



HEMAS HOLDINGS PLC [HHL.N0000]

DOWNGRADE TO SELL

HEADWINDS ON THE HORIZON

Fair Value: FY20E - LKR 68.0 [+4%]

Total Return with DPS: FY20E - 9% [AER 12%]

HHL's bottom line surged by +47%YoY to LKR 863.0Mn in 4QFY19, owing to a modest topline growth of 7% and improvement in gross profits margins. Consumer, health and leisure sectors contributed to the topline growth although logistics sector revenue dipped owing to ramp up delays. HHL's FY19 earnings was recorded at LKR 3.4Bn (+25%YoY) performing above our expectation of LKR 3.0Bn with Atlas being a major factor in the growth. However, considering the aftermath of the Easter Sunday attacks resulting in a slowdown in consumer demand coupled with the negative press received by specific brands relating to HHL we revise our outlook on revenue and earnings downwards by 8% and 14% respectively. Accordingly, FY20E earnings are estimated to be LKR 2.9Bn (-13%YoY) resulting in a downgrade in our TP to LKR 68.0 with an annualized return of 12%. **DOWNGRADE TO SELL**

LKR (Mn)	4QFY18	4QFY19	YoY	FY18	FY19	YoY
Earnings (LKR 'Mn)						
Revenue	15,027	16,054	+7%	49,874	64,082	+28%
Gross profit	5,036	5,624	+12%	17,707	21,478	+21%
EBIT	1,304	1,375	+5%	4,245	5,661	+33%
PBT	1,209	1,288	+6%	4,392	5,093	+16%
Net Profit	585	863	+47%	2,687	3,369	+25%
Balance Sheet (LKR 'Mn)						
Shareholders' Equity	25,479	28,099	+10%	25,479	28,099	+10%
Borrowings	5,175	4,922	-5%	5,175	4,922	-5%
NAVPS	44.3	47.1		44.3	47.1	

Earnings surged by +47% for 4QFY19

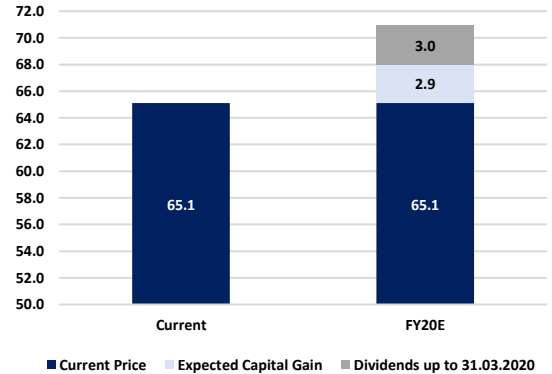
HHL's earnings for the quarter grew by 47%YoY led by the topline growth of 7%YoY and improvement in GP margins to 35.1% in 4QFY19 relative to 33.5% in 4QFY18. Topline growth for the quarter was mainly underpinned by the domestic and international consumer and healthcare segments while leisure sector topline growth stood at 20% mainly led by the strong revival of inbound arrivals. However, mobility sector revenue depressed by 14% due to delays in operational readiness at the new facility spectra and low off-season demand.

Consumer sector posted an EBIT loss of LKR 36.9Mn for 4QFY19 despite the topline growth

Consumer sector posted a topline growth of 10%YoY while the growth was led by a favourable mix of personal care products combined with price and volume growth with personal care brands experiencing share gains across all categories. However, profitability during 4QFY19 was challenged due to price increase of raw materials while marketing and trade spending were higher in the 4QFY19 as HHL invested in the line-up of relaunches brought to the market during late 3QFY19. Meanwhile, Bangladesh business recorded modest year-to-date revenue growth of 6.1% during the year while earnings growth was challenged due to new promotional campaigns to combat competition. We anticipated a pick-up in the consumer demand from 2H2019 onwards, due to the anticipated increase in disposable income with scheduled island wide elections. However, with the attacks witnessed on Easter Sunday, we expect a negative outlook on the consumer sector amidst weaker growth outlook. Reflecting the negativity, Sri Lanka's consumer confidence index compiled by Nielsen recorded a major plunge in the month of May subsequent to the Easter Sunday setback while we expect a recovery in demand to be at a slow pace considering the impact and subsequent incidents. Further the impact to HHL's consumer sector is expected to be twofold compared to others as the company received a negative press relating to certain brands. Accordingly, we expect revenue growth in the consumer sector to be merely 1% for FY20E.

Health sector EBIT increased amidst Rupee appreciation in the 4QFY19

Health sector reported a topline of LKR 7.2Bn with a growth of 12%YoY while EBIT witnessed an increase of 9.4%YoY as a result of LKR appreciation which improved the profitability in pharma distribution. Hemas pharmaceutical distribution registered a growth stemming from the latest



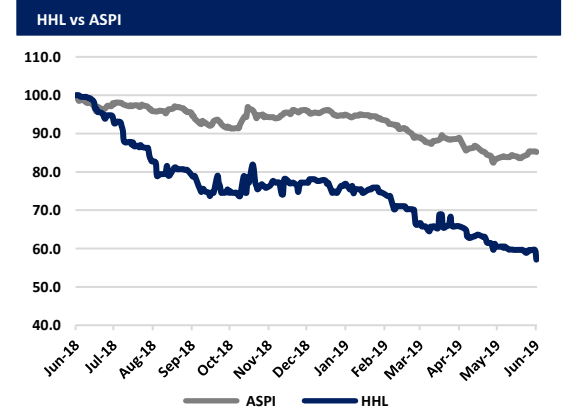
FIRST CAPITAL RESEARCH

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KEY DATA	
CSE Ticker	HHL.N0000
Bloomberg Ticker	HEMS SL
Share Price (LKR)	65.10
52w High (LKR)	114.00
52w Low (LKR)	65.10
Avg. Daily Volume (Shares)	121,949
Avg. Daily Turnover (LKR)	10,323,308
Issued Share Capital (Shares 'Mn)	596
Market Cap (LKR 'Mn)	38,802
Market Cap (USD 'Mn)	220

*1 USD = LKR 176

Price Performance (%)	1 mth	3 mths	12mths
HHL	-6%	-6%	-43%
ASPI	2%	-4%	-15%



Minimum Return for BUY:
Buy Below [AER of 18.54% with DPS]: LKR 62.17
 HHL categorized as 'Grade B' counter (Refer page 09 for Recommendation criteria of Grade A, B & C Stocks)

Disclosure on Shareholding:
 First Capital Group do not hold shares in HHL and will not trade in this share for three trading days following the issue of this document.

addition of its new principals last year, although price regulation compressed margins. Hemas hospitals achieved an average occupancy of 57% across two hospitals in Wattala and Thawatugoda. We expect LKR 3.0Bn worth of, Morison's pharmaceutical plant in Homagama, which is under construction to be completed by 4QFY20 although revenue realization will take place gradually over next two to three years.

TP is downgraded to LKR 68.0– DOWNGRADE TO SELL

Our revised profit target for FY20E and FY21E stands at LKR 2.9Bn (-13% YoY) and LKR 3.2Bn (+10%YoY) considering the weak consumer environment and negative press received by Hemas following the Easter Sunday attacks. Based on our SOTP valuation, we derived a revised TP of LKR 68.0 on FY20E earnings, thereby providing an annualized return of 12%. **DOWNGRADE TO SELL**

Estimate Revision

In LKR Mn	FY20E - O	FY20E - R	% Change	FY21E - O	FY21E - R	% Change
Earnings Estimate						
Revenue	71,784	66,109	-8%	80,278	72,184	-10%
Gross Profit	24,550	22,147	-10%	27,455	24,182	-12%
EBIT	6,375	5,080	-20%	6,935	5,657	-18%
Profit before tax	5,515	4,493	-19%	6,935	4,963	-28%
Net Profit	3,413	2,944	-14%	4,292	3,252	-24%
Adjusted EPS	5.7	4.9	-13%	7.2	5.5	-24%
Growth YoY	11%	-13%		26%	10%	
Balance Sheet Estimate						
Shareholders' Equity	28,794	30,159	+5%	31,583	32,273	+2%
Borrowings	6,298	6,374	+1%	6,774	6,844	+1%
Adjusted NAVPS	48.3	50.6		53.0	54.1	
Ratio Estimate						
ROE (%)	12.3	10.1		7.1	10.4	
PER (x)	13.1	13.2		9.0	11.9	
PBV (x)	1.6	1.3		1.2	1.2	

Valuation Table

P/E 31 March	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Estimates (LKR 'Mn)							
Revenue	37,977	43,404	49,874	64,082	66,109	72,184	78,904
Gross Profit	14,128	16,742	17,707	21,478	22,147	24,182	26,433
EBIT	3,944	4,784	4,245	5,661	5,080	5,657	6,285
Net Profit	2,653	3,491	2,687	3,369	2,944	3,252	3,657
Adjusted EPS (LKR)	4.5	5.9	4.5	5.7	4.9	5.5	6.1
YoY Growth (%)	38%	32%	-23%	25%	-13%	10%	12%
DPS (LKR)	1.4	1.9	1.9	4.9	1.5	1.9	2.1
Valuations							
PER (x)	14.6x	11.1x	14.4x	11.5x	13.2x	11.9x	10.6x
PBV (x)	1.8x	1.6x	1.5x	1.4x	1.3x	1.2x	1.1x
DY (%)	2.2%	2.8%	2.8%	7.6%	2.3%	2.9%	3.3%

Valuation Summary

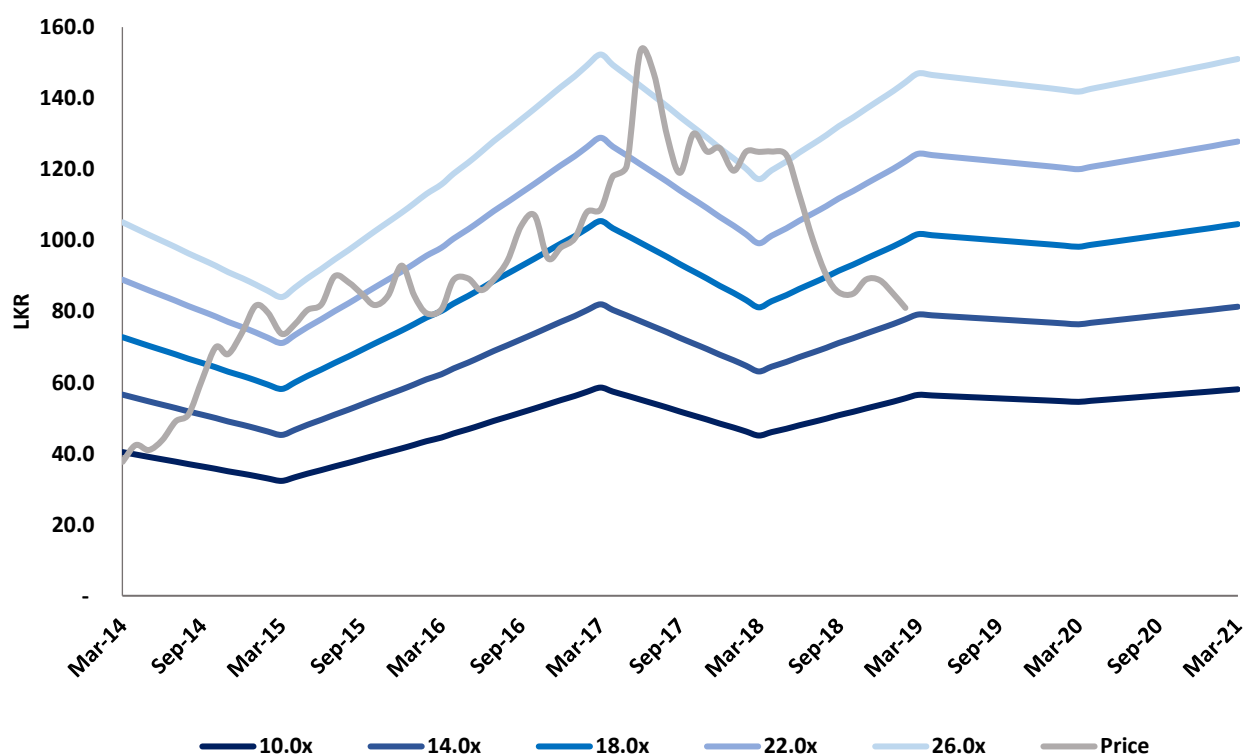
Return	FY20E
Target Price	68.0
Current Price	65.1
Capital Gain (LKR)	2.90
Dividends upto 31.03.2020 (LKR)	3.00
Capital Gain %	4%
Dividend Yield %	5%
Total Return %	9%
Annualized Return %	12%

*HHL announced a final dividend of LKR 1.45 on 24th May 2019 for FY19 with XD date being 27th June 2019

SOTP Valuation

Segment	Valuation method	Valuation assumptions				Value in LKR Mn		Value per share	% of total
		D/E	CoE	WACC	Growth	Firm value	Equity		
Consumer	DCF	20/80	26.3%	23%	3%	9,221		15.5	24%
Healthcare	DCF	39/61	26.3%	21%	3%	8,407		14.1	22%
Leisure and travel	DCF	18/82	26.3%	24%	3%	526		0.9	1%
Logistics and maritime	DCF	7/93	26.3%	25%	2%	2,218		3.7	6%
Other	Justified PBV						18,416	30.9	47%
Fair value before net debt								65.1	100%
Less: Debt								11.1	
Add: Cash								14.9	
Fair value								68.9	
Fair value (Round off)								68.0	

PER Valuation



Source: CSE, Company annual reports and First Capital Research Estimates

Appendix I: Statement of Financial Performance

Statement of Financial Performance (LKR Mn)	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
P/E 31st Mar							
Revenue	37,977	43,404	49,874	64,082	66,109	72,184	78,904
Cost of sales	-23,848	-26,663	-32,167	-42,605	-43,963	-48,003	-52,471
Gross Profit	14,128	16,742	17,707	21,478	22,147	24,182	26,433
Other Income	356	432	414	794	445	697	959
Selling, Distribution & Admin expenses	-10,436	-12,266	-13,760	-16,517	-17,399	-19,098	-20,971
Share of results of JV	-80	-117	-80	-58	-70	-77	-85
Share of results of associate	-24	-7	-36	-35	-42	-46	-51
Operating Profit	3,944	4,784	4,245	5,661	5,080	5,657	6,285
Finance Income	642	822	765	478	265	361	444
Less : Finance Cost	-512	-519	-618	-1,046	-853	-1,055	-1,147
Profit Before Tax	4,074	5,087	4,392	5,093	4,493	4,963	5,582
Income Tax Expense	-1,148	-1,333	-1,442	-1,414	-1,258	-1,390	-1,563
Profit for the Year (continuing)	2,926	3,754	2,951	3,679	3,235	3,574	4,019
Profit/(loss) from discontinued operations	-	-	-	-	-	-	-
Profit for the year	2,926	3,754	2,951	3,679	3,235	3,574	4,019
Minority Interest	273	262	263	310	291	322	362
Profit attributable to Equity Holders	2,653	3,491	2,687	3,369	2,944	3,252	3,657
EPS	4.5	5.9	4.5	5.7	4.9	5.5	6.1
Segmental Revenue							
Consumer	14,298	16,013	16,490	25,555	25,716	28,288	31,117
Healthcare	16,143	18,842	23,026	27,697	29,300	32,230	35,453
Leisure and travel	4,246	4,302	4,172	4,982	5,082	5,590	6,149
Logistics and maritime	949	1,931	2,814	2,835	3,203	3,491	3,805
Other	2,339	2,316	3,372	3,013	2,808	2,586	2,381
Total	37,977	43,404	49,874	64,082	66,109	72,184	78,904
Segmental Operating Profits (including joint ventures and associates)							
Consumer	1,768	2,074	1,433	2,738	2,338	2,572	2,829
Healthcare	1,780	2,065	2,297	2,181	2,183	2,401	2,641
Leisure and travel	515	356	214	416	264	290	319
Logistics and maritime	193	495	836	692	747	814	888
Other	-313	-207	-535	-365	-451	-419	-391
Total	3,944	4,784	4,245	5,661	5,080	5,657	6,285

Source : Company Annual Reports and First Capital Research Estimates

Appendix II: Statement of Financial Position

Statement of Financial Position (LKR Mn) as at 31st Mar	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Non-Current Assets							
Property, plant and equipment	12,764	13,526	18,069	18,685	19,938	20,258	19,969
Investment properties	1,736	1,473	1,507	1,648	1,648	1,648	1,648
Leasehold property	116	828	767	731	695	660	627
Intangible assets	852	954	3,494	3,469	3,469	3,469	3,469
Investments in subsidiaries	0	0	0	0	0	0	0
Investments in JVs	1,324	1,102	1,026	884	813	736	651
Investment in associates	359	2	28	6	-36	-82	-133
Other non-current financial assets	420	907	711	655	655	655	655
Deferred tax assets	48	57	62	108	108	108	108
	17,619	18,850	25,664	26,186	27,289	27,451	26,993
Current Assets							
Inventories	5,232	6,288	9,873	11,201	11,734	12,812	14,005
Trade and other Receivables	7,462	9,904	14,122	18,434	19,188	21,019	22,990
Tax receivables	40	181	196	299	299	299	299
Other current financial assets	85	103	131	155	166	190	218
Cash and cash equivalents	11,889	11,992	7,711	6,474	8,852	10,898	13,914
	24,708	28,469	32,034	36,563	40,239	45,219	51,426
Total Assets	42,327	47,319	57,699	62,749	67,528	72,670	78,419
Equity and Liabilities							
Stated Capital	5,723	5,741	5,960	7,734	7,734	7,734	7,734
Other Reserves	59	105	142	185	185	185	185
Other components of equity	2,023	2,158	1,956	1,682	1,682	1,682	1,682
Retained Earnings	14,188	16,907	17,421	18,497	20,557	22,671	25,048
Equity attributable to equity holders of parent	21,992	24,911	25,479	28,099	30,159	32,273	34,650
Non-controlling interests	2,662	3,218	3,590	3,771	4,062	4,384	4,746
Total Equity	24,653	28,129	29,069	31,870	34,222	36,657	39,396
Non-current Liabilities							
Interest-bearing loans and borrowings	3,242	2,045	2,244	1,369	1,912	2,053	2,199
Other non current financial liabilities	4	10	1,909	1,956	1,956	1,956	1,956
Deferred tax liabilities	424	490	1,815	1,812	1,812	1,812	1,812
Employee benefit liabilities	566	650	850	969	1,119	1,293	1,493
	4,236	3,196	6,818	6,106	6,799	7,113	7,460
Current Liabilities							
Trade and other payables	10,542	12,180	16,415	18,599	19,192	20,956	22,907
Income tax payable	523	486	494	439	439	439	439
Interest bearing borrowings	1,370	1,955	2,932	3,553	4,462	4,791	5,132
Bank overdraft	1,002	1,373	1,971	2,182	2,414	2,713	3,086
	13,437	15,994	21,811	24,774	26,507	28,899	31,563
Total Liabilities & Shareholders' Funds	42,327	47,319	57,699	62,749	67,528	72,670	78,419
NAVPS	36.9	41.8	42.7	47.1	50.6	54.1	58.1

Source : Company Annual Reports and First Capital Research Estimates

Appendix III: Statement of Cash flow

Statement of Cashflow (LKR Mn) as at 31st Mar	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Profit/Loss before tax (after disc. Operations)	4,074	5,087	4,392	5,093	4,493	4,963	5,582
Adjustments for:							
Depreciation	892	988	1,071	1,271	1,590	1,722	1,768
(Gain)/loss on disposal of PPE	-15	-113	-24	-25	0	0	0
Impairment of PPE	4	0	0	0	0	0	0
Fair value gains on investment property	-37	-35	-35	-140	0	0	0
Other Items	336	129	449	1,034	887	1,026	1,073
	5,254	6,056	5,853	7,233	6,959	7,687	8,394
Changes in working capital							
(Increase)/ decrease in inventories	-1,136	-1,075	-2,454	-1,247	-533	-1,078	-1,193
(Increase)/ decrease in Receivable	-238	-2,328	285	-4,509	-754	-1,832	-1,971
Increase/ (decrease) Trade and Other Payables	1,484	1,538	3,608	2,259	593	1,764	1,951
Increase/ (decrease) non current liabilities	-26	4	7	319	0	0	0
Finance cost paid	-382	-519	-618	-1,044	-853	-1,055	-1,147
Finance income received	624	817	761	470	265	361	444
Income tax	-660	-1,406	-1,578	-1,558	-1,258	-1,390	-1,563
Super gain tax	-605	0	0	0	0	0	0
Employee benefit paid	-64	-81	-83	-109	0	0	0
Net Cash from operating activities	4,251	3,005	5,782	1,813	4,420	4,457	4,915
Cash Flow from Investing Activities							
Purchase of PPE	-1,101	-1,828	-2,417	-2,644	-2,842	-2,042	-1,479
Investment in investment property	-19	0	0	0	0	0	0
Investment in intangible assets	-135	-173	-17	-64	0	0	0
Acquisition of subsidiaries	45	-15	-5,037	0	0	0	0
Investment in JVs	-251	-9	-26	-13	0	0	0
Disposal of (investmetn in) financial assets	302	8	-31	-69	0	0	0
Dividends from JVs	81	25	0	0	0	0	0
Investment in leasehold rights	-19	-719	0	0	0	0	0
Proceeds from disposal of investments	0	0	0	0	0	0	0
Proceeds from disposal of PPE/ investment property	144	500	170	150	0	0	0
Net cash used in investing activities	-952	-2,209	-7,358	-2,197	-2,842	-2,042	-1,479
Cash Flow from Financing Activities							
Interest bearing borrowings (net)	-634	-584	-2,163	-127	1,452	470	487
Proceeds from ESOS	0	15	184	2	0	0	0
Proceeds from Rights issue	4,122	0	0	0	0	0	0
Transaction cost of rights issue	-67	0	0	0	0	0	0
Proceeds from NCI	3	476	118	86	0	0	0
Dividends paid to equityholders	-630	-802	-1,061	-1,064	-883	-1,138	-1,280
Dividends paid for last year	0	0	0	0	0	0	0
Dividends paid to NCI	-101	-192	-370	-33	0	0	0
Net Cash Flow from Financing Activities	2,694	-1,087	-3,292	-1,135	568	-668	-793
Increase/ decrease in cash and cash equivalents	4,866	10,887	10,619	5,740	4,291	6,438	8,185
Movement in Cash and Cash Equivalents							
At the beginning of the year	4,866	10,887	10,619	5,740	4,291	6,438	8,185
Forex differences	29	23	-12	70	0	0	0
Increase/ decrease in cash and cash equivalents	5,992	-291	-4,867	-1,519	2,146	1,747	2,643
Cash and cash equivalents at the end of the Year	10,887	10,619	5,740	4,291	6,438	8,185	10,828

Source : Company Annual Reports and First Capital Research Estimates

Appendix IV: Top 20 Shareholders

Top 20 shareholders - (% held)	4QFY19	3QFY19	QoQ	4QFY18	YoY
A Z Holdings (Pvt) Ltd.	15.8%	15.8%	-	15.8%	-
Saraz Investments (Pvt) Ltd.	15.0%	15.0%	-	15.0%	-
Blueberry Investments (Pvt) Ltd.	14.9%	14.9%	-	14.9%	-
Amagroup (Pvt) Ltd.	14.9%	14.9%	-	14.9%	-
HSBC Intl Nominees Ltd-JPMLU-Franklin Templeton Investment Funds	5.7%	6.9%	-1.2%	7.1%	-1.4%
Citi Bank New York S/A Norges Bank Account 2	3.0%	3.0%	-	3.0%	-
HSBC International Nominees Ltd. -JPMCB-Templeton Global Investment Trust-Ti	2.6%	2.6%	-	2.6%	-
Bnysanv Re-First State Investments ICVC-Stewart Investors Indian Subcontiner	2.1%	2.1%	-	2.1%	-
BBH-Kopernik Global All Cap Fund	1.7%	0.8%	0.9%	0.0%	1.7%
CB London s/a Verdipapirfondet Holberg Rurik	1.5%	1.3%	0.2%	1.4%	0.1%
HSBC Intl Nom Ltd-JPMCB-Pacific Assets Trust PLC	1.2%	1.2%	-	1.2%	-
Mr. M.A.H. Esufally	1.0%	1.0%	-	1.0%	-
Bnysanv Re-First State Investments ICVC-Stewart Investors Asia Pacific Sustai	1.0%	1.7%	-0.7%	1.7%	-0.7%
Phoenix Ventures (Pvt) Limited.	1.0%	1.0%	-	0.0%	1.0%
Mr. H.N. Esufally	1.0%	1.0%	-	1.0%	-
BBH-Kopernik Global All Cap Equity Fund	0.9%	0.0%	0.9%	0.0%	0.9%
Mr. I.A.H. Esufally	0.8%	0.8%	-	0.8%	-
Mellon Bank N.A.-Florida Retirement System	0.8%	0.8%	-	0.8%	-
BNYMSANV Re-First State Investments ICVC-Stewart Investors Global Emerging M	0.7%	0.9%	-0.2%	0.9%	-0.2%
HSBC Intl. Nom. LTD-State Street Luxembourg c/o SSBT-Alliancebernstein Next 50	0.7%	0.7%	-	0.7%	-

Appendix V: Recommendation criteria

Company Category	Buy	Hold	Sell
S&P SL20 Companies	T.Bill + 5% & Above	T.Bill + 1% & Above	Below T.Bill + 1%
Rest of the Companies	T.Bill + 8% & Above	T.Bill + 3% & Above	Below T.Bill + 3%
Companies less than LKR 1Bn Market Cap	T.Bill + 11% & Above	T.Bill + 6% & Above	Below T.Bill + 6%

Weighted Average 1-year T-bill rate during March 2019: 10.54%

Company Category	Buy	Hold	Sell
S&P SL20 Companies	15.54%	11.54%	11.54%
Rest of the Companies	18.54%	13.54%	13.54%
Companies less than LKR 1Bn Market Cap	21.54%	16.54%	16.54%



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GOVERNMENT SECURITIES SALES

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EQUITY SALES

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