



First Capital
A Janashakthi Group Company

Sri Lanka Tourism Sector

Bright Horizons: Navigating Tourism's Growth Revival

EQUITY | SRI LANKA | HOTELS | SECTOR UPDATE | SEP 2023

FIRST CAPITAL RESEARCH

Analysts:

Tharusha Ashokgar
tharushaash@firstcapital.lk

Nethmi Fernando
nethmi@firstcapital.lk

Executive Summary

- Global tourism bounced back in 1Q2023, reaching 80% of pre-pandemic levels with about 335.0Mn international travelers, more than the 2022 figures. The Middle East excelled, exceeding 2019 arrivals by 15% and fully recovering within a single quarter. Meanwhile, Asia and the Pacific region hit 54% of pre-pandemic levels, with this upward trend set to accelerate further as most destinations, including China, have reopened.
- In 1H2023, Sri Lanka witnessed a robust tourist arrival recovery, surpassing targets. The currency depreciation and effective tourism promotion campaigns positioned Sri Lanka as an attractive and affordable destination. Consequently, we have raised our 2023 year-end target to 1.5Mn arrivals, reflecting an expected 106.0%YoY growth, resulting in earnings of LKR 1.9Bn. Currently, the country-wide occupancy rate stands at 42.0%, leaving ample room for further recovery.
- China accounted for 11.4% of the total tourists to Sri Lanka in 2018 and remained the top source market next to India. The easing of restrictions in China is poised to bolster tourist arrivals and drive growth in Sri Lanka's tourism sector. The notable increase in Chinese arrivals to Sri Lanka is indeed an encouraging development for the tourism sector, as Chinese tourists are widely recognized as heavy spenders.
- Further, significant devaluation of LKR against USD has made holidays in Sri Lanka even more affordable for international travelers compared to pre-pandemic levels. Despite an increase in local prices, accommodation and other travel expenses have significantly decreased by approximately 40% in terms of USD as a result of LKR devaluation.
- Sri Lanka possesses significant potential to attract tourists from the Meetings, Incentives, Conventions, and Exhibitions (MICE) sector, primarily owing to its strategic location in the Indian Ocean. This segment of tourists typically spends three times more than leisure travelers. Sri Lanka has been steadily approaching pre-pandemic levels in the MICE sector, with India, Bangladesh, Pakistan, Germany, the Middle East (including Saudi Arabia, Doha, and Dubai), and the UK playing vital roles in contributing to this positive trend.
- **Top Picks:** Overseas Exposure: **AHUN, KHL and CONN**
Coastal Hotels: **RPBH,SHOT and STAF**
City Hotel: **AHPL**

Tourism Snapshot

Tourist Arrivals

2023YTD : 904,318
2022 : 719,978

Average Duration of stay

*2023 : 8.6 Days
2022 : 9.3 Days

Occupancy

*2023 : 42.0%
2022 : 30.4%



Tourism Earnings

2023YTD : USD 1.1Bn
2022 : USD 1.1Bn

MICE arrivals out of total arrivals

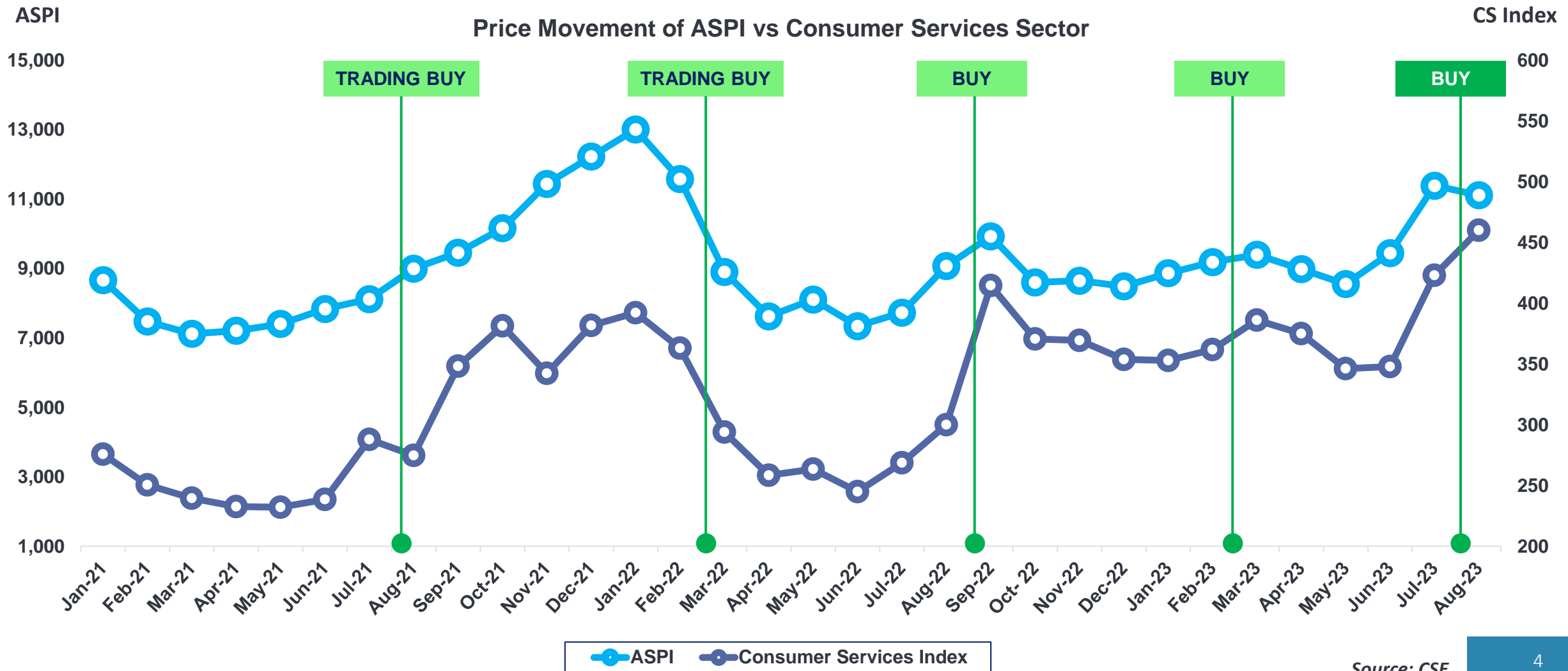
2023 Aug : 5.0%
2022 Aug : 1.0%

Average Spending per day

*2023 : USD 164.4
2022 : USD 164.4

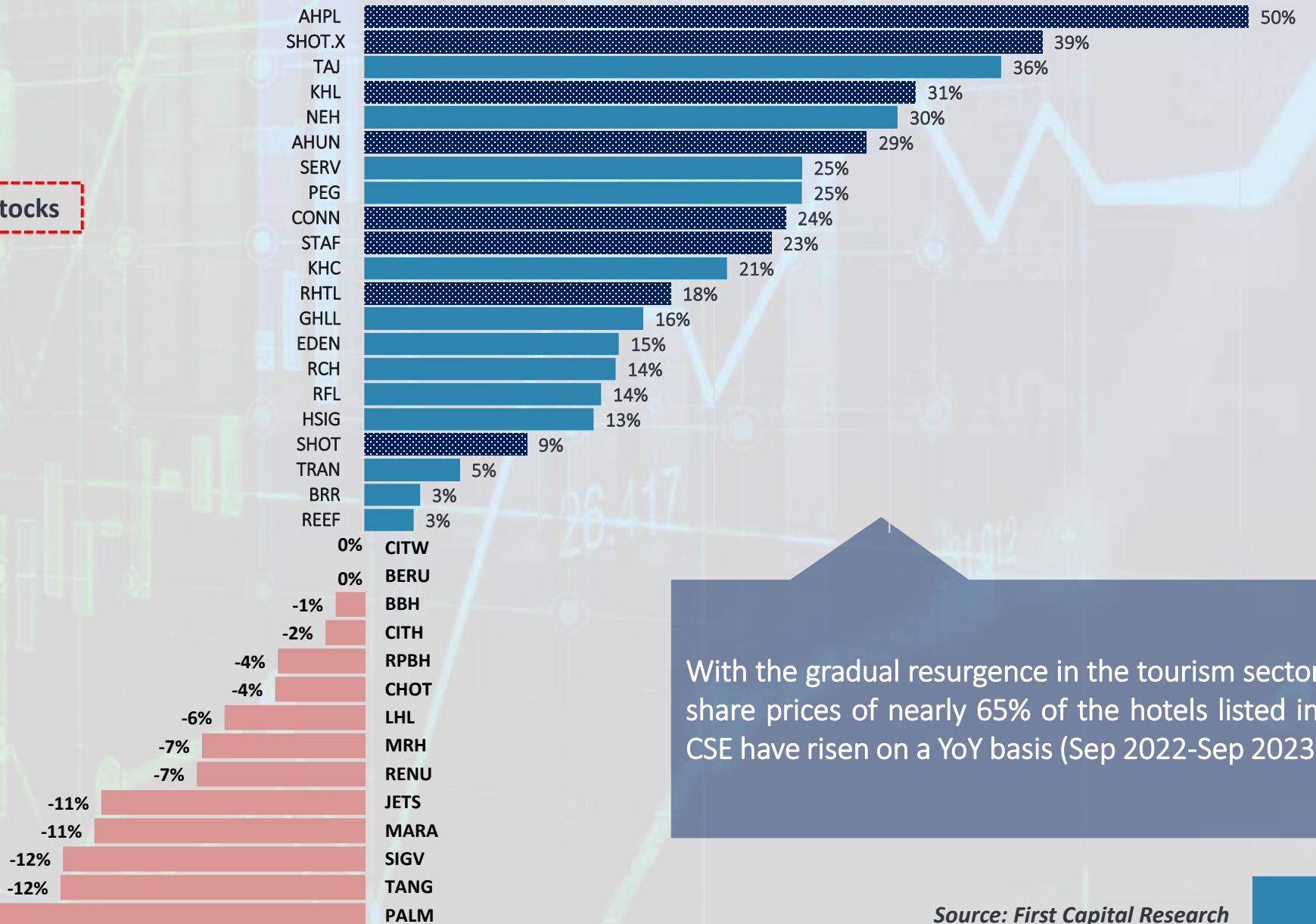
ASPI vs Consumer Services Sector Index

The consistent increase in tourist arrivals, exceeding our projected targets, underscores a promising resurgence in the Hotels and Tourism sector. Hence, considering the positive outlook ahead for the Hotels and Tourism industry, we maintain our recommendation at **BUY**



More than 65% of hotel sector counters showed YoY appreciation, amidst the steady recovery of the industry

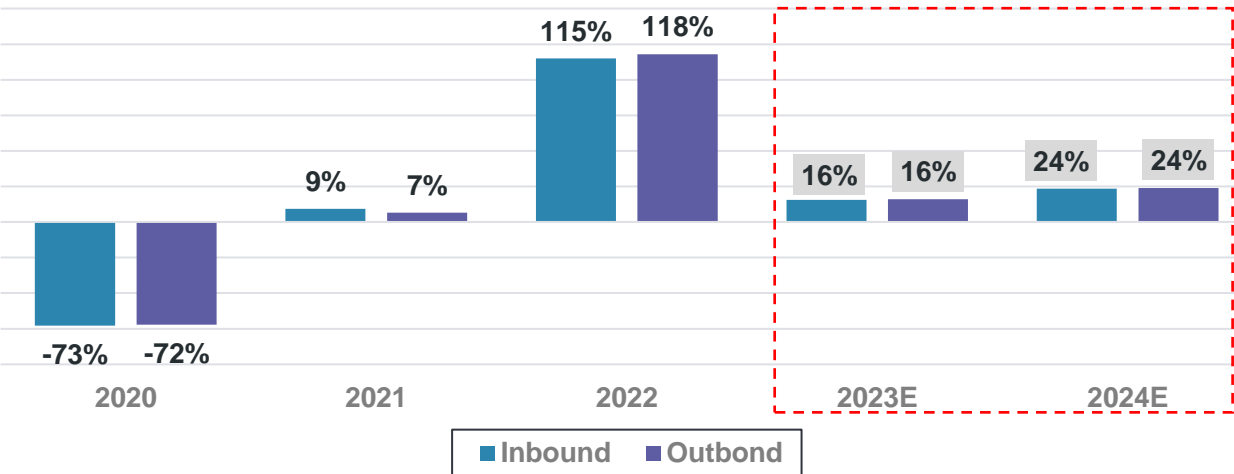
First Capital Research recommended stocks



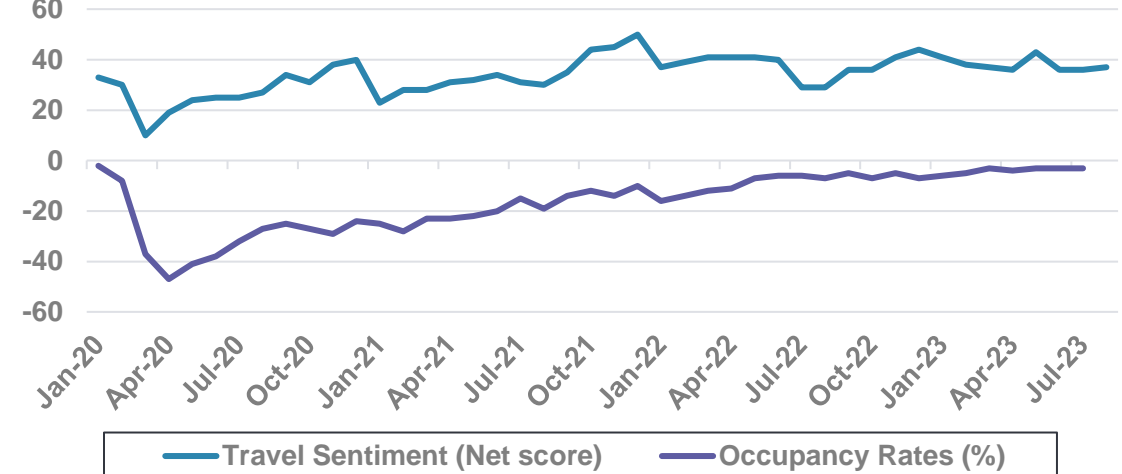
With the gradual resurgence in the tourism sector the share prices of nearly 65% of the hotels listed in the CSE have risen on a YoY basis (Sep 2022-Sep 2023).

Global Tourism Resurgence— at a glance

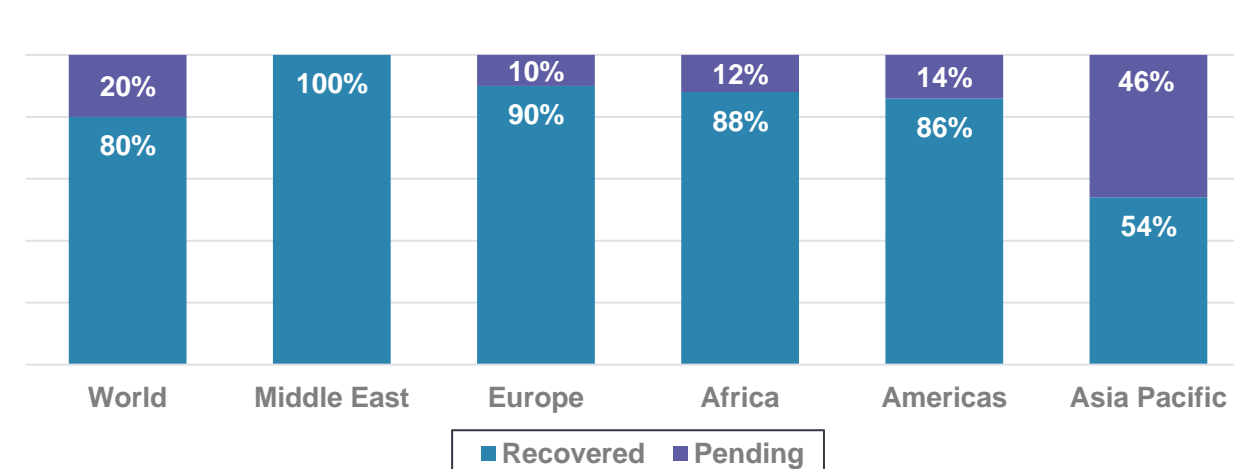
Global inbound and outbound tourism experienced a notable resurgence in 2022, and anticipated to grow further



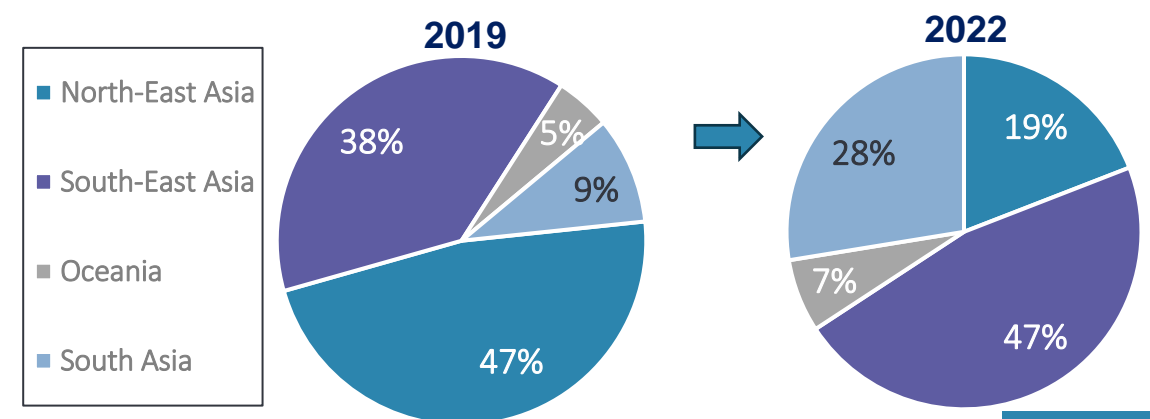
Pent up demand for travel has driven occupancy ratios close to pre-pandemic levels



Asia and Pacific tourism arrivals halfway to 2019 levels, while Middle-East fully recovers in 1Q2023

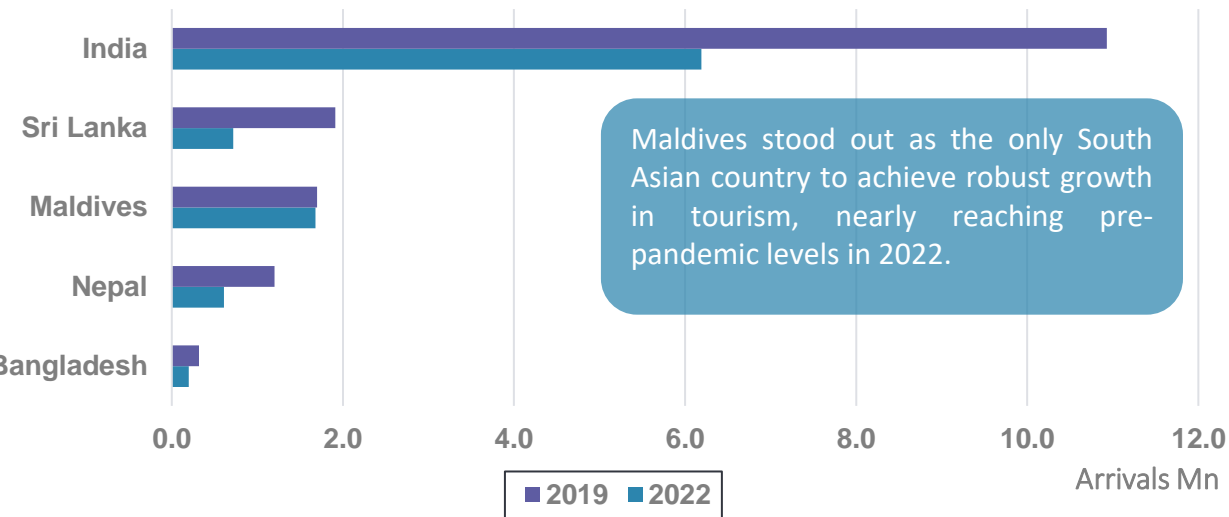


South Asia's market share in the Asia Pacific region surged from 9% in 2019 to 28% in 2022, marking the fastest tourism revival



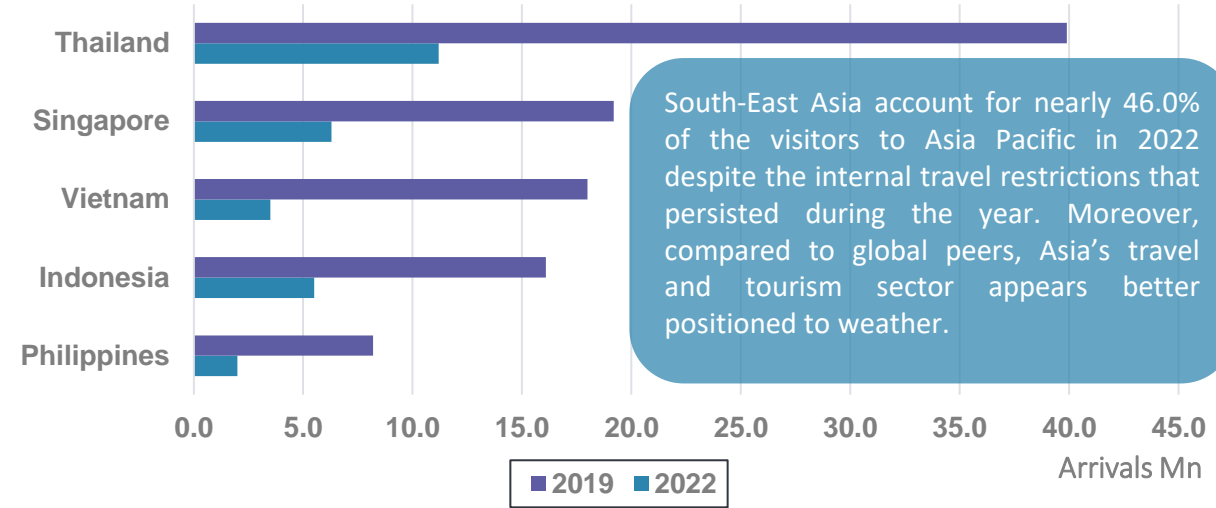
Global Tourism Resurgence – Asia and Pacific Region

Top 5 tourist destination – South Asia



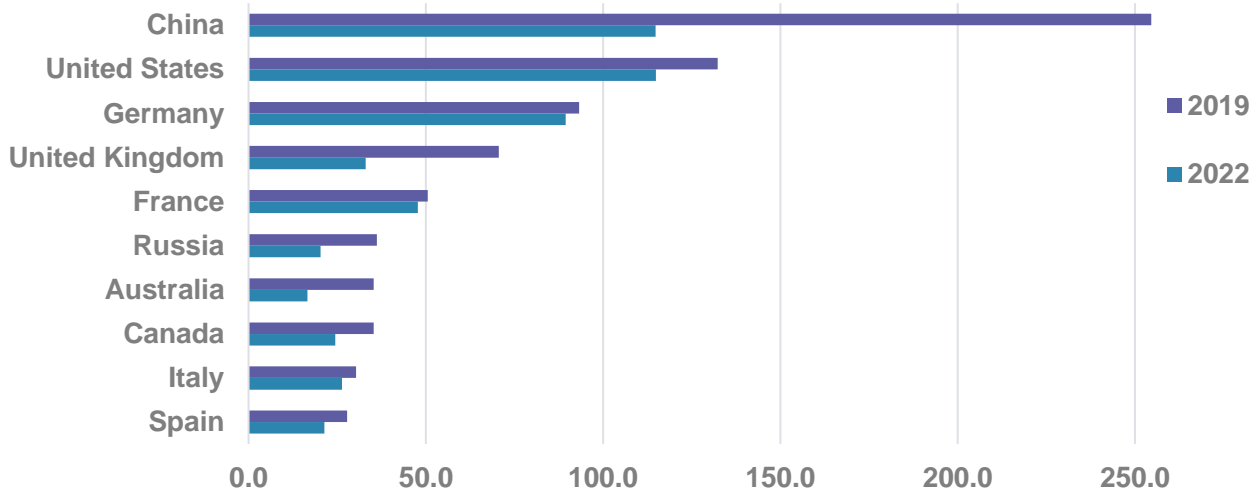
Maldives stood out as the only South Asian country to achieve robust growth in tourism, nearly reaching pre-pandemic levels in 2022.

Top 5 tourist destination – South-East Asia



South-East Asia account for nearly 46.0% of the visitors to Asia Pacific in 2022 despite the internal travel restrictions that persisted during the year. Moreover, compared to global peers, Asia's travel and tourism sector appears better positioned to weather.

International Tourism Expenditure 2019 Vs 2022 (USD Bn)

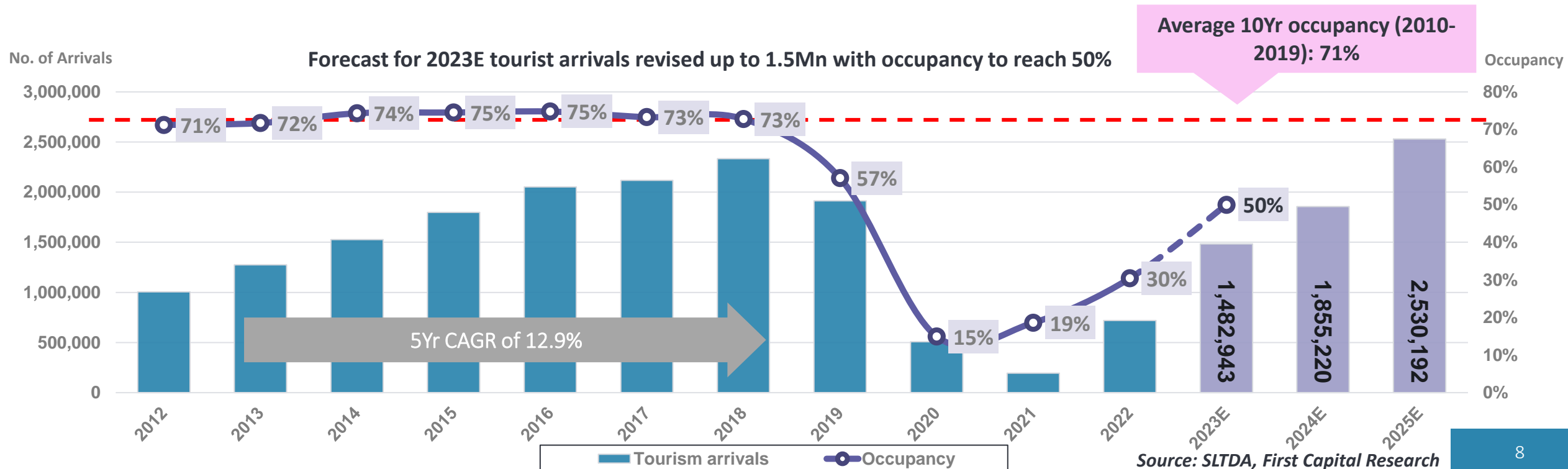


- **China** stands out as the sole Asian country to not only appear in the top rankings for outbound travel expenditure but also to lead the list.
- Despite the travel restrictions imposed during the pandemic, China remains **one of the largest spenders** among arrivals in 2022.
- Sri Lanka's list of the top 10 source markets for 2022 includes **seven** of the world's top 10 spending source markets.
- Sri Lanka accounted for around **0.11% of China's outbound travelers in 2019** despite China being one of the largest source market for Sri Lanka.

Surpassing expectations: YoY rebound in tourist arrivals in Sri Lanka sparks new hope..

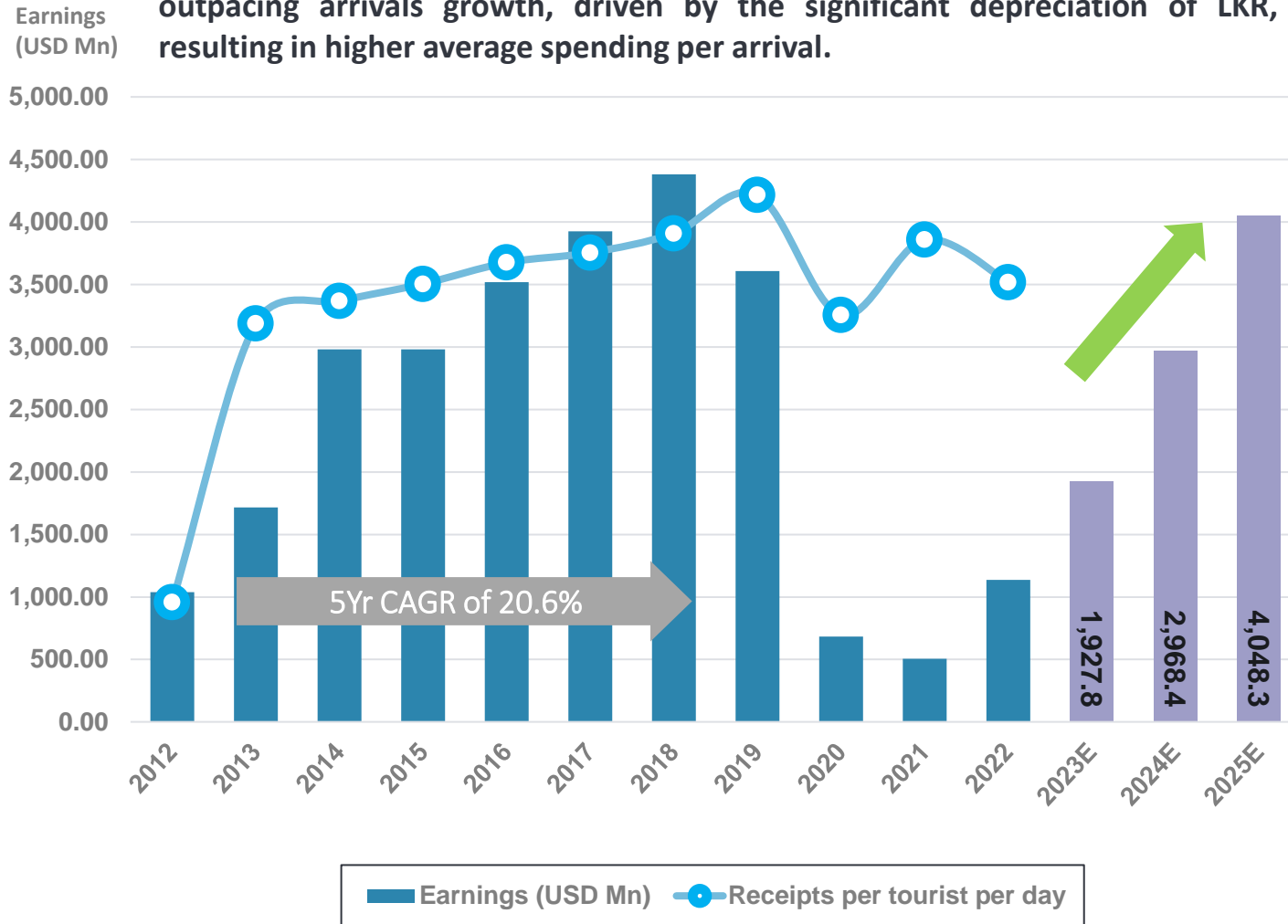
Tourist Arrivals Resurgence in 1H2023: Tourist arrivals in Sri Lanka recorded a steady recovery in 1H2023 outpacing the targets. This recovery was supported mainly by high global vaccination rates, increased air connectivity, along with the lifting of travel restrictions issued by major source countries. Additionally, the significant depreciation of the LKR and tourism promotion campaigns played a pivotal role in positioning Sri Lanka as an attractive and affordable destination for travel. Given the accelerated pace of this recovery, we have revised up our 2023 year-end target to 1.5Mn arrivals (previous: 1.2Mn), reflecting an anticipated YoY growth of over 100.0%.

Seasonal Trends in Occupancy Rates: Despite Sri Lanka's year-round appeal to tourists, it's notable that the Q1 (Jan to Mar) and the Q4 (Oct to Dec) collectively accounted for a significant portion, approximately 66.5%, of the total annual tourist arrivals in 2022. This trend is evident in the consistently elevated average occupancy levels observed during the first and fourth quarters of previous years.



...and drives significant dollar inflow

Earnings from tourism surged at a 20.6% 5-year CAGR from 2013 to 2018, outpacing arrivals growth, driven by the significant depreciation of LKR, resulting in higher average spending per arrival.



USD
200
180
160
140
120
100
80







Peer Countries	Average spending per tourist in 2022 (USD)	No. of Arrivals (Mn)
Maldives	2,685	1.68
Singapore	1,870	6.31
Sri Lanka	1,578	0.72
Philippines	1,575	2.65
Thailand	1,150	11.16
Indonesia	1,141	5.89
Vietnam	1,049	3.66
Global	1,106	969.4

Sri Lanka is well below regional peers such as Maldives and Singapore, indicating that Sri Lanka is not positioned as a high-end destination in comparison. Notably, the average spending by tourists in Sri Lanka surpasses both the global average and the majority of top Asian destinations including Thailand, and Indonesia, which are preferred by travelers.

Monthly tourist arrivals show remarkable growth with....

Month	2018	2022	2023	Growth% 2023/2022	Daily Average 2023
Jan	238,924	82,327	102,545	25%	3,308
Feb	235,618	96,507	107,639	12%	3,844
Mar	233,382	106,500	125,495	18%	4,048
Apr	180,429	62,980	105,498	68%	3,517
May	129,466	30,207	83,309	176%	2,687
Jun	146,828	32,856	100,388	206%	3,346
Jul	217,829	47,293	143,039	202%	4,614
Aug	200,359	37,760	136,405	261%	4,400
Sep	149,087	29,802	107,343	260%	3,578
Oct	153,123	42,026	128,623	206%	4,149
Nov	195,582	59,759	160,377	168%	5,346
Dec	253,169	91,961	182,282	98%	5,880
Total	2,333,796	719,978	1,482,943	106%	4,063

Top Source Markets to Sri Lanka

Source market	2023 YTD (Jan-Aug)	2018
India 	170,247 (112.5%YoY)	424,887
Russia 	125,137 (151.5%YoY)	64,497
UK 	83,339 (26.9%YoY)	254,176
Germany 	61,682 (52.8%YoY)	156,888
France 	41,243 (46.1%YoY)	106,449
Australia 	39,186 (112.8%YoY)	110,928
China 	37,743 (1483.2%YoY)	265,965

...Continued boost expected from India and China

With more than 150,000 arrivals YTD, India topped the source market list in 2023



Relaxed restrictions in China to boost tourist arrivals and stimulate growth in Sri Lanka's tourism sector



India emerged as the largest source market for outbound travelers in Asia in 2022 with a registered growth rate of 190.0%YoY significantly higher than the average global increase of 90%.

India, being the largest source market for Sri Lanka, offers significant potential due to its rapidly expanding middle-income population. The middle-class segment has grown from less than 10% of the total population in 2012 to 31% in 2021 and is projected to double by 2047.

Over 50% of trips from India to Sri Lanka were for leisure purposes, with business travel also on the rise, accounting for 16% in 2022.

Average spending per departure: 2022- USD 1,516.3 (2019- USD 859.0)

China accounted for 11.4% of the total tourists to Sri Lanka in 2018 and remained the top source market next to India.

China is the leading country in terms of outbound tourism globally, contributing to over 20.0% of the world's outbound tourism expenditure in 2022.

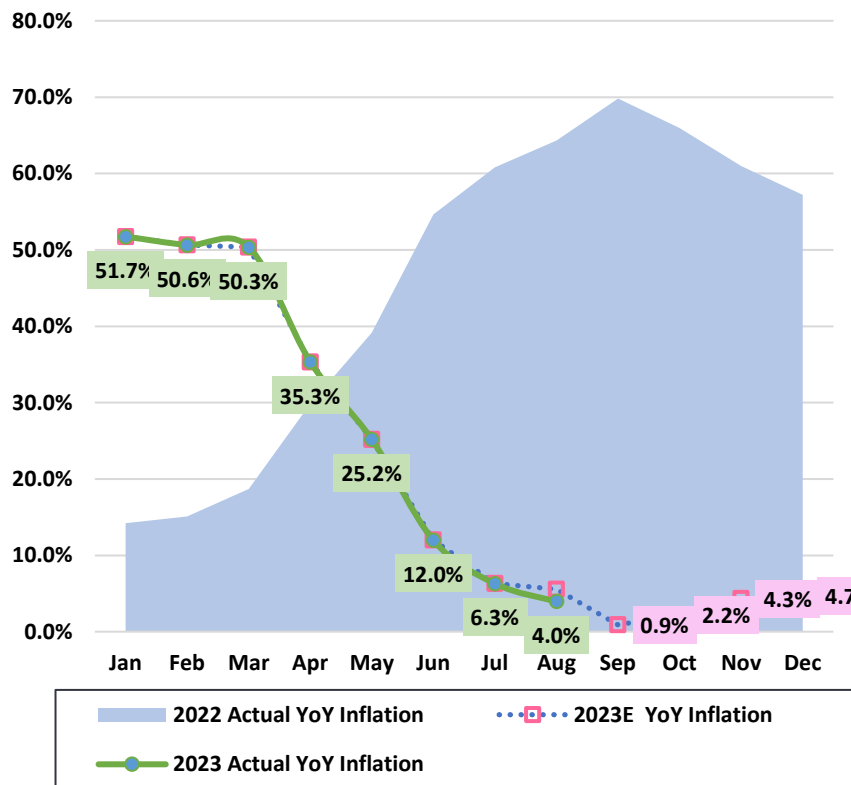
Sri Lanka represents only 0.11% of China's outbound departures. However, with the reopening of borders for travel, there is an anticipated increase in Chinese tourist arrivals to Sri Lanka, supported by an expansion in China Eastern Airlines flight frequency from 1 flight to 5 flights per week.

Average spending per departure: 2022- >USD 10,000 (2019- USD 1,647)

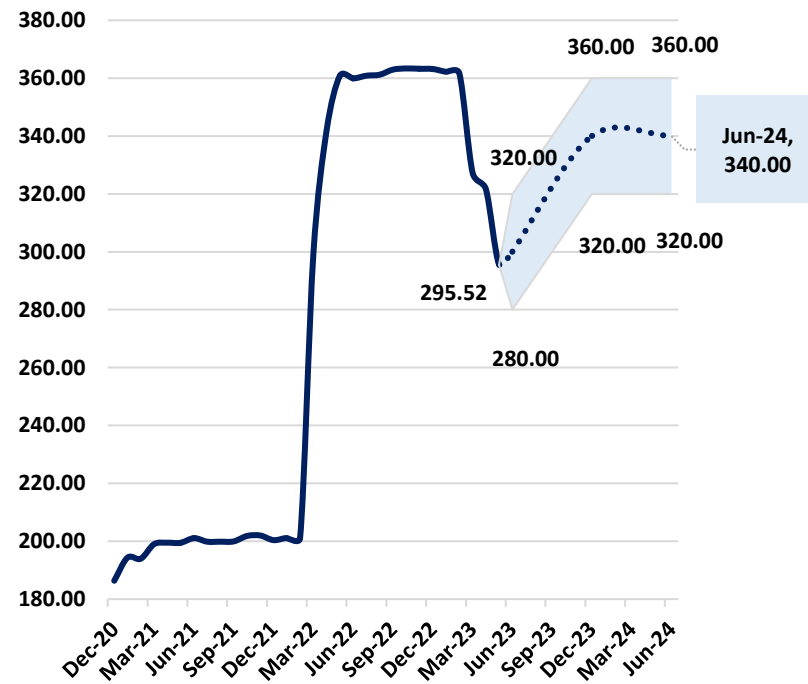
Depreciation of LKR making Sri Lanka holidays more affordable than pre-pandemic levels

Despite an increase in local prices, the accommodation and other travel costs has significantly dipped by over 25.0% from pre pandemic level rates in terms of USD as a result of LKR devaluation which would be an encouraging factor for tourists to visit Sri Lanka.

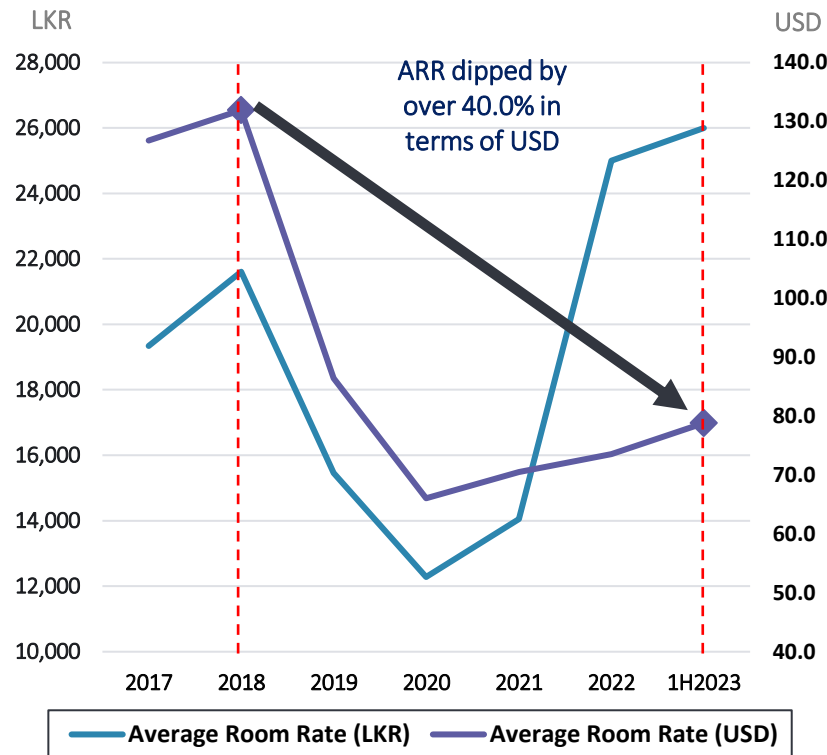
The CCPI has consistently slowed down, surpassing expectations, signifying lower inflationary pressures and potentially boosting consumer spending power



LKR depreciation of over 80% compared to pre pandemic times, made the cost of living in SL more affordable for international travelers



Despite cost escalations, Average Room Rate (ARR) remained relatively cheaper compared to pre pandemic levels amidst steep depreciation



Cost comparison of trips among peer countries – USD

Average Room Rate (ARR USD) -City Hotels

Type of Accommodation	Sri Lanka (Min. room rate)	Sri Lanka (Colombo)-Current	Vietnam (Ho Chi Minh City)	Thailand (Bangkok)	Indonesia (Jakarta)	Maldives (Malé)
5 Star	100+	75+	150+	90+	120+	190+
4 Star	75+	50+	70+	70+	60+	130+
3 Star	50+	35+	40+	45+	45+	75+

Flight fare (USD)

Source Market	Sri Lanka (Colombo)	Vietnam (Ho Chi Minh City)	Thailand (Bangkok)	Indonesia (Jakarta)	Maldives (Malé)
India	168.0	226.0	247.0	300.0	295.0
United Kingdom	1,000.0	950.0	1,100.0	1,000.0	1,250.0
China	550.0	350.0	170.0	300.0	950.0

Gasoline Price (USD Per liter)

	Sri Lanka	Vietnam	Thailand	Indonesia	Maldives
Gasoline	1.29	1.04	1.35	0.96	0.96

Sri Lanka tops list of affordable destinations for Digital Nomads

Rank	Countries	Cost of living (rent, food, transport and utility bills) per month	
		GBP	USD
1	Sri Lanka	£491.00	\$624.00
2	Argentina	£573.00	\$728.00
3	Colombia & North Macedonia	£578.00	\$734.00
4	Indonesia	£591.00	\$751.00
5	Malaysia	£649.00	\$824.00
6	Brazil	£677.00	\$860.00
7	Ecuador	£694.00	\$882.00
8	South Africa	£738.00	\$937.00
9	Cabo/Cape Verde	£746.00	\$948.00
10	Albania	£747.00	\$948.00
11	Thailand	£755.00	\$959.00
12	Romania	£765.00	\$972.00

- A **Digital nomad visa** is a temporary residence permit that allows remote workers and freelancers to live and work in a foreign country for an extended period while conducting their work online.
- The availability of digital nomad visas in numerous countries worldwide, along with the substantial remote workforce, **including over 5Mn Brits and 16Mn Americans**, offers an invaluable opportunity for flexible and location-independent work.
- Among the 50 countries offering digital nomad visas, **Sri Lanka stands out** as the best value for money, boasting an average monthly cost of living at USD 624.0. This represents a **14% savings** in disposable income compared to the second most affordable country on the list.

The USA is one of the expensive countries for day-to-day living, with costs exceeding USD 2,000 per month. Their healthcare system is notably the most expensive, with citizens spending over 40% more per person compared to other countries.

The UK is ranked 16th among the most expensive countries to live in, with an average cost of living exceeding USD 1,800. In 2022, households in the UK experienced significant increases in fuel and energy bills, along with soaring prices in grocery stores.

Sri Lanka rise as a premium MICE destination



Sri Lanka's tourists' authorities are promoting MICE tourism in expectations of filling 12.0% of the 1.5Mn tourists target for 2023 as MICE tourists are anticipated to pay 3x the amount of leisure tourist. South Asia, Middle East and Europe are the key markets for drawing MICE travelers.



Sri Lanka has been gradually reaching the pre pandemic MICE levels and the main source market has been India, Bangladesh, Pakistan, Germany, the Middle East, Saudi, Doha, Dubai and the UK have also been contributing positively.



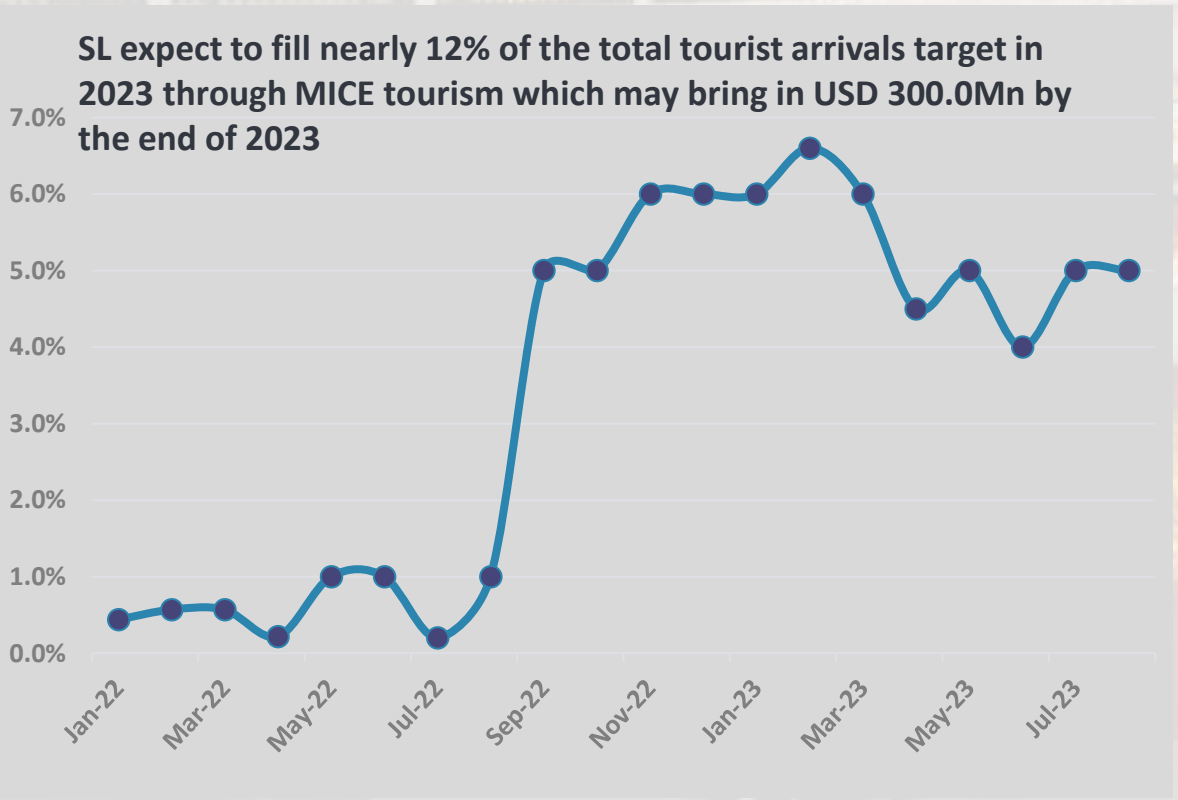
Moreover, India organized multiple conferences namely Tata Tiscon and V institute of India within the first 1Q2023 which attracted over 500 travelers. Furthermore, Sri Lanka is anticipated to host a number of events namely Lupin and Pfizer, Indian Travel agents AGM and the inaugural Jaffna MICE EXPO which are set to be major events.



The India outbound MICE tourism market is projected to reach USD 13.4Bn by 2031, driven by growth in Indian economy amidst the increase in larger disposable income for businesses and individuals. This has led to increased corporate spending on MICE activities, including international events, conferences, and exhibitions.

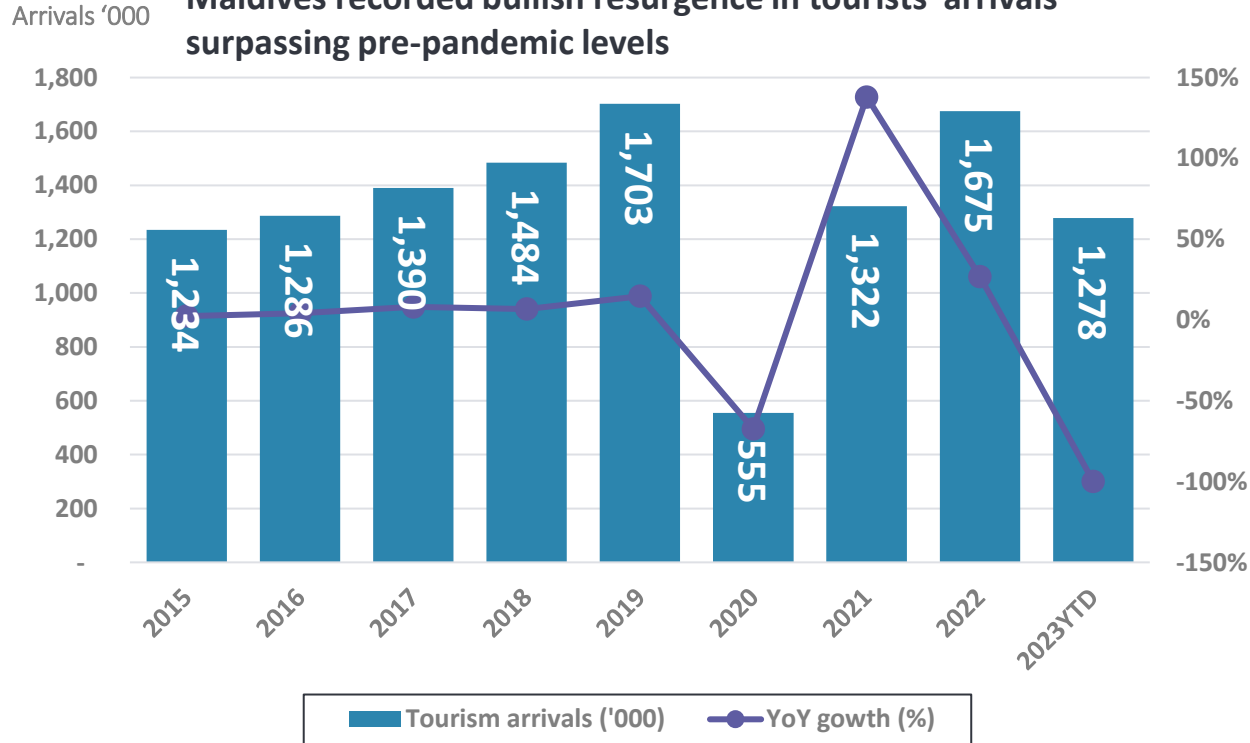


World-class infrastructure from hotels and many in-progress developments, such as Cinnamon Life, ITC Hotels and Port City Colombo, is also slated to open more doors to growth and investment in the future out of which the officials anticipate USD 3.0Bn to enter the country in 2023 as Sri Lanka is now identified as a potential market place.

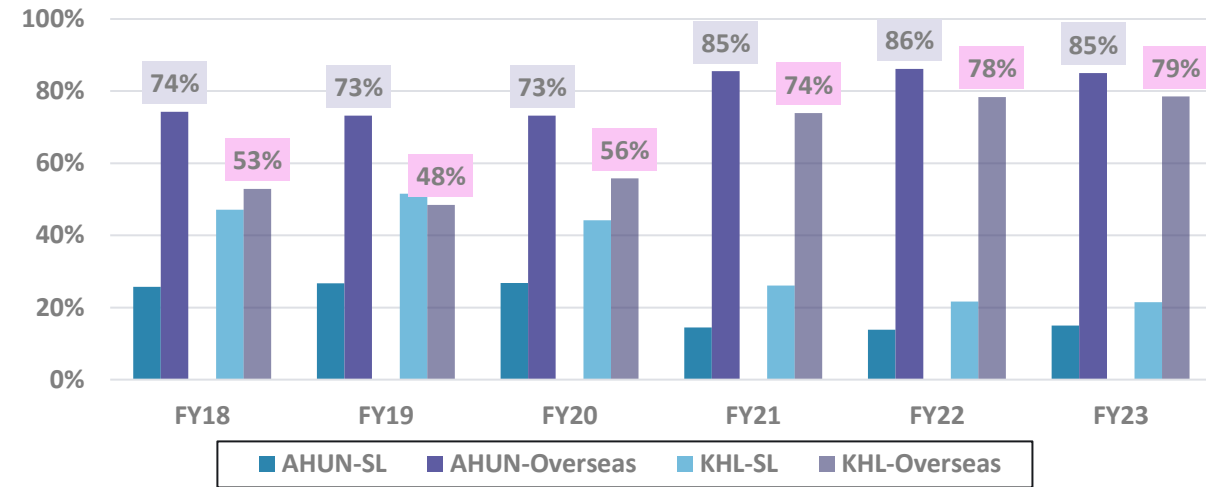


Maldives; setting the Gold Standard in tourism as Asia's premier tourism destination

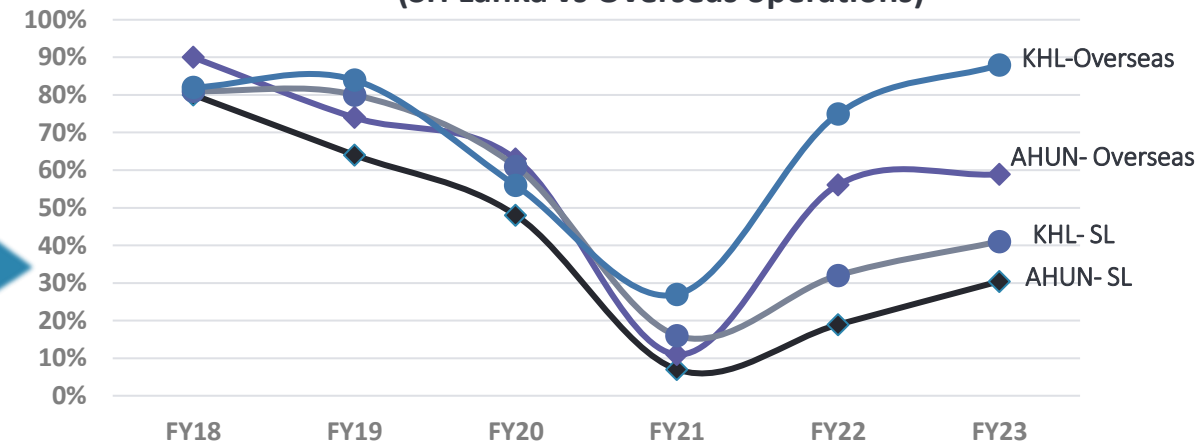
Maldives recorded bullish resurgence in tourists' arrivals surpassing pre-pandemic levels



Revenue breakdown: AHUN and KHL (Sri Lanka vs Overseas operations)



Occupancy breakdown: AHUN and KHL (Sri Lanka vs Overseas operations)



Tourist arrivals in the Maldives have shown remarkable resilience, nearing pre-pandemic levels in 2022. This recovery can be attributed to the government's innovative approaches, effective publicity, proactive crisis management, and the development of new resorts and attractions.

First capital Research expects LKR appreciation against the greenback to be limited in the future amidst the relaxation on imports hence, AHUN, KHL and CONN that are exposed to foreign markets may experience favourable measures

Enhancing a competitive edge with an Inhouse Travel Agency



Operating an in-house travel agency alongside a hotel can yield a multitude of advantages. Notably, it provides unparalleled convenience for guests by offering a one-stop solution for all their travel needs, from booking flights to arranging tours, all within the hotel premises.

Aitken Spence Hotel Holdings PLC



Hayley's Leisure PLC



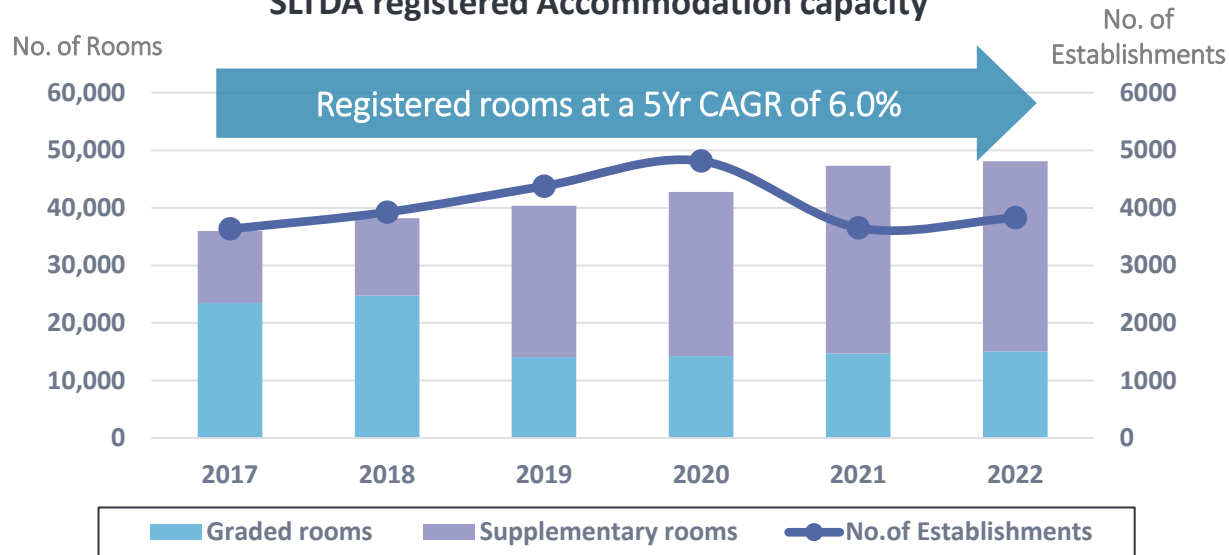
John Keells Hotels PLC



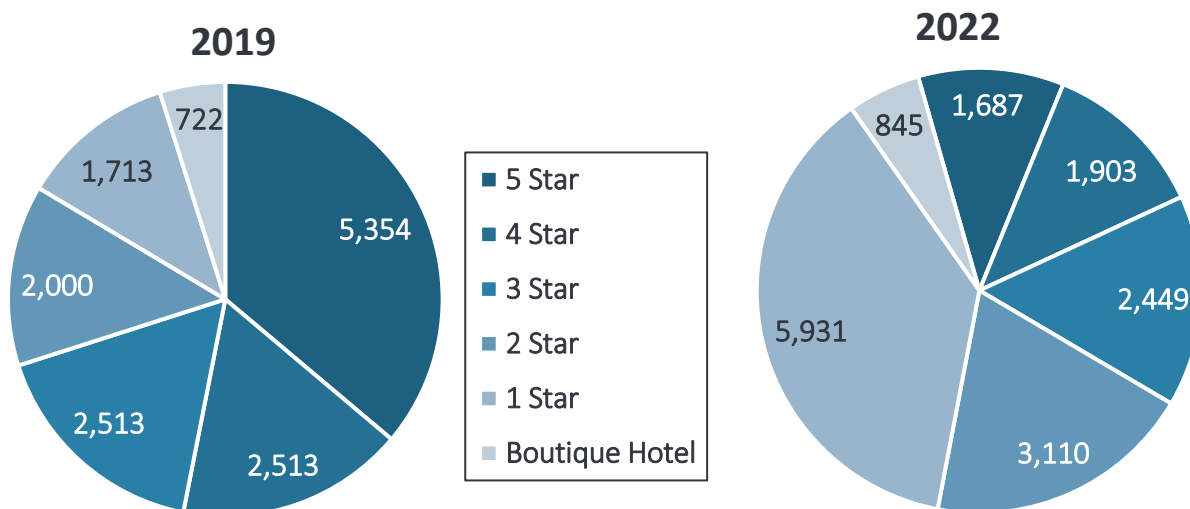
This streamlined approach allows hotels to curate tailored packages, accommodating diverse guest preferences and budgets, increasing the likelihood of bookings and increasing occupancy whilst boosting profitability.

Increased tourism sector investment signals strong investor confidence

SLTDA registered Accommodation capacity



Mix of Classified Tourist hotel rooms (2019 vs 2022)



Accommodation Capacity

- In 2022, out of 3,829 registered accommodations, only 156 were classified as tourist hotels, with 37 being 5-star hotels, accounting for just 4.1% of Sri Lanka's total accommodations.
- The Western province had the highest number of star hotels (57), followed by the Central (37) and Southern (30) provinces.
- The concentration of classified tourist hotels in the Western, Central, and Southern provinces highlights uneven development in tourism-related infrastructure and tourist destinations.
- The ratio of graded to supplementary rooms shifted from 35% graded to 65% supplementary rooms in 2019 to 31% graded to 69% supplementary rooms in 2022.

Investment Projects

- Investment in the sector declined by 48.8%YoY to USD 68.0Mn due to delays and downscaling of projects by investors, aggravated by construction halts amid challenging economic conditions in 2022.
- Presently, there are 95 hotel projects with 5,424 rooms under construction at various stages of completion. Additionally, 25 hotel projects with a capacity of 1,623 rooms are expected to be completed by 2023.

Risk Assessment

		LIKELIHOOD			
		LOW	MEDIUM	HIGH	VERY HIGH
IMPACT	LOW			Depreciation of LKR against the USD	
	MEDIUM		Geo-political instability		Re-introduction of Minimum Room rate for city hotels
	HIGH		Arrivals of unregulated homestay/sharing accommodation such as Airbnb	Electricity tariff hike and power shortages	
	VERY HIGH		Taxes and levies pertaining to businesses engaging in the tourism sector		Extensive skill migration and shortage of experienced workforce

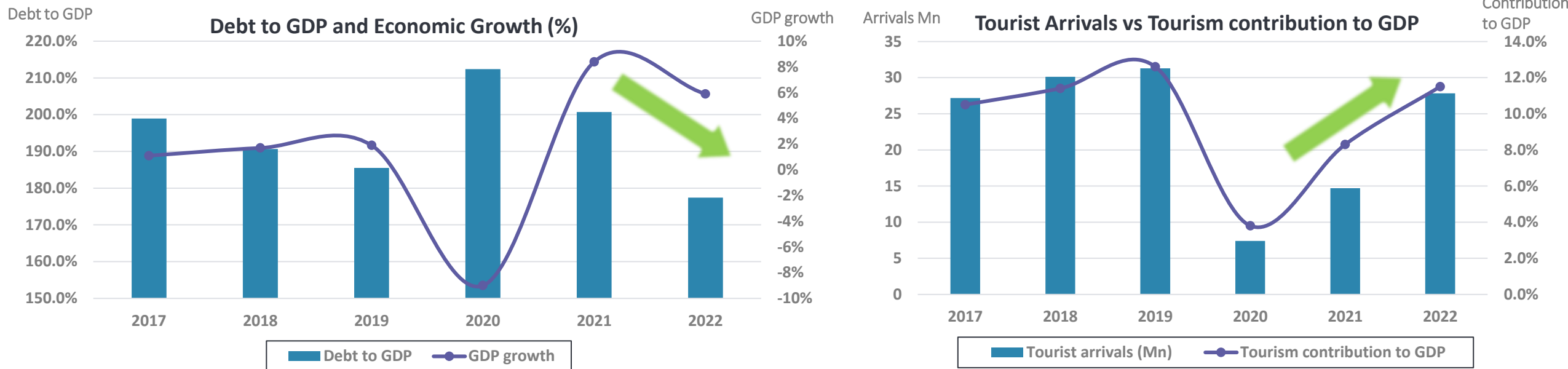


CASE STUDIES:

Tourism: Bridging the Economic Gap

Despite the harsh economic crisis, GREECE witnessed positive growth momentum in tourist arrivals

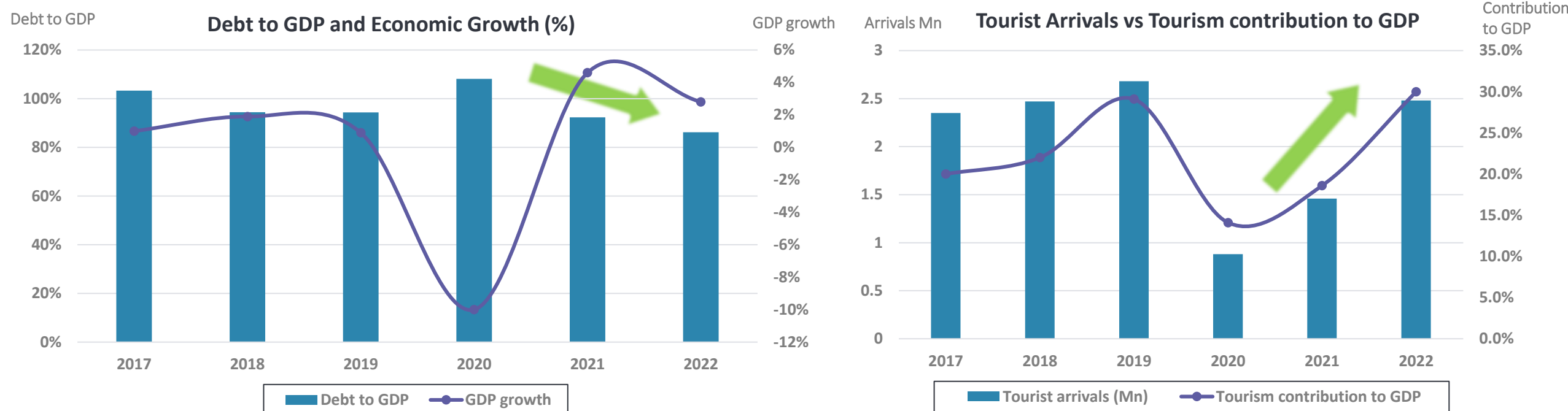
Tourism is a vital pillar of Greece's economy, serving as one of the nation's most significant sectors. As a top European tourist destination, Greece's status as the most visited country has directly and indirectly contributed to nearly 20% of the country's GDP, playing a pivotal role in its economic recovery.



- The 'Euro Crisis' stemmed from fiscal mismanagement in countries such as; Ireland, Spain, Portugal, and Greece that benefited from economic windfalls upon, adopting the Euro which resulted these countries to experience a recession.
- The recession weakened Greece's already paltry tax revenues which caused the recession to worsen leading the country to a liquidity crisis.
- The Greek government then requested bailouts totalling USD 307.2Bn from the IMF through a stand by arrangement (2010-2012) and the EFF (2012-2016) which conditioned on budget reforms, spending cuts and higher tax revenues. In 2022, Greece has paid off the final tranches of bailout loans owed to the International Monetary Fund earlier ahead of the deadline amidst the economic recovery and further support lent by the Euro zone.

Tourism in Jamaica is the leading source of foreign exchange, a significant GDP contributor, and a long-standing, rapidly growing industry

Tourism has been a strong pillar in Jamaica for its unique culture, beaches and the people, and has been contributing largely to the country's economic development. Tourism directly employs 175,000 Jamaicans and generates indirect employment for another 354,000 Jamaicans. Overall, the tourism sector has grown by 36% over the past 30 years against a total economic growth of 10%.



- Jamaica faced its biggest financial crisis as income started to plateau in 1990 and a further setback following the 2008 global financial crisis.
- The country faced its biggest recession followed by policy missteps, high public debt, emigration and brain drain. Hence by 2013 Jamaica’s public debt reached 147% to GDP.
- The government then requested bailouts from the IMF under the EFF 2013 and a stand by arrangement in 2016 totalling SDR 2.6Bn as the country was in the verge of an economic meltdown.

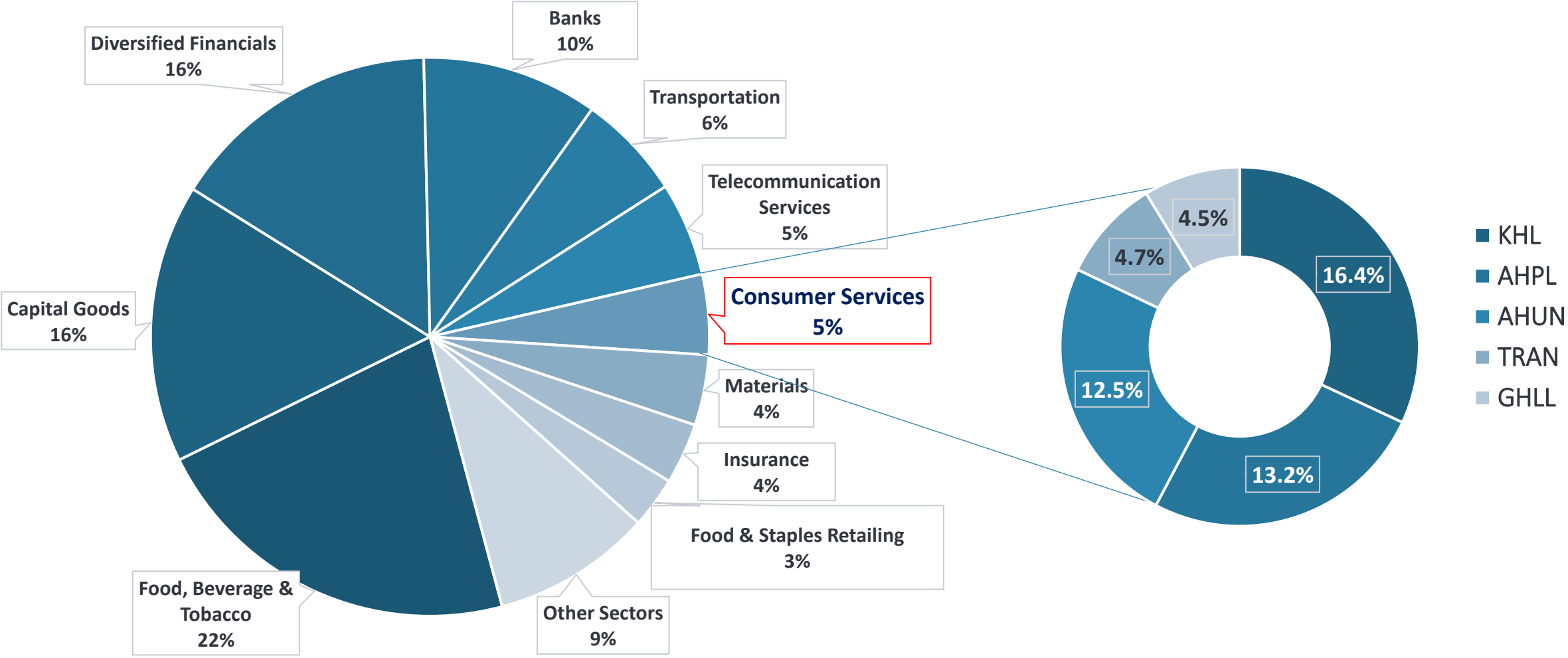


VALUATION

Market capitalization composition – CSE

Of the LKR 4,547.6Bn total market capitalization, LKR 211.6Bn, accounting for 5%, is held by Consumer Services (Hotels) sector.

Top 5 counters leading market capitalization in Consumer Services sector



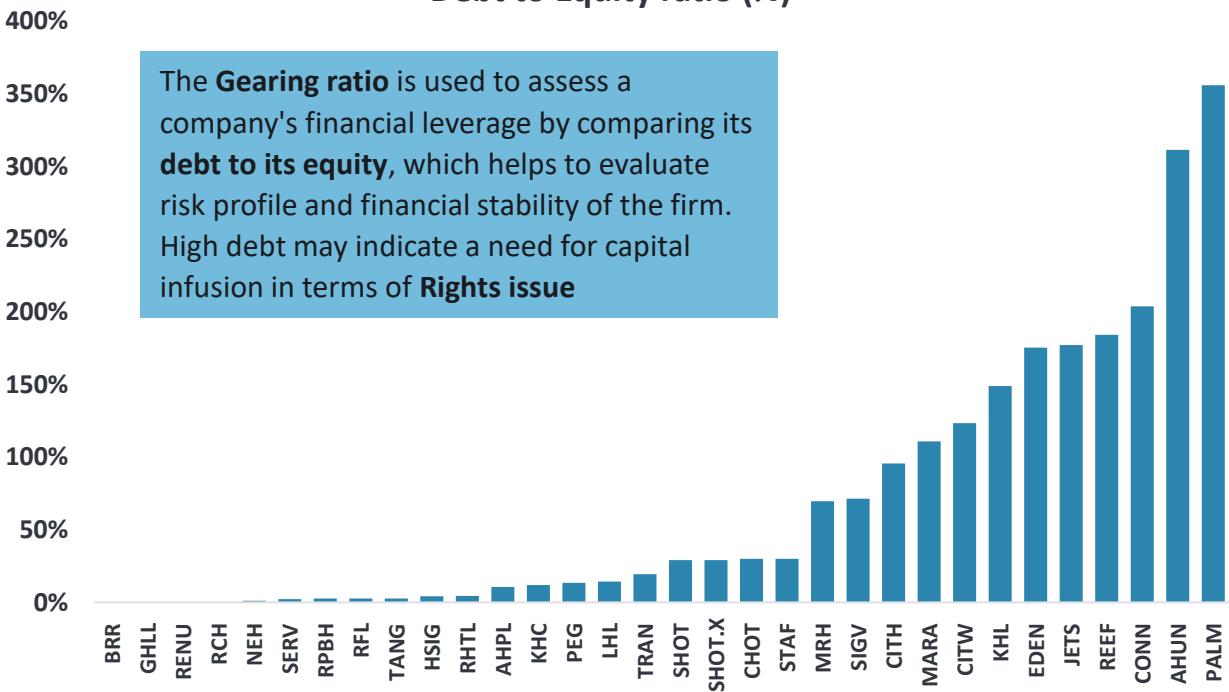
*Data as of 18th Sep 2023

The sector, despite high gearing and the impact of high interest rates, found relief through extended debt moratoriums

- Between 2018 and 2022, the tourism sector's exposure to banks increased from 4.8% to 6.2% of total gross loans. During this period, total gross loans and advances in the banking sector grew by 50%, while advances and penalties to the tourism sector surged by 95%, notably increasing by 31% in 2022.
- The tourism sector benefitted from a debt moratorium scheme initiated in mid-2020 due to the pandemic. This scheme continued until 30th Jun 2022, with multiple extensions. Nevertheless, the sector faced challenges due to high inflation and increased electricity tariffs, which added pressure to hotels' working capital requirement. Amidst a high-interest rate environment, several listed hotels have taken steps to fund their working capital and refurbishment requirements through rights issues.

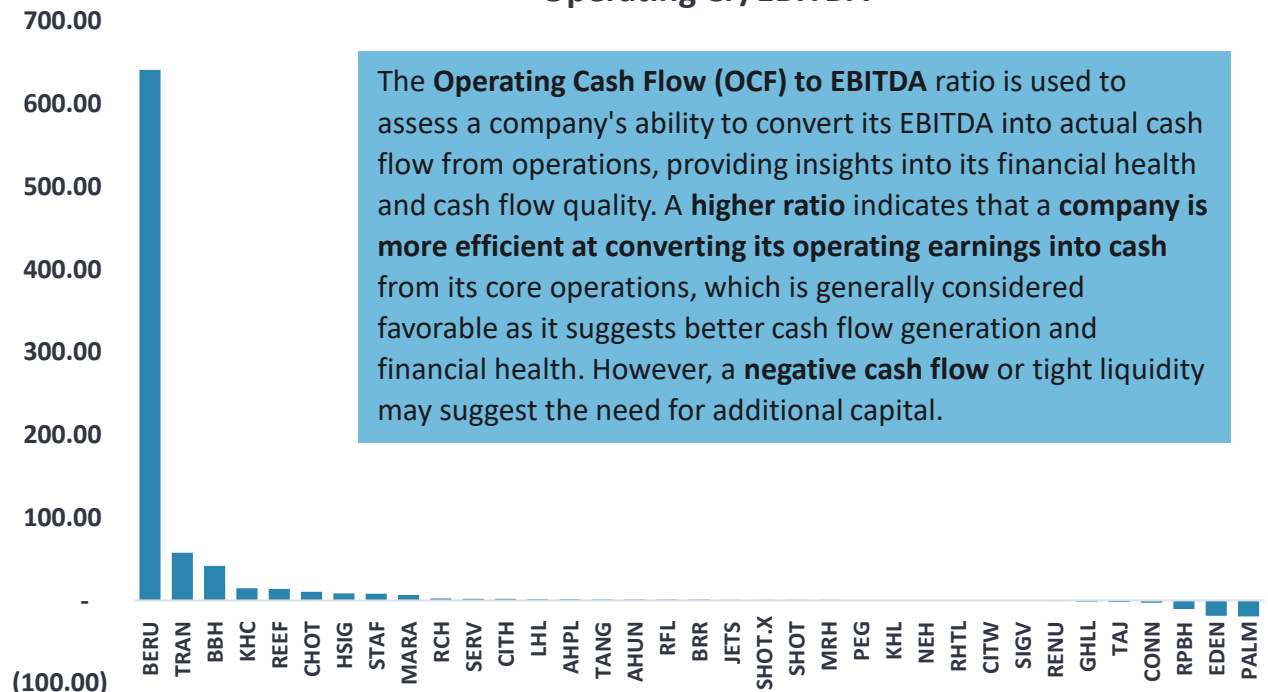
The escalation in working capital requirements have contributed to the increased gearing of listed hotels

Debt to Equity ratio (%)



The **Gearing ratio** is used to assess a company's financial leverage by comparing its **debt to its equity**, which helps to evaluate risk profile and financial stability of the firm. High debt may indicate a need for capital infusion in terms of **Rights issue**

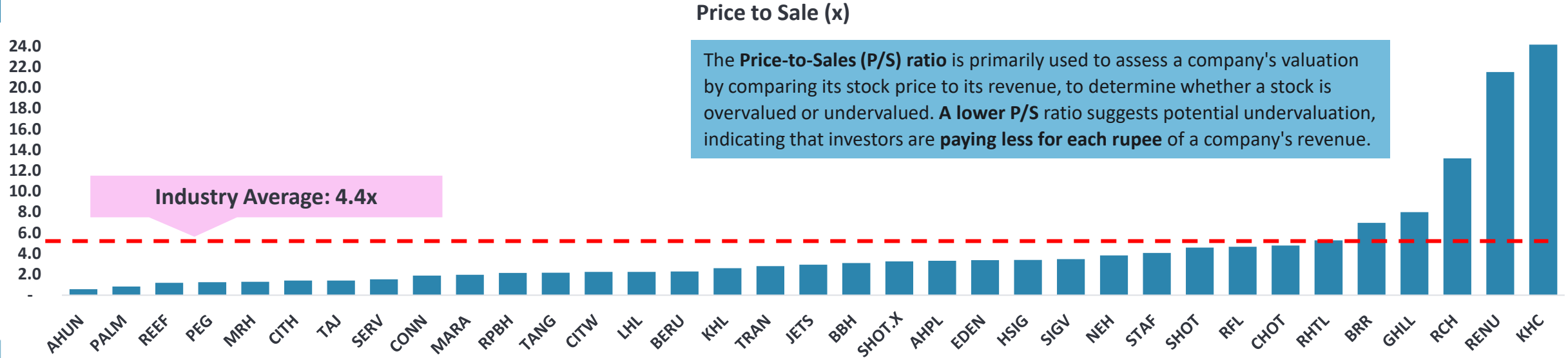
Operating CF/EBITDA



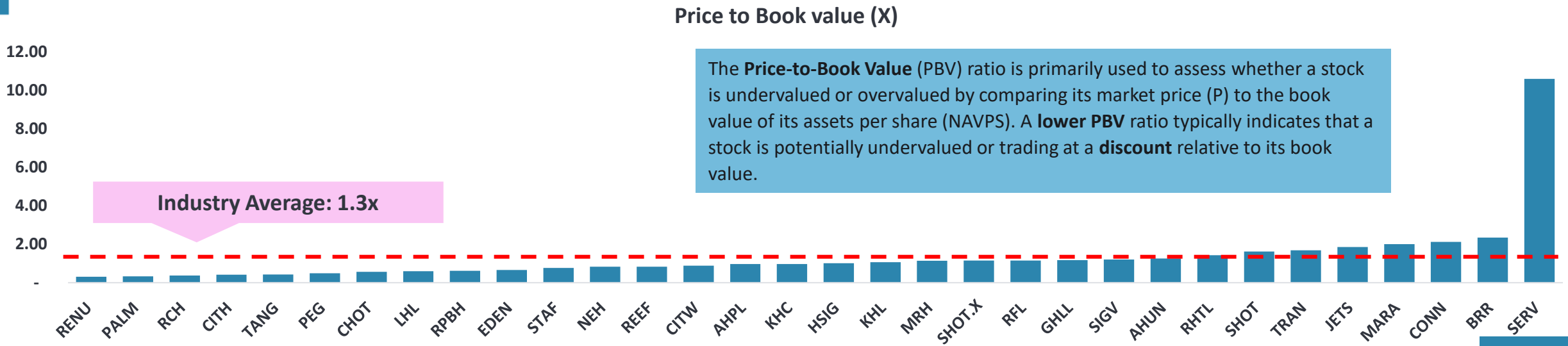
The **Operating Cash Flow (OCF) to EBITDA** ratio is used to assess a company's ability to convert its EBITDA into actual cash flow from operations, providing insights into its financial health and cash flow quality. A **higher ratio** indicates that a **company is more efficient at converting its operating earnings into cash** from its core operations, which is generally considered favorable as it suggests better cash flow generation and financial health. However, a **negative cash flow** or tight liquidity may suggest the need for additional capital.

*Data as of Mar 2023

AHUN, PALM and REEF has the lowest Price to Sales

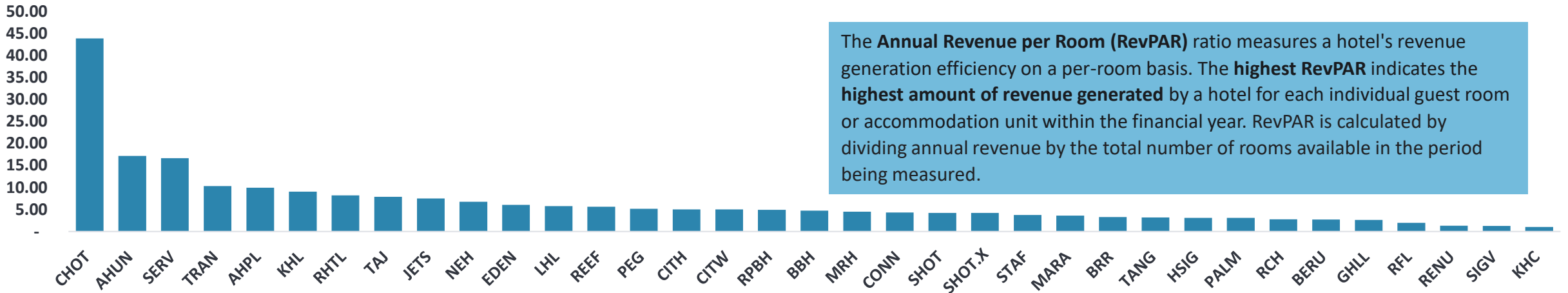


70% of the Hotels are trading below the industry Price to Book value



City hotels lead in RevPAR amidst high ARR

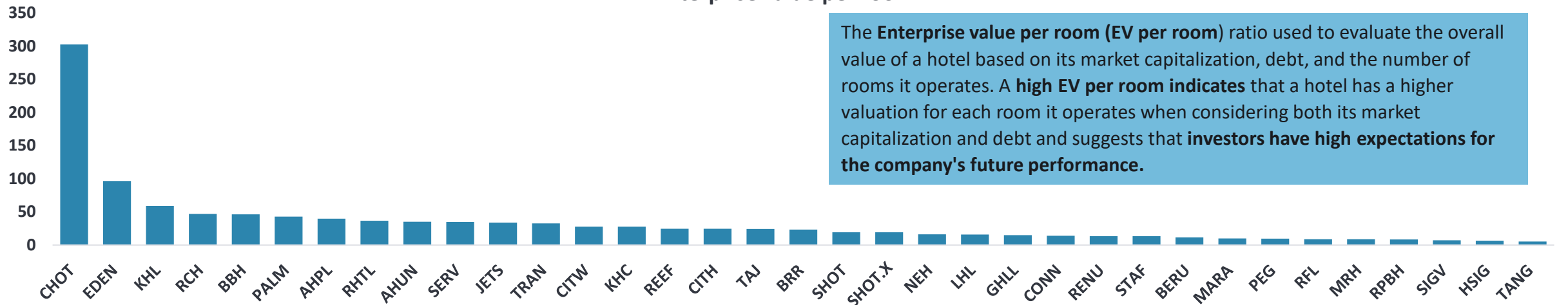
Annual Revenue per room (LKR Mn)



The **Annual Revenue per Room (RevPAR)** ratio measures a hotel's revenue generation efficiency on a per-room basis. The **highest RevPAR** indicates the **highest amount of revenue generated** by a hotel for each individual guest room or accommodation unit within the financial year. RevPAR is calculated by dividing annual revenue by the total number of rooms available in the period being measured.










AHUN, KHL, and AHPL, with the largest number of rooms, have significant potential for performance upgrades

Enterprise value per room



The **Enterprise value per room (EV per room)** ratio used to evaluate the overall value of a hotel based on its market capitalization, debt, and the number of rooms it operates. A **high EV per room indicates** that a hotel has a higher valuation for each room it operates when considering both its market capitalization and debt and suggests that **investors have high expectations for the company's future performance.**

FCR Recommendations: Hotel Sector

FIRST CAPITAL RECOMMENDATIONS: HOTEL SECTOR														
Stock	Stock Code	Share price	Target Price	Target Price	52-week High	52-week Low	Capital gain (%) FY25E	Annualized return (%) FY25E	EPS	Forward	No.of Rooms	EV per room	FCR Recommendation	
		22.08.2023	2023E/FY24E	2024E/FY25E					FY25E	PER				
		LKR	LKR	LKR	LKR	LKR			LKR	(x)				
 AITKEN SPENCE HOTEL HOLDINGS PLC	AHUN.N	79.60	80.00	105.00	90.00	48.00	31.9%	20.1%	7.0	11.4	2,627.00	35.09	BUY	
 JOHN KEELLS HOTELS PLC	KHL.N	23.40	26.00	35.00	24.70	14.60	49.6%	30.6%	2.3	10.2	1,476.00	58.95	BUY	
 HAYLEYS LEISURE PLC	CONN.N	25.60	32.00	40.00	28.00	18.00	56.3%	34.4%	5.0	5.1	418.00	11.78	BUY	
 THE LIGHTHOUSE HOTEL PLC	LHL.N	34.40	40.00	50.00	39.80	23.00	45.3%	28.1%	3.3	10.4	90.00	22.22	BUY	
 THE FORTRESS RESORTS PLC	RHTL.N	20.40	25.00	32.00	23.50	13.20	56.9%	34.7%	2.1	9.7	53.00	36.58	BUY	
 ROYAL PALMS BEACH HOTELS PLC	RPBH.N	29.50	35.00	46.00	34.80	20.10	55.9%	34.2%	3.5	8.4	136.00	8.42	BUY	
 SERENDIB HOTELS PLC	SHOT.N	14.10	12.50	20.00	20.00	7.30	41.8%	26.1%	1.1	12.8	341.00	19.29	BUY	
 DOLPHIN HOTELS PLC	STAF.N	35.40	42.00	55.00	39.80	25.20	55.4%	33.9%	4.6	7.7	154.00	13.18	BUY	
 ASIAN HOTELS AND PROPERTIES PLC	AHPL.N	61.00	55.00	86.00	64.50	31.50	41.0%	25.5%	5.7	10.7	847.00	39.79	BUY	

AITKEN SPENCE HOTEL HOLDINGS PLC

AHUN.N0000

Current Price: LKR 79.60

Fair Value: LKR 105.00 (FY25E)

BUY

AHUN is a 74.5% owned subsidiary of Aitken Spence (SPEN.N0000)

It is the largest room key operator in the country with operations in Sri Lanka (1,295 rooms in 8 properties & 116 rooms in 1 managed properties), Maldives (735 rooms in 5 properties), Oman (150 rooms in 1 owned property and 191 rooms in 2 managed properties) and India (140 rooms in 1 owned property).

AHUN records a higher loss of LKR 2.2Bn in 1QFY24 compared to LKR 0.9Bn in 1QFY23

Despite the gradual recovery in both Sri Lankan and South Asian and Middle East segments, AHUN reported a net loss of LKR 2.2Bn in 1QFY24 amidst the significant rise in the net operating cost recording at LKR 7.3BBn in 1QFY24. Accordingly, operating profits turned into losses and fell by 98.3%YoY to LKR 589.4Mn during the quarter compared to 1QFY23. In the midst of high interest rate environment, net finance cost of AHUN witnessed a steep rise of 29.9%YoY to LKR 1.3Bn which hampered the profit growth of AHUN.

Relatively faster recovery in South Asian and Middle East Sector to aid AHUN in outperforming peers

Generating over 85.5% of revenue from outside Sri Lanka, AHUN is expected to benefit from relatively faster recovery in tourism in peer countries. Taking in to consideration the expected economic recovery and the looming tourists arrivals along with the global economic recovery, we anticipate earnings to soar for FY24 at 1.7Bn and for FY25 at LKR 2.4Bn respectively. **BUY**

P/E 31 March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Estimates (LKR 'Mn)								
Revenue	19,055	18,588	5,592	24,571	45,060	51,098	58,944	71,662
EBIT	2,735	1,564	-5,189	4,280	7,311	8,527	8,646	12,614
Net Profit	811	-625	-4,669	624	-288	1,685	2,360	4,567
Adjusted EPS (LKR)	2.4	(1.9)	(13.9)	1.9	(0.9)	5.0	7.0	13.6
YoY Growth (%)		-180%	-632%	113%	146%	685%	40%	93%
Valuations								
PER (x)	33.6x	N/A	N/A	42.9x	N/A	15.9x	11.3x	5.9x
PBV (x)	1.3x	1.3x	1.7x	1.3x	1.3x	1.2x	1.1x	1.0x
DPS	1.0	-	-	-	-	1.0	2.5	5.4
DY (%)	1.3%	0.0%	0.0%	0.0%	0.0%	1.3%	3.1%	6.8%
Dividend Payout	42.3%	0.0%	0.0%	0.0%	0.0%	20.0%	35.0%	40.0%
ROE	3.7%	-3.1%	-29.4%	3.1%	-1.4%	7.5%	9.9%	17.1%

PER based Valuation	FY24E	FY25E
Earnings (LKR 'Mn)	1,685	2,360
No. of Shares ('Mn)	336	336
EPS	5.0	7.0
Expected Average PER	16.0x	15.0x
Target Price	80	105

JOHN KEELLS HOTELS PLC

KHL.N0000

Current Price: LKR 23.40

Fair Value: LKR 35.00 (FY25E)

BUY

80.3% owned Subsidiary of Premiere John Keells Holdings

John Keells Hotels PLC is one of Sri Lanka's largest hotel operators, with a portfolio of 12 resorts across Sri Lanka (1,022 rooms) and Maldives (454 rooms) holding 1,476 hotel rooms in total. All of KHL hotels are under the brand of Cinnamon and the latest addition during FY21 was Cinnamon Bentota Beach which was reconstructed targeting the luxury market. Group reopened Hikka Tranz by Cinnamon in FY22 while construction of Cinnamon Red Kandy (216 rooms) was under under construction and was planned to be completed by FY25E. Under the Maldives segment, 4 star hotels were reconstructed/refurbished in FY20 & FY21 with the total of 454 rooms targeting the upper and luxury tourists.

Topline drop by 3.3%YoY in 1QFY24 hampers profitability

KHL increased its losses during 1QFY24 to LKR 960.4Mn cf. LKR 464.2Mn in 1QFY23 impacted by escalation of costs. The poor bottom-line performance stemmed largely from drop in top-line, which declined by 3.3%YoY to LKR 6.0Bn. Meanwhile, with the rise in costs, GP margins hampered by 530bps to 57.7% largely due to incremental expenses at the Maldivian resort business (primarily due to the delay in lowering fuel prices in-line with the global crude oil prices). Despite the interest rate reduction, net finance cost remained elevated and recorded at LKR 698.2Mn, which further hampered the profitability growth.

Tourist arrivals in Maldives surpassed pre-pandemic levels which benefits higher occupancy

Maldives segment contributed over 70% of the group's revenue and we expect the contribution of this segment towards the profitability to grow over the coming years due to the speedy recovery of tourism in Maldives which already surpassed the prepandemic levels. On a silver lining, the prospects for the Sri Lankan Resorts segment remain positive as the recovery in the segment grows faster than anticipated which translated to pick up in occupancies at Sri Lankan Resorts segments (55.0% in 1QFY24 cf. 33.0% in 1QFY23). Considering the potential outlook, we expect KHL to reverse losses and to record profit of LKR 3.4Bn in FY25E surpassing the prepandemic earnings. **BUY**

P/E 31 March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Estimates (LKR 'Mn)								
Revenue	11,033	9,712	3,661	13,355	28,835	34,921	42,647	61,599
EBIT	1,087	-764	-4,777	-190	1,742	3,667	6,056	9,240
Net Profit	817	-1,201	-5,096	-1,203	-321	1,693	3,395	5,700
Adjusted EPS (LKR)	0.6	(0.8)	(3.5)	(0.8)	(0.2)	1.2	2.3	3.9
YoY Growth (%)		-247%	-324%	76%	44%	427.6%	100.5%	67.9%
Valuations								
PER (x)	41.7x	N/A	N/A	N/A	N/A	20.1x	10.0x	6.0x
PBV (x)	1.2x	1.2x	1.4x	1.1x	1.0x	1.0x	0.9x	0.8x
DPS	0.2	-	-	-	-	0.2	0.4	0.8
DY (%)	0.6%	0.0%	0.0%	0.0%	0.0%	0.7%	1.8%	3.3%
Dividend Payout	26.7%	0.0%	0.0%	0.0%	0.0%	15.0%	18.0%	20.0%
ROE	2.8%	-4.2%	-20.9%	-4.0%	-1.0%	5.0%	9.2%	13.8%

PER based Valuation	FY24E	FY25E
Earnings (LKR 'Mn)	1,693	3,395
No. of Shares ('Mn)	1,456	1,456
EPS	1.2	2.3
Expected Average PER	22.0x	15.0x
Target Price	26	35

HAYLEYS LEISURE PLC

CONN.N0000

Current Price: LKR 25.60

Fair Value: LKR 40.00 (FY25E)

BUY

CONN is 67.6% owned subsidiary of export conglomerate Hayleys (HAYL.N)

Hayleys Leisure PLC's hotels, resorts, and boutiques consists of 10 properties with 418 rooms, of which 09 are scattered across the resplendent island of Sri Lanka and the other, a luxurious resort in the Maldives.

CONN net loss decreased to LKR 134.1Mn in 1QFY24 (1QFY23: loss of LKR 240.7Mn)

The improved performance during the quarter was largely on the back of declining finance expenses, which declined by 67.3%YoY to LKR 66.8Mn. Furthermore, group topline for 1QFY24 significantly grew by 91.1%YoY to LKR 578.3Mn whilst gross margin improved to 57.1% from 49.5% in 1QFY23.

CONN to witness faster recovery benefitted by occupancies

CONN underwent some challenging times during 2021 and 2022 owing to the pandemic which harshly effected the tourists arrivals to meet with a sharp decline. Moving into 2023 resulted by faster than expected recovery in tourism industry, the economy gradually painting its recovery from the global pandemic and the economic downturn influenced by various government strategies and various promotions, the 1QFY24 has shown that the company has gradually recovered from its bottom. CONN's exposure to the Maldives, which has made a remarkable recovery, reaching pre-pandemic levels, along with its presence in the coastal segment of Sri Lanka and boutique-style hotels, leads us to anticipate occupancy levels of 70% in FY24E. Additionally, with the rapid resurgence of arrivals, we expect Average Room Rates (ARR) to increase, boosting margins in the coming years. Therefore, considering the company's potential and the sector's outlook, we have upgraded our forecasted net profit to LKR 358.0Mn from LKR 345.0Mn for FY24 and LKR 535.1Mn for FY25E. Hence, we recommend a **BUY** rating for the company.

P/E 31 March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Estimates (LKR 'Mn)								
Revenue	1,644	1,226	362	777	1,532	2,391	2,789	3,427
EBIT	408	-114	-583	-623	-445	586	683	994
Net Profit	300	-266	-790	-898	-824	316	481	749
Adjusted EPS (LKR)	5.6	(1.6)	(6.7)	(7.7)	(7.6)	2.9	4.5	6.9
YoY Growth (%)		-128%	-329%	-14%	0%	138%	52%	56%
Valuations								
PER (x)	4.6x	N/A	N/A	N/A	N/A	8.7x	5.8x	3.7x
PBV (x)	0.7x	0.8x	1.0x	1.3x	2.0x	1.7x	1.4x	1.1x
DPS	1.8	-	-	-	-	0.4	1.3	2.1
DY (%)	6.8%	0.0%	0.0%	0.0%	0.0%	1.7%	5.2%	8.1%
Dividend Payout	31.5%	0.0%	0.0%	0.0%	0.0%	15.0%	30.0%	30.0%
ROE	16.2%	-4.8%	-25.2%	-37.6%	-60.2%	19.3%	24.3%	30.0%

PER based Valuation	FY24E	FY25E
Earnings (LKR 'Mn)	316	481
No. of Shares ('Mn)	108	108
EPS	2.9	4.5
Expected Average PER	11.0x	9.0x
Target Price	32	40

THE LIGHTHOUSE HOTEL PLC

LHL.N0000

Current Price: LKR 34.40

Fair Value: LKR 50.00 (FY25E)

BUY

Leading boutique resort targeting luxury market

The Lighthouse Hotel PLC (LHL) operates three unique properties along the southern coast of Sri Lanka. Jetwing Lighthouse, the iconic resort of LHL, is one of the renowned architect Geoffrey Bawa's finest masterpieces overlooking the coastline of Galle and operated with Jetwing's legendary hospitality with 90 rooms. Alongside Jetwing Lighthouse, it also operates a boutique hotel, Jetwing Kurulubedda, with two private dwellings and four rooms, and the trendy, easy-going, select-service Hotel J in Unawatuna.

Over 50.0% growth in the top-line resulted in a reduction of the net loss in 1QFY23

LHL achieved remarkable top-line growth of 56.1%YoY, reaching LKR 212.6Mn, driven by a significant increase in tourist arrivals. This revenue growth had a positive impact on the bottom line, as LHL reported a reduced net loss of 44.6%YoY, totaling LKR 24.7Mn in 1QFY24 compared to a loss of LKR 44.5Mn in 1QFY23. However, administrative expenses continued to rise, primarily due to salary adjustments, leading to a substantial 99.0%YoY increase to LKR 137.6Mn.

Occupancy rates expected to rise swiftly with higher ARR

The global tourism industry made a robust comeback in 2022, given widespread vaccination efforts and the relaxation of international travel restrictions in many countries.

Consequently, tourism in Sri Lanka is rebounding faster than expected, with a strong recovery observed in 1H2023. Furthermore, boutique accommodations have the advantage of quickly filling up their occupancy rates while commanding higher ARR. As a result, we anticipate a further 50% improvement in occupancies, with ARR expected to grow at a 3-year forward CAGR of 7.6% between FY23 and FY26E. **BUY**

PE 31 March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Estimates (LKR 'Mn)								
Revenue	850	510	184	427	731	997	1,146	1,429
EBIT	155	-65	-175	-10	-19	199	252	372
Net Profit	103	-96	-197	-78	-120	101	153	255
Adjusted EPS (LKR)	2.2	(2.1)	(4.3)	(1.7)	(2.6)	2.2	3.3	5.5
YoY Growth (%)		-194%	-104%	60%	53%	185%	51%	67%
Valuations								
PER (x)	15.4x	N/A	N/A	N/A	N/A	15.6x	10.3x	6.2x
PBV (x)	0.5x	0.5x	0.5x	0.5x	0.6x	0.6x	0.5x	0.5x
DPS	-	-	-	-	-	-	1.3	2.8
DY (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	3.9%	8.1%
Dividend Payout	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	40.0%	50.0%
ROE	3.5%	-3.0%	-6.6%	-2.5%	-4.3%	3.5%	5.2%	8.2%

PER based Valuation	FY24E	FY25E
Earnings (LKR 'Mn)	101	153
No. of Shares ('Mn)	46	46
EPS	2.2	3.3
Expected Average PER	18.0x	15.0x
Target Price	40	50

THE FORTRESS RESORTS PLC

RHTL.N0000

Current Price: LKR 20.40

Fair Value: LKR 32.00 (FY25E)

BUY

Highly attractive resort targeting upper class tourists

The Fortress Resorts PLC, is a luxury boutique hotel in Galle, Sri Lanka which has invested in its subsidiary, La Forteresse (Pvt)Ltd. and La Forteresse (Pvt)Ltd, provides lodging, food, beverage and other hospitality industry related activities. The Company accommodations consists of 53 rooms including fortress room, ocean room, beach room, beach splash room, ocean loft suites and fortress residence suites.

Bottom line plunges by 108.6%YoY amidst cost escalations

RHTL recorded a decline in bottom line of 108.6% for 1QFY24 recording a loss of LKR 3.5Mn resulted by the high finance and administrative cost increase by 48.1% YoY. Despite the downturn the top line grew marginally by 5.7%YoY to 133.2Mn deriving optimism for its prospects of recovery in the future. Furthermore, Gross Profit margin also displayed a decline YoY recording 59.2% compared to 70.4% in 1QFY23.

Bottomline of the company is forecasted to grow at 27%YoY in FY25E.

While RHTL remain hopeful of a steady recovery of political stability, the group will continue to strategize accordingly to attract guests, grow business opportunities and create sustainable value for all stakeholders. RHTL's growth strategies for the year 2022 and beyond includes identify niche markets and reach out to the relevant audience through various partnerships with SLH (Small Luxury Hotels of the World). Also, the company is expecting to widen to the Indian market with special focus on the wedding industry. Considering the steady economic recovery RHTL anticipate the operating expenses to ease contributing to a growth in the bottom line. Considering the potential of the company and the heightened tourists arrivals we anticipate a Net Profit target of LKR 186.2Mn and LKR 263.4Mn for FY24E and FY25E, respectively with an improved occupancy of 50%. **BUY**

P/E 31 March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Estimates (LKR 'Mn)								
Revenue	788	489	75	349	435	599	734	945
EBIT	206	4	-235	7	-75	168	235	312
Net Profit	210	27	-176	33	-20	186	236	295
Adjusted EPS (LKR)	1.9	0.2	(1.6)	0.3	(0.2)	1.7	2.1	2.7
YoY Growth (%)		-87%	-743%	119%	160%	1038%	27%	25%
Valuations								
PER (x)	10.8x	82.8x	N/A	68.4x	N/A	12.1x	9.6x	7.7x
PBV (x)	1.2x	1.3x	1.4x	1.4x	1.4x	1.3x	1.1x	1.0x
DPS	0.5	4.1	-	-	-	0.4	0.4	0.4
DY (%)	4.9%	4.9%	0.0%	0.0%	0.0%	3.3%	4.2%	5.2%
Dividend Payout	52.9%	405.7%	0.0%	0.0%	0.0%	40.0%	40.0%	40.0%
ROE	11.3%	1.5%	-11.0%	2.0%	-1.2%	10.4%	11.7%	12.7%

PER based Valuation	FY24E	FY25E
Earnings (LKR 'Mn)	186	236
No. of Shares ('Mn)	111	111
EPS	1.7	2.1
Expected Average PER	15.0x	15.0x
Target Price	25	32

ROYAL PALM BEACH HOTELS PLC

RPBH.N0000

Current Price: LKR 29.50

Fair Value: LKR 46.00 (FY25E)

BUY

Coastal indulgence in the south of Colombo

Royal Palms Beach Hotels is located in Kalutara, the south of Colombo with exposure to the coastal region. The hotel has 136 rooms in a range of suits such as deluxe, heritage, executive, rajasthan royal, royal and penthouse. Revenue mainly stems from rooms and food & beverage sales. 28.41% stake of the hotel lies with Tangerine Beach Hotels PLC as at 30th Mar 2023.

Top line take a positive turn as tourists arrivals surge

RPBH recorded a loss of LKR 43.4Mn in 1QFY24 recording a 370.7%YoY downturn. The decline is mainly attributed by the higher admin expenses that recorded a 39.6%YoY increase to LKR 140.0Mn resulted by the inflationary pressure and poor economic sentiment. Despite the decline in the bottom line, the top line showcased a growth of 15.5%YoY recording LKR 147.6Mn influenced by the improved arrivals mainly attracting the coastal area. Gross Profit margin too showcased a decline of 460bps YoY on the back of increase in cost of sales by 30.6%YoY. However, on a positive note, RPBH recorded a net finance income of LKR 15.3Mn in 1QFY24.

Location-specific advantage and upswing in arrivals to favour RPBH

We expect occupancy levels of RPBH to significantly improve in the future given the positive developments on the tourism front with reviving arrivals. Accordingly, we estimate occupancy to improve to 55.0% and 60.0% in FY24E and FY25E, respectively while it is expected to gradually return to pre-pandemic levels in FY25E. Furthermore, location-specific advantage of RPBH considering its close proximity to the Colombo city and large attraction for coastal areas too shall favour in expanding the bottom-line of RPBH. As a result, we estimate earnings of RPBH to improve to LKR 115.7Mn (+208%YoY) in FY24E and LKR 177.0Mn (+53%YoY) in FY25E.

P/E 31 March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Estimates (LKR 'Mn)								
Revenue	755	618	151	337	671	820	1,127	1,549
EBIT	132	59	-159	-44	-63	86	192	294
Net Profit	127	69	-129	-22	-107	116	177	247
Adjusted EPS (LKR)	2.5	1.4	(2.6)	(0.4)	(2.1)	2.3	3.5	4.9
YoY Growth (%)		-45%	-286%	83%	379%	208%	53%	40%
Valuations								
PER (x)	11.6x	21.3x	N/A	N/A	N/A	12.8x	8.4x	6.0x
PBV (x)	0.6x	0.6x	0.6x	0.5x	0.6x	0.6x	0.6x	0.5x
DPS	1.0	1.0	-	-	-	-	1.1	2.2
DY (%)	3.4%	3.4%	0.0%	0.0%	0.0%	0.0%	3.6%	7.5%
Dividend Payout	39.4%	72.2%	0.0%	0.0%	0.0%	0.0%	30.0%	45.0%
ROE	5.1%	2.8%	-5.4%	-0.8%	-4.6%	4.7%	6.8%	9.1%

PER based Valuation	FY24E	FY25E
Earnings (LKR 'Mn)	116	177
No. of Shares ('Mn)	50	50
EPS	2.3	3.5
Expected Average PER	15.0x	13.0x
Target Price	35	46

SERENDIB HOTELS PLC

SHOT.N0000

Current Price: LKR 14.10

Fair Value: LKR 20.00 (FY25E)

BUY

Manifold destinations to offer

Serendib Hotels PLC is one of the leading hotel groups in Sri Lanka which encompasses its offerings in key attractions of the country such as beach, jungle and lagoon. Avani Bentota resort, Club Hotel Dolphin and Hotel Sigiriya are other prominent hotels owned by SHOT. SHOT also owns a line of boutique hotels such as Lantern boutique hotel, Ubuntu beach villa and Reveal beach house. Revenue of SHOT is predominantly based on accommodation, food & beverage charges and other hotel operations. The hotel currently consists of 361 rooms offered in the range of standard, villas, suite, deluxe rooms and superior rooms. SHOT is a subsidiary of Eden Hotel Lanka PLC, which owns 60.5% of stake as at 31st Mar 2023.

Bottomline on a recovering phase

SHOT experienced a massive 100.0%YoY growth in the bottom-line recording LKR 4.3Mn during 1QFY24 registering a positive outlook mainly aided by the growth in the top line which was recorded at LKR 438.4Mn recording a 41.2%YoY growth compared to 1QFY23. Despite the upturn in the topline Gross Profit margin experienced a marginal degrowth to 65.3% compared to 71.4% in 1QFY23. Net finance cost brought in a positive impact on the earnings recording a net finance income of LKR 75.7Mn compared to the net finance expense of LKR 182.8Mn in 1QFY23 creating a favourable impact.

Diverse destination offerings to unlock growth

We expect earnings to recover in the future as tourist arrivals improve resulting in higher occupancy levels and diverse locations to play a major role in uplifting earnings. Hence, we expect occupancy levels to improve to nearly 65% in FY25E. Hence, we estimate the loss to reverse in FY24E and FY25E and record an earnings of LKR 186.0Mn and LKR 342.0Mn respectively. **BUY**

P/E 31 March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Estimates (LKR 'Mn)								
Revenue	2,039	1,589	587	636	1,442	2,597	3,209	4,082
EBIT	215	29	-412	-233	-133	571	770	939
Net Profit	39	-138	-456	-560	-452	276	489	666
Adjusted EPS (LKR)	0.1	(0.3)	(1.0)	(1.3)	(1.0)	0.6	1.1	1.5
YoY Growth (%)		-457%	-230%	-23%	19%	161%	77%	36%
Valuations								
PER (x)	162.4x	N/A	N/A	N/A	N/A	22.8x	12.9x	9.4x
PBV (x)	2.5x	2.7x	2.9x	2.3x	1.5x	1.4x	1.3x	1.1x
DPS	-	-	-	-	-	-	-	-
DY (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Dividend Payout	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
ROE	1.5%	-5.9%	-20.8%	-20.3%	-11.1%	6.3%	10.1%	12.1%

PER based Valuation	FY24E	FY25E
Earnings (LKR 'Mn)	276	489
No. of Shares ('Mn)	446	446
EPS	0.6	1.1
Expected Average PER	20.0x	18.0x
Target Price	12	20

DOLPHIN HOTELS PLC

STAF.N0000

Current Price: LKR 35.40

Fair Value: LKR 55.00 (FY25E)

BUY

4-star inn surrounding the shores of Negombo

Club hotel dolphin located in waikkal, Negombo surrounds the Negombo coastal line and is in close proximity to the Katunayake international airport which makes the hotel an ideal location for tourists on a short vacation. STAF is a subsidiary of SHOT which owns 65.18% stake of the hotel. The hotel consists of 154 rooms in the range of superior poolside terrace, sea view room, superior room, seaside villa, sea view villa and junior suite.

Pressure on GP margin and high OPEX stir earnings negatively

STAF recorded a significant growth in earnings during 1QFY24 registering a 3596.0%YoY to LKR 31.9Mn owing to the progressive tourists arrivals targeting the coastal areas of the country. Adding a favourable spark, the top line too contributed positively as it gained 49.5%YoY to LKR 187.6Mn. Furthermore, Gross profit margin displayed a downturn as it was recorded at 58.7% in 1QFY24 compared to 68.0% in 1QFY23 resulted by the uptick in cost of sale which recorded a 92.4%YoY owing to the inflationary pressure. On a positive note, net finance income recorded a growth of 3359.0%YoY largely contributing to the ascended bottom-line.

Positive outlook as industry sees growth

With the steady recovery in global tourism as the pandemic has subsided, we expect occupancy levels of STAF to climb up while domestic tourism is also expected to improve with fuel availability and peak seasons coming up leading to a positive outlook for STAF. Furthermore, the hotel's location being in close proximity to the international airport makes the hotel an apt stay for the last days of vacations indicating fast filling up of rooms. Thus, we estimate occupancy to improve to 45% and 52% in FY24E and FY25E, respectively. Therefore, earnings is expected to surge by 244.0% in FY24E, reversing the loss from FY23 and record at LKR 149.0Mn while it is expected to further improve in FY25E to LKR 292.0Mn (+96.0%YoY). Despite relatively low ARR as a result of heavy competition from hotels in the same location we expect rooms to fill up fast with the benefit of the parent company SHOT. **BUY**

P/E 31 March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY25E
Estimates (LKR 'Mn)								
Revenue	953	729	350	283	576	908	1,201	1,650
EBIT	172	47	-62	-82	-117	91	264	462
Net Profit	147	44	-33	-25	-103	149	292	437
Adjusted EPS (LKR)	2.3	0.7	(0.5)	(0.4)	(1.6)	2.4	4.6	6.9
YoY Growth (%)		-70%	-175%	25%	316%	244%	96%	50%
Valuations								
PER (x)	15.2x	50.3x	N/A	N/A	N/A	15.0x	7.7x	5.1x
PBV (x)	1.1x	1.1x	1.1x	0.8x	0.7x	0.7x	0.7x	0.6x
DPS	-	-	-	-	-	0.7	1.8	2.8
DY (%)	0.0%	0.0%	0.0%	0.0%	0.0%	2.0%	5.2%	7.8%
Dividend Payout	0.0%	0.0%	0.0%	0.0%	0.0%	30.0%	40.0%	40.0%
ROE	7.2%	2.1%	-1.6%	-0.9%	-3.3%	4.7%	8.7%	12.0%

PER based Valuation	FY24E	FY25E
Earnings (LKR 'Mn)	149	292
No. of Shares ('Mn)	63	63
EPS	2.4	4.6
Expected Average PER	18.0x	12.0x
Target Price	42	55

ASIAN HOTELS AND PROPERTIES PLC

AHPL.N0000

Current Price: LKR 61.00

Fair Value: LKR 86.00 (FY25E)

BUY

Asian Hotels and Properties is a 78.6% owned subsidiary of premiere blue-chip John Keells Holdings (JKH.N0000)

AHPL comprises of the city hotels segment with 847 rooms and owns two 5-star properties under the flagship brand of (Cinnamon) and 56,988sq.ft shopping mall, Crescat Boulevard.

Top-line expanded by 33.0%YoY in 1QFY24 whilst earnings hampered by operating expenses

As tourist arrivals surged, AHPL witnessed a remarkable 33.0%YoY growth in its top-line, reaching LKR 2.2Bn in 1QFY24. However, a corresponding 33.1%YoY increase in operating expenses, totaling LKR 707.5Mn, negatively impacted profitability, resulting in a loss of LKR 247.9Mn. Meanwhile, despite a substantial 128.4%YoY rise in borrowings, the gradual decrease in interest rates kept net finance costs stable at LKR 89.9Mn.

Anticipated tourism recovery and a revised Minimum Room Rate are expected to boost AHPL's earnings

With the surge in arrivals, AHPL's occupancy rates spiked to an impressive 52% in FY23, accompanied by a rise in Average Room Rates (ARR) due to the depreciation of the LKR. As travel restrictions eased and consumer spending shifted from discretionary items to services, coupled with strong banquet sales that reached pre-pandemic levels in 3QFY23, we anticipate AHPL to reverse previous losses and project profitability of LKR 1,576.7Mn for FY24E and LKR 2,535.9Mn for FY25E. Having traded at an average PER multiple of 15.0x during the past 8Yr period, we believe AHPL should re-iterate and trade at a historic average. Hence, we have arrived at a FV of LKR 86.0 for FY25E. Thus, we rate the share **BUY**

P/E 31 March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Estimates (LKR 'Mn)								
Revenue	7,658	5,560	1,790	4,095	8,417	14,980	19,129	23,130
EBIT	1,083	-28	-1,913	-407	93	2,996	4,208	6,014
Net Profit	811	-50	-1,781	-510	-278	1,577	2,536	3,681
Adjusted EPS (LKR)	1.8	(0.1)	(4.0)	(1.2)	(0.6)	3.6	5.7	8.3
YoY Growth (%)		-106%	-3474%	71%	46%	668%	61%	45%
Valuations								
PER (x)	33.3x	N/A	N/A	N/A	N/A	17.1x	10.7x	7.3x
PBV (x)	0.8x	0.8x	0.9x	0.9x	0.9x	0.9x	0.9x	0.8x
DPS	1.5	1.0	-	-	-	1.8	3.4	5.8
DY (%)	2.5%	1.6%	0.0%	0.0%	0.0%	2.9%	5.6%	9.5%
Dividend Payout	81.9%	-888.6%	0.0%	0.0%	0.0%	50.0%	60.0%	70.0%
ROE	2.5%	-0.2%	-5.7%	-1.6%	-1.0%	5.3%	8.3%	11.6%

PER based Valuation	FY24E	FY25E
Earnings (LKR 'Mn)	1,577	2,536
No. of Shares ('Mn)	443	443
EPS	3.6	5.7
Expected Average PER	15.0x	15.0x
Target Price	54	86

First Capital Valuation Guide: Hotel Sector

Name	Symbol	Mkt Price (LKR) 18.09.2023	Shares in Issue (Mn)	Market Cap. (LKR Mn)	Trailing PER (X) 4 Qtr	PBV (X) 4 Qtr	Trailing EPS	NAVPS (LKR)	No. of rooms	EV per room
Consumer Services										
ASIAN HOTELS AND PROPERTIES PLC	AHPL.N0000	63.20	442.8	27,983	N/A	0.9	-0.9	64.7	847	39.8
AITKEN SPENCE HOTEL HOLDINGS PLC	AHUN.N0000	78.50	336.3	26,399	N/A	1.4	-3.7	56.3	2627	35.1
BROWNS BEACH HOTELS PLC	BBH.N0000	15.80	129.6	2,048	N/A	-4.8	-9.4	-3.4	139	46.3
BERUWALA RESORTS PLC	BERU.N0000	1.40	600.0	840	N/A	-4.3	-0.1	-0.3	136	11.5
BANSEI ROYAL RESORTS HIKKADUWA PLC	BRR.N0000	12.80	53.7	688	23.3	2.3	0.5	5.3	30	23.1
CEYLON HOTELS CORPORATION PLC	CHOT.N0000	23.30	180.0	4,195	15.5	0.6	3.6	40.7	20	302.5
HIKKADUWA BEACH RESORT PLC	CITH.N0000	5.90	284.9	1,681	N/A	0.4	-3.8	13.3	240	24.4
WASKADUWA BEACH RESORT PLC	CITW.N0000	3.00	559.9	1,680	N/A	1.0	-1.3	3.0	150	27.6
HAYLEYS LEISURE PLC	CONN.N0000	26.80	108.0	2,894	N/A	2.3	-6.1	11.5	418	11.8
EDEN HOTEL LANKA PLC	EDEN.N0000	14.40	528.0	7,603	N/A	0.8	-8.2	17.8	373	96.5
GALADARI HOTELS (LANKA) PLC	GHLL.N0000	18.90	500.8	9,466	221.9	1.1	0.1	16.2	450	14.9
HOTEL SIGIRIYA PLC	HSIG.N0000	47.40	17.6	833	49.9	1.0	0.9	47.2	79	6.4
HUNAS FALLS HOTELS PLC	HUNA.N0000	28.00	843.8	23,625	N/A	8.8	-0.5	3.2	33	39.5
JETWING SYMPHONY LIMITED	JETS.N0000	10.30	602.2	6,203	N/A	2.0	-0.5	5.3	283	33.7
THE KANDY HOTELS COMPANY (1938) PLC	KHC.N0000	9.90	754.3	7,468	N/A	1.0	-0.1	10.1	305	27.5
JOHN KEELLS HOTELS PLC	KHL.N0000	23.80	1456.1	34,656	N/A	1.1	-0.6	20.8	1476	58.9
THE LIGHTHOUSE HOTEL PLC	LHL.N0000	35.80	46.0	1,647	N/A	0.6	-2.2	59.8	90	22.2
MARAWILA RESORTS PLC	MARA.N0000	3.20	351.9	1,126	N/A	1.4	-0.1	2.2	160	9.9
MAHAWELI REACH HOTELS PLC	MRH.N0000	13.90	47.1	654	N/A	1.3	-4.4	10.9	112	8.7
THE NUWARA ELIYA HOTELS COMPANY PLC	NEH.N0000	1748.00	2.2	3,821	29.0	0.8	60.3	2,126.8	147	16.0
PALM GARDEN HOTELS PLC	PALM.N0000	44.00	43.3	1,904	N/A	0.5	-118.7	91.4	735	42.8
PEGASUS HOTELS OF CEYLON PLC	PEG.N0000	26.80	33.8	905	N/A	0.6	-3.6	53.3	140	9.7
RENUKA HOTELS LTD	RCH.N0000	89.90	40.3	3,623	11.9	0.4	7.6	245.7	100	46.8
CITRUS LEISURE PLC	REEF.N0000	7.20	267.2	1,924	N/A	0.9	-4.1	7.9	290	24.5
RENUKA CITY HOTELS PLC.	RENU.N0000	393.50	7.0	2,755	N/A	0.3	-73.8	1,238.9	100	13.3
RAMBODA FALLS PLC	RFL.N0000	28.50	20.0	570	46.8	1.0	0.6	29.4	63	8.8
THE FORTRESS RESORTS PLC	RHTL.N0000	20.80	110.9	2,306	N/A	1.4	-0.6	14.5	53	36.6
ROYAL PALMS BEACH HOTELS PLC	RPBH.N0000	26.70	50.0	1,335	N/A	0.6	-3.3	46.0	136	8.4
THE KINGSBURY PLC	SERV.N0000	12.00	484.0	5,808	N/A	11.4	-0.3	1.1	229	34.9
SERENDIB HOTELS PLC	SHOT.N0000	14.80	446.1	6,602	N/A	1.6	-0.1	9.1	341	19.3
SERENDIB HOTELS PLC	SHOT.X0000	10.50	446.1	4,684	N/A	1.1	-0.1	9.1	341	19.3
SIGIRIYA VILLAGE HOTELS PLC	SIGV.N0000	58.00	9.0	522	N/A	1.1	-14.6	48.5	120	7.2
DOLPHIN HOTELS PLC	STAF.N0000	37.10	63.2	2,346	N/A	0.8	-1.1	49.3	154	13.2
TAJ LANKA HOTELS PLC	TAJ.N0000	24.00	139.6	3,351	N/A	-2.2	-1.6	-10.2	300	24.2
TANGERINE BEACH HOTELS PLC	TANG.N0000	61.70	20.0	1,234	N/A	0.4	-12.8	141.5	179	5.1
TRANS ASIA HOTELS PLC	TRAN.N0000	50.00	200.0	10,000	N/A	1.7	-0.5	29.4	346	32.6
Consumer Services Sector					N/A	1.2				
Market Valuations					11.6	1.0				

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Contact Us

First Capital Holdings PLC

No: 02, Deal Place,
Colombo 00300,
Sri Lanka.

E: research@firstcapital.lk



Dimantha Mathew
Chief Research & Strategy Officer
T: +94 11 2639 853
E: dimantha@firstcapital.lk

Ranjan Ranatunga
Assistant Vice President – Research
T: +94 11 2639 863
E: ranjan@firstcapital.lk

Vinodhini Rajapoopathy
Assistant Manager- Research
T: +94 11 2639 866
E: vinodhini@firstcapital.lk

Tharusha Ashokgar
Senior Research Associate
T: +94 11 2639 866
E: tharushaash@firstcapital.lk

Zaeema Jihan
Senior Research Associate
T: +94 11 2639 868
E: zaheema@firstcapital.lk

Nethmi Fernando
Research Associate
T: +94 11 2639 866
E: nethmi@firstcapital.lk