



COLONIAL MOTORS PLC

INTERIM UPDATE

TOPLINE IMPROVES STAGGERING 1396% TO REACH LKR1.19BN IN 1QFY12



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COLONIAL MOTORS

INTERIM UPDATE

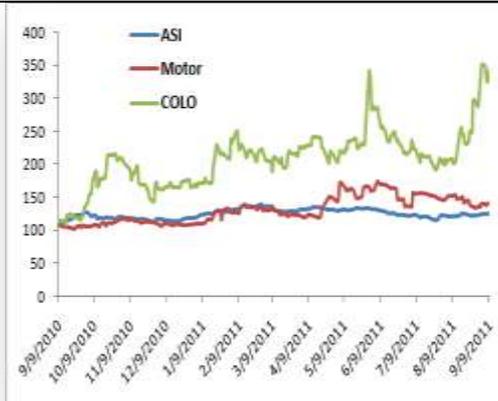
Colonial Motors Plc, a 52% Owned Subsidiary of Diversified Conglomerate Colombo Fort Land & Building Co. Plc, primarily engages in the sale of motor vehicles, spare parts & repairs business. The 102 year old company operates with three fully owned subsidiaries namely KIA Motors (Lanka) Limited, Carplan Limited and Union Investments (Private) Limited. KIA Motors (Lanka) Limited was incorporated in August 2007 and it is basically imports and sell KIA motor vehicles.

COLO posted whopping 1,396% growth in top line to record LKR1,199.4mn during 1QFY12 as opposed to LKR80.2mn in 1QFY11 on the backdrop of reduced vehicle import tax coupled with the strong demand in the domestic automobile industry.

COLO Holds the Exclusive agents for the Popular “KIA” brand of Vehicles Manufactured In South Korea. KIA’s Sports Utility vehicles (SUVs) are fast gaining market acceptance and the brand was able to successfully penetrate into the SUV market due to affordability and impressive designs.

Company witnessed immense customer orders during FY11 and that led the order books to be full for the next six months. Therefore the improved earnings would be sustainable in going forward. Furthermore, we expect COLO would be able to attract substantial proportion of the remaining unexecuted permits and that would further strengthen the earnings of the company.

We expect the forecasted FY12E earnings to remain at LKR841.7mn whilst FY13E earnings would reach to LKR1,232.3mn. Company has exceptionally outperformed in the period under consideration and we may expect the same performance level to persist going forward.



Price Movement

% chg.	1m	3m	12m
Absolute	69.99%	34.40%	198.13%

Shareholding

Voting (as at 30 th Jun 11)	%
The Colombo Fort Land & Building Company	52.1
T. Senthilverl/Seylan Bank	15.4
Mrs. Agnes E De Vos	2.9
T. Senthilverl	2.0
National development Bank/T. Senthilverl	1.6

Counter Performance

Avg. Daily Turnover (LKR mn)	151.1
Issued Qty(mn)	9.1
CDS Qty(mn)	5.8
Market Cap (USD mn)	39.6
market Cap (LKR bn)	4.4

Y/E Mar (LKR mn)	FY06	FY07	FY08	FY09	FY10	FY11	FY12E	FY13E
Net profit (LKR mn)	36.0	20.1	34.9	(2.1)	40.4	232.0	841.7	1,232.3
YoY growth (%)	22%	-44%	74%	-106%	1824%	474%	263%	46%
EPS (LKR mn)	3.95	2.20	3.82	-0.23	4.43	25.42	92.24	135.05
YoY growth (%)	22%	-44%	74%	-106%	1824%	474%	263%	46%
PER (X)	120.90	216.53	124.71	-2072.52	107.73	18.76	5.17	3.53
PEG	559.15	-490.26	169.37	1954.89	5.91	3.96	1.97	7.61
EBIT (LKR mn)	44.9	25.6	57.6	20.6	69.4	344.2	1,280.3	1,874.5
YoY growth (%)	36%	-43%	125%	-64%	237%	396%	272%	46%
ROE %	9%	4%	7%	0%	4%	17%	39%	38%
BVPS (LKR)	46.38	49.37	52.75	52.16	120.36	151.00	239.42	354.21

Colonial Motors writes its history book with impressive results in FY11

Colonial Motors Plc, a 52% Owned Subsidiary of Diversified Conglomerate Colombo Fort Land & Building Co. Plc, primarily engages in the sale of motor vehicles, spare parts & repairs business. The 102 year old company operates with three fully owned subsidiaries namely KIA Motors (Lanka) Limited, Carplan Limited and Union Investments (Private) Limited. KIA Motors (Lanka) Limited was incorporated in August 2007 and it is basically imports and sell KIA motor vehicles.

Carplan Limited was incorporated in October 1987 and it engages in importing and selling of motor vehicles, repair & servicing of vehicles. In addition the other subsidiary Union Investments Ltd, carries out investment activities primarily in the Colombo Stock Exchange and mainly focuses on the management of the investment portfolio.

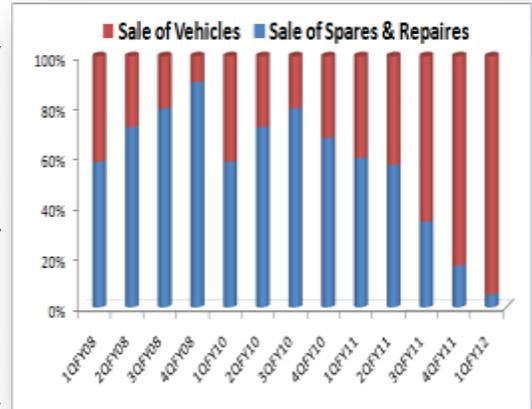
The Century year old company operates with well diversified investment portfolio which covers number of sectors in the Colombo stock exchange. As at 31st march 2011 the total value of its investment portfolio has grown to LKR324.2mn as opposed to LKR309.2mn in corresponding quarter in the previous year.

Considering the core business of Colonial Motors which is selling of motor vehicles, spare parts & repairs, it has witnessed an exponential growth during last year which was mainly owing to relaxation of import duties and taxes by the government together with improved per capita income in the country.

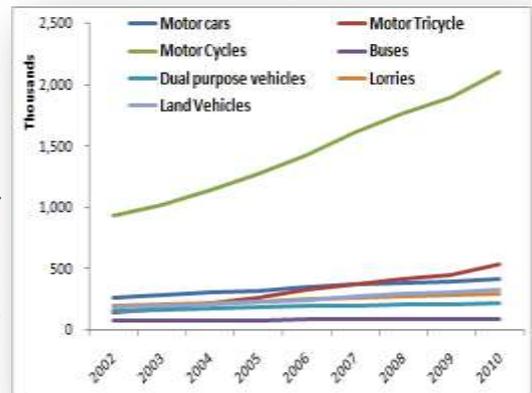
Irrespective of the economic turnaround in the country, automotives sector didn't move fast mainly due to high taxes imposed on imported vehicles. Considering the stagnant nature of the automotive industry government came up with a tax revision for all types of imported vehicles. In June 2009 government reduced vehicle import taxes by 50%, this was immensely helpful for the industry to move ahead with strong earnings.

COLO Holds the Exclusive agents for the Popular "KIA" brand of Vehicles Manufactured In South Korea. KIA's Sports Utility vehicles (SUVs) are fast gaining market acceptance and the brand was able to successfully penetrate into the SUV market due to affordability and impressive designs.

The chief design officer in KIA, Peter Schreyer, who worked in Audi for 25 years, joined KIA Motors Company in 2006 and changed the dimensions of the company to a new direction that created immense demand for KIA vehicles around the world. In addition, Colonial Motors also functions in the spare parts & vehicle repairs business, where the company sells TVS brake liners for Tata and Ashok Leyland busses.



Total Vehicle Population Growth



1QFY12 Quarter Depicts Outstanding Performance

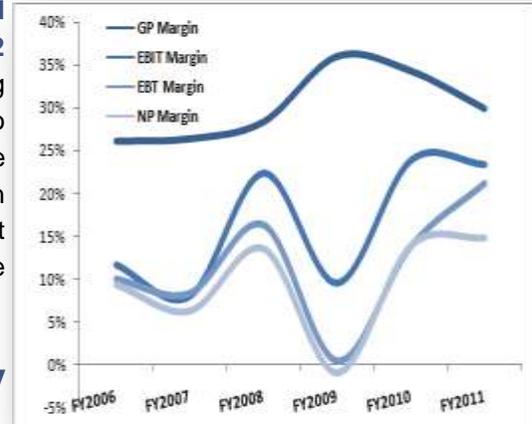
COLO posted whopping 1,396% growth in top line to record LKR1,199.4mn during 1QFY12 as opposed to LKR80.2mn in 1QFY11 on the backdrop of reduced vehicle import tax coupled with the strong demand in the domestic automobile industry. This was mainly owing to initiatives taken by the government to bring down the taxes on vehicle imports (taxes on a 1500 cc engine petrol driven car was brought down from around 330 percent whilst it was from 500 percent to 300 percent on diesel cars). This gave massive boost to the industry with more vehicles being imported to the country.

New Vehicle registrations in the country increased by 65%.....

During first five months in the 2011 in comparison to same period in 2010. Meanwhile COLO was able to attract substantial proportion of the vehicle permits, which were issued to the government servants during 2010. Out of the total revenue of the group circa 95% has been derived from the sale motor vehicles business which has been 41% to the total revenue in corresponding quarter in FY11. The rest is generated from the sale of spares & repairs business which amounts to LKR61.6mn in the period under consideration.

KIA the major revenue generator.....

Currently KIA motors operates with different brands viz, Optima, Sorento, Sportage, Rio etc. KIA Sportage and Sorento account for the majority of sales volume of the company. KIA SUVs are renowned among the SUV lovers in the country and currently it holds approximately 20% market share in the domestic SUV market.

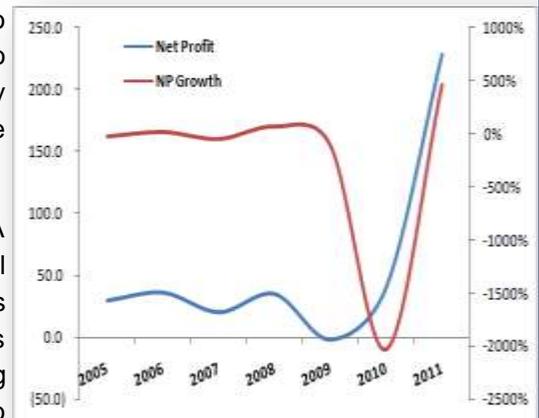


Rs. ' 000	2011	2010	Variance	
Sales	1199.4	80.2	↑	1396%
Cost of sales	(903.1)	(50.1)	↑	1703%
Gross profit	296.3	30.1	↑	884%
Other Operating Income /Exp	(19.2)	(38.1)	↓	-50%
Administrative Expenses	(39.0)	(25.0)	↑	56%
Distribution Cost	(50.0)	(11.0)	↑	355%
Operating profit	226.5	32.1	↑	606%
Financial Income/ Cost	(6.9)	(4.8)	↑	44%
Profit before Tax	219.6	27.3	↑	704%
Tax	(76.3)	(1.9)	↑	3916%
Net profit	143.3	25.4	↑	464%
Attributable to ;				
Equity holders of the company	143.0	25.4	↑	463%
Minority interest	0.3			
	143.3	25.4	↑	464%

Penetrating into Domestic SUV market.....

Cost of sales depicts a drastic increase in 2QFY11 from LKR50.1mn to LKR903.1mn portraying an increase of 1703%. This was mainly due to enhance in sales volumes during the period under review, but company was able to keep it under control with the initiatives taken to restructure the cost base.

COLO has penetrated into the domestic market by introducing KIA vehicles at significantly reduced prices. That has been highly successful though it led to reduce the gross profit margin of the company. Gross profit margin has slightly improved from 24% to 25% on QoQ basis however it has dipped YoY to record a drop from 37.5% to 24.7% during 1QFY12. Nevertheless going forward, company would be able to improve margins by simply skimming the prices of vehicles together with attaining better margins in Sale of spare parts and repairs business.



Operating Expenses Rise with Handling More Volume.....

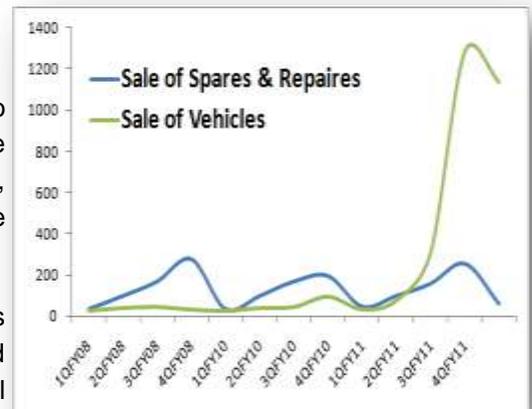
Administrative expenses show an increase of 56% to reach LKR39mn mainly on account of handling more volumes. COLO witnessed an impressive increase in orders during the period under review that led its order books to be full and increase the lead time.

In addition COLO initiated an outstanding marketing campaign to penetrate into the domestic market that led the distribution cost to lift up from LKR11mn to LKR50mn portraying an increase of 355%. Irrespective of the substantial increase in operating expenses Earnings before interest and tax has improved by 606% to reach LKR226.5mn during 1QFY12.

Improved Bank Charges Escalates Finance Cost.....

Finance cost has escalated from LKR4.9mn to LKR6.9mn purely due to incurring bank charges and Letter of Credit (LC) commissions. With the staggering improvement in customer orders compared to previous year, COLO had to open substantial number of LCs that resulted in its finance cost to rise during the period under consideration.

Earnings depict a staggering 464% growth in 1QFY12, which was primarily owing to substantial increase in vehicle sales during the period under review. Meanwhile COLO was able to attract substantial proportion of vehicle permits and also company was benefited from the reduction in vehicle import taxes by the government.



Colonial Motors						
QUICK PERFORMANCE REVIEW	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011
<i>Profitability</i>						
Revenue Growth	-15%	-17%	-20%	-16%	34%	432%
Gross Profit Margins on Net Revenue	26.1%	26.4%	28.4%	36.1%	34.4%	30.0%
EBIT Margin on Net Revenue	11.7%	8.0%	22.4%	9.5%	23.9%	23.4%
EBT Margin on Net Revenue	10.0%	8.3%	16.3%	0.4%	13.8%	21.2%
Net Profit Margin on Net Revenue	9.4%	6.3%	13.6%	-1.0%	13.9%	14.8%
<i>Efficiency</i>						
Trade & Receivable Days	140.54	83.22	132.17	189.34	155.01	33.65
Payable Days	87.91	85.68	141.36	284.98	174.73	120.81
Inventory Days	126.29	153.27	174.47	271.22	208.30	148.43
Current Ratio	2.46	1.98	2.09	1.54	1.69	1.30
Acid Test Ratio	1.93	1.44	1.60	1.17	1.27	0.60
Interest Cover	6.91	-25.60	3.69	1.05	2.37	10.69
Gearing(debt/equity)	5%	3%	2%	2%	0%	0%
Gearing(debt/debt+equity)	3%	4%	3%	2%	2%	0%
<i>Investor Ratios</i>						
ROE	9%	4%	7%	0%	4%	17%
ROA	7%	4%	8%	3%	5%	22%
Asset Turnover	0.60	0.48	0.37	0.28	0.21	0.95

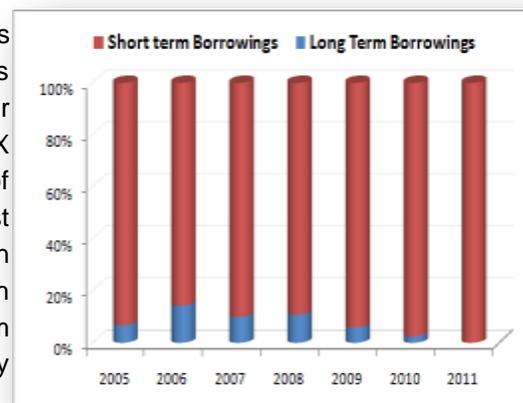
DuPont Analysis

	2005	2006	2007	2008	2009	2010	2011
ROE	7.5%	8.5%	4.5%	7.3%	-0.4%	3.7%	16.6%
NP/EBT	94%	94%	76%	83%	-263%	101%	70%
EBT/EBIT	96%	86%	104%	73%	4%	58%	91%
EBIT/Sales	7%	12%	8%	22%	10%	24%	23%
Sales/Assets	0.7	0.6	0.5	0.4	0.3	0.2	0.9
Asset/Equity	1.6	1.5	1.5	1.5	1.6	1.3	1.2

DU Pont analysis is carried out to analyze companies in detail purely from a financial perspective. It is a view of breaking down Return on equity (ROE) into factors that can be further analyzed. These factors are profitability margin, asset efficiency and financial leverage.

➤ Equity multiplier

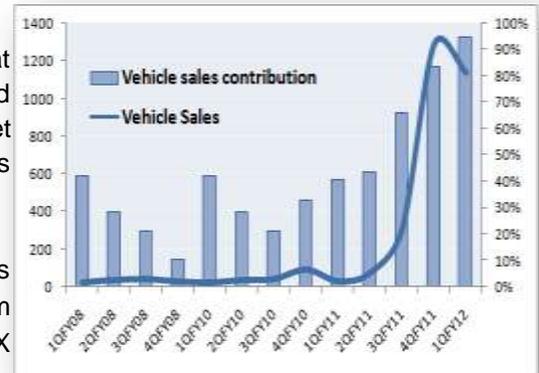
Equity multiplier indicates how a company uses debt to finance its assets which is also called the financial leverage. A high equity multiplier shows that company is heavily relying on debt in terms of financing their business. Equity multiplier of the company has been almost flat at 1.5X and 1.6X until FY09 and thereafter it has reduced in FY10 on account of repayment of long term borrowings. In FY10 COLO has repaid almost half of its long term borrowing that led its equity multiplier to come down from 1.6X to 1.3X. Improved sales during FY11 accumulated more cash in the company that assisted COLO to settle almost all of their long term borrowings. Minimized borrowings facilitated to bring down the equity multiplier from 1.3X to 1.2X in FY11.



➤ Asset turnover

Asset turnover would be useful in determining the amount of sales that are generated from the existing assets of the company. This would measure the efficiency in usage of assets in the organization. Asset turnover of COLO has been continuously dipping until 2010 which was further supported by the revaluation of free hold land in FY10.

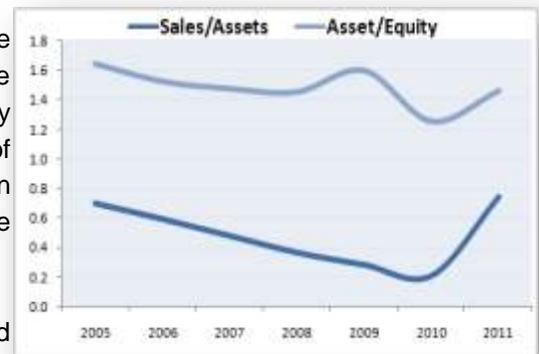
Company has carried out a revaluation in FY10 that has increased its freehold land value from LKR159mn to LKR716.5mn and buildings from LKR67.5mn to LKR101.5mn resulting a dip of asset turnover from 0.3X to 0.2X. Eventually FY11 witnessed a significant hike in asset turnover from 0.2X to 0.9X owing to sky rocketed turnover during the period under review. Top line of the company increased from LKR290.1mn to LKR1,542.1mn during the period under consideration recording a growth of 432%, which mainly contributed for the sharp increase in asset turnover in FY11.



➤ NP Margin

Net profit margin has been highly volatile in the past due to unfavorable macroeconomic environment prevailed in the country as well as in the automotive industry. As a result of that COLO earnings dipped drastically during FY09 and NP margin turns to minus. Thereafter with the end of ethnic crisis followed by economic turnaround in the country, demand in the automotive sector improved which led to positive earnings in the company.

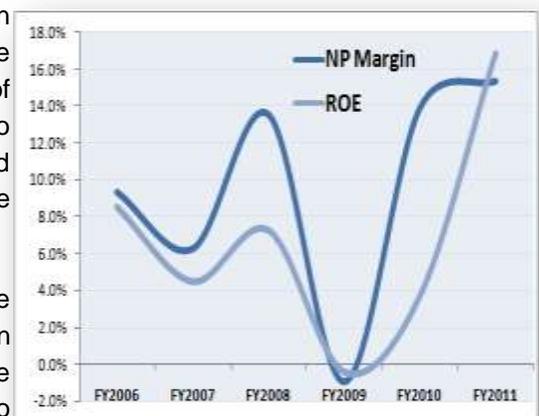
With the relaxation of vehicle imported taxes by the government resulted a massive boost in the motor sector and it was further shouldered by expanded public transformation in north and east. Negative NP margin turned into positive 13.9% in FY10 and with the improved sales in FY11 the NP margin further improved to 14.8%.



➤ ROE

ROE has been minus in FY09 owing to losses made in the period on account of reduced sale of vehicles on the backdrop of unfavorable economic circumstances prevailed in the country. Soon after the end of conflicts in mid 2009, Sri Lankan economy rebounded and that led to improved vehicle sales. Increased sales in 2010 resulted in improved earnings in the company and that led the equity multiplier to improve during FY10.

In 2008 Colonial Motors initiated KIA Motors(Lanka) Ltd and meanwhile that became the main revenue generator in the company. Eventually in 2010 government relaxed the taxes on vehicle imports that gave massive boost to company earnings resulted in increase of ROE from 3.7% to 16.6%.



Key Risk Aspects

❖ Uncertainty in regulatory environment

In the past industry was highly stagnant due to the high tax rates prevailed in the automotive industry, thereafter the government slashed import duty by around 50% and that gave a boost to the industry that facilitated for better earnings in the industry. Nevertheless in April 2010 government again increased the taxes but it doesn't have any impact over the market segment which COLO is catering, but with the future developments government may increase the vehicle import taxes again that might negative impact on company's future prospects.

❖ Financial Market Risk

The Company is exposed to future exchange rate fluctuations and interest rates changes. Company also exposes to foreign currency exposure arising out from trading activities. Depreciation of local currency would result in exchange loss for the company that would ultimately impact on firm's earnings.

❖ Increase in receivables

During course of the business company is tended to give credits to customers. This would expose the company towards default risk in future.

❖ Risks arising from economic uncertainty

The risks that arise from the changes in the economic environment could possibly affect the Company adversely. The Group is highly sensitive to interest rate changes as it could impact the demand for vehicles due to high cost of financing and increase the cost of borrowings due to higher level of borrowing it has on its capital structure.

❖ Risks arising from sudden changes in the industry.

Industry risks arise from sudden changes within each industry. These could be driven by new customer trends and new or alternative products into the market. With a view to minimizing these risks, the Company closely monitors developments in its business domain including competitor strategies and promptly develops counter strategies as necessary.

❖ Disruptions in global automobile freight shipping channels.

Global freight forwarding channels can be interrupted due to several reasons including changes in weather patterns, political unrests, issues in shipping lines etc. Thereby such issues would negatively impact on continues supply of pre ordered vehicles. Furthermore delays in vehicle clearance in the harbor would also be identified as a risk factor, which can disturb the continuous flow of business activities.

Future Outlook

With the reduction of vehicle import duties, number of vehicles imported to the country massively increased and ultimately it came to an uncontrollable level. Thereafter on 24th April 2011 government increased the taxes for petrol cars below 1000cc from 95% to 120% while taxes on vehicle from 1000 to 1600 cc increased from 119% to 128%. Nevertheless, Colonial Motors does not have any impact from the change in tax rules sine COLO does not cater to the affected market segments.

Company witnessed immense customer orders during FY11 and that led the order books to be full for the next six months. Therefore the improved earnings would be sustainable in going forward. Furthermore, we expect COLO would be able to attract substantial proportion of the remaining unexecuted permits and that would further strengthen the earnings of the company. Though the sale of vehicles would not be sustainable long term, sale of spares and repairs would kick-in in two to three years time and that would shoulder the margins of the company.

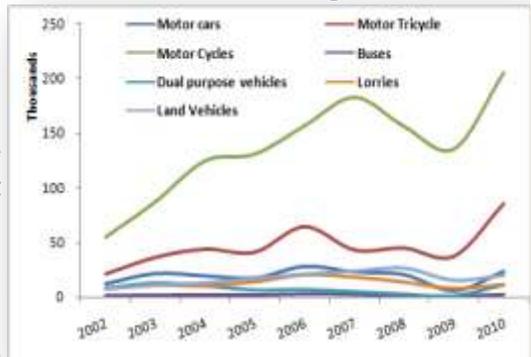
Colonial Motors is one of the key distributors of Tata, Leyland and TVS spare parts and the performance of spare parts business for the quarter is impressive due to outstanding growth in the domestic public passenger transportation industry. The growth in the industry was majorly bolstered by the reopening of North and East road network to the rest of the island together with overall improvement of economic activities in the country. In addition with the improved earnings we anticipate significant amount of cash accumulated in the company, COLO may look for potential strategic investments that would further enhance the value of the company.

Valuation

We expect the forecasted FY12E earnings to remain at LKR841.7mn whilst FY13E earnings would reach to LKR1,232.3mn. Company has exceptionally outperformed in the period under consideration and we may expect the same performance level to persist going forward. According to the available information more than 2/3 of permits holders have not used their permits up to now and if the company would be able to attract the larger proportion remaining permits this would generate significant revenue for the company.

Based on an analysis of a historic 52 week price movement, we derived price volatility of +/-62.0 on a mean of LKR289.24. Hence, the flux is circa +/-21.4%. Furthermore, if it is assumed that the same upside momentum is witnessed pushing the price to LKR579.23 (from a current level of LKR477.00), the forward PE multiple would be 6.3X for FY12E. The price of LKR530.00 is based on an upside growth of 21.4% derived via the 52 weeks standard deviation of the market price and the price of LKR530.00 is the highest traded price during FY11.

New Vehicles Registrations



Currently trade on low multiples relative to sector and overall market.....

COLO on a forecasted net profit of LKR841.7mn for FY12E, amounts to a PE multiple of 5.2X. Furthermore we expect 3.5X PE on its FY13E earnings. In addition the counter currently trades on a PBV of 1.9X, which we anticipate would improve to 1.4X by the end of FY12E. As opposed to the Motor sector PE of 8.4X and PBV of 3.4X.

Valuation Dashbord			
COLO : LKR477.00	FY2011	FY2012E	FY2013E
EPS (LKR)	25.42	92.24	135.05
P/EBIT	12.65	3.40	2.32
P/EBT	13.45	3.72	2.54
P/E	18.76	5.17	3.53
PBV	3.16	1.99	1.35
Sector P/E	8.39		
Sector PBV	3.35		
Market P/E	17.71		
Market PBV	2.75		

Assimilation of Price Movements

Voting	FY2012E		FY2013E	
+/- STDEV	579.23	530.00	579.23	530.00
PE	6.3	5.7	4.3	3.9
PBV	2.42	2.21	1.64	1.50

Summarized Income Statement

Income Statement	2004	2005	2006	2007	2008	2009	2010	2011E	2012E	2013E
For the year ended 31st December (LKR'mn)	(LKR ' mn)									
Revenue	391.4	453.4	384.9	320.6	257.1	216.1	290.1	1507.5	5566.5	8149.9
Gross Profit	95.5	96.0	100.5	84.6	73.0	78.0	99.7	431.5	1670.0	2445.0
EBIT	39.8	32.9	44.9	25.6	57.6	20.6	69.4	344.2	1280.3	1874.5
Finance Income/ Cost	3.1	(1.3)	(6.5)	1.0	(15.6)	(19.7)	(29.3)	(20.7)	(111.3)	(163.0)
EBT	42.9	31.6	38.4	26.6	42.0	0.8	40.1	323.5	1169.0	1711.5
Tax	(6.1)	(2.0)	(2.3)	(6.5)	(7.0)	(3.0)	0.3	(91.5)	(327.3)	(479.2)
Profit Attributable to Equity Holders	36.8	29.6	36.0	20.1	34.9	(2.1)	40.4	232.0	841.7	1232.3

Research

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Thilina Ukwatta (94-11)5320253
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Economy

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Travis Gomez (94-11)5320000

Statistician

Nuwan Pradeep (94-11)5320257

Sales

Institutional Sales

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Hiran Bibile (94-11) 5320238 0777 -352032 hiran@asiacapital.lk

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Gagani Jayawardhana (011)- 5320236 0714-084953 gagani@asiacapital.lk
Priyantha Hingurage (011)- 5320217 0773-502015 priyantha@asiacapital.lk
Neluka Rodrigo (011)- 5320214 0777-366280 neluka@asiacapital.lk
Subeeth Perera (011)- 5320227 0714-042683 subeeth@asiacapital.lk

Branches

CSE Floor	CSE,01-04, World Trade Centre, Colombo – 1.	Thushara Adhikari (011)-5735122 0773-688202 adhikari@asiacapital.lk M G Suranjana (011)-5763539 0773-954994
Kiribathgoda	Level 2-6,Udeshi City Shopping complex, No 94,Makola Rd,Kiribathgoda	Danushka Boteju (011)-5634803 0716-270527 boteju@asiacapital.lk Suranga Harshana (011)-5734773 0783-452500 harshana@asiacapital.lk
Kurunegala	Union Assurance Building, No.6,1st Floor, Rajapilla Rd, Kurunagala.	Asanka Samarakoon (037)-5628844 0773-690749 asanka@asiacapital.lk Gayan Nishanka (037)-5642717 0777-105356 nishshanka@asiacapital.lk Bandula Lansakkara (037)-5643580 0773-925852
Matara	E.H.Coorary Building, Mezzanine Floor, No:24, Anagarika Darmapala Mw, Matara	Sumeda Jayawardena (041)-5677525 0773-687027 sumeda@asiacapital.lk
Galle	Peoples Leasing Building, 2nd Floor, No.118,Matara Road, Galle	Lalinda Liyanapathirana (041)-5677526 0778-628798 rishan@asiacapital.lk Ruchira Hasantha (091)-5629998 0773-687027 ruchira@asiacapital.lk
Negombo	Asia Asset Finance, 171/1, Station Road, Negombo.	Ushan Sachith (091)-5676767 0778-628798 ushan@asiacapital.lk Uthpala Karunatilake (031)-5676881 0773-691685 uthpala@asiacapital.lk

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