



Amaya Leisure PLC (CONN)

Rs 70.25

BUY

CONN			
Reuters Code	CONN.CM		
Bloomberg Code	CONN.SL		
Share Price LKR	70.25		
Issued Share Capital (Shares)			
Voting	42,029,959		
12 mth High / Low (Rs.)	76.50 / 20.00		
Average Daily Volume (Shares)	34,979		
Market Capitalisation Rs. mn	2,953		
Price Performance (%)			
	1 mth	6 mth	12 mth
ASPI	2.09	30.63	132.78
CONN	6.27	47.69	246.99

Financial Year (Mar)	Net Revenue (Rs. Million)	PAT (Rs. Million)	Earnings to Equity (Rs.)	EPS (Rs.)	EPS Growth (%)	PER (x)	ARR (US \$)	Average Occupancy (%)
2008	360.14	(44.10)	(43.67)	(1.04)	(238.7)	N/A	52.78	46%
2009	391.98	(68.83)	(66.72)	(1.59)	(52.8)	N/A	52.21	45%
2010E	563.76	33.83	32.08	0.76	148.1	92.03	58.77	58%
2011E	858.17	184.50	169.90	4.04	429.6	17.38	73.71	70%
2012E	1,057.37	265.96	246.01	5.85	44.8	12.00	84.77	75%
2013E	1,296.99	357.16	330.89	7.87	34.5	8.92	97.48	80%



Profile

Amaya Leisure PLC (CONN), previously known as Connaissance Holdings Ltd., is the holding company of a chain of hotels located in Hikkaduwa, Kandy and Dambulla through its flagship brand 'Amaya'. The 3 hotels, namely, Amaya Lake, Amaya Hills and Amaya Reef (also known as Hotel Reefcomber PLC), located in Dambulla, Kandy and Hikkaduwa respectively, collectively comprise of a total room capacity of 246.

Hotel Reefcomber PLC (REEF) located on the South Coast of Sri Lanka is a subsidiary of CONN with a total room supply of 54. The group also had a 6.94% stake in The Fortress Resorts PLC, a luxury resort located in Galle but a part of this stake was disposed during 1HFY10.

The group recorded losses since 2008 when tourist arrivals dipped 7% from FY2007 to 494,889 arrivals which consequently led to a restructuring of the group in August 2008. This resulted in investment of its tour division which was once a profit generating unit.

Hotel Operations

Amaya Hills & Amaya Lake

Amaya Hills located midst of the hills of Kandy enjoy a market share of slightly over 8% in the region of Kandy while Amaya Lake, located on a 40 acre sanctuary in the centre of the Cultural Triangle account for

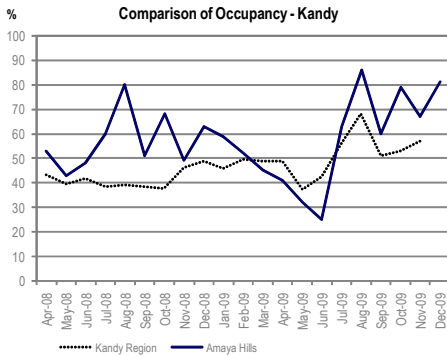
nearly 12% of the room supply in the area. The region suffered a decline in occupancy in 2008 as a result of security concerns in the country along with the global recession which adversely impacted the demand for round trip holidays in Sri Lanka.

Consequent to lower tourist arrivals, the Ancient Cities region comprising Kandy and Dambulla, posted occupancies which hovered around the 35-40% mark during the last 4 years.

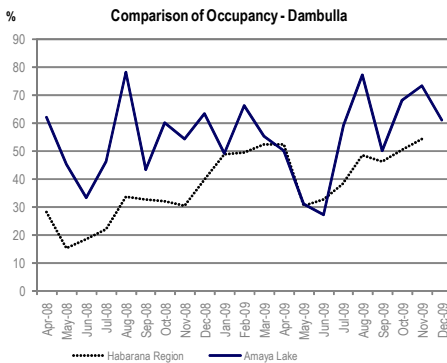
During 2008, Kandy and Dambulla regions recorded occupancies of 44% and 27% respectively. As per the latest statistics available, with the recovery of tourism in the country, the occupancies climbed to 54.2% in Dambulla during November 2009 and 68.2% in Kandy during August 2009. Since the end of the war in May 2009, Amaya Hills recorded an average occupancy of over 70% during the 2HCY10 / 2Q and 3QFY10 while Amaya Lake achieved an occupancy rate of 65% during the same period.

Over the years, as much as 80% of turnover of CONN was accounted for by Amaya Hills and Amaya Lake. Despite heavy price competition among operators to increase room occupancy, CONN maintained its Average Room Rates (ARR) at a minimum of US \$ 50 during FY2009.

	Total Room Supply	Amaya Leisure PLC	Market Share
Kandy Area	1,240	100	8.06%
Habarana / Sigiriya / Dambulla	770	92	11.95%
Ancient Cities	2,582	192	7.44%
South Coast - Upto Galle	3,652	54	1.48%



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Further, during 3QFY2010, Amaya Hills recorded an average room occupancy of 76% along with an ARR of around Rs. 5,500 with December being the best with an occupancy of 81% and an ARR of Rs. 6,089.

Amaya Lake too recorded impressive occupancy rates during 3QFY2010 with average occupancy reaching 67% along with an ARR of Rs. 5,035.

Both hotels are much popular among the Middle Eastern, Indian and European tourists.

Amaya Reef (Hotel Reefcomber PLC)

Amaya Reef, located in on the South Coast of Sri Lanka, witnessed an occupancy rate of around 47% during FY2008 and FY2009 along with an ARR of a little over US \$ 35. The hotel recorded net losses from FY2007 to FY2009 consequent to lower tourist arrivals to the region coupled with inflation which reduced margins.

Despite poor performance during the recent years, the hotel saw a growth in occupancy since July 2009 with with occupancies climbing to 62% in December 2009, the highest recorded in recent years. During 3QFY10, the hotel achieved an average occupancy of 48% while ARR too grew to US \$ 46 per night. REEF's occupancy has remained somewhat below the region's average given the size of its operations compared to other larger hoteliers in the area.

The beach resort located in Hikkaduwa is recognised as one of the best in the area in terms of the facilities offered, services and the sea frontage but has been unable to charge higher rates due to heavy price competition in the area.

The hotel contributes nearly 20% to group turnover while margins are relatively low compared to the other hotels under the Amaya brand.

REEF has seen increased demand from tourists from Germany, Scandinavian countries and Russia.

Group Financial Performance

Although the group has recorded losses since 2008, nearly all hotels excluding REEF have been operationally profitable. Further, the group has suffered from high interest cost due to its relatively large overdraft facility. The group made a loss of Rs. 66 million for FY2009 after a profit on disposal on Property, Plant and Equipment of Rs. 22.7 million.

As per the most recent financial results released, the group returned to profitability with Rs. 12.7 million in earnings to equity for the 1st 9 months of FY10. The growth in tourist arrivals with the beginning of the Winter season benefited the group as earnings reached Rs. 11 million for 3QFY10. However, we believe that 4QFY10 results are likely to be more favourable as the company is currently experiencing higher occupancies in all 3 locations.



Outlook

With the end of a nearly 3 decade long war, the Sri Lankan tourism industry is well poised for a boom. Tourist arrivals into Sri Lanka have seen a remarkable growth despite the global recession, with arrivals growing by 27% during the period June 2009 - February 2010 over the comparative period in 2008/2009. At an average growth of 25% in tourist arrivals, Sri Lanka will reach the milestone of 1 million arrivals in approximately 3 years from now.

With CONN's operations in Kandy and Dambulla having seen an improvement, the company has turned its immediate focus on to refurbishing all hotels under the "Amaya" brand with the hope of bringing its current operations to full capacity. The group is also planning to increase the room supply at its existing properties which we have not factored into our estimates.

The group is expected to construct a new hotel in its property in Wadduwa in May 2010 and is also looking to expand its operations in Nuwara Eliya. However, the incremental revenue and the costs associated with it have not been incorporated into our forecasts.

Given a stagnant room supply in the all 3 regions of its operations atleast during the next 3 years, we believe that there is significant upward potential on room rates. We have assumed a room rate of US \$ 56.93 for Amaya Reef and an average of US \$ 78.43 for Amaya Hill and Lake for FY11E, growing by 15% thereon. This, as our base case scenario coupled with an average occupancy of 70% will yield Rs. 170 million in earnings to equity for FY11E. However, if ARR's fall below our expectations, the group is expected to post Rs. 128 million in earnings for FY11E. The following table depicts the sensitivity of Group Earnings to changes in Average Room Rates.

	2011E			2012E			2013E		
	-9%	Estimated ARR	15%	-9%	Estimated ARR	15%	-9%	Estimated ARR	15%
Average Occupancy	70%	70%	70%	75%	75%	75%	80%	80%	80%
Average Room Rates (US \$) - Hills & Lake	71.30	78.43	90.19	82.00	90.20	103.73	94.29	103.72	119.28
Average Room Rates (US \$) - Reef	51.75	56.93	65.46	59.51	65.46	75.28	68.44	75.28	86.58
Group Net Turnover (Rs. Million)	780.21	858.17	986.81	961.31	1,057.37	1,215.87	1,179.16	1,296.99	1,491.42
Earnings to Equity (Rs. Million)	127.57	169.90	239.70	195.76	246.01	328.93	269.24	330.89	432.60
EPS (Rs.)	3.04	4.04	5.70	4.66	5.85	7.83	6.41	7.87	10.29
PER (x)	23.15	17.38	12.32	15.08	12.00	8.98	10.97	8.92	6.83
EPS Growth (%)	(25)	-	88	(20)	-	68	(19)	-	61

With greater arrivals and increasing demand for round trip holidays in Sri Lanka, we expect an increase in average occupancy in all 3 hotels. We have assumed an occupancy rate of 70%, 75% and 80% for FY11E, FY12E and FY13E respectively as our base case scenario. The sensitivity of Group turnover and earnings to changes in expected occupancies are shown below.

	2011E			2012E			2013E		
	65%	Estimated Occupancy - 70%	75%	70%	Estimated Occupancy - 75%	80%	75%	Estimated Occupancy - 80%	85%
Average Room Rates (US \$) - Hills & Lake	78.43	78.43	78.43	90.19	90.19	90.19	103.72	103.72	103.72
Average Room Rates (US \$) - Reef	56.93	56.93	56.93	65.46	65.46	65.46	75.28	75.28	75.28
Group Net Turnover (Rs. Million)	796.92	858.17	919.43	986.93	1,057.37	1,127.82	1,215.98	1,296.99	1,378.00
Earnings to Equity (Rs. Million)	136.66	169.90	203.14	209.16	246.01	282.87	288.51	330.89	373.27
EPS (Rs.)	3.25	4.04	4.83	4.98	5.85	6.73	6.86	7.87	8.88
PER (x)	21.61	17.38	14.53	14.12	12.00	10.44	10.23	8.92	7.91
EPS Growth (%)	(20)	-	49	(15)	-	35	(13)	-	29



Amid growing demand for tourism in Sri Lanka and stagnant supply of rooms in the short run, we expect CONN to enjoy higher ARR and occupancies in the coming periods. The following table summarises the impact on an increase in ARR as well as occupancy.

	2011E			2012E			2013E		
	Scenario 1	Current	Scenario 2	Scenario 1	Current	Scenario 2	Scenario 1	Current	Scenario 2
Average Occupancy	65%	70%	75%	70%	75%	80%	75%	80%	85%
Average Room Rates (US \$) - Hills & Lake	71.30	78.43	90.19	82.00	90.20	103.73	94.29	103.72	119.28
Average Room Rates (US \$) - Reef	51.75	56.93	65.46	59.51	65.46	75.28	68.44	75.28	86.58
Group Net Turnover (Rs. Million)	724.53	858.19	1,057.25	897.27	1,057.42	1,296.88	1,105.51	1,296.94	1,584.58
Earnings to Equity (Rs. Million)	97.38	169.91	277.93	162.26	246.04	371.31	230.72	330.86	481.34
EPS (Rs.)	2.32	4.04	6.61	3.86	5.85	8.83	5.49	7.87	11.45
PER (x)	30.32	17.38	10.62	18.20	12.00	7.95	12.80	8.92	6.13
EPS Growth (%)	(43)	-	185	(34)	-	129	(30)	-	109

Valuations

Since June 2009, the local tourism industry has seen a huge turnaround which we believe would enable CONN to enjoy Rs. 32 million in earnings to equity for FY10E. However, we expect the full impact of the current increase in demand for tourism to affect the company more favourably in FY2011E and beyond with year round occupancies expected to hit close to 70% on average with an ARR of over US \$ 74.

Further, in the medium to long term, CONN may enter into joint ventures with land rich companies to develop and manage hotels mainly in the former rebel held areas in the North and East. However, neither the costs nor the benefits of these expansions have been taken in estimating future earnings.

Based on the most optimistic scenario, as shown in the above table under Scenario 2, the counter is trading at 11x and 8x FY11E and FY12E earnings respectively. Although our conservative estimates represent higher valuations compared to the market, the counter is currently trading at a discount to the sector. Despite the premium to the market, we believe that the counter exhibits high potential for growth in the medium term while long term earnings growth is likely to be very much dependent on its expansion strategies. Therefore we recommend BUY.



Profit And Loss Account For the Year Ended 31st March	2008	2009	2010E	2011E	2012E	2013E
Net Revenue	360.14	391.98	563.76	858.17	1,057.37	1,296.99
Cost of Sales	(108.55)	(142.26)	(204.30)	(310.99)	(383.18)	(470.37)
Gross Profit	251.58	249.72	359.46	547.18	674.20	826.62
Other Incomes and Gains	28.12	44.87	23.58	27.52	32.88	42.69
Selling and Marketing Expenses	(25.05)	(28.56)	(31.98)	(35.82)	(40.12)	(44.94)
Administration Expenses	(244.42)	(273.02)	(278.48)	(320.25)	(368.29)	(423.54)
Operating Profit	10.23	(6.99)	72.58	218.63	298.66	400.83
Impairment of Goodwill	(27.09)	-	-	-	-	-
Finance cost	(10.51)	(27.06)	(34.78)	(11.91)	(1.08)	(1.00)
Loss from Discontinued Operations	(13.66)	(32.35)	-	-	-	-
Profit / Loss before tax	(41.04)	(66.39)	37.80	206.72	297.58	399.83
Taxation	(3.06)	(2.43)	(3.97)	(22.22)	(31.62)	(42.67)
Profit / Loss after tax	(44.10)	(68.83)	33.83	184.50	265.96	357.16
Minority Interest	(0.43)	(2.11)	1.75	14.60	19.95	26.27
Earnings Attributable to Equity	(43.67)	(66.72)	32.08	169.90	246.01	330.89

Balance Sheet As at 31st March	2008	2009	2010E	2011E	2012E	2013E
ASSETS						
Non Current Assets						
Property Plant & Equipment	1,724.35	1,699.77	1,639.04	1,581.85	1,517.68	1,445.99
Leasehold Property	8.89	8.64	8.39	8.14	7.89	7.65
Intangible Assets	-	-	-	-	-	-
Other Investment	107.06	94.15	115.34	121.70	132.19	140.23
	1,840.30	1,802.56	1,762.77	1,711.69	1,657.77	1,593.86
Current Assets						
Inventories	18.99	18.63	26.79	40.78	50.24	61.63
Trade & Other Receivables	84.73	82.43	117.96	174.83	233.56	287.74
Other Investments	0.46	0.30	0.33	0.35	0.38	1.50
Income Tax Recoverable	7.11	9.22	6.33	6.01	5.95	6.55
Cash & Cash Equivalents	12.95	4.93	20.00	204.63	514.28	939.16
	124.24	115.51	171.41	426.60	804.42	1,296.58
TOTAL ASSETS	1,964.54	1,918.07	1,934.19	2,138.30	2,462.19	2,890.45
EQUITY & LIABILITIES						
Capital & Reserves						
Stated Capital	466.73	466.73	466.73	466.73	466.73	467.73
Reserves	768.97	768.80	768.80	768.80	768.80	768.80
Retained Earnings	173.94	107.39	139.47	309.37	552.84	883.73
	1,409.64	1,342.92	1,375.00	1,544.90	1,788.37	2,120.26
Minority Interest	135.11	133.00	134.75	149.35	169.30	195.57
	1,544.75	1,475.92	1,509.75	1,694.25	1,957.67	2,315.83
Non - Current Liabilities						
Interest bearing borrowings	35.97	19.83	78.22	53.95	30.20	10.20
Deffered tax	108.88	108.53	114.69	119.86	124.77	131.01
Retirement Benefit Obligation	24.19	13.81	16.81	20.26	24.20	29.69
	169.04	142.17	209.72	194.07	179.18	170.90
Current Liabilities						
Trade & Other payables	121.69	112.53	161.61	246.01	303.11	372.09
Dividend payable	0.60	-	-	-	-	-
Income tax payable	1.10	0.47	2.43	3.97	22.22	31.62
Interest bearing borrowings	127.37	186.98	50.67	-	-	-
	250.75	299.98	214.71	249.98	325.34	403.71
TOTAL EQUITY AND LIABILITIES	1,964.54	1,918.07	1,934.19	2,138.30	2,462.18	2,890.45



Cashflow Statement	2008	2009	2010E	2011E	2012E	2013E
For the Year Ended 31st March						
Profit before Tax	(41.04)	(66.39)	37.80	206.72	295.04	399.83
Net Cashflow from Operating Activities	48.96	(24.32)	103.45	294.14	363.36	474.83
Cashflow from Investing Activities						
Purchase of Property, Plant & Equipment	(57.85)	(44.75)	(20.00)	(30.00)	(30.00)	(30.00)
Others	11.64	26.91	0.54	0.04	0.04	0.05
Net cash used in Investing Activities	(46.21)	(17.84)	(19.46)	(29.96)	(29.96)	(29.95)
Cashflow from Financing Activities						
Net borrowings	(21.93)	(30.03)	30.15	(19.85)	(23.75)	(20.00)
Net cash used in Financing Activities	(21.93)	(30.03)	30.15	(19.85)	(23.75)	(20.00)
Net increase in cash & cash equivalents	(19.19)	(72.20)	114.13	244.33	309.65	424.88
Balance at the beginning of the year	(62.45)	(81.63)	(153.83)	(39.70)	204.63	514.28
Balance at the end of the year	(81.63)	(153.83)	(39.70)	204.63	514.28	939.16

