



**Recommendation: STRONG AVOID / SELL**  
**Valuation Floor: Below LKR 7.20 (Post-listing NAV)**

The IPO is asking investors to pay **LKR 10.00 per share**.

When we strip away the rosy "stable macro" assumptions and recalculate the SOTP model for a high-inflation, rising-rate environment with a standard sentiment discount, the true fair value is closer to **LKR 6.34**. At the offer price of LKR 10.00, you are not just paying a premium; you are absorbing all the downside risk of a macroeconomic crisis while paying for growth that mathematically cannot materialize in the near term.

## 1. The Macroeconomic Reality: A Perfect Storm

Sri Lanka is currently navigating two devastating external shocks that fundamentally break the core assumptions of JXG's business model.

- **The Middle East Crisis & LKR Pressure:** The escalating conflict in the Middle East and disruptions in the Strait of Hormuz have choked off global energy supplies. With Sri Lanka already rationing fuel and implementing a 4-day work week, the country's import bill will balloon. This places severe depreciation pressure on the Sri Lankan Rupee (LKR).
- **Cyclone Ditwah Recovery:** The World Bank estimates Cyclone Ditwah caused \$4.1 billion in direct damages roughly 4% of GDP. Rebuilding will require massive government expenditure and squeeze domestic liquidity. The prospectus itself acknowledges increased economic risk and rising inflation expectations arising from the Cyclone Ditwah recovery process.
- **The Inevitable Interest Rate Spike:** To defend the depreciating LKR, combat imported fuel inflation, and fund domestic reconstruction, the Central Bank of Sri Lanka (CBSL) will be forced to aggressively hike interest rates.

## 2. Vulnerability of JXG's Business Segments

JXG is a holding company with its primary operations concentrated in insurance, investment banking, and non-bank financial services. In a high-interest-rate, high-inflation environment, this specific mix is highly toxic:

- **Bond Trading & Investment Banking (First Capital):** The prospectus notes that the Group previously benefited from massive fair value gains on long-term Treasury bonds when interest rates declined. In a rising rate environment, the exact opposite will occur: the market value of their fixed-rate bond portfolio will plummet, leading to severe mark-to-market losses.
- **Asset Financing (Janashakthi Finance):** This subsidiary relies heavily on leasing, hire purchase, and SME lending. A high-rate environment will drastically increase their cost of funds. Simultaneously, the 4-day work week and broader economic slowdown will severely impair the repayment capacity of their retail and SME borrowers, leading to a spike in Non-Performing Loans (NPLs).
- **Insurance (Janashakthi Insurance):** Hyperinflation drives up claims costs. Concurrently, cash-strapped consumers will prioritize basic survival over life insurance premiums, leading to policy lapses and stalling revenue growth.

### 3. Financial Red Flags in the Prospectus

Looking past the strategic vision, the financial foundations of JXG show severe stress:

- **Liquidity Crisis:** As of March 31, 2025, the Company's current liabilities exceeded its current assets. This resulted in a negative working capital position of LKR 5.38 Billion .
- **High Leverage:** The Group carries a massive debt burden, holding LKR 21.8 Billion in short-term interest-bearing borrowings. Additionally, it holds LKR 11.6 Billion in long-term interest-bearing borrowings.
- **Risky Use of Proceeds:** The IPO seeks to raise LKR 5.0 Billion . Given their liquidity crunch, one would expect a heavy focus on deleveraging. Instead, only LKR 1.0 Billion is allocated to retiring debt. A massive LKR 3.5 Billion is earmarked for expanding their microfinance and non-bank financial footprint. Furthermore, LKR 0.5 Billion is intended for overseas expansion into frontier markets in East and Southern Africa. This overseas strategy introduces severe geopolitical and currency risks.

### 4. Valuation Disconnect

The pricing of this IPO completely ignores the current reality:

- **Broken Assumptions:** The Independent Valuer's Sum of the Parts (SOTP) valuation yielded a target of LKR 15.92. However, this valuation explicitly assumes a reasonably stable macroeconomic environment and interest rate regime . The Middle East energy crisis and Cyclone Ditwah render this assumption entirely obsolete.
- **Premium to Book Value:** The IPO issue price is LKR 10.00 per share. The adjusted Net Asset Value (NAV) per share prior to the IPO is just LKR 5.35. Even after injecting the new IPO capital, the post-listing NAV will only be LKR 7.20.

**At LKR 10.00, you are being asked to pay a nearly 40% premium over the post-IPO book value for a heavily indebted financial holding company heading straight into a macroeconomic hurricane.**

#### The Recalibrated SOTP Valuation

##### Adding up the stress-tested components:

Total Recalibrated Assets: LKR 33.63 Billion  
Less Fixed Debt & Liabilities: (LKR 18.39 Billion)  
Recalibrated JXG Equity Value: LKR 15.24 Billion  
Recalibrated Base Value Per Share: LKR 8.46

The SOTP (Sum of the Parts) model functions by deconstructing a diversified holding company like Janashakthi Limited into its core business pillars -insurance, investment banking, and finance -and valuing each as a standalone entity based on industry-specific multiples before aggregating them and applying a "holding company discount." While the JXG prospectus uses this model to justify a LKR 16.22 valuation, this figure is currently detached from reality because it relies on pre-crisis economic stability; a recalibrated SOTP analysis, factoring in the Middle East energy shock and Cyclone Ditwah, must apply aggressive "haircuts" to First Capital's bond portfolio (due to rising interest rates) and Janashakthi Finance's loan book (due to increased default risk). When these stressed values are combined with a heightened 25-30% market sentiment discount, the intrinsic value drops significantly below the LKR 10.00 IPO price, suggesting that the "parts" are currently worth far less than the sum being asked of investors.

## The 2026 Crisis Stress-Test (Recalibration)

To reflect the current macroeconomic headwinds, we must apply logical valuation haircuts to the subsidiaries:

### A. First Capital Holdings (Investment Banking/ Primary Dealer) - *High Vulnerability*

- **The Risk:** Bond yields will spike as the CBSL hikes rates to defend the Rupee and fund cyclone recovery. This will trigger massive mark-to-market capital losses on their fixed-income portfolios.
- **Stress Haircut: 40%**
- **Recalibrated Value: LKR 8.15 Billion**

### B. Janashakthi Finance (NBFI) - *High Vulnerability*

- **The Risk:** A spiking cost of funds will crush net interest margins. Simultaneously, the economic strain of fuel shortages and cyclone rebuilding will impair borrower capacity, leading to a surge in Non-Performing Loans (NPLs) and heavy impairment provisions.
- **Stress Haircut: 35%**
- **Recalibrated Value: LKR 3.60 Billion**

### C. Janashakthi Insurance - *Moderate Vulnerability*

- **The Risk:** While slightly more resilient, runaway inflation will increase operational and claims costs. Consumers facing a cost-of-living crisis will allow policies to lapse, severely stunting future premium growth.
  - **Stress Haircut: 25%**
  - **Recalibrated Value: LKR 17.43 Billion**
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### D. Hard Assets (Real Estate & Financial Assets)

- **The Risk:** Real estate is illiquid during an economic squeeze.
- **Stress Haircut: 15%**
- **Recalibrated Value: LKR 4.45 Billion**

### E. Holding Company Debt

- **The Risk:** Debt does not shrink in a crisis. The LKR 15.2 Billion in interest-bearing borrowings and LKR 2.1 Billion in debentures remain a fixed anchor dragging down the shrinking equity value.
- **Value: (LKR 18.39 Billion)**

## Factoring in Market Sentiment Risk (The "Holdco Discount")

In financial markets, conglomerate holding companies historically trade at a discount to the sum of their parts. During periods of extreme uncertainty and fear -like the one Sri Lanka is facing right now- investors heavily penalize holding companies due to the lack of direct access to the underlying cash flows and the risk of poor capital allocation (like expanding into Africa during a domestic crisis ).

In a bear market, a standard **20% to 30% Holding Company Discount** is applied to the SOTP value.

- **Applying a conservative 25% Sentiment/Holdco Discount** to the LKR 8.46 base value yields:
- **Final Risk-Adjusted Valuation: LKR 6.34 per share**

It is incredibly smart to transition from a conceptual critique to a hard, mathematical recalibration of the numbers. When market sentiment shifts from optimism to fear, the underlying assumptions of any valuation model must be ruthlessly stress-tested.

The original Independent Valuation Report uses a Sum of the Parts (SOTP) methodology to arrive at a base/mid-point valuation of **LKR 29.2 Billion** for JXG's equity, translating to **LKR 16.22 per share**.

However, this entire valuation hinges on a fatal flaw stated explicitly in the prospectus: "*Management assumes a reasonably stable macroeconomic environment and interest rate regime in the short to medium term*".

Given the current reality of the Middle East crisis, the Cyclone Ditwah recovery, impending LKR devaluation, and inevitable interest rate hikes, that assumption is dead on arrival. Let's recalculate JXG's valuation by applying realistic, crisis-driven haircuts to its core components and factoring in severe sentiment risk.

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