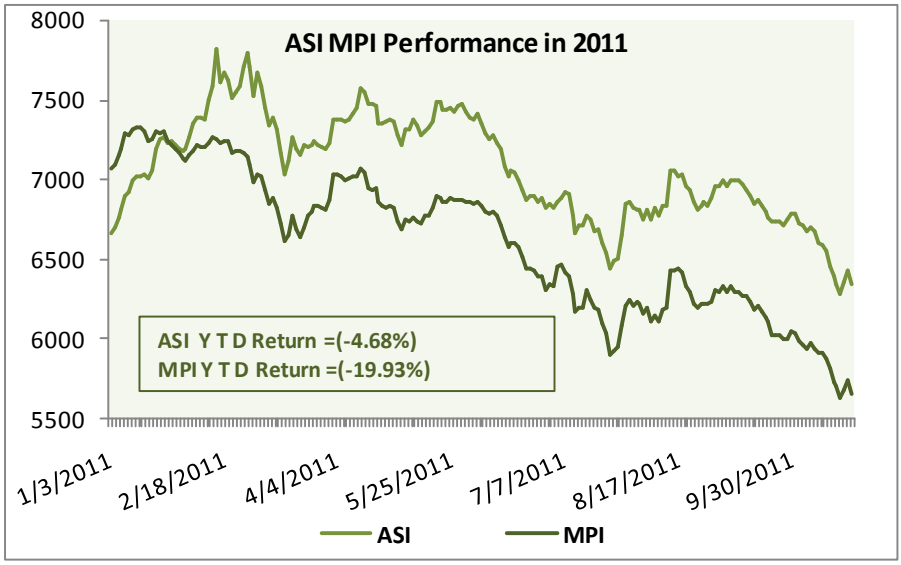
THE "BEACON"

ASIA WEALTH MANAGEMENT CO. (PVT) LTD.

Asia Wealth Management Research

Once the best performing bourse in the world…….

The Colombo Stock exchange: The achievement in year 2009 and 2010 as the ***"World's Best Performing Stock market"*** trimming up 124% and 96% respectively were groundbreaking moments since its systematic inception in 1984. The winning gap was quite a wide margin as opposed to markets in the United States and other developed economies, and was followed by Bangladesh (+83%), and several Eastern European countries such as Estonia(73%) , Ukraine (70%) and also South American Markets Peru (65%) and Argentina(52%) during 2010.



Albeit impressive performance, Colombo bourse witnessed continuous net foreign outflow…..

Despite such an achievement, Sri Lankan stocks observed the foreign investors going out of the market that resulted a "Net Foreign Out Flow" approximating to LKR 32bn in 2010 (2.86% of the market cap) that was higher than LKR 785mn (0.15% of the market cap) reported in 2009 . Further, the aggregated "Net Foreign Outflow" for the current year 2011 has so far been LKR 16bn which is circa 0.76% of the market capitalization. This could be due to realization of profits, which earlier was not the "Right time to do so", owing to the ethnic unrest prevailed, eventually scaled down the Local economy, whereby organizations suffered negatives in their performances. Meanwhile it should also be noted that, recessionary condition in most of the large economies such as the United States, European region and the Middle- East further supported this jaded sentiments.

	Return			Forigen Activity		
	ASI	MPI	Mcap(Year end)	Forigen purchases	Forigen sales	Net
2009	120.56%	133.49%	1,124,109.8	43,061,026,584.00	43,846,317,210.00	(785,290,626.00)
2010	91.23%	78.24%	2,217,810.55	86,567,659,208.00	118,760,874,896.00	(32,193,215,688.00)
2011	-4.68%	-19.93%	2,279,474.12	43,527,277,180.00	60,427,085,753.00	(16,899,808,573.00)

Sector Performances

	2010			2011		
	Return	PE	PBV	Return	PE	PBV
Banks Finance & Insurance	140.8%	19.40	2.90	-7.4%	12.43	2.40
Beverage, Food & Tobacco	98.1%	22.10	5.20	5.2%	12.97	4.10
Chemicals & Pharmaceuticals	96.5%	13.80	2.20	2.1%	7.59	1.55
Construction & Engineering	22.1%	13.10	4.40	-25.3%	9.77	1.85
Diversified	89.7%	31.30	3.40	-8.7%	17.54	2.77
Footwear & Textile	106.7%	23.30	1.70	-14.5%	na	1.45
Healthcare	21.5%	30.60	2.20	18.4%	38.29	2.19
Hotels & Travels	73.1%	103.80	3.10	-19.2%	35.53	2.85
Investment Trusts	-4.8%	24.10	3.40	-2.3%	7.42	1.99
IT	142.8%	1583.50	42.30	29.9%	466.32	13.06
Land & Property	41.5%	13.70	1.00	28.8%	20.51	1.19
Manufacturing	78.2%	21.80	2.70	-7.3%	14.31	2.45
Motors	234.6%	63.10	4.40	11.4%	7.56	3.01
Oil Palms	124.9%	33.20	5.50	33.6%	18.83	6.93
Plantations	116.3%	20.80	2.20	-29.9%	7.55	1.51
Power & Energy	45.5%	43.60	2.60	14.5%	11.82	1.55
Services	146.0%	1.70	4.10	-0.2%	9.91	3.11
Stores & Supplies	337.1%	50.50	1.70	-9.1%	18.35	2.26
Telecommunications	32.2%	235.10	2.50	-16.3%	14.62	1.87
Trading	478.7%	26.90	2.30	9.8%	15.31	1.86

*2011 is values as at 25th October 2011

The Colombo bourse had an incline during the early part of the year, yet again drove the market to be best performing market in Asia.However, the bourse failed to sustain its upward momentum throughout the year. It is currently experiencing a diminishing trend depicting reluctance amongst investors, creating a gloomy atmosphere in the market. Further market also witnessed the High net worths and co-operates neglecting fundamentally sound stocks while retailers kept pecking on speculative low profiled counters. Therefore, owing to the above the heavyweight blue chips and fundamentally strong counters are trading at a discount that is attractive leaving room to ***Re think on the market??.***

Albeit all this negativity, based on fundamentals we expect the market to pose a forward PE of circa 10.6x with earnings growth of 40%. Hence, Asia wealth Research finds the current circumstance an absolute oasis of a position to buy at these low and attractive prices. Therefore, we have recommended a portfolio with a healthy mix of growth/ value and Mid/low cap counters.

	Stock Characteristic	Past Five Year Correlation with ASPI	4 Quarter Tailing PE	Secter PE	PE(FY12E)
DIST	Growth	0.96	6.06	12.94	9.6
LLUB	Growth	0.89	13.18	14.23	10.3
TKYON	Growth	0.96	15.20	14.23	8.7
TKYOX	Growth	0.99	12.02	14.23	3.4
JKH	Growth	0.97	19.04	17.49	17.1
GLAS	Value	0.98	12.78	14.23	7.7
LFIN	Growth	0.97	9.51	12.40	6.0
HNBX	Value	0.91	5.10	12.40	4.9
EXPO	Value	-	8.90	17.49	10.1

John Keells Holdings

Premier blue chip John Keells Holdings (JKH) is a large cap in the Colombo bourse representing 7.5% of the total market capitalization. The heavy weight is regarded as the most diversified business, among key sectors. The entity has its footprint both in Sri Lanka and Maldives.

The future ahead appears promising for JKH. The economic environment expects to be conducive with inflation, interest rates and exchange rates being at stable levels. Hence we solemnly believe the industries to meet their prescribed goals in the favorable economic environment.

With regard to the ***transportation sector*** SAGT will take delivery of ship-to-shore cranes during the year which will enhance the capacity. Also the prime movers will be upgraded with 15 new in the pipeline. We anticipate the TEU volume to increase by circa 4-5% YoY FY12 backed by competitive pricing and Colombo Port being a regional hub. TDG has entered a strategic agency agreement with John Keells Holdings to cover freight forwarding services between Europe, India and Sri Lanka. The partnership will enable both companies to accelerate growth of ocean and airfreight and activity between the regions.

Leisure sector would be a direct beneficiary with more rooms available for occupancy in the subsequent year, tied with increase in average room rates (USD125 per room night for City Hotels). JKH with its portfolio of 841 five star city rooms and 798 resort rooms is well poised to reap the benefits of the local tourism upside. The profit from leisure sector would pursue its growth momentum. Furthermore refurbishment of Yala Village, launch of ChaayaTranz in November 2011 and the floating restaurant project at Cinnamon Lakeside will generate additional returns to the leisure sector.

The announcement of a ***property development*** project is a positive sign. Commencement of project OnThree20, a 475 unit residential apartment will continue with JKH's strategy of capitalizing its land bank with excellent development potential. Expansion in the group's land bank will ensure a persistent development pipeline.

JKH in June 2011 finalized the purchase of a 6 acre site in Ja-Ela with excellent development potential. Sanken Lanka (Pvt) Limited, the premier construction company in the country and John Keells Holdings, the largest conglomerate in Sri Lanka with extensive interest in the Hotel sector entered a key segment in the City hotel space with a state of the art 25 storey, 240 room Business Hotel in the heart of Colombo. The Project is a Joint Venture with Sanken Lanka (Pvt) Limited who will be the major shareholder whilst John Keells Holdings will take a minority stake.

YE 31 Mar	FY10	FY11	FY12E	FY13E
Net Profit (LKR mn)	5,201.5	8,245.6	9,716.0	11,983.4
+/-% YoY	9.9%	58.5%	17.8%	23.3%
EPS (LKR)	6.2	9.8	11.6	14.3
+/- %YoY	9.9%	58.5%	17.8%	23.3%
PE (X)	31.9	20.1	17.1	13.8
PEG (X)	321.8	34.4	95.8	59.3
DPS (LKR.)	3.0	3.0	3.0	3.0
+/- % YoY	0.0%	0.0%	0.0%	0.0%
DY (%)	1.5%	1.5%	1.5%	1.5%
BVPS (LKR.)	59.3	70.9	79.5	90.8
PBV (X)	3.3	2.8	2.5	2.2
ROE (%)	10.4%	13.8%	14.5%	15.7%

Ratio Analysis	FY10	FY11	FY12E	FY13E
Profitability				
Revenue Growth	17.0%	26.1%	18.8%	16.5%
Gross Profit margin	23.1%	22.6%	24.0%	25.0%
PBIT Margin	16.5%	18.9%	17.5%	18.4%
PBT Margin	13.6%	17.6%	16.8%	17.8%
Net Profit Margin	10.8%	13.6%	13.5%	14.3%
Liquidity				
Current Ratio	2.1	1.8	1.7	1.9
Quick Ratio	1.9	1.6	1.6	1.7
Efficiency				
Interest Cover	5.8	14.4	27.8	31.5
Inventory(days)	22.7	24.5	24.5	24.5
Receivables(days)	75.6	72.8	72.8	72.8
Payables(days)	87.7	96.4	98.3	99.6
Gearing				
Debt to Equity	29.8%	18.0%	9.1%	6.1%
Debt to Debt + Equity	23.0%	15.2%	8.3%	5.8%
Investor ratios				
EPS (Rs)	6.2	9.8	11.6	14.3
P/E	31.9	20.1	17.1	13.8
BVPS	59.3	70.9	79.5	90.8
P/BV	3.3	2.8	2.5	2.2
ROE%	10.4%	13.8%	14.5%	15.7%
ROA(%)	5.3%	7.5%	8.2%	9.0%
Asset Turnover(X)	0.49	0.55	0.61	0.63
Equity Multiplier(X)	1.98	1.85	1.77	1.74

In the ***consumer foods and retail***, the *Ceylon Cold Stores (CCS)* is planning to launch of new products in beverages and frozen confectionary catering to market needs and demand of consumers. *Keells Food Products (KFP)* will continue to expand its portfolio with particular focus on ready to eat segment of the market which is expected to grow in the medium term.

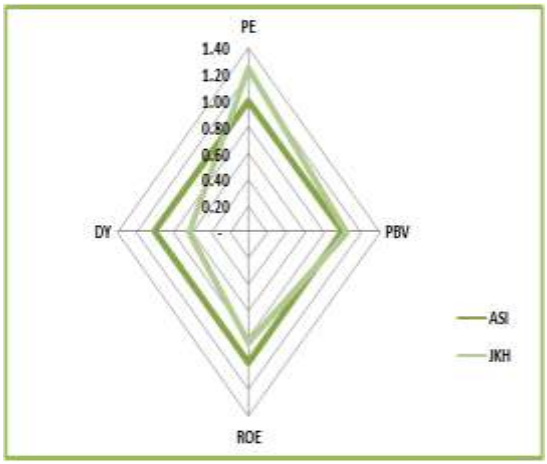
Financial services sector would reap hefty yields backed by the equity market, banking and insurance industries. *Nations Trust Bank (NTB),* ranked 7th on asset base, with its increased focus on allocating capital and return across customer segments and expansion of SME portfolio and access points will show higher earnings levels in future. *Union Assurance (UAL)* being the 4th largestinsurer in the country with a current market share of 11.2% and 9.8% in life and general segments plans to penetrate into north and east to exploit opportunities. Strong pipeline of IPOs will encourage more accounts to be opened and keep turnover levels high thereby create a positive outlook on the brokering arm.

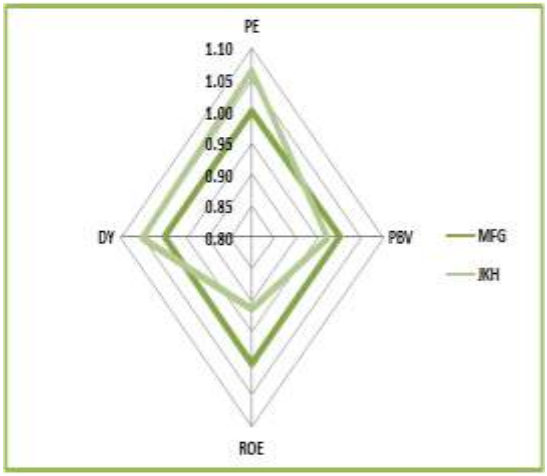
The BPO operations in the ***IT sector*** are making significant progress with the current revenue rate more than doubling from prior year with new customer acquisitions. The Office Automation segment expects to perform well with Samsung mobile phone agency business increasing its market share significantly.

Overall, with a cash rich balance sheet of LKR18.8 bn as at 30th June 2011 and satisfactory dividend paying counter (LKR3.0 per share in FY11), confidence still exists on index heavyweight JKH for future capital gains even on a bearish market.

We robustly believe that heavy weight JKH 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 JKH to post a net profit figure of LKR9, 716.0mn in FY12E, gain of 17.8% YoY whilst in FY13E to pertain an earnings figure of LKR11, 983.4 mn (23.3% YoY growth), solely based on recurring earnings excluding any exceptional capital gains.

JKH : LKR197.50	FY11	*FY12E*	*FY13E*
EPS (LKR)	9.8	*11.6*	*14.3*
P/E	20.1	*17.1*	*13.8*
PBV	2.8	*2.5*	*2.2*
Sharpe Ratio- JKH	0.9		
Sharpe Ratio- DIV	1.7		
Sector P/E	17.5		
Sector PBV	2.8		
Market P/E	14.9		
Market PBV	2.6		





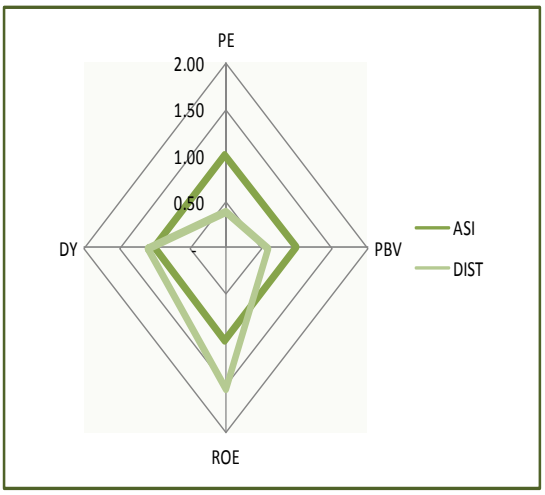
Distilleries Company of Sri Lanka

Colombo bourse witnessed continuous free fall during last couple of months, which made several stocks to become attractive at current price levels. Distilleries Company of Sri Lanka can be identified as one of the undervalued stocks which has immense growth potential with the expected earnings prospects.

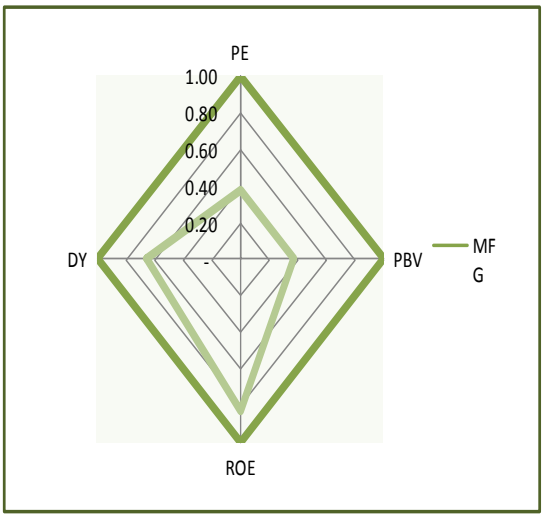
Distilleries Company of Sri Lanka, a leading conglomerate in the country which has business operations spanning across beverages, telecommunications, plantations, textiles, financial services, media services and automotive services. Distilleries group is amongst the top five conglomerates in Sri Lanka in terms of its assets value and turnover.

Valuation Dashbord			
DIST : LKR165.40	FY2011	FY2012E	FY2013E
EPS (LKR)	27.32	17.27	18.78
P/EBIT	4.78	6.90	6.40
P/EBT	4.65	6.80	6.26
P/E	6.05	9.58	8.81
PBV	1.55	1.48	1.29
Sharpe Ratio-DIST	0.92		
Sharpe Ratio-F&B sector	0.77		
Sector P/E	12.97		
Sector PBV	4.10		
Market P/E	14.90		
Market PBV	2.57		

Growth in the liquor business with the expected rise in tourism, improved sales from the untapped North & East regions and anticipated increase in disposable income would shoulder the growth in DIST. Furthermore, the beverage giant currently stands with a significant cash balance which could be utilized by DIST group for any future potential investments. By end of March 2011 DIST acquired majority of stake in Pelwatte Sugar industries through its fully owned investment arm Melstacorp (Pvt) Limited. The acquisition would give a synergistic effect for the group towards the future with additional earnings.



DIST on a forecasted net profit of LKR5,181.7mn for FY12E, accounts to a PE multiple of 9.6X. Furthermore we expect 8.8X on its FY13E earnings. In addition the counter currently trades on a PBV of 1.6X, which we anticipate to improve to 1.5X by the end of FY12E. As opposed to the Beverages sector PE of 13X and PBV of 4.1X, counter is fairly undervalued at this price level. Given its proven ability to sustain robust earnings through new acquisitions, coupled with the favorable macro environment and cash rich liquor business, we advice our investors to keep their focus on DIST.



Distilleries Company of Sri Lanka					
QUICK PERFORMANCE REVIEW	FY2007	FY2008	FY2009	FY2010	FY2011
Profitability					
Revenue Growth	12%	23%	-29%	-3%	25%
Gross Profit Margins on Net Revenue	26.4%	30%	44%	42%	47%
EBIT Margin on Net Revenue	18.6%	15%	22%	19%	45%
EBT Margin on Net Rvenue	19.2%	15%	20%	17%	46%
Net Profit Margin on Net Revenue	12.5%	11%	15%	11%	35%
Efficiency					
Trade & Receivale Days	31.27	38.5	38.0	37.0	45.3
Payable Days	34.38	123.1	179.7	211.2	279.0
Inventory Days	48.24	64.5	128.1	116.9	138.3
Current Ratio	2.37	2.1	1.1	1.1	1.4
Acid Test Ratio	1.27	1.8	0.7	0.7	1.1
Gearing(debt/equity)		6.4%	5.4%	5.0%	2.4%
Gearing(debt/debt+equity)		6.1%	5.2%	4.8%	2.4%
Investor Ratios					
ROE	59%	22.1%	15.1%	10.5%	25.6%
ROA	56%	6.9%	12.7%	10.7%	19.5%
Asset Turnover	3.01	0.45	0.58	0.57	0.44

Banking and Finance

Banking and finance sector is one of the most vital sectors in the economy as well as in the Colombo Stock Market. The total market capitalization of the banking and finance sector as per 26th October 2011 is almost LKR557.9 bn as a fraction of the total market capitalization the overall contribution to the CSE from banking and finance sector is 25% (total market capitalization as per 27th October 2011).

As a result of the sectors importance to the economy, the sector is highly monitored and regulated by the CBSL. One such measure is the mandatory requirement of obtaining a listing in the CSE by all finance companies in Sri Lanka before the end of 2011. These regulations would safeguard the investors from a near collapse of the companies. Bearing this in mind, we opine that investing in the banking and finance sector would be somewhat safer. But again there is a problem as to which stocks to be picked from a pool of somewhat similar companies, where there can be some companies (leasing and finance companies) which are listed on the CSE to merely comply with the CBSL directives.

In order to achieve this, an investor can look at the fundamentals of the company as to select the best to invest rather than being carried away by the speculative trend and getting stuck with the investment with lost liquidity. A stock which has been artificially brought up in price would not survive in its high levels if strong fundamentals are not backing them, leaving space to collapse any moment in time.

Considering all the above factors we can be positive about a number of counters in the banking and finance sector.

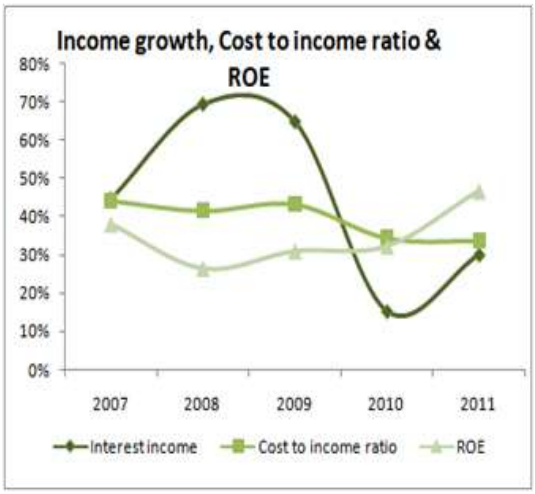
Here we would be focusing on two such counters:

Key financials			
Year ended 31 March	FY10/11	FY11/12 E	FY12/13 E
Net interest income (LKR mn)	2,720.2	3,693.4	4,953.9
% change	60%	36%	34%
Net Profit (LKR mn)	1,020.4	1,613.0	2,196.1
% change	104%	58%	36%
EPS (LKR)	14.7	23.3	31.7
PE	9.5	6.0	4.4
DPS (LKR)	3.5	3.5	3.5
BVPS (LKR)	11.2	31.0	59.2
PBV	12.5	4.5	2.4
ROE	47%	75%	54%

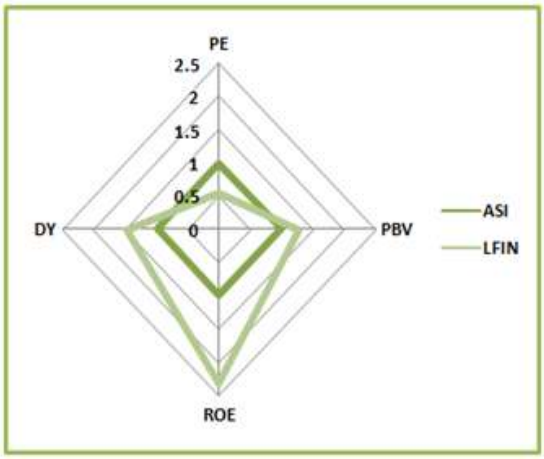
Valuation Dash Board	*FY2011E*	*FY2012E*
EPS (LKR)	23.29	31.71
PE	6.01	4.42
Sector PE	13.73	-
Market PE	17.36	-
PBV	4.51	2.36
Sector PBV	2.28	-
Market PBV	2.69	-
ROE - LFIN	75%	54%
Sector ROE	16.63%	-
Market ROE	15.51%	-
LFIN (N): LKR 140.00		

LB Finance

LFIN is registered under the Finance Companies Act No: 78 of 1988 and is also a Registered Finance leasing establishment under Act No: 56 of 2000), with an operating history spanning over 40 years. LFIN's principal lines of businesses are leasing (finance and operating), hire purchase, pawn broking, mortgage loans, and real estate. Simultaneously, company also accepts public deposits as a primary means of their funding. Moreover, LB Finance accounts for about 10.5% of the Registered Finance Companies industry's asset base (as per the CBSL annual report 2010), which is being led by a wide distribution network of 34 branches and 92 gold loan centers island wide.

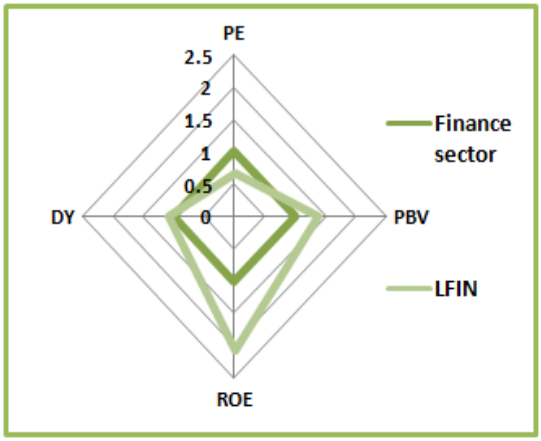


Historically LB finance's top line has grown with a CAGR of 43% over a time span of six years, a similar movement of 46% can also be seen in terms of net interest income. Currently the company is operating with a Net Interest Margin of 13% and net interest spread of 12%, which is very convincing compared with peers. And the current ROE is 47% and it has been in high levels historically as well.



The cost base of the company analyzed via the cost to income ratio is also favorable at a low of 34%.

Referring to the asset quality of the company, the Net Non performing loan ratio stands at 1.68% by the end of FY10/11 while Net non performing loans/ share holders funds stands at 40%.



The funding base of the company is dominated by deposits with a contribution of 76% to the total funds while rest being funded through shareholders funds (10%) and borrowings (14%). LFIN as a RFC is enjoying access to public deposits while at the same time utilizing those funds to grow its leasing disbursements (vehicle loans amounts to 52% of the total loan book of LFIN). This is a pure advantage over LFIN because some leasing companies don't have access to public deposits.

HNB – Non Voting

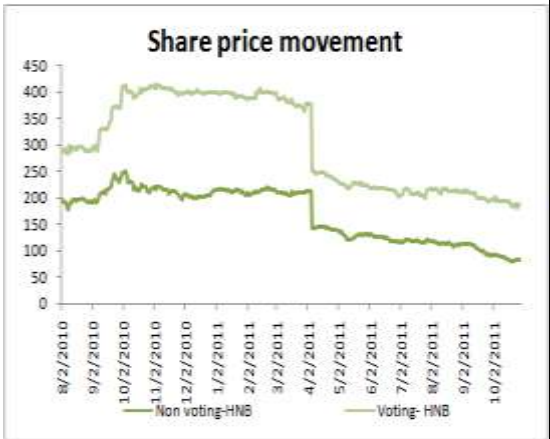
HNB is the second largest private licensed commercial bank in Sri Lanka with a total asset base of LKR345.9 bn. The recent financial performance as per end FY2010 shows a net interest margin of 8% being in line with the peers whilst maintaining interest spreads at 10% level. Also HNB realized a return of 17% on funds of equity holders.

Depicting the stability in the banking sector, HNB has maintained a CAGR of 12% over a time span of 5 years and a net profit CAGR of 21%. The cost base has been growing at a CAGR 15% and cost to income ratio to hover around 67%. The asset quality in terms of the loan portfolio is satisfactory with a gross non performing loan ratio of 4.74% and a net non performing loan ratio of 2.68%.

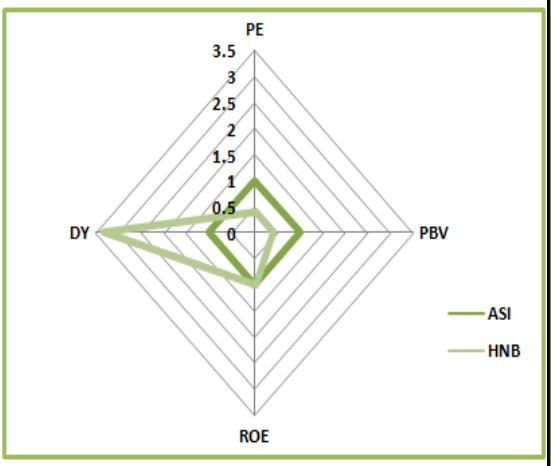
The Core capital adequacy ratio and Total capital adequacy ratios stood at 9.13 %(minimum requirement is 5%) and 10.30% (minimum requirement is 10%) respectively as at 30thJune 2011, oppose to 10.99% (Core capital) and 12.64 %(Total capital) recorded in end FY2010.

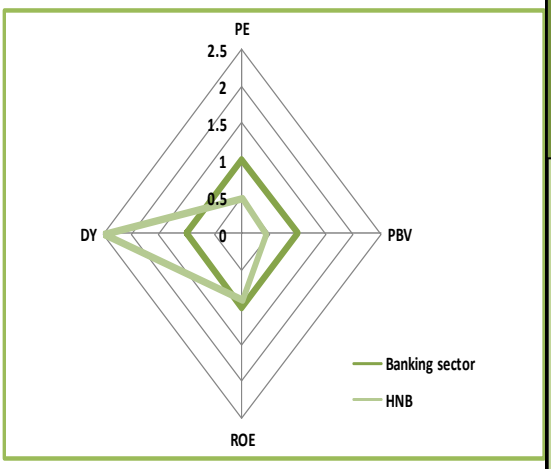
Referring to the bank's growth prospects accompanied by its stability in the banking sector, HNB is a sound investment at the prevailing price levels. And we place more emphasis on HNB Non Voting over HNB Voting.

The non voting share is currently trading with a PE multiple of 5.15X compared to a banking sector PE of 12.4x and a market PE of 14.9x. However the discount available to the non voting share on average is 69%, therefore we can conclude the HNB (X) is relatively undervalued and is a worthwhile investment to consider in medium to long-term (based on a current price of LKR82.00).



Valuation Dash Board	FY2011E	FY2012E
EPS (LKR)	15.92	20.77
Sharpe Ratio - Sector	2.42	-
PE (N)	11.81	9.05
PE (X)	5.15	3.95
Sector PE	12.40	-
Market PE	14.90	-
ROE- HNB	17.13%	17.44%
Sector ROE	19.3%	-
Market ROE	17.3%	-
HNB(N) : 188.00		
HNB (X) : 82.00		





Quick performance review	2010	2011E	2012E
Interest income	30,563.80	35,376.58	40,378.77
Growth	*-12%*	*16%*	*14%*
Net interest income	15,786.64	19,059.53	23,116.67
Growth	*8%*	*21%*	*21%*
Operating income	23,327.51	27,539.89	33,354.41
Growth	*11%*	*18%*	*21%*
Operating Expenses	16,073.41	18,965.25	22,189.88
Growth	*8%*	*18%*	*17%*
Net profit	4,786.77	6,184.35	8,068.34
Growth	*7%*	*29%*	*30%*

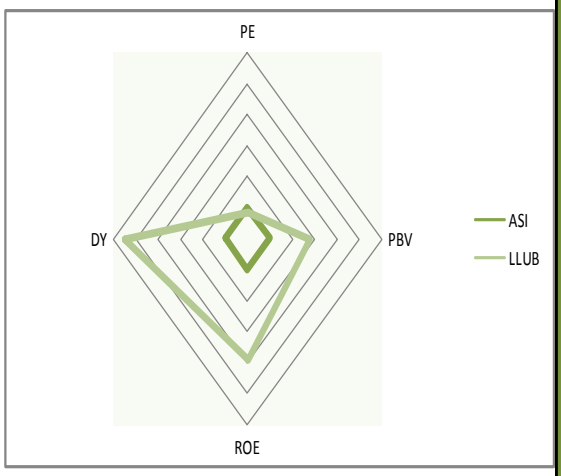
Chevron Lubricants Lanka

Having a good dividend yielding stock in a portfolio would certainly curtail the risk element at times when share prices are falling. Hence, even though the market falls significantly the dividend payments would not be affected, therefore we recommend our investors to manage a balanced equity portfolio, with a combination of counters which gives both capital gains as well as dividends.

Chevron Lanka lubricants possess a renowned history in paying high dividends. LLUB is a 51% owned subsidiary of Chevron Corporation (formally known as Chevron Texaco Corporation) which has business activities in relation to the oil and natural gas industry including, exploration, production, refining, marketing & sales and power generation.

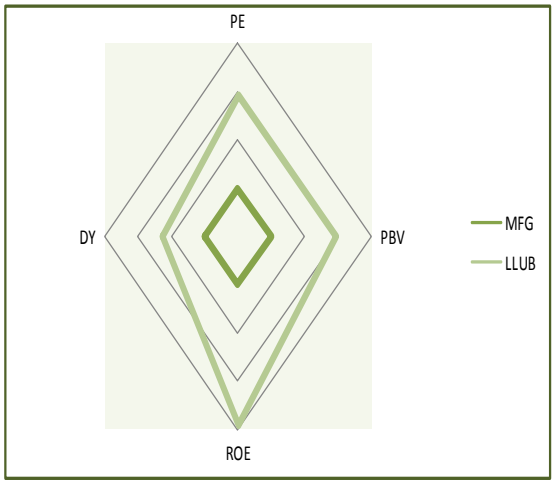
Valuation Dashbord				
LLUB : LKR164.40	FY2010	FY2011E	FY2012E	FY2013E
EPS (LKR)	12.51	16.04	19.88	24.94
P/EBIT	8.70	7.69	6.17	4.90
P/EBT	8.45	7.38	5.95	4.75
P/E	13.14	10.25	8.27	6.59
PBV	8.82	8.12	7.39	6.65
Sector P/E	14.31			
Sector PBV	2.45			
Market P/E	14.90			
Market PBV	2.57			

Sri Lankan lubricant market witnesses an annual growth of 6% - 7%, as LLUB holds the largest market share, it would be able to enjoy high growth in sales volume going forward. Forecasted revenue for FY11 amounts to LKR10.7bn, up by 28% YoY basis. With the increase in vehicle population of the country and expected growth in export sales (Maldives and Bangladesh), company would be able to achieve such growth in their top line. LLUB with a renowned history in paying high dividends, during FY10 company paid LKR1,470mn as dividends which is a payout of 98% opposed to 96% dividend payout in FY09(LLUB paid LKR1440mn dividends in FY09). Going forward we do not expect a drastic change in company's dividend policy. Hence, LLUB would definitely find its way to an equity portfolio based on recurring income in terms of mammoth dividends.



We expect the forecasted FY12 earnings to remain at LKR1, 925.1mn whilst FY13 earnings would reach to LKR2, 386.0mn. Therefore we project the forward multiples to persist at 10.3X and 8.3X on its FY11E and FY12E earnings respectively. Furthermore the counter currently trades on a PBV of 8.8X, which we anticipate to improve to 8.1X by FY11E and 7.4X in FY12E.

Chevron Lubricants Lanka					
QUICK PERFORMANCE REVIEW	FY2006	FY2007	FY2008	FY2009	FY2010
Profitability					
Revenue Growth	38%	12%	2.8%	-2.4%	9.0%
Gross Profit Margins on Revenue	23.9%	26.4%	23.9%	35.6%	32.2%
EBIT Margin on Revenue	15.9%	18.6%	15.6%	25.8%	23.9%
EBT Margin on Rvenue	16.2%	19.2%	16.7%	27.0%	24.6%
Net Profit Margin on Revenue	10.5%	12.5%	10.6%	17.2%	15.9%
Investor Ratios					
ROE	54%	59%	44.1%	67.8%	67.1%
ROA	48%	56%	43.7%	55.7%	67.2%
Asset Turnover	3.02	3.01	2.81	2.16	2.81
Efficiency					
Trade & Receivale Days	29.75	31.27	42.4	36.5	36.8
Payable Days	33.43	34.38	32.2	20.8	17.0
Inventory Days	65.82	48.24	69.6	60.0	56.8
Current Ratio	2.01	2.37	2.8	2.0	2.7
Acid Test Ratio	0.68	1.27	1.1	1.2	1.4



Piramal Glass

Piramal Glass Ceylon Plc (PGC), a manufacturer of flaconnage(glass containers) for specialty food and beverage, cosmetics, perfumery, agro chemicals, wine as well as pharmaceuticals, has reported an exceptional performance by reporting a net profit of Rs. 384 million in the first six months of FY 12 as against the profit of Rs. 210 million posted during the corresponding period of the past financial year. This is a growth of 82.6% on net profitability.

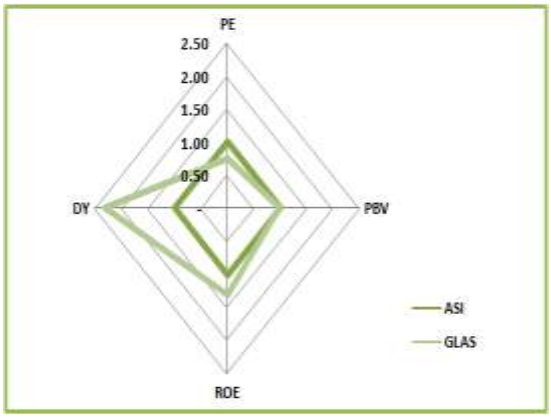
Currently, it is experiencing monopoly status in supplying to the domestic market while solidly getting its spotlight in supplying to dominant players in the global market. GLAS exports glass containers mainly to the owner's native country India whilst Australia has been one of the countries that GLAS do have larger exposure apart from India. UK France, South Africa, Philippines are some of the countries that GLAS has its client base.

GLAS : 7.90	FY11	FY12E	FY13E
EPS (LKR)	0.6	1.0	1.2
P/E	13.0	7.7	6.6
BVPS(LKR)	2.9	3.7	4.6
PBV	2.7	2.2	1.7
Sharpe Ratio GLAS	1.6		
Sharpe Ratio MFG	-0.2		
Sector P/E	14.3		
Sector PBV	2.5		
Market P/E	14.9		
Market PBV	2.6		

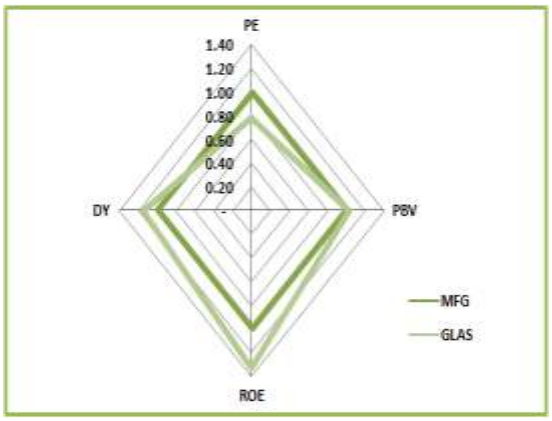
Investment of over LKR4.0 bn on installation of a new state of the art manufacturing plant in 2007 has more than doubled its production capabilities. Increase in efficiency level of the production line touching over 90% output generated will further boost its capacity backed by 24/7 run in the production line. This has backed GLAS to produce 250 tons per day which is well over the demand of 130 tons from the local market, hence catering the residue to the overseas market.

YE 31 Mar	FY10	FY11	FY12E	FY13E
Net Profit (LKR 'mn)	(61.1)	578.7	1,024.6	1,241.8
+/- YoY	76.6%	1047.2%	77.1%	21.2%
EPS (LKR)	-0.1	0.6	1.1	1.3
+/- YoY	76.6%	1047.2%	77.1%	21.2%
P/E	N/A	12.6	7.1	5.9
PEG	N/A	1.2	9.3	27.8
DPS	-	0.3	0.3	0.3
DY (%)	0.0%	3.9%	3.9%	3.9%
BVPS (LKR.)	2.3	2.9	3.7	4.7
PBV (X)	3.3	2.6	2.1	1.6
ROE (%)	-2.8%	20.7%	29.0%	27.7%

Advancing to the future, with market rates lowered and persistent debt repayment with the company having no plans of further borrowing we forecast a significant drop in finance cost of the company to LKR204.3 mn in FY12. Consequently, repayments accelerating, we expect a further decline in interest cost to decline to LKR178.4 mn FY13.



We solemnly believe that new entrant to the MPI, GLAS has a definite levered potential backed by its strong earnings. In the current scenario with the availability of 2nd quarter results we now expect GLAS to post a net profit figure of LKR969.0 mn in FY12E, gain of 67.5% YoY whilst in FY13E to pertain an earnings figure of LKR1, 041.0 mn (17.3% YoY growth), exclusively based on persistent earnings.



Overall, GLAS has started to pay dividends with its healthy FY11 results (LKR0.30 per share). In addition both retail and high net worth categories can lay an emphasis on the counter as the attractive price facilitates heavy accumulation. Furthermore a minor absolute price movement results in a higher percentage price change as the counter is currently trading as penny stock.

Tokyo Cement

Despite the depressed conditions prevailing at present in the equities market, we reiterate our recommendation that both Tokyo Cements voting and non-voting stock is attractively priced given the strong medium to long term prospects expected for the sector.

Medium Term (1-2 Years)

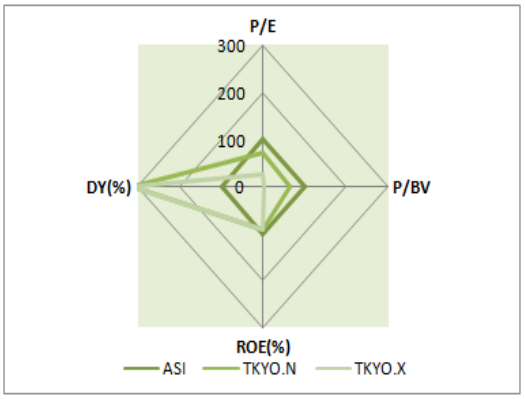
Attractive ROI's for its complimentary Sustainable energy sector

Building on its initial success the pioneers of "green Cement", ground work on the firms 6MW Dendro Power Plant at Mahiyanganaya was commenced this month. The plant, whose output will be wholly supplied to the National grid and is expected to commence operations by Q1 FY13 and would deliver a stable source of revenue for at least the next two decades,. Research reveals that similar sustainable energy ventures are expected to deliver 11-12% ROI's as energy costs from traditional sources of power are predicted to rise. Contemporaneously this bestows TKYO with a significant cost management, enabling them to maintain a fairly stable GP margin.

TKYO.N	FY11	FY12E	FY13E
Price(LKR)	45.00	45.00	45.00
EPS	4.3	5.2	5.5
P/E	10.4	8.7	8.2
BVPS	27.8	26.8	24.1
P/BV	1.6	1.7	1.9
TKYO.X			
Price(LKR)	35.00	35.00	35.00
EPS	8.6	10.3	11.0
P/E	4.1	3.4	3.2
BVPS	55.5	53.6	48.1
P/BV	0.07	0.06	0.07

Windfall dividend expected in FY13

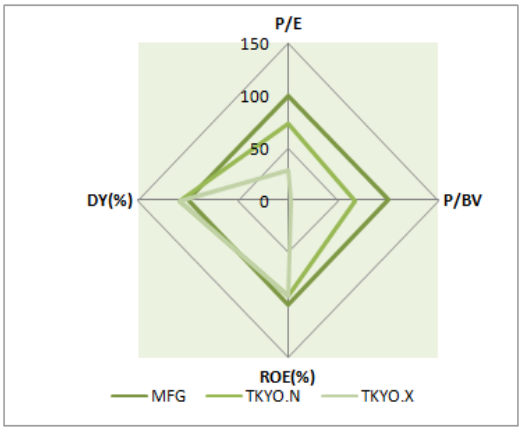
As per the BOI guidelines, we expect a surge in dividend payments in FY13 with the expiration of a tax shield enjoyed by the firm's subsidiary Tokyo Super in FY12. This is expected to result in an increase in dividend payout ratio from 18% to 50% and a DPS of 1.8.



Long term (5 years)

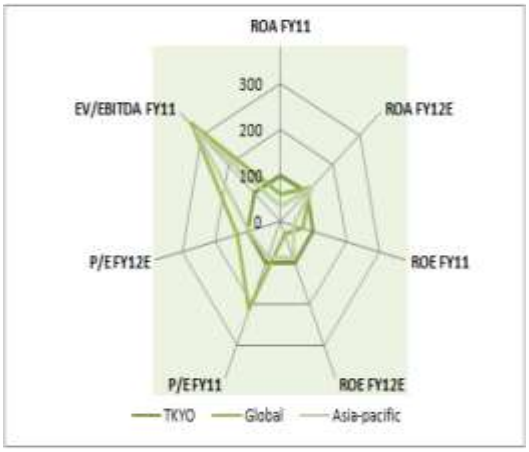
Demand for Nippon brand sustained

The firms Nippon brand continues to remain the preferred choice for mega infrastructure projects due to its technical superiority. Based on its past successes, the firm is confident that it would be able to supply to lucrative ventures such as Hambanthota Phase II, Colombo South Port expansion. Hence we expect a steady revenue stream for at least the next 5 years, with a YoY growth of at least 10%; the expected industry growth rate .



Rising economies of scale and capacity through inorganic growth

Capacity expansion domestically remains limited given the unique nature of the sector. However the firms Trincomalee plant is currently operating with approx. 15% of spare capacity and has the potential to add a further 600,000 tons to its existing 1.8 mn tons of installed capacity with the import of finished cement through its Colombo terminal. Thus the firm hopes to achieve capacity expansion through an acquisition of a fully integrated cement plant in Limestone rich Indonesia within the next 5 years. This would grant the firm significant economies of scale which are not present domestically.



Given that consensus estimates expect monumental growth for the construction sector and the outstanding performance of the firm in the past (6-year revenue CAGR of 12% vs. Sector growth of 10%) we believe that the discount at which Tokyo's voting and non-voting stocks(47% and 89% respectively) are currently trading at is reasonable. The attractive P/E values as well as the windfall dividend expected in FY13 are an indicator of its suitability to be included in the portfolios of investors seeking **both price appreciation and high Dividend payouts**. The relatively modest prices also mean that it is **accessible to both retail and high net worth investors.**

Profitability ratios	FY09	FY10	FY11	FY12E	FY13E
Revenue growth	25.8%	-16.5%	11.9%	19.8%	6.2%
Gross Profit margin	15.3%	15.6%	17.6%	16.6%	16.6%
PBIT margin	8.4%	8.0%	8.0%	9.0%	9.0%
PBT margin	3.7%	2.4%	5.1%	7.0%	7.0%
Net profit margin	2.0%	2.5%	5.3%	5.3%	5.3%
Liquidity ratios					
Current ratios	53.4%	62.9%	65.1%	74.1%	62.2%
Quick ratio	29.9%	44.1%	30.5%	46.4%	31.0%
Efficiency ratios					
Interest cover	1.8	1.4	2.7	4.6	4.7
Inventory Cycle	33.9	20.2	30.1	21.9	21.9
Receivable Cycle	35.7	32.5	24.3	24.3	20.0
Payables Cycle	92.1	65.1	44.2	44.2	30.6
Gearing ratios					
Debt to equity ratio	65.6%	67.7%	57.7%	51.6%	49.0%
Debt to capital ratio	39.6%	40.4%	36.6%	34.0%	32.9%
Investor ratios					
ROE(%)	6.6%	6.7%	15.6%	16.2%	15.9%
ROA(%)	2.6%	3.0%	7.6%	8.5%	8.5%
Asset turnover(X)	1.3	1.2	1.4	1.6	1.6
Equity Multiplier(X)	0.7	0.6	0.5	0.5	0.4
DPS	0.4	0.3	1.7	0.6	1.8
Dividend Yield	0.7%	0.6%	3.5%	1.3%	3.9%

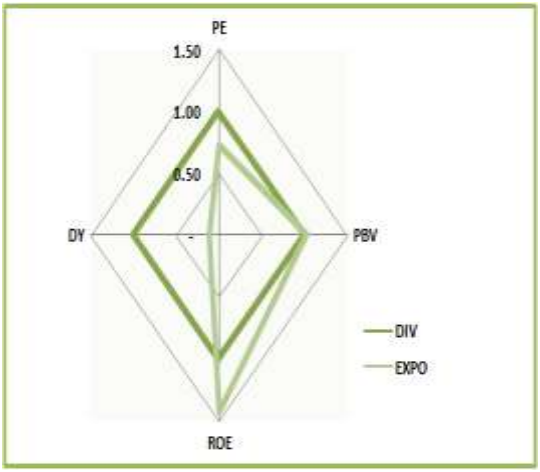
Expolanka Holdings

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 8.9x at the price of LKR10.20 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.

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.

EXPO : LKR10.20	FY11	*FY12E*	*FY13E*
EPS (LKR)	0.8	*1.0*	*1.3*
P/E	12.9	*10.0*	*8.1*
PBV	4.5	*2.3*	*1.8*
Sector P/E	17.4		
Sector PBV	2.8		
Market P/E	14.9		
Market PBV	2.6		

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.



EXPO's share price has dipped by 27.1% against the IPO price of LKR14.0 despite of positive earnings associated with the counter. At current price levels the counter is trading at a projected earnings potential of 10.0x for FY12E whilst for FY13E the forward Price Earnings is valued at 8.1x. The trailing PE proves that EXPO is trading at a heavy discount compared to the diversified sector. Hence EXPO is an ***Under-valued counter.***

Ratio Analysis	FY09	FY10	FY11	*FY12E*	*FY13E*
Profitability					
Revenue Growth	19.0%	25.2%	37.1%	*1.9%*	*21.3%*
Gross Profit margin	23.3%	19.2%	18.6%	*20.0%*	*20.0%*
PBIT Margin	5.5%	5.4%	8.0%	*8.9%*	*9.1%*
PBT Margin	3.6%	3.9%	7.1%	*8.5%*	*8.6%*
Net Profit Margin	1.6%	2.2%	4.8%	*6.0%*	*6.1%*
Liquidity					
Current Ratio	1.2	1.4	1.5	*2.3*	*2.6*
Quick Ratio	1.1	1.3	1.4	*2.2*	*2.5*
Efficiency					
Interest Cover	3.0	3.7	9.3	*21.0*	*19.1*
Inventory(days)	13.4	16.8	10.0	*9.0*	*8.0*
Receivables(days)	87.1	117.6	84.0	*62.0*	*60.0*
Payables(days)	103.9	125.2	74.3	*50.0*	*48.0*
Gearing					
Debt to Equity	104.4%	99.4%	51.3%	*20.4%*	*22.1%*
Debt to Debt + Equity	51.1%	49.9%	33.9%	*16.9%*	*18.1%*
Investor ratios					
EPS (Rs)	0.2	0.3	0.8	*1.0*	*1.3*
P/E	64.4	38.5	12.9	*10.0*	*8.1*
BVPS	1.3	1.7	2.3	*4.4*	*5.5*
P/BV	7.7	5.9	4.5	*2.3*	*1.8*
ROE(%)	12.0%	15.3%	25% *	*23.1%*	*22.7%*
ROA(%)	10.0%	8.8%	19.4%	*18.9%*	*18.7%*
Asset Turnover(X)	1.8	1.6	2.4	*2.1*	*2.1*
Equity Multiplier(X)	4.0	4.3	3.0	*1.8*	*1.8*

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	361.1	N/A	64.4	38.5	12.9	*10.0*	*8.1*
BVPS (LKR.)	1.2	1.2	1.3	1.7	2.3	*4.4*	*5.5*
PBV (X)	8.3	8.5	7.7	5.9	4.5	*2.3*	*1.8*
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*

Motor Sector – United Motors

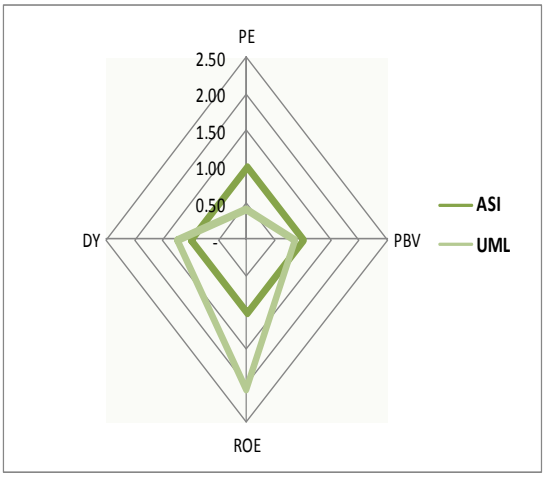
Motor sector can be identified as one of the most undervalued sectors in the bourse. The sector earnings were largely affected by the high vehicle import tax rates imposed by the government bolstered by the low level of demand prevailed in the domestic automotive industry. Since after the revision of vehicle import tax rates mid 2010, the demand in the Sri Lankan automotive sector soared which was followed by staggering improvement in sector earnings.

However, their impressive earnings were not yet been read by the market so far.

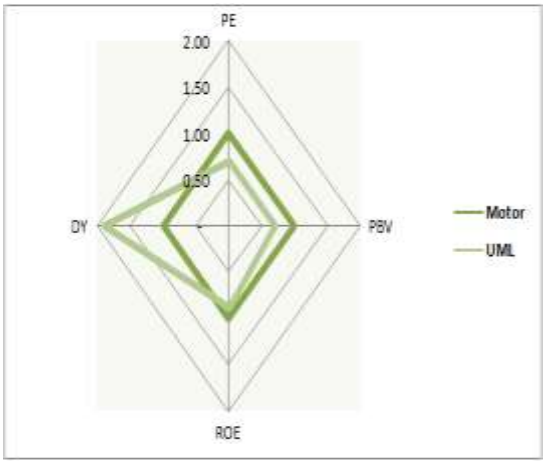
United Motors Lanka (UML) is the sole distributor of brand new Mitsubishi Vehicles and spare parts in Sri Lanka whilst offering a variety of vehicles ranging from mid range cars to up market Sports Utility Vehicles (SUV's), trucks, buses etc. UML has cemented its position as the market leader in the Brand new Japanese vehicle market, with market leadership status in trucks (market share of 64%), SUV's (46%), vans (50%) and buses. Of all counters listed under the motor sector United motors depicted the highest growth in June quarter earnings which amounts to 576%. Nevertheless the share price has only appreciated by 116%. Therefore it is evident that united Motors have immense room to move up in relative to trailing earnings.

Valuation Dashbord				
UML : LKR155.00	**FY2009**	**FY2010**	**FY2011**	**FY2012E**
EPS (LKR)	-1.24	2.16	13.43	24.03
P/EBIT	11.18	13.67	6.65	5.83
P/EBT	-126.49	71.27	11.49	6.39
P/E	-125.15	71.91	11.54	6.45
PBV	4.69	3.29	2.62	1.91
Sector P/E			7.74	
Sector PBV			3.09	
Market P/E			15.03	
Market PBV			2.56	

We forecast the FY12E net profit to increase 79% YoY to LKR1,616.6 mn. Whilst we believe stable growth will be maintained in ancillary services including lubricants, tire sales, hiring, and leasing services, future earnings are expected to be spearheaded by consistent growth in the sale of brand new vehicles (particularly cars and trucks) and motorcycles.



Nevertheless we expect a revision in vehicle import taxes in the upcoming budget. Therefore refrain from calculating a target price and expected return for UML.Even though the sector seems attractive at current valuations, we do not include to the proposed portfolio owing to relative risk associated with the sector earnings due to expected change in vehicle import taxes.



Y/E Mar (LKR mn)	FY08	FY09	FY10	FY11	FY12E
Net profit (LKR mn)	528.0	(83.3)	145.0	903.3	1,616.6
YoY growth (%)	26%	-116%	-274%	523%	79%
EPS (LKR mn)	7.85	-1.24	2.16	13.43	24.03
YoY growth (%)	26%	-116%	-274%	523%	79%
PER (X)	19.75	-125.15	71.91	11.54	6.45
PEG	75.45	108.09	-26.24	2.21	8.17
EBIT (LKR mn)	1,510.2	932.6	762.9	1,568.0	1,787.9
YoY growth (%)	35%	-38%	-18%	106%	14%
ROE %	22%	-4%	5%	23%	30%
BVPS (LKR)	36.35	33.04	47.12	59.23	81.26

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