

JUPITER CAPITAL PARTNERS

Sri Lanka Private Equity Market Newsletter

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APIIT's main campus located in Central Colombo has book value of US\$ 2.4 Mn

PE NEWS AND DEAL ACTIVITY IN DECEMBER

NYSE listed Moody's Group acquired Amba Investment Services – one of Sri Lanka's pioneering KPO companies. Amba specializes in providing research to financial institutions and employs over 900 staff. Company was founded in 2003 by establishing its first office in Sri Lanka with a staff of ten, and currently company has offices in Sri Lanka, USA, UK, Singapore, India and Costa Rica. According to reports, Amba's 2013 top-line amounts to US\$ 39 Mn and the deal was closed at a valuation of US\$ 80 – 85 Mn. After the acquisition Amba will operate as unit of Moody's subsidiary **Copal Partners**. India's **Helion Venture Advisers** had invested US\$ 7 – 10 Mn in Amba according to media reports.

Malaysia's government linked PE firm Ekuinas bought a 38% in Asia Pacific Institute of Information Technology (APIIT) for US\$ 5 million. Seller was Expolanka Holdings PLC which held a 44% stake. APIIT is a tertiary education service provider offering foreign university affiliated degree programs. Ekuinas is expected to increase its stake to 76.5% for an estimated cost of US\$ 10 Mn. With a 1,000 student roll, APIIT's current top-line and EBITDA is US\$ 3.6 Mn and US\$ 1.3 Mn respectively. (See picture on left).

Dankotuwa Porcelain PLC, one of country's leading porcelain tableware manufacturers acquired a 76% stake in **Royal Fernwood Porcelain Ltd.**, a privately held porcelain tableware manufacturer for US\$ 2.3 Mn The seller was **Browns Investments Ltd**, an investment holding company.

Adam Investments, a local investment firm took control of the **Orient Garments PLC**, a listed garments manufacturer. After buying a 40% stake from the market for US\$ 1.3 Mn, Adam Investments offered to buyout other shareholders. Performance of Orient Garments has been on the decline. For the 1H 2013/14 company's revenue was down by 12% to US\$ 10.6 Mn and losses increased to US\$ 1.1 from US\$ 0.2 Mn reported for the same period last year.

Other noteworthy secondary deals in December include **Employees Provident Fund's** (a state managed retirement fund) US\$ 7.6 Mn acquisition of a 7% stake in closely held and relatively illiquid **Ceylon Tea Services PLC**. Ceylon Tea Services is the owner of **Dilmah** brand which manufacture teas mainly for export market. Company's earnings were down by 44% to US\$ 4.2 Mn during first half of 2013/14. Another significant deal was the purchase of an 18% stake in **Blue Diamonds Jewelry Worldwide PLC** by a Chinese investor - Xia Liqiang. The US\$ 0.5 Mn purchase has made the investor the largest single shareholder of the diamonds jewelry manufacturer (using a proprietary technology). However company has been underperforming in recent times.

Dialog Axiata PLC, one of country's largest telcos has bought popular online sports streaming website – www.thePapare.com. Dialog has been increasing its value added product portfolio and earlier bought a popular online shopping mall – www.anything.lk.

Among other major bond deals, **Peoples Leasing PLC**, largest leasing company in the country, has closed a deal to raise US\$ 50 Mn from **UAE's Emirates NBD Bank and Commercial Bank of Qatar**.

Senkadagala Finance PLC, a closely held family controlled financial services firm has negotiated a US\$ 7 Mn funding from **International Finance Corporation**. Last month Senkadagala Finance managed to attract subscriptions only for approx. 50% of its US\$ 19 Mn public bond issue further to a US\$ 1.6 Mn equity infusion by shareholders. Company's bottom-line dropped by 13% to US\$ 1.8 Mn during first half of 2013/14

European Investment Bank also announced a new US\$ 125 Mn loan to government which will be channeled through several commercial and development banks to boost lending.

OTHER INVESTMENT & BUSINESS HEADLINES

Fiji head-quartered CJ Patel Group bought a 21% stake in Shaw Wallace Ceylon Ltd for US\$ 1.6 Mn. Shaw Wallace Ceylon is a part of listed FMCG group **Renuka Shaw Wallace PLC** and CJ Patel Group is a FMCG company operating in 10 countries across South and South East Asia.

Leapset, a Sri Lanka and Silicon Valley based IT company has acquired a New York based startup IT firm - Buzz Table which makes software systems for restaurants. Leapset specializes in Point of Sale systems and software platforms linking merchants and customers. **Sysco**, a large US marketing and distribution firm has invested in Leapset.

Canadian listed company Torch River Resources Ltd has purchased graphite mining rights from Hal Tan Graphite (Pvt) Ltd., a local company. The US\$ 1.5 Mn deal involves 113 mines of which 56 are historical mines.

Tefron, an Israeli seamless fabric manufacturing company listed in Tel Aviv Stock Exchange has closed a deal with privately held Sri Lankan Textiles and garments group - **Brandix** to establish a joint venture to manufacture seamless fabrics.

INOAC - a leading Japanese industrial group has moved its polyurethane manufacturing plant from China to Sri Lanka. The US\$ 20 Mn venture – **INOAC Lanka Polymers** will produce materials consumed mainly by garments industry. INOC is also a leading manufacturer of auto components and operates in 20 countries.

BNG Global Holdings of Malaysia has launched a project in Southern Sri Lanka to grow stevia plants (a sweetener used as a sugar alternative). The US\$ 1 Mn project will initially target a plantation of 110 acres.

China's largest bookstore chain entered Sri Lanka with the a 5,000 sq.ft. store in Colombo. This is the fifth overseas store for **Kunming Xinzhi Group** and the first in South Asia.

Aitken Spence PLC., a diversified blue-chip company launched a joint venture (with two expatriate Sri Lankan investors) to build a luxury retirement housing project in Negombo – a city north of Colombo. The US\$ 30 Mn project will have 140 luxury serviced villas mainly targeting wealthy expats who prefer to relocate in Sri Lanka for retirement.

Ministry of Technology and Research has build country's first **Gamma Irradiation plant** in Biyagama Export processing zone. Gamma Irradiation is used for sterilization of medical products and for food preservation. The US\$ 5.8 Mn plant is scheduled to be opened next month and will benefit many export firms – such as producers of gloves and medical supplies.



Above: newly opened Grand Stand wing of old Racecourse shopping mall. (Pic from defence.lk).

Below: A photograph of the Grand Stand wing of the racecourse taken during early 1900s. (pic from lakpura.com)



New rules on minimum float for listed companies are likely to force some companies to go private. Several subsidiaries of MNCs and some family controlled firms have public floats less than required minimum levels.

DEVELOPMENT NEWS

Second wing of the Colombo's historical racecourse converted into a shopping mall was opened in December. This is part of the program undertaken by Urban Development Authority (UDA) to convert historic buildings into luxury shopping and leisure facilities. (see picture on left)

Board of Investment is planning to establish eight new Export Processing Zones in 2014. Four new zones will be established in Northern Sri Lanka (including two in the former war zone) while three will be located in Hambabtotota in Southern Sri Lanka— where a new port and airport has been built.

REGULATION & POLICY UPDATES

Several new rules were introduced by Securities Exchange Commission (SEC) during December. Most significant of these new rules is the long awaited rules on minimum public float for listed companies. Accordingly, firms listed in the main board is required to maintain a 15% public float (with minimum 500 shareholder) and firms listed in second board need to maintain 7.5% public float distributed in the hands of minimum 100 shareholders. SEC also introduced a **Code of Best Practices** for listed companies which mainly focus on improving disclosures relating to related party transactions. The new code is voluntary for the first two years and becomes mandatory for all listed companies from 2016.

SEC issued new guidelines for valuation of fixed income securities held by mutual funds to improve consistency. Last month SEC issued minimum unit-holder requirement for unit trusts or mutual funds. Accordingly a unit trust must have minimum 5 unit holders at all times. There has been increase in the number of unit trusts as a result of several tax breaks offered to unit trusts which incentivized some private funds to organize as unit trusts and avail tax benefits.

SEC also said that it is looking at the option of offering large parcels of companies held by state funds/institutions to foreign funds to lure larger investment funds in to Colombo bourse. Last year EPF, state managed retirement fund, sold such a large stake blue-chip firm John Keells Holdings to Malaysia's Khazahan for over US\$ 110 Mn through a negotiated deal.

Colombo Stock exchange also revised listing rules to match new SEC guidelines. Several new rules were introduced relating to listing of debt securities. According to new rules, new debt issues should have a rating of one notch higher than investment grade.

Government issued a fresh gazette approving three large integrated resort projects (including the project promoted by Australia's Crown) without making any reference to gaming facilities under the Strategic Investment Promotion scheme. Earlier government withdrew the gazette which had referred to these projects as consisting gaming facilities (casinos) after protest from many parties for promoting casinos.

FINANCIAL MARKETS

Average weighted lending rate at end of November stood around 15.37% while average prime lending rate at end of December was around 9.9%. Weighted fixed deposit rate at end of December was 11.78% and 3-month T-Bill rate was 7.73%.

Sri Lanka rupee gained 0.24% for the month but for the year showed a depreciation of 2.9% to close the year at Rupees 129.44/132.34 to one US\$.

Sri Lankan stock market's main all share index gained 2.4% for the month and 4.8% for the year. Average daily turnover was US\$ 4.9 Mn.

There was a net foreign inflow of US\$ 2.3 for the month (in secondary deals) and Colombo bourse has recorded a net foreign inflow of US\$ 260.5 Mn during 2013 (inclusive of inflow to primary issues).

During 2013, companies have raised record US\$ 0.9 Bn capital from the market, which is 3 times the capital raised during 2012. US\$ 0.52 Bn was raised through (28) bond issues. Largest equity issue was the US\$ 175 Mn rights issue by **John Keells Holdings PLC** to finance integrates resort (including a casino) and US\$ 75 Mn bond issue by **NDB Bank PLC**

However, there were **only two primary equity issues which raised US\$ 19 Mn during 2013 compared to 6 issues which raised US\$ 13.3 Mn in 2012.** Only one new company was listed during the year compared to 17 in 2012. Large number of bond issues was a result of incentives offered in 2012 budget proposals. Drop in the number of firms listed during 2013 is a result of suspension of listing by introduction in March 2012. Listing by introduction was re-introduced with amendments in September 2013.

ECONOMIC NEWS

Inflation declined to 4.7% in December (YoY) from 6.9% in November. Average 12 month inflation eased marginally to 6.9% from 7.3% month ago. Private sector credit growth remained low as policy rate cut failed to reduce lending rates as expected. Private sector credit grew by 1.1% in December to close the year at US\$ 19.1 Bn. Annual private sector credit growth was 7.4%

Exports up to October showed a growth of 3.6% to US\$ 8.36 Bn thanks to strong performance in August and September. Agricultural exports has shown strong growth of 8.9%. Imports were down by 1.1% to US\$ 15.58 Bn. Earnings from tourism continued to grow recording 26% to nearly US\$ 1 Bn on a 16.8% increase in tourist arrivals. Overall BOP position improved by 6% to a deficit of US\$ 7.2 Bn compared to US\$ 7.7 Bn last year.

Sri Lanka has recorded an estimated US\$ 1.2 Bn worth FDI up to November compared to target of US\$ 2 billion for the year. China has emerged as the largest source of FDI with 24% followed by Hong Kong accounting for 12%. And Singapore accounting for 10%. Other major FDI sources were Malaysia and Netherlands

Unemployment has declined slightly during 2Q 2013 to 4.4% from 4.6% during 1Q. However, unemployment has increased by 0.5% compared to compared to 2Q 2012.

ENDS

Note: All figures mentioned in this report are converted to US\$ using the mid month end rate of Rs 130/89, except where figures are provided in US\$ at source.

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According to stock exchange data, 57 stocks have given a total return higher than 15% during 2013 while 26 stocks have given more than 30% return.

Manufacturing ventures have absorbed 31% of FDI, followed by 19% for port related projects and another 17% for telecommunication businesses.