

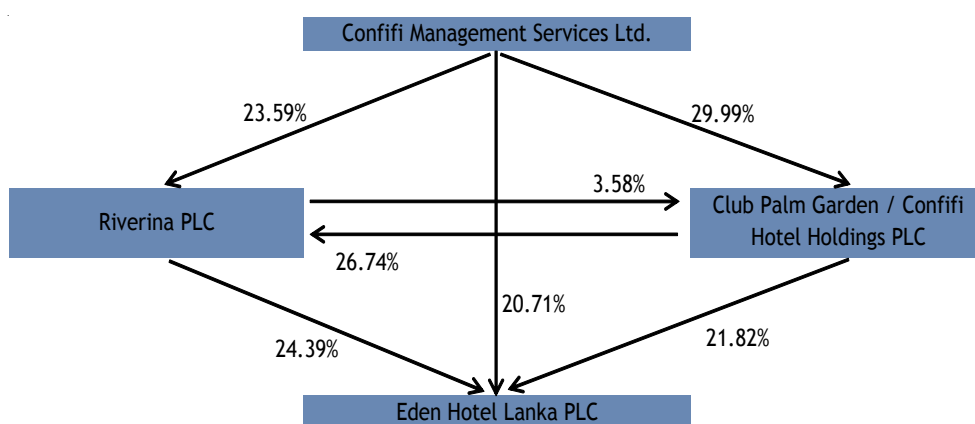


# Confifi Group of Hotels

## Profile

Confifi Group of Hotels comprising of Eden Resort & Spa, Riverina and Club Palm Garden, is one of Sri Lanka's popular beach resort chains. The group is recognized as the single largest operator on the Southern coastal belt with a total room supply of 490. The 3 beach resorts under the Confifi Group - all located on the South West coast of Sri Lanka, account for nearly 13% of room supply on the South Coast up to Galle.

The Confifi Group Hotels have the following group structure.

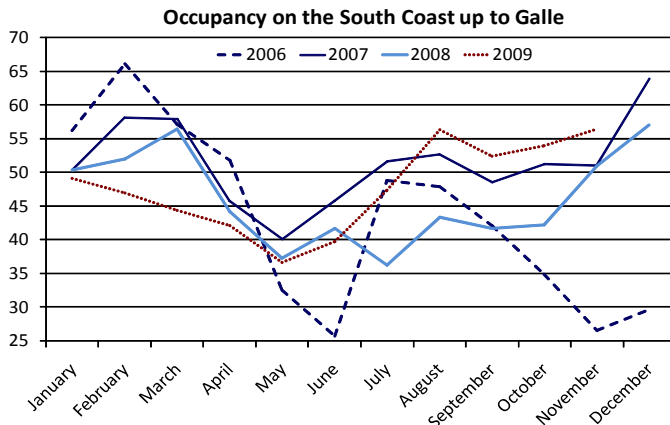


## Tourism on the South Coast

Traditionally, the South Coast attracts a large number of tourists, but the nearly 3 decade long war and the travel advisories issued against travel in Sri Lanka by several countries dampened the industry growth. However, the cessation of hostilities followed by the relaxation/removal of travel advisories has moved in favour of Sri Lanka. Arrivals to the country grew by as much as 20% since June 2009 over the comparative period while the South Coast up to Galle recorded the 2nd highest occupancy of 54% during the first 11 months of CY09, second to only occupancies in the Colombo city, despite globally, the industry facing hardships.

The South West coast of Sri Lanka has been a prime destination during the Winter season which begins in October and during the North East monsoon which occurs generally from December to March. Thus, the South Coast of Sri Lanka generally enjoys high occupancies during the 1st and last 3 months of any calendar year.

Occupancy levels recorded on the South Coast up to Galle has seen a decline since early 2005 when the Tsunami struck the island in December 2004. The following graph shows the trend in occupancies which fell further during the 1HCY09 but went on to recover sharply as hostilities ended, exceeding those high off seasonal occupancies recorded in 2007.



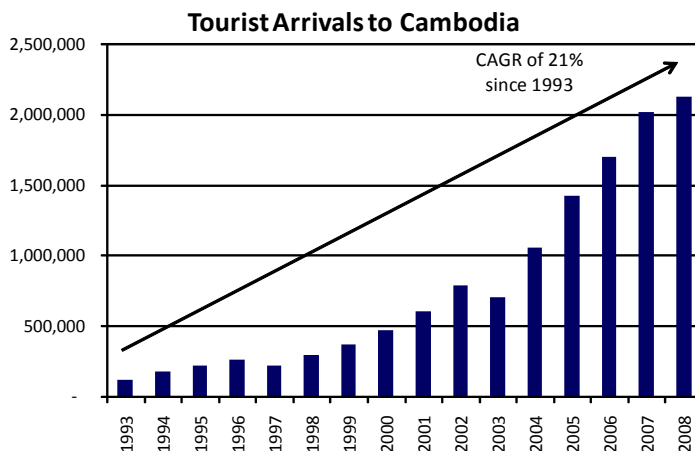
In FY04 during the the ceasefire period, Eden Resorts & Spa (EDEN), Riverina (BHR) and Club Palm Garden (PALM) posted profits of Rs. 96 million, Rs. 143 million and Rs. 117 million respectively. The 3 beach resorts were well poised to reach higher earnings in FY05 but the Tsunami eroded all profits made by the 3 hotels. However, all 3 hotels returned to profitability in FY07 when tourist arrivals to Sri Lanka reached 534,702.

The following table indicates the occupancies enjoyed by the 3 hotels against the average occupancy in the region.

	Average Occupancy rate (%)			
	Up to Galle	Eden	Riverina	Club Palm
FY2007	42.21	52.00	73.67	62.33
FY2008	50.80	54.25	68.50	68.92
FY2009	44.62	41.83	58.83	45.92

### Industry Comparatives

Since the cessation of the Cambodian - Vietnamese war in 1979 and the restoration of the Cambodian monarchy in 1993, the country’s tourism industry witnessed exponential growth with tourist arrivals growing at a CAGR of 21% during the last 15 years. The tourist arrivals which stood at 118,183 in 1993 grew to over 2 million visitors in 2008.



Over the years, the Sri Lankan tourism industry has been severely affected due to the existence of the ethnic war. Although the global economic downturn had a significant impact on the global tourism industry, Sri Lanka was much less affected as it is believed to be one of the cheaper destinations. Tourist arrivals to countries such as India and Maldives which are believed to be much expensive destinations recorded a decline of



3.3% and 4% respectively while Sri Lanka recorded a marginal but encouraging yoy growth of 2%.

End to hostilities in Sri Lanka has given the local tourism industry new life. Tourist arrivals in to Sri Lanka during June to December 09 grew by over 20% over the comparative period in 2008. With most countries removing / relaxing their travel advisories to Sri Lanka and a recovery in the global economy, we expect tourism to pick up in the medium term. Similar to that seen in Cambodia - at a post war yoy growth of 25% in tourist arrivals, we expect Sri Lanka to record 1 million tourists by 2013.

The current room supply along the South coast up to Galle stands at 3,845 and is unlikely to see a growth at least during the next 2 years. Other large operators on the South coast have announced of capacity enhancements but these are unlikely to affect the current stock in the medium term.

### Earnings and Valuations for Confi Group of Hotels

The group is currently focusing on revamping its existing hotels with a view of maximizing returns in the medium term as room supply will come under pressure thereby driving up ARR. These refurbishments are expected to take place in FY11 during the off season period without causing much hindrance to its day to day operations.

The group is also looking at expanding its footprint in the country through the construction of hotel in Kuchchaveli on the East coast of the country and more in the South of Sri Lanka including boutique hotels boasting around 50 to 70 rooms. Further, the group has already submitted a bid for an island in Kalpitiya. Plans are also being drawn up for the construction of residential apartments along the South coast. However, the management is of the view that these plans may take a minimum of 2 to 3 years to materialize as construction of a hotel itself may take nearly 2 years.

The group's current pipeline of projects will require funds and is likely that capital might be raised through its listed entities.

For forecasting purposes we have assumed a conservative occupancy rate of 75%, 80% and 85% for FY11E, FY12E and FY13E respectively for all 3 hotels. The following table shows the sensitivity of the valuations to changes in occupancy rates of the hotels.

Price to Earnings Valuations	2011E			2012E			2013E		
	75% - Current Estimated	80%	85%	80% - Current Estimated	85%	90%	85% - Current Estimated	90%	95%
<b>EDEN - 5 Star</b>									
ARR (US \$)	129.28	129.28	129.28	155.13	155.13	155.13	186.16	186.16	186.16
PER (at a price of Rs. 28.50)	18.86	15.29	12.86	11.90	10.12	8.80	8.01	7.01	6.23
<b>BHR - 4 Star</b>									
ARR (US \$)	104.83	104.83	104.83	125.80	125.80	125.80	150.96	150.96	150.96
PER (at a price of Rs. 89.75)	16.94	16.16	15.46	12.22	11.73	11.28	9.14	8.82	8.51
<b>PALM - 3 Star</b>									
ARR (US \$)	98.28	98.28	98.28	117.94	117.94	117.94	141.52	141.52	141.52
PER (at a price of Rs. 165.00)	19.63	19.11	18.63	13.58	13.26	12.96	9.94	9.74	9.54



The following table shows the sensitivity of the valuations to changes in ARR of the hotels.

	2011E			2012E			2013E		
	Forecasted Rates	10%	15%	Forecasted Rates	10%	15%	Forecasted Rates	10%	15%
<b>EDEN - 5 Star</b>									
ARR (US \$)	129.28	142.20	148.67	155.13	170.65	178.40	186.16	204.77	214.08
Year round occupancy (%)	75%	75%	75%	80%	80%	80%	85%	85%	85%
PER (at a price of Rs. 28.50)	18.86	13.97	12.37	11.90	9.28	8.36	8.01	6.45	5.87
<b>BHR - 4 Star</b>									
ARR (US \$)	104.83	115.31	120.55	125.80	138.38	144.67	150.96	166.06	173.60
Year round occupancy (%)	75%	75%	75%	80%	80%	80%	85%	85%	85%
PER (at a price of Rs. 89.75)	16.94	15.80	15.29	12.22	11.46	11.11	9.14	8.60	8.35
<b>PALM - 3 Star</b>									
ARR (US \$)	98.28	108.11	113.02	117.94	129.73	135.63	141.52	155.68	162.75
Year round occupancy (%)	75%	75%	75%	80%	80%	80%	85%	85%	85%
PER (at a price of Rs. 165.00)	19.63	18.87	18.51	13.58	13.08	12.84	9.94	9.60	9.44

The following table illustrates the impact of an increase in ARR along with an increase in room occupancy on hotel earnings and their valuations.

Price to Earnings Valuations	2011E			2012E			2013E		
	75% - Current Estimated	80%	85%	80% - Current Estimated	85%	90%	85% - Current Estimated	90%	95%
<b>EDEN - 5 Star</b>									
ARR (US \$)	129.28	142.20	148.67	155.13	170.65	178.40	186.16	204.77	214.08
Gross Revenue (Rs. Million)	739.74	851.18	934.80	929.46	1,068.38	1,171.23	1,166.44	1,339.26	1,465.82
PAT (Rs. Million)	79.79	128.15	164.44	126.40	186.69	231.32	187.86	262.85	317.77
EPS (Rs.)	1.51	2.43	3.11	2.39	3.54	4.38	3.56	4.98	6.02
PER at a price of Rs. 28.50	18.86	11.74	9.15	11.90	8.06	6.51	8.01	5.72	4.74
<b>BHR - 4 Star</b>									
ARR (US \$)	104.83	115.31	120.55	125.80	138.38	144.67	150.96	166.06	173.60
Gross Revenue (Rs. Million)	718.37	828.17	910.53	908.51	1,045.38	1,146.77	1,146.16	1,316.53	1,441.18
ARR (US \$) - EDEN	129.28	142.20	148.67	155.13	170.65	178.40	186.16	204.77	214.08
Earnings from Associate - EDEN	17.83	29.63	38.48	29.20	43.91	54.79	44.19	62.48	75.88
PAT (Rs. Million) - BHR	75.14	95.12	110.11	104.18	129.09	147.54	139.20	170.20	192.89
PAT (Rs. Million) - BHR without a change in associate earnings	75.14	84.51	91.53	104.18	115.86	124.51	139.20	153.74	164.37
EPS (Rs.)	5.30	6.71	7.76	7.35	9.10	10.40	9.82	12.00	13.60
PER at a price of Rs. 89.75	16.94	13.38	11.56	12.22	9.86	8.63	9.14	7.48	6.60
<b>PALM - 3 Star</b>									
ARR (US \$) - PALM	98.28	108.11	113.02	117.94	129.73	135.63	141.52	155.68	162.75
Gross Revenue (Rs. Million)	433.16	508.25	564.54	554.44	648.00	717.33	706.91	823.37	908.58
ARR (US \$) - EDEN	129.28	142.20	148.67	155.13	170.65	178.40	186.16	204.77	214.08
Earnings from Associate - EDEN	15.96	26.51	34.43	26.13	39.28	49.02	39.54	55.90	67.88
ARR (US \$) - BHR	104.83	115.31	120.55	125.80	138.38	144.67	150.96	166.06	173.60
Earnings from Associate - BHR	18.19	23.54	27.54	24.06	30.72	35.66	33.43	41.71	47.78
PAT (Rs. Million) - PALM	60.52	79.07	92.98	87.50	110.96	128.32	119.48	148.66	170.02
PAT (Rs. Million) - PALM without a change in associate earnings	60.52	64.76	67.94	87.50	93.12	97.29	119.48	126.47	131.59
EPS (Rs.)	8.41	10.98	12.91	12.15	15.41	17.82	16.59	20.65	23.61
PER at a price of Rs. 165.00	19.63	15.03	12.78	13.58	10.71	9.26	9.94	7.99	6.99



Based on the above valuations, among the 3 hotels, EDEN is the most attractive at 19x and 12x FY11E and FY12E earnings respectively. As most of the Western countries recover from recession, we believe that EDEN will be able to command higher premium on its ARR, posting higher earnings than those estimated above. Further, the entire group of hotels benefit largely from its strong marketing network abroad.

Based on the current estimated forecast for the 3 years, all 3 hotels are currently priced slightly higher than market valuations but lower than the leisure sector valuations. However, we believe that such a premium is warranted given the long term potential growth in the leisure sector as a whole. Therefore, we recommend BUY.





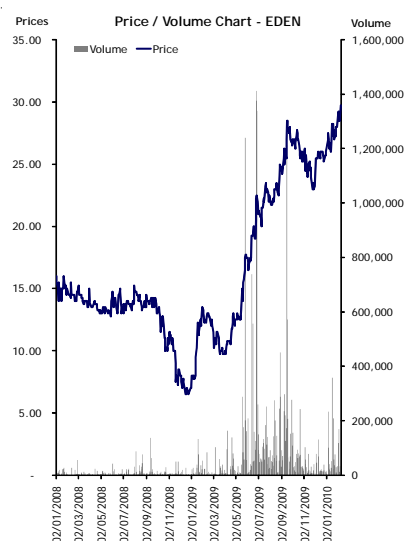
# Eden Hotel Lanka PLC (EDEN)

Rs 28.50

BUY

EDEN				Financial Year	Revenue (Rs. Million)	PAT (Rs. Million)	Earnings to Equity * (Rs.)	EPS (Rs.)	EPS Growth (%)	PER (x)	Price / Book Value (x)
Reuters Code	EDEN.CM										
Bloomberg Code	EDEN.SL			2008	479.83	55.10	42.77	0.81	141.8	35.18	1.52
Share Price LKR	28.50			2009	311.32	(26.85)	(40.18)	(0.76)	(194.0)	N/A	1.58
Issued Share Capital (Shares)				2010E	530.89	14.40	1.06	0.02	102.6	N/A	1.58
Voting	52,800,000			2011E	739.74	79.79	73.12	1.38	6,786.2	20.58	1.52
12 mth High/Low (Rs.)	30.00 / 9.50			2012E	929.46	126.40	119.73	2.27	63.7	12.57	1.35
Average Daily Volume (Shares)	98,318			2013E	1,166.44	187.86	181.19	3.43	51.3	8.31	1.16
Market Capitalisation Rs. mn	1,505										
Price Performance (%)											
	1 mth	6 mth	12 mth								
ASPI	7.78	50.21	114.59								
EDEN	13.33	33.71	142.86								

\* After Preference Dividend



	Average Occupancy rate (%)	
	Up to Galle	Eden
FY2007	42.21	52.00
FY2008	50.80	54.25
FY2009	44.62	41.83

## Profile

Eden Hotel Lanka PLC (EDEN) is a 5 star resort hotel located in Beruwela on the South West coast. The hotel owns and operates 158 rooms on a 979 perches property. EDEN is jointly owned by Riverina Hotel PLC (BHR), Confi Hotel Holdings PLC (PALM) and Confi Management Services Ltd. with associate stakes of 24.39%, 21.82% and 20.71% respectively.

In FY05, the hotel underwent a substantial 3 month refurbishment programme costing the company approximately Rs. 186 million and it re-opened on 1st of August 2004. However, within 4 months of the re-opening, the hotel had to be closed for renovations as the hotel was damaged by the Tsunami. At the time of closure in December 2004, the hotel was enjoying 100% occupancy and the bookings for 1QCY05/4QFY05 were equally promising.

In more recent years, lower tourist arrivals and occupancies coupled together with severe price competition among operators in the region resulted in the company recording a loss of Rs. 27 million for FY2009. However, in FY07 and FY08 despite the decline in arrivals, the company recorded profits amounting to Rs. 18 million and Rs. 55 million respectively due in large to an adjustment in prices as EDEN was repositioned to cater the up-market clients.

## Hotel Operations

The hotel, post refurbishment in 2005 after the Tsunami, has a total room capacity of 158 along with 2 restaurants and a Spa with

facilities including steam rooms, saunas and open air spa pool and 13 treatment rooms.

Over the years, most operators in the region undertook significant rate cuts to increase occupancy rates but guest arrivals failed to react as anticipated, resulting in both lower occupancy and lower revenues. EDEN, in FY09 saw a 35% decline in revenue from the previous year as occupancies dipped drastically to 41.83% from 54.25% in FY08. This was a result of foreign tour operators withdrawing their operations in Sri Lanka due to the global recession. Many tour operators in Europe and UK began to offer short haul destinations within those countries, thereby discouraging long haul destinations. Further, the increasing cost of operations as a result of double digit inflation in the economy resulted in the hotel recording an operating loss of Rs. 53 million.

Although occupancy rates remained low, as per our estimates EDEN recorded an Average Room Rate (ARR) of around US \$ 83 for FY09 and US \$ 105 for FY08. Despite the 20% reduction in ARR, room nights fell further by around 23%, resulting in a fall in accommodation revenue.

UK, Germany and Eastern Europe continued to be the top 3 countries in terms of guest arrivals to EDEN. The global recession as well as travel advisories from UK had a serious impact on the hotel's operations.



Accommodation sales account for nearly 75% of the hotel's gross revenue while outlet sales have also been a significant contributor with a share of 24% of revenue. The hotel pays approximately 14% of its gross turnover as VAT and Tourism Development Levy to the Government of Sri Lanka while 8% of gross revenue amounts for Service Charges.

During FY09, the hotel took a beating on its gross margins as double digit inflation increased cost of sales, resulting in a gross margin (net of sales taxes) of 71% in FY09 compared to 77% in FY07. However, high interest rate environment supported its other income growth as interest on short term investments rose to Rs. 15 million in FY09.

The hotel, serving a large upmarket clientele has seen significant growth in arrivals with the beginning of the Winter season compared to the previous year although much of its clientele is still recovering from the global recession.

### Outlook, Earnings and Valuations

The hotel, serving a large upmarket clientele has seen significant growth in arrivals with the beginning of the Winter season compared to the previous year although much of its clientele is still recovering from the global recession. We expect the growth in demand in Winter 2010 to be much stronger as most economies recover. EDEN is expected to benefit further from its strong marketing network spread in the Western countries.

For forecasting purposes, we have conservatively assumed an occupancy level of around 75% for FY11E on an ARR of nearly US \$ 129. However, given the lack of room supply in the South West Coast atleast for the next 2 years we believe that there is great upward potential on room rates.

The company so far has not formally announced of its future expansions or estimated the capital requirement for its projects. Therefore, we have assumed only an annual capital expenditure of Rs. 20 million for the next 3 years. EDEN is currently a low geared company with strong cashflows expected during the next 3 years. Thus, the company has greater flexibility in deciding over the source of funding for its projects.

The following tables depict the sensitivity of hotel earnings to changes in occupancy rates. If occupied room nights increase by 13% in FY11E (reach 85% occupancy from 75%) on an assumed ARR of US \$ 129, then EDEN's earnings are likely to grow by 47% over the current estimated earnings of Rs. 80 million.

	2011E			2012E			2013E		
	75% - Current Estimated	80%	85%	80% - Current Estimated	85%	90%	85% - Current Estimated	90%	95%
Average Room Rate (USD - Assumed)	129.28	129.28	129.28	155.13	155.13	155.13	186.16	186.16	186.16
Gross Revenue (Rs. Million)	739.74	782.61	825.47	929.46	980.90	1,032.34	1,166.44	1,228.17	1,289.90
<b>Growth in Revenue (%)</b>	-	6%	12%	-	6%	11%	-	5%	11%
Earnings (Rs. Million)	79.79	98.39	116.99	126.40	148.72	171.05	187.86	214.64	241.43
<b>Growth in Earnings (%)</b>	-	23%	47%	-	18%	35%	-	14%	29%
<b>EPS (Rs.)</b>	<b>1.51</b>	<b>1.86</b>	<b>2.22</b>	<b>2.39</b>	<b>2.82</b>	<b>3.24</b>	<b>3.56</b>	<b>4.07</b>	<b>4.57</b>
<b>P/E (x) at Rs. 28.50</b>	<b>18.86</b>	<b>15.29</b>	<b>12.86</b>	<b>11.90</b>	<b>10.12</b>	<b>8.80</b>	<b>8.01</b>	<b>7.01</b>	<b>6.23</b>

During the next 3 years, EDEN's earnings will very much depend upon ARR charged as occupancy rates are expected to increase given limited supply of rooms in the region. The following table illustrates the sensitivity of the hotel's earnings to increases in ARR.



	2011E			2012E			2013E		
	Forecasted Rates	10%	15%	Forecasted Rates	10%	15%	Forecasted Rates	10%	15%
Average Room Rate (USD - Assumed)	129.28	142.20	148.67	155.13	170.65	178.40	186.16	204.77	214.08
Assumed Occupancy rates (%)	75%	75%	75%	80%	80%	80%	85%	85%	85%
Gross Revenue (Rs. Million)	739.74	804.02	836.20	929.46	1,011.79	1,052.91	1,166.44	1,271.36	1,323.85
<i>Growth in Revenue (%)</i>	-	9%	13%	-	9%	13%	-	9%	13%
Earnings (Rs. Million)	79.79	107.69	121.65	126.40	162.13	179.97	187.86	233.39	256.16
<i>Growth in Earnings (%)</i>	-	35%	52%	-	28%	42%	-	24%	36%
<i>EPS (Rs.)</i>	1.51	2.04	2.30	2.39	3.07	3.41	3.56	4.42	4.85
<i>P/E (x) at Rs. 28.50</i>	18.86	13.97	12.37	11.90	9.28	8.36	8.01	6.45	5.87

The following table depicts the most optimistic scenario of an increase in ARR as well as an increase in occupancy and their combined impact on EDEN's earnings.

Price to Earnings Valuations	2011E			2012E			2013E		
	75% - Current Estimated	80%	85%	80% - Current Estimated	85%	90%	85% - Current Estimated	90%	95%
<b>EDEN - 5 Star</b>									
<i>ARR (US \$)</i>	129.28	142.20	148.67	155.13	170.65	178.40	186.16	204.77	214.08
Gross Revenue (Rs. Million)	739.74	851.18	934.80	929.46	1,068.38	1,171.23	1,166.44	1,339.26	1,465.82
PAT (Rs. Million)	79.79	128.15	164.44	126.40	186.69	231.32	187.86	262.85	317.77
EPS (Rs.)	1.51	2.43	3.11	2.39	3.54	4.38	3.56	4.98	6.02
<i>PER at a price of Rs. 28.50</i>	18.86	11.74	9.15	11.90	8.06	6.51	8.01	5.72	4.74

At the current estimated rates on occupancy and ARR, we expect EDEN to post Rs. 80 million and Rs. 126 million in earnings in FY11E and FY12E respectively. At the most optimistic scenario where EDEN enjoys 85% occupancy along with a 15% increase in ARR, we expect the hotel to post Rs. 164 million in earnings for FY11E.

At a price of Rs. 28.50, based on conservative estimates, the counter currently trades at a P/E multiple of 19x and 12x FY11E and FY12E earnings respectively. Although the counter is trading at a premium to the market, we believe that such a premium is justifiable as the hotel stands to gain heavily from the revival in the local tourism industry along with a global economic recovery. Therefore, we recommend **BUY**.



Profit and Loss Statement (Rs. Mn)							
For the year ended 31st March							
	FY2007	FY2008	FY2009	FY2010E	FY2011E	FY2012E	FY2013E
Occupancy Rate (%)	52%	54%	42%	62%	75%	80%	85%
Gross Revenue	423.8	479.8	311.3	530.9	739.7	929.5	1,166.4
Net Revenue	332.2	376.0	245.3	419.4	584.4	734.3	921.5
Cost of Sales	76.7	95.2	71.2	136.4	197.9	253.4	323.0
<b>Gross Profit</b>	<b>255.6</b>	<b>280.8</b>	<b>174.1</b>	<b>283.0</b>	<b>386.4</b>	<b>480.9</b>	<b>598.4</b>
Other Operating Income	9.5	11.7	13.7	11.9	9.6	7.9	6.6
Marketing Expenses	(9.1)	(9.0)	(8.2)	(9.0)	(10.4)	(11.9)	(13.7)
Staff and administration Expenses	(211.3)	(221.2)	(216.9)	(249.5)	(286.9)	(329.9)	(379.4)
Finance Expenses	(22.1)	(9.6)	(9.0)	(20.5)	(10.1)	(6.5)	(3.2)
<b>Profit / (Loss) before Taxation</b>	<b>22.5</b>	<b>52.8</b>	<b>(46.3)</b>	<b>16.0</b>	<b>88.7</b>	<b>140.4</b>	<b>208.7</b>
Taxation	(4.8)	2.3	19.5	(1.6)	(8.9)	(14.0)	(20.9)
<b>Profit / (Loss) after Taxation</b>	<b>17.7</b>	<b>55.1</b>	<b>(26.9)</b>	<b>14.4</b>	<b>79.8</b>	<b>126.4</b>	<b>187.9</b>

Balance Sheet (Rs. Mn)							
As at 31st March							
	FY2007	FY2008	FY2009	FY2010E	FY2011E	FY2012E	FY2013E
<b>ASSETS</b>							
<b>Non Current Assets</b>							
Property, Plant and Equipment	1,023.2	990.7	964.6	939.6	925.5	911.9	898.8
Others	0.4	0.4	7.1	6.8	6.5	6.2	5.9
	<b>1,023.6</b>	<b>991.1</b>	<b>971.7</b>	<b>946.4</b>	<b>932.0</b>	<b>918.1</b>	<b>904.7</b>
<b>Current Assets</b>							
Inventories	16.5	17.9	16.2	27.6	38.4	48.3	60.6
Trade and other receivables	68.6	89.7	56.2	95.9	133.6	167.8	210.6
Amounts due from related companies	4.4	0.5	1.4	0.5	0.5	0.4	0.4
Cash and cash equivalents	115.3	138.3	71.8	65.0	90.6	198.3	374.2
	<b>204.7</b>	<b>246.3</b>	<b>145.6</b>	<b>188.9</b>	<b>263.1</b>	<b>414.8</b>	<b>645.8</b>
<b>Total Assets</b>	<b>1,228.3</b>	<b>1,237.5</b>	<b>1,117.3</b>	<b>1,135.3</b>	<b>1,195.1</b>	<b>1,332.9</b>	<b>1,550.6</b>
<b>EQUITY &amp; LIABILITIES</b>							
<b>Capital and Reserves</b>							
Stated Capital	628.0	594.7	594.7	594.7	561.3	561.3	561.3
Revaluation Reserve	481.4	473.6	465.5	465.5	465.5	465.5	465.5
Retained earnings	(127.3)	(76.7)	(108.8)	(107.8)	(34.6)	85.1	266.3
	<b>982.1</b>	<b>991.6</b>	<b>951.4</b>	<b>952.4</b>	<b>992.2</b>	<b>1,112.0</b>	<b>1,293.1</b>
<b>Non Current Liabilities</b>							
Interest bearing borrowings	68.9	56.7	57.5	38.4	23.4	8.4	0.4
Deferred Taxation	48.1	38.9	21.3	20.3	20.4	20.5	20.6
Others	3.4	5.3	7.9	8.9	10.1	11.5	13.2
	<b>120.3</b>	<b>100.9</b>	<b>86.8</b>	<b>67.6</b>	<b>53.9</b>	<b>40.4</b>	<b>34.2</b>
<b>Current Liabilities</b>							
Trade and other payables	38.9	49.7	34.6	66.2	96.1	123.0	156.8
Provision for breakages	9.6	10.7	10.4	12.4	14.4	16.4	18.4
Interest bearing borrowings	27.0	24.5	5.9	10.0	10.0	10.0	10.0
Bank overdraft	11.3	41.8	13.3	12.0	12.0	12.0	12.0
Others	39.1	18.3	14.9	14.6	16.4	19.1	26.0
	<b>125.9</b>	<b>145.0</b>	<b>79.1</b>	<b>115.2</b>	<b>148.9</b>	<b>180.5</b>	<b>223.2</b>
<b>TOTAL EQUITY &amp; LIABILITIES</b>	<b>1,228.3</b>	<b>1,237.5</b>	<b>1,117.3</b>	<b>1,135.3</b>	<b>1,195.1</b>	<b>1,332.9</b>	<b>1,550.6</b>



Cashflow Statement (Rs. Mn) For the year ended 31st March	FY2007	FY2008	FY2009	FY2010E	FY2011E	FY2012E	FY2013E
Profit / (Loss) before Taxation	22.5	52.8	(46.3)	16.0	88.7	140.4	208.7
Net cashflow from Operating Activities	85.7	73.0	(15.6)	19.8	96.6	144.0	204.1
<b>Cashflow from Investing Activities</b>							
Acquisition of Property, Plant and Equipment	(4.8)	(5.1)	(9.8)	(10.0)	(20.0)	(20.0)	(20.0)
Interest income	5.6	11.2	13.7	11.9	9.6	7.9	6.6
Redemption of Preference shares	-	(33.3)	-	-	(33.3)	-	-
Others	1.1	-	-	-	-	-	-
Net cash used in Investing Activities	1.9	(27.3)	3.9	1.9	(43.7)	(12.1)	(13.4)
<b>Cashflow from Financing Activities</b>							
Repayment of interest bearing borrowings	(44.2)	(14.7)	(17.7)	(15.0)	(15.0)	(15.0)	(8.0)
Preference dividend payable	-	(38.5)	(8.4)	(12.0)	(12.0)	(9.0)	(6.5)
Lease Rental paid	-	-	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Net cash used in Financing Activities	(44.2)	(53.1)	(26.4)	(27.2)	(27.2)	(24.2)	(14.7)
Net increase in cash & cash equivalents	43.4	(7.5)	(38.0)	(5.5)	25.6	107.6	175.9
Balance at the beginning of the year	60.6	104.0	96.6	58.5	53.0	78.6	186.3
Balance at the end of the year	104.0	96.6	58.5	53.0	78.6	186.3	362.2





# Riverina Hotel PLC (BHR)

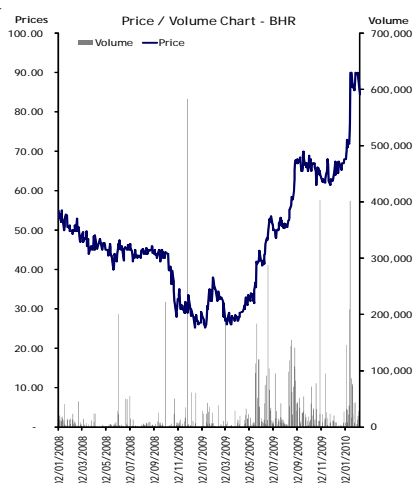
Rs 89.75

BUY

BHR			
Reuters Code	BHR.CM		
Bloomberg Code	BHR.SL		
Share Price LKR	89.75		
Issued Share Capital (Shares)			
Voting	14,181,699		
12 mth High/Low (Rs.)	98.00 / 26.00		
Average Daily Volume (Shares)	29,993		
Market Capitalisation Rs. mn	1,273		
Price Performance (%)			
	1 mth	6 mth	12 mth
ASPI	7.78	50.21	114.59
BHR	17.36	60.95	164.06

Financial Year	Revenue (Rs. Million)	PAT (Rs. Million)	EPS (Rs.)	EPS Growth (%)	PER (x)	Price / Book Value (x)
2008	446.33	39.56	2.79	20.2	32.17	1.06
2009 *	341.96	(57.31)	(4.04)	(244.9)	N/A	1.10
2010E	462.01	(14.58)	(1.03)	74.6	N/A	1.12
2011E	718.37	75.14	5.30	615.4	16.94	1.06
2012E	908.51	104.18	7.35	38.7	12.22	0.98
2013E	1,146.16	139.20	9.82	33.6	9.14	0.90

\* 2009 PAT excludes the capital gain on disposal of an associate



	Average Occupancy rate (%)	
	Up to Galle	Riverina
FY2007	42.21	73.67
FY2008	50.80	68.50
FY2009	44.62	58.83

## Profile

The four star Riverina Hotel PLC (BHR) is the largest resort hotel on the South West Coast and comprises of 192 rooms on a land extent of 1,711 perches. BHR's ownership is shared among Confifi Hotel Holdings PLC (PALM) and Confifi Management Services Ltd. through associate stakes of 26.74% and 23.59% respectively.

The hotel holds a 24.39% stake in Eden Hotel Lanka PLC (EDEN).

BHR underwent a refurbishment programme during May to October 2004 costing Rs. 189 million and re-opened on 1st November 2004. The Tsunami which struck the coastal belt in December 2004 damaged the ground floor of the hotel costing the company in terms of both lost revenue and renovation cost. The hotel was closed for refurbishment and was re-opened in August 2005.

BHR being the largest operator in the South West coast suffered badly in FY09 with losses amounting to Rs. 44 million compared to a profit of Rs. 40 million in FY08 as tourist arrivals declined.

## Hotel Operations

In addition to the 192 rooms, the hotel also possesses 3 conference halls, each with an ability to host up to 300 guests in a theatre style seating along with 3 restaurants and 3 bars.

BHR was also under heavy pressure from

other operators in the region who lowered room rates to improve occupancy. The consequent reduction in rates resulted in BHR's ARR dropping to approximately US \$ 58 (as per JKSB estimates) in FY09 from US \$ 67 in FY08. Average occupancy was recorded at 59% in FY09 compared to FY07 and FY08 where BHR achieved over 65% occupancy. 13% decline in ARR coupled together with around 15% dip in occupied room nights led to nearly 20% reduction in accommodation revenue in FY09.

Despite fall in occupancies yoy, the hotel outperformed the industry during the last 3 years. UK, Germany and Eastern Europe continued to bring in the largest number of guests for BHR.

In FY09, Accommodation sales accounted for nearly 80% of gross revenue while outlet sales amounting to Rs. 45 million contributed 13% to gross turnover. BHR paid nearly 14% of group revenue as VAT and Tourism Development Levy while 7% of gross revenue was incurred as Service charges. High inflation that prevailed in the economy in FY09 reduced the hotels gross margins (net of sales taxes) to 59% from 67% and 63% in FY07 and FY08 respectively.

The gradual decline in both ARR and occupancy led to a drastic decline in operating profit (excluding associate earnings from EDEN) from a profit of Rs. 45 million in FY07 and Rs. 27 million in FY08 to a loss of Rs. 27 million in FY09.



During FY09, the company disposed its associate stake of 21.7% in Confifi Plantations (Pvt) Ltd. at a price of Rs. 22 million, recording a gain on disposal of Rs. 13 million.

### Outlook, Earnings and Valuations

Since the cessation of hostilities in the country, the hotel has seen a growth in demand although still at relatively low ARR. According to the management, the hotel is currently enjoying high occupancy with the start of the Winter season.

BHR is also a low geared company with a debt to equity ratio of less than 10%. The hotel is also expected to be net cash positive during the next 3 years which can be allocated for its future expansion projects.

BHR, the 4 star class hotel of the Confifi Group of Hotels is likely to undergo small scale refurbishments in the coming period ahead of the next season. The costs of these refurbishments have not yet been identified by the management, However, for forecasting purposes, we have allocated Rs. 15 million per annum for the next 3 years as capital expenditure.

The hotel currently has unutilized land in its current premises and is likely to be used in the medium to long term to expand the room supply. The revenue generated from this expansion and the costs associated with it have not been included in our forecasts. Further, the management ruled out any possibility of upgrading the hotel to a 5 star – similar to that of EDEN.

BHR is also a low geared company with a debt to equity ratio of less than 10%. The hotel is also expected to be net cash positive during the next 3 years which can be allocated for its future expansion projects.

We have assumed a conservative ARR of US \$ 105 in FY11E which is assumed to grow yoy at a rate of 20%. Further, occupancy levels have been estimated at 75% in FY11E and 80% in FY12E. However, we feel that a yoy growth of 20% in ARR may be conservative give the constraint on room supply.

The following tables depict the sensitivity of the hotel's earnings on changes in occupancy rates. An increase in occupied room nights by around 13% (increase of occupancy rate to 85% from 75%) is likely to result in a 10% growth in earnings to equity.

	2011E			2012E			2013E		
	75% - Current Estimated	80%	85%	80% - Current Estimated	85%	90%	85% - Current Estimated	90%	95%
Average Room Rate (USD - Assumed)	104.83	104.83	104.83	125.80	125.80	125.80	150.96	150.96	150.96
Gross Revenue (Rs. Million)	718.37	760.62	802.86	908.51	959.20	1,009.89	1,146.16	1,206.99	1,267.82
<i>Growth in Revenue (%)</i>	-	6%	12%	-	6%	11%	-	5%	11%
Earnings (Rs. Million)	75.14	78.74	82.35	104.18	108.51	112.83	139.20	144.39	149.58
<i>Growth in Earnings (%)</i>	-	5%	10%	-	4%	8%	-	4%	7%
<i>EPS (Rs.)</i>	<i>5.30</i>	<i>5.55</i>	<i>5.81</i>	<i>7.35</i>	<i>7.65</i>	<i>7.96</i>	<i>9.82</i>	<i>10.18</i>	<i>10.55</i>
<i>P/E (x) at Rs. 89.75</i>	<i>16.94</i>	<i>16.16</i>	<i>15.46</i>	<i>12.22</i>	<i>11.73</i>	<i>11.28</i>	<i>9.14</i>	<i>8.82</i>	<i>8.51</i>

The decline in tourist arrivals resulted in a downward adjustment of ARR among the operators in the region. BHR is expected to undertake an upward revision of its rates in the coming period while benefiting from a growth in occupancy. The following table indicates the sensitivity of hotel earnings to changes in ARR.



	2011E			2012E			2013E		
	Forecasted Rates	10%	15%	Forecasted Rates	10%	15%	Forecasted Rates	10%	15%
Average Room Rate (USD - Assumed)	104.83	115.31	120.55	125.80	138.38	144.67	150.96	166.06	173.60
Assumed Occupancy rates (%)	75%	75%	75%	80%	80%	80%	85%	85%	85%
Gross Revenue (Rs. Million)	718.37	781.71	813.38	908.51	989.62	1,030.18	1,146.16	1,249.62	1,301.27
<b>Growth in Revenue (%)</b>	-	<b>9%</b>	<b>13%</b>	-	<b>9%</b>	<b>13%</b>	-	<b>9%</b>	<b>14%</b>
Earnings (Rs. Million)	75.14	80.54	83.24	104.18	111.10	114.56	139.20	148.03	152.43
<b>Growth in Earnings (%)</b>	-	<b>7%</b>	<b>11%</b>	-	<b>7%</b>	<b>10%</b>	-	<b>6%</b>	<b>10%</b>
<b>EPS (Rs.)</b>	<b>5.30</b>	<b>5.68</b>	<b>5.87</b>	<b>7.35</b>	<b>7.83</b>	<b>8.08</b>	<b>9.82</b>	<b>10.44</b>	<b>10.75</b>
<b>P/E (x) at Rs. 89.75</b>	<b>16.94</b>	<b>15.80</b>	<b>15.29</b>	<b>12.22</b>	<b>11.46</b>	<b>11.11</b>	<b>9.14</b>	<b>8.60</b>	<b>8.35</b>

It is more likely that BHR will enjoy a growth in ARR along with an increase in occupancy. The following table summarises the impact of an increase in both ARR and occupancy on hotel's earnings.

Price to Earnings Valuations	2011E			2012E			2013E		
	75% - Current Estimated	80%	85%	80% - Current Estimated	85%	90%	85% - Current Estimated	90%	95%
<b>BHR - 4 Star</b>									
<b>ARR (US \$)</b>	<b>104.83</b>	<b>115.31</b>	<b>120.55</b>	<b>125.80</b>	<b>138.38</b>	<b>144.67</b>	<b>150.96</b>	<b>166.06</b>	<b>173.60</b>
Gross Revenue (Rs. Million)	718.37	828.17	910.53	908.51	1,045.38	1,146.77	1,146.16	1,316.53	1,441.18
PAT (Rs. Million)	75.14	84.51	91.53	104.18	115.86	124.51	139.20	153.74	164.37
EPS (Rs.)	5.30	5.96	6.45	7.35	8.17	8.78	9.82	10.84	11.59
<b>PER at a price of Rs. 89.75</b>	<b>16.94</b>	<b>15.06</b>	<b>13.91</b>	<b>12.22</b>	<b>10.99</b>	<b>10.22</b>	<b>9.14</b>	<b>8.28</b>	<b>7.74</b>

BHR is also likely to enjoy higher earnings from its associate stake in EDEN. The following sensitivity analysis looks at possible impact of deviations in ARR and occupancy at EDEN on BHR's earnings.

Price to Earnings Valuations	2011E			2012E			2013E		
	75% - Current Estimated	80%	85%	80% - Current Estimated	85%	90%	85% - Current Estimated	90%	95%
<b>BHR - 4 Star</b>									
<b>ARR (US \$)</b>	<b>104.83</b>	<b>115.31</b>	<b>120.55</b>	<b>125.80</b>	<b>138.38</b>	<b>144.67</b>	<b>150.96</b>	<b>166.06</b>	<b>173.60</b>
Gross Revenue (Rs. Million)	718.37	828.17	910.53	908.51	1,045.38	1,146.77	1,146.16	1,316.53	1,441.18
<b>ARR (US \$) - EDEN</b>	<b>129.28</b>	<b>142.20</b>	<b>148.67</b>	<b>155.13</b>	<b>170.65</b>	<b>178.40</b>	<b>186.16</b>	<b>204.77</b>	<b>214.08</b>
Earnings from Associate - EDEN	17.83	29.63	38.48	29.20	43.91	54.79	44.19	62.48	75.88
PAT (Rs. Million) - BHR	75.14	95.12	110.11	104.18	129.09	147.54	139.20	170.20	192.89
PAT (Rs. Million) - BHR without a change in associate earnings	75.14	84.51	91.53	104.18	115.86	124.51	139.20	153.74	164.37
EPS (Rs.)	5.30	6.71	7.76	7.35	9.10	10.40	9.82	12.00	13.60
<b>PER at a price of Rs. 89.75</b>	<b>16.94</b>	<b>13.38</b>	<b>11.56</b>	<b>12.22</b>	<b>9.86</b>	<b>8.63</b>	<b>9.14</b>	<b>7.48</b>	<b>6.60</b>

Based on our estimates of ARR and occupancy, we expect BHR to post Rs. 75 million and Rs. 104 million in PAT for FY11E and FY12E respectively. At a price of Rs. 89.75, the counter is trading at 17x and 12x FY11E and FY12E earnings respectively.

The counter too is trading at a premium to market valuations but is warranted due to the potential growth in earnings in the medium term. Therefore, we recommend **BUY**.



<b>Profit and Loss Statement (Rs. Mn)</b> For the year ended 31st March	<b>FY2007</b>	<b>FY2008</b>	<b>FY2009</b>	<b>FY2010E</b>	<b>FY2011E</b>	<b>FY2012E</b>	<b>FY2013E</b>
Occupancy Rate (%)	0.7367	0.685	0.5853	55%	75%	80%	85%
Gross Revenue	432.4	446.3	342.0	462.0	718.4	908.5	1,146.2
Net Revenue	340.2	349.9	270.1	365.0	567.5	717.7	905.5
Cost of Sales	(113.5)	(129.4)	(111.5)	(146.0)	(227.0)	(287.1)	(362.2)
<b>Gross Profit</b>	<b>226.7</b>	<b>220.5</b>	<b>158.6</b>	<b>219.0</b>	<b>340.5</b>	<b>430.6</b>	<b>543.3</b>
Other Operating Income	8.6	12.2	17.8	6.0	3.7	3.5	3.5
Marketing Expenses	(13.2)	(12.6)	(14.5)	(18.2)	(28.4)	(35.9)	(45.3)
Staff Expenses	(50.0)	(60.4)	(64.6)	(65.7)	(73.8)	(93.3)	(117.7)
Administration Expenses	(125.7)	(130.1)	(120.3)	(146.0)	(170.3)	(215.3)	(271.6)
Finance Expenses	(12.0)	(12.3)	(11.7)	(11.5)	(6.2)	(3.0)	(1.6)
Share of profits from Associates	4.0	10.5	(9.8)	0.3	17.8	29.2	44.2
<b>Profit / (Loss) before Taxation</b>	<b>38.3</b>	<b>27.8</b>	<b>(44.5)</b>	<b>(16.2)</b>	<b>83.5</b>	<b>115.8</b>	<b>154.7</b>
Taxation	(5.4)	11.8	0.6	1.6	(8.3)	(11.6)	(15.5)
<b>Profit / (Loss) after Taxation</b>	<b>32.9</b>	<b>39.6</b>	<b>(43.9)</b>	<b>(14.6)</b>	<b>75.1</b>	<b>104.2</b>	<b>139.2</b>

<b>Balance Sheet (Rs. Mn)</b> As at 31st March	<b>FY2007</b>	<b>FY2008</b>	<b>FY2009</b>	<b>FY2010E</b>	<b>FY2011E</b>	<b>FY2012E</b>	<b>FY2013E</b>
<b>ASSETS</b>							
<b>Non Current Assets</b>							
Property, Plant and Equipment	1,002.9	994.4	990.5	963.3	938.8	909.5	874.9
Investments in Equity Accounted Investee	224.0	234.5	215.8	216.0	233.9	263.1	307.3
Others	16.7	16.7	16.7	16.7	16.7	16.7	16.7
	<b>1,243.6</b>	<b>1,245.6</b>	<b>1,223.0</b>	<b>1,196.0</b>	<b>1,189.3</b>	<b>1,189.2</b>	<b>1,198.8</b>
<b>Current Assets</b>							
Inventories	13.2	15.9	13.4	18.2	28.2	35.7	45.1
Trade and other receivables	78.2	98.0	52.6	71.0	110.4	139.7	176.2
Amounts due from related companies	4.3	4.1	4.6	5.1	5.6	6.1	6.7
Cash and cash equivalents	54.1	27.2	26.2	20.5	13.9	66.6	141.2
	<b>149.7</b>	<b>145.2</b>	<b>96.9</b>	<b>114.8</b>	<b>158.1</b>	<b>248.1</b>	<b>369.2</b>
<b>Total Assets</b>	<b>1,393.3</b>	<b>1,390.8</b>	<b>1,319.9</b>	<b>1,310.8</b>	<b>1,347.5</b>	<b>1,437.4</b>	<b>1,568.0</b>
<b>EQUITY &amp; LIABILITIES</b>							
<b>Capital and Reserves</b>							
Stated Capital	194.5	194.5	194.5	194.5	194.5	194.5	194.5
Capital Redemption Reserve	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Revaluation Reserve	786.1	779.7	773.2	773.2	773.2	773.2	773.2
Retained earnings	139.2	221.0	183.5	168.9	237.0	327.0	452.0
	<b>1,120.5</b>	<b>1,195.9</b>	<b>1,152.0</b>	<b>1,137.4</b>	<b>1,205.4</b>	<b>1,295.4</b>	<b>1,420.4</b>
<b>Non Current Liabilities</b>							
Interest bearing borrowings	64.4	48.2	62.6	51.0	39.5	27.9	16.4
Deferred Taxation	89.7	32.9	29.8	25.4	21.6	18.3	15.6
Others	7.6	17.0	10.5	8.3	6.4	6.5	7.2
	<b>161.6</b>	<b>98.1</b>	<b>102.9</b>	<b>84.7</b>	<b>67.4</b>	<b>52.7</b>	<b>39.2</b>
<b>Current Liabilities</b>							
Interest bearing borrowings	52.8	30.3	9.2	8.8	8.3	7.9	7.4
Trade and other payables	33.2	40.1	24.2	31.7	49.3	62.3	78.6
Bank overdraft	15.5	9.6	18.4	35.9	-	-	-
Others	9.7	16.7	13.1	12.3	17.0	19.0	22.4
	<b>111.2</b>	<b>96.8</b>	<b>65.0</b>	<b>88.7</b>	<b>74.6</b>	<b>89.2</b>	<b>108.4</b>
<b>TOTAL EQUITY &amp; LIABILITIES</b>	<b>1,393.3</b>	<b>1,390.8</b>	<b>1,319.9</b>	<b>1,310.8</b>	<b>1,347.5</b>	<b>1,437.4</b>	<b>1,568.0</b>



Cashflow Statement (Rs. Mn) For the year ended 31st March	FY2007	FY2008	FY2009	FY2010E	FY2011E	FY2012E	FY2013E
Profit / (Loss) before Taxation	38.3	27.8	(44.5)	(16.2)	83.5	115.8	154.7
Net cashflow from Operating Activities	72.2	32.7	(0.6)	(5.0)	63.7	94.9	114.6
<b>Cashflow from Investing Activities</b>							
Acquisition of Property, Plant and Equipment	(10.5)	(14.8)	(26.8)	(8.1)	(15.0)	(15.0)	(15.0)
Interest income	1.8	2.9	3.6	1.8	0.6	0.4	0.4
Sales proceeds from disposal of investment	-	-	22.3	-	-	-	-
Others	(11.1)	2.7	1.6	2.2	1.1	1.1	1.1
Net cash used in Investing Activities	(19.8)	(9.2)	0.6	(4.1)	(13.2)	(13.5)	(13.5)
<b>Cashflow from Financing Activities</b>							
Repayment of interest bearing borrowings	(27.8)	(38.7)	(6.8)	(12.0)	(12.0)	(12.0)	(12.0)
Others	(15.1)	(5.8)	(3.1)	(2.1)	(9.2)	(16.6)	(14.5)
Net cash used in Financing Activities	(42.9)	(44.5)	(9.8)	(14.1)	(21.2)	(28.6)	(26.5)
Net increase in cash & cash equivalents	9.5	(21.0)	(9.8)	(23.2)	29.3	52.7	74.6
Balance at the beginning of the year	29.0	38.6	17.6	7.8	(15.4)	13.9	66.6
Balance at the end of the year	38.6	17.6	7.8	(15.4)	13.9	66.6	141.2





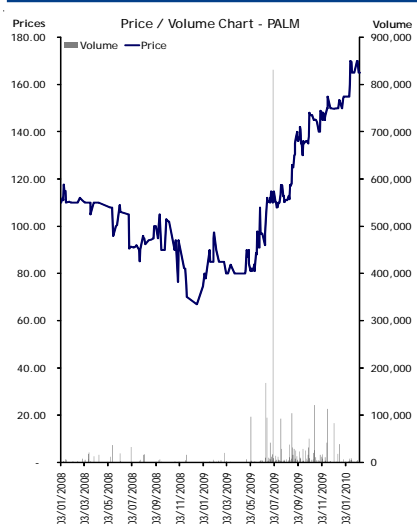
# Confifi Hotel Holdings PLC (PALM)

Rs 165.00

BUY

PALM				Financial Year	Revenue (Rs. Million)	PAT (Rs. Million)	EPS (Rs.)	EPS Growth (%)	PER (x)	Price / Book Value (x)
Reuters Code	PALM.CM									
Bloomberg Code	PALM.SL			2008	233.52	31.81	4.42	16.2	37.34	0.95
Share Price LKR	165.00			2009 *	151.88	(47.83)	(6.64)	(250.4)	N/A	0.98
Issued Share Capital (Shares)	7,200,000			2010E	240.64	(15.79)	(2.19)	67.0	N/A	0.99
Voting	175.00 / 80.00			2011E	433.16	60.52	8.41	483.2	19.63	0.95
12 mth High/Low (Rs.)	17,710			2012E	554.44	87.50	12.15	44.6	13.58	0.89
Average Daily Volume (Shares)	1,188			2013E	706.91	119.48	16.59	36.5	9.94	0.82
Market Capitalisation Rs. mn	Price Performance (%)									
Price Performance (%)	1 mth	6 mth	12 mth							
ASPI	7.78	50.21	114.59							
PALM	6.45	46.02	94.12							

\* 2009 PAT excludes the capital gain on disposal of an associate



	Average Occupancy rate (%)	
	Up to Galle	Club Palm
FY2007	42.21	62.33
FY2008	50.80	68.92
FY2009	44.62	45.92

## Profile

Confifi Hotel Holdings PLC / Club Palm Garden Hotel (PALM) is a 3 star resort located in Beruwala on 1,286 perches. The hotel owns and operates a total of 140 rooms along the South West Coast. PALM is owned by Confifi Management Services (Pvt) Limited with an associate stake of 29.99% followed by Bigspring Investments Limited which holds 13.39%.

PALM currently holds associate stakes of 26.74% in Riverina PLC along with 21.82% in Eden Hotel Lanka PLC.

Similar to the other hotels, PALM too was affected by the Tsunami in December 2004. The hotel was then closed for refurbishment and was re-opened in September 2005.

PALM also ended FY09 on a negative note with a loss of Rs. 32 million, over 200% decline in profitability from FY08. This includes a loss of Rs. 26 million from its associates. However, in FY07 and FY08, the hotel remained profitable despite the decline in tourist arrivals.

## Hotel Operations

The hotel with its 140 rooms split between the North and the South Wing, comprises of 2 bars and a dining restaurant along with a conference hall which can accommodate up to 75 in a theatre style seating.

During FY09, the 38 rooms on the South Wing of the hotel underwent refurbishment and remodeling to ensure that all rooms are

in condition to meet the rising demand in the immediate term. Consequently, PALM witnessed a sharp fall in occupancy to nearly 46% compared to 62% and 69% achieved in FY07 and FY08 respectively. Based on these occupancies, ARR too declined to US \$ 56 in FY09 from around US \$ 62 in FY08.

Occupied room nights for FY09 fell by over 33% due to the closure of the hotel for refurbishment but ARR saw only a marginal decline of around 2%, resulting in a 35% decline in its gross turnover.

PALM too outperformed the industry during the last 3 years including FY09 when the hotel was closed for refurbishment.

Despite being a 3 star hotel, PALM's customer base was similar to the other hotels with UK, Germany and Eastern Europe topping the list. Further, the hotel has gained reputation for holiday makers in the middle age and middle income category of the European market therefore being less responsive to economic fluctuations unlike EDEN and BHR.

The hotel ended FY09 on an operating loss of Rs. 21 million mainly due to the closure of the hotel for refurbishment which cost the company Rs. 25.5 million. However, losses were somewhat offset by the gain on disposal of PALM's stake in Confifi Plantations and interest income which amounted to Rs. 15 million and Rs. 14 million respectively.

## Outlook, Earnings and Valuations

PALM was refurbished in FY09 but is expected to undergo further small scale refurbishment in the immediate term to improve facilities. The management has not yet estimated the cost involved, therefore for forecasting purposes, we have assumed an annual capex of Rs. 15 million for the next 3 years.

The hotel too has unutilized land available for further developments but it is unlikely that any such projects will commence during the next couple of years.

With the increasing trend in Sri Lanka for setting up up-market resorts for the high spenders, similar to that of Maldives, the management feels that there will still be demand for hotels such as PALM despite being a 3 star hotel. Therefore, it is unlikely that the hotel will be upgraded to a 4 or 5 star hotel.

The hotel too has unutilized land available for further developments but it is unlikely that any such projects will commence during the next couple of years. Therefore, costs and benefits of such expansions have been ignored in our forecasts.

With a growth in tourist arrivals in the country, we expect PALM to enjoy strong net cashflows during the next 3 years which can be used to finance its capacity enhancement projects. The hotel also benefits largely from being a low geared company with very little amounts of debt, enabling PALM to obtain further funds through debt at lower interest rates.

For forecasting purposes, we have conservatively assumed an ARR of around US \$ 98 for FY11E on an estimated occupancy of 75%. Further, ARR is expected grow at 20% yoy during the next 3 years.

The following table depicts the sensitivity of PALM's earnings to changes in occupancy rates. A 13% growth in room nights (increase in occupancy from 75% to 85% in FY11E) is likely to result in only a 5% growth in earnings.

	2011E			2012E			2013E		
	75% - Current Estimated	80%	85%	80% - Current Estimated	85%	90%	85% - Current Estimated	90%	95%
Average Room Rate (USD - Assumed)	98.28	98.28	98.28	117.94	117.94	117.94	141.52	141.52	141.52
Gross Revenue (Rs. Million)	433.16	462.03	490.91	554.44	589.09	623.75	706.91	748.50	790.08
<i>Growth in Revenue (%)</i>	-	7%	13%	-	6%	13%	-	6%	12%
Earnings (Rs. Million)	60.52	62.15	63.78	87.50	89.59	91.67	119.48	121.97	124.47
<i>Growth in Earnings (%)</i>	-	3%	5%	-	2%	5%	-	2%	4%
<i>EPS (Rs.)</i>	<b>8.41</b>	<b>8.63</b>	<b>8.86</b>	<b>12.15</b>	<b>12.44</b>	<b>12.73</b>	<b>16.59</b>	<b>16.94</b>	<b>17.29</b>
<i>P/E (x) at Rs. 165.00</i>	<b>19.63</b>	<b>19.11</b>	<b>18.63</b>	<b>13.58</b>	<b>13.26</b>	<b>12.96</b>	<b>9.94</b>	<b>9.74</b>	<b>9.54</b>

The following table analyses the impact of a change in ARR on hotel earnings.

	2011E			2012E			2013E		
	Forecasted Rates	10%	15%	Forecasted Rates	10%	15%	Forecasted Rates	10%	15%
Average Room Rate (USD - Assumed)	98.28	108.11	113.02	117.94	129.73	135.63	141.52	155.68	162.75
Assumed Occupancy rates (%)	75%	75%	75%	80%	80%	80%	85%	85%	85%
Gross Revenue (Rs. Million)	433.16	476.48	498.12	554.44	609.89	637.62	706.91	777.63	812.94
<i>Growth in Revenue (%)</i>	-	10%	15%	-	10%	15%	-	10%	15%
Earnings (Rs. Million)	60.52	62.97	64.19	87.50	90.83	92.50	119.48	123.72	125.84
<i>Growth in Earnings (%)</i>	-	4%	6%	-	4%	6%	-	4%	5%
<i>EPS (Rs.)</i>	<b>8.41</b>	<b>8.75</b>	<b>8.92</b>	<b>12.15</b>	<b>12.62</b>	<b>12.85</b>	<b>16.59</b>	<b>17.18</b>	<b>17.48</b>
<i>P/E (x) at Rs. 165.00</i>	<b>19.63</b>	<b>18.87</b>	<b>18.51</b>	<b>13.58</b>	<b>13.08</b>	<b>12.84</b>	<b>9.94</b>	<b>9.60</b>	<b>9.44</b>

Although the hotel is classified as 3 star, the room rates charged are somewhat in line with those at BHR, a 4 star hotel. However, the above forecasts are based on a slightly lower ARR compared to those at BHR.



The following table shows the impact of a combined growth in ARR and occupancy on group earnings.

Price to Earnings Valuations	2011E			2012E			2013E		
	75% - Current Estimated	80%	85%	80% - Current Estimated	85%	90%	85% - Current Estimated	90%	95%
<b>PALM - 3 Star</b>									
<b>ARR (US \$)</b>	<b>98.28</b>	<b>108.11</b>	<b>113.02</b>	<b>117.94</b>	<b>129.73</b>	<b>135.63</b>	<b>141.52</b>	<b>155.68</b>	<b>162.75</b>
Gross Revenue (Rs. Million)	433.16	508.25	564.54	554.44	648.00	717.33	706.91	823.37	908.58
PAT (Rs. Million)	60.52	64.76	67.94	87.50	93.12	97.29	119.48	126.47	131.59
EPS (Rs.)	8.41	8.99	9.44	12.15	12.93	13.51	16.59	17.57	18.28
<b>PER at a price of Rs. 165.00</b>	<b>19.63</b>	<b>18.34</b>	<b>17.49</b>	<b>13.58</b>	<b>12.76</b>	<b>12.21</b>	<b>9.94</b>	<b>9.39</b>	<b>9.03</b>

PALM, with its associate holdings in EDEN and BHR will stand to benefit from higher associate earnings as their occupancies and ARR's deviate from our estimates. The table below shows the impact on PALM's earnings due to an increase in ARR and occupancies of all 3 hotels.

Price to Earnings Valuations	2011E			2012E			2013E		
	75% - Current Estimated	80%	85%	80% - Current Estimated	85%	90%	85% - Current Estimated	90%	95%
<b>PALM - 3 Star</b>									
<b>ARR (US \$) - PALM</b>	<b>98.28</b>	<b>108.11</b>	<b>113.02</b>	<b>117.94</b>	<b>129.73</b>	<b>135.63</b>	<b>141.52</b>	<b>155.68</b>	<b>162.75</b>
<b>ARR (US \$) - EDEN</b>	<b>129.28</b>	<b>142.20</b>	<b>148.67</b>	<b>155.13</b>	<b>170.65</b>	<b>178.40</b>	<b>186.16</b>	<b>204.77</b>	<b>214.08</b>
Earnings from Associate - EDEN	15.96	26.51	34.43	26.13	39.28	49.02	39.54	55.90	67.88
<b>ARR (US \$) - BHR</b>	<b>104.83</b>	<b>115.31</b>	<b>120.55</b>	<b>125.80</b>	<b>138.38</b>	<b>144.67</b>	<b>150.96</b>	<b>166.06</b>	<b>173.60</b>
Earnings from Associate - BHR	18.19	23.54	27.54	24.06	30.72	35.66	33.43	41.71	47.78
PAT (Rs. Million) - PALM	60.52	79.07	92.98	87.50	110.96	128.32	119.48	148.66	170.02
PAT (Rs. Million) - PALM without a change in associate earnings	60.52	64.76	67.94	87.50	93.12	97.29	119.48	126.47	131.59
EPS (Rs.)	8.41	10.98	12.91	12.15	15.41	17.82	16.59	20.65	23.61
<b>PER at a price of Rs. 165.00</b>	<b>19.63</b>	<b>15.03</b>	<b>12.78</b>	<b>13.58</b>	<b>10.71</b>	<b>9.26</b>	<b>9.94</b>	<b>7.99</b>	<b>6.99</b>

If all 3 hotels enjoy an 85% occupancy along with a 15% increase in ARR from our estimates in FY11E, we expect PALM to post Rs. 93 million in FY11E.

Based on our estimates, we expect PALM to post Rs. 61 million and Rs. 88 million in earnings in FY11E and FY12E respectively. At a price of Rs. 165.00, the counter currently trades at a P/E multiple of 20x and 14x FY11E and FY12E earnings respectively. The counter is the most expensive among the 3 Confifi Hotels, but stands to gain heavily from growth in associate earnings as well as from its own operations in the medium term. Therefore, we recommend **BUY**.



Profit and Loss Statement (Rs. Mn) For the year ended 31st March	FY2007	FY2008	FY2009	FY2010E	FY2011E	FY2012E	FY2013E
Occupancy Rate (%)	0.6233	0.6892	0.4592	50%	75%	80%	85%
Gross Revenue	209.6	233.5	151.9	240.6	433.2	554.4	706.9
Net Revenue	163.2	181.9	119.4	190.1	340.0	435.2	554.9
Cost of Sales	(47.5)	(56.5)	(43.4)	(69.0)	(98.6)	(126.2)	(160.9)
Gross Profit	115.8	125.4	76.1	121.1	241.4	309.0	394.0
Other Operating Income	11.4	12.3	32.9	8.4	8.3	11.8	14.4
Marketing Expenses	(3.9)	(3.3)	(4.5)	(6.7)	(10.2)	(10.9)	(13.9)
Hotel running Expenses	(78.3)	(94.2)	(93.8)	(110.3)	(163.2)	(208.9)	(266.4)
Other Administration Expenses	(23.4)	(21.3)	(18.1)	(22.8)	(40.8)	(52.2)	(66.6)
Finance Expenses	(0.9)	(3.0)	(4.0)	(3.6)	(2.4)	(1.8)	(1.8)
Share of profits from Associates	14.7	16.2	(26.2)	(3.7)	34.1	50.2	73.0
Profit / (Loss) before Taxation	35.3	32.3	(37.6)	(17.5)	67.2	97.2	132.8
Taxation	(8.0)	(0.5)	5.3	1.8	(6.7)	(9.7)	(13.3)
Profit / (Loss) after Taxation	27.4	31.8	(32.4)	(15.8)	60.5	87.5	119.5

Balance Sheet (Rs. Mn) As at 31st March	FY2007	FY2008	FY2009	FY2010E	FY2011E	FY2012E	FY2013E
<b>ASSETS</b>							
<b>Non Current Assets</b>							
Property, Plant and Equipment	790.5	780.8	796.0	780.7	773.4	760.7	746.5
Investments in Equity Accounted Investee	466.0	484.2	453.4	449.7	483.8	534.0	607.0
Others	13.3	13.3	12.5	12.5	12.5	12.5	12.5
	1,269.8	1,278.3	1,261.9	1,242.9	1,269.8	1,307.2	1,366.0
<b>Current Assets</b>							
Inventories	9.6	9.7	8.6	9.5	17.0	21.8	27.7
Receivables and payments	40.3	48.5	28.4	45.2	80.9	103.5	132.0
Current taxes	1.3	2.8	4.5	4.7	2.4	0.5	0.5
Cash and cash equivalents	62.2	68.8	47.4	21.1	13.5	39.2	77.9
	113.5	129.7	89.0	80.6	113.8	164.9	238.1
<b>Total Assets</b>	<b>1,383.3</b>	<b>1,408.0</b>	<b>1,350.8</b>	<b>1,323.5</b>	<b>1,383.6</b>	<b>1,472.1</b>	<b>1,604.1</b>
<b>EQUITY &amp; LIABILITIES</b>							
<b>Capital and Reserves</b>							
Stated Capital	90.7	90.7	90.7	90.7	90.7	90.7	90.7
Reserves	764.4	758.2	751.9	745.6	739.3	733.0	726.7
Retained earnings	375.5	408.0	375.4	359.4	419.7	506.9	626.1
	1,230.7	1,256.9	1,218.0	1,195.7	1,249.7	1,330.6	1,443.6
<b>Non Current Liabilities</b>							
Interest bearing borrowings	43.8	36.3	25.0	15.0	5.0	-	-
Deferred Taxation	55.2	54.5	52.9	50.3	52.1	51.6	52.4
Others	4.7	6.3	7.7	5.9	4.9	5.4	5.9
	103.6	97.1	85.7	71.2	62.0	57.0	58.3
<b>Current Liabilities</b>							
Trade and other payables	26.7	39.0	22.2	35.3	50.4	64.5	82.2
Interest bearing borrowings	15.0	15.0	15.0	15.0	15.0	15.0	15.0
Bank overdraft	7.3	0.0	8.6	5.0	5.0	5.0	5.0
Others	-	-	1.4	1.4	1.5	-	-
	49.0	54.0	47.1	56.6	71.9	84.5	102.2
<b>TOTAL EQUITY &amp; LIABILITIES</b>	<b>1,383.3</b>	<b>1,408.0</b>	<b>1,350.8</b>	<b>1,323.5</b>	<b>1,383.6</b>	<b>1,472.1</b>	<b>1,604.1</b>



Cashflow Statement (Rs. Mn)	FY2007	FY2008	FY2009	FY2010E	FY2011E	FY2012E	FY2013E
<b>For the year ended 31st March</b>							
Profit / (Loss) before Taxation	35.3	32.3	(37.6)	(17.5)	67.2	97.2	132.8
Net cashflow from Operating Activities	36.69	30.61	(5.76)	(1.71)	22.96	49.37	61.03
<b>Cashflow from Investing Activities</b>							
Net Acquisition of Property, Plant and Equipment	(7.81)	(6.32)	(33.62)	(5.00)	(15.00)	(15.00)	(15.00)
Net (Purchase) / Sale of investments	(11.11)	-	25.80	-	-	-	-
Others	3.04	3.29	3.08	2.22	3.01	4.90	4.90
<b>Net cash used in Investing Activities</b>	<b>(15.88)</b>	<b>(3.03)</b>	<b>(4.73)</b>	<b>(2.78)</b>	<b>(11.99)</b>	<b>(10.10)</b>	<b>(10.10)</b>
<b>Cashflow from Financing Activities</b>							
Repayment of interest bearing borrowings	(1.25)	(7.50)	(11.25)	(10.00)	(10.00)	(5.00)	(5.00)
Dividends paid	-	(6.26)	(7.20)	(7.20)	(7.20)	(7.20)	(7.20)
Others	-	-	(0.99)	(0.99)	(1.36)	(1.46)	-
<b>Net cash used in Financing Activities</b>	<b>(1.25)</b>	<b>(13.76)</b>	<b>(19.44)</b>	<b>(18.19)</b>	<b>(18.56)</b>	<b>(13.66)</b>	<b>(12.20)</b>
<b>Net increase in cash &amp; cash equivalents</b>	<b>19.56</b>	<b>13.81</b>	<b>(29.93)</b>	<b>(22.68)</b>	<b>(7.59)</b>	<b>25.61</b>	<b>38.73</b>
<b>Balance at the beginning of the year</b>	<b>35.37</b>	<b>54.93</b>	<b>68.74</b>	<b>38.82</b>	<b>16.13</b>	<b>8.54</b>	<b>34.16</b>
<b>Balance at the end of the year</b>	<b>54.93</b>	<b>68.74</b>	<b>38.82</b>	<b>16.13</b>	<b>8.54</b>	<b>34.16</b>	<b>72.89</b>

