JKH Investor Relations Webinar: Transcript

Review of Q3 2024/25

06 February 2025

PANELISTS

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

Navigation:

Gihan:

Good afternoon, everyone. Thank you for joining the JKH Investor Relations webinar for the third quarter of 2024/25. I am Gihan Cooray, Deputy Chairperson and Group Finance Director, and I'm joined by Krishan Balendra, our Chairperson/CEO, who will, run the webinar with me today. The format of today's proceedings will be as usual where Krishan will initially, take us through a macroeconomic overview and some of the key highlights for the quarter, and then I will take you through a presentation of some of the key financial highlights for the quarter, and then we will open up for a question and answer session. If you have any questions, please enter it at the Q&A tab at the bottom of your screens.

With that, I'd like to hand over proceedings to Krishan to take us through the macroeconomic overview.

Macroeconomic Highlights & Key Development for the Quarter

Krishan:

Good afternoon, everyone. Thank you for joining our webinar. During the quarter, we, had a parliamentary election. Where in November, the National People's Party (NPP), won a very big victory, getting a large number of seats in parliament. With that election, which followed the presidential election, there is a stable government in place, and elections are not due for another five years at a national level.

On the economy, the Government announced finalisation of the bond exchange, and with that, the country saw a credit rating upgrade. With the country being upgraded out of the default status it was in since mid-CY2022. Inflation continued to be low. In fact, we have now had a couple of months of deflation. So, from the very high levels of inflation that we saw with the crisis in 2022, we have seen inflation coming down to very favourable levels.

The Sri Lankan Rupee continued to be strong from the lows of about 365 to 370 to the dollar. The Rupee today is at about 298 to the dollar. Some other indicators also continued to be positive. The country, saw a primary surplus, continued primary surplus, in the latest numbers that have been released. And tax revenues overall have also been strong and broadly in line with what the Government was targeting, or in fact, better than what the Government was targeting. After the end of the quarter in January, an electricity tariff reduction was announced, where tariffs have been reduced by an average of about 20%.

On some of our sectors, the tourism arrivals continued to be very encouraging. In the month of January, we saw arrivals of 253,000, and that was the highest ever number for the month of January. These increasing tourism arrivals were reflected in the performance of our hotels, which continue to see improving occupancies. Bookings for the next couple of months for the rest of the season are also looking strong and we expect that, just based on the performance in January, that 2025 should see the highest number of tourist arrivals ever in Sri Lanka and

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that we are back on that growth trajectory that we were on prior to COVID, where with the end of the war in 2009, the country saw double digit growth in tourist arrivals annually.

Consumption also continued to pick up and we'll discuss in detail, when we get into the performance of our soft drinks, ice cream, processed meats, and our supermarkets businesses. The Cinnamon Life project, as you know, the 'Cinnamon Life' hotel is now fully operational. All the ballrooms and the restaurants are operational. Fit out for the casino is progressing very well, and we are on track to see, the casino commencing operations in the third quarter of this calendar year. The mall is also expected to commence operations around the same time as the commencement of the operations of the casino.

The West Container Terminal, work has progressed on schedule, and we expect that the first vessel will call at the West Container Terminal in this quarter, in fact, most likely by the end of February. Completion of phase two will be about eighteen months after that, in the second half of calendar year 2026. So that was a quick update on the macro economy and some of our key projects. I will hand over now to Gihan to run through the detail on our quarterly results.

Review of Q3 Performance Highlights

Group Highlights

Gihan:

Thank you, Krishan.

So, I'll take you through the key financial highlights. Just to remind you once again, if you have any questions, please enter it to the Q&A tabs at the bottom of your screen.

(Slide 02)

If you look at the performance starting with the Group EBITDA, at a headline EBITDA level, we grew 4% in the quarter to Rs.14.3 billion. But I will just take you through some adjustments that we have made just so that you could understand, the core, recurring performance during the quarter. So, this quarter we had a fair value gain on investment property in our Property business of around Rs.950 million. Typically, these adjustments of our fair value gains and the valuation of these have taken place in Q4 but to streamline our accounting practices and processes, we've actually, decided to make those changes in Q3, and that'll be a onetime change. Going forward, we will continue to recognize such changes in Q3. So, this year, you will see that distortion where this time we are having the gain in Q3, whereas you will also find some adjustment in last year's number for Q4. We also had a deferred tax credit at SAGT of around Rs.400 million in the previous financial year whereas this year we do not have anything in this quarter. Of course, the large item is the other operating cost at, the 'Cinnamon Life' hotel at the City of Dreams, where we have an EBITDA impact of around Rs.1.5 billion for the quarter. We started operations on the 15th of October, so, effectively this is the sort of running cost that we will be having at, the 'Cinnamon Life'

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hotel at the City of Dreams. Whereas last year, it was more the pre-opening cost of around Rs.240 million. So, when you adjust for those three main items, we end up with an EBITDA of about Rs.14.9 billion which is a growth of 10% over the last year.

(Slide 03)

If you look at the composition of EBITDA in terms of the main businesses, right at the bottom of the screen, you see the same two numbers I spoke of, of the 4% and 10% growth. If you look at the businesses, and I will take you through each of the different businesses, but we have seen strong growth as we have seen that momentum continuing through Q1 and Q2, as well, with Consumer Foods, Retail and Financial Services all recording a strong performance. In the transportation business, we did see a negative impact leaving aside the deferred tax credit at SAGT. We did see an impact in our bunkering business which I will talk you through. at Leisure of course, it is mainly the 'Cinnamon Life' hotel impact which again I will walk you through when we get to those slides.

(Slide 04)

If you look at the cumulative performance for the nine months, of course, it's a translation of the performance for Q3, as well as the first half of the year. I won't go through each of the numbers, but essentially, again, you see a similar adjustment that we've done to the nine-month EBITDA versus the other adjustments which will give you 6% growth in the cumulative performance if you look at it more on a like with like basis.

(Slide 05)

Just looking at the quarterly EBITDA movement, as you can see the headline numbers, of course, with a Rs.14.3 billion for Q3, but if you just adjust and eliminate the impact of the operating cost of 'Cinnamon Life' hotel, we are looking at about a Rs. 15.8 billion. So, if you look at it on a quarterly basis, you can see it is quite a significant increase even against Q3, whereas Q4 tends to be our peak. So, this number is quite a strong number, when you adjust for the impact of the opening of 'Cinnamon Life' hotel.

(Slide 06)

Just looking at the finance costs, again, I'll just take a minute to explain this. If you look at the finance costs in all our businesses, the numbers have actually come down from what we have seen before. So if you look at it reading from right to left with the leftmost column being the most recent, you've seen the numbers coming down in our Consumer Foods, Retail businesses as we've seen the interest costs coming down, which is right at the bottom of your screen from about 13% last year to 9% this year, and also the working capital requirements and so on reducing. The main impacts, of course, here is what we have at, again Leisure, where there are rather, the USD 200 million of interest, sorry the loan at 'Cinnamon Life' hotel. And of course, we have the exchange movement which is the unusual one here, because when we see appreciation of the Rupee as we saw in the last quarter, then you do have a financial sort of exchange gain, which is why you see that distortion from quarter to quarter, which is what we have tried to sort of explain away here and show a more normalised impact.

The other aspect I wanted to just touch on here is the non cash interest charge we had on the convertible debenture, and I will explain to you we did announce that the debentures were exercised and now fully converted. But we had a non-cash charge of around Rs.480 million in Q3. In Q4, because the debentures were converted late-January, we will have some impact but nowhere near the Rs.480 million and going forward then this charge will not be there at all. So, like I said in Q4 we will just have the charge for about three weeks of January.

(Slide 07)

So, looking at the PBT again. Similar flow through impacts from from EBITDA that we saw. I already spoke of some of the other adjustments that we did in terms of the gains on investment property as well as the deferred tax credit at SAGT. The other one which we've shown is the PBT impact of 'Cinnamon Life' hotel, Sri Lanka. So, if you recall, I spoke earlier of the impact at an EBITDA level of about Rs.1.5 billion, which is the operating costs or net impact of, the 'Cinnamon Life' hotel. So, as we've said in our disclosure as well in the Chairperson's Message, the ramp-up of operations is taking place. Naturally as expected it is a little slow because it does take time. So, that is the net impact that you are seeing at an EBITDA level.

At a PBT level, we also have the impact of the depreciation charge coming in as well as the interest cost which was earlier capitalized into the project cost. Now, both these are actually impacting the P&L. So, as we've disclosed that amount is about another Rs.2.0 billion. So, if you look at the combined impact of the 'Cinnamon Life' hotel is about a Rs.3.6 billion. We did have a forex gain on the loan translation as I mentioned before. That is at around Rs.818 million. So, if you net off all that and look at what our is PBT on a more adjusted basis, we are at about Rs.7.9 billion, versus the Rs.6.0 billion last year which is around a 30% growth on an adjusted basis whereas, at a headline reported level we've shown about a 11% growth in our PBT.

(Slide 08)

I already just touched on this as we announced on the 24th of January, HWIC, Asia Fund of Fairfax announced converted the balance remaining debentures and fully exercised the debentures that they have. And with this there are no further convertible debentures that we have. So, the dilution from this is about 6%, and with that HWIC has a total shareholding of around 24% in the company.

(Slide 09)

Looking at some of the key balance sheet indicators, we have seen our debt levels at a gross Group debt level coming down from Rs.230 billion, coming down to Rs.210 billion. Just to remind you that we had the proceeds from the rights issue of roughly Rs.24 billion coming in, but that came in post the closure of the last quarter because it came in around mid-

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October. So, that is why you see this reduction from Rs.230 billion to Rs.210 billion, and a similar sort of reduction in terms of the net debt of the Group. So, now with the proceeds that we have, and the total debt levels are net debt to equity has reduced from about 36% to around 27%.

(Slide 10)

In terms of some of our ESG reporting, we have seen a increase in our absolute numbers on our carbon footprint as well as water withdrawal, and the primary reason for that is, that with the commencement of operations at Cinnamon Life, we have seen that increase because last year we did not have operations and therefore, the electricity consumption as well as water usage is the main reason for this increase. Because the rest of the businesses actually excluding Life, we've seen, things being quite flat.

Transportation industry group

(Slide 11)

Moving on to the businesses and the update, looking at the transportation business.

(Slide 12)

If you look at overall volumes, we saw very strong growth in volumes, at SAGT, from last year's around 428,000 TEU, we've seen a significant increase to 535,000 TEU. And if you look at it even over Q1 and Q2, this is quite a significant achievement, and does push, the business to operating at, very much close to capacity. If you look at it in terms of the mix, it is sort of in line with what we saw marginally lower than Q2, but the main increase of course, from 512,000 TEU to 535,000 TEU, coming from transshipment. But if you look at it over last year, we have seen a slight improvement with a little more domestic volumes and overall, this volume growth resulted in SAGT having a very strong performance for the quarter.

Unfortunately, in the bunkering business while we did see volumes grow at quite a healthy 20% growth in volume, we saw margins erode, partly due to or largely due to more intensified competition in the local bunkering market as well as a slight oversupply situation in the market. In addition to some declines at points of time, during the quarter in base oil prices which also resulted in a contraction of margins. So, as a result, we did see the bunkering business having a slight negative quarter which did erode the performance of the overall Transportation business. But in terms of outlook, we expect that to sort of normalize and the bunkering business right now is seeing better momentum in terms of performance in this quarter.

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(Slide 13)

Krishan already spoke on the progress on WCT. So, I will not get into the details of that, but the image you see on the screen, the cranes have been installed and now we are about to receive our first test vessel in a couple of week's time.

Consumer Foods industry group

(Slide 14)

Our Consumer Foods business saw very strong momentum, as you can see continuing from the sort of momentum we saw in Q1 and Q2 as well, with ice creams growing at 34% and carbonated soft drinks growing at 28% and our convenience foods business also saw strong volume growth at 24%. Just to remind you and when we go through the next couple of slides, you'll see that Q3, while this is strong growth against last quarter, Q3 is a slightly in terms of overall volumes, is a slightly lower quarter than Q2 and then Q4 tends to be the peak. So as a result of that, when you look at the margins, you do not have the full benefit when you look at it on a quarter-to-quarter basis, our margins have declined from 17% to 15%, but if you look at it on a year-on-year basis our margins have increased from 13% to 15%.

The other aspect of it is if you look at our ice creams business, you can see again when you look at the quarter-to-quarter number, you see that last quarter we had a bulk to impulse ratio of about 62:38, whereas this time we see more bulk sales. So, the ratio is skewed a little bit more in favour of bulk. And as you all know the margins between bulk and impulse is such that impulse has a higher margin. So, a higher contribution from bulk, does result in a lower percentage margin, but as you can see in terms of absolute profits, it is a very strong growth with a Rs.1.3 billion of EBITDA versus a Rs.900 million in Q3 last year. So, very strong momentum that we are seeing in the business, and we expect that momentum to continue.

(Slide 15)

And as I said if you look at the quarter-to-quarter basis, typically you have seen this where even in the previous years if you look at it Q3 tends to be a lower quarter and that is the same sort of trend you are seeing. This is of course, is indexed, but if you look at it in soft drinks you are seeing that over the years right across you have seen Q3 being low. When you look at Q4 as you can see, Q4 tends to be always a better quarter and that that is the trend we expect to see, and that margin recovery will happen quarter-to-quarter as well. And similar sort of trend in ice creams may be less so than beverages, but again a similar trend where you see again Q3 tends to be lower in terms of absolute volumes and then you see a pickup in Q4.

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Retail industry group

(Slide 16)

Moving on to our Retail business, our supermarkets business saw again very strong same store sales growth of around 14%, mainly driven by footfall growth again of 14%. Similar to what we have seen if you look at right across the screen across the five quarters, a very strong healthy growth in footfall. We have seen basket values being flat, whereas last quarter we saw slight growth, but I will talk you through that when we get into the decomposition of same store sales. Very strong revenue growth overall top line growth driven of course, by same store sales and footfall. And again, a very strong EBITDA growth, and if you look at EBITDA margins for the quarter at 8.1% versus a growth from 6.9%. So strong growth in overall margins. And if you look at it versus Q2 to Q3 as well, we've seen that growth. We've, of course, had the benefit of the reduction in electricity tariffs as well, which Krishan referred to as well. And that translation of the benefit of that also has certainly helped margins, but some of the other initiatives has also helped along with the sort of growth in absolute volumes.

(Slide 17)

If you look at it, I will not spend too much time on this, but we have looked at the total margins here. And if you look at part of it like I said is due to the electricity impact. So, if you look at the percentage cost, of electricity cost versus revenue you have seen that decline, but if you look at the margin improvement is much greater than just the benefit of the electricity cost.

(Slide 18)

Looking at the decomposition of the growth in same store sales, as I mentioned, it's driven by footfall of 14%. ABV was flat, but what's sort of encouraging in a sense is that ABV was flat despite, inflation actually being recorded at a negative 2%. So, the weight of purchase as we call it or the number of units that are in a basket actually increased to offset this decline of 2% in inflation which is why ABV itself was flat. So, that again demonstrates the type of recovery in consumer spend or sentiment, because now you are seeing that recovery in the number of units, that consumers are buying into a basket as well.

(Slide 19)

Staying with the Retail business and moving on to our new energy vehicle business vertical, the market opened up as was expected, but the Government, most recently announced the opening of the market on the 1st of February 2025, with the gazette and also the final duty structures and so on. We've had a very strong, healthy pipeline of vehicles, and now we are in the process of processing the orders and opening the letters of credit. The teams are looking at the sort of pricing impacts and how we manage that based on the revised duty structures and engaging with customers to then start commencing the importation and then distribution of vehicles which will start towards the end of this quarter onwards. We have

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already rolled out some of the charging stations within our supermarket network and we have got about 10 outlets installed to date with more in the pipeline.

Leisure industry group

(Slide 20)

Moving on to our Leisure business, as Krishan said, we saw a peak in the month of January, which is the highest we've seen ever for the month of January, slightly lower than the peak that we saw in December 2018 of 253,000, but very healthy recovery. If this trend continues, from what we saw even in December, almost 252,000, which is pretty much in line or even now getting to the territory of being better than the pre-Easter, pre-pandemic levels. Krishan already spoke of the sort of forward bookings and the visibility that we have. So, it's very encouraging to see what's happening on the ground with Leisure in Sri Lanka.

(Slide 21)

In The Maldives as well, the numbers have been quite strong anyway over the last couple of quarters, and that trend has continued with growth over last year in terms of arrivals.

(Slide 22)

I will skip this slide. We've spoken of the India opportunity, and I think how Sri Lanka can take advantage of that in terms of tourism inbound tourism into Sri Lanka from India.

(Slide 23)

So, looking at the numbers in Leisure, in the Colombo Hotels that's Cinnamon Grand and Cinnamon Lakeside where we saw occupancy growth with the type of numbers number of arrivals into the city, but it did come at the cost of a slightly lower ARR, because whilst we have seen the growth in overall numbers, we've seen an increase in the inventory as well in the city, with not just the 'Cinnamon Life' hotel with 687-keys, but a few other properties coming on stream as well. So as a result of that, I think there was a little bit more competition. And whilst overall numbers have grown, I think as we've mentioned before, the key catalyst for the city, will be 'Cinnamon Life' hotel starting the gaming operations as well as some of the traction we are seeing in terms of inquiries and leads at Cinnamon Life converting to, actual sales and occupancy in terms of MICE events. I'll talk to you a little bit later about that. So as a result of that, we did see a slight decline in our EBITDA margins in Colombo Hotels. With Sri Lankan Resorts, we saw occupancy in Q3 increasing slightly against, last year, but the ARR with a very strong increase and as a result of that, EBITDA margin is jumping from 15% to 23%. As you all know, Q4 is the strongest quarter for Leisure. So, the Sri Lankan Resorts performance in Q4 is expected to be better than this and see that momentum continuing with the tourist arrivals. Even Colombo Hotels should see a rebound but particularly in Sri Lankan Resorts, we would expect to see the numbers improving on Q3.

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With Maldives as well, again, Q4 will be the peak season. Against last year, we've seen occupancy and ARRs being more or less in line with a slight improvement in EBITDA margins.

Overall, if you look at our Leisure performance, we've seen excluding Cinnamon Life, a slight decline, and the decline is stemming mainly from the fact that the Maldivian Resorts did see a decline due to the translation impact, as a result of the stronger Rupee where the Rupee appreciated around 10% over last year. On a dollar-to-dollar basis, the Maldivian Resorts actually performed slightly better. So, the decline is in just in terms of the translation in Rupee terms. Colombo Hotels did see a decline due to the reasons I mentioned, and the Sri Lankan Resorts did see an uplift or uptick in terms of its performance, though it wasn't enough to offset the declines as I mentioned, but the Q4 outlook is looking quite positive.

(Slide 24)

With ‘Cinnamon Life’ hotel Sri Lanka, Krishan also mentioned we've seen a very good, positive feedback from customers who have patronized the hotel and the different food and beverage outlets. We've seen good traction in terms of events and conferences, mainly locally. As we've said before, there's always a lag effect in terms of winning, international conferences and international weddings. We have quite strong leads that we are working on, but we expect to see some of those materialise maybe over the next couple of quarters. So, the occupancy itself at ‘Cinnamon Life’ hotel has been quite low in the quarter where initially, we've seen 30, 40, 50 rooms being occupied, and then that's been slowly ramping-up. The outlook for February, the month of February, is looking much better where occupancy, should be close to 20% and as we ramp-up, we hope to see these numbers getting better. So, like I said, as we convert some of the leads that we have for corporate events from overseas, because really we're looking at creating new demand. Whilst we have got a fair number of bookings of local events, I think the needle will really move in terms of getting overseas demand coming in.

The other, key aspect, of course, will be the commencement of gaming operations, and we are, very much on track for opening around mid-August, September, with the gaming operations. The other aspect I just like to touch on which I already mentioned is the impact on the financials of ‘Cinnamon Life’ hotel, and as we have mentioned here on the slide, there is a depreciation and interest expense of around, Rs.2.0 billion that we had recognised in the P&L during the quarter.

The depreciation charge will ramp-up a little further because this is based on the depreciation of the elements that we have opened and whilst the large part of the totality of the integrated complex is open, we do still have some other elements to open like the 113 rooms of the Nuwa Hotel and so on. So, this depreciation charge will increase a little further once we get to full operations, but on the other side and on a more positive note, we will see the ramp-up of revenue as well as rental income kicking in as well.

(Slide 25/26)

Just some images on ‘Cinnamon Life’ hotel Sri Lanka.

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Property industry group

(Slide 27)

On the Property business, we have seen good traction on the sales of apartments and the leads that we have had. This quarter, we saw some sales happening with Cinnamon Life at the apartments and with TRI-ZEN as well as we've completed the project, and with Viman. So, all our three developments have seen a reasonable amount of sales. Of course, we did have the parliamentary elections in November, and then heading into December sometimes, some of the conversions may take a little time, but we are confident that we will see this momentum continue, where particularly with TRI-ZEN and Viman, we have seen a good interest with the completion of TRI-ZEN in particular. With Cinnamon Life, we have actually prioritized collections a little bit. So, we've been offering, attractive rates just to ensure that we do have sales coming in and we get cash collections into the project. So, as we continue over the next couple of quarters, we will continue to do so. And then depending on how the sales momentum is on the remaining 148 units we will look at how we look at our pricing from that point onwards.

Financial Services industry group

(Slide 28)

Lastly, on Financial Services, very strong quarter that we had particularly in the bank. So, I'll talk to you first about that. So over last year, we had a strong growth in performance, driven by loan growth. Net Interest Margin (NIMs) were slightly down naturally with the interest rate environment that we've seen. Overall loan growth has been positive, so that's contributed. Impairment also has been less with net stage three loans being at 1.8% compared with 3.3% last year. So, that also did help, and we did have, a net gain on the disposal of the sovereign bonds, that NTB held. As we have said before, NTB didn't hold a significant portion of, International Sovereign Bonds (ISBs) of the Government, but still based on what they held we did have a net gain. So, that also did help.

In the Insurance business, we saw again, strong double-digit growth in GWPs and that contributed to the growth in profitability as well.

So overall, that's been the performance for the quarter. I'd like to end the presentation now and open up for, the Q&A session. Once again, just to remind you, you may enter any questions that you have on the Q&A tab at the bottom of your screen.

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Q&A Session (responses by both panelists)

City of Dreams Sri Lanka

Question:

What is the status of City of Dreams Sri Lanka and the casino? Are there any changes to the plans from what the Group had outlined before?

Response:

No. There is no change. As I said earlier, the fit out is on track. The fit out is being done by Melco who are investing over a USD 125 million in fitting out and equipping the casino space. And there is no change from what we had indicated earlier, and we are looking at commencement of operations in the third quarter of the current calendar year.

Question:

At what levels of occupancy and room rates is Cinnamon Life expected to break even?

Response:

Unlike a typical hotel, where you would have the rooms and the F&B revenue, and in the city, you have the material banqueting revenue. In this case, in full operations, the hotel includes significant retail space, and, of course, it also includes the casino. So that, distorts or changes the break-even number that you normally see, which, you know, in a in a typical hotel might be an occupancy of about 40% at ARRs of USD100 or so. So, in this case, I don't want to give a figure because there will be so many moving parts, but the required occupancy, and the room rate for breakeven would be less because of the other components of the hotel.

Question:

What is the consolidated impact of the City of Dreams results in the financials?

Response:

I think we did speak fairly extensively on this, at this stage because we are just ramping-up a new property, we did have an EBITDA bleed, with the costs coming in and a slower ramp-up of the hotel operations. So, the Rs.1.5 billion is the negative EBITDA number that we spoke of. So, like I said the margins itself wouldn't really make any sense at this point and as we said the ARRs and occupancy numbers are quite low, so, but I think we have given enough color in terms of the overall numbers, and the run rate of costs that we are seeing, but then it is a question of how quickly we expect occupancy to pick up, and like I did speak of just earlier, it is really the catalyst being getting gaming numbers coming in as well as, of course, the conferencing numbers coming in as well.

Question:

What is the split of depreciation and interest cost from the Rs.2.0 billion impact at Cinnamon Life?

Response:

In terms of depreciation and interest cost. If you look at that number, roughly it would be about half-half, maybe 55-45 depreciation to interest. But like I said earlier, the full depreciation impact has not come in. Most of it is there, but there's still a little bit more as we bring in other elements like the 113-keys of Nuwa. It is also important to remember that the Rupee interest cost of course, because this is a dollar interest loan that we are servicing, the translation of that will depend on the exchange rate, so that number can move a little bit up and down depending on where the exchange rate actually is.

Question:

What are the economics of the relationship with Melco, the gaming facility?

Response:

I think what we have said before is, if you look at the casino rental, we have structured it as a sort of landlord-tenant relationship, and essentially, we will have a fixed and variable rental stemming from the economics of the gaming operations. And as we've outlined before, and this is just to illustrate a number, but I'll get into that. Essentially what we stand to get is a fixed rental and a variable rent that is linked to the EBITDA of the gaming operations or the gaming company which will be run by Melco. So, approximately 50% of the EBITDA would be something we stand to benefit from, and the total rental range that we would expect is around 50% to 55% of the total economics of the gaming venture.

So just to illustrate this, if you are looking at a USD 250 million of GGR or Gross Gaming Revenue at a 40% EBITDA margin, what we said is the EBITDA could be, again this is not guidance, but a USD 100 million and we would get around USD 50 – 55 million as a possible rental. So that's how the rental share would come from us. Yes, there are other components of things like hotel management fees or Nuwa and branding fees, but in the context of the numbers, those are not very material, and we stand to benefit from other aspects of the relationship as well.

Leisure Industry Group Performance

Question:

Is the jump in CapEx at AHPL for this quarter for refurbishments?

Response:

So, I think last time we spoke of some rightsizing that we were doing in the property, and part of that was also, shutting down some restaurants. We relocated some restaurants as well. We moved Cheers from one location to the other. So, there was some CapEx that we incurred, but that rightsizing also was going to help us in terms of our overall operating costs and, ultimately, our profitability.

Question:

What is the future of AHPL and TRAN given that Cinnamon Life is operational? And what is tourism mix (source markets) of KHL's Sri Lankan and the Maldivian segments and AHPL?

Response:

Taking the second question first, the mix, there is a change. If you look at in The Maldives China has recovered. China was by far the largest market into The Maldives prior to COVID. The change we have seen in the mix while China has recovered is that the Indian numbers have also grown significantly into The Maldives compared to five years back. Although in the more recent past, like a year back because of some of the geopolitical tensions, the Indian numbers dipped.

In Sri Lanka, the change in mix is that prior to COVID, China was the second largest source market into Sri Lanka behind India. Today, Russia, in the season, has been the second largest source market with China being, something like number five. The Chinese arrivals numbers are getting better, but still well below the numbers that we saw in, calendar year 2018, where it was the second largest source market. So those are the material shifts we've seen in mix in in Sri Lanka and the Maldives.

On the question on AHPL, our view, yes, Cinnamon Life is operational, and, the Nuwa Hotel, will be operational, from around the time the casino opens, which will be in the third quarter of this calendar year. But our view is given the proposition of 'Cinnamon Life' hotel and City of Dreams Sri Lanka, we expect that arrivals to the country and occupancy in the city will increase considerably, given what we are adding to the city with the property. And with that, occupancy and rates at Cinnamon Grand and Cinnamon Lakeside should also increase. So, we see those two properties benefiting from City of Dreams when it is in full operation. And at the right time, we may even look at refurbishing one or both of the properties. Also, we have said that our exposure to, the hotel segment overall, not just the city properties, but including the resorts and including The Maldives, is now a little distorted with Cinnamon Life in terms of our overall portfolio.

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And in terms of balancing our portfolio, we may look at diluting our exposure to the hotel segment but that is not something that is linked to the opening of Cinnamon Life and any impacts that could have on Cinnamon Grand and Cinnamon Lakeside. In fact, with what Cinnamon Life is bringing to the city, we are positive on the outlook, for the City Hotels.

Macroeconomic crisis in Maldives

Question:

What are the challenges you anticipate on the Leisure portfolio due to the Maldivian financial and political developments?

Response:

Yes. I think the financial, the macroeconomic situation is quite fragile, a little like what we saw in the run up in 2022. While we can't say with any certainty if the macro situation continues to deteriorate, there is the risk of the possibility of higher taxes. The one difference between The Maldives and Sri Lanka is that it is anyway a dollar economy, The Maldives. So, the impacts of steep depreciations, we don't expect to see like what we saw with the crisis in Sri Lanka. There are there is some uncertainty around the macro. It is very fragile and there is the possibility of impacts like higher taxes.

Sri Lankan Resort Hotel performance

Question:

What is the guidance to be given on the outlook for Q4 ARRs and occupancy for the Sri Lankan Resorts?

Response:

We don't typically give guidance, but as I said, bookings are very strong. We've had a very good January, and overall RevPAR or revenue per available room for our Sri Lankan Resorts, we expect will be higher than last year, that is, January, February, and March 2024. And in fact, we think based on bookings at hand that the RevPAR for the quarter will probably be the highest that we have ever seen.

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Consumer Foods Performance

Question:

Does the CSD volume increase consist of exports into the Indian market and what is the current CSD volume exports into India (under the agreement with Reliance) contribution into the total volume?

Response:

As we said before though our exports are actually the concentrate that we export under the franchise arrangement. So, we do not have volumes that we count as whatever that is manufactured there, it is only the concentrate that we export. So, the volume growth that we refer to is actual volume growth that we are seeing in the market here, and that that momentum is something we would expect to see continuing. So, the export volumes like I mentioned, into the Indian market do not get captured. Of course, we do have some other export volumes into different markets where we have actual not just the concentrate the actual product being exported, but those are very small or negligible in the context of the numbers we are talking about.

Question:

The frozen confectionery and CSD volume show encouraging growth despite the adverse weather impacting Q3. Does the Group see the same momentum in the running quarter as well?

Response:

So, as the comment has mentioned, yes there was excessive rains particularly in the first part of the quarter in Q3, but despite that we saw volume growth vis-a-vis last year. Had it not been for that yes, we could have possibly done a little bit more. Q4 generally does not tend to have that type of weather disruption typically, and we are not seeing that type of impact right now. So, the momentum that we are seeing certainly, should continue.

Partnership with Reliance

Question:

How are the sales volumes in India through the Reliance partnership?

Response:

That's not very material at this stage. It's just ramping-up. So, the volumes that they are seeing is very encouraging, but in terms of bottom-line contribution to us and the performance that we are seeing, it is not really material.

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Supermarket Business

Question:

How many stores are to be opened in the next year?

Response:

So, we've looked to add maybe about 10 to 15 outlets in the next year. This year, we will end up with around 7 to 8 new stores by March, and next year we will look to ramp that up a little further.

Question:

What are the cost efficiency improvements done in the Retail Sector and what is the net impact to margins?

Response:

I already spoke of the impact to EBITDA margins and what we've seen as an improvement, part of that, but obviously, not a majority of it part of it is driven by the benefit we are seeing on the electricity tariffs. But there are other productivity improvement initiatives that we have done. And of course, when you see that sort of healthy top line growth, activity growth that we have seen, that also does tend to then help dilute the other fixed cost base, the distribution centre cost and so on, which then does have a flow through which does help improve margins as well. So, it is a combination of couple of things that we have done, that has enabled us to improve margins, and that momentum again, hopefully, should continue.

Question:

What is the contribution of the new outlets and existing outlets for the latest quarter and what is the historical trend?

Response:

Really when we look at same store sales and the growth, a lot of it is coming through the existing outlet because anyway in the last year, we really haven't added too many new outlets.

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BYD Performance

Question:

How would the profit shares be recognised in BYD?

Response:

It's a normal distributor relationship where we will be importing and recognizing a profit on each vehicle and sales of that vehicle.

Question:

What are the revisions or updates to the duty and tariff structures with the opening up of the market? What is the impact on the orders and how it is dealt with?

Response:

It's a little early to comment on the impact on orders. We are now engaging with our principal in the context of the new duties and taxes, to finalise the pricing. It looks as if there will be an impact, but we are working with the principal to minimise that impact compared to the prices we showed at the time we took the reservations. So, we have not gone back to our customers with a final price, so it's too early to comment on the impact on orders but we are working with the principal to minimise that impact.

Bunkering Business

Question:

What are the changes in the competitive dynamics in the bunkering business and the impact to LMS market shares, if any?

Response:

LMS has managed to retain its market share, in fact, increase its market share marginally. So, there hasn't been any impact in terms of market share. There has been increased competition with new players in the market, which has had an impact on pricing. There have also been volatility in exchange rates and in the oil prices over the last few months, which has also impacted the margins of the business. In terms of market share, we have retained or slightly improved our market share despite the increased number of players in the market.

Ports Business

Question:

What is the update on the funding for the West Terminal project?

Response:

As we have said the funding has always been in place, because the financial closure for this project was on the basis of, the funding from the Adani Group being there. So, based on their internal capital management plan we will be able to fund the project. We will be starting operations as we said. Phase one itself will commence in a couple of weeks' time. Of course, phase two will require further funding, and that commitment is very much in place from the Adani Group.

Question:

How does the current port congestion impact SAGT and potential WCT operations?

Response:

I think here as you saw with the volumes that we've seen, despite some of the congestion issues, the demand for, Colombo and transshipment in Colombo has been very strong. The congestion issues are being resolved gradually. So, it's more a question of with WCT coming on stream and having much needed deep-water capacity in the Port of Colombo, the opportunity is there, for Colombo to really grow volumes further, and of course, if you do not have the issues of congestion, I think it will only help to do that much better, but I think despite that we will still see strong growth particularly once more, new deep-water capacity comes into or comes on stream.

Performance of TRI-ZEN

Question:

How much debt do you carry at TRI-ZEN?

Response:

So, we don't consolidate TRI-ZEN, and therefore, the debt of TRI-ZEN is not consolidated in our books. But, yes, the TRI-ZEN project, does still have some debt. When we clear or collect funds from customers as we sort of continue to hand over the remaining units that we have sold, then that net number will come off. But at an operational level, yes, the TRI-ZEN project company will make profits, and particularly in Q4 and heading into next year. We will make profits because the debt levels have come down and will get eliminated very soon once we hand over the rest of the apartments as well, and the rest of the remaining units then will be a direct flow through to translation of profits.

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Question:

Has TRI-ZEN been fully completed and has the total revenue been recognized?

Response:

Yes. The project is completed. Handovers are happening gradually given the quantum or volume of apartments to be handed over. All revenue is not recognised because we have revenue recognition when we hand over units, and of course, there's a remainder of units to be sold as well.

HWIC Debenture Conversion

Question:

What is the impact of the debenture conversion on financials?

Response:

So, as we have said before and as I highlighted through the presentation, we had an impact of around Rs.480 million in Q3, which is the non-cash notional impact that we had on the debenture, and that amount will fall away fully. You won't see the full impact going away because as I mentioned earlier, the debenture was converted on the 24th of January, so you will have that component stay on for that period. If you look at a quarter without the debenture, that Rs.480 million will fall away fully and, of course, we had a more nominal 3% cash interest charge, so that amount also will fall away. So roughly Rs.500 million plus will be what goes off as a result of the conversion.

JKH Capex Focus

Question:

Where will JKH CapEx focus go in the medium to long term?

Response:

As we've said before, we were in a very heavy CapEx cycle over the last couple of years, and our main commitments that were remaining was the completion of, Cinnamon Life and the City of Dreams integrated resort, and most of that is now done. Yes, we got another maybe USD 75 million or more to go, to fund the rest of the project in terms of the financial servicing obligations and so on. With the West Container Terminal, again, our equity contributions around 75% has already gone in. We have around another USD 20 million only to go into the project. The rest of the CapEx that we're really looking at, you won't have anything as significant. Of course, each of the businesses will have their CapEx plans, like, with the supermarkets adding outlets and so on. In the context of the CapEx that we've seen over the last couple of years, that those CapEx items will be very well and easily managed within the cash flow generation of each of those businesses. So, yes, we will have supermarkets adding outlets. Yes, we'll have some capacity expansion with the type of volume growth that we are seeing in the Consumer Foods business with investments in ice cream capability as well as, some expansion of capacity that might be needed in the next year or two in soft drinks. All that will be, like I said, very well managed within the business and the cash flow generation.

Changes with the new Government

Question:

Any changes from the new Government that you are expecting and how it may affect JKH and/or its other listed subsidiaries?

Response:

There is nothing specific that we are expecting, and we've seen with the elections in September and then in the parliamentary election in November, the economic policies in terms of working with the IMF and some of the other reforms that were undertaken after the crisis, we have seen continuity, and there has been no policy change that has had a material impact on any of our businesses, and there is nothing specific that we are expecting going forward either.

Thanks. Sort of coming to a close, I think there are a few more questions to deal with, so I'm just going to pick one or two questions in the interest of time. And apologies if we couldn't cover everything that was posed, but we tried to cover some of the key impacts.

Closing Remarks

I think we're out of time, so apologies once again. I think I've covered most of the question, but there are a few questions remaining.

Thank you very much, for joining, and participating in today's webinar. This will be posted up on our website in a couple of hours for those who wish to watch the recording or who may have missed part of it. Thank you once again for joining us today.