90,337
Investment Property	4,609	4,878	5,366	12,427	13,918	15,589	17,459
Intangible Assets	2,719	2,338	2,118	2,010	2,010	2,010	2,010
Other Investments	16,345	16,950	17,719	22,335	26,439	30,889	35,230
Other Non Current Financial Assets	19,709	22,635	27,667	32,878	33,207	34,867	35,216
Other Non Current Assets	34,648	46,575	41,836	53,731	56,418	56,982	65,530
	<b>127,593</b>	<b>146,113</b>	<b>172,308</b>	<b>223,647</b>	<b>237,662</b>	<b>247,002</b>	<b>263,122</b>
<b>Current Assets</b>							
Inventories	5,589	4,665	5,606	6,690	7,619	9,785	10,595
Trade and Other Receivables	10,270	9,999	11,687	12,273	13,978	17,953	19,439
Amounts due from related parties	185	133	112	140	140	140	140
Other Current Assets	2,398	2,303	3,265	4,390	4,390	4,390	4,390
Short Term Investments	67,541	72,635	79,174	64,386	70,825	74,366	78,084
Cash and cash equivalents	4,511	5,127	5,119	10,883	1,821	11,131	14,325
	<b>90,493</b>	<b>94,863</b>	<b>104,964</b>	<b>98,762</b>	<b>98,773</b>	<b>117,766</b>	<b>126,973</b>
<b>Total Assets</b>	<b>218,086</b>	<b>240,976</b>	<b>277,272</b>	<b>322,409</b>	<b>336,434</b>	<b>364,768</b>	<b>390,096</b>
<b>Equity and Liabilities</b>							
<b>Capital and reserves</b>							
Ordinary shares	50,703	58,702	62,790	62,802	62,802	62,802	62,803
Reserves	87,095	96,280	115,845	137,118	148,092	166,670	183,248
Shareholders Funds	137,798	154,982	178,635	199,920	210,894	229,472	246,051
Minority Interest	12,279	13,499	15,696	24,944	26,753	29,378	31,720
	<b>150,077</b>	<b>168,480</b>	<b>194,330</b>	<b>224,865</b>	<b>237,648</b>	<b>258,850</b>	<b>277,772</b>
<b>Non - current liabilities</b>							
Insurance contract Liabilities	23,932	27,205	31,700	30,231	34,765	39,980	45,977
Borrowings	4,900	13,707	14,203	18,521	12,965	9,075	6,353
Employee benefit liabilities	1,495	1,661	1,880	1,971	1,971	1,971	1,971
Other	2,511	5,986	7,109	13,985	15,383	16,922	18,614
	<b>32,837</b>	<b>48,559</b>	<b>54,892</b>	<b>64,708</b>	<b>65,085</b>	<b>67,948</b>	<b>72,915</b>
<b>Current liabilities</b>							
Trade and other payables	11,267	12,755	14,136	16,077	18,311	23,518	25,464
Amounts due to related parties	26	29	10	5	5	5	5
Current tax liabilities	1,592	1,873	2,395	2,079	2,079	2,079	2,079
Borrowings	17,082	3,813	4,299	5,191	3,634	2,544	1,781
Other	3,252	2,235	2,944	3,513	3,513	3,513	3,513
Bank overdraft	1,952	3,230	4,264	6,010	6,010	6,010	6,010
	<b>35,172</b>	<b>23,936</b>	<b>28,049</b>	<b>32,876</b>	<b>33,552</b>	<b>37,669</b>	<b>38,852</b>
<b>Total liabilities</b>	<b>68,009</b>	<b>72,495</b>	<b>82,941</b>	<b>97,584</b>	<b>98,636</b>	<b>105,617</b>	<b>111,767</b>
<b>Total equity &amp; liabilities</b>	<b>218,086</b>	<b>240,975</b>	<b>277,272</b>	<b>322,448</b>	<b>336,284</b>	<b>364,467</b>	<b>389,538</b>
<b>NAVPS</b>	<b>100.3</b>	<b>112.8</b>	<b>130.0</b>	<b>145.4</b>	<b>153.4</b>	<b>166.9</b>	<b>179.0</b>

Source : Company Annual Reports and First Capital Research Estimates



Appendix III: Statement of Cash flow

Cashflow Statement (LKR Y/E 31st March)	FY15	FY16	FY17	FY18E	FY19E	FY20E	FY21E
<b>Profit before tax</b>	<b>18,557</b>	<b>19,198</b>	<b>22,888</b>	<b>27,634</b>	<b>25,393</b>	<b>36,845</b>	<b>32,879</b>
Adjustments	-7,170	-4,621	-8,639	-10,405	-6,379	-6,547	-6,763
Net Change in Working Capital	1,750	-27	-467	-10,202	263	2,355	-2,858
<b>Operating Activities</b>							
Interest Received	7,414	8,118	9,536	11,069	6,761	6,534	6,860
Interest Paid	-655	-956	-303	-521	-403	-282	-198
Dividend Received	2,397	2,588	2,854	2,943	0	0	1
Tax Paid	-1,294	-2,520	-4,631	-4,204	-5,293	-7,680	-6,854
Gratuity Paid	-144	-171	-219	-302	0	0	1
<b>Cash from operations</b>	<b>20,855</b>	<b>20,513</b>	<b>21,020</b>	<b>16,012</b>	<b>20,341</b>	<b>31,224</b>	<b>23,069</b>
<b>Investing activities</b>							
Net PPE, Intangible Assets and In	-3,185	-5,358	-7,107	-14,935	-6,491	-6,670	-6,870
Acquisition and Increased stakes	-113	-53	-44	-3,512	0	0	0
Net other Non Current investment	2,043	-4,155	-10,519	1,807	0	0	0
<b>Cash from investments</b>	<b>-1,255</b>	<b>-9,567</b>	<b>-17,670</b>	<b>-16,640</b>	<b>-6,491</b>	<b>-6,670</b>	<b>-6,870</b>
<b>Financing Activities</b>							
Proceeds from New Share Issue	954	7,999	4,088	9	0	0	1
Net proceeds from loans & borro	-1,519	-5,989	416	4,785	-7,114	-4,980	-3,486
Dividends	-3,476	-8,038	-7,280	-8,325	-7,316	-7,962	-7,105
Other	-796	-1,690	-1,329	-1,056	0	0	1
<b>Cash from financing</b>	<b>-4,838</b>	<b>-7,717</b>	<b>-4,105</b>	<b>-4,587</b>	<b>-14,430</b>	<b>-12,941</b>	<b>-10,588</b>
<b>Net cash during the year</b>	<b>14,762</b>	<b>3,229</b>	<b>-755</b>	<b>-5,216</b>	<b>-580</b>	<b>11,612</b>	<b>5,611</b>
Net cash at beginning	30,408	45,169	48,398	47,643	42,427	41,847	53,459
<b>Net cash at end</b>	<b>45,169</b>	<b>48,398</b>	<b>47,643</b>	<b>42,427</b>	<b>41,847</b>	<b>53,459</b>	<b>59,070</b>
Cash of Balance Sheet	4,511	5,127	5,119	10,883	1,821	11,131	14,325
Short Term Investments	42,611	47,213	51,463	41,851	46,036	48,338	50,755
Bank O/D	-1,952	-3,230	-4,264	-6,010	-6,010	-6,010	-6,010
<b>Net cash from Cashflow</b>	<b>45,169</b>	<b>48,398</b>	<b>47,643</b>	<b>42,427</b>	<b>41,847</b>	<b>53,459</b>	<b>59,070</b>

Source : Company Annual Reports and First Capital Research Estimates



Appendix IV: Top 20 Shareholders

Top 20 shareholders - (% held)	1Q2018	4Q2017	QoQ	1Q2017	YoY
Broga Hill Investment Ltd	10.2%	10.2%	-	10.2%	-
Mr S E Captain	10.1%	10.1%	-	10.8%	-0.7%
Schroder International Selection Fund	6.2%	6.2%	-	3.9%	2.3%
Paints & General Industries Ltd	6.0%	6.2%	-0.2%	6.9%	-0.9%
Melstacorp PLC	3.5%	3.5%	-	3.7%	-0.2%
HWIC Asia Fund	2.6%	2.6%	-	2.1%	0.5%
Aberdeen Global-Asian Smaller Companies Fund	2.0%	2.0%	-	1.9%	0.1%
Aberdeen Institutional Commingled Funds LLC	1.9%	2.0%	-0.1%	2.1%	-0.2%
Aberdeen Global Asia Pacific Equity Fund	1.9%	1.9%	-	2.3%	-0.4%
Northern Trust Co S/A Edgbaston Asian Equity Trust	1.8%	1.7%	0.1%	1.0%	0.8%
Aberdeen Global - Emerging Markets Smaller Companies Fund	1.5%	1.7%	-0.2%	1.8%	-0.3%
Employees Trust Fund	1.5%	1.5%	-	1.7%	-0.2%
Mr K Balendra	1.4%	1.4%	-	1.4%	-
BBH Luxfidelity Fund-Pacific	1.4%	1.4%	-	0.0%	1.4%
Deutsche Bank AG-London	1.1%	1.1%	-	1.1%	-
First State Investments ICVC	1.1%	1.1%	-	0.0%	1.1%
London- Edinburgh Dragon Trust PLC	1.1%	1.1%	-	1.3%	-0.2%
Mrs S A J De Fonseca	0.9%	0.9%	-	0.9%	-
Mr C S De Fonseca	0.9%	0.9%	-	0.9%	-
T Rowe New Asia Fund	0.9%	0.9%	-	0.0%	0.9%



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