



First Capital
First Capital Research

EQUITY STRATEGY

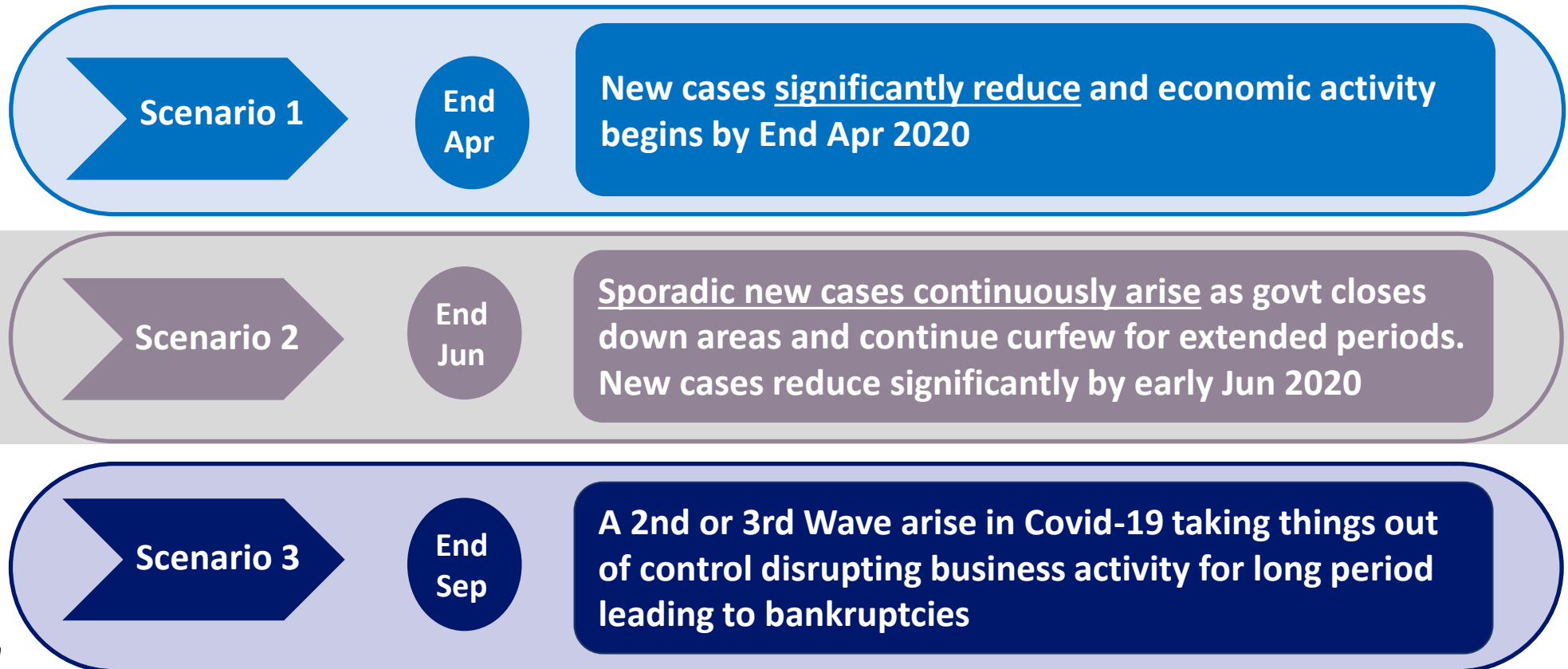
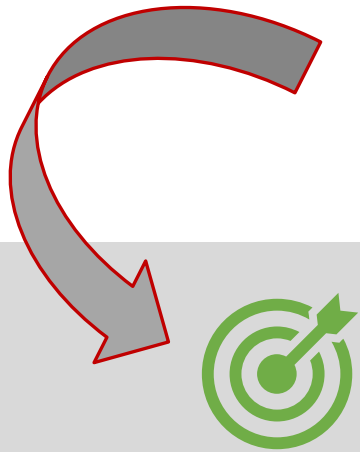
*“COVID-19 ESCALATION TO LEAD A **BLOODBATH** IN
EQUITIES”*

May 2020

Analyst: **Dimantha Mathew**

SL's Lockdown fails; Scenario 2 takes priority

The severity of stress will increase as we move from scenario 1 to scenario 3



Source: First Capital Research



RISK DUE TO 1-MONTH
LONG MARKET CLOSURE



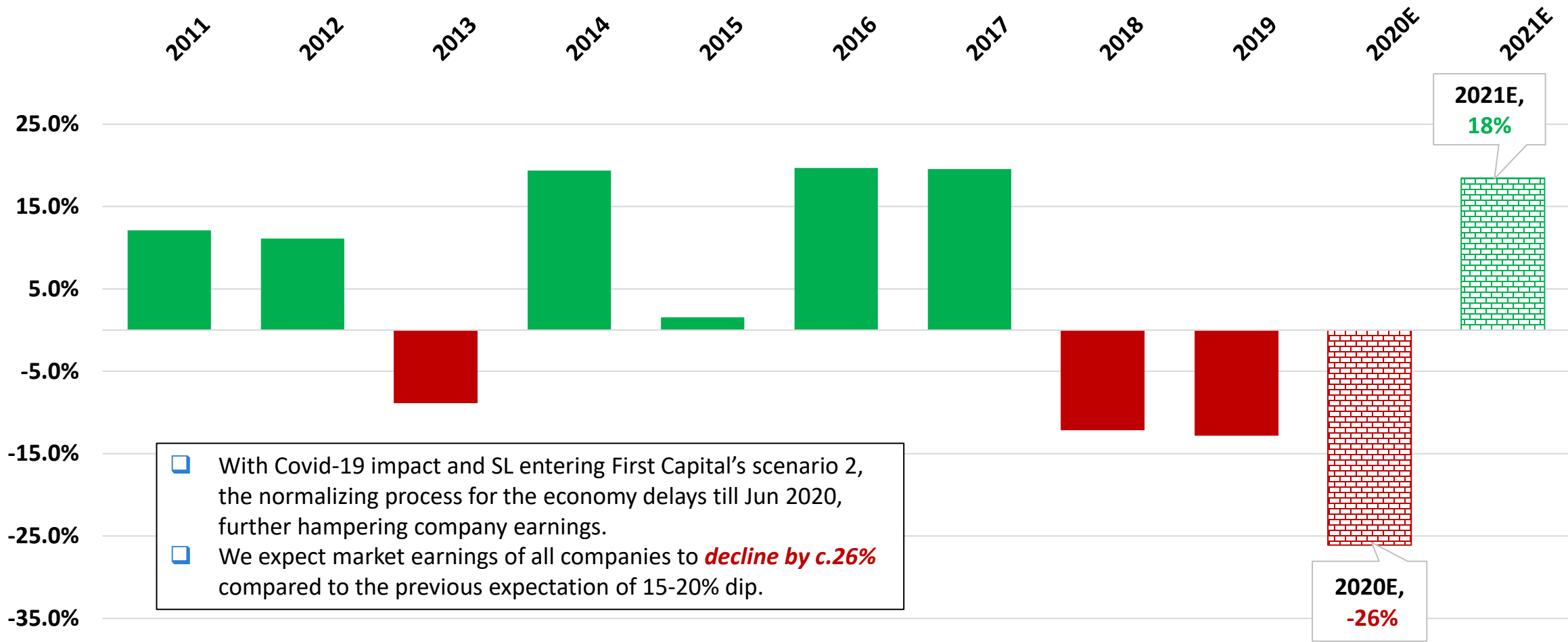
RISK DUE TO FURTHER DIP
IN EARNINGS

*A two-fold
market risk
has been
created*

Risk due to 1-Month long market closure

- ❑ Sri Lanka's Equity market has been closed for over a month providing a new type of risk for foreign investors.
- ❑ In the current situation foreign investors are unable to liquidate their holdings resulting in an increase in future risk towards Sri Lanka.
- ❑ All frontier markets in the region excluding Bangladesh, continue to remain open despite the current pandemic situation.
- ❑ Thereby, we expect heavy **foreign selling** in the equity market in the **short term**.

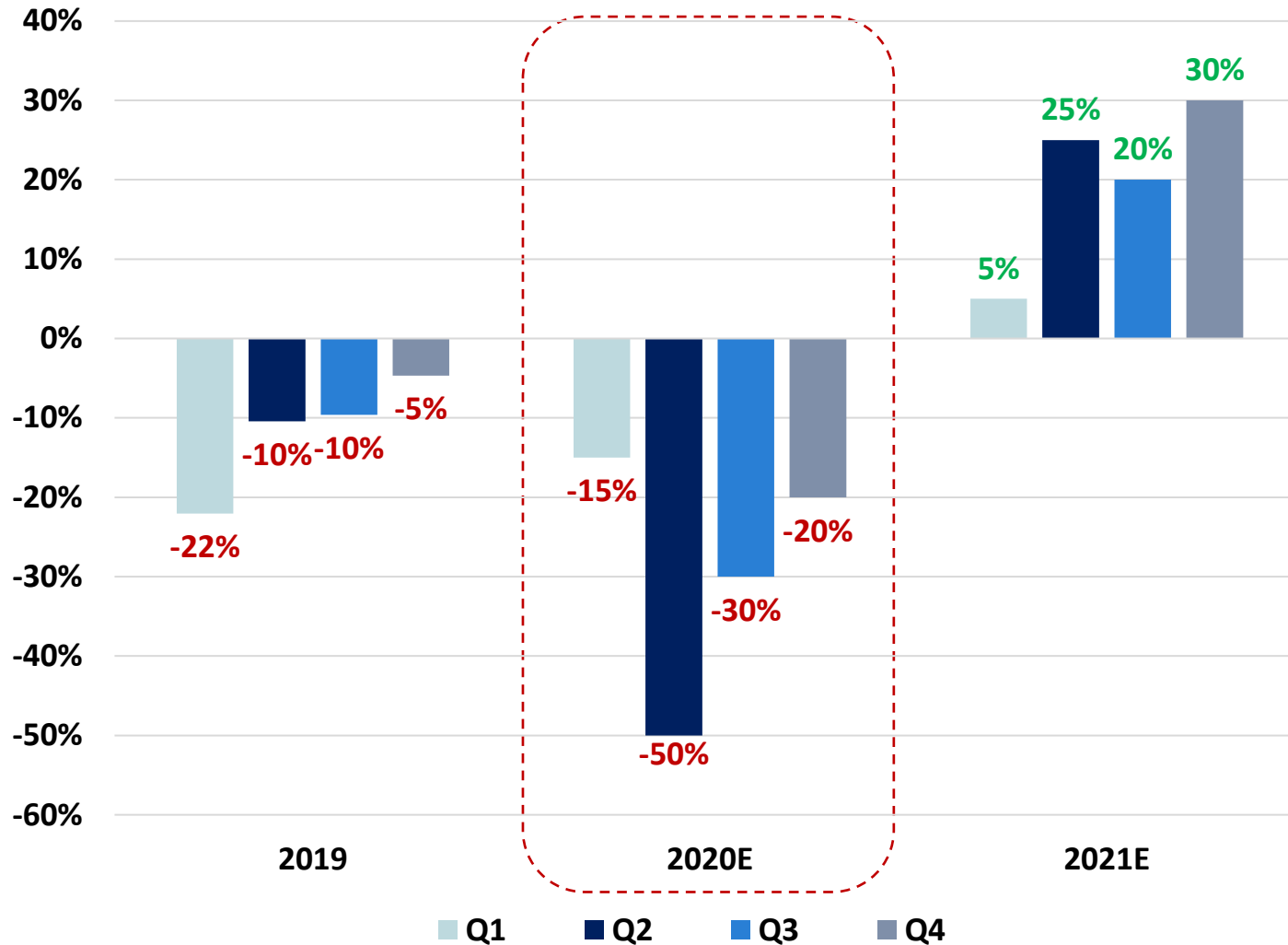




Source: First Capital Research

Market earnings to drop 26% in 2020E

Quarterly Earnings Growth (%)



Source: First Capital Research

2Q & 3Q
may have a
massive
beating on
earnings

ASPI Jun 2020 target of 5,000 withdrawn

ASPI may dip a further 15%-20% to 3,750 on foreign selling and lower earnings

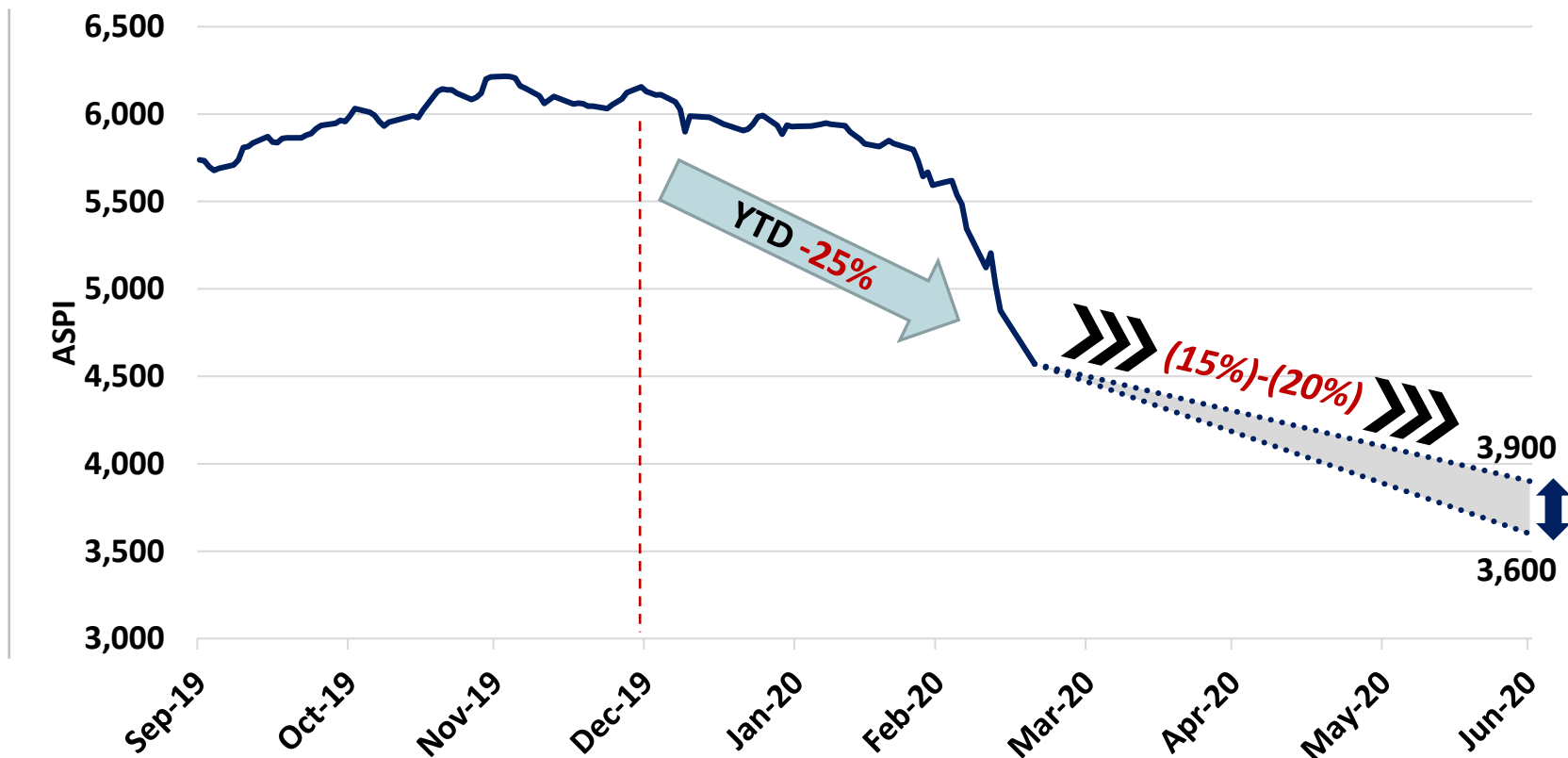
With COVID-19 entering First Capital's Scenario 2

Mar-20 Revision

ASPI target
Jun 2020

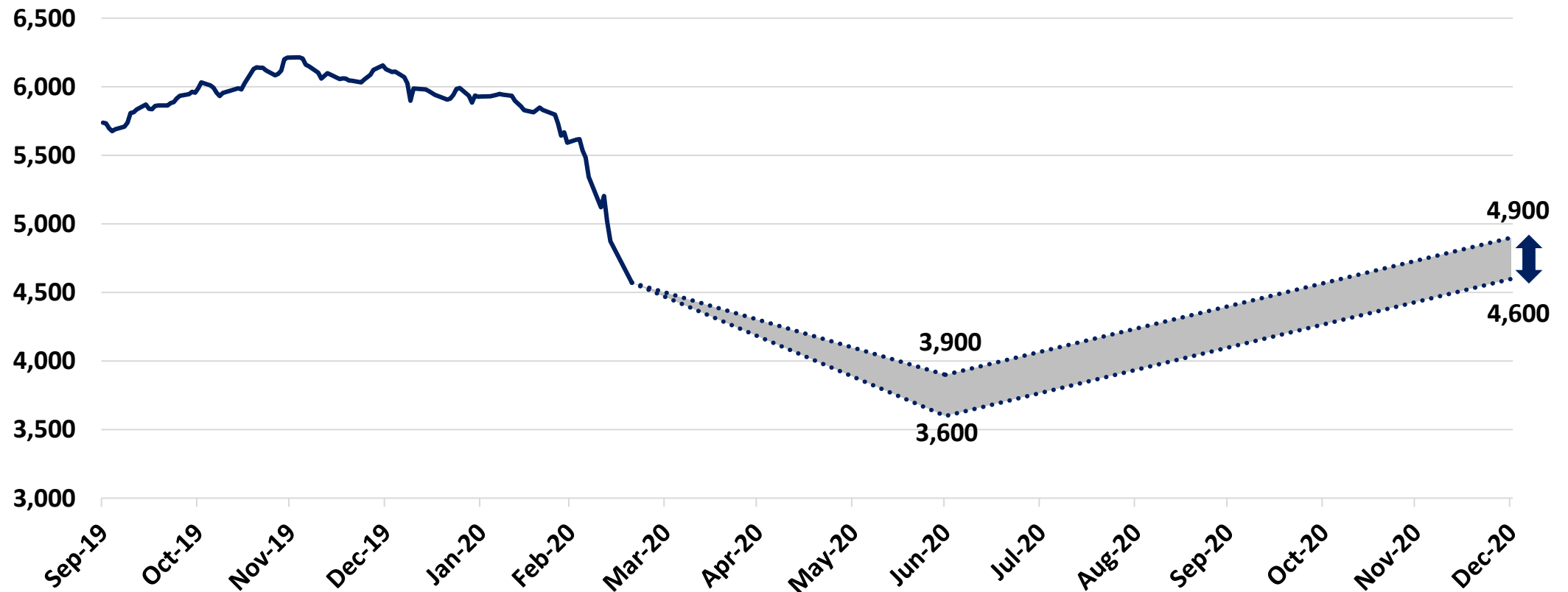


~~5,000~~



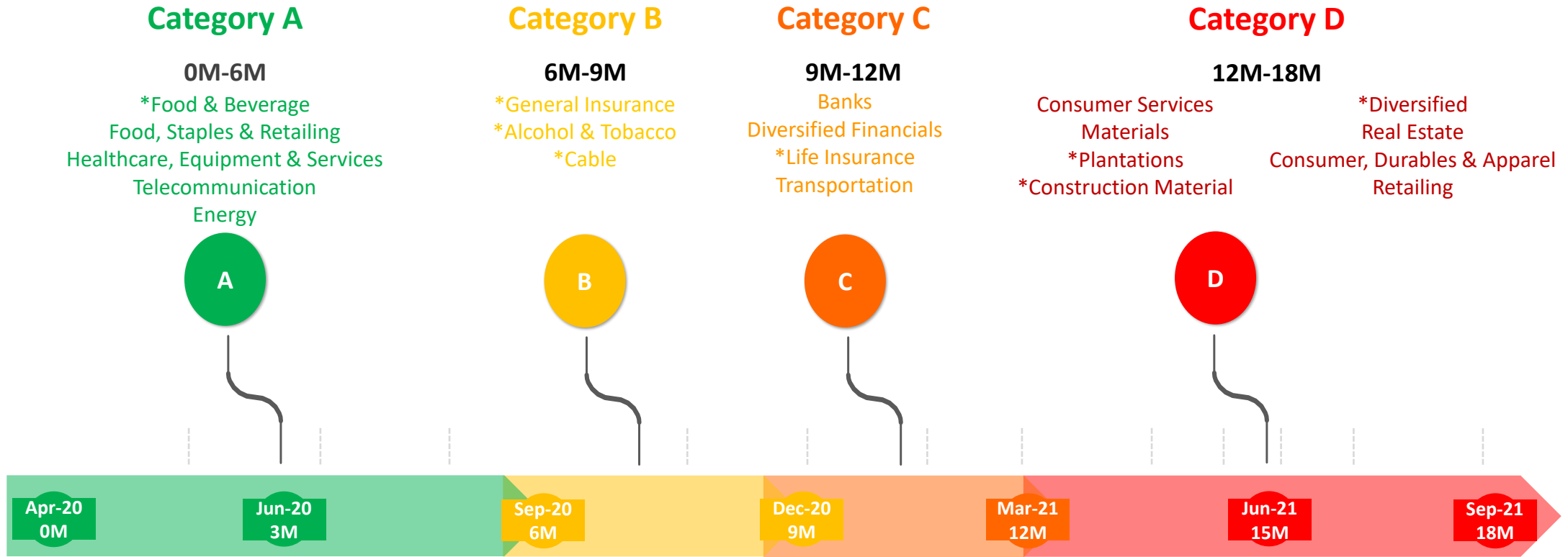
Source: First Capital Research

ASPI Dec 2020 target **downgraded to 4,750**



Source: First Capital Research

Sector Recovery Timeline



* Sectors that have subdivision & varied periods of recovery
 Food, beverage & Tobacco sector – Food & Beverage / Alcohol & Tobacco / Plantations
 Capital goods – Cable / Construction material / Diversified
 Insurance – General Insurance / Life Insurance

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Stay Home
Stay Safe