



# JKH Investor Relations Webinar: Transcript

Review of Q2 2024/25

6 November 2024

## **PANELISTS**

- Krishan Balendra – Chairperson
- Gihan Cooray – Deputy Chairperson/Group Finance Director

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**Gihan:**

Good afternoon, everyone. Thank you very much for joining the JKH Investor relations Webinar for Q2 2024/25, and welcome.

I am Gihan Cooray, Deputy Chairperson and Group Finance Director, and I am joined by our Chairperson and CEO Krishan Balendra for today's webinar.

The format of the webinar, as usual, will be where Krishan will initially take us through an update on the macro environment in Sri Lanka and some of the key developments during the quarter, and then I will take you through a presentation of some of the key financial highlights during the quarter, and then we will open out for a question and answer session.

If you have any questions, please enter it in the Q&A tab at the bottom of your screens. With that I would like to invite Krishan to take over and give us an update on the macro environment. Thank you.

**Macroeconomic Highlights & Key Developments for the Quarter****Krishan:**

Thanks Gihan. Good afternoon, everyone.

During the quarter, towards the end of September, we had a Presidential election in Sri Lanka, and a new President was elected. Almost soon after the election the President and the Government announced that they would remain committed to the IMF programme and continue to operate within the parameters of the IMF programme, and also that they would honor the agreement that the previous regime had reached with the holders of the International Sovereign Bonds (ISBs) which was agreed just prior to the previous Presidential election.

The key officials who were running the economy, the Governor of the Central Bank and the Treasury Secretary also continue to be in office.

With the announcement that the agreement with the ISB holders would be honoured, it is now expected that the relevant documentation reflecting such agreements will happen

before the end of the calendar year, and it is also expected that Sri Lanka would receive a sovereign credit rating upgrade in the coming months.

The other economic indicators continue to be positive. Inflation continues to be very low. In fact, we have seen marginal deflation in the last couple of months. The Rupee has strengthened in the last two months at about LKR 293/294 to the US Dollar.

The primary surplus and the tax revenues that have been announced to-date for the calendar year have exceeded the targets that have been set which were agreed together with the IMF. In fact, comfortably exceeded the targets. So, generally, the momentum that we are seeing with the economy is positive.

Just after the end of the quarter, in mid-October, we opened the Cinnamon Life Hotel at City of Dreams, Sri Lanka. That is a 687-room hotel. Some of the restaurants and bars we will open over the next few weeks, and all components of the hotel will be fully operational by early December. The Casino Space will be operated by Melco. The Nuwa hotel, which will also be operated by Melco, will open on the 1st of August and the shopping mall is also expected to open then.

(In terms of) Tourism, just on the businesses, the outlook for this winter season is looking very promising. If we look at the bookings we have on our books at the moment, they are greater than what we had (at) this time last year, and the indications are that the winter season should be as strong as the last winter prior to Covid, and actually prior to the incidents in April 2019.

Given the mix of arrivals that we are anticipating, and the bookings that we are seeing, the beach is looking very strong on the Southern coast, where Cinnamon hotels has four properties.

Consumption has also continued to pick up, as you would have seen with our numbers. Soft drinks, ice cream, and the processed meats business have all seen better volumes in the quarter, and we expect that momentum to continue. We will go into more detail during the presentation and during the Q&A.

The West Container Terminal, as we said the last time as well, is very much on track (for completion). The cranes for the main key area and the yard arrived during the second

quarter. Construction is progressing very well, and we expect that we will be able to receive the first ship in the March quarter of next year (Q4 2024/25).

So that was a quick, high-level update. I will hand over to Gihan to run through the presentation and some of the details, and we are both here for the Q&A after that.

## **Review of Q2 Performance Highlights**

### **Group Highlights**

#### **Gihan:**

Thank you, Krishan. So, we move on to the presentation for Q2.

(Slide 02)

In terms of the EBITDA for the quarter ended 30th of September, all our key businesses, with the exception of Leisure, saw EBITDA growth. Leisure, of course, there are specific reasons, particularly as Krishan said, with the ramping up of the Cinnamon Life at City of Dreams. We have now opened the hotel, but there were significant ramp-up costs, and essentially, we have got all the staff needed to operate the hotel. So, we have significant cost being expensed at this moment, therefore, we have normalised that if you look at the numbers on the screen.

You will see that Transportation, Consumer Foods and Retail all saw very strong growth during the quarter. In Leisure, because of the City of Dreams number, we had about close to Rs.1.2 billion of costs pertaining to the City of Dreams, Sri Lanka, compared to only about Rs.200 million last year. So almost a billion Rupees of additional costs hitting the P&L. And that is the primary reason for the reduction that you see in the Leisure business. But yes, excluding City of Dreams, we also still did see the rest of Leisure coming off marginally, primarily due to the appreciation of the Rupee, but there are a few other factors which I will take you through (later).

But overall, if you look at it on a headline basis, the EBITDA was at Rs.8.10 billion, which is a marginal drop of 4%. But if you exclude the impact of the pre-opening costs of City of Dreams, we saw 8% growth in EBITDA for the quarter.

(Slide 03)

In terms of the performance for the 6 months, I will not go through the details here, but naturally the momentum that we saw, particularly in the Consumer and Retail businesses, that momentum has continued from Q1 to Q2, So, you are seeing that strong contribution coming through. The Transportation business in Q1 did not show growth, which is why you see the cumulative performance still being negative. But as I just spoke, the Q2 performance has shown progress and growth.

(Slide 04)

This is just a quick snapshot in terms of the quarterly movement of EBITDA. So, going from left to right of the screen. If you look at it excluding the City of Dreams number, we did an EBITDA of about Rs.9.3 billion compared with Rs.8.6 billion, which is the growth I spoke of earlier.

Of course there is seasonality, so if you look at it across the different quarters, Q3 or Q4 tends to be anyway, the stronger two quarters for the Group, driven by seasonality, of course, in the Leisure business, as we head into the peak season in Q3, but more so in Q4. And then some of our other businesses, like even Retail and Consumer, do see some impact of seasonality. So, in that context, looking forward into Q3 and Q4, if the current momentum continues, then the EBITDA growth should be there.

The other thing I would like to just point out is the line on the exchange rate. So, if you look at it last year in Q2, we had an average exchange rate for the quarter of LKR 322, and that is now at LKR 302 during the quarter. And of course, at the quarter end balance sheet rate, we had a Rupee closing rate of LKR 297. So, this has a translation impact on the performance of our businesses, particularly in Transportation and Leisure, where we have seen some negative impact. But of course, on the other side, we see some benefits in terms of input costs in our businesses, but naturally the immediate impact on the two more export-oriented businesses like Transportation and Leisure is felt more immediately.

(Slide 05)

Just in terms of our finance cost for the Group, I will not take a lot of time on this, but if you look at it excluding some of the exchange impacts, the finance costs are at around the same level, so that volatility that we saw in the previous years is now not there anymore. Of course, with the Rupee movements and the Dollar loans that we have in our books, we do

have exchange gains or losses coming in, so we have normalised that when we tried to show this.

But if you look at Leisure, the finance cost is actually a negative because of the appreciation of the Rupee which has affected the loan that we have at Waterfront properties which is essentially the City of Dreams project, and because it is a Dollar loan, the appreciation has given us an exchange gain. So, we have taken that out in terms of what we had from Q1 to Q2 and looked at a more normalised level in terms of interest rates. The Rupee prime lending rate on average, is marginally lower than what we saw even in Q1, though rates now have sort of stabilised. Rates would be at around these levels, or maybe slightly higher. But this is the average rate for the quarter.

(Slide 06)

Looking at the PBT of the Group, a lot of the same flow through effects of EBITDA naturally come through, but also in terms of some of the interest costs and normalising of the working capital cost.

We have seen that benefit come through, particularly in our Consumer and Retail businesses as well. So, if you look at it again, there are the exchange impacts which I will not go through the details of, which I touched on in the previous slide, but if you exclude those and look at a more normalised performance, then you see from Q2 last year to this year we have seen about 30% growth in the PBT.

(Slide 07)

Looking at some of our key Balance Sheet indicators, our total level of Group debt has increased slightly, as expected, as we continue to infuse funds into the Cinnamon Life project. Even though we are operational, there are still more funds that will go in over the next quarter or two. These are the planned infusions that we have into the Cinnamon Life project. So, that is the main reason for the increase in the total Group debt, and even the net debt.

But the overall net debt, if you look at it, excluding leases, and the debenture, to equity is at around 37%, which is at a comfortable level. These numbers, naturally, are as at 30th September.

(Slide 08)

As you know, we had the Rights issue, which was concluded, but those funds came in post the quarter. So, the numbers that you just saw do not include the Rs.24 billion that we raised through the Rights issue.

As you all know, the Rights issue was successfully concluded. We raised the Rs.24 billion that we were looking to raise. The issue itself was oversubscribed with additional shares being applied for, but we raised the quantum we were looking to raise, and post that we had the subdivision of the shares, and, in fact, post the suspension of trading for the administrative aspects of the subdivision, we commenced trading today.

(Slide 09)

Just a few highlights on some of our key ESG initiatives. We saw our carbon footprint decrease on a per million Rupees of revenue, as well as our water withdrawal. There were a lot of different initiatives in terms of our ONE JKH and DE&I focused areas, as well, during the quarter.

### **Transportation industry group**

(Slide 10)

Moving on to the businesses itself. You can see here how the volumes in all three terminals at the Port of Colombo have been over the last couple of quarters. SAGT, in particular, saw volume growth over last year. Marginally flat over last quarter, but we are operating at pretty much full capacity.

(Slide 11)

If you look at it against last year there was around a 6% growth in volume, but the main reason for that growth is also that transshipment grew, but domestic volumes also grew. So, if you look at the mix, you can see there is a favorable change in the mix from around 10% of domestic volume, that number has moved to 13%. So, apart from the actual increase in the number of TEUs, doing more domestic boxes is more positive from a revenue perspective and yield perspective which did translate to an improvement in the profitability at SAGT.

Our bunkering business also saw very strong growth in volumes. We saw growth in volumes of around 78% off last year. Just last year, we did see a decline in volumes, but even if you were to adjust for that base effect, we saw significant growth in volume, aided by also

the issues with the Red Sea crisis which has helped both the ports and bunkering businesses.

Overall, both businesses saw growth in profitability, and as I touched on previously, this is despite the appreciation of the Rupee which did appreciate by around 6%-7%. So had it not been for that, these businesses in Rupee terms would have done even better.

(Slide 12)

Krishan already spoke of the progress on the West Container Terminal, so I will not go through the details, but essentially just to reiterate the point that we will be operational from 1st quarter of calendar year 2025, and you can see the progress that is been made. This is maybe a month or so old, but the cranes are now being installed and (the) testing (and) commissioning is happening as we speak.

### **Consumer Foods industry group**

(Slide 13)

In terms of Consumer Foods, as mentioned earlier, the momentum that we saw in Q1 has continued through in Q2. We have seen strong growth in volumes, in ice creams, as well in terms of the CSD segment. Our Consumer Foods business has seen consecutive quarters of volume growth now. So, overall, very good growth in EBITDA over last year; a very strong growth in EBITDA. Even our EBITDA margins over last year have increased from 15% going up to 17% and on a quarter-to-quarter basis as well, we did see an improvement in margins.

The bulk to impulse mix also, I believe, last quarter we mentioned that there was an increase in the bulk, so the overall volumes in ice creams grew. We saw bulk ice creams grow because of certain demand factors, but that is normalised, and we have seen the ratio of bulk to impulse normalise, which has also helped margins. Overall, the current momentum we are seeing in terms of volume growth and consumer demand is expected to continue and remain positive.

(Slide14)

If you look at it in terms of the margins itself, from the sort of lows that we saw late the previous year, we have seen a continuous upward trend, and we expect margins to sort of stabilise at around these levels.



If you look at it in terms of the indexed volumes that we have seen, we have seen volumes broadly in line with Q1 last year, and that, of course, like I said earlier, there is some level of seasonality as well. But overall, we have seen that volume growth momentum, continue. If you look at it, even in terms of ice creams, it is the same sort of trend where we have seen strong growth in ice cream volumes.

### **Retail industry group**

(Slide 15)

Moving on to our supermarkets business, strong same store sales were achieved in the quarter. We had 13.8% of same store sales (growth), and I will get into the decomposition of this, but on a sort of more higher-level, it was driven mainly by footfall, as we have seen over the last couple of quarters. We have seen double digit footfall growth over the last five quarters. So that same momentum is continuing with footfall growth at 12.3%. And ABVs which we have spoken of this over the last couple of quarters, where ABV was initially in the negative territory. But in the last quarter was all basically flat, and now we have seen that growing at 1.4%. And like, I said, I will get into the decomposition of that.

So overall, we have seen strong EBITDA growth again in this business, driven by the supermarkets business. But our other business, the Office Automation business also did see growth. EBITDA margins in supermarkets have increased to 7.1% from 6.4%, and even on a quarter-to-quarter basis, we have seen an increase aided by the top line growth as well, but some cost reductions which I will talk to you about.

Overall, the new energy vehicles we are seeing very good traction, strong demand continuing for the vehicles. The market is yet to open out, but we have opened out the bookings and continue to see strong demand coming through.

(Slide 16)

In terms of the margins. I already spoke of the margins and the absolute profitability. So, we have seen that increase. Q4, as we have mentioned before, is a strong seasonal quarter as well as in that year-end we have a certain level of year-end profit, recognition on promotional incomes, and so on, which is why you see that peak which is more a seasonal impact that is there.

If you look at the margins over the last couple of quarters, again, you see the Q4 impact because of that one-off impact. But otherwise, you see, the margins at 7% is quite healthy. Margins have been aided to some extent by the reduction in the electricity cost as a percentage of revenue, but overall margin growth also has been positive.

(Slide 17)

Looking at the decomposition of same store sales itself, if you look at footfall growth, we saw 12% growth like I mentioned, this is driven by a combination of footfall of new customers coming into store, as well, but also existing customers increasing the frequency of visits to the store. So, the combination of that is what has helped drive this 12% growth in footfall.

Similarly, if you look at ABV, it is a factor of the retail selling price or inflation as well as the number of units purchased in a basket, or the weight of purchase as we refer to it. So, if you look at the inflation side of it, we have seen inflation being marginally down in the quarter, and what has really helped is that the weight of purchase or number of units in the basket has started to pick up and increase vis-a-vis last year, which is aiding that marginal growth. It is still marginal, but that growth in ABV, as consumer confidence has returned, and if that same momentum continues, then hopefully, we should see even the weight of purchase continuing to increase.

### **Leisure industry group**

(Slide 18)

Moving on to leisure and tourism. We have seen the same momentum continue over the last couple of months where tourism has increased. Of course it is now starting to head into the peak season, but Q2 is really more of the off season in Sri Lanka, but if you look at it, compared to 2018, we are still seeing the run rate being at about 85% of the pre-pandemic and pre-Easter impacts. So, tourism itself has not fully recovered. But as Krishan touched on previously, we are seeing good forward bookings, visibility and momentum, and particularly that matters heading into December, January, February and March, which are really the peak periods for tourism in Sri Lanka.

(Slide 19)

Moving on to Maldives. We have seen the numbers again grow over last year. The Maldives did witness some disruptions, and maybe we can talk through that in the Q&A session, but overall, the numbers to Maldives has still remained quite robust and resilient.

(Slide 21)

If you look at the Colombo hotels, occupancy was flat against last year, we saw ARR growth against Q2 last year. The EBITDA margins were slightly down. We did have some costs pertaining to rightsizing of the hotel at Cinnamon Grand, where we essentially took a call to look at moving some of our restaurants, rightsizing the staff, as well as shutting down one or two of our restaurants, so that rightsizing had some costs that came in, in Q2. But had it not been for that, because of that type of ARR growth that we saw in Colombo hotels from \$69 to \$83, the EBITDA margin would have improved. And that reason for the decline is due to what I just mentioned.

If you look at Sri Lanka Resorts, again, keeping in mind that it is the off season, but we saw marginal decline in occupancy versus last year, Q2. A growth in ARRs did help drive a slight growth in the EBITDA margins.

In the Maldives, we saw a growth in occupancy where there was a conscious strategy of driving the occupancy a little higher and then bringing our yields down to have more of that volume-driven strategy. So, that did work, and our margins are largely in line with last year.

Part of the reasons for the decline in performance, like I said, right at the outset, is due to the appreciation of the Rupee, and that translation impact also did not help. And apart from that, we had about a Rs.1 billion impact of the cost of City of Dreams coming in.

Now just to reiterate the point that this is pertaining to the ramp-up costs, it is really the 1,400-1,500 staff that we have there, as well as the entirety of the cost structure that is there with the City of Dreams. Of course, as we start generating revenue, which we have, and the room revenue and F&B revenue starts picking up, the costs will get absorbed. But there is that initial period where we will have those impacts.

And of course, with us having opened, we will see the impact of the finance cost and the depreciation which were previously capitalised coming into the P&L, as well. But overall, we are very positive about the impact of City of Dreams. It is very encouraging in terms of the type of feedback we have gotten.

It is early days, we have been open for just around three weeks now, but it is very positive feedback. We have opened part of the restaurants, and a couple are due to open in the next

week or two. So, it was planned to sort of have that staggered opening to maintain that momentum.

(Slide 22)

Like Krishan said, we have opened the 687-room Cinnamon Life Hotel, and the 113-key Nuwa Hotel will be open by mid-next year (mid-CY2025). We have made very good progress, rather Melco has made very good progress on the fitting out and the construction part of the gaming floor. So, very good progress made so far, and things are on track for the mid-CY2025 opening.

(Slides 23 & 24)

Just some images of some of the restaurants, as well as the reception areas and the rooms for those of you who may not have seen this.

### **Property industry group**

(Slide 25)

In terms of an update on our Property business, we have seen good momentum with the inquiries for Cinnamon Life. We have had lots more leads and inquiries on the apartments there over the last quarter or two, and in the last (Q2) quarter saw the conversion of some of those into sales. We saw five sales happening at the Cinnamon Life, so the number has now moved to 262 units from what we had in the previous quarter.

So, that momentum will continue with current interest rates low, despite the uncertainties with the elections. I think that people were just taking a slight wait and see approach. We will conclude the General election on the 14th of November, and then Parliament will reconvene on the 21st of November. So, thereafter we expect this momentum to pick up further as we get into completion of all the other aspects of the integrated development as well.

With TRI-ZEN, as well, we have seen good momentum. Now we are handing over units as well. So, the project is essentially completed, and people are now residing in the property. So, we expect this momentum of the final sales of around 170 units to take place over the next quarter or two. With VIMAN, which is our suburban residential project, again, (we see) very good interest on the phase one and two. We have about 40 units remaining in phase two and in phase one, only 13 units remaining.

So, as we head into Q3 and Q4, we will see more revenue recognition, particularly from TRI-ZEN, as we continue to hand over units. As well as if there are any sales on Cinnamon Life, and with VIMAN as well as we get into the next couple of quarters. Given that we have started construction in August, we will start seeing the revenue recognition commencing for VIMAN.

### **Financial Services industry group**

(Slide 26)

Lastly, on Financial Services. We saw very good growth in GWP in our insurance business. So, that momentum that we have seen over the last five quarters where we have seen strong double-digit growth in GWPs has continued, and the new business underwriting also has been very strong, which has translated to solid profits in the business.

In our banking business, because of the fact that they are also listed, and their cycle does not fully align with us, they are yet to release their Q2 numbers. So, I am talking you through the Q1 numbers, but overall, very strong profit growth that we have seen.

In the bank (NTB), loan growth has been very strong. We have seen that in Q4 as well as Q1, loan growth has been around 18%. Net Interest Margins have actually contracted against last year, naturally, with interest, rates coming off, but has been quite stable, and, in fact, marginally increased over the last couple of quarters. The impairments on Stage 3 loans have been quite flat, and if you look at it against last year, has, in fact, improved. So, overall, the bank has shown a very solid performance, and we expect that momentum to continue.

So, with that we conclude the presentation. I would like to open it out for the Q&A session.

## **Q&A session (responses by both panelists)**

### **City of Dreams Sri Lanka and the Cinnamon Life hotel**

#### **Question:**

Are all the event spaces in the Cinnamon Life facility available for events at present, and if there are any yet to be opened, what timelines can be expected?

#### **Response:**

All primary event spaces at Cinnamon Life are now open and available for bookings, and we have already hosted a few small-scale events. While a few restaurants have staggered openings to maintain momentum and excitement, nearly all facilities are operational, with the remaining spaces expected to be fully open by December.

#### **Question:**

How are the forward booking for the Cinnamon Life hotel at the City of Dreams, and are there any large conferences that would act as catalysts for the activation of Colombo as a South Asian MICE center?

#### **Response:**

It is too early to comment. The hotel opened only three weeks ago, and we are observing strong momentum in bookings for events, weddings, and banquets. In the city, room bookings tend to be more last-minute compared to resorts, where reservations can be made six to nine months in advance. City bookings generally occur just a few days or weeks ahead of the event.

The level of interest and inquiries, both locally and internationally, is encouraging. While we do not yet have confirmed bookings for large overseas events, we have secured several bookings for substantial local events, and a few promising leads are currently under discussion. We anticipate these leads will convert to confirmed bookings over the coming weeks and months. At this stage, it remains too early to comment with greater certainty.

**Question:**

What is the tax status for the casino operations, and are there any tax holidays applicable where the tax treatment is similar to what applies to rest of the Cinnamon Life project?

**Response:**

As previously mentioned, our hotel operations and associated facilities for banqueting and F&B services comes under a Strategic Development Project (SDP), which qualifies us for a tax holiday. However, the gaming operations are not included within this framework and are subject to standard gaming-related taxes.

The gaming activities will be managed by a separate company under the Melco Group, which will thus be fully subject to the regular gaming tax regulations.

**Question:**

What kind of steady operating/maintenance costs are we looking at for the City of Dreams given the pre-opening costs of Rs.1.1-1.2 billion for the previous quarter?

**Response:**

As mentioned earlier, up to Q2, it has been the ramp-up pre-opening costs because the hotel was not yet operational.

From Q3 onward, these costs will shift from pre-opening to ongoing staffing and operational expenses. While there may be some initial marketing and launch-related expenses, these are minimal in the context of these numbers. The primary expenses will now focus on staffing, operational costs, utilities, and other day-to-day needs of the hotel.

As momentum builds, we have begun generating revenue, which will help offset these initial pre-opening costs through income from both F&B operations and room bookings.

It is a question of how soon we will ramp-up, which we expect will happen quite soon. Interest/inquires in conferences and other events have been encouraging, however it will take some time for this interest to translate into actual sales or revenue.

## **Partnership with Reliance**

### **Question:**

What are the latest developments on the partnership with Reliance Consumer Products Limited?

### **Response:**

We began distributing in India approximately six months ago, starting with a single flavor, 'Necto,' a raspberry-flavored drink that is widely recognised in Sri Lanka. The concentrate is shipped from Sri Lanka, and Reliance handles bottling and distribution through their existing Campa Cola facilities.

The initial response has been encouraging; however, it is too early to determine if significant traction is developing. Perhaps in another six months, we will be able to provide more meaningful insights on market performance.

## **New Energy Vehicles (NEVs) business**

### **Question:**

Is there potential for New Energy Vehicles (NEVs) to become a major revenue stream for BYD's business vertical?

### **Response:**

Regarding the potential for NEVs to become a major revenue stream, this will ultimately depend on the final accounting treatment. Since this is a joint venture, the revenue itself may not directly appear in our profit and loss statement, though we will recognise the profits from it. The impact will largely depend on the sales volume or number of units achieved.

Based on current booking momentum, if such volumes are sustained, NEVs could become a significant component within the Retail business.

### **Question:**

What is the timeline for the ramping up of (electric vehicle) charging stations at Keells outlets?



**Response:**

As previously discussed with BYD, the market still needs to open, and we have yet to begin importing vehicles. However, we are actively rolling out a network of charging stations to progressively build up the necessary ecosystem.

As mentioned, NEVs offer a range of around 400 kilometers or more, which is well-suited for travel within Sri Lanka. Nonetheless, we are committed to expanding the charging station network, leveraging our existing Keells outlet network to support this.

**Question:**

When do you think you will be able to import the vehicles from BYD?

**Response:**

Although the previous administration provided certain dates, these have not been formally gazetted. Therefore, we cannot confirm them with certainty.

**Ports and Bunkering businesses****Question:**

At what percentage of capacity is South Asia Gateway Terminals operating at?

**Response:**

The terminal has a total capacity of approximately 2 million TEUs. In the last quarter, we handled around 511,000 TEUs, which, when annualised, indicates we are operating near full capacity. While adjustments can be made in terms of throughput and yard space, these factors may cause slight variations. Nonetheless, we are essentially operating close to our maximum capacity.

**Question:**

When is the East Container Terminal expected to become operational and would that be a threat to the West Container Terminal?

**Response:**

The timeline for the East Container Terminal to become operational remains uncertain. Construction is ongoing for the first phase of the expansion, and while cranes have arrived, additional work is required. Meanwhile, the West Terminal is set to commence operations, with phase one expected in the March quarter of next year (Q 2024/25). However, it is unclear when the East Container Terminal will begin operations, and even then, only part of the terminal may initially open.

Currently, the Colombo Port has a capacity of 8 million TEUs. The first phase of the West Container Terminal is expected to add approximately 1.5 million TEUs. Adding one-third of the East Container Terminal would not significantly impact the port's total capacity.

The extent of the East Container Terminal's impact will depend on how quickly it becomes fully operational. If completed within the next 18 months, it could have an effect, though this timeline appears unlikely. If the remaining phases are phased over several years, the capacity addition will be less substantial for the port overall.

**Question:**

When does the lease agreement on SAGT end?

**Response:**

The lease agreement ends in 2029.

**Question:**

The bunkering business enjoyed much higher margins of around 5%-6% historically. What is it that has caused lower margins despite encouraging volume growth?

**Response:**

Unlike typical retail businesses, bunkering margins are generally calculated as an absolute dollar amount per metric ton rather than as a percentage of revenue. The profit margin can vary depending on factors such as inventory availability and market conditions, but an increase in prices does not necessarily yield a proportional increase in percentage margins.

While the absolute profit per metric ton may remain the same or slightly increase, the margin percentage can decline as prices rise. Volume growth alone does not guarantee the ability to raise prices unless there is a short-term local supply shortage, allowing for higher pricing. However, regional competition, particularly with markets like India, limits the extent to which margins can be increased, even in cases of limited local supply.

As for the outlook on bunkering, it remains positive. The number of vessels calling at Colombo is expected to rise, especially with the West Container Terminal beginning operations, which will likely attract more shipping lines to Colombo, benefiting the bunkering business. Additionally, the ongoing Red Sea crisis has generated increased demand, though the duration of this trend remains uncertain. Nonetheless, current indications suggest that this momentum will continue in the near term.

### **Supermarket business**

#### **Question:**

What is the expected number of new Keells outlets to be opened for the 2025 and 2026 financial years?

#### **Response:**

This year, we anticipate adding approximately six to eight outlets to our portfolio, with the potential to increase to ten in the following year, depending on site availability and alignment with our business model. As mentioned previously, long-term potential remains strong, as outlet density and penetration across the country are still relatively low.

We continue to adhere to our model, prioritising suitable land sizes, land leases, and store formats that support our offerings, including hot kitchens and prepared foods. We are committed to expanding our outlet network.

Modern trade penetration in the country remains low, at approximately 17%, indicating significant growth potential. We will maintain our outlet expansion strategy and ramp up further as opportunities arise.

## Property sector

### Question:

What is the anticipated timeline for initiating the development of the Finlays site (Vauxhall Street) property?

### Response:

At present, our priority lies in the luxury and ultra-luxury segments. We still have 160 units to sell at Cinnamon Life, and our future development plans for Vauxhall Street will depend on sales momentum in the luxury market and the expected demand for such properties. We have completed much of the master planning for the Vauxhall Street project, and groundwork is ongoing. However, the decision on when to proceed with this development will be driven by market conditions and sales performance in the luxury space.

Regarding our current pipeline, we have the 160 units at Cinnamon Life, along with units at TRI-ZEN, which cater to the mid-market segment, and the suburban project, VIMAN. We will continue to assess the evolving dynamics of these different market segments. There is sufficient inventory in our pipeline for the next year to generate revenue and profits. Beyond that, we will evaluate the direction for future developments.

It is important to be mindful that the real estate market requires macroeconomic stability. Given the current interest rates, we will need to carefully assess the long-term potential of these projects and determine which segments to focus on for future launches.

### Question:

What has led to the recent losses at TRI-ZEN, and will the company be able to cover it up in the upcoming period?

### Response:

The revenue recognition for TRI-ZEN was impacted by some of the costs that hit us due to the macroeconomic issues that occurred a year or two ago. These factors had to be accounted for in our recognition, which led to the losses we reported last year. However, with the recognition of the remainder of the inventory, we will see profits coming in. Certainly, the overall project will still generate profits, despite the challenges faced earlier.

## **Colombo hotels**

### **Question:**

What are the future plans for Cinnamon Grand and Lakeside, given that the City of Dreams project has commenced operations?

### **Response:**

There are no specific plans at this moment. If we observe a pickup in demand for rooms in Colombo, we will evaluate how to position the two properties. They have not been refurbished in some time, and any decisions will depend on the momentum Colombo gains as a destination. If the market improves, we will consider refurbishing and repositioning the properties. However, there is nothing specific to comment on at present.

## **John Keells Hotels (KHL)**

### **Question:**

What are the reasons for KHL revenue not picking up significantly enough during the season to offset the LKR appreciation?

### **Response:**

Revenue from resort hotels in Sri Lanka was stronger, with improved room rates and occupancy compared to the first half of the previous financial year. However, the overall performance for KHL was impacted by the Maldives, particularly within the segment we operate in. This was largely due to a decrease in arrivals from India, which contributed to the lower revenue figures.

## **Maldivian Resorts**

### **Question:**

Could you comment on the current political situation in the Maldives and on the mix of arrivals in particular from India?

**Response:**

From a macroeconomic perspective, the Maldives is experiencing pressure on foreign exchange and its balance of payments. Some of the regional countries have assisted the Maldives and they appear to be working towards stabilising their economy.

In terms of tourist arrivals, year-to-date figures generally show year-on-year growth. While some months have been flat, these numbers are slightly skewed, as much of the increase has been directed toward hotels on inhabited islands, where room rates are significantly lower. Additionally, a decline in arrivals from India, influenced by political tensions earlier in the year, has impacted room rates, particularly in the 3-to-4-star segment where we primarily operate.

Despite these challenges in the first and second quarters, the outlook for the winter season remains positive. Last winter saw strong occupancy and room rates, and we expect this trend to continue with even higher RevPARs anticipated. While the first half of the year has been challenging, we anticipate the second half to be much stronger.

**Question:**

What is the outlook in Maldives with tourism related taxes and are they already implemented?

**Response:**

Regarding taxes in the Maldives, there has been an increase in the tax per room, which is applied as an absolute amount. While this does represent an additional cost, its impact is relatively minor compared to the situation in Sri Lanka, where we moved from being VAT-exempt to a VAT rate of 15%, later increased to 18%. Although the added cost is a drawback for guests, it remains relatively modest in its effect.

**Kandy Myst****Question:**

When is the new hotel in Kandy expected to commence operations?

**Response:**

On the new hotel, Kandy Myst, we expect that operations will commence towards mid to end December. Therefore, we plan to officially open next month.

**Walkers Tours****Question:**

What is the average age of the vehicle fleet at Walkers Tours, and does it represent a significant portion of the balance sheet?

**Response:**

I do not have specific numbers regarding the vehicle fleet or its age, right now, but it is important to note that we do not invest in the vehicles directly or carry them on our balance sheet. Instead, we operate with a different outsourcing model. As such, the age of the fleet is less relevant to us, given that the vehicles are not part of our balance sheet assets.

**Banking business****Question:**

Will there be any reversals on International Sovereign Bond (ISB) provisioning after having finalised the ISB restructuring agreement? How does the deferred taxation come into play for ISB provisions, and are provisions on ISBs allowed as deductible expenses for tax purposes?

**Response:**

At this moment, we cannot comment too much regarding the reversal of any provisions. However, depending on the final outcome and the percentage provided by the bank, there may be a reversal. As for the timing and specifics of that, we are not in a position to get into specifics at this stage.

**Question:**

What are the biggest non-performing loan (NPL) sectors for NTB and how much of the loan book is exposed to these sectors?

**Response:**

Regarding the exact details, I am unable to provide specific information at this time. However, I can confirm that our exposure to sectors such as construction have been minimal and maintained at a low level. There is no significant concentration in the bank's portfolio, and public sector exposure has also been limited.

The overall exposures over the last couple of years have been carefully maintained. The Stage 3 loans, currently at 2.1%, are relatively low and have decreased compared to last year. While there are some NPLs, it is not a significant concentration within the loan book.

**Insurance business****Question:**

What is the current situation with the privatisation of the State Owned Enterprise (SOE) life insurance company and a potential Union Assurance takeover of it?

**Response:**

At this time, it appears that privatisations are not likely to proceed in the immediate future. If such opportunities arise, we will evaluate them accordingly, but we are unable to make a specific comment at this stage.

**Dividend payout****Question:**

In terms of the outlook for dividend payout, will it continue at present low levels?

**Response:**

It is important to note that the current dividend per share is calculated post-subdivision. Over the past few years, we have navigated multiple challenges, including the Covid-19 pandemic and the economic crisis. However, as observed in recent quarters, our businesses are recovering. We are also nearing the conclusion of a significant capital expenditure cycle with the completion of the City of Dreams project and the West Container Terminal project.

As operations ramp up and we begin to see revenues and income from these projects, alongside the continued recovery of our existing businesses, we will consider increasing



dividends. Historically, we have paid higher dividends, and we aim to return to that trend as our businesses start displaying improved performance.

### **Plantation Services sector**

#### **Question:**

Considering the Group's historical tea assets and the current challenges facing the sector, are there plans to divest from these areas?

#### **Response:**

We are referring to our tea broking and produce broking business, as well as our Tea Smallholder factories, which does own some factories. Currently, there are no specific plans being made, but it is important to note that this is no longer a core business for the Group. We are in the process of rationalising our portfolio. While it is a possibility, there is nothing definite or imminent that I can comment on at this time.

### **CLOSING REMARKS**

I think we have covered all the questions for today. So, I think we can close with that. Thank you very much for your participation in the Q2 webinar. The recording of this webinar will be uploaded on our website in the next couple of hours for those who may not have caught the entirety of it. Thank you very much for joining. Have a good day.