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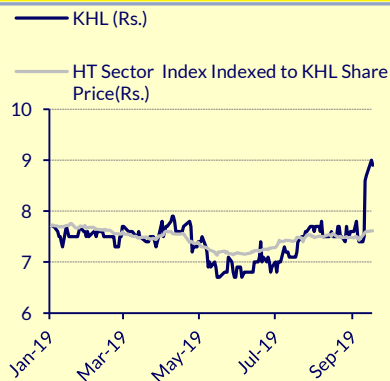
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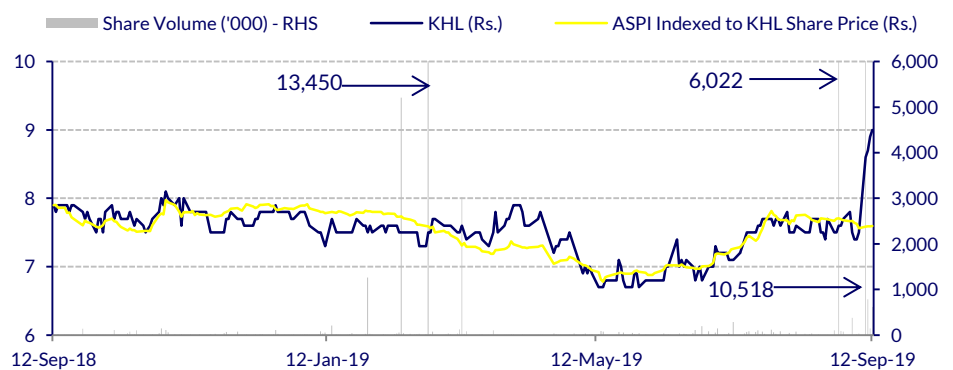
### KHL Share Rises +15% in September 2019

- KHL share has risen +15% during the period 02 September 2019 to 12 September 2019, outperforming the broader market which has declined -1% during the same period. The share had also outperformed the sector index during the period. The share has risen +29% and +14% during the past 3 month and 12 month period respectively (vs. the ASI's rise of +8% and decline of -4% during the respective periods) – the share has touched a twelve month high of Rs.9.2 on 12 September 2019 with 12,059,070 shares being traded during the past week

### HT Sector Index vs. KHL (Rs.)



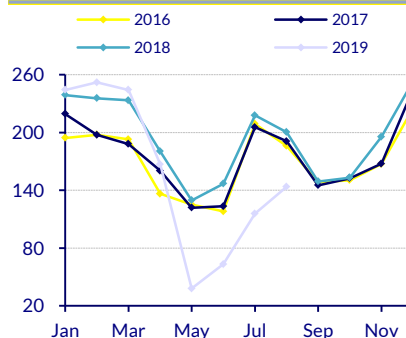
### Absolute Share Price Movement and Volume



### Recent Performance of the Leisure Sector

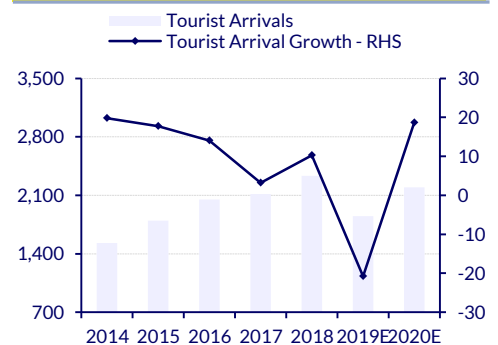
- Sri Lanka's tourist arrivals, after declining sharply in May – June 2019, following the Easter Sunday terror attacks, has witnessed a slight recovery during the past two months. Pick up in arrivals was supported by the relaxation of travel bans issued by several countries and increased security measures adopted by the GoSL. However, we believe that the sector will recover completely only within a period of 5-6 months
- 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 reach ~2mn in 2019E (-14% YoY). Our tourist arrivals forecast is maintained at 1,849,344 persons for 2019E (-21% YoY), whilst 2020E tourist arrivals forecast is maintained at 2,195,151 persons (+19% YoY)

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



Source: Sri Lanka Tourism Development Authority (SLTDA)

Tourist Arrivals to SL (No. of persons 000's) & Growth (YoY %)



Source: CT CLSA

**KHL: Outlook & Valuations**

- ❑ Despite the gradual recovery, KHL's FY20E net profit forecast is maintained at Rs.388mn (-60% YoY), amid an anticipated decline in occupancy levels and lower ARR in the Sri Lankan sector following the Easter Sunday terror attacks, coupled with the closure of Maldivian properties for refurbishment purposes. Meanwhile, FY21E net profit forecast is maintained at Rs.1,069mn (YoY growth off a low base)
- ❑ On our current forecasts, KHL trades at PE multiples of 33.8X for FY20E and 12.3X for FY21E, offering ROEs of ~1-3% for both FY20E and FY21E
- ❑ Given the anticipated decline in near term earnings, we believe that the recent rise in the share price seems unwarranted and would be an opportunity to take profits

**Financials**

Year to 31 March	FY17	FY18	FY19	FY20E	FY21E
Gross Revenue (Rs mn)	12,312	11,614	11,033	9,127	12,088
Net Profit (Rs mn)	1,846	1,300	973	388	1,069
Earnings per Share (Rs)	1.3	0.9	0.7	0.3	0.7
Earnings per Share Growth (%)	14.4	-29.6	-25.1	-59.5	>+100.0
Price / Earnings Ratio (X)	8.0	10.4	11.2	33.8	12.3
Gross Dividend per Share (Rs)	0.4	0.4	0.3	0.3	0.3
Dividend Yield (%)	3.9	4.3	4.0	3.3	3.3
Net Book Value per Share (Rs)	17.1	18.1	19.8	21.0	22.2
Price / Book Value (X)	0.6	0.5	0.4	0.4	0.4
Return on Equity (%)	7.4	4.9	3.3	1.3	3.3
Market Price per Share (Rs)	10.2	9.3	7.5	9.0	9.0

Note: Valuations and ratios on a recurring basis; Historic ratios based on Y/E MPS

- ❑ Other sector participants are also expected to record subdued earnings in the near term, given the anticipated decline in occupancies and ARRs. However, the impact to occupancy levels in local properties may be slightly offset by a rise in local tourists due to the reduction in ARRs and other discounts offered by hoteliers following the attacks

**FY20E Valuations - Key Leisure Sector Players**

Year to 31 March	KHL	AHUN	AHPL	TRAN
Gross Revenue (Rs mn)	9,127	20,745	6,794	2,580
Net Profit (Rs mn)	388	536	215	213
Earnings per Share (Rs)	0.3	1.6	0.5	1.1
Earnings per Share Growth (%)	-59.5	-33.8	-69.9	-61.5
Price / Earnings Ratio (X)	33.8	15.3	82.2	65.7
Gross Dividends per Share (Rs)	0.3	1.5	1.5	2.0
Net Book Value per Share (Rs)	21.0	63.5	73.1	32.2
Price / Book Value (X)	0.4	0.4	0.5	2.2
Return on Equity (%)	1.3	2.5	0.7	8.8
Market Price per Share (Rs)	9.0	24.5	40.0	70.0

Note: Valuations and ratios on a recurring basis; Historic ratios based on Y/E MPS

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