

JUPITER CAPITAL PARTNERS

Sri Lanka Private Equity Market Newsletter

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Indika Hettiarachchi, Founding Managing Director, Jupiter Capital Partners accepting the award from Drew Wilson, Asia Editor and Clare Burrows, Senior Reporter at Private Equity International at the Awards Ceremony held in Hong Kong

Sri Lanka has seen increased participation by Japanese investors in both private and public equity market deals.

JUPITER CAPITAL PARTNERS UPDATES

Jupiter Capital Partners was named the Frontier Markets Private Equity firm of the year in Asia for 2013, by Private Equity International. Two other nominees for this award were Vietnam based Mekong Capital and global buyout investor Kohlberg, Kravis and Roberts and Last year winner of this category was leading emerging markets PE specialist Actis. (see picture on left).

PRIVATE EQUITY DEALS IN MARCH

Lanka Ventures PLC, has invested US\$ 5 million for a 33% stake in Lakdhanavi Bangla Power Ltd through its subsidiary **Lanka Energy International (Pvt) Ltd.** Lakdhanavi Bangla Power is promoted by **Lanka Transformers Group** which is controlled by Sri Lankan state utility **Ceylon Electricity Board.** Lakdhanavi Bangla Power is constructing a 52.5 MW thermal power plant in Comila, Bangladesh. Last year Lanka Ventures invested US\$ 2 million in another power project in Bangladesh and has a power sector investment portfolio exceeding US\$ 14 million.

Union Bank of Colombo PLC said TPG Capital through TPG Asia VI LP has issued a term sheet for an investment in the bank. In October last year Union Bank said they were in talks with a US based investment firm to secure an investment. Union Bank is a mid-size bank with around US\$ 282 million assets. Bank's bottom-line dropped by 79.6% to US\$ 0.75 million in FY 2013.

OpenArc Systems, a privately held Sri Lankan IT firm has raised US\$ 2.5 million from Japanese investors. OpenArc commenced operations in 1991 has been diversified into many businesses such as real estate and education. Company expects to go public by the end of the year according to a recent news report.

Asia Capital PLC, an investment holding firm announced a deal to raise US\$ 2.9 million through a private deal (PIPE deal). Accordingly two Japanese private investors (Yooshimishi Watambe and Eiji Watambe) will buy a 16.3% stake in the firm and funds raised is expected to be used to settle debt and for working capital. For the nine months ended 31/12/13, company's revenue was up by 11% to US\$ 5.6 million while losses were also up by 16% (YoY) to US\$3.4 million.

Japanese investment firm **Bansei Securities Ltd has sold a 10% stake for US\$ 0.23 million in a small hotel they have invested earlier.** Bansei Securities had a 49% stake in the 34 room beach hotel earlier known as Coral Rock Hotel. Hotel was renamed as **Bansei Royal Resort Hikkaduwa** prior to its listing in the Colombo Bourse in March. Bansei Resort which has assets around US\$ 2.6 million has earned around US\$ 0.55 million revenue and US\$ 0.12 million EBITDA for the 11 months ended 28/2/2014. Bansei Securities is an active participant in Sri Lankan equity and debt market and has reportedly invested over US\$ 3 million in the hotel including one million prior to the listing.

There were few large debt finance deals during the month. **NDB Bank PLC said it secured US\$ 195 million from a consortium of foreign lenders.** This deal is viewed as an alternative to the earlier proposed US\$ 250 million international bond offer. NDB Bank PLC also announced entering into a Memorandum of Understanding with **DFCC Bank PLC** regarding the proposed merger of the two banks.

State owned **Sri Lankan Airlines** announced that they closed US\$ 150 million international Islamic financing deal participated by several Middle Eastern banks and arranged by **Standard Chartered Bank.**

Bank of Ceylon, largest state owned bank has also signed a deal to provide US\$ 80 million to Sri Lanka Ports Authority to expand east terminal at Colombo Port.

OTHER INVESTMENT & BUSINESS NEWS

CW Mackie & Co., PLC an industrial and trading company acquired a controlling 88.2% stake in Kelani Valley Canneries (Pvt) Ltd for US\$ 1 million. This deal will boost CW Mackie's FMCG business which includes distribution of fruit drinks. Kelani Valley Canneries makes organic food and beverage products such as jams and fruit drinks. Lanka Canneries was a subsidiary of **CIC Agribusinesses (pvt) Ltd** which in turn is a part of listed agribusiness and industrial group **CIC Holdings PLC.**

Canadian firm Global Warehouse Outlet announced plans to develop an US\$ 10 million logistics center. Firm currently runs a warehousing and logistic business in Middle East and proposed Sri Lankan operations will be located in Katunayaka Export Processing Zone. The venture is expected to create around 1,000 job opportunities

Lee Hedges PLC, a listed property holding company said it was launching a US\$ 9.5 million mixed real estate project. Last year company sold part of its prime city property to Chinese AVIC International for around US\$ 9.5 million.

US hotel chain Best Western entered Sri Lanka in a partnership with Sri Lanka's Elion hotel group. Best Western and its local partner target to develop 700 room portfolio and its first four star 60 room hotel located in Colombo is expected to commence operations in two months.

Lanka Orix Leasing Co PLC through a several deals consolidated its hotel investments under Browns Investments PLC, which is controlled by Lanka Orix Leasing Co. This has netted the company US\$ 21.4 as this deal effectively reduces group's exposure to the leisure sector. Lanka Orix Leasing Co. is converting into an investment holding company. According to reports Browns Investments through its controlling positions in several hotel companies controls nearly 1,000 resort hotel rooms in the country which is the largest portfolio of hotel rooms under one group.

In other deal **Taprobane Holdings PLC,** another related investment holding company of Browns Investments PLC said it bought **Capital Trust Partners (Pvt) Ltd,** another investment firm for US\$ 0.5 million and also provided company US\$ 6.8 million debt funding. With the acquisition, Taprobane's direct and indirect ownership of another listed investment holding company **Lanka Century Investments PLC** has increased to over 45%.

Bimputh Finance PLC. a family owned microfinance firm announced its shareholders are infusing US\$ 2.6 million to boost its balance sheet. **Softlogic Capital PLC.,** another financial service holding firm also announced a fresh capital infusion of US\$ 10.2 million mainly from its parent diversified **Softlogic Holdings PLC.**

Brandix Group, a large apparel and textiles group has initiated an investment program to fund disruptive innovations in the garments and textiles industry. Company has pledged US\$ 1 million to be invested over three years in "innovative ideas" identified through competitions.

Due to small domestic market, many FMCG companies (focusing on local market) pay premium price to acquire other FMCG firms with similar product lines. These M&A deals often provide good exit route for financial investors in these firms.

Many Sri Lankan businesses transform into investment holding companies as they grow bigger. This is because many companies adopt diversification as the main growth strategy and it becomes difficult to operate many diverse businesses under one company.

Mining industry (excluding gems) has reached 1.9% of GDP in 2013. The US\$ 1.2 billion industry has grown by 11.6% in real terms in 2013 (compared to 21.1% growth in 2012)

Australia's **Bora Bora Resources Ltd** has raised US\$ 0.8 million for its Sri Lanka mining venture. Last month **Viculus Ltd** another Australian firm announced a US\$ 4.4 million fundraising for its Sri Lanka projects. Meanwhile **Bogala Graphic PLC**, a unit of **AMG Mining AG** of Germany asked Sri Lanka to consult the industry before formulating industry regulation. Sri Lanka is drafting new regulations for the sector to improved value addition in the graphite mining industry.

Several insurance companies announced that they were separating the life and general insurance business as per the new regulation. Accordingly general insurance business will be spun into separate subsidiary companies. According to law, all insurance companies are required to be public companies as well.

COLOMBO STOCK MARKET UPDATES

Bansei Royal Resorts Hikkaduwa Ltd, a small hotel firm was listed through an introduction. This is the first company to be listed through an introduction after listing by introduction was reintroduced in October last year. Shares of **Alumex PLC** which had a US\$ 6.5 million IPO last month also started trading during the month. Prices of both stocks rose in the secondary market trade.

Asiri Hospital Holdings PLC and **Beruwala Walk Inn PLC** both companies with no commercial operations, but with property holdings announced that they were delisting from the Colombo bourse. Many companies are expected to delist as minimum public float rules come into effect from end of March this year. Also shares of troubled forestry firm **Touchwood Investments PLC** was suspended pending investigations on possible fraud.

First Capital Holdings PLC raised 5 year bonds worth US\$ 3.8 million priced at an effective yield of 15.5% and

Stock Market's main **All Share Price Index gained by 0.5% in March** compared to 4.9% drop during last month. **Year to date gain remains at 0.9%**. Average daily turnover was US\$ 4.5 million compared to US\$ 8 million last month. There was **net foreign outflow of US\$ 21.4 million during March**. **Year to date foreign outflow is estimated around US\$ 52.4 million**.

According to a broker research corporate profits (excluding non-recurrent gains) dropped by 1% for the period upto December 2013. Sharp 16% drop in earnings is reported in banking sector due to heavy loan loss provisions on gold backed loans. For the 12 months ended in December 2013, aggregate corporate earnings were down by 13% compared to last year.



Above: Aerial view of the interchange between newly opened first phase of the Circular Expressway and Southern Highway. The new Expressway has the longest bridge/flyover in the country which is 3.3 KM in length.

Below: Newly opened Palai Railway Line. Palai was unreachable for ordinary citizens for over two decades due to civil-war which ended in 2009.



DEVELOPMENT NEWS

During March several transport infrastructure projects were ceremonially opened. **First phase of the outer Circular Expressway was opened for traffic earlier March**. The 11 KM stretch of the proposed 30 KM highway linking all existing and proposed highways connecting capital Colombo has cost US\$ 206 million. **A 30 KM extension to Southern Expressway was also opened during the month**. The new US\$ 191 million extension connects Matara, another key city in the southern coastal belt. Under the first phase popular tourist hub Galle was connected with Colombo through a 95 KM expressway.. The project is partly funded by Chinese Exim Bank. (see picture on left)

A reconstructed 28 KM stretch of the former northern railway line was also opened during the month. The new extension connects Kilinochchi with Palai off northern peninsula. Last September train service recommenced upto Kilinochchi from Colombo after a break of over 25 years. Kilinochchi was the centre of terrorist controlled territory during three decade old civil conflict which ended in 2009. Major part of the Northern Railway line was non operational since mid 1980s and is currently being rebuilt with US\$ 800 million funding from India. (see picture on left)

China National Machinery Import and Export Corporation has secured the second phase of the 115 KM extension of the southern railway line. Both contracts were valued around US\$ 872 million. Japan's **JICA** also signed a US\$ 348 million funding to build the new bridge to enter Colombo city from north. New bridge will ease traffic entering city and link Airport Expressway and Circular Highway.

ECONOMIC HIGHLIGHTS

Sri Lankan economy has grown by 8.2% during fourth quarter. Annual growth for 2013 was 7.3% compared to 6.3% last year. Industrial sector grew by 9.9% followed by 6.4% growth in service sector. Agriculture grew by 4.7%.

According to latest statistics, **Sri Lanka's poverty headcount has reduced to 6.5% in 2012 from 8.9% in 2009/10.** Also Food Ratio (expenditure on food as a percentage of household expenditure) has reduced to 39.4% from 42.3%. **Average annual household income has also increased by 26% (during 2009/10 and 2012) to US\$ 4,241. Country's unemployment has declined to 4.1%** during the fourth quarter of 2013 compared to 4.4% third quarter and 3.9% during last quarter 2012.

Inflation remained unchanged at 4.2% (YoY) in March. Average 12 month inflation eased to 5.7% from 6.0% month ago. Treasury bill yields remained unchanged at 6.65%. Average weighted deposit rate as at end of March was 8.83% compared to 9.14% month ago. Average weighted bank lending rates as at end of March 14.71% 14.83% month ago. Sri Lankan rupee gained marginally by 0.2% during January to close at Rs 129/29 – 123/17 for US\$. **Private sector credit growth (YoY) slowed further in January with an annual growth of 5.2%(YoY). Private sector credit (stock) dropped by 1.7% during March.**

January exports grew by 23.2% to US\$ 0.9 billion compared to imports growing by 7.9% to US\$ 1.65 billion. Tourist arrivals increased by 32.6% in January and earnings from tourism also increased by 32.2% to US\$ 61.2 million compared to last year. Private remittances also increased by 10.6% to US\$ 0.55 billion in January.

According to reports current **drought condition in the country has adversely impacted country's tea production.** Also Ceylon Electricity Board which is forced to cut hydro power generation and shift to high cost thermal power generation is reportedly incurring heavy losses.

Board of Investments said that it had approved projects worth US\$ 3.6 billion including local investments amounting to US\$ 1.3 billion. However Sri Lanka attracted FDI worth 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 130/73, except where figures are provided in US\$ at source.

Although Sri Lanka expects a 7.8% GDP growth in 2014, adverse weather may challenge the growth. 2014 is identified as an "el nino" whether condition year with extended drought period followed by heavy rains.

Adverse weather has a major impact on power generation forcing country to use more high-cost thermal power putting pressure on internal and external balances.

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