

JUPITER CAPITAL PARTNERS

Sri Lanka Private Equity Market Newsletter

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PE & OTHER M&A DEALS

Diversified **Softlogic Group** acquired a **45.16% stake in Odel PLC for USD 20 Mn** from its promoter (family). In 2012 Malaysia's **Parkson Retail** also invested estimated USD 21 Mn in the leading fashion retailer, and secured a 44.5% stake in a secondary and primary deal. Although Softlogic purchase values Odel at an enterprise value of around 16X 2013/14 EBITDA, the price reflects only a 28% premium to current NAV of the firm. Odel reported USD 1.5 Mn bottom-line for FY 2013/14 (up 22%) on USD 35 Mn revenue. For the first quarter of 2014/15, Odel reported a loss of USD 0.07 Mn compared to USD 0.4 Mn profit made for the same period last year. First quarter sales grew by 13%. Odel has several fashion stores in urban areas, and Softlogic Group is also a leading retailer in consumer electronics, home ware and branded clothing with a retail network spanning around the country.

Germany's **DEG** and **IFC** have reportedly exited their combined **20% stake in Cargills Banks** within months after the new bank commenced operations. IFC and DEG invested in the bank promoted by **CT Holdings/ Cargills Ceylon Group** mid last year. According to market sources, the two DFIs have exercised their put options. **Employee Provident Fund**, Central Bank managed retirement fund has reportedly bought the 10% stake held by DEG. Last month IFC said it invested a USD 20 Mn in Cargills Supermarket chain, a related company of the Cargills Bank.

Australia's **Ataraxia Capital Partners** which recently invested in Sri Lanka's subway franchise, has reportedly invested in two other ventures backed by Australian firms. **Votum Energy Solutions** is a solar power company backed by Australia's Votum Energy. Other venture they have backed is Sri Lanka's first specialty hospitality academy – **Colombo Academy of Hospitality Management**, which is a JV between Sri Lanka's **Sri Lanka Institute of Information Technology** and Australia's **William Angliss Institute**.

Sarasavi Exports Ltd. said it acquired **Isabella Ltd. for USD 5 Mn**. This acquisition will help local garments manufacturer to expand into hoisory products and socks. Isabella was previously owned by UK's **DB Apparels**, a leading branded clothing firm. According to reports, DB Apparel's exit is part of proposed Hanesbrands Inc's acquisition of DB Apparels.

India's **Asian Tea and Exports Ltd** has bought a **70% stake in Classic Teas (Pvt) Ltd for USD 0.6 Mn**. Classic Teas have been performing below expectations according to its former owners Lanka **Aluminum Industries PLC**.

In debt deals, **DEG** has signed a deal to provide USD 15 Mn to **Commercial Leasing and Finance PLC** to boot SME lending. State owned **National Saving Bank** has also raised USD 250 Mn from an international bond offer. This offer was priced at 5.5% compared to previous USD 750 Mn issue which was priced at 8.9%.



Pic above: Inside view of **Odel's** flagship store in Colombo.

Pic below, **Otara Gunewardena** a Sri Lankan fashion icon and the founder of Odel. She is a pioneer in modern fashion retailing in Sri Lanka. Odel was started 25 years ago and emerged into a leading home-grown brand and its main store is considered a major shopping destination in Colombo. However larger stores like Odel are now facing stiff competition from new entrants and smaller brands boutiques. Large retailers are also burdened with higher taxes (VAT).



Gemfields PLC, a UK based colored gem specialist with South African roots has reportedly invested USD 0.4 Mn in a 75% stake in **Ratnapura Gem Stones (Pvt) Ltd**, which is planning to enter mining and other gem related businesses. The venture is also backed by a Jersey registered investor called **East West Gems International Ltd**. Recently **Jupiter Capital Partners** also signed a heads of Agreement to provide USD 0.4 Mn funding to a Sri Lankan firm specializing in calibrated color gemstones.

Ceylon Pencil Co (Pvt) Ltd acquired paper tissue business unit of Hemas Holdings PLC for an undisclosed price. Diversified Hemas Holdings group acquired the tissue maker **Nimex Enterprises** for USD 0.7 Mn in 2005. Ceylon Pencil Co. is a stationery products company and Hemas Group is reportedly looking to sell more underperforming businesses of the group. In a separate development, **Ironwood Capital Partners**, a local firm said it launched a USD 30 Mn vehicle to undertake PE investments in the range of USD 3 – 7 Mn. Ironwood's investments will be led by a former **Actis** executive who is also the current CEO of Hemas Holdings PLC.

Don Wilbert Capital, a private investment firm has reportedly bought a controlling 76% in **Mercantile Produce Brokers** for USD 1.5 Mn. The sellers were senior management of the commodity broker firm.

Sri Lanka's **LOLC Group acquired a 60% stake in Thaneakea Phum Cambodia for USD 20.3 Mn**. The acquisition of the 5th largest micro finance firm in Cambodia with a loan book of USD 100 Mn was done through group's micro finance unit **LOLC Micro Finance Investments** which is also backed by Netherlands' **FMO**. LOLC Micro Finance also owns a 22.25% stake in **PRASAC Micro Finance Institution Ltd**, which is the largest micro finance firm in Cambodia. LOLC Group has also ventured into micro finance business in Myanmar through a new firm called **Myanmar Micro Finance Co Ltd** in 2013.

Two M&A deals closed in the financial services sector - **Richard Pieris Arpico Finance Ltd.**, a privately held finance company said it is buying a 51% stake in **Chilaw Finance PLC.**, a regional focused small finance company. Meanwhile **Bimpuh Finance PLC.**, another finance company bought a 25% stake in **Sinhaputra Finance PLC** for USD 3.3 Mn.

Access Engineering PLC, an infrastructure engineering firm said it is buying a 80% stake in a related firm engaged in leisure sector projects for US 7.6 Mn.

Winseth Hospital, a Colombo based small hospital with over 20 year history has reopened after an upgrade following a change of ownership. **Asiri Hospital** group which is one of the largest private sector healthcare firms with nearly 600 bed-capacity announced it is building a new 125 bed multi specialty hospital in Kandy in Central Province at a cost of USD 23 Mn.

OTHER BUSINESS & INVESTMENT NEWS

UK's **Wilkins Group** said the company is increasing investment into its Sri Lankan unit **Wilkins Spence** and building a new USD 3 Mn plant. The packaging solutions company has been in Sri Lanka for over 14 years and mainly caters to retailers and brands in the EU and USA.

Alpine Clothing Nikeweratiya (Pvt) Ltd., a new local company said it is investing a USD 1 million in greenfield garments factory in Wayamba province aiming to create around 500 new jobs.

World's third largest container shipping company and France based **CMA-CGM Group** has signed a deal to set up a shared service center with the partnership of local diversified group **Hayleys PLC**. The new USD 2.4 Mn venture is expected to create 1,000 BPO jobs within next two years.

“As the foreign investor appetite for gems and mineral industry increases, a government minister said that foreign firms and individuals will not be granted license to engage in gem mining activities, but they are allowed to engage in other gem related businesses”.

“Recently government introduced measures to prevent foreigners from obtaining healthcare free of charge from government hospitals. Country's private healthcare providers are also likely benefit from a policy push to promote Sri Lanka as a popular center of medical tourism. Around 15% patients of major private medical facilities are of foreign origin.”

Sri Lanka jumped five places to reach 16th position (out of 51) in AT Kearney ranking of Global Service Location Index for 2014.

Pic below: Newly opened Cinnamon Red is positioned as a four star business hotel



Pics below: artist impression of proposed port city. The port city will be developed on a reclaimed land adjoining Colombo Port. Out of the 233 hectares reclaimed from sea, 125 hectares will be retained by government, while the balance will be given to Chinese firm on freehold and leasehold. Port city is expected to attract investment exceeding USD 20 Bn after completion.



Pic below: Lakvijaya combined cycles coal power plant; located off North Western shores in Puttalam District.



Laughts Gas PLC, a local LP gas distributor firm said it is venturing into international shipping and maritime logistics related to LP gas and invested USD 6.9 Mn in a LPG vessel.

Venora Group, an electrical and telecommunication service company said it is venturing into assembling electric power panels for the export market through a USD 1 million venture. **Venora Lanka Power Panels's** factory will be located in Biyagama industrial zone.

Royal Asian Cruises a local firm said it is investing upto USD 200 Mn in first Colombo port based luxury cruise liner service. Meanwhile adding to growing hotel room stock in the country, two more new hotel properties commenced operations during the month. **Cinnamon Red**, (see pic. On left) the 243 room city hotel built at cost of USD 27 Mn was promoted by a consortium of investors led by **Sanken Group** which is a large construction firm. Several foreign investors and **John Keells Group** have also invested in the hotel venture. The second hotel is a 27 room **Taprobana Wadduwa** a USD 7.6 Mn JV hotel promoted by **Asia Capital PLC** and a Japanese investor.

In another F&B sector investment, **American Premium Water Systems (Pvt) Ltd.** a leading water bottling firm said it is diversifying into fruit drinks with an initial investment of USD 0.25 Mn

DEVELOPMENT NEWS

Construction of the proposed **USD 1.5 Bn port city development project** was officially launched by the Chinese president during his visit to Sri Lanka in September. The project will be undertaken by **China Communications Construction Co**, a Chinese state owned firm (See pic on left). In another project to develop the city infrastructure, **French Development Agency** has agreed to fund USD 70 Mn for the USD 100 Mn project to improve water purification and water supply infrastructure for Colombo city.

Third phase of the Chinese built/funded **900 MW coal power plant commissioned** in September during the visit by the Chinese president. The plant built at a cost of USD 1.4 Bn is also marred by frequent break-downs/teething problems. With the increased power capacity at lower cost, government took steps to reduce electricity tariffs by 25% for residential users from mid September (see pic. on left).

Marking another milestone in re-development of transport infrastructure destroyed during civil war, the **northern railway line from Palain to Jaffna was commissioned during the month**. This marks a historic event where a train reached capital city of the Northern Province after 24 years. Northern Railway track was destroyed during the civil war which lasted from mid 1980s to 2009.

POLICY & REGULATION UPDATES

In a bid to remedy falling private sector credit growth, **Central Bank imposed rate cuts on use of Central Bank's Standing Deposit Facility** by the commercial Banks. Central Bank accused commercial banks of not lending enough, but depositing excess liquidity at Central Bank.

Securities and Exchange Commission imposed minimum unit holder requirement for Unit Trusts or mutual funds. There have been many new unit trusts which are established more like a captive investment vehicles to obtain tax breaks. Mutual Funds were offered tax breaks in a bid to develop capital market, but many analysts point out cash rich firms now use mutual funds as strategic investment vehicles to earn higher yields on their excess funds.

COLOMBO STOCK MARKET HIGHLIGHTS

All Share Index gaining by 3.1% for the month as the interest rates continued to fall. There were no new equity issues during the month. State owned **Bank of Ceylon** raised USD 61 Mn through a 5-8 year bond offer priced at 7.75% - 8.25%. This is one of the lowest priced bonds to reach the market so far. **Peoples Leasing PLC**, a leasing company linked to state owned Peoples Bank also raised USD 23 Mn from a 3-4 year bond offer priced at 8.75% - 9.6%.

ECONOMIC HIGHLIGHTS

Second quarter GDP grew by 7.8% compared to 7.6% growth recorded during the first quarter, and 6.8% growth during second quarter last year. GDP growth was supported by strong growth in the industrial sector. **Inflation remained at 3.5% during September** (YoY). Monthly inflation index showed a decline of 0.2% in September.

Credit growth further slowed to 0.8% (YoY) in July compared 2% month ago and 8.4% year ago – The lowest level in nearly 5 years. As rates on government securities continued to drop, prime lending rates dropped to 6.75%.

According to reports, **FDI reached USD 1.06 Bn up to August** - up 22% compared to same period last year. However, Sri Lanka is likely to miss the USD 2 Bn target for 2014.

Trade deficit for the period upto July reached USD 4.4 Bn which is a decline of 11.5% compared to the same period last year. Exports grew by 15.9% to USD 6.4 Bn while imports also grew by a slower pace of 2.9% to USD 10.8 Bn. Sri Lankan rupee depreciated by a marginal 0.18% against the USD during the month.

“Sri Lanka’s current level of FDI amounts to approx 2% of GDP. According to Economists, Sri Lanka needs to increase level of FDI to around 5% of GDP to sustain a growth rate above 7%”

ENDS

Note: All figures mentioned in this report are converted to US\$ using the mid month end rate of Rs 130/42, except where figures are provided in USD at source.

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