

EXPOLANKA HOLDINGS

INTERIM UPDATE - 1QFY12

UPCOMING CONGLOMERATE RECORDS A 12.3% YOY GROWTH IN PAT DURING 1QFY12 COMPARED TO 1QFY11



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EXPOLANKA HOLDINGS

INTERIM RESULTS UPDATE

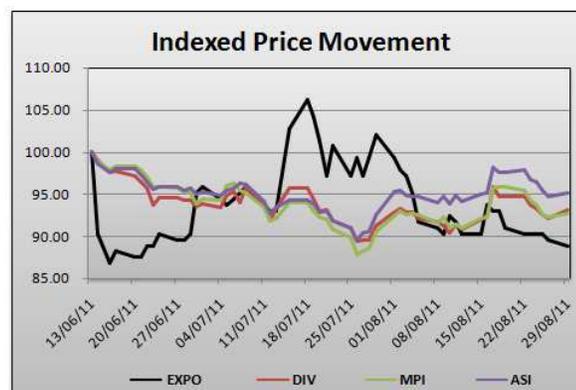
Expolanka Holdings (EXPO) is a robust diversified Sri Lankan group with over 45 companies in 11 countries. The new entrant to the bourse has interests in Transportation, International Trading, Manufacturing and Strategic Investments.

The group reported a 15.4% YoY growth in 1QFY12 to the tune of LKR 273.5mn as profit attributable to equity holders. The 4Q trailing PE is 16.1X at the price of LKR13.00 during 1QFY12.

The revenue at LKR 6.3bn in 1QFY12 was a circa 23.4% below the LKR 8.3bn recorded in 1QFY11.

The quarterly EPS of LKR 0.15 for the first quarter was marginally above the LKR 0.13 recorded in the corresponding period in the previous year.

Therefore, with the boom in the Sri Lankan economy and government expenditure on road, sea, air and rail infrastructure which paves way towards tourism and international trade, the revenue growth in transport and international trading expects to build up contributing to the overall earnings of the company. EXPO's asset light business model couple with high future earnings anticipates delivering higher returns. Thus we expect the forward PE multiples to be 12.7X and 10.3X in FY12 and FY13 respectively, solely on recurring earnings.



Stock Data

As at 30.08.2011

Average Daily Turnover (LKR mn)	33.9
Market Capitalisation (LKR mn)	25,218.2
12 month High/Low	15.30/12.50
Price Movement-LKR12.90	
1M-LKR14.70	-11.1%

Major Shareholders (%)

Voting (as at 30th June 2011)	
Osman Kassim	14.52%
Sattar Kassim	14.52%
Farook Kassim	14.52%
Shafik Kassim	14.52%
Hanif Yusoof	14.52%

Y/E 31 Mar (LKR mn)	FY07	FY08	FY09	FY10	FY11	FY12E	FY13E
Net Profit	55.2	(50.4)	309.7	518.0	1,546.9	1,986.4	2,451.5
+/- YoY		-191.3%	714.1%	67.2%	198.6%	28.4%	23.4%
EPS (LKR)	0.0	0.0	0.2	0.3	0.8	1.0	1.3
+/- YoY		-191.3%	714.1%	67.2%	198.6%	28.4%	23.4%
PE	456.7	N/A	81.4	48.7	16.3	12.7	10.3
BVPS (LKR.)	1.2	1.2	1.3	1.7	2.3	4.4	5.5
PBV (X)	10.5	10.7	9.8	7.4	5.7	2.9	2.3
ROE (%)	2.3%	-2.1%	12.0%	15.3%	25% *	23.1%	22.7%
DPS	N/A	N/A	N/A	N/A	0.12	0.12	0.12

*The 25% ROE in FY11 is derived from the normalized earnings excluding the LKR400 mn capital gains.

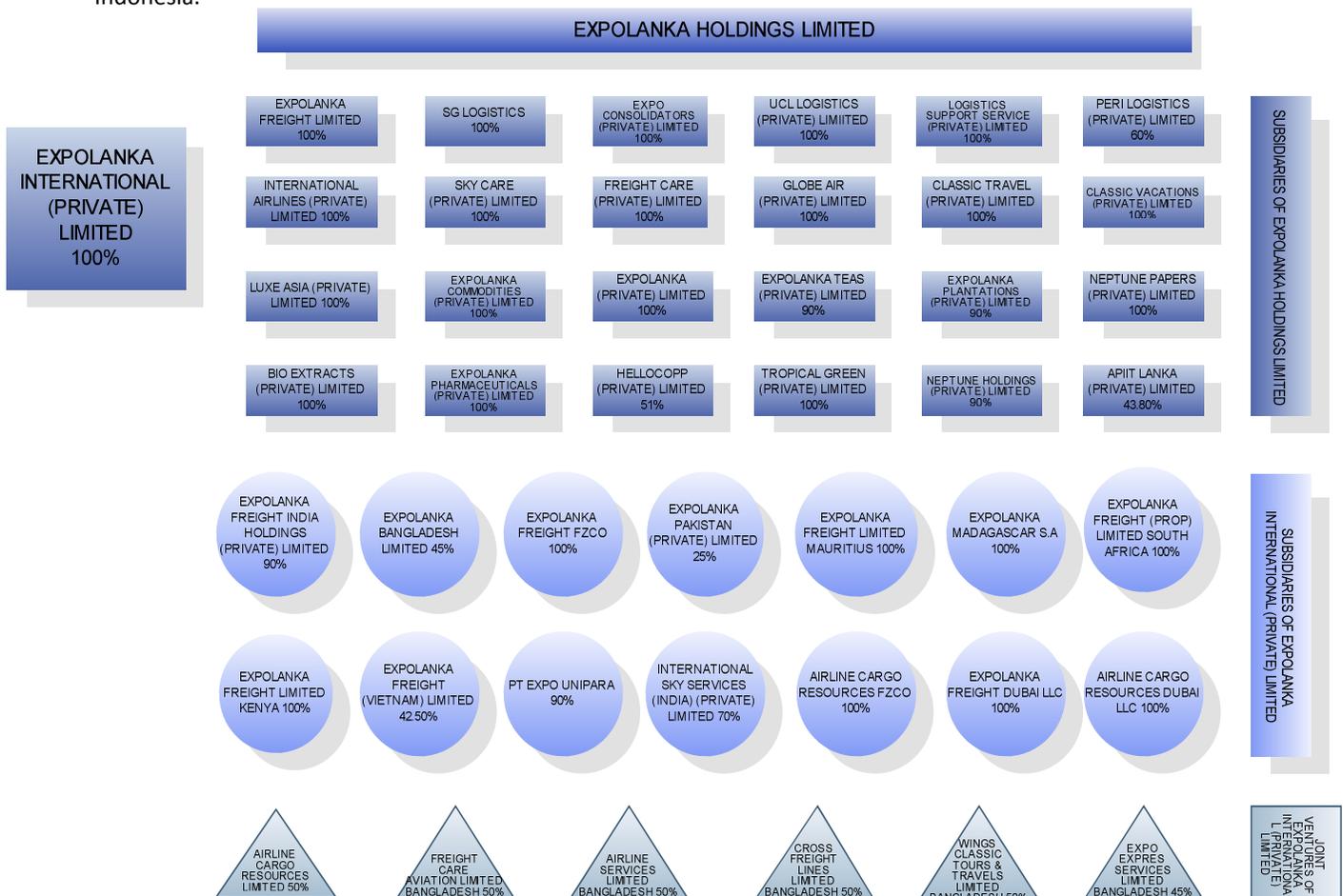
COMPANY OVERVIEW

Expo traces back to a rich history of over 3 decades from the start as an exporter of fresh produce, which has widened its interest into several areas standing out to be a group with over a LKR32 bn top line for FY11.

The conglomerate is one of the most recognized Sri Lankan family-run organizations which have a firm footprint in the Indian Sub-Continent, with a wide span of operations in Asia, Sub-Saharan regions and the Middle East.

The company incorporated in Sri Lanka in 1978 as an exporter of fresh produce. However by 2010, it has widespread its interest into freight forwarding, herbal pharmaceuticals (Bio Extracts), BPO operations (Hello Corp), higher education (APIIT) and leisure (Classic Travels).

Expo, with its 27 fully owned subsidiaries and 19 other entities (comprising of JVs and other subsidiaries under EXPO umbrella) has had its footprint in many nations including UAE, Dubai, Kenya, Madagascar, Pakistan, Mauritius, India, Vietnam, Pakistan and Indonesia.



QUARTERLY RESULTS

QUARTERLY FINANCIAL PERFORMANCE

LKR. Mn	1QFY12	1QFY11	Variance %	FY11	FY10	Variance %
Turnover	6,326.6	8,284.6	-23.6%	32,507.2	23,708.8	37%
COS	(4,932.2)	(6,766.1)	-27.1%	(26,459.9)	(19,156.1)	38%
GP	1,394.4	1,518.5	-8.2%	6,047.3	4,552.7	33%
Other income and Gains	96.8	99.0	-2.1%	891.0	455.1	96%
Administrative Expenses	(909.1)	(991.7)	-8.3%	(3,734.7)	(3,192.5)	17%
Selling and Distribution Costs	(114.4)	(140.5)	-18.6%	(542.9)	(491.9)	10%
Other Operating Expenses	(20.9)	(15.6)	33.7%	(56.4)	(48.5)	16%
Finance Cost	(31.0)	(52.1)	-40.5%	(280.4)	(348.4)	20%
Profit Before Tax	415.9	417.6	-0.4%	2,324.0	926.4	151%
Income Tax	(102.0)	(138.1)	-26.1%	(555.6)	(335.4)	66%
Profit After Tax	313.8	279.5	12.3%	1,768.4	591.1	199%
Minority	(40.3)	(42.4)	-5.0%	(221.6)	(73.0)	203%
Profit to Equity Holders	273.5	237.1	15.4%	1,546.9	518.0	199%

Revenue LKR 'mn	1QFY12	1QFY11	Variance
Transportation	3,635.0	4,295.0	-15.4%
International Trading	2,393.0	2,473.7	-3.3%
Manufacturing	150.5	129.1	16.7%
Strategic Investments	148.1	100.6	47.2%
Other	-	1,286.2	-100.0%
Total	6,326.6	8,284.6	-23.6%

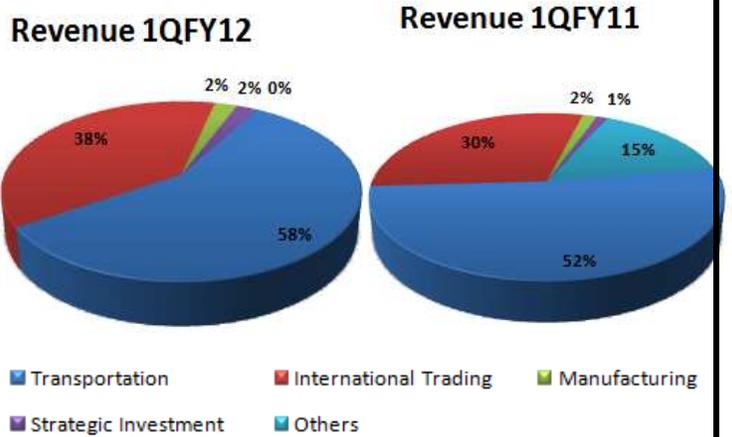
Operating Profit LKR 'mn	1QFY12	1QFY11	Variance
Transportation	465.9	394.7	18.0%
International Trading	(6.71)	52.54	-112.8%
Manufacturing	(1.10)	(3.44)	-68.1%
Strategic Investments	28.58	19.06	49.9%
Other	(39.83)	6.81	-684.6%
Total	446.9	469.7	-4.9%

Profit Before Tax LKR 'mn	1QFY12	1QFY11	Variance
Transportation	460.5	392.9	17.2%
International Trading	(24.25)	14.62	-265.9%
Manufacturing	(1.10)	(3.64)	69.8%
Strategic Investments	28.56	18.32	55.9%
Other	(47.87)	(4.68)	-923.5%
Total	415.9	417.6	-0.4%

REVENUE DIPS BY 23.6% YoY.....

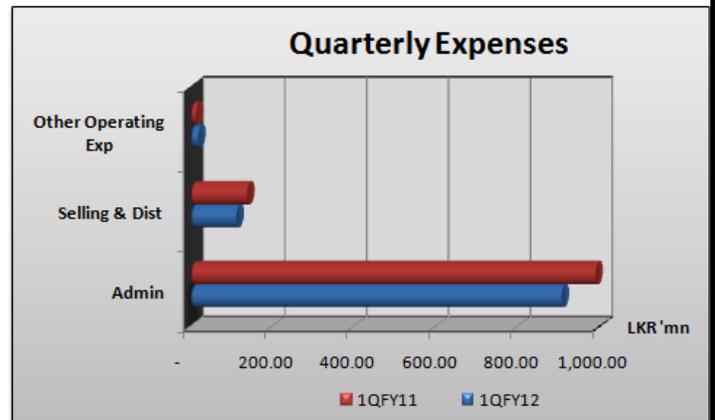
The revenue for 1QY12 recorded a mere LKR 6bn mark compared to LKR 8bn in 1QFY11. With regard to the transport sector, despite of high volumes recorded YoY; the freight rates dipped thereby decreasing the top line. The crisis in the Middle East led to lower volumes in tea export; hence the international trading arm did not perform as expected. Furthermore divestment of EXPO aviation and Denshun Industries created nil revenue in the other sector in 1QFY12 compared to 1QFY11.

Sector Revenue Contribution



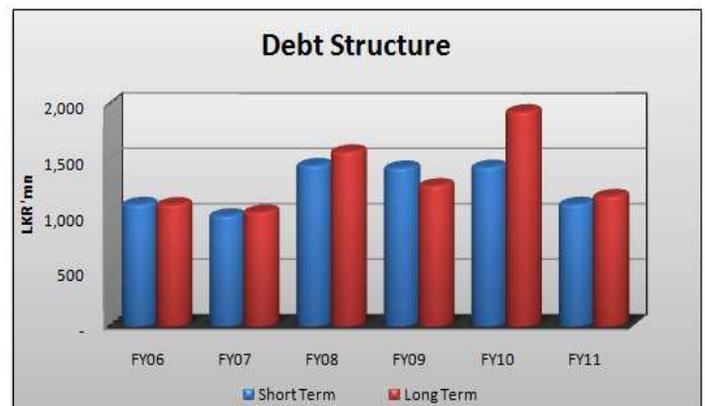
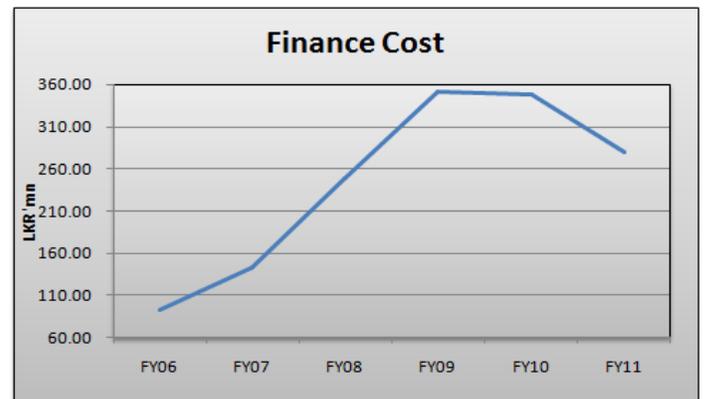
DECENT EXPENSE LEVELS.....

The overall administrative, selling and distribution expenses declined in 1QFY12 when compared to the corresponding period of the prior year by 8.3% and 18.6% respectively. This was because EXPO's cost structure mainly comprises of fixed costs. Higher volumes achieved especially in the transport sector have reduced the fixed cost per unit (scale advantage) leading to decreased overhead costs.



MAJOR IMPROVEMENT IN FINANCE COST AND DEBT....

As stated in the IPO, EXPO retired its heavy and expensive long term debt in order to make a robust balance sheet. This was evident in the 1QFY11 income statement where the finance cost dipped by sizable 40.5% YoY to LKR30.0 mn when compared with 1QFY12. This has created a healthy balance sheet creating bargaining power on Dollar borrowings to 2.75% p.a interest from 6% p.a in the past.



TRANSPORT AND STRATGIC INVESTMENTS SHOW POSTIVE YoY VARIANCES IN OPERATING PROFITS.....

The transport sector operating profit grew by 18.0% YoY, primarily backed by high yields in the freight division. Apart from this, the strategic investment sector showed an impressive 49.9% YoY hike in operating profit mainly driven by the education arm APIIT with an increase in the students' population and profit per student enrollment.

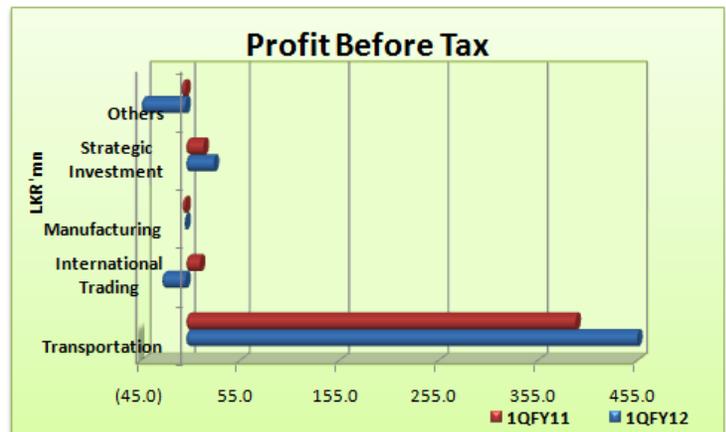
However international trading, manufacturing and other sectors recorded operating losses due to overburden costs out pacing the revenue. Nevertheless with EXPO's revamped business models and concepts solemnly expect to transform losses into healthy and sustainable profits.



TRANSPORT AND STRATGIC INVESTMENTS REVIVES PROFIT BEFORE TAX.....

The transport sector contributed 111% to the group PBT in 1QFY12 when compared to 94% 1QFY11 highlighting its ability to absorb losses made in the peer sectors. The strategic investment arm too contributed 7% to the group PBT 1QFY12 compared to 4% corresponding period of the prior year.

However, improved performance is expected in subsequent quarters where the loss making segments to contribute to the group PBT.



TRANSPORTATION

The transportation arm of Expo is a key SBU of the group which emphasizes on areas of freight & logistics management, airline representation, hospitality industry and travels & tours. With its robust channel of global offices, EXPO seems to be a leader in management in South Asia. Its coverage includes both sea and air logistics ranging from haulage, warehousing, customs clearance & handling and project cargo services. Its global footprint is tapped into many regions in the Middle East and Sub Sahara.

In terms of sales revenue, the sector recorded a 15.4% dip to LKR3.6 bn 1QFY12 compared to corresponding period of the previous year.

Nevertheless, sector operating profit increased to LKR465.9 mn (18.1% growth) 1QFY12 in contrast to 1QFY11. This was mainly due to healthy and improved margins contributed by quality service.

The sector PBT increased by 17.2% to LKR460.5 mn 1QFY12 as opposed to 1QFY11. Disciplined operational expenses and reduction in interest cost as a result of debt repayments helped the positive momentum.

Key strengths of EXPO transportation arm.....

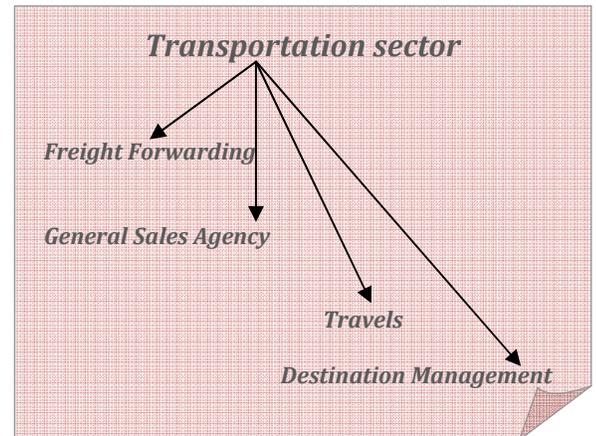
- ✓ *Robust client base*
- ✓ *High bargaining power with customers*
- ✓ *Fully fledged freight operators*
- ✓ *Managerial and operational efficacy*
- ✓ *Multi-model transport operators*

Freight Management

EXPO is now recognized as a renowned service provider to the local fashion industry. It mainly focuses on the garment industry with a captive client base backed by the 'Garments on hanger' concept.

Expo's freight management arm has reached 11 countries with prominent footprints in Sri Lanka, India and Bangladesh. It has positioned itself as the 5th largest freight forwarder in India. Currently EXPO caters to renowned brands such as *Tommy Hilfiger, Marks & Spence, Victoria's Secret and etc.*

EXPO's captive market approach is a strong differentiation from its rivals where it locks in clients and takes to all operating regions. This has reduced its risk of failure when operating new markets with guaranteed business from clients well coupled with low operating leverage.



Airline Representation

Expo's role of marketing aircraft space since 1994, created many milestones in Expo's 3 decade business path. It now has 13 GSAs drawn up with a few more yet to be approved in the near future. Expo is the only GSA representative in Dubai with a Non Arab national identity.

Travels & Tours

This sub sector now has grown to be identified as an accredited travel agent specializing in inbound and outbound tourism. Booming tourist arrivals expected to pace a wide leap towards growth. The leisure arm provides full turn-key solutions with call centres operating around the clock and other added services ranging from foreign currency transfers to tour guide operations.

Destination Management

Expo's management built this operation through strategic tie ups with other travel operators in the region. Luxe Asia (Pvt) Ltd was one such entity which has looks at India, Bangladesh and Sri Lanka. The most recent move has been the joint venture with 'Akquasun Group – Mumbai', to focus on inbound tourists from emerging markets such as India, Russia and China. The venture outlines a B2B regional destination management.

Sector Revenue (LKR 'mn)	1QFY12	1QFY11	Variance %
Freight	3,072.5	3,548.8	-13.4%
General Sales Agent	471.3	675.5	-30.2%
Travel	91.1	70.7	28.8%
Transport	3,635.0	4,295.0	-15.4%

Revenue LKR 'mn	FY06	FY07	FY08	FY09	FY10	FY11
Freight	5,316.5	4,844.6	5,267.8	6,783.9	8,733.8	14,259.7
GSA	124.5	1,054.2	973.1	942.3	2,912.9	3,438.2
Travel	64.5	99.8	135.1	164.4	207.6	370.9
Transportation	5,505.5	5,998.7	6,376.0	7,890.6	11,854.2	18,068.7

PBT LKR 'mn	FY06	FY07	FY08	FY09	FY10	FY11
Freight	437.2	402.8	390.9	623.3	664.9	1,429.4
GSA	21.8	16.5	15.2	23.5	176.9	235.8
Travel	19.0	29.0	38.7	44.0	40.2	44.9
Transportation	478.0	448.2	444.8	690.8	881.9	1,710.1

INTERNATIONAL TRADING

EXPO initiated as an exporter of perishable goods and now emerged as one of the largest exporter of desiccated and fresh coconuts, fruits and vegetables. Expo is also an importer of cement, sugar and lentils. The international trading arm targets the exportation of value added food items.

Expo has its wings in the tea zone as well. Expo's operations in the tea industry are with the value addition range. It has its own tea bagging unit, tea tasting and grading rooms and a warehouse along with its administrative offices. **Expolanka Tea** is ranked as the top 8th tea exporters in Sri Lanka, catering to over 35 countries such as the Middle East, Canada, Australia and Maldives. Iraq with the other Middle East regions takes up most of Expo's tea exports with Black Tea being the most exported tea range. Although Expo's tea brand, 'T-Sips' is a toddler in the global arena, it has started its recognition. Expo's value added range reaches Iraq at large catering well known brands such as 'Apple'.

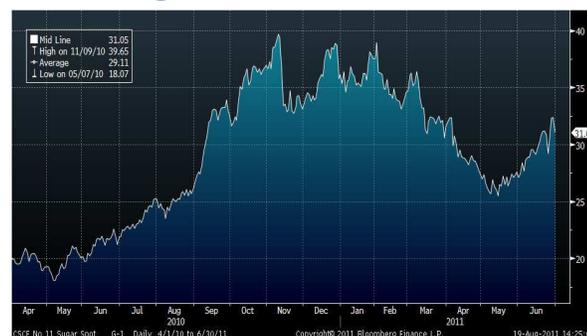
The top line of this sector recorded a 3.3% dip to LKR2.4 bn 1QFY12 compared to corresponding period of the previous year.

In addition, sector operating loss amounted to LKR6.7 mn (112.8% YoY increase in loss) 1QFY12 in contrast to 1QFY11.

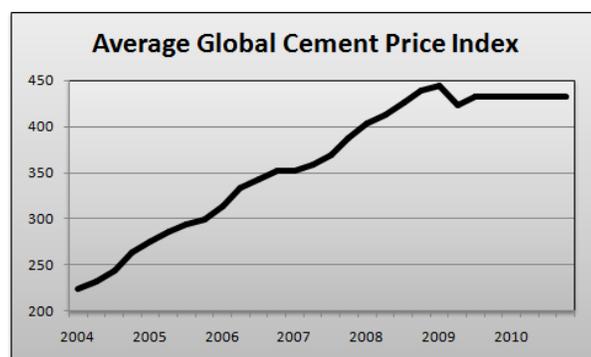
The sector PBT decreased by 265.9% YoY to a loss of LKR24.2 mn 1QFY12 as opposed to 1QFY11.



Global Sugar Price Index



Source: Bloomberg



Revenue LKR 'mn	1QFY12	1QFY11	Variance
Expolanka Commodities (Pvt) Ltd	774.8	598.6	29.5%
Expolanka Limited (Pvt) Ltd	614.4	396.5	54.9%
Expolanka Plantations (Pvt) Ltd	54.2	57.1	-5.1%
Expolanka Teas (Pvt) Ltd	941.3	1,400.8	-32.8%
Tropical Green (Pvt) Ltd	8.3	20.7	-59.9%
International Trading	2,393.0	2,473.7	-3.3%

MANUFACTURING

Expo's manufacturing arm operates in bio pharmaceutical as well as recycling of paper category.

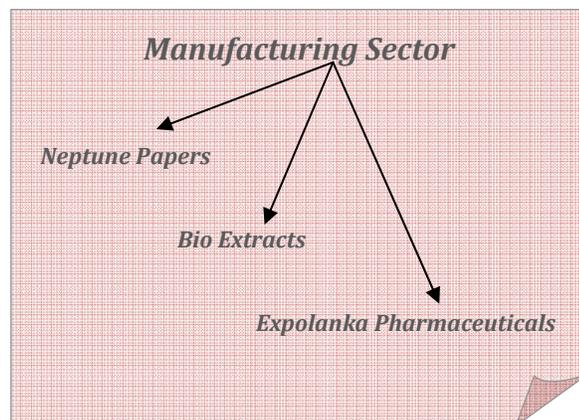
Expo has now emerged to be the largest waste paper exporter in Sri Lanka with an overall market share of 19% whilst recording a monthly export volume of 1,500 tonnes. Expo's main export destination in this category has been India.

Its subsidiary, **Bio Extracts**, manufactures a unique range of black seed herbal products under the brand, '**Baraka**' which is recognized as one of the major producers of the herbal category. These products still has not yet reached the international markets due to the constraint of high lead time.

The revenue of this sector recorded a 16.7% gain to LKR150.5 mn 1QFY12 compared to corresponding period of the previous year.

However, sector operating loss amounted to LKR1.1 mn (68.8% YoY decrease in loss) 1QFY12 in contrast to 1QFY11.

The sector loss before tax decreased to a loss of LKR1.1 mn 1QFY12 (69.8% YoY) as opposed to a loss of LKR3.6 mn 1QFY11.



Sector Revenue (LKR 'mn)	1QFY12	1QFY11	Variance %
Expolanka Pharmaceuticals Pvt Ltd	33.9	31.2	8.5%
Neptune Papers Pvt Ltd	116.7	97.9	19.2%
Manufacturing Sector	150.5	129.1	16.7%

STRATEGIC INVESTMENTS

Group's has an interest in tertiary education [**APIIT Lanka – 43.8%**] and Business Process Outsourcing [**HelloCorp – 51%**]

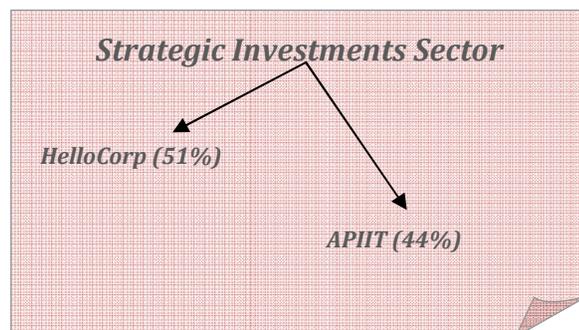
APIIT provides higher education choice in academic areas of Business, IT and law to both local and foreign students. This is in partnership with Asia Pacific Institute of Information Technology – Malaysia and Staffordshire University, UK.

HelloCorp is the first ever BOI approved BPO specialist in Sri Lanka. It looks at carrying on outsourced operations such as call centres, customer support and other routine activities.

In terms of sales revenue, the sector recorded a 47.2% dip to LKR148.1 mn 1QFY12 compared to corresponding period of the previous year.

Sector operating profit increased to LKR28.6 mn (50.1% growth) 1QFY12 in contrast to 1QFY11. This was mainly due to increase candidate population at APIIT coupled with lowering the tax on education.

The sector PBT increased by 55.9% to LKR28.6 mn 1QFY12 as opposed to 1QFY11.



Sector Revenue (LKR 'mn)	1QFY12	1QFY11	Variance %
HelloCorp Pvt Ltd	28.0	12.7	119.9%
APIIT Pvt Ltd	120.1	87.9	36.7%
Strategic Performance	148.1	100.6	47.2%

QUICK PERFORMANCE REVIEW

Ratio Analysis	FY06	FY07	FY08	FY09	FY10	FY11	FY12E	FY13E
Profitability								
Revenue Growth	-	7.9%	25.2%	19.0%	25.2%	37.1%	1.9%	21.3%
Gross Profit margin	19.6%	21.5%	20.4%	23.3%	19.2%	18.6%	20.0%	20.0%
PBIT Margin	3.9%	3.4%	3.0%	5.5%	5.4%	8.0%	8.9%	9.1%
PBT Margin	3.1%	2.3%	1.4%	3.6%	3.9%	7.1%	8.5%	8.6%
Net Profit Margin	1.1%	0.4%	-0.3%	1.6%	2.2%	4.8%	6.0%	6.1%
Liquidity								
Current Ratio	1.2	1.2	1.2	1.2	1.4	1.5	2.3	2.6
Quick Ratio	1.1	1.1	1.1	1.1	1.3	1.4	2.2	2.5
Efficiency								
Interest Cover	5.0	3.0	1.9	3.0	3.7	9.3	21.0	19.1
Inventory(days)	19.4	14.1	15.1	13.4	16.8	10.0	9.0	8.0
Receivables(days)	119.2	119.3	122.7	87.1	117.6	84.0	62.0	60.0
Payables(days)	122.5	118.6	124.1	103.9	125.2	74.3	50.0	48.0
Gearing								
Debt to Equity	119.2%	84.2%	128.3%	104.4%	99.4%	51.3%	20.4%	22.1%
Debt to Debt + Equity	54.4%	45.7%	56.2%	51.1%	49.9%	33.9%	16.9%	18.1%
Investor ratios								
EPS (Rs)	0.1	0.0	(0.0)	0.2	0.3	0.8	1.0	1.3
P/E	200.5	456.7	N/A	81.4	48.7	16.3	12.7	10.3
BVPS	0.9	1.2	1.2	1.3	1.7	2.3	4.4	5.5
P/BV	13.7	10.5	10.7	9.8	7.4	5.7	2.9	2.3
ROE(%)	6.8%	2.3%	-2.1%	12.0%	15.3%	25% *	23.1%	22.7%
ROA(%)	6.0%	5.2%	4.6%	10.0%	8.8%	19.4%	18.9%	18.7%
Asset Turnover(X)	1.5	1.5	1.5	1.8	1.6	2.4	2.1	2.1
Equity Multiplier(X)	4.2	3.5	4.4	4.0	4.3	3.0	1.8	1.8

*The 25% ROE in FY11 is derived from the normalized earnings excluding the LKR400 mn capital gains.

Profitability

Persistent earnings increase expectations and tighter cost control expects to contribute towards the profit margins. In addition debt repayment resulting lower gearing and fall in finance cost expects to maintain PBT margins at 8.0% levels.

Liquidity

Both current and quick ratios are aligned to the respective norms and the expectations are positive due to the LKR 1.0 bn inflow into the EXPO's working capital cycle. Thus a healthy cash position and reduction in short term debt should maintain the current ratios at 2.3 and 2.6 in FY12E and FY13E respectively.

Efficiency

The expected operating cycle of 20 days FY12E and 21 days FY13E, depicts the efficient working capital management. Prompt payment of creditors to maintain strong trade relationships together with efficient debt collection would reduce the dependency on future short term borrowings. This in turn would result in a high interest cover of 21.0X FY12E.

Gearing

Repayment of LKR 908 mn debt makes the company virtually gearing free and a shining white list company. Hence the anticipation of 20.4% debt to equity ratio FY12E when compared to 51.3% FY11 is a green light to the investors paving way towards ROE of 23.1% FY12E and higher dividend payments.

DUPONT ANALYSIS

Du Pont Analysis						
	FY06	FY07	FY08	FY09	FY10	FY11
ROE	6.8%	2.3%	-2.1%	12.0%	15.3%	34.9%
Tax Burden	34.2%	19.0%	-22.7%	44.9%	55.9%	66.6%
Interest Burden	80.0%	66.9%	47.1%	66.2%	72.7%	89.2%
EBIT Margin	3.9%	3.4%	3.0%	5.5%	5.4%	8.0%
Asset Turnover	1.53	1.53	1.54	1.82	1.64	2.42
Equity Multiplier	4.16	3.46	4.38	4.03	4.26	3.03

➤ Equity Multiplier

The asset equity ratio determines the proportion of debt in EXPO's capital structure. Throughout the six year period the financial leverage on average has been 4X. This has been due the exorbitant debt levels to fund group expansion. Nevertheless since 38% of IPO proceeds are to be utilized on debt repayments, this together with increased retained earnings expects to be curbing the equity multiplier in the next financial year.

➤ Asset Turnover

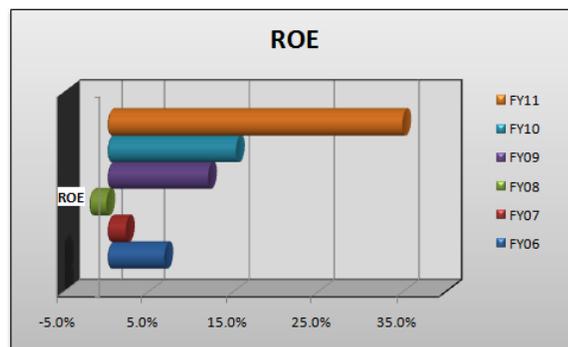
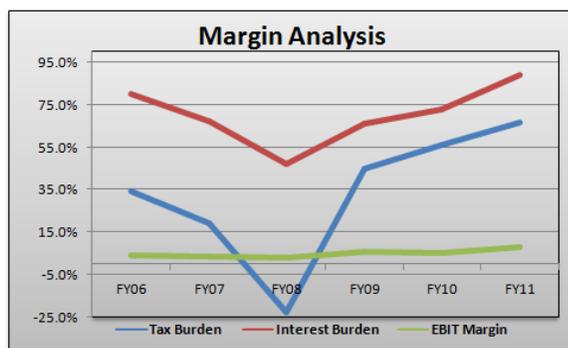
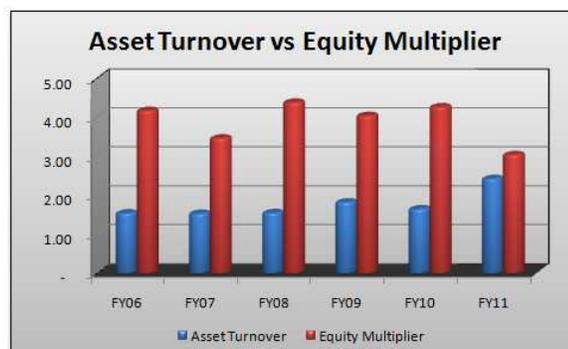
Higher asset turnover depicts the efficient utilization of group resources to generate sale revenue. This has been affirmative with the rapid growth in revenue superseding the growth in total assets. Between the FY08 and FY09, the 1% growth in total assets created a promising 19% boost in net revenue which highlights the asset utilisation efficacy of 1.8X. The target LKR 1 bn investment on working capital management believes to enhance the top line in the forthcoming period.

➤ Net Profit Margin

A gradual increase in the percentage of tax burden to 55% in FY09 implies escalation in pretax profits. Strong operating profits have countered high interest cost, which has created a 6.4% rise in interest burden in FY09. The EBIT margins have increased by 150 basis points from FY06 to FY10. Extension in the warehouse capacity from the balance LKR 0.5 bn IPO proceeds expects to widen the future margins creating a robust bottom line.

➤ ROE

During FY11 the ROE reached a promising all time high of 34.9% primarily due to improved margins couple with asset efficiency and financial leverage. The future expectation is that despite of the dip in equity multiplier due the inflow of equity (IPO proceeds); debt repayment teaming with improved PBT margins and capacity expansion could boost up the prospective earnings, thereby enriching the ROE.



RISK FACTORS

Macro-economic Risks

Adverse changes in macro-economic variables such as GDP, inflation, interest rates and exchange rates etc. can negatively affect the sales and profitability of EXPO. Natural disasters too can be detrimental to the company and industry as a whole.

Global

The global economy, which has seen a gradual recovery since the 2008/09 economic crisis, has shown positive growth over the current year, specifically in trade volumes and GDP. Similar to the local risk exposure, EXPO's global operations may be affected by a down turn in global trade activities.

Political Risks

The Government controls many aspects of the Sri Lankan economy, including taxation, regulations and laws pertaining to commercial industries, and as a result the performance of EXPO may be affected by unexpected changes in policy.

Collective Demand Risks

EXPO's diversification extends not only across various product lines but also spans many regions across the globe. Risks arising due to major international customers bargaining for low prices could invariably result in profit.

Working Capital Risks

Inherent working capital risks such as losses on high value orders, pricing risk due to forward buying of raw materials, seasonal fluctuations in operations, and increased days sales outstanding (DSO) due to adverse competitor actions can negatively affect the working capital cycle of the company.

Competition Risks

Competition risk may arise due to price wars, technological advancement, and higher levels of competitor service quality, competitor brand recognition and strong financial backing through ultimate parent companies of competitors.

Regulatory Risks

The changes in policy may be applicable with retrospective effect and may be imposed by the government and relevant governing/statutory bodies without prior warning.

Price Volatility in Secondary Market

The price of the offered shares may fluctuate due to variations in operating results, changes in operating environment, changes in regulation, technological (either advancement or obsolescence), macroeconomic factors, external events etc. The price of the offered shares may also follow general investor sentiment prevalent in the market at any given time, and may not necessarily be reflective of company fundamentals.

Compliance and External Factors

EXPO is engaged in business operations with a multitude of conglomerates based in many countries. As a result it is imperative that the company is aware of the varying compliance requirements in relation to operational processes, management and reporting requirements imposed by the relevant governing/statutory bodies of the country concerned.

FUTURE OUTLOOK

✓ **Transportation**

With Colombo envisaging to become the next regional hub, Expo can be a major beneficiary. With the development of the Colombo as well as the emergence of the Hambantota port, Expo's volume handled can increase at a faster pace in the near future. Expo targets to set offices in close premises to the rail, road as well as the port for a perfect transshipment.

The development in the domestic railway system would encourage EXPO to instigate cargo handling via rail as well. EXPO also targets in carrying passengers under Expo Carriages with tourists being cited as their major passenger segment under premium pricing. With the tourist segment focusing on destination management, the Group has taken an inorganic growth approach through joint venture with *Akquasun*.

The LKR500 mn investment on a 120,000 sq.ft warehouse is to be located in Orugodawatte, Colombo, in close proximity to the railway station and the harbor. The proposed warehouse primarily caters as a *Fashion Hub* where garments from India, Bangladesh, China and Sri Lanka are picked and packed to be exported to the European region. The group also has expectations in going for a second warehouse as a *Tech Hub* to cater to the domestic telecommunication segment as the logistics are already handled by EXPO.

The company wishes to expand its logistics operations in India and Bangladesh and hunt for new markets such as China and Hong Kong to strengthen its freight forwarding operations. EXPO has already set its foot print in Cambodia.

✓ **International Trading**

The cess on coconut was increased from LKR 4 per nut to LKR 30 per nut. This has created an entrepot trading where EXPO buys from Indonesia and sells to the Middle Eastern region. This has been a lucrative measure as there stock holding costs are minimized; hence the international trading arm plans to enrich this strategy in future.

EXPO's expansion strategy is supported via backward integration, hence acquired circa 50 acre land in Kurunegala to cultivate pine apple and tapioca. It has similar plans down the pipeline as synergies can be obtained.

EXPO's arm in Dubai is currently specialized in entrepot trading and plans on enhancing its operations to bring in more revenue into the group.

✓ **Manufacturing**

EXPO's herbal pharmaceuticals arm purchased a new capsule making machine in July. Prior to this the raw materials were sent to India for this purpose which had a long lead time and high cost. However these additional costs are to be saved in future. Also the 3rd quarter sales are anticipated to bolster with heavy exports to cater overseas demand for herbal products.

✓ **Strategic Investments**

The tertiary education arm exhibits phenomenal growth. Going forward the 8 programs will increase to 28 programs comprising of executive MBA's. Heavy inflow of foreign students is expected to especially from Maldives and other SAARC countries.

In addition the 35% corporate tax on education has been reduced to mere 10%. Hence a positive effect on bottom line is to be reflected in the forthcoming quarter.

✓ **Other Sector**

This comprises of group functions which are now basically cost centres and expect to generate zero revenue in future.

Overall, accountability, good corporate governance, captive and potential customer base, developments in Colombo, all these can give better prospects to EXPO in the forthcoming periods. Moving forward warehouse facilities for fashion industries, new GSA's for transportation, backward integration in cultivation and entrepot trading in international commodity markets, all these assure to bring a healthy and robust earnings figures for EXPO in FY12 and FY13.

VALUATIONS

We robustly believe that EXPO has a definite upside potential backed by its strong earnings. In the current market context with the availability of 1st Quarter results we now expect EXPO to post a net profit figure of LKR1, 986.4mn in FY12E, gain of 28.4% YoY whilst in FY13E to pertain an earnings figure of LKR2, 451.5 mn (23.4% YoY growth), solely based on recurring earnings excluding any exceptional capital gains.

Share is priced at 16.1X based of 4Q trailing earnings with the counter reaching its highest prices of circa LKR15.3 at present. Nevertheless EXPO's share price has dipped in excess 11.1% over the one month period despite of positive earnings associated with the counter. At current price levels the counter is trading at a projected earnings potential of 12.7X for FY12E whilst for FY13E the forward Price Earnings is valued at 10.3X.

Therefore, with the boom in the Sri Lankan economy and government expenditure on road, sea, air and rail infrastructure which paves way towards tourism and international trade, the revenue growth in transport and international trading expects to expect to augment contribution to the overall earnings of the company. EXPO's asset light business model couple with high future earnings anticipates delivering higher returns.

Hence, in medium to long term, we rate EXPO as a buy.

EXPO : LKR12.90	FY11	FY12E	FY13E
EPS (LKR)	0.8	1.0	1.3
P/E	16.3	12.7	10.3
PBV	5.7	2.9	2.3
Sector P/E	19.0		
Sector PBV	3.0		
Market P/E	16.3		
Market PBV	2.8		

FINANCIAL SUMMARY

INCOME STATEMENT								
For the year ended 31st March (LKR 'mn)	FY06	FY07	FY08	FY09	FY10	FY11	FY12E	FY13E
Revenue	11,783.2	12,715.0	15,917.2	18,935.5	23,708.8	32,507.2	33,125.9	40,182.7
Gross Profit	2,308.8	2,739.9	3,247.2	4,420.6	4,552.7	6,047.3	6,625.2	8,036.5
PBIT	460.3	435.0	471.5	1,040.6	1,274.9	2,604.3	2,948.2	3,656.6
Finance Cost	(92.1)	(143.8)	(249.6)	(351.4)	(348.4)	(280.4)	(140.3)	(191.3)
PBT	368.2	291.2	222.0	689.2	926.4	2,324.0	2,807.9	3,465.4
Tax	(175.8)	(168.9)	(214.2)	(298.6)	(335.4)	(555.6)	(537.0)	(662.7)
Profit to Equity Holders	125.8	55.2	(50.4)	309.7	518.0	1,546.9	1,986.4	2,451.5

BALANCE SHEET								
For the year ended 31st March (LKR 'mn)	FY06	FY07	FY08	FY09	FY10	FY11	FY12E	FY13E
Fixed Assets	2,386.7	2,930.7	2,916.1	3,002.2	3,146.7	2,921.4	3,174.8	3,272.5
Current Assets	5,290.8	5,404.1	7,408.5	7,427.7	11,306.7	10,519.9	12,440.0	16,276.0
Total Assets	7,677.5	8,334.9	10,324.5	10,429.8	14,453.3	13,441.2	15,614.8	19,548.5
Long Term Liabilities	1,221.5	1,252.5	1,670.0	1,388.7	2,348.7	1,401.0	607.4	1,152.3
Short Term Liabilities	4,430.5	4,435.8	6,017.7	6,120.8	8,276.9	6,856.3	5,379.1	6,199.9
Total Equity	2,025.6	2,646.5	2,636.8	2,920.1	3,827.7	5,183.9	9,628.3	12,196.3
Total Liabilities & Equity	7,677.5	8,334.9	10,324.5	10,429.6	14,453.3	13,441.2	15,614.8	19,548.5

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Neluka Rodrigo	(011)- 5320214	0777-366280	neluka@asiacapital.lk
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Branches

CSE Floor	CSE,01-04, World Trade Centre, Colombo – 1.	Thushara Adhikari	(011)-5735122	0773-688202	adhikari@asiacapital.lk
Kiribathgoda	Level 2-6,Udeshi City Shopping complex, No 94,Makola Rd,Kiribathgoda	Danushka Boteju	(011)-5634803	0716-270527	boteju@asiacapital.lk
Kurunegala	Union Assurance Building, No.6,1st Floor, Rajapilla Rd, Kurunagala.	Suranga Harshana	(011)-5734773	0783-452500	harshana@asiacapital.lk
Matara	E.H.Cooray Building, Mezzanine Floor, No:24, Anagarika Darmapala Mw, Matara	Asanka Samarakoon	(037)-5628844	0773-690749	asanka@asiacapital.lk
Galle	Peoples Leasing Building, 2nd Floor, No.118,Matara Road, Galle	Gayana Nishsanka	(037)-5642717	0777-105356	nishshanka@asiacapital.lk
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Hambantota	Hambantota Chamber of Commerce, Thangalle Road, Hambantota.	Radhika Hettiarachchi	(081)-5625577	0777-810694	radhika@asiacapital.lk
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