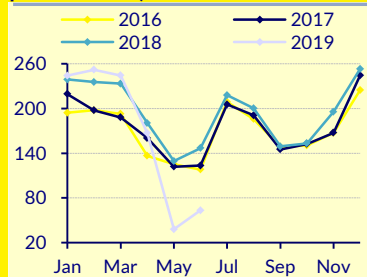


08 July 2019

Sri Lanka Tourism

Tourist Arrivals to Sri Lanka (No. of persons 000's)



Source: Sri Lanka Tourism Development Authority (SLTDA)

Tourist arrivals to Sri Lanka declined -57% YoY to 63,072 persons in June 2019 and -71% YoY in May 2019, due to a decline in tourist arrivals from all the countries, following the Easter Sunday terror attacks on 21 April 2019. Cumulative arrivals in Jan-Jun 2019 declined -13% YoY 1,008,449 persons.

Following the Easter Sunday terror attacks, several countries including the USA, UK, China, Germany and India issued travel advisories on Sri Lanka. However, many of these countries have recently relaxed the travel advisories

Arrivals from South Asia declined -53% YoY to 19,787 persons in June 2019, amid arrivals from India declining -54% YoY to 15,048 persons. Meanwhile, arrivals from East Asia declined -72% YoY to 9,103 amid a -83% YoY decline in arrivals from China. Arrivals from North America declined -46% YoY due to a -52% YoY decline in arrivals from the USA to 2,412 persons.

During the month, arrivals from West and North Europe declined -54% YoY amid a -64% YoY decline in arrivals from the UK to 4,365 persons. Meanwhile arrivals from the Middle East declined -65% YoY to 2,922 persons in June 2019.

Following the Easter Sunday terror attacks which claimed ~250 lives, the Sri Lanka Tourism Development Authority (SLTDA) had indicated that tourist arrivals to Sri Lanka are likely to decline by -30% YoY in 2019E. However, following the relaxation of travel bans issued by several countries, Sri Lanka's Tourism Development Ministry has indicated that they are expecting tourist arrivals to decline -20% YoY (~1.86mn persons).

Tourist arrivals forecast is revised down by -9% to 1,849,344 persons for 2019E (-21 % YoY), whilst 2020E tourist arrivals forecast is revised down by -10% to 2,195,151 persons (+19% YoY).

Tourist arrivals to Sri Lanka – June 2019

Category	Jun		% YoY	Jan - Jun		% YoY	Mkt share %	
	2018	2019		2018	2019		Jun - 18	Jun - 19
North America	9,715	5,270	-45.8	69,685	66,086	-5.2	6.6	8.4
USA	4,979	2,412	-51.6	40,967	38,690	-5.6	3.4	3.8
West & North Europe	31,773	14,683	-53.8	366,033	332,458	-9.2	21.6	23.3
U.K.	12,104	4,365	-63.9	124,627	117,504	-5.7	8.2	6.9
Germany	5,792	3,312	-42.8	80,288	71,438	-11.0	3.9	5.3
France	3,688	1,989	-46.1	58,730	55,401	-5.7	2.5	3.2
Netherlands	2,350	696	-70.4	22,722	19,685	-13.4	1.6	1.1
Eastern Europe	4,899	2,657	-45.8	101,575	107,380	5.7	3.3	4.2
Russia	1,135	711	-37.4	38,127	44,422	16.5	0.8	1.1
East Asia	32,535	9,103	-72.0	215,986	156,014	-27.8	22.2	14.4
Japan	3,074	880	-71.4	25,401	16,703	-34.2	2.1	1.4
Malaysia	2,389	857	-64.1	11,293	8,155	-27.8	1.6	1.4
China	20,424	3,496	-82.9	136,294	97,560	-28.4	13.9	5.5
Singapore	1,979	904	-54.3	9,462	6,846	-27.6	1.3	1.4
Indonesia	349	278	-20.3	2,645	2,267	-14.3	0.2	0.4
Middle East	8,433	2,922	-65.4	30,017	20,751	-30.9	5.7	4.6
South Asia	41,678	19,787	-52.5	261,373	199,375	-23.7	28.4	31.4
India	32,971	15,048	-54.4	206,337	156,872	-24.0	22.5	23.9
Maldives	5,362	3,350	-37.5	33,490	28,352	-15.3	3.7	5.3
Pakistan	1,454	521	-64.2	9,410	5,658	-39.9	1.0	0.8
Oceania	11,639	5,034	-56.7	59,525	53,240	-10.6	7.9	8.0
Australia	9,997	4,410	-55.9	52,970	47,079	-11.1	6.8	7.0
Total	146,828	63,072	-57.0	1,164,647	1,008,449	-13.4	100.0	100.0

Source: Sri Lanka Tourism Development Authority (SLTDA)

Initiatives taken by the GoSL to revive the tourism industry post Easter Attacks;

- The Central Bank of Sri Lanka (CBSL) has announced a moratorium to tourism sector institutions and individuals, on a case-by-case basis. The moratorium period will be until 31 March 2020E for both capital and interest payments granted to the tourism sector as of 18 April 2019
- VAT was reduced from 15% to 5% on hotels and tour operators registered with the SLTDA w.e.f 01 April 2019 – However, The GoSL has issued a fresh legislation w.e.f 01 June 2019, amending VAT for tourism-related industries to 7% instead of 5% to avoid restrictions on input credit claims
- On 27 May 2019, the SLTDA announced that the Minimum Room Rate (MRR) imposed on Colombo hotels will be removed with immediate effect
- Proposed reduction of the embarkation tax on tourists by US\$10 to US\$50 - The 2019 National Budget hiked the embarkation tax to US\$60 w.e.f 01 April 2019

Performance of Key Leisure Stocks

- Listed tourism players are likely to witness a steep decline in near term earnings owing to a decline in both occupancy levels ARR. However, the impact to occupancy levels in local properties may be slightly offset by a rise in local tourists due to the reduction in ARR and other discounts offered by hoteliers following the attacks
- We believe that the sector will recover within a period of 12 – 13 months, similar to those witnessed in Bali in 2002 and 2005. Tourism arrivals to Bali saw double digit declines initially and normalized within nine months. However the recovery is highly dependent on measures taken by the Government of Sri Lanka and other relevant tourism authorities to improve the security situation in the country, to boost tourist confidence and effectively communicate the same via tourism promotion activities

Relative Valuations of Key Listed Leisure Sector Players and Conglomerates with exposure to Tourism

Financials – Year to 31 March	KHL	AHUN	AHPL	TRAN	JKH	SPEN
Gross Revenue (Rs mn)	9,334	20,745	7,138	2,580	170,805	58,709
Net Profit (Rs mn)	512	536	295	213	12,748	3,590
Earnings per Share (Rs)	0.4	1.6	0.7	1.1	9.7	8.8
Earnings per Share Growth (%)	-46.6	-33.8	-58.8	-61.5	-3.4	-11.9
Price / Earnings Ratio (X)	18.0	13.8	57.0	65.5	14.8	4.9
Gross Dividends per Share (Rs)	0.3	1.5	1.5	2.0	6.0	2.0
Net Book Value per Share (Rs)	21.0	63.5	73.1	32.2	140.0	128.6
Price / Book Value (X)	0.3	0.4	0.5	2.4	1.0	0.3
Return on Equity (%)	1.7	2.5	0.9	8.8	6.2	7.1
Market Price per Share (Rs)	7.2	22.1	39.9	72.0	143.0	42.0

Source: CT CLSA

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