



JOHN KEELLS HOLDINGS PLC [JKH.N0000]

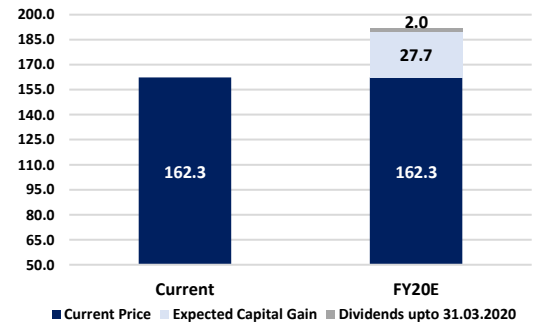
MAINTAIN BUY

CINNAMON LIFE TO RE-PRICE JKH IN FY20E

Fair Value [FY20E]: LKR 190.0 [+17%]

Total Return with DPS 18% [AER of 78%]

*JKH's earnings declined by 55.0%YoY in 2QFY20 mainly driven by increase in 'change in insurance contract liabilities' (408%YoY) in UAL and largely weakened performance of the Leisure segment. EBIT improved by 13.7%YoY led by positive growth in Transport, Property and Retail segments. We maintain recurring earnings of LKR 13.5Bn (-11%) for FY20E and thereby maintain TP at LKR 190.0. **Maintain BUY***



LKR (Mn)	2QFY19	2QFY20	YoY	1HFY19	1HFY20	YoY
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Earnings (LKR 'Mn)						
Revenue	32,632	33,704	+3%	62,737	62,795	+0%
Gross profit	6,289	6,101	-3%	11,757	11,327	-4%
EBIT	1,093	1,243	+14%	1,776	1,694	-5%
PBT	4,693	2,598	-45%	7,602	3,957	-48%
Net Profit	5,096	2,290	-55%	7,282	3,284	-55%

Balance Sheet (LKR 'Mn)						
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Shareholders' Equity	209,598	209,152	-0%	209,598	209,152	-0%
Short Term Investments	61,074	41,603	-32%	61,074	41,603	-32%
NAVPS	151.1	158.7		151.1	158.7	

2QFY20 earnings down by 55%YoY on insurance liabilities and leisure segment

JKH recorded earnings of LKR 2.2Bn in 2QFY20 down by +55%YoY, largely backed by LKR 1.8Bn change in insurance contract liabilities in Union Assurance. Leisure and Financial services performed below our expectation while compensated by the transportation sector, Property and Retail sector performing above our expectations. Thereby, we maintain FY20E and FY21E earnings at LKR 13.6Bn (-11%) and LKR 19.2Bn (+42%) respectively.

Effective capacity utilization and improved margins impact transport segment

JKH transportation segment EBIT spiked to LKR 339.7Mn in 2QFY20 from LKR 232.6Mn in 2QFY19 due to South Asia Gateway Terminals (SAGT) recording an increase in domestic throughput and Lanka Marine Services (LMS) recording strong growth driven by improved margins in the bunkering business. Expanding its investment within the transportation segment JKH plans to construct a new 200,000sq.ft warehouse in Muthurajawela which is expected to be commissioned by 2HFY21.

New Keells store sales drive retail segment growth

Retail segment EBIT increased to LKR 554Mn in 2QFY20 from LKR 34Mn led by growth in CCS's retail (Keells) operation during the quarter. Revenue growth supported by a notable contribution from new outlets and strong growth in customer footfall. Keells opened 2 new supermarkets during 2QFY20 increasing the total outlets to 100 while we expect 16 more stores to be opened in FY20E.

Lower occupancy and increased room inventory hit bottom line

JKH leisure segment EBIT dipped by 252.7%YoY due to decline in occupancies as a result from the Easter Sunday attacks, partial closure of "Ellaidhoo Maldives by Cinnamon" for refurbishment, closure of "Cinnamon Hakuraa Huraa Maldives" for the re-construction of the hotel and start-up costs related to "Cinnamon Velifushi Maldives". Despite the significant dip witnessed in the tourist arrivals to Sri Lanka during 1HFY20, we expect a gradual uptrend in tourist arrivals to improve occupancy in the peak season, to be on par with last year.

Cinnamon Life & new property projects to lead earnings beyond FY20E

We expect Cinnamon Life's residential apartment and office complex construction to be completed by end FY20E. As at 30th Sep 2019, 60% of the floor area of the apartment segment has been sold. The residential and office tower is expected to be completed by Mar 2020 while the hotel and retail mall is expected to be completed by Mar 2021. However, revenue from the pre-sale would only be recognised post commencement of operations. JKH's investment pipeline over the next 2-3 years, exceeds USD 600Mn while the recognition of profits from these investments are likely to begin from FY20E onwards.

We maintain BUY on JKH on the back of Cinnamon Life

We estimate sum-of-the-parts fair value of LKR 190.0 for FY20E with a total return of 18% (including a DY of 1%) and annualized return of 78%. **Maintain BUY.**

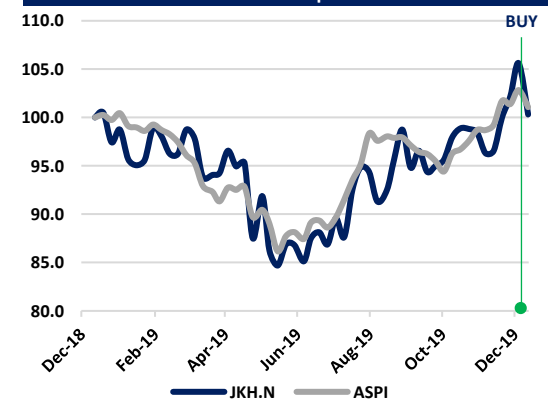
FIRST CAPITAL RESEARCH

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KEY DATA	
CSE Ticker	JKH.N0000
Bloomberg Ticker	JKH SL
Share Price (LKR)	162.3
52w High (LKR)	170.1
52w Low (LKR)	126.0
Avg. Daily Volume (Shares)	626,514
Avg. Daily Turnover (LKR)	370,725,345
Issued Share Capital (Shares 'Mn)	1,318
Market Cap (LKR 'Mn)	213,940
Market Cap (USD 'Mn)	1,182
*1 USD = LKR 181	

Price Performance (%)	1mth	3mths	12mths
JKH	4%	4%	0%
ASPI	2%	5%	1%

Price movement of JKH vs ASPI and past recommendations



Minimum Return for BUY:

Buy Below [AER of 14% with DPS]: LKR 183.0
 JKH categorized as 'Grade A' counter (Refer page 08 for Recommendation criteria of Grade A, B & C Stocks)

Disclosure on Shareholding:

First Capital Group holds 129,527 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	FY20E - O	FY20E - R	% Change	FY21E - O	FY21E - R	% Change
Earnings Estimate						
Revenue	153,466	153,466	0%	190,766	190,766	0%
EBIT	10,490	10,490	0%	18,344	18,344	0%
PBT	16,581	16,581	0%	26,156	26,156	0%
Net profit	14,463	14,463	0%	22,815	22,815	0%
Profit to Equity Holders	13,595	13,595	0%	19,261	19,261	0%
Adjusted EPS	10.3	10.3		14.6	14.6	
Growth YoY	-11%	-11%		42%	42%	
Balance Sheet Estimate						
Shareholders' Equity	213,803	213,803	0%	227,287	227,287	0%
Short Term Investments	36,930	36,930	0%	44,316	44,316	0%
Adjusted NAVPS	162.2	162.2		172.4	172.4	
Ratio Estimate						
PER (x)	15.7	15.7		11.1	11.1	
PBV (x)	1.0	1.0		0.9	0.9	
Div Yield (%)	2%	2%		3%	3%	

Valuation Table

P/E 31 March	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Estimates (LKR 'Mn)							
Revenue	93,709	106,273	121,215	135,456	153,466	190,766	217,195
EBIT	10,233	12,339	16,658	9,097	10,490	18,344	20,344
Net Profit	14,070	16,275	21,021	15,254	13,595	19,261	23,128
Adjusted Net Profit	14,070	16,275	16,521	15,254	13,595	19,261	23,128
Adjusted EPS (LKR)	10.7	12.3	12.5	11.6	10.3	14.6	17.5
YoY Growth (%)	-2%	16%	2%	-8%	-11%	42%	20%
Valuations							
PER (x)	15.2x	13.1x	12.9x	14.0x	15.7x	11.1x	9.3x
PBV (x)	1.4x	1.2x	1.1x	1.0x	1.0x	0.9x	0.9x
DY (%)	3.8%	3.4%	3.9%	2.9%	1.2%	2.7%	3.2%

Valuation Summary

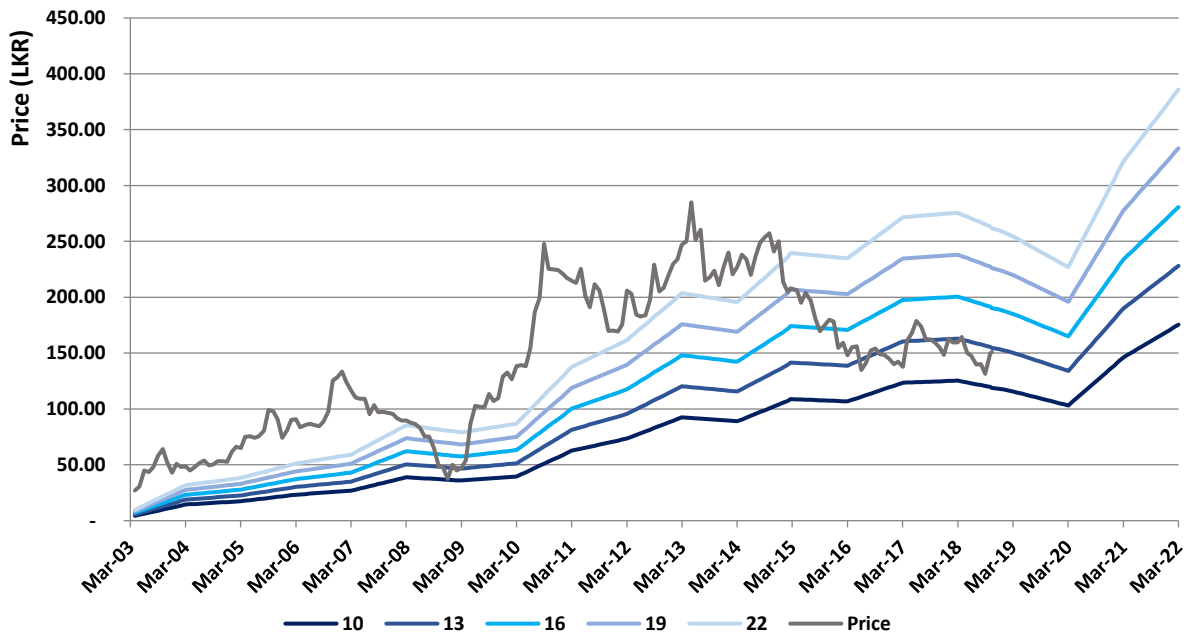
Return	
Target Price	190.0
Current Price	162.3
Capital Gain (LKR)	27.7
Dividends upto 31.03.2020 (LKR)	2.0
Capital Gain %	17%
Dividend Yield %	1%
Total Return %	18%
Annualized Return %	78%



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	20%	13%	3%	21,891		16.6	9%
Leisure	DCF	40/60	17%	15%	3%	38,630		29.3	17%
Property	DCF	40/60	16%	14%	3%	65,593		47.3	27%
Consumer Foods & Retail	DCF	40/60	19%	12%	3%	98,626		74.8	42%
Financial Services	Justified PBV		15%		3%		10,882	8.3	5%
Fair value before net debt								176.3	100%
Less: Debt								23.0	
Add: Cash								9.0	
Add: Short Term Investment								28.0	
Fair value								190.3	
Target Price after Rounding up								190.0	

PER Valuation



Source: CSE, Company Annual Reports, First Capital Research Estimates



Appendix I: Statement of Income & Expenses

Income Statement (LKR Mn)	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
P/E 31st March							
Revenue	93,709	106,273	121,215	135,456	153,466	190,766	217,195
EBIT by Sector							
Transportation	560	2,652	1,009	760	1,190	1,308	1,440
Leisure	5,028	5,714	3,753	2,564	1,425	5,854	6,811
Property	1,620	541	686	38	2,061	3,627	3,039
Consumer Foods & Retail	4,322	5,147	4,378	3,335	4,866	6,555	7,997
Financial Services	717	935	7,101	2,754	1,443	1,681	1,955
Information Technology	-334	-572	0	0	0	0	0
Other	-1,681	-2,078	-268	-354	-495	-681	-899
EBIT	10,303	12,339	16,658	9,097	10,490	18,344	20,344
Finance Cost	-392	-419	-521	-2,722	-2,778	-1,175	-1,231
Finance Income	5,549	6,717	7,357	7,403	4,036	3,656	3,581
Change in fair value of inv. property	263	484	896	325	750	1,250	1,500
Share of profit of Associates	2,781	3,303	3,596	4,727	4,319	4,341	5,230
Adjustments	763	464	-353	-214	-236	-259	-285
PBT	19,198	22,888	27,634	18,616	16,581	26,156	29,137
Taxation	-3,406	-4,771	-4,515	-2,378	-2,118	-3,341	-3,722
Net profit for the period	15,792	18,117	23,120	16,238	14,463	22,815	25,415
Minority Interest	-1,722	-1,842	-2,099	-983	-868	-2,053	-2,287
Profit attributable to Equity Holders	14,070	16,275	21,021	15,254	13,595	19,261	23,128
Recurring Profit	14,070	16,275	16,521	15,254	13,595	19,261	23,128
EPS	10.7	12.3	15.9	11.6	10.3	14.6	17.5
Adjusted EPS	10.7	12.3	12.5	11.6	10.3	14.6	17.5

Source : Company Annual Reports, First Capital Research Estimates



Appendix II: Statement of Financial Position

Balance Sheet (LKR Mn)	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
As at 31st March							
Non Current Assets							
Property plant and equipment	52,736	64,396	87,260	97,688	98,047	98,639	99,195
Investment Property	4,878	5,366	12,427	13,985	15,664	17,543	19,648
Intangible Assets	2,338	2,118	2,010	3,406	3,406	3,406	3,406
Other Investments	16,950	17,719	22,335	25,169	29,488	33,829	39,059
Other Non Current Financial Assets	22,635	27,667	32,878	35,186	36,946	37,315	37,688
Other Non Current Assets	46,575	41,836	53,771	78,528	79,313	91,210	104,891
	146,113	172,308	223,687	268,376	277,276	296,354	318,301
Current Assets							
Inventories	4,665	5,606	6,690	9,547	8,469	10,528	11,986
Trade and Other Receivables	9,999	11,687	12,273	14,421	15,539	19,316	21,992
Amounts due from related parties	133	112	140	226	226	226	226
Other Current Assets	2,303	3,265	4,390	5,516	5,516	5,516	5,516
Short Term Investments	72,635	79,174	64,386	52,757	36,930	44,316	45,202
Cash and cash equivalents	5,127	5,119	10,883	12,955	11,884	8,207	11,917
	94,863	104,964	98,762	95,421	78,563	88,107	96,838
Total Assets	240,976	277,272	322,449	363,797	355,840	384,462	415,139
Equity and Liabilities							
Capital and Reserves							
Ordinary shares	58,702	62,790	62,802	62,806	62,806	62,807	62,809
Reserves	96,280	115,845	137,118	141,480	150,997	164,480	180,669
Shareholders Funds	154,982	178,635	199,920	204,287	213,803	227,287	243,479
Minority Interest	13,499	15,696	24,944	26,072	26,940	28,993	31,280
	168,480	194,330	224,865	230,359	240,743	256,280	274,759
Non - Current Liabilities							
Insurance contract Liabilities	27,205	31,700	30,231	32,833	36,116	39,728	43,701
Borrowings	13,707	14,203	18,521	21,277	19,447	21,392	23,531
Employee benefit liabilities	1,661	1,880	1,971	2,086	2,086	2,086	2,086
Other	5,986	7,109	13,985	19,685	21,654	23,819	26,201
	48,559	54,892	64,708	75,881	79,303	87,025	95,519
Current Liabilities							
Trade and other payables	12,755	14,136	16,077	19,745	20,355	25,302	28,808
Amounts due to related parties	29	10	5	93	93	93	93
Current tax liabilities	1,873	2,395	2,079	1,505	1,505	1,505	1,505
Borrowings	3,813	4,299	5,191	13,176	3,634	2,544	1,781
Other	2,235	2,944	3,513	2,979	2,979	2,979	2,979
Bank overdraft	3,230	4,264	6,010	20,061	6,010	6,010	6,010
	23,936	28,049	32,876	57,557	34,575	38,432	41,175
Total liabilities	72,495	82,941	97,584	133,438	113,878	125,457	136,694
Total equity & liabilities	240,975	277,272	322,448	363,797	354,621	381,738	411,453
NAVPS	117.6	135.5	151.7	155.0	162.2	172.4	184.7

Source : Company Annual Reports, First Capital Research Estimates



Appendix III: Statement of Cash flow

Cashflow Statement (LKR Mn)	FY16	FY17	FY18E	FY19E	FY20E	FY21E	FY22E
P/E 31st March							
Profit before tax	19,198	22,888	27,634	18,616	16,581	26,156	29,137
Adjustments	-4,621	-8,639	-10,405	-6,623	-1,236	-2,410	-2,180
Net Change in Working Capital	-27	-467	-10,202	-17,687	8,817	-9,962	-8,639
Operating Activities							
Interest Received	8,118	9,536	11,069	7,403	4,036	3,656	3,581
Interest Paid	-956	-303	-521	-2,722	-2,778	-1,175	-1,231
Dividend Received	2,588	2,854	2,943	0	0	0	0
Tax Paid	-2,520	-4,631	-4,204	-2,378	-2,118	-3,341	-3,722
Gratuity Paid	-171	-219	-302	0	0	1	2
Cash from operations	20,513	21,020	16,012	-3,391	23,302	12,924	16,948
Investing Activities							
Net PPE, Intangible Assets and Inv. Prop	-5,358	-7,107	-14,935	-14,974	-6,678	-6,879	-7,103
Acquisition and Increased stakes	-53	-44	-3,512	0	0	0	0
Net other Non Current investments	-4,155	-10,519	1,807	0	0	0	0
Cash from investments	-9,567	-17,670	-16,640	-14,974	-6,678	-6,879	-7,103
Financing Activities							
Proceeds from New Share Issue	7,999	4,088	9	4	0	1	2
Net proceeds from loans & borrowings	-5,989	416	4,785	-7,114	6,482	855	1,376
Dividends	-8,038	-7,280	-8,325	-6,102	-4,079	-5,778	-6,938
Other	-1,690	-1,329	-1,056	0	0	1	2
Cash from financing	-7,717	-4,105	-4,587	-13,211	2,404	-4,922	-5,558
Net cash during the year	3,229	-755	-5,216	-31,576	19,028	1,124	4,286
Net cash at beginning	45,169	48,398	47,643	42,427	10,851	29,878	31,002
Net cash at end	48,398	47,643	42,427	10,851	29,878	31,002	35,288
Cash of Balance Sheet	5,127	5,119	10,883	-17,431	11,884	8,207	11,917
Short Term Investments	47,213	51,463	41,851	34,292	24,004	28,805	29,381
Bank O/D	-3,230	-4,264	-6,010	-6,010	-6,010	-6,010	-6,010
Net cash from Cashflow	48,398	47,643	42,427	10,851	29,878	31,002	35,288

Source : Company Annual Reports, First Capital Research Estimates



Appendix IV: Top 20 Shareholders

Top Voting 20 shareholders - (% held)	2QFY20	1QFY20	QoQ	2QFY19	YoY
Mr S E Captain	10.9%	11.4%	-0.5%	10.3%	0.6%
Broga Hill Investments Ltd	10.8%	10.8%	-	10.2%	0.6%
Melstacorp PLC	9.8%	9.8%	-	4.0%	5.8%
Paints & General Industries Limited	8.1%	6.9%	1.2%	7.2%	0.9%
Schroder International Selection Fund	3.2%	3.2%	-	5.3%	-2.1%
HWIC Asia Fund	3.0%	3.0%	-	2.6%	0.4%
Edgbaston Asian Equity Trust	2.5%	2.6%	-0.1%	2.1%	0.4%
Norges Bank Account 2	1.9%	1.7%	0.2%	0.0%	1.9%
Aberdeen Standard Asia Focus PLC	1.7%	1.7%	-	0.0%	1.7%
Aberdeen Global-Asian Smaller Companies Fund	1.6%	1.6%	-	0.0%	1.6%
Mr Kandiah Balendra	1.5%	1.5%	-	1.4%	0.1%
Aberdeen Global Asia Pacific Equity Fund	1.5%	1.5%	-	1.9%	-0.4%
Fidelity Fund-Pacific	1.4%	1.4%	-	1.4%	-
Employees Trust Fund Board	1.4%	1.4%	-	1.4%	-
First State Investments ICVC - Stewart Investors Asia Pacific Fund	1.4%	1.4%	-	0.0%	1.4%
Matthews Emerging Asia Fund	1.0%	1.0%	-	0.0%	1.0%
Mrs C S De Fonseca	1.0%	1.0%	-	0.9%	0.1%
Mrs S A J De Fonseca	1.0%	1.0%	-	0.9%	0.1%
Mr R S Captain	0.9%	1.5%	-	0.0%	-
Edinburgh Dragon Trust PLC	0.9%	0.9%	-	1.1%	-

**Appendix V: Recommendation criteria**

Categorization	Company Category	Buy	Hold	Sell
Grade A	S&P SL20 Companies	T.Bill + 5% & Above	T.Bill + 1% & Above	Below T.Bill + 1%
Grade B	Rest of the Companies	T.Bill + 8% & Above	T.Bill + 3% & Above	Below T.Bill + 3%
Grade C	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 Oct 2019: 8.38%

Categorization	Company Category	Buy	Hold	Sell
Grade A	S&P SL20 Companies	13.38%	9.38%	9.38%
Grade B	Rest of the Companies	16.38%	11.38%	11.38%
Grade C	Companies less than LKR 1Bn Market Cap	19.38%	14.38%	14.38%



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