



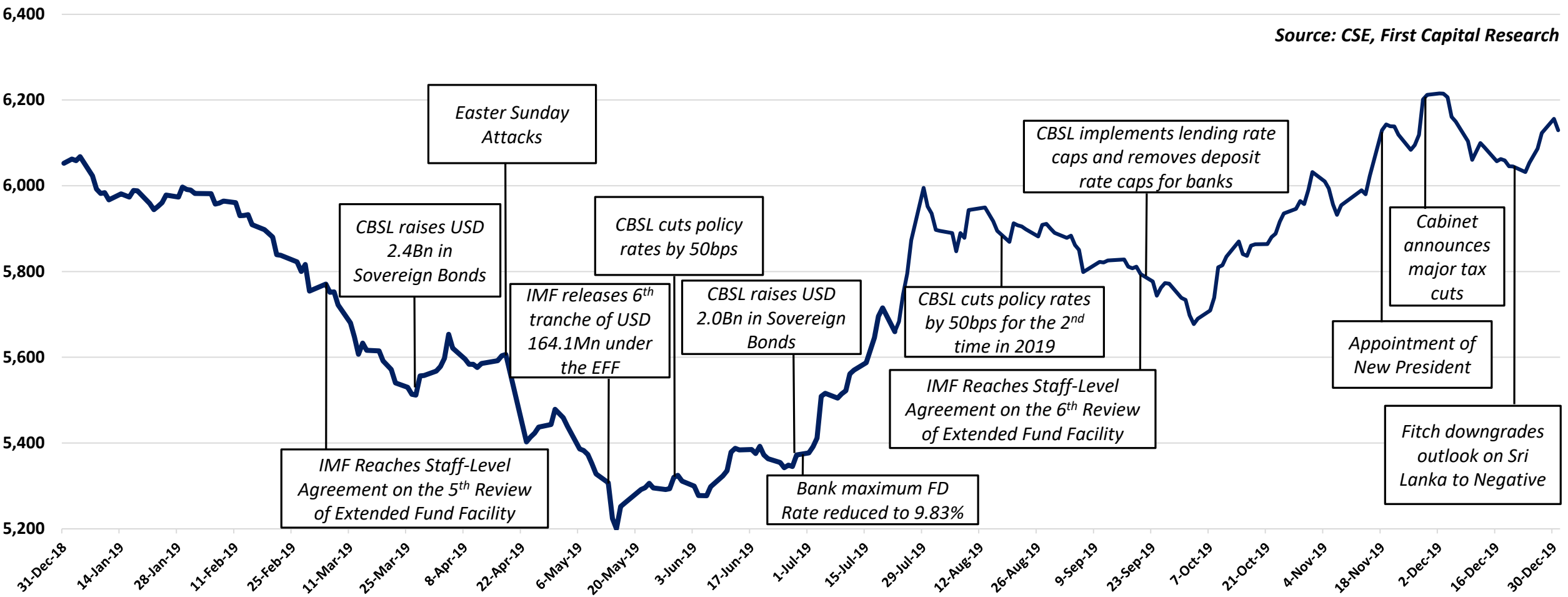
First Capital
First Capital Research

EQUITY STRATEGY

“INCREASE EQUITY EXPOSURE TO 100% FROM 90%”

Jan 2020

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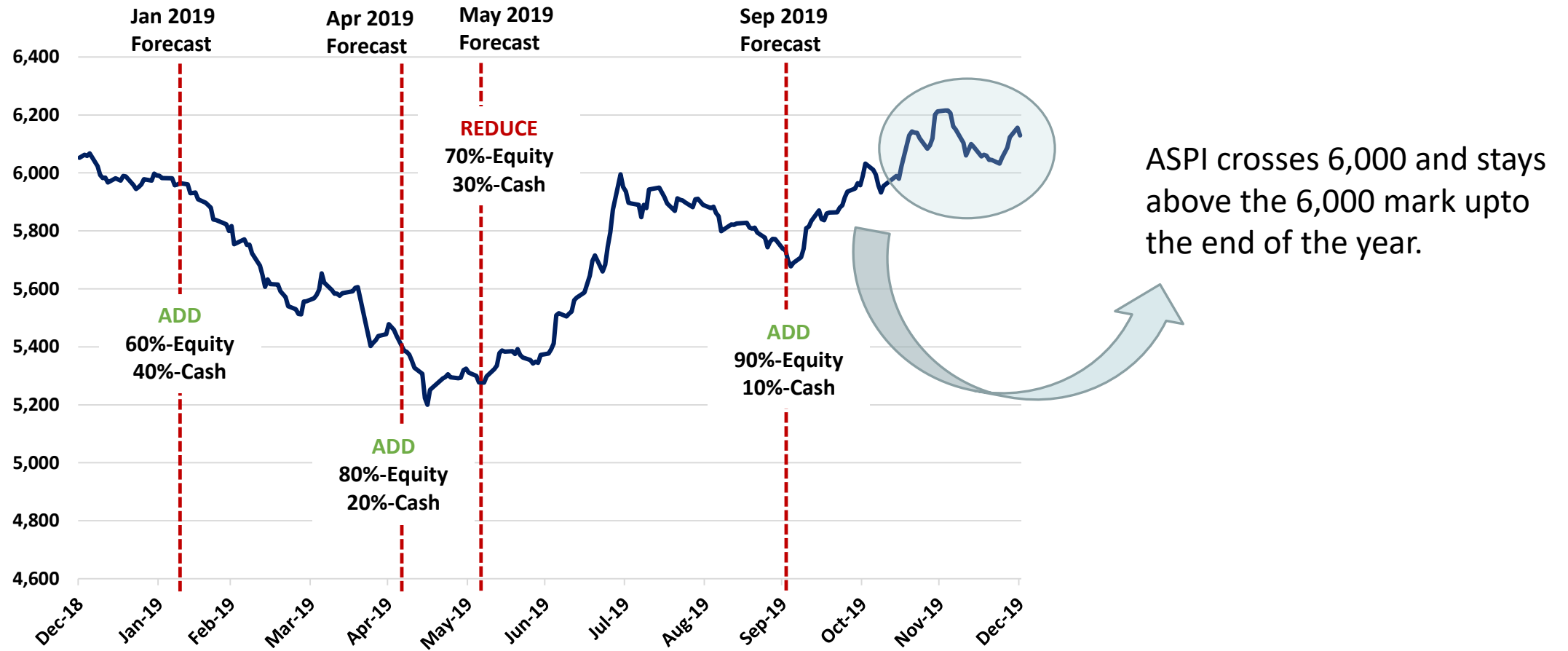
ASPI Movement for 2019

Important events and its impact to ASPI in 2019

Sep 2019 Equity Re cap: Accuracy Maintained

ASPI target of 6,500 by Jun 2020; Main target of 6,000 by 2019 Year End

Increase Equity Exposure To 90% From 70%

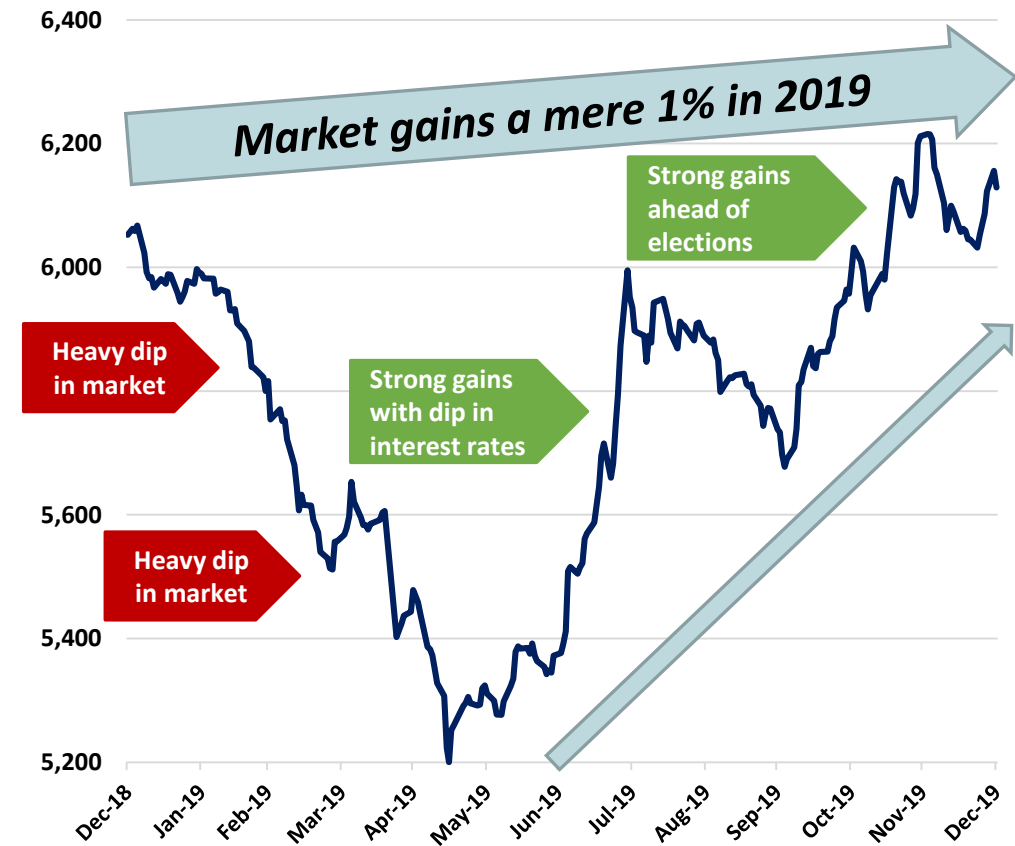


Bourse achieves our target of 6,000; Gaining only a mere 1% for 2019

2019, A YEAR FILLED WITH VOLATILITY

With the strong market valuation but weak external environment with high interest rates, political uncertainty and uncertainty in the global markets, Sri Lanka equity market started the year off on a weak note as First Capital Research recommended only an equity exposure of 60% while recommending maintain cash at 40%. However, as valuations further improved, and market interest rates saw a sharp fall, we gradually upgraded our equity exposure targets as illustrated in Slide 3.

Market reversed its heavy downtrend in May 2019 and registered strong uptrend which lasted up to the end of the year erasing all losses during the year to register a marginal +1% gain for 2019.



Model Portfolio
gains 4% for
2019; ASPI gains
1%

Stock Code	Price as at 31.12.2018	No. of Shares	Prices as at 31.12.2019	Portfolio as at 31.12.2019	YTD Return	Description
<i>Current Portfolio</i>						
JKH.N0000	159.7	5,633	167.6	944,010	4.9%	
COMB.N0000	115.0	8,042	95.0	764,034	-17.4%	
HNB.N0000	214.0	4,377	172.2	753,668	-19.5%	
DIAL.N0000	10.1	89,642	12.3	1,102,596	21.8%	
PLC.N0000	16.3	57,289	17.9	1,025,478	9.8%	
LION.N0000	570.0	1,554	602.0	935,392	5.6%	
SAMP.N0000	145.4	6,373	162.4	1,034,932	11.7%	Bought on 02.07.2019
CTC.N0000	1,300.0	746	1,100.3	820,670	-15.4%	Bought on 22.07.2019
CCS.N0000	761.3	1,247	795.0	991,191	4.4%	Bought on 04.11.2019
NEST.N0000	1,300.0	730	1,299.8	949,028	0.0%	Bought on 04.11.2019
<i>Portfolio Sales within the Year</i>						
TJL.N0000	32.5	27,641	37.5		15.4%	Sold as TP achieved
NEST.N0000	1,700.0	392	1,590.0		-6.5%	Sold on 09.05.2019 with
CARG.N0000	200.0	3,333	195.0		-2.5%	Easter Sunday Attacks
<i>Other Recommendations not in our Portfolio</i>						
ACL.N0000	37.0		47.0		27.0%	TP achieved on 19.11.2019
MGT.N0000	13.6		17.9		31.6%	Recommended on 07.08.2019
KFP.N0000	134.0		122.5		-8.6%	
CDB.N0000	83.0		83.9		1.1%	
LOFC.N0000	3.4		3.9		14.7%	
Equity Value				9,320,998		
Cash Allocation @ 4% interest				1,050,500		
TOTAL INVESTMEN	10,000,000			10,371,498	4%	
ASPI	6,052.4			6,129.2	1%	

Top Recommendations and its Performance

**NEST and CARG (marked in red) were immediately recommended to SELL following Easter Sunday Attacks*

**TP of Banking Sector counters were amended in Mar 2019 following our Banking Sector Report*



FIRST CAPITAL 2019 TOP RECOMMENDATIONS

Stock	31.12.2018 Price	New Recommendations afterwards	Fair Value 2019/FY20	Fair value - Return %	Price as at 31.12.2019	Return YTD
John Keells Holdings	159.70		190.00	19%	167.60	5%
Commercial Bank of Ceylon	115.00		137.00	19%	95.00	-17%
Hatton National Bank	214.00		200.00	-7%	172.20	-20%
Dialog	10.10		13.80	37%	12.30	22%
People's Leasing	16.30		18.00	10%	Fair Value	10%
Textured Jersey	32.50		37.00	14%	Fair Value	14%
Lion Brewery	570.00		700.00	23%	602.00	6%
Nestle Lanka* (TP amended)	1,700.00		1,200.00	-29%	1,590.00	-6%
Cargills* (TP amended)	200.00		205.00	2%	195.00	-3%
Ceylon Tobacco Company		1300.00	1525.00	17%	1100.30	-15%
ACL Cables		31.70	47.00	48%	Fair Value	48%
Expolanka Holdings		4.20	5.60	33%	Fair Value	33%
Hayleys Fabric		13.60	25.00	84%	17.90	32%
LOLC Finance	3.40		6.00	76%	3.90	15%
Keells Food Products	134.00		180.00	34%	122.50	-9%
Citizens Dev. Bus. Finance	83.00		120.00	45%	83.90	1%
Watawala Plantations PLC		23.50	28.00	19%	Fair Value	19%
Average Return				26%		7.9%
ASI				6,052.40	6,129.20	1.3%

	Top Recommendations Avg. Return	ASPI Return	Out- Performance
2014	58%	23%	152%
2015	18%	-6%	400%
2016	5%	-10%	150%
2017	6%	2%	178%
2018	-22%	-3%	-633%
2019	8%	1%	700%

Track
Record over
the past 6
years

*Year 2020 **Bullish** for Equity Investments*

ASPI target maintained at 6,500 by Jun 2020

Dec 2020 ASPI target raised to 7,500 (from 7,000) with the major tax cuts

INCREASE EQUITY EXPOSURE to 100% from 90%

❑ *Political Outlook stabilizes*

Following the Presidential Election and appointment of the new Cabinet, the political uncertainty which prevailed for an extended duration eased, providing stability and policy certainty for investors. It has also given a major boost to business confidence as the LMD-Nielsen business confidence index jumps to a 51-month high of 186 for Dec 2019.

❑ *Hefty tax cuts followed by policy rate cut*

On 27th Nov 2019, Government announced hefty tax reliefs, reducing VAT to 8% (from 15%), removing of NBT and revising PAYE tax with the expectation of increasing the consumer spending while boosting the economic growth of the country. As an extension to the stimulus package, Govt. took measures to remove DRL on banks and NBFIs and revise downwards the corporate tax rates across all sectors. Further, supporting Govt.'s efforts to revive growth, CBSL on 30th Jan took to cut policy rates by 50bps despite credit growth accelerating in Nov and Dec 2019.

❑ *Equity Exposure increased to 100%; ASPI target for Dec 2020 raised to 7,500 from 7,000*

With the recovery in economic activity and company earnings, we expect an upward trend in the market supported by stronger market multiples. The heavy tax cuts and the policy rate cut is likely to be an added boost for company earnings. Considering the mid-term positive impact, we upgrade our equity exposure to 100% while maintaining our ASPI expectations for Jun 2020 at 6,500, assuming Market PER to be in the range of 8.5x – 9.5x. However, we upgrade our ASPI target of Dec 2020 to 7,500 from the previous 7,000 amidst the added boost to the economy.

Stock	Stock Code	Price as at 31.12.2019	Fair Value CY20E/FY21E	Fair Value pro-rated to 31.12.2020	Upside for 2020
John Keells Holdings	JKH.N0000	167.60	240.00	227.50	36%
Commercial Bank of Ceylon	COMB.N0000	95.00	150.00	150.00	58%
Hatton National Bank	HNB.N0000	172.20	210.00	210.00	22%
Sampath Bank	SAMP.N0000	162.40	225.00	225.00	39%
Dialog	DIAL.N0000	12.30	15.40	15.40	25%
Hayley's Fabric	MGT.N0000	17.90	25.00	23.75	33%
Teejay Lanka	TJL.N0000	40.80	53.00	51.00	25%
Lion Brewery	LION.N0000	602.00	800.00	777.50	29%
Ceylon Tobacco Company	CTC.N0000	1,100.30	1,600.00	1,600.00	45%
Nestle Lanka	NEST.N0000	1,299.80	1,505.00	1,505.00	16%
Ceylon Cold Stores	CCS.N0000	795.00	1,100.00	1,037.50	31%



Average Return				33%
ASI	6,129.20		7,500.00	22%

TOP RECOMMENDATIONS for 2020

In previous years we recommended investors only invest a portion of the funds targeted towards equity investments while maintaining a cash allocation.

However, considering the attractiveness of the market we recommend investors to invest **100% or fully invest the equity allocated funds** into the portfolio.

Equity Portfolio

	As at 4 th Nov 2019	As at 1 st Jan 2020
Equity Investment	90%	100% 
Cash	10%	0% 

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