

# JUPITER CAPITAL PARTNERS

## Sri Lanka Private Equity Market Newsletter

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The Central Hospital (pictured above) is a multispecialty hospital located adjacent to main government hospital complex. Central is the only private hospital with a purpose-built neurology/neurosurgery unit.

*Although there are many property development projects in residential and leisure sector, commercial developments are taking off slowly.*

*Many research/estimates show a shortage of (high quality) office space in Colombo.*

## PRIVATE EQUITY NEWS

**US based Global Emerging Markets Group closed a US\$ 10.7 million deal with Nation Lanka Finance PLC.** Accordingly **GEM Global Yield Fund LLC** will buy equity and warrants representing a stake upto 30% in the company. A consortium of investors acquired the control of Nation Lanka Finance in 2011 and infused US\$ 3.7 million in 2012. However company's plans to raise additional US\$ 2.7 million through warrants in 2013 failed as company's share price fell. For the nine month period ended in December 2013, company reported US\$ 0.4 million profit compared to loss of US\$ 1.2 million reported for the same period last year. Revenue was up by 78% to US\$ 5.6 million for the same period. In a similar deal, US based **Creation Investment Capital Management LLC** invested US\$ 12.8 million in a 25% stake in **Commercial Credit and Finance PLC** last month.

**Consortium of investors who invested in Central Hospital in 2009 was exited with a 76% capital gain.** **Asiri Hospital Holdings PLC**, the promoter of the hospital paid a total US\$ 18.4 million to buy 24.6% held by **John Keells Holdings PLC**, 2.7% held by **Union Assurance PLC** (a subsidiary of John Keells Holdings) and 10% held by PE fund **Aureos South Asia Fund LLC**. After this deal Asiri Hospital Holdings have firm control of all three tertiary care city hospitals in Colombo. Asiri Hospital Holdings secured US\$ 32 Mn investment from **Actis** in exchange for a 26.2% stake in 2012. For the first 3 quarters of FY 2013/14 Asiri Hospital Holdings reported a bottom-line of US\$ 5.4 million (up 40%). Asiri Hospital Holdings PLC is controlled by **Soflogic Holdings PLC**.

## OTHER INVESTMENT & BUSINESS HEADLINES

**Loss making Kuruwita Textiles Mills PLC to go private as attempts to review operations failed.** **Brandix Textiles Holdings Ltd**, the controlling shareholder and a large textiles and garments manufacturing group in the county will buyout the minority shareholders by paying around 24% premium to company's net asset value. Kuruwita Mills was started in early 1980s by taking over several state owned fabric milling facilities. Later company expanded as part of US based **Mast Industries Inc.**, which played a leading role in the expansion of Sri Lanka's garments trade.

**Dunamis Capital PLC and its property development subsidiary Kelsey Development PLC said they are launching a large scale housing project in Mount Lavinia** – South of Colombo city. Subsequently Kelsey Development announced that they are developing an exclusive 100 villa gated community in the property with an investment of approx US\$ 7.6 million Kelsey Developments bought the land in February for US\$ 4.5 million from **Equity One PLC**, another property holding company.

Another newly established real estate company **Steradian Capital** said it is nearing completion of a commercial property development targeting legal community. **Lincoln's Inn Court** is located near Colombo's main high courts complex where quality office space is limited.

**Anantaya Resort and Spa, a new beach resort opened operations in January. This is the first resort of Laughts Gas PLC** (see picture on right). Laughts Gas is mainly in the business of liquefied petroleum gas and has diversified into power generation, property and resort hotels. Company has acquired several properties for resort development during last few years.

Australia's **Energy Puzzle Group is setting up a US\$ 190 million plant to manufacture solar panels** mainly for export market. Company signed an agreement with the Board of Investments to set up a factory in Mirijjawila Industrial zone in Southern Sri Lanka.

Another Australian listed mining company **Viculus Ltd has closed a deal to enter Sri Lanka. Under this deal, Viculus will acquire Euro Petroleum Ltd on a one to one share swap.** Euro Petroleum Ltd through subsidiary company Lanka Graphite Holdings (Pty) Ltd (both Australian companies) hold contractual rights to buy 70% of Lanka Graphite (Pvt) Ltd. Lanka Graphite holds five graphite exploration licenses and has applied for four more. Viculus also announced a US\$ 4.4 million capital raising (at a price US\$ 0.18 per share). The deal is subject to Sri Lankan regulatory approval as the deal results in foreign ownership of more than 40%.

**Senura Aquaculture Lanka Ltd will establish a 1,000 acre fish farm with an investment of US\$ 100 million.** The aquaculture project will be located in a privately owned lagoon land in Chilaw area (north of Colombo). Company recently signed an agreement with Board of Investment regarding the project.

**In communiqué Central Bank said that proposed consolidation of the banking and non-bank financial institutions are progressing with Central bank supervision.** The communiqué also noted that the proposed merger of two large banking groups **DFCC PLC** and **NDB Bank PLC**, which is likely to have major impact on the Investment Banking and investment management services landscape of the country.

**Mihin Lanka, Sri Lanka's second state owned airline is expected to take over management of the newly opened Mattala International Airport** from Sri Lankan Airlines. This is seen a move to make loss making Mihin Lanka sustainable with added income. Total Aircraft movements from in and out of Sri Lanka increased by 7.1% in 2013 to 52,194 while passenger traffic increased by 3% to 7.3 million.

Only major debt deal announced during February was **Sri Lanka Telecom PLC's US\$ 100 million debt deal arranged by HSBC and Sampath Bank PLC.** Funds are to be used for infrastructure upgrade.

## COLOMBO STOCK EXCHANGE

Stock Market's main **All Share Price Index dropped by 4.9% during the month** compared to 5.7% gain during January. Market remained volatile and average daily turnover was US\$ 8 million compared to US\$ 8.4 million per day last month. There was **net foreign outflow of US\$39 million** compared to inflow of US\$ 7.4 million last month.

**Alumex Group**, a firm engaged in manufacturing and marketing aluminum profiles announced a US\$ 6.4 million IPO. 70% of the issue is a sell down by existing shareholders. After the IPO, **Hayleys PLC** will reduce its holding to 51% from current 60.8%. IPO is priced at around 8X earnings.

Shares of **Millennium Developers PLC**, first IPO in 2014 started trading and share price remained just above issue price. Prices of many IPOs during last two years declined below IPO price just after start trading.

**Vallibel Finance PLC** raised 5 year bonds worth US\$ 3.8 million priced at an effective yield of 15.5%.



*Anantaya Resort (pictured above) is a 87 room resort sandwiched between ocean and a lagoon in North Western coast.*

*Investments into aquaculture/fisheries projects are showing an increasing trend. During last 5 years (2008-12) fisheries industry grew by an average of 10.8% (12.3% during last 3 years).*



Above: Newly opened Dry-zone botanical gardens in Southern Sri Lanka.

Below: Peradeniya Botanical Gardens located 460 meters above sea level. Its history goes back to 1300 as part of Royal court of the Kandyn Kingdom. Botanical Garden was formally established by British in mid 1800s



## DEVELOPMENT NEWS

**Sri Lanka is establishing a new wet-zone botanical gardens** in Avissawella, about one hours drive from Colombo city. Proposed botanical garden is the second new botanical garden to be established in the country. Last year a newly developed dry-zone botanical garden was opened. Sri Lanka has two other main botanical gardens in central hills which date back to mid 1800s. Sri Lanka is one of the most bio-diverse countries in the world with several climate zones and elevation zones.

## ECONOMIC UPDATE

**As the central bank held policy rates steady, interest rates eased marginally during the month.** Yield Treasury bills dropped to 6.72% from 6.75% month ago (9.09% year ago). Average weighted deposit rate as at end of February was 8.83% compared to 9.14% month ago (10.56% year ago). Average weighted bank lending rates as at end of January was 1.83% compared to 15.18% month ago (16.12% year ago). Sri Lankan rupee depreciated by a marginal 0.2% during January. **Private sector credit growth (YoY) slowed further in December** as the borrowings by state enterprises increased.

**Inflation declined to 4.2% (YoY) in February** from 4.4% in January. Average 12 month inflation eased to 6% from 6.5% month ago.

**Exports for the year 2013 showed an 6.3% growth to reach US\$ 10.4 billion while imports declined by 6.2% to US\$ 18 billion.** Overall trade gap narrowed by 19.2% to US\$ 7.6 billion. Earnings from tourism were up by 35% to US\$ 1.4 billion during 2013.

ENDS

Note: All figures mentioned in this report are converted to US\$ using the mid month end rate of Rs 131/03, except where figures are provided in US\$ at source.

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