



First Capital
First Capital Research

EQUITY STRATEGY

*“CONSUMER **SELLOUT** TO BE **INVESTED IN**
SAMP”*

2nd Jul 2019

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Exposure on Consumer stocks reduced following flash note on 9th May 2019; Cash allocation **INCREASED** to 41%

Consumer sellout following Easter Sunday attacks

Following the Easter Sunday attacks, we expected a major negative hit to the consumer sector which was on a gradual recovery path. The recovery was confirmed with GDP for 1Q2019 registering at 3.7% while it was also reflected by indices released subsequently. Consequent to the incident economic activity came to a near standstill which impacted day to day affairs of most businesses and severely impacting the SMEs. In line with our expectations, the Nielsen - Consumer Confidence Index slumped to 37 and 36 points in May and Jun 2019, new lows since inception of the index.

CARG, NEST – SELL, But LION – HOLD; Cash increases to 41%

Falling in line with our downgraded recommendations on 9th May 2019, we assume to have sold CARG and NEST from our model equity portfolio which consists of equal weightage for all stocks. However, we continue to hold LION in line with the recommendation report.



Portfolio changes after consumer sell-out on 9th May 2019, increases cash to 41%

Stock Code	Price as at		Portfolio as at		Portfolio after	
	09.05.2019	No. of Shares	09.05.2019	Sell	Selloff	Allocation
JKH.N0000	137.0	5,633	771,655		771,655	8.5%
COMB.N0000	90.0	8,042	723,821		723,821	7.9%
HNB.N0000	160.1	4,377	700,710		700,710	7.7%
DIAL.N0000	8.8	89,642	788,849		788,849	8.7%
PLC.N0000	13.0	57,289	744,760		744,760	8.2%
TJL.N0000	30.0	27,641	829,228		829,228	9.1%
LION.N0000	520.0	1,554	807,979		807,979	8.9%
NEST.N0000	1,590.0	530	842,690	-842,690	0	0.0%
CARG.N0000	195.0	4,456	868,922	-868,922	0	0.0%
Cash Allocation @ 4%			2,028,573	1,711,612	3,740,185	41.1%
Total			9,107,188		9,107,188	

New Recommendation

Improving macro stability and lower yields may strengthen equity returns

Economic Outlook improves

Despite the Easter Sunday attacks Sri Lanka's economic outlook has shown signs of resilience and ability to recover quickly as economic activities were seen returning to normalcy while removal of travel advisories were faster than anticipated. Though the unfortunate attacks and the subsequent events are likely to have directly or indirectly impacted all sectors affecting earnings of most companies, we believe that the impact has now been factored into the market and an accelerated recovery is more likely than not.

Sovereign Bond issuance supports lower yields

The successful and early issuance of the USD 2.0Bn Sovereign Bond by the CBSL is a major confidence booster and the heavy investor interest which was reflected by the 3x oversubscription is encouraging. With most economic indicators such as inflation, credit growth and liquidity suggests decline in yields, strong reserve position supports sustainability of the lower yields. In line with expectations Bank 1-Yr FD ceiling has fallen to 9.83% as of 1st Jul 2019.

Market Earnings to improve from 4Q2019 onwards

The heavy decline in interest rates is expected to lower finance costs, thereby improving earnings of most listed entities towards 4Q2019. In addition, lower Fixed Income returns may lead investors to hunt for alternative investment options with higher returns, of which equity investments is likely to be a more probable option considering the current attractive valuations. Thereby we expect an improvement in demand for stocks leading to a possible re-rating of the market.

Increase equity portfolio by investing 25% of the balance cash into SAMP

With the rights issue being fully subscribed, SAMP is correctly cash heavy with the ability to maintain lending growth well above the industry while capturing market share. We are bullish on SAMP and recommend investors to invest 25% of the balance cash allocation into SAMP increasing equity portion of the portfolio to 69%.

Adding SAMP to top recommendations and increasing equity allocation

Portfolio Value as at 2nd Jul 2019

- YTD Portfolio Return: -7%
- YTD ASPI Return: -11%

Adding SAMP to 2nd Jul 2019 Portfolio

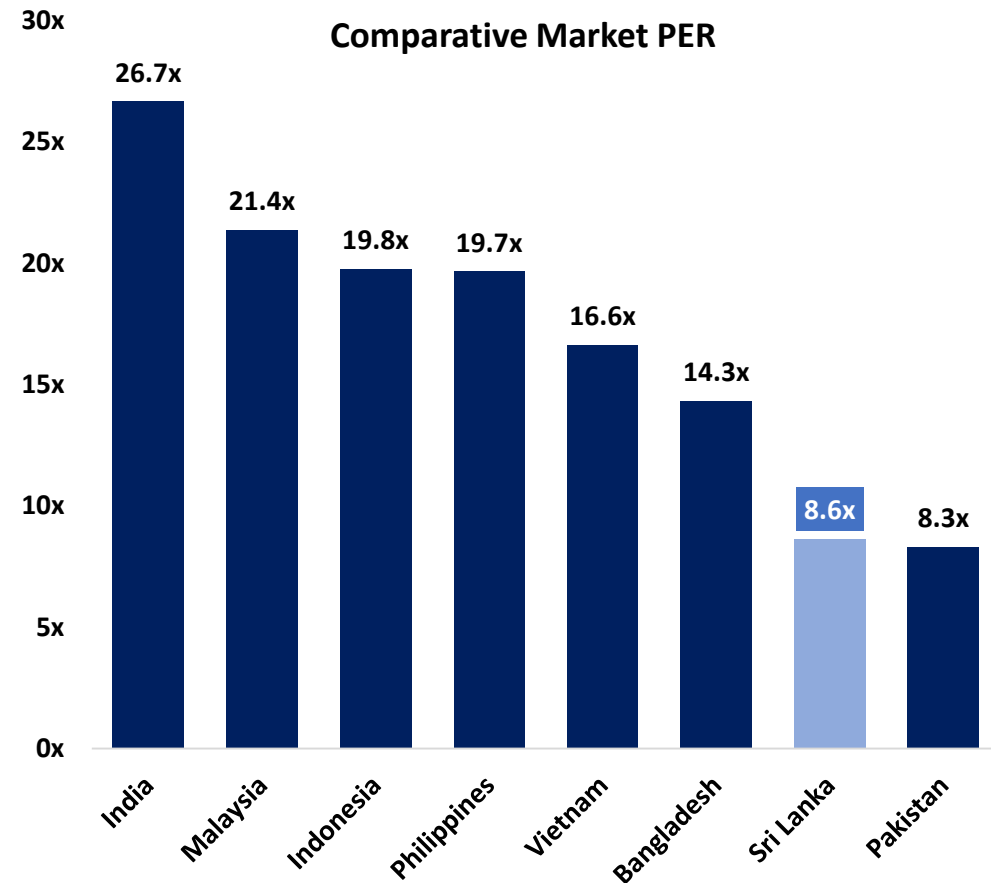
Stock Code	Price as at 09.05.2019	Portfolio as at 09.05.2019	No. of Shares	Prices as at 02.07.2019	Portfolio as at 02.07.2019	Changes	Allocation %	YTD Return
JKH.N0000	137.0	771,655	5,633	141.5	797,001	3%	8.6%	
COMB.N0000	90.0	723,821	8,042	94.3	758,404	5%	8.2%	
HNB.N0000	160.1	700,710	4,377	134.0	586,478	-16%	6.3%	
DIAL.N0000	8.8	788,849	89,642	9.0	806,778	2%	8.7%	
PLC.N0000	13.0	744,760	57,289	14.0	802,050	8%	8.7%	
TJL.N0000	30.0	829,228	27,641	32.5	898,331	8%	9.7%	
LION.N0000	520.0	807,979	1,554	550.0	854,594	6%	9.2%	
Cash Allocation @ 4%		3,740,185			3,762,319	1%	40.6%	
Total		9,107,188			9,265,953	2%		-7%
ASPI		5,352.2	9th May - 2nd Jul		5,391.2	1%		-11%

Stock Code	Prices as at 02.07.2019	No. of Shares	Portfolio as at 02.07.2019 after adding SAMP	Allocation %
JKH.N0000	141.5	5,633	797,001	8.6%
COMB.N0000	94.3	8,042	758,404	8.2%
HNB.N0000	134.0	4,377	586,478	6.3%
DIAL.N0000	9.0	89,642	806,778	8.7%
PLC.N0000	14.0	57,289	802,050	8.7%
TJL.N0000	32.5	27,641	898,331	9.7%
LION.N0000	550.0	1,554	854,594	9.2%
SAMP.N0000	145.4	6,373	926,595	10.0%
Cash Allocation @ 4%			2,835,723	30.6%
Total			9,265,953	

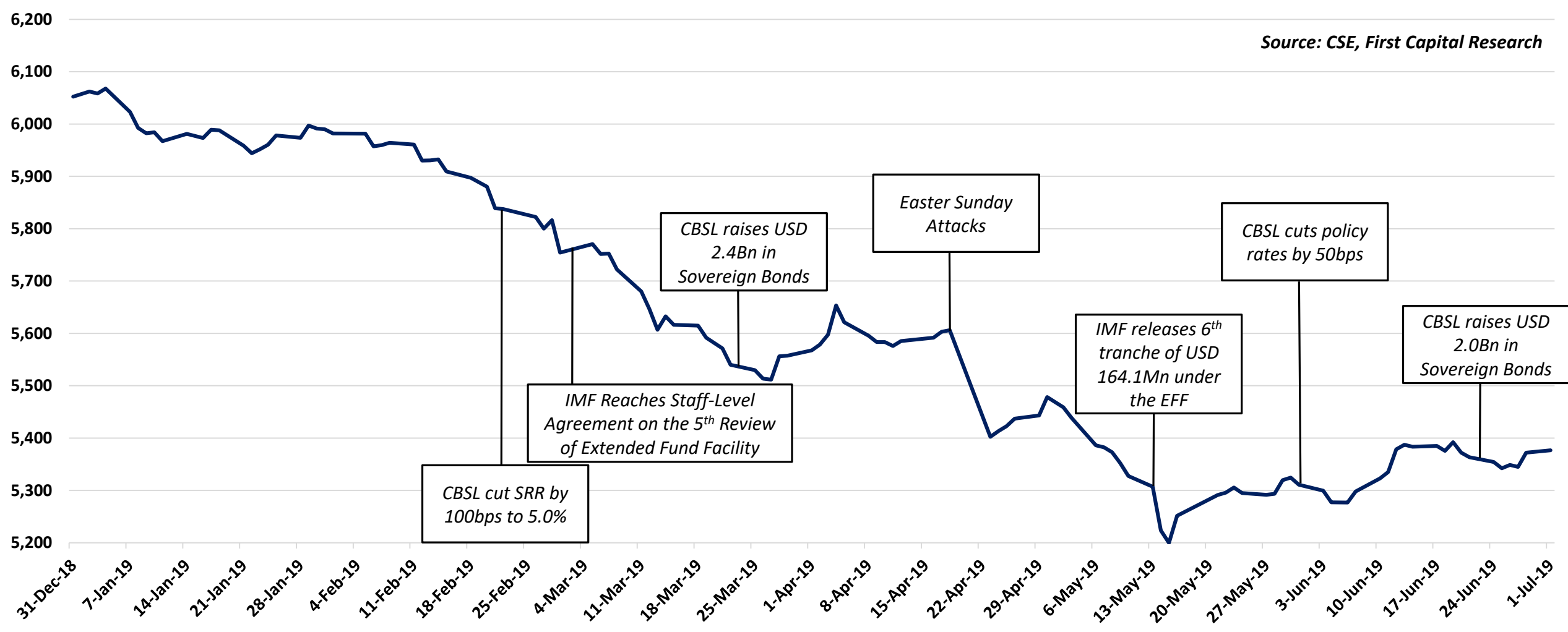
Stock Market Valuations



Source: Bloomberg



Source: Bloomberg



ASPI Movement





Important events and its impact to ASPI

Revised TOP PICKS for 2019 with updated pricing

TOP TIER		FAIR VALUE 2019E /FY20E		2 ND TIER (LOWER LIQUIDITY)		
<input type="checkbox"/> JKH	-	LKR	190.0	<input type="checkbox"/> KFP	-	LKR 170.0
<input type="checkbox"/> COMB	-	LKR	142.0	<input type="checkbox"/> CDB	-	LKR 120.0
<input type="checkbox"/> HNB	-	LKR	160.0	<input type="checkbox"/> LOFC	-	LKR 5.0
<input type="checkbox"/> DIAL	-	LKR	13.8			
<input type="checkbox"/> PLC	-	LKR	17.0			
<input type="checkbox"/> TJL	-	LKR	37.0			
<input type="checkbox"/> SAMP	-	LKR	210.0			

Valuations are for 2019E & FY20E depending on the Financial Year

Equity Portfolio

	As at 5 th Apr 2019	As at 9 th May 2019	As at 2 nd Jul 2019
Equity Investment	79%	59% 	69% 
Cash	21%	41% 	31% 

Appendix

Appendix 1: Portfolio from 31st Dec 2018 to 9th May 2019

Stock Code	Price as at 31.12.2018	Allocation %	Allocation on 31.12.2018	No .Shares as at 31.12.2018	Price as at 05.04.2019	Portfolio as at 05.04.2019	Changes	Invest 20% cash allocation into equity	Portfolio as at 05.04.2019 after investments	Allocation %	Price as at 09.05.2019	Portfolio as at 09.05.2019	Changes
JKH.N0000	159.7	6.7%	666,667	4,174	154.0	642,872	-4%	224,536	867,408	9.0%	137.0	771,655	-11%
COMB.N0000	115.0	6.7%	666,667	5,797	100.0	579,710	-13%	224,536	804,246	8.3%	90.0	723,821	-10%
HNB.N0000	214.0	6.7%	666,667	3,115	178.0	554,517	-17%	224,536	779,053	8.1%	160.1	700,710	-10%
DIAL.N0000	10.1	6.7%	666,667	66,007	9.5	627,063	-6%	224,536	851,598	8.8%	8.8	788,849	-7%
PLC.N0000	16.3	6.7%	666,667	40,900	13.7	560,327	-16%	224,536	784,863	8.1%	13.0	744,760	-5%
TJL.N0000	32.5	6.7%	666,667	20,513	31.5	646,154	-3%	224,536	870,690	9.0%	30.0	829,228	-5%
LION.N0000	570.0	6.7%	666,667	1,170	584.4	683,509	3%	224,536	908,045	9.4%	520.0	807,979	-11%
NEST.N0000	1,700.0	6.7%	666,667	392	1,629.0	638,824	-4%	224,536	863,359	9.0%	1,590.0	842,690	-2%
CARG.N0000	200.0	6.7%	666,667	3,333	200.0	666,667	0%	224,536	891,202	9.2%	195.0	868,922	-2%
Cash Allocation @ 4%		40.0%	4,000,000			4,041,644	1%	2,020,822	2,020,822	21.0%		2,028,573	0%
Total			10,000,000			9,641,286	-4%		9,641,286			9,107,188	-6%
ASPI			6,052.4		31st Dec - 5th May	5,621.4	-7%				5th Apr - 9th May	5,352.2	-5%

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