

JUPITER CAPITAL PARTNERS

Sri Lanka Private Equity Market Newsletter

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PRIVATE EQUITY NEWS

Investment/ deal news in April

MAS Holdings invested US\$ 20 mn in Attune Consulting. Attune, founded in 2006, is an IT firm catering to the apparel and fashion industry. As part of the deal, Attune will merge with **Sabre Technologies**, another IT company funded by MAS Holdings and operating since 2001. Attune serves clients worldwide and have a presence in 16 countries including India, the UK, the USA, Hong Kong, Germany, Italy and China. The company intends to expand its services to the fashion and lifestyle retail segment – an expansion up the value chain. The privately-owned MAS Holdings is one of Sri Lanka's largest apparel manufacturing firms, with 38 apparel factories across 10 countries and an annual revenue exceeding US\$ 1 bn.

Browns Investments PLC acquired a 51% stake in the Green Paradise Resort for US\$ 3.9 mn. Green Paradise, which commenced operations in June 2012, was originally promoted by the Italian hotel group El Greco. The 67-villa mid-sized resort was built at a cost of US\$ 9.5 mn in Dambulla, a tourist hub located near several ancient historical sites. Browns Investments is a listed investment firm with a long term investment portfolio of around US\$ 94 mn.

Bansei Securities Co. Ltd., a Japanese investment firm, purchased a 15% stake in Pan Asia Banking Corporation PLC for US\$ 7.3 mn. The main seller was UBS AG who had an approx. 10% stake. Entrepreneur Dhammika Perera, the largest shareholder of Pan Asia, also marginally reduced his stake through this deal. Bansei Securities, which has links to local stockbroker New World Securities, is also a large investor in government securities. Pan Asia Bank is a mid-size commercial bank and its earnings were up 6% to US\$ 6.8 mn for the FY 2012 and Bansei paid around 7.1x (2012) earnings for Pan Asia shares.

Hemas Power PLC acquired a 20% stake in Panasian Power PLC for US\$ 2.4 mn. Hemas now owns 29.3% in Panasian (just below the 30% threshold which would require them to make a mandatory offer to other shareholders), and is the largest single shareholder. Panasian is a debt-free SME* in the hydropower business, and Hemas is also a listed firm owning several hydro and thermal power plants. With this deal, Malaysian investor Power Hub International Sdn. Bhd. reduced its stake in Panasian to around 4%. Panasian was fully owned by Power Hub before its IPO in December 2010. Hemas Power is a subsidiary of **Hemas Holdings PLC**, a diversified group. For the first three quarters of the current FY (2012/13), Panasian reported an 18% drop in EBITDA to US\$ 0.67 mn and a 17% drop in turnover to US\$ 0.94 mn, compared to the same period last year. Hemas paid almost 20x of its estimated 2012/13 earnings/almost double the book value of Panasian shares. .

Contd.

*SME or Small and Medium Enterprise is a company with less than US\$ 4.7 mn revenue.

*Green Paradise Resort
and Panasian Power
deals highlight original
promoters/ investors
making successful exits.*

East West Properties PLC announced that its subsidiary **Weligama Hotels and Properties Ltd.**, will raise **US\$ 14 mn** by offering a **43.3% stake** through a private placement. Funds will be used to finance on-going construction of the **Weligama Marriot Resort and Spa** at a popular tourist city on the southern coast. The 200 room, 11 storey hotel built at a cost of US\$ 36 mn will be the tallest resort hotel in the country. This is the first Marriot brand hotel in Sri Lanka, and is scheduled to be opened in late 2014. East West Properties is a listed (SME) firm in the property business.

Private Equity Fund/ Fund Manager News

Steven Enderby, former Partner at Emerging Markets PE firm Actis, has joined Hemas Holdings PLC as Adviser to the CEO on Mergers, Acquisitions and Growth. Hemas is a Sri Lankan business firm with business interests in FMCG, pharmaceuticals, power generation, transport and leisure/travel trade. Enderby will lead business development at Hemas. He led Sri Lanka's Ayojana Fund Management (a joint venture between CDC of the UK and the NDB Bank of Sri Lanka), moved to India after Actis was formed and Ayojana became a part of Aureos Capital, and has led several PE deals in Sri Lanka and in India. Many large businesses in Sri Lanka adopt M&A led growth strategies which often provide good exit opportunities for original promoters and early investors.

OTHER INVESTMENT AND BUSINESS NEWS

Leading international casino operator Crown to invest in a US\$ 350 mn integrated casino and entertainment complex in Colombo. According to several news reports, the casino giant is currently finalizing a deal to build a 36-storey casino hotel in Colombo. Several other leading casino operators including Las Vegas' Sands are also reportedly considering opening casinos in the country. Sri Lanka's **John Keells Holdings is also finalizing plans for the US\$ 800 mn "Sun City Resort and Casino" project.** Sri Lanka recently offered tax breaks and dedicated zones for casinos in a bid to develop the capital Colombo as a major gambling center in the region. Sri Lanka's attractiveness for casinos is partly driven by India's restrictions on gambling businesses.

Sri Lanka's capital Colombo is likely to emerge as a regional gambling center

Micro Cars Ltd. announced plans to invest in a US\$ 20 mn, second vehicle assembly plant in the free trade zone linked to the newly opened Hambantota Port. Mico Cars, in addition to assembling Sanyong and Geely vehicles for the local market, has its own vehicle range and their vehicles have gained popularity due to their lower cost. Earlier, **Sathosa Motors PLC.**, agents for Landrover in Sri Lanka said that they were also investing in an assembly plant in close proximity to the Hambantota Port.

Access Engineering PLC announced plans to build a US\$ 12 mn, 25-storey office tower. The proposed high-tech 'green' office tower will be built next to the company's existing office block, and will be completed in 36 months. Access is likely to fund this project from US\$ 35.5 mn that was raised from private placement (in 2010) and a subsequent US\$ 3.9 mn IPO in 2011.

Aitken Spence PLC has signed a deal to manage Suva and Laukota ports in Fiji. Aitken Spence will invest US\$ 5.9 mn in a 51% stake in the Fiji Port Terminal Ltd, which will manage Fijian ports for 15 years under a concession agreement. Aitken Spence, which also manages ports in South Africa, is a leading Sri Lankan conglomerate with a large business portfolio in leisure/ hotels, logistics and transport.

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Pakistan's Thatta Group is setting up a US\$ 15 mn cement plant in the newly opened southern port industrial zone. The plant will have an initial production capacity of 100,000 MT per year - which is equivalent to Thatta Group's exports to Sri Lanka (from Pakistan). This capacity is expected to be increased up to 1 million MT in several stages.

Sri Lanka's plantation sector wages increased by 18% from April. The bi-yearly wage revision cycle further fuels the cyclical performance of the plantation sector, which is also grappling with labor shortage. According to some estimates, plantation companies are estimated to be hit by a US\$ 39.4 mn cost increase per year. Wage increases are expected to hit tea plantation firms with hard, since tea cultivation requires more labour input than (for example) rubber and palm oil plantations. However, almost all plantation companies have reported significantly improved earnings up to 3Q 2012/13.

Sri Lanka raised electricity tariffs effective from April. The new tariffs result in higher increases for low-level users, which has led to political lobbying against the tariff revision. The new tariffs are expected to increase costs of businesses, and according to some estimates, industries might face as much as 15% increases in costs. In 2012 state owned electricity utility lost record US\$ 482 mn. Main cause of the loss was dry weather which reduced hydro-power generation.

STOCK MARKET AND DEBT MARKET UPDATE

Colombo Stock Market

All Share Price Index gained by 3.8% in April, marking a 5.5% gain since beginning of 2013. Although April marks as holiday season due to traditional new-year celebrations, daily market activities remained around US\$ 6.5 mn - decline of 9% compared to March.

April saw net inflow of US\$ 30.5 mn worth foreign portfolio investments coming to Colombo bourse. Cumulative foreign inflow for the CY 2013 stood at US\$ 68.7 mn. Quarter end market capitalization was US\$ 18 bn, which is approx 30% of GDP (2012). According to data released from the stock exchange market PE stood at 16x (historical earnings).

Stock market gained by 3.8% in April amid US\$ 30.5 mn foreign inflows.

Debt Market

State-owned **Bank of Ceylon**, Sri Lanka's largest bank, said it had sold a US\$ 500 mn 5-year bond at 5.3 % to international investors through UBS. Bank of Ceylon also raised US\$ 500 mn last year. Sri Lanka's largest Non- Bank Financial Institution, **People's Leasing and Finance PLC** is also planning to raise \$ 100 million club loan, from an investor in the Middle East. **Hatton National Bank PLC** and **Senkadagala Finance PLC** announced local debt issues worth a US\$ 31.5 mn and US\$ 7.8 mn respectively.

HSBC has arranged a US\$ 100 mn debt for **Etisalat Sri Lanka**, a mobile telco, from Belgian investors. **Singer Sri Lanka PLC**, a consumer durables firm is also planning US\$ 11.8 mn local debt issue. **Hayleys PLC**, a diversified business group will also sell US\$ 15.7 mn worth of listed unsecured debt.

Central Bank did not change policy rates which were maintained at 7.5% and 9.5% for repos and reverse-repos. 3 month t-bill rates remained around 9.8%

Sri Lankan rupee remained almost unchanged in April (0.03% gain) at Rs 125.32 – Rs 128.38 for US\$ as at end of the month.

ECONOMY HIGHLIGHTS

Investment performance in 2012

Central Bank Annual report release in April shows that investment activities in Sri Lanka slowed down in 2012 amid tight monetary policy measures targeted at containing external balance and cooling price rises. Total investments or domestic capital formation grew by 18% and investment expenditure remained at 30% of GDP - same level as 2011. While private sector investments accounted for 75% of domestic capital formation, it grew at a slower space of 16% compared to 28% growth in government investments.

Investments channeling into Board of Investment ("BOI") approved projects and companies is a good measure of investments which will have good impact on income growth and improvement in productivity. In 2012 foreign investments in BOI ventures were approx US\$ 1.3 bn which - is almost equivalent to FDI recorded for the year (a 26% growth YoY). It is noteworthy that 45% of FDI were for infrastructure related investments. Investments by local investors in BOI approved projects and companies stood at US\$ 0.6 bn.

Other news

Cost of living index declined by 0.5% in April 2013 though YoY, the inflation remained at 6.4%. Average annual inflation upto April 2013 remained at 8.8%. Inflation is expected increase in coming months due to electricity tariff hike.

One of largest development financier to Sri Lanka – ADB revised Sri Lankan GDP growth target for 2013 to 6.8% (from earlier 7%). Sri Lankan government maintains a target of 7.5% GDP growth, while IMF forecast a stable 6.3 % growth for 2013 in its latest report.

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