

FLASH Note

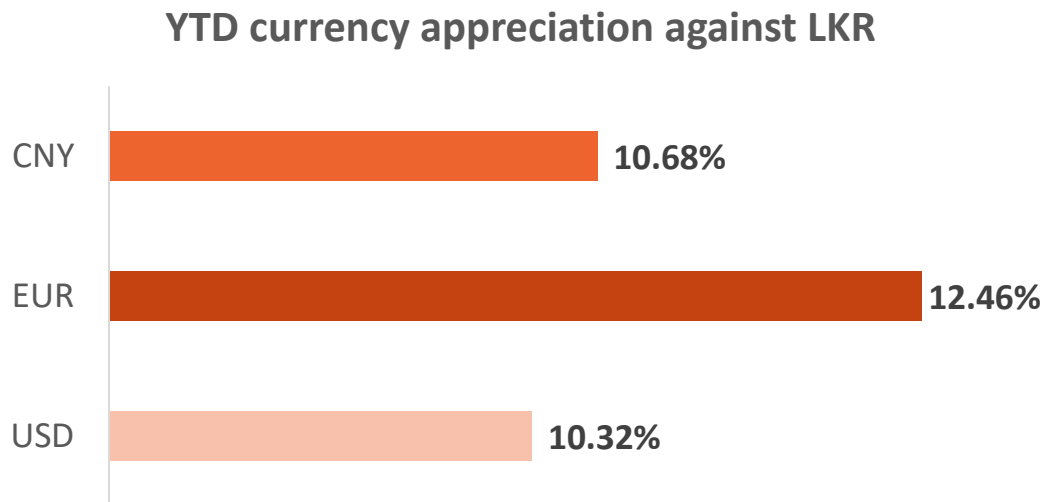
Impact of Rupee Appreciation on Listed Counters

AMBEON
SECURITIES

28th OCTOBER 2024



LKR appreciated +10% YTD against USD



Note: YTD currency appreciation is calculated as of 25th October 2024

As of 28 th October 2024	LKR
USD	293.69
EUR	316.96
CNY	41.18

The LKR appreciated against foreign currencies, mainly due to **increased foreign reserves** supported by high remittances and tourism earnings. This appreciation was also influenced by a **lower interest rate environment** in the country, as well as **new loans and grants** received.

Counters That Could Benefit

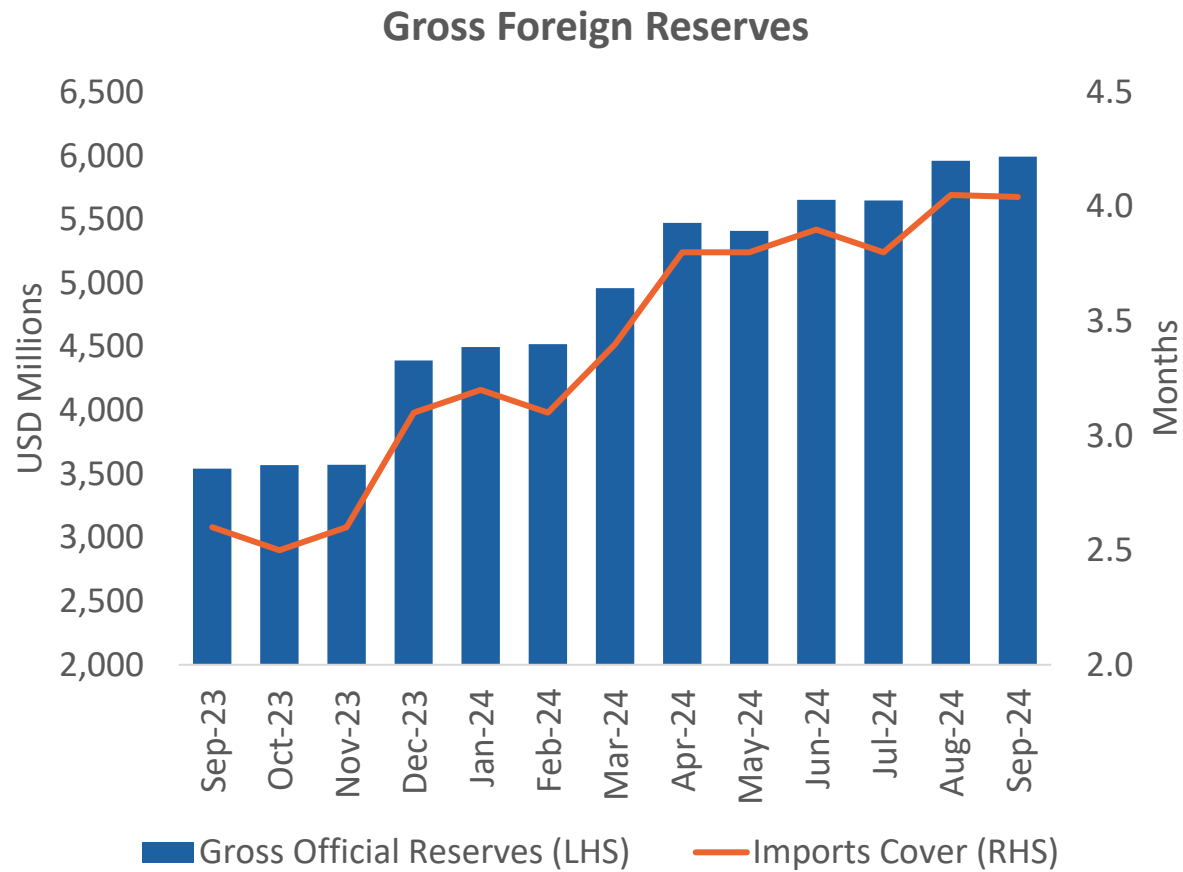
- Import-heavy companies
- Companies with foreign currency-denominated debt

Counters That Could Be Disadvantaged

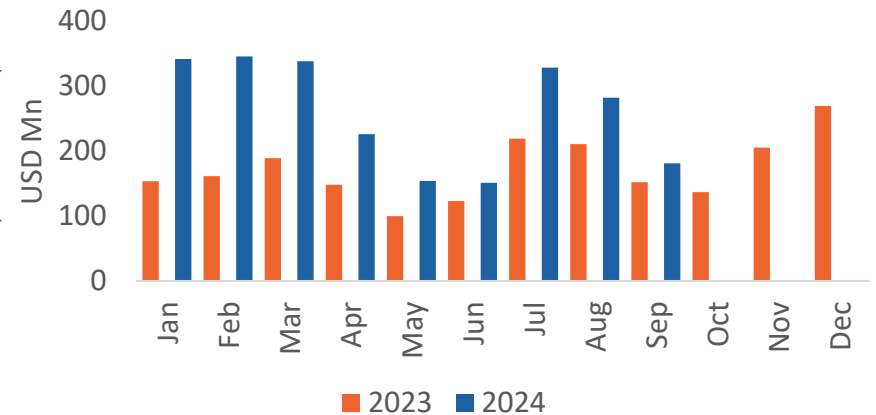
- Companies with foreign currency assets
- Export-oriented companies
- Tourism-related counters

Increased foreign reserves supported currency appreciation

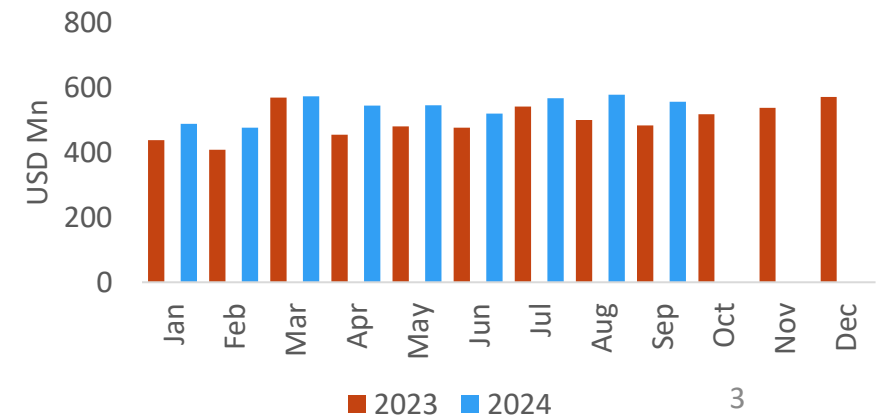
In September 2024, Sri Lanka's gross foreign reserves rose to USD 5,992 million, a 69.3% YoY increase primarily driven by improved worker remittances and tourism earnings. This provides a comfortable buffer, covering about four months' worth of imports.



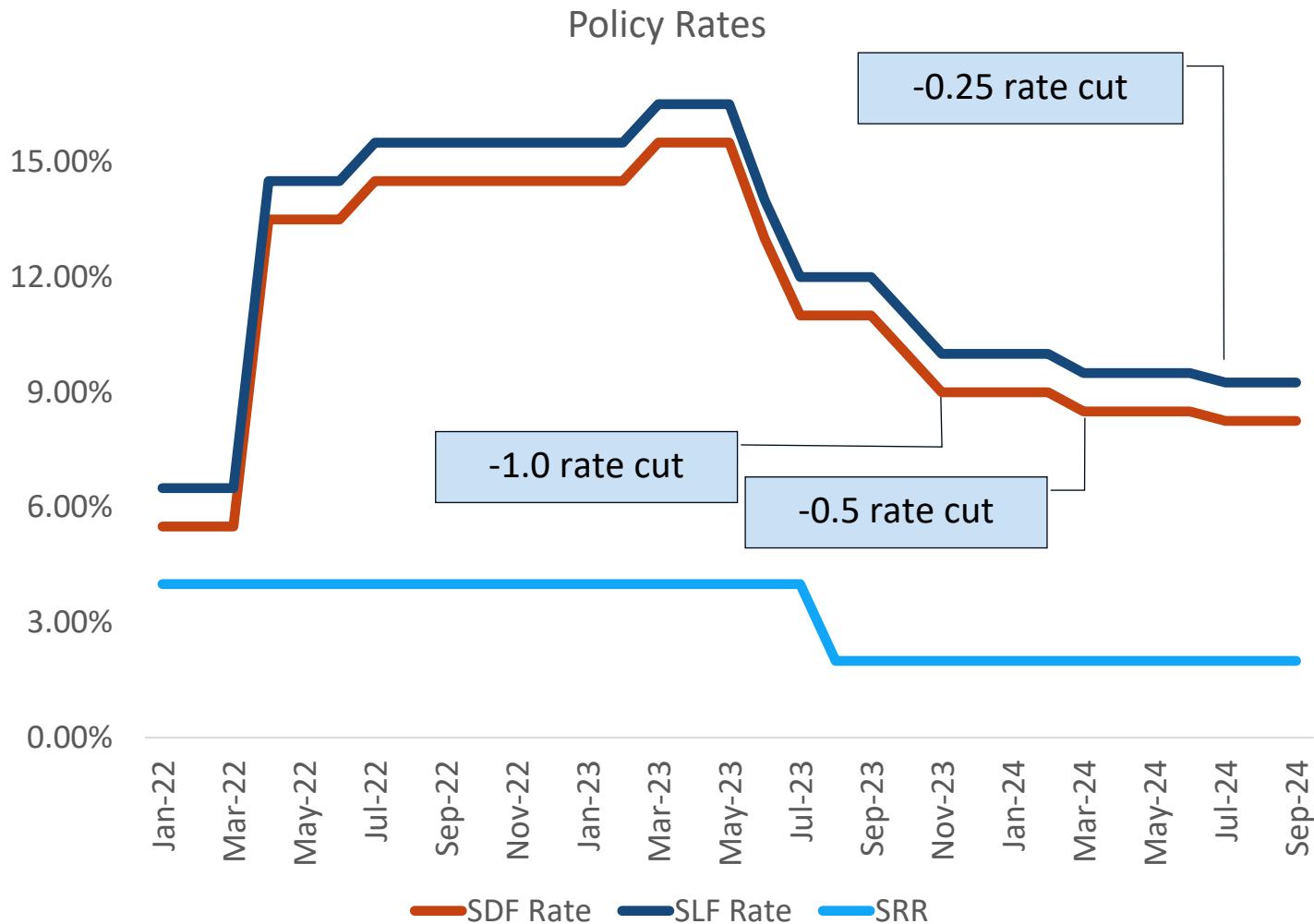
YTD tourism earnings reached USD 2,348 Mn, up 61.2% YoY



YTD worker remittance hit USD 4,844 Mn, up 11.5% YoY



The lower interest rates has contributed to the strengthening of the LKR



- In response to the Central Bank of Sri Lanka's (CBSL) recent expansionary monetary policy, **interest rates saw reductions in recent months**. In the September 2024 Monetary Policy Review, the CBSL opted to hold policy rates steady, maintaining the Standing Deposit Facility Rate (SDFR) at 8.25% and the Standing Lending Facility Rate (SLFR) at 9.25%.
- Consequently, **market lending and deposit rates have trended downward**, reflecting the CBSL's policy objectives. By the end of September, the Average Weighted Prime Lending Rate (AWPLR) had reached 9.31%, and the Average Weighted Deposit Rate (AWDR) was at 7.70%, **illustrating a continuing decline in borrowing costs across the financial sector**.

New loans and grants have aided the appreciation of the currency

Month	Amount (USD Mn)	Lender	Purpose
Jul-24	300	ADB	Reforms in financial and power sectors
Jun-24	336	IMF	Third tranche of EFF program
Mar-24	100	ADB	Provide investment and working capital loans to SMEs
Feb-24	500	ADB	Based on the progress of policy reforms
Feb-24	200	ADB	Water sector reforms
Feb-24	150	World Bank	Strengthen a deposit insurance scheme

Import heavy companies could benefit from currency appreciation

Import-heavy companies gain from currency appreciation as a stronger local currency reduces the cost of foreign goods and raw materials. This lowers their import expenses, boosting profit margins.

- **Singer (Sri Lanka) PLC (SINS.N)** relies heavily on imports for many of its products, particularly in the home appliances segment, which includes refrigerators, washing machines, and air conditioners. Over the past two years, import restrictions pushed the company to expand local manufacturing and source more from domestic suppliers. However, this strategy may change with the lifting of the import ban in October 2023.
- **Abans Electricals PLC's (ABAN.N)** raw materials and components used in the company's manufacturing activities, as well as for after-sales support and solar panel installations, are sourced from both imports and local suppliers.
- **Lanka IOC PLC (LIOC.N)** sources its products from both local and overseas suppliers. The company imports petroleum and lubricant products from its parent company, Indian Oil Corporation Limited (IOC) in India, as well as from other international suppliers. This reliance on imports is affected by fluctuations in exchange rates.
- **Chevron Lubricants Lanka PLC (LLUB.N)** primarily engages in the import, manufacturing/blending, distribution, and marketing of lubricant products. The majority of its raw materials, including base oils and additives, are imported, predominantly from Chevron group companies. As of 31st December 2023, the company reported USD denominated trade payables of LKR 390 million.

Company	EPS	NAVPS	PE*	PBV*
SINS.N	1.11	10.10	17.04	1.88
ABAN.N	103.62	464.65	2.26	0.50
LIOC.N	28.69	145.07	4.01	0.79
LLUB.N	15.80	31.70	7.97	3.97

* Based on market prices as of 25th October 2024

Foreign currency-denominated liabilities of banks have a positive impact

- Currency appreciation benefits banks with foreign currency-denominated liabilities by reducing the value of these liabilities in local currency terms. This reduces servicing costs, lowers interest payments, and improves financial health, potentially enhancing profitability and cash flow.
- As of the end of the second quarter of 2024, Sri Lanka's banking sector holds foreign currency (FCY) deposits totaling LKR 3,447 billion, with FCY borrowings amounting to LKR 256 billion. Specifically, licensed commercial banks report FCY deposits of LKR 3,421 billion and FCY borrowings of LKR 224 billion.

Company	FCY deposits (LKR Mn)	EPS	NAVPS	PE*	PBV*
SAMP.N	1,276,551	18.89	139.23	4.50	0.61
COMB.N	743,329	19.69	139.66	5.76	0.81
COMB.X	743,329	19.69	139.66	4.49	0.63
HNB.N	360,663	50.88	397.92	4.30	0.55
HNB.X	360,663	50.88	397.92	3.56	0.45
NDB.N	176,734	16.40	181.54	4.94	0.45
DFCC.N	86,951	23.77	175.87	3.45	0.47

* Based on market prices as of 25th October 2024

Additionally, non-banking financial institutions listed on the Colombo Stock Exchange who has FCY debt also have an impact by this situation.

Foreign currency-denominated assets of banks have a negative impact

- As of the end of the second quarter of 2024, Sri Lanka's banking sector holds gross foreign currency (FCY) loans and receivables amounting to LKR 2,303 billion. Licensed commercial banks report gross FCY loans and receivables of LKR 2,299 billion.
- An appreciation of the Sri Lankan rupee can have a negative impact on foreign currency assets of banks. As the LKR strengthens, the value of these foreign currency assets decreases when converted to LKR, potentially leading to reduced asset values on their balance sheets. This can lower reported earnings, especially for companies heavily invested in foreign assets, as the currency translation losses affect overall profitability.

Company	FCY deposits (LKR Mn)	FCY loans (LKR Mn)	Net deposits (LKR Mn)
SAMP.N	1,276,551	137,118	1,139,433
COMB.N	743,329	387,665	355,664
COMB.X	743,329	387,665	355,664
HNB.N	360,663	155,960	204,703
HNB.X	360,663	155,960	204,703
NDB.N	176,734	114,516	62,218
DFCC.N	86,951	53,209	33,743

Since the banks have more FCY liabilities than FCY assets, there is a positive impact on the banks due to rupee appreciation.

Additionally, non-banking financial institutions listed on the Colombo Stock Exchange who has FCY assets also have an impact by this situation.

Currency appreciation can negatively affect export revenues

- Domestic currency appreciation negatively impacts export-oriented companies by making their goods more expensive for foreign buyers. When the local currency strengthens, it requires more of the foreign currency to purchase the same product, which can lead to a decline in demand for exports.
- This can reduce revenue and profit margins for these companies, as they may struggle to maintain competitiveness in international markets.
- Most apparel companies listed on the Colombo Stock Exchange, including stocks like MGT.N, TJL.N, and HELA.N, are directly affected by currency appreciation.
- Other companies such as HAYL.N, RICH.N have exposure to foreign revenue through their various subsidiaries and business segments.
- CTEA.N, a tea manufacturer, has significant exposure to foreign markets, generating LKR 18,478 million in revenue from exports.
- According to the companies' IPO prospectuses, some newly listed stocks, such as MFPE.N and CSLK.N, have substantial exposure to foreign markets, with MFPE.N deriving 64% of its total revenue from exports, and CSLK deriving 94%.

Company	Export revenue composition*	EPS	NAVPS	PE**	PBV**
CTEA.N	99.9%	65.09	1,107.77	15.55	0.91
DIPD.N	99.4%	7.62	49.20	5.05	0.78
BPPL.N	99.1%	0.05	13.09	347.15	1.41
HELA.N	96.3%	(0.53)	4.76	NM	1.43
DOCK.N	95.8%	(114.48)	106.46	NM	0.41
DPL.N	57.4%	0.82	21.20	26.54	1.03
HAYL.N	53.6%	11.01	108.82	9.62	0.97

* Here revenue generated outside Sri Lanka is considered as per the latest annual report of the company

** Based on market prices as of 25th October 2024

Hotels with foreign operations are directly impacted

- The appreciation of the Sri Lankan rupee can impact hotel companies operating internationally by reducing the value of their foreign revenues when converted back to local currency. As the rupee strengthens, earnings from international operations diminish in local terms, making it harder for these companies to maintain profitability.
- AHUN.N operates 745 rooms in Maldives, 343 rooms in Oman, and 140 rooms in India, accounting for 47% of its total room count.
- KHL.N has 454 rooms in the Maldives, representing 31% of its total capacity.
- CHOT.N holds a 67.51% stake in United Hotels Co. Ltd, which fully owns Ceylon Hotels Maldives (Pvt) Ltd as a subsidiary.
- EDEN.N and PALM.N have subsidiaries in the Maldives that currently operate 100 rooms.
- CONN.N manages Amaya Kuda Rah hotel in the Maldives, featuring 51 luxury villas, which constitutes 11% of its total room count.

Company	% of rooms outside SL*	EPS	NAVPS	PE**	PBV**
AHUN.N	47%	5.38	62.41	11.15	0.96
KHL.N	31%	(0.51)	20.77	NM	0.81
CHOT.N	NA	0.69	39.00	27.60	0.49
EDEN.N	NA	(2.50)	10.05	NM	1.37
PALM.N	NA	(14.52)	33.46	NM	1.27
CONN.N	11%	(1.17)	11.12	NM	1.79

* Percentage of foreign rooms compared to the total room count

** Based on market prices as of 25th October 2024

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